

The High Road to Productivity
Speech by ACTU President Ged Kearney to The Future of Work conference
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***** EMBARGOED TO 4pm *****

Congratulations to the organisers of this conference today and for the calibre of the speakers you have on the agenda. It is no mean feat to get representatives of so many different sectors and stakeholders in the one room at the one time.

As a board member of the Australian Workforce and Productivity Agency, and its predecessor, Skills Australia, I have been immersed in the challenges of developing a skilled workforce that can compete in the global economy.

My board colleagues and I do not always agree 100% on the path to get there, but we share a common cause in building an economy that provides decent work, secure jobs and prosperity for all Australians.

The voices of Australian workers must always be heard in this debate. They must be heard because they are affected by changes to workforces and to labour markets. But they also must be heard because workers have much insight and fresh-thinking to contribute.

I am a strong believer in the ingenuity, diligence and skills of Australian workers. They are this nation's greatest economic asset. And they are a fundamental part of the equation for ongoing productivity and economic growth.

But for employers to get the best out of their workers they must be prepared to invest in them; to provide their workers with secure jobs with decent wages and conditions, access to training, and some control over the way their work is organised, and to be prepared to consult and work together with their workforce and their unions.

Good employers know the benefits of this approach too. They know that workers faced with uncertainty about their income and working hours from week to week, and a lack of autonomy over their work, are less likely to be engaged, productive and innovative in the workplace.

Unfortunately far too often we see employers going in the opposite direction; adopting a business model that seeks to extract short-term profits by shifting the risks and costs associated with operating a business on to workers.

But these short-term gains come at the expense of longer term productivity, and of the benefits that can come from investing in workers and workers' capabilities.

And, I believe, at the cost of our longer term competitiveness in a globalised, information-based economy.

So today, I'd like to talk about an alternative approach.

But first we need to understand the productivity problem that confronts us.

We also need to honestly ask ourselves: is there a problem?

So, what is the real state of Australian productivity?

At the outset, it's important that we separate myth from reality on industrial relations and productivity. The recent review of the Fair Work Act comprehensively debunked the idea that Australia's workplace system is holding back productivity growth.

Australia's fastest rate of productivity growth in decades was recorded in the mid-1990s and it has been slowing ever since, including during the WorkChoices period.

Each business cycle since the mid-90s has seen slower productivity growth than the previous cycle. The peak occurred over a decade before the current Fair Work Act.

The strongest sustained rate of productivity growth Australia has experienced was in the post-war period – incidentally under centralised wage fixing, with high levels of job security, relatively little non-permanent, temporary or casual work, and behind high tariff walls.

In the mid-90s, labour productivity grew faster than average. Since then, the growth has been slower. But it has still been growing, not going backwards, as the front pages of the business press would lead you to believe.

Under WorkChoices, labour productivity in the market sector grew at an average annualised rate of 1.1%.

Since the Fair Work Act came into effect, the average annualised rate has been slightly higher at 1.4%. In fact, in the year to the March quarter of this year market sector labour productivity grew by 5.3% – the fastest pace in over a decade.

I am not suggesting that we should be complacent.

According to the recent McKinsey Global Institute report *Beyond the boom: Australia's productivity imperative*, growth in labour productivity was still far lower over the past six years than it was during the 1990s.

But we do need to take a reality check about some of the more outrageous claims about productivity.

And we must look beyond blaming workers for the slowdown in productivity.

Ironically, a substantial part of the productivity slowdown has been due to the boom in mining that is frequently credited as our economic saviour.

McKinsey says that it is capital productivity – *not* labour productivity – that is the biggest drag on growth. A big part of that is explained by large investments sunk in projects that have yet to deliver.

McKinsey estimates that the decline in capital productivity between 2005 and 2011 – almost entirely due to resources – resulted in total lost national income of \$43 billion.

By contrast, labour productivity added \$17 billion to income over the same period – although down by comparison with the “golden age”.

Unions care about productivity growth. We want productivity growth because we know it's the only way to sustainably increase the national income.

And we welcome any form of national discussion about productivity. But we will come to the table armed with facts and the concerns of workers from the factories, shops and offices of Australia.

And it has to be a two-way discussion.

We share the government's aspiration to lift productivity after it languished during the Howard years. We understand that higher productivity is the primary means by which income can grow over time.

But employees do expect to be fairly rewarded for their efforts. Higher labour productivity will be encouraged when workers feel they will share fairly in the benefits of that growth.

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 'decoupled' from productivity, and has lagged behind since.

In simple terms, labour's share of the national income has fallen while returns to capital as a share of income have risen.

Even in mining.

Since the mining boom started, average nominal wages in the mining industry have risen by around 50%.

