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## PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP  
ADDRESS TO THE MTIA ANNUAL DINNER, PARLIAMENT HOUSE,  
CANBERRA, 27 NOVEMBER 1995**

### **E&OE PROOF COPY**

Thank you very much Graham and Jo (Kraehe), Bert and Pauline (Evans), Bill and Barbara (Page-Hanify), Senator Robert Hill, Senator Kernot, distinguished members of the diplomatic community, my ministerial and parliamentary colleagues and ladies and gentlemen.

Well, I did want to follow you immediately, Graham, so I could get back and get into the tucker and the wine. But you may be a bit weary and I think I'll have to cheer you up a bit. It was a reasonably cheerful speech, but only reasonably cheerful and I thought I would say a few things to you that have occurred to me in recent times about our prospects and where we are.

We are about to go into, sometime next year, an election campaign where one half of politics will say we are all ruined and the world is about to end and the other half will say that things have never been rosier. But I think the truth of the matter is that we are facing a period of substantial prosperity in the region in which we live and we are in a good position to capture it and to grow with it.

We have got a number of commentators in Australia now talking about, for instance, Don Stammer calls it a 'long lasting upswing that will take us through to at least the year 2000' and, I think, that if you look around the world particularly in our region, you can see plenty of reasons why that probably is so. That is apart from the domestic reasons that we have now got on top of, a lot of the problems here of competitiveness that we have been growing quite strongly, certainly in OECD terms and that there is no particular reason why we shouldn't continue to do that. Our cost structure is fine, the profit share in the economy is very high, the exchange rate provides a mechanism for competitiveness, we have essentially now endemically low inflation and, I think, we can keep that there and we are trying now to remedy the savings imbalance through the public sector in superannuation as you, Graham, remarked.

So, all those elements are in place and I think there are other good signs too. The Japanese economy is now starting to show some signs of growth again. I think the so-called bubble of the late 1980s, they are starting to wear their way through that problem, the Japanese government has just introduced a very large stimulatory package which will lift domestic demand and lift activity in that country. The Yen has started to depreciate against the US dollar which will lift Japanese competitiveness. This gives the breathing space in terms of their own productivity changes and if that economy starts to lift again it will have a lot of lugging power for Australia.

The US is still bowling along quite well at around 2.5 to 3 per cent or probably at the moment just over 3 per cent. China is growing more slowly than it was two years ago, but still at such a speed as to provide a lot of demand in this part of the world. So, the environment we find ourselves in is quite good, even Europe is starting to pick up now with the German economy knocking up around 3 per cent and the British economy doing quite well in terms of growth. So, the scene is really quite an up-beat one in terms of growth and activity. Given that we have now got a much higher proportion of our product in exports, there is no reason why that can't make quite a substantial difference to us.

I think that that presents some real opportunities for us and the Government is trying to make the most of those opportunities by our trade penetration in the region and also shifting the pattern of what we are doing here. It is worth recalling, I think, that a decade ago we were exporting 13 per cent of GDP. The middle range of the OECD countries is between about 23 and 25 per cent of GDP. We were lagging way behind. In 1983 we were right at the bottom of the pack. Since then, of course, we have had a very big change in opening up our economy and competitiveness so now we have got exports running at around 22 per cent of GDP. We are not quite up there at that, if you like, mid range of the OECD, but we are closing quickly and, of course, 9 per cent of GDP the difference - GDP this year is \$500 billion - 9 per cent is \$45 billion, you can just imagine what that current account would look like if that transition had not occurred. I mean, you would be sitting here in a comatose economy, growing at probably 1 to 1.5 per cent a year with high interest rates holding it down and those who had a quid would keep a quid and those without it would never get one and there would be a lot losing it.

