



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP
ADDRESS TO THE AUSTRALIAN CHAMBER OF MANUFACTURES
ANNUAL DINNER, REGENT HOTEL, MELBOURNE, 2 NOVEMBER 1995**

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I am very touched that Peter Reith and John Moore are with us tonight. I mean yes, Peter said he is close to me, well he is not close on policy. I mean they get to hear me these days, Mondays and Thursdays. But Thursday nights I am touched and indeed a third one, Mr Kemp, I am very touched. They come out to take a few after hours pointers. A bit of off-the-job training and I don't mind doing a bit of that either.

Well we are in a very interesting period of our economic history. I think everyone in this room understands that, because it wasn't all that long ago that Australia faced the long-end point of a very big decline in the terms of trade. Now that expression always ends up being an economist's expression, but it basically boils down to something like a ratio of the value of the things you sell versus the things you buy.

And, of course, in the early post-war years, Australia's terms of trade were very good. The things we sold were very valuable and the things we produced were valuable. But the things we bought were fairly cheap and manufactures, generally, were inexpensive in those days. But raw materials, food, agricultural products and minerals were expensive. We have seen a long trend decline in that and it got to its bottom point in 1985-86, the year of the Banana Republic so-called, and that meant that we were still pursuing a lifestyle to which we had become accustomed, but without the income which we had for most of our post-war period.

As a consequence, we were in deep trouble and not only that we had double digit inflation and we had profits in very bad shape, poor levels of investment, a regulated and over-valued exchange rate, a sclerotic financial market and, of course, high tariffs. In short, we were in a very parlous state.

Now what has happened since is a determined and conscious opening up of the economy and all of the things which affect our competitiveness are essentially being put right. The most important price in the economy, the exchange rate, was set in the market and, as you know, we had a very large fall in the exchange rate in 1985-86 by 25 per cent.

Now this restored our competitiveness but the trick is to turn a big depreciation of the dollar into a real depreciation - that is, to wash the price surge and inflation from it - and we have done that. And today the Australian economy is 40 per cent more competitive than it was in 1983.

Now, as a consequence, manufacturing exports have doubled, elaborately transformed exports have tripled and, as you know, manufacturing production has risen by over a third - 35 or 36 per cent. All this, of course, has changed the nature of Australia and a part of that competitiveness has, of course, come through the Accord with wages.

Now I want to say some things about this tonight because in the election, which is going to be held some time in the next six months - a little note there for Andrew Robb, some time in the next six months, Andrew - industrial relations will be an issue and the way in which we run Australia will be an issue.

Now, essentially, what the Government has done with the ACTU has introduced a consensual model in the way in which the economy is operated. So we rely not just on budgetary policy, fiscal policy and monetary policy, but we also rely on the third instrument - the Accord - and in that instrument, essentially, we have made a bargain with the unions which is wage restraint for growth. Wage restraint for employment and throughout the history of the Accord we have now seen that restraint and we have seen a very large measure of that growth.

So much so that we have quite phenomenal levels of employment growth in the period and, of course, we have seen GDP growth average 1.9 per cent during the period of the last Coalition Government - that is a seven year period, it is a decent chunk of our history - 1.9 per cent. The average GDP growth under this Government is 3.5 per cent.

Now it is nearly double and you show me any economy in the world where the economy is growing twice what it used to grow and I will show you a much wealthier one and a better one. Now, of course, that growth has produced very high rates of employment growth and the employment growth is the thing which underpins, of course, the industrial cohesion and the egalitarianism. As a consequence, you get more compliance with the underlying objectives of the wage restraint and the commonsense.

So, as a consequence of that, in the period 1976-82 there was less than 1 per cent employment growth a year. In the period since, we have had between 2 1/3 per cent and 3 per cent employment growth over the period. So we

have got nearly 2 1/2 times as much employment, probably just on three times as much employment. Now you take an economy which has got three times as much employment and twice as much economic growth and you have got a very large change. This has produced a quite profound change in incomes.

Household disposable income has risen by 40 per cent since 1983 because more people in households are in work. And if we look at household income per capita - that is wages, salaries and supplements looking at, also, the family allowance payments, pensions the works - put that through it, we have had a 21 per cent increase in household disposable income per capita.

That means that all of you out there operating a business, that want people to buy your products, there is more demand for your products because there has been real growth in household income and there has been more people in work.

In 1983, we had a workforce of six million. Today we have got a workforce of just over eight million, which is a phenomenal increase in growth. Our workforce is growing about 2 to 2 1/2 times the western world average - certainly the average of western Europe - and this is what is putting the buoyancy under the economy and under the sort of markets that you are living with.

