Speech to the 2014 Economic and Social Outlook Conference

Session 7A - The Productive Workplace (4/7/2014)

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The organisers invite us to comment on “the productive workplace”. Productivity is a worthy and important topic.

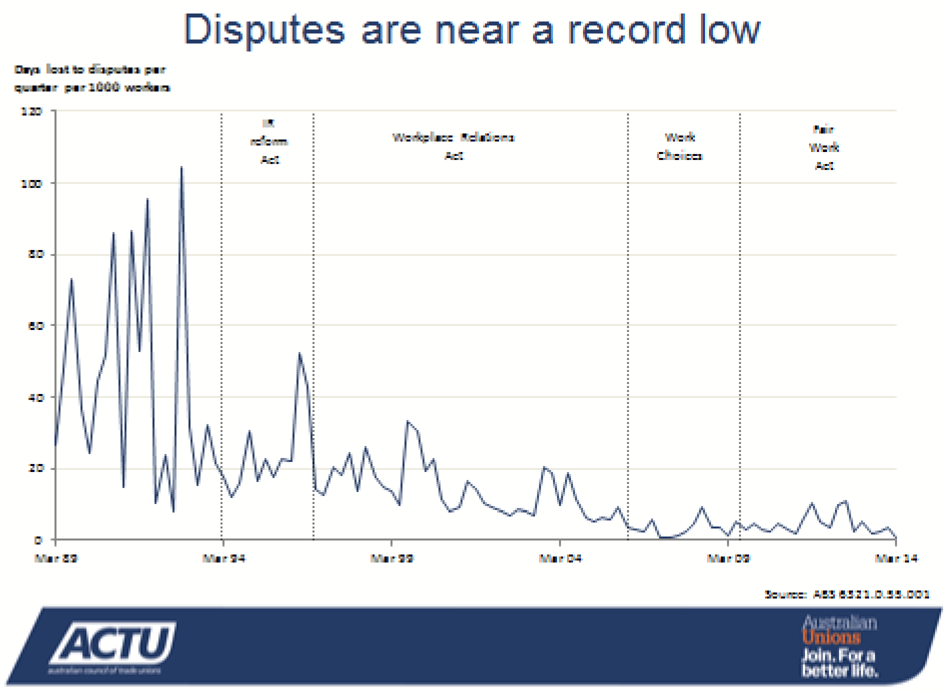
But “the productive workplace” is also, I would submit, a topic on which much is said that is of essentially no value at all. This is familiar and deeply frustrating terrain for me – three years ago I made speech called “Telling Lies about IR”. In the intervening period my state of agitation about these questions has not receded.

Since the commencement of Fair Work Act in 2009 we’ve seen a series of histrionic predictions that it is about to cripple the economy.

Any moment now the wheels would fall off.

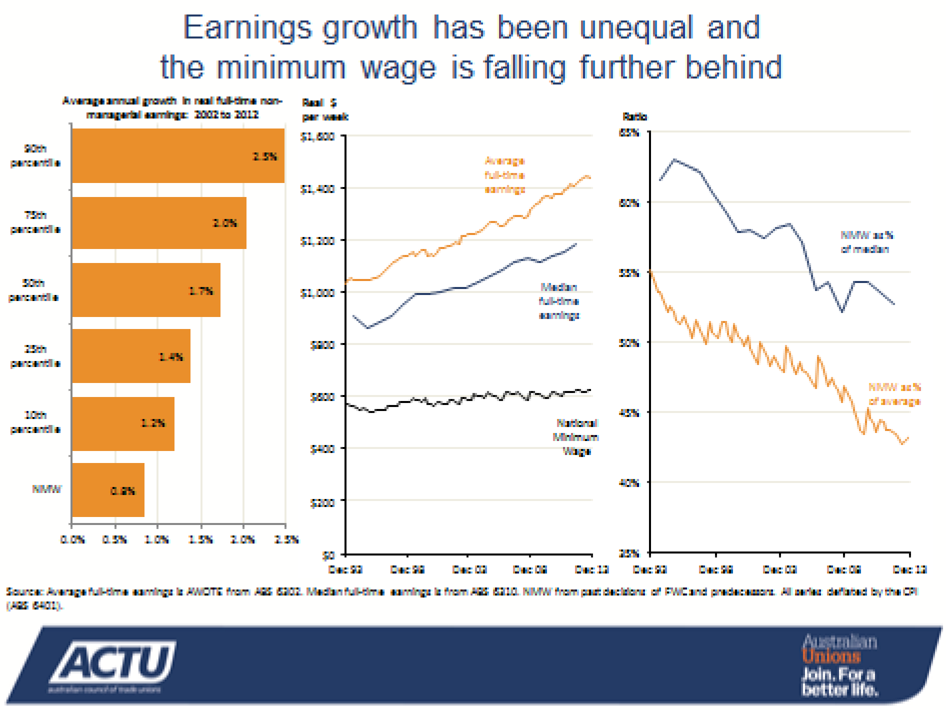
Except it never happened, and each claim was quietly discarded in turn and replaced by another as it was revealed to be nonsense.

We started with the claim that Fair Work Would trigger surging waves of “union militancy”, and yet, industrial disputes are so low as to be at trace levels. In fact, sadly so in my view. The incidence of industrial action is so small that the only plausible approach to the data is that the current legal arrangements unnecessarily and unreasonably restrict the exercise by workers of the right to organise and take industrial action.

