
13 Coping with change

Many communities in country Australia are bearing the brunt of structural changes from a range of sources. The capacity of governments to arrest most of these forces is limited, but they can play a role in facilitating adjustment to help people and communities to cope with change. There is already a range of generally available measures to assist people to adjust to change. Where NCP and other sources of change have sharp, regionally concentrated effects, consideration of specific adjustment assistance may be warranted. This could involve difficult implementation issues.

13.1 Introduction

Australia, like all nations, has been, and will continue to be, subject to the effects of changes in the composition of its economic activities and the distribution of its population. The net effects of these changes on communities in country Australia can be readily identified (see, for example, section 1.4). As demonstrated in this report, most of the primary sources of change lie outside the province of government control — for example, fluctuations in world commodity prices, the impact of changing technology (in transport, communications and on farming and mining productivity) and lifestyle changes.

NCP reforms and a range of other government policies, which can bring about beneficial adjustments by promoting regional growth and creating the conditions for increases in real incomes, can be viewed as an overlay on this environment of ongoing change. Nonetheless, it needs to be recognised that NCP is also a source of change which, in some instances, can exacerbate the adverse economic and social consequences of changes in particular regions. The NCC (1998a, p. 4) has observed that ‘a key need is for governments to address mechanisms for dealing with the social effects of change’. With these considerations in mind, the Commission conducted a workshop in May 1999 to explore policy issues associated with structural adjustment (PC 1999g). The matters canvassed in that forum, together with participants’ comments in response to the draft report, have facilitated consideration of the efficacy of adjustment measures.

The aim of this chapter is to explore the adequacy of existing measures in helping communities in country Australia to cope with structural change. Specific issues addressed in the chapter relate to:

- Change and adjustment within the context of the existing social ‘safety net’.
- Rationales for providing additional adjustment assistance.
- When ‘specific’ adjustment assistance might be warranted, and:
 - whether it should be delivered *ex ante* (pre-reform) or *ex post* (after reform);
 - whether it should be available for market-induced and policy-induced sources of change; and
 - the form it might take.
- Some general criteria for ‘appropriate’ adjustment assistance.

Before considering the role of government in facilitating adjustment, it is useful to first look at how people adjust to change against a backdrop of a universally available social ‘safety net’.

13.2 Change and adjustment

Change has always involved people and communities making adjustments. Often this is a relatively smooth process. Where a region is growing, it may undergo large shifts in the composition of its output and employment with few adverse effects — as some activities decline or cease, others grow or new activities emerge. People who lose their jobs in declining activities can be re-employed in growing activities.

In some cases, the loss of employment may be transitory — rationalisation of employment in a government utility may be followed by opportunities with another employer in the same activity. For example, the Tasmanian Women’s Advisory Group, referred to a situation in which:

... previous HEC employees have taken redundancy and are now being employed by competitors who are doing a more efficient job. I think that’s where competition can weed out the people that aren’t performing at maximum. (trans., p. 419)

In these cases, adjustment can occur relatively painlessly, even though some people may need to rely on social security payments during the transition to a new job.

On the other hand, for regions in decline, coping with change can be difficult. In fact, even within growing regions, there will be people who do not have the skills sought by expanding activities. In these cases, retraining is an option. This may be sought through, for example, (part- or full-time) university or TAFE courses, or

through government sponsored training programs. Where employment prospects within a region are bleak, adjustment could involve employment out of the region. This strategy is common for casual agricultural and mine workers who often move between regions in response to fluctuations in production and/or mine closures.

An important adjustment mechanism for displaced workers is the provision of advanced notice and associated retrenchment packages which usually involve payment of accumulated entitlements and redundancy payments. Such packages are not available to all people — for example, farmers and the self-employed. However, retrenchment packages typically come into play when larger employers close or reduce the size of their operations (eg the closure of a mine or restructuring of utilities such as rail and electricity). Telstra award employees, for example, generally have the option of redeployment or a retrenchment package involving 4 weeks' pay for each year's service up to 5 years and three weeks' pay for each year of service thereafter. Workers aged over 50 are offered more generous packages. Telstra packages can amount to 80 weeks' pay.

Often, those with the most substantial redundancy payment tend to be older workers most at risk of not regaining employment, particularly in their home region. However, the La Trobe Shire Council voiced concerns that some former electricity industry workers had used their redundancy payments quickly in the belief, which did not come to fruition, that alternative employment within the region would be readily forthcoming:

All too many of them, in the absence of any good advice, thought, 'Good, we'll pay off the mortgage on the house,' which then promptly dropped in value, and 'we'll buy a four-wheel drive, go for a tour around Australia, and then we'll come back and we'll pick up more work because there has always been an excess supply of work in the La Trobe Valley'. Now, that was simply the history they knew, and it just didn't work out that way and there was nobody to advise them that they should adopt a different strategy. (trans., p. 560)

This example suggests that some form of financial and employment counselling — whether sought privately, or provided by the employer or governments — may have facilitated improved longer-term outcomes.

Other adjustment responses, particularly for rural Australians, can for instance include sub-dividing a farm or, where available, selling off some water entitlement — the ability to trade in water entitlements that arises from the untying of water allocations from land titles under NCP provides such an adjustment mechanism. These strategies can assist people to maintain a presence in a rural community.

However, for some people, future prospects may be uncertain for a range of reasons — such as a lack of alternative job opportunities within the region, language barriers

or an inability to retrain for jobs with better employment prospects. People's capacity to move to areas of greater employment prospects also may be hampered by family and community ties and declining house values in their home region.

For many individuals, transition costs are borne privately, but where people have difficulty in coping with change and their circumstances have reached certain thresholds, the social 'safety net' can assist with income support and retraining.

The social 'safety net'

The 'safety net' is one element of a broader progressive tax/transfer system. The current forms of income support and training assistance are outlined in box 13.1. It is apparent that the 'safety net' aims to provide income support for disadvantaged people in the community, those suffering hardship and as a transitional aid to help people cope during periods of changing employment circumstances. Education and training measures are aimed at increasing people's 'human capital' to help them obtain a new job.

