



**Assessment of the Australian Labor Party
Workplace Relations Policy Platform**

July 2004

An Access Economics Pty Limited report
commissioned by the Business Council of Australia

While every effort has been made to ensure the accuracy of this document, the uncertain nature of economic data, forecasting and analysis means that Access Economics Pty Limited is unable to make any warranties in relation to the information contained herein. Access Economics Pty Limited, its employees and agents disclaim liability for any loss or damage which may arise as a consequence of any person relying on the information contained in this document.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
The ALP proposes major changes to workplace relations framework	i
The current workplace relations framework is successful	iii
The proposed ALP framework has risks	iv
The importance of unit labour costs	vi
Have recent reforms lifted productivity performance?	vii
What of the employment-to-population ratio?	ix
Platforms versus policies	x
Conclusion	x
1. Workplace relations framework	1
1.1 Unit labour costs	1
1.2 The employment-to-population ratio	5
1.3 Productivity	8
2. Recent Australian labour market performance	10
2.1 Unit labour costs	10
2.2 Job gains	11
2.3 Unemployment	12
2.4 Workforce participation	12
2.5 Real wages	13
2.6 Productivity	14
2.7 Industrial disputes	19
2.8 Conclusion	20
3. The ALP workplace relations policy proposals	23
3.1 Summary of ALP workplace relations policy platform	26
4. The potential impact of ALP workplace relations policies	31
4.1 Productivity	31
4.2 Wages and on-costs	33
4.3 Sectoral impacts	35
4.4 The employment-to-population ratio	39
4.5 Conclusions	41
Appendix A: Major ALP workplace relations policies in detail	43
Appendix B: BCA discussion of the workplace relations environment	59
Appendix C: Consultation by Access Economics with major employers	66

EXECUTIVE SUMMARY

The Business Council of Australia (BCA) has asked Access Economics to examine the potential economic impacts were the Australian Labor Party's (ALP) 2004 Workplace Relations policy platform to be implemented.

The ALP policy platform outlines a number of goals including:

- 1 achieving the maximum sustainable rate of economic growth;
- 2 a workforce with high wage, high skill jobs;
- 3 an unemployment rate below 5% on a sustained basis; and
- 4 a commitment to justice, fairness and equity for all.

These are goals that should be welcomed by all Australians.

The question is not so much whether these goals are worthwhile, but how to achieve them.

Will the broad policies and processes outlined in the ALP workplace relations policy platform deliver these goals, especially over the longer term? Or could they be better achieved using other policies? The same questions apply to some of the ALP's more specific objectives such as increasing the options available for people to better balance work and family, and supporting the workforce participation of mature-aged individuals.

In order to achieve and maintain strong growth, low unemployment, high incomes and a fairer Australia, all policies, especially workplace relations policies, must work together to support productivity, workforce participation and employment – by definition, Australian income per head is bounded by these three variables, as they determine the number of Australians working and the efficiency with which they work.

Therefore these are the variables against which ALP policies need to be assessed.

In particular, the major risk in the ALP workplace relations platform, if implemented, is a weakening in the productivity growth achieved in the past decade.

THE ALP PROPOSES MAJOR CHANGES TO WORKPLACE RELATIONS FRAMEWORK

In brief, the ALP platform proposes:

(1) An Increased Role for Third Parties

- Enhanced AIRC legislation and powers
- The extension of application of the no disadvantage test to a broader range of workplace agreements
- A reduction in the capacity to exercise managerial prerogative about business directions and operations
- Greater negotiating powers for unions

(2) Expanding the Content and Role of Awards

- Greater emphasis on the award system, pattern bargaining and industry-based arrangements
- Extension of the matters to be covered in awards to include:
 - Part time work for returning parents
 - Unfair dismissal protection
 - Part-time workers pro rata portable entitlements & promotion protection
 - Upgrade long service leave
 - Fourteen weeks paid maternity leave
 - Discourage casualisation
 - Incentives for greater use of career breaks, shorter working hours
 - Employer training levy
- Review of pay structure for younger workers

(3) Reduced Employment Contract Flexibility

- Abolish AWAs
- Extend industrial rights, entitlements and protections to contractors
- Abolish individual contracts in the Australian Public Service for levels below the SES

(4) Broadening the Scope of the Workplace Relations Act

- Removal of industrial matters from the Trade Practices Act
- Use of Government procurement policies
- Use of Government industry assistance

(5) Additional Employee Entitlements Legislation

- National employee entitlement protection
- Uniform minimum standards of compensation and other rights for injured workers

This emphasis on greater centralisation and regulation in labour markets contrasts with the direction of reforms over the past decade and more. It also contrasts with the thrust towards greater decentralisation of regulation in other Australian markets:

- ❑ Product markets are increasingly subject to 'hands off' national competition principles.
- ❑ Trade markets are increasingly subject to global rules and less subject to Australian protectionism.
- ❑ Financial markets now face lessened interventions from public authorities.

THE CURRENT WORKPLACE RELATIONS FRAMEWORK IS SUCCESSFUL

Australia's current workplace relations framework has provided significant benefits. Examples of these are highlighted below.

- ❑ Greater scope for direct negotiations between employers and employees has helped deliver higher productivity in nearly all sectors of the economy.
- ❑ Higher productivity has underpinned higher real wages for workers and greater profits for owners of capital (including workers' superannuation funds).
- ❑ Job creation has been sustained and unemployment (including youth and long term unemployment) continues to fall.
- ❑ Lower unemployment has encouraged people into the workforce. The greater flexibility of current arrangements provides employers with the capacity to offer a range of part-time and casual jobs where there may be no jobs available otherwise.
- ❑ Higher incomes have more than proportionately lifted tax revenues. That lift in revenues gives the Government vital financial firepower – so Australian Governments today have a greater capacity than ever for ensuring fair outcomes for all Australians.
- ❑ Greater labour market flexibility has helped Australia withstand domestic and global shocks and helped Australian industries compete in more volatile global markets.
- ❑ Greater decentralisation of workplace relations has seen a 'sea change' in the culture of Australian workplace relations. This has been important for all sectors, but in particular is vital in facilitating the employment of 'knowledge workers' – the growth segment of Australian job markets. 'Knowledge workers' do not easily fit traditional models of automated mass production and mass representation. Rather, they are better served by individualised arrangements, not collective arrangements – see Appendix C.

The benefits of enterprise bargaining arise via allowing firms to adopt productivity enhancing practices specific to the needs of the enterprise and expertise of its employees (thereby moving towards best practice), and by promoting a more cooperative working environment where performance and reward are more closely linked (thereby resulting in ongoing productivity enhancements).

The following table (from the latest IMF *World Economic Outlook*) shows just how sharp the turnaround has been. The pace of growth in Australian living standards (as measured on a purchasing power parity – PPP – basis) was in the top 10 among the OECD through to the mid-1970s, but faltered badly thereafter. By 1990 our ranking had dropped to 15th – pointing to a relative slide in our living standards. But Australia has recovered ground strongly since – and is once more back in the top 10.

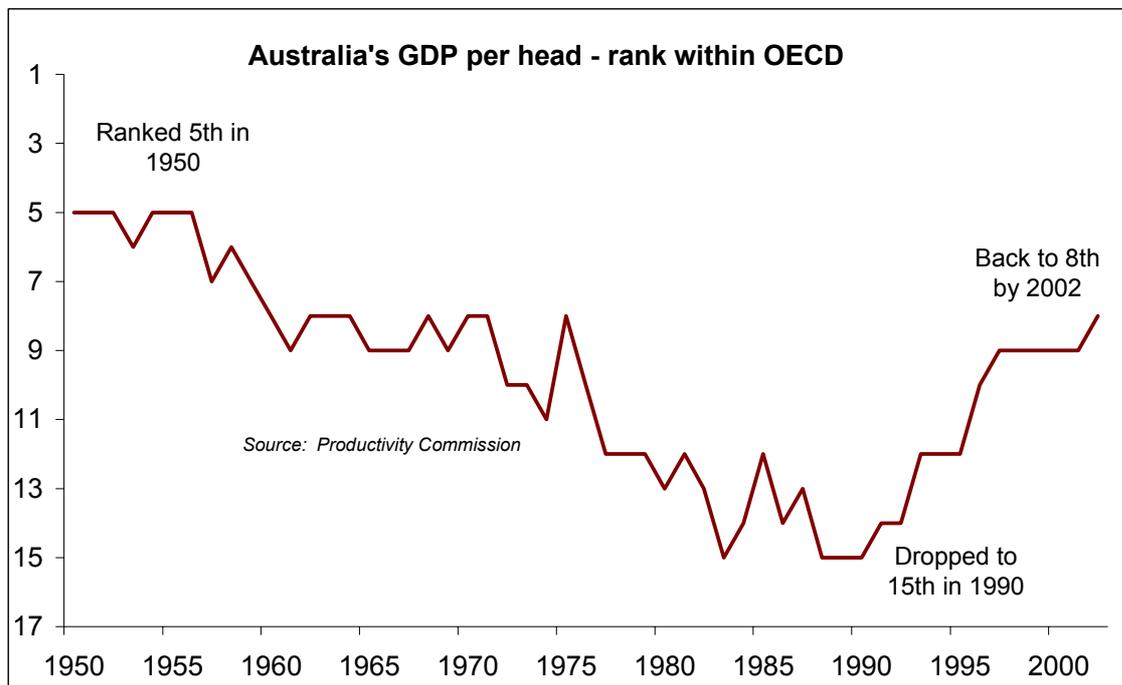
REFORM HAS SEEN GROWTH IN AUSTRALIAN LIVING STANDARDS REBOUND

	Average annual growth in GDP per head (PPP basis)				Average ranking among OECD countries (in levels)						
	1973-2002	1973-1983	1984-1992	1993-2002	1965	1970	1975	1985	1990	1995	2002
Australia	1.9	1.1	1.9	2.7	7	6	7	11	15	11	8
Canada	1.9	2	1.4	2.4	2	2	2	2	2	4	3
New Zealand	1.5	1.1	0.8	2.6	6	9	12	16	17	18	18
Finland	2.3	2.6	1.1	3	15	15	13	14	12	16	13
Ireland	4.4	2.5	3.9	7	19	20	20	19	18	17	2
Industrial country average	2.3	2.2	2.4	2.4							

Source: IMF World Economic Outlook, April 2004, page 118.

Much the same point was also recently made by the Productivity Commission, when it noted that reforms had helped to move Australia back up the OECD rankings of GDP per head as the chart below shows.

REFORM = GROWTH IN LIVING STANDARDS



THE PROPOSED ALP FRAMEWORK HAS RISKS

Economic issues usually pose two key questions – how large is the pie (efficiency) and how large is my slice (equity or fairness).

Of the goals of ALP policy, the first three are essentially issues of efficiency, whilst the last is one of fairness:

1. achieving the maximum sustainable rate of economic growth;
2. a workforce with high wage, high skill jobs;
3. an unemployment rate below 5% on a sustained basis; and
4. a commitment to justice, fairness and equity for all.

Workplace relations policies often focus on improving fairness. **But economists recommend that these (and other micro) policies target efficiency and that Budget policies should address fairness.**¹ Indeed, the more efficient the economy, the larger the economic 'pie' and therefore the larger are tax collections, which in turn give governments a greater ability to achieve fairness through the Budget.

The preference for targeting fairness through the Budget is because:

- ❑ The Budget's tax/transfer system allows for the transparent monitoring and analysis of fairness – both vertical equity² and horizontal equity.³
- ❑ Trying to use workplace relations policies to achieve greater fairness often has efficiency costs – for example, 'fairer outcomes for the employed' may well come at the expense of 'unfair outcomes for the unemployed'.

Despite that, the ALP's workplace relations platform often refers to the aim of a 'fairer' industrial relations system. Moreover, these references focus on labour market processes, and only occasionally to labour market outcomes.

The key issues are:

- ❑ The target of policy; and
- ❑ The instrument used to reach that target.

Access Economics believes that, if a key target of ALP policy is to improve fairness, then:

- ❑ Fairness implies a target of outcomes, not processes; and
- ❑ The target of fairness would be better achieved through the instrument of the Budget than through workplace relations policies.

This is because the costs of the tax/transfer system are likely to be lower than the costs associated with focussing on 'fairer' labour market *processes* rather than efficient labour market *outcomes*. The ALP platform threatens to weaken the link between workplace innovation and economic rewards and hence undermine productivity.⁴

Reliance on the tax/transfer system for achieving given equity outcomes does not carry quite the same risks for productivity growth as do more regulated labour market processes. Effective labour market processes are at the heart of the inner workings of the economy and the realisation of the economy's productive potential.

¹ For example *Implementing the OECD Jobs Strategy*, OECD 2000 and *Budget Paper No. 1, 2004-05* (Statement 4) Australian Government.

² People in unequal circumstances are treated unequally, for example by using the Budget tax/transfer system to narrow the gap between the better off and the worse off.

³ People in equal circumstances are treated equally.

⁴ This link is a consistent theme of OECD and IMF surveys of the Australian economy – see OECD 2001, OECD 2003, IMF *World Economic Outlook*, April 2004.

Indeed, economists are firmly of the view that efficiency is maximised with appropriate micro (and, to a lesser extent, macro) policies including a flexible labour market. Whilst the current Australian workplace relations system is working well (see Chapter 2), the IMF and others have suggested improvements to Australia's labour market flexibility that would further benefit Australian living standards.

These suggestions for reform, if implemented, would take the current system in the opposite direction to that proposed by the ALP workplace relations platform:

- ❑ Greater flexibility in workplace arrangements allows for a greater supply of flexible jobs from employers (where there may be no job otherwise available). That is vital, as the demand for such jobs is growing, as Australians attempt to gain a better balance of family, education and other commitments. This flexibility is also important for those easing themselves into retirement or caring for ageing parents.
- ❑ Greater workplace flexibility, not less, will be required to maximise workforce participation in the face of the Budget pressures arising from an ageing population.
- ❑ The rising globalisation of Australia's economy will require that industries trading in more volatile overseas markets have greater workplace flexibility, not less.
- ❑ Australia's position in a more globalised economy will become more reliant on facilitating workplaces increasingly geared for 'knowledge workers'. Knowledge workers generally require more tailored workplace conditions. Current arrangements have allowed many of those workers to experience the advantages of workplace flexibility. Rather than turning back to more centralised modes, knowledge workers are more likely to be pushing the boundaries of flexible workplace arrangements.

THE IMPORTANCE OF UNIT LABOUR COSTS

As Chapters 1 and 2 note, workplace relations policy can have an impact on the economy – living standards in general, job growth in particular – via its impact on four key economic variables. The first three – wages, on-costs and productivity – make up the components of unit labour costs. The final key variable is participation (or, more correctly, the employment-to-population ratio).

- ❑ Wages and productivity go hand-in-hand. **Productivity is perhaps the most important of the concepts underlying unit labour costs, as it is the means by which workers achieve sustained growth in living standards over time.** If wages or on-costs move ahead of productivity, or if productivity growth weakens, then real unit labour costs rise and jobs are lost.
- ❑ Higher rates of productivity growth are shared between corporates and their investor owners (higher profits), workers (higher wages) and consumers (lower prices). Individual Australians are represented in all three categories: often at the same time (for example workers are also consumers who also share in company profits via their superannuation fund earnings).

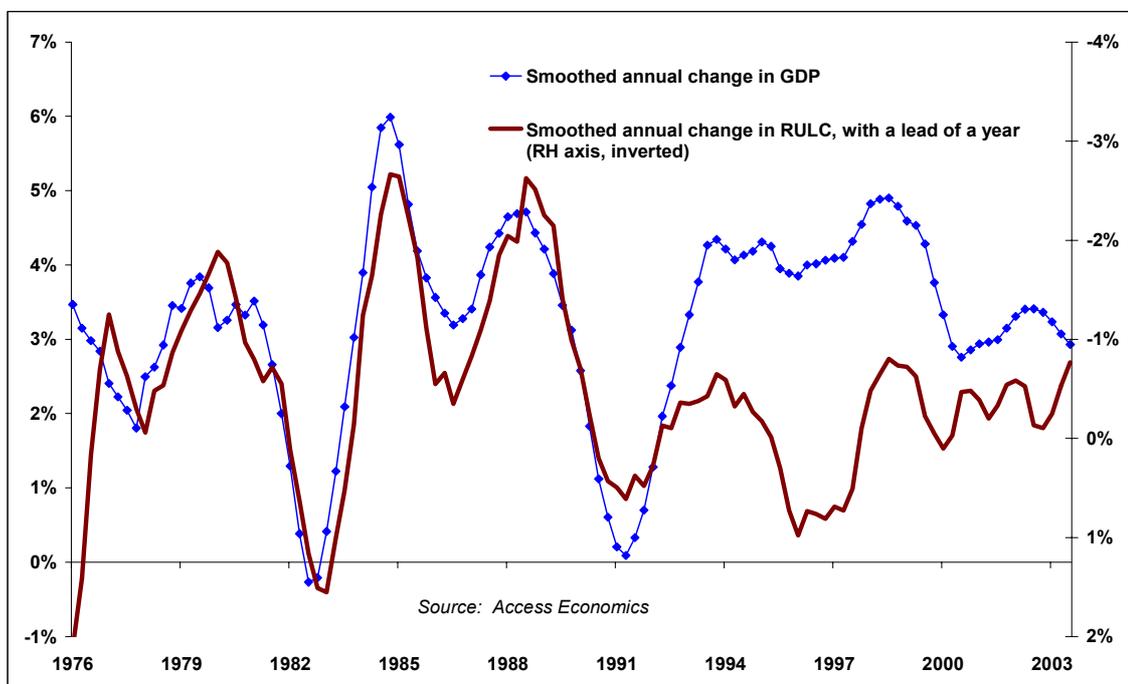
How important is the link between unit labour costs and the economy? The chart below links real unit labour costs (RULC) and real economic growth (GDP). The chart matches changes in RULC against changes in economic growth a year later. It shows a close **inverse** link – higher labour cost growth today leads to lower economic growth in a year's time. The axes in the chart imply the relationship is more than one-for-one. A one percentage point shift in RULC leads to a 1.25 percentage point change in

economic growth. In other words, a rise in RULC results in a proportionally larger deterioration in economic growth.

Economic growth outperformed this basic relationship in much of the 1990s (while still responding to the cycles in labour costs). Why did a gap emerge between RULC and GDP growth in the 1990s? Because real unit labour costs drive economic growth via a price effect. The outperformance of Australian GDP growth through the 1990s (over and above the RULC effect) was aided by some other price effects (rising terms of trade, an undervalued \$A and falling long term interest rates) and key quantity effects as well (the impact of micro reforms, plus excellent global growth, particularly in our major trading partners).

Even though a gap opened up between RULC and growth, the relationship between movements of cycles in these variables has persisted. There are therefore direct risks in changes to current workplace relations policies were those changes to affect unit labour costs (wages, on-costs and productivity).

HIGHER UNIT LABOUR COSTS = LOWER ECONOMIC GROWTH



HAVE RECENT REFORMS LIFTED PRODUCTIVITY PERFORMANCE?

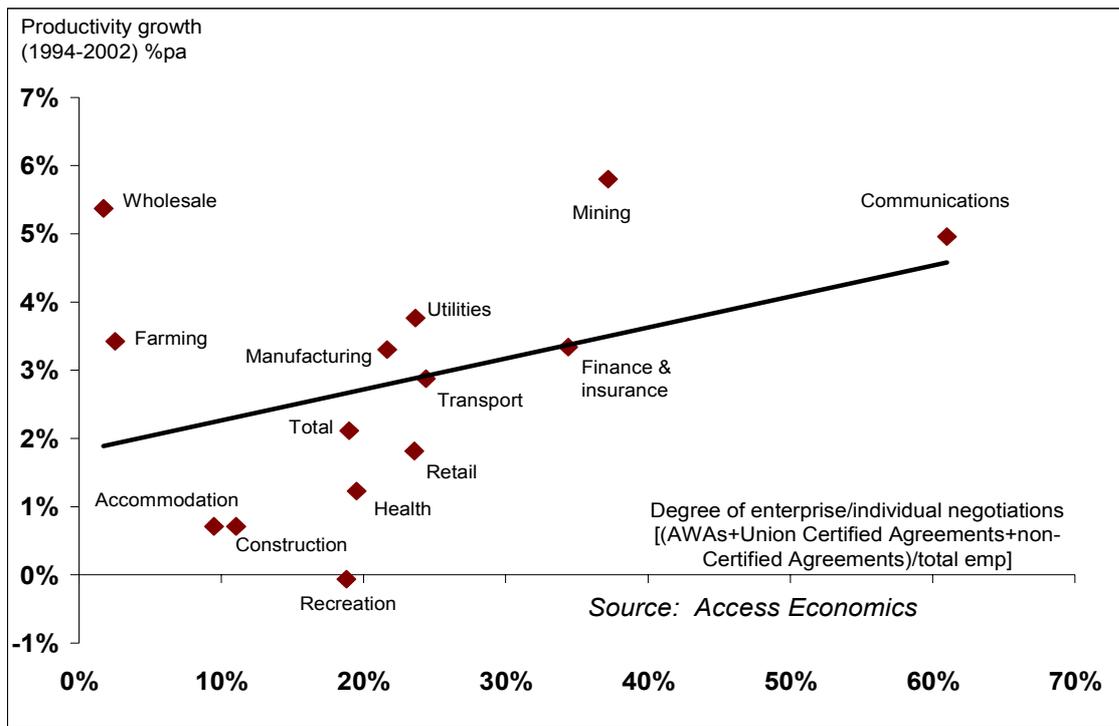
The Productivity Commission and others have noted that the benefits of reform are magnified when reforms occur across a broad front. In Australia that has been evident, in particular, in the performance of productivity growth in the 1990s. (See Chapter 4 for discussion.)

As the following charts show, it has been the sectors with the most flexible workforce arrangements which have seen the fastest productivity gains. There is a risk that ALP policy, aimed at strengthening the award system and industry-based arrangements, may weaken this nexus – less flexibility equals less productivity growth, both directly and via a weakening of positive interaction with other reforms.

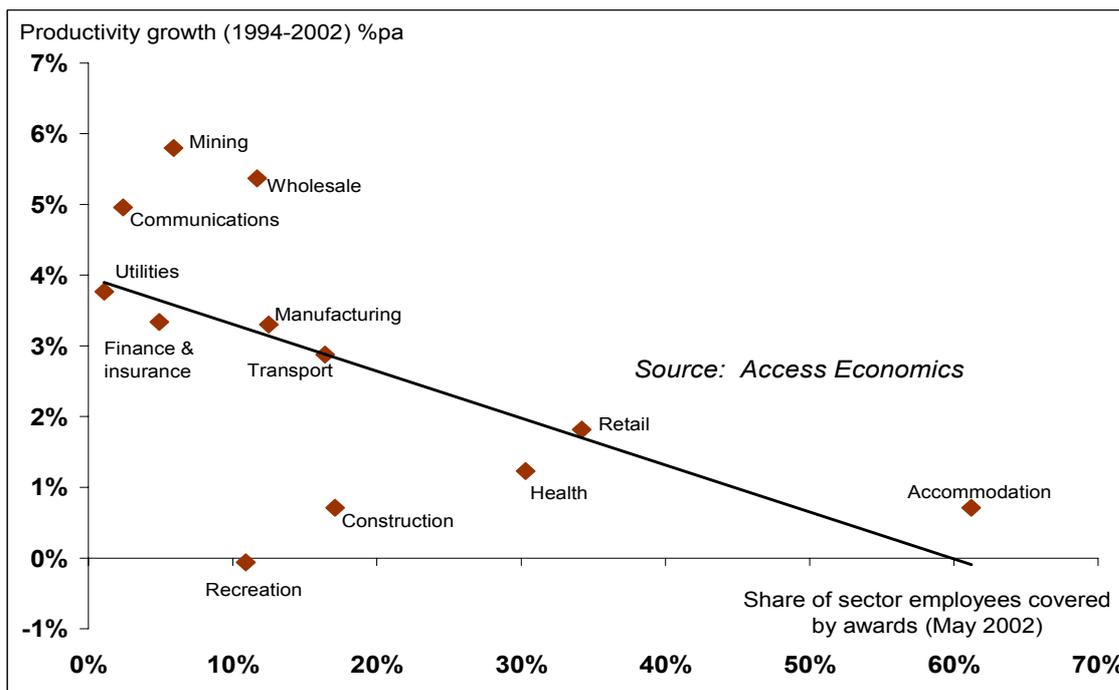
These charts:

- ❑ Indicate a link between the degree of take-up of decentralised labour relations agreements and the rate of sector-by-sector productivity growth;
- ❑ Point to a simple but compelling relationship - **the greater the decentralisation, the greater the productivity growth**; and
- ❑ Track the relationship between labour market 'flexibility' and productivity growth.

