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# Report To The Congress

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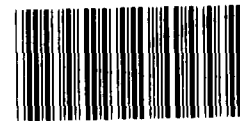
## Considerations For Adjustment Assistance Under The 1974 Trade Act: A Summary Of Techniques Used In Other Countries

*Vol. 2*

*Title*  
Volume II: Profiles of Adjustment Programs in Eight Countries.

United States  
Australia  
Canada  
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## CHAPTER 1

### UNITED STATES ASSISTANCE PROGRAMS

The United States Government administers several programs that offer assistance to U.S. workers, firms, and communities that need help in adjusting to the changing patterns of international trade. In addition to general programs that are available to workers, firms, and communities, regardless of the cause of their economic problems, the Trade Act of 1974 includes provisions for special assistance to those segments of the economy that are adversely affected by increased import competition.

Through these programs unemployed workers receive unemployment compensation as well as various employment services and allowances to help them find jobs. Firms generally receive technical assistance, loans, and loan guarantees to assist them in maintaining a competitive position. And communities can qualify for public works grants and technical assistance to help them develop more job opportunities.

How the general programs available to workers, firms, and communities, as well as special assistance under the Trade Act, work are detailed below.

#### WORKER PROGRAMS

The principal mechanisms for assistance to unemployed workers are the Federal-State employment security program, and employment and training programs authorized by the Comprehensive Employment and Training Act of 1973 (CETA) (29 U.S.C. 801). The employment security program, authorized under the Social Security Act (42 U.S.C. 501), and the Wagner-Peyser Act (29 U.S.C. 49), provides unemployment insurance (UI)--financial benefits--and employment services (ES) to help find jobs for people and people for jobs. Under the CETA program, prime sponsors deliver federally funded training and public service jobs to unemployed or underemployed workers. The Employment and Training Administration of the Department of Labor administers the employment security program, providing technical assistance to States and establishing standards. State governments operate the local employment service and unemployment insurance offices. In addition to the Federal-State employment security program, the Trade Expansion Act of 1962 authorized and the Trade Act of 1974

authorizes the Department of Labor to provide special assistance to workers injured by increasing imports. 1/

### Federal-States Unemployment Security Program

In April 1977, Labor reported that about 97 percent of the Nation's 89.5 million workers are protected by the Federal-State unemployment insurance system. This system provides short-term income support for covered workers who have suffered a loss of employment and are available for work. Each State administers its own unemployment insurance law within general Federal guidelines. Each is responsible for collecting the employer payroll taxes necessary to finance UI benefits and establishes its own eligibility requirements, duration of benefits, and weekly benefit levels. As a result, there are many variations among States regarding who should receive benefits, how much they should receive, and how long benefits should last.

Benefit eligibility is based on the length of labor-force attachment. The longer persons have worked, the greater their labor-force attachment, and the more likely they are to receive benefits when laid off. Under all State laws, the amount of weekly benefits is determined on the basis of a worker's past wages, within certain minimum and maximum limits established by the States. Unemployment insurance benefits are generally aimed at replacing 50 percent of weekly wages. Actual benefits vary significantly among States. As of December 1977, the maximum benefit rates in

--13 States were less than 50 percent of the State's average weekly wage;

--15 States were from 50 to 59 percent;

--12 States 2/ were 60 to 64 percent; and

--13 States 3/ were 65 to 67 percent:

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1/ Under the Automotive Products Trade Act of 1965, (APTA), establishing free trade in automotive equipment and parts between Canada and the United States, there was a three year adjustment assistance program for automobile workers during the transition to the establishment of a North American automobile market.

2/ Includes Puerto Rico.

3/ Includes District of Columbia and Virgin Islands.

Most States (42, including the Virgin Islands) provide UI for 26 weeks to those who are fully entitled; 11 States (including the District of Columbia) provide 28 weeks or more; only Puerto Rico allows a smaller maximum period (20 weeks). In addition, Federal legislation extended the duration of benefit entitlement by as much as 39 weeks during a 3-year period beginning January 1975 for qualified individuals who are located in high-unemployment areas. This was temporary legislation to accommodate a period of unusually high unemployment.

In addition to weekly unemployment insurance benefits, workers can also receive employment services through local offices of the State employment agency. Generally, these services include job counseling and testing, followed by job referral and placement. Individuals may also receive various types of training aimed at upgrading their skills. Those requiring training are usually referred to prime sponsors--generally State or local government units--that are responsible for administering training funds available under CETA.

Training is only one of the benefits available to workers through the CETA program. The overall intent of CETA is not only to establish job training but also to establish employment opportunities for economically disadvantaged, unemployed, and underemployed persons. Benefits available include:

- recruitment, orientation, counseling, testing, placement, and follow-up services;
- classes in occupational skills and other job-related training such as basic education;
- subsidized on-the-job training by public and private employers;
- payments to persons in training;
- support services: medical care, child care, and assistance in obtaining employment bonding;
- jobs in public agencies that will eventually lead to permanent positions; and
- public service employment.

CETA funds are allocated to prime sponsors by a statutory formula that includes such factors as the relative

unemployment rate and the relative number of adults in low-income families in the prime sponsors' area. The Federal Government specifies the criteria governing the use of the money and identifies priority groups to be assisted, as well as monitors the implementation of the program. Local officials, however, are responsible for planning and operating CETA's employment and training programs; they decide on the mix of services that will be made available. To the extent feasible, prime sponsors should also provide training opportunities to workers who are impacted by import competition.

### Special Trade Act Programs

The special worker adjustment assistance program, established under the 1974 Trade Act, is administered by the Department of Labor. Under this program, qualified workers can receive supplemental income assistance and take advantage of allowances available for training, job search, and relocation. To obtain assistance, any group of three or more workers, their union, or an otherwise authorized representative must first file a petition with the Department requesting certification that increased imports contributed importantly to their layoff or threatened layoff. The petition describes:

- the timing and magnitude of import-caused layoffs;
- the method of manufacture, the value of the item whose production is being curtailed, and the identification of the imported article causing production cutbacks; and
- how the imports contributed to unemployment.

When a petition is accepted, Labor must initiate an investigation, which should be completed within 60 days. For a group of workers to be determined eligible for assistance, Labor's investigation must result in a certification that

- a significant number of workers in a firm or an appropriate subdivision of a firm have become or are threatened with becoming totally or partially separated;
- the sales and/or production of such firm or subdivision have decreased absolutely; and

--increased imports of like or directly competitive articles contributed importantly to such separation and to such declines in sales or production.

In this context "contributed importantly" means that imports are important but not necessarily more important than any other cause.

If Labor issues a certification, workers may apply individually for benefits at the local office of their State Employment Agency. To be determined eligible for benefits, workers must have been laid off after the date of the import impact specified in the certification and must have had earnings in import-affected employment of at least \$30 a week for 26 of the last 52 weeks prior to layoff.

Certified workers who meet application requirements are eligible for weekly trade-readjustment allowances equal to 70 percent of their average weekly wage, less any unemployment-insurance (UI) benefits that they are entitled to. However, the amount cannot exceed the national weekly manufacturing wage, which is set periodically by the Labor Department.

Weekly payments of trade-readjustment allowances are also reduced by 50 percent of any wages that are received during the week for which the allowance is claimed. In any week, the total of trade-readjustment allowances, UI, and other earnings may not exceed 80 percent of the worker's previous average weekly wage or 130 percent of the national average weekly manufacturing wage.

Workers may receive trade-readjustment allowances for up to 52 weeks of unemployment. An additional 26 weeks are available to those in an approved training program and those 60 years of age or over at the time of layoff. If workers are rehired before using all of their benefit weeks, they can claim trade readjustment allowances for the remaining weeks if they experience subsequent layoffs. In other words, the certification is, in a sense, a bank account which can be drawn upon regardless of the cause of subsequent layoffs up to two years from the date of the first layoff.

In addition to trade readjustment allowances, the Trade Act also provides assistance to workers in qualifying for and obtaining new employment. Labor is authorized to use existing training programs or, where appropriate, to fund new training programs for certified workers who cannot otherwise obtain suitable employment. Workers who enroll in training can receive, in addition to their trade readjustment

allowances, up to \$15 a day and 12 cents a mile to defray expenses incurred while receiving training outside their local commuting area.

Workers covered by a certification who are seeking work outside their local area are also eligible for a job-search allowance of up to \$500 to cover 80 percent of their job-search expense. In addition, those qualifying for weekly trade-readjustment allowances can also receive a relocation allowance if they obtain a job outside their commuting area. These allowances cover 80 percent of a worker's moving expenses and include a lump-sum payment of three times their average weekly wage (not to exceed \$500).

As of January 31, 1978, Labor had received 3,003 petitions for adjustment assistance. Labor has certified 1,021 of these from a variety of industries, covering an estimated 307,000 workers. However, as of January 1, 1978, about 372,000 applications had been filed for trade-readjustment allowances and about 270,000 workers had received weekly trade-readjustment allowances totaling about \$363 million. The weekly allowance per worker averaged \$54.

However, relatively few workers have used other benefits offered under the Trade Act. As of April 1978, Labor reported that about 461,000 workers had applied for TRA benefits. Of these about 72 percent had returned to work at the time of filing for benefits. Of the workers who were still unemployed when they received their TRA payments:

- 9,144 received training;
- 960 received job search allowances; and
- 496 received relocation allowances.

#### FIRM ASSISTANCE

Firms needing assistance can get help from a variety of sources. In addition to the Small Business Administration, firms can get assistance from the Economic Development Administration and the Farmers Home Administration (FmHA). Under the adjustment assistance provisions of the 1974 Trade Act, the Department of Commerce can provide special assistance to firms that are adversely impacted by import competition.

#### Small Business Administration Assistance

The Small Business Administration (SBA), an independent agency, has three programs of potential benefit to firms

affected by imports. One is a basic program of business loans; the second is a loan program for local development companies; the third is a management assistance program for small business.

Section 7(a) of the Small Business Act authorizes direct, participating, and guaranteed loans to small businesses. The loans can be used to construct, expand, or convert facilities; to purchase buildings, machinery, equipment, supplies, and materials; and to provide working capital. To qualify as a small business, a firm must be independently owned and operated and must not be dominant in its field. SBA's exposure of financial assistance to a borrower, including all affiliates, may not exceed \$500,000.

If a private lender will not supply the entire amount, even with a 90-percent SBA guarantee, SBA will consider making a direct loan or participating in a loan with a private lender. The limit for a direct or participating loan is \$350,000. The maximum period for direct, participating, and guaranteed loans is generally 10 years, and real estate and construction loans generally have maximum terms of 20 years. SBA loans cannot be used to finance business relocations.

Section 502 of the Small Business Investment Act authorizes direct, participating, and guaranteed loans to local development companies. A local development company is a profit-making or nonprofit corporation that has predominately local ownership and is authorized by State law to raise capital for small business development in its area. Some of these companies are created for specific projects, such as assistance to an established business.

To obtain SBA help, a local development company must provide a reasonable share--usually 20 percent--of project costs. SBA will then lend directly, participate in a loan with a private lender, or provide a 90 percent guarantee of a bank loan of up to \$500,000 for each identifiable small business to be assisted. The money can be used to buy land, machinery, and equipment and to build, expand, or convert a plant. The loans are usually for 15 to 20 years, but can be for as many as 25 years.

SBA's management assistance program seeks to improve the management capabilities of small businesses and to help them deal with specific business problems. Counseling is provided by SBA staff professionals, Service Corps of

Retired Executives, and Active Corps of Executives; training is provided through courses, conferences, and problem clinics.

#### Economic Development Administration Assistance

The Public Works and Economic Development Act of 1965 established several programs to provide assistance to economically troubled firms and communities. Benefits provided to firms through this Act are offered primarily under Title II.

This title of the Act authorizes direct and guaranteed loans to firms that are located in, or are willing to locate new facilities in designated areas and cannot obtain funds on satisfactory terms from private lenders or other Federal agencies. The loans can be for either (a) purchase or development of land and facilities, including machinery and equipment, or (b) working capital. Direct loans for purchase or development cannot exceed 65 percent of the aggregate cost of the items financed; working capital loans cannot exceed 85 percent of requirements; loan guarantees of any type cannot exceed 90 percent of the outstanding balance. The maximum period for loans and guarantees is 25 years, although in practice it is generally less. Neither loans nor guarantees can be used to assist firms relocating from one area to another or firms in industries that have experienced overcapacity for a long time.

#### Farmers Home Administration Assistance

The FmHA in the Department of Agriculture also administers a program to assist firms under the Consolidated Farm and Rural Development Act.

Title III of the Act (Public Law 87-128 as amended) authorizes guaranteed loans to businesses located in cities with populations of 50,000 or less. The loans can be used for the acquisition, construction, conversion, and modernization of facilities; for the purchase and development of land, easements, machinery, equipment, supplies, and materials; and for working capital. Private lenders supply the capital, and FmHA guarantees up to 90 percent of the amount against loss. Maturity must not exceed 30 years for land, buildings, and permanent fixtures; 15 years for machinery and equipment; and 7 years for working capital.



As with business loans through the Economic Development Administration, these loans cannot be used to assist firms relocating from one area to another or firms in industries found to have long-term overcapacity. There is no statutory limit on the amount of the loan or the size of the firm.

Special firm assistance  
under the Trade Act

The 1974 Trade Act provides special assistance to firms adversely affected by imports. The assistance consists of (1) technical assistance provided by the Department of Commerce staff and Commerce grants for assistance by private consultants to help firms develop and implement adjustment plans, and (2) loans and loan guarantees for restructuring operations in accordance with these plans. To obtain assistance, firms must go through a two-step eligibility process similar to that required for workers requesting assistance. The process includes:

- petitioning the Secretary of Commerce for a certification of eligibility to apply for benefits, based on a loss of business to import competition, and
- requesting financial assistance to implement an adjustment plan which must also be approved by Commerce.

Firms petitioning Commerce for a certification of eligibility to apply for adjustment assistance must submit documentation that provides:

- a brief narrative of the firm's economic history;
- a description of imported articles like or directly competitive with the article(s) produced by the firm;
- information concerning the duration of the actual or threatened worker layoff;
- copies of the complete auditor's certified financial reports for the last 3 accounting years, or copies

of the firm's own financial statements, together with the firm's Federal income tax returns for the last 3 accounting years.

Within 5 working days of the receipt of a petition, Commerce determines the completeness and adequacy of the information provided and either accepts the petition or contacts the petitioner noting the deficiencies. If adequate information cannot be provided, the petition is rejected by Commerce or withdrawn by the firm.

Within 60 days of accepting a petition, Commerce must complete an investigation to determine whether:

- a significant number or proportion of the workers in the firm have become totally or partially separated, or are threatened to become totally or partially separated;
- sales and/or production of the firm have decreased absolutely; and
- import increases of articles like or directly competitive with articles produced by the firm contributed importantly to the total or partial separation or threat thereof, and to declines in sales or production.

Commerce issues a certification of eligibility to firms meeting the above criteria, enabling the firms to apply for benefits during the next 2 years.

To obtain benefits, certified firms must submit applications to Commerce. These applications must include a detailed adjustment plan as well as various data on financial status, operating costs, and market share. The Department of Commerce has 60 days to evaluate an application. To be approved, the firm's adjustment plan must:

- contribute materially to the economic adjustment of the firm;
- give adequate consideration to the interests of the firm's workers; and
- demonstrate that the firm will make all reasonable efforts to use its own resources for economic development.

Related financial documentation must also establish that:

- the funds required are not otherwise available to the firm; and
- there is reasonable assurance that the loan will be repaid.

The primary financial benefits available to firms are direct loans and loan guarantees for:

- working capital, and
- acquisition and modernization of plant and equipment.

Individual firms may receive up to \$1 million in a direct loan and up to \$3 million in a loan guarantee for periods of 25 years or less.

Firms may also receive direct technical assistance or technical assistance grants from the Department of Commerce to help them develop and implement their adjustment plan. The assistance may be furnished by Federal agencies or through private individuals, firms, and institutions. Firms may receive grants for up to 75 percent of the cost of these services.

Through June 1978, 235 firms had been certified, technical assistance grants totaling \$772,000 had been provided, and 62 firms had received loans or loan guarantees totaling \$60 million.

#### Special program to aid shoe firms

In July 1977, in response to the President's announcement, the Department of Commerce initiated a special program to provide assistance to the ailing shoe industry. The purpose of the program is to revitalize those segments of the American shoe industry that have been injured by foreign competition. Firms selected for assistance will be those which can be certified as eligible for assistance under the Trade Act. Commerce plans to speed up the process and expedite the evaluation of petitions from shoe manufacturers.

Both monetary and non-monetary assistance are offered under the program. Over a 3-year period, approximately \$40 million in loans and loan guarantees will be made available to firms for: investment in new plant and equipment,

new technology, acquisitions, and mergers or other cooperative arrangements among industry members. In addition, teams of experts in the fields of management, production, marketing and finance are available to provide consultative services to the estimated 150 trade-impacted shoe firms.

To further stimulate shoe production, Commerce has enlisted the voluntary cooperation of shoe retailers, who, if domestic prices are competitive, will increase their orders to trade-impacted shoe manufacturers. Through increased orders, manufacturers are expected to cut production costs and reduce selling prices, which will enable them to become more competitive with foreign imports.

The shoe industry program is only a temporary mechanism designed to help the troubled shoe industry become self-sufficient. It is planned as a one-time experimental program to concentrate resources on a single trade-impacted industry. During the first 6 months of the program a total of 56 shoe firms had petitions accepted for certification investigation; 53 were certified eligible to apply for benefits, but only two of these received benefits.

#### COMMUNITY ASSISTANCE

Communities needing assistance can get help from several sources. In addition to the Economic Development Administration, communities can get assistance from the Farmers Home Administration. Under the Trade Act of 1974, communities that are adversely impacted by import competition can receive special assistance.

#### Economic Development Administration Assistance

Benefits provided to communities under the Public Works and Economic Development Act are offered primarily under Titles I, III, and IX, which are described below:

- Title I provides grants for the construction or development of public works projects. Grants generally do not exceed 50 percent of the project cost, but supplemental grants are available to communities that experience difficulties in raising their share of project costs. The combined direct and supplemental grants cannot exceed 80 percent of estimated cost. However, no more than 15 percent of Title I funds can be spent in any State in any one fiscal year.

- Title III authorizes grants for technical assistance, such as project planning, feasibility studies, and the evaluation of potential economic growth. These grants are not to exceed 75 percent of expenses incurred by the recipient.
- Title IX provides grants to areas with severe economic dislocations. It is intended to alleviate the more acute problems, such as dislocations, including those resulting from Government actions and from compliance with environmental requirements. Funds can be used for public works, technical assistance, unemployment compensation, mortgage payment assistance, and training and relocation of individuals and businesses.

#### Farmers Home Administration Assistance

Under Title III of the Consolidated Farm and Rural Development Act, (Public Law 87-128 as amended) rural development grants and loans are authorized to public bodies--local government, development organizations, and similar groups in cities with populations of less than 10,000. This program is similar to the Economic Development Administration's public works program and, like the latter, could assist trade-impacted firms by helping them re-orient and modernize their operations. Eligible projects include the development, acquisition, or construction of land, buildings, equipment, access roads, utility extensions, and water and waste treatment facilities. There are no statutory limits on the amounts of individual grants and loans.

#### Special community assistance under the Trade Act

The Trade Act provides for two types of assistance to communities that are adversely affected by imports: loans and loan guarantees to firms located in the community and grants to the community itself. As in the case of firms, communities establish eligibility for assistance (a) by demonstrating to the Department of Commerce that they have experienced or are threatened with job losses that are related to increased imports and (b) by obtaining Commerce's approval of a redevelopment plan.

Communities petitioning Commerce for certification must provide data on each import-impacted firm in the community. This is essentially the same type of financial and employment data that would be provided by the firm itself if it

were applying for a loan. In addition, a community's petition must also include data showing:

- the general economic and social demographics of the community, including scope of manufacturing and sales and the extent of unemployment; and
- the number of jobs lost because firms relocated out of the community for trade-related reasons.

Within 60 days after the petition has been filed the Department of Commerce must complete an investigation and determine whether the community is eligible to apply for adjustment assistance. A community will be certified if:

- a significant proportion of the workers in the trade-impacted area in which the community is located have become totally or partially separated, or are threatened with becoming totally or partially separated;
- sales or production, or both, or firms or subdivisions of firms located in the trade-impacted area have decreased absolutely; and
- increases of imports of articles like or directly competitive with articles produced by firms or subdivisions of firms located in such area have contributed importantly to the total or partial separations, or threats thereof, and to the decline in sales or production.

To apply for benefits, certified communities must form a Trade-Impacted Area Council for Adjustment Assistance, consisting of representatives of the community government, industry, labor, and the general public located in the trade-impacted area. (The trade-impacted area consists of one or more certified communities). The council, which receives administrative funding under the program, is responsible for

- developing an adjustment-assistance plan for the economic rejuvenation of certified communities in its trade-impacted area, and
- coordinating community action under the adjustment-assistance plan once it is approved by Commerce.

Communities with Commerce-approved adjustment plans become eligible for two types of assistance. First, they

may receive loan guarantees under the Trade Act. These guarantees can be made to firms in the community, regardless of whether a specific firm has been impacted by imports. Firms receiving loans and loan guarantees can use the assistance for the acquisition, construction, installation, modernization, development, conversion, or expansion of land, building, equipment, facilities, or machinery, and for working capital.

In addition to these guarantees, communities with approved adjustment plans are also eligible for all forms of assistance (other than loan guarantees) available to any redevelopment area under the Public Works and Economic Development Act of 1965. Under this act, loans and grants are available to firms in the community. The Act also provides direct public works assistance to the community itself.

Through June 30, 1977, only two communities had petitioned Commerce for certification. Both petitions were rejected during the initial application-screening process because they did not contain the required sales and production data for import-affected firms in the community.

## CHAPTER 2

### AUSTRALIA ASSISTANCE PROGRAMS

Australia is the only country reviewed here (other than the United States) that has provided assistance to workers and firms in its manufacturing sector on the basis of economic injuries suffered because of import competition. The special adjustment assistance programs instituted by the Australian Government were in many ways similar to the adjustment assistance provisions of the Trade Expansion Act of 1962. Paralleling that legislation, the Australian programs were tied directly to specific tariff reductions. To obtain assistance, workers or firms had to demonstrate a direct relationship between their layoff or decline in sales and one of nine occasions on which tariffs were reduced, some of these were across the board, others were specific. (See Table 1 at the end of this chapter for a listing.)

According to Australian Government officials, because of inequities inherent in the implementation of the programs and their failure to achieve adjustment objectives, public and political sentiment turned against the special adjustment assistance programs, and they were allowed to expire at the end of 1976. Workers are now receiving assistance through the general unemployment, retraining, and relocation programs. Benefits under these programs, which are available to all unemployed workers regardless of the cause of their layoff, are similar to those available to workers in the United States under the 1974 Trade Act.

Although the worker and firm-assistance programs were discontinued, the Australian Government has continued and expanded programs for helping agriculture. While assistance has been available to farmers since 1935, these newer assistance programs are aimed at strengthening agriculture so that it can compete in the world market. In 1971, the Rural Reconstruction Scheme and, more recently, the Dairy Adjustment Program and the Fruitgrowing Reconstruction Scheme have helped farmers with adjustment assistance benefits similar to those given to workers and firms in manufacturing industries. These programs are being expanded.

A more detailed description of the discontinued programs for manufacturing industries, the general unemployment programs, and the ongoing programs for agriculture are given below.



SPECIAL ADJUSTMENT ASSISTANCE  
PROGRAMS

In April 1974, the Australian Government instituted various programs to assist workers, firms, and communities 1/ suffering from adjustment difficulties caused by specific Government decisions. These decisions, referred to as "prescribed cases" or "specified decisions," concern mainly tariff reductions. (See p. 33.) The assistance provided was designed to help affected parties move out of economically depressed industries into more competitive ones. Forms of assistance included

- unemployment insurance,
- employment relocation and retraining 1/ assistance,
- closure payments to firms,
- loan guarantees and consultancy grants to firms, and
- special assistance to nonmetropolitan areas.

The application period for assistance under these programs generally lasted for a year after the announcement of a specified Government decision, but was often extended for several months. For example, the application period for assistance necessitated by the Government's decision to lift tariff quotas on woven shirts and knitted outerwear was scheduled to last one year, but in fact lasted for two months longer.

Special income-maintenance for workers

The income-maintenance program provided special unemployment compensation in lieu of the usual unemployment benefits to employees who lost their jobs due to a "specified decision." Compensation under the special program, which could be paid for a maximum of six months, amounted to the full average wage (excluding overtime after January 18, 1975) during the previous six months, up to a maximum of 1.5 times the national average weekly wage rate. Total income-maintenance payments

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1/Retraining assistance and assistance to communities began in October 1974.

to individuals under this program amounted to A\$59.3 million 1/ over the two-year period during which it was in existence.

In May 1975, more than 8,000 unemployed individuals were receiving income maintenance, and almost 7,000 were waiting for their eligibility to be determined. About that time, program activity began to decline rapidly, mainly because the eligibility period for assistance necessitated by a specified 25-percent tariff reduction had expired. 2/

Officials of the Department of Industry and Commerce, the Department of Employment and Industrial Relations, and the Industries Assistance Commission said the income-maintenance program was not successful in achieving the planned adjustment. They described it as a poorly-managed program with no built-in incentives to encourage workers to seek employment. Commonwealth Employment Service officials felt that the program had proved to be a disincentive to work or find jobs because workers could get full pay without working. They added that any program for assistance should include incentives to move into a different field.

The more generous treatment accorded workers whose unemployment arose from import competition than those whose unemployment arose from other causes led to considerable criticism. During May 1975, while 8,000 workers were receiving income maintenance, 168,000 workers were receiving regular unemployment pay. Furthermore, many employed workers found themselves making less than those receiving program benefits. This inequity caused the Government to exclude overtime from the compensation calculation.

The program was also criticized because workers who were indirectly affected by the specified decisions and who eventually became unemployed were not eligible for income-maintenance assistance. For example, unemployed workers in the clothing and textile industries were eligible for income-maintenance payments. However, applications for

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1/The currency-conversion rate as of July 1977 was \$1 = .92 Australian dollars (A\$)

2/This reduction, together with the removal of quotas on knitted outerwear, was cited as the reason for their being unemployed by 90 percent of the applicants for this assistance as of June 10, 1975.

assistance from unemployed workers in other firms indirectly related to the textile and clothing industry were disallowed.

Because of these problems, the Government decided to discontinue the program. According to Commonwealth officials, the inequities caused ill feelings among those who were ineligible, and the disparity eventually became politically unacceptable. The officials speculated that the program would not be renewed even if new tariff cuts were made.

#### Special relocation assistance for workers

The Structural Adjustment Assistance Program provided relocation assistance to unemployed workers who accepted jobs in other locations. The assistance included payment of fares and moving expenses, a relocation allowance, and assistance in meeting the legal costs and agent's fees involved in selling a home and purchasing or leasing a new one.

According to Commonwealth officials, however, this program was not successful. Workers were reluctant to move from places where they had roots. Program benefits were too small. Furthermore, the program was offered at a time of high unemployment, so that good jobs were difficult to find. As a result, the program helped only three workers move to other locations.

The Government authorized another relocation program in October 1976. In this program, benefits were improved and were made available to all unemployed workers, not just to those who were affected by the specified decisions. The new program is described in the section on general assistance to unemployed workers.

#### Closure compensation to firms

The adjustment-assistance program provided compensation to firms for major asset losses resulting from increased import competition if the losses were attributable to one of the specified decisions. Payments amounted to 85 percent of the difference between the book value of assets for tax purposes and the residual value after sale.

Between April 1974 and May 1977, the Government paid A\$1.3 million to assist in the closing of 51 firms. Most of these firms were in the apparel and electronics industries.

A firm applying for closure payments was required to demonstrate that:

- a specified tariff reduction had adversely affected it to the extent of rendering a significant part of its assets incapable of economic production or that the desired change in the firm's structure (i.e., from noncompetitive areas to competitive areas) was unlikely to occur at an acceptable speed and economic cost without Government assistance;
- it had taken reasonable steps for self-help, but that this action was unlikely to make possible complete adjustment by the firm; and
- generally available measures had been fully utilized but were inadequate in the existing circumstances.

Australian Government officials considered the closure compensation program a "qualified success." However, the program has been discontinued. According to a report by the Priorities Review Staff, 1/ it was difficult to determine whether applications from particular firms met the acceptance criteria. 2/ For example, it was hard to determine whether tariff reductions had rendered unproductive a significant part of the firm's assets. The report posed these arbitrary questions:

Over what volume of assets must earnings be averaged before deciding that a "significant" part of a firm's assets have been rendered incapable of economic production?

What rate of return on capital is defined as "economic" production, and can it be measured?

Should firms which were originally affected by changes arising out of prescribed decisions or were in a prescribed industry, but which are now in difficulties through their own attempt to diversify, be eligible?

Should firms receive compensation when one side of their operations (e.g., manufacturing) is adversely affected by a decision while another side (e.g., importing) benefits?

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1/The Priorities Review Staff is a special study group directly responsible to the Prime Minister.

2/Through October 14, 1976, only 43 of 268 applications (16 percent) were approved.

The general and often arbitrary acceptance criteria used in the closure-payment program resulted in certain inequities. Some firms that were forced to close as a result of other Government actions (e.g., a credit squeeze) were ineligible. Also, according to some persons, selection appeared to be based more on political considerations than on need.

#### Consultancy grants and loan guarantees to firms

Although provisions for loan guarantees and consultancy grants were included in the Australian adjustment assistance program, no guarantees or grants were ever given. A business leader told us that businessmen know more about the operations and economic conditions of their businesses than outsiders do, and thus they can make the better decisions. Also firms that are in difficulty usually do not have time to wait for a consultant's report. In addition, one leader considered the upper limit of A\$10,000 to be too low and therefore of significance only to relatively small firms. The Priorities Review Staff report of 1975 suggested that if consultancy grants were continued, the Government should retain cost-sharing arrangements to ensure that grants were given only if the firm itself believed that a consultant's views might be useful.

Under the Structural Adjustment (Loan Guarantees) Act of 1974, firms complying with the closure-compensation criteria could apply for Government-guaranteed loans of up to A\$250,000 to assist them in restructuring their operations. According to Commonwealth officials and business leaders, however, due to the very strict evaluation restructuring plans submitted with loan-guarantee applications, no loan guarantees were ever granted. Firms were unable to show that enough injury resulted from one of the specified tariff reductions to satisfy the committee.

#### Special assistance to non-metropolitan areas

On October 22, 1974, the Government announced a new program to provide special assistance for manufacturing firms in rural towns that were adversely affected by import competition resulting from specified decisions. This program, entitled "Special Assistance for Non-metropolitan Areas," was designed to operate where the existing adjustment assistance measures previously discussed were not adequate because of problems specific to the region concerned.

