DECLINE AND ADJUSTMENT: PUBLIC INTERVENTION STRATEGIES IN THE EUROPEAN CLOTHING INDUSTRIES

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The multiple economic shocks which the world witnessed in the early 1970s, left in their wake many European industries exposed to higher levels of international competition than they had experienced traditionally. Developing and industrial countries alike reacted to the rising oil bill and the resulting payments disequilibrium by placing a major emphasis on the need for the external sector to absorb a significant part of the shock and help isolate what for some of them was an already precarious internal social situation. Even as the general economic situation eased after 1975, inflation and unemployment remained abnormally high in most industrial countries. As a result, a major legacy of this difficult decade was a heightened level of government intervention in European industry geared to achieve the twin objectives of preserving employment and maintaining a reasonable external balance.

As they responded to the urgent taks of industrial adjustment and restructuring, governments faced the hard choices of which sectors to protect and which to support; that is, where to be defensive or offensive. Given limited resources and the economic and political costs involved, the determination of broad sectoral strategies seemed a critical first step to the success of any adjustment effort. The intensive international competitive conditions which accelerated since August 1971 required that those sectors where comparative advantage existed or could be developed be supported at the expense of others, and that the process be geared to changing conditions over time. Furthermore, the appropriate policy instruments had to be chosen and applied to each sector worthy of assistance. This required some identification of key competitive strengths and weaknesses among the firms and segments in the sector and an understanding of the impact several policies or programs could have on the firms' behavior and competitiveness.

This article examines the record of governmental intervention in a very mature industry - clothing - in the six major EEC producing countries, over a period roughly covering the entire decade. We will first discuss the relative performance of each national industry in a comparative sense, and then survey the major form of intervention strategies that each government pursued. While no causal links are entirely defensible, the evidence suggest the relative usefulness of different intervention tools and strategies in achieving national objectives. Finally, we conclude with an interpretation of the record which leads to certain specific recommendations for future public policy which may be of interest beyond this particular industry.

I

THE INDUSTRY'S PERFORMANCE

The response of each major clothing producer in Europe to the industry's decline throughout the 1960s and 1970s varied widely. Prior to 1973, most countries in the industrial world limited their intervention to tariff and quota protection through a number of restrictive agreements, and to general programs of industrial and regional development or reconversion which were generally available to all industries. Since 1973, however, the decline in the clothing industry's competitiveness and the concomitant job losses aggravated, while simultaneously the political costs of unemployment rose rapidly. As each nation assessed the gravity of its own circumstances and the available alternatives, their governments responded with a number of direct interventional policies which reflected different industrial and political conditions.

Output and Employment

With the sole exception of the Netherlands, all six major EEC countries experienced

modest growth in clothing production through 1973. In certain countries, notably Belgium, France and Italy, the rate of growth was substantial during this period, as shown in Table 1. The German and British industries also exhibited some growth prior to 1973 although in both cases annual production increases were insufficient to maintain a significant level of growth in employment. Throughout the Community, the 1973-1974 crisis hit the clothing industry very hard, highlighting existing weaknesses and accelerating the tendency toward contraction or consolidation already evident in most countries since the early 1970s.

Output actually declined in real terms in all countries in the post-1973 period. The Netherlands suffered the most dramatic contraction of any clothing industry in Europe. Real output dropped 36.5% in only five years which brought the industry to a level of activity which was less than one-half that of 1963. Elsewhere, the Belgian and German industries also experienced a decline of nearly 15% in the first three years after 1974, while the French and Italian industries, for different reasons discussed below, appeared to have been relatively more succesful in retaining the level of domestic output they had achieved by 1973. In general terms, the post-1973 period saw the level of annual production of clothing in the EEC fall by nearly 9% by 1978. In contrast, production in North America increased by about 5% in the same period, while dropping 11% in Japan. The most impressive change occured in Asia (excluding Japan), where annual production of clothing doubled between 1973 and 1978, followed by less substantial gains in Latin America, the Caribbean and other low-wage cost areas. In total, world clothing production maintained its long term growth rate of between 3 and 4% per annum during the crisis years. Its distribution, however had begun to change dramatically in the course of the decade.

It was, however, the employment issue that motivated most interventionist policies by European governments. Table 2 summarizes the evolution of employment in the clothing industry for all six countries through 1978. Prior to 1973, the fast growing producers, Belgium, France and Italy, had managed to keep

Table 1

Production in the Clothing Industry 1963-1978

(1973 = 100, in constant currency)

Production Indices	Belgium	France	Germany	Italy	Netherlands	UK
1963	58.5	69.1	79.0	55.8 [a]	136.8	87.4
1970	79.5	88.7	99.2	93.5	121.9	88.0
1973	100.0	100.0	100.0	100.0	100.0	100.0
1974	102.1	102.0	93.8	108.6	91.2	107.1
1975	87.6	102.5	89.5	107.5	82.9	101.8
1976	94.6	96.3	90.2	112.5	75.2	95.7
1977 (p)	86.0	99.2	88.2	110.5	65.5	97.7
1978 (p)	86.2	93.5	85.3	96.7	63.5	-
Annual Growth						
1963 -1973	5.5%	3.8%	2.4%	8.7% [a]	-3.1%	1.4%
1973 -1978	-2.9%	-1.3%	-3.1%	-0.7%	-8.7%	-0.6%

[a]Data refer to 1966.

(p)=Data include some preliminary estimates.

Sources: See Appendix A for all sources on statistics and country data.

Table 2

Employment in the Clothing Industry, 1963-1978

(in thousands)

Total Employment	Belgium	France	Germany	Italy	Netherlands	UK
1963	69	289	382	145 [a]	66	380
1970	77	322	374	207	49	333
1973	87	321	355	216	34	333
1976	70	280	276	206	21	291
1977	62	272	265	201	19	297
1978 (p)	59	266	260	-	17	280
Net change in %						
1963-1973	26.1%	11.1%	-7.1%	42.8%[a]	-48.5%	-12.4%
1973-1978	-32.2%	-17.1%	-26.8%	-6.9%[b]	-50.0%	-15.9%

[a]Data refer to 1966.

[b]Data refer to 1973-1977.

(p) = Data include some preliminary estimates.

Sources: See Appendix A.

increases in output well ahead of any productivity gains, thus expanding employment opportunities in the industry. In at least two of these cases, a major cause of the rapid expansion of the sector was foreign investments by clothing firms headquartered in the Netherlands and Germany which sought lower cost manufacturing locations within the EEC. Attracted by lower wage rates and substantial regional incentives, plus the existence of cultural and linguistic affinity in the case of Dutch investments in Flanders, Dutch and German manufacturers responded to the tight labour markets at home by redeploying a portion of their manufacturing operations southwards. This explained in part the rapid decline of employment in Germany and Holland in the early period and the resulting large increase in productivity which accompanied the process of industry rationalization under way in both countries since the mid 1960s. In Britain, on the other hand, no such off-shore displacement took place. Low growth of domestic demand and relatively high productivity gains, together with significant increases in import penetration, contributed to the UK's clothing industry losing 12.4% of its jobs in the decade between 1963 and 1973.

