Dark SATANIC mills

This month the government will have to make up its mind on industry policy. And there's an air of disillusionment with Paul Keating's 'no intervention' line. But what kind of new ideas can save our manufacturing from a sad demise? We assembled a roundtable discussion to debate the issues.

Anna Booth is federal secretary of the Clothing and Allied Trades Union (CATU). Les Fallick works in the office of the Minister for Industrial Relations, Senator Cook. And Peter Roberts is a business columnist for the Australian Financial Review. The discussion was chaired by Sue McCreadie, economic research officer for CATU, and a member of ALR's editorial collective.

The union movement has always seen industry policy as a key element of the Accord. To what extent has that expectation been fulfilled? How successful have the industry plans been?

Anna: The most important consideration here is how industry has responded to industry plans. Where there is a small number of main employers and, in particular, the one employer such as with the steel plan, government has been able to target policies very precisely and get immediate responses. Where industries have a large number of diverse enterprises, such as the textiles, clothing and footwear industries [TCF], the time for response is necessarily much longer.

The years of decline of the manufacturing industry have caught us in a trap whereby the expansionary policies of the Accord - which the union movement always required to lift standards of living together with public spending on industry policy - have created demand which couldn't be fulfilled by Australian suppliers and which therefore was met by imports.

The problem was that Australian companies weren't fulfilling that demand and that other Australian companies weren't exporting sufficiently to cover those imports, and consequently we had the balance of payments crisis and the policy response of high interest rates to restrain demand. Such responses are recalled now as the bad old policies of Fraserism. It's amazing that there's a vigorous political debate between the government and the Opposition over the role of monetary and fiscal policy, and yet the industry policy debate is still by and large dominated by those who regard the free market and the complete abolition of tariffs as the way to go.

Peter: The question of whether the Accord has delivered industry reform has many answers. The response by industry has been really a function of the capabilities of management. Obviously within TCF, the companies are...
quite deficient in management, engineering and other expertise.

The truncated nature of the industry since the 60s means that so many elements are missing. Management in this country is totally inexperienced in developing strategies to utilise technology, to develop their own technology, to design and market their own products in any international market. So it's asking a hell of a lot of management to respond to this government agenda when it is really not capable of doing so in most cases. Perhaps 10% of companies have responded excellently, a third of the companies are trying to respond in their own way, and more than half the companies I’ve come across aren't trying at all.

Les: The other side of the problem is management's will to respond. An essential element of the Accord from the outset was the conscious short-term reduction in our wages share of total national product in order to boost the profit share. Under the simplistic logic of an economics textbook, an increase in the profit share will lead to an incentive to invest. That hasn’t transpired. To use Keating's delightful phrase, the bastards have taken the money and run. They have absorbed the increase in profit share. In some cases that was because they didn’t know how best to invest it, but in many cases it was an opportunity to make a short-term gain, have some conspicuous consumption, a bit of short-term property speculation and laugh all the way to the bank.

We have to draw some lessons from that experience. One is that the free market doesn’t automatically respond to an increase in the profit share. In fact real fixed capital formation, real investment, needs a certain guidance. A lot of investment in the private sector is in fact primed by public sector investment and if you let public sector investment fall off you miss the synergy between public and private investment. The public sector’s pump-priming role fell off during the Accord, partly as a result of the balance of payments blow-out and partly as a consequence of the government’s flirtation with the twin deficits doctrine - the belief in a rigid connection between the size of the budget deficit and that of the national account. But let’s take some constructive lessons from this experience: let’s not just say it’s a disaster that management can’t or won’t get involved. The level of management involvement in training certainly needs to go up. But it’s not so much a matter of the government picking winners as of having a productive strategy for guiding investment into key sectors and sustaining it.

Anna: We have to be careful that the Hawke government doesn’t retreat into the notion that you can’t intervene in the market. There are certainly forces within the government who believe that the best way to encourage activity by capital is to let it do its own thing. We have to recognise
that in the immediate period, and probably into the medium term, interest rates in Australia are going to be higher than in much of the rest of the world. Therefore we have to provide some relief that has budgetary implications, whether as forgone revenue or increased expenditure, to offset the cost of investment in Australia.

Peter: I'd go much further and say the ascendancy within the government is anti-industry policy per se. The Button industry policies that have gone through have been resisted and undermined wherever possible by the orthodoxy that is in control in Treasury. One of the key roles of the union movement is to inform its members of this battle and its implications for the future of the workforce; to take the fight to Canberra and try to give more weight to Button's arm.

