

# Centre for New Industry

A Per Capita initiative

## Submission to the Senate Standing Committee on Economics National Reconstruction Fund Corporation Bill 2022

**FEBRUARY 2023**

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## About the Centre for New Industry

The Centre for New Industry is an applied research centre at Per Capita that aims to propose policy solutions that support a mission-oriented approach to industrial policy, and advocate for economic diversification, decarbonisation and democratisation. We believe that Australia needs a vision of the future that provides greater skilled employment opportunities for workers and their families, greater stability and security for regional communities, and better equips Australia to respond and adapt to economic and industrial change.

### About the Author

Shirley Jackson is the Director of the Centre for New Industry and a renowned policy expert in the fields of industry policy, employment, and skills formation. His work has helped shape new approaches to industrial development and is widely cited by government and media sources. Shirley has extensive experience in not only thought leadership and public policy, but has spent a decade working in government engagement, political campaigning, and stakeholder relations. This expertise is grounded in years of lived experience relating to the issues that he is so passionate about.

Prior to his public facing work, Shirley spent years working in warehousing and logistics, hospitality, retail, academia, the print industry and being unemployed. These experiences have guided Shirley's research and policy work, and shaped his approach to inclusive, participatory methodologies. His areas of interest and expertise are young workers, employment, labour market policy, industrial relations, and industry policy. Shirley undertook undergraduate and postgraduate studies in history, economics and political economy, and has an unfinished doctorate on young workers.

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### Executive Summary

The Centre for New Industry (CNI) welcomes the opportunity to make a submission to the Department of Industry, Science and Resources' consultation on the National Reconstruction Fund (NRF).

The political, ecological and economic challenge of decarbonising and diversifying Australia's industrial base is crying out for leadership. The next five to ten years are crucial to ensure that the worst outcomes of the climate crisis are mitigated, that we are able to build a strong, smart and inclusive economy that is able to weather the uncertainty of the global future and to reframe our economy in the interests of the people who work within it.

As such, the CNI welcomes the Government's focus on the crucial task of reconstructing the economy to enable a cleaner, more secure and sustainable future for all Australians, and as such we support the establishment of the National Reconstruction Fund Corporation (NRFC). This focus is critical, as our economy has increasingly become reliant on a narrow set of sectors, notably in unprocessed mineral resources, to the detriment of our economic future. While our resource wealth will remain fundamental to the growth of domestic and international post-carbon economies, we need to increase the sophistication of our industrial base to ensure that we maximise the social as well as economic benefits returned to our communities.

Crucially, our unique country, with a vast land mass and low population density, requires unique developmental solutions. While lessons can be learnt from successes and failures in other countries, we need to chart our own course, acknowledging our unique challenges and advantages. The goal should be 'sustainable prosperity' for all Australians both now and into the future, not just economic growth and job creation at all costs. Achieving socially, economically and environmentally sustainable employment growth will require a well-designed national process that restructures our economy in the interests of the Australian people, and promotes sustainable, inclusive growth that confronts the challenges of our increasingly uncertain future.

In this submission, we argue in favour of the Bill's passing. We believe that the NRFC will contribute toward a *mission-oriented approach* to economic management, as advocated for by famed economist Marianna Mazzucato. Such an approach is essential to provide structure and purpose in navigating the next phase of Australian economic development. A return to the "dog days" of low capital investment, poor productivity, low wage growth and marginal uptake of emerging technologies will lead to stagnation and relative decline, as other countries capture the benefits available from post-carbon industries.

In the following sections, we detail why the Bill adheres to the criteria of this approach, and why its execution holds the best opportunity for Australia's future economic success. The Centre for New Industry commends the government on its adherence to these principles and welcomes the passing of the Bill and the establishment of the NRFC to administer government investment in the interests of the Australian people.

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## Background

In order to understand the need for a mission oriented approach, the establishment of the NRFC and the Fund it will oversee, we first must understand how its absence has impacted our economy. In particular, we need to understand how small to medium domestic economies like Australia fare in the globally integrated marketplace, and how our increasing mineral reliance has held us back for a generation.

Unsurprisingly, external crises have major effects on national economies in a liberalised global marketplace. Whether it's a resource crisis like the oil shock of the 1970s or a pandemic like COVID-19 that has swept the world over the last three years, globally integrated, open market economies like Australia's are inherently susceptible to externalities.