After 1973 the situation in all countries took a dramatic turn for the worse. Employment in Belgium, Germany and the Netherlands, the three countries most seriously affected, dropped by a total of 140,000 workers, or nearly one-third of the combined 1973 employment level. The impact on people and therefore on the political system, however, was not comparable. In Holland, these losses came at the end of a long process of winding down of the clothing industry which had its roots in the rapid industrialization of the country throughout the 1950s and 1960s. The capital-intensive or high-technology sectors which were responsible for this transformation, had provoked large wage increases since 1964 to which labour-intensive industries such as clothing and textiles had had difficulties in adjusting. Those that survived, whether by moving

production to lower-cost areas or by shifting to less price sensitive product lines, were soon to face additional challenges. Some of the large textile firms, led by Nijverdal-ten Cate, grew rapidly through both internal growth and mergers so that, by 1974, the four largest firms accounted for around 75% of Dutch textile production. Downstream, retailers also experienced a rush of mergers so that by 1974, the six largest of them (four central buying organizations and two specialized chainstores) controlled 52% of the retail clothing market. These large retailers triggered an internationalization of price competition between their suppliers which turned out to be disastrous for Dutch manufacturers. Squeezed out between these two powerful oligopolies, the fragmented clothing manufacturers had again difficulties in adapting rapidly to the new competitive conditions and lost a third of their employees within three years, from 1970 to 1973. At the eve of the world recession of 1973-1974, the Dutch clothing industry was already weak and ailing. The stagnation that followed was the proverbial final straw, and during the next three years (1974-1976) the industry lost again another 38% of its employees. Yet, throughout most of this period, alternative jobs existed for female workers in the still growing electronics and chemical industries. Employment in these sectors appeared considerably more secure; the clothing industry was so discredited that "even in regions with a high unemployment rate, the Dutch clothing industry has been forced to attract foreign workers".[1]

Germany's clothing and textile industries also suffered a major contraction after 1973 which greatly surpassed in intensity the gradual process under way since 1963. For the period from 1973 to 1976, however, the number of registered unemployed workers from these two sectors remained relatively low, rising from 13,000 to 31,000 by 1976. This increase of 18,000 in the number of registered

unemployed amounted to only 10.5% of the number of jobs actually lost in both sectors - 79,000 jobs lost in clothing and 93,000 in textiles - during the same period. Later figures showed that from August 1976 to August 1978, registered unemployment in these two sectors remained stable at about 28,500, while an additional 43,000 jobs had disappeared in both industries.[2] Failing a generalized reluctance by textile and clothing workers to register and collect their rightful unemployment benefits, it would seem that the German economy had been able to absorb a large number of these redundant workers into other activities during the past years, thus reinforcing whatever ideological biases German federal authorities had for not intervening excessively on behalf of troubled industries.[3] In contrast, the situation in Belgium was somewhat different over the same time period. From 1973 to 1977, employment in the Belgian clothing industry decreased by 36,000, but the number of registered unemployed clothing workers jumped from 4,550 to 22,800, an increase representing more than one-half total the total job loss figure. The Belgian economy appeared not to have been as successful in absorbing the displaced workers. This fact, together with the high regional concentration of the clothing and textile industries in the Flemish provinces,[4] intensified the pressure for direct intervention in the Belgian industry.

France, Italy and Britain fared somewhat better during the post-1973 period. The lower output losses coincided with a drop in the rate of growth of productivity in both France and Britain from 4.7% and 4.4% respectively, in 1970-1973, to 3.3% and 3.1% per annum after 1974. France was able to withstand this drop in competitiveness partly through the relative lack of price sensitivity in its more differentiated product range. Britain, however, had to take refuge in a rapidly devaluing pound in order to hold the line against international competition, while the Italian industry's ability to sustain employment was to a great extent due to the extensive intervention of the state aimed directly at the safeguard of jobs.

Any such analysis, however, is somewhat suspect given certain peculiarities of the Italian labor market. Social security and other indirect charges in the Italian clothing industry amounted to more than 110% of direct labour costs so that the latter accounted for less than 45% of total compensation. In contrast to Britain, where 87% of the total labour bill was direct labour costs and where personal income tax rates were high, social welfare programmes in Italy were financed by heavy employment taxes. This situation encouraged the creation of a large pool of part-time, non-reported workers whose output was estimated to range from as low as 10% to as high as 30% of total clothing industry production[5]. Their existence also put large pressure on industrialists to remain small and, therefore, avoid unionisation and the resulting higher wage rates. Over 70% of the "official" work force in Italy's clothing industry belonged to one of the three affiliates of the largest national unions. Many firms survived union and cost pressures by subcontracting part of their needs to either non-union shops or directly to groups of more or less organised "home workers" working for less than 40% at the fully-costed, union-negotiated rate.

International Trade and Labour Productivity

Perhaps the most pertinent measure of an industry's performance, and the most readily comparable, is the evolution of its net trade position over time. Trade was anything but free in the clothing industry, although the six countries under study were operating under equivalent rules for most of the period under consideration and certainly since 1973. The extent to which differences in the degree of enforcement of these shared trade rules or in export subsidies and assistance could have affected overall performance is treated in the next section.

The chosen measure for comparison was the degree to which the net international trade position of the industry, relative to the apparent level of domestic consumption, deteriorated or improved during the relevant time horizon. Table 3 summarizes the change in net trade performance for all six countries for 1963-1978. As might be expected from the discussion above, Germany, Belgium and the Netherlands show the most significant losses in international competitiveness over the entire period. The trend had started early in Germany and the Netherlands, but it went much faster and much further in the latter, where imports accounted for 85% of apparent domestic consumption and where the net trade deficit was 153% of domestic production in 1978. In both of these countries, a favoured response of the national industry to the loss of competitiveness was to increase their outward processing activities[6] either in other lower-wage EEC countries or in Eastern Europe and the Mediterranean. Outward processing represented about 16% of total German imports in 1977, or nearly 6% of industry turnover. Foreign value accounted for between 17 and 23% of the final value of these garments processed abroad. The point of view of the German industry was that foreign value added should be limited in any case to 30% of the total product value in order to stop a too rapid expansion of the use of outward processing, and that domestic producers should benefit first from any outward processing regulation. The situation became more complex in 1977 when some EEC countries - France in particular - closed their markets to German goods processed in Eastern Europe. To this end, they employed EEC procedure 115, which enables member countries to isolate their markets from extra-EEC goods which are subject to quantitative restrictions and are imported through other EEC countries[7]. The applicability of procedure 115 to goods only partially processed outside the EEC was a question of serious concern to German industry. Tied to this was the regulation of trade with Eastern Europe other than for outward processing. German producers considered the competition from centrally

Table 3

Trade Performance in the Clothing Industry, 1963-1978

(Net trade in % of domestic apparent consumption, in value)

	Belgium	France	Germany	Italy	Netherlands	UK
Net Trade/Consumption						
1963	6.4%	4.9%[a]	-0.9%[a]	10.5%[b]	n.a.	-2.3%
1970	17.3	5.7	-6.6	12.5	-21.6%	-0.4
1973	10.8	9.5	-12.5	12.8	-31.0	-8.3
1976	-5.2	4.5	-17.3	26.1	-55.2	-8.3
1977	-9.3	5.2	-17.4	34.2	-59.1	-4.4
1978	-11.3	9.7	-16.9	53.2	-60.5	n.a.
Change in Net Trade Performance						
1963-1973	4.8%	4.6%[a]	-11.6%[a]	2.3%[b]	-	-6.0%
1973-1978	-22.1%	0.2%	-4.4%	40.4%	-29.5%	3.9%[c]

[a]Data refer to 1960.

[b]Data refer to 1966.

[c]It measures the change 1973-1977 only. However, the UK trade balance in clothing deteriorated markedly in 1978 after a strong improvement in 1977.

NOTE: The first set of figures represent simply the ratio (X-M)/(P+M-X). The second set consist of the arithmetic change in the level of net trade performance between the indicated years.