PRODUCTIVITY GROWTH VS FLEXIBILITY OF CONTRACTS



PRODUCTIVITY GROWTH VS RELIANCE ON AWARDS

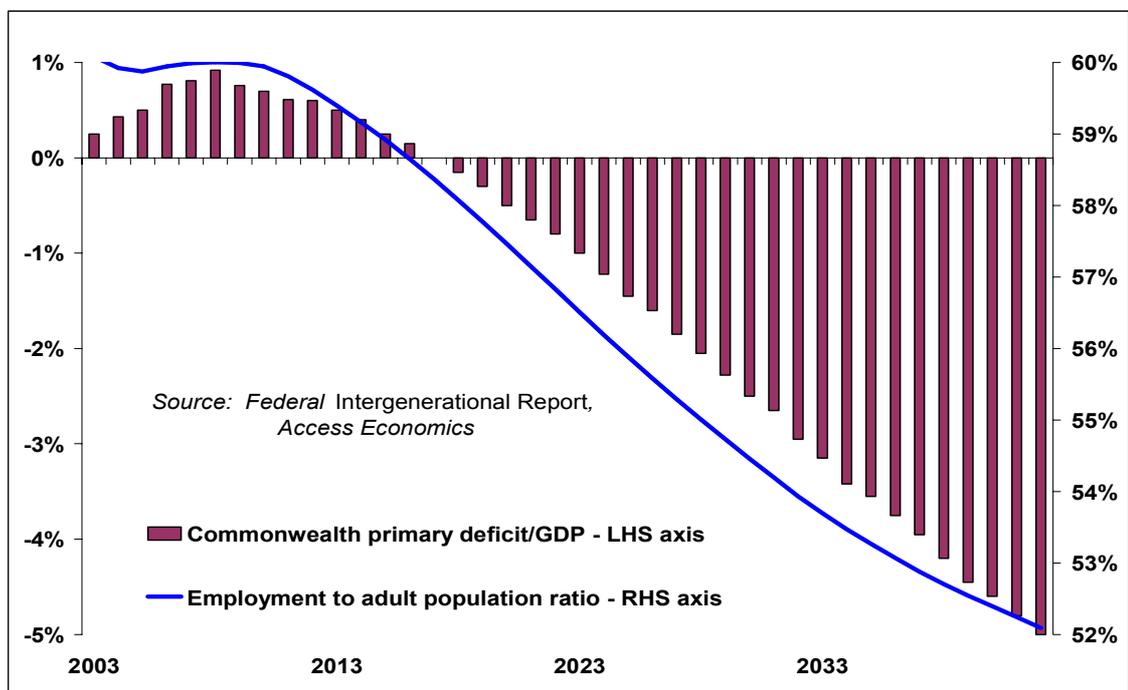


Econometric analysis of these relationships suggests that the absence of Federal enterprise agreements and AWAs over the period 1994-2002 could have reduced productivity growth by 0.8 percentage points per year (everything else equal). This result is qualified (because of the brevity of the sample size), but it mirrors a similar result in Federal Treasury analysis which found a reduction in award-reliance is associated with an increase in productivity. A 10 percentage point reduction in award-reliance in an industry between 1990 and 2002 was associated with an increase in the average annual productivity growth of 0.5 percentage points.

WHAT OF THE EMPLOYMENT-TO-POPULATION RATIO?

Apart from productivity, the next most important economic statistic over coming decades will be the employment-to-population ratio (shown in the chart below, which is derived from the 2002 *Intergenerational Report* (IGR)).

BUDGET PRESSURES AND THE FALLING EMPLOYMENT-TO-POPULATION RATIO



If that ratio falls fast and soon (as the baby boomers retire) then Australia's economic pie will grow more slowly than it has in past decades – potentially more slowly than even the bleak assessment in the IGR.

Changes to workplace relations policy along the lines of those being proposed by the ALP could see the supply of more flexible jobs (such as part-time and casual positions) shrink.⁵ There is a risk that any increase in Australia's minimum wage – already a high relative wage by world standards – could also raise unemployment rates directly.

⁵ While it could be argued that the ALP workplace relations platform may make some flexible jobs more attractive, the clear risk is that business will provide fewer jobs if they have less say and flexibility with respect to the ways in which they can provide greater flexibility in support of participation. However, there is already no lack of demand for jobs. Rather, there is a lack of supply of them. If the ALP platform were to increase the demand for but reduce the supply of more flexible jobs, there would be an increase in unemployment.

The results of Tulip⁶ translated into the Australian context suggests that our current minimum wage may mean 100,000 extra unemployed Australians compared with the equivalent minimum wages seen in the US or UK.

PLATFORMS VERSUS POLICIES

There is typically a gap between platform promises and implemented policies on both sides of politics. The practicalities of developing and implementing policies once parties are in Government may lead to some differences between policies as announced and as implemented. That said, there may be a greater propensity than usual to implement the ALP workplace relations platform, given the potential clean sweep of Federal and State jurisdictions by ALP Governments. There is also a risk of the wrong policies being implemented unless ALP policymakers understand the degree to which Australia's recent economic successes rest on labour market reforms dating back to the early 1990s.

CONCLUSION

In our view, the policy platform gives more focus to 'fair' labour market processes than to achieving effective labour market outcomes. Proposals for redefining processes, roles and responsibilities appear to be aimed squarely at reducing the emphasis given to workplace circumstances and the role of employers. The overall direction of the ALP platform appears to be towards more regulation, a broadening of the factors and parties involved in the determination of wages and conditions and that the workplace relations system and structures will increasingly be used to deliver non-market outcomes and objectives.

Such policies are unlikely to deliver on the four goals espoused by the ALP – high growth, high incomes, low unemployment, and a fairer Australia. For the reasons outlined above and earlier, the ALP workplace relations policy platform runs the risk of moving Australia further from those goals.

While there may be disagreement about the magnitude of change and impact the direction seems clear. Taken collectively, it seems fair to conclude that the ALP workplace relations platform measures could reinforce one another in terms of their negative impacts on productivity, wages, on-costs and employment.

The probability of this is increased if these policies imply a change in attitudes and workplace culture that weakens the improved links between productivity and performance and bargaining outcomes seen over the past decade.

ACCESS ECONOMICS JULY 2004

⁶ Tulip, P, *Do Minimum Wages Raise the NAIRU?*, US Federal Reserve Finance and Discussion Series, 2000-38.

1. WORKPLACE RELATIONS FRAMEWORK

This section outlines an analytical framework for examining labour market processes and the link between workplace relations policies and economic outcomes.

First, we examine the theory and empirics of ‘unit labour costs’ – a concept we later apply in a detailed examination of the ALP workplace relations policy platform. *In brief*, wages and productivity go hand-in-hand. Sustainably higher wages and living standards depend on higher productivity. If wages or on-costs move ahead of productivity, or if productivity growth weakens, then real unit labour costs rise and jobs are lost.

Second, we examine the importance of the employment-to-population ratio. This is emerging as a major issue given the adverse economic and Budget pressures from an ageing population. *In brief*, there is a risk that changes to workplace relations policy could see the supply of more flexible jobs (such as part-time and casual positions) shrink. There is also a risk that any increase in Australia’s minimum wage – already relatively high by world standards – could raise unemployment rates directly. The results of Tulip⁷ suggest that Australia’s minimum wage adds about one percentage point to our average unemployment rate compared with those in the US or UK. Or, in other words, our existing minimum wage regulation adds around 100,000 Australians to the ranks of the unemployed.

Third, we analyse productivity which is a vital influence on Australian living standards and the longer term dynamics of labour market outcomes. *In brief*, higher rates of productivity growth are shared between corporates and their investor owners (higher profits), workers (higher wages) and consumers (lower prices). Individual Australians are represented in all three categories: often at the same time (for example workers are also consumers who also share in company profits via their superannuation fund earnings).

1.1 UNIT LABOUR COSTS

1.1.1 THEORY

Wages are two things at the same time – a cost to an employer and an income to an employee. Both have economic impacts:

- ❑ A wage rise for a worker improves the relative economic well-being of the worker and his or her family and raises overall consumer demand.
- ❑ On the other hand a wage rise borne by an employer reduces profits and the incentive to invest. It also prices the employer’s firm or industry out of some work. It also raises the incentive for employers to use relatively fewer workers and more machines (though that mix will differ across industries).

Economic theory suggests that a firm hires workers until the revenue product of the last worker equals the cost of the worker – that is, until they stop making a reasonable return.

⁷ Tulip, P, *Do Minimum Wages Raise the NAIRU?*, US Federal Reserve Finance and Discussion Series, 2000-38.

Higher wages or on-costs move the point at which firms make a reasonable return. Unit labour costs can also rise if productivity is reduced or hindered by a reduction in flexibility in the workplace. Firms respond by hiring fewer workers, leading to less employment and more unemployment.

Moreover, the consequences of getting unit labour costs 'wrong' are not symmetrical:

- ❑ When real unit labour costs are too low, employers compete with one another for scarce workers (provided unemployment is low), thereby bidding up wages, with the result that unit labour costs rise.
- ❑ When real unit labour costs are too high (sometimes referred to as a 'real wage overhang'), employment is discouraged and economic activity is dampened. A real wage overhang is corrected with a reduction in real wages. The appropriate adjustment can be drawn out because of non-competitive features in the supply of labour – so that the reduction occurs for example as a period of slower real wage growth and unnecessarily high unemployment over an extended period.

As changes to unit labour costs are the most important channel between workplace relations policies and future economic prosperity, this report assesses the ALP workplace relations policy platform against its likely impact on the components of unit labour costs – wages, on-costs and productivity.

Unit labour costs, wages and on-costs are linked as follows:

Unit labour costs are equal to the ratio **A / B** where:

- ❑ **A** is the worker's cost to the employer (which includes **wages** plus all other **on-costs**).
- ❑ **B** is the value of the output to the employer produced by the worker (which is essentially what is meant by **labour productivity**).

Economic theory suggests that a firm hires workers when **A** is less than **B**. At the margin (that is, for the last worker employed) **A = B**. If a worker cannot earn an employer a reasonable rate of return, the firm won't be hiring. The worker will not have a job.

When real unit labour costs increase, employers are disinclined to hire extra workers. Some workers can expect to lose their jobs or fewer new entrants to the workforce can expect to find jobs.

If the rise in real unit labour costs is a general one across the economy, it adds to inflation pressures, and so also adds to interest rates, thereby slowing overall economic growth. Higher interest rates and lower profits cut investment (despite the latter's improved relative price versus labour). The fall in investment demand eventually overwhelms the increase in consumer demand (partly because even though workers may receive higher wages, total employment will be lower), leaving the overall national economic cake smaller.

When real unit labour costs decline, say because productivity rises (that is **B** increases), employers can be expected to be more inclined towards competing with one another to create extra jobs. Depending on the levels of unemployment, that competition would see a lift in real wages.

Productivity increases result from:

- ❑ Increased employer investment in more/better machinery and tools.

- ❑ Improved employee skills.
- ❑ Improved organisation of the workplace ('multi-factor' productivity growth).

When real unit labour costs remain steady, any real wage rises are matched with productivity increases. Where employers and employees are able to directly negotiate over flexible workplace arrangements there is the potential for the increased productivity to be shared in the form of wage and profit increases. That is, innovations in workplace arrangements are closely linked to rewards.

As the potential rewards from innovation will vary with the circumstances of the workplace and the creativity of the employees/employers, it is best to allow this flexibility to be delegated as far 'down the line' as possible. Bargaining over productivity gains should preferably involve those directly familiar with the organisation of the workplace and how it can be improved.

The response of individual firms to changes in unit labour costs will often be greater than the response of an industry or an entire economy, as there are more substitutes for the output of a firm than for the output of an industry or an economy. For that reason, enterprise level bargaining tends to be more sensitive to potential job effects than more centralised bargaining – to the benefit of improved macroeconomic outcomes (as has been true in Australia over the past decade – see the discussion at Chapter 2).

1.1.2 INTERNATIONAL AND AUSTRALIAN EMPIRICAL RESEARCH ON UNIT LABOUR COSTS

There is a substantial body of research on the proposition that higher unit labour costs lead to a loss of jobs (or relatively slower job growth).

Much of the literature focuses on examining the degree of employment response to a change in real wages. As theory suggests, most studies have found a notable **inverse** relationship in this regard, although the relationship in some studies is more marked than others.

The leading reviewer of the American evidence (Hamermesh ⁸) suggests that the consensus linkage (or 'elasticity') is that 3% of jobs are lost as a direct impact of a 10% increase in unit labour costs. He suggests:

- ❑ The ratio of jobs lost is higher for low skilled workers (such as labourers) than for high skilled (such as electricians), because it is easier for machines to substitute for low skill than high skill workers. ⁹
- ❑ The speed of job loss is "fairly rapid, with the overwhelming majority of the adjustment completed in a year or less".
- ❑ Adjustment is slower among the higher skilled.

⁸ Hamermesh, D. (1993), *Labor Demand*, Princeton University Press, Princeton, New Jersey, and Hamermesh, D. (1999), *The Evidence on the Demand for Labor*, in *New Directions – Rebuilding the Safety Net*, Business Council, April 1999.

⁹ The counterargument is that "most minimum wage workers are located in labour intensive industries, such as personal services, hospitality or retail, where there are physical limits to the installation of labour-replacing equipment" – see *A needle in a haystack: Do increases in the minimum wage cause employment losses?*, ACCIRT working paper 90, Ian Watson, March 2004, at page 2.

- ❑ Adjustment is asymmetric – job losses in response to wage growth skipping ahead of productivity come faster than job gains from wage restraint.
- ❑ Employers typically adjust overtime before they adjust the number of people employed.

The above implies that the final incidence by industry of potential job losses from workplace relations policies that raised real unit labour costs would differ from the first round (legal) incidence of those changes. A full discussion of the sectors likely to be affected is in Chapter 4.

When translating international studies into the Australian environment it is important to remember that there are some key environmental differences in Australia that put relative labour costs on a higher footing here than elsewhere:

- ❑ Australia has a minimum wage that is high relative to those in the US or comparable OECD nations. The minimum full time wage in Australia (which has just risen to \$467.40 a week) is around 52% of average full time weekly earnings (as at August 2003), but 61% of median full time earnings (of \$770 a week in August 2003). That is relatively high by international standards. The UK and US are lower, at around 42% and 36% respectively¹⁰.
- ❑ Australia's system of awards also specifies wage levels for employees earning more than the minimum wage and in some cases significantly more.

The review by Freebairn¹¹ using Australian evidence notes that only 1% to 2% of jobs are lost for every 10% wage rise unsupported by productivity gains in the short run, but that in the long run (after two or so years) a 10% wage rise may cost 6% to 8% in jobs. A similar conclusion (for different reasons) is reached by Lewis and MacDonald. They conclude that the long run elasticity is such that a 10% real wage rise may cost 8% in jobs, mostly through the channel of negative output effects.¹²

Or, as Frank Crean put it many years ago, “One man’s wage rise is another man’s job”.

Other evidence points to the impact of specific employer cost imposts (such as higher **youth wages**). Using the Australian Workplace Industrial Relations Survey 1995, the Productivity Commission¹³ found a “significant negative relationship between youth employment and youth wages”. Their best estimate was that a 1% rise in youth wages would decrease youth employment by 2-5% in industries employing a relatively high share of youth.

For **minimum wages**, some studies, notably the original Card and Krueger study in the US,¹⁴ suggest higher minimum wages have no effect on overall job levels. But such

¹⁰ OECD database.

¹¹ Freebairn, J. (1998), *Microeconomics of the Australian Labour Market*, in Unemployment and the Australian Labour Market, Proceedings of the July 1998 Reserve Bank Conference.

¹² Lewis and MacDonald (2002), *The Elasticity of Demand for Labour in Australia*, *Economic Record*, Vol 78, No 240, pp18-30.

¹³ Productivity Commission, *Youth Wages and Employment*, Staff Research Paper, Canberra, October 1998.

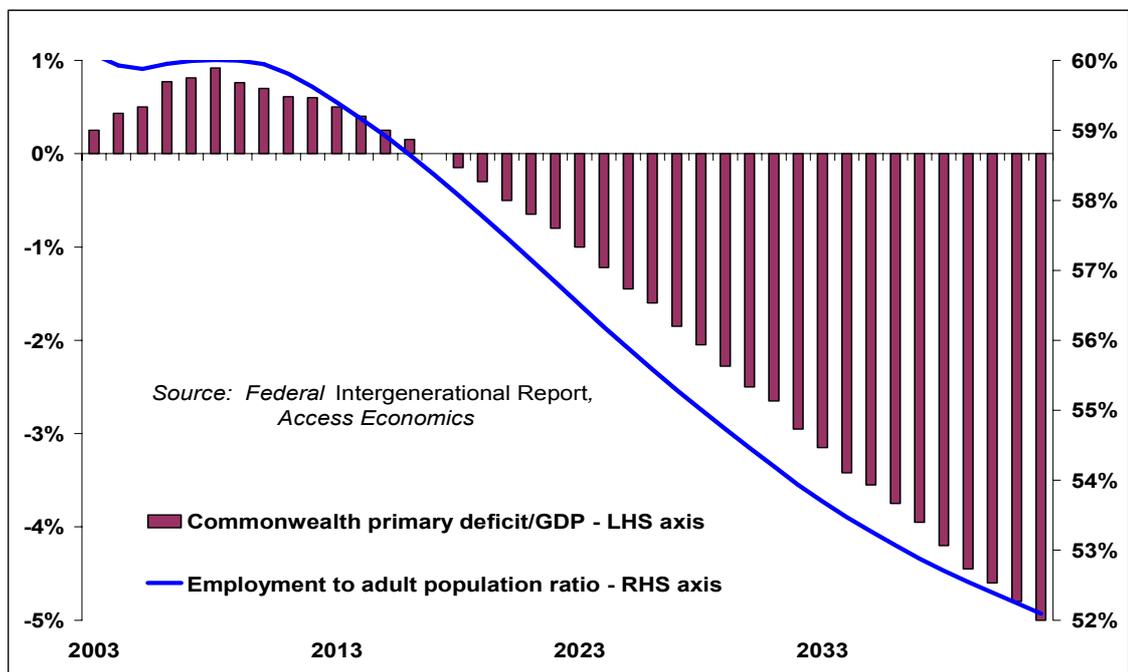
¹⁴ Card, D and Krueger, A (1994), *Minimum wages and employment: a case study of the fast-food industry in New Jersey and Pennsylvania*, *American Economic Review*, vol. 84, pp. 772-93.

studies are in a clear minority, and the US minimum wage is relatively smaller than its Australian equivalent.

Finally, there is an element within the international literature (pioneered by Calmfors and Driffill ¹⁵) which looks beyond unit labour cost and employment impacts to broader macroeconomic performance and the degree of centralisation of labour market processes. This literature suggests that **the macro performance of nations is best where the hand of regulation lies lightest**, is next best among nations where industrial relations is relatively heavily and centrally regulated, and worst among nations with mixed systems. The same point is made with respect to Australia's experience by Wooden and Sloan. ¹⁶

1.2 THE EMPLOYMENT-TO-POPULATION RATIO

CHART 1-1: BUDGET PRESSURES AND THE FALLING EMPLOYMENT-TO-POPULATION RATIO



The above suggests a close link between real unit labour costs and jobs. The Australian evidence on that link is explored further in Chapter 2.

If implemented, the ALP workplace relations policy platform could also have an impact on jobs and longer term growth prospects by affecting the employment-to-population ratio.

The employment-to-population ratio is of growing interest in developed economies because of the projected economic growth and budget impacts of an ageing population, the associated retirement of the 'baby boomer' generation and the rising relative cost of health care.

¹⁵ Calmfors, L. and J. Driffill (1988), *Bargaining Structure, Corporatism and Macroeconomic Performance*, Economic Policy, 6, pp. 14-61.

¹⁶ *Industrial Relations Reform and Labour Market Outcomes: A Comparison of Australia, New Zealand and the United Kingdom*, Mark Wooden and Judith Sloan, Reserve Bank Conference, 1998.

This issue was highlighted in Australia by the publication of the Australian Government's 2002 *Intergenerational Report* – see Chart 1-1.

The participation rate measures the share of Australians aged 15 and over in work or looking for work. It therefore adds together the employment-to-population ratio and the unemployment-to-population ratio.

The participation rate responds to both push and pull. Pull factors are those associated with the demand for workers. When times are good, employment is growing fast, and unemployment is falling, more people are encouraged to participate (and vice versa when times are bad).

Push factors are those associated with the supply of workers. Supply tends to respond to social trends (such as the move of women into the paid workforce in recent decades) and economic factors (eg. people wanting to “keep up with the Joneses” will often take on big mortgages and send Mum to work when mortgage rates rise and people also can respond to incentives such as changes to taxes and benefits). Indeed, there are notable differences in participation trends and drivers between males and females and for workers of different ages and skill levels. Those various factors have broadly offset each other for the past 15 years, leaving the participation rate stuck in a narrow groove of 63-64% across that period.

Participation has increased slightly in the past couple of years, pulled up by reasonable job growth and pushed up by the desire to service ever larger mortgages. Participation is expected to remain healthy over the next couple of years, partly thanks to still reasonable job growth. Beyond the next few years Australia's participation rate and employment-to-population ratio are on a slippery downward slope.

The next big social trend will be the retirement of the baby boomers which will become more noticeable as more and more baby boomers hit age 55. The average male retires from full-time work at 58.

The economic and fiscal pressures of an ageing population are best addressed by maintaining high productivity growth and encouraging a high employment-to-population ratio.¹⁷

But how can policymakers help to achieve that? There are two broad sets of policy responses to encouraging a high employment-to-population ratio:

- ❑ The first is to lower the ‘natural’ rate of unemployment.
- ❑ The second is to aim to lift (or at least maintain) workforce participation rates, partly by not artificially restricting the supply of more flexible jobs offered by employers.¹⁸

We will examine each factor in turn.

¹⁷ *The Fiscal and Economic Outlook*, address by Ken Henry, Secretary to the Treasury, to the Australian Business Economists, Sydney, 18 May 2004.

¹⁸ It could be argued that the ALP workplace platform may make some flexible jobs more attractive. However, there is already no lack of demand for jobs, there is a lack of supply of them. If the ALP workplace platform were to increase the demand for but reduce the supply of more flexible jobs, there would be an increase in unemployment.

1.2.1 UNEMPLOYMENT

The 'natural' rate of unemployment – the Non-Inflation Accelerating Rate of Unemployment (or NAIRU) – represents the rate of unemployment below which inflation will begin to pick up because wages will be bid up in an attempt to secure workers.

Theory suggests that there exists a rate of unemployment at which all the competing pressures on prices balance each other out, with the result that the inflation rate remains steady. That rate is a function of the structural imbalances in the economy. If governments 'pump prime' the economy so as to try to achieve a permanently lower rate of unemployment, the rate of inflation increases.

Analysis also suggests that the removal of rigidities in wage setting mechanisms may assist in lowering the natural rate of unemployment. Likewise, increases in such rigidities could raise the natural rate of unemployment. Work by Tulip¹⁹ in the US found lower regulated minimum wages allowed lower unemployment to be achieved before inflation accelerates. Examining wage growth from 1948 to the 1970s and from the 1970s to 1998, Tulip found that a 10% increase in the relative minimum wage raised the NAIRU by about ½ a percentage point (he also noted there was poor wage data in the 1960s which constrained some of the analysis).

The major thrust of Tulip's work was to note that the sustainable unemployment rate varies over time due to the impact of minimum wages (on inflationary speed limits to growth, and therefore on sustainable unemployment). As Tulip demonstrates (across many nations, not just the US), raising minimum wages relative to average wages has that impact.

