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## 18th SIR RICHARD KIRBY LECTURE

Presented by

Mr Jerry Ellis  
*Chairman-Designated BHP Pty Ltd*

UNEMPLOYMENT –  
ITS SCOPE, ITS COST  
AND OUR TARGETS

**16 SEPTEMBER 1996**

DEPARTMENT  
OF ECONOMICS

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## 'UNEMPLOYMENT — ITS SCOPE, ITS COST AND OUR TARGETS'

**Award of the 1996 Industrial Relations Prizes  
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**16 SEPTEMBER 1996**



DEPARTMENT OF ECONOMICS  
UNIVERSITY OF WOLLONGONG

## INTRODUCTION

This evening I wish to present a market view on how to increase employment in Australia.

Generation of jobs can only occur in a climate of strong economic growth and competitiveness, where the private sector makes profits and invests for the future—a more prosperous future. A competitive labour market is crucial to that outcome. Given the increasing internationalisation of the market place, the government's role is to create the internationally competitive framework for growth essential to enable it to carry out its social obligations.

I have chosen this topic to present to industrial relations practitioners—future and current—because I believe that unemployment and employment generation constitute the major social and economic challenge facing Australia today and because industrial relations plays a key role in reducing unemployment. Over 800,000 Australians are unemployed or have ceased seeking employment, a debilitating situation for the individuals and a lost economic opportunity for the nation.

I am sure we are all concerned for the plight of the long-term unemployed who have comprised up to half this number.

## UNEMPLOYMENT—ITS SCOPE, ITS COST AND OUR TARGETS

A few figures convey the extent and persistence of unemployment.

Unemployment peaked at 11.3 per cent in October 1993, and is currently running at 8.5 per cent, which is very high by historical standards. For 20 years after World War Two unemployment averaged 2 to 3 per cent. By the mid 1970s it was 5 per cent and by the early 1980s, 9 per cent. It is unfortunate that during each economic upturn since the 1970s unemployment has stabilised but not readily declined to levels preceding the downturn.

As well as the terrible human cost, unemployment is seen as the single greatest inefficiency in our economy and has been estimated to cost the community \$10 billion per year in direct assistance alone. It results in reduced demand, lower income (by reducing revenue generation), and increased social security spending on income support,

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labour market programs and administration costs. This spending equals 2.6 per cent of our GDP.<sup>1</sup>

Many in this audience know the local impact of the problem. For the Illawarra region, IRIS statistics show that the unemployed as a percentage of the workforce has risen from 6.4 per cent in 1976 to 7.1 per cent in 1981 to 13.1 per cent (1986) and 13.7 per cent in 1992.<sup>2</sup> It is currently estimated at 12 per cent with significant pockets of higher levels in some suburbs. Fears about job security and employment opportunities for our children are strong concerns of the Illawarra region's citizens.

Nationally, there is a demanding social need to overcome the problem of the long-term unemployed, currently estimated at some 250,000, and who can no longer expect that economic upturns will deliver them jobs and the dignity and confidence which go with employment. Apart from the human cost in physical and mental health, the waste of human talent and skills implicit in these figures is a major national issue.

I think the solution lies in our own hands, and it goes by the name of economic growth. As a nation, we must be committed, within the bounds of social and economic responsibility, to achieving sustainable growth which brings job creation.

Our competitor nations in our region have growth rates which regularly exceed 6 per cent and low levels of unemployment. Even allowing for the clear state of 'catch up' in the economies of South East Asia, and some advantages in terms of labour costs, they reflect the benefits deriving from a clear commitment to economic growth as the number one national priority.

Should we aspire to anything less?

## ECONOMIC GROWTH AND EMPLOYMENT POLICY—PAST EXPERIENCE

In the past, strong growth and high employment were seen as the norm by most Australians. While circumstances have changed, strong growth remains essential to employment generation.

Let me remind you of some of the features of employment policy in the postwar era.

### THE 'HEY-DAY' OF FULL EMPLOYMENT

For three decades after World War Two, full employment, or close to full employment, seemed to be firmly established. In most industrialised countries, including Australia, unemployment rates of 2 to 3 per cent prevailed until 1973. Employment was predominantly male, full-time and secure; the main problem for employment policy in Australia in this period was a severe labour shortage, balanced by a programme of mass immigration.

The period was one of relative prosperity, underpinned by generally stable domestic and international political and economic conditions. Domestic economic stability was supported by a centralised industrial tribunal, which could enforce national employment standards based on the payment of a fair and reasonable wage. Additionally, the Australian government pursued a protectionist economic policy of high tariff walls and import restrictions such as quotas.