However, these exogenous shocks are also a time for critical appraisal and renewal. In the current context, Australia is faced with a choice: on one hand, we can remain resolute in our continued belief that a resource driven economy supported by services will 'snap back' and perform better than before, and that we can invest in natural gas and carbon capture technologies to combat a rapidly changing climate. On the other is a sober realization that, while our resource boom has undoubtedly boosted Australia's economic fortunes, it has also left our economy in a state of arrested development, entrenching our dependence on a single industry, reducing our capacity to address climate change, and excluding us from the transitional orientation that our main trading and diplomatic partners are taking.<sup>1</sup>

As the current crisis has laid bare the deficiencies in our economy, it is up to all of us to build a better economy that works for all Australians, and realise that diversifying the economy through active support measures for non-resource industries is once again, and indeed always has been, an urgent priority.

Australia's industrial landscape has undergone many changes in the 120 years since federation, and has become a modern globalised economy, open to export and trade with key regional and international partners. Yet, despite the promise that this brave new world of economic opportunity would lead to prosperity for all, Australia's economy has become increasingly dependent on a single sector and has failed to provide safe and secure livelihoods for millions of Australians.

An over reliance on mineral commodity exports and a narrow segment of service industries has led to a situation where the Australian economy, and the people who work in it, are remarkably susceptible to exogenous shocks, a weakness which has been on full display during the coronavirus crisis. While the pandemic and its social impact laid bare the deficiencies in our economic agenda, the problems associated with this overreliance have been readily observable since the turn of the century. Between 2002 and 2012, the Reserve Bank of Australia (RBA) estimates that the price paid for Australia's extractive economy more than tripled, as investments in the sector grew from 2 to 8% of GDP.<sup>2</sup>

However, while prices in mining grew, the Australian dollar appreciated significantly. An increase in the value of our dollar had some benefits for the average consumer, as prices of imported goods like smartphones, electronics and fashion dropped. However, this appreciation of our currency hindered our agricultural and manufacturing sectors, further entrenching our reliance on the resource sector. While jobs in mining reached a peak of 2.3% of the Australian workforce in 2013-14, manufacturing and agriculture combined used to employ a quarter of the Australian workforce, Since the start of the mining boom, this combined employment has fallen to just over 15% - still over seven times the employment rate of mining, but a significant drop.

Australia's economy is not only plagued by the 'Dutch Disease',<sup>3</sup> where the increased development of a one industry (such as mining) has led to a decline in other important industries (like manufacturing and agriculture), it has become so

<sup>1</sup> Sami Mahroum and Yasser M Al-Saleh, *Economic Diversification Policies in Natural Resource Rich Economies* (2017) 150 <<https://www.routledge.com/Economic-Diversification-Policies-in-Natural-Resource-Rich-Economies/Mahroum-Al-Saleh/p/book/9781138325180>>.

<sup>2</sup> Peter M Downes, Kevin Hanslow and Peter Tulip, 'The Effect of the Mining Boom on the Australian Economy' [2015] *SSRN Electronic Journal*.

<sup>3</sup> Mahroum and Al-Saleh (n 1).

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lopsided that it is making headlines around the world. In their recently publicised *Atlas of Economic Complexity*, Harvard University found that despite being ranked 8th in the world for GDP per capita, Australia's economic profile was ranked 93rd for economic complexity.<sup>4</sup> Rather than being compared to complex and innovative economies like Japan, Germany and South Korea, Australia is instead keeping company with developing economies such as Uganda, Senegal and Mali.

Worse still, we are falling in those rankings. Since the time of the GFC, Australia's economic complexity ranking has fallen by 22 places. This means that without diversification, our economy will continue to be less able to provide for Australians in times of crisis, and our resource dependence will remain vulnerable to external shocks and international crises.

Economic complexity research in Australia has found substantial unexploited 'opportunity value' across the country that could be used to guide effective industry policy.<sup>5</sup> Intentionally increasing local and national industrial complexity through strategic industry policy will not only increase employment, make us more resilient and able to withstand future structural adjustments, it will also reduce social and economic inequality.<sup>6</sup> Within this context, a well resourced and strategic industrial diversification agenda is not just good policy making; it is essential to our future economic survival.

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<sup>4</sup> Harvard University, 'The Atlas of Economic Complexity' (2022) <<https://atlas.cid.harvard.edu/>>.

<sup>5</sup> Christian Reynolds et al, 'A Sub-National Economic Complexity Analysis of Australia's States and Territories' (2017) 52(5) *World Development* <<https://doi.org/10.1080/00343404.2017.1283012>> <<https://www.tandfonline.com/doi/abs/10.1080/00343404.2017.1283012>>.

