

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

COM.TD/W/6/Add.5
9 July 1965

Limited Distribution

Committee on Trade and Development

Original: English

Group of Experts on Adjustment Assistance Measures

MEASURES FOR ASSISTING ADJUSTMENTS IN THE STRUCTURE AND PATTERN OF PRODUCTION AND TRADE

Addendum

In the course of the Group's meeting on 29 July, the expert representing the United States submitted certain additional information concerning adjustment assistance measures maintained by the United States. At the same meeting the United Kingdom expert referred to a section of a report by the OECD Special Committee for Textiles, appearing in the OECD publication "Modern Cotton Industry", dealing with the re-organization of the British Cotton Industry. The texts of the OECD report and of the United States submission are reproduced below.

UNITED KINGDOM

"1. The re-organisation of the British cotton industry

1. Throughout the 19th century the British cotton industry satisfied a large proportion of the world demand for cotton goods. In 1912 it still accounted for two-thirds of the international trade in cotton goods, when it exported 6,900 million yards out of a production of 8,050 million yards. Between 1912 and 1958, the year preceding the introduction of the Cotton Industry Act, annual production of cotton fabrics fell by almost 75 per cent, i.e. from 8,000 to 2,000 million yards, largely because of the decline in exports from 7,000 million to 450 million yards. As, on the other hand, its imports increased considerably, the United Kingdom became a net importer of cotton fabrics during and after 1958.

2. Between the two World Wars the decline in the British cotton industry had a considerable impact on the country's overall economy, in view of the importance of the sector. By contrast, the decline which continued after the Second World War had only a comparatively limited effect on the general economy, except in East Lancashire, where the cotton industry is largely concentrated.

3. The fall in the demand for British cotton textile goods was accompanied by a marked reduction in machinery installed, although the sector continued to be over-equipped, as already noted in Part II of this Report. Between 1953 and the end of April 1959, 540 mills closed down, of which 175 were spinning, 313 weaving and 52 finishing mills.

4. These difficulties, a direct outcome of the adverse trend of the market, were aggravated by structural defects which are also largely found in other European countries. In particular, the industry's horizontal structure, which divides the various manufacturing stages (spinning, doubling, weaving, finishing and converting), into separate compartments, is suitable for an industry manufacturing for a large and varied world market, but in recent years has proved an increasing source of weakness, as it has facilitated the displacement of nationally produced goods by imports, and has aggravated the trade cycle which regularly affects the textile sector. The multiplicity of small firms has still further complicated the situation.

5. Such were the circumstances which prompted the United Kingdom Government at the end of 1958 to promise the industry that if the latter submitted plans implying a certain degree of direct assistance, the Government would be prepared to consider such arrangements favourably. The conclusion of voluntary agreements between the British industry and the cotton industries of India, Pakistan and Hong Kong limiting imports of low-priced goods provided a particularly favourable opportunity for a complete overhaul of the sector.

6. Discussions between representatives of the industry and of the Government rapidly led to a wide area of agreement on such basic problems as surplus capacity, obsolete equipment and widespread lack of confidence, and on the measures needed to assist the cotton industry in overcoming them.

7. These measures were embodied in the Cotton Industry Act, 1959, which provided for two types of aid to the industry:

- compensation for the elimination of excess capacity under re-organisation schemes;
- grants towards the cost of re-equipment and modernisation

8. Under the schemes dealing with excess capacity, the Government agreed to pay two-thirds of the compensation for scrapping of obsolete equipment, the remaining third to be paid by firms which remained in the industry. The 1959 Act set out the arrangements to be incorporated in the re-organisation schemes for each separate branch of the industry. It empowered the Cotton Board to draw up such schemes in consultation with the industry, and submit them to the Board of Trade for confirmation by Government Order after approval by Parliament. Acceptance of a scheme by the Government was subject to two conditions (1) that the scheme made "adequate provision (in point of time as well as in point of quantity) to the end of eliminating excess capacity" (2) that the industry would itself compensate those who lost their employment in the scrapping process.

