

Productivity Commission Position Paper

Review of TCF Assistance

Public Hearing
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speaking notes for
ACTU Submission

[check against transcript]

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1. Introduction

- 1.1 The ACTU believes the TCF sector has a viable future in Australia.
- 1.2 However the Productivity Commission's draft recommendations on tariffs, if implemented, will undermine the maintenance and growth of industrial critical mass in the sector and jeopardise its continuing viability.
- 1.3 The TCF sector is of continuing critical importance to rural and regional Australia.
- 1.4 The Productivity Commission's adventurist draft recommendations risk the future of those regions and their communities, offering them up on the altar of free trade theory.
- 1.5 The ACTU strongly supports the submissions put to this Inquiry by its affiliated union the Textile Clothing and Footwear Union of Australia [TCFUA]. This submission should be read in conjunction with that put to this Inquiry by the TCFUA.

2. Tariffs

- 2.1 The Productivity Commission in its Position Paper [PCPP] has failed to make a cogent case for further tariff cuts in the TCF industries at this time.
- 2.2 It has produced no evidence whatever to support further tariff cuts from present levels, and even less in support of reductions beyond those legislated to occur in 2005. The ACTU believes TCF tariffs should be held at present rates, with the legislated 2005 reductions postponed until further review in 2012.

- 2.3 Modelling commissioned by the PC allegedly to quantify the costs and benefits arising from further cuts in tariffs 'suggests that the resource allocation gains from reducing tariffs to 5% after 2005 would be very small' [PCPP page 77 and elsewhere].
- The order of magnitude of these 'benefits' suggested by the commissioned modelling is 1 ½ cents per Australian per week; such an illustrative figure would readily be comprehended by all Australians and should be highlighted in the PC's final report.
- 2.4 However in at least one instance, the initial modelling results showed a net loss in welfare arising from the simulation. [Dixon et al, draft paper for PC workshop 20/3/03] Though this is not acknowledged in the PCPP, the model in question required adjustment to its 'twist functions' to produce even the small positive result reported by the PC.
- 2.5 When allowance is made in the modelling for terms of trade effects, the possibility of reductions in community welfare arising from implementation of the PC's draft recommendations cannot be eliminated [PCPP page 77].
- 2.6 The modelling commissioned by the PC incorporates the assumption of labour market clearing, which is to say, full employment. In these models, workers displaced from TCF industries find alternative employment in other callings either immediately (short-run clearing) or within a few years (so-called sticky prices).
- This assumption is directly at odds with longitudinal case studies which find that 1 in 3 displaced TCF workers never finds another job, and another 1 in 3 only ever attains part-time or casual employment.

- 2.7 In the modelling scenarios reduced output in the TCF sector results in increased output of such goods as iron ore. As a real world scenario, this is implausible at best. The estimated resource allocation gains arising from the commissioned modelling, while 'very small', nonetheless overstate plausible real world results.
- 2.8 The PC goes to farcical lengths to support its prior view that TCF tariffs should be cut.
- 2.9 It resorts to game theory arguments, saying terms of trade effects depend on the response functions of other countries and suggesting that a *failure* by Australia to further reduce tariffs '*could lead to retaliation by other countries*'. [PCPP page 77].
- 2.10 The context for this proposition is an initial position wherein Australia's tariff rates are relatively low, and well below the rates applicable in the USA; and where non-tariff barriers applying to TCF goods in other countries are not even identified in the PCPP.
- 2.11 What sort of retaliation the PC has in mind here, is not indicated.
- Presumably, the PC believes other countries might respond to a decision by Australia to hold tariffs at present levels, by failing to reduce their own tariffs. Conceivably, the PC thinks such a decision by Australia would induce other countries to retaliate by raising their own tariffs.
 - This is a serious and tendentious omission. All other countries in our region, as well as the USA, hold grave concerns about the TCF competition likely to emerge from China over the period ahead. Overwhelmingly, their future policy initiatives will be governed by assessments about the fundamental challenges emanating from

that quarter, not by minor perturbations in Australia's TCF tariff regime.