One objective of the program was to enable the Government to act quickly and effectively to alleviate short-term industrial unemployment in rural towns. The program was also to play an important role in the Government's long-term objectives of restructuring Australian industry and ensuring sound and worthwhile regional development. When the program was announced, it was emphasized that firms being assisted would have to participate in industry restructuring wherever feasible.

Under this program, the primary form of financial assistance was direct subsidy payments to manufacturing firms. Long-term assistance was made available to subsidize the phasing-in of alternative production capability and the phasing-out of unproductive resources. The program also provided for Government contributions that were normally not to exceed A\$20,000 for any one feasibility study. Short-term assistance was made available to sustain employment while feasibility studies were being made. In special circumstances, subsidies could be used to support existing production for a specified period (i.e., two years). Under these circumstances, it was required that the firm's posture be reviewed at the end of the specified period.

Total payments to firms under this program amounted to A\$5,056,000 over the two years the program was in existence, as is shown below:

<u>Industry</u>	<u>Number of firms</u>	<u>Amount in thousands</u>
Apparel	12	A\$ 830
Textiles	23	3,550
Engineering	3	357
Leather	1	284
Food	<u>1</u>	<u>035</u>
Total	<u>40</u>	<u>A\$5,056</u>

In rural communities this program served primarily to support firms in their current activities rather than to help them shift to other lines of production. Employees were among the chief beneficiaries of the program since they continue to be employed at previous wage rates.

The Priorities Review Staff report concluded that the program had the same problem as the income-maintenance scheme for the following reasons:

It is bedeviled by problems similar to those that plague the administration of the SAA (Structural Adjustment Assistance) scheme. How is it possible to ascertain whether a firm is in grave difficulties because of a specific Government action rather than international competition, managerial incompetence, general governmental demand management, a wage hike, the collapse of other firms, etc.?

Under most circumstances, it would be more costly to maintain jobs under SANMA (Special Assistance to Non-Metropolitan Areas) than it would if all the same workers were employed under REDS (Regional Employment Development Scheme). This would be so for two reasons: higher wages and higher non-labor costs.

It introduces a further element of inequity into the general area of income maintenance, both as between different SANMA projects and between SANMA projects and other means of income maintenance.

In addition, the program was confronted by the fundamental problems presented by government involvement in the private sector. If the program helps firms maintain production, there are two possible results. Either stocks are produced and not sold because the market will not absorb the supply at existing prices, or the products are placed on the market at lower prices than more efficient firms in the same industry can offer. The result could easily be an unfair advantage over other, more efficient firms in the same industry, thus raising questions about fair and equal treatment.

None of the adjustment assistance programs for firms were very successful in helping firms transfer to more competitive industries. The Industries Assistance Commission's Annual Report for fiscal year 1976 summed up the success of adjustment assistance to firms when it said:

The lack of an effective adjustment assistance scheme for the manufacturing sector compounds the difficulties of reducing high assistance in that sector. The Structural Adjustment Assistance scheme provides assistance for employees retrenched as a result of prescribed changes [specified decisions]; and closure compensation payments, consultancy grants and loan guarantees to firms adversely affected by prescribed government actions. It is clear, however, that

adjustment assistance arrangements within the manufacturing sector have not been working effectively to facilitate a transfer of resources from higher cost to lower cost activities. Resources are being maintained in high cost activities through the provision of high and increased protection from import competition, at what is sometimes a very high cost to consumers and the economy.

Although, over the longer term, capital and labor are mobile throughout the economy, there appears to be a need for an economy-wide adjustment assistance scheme within which assistance may be provided to overcome the particularly difficult adjustment problems sometimes associated with industries with high and increasing cost disadvantages. A multi-sector adjustment program should be based on principles which apply to all those affected by structural change, but it should also be sufficiently flexible in application to take account of special cases.

#### GENERAL ASSISTANCE TO UNEMPLOYED WORKERS

Australia has several programs to assist unemployed or potentially unemployed workers. Unlike those for special adjustment assistance, these programs, which are listed below, are available to all eligible persons regardless of the reason for their circumstances:

- Unemployment compensation
- Retraining
- Relocation
- Agricultural assistance

In addition, a special program to create jobs in high-unemployment areas, called the Regional Employment Development Scheme, was available but was discontinued. All programs are administered and funded solely by the Commonwealth Government, with no State funding or administrative assistance. A description of each of the programs follows.

#### Unemployment compensation

Australian unemployment benefits are based on the age and marital status of the applicant, with additional allowances



for dependent children. Neither previous earnings nor the reason why the individual is unemployed affects the level of benefits. Unemployment benefits are tax free, begin immediately after eligibility is determined, and continue as long as the recipient meets the eligibility criteria. The benefit levels as of May 1977 were:

<u>Category</u>	<u>Weekly benefits</u>
Single (less than 18 years old)	A\$35.00
Single (18 years old or older)	A\$47.10
Married	A\$78.00
Additional amount for each dependent child	A\$ 7.50

The Department of Social Security administers the unemployment program and pays the benefits. The Commonwealth Employment Service acts as agent for the Administration in determining eligibility and monitoring the program. Commonwealth Employment Service offices, which are located in major cities and many smaller towns, receive and process applications for unemployment benefits. In order to be eligible for benefits, an applicant must:

- be at least 16 years old, and, if male, less than 65 years old, or if female, less than 60 years old;
- be unemployed;
- be capable of undertaking and willing to undertake suitable work;
- have taken reasonable steps to obtain work;
- be residing in Australia and have resided there continuously for at least one year immediately prior to the date of the claim; or he must intend to reside permanently in Australia.
- not be receiving an age, invalid, or widow's pension, a tuberculosis allowance, or a service pension (as distinct from a war pension); and
- be registered for employment at the Employment Service.

A Commonwealth Employment Service official told us that the standard level of benefits in some cases provides little incentive for the recipient to seek work, and in other cases

does not satisfy the needs of the unemployed persons. Benefits are regarded as generous by unskilled or semi-skilled workers because their wages after taxes are, in some cases, only slightly higher than unemployment benefits. For example, the average wage for workers in the textile industry is about A\$120 a week before taxes. An unemployed married worker with two children could receive weekly benefits of A\$93 tax free. On the other hand, in the case of skilled workers or businessmen who earn higher wages or salaries, the benefits represent a smaller percentage of their normal income. Benefits for single people are also quite low.

### Retraining assistance

The National Employment and Training System was established in October 1974 to improve the training of the national labor force. It consolidated all formal training programs into a single system with the following major objectives:

- a reduction in unemployment and its effects by providing training opportunities for unemployed workers and other job seekers and paying them while they learn new skills;
- a widening of the range of skills in the Australian work force;
- an increase in the number of skilled workers; and
- the long-term reconstruction and redeployment of the labor force.

The Government budgeted A\$31 million for the National Employment and Training Scheme in fiscal year 1975 and A\$52 million in fiscal year 1976. A\$40 million was budgeted for the program in fiscal year 1977. Between October 1974, when the program began, and May 1977, more than 58,000 persons were approved to begin training.

All unemployed persons are eligible for training assistance under this program. Those who had not lost their jobs but needed additional training were also eligible. However, priority was given to unemployed persons. During the operation of the adjustment assistance programs, trainees who had lost their jobs as a result of specified tariff reductions could receive either income-maintenance or training program benefits. If income-maintenance benefits exceeded training compensation, the trainee was allowed to receive the income-maintenance checks until his six months expired and then get the appropriate training allowance.

According to one Department of Employment and Industrial Relations official, this program was good in theory but became unmanageable because the high level of unemployment brought in more participants than the program could handle. The Priorities Review Staff report, mentioned above, said:

"Under the present scheme, very many of those eligible for general unemployment benefits are also eligible to enter NEATS (National Education and Training Scheme). Although no doubt many of those attached to NEATS when unemployed are primarily interested in retraining, others are attracted mainly by allowances higher than unemployment benefits. The level of allowances has thus led to an over-loading of both the administration of NEATS and of training facilities; this has limited the effectiveness of NEATS as a manpower training scheme."

There was also concern because many training participants were not part of the normal work force and were taking training only to enhance their education. For example, nonworking wives could receive benefits for training in order to continue or complete their education even though they may have had no desire to get a job upon completion of the training.

As a result of these problems, the Government changed the training program in February 1976 to emphasize on-the-job training. Since this type of training is less expensive than the formal classroom type, a greater number of persons could benefit from the same level of Government expenditure. To facilitate this change, the Government required applicants for formal training to take the previously mentioned work test and to indicate their willingness to accept a job once their training was completed.

In order to deemphasize institutional training, the Government implemented stricter classroom entrance criteria and reduced the monetary allowances available to classroom trainees. The stricter classroom entrance criteria require that one be unemployed, have virtually no income, and be seeking training in a field where jobs are available. Complying with all the criteria is now very difficult, especially since in Australia there are few fields in which there is an excess of jobs.

The National Employment and Training Scheme was expanded in early October 1976 to include a Special Youth Employment Training Program. This program was initiated in response to problems presented by the unusually high number of young

people who left school at the end of 1975 and who were not able to establish themselves in the labor force. To qualify for the program, applicants were required to be between 15 and 19 years of age, to have left school in the preceding 12 months, to have been registered for employment for not less than six months during the 12-month period, and to be registered for employment when applying for training. Trainees receive at least the award wages for the job in which they are training. A subsidy of A\$61 a week for six months is paid to employers who hire young persons meeting the above criteria.

During the first 10 weeks of the program, 3,600 young people were placed in training. By the end of May 1977, more than 6,650 youths were undergoing training.

One employer said that he was enthusiastic about on-the-job training because the subsidies help keep the total cost of wages down. However, a union official was less than enthusiastic because his union preferred its own apprenticeship training program. In addition, the training program added to the total work force, which in many industries was already larger than necessary.

#### Relocation assistance

The Government started a new relocation assistance program on October 1, 1976, to help persons unable to find adequate employment move to another area in order to work or to receive Government-sponsored training. Assistance is available to all unemployed persons, not just those impacted by import competition. The new program offers higher monetary benefits than did the older program in order to provide higher motivation for persons to leave their current residences and give up their seniority in their current jobs.

Assistance under the program provides transportation costs, moving expenses, a re-establishment allowance, and other costs. It includes the actual transportation cost incurred by the applicant and his family in moving to the new area, including an initial visit by the applicant for the training or employment interview, a house-hunting trip by the applicant and spouse, and two return trips by the spouse if he should move before his family does. Moving expenses of up to A\$500 are allowed and also a re-establishment allowance of A\$200 for each applicant, A\$100 for one additional dependent, and A\$50 for each additional dependent. Up to A\$500 is also allowed to meet the legal and agent's fees incurred. (Renters may use this allowance to pay up to one month's rent in advance.)

To be eligible for this assistance the applicant must be unable to secure a permanent job in his own locale and must have a firm offer of a job or training in the new area. However, because of economic conditions, there are few job vacancies elsewhere, and those that are available must first be offered to local residents. A Department of Employment and Industrial Relations document cited this as the main reason why few have benefited from the program. Between October 1976 and April 1977, only 254 persons were relocated. The costs of relocation totaled A\$192,431.

### Regional Employment Development Scheme

The Regional Employment Development Scheme, initiated in October 1974, was designed to create jobs for unemployed workers in areas of high unemployment, by initiating short-term community service and other projects of social value, such as renovating museums and building tennis courts. The scheme included assistance in undertaking projects needed by the community which would not normally be done without some help. To promote job creation, the program specified that labor must account for at least 50 percent of the total cost of each project. State and local Government authorities and almost any kind of local or community organizations were eligible to apply for grants.

By July 1975, almost 32,000 persons were employed under this program. This represented nearly 13 percent of the registered unemployed at that time. The average project was fairly small in scope--employing seven or eight persons for about 14 weeks and costing approximately A\$27,000. Before the program was terminated in June 1976, more than 81,000 persons had been employed. In all, more than 8,000 projects were funded at a cost of nearly A\$183 million.

The program was phased out in mid-1976 because the Government predicted economic recovery. The Government had limited the duration of projects to six months in order to insure that programs would not be in mid-stream when the recovery occurred and workers were able to transfer to regular jobs.

Officials of the Commonwealth Employment Service, the agency responsible for administering the program, told us that the Government was pleased with the limited results of the program.

The program had several problems however:

- The 50-percent-labor cost criterion restricted the size of the projects. Only the smaller projects that did not require major equipment met this limitation.
- Lengthy delays occurred in processing the proposals because the evaluation committees became overwhelmed with the number of proposals. The original central Commonwealth committee that was charged with evaluating proposals and making the selections for funding quickly learned that such a task was not feasible. For this reason, committees were ~~established~~ in each state to evaluate applications, but the problem was never completely solved.
- These committees were not sufficiently knowledgeable concerning local areas to make the best decisions on which projects to fund.
- Because of the large number of proposals, selection criteria depended on the evaluator's tastes. Political favorites were on occasion chosen ahead of more deserving projects.

#### ASSISTANCE PROVIDED TO AGRICULTURE

Assistance is provided to the rural farming community in large part because of changing export markets rather than because of increased import competition. For example, when the United Kingdom joined the European Economic Community in 1973, a major traditional market for Australian farm exports--such as dairy products, fruits, and wool--was substantially reduced. Assistance is also provided to farmers affected by adverse environmental conditions, such as droughts and natural disasters.

The Government has offered assistance to farmers, with varying degrees of emphasis, since 1935. The need to encourage farm adjustments was given increased recognition in 1971 when the Rural Reconstruction Scheme, which is available to all farmers, was introduced. In addition to this general scheme, special programs have been available for particular areas of farming activity. Examples are the Dairy Adjustment Program and the Fruitgrowing Reconstruction Scheme. <sup>1/</sup> The States' Grants (Rural Adjustment) Act of 1976, authorized a

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<sup>1/</sup>Applications for this program were not accepted after December 31, 1976.

new rural adjustment scheme to begin January 1, 1977. This replaced the Rural Reconstruction Scheme and incorporated most of the features previously available under the Dairy Adjustment Program.

Programs are available under the Rural Adjustment Act to help marginal farmers improve their productivity and to help other farmers move on to other opportunities. There are six categories of assistance:

- Debt Reconstruction assistance: consists of refinancing debts under concessional terms to enable farmers to meet payments more easily and to remain in farming.
- Farm Build-up Program: which is designed to help farmers purchase additional land to build up property to a more economical size.
- Farm Improvement Program: in which loans are made available to help uneconomic farms become competitive by assisting farmers to change or diversify their product line.
- Rehabilitation loans provide limited assistance to those who must leave the farm and as a result are confronted with considerable personal hardship.
- Carry-on finance provides additional temporary assistance for farms suffering from severe market downturns, drought conditions or other problems.
- Household support: authorizes the payment of household support to farmers who are unable to meet living expenses while deciding whether to leave the farm.

All assistance provided to farmers under these programs is in the form of loans; however, under certain circumstances, loans may be converted into grants. Australia's fiscal year 1978 budget for these programs is as follows:

<u>Program</u>	<u>Amount in millions</u>
General assistance to farmers (Inc: debt reconstruction, farm build-up, farm improvement, and rehabilitation loans)	A\$37.0
Carry-on financing for beef and dairy farmers	16.0
Household support	<u>2.0</u>
Total rural-scheme budget	<u>A\$55.0</u>

Since these funds are used mainly for loans, the Commonwealth Government expects to recover its expenditures. The scheme operates under an agreement between the Commonwealth and all six state governments.



Prescribed Government Decisions Causing  
Structural Change in Australia

<u>Government decision</u>	<u>Date of decision</u>	<u>Expiration dates for applications for government assistance</u>
The 25 Percent Tariff Reduction	July 19, 1973	a/April 18, 1975
Consumer Electronic Equipment and Components Tariff Decision	November 20, 1973	May 19, 1975
Reduction in Assistance to Shipbuilders	December 19, 1973	January 31, 1976
Domestic Appliances Tariff Decision	January 24, 1974	July 23, 1975
Lifting of Tariff Quotas on Woven Shirts and Knitted Outerwear	February 28, 1974	April 18, 1975
Dairy Industry Adjustment	July 1, 1974	June 30, 1976
Passenger Motor Vehicle and Component Decision	November 15, 1974	January 31, 1976
Woven Man-Made Fibre Fabrics Tariff Decision	December 10, 1974	January 31, 1976
Removal of Sales Tax Exemption of Aerated Waters	March 12, 1975	March 11, 1976

a/Extended to April 18, 1975, only for firms and individuals in the footwear, textiles, or apparel industries, plus industries in non-metropolitan areas. The expiration date for other industries, including those in metropolitan areas, was January 18, 1975.

## CHAPTER 3

### CANADA ASSISTANCE PROGRAMS

The Canadian assistance programs differ from the U.S. adjustment assistance programs in that the Canadian programs generally encourage the industries that are most capable of competing with foreign imports and those with potential for expansion rather than those adversely impacted by imports. Canadian programs also target special worker benefits to the specific portions of the workforce that are likely to encounter the most difficulty in adjusting to new employment rather than providing the same general assistance benefits for all workers.

Despite these differences, however, there are several mechanisms used in the Canadian programs that are of particular interest in considering options for the U.S. adjustment assistance program. For example, the Canadian worker assistance program requires that workers exhaust all unemployment insurance benefits before special program benefits are paid. This avoids needless overlap and duplication in assisting unemployed workers. Another mechanism used by the Canadian Government is identification by the employer of all potentially affected workers prior to determination of program eligibility. This eases delivery of worker assistance and reduces delays in approving worker's applications for help.

We also found that the Canadian Government and some Provincial Governments require firms to notify Government officials of pending layoffs. According to Federal and Provincial officials, the prenotification requirement has been important to the success of its manpower programs. It assures that the Government is made aware of pending layoffs and gives Government programs a chance to be implemented before workers become unemployed.

Coordination of programs is also an effective feature of Canadian programs. When the Government is notified of a pending layoff, the Canadian Manpower Consultative Services under the Ministry of Manpower and Immigration is responsible for coordinating with representatives of the workers, the firm, and the community to help them resolve problems facing the firm or to assist workers in finding other employment. The Consultative Service also helps coordinate Federal programs for training and relocating workers or finding assistance for the firm and community.

A list of specific Canadian assistance programs is given below. Each program is discussed in more detail in the remaining sections of this chapter.

General Adjustment Assistance Program--provides financial assistance to manufacturers wanting to expand to meet growing international markets.

Automotive Adjustment Assistance Program--provides financial assistance to auto parts manufacturers and workers affected by the U.S.-Canadian Automotive Agreement.

Textile and Clothing Industry Adjustment Program--provides special import protection measures for industries and pre-retirement benefits for workers affected by imports.

Canadian Manpower Adjustment Program--stresses the responsibility of management and labor to pool their resources in order to resolve structural adjustment problems, and provides a mechanism for them to do so.

General Manpower Programs--provide counseling, training, job referral, and placement to all unemployed Canadians, without regard to the cause of their unemployment.

General Industry Programs--provide financial and technical assistance to firms to achieve industrial growth, create jobs, expand exports, and stimulate regional and community development.

#### GENERAL ADJUSTMENT ASSISTANCE PROGRAM

The General Adjustment Assistance Program (GAAP) was introduced in December 1967 to assist Canadian manufacturers affected by the 1962 Kennedy Round trade negotiations. As initially conceived, the program was directed at:

- assisting manufacturers injured or threatened with injury by increased import competition resulting from tariff reductions; and
- encouraging manufacturers to take advantage of expanding market opportunities resulting from tariff concessions.

In 1973, GAAP regulations were modified in an effort to liberalize program eligibility. In doing so, the requirement that a causal link be established with the Kennedy Round

trade negotiations was eliminated. Now firms may apply for assistance if they need a loan in order to:

- improve their international trade position;
- take advantage of new opportunities for production of goods which will face significant international trade competition; or
- adapt efficiently to competition from goods imported at such prices, in such quantities, or under such conditions as would cause or threaten to cause serious injury.

GAAP is administered by the seven-member General Adjustment Assistance Board. Members are drawn from Government departments and from the private business sector. The Board may authorize loan guarantees, direct loans, and consulting grants.

Historically, banking institutions in Canada have been considered extremely conservative in their lending policies. As a result, firms wishing to expand their international trade operations may often have difficulty in obtaining loans through commercial lending institutions. Firms that are unable to obtain loans on their own may apply to the Board for a GAAP loan guarantee. The guarantee covers 90 percent of the loan and carries an interest rate higher than that paid for similar loans on the open market--the prime interest rate plus 2 percent plus an additional 1 percent for the Government's guarantee. To qualify for a guarantee, applicants must show that they are unable to obtain sufficient financing on reasonable terms unless the loan is insured by the Board.

When firms cannot obtain a Government-insured loan from a private lending institution, the Board may make a direct loan of up to C\$250,000 <sup>1/</sup> for a term not to exceed 20 years. Interest rates must range between the rate of interest charged by the Government of Canada to Crown corporations for loans of similar term and 2-1/4 percent above the rate.

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<sup>1/</sup> The currency conversion rate as of July 1977 was \$1 = 1 Canadian dollar (C\$).

Firms requiring the services of qualified consultants to develop proposals for loans or guarantees may apply to the Board for consulting grants. The amounts of such grants are limited to:

- 50 percent of the cost of the services required if the firm's sales exceeded \$5 million in the year immediately preceding the grant application; or
- 80 percent of the cost of the services required if the sales of the firms did not exceed C\$5 million in the year immediately preceding application.

The Board may also authorize a consulting grant after the loan or guarantee has been made in order to protect its interest in the assets that secure a loan or guarantee. In these instances, the entire cost of consulting services is covered by the grant.

Before approving or denying an application for either a direct loan or a loan guarantee, the Board initiates an investigation of the firm requesting assistance. The investigation is similar to that which would be made by a private lending institution, including a review of earnings and equity data; however, since the Board is a lender of last resort, loan security is not a decisive factor. The length of Board investigations averages about 2 weeks, with about a 60-day lapse from the time of application to the time of the Board's final decision.

As a result of the change in 1973, GAAP has not assisted Canadian firms that are adversely affected by increased import competition. Rather, it has developed into a program to assist Canadian firms in taking advantage of expanding market opportunities. A Board representative advised us that a few firms affected by increased imports applied for GAAP assistance early in the program. None of the applications were approved by the Board. According to the Board representative, these firms were in trouble because of poor management even before the Kennedy Round.

As of March 1977, no direct loans had been made, and only 69 firms had received consulting grants, which totaled about \$768,000. Most program activity has centered around loan guarantees. About 210 loans totaling about \$285 million have been guaranteed. Industries receiving assistance are shown on the following.

GAAP Loan Guarantees by Industry  
1969 - 1977

<u>Industry Sector</u>	<u>Number</u>	<u>Amount</u>
		(000 omitted)
Agriculture, Fisheries, and Food Products	5	C\$ 2,920
Chemicals	5	1,276
Electrical and Electronics	60	159,632
Machinery	37	17,491
Resource Industries and Construc- tion	31	51,872
Textiles and Consumer Products	59	33,134
Transportation Industries	<u>13</u>	<u>19,147</u>
 TOTAL	 <u>210</u>	 <u>C\$285,472</u>

According to a Board member, loan guarantees are not going to larger firms (those with sales over C\$10 million) since such firms can generally obtain financing through private sources. Most guarantees are directed at smaller firms that are experiencing cash-flow problems. Generally, loans are for periods ranging from 4 to 12 years.

GAAP, according to a Board member, is considered to be successful in helping smaller firms (those with sales under C\$10 million) improve their competitive position and expand their international trade operations. Losses reported under the program have been relatively low--about \$3 million--due in part to monitoring by the Board and the lending institution. The Board member estimated that 8 of every 10 loans reaching a trouble status are actually saved from loss.

AUTOMOTIVE ADJUSTMENT  
ASSISTANCE PROGRAM

In 1965, the United States and Canada entered into an agreement to integrate the North American auto market by removing duties on U.S.-Canadian trade in motor vehicles and original equipment parts. This permitted U.S. manufacturers to schedule production in either country without considering tariff restraints. The effects of the agreement on Canada's auto parts manufacturers were twofold. Expanded vehicle production in Canada provided an opportunity for auto parts manufacturers to increase their production facilities in order to meet the increased demand. At the same time, the agreement resulted in increased competition among parts manufacturers, and many of the less competitive producers either closed or were absorbed by larger manufacturers.

An Automotive Adjustment Assistance Program was implemented in Canada in 1965 to provide financial assistance to Canadian auto parts manufacturers and workers affected by the U.S.-Canadian Automotive Agreement. (A similar program was implemented in the United States.) Direct loans were offered to parts manufacturers experiencing overall declines in production as well as those wanting to take advantage of the expanding parts market. The program also provided benefits to workers having to change their jobs as a result of concessions made under the automotive agreement.

The Automotive Adjustment Assistance Program was administered by a specially designated Board under the Department of Industry, Trade, and Commerce. The Board was authorized to approve direct loans to parts manufacturers who were unable to obtain loans from conventional sources. Loans for both new plant and equipment were available under the program at commercial interest rates. Maturity periods ranged from 10 years for equipment to 20 years for acquisition, modernization, development, conversion, or expansion of buildings or real property.

To be eligible for loans, manufacturers were required to show that without additional investment they would not be able to achieve a competitive level of production under the Automotive Agreement conditions. In addition, firms could also qualify if they were able to show that overall production would be substantially reduced as a result of agreement.

To help workers whose jobs were adversely affected by the agreement, the program also provided for transitional assistance benefits. Under this portion of the program, which was administered by the Department of Labor, employees were entitled to receive adjustment assistance if:

- their layoff was certified by the Automotive Adjustment Assistance Board as having resulted from the agreement;
- the anticipated duration of the layoff was 4 weeks or more; and
- on applying for benefits, individuals proved to the Automotive Adjustment Assistance Board that they had worked for 16 of the previous 52 weeks in the industry and that their effective date of layoff was after November 17, 1968.

In addition to regular unemployment benefits, which at that time amounted to about 50 percent of a worker's average wage, transitional assistance benefits were available to workers for up to 52 weeks, depending on the length of employment. The transitional assistance benefit entitlement of an employee varied according to numbers of dependents. Where this was added to his regular unemployment benefits, the total amount ranged from 62 to 75 percent of his previous average weekly wages.

By June 1973, when the program expired, approximately 92 parts manufacturing firms had received loans totaling \$100 million. Of the 92 firms, 4 subsequently went out of business resulting in program losses totaling about C\$8 million.

A total of C\$3 million in transitional assistance benefits had been paid to about 3,100 laid-off auto parts workers through June 30, 1975. These workers received an average of C\$30 a week in program benefits. About 735 other workers were disqualified from receiving program benefits because they were already receiving supplemental unemployment benefits through private income-protection plans. Under program regulations, individuals were not entitled to receive both transitional assistance benefits and supplemental unemployment benefits.

As of April 1977, there were about 460 auto parts manufacturers in Canada. Since the Auto Agreement took effect, an estimated 150 to 200 firms have either been purchased by other manufacturers or have gone out of business. According to a spokesman for the Auto Parts Manufacturers Association, the Auto Adjustment Assistance Program was one of the most successful Government programs for helping industry. Because the Government charged the commercial rate of interest and because there were large losses in the case of only 1 or 2 loans, the program was actually a money-making operation. According to a program spokesman, because loan applications generally involved only two parties--the firm and the Board--the time lapse for benefit delivery was only about 52 days.

Although the program expired in 1973, the Auto Parts Manufacturers Association is asking the Government to reinstate the program. The major reason for the request is to provide financing for further expansion of the Canadian parts industry, which reported a trade deficit of about C\$2.5 billion in 1976.



TEXTILE AND CLOTHING INDUSTRY ADJUSTMENT  
ASSISTANCE PROGRAM

In May 1971, the Textile and Clothing Industry Board was established to implement a special program to assist Canadian firms and workers in the industry that were being affected by increased imports. The program, administered by a three-member Board affiliated with the Department of Industry Trade and Commerce, was established at a time when imports were claiming a larger share of the Canadian clothing and textile market. From 1964 to 1971, imports of clothing and textile goods rose from 36 to 53 percent of the Canadian market.

To qualify for assistance, textiles and clothing manufacturers must file a notice with the Board alleging that imports are causing or threatening serious injury to their Canadian production. In filing such allegations, producers are required to submit plans describing the operational changes which will lead to an improvement of their international competitive position.

The Board is responsible for conducting detailed inquiries to determine whether, in fact, textile and clothing goods are being imported at such prices, in such quantities, and under such conditions as to cause or threaten to cause serious injury. Several symptoms have been identified by the Board for use in determining whether serious injury or threat of injury exists. These include

- declining prices of imports;
- a sudden import surge;
- declining Canadian shipments;
- rising Canadian inventories;
- domestic layoffs or decreasing hours worked;
- declining domestic prices; and
- a slowdown in market growth.

If the Board's investigation determines that imports are adversely affecting Canadian production, it may recommend to the Ministry of Industry, Trade, and Commerce that special import restrictions or other temporary measures of protection be implemented. If such measures are taken,

the Board then becomes responsible for monitoring implementation of the petitioning firm's recovery plan. The program does not provide financial assistance to firms affected by imports; firm assistance must be obtained through other programs.

In addition to assisting textile and clothing firms through tariffs and quotas, the program provides financial benefits to laid-off workers in the form of supplementary benefits and pre-retirement benefits. For employees to be eligible, the Board must certify that they are being injured as a result of

- a reduction in tariffs on any textile and clothing goods imported into Canada,
- any conditions set by the Government for special protection, and/or
- serious injury or threat of injury to the production of any textile or clothing goods caused by import competition in circumstances where special measures of protection have not been recommended or deemed practical.

Layoffs must have (a) occurred after December 18, 1970, (b) reduced the firm's work force by 10 percent, or 50 employees, and (c) lasted at least four months.

Any group of workers may request the Board to certify their layoff, but, in practice, firms generally take the initiative in requesting certification of their workers at the same time that they petition the Board for special import protection measures. To have their workers certified, firms must submit lists of potentially eligible workers. Although certified workers must still apply for benefits, the listing of potentially eligible workers eliminates the need to request work history data from firms on each individual applicant.

All certified workers receiving unemployment insurance benefits were entitled initially to a supplementary benefit, which was paid concurrently with unemployment insurance benefits. Income from combined benefits could equal 66-2/3 percent of average weekly earnings, to a maximum of C\$100 a week, for up to 52 weeks of layoff. This supplementary benefit was discontinued in July 1972, when Canada's regular unemployment insurance benefits were increased from 50 to 66-2/3 percent--the equivalent of the supplementary benefit under the adjustment assistance program.

Textile and clothing workers between 54 and 65 years of age at the time of layoff, who are certified by the Department of Manpower and Immigration as having no prospect of re-employment, are eligible to receive pre-retirement benefits provided they were

--employed in the textile industry for at least 10 of the 15 years immediately preceding the layoff and

--paid by the producer for at least 1,000 hours in each of those 10 years.

