



# PRIME MINISTER

EMBARGOED UNTIL DELIVERY

CHECK AGAINST DELIVERY

CAI ANNUAL DINNER  
CANBERRA - 28 NOVEMBER 1985

LADIES AND GENTLEMEN

IT GIVES ME MUCH PLEASURE TO SPEAK ON THIS OCCASION OF YOUR ANNUAL DINNER. WE IN GOVERNMENT RECOGNISE THE IMPORTANCE OF THE CAI AS A MAJOR EMPLOYER GROUP AND AN INTEGRAL PART OF THE AUSTRALIAN INDUSTRIAL RELATIONS SYSTEM. YOUR ORGANISATION HAS PLAYED A VALUABLE ROLE IN REPRESENTING A WIDE RANGE OF BUSINESS INTERESTS AND IN ASSISTING THIS GOVERNMENT DEVELOP POLICIES RELEVANT TO INDUSTRY.

RECENTLY THERE HAVE BEEN SOME QUESTIONS ABOUT ASPECTS OF THE GOVERNMENT'S ECONOMIC STRATEGY, DESPITE THE VERY IMPRESSIVE TURNAROUND OF THE REAL ECONOMY SINCE THIS GOVERNMENT ASSUMED OFFICE. THIS QUESTIONING HAS BEEN GIVEN SOME FOCUS BY THE RECENT BEHAVIOUR OF THE AUSTRALIAN DOLLAR.

TONIGHT, I WANT TO OUTLINE TO YOU WHY THE GOVERNMENT BELIEVES THAT THE FUNDAMENTALS OF OUR ECONOMIC STRATEGY ARE CORRECT. IN PARTICULAR, I WANT TO PAY ATTENTION TO THE GOVERNMENT'S PRICES AND INCOMES POLICY - AND THE ACCORD.

SINCE THE GOVERNMENT CAME TO OFFICE IN MARCH 1983, WE HAVE STEADFASTLY APPLIED A COHERENT ECONOMIC STRATEGY TO RESTORE SUSTAINED ECONOMIC GROWTH TO THE AUSTRALIAN ECONOMY, AND TO REVITALISE AUSTRALIAN INDUSTRY.

DURING THAT PERIOD WE HAVE SOUGHT TO CORRECT THE IMBALANCES IN THE ECONOMY WHICH WE INHERITED IN EARLY 1983. THESE INCLUDED ENTRENCHED INDUSTRIAL DISHARMONY, DOUBLE DIGIT INFLATION, RISING UNEMPLOYMENT, A SUBSTANTIAL AND RISING BUDGET DEFICIT, A COLLAPSE IN THE PROFIT SHARE, POOR INTERNATIONAL COMPETITIVENESS AND A TIRED AND COMPLACENT INDUSTRIAL BASE.

AND, IN EACH CASE WE HAVE SUCCEEDED.

IMBALANCES SUCH AS THESE HAD BEEN RESPONSIBLE FOR A DECADE OF POOR ECONOMIC PERFORMANCE AND, IF WE HAD NOT ACTED, WOULD HAVE CONTINUED TO DRAG ON OUR GROWTH POTENTIAL.

THE GOVERNMENT'S APPROACH TO THESE PROBLEMS HAS BEEN TO IMPLEMENT A RANGE OF COMPLEMENTARY ECONOMIC POLICIES.

MOST FREQUENTLY OVERLOOKED ARE POLICIES TO IMPROVE AUSTRALIA'S ABILITY TO ADAPT AND TO MAKE THE MOST OF OUR OPPORTUNITIES.

THESE INCLUDE POLICIES AIMED AT REMOVING REGULATORY IMPEDIMENTS TO DEVELOPMENT AND GROWTH.

THEY ENCOMPASS TRADE POLICIES WHICH SEEK TO EXPAND AUSTRALIA'S OPPORTUNITIES TO EXPORT, PARTICULARLY IN THE ASIA-PACIFIC REGION.

THEY ENCOMPASS INDUSTRY POLICIES WHICH SEEK TO FOSTER NOT ONLY EFFICIENT AND FLEXIBLE INDUSTRIES, BUT ALSO FORWARD LOOKING, EXPORT-ORIENTED ENTERPRISES.

THEY ENCOMPASS EDUCATION AND TRAINING POLICIES TO IMPROVE AND ENHANCE AUSTRALIA'S HUMAN RESOURCES AND RAISE SKILL LEVELS - PARTICULARLY OF OUR YOUNG PEOPLE.

AND, TO PROVIDE A SUITABLE MACROECONOMIC FRAMEWORK FOR STEADY FORWARD MOMENTUM, THEY INCLUDE MONETARY, FISCAL AND INCOMES POLICIES DESIGNED INITIALLY TO GET THE ECONOMY MOVING AGAIN - AND THEN TO SUSTAIN GROWTH. IT IS TO THESE ELEMENTS OF OUR POLICY APPROACH THAT I WISH TO DEVOTE MOST ATTENTION THIS EVENING.

