

III. TRADE LIBERALISATION, PROTECTION AND THE EFFECTS ON DEVELOPED COUNTRIES

Employment

50. One of the more emotive arguments connected with textile imports into industrialised countries concerns the loss of jobs. With unemployment now at post-war peak levels, and generally rising, this consideration will be central to the coming negotiations. The concern is given added edge when, as is often the case, jobs lost are concentrated in depressed areas or amongst poorer social groups. Specifically the argument concerns the extent to which 'low cost' imports 'cause' this unemployment. The European Community proceeds from an analysis of trade trends to observe "as a result of all this (our emphasis) there has been a contraction in the Community textile sector. Between 1973 and 1978, 700,000 jobs were lost...".⁸ More sophisticated analysis, including that carried out by dc governments, accepts the inherent absurdity of attributing cause and effect in this way, when several interrelated factors influence employment levels in particular industrial branches, let alone in the economy as a whole. Thus the European Community (addressing a GATT, rather than a domestic audience) acknowledges that the "essential causes" of declining employment in the sector are not only the impact of imports but also "improved productivity" and "the pattern of household expenditure which has changed to the detriment of certain purchases, in particular textiles".⁹ The UK minister responsible for textile negotiations acknowledges moreover that "the falling workforce (in the UK industry) can be shown to be principally a reflection of a technical advance of increased productivity."¹⁰

51. Trade flows, clearly, are not the only factor which influence the level of employment in textile and clothing industries. Improved methods of production, labour-saving investment to replace depreciated capital stock, and the shedding of underemployed labour all have the effect of reducing the number of workers employed per unit produced. There is a good deal of evidence to suggest that although the demand for textiles (broadly defined) increases, in general, slower than the overall income growth in most Western economies, productivity growth has been higher than in industry generally implying that, even if there was no trade, there would be a tendency for this sector to lose employment to other parts of the economy. In Britain, productivity growth over the last decade in both textiles and clothing has outstripped the manufacturing average. Since 1973 this has

been true for other OECD countries: Denmark, Switzerland, Finland, Austria, and Canada.¹¹ A calculation by GATT of the implied productivity growth in the EEC over 1973-79 gave an annual average of 4 to 4.5% for textiles and clothing.¹² This is way in excess of the growth in demand (as indicated by consumption growth for clothing) of 1.1%, implying that even if there had been no trade balance deterioration the industry could have lost jobs at a rate of around 3% p.a., or 120,000 jobs p.a, which goes a long way to explain the 700,000 jobs lost altogether in the EEC in this five year period.

52. Productivity growth can occur for several reasons. In a contracting industry the least efficient firms and the least productive workers within firms tend to go first, raising average industry productivity. But there is also strong evidence in this industry of "capital deepening" - producing the same output with more machinery and less labour. Capital stock per man - in constant prices - has risen by around 200% in the UK and Germany since 1960, faster than in manufacturing as a whole.¹³ There is evidence that while investment, in real terms, has declined in the 1970s (in the EEC but not the USA) there has been a shift towards investment in labour saving, faster, automated equipment. It has been estimated that the employment per unit of output in new textiles plant is between a third and a half that in marginally profitable plant. The main reason is the considerable increase in spinning and weaving speeds in new machines. For example the fastest shuttle-less, multiphase, looms have a weft insertion rate of 1700 yards per minute and a speed of 500 picks per minute as against 370 and 130 respectively in high speed conventional looms.¹⁴ Employment falls as new technology is gradually diffused. New technology has had a particularly big impact on jobs in the UK. There, two-thirds of looms were non-automatic in 1965 and a negligible number were shuttleless, but by 1979 three quarters were automatic and over 20% shuttleless. Advances in clothing are so far less far-reaching but most phases of garment assembly have seen changes - automated cutting and improving sewing speeds - in the direction of greater capital intensity. The potential for further job losses due to productivity growth is great, particularly in those countries like Italy, which have a large number of low wage, low productivity, outworkers, many of whom are not officially recorded. Indeed, this experience pinpoints one of the underlying causes of labour-saving technological advance in other dcs: a wish in most of them to sacrifice jobs per se for higher wages and better conditions.

53. The employment experience of particular branches of textile and clothing is, furthermore, strongly influenced by changes in fibre demand, process technology and fashion changes. Thus, the 'knitting revolution', has accentuated the pressure on the old established textile industries with a large weaving sector, as in the UK and France. Within knitwear, there has been a switch from hosiery to knitted garments (and from stockings to tights). The woollen sector (with which ldc's are rarely competitive) has declined relative to other textile fibre users. In earlier days, the rise of the ready-made clothing industry resulted in serious adjustment problems for seamstresses and bespoke tailors.

