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ON THE DRY SIDE RESTRUCTURING THE HIGH COST INDUSTRIES John Hyde. Published 8-2-85-116.

The textile industry advisory committee is disappointed that despite a clear improvement in technical efficiency the international competitiveness of the textile industry has not improved. The committee blames labour costs for this. It ought not to be surprised. The industry's outrageous level of protection has not been reduced and Australian textile prices have maintained their margin (which in the case of this industry is often one hundred percent) over international prices. For the local industry to increase its market share, price reductions of fifty percent would in many cases be needed before the imports coming in under quota were threatened by locally made textiles.

Participants in the textile industry, like those of every other industry, try to maximise profits or reduce losses by charging whatever price will maximise their revenue. If Australian manufacturers are freely competing within the Australian market we would expect them to reduce prices until only costs and a reasonable return to capital are covered. But their employees are not similarly constrained. Wages and other conditions of employment are determined by uncompetitive processes. Indeed the unions told the textile industry advisory committee that they had gained redundancy agreements with many firms which were better than Arbitration Commission standards.

When the factories improved their technical efficiency by introducing better machinery we would expect that in the first instance profits would improve. In fact profits in the textile and clothing industries stood up quite well during the 1982/83 slump. Then if the companies with more than average margins were competing freely we would expect them to offer lower prices to consumers and/or higher prices to their factors of production. The principal factor of production in a labour intensive industry is labour. Asking lower prices for similar quality goods is being more internationally competitive. If, as the committee says, the industry has not become more internationally competitive, and is no longer making above average profits (rents), then the factors of production have absorbed the efficiency gains.

Since the industry is not yet under much pressure to become internationally competitive and after a time lag the employees are in a better position to capture rents than the proprietors are, it is not surprising that the committee should observe that employment costs have risen.

The expectation of higher than average earnings is evidenced by a 21% increase in investment attracted to the industry in 1983-84. This was capital that should have been invested in low cost, unprotected industries. The textile committee now predicts that there will be less investment in textiles because the 1988 end to the current textile industry plan is in sight. Let us hope that from here on the investment is attracted to industries which are not only tecnically efficient but also economically efficient or look like becoming so in the fairly short term.

Two of those low cost, economically efficient industries, copper and coal mining are to be found together in the shape of M.I.M. Holdings. Not to make too fine a point of it MIM is not making the sort of profits that attract investment. They have just omitted their usual interim dividend.

I am not at all sure what restructuring means to people engaged in the textile industry but to others it means releasing resources from high cost activities to invest in low cost activities. If profits and dividends generated by high cost industries are kept high by tariffs, quotas, subsidies or monopolies, no matter how wasteful the industry may be, that is where the little old ladies and the institutional investors will place their dollars. These investment dollars enable textile factories and other protected activities to upgrade their equipment. If this were to make them internationally competitive, it would be a good thing. But as we have seen, so long as the protection remains in place, the protected industries are unlikely to reduce prices and their employees will lay claim to the productivity gains. The prices paid for import quotas indicate that the textile industry has actually become less competitive with imports as the current textile plan has progressed.

The plan has not made the industry competitive but has enabled it to pay more for eqipment and staff and bid resources away from the like of MIM. This is perverse restructuring.

The state of MIM EARNINGS is itself quite largely caused by trade barriers. I estimate that all trade barriers cost MIM about $160 million per year. The consumer tax equivalent of the protection our government so generously grants the textile, clothing and footwear industries was calculated by the IAC as $1,388 million in 1978 dollars. That is about $2,400 million current dollars. Three quarters of this consumer tax is estimated to be passed on in higher wages and other costs until it becomes an implicit tax on exports. MIM exports about 2.7% of all exports. Would not a tax of $48 million (2.7% of three quarters of $2400 million) levied on textile, clothing and footwear for the sole purpose of subsidising MIM merely return to MIM its due. It would not eliminate MIM's $63 million first half loss this year but it would go a long way towards it. Of course the wheat, iron, meat etc. export industries might also be in for a cut; what is at stake is not Mount Isa but the welfare of all Australians.

Restructuring in the right direction will not occur unless the profits of low cost industries exceed those of high cost industries. The 1980 textile clothing and footwear package was ill conceived but what can one expect of an election year!

An argument which was touted at the time in defence of the textile plan was that it was suicide to go it alone on free trade. Even if Australian trade barriers were not substantially more restrictive than those of other OECD nations and in another more horrible league altogether to those of East Asian nations except New Zealand, the argument would remain nonsense. The nonsense was recently given a new twist by likening unilateral reduction of trade barriers to unilateral disarmament. There is a quite fundamental flaw in the analogy. Weapons of war are designed to protect all Australians by injuring some foreigners and bar accidents this is what they do. Trade barriers are designed to protect SOME Australians. They do this by injuring the rest of Australians with some minor incidental injury to foreigners. If the weapons in question were being used by Australians against Australians then unilateral Australian disarmament would make a lot of sense. A trade war is primarily civil war.