As a consequence that \$45 billion in addition to exports a year has completely transformed the face of the Australian economy and, of course, elaborately transformed manufactures are now leading the way in terms of our growth. That is a very, I think, important change and it is also just worth recalling that you hear a bit of doom saying about our debt and we certainly have to keep an eye on it. But, 10 years ago 21 per cent of our export proceeds went to paying our interest. This year it is 11 per cent. So, there has been a very big transformation in the debt service component of the Australian current account. You might say 'well, we have got substantial national debt', we have. Perhaps like the person in the street with a big

mortgage, they have just had a doubling of their income, it certainly makes you sleep better at night and that is what has happened to us. Our debt service component has come down immeasurably and we are in better shape.

The other thing that I think is worth saying is that and Graham made a couple of comments about the primary exports sector, obviously his company is not a foundation member of AMIC or any of those other bodies, but I am rather bullish about the terms of trade. The terms of trade have been shifting on Australia since 1950. In 1950 the things we sold to the world were valuable and the things we bought were relatively inexpensive. Resources were expensive and manufactures were cheap and we had, therefore, a very high standard of living in the post war years. That all changed so we got to those absolutely depression level terms of trade in 1985/86, the period that I talked about - the banana republic - and those banana republic terms of trade. That was probably our low point, but I think we are probably going to see, with a rise in the Chinese economy, India, South America, Russia, all really joining the world economy certainly for the first time in the case of China, India and South America and for Russia the first time since World War I, I think we are probably going to see an upward pressure on prices and more value attaching to real things as distinct from manufactured things.

I think the premium that has been on widget making - technology, gadgets - which has carried a lot of industrial societies along for quite a long time is probably going to shift given that most countries are now in the gadget business, whether they be developing economies like China or new industrialising economies like Thailand for instance, or ones that now have the aura of a developed economy such as Singapore, these are all countries that have enjoyed a premium from technology. But, I think, there is going to be a swing back to real resources, those finite things which for some reason or another have fallen in value and, I think, if Australia actually gets the double with a high value added manufacturing industries and at the same time a pick up in the terms of trade, we'll start shooting back up that income curve which we slipped down between 1950 and the mid 1980s.

So, there is a lot going on out there, I think, and a lot of countries you compare us with in the industrialised world don't have the resource base we have, they don't have the capacity to produce food the way we do, yet at the same time now with an educated population and a much greater commitment on the part of industry to produce transformed things we can pick up that premium and at the same time improve our position on the resources front.

Now, that is a reasonably good outlook I think and the other thing then is our penetration of these markets. Graham mentioned APEC, let me just say a couple of things about it. The APEC meeting in Osaka was, of course, a watershed for the region and for Australia. What it meant was that the Bogor declaration which proclaimed free trade in the Asia-Pacific by 2010 for developed countries and 2020 for developing countries was transformed into an Action Agenda at Osaka which ran to 35 pages which was absolutely firm

and solid all the way through in terms of developing that agenda, making a start in 1997 and putting down a huge down payment on that agenda as the first round of Uruguay Round commitments, WTO commitments on the part of APEC member states. In other words it was not just simply a declaration or further words, but a very clear commitment on all the member states at Head of Government level, to actually go down the path of free and open trade and to do so in a way that also shows the lead in the Uruguay Round.

You could not have believed that such an agreement could have been made just a couple of years ago. So, this will be not only transforming and redefining the Asia-Pacific, it will probably lead the world in terms of free trade given the fact that already 63 per cent of world GDP is in APEC and in 10 years time 75 per cent of world GDP will be in APEC. Three quarters of the world's production, half the world's population and at Head of Government level we have sat down and hammered that commitment out. In a structure, I might say, that in a very substantial measure Australia has invented and dealt itself into. I think those of you who know a bit about the Government and the way it works know that now no longer is domestic economic policy and domestic and foreign policy two arms, two separate arms and two separate areas of Government. But foreign affairs and trade is as much part of the domestic agenda as any other part of the domestic policy focus and we tend to try and operate it in a way where one goal serves the other.

