



# PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED UNTIL DELIVERY

**SPEECH BY THE PRIME MINISTER  
METAL TRADES INDUSTRY ASSOCIATION  
20 OCTOBER 1986**

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Ladies and Gentlemen,

At the outset let me congratulate you on the timeliness and relevance of the theme for your national forum: "New Directions in Industrial Relations."

I will return to this subject a little later because our industrial relations system and its participants certainly have a major role to play in rebuilding the base for Australia's national prosperity.

But first let me observe that, in preparing for this Address, I was struck with a certain sense of *deja vu*.

When I addressed the MTIA Annual Dinner some three years ago, industrial relations and wages policy also formed an important part of my address.

The issue then was how best to resurrect Australia from the malaise of 1982-83 and how to achieve wages outcomes and an industrial climate which would maximise the strength and length of Australia's economic recovery.

The National Wage Case of 1983 had just concluded and workers had been called upon to accept restraint in income claims as part of a national strategy of reconstruction and recovery.

Many doubted that the Accord-based approach then proposed would prevail because it required unprecedented wage restraint for a time of expected strong economic growth. Even a few unionists were heard to express some qualms about what had been proposed.

But the record shows clearly that the doubters were proved wrong.

Workers have been prepared to make the necessary sacrifices in the national interest - which, of course, they rightly perceive to mean the long-term interests of all current and potential workers.

Those early months in the life of this Government were undoubtedly difficult and uncertain. But the Government provided the leadership, and the community responded in a way which produced such success that our country - and our economic policy - earned plaudits from all over the world. That success especially took form in 650,000 jobs; economic growth averaging 4-5 per cent a year; and until the depreciation beginning early in 1985, decelerating inflation.

Today we again face difficult economic times. But in some senses the responses required this time are far more fundamental.

Three years ago there were two dominant streams to our economic policy. This remains true also today.

One emphasis was on the traditional tasks of macro-economic policy to manage domestic demand and costs. The immediate tasks were simply to kickstart the economy at a time of weak private sector demand and to haul back inflation.

But just as important was the need to redress a number of fundamental weaknesses in the domestic economy which, if not corrected, would have undermined the sustainability of recovery in the longer term.

Those included the then imbalance between wages and profits, our uncompetitiveness, high inflation and an excessive fiscal deficit.

In all cases we are now far better placed, as a nation, to enjoy sustained strong growth in jobs and output, if only we are prepared to take the opportunities of today's very different economic circumstances.

The second emphasis in 1983 was more specifically oriented towards the longer term.

The premise of our policy stance then was that Australia had clearly shown itself to be less flexible, less responsive and less adaptable in a world of rapid change than many of our regional neighbours. Many of our neighbours had once been economically backward but over many years they have progressively outpointed Australia in world markets and reaped the rewards in faster growth of living standards.

Accordingly, the new Labor Government laid down a sweeping agenda for economic reform.

That agenda has embraced every facet of our economic structure including:

- . The education system;
- . Our most protected and least efficient industries;
- . Industrial research and development;
- . A number of reviews, now underway, of the transport sector;
- . The financial sector;
- . The public sector;
- . The taxation system;
- . Foreign investment policy;
- . General business regulation; and
- . Extension services to industry and new approaches to promote exports.

In each case we have sought to promote innovation and reform in consultation with the parties affected.

Three years ago, including to this audience, I spelt out the high priority which this Government placed on the creation of an efficient, highly competitive manufacturing sector.

My message then was that the sector's increased competitiveness would depend on high levels of investment, the application of new technology to production processes, and an increasing export orientation.

And it is very pleasing to be able to say that this Association in particular has shown a willingness to address these issues squarely and to adopt positions which recognise the reality of the changing international market place.

This Association's contribution to the recent debate on these issues has been consistent and constructive - and has placed special emphasis on the need to become outward looking and competitive.

When I met with representatives of the MTIA National Task Force on industry competitiveness on 19 September 1986, I found the approach of both the Task Force and its Report to the Federal Government on the current state of Australia's Manufacturing Industry more refreshing than probably any meeting I had been involved in with business since coming to office.