IT IS NOW WELL ACCEPTED THAT THE AUSTRALIAN ECONOMY HAS PERFORMED EXCEPTIONALLY WELL IN THE FIRST PHASE OF ITS ECONOMIC RECOVERY. OUR ECONOMIC GROWTH RATES HAVE BEEN THE BEST OR CLOSE TO THE BEST IN THE WORLD. WE ARE CLOSE TO DELIVERING ON OUR COMMITMENT OF 500,000 NEW JOBS, WELL WITHIN THE THREE-YEAR TIME FRAME. MOREOVER, FOR THE FIRST TIME IN OVER THREE YEARS, THE UNEMPLOYMENT RATE IS BELOW 8 PER CENT.

THE CONJUNCTION OF OUR POLICIES HAS BROUGHT MAJOR BENEFITS TO BUSINESS.

THE INFLATION RATE LAST YEAR WAS THE LOWEST SINCE 1970-71. REAL UNIT COSTS OF EMPLOYING LABOUR HAVE FALLEN SUBSTANTIALLY IN EACH OF THE LAST TWO YEARS, PRODUCING ALSO A SHARP RESTORATION OF PROFITABILITY. INDUSTRIAL DISPUTATION HAS BEEN AT ITS LOWEST IN ALMOST TWO DECADES AND, OVERALL, THERE IS A MORE SECURE AND PREDICTABLE BUSINESS ENVIRONMENT.

HOWEVER, WITH THOSE ACHIEVEMENTS BEHIND US, THE RECOVERY IS NOW ENTERING A MORE MATURE PHASE: A PHASE WHICH, IN EARLIER RECOVERIES, HAS PROVED TO BE ALL TOO SHORT-LIVED.

THE GOVERNMENT IS CONFIDENT THAT, EVEN IF WORLD GROWTH MODERATES SOMEWHAT, AUSTRALIA WILL CONTINUE TO GROW SOLIDLY - AND DO SO IN A WAY WHICH WILL NOT GENERATE EXCESSIVE INFLATION; WHICH WILL PERMIT THE NECESSARY IMPROVEMENT IN OUR CURRENT ACCOUNT; AND WHICH CAN THUS BE CONSISTENT WITH A SUSTAINED RISE IN OUTPUT AND EMPLOYMENT.

THE REASONS FOR OUR CONTINUED CONFIDENCE ARE THAT ECONOMIC POLICY HAS BEEN SET WITH THIS END IN VIEW FOR SOME TIME, AND THE RESULTS TO DATE, WHICH I ALLUDED TO EARLIER.

THE DEPRECIATION, COUPLED WITH OUR POLICY RESPONSES, IS ALSO A MAJOR FACTOR IN THIS OUTLOOK.

THE POLICY RESPONSES TO DEPRECIATION HAVE BEEN OF TWO KINDS. FIRST WE HAVE TAKEN DIRECT ACTION, WITHIN THE CONTEXT OF THE ACCORD, TO INSULATE DOMESTIC COSTS FROM THE DIRECT INFLATIONARY EFFECTS OF DEPRECIATION AND THUS TO PRESERVE THE IMPROVEMENT IN OUR COMPETITIVENESS. I WISH TO RETURN TO THIS ASPECT LATER.

SECOND WE HAVE SET MONETARY AND FISCAL POLICY ON A COURSE TO SLOW THE GROWTH OF DOMESTIC DEMAND FROM ITS PRESENT TOO RAPID PACE AND THUS TO ENSURE THAT THE STIMULUS TO GROWTH WHICH DEPRECIATION WILL PROGRESSIVELY IMPART CAN BE ACCOMMODATED WITHOUT ENCOUNTERING RESOURCE CONSTRAINTS.

THIS IS BECAUSE WE ACKNOWLEDGE THAT TOO RAPID A PACE OF EXPANSION WOULD RISK RE-IGNITING COST AND PRICE INFLATION - EVEN WITH THE RESTRAINING INFLUENCE OF THE ACCORD - AND PUT FURTHER RECOVERY AT RISK.

EXPANSION IN ADVANCE OF THE GROWTH OF THE CAPACITY OF THE ECONOMY TO SHIFT RESOURCES TO THE TRADEABLE GOODS SECTOR WOULD ALSO PUT AT RISK THE IMPROVEMENT IN THE CURRENT ACCOUNT - WHICH ITSELF WOULD ALSO PLACE SUSTAINED RECOVERY AT RISK.

OF COURSE NO ONE IN GOVERNMENT EXPECTED THE BENEFITS OF DEPRECIATION TO FLOW IMMEDIATELY - AS WAS CLEAR FROM THE 1985/86 BUDGET PAPERS. NOR WAS IT EXPECTED THAT THERE WOULD BE AN INSTANT SLOWING OF CREDIT AND DOMESTIC DEMAND WHEN POLICY INITIATIVES WERE TAKEN FOLLOWING THE DEPRECIATION EARLIER THIS YEAR.

INDEED BOTH THE TREASURER AND I HAVE STATED CLEARLY THAT IT WOULD BE THE FIRST HALF OF 1986 BEFORE ANY SUBSTANTIAL IMPACT WAS LIKELY TO BE FELT IN EITHER CASE.

