



## Why We Need A Manufacturing Sector

### **Publish Date:**

April 2021

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Since the year 2000 something has gone wrong in Australia. As it happens, this was two years after the old Industry Commission was renamed the Productivity Commission – which is an interesting coincidence because part of the problem has been that the political class has become too focused on narrow terms like ‘productivity’ and distracted from the broader picture of what matters: jobs and industry.

As the Institute of Public Affairs identified in a major research [report](#) published on Australia Day this year, the quality of the Australian way of life has declined by 28.5% since the year 2000, with the vast majority of this decline coming after the global financial crisis.

The report identified declines across the five pillars of the Australian way of life – home, work, enterprise, governance, and lifestyle. Major cultural, economic, and social shifts have been underway in Australia, and one of the most important trends has been the decline of the manufacturing and agriculture industries and the rise of the services economy. As we identified in the report, the work component of our way of life has declined by 19.7%, with just over half of this



occurring in the past decade.

Contrary to the narrative that Australia 'escaped' the GFC, the past decade has been characterised by low wage growth and rising underemployment. The quality of Australian jobs has deteriorated and hamstrung families and their ability to create a better life for themselves.

With this in mind, the Productivity Commission's latest research paper, released on 15 April, made for interesting reading. It is the first in a series on productivity in the service sector, but appears to misunderstand the fundamental shifts which have occurred in Australia in recent decades and dismisses almost out of hand the concerns which have been raised by many Australians about their work prospects.

According to the PC, "Australia's shift towards service production, and away from manufacturing in particular, has raised concerns. These include worries about services dragging on productivity performance and service sector jobs being lower-paid or of lower quality. For the most part, these fears are unfounded. Many service sector industries provide jobs that pay as well as or better than manufacturing, with good job security."

While true that a significant portion of job creation since the GFC has come from services industries, the data from the Australian Bureau of Statistics provides the exact opposite conclusion to the PC. Health care and social assistance has been the fastest growing industry, responsible for 27.8% of all job creation between 2009 and 2019. At the end of 2019, average total weekly earnings in this industry were \$1,166, 9% lower than the economy-wide average, and only 54.1% of all jobs were full-time. The education and training industry was responsible for 11.7% of all job creation, at the end of 2019 paid an average wage of \$1,283 per week, 0.25% above the economy-wide average, and 60% of workers were employed full-time. Accommodation and food services was responsible for 8.7% of all job-creation, paid the lowest average weekly wage of \$579 dollars, 55% below the economy-wide average, and only 39% of workers were employed full-time, again, the lowest share in the economy. So, 48.2%, almost half, of all jobs created in the decade after the GFC were in these three industries.

The PC's claim that many "service sector industries provide jobs that pay as well as or better than manufacturing, with good job security", is misguided. While true that manufacturing is only the 9th highest-paying industry, with an average weekly wage of \$1,458, or 14% above the economy-wide average, only four of the industries above it are services-based. Meanwhile, eight of the nine industries which pay a lower average wage than manufacturing are services-based.

The four services industries which pay higher wages than manufacturing have only contributed 25.3% of total job creation since the GFC. Job growth in the low-pay, high-part-time industries of education and training, health care and social assistance, and accommodation and food services has outpaced that in the five high-paying services industries by 91% since the GFC.

Australia's shift towards being a services economy is not benign. It has resulted in fewer well-paying, full-time jobs. That the PC can misread these changes does not reflect well on the highly respected organisation, nor does it bode well for the remaining papers in this new series on the services sector.



While it is the PC's job to analyse the economy from a technocratic perspective, the political class would do well to bring some values to the table when assessing their latest report.

Australians need more and better paying jobs. Creating these jobs at the scale required cannot be done solely by making services more productive. It will require a broader vision and effort to revive Australia's manufacturing industry.

**Originally published in:**

The Spectator Australia

**Original Link:**

<https://spectator.com.au/2021/04/why-we-need-a-manufacturing-sector/>