The pre-retirement benefit is equal to 66-2/3 percent of the average weekly earnings during the 20-week period prior to the layoff. These benefits are payable only after regular unemployment benefits have expired, and they continue until the recipient reaches age 65.

Relatively few workers received these special program benefits. From July 1971 through April 1973, when the last claim was paid, 779 claims for supplemental allowances were approved--a total of about C\$180,000. Payments to individual workers averaged about C\$16 a week. In addition, only 110 claims were received during the same period for pre-retirement benefits. These payments totaled only C\$210,000 and averaged about C\$47 a week.

More recently, program activity has increased. From 1974 through 1976, a total of 106 claims were submitted for pre-retirement benefits. In December 1976, in part due to the increase in program activity, the Textile and Clothing Board recommended that special measures be taken to limit apparel imports to 1975 levels.

There are mixed opinions as to just how successful this program is in helping workers and firms in the clothing and textile industry. An industry-association spokesman characterizes the program as being responsive to industry needs. Conversely, labor union representatives characterize it as providing little assistance to laid-off workers. Within the textile industry, for example, there were an estimated 103,000 workers in 1973; in 3 years, that number dropped to 89,000--a decline of about 14,000 workers. However, during the same period, program benefits were provided to only 132 individuals.

Labor union representatives attributed the limited program activity to the lack of program publicity and the

fact that most layoffs are based on worker seniority. Those who would be eligible for program benefits--workers who are 54 and over--are generally those with the highest seniority and therefore are the last to be laid off. Most of the workers who are laid off first have low seniority, are generally under age 54, and must therefore rely on general manpower programs for employment assistance.

#### CANADA MANPOWER ADJUSTMENT PROGRAM

The Canada Manpower Adjustment Program was established in June 1963 to encourage management and labor to assume responsibility for manpower adjustments that are necessitated by production cutbacks, plant relocation, technological advances, or increased imports. The manpower adjustment that is necessitated by such changes generally takes the form of either a contraction or a restructuring of the workforce.

The program provides funds to pay for up to 50 percent of the costs of research, planning, and consultations undertaken by management and labor to identify mutually acceptable solutions to adjustment needs. Furthermore, the program also provides funds to pay 50 percent of the costs of relocating workers to another of the company's plants or to another job. In addition, the program aims at coordinating the delivery of training, counseling, and job referral services that are available through Canada Manpower Centers.

The Canada Manpower Adjustment Program is administered by Canada Manpower Consultative Services (CMCS) under the Ministry of Manpower and Immigration. Firms or workers that are facing adjustment needs may request assistance from CMCS. However, CMCS is generally made aware of assistance needs when firms fulfill their legal requirement to notify Provincial Governments of pending group layoffs. Requirements vary among governmental units and depend on the number of workers involved and the length of layoff.

	<u>Notification required if layoff involves</u>	<u>Number of workers laid off</u>	<u>Length of notification required</u>
Federal	50 or more employees <u>1</u> /	50-100 101-300 over 300	8 weeks 12 weeks 16 weeks
Manitoba	See Federal	See Federal	See Federal
Ontario	See Federal	50-199 200-499 over 499	8 weeks 12 weeks 16 weeks
Quebec/Nova Scotia	10 or more employees <u>2</u> /	10-100 101-300 over 300	2 months 3 months 4 months

In addition, two provinces have established minimum layoff periods for which notification is required. In Ontario, notification is generally required for layoffs of more than 13 weeks. And Quebec requires notification of layoffs of 6 months or more.

Because it is sometimes difficult for firms to know in advance whether indefinite layoffs will be permanent, certain types of layoffs are exempted from coverage, or the notification requirements are informally waived. In Ontario, for example, the law specifies that a layoff cannot be permanent if the worker is receiving supplemental unemployment benefits from a private income-protection program. In Quebec, provincial officials do not require notice from auto manufacturers for annual layoffs due to model changes. The officials expect the employer to inform them, however, if all workers are not recalled by October 1, when the plant should be in full production of new models.

When the CMCS is advised of a pending layoff, local staff members contact the employer and the union involved to advise them that CMCS can be of service in identifying and resolving the problem facing the firm, and in helping the workers find other employment. Both Provincial and

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1/Workers to be laid off within four weeks.

2/Workers to be laid off within two months.

Federal law require that employers cooperate with the Governments in providing assistance to displaced workers.

If the employer and union agree to accept CMCS assistance, an assessment agreement is developed among the three parties. The agreement sets up a joint committee to assess the firm's problem, develop solutions, evaluate the impact of solutions on the workers, and recommend action to allow workers to adapt to the solution. The committee generally consists of equal representation from the firm and the union, the local CMCS officer, a representative from the Province (optional), and a committee chairman selected by the committees from the academic or business world who is not affiliated with either the firm or the union. The cost of the committee's work is shared by all parties to the agreement.

Cost Split  
for Assessment Agreements

	<u>3-Party</u> (percent)	<u>4-Party</u> (percent)
Federal	50	37-1/2
Provincial	-	37-1/2
Company	40	20
Union	<u>10</u>	<u>5</u>
Total	<u>100</u>	<u>100</u>

The firm is not obligated to implement the committee's recommendations. The agreement simply requires that the principal parties to the agreement assess its recommendations and implement them as they deem advisable in order to facilitate the adjustment of affected workers.

In addition to agreements with individual firms, the CMCS is also engaged in industry-wide assessment agreements within particular regions of Canada. Although imports are a problem that some Canadian industries face, the CMCS industry-wide agreements addressed many other industry problems.

In addition to identifying problems, the CMCS is also directly involved in implementing the solutions to worker-adjustment problems. For example, if training or counseling is required, the CMCS attempts to obtain it through the Canada Manpower Centers. However, when relocation is

required because the committee has found other jobs for the displaced employees, the CMCS can provide direct assistance. The CMCS engages in a mobility agreement with the employer and usually pays 50 percent of the cost involved in re-locating the employees.

CMCS reported that from the start of the program in February 1965 until January 1977, an estimated 1.3 million workers were assisted under 1,106 agreements:

- 1,069 agreements with firms assisting about 350,870 workers, and
- 37 industry-wide agreements assisting 972,470 workers.

The cost to the Federal Government for these agreements was C\$4.2 million.

CMCS also reported that during the same period it negotiated about 200 mobility agreements. Under these agreements nearly 2,000 workers were relocated at a cost to the Government of about C\$1.4 million.

The number of firm-assessment agreements formed because of the increased import problem was not available. However, several of the agreements were in industries where trade-related programs have been enacted:

<u>Industry</u>	<u>Agreements</u>
Clothing	34
Textiles and leather products	84
Shoe manufacturing	21
Transportation	<u>33</u>
Total	<u>172</u>

For example, in the textile and clothing industry, 47 layoffs from 1971 through 1976 were certified by the Textile and Clothing Board as import-related. Of the 47 layoffs, 35 involved an assessment agreement.

Federal, Provincial, industry, and union officials involved with past CMCS agreements provide a nearly unanimous opinion that the program is a workable approach for dealing with the problem of structural adjustment. According to a textile industry association official, this is particularly true for the textile industry, which is characterized by

many small plants and a substantial number of plant closings. An official of a large Canadian textile firm which has had several CMCS agreements cited these benefits:

- the program goes into effect before the layoffs ever occur;
- the workers have a focal point for assistance, one source that can provide access to both Federal and Provincial programs;
- union participation in the development of solutions helps make the program appealing to workers; and
- the agreements are relatively inexpensive.

Less successful applications of CMCS have occurred at plant closures where there have been large numbers of unemployed individuals, particularly older, industry-attached workers located in regions where few similar jobs are located. In these cases, according to a textile industry association representative, even direct placement referrals have not been successful because the workers refused to relocate. Quebec has tried to overcome this in some cases by providing transportation allowances to workers who are willing to accept jobs on a trial basis in a nearby town. A Quebec official told us that in one such case all 40 workers placed decided to keep the new jobs after the allowance period expired.

According to Federal and Provincial officials, the pre-notification requirement for permanent mass layoffs is a major reason for the success of the program. This requirement assures that the Government is made aware of pending terminations and allows CMCS to get involved before the workers become unemployed.

#### GENERAL PROGRAMS TO ASSIST WORKERS

Under Canada's Federal employment insurance and manpower programs, unemployed workers receive a level of income support and employment services comparable to those provided to import-affected workers under the U.S. Trade Act. No special job-creation programs have been established specifically for import-affected workers. However, workers may qualify for benefits under several of Canada's general job creation programs.



## Income support

Canada has a uniform nationwide unemployment insurance system. To be eligible for benefits, a person must have worked at least 8 weeks in the last year with weekly earnings of at least \$40. Benefits equal 66-2/3 percent of the average weekly insurable earnings to a maximum of \$133--66-2/3 percent of the average weekly manufacturing wage of \$200.

Provincial and Federal officials consider the unemployment-insurance benefit level to be generally adequate for maintaining a standard of living in the short run. In fact, there has been substantial discussion in Parliament as to whether existing benefits may be too high, thus providing a strong disincentive to seek employment.

The length of time during which an individual can receive unemployment insurance benefits varies with the degree of employee attachment to the workforce and the national and local rates of unemployment. However, the maximum duration of benefits is 51 weeks, consisting of the following:

- 25 weeks of regular benefits;
- up to 18 weeks for workforce attachment, or
- 18 weeks if the regional unemployment rate exceeds the national rate by more than 3 percent; and
- 8 weeks if the national unemployment rate exceeds 5 percent.

During 1976, Canada paid C\$3.34 billion in unemployment benefits to about 2.7 million claimants. The average weekly benefit was C\$93.

## Employment services

Unemployed and underemployed Canadians may receive a wide range of employment services--counseling, testing, job placement, training, and a variety of mobility grants. Providing employment services is the responsibility of the Ministry of Manpower and Immigration; services are delivered by the Ministry through Canada Manpower Centers (CMCs), which are located throughout Canada.

Unemployed Canadians are required to register for work when they apply for unemployment insurance benefits. A

major function of the CMCs involves matching these registrants with reported job vacancies. From April 1, 1975, to March 31, 1976, the CMCs made about 3.4 million job referrals for nearly 4.5 million registered workers. About 900,000 full-time job placements resulted. During the same period, only about 1.2 million vacancies were reported to the CMCs in relation to the 4.5 million registered workers.

Job-skill training in Canada is available under the Canadian Manpower Training Program. Program funds are provided for institutional training through provincial institutions and for on-the-job industrial training through agreements with employers. From April 1, 1975, to March 31, 1976, the Federal Government spent C\$500 million for training approximately 275,000 persons.

During this period, about 89 percent of the training cost was for institutional training for 213,000 persons. In addition, the Federal Government also provides funds for training allowances, as well as subsistence and travel allowances if they are needed.

During the same period, industrial training for about 61,000 persons was purchased by the Federal Government at a cost of C\$49 million. Through contracts negotiated with employers, the Federal Government agrees to pay training costs and a portion of the trainees' wages. The Government's wage share depends on the degree of the trainee's employability:

<u>Trainee category</u>	<u>Government's share of wages</u>
Employed: Skill upgrade	up to 40 percent
Employed: Threatened with unemployment because of technological change	up to 60 percent
Unemployed	up to 60 percent
Hard-core unemployed	up to 80 percent

About 45 percent of the training funds went to the "employed" groups.

According to a training program official, studies of program results show that about 75 percent of all trainees (institutional and industrial) obtained jobs after training, but only about one-half of these were jobs for which they had been trained. The percentage is higher for those who had received industrial training.

The Canadian Manpower Mobility Program provides financial incentives to encourage workers who cannot find suitable employment locally to explore employment opportunities and relocate to areas where their skills can be used. Grants are available for:

- exploring job opportunities in nearby areas;
- traveling to obtain employment services not available locally;
- traveling in order to accept temporary employment (2 to 9 months);
- commuting costs associated with enrollment in training programs;
- moving to a new job; and
- traveling to seasonal agricultural work.

During the period April 1975 to March 1976, mobility grants totalled nearly C\$13 million. More than C\$10 million of this amount was for relocating to new jobs.

No comprehensive studies have been made to assess the effectiveness of Canadian mobility efforts. Canadian officials have stated that surveys of relocation-grant recipients indicate that most would have moved anyway. They also have stated that other surveys show that many recipients return to their former location when the opportunity presents itself.

According to Federal and Provincial officials, mobility programs have been de-emphasized in the last year because of Provincial concern that Federal Government efforts were de-populating some Provinces in favor of others. As a result, the Federal Government is now emphasizing the creation of jobs in high-unemployment areas rather than relocation to areas with greater job opportunities.

#### Job creation

Canada has several programs for creating temporary employment opportunities. Some of these, however, are designed for particularly hard-to-employ target groups. Major efforts in this area include the Local Employment Assistance Program (LEAP), and "Canada Works."

LEAP is intended to provide employment for disadvantaged persons who are unable to obtain or hold jobs because of geographic isolation, racial or cultural prejudices, or social, mental, or physical disabilities. Program funds are used to support locally sponsored sheltered workshops. Program workshops are to be self-supporting after 3 years or are to continue as preparation centers for teaching work habits. The Canadian Government reported that from April 1, 1975, to March 31, 1976, C\$13.3 million was allocated to LEAP. On March 31, 1976, 110 projects were being funded, resulting in the creation of about 1,600 jobs.

Canada Works is primarily a program to combat seasonal unemployment and is designed to provide temporary public works jobs. Funds are allocated to communities according to a formula based on the extent of unemployment. These funds may be used for projects proposed by community organizations, local businesses, and church groups.

Individuals hired for these projects must be referred by a Canada Manpower Center. The only hiring criterion imposed by the Government is that the person must be likely to be unemployed for the duration of the project--no more than one year. During the period April 1, 1975, to March 31, 1976, about 5,700 projects, creating an estimated 40,500 jobs, were funded at a cost of about C\$130 million.

#### GENERAL PROGRAMS TO ASSIST FIRMS

A variety of Government activities are carried out at both the Federal and the Provincial level to assist Canadian industries in adapting to changed economic conditions. These program activities are not designed specifically to salvage troubled firms. Rather, they are aimed at achieving industrial growth, job creation, export expansion, and regional and community development. Several of the programs are administered by the Department of Regional Economic Expansion, and the Industrial Development Corporations in Quebec and Ontario.

#### Department of Regional Economic Expansion (DREE)

Established in 1969, DREE encourages the development of new manufacturing and processing facilities as well as expansion of existing facilities in designated regions of high unemployment and slow economic growth. DREE is organized into four regions--Atlantic, Quebec, Ontario, and Western--

and has offices in each Province. The two basic approaches used by DREE to achieve regional economic expansion are (1) general development agreements and (2) direct industry incentives.

In an effort to tailor regional development activities to the needs of specific areas, DREE has implemented general development agreements with each Province. These agreements are directed at the identification and pursuit of major development opportunities. Each defines objectives, a broad strategy to achieve these objectives, and the extent and type of cooperation and support required. These broad statements of intent (which contain no commitment of funds) are subsequently converted to action programs implemented through sub-agreements between DREE and the Province. Each is for a period of from 1 to 5 years and provides for combined Federal/Provincial expenditures.

As of July 1, 1976, there were 59 sub-agreements in effect, calling for a Federal expenditure of more than C\$960 million over a 5-year period. Together, the Federal, Provincial, and private sector expenditures for these sub-agreements are more than C\$1.97 billion and include programs for developing industries such as steel and forestry.

The Regional Development Incentives Act is the primary legislative vehicle by which DREE offers assistance directly to industries. Two types of assistance are available: development incentives and loan guarantees. Development incentives include the following:

- nonrepayable development grants;
- repayable grants; and
- provisionally repayable development incentives (repayable only if the project achieves a certain level of profitability or other objectives specified in the agreement.)

Two main types of development incentives--primary and secondary--are available for firms. Applicants may receive primary incentives if they propose to establish, expand, or modernize facilities in designated areas in order to manufacture a product already being produced by the applicant in the designated area. Primary incentives may not exceed (a) 20 percent of the approved capital costs, or (b) C\$6 million, whichever is the lesser amount.

Applicants may also receive secondary incentives to establish new facilities or expand an existing facility to manufacture a product not previously manufactured. A secondary incentive may not exceed 5 percent of the approved capital costs, plus C\$5,000 for each new job directly created.

In addition to these development incentive grants, firms may also apply to DREE for loan guarantees in order to obtain adequate financing for projects located within designated regions. Loan guarantees insure lenders repayment of up to 90 percent of the loan amount. A fee of 1 percent is charged for the guarantee. To be eligible for a loan guarantee, applicants must be unable to obtain adequate financing on reasonable terms without a government guarantee. In addition, the applicant must meet the same eligibility criteria as those applying for incentive grants.

From 1969 through March 1976, DREE provided about C\$550 million in grants, which were expected to create more than 120,000 new jobs. While it may be impossible to ever identify exactly how many new jobs are being created, statistics indicate that interest in the program is increasing:

	<u>1973/74</u>	<u>1974/75</u>
Net number of offers accepted	466	528
Incentives (millions)	C\$ 73.6	C\$ 81.8
Expected number of jobs created	15,000	16,000

DREE has provided financial assistance to about 16 trade-impacted firms within the textile and clothing industry. According to an official from a textile firm in Quebec, DREE in many cases provided assistance to firms that had no real hope of survival. These firms were either producing an item with too small a market or were producing an item with a large market (e.g., cotton yarn) already saturated by larger more competitive firms. In the official's opinion, DREE assistance is of little benefit in these cases.

#### Industrial development corporations

Both Quebec and Ontario have established industrial development corporations to provide financial and advisory assistance to industries. While the kinds of benefits and

eligibility differ, both are directed at achieving industrial growth, economic development, and employment opportunities.

The Quebec Industrial and Development Corporation was created in June 1971 to consolidate programs of financial assistance to industry and encourage industrial development and job creation in Quebec. Assistance may be granted to firms that:

- want to invest in the use of advanced technology to manufacture (1) a product not yet produced in Quebec, or (2) one that is not produced in sufficient quantity to meet domestic and international market demand;
- want to consolidate their production so as to become more competitive and increase their share of the market;
- are unable to obtain financial assistance elsewhere under reasonable conditions; and
- want assistance to export goods manufactured in Quebec.

Types of financial assistance available through the Corporation include direct loans, loan guarantees, acquisition by the Corporation of minority interests, assumption of interest owed on other loans, and exemption from repayment of part of a Corporation loan. For fiscal year 1976, program activity totaled about C\$63.5 million. Of this amount, about C\$156 million represented direct loans to about 770 applicants.

Several manufacturing firms in industries affected by changing trade patterns have received the Corporation's assistance. From June 1, 1971, through March 31, 1976, the transportation, leather, and textiles and clothing industries were among the many industries receiving assistance.

The Ontario Development Corporation was established in June 1966 by the Government of Ontario to give financial and advisory services to Ontario business. The objective of the Corporation is to stimulate industrial growth, economic development, and employment opportunities in Ontario.

Financial assistance is divided into two categories: incentive loans and term loans. The purpose of incentive loans is to encourage industrial and economic development in Ontario. The loans are to be repaid, although repayment may

be deferred. The loans may be interest free or at a lower-than-prevailing rate of interest and may be for up to 90 percent of a project's cost to a maximum of C\$500,000. To qualify for incentive loans, applicants must demonstrate the need for an incentive, and the ability to contribute to Ontario's industrial and regional development policies, and must provide a satisfactory number of jobs.

The Corporation also provides term loans that are directed at a variety of business development requirements with terms tailored to meet the need of the individual applicants. However, all applicants must:

- be engaged in endeavors that will contribute to the economic development of Ontario,
- show that management is capable of operating the business successfully,
- give evidence that the venture is sound and will result in loan repayment, and
- have sufficient equity in the business to warrant financial assistance.

Available statistics indicate that assistance activity is on the increase. In fiscal year 1975, incentive loans totaled C\$27 million--up from C\$4.6 million in the prior year. Similarly, term loans increased from C\$42 million in fiscal year 1974 to C\$52.8 million in 1975.



## CHAPTER 4

### FRANCE ASSISTANCE PROGRAMS

As is true of most assistance programs in countries other than the United States, the programs in France for aiding workers, firms, and communities are not specifically related to trade. Rather, they are generally available to all workers or firms and are only a part of the French Government's five-year plan (the Seventh Economic and Social Development Plan) to restore full employment and improve the country's balance of payments. While the extent of Government involvement in the French economy is very different from that in the United States, some of the approaches used in France are of interest. In particular, the pre-notification requirement and the special assistance to specific industries might be applicable in the United States.

The pre-notification requirement of the French Government is quite specific: No French firm may discharge workers without prior notice to the Government. The length of the notice period depends on the number of employees to be laid off and the length of time of the layoffs.

The French Government's special assistance programs encourage the restructuring of declining industries, such as steel, shipbuilding, textiles, and machine tools; and the expansion of key industries, such as data processing, aerospace, nuclear power stations, and telecommunications. The approach of providing assistance on an industry basis, with specific provisions for specific industries, gives the Government more flexibility in providing assistance. Of course, the amount of assistance and the types of assistance in France--mergers, Government corporations, as well as loans, loan guarantees, and tax incentives--are very different and more extensive than in the United States.

French programs for assisting workers, firms, and communities are listed below and are described in detail in the remaining sections of the appendix.

#### Programs for workers

1. Unemployment Insurance--Payment is made to workers registered with the National Employment Agency from funds contributed both by employers (80 percent) and by workers (20 percent). Benefits range from about \$140 to \$1,000 a month, for up to one year.

2. Public Aid--Payments are made by the Government to workers who are ineligible for unemployment insurance.
3. Partial Unemployment Program--Partial wage payments are provided to firms that, in the event of a production cutback, reduce the hours of all workers rather than dismiss a few workers.
4. Early Retirement Program--An agreement between the French employer confederations and labor organizations allows retirement at age 60, with benefits nearly equal to those received by workers who retire at the usual time--age 65.
5. Adult Vocational Training Courses--The Ministry of Labor subsidizes the Association for the Professional Training of Adults, which provides vocational training courses designed to teach a skill, mainly for unemployed workers.
6. National Fund for Employment Training Courses--The Ministry of Labor supports a fund that provides vocational training (1) to retrain workers who are threatened with dismissal, (2) to provide new skills needed for a firm that is moving into an area, and (3) to provide special training for unemployed middle managers.
7. Worker Mobility Programs--In order to encourage worker mobility, the Government provides payments for expenses to workers who are seeking jobs away from home. A special, one-time stipend is available to young workers (aged 25 or less) who find work in another area.

#### Programs for industry

Special assistance programs are provided by the Government for several declining French industries. These programs provide financial aid and other assistance for restructuring in order to increase competitiveness and for redeploying the labor forces of the affected industries. Key industries that are assisted include steel, shipbuilding, textiles and clothing, and machine tools.

#### Regional development programs

Through a special regional development agency, various financial incentives and disincentives are applied in order

to stimulate commercial growth in areas with a surplus of labor and to eliminate regional economic imbalances. Measures that are available include regional development grants, reimbursement of some of the expenses of relocating production facilities, relief from certain taxes, and job-training subsidies. The measures are aimed at encouraging firms to create or expand activities in designated areas, to decentralize activities away from Paris and other heavily industrialized areas, and to convert or rationalize inefficient activities.

#### PROGRAMS FOR WORKERS

The French Government's objective is to maintain full employment. To help achieve this goal, France has established several programs aimed at job-creation and maintenance, and manpower-adaptation (which includes worker training and worker mobility). Employment is increased directly by the job-creation and maintenance programs and indirectly by the worker-training and mobility programs.

#### National Employment Agency

The basic service provided by the National Employment Agency is placing people in jobs. To do this, the Agency registers all unemployed workers who want jobs, and it searches out job opportunities. It also gives vocational advice and information and helps job applicants take advantage of vocational training programs.

Registration with the Employment Agency is required for entering some manpower programs. This will be discussed further in the description of each relevant program.

#### Pre-notification System

French firms may not discharge workers without prior notice. Before a firm can dismiss workers it must (1) consult its "committee of enterprise," one of which exists in each firm and consists of worker and union representatives, and (2) get permission to do so from the Ministry of Labor through one of its local offices. The local Labor Office must answer the firm's notice within one month. Otherwise, permission to dismiss is given automatically. The period of notice to the Ministry of Labor depends on the number of workers to be dismissed and the length of the layoff. For example, the required pre-dismissal notice for dismissing 10 to 300 workers for a short period ranges from 15 days to three months.

## Unemployment insurance

Workers without jobs who have registered with the Employment Agency and meet certain other conditions are eligible to receive unemployment insurance payments. One of the primary conditions for receiving these payments is the amount of prior working time. An unemployed person must have worked for three months to receive 40 percent of his former wages. To receive 90 percent of his prior wages, an unemployed worker must have worked six months. In each case, dismissal of the worker must be for economic reasons, such as automation or a business cutback. The minimum unemployment insurance payment is 700 francs 1/ a month, and the maximum is about 5,000 francs, for a period of up to one year. These payments are taxable.

An unemployed worker can refuse a job if it pays less than his previous job by a certain amount. A committee periodically reviews job refusals, and payments are stopped if a refusal is not reasonable. A private association of employer and employee representatives collects the funds for unemployment insurance and makes the payments to recipients. Currently the association collects 2.2 percent of wages paid. Of the amount collected, 80 percent is from the employer and 20 percent from the employee.

## Public aid

Some unemployed persons are not entitled to unemployment insurance benefits because they have not worked at all or have not worked long enough to be eligible. Public aid payments of 500 nontaxable francs a month are made to these individuals. To receive this payment, a person must either have been unsuccessful in finding a job within three months after graduating from school or have worked for a total of five months during the twelve-month period prior to becoming unemployed. Public aid is granted for an indefinite period as long as the unemployed person is unable to obtain an acceptable job.

## Partial Unemployment Program

When firms reduce their activity, they can either lay off the appropriate number of workers or they can reduce every worker's worktime by some fraction and thereby avoid

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1/ The currency conversion rate as of July 1977 was one U.S. dollar equals five French francs.

laying anyone off. France has a program to encourage the latter method. The Government believes that it is better for all workers to share the cost of the setback rather than having some workers bear the entire brunt of the problem.

In this program, employees get 50 percent of normal wages for total hours lost below 40 hours a week, but no employee may be paid for more than 400 hours. The employer must share the cost, but the Government will pay up to 90 percent if the employer agrees not to dismiss any worker during the following six-month period. Local officials of the Ministry of Labor must decide whether a firm would have dismissed workers without this program. The local offices base their decisions on sales records and other activity-level indicators.

#### Early Retirement Program

Workers who volunteer to begin retirement before March 1979 can do so at age 60, with slightly reduced benefits, rather than at the usual retirement age of 65. Although the program is not strictly a government one, the accord that was signed in June 1977 by employer confederations and the five national labor organizations was negotiated at the Government's initiative. Public funds will supplement regular unemployment-compensation funds to provide 80 percent of net wages at the time the worker leaves employment.

It is estimated that about 100,000 workers could participate in the early retirement program and that 50 to 70 percent of the vacancies created by early departures will be filled.

#### The Association for the Professional Training of Adults

The Association is the principal organization for professional training in France and is subsidized by the Government's Ministry of Labor. Employees, employers, and the Government are equally represented in the management. The Association, whose main goal is to help prepare people for new jobs, runs training centers throughout France. There were 135 such centers in 1975. Most of the training provided is for unemployed persons, but the Association also has training courses for those who are in danger of losing their jobs for economic or technological reasons. The Association also trains teachers for the training centers that are managed by such groups as employer associations or unions.

Examples of people who would take Association courses are those leaving school who need to learn a trade to get a job and workers in declining industries who, threatened with dismissal or having already lost their jobs, must learn a new skill. Training is provided for several types of skills, such as hotel service, dressmaking, or computer programming, but the Association caters mainly to large-scale industries-- for example, the building and mechanical trades. Courses require full-time residency and usually last six to twelve months.

To take an Association course, workers must register with the National Employment Agency and apply for training. For those selected, the courses are entirely government-subsidized. A person in Association training is not considered to be unemployed and, therefore, receives no unemployment compensation. However, the trainee is paid up to 120 percent of the minimum wage while in training.

Firms may also buy Association training services for their employees. This is one way in which firms can meet the Government requirement that they spend an amount equal to at least one percent of their payroll wage costs for vocational training. The Government does not subsidize these courses.

#### The National Fund for Employment

Training courses are offered through this fund, which operates under the auspices of the Ministry of Labor. Most of the training offered is directed toward workers in firms that are facing difficulties, and it is intended either to prevent layoffs or to provide new skills. Generally the Fund pays all or part of the trainees' wages during training, as well as the cost of courses.

The following is a brief description of two of the Employment Fund's training courses:

#### Special training for people facing unemployment or those already unemployed.

This training is organized by the employer, often with technical assistance from the Association for Professional Training. The employing firm and the local Fund office decide on the type of training to offer, its duration, class size, and other related matters. The training is technical and is given to groups of 15 to 20 workers, usually all from the same firm. It generally provides skills needed for the

employment that is available in the worker's area. These may be quite different from the skills required in his previous job. No employment contract is guaranteed to the trainees, but in most cases opportunities are available to them. The maximum training period is one year, but usually it lasts only three to six months. The training is full-time, and therefore the employees are not involved in production.

#### Adaption training

This is vocational training to provide new skills to workers who will be working for a firm that is moving into a new area. The training period is usually shorter than that for the "threatened" workers described above. To qualify for training, it is necessary only that the particular skills be unavailable in the area. They do not have to be new and highly-specialized or sophisticated skills. Foreign firms are also eligible for this assistance. The Fund pays the training costs and 25 to 40 percent of the workers' wages during the training.

The Government proposed to expend about 850 million and one billion francs, respectively, for the two types of Association training courses. The same budget-year figures for the Employment Fund training courses are 61 million and 58 million francs, respectively. During 1976, about 22,000 people received Employment Fund training. No data was available on the numbers of people in Association training courses.

#### Worker mobility programs

A relocation-allowance program, for which all workers are eligible, allows one night's transportation and lodging expenses for a job seeker who is looking for work away from home. If a distant job is obtained, the worker can receive a family relocation allowance of between 10,000 and 15,000 francs, depending on the distance and the family size.

A special relocation allowance is also available for young people 25 years of age and less who are leaving any kind of school and who cannot find work in their own locale. They are entitled to a 5,000 franc, one-time stipend if they find work in another area. The allowance is also given to young school graduates who get jobs in a foreign country with a French firm. About 3,000 to 4,000 people participate in this program annually.

## PROGRAMS FOR INDUSTRY

The French Government's special adjustment assistance programs encourage the restructuring of declining industries such as steel, shipbuilding, textiles, and machine tools and the expansion of key industries such as data processing, aerospace, nuclear power stations, and telecommunications.