BUT NEITHER CAN IT BE DENIED THAT THE SUBSTANTIAL IMPROVEMENT IN OUR COMPETITIVENESS WHICH HAS OCCURRED - WHICH AMOUNTS TO AROUND 20 PER CENT OVER THE PAST YEAR - WILL IN TIME RAISE THE MARKET SHARE OF DOMESTIC PRODUCERS BOTH AT HOME AND IN WORLD TRADE AND THUS REDUCE THE CURRENT ACCOUNT DEFICIT AS A PROPORTION OF GDP.

NOR DO I MAKE ANY BONES ABOUT THE FACT THAT THE HIGH LEVELS OF REAL INTEREST RATES WHICH HAVE PERSISTED SINCE EARLY IN 1985 ARE INTENDED EVENTUALLY BEGIN TO SLOW THE GROWTH OF CREDIT AND TO ENSURE THAT DEMAND GROWTH IN 1985-86 IS BROUGHT DOWN TO THE BUDGET ESTIMATE OF 3 PER CENT.

SOME OF THE RECENT COMMENTARY ON THESE MATTERS HAS BEEN MORE VOLATILE THAN THE EXCHANGE RATE. AT THE TIME OF THE LAST BUDGET SOME WERE SCEPTICAL THAT THE GOVERNMENT'S GROWTH

FORECASTS COULD BE ACHIEVED. MORE RECENTLY THERE WAS A CONCERN THAT THE ECONOMY WOULD EXCEED THOSE FORECASTS AND THAT THE EXPECTED IMPROVEMENT IN THE CURRENT ACCOUNT WOULD BE DELAYED AS A CONSEQUENCE. NOW THERE ARE SOME SUGGESTING THAT MONETARY POLICY IS TOO TIGHT AND THAT A SHARP CONTRACTION IS IN EARLY PROSPECT: SOME OF THIS PERSUASION QUOTE THE APPARENT WEAKNESS OF INVESTMENT IN THE SEPTEMBER QUARTER NATIONAL ACCOUNTS AS EVIDENCE IN THEIR CASE.

THE GOVERNMENT'S POSITION ON ALL OF THESE PROPOSITIONS IS CLEAR. THE OUTCOME IN THE SEPTEMBER QUARTER NATIONAL ACCOUNTS IS QUITE CONSISTENT WITH OUR GROWTH FORECASTS - WHICH PRESENTLY SHOW NON-FARM PRODUCT GROWTH IN 1985-86 AT A LITTLE LESS THAN 5 PER CENT.

THAT FORECAST, IN TURN, IMPLIES A STEADY SLOWING OF DOMESTIC DEMAND THROUGH THE COURSE OF 1985-86 AND A CORRESPONDING RISE IN THE CONTRIBUTION TO GROWTH OF NET EXPORTS - THE COUNTERPART OF THE EXPECTED IMPROVEMENT IN THE CURRENT ACCOUNT.

THOSE WHO ARGUE FOR PESSIMISTIC INVESTMENT FORECASTS ON THE BASIS OF THE OUTCOME IN THE SEPTEMBER QUARTER WOULD DO WELL TO HEED THE STATISTICIAN'S WARNING ABOUT THE DANGERS OF RELYING EXCESSIVELY ON MOVEMENTS OVER A SINGLE QUARTER.

BUSINESS INVESTMENT DECLINED SLIGHTLY IN THE QUARTER (AFTER ADJUSTING FOR EXTRANEOUS INFLUENCES) - BUT THIS FOLLOWED GROWTH OF 10 PER CENT IN THE JUNE QUARTER. IN FACT, THE TIMING OF INVESTMENT DECISIONS IN THE PERIOD IS MORE LIKELY TO REFLECT CHANGES IN THE ARRANGEMENTS RELATING TO THE INVESTMENT ALLOWANCE THAN MORE FUNDAMENTAL FACTORS. OVER THE SIX MONTHS TO THE SEPTEMBER QUARTER, BUSINESS INVESTMENT GREW AT AN ANNUAL RATE OF 14 PER CENT.

SLOW GROWTH IN THE CURRENT HALF-YEAR IS CONSISTENT WITH THE LATEST ABS INVESTMENT INTENTIONS SURVEY - WHICH NONETHELESS INDICATES A SUBSTANTIAL PICK-UP IN REAL INVESTMENT OVER THE COURSE OF THE YEAR. I WOULD ADD THAT THE SAME SURVEY ALSO INDICATES THAT INTENDED INVESTMENT IN MANUFACTURING IN 1985-86 IS 25 PER CENT HIGHER THAN THE CORRESPONDING ESTIMATE A YEAR AGO. AMONGST OTHER THINGS, THIS IS CERTAINLY A POSITIVE SIGN THAT THE ECONOMY IS GEARING UP TO TAKE ADVANTAGE OF THE DEPRECIATION.

MORE GENERALLY, THE ACCOUNTS DEMONSTRATE CLEARLY THE STRONG GROWTH IN PRIVATE DOMESTIC DEMAND AND OUTPUT WHICH IS CONTINUING, IN ADVANCE OF THE IMPACT OF SOME EARLIER TIGHTENING OF MONETARY AND FISCAL POLICIES. PRIVATE FINAL DEMAND ROSE AT THE SOLID ANNUAL RATE OF 4.4 PER CENT IN THE SIX MONTHS TO SEPTEMBER, AND OUTPUT AT 7.4 PER CENT. WITH THE STIMULUS FROM DEPRECIATION IN THE PIPELINE, THESE STATISTICS SHOW CLEARLY WHY THE GOVERNMENT HAS SET MONETARY AND FISCAL POLICY ON THEIR PRESENT MORE RESTRICTIVE COURSES.