Now, of course, the measure of the wage restraint is the profit growth and the very lowest profit share in GDP - this is the proportion of national income going to profits - the very lowest share was higher than the highest in the seven years of the last Coalition Government. The highest profit share in that period was in 1981, which is 15.89 per cent of GDP and the lowest we ever had was in June 1983 at 15.92 per cent of GDP. In the last few years, of course, profits are now bumping up against the 1988-89 high which, of course, has no historic precedence in Australian corporate history.

So, the Accord which is the consensual model, which says you give us growth and we will give you wage restraint, you give us growth we will give you better profits, you give us growth and we will therefore give you better investment and employment, and all of that means that the Australian economy is more fully employed, people are more prepared to be part of a very large change and to make the adjustments.

So when the dollar fell out of bed in 1985-86 - as it has in many countries - it dropped by 25 per cent, prices come up, the landed cost of imports rise, that price surge then goes into the economy, then it goes into wages. All of that was taken out and we turned a massive nominal depreciation of the exchange rate into a real depreciation. We did what most comparable countries don't do. They have the big depreciation, then they get the price surge, then they get the wage surge and the competitive benefit is gone.

We have captured the competitive benefit and that is why we are now seeing manufacturing exports growing so strongly and, of course, by lowering the tariff walls, we are starting to see very strong import competition, productivity between businesses and a better outcome altogether.

Now this sort of model is something which is now fairly unique in the western world and people talk about the need for wage flexibility. Now the United States is often used as a model. People say, well look at the United States, it is a very flexible labour market, you can go out there and basically make an individual wage contract, people will take the job, they'll take whatever basically is on offer and, therefore, you will get a more flexible economy.

But what the United States has shown is that it has had about one of the lowest rates of growth in labour productivity in the OECD for decades. In the United States currently, labour productivity growth is half that being experienced in Australia. Now that is one number I would like to sink in. That is, in the so-called most flexible labour market, the ultimate dog-eat-dog labour market, labour productivity is half that being experienced in Australia and, of course, you know the United States economy has a speed limit of 2 1/2 per cent.

Now everywhere in those big US markets, once that US GDP growth rate starts going over 2 1/2 per cent, the US Federal Reserve starts hitting the panic button, policy makers start hanging their heads. It generally hovers around 2 per cent, or under 2 per cent - somewhere between 1 1/2 per cent and 2 1/2 per cent.

Now we are doing either half that much again, or twice that much. So it doesn't say very much about their supposed labour flexibility that they have got a speed limit of 2 1/2 per cent. That is outside of the recessions of 1981-82 and 1991, we have been growing now around 4 per cent for most years. It doesn't say much for the United States economy that where you have the supposed flexibility of a labour market without safety nets, or without award structures, that their labour productivity is so low and that their growth is so constrained.

Now take New Zealand. We hear a lot about New Zealand. My colleagues here from the Opposition think New Zealand is somewhat of a model for them. But let me say this about their policy, the Employment Contracts Act of 1991. Since that was introduced, the rate of growth of labour productivity has been 1 per cent per annum, while Australia's has been 2.5 per cent. Now there is a strong message, I think, in that and that is get people interested in running a business more productively and they do a much better job than putting the whip across their back.

This notion that they are out there and they have got to keep their place and keep their head down and line up and take what you give them and then they will just be their most productive selves is, of course, a nonsense. And look

at some of the countries which have adapted to massive productivity change. Look at Japan, which had a couple of hundred yen to the dollar, 250 yen to the dollar, coming down to 88 yen to the dollar, it is now in the 90-odd somewhere yen to the dollar. A huge call on that country for productivity change just to keep its exports going, massive productivity demands. How did they get it? They got it by bringing the employees into the productive system. They didn't get it by putting the whip across their back.

Now in this country, we have been able to do that. We are now into a very big phase of enterprise bargaining, a very big phase. And I met a couple of people the other day at Tubemakers in South Australia - they are producing extruded plastic pipes - and I said how are you going here? And one fellow said to me, well look to be honest this is the best time of my working life. He was about 54 or 55. I said, is that right? He said, yes, I am earning more and I have got more time to myself than I have ever had. And he said we got that out of the last enterprise bargain and then they had a little discussion around the table.

