There's a little good news beyond those job loss headlines

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Manufacturing jobs are up, but that's just not a sexy angle.

THERE are many factors at play in those weekly bad news announcements for manufacturing, not least of which is a form of cultural cringe, where Australian consumers believe that anything imported must be better.

But in the terms economists would use, the disadvantages assailing our manufacturers include high local production costs, small production runs, soaring energy prices courtesy of cash-strapped state governments and a welter of red tape .

And since the global financial crisis there has been the extremely high value of our dollar, thanks to gross currency manipulation by what is still the largest economy in the world.

These factors have placed long-established domestic manufacturers — of cars, appliances and even simple products such as biscuits — under enormous pressure.

That is in addition to the constant burden of working in the G20's most open economy. Australia's tariff regime makes "free traders" such as the US, Europe and Japan look like mediaeval walled cities against Australia's open-range scout camp.

So how can the latest manufacturing employment figures be explained? They showed Victoria gaining 13,000 full-time manufacturing jobs in the 12 months to June, a 4.4 per cent rise.

The simple explanation for the dour perception of manufacturing is that large job cuts get the headlines while incremental job gains do not. Often those incremental gains are achieved by smaller, privately owned companies developing their own products. Backed by their own research and development, they have some competitive advantage or significant difference.

Victoria, for example, is now home to the fast-growing Ego Pharmaceuticals, a $100 million-a-year company started by German refugees in 1953. Ego is expanding sales faster overseas than in Australia. Its workforce grew by 60 to 320 in the past financial year.

Ego makes a wide range of skin-care and skin-protection products and exports to Asia and the Middle East. While there are 89 people on the production line, there are 33 in the development and quality labs.

Its advantages are access to a skilled workforce and a tough regulatory regime that imposes high standards. Its directors say Australia enjoys an image as a well-educated, clean place that bathes its products in "good vibes", particularly in Middle Eastern markets.

Australia is also making waves in advanced communications technology. Sydney-based Finisar Australia, now owned by a Californian company, manufactures advanced fibre-optic switching gear and has an estimated 40 per cent of the world market for wavelength selective switches crucial to digital networks.

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The Waterloo plant has grown from 20 employees in 2005 to 270. Nearly all of its production is exported and the plant remains in Australia because the engineering brains behind the technology want to live here.

In Melbourne, Future Fibre Technologies has more than doubled its head count from 27 to 52 in three years as it has strengthened its hold on the perimeter security market. It uses buried fibre-optic cable and patented software to detect where and what has crossed the perimeter of sensitive installations such as defence bases or oil refineries.

The high dollar is unwelcome, but the company's strong patent position protects it as it exports to 53 countries.

Many other small companies are making their way by relying on unique intellectual property, highlighting the need for the fostering of innovation in materials, technology and processes.

However, these small but vigorous companies cannot carry the employment burden in the short term. None is likely to provide the 1000 or 2000 jobs that a single automotive assembly plant can, although it could be argued that the days of Australia being a mass producer of anything will continue to fade if the dollar stays where it is.

The old industries still have some life in them. Vehicle making contributes in design and development well beyond what its output would suggest. And investment in research and development and processes flow on to supplier industries.

What the success of the smaller companies indicates is that, particularly in high-technology and electronics areas, the infrastructure is there to allow innovators to come up with original ideas and get a foothold, despite small domestic markets.

The investments made in advanced technology through tertiary education, the CSIRO, co-operative research centres and other avenues are having an effect. The trick will be to build on that and maintain the flow of novel ideas and enterprises to commercialise them.

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Car industry's pros far outweigh its cons

Be careful what gets thrown away, there may be nothing available to take its place.

IAN PORTER

It's no surprise the assistance offered to the country's largest manufacturing industry, automotive, is a political football.

First, there is a federal budget allocation of $3.35 billion – most of which is still unallocated – that can simply be whisked back into the national accounts to help reduce a deficit that may be looming. That may have the added advantage of making an incoming government look like good financial managers.

Second, in the eyes of the public "the car industry" comprises three multinational car makers that have no shareholders in Australia and no obvious reason to give Australia special consideration. No harm done if they close, then.

This second aspect could not be further from the truth. Behind the three vehicle assemblers stand about 200 Australian and international parts makers of varying status, Tier One, Tier Two and Tier Three. It's these companies that employ the bulk of the 50,000 people directly employed by the vehicle industry and the 200,000 that are employed indirectly.

Closing down the Automotive Transformation Scheme and stripping away the $3.35 billion budget allocation, which has to cover the entire 10 years of the ATS out to 2020, would not only create massive unemployment in Victoria and South Australia, it would cut a swath through the local manufacturing sector.

The other disturbing aspect of the debate is there is an assumption the $3.35 billion, if it were to be dispersed to the industry, would be "dead money" and there would be no return to society or the government's tax coffers.

The ATS grants never represent more than 25 per cent of a company's investment project, so that $3.35 billion would prompt investment of about $13 billion.

Glib calculations are always made about how the assistance amounts to a cost of $1500 or $2000 or $2500 for each vehicle made or each job supported, but little attention is paid to the benefit side of the cost/benefit ratio.

GM Holden chief Mike Devereux gave some insight into the economic activity generated by GMH this week as a result of the assistance that company received in the past.

For the average $150 million GMH received in each of the past 12 years, it generated $2.7 billion of economic activity, mainly among those 200-odd component-making

companies and service providers.

The assistance provided to the assemblers and parts makers also produces a handy return for the taxpayer. The car industry is definitely paying its way and Australian assistance is the lowest, or next to the lowest, offered by any of the Group of 20 countries. If the total ATS fund of $3.35 billion were allocated over the decade to 2020, taxpayers would likely receive a return of up to 400 per cent on their investment, and that's just based on likely income tax payments.

Here are some indicative calculations. Let's say the 50,000 people directly employed in the automotive sector – by the vehicle assemblers and Tier One suppliers – earn the 2011 average wage of $69,000 a year. That makes the total wages bill for the industry about $3.45 billion.

The income tax paid to the federal government would be $699 million a year, or $6.99 billion over a decade. On top of that would be added the Goods and Services Tax those people would pay going about their lives as fully employed people. Then there are the 200,000 people whose livelihoods depend to some degree on the automotive sector. The proportion of their work that is automotive is unknown, but let's assume it's 25 per cent across the spectrum of tiers Two and Three companies.

That could generate another $699 million a year in income tax or $6.99 billion over the decade, plus GST. Together with the income tax of the directly employed, that would represent a fourfold return for taxpayers, excluding GST receipts.

Economists argue that assistance leads to misallocation of economic resources and that if an assisted industry closes down, another will spring up to utilise the resources released.

Unfortunately, this theory does not stand up, either in the current economic environment or in the Australian situation generally.

Companies are not investing in new factories in Australia – apart from Toyota and its recently opened engine plant – because the second speed of the two-speed Australian economy is turning into reverse in the eastern states.

In addition, why build a factory in Australia when it is so easy to export goods to Australia? It is easy because Australia has the lowest tariffs in the developed world and because other countries – principally the US and Japan – have aggressively reduced the value of their currencies to support their manufacturing industries.

The Australian government, pure as the driven snow in trade matters and purer even than the free trade vigilantes in the US, has refused to join other second-tier economies that have acted against the weak US dollar.

In short, the theory that displaced automotive workers will find new jobs – be reallocated, in econo-speak – is wrong.

If the automotive sector is closed down, there won't be new streams of income tax to replace those lost when the car industry leaves, only new costs in the form of social welfare.

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