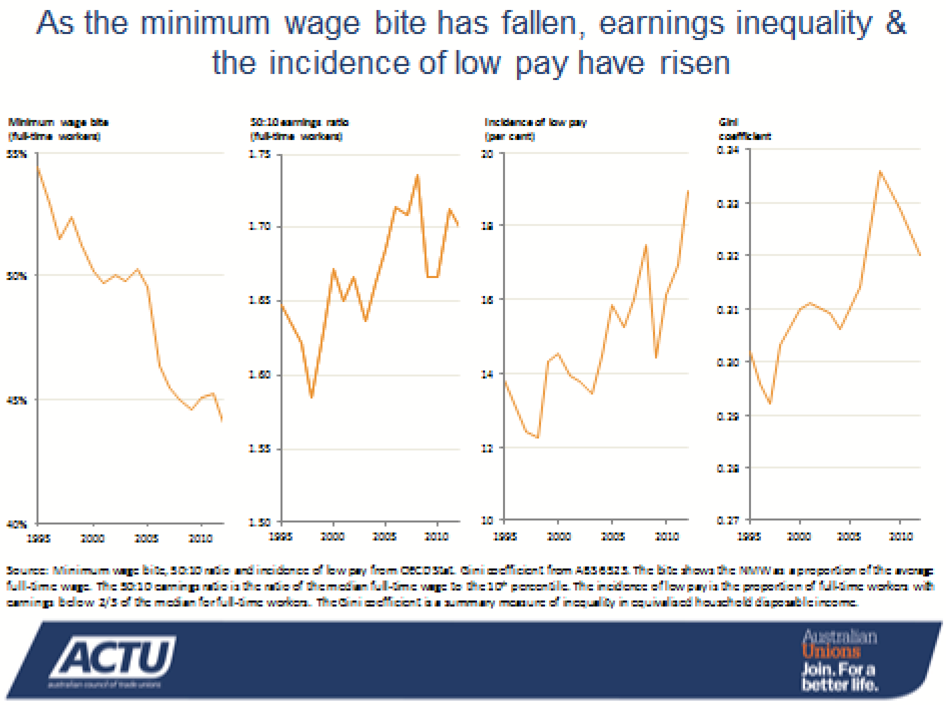


Next we had the "wages breakout". Well, again not so much. Wages growth as measured by the WPI is the slowest on record. I take no pleasure in this statistic; I hasten to add, particularly given the strong pick-up in labour productivity growth. The related scare of a wage - related inflation problem of course evaporated as well, with inflation remaining comfortably within the RBA target band. Similarly, unemployment, while it has risen, remains at a 25 year low.

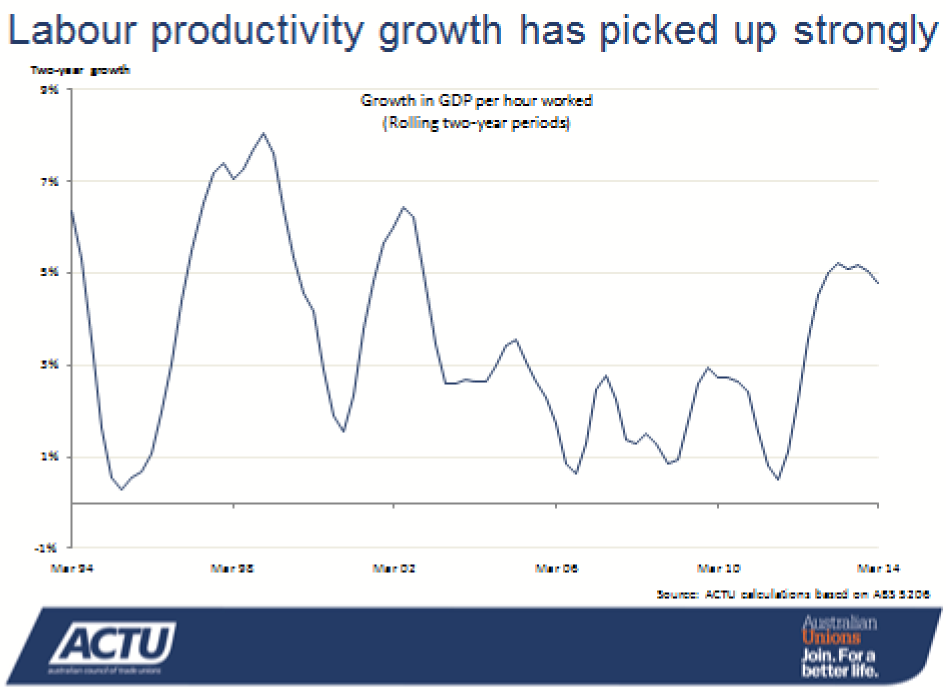
Underneath that, earnings growth has been unequal, with the minimum wage falling further behind. The last twenty years has seen our minimum wage bite fall dramatically.



This has serious consequences. As the minimum wage bite has fallen, earnings inequality, and the incidence of low pay has risen.