The Task Force's work recognises the need for changes within this industry, the need for all sections of the industry to work together to bring these changes about, and the need to act now.

The urgency with which this task needs to be addressed flows from the sharp deterioration in the prices which we have been receiving for our traditional commodities based exports.

At current prices our income has been effectively reduced by \$6 billion a year.

Australia has been borrowing abroad in an attempt to maintain living standards at levels more consistent with our previous levels of income.

But we cannot indefinitely borrow on this scale. The future prosperity of Australia will depend on how well we set about trading our way out of our current difficulties and sustain our living standards from increased effort rather than increased borrowings.

There is no question that our traditional exporters will remain the dominant earners of foreign exchange for Australia for decades to come.

And, of course, that is how it should be. These are the areas which enable Australia to capitalise most on our natural advantages of climate and resource endowment.

But there is also no question that there is now both a vital need and the corresponding opportunity for the manufacturing sector to play a very much greater role than in the past.

The simple fact is that the approximately 30 per cent real depreciation of the currency since end 1984 has provided Australia manufacturers with a once-in-a-lifetime opportunity. And there is abundant evidence that manufacturers - and our service sector - appreciate that fact and are moving to take advantage of it.

But what seems less well understood is that we cannot simply rely on depreciation alone.

We simply cannot expect to secure those extra markets permanently without sustained effort.

The window of opportunity opened up by the depreciation will close, in time, unless first, we act now to increase productivity permanently and unless, second, we consistently achieve wage outcomes less than or close to those of our competitors.

The industrial relations system has a crucial role to play in both cases.

One of the fascinating features of Australian industrial life is our abiding fascination with the workings of this quite complex - some say unwieldy - machinery.

But what particularly strikes me after some 30 years close involvement is how flexible and how adaptable the system has proved to be.

You will recall that in 1983 the Government established the Hancock Committee to conduct the first comprehensive review of our industrial relations system since the inception of the Federal system in 1904.

The Committee rejected radical change. Instead it recommended some evolutionary changes to improve the effectiveness of the Federal Tribunal, noting: "The system has proved to be durable and is deeply entrenched in the society".

Let me add, in passing, that the Government has been engaged in extensive consultations on possible reforms with the key participants in industrial relations - especially under the auspices of the National Labour Consultative Council.

The Government is giving high priority to the introduction of the legislation which will give effect to our preferred changes. But it is unlikely that the revised legislation will be finalised until early in the New Year.

The changes that the Government will introduce will build on the already large element of flexibility in the present system.

Ladies and gentlemen, this present degree of flexibility is a point not well appreciated, especially by those of the New Right who want not reform, but emasculation of the present system.

Change of that ilk would project us into unknown waters. The most likely outcome would be the sort of disruption and anarchy that prevailed following the collapse of the indexation system in 1981.

I believe that supporters of such a departure show a fundamental lack of imagination - they simply lack the imagination to exploit the considerable possibilities offered by our present system.

However, that is not a failure common to the broad range of those most closely associated with the current system.

The system adapted to work for Australia in a novel way over the period 1983-86. Provided we can re-establish the necessary perceptions of mutual interest and common purpose between the major participants, the system can once more adapt to the new circumstances of today.

The historic meeting last month between the peak union and business groups concerning work and management practices is one clear indication that those very necessary pre-conditions are being fulfilled.

The joint communique issued after the meeting showed how much common ground there is between the major participants.

Importantly the participants made plain their insight that workers and management need to work together across a broad front if we are to lift our productivity appropriately.

The Communique identifies a number of areas for action to lift productivity including:

- . Reform of work and management practices;
- . Higher levels of investment; and
- . Improved training and retraining.

Government can only do so much in any of these areas.

We have created an environment conducive to the necessary changes and, to the extent that Budgetary circumstances allow, we have provided substantial direct support for investment and training.

