CHECK AGAINST DELIVERY

Productivity v Profit: Increasing living standards for all Australians.

Speech by ACTU Secretary Dave Oliver
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Good morning and thank you for inviting me here to speak today.

Today I would like to touch on three main points:

Firstly, I believe as we look to increase productivity we have a fundamental choice to make: do we take the high road or the low road.

Secondly, when we start talking about increased productivity, we can't forget to talk about how we distribute those gains in a fair way the benefits us all.

And finally, technology. The opportunities presented by the disruption of so many sectors of our economy can't be ignored, and nor can the challenges of managing rapid changes on the fly.

The high road of collaboration

So we're here today to talk and to exchange ideas on how we can move towards a more productive Australia. It's a worthy goal, and a necessary one.

But we have a choice: do we take the high road of meaningful reform? Or do we go down the low road of ideologically driven attacks?

In the past, a collaborative approach between government, employers and unions streamlined industrial awards, markedly increased production standards, ensured workplace safety, rationalised subsidies and tariffs and generally brought Australia kicking and screaming into the modern economic world.

Collaboration between industry, unions and government enabled us to lay the foundations on which we built the economic success of the decades since.

Agreements like the National Training Framework were a generational shift that delivered significant benefits still relevant today.

They should also have delivered a lasting blue print of how to deliver reform: collaboratively, constructively. Bringing all sides to the table, and walking Australians step by step through the whole process.

It was the high road – a hard road to be sure – but we had a map and had proven a tripartite approach could work.

Looking back over the years we have had a stop/start process which lurched from engagement to all out conflict, depending on the particular ideological perspective held by the government of the day.

Unions are sick of this approach and I know business is too. Now we have the opportunity to change.

All of a sudden, we've shaken off the negativity and conflict of the couple of dark years of the Abbott approach. We're off the low, politically easy road, and hopefully heading back to the high road.

Innovation is the new black. Agility is in. All ideas are on the table and all parties are invited to sit and partake in the discussion.

Unions are very receptive to this development. We welcomed the spirit of yesterday's Innovation statement, and were glad to see a return of focus and funding to R&D.

It is crucial that Australia better capitalise on its research, turn innovation into commercial success and move away from an over reliance on mining and agriculture.

We welcome the commitment to greater infrastructure funding, venture capital reforms and the bio medical commercialisation fund. However, it is worth noting that since 2013 $3 billion in research, science and innovation funding was slashed.

And we need to look beyond the easy targets of tax breaks and red tape to structure our economy for true productivity growth.

Let's examine our nation's infrastructure investment, R&D priorities and training regime.

We also need to turn a forensic microscope on management capability and what we can do to skill up our business leaders so they are properly equipped to innovate and adapt in a world that is moving so quickly.

But it's easy to get carried away with buzzwords, so what does innovation really mean? And Flexibility?

In the new spirit of positivity that permeates our political climate I am loathe to draw a negative conclusion, but my experience and that of most workers, is that flexibility is often less of a buzz word and more of a code word.

A code word for cost cutting.

Wage rates aren't inflexible; they are just higher than some employers wish they were.

Workers aren't rigidly locked into a Monday to Friday, nine to five mindset, they just ask for compensation for weekends that some employers wish they didn't have to provide.

Flexibility doesn't simply extend to recategorising your employees as contractors, shifting the risk and burden of superannuation, sick leave and seasonal variation to them in exchange for a simple hourly rate – even if it is paid through an app to someone's PayPal account.

Flexibility can't be a race to the bottom where 7 Eleven and Pizza Hut become the norm and workers are forced to auction themselves off to the lowest bidder.

Instead, we need to stop and recognise just how flexible, responsive and productive our labour market already is today.

The Metal Industry Award that originated from the tumultuous 1980s reorganisation allows for example any enterprise to operate 24 hours, 7 days a week, 365 days of the year. You can't get much more flexible than that.

The approach of some to look only at penalty rates when looking for ways to innovate is not the high road to productivity.

I've heard all the arguments asserting we now live in a 24x7 world.

But over the past 15 years, the percentage of people working only Monday to Friday has dropped by just 1%, from 70% to 69%.

In fact, if business was to be successful in its push to cut penalty rates, it could be the biggest own goal in recent history.

The reality is simple: if people earn less money, they spend less money. And they'll end up spending less at the very businesses who led the charge to cut pay in the first place.

It's hardly an innovative plan, but it does bring me to my second point: who gains from increased productivity?