AS IS WELL KNOWN MONETARY POLICY WAS FIRMED EARLIER THIS MONTH, AT A TIME WHEN IT WAS NECESSARY TO PROVIDE A BREATHING SPACE WHILE FOREIGN EXCHANGE MARKETS WERE

UNSETTLED. BUT IMPORTANT AS THE EXCHANGE RATE IS, MONETARY POLICY IS NOT SET SOLELY WITH AN EYE TO THAT PRICE.

AS THE TREASURER AND THE GOVERNOR OF THE RESERVE BANK HAVE SET OUT ON A NUMBER OF OCCASIONS, THE CONDUCT OF MONETARY POLICY HAS BEEN GUIDED BY REFERENCE TO THE COMPLETE RANGE OF ECONOMIC DEVELOPMENTS - INCLUDING ACTUAL AND PROSPECTIVE INFLATION, GROWTH, EMPLOYMENT, INTEREST RATES AND VARIOUS MONETARY AGGREGATES.

IT IS OUR ASSESSMENT OF THE OVERALL PERFORMANCE OF THE ECONOMY THAT HAS LED TO THE FIRM MONETARY POLICIES THROUGHOUT 1985 - AND THAT STANCE WILL CONTINUE SO LONG AS IT IS JUDGED TO BE APPROPRIATE.

FISCAL POLICY ALSO HAS BEEN ASSIGNED A MAJOR ROLE. BECAUSE OF THE DEPRESSED STATE OF THE ECONOMY AT THE TIME IT ASSUMED OFFICE, THE GOVERNMENT INITIALLY PURSUED MEASURED STIMULATORY POLICIES, WHICH HAVE BEEN PROGRESSIVELY WOUND BACK AS PRIVATE SECTOR RECOVERY HAS GATHERED MOMENTUM.

AT 2.1 PER CENT OF GDP, THE COMMONWEALTH DEFICIT IS BUDGETED IN 1985-86 TO BE LESS THAN HALF THE PROSPECTIVE OUTCOME OF 5 PER CENT WHICH WE INHERITED FROM OUR PREDECESSORS. AND, REFLECTING AGREEMENTS REACHED WITH THE STATES, THERE HAS BEEN A SIMILAR DECLINE (OF 2.7 PERCENTAGE POINTS) IN THE AGGREGATE PUBLIC SECTOR BORROWING REQUIREMENT.

I WOULD ADD THAT THIS HAS BEEN ACHIEVED EVEN WHILE SUBSTANTIAL IMPROVEMENTS HAVE BEEN MADE IN ASPECTS OF THE SOCIAL WAGE - IMPROVEMENTS WHICH HAVE FORMED AN IMPORTANT ELEMENT IN OUR AGREEMENT WITH THE UNIONS TO ACHIEVE A SUBSTANTIAL CUT IN REAL LABOUR COSTS BORNE BY EMPLOYERS.

FISCAL POLICY WILL CONTINUE TO CONTRIBUTE TO THE PROCESS OF ECONOMIC ADJUSTMENT REQUIRED TO SUSTAIN GROWTH. THIS IS CLEAR FROM OUR WILLINGNESS TO ACCEPT UNPRECEDENTED FISCAL RESTRAINTS IN THE FORM OF THE TRILOGY, COUPLED WITH OUR COMMITMENT TO FINANCE THE TAX CUTS AGREED TO IN THE CONTEXT OF THE NEW ACCORD, NOT FROM ADDITIONAL BORROWINGS, BUT FROM ADDITIONAL EXPENDITURE RESTRAINT.

AS I INDICATED EARLIER, THE ACCORD - JUST AS IN THE FIRST PHASE OF AUSTRALIA'S ECONOMIC RECOVERY - REMAINS AN ESSENTIAL ELEMENT OF OUR POST-DEPRECIATION ADJUSTMENT STRATEGY.

THE CENTRALISED SYSTEM OF WAGES FIXATION PROVIDES THE ONLY FRAMEWORK WITHIN WHICH IT WOULD HAVE BEEN POSSIBLE TO IMPLEMENT THE WAGES ELEMENTS OF THE ACCORD. THAT SYSTEM - AND THE AGREEMENTS REACHED UNDER THE ACCORD - HAVE DELIVERED A DEGREE OF DOWNWARD FLEXIBILITY IN OVERALL REAL LABOUR COSTS THAT IS UNPARALLELED IN RECENT AUSTRALIAN EXPERIENCE.

WHO WOULD HAVE PREDICTED, THREE YEARS AGO, THAT DESPITE OVER TWO YEARS OF STRONG ECONOMIC UPTURN - AND WITH PROSPECTS OF CONTINUED STRONG GROWTH - THAT THE RISE IN AVERAGE WEEKLY EARNINGS OVER THE YEAR TO THE SEPTEMBER QUARTER, AT 4.1 PER

CENT, WOULD BE THE LOWEST (EXCEPT ONLY FOR THE PREVIOUS QUARTER) SINCE 1966?

