



PRIME MINISTER

ADDRESS BY THE PRIME MINISTER, THE HON P J KEATING, MP
TO THE INSTITUTE OF COMPANY DIRECTORS, MELBOURNE,
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Well thank you very much Brian (Loton), ladies and gentlemen. It is a pleasure to speak to the Institute again. I have now had a happy association with it over nearly ten years and I used to assiduously attend your functions at Lenader, I think is the name of the place, when I was Treasurer, and I always found members of the Institute to be interested and enquiring and open to argument, and when you are in public life that is the only audience that you basically warm to. So I appreciated, first of all you asking me and for coming in such numbers.

I thought I would, today, talk to you about Australia in the broad, about the economy, about our society and start with making a few references to Victoria. You don't need to be an economic analyst to know that Victoria has been in a severe state of recession, of down-turn and on the unemployment figures we saw last week, Victoria and South Australia are the two states where unemployment is continuing to rise. This is not so around the rest of the country. In the graphic illustrations of employment, in the Statisticians release last week, we saw New South Wales with the rise of unemployment, and then it coming off, the same also in Western Australia, in Queensland plateauing but in a much lower level than in any of the other states. And one could reasonably assume that it, Queensland will feel the recovery again earlier and more strongly than some other places. And so the pattern is that in New South Wales, Queensland and Western Australia we are seeing a recovery more evident than we are seeing in Victoria and South Australia and we are seeing a decline in unemployment and a pick-up in employment growth in those three states, but not so here and not so in South Australia.

Now, what is the reason for that? Well it is very hard to say and I know many people have sought to ponder that question, but I think the answer is that we are seeing structural change and cyclical decline, we are seeing a decline in the Victorian employment base coming from the cycle, and we are seeing a structure shift as the whole economy changes from what it was, and that was an economy where which was largely protected and where we hadn't the kind of sophisticated industries which we are now starting to see emerging.

I think there are a number of other reasons why Victoria is languishing. I shall just go through them. I think the first is, the 1980s notion that you could build employment off public sector spending, which in the end of course is unsustainable, secondly the debt hangover, which you may say, well it hangs over other states, I think I would say it hangs over here more particularly and even some of the businesses which may be known to headquarter themselves elsewhere, but financed out of Victoria, the problem of State Banks, the problem of State Banks in the institution of banking these days, and seeking to find themselves a place by being bankers, if not of last resort, near last resort, and the problems which has come from that; and the cyclical movement away from manufacturing, as I mentioned earlier; and the labour hoarding which was promoted by lower labour costs in the 1930s. I think the combination of labour hoarding from low labour costs in the 1980s and also public sector spending in Victoria in the 1980s, had unemployment here in Victoria, to its lowest levels in the Commonwealth in 1988-89. Levels that many of us thought were unsustainable and that I think because of the fact that Victoria was primed, pumped primed and then supported by a very ambitious financial sector, that the decline in the economy which has come from the recession, plus the structural shift, meant that the correction in Victoria has been more pronounced and more profound than it has been in other states.

Well I suppose the question is where do we go from here. Well I think the first place we go from here is the recovery in general. And we are seeing the recovery, in the three quarters to March we have had just upon two per cent of non-farm GDP growth. Now the Budget has a forecast of 2.7 per cent, which would mean we would need .7 in the June quarter - we may get it, we may not. But the economy is clearly growing again. And I notice today that the Business Council of Australia or yesterday made a release which didn't rate that well in the newspapers, but it said: the Business Council considers that the economy is recovering, employment opportunities well improved as a recovery becomes more broadly based, this will only happen if the Government continues to lock-in low inflation and pursues micro-economic reforms. The Business Council sees a consistent pattern of signals for recovery and economic activity over the next six months in its survey of member companies. And it goes on, signs of recovery and economic activity over the next six months are indicated in the survey. In particular,

the majority of respondents expect increases in volume of sales, exports and revenues, there has been a significant increase in the number of respondents intending to increase stocks and nearly half of the manufacturing respondents have upgraded plans for capital expenditure. I think we should believe, reasonably, that a recovery of substance is coming through.

So that is the first thing about where do we go from here. As that general recovery comes through it is going to pick up, in part, Victorian commerce and Victorian activity the same as it is the rest of the economy.