<sup>6</sup> Dominik Hartmann et al, 'Linking Economic Complexity, Institutions, and Income Inequality' (2017) 93 *World Development* 75.

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## The National Reconstruction Fund Corporation: Coordinating A New Industrial Agenda

In order to learn from the mistakes of our past and build successful diversification plans for the Australian economy, we recommend that the government adopts a *mission oriented industrial policy* through the NRFC. A mission-oriented approach to industry policy and economic development is a process of working with willing business partners to deliver mutually beneficial outcomes.<sup>7</sup> Rather than ‘picking winners’, this approach encourages a collaborative method of economic development that sets targets for industry growth and works to share the resulting benefits. Successful industry policy shows that public institutions matter and make an impact on people’s lives. An investment in creating new industries, regardless of the business case, presents countries the world over with opportunities to produce value, both economic and social.

However, a mission-oriented approach to innovation and industry policy demands a number of steps of ambitious governments.<sup>8</sup> Firstly, the mission must be one that is bold and encourages buy-in from the general population: it has to be something that is socially relevant. The NRFC’s remit is to invest in the productive capabilities of the Australian economy, and ‘to support, diversify and transform Australia’s industry and economy to secure future prosperity and drive sustainable economic growth’,<sup>9</sup> a mission which is both bold and encourages the participation of enterprises, unions, and community.

Secondly, it must be a solution that is grounded in observable outcomes, either by improving people’s day-to-day lives or appealing to their imaginations. The stated purpose of the NRFC to ‘provide finance to projects across priority areas of the economy to leverage Australia’s natural and competitive strengths, supporting the growth of a vibrant and modern economy, better positioning industry to be successful in a net zero economy and more resilient against supply chain vulnerabilities’,<sup>10</sup> which will satisfy this criteria. This investment has the potential to rebuild Australia’s sovereign capabilities across the manufacturing sector, which will not only provide employment and enterprise opportunities for Australians but also create opportunities to decrease prices and combat the cost of living crisis currently being experienced. Similarly, the explicit focus on decarbonisation and the opportunity for domestic industry to seize on the global opportunities it presents will not only reduce our own carbon footprint but allow for Australian enterprises to enter global supply chains, which is the kind of future that captures the imagination.

Thirdly, while any mission-oriented strategy must be ambitious, it needs also to be built on realistic, measurable and time-bound interventions that are explicitly linked to a political direction. These measures can either be binary (for example, in the space race: someone lands on the moon, or they don’t), or they can be quantifiable and progressive targets that are linked to concrete actions, such as an interim emissions target on 2005 emissions levels.

This ‘mile-stoning’ approach allows not only for review and reflection on progress, but encourages a diversity of tactics to help achieve different milestones across the implementation phase of the agenda. Any goal should be focused on attracting research and innovation investment, from public and private sources, and seek to *crowd in* funding around shared goals. Contrary to conventional logic which presupposes that government investment in research and technology crowds out private investors, in fact this early investment by government often does the opposite, ‘...stimula[ing] private investment that would otherwise not have happened...[expanding] the overall pie of national output, which has benefits for both public and private investors’.<sup>11</sup>

<sup>7</sup> Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* (2018); Mariana Mazzucato and Mariana Mazzucato, ‘Mission-Oriented Innovation Policy: Challenges and Opportunities Mission-Oriented Innovation Policy: Challenges and Opportunities’ (September); Mariana Mazzucato, *Mission Economy: A Moonshot Guide to Changing Capitalism* (Penguin Books, 2021) <<https://www.penguin.com.au/books/mission-economy-9780241435311>>.

<sup>8</sup> Mazzucato, *Mission Economy: A Moonshot Guide to Changing Capitalism* (n 10) 121–137.

<sup>9</sup> The Parliament of the Commonwealth of Australia, ‘National Reconstruction Fund Corporation Bill 2022: Explanatory Memorandum’ (2022) 3.

<sup>10</sup> *Ibid* 6.

<sup>11</sup> Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* (n 10) 9.

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While not explicitly an aspect of the Bill covering the establishment of the NRFC, the regular reporting that will be required,<sup>12</sup> coupled with the Government's external commitment to emissions reduction targets of 43% on 2005 levels of emissions by 2030 and net zero emissions by 2050,<sup>13</sup> there are ample opportunities to review the operations of the NRFC.