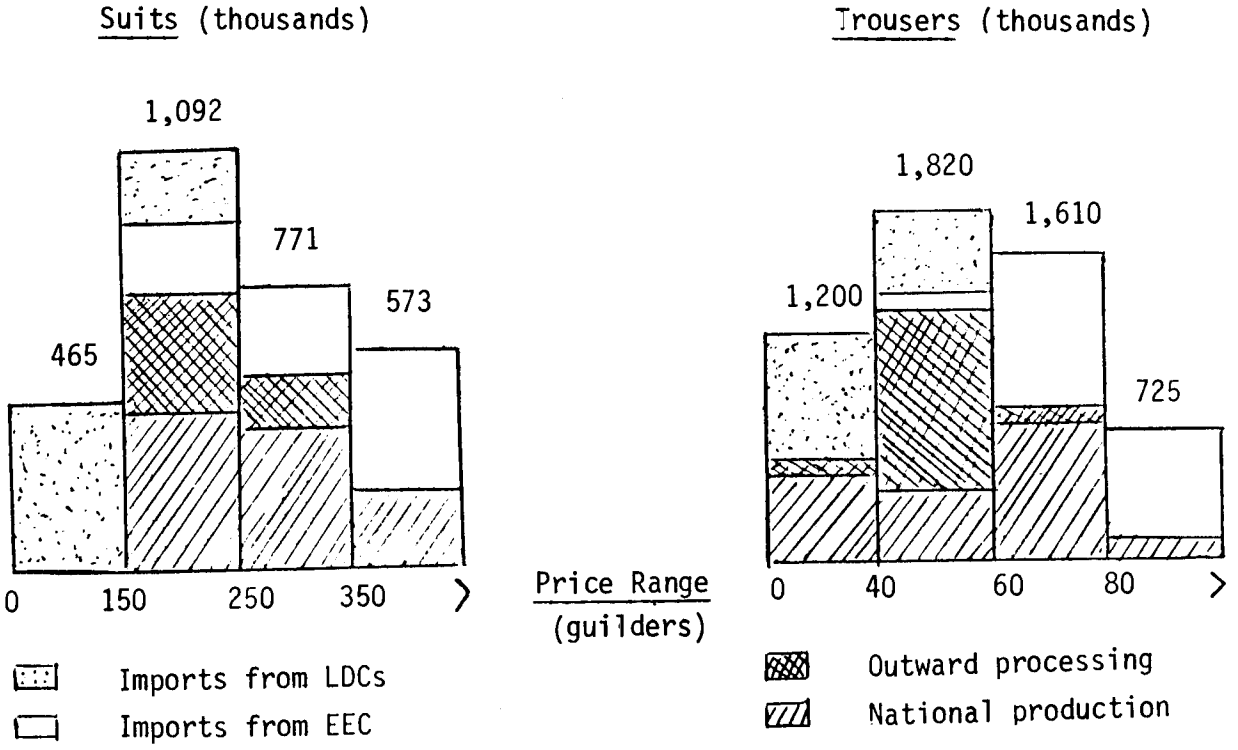
planned economies as "unfair", an issue that was very sensitive within the context of Germany's "Ostpolitik" and whose resolution would be dictated by global political considerations.

Foreign manufacturing and outward processing activites had also played a critical role in the defense of the remaining apparel companies in Holland. As Figure 1 indicates, outward processing production represented a major share of the medium-price categories in items such as men's suits and trousers. While low-wage countries dominated the lower priced segments, outward processing complemented domestic production in the middle segments, allowing Dutch companies to compete with imports from other EEC countries. This was not the case for the higher-priced segment where other EEC producers held the majority of the market. This dramatic internationalisation of clothing production was threatening to completely phase out the clothing industry in the Netherlands. It was estimated that if it were to continue unchecked, a strategy of internationalisation would reduce the level of employment in the country to 4-5,000 workers within the next decade[8].

There were, however, some significant differences in the trade performance of these three countries that relate to the prospects for success of any adjustment programme. The Belgian and Dutch industries had maintained a high export orientation throughout this period of decline. Given their relatively small domestic markets, survival in either case meant a broader market and both industries exported more than 50% of their domestic production, while the figure for Germany was only 14% in 1978. Specialisation had been at work in the Belgian and Dutch clothing industries for over a decade mainly in terms of other relatively high wage countries. As can be seen from Table 4, their trade with the developing (ie. low wage) countries was considerably

Figure 1

Netherlands: Market Share by Price Segment and Product Origin, Men's Suits and Trousers, 1975.



Source: "Herstructuring Nederlandse Confectie-Industrie: deel 1 Herenbovenkleding-Industrie", NEHEM, 1978.

Table 4

Share of Trade in Clothing with Developing (Low-Wage) Countries, 1970-1978

(percentages and millions of dollars)

	Belgium	France	Germany	Italy	Netherlands	UK
Exports (%)						
1970	1.7%	18.5%	5.1%	6.3%	1.4%	13.2%
1978	1.9%	11.7%	4.7%	8.5%	5.8%	22.3%
Imports (%)						
1970	1.9%	7.6%	26.6%	4.8%	7.6%	43.6%
1978	11.9%	25.9%	42.8%	26.6%	19.4%	51.1%
Net Trade ($)						
1970	$ 1.1	$40.2	$(123.5)	$13.2	$(17.3)	$(56.3)
1978	(88.7)	(42.5)	(1252.5)	62.7	(239.7)	(376.6)

Source: See Appendix A.

less important - either in terms of imports or exports - than for the other four countries in the group. Over 93% of Dutch clothing exports and 73% of its imports were with other EEC countries in 1977. The equivalent figures for Belgium were 90% and 73% respectively. German imports, on the other hand, reflected a different type of specialisation with nearly half coming from developing countries. In general, these three countries had proceeded significantly along the path of a natural adjustment process, strongly influenced by trade induced forces and reinforced by the dramatic rise in their respective currencies since 1971.

The British industry's trade performance was slightly better when measured along similar lines. While in deficit since the early 1960s, the net trade position as a percent of domestic consumption had remained fairly stable since 1973. In fact, some improvement was observed in 1977, but this temporary relief soon disappeared with the strengthening of the pound in 1978 and 1979. The distinguishing fact of the British trade position was its large developing country component. Traditional ties with former colonies in Asia resulted in 22.3% of British exports of clothing (more than twice the level of any other EEC country) and 51.6%of its imports being with developing countries.

The two strongest performances were those of France and Italy. The French clothing industry held its ground internationally in the period 1973 to 1978 after two bad years in 1976 and 1977. The twin challenges of low wage imports (up to 26% of total imports) and strong quality competition from German and Italian producers were met by the French industry through a combination of aggressive marketing efforts and a renewed commitment to off-shore processing. Yet, the French government was favouring an EEC quota for outward processing that would balance the initial advantages gained by Dutch and German producers in this direction.

It was the Italian industry, however, that had made the most spectacular gains in trade, both with the high wage countries and with the developing countries with which Italy still had a positive trade balance of $63 million in 1978. While partly influenced by the progressive devaluation of the lira in the mid-1970s, the largest factor in the Italian performance seemed to be the significant shift of Italian production into higher value added, fashion oriented goods. By 1978, Milan was said to be a strong contender as the leading European centre for ready-to-wear women's fashions. This shift was evident in several ways. The ratio of unit export value to unit value of imports had progressed from 0.96 in 1970 to 1.81 in 1975, and was estimated to be about 2.42 in 1978. As Italian fashion houses moved heavily into export markets, the sector experienced a general upward movement as other manufacturers positioned themselves in order to fill the higher price segments vacated by the international houses. The move to higher fashion content together with the relative loss of cost competitiveness was also reflected on the import figures. In 1969, fully 80% of Italy's clothing imports came from other EEC countries By 1973, this ration had declined slightly to 74%, with the rest of Europe and the US supplying an additional 7%. In the next four years, however, as Italian manufacturers regained the top market segments, the proportion of imports coming from high wage (and high fashion) countries fell to less than 55% by 1977.

In total, the six countries in the sample had gone from a collective surplus in their clothing trade of $27.8 million in 1970, to a deficit of $1510.3 million in 1978. This deterioration of trade performance paralleled the decline in output and employment discussed earlier. Yet, there were significant differences between countries which were, in turn, reflected in their responses to the worsening crisis.

