Robert Smith

Manufacturing Matters

Is the Australian manufacturing sector slowly recovering from the recent recession, or is there worse to come? Rob Smith argues that the present high growth rates cannot be maintained due to the long-term run-down of Australia’s industrial machinery. As such, the union movement, through the Accord, has an important role in pressuring the government to promote increasing industrial investment to secure future job growth.

Despite the recent economic optimism resulting from the current high growth rates, there is a latent crisis in the Australian economy. Future productivity growth can only be maintained through the constant reinvestment in Australia’s capital stock, the very machinery of industry. However, this equipment is mostly ancient, due to long-term neglect, a problem which is further aggravated by the increasing shift in investment from manufacturing to speculation in property and other non-productive activities.

The crisis would be immediate and not just latent were it not for the fact that there are minerals to dig up and sell. But, in 15 years in which Australia has become a major supplier of unprocessed raw materials, South Korea and Taiwan have become major producers of medium technology manufactured products.

The global structural changes resulting in manufactured goods becoming the fastest growing segment of international trade have not benefited Australian producers. On the contrary, for Australian producers these changes have resulted in a declining share of that trade.

Economic Theory

One are the days when it didn’t matter that economic advice to governments, business and trade unions was naive and insular. Such advice, then, as today, informed by orthodox economics, does not and cannot grasp the real nature of capitalist competition and the structural crises which are generated within it. However, the present, though still latent, crisis can only be exacerbated because of the irrelevance of the policy advice from orthodox economists.

The examples of South Korea and Taiwan signify a different world. Competition among capitals is fiercer, faster and more pervasive.

Since the mid-1960s, when US companies increased their level of direct foreign investment, production has increasingly been organised on a global basis and the rising proportion of international trade intra-company reflects

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that. Twenty years on, the pressure is now on all companies, even on Australian companies, to look globally for the most profitable sites. In the mid-1980s, going off shore still presents to business the old incentives of cheap labour, repressive labour laws, and low taxes, plus the added attraction of an increasingly skilled
workforce utilising the latest industrial equipment. The currently high profit levels of Australian companies will, in part, be invested abroad. Certainly BHP has said so. The world economy has changed and capital is more mobile than before. The economic right is intuitively correct in recognising the direction of the changes, but it remains incapable of analysing them. The fundamental flaw in all mainstream economic analysis is to view consumer demand as the initiator and mainspring of economic activity.

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In this view, producers make things because people need those things, i.e., the purpose of production is to satisfy social needs. It's then only a short step to assert that those things could be made here if the price was high enough so that reasonable profits could be assured. Historically, tariffs were the way the market for Australian-made products was protected. Consumers could be satisfied, profits could be assured, workers could keep those jobs; consumer sovereignty reigned.

It also entails the view that our plant and equipment can physically make those things, even though we know that the equipment is old and much of it obsolescent, this was the conventional wisdom and politicians found it expedient to use tariffs to try to protect both local profits and local jobs.

In a capitalist economy, tariffs do turn down the competitive heat on manufacturers. As a result, pressure to reinvest is reduced and the secret of capitalist success, the fastest growth of labour productivity relative to rivals is here dissipated.

Beyond the Safeguards of Tariffs

Today, the right and left agree that tariffs will not protect particular jobs. But it is not true that the only alternative to tariff protection is complete freedom for market forces as called for by the New Right and all those urging deregulation. If that were the only alternative then the prospects for Australian wage and salary earners and for welfare recipients would be gloomy indeed. But, of course, the New Right economic policy of deregulation concerned only with profits and, under the deregulation scenario, Australian capital could do well enough; for small business, things can only deteriorate.

We could expect a further decline in manufacturing employment as Australian producers became importers or moved their production facilities offshore. The dollar would become less stable as the level of the current account deficit depended even more on the volatile prices of primary product exports. Much of the so-called services sector would also be less stable because of the increased unemployment and the probable higher rate of inflation.