IN FACT, AS I BEGAN TO SAY EARLIER, WAGES MODERATION OVER THE PERIOD OF THE ACCORD HAS BEEN SUFFICIENTLY MARKED TO PERMIT A SUBSTANTIAL DECLINE IN REAL UNIT LABOUR COSTS IN EACH OF THE LAST TWO YEARS. THAT INDEX OF COSTS IS NOW BELOW THE AVERAGE LEVEL OF THE LATE 1960'S AND EARLY 1970'S. AND THE PROSPECT IS - UNDER THE ACCORD - THAT IT SHOULD BE NO HIGHER IN TWO YEARS TIME.

I AM AWARE THAT THE RECENT DECISION BY THE ARBITRATION COMMISSION NOT TO COMMENCE DISCOUNTING FROM THE RECENT NATIONAL WAGE INCREASE HAS CAUSED DISAPPOINTMENT AMONGST SOME OF YOUR MEMBERS. LET ME REMIND YOU, HOWEVER, THAT THE FULL BENCH OF THE COMMISSION CONCLUDED FROM THE EVIDENCE BEFORE IT THAT THE ECONOMIC EFFECTS OF SPREADING A DISCOUNT OF 2 PER CENT BETWEEN THE NOVEMBER AND APRIL WAGE CASES WOULD BE MINIMAL AND TRANSITORY.

THE GOVERNMENT'S DETAILED ANALYSIS SUPPORTS THIS CONCLUSION AND WE ARE OF THE VIEW THAT MOVEMENTS IN THE CPI WOULD BE VIRTUALLY THE SAME FROM THE MIDDLE OF 1986 UNDER EITHER APPROACH.

ON PRESENT ESTIMATES A DISCOUNT OF 2 PER CENT WOULD ALMOST PRECISELY OFFSET THE DIRECT EFFECT OF DEPRECIATION ON THE CPI RELEVANT TO THE DETERMINATION OF THE NEXT NATIONAL WAGE CASE.

AS YOU KNOW OTHER OFFSETS HAVE BEEN AGREED BETWEEN THE GOVERNMENT AND THE ACTU. UNIONS HAVE AGREED TO MODERATE THEIR PRODUCTIVITY CLAIM TO A WAGE-EQUIVALENT OF 3 PER CENT, TO BE PAID IN THE FORM OF NEW OR IMPROVED OCCUPATIONAL SUPERANNUATION. THE PAYMENT OF THIS CLAIM AS SUPERANNUATION WILL FURTHER REDUCE THE EFFECT ON TOTAL LABOUR COSTS TO ABOUT 2 1/2 PER CENT, BECAUSE SUPERANNUATION PAYMENTS DO NOT TYPICALLY BEAR THE SAME IMPLICATIONS FOR ON-COSTS AS DO TRADITIONAL WAGES INCREASES. THIS COST IMPACT IS TO BE SPREAD OVER A TWO-YEAR PERIOD AND THERE IS TO BE NO FURTHER CLAIM BASED ON PRODUCTIVITY UNTIL 1988.

THE GOVERNMENT IS CONCERNED TO ENSURE THAT ALL ASPECTS OF THE AGREEMENT IN RESPECT OF THE PRODUCTIVITY CASE ARE HONOURED BY ALL CONCERNED.

THESE INCLUDE THE REQUIREMENT THAT, EVEN THOUGH NEGOTIATIONS TOWARDS ESTABLISHING NEW SUPERANNUATION ARRANGEMENTS MAY PROCEED, THE COST IMPACT SHOULD NOT BE FELT BEFORE JULY 1, 1986. THERE CAN BE ONLY VERY ISOLATED EXCEPTIONS TO THAT RULE. IN PARTICULAR NO PROPOSAL WILL BE ENTERTAINED BY THE GOVERNMENT WHICH SIGNIFICANTLY ADDS TO TOTAL COSTS BEFORE 1 JULY - AND THE GOVERNMENT IS CLOSELY MONITORING DEVELOPMENTS IN THIS AREA.

I WOULD ADD THAT THE GOVERNMENT DOES NOT SUPPORT INDUSTRIAL ACTION IN SUPPORT OF SUPERANNUATION CLAIMS. IN OUR VIEW SUCH ACTION IS INCONSISTENT WITH THE SPIRIT OF THE AGREEMENT

BETWEEN THE GOVERNMENT AND THE ACTU.

THE GOVERNMENT WILL SHORTLY BE CIRCULATING FOR COMMENT - INCLUDING TO THE CAI - A SET OF DRAFT GUIDELINES TO GOVERN SUPERANNUATION SCHEMES. WE WILL WELCOME YOUR COMMENTS ON THE DRAFT.

THE GUIDELINES WILL BE DRAWN UP TO MAKE IT CLEAR THAT, CONSISTENT WITH THE NEEDS OF OUR RETIREMENT INCOMES POLICY, ONLY ARRANGEMENTS TO PROVIDE GENUINE SUPERANNUATION BENEFITS WILL BE ACCEPTABLE TO THE GOVERNMENT. SCHEMES WHICH DO NOT COMPLY WILL BE DENIED THE TAXATION CONCESSIONS OTHERWISE AVAILABLE TO ENCOURAGE THIS FORM OF SAVING.