As noted earlier, Australia has a high minimum wage at 61% of median full time earnings. The UK and US are lower, at around 42% and 36% respectively. At face value, the rules of thumb implied in Tulip's results therefore suggest that Australia's minimum wage adds about one percentage point to our average unemployment rate compared with those in the US or UK. Or, in other words, our existing minimum wage regulation adds around 100,000 Australians to the ranks of the unemployed.

Chart 1-1 above is based on Australia's unemployment rate easing from today's levels down to 5% – the implicit level of the NAIRU in the IGR. An unemployment rate sustainably below 5% has also been targeted by the ALP.

However, any worsening in the NAIRU in response to a lift in Australia's already high relative minimum wage would, by definition, worsen the already bleak future presented in the IGR results shown in Chart 1-1. That is, economic growth would be slower and budget deficits would be higher.

¹⁹ Tulip, P, *Do Minimum Wages Raise the NAIRU?*, US Federal Reserve Finance and Discussion Series, 2000-38.

1.2.2 WORKFORCE PARTICIPATION RATES

The standard policy responses for achieving higher participation rates include minimising the disincentives for workforce participation – which means keeping marginal tax rates and welfare abatement rates as low as possible. This applies particularly for workers with a weaker attachment to the workforce such as mothers and older workers.

But effective labour markets also have an important influence on workforce participation:

- ❑ When unemployment is low, people who would not otherwise actively seek jobs are encouraged into the labour market – the ‘encouraged worker’ effect.
- ❑ When labour markets are flexible, there is a greater supply of different kinds of jobs (casual, short-term, outsourced, and the like) and therefore the ability of people with marginal attachments to the workforce to find work is greater because the supply of flexible jobs is larger. This includes people who are attempting to balance work with family commitments, such as those caring for infants or ageing parents. It also includes people who are easing themselves into retirement.

Retirement need not be an ‘all or nothing’ decision, and when people have greater choices in negotiating workplace conditions with their employer they are more likely to achieve a preference for partial retirement. These are non-traditional ‘encouraged worker’ effects. They are particularly relevant where economies face an ageing population²⁰.

There is therefore a strong argument for assessing any proposed changes to the workplace relations framework for their effect on all types of ‘encouraged workers’.

1.3 PRODUCTIVITY

Productivity is perhaps the most important of the concepts underlying unit labour costs. It is the means by which workers achieve sustained growth in living standards over time.

To deliver improved standards of living over time, businesses need to continue to improve what they do – get more output, or higher quality output, for given inputs. Those who do not strive to improve soon find themselves out of business.

Striving to improve performance by becoming more efficient is the best protection for jobs in a given firm. Ongoing productivity enhancements are more likely when firms (and governments) are moving towards ‘best practice’ and a more cooperative working environment²¹.

Productivity growth is also far-and-away the best protection for jobs on a nationwide basis. Productivity gains in one firm raise real wages in that firm, lower input costs to the rest of the economy and raise demand for the output of the rest of the economy. That means the process of delivering efficiency gains to customers, as well as

²⁰ The link between mature age participation rates and labour market regulation was most recently recognised in the Australian Government’s *Budget Paper No. 1 2004-05* (Statement 4).

²¹ *OECD Growth Project* (Chapter 4), OECD 2001.

'protecting' jobs in the relevant business, frees up consumers and businesses to spend more in total, lifting living standards.

Higher rates of productivity growth are shared between corporates and their investor owners (higher profits), workers (higher wages) and consumers (lower prices). Individual Australians are represented in all three categories: often at the same time (for example workers are also consumers who also share in company profits via their superannuation fund earnings).

Higher rates of productivity growth also deliver higher levels of Government taxation revenues. In Australia, most social welfare payments have a link to productivity growth – with productivity growth lifting average weekly earnings (AWE), higher productivity also lifts the level of the age pension because of Government commitments to maintain the aged pension at 25% of AWE.

What drives productivity growth? Some theoretical developments in this area are relatively recent, including the development of 'endogenous growth' economic models. The policy prescriptions from the theory relevant to the labour market include the importance of decentralised labour market negotiations, flexibility in workplace arrangements, minimal use of legislated wage levels and minimal use of externally determined restrictions on workplace arrangements.

Is the whole larger than the sum of the parts? Productivity improvements resulting from labour market reforms can interact with reforms in other markets, with the result that the benefits achieved from the interaction of those reforms can become greater than what the sum of their parts might otherwise suggest. Or, in other words, there are additional benefits available through greater productivity growth when reform is pursued on a broad front.

And, by implication, the potential losses to productivity growth are larger than may otherwise be apparent if reform is slowed or reversed.

2. RECENT AUSTRALIAN LABOUR MARKET PERFORMANCE

Over the past decade and more the regulation of Australia's labour market has become less centralised and more flexible. Beginning with the still-centralised Accord in the 1980s (which boosted employment by cutting real wages) to the move to greater flexibility and decentralisation in the 1990s (which has notably increased productivity gains), the performance of the Australian labour market in recent times has been outstanding.

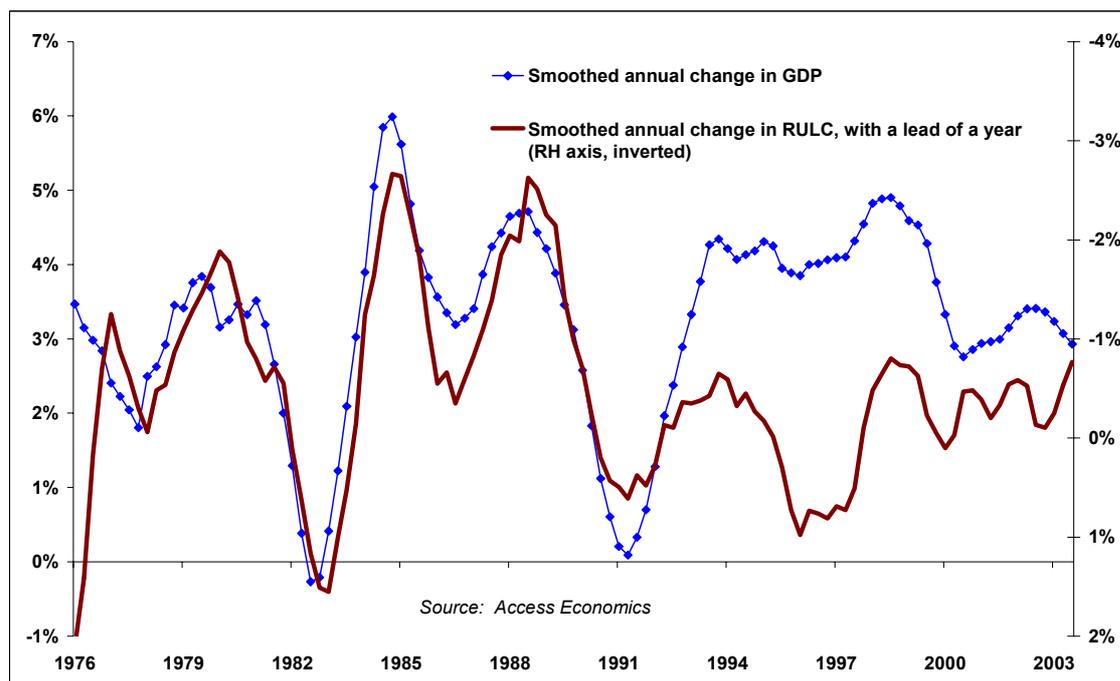
Our assessment tracks the labour market performance indicators laid out in Section 2, starting with unit labour costs.

2.1 UNIT LABOUR COSTS

Chart 2-1 below shows the link between real unit labour costs (RULC) and real economic growth (GDP) in recent decades.

The chart matches changes in RULC against changes in economic growth a year later. It shows a close **inverse** link – that higher labour cost growth today leads to lower economic growth a year later.

CHART 2-1: HIGHER UNIT LABOUR COSTS = LOWER ECONOMIC GROWTH



The axes in the chart imply the relationship is more than one-for-one. A one percentage point shift in RULC leads to a 1.25 percentage point change in economic growth (and, by implication, employment) – that is, a rise in RULC results in a proportionally large deterioration in economic growth.

The moderation in real unit labour costs in the 1990s coincided with the greater emphasis on enterprise bargaining.

Note that economic growth outperformed this basic relationship in much of the 1990s (while still responding to the cycles in labour costs). Why did a gap between RULC and GDP growth in the 1990s? Because real unit labour costs drive economic growth via a price effect. The outperformance of Australian economic growth through the 1990s (over and above an RULC effect) was aided by some other price effects (rising terms of trade, an undervalued \$A and falling long term interest rates) and some key quantity effects (the impact of micro reforms, plus excellent global growth, particularly among our major trading partners).

Note too that cycles in the economy have been less volatile over the last 15 years.

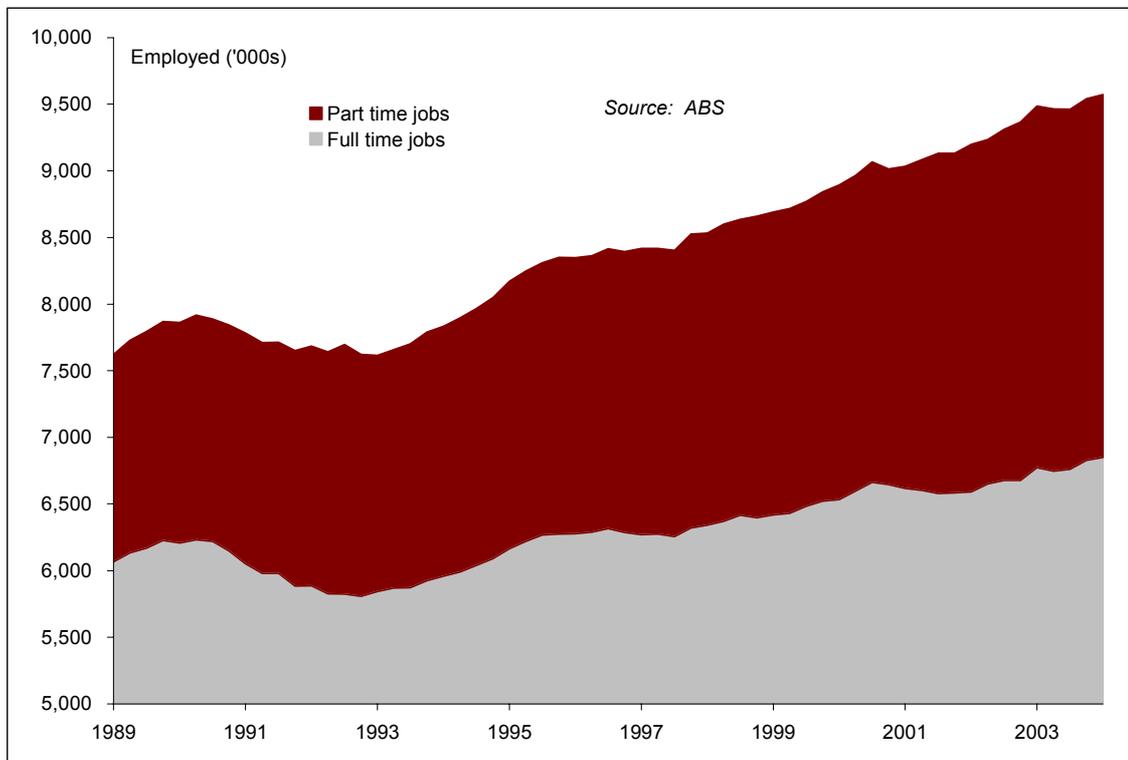
2.2 JOB GAINS

From the job trough in March 1993 (evident in Chart 2-2) to March 2004, nearly 2 million jobs have been created, of which 1.2 million were part-time and 0.8 million were full-time.

This compares with the 1980s' job recovery (from June 1983 to June 1990) associated with the Accord, which saw 1.65 million jobs created.

The earlier job recovery saw faster job growth at an annual rate, as the real wage overhang that had developed in the late 1970s was wound back through the 1980s. However, the current job recovery episode has proved to be more sustainable – at 11 years (and rising) versus 7 years under the Accord.

CHART 2-2: JOB GROWTH

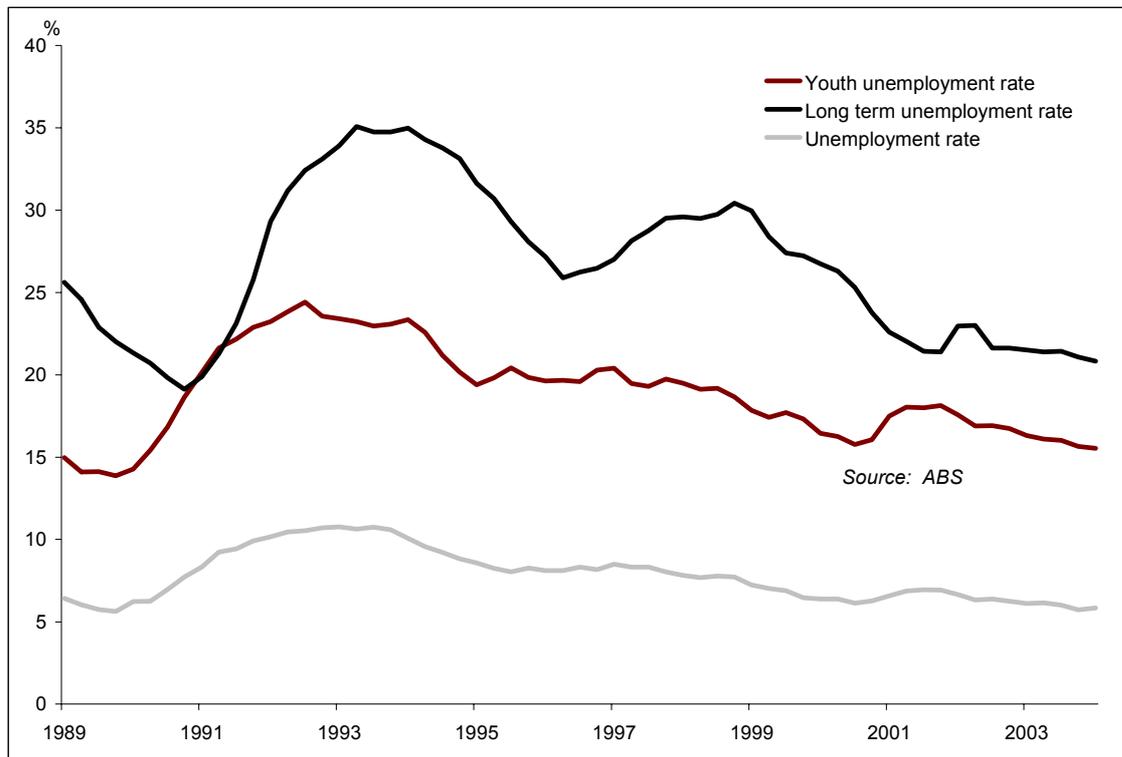


2.3 UNEMPLOYMENT

The unemployment rate is now below 6%, and is very near the lows briefly achieved in the early 1980s and late 1980s:

- ❑ Youth unemployment rates (those aged 15 to 19 years) have tracked downwards from levels in the early 1990s, although more progress is possible.
- ❑ Long term unemployment (measured as the ratio of those who have been unemployed for a year or more to the total) now stands at a little over 20%, a major improvement over the early 1990s.

CHART 2-3: UNEMPLOYMENT RATES



2.4 WORKFORCE PARTICIPATION

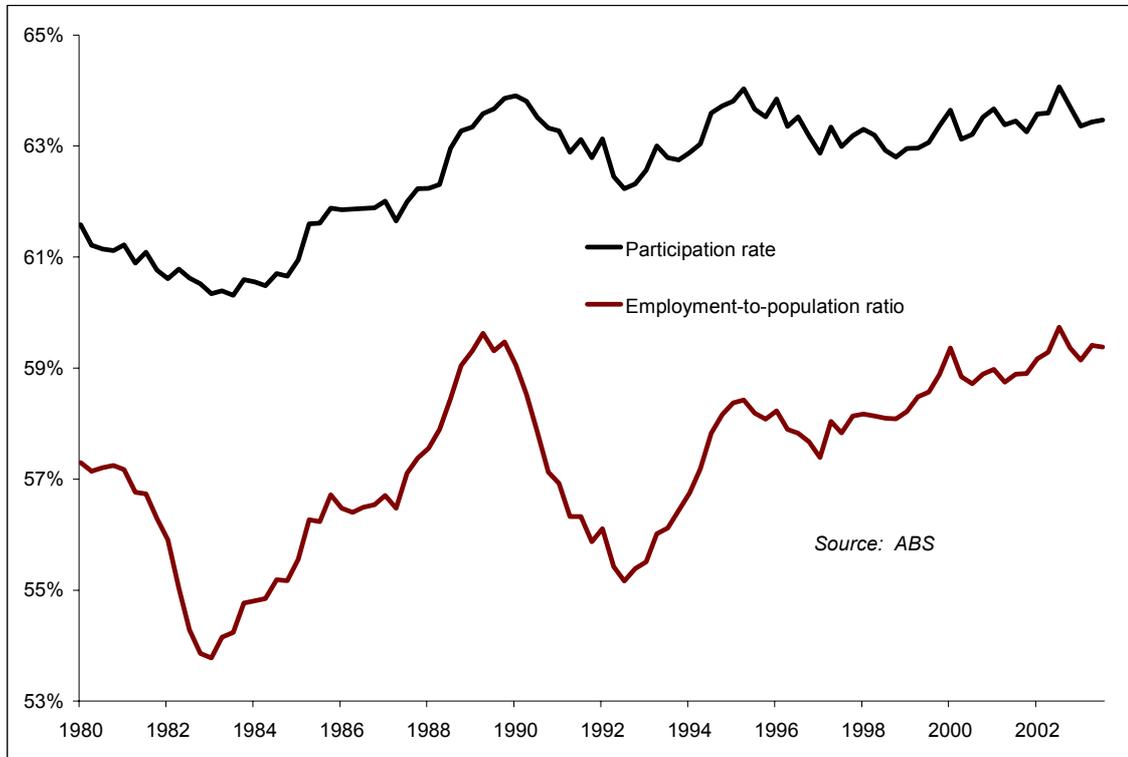
There has been a gradual trend up in participation rates since 1999, reinforcing a longer run lift seen in earlier decades – see Chart 2-4. An important factor behind this lift is lower unemployment, which has encouraged people to enter the workforce.

In addition, the greater supply of employment options from more flexible workplaces has also encouraged into the workforce those who are interested in casual and part-time employment because of family and other responsibilities. Other workers are benefiting from greater workplace flexibility by being able to move to retirement over time, rather than in one go.

The combination of rising participation rates and falling unemployment rates has seen the employment-to-(adult) population ratio rise to nearly 60%.

By contrast, in the 1980s the employment-to-population ratio briefly peaked at 60% and averaged only around 56% – see Chart 2-4.

CHART 2-4: WORKFORCE PARTICIPATION RATE & EMPLOYMENT-TO-POPULATION RATE



2.5 REAL WAGES

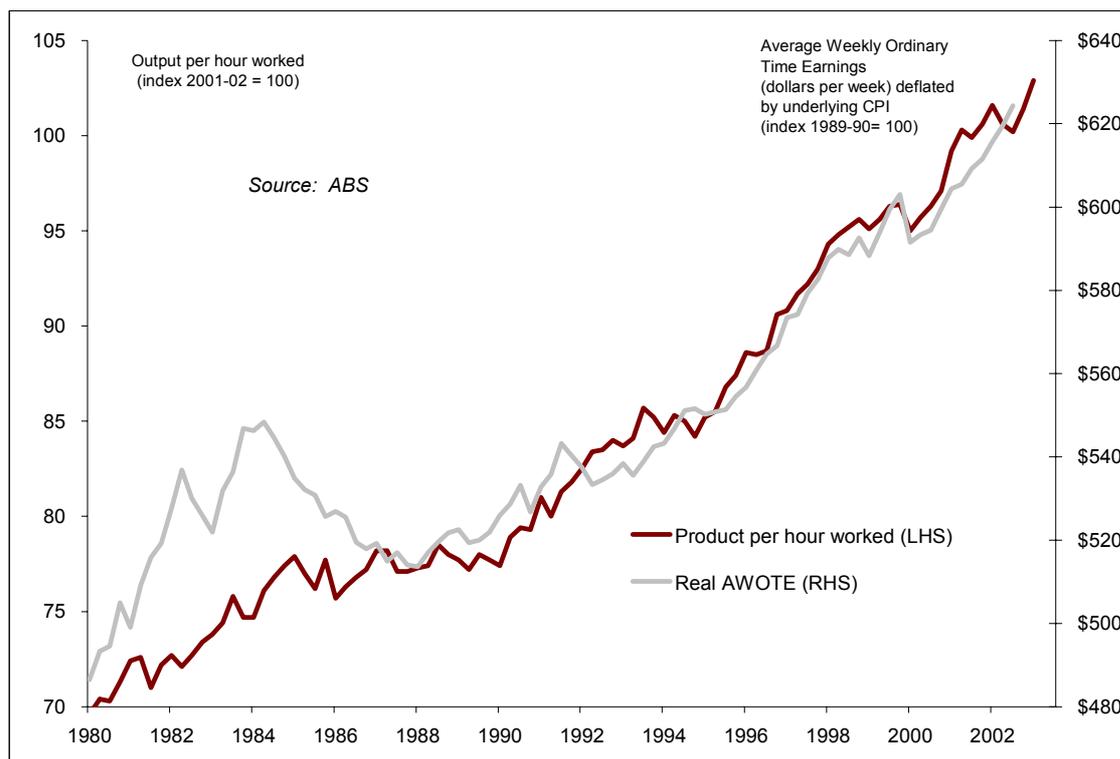
The light line in Chart 2-5 shows the effects of the necessary wage moderation under the Accord in the mid to late 1980s. This wage moderation helped to eliminate the 'real wage overhang' that had developed in the late 1970s, as real wages moved ahead of productivity, forcing up real unit labour costs.

Over the last 15 years, real wage growth has sustainably lifted because productivity growth has lifted.

The dark line in Chart 2-5 shows how real wage growth over the last 15 years has been underpinned by strong productivity growth, particularly in the latter half of the 1990s. Because the real wage growth was broadly matched by productivity gains, real unit labour costs did not rise (indeed they fell).

That is why the strong growth in real wages did not threaten jobs.

CHART 2-5: REAL WAGES



2.6 PRODUCTIVITY

Long term trends in Australian labour productivity growth are shown in Chart 2-6. The Productivity Commission attributed the productivity surge of the past decade to:

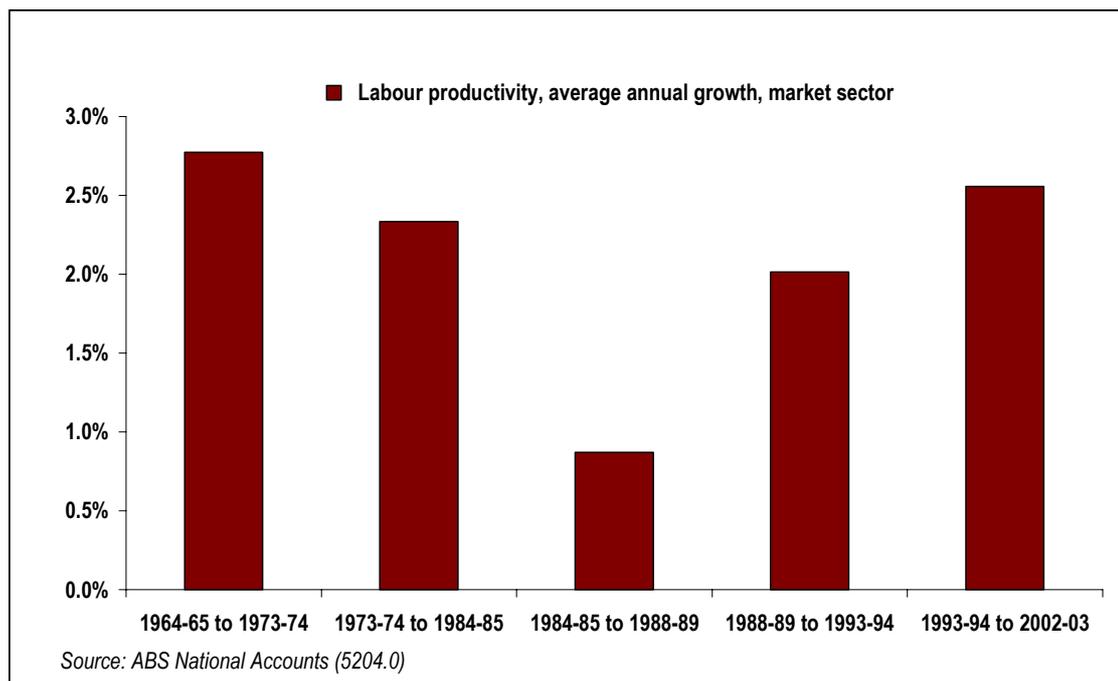
“ ... microeconomic policy reforms have played a central role in Australia’s recent productivity surge. These reforms, with their focus on openness to foreign trade and investment and enhanced domestic competition, have been the drivers and enablers of Australia’s recent productivity growth.”²²

Each of the reforms in the labour market, in product markets and financial markets builds on the new opportunities made available by the other reforms, so it is difficult to disentangle the relative contributions of particular reforms to Australia’s improved productivity performance over the past decade.

