

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

Summary

1. As a general rule, subsidies to industry are a sound use of public money, and the benefits to taxpayers often exceed the outlays.
2. The leading expert on industry assistance is Dr Ha-Joon Chang of Cambridge University, who advocates these subsidies.
3. It may well be that the Commission has not considered all the benefits to Australian taxpayers of subsidies to the Australian car industry.
4. The aim should not be to maximize world economic output or to provide a level playing field for foreigners, but to provide the greatest good to the greatest number of Australians.
5. The level of assistance to industry should be arrived at by experiment as well as by forecasting.
6. Just as a climate change religion has arguably arisen amongst Australian academics, perhaps there is also an economics religion.
7. "Free Trade" was invented by the economist David Ricardo in 1817, and was rejected by the politicians of the nineteenth and twentieth centuries as economic suicide.
8. Just because many of the people advocating industry assistance might be less than admirable as human beings does not mean they are wrong.
9. Australia should have a number of state-owned enterprises such as a car manufacturer, an oil refinery and a pharmaceutical company.
10. A state-owned car manufacturer, subsidized by the government, should buy the factories of Ford, Holden and Toyota.

This submission will make a case as to why there should be subsidies to the Australian car industry. Some examples of industry assistance around the world will be given that show industry assistance is a sound idea. Some of the reasons for industry assistance in these examples apply to the Australian car industry. Industry assistance is supported by Dr Ha-Joon Chang, an economics lecturer at Cambridge University, as will be explained. The idea of "Free Trade" has been around since 1817, and has only been implemented in countries that are controlled by minority groups, who are seeking to achieve agendas such as transferring wealth to other countries who share their religion.

Overseas Examples of Industry Assistance

Some overseas examples of industry assistance are the communications satellite industry in the United States, the agriculture industry in the United States, and the shipbuilding industry in South Korea. When the communications satellite industry arose in the 1960s, the technology was experimental, and there was uncertainty over the costs involved in launching a space satellite. Satellite services were provided by a state-owned enterprise, NASA. Generous subsidies were provided by the American government. Nobody would seriously suggest that communication satellites could have been developed in any other way.

The agriculture industry in America is another industry with a great amount of uncertainty. Prices of agricultural commodities fluctuate so as to make the industry unviable for small farmers. The government provided subsidies to farmers to dampen the price fluctuations and make the industry viable. This has led to agriculture in America being among the most efficient in the world.

The South Korean Government assisted its shipbuilding industry for quite different reasons. South Korean politicians had heard about oil tankers, and decided that making those tankers would be a good industry for South Korea. The government helped industry with subsidies to get into the oil tanker fabrication business. Shipbuilding companies could charge competitive prices, and still make a profit. Now, South Korea has a comparative advantage in shipbuilding that it would not have obtained without subsidies.

Australia is known around the world as a country with challenging climatic conditions. The conditions that exist in Africa and India with the tropical and arid climate zones are similar to conditions in Australia. Equipment that works in Australia clearly will also work in Africa and India. Thus motor vehicles that are designed for Australian conditions would seem to buyers in Africa and India to be ideal for their requirements. The Australian-made brand is the ideal brand for motor vehicles.

The Australian Government needs to determine that motor vehicles is among the ideal industries for Australia, and back the industry. If the Australian Government subsidizes the industry sufficiently, the industry will be able to achieve a production run of 500,000 vehicles a year, which is necessary for efficiency. The industry will be able to utilize industrial robots, which will compete with lowly paid workers in places like Vietnam.

Dr Ha-Joon Chang's Research on Industry Assistance

The leading world expert on industry assistance is Dr Ha-Joon Chang, a lecturer in economics at Cambridge University. Dr Chang advocates subsidies to industries and the use of state-owned enterprises. As well as publishing academic articles on industry assistance, Dr Chang has written a book aimed at the lay person called "Bad Samaritans", published in 2007. This book should be "required reading" for trade unionists. We refer to and repeat the contents of the book, and ask that the Commissioners read the book if they have not done so already, before making up their minds.

Dr Chang grew up in South Korea, which at the time of his birth was as poor as North Korea. Dr Chang's family was wealthy by South Korean standards but poor by current Australian standards. As Dr Chang was growing up, economic conditions improved considerably, and South Korea went from being among the world's poorest countries to among the world's richest.

The policies that South Korea followed went against the conventional wisdom being advocated by economists. It became apparent to Dr Chang that conventional economic theory was flawed. Dr Chang made it his mission in life to revise economic theory to account for South Korea's miraculous rise to prosperity over two decades.

