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Making things in Australia again? Not in Victoria

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Introduction

Covid-19 has delivered a wake-up call in regard to Australia's globalising economic strategy. It has exposed, for all to see, how dependent Australia has become on selling basic minerals and agricultural commodities and how reliant Australian consumers are on imported knowledge intensive goods.

This paper examines the response to these revelations in Victoria. Victoria is the focus at the state level because of its extreme reliance on the import of knowledge intensive goods and its minimal contribution to Australia's exports of goods, especially in the form of knowledge intensive manufactures. It then asks whether there is any sign of a change in the economic strategies which produced this dependence at the federal and Victorian level.

We set the scene by describing how this commodity dependence came about.

Australia's globalising strategy

For much of the post-GFC era, the Australian economy was regarded with awe. Indeed, it has been dubbed a 'miracle economy'. Why? It was because, alone among developed countries, Australia has experienced 29 years of unbroken nominal economic growth.

This 'miracle' coincides with, and is usually said to derive from, the Hawke/Keating economic revolution in the 1980s and 1990s when Australia was pitchforked into the global economy, sheared of its protectionist armour.

Until the late 1980s, Australia's protectionist institutions meant that, if a foreign manufacturer wanted to sell into the Australian market place, it had to set up a branch plant here. However, that was not the only incentive. Industry policy also flourished. The Australian and state governments, especially that in Victoria, provided additional attractions, including financial incentives. They sometimes decreed that they would only purchase products that were made in Australia or that met distinctive Australian design standards.

In the case of vaccines, blood products and anti-venoms, the Australian government provided the research and manufacturing capacity itself via the Commonwealth Serum Laboratory.

By1988 the Hawke/Keating policy revolution had rejected all elements of protectionism, including industry policy. Instead, its advocates claimed that Australian enterprises would flourish in global markets, including as exporters of knowledge intensive manufactured goods.

They would be enabled to do so because of the accompanying neoliberal reforms (referred to by the Treasury as 'micro-economic reform'). These included the removal of ‘red tape’, lower business taxes, an end to centralised wage arbitration in favour of enterprise bargaining, privatisation of public enterprises and encouragement of market competition across previously protected public utilities.

Above all, Australian enterprises would be unshackled from union power to set wages and working conditions. Partly to this end, Australian businesses were freed from the pre-1980s restrictions on overseas investment. If they wanted to escape the relatively high cost of Australian labour by transferring their operations overseas they could do so. This was a strategy influenced and still celebrated by Australia’s Reserve Bank leaders.[1]

This policy was a success, in the sense that Australia has found a global niche, but as a commodity producer and exporter. However it has been at the expense of Australia’s capacity to sell manufactured goods either into the domestic or international market place. (We provide detail later when describing the Victorian experience.)

In recent years Australia’s commonwealth government has added another potent source of growth to the Australian economy. This is a commitment to a high net immigration intake. Net Overseas Migration (NOM) has been running at an annual rate of about one percent of Australia’s population. It has become a significant contributor to Australia’s 29 years of positive economic growth.

Victoria has been a great contributor. Though its share of Australia’s population is around 26 per cent, it has been absorbing some 37 per cent of Australia’s annual NOM. As we show in detail later, successive Victorian governments have reshaped the state’s economic strategy around this population boost.

For Australia, a ‘miracle economy’ indeed. But at the cost of extreme dependence on imports of manufactured goods. A brutal indicator is Australia’s increased reliance on the import of Elaborately Transformed Manufactures (ETMs). They grew (in nominal dollars) from $131.5 billion in 2007 to $215.6 billion in 2018-19. Over the same period Australia’s exports of ETMs hardly moved, with the result that the deficit on trade in ETMs reached $179.6 billion in 2018-19. This massive deficit has been covered by net exports of commodities.

Victoria is a major contributor to this deficit. In 2018-19 Victoria was responsible for $50.5 billion or 28 per cent of Australia’s total $179 billion net deficit on ETM trade. (See Table 2 below.)

The Post-Covid environment

Debate about Australia’s embarrassing lack of manufacturing capacity has flourished in the post-Covid environment.

The global economic slowdown has resulted in softer international demand for Australia's commodities, including coal and natural gas. At the same time, China, which is taking around a third of Australian goods exports and most of our largest export commodity (iron ore), has made it clear that this trade is not secure. The Chinese have declared that they will only honour past guarantees of access to its market if Australia acknowledges Chinese political supremacy over the US in the Asia/Pacific arena.

