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the transcript of
what he actually said.



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PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P.J. KEATING MP
ADDRESS TO MTIA ANNUAL DINNER, PARLIAMENT HOUSE,
CANBERRA, TUESDAY, 24 OCTOBER 1994**

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Let me thank the Association very much for this invitation and Graham for those words of introduction. I have always liked coming to MTIA dinners. I have been doing it now, on and off, since the early 1970s which is probably too long, but there it is. But the fact is, I have always believed in the Australian manufacturing industry. I have always believed in the capacity of Australian managers to take up challenges and do well. And, as you know, in my own family we were in the heavy engineering business and I've had, from boyhood, a fairly unique opportunity to understand how innovative Australian companies can be and how hard they try. So, as a consequence, I am very gratified by the success which the industry has had in recent years by its leadership and by its confidence and I am delighted to see the title of the program "A Dynamic Year for Australia" and the sense of confidence which Graham mentioned in his introductory remarks.

One of the nicest compliments I have been paid in recent times was paid to me by Bert Evans. Bert is a nice person and he does pay compliments, but not that often to me. But he said - look I'm a member of the 180 degree club. And I said - what's that Bert. He said - well I'm one of the people that believed in tariff protection, I'm now one of the people who believe that the policies introduced over the last decade have given us a future we could never have had in the past. He didn't go on to say he is a true believer, but he's a believer. And I thought this was a tremendous admission not just of honesty and frankness, but of somebody who is prepared to see an opportunity and grasp it and speak for an industry which has seen an opportunity and grasped it. Because it is true and I think Bert would acknowledge that if we were having this discussion, or a meeting such as this 15 years ago or even 10 years ago, the tariff drum would be well and truly beaten. And doubters would be admonished. But the fact is, now, with tariffs coming down, we've seen in the period since, manufacturing production double, we've seen manufactured exports triple. And as a consequence, one

of the things which is giving us a greater capacity to trade into the world and to reduce our debt and to service it is our capacity to produce goods and services. And that, of course, we are seeing very strongly with manufacturing industry. Graham gave you the figures. In the middle 1980s we were exporting 14 per cent of our GDP, that's today 22 per cent of our GDP. But we only need to go through a change such as that, continue that change and it won't be that long before we are well and truly above the ratio of comparable countries. That is, somewhere between 22 and 30 per cent of GDP. So we are well and truly on the way I think and we are seeing such great sophistication come into manufacturing as the competitive breezes have come into the economy, as the place has loosened up. As the competitiveness has changed, as the wage profit share changes, as the focus on productivity improved, as the exchange rate garnered competitiveness for us, all of these things have seen tremendous change. And one gets a tremendous, I think, boost of encouragement going to things like the launch of the Collins Class Submarine: the quietest, most effective conventional submarine in the world, made in this country. And when you look at the sophistication of the weapon systems, one can't pretend that such a thing can be whistled up out of nowhere, or that we claim it to be first class but it really isn't. In fact, it is. And that, along with the capacity to produce frigates, and other categories of naval vessels, sophisticated aeronautical products and everything then from super computing to remote sensing and all of the other technological things which we have managed to do, all proves, I think, that given the challenge, Australian manufacturing can get in there and measure up to it and also seeing what is coming. I mean, it is delightful for me to hear references to APEC at a dinner such as this. Or to see the MTIA set up in Indonesia, which it has, and to participate in the Australia Indonesia Today exhibition which is on this year, the largest trade exhibition we've ever had. To see the MTIA there and actually going hard at it does give one tremendous confidence that we are actually going to do something pretty clever in this country.

Now I took on board Graham's remarks about microeconomic reform and I think microeconomic reform has to continue. A lot of it's behind us, but there is still a lot of it ahead of us, in all sectors. But we shouldn't forget, I think, that so much has been done in the labour market, even if more is to be done. In telecommunications, in air transport. Just take air transport as an example. Fares have declined by 30 per cent, passengers have risen by 80 per cent in 2 1/2 years. Or in telecommunications - if one looks at the tariffs now in telecommunications and the services it is a revolution we are seeing there. We've seen it in the ports and wharves, the trouble is that the yields are not going to the people who needs them, that is the shippers, they are staying in the hands of stevedoring companies and state government bodies. But the primary change is behind it and the Commonwealth Government - this government - has paid for much of the redundancies and the trade union movement has made most of the adjustments. We're now turning containers around here, in this country, equivalent to ports like Rotterdam. We've got lower than OECD crew manning levels on our ships and going lower, but we are not yet seeing this in lower freight rates and we need to.

