

Submission of the Mainstream Party for the Productivity Commission Inquiry into Automotive Manufacturing

The Mainstream Party is a new Australian political party that is opposed to “economic rationalism”. In our view, “economic rationalism” is overly simplistic. When “economic rationalism” was introduced in the 1980s, everyone was told that jobs like engineers would not vanish overseas, but now we are seeing oil refineries being closed down and engineering jobs exported to Asian countries. Even lawyers’ jobs are being outsourced to India, and Australian surgeons are being undercut by Thai surgeons.

1. Lessons from the Replica Kit Car Industry

There is an obscure part of the automotive industry called the Replica Kit Car Industry. Suppose there is a motoring enthusiast who would like to own a Ferrari, but cannot afford a Ferrari. A motoring enthusiast can build a replica of a Ferrari from a kit. The kit will contain a steel frame and fiberglass panels. In addition to the kit, a donor car such as a Ford Focus will be needed to provide the engine and transmission. The resulting car will be to all intents and purposes a Ferrari, but will cost about \$50,000.

Ferrari could sell their cars for \$50,000 each, but they prefer to charge ten times as much. The wages that Ferrari pays to its employees are not going to have any bearing on Ferrari’s competitiveness. Ferrari could cut costs by having its cars assembled in Vietnam, by workers earning 50 cents an hour, but then they would not be Italian cars. The advantage of being able to pay lower wages is counteracted by the disadvantage of the car no longer being Italian.

Australian car manufacturers could close down operations in Australia, and make cars in Vietnam instead. Cars made in Vietnam cost about a quarter as much to make as cars made in Australia. Cars made in Vietnam will be sold in Australia for the same price as cars made in Australia. Cars can be profitably made in Australia, but they can more profitably be made in Vietnam and imported into Australia.

There are two views that a car manufacturer could take. It could take the approach of trying to get the highest possible return on its investment. Alternatively, it could take the approach that it is an Australian car manufacturer, and that it will seek to get the highest return on its investment consistent with remaining in Australia.

From the point of view of Australians, it is preferable to have car manufacturers who are committed to remaining in Australia. The Australian Government should not be pouring money into car manufacturers that are not committed to Australia.

2. Market Research Methods of Automotive Manufacturers

There are some four hundred different models of cars on sale in Australia. None of these models has a feature which addresses the problem of children and animals being accidentally locked inside a car on a hot day. There needs to be a feature whereby there are solar cells on the roof of the car, and this powers an extractor fan, that sucks hot air out of the car, whenever the inside temperature is greater than the outside temperature.

According to “economic rationalism”, the “market” is supposed to magically address the needs of consumers. Yet the market has not addressed the safety hazard caused by the heating up of the interior of a car on a hot day. Nor has the market produced a car that looks like a Ferrari and costs \$50,000. The evidence is that improvements do not “spontaneously” happen, but people have to decide on them.

There are three approaches to market research. The first approach is for a company to make what they think consumers should have. The second approach is for a company to ask consumers what they would like the company to make, and to make that. The third approach is to make what the company imagines the consumer would like. The last approach is the correct approach, but automotive manufacturers appear to follow the first two approaches.

It is submitted that Australian consumers would prefer car with styles similar to:

- Ferrari Testarossa (5 litre 5 seat sports coupe)
- Lancia Stratos (2 litre 2 seat sports coupe)
- BMW E3 (3 litre 5 seat sedan)
- Volkswagen Kombi (2 litre 7 seat van)
- Land Rover Series 1 (3 litre 7 seat 4x4 van)
- Toyota Hilux (3 litre 3 seat cab chassis truck)

Further, it is submitted that Australian consumers would like the following features:

- safety features such as a chassis that resists being deformed in a collision
- a solar powered extractor fan to prevent the inside heating up
- bench seats rather than bucket seats
- gear lever on the steering column
- diesel engine that will run on petrol, diesel, ethanol, canola oil, natural gas or producer gas
- electrical systems that avoid the use of transistors and integrated circuits except for non-essential accessories such as the GPS
- extensive use of chrome and stainless steel
- designed for long life and low maintenance costs

There is no model of a car along these lines that is sold in Australia. If Holden was to produce cars along these lines, arguably it would increase its market share, notwithstanding that its imported competitors have much lower manufacturing costs.

3. Drawbacks of Economic Rationalism

According to “economic rationalism”, if two suburbs, such as Carlton and Fitzroy, engage in “free trade” with each other, their economic output will be higher than if they do not engage in “free trade”. This is correct when talking about small geographical areas such as suburbs. As the geographical area gets larger and larger, the benefits of free trade get smaller and smaller. While “free trade” might make sense for Carlton and Fitzroy, it does not make sense for Australia and China.

The effect of engaging in “free trade” with third world countries is to shift the supply curve for labour to the right, as Australians are now competing with billions of third world people who are willing to work for 50 cents an hour. As a result of the supply curve shifting, equilibrium now occurs when there are only 11.5 million people employed. This results in 7.1 million people who belong to the labour force but who do not have jobs. This is about 38% of the labour force, who would like to work, but will never have jobs while the Liberal and Labor Parties remain in power.

4. Assistance for General Motors

It is submitted that the Australian Government should buy General Motors’ Australian operation with a view to privatizing it in a few years. A public company, Holden, should be set up with a constitution that requires the company to manufacture cars in Australia, and that limits the salaries of executives effectively to about \$200,000. Executives should work for the company as a labour of love and not for the money. The company should make cars with the features mentioned above. When the company’s market share increases, and the company’s long-term viability becomes apparent, the company should be sold to Australian superannuation funds.