However, the prices that mining companies receive for their products has increased by 173%.

Of course, those mining wages still represent a solid real wage increase, which is what matters to workers.

But unlike during the 1990s, when labour and capital shared more or less equally in productivity gains and we experienced record productivity growth, the first decade of the new millennium has seen real wages fail to keep up with productivity growth, and the overall rate of productivity growth has slowed down.

This is not a coincidence. Productivity is more likely to increase when workers feel that they stand to gain a fair share of the dividends of growth.

The veteran Fairfax business journalist Ian Verrender alluded to this in a recent column that bore the headline "Ignore the propaganda: cutting wages will not fix productivity".

Like McKinsey, he pointed out that the "real culprit" for the productivity decline is not labour, but capital.

"It is our managers who have let us down, not our workforce," he wrote, adding that:

"The unending campaign to drastically reshape our industrial relations system could come back to bite the business sector".

Says Verrender: "Our productivity "problem" will best be solved through investment - in new and more efficient machines and in education to produce more skilled workers and better managers - not with a slash-and-burn approach to wages and conditions."

The endless pursuit of labour market flexibility by creating a more insecure, casualised workforce has a direct impact on consumer confidence.

If people are unable to spend, and unable to get finance for loans, that must have a detrimental effect on consumer demand.

And for businesses with a domestic focus, that undermines their long-term sustainability.

Others like Ross Gittins of Fairfax and David Gruen of the federal Treasury have made similar points.

So, Australia's relatively low productivity growth is a matter for concern. However, this is a long term problem. WorkChoices didn't fix it, and Fair Work hasn't made it worse.

Labour laws are not the cause of our productivity problems, and they're not the solution.

Instead our productivity debate needs to focus on the real sources of sustainable productivity growth - skills and education, infrastructure and technology, and innovation and quality management.

In that context I'd like to sketch out today what I see as one of the biggest challenges to our ability to invest in our workforce – the growth of insecure work.

In many ways the growth of insecure work is also one of the great unintended consequences of the period of reform Labor led Australia through in the 1980s and 1990s.

It is also a prime example of an area where we need to develop new approaches to social protection or insurance.

Today the average Australian worker is exposed to far higher levels of risk than in the past, but we are not adequately supporting them to help manage those risks.

As many of you would be aware, last year the ACTU initiated an independent inquiry to help understand the impact of these changes on the nature and distribution of work.

That inquiry was chaired by the former Deputy Prime Minister Brian Howe, ably assisted by a panel including Paul Munro, formerly of the AIRC, Associate Professor Sara Charlesworth of the University of South Australia, and Jill Biddington, a union educator and organiser.

The inquiry examined the growth of poor quality jobs that provide people with little economic security and little control over their working lives.

The characteristics of these jobs include unpredictable and fluctuating pay, inferior rights and entitlements, limited or no access to paid leave, a lack of certainty over job tenure and a lack of a say at work.

Employers argue that insecure work has many benefits.

Some argue that during the Global Financial Crisis the widespread use of these practices allowed a reduction in employees' hours rather than retrenching workers.

A good example of these arguments is found in the Business Council of Australia's Supplementary Submission to the Review of the Fair Work Act.

This may be reasonable in time of crisis – but as commentators such as Mark Wooden and even some employer groups themselves have recognised reductions in working hours together with associated insecurity have been established patterns for at least two decades.

Part time workers – be they permanent or casual – are often seeking more working hours and more pay in order to make ends meet.

There is also a tendency amongst proponents of insecure work to conveniently conflate “casual” and “part-time” work.

Some permanent part-time workers may work flexibly and enjoy control over their hours – but this is not the typical pattern experienced by casual workers, who work when the employer needs them and often at very short notice.

These include about a quarter of the workforce who do not have paid leave entitlements and are deemed as casuals. Indeed, Australia’s rate of casual work is second only to Spain among OECD nations.

The Howe Inquiry documented the scale of the changes that have occurred in typical work contracts and working patterns.

ABS data tells us that today almost one quarter of employees are engaged in casual employment.

Alternative estimates based on HILDA data produce similar estimates.

Moreover, insecure work is not simply a question of *casual* work.

We are seeing an increasingly complex array of work contracts in our economy – many of which pose different challenges:

- 2.2 million workers today are employed as casuals;
- Nearly 300,000 are employed on fixed-term contracts;
- Almost half a million independent contractors are engaged in sham contracting, where a commercial arrangement masks an employment relationship;
- A further 300,000 contractors are “dependent contractors” in the sense they have only one effective client or employer;
- According to the ABS more than 140,000 workers are engaged on an ongoing basis through labour hire agencies – although the Productivity Commission has estimated the real number may be more than twice this.