But we need other changes too, and that is in places like power and water and gas. And I notice the Leader of the Opposition saying to you today. He said that 'four or five years ago, he thought of microeconomic reform' - that's me - 'and would have told you that it was on the top of the Government's agenda. Today he has almost completely forgotten about it.' Well I didn't forget about it at the COAG meeting and I didn't forget about it trying to push Hilmer past a whole lot of conservative Premiers and finding an uphill battle all the way. And I have always thought it a great irony that a Labor Prime Minister should be in there saying to a set of Liberal and National Party Premiers to believe in competition and try and get them committed to it in places like electricity, water and gas. I don't mind late converts providing they come on board. But it is in these areas where the micro reform has to continue.

Graham also mentioned the labour market. And I think one needs to reflect there upon the success we have had to date. And that is we've now got a labour market which is much more supple and flexible than it has ever been. We've moved off centralised wage fixing. We are now moving strongly down the road of enterprise bargaining, particularly with certified agreements with companies and trade unions. And we are opening up this field, the non-union field, with enterprise flexibility agreements. Now I know that the recent decision of the Commission rankles the MTIA and they are, I think, appealing the decision about absorption into over award payments of payments in the safety net. But importantly, I think the MTIA's position isn't that there shouldn't be a safety net, they believe there should, but they don't want it caught up in other agreements which are not certified. Well these are things I think that a view is capable of being put upon. But we are told that of these enterprise flexibility agreements, that is in areas where unions are not involved but covered by federal award conditions, that they can be varied and suspended and that, though some unions have opposed their suspension, of the 12 so far proposed, only one has been rejected and there are another 50 or so in the pipeline likely to be approved. So I don't think that the MTIA should shy away from enterprise flexibility agreements, even if some smaller companies are at pains not to have unions involved. And the reason, I think, why we have this condition that unions have a right to be heard, is because it is the suspension of the award which is material to their interest in other sectors or other companies within the same sector and hence, is of interest to them.

At any rate these are things, which I think, in which time is going to tell. I think the enterprise flexibility agreements are going to be an important field of change for business and for the MTIA membership, as is indeed the larger companies who actually make green fields agreements with trade unions under the certified agreement area. At any rate, it's all light years from where it was even half a dozen years ago. And, of course, eons from where it was in the late 1970s and the early 1980s where we had 16 and 17 per cent wages growth with no productivity cover. Just banging its way right in,

hammering its way into the inflation rate and hammering its way into interest rates, low growth and with it, of course, low employment.

Now I want to saying something tonight about monetary policy, interest rates, and the budget because today was an important day with the adjustment of interest rates up by 1 percentage point. I think the thing to say is that we should draw confidence from today's decision. That is, confidence in two things, that we are growing strongly but we are going to manage the growth and that the interest rate rise is basically about smoothing the growth and prolonging the period of growth. That is, prolonging the period of this recovery right through the 1990s. Not letting it get to an explosive cocktail where more drastic remedial surgery would otherwise need to be undertaken.

Now, I notice the Leader of the Opposition today has attacked us for this saying that the Government has gone, he told you, on an extravagant spending spree and as a consequence, they are ending up now with rising interest rates. Well this is the same Opposition that told you when the government introduced the One Nation package that we would destroy the economy and that the 4 per cent growth forecast were fairyland stuff. Well it is no accident that Australia has pulled the right policy levers in recent years. It is no accident we have been right at the top of the OECD league table of growth and inflation and employment. It is no accident that in that survey by the Economist magazine each month, we are at the top of it and we have been at the top of it now for the last 15 months or so. And that is because we are growing in excess of 4 per cent or thereabouts and we are starting to see a lot of attendant employment growth come through as well.

You need to have a bit of memory in this game, even a short term one helps. But at the last budget when we said that our forecast for investment growth was 14 1/2 per cent, that was ridiculed too. But now it is coming through, everyone is saying - well it's too strong what are you going to do about it? Well the answer is we are trying to clear the decks so that investment can continue, at the same time smooth it and make clear that the interest rate adjustments which we have are ones which will, as I say, maintain the recovery and make it even longer than it might otherwise be.