For example, lowering tariffs provides benefits to consumers and business in the form of lower prices, but the benefits are enhanced if workplace practices on the wharves are flexible, which can lower import costs further via a lower transport margin, but also lower costs for exporters and enable them to more effectively compete.

²² Productivity Commission, 2002-03 Annual Report, p.6.

CHART 2-6: LABOUR PRODUCTIVITY AVERAGE ANNUAL GROWTH, MARKET SECTOR



Deregulation of access to finance delivers benefits by giving business more options in financing new investments or innovations. These benefits are further enhanced if competition policy allows barriers to entry in some industries to be reduced – the former enabling more competition, and the latter allowing it. Competition in product markets encourages firms to establish best practise workplace conditions with their employees.

The OECD and IMF have also identified the advent of new technology as one of the keys to productivity gains. These gains will be greater to the extent employees also have the appropriate skills to apply the new technology, which in turn is more likely to occur if employees are rewarded for having the relevant skills and being able to apply them effectively and contribute to output.

Productivity growth in Australia improved through the late 1980s and early 1990s at the same time as greater elements of decentralisation entered wage setting. Productivity growth was stronger still from 1993-94 onwards as enterprise bargaining was embraced, followed by further deregulation and the introduction of AWAs.

At the sectoral and firm level there is clear evidence that more flexible workplace relations management has been paying off in improved productivity. Parham notes:

“There is a range of evidence that flexibility in labour markets has allowed work and organisational arrangements to be restructured and labour to be reallocated; and has facilitated the productive use of technology. Fry, Jarvis and Loundes (2002) found that organisations that have embraced industrial relations reforms had significantly higher self-assessed [labour

productivity] compared with their counterparts, after controlling for other influences.”²³

This is supported by industry evidence that more flexible working arrangements are associated with greater productivity. Chart 2-7 shows that those industries which have embraced the more flexible methods of setting wages available in the Federal jurisdiction have also tended to experience stronger productivity performance over recent years.

CHART 2-7: PRODUCTIVITY GROWTH VS FLEXIBILITY OF CONTRACTS

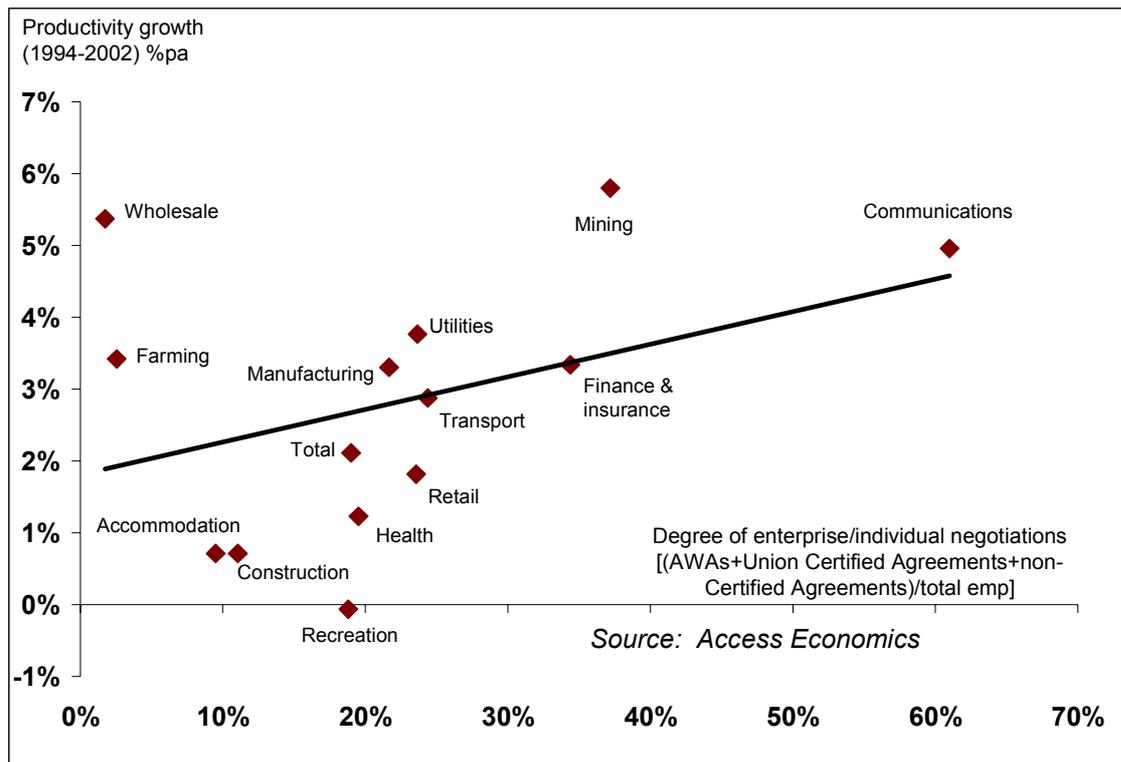


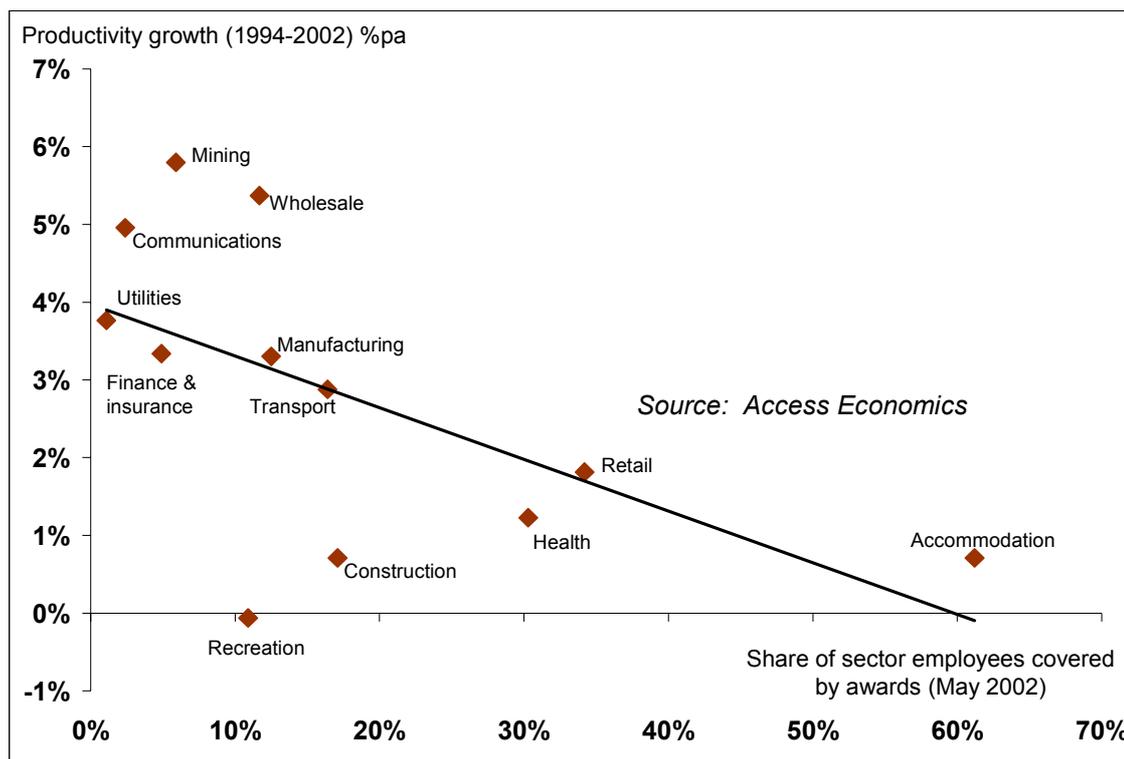
Chart 2-8 plots the share of employees in each industry covered only by awards (including both Federal and State jurisdictions) against productivity growth in each industry. Those sectors with the highest award coverage – and the least wage setting flexibility – were associated with lower productivity growth.

These charts indicate a link between the degree of take-up of decentralised labour relations agreements and the rate of sector-by-sector productivity growth – the greater the decentralisation, the greater the productivity growth.

Similar conclusions have been reached by the Commonwealth Treasury in their submissions to the latest Safety Net wage increase.

²³ Parham, D, *Sources of Australia’s Productivity Revival*, Productivity Commission, December 2003.

CHART 2-8: PRODUCTIVITY GROWTH VS RELIANCE ON AWARDS ONLY



These charts point to a simple but compelling relationship: **the greater the decentralisation, the greater the productivity growth.**

Both Chart 2-7 and Chart 2-8 track the relationship between labour market ‘flexibility’ and productivity growth. The R^2 s are 0.34 in the first of the following charts, and 0.14 in the second.²⁴ Were these relationships to be expressed in level form, the average percentage errors in predicting the productivity across industries in 2002, based on these proxies for labour market flexibility, are 8.1% and 10.0%, respectively.

The AIRC *Safety Net Wage Decision* of 5 May 2004 noted Commonwealth Government submissions that examined the link between award coverage and productivity growth. The AIRC summarised the Commonwealth’s case (at page 53):

“The Commonwealth conducted a series of regression analyses to test the relationship between productivity performance and award coverage. Its analysis of seven industries concluded that:

- *nearly 60 per cent of the difference in the average annual rate of productivity growth between 1990–2003, between the seven industries modelled, is explained by the change in award coverage;*
- *different industries have different capacities for productivity growth. Both capital deepening and an industry’s intrinsic capacity for productivity growth influence productivity outcomes;*

²⁴ R^2 is the proportion of the variation in the left hand side variable explained by the model (the right hand side explainers). In Chart 2-8, the explained variable is sectoral productivity growth and the explanatory variable is the share of award only coverage by sector.

- *industries with high levels of award-reliance had lower productivity growth rates regardless of whether they can be considered intrinsically high or low productivity industries; and*
- *a reduction in award-reliance is associated with an increase in productivity. A 10 percentage point reduction in award-reliance in an industry between 1990 and 2002 was associated with an increase in the average annual productivity growth of 0.5 percentage points.*

The Commonwealth undertook a second regression analysis whereby it included service industries and disaggregated the retail and wholesale industry such that eleven industries were analysed.

The analysis showed that:

- *the level of award-reliance in 2002 was highly significant in explaining the differences in industries' productivity growth, even after taking into account the effects of capital deepening and the intrinsic capacity for productivity growth as measured by average levels of productivity; and*
- *a 10 percentage point reduction in award-reliance in 2002 in an industry was associated with a 0.6 percentage point rise in that industry's average annual productivity growth between 1990 and 2003."*

Analysis by Access Economics indicates similar estimates to that provided by the Treasury to the AIRC.

In making its decision, the AIRC did not agree with Federal Treasury's conclusions – largely on the technical grounds that there was not enough data history to provide sufficiently robust econometric estimates.

That argument could (and should) apply to its mirror argument: that labour market interventions (such as lifting safety net wages) should wait until there is enough data history to validate the supposed benefits advocated by their proponents.

There have been a range of industry experiences in taking advantage of the new flexibility in labour markets. This is illustrated by the experience of the Australian wholesaling industry — see Box. (Businesses involved in wholesale trade include wholesale merchants, (non-retail) sales branches operated by manufacturing enterprises, commission agents, import and export agents, petroleum product distributors; and cooperatives and marketing boards engaged in marketing farm products.)

Wholesaling experience with more flexible labour markets

Wholesaling has been a particularly strongly performing productivity sector.²⁵ It is illustrative of the dynamic benefits of multiple reforms. The Productivity Commission concluded that wholesaling underwent a fundamental transformation in the nature of its operations through the widespread adoption of new technology including bar-coding and scanning – initially at the grocery store level and then extended right back through the supply chain.

Combined with the use of computers, this innovation led to paperless ordering systems, reduced inventory levels and allowed rapid responses to shifting market requirements. Importantly this transformation was enabled by flexible workplace relations arrangements which had reduced demarcation lines and allowed split shifts.

2.7 INDUSTRIAL DISPUTES

A move back towards a more centralised model in setting wages may risk a higher level of industrial disputes.

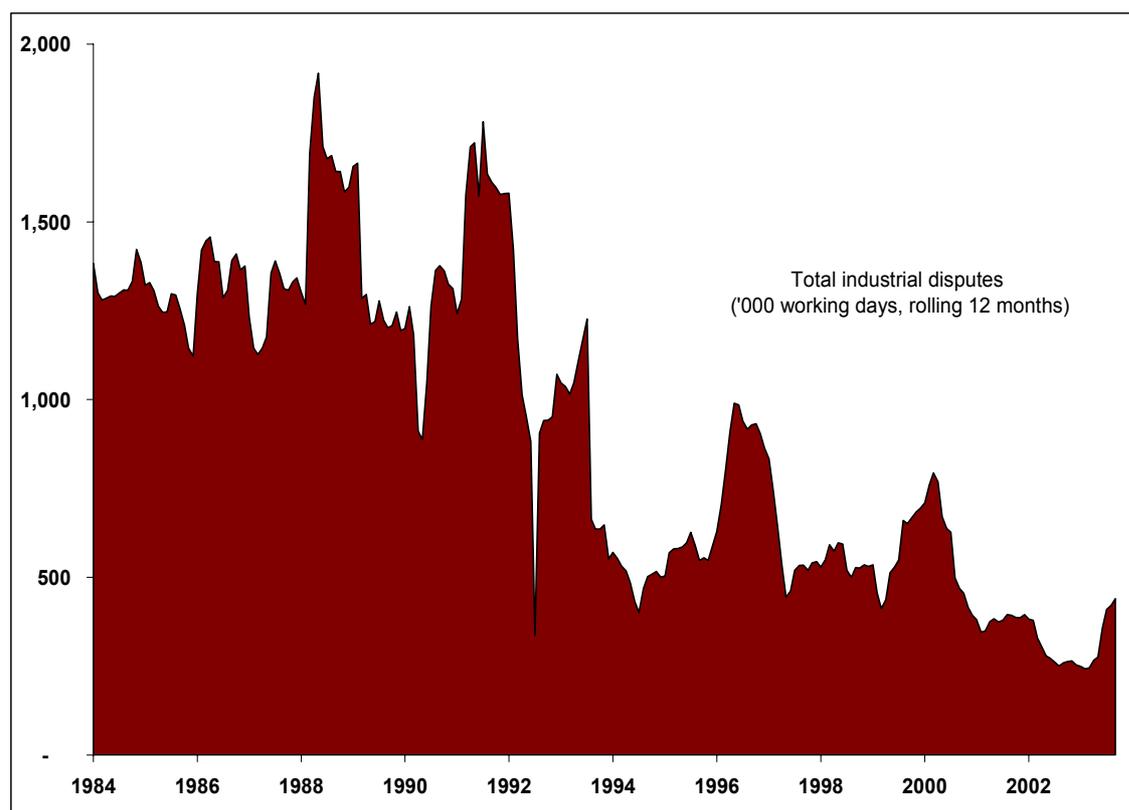
Chart 2-9 shows that the level of industrial disputes dropped notably from around 1993 onwards, at around the same time that enterprise bargaining was introduced. It has since trended lower over the 1990s and 2000s as wage setting behaviour has become more devolved and because union membership has fallen.

Union membership is strong in the public sector and in more ‘old economy’ industries. In the private sector and where job growth is particularly strong – among women, part-timers and casuals – union density is very low. In Australia, falling union density has occurred alongside a falling level of disputes.

In turn, a lower level of industrial disputes provides a direct boost to productivity and overall economic performance.

²⁵ That is more obvious in Chart 2-8 than in Chart 2-7, as it seems that many wholesale sector agreements are State-based, and so do not show up in Chart 2-7. Refer to Appendix B. Were collective or individual State-based agreements to be included in Chart 2-7 then the connection between use of agreements on the one hand and productivity growth in the other would be clearer for the wholesale sector in that chart.

CHART 2-9: INDUSTRIAL DISPUTES



The current workplace relations system involves a lot more decisions over wages and working conditions, but those decisions individually cover fewer employees (often just one). As a result, there are potentially fewer people in aggregate concerned over any individual decision, so any individual decision is less likely to lead to a major dispute.

2.8 CONCLUSION

It is clear that the pace of growth in Australian living standards picked up over the past decade.

Observers such as the IMF and the OECD attribute that lift in living standards to the reforms in the Australian economy over the past two decades – and the labour market reforms of the past decade in particular.

Why has enterprise bargaining raised Australian living standards? Because it has raised productivity growth.

The benefits of enterprise bargaining arise via allowing firms to adopt productivity enhancing practices (thereby moving towards best practice), and by promoting a more cooperative working environment where performance and reward are more closely linked (thereby resulting in ongoing productivity enhancements).

The following table (from the latest IMF *World Economic Outlook*, at page 118) shows just how sharp the turnaround has been. The pace of growth in Australian living standards (as measured on a purchasing power parity – PPP – basis) was in the top 10 among the OECD through to the mid-1970s. It faltered badly thereafter. By 1990 our ranking had dropped to 15th – pointing to a relative slide in our living standards. However, Australia has recovered ground strongly since – and is once more back in the top 10.

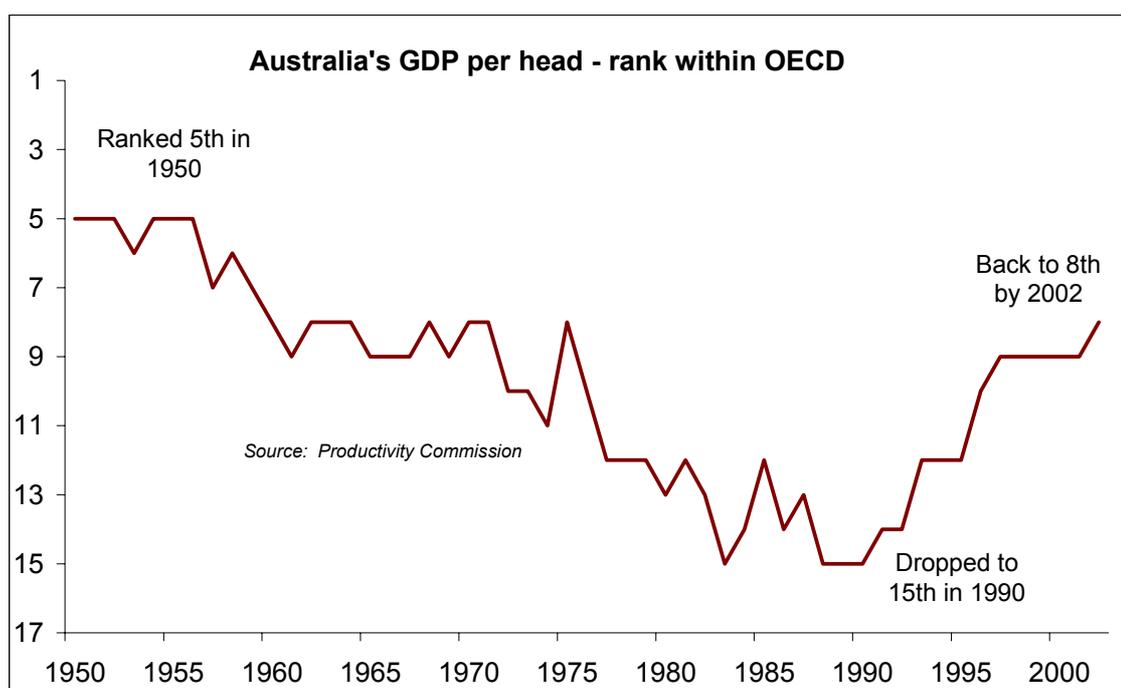
TABLE 2-1: REFORM HAS SEEN GROWTH IN AUSTRALIAN LIVING STANDARDS REBOUND

	Average annual growth in GDP per head (PPP basis)				Average ranking among OECD countries (in levels)						
	1973-2002	1973-1983	1984-1992	1993-2002	1965	1970	1975	1985	1990	1995	2002
Australia	1.9	1.1	1.9	2.7	7	6	7	11	15	11	8
Canada	1.9	2	1.4	2.4	2	2	2	2	2	4	3
New Zealand	1.5	1.1	0.8	2.6	6	9	12	16	17	18	18
Finland	2.3	2.6	1.1	3	15	15	13	14	12	16	13
Ireland	4.4	2.5	3.9	7	19	20	20	19	18	17	2
Industrial country average	2.3	2.2	2.4	2.4							

Source: IMF *World Economic Outlook*, April 2004, page 118.

Much the same point was also recently made by the Productivity Commission, when it noted that reforms had helped to move Australia back up the OECD rankings of GDP per head as the chart below shows.

CHART 2-10: REFORM = GROWTH IN LIVING STANDARDS



The OECD concluded in a review of the strong performance of the Australian economy that:²⁶

“Possibly the most important general process, which had an impact on industries from the late 1980s onwards, is the transformation of the structures and procedures underpinning industrial relations arrangements in Australia”.

The evidence of this improvement is in the recent performance of real unit labour costs, job growth, unemployment rates, workforce participation rates, real wage growth, productivity growth and the level of industrial disputes.

While there is scope for further reforms to the Australian workplace relations system – preferably consistent with the successful direction taken by the reforms of the last 15 years – changes to the system in the *opposite* direction need to be carefully justified.

Proposals for ‘fixing’ the current system need to make the case that the system is actually ‘broken’. Indeed, as the OECD said in its 2003 survey:²⁷

“The resilience of the economy to shocks has been improved by reforms which have made the labour market more adaptable to rapid changes in the economic environment and has permitted the economy to work closer to potential over time as a result. The ongoing reforms of the industrial relations system since the mid-1980s stand out in this respect as they have introduced a large measure of regulatory flexibility, especially by facilitating and encouraging the setting of wages and employment conditions at the enterprise level ...

Despite this long programme of reform, a number of problems remain. ... effective decentralization may be inhibited by the growing practice of “pattern bargaining” ... And even though simplified awards impose far fewer constraints on the operation of enterprises than before, the rather extensive coverage of the twenty so-called “allowable matters” still implies a substantial degree of complexity compared with other countries. Hence, the number of employment conditions determined by awards should be reduced further and their specifications tightened to a less comprehensive set of core employment conditions.”

²⁶ OECD Economic Surveys Australia, August 2001, p90.

²⁷ OECD Economic Surveys Australia, August 2003, p10-11.

3. THE ALP WORKPLACE RELATIONS POLICY PROPOSALS

Might the changes proposed by the ALP significantly alter the improved working attitudes and culture developed over the past decade thereby unwinding the conditions which fostered the additional productivity growth seen in the past decade? Might the ALP platform, if implemented, have an impact on wages and on-costs?

This chapter notes the ALP policies. (Full details are at Appendix A.) The next chapter considers in more detail their potential impact on Australian jobs and Australian living standards.