This stark division between those in permanent, secure work and those stuck in insecure casual and contract jobs is indicative of a new divide in the Australian workforce – a divide between those at the core and those on the periphery.

Tackling this divide requires a radical new approach to training the workforce targeted at those on the periphery.

As Dr Mike Keating has argued, when we think about where to focus our investment in skills those who are presently least competitive in the labour market are likely to deliver the biggest return.

The Howe Inquiry delivered a landmark report, *Lives On Hold*, which was released at the ACTU Congress in May.

The 53 recommendations of the Howe Inquiry are far-reaching and comprehensive.

They include, for example:

- Labour law reforms to provide a stronger and universal set of protections to all Australian workers. These could be done through an improved definition of casual work, expanding

the National Employment Standards, introducing a licensing system for labour hire, and stronger enforcement of existing laws.

- Reforms to achieve a more skilled workforce, including a broader focus on work-life transitions, a commitment to lifelong learning, and reforms to the tax and transfer system to provide a stronger safety net.
- Governments at all levels making stronger use of their leverage as employers, funders and purchasers to support secure jobs.
- A shared commitment with the community sector to dealing with the issues of insecure work where it interacts with society outside of the workplace.
- Further research into the nature and impact of insecure work.

The Howe Inquiry also shone the spotlight onto the personal toll that insecure work takes on people's lives. Their inability to plan for the future, to save or get a loan for a house, the disruption to family and social lives, and the overall anxiety caused by a lack of job security.

This was starkly confirmed by the ME Bank Household Financial Comfort Report earlier this week, which revealed that casual workers have a higher level of financial stress than permanents.

But what we also need to understand is there is a cost for business.

Casualisation represents a "use and throw away" mentality that does not help to build a productive economy or a sustainable society in the longer term.

It erodes our skills base – casual employees receive fewer training opportunities through their employer than their permanent counterparts, and they are often left to organise and fund their own skills development.

Insecure work also leads to a less motivated workforce.

As The Australia Institute noted in its submission to the Howe Inquiry: "Almost by definition a casual worker has little vested interest in the job in question and employers have little interest in the casual employee."

In short reducing pay and conditions will not lead to greater employment or productivity growth. But creating secure employment, career development and properly training workers will.

I do not see how we can develop a culture of training and development without permanent employment arrangements, and without engaged and committed employees.

Smart businesses realise this. *The Australian Financial Review* recently reported that since Wesfarmers took over the Coles supermarkets group in 2007, there has been a radical change in workplace culture away from casualisation to permanency.

Up until three years ago, 70 to 80 per cent of Coles 87,000 "team members" were casuals and some of them may have been lucky to get one shift a month.

One of the first things the new management did was begin to sign people up on permanent arrangements – inverting the proportion of casual to permanent workers.

Today, less than 30 per cent of the chain's staff are on casual working arrangements.

This has been a key factor in Coles' financial turnaround.

Absenteeism has fallen from 12.5 per cent to 3 per cent per year, and staff retention is up.

Factor also into this the lower training and development costs that come each time a new employee is taken on board.

For Coles the proof is in the pudding.

So, how do we get back up to those productivity peaks of the 1990s?

Well, for a start, we need to set aside the shallow notion that the only way to increase productivity is to cut wages and conditions.

Will so-called “flexibility” deliver higher short-term profits? Most probably.

But will it lead to the real gains of productivity that will provide sustainable economic growth? Unlikely.

To lift national productivity over the long term requires investment in skills, education, training and infrastructure, along with an incentive of higher real wages delivered through collective bargaining.

We need a combined effort to lift workforce participation, particularly in the face of an ageing population.

Women – particularly mothers – still face barriers to full participation in the workforce. We need further efforts to address these, including strengthening rights to access flexible work arrangements.

The complex interaction of the tax and transfer systems needs to be addressed so it doesn't act as a disincentive for low-paid people to increase their hours.

Increasing the Newstart allowance by a few extra dollars a day is not going to create a bludger mentality – it might actually assist unemployed people enter the labour market.

And for businesses, a good place to start would be accepting that a secure job is far from an impediment to productivity. In many respects, it is a vital pre-condition.

If workers are being paid well, with a reasonable degree of job security, with skills that are being developed and recognised and put to good use in the workplace, if they are consulted and fully involved in any change processes occurring in the workplace then you are far more likely to be have a productive and engaged workforce.

The enlightened ones are realising the fruits that come from a secure workforce.

We're looking forward to others following suit. And we're looking forward to a productive and competitive Australia in which business see workers not as costs to be minimised but as their greatest asset.

Thank you.

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