So the simple message is that we have worked so hard so far to bring about a durable recovery, we are not going to throw it away now. At its core, this decision to lift rates shows that the Government is determined to manage the growth and manage it well. As I said earlier, we should draw confidence from it.

Now let me say this about the markets, because, I was just saying to Graham, I think it is very important when commentators for industries such as the MTIA go onto radio or television, they should make the distinction between business, the employing bodies of this country, and the financial markets. Because a lot of people in the community think markets is business. In fact markets are the financial markets, the people who shuffle the paper all day. And the markets, I suppose, are entitled to be dubious about inflation in this

country after many years of an indifferent inflationary performance. But as we consolidate low inflation, markets should recognise the change and factor it into the equation. Ours today is a low inflation economy, but you would never know it from the bond rates. If you look at the bond rates, they appear to be factoring in an inflation rate 5 or 6 per cent. That is, with bond rates over 10 per cent and real interest rate of 4, gets you back to an inflation rate of 5 or 6. Now I don't think there would be a person in this room in business that believes there are wage or price pressures out there that would give support to that 5 or 6 per cent assessment yet it is there. It is there in many other countries too, but it's here and it shouldn't be. So it's 5 or 6 per cent, when the underlying rate of inflation is 2. And this week we will have another consumer price index out and we will have a further indication of whether inflation is getting away. I don't think it is. But to be considering 5 or 6 in the face of 2 is a very long bow on the part of the markets indeed.

We have become a low inflation economy and we should draw credits for that and it should be reflected in lower premiums. So, at some point, if we continue to churn out low inflation numbers the markets are going to have to cut their cloth accordingly. That is, the bond yields will have to come down if their implicit inflation forecast is not realised.

Some commentators are saying that we should tighten both fiscal and monetary policy as the economy strengthens, that we should not rely excessively on monetary policy. Well, let me say, I couldn't agree more, but let's get clear what this means. It doesn't mean that we need to change the budget every time we hear a piece of good economic news and it doesn't mean interest rates have risen because fiscal policy is not tight enough. As the Governor of the Reserve Bank said last week, interest rates are there now to smooth the recovery. As I said earlier, to prolong it. They are not there because of pressures on the supply of money. The higher rates are there basically to have their effect upon activity.

So, as I say, it doesn't mean interest rates have risen because fiscal policy is not tight enough. What it does mean is that the fiscal stimulus we provided to get the recovery going should be progressively withdrawn as economic activity strengthens. And, that is precisely what our medium term fiscal strategy does and the deficit target of 1 per cent of GDP by 1996/97 is at the core of it. So, monetary policy will play its role, but fiscal policy has that medium term strategy.

If economic circumstances change fundamentally, sound economic management dictates fiscal policy may need to be modified, but the important thing is that is not the case now. The economic outlook has not changed significantly from our May forecast when we framed the 'Working Nation' initiatives and reaffirmed our program of fiscal consolidation. We therefore do not intend to bring down a mini budget or to adjust the current fiscal strategy as the Opposition and some financial commentators have been demanding.

We will review policy in the context of next year's budget, but at this stage there does not appear to be a case for a large change. Now, let me just briefly explain why. We are already tightening fiscal policy, not that we are getting much credit for it. Some people conveniently forget the 1993/94 Budget. They conveniently forget all the hijinx in the Senate. They conveniently forget all the attempts to try and stop the tax changes and tax bills going through. They forget the fact that in that Budget we announced we would be pulling a massive \$9 billion out of the economy by 1996/97 - \$9,000 million out by 1996/97. That is, we were prepared on a discretionary basis to cut \$9 billion from the economy to pull the budget deficit back by almost 2 per cent of GDP. That is in world terms an absolutely enormous cut. And, it is not \$9 billion that will be coming from higher growth. This is not \$9 billion coming in from the proceeds of activity. That is, more people in employment, higher company profits, more tax receipts, \$9 billion coming from there. This is a discretionary \$9 billion - \$9 billion which has been decided on by the Government.