9. As regards re-equipment, the Act provided that the Government might make grants of up to 25 per cent of the cost of modernising existing machinery and buying and installing new equipment in the five years following passage of the Act, in any branch of the industry for which a re-organisation scheme had been brought into force.¹

10. In 1959 re-organisation (i.e. scrapping) schemes were prepared and approved for the spinning, doubling and weaving sections. In 1960 similar schemes were approved for yarn processing and the finishing of woven cloth.

11. As the five-year re-organisation period is only just at an end, it is still too early to put forward any opinion on the ultimate effects of the Act on the re-organisation of the cotton industry. Nevertheless it is possible to give some idea of the effects so far produced by the assistance granted under the Act.

12. The scrapping schemes, in which the Government share of compensation has totalled some £11.2 million, have eliminated from one-fifth to one-half of capacity in the various branches.

¹This assistance did not cover construction of premises, purchase of vehicles, normal replacements, repairs and maintenance of equipment, or purchase of second-hand equipment.

SCRAPPING OF CAPACITY AND COMPENSATION PAID
UNDER RE-ORGANISATION SCHEMES AS AT 31 DECEMBER, 1964

	Spinning 1,000 mules equivalent spindles	Doubling 1,000 spindles	Weaving Looms	Finishing (yarn processing) million imperial lbs.	Finishing (woven cloth) million linear yards
Installed capacity at 24.4.59	25,345	1,609	259,244	126	2,672
Capacity scrapped under Re-organization Schemes	12,256	544	99,337	33	564
Percentage of capacity scrapped	48.4%	33.8%	38.3%	26.3%	21.1%
Total Government compensation paid	£ 5,919,015	£ 258,245	£ 4,239,459		£ 958,909

The numbers of machines installed in October 1964, showed the following reductions compared with the situation at the end of the scrapping schemes (December 1961):

Spinning	.....	.....	.....	3 million ring equivalent spindles
Doubling	.....	.....	.....	200,000 spindles
Weaving	.....	.....	.....	20,000 looms

These changes take account of reductions by scrapping and disposal and of some increases through re-equipment and new installations.

13. Results of the modernisation and re-equipment phase are less easy to measure, since the last date for installing new equipment or modernising existing plant was only a few months ago (July 1964). It has however been calculated that, during the five-year period 1959-1964, the total expenditure by firms for machinery and plant eligible for grants was about £57 million, of which the Government's share will represent one quarter. The following Table summarises the re-equipment position at the end of 1964:

APPLICATIONS AND CLAIMS FOR RE-EQUIPMENT GRANTS

Unit: £'000

	Applications received as at 25.12.64	Claims received as at 25.12.64	Claims paid as at 31.12.64
Spinning	51,468	23,882	17,509
Doubling	2,837	1,198	795
Weaving	42,536	20,217	15,539
Finishing (yarn processing)	1,748	1,024	559
Finishing (woven cloth)	16,478	7,578	3,733
Total value	115,067	53,899	38,135
Government's share	28,767	13,477	9,534

14. While only about half the re-equipment schemes for which approval in principle was given have in fact been carried out, actual expenditure over the period has increased, as follows:

INVESTMENT IN COTTON TEXTILE PLANT AND MACHINERY

		£ million
1958	14.2	
1959	16.6	
1960	20.6	
1961	25.5	
1962	23.9	

15. As regards the overall effects of the 1959 Act the following substantial improvements have been noted:

- (a) Whereas total spindleage fell by 65.2 per cent between 1958 and 1963, yarn production decreased by only 28.6 per cent over the same period. Mule spindles now represent only 12 per cent of total spinning capacity. The percentage of automatic looms has increased from 19 per cent before and 28 per cent immediately after the scrapping phase of the Re-organisation Scheme to 37 per cent today.
- (b) Thirty eight per cent of the spinning spindles are running on two or three shifts, compared with 5 per cent before the Re-organisation Scheme. The corresponding figures for looms on two or three shifts are 39 per cent and 20 per cent respectively. About half of the yarn spun on the cotton system and about 60 per cent of the cloth woven in the industry is produced on machinery working two or three shifts.
- (c) Since the Re-organisation Scheme, output per head has increased by something of the order of 20 per cent on average, despite a shorter working week. The most efficient firms are now within sight of United States' levels of productivity.
- (d) A large number of amalgamations have taken place in the last year or so, leading to increased vertical organisation. The man-made fibre producers have taken a leading part in this movement, which has continued, and indeed been intensified, since the end of the five-year period.
- (e) In addition to take-overs and mergers of companies, numerous private arrangements for co-operation and co-ordination of production have been made between firms in different sections of the industry.