THE APPROACH WHICH WE HAVE TAKEN IN REACHING THIS AGREEMENT WITH THE ACTU TO MAKE A JOINT APPROACH TO THE CONCILIATION AND ARBITRATION COMMISSION ON THOSE MATTERS IS SIMILAR IN KIND TO OUR EARLIER AGREEMENTS IN RESPECT OF THE MEDICARE ADJUSTMENT TO THE CPI, THE FOREGOING OF CATCH-UP CLAIMS AFTER THE 1983 WAGES FREEZE, AND THE AGREEMENTS NOT TO SEEK WAGES INCREASES INCONSISTENT WITH THE PRINCIPLES LAID DOWN BY THE COMMISSION.

THE AGREEMENT IN RESPECT OF PRODUCTIVITY RECOGNISES THE ENTITLEMENT OF UNIONS, UNDER THE PRINCIPLES, TO MOUNT SUCH A CLAIM TO SHARE IN THE GROWTH OF NATIONAL INCOME - BUT SEEKS ALSO TO ARGUE FOR AN OUTCOME WHICH IS CONSISTENT WITH THE NEEDS OF THE ECONOMY OVERALL.

IN THIS CASE THE SIZE AND TIMING OF THE CLAIM, AND THE PROPOSAL THAT THE CLAIM BE PAID OVER TWO YEARS, ARE ALL SIMULTANEOUSLY DESIGNED TO CONTAIN INFLATIONARY PRESSURES, MAINTAIN OVER TIME THE IMPROVEMENT IN REAL UNIT LABOUR COSTS AND CONTRIBUTE TO PRESERVING THE IMPROVEMENT WHICH HAS OCCURRED IN OUR INTERNATIONAL COMPETITIVENESS. OF COURSE IT WILL BE FOR THE COMMISSION TO DETERMINE WHETHER THE AGREED APPROACH IS ACCEPTABLE, ON THE EVIDENCE TO BE PRESENTED TO IT.

WHILE IT IS A FIRM PRINCIPLE THAT THE COST OF ANY PRODUCTIVITY AWARD SHOULD NOT EXCEED 3 PER CENT, IT IS ENVISAGED THAT EMPLOYERS AND EMPLOYEES WILL HAVE SOME FLEXIBILITY - WITHIN THE GENERAL GUIDELINES - ABOUT ASPECTS OF ANY PRODUCTIVITY AWARD MADE IN TERMS OF THE AGREEMENT. I NOTE THAT THERE IS ALSO SOME LIMITED FLEXIBILITY UNDER THE OPERATION OF THE CURRENT WAGES FIXING PRINCIPLES, TO ACKNOWLEDGE DEMONSTRABLE CASES OF INCAPACITY TO PAY NATIONAL WAGE INCREASES.

HOWEVER, THE HALLMARK OF OUR APPROACH HAS BEEN TO SEEK OUTCOMES WHICH, WHILE PRESERVING EQUITY, DELIVER THE MAXIMUM FEASIBLE RESTRAINT IN AVERAGE OUTCOMES FOR LABOUR COSTS. AND, AS THE EVIDENCE WHICH I HAVE PRESENTED CLEARLY SHOWS, OUR APPROACH HAS BEEN HIGHLY SUCCESSFUL.

IT IS UNDERSTOOD THAT THIS MAY, AT TIMES, BE AT THE COST OF A DEGREE OF FLEXIBILITY IN RELATIVE WAGES WHICH, IN OTHER CIRCUMSTANCES, COULD HAVE BEEN DESIRABLE. THIS REFLECTS THE

JUDGEMENT THAT, IN THE CIRCUMSTANCES OF THE STRONGLY GROWING AUSTRALIAN ECONOMY WHICH OUR POLICIES HAVE PRODUCED - AND AGAINST THE BACKGROUND OF AUSTRALIA'S INDUSTRIAL HISTORY AND, IN MANY WAYS, UNIQUE INSTITUTIONS - THE PURSUIT OF APPROPRIATE OUTCOMES FOR LABOUR COSTS OVERALL SHOULD NOT BE JEOPARDISED.

THERE IS A STRONG TEMPTATION FOR ME TO ENGAGE IN SOME POLITICAL POINT SCORING ON THIS MATTER BUT IN THE INTERESTS OF PROMOTING A MORE INFORMED DISCUSSION, I WILL CONFINE MYSELF TONIGHT TO ADDRESSING THE SUBSTANTIVE ISSUES IN THIS DEBATE.

THE FIRST ISSUE IS THE FREQUENT ASSERTION THAT A LESS CENTRALISED APPROACH TO WAGES DETERMINATION WOULD IMPROVE JOB PROSPECTS.

THE INTERNATIONAL EVIDENCE FOR THIS PROPOSITION IS AT BEST AMBIGUOUS.