Meanwhile, the Covid lock-down has exposed Australia's dependence on imports of vital supplies of pharmaceuticals, medical instruments (ventilators and the like) and personal protective equipment.

There have been calls for more onshore commodity processing and a greater degree of industrial self-reliance. Here is a statement from the Coalition Government's Industry Minister, Karen Andrews:

> Covid-19… [has] amplified the need for Australia to do more than digging things out of the ground, putting them on a ship and then paying a lot of money to buy them back in a different form.[2]

We consider the response to these calls, firstly at the Federal level, then at the state level, with the focus being on Victoria.

The Federal response

On the surface one might expect the Morrison Government to be responsive to lobbying for more domestic manufacturing.

There is a political constituency for an 'Australia Made' policy. Most Australian voters do not like Australia's high dependency on foreign manufactured goods suppliers.

In TAPRI's late 2019 national survey we told respondents that the share of manufacturing in Australia's economy is less than half of what it was forty years ago. They were given two options to respond to. One was that 'We should protect Australia's manufacturing, using tariffs if necessary'. The other was that 'We should get rid of all tariffs so we can buy goods more cheaply from overseas'.

Some 64 per cent chose the first option, 16 per cent the second option and 20 per cent indicated that they did not know.

Significantly, a majority of voters from all major parties supported the protectionist option. They included 69 per cent of Coalition voters, 64 per cent of Labor voters and 57 per cent of Greens voters.

Table 1: Attitudes to protection by intended vote, November 2019 %

Do you think -	Coalition	Labor	Greens	Other parties	Total
We should protect Australia's manufacturing…	69	64	57	61	64
We should get rid of all tariffs…	18	17	14	13	16
Don't know	14	19	29	26	20
Total %	100	100	100	100	100
Total N	849	700	225	441	2214

Source: Survey of voters, the Australian Population Research Institute, November 2019[3]

Note: The questions were: 'The share of manufacturing in Australia's economy is less than half of what it was forty years ago. Do you think — We should protect Australia's manufacturing, using tariffs if necessary; [or] We should get rid of all tariffs so we can buy goods more cheaply from overseas; [or] Don't know'

And 'If a federal election for the House of Representatives were held today, which one of the following would you vote for? If "uncommitted" to which one of these do you have a leaning?' followed by a list of parties.

The Coalition appears to have already begun an 'Australian made' policy offensive, at least rhetorically. It has initiated various inquiries to this end focussing around a natural gas led recovery. These inquiries seem to be directed towards the production of energy, especially in the form of hydrogen, whether in a 'blue' form using natural gas, pitched to Coalition supporters, or a green form using renewable energy sources, pitched at progressive voters.

There has also been one striking recent announcement of an $800 million deal with CSL to construct a vaccine manufacturing facility in Victoria. In return, the Government has promised CSL that, in return for its investment, it will buy $1 billion worth of flu vaccines, anti-venoms and the like.

The 2020 CSL deal is typical of how multinationals make decisions about where to locate their supply trains. They can choose from the many countries willing to provide such incentives. These include China, despite its membership of the WTO since 2001. The WTO explicitly bans such targeted industry policy initiatives.

It is likely that the CSL deal will be a one off, justified by the Covid emergency. Such industry policy initiatives not only violate WTO rules, but also the terms of the Free Trade Agreements (including with China) pursued by Rudd/Gillard

Labor Governments and the subsequent Abbott/Turnbull Coalition Governments. The focus of these FTAs has been to gain concessions for exports of raw or lightly processed commodities. In return, Australia has agreed to remove almost all the remaining obstacles to the import of ETMs into Australia.

The Coalition seems highly likely to continue with its orthodox, globalist, neoliberal agenda. For most media and academic commentators, as well as the government's economic advisors, notably the Treasury and the Productivity Commission, this is seen as the only legitimate policy option.

They want to maintain the free trade agenda, but to accompany it with another dose of microeconomic reform. In July 2020 the Treasurer, Josh Frydenberg, affirmed that this would be the government's priority. He stated that:

> What we will continue to do is create incentives. When we put in place tax cuts or business incentives to try to cut red tape or go to the supply side of the equation – that's going to be critical.[4]

This is exactly what its business and media supporters want.