Our primary source material is the published Federal Parliamentary ALP (FPALP) platform, particularly *Chapter 3: Income, Job and Social Security*.²⁸ This was supplemented where possible by more detailed policy statements from shadow Ministers. We have placed a premium on explanatory material publicly provided by the ALP and also considered the changes that have been implemented in various States to provide guidance on what some of the published ALP workplace relations platform may mean in practice.²⁹

It needs to be recognised that these commitments may or may not be implemented by a future FPALP. There is typically a gap between platform promises and implemented policies on both sides of politics. The practicalities of developing and implementing policies once parties are in Government may lead to some differences between policies as announced and as implemented.³⁰

The ALP policy platform outlines a number of goals including:

1. achieving the maximum sustainable rate of economic growth;
2. a workforce with high wage, high skill jobs;
3. an unemployment rate below 5% on a sustained basis; and
4. a commitment to justice, fairness and equity for all.

These are goals that should be welcomed by all Australians.

The question is therefore not so much whether these goals are worthwhile but how to achieve them.

²⁸ National Platform and Constitution, 2004.

²⁹ Relevant websites include:
http://www.alp.org.au/download.html?filename=federal/platform/platform_2004.pdf
<http://www.craigemersonmp.com/>
<http://www.alp.org.au/>

³⁰ Equally however, were the ALP to win the Federal election, that would see all Australian Governments formed by the ALP. It is possible that this greater capacity to achieve regulatory change in workplace relations policy could see the platform implemented comprehensively. The ALP platform proposes that "compatibility of Commonwealth and State industrial relations systems should be sought".

Will the policies and processes outlined in the ALP policy platform deliver these goals, especially over the longer term or could they be better achieved using other policies? The same questions apply to some of the ALP's more specific objectives such as increasing the options available for people to better balance work and family and supporting the workforce participation of mature-aged individuals.

In order to achieve and maintain strong growth, low unemployment, high incomes and a fairer Australia, all policies, especially workplace relations policies, must work together to support productivity, workforce participation and employment. By definition, Australian income per head is bounded by these three variables as they determine the number of Australians working and the efficiency with which they work.

These are the variables against which ALP policies need to be assessed.

Economic issues usually pose two key questions – how large is the pie (efficiency), and how large is my slice (equity or fairness).

Of the goals of ALP policy noted above, the first three are essentially issues of efficiency and the last is one of fairness.

Workplace relations policies often focus on improving fairness. **But economists recommend that workplace relations (and other micro) policies target efficiency and that Budget policies should address fairness.**³¹ Indeed, the more efficient the economy, the larger the economic 'pie' and therefore the larger are tax collections, which in turn give governments a greater ability to achieve fairness through the Budget.

The preference for using the Budget to achieve fairness is because:

- ❑ The Budget's tax/transfer system allows for the transparent monitoring and analysis of fairness – both vertical equity³² and horizontal equity.³³
- ❑ Trying to use workplace relations policies to achieve greater fairness often has efficiency costs – for example 'fairer outcomes for the employed' may well come at the expense of 'unfair outcomes for the unemployed'.

Despite that, the ALP's workplace relations platform often refers to the aim of a 'fairer' industrial relations system. Moreover, these references focus on labour market processes, and only occasionally to labour market outcomes.

The key issues are:

- ❑ The target of policy; and
- ❑ The instrument used to reach that target.

Access Economics believes that, if a key target of ALP policy is to improve fairness, then:

³¹ For example *Implementing the OECD Jobs Strategy*, OECD 2000 and *Budget Paper No. 1, 2004-05* (Statement 4) Australian Government

³² People in unequal circumstances are treated unequally, for example by using the Budget tax/transfer system to narrow the gap between the better off and the worse off.

³³ People in equal circumstances are treated equally.

- ❑ Fairness implies a target of outcomes, not processes; and
- ❑ The target of fairness would be better achieved through the instrument of the Budget than through workplace relations policies.

This is because the costs of the tax/transfer system are likely to be lower than the costs associated with focussing on 'fairer' labour market *processes* rather than efficient labour market *outcomes*. The ALP platform threatens to weaken the link between workplace innovation and economic rewards.

Reliance on the tax/transfer system for achieving given equity outcomes does not carry quite the same risks for productivity growth as do more regulated labour market processes. Effective labour market processes are at the heart of the inner workings of the economy and the realisation of the economy's productive potential.

Indeed, economists are firmly of the view that efficiency is maximised with appropriate micro (and to a lesser extent, macro) policies including a flexible labour market³⁴ whilst the current Australian workplace relations system is working well, the IMF and others have suggested improvements to Australia's labour market flexibility that would further benefit Australian living standards.

These suggestions for reform, if implemented, would appear to take the current system in the opposite direction to that proposed by the ALP workplace relations platform:

- ❑ Greater flexibility in workplace arrangements allows for a greater supply of flexible jobs from employers (where there may be no job otherwise available). That is vital, as the demand for such jobs is growing, as Australians attempt to gain a better balance of family, education and other commitments. This flexibility is also important for those easing themselves into retirement or caring for ageing parents.
- ❑ Greater workplace flexibility, not less, will be required to maximise workforce participation in the face of the Budget pressures arising from an ageing population.
- ❑ The rising globalisation of the Australian economy will require that industries trading in more volatile overseas markets have greater workplace flexibility, not less.
- ❑ Australia's position in a more globalised economy will become more reliant on facilitating workplaces increasingly geared for 'knowledge workers'. Knowledge workers generally require more tailored workplace conditions. Current arrangements have allowed many of those workers to experience the advantages of workplace flexibility. Rather than turning back to more centralised modes, knowledge workers are more likely to be pushing the boundaries of flexible workplace arrangements.

Access Economics has made assumptions about what the ALP commitments may mean in practice.³⁵ Appendix A lays out:

- ❑ the detail of the ALP policies considered here;

³⁴ This is a consistent theme of OECD and IMF surveys of the Australian economy – see OECD 2001, OECD 2003, IMF *World Economic Outlook*, April 2004.

³⁵ This report discusses expected impacts from implementing the ALP platform, but does not model those impacts. That means that our specific assumptions at Appendix A (putting practical flesh on the ALP platform bones) are less vital than if they were used in modelling.

- ❑ our assessment of them; and
- ❑ resultant assumptions.

It is important to note that Access Economics has approached this task from an economic perspective, not an industrial law perspective. As noted, that means that we have considered the potential impact of ALP policies on four key economic aggregates: wages, on-costs, productivity (where those three make up the components of unit labour costs) and participation.

In brief, the key aspects of the ALP workplace relations policy platform and their potential broad impacts are summarised below. A more detailed discussion of the potential impacts is dealt with in Section 4.

3.1 SUMMARY OF ALP WORKPLACE RELATIONS POLICY PLATFORM

3.1.1 AN INCREASED ROLE FOR THIRD PARTIES

- ❑ Enhanced AIRC legislation and powers
- ❑ The extension of application of the ‘no disadvantage’ test to a broader range of workplace agreements
- ❑ A reduction in the capacity to exercise managerial prerogative about business directions and operations
- ❑ Greater negotiating powers for unions

Potential Impact

- ❑ Reduced role for those with the most information relevant to determination of wages and conditions – that is, employees at the workplace and employers.
- ❑ Increased likelihood of intervention and arbitration across a broader range of issues in the context of groups outside an agreement. Provides scope for AIRC involvement in determining terms and conditions beyond minimum standards. May mean higher wages (or less accurate matching of wages with productivity), on-costs and bargaining costs, lower productivity gains and less certainty for employers.
- ❑ Weakened link between workplace performance and productivity and wages and conditions. Undermines the relationship between performance and terms and conditions of employment by relinquishing accountability for bargaining outcomes to a third party – outcomes become “someone else’s” responsibility.
- ❑ Greater business risks associated with reduced managerial prerogative and disallowance of lock-outs.

Likely Outcomes

- ❑ Lower productivity growth
- ❑ Upward pressure on wage and on-costs relative to productivity
- ❑ Disincentives to create new jobs due to higher unit labour costs and to increased uncertainty and bargaining costs

3.1.2 EXPANDING THE CONTENT AND ROLE OF AWARDS

- ❑ Greater emphasis on award system, pattern bargaining and industry-based arrangements
- ❑ Extension of the matters to be covered in awards to include:
 - Part time work for returning parents
 - Unfair dismissal protection
 - Part-time workers pro rata portable entitlements & promotion protection
 - Upgraded long service leave
 - Fourteen weeks paid maternity leave
 - Discouragement of casualisation
 - Incentives for greater use of career breaks, shorter working hours
 - Employer training levy
- ❑ Review of pay structure for younger workers

Potential Impact

- ❑ Reduces the nexus between direct employer/employee negotiations and productivity (and more specifically the productivity opportunities and requirements at individual workplaces/enterprises).
- ❑ Risk of resultant loss in the flexibility of workplace arrangements leading to increased industrial disputation.
- ❑ Pressure for higher wages associated with the increased role of AIRC and broadening of the objectives of the Workplace Relations Act.
- ❑ Potentially reduces the scope and incentive for employers to support more flexible working arrangements, especially if these are likely to become enshrined in awards and apply more broadly where they may be less appropriate or applicable.
- ❑ Reduced staffing flexibility leading to reduced business performance, reduced labour demand, and disincentive to create new jobs, as well as increased incentives to rely on contractors, labour hire companies.
- ❑ Increased likelihood of arbitration to determine 'reasonableness' of claims, associated with increased bargaining costs and uncertainty.
- ❑ Portability of entitlements raises on-costs, and so could act as a disincentive to hire workers with more experience and work against effort to provide opportunities for ongoing participation for mature aged individuals.
- ❑ Similarly, any narrowing of the pay rate gap between less experienced and more experienced workers would see reduced job opportunities for younger workers.
- ❑ Possible reduction in number and availability of apprenticeships and traineeships

Likely Outcomes

- ❑ Lower productivity growth
- ❑ Upward pressure on wages
- ❑ Disincentives to create new jobs as a result of higher unit labour costs, increased uncertainty and bargaining costs
- ❑ Higher youth wages and unemployment

3.1.3 REDUCED EMPLOYMENT CONTRACT FLEXIBILITY

- ❑ Abolish AWAs.
- ❑ Extend industrial rights, entitlements and protections to contractors
- ❑ Abolish individual contracts in the Australian Public Service for levels below the SES.

Potential Impact

- ❑ Reduced capacity to be flexible and to link wages and conditions to the higher productivity associated with innovative and strategic business objectives.
- ❑ Increased administrative and negotiation-costs associated with negotiating common law contracts.
- ❑ Reduced choice and opportunity for individual entrepreneurs. Likelihood of reduced business formation.

Likely Outcome

- ❑ Lower productivity growth
- ❑ Less accurate matching of wages and productivity at the enterprise level

PRACTICALITIES/LEGALITIES OF COMMON LAW CONTRACTS versus AWAs

A common law contract does not provide equivalent protections to an industrial instrument because a common law contract:

1. still leaves a company exposed to the potential for protected industrial action, whereas an AWA prohibits any form of industrial action during its life
2. cannot override particular provisions within an award, even though its provisions could satisfy the 'no disadvantage' test, meaning that a Company could find itself in breach of an award
3. is more difficult to enforce.

There is also the issue of timeliness. Because of the inherent flexibility within AWAs, employers have been able to respond far more rapidly to changing commercial circumstances and swiftly ramp up production, etc than ever would have been possible through the collective model which frequently requires lengthy consultation periods.

Employers have been able to make essential changes to work practices to reflect business needs in a fraction of the time that would have been spent in trying to gain acceptance of the desired changes under their former award or collective agreement instruments.

BCA members have reviewed options to replace the AWA and note that:

1. AWAs have played a key role where applicable legislation (such as State Awards) or third party agendas have frustrated the establishment of working relationships focused on the needs of the enterprise and its employees.

2. If AWAs are phased out, outdated and prescriptive statutory instruments, which do not allow assessment on a "total package basis", may cause elements of common law contracts to be inconsistent with specific line items in the underlying Award or Agreement. Common law contracts will not, under these circumstances, provide a satisfactory solution.

3. In the absence of AWAs an alternative statutory basis would be required to support common law contracts.

3.1.4 BROADENING THE SCOPE OF THE WORKPLACE RELATIONS ACT

- ❑ Removal of industrial matters from the Trade Practices Act
- ❑ Use of Government procurement policies
- ❑ Use of Government industry assistance

Potential Impact

- ❑ Potential for increased disputes (current system which allows unions to be fined, acts as a deterrent to unions) and disruptions to economic activity if the effectiveness of the policing of secondary boycotts was to wane because it was shifted from the ACCC to the AIRC.
- ❑ Less emphasis on efficiency of production, quality and cost as drivers of procurement and industry assistance. Undermines efficient allocation of resources and productivity. Higher costs of procurement, higher cost of provision of government services and higher taxes for given public policy outcomes all else equal.
- ❑ Potential conflicts with international obligations (WTO, GATT).

Likely Outcomes

- ❑ Lower productivity growth
- ❑ Higher taxes
- ❑ Increased uncertainty and business risk
- ❑ Increased risk of industrial disputes. (If it is intended to reintroduce the 72 hour period, during which conciliation in the AIRC must take place before an employer can pursue legal remedies, then this would leave employers exposed to such disputes for at least that period before they can gain any relief from the action. This would mean that employers may sustain damage without any available access to the courts. Unions could place pressure on employers through this tactic though such disputes are supposedly unlawful.)

3.1.5 ADDITIONAL EMPLOYEE ENTITLEMENTS LEGISLATION

- National employee entitlement protection.
- Uniform minimum standards of compensation and other rights for injured workers.

Likely Outcomes

- Increased on-costs
- Less accurate matching of business costs with business risk
- Less flexibility for business to use assets/capital (if they are required to be set aside in a national fund) and higher cost of capital

4. THE POTENTIAL IMPACT OF ALP WORKPLACE RELATIONS POLICIES

In this section we attempt to identify the direction of the impacts from implementing the ALP workplace relations platform.

The major risk in the ALP platform, if implemented, is a weakening in the productivity growth achieved in the past decade thanks, in part, to the labour market reforms achieved to date.

Our consideration of the potential impact of the ALP platform is indicative only as:

- ❑ Aspects of the platform have not been given precise detail at this point.
- ❑ Implementation of the ALP platform may also vary from its current outline.
- ❑ There are important data and conceptual constraints in quantification.

Nonetheless, some relatively clear conclusions can be drawn on the basis of the current platform and other public announcements.

The impacts of the ALP platform are considered under the sub-headings of:

1. 'productivity impacts';
2. 'wage and on cost' impacts; and
3. 'employment-to-population rate' (essentially participation) impacts.

4.1 PRODUCTIVITY

The greatest risk to two of the ALP goals noted above – high growth and high incomes – comes from the potential impact of the ALP workplace relations platform on productivity.

As summarised above, our assessment is that aspects of the ALP workplace relations platform may have a potentially significant impact on productivity via the increased role for third parties, expansion of the role and content of awards, reduced employment flexibility and broadening of the scope of the Workplace Relations Act.

Why might these policies hurt the pace of productivity gains? Because they decouple enterprise productivity from wages and conditions.

They would do so by:

- ❑ including additional aims and objectives in wage determination;
- ❑ reducing the role of enterprise bargaining and increasing the scope for pattern and industry-wide bargaining; and
- ❑ increasing the role for third parties less closely linked to the employees or the enterprise, or less aware of the performance of the enterprise.

The benefits of a decentralised workplace relations system with enterprise-based employment agreements arise by allowing firms to adopt productivity enhancing

practices (thereby moving towards best practice), and by promoting a more cooperative working environment where performance and reward are more closely linked (thereby resulting in ongoing productivity enhancements).

The latter has been particularly important in terms of engendering greater accountability for performance and productivity and hence reward among employees in the workplace.

There is a concern that these positive attitudinal and cultural changes may be at risk were the ALP workplace relations platform to be implemented as published.

Enterprise agreements would receive less emphasis under the ALP workplace relations platform. For example:

“While a system of workplace-based collective bargaining will be continued, alternative ways for workers to achieve decent increases in wages and conditions should be promoted, including through the award system and industry-based arrangements.” [Ch 3, para 64]

The growth of enterprise agreements has been a factor behind the growth in employment, real wages and productivity. Also during this time there has been a significant reduction in the number of working days lost due to industrial action. The risk is that reduced emphasis on enterprise agreements could see a weakening in each of these trends.

While award simplification has resulted in a significant reduction in the volume of award regulation, awards generally remain lengthy and highly prescriptive documents incorporating clauses that may not be relevant to today’s workplaces. For example, a number of awards prevent part time employment or youth trainees on worksites.

As discussed in Chapter 2, productivity growth is the ‘main game’ in terms of delivering higher living standards for all Australians, especially over the long run. Consider the impact on living standards in 2041-42 (the end year of the Australian Government’s *Intergenerational Report* (IGR)) of alternative productivity scenarios:

1. The ‘low’ productivity growth of the 1980s (1.2% per year).
2. The ‘medium’ productivity growth of the last 30 or so years assumed in the IGR covering the period to 2041-42 (1.75% per year ³⁶).
3. The ‘high’ productivity growth of the 1990s (2% per year).

What might different productivity growth mean for Australian living standards?

- ❑ With ‘low’ productivity growth and a ‘stable’ unemployment rate, average living standards per head would be expected to rise by 61% over the next forty years.
- ❑ The ‘medium’ productivity growth projection lifts living standards by 100%.
- ❑ The ‘high’ productivity growth projection lifts living standards by 121%.
- ❑ Yet halving the unemployment rate – everything else equal – lifts average living standards by only 3.2%.

³⁶ 1.7% per year was assumed in the decade to 2010, 1.75% per year thereafter.

This simple illustration demonstrates the extent to which productivity performance will underpin the growth in Australia's living standards in coming decades.³⁷ From the perspective of business, maintaining productivity growth and continuing innovation in work practices is fundamental to ongoing competitiveness and hence the ability to raise living standards, sustain performance and boost employment.

Historical growth in productivity is no guarantee that such growth will continue into the future. It is possible that the big gains may have already been made. Nonetheless, the Productivity Commission estimates that despite Australia's recent successes, there remains a significant productivity gap between Australia and the US with Australia at 83% of US levels in 2002.³⁸

But how could Australians achieve better productivity growth? Gary Banks of the Productivity Commission noted:

“... to raise long-term productivity growth beyond [the 1.75% a year assumed in the IGR], and thereby provide additional resources to fund higher intergenerational expenditure, there will be a need for policies that ... continue to enhance the efficiency and flexibility of our economy.”³⁹

The key message for workplace relations policy is that initiatives which lead to less flexibility in the job market on their own account may not only mean less productivity growth directly, but may also mean less productivity growth because they cannot contribute to the gains made as a result of other policy initiatives or developments.

Given the importance of productivity growth to Australia's future prosperity this may be a high price to pay. To emphasise this point, recent IMF research shows that there are substantial complementarities in advancing structural reforms of product, trade, financial and labour markets and that there are long run cumulative gains in living standards resulting from trade, product and labour market reform.⁴⁰

4.2 WAGES AND ON-COSTS

The greatest risk to the other two ALP goals noted above – low unemployment and a fairer Australia – comes from the potential impact of the ALP workplace relations platform on wages and on-costs relative to productivity.

Productivity impacts are likely to be larger than the direct impacts on wages and on-costs of the ALP workplace relations platform.

In general terms, the ALP platform's reference to a 'low wage crisis' coupled with the proposed broadening of the objectives of the Workplace Relations Act, increased powers for and role of the AIRC, the push for broader award coverage and increased

³⁷ Note that this illustration excludes other factors as well – the labour force participation rate has been held steady (when there are in fact pressures on it to decline because of the ageing of the workforce) and average working hours could well fall. Again, productivity growth dominates these factors.

³⁸ p13, *Productivity Commission Annual Report 2002-03*.

³⁹ *An ageing Australia: small beer or big bucks?*, speech by Gary Banks to the South Australian Centre for Economic Studies, Economic Briefing in Adelaide on 29 April 2004, downloaded from www.pc.gov.au/speeches/cs20040429/index.html.

⁴⁰ IMF, *World Economic Outlook*, April 2004.

industry-wide bargaining, highlight what appears to be an expectation for a more centralised system to be used to deliver wage increases that are supported not by market or enterprise-based productivity gains, but by a push for greater equity and fairness.

While such an outcome may produce greater wage equality for those in employment, the likelihood is that this will be achieved at the expense of higher unemployment, particularly for less-skilled workers.

Moreover, it is important to remember that there is a considerable difference between low income earners on the one hand, and low income households on the other. As Harding and Richardson have noted, those people receiving low wage rates are well spread throughout the distribution of family incomes. This makes workplace relations policies operating through the wages system a very blunt device with which to achieve greater 'fairness'.⁴¹

The indications in the ALP workplace relations platform that unions will also be given enhanced powers and rights, including in respect of 'workers generally' and in workplaces where they have no representation and where no representation is being sought, reinforces the view that wage outcomes will be increasingly determined by factors well beyond the employee's workplace.

That raises the risk of a lack of matching between wages and productivity.

In addition, the ALP platform approach affects the relative costs of bargaining in a manner that would increase the pressure on employers to reach a collective agreement with unions at higher wage rates than would otherwise have been struck:

- ❑ If an enterprise does not wish to be covered by a collective agreement which unions pursue, then the unions will be able to gain a binding order from the AIRC to force it to negotiate in good faith.
- ❑ If no agreement is able to be reached between the enterprise and the unions – after the former has been compelled to bargain – then the unions are able to refer the outstanding issues to the AIRC for arbitration.

This policy approach has greater costs for employers than unions.

That mismatch of bargaining costs means that only if an employer satisfies union claims will the tribunal not be asked to arbitrate. This will no doubt see the unions trying to push the employer's offer up to the highest level that the employer judges is sustainable and if they think they can do better, the unions will then refer the matter to the AIRC for arbitration with the offer as the starting point, upon which the tribunal will be urged to build. This could mean an increase in wage outcomes over and above any matching increase in productivity.

Regarding on-costs, policies to achieve portability of entitlements, increase employer training contributions/costs, and the increased likelihood of arbitration including in regard to the 'reasonableness' of requests for part-time work and the like, would potentially add to the cost of employing and training workers.

⁴¹ See Richardson, S and Harding, A. (1998), *Low Wages and the Distribution of Family Income in Australia*, Paper for Conference of the International Association for Research on Income and Wealth, Cambridge.

While each of these changes in isolation may appear to imply only modest increases in cost, taken together and coupled with the increased likelihood of ‘pattern bargaining’, this suggests the potential for a more significant and broader impact.

Of the ‘wages’, ‘on-costs’ and ‘productivity factors’ that combine to determine real unit labour costs, the productivity factor has the greatest potential to be damaged by the ALP workplace relations platform.

With the link between innovation, productivity and reward weakened, there is a possibility that real unit labour costs could again rise to levels that damage economic, employment and real wage growth.

The risk of higher real unit labour costs poses a threat that varies by industry.

4.3 SECTORAL IMPACTS

4.3.1 AWARD COVERAGE

The major impacts of the ALP platform on unit labour costs (and therefore on adverse employment and economic outcomes) may be in areas where wages and conditions are applied irrespective of the enterprise’s circumstances such as where award coverage is already greatest.

Table 4-1 shows award coverage, reflecting the data in Table 24 from ABS 6306.0 (which provides data at the 1-digit ANZSIC level only).

In other words it indicates those industry sectors where employees are on award terms and conditions rather than being covered by an enterprise agreement or other form of agreement.

TABLE 4-1: AWARD COVERAGE MEMBERSHIP BY INDUSTRY

Industry	Award coverage
Accommodation, cafes and restaurants	61.2%
Retail trade	34.2%
Health and community services	30.3%
Personal and other services	22.2%
Property and business services	18.1%
Construction	17.1%
Transport and storage	16.4%
Manufacturing	12.5%
Wholesale trade	11.7%
Cultural and recreational services	10.9%
Education	7.8%
Government administration and defence	6.0%
Mining	5.9%
Finance and insurance	4.9%
Communication services	2.4%
Electricity, gas and water supply	1.1%

4.3.2 TRIFACTOR ANALYSIS

That said, there may be rather more to the sectoral story of potential ALP platform effects than just the extent of award coverage.