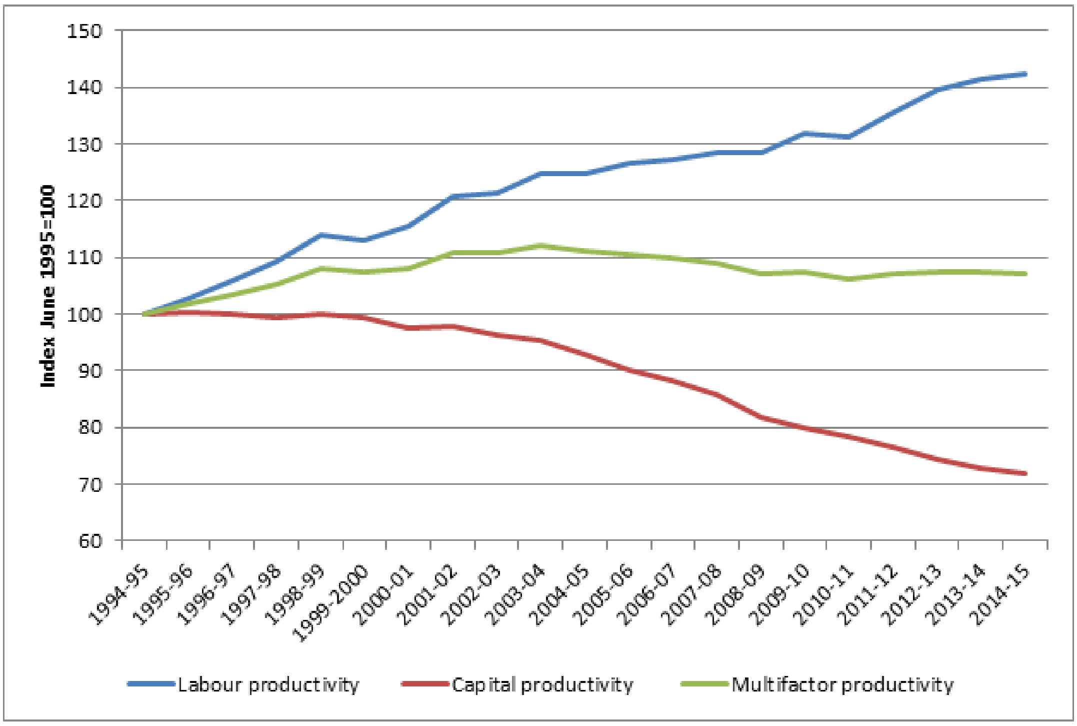
Distribution of productivity gains

We can't forget to include ordinary Australians in the conversation.

Who is really benefiting from productivity gains?

Here's a fact: it's capital not labour, profits not wages, that have been gathering up the gains of productivity increases and economic growth for the past decade and a half.

Labour productivity 1995 to 2015



Source: ABS Table 5204013 & 5260.0.55.002

On Friday last week, The ABS reported that for 2014/15, labour market productivity grew by 1.3%, while capital productivity fell by 1.2%.

And this is no blip. Labour market productivity has increased by a staggering 40% over the two decades to 2014.

Forty percent.

That covers the recession we had to have, the Asian financial crisis, the dot com bust, the global financial crisis and the end of the mining boom. Through all the other financial ups and downs, it's the strong, steadily increasing labour market productivity that has underpinned the economic stability that we have enjoyed in this country while so many others have crashed and burned.

Over this same period, capital productivity has fallen 28%.

And worker's share of this productivity boom is already significantly below where it should be.

According to the ACTU's own research, 65.9% per cent of national income went to labour in the year 2000. And by 2012 that had fallen to just 59.7% per cent. That's a big drop.

Squeezing workers in the name of flexibility is not only an approach unsupported by evidence, it also has very real consequences for people – both social and economic.

The danger with the discussion of productivity that usually takes place in summits like this is that it becomes too theoretical, too abstracted from reality and devoid of moral depth.

Outside this room, where people talk about concrete realities, not theoretical abstractions, and where not everyone is a winner from the endless process of economic disruption, the world looks rather different.

Many of the communities that were disrupted by the last wave of economic reform still haven't recovered. They have been economically and socially devastated. Sometimes shockingly so.

But few economists want to talk about them.

Once bustling suburban communities, suburbs such as Doveton, Dandenong, Broadmeadows and Elizabeth are now crumbling – with unemployment rates above 20%. These suburbs are all associated with manufacturing and were at times almost company towns.

In such places, poverty has become inter-generational. Young people are failing to make the transition safely from school to work and from childhood to adulthood. They're not finishing twelve years of school, and not getting apprenticeships or going to university, but are accounting for a high proportion of the prison population. Drugs like heroin and ice are destroying their lives.

Once pleasant and successful neighbourhoods have become dilapidated and stigmatised.

We are all paying a price for this. And not only in welfare payments, remedial programs at schools and the cost of policing and running prisons.

Economic downturns, industry rationalisation and years of government neglect have entrenched inter-generational poverty and associated problems.

Obviously, economic restructuring would have affected these sorts of manufacturing suburbs in some way. They had to change—globalisation and technological change made that inevitable.

