

“Every time you read someone extolling the dynamism of the modern economy, the virtues of risk-taking, declaring that everyone has to expect to have multiple jobs in his or her life and that you can never stop learning, etc., etc., bear in mind that this is a portrait of an economy with no stability, no guarantees that hard work will provide a consistent living, and a constant possibility of being thrown aside simply because you happen to be in the wrong place at the wrong time.”

Paul Krugman



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Productivity is the issue *de jour* and rightly so. Krugman’s aphorism about productivity being “almost everything” is quoted in the blurb for this event, like some others of its type.

Australian Unions agree that productivity growth is extremely important. It’s the way we get rising living standards and sustainable prosperity.

But I wanted to start with this more recent quote from Krugman to make the point that for too many workers and their families there is a disconnect between their interests and their aspirations and the opportunities the economy in general and the labour market in particular give them. An environment where flexibility is experienced as a cut in take home pay, or disruption to family life and where Government services don’t meet their needs.

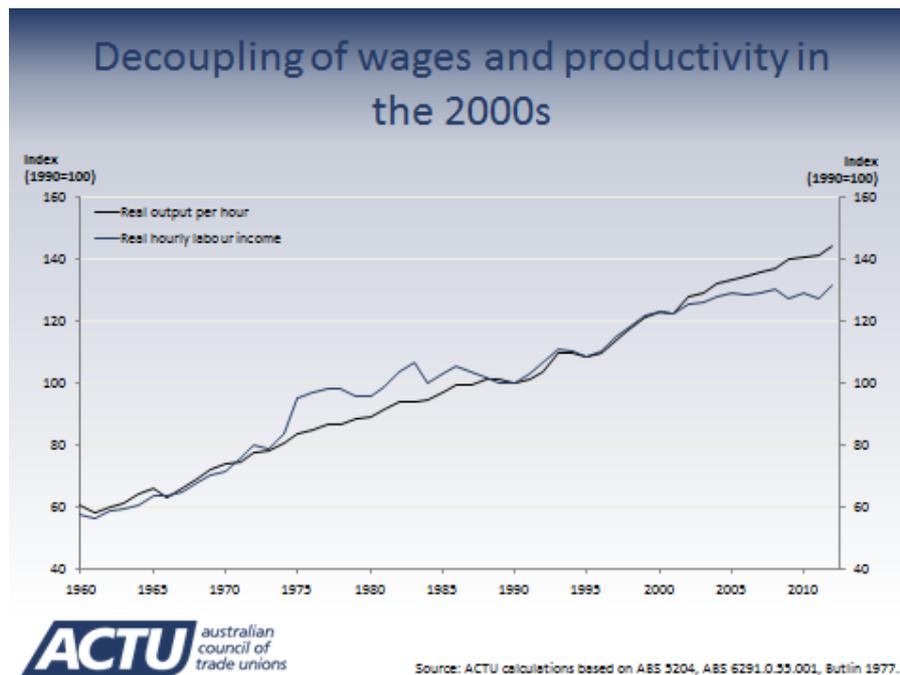
But it’s important that we separate myth from reality on IR and productivity. Labour laws are not the cause of our productivity problems, and they’re not the solution. As we have comprehensively demonstrated², while Australia has issues with productivity it is for reasons almost entirely unconnected with labour law. This is a conclusion reached by the recent review of the Fair Work Act³ and shared by almost everyone without an IR axe to grind. The short version is that WorkChoices didn’t fix the problem, and Fair Work hasn’t made it worse, and the mining boom is a key culprit.

However, we also care about the distribution of the gains from productivity growth.

¹ <http://krugman.blogs.nytimes.com/2012/11/18/the-insecurity-election/?smid=tw-NytimesKrugman&seid=auto>

² *Working by numbers: Separating rhetoric and reality on Australian productivity*
<http://www.actu.org.au/Publications/WorkingAustraliaPapers/WorkingbynumbersSeparatingrhetoricandrealityonAustralianproductivity.aspx>

³ *Towards more productive and equitable workplaces: An evaluation of the Fair Work legislation*
<http://www.deewr.gov.au/WorkplaceRelations/Policies/FairWorkActReview/Pages/Home.aspx>



This chart tells the story about the distribution of the gains from productivity growth in Australia. During the 1960s and early 1970s, hourly labour income grew at around the same pace as productivity. This means that the gains from productivity growth were shared evenly between labour and capital.

In the mid-1970s, labour income rose faster than productivity. At the time this was commonly referred to as the “real wage overhang”. An “overhang” of this sort is equivalent to a rise in labour’s share of national income.