The final criteria for a mission-oriented approach is that it must '...encourage multiple solutions instead of focusing on a single development path or technology'.<sup>14</sup> Put another way, while there must be a singular purpose to the industrial agenda that targets a specific problem, the goal should be one that is broad enough to encourage multiple projects working towards its solution. This criterion should encourage smart government investment in a range of strategies, approaches and 'angles' that confront the various challenges created by the targeted problem.

Given that the NRFC's remit is not only to invest \$15bn in the defined priority areas of 'renewables and low emission technologies; medical science; transport; value-add in agriculture, forestry and fisheries; value-add in resources; defence capability; and enabling capabilities',<sup>15</sup> this criteria is satisfied by the scale of investment. With \$5bn to be invested across these priority areas,<sup>16</sup> multiple strategies, technologies, enterprises and industries will be mobilised to create solutions to the challenges presented by decarbonisation and diversification. Crucially, the Bill outlines the ability to legislate new priority areas, allowing the NRFC to be redirected towards new missions as challenges are presented.

Additionally, the most crucial aspect of the Bill in its current form relates to the equity that investment through the NRFC will, and should, retain.<sup>17</sup> By explicitly stating that the NRFC will acquire 'shares in a company, units in a trust or an interest in a partnership' is any enterprise or technology that receives funding through the Corporation,<sup>18</sup> the Bill is ensuring that not only will the Fund be governed responsibly in the interests of the people, but will offer a return on the risk that is shouldered by the state in this endeavour.

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<sup>12</sup> Detailed in The Parliament of the Commonwealth of Australia (n 12) 12., where the report notes that as an entity governed under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), the NRFC will be required to undergo regular reporting.

<sup>13</sup> Chris Bowen, Anthony Albanese and Jenny McAllister, 'Stronger Action on Climate Change', *Media Release* (16 June 2022) <<https://www.minister.industry.gov.au/ministers/bowen/media-releases/stronger-action-climate-change>>.

<sup>14</sup> Mazzucato, *Mission Economy: A Moonshot Guide to Changing Capitalism* (n 10) 124.

<sup>15</sup> Ed Husic, Anthony Albanese and Katy Gallagher, 'Establishing the \$15 Billion National Reconstruction Fund', *Media Release* (30 November 2022) <<https://www.minister.industry.gov.au/ministers/husic/media-releases/establishing-15-billion-national-reconstruction-fund>>.

<sup>16</sup> The Parliament of the Commonwealth of Australia (n 12) 4.

<sup>17</sup> *Ibid.*

<sup>18</sup> *Ibid* 10.



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### Conclusion

In order to address the twinned economic and climate crises that are confronting our nation, we need political leadership at the federal level. It is imperative that we make significant, but carefully structured, changes to the way we manage our economy, to ensure that the transformation from fossil fuels to renewables is one that shares the resulting prosperity equally across society.

The establishment of the Fund, and the Corporation which oversees it, represents a significant shift in Australia's economic development, from one which assumes that the state's role is to get out of the way of the productive market forces to one which recognises the crucial role that the state plays in an innovative and diversified modern industrial economy.

For generations, our political imagination has been hamstrung by a fallacious belief that the only benefit of government spending comes from the value it returns to shareholders, whether they are public or private. However, as economists and policy experts have repeatedly shown,<sup>19</sup> if this kind of thinking had been applied in the past the world would have been incalculably worse off.

However, the mission-oriented approach which the NRFC is poised to implement is one that recognises the opposite of *small* government isn't simply *big* government but *smart* government, where the state takes the innovative investment risks for which the private sector doesn't have the appetite. Indeed, a mission-oriented approach to industry policy and economic development is a process of working with willing business partners to deliver mutually beneficial outcomes. Rather than 'picking winners', this approach encourages a collaborative method of economic development that sets targets for industry growth and works to share the resulting benefits. Successful industry policy shows that public institutions matter and make an impact on people's lives. An investment in creating new industries, regardless of the business case, presents countries the world over with opportunities to produce value, both economic and social.

The establishment of the NRFC through the Bill is a strong step in the right direction for reorienting government and business relations toward a mission-oriented approach, and as such the Centre for New Industry welcomes and commends its passing.

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<sup>19</sup> Mariana Mazzucato and Martha McPherson, 'What Can the Green Revolution Learn from the IT Revolution: A Green Entrepreneurial State' (July); Mazzucato and Mazzucato (n 10); Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* (2013); Mazzucato, *Mission Economy: A Moonshot Guide to Changing Capitalism* (n 10).

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