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TITLE: **It's all smiles for some, but mining boom benefits don't 'trickle down'**

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One of the most interesting features of the mining boom is the way that it is opening up old, and unresolved, political and policy debates in Australia.

Do we trust that the benefits to the small group of people directly involved in the mining industry will "trickle down" to the rest of us? Should governments protect employment-intensive industries? Or should we trust that free trade and market forces will do a good job of allocating our resources for us?

The current mining boom not only raises all of those questions but also puts pressure on our political leaders to actually answer them. While the Gillard Government's reluctance to come clean on such issues is a little less visible than Tony Abbott's willingness to boldly walk both sides of the free market-protectionism street, both parties are suffering from the same philosophical and political dilemmas.

The mining industry has had a dream run in Australia over the past 50 years and the past seven years have been as sweet as it gets. A big risk to mining is political instability and some of the biggest costs are associated with the infrastructure required to move resources from the mine to the customers.

Both sides of politics, at the state and federal levels, have prided themselves on their political and financial support for mining expansion.

In the past seven years, however, the benefits to the mining industry have become just too big, and the adverse impact of their growth on other parts of the economy has become just too visible to go unchallenged.

The problem for the major political parties is that the issue has come down to a simple question: do you want to support the mining industry or the manufacturing industry? Weasel words about "getting the balance right" just aren't going to cut it.

The massive growth in the profits of the mining industry delivers only trivial benefits to those who are not directly involved in the industry.

Mining employs just 217,000 people directly and creates around that many jobs again indirectly. For the other 20 million Australians the mining boom is delivering more pain than gain.

This is particularly true for the million people who work in manufacturing and the millions more who work in other industries being hammered by the high exchange rate including tourism, education and parts of agriculture.

The Australian manufacturing industry has been constantly reinventing itself since our tariff barriers came down and our dollar began to rise. There have been many casualties along the way, but those who remain are, by definition, the most innovative and competitive we have.

But no matter how innovative they are, it is virtually impossible to adapt as quickly as an exchange rate surge from $0.60 cents to $1.05 against the US dollar. There is no doubt that it is the mining boom that is driving manufacturing to the wall.

No matter how much money the mining industry spends on advertising, it can't conceal the emerging reality that the high dollar associated with this boom is destroying more jobs than it is creating.

Add to this the fact that the high interest rates associated with the mining boom are directly increasing the mortgage payments of the 98.1 per cent of non-miners and you can see why the politics of this issue is only beginning to heat up.

So what, if anything, can government do to insulate the bulk of the economy from the surging exchange rate?

The defenders of the mining industry are working overtime to define the question as a simple choice between continued support for market forces or a return to the protectionist past. In doing so, the boom boosters are hoping to shame both sides of politics into doing nothing to harm the interests of the big miners.

There are, of course, other options.

The government could broaden the base of its proposed mining tax to include, for example, the enormous profits being made by gold miners.

Having done so, if the government were to create a sovereign wealth fund which invested heavily offshore the short term outflow of money would take some pressure off the exchange rate. By moving money offshore when the exchange rate is high Australians will receive a substantial capital gain when the money is brought back onshore when the boom begins to bust.

They could also slow the rate of mining expansion. The mining industry is currently planning massive new investments in coal, iron ore, coal seam gas and other mineral extraction.

The faster this expansion occurs the greater the pressure on our exchange rate and interest rates will be. That is, the faster the mining boom is allowed to proceed the greater the risks to the broader community will be.

The mining industry is spending up big on its advertising campaign to assure us that we all benefit from the mining boom. But even tens of millions of dollars worth of tax deductible ads can’t keep hiding either the maldistribution of the benefits of the boom or the rapidly rising costs to the rest of the economy.

The next stage of their campaign is to try and convince us that there is nothing we can do to stop it, but they would only be spending all that money if they were afraid that the opposite was true.

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