There are controversial questions for the left here. To make no policy intervention is politically to abandon the field to the New Right. Economically to take no action via the state means further relative decline of the development of the productive forces as design skills, engineering skills and the skills of production workers are less and less employed. There would clearly be an erosion, perhaps a severe erosion, in the strength of unions organising production workers and, to a lesser extent, among those organising maintenance workers. Whether this is a case of "the worse, the better" depends on your optimism about the prospects of replacing the industrially based trade union oriented left with an increasing professional and middle class based political left, as the former loses many of its members.

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On the other hand, making a policy intervention that makes local capital more productive is obviously not a progressive step unless time is bought, i.e., maintaining for a bit longer existing industrial strength and using it to assist in developing a coherent political strategy on the left. The irony is that mainstream micro-economic analysis is irrelevant to understanding capitalist growth and its contradictions, and that it is Marx's analysis of competition that is a more realistic account of actual business practice and of the space in which it has to manoeuvre.
Capitalist competition is fundamentally the struggle to secure profits by reducing production and distribution costs and speeding up turnover. Only thus can prices be reduced in the final markets of sale, i.e. be competitive. Historically, the most important method of reducing direct labour time per unit of production has been increased investment in fixed capital equipment.

But, for Marx, profits (the expansion of capital value) are the capitalists' primary aim. The aggregate satisfaction of consumers (much beloved by mainstream analysts) was, and is, an incidental outcome of this relentless pursuit of profits. Of course, producers and distributors assess prospects for future sales. But, if a company can make or distribute a product at a lower unit cost than any others in the industry, then it is likely to be profitable to make that investment, regardless of whether existing producers have unsold stock.

So, for a producer entering the industry with technology which gives a lower unit cost of production, matching physical supply to consumer demand is an accidental outcome. The aim is to secure profits by making the investment. If that means unsold stock in the hands of other companies with higher production costs, too bad!

The mainstream idea that actual consumer demand or expected growth in that demand draws forth additions to supply which then match physical quantities required is a fantasy equilibrium. Not only doesn't it exist, there is no natural tendency towards it, either.

It's in this context of understanding competition as the battle to lower production costs and to achieve a greater market share — both of them now global battles in many industries — that we look at investment patterns in Australia, at the state of existing capital stock, and at an important part of the capital goods industry.

A Vintage Industry?

We know that manufactured products have always been only a small fraction of Australian exports. But look at what a recent report on Australian heavy engineering said about production equipment and the approach to production:

A significant proportion of heavy engineering's specialist equipment is old. Some of it was obtained second-hand as part of Australia's war reparation dues. Other pieces were made by companies themselves during World War II. (p.46)

The all-round jobbing ability which was developed in the 1930s and 1940s still characterises much of the heavy engineering sector today. These skills have served the small Australian market well for more than forty years. (p.86)

On the other hand, few companies had a systematic approach to assessing where the best prospects for work might lie over the medium to longer terms. (p.109)


The report notes that it was not practicable to seek data on the age of capital stock for Australian engineering firms, presumably because it was too old! On the other hand, 1980 estimates for South Korea's heavy engineering equipment "indicate that one-third of it was then three years old or less and 85% of it was six years old or less". (p.46)

But the problems are not only the age of the capital stock and its low productive capacity, but also the approaches of management. "An industry 'rule of thumb' suggests that about 80 percent of output is produced by about 20 percent of the capital stock. The other 80 percent of the capital is required only for the more infrequent types of work and when demand is unusually high". (p.46) The corollary is that 80 percent of capital stock produces only 20 percent of output: an astonishing result if you understand that competition is about production costs and profits.

There has been a fundamental confusion between the engineering life of equipment and its competitive economic life. Of course, Australian companies cannot tender competitively here and overseas when the mass of their equipment is so old and so slow that the productivity of their workers is far too low. Primitive economic theory has produced primitive management practices, aided and abetted by politically expedient government policies and pragmatic unions.