Now with APEC, we have put a body together which I think is going to change, certainly in the next half century, the political architecture of the Asia-Pacific, not just the commercial architecture. Because when I was there recently I came there with Jiang Zemin the Chinese President, having recently visited South Korea - which, of course, would have been unthinkable at any time since 1949 until now - with a Japanese Prime Minister having visited China, with the Korean President having visited Japan and I think a lot of this goodwill has come from APEC. The fact that they all meet each other, know each other and have some confidence of trust in one another means that these barriers are dropping.

So it has political ramifications as well as trade ramifications and, of course, we are an integral part of it. It has been, I think, a very key change and one which Australia should take a fair bit of pride in and I hope more than that a fair bit of sustenance from because some calculations we have done between the Industry Commission and a couple of other of the economic intelligence agencies is that APEC is likely to add about A\$1 trillion of GDP to the APEC countries during the period up to about 2015. So this is quite a dramatic change and, of course, will start to open all that area up.

The reason APEC is working is because it has got a design quality that no other trade body in the world has. First of all, it is driven by a Leaders Meeting. It is not a ministerial meeting. It is a Head of Government meeting and that meeting has decided the end-points of the trade liberalisation. Whereas in that drawn out process of the Uruguay Round,

there were never any end-points. There was only what you could garner from the person next door and it was all based around the proposition that trade liberalisation is something we had to do, but we didn't like it very much. So you had to give something away just to, sort of, get along and to get your share.

Whereas what has happened here is that the APEC leaders have actually decided that trade liberalisation is a good thing and that they will free up their markets in goods and services by a certain date and the process will then be driven towards that by the Leaders Meeting. In other words, it is just completely different to the Uruguay process altogether and thinking of the design of APEC and how it might function has been thinking about how we can really change the whole of the Asia-Pacific, keep East Asia properly resourced and keep it growing because Graham made the point about these high growth rates in East Asia. Well if you have got a relatively small economy, you can grow at 6 or 8 per cent because off a small base you can get large increments to growth. But you get the Australian economy which is \$500 billion and grow it at 4 per cent, there is a \$20 billion increment to wealth. That is a large proportion. For instance, it is a third of the size of the Malaysian economy - our growth in one year equals a third of the size of the Malaysian economy. So just keeping that sort of resourcing up to it is an enormous challenge.

Now all of this is going to happen, of course, in the Asia-Pacific with China requiring .... I mean I have got just a couple of statistics here. Talking about energy. For instance, East Asia's demand for energy is going to double every 12 years compared with the world average of every 28 years. China's growing food needs has an estimated grain shortfall of up to 136 million tonnes annually within 15 years. That is three to six times our total production of wheat. East Asia's infrastructure requirements for roads and airports, railways and power stations are likely to exceed \$2 1/2 trillion over the next decade.

So just keeping that great machine resourced is going to be a great challenge. In other words, if we want to keep growth in East Asia, and be part of it, we have got to set up the machinery for it to happen. And clearing the impediments in the road blocks and the logjams out of the system is going to be an important thing to do to keep it going and that is what APEC is about. Essentially if we can fuel income growth in East Asia, then we can participate in it.

Now, fortunately, we have seen a lot of success in this part of the world. Economies are growing, living standards are rising, people are getting better opportunities. But this is not so all around the world. Look at Africa, for instance, Southern Africa, or West Africa. There you have got, you know, faltering political structures, falling real incomes. It doesn't have to be the way it is here in East Asia. But keeping East Asia growing, keeping expectations rising, keeping people happy means keeping income growth moving, which means keeping resources mobile, which means getting the

political will to get all that into place. And that is, essentially, what APEC has done and which Australia, of course, has shown a substantial role in leading in its formation and in seeking to support those other people who have given it impetus - such as President Soeharto of Indonesia with his declaration, and Prime Minister Murayama in Japan. So this is important.