They said the first one wasn't that good, we didn't know really what to do with the first one, it was pretty much a reflection of what we had. The second one, we realised we could actually do a few things that would help the business and that gave us, you know, a better pay packet. But they said the third one, the one coming up, that is going to be a beauty because we have got this idea, that idea, this idea, that idea. They have just put in a new production line. They were saying how they actually improved the production line, how some of their ideas had actually made it more productive and how the management had taken some of their productive ideas on board and in the third model they think they are really going to hit the jackpot - that the business is going to grow in productivity and the management was just as optimistic as the people I was speaking to at lunch.

So I think we are starting to get the hang of doing things productively and cooperatively within a consensual framework and enterprise bargaining, the movement away from centralised wage fixing, is the key to this. But, of course, you know that under the Government's policy we say if you can't get an enterprise bargain, we give you an increase under the safety net and that you need the safety net to maintain real wages and the purchasing power that you have.

Now we have a thing called the no disadvantage test. That means you can trade in things like overtime rates and penalty rates and holiday leave loadings, but you must come out the other side with something at least as good as you have now. You can't go backwards.

So under enterprise bargaining we can see that flexibility. Under the safety net you get the protection and the two together mean that we can have higher levels of labour productivity, higher levels of profit, higher levels of investment, higher levels of production and, of course, a better Australian society.

Now the coming election will be about, amongst other things, whether that consensual model stays, whether the Accord model is thrown away and many people in business today, I think, don't remember what it was like back there in the 1970s and the 1980s. Let me just give you one statistic. In our period of Government, through strikes, we have lost an average of 70 working days per thousand. In the period of Government of the Coalition, the seven years from 1976 to 1983, the average days lost through strikes was 590 per thousand.

Now I haven't got the numbers mixed up there - 70 versus 590. Not for one year or six months, but for an average period of seven years in the case of the Coalition and 12 years in our case. Now that is what it was like. It was - strikes the norm. There was, essentially, high interest rates to try and hold down inflation, which held down growth and with it held down profits and held down production.

So there is no easy choice, there come the next election. If you vote for the Coalition at the next election you have got to really mean it because it's going to punch a very big hole in your company accounts. And the reason it is is because the consensual model is going to go out the door and what will come in is, essentially, a view about industrial relations which I now think is alien in Australia and where the central bank is asked, basically, to keep inflation under control through higher interest rates.

But when it gets the flame-thrower out on inflation, it burns everyone else in the street as well. I mean we have had now, some of you might have heard this morning on radio the British Deputy Leader of the Labour Party. We see a lot of people like Mr Prescott these days coming and saying what are you doing in Australia that lets you grow at least half as fast, or twice as fast, as the rest of us with high rates of employment growth and low inflation? You are doing something here that we are not doing and people come here now inquiring about it. It is called throughout Europe, now, the Australian model. A lot of people in North America are interested in it and I think it is something that I am very proud of. That is we can, together, do something and when we do things together we are stronger. This is the point. When we do things together we are better.

Now we want to make that big leap into Asia and consolidate it, we want to grow those market opportunities out, which we can do, we have got the products, we have got the intellectual capacity, we have got the R&D, we have got the innovation and we have got the competitiveness. We have to keep the whole country signed up to it. Not just part of the country, but the whole country and that means keeping the executives, and business, and the boards of management of companies, and the employees, all signed up to the same view. That is, that we want to be able to - while these windows are open in East Asia particularly, where we are now set so closely to the fastest growing economies in the world - make every post a winner and we want to drive it.

Now, of course, that means more than just an Accord. It means product innovation, it means education and in education the Government has spent, now, a very large amount of budgetary dollars on the education system. Ten years ago, only three young people in ten completed secondary school. This year, it is just under eight in ten.

We have lifted the number of university places from 340,000 to 600,000 this year and, of course, now we are rapidly building the Cinderella of Australian education - TAFE, vocational education - into a system that can sit beside the universities and that is the thing that will power the businesses along and make the difference in the sort of products we produce and the sort of access that we will have to markets around here.

But the other thing we have got to do, we have got to want to be in it. We can't approach Asia as some sort of a fad, or a fashion. It has got to be something where we take a view that we are going to be in Asia, involved, forever and that we want to make our way with these Asian societies and Asian economies. Now we are making great strides. But we have still got to consolidate it. We still have to make them believe that we mean it.

Now I was addressing a group of school children in Queensland a week ago and I said to them look when we came here in 1788 as Europeans, we were like miners in the field, we pegged the claim, we banged the white peg into the ground and said we will consolidate the place, we will get it to a critical mass, we will try and hang on to it. We have been doing that, and we have been doing that well, since that time.

