



The manufacturing industry: Are Labor's *New Directions* any better than the old directions?

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Industry policy has an entirely disreputable history. But undaunted, in April, the Labor Party released its 'New directions for innovation, competitiveness and productivity' paper. This sets out its vision for Industry Policy under a future ALP government.

Industry Policy is, in essence, a supply-side conspiracy through which government and industry collude against the consumer. As Adam Smith warned, 'to narrow the competition must always be against [the public interest], and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens'. A reading of the ALP's policy suggests that it has something akin to the now discredited Japanese Ministry of International Trade and Industry (MITI) in mind for its industrial policy.

MITI was created in 1949 with the task of co-ordinating Japan's international trade. It also co-ordinated Japanese industrial policy

by providing loans, grants, licences, permits and subsidies to favoured firms, and tax concessions to favoured industries. Just as Australian Prime Ministers are expected to have previously held the office of Treasurer, Japanese Prime Ministers were expected to have been MITI minister. MITI played an extremely important co-ordinating role in the Japanese economy. Over time, however, the forces of economic liberalisation caused its power to wane and, in 2001, it was reorganised into the Ministry of Economy, Trade and Industry (METI).

Aping MITI, a future ALP government will create an über-department of Industry, Science and Research with a network of Industry Innovation Councils. These councils will comprise high-level decision-makers from the private sector, the science and innovation sector (presumably universities and the CSIRO) and government. In other words, ALP policy proposes a producers' conspiracy. The policy is also littered with boondoggles such as the ten 'Enterprise Connect' centres, which, as the policy notes, will help firms 'find and adapt the latest research and technology... [and] have their business benchmarked against best practice and get help in solving identified problems'. One wonders how firms were able to innovate—or compete at all—without tax-payer funded 'bench-marking'.

But stripped of these expensive decorations, the new ALP industry policy is just like the old.

'Sustaining prosperity beyond the mining boom'

We keep hearing about the 'end of the mining boom'. Kevin Rudd has told us 'I don't want to be Prime Minister of a country that doesn't make things any more'.

Services, however, are not left out. Only last December, Senator

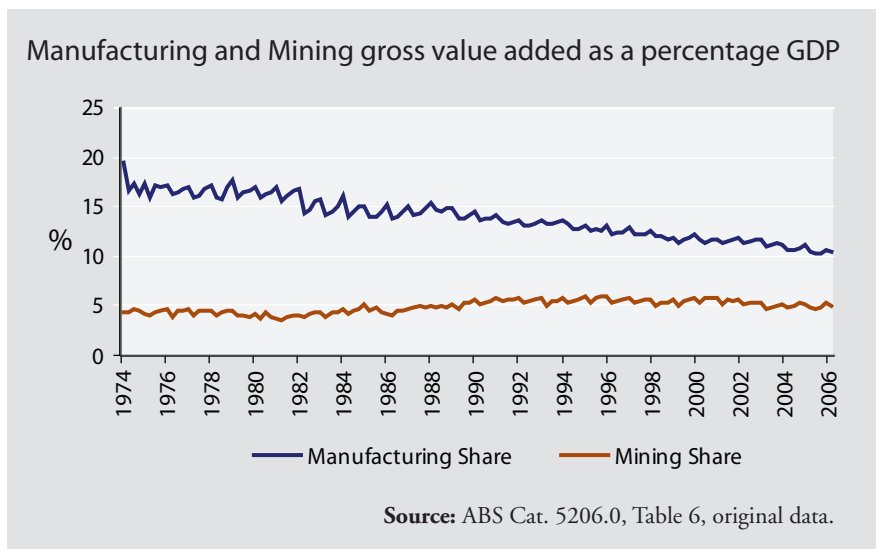
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Kim Carr—the Shadow Minister for Innovation, Science and Research—targeted service industries as an example of what ALP industry policy will avoid, arguing that Australian employment cannot be restricted to ‘burger flippers’ and ‘cappuccino makers’.

In his Budget reply speech, however, Mr Rudd indicated that Australia should also become a funds management hub for Asia. This does seem to be an after-thought. It is not clear that the Australian funds management industry needs government support. (But then, it’s not clear that government should be providing any support to any industry.) It is worth noting the assumptions being made: manufacturing is in dire need of government intervention and our prosperity is due, only, to a ‘mining boom’.

