



## PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED UNTIL DELIVERY

SPEECH BY THE PRIME MINISTER  
OPENING OF MTIA HOUSE  
SYDNEY - 24 FEBRUARY 1987

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Jim Dowrie  
Barrie Unsworth  
Members of the MTIA  
Ladies and Gentlemen

The Metal Trades Industry Association stands today as one of the nation's foremost industry participants in the great economic transformation sweeping Australia.

I have had occasion in the past to pass on to you my and my Government's unqualified praise for the role you are playing in this dramatic and historic change.

It is a pleasure to be here again this evening to repeat and reemphasise our recognition of your efforts - and to do so in the new MTIA House which I trust will serve you well for many years to come.

Nearly three decades have passed since your old premises were officially opened a few doors down the road. To consider the changes in attitude which have taken place in the MTIA over those decades is to realise the enormous scope of the changes which have taken place, and must continue to take place, in the Australian economy and in the Australian community as a whole.

With hindsight, we can see that those easy decades of growth in Australia after the Second World War sowed the seeds for many of the problems we must solve in the 1980's and 1990's.

Due in large part to the foregone opportunities and the neglect of the governments of the time, the Australian economy became imbalanced and inward looking. It became overly reliant on agricultural and mineral exports, while an artificial environment was created for our manufacturing industries through heavy protectionism.

In those days, the MTIA was one of the nation's staunchest advocates of protectionism. To your great credit, you have since recognised that protectionism does not hold the key to real growth - that it was in fact an obstacle to real growth, because it encouraged a manufacturing industry which catered almost exclusively for a small domestic market instead of equipping itself to perform the greater task of competing abroad.

Like many other sectors of the economy, employers in your industry were content to hold the comfortable but fundamentally flawed position that increased government hand-outs and assured isolation from the region and the world were the best guarantee of jobs, profits and security.

Australia was lulled into the complacent feeling that there would always be a world market for the seemingly-scarce commodities which our farms and mines effortlessly produced.

There was a failure, too, of political vision, as short-term electoral considerations again and again stymied change and fettered the development of a comprehensive and durable strategy for growth.

These attitudes were not ones which my Government held when we were elected to office in March 1983. Right from the start, we recognised we had been presented with a great challenge, and a great responsibility: to be the first government to reorient and restructure the economy and so set the path for sustained economic growth in the 1990's.

Right from the start, we tackled the problem of reducing the expected \$9.6 billion deficit our conservative predecessors had bequeathed us; of slashing inflation; of creating with the cooperation of the trade union movement a wages and industrial relations policy capable of restraining labour costs and restoring harmony in the workplace so as to make us competitive with our trading partners; of building an education system which would allow our children to develop the skills they need to find satisfying and productive work; of freeing the financial institutions of needless regulation so as to attract capital to our shores and to allow our currency to find its real value; of rescuing the steel industry and putting it on a firm foundation for future growth; of winding back protectionism.

In all the important measures of economic performance, this determination to take the long-term view yielded results. Jobs grew; inflation fell; growth was restored after the recession of the early 1980's.

Yet we knew we were still not out of the woods. When the agricultural trade war broke out between the US and the European Community, and when the oil market collapsed and took down with it the prices of other commodities, the Australian economy underwent a severe trial - but one which, as I have said, was not a surprise to anyone who understood the inherited weaknesses of our economy.

Our terms of trade collapsed. Overseas buyers made it painfully clear they were no longer willing to pay the same prices for the commodities which we produce so efficiently and on which we relied for our prosperity. Our national income fell by \$6 billion, with the consequence that our living standards had to fall.

As a result, my Government's mission of structural readjustment has become even more pressing. To restore prosperity, it is imperative we diversify our economy, and learn to export. We must continue to achieve modest growth in labour costs and wind back our inflation rate. We must continue to restrain public sector spending.

I should say that as we are about to celebrate four years in office we have some cause for real satisfaction that the sacrifices we have made as a nation are beginning to bear fruit. We are starting to turn the economy around. But I must add this hard fact: that more hard choices await us and further sacrifices will be necessary.

In all this period of restructuring, the MTIA has proven to be a creative and positive force.

You have been active in encouraging your members to search for new markets and to help each other identify new export opportunities. You have not just paid lip service to the goal of a vigorous and competitive sector of manufacturing exports; you have actually gone about the task of building such a sector.