This includes generous general tax incentives to promote investment such as "5/3 Depreciation" and specific measures, particularly in the context of the highly successful industry plans. The \$60m Heavy Engineering Package - which couples direct budget subventions with measure to promote increased productivity - is but the latest example.

The Government is prepared to look closely at what more can be done in this area. But it is important to recognise that any changes would need to be compatible with our general budget strategy.

We did not construct a Budget \$1.3 billion less than NTIA's recommendation without good reason. National fiscal restraint is essential to bringing Australia's spending into line with our now lower national income.

Fundamentally, however, action in these areas rests with the private sector.

Workers and managements working together are unquestionably the best placed to carry through the kinds of work place reform needed to cut costs, improve our reliability as a supplier and ensure sustained high quality.

Workers and management working together can build on the general economic climate to provide the kind of secure work place environment necessary to promote high levels of investment and job security.

I acknowledge the NTIA is one Association which has these matters clearly at the fore-front of its agenda. Your Association is to be congratulated on that score. But with world trading conditions so adverse, the time has come to accelerate the pace at which the action takes place in practice.

I acknowledge, too, that manufacturing investment has recovered sharply over the last two years from the debilitating trough of 1982-83. But we need to go much further.

Our inability to retain our market share over the past 20 years is clear evidence that other countries are well ahead of us in the market place.

We need certainly to target our effort on those niches in the market where we can exploit an advantage. But our economy is so interrelated that we need also to lift our performance generally. Often one firm's high cost output is another's high cost input, to the detriment of both firms.

The quality of industrial relations within firms and industries is likely to have a major impact on these kinds of decisions.

Uncertainty about the industrial climate is likely to translate into an uncertain outlook for productivity improvement and investment. But, increasingly, it is also being recognized that uncertainty about investment performance and job security can also create uncertainty in the industrial environment.

There can be little doubt about the benefits of free and honest communication between all parties on these issues. And that is simply another way of stating one of the fundamental principles of this Government's approach to economic reform, which is that changes will always be more readily achieved when the need for change and the consequences of it are well understood.

Of course the most direct linkage between business costs and industrial relations is wages setting.

It is a credit to our industrial relations system and the degree of commitment of its participants to appropriate outcomes that real wages have fallen in the last three years. Every other period of comparable economic growth in recent history has been associated with significant real wages increases.

That outcome was deliberately engineered, under the Accord, in order to lay a firm base for sustained growth in employment.

By end 1984 the Accord had delivered virtually a halving of our inflation rate to just over 5 per cent and good prospects for continued moderation, in line with the downward trend of our trading partners.

The downward movement, however, has been temporarily arrested because of the sharp increase in import prices in the wake of the depreciation.

Indeed the feed-through of the 10 per cent plus depreciation of the middle months of this year will be a major force operating to keep our inflation rate in terms of the CPI high for the rest of 1986. This phenomenon was anticipated at the time of the Budget, which clearly forecasts moderation of inflation, beginning in 1987.

The essential point, however, is that if we want to preserve our now found competitiveness beyond the immediate period those higher import prices cannot be allowed to flow through into higher wage costs.

The Government is discussing proposals to this end with both the ACTU and representatives of business. Those discussions are still at a preliminary stage and many details are still to be determined.

But there can be no doubt about one thing. And that is that the only changes which will be acceptable to the Government and to the community at large will be those which can deliver appropriately restrained wages outcomes without debilitating industrial conflict.

Again our chances of success depend critically on the cooperation and realism of the direct participants - and their memberships.

Both parties must recognise the economic realities - and also the valuable role which a constructive approach to industrial relations can play in satisfying those realities.

Ladies and Gentlemen

Australia faces a very difficult period of adjustment. More than ever our efforts must focus on improving the capacity of our traded goods sector, particularly manufacturing.

Your Association has demonstrated its ability to recognise the changed environment within which we all must operate. I congratulate you and express the unqualified conviction that if all Australians and their relevant organisations demonstrate the same attitude, this country can meet and overcome the challenges before us.

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