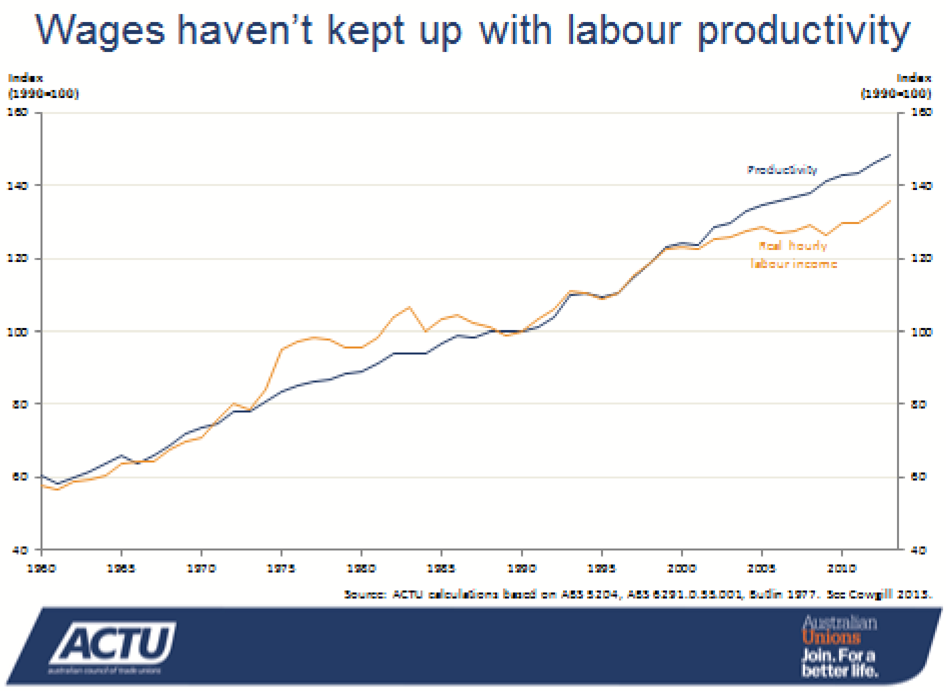


But to the mother of all the scare campaigns, the labour productivity crisis.



Again, labour productivity growth has risen strongly. Labour laws are not the cause of any broader productivity problem that Australia has, and they're not the solution. As we have comprehensively demonstrated[i] , while Australia has issues with productivity it is for reasons almost entirely unconnected with labour law. This is a conclusion 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 construction phase of the mining boom sucking in capital and labour in advance of output was a key culprit. Large , but temporary factors, that critically have nothing whatever to do with IR regulation. This point was illustrated in a chart on labour productivity used by Governor Stevens yesterday[ii], which identifies a slowdown at the height of the construction phase of the mining boom.

Indeed, the principle observable story on productivity over the last few decades is actually one about the distribution of gains from productivity growth.



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 for 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. 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 and labours share of income has fallen to a more than 50 year low.

This is an important 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.

Productivity might be almost everything, but distribution is not nothing.

And as to the drivers of productivity, the available evidence is that IR policy makes little difference to productivity[iii]. Reaching for the IR lever to alter our productivity is a pretty dead end. But don't take my word for it – a recent IMF paper prepared for the G20 leaders said that changes to Australia's employment protection legislation would have a very small impact on productivity, and are considered to be a third-order issue (on a three-rung ranking scale)[iv].

And the uncomfortable fact for the "reform" crowd is that Australia's longest strongest stretch of high productivity growth was the 25 years after WWII. We had tariff-based industry development policy, high immigration, and highly centralised wage fixing under a system of labour market regulation cobbled out of state and federal industrial courts and tribunals. I don't posit causality, but note the coincidence.

Since then, we have had one strong cycle of labour productivity growth, that coincided with the Keating Government's introduction of enterprise bargaining – a one-off shift that also coincided with strong growth at the end of a serious recession and has given rise to two persistent and damaging myths.

First, the myth that frequent, obsessive tinkering with IR will alter our productivity path, despite the absence of evidence.

Second, the myth is that we must violently resist any move to bargain other than at the level of the enterprise a position that is at odds with the way much of our economy works . Many employers lack economic independence and are located within contracting chains of one form or another and far from the locus of economic power. An enterprise fixation also ignores both the reality of industrial regulation in much of the developed world, (where industry, sectoral and national bargaining is common) and much recent scholarship on how labour markets actually work.[v]

In twenty years as a union official I have worked under four wholesale re-writes of Federal workplace law. No other developed country does this. When you try to explain this to foreigners they look at you like you are mad.

And yet despite all the change, all the blood spilt and all the treasure spent, , we continue to have a national mania about changing IR law. We continue to be given sage and serious advice about the need for "reform" and "flexibility", things which are experienced by workers as risk transfer and insecurity. The lack of evidence to prove it would help productivity or broader economic performance doesn't stop it, a fact that makes the pretence that such prescriptions are based on economic necessity all the galling. The reality is that there are deep, and unacknowledged, political economy judgements being made by those who seek to dismantle rights at work.

In a 2008 lecture "'Economics as a Moral Science"[vi], Tony Atkinson makes the case for the centrality of welfare considerations and ethics in economics, and makes the point that economic writing routinely involves making (often unacknowledged) welfare judgments: e.g. "The optimal policy is". Atkinson argues that economics should be taught and practiced as a "moral science" – noting that "*many of the ambiguities and disagreements stem not from the differences in view about the way the economy works, but about the criteria to be applied when making judgement*s."

I see the approach to IR law as case where the real dispute is about "the criteria to be applied when making judgements" and about the reasons you have an IR system in the first place.

I'd like to posit two linked purposes: a rights purpose and a distributional purpose.

The rights purpose is clear enough. Without labour law disproportionate power lies with the employer. The historic heart of Australian industrial regulation is the recognition that the bargain between an employer and an employee is inherently unequal, absent the intervention of the state in the form of legislation and the existence of trade unions. This fact must be balanced against the appropriate limits of managerial prerogative.

Neo-classical economics might say employment is a free-exchange in a market, but this ignores the fundamental power imbalance between employee and employer. 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 law is a deliberate and necessary intervention in a market because most workers will not get a fair outcome without it. It's about worker voice, and redistribution of power. It's about fair treatment and a giving people a measure of control, however modest, over their working lives.

And central to the efficacy of a regime of labour law is the role played by organised labour. Without free, independent, democratic trade unions, as actors in system and voices in civil society, the system will not work properly. The same goes for collective action by workers. Collective bargaining can't work properly without an accessible right to strike. Moreover, that right (and other means of exerting pressure – endogenous to the firm or otherwise) must be exercised from time to time to keep the effect.