I think secondly, we have got to push the restructuring on but get the volumes up. The new efficiencies which are coming in to industry, because the downside of those new efficiencies is higher unemployment, the upside is of course, greatly enhanced productivity. That from those new efficiencies we should be seeking to build volume and employing people in businesses with a greater volume base, albeit businesses which are more efficient. And instead of seeking, as some people do in the debate, entrenched inefficiencies, in the belief that volumes will be held constant, but where in reality volumes will be slated to die. Now perhaps an example of that is in the motor industry in this State. We are seeing the Ford Capri exported to the United States, work for people at the Ford Plant that would not exist in the old motor industry. We are seeing the Toyota motor company establish a \$400 million state-of-the-art plant, in part to export that vehicle, that is the Toyota Camry. And we are seeing now engine production, for export we would not have seen some years ago. In other words, the plants may not be employing the number of people they were employing in the 1980s but they now have an economic future, both at home and abroad that they would not have had. We are still producing in the last 12 to 15 months - or even in the highest times, a year or so ago, two years ago - the same number of motor vehicles we produced in 1973, because there is simply buyer resistance to price, people won't pay the price to turn their car over. So if we are seeking to maintain an industry, built on a high-cost, low-efficiency basis of production and hope that by some, if you like, staging of that, some pause in the structural shift, that that will maintain employment in the State of Victoria, I don't think that is true. So the new efficiencies have got to be pressed on with, but we have got to turn it into bigger volumes. And that simply means focussing again on exports as well as the domestic market.

The third thing I think about where we go from here; is defining the role for Government in making markets work. And I put that in contradistinction to the 1980s Victorian view, which was for the Government to be a market itself, because it is no secret to any of you, that I argued over this point in the 1980s. There is a role for Governments in making markets work, we have seen it in the One Nation statement, which Brian referred to in his introductory remarks. In establishing a new national rail highway, which

can only be done by Government, trying to make the transport market, or the transportation market work, in a better interface between the ports and rail. Or separating power generation from distribution, to produce a true market for electricity. This is the thing about the role of Government and the BCA refers to it yesterday in its release talking about micro-economic reform, that is keeping the changes coming through, again in contradistinction to the New Zealand approach, now adopted by my political opponents, where you basically turn the flame-thrower on the industry, we have some sort of gigantic national funeral pyre, and from the ashes emerges some phoenix even though we know that market forces alone won't change the rail system, because no private interest will invest in it, or the ports or the power generation, etcetera.

So I think those things: press on with the recovery; press on the with structural change in the efficiencies; get the volumes up; get the Government in there to break the log-jams in the market to get the efficiencies moving; and try and keep the economy together and the community together in a sort of commitment to the change in general.

Now we have heard a lot said about comparative advantage, and there is a lot of literature published in recent years about it. But it seems to me we have a number of comparative advantages in this country. There are at least five that one can think of: there is resources and food; there is space; there is a trained workforce; a high quality Government R&D base, if not a private R&D base; and proximity to the Asia-Pacific: they are all things which we have.

Of these we all know about resources and agriculture, we have all been brought up on those industries, that is knowing about them. We know about a trained workforce, but we are only just learning the value of it, how to use it, and how to build it. Because in the past we have put too low a premium on that training and our trained workforce is in a state of decline. It is now changing, rapidly. This is good for us. In 1983, only three children in ten completed secondary school, this year that is nearly eight in ten and we have now created in since the middle-1980s 120,000 university places, or the equivalent of twelve campuses to take 40 per cent, just on 40 per cent of that stream of kids out in to universities. We are just a jot behind the United States in university places, as a proportion of the schooling, those finishing compulsory education and way ahead of most OECD countries. But we have been poor at the next stratum of our educational system, which is training and vocational education. Where we have got kids cascading out of school into the milk-bars, railway stations, shopping mall plazas, instead of in to a properly structured vocational education and training system.

We have always though of trade, I think trade and vocational training as something not really going on beyond apprenticeships or rudimentary skills. The notion that

adding value and sophisticated manufacturing or sophisticated services, required sophisticated skills and that you couldn't develop one without the other, is really a late development in our national thinking, but a development we now have to press on with. And it is not the answer to go back to dead-end jobs, as John Howard would have us do, but to leave that behind and continue with a skills based workforce, an education system that takes kids beyond that sort of unskilled area we had in the 1960s and 1950s, in to skills jobs which we have shown they have been able to get when the economy is growing.

So I think we have to take the view that if there is any resources boom in the future, it is not the resources boom that Malcolm Fraser and John Howard had in mind, of digging up another mound of minerals, or growing another paddock full of wheat, but a boom in intellectual resources, which we have at our hand, but have been, to date not fully prepared to utilise. And that is of course using the skills of our children.