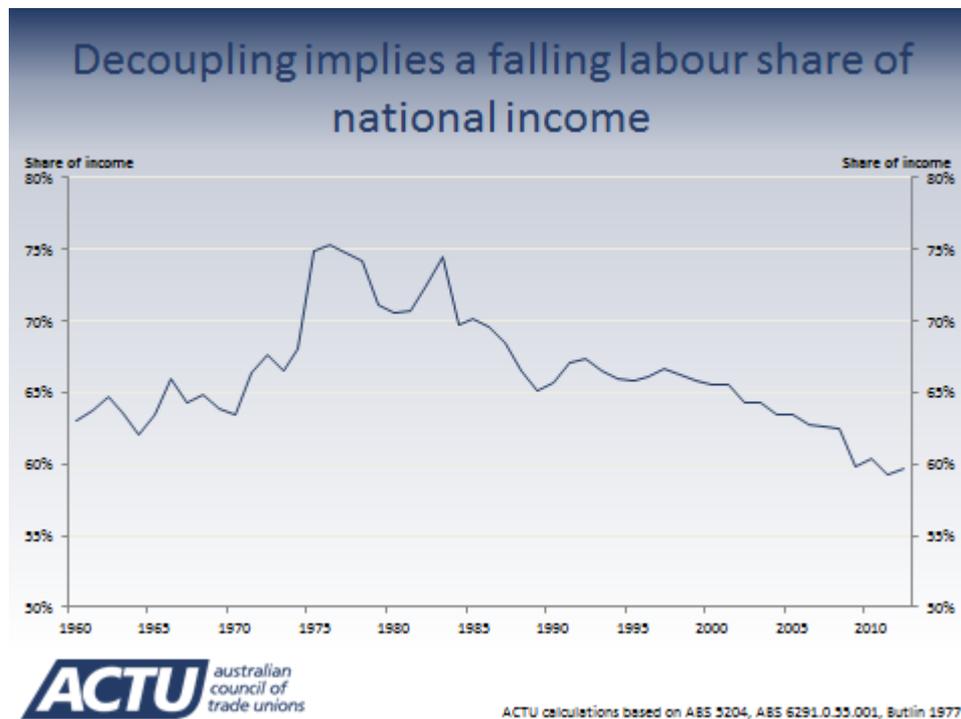
By the late-1980s, the “overhang” had been eliminated, as real wage restraint was exercised under the Accord framework in return to gains in the social wage. Labour’s share of national income had returned to the levels of the 1960s and early ‘70s.

In the 1990s, the gains were distributed fairly evenly between capital and labour. Total labour income in the economy grew at around the same pace as productivity.

In the 2000s, real wages growth has ‘decoupled’ from productivity, and has lagged behind. This is equivalent to saying that the labour share of national income has fallen, while the returns to capital as a share of income have risen.

Just as the relative growth rates of labour income and productivity were used to diagnose an “overhang” in the 70s, it now appears that Australia has a “real wage underhang” – wages haven’t kept pace with productivity growth.

This is an interesting story. In the 90s, labour and capital shared equally in the gains from productivity growth, and that growth was rapid. In the 2000s, the benefits went disproportionately to capital, and productivity growth slowed. This suggests that an environment in which workers feel like they stand to gain from productivity growth will be one in which growth is more rapid. I.e. a fair distribution helps to ensure good overall outcomes.



This chart tells the same story – in the 80s, labour’s share of income returned to where it had been in the 1960s and early 1970s. It was then more or less stable during the 1990s. In the 2000s, it has fallen steadily, and in 2011 reached its lowest level in at least fifty years.

Not only do we not have a “wages breakout”, but we have the opposite phenomenon – hourly labour income hasn’t kept pace with productivity growth and so labour’s share of income has fallen.

To those who reckon productivity is itself almost everything, think again. Distribution is not nothing. Neglect distribution and productivity growth suffers.

Why Chairman Banks and the cadres could use a healthy dose of competition.

Of course we have an institution nominally devoted to the subject of productivity – and I wanted to make some observations about that.

Recently, one of my senior union colleagues said to me “You know, Doug Cameron⁴ is dead wrong about abolishing the Productivity Commission. It shouldn’t be abolished it should be subject to rigorous market-based competition.”

My mate got me thinking.