Another area of performance that must be considered against this background is the rise in unit labour costs in the industry over the period. Table 5 summarises the estimates based on the best data available[9]. All six countries experienced large increases in wage costs over the period, averaging about 15% annually. Once adjusted for productivity increases, Germany, Holland and Belgium had the lowest increases in per-unit costs, while Italy's was by far the highest. Only after exchange rate changes during the period are taken into account, however, can the real competitive impact of changes in labour costs be appreciated. The UK emerges clearly as the best performer on the strength of reasonable productivity increases and a devalued pound, although a drop in the ratio of value added to output during the period from 49.5% to 40.2% raises some questions about the comparability of UK figures. Yet the improvement in British trade performance in 1977 must be due in part to this relative gain in unit labour costs, just as its deterioration after 1978 is related to the strengthening of the pound. Italy also recuperated in part its competitive edge in labour costs through the drop in value of the lira, while others suffered from the strength of their respective currencies. As Figure 2 demonstrates, the relative cost competitiveness of all the principal European producers did not deviate much at any time from the central rising trend.

Table 5

Cost Performance: Changes in Unit Labour Costs, 1976 over 1970

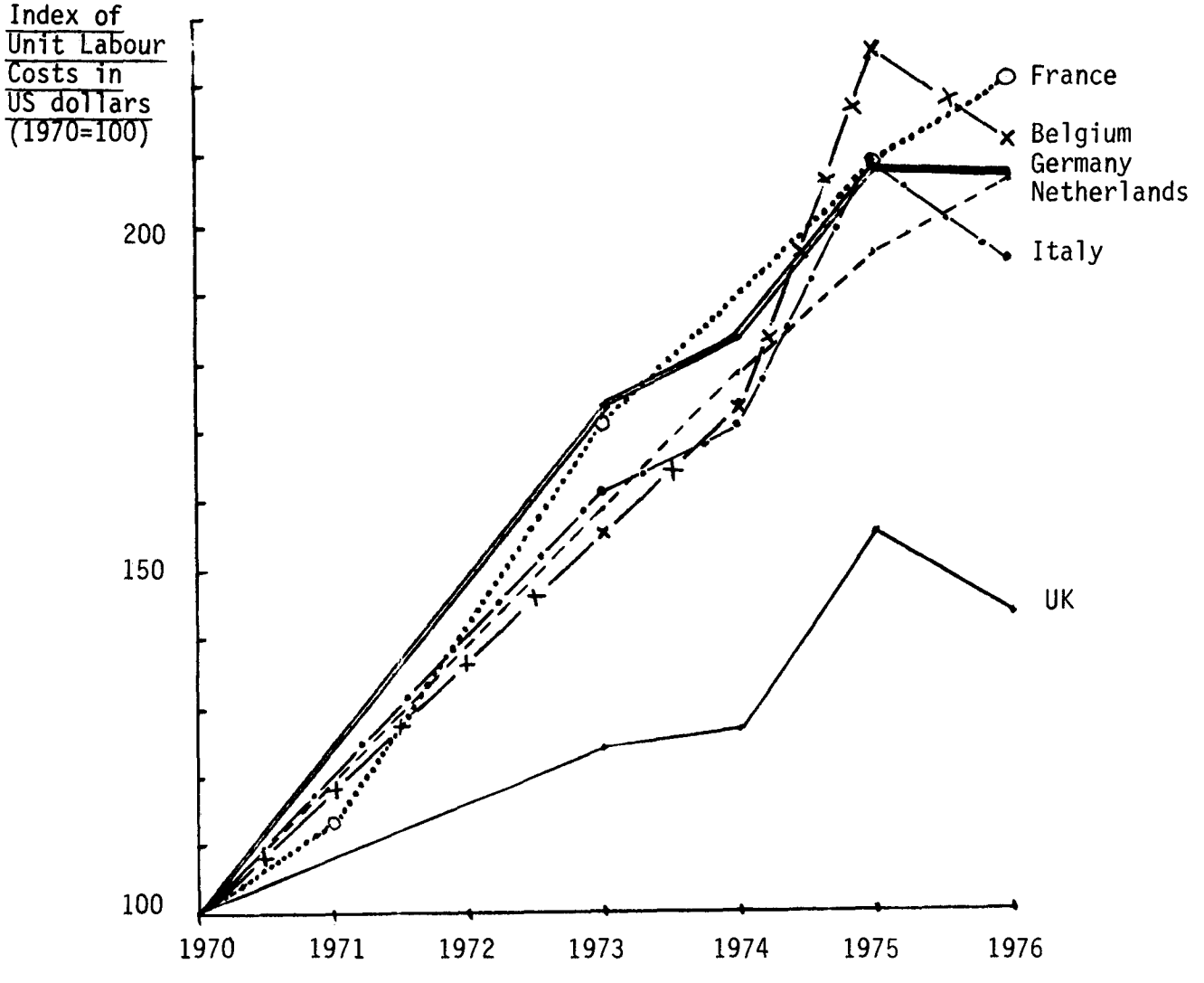
Total Increase	Belgium	France[a]	Germany	Italy	Netherlands	UK
Labor costs in local currency	116.9%	102.1%	75.3%	213.3%	116.7%	136.2%
Output per employee	31.7	20.9	23.2	20.9	45.9	24.5
Unit costs in local currency	64.6	67.2	42.3	159.1	48.5	89.7
Exchange rate in dollars	28.5	15.7	44.8	-24.6	37.1	-24.6
Unit costs in dollars	111.5	93.5	106.7	95.3	103.6	43.1
Annual Increase	13.3%	14.1%	12.8%	11.8%	12.6%	6.2%

[a]All data refer to 1971-1976 period.

Employment, trade and unit costs are not, of course, the only performance measures that one could take into consideration. Style, value added, quality, etc., are all equally important, particularly as the industry in all industrialised countries tends to seek refuge from low-priced import competition in the higher price-quality segments of the market. No systematic comparisons have been attempted here as they would be extremely difficult if not impossible to ascertain in an objective fashion. The individual country analyses[10], however, do point to a few major changes in these factors such as Italy's push in the high fashion women's ready-to-wear market, the loss of certain UK markets to higher style EEC production, and the Belgian industry's attempt to establish greater product identity. The limited scope of this study did not permit a more detailed analysis of these issues, but this should not be interpreted as a judgement of their relative value.

Figure 2

Development of Unit Labour Costs, 1970-1976



Other relevant comparisons, such as concentration ratios and the extent of multi-plant operations, were not possible due to the incompatibility of existing data. A more detailed and rigorous study would be necessary to establish comparable information in most areas of economic performance[11]. For this reason, most of our comparisons were made on the basis of the rates of change of relevant variables within countries, and not in terms of absolute levels between countries. Underlying this approach is the assumption that national series are at least consistent if not comparable, We do not feel, however, that this detracts significantly from the analysis to the extent that we are mainly concerned with governmental responses to changes in economic conditions and with the impact of these changes over time.

The Determinants of Lost Employment

There is no way of clearly relating the numbers of jobs lost in the EEC clothing industries to any specific set of causal factors. Yet the underlying assumptions in most national programs to protect and reconstruct the industry are that the major cause of job losses is the deterioration of international competitiveness (read disruptive import competition) and that the essential means of remedying this situation is to obtain increases in productivity (read higher investment in plant and equipment). Table 6 is the result of an attempt to ascribe approximate causality between the number of jobs lost in each of the six EEC countries studied and three major phenomena occurring during the period: changes in the total level of demand (apparent consumption) for clothing, increases in labour productivity (measured in terms of output per man-year) and changes in the net import penetration of the respective domestic markets.[12]

Table 6

Changes in Demand, Productivity and Trade and Their Impact on Job Losses in the Clothing Industry, 1970-1978 (or -1977).

	Belgium (1970-1978)	France (1970-1978)	Germany (1970-1978)	Italy (1970-1977)	Netherlands (1970-1978)	UK (1970-1977)	TOTAL (1970-1977)
Total Employment ('000)							
1970	77.3	322	374	207	49.4	333	1363
1977/1978	59.0	266	260	201	17.0	297	1116
	-18.3	-56	-114	-6	-32.4	-36	-247
Net change in %	*-23.7%*	*-17.4%*	*-30.5%*	*-2.9%*	*-65.6%*	*-10.8%*	*-18.1%*
Effects on Employment of changes in:							
-Demand ('000)	28.3	5.8	-13.1	-1.6	2.2	52.6	121.7
(%)	*36.6%*	*1.8%*	*-3.5%*	*-0.8%*	*4.5%*	*15.8%*	*8.9%*
-Labour productivity ('000) productivity ('000)	-31.1	-71.0	-69.2	-36.6	-17.5	-75.8	-318.9
(%)	*-40.2%*	*-22.1%*	*-18.5%*	*-17.7%*	*-35.4%*	*-22.8%*	*-23.4%*
-Net trade position ('000)	-15.5	9.2	-31.7	32.3	-17.1	-12.7	-48.1
(%)	*-20.1%*	*2.9%*	*-8.5%*	*15.6%*	*-34.6%*	*-3.8%*	*-3.5%*

Sources: Appendix A.

