

PROTECTION

Racket?

The debate over tariffs and industry policy is back on the agenda. Free market orthodoxy is under fire. But the Left's accustomed apologetic protectionism will not be enough to meet the challenge, argues Sue McCreddie.

The agenda for trade and industry policy is now being set for the 'nineties. A spate of recent reports from high-flying consultants and advisers has set the scene for a revival of the old debate between free traders and protectionists. At the same time, the recent period of modest intervention is under scrutiny and its less than spectacular results have sparked a newer debate over the merits of 'level playing fields'.

At the forefront of the call for free trade and level playing fields was the report by Ross Garnaut on *Australia and the North East Asian Ascendancy* with its astonishing advocacy of zero protection by the year 2000. The choice of date is, by his own admission, "symbolic" - no economic rationale is offered.

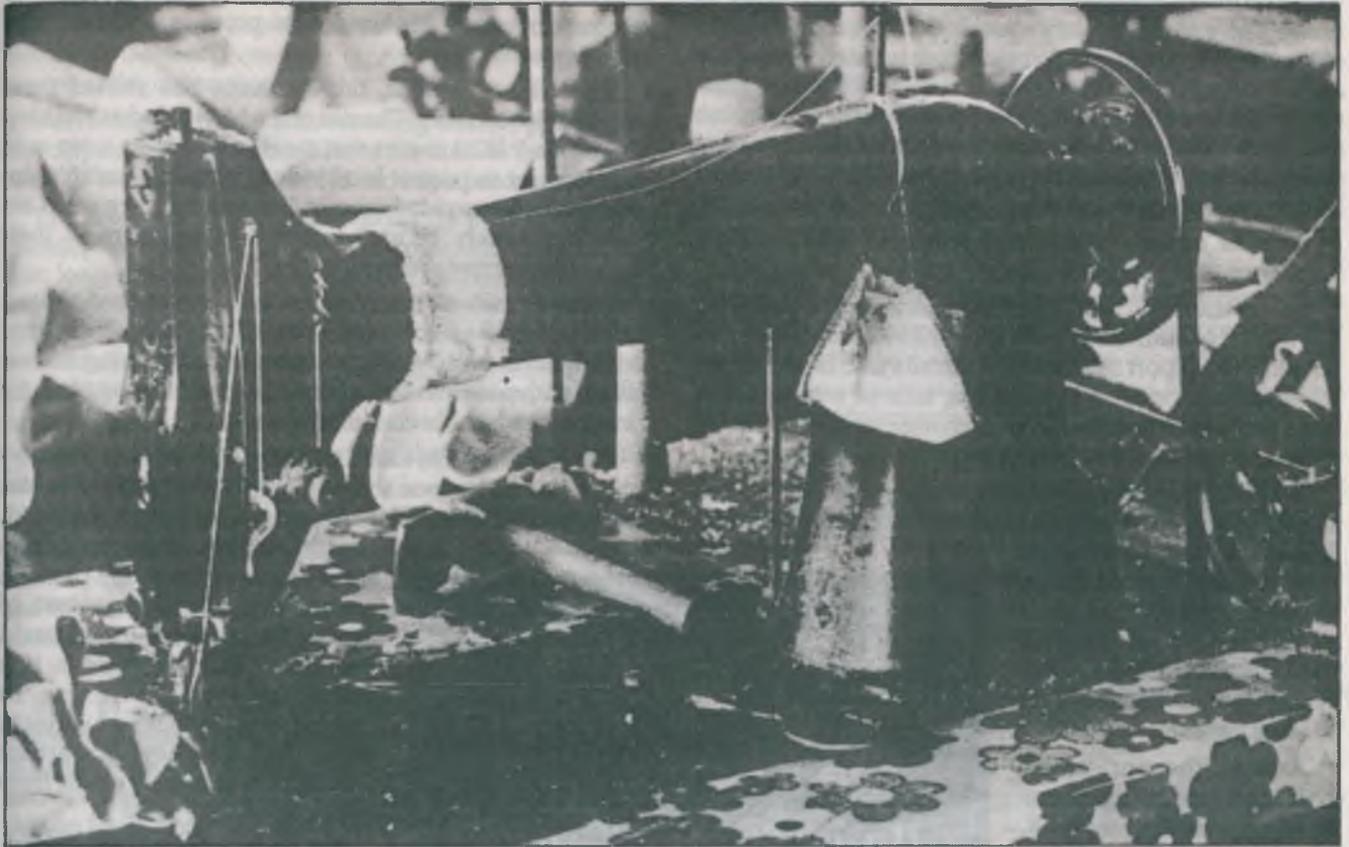
Garnaut hopes to bring the "great monuments to our protectionist past" crashing to the ground. The greatest of these monuments is the Textile, Clothing and Footwear "anomaly" - hence his call for the current TCF Plan to be cut short by three years and phasing down of protection to be accelerated.