IN ITS EMPLOYMENT OUTLOOK, THE OECD INDICATED RESERVATIONS ABOUT THE SUPPOSED ADVANTAGES OF SECTORAL WAGE FLEXIBILITY. IT NOTED THAT DESPITE INCREASED DISPERSION IN MANUFACTURING EARNINGS IN THE UNITED STATES AND A NARROWING IN CANADA, WHICH IT HELD TO BE INDICATIVE OF GREATER FLEXIBILITY IN THE UNITED STATES, EMPLOYMENT IN MANUFACTURING HAS INCREASED MUCH MORE IN CANADA THAN IN THE US SINCE 1970.

THE OECD ALSO WARNED THAT IT IS IMPORTANT NOT TO SEEK TO PURCHASE RELATIVE WAGE FLEXIBILITY AT THE EXPENSE OF AN UNDESIRABLE OUTCOME FOR THE AVERAGE WAGE LEVEL.

OTHER STUDIES HAVE NOTED SIMILAR RESULTS. FOR EXAMPLE BELL AND FREEMAN'S EMPIRICAL EXAMINATION OF US EXPERIENCE LEADS THEM TO CONCLUDE:

"THE BOTTOM LINE OF THE US EXPERIENCE IS THAT FLEXIBLE WAGES BY INDUSTRY HAVE NOT CONTRIBUTED TO EMPLOYMENT GROWTH".

THEY FOUND THAT PRODUCTIVITY GAINS IN EXPANDING INDUSTRIES WERE TRANSLATED MAINLY INTO WAGE INCREASES RATHER THAN INTO MORE JOBS. NO DOUBT THIS REFLECTS THE USE OF INDUSTRIAL MUSCLE BY UNIONS IN EXPANDING INDUSTRIES.

COMPELLING EVIDENCE OF THE DANGERS OF A LESS CENTRALISED APPROACH IN AUSTRALIAN CONDITIONS IS TO BE FOUND, HOWEVER, IN OUR EXPERIENCE IN 1981-82.

LET ME RECALL FOR YOU THE CIRCUMSTANCES OF THE TIME. NON-FARM GROWTH IN THE YEAR BEFORE HAD JUST TOPPED 4 PER CENT, FOR ONLY THE SECOND TIME IN 6 YEARS. THE UNEMPLOYMENT RATE HAD EDGED DOWN TO 5.4 PER CENT IN JUNE 1981 AND ROSE PROGRESSIVELY THROUGH THE NEXT FINANCIAL YEAR. THE CORPORATE PROFIT SHARE IN 1980-81, STOOD AT JUST OVER 14 PER CENT AND LABOUR AND EMPLOYERS ALIKE SHARED HEIGHTENED EXPECTATIONS OF FUTURE GROWTH GENERATED BY THE RHETORIC OF THE SO-CALLED RESOURCES BOOM.



IT IS NOW A MATTER OF RECORD THAT, IN THE CONTEXT OF THE ABANDONMENT OF THE CENTRALISED SYSTEM IN JULY 1981, WAGES GROWTH RAPIDLY ACCELERATED, REACHING A PEAK YEAR-TO RATE OF 17 PER CENT.

OF COURSE IT IS IMPOSSIBLE TO PREDICT WITH ANY PRECISION WHAT ADDITION TO LABOUR COSTS WOULD OCCUR IF THE CENTRALISED SYSTEM WERE TO BE ABANDONED NOW. BUT WITH GROWTH STRONGER, THE PROFITS SHARE HIGHER (AT 16 PER CENT IN THE LATEST QUARTER) AND THE UNEMPLOYMENT RATE KNOWN TO BE DECLINING, IT REQUIRES A SOMEWHAT PERVERSE LOGIC TO CONTEND THAT THERE WOULD NOT BE SUCCESSFUL CLAIMS - AND FAIRLY WIDESPREAD AT THAT - IN EXCESS OF THOSE PERMITTED UNDER THE ACCORD.

OF COURSE THE ESSENCE OF A DECENTRALISED APPROACH IS THE NEED FOR INDIVIDUAL EMPLOYERS TO BE CONVINCED OF THE MERITS OF THE CLAIM BEFORE THEM. IN AUSTRALIAN CONDITIONS THIS WOULD INEVITABLY GENERATE A SHARP RISE IN INDUSTRIAL DISPUTES, AND WITH IT THE PROSPECT OF SUCCESSIVE ROUNDS OF WAGES BARGAINING BASED ON COMPARATIVE WAGES JUSTICE.

THESE MECHANISMS ARE COSTLY - TO EMPLOYERS AND EMPLOYEES ALIKE. ALONG WITH THE OBVIOUS COSTS OF LOST PRODUCTION, THEY REQUIRE THE DIVERSION OF EXCESSIVE MANAGEMENT RESOURCES TO DISPUTE SOLVING, AND ADD AN ELEMENT OF UNCERTAINTY TO ALL FORWARD PLANNING, AND TO ALL COSTINGS, INCLUDING WHEN TENDERING FOR EXPORT CONTRACTS.