- 2.12 Elsewhere in its draft report the PC contradicts its own proposition, saying that basing policy on what other countries do *'would emasculate the range of domestic considerations that are relevant to Australia's decision on support for the sector after 2005. In effect, Australian policy would become hostage to what other countries do, rather than being driven by what is in the national interest.'* [PCPP page XXII].
- 2.13 But the PC's own commissioned modelling generates results on this point that are ambiguous at best as far as Australia's domestic considerations are concerned.
- 2.14 Application of the precautionary principle in this context weighs heavily against further tariff cuts at this time.
- 2.15 A unilateral decision by Australia to reduce TCF tariffs such as is recommended by the PC will simply cancel our stake and deal us out of negotiations on TCF measures with other countries, and especially those in our own region.
- 2.16 In the face of underwhelming quantitative support for its recommendations, the PC resorts instead to exhortation and superstition, arguing that *'the modelling does not tell the whole story. With the quantitative projections so finely balanced, benefits and costs not encompassed in that modelling become the key considerations in policy formulation.'* [PCPP page XXIII].
- 2.17 Here the PC only cites benefits that are not captured in the modelling, mentioning *'competitive pressures to improve productivity, quality and delivery performance, to innovate, and to look for new markets.'* [PCPP page XXII].

- 2.18 Elsewhere the PCPP lists costs which are also not captured in the modelling, including *'closure of regional infrastructure, reductions in property values, loss of self-esteem, and family dislocation'* and more [see boxes 4.2 and 4.3, pages 38-40].
- 2.19 Further, the PCPP fails to acknowledge that displaced TCF workers are overwhelmingly women, many of whom are older and from a NESB.
- 2.20 Notwithstanding its own injunction that *'it is important that (these considerations) not be overlooked'* [PCPP page 38], the PC has done precisely the opposite and overlooked them in seeking to justify its doctrinal recommendations.

3. **TCF Restructuring – SIPS and Global Pressures**

- 3.1 The PCPP correctly says that further restructuring is inevitable. Even with Australian productivity at world's best practice levels, *'at least in the labour intensive parts of the Australian TCF sector, the restructuring and rationalisation process witnessed over the past decade (and associated firm closures) will continue almost regardless of the future assistance regime'*. [PCPP page 12].
- 3.2 The question is not whether structural change will continue. It will, irrespective of whether Australian tariffs remain at current levels or not. The global pressures dwarf the effects of the tariff changes proposed by the PC.
- 3.3 The question is rather about the survival of a critical mass of productive capacity in this country, and the adjustment path provided to workers, firms and regions.

- 3.4 In our submission the TCF sector has a viable future in this country with tariffs at current levels. The change process will continue with innovation in product and process design, and accessing of new and niche market opportunities. Some firms will prosper and grow, others will not survive, and the communities they support will change accordingly.
- 3.5 A fair society will support the processes of adaptation to change.
- 3.6 In this respect the Strategic Investment Program Scheme [SIPS] has helped provide necessary and crucial support since 2000. **It is vital that SIPS or a similar scheme continues to provide restructuring support at current real levels for the next ten years**, at which time the level of support should be reviewed.
- 3.7 In our submission SIPS is not a scheme in lieu of tariffs at present levels.
- 3.8 While the real level of support provided under SIPS should be continued, the nature and composition of that support can and should be improved. The operation of the scheme should be reviewed over the coming year and revamped for the post-2005 period. In particular and as outlined in the TCFUA submission:
- There should be a direct link between SIPS assistance and employment. SIPS funding should not simply facilitate job cuts.
 - Companies receiving SIPS funding should be required to behave in an ethical and legal manner.
 - The current bias in the scheme in favour of large enterprises and against smaller business concerns should be redressed by reducing

the \$200,000 threshold. Compliance costs to access the scheme should also be addressed.

- There should be greater flexibility in the definition of innovation.

3.9 The ACTU rejects the PC draft recommendation that SIPS funding be reduced.

3.10 The ACTU finds repugnant the PCPP inference at page xx-xxi that SIPS funds should be provided to companies to help them close Australian operations and move offshore. If this inference is made intentionally, the PC should have the courage to say so plainly in its final report. If it is not, it should clearly be withdrawn. Australian taxpayers deserve to know clearly and unambiguously what the PC is saying on this matter.

3.11 The ACTU believes it would be foolish to conflate any TCF labour adjustment facility with the SIPS program [cf PCPP page 98]. The two categories of program should be kept separate.

4. Labour Adjustment Programs

4.1 The PCPP states clearly that further closures of businesses in the TCF sector are inevitable, no matter what assistance arrangements are put in place.

4.2 These events are catastrophic for the workers affected. No amount of soothing economic babble can ameliorate the effects of loss of income, debt, mortgage foreclosure, eviction, depression, feelings of worthlessness and failure, social dislocation and ostracism.