The special assistance programs for declining industries are handled mainly through the Ministry of Industry. Other ministries, such as the Ministry of Equipment (shipbuilding) and the Ministry of Defense (aircraft), are responsible for their specific sectors. Funds for the adjustment programs are provided as a special budget item in the Ministry of Industry and are available for any situation which, in the judgment of the Ministry of Industry, requires Government intervention and assistance.

The major vehicle for Government actions is the Social and Economic Development Fund, which was established in 1955. The Development Fund provides loans to finance projects specified in industrial assistance programs, which are included in the National Plan. These loans, which carry subsidized interest rates, are granted for programs requiring long-term financing provided that such financing is not available from the usual sources of credit. Loans to companies in the private sector are granted through specialized semi-public sources (e.g., the National Credit Bank) that serve as the executive organs of the Development Fund.

In the case of assistance to declining industries, firms within the industry usually approach the Ministry of Industry with a proposal for aid. The industry is responsible for putting the proposal together. When there appears to be a need for assistance, a ministerial committee is set up to review the industry's assistance proposal. If the committee accepts the proposal, a contract is signed by the responsible parties.

The French Government's special adjustment programs for declining industries are discussed below:



## The steel industry

After a post-World War II boom, which ended in 1959, the French steel industry began to decline and by 1965 was in an extremely weak financial condition. <sup>1/</sup> The industry sought assistance from the Government in improving its competitive position. By mutual consent the industry trade association represented the industry in meetings with representatives of the Ministries of Finance and Industry. The association attempted to get funds for the industry without any strings attached, but the Government felt that the industry could regain its competitiveness only if it were completely reorganized into a small number of large firms. The industry finally yielded to the Government's demands for restructuring; and in July 1966 an agreement was reached which remained in force for five years. A Government/industry advisory committee was established to administer the agreement, to interpret questions arising in its application, and to consider requests for amendments to it.

## The steel cartel

The agreement in effect set up a Government-approved cartel. The plan called for consolidating the basic steel manufacturers into two groups and specialty steel manufacturers into one or two groups. The production plans and schedules of all these groups were to be coordinated and rationalized, using the most efficient plants and closing the least efficient. To maximize economies of scale, new facilities were to be operated on a joint-venture basis so that capacity could be increased in most economically efficient stages rather than installed piecemeal.

Since substantial layoffs were called for under the plan, the agreement required the steel industry to develop a system of job training and assistance for displaced workers. The steel industry also agreed to help new industries locate in areas where unemployment was high among steel workers.

The Government agreed to provide up to 2.7 billion francs in concessional loans to reduce industry costs and strengthen competitiveness. These 20-year loans were made through the Social and Economic Development Fund, with interest set at

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<sup>1/</sup> Under the 1952 Treaty of Paris, France and Germany established the European Coal and Steel Community.

3 percent for a five-year grace period and 4 percent for the remaining 15 years.

In addition, the Government guaranteed the industry that it would be able to borrow at least 600 million francs from other sources in each of the years during which the plan was in effect. The balance of the plan's cost was to be financed by the industry through a two-billion-franc increase and internally-generated funds. During the five years of the agreement, the industry invested more than six billion francs in expanding steel-making and iron ore capacity, of which 40 percent was made possible by government loans.

By 1971, the steel industry had decreased to a few large firms, and more than 40 inefficient mills had been closed. From the beginning of 1966 through the end of 1969, production rose 15 percent, employment fell 15 percent, and output per manhour rose 35 percent. Heavy steel investment continued but with a smaller proportion of government assistance. From 1971 to 1975, the French steel industry invested about 20 billion francs, or more than three times the amount invested from 1966 to 1970. During this same period, the French Government provided between 2.2 and 2.5 billion francs. The Government loaned another 1.5 billion francs to the industry at an interest rate of 9.75 percent in 1976. Spokesmen for the French steel industry claim that the financial assistance programs have contributed substantially to progress in rationalizing the industry.

However, the French steel industry fared poorly in 1975, reflecting the world-wide economic problems. Production in nearly all categories declined, as did domestic consumption, imports, exports, and investment. Believing that a crisis situation existed, the industry tried in late 1975 to get the French Government's support for invocation of Article 58 of the Paris Treaty, with implications for both internal market regulations and the restraint of imports. The Minister of Industry also called upon the European Community to assume its international obligations under the Treaty of Paris.

During 1976 the Commission of the European Coal and Steel Community developed a crisis plan for the Community steel industry. Generally, the plan called for (1) the establishment of a new Community-wide steel association to coordinate industry activity, (2) measures dealing with production and delivery levels, (3) voluntary restraint

arrangements with non-Community countries, (4) regional assistance, and (5) improved market analysis. The plan was approved by the Commission in November 1976.

The French steel industry, however, did not receive the Community's crisis plan enthusiastically. They felt that the plan would not protect them from outside import threats. Through 1976, the steel industry remained in a crisis situation, and heavy social and political pressure to maintain employment frustrated the industry's long-term plans to rationalize production around more efficient mills and to retire some of the industry's heavy debt.

### New assistance proposals

At the end of 1976, all major French steel producers announced plans to reduce their work force. The proposed employment cuts would eliminate 15,000 positions over the next two years. The Steel Institute proposed that the Government support restructuring of the industry with financial assistance that would permit indebted firms to shoulder social changes arising from cutbacks and the redeployment of labor.

In response to the proposed cutbacks in steel capacity and employment, the French Government approved the outline of a plan to streamline production capacity and maintain the competitiveness of the steel industry by providing conditional loans and encouraging cutbacks in employment and capacity. The Government has asked two major automobile makers to locate their new expanded facilities in the Lorraine area, which is the area that would be most seriously affected by the proposed industry cutback. Available estimates of the costs of the restructuring efforts are limited. However, estimates of eight to nine billion francs in total investment by 1980, with three billion francs in Government assistance, have been reported.

The Government's proposal has met with harsh criticism from unions and the political left, with the Communist Confederation of Trade Unions calling for nationalization of the industry. Details of a final plan for assisting the industry had not been accepted as of July 1977.

### The shipbuilding industry

In 1960, a Government study determined that there were too many shipbuilders and that structural reorganization

was necessary to make the French industry competitive. The French Government's restructuring plan called for the industry's cooperation in reducing the number of shipyards from fourteen to four, complete modernization of the remaining yards, reduction of employment by one-third (from 40,000 to 27,000) and reemployment of the displaced workers. The re-employment of laid-off workers was to be accomplished by converting areas of some shipyards to the production of other goods and by retraining workers to assume the new jobs. Long-term loans were promised to firms that would follow the plan.

To encourage participation, the Government moved to cut certain shipbuilding subsidies. The subsidies were gradually reduced from 15 percent of the selling price in 1960 to 5 percent in 1970. However, in 1964, the Government initiated another system of direct assistance, in which it subsidized a percentage of the inflationary increases in the cost of materials and in wages after a threshold level had been passed. In the last few years, inflationary costs absorbed through this program have constituted a large part of total Government assistance to the industry. From 1965 to 1970, the average total amount of assistance to the shipbuilding industry was about 200 million French francs a year.

The restructuring of the shipbuilding industry took longer than expected because many of the firms resisted mergers and closings. However, by 1969 the industry consisted of a few large shipbuilders and was using modern equipment and advanced construction techniques. Between 1960 and 1969, production had risen by more than 60 percent, subsidies per ton had fallen by about one-third, employment had decreased by more than one-third, and output per worker had doubled. During that period, France rose from sixth to fourth place among shipbuilding countries. The French shipbuilding industry had made a spectacular improvement in its competitive position, and in 1969 it had 100 percent of the world market for large gas tankers.

One part of the Government's assistance efforts was not successful however. The Government had hoped that shipbuilders could convert part of their facilities to turning out other products. A number of firms paid more attention to their production facilities than to the state of the market. They tended to produce goods

that were suffering from a declining demand or stiffening competition, and consequently few such ventures were successful.

The Government's Sixth Plan for the French economy called for a reduction of assistance to shipbuilding through 1975. The French shipbuilding situation, however, took a turn for the worse at about that time. For example, in 1976 there were only two orders for new ships, and as of July 1977, no orders had been placed for that year.

To cope with these problems, in July 1977 the French Government approved a new sectoral plan for the shipbuilding industry. The plan calls for the Government to subsidize the industry with up to one billion francs over the next five years in return for an agreement with the companies to regroup themselves around two relatively powerful shipbuilders--Alsthom Atlantique and Chantiers de France Dunkerque. The restructuring, which calls for specialization by type of ship, a reduction in the labor force, and the resulting economies of scale, is intended to restore the industry's competitiveness by 1980. As of August 1977, the proposed plan had not been accepted by all of the industry's five largest shipbuilders. However, an agreement had reportedly been reached among the firms in the Alsthom Atlantique group. U.S. officials in Paris believed that the French Government was likely to get most of what it desired in terms of restructuring, but there are no assurances that this will solve the problem.

#### Textile and clothing industry

The Government's efforts to help the textile industry have consisted of limited financial assistance. The assistance, which was initiated in 1967, is funded by a tax of less than 0.5 percent on sales of textile items. Two-sevenths of the amount collected is used to support industry-wide research. The remainder is used to provide direct financial assistance to the industry. The funds are administered through a joint Government-industry committee and are used mainly to buy and scrap the machines of firms going out of business, to assist workers in obtaining new employment, and to assist individual companies in purchasing new machinery. While the Government's assistance measures have somewhat lessened the burden of firms going out of business and the impact on their employees, the measures have had little effect in improving the industry's ability to compete.

## Machine tools industry

France ranked sixth among world producers of machine tools in January 1976, when the Minister of Industry initiated a five-year policy for expanding and restructuring the industry. The French Government considered the development of high-technology machine tools to be essential for expanding future tool exports. And it believed that the manufacture of classical types of machine tools was becoming increasingly decentralized outside of France as more and more developing countries industrialized.

According to the French Government, the machine tools industry faces four major problems: (1) gaps in the line of available French-built machine tools, (2) the small size of individual firms, (3) insufficient production capacity, which resulted in the loss of a share of the domestic market to imports, and (4) the low level of profitability of the sector. The new sectoral policy called for a committee of producer, consumer, and government representatives in the machine tools sector to oversee a five-year strategy aimed at solving these problems.

The French Government, however, did not want to play an active role in restructuring the industry, that is, in making determinations about such factors as new products and production capacity. The Government was called upon instead to assume a supportive role, especially in providing financing for restructuring and new fiscal incentives for business investment. The Government did this through expanding an existing research and development subsidy program. The three agencies involved with research and development in the industry were to be coordinated under a Government Scientific Research Committee. In addition, certain tool manufacturers would continue to benefit from another specialized aid program, which had been launched in 1972 to help small and medium-sized manufacturers pay for plant retooling and promotional expenses incurred in developing a new product.

According to U.S. commercial officials in Paris, the policy, though broad in scope and ambitious, does not fully meet the needs of the industry. Methods of achieving the stated objectives are not clear, so that the policy is more an outline of government intentions than a detailed program.

## REGIONAL DEVELOPMENT PROGRAMS

Regional development is one of France's major assistance efforts. Two of the five main objectives of the Seventh French Plan are full employment and reduced income-inequality among regions. The plan calls for eliminating territorial imbalances that impede full employment, hold back population growth, and lead to social tensions.

The policy of encouraging the development of the less-developed regions dates back to the 1950s. The agency responsible for policy implementation is the Delegation a l'Amenagement de Territoire et a l'Action Regionale, commonly referred to as DATAR, whose Director reports directly to the Prime Minister. The agency

- designs regional development policy and plays an active part in its implementation;
- administers a system of regional incentives (direct cash grants, tax exemptions, and training subsidies) for which businesses setting up facilities with local labor may qualify; the funds available for investment incentives amounted to \$107 million in 1975;
- gives emphasis to projects that create the most jobs (in the past, emphasis has been on industrial efficiency); emphasis is also placed on the expansion of existing industrial installations rather than on bringing in new companies;
- works very closely with other branches of the Government and local officials who are in charge of the economic development of their regions;
- arranges investment incentives and cash grants offered by the Government when a firm (1) creates new activities or expands existing ones in designated priority development areas, (2) converts declining industries in areas with surplus labor, or (3) promotes decentralization of firms away from the cities of Paris or Lyons to a development-priority area.

Several different types of subsidies are available to firms under the French regional development program, including (a) grants for establishing new facilities in selected development zones, (b) adjustment grants to firms that are already established and will undergo conversion in certain development zones, and (c) various decentralization premiums.

The subsidies cover a portion of the removal or investment costs for firms agreeing to decentralize geographically. Most subsidies are made conditional on the creation of a certain number of new jobs by eligible firms. The various subsidies available are discussed below.

A cash grant of up to 25 percent of the amount of investment may be obtained by firms that expand or create new activities in certain areas. The computation of the grant takes into consideration the zone, the number of jobs created, and the type of activity. The eligibility requirements for new activities call for a minimum investment of 500,000 francs, the creation of at least 30 permanent jobs, and completion of the project within a period of three years. The requirements are the same for expanding existing activities, except that the expansion must result in an increase of at least 30 percent or an increase in employment of at least 100 persons.

Industrial companies that are situated in the Paris region and other designated areas and transfer all or part of their production facilities outside of these areas may receive a partial reimbursement of expenses incurred in relocating. The decentralization indemnity will cover up to 60 percent of the expenses incurred in transferring equipment (transportation and other related expenses, including disassembly and reassembly). In addition, a payment is provided to the company for housing and relocation expenses of personnel. To qualify for the decentralization indemnity, a firm must vacate at least 500 square meters of industrial premises.

Firms that conform their investment plans with the French Government's regional development policy may also benefit from certain tax relief measures, including:

- exemption from local business tax,
- reduction of transfer taxes,
- accelerated depreciation of construction costs, and
- reduction of the tax on capital gains from the sale of land.

Government subsidies are available for training employees in accordance with individual agreements with appropriate government agencies. The agreements, reflecting local employment conditions and the needs of the firms, fix the nature and amount of the subsidies. Such subsidy agreements require the firm to disclose information about its recruitment and



personnel training programs and to give preference to job applicants referred by the local employment agency.

Employees who move in order to follow a relocating firm may apply for reimbursement of transportation and moving expenses incurred by them and their dependents. They may also apply for a relocation indemnity, which is a multiple of the minimum guaranteed salary.

#### Assistance from local and other authorities

The DATAR organization has representatives, or prefects, in each of the 30 economic regions. The regional prefects, who are government-appointed, coordinate the activities of the department prefects in their regions, particularly those concerning the Government's regional economic development.

In addition to DATAR, there are various local authorities that may give considerable help in locating economic development projects. Local organizations, called Development Committees (e.g., the Port of Marseilles), actively try to attract industries to their areas. The Chambers of Commerce and Industry also provide assistance.

#### Financing of regional policy

The Ministry of Finance provides DATAR with a discretionary fund, which it may use for the creation or improvement of infrastructure. Each of the regional prefects is also provided with funding for this purpose. The incentive program funding comes directly from the Ministry of Finance once a firm's application has been accepted by DATAR and approved.

In addition, each region has its own budget organization supported by local taxes and borrowing. The aim of these budget organizations is to finance regional infrastructure; however, recently they have also been granting subsidies to small firms.

DATAR also has access to the Intervention Fund for Area Development in France and the Fund for Assistance to Decentralization, which help firms locate in designated areas.

DATAR has had some success in getting industry distributed throughout France. The automobile industry, until a few years ago, was concentrated largely in the Paris region. Now it has been decentralized to Brittany, Bordeaux, and Alsace.

Electronic firms have been established in Brittany, Normandy, Grenoble, and Toulouse. New chemical industries have been started in Montpellier, Caen, and Toulouse. New steel works have been set up near the coast. A special effort is being made to develop industrial zones near major ports and medium-sized provincial towns.

## CHAPTER 5

### JAPAN ASSISTANCE PROGRAMS

The hallmark of Japan's approach to worker and firm assistance has been its anticipatory planning rather than reactive measures though Japan, like other countries, is caught up in the problems of the worldwide economic slowdown. The Japanese Government generally tries to forecast changes in world trade and tries to take advantage of the forecasts in converting its industries before changes in the pattern of international trade make difficult adjustments necessary. Despite these efforts, however, Japan does operate assistance programs to help those that face changing economic conditions because of increased competition for traditional export markets, increased competition from imports, reduced domestic demand, and currently the general worldwide economic slowdown.

Since the Second World War, the industrial composition of Japanese trade has undergone dramatic change. For example, Japan's exports changed significantly between 1955 and 1975: textiles, apparel, and handicrafts declined from 52 percent in 1955 to 14 percent in 1975, while industries such as steel, automobiles, machinery, and electronics increased from 25 percent in 1955 to 72 percent in 1975. 1/

While restructuring together with other measures brought high gains--an average 10 percent per annum growth rate of the economy from the mid-fifties to the seventies--this policy also brought serious costs in the form of increasingly severe pollution and congestion. These problems, in conjunction with the energy crisis, have recently led the Japanese Government to advocate shifting away from heavy industries and chemicals toward resource-saving, energy-saving, technology-intensive, industries such as highly sophisticated assembly industries, fashion industries, and industries which require a high degree of technology.

Through its industrial-structure policy, the Japanese Government has selected certain industries to be given priority consideration. It has encouraged growth in these areas by making credit more available, by offering exceptional depreciation opportunities, and other special measures.

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1/ Robert A. Feldman and William V. RAPP, "Japan's Economic Strategy and Prospects," p. 3. This was prepared as a background paper for the January 19, 1978, meeting of the Study Group on Japan, Council on Foreign Relations.

Until the recent worldwide economic slowdown, structural change occurred fairly smoothly in Japan. The high-growth environment produced a multitude of investment opportunities. Government programs divided between attracting resources into areas perceived to have high growth potential and operating special programs for medium and small businesses.

With a total dependence on the world economy for its petroleum, and a sizable dependence on it for coal, Japan was exceptionally hard hit by the OPEC price hike in 1973. The growth rate of real GNP, which had previously increased at an average annual rate of 10 percent, was in real terms as follows during the next three calendar years.

1973-74	-1.3
1974-75	2.5
1975-76	6.0

The shift to slower economic growth, together with higher production costs resulting from higher raw-material and energy prices, severely affected several industries. In a 1977 report the Ministry of International Trade and Industry (MITI) identified 12 industries as being severely impacted:

open hearth and electric furnace steel	sugar refining
nonferrous metals	polyvinyl chloride resin (PVC)
aluminum refining	shipping
chemical fertilizers	plywood
machine tools	corrugated paper
textiles	shipbuilding

The nature of the difficulties in these 12 industries is listed at the end of this chapter.

In addition to the programs discussed below, the Japanese Government is making strenuous efforts to stimulate the economy in response to pressure from trading partners to correct its huge trade surplus.

Japanese programs to assist workers, firms, and regions are described in detail in the remaining sections of this chapter. Programs not yet approved and others scheduled to be implemented in the near future are also identified.

## JAPAN'S WORKER ADJUSTMENT PROGRAM

In recent years, Japan has maintained high levels of employment due to the extraordinary rate of economic growth discussed earlier. However, since 1975, unemployment has been at record heights--at least by Japanese standards. During the fiscal year ending March 31, 1976, unemployment averaged 2.0 percent and as of June 30, 1977, was just slightly above this level--2.1 percent--when approximately 1.1 million individuals were listed as unemployed.

Certain factors play a significant part in preventing the unemployment rate from reaching a higher level. One of the most important of these is the lifetime employment system, under which large firms pledge continued employment opportunities to a portion of their workforce. Such workers are hired upon leaving school. Firms will not discharge them unless the firm's very existence is at stake. Although some of these workers have been discharged, many others are being retained at great cost to the employers. A second factor minimizing the unemployment statistics is that workers such as numbers of women, semi-retired workers, and "temporary" workers (workers not accorded life-time tenure), who have slim chances of locating employment, have withdrawn from the job market, and accordingly are not reflected in the unemployment statistics. Thus many more workers than appear in official statistics are either out of work or not productively employed.

The Japanese Government assists workers who are unemployed, regardless of cause, through its regular employment insurance program. In addition it has programs for specific hard-hit industries. Programs for these industries consist of lengthened unemployment benefits, retraining and relocation allowances, and payments to employers to keep workers on the payroll.

### Basic unemployment benefits

The Employment Insurance Act of 1974 provides basic unemployment benefits for persons out of work. The duration of the benefits varies from 90 days to 300 days depending primarily on the worker's age, but also on length of previous employment and difficulty in finding new employment. The following statistics show the duration of the basic unemployment benefit payments for workers by age with employment of one year or more and for those with less than a year.

<u>Age</u>	<u>Duration of benefits</u>	
	<u>Employment</u> 1 year and <u>over</u>	<u>Employment</u> less than <u>1 year</u>
Younger than 30	90 days	90 days
30 but younger than 45	180	90
45 but younger than 55	240	90
55 and above	300	90

In the case of handicapped persons who are having difficulty finding employment, treatment is more generous. Those with employment of one year or more who are under 55 can receive up to 240 days of benefits; those 55 and over can receive benefits for 300 days. The Act allows the Ministry of Labor to extend the 300-day maximum to 360 days under special circumstances. In the case of all applicants for unemployment insurance, however, they must have actually lost their jobs and be willing to accept offered employment. Payments begin after a one week waiting period following application to the security office.

Unemployed workers receive 60 percent of their average monthly salary, including overtime and bonuses received during the prior six months, up to a maximum of ¥162,000 1/per month. When there are overtime and bonuses to be included in the calculation, workers may receive up to approximately 90 percent of their base salaries. During June 1977, 610,000 workers (approximately 55 percent of the unemployed workers in Japan) were receiving benefits. Ministry of Labor officials explained that most of the remaining 45 percent were workers whose eligibility periods had expired or students who had not recently held a job and were therefore ineligible.

The employment program is funded through employer, employee, and Government contributions. The Government pays 25 percent of the cost, with the remaining 75 percent divided equally between employers and employees. One-half of 1 percent of gross wages is deducted from employee salaries in order to fund the employment program. Employers match this amount.

The Employment Insurance Act also provides relocation benefits to eligible unemployed workers who accept jobs in other locations. These benefits are quite small. Ministry

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1/The currency conversion rate as of July 1977 was \$1 = 273 yen (Y).

of Labor statistics on the number of workers relocating to jobs in other areas in the year 1973-75 and the amounts paid to them are shown below:

<u>Calendar year</u>	<u>Number</u>	<u>Total Amount Paid</u>
1973	11,397	Y386,967,000
1974	4,909	Y163,627,000
1975	1,517	Y 79,525,000

Special countermeasures for hard-hit industries

The Employment Countermeasures Law of 1977 includes a provision for supplementary payments to unemployed workers in certain hard-hit industries. The provision, which is called the Employment Shift Allowance System, allows up to 15 months of additional unemployment benefits at reduced levels after unemployment benefits expire. The benefits are normally contingent on the unemployed worker's participation in vocational training, and the length of benefits depends upon length of training.

Funding for the "employment shift" system and other closely related special programs is provided entirely by the national Government. Average benefits under these programs are less than the benefits from normal unemployment. Maximum benefits under the programs are Y2800 a day.

In July 1977, the Ministry of Labor designated laid-off employees of the top 40 shipbuilding companies as eligible under the system. (As will be discussed later, the top 40 shipbuilding companies are reducing production by a significant amount and are estimating large reductions in numbers of employees.) The Ministry of Labor anticipates that assistance to laid-off shipbuilding workers will increase sharply in fiscal years 1978-1980. Shipbuilding union officials estimate that possibly 26,000 employees will be laid off in shipbuilding and related industries by fiscal year 1978, in addition to the 31,000 workers that have already been released since 1974.

Because of the difficulty in finding jobs for unemployed workers, the Ministry of Labor has waived the vocational training requirement and authorized benefits for specified periods. For example, former textile workers may receive benefits for 2 years with no vocational education requirement. Labor officials said that future recipients, including

shipbuilding workers, will be required to undergo training as a condition for obtaining extended benefits.

The Coal Miner's Assistance Law of 1959 provided aid to coal miners who were laid off because of the conversion to other agency sources. Many of the 300,000 coal miners laid off between 1955 and 1977 received additional benefits for 2 years after regular unemployment insurance benefits had expired. Benefits also included relocation expenses, low-rent housing, and temporary state jobs.

The U.S. Occupation Force Employee Training Measures Law similarly assisted workers who were laid off following reductions in U.S. military forces stationed in Japan. During fiscal year 1976, 6,700 Japanese workers who were formerly employed by the U.S. military forces received additional benefits.

The Ministry of Labor constantly monitors employment in all industries and adjusts its special assistance programs to aid those deemed needy. Currently the Ministry is considering expanding the supplementary employment assistance to other hard-hit industries, such as electric-furnace steel, textiles, and fishing.

#### Government program to stabilize employment

In December 1974, the Government expanded the Employment Insurance Law to include a temporary program--made permanent in May 1977--that was designed to minimize unemployment, especially among lifetime employees in designated industries. These workers were being discharged by some firms after all other techniques for keeping the permanent work force productively employed had been exhausted (e.g.: discharging workers who were not part of the lifetime employment system and having work performed internally that was normally contracted out.) After taking these steps, many firms continued to have excess employees, and it is estimated that nearly 200,000 permanent workers were discharged. The Bank of Japan estimated that during the first quarter of calendar 1975 Japanese industry held 2 million unnecessary workers. The Japan Times reported on August 22, 1977, that Japanese industry retained almost one million unnecessary workers during the same period in 1977. Needless to say it is costly for firms to maintain these workers.

Under the Government program, funds are provided for firms in selected industries to retain lifetime workers.



Assistance can be extended for a maximum of 75 days during a six-month period when excess workers are retained on the firm's rolls--either performing miscellaneous tasks, undergoing training, or in a furloughed status.

During the 12 months from April 1, 1975, through March 31, 1976, approximately 2.85 million workers in 5,948 companies in 152 industries received these employment adjustment allowances. It was estimated that the program saved 200,000 to 300,000 jobs in 1975 and helped to keep unemployment down since even furloughed workers remain on company rolls and are therefore not technically unemployed.

From the beginning of the program in December 1974 until the end of March 1976, about Y 66 million was expended on this program; Y 25 billion was budgeted for the fiscal year ending March 31, 1977.

The Government benefits are funded totally through payroll contributions, by employers that have five or more workers. Employers pay a percentage of their gross wages to the Government. The industry and union officials whom we interviewed believed that the program was helpful in keeping workers employed. Some proposed expanding the program to assist more workers.

#### Current adjustment measures

In May 1977, the Japanese Government made the program of aid to life-time workers permanent and added another program to assist workers in making job changes. The new program is called the Employment Stabilization Fund System and became effective October 1977. Under this program the Government subsidizes portions of wages for workers who attend vocational training and pays training expenses. The estimated amount of training during the period April - October 1977 was 4,200,000 man-days. The Government also provides subsidies to employers for hiring older workers who were laid off by other companies.

The stabilization program offers additional long-term assistance, but only to workers in industries that are designated as eligible for benefits by the Ministry of Labor. This long-term assistance includes subsidies to help employers maintain their work force while shifting to another line of production. These subsidies provide portions of wages (one-half to two-thirds, depending upon company size) during periods of retooling and retraining, as well as retraining expenses. The Government for a period also pays the difference in wages for laid-off employees who are rehired in jobs that pay less. The

Ministry of Labor designates eligibility periods as well as eligible industries.

Funds for operating the stabilization program also come from employer contributions. Employers pay an additional 0.05 percent of gross wages to the Government.

<u>Program</u>	<u>Percent of gross wages paid as contributions</u>		
	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
Subsidies to continue employment of redundant workers	0.3	-	0.3
Employment stabilization	<u>0.05</u>	<u>-</u>	<u>0.05</u>
Total	<u>0.35%</u>		<u>0.35%</u>

#### ASSISTANCE TO INDUSTRY

The Government of Japan has developed a comprehensive program to help industries. The objective of these programs is to develop a consensus on what Government and industry working together envision as the most desirable industrial structure. Tax preferences and credit availability are the basic tools used to channel resources into industries being encouraged for development. This type of assistance, which was used in the 1960s to promote the growth of heavy and chemical industries, is now being used to encourage the development of knowledge-intensive industries.

The Government has also been providing various types of assistance to small and medium-sized firms, including loans to encourage modernization of plant facilities and preferential tax treatment for firms shifting from one product line to another. The Government from time to time has also permitted the formation of cartels.

#### Small-business assistance measures

Small business plays an important role in the Japanese economy. In 1973 small businesses were responsible for more than half the value of manufactured-goods shipments. The Small and Medium Enterprise Agency of MITI monitors economic conditions in the small business community and provides various forms of financial assistance aimed at helping firms adjust to changing economic conditions. Assistance measures that are available include interest-free and low-interest loans, as well as numerous tax incentives. These programs are authorized by (1) the

Small and Medium Enterprise Modernization Promotion Law, (2) the Temporary Measures Law for Small and Medium Enterprises, and (3) the Law on Extraordinary Measures for the Conversion of Small and Medium Enterprises.

Small and Medium-sized Enterprise  
Modernization Promotion Law

The Small and Medium Enterprise Modernization Promotion Law was enacted in 1963 and was liberalized by amendments in 1969, 1973, and 1975. Initially, only industries designated as requiring modernization were eligible for low-interest loans and preferential tax treatment. In 1969 the first revision of the law authorized the Small and Medium Enterprise Agency also to provide preferential treatment to previously-designated industries whose modernization was considered essential to strengthening the industries' international competitiveness. Such industries are referred to as "specified industries."

Until 1973, the program under the modernization law emphasized equipment modernization and firm expansion. In 1973, a provision was added to the law that authorized the Government to provide interest-free loans to encourage firms to shift to more knowledge-intensive industries. Under this provision the government provides 80 percent of the cost of acquiring laboratories, research facilities, and equipment to firm associations attempting to develop knowledge-intensive product lines. The Japanese Government and prefectural governments each provide one-half of the funds loaned. About 10 associations have benefited from this program.

Two additional provisions were added in 1975. Under the first provision, service-related firms in already-specified industries became qualified for loans under the same terms as the designated industries. Under the second provision, extremely favorable loans could be offered to encourage entire industries to develop a new product line. To date there have been no applications for assistance under this program. Officials said this was because (1) it is difficult to get all firms in an industry to agree on a plan and (2) firms desiring to shift to a new industry can receive similar loans under the business shift law.

Currently there are 64 designated industries, of which 38 are specified. Of the 38 specified industries, 10 are eligible to receive loans to finance the development of knowledge-intensive product lines. As was mentioned earlier, such loans are interest free. Loans for other programs are available at the following rates:

<u>Program</u>	<u>Interest rate</u>
Designated industry	7.70%
Specified industry	7.25
Specified shift industry	6.75

The major tax incentives available to encourage modernization are:

- For specified industries, equipment can be depreciated at a 50-percent higher level than normal during the first 5 years of participation in the program.
- Equipment purchased with money loaned under the modernization law is exempt from property-type taxation for a specified period.
- Funds contributed to an association that is established to administer a technical development program can be deducted from taxable income.
- Twenty-five (25) percent of research and development expenses which exceed the highest amount expended for research and development between fiscal years 1967 and 1976 can be applied as a tax credit.