Elements of the 'safety-net' assistance are based on the existence of so-called 'market failures' which can make transitional losses larger and/or of longer duration than they might be without such assistance. For instance, in response to a regional 'shock' (eg the closure of a dominant employer, or the withdrawal of a government agency, in a small town), unemployed people may be reluctant to change locations because they lack information about employment prospects outside their region. Governments (and employers) can help in this situation by providing accurate and up-to-date information about job opportunities, particularly in nearby areas.

Primarily, however, general 'safety net' measures are geared to welfare and income support rather than adjustment mechanisms *per se* (apart from schemes aimed at enabling farmers to leave the industry). The 'safety net' is based on a strong equity underpinning — almost everybody would agree that society should not leave the disadvantaged to fend entirely for themselves.

Although the 'safety net' is now quite extensive in terms of the range of assistance provided, its adequacy, in practice, cannot be taken for granted. For example, the IC, in its report on *The Textiles, Clothing and Footwear Industries* (IC 1997f), noted some weaknesses in employment assistance programs, particularly in relation to language programs for non-English speaking workers. Others also have reported on problems associated with generally available assistance measures in facilitating change — Argy (1998), for instance, has called for better integration of the social security and income tax systems to enhance the effectiveness of the 'safety net'.

Box 13.1 The 'safety net' — income support and training measures

The Commonwealth Department of Family and Community Services (DFCS) is responsible for a range of income support measures delivered through Centrelink. Centrelink is also responsible for delivering support measures from other agencies' programs, such as Agriculture, Fisheries and Forestry – Australia (AFFA).

To cover a wide range of circumstances, the suite of programs includes measures to ensure that people are provided with an adequate standard of living during periods of unemployment and more permanent measures which seek to offset particular social disadvantages. Measures include: the age pension, disability support pension, widow pension, carer allowance, mature age allowance, mature age partner allowance, parenting payment, family allowance, maternity allowance, family tax payment, double orphan pension, child disability allowance, Newstart allowance, youth allowance, Austudy, ABSTUDY, assistance for isolated children scheme, partner allowance, sickness allowance, special benefit, mobility allowance and remote area allowance.

In addition, there are schemes specifically designed to assist people in the rural sector. These include (AFFA, sub. D301):

Exceptional Circumstances Relief Payment: provides income (equivalent to NewStart Allowance) for farmers in a region or industry identified by the Commonwealth as suffering an exceptional downturn in income as the result of a discrete, rare event.

Family Farm Restart Scheme: support for low-income farmers experiencing hardship who are unable to borrow further against their assets. It provides income support and adjustment assistance of up to \$45 000 to farm families.

Retirement assistance for farmers: assistance to low income and pension age farmers living in hardship to exit from farming by 'gifting' their farm to their dependants without affecting access to the age pension. Gifting can include the value of the farm (net of debt) up to \$500 000.

The Department of Education, Training and Youth Affairs is responsible for schemes relating to education, English language courses, apprenticeships, 'jobs pathways' (ie job readiness and job search), professional development and career information.

Sources: DFCS; AFFA.

In its draft report, the Commission asked for participants' comments on the adequacy of the 'safety net'. Very few participants commented on this issue, although the Country Women's Association (CWA) considered that:

Social security payments hardly can compensate for full-time employment and much higher income support. Job placement services cannot place people in positions if work is just not available. Finally, retraining for many persons, particularly those in the older age bracket, is just not viable. (trans., p. 181)

The views of the CWA accurately highlight the situation in some parts of country Australia, but raise broad issues beyond the scope of adjustment assistance. For

example, the fact that income support tends to be set at a lower level than remuneration for employment is a social judgement based on a desire not to diminish the incentive for people to work, while, at the same time, providing adequate income support for people in times of need.

The Commission received little in the way of concerns about the *scope* of generally available assistance measures. Indeed, the ‘safety net’ is intended to address the adverse consequences of change, regardless of whether they derive from a government policy initiative or from factors outside of the control of governments. In terms of policy-induced adjustment pressures, this general approach has the advantages noted below.

- *It treats individuals in similar circumstances equally:* All people adversely affected by changed circumstances, regardless of their location or of the source of change, are treated equally. Were this not the case, those with greater ‘lobbying’ capacity may be able to obtain assistance not available to others in similar circumstances.
- *It addresses the net effects of reform:* As an *ex post*, universally available measure, problems encountered with attempting to address sequentially the effects of various reforms are overcome. For example, some reforms may impose costs on individuals whereas other reforms may provide benefits to those same individuals. Moreover, these costs and benefits may fall in different periods. A single safety net measure can account for the net impact of the varied influences which often can pull in different directions.
- *It can account for unforeseen circumstances:* It may not always be possible to determine *ex ante* all of the winners and losers from a reform. The ‘safety net’ ensures that, subject to an eligibility threshold, all of those adversely affected are supported. This is particularly important where unforeseen circumstances are not manifest until some time after a reform is initiated.
- *It concentrates on those in genuine need:* While it is generally possible to foresee which general group of individuals is most likely to be affected adversely by a particular reform (for example, dairy farmers in the case of deregulation of the dairy industry), there will be some producers within that identified category who will benefit. A ‘safety net’ will cater for the ‘losers’ of the reform. In contrast, a specific industry package could also provide windfall gains to the ‘winners’ who have no need for such assistance.
- *It supports families and individuals rather than a particular industry or activity:* There are risks associated with measures which aim to support particular industries or activities. Typically, they have been shown to be blunt, ineffective and costly instruments which can end up delaying the benefits of reform without helping families and individuals to adjust.

The advantages of a universal and general approach to meeting the needs of people adversely affected by change constitutes a clear in-principle case for continued reliance upon the ‘safety net’. Of course, this assumes that the assistance delivered via the ‘safety net’ is effective in targeting basic needs across all regions. An assessment of the range and magnitude of the benefits contained in generally available assistance measures is beyond the scope of this inquiry. However, it is important to ensure that such programs are performing well in meeting their objectives. To this end, the Commission considers that further study of these measures, with a view to ascertaining their effectiveness, may be required.