Second is a distributional purpose. Labour law is a way to influence the distribution of market incomes. The minimum wage, the Award safety net and collective bargaining are powerful tools to protect and increase the living standards of lower and middle income people[vii]. Without this intervention the share of national income flowing to labour will be lower. Labour law is one way of dealing with inequality and its consequences, including social exclusion. Without it, firms are likely to compete on wages, not productivity innovation and quality. There is also a consequence if we don't pull this policy lever. If we don't seek to effect the distribution of market incomes, we double-down on taxes and transfers to deal with maters like poverty and inequality. The ability to address matters like poverty and rising earnings inequality then becomes a function of having a tax system of sufficient heft to fund re-distribution and a political process that sustainably delivers it.

Big, big, "ifs".

You can legislate for fairness and distribution. And we should. But what you can't do is legislate to require workplaces productive and harmonious. Changing labour law isn't a sensible foundation for building strong sustainable national productivity growth. .

The decisive influences on 'the productive workplace' come from outside the workplace. The Most important is investment in a sound national system of inclusive education (from pre-school through primary and secondary into VET and higher education), infrastructure, in the advance and adoption of scientific knowledge and technological change.

Some second-order influence arises within workplaces – from capable leadership, managerial competence, business planning, mutual respect and engagement between workers and management at the workplace through collective bargaining – but these are determined by extraneous factors, not by ambient labour law which sets minimum terms and conditions of employment (or, for that matter, by taxation law, or planning law and regulation).

Australia as President of the G20 this year proposes that G20 leaders commit to getting 2% additional growth over the next 5 years relative to business as usual. But what initiatives are being contemplated to achieve this? There is a view put by the IMF and others that says fiscal and monetary policy is exhausted and the only option left is 'structural reform'. Now, everyone these days is reading Capital, it seems, and (to reprise someone else's line) every galah in the pet shop is talking inequality. But right here is a very big ambiguity – what is actually meant by labour market or structural 'reform'?

As we consider "pathways to growth" let's not speak in code about some "reform imperative" without specifying clearly what sort of "structural reform" is actually being contemplated.

There is the old view, insistently articulated prior to the crisis and since, that it is about labour market de-regulation, weakening collective bargaining, cutting minimum wages, increasing 'flexibility' (also known as 'insecurity'). That we can shrink our way to growth by reducing wages and income security; but its direct and immediate impact is to increase inequality and political instability which is bad for economic growth and for productivity growth.

There is a cogent and coherent alternate view that genuine reform ought to deliver wage-led growth, with reform that strengthens labour market institutions, strengthens collective bargaining, increases minimum wages to put some purchasing power back in at the bottom end of the distribution and grows decent, secure work.

[i] *Working by numbers: Separating rhetoric and reality on Australian productivity* http://www.actu.org.au/Publications/WorkingAustraliaPapers/WorkingbynumbersSeparatingrhetoricandrealityonAustralianproductivity.aspx

[ii] http://www.rba.gov.au/speeches/2014/sp-gov-030714.html Graph 1.

[iii] **Peetz, D,** *'Does Industrial Relations Policy Affect Productivity?'*, *Australian Bulletin of Labour*, 38 (4), December 2012, 268-292.

[iv] https://www.imf.org/external/np/g20/pdf/2014/021914.pdf

[v] See for example https://cama.crawford.anu.edu.au/sites/default/files/publication/cama_crawford_anu_edu_au/2014-03/27_2014_booth.pdf

[vi] http://economics.ouls.ox.ac.uk/14633/1/atkinson.pdf

[vii] Tim Lyons, *A Lab(o)ur Vision for the Economy & Government* http://www.chifley.org.au/a-labour-vision-for-the-economy-and-government/