For the *Australian Financial Review*, the recession was a reminder that the aftermath of the China boom 'hid a deterioration in the economy's productivity performance as the policy reform agenda of the 1980s and 1990s became too politically inconvenient.' The AFR thinks a new round of reform is needed. It says that the Budget to be delivered in October:

> Must lift the ambition of reform to match the level of prosperity and economic security too which Australians aspire. [5]

For the Coalition government there is little pressure to seriously pursue an 'Australia Made' policy. Australia's trade accounts are healthy and its immigration population policy has been delivering a major growth stimulus, augmented massively by its decision to run a budget deficit for 2020-21 equivalent to 11 per cent of GDP.

What about the Federal Labor Party? It might be tempted, given its parlous electoral situation, to appeal to the protectionist constituency detailed above.

The problem is, however, that most of the parliamentary party's leaders are Hawke/Keating disciples, including Bowen, Wong, Plibersek and Marles. They have Keating and other past party chiefs, including Craig Emerson, looking over their shoulder should they be tempted to recant.

The one 'made in Australia' initiative that they may agree on is the manufacture and export of 'green energy', preferably in the form of hydrogen. It may go ahead, but if it does it is likely to be another commodity play, based on Australia's natural resources, in this case of solar, wind and biomass. It will have little impact on Australia's deficiencies as a producer of knowledge intensive industries and be of no help at all to Victoria.

What about in Victoria, which is the main focus of this paper?

Victoria in the post-Covid environment

Victoria's economic strategy has been brutally exposed by Covid-19. Though it has lost much of its manufacturing base, it has found a growth substitute stemming from rapid population increases in Melbourne and an accompanying boost to people services, housing and infrastructure industries. However, the sudden cessation of net overseas migration has threatened this business model.

In such circumstances it might seem that the state would be open to an alternative strategy, perhaps including 'making things', either for export or domestic consumption.

In order to evaluate this possibility, we need to track how and why Victoria came to be so reliant on its existing business model.

Victoria's past industrial history

During the post-World-War-2 golden age, Victoria carved out a distinctive economy in which rapid population growth was combined with a 'development state' strategy. Its political leaders, notably Henry Bolte (Premier 1955-1972), scoured the developed world to encourage foreign companies to set up in Victoria. The main inducement, as noted, was Australia's high tariff walls and federal and state government industry policy. Victoria, particularly Melbourne, was the most popular destination.

Some of this industry was low technology, as with textiles, clothing and footwear. However, it also included knowledge intensive industries, including motor vehicles, telecommunications equipment, pharmaceutical products and chemicals. Almost all the companies involved were foreign owned. They had to import the latest technology, because in most industries they were up against competition from other companies.

In the early years of the Hawke government there were some attempts to modernise Australian manufacturing via industry policy. One of the last such initiatives in 1988 (before industry policy was brought to a sharp end) was the Factor F scheme. This motivated Big Pharma to establish production facilities in Australia in return for guaranteed sales to Australia's Pharmaceutical Benefit Scheme. It channelled some $1 billion to participating drug companies. Australian drug production and exports expanded rapidly while this initiative lasted. It came to an end in the 2000s. It was a casualty of neo-liberal opposition, with the Productivity Commission playing a leading role.

The Commonwealth Serum Laboratory was one of the beneficiaries. This, plus huge past government investment helped to make it an attractive target when it was privatised in 1994 as CSL. It is now Australia's largest listed public company by stock market valuation.

A new era of reform with Bracks and Brumby

All this was challenged with the Hawke/Keating free market reforms of the 1980s and 1990s. There were many critics who were fearful of the outcome. Their concerns were rejected. Victoria's political leaders embraced the challenge, first under the aggressive Liberal premier, Geoff Kennett (1992-1999) and then under successive Labor governments led by Steve Bracks and John Brumby (1999-2010).

Bracks and Brumby joined with the Howard-led Coalition government in promoting Australia's push to globalisation. In August 2005, Steve Bracks released *A Third Wave of National Reform*, which declared the Victorian government's determination to lead the reform process in Australia.[6]

True to the Hawke/Keating vision, they were prepared to sacrifice the state's low technology industries. They embraced a new vision for Victoria in which the state would lead in creating a high-tech internationally oriented knowledge intensive economy, free from past protectionist policies.

Victoria would do so by promoting an innovation culture based on the state's 'human capital'. Labor's pre-2002 election statement told voters that:

> Our goal is to position Victoria to take advantage of the opportunities presented by an increasingly global economy. We believe that innovation is the key to boosting exports and unlocking the opportunities presented by the world economy …

And:

> This is an ambitious task that we have set ourselves – to make Victoria one of the world's most innovative and international focused economies.[7]

Fine words. However, there was to be no 'picking winners'. Rather, the government would help create a cultural and business setting conducive to innovation. This included finance for Bio 21, which provided customised accommodation for biotech research and start-ups. It also included the establishment of Australia's first synchrotron. This required an enormous $157 million investment. The synchrotron has enabled high level probing into the structure of molecules and has been mainly used by academic researchers.