In particular, economic theory would suggest that the distribution of the macroeconomic effects resulting from changes in unit labour costs, across industry sectors will depend on the industry-specific factors of skills, cost and trade:

- ❑ **The skill factor.** Industries that employ low-skilled workers see larger and more rapid linkages between labour costs and jobs than those sectors with higher-skilled workers. That is because it is easier to substitute machines for low skill than high skill workers.
- ❑ **The cost factor.** Those industries with a high concentration of labour to capital will see larger job losses following wage rises. Labour costs have more of an impact on jobs where labour accounts for a larger share of all costs (and so of final retail prices).
- ❑ **The trade factor.** Industries which face high levels of import competition, or those which export a larger share of their product, are more likely to be affected by higher labour costs, as such industries sell to markets with prices determined globally – so they can't pass on higher costs. A rise in costs tends to lead straight to a fall in profits.

These sectoral effects mean that, no matter the direct incidence of the changes in workplace relations policy, the overall effects are more diffused across industries than may otherwise be supposed.

The vulnerability of jobs in each industry to changes in unit labour costs may be summarised with a 'Trifactor' which sums the relative importance for each industry of trade, cost and skill factors using defined weights.

The higher the Trifactor, the more vulnerable are jobs in that industry to a rise in labour costs.

The following charts outline the relative importance of the Trifactor across industries. Calculation in each case uses data from ABS input-output tables.

In the charts, 'Trade' refers to the relative importance of imports and exports; 'Cost' is wages, salaries and supplements as a share of total output and 'Skill' is inverse relative to wage levels (employment divided by wages, salaries and supplements).

The charts give these three factors relative weights of 50% for 'skill', 30% for 'cost', and 20% for 'trade' – a ranking broadly consistent with the discussion of sectoral effects in the economic literature and in the Access Economics Macro (AEM) model.

For example, Chart 4-1 shows that mining has a high international trade ratio (well above that of the average industry), but a relatively low labour cost share (less than half the average) and relatively high wages (in this analysis, higher wages/higher skills give a lower score).

This gives mining a Trifactor well above the average – making it vulnerable to increases in unit labour costs.

In contrast, industries that are more domestic in focus are generally less vulnerable – such as the likes of the electrical, gas and water utilities, residential building and business services.

CHART 4-1: INDUSTRY EXPOSURE TO UNIT LABOUR COSTS

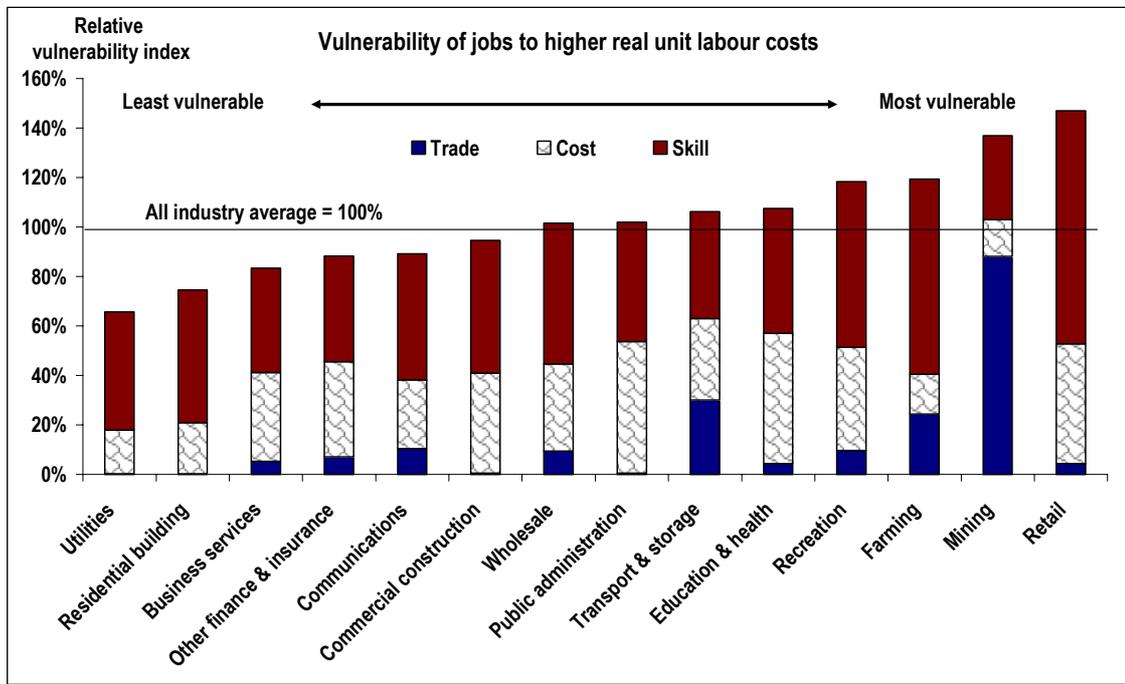
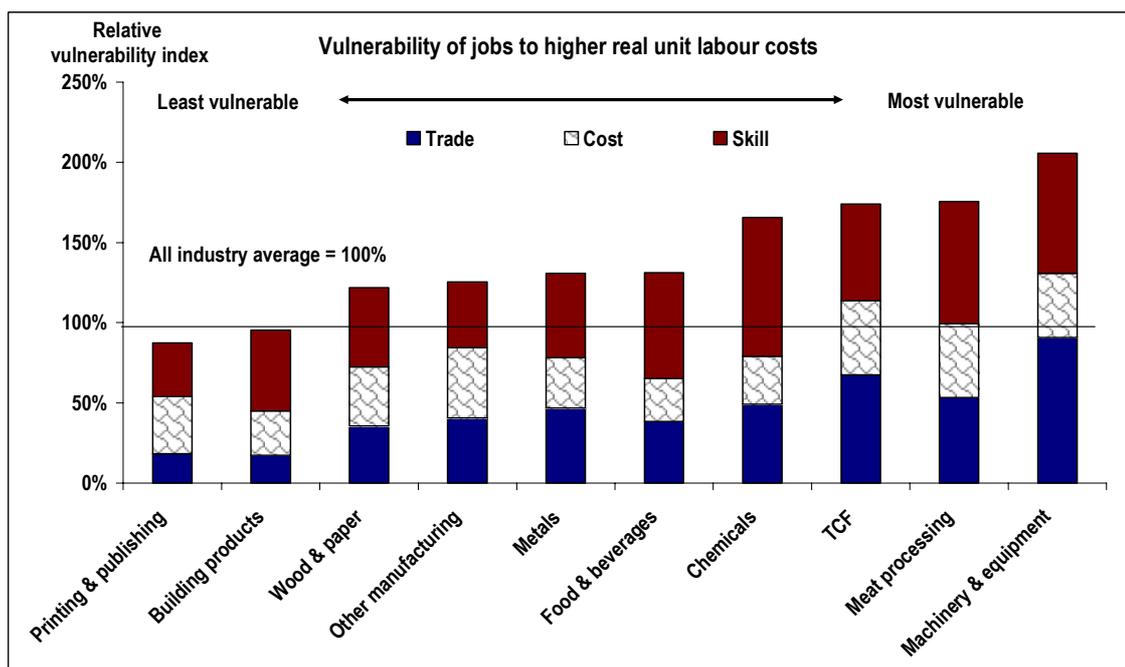


Chart 4-2 shows Trifactors for the manufacturing sector. The average Trifactor for the total manufacturing sector is above that of the economy as a whole. And, within manufacturing, the likes of car manufacturers (in the 'machinery and equipment' category in the chart), meat processing, textiles, clothing and footwear (TCF) and chemicals are the most vulnerable to any workplace relations policies which led to labour costs rising faster than productivity.

CHART 4-2: MANUFACTURING EXPOSURE TO UNIT LABOUR COSTS



4.3.3 WHAT IS THE RISK ACROSS INDUSTRIES?

Using the above charts as a guide, the following provides an assessment of the likely effects of any workplace relations policy changes that result in higher unit labour costs (higher wages or on-costs, and/or lower productivity) across key industry sectors, focusing on those which may be most at risk.

Retail trade is highly exposed to any wage rises. The industry has:

- ❑ Relatively low skill levels with average wage rates significantly below the average.
- ❑ A relatively high reliance on labour (rather than equipment) with wages making up one and a half times the share of total costs that they do nationally.

Against that the industry has a strong domestic focus, which to some extent would insulate it from job losses arising from implementation of the ALP workplace relations platform.

The 'Trifactor' analysis above is especially sobering for **manufacturing**. It suggests that manufacturing industries lie at the top end of the spectrum which is exposed to job losses from wage rises unsupported by improved productivity. Across all industries, the top four scores (the most vulnerable sectors) are manufacturing sectors. In addition:

- ❑ Both exporters and import competitors in the industry would be hit hard by an increase in wage rates compared to overseas competitors.
- ❑ Allowing for its import exposure, much of manufacturing is even more internationally focussed than mining, so a large proportion of the sector is exposed.
- ❑ In addition, average skill levels across manufacturing are relatively low in comparison to other industries, raising the risk that higher unit labour costs simply results in fewer workers.

Farming is also heavily internationally focussed, with the ability to sell to world markets potentially compromised by higher labour costs.

The sector also has low skill levels – average wage levels are about 30% lower than the national average. This would suggest that the process seen in the last century and more – of farmers opting to use machines rather than people – could well continue or be encouraged under initiatives which promote higher unit labour costs.

Against those influences, labour costs in farming are less significant than the national average – the costs of land and machinery are significant in the sector – but this limiting effect is not as significant as the strong negative impacts outlined above. In addition, the bulk of people in the farming sector are either covered by awards or are self-employed and so may be less affected by the major changes discussed here.

Recreational services (including accommodation and other services provided to tourists) has a relatively high reliance on labour (about a quarter more than average) and low skill levels. The tourism element gives this sector a reasonably high international exposure. These factors suggest that recreational services, a significant employer, may be more exposed to any increase in unit labour costs were ALP workplace relations policies to be implemented.

Based on the key factors listed above, those industries that may be **least affected** by wage rises without offsetting productivity gains are likely to include utilities (electricity, gas and water), home builders, business service providers and communications – mostly domestic-focussed service sectors.

Why are some industries less affected by unit labour cost increases than others?

Take the **utilities (electricity, gas and water)** as an example:

- ❑ This industry is one of the most domestic-focussed (imports and exports in this industry only make up around 1.3% of the share seen nationally), so it is at little risk of being priced out of sales to world markets;
- ❑ Wages are only around half as important to total expenditure compared to the industry average as the heavy machinery employed by the sector means that wages are less central as a cost of production than in many other sectors; and
- ❑ Skill levels are relatively high – with wages rates higher than average – and employers are less able to use machines in place of skilled labour, even if the cost of the latter is rising.

So on each of the above tests, the utilities fare well.

With **services to finance, investment & insurance**, similar factors operate to those affecting the utilities sector:

- ❑ Wage rates are relatively high (above the national average, suggesting a hard-to-replace skilled workforce);
- ❑ Trade exposure is only around 20% as important as in the general economy (suggesting limited exposure to the disciplines of the global marketplace); and
- ❑ Wages as a share of total costs are low, as are those in utilities (so that even if the wage increase is fully passed on in selling prices, it has a relatively small impact on the latter).

All indicators suggest that **communication services (including telephony)** should be one of the less affected, with moderate influence from external factors (about half the average), average wages slightly above average, but total wages costs less important than in other industries. Some parts of this sector may be more exposed than others to the potential for 'offshoring'.

4.4 THE EMPLOYMENT-TO-POPULATION RATIO

The ALP workplace relations platform seeks a high growth economy with low unemployment. Yet it carries some risks with respect to these goals, which are partly encapsulated in encouraging a higher than otherwise employment-to-population ratio.

The employment-to-population ratio is a function of the ability of people to gain employment (that is low unemployment) and a preparedness to seek employment (that is participation).

The two are linked, because lower unemployment tends to encourage people to enter the workforce because they perceive that they have a better chance of getting work. Therefore higher unemployment affects the employment-to-population ratio by directly reducing the number employed and by indirectly discouraging participation.

Thanks to the strength of productivity gains that it has helped to engender, the current workplace relations framework has delivered lower unemployment and accelerated real wage growth. Declining unemployment rates have helped lift the workforce participation rate to a near-record high because of the ‘encouraged worker’ effect discussed above.

Or, in other words, low unemployment and high participation have combined to produce a historically high employment-to-population rate.

The ALP platform states that “An unemployment rate sustainably below five percent is an important goal for Labor” (page 24).

The current workplace relations system is already delivering unemployment rates comfortably below 6%. Although the forthcoming housing downturn injects some uncertainty, more progress in reducing the unemployment rate is possible. As discussed in Chapter 1, economic theory points to the risk that higher regulated minimum wages – a possible outcome of the ALP workplace relations platform – will result in a higher natural rate of unemployment.

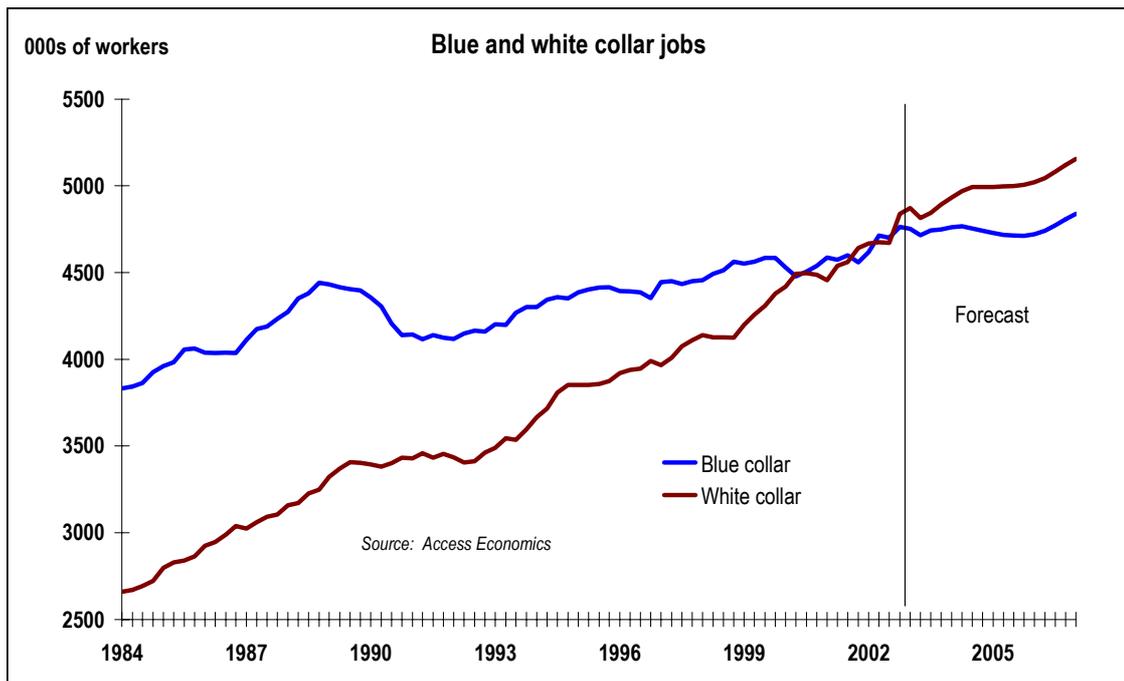
The proposed changes to workplace relations structures risk unsettling that mix of sustainable job growth and real wage gains. Were that to happen, upward pressures might emerge on the unemployment rate and downward pressures might emerge on the participation rate. The ‘encouraged worker’ effect may transform itself into a ‘discouraged worker’ effect.

There may also be minor negatives for participation and the preparedness of businesses to create new jobs stemming from specific proposals in the ALP workplace relations platform including:

- **Portable entitlements may encourage retirement and cut participation:** Increased portability of entitlements may raise on-costs, more so for more experienced workers. This may create a disincentive for the employment of more mature workers at a time when increasing their participation is fundamental to addressing the challenges of population ageing.
- **Employers may offer fewer flexible jobs:** There is potential for a reduction in the scope of and incentive for employers to support more flexible working arrangements, especially if these are likely to become enshrined in awards and apply more broadly where they may be less appropriate/applicable.
- **Increased uncertainty may also reduce the demand for labour and discourage participation:** Greater business risk associated with increased uncertainty around arbitration, reduced managerial prerogative and reduced flexibilities around casual employment opportunities, may discourage employers from creating additional jobs and encourage them to seek alternatives to labour.

Regardless of the regulatory structure in which it sits, Australia’s labour market is growing ever more mature and sophisticated. Flexibility in working arrangements will become a greater, not lesser, concern for employers and employees.

CHART 4-3: THE 'AVERAGE' AUSTRALIAN JOB IS CHANGING FAST



'Blue collar' is defined here as employees in the following sectors – farming, mining, manufacturing, the utilities, construction, wholesaling, transport and storage.

A simple proxy for the growing sophistication of the Australian labour market is shown in Chart 4-3. There are now more white collar workers than blue collar – and for every blue collar job created in the past two decades, there have been 2½ white collar jobs.

Part of the movement towards greater flexibility in setting wages (rather than a more centralised or standardised approach) is that structural change in the economy has shifted more jobs towards the service and information sectors. Such jobs may require higher qualifications and higher skills and be less standardised.

The risk is therefore that a 'one-size fits all' approach in setting workplace terms and conditions will see some enterprises and some individuals not fit, particularly as job requirements become increasingly individual.

Even within manufacturing there is now a much greater emphasis on skills and application of technology. That may make it more problematic to apply a standard set of working conditions to individuals or enterprises. This is not the best way to foster innovation.

If the task for policymakers is to set policies that are ahead of the curve, then that would suggest a need for greater flexibility in workplace relations policies to respond to an increasingly sophisticated and complicated workplace.

4.5 CONCLUSIONS

Our analysis is necessarily qualified in that it relies on our interpretation of the ALP workplace relations policy platform. And our analysis is also qualified by the expectation of a gap between the policy platform and its implementation.

But there is a simple test here. Most people would agree with four key goals laid down by the ALP – high growth, high incomes, low unemployment, and a fairer Australia.

The issue is the policy instruments proposed to achieve those policy targets.

In our view, the policy platform gives more focus to 'fair' labour market processes than to achieving effective labour market outcomes. Proposals for redefining processes, roles and responsibilities appear to be aimed squarely at reducing the emphasis given to workplace circumstances and the role of employers. The overall direction of the ALP platform appears to be towards more regulation, a broadening of the factors and parties involved in the determination of wages and conditions and that the workplace relations system and structures will increasingly be used to deliver non-market outcomes and objectives.

Such policies are unlikely to deliver on the four goals espoused by the ALP – high growth, high incomes, low unemployment, and a fairer Australia. For the reasons outlined above and earlier, the ALP workplace relations policy platform runs the risk of moving Australia further from those goals.

While there may be disagreement about the magnitude of change and impact the direction seems clear. Taken collectively, it seems fair to conclude that the ALP workplace relations platform measures could reinforce one another in terms of their negative impacts on productivity, wages, on-costs and employment.

The probability of this is increased if these policies imply a change in attitudes and workplace culture that weakens the improved links between productivity and performance and bargaining outcomes seen over the past decade.

At best, these changes could slow the pace of progress observed over the past decade. At worst, the policy changes proposed could undermine Australia's ability to sustain strong productivity, jobs and economic growth.⁴² In other words, the compounding benefits of past reform which have delivered higher productivity growth, increasing real wages, and low unemployment could work in reverse.

And experience shows that weaker growth and higher unemployment are likely to undermine the ability to advance reforms in other areas – at precisely the time when other developed economies are seeking to reinvigorate their reform agendas.⁴³

Issues of fairness are justifiably ones that political parties must address. But economic theory and experience shows that these are best dealt with through well-targeted welfare and tax policies – not with changes to the broad workplace relations system.

⁴² Indeed, there is a risk of some past productivity gains being unwound. Many productivity initiatives were hard won by employers and, to a degree, remain fragile – that is, they are still able to be maintained where decisions are made at an enterprise level with a collective bargaining outcome predicated on shared gains between the enterprise and its workforce but, given an opportunity to wind back some of these employer-bargained-and-won flexibilities through AIRC intervention, they may well be unravelled. In other words, third party intervention could lead to the loss of many of the efficiency improvements achieved (through more flexible work practices/conditions aligned to business needs) which would cause a decline in productivity, as well as a slowing of future productivity growth. Further, if industry-based arrangements are favoured by unions over enterprise-based agreements, then there will be less capacity to tailor productivity improvements to meet the needs of a particular enterprise. This will unavoidably hurt productivity growth.

⁴³ IMF, *ibid*.

APPENDIX A: MAJOR ALP WORKPLACE RELATIONS POLICIES IN DETAIL

This attachment:

- ❑ describes each significant group of measures using relevant ALP source material; and
- ❑ provides an interpretation and brief analysis.

All chapter and paragraph references are to the *National Platform and Constitution 2004* of the Australian Labor Party. The chief source material lies in Chapter 3 to that document. In some instances resolutions of the ALP Conference have been noted, though their status is less firm than other commitments.

The measures are grouped under five headings through which they could change Australia's workplace relations framework. These are:

- ❑ An increased role for third parties.
- ❑ Expanding the content and role of awards.
- ❑ Reduced employment contract flexibility.
- ❑ Broadening the scope of the Workplace Relations Act.
- ❑ Additional Employee Entitlements legislation.

There are a number of other more specific or targeted platform proposals not covered under these headings:

- ❑ Raised wages and conditions for children's service workers [Ch 5, para 133];
- ❑ Indigenous-specific training and industrial award framework [Ch3, para 50];
- ❑ Textiles, clothing and footwear (TCF) outworkers legislation [Ch 3, paras 134-137];
- ❑ Equal remuneration for women (referenced [referenced in ALP IR platform at Ch 3, para 68];
- ❑ Funding of labour market needs for people with disabilities [Ch 3, para 52]; and
- ❑ Codes of practice for farm workplace safety [Ch 12, para 40].

These proposals are not discussed further.

AN INCREASED ROLE FOR THIRD PARTIES

ENHANCED AIRC LEGISLATION AND RESOURCES

"Labor will introduce new industrial relations legislation to:

- *put fairness back into the legislation;*
- *give a greater role to the independent Industrial Commission to act in the national interest and in the interest of fairness and equity;*
- *ensure that the powers and objects of the independent Industrial Commission are adequate to deal with any industrial matter;*

- *provide enhanced resources for the enforcement of awards and agreements; and*
- *ensure that the independent Industrial Commission has the authority and resources to establish comprehensive and effective award coverage;” [Ch 3, para 87]*

Comment: There are two main goals of any policy – fairness and efficiency. Fairness looks to the division of the cake today, while efficiency looks to the growth of the cake for the future. The ALP appears to see a strengthened AIRC as better able to achieve fairness without notably impairing efficiency. (That said, ‘fairness’ here appears to give higher priority to labour market *processes* than labour market *outcomes*.) But there is an efficiency risk:

- ❑ By enlarging the role of the intermediating umpire, negotiations between employees and employers via the AIRC reduce the role held by those with most information regarding the bargain being struck – shop floor employees and employers. And in any decision process where the information available to decision makers is reduced, then the likelihood of less efficient decisions rises. (Information increases efficiency, as economists from Akerlof to Hey or Varian have long noted.)⁴⁴
- ❑ In addition, the process itself can become less efficient, as both sides play for the umpire’s sympathies (or the umpire’s rule book), rather than focussing on striking a bargain.

Any such impacts would likely lead to lower productivity outcomes, and perhaps higher wage costs.

THE EXTENSION OF APPLICATION OF THE NO DISADVANTAGE TEST TO A BROADER RANGE OF WORKPLACE AGREEMENTS.

“Labor will require an open process of reviewing workplace agreements:

- *to ensure they meet a reasonable ‘no disadvantage’ test;*
- *to consider the consequences of an agreement for those outside the particular agreement (for example, other workers, future workers, the unemployed); and to protect the interests of these groups.” [Ch 3, para 66]*

“Labor will...ensure a reasonable ‘no disadvantage’ test is met for agreements provided for under industrial legislation, which includes relevant award or agreement rates of pay and conditions and protects workers’ rights to representation of their choice;” [Ch3, para 89]

Comment: Certified agreements must already meet a global ‘no disadvantage’ test. The reference to ‘those outside the particular agreement’ may be a new test. If so, this could potentially be used to block an enterprise agreement collectively negotiated by non-unionised employees and their employer(s).