RECOMMENDATION 13.1

Governments should rely principally on generally available assistance measures to help people adversely affected by National Competition Policy reforms. The effectiveness of these measures should be kept under review.

The following section examines rationales for other, more extensive, forms of adjustment assistance to help identify those situations in which the in-principle case for reliance on general ‘safety net’ measures may be wanting.

13.3 Rationales for further adjustment assistance

In terms of facilitating adjustment, the generally available ‘safety net’ provides income support to help people cope with unexpected and/or temporarily adverse circumstances. In some situations, it may not be sufficient in helping people adjust to severe and/or concentrated ‘shocks’. In such cases, the judicious use of a well structured adjustment package could be premised on efficiency grounds — for example, where it reduced the severity and duration of the transitional losses associated with reform in a way that did not unduly jeopardise or delay the benefits to the wider community from that reform.

One pragmatic rationale for adjustment assistance is based on the view that community support for reform is more likely to proceed if it is perceived that those who are adversely affected are treated ‘fairly’. Some people, recognising these concerns, have suggested that, in such an environment, reform needs to be secured through the provision of targeted assistance. In the Commission’s view, the provision of assistance as a means to progress politically unpalatable reforms raises serious practical problems — a topic returned to later.

Sometimes, assistance may be promoted as a means of overcoming impediments to adjustment which are caused by governments. As the Industry Commission noted in a report on impediments to regional adjustment:

A related but distinct rationale for adjustment assistance is based not on market failures, but on the existence of impediments to adjustment resulting from other government policies. For example, the need for employers to pay trainees a wage that is higher than warranted by their lack of skill and experience contributes to the under-provision of training (and retraining). Similarly, policy related ‘poverty traps’, which reduce the incentive for less skilled workers to accept employment at going wages (and tax levels), contribute to prolonged unemployment. If nothing can be done about the underlying policies impeding adjustment, new forms of assistance can be a ‘second best’ approach. (IC 1993b, p. 293)

The best solution would be to address government-induced impediments to adjustment directly, but this may not always be possible (at least, in a timely way). In such circumstances, offsetting policies may need to be considered.

Equity, adjustment assistance and compensation

In the main, arguments for additional adjustment assistance generally stem from, and reflect, different perceptions of what constitutes equitable treatment and, hence, what equity criteria should determine for assistance.

For example, the Queensland Farmers’ Federation (QFF) indicated that adjustment assistance should be provided to ‘losers’ from market-induced change:

Change is about winners and losers and I think that what is really needed is a sympathetic and a compassionate response to those who are finding the adjustment process difficult and a very strong sense of partnering. I think another good example is the pork industry that suffered very badly as a result of international market forces ... Now, I will say that the package in the end that was given to the pork industry they might not want to praise it to the roof but with applying some independence I think it was a reasonably fair package. (trans., p. 587)

This approach generally has found less favour than the view that assistance should at least be linked to government-induced adjustment pressures. For example, AFFA considered that adjustment assistance ‘should only be provided where the costs are policy-induced’ (sub. D301, p. 3).

Indeed, a case for compensating the ‘losers’ from adjustment is often associated with reforms which, whilst yielding net benefits to the economy as a whole, involve losses for some members of the community. This is especially relevant in the context of this inquiry, because some activities affected by policy changes can be regionally concentrated — for example, changes to statutory marketing arrangements (eg dairy deregulation) and reforms leading to price increases for irrigation water (see chapters 5 and 7).

The National Farmers' Federation (NFF) considered that competition payments from the Commonwealth to the States and Territories (see chapter 4) should be earmarked as adjustment assistance and paid to those affected.

Everyone talks about adjustment assistance but, as far as the NFF can ascertain, not one dollar has yet flowed to those affected by NCP. These funds have already been appropriated by the state governments to consolidated revenue. Everyone appears to recognise the need to adjust, but where is the money? (trans., p. 843)

However, the Pastoralists and Graziers' Association put a converse position:

... who are the losers? We need to define who they are. I would submit that the growers will be the winners because they will certainly need to apply proper efficient business practices to survive, and in that they are going to win. Those who can't manage in that environment are going to leave the industry. When I see people leaving farming, I always tell them the farm doesn't leave; it's only the people that leave. The farm continues to exist, and its opportunity to produce product which is going to be of benefit to the nation continues to exist. It's just going to be run by somebody else, and not necessarily always by somebody getting bigger and bigger. So the farm and the ability of that farm to produce continues to exist and improve, but we deal with the compensation side, if there is to be one, through the process of social welfare. (trans., p. 69)

In some circumstances, a case for governments to consider compensation appears to be less contentious. This could include the appropriation of private property to build a freeway or certain cases where a government's action reduces asset values — for instance, the adverse consequences for a community in southern Tasmania when a limestone quarry was forced to close because it was subsumed within a heritage listing (IC 1993b). Another case might relate to the introduction of a carbon tax to mitigate greenhouse gas emissions — this would clearly have adverse consequences for coal producing regions, such as the Hunter and Latrobe Valleys.

Another instance might be the 'overnight' deregulation of the taxi industry which could leave owners of taxi plates with a worthless asset. This could suggest a case for some form of compensation or for phased introduction of reforms. Yet, such deregulation would constitute the devaluation of an *artificial* right (eg a taxi licence quota) which has allowed the beneficiaries to extract 'economic rents' for many years. But this issue is complex because, in some cases, those rents may have been appropriated by individuals who have long since moved on, whereas the more recent entrants could stand to lose several hundreds of thousands of dollars. These circumstances are also relevant when, for instance, market milk quotas are capitalised into the value of landholdings.

Difficulties with specific approaches to adjustment assistance

The above section highlights the differing perspectives which arise when attempting to determine an equity rationale for ‘compensation’ — equity, it seems, is very much in the eye of the beholder. It also bears out a tendency for some to promote a case for ‘compensation’ rather than measures to facilitate adjustment. The provision of compensation raises many difficult practical, as well as conceptual, issues (see box 13.2).