Anna: One of the best examples is the recent rejection of the guidelines for projects of national significance. The guidelines suggest it is possible by providing the information base and the necessary support for local industry to supply major projects which could in turn underpin spin-off developments in their own product area. This could ultimately lead to import replacement and export expansion. Those guidelines were rejected because they were seen as interference in the building of those projects. That was a very disappointing reaction to one very constructive initiative of the trade union movement.

Peter: In a way we're talking about the battle of industry policy against the pure economist's view of things. The union movement and anyone who's concerned about the future of the country has got to argue that governments should intervene and protect industries. Governments should attempt to alter investment decisions; they should reregulate in certain areas; and these things are not necessarily inconsistent with achieving world competitive industries. The success of the Asian countries has been based on intervention and government action to bring companies together with research bodies to achieve a national goal.

Of course there have been events, like the VEDC and Tricontinental fiascos in Victoria and WA Inc in Perth, that have brought a bad smell to the idea of government intervention, particularly in picking winners. Does it mean we must redefine those objectives?

Peter: The government has a duty to decide what industries we should be good at and to divert national resources into achieving that.

Les: It's good press and good trade union rhetoric to have a single enemy, the government, pursuing a single, objectionable ideology - that being free market economics - supported by a hidden, faceless and nasty bureaucracy in the Treasury and the Industry Commission. I see the process differently. The government has consistently had an interventionist industry policy. It has had plans; it has had selected, targeted assistance and it has held the union movement and the bureaucracy and every other vested interest seeking a handout at arm's length. The government has attempted to wean us off the notion that government knows best, and it has relied on the notion that the spontaneous effects of the market would fill the gap. It won't do that.

This government was conscious that the bureaucracy was not reliable and was not pro-Labor. If the government was going to intervene, who was going to do it? The Canberra bureaucracy? There wasn't the mechanism to do the kind of state intervention that MITI, the French and the 'Asian tigers' have done. Where we sailed on regardless - in Western Australia and Victoria - we've recorded some spectacular losses. The government could do incomparably more than it's done to date on industry policy and, like you, I think we have to turn back the bureaucratic tide of anti-interventionism. Governments have been forced into a retreat from interventionism, because you can't get elected consistently on a basis of high taxes. The Scandinavian experience shows us that. As a result, the trade union movement over the last five years has undergone rigorous introspection and has come up with a much more concrete set of proposals than ever before. Even in the much-studied textile industry we are a bit more specific than we used to be and we're not completely afraid of reductions in tariffs because we now understand our industry a lot better.

Anna: We understand that unless we do create a TCF industry that's vibrant and can stand on its own two feet, then workers will continue to be screwed. Because so long as workers are in an industry that's exposed to the swings of demand and supply, and so long as they are only needed for their automatism and not their skill, they will be in poor strategic bargaining positions. No amount of union ac-
tivity can change that. We have to change the economic basis of employment in that industry.

That presumably leads to a dilemma for the union movement. Australia doesn’t have a good track record on labour market adjustment. Unions can say to industry, “you ought to become more competitive and stand on your own feet with lower levels of protection”. But unions don’t run companies and can’t force them to change. If they don’t change, lower protection means they go out of business. How can unions tell members that they don’t support high tariffs any more, when the end result might be that they have no jobs?

Anna: That’s an almost unwinnable position in this environment.

Les: Unions can’t do it all. The government is the only actor with the necessary overview to co-ordinate the process. Labour adjustment programs - taking people out of an industry, retraining them and directing them towards another industry - are community decisions that need the investment of community resources. You can fund that through corporate taxation so the employers don’t get off scot-free. It makes more sense to force the government into roles like that because the private sector will never take them on, than to say the government ought to intervene in general because the private sector is incapable of restructuring. After all, the government is trying to drive the private sector to exploit the proper opportunities available to it.

Peter: The government has been reasonably successful in the existing industries, but it has been unsuccessful and unadventurous in changing some of the very basic institutional problems the country faces and in tackling some of the new industries. Financial deregulation has utterly failed to bring about the competition the government suggested it would. The banking system is basically a trading one rather than an investment one. There’s a total drought of development capital, and this is costing us dearly in terms of early company failures and in the long run in terms of employment with the potential growth of these small companies. And the government has also been very parsimonious in assistance to new industries. Biotechnology is the key example. The government spends a few million a year assisting biotechnology research. We should have identified that ten years ago as a key industry for underpinning the rural industries and for opening new opportunities.

Les: As the unions have increasingly become intimate with the industrial and political processes involved in industrial revitalisation, I’m a bit less sanguine about diving in boots and all into industry assistance. It’s an extraordinarily difficult exercise. That doesn’t make you an apologist, it just makes you cautious about throwing the taxpayer’s money about.

