Submission to The Senate Economics References Committee inquiry into Australia's manufacturing industry.

This submission addresses points a. and g. in the Terms of Reference.

Terms of Reference

The Australian manufacturing industry, with specific regard to:

a. what manufacturing capacities Australia requires for economic growth, national resilience, rising living standards for all Australians and security in our region;
b. the role that the Australian manufacturing industry has played, is playing and will play in the future;
c. the drivers of growth in manufacturing in Australia and around the world;
d. the strengths of Australia's existing manufacturing industry and opportunities for its development and expansion;
e. the sectors in which Australian manufacturers enjoy a natural advantage in energy, access to primary resources and skilled workers over international competitors, and how to capitalise on those advantages;
f. identifying new areas in which the Australian manufacturing industry can establish itself as a global leader;
g. the role that government can play in assisting our domestic manufacturing industry, with specific regard to:
   i. research and development;
   ii. attracting investment;
   iii. supply chain support;
   iv. government procurement;
   v. trade policy;
   vi. skills and training; and
h. the opportunity for reliable, cheap, renewable energy to keep Australia's manufactured exports competitive in a carbon-constrained global economy and the role that our manufacturing industry can play in delivering the reliable, cheap, renewable energy that is needed.

a. what manufacturing capacities Australia requires for economic growth, national resilience, rising living standards for all Australians and security in our region;

Manufacturing is secondary industry. It takes the primary resources of agriculture, mining and fishing and employs human ingenuity, machines, tools and industrial processes, to create something of greater value than the sum of the inputs. This is how real physical wealth is created.

Orthodox economics tends to financialise all values and this undervalues or even ignores the non-financial aspects that a shared system of quality infrastructure, heavy secondary industry, diverse manufacturing and skilled and optimistic workforce entails.

For example, the level of frustration and economic cost of a congested road transport system will create a drag on the efficiency of the manufacturing industry yet the cost of addressing the congestion on a cost-benefit analysis in dollar terms is unlikely to be approved because the returns in terms of improved welfare of the community of users will not be measurable in dollars.

Economic growth is usually defined as an increase in the amount of goods and services produced per head of the population over a period of time and usually measured as per capita Gross Domestic Product (GDP). This is a financial measure that does not adequately capture the real physical economy.

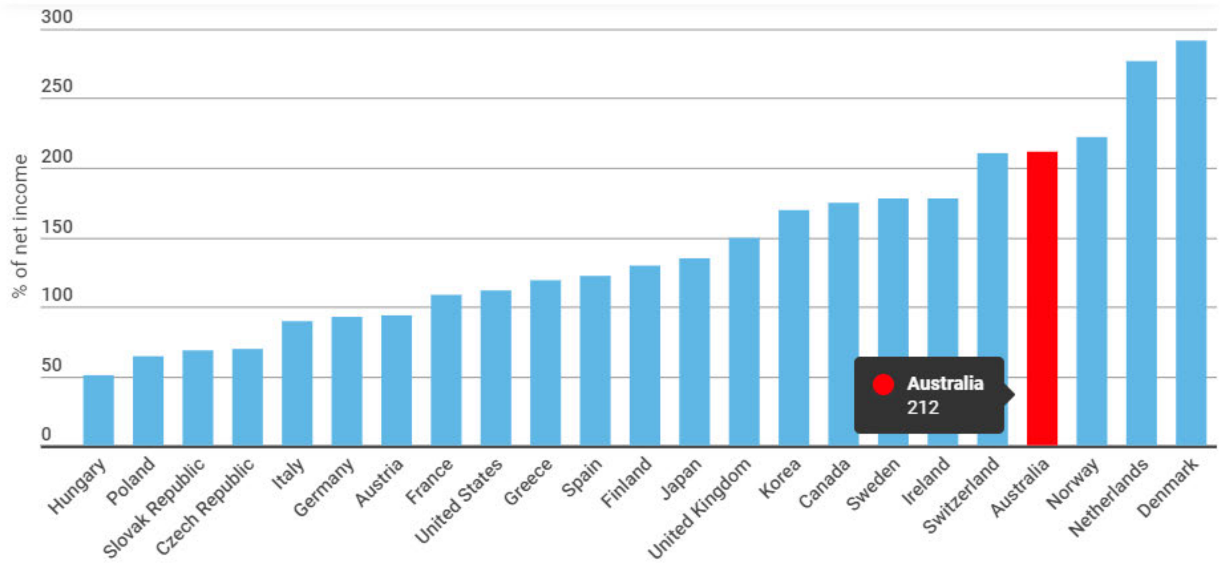
Real wealth can be observed in the quality of the day-to-day of life (the standard of living) of the citizens.