- 4.3 Concentrated in geographical regions these events can be socially debilitating.
- 4.4 All this is well documented.
- 4.5 The industry specific nature of the fallout from continuing structural change (including that deriving from implementation of the PCPP recommendations), and its regional concentration, makes a TCF specific labour adjustment program essential. [See eg 'Refashioning the Rag Trade', M Webber and S Weller, UNSW Press 2001]
- 4.6 Reviews of Labour Adjustment Programs have established that:
- targeted assistance is far more effective than general assistance;
 - it is vital to the success of the programs that workers be accessed prior to them leaving the workplace;
 - trust between the workers concerned and those delivering the program is essential;
 - paid training is critical for displaced workers who have no other income.
- 4.7 Several alternative program options are available, as detailed in the submission from the TCFUA. Other options include the Worker Assistance Programs run by the Victorian and Queensland governments.

5. Accrued Entitlements

- 5.1 It is wholly rational for workers to be concerned regarding the security of their accrued entitlements in the prospective event that their employer goes belly-up.
- 5.2 It is in the nature of the capitalist system of production that such events occur from time to time. In the Australian TCF sector, the domestic tariff reduction regime in conjunction with global trends raises the probability of firm closure well above the average for other sectors.
- 5.3 Workers in TCF industries are, in this sense, in precarious employment. Many are long serving workers whose fungible assets from a working lifetime consist substantially in accrued leave and superannuation entitlements.
- 5.4 The issue extends across the sector and, indeed, across all sectors of the economy. The PC's recognition of this fact is welcomed. Repetition of the virtues of harmonious workplace relations and insistence that a workplace focus can solve all problems and deliver the best of all possible worlds is simply cant.
- 5.5 The legislative responses such as those proposed by the federal government and supported by AiG are an attempt to suppress the issue by punishing the victims and must be rejected. EESS did not work and GEERS is woefully inadequate and insufficient.
- 5.6 The issue of accrued entitlements will not go away. A systematic solution protecting workers to the full extent of their potential economic loss, such as that proposed by the ACTU, is required. [See ACTU Submission to the *Parliamentary Joint Committee on Corporations and Financial Services' Inquiry into Australia's Insolvency Laws*, 29 April 2003.]

- 5.7 In this respect, the PCPP call for ‘an independent review ... as a first step’ is welcome and appropriate.

6. Outworkers

- 6.1 Outwork (aka homework and home-based work) is a longstanding phenomenon in the clothing industry. Over the past thirty years it has moved from being a marginal feature of the sector to a core element in the industry’s structure.
- 6.2 The PC estimate of the number of ‘full-time equivalent’ outworkers grossly understates the headcount magnitude of this part of the sector.
- 6.3 Whilst ever Australia maintains a system of minimum standards in the labour market through the award system, back-door evasion and undercutting of those standards is illegitimate and contrary to the spirit (and often the letter) of the law.
- 6.4 Too often outworker conditions of employment have precisely this character, intent and effect.
- 6.5 It is outrageous and reprehensible that a government agency whose costs are wholly met out of taxpayers funds – in this instance the PC – cites as a desirable ‘flexibility’ [this section is counterposed with associated ‘concerns’] an administrative / organisational ruse that affords:

‘a means of avoiding payroll tax that would be payable in a factory setting and effectively transferring costs such as superannuation, workers’ compensation premiums (sic) and

some machinery costs to outworkers (which may not be fully reflected in rates of remuneration).'

[PCPP page 126]

- 6.6 This is not flexibility. It is straight out roting. It is a socially obnoxious sharp practice in the same league as tax evasion and should forthrightly be condemned by the PC.
- 6.7 The HomeWorkers Code has been in existence since 1996. There has been plenty of time for self-regulation to work.
- 6.8 If the PC can not bring itself to recommend new regulatory measures, it should recommend better enforcement of existing awards and industrial relations legislation, not simply 'note' that this might alleviate the requirement for further regulation.

7. Conclusion

- 7.1 TCF tariffs should remain unchanged pending further review in 2012.
- 7.2 Subject to its review and improvement as outlined herein, the SIPS program should continue to be funded at current real levels through to 2012 and be subject to further review at that time.
- 7.3 A TCF specific labour adjustment program should be implemented to facilitate restructuring and minimise the distress and disadvantage occasioned by structural change.