But, when you tell that to the deficit daleks and the others what response do you get? 'Oh well, we know about that, we have stuck that in our pocket, now what about the next \$9 billion?' Well, of course, they never tell you how to do it, they just tell you you need to change it and, of course, most of these people are tired retainers on the old broadsheets - they have been there for years singing the same tune - that is, no deficit could be too little, no surplus too large regardless of the economic circumstances. These are the same people who said our growth and deficit reduction forecasts were unachievable. You see, there is a great injustice in public comment in this country, probably in most countries, but it is particularly true in this - that they are never accountable. So, if you drag these people like Max Walsh and Paddy McGuinness and Terry McRann and all these other characters back and say 'but what did you say at the time?'. They said that growth was unachievable and the deficit reduction forecasts were unachievable. That is all wrong. They have all been proved wrong, but they have now moved on hoping that the community forgets what they said in the first place. Well, the community probably does, but I don't. I tend to keep an eye on them. It is pretty easy to keep an eye on them, they have been in the same place for 20 years.

Well, what are we to do? Remember this, the public sector of Australia is the third lowest in the OECD. This Labor Government has turned a relatively large public sector into a small one. Are we to slash the social welfare system that is carefully targeted? That is recognised internationally as equitable and effective and holds our nation together. Are we to increase the rate of company tax when we have, at last, a rate that is comparable to our Asian neighbours? Just remember this, that the tariff cuts, the cost to revenue from the tariff cuts and the company tax changes of 1993, cost the budget \$12 billion and the tariff cuts and the company tax changes cost us about \$5 billion every year. So, what do we do? Put them back up? Rebuild the tariff wall? Jack up the company tax rates or increase the personal income tax rates? Is there anyone out there looking for something higher

than 47 per cent? Because that is one of the options that people speak of. Or, are we to scrap the tax concessions for superannuation - that encourages Australians to provide for their own future - or hop back into the long term unemployed by knocking the White Paper changes out to leave a permanent underclass buried away out there while the rest of us move on to prosperity. Or, introduce a GST which was knocked over so comprehensively by the public at the last election.

So, that is what these things are about. They are not jokes. Hopping into spending in education or in TAFE or into universities or cutting back the growth rate or cutting back, absolutely, payments to the aged or any of the other targeted areas of family assistance, these are the sorts of things that the Government, if accepting this advice, would have to do or stick up the tax rates which I've just mentioned to you. So, the fact of the matter is that we are maintaining fiscal consolidation at a pace appropriate to our economic circumstances. Let me repeat that, appropriate to our economic circumstances. The forecast deficit for 1994/95 is 2.5 per cent of GDP at a time when unemployment is about 9.5 per cent. So, if you want a comparison, the last time unemployment was 9.5 per cent, it was in 1984 and the deficit was 4.1 per cent of GDP. Now, with the same unemployment rate, it is 2.5 per cent. So, it demonstrates that, I mean if unemployment and the need for the economy to grow and create jobs is an indicator here, it means that the deficit is already substantially consolidated when compared with that period. And, from 1993/94 to 1996/97 we will have cut the deficit by 2.5 percentage points. That is pulling 1 per cent of GDP a year from it - nearly \$5,000 million a year stimulus - taking it out as we go along.

So, it is for that reason that we have received an appropriate acknowledgment from the OECD which says that the Australian fiscal consolidation is amongst the fastest in the world and our deficit reduction target is only tougher, certainly tougher than all G7 member countries except for Japan. So, I think, these things should be kept in some sensible perspective.

Let me say a couple of things about superannuation. When I became Treasurer in 1983 we had \$40 billion in super funds. As a result of the Government's policies under the Accord with the ACTU and the Government's superannuation guarantee charge we will see super funds rising from \$180 billion where they are today to around \$350 billion by the year 2000 - \$40 billion in 1983, \$180 billion now, \$350 billion by the year 2000. By the Year 2013 the guarantee will be adding two percentage points of GDP to our national savings each year. It is difficult, I think, to overstate the significance of this. It is a breathtaking reform and it is hardly surprising that it has been acknowledged internationally as leading the world. We have got, in fact, the World Bank imploring other countries to adopt a retirement incomes policy similar to Australia and, again, the Economist Magazine said recently that Europe would do well to consider our system as a way of dealing with the budgetary impact of increasing pension costs for their aging population.