Quantifying Job Losses Due to Imports

54. A wide range of methods have been applied to quantify the employment effects of import growth. The most widely used are the so-called "accounting procedure" attempts to quantify the first round impact on employment of changes in domestic demand, imports, exports and labour productivity. Several variants of the method have been employed in studies covering most MFA member countries, and these have been synthesised by the ILO which concludes that "the empirical evidence indicates that this ('cheap imports') is not the most important factor and that fluctuations in aggregate demand and productivity increases are much more important sources of unemployment".¹⁵ One recent study, by de la Torre, and Barchetta which pulls together in a consistent way the evidence for clothing for the EEC over 1970-76, a period of rapid import growth (Table 19)¹⁶ concludes that productivity changes were, overall, more than three times more important in their influence on jobs than changes in net trade, with a much larger differential (over eight) in the case of the least open economy, France (and with Italy gaining employment from a positive trade balance). Only in Holland was a deterioration in the trade balance sufficiently important for it to exceed the influence of productivity growth. Much more disaggregated studies by Anna Kreuger of the USA (Table 20)¹⁷ and by the British government,¹⁸ show that there is a great deal of variation at a detailed product level, but that, even at this level, labour productivity trends are invariably more powerful. A study of Australia similarly concluded, for 1968/9 to 1975/6, that "the reduction in employment due to increases in the share of imports is shown to be generally less than half the reduction due to productivity increases".¹⁹

55. It should be acknowledged that most of these studies are methodologically crude.²⁰ They exclude indirect effects (eg from clothing on textiles) which may be of the order of additional one job lost for every four lost directly. More important, they also ignore the interaction between one factor and another. It is argued for example that more intense import competition increases the pressure on firms to seek labour saving methods of ensuring their economic survival. This is plausible but the opposite phenomenon is also documented: protection facilities, through higher profits, new investment, often of the capital deepening, job destroying, kind. As it happens, the most open economies (Norway and Sweden) had the worst productivity growth record in textiles and clothing of any OECD country in the post 1973 period. Furthermore, interactions can work in ways which minimise the job displacing effect of imports (lower prices may raise overall demand for clothing for example). Thus, there is no reason to accept that the general thrust of the analysis is invalidated by academic criticism, though neither there should be too dogmatic an attachment to the arithmetic detail.

56. Two main conclusions need emphasis. The first is that as a relatively labour intensive industry facing relatively low growth of demand, and a capacity for average or above average labour productivity improvements, the textile and clothing sector (considered together) is bound to experience substantial loss of employment, relative to other parts of the economy. Even if the trade balance could be frozen, job loss would still go on at a rate not greatly less than at present. Second there is something inherently unsatisfactory about discussing, let alone trying to measure, 'causes' of unemployment in terms of one sector in isolation. Unemployment - other than frictional - is 'caused' by disequilibria at the macro economic level. Consequently it is in the fields of monetary and fiscal policy, or rigidities in wage levels, or measures to ease the movement of labour from one job to another, that remedies need to be sought, not in industry-specific trade restrictions. The use by Western governments of trade protection as a device for creating employment and alleviating regional and social problems is an extremely inefficient method of tackling difficulties which have other causes and better cures.

Inflation and the Effect of Trade Policy on Prices

57. It is one of the two major criteria for defining market disruption (Annex A Para 2(ii)) that import prices are "substantially below" those of

similar home produced goods. A necessary corollary is that the attempted removal of 'disruptive' cheap imports from the market will raise the average price of goods sold. Such action is not without significance for efforts, to which most Western governments give over-riding priority, to reduce inflation.

58. MFA restrictions affect prices in several ways. First, quota control creates economic rents deriving from relative scarcity. Rents are appropriated by exporters in the form of quota premia under the current export administered system and the cost passed on to consumers. There is a highly sensitive and volatile market in quotas in those ldc's which permit one to operate. One recent survey showed that the premium typically added (mid 1979) 70p to £1.50 to the landed price of a pair of jeans and 65 to 80p. per blouse.²¹ The most recent (1980) record of quota premia in Hong Kong suggested that the average for the year had been for a knitted sweater in the following range: £1.70 (sold in Germany), £1.20 (Italy), £1.25 (Benelux). Second, quota restrictions offer an incentive to exporters to 'trade up' to maximise unit value, leading to a relative scarcity of cheaper items. The effect of this is to raise the prices of cheaper lines, typically by 25% to 30% as against 5% for higher quality products available under the same quota. A German study shows that imports meet 60 to 70% of the sales requirements in the lowest band of garments and households.²² Thus there are income distributional as well as inflationary effects. Third, import restrictions not only raise the prices of imports but also import substitutes to the extent that price competition is less. A major source of pressure for protection is from manufacturers eager to take advantage of a tighter market to raise prices and thereby restore profit margins.