You see there is a sameness to the advice from the PC. You can generally guess the content of a PC report in advance, with the prescriptions following a certain pattern. If it’s a government service delivery question – turn it into vouchers. If it’s a regulatory issue - propose deregulation. If it’s a market failure issue – create an artificial market

The PC, contrary to the medicine it doles out for others, is under no market pressure to deliver. Like many monopoly providers, it has simply standardised its product doesn’t innovate. A PC report is like East German shoes –you can have any sort you like as long as you want the size 10 brown ones.

In two recent speeches⁵, outgoing PC Chairman Gary Banks has called (again) for the application of competition law principles to workplace regulation, and suggested that industrial protections are an out-dated relic of the era of “dark-satanic mills”.

The offensive inference from these interventions is that labour market regulation is some sort of protection racket and that taking wages out of competition (so firms compete on an equal footing through innovation and quality) is an act of economic terrorism.

But Labour markets are not remotely well represented by some frictionless Walrasian process where workers receive their marginal product. Witness the gender pay gap, and the lack of premium paid for insecure work, or the failure of the deregulated US labour market to clear.

Labour markets are characterised by a fundamental power imbalance between employee and employer. Employment relationships involve bargaining quasi-rents, where the parties to the negotiations typically and almost universally have vastly different bargaining power. Monopsonistic employment relationships – where employers have some discretion over the wage they will pay - are widespread and endemic. Labour markets are segmented. Employment agreements are complex and highly incomplete, with an asymmetry of information between the parties and are typically entered into for an open-ended duration.

As Krugman’s quote demonstrates, without industrial regulation and labour market institutions like unions, employees typically have little control over their working lives, little ability to predict and plan their income and their time. Unions also provide workers with a voice. Labour regulation and institutions help to redress the imbalance of power, however modestly.

⁴ See Senator Doug Cameron *Axe Productivity Commission and up Taxes* <http://www.theaustralian.com.au/national-affairs/opinion/axe-productivity-commission-and-up-taxes/story-e6frgd0x-1226441771358>

⁵ Gary Banks, *Productivity policies: the 'to do' list* (01/11/2012) and *Competition Policy's Regulatory Innovations: quo vadis?* (26/07/2012) see <http://www.pc.gov.au/speeches>

The only plausible outcome from subjecting industrial relations regulation to a PC review is a reduction in workers' rights and entitlements. A dispassionate evaluation of the evidence does not provide any support for the contention that the removal of workers' rights is the most pressing priority for governments seeking to improve the wellbeing of the Australian people.

Australia's future prosperity will not be secured by reducing the incomes and rights of Australian workers (or by de-regulating the taxi industry, which Banks also names as a priority). If this is the best he's got, it suggests that it's a good thing that Mr Banks is retiring.

In lieu of that agenda, I'd like to propose a discussion on four big ideas that would make a difference to productivity and national prosperity.

1. *How we do collective bargaining*

Almost certainly because Australia had a long history of centralised wage fixation, we have now an extreme focus on bargaining at the atomised level of an individual employer. This has had unfortunate consequences. The system is designed around, and works best for, a very particular model of the workplace that is increasingly rare. We have created a bargaining system that is predicated on the existence of employers who enjoy at least a measure of economic autonomy, and who engage a relatively stable and secure workforce.⁶

It is easy to think of industries characterised by high net labour costs, low barriers to market entry and intense competition - where this isn't the reality. Or others, where the employers are 'price takers', or part of a mass of inextricably linked but nominally independent entities in a contracting chain or project. The dispute earlier this year, involving my old union the NUW and a logistics operation outsourced from Coles to Toll is a case where the legal identity of the employer doesn't indicate control and economic power.

Our bargaining rules – focused overwhelmingly on bargaining at the enterprise level – are increasingly ineffective in light of the realities of 21st century workplaces, and organisational and economic structures. Collective bargaining institutions need to evolve and adapt if they are to remain responsive and relevant to the needs of workers, employers and the economy.

Amidst the semi-religious devotion to enterprise level bargaining we see in Australia, it is easy to overlook the diversity with which collective bargaining is organised in different countries. While enterprise-level bargaining remains the predominant bargaining structure in North America in many other OECD member countries have systems characterised by multi-employer bargaining, and/or mechanisms to extend collective agreements across a sector or industry.

Many of these states have well-developed multi-employer bargaining structures, particularly at the sectoral level with scope for variation at the branch and enterprise levels (e.g. flexible work arrangements; timing of wage increases).

Multi-employer bargaining systems recognise the basic logic that in many cases nation-wide challenges are best dealt with through negotiations at the national level, and that industry wide issues are best addressed on an industry basis.