Considering the case for specific adjustment measures beyond the ‘safety net’ raises other complex conceptual issues. This is illustrated by the following questions:

- Should adjustment assistance be delivered *ex ante* (that is, to attempt to anticipate the impacts of change) or *ex post* (that is, to address any negative outcomes with more certainty once they have been manifested)?
- Should adjustment assistance be made available for the effects of market-induced sources of change (eg declining commodity prices), policy-induced sources of change (eg legislation reviews leading to the removal of mandated farm gate prices), or both?

These questions do not arise in respect of the ‘safety net’ which encompasses a set of universally available *ex post* measures accessible by all individuals who have difficulty coping with the adverse effects of change, regardless of its source. Conversely, these questions, and others, loom large in the consideration of specific adjustment assistance measures. Special packages raise difficult equity issues by treating individuals facing adjustment pressures differently, depending on the source of the pressure. For example, should farmers who lose income as a result of changes in statutory marketing arrangements be compensated, but not farmers who lose their livelihood as a result of unfavourable global commodity prices?

A serious problem with compensation for policy-induced losses is that *all* government policies can generate winners and losers. Moreover, as there are many sources of change which can impose losses on particular groups or regions, it can be difficult to assess the contribution of different influences in determining whether, and how much compensation might be appropriate. For example, this report has found that many of the influences which are having an adverse impact on country Australia reflect forces beyond the control of governments (such as technological change). The recent introduction of NCP has provided many with an opportunity to attribute these myriad long-term sources of change to government reforms and, accordingly, to call for the provision of adjustment assistance.

Box 13.2 Issues associated with the provision of adjustment assistance

Some consider that when implementing reforms, such as NCP, insufficient attention is given to the trade-off between efficiency and equity which may arise if reforms have possibly large and regressive distributional effects. They consider that 'an attempt should be made to provide rough compensation to those considered relatively poor (eg those in the two lowest quintiles) — provided an efficient method of compensation can be found' (Argy 1998, p. 115). Argy considers that in providing rough 'compensation', beyond the welfare 'safety net', ideally five conditions should be met. These are:

- 1 the losers must be fairly easily identified, so that the benefits are not wasted on unintended 'outsiders' (eg well-off landlords, managers and shareholders);
- 2 the method of compensation needs to be transparent to ensure accountability and, if necessary, regular review;
- 3 the administration costs of the compensation process must be low relative to the total compensation amount;
- 4 the instrument used must not generate too many by-product market distortions (eg high effective marginal tax rates may seriously affect economic performance); and
- 5 the compensation policies should not simply provide passive support but should aim to facilitate labour market adjustment (ie development of the skills and characteristics required for labour market integration). (Argy 1998, p. 115)

While not free of efficiency costs, these are seen generally as small relative to the possibility that the reform may not gain acceptance without compensation. Kasper (1999) has outlined problems with the provision of compensation. These are summarised below.

- if governments compensate for policy actions should they compensate for policy inaction?;
- what is the appropriate time horizon to measure all of the costs and benefits (if possible) of a policy change — months, years?;
- if firms are compensated for profit-reducing reforms, should they also be taxed for profit-enhancing reforms?;
- should compensation apply to all parties equally or exclude affluent shareholders?;
- where should the burden of proof lie in seeking to establish whether a loss arises from a policy induced shift or from structural changes?;
- should compensation be paid if it is evident that losses were brought about with the connivance of the loss-maker?;
- if a region loses a dominant shrinking industry, is this a loss or a potential gain?;
- the economic rationale for compensation will often be replaced by political rationality;
- who is to bear the tax burden of compensation?;
- buying off reform can invite 'noisy' political resistance to reform;
- should compensation be paid for the removal of subsidies and preferment and, if so, should the 'long-suffering victims' of such measures be compensated;
- how will adjustment assistance, conditional on action by recipients, be enforced?;
- compensation imposes high dead-weight costs (eg diversion of effort into lobbying); and
- since the pursuit of handouts typically imposes high compliance costs, is it reasonable that large firms with good access to government will benefit the most?

Sources: Argy (1998) and Kasper (1999).

The QFF, for example, considered that assistance is justified even if pressures for change are only tenuously linked with government reforms. It recommended that:

In rural and regional areas where the impact of NCP reforms *is likely* to exacerbate existing decline, governments provide new initiatives designed to deliver additional assistance which *is tailored* to meet the needs of the community affected. (sub. D258, p. 5, emphasis added)

In essence, even if ‘global forces’ are swamping any NCP reforms, the QFF’s approach would be to target affected regions for assistance. Clearly, the line between measures which aim to facilitate adjustment and measures designed primarily to impede adjustment or to ‘compensate’ for change becomes quite blurred. Indeed, for most participants, no distinction was made between compensation and adjustment assistance *per se*. Hence, for many participants the need for measures to *facilitate* adjustment tended to be of secondary importance.

Governments need to be aware that the prospect of special packages can encourage lobbying for compensation by others in the community. The recent decisions to provide tariff ‘pauses’ for the motor vehicles and the textiles, clothing and footwear industries have promoted pleas for special treatment from other industry sectors. CANEGROWERS submitted that:

The uncertainty about the sugar industry also means that growers become more concerned about other aspects of microeconomic reform. The obvious example here is the abolition of the sugar tariff while maintaining the tariff in other industries. CANEGROWERS believes there is a perception of inconsistency about the reform process and application of NCP principles. (sub. 46, p. 13)

The provision of adjustment assistance above and beyond the general measures contained in the ‘safety net’ raises many difficult issues. For these reasons, assistance tends to be provided universally to individuals based on general criteria relating to a need for income support, job placement and (re)training.

Guidelines for specific adjustment assistance

In terms of this report, which has country Australia as a focus and notwithstanding the difficulties noted above, the Commission considers that there can be circumstances in which a region-specific approach to adjustment may be warranted. This may be the case where a shock occurs rapidly, is large relative to the size of a community and where opportunities for alternative employment are limited.