Further, you deserve congratulations for the way in which you have sought to create, with metal industry unions, a cooperative approach to the central issues of improving productivity by eliminating inefficient work practices and establishing workable procedures for settling disputes.

It is appropriate then that I share with you at this forum my responses to the latest economic indicators and to reveal some broad details about our strategy for managing the economy up to the budget and beyond.

Let me take as my starting point the December quarter CPI.

An increase of 2.9 per cent in a single quarter is not to be dismissed lightly - especially at a time when many other countries fail to post that level of increase in a year.

But the explanation for the high December result is to be found in the conjunction of a number of separate forces which are not expected to operate as powerfully in coming quarters.

Of greatest importance among them is the continued effect of higher prices of goods and services affected by the depreciation of the Australian dollar.

Of course our annual inflation rate will be held up for some quarters yet by the high CPI figures of the September and December quarters.

But that will be a measure of inflation past. A better guide to our prospective inflation rate in 1987 will be found in the quarterly movements in the CPI - which the Government confidently expects to run at levels sharply lower than in the second half of 1986.

One reason for that confidence is the greater stability of the currency since mid-1986 which should gradually reduce the external pressure on domestic prices.

Another is our expectation of continued wage restraint.

Workers in Australia have contributed magnificently over the past four years to the task of securing prolonged economic recovery.

On present indications real unit labour costs will have fallen by some 3 per cent by the end of 1986-87.

And there is every likelihood of a further decline in 1987-88.

In the current National Wage Case, the Government has firmly put its view that continued modest outcomes for labour costs overall, consistent with achieving a workable industrial system, are essential to continued job security and Australia's longer term prosperity.

In the last analysis, it is for the Conciliation and Arbitration Commission to make its determination on the basis of the evidence put to it.

Clearly not all parties can, or ever will, be fully satisfied by the eventual determination.

Nevertheless all parties must abide by the decision of the Commission.

I am utterly convinced that centralised wage fixing offers the nation its best hope of securing economic prosperity, industrial harmony and social equity.

In our delicately poised economy we cannot afford the reckless experiment of open wage bargaining suggested by our political opponents, since that could only be a recipe for renewed industrial instability and higher inflation.

Under the Accord, this Government has won the cooperation of the overwhelming majority of trade unions in working towards our goal of restraining wage increases to broad comparability with that of our major trading partners.

I scarcely need add that the fruits of our industrial relations policy - falling real unit labor costs, the more than halving of numbers of working days lost, increased competitiveness, increased profit share, increased employment, increased attractiveness to overseas investors and buyers - could never have been won by our conservative opponents had they been in office.

Just as we cannot afford to dismantle the Conciliation and Arbitration Commission, so we cannot afford to accede to the renewed pressure for wage increases outside Commission guidelines being experienced in some industries.

The Government acknowledges that, after 4 years of sustained wage restraint, pressures are building up for some of the stronger groups to seek the kinds of wage increases which their market power could allow.

But the country needs wiser heads to prevail if we are not to pay the price in lost jobs of excessive wage claims and industrial disputation.

Naturally we look to price setters to practice restraint too, and to adhere to the voluntary pricing guidelines promulgated by the Prices Surveillance Authority. That is as much the secret to sustained competitiveness as wage restraint itself.

In the same way, Australia has as much to lose from industrial disputation induced by insensitive or unthinking management as it has from unjustified industrial pressure applied by workers.

That point has more than usual significance at this time for several reasons, only one element of which is the apparent lawlessness of the so called New Right.

The proposed new two-tier wage structure is intended to provide an element of flexibility in wage bargaining. But that flexibility cannot be invoked without disputation if managements are not prepared to discuss proposals with workers.

Of course such proposals would need to be consistent with the guidelines to be developed by the Commission in respect of the second tier. Ultimately Australian workers as a whole cannot afford increases inconsistent with those principles.

In the area of reform of work practices, we again look to both management and employees to address the task seriously and cooperatively.

The only sure way to sustain the growth of Australian jobs and living standards is a thorough reassessment of many of our traditional attitudes to productivity improvement, product quality, innovation and reliability.

This simple fact was recognised explicitly by all of the peak employer and employee bodies which attended the special meeting which I convened last September to discuss the issue.

Those groups have continued to work to give greater momentum to the movement for reform. What is needed now is a greater recognition at workplace level that reform is not only needed but is needed now.

The depreciation of our currency has given Australian suppliers of manufactures a massive boost in competitiveness compared with producers in Japan, the United States and Europe.