It's also easy to forget that the general trend internationally is towards *expanding* rather than restricting collective bargaining agendas. Issues such as work organisation, training & skill development, work and family issues and the regularisation of contingent or insecure forms of employment are increasingly been recognised by unions and employers as areas well-suited to bargaining at the industry or sectoral level. Through bargaining, the interests of employers for enhanced productivity and flexibility with those of workers for income and employment security and equal treatment can be best reconciled, change best managed, and innovative solutions developed.

⁶ See also Lyons *Enough Love to End the Struggle?: A union reflection on life under Fair Work and portents for the future* (2011) JIR 53(3) 383-391

2. *Portable entitlements*

The dramatic shifts we've witnessed in how we work and in the structure of our labour market also raise questions over the effectiveness of our traditional accrual models of leave entitlements.

In large part, we continue to have a system of contingent entitlement to forms of leave – whether it be long service leave, annual leave or sick leave - that presupposes permanent, ongoing employment.

Yet the realities of our labour market are that work is more insecure for more people. Today many workers simply miss out on basic entitlements because they don't spend long enough in one job, or are engaged in types of work that don't provide access to these entitlements at all (such as casual, contract, temporary or labour hire).

These realities suggest it may be time to consider new approaches to the accrual of paid leave entitlements, including portability.

There is a clear case to be made for portability of leave entitlements so as to ensure our system remains equitable, that paid leave doesn't become the privilege of the minority, and that all workers enjoy a basic level of economic security. But there may be benefits to employers and to the broader economy as well.

If banked immediately, portable leave accounts may help businesses limit their liability for unpaid leave entitlements and can also assist employers – especially small employers - by helping spread the risks associated with engaging workers. Centrally managed schemes can help alleviate administrative burdens, and over time, may also enable the subsidisation of entitlements through interest earned on investment.

If done on an industry level, portable entitlement schemes can also help improve retention rates in sectors which may otherwise struggle to attract and retain workers.

On a broader scale, as workers with portable leave entitlements may be less reluctant to change jobs for fear of losing entitlements, such schemes may facilitate structural change through increasing the capacity for labour mobility in response to new patterns of consumer demand, new product markets and new industries.

It the same logic that saw Australia, move to system of accountable, portable and fully vested defined-contribution workplace pensions rather than the more traditional defined benefit superannuation schemes where benefit design is predicated on spending most of a working life with the same employer.

In considering the development of any such scheme, we have the benefit of the years of experience at a State level with long service leave, redundancy and other schemes in industries such as building and construction, maritime, coal mining and contract cleaning. Incidentally, given the earlier point about the merits of multi-employer bargaining, in many cases these important social innovations have come through industry level negotiation and bargaining.

3. Social Insurance System

As we put to the Senate inquiry into Newstart⁷ in seeking an immediate \$50 a week increase and a change to indexation arrangements, Australia's system of income support for the unemployed fails both the basic tests against which it needs to be measured: it doesn't prevent a fall into poverty and it doesn't do enough to help people re-train for new work or stay attached to the labour market. At the same time, Government support for workers affected by structural change in the economy tends to be ad-hoc – increasing the possibility that the support is inequitable and inefficient.

An Australian worker on an average wage who loses his or her job will suffer a greater negative income shock than his or her counterparts in any other OECD country – the single rate of Newstart is just 41% of the minimum wage and around 18% of average wages.

An income shock of this size doesn't help people to look for work and to make themselves available for work. If you find yourself unemployed, with an income that is grossly inadequate, you may quickly find yourself unable to pay your rent and other basic expenses, unable to afford the costs of transport to and from job interviews or potential work, and in a downward spiral of financial circumstances and physical and mental health. This is no way to help people find work.

At the same time, changes in the Australian labour market have profound implications for the design of the income support system. The rise of casual work and other forms of insecure employment mean that workers are less likely to have a full-time, permanent job for an extended period, more likely to 'churn' into and out of unemployment, and more likely to have variable pay and hours week to week. Almost a million workers a year cease a job involuntarily. Our labour market is highly dynamic and employment is increasingly insecure, so a greater proportion of working-age people are likely to interact with the income support system at one point or another

One option we have examined is Flexicurity⁸ – a model of income protection based on European policies that protect the income of workers who lose their job and facilitate retraining and re-entry into paid work. Flexicurity allows for the workforce to adapt to the needs of business by supporting people with re-training, re-skilling and re-employment, and meaningful income security when they're out of work. The ACTU has established a proof-of-concept for an economically sustainable social insurance scheme that provides meaningful income support for workers who lose their jobs. It assists structural change, to better and more quickly transition our economy to new and emerging industries.