In attempting to relate lost employment to changes in each industry's environment and competitiveness, we proceeded sequentially as follows. First, the effect of changes in demand were estimated by calculating the jobs that would have been created due to a given increase in apparent consumption over the period <u>if</u> there had been no changes in net import levels or in worker productivity, all in real terms. Thus,

$$\Delta Wd = (D_t - D_o)(\frac{1}{P_o})$$

where ΔWd = change in employment due to demand factors;

D = apparent consumption at time t;

P = output per worker at time t.

Next, we allowed for changes in the level of worker productivity and measured what the job impact of the actual increases in output per worker would be under the assumption that net imports remained constant. Thus,

$$\Delta Wp = (D_t - I_o)(\frac{1}{P_t} - \frac{1}{P_o})$$

where ΔWp = change in employment due to productivity increases;

I = net imports (imports less exports) at time t;

$(D_t - I_o)$ = the necessary level of domestic production in order to satisfy domestic demand at time t given that net imports have been held constant.

Finally, changes in net imports were allowed to reflect actual values and their impact on employment measured as,

$$\Delta Wi = (I_o - I_t)(\frac{1}{P_t}) .$$

On average, productivity increases in the six countries in the period 1970-1977 had a negative impact on employment which was nearly seven times greater than that of increases in net trade penetration. It follows that, even in the absence of any further deterioration of the net import situation after 1970, the clothing industry in these six countries would have experienced a loss of nearly one seventh of its workforce, a total of 197,000 jobs, through increases in labour productivity that were only partially offset by increases in the level of demand. Only in the case of the Netherlands were imports as large a cause of job losses as increases in efficiency. In fact, in both France and Italy trade made a positive contribution to job creation during this period. For Belgium, Germany and Britain, reduced levels of international competitiveness were not responsible for more than 20% of the aggregate job loss in any case.

These numbers are, of course, only approximate. They do not consider explicitly, for example, the fact that a large proportion of the increase in productivity experienced during the period must have been induced to a large extent by the heightened competitive pressures resulting from imports. Nor are they totally accurate in that changes in the level of inventories have not been incorporated into the analysis for lack of comparative data. Also, the evolution of total demand varies widely from country to country and better insights are needed into the causes for these variations (eg. the reduction of foreign workers in Germany) before broad generalisations can be made with confidence. Two things remain clear from this rough approximation. First, with the sole exception of the Netherlands, net import penetration has not been the main direct cause of job losses among the various European industries. While imports rose in some cases both absolutely and relatively, some countries expanded their exports as fast or faster in the context of a strategy of product specialisation, others reacted by significant improvements

in their productivity which had much more serious impact on employment than had the increased imports. Second, the often prescribed remedy for all declining sectors that they must achieve higher productivity may enhance the industry's international competitiveness, but it will not add to the employment rolls in such mature industries characterised by low income elasticity of demand. The solution to the employment problem must lie elsewhere in the economy, or in other branches of industry.

II

PUBLIC INTERVENTION STRATEGIES

Notwithstanding this analysis, the difficulties which beset the industry in these six EEC countries throughout the 1970s elicited a common response in terms of a marked increase in the extent and level of trade protection. Since 1960, the United States and Europe had been seeking ways to stabilize the flow of imported clothing from low-cost producing countries[13]. Various agreements concluded in the 1960s were aimed first at regulating trade in cotton textiles. When these proved inadequate to restrain the growing international trade in man-made fibre products a new agreement was sought that would cover all textile products. By the end of 1973, the provisions of the first Multi-Fibre Agreement (MFA) were in place and fifty countries signed it within the following year. Conceived as a regulatory vehicle to balance the opposite objectives of avoiding market disruption in the importing countries while providing an opportunity for less developed countries to develop their exports, the agreement benefitted from the favourable economic conditions which prevailed in the years prior

to its signing. The MFA allowed for non-negligible increases (over 6% per annum) in textile imports from developing countries at a time when consumption in the importing countries was stagnating and unemployment rising fast.

By 1977, when discussions on the MFA's renewal were underway, the EEC Commission claimed that its member countries had lost 430,000 jobs in the textile and clothing industries while the agreement was in force[14]. The hardened positions of most importers resulted in protracted negotiations the outcome of which was a second more comprehensive and restrictive agreement[15]. The 1977 MFA classified textile goods in five groups depending on the level of sensitivity of developed country markets to imports of each particular product category. Specific quotas were negotiated for imports of the most sensitive products for all the main importing countries, ranging from four to about forty products depending on the exporting country. Imports of these products, representing more than one half of EEC imports of textile products, were nearly frozen, with only a 0.2% increase permitted per annum. For products not subject to specific quotas, an import threshold was established in each case and for each exporter which, once reached, might trigger a consultation procedure originating from the importing country and aimed at establishing a quota.

The enormous complexity of these regulations were further aggravated by the fact of their being in a constant state of flux. Yet, while having the potential of providing significant protection to their respective domestic industries, each country was free to implement the agreements with whatever degree of zeal suited it best. Basket provisions, complaint and recourse procedures, escape clause actions and the like could be

undertaken with widely varying speed and effectiveness, providing each government in effect with a powerful policy tool to be employed at will. Given the rapid decline of the industry after 1974, most countries were under pressure to make maximum use of its restrictive provisions and some did precisely that. The important fact was that in spite of a common framework regulating trade with the outside world, any EEC country retained considerable flexibility to use the mechanism of the MFA to further its industrial policy aims.

Relief or Restructuring

Most European governments did not content themselves, however, with providing protection to their clothing and textile industries. Partly because the MFA implied a temporary arrangement which would eventually (no one would say when) be phased out, and partly because of a really felt need to facilitate the adjustment process, direct intervention into the affairs of the industry were more the rule than the exception, particularly after 1974. In analyzing these assistance schemes, one should distinguish in terms of their scope and their objectives.

Programmes of industrial assistance could be conceived at three levels in terms of the focus of their application. General industrial development laws or their equivalent had been instituted in practically all European countries since the mid-1940s as part of the effort for reconstruction. Whether part of a national planning effort as in France, or contained in the European Recovery Programme loans as in Germany, these non-discriminatory programmes were aimed at facilitating capital formation, developing the necessary infrastructure, fomenting research and development efforts and encouraging the training and professional formation of the labour force.

Of a more recent vintage, but also generally available to all sectors of industry, were the regional development schemes that multiplied in Europe since the early 1960s. With income distribution as their principal objective, these programmes often combined the same type of incentives as the general schemes as extra compensation for the higher costs associated with locating in the periphery of Europe's main industrial centres. Finally, there have been a number of more recent efforts to design sectoral programmes tailor-made to the needs of specific industries, eg. shipbuilding, steel or aerospace, justified on the basis of either a "crisis" industry or "the national interest".

A different classification of government intervention schemes can be obtained according to whether their main objectives were to develop industry (as in the first instance above), provide relief in times of crisis, or promote long-term restructuring. Relief assistance consists primarily of short-term programmes brought about by strong political pressures. It normally takes the form of employment subsidies or direct rescue of bankrupt firms by state-owned holdings. The main purpose of this type of assistance is to preserve employment in the sector, and is typically granted without too much consideration, if any, of the viability of the specific market segment nor the competitiveness of the companies assisted. The rationale behind this type of intervention is purely socio-political, although it may be argued on the basis that it provides to firms in difficulty the breathing space necessary to adjust to new competitive conditions. Once this type of assistance has been introduced, however, it has proven difficult to suppress, as industry quickly develops a taste for the umbrella it provides.