The Growth of Non-Productive Investment

Whether we look at all manufacturing industry, or whether we look at heavy engineering in particular, there has been a long term decline in the rate of investment which improves productivity, i.e. new capital equipment.

On the other hand, in those sectors which merely transfer title or position to commodities which have been produced, namely, finance, property and business services, there has been a steep increase in investment. Figure One compares the expenditures on new capital equipment by the sectors of manufacturing and finance, property and business services as a percentage of the expenditure on new capital equipment by all industries.

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Predominantly, the increased investment in finance, property and business services has gone into leasing plant and equipment back to business. Discounting for inflation, by taking the expenditure as a proportion of GDP, there was a fourfold increase in these leases between 1968-69 and 1983/4. It would be comforting to think that manufacturers had become more efficient in the use of their funds employed and, instead of locking up capital in the purchase of plant equipment, were modernising so rapidly that they only leased in order to gain fastest access to new technology.

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Alas, a recent breakdown by the Australian Bureau of Statistics of goods leased suggests otherwise (#5644.0). At 33 percent, motor vehicles were the largest single category of leasing, while industrial plant and equipment was lumped into the residual category of "other", and altogether only amounted to 11 percent.

In the present climate, one is compelled to think that much of the vehicle leasing business was a means for individuals to avoid tax. If correct, then a baleful hidden legacy of the '70s tax rorts will be — Keating's mild capital tax reforms notwithstanding — a slowing down, and even a fall, in the rate of investment in new capital equipment by finance, property and business services. With it will fall the rate of growth of employment in the private sector.

The Running Down of Australian Industry

Striking confirmation that manufacturing companies in Australia have been steadily running down the basis of their competitiveness comes from comparing the levels of expenditure and repair and maintenance to the levels of expenditure on new fixed capital equipment. The results show exactly what we would expect from very old equipment.

In 1971/2, repair and maintenance expenditure for all manufacturing industry was equivalent to 28 percent of what was spent on new fixed capital equipment. By 1983/4, the same proportion was over 68 percent. In the sector including industrial machinery and much heavy engineering (Australian Standard Industry Classification 33), the proportion was 29 percent in 1971/2 and over 70 percent by 1983/4.

No wonder heavy engineering plants were closing rapidly, and thousands of metal workers were losing their jobs. The so-called investment incentives of the 1970s were a political gaffe. Ad hoc and expedient, as are most policies in the micro economic area, they had no effect, and cannot be treated as serious policies.

The Accord and its Critics

It's clear that much needs to be modernised in Australian manufacturing industries if workers there are to have a continuing flow of employment, if the economy as a whole is not to become disastrously dependent upon imports, and if we are to expand our capacities to design and develop new technologies and processes. Of course, production is still in the hands of capital, but the question is whether the restructuring imperatives from transnational corporations are faced by a business-government alliance or a union-government alliance.

The United States and Britain have recently been through a so-called phase of de-industrialisation, and both conservatives and liberals have called loudly for the "revitalisation of industry". From Reagan and Thatcher, the strategies for industrial renewal have been combative, explicitly anti-union, and have used unemployment as a weapon. On the basis that the sum of what is good for business is good for the economy and for the country, Thatcher especially has relied on the market to allocate resources. Howard seeks to do the same here.

By contrast, the Accord is a watershed for what it consolidates and for what it potentially foreshadows. The differences is not simply that the state is intervening. In Australia, the state has long intervened on behalf of business by tariffs and subsidies, though it was the increasing ineffectiveness of that patchwork of ad hoc interventions that helped to topple the conservatives in March 1983. The difference is that the ALP government's economic strategy centres upon a relatively detailed set of commitments to the union movement.

The Accord differs from the British Social Contract of the mid-1970s, both by its details and because the institutional framework that can implement significant parts of it are well established. It also differs from the Austrian model where key union leaders are also members of the government. The formal autonomy of the ACTU tactically gives greater bargaining flexibility while, at the
same time, strategically offering more consistent pressing for workers' interests unswayed by electoral temptations.