#### Temporary Measure Law for Small and Medium-sized Enterprises

This law was passed in 1971 to help small and medium-sized firms that were having difficulty exporting their products due to the revaluation of the yen. Assistance available under this law includes low-interest loans, interest-free loans for scrapping excess equipment, Government-guaranteed loans, and tax incentives. This assistance was to help firms shift to new industries which were not as severely impacted by the revaluation of the yen or to reorganize/rationalize their production in order to be more competitive.

Firms in 121 industries were eligible for assistance regardless of location, while firms in 83 other industries were eligible only if they were located in a specified region. Firms seeking assistance are required to have the governor of the prefecture in which they are located certify that its business was injured by the revaluation of the yen. A total of approximately 20,000 firms were authorized to receive assistance.

Firms desiring to shift to another industry are required to submit a shift plan to their prefectural governor for approval. Of the 65 firms receiving approval to shift, 63 actually shifted. Japanese officials considered 47 of the shifts to be successful. The remaining 16 were considered unsuccessful for the following reasons:

<u>Reason</u>	<u>Number</u>
1. Firms went out of business immediately after shifting to new industry.	6
2. Firm experienced worse conditions after shift.	3
3. Firm was impelled to leave new industry.	4
4. Firm shifted back to original industry.	<u>3</u>
Total	<u><u>16</u></u>

We were advised that more firms did not shift because they were reluctant to move to a field in which they lacked experience. The remaining firms used the available assistance to strengthen their position in their present industry.

Approximately Y3.5 billion was loaned under this program by Government-affiliated organizations. The amount loaned by organization, was:

<u>Organization</u>	<u>Amount (million Y)</u>
Small Business Finance Corp.	Y1,138
People's Finance Corp.	1,030
Public Promotion Corp.	<u>1,331</u>
Total	<u><u>Y3,499</u></u>

As a rule, the Small Business Finance Corporation loaned funds to medium-sized firms, and the People's Finance Corporation loaned funds to small businesses. Loans made by the Public Promotion Corporation were for joint scrapping only and were interest free.

Tax incentives available under this program are basically the same as those available under the Business Shift Law, which is discussed later. This law was abolished in November 1976 and replaced by the Law on Extraordinary Measures for the Conversion of Small and Medium-sized Enterprises. This law allows assistance to be provided to small and medium-sized enterprises that are suffering from

various structural problems, and not only from reduced exports caused by the revaluation of the yen.

Law on Extraordinary Measures  
for the Conversion of Small and  
Medium-sized Enterprises

This legislation, which became effective in December 1976, authorized the Ministry of International Trade and Industry to assist small and medium-sized firms in shifting to a new industry if their business had been injured by any of the following factors:

1. Failing trade structure.
2. Technical innovations.
3. Raw material shortages.
4. Anti-pollution/safety measures legislation.

Available assistance includes long-term, low-interest, and interest-free loans from Government-affiliated finance corporations, Government-guaranteed loans, and tax incentives. Each is discussed below:

1. Low-interest loans are provided by the Small Business Finance Corporation and the People's Finance Corporation at an annual interest rate of 6.75 percent during the first 3 years of the loan and 7.27 percent during the following 10 years.
2. Interest-free loans with 16 years to repay are provided by the Public Promotion Corporation to groups of firms rationalizing their operations. Under this program, 90 percent of the cost of scrapping equipment can be loaned to a group of firms in a small industry. Firms actually scrapping equipment are reimbursed from the loan proceeds for the cost of equipment scrapped. Repayment does not begin until the fifth year after the loan is made. Of the funds loaned, 67.5 percent is supplied by the Public Promotion Corporation, and 32.5 percent is supplied by prefectural governments.

3. Loan Guarantees up to Y176 million per firm--double the amount that would be guaranteed under the Temporary Measures Law for Small and Medium Enterprises--are provided by the Government to help small and medium-sized firms shift to new industries. Credit Guarantee Associations located in each prefecture, which are financed jointly by the prefectural and central governments, are required to reimburse a commercial bank for loans which are defaulted.
4. Tax incentives allow firms to fully depreciate the value of assets being scrapped in half the assets' remaining life. Also, firms merging with other firms or joining in business ventures can defer income taxes for an establishing number of years.

Firms that belong to an industry designated as eligible for such assistance and that want to shift to a new business must prepare a proposal to be approved by the appropriate prefectural governor. Proposals should include such information as timing, a description of the new business, and how the shift will be accomplished. If the proposal is approved, the applicant is certified as eligible for assistance.

The first industry designation was made three months after enactment. To date, 72 industries have been designated as eligible to receive assistance. Firms belonging to 66 of the designated industries can apply for assistance regardless of location, whereas firms belonging to 6 of the industries can apply only if they are located in specified regions. So far 12 firms have applied for assistance under this program; all 12 have been approved. None, however, have actually moved to a new business yet.

#### Possible future programs

Ministry of International Trade and Industry officials in the Small and Medium Enterprise Agency advised that they are concentrating their efforts on managing the business shift law. However, several additional measures were under consideration for implementation in fiscal year 1978. These included:

- Mutual Relief System - Under this system a Government-affiliated corporation would be established to lend money to firms that are unable to collect debts from

bankrupt firms. This would prevent one bankruptcy from creating a chain reaction. Loans would be interest-free and would not have to be secured. Premiums collected from small and medium-sized enterprises would be used to finance the fund from which the loans are made.

- Deposit System - The Government (National and Prefectural) plans to deposit funds with commercial banks in interest-free accounts, with the stipulation that the money be used to make low-interest loans to potentially bankrupt firms. Between ¥10 billion and ¥13 billion is expected to be made available under this program.
- Assistance to Regions - Under this program, regions with a concentration of firms suffering economic hardship as a result of a general economic recession, import competition, or export competition would be eligible for assistance. Corrective measures could include the introduction of new industry into the area and low-interest loans or tax incentives to enable the existing industry to continue to function.

#### Cartel arrangements to assist industry

Cartelization in Japan is generally prohibited by Article 3 of Japan's Antimonopoly Law. However, the Antimonopoly Law contains provisions under which the Fair Trade Commission, an organization that is directly responsible to the Prime Minister, may approve applications from industry associations to organize cartels for assisting industries that face recession or rationalization problems.

The Commission can authorize the creation of production and/or price cartels in industries that face problems because of recession or because of a need for rationalization. Cartels are usually authorized for three-month periods, but they may be renewed. Although the Commission is generally reluctant to approve either type of cartel, it can authorize a cartel if there is an extreme imbalance between supply and demand for a given industry's products and the following conditions exists:

- The actual selling price of a commodity is below the average cost of production, and a considerable portion of the industry's firms may eventually be forced to discontinue operations, and



--the applicants are unable to recover from the structural problem through their own efforts.

In late 1976 through the first eight months of 1977 the Fair Trade Commission authorized five industries to establish cartels. These are listed below:

<u>Industry</u>	<u>Number of Firms</u>	<u>Date Authorized</u>	<u>Type of Cartel</u>
Worsted wool yarn	38	April 1977	production
Monofilament spinning yarn	120	April 1977	production
Vinyl Chloride resin	22	May 1977	production
Cement	20	June 1977	production
Open hearth and electric-furnace steel	50	November 1976 August 1977	production price

The Small and Medium Enterprise Antirecession Law authorizes small and medium-sized firms to apply to the Small and Medium Enterprise Agency of MITI for authorization to form a cartel. By special authorization the Agency can bind all firms in an industry to cartel restriction if the potential actions of nonparticipants might jeopardize attainment of the cartel's goals. The Agency can bind even large firms in an industry to cartel restriction if more than two-thirds of the cartel members are small and medium-sized enterprises and if they produce more than 50 percent of the total output of the industry.

Small firms participating in non-binding cartels authorized by the Fair Trade Commission may apply to the Small and Medium Enterprise Agency for authorization to form a binding cartel if the actions of nonmember firms substantially weaken the impact of their cartel.

#### Assistance from the Japan Development Bank

The Japan Development Bank was established in 1951 as a Government-affiliated banking institution to provide financing to large private enterprises which strive to achieve the policy objectives of the Government. Its loan policies are one of the means the Government uses to guide the direction of industrial development in Japan.

Cabinet ministries annually provide policy guidance to the Japan Development Bank in evaluating loan applications. The Government's policy guidance for fiscal year 1975 emphasized the following areas:

- urban development and modernization of the distribution system for goods and merchandise;
- improvement of the quality of life, mainly through pollution abatement and control;
- balanced regional development;
- strengthening the basic economic structure through diversification of energy sources and improvement of transportation systems; and
- development of technology and creation of a more knowledge-intensive industrial structure.

The Japan Development Bank provides loans to enterprises which employ over 300 employees and have annual sales of over Y100 million. The loans are provided at concessional interest rates. During fiscal year 1975, the Japan Development Bank loaned Y766 billion for use in the following areas:

<u>Program Area</u>	<u>Japanese yen</u> (millions)
Urban development	Y139,000
Regional development	112,000
Improvement in life quality	236,000
Resources and energy	69,000
Ocean shipping	76,000
Development of technology	87,000
Others	<u>47,000</u>
 Total	 <u>Y766,000</u>

Japan Development Bank loans outstanding at the end of fiscal year 1975 amounted to about Y3,500 billion.

Japan Development Bank funds come from Government loans and profits gained through the Bank's lending operations. The amounts of borrowings from the Government are determined annually and are included in the Fiscal Investment and Loan Program. Net borrowings in fiscal year 1975 were Y403 billion, and repayments amounted to Y305 billion.

## Assistance to Specific Industries

The Japanese Government has implemented programs to provide a favorable environment for adjusting specific industries. Administrative guidance is given to affected parties, and their cooperation in the restructuring of their industry is enlisted. The industries requiring assistance under such programs are the textile, shipbuilding, and electric furnace steel industries.

### Textile industry

The textile industry has been under constant pressure in recent years as it continues to lose domestic and export markets. In 1975, the textile industry accounted for only 6.7 percent of all Japanese exports, down from 37 percent in 1955 and 18.7 percent in 1965. Imports have increased. Fifteen years ago, textile imports represented only 1 to 2 percent of the domestic market. Since 1973, textile imports have accounted for 14 to 17 percent of the domestic market. This continued loss of domestic and export markets has caused a loss of employment to over 200,000 workers in the industry since 1974.

Prior to 1974, the Government of Japan had taken several actions to help the textile industry adjust to these changing economic circumstances. The actions included (1) Government purchasing of excess equipment, (2) long-term low-interest loans from Government-affiliated finance corporations, (3) Government-guaranteed loans from commercial banks, and (4) extensions of the repayment periods of existing loans. The Government also financed market surveys to determine the most profitable direction for the textile industry, especially in regard to overseas markets.

In 1974, the Textile Industry Structural Improvement Temporary Measures Law was enacted to encourage the industry to restructure so as to be better able to compete with developing countries for export and domestic markets. This restructuring required the industry, which is divided into the following three sectors, to vertically integrate.

- Upper stream - production of yarn/thread from raw materials.
- Middle stream - weaving of thread/yarn into fabric.
- Down stream - production of wearing apparel from fabric.

The objective is to get companies that are performing at least two of the three functions to merge or to coordinate their operations closely and to place their emphasis on making high-quality apparel.

Three measures were authorized by the 1974 law to encourage vertical integration:

1. Low-interest loans to textile firms that integrate vertically. These loans are made by the Government-affiliated finance corporations under the same terms as those that are available to business-shift applicants.
2. Tax incentives that allow firms to totally depreciate a newly constructed joint facility in 3-1/2 years. Normally these facilities could be depreciated only 90 percent over a 7-year period.
3. Payments of ¥10,000 per worker a month for 12 months to firms that hire workers who have been displaced as a result of vertical integration.

This program has not been as successful as was hoped. While there are about 100,000 firms in the Japanese textile industry, only 40 integrations have taken place since the program's inception, each involving approximately 10 firms.

Officials of the Ministry of International Trade and Industry attribute this to the fact that it was implemented in 1974, when the general recession was becoming more and more serious. Textile firms were reluctant to integrate because they were skeptical about borrowing money in view of the uncertain economic future.

Vertical integration assistance is not the only assistance available to the industry. Small and medium-sized textile firms that want to shift to a new industry can apply for assistance under the business shift law. Also, under the new Employment Stabilization Fund System of the Employment Insurance Law, firms in the textile industry that are experiencing difficulties are eligible for Government subsidies to stabilize employment. As was discussed previously, these subsidies defray a portion of the wage costs of unnecessary workers and thus make it easier for firms to maintain these workers on their employment roles.

However, an official of one textile firm told us that larger and more diversified firms cannot qualify because

the Government, in determining firm eligibility, considers the number of workers that are affected on a company-wide basis and not on the basis of the affected plant or workshop alone. He expressed a need for the Government to expand the stabilization program in order provide coverage for more firms.

A program to provide long-term interest-free loans to enable textile firms to scrap excess equipment, particularly in the weaving section, is under consideration. These loans would be made available by the Public Promotion Corporation. The fiscal year 1977 budget contained Y6.7 billion (U.S. \$24.5 million) for this program. However, no loans have been made to date for such purpose. If implemented, such assistance would be made available only to small and medium-sized firms.

### Shipbuilding industry

Japan's shipbuilding industry, which produced about one-half the world's shipbuilding tonnage in the late 60s and early 70s, has been severely affected by events following the October 1973 oil crisis. Since that time, there has been a sharp decline in new ship orders and a large number of cancellations. Production declined in fiscal year 1976 to 16.2 million gross tons from 17.0 million gross tons in fiscal 1975--each level being considerably below the industry's annual production capacity of 19 million gross tons. Orders for only 7.6 million gross tons of new ships were received in fiscal year 1975. During the first four months of fiscal 1977, orders for approximately 2.6 million gross tons of new ships were received.

The future, at least until 1980, looks bleak. The Keidanren (Federation of Economic Organizations), a private body which represents a broad segment of economic activities in Japan, has predicted that the Japanese shipbuilding industry will suffer the worst crisis in its history after fiscal year 1977. An advisory council to the Ministry of Transportation 1/ predicted that new orders would decline to a total of about 6.5 million gross tons in fiscal year 1980, when total world demand is expected to be only 12-13 million gross tons. Industry and union representatives also predicted a large decrease in workload.

Through December 1976, shipbuilding and related firms had reduced employment by approximately 31,000 workers,

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1/Council for Rationalization of Shipping and Shipbuilding Industries.

primarily through attrition. The Japan Confederation of Shipbuilding and Engineering Workers' Unions predicts that firms will have reduced employment by an additional 26,000 workers by the end of fiscal year 1978.

The Ministry of Transportation has recommended a series of measures to reduce the operation of the 40 largest shipbuilding firms. Of the 1,500 firms in the shipbuilding industry, the 40 largest firms control 95 percent of total production capacity. Countermeasures to assist smaller and medium-sized firms are available through the Small and Medium Enterprise Agency programs discussed earlier.

To reduce operations, the Government recommended that by fiscal year 1978 the 40 largest firms reduce their operating hours to an average of 65 percent of their fiscal years 1973-1975 peak operating hours. <sup>1/</sup> The Ministry of Transportation recommended a greater reduction for the largest seven firms because theoretically they should be better able to absorb the excess workers into other productive areas. The recommended reduction by size of firms is:

Top 7 producers -- reduce to 63 percent of prior peak  
Next 17 producers -- reduce to 70 percent of prior peak  
Next 16 producers -- reduce to 75 percent of prior peak

The Ministry of Transportation provided no Government financial aid to assist firms in making these reductions.

The second measure was to protect laid-off workers. The Ministry of Transportation designated shipbuilding as an impacted industry eligible for supplementary employee benefits under the 1967 Employment Countermeasures Law. The benefits are available after regular unemployment benefits expire and are authorized for a 2-to-15 month period, contingent on involvement in vocational training. The Ministry of Labor expected about 8,000 unemployed workers to be eligible for this assistance during fiscal years 1977 and 1978.

Subcontractors are significantly impacted by the industry's problems because one of the first steps taken by prime contractors who are facing reductions in business is to reduce subcontracting work. The third measure

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<sup>1/</sup>The recommended reduction in operating hours is not commensurate with the forecast reductions in gross tonnage because ships produced in the future will be more complex. Thus the work force will not need to decrease commensurately with forecast tonnage reductions.

assisted shipbuilding subcontractors to change industries. For example, during fiscal year 1977, the Ministry of Transportation provided ¥150 million to subcontractors shifting to the ship-scraping industry. Normally, ship scrapping is contracted to firms in other countries because it is not profitable in Japan. The Ministry of Transportation is hoping, however, that with the Government subsidy the ship-scraping industry will become profitable in Japan and will provide jobs for former shipbuilding employees.

The Ministry of Transportation has also restricted capital investment in shipbuilding firms. Under this restriction, the Ministry of Transportation prohibits any expansion of more than 5,000 gross tons in shipbuilding capacity and requires special approval of any expansion of less than 5,000 gross tons. Expansion will be authorized only if the firm scraps existing capacity commensurately. The purpose of this restriction is to ensure that the industry does not make its problems worse by increasing capacity during a period of decreasing demand.

The Ministry of Transportation has also established minimum prices for ships ordered after the Fall of 1976. This restriction stabilized prices and prevented domestic cut-throat competition. The price ceiling was raised 5 percent in February 1977 as a negotiated concession to the European Community. The Ministry of Transportation and MITI monitor the export prices of ships.

Neither shipbuilders nor union representatives are satisfied with Government assistance programs because they offer little or no direction and no financial assistance to the industry. The Japan Confederation of Shipbuilding and Engineering Workers' Union has petitioned several Government ministries for assistance. The Confederation petition requests the Government to (1) encourage firms, through some type of assistance, to actively scrap antiquated ships and replace them with new ships, (2) establish a program under which long-term favorable loans could be offered to customers, (3) revise Japanese law and possibly seek a revision in international law to require that future oil tankers have double hulls, (4) recommend that existing ships replace their turbine engines with more economical diesel engines, and (5) stimulate demand for liquefied natural gas carriers--which are extremely expensive ships in comparison to oil tankers--by providing Government financial assistance to purchasers.

### Open hearth and electric furnace steel companies

This industry, which is composed of 70 small to medium-sized companies, produces concrete reinforcing bars and flat steel. In fiscal year 1976, the firms' 21 million metric ton production capacity exceeded demand by 40 percent. Market prices have also decreased--from Y100,000 a metric ton in December 1973 to Y41,000 a metric ton in November 1975. As a result, almost all the 70 firms are now losing money.

Based on a forecast for 1980, which estimated 3.3 million metric tons (or 16 percent) of the current 21 million metric ton capacity will be in excess, MITI asked each firm to scrap a portion of its production capacity. Each firm agreed to restrict production by scrapping 16 percent of its capacity. While they are not legally bound to scrap this capacity, the firms are following the plan.

The Ministry of International Trade and Industry also proposed that a temporary cartel be established to control the production of steel bars. The object was to reduce production levels until the scrapping program is completed and in doing so, force the market price to increase. However, price increases as of mid-1977 were small.

Since further decreases in production could not be made without price increases, a price cartel was proposed. The cartel was approved on August 16, 1977, to be effective through September 30, 1977, and was to operate in conjunction with the production-restriction cartel. Under these two cartels total production of small steel bars was restricted to 40 percent of total productive capacity, with the lowest price per metric ton being Y52,000. It was not clear whether this action would prove effective since only 50 percent of the 70 firms were participating in the cartel.

### REGIONAL DEVELOPMENT ASSISTANCE

The Industrial Relocation Law of 1972 provides low-interest loans, subsidies, and tax incentives to motivate industries to relocate. The purpose of the program is to narrow the economic differences between workers in the major Japanese industrial centers of Tokyo, Osaka, and Nagoya and those elsewhere in Japan and to reduce the strain on available land and industrial resources in the major metropolitan centers.



Government funds are provided under the Japanese Government Fiscal Investment and Loan Program to the Regional Industrial Promotion Public Corporation, a Government-affiliated organization set-up to provide low-interest loans to firms relocating to designated areas. The Ministry of International Trade and Industry has designated 2,000 to 3,000 locations as eligible relocation sites. The interest rate charged in 1977 was 6.75 percent annually, with 3 years to repay. The amount of the loan cannot exceed the value of company property in the metropolitan area being vacated. Through fiscal year 1976, the Regional Industrial Promotion Public Corporation provided a total of 149 loans to relocating firms, most of which relocated from Tokyo. Loans made during fiscal years 1975 and 1976 and the budgeted loan amount for fiscal 1977 were as follows.

<u>Fiscal year</u>	<u>Amount (billion)</u>
1975	Y56.0
1976	Y61.6
1977	Y42.5

Any firm can apply for relocation assistance.

The industries with the most firms taking advantage of Government relocation benefits were as follows.

<u>Industry</u>	<u>Firms</u>
Steel-related factories	23
Textiles	17
Metal manufacturers	16
Nonferrous metals	14
General machine makers	12

Subsidies are provided to local villages and towns as incentives to accept new factories into their locale. These subsidies are used to provide facilities for public use, such as gymnasiums, town halls, and ball parks. These facilities are intended to compensate for the noise, pollution, and other industrial problems caused by the new firm. Subsidies can also be used to improve roads or build industrial parks to attract new industries.

The subsidy limit is Y5,000 per square meter of new factory floor space, with a maximum of Y100 million for each firm. Subsidies to local municipalities during the most recent years, including the budgeted amount for fiscal year 1977, are shown below.

<u>Fiscal Year</u>	<u>Number</u>	<u>Amount (billions)</u>
1975	217	Y9.1
1976	172	Y7.7
1977	Unknown	Y6.1

The most popular tax incentive made available to relocating firms is the exemption from the fixed asset tax imposed by local governments. The Japanese Government reimburses local governments for revenues lost because of this exemption. Recently, reimbursements to local governments have amounted to about Y10 billion a year. Local or prefectural governments do not provide tax incentives to attract industries, as is common in the United States. A Japanese Government official told us that the relocation program has not been as effective as desired, but has helped reduce industrial congestion in the largest cities.

The Government official said that additional inducements are needed in the current slow growth period to motivate relocations. Plans are being developed to improve loan terms and provide subsidies to encourage local municipalities and industrial associations to prepare development in fiscal year 1978:

- Double the subsidies to municipalities from Y5,000 to Y10,000 per square meter of new factories.
- Provide special Japan Development Bank loans to medium and large-sized enterprises for relocation with the interest rate at 7.5 percent.
- Provide low-interest Small Business Promotion Corporation loans to small and medium-sized enterprises.
- Provide Y34,000,000 in subsidies to encourage industrial associations in designated areas to draw up development plans.

The official said that the new inducements are necessary because firms are reluctant to invest in new plant and equipment in a weak economy.

#### Japanese Industries in Structural Recession

1. Open hearth and electric furnace steel--Firms impacted are smaller steel mills producing steel bars and flat steel. Problems relate primarily to decreased domestic demand for steel.

2. Nonferrous metals--Because of the worldwide recession, demand for copper, lead, and zinc products have decreased, resulting in production curtailments.
3. Aluminum refining--Producers of aluminum ingots from imported bauxite are affected by the recession, which has caused decreased demand and production curtailments.
4. Chemical fertilizers--Firms impacted are producers of ammonium sulfate and urea. Sharp declines in international market prices and increases in raw material prices have caused production costs to exceed profitability levels.
5. Machine tools--These businesses manufacture tools and equipment used to make products and machines, such as lathes and drills. Because of the stagnant domestic demand for manufactured products, the demand for machine tools has declined.
6. Textiles--Textile manufacturers are faced with growing competition from less-developed countries, such as Taiwan and South Korea. The lower labor costs in these countries enable their textile manufacturers to market their products more cheaply than can Japanese manufacturers.
7. Sugar refining--The worldwide decrease in the price of sugar has severely impacted the refining industry.
8. Polyvinyl chloride resin (PVC)--Mills producing a wide variety of items ranging from auto seat covers to insulation for electrical wiring are affected by the high cost of chlorine and ethylene raw materials.
9. Shipping--The shipping industry is in a serious recession, with a large surplus of idle vessels. Japanese shipping companies are facing an erosion of their competitive position and deteriorating profit margins.
10. Shipbuilding--Worldwide decrease in demand for new ships due to the recession and current overcapacity of existing ships has caused a major reduction in operation.
11. Plywood--Major decreases in demand for plywood products is forcing the scrapping of over 10 percent of total equipment and several plant closings.
12. Cardboard--Mills producing cardboard products are voluntarily cutting production because of a current oversupply.

## CHAPTER 6

### SWEDEN ASSISTANCE PROGRAMS

The assistance programs instituted by the Swedish Government are very different from the U.S. programs under the Trade Act. First, the special programs in Sweden are not limited to workers or firms suffering from import competition. Their programs are open to all workers or firms, provided that their industries are designated for special assistance.

Another difference between the Swedish and U.S. programs is the wide variety of the Swedish programs. The policy of safeguarding employment and preventing layoffs and dismissals in Sweden results in much greater Government support of industries needing assistance. In addition to general unemployment insurance and employment services, the Swedish Government has developed several programs to provide subsidies to firms to help them retain workers during short periods of economic slowdown.

Special assistance to firms is also different in Sweden than in the United States. Instead of a general assistance program, Sweden has developed specific assistance programs for specific industries that are especially depressed. Sweden's programs include assistance for the shipbuilding, clothing, steel, shoe, handmade glass, foundry, and cutlery industries, and for certain parts of the woodworking industry.

Two mechanisms used in Sweden's programs are of particular interest. The first is the "pre-notification" requirement. Firms planning layoffs must notify the Government 2 to 6 months in advance. Where terminations are involved, the existing law can require even earlier notification than is specified for cutbacks, depending on the individual's age and length of service. According to Swedish officials, such a system gives the Government more time to implement assistance measures.

The second mechanism used in Sweden is to assist workers indirectly by providing subsidies to firms. The "25-Kronor" in-plant training program, the inventory subsidies, and the other special measures for stimulating production help to maintain employment for workers in troubled industries. Unlike the programs in the United States, which pay unemployment and trade-adjustment assistance directly to the workers, these programs keep

workers productively employed, thus easing the transition back into unsubsidized work. However, this approach can cause problems unless the downward trend in the economy is short-lived. If the trend continues for a long time, large stockpiles of inventory can build up, which might further inhibit the recovery of the economy until these stockpiles are depleted.

Swedish programs to help workers and firms are highlighted below and are detailed in the remaining sections of this appendix. They are categorized by the Government of Sweden as worker- or firm-oriented, depending on which is the primary beneficiary of the assistance.

#### General employment programs

1. Unemployment insurance, provided by unemployment benefit societies that are largely Government-subsidized, pays up to eleven-twelfths of an unemployed worker's prior income. The usual compensation period is 60 weeks.
2. Labor-market cash assistance, which is a supplementary insurance program, is mainly for those who are not eligible for benefit-society membership.
3. The employment service has a system of local offices which provide job information, placement services, and job planning and training.
4. Vocational training for those who are unemployed or are facing unemployment is provided through formal training centers and the school system, and through in-plant training organized by employers with government assistance.
5. Special job-creation measures provide temporary and semi-permanent employment for the hard-to-employ workers, such as the young, the elderly, and the handicapped.

#### Restructuring and contra-cyclical programs

1. The "25-Kronor" program provides in-plant training subsidies for employees who are in danger of being dismissed or laid off.

2. Inventory subsidies are provided to firms for maintaining and increasing inventories, which will enable them to retain workers during economic slowdowns.
3. Investment reserve funds enable the government to encourage firms to speed up employment-creating and to maintain capital investments during recession periods.
4. Other measures provide production stimulation and financial assistance to help maintain employment in troubled industries.

### Industry programs

These programs provide financial assistance, special education measures, and export promotion grants to specific industrial sectors to stimulate changes that are needed in order to compete with foreign producers.

### Regional Development Program

The Regional Development Program assists in establishing and expanding enterprises in selected areas where employment and the economy are in need of reinforcement. Funds are provided through the Labor Market Board for investment loans and grants, and various subsidies are available for employment, training, transportation, and relocation.

### PROGRAMS FOR WORKERS

Full employment is one of the primary objectives of the Swedish Government's economic policy. As a result, Sweden has had one of the lowest unemployment levels in the world. With a population of about 8.2 million at the end of 1976 and a work force of about 4.1 million, unemployment in Sweden is about 1.6 percent and has been under 2 percent since 1973.

Under the Swedish system, Government policies are administered, not by the various Ministries, but by agencies attached to the Ministries. The National Labor Market Board (Arbetsmarknadsstyrelsen) is responsible for implementing labor policy. Much of the responsibility for the authority over labor policy is decentralized to County Labor Boards and to the district and local offices of the Employment Service.

In the event the insured is totally unemployed, his unemployment compensation is paid in the form of a daily allowance. If his unemployment is only partial, the number of days per week for which he is paid is reduced. Total compensation cannot exceed eleven-twelfths of his income prior to being unemployed.

The unemployment-benefit societies are financed from four sources: contributions from those insured, government subsidies, employer contributions, and income from the assets of the societies. In 1975, employee contributions ranged from SKr. 1.50 <sup>1</sup>/<sub>100</sub> to SKr. 40 a month.

During 1975, insurance benefit societies paid out SKr. 653 million, of which the Government subsidized SKr. 505 million, or about 77 percent.

#### Labor Market Cash Assistance

Labor Market Cash Assistance was introduced at the beginning of 1974 as a supplement to unemployment insurance. It is mainly for people who are not covered by unemployment insurance or who have not had time to complete the qualifying period of twelve months' membership in an employment benefit society. Assistance can also be given to insured persons who have ceased to be entitled to unemployment benefits on reaching the age of 60. New entrants into the labor market who meet certain conditions are also covered by Labor Market Cash Assistance.

The Labor Market Board administers the assistance program through the County Labor Boards and the local employment offices. The Boards assess entitlement to benefits, which is based on the same general conditions as that for unemployment insurance.

As of January 1977, the maximum cash assistance was SKr. 55 per benefit day. This sum may be reduced if the recipient has assets that are worth a certain amount or if he draws a pension or annuity of a certain level. The benefit is taxable and qualifies for pension entitlement. Two-thirds of the cost of his assistance is paid out of employer contributions, and the remainder is paid by the Government.

In 1975, 53,800 persons drew Labor Market Cash Assistance at a total cost of SKr. 67 million. Fifty-five

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<sup>1</sup>/<sub>100</sub>The currency conversion rate as of July 1977 was \$1 = 4.4 Swedish Kronor (SKr.).

percent of the recipients were under 25 years of age, and 62 percent of the total were women. Of a total of 44,300 new applications received, 40,500 were approved.