Restructuring assistance designates here all the different schemes for improving productivity, management, research and development, marketing and exports, etc., aimed at achieving long-term industrial adjustment. Under this rubric, one finds a wide variety of programmes. Investment assistance is a basic element of such schemes, and the one typically introduced first. The range of financial assistance programmes aimed at promoting investment is relatively easy to establish and requires little monitoring compared to more specific or selective schemes, hence their universal popularity. However, their efficiency in fostering successful adjustment depends on the extent to which productivity is the critical problem and investments in hardware the main tool with which to achieve it.

The history of public intervention in the clothing industries of all six countries in the study is summarised in Table 7. Prior to the mid-1970s, with the exception of Italy, intervention was confined for the most part to governmental support for industrial development programmes of a general nature and to orderly marketing agreements in international trade such as the LTA and MFA. The high unemployment which followed the 1974 crisis resulted in more extensive intervention. The relative ineffectiveness of general programmes in dealing with the underlying problems of the industry soon became evident and more elaborate and selective schemes began to appear in most countries. Their key characteristics were a diversification of assistance to include R&D, marketing and exports, and a link between investment, assistance and restructuring plans. In other words, the scope of intervention was moving from the general to the regional and to the sectoral, while the aims of intervention were evolving from being developmental to providing relief and then to facilitating a more permanent solution through restructuring[16].

Table 7

Historical Development of Public Intervention in the Clothing Industry

	Italy	Belgium	France	UK	Germany	Netherlands
■ Low Intervention:						
• Employment peak-year	*	1973	1971	1960	1966 (73%)	1964
■ High Intervention:						
• Financial assistance to preserve employment (year)	1969	1975		1974		1975
Trigger level (% of peak employment)	(rising employ.)	(87%)		(84%)		(34%)
• Comprehensive or new strategy (year)	1978-79	1977	mid-70s	1977-78		1976-77
- Productivity - Marketing - Ind. Structure	Sistema Moda Projetto Tessile	Plan de sauvegarde	CETIH + Gvt Consensus	Clothing Industry Scheme CIPRA		Kaderregeling Aktieplan
Trigger level (% of peak employment)	(90%)	(70%)	(90%)	(79%)		(31%)

* Peak employment in Italy is not achieved until after high intervention levels begin, that is, in 1974.

This change in the nature of public intervention in the industry implied that governments would have to play a more active and discriminating role as economic agents relative to the more impartial role of distributor of subsidies which they had assumed thus far. To cope with these new responsibilities new structures were needed, and the post-1975 period witnessed a multiplication of new governmental, tri-partite or government-funded bodies in charge of different aspects of these new programmes. Four basic models of public intervention strategies may be useful in understanding this evolution[17].

The Market Model

Throughout the 1960s, most governments relied on relatively free market forces (subject, of course, to quantitative restrictions on certain imports) to promote adjustment in the clothing industry. The prevailing growth levels meant that most displaced workers could find alternative employment opportunities and the industry was left to fend for itself. Only Germany has maintained this position in the face of dramatic contraction of her industry, although Holland let employment in the clothing sector shrink by two-thirds before taking direct remedial measures.

The relative resistance of Germany and the Netherlands to intervention may be due to certain common traits. In both countries, for example, there was a strong industrial base which allowed them to recycle large numbers of redundant clothing workers into other branches of industry, at least until the general employment situation deteriorated badly in 1975. Also, being highly export dependent, they feared the spread of protectionist feelings among their trading partners. Since they had two of the strongest currencies

in the EEC, they must have concluded that they had much to gain by not reverting to beggar-thy-neighbour policies.

The reaction of industry to such relatively open conditions has been studied in both Germany[18] and the United States[19]. Successful adjustment at the firm level required above all a commitment to market trends and to specialisation in the higher fashion end of the market in terms of both quality and product differentiation. This also implied a major commitment by manufacturers to provide retail clients with a range and quality of services which were in every way superior (except in price) to those offered by foreign producers. Second, adjustment also involved an effort to increase labour productivity through investment and to reduce costs by better organisation of the manufacturing and logistic processes. Finally, as Dutch and German firms have done extensively, adjustment called for the transfer abroad of those product lines or manufacturing processes most vulnerable to competition or least amenable to mechanisation. The growth of outward processing traffic and associated investments by these firms attest to the attractiveness of this response.

The results have been a rapid contraction of the industry in both countries, greater specialisation and the emergence of a small core of strong, highly international firms. Whether the adjustment has been successful at the aggregate level, our limited analysis can only point to the evidence of worker absorbtion by other activities in both countries[20]. It is a fact, however, that the resulting job losses eventually became intolerable to the Dutch government. The energetic intervention that followed had the effect of placing the Netherlands at the head of all EEC countries in terms of the financial costs of intervention.

The Job Preservation Model

One by one, in the midst of economic recession, balance-of-payments difficulties and rising unemployment, four of the six EEC countries abandoned their market-oriented "neglect" of the clothing industry and switched to active policies of job preservation. The rationale in all cases was that unusual times required unusual remedies and that, given enough time, the industry could undertake the necessary efforts to restructure itself along more competitive lines. As the crisis deepened and results were not forthcoming, temporary job measures took on a more permanent character.

In Belgium, job support grants of interest free loans were offered as a "one time" emergency measure for 1975; a second and similar package was proposed a year later. In Holland, the collapse of the domestic industry in a process of market internationalisation and off-shore production led to massive intervention to support existing jobs on a scale which was impressive by any standards. But in terms of the size and duration of job support schemes, Italy and Britain clearly led the field within the EEC. Italy, for one, began its public takeovers in the late 1960s and public control was eventually extended to more than 10% of total employment by 1977. In that year, Italian state holdings in the industry suffered losses of $65 million, or about $3500 per employee. In Britain, the Temporary Employment Subsidies became the mainstay for her textile and clothing industries. Nearly half of all TES applications received through July 1978 came from these sectors, and payments to them under the job support scheme totalled more than £100 million in its first three years of operation. As in Italy, it was difficult to envision the rapid phasing out of any of these schemes even in the face of strong pressure from the competition authorities at the EEC[21].

It is more problematic in this case to find common traits among the countries which followed this policy. Surely, to some extent they represented weaker governments, in Italy and Britain and to a lesser degree in Belgium and Holland. The successive British governments in 1973-1976 were not in a secure position to take strong measures in such a high employment industry. Political difficulties in Italy coupled with problems of regional disequilibrium made a strong case for intervention in the interest of stability and equality. Belgium's deep cultural split and the industry's predominance in the Flemish side called for political wariness with regards to any decision having an impact on employment. Holland's case was simply one of too much, too quickly, and at a wrong time. But below these surface similarities lie the significant differences in performance, strength and industry characteristics discussed earlier.

On balance, the strategies of job preservation have proved to be extremely costly and ineffective in maintaining employment, without adding the probable negative effect they may have on other healthy segments of industry. As Table 8 shows, Holland, Britain and Italy have spent significant sums on a per capita basis for nothing other than direct subsidies to employment. Yet in most cases employment continued to drop after these programmes were initiated, and often at faster rates than previously[22]. Also, there was no incentive for rationalisation or restructuring in these programmes. In fact, the Italian private industry claimed that the existence of state-supported companies made their task much more difficult since they had to compete not only with imported products but also with heavily subsidised national ones. Whatever the outcome, it seemed clear that the levels of expenditure committed to this approach could not be sustained indefinitely, and that the EEC's continuing pressure for their elimination might in fact provide

reluctant states such as Britain with a partial excuse to free themselves from such onerous responsibilities.