An increase in the Standard of Living can be measured as the increase in the potential relative population density over time. In other words, for a given standard of living, the same area of land is able to sustain a greater number of citizens over time or, alternatively, the same number of citizens is able to enjoy a higher quality standard of living over time.

There is no doubt that collectively, Australians have experienced a rising standard of living over time. However, despite our abundance of natural resources and relatively small population (3.33 people per Km^2)[1], Australians are the fourth-most indebted in terms of private debt[2].

How does Australia's household debt compare to other countries?

Global comparisons of household debt usually look at the total owed as a percentage of net income. Australians rank fourth most indebted in the world next to Denmark, the Netherlands and Norway. Available data up to 2015 analysed.



The reason is the cost-transfer of such services as education, retirement income and road use to the citizen plus the expansion of the "user pays" principle plus the inflation of house prices, plus the switch from permanent employment to precarious casual employment plus the lack of any increase of wage rates over the past decade. All these add to most Australians having to pay more for their sustenance with the same amount of income.

National resilience is taken to be the capacity of a nation to bounce back from stress, pressure, or disturbance. National resilience incorporates the health of citizens, the redundancy of systems so that if one part fails, other parts can make up for the loss and preparedness to meet unknown crisis events in a coordinated manner.

For example, with the current Covid crisis, public hospital (non-covid) patients have been shifted into the private hospital system so that the public hospitals have more beds for the treatment of covid patients. Australia has had a National Resilience Strategy since 2011[3] based on the three precepts of a shared understanding of resilience and the need to plan, collaborative efforts when faced with a crisis and preparedness for disaster events.

Security is confidence that any threat of attack or invasion or infiltration can be countered in order to maintain internal peace and harmony and good relations with our neighbouring nations.

As an island nation, Australia should have manufacturing capacity across every critical need so that we are not dependent on supply lines or trade agreements as both can be broken in times of international crises, such as the current pandemic has demonstrated.

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[1] https://www.macrotrends.net/countries/AUS/australia/population-density
[2] https://oracleag.com.au/2021/02/22/tips-for-paying-off-debt-faster/
[3] https://www.globalaccesspartners.org/GAP_IIERA_NationalResilienceFramework_Report_July21.pdf

Manufacturing capacity does not necessarily mean that we have to make every essential product ourselves. It means that we need to have manufacturing industries that have the capability to switch production to what is needed in an emergency.

What we do need is modern heavy industry including smelters, refineries, glassworks, heavy engineering works, chemical plants, ship-building, electronic component manufacture, power utilities, timber mills and steelworks. These are necessary to support manufacturing because these heavy industries develop the output of our primary industry into forms that become the inputs for manufacturing.

Heavy industry may be public utilities or they may be owned by private companies but they must not be under the control of foreign interests which may be contrary to the national interest of Australians. We need to have Australian-based heavy manufacturing capability to remain independent of supply chain disruption and quality control of the manufacturing outputs so that they conform to local manufacturing needs.

For real economic growth, local manufacturing is absolutely necessary if such a large and island nation as Australia is to effectively support security in our region. Our neighbours in our region of Oceania need small-scale manufacturing.

Australia should be the local supplier of manufactured raw materials to the countries of East Timor, Fiji, Kiribati, Marshall Islands, The Federated States of Micronesia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

Manufactured raw materials includes such items as extruded metals, sawn timber, bags of concrete and sheets of glass.