There was some evidence by the early 2000s that the strategy was working. As late as 2003, the Victorian Labor Government declared that the motor vehicle industry would be the top performer in its drive to turn Victoria into an internationally competitive, innovative economy. The industry was said to exemplify the capacity of Victorian manufacturers to incorporate the results of local research and development into products that could sell into export markets.[8]

Creation of a vibrant metropolitan environment
Bracks and Brumby also embraced the then orthodoxy in progressive circles that, if knowledge intensive industries were to flourish, they required a vibrant internationally-orientated metropolitan environment. Jeff Kennett laid some of the groundwork. Bracks and Brumby enthusiastically elaborated.

Metropolitan planning was transformed under Labor's *Melbourne 2030 urban policy*, released in 2002. Under this plan, much of the City of Melbourne (COM) and adjacent inner suburbs was rezoned to permit high rise apartment and office buildings as were most of Melbourne's suburban centres. This urban consolidation policy was supported by urban professionals and policy makers. They thought that this would help create a cosmopolitan, culturally exciting metropolitan environment – just what was needed to attract knowledge intensive workers and high-tech business innovators.

Within this vision, three policy elements were fused together: a confirmation of the Hawke/Keating confidence in the ability of free markets to deliver economic innovation, a progressive left belief in cosmopolitan culture as a liberating force, and a shared commitment to ongoing high population growth through immigration as a necessary precondition for both.

Docklands was part of this vision - initially based on a Japanese vision for a 'multifunctionpolis' – a hi-tech futuristic environment in which international cultural and technological elites would create, work, live and play. The Labor government brought in the avatar of vibrancy, Richard Florida, to help promote Docklands. Florida's book on the role of the 'creative class' in promoting knowledge intensive industries was highly influential at the time.[9]

On the occasion of Florida's visit to Docklands, he told the Victorian Government that:

> I wouldn't be at all surprised to see Melbourne emerge as one of the defining global creative centres of the 21st century – and that transformation will be made possible in large part by of the creative spirit that the Docklands reconstruction both embodies and enables.[10]

Outcome of the Bracks/Brumby strategy
For a while, as noted, it seemed that the strategy was working. Australia (and Victoria's) knowledge intensive exports expanded.

Then, through the 2000s, it all fell apart. The resources boom led to an increase in the value of the Australian dollar, which favoured importers and penalised exporters. At the same time, the global penetration of IT communications made it easier for multinationals to move their operations to low wage countries (especially China). Transport innovations, notably containerisation, reduced the cost of moving the products to western countries, including Australia.

As indicated earlier, the deregulation of finance meant that any domestic Australian manufacturer could also locate parts or all of its operations in low wage countries.

For foreign multinationals, considering where to put their supply train, or whether to leave an existing base in Australia, Australia had little attraction.

Australia's free trade commitments and associated opposition to any activist industry policy meant there were few inducements to stay on or move to Australia. By contrast, multiple competitors in Asia, including China, Taiwan and Singapore used targeted industry policy to provide lucrative inducements to locate within their jurisdiction.

Victoria's high-tech industries collapsed in the face of this onslaught.

For example, ICI, which had heavily invested in chemical research and production in Australia closed its research centre in Maribyrnong, and much of its chemical operations in the 1990s. Ericsson, which had a major research centre and manufacturing operation for telecommunication equipment in Victoria, closed it research centre in 2002 and moved its production activities offshore. The motor vehicle assembly and most of the parts manufacturing industry closed down.

The net effect of these closures and the relative absence of the promised new era hi-tech industries in Victoria can be seen in Table 2, which details exports and imports of Elaborately Transferred Manufactures. The peak in exports ($8.2 billion) was recorded in 2007-08. This level was not reached again until 2018-19 ($9 billion). Since these figures are in nominal dollars the 2018-19 outcome, in real dollars, is actually far below that of 2007-08.

Table 2: Victoria's trade in elaborately transformed manufactures, ($billions)

	2007-08	2014-15	2016-17	2017-18	2018-19
Imports	39,249	46,681	51,136	56,224	59,476
Exports	8,241	6,787	7,737	7,738	8,994
Deficit	31,008	39,894	43,399	48,486	50,482

Source: Australia's trade by state and territory, DFAT, various issues

Victoria's export profile is that of a developing country. The state's exports in primary products are worth far more than its exports of ETMs. In 2018-19, the value of these exports was $15.4 billion, mostly deriving from meat, wool, fruit and nuts, and dairy products.