Whereas the capacity to adjust will be stronger in larger and more diversified communities (chapter 3), it is generally accepted that the capacity to adjust will be more limited in:

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- some specialised country communities housing a dominant activity — for example, a town or region primarily engaged in and reliant upon the fortunes of mining (and mining-related) activity;
 - some small communities — for example, where the closure of, say, a rail depot in a small town has a major impact on its ‘critical mass’;
 - towns or regions which have been subject to a series of adverse shocks — for example, closure of a sawmill operation followed by closure of a cannery.

A large concentrated shock in a particular region could place a severe burden on the local infrastructure used for the delivery of generally available assistance — it is likely that many people will have worked in a single industry and acquired skills which are difficult to transfer. Also, any resultant decline in population may place the community at risk of descending into a self-reinforcing cycle of decline, which it *may* have been possible to alleviate with a structured adjustment package, put in place after the effects of the shock are clear. The Commonwealth Government’s Assistance to Depressed Regions Program is a case in point.

In considering when specific adjustment might be required, AFFA submitted that ‘scale’ (that is, the size of the shock relative to the absorptive capacity of the region) is important. It also saw the main function of assistance as facilitating adjustment rather than simply to ‘compensate’ for change:

... in the event that regions and industries undergo more serious dislocation as a result of NCP reforms, and existing general programmes are found to be unable to deal adequately with dislocation of this scale, AFFA believes that appropriately designed specific assistance should be used. This assistance should be of limited duration and directed specifically at addressing the dislocation — through, for example, easing the adjustment out of an industry, assisting in the reorientation of businesses to deal with the changed circumstances. This assistance could include transitional arrangements, structured in such a way so as to facilitate the speedy adoption of reforms without undue costs. (sub. D301, p. 3)

The Commission considers that assistance should not be used to seek to shelter every town from change. In some instances (eg the exhaustion of a mineral deposit in a small mining town), it may not be possible, or sensible, to try to arrest the decline — only to ease the transition.

FINDING 13.1

There may be a case for specific adjustment assistance packages where a concentrated adjustment shock occurs rapidly and is large relative to the size of a community. The decision to proceed with assistance will be influenced by the (direct and indirect) costs and benefits of an adjustment package tailored to a particular regional change relative to the costs and benefits of relying on general measures.

In proposing circumstances in which a region-specific approach to adjustment may be warranted, the Commission is adopting a position based on its consideration of equity and efficiency criteria. In coming to this position, it has been informed by the views expressed at its recent workshop *on Structural Adjustment, Exploring the Policy Issues* (PC 1999g). A brief summary of the views of ‘experts’ in this field is presented in table 13.1.

Table 13.1 Assistance over and above the tax/transfer system?

Views of speakers and discussants at the Commission’s workshop on adjustment

<i>Participant</i>	<i>Comment</i>
Prof. Wolfgang Kasper, University of NSW	Opposed to special compensation because it is not possible to have the knowledge to measure transient gains and losses in a dynamic economy.
Prof. Cliff Walsh, SA Centre for Economic Studies	No compensation, other than in exceptional circumstances. With the tax/transfer system in place it is not obvious that there should be additional compensation for losers from policy changes — except good regional, education and training programs make coping with change easier.
Malcolm Gray, Analytic Outcomes, Pty Ltd	Community may wish to provide compensation for policy changes where the impact is large and difficult to anticipate; the affected group is poorly placed to deal with the consequences; and those consequences can be clearly associated with the reform.
Fred Argy, Australian National University	Compensation may be warranted where reform has a disproportionately large impact on a particular region which is already disadvantaged; when those hurt are relatively poor; and the reform is a breach with longstanding tradition. It does not follow that all reforms with distributional impacts require compensation.
Elizabeth Savage, University of Sydney	A limited role for compensation. If adjustment and distributional consequences are addressed at the policy design stage, there will be little need to subsequently address adverse welfare impacts.
Prof. Peter Forsyth, Monash University	From an efficiency perspective, there is no reason to compensate as it detracts from the gains from change, but there may be a case for adjustment assistance. From an efficiency and equity standpoint, compensation should be paid if it improves overall economic welfare.
Prof. Glenn Withers, Australian National University	Governments should not reach for compensation per se but look to adjustment assistance. Not convinced of the need for compensation owing to ‘rent seeking’ and other adverse incentives.
Dr Andrew Stoeckel, Centre for International Economics	Impossible to calculate ‘proper’ compensation. Adjustment burdens can be eased through education, retraining and by improving labour market flexibility.
Prof. Peter Saunders, Social Policy Research Centre, University of NSW	Providing compensation for structural reforms is difficult because of problems identifying losers and the basis on which to calculate their loss. If equity as well as efficiency can be demonstrated convincingly, resistance to reform will be reduced.
General discussion (including speakers, discussants and a range of invitees)	There was some agreement among participants that there is no single rule that can be used to determine when to compensate. But many participants suggested that there would be circumstances when providing assistance to facilitate adjustment would be sensible.

Source: PC (1999g).

The table indicates that there is unlikely to be a consensus of opinion about whether adjustment assistance should be provided for the policy-induced consequences of reform, nor is there, as yet, any accepted methodological basis for decision rules on this issue.

The Commission is undertaking further research on the delivery of effective adjustment assistance. This research will further examine, among other issues, the case for selective adjustment assistance, the role of different transitional arrangements and the packaging of reforms.

13.4 Possible forms of specific adjustment assistance

Options for the form of any specific adjustment assistance include:

- tailoring a regional assistance package from the existing menu of Commonwealth, State, Territory and local government measures;
- phased implementation of reforms; and
- specific approaches, including compensation measures.

Tailoring existing mechanisms

A region-specific assistance package could be developed by changing the mix of, or fine tuning, existing Commonwealth and State assistance programs. This may be appropriate for regional communities with special characteristics which can exacerbate adjustment costs. For example, the average age of employees in the rail industry is higher than for other industries. This raises particular issues about the re-employment prospects of some of these employees in the face of reforms to that industry (see box 13.3).