The other thing that I think you should remember too is that the Government is also working on putting together, as much as we can, some sort of union between AFTA - the ASEAN Free Trade Area - and Australia and New Zealand, or the CER agreement.

Here we have the opportunity in South East Asia of creating a market of around \$1.2 trillion in GDP and about 300 million people as a sub-group of APEC and we are travelling quite well. The Foreign Minister and I are very pleased with the progress we have been making to date in the AFTA/CER discussion and I think, around the region amongst the ASEAN countries, there is a willingness to involve Australia and New Zealand in this particular undertaking and where we help them open their markets up and in so doing create a better market for Australian produce.

So it is not anything other than an optimistic scene, I think, and the fact that we are well placed here in this fast growing part of the world, that we are starting to get these structures into place, that our own economy is competitive, we are 40 per cent more competitive this year than we were in 1983 and that competitiveness is now driving that export growth into elaborately transformed things in services and, of course, in the big bulk trade of commodities in minerals and, of course, in agriculture. So I would like to try and ride that process further and to see where it takes us and that, of course, in trade. The other things in trade facilitation which is a way of clearing away impediments to things like the tax system, foreign investment, customs harmonisation, all of these other things are very much on the agenda as well.

Now, I think, that we need to savour how far we have come. Certainly understand how far we have got to go, but know what the opportunities are and there are very few OECD countries like Australia that have either the growth we have, or the growth opportunities we have and they are very much there.

But, first of all, you have got to want to be in it. You have to want to be in it - the East Asian game. You can't be there as a sideline, or a fad. You have actually got to want to be in it and you can't straggle out there with loyalties to Whitehall and to Washington believing that you are going to have all the doors opened up for you in Kuala Lumpur, or Beijing, or Jakarta if our focus remains only in the places where we have been before. Those things we have got to do well too and, I think, we can and we continue to keep .... for instance, Britain is the largest foreign investor in Australia, we are the second largest foreign investor in Britain. We have still got very large investments from the United States. We still have a great strategic

partnership with the United States. But we have got to make our way here too and I believe we can.

Now Graham said earlier, we have had a period of substantial industrial peace and he correctly identified the problems of the CRA dispute and I would just like to say a couple of things about industrial relations.

One is to say that we have had a dramatic decline in industrial disputation in this country. The Accord has delivered tremendous certainty, I think, to the labour market. It has been principal amongst the instruments in reducing inflation and lifting employment. We have had a 26 per cent increase in employment since 1983, household disposable income has risen by 40 per cent since 1983, household disposable income per capita has risen by 21 per cent and real wages have risen by 7 per cent. So there is a very good scene there in terms of the workforce and that is reflected in the wage restraint and the commonsense is reflected in a much higher level of profits and, of course, stronger levels of investment which has been powering our rate of growth.

We are growing, on average in the period of this Government, just on twice the rate of growth on average in the period of the last Coalition Government and that is, in part, because you can run the economy faster without crunching it with interest rates because there is an Accord to rely upon in terms of wages growth.

Now this dispute we have had is, of course, not in the normal course of enterprise bargaining, or in wage settlement. The dispute was not about the normal growth we have had in enterprise bargaining which has changed the labour market, I think, markedly. It was about, amongst other things, this whole question of choice and, by and large, CRA had run a policy which said that if you take a contract you are worth more than if you are on an award. Or put another way, that it will discriminate in favour of contracts against award employees who get their conditions by collective bargaining.

Now if the Government were to say to the MTIA, or to the Business Council, or to AMIC, or any other body that our policy will be - and the union's with us, under the Accord - that we will pay workers up to \$10,000 - \$20,000 a year more if they are unionists, there would be a hew and cry around the country - you would have to put cotton wool in your ears. What has happened here is exactly that, but the reverse. They're saying that if you're on a contract, you can have more because you are worth more. Now, that's not about equal pay for equal work - it's about unequal pay for equal work, and it essentially not about choice at all - it's about discrimination. And CRA played that game, and quite successfully, until they finally put those civil writs on people, and at that point, they stubbed their toes and the unions reacted against them.