The proposal could increase the likelihood of intervention and arbitration across a broader range of issues including on the basis of ‘fairness’ and in the context of groups

⁴⁴ See, for example, Akerlof, GA, *The Market for Lemons: Quality Uncertainty and the Market Mechanism*, Quarterly J. Econ. 89: 488-500, 1970.

outside an agreement. It appears to provide scope for AIRC involvement in the determination of terms and conditions beyond minimum standards.

The proposal is likely to result in higher wages, on-costs and bargaining costs, less emphasis on productivity and less certainty for employers.

A REDUCTION IN THE CAPACITY TO EXERCISE MANAGERIAL PREROGATIVE ABOUT BUSINESS DIRECTIONS AND OPERATIONS

“Productive workplaces require attention to opportunities for employees to participate in and contribute to the efficient development of the enterprise and to have the opportunity to share in the benefits of its success. Labor will also develop cooperative tripartite mechanisms to consider industrial relations in the context of wider industry development issues.” [Ch 12, para 24].

Comment: Details are not provided. If the policy thrust is simply for greater corporate reporting, then the additional on-costs may be limited. If the thrust of the policy platform is that a Labor Government and employees and/or their representatives could be expected to participate in aspects of corporate management and in monitoring its performance, then a larger impact on productivity and on-costs would be likely.

Private owners of enterprises have strong ‘hip pocket’ incentives for ensuring that their enterprises are well managed. Those incentives may be less clear cut for managers than for owners. However, there wouldn’t appear to be a strong case for others (whether they be the Government or employees) to be better placed to either judge the performance of managers or to become directly involved in the management of private enterprises.

Global experience suggests that such a development is unlikely to be a helpful for the effective management of a predominantly market economy. Nor does the history of the management of Australian publicly-owned enterprises appear to provide strong support for the policy thrust.

Note that enterprise and individual bargaining *already* allows employees “to share in the benefits” of more productive workplaces.

GREATER NEGOTIATING POWERS FOR UNIONS

“Collective bargaining should be promoted through a fair and simple stream of workplace, enterprise and industry wide agreements, negotiated with trade unions or employees and consistent with ILO obligations. Labor will:

- *require employers to bargain in good faith with a union which has indicated its desire to negotiate a collective agreement;*
- *ensure that lockouts and the replacement of employees by employers who are not bargaining in good faith with their employees are not a feature of the Australian industrial relations system;*
- *empower the Commission to make binding orders in relation to the commencement and continuation of the collective bargaining process to ensure that the parties to a bargaining period negotiate in good faith. The powers of the Commission should also include the capacity, where unions agree, to mandate a single bargaining unit comprising the appropriate unions which have initiated a bargaining period.*

Where such a single bargaining unit has been formed, the employer must negotiate in good faith with the single bargaining unit;

- *ensure the transparency of the agreement review and registration processes;*
- *allow any matters agreed between the parties to be in a collective agreement;*
- *provide that the independent Industrial Commission and affected parties are aware of and able to participate in the bargaining process, the review of agreements provided for under the Act and the arbitration of disputes where legitimate collective bargaining is not occurring;*
- *prohibit discrimination against those who wish to bargain collectively and be represented by a union; and*
- *provide that workers and their representatives have access to appropriate information from which to make informed decisions.” [Ch 3, para 89]*

Comment: By enhancing the power of employees or unions vis-à-vis current arrangements, the initial impact of these policies will likely be on wage costs. In turn, higher wage costs increase the ‘fairness’ of the current distribution of the economic pie at the cost of future growth in that pie.

As shown in Chart 2-1 above, there is a close link between real unit labour costs (RULC) and economic growth (GDP). Both series are plotted as two year moving averages of annual growth rates. The RULC measure is given a lead of a year – that is, a change in RULC is matched against the change in economic growth a year later. The horizontal time axis is referenced to GDP growth. And the RULC measure is plotted in inverse order on the right hand axis, meaning that the chart shows a close inverse link – that higher labour costs equal lower economic growth, and vice versa.

Note that the axes shown in the charts imply that the relationship is more than one-for-one: that a one percentage point shift in real unit labour costs leads to a 1.25 percentage point change in economic growth (and, by implication, employment growth).

Increasing union bargaining power may well lead to higher wage outcomes in the short term. Any such benefits, however, would likely be more than offset by poorer wage and employment outcomes over the longer term.

EXPANDING THE CONTENT AND ROLE OF AWARDS

GREATER EMPHASIS ON AWARD SYSTEM AND INDUSTRY-BASED ARRANGEMENTS

“While a system of workplace-based collective bargaining will be continued, alternative ways for workers to achieve decent increases in wages and conditions should be promoted, including through the award system and industry-based arrangements.” [Ch 3, para 64]

Comment: Increased emphasis on the award system and industry-based arrangements weakens the nexus between direct employer/employee negotiations and greater productivity. As discussed above, it is unsurprising to economists that greater labour market flexibility is correlated with faster productivity growth.

There is a risk that ALP workplace relations policy to strengthen ‘the award system and industry-based arrangements’ may weaken this nexus – less flexibility equals less productivity growth (and perhaps higher wage costs).

There may also be a risk of increased levels of industrial disputation if industry-wide strikes become more likely. As Chart 2-9 above shows, industrial disputes faded through the 1990s – initially aided by a weak economy, but increasingly over time by a more flexible labour market – one with more direct negotiations.

EXTENSION OF THE MATTERS TO BE COVERED IN AWARDS TO INCLUDE:

Part time work for returning parents

“Labor will give parents the option of returning to comparable part time work, by legislating to provide workers returning from parental leave with the right to request part time work.

Employers will not be able to unreasonably refuse such requests and any disagreements about a refusal to provide part time work will be resolved by the Industrial Relations Commission. Reasonableness will take into account the size and nature of the employer.” [Ch 3, para 31]

Comment: The effective implementation of this commitment would strengthen employees’ rights to seek part time work in the situation where employers are unwilling or unable to provide it.

Again, this would strengthen employee choices at the cost of restricting employer choices – benefiting fairness for employees today, but at a potential cost to future productivity.

Employer rejection of demands for part-time work may revolve around the requirements of the employee’s job. This sort of workplace matter may not be considered by the AIRC, as ‘reasonableness’ is defined in terms of the size and nature of the employer, not the requirements of the job.

Greater ‘rights’ to part time work would lower productivity and perhaps raise wage costs, depending on how the employer responded to this forced arrangement.

Unfair dismissal protection

“Protection against unfair dismissal should be provided to all workers, irrespective of the size of their employer’s business. Employees should have access to a timely and fair remedy for unfair termination of employment, specifically:

- *as a priority, provisions relating to unfair dismissal should be streamlined;*
- *the Commission should be required by legislation to hear and determine unfair dismissal cases within set timeframes and give the remedy of reinstatement greater emphasis;*
- *in circumstances of mass terminations, unions should be given the ability to make a single application to be heard and determined within set timeframes; and*
- *Labor will ensure that filing fees are not a barrier to access to relief from unfair dismissal.” [Ch 3, para 94]*

Comment: This commitment would mark a shift in negotiation power towards retrenched employees vis-à-vis employers ('give the remedy of reinstatement greater emphasis').

If the commitment was effectively implemented then employers would probably raise the hurdle rate at which they decide to take on new employees to take account of the greater risks associated with the possible costs of retrenchment.

This provision is also important to employers where they are trying to terminate an employee on the grounds of unsatisfactory performance. It is sufficiently difficult now to remove a poor performer and this provision could make it harder still.

In effect, the impact would be similar to a lift in 'on-costs'. As with other increases in wages or on-costs, employers' responses may well result in a lift in the unemployment rate: if it is more difficult to retrench people, employers will be more reluctant to hire them.

Part-time workers to receive pro rata portable entitlements and promotion protection

"To help cope with under-employment, part time workers need to be treated equally in industrial terms, by obtaining portable entitlements on a pro rata basis to those of full time workers as well as having equal access to promotion and new job opportunities. The under-employed particularly require access to training and career opportunities to assist them to move into better-paid jobs or industries, as well as to the traditional employment conditions of full time workers, such as holiday pay, sick pay and long service leave." [Ch 3, paras 20-21]

Comment: Effective implementation of pro-rata portable entitlements could hamper management of the workplace and hinder productivity. These issues are discussed further below under the proposals to 'change casualisation arrangements'. Depending on how it is handled, the proposal for part timers to have 'equal access' to promotion could also affect productivity. Part timers are not currently prevented from applying for promotional opportunities, however it is a fact of life that jobs that are associated with higher levels of responsibility are also associated with longer hours. According to the ABS:⁴⁵

- 95% of 'managers and administrators' are full time employees.
- Only 36% of 'elementary clerical, sales and service workers' are full time employees.

Many part time workers:

- Do not want to work longer hours.
- Choose not only to give up some income, they also give up the opportunity for greater responsibilities in the workplace.

⁴⁵ Table 5, *Employee Earnings, Benefits and Trade Union Membership*, August 2002 (ABS Cat. 6310.0).

Upgraded long service leave

“Labor will facilitate schemes that provide portability of leave entitlements between employers where those entitlements would otherwise be lost to the employee. Labor acknowledges that less people are becoming eligible for long service leave and will examine ways in which long service leave can be returned to being a mainstream entitlement which better reflects the contemporary labour market.” [Ch 3, para 76]

Comment: About 63% of employees receive long service leave as a standard benefit in their main job. Typical long service leave arrangements include 3 months salary after 10 years employment with the same employer. This is equivalent to 2½% of annual salary over 10 years. About 25% employees have been with their current employer for 10 or more years (ABS cat 6206.0).

This proposal could have a measurable adverse impact on on-costs and unit labour costs depending on the specific details of implementation

Fourteen weeks paid maternity leave

“Labor is committed to introducing a national fourteen week paid maternity leave scheme, with no cost to small business.” [Ch3, para 30]

“So, Labor’s announcing this new initiative today, and following the birth of a baby, eligible mothers will receive a baby care payment. This is not just for the first child, it’s for every baby under our policy. And there will be a payment of three thousand dollars from the first of July 2005 and that will be phased up to the full amount of five thousand three hundred and eighty dollars in 2010.

The payment will be available to working and non-working mothers alike, we don’t make a distinction between working and non-working mums. Bringing a new child into the world is a big challenge whether you’re in the workforce or not, it’s got lifestyle pressures and can have financial pressures, so we don’t make a distinction as to whether the recipients are working or non-working.

They need the support and they’ll get it from a Labor government. The payment will be means tested on family income at the time of the child’s birth. So it won’t include the mother’s regular income.

The means test will be in line with the family tax benefit part A. So this is a generous arrangement through which ninety per cent of families will receive the payment. The payment is tax-free and will be available through Centrelink or family assistance offices. The payment will be made fortnightly over a minimum fourteen week period.

But if families, mothers want to stretch out the amount over a longer period of time they can do so up to a year. But it won’t be available in the form of a lumped sum.

This fulfils Labor’s commitment of our very strong commitment we’ve repeatedly made to fourteen weeks paid maternity leave and it does so with no cost of business. No cost to the private sector. It’s a simple, easy-to-

access payment that will help families enormously. In substance, it's a two point two billion dollar commitment to Australian families and babies.

It's a significant down payment on Labor's commitment to get it right in the area of work and family. And it's also a fully funded, fully costed policy. We'll be placing a five hundred dollar cap and a phase out on the government's failed baby bonus scheme. And also absorbing the maternity allowance." [Mark Latham interview, 31 March 2004]

Comment: The ALP platform suggested that the cost of implementing its commitment to fourteen weeks paid maternity leave might be part paid by larger businesses. However the subsequent release of the policy detail indicates that the cost of the commitment (net of phasing out the baby bonus scheme) will have a solely fiscal impact. The latter may have indirect impacts on Australia's economy, but it depends on the overall Budget position implied by the implementation of all ALP policies. As the ALP appears committed to a fiscal surplus at least as large as the Government's, there is likely to be no net macroeconomic impact from this policy.

Change casualisation arrangements

"Labor will legislate to ensure that the Australian Industrial Relations Commission (AIRC) takes into account job security and the need to prevent the misuse of casual employment... Award provisions will allow casuals employed regularly for a set period of time (which can vary according to the industry) to ask to convert to permanent employment. Employers are not able to refuse unreasonably. In determining reasonableness, the AIRC considers issues like the size and nature of the business. If long-term regular casuals do convert, they gain entitlements enjoyed by permanent workers like sick leave and annual leave – and forego their casual loading. Employees who do not want to become permanent can remain casual... Labor recognises that there is a legitimate role for casual employment in providing a ready workforce in peak seasonal times, but believes that the growing misuse of casual employment for long-term regular employees needs to be addressed. The AIRC has already varied some awards to give casuals who are employed on a regular basis a greater choice to become permanent – if they so desire. Labor will encourage this process to continue. Casuals who wish to remain casuals are free to do so; the scheme is not compulsory for them. These provisions will not apply to casuals employed on a short-term, seasonal or irregular basis. The Howard Government has a bill in the parliament that would remove the existing choice for regular casuals to seek conversion to permanent employment. When the Government talks about choice it means choice for employers only. Labor will provide choice for employees and employers." [Policy Statement – 19 April 2004]

Comment: A large and growing share of the workforce is employed on casual and contract arrangements. There are potential advantages to both employees and employers of casual employment as both the demand and the supply side of the labour market benefit from this flexibility.

Benefits for business (the supply side) from casual and contract work essentially revolve around being able to manage variable workloads. Many businesses have seasonal variations and peak loads which can be regular or irregular. Others may see rises in demand which they meet initially via casual or contract labour until they can establish whether the rise in demand will be sustained. In such cases businesses are

willing to pay the higher labour cost to employ casual employees in order to get the benefits of a flexible workforce. Some Australian businesses have found that this flexibility has allowed them to be competitive in certain volatile export markets. (Some foreign economies are not as smoothly managed as the Australian economy.) The rising globalisation of world trade and the flexibility of Australia's casual arrangements have created Australian profits and jobs where they would otherwise not exist.

Benefits for employees (the demand side) from casual and contract work include the higher direct wages they receive (in comparison to permanent employee equivalents), which they may value more highly than the additional entitlements permanent employees receive. Flexible working hours are often highly valued by casual employees who may be combining work with study or other activities. Society lifestyle changes have meant that more often both adults in a family are working and flexible arrangements are needed to best balance work and family. Casual employment is often a way of gaining experience for younger people or those new to an industry. It can be a way of getting a foot in the door. Many employees are happy to trade the entitlements and greater job security of permanent employment in return for the higher direct wage and flexibility of a casual position.

ALP workplace relations policy aims to improve the range of choice available to employees, but at a cost to the employment arrangements open to employers.

It may be worth recalling that Governments cannot legislate job security for the nation as a whole. Rather, job security relates to the confidence and ability of prosperous employers to maintain current jobs and hire for new ones. In a market economy, employment can be no more secure than a business can be secure. Arguably it is the ability of Australian workplaces to flexibly deal with changing global forces that offers a degree of job security, not legislative fixes.

Incentives for greater use of career breaks and shorter working hours

“Labor will encourage and promote incentives for implementation by federal, State and local governments and private employers, in consultation with trade unions and employers, of voluntary schemes such as:

- *career break schemes;*
- *balancing the emphasis on wages/hours/jobs to reflect agreed enterprise or industry priorities;*
- *recruitment to new positions based on shorter hours;*
- *job sharing; and*
- *productivity gains being taken in the form of shorter hours.” [Ch3, para 109]*

Comment: Details of these incentives are unavailable. This proposal may be positive or negative for productivity and workforce participation depending on its implementation.

Employer training levy

“Labor recognises that improving the skills base of Australian workers is in the best interests of not only workers, but also employers and the nation – reflecting this, Labor will ensure that the costs of training are appropriately shared, including by employers.” [Ch 3, para 40]

Comment: The statement suggests that employers are not currently carrying a proportionate burden yet it could be argued that employers are carrying a disproportionate burden (see *Education and Training Experience* (2001), ABS Catalogue 6278.0 Tables 18 and 24):

- ❑ Of the 9.8 million training courses completed in the 2001 'Education and Training Experience' survey (ABS Cat. 7278, Tables 18 and 24), 61% were internal courses undertaken by wage and salary earners. It is likely that these courses were predominantly funded by employers.
- ❑ The links between non-school qualifications and the benefits to be reaped by employers (as distinct from employees) are weaker. Nonetheless, of the 1.9 million people who studied for a non-school qualification, nearly as many received financial support from their employer (362,000) as did those who received support from the Government (403,000).

Review of pay structures for younger workers

"Labor will support the establishment, through a case by case approach in the independent Industrial Commission, of competency and skill based pay structures for young workers. The priority in this process shall be to ensure that young people are treated fairly." [Ch 3, para 38]

Comment: Effective implementation of this commitment could well see a lift in youth wages. As always, fairness is in the eye of the beholder. The youth unemployment rate has been in decline in recent years. It would be unfortunate if that trend was unsettled because of the pursuit of fairer youth wages.

Where wage increases are concentrated among particular age cohorts (such as youth wages), there may also be an impact on particular groups in the community. Using the Australian Workplace Industrial Relations Survey 1995, the Productivity Commission⁴⁶ found a "significant negative relationship between youth employment and youth wages". Their best estimates was a 1% rise in youth wages would decrease youth employment by 2-5% in industries employing a relatively high proportion of youth.

REDUCED EMPLOYMENT CONTRACT FLEXIBILITY

ABOLITION OF AUSTRALIAN WORKPLACE AGREEMENTS (AWAs)

"Labor will introduce new industrial relations legislation to:

- *abolish the Office of the Employment Advocate." [Ch 3, para 87]*

"Labor will abolish Australian Workplace Agreements (AWAs), which are secretive, unreviewable and unfair. There will be no legislative provision for federal statutory individual agreements." [Ch 3, para 88]

Comment: AWAs offer greater flexibility and choice than is available under a comprehensive award system. There were 225,200 'live' AWAs as at March 2004. This amounts to 2.4% of employees. 'Live' AWAs refers to those AWAs agreed to in the previous two years. However, AWAs may continue to be effective after two years,

⁴⁶ Productivity Commission, Youth Wages and Employment, Staff Research Paper, Canberra, October 1998.

because the maximum nominal expiry date can be up to three years after an AWA is signed. Also, an AWA remains in operation after the nominal expiry date unless the AWA is terminated in accordance with the *Workplace Relations Act 1996* or the AWA is replaced by another AWA.

Some 458,224 AWAs have been made since 1997 which, if they were all to have remained effective, would comprise nearly 5% of employees. It is unclear how many of these older AWAs remain effective.

AWAs use varies widely by industry sector and by State. Mining and communications in particular have high levels of AWAs .

In terms of the States and Territories, AWAs are most prevalent in Western Australia.

The impact from effective implementation of this commitment would most significantly fall on one off costs for business in coping with new arrangements (current productivity) and on future productivity growth.

Individual contracts would still be possible under common law. However, common law contracts are arguably more complex, fail to provide the same flexibility and security and may be more expensive to negotiate than AWAs.

The mining and communications sectors have the two highest take-up rates for AWAs of Australian industry sectors. (Together these sectors employ about 884,000 people.) These two sectors have also recorded among the highest productivity growth rates over the period 1994-2002 (fastest and third fastest, respectively).

EXTEND INDUSTRIAL RIGHTS, ENTITLEMENTS AND PROTECTIONS TO CONTRACTORS

“ ... dependent and independent contractors also deserve the right to have basic industrial rights, entitlements and protections. All NSW contractors currently have access to remedies for harsh, unreasonable and unconscionable contracts under the Unfair Contracts Act. Owner truck drivers operating as contractors in the NSW transport industry are already able to work under a contract determination system that provides for such things as minimum rates of pay, annual leave, sick leave and access to an independent umpire in the NSW Industrial Relations Commission in the event of a dispute.” [Ch3, paras 81-82]

“The protection of the industrial relations system should be extended beyond a narrow definition of employees to include those in employment type relationships.” [Ch3, para 93]

Comment: The rising use of contractors has been driven by several broad factors:

- ❑ It is more efficient for businesses to outsource some activities to contractors who have economies of scale in that area. (For example, not all builders want a crane driver as an employee, or to carry the capital cost of his crane on their books, as their need for a crane is irregular, so it makes sense to contract one in as needed.)
- ❑ Outsourcing to contractors – often via tender – allows much more flexibility in work arrangements.
- ❑ Contractors have potential access to more favourable tax treatment as sole traders than as employees.

This proposal could therefore alter the way that businesses operate, potentially to a less efficient pattern; increase wage costs for business; and potentially affect tax outcomes.

ABOLISH INDIVIDUAL CONTRACTS IN AUSTRALIAN PUBLIC SERVICE FOR LEVELS BELOW SES LEVEL

“Public sector workers should have access to the full range of independent Industrial Commission powers to resolve industrial disputes and promote collective bargaining, and, where appropriate, have access to paid rates awards. Labor will discontinue the use of individual contracts for members of the Australian Public Service below the Senior Executive Service level.”
[Ch3, para 95]

Comment: AWAs allow the APS to provide competitive remuneration for its most valued workers with greater flexibility than that available under public sector awards. If APS employees below SES levels return to collective bargaining approaches, then some may seek higher remuneration outside the APS (as private industry has a greater capacity to be flexible in its remuneration).

Productivity is greatest when people are in the job that best suits them. This policy may affect productivity (value for money from Government activities) by directing more good public sector employees into the private sector – due to a lack of public sector flexibility in remuneration.

BROADENING THE SCOPE OF THE WORKPLACE RELATIONS ACT

REMOVAL OF INDUSTRIAL MATTERS FROM THE TRADE PRACTICES ACT

“All industrial matters will be removed from the Trade Practices Act and will be regulated by industrial law”. [Ch 3, para 96]

Comment: This commitment appears to be aimed at removing the secondary boycott provisions of the Trade Practices Act (TPA) which relate to unions. The TPA prohibits action by one person in concert with a second person (where a ‘person’ can be an individual, corporation or trade union) which hinders or prevents a third person from supplying goods or services to a business, acquiring goods or services from a business or engaging in trade or commerce involving the movement of goods between Australia and places outside Australia.

The underlying rationale for this provision is that ‘innocent’ third parties should not be exposed to collateral damage in disputes between employers and unions or employees. In many respects it replicates pre-existing common law liabilities, but with the crucial difference that a third party, the ACCC, has the capacity to enforce the legislation in appropriate circumstances as illustrated by a recent Federal Court case involving work bans at a gas treatment plant in eastern Victoria in which the Federal Court imposed fines of \$100,000 each on three unions.

Business considers that it is important that the independent competition regulator should continue to play a role in the enforcement of these provisions. By its very nature the AIRC cannot perform a role of this character and it must be recognised that there will be circumstances where it is not appropriate to leave the decisions to enforce

or not to enforce the law entirely to the discretion of the parties directly involved in the dispute.

USE OF GOVERNMENT PROCUREMENT POLICIES

“ ... a Labor Government shall utilise government procurement in such a way that it only does business with companies that comply with all their legal employment obligations, and will ensure that its procurement policies support collective bargaining and the award system.” [Ch3, para97]

“The key elements in any successful government industry policy must be based on a fully integrated, whole of government approach, which includes government procurement policy. In this regard, a Labor Government will:

- *use its purchasing power to promote and use Australian manufactured goods and services wherever possible;*
- *avoid doing business with those companies that do not support the principles of a civil society and core labour standards;*
- *not purchase imported goods until the social impact of such a decision has first been assessed, in particular, the impact of such a decision upon Australian jobs, industry development, technology transfer and skills development. In this regard no contract will be entered into for the supply of overseas goods if the assessment shows an overall negative impact. In the absence of such an assessment, a Labor Government should only purchase ‘Australian made’ goods and services wherever goods and services of the required quality are locally available;*
- *establish a minimum set of ILO core labour standards (as agreed between government and unions) which overseas manufacturers or service providers must comply with in order to do business with departments;*
- *provide that all Australian manufacturers who provide goods to government demonstrate a willingness to engage apprentices and trainees and have a training regime in place, which promotes skill development;*
- *ensure that federally owned corporations participate in the government procurement policy; and*
- *establish a monitoring/compliance program involving industry, unions and government to ensure continued compliance with the standards referred to above.” [Resolutions, p211]*

Comment: David Ricardo recommended in 1817 that nations play to their comparative advantage. That is clearly happening, as global trade has grown faster than global output for most of the past century, allowing those nations which opt to play to their comparative advantage (much of the OECD and Asia) to grow rather faster than those which did not (such as Africa or the Soviet-era eastern bloc economies).