Another example might be a community with a large number of people for whom English is not their native language. This could require a stronger emphasis on English language training as part of an overall adjustment strategy. For example, in February 1992, Nissan announced that it would cease assembly of vehicles in Australia, and subsequently closed its Clayton (Victoria) plant resulting in 2500 redundancies. In cooperation with Nissan and the Federation of Vehicle Industry Unions, through an Enterprise-Based Committee, the (then) Commonwealth Employment Service established an assistance centre at the plant. This centre also coordinated the efforts of government and not-for-profit support agencies to assist those about to be retrenched. Information was produced in several languages suited to the major nationalities at the plant (IC 1997e, pp. 363–75).

Box 13.3 **Labour adjustment in railways**

Railway employees tend to be older males, less mobile than workers in other industries and members of a trade union. Reductions in the size of the labour force have been an ongoing feature of the adjustment in railways. A Bureau of Transport and Communications Economics study (1990) of redeployed and redundant railway workers found that:

- of those workers who accepted a redundancy package, and did not retire from the workforce, 56 per cent found alternative employment;
- 44 per cent remained unemployed after redundancy and two-thirds of these for at least 13 months. Lowly skilled employees accounted for over 56 per cent of the unemployed; and
- 89 per cent of the unemployed workers had not applied for available government retraining schemes.

Source: PC (1999e), appendix H.

Another example of re-packaging existing Commonwealth and State adjustment mechanisms was reported by the Murray Regional Development Board:

... there are subregional or regional-type programs, like West 2000, like Kick Start Sunraysia. So there are regionally-specific programs and the Board acknowledges those and it says that that is the way of the future, that is regionally focused adjustment programs. Take the best out of the generics but then shape something to suit a particular region. That's our approach. (trans., p. 333)

Phased implementation

Where feasible, phasing reforms can ease adjustment pressures by spreading the effects over a longer period. This could involve deferring the introduction of reforms and/or slowing their implementation. This type of approach can be important for reforms which involve the withdrawal of a major employer — such as the closure of a Telstra depot. In these cases, the regional ‘multiplier effect’ from the sudden direct loss of employment could threaten the ‘critical mass’ of the town.

The Commission (and its predecessor organisations) have frequently advocated phased implementation of reform as a means of smoothing the adjustment burden — this is the usual approach adopted for reductions in barrier assistance such as tariffs and quotas. Similarly, in a recent report on private health insurance the Industry Commission recommended changes to community rating based on age of entry.

However, it proposed that the changes only apply to future entrants and that there be a grace period to allow people to join under the old rules.

Of course, slowing the pace of reform, whilst relatively simple in principle, is not costless. By definition, if reform is beneficial, delaying its implementation can reduce the benefits of reform to others (eg users, consumers and taxpayers). Phasing also can carry with it the risk of 'backsliding' where, at the end of the phasing period, further assistance or an extension of the phasing period is sought, typically based on the alleged emergence of new, but unforeseen, circumstances.

Case-specific measures

It is difficult to nominate specific adjustment measures without an appreciation of the individual circumstances of each case. However, *where warranted*, some examples (relevant to the reform of statutory marketing authorities (SMA)) could include:

- assisting the transformation from a statutory marketing arrangement to a grower cooperative through an Australian Competition and Consumer Commission authorisation for the temporary maintenance of potentially anti-competitive practices (see chapter 7);
- facilitating the establishment of a cooperative without statutory powers; and
- providing funds to assist producers to develop new marketing methods, alternative sources of finance and better risk management strategies.

In some circumstances, alternative measures may be warranted. For instance, in an inquiry into statutory marketing arrangements, the IC (1991) reported that, in some cases, attempts to deregulate rural activities had been stymied by disputes over the ownership of assets held by, or invested in, a SMA. In this situation, to facilitate transition to a deregulated environment and to ease the adjustment burden, governments may opt to forgo (wholly or in part) their claims over such assets.

In some cases (eg reform of SMAs or deregulation of taxi plate licences), consideration of compensation can arise where licences and quotas (and also land values where quotas have been capitalised) are devalued by deregulation. Two approaches could be adopted. First, immediate compensation for the reduced value of the asset (conditional on reform proceeding) or, second, gradual and predictable increases in quota (or price deregulation) over time so that values fall gradually. The preferred approach will depend, in part, on whether current or former owners of the asset appropriated the benefits.

Another approach might be to relax zoning regulations that prohibit the subdivision of lands. This can enable farmers to leave the industry in which they are unprofitable or to ease their cash flow problems by selling part of their property.

Box 13.4 NSW Forest Industry Structural Adjustment Package (FISAP)

FISAP offered retrenched workers 'Relocation and Training' (R&T), or if circumstances prevented the worker moving, a 'Special Redundancy Payment' (SRP). The R&T package comprised \$10 000 towards relocation costs, up to \$10 000 deposit on a new house if the worker moved to take up a new job and \$5000 towards training. The majority of recipients were not inclined to relocate and opted for the SRP.

To further promote the advantages of training, programs have been introduced for all workers (eg job seeking, writing and computing skills; farm chemical users certificate; and plant operation). Participants are paid a wage during training (around 8 weeks). Companies employing retrenched workers can claim a wage subsidy of up to \$10 000.

Since December 1995, 258 retrenched workers have been approved for the SRP and 222 workers were approved for the R&T package. TRAIN Group Training Co Ltd has maintained records on 193 recipients of this latter group. The following indicates outcomes.

Region	Retrenched	Relocated
Hunter	58	18
South-east NSW	44	14
North coast	41	8
New England	31	17
Mid-north coast	19	9
TOTAL	193 (100%)	66 (34%)

Sixty eight workers (35 per cent) found employment back in the timber industry. Thirty retrenched workers have gained employment with the National Parks and Wildlife Service (NPWS) as Field Officers. Other employment outcomes include: farming (6 workers), energy (6), building and construction (6), transport (5), councils (4), mining (4), automotive (4), full-time study (4), horse industry (2), retail/wholesale (2) and individuals employed in hotel management, meat, baking, security, electrical trades, accountancy, telecommunications, cotton, carpentry and upholstery.