### Employment service

The Employment Service of the National Labor Market Board is responsible for providing information, placement, and job-planning services. The information provided includes local, regional, and national vacancy lists, occupations and lines of training, listings of training courses available, and publications concerning the labor market. Placement includes providing the job-seeker with suggestions concerning possible employment and arranging contacts with employers. Job-planning includes all the measures required to prepare a hard-to-place job-seeker for employment. These may involve vocational training, a change of occupation, or employment in government workshops.

Unemployed persons who are members of unemployment insurance funds or who are entitled to Labor Market Cash Assistance are required to register at an employment office and visit the office at least once a month. From July 1975 to June 1976, the total number of job-seekers registered with all employment offices averaged 188,500 a month. Some estimates show that the Employment Service made approximately 150,000 referrals a month.

### Training

Through its employment offices, the National Labor Market Board provides two types of vocational training. Formal training is offered through training centers, and on-the-job training is offered within the industries. Formal training is provided either at Labor Market Training Centers or through the regular school system. To qualify for formal training the applicant must be

--unemployed or in danger of becoming unemployed,  
or having difficulty in finding employment,

--29 years of age or older, and

--registered with an employment office as a job  
applicant.

In addition, the training must be of a kind that the employment office believes can make it easier for the applicant to obtain permanent employment.



The budget of the National Labor Market Board for the fiscal year 1976/1977 was nearly SKr. 7 billion, compared to the SKr. 5.2 billion that was expended in 1975/1976. The current budget of the Board accounts for about 7 percent of total expenditures of the Swedish Government (an increase from 5 percent in 1975/1976) and approximately 2 percent of Sweden's gross national product (about the same as in 1975/1976). In the eleven years since fiscal year 1965/1966, the Labor Market Board budget has increased nearly seven-fold.

#### General employment programs

One of the objectives of labor-market policy is to deploy a range of measures, such as employment services, training, and special job-creation measures, to help unemployed people obtain gainful employment. Because these measures are not always available immediately and time is required to plan an appropriate course of action, an unemployed person can obtain financial support during the waiting period.

As an aid to labor-market authorities in implementing the various programs at their disposal, employers are required to provide their County Board with advance notice of impending closures or production cuts that will involve terminations or layoffs. The length of notice depends on the number of employees involved:

less than 25	-	2 months
25 to 100	-	4 months
more than 100	-	6 months

Under the existing law, where termination is involved, even earlier notification than that specified above for the smaller cutbacks can be required, depending on the individual's age and length of service.

When the County Board receives the notice of closure or cut in production, a consultation group may be formed to facilitate the process of readjustment. The group contains representatives of the Board, the employer, the employees, and the local government. Its main task is to assist in deciding which of the available measures to apply, such as: (a) re-employment of affected workers by existing or new firms in the area, (b) training in order to acquire a new skill or to buy time until production returns to normal or new jobs open up, or (c) creation of relief-type employment during the transition period. The group may also propose new ideas for facilitating readjustment.

Labor officials said that the trade unions are satisfied with the advance warning system and that it allows adequate time for implementing appropriate labor-market assistance measures.

### Unemployment insurance

Most cash support for unemployed workers comes from unemployment benefit societies in the form of unemployment-insurance payments. The National Labor Market Board supervises the forty-six unemployment benefit societies, which represent various occupational groups and are in close association with the trade unions. The trade unions, which founded the societies, usually require their members to belong. The societies are independent entities, but with few exceptions they are administered jointly with their respective trade unions. In January 1977, 2.8 million, or about 70 percent of the total national gainfully employed labor force of 4.1 million, were members of unemployment benefit societies.

To qualify for unemployment benefits the applicant must: (1) have been a member of a recognized unemployment benefit society for at least twelve months, (2) have been employed for at least five of the twelve months preceding the beginning of unemployment, and (3) be able and willing to take a job and be registered with the employment service as seeking work.

The compensation period is usually 300 days (60 weeks) after a 5-day waiting period. If the insured is age 55 or over, benefits will be payable for up to 450 days (90 weeks). Unemployment compensation is taxable and subject to withholdings for retirement income. A person age 60 or over whose unemployment-insurance coverage has expired is entitled to a disability pension if he is regarded as permanently unemployed.

In-plant training is provided by participating firms, with Government financial support. The training curriculum is agreed upon by management and the trade unions in consultation with the National Labor Market Board. In-plant training can qualify for government support on a variety of grounds: to assist the adjustment to business change, to encourage new hiring, to reduce sex bias in certain occupations, to train the elderly and handicapped, and to help carry out regional policy.

An incentive grant of SKr.10 per day is paid to trainees receiving labor-market training. This grant is a supplement to any unemployment benefits or Labor Market Cash Assistance that the trainee is receiving.

During 1976, an average of 45,000 or 50,000 workers were involved in labor-market training; a recent substantial increase in that number is due mainly to the Government's job-maintenance efforts. The Labor Market Board reported expenditures of about SKr.2.4 billion for all types of training during the budget year 1975/1976.

#### Special job-creation measures

The creation of temporary jobs along with training programs is Sweden's second main line of defense against unemployment. In terms of direct measures, the National Labor Market Board can influence employment by starting programs under its own auspices or by giving support to private or public enterprises to get them to provide relief work, and semi-sheltered or sheltered work. In recent years, measures have been taken to create temporary jobs suitable for new groups of applicants.

Relief work is intended to be a temporary employment measure for groups that have a weak position in the labor market. Public relief work provides temporary employment in order to combat unemployment that is seasonal or cyclical, or is due to other changes in the economy, such as layoffs and closures caused by structural changes. As of February 1977, 29,300 people were employed in public relief work projects.

#### Restructuring and contra-cyclical programs

Sweden has adopted several worker-oriented assistance programs to supplement the general manpower programs. These measures are used to combat the threat of unemployment when industries undergo restructuring and when cyclical downturns in the economy occur.

#### The "25-Kronor" Program

The "25-Kronor" program pays an hourly subsidy to firms which provide training. It was established by the Parliament on July 1, 1974, and has been renewed every six months to encourage Swedish firms to retain employees who are in

danger of being dismissed or laid off due to changes in the business climate. It is a job-maintenance measure, aimed particularly at keeping unemployment levels low during cyclical downturns in the economy; it is also used to protect workers in industries where restructuring is taking place.

The program is administered by the National Labor Market Board through its County Labor Boards. Although it is aimed at keeping workers employed, it also benefits the company by helping it retain skilled employees during recessionary periods so that they will be readily available when business prospects improve.

The specific workers involved and the training curriculum are agreed upon by management and the trade union in consultation with the Board. Nearly any kind of training can be included. For example, the training can be for increasing present skills, taking on new tasks when there are production changes, or learning the jobs of other workers to increase production flexibility.

In February 1977, the Parliament approved an increase in the amount of the subsidy from SKr. 8 to SKr. 25 for each hour of training, up to 160 hours per worker. After 160 hours, the company can receive SKr. 15 (up from SKr. 12) per hour for a maximum of 960 hours of training for any one worker. The firm pays the rest of the worker's regular wage, plus the required social benefits and payroll taxes (approximately 40 percent of wages).

It is not clear whether the program, in its earlier stages, had a significant impact on unemployment, although 260 firms were approved for the subsidy during fiscal year 1975/1976 and more than 4,000 workers were in training under the program during each month in the first half of 1976.

In the first five months after the subsidy increase, nearly 1,100 firms applied for assistance under this program. Few applications were denied, which, according to Board officials, is a result of the close cooperation among company and union representatives and the Board, and the consequent amount of preparation made before formal application.

By early June 1977, an estimated 95,000 workers had participated in training under the program. About 45,000 (more than 1 percent of the total labor force) were in training during that month.

Prior to the February 1977 increase in payments, the program had been budgeted for SKr. 30 million. The amount was increased to SKr. 175 million, but, due to heavy participation, about SKr. 300 million had been expended as of mid-1977. The National Board requested an increase to SKr. 335 million to cover costs up to the end of June 1977, when the program was scheduled to expire. In addition, the Board asked that the program be extended through the end of 1977 since improvements in the business climate were not expected to ease unemployment pressures prior to that time. Costs were expected to increase to at least SKr. 500 million with the extension.

No formal evaluations or reviews had been made at the National Board level of the numbers of workers kept on employment roles by the program. Board officials have said, however, that reports from County Boards indicate that companies and worker organizations favor the programs and that there have been only a few cases where workers could not be kept on payrolls with the program's assistance.

Officials from the Swedish Confederation of Trade Unions reported that trade union organizations have had considerable influence on the training curriculum offered under this program. They feel that the program is an investment in the future by Swedish society, through increased skill and professionalism in the industries.

One of the country's largest steel producers offers an example of the application of various measures that are available to help firms and workers adjust to business changes caused by cyclical factors and restructuring needs. The company, which has over 6,000 employees, made extensive use of the 25-Kronor program to avoid laying off workers. Working closely with the County Labor Board and trade union representatives, the company set up a comprehensive array of training courses for workers during three scheduled work stoppages of two to four weeks each in certain production areas. During the stoppage in April 1977, some 1,600 workers were kept on the company's payroll while they were in training courses. The company received SKr. 25, or about 53 percent of wages and social benefits and payroll taxes, from the government for each hour of training performed.

### Inventory Subsidies

In 1975, an inventory subsidy program that had been used with success during the 1972 recession was reintroduced. Under this program a firm could apply to the

National Labor Market Board for a subsidy of 20 percent of the value of increases in inventories between July 1, 1975, and June 30, 1976. The purpose of the program was to encourage firms to maintain employment levels during economic slowdowns by helping them cover the costs of increasing and maintaining inventories. The program has since been extended beyond the original period.

An evaluation of the earlier (1972) program showed that little support was given to small and medium-sized firms. To provide greater help to small and medium firms, the program that was enacted in 1975 made firms of any size eligible, and provisions were made for payment of 75 percent of the estimated subsidy amount, at an interest rate that was a certain percentage above the discount rate. Also a participating firm may obtain government guarantees on loans needed in addition to the one granted to meet the advance payment to finance the stock increases.

Firms apply for the assistance to the National Labor Market Board through their local County Labor Board. Qualifying factors are as follows:

- Employment must be sustained (no employees laid off and attrition losses must be replaced) at the July 1, 1975, level.
- Support is generally not available for a newly established manufacturing firm.
- Assistance must be seen as necessary to maintain employment.
- The firm cannot have previously used investment reserve funds transfers for inventory investments.
- Firms must have trade union concurrence in applying for the assistance and must open their books and tax returns to examination by the National Board if required.

In 1976, the program was expanded to cover companies that had not applied for assistance prior to the end of 1975; the companies were authorized to seek it for the period January 1 to December 31, 1976, under the same conditions as for the original period (July 1, 1975, to June 30, 1976). Furthermore, firms that had obtained preliminary Board approval for the initial support period could also seek support at a 10-percent rate from July 1 to December 31, 1976.

The decree establishing the program in 1975 has been amended to provide assistance to firms to help keep the stocks they built up under the 20- and 10-percent provisions. As a condition, the firm must maintain employment at the level as of the end of 1976. In contrast to the inventory build-up support, this type of inventory subsidy is to help companies avoid too rapid a liquidation of their inventories at the current unsatisfactory price levels.

The support amounts to 8 percent of the value of "inventory excess" and is not available if the inventory value as of January 1, 1977, has decreased by more than one-half by June 30, 1977. If inventories increase from January 1 to June 30, the 8-percent subsidy is paid only on the basis of their January 1 value.

No data are available on how many jobs have been "saved" as a result of the program. However, a large number of firms, representing all industrial sectors and employing a significant number of workers, have participated in the program.

Based on the 1,482 approved preliminary decisions for support as of April 30, 1977, the Government of Sweden has provided subsidy advances and guarantees for loans, as shown below. Subsidies totaling SKr. 1.1 billion had been given final approval for payment to 841 firms, based on completed accounting for the National Board and verification of inventory increases and their value. These final subsidy awards represented nearly SKr. 5.7 billion in inventory increases.

As of April 30, 1977, 154 firms had applied for 8-percent subsidies for inventory-keeping under the program. This represented nearly SKr. 1.4 billion in inventory levels as of January 1, 1977. A formal evaluation of the program is being made as part of a special research unit study, which will be completed in 1978.

However, there are early indications that the current inventory-subsidy program could create problems for Swedish industry that are as difficult as the ones it was designed to ease. The evaluation of the 1972 program noted that a stock-piling subsidy was most effective if it was applied toward the end of a recession. If it were put into operation early in a recession, this would mean a long storage time for the subsidized companies, resulting in high costs and a demand for a larger subsidy. Observers have noted a longer-than-expected current recession period and a later-than-expected

upturn in the world economy. Thus, when the upturn does come, large stock build-ups in much of Swedish industry might further inhibit increases in the levels of production and employment while the inventories were being sold off.

The Swedish labor officials with whom we spoke strongly favor the program as an assistance measure for cyclical adjustment, but they recognize its limitations and the potential pressures of the slow recovery.

The problems with long-term stockpiling became more apparent in late August 1977, when Sweden withdrew from the European currency "snake" and devalued the Krona by 10 percent against the West German Deutschemark. Noncompetitive prices for Swedish goods and oversized inventories were among the reasons cited for the devaluation.

#### Investment reserve funds

The Swedish system of investment reserves for private companies was first established nearly forty years ago. Various changes in it have been legislated over the years. However, most of the current provisions date from 1963. The system is designed to induce firms to speed up their capital expenditures during recessions and to dampen them during booms. A firm of any size is eligible to participate.

Under the investment-reserves funds system, certain firms (e.g., joint stock companies, incorporated associations, and saving banks) are entitled to set aside up to 40 percent of each year's profits as reserves. This amount is then deducted from taxable profits. And of the investment reserves, 46 percent is to be deposited with the Government's Bank of Sweden in a blocked, non-interest-bearing account. Since the combined national and local tax on company profits amounts to about 50 percent, it is to a firm's advantage to make allocations to the Fund. Release of the funds has been achieved in two ways: (1) automatic release of a proportion of funds after a specified time and (2) timed release for specific investment projects under application to the Government.

After five years a firm may withdraw up to 30 percent of its contribution to the fund in any one year and use it for any of a number of purposes specified by the law; this amount remains tax-free. Any amount in excess of the 30 percent or any other non-approved withdrawals before five years have elapsed are taxed at the full tax rate, plus a 10-percent penalty.



As was noted above, the major purpose of the funds is to postpone investment spending from boom periods until a later date. Since 1963, however, the funds have also been used as an instrument of regional-development policy. Selective releases can be made under which firms are encouraged to apply for withdrawal of reserves to expand or to start new production in designated development areas, particularly in the northern counties of Sweden, where unemployment is high--by Swedish standards if not by those of other countries. (Regional development policy is discussed in more detail later in this chapter.)

Release of funds for general investment purposes can be made either specifically (that is, for a particular firm or industry sector) or generally, for the entire range of industries and their participating firms. The Ministry of Budget determines the timing of releases (that is, when the release period begins and when it ends), and the National Labor Market Board processes and approves applications from firms for projects using investment funds.

The investment funds system was expanded by the Parliament in the boom year 1974 as a result of the great rise in profits of Swedish companies. If a firm had over SKr. 100,000 in pre-tax profits for the taxable year 1974, it was required (unlike the general investment funds, which are voluntary) to place 20 percent of those profits in a Working Environment Fund; if profits were over SKr. 1 million, the firm was required to place an additional 15 percent in a Special Investment Fund. Taxable profits were reduced accordingly. In addition firms could (but were not required) to place up to 40 percent of their profit in an investment reserve fund.

The Working Environment Funds are to be used to improve the working conditions in the firms' plants. The Special Investment Funds were originally intended to be used for energy-conservation measures, but in practice they have been used in much the same way as general funds have, for example, for investments in buildings, machinery, and inventories.

During an eleven-year period ending in 1975, investments worth SKr. 17.7 billion were initiated from the Investment Reserve Funds. These amounted to about 20 percent of total industrial investments (SKr. 92 billion) in machinery and buildings for the same period.

From the beginning of 1975 until April 30, 1977, 12,664 applications for investments using one or another of the three funds were approved. These applications represented

investment projects totalling about SKr. 12.2 billion, of which an estimated SKr. 9.5 billion was to come from the investment funds. Of the total, more than SKr. 12 billion, about SKr. 4.3 billion represented moderate-sized projects of SKr. 15 million or less. Several projects involved more than SKr. 100 million, and there was one in excess of SKr. 1 billion.

The costs of the program, other than foregone tax revenues from the unassessed profits contributed to the funds, are limited to the administrative expenses incurred by the government agencies (Labor Market Board and Ministry of Budget) which implement the program. Details on these costs were unavailable as of mid-1977, and the Labor Market Board had compiled no data on the number of jobs created through the application of the various investment funds. Limited evaluations of the 1962-1963 releases and of a portion of the 1967-1969 releases were conducted by the Swedish National Institute of Economic Research. A survey of firms taking advantage of investment fund financing showed significant net increases in employment.

According to a member of a special economic research unit of the National Industrial Board, an in-depth analysis of various labor market programs, including investment funds, was being made in an attempt to estimate the amount of employment created, as opposed to what the employment level would have been without such programs. It was noted however that such studies usually suffer from the inherent difficulty involved in measuring to what extent a particular incentive is responsible for a development in an industry. The study was expected to be published in early 1978.

Trade union confederation officials have also expressed the view that releases of investment funds are perhaps the most important tools of regional development policy. They emphasized the importance of fund releases to provide stimulation in an industrial sector or geographic area where there are unemployment pressures.

#### Other measures

Several other measures of Swedish labor market policy, though they are less extensively applied, are used to assist the adjustment of cyclical movements in the economy and industry restructuring. These programs, which are also administered or supervised by the National Labor Market Board, include: (a) accelerated placing of government procurement orders with industry; (b) a subsidy to employers

who arrange training for their current employees in connection with new hiring; and (c) a new program enacted by the Parliament in May 1977 which makes payroll grants to troubled firms that have a "dominant position" in the local labor market.

#### PROGRAMS FOR INDUSTRY

The Ministry of Industry is responsible for special adjustment programs that are tailored to facilitating the adjustment of certain industries. The aims of these programs include the following: special training measures, technical consultation, grants for private consulting services, support for measures to promote exports, and government grants, loans, and loan guarantees. Special adjustment programs are now available, or are being developed, for the following industries: shipbuilding, clothing, steel, shoe, handmade glass, foundry, cutlery, and certain parts of the woodworking industry.

The troubled industry usually makes a request to the Ministry of Industry for assistance. Occasionally, as in the case of the shipbuilding industry, the Ministry takes the initiative.

The Ministry of Industry is usually assigned the task of forming a committee of responsible parties to draft a proposal on measures to be taken to make the industry competitive again. The committee will consist of company officials, labor organization representatives, and local and national government officials. Its proposal must be accepted by all committee members before it goes to the Ministry of Industry, which will send it to the Parliament.

The National Industrial Board, established in 1973, is an administrative body under the Ministry of Industry. It is responsible for investigating industrial situations at the request of the Ministry of Industry, as well as for administering the special adjustment programs adopted by Parliament. Within the National Industrial Board there are branches responsible for the various industrial sectors, i.e., clothing and textile, shoe, glass (art glass), woodworking, metal casting, cutlery, and leather. The Board is considering forming branches for the printing and graphics industry, the electronics industry, and the building stone industry. Each branch would be responsible for administering the special adjustment program in its sector, as well as for acting as a catalyst to promote improvement within the industries.

The Ministry of Industry, rather than the Board, administers the shipbuilding industry program and will administer the steel industry program once it is completed. We were told that the reasons for Ministry involvement are the size of these industries, the amount of government investment expected, and political factors.

Descriptions are given below of the special assistance programs that are in operation and of programs that are being developed for three of Sweden's major industries--textiles and clothing, shipbuilding, and steel.

### Textile and clothing industry

The measures taken by the Swedish Government to promote the development of the textile industry are designed to ease the process of change and to maintain a certain level of strategic preparedness in its capacity to supply clothing and other textile products. These measures are paralleled by general labor-market and regional programs to support the industry.

Sweden has become the largest per capita importer of textile products from developing countries. Total imports of textiles amounted to about 60 percent of domestic consumption in early 1975.

The National Industry Board administers the various measures of assistance, including education, export promotion, consultant grants, and structural loan guarantees. The education program was introduced in 1970 and is directed at the owners, managers, and other key personnel of the industry's many relatively small firms. The program consists of free courses and conferences designed to enhance skill in management and finance, production and marketing, and personnel management. In addition, the program encourages cooperation and provides information about general economic conditions and about other assistance that is available to the industry.

Export promotion, which was also begun in 1970, aims at stimulating the export of textile products by reducing the difficulties that small producers have in exporting outside the Nordic sphere. Projects that promote a better structure for the industry--such as joint export actions--are given priority. Grants can be provided to take care of 50 percent of the costs of market analyses, market planning, and product adjustment.

Grants to pay a portion of consultant fees were introduced in 1971. Their principal purpose is to enable competitive firms in the industry to hire experts for investigating the possibilities of:

- merging with or buying out chronically weak and less competitive firms,
- establishing cooperation agreements and joint-marketing arrangements, and
- making structural adjustments within enterprises, e.g., reorganization and movements toward specialization.

Grants can be approved for up to 50 percent of the consultant fees in most cases, and for 100 percent in some projects.

Guarantees financed by the Government have been available since 1972 for investments motivated by a consultant's investigation. The guarantees provide full security for loans from commercial sources. They are granted to profitable and expanding companies for:

- the acquisition of other companies or parts thereof,
- mergers, and
- pooling of the functions of several companies in a joint enterprise.

There are provisions for delayed payment of interest due and delayed amortization of the loans.

The National Board of Economic Defense administers strategic preparedness measures, which were introduced in 1972. The measures are aimed at securing an adequate level of domestic-production capacity for essential textiles in case Sweden should be cut off from its present sources of supply. The Board can provide support in the form of depreciation loans for up to 50 percent of costs, and guarantees of investment for the:

- acquisition of machinery,
- building or rebuilding of factory premises, and
- purchase of factory premises.

Companies receiving this support are required by the Board to maintain a certain level of production or of production capacity. In addition, the Board helps textile and clothing firms maintain output and ensures the availability of strategic resources through government purchases for stockpiling.

Most of the original assistance measures for the industry were scheduled to expire in mid-1975, but the Government asked Parliament to extend them. In April 1976, the Government submitted a bill to prolong these and initiate some new measures. In addition to a five-year extension of the previous measures, the program approved by Parliament provided for the following:

- interest subsidies up to 100 percent of government-guaranteed structural loans,
- financial assistance for seasonal increases in industry stocks of raw materials and ready-made products, and
- an increase in the ceiling for structural loan guarantees from SKr. 100 million to SKr. 125 million.

The new bill also provided for an extension and expansion of preparedness measures, such as aid to operational coordination in the spinning- and weaving-mill sector, conditional crisis loans, and interest-free depreciation loans. Costs of the structural support program for fiscal years 1977 and 1978 are estimated at about SKr. 95 million.

A 1975 evaluation of the program emphasized the difficulty of measuring the effect that incentive measures had on any industry sector. The difficulty lies in deciding whether, and to what extent a particular development in the industry would have taken place without the incentive measures. Also it is difficult to isolate the effects of various portions of the sectoral measures. Generally, however, the study concluded that the program to promote changes had important effects in the sector, the only exception being the individual export subsidies, which seemed to have had little more than a marginal effect.

Among the conclusions about the effectiveness of the several assistance measures were the following:

- Management training resulted in a greater willingness to deal with problems on the basis of methods learned in the courses and at conferences. Sector firms showed increased tendencies to cooperate with each other.
- Export-promotion subsidies for collective export activities resulted in greater use of export information and subsequent short- and long-term improvements in the efficiency of export sales; subsidies for the activities of individual firms, however, influenced export expansion in only a fraction of the cases.
- Consultative grants were made chiefly to large and medium-sized companies; three-fourths of the participants noted an improvement in profitability and competitiveness. These measures also played an important part in solving problems that arose in connection with mergers or associations.
- Structural loan guarantees were believed to have facilitated joint ventures that probably would not have been carried out without the assistance. The guarantees were also considered to have been an efficient means of promoting structural change.

The depreciation loans and loan guarantees for strategic-preparedness purposes were judged by the study to have stimulated substantially the investment activities of the affected companies. These measures assured a basic output and capacity for certain sectors of the industry that were considered sufficient for purposes of strategic preparedness.

Despite earlier assistance measures for the textile industry, which were considered successful, troubles in the sector persist. Industry officials noted in June 1977 that further contraction during 1977 would reduce employment in the industry by 20 percent.

In late May 1977, the Parliament approved a new measure to provide an hourly subsidy of SKr. 15 for clothing and textile industry workers aged 50 and over who are threatened by layoffs. The main purpose of the measure is to "buy time" for the industry to make the necessary adjustments to decreased demand without displacing current workers. According to industry representatives, about one-third of the

industry's workers qualify under the program. It was estimated that the program would cost SKr. 125 million.

### Shipbuilding industry

Since the postwar boom years, which ended in the early 1960s, the Swedish shipbuilding industry has encountered several difficult periods that have required government assistance. The industry's current difficulties are directly related to the oil crisis of 1973, the resulting over-capacity in the tanker trade, and the subsequent excess of shipbuilding capacity. Adding to these difficulties was Japan's emergence as the world's largest shipbuilder and its capture of a large share of the world's market. The oil crisis meant a sudden reversal in the long-term upward trend in demand for tankers. Moreover, a substantial portion--more than 30 percent--of the orders on hand were canceled. With the present market outlook, many of Sweden's shipyards are expected to produce few if any ships in 1978 and 1979.

Despite Government efforts since 1963 to assist Swedish shipbuilding companies, problems continued to plague the industry. In February 1975, the Government set up a special commission to examine the situation. On the basis of the Commission's finding, the Parliament passed a bill in May 1975 that provided for a takeover by the Government of the Eriksberg shipyard, a government loan guarantee to the parent company (a shipping firm), a parent-company contribution to cover the yard's 1974 losses, and an order from the parent company for two large ships.

During 1975, an agreement was reached to merge Gotaverken with the government-owned Eriksberg shipyard, and the agreement was incorporated in a March 1976 shipbuilding bill. The Government now owns 51 percent of the reorganized shipbuilding operation. The bill also extended the Swedish loan guarantee system to include credit guarantees for production for inventory and to permit guarantees to be issued during the production period for ships without an external buyer. The system was to be temporary and limited to the production of ships up to the end of 1978. The issuance of these guarantees is strictly bound to a reduction of 30 percent in manpower and 50 percent in tonnage. The proposed total volume of credit guarantees for the years 1976-1978 is SKr. 12.9 billion including guarantees for production for inventory calculated at SKr. 3.6 billion.

A new bill on shipbuilding was presented to the Parliament in April 1977, in which a number of new and extended



measures were proposed. The main objective of the measures was to reduce further the output of Swedish shipbuilding through an additional cut in 1979 of 1,000 year workers and 1,000 subcontracted workers.

New government financial assistance included 5-year loans and 12-year guarantees to shipowners who order vessels from Swedish shipyards. The existing credit guarantee scheme for shipyards was extended and was expanded in coverage to include the yard's production for "inventory" that is without a definite order, in the expectation that buyers will be found. The cost framework for these measures through 1979 is as follows:

<u>Measure</u>	<u>Cost (in billions of SKr.)</u>
Loans to shipowners	SKr. 1.3
Guarantees to shipowners	3.1
Guarantees to shipyards	<u>4.9</u>
Total:	<u>9.3</u>

In late June 1977, three of the largest Swedish shipyards--two privately-held and one government-owned--were merged into one firm, which is 100 percent government-owned. There remains only one large private shipbuilding firm plus several smaller ones.

There are no special assistance measures for individual workers who will lose their jobs as the industry contracts. However, efforts are being made to attract job-creating new businesses to the shipbuilding areas. Gothenburg, a major center, has been designated as an "aid area" and as such is eligible for regional development assistance measures. The remaining displaced workers will be assisted by various existing employment service programs, which were discussed earlier in this chapter.

#### Steelmaking industry

Sweden's largest commercial steel producer said in its 1976 Annual Report that

"the Swedish steel industry is facing very large and difficult problems, not solely attributable to business trends. Radical changes are necessary throughout the industry if it is to achieve reduced costs and increased product values."

Officials in Sweden are reportedly agreed that large-scale restructuring of the steel industry is necessary to restore

its competitive position in both the domestic and the international markets and to put the industry back on a sound financial footing. Recommendations for such a restructuring were made in two official studies that were presented to the Swedish Ministry of Industry in the Spring of 1977.

In 1976, Sweden's commercial steel industry was composed of 10 companies operating 11 plants. The industry is dominated by the three largest firms, which compare in volume of production to a medium-sized U.S. steel-making firm. One of these firms is government-owned; the others are privately held.

Because of decreased world demand, increased competition from other steel-producing countries, and other factors, Sweden's largest commercial steel producer cut back its 1977 production estimates by more than 25 percent from the 1976 level. Under current proposals for production decreases and restructuring of the whole industry, the company will lose about 1,700 - 2,000 workers (25 - 30 percent of the work force). Company officials said that the aim of restructuring, along with marginal investments in existing facilities, is to make Swedish steel production more efficient and thus more competitive. Little or no increase in the industry's crude steel production above the 1976 level of about 5 million metric tons is expected by 1985.

Negotiations are currently taking place among the steel companies and labor union and national and local government representatives, to decide exactly what restructuring measures will be taken. This will also involve decisions on what labor market assistance will be provided, on what the costs will be--to the firms and to the government--and on the precise timing of restructuring measures.

One widely discussed possible solution to the restructuring question is a merger of the three largest producers. The companies reportedly agreed in principle that a merger would be advantageous to them all if the practical and financial problems were solved. Some thought has also been given to consolidating the three into a single concern, with the Government having a 50-percent interest.

Definitive cost estimates for the restructuring program have not yet been made. However, the Commission's report presented broad maximum and minimum cost estimates of SKr. 1.8 billion and SKr. 800 million. Estimates of the industry's labor-force reduction range from 3,800 under the higher-cost estimate to 4,500 under the proposed minimum expenditure.

## REGIONAL DEVELOPMENT PROGRAMS

A national program for regional development policy was approved by the Swedish Parliament for the first time in 1972. However, prior to that date, a number of programs were in operation in Sweden. The Government has been lending financial support to plant location since 1965. The purpose of regional development policy is to support the establishment and expansion of enterprises where employment and the economy are in need of reinforcement. This is based on the premise that all parts of the country should have their fair share of material, social, and cultural welfare. As with other labor-market policy programs, regional development is not designed to focus specifically on adjusting to increases in imports. However, by creating new employment opportunities, regional development measures can help workers who are affected by trade-related layoffs.