That would involve the Australian Government having to provide a stronger ‘Australian-made’ bias rather than a value-for-money approach. The latter is the one consistent with comparative advantage. If implemented, these policies ⁴⁷ would be likely to have an important impact on productivity. The Commonwealth would likely receive poor

⁴⁷ Which are, admittedly, rather wider than just ‘IR policies’.

'value for money' from its purchases. Private and public sector reporting requirements would be onerous. The commitments may also be inconsistent with international trade rules and emerging developments in those rules:

- ❑ Article XVII to the General Agreement on Tariffs and Trade requires that *state trading enterprises* (for example Telstra) will, among other things, buy or sell "solely in accordance with commercial considerations, including price, quality, availability, marketability, transportation and other conditions of purchase or sale, and shall afford the enterprises of the other contracting parties adequate opportunity, in accordance with customary business practice, to compete or participate in such purchases or sales".⁴⁸
- ❑ Regulations relating to the procurement of goods and services by a *government* (through its departments and agencies) for its own use are presently outside the scope of the main World Trade Organisation (WTO) rules. That may change. The WTO has an Agreement on Government Procurement with 28 parties. Australia is an observer to that Agreement.

USE OF GOVERNMENT INDUSTRY ASSISTANCE⁴⁹

"In particular, Labor believes that industry policy measures must be developed and implemented on the basis of mutual obligation. Assistance provided to industries will therefore be on the basis of agreements between government and industry whereby industry agrees, for example, to specific job, export and investment targets, in exchange for governments providing the best possible environment to achieve those targets. Individual projects or companies which receive federal government assistance under investment attraction schemes will need to enter into activity agreements with a Labor Government that ensure commitments to priority issues such as employment and local content strategies." [Ch12, paras 18-19]

"In developing strategies for Australian industry to realise more opportunities in the domestic and export markets, Labor will:

- *develop action plans in key industry sectors, in consultation with industry and union representatives, which involve firm commitments from industry to export, investment, job and research & development growth targets in exchange for assistance provided by the government." [Resolutions, p211]*

Comment: The effective implementation of these commitments would likely have significant impacts on national productivity. Policy would be directed to a mix of conflicting goals and targets, rather than just one (efficiently meeting the requirements of the marketplace).

Job creation is best seen as a national objective attained with nationwide policies, such as flexible workplace relations, rather than an objective to be determined industry-by-industry.

Australia's successful experience with tariff reform illustrates the case for not viewing job creation industry-by-industry.

⁴⁸ Article XVII, 1(b), GATT

⁴⁹ Again, this is rather wider than just an 'IR policy'.

ADDITIONAL EMPLOYEE ENTITLEMENTS LEGISLATION

NATIONAL EMPLOYEE ENTITLEMENT PROTECTION

“Protection of employee entitlements in circumstances of company insolvency is an increasingly important aspect of income security. Labor’s legislation to protect employee entitlements will be national and ensure that:

- *100 per cent of entitlements of employees are protected;*
- *payments to employees are timely;*
- *additional cost burdens placed on employers are minimised;*
- *employers are not required to make additional payments for benefits already protected by trusts or other appropriate means;*
- *small business is protected from any additional costs;*
- *corporations law is amended to enable recovery of assets in circumstances where the use of corporate structures has the effect of denying workers their entitlements; and*
- *entitlements are deemed to be a debt for the purpose of insolvency, and courts are enabled to recover entitlements from related companies.”* [Ch3, para 73]

Comment: The effective implementation of this commitment could well see a lift in on-costs for medium and large firms.

UNIFORM MINIMUM STANDARDS OF COMPENSATION AND OTHER RIGHTS FOR INJURED WORKERS

“While occupational health and safety remains primarily a State responsibility, the federal government can and should do more to ensure appropriate standards are applied for Australian workers irrespective of where they work. The following principles should be applied:

- *increased resources for research, standards setting, information and inspection at the national level, and by grants to State, local and industry/enterprise level where appropriate;*
- *uniform minimum standards of compensation and other rights for injured workers; and*
- *the encouragement of tripartite industry forums on occupational health and safety.*

Labor will work with the States to achieve a nationally consistent occupational health and safety framework which reflects best safety practice within Australia, and which is consistent with the best international standards. This framework should be clear and capable of enforcement at the workplace level. This framework must extend the focus of occupational health and safety practice from symptoms to the major causes of occupational health and safety hazards including workplace fatigue, stress; and occupational bullying and violence.” [Ch 3, paras 104,105]

Comment: There are trade-offs in workplace safety issues, as there are with any other safety issues. For example, Australians accept the risks involved in driving cars because the costs of legislating road-related deaths and injuries fully out of existence are considered too high relative to the benefits of road use. Economic studies confirm

that people 'price risk': that is why, everything else equal, dangerous jobs pay better than low risk jobs. In pricing risk, people do not apply an infinite price to hazards – otherwise car driving would cease.

Similar considerations apply with workplace safety issues. Australia can adopt international 'best safety practice' for its workplaces. Presumably that will have the benefit of reduced fatalities and injuries in the workplace. But it needs to be recognised that there are also costs to society from reducing workplace hazards, including higher labour on-costs. There is also a possibility that some jobs will be shifted offshore. The extent of the increase in on-costs will depend on the proposed standard to be adopted for Australian workplaces.

APPENDIX B: BCA DISCUSSION OF THE WORKPLACE RELATIONS ENVIRONMENT

OVERVIEW OF CHANGES

From Federation until the late 1980s, Australia's workplace relations environment was characterised by a highly regulated and largely centralised workplace relations system. The predecessors of the current Australian Industrial Relations Commission (AIRC) took a lead role in setting minimum standards and requiring compulsory arbitration and conciliation. The employer-employee relationship was made less direct given the required role of third parties such as industrial tribunals, unions and employer associations in workplace relations matters.

The 1980s saw calls for change in workplace relations to ensure Australia could effectively compete in a global economy. As Australia introduced tariff cuts, the floating of the dollar and the deregulation of the financial sector during the 1980's there were a series of Accords between the Federal Government, employers and the unions which took these economic and market changes into account.

1987 saw the introduction of productivity gains as a key driver of wage increases awarded through the AIRC. This was extended to awards in 1988 when in the National Wage Case, wage increases were contingent on restructuring of awards to contribute to improving the competitiveness and efficiency of the industry. The reforms of the 1980s culminated in the passage of the *Industrial Relations Act 1988* which established the capacity for certified agreements at the enterprise level.

Substantial amendments were made to this Act in 1993 (Keating Government) and again in 1996 (Howard Government) reinforcing the role of workplace relations negotiations at the workplace or enterprise level in place of arbitrated industry-wide regulation. The legislative amendments in 1993 established the capacity for "non-union" agreements, varied the award making role of the AIRC giving emphasis to establishing a "safety net" of minimum entitlements and introduced a model of minimum entitlements for employees. In 1996 the Act was extended to include individual Australian Workplace Agreements ("**AWAs**"); introduce a set of allowable matters to be included in awards, extended sanctions against unlawful industrial action and introduced new measures "freedom of association".

Between 1998 and 2001 there were a number of attempts at legislative change in areas such as termination of employment, AWA processes, secret ballots, transmission of business, minimum entitlements for Victorian employees and bargaining fees. A small number of these Bills were passed. The process of introducing Bills to address specific issues has continued up until 2004 with most legislation not being passed in the Senate.

Overall the changes during the late 1980's and 1990s in workplace relations have lead to a substantial growth in employees covered by enterprise or workplace based agreements (collective certified agreement) and AWAs (individual certified agreement). There has been a fundamental shift to workplace relations decisions being made at the enterprise level between employers and employees.

It is argued that the growth in use of these agreements by business has meant employers have the flexibility to introduce productivity and efficiency initiatives that

would not be permissible under industry-wide and occupation-based awards. The growth of enterprise agreements has coincided with growth in employment, real wages and productivity. Also during this time there has been a significant reduction in the number of working days lost due to industrial action.

Whilst the improvements in productivity, employment and real wages cannot be attributed to the reforms in the industrial relations system alone, these reforms do appear to have played an important role in creating a labour market conducive to higher productivity and efficiency.

TRENDS IN WORKPLACE RELATIONS

Ongoing Role of Awards

The role of awards continues to be that of setting the minimum standard on a range of workplace matters. There are currently over 2100 active awards specifying minimum terms and conditions.

Whilst award simplification has resulted in a significant reduction in the volume of award regulation, awards generally remain lengthy and highly prescriptive documents incorporating clauses that may not be relevant to today's workplaces. eg a number of awards prevent part time employment or youth trainees on worksites.

In 2000 just over 23% of the Australian workforce had their terms and conditions of employment including wages specified by either a State or Federal award only. The following table prepared by Corrs for the BCA in 2002 provides details of award and agreement coverage in 2000.

INCIDENCE OF PAY-SETTING ARRANGEMENTS – PERCENTAGE OF EMPLOYEES COVERED - 2000

STATE	Federal or State Awards only	Registered Federal Collective Agreements	Registered State Collective Agreements	Federal Individual Agreements ++	State Individual Agreements	Unregistered Collective Agreements	Unregistered Individual Agreements +
ACT	16.2	57.5	N/A	2.9	N/A	1.9	21.5
NSW	23.9	17.6	15.4	0.7	N/A	1.4	41
NT	24.4	37.6	N/A	2.6	N/A	3.9	31.5
QLD	24.6	13	27	0.5	0.4	1.8	32.7
SA	30.5	17.4	19.6	0.5	N/A	1.7	30.3
TAS	32.2	19.4	21.9	0.2	1.2	0.9	24.2
VIC	21.1	32.7	N/A	2	N/A	1.3	43
WA	18.3	15.8	17.5	0.4	6.5	2	39.5
AUST	23.2	21.7	13.5	1	0.8	1.6	38.2

Source: Australian Bureau of Statistics, *Employee Earnings and Hours*, 6306.0, May 2000

+ includes employees whose pay was set by an individual common law contract and employees who received over award payments by individual agreement.

++ this figure has increased substantially since this table was prepared.

By 2002, the number of employees covered by awards only had fallen to just over 20% of the workforce. Although, the 2002 ABS publication does not provide the same break-down of individual and collective agreements as the 2000 publication it does aggregate them into broad categories.

INCIDENCE OF PAY-SETTING ARRANGEMENTS – PERCENTAGE OF EMPLOYEES COVERED - 2002

STATE	2002		
	Federal or State Awards o	Collective Agreements	Individual Agreements
ACT	20.2	49.3	30.4
NSW	21.3	35.3	43.3
NT	16.3	45.1	38.6
QLD	24.6	41	34.4
SA	25.1	39.2	35.8
TAS	21.5	49.3	29.3
VIC	17.2	38.3	44.4
WA	15	36.2	48.8
AUST	20.5	38.2	41.3

Source: Australian Bureau of Statistics, *Employee Earnings and Hours*, 6306.0, May 2002

The take up of collective and individual agreements has varied across industry sectors.

The table below highlights the heavy concentration of award only conditions in particular sectors eg retail trade and accommodation.

INCIDENCE OF PAY-SETTING ARRANGEMENTS – PERCENTAGE OF EMPLOYEES COVERED BY INDUSTRY SECTOR - 2002

INDUSTRY	Awards only	Collective Agreements	Individual Agreements
		(State and Federal, Registered and Unregistered)	(State and Federal, Registered and Unregistered)
Mining	5.9	40.5	53.6
Manufacturing	12.5	37.5	50
Electricity, gas and water :	1.1	78.1	20.9
Construction	17.1	23.1	59.8
Wholesale trade	11.7	7.9	80.4
Retail trade	34.2	30.3	35.4
Accommodation cafes and	61.2	6.8	32
Transport and storage	16.4	40.3	43.3
Communication services	2.4	69.1	28.4
Finance and insurance	4.9	50	45.1
Property and business ser	18.1	11.7	70.1
Government administratio	6	86.6	7.4
Education	7.8	83.5	8.7
Health and community ser	30.3	49.5	20.1
Cultural and recreational s	10.9	31.2	57.8
Personal and other servi	22.2	42.6	35.3

Source: Australian Bureau of Statistics, *Employee Earnings and Hours*, 6306.0, May 2002

Enterprise Agreements

Awards also form the basis from which collective union and non union agreements under the Federal Workplace Relations Act are negotiated (This is the case for State based collective agreements as well). That is, even where an employer is not a signatory to an award they must either identify a suitable award for the purposes of entering into enterprise agreement negotiations or the AIRC will nominate one.

The Department of Employment and Workplace Relations (DEWR) reported that as at December 2001, 43,196 collective agreements had been registered with the AIRC under the *Workplace Relations Act 1996*, in the period 1991 to 2001.

More recent information from the Office of the Employment Advocate (OEA) estimates that over 1.4 million employees were covered by Federally registered union certified agreements as at 31 December 2003 and a further 163,500 employees were covered by federally registered non-union agreements.

The growth in the number of agreements made has been significant and in recent years the take up of agreement making has extended into smaller firms as well as large companies. There has also been a change in the contents of the agreements being certified.

In a joint report from DEWR and OEA *“Agreement making in Australia under the Workplace Relations Act 2000 and 2001”* it was noted that over the decade from 1991 to 2001 a number of trends have emerged in enterprise agreements. Agreements appear to be covering an increasing range of conditions and are becoming more specific rather than general statements of principles.

The more specific terms and conditions of employment included in the agreements are trending towards greater flexibility as indicated in the table below. Awards tend to include clauses defining hours of work. The enterprise agreements are increasingly varying the arrangements around hours of work.

INCIDENCE OF HOURS OF FLEXIBILITIES IN AGREEMENTS

Figure 3.5.7: Incidence of hours flexibilities in agreements in 1998–1999 and 2000–2001

Flexibility	1998-1999 average % of agreements	2000-2001 average % of agreements
Span of ordinary hours and how they are worked		
Specified weekly hours	41	51
Average weekly hours ¹	38.6	38.1
Make-up time	7	7
Time-off-in-lieu at ordinary rates	12	11
Time-off-in-lieu at penalty rates	10	6
No restrictions on days to perform ordinary hours	8	11
Ordinary hours of work may be averaged over an extended period ²	4	4
Compressed week	1	2
Increase in ordinary hours ³	2	2
Hours of work decided by employee majority	8	8
Hours of work may be negotiated	9	12
Hours of work may be varied by employer after consultation with employees	5	6
Management may alter hours	3	3
Flexible starting and finishing times for ordinary hours of work	4	3
Flexitime	5	3
Shifts and rostered days off		
12-hour shifts	13	8
Rostered days off may be banked/accrued	36	40
Rostered days off may be varied by mutual agreement	36	40
Time-off-in-lieu may be granted for working on a rostered day off	6	9
Public holidays may be taken on another day by mutual agreement	8	9
Breaks		
Staggered breaks	11	14
Breaks not to interrupt continuity of work	11	10
Management may alter break	4	3
Number of agreements	13 064	13 632

Source: DEWR Workplace Agreements Database and *1998 and 1999 Report on Agreement Making*.

Notes:

1. These data relate to the number of average weekly hours rather than the incidence of provisions specifying hours, and are not percentage figures.

2. An 'extended period' in this provision usually means a period of longer than a month.

3. Coverage for this provision cannot be compared with 1998 and 1999 data due to changes in the coding framework.

Over 80% of agreements made in 2000-01 included provisions dealing with hours of work, types of employment, occupational health and safety, training, termination, change and redundancy, superannuation and personal/carers leave. Nearly 80% of

agreements over the same time period also included at least one of the following - flexible hours, family/carers leave or part-time employment.

The following table provides some insight into the changing nature of the terms and conditions included in agreements over the last decade. Ten agreements made in 1991 were tracked through to 2001 and the terms and conditions in the agreements compared.

INCIDENCE OF MAIN EMPLOYMENT CONDITIONS PROVISIONS IN SAMPLE OF THE FIRST 100 AGREEMENTS, BY FIRST AGREEMENT AND MOST RECENT AGREEMENT

Figure 2.7.3: Incidence of main employment conditions provisions in sample of the first 100 agreements, by first agreement and most recent agreement

Provision	Number of agreements containing the provisions	
	First agreements (1991-1992)	Most recent agreements (1997-2001)
Long service leave	2	4
Annual leave	3	6
Personal/carer's leave	0	7
Overtime	1	6
Salary-related matters	0	7
Public holidays	0	2
Employee representation	4	8
Termination, change and redundancy	0	8 ¹
Occupational health and safety	2	4
Equity issues	4	5
Consultative arrangements	7	9
Superannuation	0	7
Parental leave	0	5
Type of employment	4	8
Hours of work	7	7
Shift work	1	4
Work organisation/performance indicators	9	9
Training	7	7
Number of agreements	10	10

Source: DEWR analysis of the agreements.

Note:

1. Of the most recent agreements, the two that did not contain any termination, change and redundancy provisions, and another one with those provisions, had companion redundancy agreements.

In summary it appears that there is a:

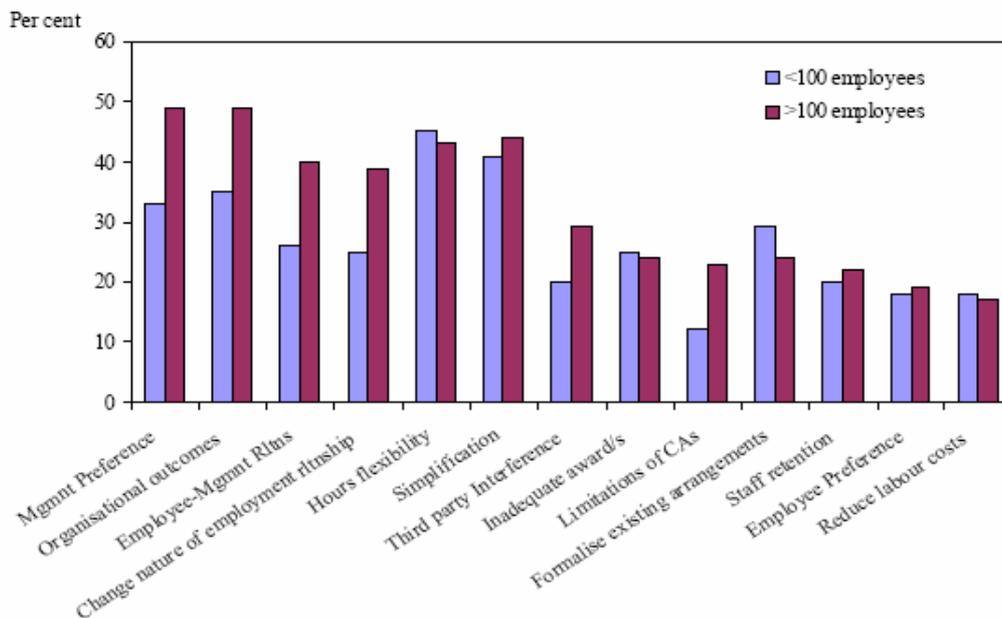
- growth in use of certified agreements both union and non union;
- smaller as well as large companies are now using the agreement making process;
- enterprise agreements whilst still based on awards are seeking to gain greater flexibilities with these terms and conditions and other matters of importance at the enterprise level; and
- over time, there is greater flexibility and tailoring to individual enterprise need in enterprise agreements.

Australian Workplace Agreements

There has been a significant increase the use of AWAs. The number of annually approved AWAs has increased from 40,244 in 1998 to 70,000 in 2001 with the cumulative total to April 2004 being 470,042 according to the Office of the Employment Advocate (A number of these agreements will be rollovers of agreements previously negotiated). Large employers ie those companies employing over 500 people, account for 40% of all AWAs and AWAs are more prevalent in the mining, manufacturing, retail trade, property and business services and communications services sectors.

The following table gives an indication of the reasons employers have sought to use AWAs.

Figure 5.2.1: Reasons for introducing AWAs by workplace size



Source: OEA Employer Survey, 2000.

AWAs are increasingly being used and are the major instrument of employment in the resources sector. They have the capacity to deliver both strategic and operational benefits for the enterprise and the individual.

AWAs operate independently of an award and there is no requirement to meet all the terms of the award in and AWA. They can also be more easily developed than common law agreements and can be more cost effective to develop particularly where there are small numbers of employees.

APPENDIX C: CONSULTATION BY ACCESS ECONOMICS WITH MAJOR EMPLOYERS

Access Economics conducted telephone interviews with four major employers to obtain their views about the workplace relations landscape. This appendix provides a summary.

AWAs

Responses to the usefulness of AWAs varied. An employer in a traditional 'old economy' industry had managed to garner much of the benefits of productivity bargaining under the 'Keating' reforms. Use of AWAs was limited. Common law contracts applied to managers.

Another noted that AWAs were of most use in managing its senior and middle managers and the growing proportion of its workforce who were 'information workers'. They also noted that information workers are not like industrial workers – one size does not fit all. Traditional 'old economy' jobs were generally seen to be better managed with enterprise agreements than AWAs.

The proposed replacement of AWAs with common law contracts was seen by one employer as not a major issue. The member noted that unions disliked common law contracts even more than AWAs because of the built-in protections of AWAs.

If AWAs were abolished it was predicted by some employers that there be disappointment among many workers.

Enterprise bargaining

EBA was widely seen to have delivered considerable productivity benefits – with one employer noting a 25% productivity improvement in the workplace when the focus of work shifted to 'work done' rather than 'time worked'.

In another case an EBA was seen to have delivered industrial democracy that had not previously been the case – the most humble worker now had a say in the operations of the enterprise; they saw that their opinion was valued.

Growing worker demands for flexibility

Some employers noted that workers wanted more flexibility than they are currently getting. Having got a taste of the possibilities of flexible workplaces, some workers were now pushing the boundaries of those arrangements.

One employer noted that industrial awards stood in the way of changes illustrated by the case of a worker who wanted to 'salary sacrifice' in order to boost his superannuation contributions. The employer was unable to provide the worker salary sacrificing arrangements without first engaging in a lengthy process requiring a formal ballot of workers (resulting in a 95% 'yes' vote) to be able to opt into salary sacrificing arrangements. That vote cost the company \$1 million in direct costs alone.

Flexibility and an ageing workforce

A pressing issue for a number of employers is maintaining the involvement of highly experienced baby boomers. For example one employer saw the median age of its workforce rise 10 years (from 35 to 45) in the last decade. That means that it is becoming ever more important to be able to offer more flexible work arrangements that allow a gradual drift into retirement.

Casualisation

Casual employment provides employers with the opportunity to 'test drive' possible permanent workers. Casual employment provided management with an important tool for flexibly managing seasonal and/or project work flows – the issue isn't seen by employers so much in cost terms (casual workers attract a premium which offsets lack of entitlements in any case). Rather the issue was seen in terms of production flexibility and minimising hire/redundancy costs.

Some fear that if casual employees were made permanent, then previous casual jobs would not be offered (because of hire/redundancy costs and the negative impact on corporate culture of frequent sackings). Another feared that short periods of work would become the norm for casuals. Another possible response may be to contract out work (and let contract companies take on the obligations of permanent employment).

Concerns that casualisation was leading to exploitation of workers was seen as unlikely for any given employer in the long run – no one wants to work with an employer with those sorts of values.

Secondary boycotts

The secondary boycott provisions of the TPA Acts were seen as a key discouragement for unions contemplating secondary boycotts. The usefulness of the TPA was more in its existence than in its application. Elimination of these provisions was (along with unspecified changes to the industrial legislation) was considered to be a major concern for a number of employers. Some members remained uncertain how effectively the secondary boycott provisions could be embodied into industrial law.

Youth wages

The possibility of higher wage rates for younger workers was not seen as a high priority issue by some employers, given that their workforces are ageing rapidly. Nonetheless the prospect of higher wage rates for young workers may make younger workers less employable – with the workplace now much more focussed on productivity, less experienced workers (that is, younger workers) need to have lower wages in order that they remain competitive vis-à-vis more experienced workers.

Equal remuneration for women

One employer noted that in certain respects many women seemed to be better equipped (specifically more creative and more adaptable) in dealing with the demands of an information-based workplace than men. In that context equal remuneration was not seen as an issue.

42/120 Collins Street

Melbourne 3000