

## An industry in profit is an industry worth supporting



**PETER COSTELLO**

If there is a world-class industry investing and earning income then, for heaven's sake, respect it.

**I** imagine an investment portfolio – say your superannuation fund – which has a whole bunch of assets that are going sideways and one prime asset that is growing strongly. Imagine it is growing so strongly that it lifts the whole portfolio year after year. You'd be pretty thankful for that.

The reason why fund managers diversify their investment is to find non-correlating assets that will do well when others do badly. They might even re-weight towards that area. They put a high value on such assets.

Australia's mining industry is out-performing the rest of the economy. We are all very lucky that it is. The Reserve Bank estimates that had we been going through normal terms of trade – and missed out on the mining boom associated with it – our income would have been 15 per cent lower per annum.

I am sick of government spokesmen bleating on about the "two-speed economy" as if this is some negative for the country. What could be worse than a "two-speed economy"? I'll tell you: a one-speed economy in which the mining sector is performing at normal levels. In those circumstances our economic growth would look like Europe or the US. It has not yet dawned on this government how much it owes Australia's miners and how lucky it is that Australia's terms of trade are at once-in-a-century highs.

Prior to the turn of the 21st century, the US experienced the dotcom boom. Microchips and the internet were all the rage. Entrepreneurs were becoming billionaires overnight. Our terms of trade were flat. Our currency was in the doldrums. Many predicted

that relying on traditional industries such as agriculture and mining would leave us behind in the new economy. Jumping on a bandwagon, the Labor Party said that Australia should forget about the old economy and become the Knowledge Nation. Every futurologist and business writer was advising the government to invest in microchips.

I am glad I did not listen to them. As we know, the dotcom bubble burst. A lot of those one-time dotcom billionaires are now living in Buddhist retreats in California where they meditate on the illusion of money and the spiritual value of poverty.

The US did little to rein in spending and pay off debt during the dotcom boom, which is why it went into the downturn so exposed. But one thing it did not do was introduce new taxes on e-commerce and the internet. The Congress looked at it. So did the White House. But in the end President Bill Clinton declared there would be no tax on the internet. Being Clinton, he dressed it up in grandiose terms about how this would be a gift to the world and especially the poor in developing countries. In fact the US knew it had a decisive national advantage in the field and was not going to handicap itself in an area of strength.

Of course our government takes a different view. Australia has a decisive advantage in mining. It is carrying the Australian economy, but the old taxes such as company tax and royalties are not enough. The government thinks we need new taxes as well. I could almost understand this if the plan were to lock away money in our sover-

eign wealth fund for a time when trading conditions return to normal. But the plan is to spend all of the money raised by the new taxes and to spend a good part of it on industries in which we have no comparative advantage – such as "green energy". When a government diverts resources from efficient industries to inefficient ones it has one effect – it lowers productivity. And over the longer term that makes a country poorer.

Some of the dimmer lights in the government have suggested that putting the handbrake on mining will help other industries – such as manufacturing – by lowering the value of the dollar. I suppose if Australia really crunched its principal export industry and ballooned out its trade deficit and rocked confidence in the business climate, the exchange rate would fall. We could deliberately impoverish ourselves as a devious strategy to help ourselves.

But after you've done all that damage, how do you know there will be a manufacturing revival and how do you know it will be strong enough to compensate for the income lost? Most other countries would behave logically. If there is a proven world-class industry that is investing and earning income for the country then, for heaven's sake, respect it. A bird in the hand is worth two in the bush. An industry in profit is worth 200 in the fevered imagination of those with an axe to grind against Australia's premier export earners.

**Peter Costello is the former Liberal federal treasurer.**