Victoria is an agricultural state rather than a locus for knowledge intensive manufactures. But, even on this count Victoria is not pulling its weight. In 2018-19, Victoria imported more primary products ($16.9 billion) than it exported ($15.4 billion).

Victoria's people servicing strategy: from Bracks to Andrews

There have been times when the catastrophe has been there for all to see. The headlines following the final days of operation of Ford, Toyota and Holden prompted brief outbursts of concern about Victoria's manufacturing malaise.

They have been easy to ignore because Victoria's political leaders have found a new basis for the state's prosperity. It is a remnant of the heady cultural/hi-tech vision of the Brachs/Brumby years. It is providing for an increased population as outlined in the report: *Melbourne 2030*.

The Bracks/Brumby urban planning strategy contributed in adding to Melbourne's capacity to absorb extra population. In this limited way, *Melbourne 2030* was a roaring success. It facilitated an inner-city high rise boom after 2011. Meanwhile, the Bracks/Brumby strategy of opening up the Urban Growth Boundary allowed massive suburban growth – making room for migrants and young resident families alike.

Successive state governments, including the Coalition government elected in 2010, especially while Mathew Guy was Minister for Planning, turbocharged this strategy via additional high-rise zonings (as in Fisherman's Bend) and further expansion of the UGB.

The Andrews Labor Government, elected in 2014, was the legatee. It inherited a state with the nation's fastest population growth and thus continuing strong employment growth in the people servicing and accommodation industries. Labor made the continuation of this strategy the core of its 'business plan'.

It leveraged this strength by adding its own stamp, which was huge investment in infrastructure. At the time of the 2018 election, Labor's campaign focussed on turning the congestion problems flowing from Melbourne's rapid growth from a handicap into an advantage. Its pitch was that Labor would solve the congestion problems that its business plan had helped engender. It would do so though investment in tunnels, overpasses, freeways and more.

Since that time, state government infrastructure investment has increased from less than $5 billion in 2015-16 to $12 billion in 2019/20.[11]

The Victorian government can claim that its urban growth and people servicing strategy has meant that Victoria is leading in promoting economic growth in Australia. As the Treasurer, Tim Pallas put it in his 2020-21 budget speech, despite having 'only' 25 per cent of the nation's population 'We have contributed almost a third of nation's economic growth since 2015'.[12]

Prior to Covid-19, it seemed that the economic wellbeing of Victoria's population was in good hands, and that the political survival of the Andrews government was assured.

It appears likely that the Andrew's government signed up to China's Belt and Road Initiative because it was anticipating a repetition of the infrastructure strategy in the forthcoming 2022 election. It was looking for sources of capital and cashed up investment partners to fund the next round of its population-fuelled urban growth strategy. Having signed a basic memorandum of understanding with the Chinese Government in 2018, a more detailed agreement was struck the following year. While the foreign relations and other implications of the agreement are complex, it is clear that a major focus is involvement in Victorian infrastructure funding and development by Chinese firms.[13]

A vibrant research environment

The research/education aspect of the Bracks/Brumby strategy also seemed to be working. The high-rise inner-city boom coincided with rapid expansion in the overseas student industry.

The original intention had been to attract a knowledge elite. Instead, it attracted temporary migrants. The City of Melbourne's (COM) population exploded. Almost all of this expansion was attributable to Net Overseas Migration. Much of this in turn, reflected growth in the number of students enrolled in English language, vocational colleges and above all courses at universities.

The numbers were huge. By 2019, Melbourne University had 28,361 overseas student enrolments and there were another 18,697 enrolled at RMIT.

They contributed to a transformation of the Melbourne inner-city environment. These students occupied most of the new apartments and at the same time massively increased the demand for Asian food, hospitality and services. They brought Melbourne to life, creating a cosmopolitan (if primarily Asian) ambience, just as urbanists had long wished for.

The state government and COM chiefs could point to the huge export revenue delivered by overseas student enrolments in Victoria, amounting to $13 billion, far more than the total ETM export number of $8.9 billion. This outcome seemed to augur well for Melbourne's future involvement in the global economy as a generator of knowledge intensive services.

Indeed, it was frequently asserted by economists that such was the concentration of professionals in Melbourne that this would deliver agglomeration effects, as with the flourishing of IT and other start-ups. That Melbourne already featured two universities (Monash and Melbourne) that were ranked among the world's top-100 research universities seemed to confirm this optimism.