Although other areas in Sweden where employment imbalances have occurred also qualify for development assistance, priority has been given to a designated development area. The designated development area is divided into a "general aid area" and an "inner aid area," which is inside it. The general aid area runs continuously from the north to upper-middle Sweden and covers two-thirds of the national land area, which contains 15 percent of its population.

Support for regional development is provided in the following forms:

- location aid,
- employment subsidies,
- transportation subsidies,
- training grants,
- support from the Norrland Fund,
- loans from the State Fund for Handicraft and Industry, and
- removal grants.

Location aid can be awarded for investments in buildings, machinery, implements, and tools, as well as for the geographical transfer of firms. Grants and loans can be provided for investment in buildings up to two-thirds of the

total cost. Only loans are provided for investment in equipment. Loans can be interest-free for a maximum of three years and without amortization for up to five years. The relationship among loan, grant, and level of support in an individual case depends on how important the investment is considered to be by the Labor Market Board or the Ministry of Labor. In practice, however, rather standardized patterns have developed.

Employment subsidies for net increases in employment are granted at the rate of SKr. 7,000--about 15 percent of the annual wage costs--per additional man-year for the first two years, and SKr. 3,500 for the third year to manufacturing firms within the inner aid area, which has 5 percent of the total population.

Transport subsidies have been introduced to bring down the costs for transportation over the long distances in the northern part of Sweden. These subsidies are in the form of annual reimbursements to firms based on the freight charges they have incurred.

Training grants can be awarded for the establishment or expansion of business activities in the general aid area. A part of this subsidy has been changed into an introduction premium of SKr. 5 per working hour during the first six months after a person has been hired by a firm. This will be paid even without any special arrangement for training.

The Norrland Fund was established in 1961 and is administered by the Ministry of Industry. It provides loans for industrial expansion and grants for the development of products to promote the economic development of Sweden's four northern counties.

Loans from the State Fund for Handicraft and Industry are available for regional development aid, provided through County Association of Entrepreneurs. These agencies also distribute loan guarantees which can be granted to firms by the National Board of Industry.

Removal grants are paid to make it easier for employed persons to migrate from areas where there is a lack of job opportunities to those where employment is available. The principal purpose of these grants is to compensate the individual for out-of-pocket expenses involved in moving.

Despite estimates of significant increase in employment as a result of regional development assistance, there

still are questions concerning the real or overall impact of the program. Such questions include: How much of the new employment in one company is at the expense of another; and to what extent do noncompetitive firms in one area use regional aid to move to a lower-wage area and then become noncompetitive again?

Comprehensive evaluation of the program is lacking thus far, but an on-going study is seeking to determine whether the most efficient means are being used to achieve the income, employment, and human environment goals of the regional policy.

## CHAPTER 7

### UNITED KINGDOM ASSISTANCE PROGRAMS

Programs in the United Kingdom provide assistance to workers and firms in a variety of ways. They also provide special incentives to firms or workers that are relocating in regions designated as needing special aid. Although none of these programs are aimed specifically at helping parties that are adversely affected by import competition, they frequently are used to assist firms and workers that are harmed by imports. Some of the mechanisms used in the United Kingdom may be of particular interest in considering options to the U.S. adjustment assistance program.

An important part of the U.K. programs for assistance to firms is the development of industry "schemes." Eleven such schemes are currently in operation in industries ranging from meat and poultry and the textile industry to electronic components and machine tools. Each scheme or plan has specific types of project objectives, benefits, and incentives. The forms of assistance include: (1) investment by Government acquisition of loan or share capital, (2) purchase of company assets, (3) loans, or (4) loan guarantees.

Assistance for workers is provided under several programs. Unemployment benefits are paid to workers regardless of the reason for their layoffs. These benefits are paid from a fund supported by both the employee and the employer. The amount paid to workers depends on the number of years of service but cannot exceed 85 percent of the worker's prior weekly earnings.

Supplementary unemployment benefits paid for by the Government are also available for workers who are not eligible for regular benefits or who exhaust their regular unemployment benefits. Supplementary benefits are less than the regular benefits.

These and other programs listed below are discussed in detail in the remaining sections of this chapter.

#### Programs for workers

1. Unemployment Benefit Program. Payment is made from funds contributed by employers and employees on a ratio of roughly two to one. The standard

weekly flat rate is about 12.90 pounds <sup>1/</sup> for men, single women, and widows, and about 9.20 pounds for married women. The benefits for married women are payable for one year. In addition, there is an earnings-related supplement that is payable for six months.

2. Supplementary Unemployment Benefits Program. This is a non-contributory program, with payments made to unemployed workers who can demonstrate a need and whose benefits under the Unemployment Benefit Program have been exhausted.
3. Temporary Employment Subsidy. A subsidy is provided to firms willing to defer impending layoffs that would affect ten or more workers. The Government subsidizes the firm until it recovers, up to a maximum of one year. The subsidy is about 20 pounds a week per job maintained. From August 1975 to July 1977, 4,269 applications covering 284,123 jobs were approved at a total cost of 268,780 pounds. As of June 30, 1977, an estimated 184,810 jobs were being supported.
4. Temporary Employment Subsidy Supplement. The subsidy is extended for an additional six months when its benefits have expired. It provides approximately 10 pounds a week for each job maintained.
5. Training Opportunities Scheme. A government program which offers training to persons who want to acquire new skills or who want to upgrade previously-acquired skills.
6. Redundancy Retraining Grants. A small program provides grants to firms that are willing to retrain employees who face a layoff.

#### Programs for firms and industries

1. Industry Schemes. These schemes provide aid to specific industries and industry firms. Eleven such schemes are currently in operation and are authorized under Section 8 of the Industry Act. (See listing on p. 144.)

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<sup>1/</sup>The currency conversion rate as of July 1977 was \$1 = .57 pounds sterling.

2. Programs for the Shipbuilding Industry. Several programs are designed specifically to provide aid for plant construction, or capital investment for the shipbuilding industry.
3. Programs of Government Organizations for Economic Growth. These organizations include the National Enterprise Board and the National Economic Development Council.
4. Taxation Programs. Tax benefits are provided to encourage industrial growth.

#### Programs for regional aid

1. Regional Industry Aid Programs. These include grants, loans, and government-owned factory sites. The programs are authorized under Section 7 of the Industry Act.
2. Training in Areas for Expansion. Several training services that are normally charged on a full-cost basis are provided free to firms located in an expansion area.
3. Employment Transfer Scheme. A government program which offers grants and allowances to stimulate the mobility of workers from areas where unemployment is high to expansion areas.
4. Key Workers Scheme. This program is for employees who are transferred to key positions in an expansion area. Grants and allowances are offered that are similar to those provided under the Employment Transfer Scheme.
5. Nucleus Labor Force Scheme. The scheme provides help to firms that want to transfer recruited workers temporarily from areas of expansion to a parent factory for training.

#### WORKER PROGRAMS

The programs to aid workers in the United Kingdom are, for the most part, based on the Employment and Training Act of 1973. The Act provided for the creation of a Manpower Services Commission with two executive arms--the Training Services Agency and the Employment Service Agency. The Commission is assigned the duties of helping individuals select, train for, obtain, and retain employment that is suitable for their age and capabilities.



However, Trade Union Congress officials contend that the labor programs are based on maintaining the status quo rather than on restructuring the employment community for the future. They say that the Government programs generally tend to discourage planning. Another problem, noted by an Engineering Employers Federation official, is that some labor programs cause unnecessary jobs to be maintained.

The following is a detailed discussion of several of the United Kingdom's programs to aid its workers.

#### Unemployment Benefits Program

Unemployment benefits may be paid to employees who have made contributions to the program and at the time of their claim are unemployed and available for work. Contributions are related solely to earnings and are paid by both the employer and the employee. An employee contributes 5.75 percent and the employer 10.75 percent of the employee's earnings up to an earnings limit of 5,460 pounds annually. The unemployment benefits are intended to provide financial assistance while an unemployed person seeks re-employment. Although such benefits are primarily for individuals whose jobs have been terminated, they are also available to workers who are temporarily suspended, provided that they are willing to accept other employment.

The standard flat rate for unemployment benefits is 12.90 pounds a week for men, single women, and widows, and 9.20 pounds a week for married women. Additional benefits can be claimed for dependents. A claimant may qualify for an earnings-related benefit that is based on his weekly earnings during the tax year. The total amount received through the flat-rate benefit plus the earnings-related supplement cannot exceed 85 percent of the claimant's prior weekly earnings.

Unemployment benefits are payable for up to one year. After that time, an employee can re-qualify for benefits by working for at least thirteen weeks. The thirteen weeks do not have to be consecutive, but the employee must work a minimum of twenty-one hours during each of those weeks. The earnings-related supplement is payable for six months of unemployment.

An unemployed person must register for placement immediately at the local office of the Employment Service Agency. The Agency is required to notify the local unemployment-benefit office if for any reason the claimant should be disqualified. Claimants can be disqualified for (a) refusing

to accept a suitable job offer without good cause; (b) failing to apply, without good reason, for a suitable job that is available; (c) refusing job training or the opportunity to receive such training; (d) voluntarily quitting work without just cause; or (e) being fired because of misconduct.

#### Supplementary Benefits Program

Supplementary Benefits is a noncontributory program, known as the "dole," and is similar to the United States welfare program. It is available to unemployed persons who have exhausted their claims to unemployment benefits and who can prove that they have a continuing need for benefits.

Supplementary benefits are slightly less than the regular unemployment benefits, but they can be received for an indefinite period of time if the recipient remains registered for employment with the Employment Service Agency. If a claimant refuses work that is offered, his supplementary benefit will be reduced by 40 percent, but the amount received for his dependents will remain unchanged. Neither unemployment-benefit nor supplementary-benefit payments are taxable.

#### Temporary Employment Subsidy

The Temporary Employment Subsidy is a government program that is intended to alleviate some of the effects of high unemployment. It provides a short-term subsidy to financially enable firms which are willing to defer impending layoffs that would affect ten or more workers. The employers' participation is voluntary, but the appropriate trade union must be consulted and made aware of the plan. This program was introduced as a temporary measure by the Government in August 1975. Originally the program was to remain in operation for twelve months, but it was later extended. To be eligible for benefits employees must be working an average of at least twenty-one hours a week.

The amount of the subsidy depends on the number of hours worked. A flat rate of 20 pounds a week is paid for each full-time worker who faces a layoff but is maintained on the payroll. Ten pounds a week is paid for employees working at least twenty-one hours a week but less than thirty-five hours. The total amount payable is based on the number of jobs certified by the employer as being maintained.

Payments are authorized for a three-month period if it can be affirmed at the end of each month that the general employment situation is unchanged. After the initial

three-month period, the employer may reapply, and if the eligibility criteria are still satisfied, payments may be authorized for three additional three-month periods, or a total of twelve months.

The Temporary Employment Subsidy is considered by many authorities to be successful in helping to avoid unemployment. The Department of Employment considers the program to be better than unemployment programs because it costs only 20 pounds a week per employee maintained, compared to the 40 pounds a week paid for unemployment benefits. The Trade Union Council regards the program as a success based on its original intent, which was to save jobs for a temporary period. However, employers feel that the program has also maintained some unnecessary employment.

#### Temporary Employment Subsidy Supplement

The Temporary Employment Subsidy Supplement, which was introduced on March 30, 1977, allows employees who are approaching the twelve-month limit of the basic program to continue to receive benefits. The supplement is paid if the conditions of the basic program continue to be met and if, without further subsidy, the firm would be forced to make layoffs. The payment is at a reduced rate (10 pounds per week) and is awarded for three months, with a possible extension to six months.

#### Training Opportunities Scheme

The Training Opportunities Scheme offers training to employed, self-employed, or unemployed persons who desire new skills or who want to upgrade previously acquired skills. The program was introduced in 1972 to give people a chance to improve their skills and increase their job prospects. The scheme has expanded since its inception because the job market has become more competitive and more skilled labor is needed.

To be eligible for training under this program, an applicant must be at least 19 years old, must have been separated from full-time education for at least three years, and must not have received any government training within the past five years. In addition, the applicant must intend to work in the occupation for which he is receiving training. Although the program is open to unemployed persons, the majority of the participants are employed individuals facing redundancy.

The program is designed to provide skilled occupational training in the shortest possible time. Most courses last six months and none more than twelve months. Some courses include limited on-the-job training with the new employer. The training takes place in an atmosphere closely resembling normal working conditions, with the emphasis on practical work.

Benefits that are available to trainees include an earnings-related supplement of up to 12.18 pounds a week, Government provision of their social security contribution, traveling expenses if the training is offered more than two miles from their home, free lunches, and a lodging allowance if it is necessary for them to leave home to obtain the training. An additional tax-free weekly allowance is available, which varies depending on age, marital status, and on whether the trainee is living at home or away. Effective August 1, 1977, additional allowance rates that apply to trainees aged 20 years or older, without dependents, are 22.55 pounds a week if the trainees are living at home and 19.70 pounds if they are living away from home.

Officials felt that the training increases a person's prospects of obtaining employment. For example, past history shows that more than 90 percent of the students completing courses at the skill centers find employment almost immediately. Although there is no guarantee of a job on completion of a course, many employers are interested in the courses and are recruiting successful graduates.

#### "Redundancy" Retraining Grants

Grants are available to firms that are willing to retrain employees who are affected by a surplus of candidates qualified in particular fields. The amount of the grant, which is made to help meet the costs of retraining the workers, is determined on a case-by-case basis. Grants will not be made, however, for retraining that is made necessary by technological changes. The layoff condition must be a result of recession. Only fourteen of these grants were awarded for the one-year period.

#### PROGRAMS FOR FIRMS AND INDUSTRIES

The programs to aid firms and industries in the United Kingdom are, for the most part, based on sections 7 and 8 of the Industry Acts of 1972 and 1975. Section 7 is commonly referred to as the portion of the Industry Act that gives aid to Regional Development. Section 8 allows general aid to industry regardless of the region in which the industry is located.

Section 7 of the 1972 Act states that the government may provide financial assistance to firms when the assistance is likely to provide, maintain, or safeguard employment in any part of the assisted area. The purposes of such programs are (1) to promote the development of modernization of an industry, (2) to promote the efficiency of an industry, (3) to create, expand, or sustain productive capacity in an industry, (4) to promote reconstruction, reorganization, or conversion within an industry, (5) to encourage the growth of an industry, and (6) to encourage arrangements for ensuring that any contraction of an industry proceeds in an orderly way.

Assistance under Section 7 may be granted through various types of investment, loans, loan guarantees, or grants with varying terms and conditions. The forms of assistance may be: (1) investment through the acquisition of loan or share capital in any company, including an acquisition effected by the Government through another company--formed for the purpose of providing financial assistance under the Act; (2) investment through the acquisition of any undertaking or any assets; (3) a loan, whether secured or unsecured, that carries interest at a commercial rate or no interest at all; or (4) any form of insurance or guarantee to meet a contingency or particularly to meet a default on payment of a loan or interest on a loan, or non-fulfillment of a contract. The company in which the Government is taking a financial interest must give its consent to the Government's action.

In contrast to Section 7, Section 8 of the 1975 Act states that the Government may provide financial assistance where (1) the assistance is likely to benefit the economy of the United Kingdom and (2) the national interest will be served. Financial assistance under Section 8 may be given in any of the ways prescribed in Section 7, except that the Government cannot acquire capital or share ownership in a company under Section 8 unless the Government is convinced that it cannot appropriately give aid in any other way.

Payments for assistance under Section 8 of the 1972 Act are limited to a maximum of 5 million pounds for any one project. Assistance in excess of 5 million pounds must be approved by the Parliament. The total limit for payments under Section 8 is 150 million pounds, with a provision that the total may be increased by not more than 100 million pounds under certain circumstances.

## Industry Schemes

Several schemes or programs have been designed for modernizing and reorganizing industries under Section 8. These schemes are aimed only at industries that are important to the United Kingdom and that can survive with government assistance. The Department of Industry, which administers the schemes, provides aid only for changes in structure and, in some cases, management. Under these schemes the Department provides up to 50 percent of the needed assistance. A firm cannot receive aid under both Section 7 and Section 8 of the Act.

As of mid-1977, there were eleven industry schemes in the United Kingdom. (See p. 144.) According to the Department of Industry, the schemes are geared to increasing efficiency. Several of them are applicable to industries that have faced competition from imports from other countries.

Three of the industry schemes are aimed at the textile industry. The following is a detailed description of one of them--the Clothing Industry Scheme.

### Clothing Industry Scheme

The purpose of the Clothing Industry Scheme is to assist the industry by encouraging rationalization and restructuring and thereby improving productivity and efficiency. Aid is granted to firms on a selective basis after the recipients have proven that their project

- is consistent with the objectives of the scheme,
- is commercially and technically viable,
- is appropriate in view of the managerial and financial resources of the firm, and
- will result in a significant improvement in productivity and efficiency.

Three categories of assistance are available under the Clothing Industry Scheme. The first involves assistance for consultants. Grants of up to 50 percent of a fee may be paid to eligible firms for the use of consultants to investigate problems and formulate proposals for improving a firm's productivity and efficiency. Firms seeking aid must submit the name and address of the consultant as well as a copy of the consultant's survey report. Consultants must be approved

by the Department of Industry's Clothing Scheme Administration, and the period of consultancy, the fee, and the terms of reference must be agreed upon before work begins.

The second category involves assistance for investments. Grants of up to 25 percent of eligible investments (after any regional grants are deducted) may be offered to eligible firms to help meet the cost of machinery if such investment projects are in line with the objectives of the scheme. Assistance under this category may not be received by a firm that is involved in normal renewal or maintenance of plant or facilities, and a substantial part of the costs must be for new machinery to be used in the manufacture of clothing. Priority is given to projects involving areas that are faced with pressing social problems or to sectors of the industry that have serious adjustment problems. Total project costs must be less than 10,000 pounds.

The third category involves assistance for restructuring and reorganizing. This is provided in the form of a loan with a concessionary rate of interest or with an interest-relief grant. The costs that are pursuant to a merger or take-over and the costs of purchasing stock and equipment for an existing company do not qualify for assistance.

Some authorities believe that the various industry schemes reflect a failure to coordinate labor and industrial policy. The Trades Union Council contends, for example, that the industry schemes have a goal of increasing productivity rather than increasing employment, which is contrary to the Council's wishes.

The Department of Industry is involved in researching and designing new schemes. All of the schemes and each of the provisions must receive approval from the European Economic Community before they are initiated.

#### Programs for the shipbuilding industry

As of June 1977, the shipbuilding industry in the United Kingdom has been nationalized, but the full impact of nationalization is uncertain at this time. Descriptions of some of the shipbuilding programs that existed prior to nationalization and are still in effect are given below.

Advance factory scheme. This is part of the same factory program that is discussed below under Regional Aid Programs. A separate appropriation of 12 million pounds was added to the budget in February 1977 for shipbuilders;

however, as of mid-1977, there had not been any activity under this segment. The 12 million pounds was to be spread over a three-year period, but a Department of Industry official doubted that the program would be used since an abundance of plants already exists in the shipbuilding areas.

Construction grants. In 1972, the United Kingdom subsidized 10 percent of shipbuilding construction and production costs; this was reduced to 4 percent in 1973 and to 3 percent in 1974. A total of about 47 million pounds was spent in construction grants. When in 1975, the United Kingdom joined the European Economic Community, the program was stopped because it conflicted with the Community's requirements.

Other programs. The shipbuilding industry is eligible for all the other government programs mentioned in this chapter. From 1965 to 1977, about 300 million pounds were paid to shipbuilders under the Industry Acts. Most of the total of 300 million pounds was for modernization and capital-investment projects.

In February 1977, an Intervention Fund for shipbuilding was announced with a 65 million pound appropriation. The purpose of this fund is to provide direct subsidies to United Kingdom shipbuilders that will lower their prices and, it is hoped, make them more competitive. The maximum amount of the subsidy is 20 to 25 percent of a company's total production cost, and payment can be made only to companies competing against imports from countries that are not members of the European Economic Community.

### Organizations for economic growth

There are two organizations for economic growth, the National Enterprise Board and the National Economic Development Council.

#### National Enterprise Board

The Board was established by the 1975 Industry Act and was assigned the following functions:

- Establishing, maintaining, or developing (or promoting and assisting in the establishment, maintenance, or development of) an industry or a particular undertaking in an industry.
- Extending public ownership into profitable areas of the manufacturing industry.



--Promoting industrial democracy in undertakings controlled by the National Enterprise Board.

--Taking over, holding, and managing publicly owned securities and properties.

The Board operates as a commercial business. Loans, for example, are made at the commercial prime rate. The greater part of the Board's activity has been in acquiring shares of companies. To date, it has not made a loan to a firm without first acquiring a share in the business. While the law does not require the Board to have ownership in a company before making a loan to it, this has been a consistent practice. The Board's financial limitation is one billion pounds.

In its 1976 annual report, the National Enterprise Board reported that it had an interest in thirteen companies. Seven of the companies in which the Government held shares were transferred to the Board in 1976. Those transferred included British Leyland, Ltd., and Rolls Royce, Ltd. The Board has attempted to establish a relationship with the management of these companies which will show that it does not plan to usurp managerial authority. However, the companies still have certain obligations to the Board and, in most cases, must submit monthly performance data to it.

The Board is very interested in helping small-to-medium-sized businesses and is constantly on the lookout for businesses needing help. Board involvement is normally self-initiated; however, firms can apply for assistance.

The Board's budget for the 1977-78 financial year totals 275 million pounds, approximately 200 million pounds of which will go to British Leyland. Officials have commented that the Board is so financially involved with British Leyland that it does not have enough funds to help other firms.

In recent months, the Board has been devoting its efforts to identifying areas of industry where its resources could be applied most effectively. It has been trying to make use of the published findings of the National Economic Development Council's industry sector working parties, which are discussed in the following section. One industry that receives particular attention is computers and electronics--an area in which the Board already has substantial holdings. The Board is also attempting to promote the overseas marketing of United Kingdom computer products and services.

## National Economic Development Council

The Development Council is a private organization supported by government funds. Its purpose is to plan for economic development in the United Kingdom and it is not involved in administering government aid programs.

The Council staff is made up in part of individuals who are on loan to the Council from business, government, and trade unions. Work at the Council is done by "sector working parties." There are thirty-nine such parties representing the various industrial sectors; each party attempts to discuss the strengths and weaknesses of firms in their respective sectors. Their end products are reports that can serve as aids to the Department of Industry and the National Enterprise Board in designing and administering programs.

### Tax benefits for U.K. industry

In 1972, the United Kingdom began a 100 percent first-year tax allowance for capital expenditures made anywhere in the country on plant and machinery. Capital expenditure made after November 12, 1974, for the construction of industrial buildings qualifies for an allowance of 54 percent for the first year, followed by annual depreciation allowances of 4 percent of the cost. The cost of equipment and buildings used for scientific research in the owner's trade is written off entirely during the first year.

If the firm's profits are not sufficient to absorb the full tax allowances, the allowances may be carried forward indefinitely and offset against future profits. In the case of a company that is entitled to the 100 percent first-year deduction, the deduction may be offset against profits earned during the prior three years.

Representatives of the Engineering Employers Federation believe that the investment tax credits have been very helpful to their member companies. They have concluded that one of the best ways to increase investment activity is through tax credits or benefits.

### REGIONAL AID PROGRAMS

The United Kingdom offers programs that promote the growth of certain regions of Great Britain by encouraging industries, firms, and workers to move to those areas.

## Regional Industry Aid Programs

As was stated above, the regional programs are offered under the Industry Act of 1972, as amended by the Industry Act of 1975. The Incentives for Industry in the Areas for Expansion (as the programs are known in the United Kingdom) differ depending on the type of expansion area applying for aid. The United Kingdom is divided into four kinds of areas: (1) Special Development Areas, (2) Development Areas, (3) Intermediate Areas, and (4) Northern Ireland. The area classification is based on unemployment, age distribution, and immigration.

The incentives programs are administered by several government departments and agencies. The Industrial Expansion Teams offer information and advisory service on all the programs and also provide free advisory services and information on the location of expansion areas, the labor supply, transportation, and utilities.

The incentives for companies to relocate to a Special Development Area include regional development grants for new buildings and for adapting existing buildings to new plant and machinery, and for works (including mining works). Selective financial assistance is also available, as well as a grant to help with moving expenses.

All of the above incentives, except regional development grants for new plant and machinery or mining works, apply also to moves to the Intermediate Areas. Some of the major programs, their requirements for eligibility, and various details are explained below.

### Regional Development Grants

Regional Development Grants are primarily for manufacturing industries, repair activities, processing scrap and waste materials, as well as scientific research related to manufacturing or waste-processing industries. The grants are made for individual items of plant and machinery that cost more than 100 pounds or for individual buildings that cost more than 1,000 pounds.

According to a Department of Industry official, the grants are given almost automatically to anyone who applies and is eligible. An estimated total of 350 million pounds has been granted since the program began.

## Selective Financial Assistance

Selective Financial Assistance is given to encourage sound industrial and commercial projects that have good prospects of viability and will improve employment prospects in areas selected for expansion. Industries that are eligible for the aid are mining, manufacturing, and construction. Assistance to offices, research and development units, and service industries is usually confined to industries and businesses that have a choice of location (i.e., in an expansion area versus other parts of Great Britain) and will provide ten or more new jobs by moving to the area. Projects that serve only local needs, such as retail shops or similar businesses, do not qualify.

Assistance is granted by type of project. Projects that qualify include those for the creation or expansion of plants and those for modernization or rationalization that maintain or safeguard employment.

The three main criteria for assistance are: (1) the viability of the project, (2) the employment opportunities provided, and (3) the amount of private contributions. The Department of Industry assesses the viability of each project for which assistance is being sought. It also assesses the project to determine whether it will benefit employment in the area. Assistance is not provided unless the project will help the employment situation. Applicants are usually expected to ensure that the greater part of the cost is provided from outside the public sector. Unless these three criteria are met, assistance will not be considered.

Loans are provided at somewhat less than the commercial rate and may have an interest-free period. Adequate security for these loans is required. Interest-free grants may be provided as an alternative to loans. Another form of assistance is removal grants, which can cover up to 80 percent of the cost for an industry to move into an expansion area. The third type available is service industry grants.

About 75 to 80 million pounds has been spent on Selective Financial Assistance--80 percent for interest-relief grants and 20 percent for loans.

## Government factories

The Department of Industry also has a program in which the Government offers factory buildings to private industry in the expansion areas. Government-built or government-owned factories may be provided for projects that will create

additional employment, or for rehousing an operation that is already in business in the general area if the existing premises are unsuitable.

There are two main types of factories--advance and custom-built. Advance factories are built before the demand arises and usually range in size from 10,000 to 50,000 square feet, with room for expansion. Custom-built factories are made to meet the industrialist's specifications. The other forms of Selective Financial Assistance, explained above, are also available if government factories are used.

As of March 31, 1976, a total of 99 new advance factories (119,300 square meters) had been completed. Of the 99 completed, 33 had been allocated. Ninety-six other factories (both new and used) were in the program, 47 of which had been allocated.

#### Regional Industry Aid Program Results

A Department of Industry official said that, because of a continuing press campaign, businesses are well aware of the regional programs that are available. Businesses also learn about the regional programs through their contacts with the Chambers of Commerce and Department of Industry regional offices.

According to a Department of Industry economist, the regional industry programs are aimed at creating employment through industrial growth. The amount of employment created by these programs is very difficult to measure because over the years many factors have affected employment. A study was completed of the effects of regional programs during the years 1963 to 1971, but none has been made for the years from 1972 to the present. The 1965 to 1971 study showed that the regional programs significantly increased employment in development areas. A Department of Industry official has concluded that the programs since 1972 have not been nearly as successful as the early programs because industry has been very reluctant to move to the expansion areas. A professor at Cambridge University has studied the movement of industry to the developing areas and found that capital-intensive industries were more likely to shift to developing areas than were other industries.

## Training in areas for expansion

The Manpower Services Commission, operating through the Training Services Agency, has the responsibility for training in Great Britain. Most training services, which are normally paid for by recipient firms, are provided free of charge to firms located in an expansion area. The services offered include training of employees in a firm's own workshop, training of the firm's course instructors either in the plant or in a Training Services Center, and modified courses that can be designed by the employer to meet his own needs. Employers must pay the trainees' wages and expenses during the period of the course.

## Employment Transfer Scheme

In April 1972, the Department of Employment introduced the Employment Transfer Scheme, which gives greater emphasis to the country's regional policy by stimulating increased mobility of workers who live in expansion areas where unemployment is high. The Employment Service Agency of the Manpower Services Commission administers the program.

The Scheme provides financial assistance to encourage workers to take jobs in other areas, but several conditions of eligibility must be met by all applicants. First, the gross pay of the new job must be less than 4,400 pounds a year. Also an applicant cannot be self-employed or accept seasonal work. The move cannot be a transfer to another job with the same employer. The applicant must have resided in Great Britain for at least three months prior to the transfer and cannot transfer outside the country for the new job. While program benefits are available to all eligible workers relocating to new employment, extra eligibility requirements apply to moves from nonexpansion areas. There must be no possibility of finding a regular job in the area where the applicant is currently living and no qualified people residing in the new area.

All eligible transferred workers are entitled to free transportation to start work in the new area, as well as a 15-pound grant to cover immediate expenses associated with the new job. Additional grants and allowances currently payable include subsidized transportation costs for return visits home, a 15-pound-a-week temporary separation allowance payable for up to two years to workers leaving dependents in their home area, and a disturbance allowance of 12 pounds a week for the first three months and 6 pounds a week for the following nine months to workers without

dependents moving from an expansion area. A grant equal to three-fourths of the legal expenses (limited to 170 pounds for purchasing a home, and up to 250 pounds for selling a home) is available. A rehousing grant of 700 pounds is available for workers who have successfully completed a course through the Training Opportunities Scheme--500 pounds for moves from expansion areas. About 6 million pounds was paid in connection with 16,143 moves during the 1975-76 financial year. It is estimated that 11.17 million pounds will be expended to provide assistance for 22,000 moves in the 1976-77 financial year.

A survey conducted for the Department of Employment in 1973 showed that a high proportion of the people receiving assistance under the program would have moved without the assistance. A government official estimated that about 90 percent of the moves fall in this category. Another test survey showed that about 40 percent of the payments were made to students and graduates who took such jobs as trainee accountants, insurance trainees, and civil servants. They had qualified by registering as unemployed for a short period between leaving full-time education and starting their first job. It seemed probable that many of them had accepted their new jobs before leaving school. Because of these abuses, the program is not considered successful.