Table 8

Average Yearly Financial Subsidies Per Worker, 1975-1977[a]
(in current dollars)

	Belgium	France	Germany	Italy	Netherlands	UK
1. Employment:						
• Assistance	$40[b]	-	-	-	$200[c]	$150
• Creation	-	$30	-	-	-	-
2. Investment:						
• Specific	-	-	-	$35	60	30
• General	10	1	$0.5 (Fed.)	4	-	5
• Regional		6	1.5 (Länd.) ?	7	-	15
3. Marketing + Export	-	4	-	7		-
4. R & D	-	0.5	-	1	40	-
5. Specific intervention		4.5		248[d]		
Total	$50	$46.0	$2(?)	$302	$ 300	$ 200

[a] The corresponding figures for Norway and Sweden were $2130 and $2250 per worker respectively.

[b] Discontinued since 1977.

[c] A second program of similar magnitude was planned for 1978.

[d] Represents losses incurred in the nationalized firms (that is, an average of $2,480 per worker for 1975-1977) which accounted for about 10% of clothing industry employment.

The Technology Strategy

France was perhaps unique in that it based its policy towards the clothing industry on increases in productivity that would result from extensive technological research on manufacturing processes in the industry. State involvement in this case was primarily limited to providing the necessary funds to promote research and to taking a hard line in trade

negotiations in order to protect the national market. France took the view that clothing was an "infant industry" in the sense that it had never fully passed through a process of industrialisation and automation. Thus, the prevailing view was that the domestic industry should benefit from certain amount of trade protection to give it time to incorporate the efforts made in R&D before having to confront foreign competition. The main vehicle chosen for this task was a productivity center (CETIH) financed by a special parafiscal levy imposed on domestic industry, government subsidies and industry research contracts. A sample of this philosophy was contained in a 1972 CETIH publication where it claimed that "90% of any productivity gains would probably be the result of improved methods and only 10% might be attributable to plant investments".[23]

Such a strategy was also a kingpin of the British programme for adjustment for the industry operating since 1975. After considerable prodding from industry for an increase in the level of public support for R&D, the tri-partite Clothing Economic Development Committee[24] served as a platform for the creation in 1978 of the Clothing Industry Productivity Resources Agency (CIPRA). The Agency was to be supported from public funds for five years and was to act as a broker for services and a communications centre promoting marketing, product and technical research and innovation.

The results of reliance on a primarily technological model do not appear to have been particularly succesful. Productivity in France did not rise faster than elsewhere, and job losses in 1977-1978 were attracting closer attention. In Britain, it was too early to judge if CIPRA had had any impact. The message was not that technological solutions must be abandoned, but simply that they could not in themselves solve the industry's problems. Technology centres had to be integrated into a broader, all-encompassing strategy that took into account the need for adjustment in marketing and production location as well.

A Restructuring Strategy

To have a deep and long-lasting effect on the industry, public intervention must succeed in changing its structure and improving its competitiveness in ways which are compatible with prevailing market and economic trends. In order to do so, paradoxically, the state must take a more active role in the process. The Dutch government's approach since 1978 provides a good example of this strategy. After its first short-term intervention to protect jobs, the state moved to create a specific tri-partite body to deal with the clothing industry (STRUCON), helped by another tripartite agency (NEHEM) charged with setting and implementing restructuring programmes for industry as a whole. All assistance to the industry, which was significant, was made conditional on corporate adjustment plans which fit NEHEM's global strategy of where the industry should go.

NEHEM first divided the industry into seven main branches and commissioned studies on each. All clothing firms in the Netherlands had been classified, according to the criteria developed by NEHEM, into three categories: "healthy" firms, which employed around 7,000 people and which did not require any assistance; "middle" firms, employing 10 to 12,000 people, which needed assistance to become more competitive and for which an Aktieplan had been especially designed; and "helpless" firms, employing 4 to 5,000 people. This last group of companies could still benefit from hardship subsidies available from an Employment Fund, but the Fund's budget had melted down from 600 million fl. in 1975 to 50 m. fl. in 1978. These helpless firms were not eligible to receive any assistance through the Aktieplan and were destined to be phased out. Provided all efforts directed at the rescuable firms would be successful, these various policies would lead to a stabilisation of employment at a level of 17,000 to 20,000 jobs.

Before any generalisations can be made from the Dutch experience, some important qualifications are necessary:

- such a programme involves above all a recognition that jobs will be lost: fully one-fourth of existing clothing employment in Holland was condemned to disappear according to NEHEM's programmes (the firms employing these people being judged too weak to be rescued). Such a policy, officially formulated by a tripartite body which included trade unionists, must be based on a strong social consensus that few countries can muster. In fact, in the Netherlands, union backing for programmes involving significant lay-offs was still an open issue in late 1979;
- it is far from certain that such an active role by a state agency is possible on a larger scale. Holland had less than 400 firms in the clothing industry in 1977, while France had 4,000 and Britain 6,000. To perform the same tasks in either of these two larger countries would require enormous bureaucratic structures that would render their policy-making process cumbersome and ineffective.

Nevertheless, it became widely accepted by 1978 that assistance, narrowly defined, appears to be detrimental to the evolution of those firms' functions which were located outside the scope of assistance and, as a result, was failing to relieve the basic problems of the sector. Italian public and private institutions made very extensive studies of the clothing and textile sectors (Sistema Moda and Projetto Tessile) in order to recommend a course of action which would take account of all sectoral peculiarities, and build on existing strengths. Belgium, through her Safeguard Plan, also acknowledged the necessity of dealing with the industry's problems from a broader point of view. In fact, the Belgian government had launched a major study of the industry in 1978-1979 with the view of guiding its inter-

vention and the use of adjustment tools that appeared to emulate the Dutch experience. In Britain, the same idea was underlying the creation of CIPRA (the Clothing Industry Productivity Resources Agency), although no thorough study of the industry had been undertaken. Only France and Germany remained outside this new tendency. The latter was still attached to a model of market-induced adjustment, whereas France, if it was defining a new industrial policy in any detail, was doing so without stating it publicly.

Prospects for the Future

As most of these efforts to launch a comprehensive adjustment strategy were of rather recent vintage, their outcome was difficult to predict in late 1979. Job preservation was clearly a bankrupt policy for the industry and the highly structured approach of the Dutch programme could not be widely replicated in other socio-political environments. Furthermore, clothing was just one of many industries suffering from over-capacity, international competition or both. The transformation of traditional bureaucratic structures into agencies filled with entrepreneurial spirit suited to their new mission would be no easy task. Since the alternative of letting market prices play their role was often blocked by fears of social confrontation, the adjustment problem was a critical governmental concern in the post-crisis economic horizon.

Market protection was still the easiest policy to implement and the one which appeared as the least costly solution. The long-term disequilibria brought about by the resulting misallocation of resources was judged to be acceptable when compared to the immediate problems of increasing unemployment. Also, the argument that "infant industry" protection should be provided to enable successful adjustment to be implemented was attractive for its simplicity and

apparent reasonableness. Yet, the evidence of successive agreements, from the bilateral trade agreements of the late 1950s through the two recent MFAs, leads to the conclusion that restrictions on trade will always escalate, becoming more stringent and specific in their control of access to the markets of the industrial countries.

When the 1977 MFA was negotiated, it was agreed that it would be the last of its kind. It is now clear that this will not be the case; that in order to survive at near its present level, the European clothing industry will need another dose of protection from developing country producers[25]. If this is the case, an argument could be made that the reason behing this continuous escalation may be partly endemic to the system. That in fact, expectations about repeated renewals and increased levels of protection in these agreements are self-defeating in terms of removing the incentives for, or providing reasonable opportunity to design and execute, an adjustment programme. If both adjustment and an end to protection are desirable objectives, it might be preferable to negotiate one last MFA in 1981, with a longer duration (maybe 10-12 years), but that is irrevocably committed to an eventual removal of most trade barriers for imports of clothing into the industrialised country markets.