As wages increased through tribunal adjustments, employers were shielded from escalating labour costs by subsequent increases in protective trade barriers. This served to insulate them from foreign competition, enabling wages costs to be passed on in the form of price rises without impacting on demand. This cosy life behind tariff walls meant poor productivity and efficiency, a lack of capital investment, overstaffing, restrictive working practices and often, poor management, particularly of human resources. These are problems which still linger today.

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1 Committee on Employment Opportunities, 'Restoring Full Employment—A Discussion Paper', December 1993, p. 98.

2 Illawarra Regional Information Service, 'A Statistical Guide to the Illawarra Region', 1996.

## THE DEMISE OF FULL EMPLOYMENT

A number of factors led to the demise of this period of full employment.

By 1974, inflation had increased to around 17 per cent,<sup>3</sup> largely as a result of a wages explosion which brought the period of post-war growth and stability to an abrupt end. Also, we were not totally isolated from the oil shocks.

The 1970s also saw the beginnings of a new 'global capitalism', with financial deregulation gathering pace internationally and creating a highly integrated financial system supported by more technologically sophisticated telecommunications. Capital mobility was enhanced by decreasing transport costs, and the emergence of new prospects in the industrialising East Asian countries.

These changes rendered our old protection structures obsolete. However, the nation was too slow in recognising the consequences. Wage increases were still being sought and granted in isolation to productivity improvements, while employers fought hard to maintain protection.

We maintained an isolationist culture despite what was happening around us.

The 1970s saw the start of the shift towards a greater role for market forces with the adoption of a policy to create a more efficient, competitive Australian industry. Accordingly, the Tariff Board was replaced the Industries Assistance Commission, and a 25 per cent across-the-board reduction in tariffs was instituted.

In the early 1980s we saw reforms to long-standing 'interventionist' policies—the floating of the Australian dollar, the deregulation of foreign exchange, banking and capital markets and a reduction in tariffs—globalisation of our financial market place was well underway. There was a large inflow of foreign capital and a rapid expansion of lending to business and consumers, and also to Commonwealth and State governments at different periods in the 1980s to fund budget deficits.

The other plank of the then Federal Government's strategy was the Accord which assisted with productivity improvement.

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3 Gardner, M & Palmer, G, *Employment Relations: Industrial Relations and Human Resource Management in Australia*.

The sense of crisis engendered in the mid-1980s by the balance of payments deterioration and increasing foreign debt focused attention on the workplace, particularly inefficiencies fostered in the era of trade protection. There was a general recognition by all parties, including the union movement, that the only way to create jobs and ensure decent standards of living was to ensure adequate growth in the economy.

By 1991 the Australian Industrial Relations Commission agreed to introduce enterprise bargaining as a means by which the parties could achieve real change.

What I have given you is a potted history of Australian employment approaches in the post-war era. Basically, we have moved from a relatively insulated and protected economy to one which is exposed to the full brunt of the global forces, and our employment policies have moved from being centralised to being more market-driven and enterprise-based.

While all these past approaches worked up to a point, the impact of global competition dramatically increased the pressure on Australian business and hence, the generation of jobs. The other side to this coin is the enormous business opportunities presented to Australia—particularly in Asia—from the development of these new markets.

It is worth sketching some of the salient features of this international competitive environment.

## THE GLOBAL COMPETITIVE ENVIRONMENT

There is no doubt that the competitive environment facing Australia is becoming increasingly demanding. Companies are now buying, producing and investing globally so as to grow beyond the constraints of their home markets and to spread market risk. As a result national borders are becoming increasingly irrelevant for determining market dimensions.

This intensification of competition is being driven by powerful and mutually reinforcing factors, including:

- an ability to transfer technology quickly to newly industrialising countries, greatly widening the range of potential locations for manufacturing and services;
- the emergence of many developing countries in Asia and Latin America competing for investment projects on the basis of low

cost, well-educated workforces, tax incentives, and high quality infrastructure;

- data/information transfer systems which facilitate internationally distributed activities, enabling companies to take advantage of attractive labour/operating costs;
- trade / investment liberalisation via WTO, APEC and NAFTA.

Allied to this will be the substantial shift in the centre of gravity of global economic activity towards Asia in recent years many Asian economies have been growing at twice the rate of developed countries.

This is the world in which Australian companies have to compete and prosper. These are the factors which determine the economic viability of businesses not only here in the Illawarra but everywhere else in Australia. Ultimately, it means we are competing for business, for investment and for jobs against the rest of the world.

For much of our history, a tariff wall was seen as the answer. In a borderless world, that doesn't work.