16. It is therefore clear that the period covered by the 1959 Act has been marked by substantial progress by the British industry and that the stimulus provided by the Act has been largely instrumental in bringing this about. The full effects of this progress have yet to be reflected in comparative international statistics. Nevertheless it has to be recognised that the industry still has considerable leeway to make up in a number of respects, notably in the high proportion of old machinery and the inadequacy of its shift working arrangements. The industry's problems appear however nearer to solution than seemed possible even a few short years ago."

UNITED STATES

"1. The United States submits the following addendum to its reply incorporated in COM.TD/W/6. That reply dealt entirely with the measures for assistance in adjusting to increased imports provided for under the Trade Expansion Act of 1962. This addendum describes other measures of adjustment assistance within the United States which members of the Committee may find of interest in relation to the problems of structural dislocation and the means which are being developed to combat these problems.

2. Over the years a variety of programmes have been developed to aid in the problems resulting from structural dislocations. These programmes have been designed to correct problems in the locales where they occur when this seems possible and desirable, and also to help in the relocation of industry and individuals when this approach seems more feasible.

(a) The Area Redevelopment Act. This was designed to help depressed areas diversify and rebuild their economic bases. To do this, the Area Redevelopment Act provides loans to help new enterprises get started or help existing firms expand. It makes loans and grants to aid in financing new public facilities, such as sewer systems and access roads, which communities must have to attract or support new or expanding industries. It gives technical assistance in planning programmes of job-generating economic opportunities. A new Public Works and Economic Development Act which expands the scope of the Area Redevelopment Act which is due to expire 30 June has now passed the United States Senate and is being considered by the House of Representatives. The new law provides direct and supplemental grants for, and loans to assist in, financing public works and development facilities. It provides industrial and commercial loans to purchase and develop land and facilities, and will provide for guarantees of working capital loans made in connexion with loan projects. It will subsidize the interest payments of companies who get loans from non-government sources to relocate within redevelopment areas. An Economic Development Revolving Fund in the United States Treasury will keep receipts from these programmes flowing back to provide further financial assistance for such activities. The new Act also provides for technical assistance funds, and for grants for planning and administrative expenses. There will be multi-State economic development plans, prepared with Federal technical assistance, and with Federal financial assistance in amounts varying from 50 per cent to 100 per cent of the cost. For all these activities, the Senate has voted \$660 million.

(b) The Rural Loan Programme. Since 1935 the Farmers Home Administration and predecessor agencies have maintained a programme of supervised credit assistance to family farms threatened by both natural disaster and economic distress. It started by making loans to farms bankrupted by the great depression which helped prevent thousands of foreclosures and revived family farming operations. Services offered under this programme have been broadened over the years, always toward the purpose of preserving independent rural family life.

During the past thirty years, loans enabling family farmers to equip, improve, operate, and buy their farms totalled \$7.6 billion. (Some \$5.8 billion has been repaid with interest, representing more than 99 per cent of payments due.)

Along with loans, the Farmers Home Administration gives its borrowers technical assistance, which may include guidance in diversifying farm products so as to liberate the farmer from over-dependence on traditional crops no longer profitable. This has been exemplified on a massive scale in the southern United States. In helping to dissolve the grip of a "cotton economy" on the South and create a more balanced economy based on cotton and livestock, the Farmers Home Administration has financed the entry of many distressed cotton farmers into livestock production.

Today, the agency is insuring private loans, or making direct loans, both in small towns and the open countryside, for large-scale improvements such as modern housing and water distribution systems.

In the past fiscal year, programmes of the Farmers Home Administration reached directly 1.5 million people, with loans totalling \$800 at \$3.7 billion. In prospect for the coming year is a 50 per cent expansion of this effort by authorization of Congress.