#### Key Workers Scheme

This program applies to employees who are transferred to key positions in a new plant or in an expanding plant located in an expansion area. The transfer can be either permanent or temporary, but the employee must qualify as a key worker. A key worker is defined as an employee who is needed to install machinery, train local employees, or form a nucleus around which a local labor force can be built. The Employment Service Agency must be satisfied that suitable unemployed workers with equivalent skills and experience are not available in the involved area. Grants and allowances payable under this scheme are similar to those provided under the Employment Transfer Scheme. During the 1974-75 financial year, 753 key workers received assistance. The total number of key workers assisted in 1975-76 was 435.

#### Nucleus Labor Force Scheme

If a firm establishes a new business in the area for expansion or expands an existing one by introducing a new type of product, it is probable that unemployed workers living in the area will be recruited. This program provides help if the firm wishes to transfer the recruited workers

temporarily to a parent factory for training. During a training period of up to six months, these workers may receive the same grants and allowances provided temporarily transferred key workers under the Key Workers Scheme.

Summary United Kingdom Industry Schemes

1. Clothing industry
2. Electronic components industry
3. Ferrous industry
4. Machine tool industry
5. Nonferrous industry
6. Paper and paperboard industry
7. Poultry and meat processing industry
8. Printing machinery industry
9. Red meat slaughtering industry
10. Textile machinery industry
11. Wool textile industry



## CHAPTER 8

### WEST GERMANY ASSISTANCE

#### PROGRAMS

West German programs provide assistance to workers, firms, and communities in a variety of ways, with differing requirements and benefits under each program. Although none of the programs are planned specifically to assist parties injured by import competition, several of the mechanisms used in West Germany may be considered for use in the U.S. adjustment assistance program.

An important part of the West German programs for assisting workers is the effective matching of training and placement efforts with the specific parts of the West German economy that are expanding job opportunities. According to officials, research done by the West German Government has been especially effective in forecasting new job openings.

Another feature of the West German programs is the extensive efforts made in retraining unemployed workers. For example, in 1976, the Government spent more than DM 3 billion <sup>1/</sup> for retraining 140,000 individuals. A Government survey showed that two-thirds to three-fourths of the persons who received training obtained better jobs and are making use of the training received.

West German programs for assisting firms are also not directed specifically toward assisting firms that are injured by import competition, but are more general in nature and are directed more at assisting viable firms in expanding or increasing their output and thus increasing job opportunities. Frequently these programs involve extending credit through Federal or State Government banks with funds provided by commercial banks and the firm as well as the Government bank. Firms are encouraged to participate in these programs because of the relatively low interest rates. The interest rates are even lower for projects located near the Eastern border area or in Berlin, where per capita income is generally lower.

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<sup>1/</sup> The currency conversion rate as of July 1977 was  
\$1 = 2.35 Deutsche marks (DM).

These and other programs listed below are discussed in detail in the remaining sections of this chapter.

#### Programs for workers

1. Unemployment Benefit Program. Unemployment benefit payments are made from funds that have been contributed on an equal basis by employers and employees. Maximum benefits are 68 percent of the employee's prior net salary and last for 312 work days.
2. Unemployment Assistance Program. Under this program, payments are made to unemployed workers from general government funds.
3. Employment Research Program. The Institute for Employment Research studies the job market and prepares forecasts, which are used as bases for training, placement, and vocational guidance.
4. Placement Program. Placement and vocational guidance are provided for unemployed workers. This program is administered by the local labor offices.
5. Job-Creation Program. This is a new program, paid for by the Government, to establish jobs that otherwise might not have been created.
6. Short-Time-Allowance Program. Employees working for firms that are suffering from business problems are placed on a part-time basis rather than being dismissed. The Government subsidizes the employees' wages until the firm recovers.
7. Mobility Programs. Payments are made by the Government to encourage unemployed workers to move to new locations. Their moving expenses are also paid by the Government.
8. Training. Private institutions may be subsidized by the Government for providing training opportunities. In addition, training opportunities are available to unemployed workers, workers threatened by unemployment, and workers who want vocational upgrading (for example, retraining).

## Programs for firms and industries

1. Kreditanstalt fur Wiederaufbau. The Kreditanstalt is a Government bank that administers loan programs to aid firms. Initially it was established to administer the Marshall Plan funds; however, it now receives funds from the Federal and State Governments as well the European Community. The bank also loans money that it obtains on the German market, which is referred to as "market money." The loans are made at lower-than-prevailing interest rates to small and medium-sized firms.
2. Federal Regional Grant Program. This is a joint program of the Federal and State Governments, which was established to encourage and maintain investments in underdeveloped regions of Germany. Financial aid under the program is in the form of grants, which vary depending on geographic location. The maximum amount is 25 percent of the investment.
3. Bavarian State Credit Bank. The Bavarian Bank is similar to the Kreditanstalt, but it operates to improve the economic structure of the State of Bavaria. The bank offers loans, guarantees, and other financial aid to industries and firms.
4. Research and technology. The Ministry of Research and Technology does not have any general loan programs to assist firms, but it does attempt to encourage advanced technology. Consulting services are available for firms desiring product rationalization, but these services are provided by a private company that receives Federal aid.

## WORKER PROGRAMS

The Federal Employment Institute in West Germany was established in 1952 and has become the central agency for labor programs. Its goals are to achieve and maintain a high level of employment and to continue to improve the employment structure while promoting economic growth.

The Employment Promotion Act of 1969 required the Institute to perform several functions and to inform the

public of the benefits and services it offers. The functions include administering the several labor programs that are discussed below.

Organizationally, the Institute is not directly associated with the Federal Government, but it is subject to the legal supervision of the Ministry of Labor. A self-governing body, the Institute is made up of representatives of employees, employers, and public organizations. These representatives form a tripartite board of directors which governs the operations of the Institute. The Employment Institute has one central office, nine State offices, and 146 local employment offices.

Financial support for the Institute comes mainly from voluntary contributions. The contributions, which are made jointly by employees and employers, currently amount to 1.5 percent of the employee's salary. The Employment Institute's budget must be approved by the Federal Government. Any budget surplus is transferred to a reserve fund, and budget deficits are covered by corresponding withdrawals from the fund. The Federal Government can loan money to the Institute if the reserve fund cannot meet the budget deficits.

#### Unemployment Benefit Program

General unemployment benefits are paid by the Institute to qualified individuals who cannot be placed in employment immediately. The benefits are available to all workers, including workers from other countries, and are designed to insure reasonable subsistence without deterioration of social status. The Federal Employment Institute and its many local employment offices administer the program.

To qualify for unemployment benefits, an applicant must be under 65 years of age, be unemployed, be available for employment, have fulfilled his qualifying period, and have reported to his local employment office: A person must have paid at least twenty hours of withholding taxes a week to be eligible. One can register as unemployed either verbally or in writing, but an application for unemployment benefits must be made in person at the local employment office. There is no waiting period before benefits begin.

An applicant for benefits must be available for job placement and must accept any reasonable job offer. Most

jobs, even though they differ greatly from the person's previous occupations, are considered to be acceptable by law. The distance to the new place of business and working conditions and benefits are not a factor in job placement decisions. However, during his first six months of unemployment, the employment service does not offer an employee a job outside his prior field of work. After six months, an unemployed person would be offered jobs in related occupations. After two years of unemployment, a person would be offered a job in any occupation. Although the location of a new job would not be accepted as a reason for refusing the job, family situations would be taken into consideration and a person might not be expected to move his family.

Refusal to accept work offered by the employment office will disqualify the person for unemployment benefits. Disqualification can also occur if he refuses to take part in a vocational training program or stops participating in such a program without acceptable reasons. The first disqualification will last four weeks, but if a person is disqualified a second time, any remaining claim to benefits is lost. An unemployed person is advised of the legal consequences of not accepting jobs or training and is required to sign a document verifying the fact that he received the information.

The duration of the claim for unemployment benefits depends on the length of the period of employment during the three-year qualifying period, as follows.

<u>Length of periods of employment during three years</u>	<u>Period of entitlement to claim</u>
26 weeks	78 days
39 weeks	120 days
52 weeks	156 days
78 weeks	234 days
104 weeks	312 days

The unemployment benefit is paid from the first day of unemployment and amounts to 68 percent of prior net earnings. The benefits are based on the pay earned during the last 20 days before becoming unemployed. The wages on which the assessment is based will be adjusted annually to reflect the general changes in incomes. Other income that the unemployed person receives from a temporary job or self-employment while receiving benefits will be calculated

against half the amount of the benefits when the income exceeds 15 DM a week after deductions.

### Unemployment Assistance Program

After the unemployment benefits expire, unemployment assistance is granted. This program serves the same purpose as unemployment benefits, but is Government-funded. Together they form a comprehensive system of protection in the event of unemployment. Unemployment assistance is a general unemployment program and is not limited to any specific industry or firm. The Federal Employment Institute and its offices administer the program; the costs of the program are met primarily by the Federal Government. Unlike the unemployment benefit program, unemployment assistance is granted for an unlimited period.

To be eligible for unemployment assistance, the applicant must be available for placement, must be registered as unemployed at the employment office, and must have exhausted his claim to unemployment benefits or have no claim. In addition, the unemployed person must be in financial need, which is defined as not being able to provide subsistence for himself and his dependents without government help.

Unemployment assistance will be, at a maximum, 58 percent of the recipient's prior earning level. The amount of unemployment assistance, if it is paid after unemployment benefits have been drawn, will be computed on the same rate of pay that was used to compute unemployment benefits. In other cases, the claimant's age, capability, profession, and education will determine the base income. The base wage for assistance will be adjusted annually to reflect the general movement of incomes. The assistance entitlement relative to income will vary because this is a welfare program and financial need is considered. The criteria for determining the actual amount of payment include family wealth, spouse's income, children's income, savings, automobile(s) owned, and any other income. An unemployed person is expected to use his own savings until he has reduced the balance to 8,000 DM.

### Employment Research Program

Under the provisions of the Employment Promotion Act, the Federal Employment Institute is required to conduct a comprehensive labor market and occupational research program.

The program includes surveys of the employment situation which provide labor market statistical data. The Institute of Employment Research is the scientific department within the Federal Employment Institute which has been established to perform these functions. The Institute's research group performs the following tasks:

- analyzes the interdependencies of global, national, and sectoral economic growth and employment;
- researches changes in sectoral, occupational, and regional employment structures;
- researches business cycles, particularly with regard to the employment market;
- monitors and analyzes technical development and its impact on the employment market;
- researches job relationships and requirements and their changes;
- studies the flexibility of the labor market;
- studies the problems of classification;
- evaluates ongoing employment methods on the basis of statistical findings in the labor market; and
- researches problems in the international labor markets.

The Institute's field work is carried out by special sections and specially-trained staff members in selected employment offices in order to keep the research in line with local employment-office situations.

From the data accumulated through its research activities, the Institute is required to compile statistics on employment and unemployment. The public is given access to this data, and more importantly, the results are used to (1) develop training programs, apprenticeships, and educational curricula; (2) assist in the placement of unemployed workers; and (3) help analyze the labor market's needs.

## Placement Program

A public placement program is operated by the Federal Employment Institute to assist both employees and employers in carrying out their long-range occupational planning. The public placement service in the Institute is available to all employees and employers through their local employment office. Use of the service is entirely voluntary and free of charge.

The placement service is available in all local offices and most auxiliary offices throughout Germany. In every employment office there are specially-trained officers who give advice on questions concerning further vocational training, retraining, and possible incentives. Placement is based on the information provided by the employee in his application and by the employer offering the job. The placement officer conducts an interview when he receives a job application or notice of a vacancy. The interview permits him to become acquainted with the requirements of the employee or the employer. The placement officer evaluates the qualifications or requirements concerning the vacancy. The placement possibilities arising from this process, in relation to the employment market, are discussed at that time. The applicant is also guided toward a purposeful development of vocational knowledge and skills as well as adaptation to changing circumstances.

The placement officer chooses a suitable applicant for a vacancy or a suitable vacancy for an applicant. A placement officer has three levels on which to match applications with vacancies: (1) a district or local level, (2) a regional level, and/or (3) the national, Federal level. The placement officer will start at the local level, but will move to the next level if needs are not met. Records are kept on applicants and vacancies.

## Job-Creation Program

In 1975, the West German Government started the Job-Creation Program to promote employment opportunities for the unemployed. Jobs created under this program must be in line with the needs of the employment market and must be jobs that would not normally have been available--at least not at the time--without the aid of the program. Also the job created must be in the public interest.



The program provides assistance through subsidies and loans to public and private enterprises. The Federal Employment Institute provides a subsidy based on the hourly wage paid to an employee who is assigned by the employment office to a position for which he is eligible. The amount of the subsidy depends on the impact the positions have on the labor market. The enterprise will receive a higher subsidy if the jobs created require qualifications that are excess in the labor market. The subsidy can provide up to 120 percent of the wages for the positions created.

In addition to the subsidy provided by the Employment Institute, the program can be supplemented through loans and subsidies granted from Federal funds. This supplement usually applies to positions that are of special interest to the employment market. The amount of the subsidy can be as high as the difference between the percentage paid by the Federal Institute and 100 percent of the wages for the positions created. However, the Federal subsidy cannot exceed the amount granted by the Institute.

The total amount of subsidies granted by both the Employment Institute and the Government cannot exceed 90 percent of the total costs of creating the positions.

#### Short-Time-Allowance Program

Short-time-allowance payments are made by the Federal Employment Institute to workers who are employed less than full time because of temporary business downturns that may be caused by general business cycles or a firm's own structural changes. The purpose of these payments is to keep workers from being laid off for short periods of time.

To qualify, an applicant must have had his workweek decreased by at least 10 percent for four consecutive weeks, and at least one-third of the firm's employees must be affected. If these conditions are met, the Institute will subsidize the pay reduction with short-time allowances. The allowances are granted for a specified period not to exceed six months.

Before employees can receive short-time allowances, the firm must report, in writing, the work shortage to the local employment office. The employer will receive notice as to whether short-time allowances can be granted. The employee also makes application for a short-time allowance. If it is granted, the employer determines the amount to be paid as an allowance and pays it to the employee. The total allowance is then repaid to the firm by the employment office.

The amount of the allowance is approximately equal to the benefits that would be granted if unemployment benefits were paid. That is, workers are guaranteed 68 percent of their net pay, and if the part-time work does not produce this amount, the Institute pays the difference.

During 1975, short-time allowances were paid to 750,000 workers who were placed on a part-time basis. In the opinion of the West German Government, this program prevented unemployment in the case of 170,000 individuals. The total cost to the Government was DM 2.5 billion, or slightly more than DM 3,000 per part-time employee.

### Mobility Programs

In late 1974, the Government began paying a mobility premium to encourage unemployed workers to seek employment outside their home area. The premium consists of a moving incentive of DM 1,000 in cash, plus reimbursement for moving costs of up to DM 4,000, plus DM 800 per dependent. Unemployed workers who obtain employment in an area that is at least 50 kilometers (about 30 miles) from their prior work location and who must change residences are eligible for the premium.

During the period November 1976 to May 1977, 23,000 unemployed workers were paid a mobility premium at a total cost of DM 23 million. An additional DM 22 million was paid to 5,000 individuals for their moving expenses.

Under certain conditions, the costs of applying for a job and traveling to a job interview are granted by the Federal Employment Institute. Costs associated with training can also be paid. For persons seeking employment, the cost of tools, transitional allowances for living expenses until the first wages are paid, and other non-recurring expenses are covered by either subsidies or loans. Separation allowances (subsidies or loans) are also provided if separate households must be maintained.

Similar benefits are offered to persons who are willing to accept employment in West Berlin. The Federal Employment Institute also offers incentives to encourage people to take jobs in West Berlin, particularly in the case of skilled workers needed by industry for maintaining and strengthening the city's efficiency. Travel expenses to and from West Berlin, travel expenses for family visits, costs of relocating in West Berlin, as well as transitional allowances for any additional expenses incurred may be paid.

Officials said that the West German people are not particularly mobile, and for this reason the program has had limited success. In their opinion, persons with higher-level skills will move, but unskilled workers are not willing to move.

### Training

Training institutes are operated throughout West Germany by industrial organizations, private businesses, and labor groups. The Federal Employment Institute has the authority to grant subsidies to individuals and to training establishments in order to achieve an educational structure that meets the needs of the labor markets and professions. The subsidies should also aim at improving the employment structure in the various areas of the economy.

Vocational training establishments that may receive subsidies include organizations that are responsible for external training institutions and vocational advanced training and retraining establishments. Neither subsidies nor loans are granted to institutions that provide vocational training in commercial vocational training schools or in schools that operate for a profit.

The Employment Institute pays part or all of the training costs, including learning aids, travel expenses, work clothes, and subsistence. Subsistence during the training amounts to 58 percent of previous wages if the person is employed but is seeking vocational upgrading. However, if an individual is unemployed or threatened by unemployment, he can receive 80 percent of his previous wages during retraining.

Amendments to the Employment Promotion Act in January 1976 made it more difficult for persons to obtain retraining merely to receive vocational upgrading. This was due to an increased rate of unemployment in West Germany, which had depleted its training funds. The 1976 change in retraining is reflected in the program statistics. In 1975, DM 3 billion were spent on retraining 140,000 individuals in a special course. Of these people, 35 percent were unemployed. The remaining 65 percent were employed and were merely upgrading their skills. In mid-1977, 123,000 persons were participating in retraining. Of these, 60 percent were unemployed or threatened by unemployment, while 40 percent were upgrading their vocational skills.

Officials said that the training programs are considered successful. A recent survey by the Institute of Employment Research disclosed that two-thirds to three-fourths of the

persons who received training obtained better jobs and are making use of the training received.

#### PROGRAMS FOR FIRMS AND INDUSTRIES

As was stated earlier, there are four programs that serve to aid West German business firms and industries. They are designed to assist any firm or industry that qualifies for Government or quasi-Government help, including firms that have been negatively affected by international trade. However, none of these programs have been established solely for firms injured by import competition. Regional programs are included here since their main purpose seems to be to promote industrial growth. Detailed discussions of each of the programs follow.

#### The Kreditanstalt fur Wiederaufbau

The Kreditanstalt fur Wiederaufbau is a bank that was founded in 1948 to promote the West German economy and to finance worthy German projects abroad. Most of the bank's activity focuses on long-term loans. The Kreditanstalt finances its loans partly from appropriations that are earmarked in various budgets and partly from funds raised on the capital market. It serves as a link among public capital, the capital market, the credit system, and businesses that are interested in investment. The Kreditanstalt does not compete with commercial banks, but as a Federal bank it serves to complement the private banks.

Officials at the Kreditanstalt compared it to a combination of the U.S. Small Business Administration and the Export-Import Bank. The Kreditanstalt reported a total of DM 3.7 billion in domestic loans for 1976. Export credits, loans, and capital aid totaled DM 4.8 billion. The bank's total profit for 1976 was DM 70.9 million.

Domestic loans granted by the Kreditanstalt are usually provided through the borrower's private bank, with the private bank being the Kreditanstalt's borrower. The borrowing firm's economic situation and financial standing are investigated by its private bank, which takes full responsibility for loan approval. Application for loans can be submitted to the Kreditanstalt by letter through the borrower's bank unless the particular program calls for a different procedure.

As was mentioned earlier, the Kreditanstalt has several sources of funding. First, it uses both appropriated and special funds. Funds are also obtained from the European Community to finance domestic investment loans and also

long-term export credits. The funds from Federal budget appropriations serve mainly to finance aid to developing countries. Second, the Kreditanstalt raises funds by issuing long-term loans and three-to-four-year medium-term notes, which have been placed in the West German market since 1958. Third, institutional investors--Social Security and private insurance companies and credit institutions--are the principal sources of long-term funds. Fourth, the Kreditanstalt has received loans from international institutions.

### Regional Loans

Regional loans are provided to permit business construction, expansion, and fundamental rationalization in underdeveloped areas. The loans are not for working capital or for retraining employees, but are primarily for regional investments. In 1975, the program was coordinated administratively with the joint regional grant program. As a result, under the regional program, funds may be loaned only to enterprises located in underdeveloped areas that are not entitled to receive the Federal Regional Investment Grant.

To be classified as an underdeveloped area, a region must apply to the Government, and once accepted it will appear in a Government-published listing. Normally the region must have a much lower-than-average per-capita income to qualify as "underdeveloped."

To be eligible for the loans, firms must be small to medium-sized, must employ no more than 200 people, and must have annual sales of DM 50 million or less. Firms must provide some of their own funds for regional investment. The Kreditanstalt defines an ideal investment package as one that consists of one-third of the firm's own funds, one-third of medium-term loans (of up to four years) from a local bank, and one-third of long-term loans. If the firm is small, the Kreditanstalt can provide up to 50 percent of the investment through a long-term loan. The Kreditanstalt's share in financing was 34 percent in 1975 and 30 percent in 1974.

Loan amounts can be up to DM 200,000. The interest rate is 6 percent a year for private firms, except for loans to firms located in the Eastern border area that have a 5-percent interest rate and firms in Berlin that may receive 4-percent loans. The loan period is fifteen years for construction loans and ten years for others.

Firms initiate loans by contacting their local banks, which should provide information on the various programs available. A firm applies to its local bank for a loan, and the bank determines whether the firm is a good risk. Not only does the bank know the Kreditanstalt's criteria, but, what is more important, it guarantees the loan and therefore will be held responsible if the firm defaults. The local bank then applies to the Kreditanstalt, which makes the loan. The bank can receive interest of up to 1 percent as a handling fee.

More money is requested through loans than there are funds available, so the Kreditanstalt provides supplementary financing for the program with capital-market money. In 1975, the lending practices were modified to allow the capital market financing amount to exceed the European Community and government funded loan total. As a result of this new directive, the firms will be in a position to procure sufficient funds for financing large projects, irrespective of the maximum credit lines set for Recovery Programs loans.

The table on page 164 summarizes the regional loans that were made in 1975 and 1976.

#### Rationalization Loans

The Rationalization Program was created in the first quarter of 1975 to stimulate business. It was provided with a credit volume of DM 80 million, and loan applications could be submitted until the end of September 1975. The program was designed to promote capital expenditure for the rationalization of small enterprises that were located outside the underdeveloped regional areas. Enterprises such as small crafts, trade, and hotel and catering firms could apply for promotional funds under this program.

Despite an extension of the time period, the program used only 64 percent of the approved credit volume. The table on page 164 shows the number of loans, the amount of loans, and the total investment volume in 1975 and 1976. The Kreditanstalt attributed the low utilization of this program to the guidelines of the program, which lacked flexibility as far as the nature of investments and the group of enterprises eligible were concerned. Another problem was that the banks and enterprises located outside the promotion areas knew too little about the loans. Quite a few applications for loan funds reportedly did not follow the guidelines of the program and were handled under other programs.

## General Program

There are several other general programs for small and medium-sized enterprises and other structural measures. Limited information on three of the programs follows.

One program, which is administered by the Lastenausgleichsbank, 1/ provides loans for relocating firms. Small industries, manufacturers, and others qualifying under the regional recovery program can apply for loans of up to DM 200,000 for purchasing, erecting, or expanding building and equipment. The investment must be in the best interest of the local community, and generally the move must be necessary because of air pollution, noise pollution, or other problems. Firms that want to move, but are not required to do so, can qualify for the loan under certain circumstances. For example, a firm that is restricted by poor access because of narrow streets would qualify for a relocation loan. The 5 to 6 percent interest rate and the ten-to-fifteen-year loan period are the same as for the loans discussed above.

Loans for the promotion of apprenticeships within firms are also administered by the Lastenausgleichsbank. These loans are approved for occupations in small and medium-sized enterprises. In addition, loans for investments to encourage cooperation between smaller firms are available. Two small firms, for example, can purchase an automatic data processing system under a sharing arrangement. The interest rates and loan periods are the same as in the European Recovery Program. Loans for cooperation can be up to DM 100,000, and for the apprenticeships/jobs, DM 30,000 will be loaned for each place or job created.

The last loan program to be discussed involves loans for restructuring firms that face problems such as changing product lines or a need to obtain new machinery. The loan can be for up to DM 1 million for a ten-year-loan period. The interest rates are the same as for the regional program. In 1975, DM 3.5 million was loaned for this program and in 1976, DM 2.6 million.

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1/The Lastenausgleichsbank is one of the three banks in West Germany that administer Loan Program funds: The Kreditanstalt administers the largest portion of the funds, and the Berliner Industries Bank is the third.

### Market Loan Programs

The Market Loan Programs at the Kreditanstalt were established to finance capital expenditures for the introduction of new products and services, fundamental rationalization, research and development, energy-saving measures, etc. Funds for these loans are obtained from normal money market supplies rather than from special government or European community funds. The Market Loan Program is for small and medium-sized firms and is not subject to any regional limits. Loans are granted at interest rates that are slightly lower than the prevailing rates.

For the purpose of the Market Loan Program activity, small-to-medium-sized firms are defined as those with annual sales to DM 200 million or less. The entrepreneur is required to contribute some funds to the investments.

For administrative purposes, the Market Program is divided into two categories by the Kreditanstalt. One category has a loan value ranging from DM 300,000 to DM 3 million, while the second category is for loans of less than DM 300,000. The procedures for obtaining a Market loan are the same as for loan programs.

### Federal Regional Grant Programs

Public authorities seeking to broaden and upgrade the range of West Germany's economic output are providing selective financial assistance on a large scale under a regional development policy. Accordingly, a joint Federal and State program has been established to grant aid to firms of any size that are willing to establish, extend, rationalize, or convert facilities located in any of the underdeveloped areas in West Germany. The Government identifies these areas and the maximum public investment-cost subsidy allowed for each. Financial support normally consists of a tax-free investment allowance of 75 percent of the total investment cost, supplemented by the joint-scheme grants up to the maximum level of support identified in the government list. The scheme is financed equally by the Federal Government and the States and is administered by the Ministries of Economics, which usually provide final approval on the applications.



The portion of the total investment that is given as a grant varies from 10 to 25 percent, depending on the location of the firm and the purpose of the investment. Support for establishing a plant or extending one in the underdeveloped areas has a higher grant content than does support for rationalization or conversion. Investments along the East-West German border area are eligible for higher or special support. For example, 25 percent of the investment costs of establishing a new plant near the border could be granted under this scheme.

#### Bavarian State Credit Bank

The Bavarian State Credit Bank (Bayerische Landesanstalt für Aufbaufinanzierung) is similar to the Kreditanstalt für Wiederaufbau, but it operates only to improve the economic structure of Bavaria. The bank, which was established in 1950 as a public institution, offers loans, loan guarantees, and other financial aid to industry. Financial aid from the Credit Bank is usually provided to the firms through commercial banks. Funds for the aid are raised on the market through the issue of debentures and the sale of bonds. Generally, State budgetary funds are used only to reduce the interest rates for borrowers. The borrower's reason for needing funds is not a criterion for approval.

As was stated earlier, loans from the Bavarian bank are usually made through the firm's bank. In this way, the Bavarian bank does not undergo losses as a result of the program because the private bank is liable for repayment of the loan if the firm fails to repay.

The amount and terms of loans from the Bavarian bank vary depending on purpose and geographic location. Interest rates vary from 3.5 percent to 5 percent, with 1 percent of the principal going to the borrower's bank.

#### Guarantees

The Bavarian State Bank is also involved in providing loan guarantees. Small and medium-sized firms can receive guarantees on loans for rationalization, modernization, and expansion, as well as on working capital loans. The maximum guarantee allowed is DM 1,000,000, but a guarantee may not exceed 80 percent of the amount of the loan. A guarantee commission of one-half of one percent a year and a one-percent service charge (which, if approved, may apply toward the commission) are charged by the bank.

There are Credit Guarantee Associations in Bavaria which provide collateral for firms that lack adequate security. The Bavarian State Bank will not guarantee a loan unless the Credit Guarantee Associations have refused the firm's application.

#### Direct participation

According to bank officials, the bank avoids direct participation whenever possible, but occasionally participation has been unavoidable. For example, a textile firm located in Erlangen, West Germany, which employed about 5,000 people, planned to close because it was unable to compete successfully with low-priced imports. The community could not afford to lose 5,000 jobs, and no one was interested in purchasing the textile company. The Bavarian State Bank decided that not only would it need to provide loans for rationalization but would also need to purchase 50 percent of the company. The bank plans to sell its share in the company when the economy recovers from the current recession.

#### Ministry of Research and Technology

The Ministry of Research and Technology does not normally become involved in providing loans or grants to specific business firms. However, it does provide grant programs to aid West German industries that, due to technological advancement elsewhere, have fallen behind in world competition. An example of a situation for which the Ministry gave a financial grant follows.

Because the electronic components industry in West Germany does not have the same opportunities to undertake research through defense contracts as do companies in the United States, the West German Government feels a need to subsidize its electronic components industry through grants. The grants are normally for 50 percent of the research and development costs. Similar programs are available to the communications industry, the scientific optical industry, and air transportation. DM 50 to 60 million is spent annually on such grants.

The industry firms that receive the grants must be involved in a research and development area of the industry. The programs are coordinated with those of scientists working in the area, and discussions between representatives of the Ministry and the industry are held during and following the research and development efforts. As a result, the program's availability is well known throughout industry circles.

The Ministry is not involved in providing consulting services to firms or industries. The Government does not get directly involved in consultation but subsidizes a private company that offers such a service.

The Ministry tries to remain flexible and sometimes attempts to design programs for various industries. For example, West German watchmakers were totally unprepared for the introduction of digital display watches. When the industry began to lose business, the Ministry contacted the electronic-component makers and the watchmakers in an attempt to coordinate a rationalization program for them. The Government provided some financial and psychological support, and a private firm provided consultation services.

The Ministry is currently attempting to develop an overall program to help small and medium-sized businesses. The program is receiving top priority, and its goals include:

- Establishment of a modern technological consulting network, made up of private firms, which would receive financial aid and coordination from the Government.
- Low-interest-rate research and development loans for small and medium-sized business.
- Low-cost contracts for research and development.
- Tax reductions for small and medium-sized businesses involved in research and development.

All of these plans are still in the formulation stage.

Kreditanstalt Fur Wiederaufbau  
Loan Activity in 1975 and 1976

	<u>Number</u>	<u>Amount</u> (millions)	<u>Promoted investment volume</u> a/
Regional Program			
1975	4,665	340.5 DMs	1,310.8 DMs
1976	3,893	310.4	1,144.8
Rationalization Program			
1975	460	42.8	161.1
1976	80	8.5	33.4
MI Kreditanstalt Program			
1975	822	801.0	2,444.6
1976	999	872.6	2,752.9
MII Kreditanstalt Program			
1975	2,775	401.9	1,195.2
1976	2,696	392.1	1,166.3
Kreditanstalt Supplementary Financing			
1975	3,494	241.9	(1,341.3)
1976	2,479	206.8	( 867.8)
Total Small and Medium Firms Programs			
1975	13,168	1,946.9	5,679.7
1976	10,919	1,880.7	5,419.3

a/Promoted investment volume is the total capital expenditure made. The Kreditanstalt provided 34 percent of the total in 1975 and 35 percent in 1976.

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