Garnaut claims liberalisation and integration with the North East Asian dynamos by the turn of the century will net us an extra \$20 billion in exports to the region. It all

seems very bold and futuristic. However, his vision of our role in the world smacks of old formulas. Australia's future, according to Garnaut, lies in exports of mineral resources, services (tourism and education) and early stage processing. Notwithstanding some lip-service to development of Elaborately Transformed Manufactured Exports there is no analysis of this fastest growing area of the world trade.

In this sense Garnaut echoes the old policy establishments such as the Industries Assistance Commission (IAC) and Treasury, with their implicit conviction that Australian manufacturing can never develop a comparative advantage. This philosophy sits well with vested interests such as the National Farmers Federation and the mining sector which claim to bear the costs of manufacturing protection. But its implementation would leave us in a weak trading position in relation to North East Asia, especially Japan.

Again echoing the IAC and Treasury, Garnaut is a firm advocate of the level playing fields philosophy. Rather than an industry policy based on "fine intervention", his preference is for "macro-industry policy for strengthening competitiveness". The latter turns out to be an amalgam of privatisation and deregulation including acceleration of waterfront reform, private investment in ports and some private generation of electricity.



Garnaut's main protagonists in the debate are the consultants Pappas Carter/Telesis, who were commissioned by the Australian Manufacturing Council late last year to report on the future of Australian manufacturing in the 1990s.

The Pappas team are no friends of old-style protection or regulation. However, they do point out that the international playing field is not level but tilted by the assistance and protection which other countries offer their manufacturing industries.

Hence, the removal of protection and deregulation won't of itself remove the disadvantages we face. It will simply leave us more exposed to these adverse slopes. "Weak industries may wither as their protection is reduced while competitive adversity will allow few new traded manufacturing industries to replace them."

The commitment to manufacturing is more than vested interests or nostalgia. As the Pappas team points out: "No other country of significant size has been able to sustain a high standard of living over a long period without a strong manufacturing base." It queries whether tourism and education (Garnaut's growth areas) could ever expand to fill the gap if we let our manufacturing decline further.

The general thrust of the Pappas project will be to promote "strategic trade policy". This requires that assistance be targetted, either to whole industries or for niche markets, rather than across the board.

The past seven years of government policy have seen elements of both the above trends. Despite the Coalition's

free trade bluster it has been the Hawke government which has taken the boldest steps in dismantling protection, with the current round of tariff cuts (1989-92) representing a 30% reduction.

At the same time, reduced protection has been accompanied by the introduction or continuation of positive assistance measures such as export and research and development subsidies, the Offsets and Partnerships programs and, most notably, a number of tripartite sectoral plans. But recent years have seen a retreat from tripartitism, and fiscal restraint has brought pressure for cuts to the industry policy budget.

The rise of the level playing fields philosophy to the status of "dominant paradigm" in Canberra, along with the VEDC and 'WA Inc' disasters, has now made the notion of 'picking winners' distinctly unfashionable. It was no surprise, then, that Hawke promptly poured cold water on the Pappas' call for more government intervention.