It is a belief backed up by economists who argue that an aggregation or 'knowledge hub' of such expertise will generate 'agglomeration' effects. That is, innovations generated through the knowledge spill-overs held to result from the interaction of large numbers of experts.

If these advocates had carefully read the work of the best-known theorist of agglomeration theory, Enrico Moretti, they might have added a cautionary note. Moretti argues that existing knowledge intensive clusters in the US, including Silicon Valley and Boston, will increase their domination of knowledge intensive industries in the US because of this agglomeration effect. However, there is one serious qualification: if a city does not have an existing industry-relevant knowledge hub, it is exceeding hard to attract the expertise that could create one.[14]

This is Melbourne's problem. It is rich in academic knowledge hubs, but these are largely isolated from the world of industry and, to the extent that they exist, are narrowly focus on the health, care and education industries.

Victoria's Post-Covid-19 realities

The Covid crisis has been catastrophic for Victoria.

Its business plan, dependent on providing people services and accommodation for an ever growing population, has been stopped in its tracks. Victoria's annual population growth rate is estimated to have fallen from 2.1 per cent in 2018-19 and 1.6 per cent in 2019-20 to 0.2 per cent in 2020-21.[15] NOM is estimated to be negative in 2020-21.

This has brutally exposed Melbourne's vulnerabilities. The crisis spot is inner-Melbourne. The COM now features a forest of shiny new apartment blocks in its north-west precinct, as well in Docklands, Southbank and more recently, Fisherman's Bend. When Covid-19 hit there was still a massive pipeline of such apartments in the process of being marketed and in various stages of construction. Those developers and investors holding these apartments now face severe financial pain. Even before the onset of the Covid-19 pandemic, there were suggestions of oversupply.

Most of these apartments have been small with one or two bedrooms. They are largely occupied by students and other temporary migrants. The supply of these tenants has come to a sharp halt. It may take years before student enrolments again reach the level cited above in 2019 for Melbourne University and RMIT.

At the same time, the state's main service export industry, the overseas student industry, has collapsed. The publicity about the universities' financial plight has drawn attention to their priorities. For Melbourne and Monash Universities, their research rankings are vital in attracting their predominantly Chinese student enrolees. These students are prepared to pay $40,000 plus a year for degrees, primarily in finance and related courses, because of the prestige flowing from these research rankings.

However, this research has very little to do with the applied research that might lead to the development of commercial knowledge intensive industries. It is predominantly blue sky research likely to be of interest to the international academic journals that determine the top-100 research university rankings.

It should be obvious that Australia's universities do not function to develop the knowledge and applied skills of Australian residents. They have become quasi-private corporations dedicated to maximising the revenue generated by the overseas student industry. This revenue is the foundation of the massive salaries paid to the top echelon of university officials, their showy campuses and their research reputations.

The Bracks/Brumby model has not delivered the outcomes promised. The trade statistics cited above indicate that neither the bracing impact of global market competition nor the inner city makeover have worked as expected.

The Victorian 2020-21 budget: Does it herald a new industry policy?

This context prompts the question of whether the state's passenger status as an exporter might prompt the Andrews Government to take action on this front.

This might seem unlikely since the government's leaders never refer to the state's import dependence. Labor's political program, as detailed in the party platform, is mainly about meeting the needs of the professions reliant on people servicing, its construction union supporters and the housing and welfare needs of the state's growing underclass.

Yet, the record of the Andrews government during the Covid lockdown is suggestive. We refer to the government's repeated appeals to Victorians to prioritise collective welfare over and above their personal or business interests.

Gender, ethnic and identity issues did not rate a mention while the Andrews Government battled to supress the virus.

Could this community priority provide the moral foundation for a more self-reliant economy, focussing on 'making things' in Victoria?

The Labor government's 2020-21 budget provides some hints that it might be attracted to such an option.