Since 1977, government's attentions has shifted from narrow concern for jobs, to a broader and longer-term view which emphasises market efficiency as well as social concerns. The change in attitudes is nascent in many countries, more developed in others, and difficult to implement in all; yet it is essential for the restoration of a dynamic international economy which can reinforce the process of economic recovery in both the developed and developing worlds. Within a more certain environment, where both protection and assistance are programmed to disappear over a fixed time period, a realistic long-term policy can be implemented for the industry by both firms and states.

Notes:

[1]In any event, foreign workers represented less than 5% of the industry's workforce in the mid 1970s. See Development Research Institute, "Industrial Adjustment in the Netherlands", University of Tilburg, 1975.

[2]Statistical data from the Bundesministerium für Wirtschaft. See, also, Bundesverband Bekleidungsindustrie, "Die Bekleidingsindustrie in der Bundesrepublik Deutschland im Jahre 1977", Köln, 1978.

[3]There are no apparent reasons why clothing and textile workers would behave differently with regards to unemployment compensation than other German workers. While women constituted 82% of the clothing industry workforce and 55% of the textile industry workforce, (vs. 29% for all manufacturing), they were entitled to the same benefits as any other worker as long as they remained actively in the job market. One would have to assume a large propensity for dropping out of the labour market or a disproportionate number of part-time or temporary employees among these workers in order to justify the figures above. Equally, foreign workers accounted for 12% and 19% of the clothing and textile industries' workforce, respectively, which did not compare unfavourably with a figure of 15% for all manufacturing, thus eliminating another possible explanation for the discrepancy between actual job losses and registered unemployed. See Axel D. Neu, "Protection of the German Textile Industry" in W.M. Corden and Gerhard Fels Public Assistance to Industry (London: Macmillan, 1977), pp. 170-171.

[4]Clothing and textile represented 36% of total manufacturing employment in East Flanders and 30% in West Flanders as late as 1976.

[5]The 1971 Census of Manufacturers reported a total of 350,000 employees in the clothing industry. This figure is approximately 65% higher than the figure reported by the Labour Ministry which covers only all firms with more than 50 workers and some of those units employing between 10 and 50 workers. Actual employment is probably much higher. If all non-reported and irregular workers are added to the census figures, plus artisan tailors and other cottage industries, the total labour force may reach as high as 500,000. In this analysis only reported workers and output are used in most calculations as reliable figures for the "black" labour market are impossible to obtain.

[6]Outward processing ("off-shore" manufacturing in the United States) was the industry euphemism for cloth that was typically designed and cut in one location, shipped to a low-wage country for assembly, and re-imported into the home market for distribution and sales.

[7]The table below shows the number of cases involving procedure 115 invoked by different EEC members in 1977 and 1978:

	Benelux	France	Germany	Italy	Ireland	UK	Total
1977	10	20	9	1	3	5	48
1978	42	57	2	9	32	15	157

[8]Development Research Institute, "The Future of the Dutch Clothing Industry", University of Tilburg, 1977.

[9]These estimates are based on aggregate data and suffer from all the shortcomings typical of such calculations. They are presented here only to illustrate the order of magnitude of the figures and not their exact value. Whenever data were available, the possibilities of changes in the product mix and in the ratio of value added to output were analyzed with no significant effects found in either case, except where noted in the text.

[10]For greater detail, see, J. de la Torre and M. Bacchetta, "Decline and Adjustment: European Policies Towards Their Clothing Industries", manuscript, INSEAD, June 1979.

[11]The EEC Commission with the help of the various national industry associations and the European federation have begun to explore the possibility of creating a comparable data bank and information system. As of May 1980, the project was awaiting EEC budget approval.

[12]The figures presented in Table 6 are those covering the most recent year available for each country, and for the 1970-1977 period for all six countries. Comparing the 1970-1977 figures with those available for 1970-1978 no significant differences appear except for the case of France. The extraordinary export surge carried out by the French clothing industry in 1978 ($588 million in net trade vs. $297 million in 1977) meant that a larger proportion of domestic production was diverted abroad with a depressing effect on apparent consumption. The figures for 1977 for the four countries for which 1978 data is available are (in percent of 1970 employment):

	Belgium	France	Germany	Netherlands
Total job losses	-20.2%	-15.5%	-29.1%	-61.5%
Of which:				
-demand	33.9%	12.0%	0.7%	3.7%
-productivity	-35.0	-27.4	-20.5	-29.4
-net trade	-19.0	-0.1	-9.4	-35.8

[13]For a historical perspective on these efforts see, US International Trade Commission, The History and the Current Status of the Multifiber Agreement (Washington DC: US Government Printing Office, January 1978).

[14]In a significant policy statement, the Commission argued that "since 1971, 370,000 workers have left the textile industry and 160,000 have left the clothing trade", and that "the main cause lies in the rapid growth of imports". See Bulletin of the European Communities, No. 7/8, 1977, points 1.5.1-1.5.3.

[15]A detailed account of the events leading to the negotiations on the 1977 Agreement and of each major EEC party's position is given in Chris Farrands, "Textile Diplomacy: The Making and Implementation of European Textile Policy-1974-1978", Journal of Common Market Studies, Vol 13, No. 1 (September 1979), pp.22-39.

[16]For an excellent analysis of the conflict between this evolution and the EEC's policies on competition see J.S. Chard and M.J. Macmillen, "Sectoral Aids and Community Competition Policy: The Case of Textiles", Journal of World Trade Law, Vol. 13, No. 2 (March-April 1979), pp.132-157.

[17]The policies summarised under these four models are described in greater detail in J. de la Torre and M. Bacchetta, "The Uncommon Market: European Policies Towards a Crisis Industry - Clothing in the 1970s", Journal of Common Market Studies, forthcoming.

[18]G. Thornmählen, Die Grossunternehmen der Westdeutschen Textilindustrie im Strukturwandel, doctoral dissertation, University of Hamburg, 1978; and M. Schwarting, "Strategies for Survival: The Example of the Clothing Industry", Intereconomics (January-February 1979), pp. 15-19.

[19]J. de la Torre, M. Jedel et. al., Corporate Response to Import Competition in the US Apparel Industry, (Atlanta, Georgia: Georgia State University, Publishing Services Division, 1978).

[20]A study underway by Geoffrey Shepherd, "Industrial Adjustment and Intervention: Textiles and Clothing in Britain and Germany", draft manuscript, University of Sussex, 31 October 1979, suggests that for Germany the answer is yes. He shows, for example, that "a very large decline in the made-up category is somewhat offset by an improved trade balance in textiles". If the analysis is extended to both man-made fibres and textile machinery, then total trade gains are absolutely positive.

[21]In fact, by the end of 1977, the EEC Commission changed its earlier position on the TES scheme and concluded that its affects were clearly anti-competitive. Eventually, a one-year extension was negotiated for 1978-1979 under severe limiting conditions and the programme phased out from March 1979. See Bulletin of the European Communities No. 1-1978, point 2.1.16, and no. 3-1978, point 2.1.24.

[22]The level of employment support in Norway and Sweden's clothing industries far exceeded any commitments made by the EEC countries. In both countries, in spite of very large grants and subsidies amounting to $2130 and $2250 per worker respectively, on each year for 1975-1977, employment dropped precipitously over the same period. See footnote 10, supra.

[23]CETIH, "Guide de la formation continue dans l'industrie de l'habillement", Paris, 1972.

[24]The main element in the British programme was the Clothing Industry Development Scheme (CIDS) introduced in late 1975, seeking to encourage production rationalization and a greater concentration of activity in more efficient units. Financial assistance was made available for consulting services, new machinery designed to increase productivity and projects involving reorganization. The emphasis was, however, on hardware and production efficiency and not on the potential for adjustment through changes in the firm's product and marketing strategies.

[25]The 1981 MFA was the major topic of discussion at a conference on International Trade in Textiles and Clothing Under the Multi-Fibre Arrangement" sponsored by the Trade Policy Research Centre, London, and held in Brussels on 27-29 May, 1980. At that time, it was evident that the European and US positions were unified in the desirability of extending the present agreement.

APPENDIX A: PRINCIPAL STATISTICAL SOURCES

General

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