ON THE DRY SIDE 199   TEXTILES CLOTHING & FOOTWEAR   John Hyde

For what my commendation for a George Cross is worth, Senator Button has it. The citation should read something like: "Awarded for conspicuous political gallantry. On the 17th day of September 1986, at Wangaratta, Minister Button announced that textile, clothing and footwear protection will be reduced below seventy five percent."

The next few months should see a decision on post-1988 protection arrangements for the textiles clothing and footwear industries. It will be one of the most important steps in Australia's hard slow climb away from banana republicanism.

Seventy five percent protection will still be far too high - at least four times the average rate granted to other manufactures and eight or ten times what conceivably, but unwisely, could be doled out to agriculture in its current distress.

Most textiles are in fact produced near the State capital cities, but Wangaratta claims to be the textile capital of Australia. The capital city tag is apt. To the extent that it depends on textiles, Wangarrata, like Canberra, is supported by the rest of us. It is in the Federal seat of Indi, once represented by the father of modern Australian protectionism, Jack McEwen. The Wangarrata textile industry could without exaggeration boast that, through its influence on McEwen, it has done more harm to the Australian economy than any other lobby, union or corporation.

The textile, clothing and footwear lobby is the Builders Labourers Federation of protected industry taking by bullying what it could not earn in a free market. Import quota protection of textiles, clothing and footwear has the same effect on prices as a consumption tax of at least 40%. (The tax summit rejected a 12.5% consumption tax.) This implicit tax, of about $1000 million in 1982-83, takes a higher proportion of the poor household's budget than the rich houshold's. (In the same year single parents cost the taxpayer only $724 million.)

The IAC has completed its enquiries and reported to the government. The process has moved behind closed doors. The industry is lobbying and threatening politicians with job losses in vulnerable electorates. This tactic has worked for it before. In 1981 The Minister for Industry and Commerce, Sir Philip Lynch, spoke of reducing protection but legislated to approximately maintain the quota restrictions. Consequently effective rates of protection continued to increase. They now exceed 100 percent on average and are as high as 200.

With bitter experience to guide it, this time the IAC anticipated special pleading based on unemployment horror stories. It commissioned the National Institute of Labour Studies to analyse the employment effects of its proposals. Anyone who any more believes the TCF industries deserves to live in a Banana Republic. If the government were to give in to TCF demands it would be inundated with demands from other industries. Why would anyone improve work (and capital) practices if lobbying the government pays better dividends. If the government can't maintain its nerve in circumstances where the need for reform is so obvious the currency markets will abandon the dollar.

The IAC offered the government three options. The preferred approach is to replace quotas by imposing a duty of 134% (if you please) on all out-of-quota imports and reduce this to 50% in seven equal annual installments. This would still leave large parts of the TCF industries with tariff protection three times the average of manufacturing generally. Professor Wolfgang Kasper, professor of economics at the Defense Force Academy, recently described this mild approach as reshuffling the bricks in the tariff wall but TCF industry spokesmen have the gall to call it draconian.

A short paper published by The Australian Institute for Public Policy (AIPP) endeavours to dispose of the major arguments being mounted by TCF companies and unions. The work force will not be annihilated. The industry estimates that a work force of 110,000 will fall by 30,000 over seven years. The IAC says 20,000. Annual labour turnover in this industry is around 29,000. Of the 31,000 hired in 1985 only 7000 had previous experience in the industry. It follows that many TCF workers have experience in other industries and normal turnover will absorb redundancies. Other industries are undergoing more substantial structural adjustment than will be expected of TCF and their position is made more difficult because TCF is singled out for help at their cost.

Protection must cause a net loss of jobs unless the reduced real earnings it inevitably causes is quickly accepted as lower wages. An annual job loss in this industry of 3000 to 5000 must be seen against 500,000 new jobs the economy created in the last three or four years. Compared with mining, agriculture and heavy engineering it will not be asked to adjust quickly and "other sectors of the economy are sick of waiting."

A Washington based think tank, the Heritage Foundation, points out that textile and apparel protection in the United States costs as many jobs in retailing alone as are saved in US factories.

An argument gaining currency in Australia is that protection should not be cut while the balance of payments is bad. Protection can benefit the trade account only in the short run. By raising the price of imports it reduces the volume but by raising costs and stifling innovation it reduces exports too.

Protected and open economies both experience balance of payments problems from time to time, but if workers in a protected economy will not accept the more modest earnings they should reasonably expect behind a protection wall the protected economy will suffer chronic balance of payments difficulties and possibly riots as well. That was the story of Argentina.

These are conventional arguments; in his 1985 Stan Kelly Memorial Lecture the Prime Minister said:
"In other industrial countries liberalisation of manufactured goods trade in the 1960s made these industries more sensitive to opportunities for expansion based on exports, for application of superior technology, and for managerial improvements more generally.

"We can all now see that the inward-looking post-war development strategies were a mistake."

Yes, Prime Minister.