The Treasurer, Tim Pallas, said that 'More and more things will be produced locally and proudly stamped "Made in Victoria".'[16] He referred to a new $2 billion Breakthrough Victoria Fund which 'will drive investment in research, innovation and commercial outcomes'.[17]

The fine print of the Budget reminds us that Victoria has 'a history as a leader in Australian manufacturing'.[18] It states that 'a transformational shift has seen the industry embracing new technologies, high-tech skills and new global connections providing a strong platform for growth.'[19]

This shift is said to lay the foundation for the Breakthrough Victoria Fund. This 'will play to our strengths, focussing on industries including health and life-sciences, agri-food, advanced manufacturing, clean energy and digital technologies.'[20]

Victoria's industry policy is a mirage

On closer examination these declarations have no substance. Just $189 million is allocated to promote business investment in Victoria,[21] and, it seems, another $60 million to invest in a Manufacturing and Industry Development Fund to encourage re-shoring of manufacturing.[22]

The government's budget proposes a mighty increase in job creation – 200,000 new jobs by 2022. But very few will be in manufacturing given the limited funds allocated. In a revealing post-budget interview with the ABC the Treasurer said that $80 million will be allocated as incentives to attract big international companies to Victoria. This, he said would 'help to create nearly 2000 high-end jobs.'[23]

Both the budget amount allocated and the job outcomes are trivial. It is obvious that the Labor government is pinning its hope for economic revival elsewhere.

The prime focus – people servicing, infrastructure and accommodation

The Victorian government's priority is the dispersal of funds to allow as many Victorians as possible to obtain employment in providing services for the State's population and from its deepening investment in infrastructure and accommodation.

In the case of infrastructure, state investment will rise from $9.6 billion (actual) in 2019-20 to an estimated $18.5 billion in 2021-22 and $20.3 billion in 2022-23.[24]

Additional billions are allocated for housing, in the form of subsidies and, in the case of social housing, massive capital investment.

Funds are thrown around like confetti to pay for more people services. In the case of education, there is $773 million investment in early childhood education and another $1.9 billion for the next phase of the 'school building boom'. There is to be $631 million more for TAFE and other training places. There is another $1.6 billion for Disability inclusion [25]

This surge in state activity will generate a huge gap between state revenue and expenditure. This is projected to generate a deficit of $23.3 billion in 2020-21. A further loss in cash flows from operating activities of $21.8 billion is anticipated. As a consequence there will be a blow out in state debt from $44.3 billion in 2019-20 to $86.7 billion in 2020-21. [26] Victoria's projected deficit for 2020-21 of $23 billion is equivalent to 5 per cent of current gross state product.

No wonder that the state budget predicts that real gross state product will jump by 7.75 per cent in 2021-22 (from a contraction of 4.0 per cent in 2020-21).

But that's not all. The government is also funding capital projects with a total estimated investment of up to $19.8 billion.[27] This investment, too, is seen as integral to the 'recovery of our communities' via helping to support thousands of new Victorian jobs.[28]

Given the collapse in Victoria's economy attributable to the pandemic lockdown there is a strong case for massive fiscal priming. There is little doubt that Victoria's budget strategy will generate an economic revival.

But, where are the funds coming from?

The answer is remarkable. The state expresses no concern about financing. It claims that with interest rates so low it can handle the prospective interest payments. Furthermore the state appears to be under no external or national constraints in running up this debt. The days of the restrictive Loan Council are over.

The Treasury Corporation of Victoria which is responsible for raising loans, reports that more than half the new money and refinancing needed for 2020-21 of $45.7 billion has already been raised, mainly from domestic lenders.[29]

We arrive at the startling conclusion that Victoria may well career along with its population servicing and accommodation policies, without financial constraints.

The Morrison government appears unperturbed. Victoria is providing a home for a large share of the migrants it is bringing to Australia. It is also contributing its share of Australia's aggregate economic growth.

On its home turf, the Victorian Labor government has established a firm political constituency composed in large part by the beneficiaries of its people servicing policies. The opposition has shown little more than a flicker of interest in the production and trade weaknesses highlighted in this report. This is also true of the local media, with the partial exception of the *Herald-Sun*.

It is the case that large numbers of Victorians have indicated their concerns about the quality of life issues generated by Melbourne's rapid population growth. These include congestion, competition for services (as with hospitals), for access to amenity (parks and the like) and high housing prices. These concerns have been partly allayed by the Andrew's government's city building projects.

In our view, there are many other even more serious concerns about Victoria's people servicing strategy that ought to be a worry at both the state and national level.

Why worry?