Now, this Government is not about to discriminate in favour of unionists, we are not about to go around and say that if you are on an award, there should be a beneficial offer made - and indeed, the ACTU for its part, wants only a

level paying field. They want to be able to secure the same wages and salaries for the same work if somebody is on an award, versus somebody who is on a contract, and that's what the dispute is about. Now, it's not about the way forward, it's not about labour market reform, it's not about organising the workplace, it's not about best practice, it's not about training and retraining, because if we look through the successes we have had in enterprise bargaining in Australia - which now affects, of course, about two-thirds of all federal award employees...well, look at the great industrial companies in Japan, and other big companies around the world who have made very great changes in productivity levels, these have generally come by teamwork, team spirit.

(tape break)

And that's why I wasn't at all surprised when the Industrial Commission held in favour of no discrimination being brooked or tolerated. In a sense, there is no place for ideology in this. And what, I think, the company is doing essentially, is taking an ideological view that if you are on a contract, you are more useful, and therefore, you are worth more. Now, you know that there has been the Employment Contracts Act in New Zealand since 1991, but I don't know whether you know that labour productivity has grown by 1% a year since. And labour productivity in Australia has grown at 2.4% over the same period. So, I don't think it's the answer to a maidens prayer, though New Zealand, of course, has set a model which it's comfortable with, and which can operate its economy. Can I just remind you, too, of the US Labour Secretary Robert Reich, who not long ago at a European OECD Conference lamented the absence of flexibility in the US labour market, and the US economy. This is a country where the model that CRA wants is the vogue - where people are basically on contracts, and Robert Reich said "in the United States, we have had huge employment, but falling real wages for 16 years.". The US has a speed limit of 2.5% growth, and whenever it gets over that, they start pulling it back, and that 2.5% growth you would have thought by now would have been 4-5% if those who believe in flexibility, coming from these sorts of industrial arrangements, having seen them operate for so long, that flexibility would have been there. Well, the flexibility isn't there, the US is still a much more rigid economy than it ought to be, and taking - securing - an army of working poor is doing not very much for flexibility, but it is also ripping the soul out of US society.

And, you know, I noticed just a little chilling statistic in *Time Magazine* a week or so ago, while I was flying up to Japan, saying that gunshots account for more deaths of young people under 16 in California than road accidents, or any other category of damage. Now, they're unemployed, they're on the streets, and no-one cares about them. And that's not what we want here, and we are not going to have it here.

Now, we're going to have a debate in the election campaign around these issues. Our Coalition friends are here tonight, and I just want to make this point to them, and to you - to say, the Government doesn't mind an honest



debate on this, our model is enterprise bargaining, collective bargaining, each business tailoring its productivity seeking to draw from its employees more efficient work, and sharing the gains between profits and wages. That's happening - I think we are starting to do quite well with enterprise bargaining, we have a very large training agenda, we have got an international best practice agenda sitting there, we have got a safety net which looks after those people who can't get an increase under the enterprise bargaining system, and in terms of the contracts, we are saying in that respect, equal pay for equal work. That's the model we are in. We are saying if you can't get an enterprise deal, you pick up something under the safety net, but if you can, you and your employer can actually produce a better business which is more profitable. There's sense about that - there has been a great evolution in that, and there is, I think, a great deal of sense and respectability about that.