Benefits of Assistance to the Australian Car Industry

The Commission has tentatively suggested that there is no credible evidence of net benefits to Australian taxpayers of subsidies to the car industry. The Commission has discounted the evidence of other respondents who say there are substantial net benefits. This may be because the Commission believes all subsidies to industry are theoretically unsound. But, as has been shown, subsidies to industries such as the communications satellite industry are desirable in order for a country to develop a comparative advantage. It is submitted that credence should be given to the claims made by other respondents of benefits to the Australian taxpayers.

One example of benefits to the taxpayers is for taxpayers to buy the subsidized product. For example, suppose the Australian car industry makes 500,000 cars a year, and these are subsidized by \$3000 per car. The total subsidy will be $500,000 \times \$3000 = \1.5 billion per year. Now suppose 100,000 cars are bought by Australians and 400,000 cars are bought by foreigners. There will be a benefit to Australians who buy the car of $100,000 \times \$3000 = \300 million. This \$300 million benefit to Australian taxpayers must be taken into account.

Other benefits are a reduction in welfare payments due to jobs in the car industry, including car part manufacturers, and an increase in income tax receipts. Also, whenever jobs are created, there are multiplier effects, as workers spend their pay, which leads to jobs being created in other industries. Multiplier effects are just elementary economics, and surely the Commission does not deny their existence.

Benefits of State-Owned Enterprises

Governments have been criticized for giving handouts to businesses. It is indefensible for the government to give a business a \$20 million grant, and then for the same business to pay a \$20 million bonus to its chief executive. Having state-owned enterprises is a way to avoid the handout mentality. State-owned enterprises will deal with the Treasury in the same way as normal enterprises deal with their banks. The only difference will be the Treasury will provide subsidies as well as credit. Since the money is being paid from one government entity to another, it is not a handout. Much the same thing happens in large companies, where the head office gives subsidies to business units of the company.

Particular state-owned enterprises for Australia could include a car manufacturer, an oil refiner, and a drug company to develop antibiotics to kill drug resistant bacteria. Petrol prices in Australia are inexplicably higher in Australia than in Canada, despite Australia having a similar population distribution to Canada, and Australia being closer to the Persian Gulf. This suggests that Australians are being exploited by oil companies, a situation that would be remedied by having a state oil refining company. Such enterprises need not remain permanently in government hands, but should be privatized eventually, to allow further state-owned enterprises to be set up.

The Economics Religion

Much criticism has been made of environmental scientists for in effect starting a “climate change religion”. These scientists used to go around openly saying that Australian wage rates were ecologically unsustainable, and that Australian workers should be paid one-tenth of what they were getting. Now these scientists are more circumspect, and limit their criticism to predicting natural disasters unless unspecified steps are taken to wreck the economy and return to the economic era before the Industrial Revolution.

Just as there is a “climate change religion”, so there is an “economics religion”. University lecturers openly propound the theory of comparative advantage in the manner of nuns teaching a confirmation class, as though “free trade” was an immutable truth. Lecturers act as though “free trade” is a recent high technology discovery, when really it was invented in 1817 by the economist David Ricardo. In that year Ricardo published his book, “On the Principles of Political Economy and Taxation”, which inspired Karl Marx to become an economist.

The politicians of the nineteenth century and twentieth century considered “free trade”, but rejected it. While it would lead to greater output, it would also lead to dependence on potentially hostile foreign suppliers. The benefits of higher output would not be shared equitably amongst the population, but rather the rich would get richer and the poor would get poorer.

What is happening in Australia with the outsourcing of jobs is similar to what happened in Germany after the Second World War. The Soviets looted production machinery and anything else of value from Germany and shipped it back to Russia.

In Asian countries, conventional economics is regarded as a religion, and is held in low esteem, just as psychology and sociology are held in low esteem in Australia. Treasury jobs in Asian countries tend to be held by lawyers rather than by economists. Economists are employed for making forecasts, but not in key decision-making areas.

Having “free trade” on a small scale makes a lot of sense. If the suburb of Carlton engages in “free trade” with the suburb of Fitzroy, this results in much greater output than if they were self-sufficient. But as the geographic area engaging in “free trade” gets larger, the increase in output from “free trade” gets smaller. When there is an economy the size of Australia, the tiny increase in output resulting from trading with countries like China is easily outweighed by the disadvantage of the unemployment caused by competition from cheap foreign imports.

Clearly the predictions of the proponents of “free trade” have not eventuated. One-third of the Australian population is living in extreme poverty, many of the other two-thirds are in constant fear of losing their jobs, and Australia is heading economically in the direction of North Korea. As a result of various trade agreements, Australia no longer has the ability to block cheap foreign imports. But Australia has the ability to subsidize Australian products. This should be done, not indiscriminately, but so as to get value for money.