That is why I said at the outset that increasing employment depends on business success generating the growth which provides the jobs. The question then becomes, how do we help firms compete successfully, thereby boosting economic growth and employment?

## HOW DO WE GET THIS GROWTH?

There is broad agreement that with stronger economic growth the unemployment rate could be expected to fall.

How do we achieve this faster growth?

## THE GOVERNMENT'S ROLE IN CREATING A GROWTH ENVIRONMENT

As I see it, there is a need for governments to maintain a consistent and sustained policy approach which includes:

- sound budgets—and the Howard Government has made a good start with its focus on deficit elimination;
- a need to ensure that real interest rates are stable at internationally

competitive levels, but maintaining a focus on low and stable inflation rates;

- changes to our taxation system to support a competitive economy;
- a critical appraisal of the level of regulation and bureaucracy to remove that which is redundant to our economic and social needs. This is one unnecessary aspect of the cost of doing business in Australia—and New Zealand has got this right;
- creating the conditions necessary for the construction and maintenance of our infrastructure—communications, roads, railways, harbours, power and water systems. Without world class infrastructure, business competitiveness suffers;
- a foundation of lifetime learning in our community, recognising the need for our citizens to continue to upgrade their skills and thereby enhance their career growth and employment prospects;
- providing the framework which helps firms develop an enterprise focus in their industrial relations;
- in addition, ensuring fairness and equity for minority or disadvantaged groups within the community is realistically part of the Government's agenda; and
- a framework for industry that actively promotes innovation and competitiveness.

## PRODUCTIVITY AND GROWTH

That is a lengthy list, but there is nothing radical about it. The challenge for governments is to ensure that all their policies and actions help rather than impede business success and employment growth.

Beyond establishing this growth framework, which is the realm of government, productivity is central.

Higher productivity growth allows the economy to be competitive and to grow by improving profitability and investment, lowering real unit labour costs, and allowing growth in real wages and employment by lowering prices and increasing demand.



While responsibility for productivity growth applies to business, employees, and unions, as well as governments, it is a particular imperative for business.

There is no doubt that productivity growth determines which companies win or lose in the international marketplace, and which countries sustain high standards of living.

Productivity is more than a matter of output per employee. That is an important measure of improved efficiency, but the process by which it is achieved is equally important. And the process depends largely on the quality and motivation of people.

There is a growing recognition that the creative intelligence of our people is our greatest asset.<sup>4</sup> This is something which countries like Singapore, Hong Kong and Taiwan, with few natural resources, have successfully learned.

It is a fact which we are keenly aware of at BHP. In many of our businesses, our competitors typically have access to the same equipment, purchased from the same suppliers. The difference is in what we select, how we configure it better, and in the way we run it, which comes down to our expertise and to the fine tuning and efficiencies which our people can bring to the task.

Essentially, productivity is about firms finding the motivational triggers which unlock the tremendous productive potential of their people.

Productivity growth means enshrining this motivational principle in a host of practical ways—by developing a skilled workforce with incentives to raise their performance, by investing in plant and equipment and in infrastructure provision, by linking research resources to business expertise, encouraging flexibility and an outward focus, and by promoting initiative and effort, to name a few.

Tapping into the pride, values and energy of each employee to increase business competitiveness is the underlying aim of enterprise agreements, which is the last area I want to canvas in this Lecture.

So far, I have argued that the way to increase employment is to generate strong economic growth. Governments can help by providing the policy framework which facilitates business growth in an internationally competitive environment. Firms need to focus on

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4 Crawford, R, *In the Era of Human Capital*, Harper Collins, 1991, p. 3.

productivity improvements which enable them to take on the best in the world and win, thus generating wealth and more jobs.

## VALUES-BASED ENTERPRISE BARGAINING

Enterprise bargaining is a vehicle for changing firms so that they can win; it is, or it should be, a facilitating framework for ensuring that employees give the organisation a competitive advantage through their work skills and commitment.

Values and relationships are vital in changing the workplace culture to achieve this business goal. Because real change involves standards of behaviour consistently and constantly embraced across the organisation, we need to invoke key underlying values as the basis for changing behaviour.

Values are the ideals that give significance to our lives. They are reflected through the priorities we choose and act upon consistently and repeatedly.

Margaret Wheatley<sup>5</sup>, a noted American industrial psychologist, has said that those organisations with potential to be successful profit makers in the future are moving from the 'bad workplaces' of the past to fast, flexible self-organising work places with their people intrinsically motivated, wanting development and working in teams. These organisations are reflecting a new structure of values for successful businesses of the future.