Now the legacy of the lost years of opportunities of the 1970s was a nation unable to pay for its imports, and a nation with disappearing dead-end jobs. And so we have seen a rise in structural unemployment, which has been as most apparent in this state as it has been in any other state. The lament should not be to go back to it and try and hang on to it, but again to press ahead with the skills based change of new efficiencies in industries and to get the volumes going.

Now I want to put this theme to you because I have got now a very aggressive opponent and there was a time when I was very genteel at these sort of meetings, and if it is just after an election I think you are entitled to a couple of years of a very haughty diet of thoughts, but with in proximity of a poll I think some political factors ought to be brought to mind. But I want to put them in this important social and economic context. I don't believe that we can produce the kind of country we are now in the course of developing; that is one with an external orientation, where a premium is going on skills and research and development, in product innovation, in exports, in import competition, exploiting the proximity of the Asia-Pacific, I don't believe that you can develop that sort of country from the stale mineral, agricultural reliant, low training, low levels of participation education base from the 1970s we have come from, without getting basically national commitments to these things. So what I am saying to you is I don't think you can run the place without some sort of consensus approach. Now whether you want to call it consensus or consultation or co-operation or tripartite commitment, call it what you like if we want to take ourselves from the industrial museum, the Coalition were happy to leave us in for the better part of a couple of decades, and take us to being what we should have always maintained ourselves as: a sophisticated economy, where the premium was on higher value products and services and more

interesting jobs, then I believe you have got to have basically agreements about those things. Now as you know, people have said well you have had that with the Accord process, with a consensus model developed from the 1983 Economic Summit, and the answer is we have. The claim then made is, it is these processes which have slowed structural change, economic change. My claim is a counter-claim, that the change we have been through is quite profound, and quite rapid and could only have been done in this context. In other words, the consensus model, the co-operative model has allowed change that we would not have had, but I believe change which has come more quickly. And that our opponents view, which is now the sort of New Zealand view or the Thatcher view, that you basically expose the place to market forces and the devil will take the hind-most, that there isn't a job for Government moving to the creations markets, that there isn't of the Government lifting the participation market rates in schools, that there isn't a job for Government remodelling the training of the skills-based system of the country, that there isn't a job for Government with management pulling that together in to a competitive whole, I think without that kind of approach we won't be able to do it.

Now we have seen it under the Accord, with national income determination, with the share of national income going to profits and the share going to wages, with the wage flexibility we have developed in recent years and are still now developing, with the anti-inflation consensus, where for the first time in our modern history, we have had the workforce of Australia committed to anti-inflation, low inflation objectives, the consensus to open the economy up, to take down the board of protection, to set a competitive exchange rate mechanism, to live with all the adjustment pressures which were implicit in that shift, to a floating exchange rate and a policy position of positive discrimination in favour of employment which we saw in the 1980s, when we were doing three times the OECD average in employment growth, is I think the kind of model Australia needs, and one in which it will prosper.

We are now at the position where inflation, we have beaten the 20 year legacy of high inflation. We looked at the last quarter zero inflation and 1.7 per cent for the year. At the Premiers' Conference last Friday, when we looked at the nominal payments to the States and calculated the real level of payments, the deflator we used, the inflation forecast of the CPI for the coming year, was 1.7 per cent. I mean it is soon since Australia had that position and the maintenance of those low inflation rates and the attendant inflation rates that come with it, bill rates of 6 1/2 per cent, which we haven't seen in a couple of decades, can power on the next phase of Australia's development. Paul Volker broke the back of American inflation in 1980, and gave America a decade of prosperity as a result. But American fiscal policy and American public policy in micro-economic change did not accompany that kind of shift, and they have run in to bottle-necks in their society. That is the mistake we

are trying to avoid. But I believe, we will emerge from this recession to recovery with inflation at a sustainably low level, with basically a structural budget surplus, even though it is in cyclical deficit, but returning to surplus by the middle 1990s, with now large changes at the enterprise level with enterprise bargaining, a willingness on the part of the organised workforce to change work practices, and on the part of management, management practices, and a focus again not on the easy resort to inflationary profits, but the generation of income, gives us a unique opportunity to score from this shift the recession, and to take Australia through the 1990s on a sustainable, reasonably high growth, low inflationary path.

Now, what I put to you is our opponents put all that at risk. What they are saying, let's have an APPM approach to industrial relations.