Many Australian manufacturers now have the opportunity to make significantly increased sales at the expense of these producers.

Even excluding some irregular items like the export of aircraft, the value of manufacturing exports in the first seven months of this financial year was 30 per cent higher than in the corresponding period last year.

But the improvement in Australian competitiveness can quickly be lost if our attitudes to work and product quality do not at least match those of our competitors.

That point applies with even greater force in the case of some of the newly emerging exporters of manufactures in our region.

In some instances the realignment of our currency against these countries has not yet been as sharp as against the more established exporters of manufactures.

In these instances in particular we will need to rely heavily on "home-grown" competitiveness won through real improvements in our productivity.

Before leaving the issue of competitive exports, may I note in passing that a delegation of officials from China is in the audience this evening, headed by Mr Lin Zongtang, Vice-Chairman of the State Economic Commission.

I believe the friendly relations between China and Australia, and our shared position on the Pacific rim - the fastest growing economic region in the world - offers great opportunities for expanded trade between us.

I wish to turn now briefly to a second aspect of our economic performance which is equally indispensable to Australia's future prosperity - that is, the need gradually to shrink the relative importance of the public sector.

Last week the Statistician told us that Australia's gross external debt had passed \$100 billion. It had increased by 130 per cent over the June 1984 level to reach 43 per cent of GDP.

To put this into perspective, one must note:

- . first, that Australia's holdings of assets abroad amount to some \$20 billion, so that our net external debt is somewhat lower at \$80 billion or 34 per cent of GDP; and
- . second, our indebtedness has been growing in large part because of the effect of depreciation on our existing overseas debt denominated in Australian dollars.
  - 40 per cent of the increase since June 1984 can be ascribed to this factor alone.

Nevertheless, the debt figures give added point to one of the principal planks of our economic policy making: the need, over time, to reduce the public sector's call on the savings pool.

If we do not accept that option, the inevitable result will be slower growth and much higher unemployment.

It is to avoid the economic and social debilitation of prolonged high unemployment that this Government has opted for consistent, realistic fiscal restraint at all levels of Government.

It is with this objective in mind that the Commonwealth is approaching a crucial series of economic decisions culminating in the 1987-88 Budget.

From the Commonwealth's side we are faced with a substantial savings task to produce a responsible budget outcome.

But we are determined to meet the challenge and to distribute the burden of adjustment fairly.

Against this background, Cabinet has agreed to prepare an expenditure savings statement for release by the middle of May.

This will allow the full effect of the measures to be felt in the 1987-88 budget since savings will be able to take effect from 1 July.

Our approach to the States at the Premier's Conference, to be held this year in late May, must also reflect this continued restraint.

Over recent years the Commonwealth sought and has obtained reductions in the gross borrowings of State authorities over recent years. But States have had sufficient cash reserves to avoid the intended fiscal constraint.

At the same time, we have brought the Commonwealth Budget deficit down from the enormous 5 per cent of GDP in prospect when we came to office in 1983 to about 1 1/2 per cent in 1986-87.

The Public Sector Borrowing Requirement of the States, however, adjusted for use of cash balances, has increased - by a full one per cent of GDP over the past three years.

We will be telling the Premiers that that situation cannot continue indefinitely.

Ladies and gentlemen,

Let me make this observation in conclusion.

We have been in office now for nearly four years.

Our economic management over that time has been clearheaded, decisive and utterly consistent. We have taken hard decisions that previous governments shirked or fudged because they were more concerned with the prevailing political winds than with the fundamental needs of the nation.

Our commitment to the continued rational management of the economy cannot be doubted. Our commitment to an equitable sharing of the burden, and the protection of the disadvantaged, cannot be questioned.

We recognise of course that we could not have advanced this task of restructuring without the cooperation and understanding of the entire Australian community, including the trade union movement and including, as I have acknowledged, the Metal Trades Industry Association.

That cooperation lends us hope that the task of reconstruction may be completed successfully.

The success to this point, I know you will agree, has depended upon not just the concept but the practice of consultation and cooperation between government, business and trade unions. Again I pay your organisation unqualified tribute for your part in this process.

The completion of our jointly shared commitment to a restructured, vital and vibrant economy depends upon a continuation of this environment. My Government offers precisely that. We reject the alternatives of divisiveness, confrontation and 'Alice in Wonderland' arithmetic not inappropriately described by Mr Steele Hall as "snake oil" proposals. That is not our way - I believe it is not yours.

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