We also import from our neighbours items such as coconut products, minerals, fish products, clothing, labour and tourism. Maintaining two-way trade with our neighbours supports the regional economy and promotes “good neighbour” relations.

In the absence of such mutually-beneficial trade and support, China has been able to extend its influence into our region with the *Belt and Road* program. Had we been better neighbours, China would not have been so attractive a trading partner. For our own security we need to have a manufacturing base that can support the needs of our regional neighbours.

We have learned the folly of foreign control from our experience with the GMH and Ford Motor Companies which shut their plants, leaving Australia without the capacity to manufacture vehicles. The machine tools of these factories could have been repurposed to produce electric vehicles or aircraft just as, during WW2, many manufacturing enterprises were repurposed to supply the war effort. Foreign control of strategic industries renders such repurposing problematic, at best.

Australia’s manufacturing capacities have been in decline since the peak of Australian manufacturing in the 1960s. We have replaced much of our secondary industry capabilities with tertiary industries; predominantly finance & banking, tourism & hospitality and the higher education sector.

These are service industries that do not contribute to the real wealth of the nation. Although tourism and education may earn foreign capital because participants must purchase Australian dollars using their own domestic currency to pay for the tourism or education in Australia, foreign exchange allows us to import. These sectors do not create any durable real wealth. Finance and banking are, in fact, costs that have a negative effect on the real economy.

Both heavy and diverse light manufacturing are required for Australia’s economic growth, national resilience, achieving a higher standard of living for all Australians and security in our region.

g. the role that government can play in assisting our domestic manufacturing industry, with specific regard to:
   i. research and development;
   ii. attracting investment;
   iii. supply chain support;
   iv. government procurement;
   v. trade policy;
   vi. skills and training; and

Australia is blessed with an abundance of natural resources, including extensive reserves of coal, iron, copper, gold, natural gas, uranium, and energy sources. We should have one of the highest standards of living in the world yet, as we have seen, Australians have the fourth highest levels of private debt in the Organisation for Economic Co-operation and Development (OECD) countries.

Over the past decades, Australians have suffered from the implementation of neoliberal economic policies which seek to transfer the control of economic factors from the public sector to the private sector. The physical infrastructure and inherent wealth that once belonged to the Commonwealth (ie the people of Australia) through public ownership has been steadily transferred (ie sold off) to private interests on the false premiss that the sale of such assets would provide necessary capital for the government to pay down debt and invest in needed government services.

The best role that government can play in assisting our domestic manufacturing industry is to adequately fund research and development, supply chain support and provision of skills and training. How the Commonwealth can fund these as well as attracting investment will be discussed in more detail where I address *The Funding Problem* below.

In terms of government procurement, the Commonwealth can specify “made in Australia” to be a criterion for government purchase tenders. This relatively simple measure will support local industry while retaining the pressure to improve through competition among Australian suppliers. Procuring “made in Australia” products puts Australian products on display and will have widespread community support.

The Commonwealth should pursue a trade policy with our regional neighbours based on providing a mutual benefit of the trading partner. If trade with our neighbours is priced in Australian dollars, we can afford to be more magnanimous than when we are constrained to pay in, say, US dollars. This is because Australia cannot print US dollars. They must be obtained from the sale of exports to the US or other countries using US dollars as their currency.

The recession of the early 1980s sparked an enthusiasm for reform begun by the Hawke-Keating government which, from 1983, instituted freer trade, smaller government, deregulation of markets, lower tax rates within a fairer system, a more flexible labour market, low inflation and a more market-orientated economy[4]. These are strategies associated with neoliberal economics.

Neoliberalism holds that free markets can regulate themselves; that government is inherently incompetent, captive to special interests, and an intrusion on the efficiency of the market.[5] It formed the philosophy guiding two decades of the sell-off of public assets (aka privatisation) by both Labor and Liberal governments.