The return to centralised wage fixing plus no extra claims was a compromise among unions that extended solidarity on wages from among members within unions to the trade union movement as a whole. It was a clear rejection of the free market approach and removed the need for an overwhelming focus by individual unions on wage relativities; anomalies where they already exist, or arise, can be dealt with by a work value case.

But that defeat of the free marketeers not only removed divisive economism and expanded the influence of the ACTU on wages and other matters of direct concern, it also institutionalised the union movement's intervention on the broader issues of taxation, superannuation and industry policy. In turn, this has expanded the opportunities for individual unions to act on these same matters.

Tactically, a fairer system of taxation and universal superannuation are important struggles that directly and personally concern union members. But, strategically, industry policy is important because it influences the long-term level and range of jobs available.

The two major left criticisms of the Accord are, first, that this compromise gives up workers' basic claims via their union, i.e. their right to demand that capital pay more for their labour time whenever and wherever they believe that they can win that struggle. In short, wages militancy is not only the most direct and relevant form of struggle but it will also heighten all workers' consciousness both of their class position and of their potentiality to bring about the transformation of capitalism.

The second criticism is that, in a capitalist economy, the state, via governments seeking re-election, ultimately must maintain business confidence to make profits. Hence substantial collaboration by unions with such a state enhances the power of capital over the unions' own members; literally, it incorporates the working class into the interests of capital.

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These are powerful criticisms because they go to the heart of capitalist appropriation of wealth and because they seek to limit the possibilities for union leaders to do deals against the interests of their members.

The classic form of action over wages and conditions by individual unions has undoubtedly increased real wages and led to safer work environments. But it was always a defensive reaction and, in practice, has not led to a self-aware class determination to transform capitalism. If anything, it has led to a different form of incorporation; namely, to one similar to the mainstream economists' view that satisfaction comes from individual consumption and in order to consume more, you need more wages.

The main problems with the two criticisms are that both assume the existence of an active working class consciousness and they assume that the state contains no contradictions in its promotion of the interests of capital. Accordingly, workers are already homogenised as "the working class" and only remain to be mobilised. In this big bang view of transforming capitalism, no day-to-day steps are possible save for the wages struggle by fiercely independent unions, and the building of a revolutionary party.

The Future

All of this brings us back to the present context of the global restructuring of production by the transnational corporations and the impact that has on local companies and on job security.

Never before have there been such powerful means for capital to co-ordinate research and development, design, and the production process itself on an international scale. Unless substantial steps are taken to improve the capital stock and to upgrade workers' skills, more production facilities will close down here and relocate offshore.

Twice before, important economic reports have been shelved: the Vernon Committee's in 1965 and the Jackson Committee's in 1975. In the present context, five years, not ten, sees the development of whole industries in East Asia. Time is short and systematic policy intervention is a necessity. But the present federal government appears to have been seduced by the dogma of pure competition and the rationality of market forces for the restructuring of local manufacturing. It has thus dragged leaden feet on submissions on industry policy despite its formal commitment in the Accord.

Nevertheless, that commitment can be used by unions to campaign for greater local sourcing of materials, components and equipment; to negotiate for the development of new products and processes to retain jobs; to urge initiatives for new investments and to pressure the government through the tripartite industry councils to put together packages of finance and skills that make such projects feasible.

In itself, the Accord is not THE ANSWER. Even if it were fully honoured, it would still not complete a social democratic charter. However, if it lasts, it does begin to provide a framework through which individual unions and the union movement can practically broaden the economic rights of workers and those seeking work.

Through it, unions can extend and insist on consultations on economic planning as well as consultations on what were formerly management prerogatives. In short, the Accord can be used as a small but actually existing step on the long road towards a future Australia where production and distribution are socially, not privately, controlled.

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