

## An Arrium bailout shows how the myth of manufacturing and growth lives on

Written by Alan Oxley, Chair, APEC Study Centre, expertise international trade law, economics, Asian regional development, RMIT University

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Reality is always a victim in election campaigns. The case to save the Arrium steel business (and the Port Kembla plant) is still that this will protect jobs. The real purpose is to secure votes.

Labor announced last week it would provide a \$100 million bailout for Arrium if elected. The Coalition in response has offered \$49.2 million to help save 2700 South Australian jobs.

The larger point behind this is the direction of Australia's industry policy, which has become a pseudonym for manufacturing policy. The primary case to support manufacturing is that it creates jobs. The fact is, it doesn't anymore.

With automation (for example robots assembling manufactured products rather than workers), employment in manufacturing has shrunk. In the US where the output from manufacturing has continued to climb, employment continues to shrink.

Australia had had the longest run of growth of any global economy until the global financial crisis. This was because successive governments made the economy more productive by reducing tariffs, which increased the costs of imports and cutting subsidies to business. This experience now appears to have slipped from political memory.

The loudest voice for manufacturing is unions. But the share of the workforce which is unionised has [shrunk](#) from around 40% in the 1980s to 15%. And most unionised employment is in services – education, health, financial services. Nevertheless, the voice of manufacturing unions is evidently louder. It shapes Labor policy.

We have paid very dearly to sustain uncompetitive manufacturing in Australia. The motor industry is the best example. In the late 1970s, encouraging Australians to buy Australian-made cars required high tariffs (over 100%) to price imported cars out of reach. Consumers and voters paid dearly for this. The justification was this created employment – it did until technology reduced the need for human labour input.

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Our steel industry was established with similar intentions. The economics of steel globally is that it is a labour-intensive industry where developing countries can produce it much more cheaply than industrialised economies. Steel industries in Europe, the US and Australia have persistently pressed governments to limit imports of cheaper steel and press for a variety of measures which increase the cost of imports.

But it means building and manufacturing costs are higher. Just as higher tariffs made automobiles more expensive, higher cost steel increases the costs of infrastructure and building, so paying for the buildings and using infrastructure costs consumers more.

The context in which this needs to be seen therefore is what actions create jobs and greater prosperity for Australians.

In Australia, manufacturing is one of the smallest contributing sectors to economic growth. Services generate around 60 percent of economic output and 80 percent of employment. Over the last decade, [the pattern of change](#) in output and employment in the Australian economy has been clear. Manufacturing's share of Gross Domestic Product (GDP) fell 2% and that of services increased by 2%.

In South Australia the share of GDP contributed by manufacturing will largely be auto manufacturing and steel production. There, the longer term pattern is clear.

Between 1993-94 and 2013-14, the share of output of services to the economy in South Australia rose by 5 percent (to 68.6% of State Domestic Product (SDP)). Manufacturing's share dropped 3.9% (to 7.6% of SDP). The pattern for the national economy is similar. Manufacturing's contribution to national GDP fell 3.9% and the contribution of services to GDP rose 5%. This is the pattern among all industrialised economies.

The question about jobs at Arrium and in the auto industry is not what is necessary to maintain them, but what can be done to assist workers to move to other employment. This may not be as much a problem as is implied in general debate.

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The OECD recently reviewed management of job loss in several OECD countries including Australia. It found for Australia that 70% of people who lost jobs found new employment within a year and 80% within in two years. This was a higher rate than in most other OECD economies. The report commended Australia for work policies which facilitate such an outcome.

The challenge we face in Australia in these increasingly uncertain times is how do we make our economy more competitive to increase economic growth and jobs. There is a risk that the result of the election will impede the action necessary to address that challenge. This would be a dismal result.

*Alan Oxley receives funding from business and government indirectly from the APEC Study Centre at RMIT University Melbourne in his capacity as Chairman and as Principal of ITS Global, consultants on global issues.*

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