So, this is an enormous reform, one that the Government is very proud of and one that complements fiscal policy and the adding to and the addition to domestic savings in this country. The one, I might say, that our opponents do not support because they want to go back to a superannuation system which doesn't have a guarantee charge, where there is a contribution by each employee in the country accessing their superannuation tax provisions, but rather it being basically for those in the public sector and those in well off private sector employment, but for the great mass of people they could only get there by way of certain tax incentives and not under a specific charge.

Now, all of these things, I think, are important when one tries to look at the totality of policy. So, perhaps let me conclude on these points and to say this, that, I think, Australia has come an enormously long way in the last dozen years or so. As Graham remarked earlier 'We are now exporting 22 per cent of our GDP instead of 14 per cent. The debt service ratio on our debt - that is the proportion of our exports that we commit to servicing our national debt - has fallen from 22 per cent to 11 per cent. So, our capacity to service our on going debt has improved dramatically. That has come about by greater exports and lower interest rates.

All this means, I think, is that we continue to grow the Australian economy, but again we want to see private sector investment move in there and we will gradually withdraw the government stimulus as the private sector investment comes in. But, we are not going to pull the rug out of the pace where the whole thing collapses and, I think, this is one of the key points. While monetary policy and interest rates will apply a proper supporting role in smoothing the growth and extending the recovery period,

The Metal Trades Industry Association and its affiliates can play an even greater role than they role they have played to date - in growing out our manufacturing base and going into exports, but there is just one point that I might take issue with Graham about and that is, it is not simply micro-economic reform that is slowing the growth. If you like, that is an inhibition to a faster rate of growth in exports. One of these studies, done by McKinsey and company recently, showed when they looked at the 700 exporters of those with the fastest growing rate of exports in the categories of production they found that they were not very different to thousands of other companies - the products weren't different, the structures of the companies were not different, the balance sheets were not different - it was just that one group was enlightened and saw the opportunity and another group didn't. It underlines what has always been a problem in Australia and that is a real problem with entrepreneurship. That is, we are getting to the stage now were in the period of an open economy and deregulation the good managers are now climbing to the top, but we have been through three or four waves of people on the way through.

Obviously, in the great body of companies there is a lot more potential there that hasn't come out which has got nought to do with ports and wharves or

telephones or anything else. It is just the fact is that they are happy to sit here in Australia and work off the domestic economy, not understanding there is a greater economy abroad. Now, we have got to tell them about that and, I think, the Metal Trades Industry Association and its focus on Asia is one of the key bodies in doing that and as a consequence more companies will be in the business. If then we can help them with a more supple economy, better micro-economic reform and the rest well then, we really are, I think, in there for the long run.

So, don't mistake this point. There are very few, as Ralph Willis said last week eloquently in the House of Representatives, there are very few industrial countries that are anywhere near us at the moment - in fiscal policy, in growth, in employment, in cultural change - so we shouldn't underestimate our success, but it has been put there by a decade of hard work and change and it is only by doing it together and, I think, this is one thing the MTIA does well. It does talk to the trade unions, it talks to the government, it understands there is a place for it in this society and it tries to work things out. It is this sort of approach, I think, that pays results. In a consensus economy you will always do better than one which is basically adversarial.

As I said, I always enjoy speaking to the MTIA. It is a body of substance, of people who actually do things. To get out there and make things, go and flog their wares around the world and there is always the objective test if you are a manufacturer - it either works or it doesn't. This tends to concentrate the managerial mind on some of the other more esoteric areas of the public debate and that is why, I think, speaking to an industry organisation certainly beats the hell out of speaking to financial markets every day of the week.

Thank you again for inviting Annita and me along tonight and as I say, I have been coming a long time now and I want to keep coming back. Arthur Calwell said to me when I first came to Canberra he said 'you know the thing to do after each election Paul, when the caucus meets be in it, because it is pretty hard to be in the game if you are not there.' Well, I could just put a little variation on the theme and say after each election at the Metal Trades Industry Annual Dinner, I hope I am invited to speak, of course, as a Minister, as Prime Minister and to see my party - the great vehicle of Australian social and economic reform - chart the way to the end of the century. Thank you.

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