

PRIME MINISTER

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STRUCTURAL ADJUSTMENT ASSISTANCE

Cabinet today considered the policies to be pursued in future by the Australian Government in times of structural change. The details of the manpower program are currently being finalised by the Cochrane Committee, but the broad outlines of the ultimate scheme are clear. In the area of structural adjustment assistance to firms the Interdepartmental Committee has now reported and the Government has accepted their advice.

Assistance to Individuals

In the case of employees affected by structural change a combination of income maintenance, retraining and re-location expenses is to be allowed for. As foreshadowed in the case of the 25% tariff cut procedures, displaced employees are to be paid an amount equal to their average weekly earnings for the previous six months - subject to a limit of 1½ times average weekly earnings - for a period of up to six months. As an alternative there will be available, on a voluntary basis, an early retirement scheme. In addition, there will be a comprehensive retraining program designed to equip employees with relevant skills. During the training period generous income maintenance is to be provided. Details of the retraining and the removal aspects of the scheme must await the Cochrane Committee Report.

The scheme will be administered sufficiently flexibly for owners of small scale enterprises to be treated, if they so desire, as employees. Where it is possible, in terms of a simple set of criteria, for an employee to prove that he is unemployed as a result of a structural change induced by Government policy, these benefits will supersede the usual unemployment benefits.

The program will be administered flexibly and humanely by the Departments of Labour and Social Security. It will be of particular benefit to residents of country towns and to persons currently employed in declining industries.

Assistance to Firms

Assistance to firms in the Secondary Industry area will be administered by a special Adjustment Assistance Agency responsible to the Minister for Secondary Industry.

Structural adjustment assistance is an innovation in industrial policy for Australia. The Government has decided to continually monitor the program at IDC level with a view to deciding whether the criteria for assistance decided upon today are adequate. In particular, the IDC will be charged with deciding, from time to time, whether structural adjustment due to Government initiatives should constitute the sole basis for justifying assistance.

The scheme will involve closure grants where relevant, consultancy grants to help firms adjust to changed circumstances when that is relevant, or loan guarantees.

Criteria for Assistance to Firms

The criteria for eligibility for individual firms will be -

- (a) that the structural change had adversely affected, or was adversely affecting, the firm to the extent of rendering a significant separate part of its assets incapable of economic production; or that the desired change was unlikely to occur at a reasonable speed and at a reasonable economic cost without assistance to the firm;

and

- (b) that the firm had taken reasonable steps for self-help, but that this was unlikely to enable complete adjustment by the firm (e.g. that the firm was unable to obtain finance on reasonable terms and conditions from normal commercial sources);

and

- (c) that generally-available measures had been utilised to the full but were inadequate.

Consultancy grants for firms will be available on the basis of 50% consultancy cost to a maximum of \$10,000.

Closure compensation payments to firms will be subject to the following conditions:

- (a) closure compensation to be paid in respect of the loss in value of fixed assets and stocks rendered unproductive by the structural change and incapable of economic use elsewhere in the firm or an associated firm.
- (b) claims for compensation to be within one year of the occurrence of the structural change;
- (c) payments to be on the basis of 85% of the difference between the written-down value of the assets for taxation purposes and their realised sales value.

Loan guarantees will be available to firms as a special measure and subject to the following conditions:

- (a) the provision of such guarantees to be covered by legislation;
- (b) the concurrence of the Treasurer to be obtained;
- (c) in relation to a particular line of activity loan guarantees to be subject to appropriate conditions and should not be available in addition to closure compensation.

This program will supersede all programs currently in existence.

Since coming to office, the Labor Government has been concerned to improve the allocation of resources in the Australian economy. It has sought to do this for two main reasons:

- (i) inefficient allocation of resources, especially if it is due to unduly high tariff levels, induces high cost industries to proliferate, with attendant injustices to consumers; and
- (ii) an economy built on an inappropriate structure, given its resource base and pattern of skills, adjusts to changes in the economic climate too sluggishly.

Good economic management in Australia will from time to time, therefore, dictate Government-inspired moves which will require resources to move from one use to another. We have seen this in the past year in the revaluations and tariff cuts announced by the Government. In future, there will be similar transfers of resources needed to accommodate the Government's urban, regional, defence and technological goals.

For sound economic and social reasons, the Government realises a mechanism is needed both to promote and make easier the process of structural change. Worthwhile economic development will be more rapid if a scheme exists to promote, via various incentives, the resource flows needed to implement the desired changes. For a Labor Government, however, there is a more important point. If changes are desirable in the national interest, it is essential that the nation, not the individuals affected, should foot the bill.

Accordingly, in February 1973, the new Australian Government set in train two events. Under the leadership of the Department of Labor an expert group was set up to study the manpower programs essential to an efficient and humanitarian policy of economic change. Under the leadership of the Department of Secondary Industry, a working group was established to study the needs of industry in times of structural change. Both groups were charged with the task of evolving a set of policies which would make the process of change more efficient, combined with the requirement that the individuals affected by change in the national interest should not be required to suffer financially.

Some urgent structural changes could not wait on the deliberations of these two working groups. As a matter of principle, therefore, whenever during 1973 the Australian Government thought it necessary to initiate change - by way of revaluations or tariff cuts - it established generous, short-term specific adjustment programs. Notably in the case of the 25% tariff cut program, it was announced that the appropriate assistance measures were a prelude to a more general, permanent scheme.

A feature of the Government's Adjustment Assistance Program is that related to employers. The Government has already spelled out its general philosophy with respect to industry. Continuing assistance is to be provided only after detailed and public inquiry by the Industries Assistance Commission. Efficiency and enterprise is to be encouraged by a variety of measures, notable among which are the establishment of a National Management School at the University of New South Wales and the setting up of a Small Business Bureau. The former, based on a report commissioned by the previous Government but never acted upon, is designed to foster new management skills in Australia, while the latter is intended to assist businessmen in marshalling the resources available to them.

In the context of structural change the Government's new policies fit into the same philosophical frame-work. Emphasis is on encouraging the process of change, rather than simply compensating for loss of income.