Yet, for the government's critics it has already gone too far. Opponents of strategic trade policy see it as merely a more sophisticated version of the old protectionism. The challenge has come from predictable quarters of the IAC and Treasury.

According to the IAC, "positive assistance" measures, like traditional forms of protection, favour some recipients at the expense of others. More fundamentally, it argues that gains from tariff reform will be undermined if tariffs are replaced by alternative assistance measures.

Coalition industry policy for this election mirrored this

IAC/Treasury philosophy, incorporating promises to move away from industry specific programs and to end disparities in assistance. In essence, this means manufacturing is to operate with diminishing government assistance. The Coalition's substitute for an industry policy is a predictable brew of reduced protection labour market deregulation, wage cutting, and reform of the transport and the waterfront.

All this supposes that the problems of Australian manufacturing are reducible to costs.

But, as the advocates of strategic trade policy point out, the world is dominated by tariff and non-tariff barriers and subsidies to export industries. Australia also faces natural disadvantages due to remoteness, lack of economies of scale and a commodity-driven exchange rate. These are all givens.

But equally important are homespun problems. We face managerial incompetence, aversion to risk, lack of skill and knowhow, and an absence of networks between firms. The challenge for the Left is to define and advance its own agenda in this area. But where does the Left stand on the key issues?

Among the non-union Left, two opposing views have co-existed in the past. A minority of the Left has always opposed protection on 'internationalist' grounds. Protection was based on an unholy alliance between labour and capital, and pitted workers in different countries against each other. As such, it was regarded as chauvinistic and detrimental to working class solidarity.

However, the majority of the Left has tended towards support for protectionism and has favoured a self-sufficient model of the economy which maximised import substitution (and thereby minimised the traded goods sector).

The Hawke government's drive to modernise and internationalise the Australian economy through reduced protection and export-led growth is therefore anathema to much of the Left. A decade ago it would have been anathema, too, to the unions. Traditionally, unions supported tariffs almost unreservedly. The logic went like this: higher protection meant higher profits, which provided the scope for higher wages.

Indeed, the link between wages and protection goes to the genesis of the wage-fixing system. The Excise Tariff Act of 1906 attempted to make exemptions from tariffs on inputs contingent on the paying of a "fair and reasonable wage". The Industrial Commission was subsequently asked to rule on what was a "fair and reasonable wage", a request which resulted in the famous Harvester judgment inaugurating the basic wage. The Excise Tariff Act, having served a useful role, was later overturned and one of the

problems unions have faced ever since is that, while higher protection makes higher wages possible, the link was never cemented.

Since the 'seventies, the emphasis has shifted from wages to job security. The rise of the Newly Industrialising Countries (NICs) meant that tariffs and quotas were seen as necessary to protect local industry against unfair competition from sweated labour. But unions were often accused of merely being adjuncts to employers in their clamour for more protection.

To add insult to injury, manufacturers abused protection. It has now become something of a cliché that Australian manufacturing became inward-looking and ossified, with poor investment levels, appalling management practices and an absence of innovation.

For these reasons, union thinking on trade and industry policy has undergone something of a revolution in recent times. ACTU defence of old-style protection ended with

the advent of the Accord and, in its place, came support for planned restructuring in the context of greater integration into the world economy. But what does this mean for manufacturing in general, and the TCF industries in particular? Are they, as Garnaut would have it, merely a relic from our protectionist past?

The clothing and footwear sectors in particular are widely considered a 'sunset industry' with little future in countries like Australia. Labour costs are seen as the central focus of competition and providing developing countries with an insurmountable

comparative advantage. The industry's opponents implicitly believe that the resources would be better employed elsewhere. The industry itself, like its opponents, sees no alternative to protection or decline.