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[4] https://www.rba.gov.au/publications/confs/2000/kelly-address.html
[5] https://prospect.org/economy/neoliberalism-political-success-economic-failure/

The Howard government which followed the Keating government in 1996, maintained the program of privatisation which it promoted as "asset recycling" the neoliberal euphemism for privatisation of public assets.

Labor Opposition Leader, Kim Beasley, acknowledged the common commitment of both Labor and Liberal governments to neoliberal economic thinking with the comment: 'We all now largely agree on … the need for fiscal discipline, an independent monetary policy, deregulation of financial markets, the floating of the dollar, low inflation and a more open economy'[6].

Two decades of neoliberal policy is the cause for so many Australians being so much in debt today.

During the years of the post-1983 consensus on economic reform, both Labor and Liberal governments engaged in the privatisation of the following public assets[7]:

- Commonwealth Oil Refineries 1952 (Under Liberal)
- Optus 1985 (Under Labor)
- Commonwealth Bank of Australia 1991 (Under Labor)
- Qantas 1993 (Under Labor)
- Commonwealth Serum Laboratories 1994 (Under Labor)
- Electricity and natural gas supply companies in Victoria 1995 (Under Liberal)
- Telstra 1997 (Under Liberal)
- Public transport in Melbourne 1999 (Under Liberal)
- Electricity Trust of South Australia 1999 (Under Liberal)
- Sydney Airport 2002 (Under Liberal)
- Medibank 2014 (Under Liberal)
- Commonwealth Industrial Gases
- Government Cleaning Service in New South Wales
- Government Insurance Office in New South Wales
- Government Printing Service in New South Wales
- State-owned betting-agencies in most states (Under Liberal and Labor)
- Many long-distance and urban passenger railway services (Under Liberal and Labor)
- All freight railway services (Under Liberal and Labor)
- Most State-owned banks (Under Liberal and Labor)

Many now recognise in retrospect, that privatisation has not delivered what was promised and there is a reversal happening throughout the world. As the *Public Futures Initiative* states on its website[8]:

> *Services like water, energy, healthcare and education build the foundation for healthy, just and sustainable communities. All over the world, citizens, public authorities and labour unions have been mobilising to bring these vital services and infrastructures back into public hands.*

The privatisation program was underpinned by the misguided belief that the Commonwealth government is constrained in spending to what it can collect in taxes and what it can "borrow" from the sale of Treasury Bonds. In other words, the Commonwealth, despite the ability to create the currency, is no different than a household in terms of balancing income and spending.

[6] https://www.rba.gov.au/publications/confs/2000/kelly-address.html
[7] https://en.wikipedia.org/wiki/List_of_privatizations_by_country
[8] https://publicfutures.org/about

This thinking has been empirically proven to be wrong by the collaboration of economists Warren Mosler, L. Randall Wray[9], Stephanie Kelton[10], Bill Mitchell[11] and Pavlina R. Tcherneva[12] who have published their findings in books explaining the economics known as *Modern Monetary Theory*.

Their works establish that a government that creates its own currency is able to fund national projects without borrowing. The spending is constrained only by the limits of the national resources that are available for such projects.

The way the monetary system works is commonly misunderstood because of a combination of wrongful explanations, conventional budgetary processes and outright obfuscation by banking system operators but the essential truth is that the national currency (money) is created by the Government spending it into existence (fiscal operations) and money is removed from the economy by taxation and the sale of Treasury Bonds in order to prevent inflation. Money received from tax and bond sales is "extinguished" (destroyed).

This Government power to create money, however, has been usurped by the private banking system as demonstrated by the progressive take-down of our own successful public Commonwealth Bank which initially did have control of Australia's currency.

The Funding Problem (Attracting investment)

I refer to the question of attracting investment as the problem of funding because, as I have alluded to above, our Commonwealth, in fact, is NOT dependent on external sources of investment in manufacture.