At the same time, anybody who hasn’t by now realised the failures of financial deregulation wants their bumps read. The Treasurer is finding ways of distancing himself from financial deregulation by wading into the banking community and giving them a hard time. It’s quite clearly the case that deregulation unaccompanied by anything else doesn’t produce competition, but rather a very nasty fight which leads to oligopolistic power based on retailing.

Anna: There’s a kind of competition, but mostly the banks are falling over themselves to lend the most money to the most dubious characters in the commercial lending area. In the retail area they’ve focused on more consumer-oriented practices like interest on cheque accounts and much prettier facades for the banks. Certainly the scope of the finance and capital market of Australia has not been increased by deregulation.

Peter: Superannuation funds are an important future source of venture capital, of development capital for real businesses, as distinct from paper-shuffling businesses. The unions have got to think very carefully about how these funds are used. They should be committed in a prudent way to lead the superannuation sector into venture capital. The superannuation sector at present is very short-sighted. Those like AMP invest in 50 or 100 stocks and that’s all. They won’t invest in unlisted companies. They are not helping to develop any new companies. This is a budding role for the union superannuation funds. Usually, superannuation funds look at investing one or two per cent of their funds in venture capital.

Anna: The ACTU is now working with the superannuation fund managers to develop just that approach. The major issue isn’t risk, it’s the time-frame you’re prepared to accept for your return on investment. If you look at the manufacturing sector and the production of real goods and services, as opposed to paper speculation, you actually
find they’re less likely to fail completely than those high-risk, high-flying investments. People have been impatient and have wanted shorter term returns, but in superannuation funds it’s not necessary to have short-term returns. It’s necessary to have good stable returns and to be able to say to your membership that we’re investing your money in the best way for your retirement income.

In the past we’ve looked down on import replacement industries because of their need for protection: they were seen as cosseted and inefficient industries. However, in the clothing trade the most successful import replacement companies were those with advanced technology, quick response and good work organisation. That point clearly hasn’t got across to government circles. Is the present thrust of government policy and the direction of the unions towards export expansion above all else adequate? Or is there a case for trying to rehabilitate import replacement?

Anna: We should support export expansion, because it’s one half of the equation, but we shouldn’t look down on import replacement industries. For example the role of the Industrial Supplies Offices has been been pivotal in the import replacement area. That’s also part of the ACTU’s proposals to the government for this year’s statement on industry policy.

Les: That goes back to the point that we can build on our successes. The trade union movement has to be consistent and willing to return to these issues and raise them again and again until we do demonstrate the successes. One of the problems we’ve had is that we’ve wanted a grand slam industry policy - a statement of some hundreds of millions of dollars that would fix everything up. It’s not a bad policy to go back to government time and time again and get a little more each time so that it’s digestible for the trade union movement.

Peter: The emphasis on exports is essential because companies have to be knowledgeable about selling into export markets to be world class. If they’re going to be import replacing they also have to be knowledgeable. Marketing knowledge is what Australian companies lack.

Anna: Peter’s example stands well for the wool and cotton industries. We’re unable to say as yet that we’ve made a success of the raw materials processing program of the TCF development plan, but as Les says we’ll keep going back to it. Unless and until a number of key producers in Australia, or in conjunction with overseas producers, decide to produce those goods for export, we are not going to have a world class industry. You cannot have a world class spinning and weaving program in this country producing simply for the domestic producers of clothing in an environment where the big users of cotton are in decline.

We’ve been talking mostly about large scale industry. For a long time we neglected small business in the industry development agenda? To what extent is that now being rectified?

Les: To an extent the structure of the union movement leads to that outcome. In TCF and metals there are plenty of small producers, and we’ve had successful plans for them, so it’s not impossible, but it’s certainly more difficult to get together with small diversified producers where there’s no central industry association. To go back to Peter’s earlier comments about management and the willingness of industry, with the lack of rigour and discipline among small producers and their inability to deliver through their associations, we’ve often found ourselves shadow-boxing with them.

Anna: Some of the best examples of networking have occurred where there’s been a lead consumer like BHP and a satellite of suppliers who are related to each other through the power of that lead consumer. I’m interested in exploring the role of Coles-Myer in our own industry because the TCF industry that will survive will be the one that can supply on a quick response basis the needs of the major consumers - the retailers in the first instance. We’ve been critical in the past about the level of retail concentration, because of their bargaining power. But now perhaps we can turn that on its head and harness the market power of the major retailer to organise their suppliers. Coles-Myer is now realising that it is in its interest to have quality stable suppliers and not to go for the cheapest unit.