The Productive Workplace

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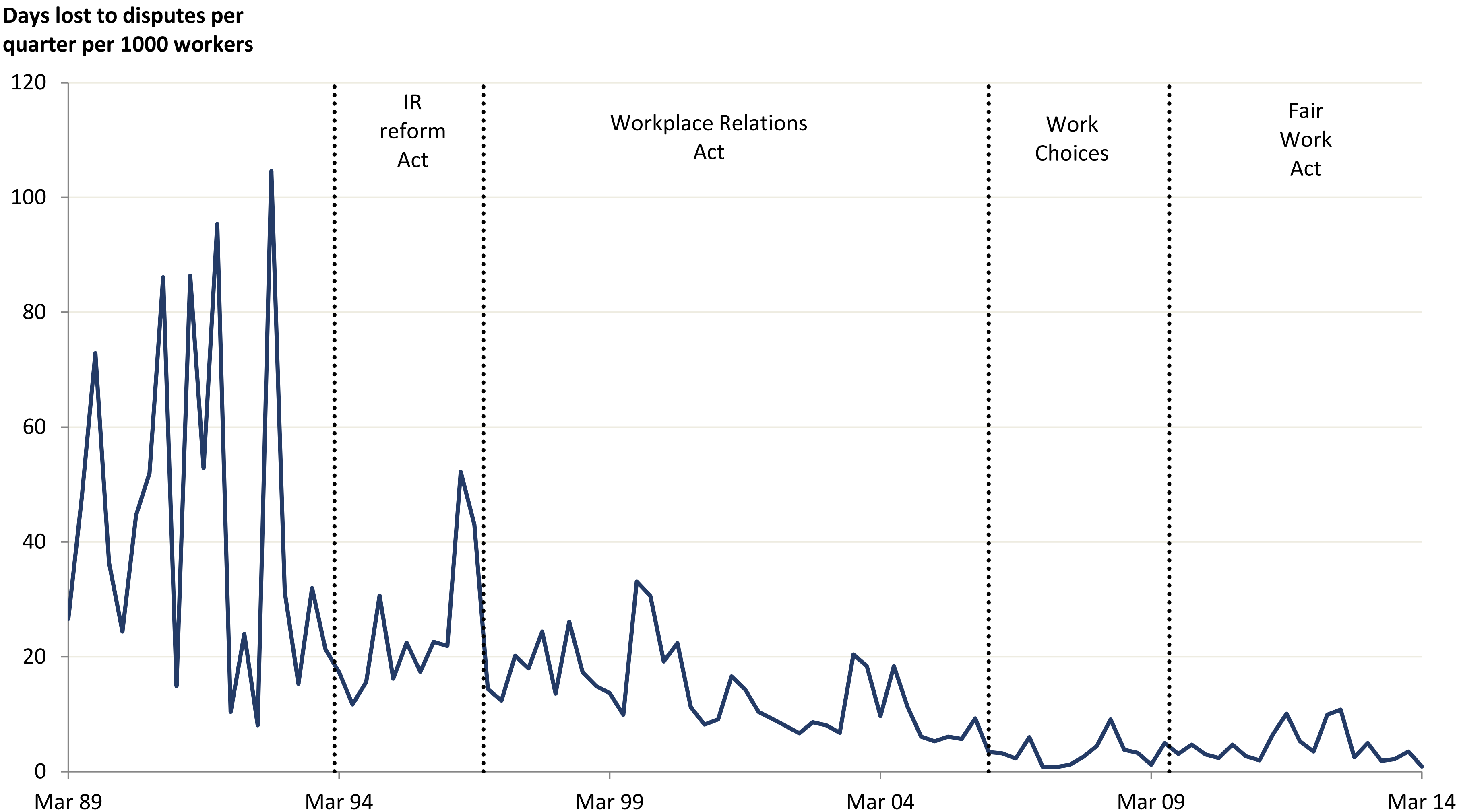
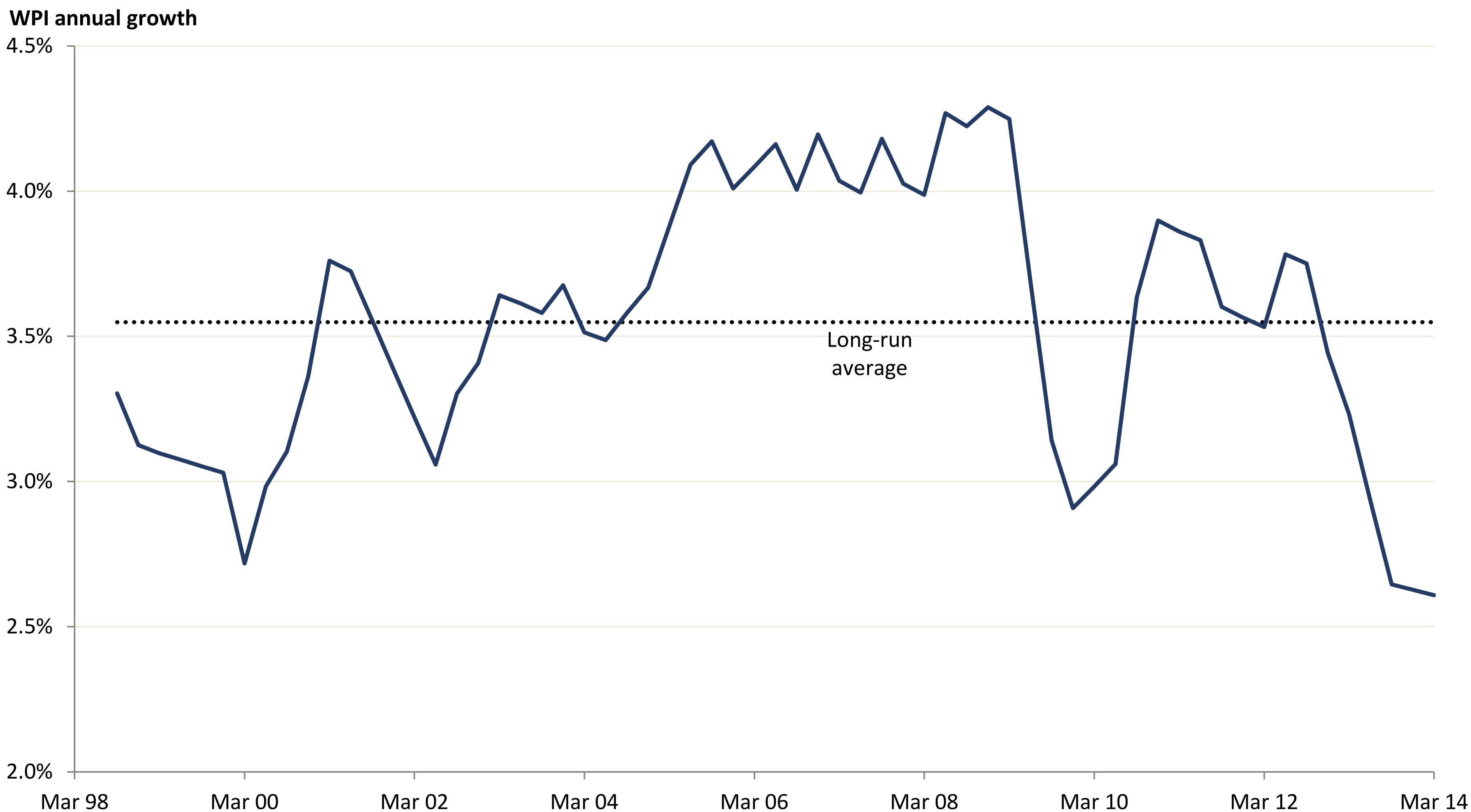
Australian Council of Trade Unions