We operate under a misunderstanding of the role of **credit** in our Commonwealth resulting from what is taught in orthodox economics and generally expounded in the press: that the Commonwealth government obtains funding from taxes and the sale of Treasury Bonds ("borrowing") and so is constrained by the annual budget which needs to "balance". This is why government treasurers constantly focus on the budget deficit or budget surplus with a deficit being bad and a surplus being good and the mark of a good Treasurer.

However, from the private sector point of view, a government budget deficit represents a private sector surplus and a government budget surplus represents a private sector deficit.

Surplus budgets invariably cause economic recessions because the money removed from the private sector supresses the real economy as people and businesses struggle to get by with less money circulating in the economy.

If we simplify the internal economy to just two sectors[13]:
Public (Government spending + Foreign Sector balance) and Private (Businesses and Individuals savings), then the Public and Private sectors must resolve to net zero.

The sectoral balances can be broken down according to GDP:

$GDP = C + I + G + (X - M)$

Where C = consumption, I = investment, G = government spending, X = exports & M = imports

Or stated differently:

$GDP = C + S + T$

Where C = consumption, S = saving, T = taxes

[9] https://www.levyinstitute.org/publications/modern-money-theory-101
[10] *The Deficit Myth* by Stephanie Kelton May 11, 2021
[11] *Macroeconomics* by William Mitchell, Randy Wray and Martin Watts, Macmillan Press February 25, 2019
[12] https://pavlina-tcherneva.net/
[13] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1905625

From there we can conclude:

$$C + S + T = GDP = C + I + G + (X - M)$$

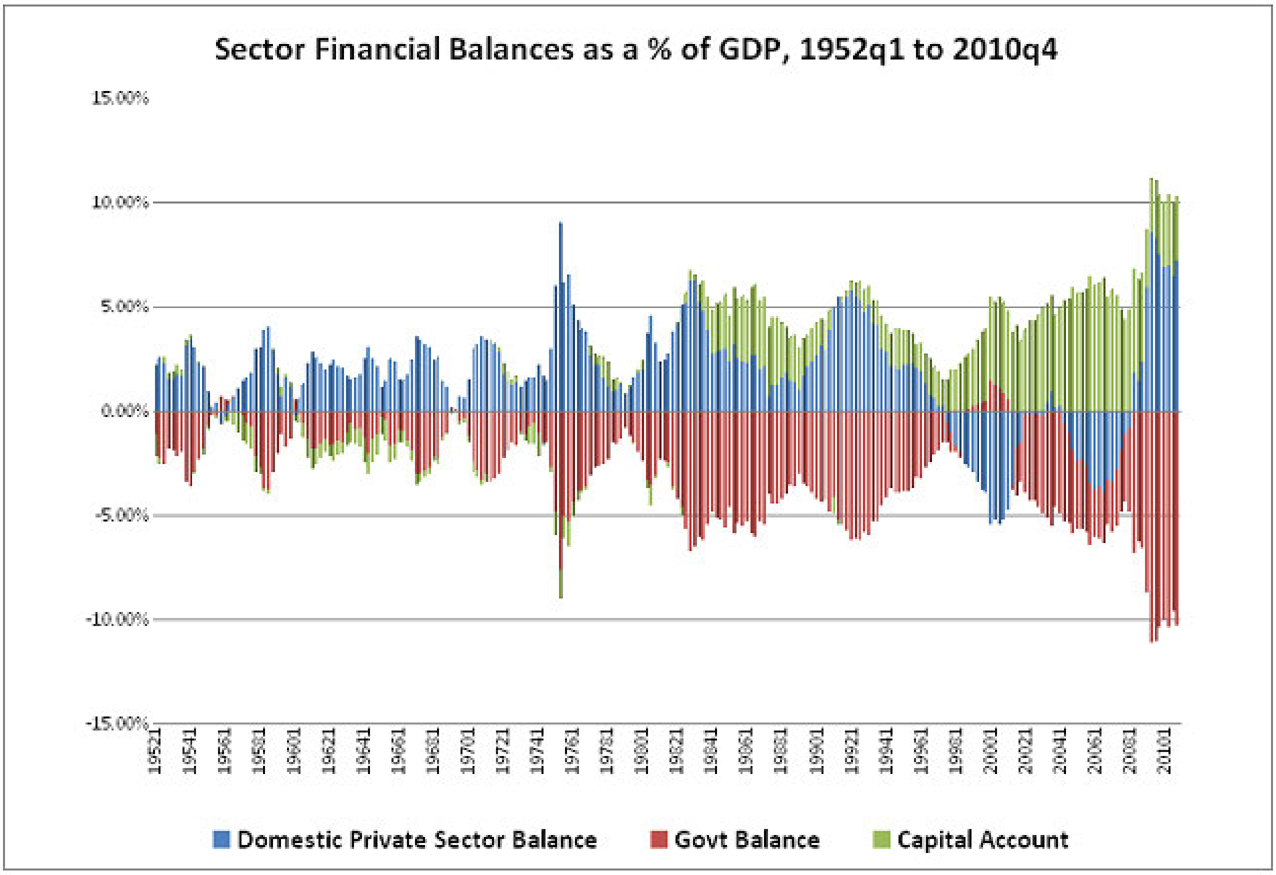
If rearranged, we can see that these sectors must net to zero:

$$(I - S) + (G - T) + (X - M) = 0$$

Where (I - S) = private sector balance, (G - T) = public sector balance & (X - M) = foreign sector balance.

The three main sectoral balances must, as an accounting identity, add to zero.

The relationship is clearly evident in the graph[14] below which shows US budget deficits are the norm:



US government has run budget deficits for the majority of the last 60 years

Countries that have their own currency (as does Australia) are not constrained in the way households are constrained by their income because the Commonwealth is the **money creator** whereas households are **money users**.

As the creator of the currency, the Government instructs the Commonwealth Treasury to fund all the proposed expenditure in the Annual Budget. The Reserve Bank of Australia (RBA) which is the Treasury's bank, , honours all government expenditure by paying all invoices for goods and services the government has authorised. The RBA will never dishonour a Commonwealth cheque for the reason there is no money left in the Treasury account. This is because the Commonwealth can never run out of the money that it creates. Of course, there are limiting factors such as availability of resources.

In order to avoid creating shortages of goods and services that the government purchases, the government must not exceed the physical resources that are usually readily available. Otherwise, other participants in

[14] https://era.org.au/a-pivotal-fomula-in-macroeconomics

the economy will bid up the price to ensure their own supply thereby creating price inflation which is, in effect, devaluation of the currency.

To avoid inflation from the large sums of new money the government spends into the economy each year, the surplus cash is mopped up (extinguished) by means of taxation and the sale of Treasury Bonds.

Using its power to create the money supply, the Commonwealth can provide for whatever is needed to rebuild our heavy manufacturing industries (and more besides) because, demonstrably, it can pay for them with the money it creates.

However, there will be strong debate and resistance about what I have expressed above because many schooled in traditional economics will not believe it and, also, others benefit financially from the system as it currently operates and resist change. Still others are sceptical that government ministers will remain fiscally restrained once they comprehend the government's power to create money and will not allow it.

Another way - the role of a Public Bank

However, there is another way to give effect to the magnificent power of the government to create money and that is through the institution of a **public bank** - such as we once had in the original Commonwealth Bank.