And if the Coalition believes that it doesn't believe in enterprise bargaining in this way, that it doesn't have a commitment to collective bargaining, that it doesn't have a no-disadvantage test, that it doesn't believe the Industrial Commission has a place in all this, then it should say so. And say why it believes this. To say why it believes such a system would be better for Australia. Because if they believe it, presumably, they can argue for it, and make a case for it. But what we won't be having in the election campaign is a radical change to the labour market by stealth - of one side pretending they have got the policies of the other side, when in fact, they have a completely different set of policies altogether. Stabbing the Commission in the stomach, knocking it out of the system, not having a no-disadvantage test, not effectively giving people a choice - these, I think, are all the recipes, I believe, of going back to the conflict model that we all came from in the late 1970s, which saw a spurt of wages growth, and then a big fall in real wages thereafter. The inflation rate knocked into 10-11%, investment smashed to pieces, and rising unemployment. That's the sort of model out there. Or, there's the model we have had as we gradually get the flexibility in the labour market, sector by sector, company by company.

Now, I think we are making the grade. A couple of weeks ago I was at tube makers in Queensland, and I was very impressed by a couple of people - a couple of working fellows I sat down with for lunch, and they were literally blue-collar people in blue overalls, sitting up there talking about how they had put the last new line - production line - into the business, and quite proud of the little innovations they had brought to it. And I said to one how are you going? And he was about 55 or 56, and he said "look, this is the best I have ever had it in my working life. The best wages I have ever had, the best working conditions I have ever had, and more time to myself". And I said, "well, you please me no end, telling me that", and he said "no, we're looking forward to the third round of our enterprise bargaining. The first round, it was pretty much as what we had. The second round we made some real gains, and we now think - all of us think - we can do a great job", and they all said hear-hear down the table. Now, I think that mood is around, and I think we can really pull it together and make it work. But I think that if we are going to

split people off, and cut their wages, we will not grow the Australian economy out as a low-wage country. The Australian economy is going to make it by innovation, by education, by elaborately transformed things. It is also going to make it by accessing those big markets for the things - the raw materials we produce, and the secondary processing of them. It's not going to make it by low wages - this is not going to be a low wage, low rent society, and nobody should try and take it there. But if the Coalition want to take it there, then this will be the issue in the election. That is, one where we will have a referendum on industrial relations, on wages and conditions. Where we are not going to see a sea-change of the kind of country we are by stealth.

Because in this country, IR is not just a matter of factory floor wages or conditions - it's about the sort of society we are, how we relate to one another. Because your income gives you that mobility, it lets you pass through the barriers, it gives you your standard of living, it looks after your family, it brings you the human happiness that the political system should bring. It's part of the fabric of the way we are, of the sort of country we have become, the sort of society we now are. And this is why we believe it's central and it is a debate where we can participate with a bit of goodwill and keep our society together, and God forbid the point where young adolescents are finding we're losing more of them from gunshot wounds than we are through road accidents, or drugs, or anything else. That we actually have a society that actually does care about one another, and where we have some common values and some cohesion and some real beliefs about the sort of country we have become.

So, if CRA wants to go out, and run this debate - fine. The unions will rise to the occasion, no doubt, and as a consequence, I don't know whether any of us are going to be advanced by it. But let's not call it reform - call it ideology by all means, but not reform. So, perhaps I could conclude on this point - I really think we are in for a long period of growth, after the turn of the century at least. I see nothing coming in our way - any impediments - to knock that around. Our cost structure is in good shape, our fundamental inflation rate is in good shape, our competitiveness is in good shape, and our strategies positioning in the Asia Pacific has never been better. Our bilateral relationships with the countries around us - with Indonesia, with Malaysia, with Singapore, with Thailand, the Philippines, China, Japan - have never been better. We have got huge opportunities there - we have got the trade barriers down, we have got best practice coming in, we now have international businesses to compare ourselves with, we are in there for the break we have never, ever had before. We have had these phases in the past - like, we call the golden years of the 60s. But they were golden for Britain, the United States, Canada, Australia and a few other countries. They were not like now, where they are golden for the whole of South East Asia, for the rising income levels of North Asia, for substantial parts of Europe. This is a period, I think, none of us have lived through one as exciting as this. And let's not trade it away in gloom. Thank you very much.

ends.