But, in a number of ways, protection has not necessarily served the industry well. For one thing, flat penalty rates have been applied to out-of-quota imports, which have afforded greatest quota protection to the low-cost end of the market. That is the end which is most price sensitive and hence most vulnerable to competition from low-wage countries.

This has directed the industry into non-competitive areas. It has encouraged an obsession with price- and cost-cutting and a lack of attention to non-price factors such as lead times, fashionability, quality and marketing. This type of protection went hand-in-hand with Taylorism, with long production runs and high segmentation of task. This in turn condemned workers to repetitive, narrowly skilled jobs.

In male-dominated industries, strong bargaining power and trade demarcations meant that the mass production formula has been compatible with reasonable wages. However, in female-dominated areas such as clothing it

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has gone hand-in-hand with undervaluation of women's work and low pay. This means that the industries had the luxury of double protection: tariffs and low wages. The image of the industries is poor.

But recent changes in both consumption and production have opened up new possibilities for the sun to rise again for TCF industries in advanced industrialised countries.

The break-up of the mass market by new production techniques and more diversified consumer tastes means that long-run mass-produced goods are no longer what's required. There are many niche markets to be catered for. Quality and fashion are increasingly important. Retailers are demanding shorter runs and shorter lead times. All this places a premium on non-price factors: design, flexibility and marketing. On the production side, revolutions in technology and work methods make shorter runs and shorter lead times possible.

All these factors tilt the balance of competitive advantage for many types of garments away from low-wage developing countries where lead times are too long and the costs of holding inventory too high. Above all, in terms of servicing the home market, physical proximity is becoming very important.

Even so, it is unlikely that TCF could survive without some protection in the foreseeable future. Zero protection is a recipe for annihilating the industries. And while the current phase-out of quotas may stimulate restructuring, this, in itself, is not enough. The TCF Plan recognises this by providing a 'positive assistance' package.

It is on the delivery of the latter that manufacturers in TCF and other industries part company with the unions. Employers still prefer their handouts with 'no strings'. But surely if anything is to be learned from past industry assistance, it is that assistance without strings doesn't deliver the goods.

The real problem is that, for decades, there were no conditions imposed on beneficiaries of protection: no requirements to modernise equipment, to invest in R&D and training, to adopt enlightened management practices, or provide decent wages and conditions. The union movement has argued for assistance to be made public and its delivery tied to workplace consultation on investment, training and work organisation. In that way it provides unions and workers with a lever against management and creates an internal catalyst for change, i.e. the workers themselves.

The current revival of the debate opens up new opportunities for the Left to influence the policy agenda. But the Left agenda for industry development also needs to go beyond mere defence of 'strategic trade policy' and address wider social concerns. Different trade and industry policies have different gender outcomes. The most highly protected industries are those with the highest concentration of women workers. Without adequate labour adjustment policies these workers will at best be transferred to insecure, low-paid and menial jobs in the service sector; at worst they will join the dole queues. Present income support for retraining is inadequate and regional policy is next to non-existent.

Industry policy needs to be integrated with environmental goals. The new 'conservative economics' championed by parts of the green movement in many ways echoes simplistic old Left formulas for self-sufficiency. Of course, 'conservative economics' goes further, with calls for no growth, de-industrialisation and cuts to both consumption and production. Industry policy is unfashionable in such circles and labour and capital are seen as equally part of the 'old order'.

Unless we can unhitch growth from environmental damage, the tension between adding value to production and protecting the environment will be unresolvable. New forms of incentives and intervention are required to encourage the development of products and processes which are more environmentally friendly.

Trade and industry policy also needs to be more internationalist. Unions have pointed out that consumers don't have an innate right to the fruits of sweated Third World labour. But, in the past, Australian unions have found themselves at odds with Third World counterparts due to their defence of protection. New ways are needed to extend solidarity to exploited workers in these countries. Certainly, neither the old left support for Fortress Australia nor a spurious free trade internationalism is an adequate response in the late twentieth century. ♦

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