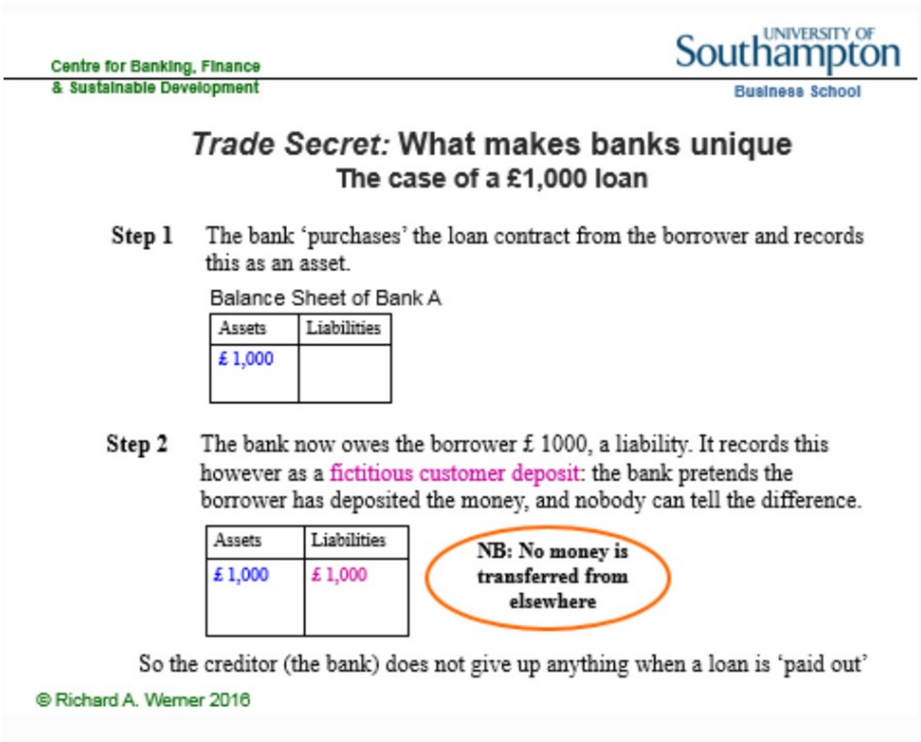
As Professor Richard Werner has proved[15], banks create the money they lend … out of nothing.

He says:

… banks create new money when they do what is called 'bank lending', and add it to the money supply.
(see right ->)

Bank loans thus do not transfer existing purchasing power, but add net new purchasing power.

The banks' lending creates 97% of the money supply. Bankers' decisions about how much money is lent – and thus created and added to the money supply – and given to whom for what purpose quickly reshapes the economic landscape and affects us all.



How can the Commonwealth of Australia assist with investment?

Since banks create CREDIT (which is a temporary form of money) out of nothing, the Commonwealth government can simply reinstate a new Public bank.

[15]https://professorwerner.org/blog/

There are four significant advantages of a public bank:

1. It can use the power to issue credit (temporary money) for purposes that the private banks eschew such as lending for manufacturing enterprises.
2. With a social benefit mandate, a publicly owned bank could improve banking services across the country by setting new standards for financial products and services that other banks will have to meet if they are to compete.
3. It can guarantee depositors' funds.
   Because it is owned by the Commonwealth (which creates the currency) it can therefore always meet depositors' demands for return of their funds (in the event of a bank run).
4. It will break the oligopoly of the Big Four banks which often operate against the public interest such as withdrawing services from rural communities and de-banking customers.

Currently, there are several options for creating a new Public Bank:

1. Create a new ***Commonwealth Investment Bank***
2. Create a ***Post Office Bank***
3. Repurpose the ***Clean Energy Finance Corporation***
4. Repurpose the ***Future Fund*** which manages the assets of the *Future Fund*, the *Medical Research Future Fund*, the *Disability Care Australia Fund*, the *Aboriginal and Torres Strait Islander Land and Sea Future Fund*, the *Future Drought Fund* and the *Emergency Response Fund*.

With the power of credit creation unleashed, such a public bank will be able to provide whatever is needed to create and support new Commonwealth-owned heavy manufacturing enterprises and provide favourable loans for new light manufacturing enterprises.

Bear in mind Sir Denison Miller's boast about the power of the original Commonwealth Bank in 1921[16]:

> *"The whole of the resources of Australia are at the back of this bank, and so strong is this Commonwealth Bank that whatever the Australian people can intelligently conceive in their minds and loyally support, that can be done."*

Submission by

[redacted]

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Thursday, 9 September 2021

[16] https://www.queenofthesouth.net/uploads/3/0/7/4/3074667/the_story_of_the_commonwealth_bank.pdf