Where an employee an individual person and a company will have to agree themselves to opt back into the industrial relations system to maintain the benefits of awards protection. So as federal awards expire so to does our holiday pay, working conditions, rates of pay and the rest and there signed up under common law contracts for industrial relations purposes. That will produce industrial relations mayhem and the anti inflation consensus we now have will go out the window as surely as it comes in and so therefore I believe this sort of confrontation approach that is the simple motion that market forces will fix the place when we know a lot of the problems are inaccessible like the rail system, the interface with ports the telecommunications, electricity, roads in all of these areas where basically market forces haven't operated and can't properly operate without governments being involved or in training or in changing the nature of TAFE, lifting the status of our vocational education system, looking at training wages as we are now doing to employ more young people than we've employed in recent times. All of these things can only come by a process of involving employers, unions, State Government's and Federal Government's because the State Governments run most of the instrumentalities the Federal Government has got macro-economic management. Of it's essence it is consultationary as we saw last Friday at the Premiers Conference in trying to get TAFE back on the table again to look at the national approach. It has to be a discussion and if we rely on market forces market forces won't do it because there is not a market working so I think that smashing the consensus or smashing a cooperative basis of working together is confrontationist and a product of political primitives who don't know how to make the society tick, that don't know where all the bits of power are and how to strand it together into a common thread which can work for Australia and its future. So what I think about Dr Hewson is he is offering no social consensus, he is offering you a funeral pyre, he doesn't understand keeping the society together, he says there is no role for government and the social consensus in things like the right to affordable education not the right to pay what your parents

can pay for a university place not the right to go and put twelve thousand on the table to buy a place in the university but the right to a university education if you are smart enough and committed enough. The right of access to medical treatment, a universal right to health protection a right too often in this country denied to the poor who couldn't afford to worry about their health, income support for families of particular low income families the families in people in low skilled jobs with children; naturally income support for the unemployed not tipping them off after nine months and sending them down to St Vincent de Paul Society or the Brotherhood of St Lawrence or somebody else. Provision for the aged as the population ages providing for them in nursing homes, hostels accommodation home and community care for support at home a decent standard of living in retirement by national savings put away to produce a retirement income. These are all the things that can deliver a more cohesive society a more responsive workforce and with it a commitment a low inflation enhanced productivity wage flexibility enterprise bargaining and basically Australia coming together in a very cooperative way. So the Coalition doesn't have the sophisticated view and on top of that it wants to add 6 - 7 percentage points to the price system from the goods and services tax which will lift the inflation rate accordingly which will not be discounted for wages which in large part will go into ongoing inflation and then straight away into interest rates. Because we all know if the inflationary floor under interest rates rises the nominal interest rate rises and we are back to those sort of double digit interest rates which for so long have retarded our investment and economic growth.

So I conclude on this point and I am happy to take questions on these points. That basically we think there is a role for government but it is not the role of the government being a market. The role for government is to do the things I mentioned; re-build a national rail network, build the arterial roads, to establish a decent market for electricity to exploit that huge comparative advantage of a coal seam right the way down the east coast of Australia, to give Australia a decent tourist industry, to have a rational airline policy, to develop a vocation and education system or in even the things which are government in the tax system the providers we did in the One Nation statement. Private provision for public development bonds, accelerated depreciation for investment in this country, pool development funds. All of these things I think augur for a role, an interested sophisticated role for government in society and rejecting the view that if business people want to deal with governments want to create a better society, want to do something good and sensible that basically in some way they are offending some sort of tenant of economics of sort of Adam Smith Economics or as John Hewson put it when the business community spoke to us in the One Nation consultations he said they were bludgers looking for a handout not that they were people interested in Australia looking for better national outcomes but bludgers looking

for a handout. He said he was appalled that business was asking for things, what I say to you is what business has asked for in the last decade is a rational set of policies the right to a sensible discussion with Labor the government to take notice of the asparations of these two principal groups in the economy and in doing so while doing so building a social framework which people in this country believe will look after them regardless of their economic circumstances. Now that's the sort of model I think will pull Australia through and while Victoria has languished in this recession those who want to take us back to those stultifying days of the early 80s or late 70s of inefficient industries of companies that can never hope to compete and just watch even the dead end jobs disappear will be doing Australia a great disservice and the people that ought to be listened to are the ones that want to keep a structural change going who are not frightened by the consequences of some of the structural change and will keep driving on until we end up with a society which is re-modelled wearing some of the adjustment costs on the way through but coming out the other side into a low inflation competitive culture which will stand Australia in good stead, provide decent levels of employment, higher level of income and more interesting jobs. It's basically out there but it is not out there if we falter, it is not out there if we doubt it and it is not out there if we are not sure of our place in Asia, we are not sure who we are and what we are and if we go and exploit the neighbourhood we live in and go out there as a proud competitive people not selling a second hand bill of goods but something new and innovative and clever then there is a place for us.

Thank you for listening, I will be happy to take questions.