

Statement from Saul Eslake, independent economist

I have no problem with a campaign encouraging people to choose, of their own free will, to preference Australian-made goods and services over imported ones, even if that entails paying a bit more. As the campaign argues, such choices, if made on a sufficiently broad scale, can boost economic activity in Australia, and protect existing jobs and create new ones in Australia.

What I would resolutely oppose is any suggestion that Australians should be forced to make such choices, either through tariffs and quotas (as successive governments did from the time of Federation until the early 1990s) or indirectly via tax concessions and subsidies (which ultimately have to be paid for in the form of higher taxes, or lower government spending on other services, or both).

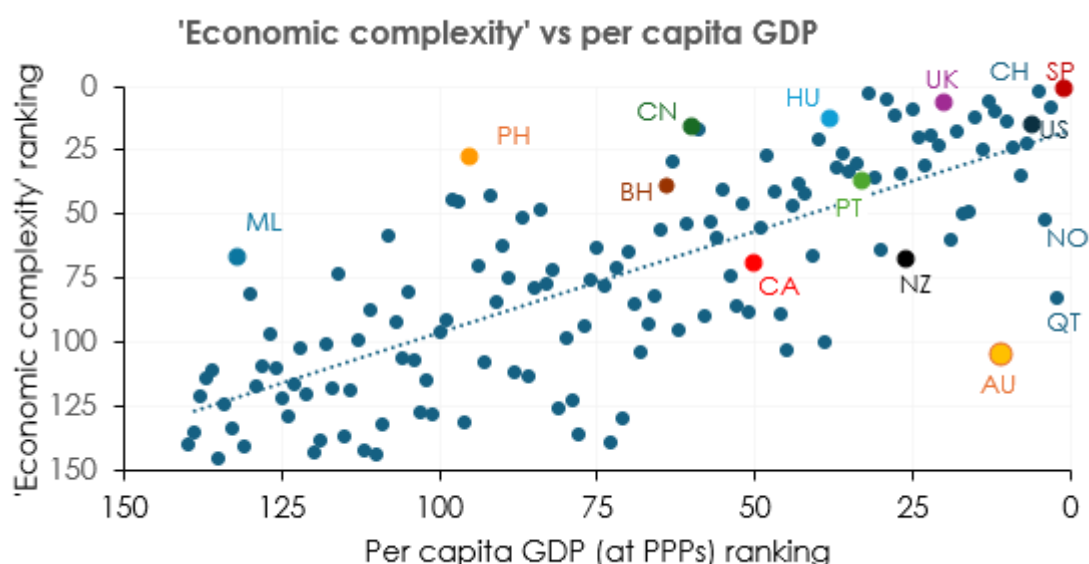
Those who bewail the fact that manufacturing represents a smaller share of GDP and/or employment than in almost every other 'advanced' economy seem unable to grasp the fundamental point that the sum of all the different sectors' shares of GDP and employment cannot exceed 100%. We have a relatively small manufacturing sector primarily because we have an unusually large mining sector (representing over 12% of GDP, larger than any other OECD economy except Norway, and well in excess of the OECD average of less than 2%), and also a larger-than-average agricultural sector. And since, like every other high-income economy, Australians choose to spend around 70% of their incomes on services, and given that most services are inherently non-tradeable, it stands to reason (assuming you want the economy to produce things that people want to spend their money on), it follows that around 70% of the economy will be in services. Which really only leaves construction and manufacturing as sectors which can be smaller than in other 'advanced' economies because mining and agriculture are larger. Australians don't want construction to be smaller than in other countries because we like to live in large houses on large blocks of land. Which really leaves manufacturing as the only sector which can be smaller than the 'norm' for advanced economies in order to make room for the larger-than-'normal' mining and farming sectors that it makes sense for us (given our 'factor endowments') to have.

In other words, if we had a larger manufacturing sector, it would inevitably mean we had smaller mining and farming sectors. Which would in turn mean that our overall standards of living would be lower, because we are 'better' at mining and farming than we are at manufacturing. For example in 2024-25 labour productivity in mining was \$741 per hour worked, compared with \$88 per hour in manufacturing. So if we were

somehow able to move half the people currently employed in mining, into manufacturing, Australia's national income would be significantly lower. Why would we want to do that, just for whatever 'warm inner glow' might be generated from knowing that we were 'making more stuff'?

From a different perspective, given that manufacturing has (inherently) relatively high fixed costs, in order to be competitive without trade barriers, tax breaks or subsidies, you need to have 'scale' – that is, to produce a lot of 'widgets' so that fixed costs per widget are low. And there are two ways, broadly speaking, to get scale. One is to have a big domestic market – like the US, China, Japan, the EU and Brazil (for example) have. Australia doesn't. The other is by exporting lots of widgets to big markets – which is what, eg, Korea, Taiwan, Singapore, Canada, Mexico, Ireland, Switzerland, and Turkey do. Notice that they are all geographically close to big markets – which means that transport costs are not inevitably a huge part of the cost of getting manufactured goods to markets. Australia isn't geographically close to any big markets. So except for 'high-value, low-bulk' items, or ones which are closely aligned with activities where we do have a significant competitive advantage (like mining and some aspects of agriculture) we simply can't be globally competitive in manufacturing without tariffs and quotas (paid by consumers) or tax breaks and subsidies (paid by taxpayers, ultimately consumers).

I also mentioned the 'Harvard Economic Complexity Index' so beloved of manufacturing fetishists, where we rank 105th. I've plotted this against per capita GDP – a measure of material well-being:



Yes there is a sort of rough correlation. But correlation doesn't imply causation. And there are so many exceptions that it is simply meaningless to say, as manufacturing fetishists do, that if we somehow increased our 'complexity' we would all be better off.

Is New Zealand better off than Australia for being more 'complex'? Is Hungary, or Portugal? Or Bosnia-Herzegovina, or the Philippines? Or Mali?

A lot of the countries which are more 'complex' according to this index are so because they have very low labour costs, and hence are seen as desirable locations for the location of labour-intensive manufacturing activities (hence, e.g., Mali). But is that what we want for Australia?

I don't think so