But the negotiation of our settlement in the neighbourhood is not complete. Our negotiation with Asia and the terms of our settlement into the neighbourhood is not done. We are part way through it. It is only 20 years ago that we had a White Australia Policy. We were very lucky not to be marginalised then as South Africa was marginalised to its great economic cost. And it is not a long time ago and memories are not that short.

So people are watching Australia to see with what conviction we want to do this and how earnestly we want to make the settlement a final one, and it is why when you talk about the Australian Chamber of Manufactures, or its constituency, or its product, you are talking about really, amongst other things, not its role as an import replacer, or as an import competitor, but as an exporter into these markets. We won't keep the market opportunities unless we make certain that the political relationships are the right ones. So, this is another thing where the Government believes that foreign policy and domestic policy are all the one. That no longer in Australia do we have a domestic political discussion and then out there as an outsider is foreign policy, but rather it is all part of the one debate.

When we succeed in this, of course, we will succeed as a country, but the opportunity we have is manifest and profound. Very few people, 18 million of

us, very few nations have been given this opportunity. Eighteen million of us in a continent this large with such bounty, now located amidst the fastest growing markets in the world, with a good environment and a good social attitude, a good social view, the view of egalitarianism and a fair go, very much built into Government policy.

So, whether it is access and equity in health through Medicare or access and equity in education, or whether it is fair wages and the prospects of doing innovative things in the work place. Whether it is running the Australian economy on a consensual model or not. These are all the things which mark out our maturity and the way in which we can be in quite a special way a unique country that can do very unique things. Because we have been, through our history, our origins are European, yet we find ourselves perched with some of the oldest societies in the world, some of the largest countries in the world, large old Asian societies. So, they will always look askance at us until they are absolutely clear that we want to be with them forever, in an amalgam of co-operation and progress.

The Accord is more than just a deal between the Government and the ACTU. It is about saying how can we operate as a country, as a community, how can we do the things we need to do that we must do - be competitive, lift our profits, lift our investment, provide a decent income for people and carry this model right through the society, through the social wage, through our social policies, through issues about our identity and into our foreign policy. All the bits make up the whole, but the whole is a bigger whole than we have ever had as a society and as a country before.

This, I think, is going to be a fork in the road. You know that saying, I came to the fork in the road and I took it. Well, there won't be any coming to this fork in the road and taking it. There will be a very clear choice. It will be one way or the other. But if the way is to take the view that we don't have faith in our fellow Australians, that we don't have faith in working people to see something good in all of this and to do co-operative and clever things, and we don't have the faith in Australian management to think more cleverly and more productively, if we don't believe we can do these things together, we won't.

We will go back to a bickering society, that is clawing away at income shares, that are not at all agreed and where the strife which comes from it will be manifest again and we will look around for models and while we are looking we will watch all of the countries around us leave us for dead. That is not something I think Australians can really endure anymore.

The model we put together is interesting, not just in Australian terms, but in world terms. It has been going now for nearly 13 years. Not 13 months. This is not a flash in the pan or an experiment and as I say, we have been just on doubling the GDP growth on average we had previously, lifting the profits to levels that have been unprecedented and giving us a rate of employment growth two or three times what it used to be.

This is a very strong thing and you know the old saying, when you are good thing stick to it. The thing, I think, for Australian manufacturing is that it may be a great irony that it took a Labor Government to give Australia a true market economy, but that is what has happened, and by knocking the tariff wall down and by letting you show us how you can compete and adapt and not just do that, but actually grow your business and your production while you are doing it and making yourself stronger, really means that that thing that most of us have always believed, that under stress and competition, Australians will always answer the call and always do well.

Whether it is in business or commerce or sport or culture or what ever it might be, but the big call of the last decade has, I hope, changed the Australian economy forever. And the changes you have made as constituent companies of the ACM are as much part and parcel of that change as any change made by the unions and the Accord or any change made by the Government or any change made by the institutions. We have all been in it. As a consequence we have got a very remodelled Australian economy and a far more cohesive and much nicer Australian society as a result.

My message, of course, is a simple one. Don't change horses. I don't know how many of you are going to rush out of here and think about this and make your way down to your local polling booth to vote Labor - maybe not as many of you as I would hope. But, the thing is, even if you do support the Coalition, I know many of you in your hearts, you'll be hoping out there with those stubby pencils and all the other polling booths that other people don't.

As a consequence, we will keep a co-operative model in this country and we will know when we have made a change of substance and we will know that thing, I suppose we have always known, that when we do things together we are stronger and we are better. That is the thing I want to keep doing. That is, I'd like to keep things going as they are, and that is to see Australians understand that something good is being done here and we should think long and hard about it before we put it asunder.

Thank you very much.

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