Disputes are near a record low



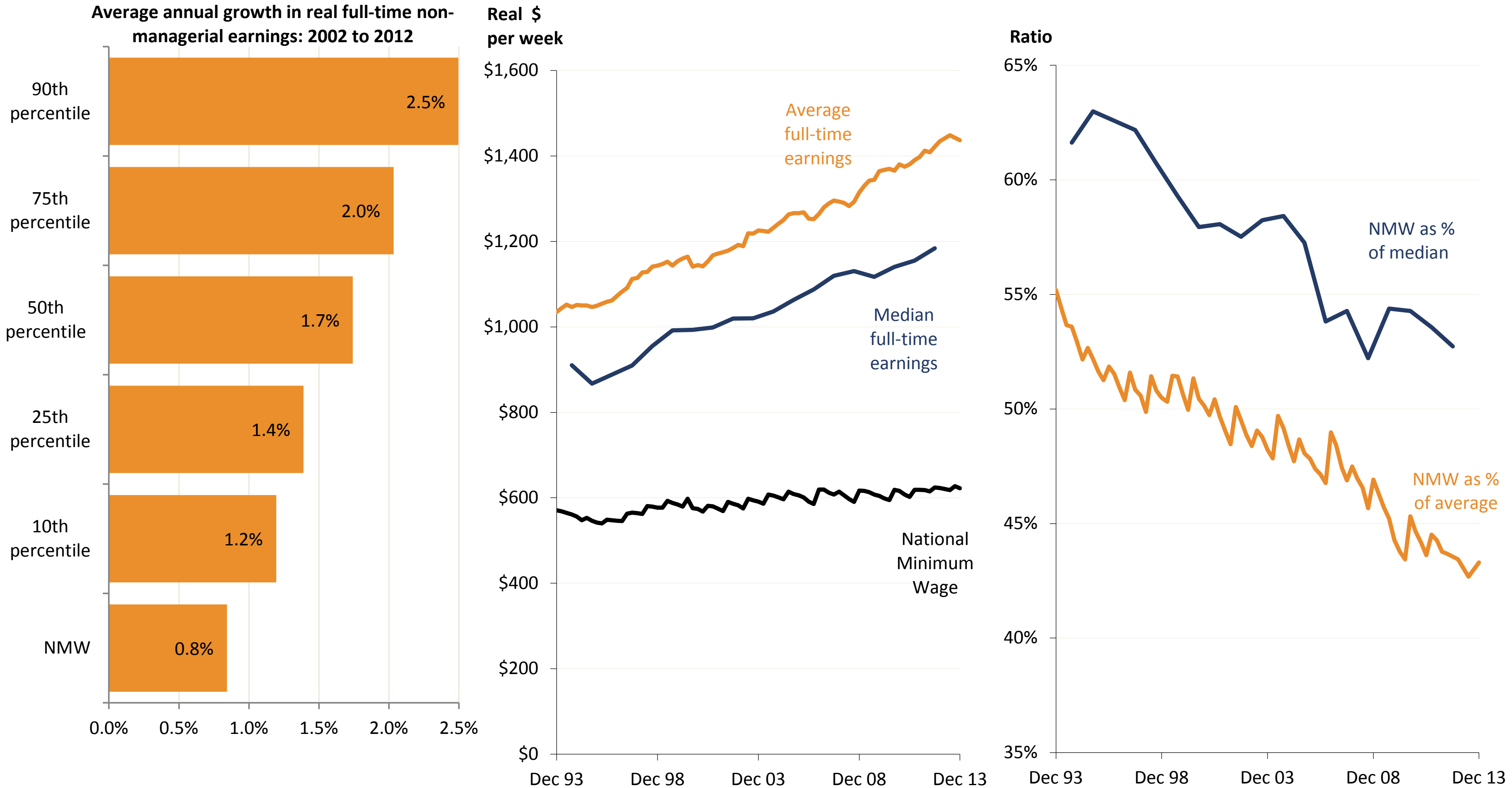
Source: ABS 6321.0.55.001

Wages growth: slowest on record



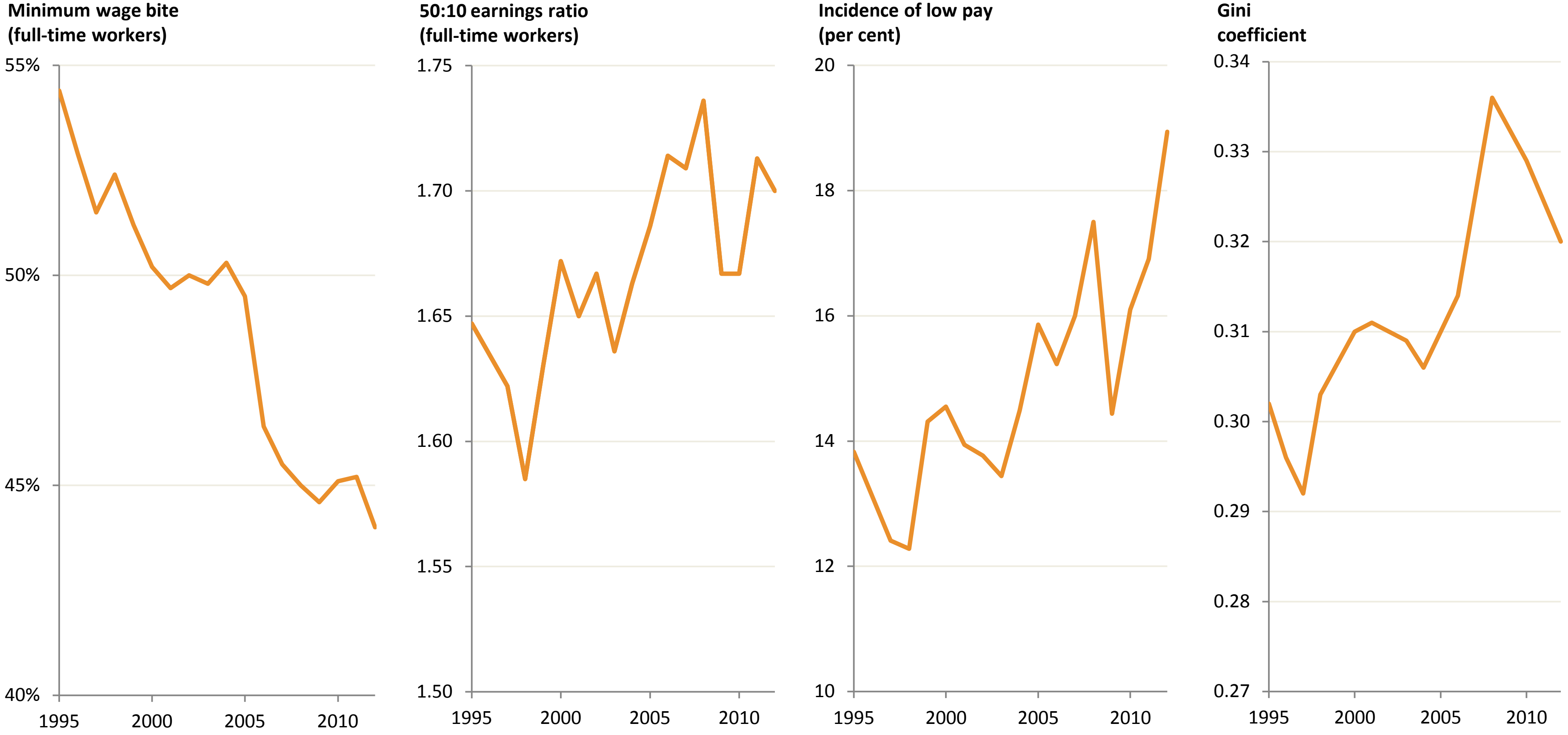
Source: ABS 6345

Earnings growth has been unequal and the minimum wage is falling further behind



Source: Average full-time earnings is AWOTE from ABS 6302. Median full-time earnings is from ABS 6310. NMW from past decisions of FWC and predecessors. All series deflated by the CPI (ABS 6401).

As the minimum wage bite has fallen, earnings inequality & the incidence of low pay have risen



Source: Minimum wage bite, 50:10 ratio and incidence of low pay from OECD Stat. Gini coefficient from ABS 6523. The bite shows the NMW as a proportion of the average full-time wage. The 50:10 earnings ratio is the ratio of the median full-time wage to the 10th percentile. The incidence of low pay is the proportion of full-time workers with earnings below 2/3 of the median for full-time workers. The Gini coefficient is a summary measure of inequality in equivalised household disposable income.

