

## Manufacturing's 'security blanket'

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'Industrial policy' – the use of subsidies and tax incentives to support targeted industries – has become all the rage in a growing number of countries in recent years. By [one count](#), such policies have accounted for almost 50% of all trade policies across the globe in recent years.

'Industrial policy' differs from traditional protectionism (tariffs, import quotas and other overt or covert barriers to trade) in that it doesn't impose additional burdens on consumers or business users of the items subjected to them. Rather, 'industrial policy' imposes burdens on taxpayers, or to the extent that they are funded by larger budget deficits, on future generations of taxpayers.

But, like traditional protectionism – which has also had something of a revival in recent years, thanks largely to Donald Trump, and which will increase significantly further if he is returned to the White House after November's US elections – 'industrial policy' can result in welfare losses arising from the inefficient allocation of labour and capital. As the IMF has [warned](#), "historical experience suggests that getting industrial policy right is a tall order" and that "an abundance of failed programs in countries with strong institutions shows that it is difficult to avoid policy mistakes".

In Australia, the main vehicle for the adoption of industrial policy is the 'Future Made in Australia' (FMIA) program, announced just before the 2024-25 Budget, which provided \$22.7 billion over 10 years for it (although at the time of writing the legislation establishing it had yet to pass the Parliament).

FMIA has two 'streams'. The first, the 'net zero transformation stream', provides for public investment in industries which are "assessed to have grounds for sustained comparative advantage in a net zero economy", where "public investment is needed for the sector to make a significant contribution to emissions reduction at an efficient cost". The second, the 'economic resilience and security stream', provides for public investment where "some level of domestic capability is necessary or efficient to deliver adequate economic resilience and security", and where "the private sector would not invest in this capability in the absence of public investment".

I have no in-principle objection to the first 'stream'. The magnitude of the investment required to ensure that the transition to net zero happens, within the time-frame which the science tells us it needs to, and the risks associated with it, are such that it won't be undertaken without public investment – especially given the continuing uncertainty around Australian energy policies resulting from the absence of any political consensus as to what Australia's emission reduction targets should be and how they should be achieved.

My only real concern with this 'stream' is whether the 'guard-rails' around it will be sufficiently robust to ensure that decisions as to which investments get public support are made transparently and by reference to objective criteria, and that "policy support for industries identified" under this stream will be "time-limited", as Treasury (rightly) [says](#) it "should" be.

I have far more concerns about the second 'stream'.

It reeks of what I have long called '[manufacturing fetishism](#)' – the (admittedly widely-shared, and by no means unique to Australia) belief that manufacturing is a more 'noble' form of economic activity than others, and that manufacturing jobs are more important than jobs in agriculture, mining or (especially) services.

The 'economic resilience and security stream' is all about subsidizing, through tax concessions, cash handouts, or (if the Greens have [their way](#)), partial public ownership of solar panel and lithium battery manufacturers, 'critical minerals' processing operations, quantum computer developers, 'green steel' mills, and (if their [initial forays](#) are successful), makers of caravans, chocolate and "healthier, low-emissions foods".

This is all justified, so we are told, on the grounds that the world is "[churning and changing](#)" in ways that have created a "new economic orthodoxy".

Most of the time, that's a reference (albeit one typically made more obliquely in Australia than in the United States or Europe) to the challenges posed by the emergence of China as a major global economic and military power, and its refusal to abide by the [rules-based international order](#) established by the United States in the aftermath of World War II and maintained (with varying degrees of fidelity) by it since then; and to a lesser extent by the fragilities in global supply chains exposed by the Covid-19 pandemic.

In particular, large 'advanced' economies have responded to China's [extensive use of subsidies](#) to become a world leader in the production of solar cells, wind turbines, batteries, electric vehicles and railway rolling stock by doing the same thing.

And so, we are [told](#), Australia must also do these things because other countries are doing them.

Yet, even if you accept (as I do, up to a point) that there are risks involved in being as dependent as we have become on a single country with which we might, at some point in the future, find ourselves in conflict, for the supply of a range of items that might be depicted as critical – surely, if our friends and allies are prepared to spend squillions of their dollars, euros, yen and won subsidizing the manufacture of these 'critical products', it makes more sense for Australia to source our requirements from them, rather than spending squillions of our own taxpayers dollars (or dollars borrowed from someone else, since we are likely to be running continued budget deficits for the foreseeable future) trying to manufacture them ourselves, just because that 'feels good'.

Doing something dumb just because other countries are doing it is like drawing up a circular firing squad – as one might have thought would have been one of the enduring lessons of the 'tit-for-tat' tariff increases that helped put the 'great' into the Great Depression of the 1930s.

It's especially disconcerting that so much of this is dressed up as a matter of 'security'.

That's because the history of the past 23 years shows that whenever a successful quest for a subsidy, a tax break or some other form of protection from competition is [wrapped in a 'security' blanket](#), it's highly likely that we won't be told why that subsidy, tax break or other form of protection from competition has been granted, on what (if any) conditions it has been granted, or sometimes even how much it will cost, because it is a matter of 'security'.

Indeed, even to question a decision ostensibly made on the grounds of 'security' is liable to put you at risk of being called a ['flat earther'](#), or worse, to be accused of putting Australia's 'security' at risk.

Treasury Secretary Steven Kennedy has rightly [cautioned](#) that "if we over-correct and adopt a zero-risk approach ... seeking to be overly self-sufficient, we will quickly undermine the productivity, competitiveness and dynamism of our economy". Yet the experience of the past two decades demonstrates that once something becomes defined as a matter of 'security', the quest for a 'zero risk approach' overwhelms any and every attempt to quantify risk or calibrate probabilities.

American international relations scholar Daniel Drezner [sums it up well](#) in the latest issue of [Foreign Affairs](#) where he writes, "the national security bucket has grown into a trough". Here in Australia, the 'economic resilience and security stream' of Future Made in Australia has laid out a new trough into which [rent-seekers](#) can stick their snouts. And they're already queueing up.