I'm not sure that Flexicurity is the answer –it's a bloody awful name to start with - but it is clear that Australia needs to have comprehensive discussion about how create a sustainable social

⁷ The Senate Committee report will be released later today. For ACTU Submission see: <http://www.actu.org.au/Publications/Submissions/SubmissiontotheAllowancesInquiryoftheSenateEducationEmploymentandWorkplaceRelationsCommittee.aspx>

⁸ See Belchamber, *Flexicurity: What is it? Can it Work Downunder?*, Australian Bulletin of Labour, (2010) 36 (3)278

insurance system that protects people from poverty, promotes the growth of skills and facilities productivity.

4. The Tax System

A productive, equitable society needs a tax system that efficiently raises adequate revenue to meet the expectations of the community in a manner with consistent with the essential objective of distributional equity. In this context Australia faces significant challenges⁹.

There is much wailing and gnashing of teeth in Australia about the need for “tax reform”. Unfortunately this debate, such as it is, is centred around calls for a cut in the corporate income tax rate¹⁰ (while maintaining all distortions and concessions) and calls to increase the rate and / or broaden the base of the GST.

The former proposal would simply further reduce tax paid by a small number of highly profitable, generally big businesses. The latter would simply shift a greater proportion of the tax burden onto low and middle income earners¹¹. A mere corporate tax cut would little to promote new investment and neither proposal would promote employment, improve productivity or assist in distributional equity.

But what might we do instead? Two ideas.

On business tax, broader reconfiguration of the business tax system could improve its efficiency. This reconfiguration could involve taxing immobile economic rents at a higher rate, and taxing normal rates of return to capital at a lower rate a move that might bring substantial economic benefits to Australia. The ACTU has said that an Allowance for Corporate Equity (ACE) system (where the tax on a “normal” rate of returns is eliminated and a higher rate applied to profits above that rate) is worthy of detailed examination and should be seriously examined as an option for the medium- and long-term.¹²

An ACE would involve many Australian businesses paying no CIT, some paying a little, and a few highly profitable ones making immobile profits paying a higher rate. It would promote productive investment in Australia in industries where the profits are not location specific, and where operations might be located off-shore.

Implementing an ACE would involve a number of challenges. We do not pretend that such a reform would be easy, nor that a clear case for the change to an ACE has been comprehensively made out. It's important in designing changes to corporate tax that we secure public revenue. But it is worthy of debate and discussion as a potential game-changer— starting with preparation of comprehensive modelling.

⁹ See, for example, Speech by Dr Martin Parkinson

<http://www.treasury.gov.au/PublicationsAndMedia/Speeches/2012/Challenges-and-opportunities-for-the-Aust-economy>

¹⁰ Usually a call, citing the Henry review, for a 25% CIT. The AFTS review actually set this as an aspiration predicated on the implementation of 40% Resources rent tax on a wide range of commodities. The MRRT is a 22.5% tax on two commodities. See AFTS Review (2009), *Final Report to the Treasurer*, (Recommendation 45).

¹¹ Who, given the rise in the tax-free threshold would be difficult or impossible to compensate via tax cuts.

¹² ACTU Submission to Business tax Working Group (September 2012)

http://www.treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/2012/Business%20tax%20reform/Submissions/PDF/ACTU_submission.ashx

In relation to State taxes, the GST is not the only option. As the Henry review pointed out, when applied uniformly across a broad base, land tax is an efficient means of raising revenue. Our existing system of stamp duties on conveyances are a volatile and highly inefficient and inequitable means of raising revenue.¹³ By discouraging transactions (including in residential property) it impedes workers re-locating to areas of new or greater employment opportunities, and indirectly increases the infrastructure burden in our cities, as people commute vast distances. Comprehensive reform of land tax would have efficiency, productivity and equity benefits (including in relation to housing affordability).

Again, this is difficult and complex (including the need to deal with transitional issues and asset rich income poor taxpayers). But the GST isn't the only game in town, and we do our country a disservice if we pretend that it is.

CONCLUSION

Now, these sorts of discussions would be hard.

For start, a scare campaign would be easy and the headline "ACTU proposes giant tax on family home" is probably being readied.

Success would involve people reading something longer than a tweet, concentrating for longer than a 24 hour news cycle and debating proposals against the national interest not just their own.

But they are worth having – and all of us who say we want a big national debates about how we secure national prosperity are obligated to at least try and participate.

¹³ AFTS Review (2009), *Final Report to the Treasurer*, (Chapter 6)