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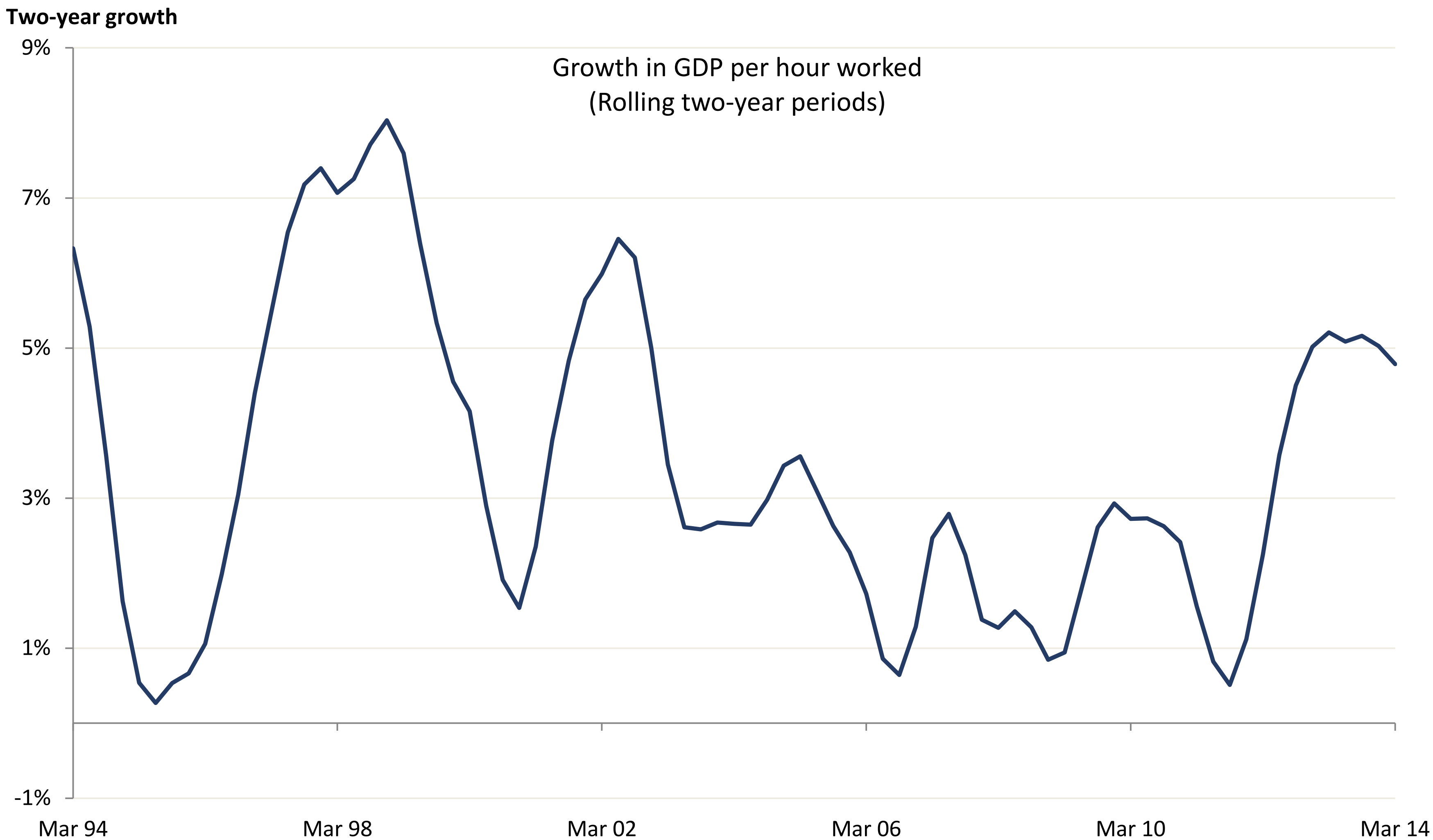
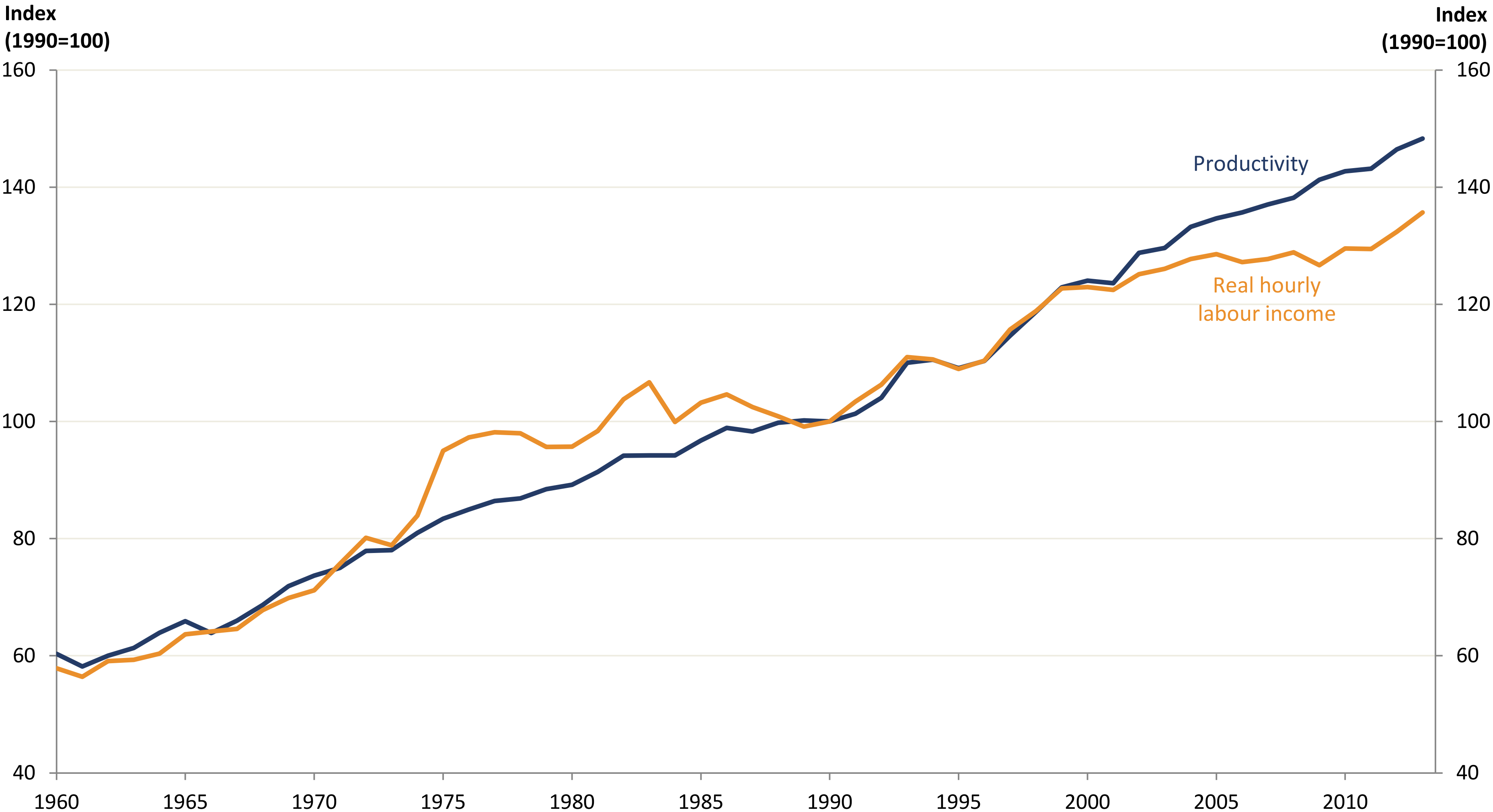
Labour productivity growth has picked up strongly



Source: ACTU calculations based on ABS 5206

Wages haven't kept up with labour productivity



Source: ACTU calculations based on ABS 5204, ABS 6291.0.55.001, Butlin 1977. See Cowgill 2013.