(c) The Small Business Administration. This agency was established to aid, counsel, assist, and protect the interests of small business concerns, and to make loans to small businesses and to State and local development companies. In connexion with these activities, the Administration (a) provides financial counselling; (b) lends funds to small business concerns or groups of such concerns to finance plant construction, conversion or expansion, or to finance the acquisition of equipment, facilities, machinery, supplies, or materials, and to supply such concerns with working capital; (c) helps groups of small business concerns obtain the benefits of research and development.

In addition, it arranges for government procurement agencies to set aside for small businesses the whole or parts of government contracts, and it encourages the letting of sub-contracts by government prime contractors to small businesses. Also, it enters into government prime contracts, and sublets their performance to small businesses. It assists small business firms to obtain government contracts for research and development.

In co-operation with the Area Redevelopment Administration, it furnishes technical guidance to redevelopment areas in the preparation of over-all economic development programme and co-operates in a loan programme to Area Redevelopment Act applicants. It licenses and regulates small business investment companies to stimulate the flow of private capital to small businesses. It lends to State and local development companies to stimulate the flow of capital for the financing of operations, growth, expansion, and modernization of small business concerns.

In 1962 and again in 1963, for example, the Small Business Administration approved loans for more than \$300 million to businesses directly, and in 1964, \$425 million. In addition to this, many more millions have gone into its other programmes.

(d) The Manpower Development and Training Act. Under this Act and its successor act, the Manpower Act of 1965, the Government attempts to determine in what occupations there are existing or foreseeable shortages of workers for which people should be trained, what are the benefits and problems arising from automation and other technological changes and how these changes affect the jobs of workers, how to tell in advance what effect certain changes will have on workers' jobs, what interferes with and what facilitates job mobility. It then develops and makes available information about skill requirements, occupational outlook, job opportunities, labour supply in various skills, and employment trends.

The actual and potential impact of imports from all sources, but particularly those from the less-developed countries, is an important element in the determination of the industries for which workers should - or should not - be trained.

The Government, in furtherance of this, has established a programme of institutional and on-the-job training to prepare workers for job opportunities that have been found through labour market surveys and through other means such as the research programme. In addition, there is a programme of supplemental basic education - training for those workers who, because of inadequate education, could not otherwise qualify for or benefit from occupational training. Also, there is an extensive youth training programme, and there are projects to develop new techniques for training unemployed workers with especially difficult employment problems.

These training programmes are paid for by combinations of Federal and State payments, at no cost to the trainees. In addition, allowances to trainees have been established to make it financially possible for such persons to accept training.

In all, about 320,000 persons have been trained since the passage of the Manpower Development and Training Act, in a total of 6,667 training projects.

(e) The Office of Economic Opportunity (Anti-Poverty Programme). Under the Act establishing the Office of Economic Opportunity, there is a wide variety of programmes, generally aimed at directing individuals into areas where there is an existing or anticipated need for their services and educating them to meet the need.

(1) The Job Corps. A programme of remedial education and job training for young men and women, sixteen through twenty-one years old, provided in rural conservation and urban training centres.

(2) The Neighbourhood Youth Corps. A programme to provide full or part-time experience and training for youths, sixteen through twenty-one, to enable them to stay in or return to school, or to increase their employability.

This programme places young men and women in newly created jobs in hospitals, settlement houses, schools, libraries, courts, parks and playgrounds.

(3) Work Experience Programme. Projects to help needy persons, particularly unemployed parents with dependent children, gain constructive work experience and training. Included are basic literacy and vocational training.

In addition, there are several ancillary programmes such as the college work-study programme, the adult basic education programme and the community action programme. These, while not directly labour-market oriented, are intended as supports for those programmes aimed at directing the labour market away from declining areas and into areas of current or potential economic growth.

3. The United States Government has had a continuing programme for more than thirty years that has varied as the exigencies of the times have changed and has been sufficiently flexible to accommodate itself to both current needs and the demands of a changing social and economic structure. Among other facets of the programme that need little or no elaboration are the social insurance programmes that provide unemployment insurance, job counselling and placement for workers affected by unemployment, and retirement and survival benefits for workers and their dependents."