59. Several pieces of analytical work have been done which seek to give greater precision to the consumer cost of protection. A recent study of Canada, by Professor Glenn Jenkins, estimates that import quotas have 'saved' 6000 jobs but cost (consumers) C\$33000 per job (currently C\$1.20=US \$1).²³ The total cost to consumers of textile protection is put at C\$470 mn of which C\$200 mn is attributed to the quota system and C\$92 mn being lost to Canada in waste of resources, loss of consumption and quota premia. He also calculates that the cost to low income consumers is over three times as much, relative to their income, as to high income groups (confirming the German results, that the poorer buy a greater proportion of their clothes from quota items). A survey in the USA, by the Council

of Wage and Price Stability (COWPS) calculates that the cost to consumers of a system of quotas growing at 6% pa would be \$790 mn in the fifth year and for 3% growth, \$1060 mn.²⁴ The cost to consumers of saving jobs as a result of moving from 6% to 3% 'could be as high as \$81,000 per job' (several times the average wage of a clothing worker). Finally an Australian study by the Industries Assistance Commission estimated that Australian clothing consumers were paying A\$925 mn a year because of protection (A\$0.9 = US \$1), or A\$200 per household.²⁵ The cost of protection paid by consumers (or in subsidies by tax payers) will clearly vary depending upon the wages and conditions of those kept in employment. It is inherently unlikely however that society will continue "to pay an ever-growing price for keeping workers on substandard jobs at standard earnings".²⁶ Rather, there will be pressure, even in a protected economy, to economise on this cost, by intensifying pressure to reduce labour intensity and employment or by a spread of 'outworker' low wage manufacture subject to few controls on conditions.

60. Two qualifying remarks need to be made. The effect of increased protection is one of many factors operating on prices. It is, therefore perfectly possible that other factors could be predominant, and that, as in the UK, the price of clothing could still rise less rapidly than other items. Were there no, or less, protection, prices would have risen even more slowly, offsetting higher prices elsewhere - as of energy. Second the analysis above relates primarily to the wholesale level. Retailers may choose not to pass on to consumers the value of 'cheap imports' but, at least in part, to composite prices of home and foreign goods. This does not invalidate the argument about the consumer costs of protection (which are reflected in higher composited prices) though effects may be invisible to the final consumer.

Wider Economic Consequences

61. The direct effects of trade on employment and prices in one sector are surface manifestations of the wider and deeper effects of trade. The main rationale for international trade is that it raises the overall efficiency of the economy, and the underlying rate of growth. Conversely, protection can impede this process. Support for the industry through trade and other measures has had the effect of artificially raising the return on capital above what it otherwise would have been. This is one factor (business miscalculation of trends in oil prices being another) which helps

to explain the considerable excess capacity in 'up-stream' textiles activity, notably manmade fibre production. There has also been, since the MFA was strengthened, some evidence of new investment (in the peripheral areas of the UK for example) in factories which have been attracted to a greater extent than would have been warranted by market forces. There are, therefore, costs in terms of what the same investment could have produced elsewhere, in the economy, without protection. It could also be the case that protection engenders the wrong kind of consumption and production pattern within the industry. Unfavourable contrasts have been made between the UK (and France) and Germany, the former having opted for mass marketing of standard items, seen essentially as a downstream outlet for man-made fibres, while the latter opted for a more specialised, quality, production of textiles, often for offshore assembly.

Developed Country Adjustment Measures

62. The MFA is quite explicit (Article 1:4) on the need for the Arrangement not to interrupt or discourage the autonomous industrial adjustment processes of participating countries. Furthermore, "actions taken under this Arrangement should be accompanied by the pursuit of appropriate economic and social policies...required by changes in the pattern of trade in textiles and in the comparative advantage of participating countries, which policies would encourage businesses which are less competitive internationally to move progressively into more viable lines of production or into other sectors of the economy and provide increased access to their markets for textile products from developing countries".

63. Member states are obliged to report regularly to the Textiles Committee on their 'adjustment policies'. What emerges from these reports is a great deal of confusion as to what 'appropriate' policies actually are. Governments in dcs interpret 'appropriateness' in this context in various ways:

- (i) 'autonomous' adjustment; allowing the market to work freely without impediment.
- (ii) 'positive' adjustment; intervention of a general, non-selective kind, designed to work with the grain of the market, including subsidies for retraining, incentives for new investment and R & D and generous treatment of redundancy.

- (iii) selective programmes of a 'positive' kind; support for industries faced with (inter alia) trade adjustment problems, in the form of compensation to labour and capital and, possibly, support to move to new activities within the sector or outside it.
- (iv) sectoral support programmes; inducements through new investment and other incentives to improve performance to restore competitiveness in industries threatened by decline because of adverse trade factors (with import controls giving a 'breathing space').
- (v) 'relief measures'; no strategic objective but designed to postpone, or slow down, by selective or general subsidies for employment or for vulnerable enterprises, painful industrial changes.

64. All of these are at various times described as 'adjustment policies' though only (i) to (iii) could meaningfully be described as such. To confuse matters further many 'sectoral programmes' tend to have elements of both (iii) and (iv) and often (v) and the balance between them is difficult to assess. It must be said that the demands often made by UN agencies, and other bodies, for industrial countries to engage in adjustment assistance policies probably do more harm than good. Those countries (like Switzerland, Germany and, until the mid-1970s, the Scandinavians and the UK) which adjusted most freely to ldc imports did so primarily by accepting a process of 'autonomous' market adjustment. Policies of "adjustment assistance" even if initiated with admirable sentiments seem "in practice often designed to bolster the defences against imports rather than to clear the ground for them".²⁷ A brief summary of the main schemes is in Appendix II.