Les: That model, where the lead consumer shapes suppliers into a viable network of their own, can provide the best of the market and intervention operating together. You get the flexibility and responsiveness of the market, but also the leverage of an elite or oligopolistic group of consumers. There’s a role for government there to encourage these tendencies but also to provide a countervailing power against the excessive leverage of oligopolies.

A few years ago the Swedish model was very influential. Now the model of the Third Italy is much touted — especially the experience of regions like Emilia Romagna — in creating networks of enterprises to co-operate in the production of different elements of a finished product. How far is it replicable here?

Anna: In our industry I think there’s a natural networking capability, which is not fully realised because of the way in which makers-up are played off against one another. They desperately need to share resources and information in the area of advanced manufacturing technology, fabric testing and quality control. The educational institutions have been important catalysts in the provision of training. Where you can put that together with technology transfer and information transfer, there’s a real possibility of the whole industry being larger than the sum of the parts.

Les: There are economies of scale and small units often need to network or co-operate to produce the research, design and marketing components for finished products. I can see that, but I don’t think it’s the solution for every industry. We need to pick and choose carefully from these overseas models. At the recent Evatt Foundation conference the message from the Swedish, Japanese and some other Asian delegates was that you have to evolve solutions that don’t require you to import major cultural chan-
Is there perhaps a feeling that we’re running out of time to find these new solutions?

Les: I fear so. People have been fed on too thin a diet for too long. The feeling that we were all putting our shoulders to the wheel to do something, that we were trying to turn the country around, has ebbed away. In the last six or seven months in meetings with the rank and file I feel that as the recession has approached and things have tightened, they’ve become increasingly resistant to the siren song of the government or the unions. I would hate to think that we have discredited the whole notion of a successful pact between organised labour in the union movement and Labor in the political sphere. That would be a tragedy. I don’t think it would lead to a spontaneous surge for radicalism: rather, it would lead to a drift away from labour movement politics to the environment movement for those who wanted to remain active, and to the video hire shop for the rest.

Anna: That’s why there’s a great onus on us in the union movement to deliver on the rhetoric of higher skills and higher pay. While co-operating in a radical restructuring of an industry which has hitherto been successfully protected, we’ve got to correspondingly deliver through award restructuring. We’ve got to make sure that workers are positioned at higher skill levels and begin to have higher pay and can have access to training courses that are up and running and not simply on the drawing board. It’s urgent that we don’t lose the momentum. I fear that for a vast section of the workforce award restructuring hasn’t begun and certainly hasn’t been completed.

Les: It would make you weep sometimes to see employers clinging to simplistic notions of tradeoffs of the second tier. They’re going for naive short-sighted opportunities when the union movement is actually offering them a much greater prize.

Anna: This brings us back to the capacity of Australian management. When you sit down with them and ask whether they’ve analysed the needs of this enterprise in terms of the seasons, the work organisation, the requirements of customers, and have they looked at what enterprise flexibility means for them, you find that for the most part they simply haven’t done the work. They haven’t done their labour turnover figures, they don’t know what their absenteeism rates are. They’re looking at workers’ compensation in the simplistic terms of the premium they’re charged by the insurance company. It’s so bloody frustrating. As a unionist you can’t go into every workplace and be the consultant and work out their claim for them.

The unions have been perceived as behind the eightball on sustainable development. Is there a contradiction between industry development and the environment? And is there a dilemma for unions between trying to protect the future of industry and trying to become more popular with young people, for whom the environment is a crucial issue?

Les: There isn’t a dilemma. If in ten years time we have not reached world standards for emissions and pollution control, then Australia will become a joke. There is going to be a very clear divide between countries of energy efficiency of the sort that took place after the first oil price shock. Then the divide was between those countries that absorbed the shock, reoriented their industry and made their industry energy efficient, and those who didn’t. Inside four or five years the Germans and the Japanese had changed their production techniques to accommodate it. We’ll have to do the same in relation to the environment, and we’ll have to simultaneously produce industries that are generating environmental solutions as an export product. The notion that we have the option of standing to one side and saying we’ll just go in the old ways because otherwise people will lose their jobs is spurious. The fact that the trade union movement has become trapped into the notion that environmental policy is simply something to do with forests and forest products will come to be seen as one of the major miscalculations of the late 80s and 90s.

Anna: It’s another example of how we’ve been drawn into wanting short term gains at the expense of the longer term. If we were to sit down with investors to look at the establishment of world class wool scouring plants, and we didn’t take a responsible attitude to the technology that’s used and in particular the waste product, then not only would we be alienating ourselves from the community, we would also be contributing to the demise of that particular company. Business has to be made to understand that.