These values typically include:

- respect and support for people with safety the highest priority, along with care for the environment;
- employee involvement, contributing ideas and skills and sharing information;
- customer focus;
- striving to be the best at what is done;
- honesty and integrity;

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5 Wheatley, M, *Leadership and the New Science*, Berret-Koehler, San Francisco.

- innovation; and
- continuous improvement to maximise the value of the businesses' assets.

The enterprise workforce involved in such successful programs will benefit from employment stability and growth through business success. There are advantages to both parties from this 'values' based relationship, including more rewarding and meaningful work for the employee, and more flexibility and better business results for the enterprise.

These mutually beneficial outcomes spring from the relationship, rather than from legislation or rules. It is the relationship which fosters the courage to make competitive changes. Risks will only be accepted if there is a basic level of trust in the relationships between employees, their representatives and the company's management. Getting the relationships right is management's responsibility.

Take the steelworks at Port Kembla as an example.

The first real evidence of this risk-taking at an enterprise level occurred with the implementation of the national Steel Industry Plan in January 1984. This tripartite agreement involving BHP Steel, the steel industry unions and the then Federal Government, recognised the mutual interests of the parties at that time for:

- an internationally competitive steel industry;
- improved business performance based on capital investment;
- no enforced retrenchments;
- processes for consultation between the parties;
- the employment of contract labour in the steel industry;
- dispute settling procedures; and
- limited government protection from unfair overseas competition in BHP's domestic markets.

While there are fewer people employed today in the Illawarra's steel industry, the risk of even higher job reductions would have been greater without these steps. The task now remains to create a growth

environment in the Illawarra and elsewhere in Australia to generate employment.

The success of the first agreement was recognised and enhanced by its replacement in the bipartite Steel Industry Development Agreement in June 1989 which sought to provide a national 'umbrella' agreement with more specific and detailed agreements attuned to specific sites around the steel centres of Australia.

It is generally acknowledged that the (by now) four sets of steel industry agreements have provided a model for enterprise-focused industrial relationships.

For the steel industry there has been significant productivity improvement, revised work arrangements, skill based classifications and the introduction of new technology. The workforce has enjoyed security of employment, free of the threat of enforced retrenchments, high levels of industrial relations harmony, an ability to increase their skills, higher rates of pay and improved conditions of employment.

The community has also benefited from the flow on effects of these efforts and the maturity of these industry and enterprise-based relationships.

In the Port Kembla region a number of milestones have been achieved in the maturation of these industrial relations on top of the national and site agreements I have noted. The workplace arrangements for Number 6 Blast Furnace at the steelworks, together with those in evidence at BHP Stainless and the Chronic Problem Solving teams in the Mill and Coating Facilities, are some examples which reflect the practical application of the values-based relationships I discussed earlier. The task remains to translate these examples into a more widespread application at BHP Steel sites . . . and I have no doubt the parties will do so . . . and across industry generally in Australia.

It is important to note that front-line management support, backed up by honest communication, was crucial in implementing this values-based system of improvement.

Much comment has been made on the role and significance of trade unions in the employer/employee relationship.

As an employer, BHP remains prepared to work with trade unions provided they are focused on outcomes that improve the competitiveness and performance of the Company, and hence support the security and well-being of employees. I agree with a number of senior union commentators that for the trade union movement a critical

factor in their future success will be their capacity to change their services to their members and potential members. If they are unable to do this, or worse, if they alienate their potential membership, their future is one of declining significance. This prognosis suggests that a shift of roles will occur from the more adversarial role of the traditional industrial relations environment (although some dispute resolution will remain) to a role providing advice, information and services, monitoring the position taken by employers to ensure that working standards are appropriate, open and consistent with industry and community standards. Their role embodies less conflict management and more partnership management.

## CONCLUSION

As industrial relations practitioners I believe your focus for the future will be on how you can encourage dynamic workplace relationships, and from this the right industrial relations processes for the parties will flow.

Given the case I have mounted this evening—that job creation is a function of business success—no task is more urgent.

You can be confident that your work will contribute not just to economic success as an end in itself, but to the wider goal of a more prosperous and fair Australia.

As Professor Fred Argy noted in 1993, 'many of the reforms needed to improve economic performance (including workplace reform) also improve social equity, through:

- lower unemployment and higher living standards reducing poverty;
- higher employment and higher incomes increasing taxation revenue and providing greater capacity to fund increases in the social wage; and
- and increased efficiency in service delivery providing the scope for better public services at the same or less cost to the community'.<sup>6</sup>

I wish you well in your important endeavours.

6 Committee on Employment Opportunities, 'Restoring Full Employment—A Discussion Paper', December 1993, p. 52.

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