There are many casual workers awaiting further NPWS positions — as part of the NSW Government's Forest Agreement (October 1998) there may be another 20 field officer positions for retrenched timber workers.

TRAIN note that many who took the redundancy package have been able to find jobs back in the timber industry. However, the Commission considers that it is not possible, on the data provided, to compare outcomes across the two groups. Thus, it is difficult to determine the success, or otherwise of this component of the FISAP.

Source: Bowden (1999).

Governments have also invoked far more wide-sweeping adjustment packages. For example, the New South Wales Government implemented a Forest Industry Structural Adjustment Package comprising three elements — Industry Development Assistance, Business Exit Assistance, and Worker Assistance. Box 13.4 reports on the worker assistance element.

The arguments in support of specific adjustment assistance indicate that, if warranted, it should be provided on a *case-by-case basis*. This means that individual assessments would be required and that the additional assistance provided should address the particular circumstance and be delivered at a state level. Factors which could have a bearing on the form and magnitude of assistance include: the scale of the shock relative to the size of the region — that is, its ability to adjust; whether or not redundancy payments have been made available to employees; the job readiness of those adversely affected (language and other skills); employment prospects within the region; the mix of existing adjustment mechanisms; and so on.

13.5 Managing reform implementation

All of the approaches identified above indicate the need for effective management of reform. Better management can range from more robust, transparent and inclusive reform processes (see chapter 11) through to implementation that takes account of potential adjustment difficulties.

The need for governments to manage adjustment better was stressed by some participants. For example, the Chamber of Commerce and Industry of Western Australia noted:

... it may be more appropriate for governments to respond by implementing programs which smooth the process of structural adjustment arising from the implementation of competitive reforms, a consideration which has perhaps received too little attention in the implementation of competition policy to date, whether in rural or metropolitan Australia. (sub. 183, p. 15)

One example of pragmatic management of reform relates to the CoAG water reforms (see chapter 5). New investment in water infrastructure is subject to certain criteria, such as ensuring that it generates a rate of return on investment, but these conditions do not extend to existing infrastructure. Some jurisdictions have taken the view that old infrastructure is a ‘sunk’ asset which should not be required to make a rate of return on capital (although contributions for maintenance and augmentation are required). This view may be valid in many instances, but in others it is not true to suggest that the sunk asset has no value. However, this approach is

simple and may relieve many existing users from a potentially significant adjustment burden. The information and implementation problems associated with a more ‘pure’ approach also may have been significant. This implementation process can constitute pragmatic management of a reform — allow bygones to be bygones, but new investments will need to be based on sound criteria.

While in this report the Commission has not endeavoured to set out a template for when and what type of adjustment assistance should be provided, it considers that the following approach to reform should be followed.

1. **Consultative processes:** At the outset, it is important to ensure that NCP processes are working effectively. That is, where reform is under consideration (whether by way of legislation review or through a CoAG-related infrastructure review process), those charged with implementing reforms and those potentially affected by reforms must be in a position to provide an informed input into the review process. Due consideration should be given to both economic and non-economic criteria in the decision-making process. Genuine and effective consultation and community involvement should feature strongly in these early stages — chapter 11 contains recommendations which aim to achieve this end.
2. **Co-ordinated approach to adjustment:** It is important that all relevant governments are involved in the implementation process. This is particularly important when structuring adjustment assistance packages which require the integration of existing measures from several tiers of government. It is also important to ensure policy co-ordination, so that actions by one government do not work against the objectives of another. Where necessary, employers and local community groups should also be involved. There are instances in the past of co-operative approaches developed jointly between employers and government agencies — for example, financial counselling could be funded by employers. Implementation should be conducted sensitively with a view to reducing adverse impacts.
3. **Monitoring of outcomes:** Effective follow-up of the outcomes of adjustment packages is vital. Where possible, outcomes (longitudinal studies if possible) should be assessed against control groups. Effective monitoring is important to ensure that lessons are learnt from previous experiences with adjustment assistance. This process will help to identify the most effective (and ineffective) forms of assistance across the different jurisdictions and provide valuable case studies for future adjustment programs. For example, the Industry Commission, in exploring adjustment issues in relation to the textiles, clothing and footwear (TCF) industries, found that:

The experience of the previous TCF-specific labour adjustment program shows that a sector-specific approach does not necessarily result in better outcomes for participants than the general approach. While participation rates for the TCF Labour Adjustment Program were relatively good, outcomes under this program were not markedly better than those under generally available labour market programs in operation at the same time. (IC 1997f, vol. 1, p. 165)

The need for an approach which recognises the importance of effectively managing the reform process from inception to implementation was noted by Hon. Rob Borbidge, MLA (Queensland):

Impacts of change need to be determined, and taken much more into account, *before* implementation, *during* implementation, and *after* implementation. (sub. D279, p. 11)

Likewise, the QFF considered that management could be improved. It recommended that:

The Commonwealth Government nominate a department which will be required to ensure that implementation of reforms and policies affecting rural communities is managed in a way which achieves whole of government integration and which minimises the adverse effects on individuals. (sub. D258, p. 7)

The QFF's approach is in keeping with the principle of improved management of reforms. However, given that most of the NCP reform agenda occurs at the level of State, Territory and local governments, placing this role in the hands of a Commonwealth Department may be of limited value. A co-ordinated approach should reflect the role of the reforming government, but could also include co-ordination between relevant spheres of government (Commonwealth, State, Territory and local).

FINDING 13.2

There is significant scope to improve the management of the reform process in country Australia through:

- *genuine and effective community consultation;*
- *governments co-ordinating their responses to adjustment difficulties; and*
- *monitoring of outcomes.*

Who pays?

In the draft report, the Commission noted that 'the States have been provided with significant funding for the implementation of NCP. Accordingly, it seems reasonable that they should play a role in funding any special adjustment assistance packages'. This view was supported by the NFF. AFFA (sub. D301) also considered

that applying part of the competition payments to situations where adjustment assistance is deemed necessary was worth considering.