Population growth is not assured
Even on its own terms Victoria's strategy is vulnerable. There is no certainty that population growth will revive quickly. The 2020-21 budget assumes that the state's relatively high rate of population increase (2.1 per cent in 2018-19) will soon recover. The budget forecasts that the state's population growth rate will reach 1.1 percent in 2022-23 and 1.70 in 2023-24.[30]

The state can draw on recent federal government projections for support. According to the federal government's recent Population Statement, by 2026-27 Melbourne will overtake Sydney as Australia's largest city. By this time Melbourne's population will have grown from 5 million in 2020 to 6.2 million, compared with Sydney's projected 6.0 million.[31]

This demographic outlook is not assured. Most of the Net Overseas Migration driving Melbourne's growth derives from net inflows of temporary migrants, mainly overseas students. It could be several years before the influx of these students recovers. Meanwhile, Melbourne is facing an unprecedented net exodus of residents to the rest of Victoria and interstate. We have to go back to the early 1990s for a similar exodus. This was caused by the city's deep recession at the time. It was several years before it was reversed.

Victoria's people servicing strategy delivers dumb growth
The people servicing, accommodation and infrastructure industries all generate low growth in labour productivity. But productivity is the foundation for advances in the real income of Australian residents. The goods producing industries are the main source of these labour productivity advances. This means that Melbourne, as a people servicing city-state, must draw increasingly

on the productivity deriving from activities elsewhere in Australia for advances in the real income of its residents.

There are also other direct and indirect subsidies. Melbourne's people servicing economy depends on increased public expenditure to provide for the growing population's health, urban amenity and other needs, much of which is paid for by the Federal government. The Commonwealth will have to step up to provide this support, just as it has done to support the Tasmanian economy over the decades.

However, Tasmania is a minnow with around 540,000 residents. Victoria, at 6.5 million, is twelve times larger. We wonder whether the rest of Australia will tolerate providing for a 'giant Tasmania', dependent on increased support from federal taxpayers for its exploding health, care and education needs.

There is another concern, this time related to the high costs of retrofitting an established city – as the huge price and frequent announcements of cost over-runs for the city's tunnels and freeways attest.

Worse, such is the Andrew's government desire to initiate new infrastructure projects that it is starting projects which may not be needed. The Suburban Rail Loop is an alarming example.

The 2020-21 Budget allocates $2 billion to get this project started. It is intended to provide a rail link from Cheltenham to Werribee through the middle to outer suburbs. The government claims that it will take 200,000 cars off our major roads.[32] This is an unsubstantiated claim, highly unlikely to be correct. People living in the suburbs will not use railway travel to jobs, retail or entertainment centres that are dispersed through the suburbs, since their rail journey will usually have to be accompanied by some other mode of transport, such as by bus. A private car will always be preferred.

Victorians are also ultimately dependent for their affluent consumer lifestyle on the export performance of other states. Victoria makes little contribution to Australia's export performance. As indicated, Victoria contributed only 10.9 per cent of Australia's total exports in 2018-19. These are mainly commodities. They pay for Australia's massive deficit on trade in ETMs which reached $179.7 billion in 2018-19. Victoria was responsible for $50.5 billion of this deficit.

Victoria is in this sense a parasite. How long will it be before Victoria is called to account on this issue by the rest of Australia?

The bottom line

Victoria is not just another, bigger Tasmania. It is the heartland of progressive political, social and cultural values in Australia. Social justice is its watchword. It supports greater rights and income support for minorities and for migrants (even those here on temporary visas) and an open door for more immigrants, as well as gender diversity rights.

We endorse Victoria's social justice values. However, they can only be implemented if Australia's labour productivity continues to grow and our trade performance remains strong.

Victoria has ostentatiously rejected any responsibility to contribute to these ends. These issues are ignored in the State Budget and are never acknowledged by the Labor government or its supporters.

The Victorian government's continued unwillingness to confront the state's structural economic weaknesses could well tarnish its progressive population-servicing reputation. At what point does hubris around population building, urban infrastructure provision and people servicing cease to compensate for the state's failure to modernise its economy?

Notes

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[16] Victorian Budget, 2020-21, Treasurer's Budget Speech, p. 5
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[18] Victorian Budget, 2020-21, Jobs Plan, p. 39
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[20] Ibid., p. 3
[21] Ibid.
[22] Ibid., p. 39
[23] ABC 21 Nov 2020
[24] Victorian Budget, 2020-21, Overview, p. 4
[25] Victorian Budget 2020-2021, *Education and Training portfolio*
[26] Victorian Budget 2020-21, Overview, p. 4
[27] Ibid.
[28] Ibid.
[29] Treasury Corporation of Victoria https://www.tcv.vic.gov.au/tcv-bonds/funding
[30] Victorian Budget, 2020-21, Overview, p. 3
[31] Australian Government, Centre for Population, op cit., p. 71
[32] Victorian Budget 20/21, Suburban Budget Information Paper, p. 27