Since 1974, the value-added share of manufacturing has fallen from just less than 20 per cent of GDP to just more than 10 per cent. In other words, the share of manufacturing in the economy has almost halved. The value-added share of mining, on the other hand, has remained stable at about 5 per cent. The data reveal a paucity of evidence to suggest that Australia owes all its current prosperity to a mining boom. Similarly, there is no real evidence that the economy is being disadvantaged by the decline in manufacturing. Indeed, consumers are probably better off as a result of these changes. Instead, the biggest decline in the manufacturing has been in textiles—and the ability to buy cheaper clothing has freed up the family budget to purchase other products.

Yet the ‘manufacture bugs’ are unhappy. In December 2006, Senator Kim Carr told us, ‘Clearly the reliance on market fundamentalism is not working. In the last five years we’ve seen the loss of nearly 40,000 jobs in manufacturing’. Actually, according to Australian Bureau of Statistics data, manufacturing declined by 44,500 jobs between 2001 and 2006. What Senator Carr did not tell us was that the number of trade union members in the manufacturing sector fell, over the same period, by 82,700. Since 1996—the year the Howard Government was first elected—the number



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of trade unionists in the manufacturing sector has fallen by 182,100. In other words, nearly 45 per cent of the decline in trade union membership is due to that one sector alone, manufacturing. Small wonder the ALP is concerned.

There were 1.7 million more jobs in 2006 than there were in 1996. The biggest growth areas were in property and business services, and health and community services. These two areas now make up 11.9 per cent and 11.3 per cent of all employment respectively. The single largest source of employment in the economy is retail trade at 14.9 per cent (in 1996 it was 14.6 per cent). Levels of unionisation in these industries vary from 27 per cent in health and community services (above the national average of 20.35 per cent) to 5.28 per cent in property and business services. Of course, it is unsurprising that the health and community services sector is highly unionised; public sector employees dominate this industry. The largest decline occurred in the manufacturing sector. In

1996, 15 per cent of all employees were in the manufacturing sector—the single largest employment sector in Australia. By 2006, this had declined to 11.1 per cent—the fourth largest sector. Union membership had declined from 36.6 per cent to 23.4 per cent. Within the sector itself, the single largest loser was textiles and clothing, followed by machinery and equipment.

A ten-point plan

The ALP proposes a ten-point plan to ensure Australia’s continued prosperity. These ten points can be further condensed into three points: pick winners, throw money at universities, and streamline government.

Picking winners has such an appalling track record that it is surprising that politicians still think they can get away with proposing it. The ALP proposes ‘building a culture of innovation’, focusing incentives, accelerating the take-up of new technology, developing innova-



tion priorities and using government procurement to support and encourage innovation. Motherhood stuff. The old chestnut of improving maths, science and engineering skills comes up too. The ALP commits to providing ‘our children’ with ‘world class education and training’. Yet, the education unions and state governments claim that this occurs already. The ALP also wants to promote an Australian ‘green car’. They aim to purchase green cars for the Commonwealth fleet ‘if Australian car manufacturers can create value-for-money environmentally friendly vehicles’. Yet, the current government already offers environmentally friendly vehicles in the Commonwealth fleet.

Throwing money at universities is, of course, bipartisan policy. It is not clear however, what return the taxpayer gains from this strategy. The *IPA Backgrounder* ‘Back to Basics: Why government funding of science is a waste of our money’ demonstrated that taxpayers gain very little from publicly funded research. There have been few productivity gains

in teaching. The founder of Christianity had twelve disciples, implying a staff:student ratio of 1:12. Using 2005 Department of Education Science and Technology data, I estimate the staff:student ratio in current Australian tertiary education to be approximately 1:25. Two thousand years of technological progress has led to a doubling of teaching productivity. Universities complain that this ratio is too high. While education outcomes are poorly defined, government education spending—especially on higher education—could easily become a bottomless pit.

Streamlining government functions is politically populist. Everyone sees apparent waste in government. Of course, there is much waste. Much duplication, however, can be justified on the grounds of diversity and the benefits of federalism. To the extent that government tries to cater for different needs, it is likely that bureaucratic and apparently inefficient processes will arise. Governments that adopt a one-size-fit-all, take-it-or-leave-it, policy will have simplified processes.

In terms of the ALP’s policy, however, it is nonsense to argue that they could simultaneously reduce government waste and create an über-department and Industry Innovation Councils. Although the composition of the bureaucracy may change, the overall size will expand. It is simply not credible that any simplification would occur.

The ALP’s ‘new directions’ are very much like the old directions. The only phrase missing is ‘commanding heights’. The Japanese MITI experience ended badly. It is not obvious that this approach would end any better than it did in Japan. Government adds value by enforcing property rights and maintaining the rule of law. Government has failed to add value when making business decisions. The ALP wishes to impose political control over the economy via its industry policy. This is both poor economics and poor politics.

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