However, this view was challenged by the governments of South Australia and Tasmania. The South Australian Government said:

The suggestion that the ‘buckets of money’ given to the States by the Commonwealth as part of the NCP package should be used by the States to fund transitional cost arrangements takes no account whatsoever of the nature of the payments ... They were intended to represent a sharing of the benefits of increased government revenue derived from productivity improvements, rather than as funding for implementation. (sub. D298, p. 14)

The Tasmanian Government said that:

... the NCP payments were designed to compensate the States for the fact that the States are required to implement reforms that impact much more favourably on the Commonwealth’s tax base than the States. The NCP payments do not compensate for the costs that are incurred in implementing the reforms, including adjustment costs, and it is for this reason also inappropriate that the States be required to fund *any* adjustment assistance packages. (sub. D294, p. 3, emphasis added)

The Commission accepts that, apart from sharing the benefits of reform, part of the rationale for competition payments appears to be a recognition that the Commonwealth will benefit from increased revenues from some NCP reforms. It accepts that, under the agreement, there is no stated link between NCP competition payments and provision of adjustment assistance.

However, it would be wrong to presume that State and Territory governments are losers from NCP and therefore have no capacity to share in meeting the costs of adjustment packages for their constituents. Submissions from State and Territory governments have supported NCP. This is based on their perceptions of net benefits to flow to Australians as a whole, and localised benefits from the more efficient use of resources (which all governments acknowledge are scarce) — put simply, this translates to less wastage and greater resources available for infrastructure and social services. Indeed, the South Australian Government has acknowledged that ‘the net gains from NCP are likely to be positive for South Australia as a whole’. (sub. D298, p. 15)

The Commission does not consider that responsibility for adjustment assistance should be shifted to the Commonwealth Government. It considers that States and Territories *have a role to play* in funding adjustment assistance packages over and above the (Commonwealth funded) ‘safety net’. This does not *preclude* further Commonwealth involvement.

The Tasmanian Government made the additional point that:

... adverse effects in one jurisdiction can be consequential on actions taken in other jurisdictions, a point which provides further justification for adjustment assistance being funded centrally. (sub. D291, p. 6)

Where one State's action has impacts on other jurisdictions (for example, Victoria's decision to deregulate its dairy industry), there may be a case for a more co-ordinated approach to reform and adjustment. Where reforms flow from a national review, there may, where an adjustment package is deemed warranted, be scope for a multi-jurisdictional approach.

13.6 Concluding comments

Much of country Australia is coping with changing circumstances in a positive manner (see chapter 3). Many firms and communities have been able to exploit the available opportunities to develop new markets (eg horticulture, wine grape growing and tourism) and minimise the costs associated with structural change. In those regions, the general 'safety net' measures will probably be sufficient to address the difficulties faced by individuals disadvantaged by change.

In some parts of country Australia, however, the story is different. Some small communities with a narrow economic base are struggling to survive in the face of long-term trends in factors beyond the control of governments, such as declining prices for agricultural products, increasing productivity and lifestyle changes which have attracted people to the cities and larger towns. NCP reforms, over time, will help some of the small, struggling communities (eg by lowering the costs of important inputs to production). But NCP changes will add to the adjustment pressures in other small communities. Although such changes may be relatively minor compared with the effects of the longer-term changes referred to above, for some small communities struggling to survive, NCP changes could be tantamount to 'the straw that breaks the camel's back'.

For some communities adversely affected by change, it is possibly too late for government to consider region-specific adjustment assistance. For example, much of the adjustment to change in some small communities has already occurred where reforms were well under way prior to NCP (eg the closure of rail and electricity depots). In some communities, though, there remains a legacy of people disadvantaged by change.

Measures to improve occupational and locational mobility of unemployed workers, or measures to reduce the transaction costs of changing locations, could expedite the decline of some communities.

In the Commission's view, it is important to recognise that adjustment assistance should focus on helping *individuals* to meet a changing environment. It is not about stopping change or maintaining all existing communities.

Change, from whatever source, has always resulted, and will continue to result, in some country communities declining and some growing. For example, the former town of Newnes in the Wollemi National Park was a major industrial site for shale oil operations and housed around 2000 people. Today, the site is home only to weekend bushwalkers. It is neither feasible, nor sensible, to halt such change.

If the objective is to hold resources in particular communities, this might require more directive measures — such as providing special assistance to particular firms to establish job creating ventures, policies such as decentralisation incentives (eg payroll tax exemptions), large infrastructure developments (eg dams), and/or prescriptive policies (eg banning fly-in, fly-out operations). These measures may have major resource implications and carry the risk of significant costs and unintended consequences.

The Commission has not sought to develop a template to determine when, and what type of, adjustment assistance should be adopted in particular circumstances. This is because each NCP (or other) reform measure is different, is likely to have widely variable impacts in terms of severity and is likely to have widely differing regional consequences (in some cases dispersed, in others concentrated). Added to this are the complexities associated with singling out the effects of NCP reforms from other sources of change.

However, the Commission considers that **some general principles should be adhered to in its provision**. Additional adjustment measures should:

- facilitate the achievement of desired outcomes, rather than replace one form of privilege for certain groups with another;
- target individuals for whom adjustment pressures are most acute and who are unlikely to be able to adjust without assistance — industry-wide measures are typically blunt, ineffective and costly;
- be limited in time and expenditure — the objective of adjustment assistance is to assist a transition to an improved situation, not to maintain the *status quo*;
- be transparent, simple to understand and relatively inexpensive to administer; and
- be consistent with international trade obligations.

Where governments decide that specific adjustment assistance is warranted to address any large, regionally concentrated costs, such assistance should:

- *facilitate, rather than hinder, the necessary change;*
- *be targeted to those groups where adjustment pressures are most acutely felt;*
- *be transparent, simple to administer and of limited duration; and*
- *be compatible with general ‘safety net’ arrangements.*