OUR CENTRALISED APPROACH SHARPLY REDUCES BOTH THE UNCERTAINTY ELEMENT AND THE RESOURCES REQUIRED FOR THESE PURPOSES. IT BEARS REMEMBERING THAT INDUSTRIAL DISPUTES ARE NOW A FRACTION OF THE LEVELS OF EARLIER TIMES. MOREOVER, THOUGH WE HAVE PROBABLY BECOME SO ACCLIMATISED THAT WE HAVE FORGOTTEN WHAT IT USED TO BE LIKE, IT IS ALSO TRUE THAT FOR MOST FIRMS THE EARLIER NEAR CERTAINTY OF FREQUENT AND PROLONGED INDUSTRIAL DISLOCATION HAS NOW BEEN REMOVED FROM THE PLANNING HORIZON. NONE OF THIS WOULD BE GUARANTEED IN THE ABSENCE OF THE ACCORD AND THE CENTRALISED SYSTEM OF WAGES FIXATION.

IN RECENT TIMES THERE HAS BEEN SOME DISCUSSION - INCLUDING BY THE OPPOSITION - OF THE POSSIBILITY OF CREATING SOME HALF-WAY HOUSE BETWEEN THE PRESENT SYSTEM AND A COMPLETELY DEREGULATED LABOUR MARKET.

THE PROPOSALS WITH MOST CURRENCY RELY ON SOME MECHANISMS TO PERMIT (OR, IN SOME INSTANCES, ENCOURAGE) "OPTING-OUT" OF THE CENTRALISED SYSTEM. IN ONE CASE IT HAS BEEN SUGGESTED THAT ALL PENAL PROVISIONS UNDER INDUSTRIAL LEGISLATION BE WITHDRAWN.

IN THE GOVERNMENT'S VIEW A SYSTEM WHICH RELIES STRONGLY ON COMMON LAW TO ENFORCE AGREEMENTS WOULD RAPIDLY BECOME UNWORKABLE. KNOWING THAT RECOURSE TO LAW WOULD BE A LENGTHY, EXPENSIVE AND CUMBERSOME PROCESS, IT IS HARD TO SEE HOW POWERFUL PARTIES - ON EITHER SIDE - WOULD NOT SEEK TO EXPLOIT THE INFLEXIBILITY OF THE SYSTEM, TO THE DETRIMENT OF THE ECONOMY AS A WHOLE AND THE OTHER PARTY TO THE AGREEMENT.

THE DIFFICULTY WITH OPTING OUT PROPOSALS MORE GENERALLY IS THAT, WITHOUT THE UMPIRE, IT IS HARD TO SEE HOW OUTCOMES FOR AVERAGE WAGES COULD BE ACHIEVED WHICH THE PARTIES MIGHT EACH AGREE TO BE IN THE NATIONAL INTEREST, BUT WHICH INDIVIDUAL BARGAINERS CANNOT ABIDE BY IF WAGES GENERALLY ARE SPIRALLING UPWARDS UNDER THE DICTUM OF COMPARATIVE WAGE JUSTICE.

CLEARLY THE STRONGEST INCENTIVES TO OPT OUT WOULD BE FOR THOSE UNIONS WITH THE MOST INDUSTRIAL MUSCLE OR IN PROFITABLE, PACE SETTING INDUSTRIES - PARTICULARLY THOSE INDUSTRIES WHICH ARE MORE SHELTERED FROM INTERNATIONAL COMPETITION. DEALS CONCLUDED IN THESE SEGMENTS OF THE ECONOMY AND TRANSMITTED TO THOSE ENGAGED IN TRADE CAN ONLY BE TO THE DETRIMENT OF OUR ABILITY TO COMPETE.

I CAN ONLY HEARTILY ENDORSE THE CAI'S ASSESSMENT IN ITS SUBMISSION TO THE HANCOCK INQUIRY THAT AUSTRALIAN EMPLOYERS DO NOT WISH TO TAKE THE "LEAP IN THE DARK" REQUIRED TO ESTABLISH A RADICAL DEPARTURE FROM CONCILIATION AND ARBITRATION.

AGAINST THE BACKDROP OF OUR OTHER POLICY SETTINGS, THE ACCORD AND THE CENTRALISED WAGES FIXING SYSTEM ON WHICH IT IS BASED, HAS WORKED - TO QUOTE THE OECD SECRETARY-GENERAL - "BRILLIANTLY" TO GET AUSTRALIA'S ECONOMIC FUNDAMENTALS RIGHT. WE HAVE MECHANISMS IN PLACE TO PRESERVE TO THE MAXIMUM FEASIBLE EXTENT OUR COST COMPETITIVENESS IN THE WAKE OF THE DEPRECIATION. WE HAVE IN PLACE MECHANISMS WHICH WILL ENABLE THE NECESSARY TRANSFER OF RESOURCES TO OUR TRADEABLE GOODS INDUSTRIES TO BE ACCOMPLISHED AT LEAST COST TO THE LONGEVITY OF THE RECOVERY - WHILE, ALL THE TIME, PRESERVING FORWARD MOMENTUM IN GROWTH AND JOBS.

LET THERE BE NO DOUBT OF THIS GOVERNMENT'S DETERMINATION TO CONTINUE TO MANAGE THE AUSTRALIAN ECONOMY TO ENABLE ALL AUSTRALIANS TO PROSPER AND REALISE THEIR ASPIRATIONS IN THE 1980'S, THE 1990'S AND BEYOND.

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