But two decades of long-term mass unemployment tells us that not enough was done to help these communities make the transition to the new economy that was created by the last round of economic reform.

Not all Australians benefited.

You see, out there in the real world, people understand what happens when you set out to destroy industries like the automotive industry for the sake of an economic theory.

And they know what sorts of jobs tend to replace lost manufacturing jobs: casualised, insecure, low wage jobs.

What I'm getting at is this: previous generations of Australians built an economy that included everyone in the creation and enjoyment of our national wealth, but we are now in danger of creating a new economy which leaves too many Australians behind.

The world will challenge us with new waves of technological and market reform and there is no hiding from that.

Economic reform doesn't happen in a Petrie dish or on a PowerPoint slide. It happens in the real world. And that means it has moral as well as purely economic dimensions.

The economy is not a being. It doesn't have a heartbeat, a brain or a soul. It is an abstract.

But the community does. And the community is made up of millions of everyday people making everyday decisions.

The decisions people make in order to improve their living standards.

This is where Unions come into the equation.

Unions are committed to long term reforms which focus on growing our economic prosperity.

We want to make the pie larger and we are determined that workers get their share

Our goal has to be to create an economy that works for everyone, not just for some.

Our job is to protect and raise the living standards of all workers.

Higher living standards mean more secure, fairly paid consumers empowered to spend, save and invest back into the Australian economy. A more equal economy is better for everyone.

But technology is changing, and the risk of failing to keep up is ever present.

Technology

Before we all took pictures with our telephones, Kodak ruled the photographic world and their central advertising message entered the common vernacular: special events, unique situations and key happenings became Kodak moments.

While the rise and fall of Kodak has literally become a text book case study for business students for so many reasons, it's the sad irony of their slogan that resonates for me.

For a brief moment in the late 1980s, Kodak had the chance to grasp the opportunities presented by a digital future, but instead they chose another direction.

Their research teams had developed the basic concepts and technology for digital photography and electronic distribution of the resulting images. But their mindset was dominated by 35mm film, photo albums and a cumbersome but profitable network of commercial photo printers.

If their very own Kodak moment had turned out differently, they had the raw ingredients required to create an archetypal new millennial business like Snapchat.

This moment tell us a lot about the imperative to adapt to have management/ decision makers who are capable of making the right decisions and don't rest on the old ways of doing things.

The differences between the two companies highlight dangers lurking beneath the promise of digital disruption.

Snapchat has a valuation close to $16 billion by some estimates, while Kodak at its peak generated roughly that amount in revenue.

The two companies, though vastly different in many ways, are comparable in purely financial terms.

But one of the ways they are most different is the most critical.

At its peak in the late 1980s, Kodak employed 145,000 workers in hundreds of locations across the globe. From chemical plants, research and design, manufacturing, distribution, retail, customer service, processing outlets and related head office functions.

The company was a mammoth global enterprise that provided a substantial living for people in countless communities.

While Snapchat's entire staff could fit on a single Melbourne tram without anyone having to stand up.

Kodak was a premiere example of the trickle down economic theory, while Snapchat is the poster child for its dark mirror image, "hoover up."

Hoover up economies entrench disadvantage as resources are sucked out of the hands of workers and ordinary people, instead being concentrated in the hands of a few.

This is leading to growing inequality.

It's hard for workers to increase productivity if they don't actually have a job. Technology, and innovation are fantastic – but they have to exist within an economic system that creates jobs – jobs that are meaningful, secure and rewarding.

Technology is changing the very nature of work, displacing some jobs while creating others. At least that's the way it used to work.

Speaking last month to the Trades Union Congress, the UK equivalent of the ACTU, Andrew Haldane, Chief Economist of the Bank of England, warned that the technological changes we now face may be unlike previous challenges faced by our economy.

He argues that technology may be set to change jobs and wages, and create more displacement, than in the past. And most tellingly, the gaps between those with and without skills, and consequently jobs, may widen as never before.

The extreme changes presented by current technological advances are resulting in a deeper, wider and more permanent hollowing out of the jobs market.

The headlines his speech generated focused on the projected 15 million UK jobs that are now at risk of being lost to an army of sophisticated machines that are increasingly able to perform work assumed to be the preserve of humans.

Recently CEDA published a report that showed 5 million jobs (that is, 40% of the workforce) face a high probability of being replaced by computers over the next 10 to 15 years.

Workers are always being forced to skill up, to stay one step ahead of the machines, as Haldane puts it.

And even workers who aren't directly threatened, still face the looming threat of an Uberised work force.

Despite the great many benefits of new technologies, we desperately want to avoid the slide to a labour market platform that forces workers to bid against each other for parcels of work in some kind of brutal, reverse eBay-style auction.

The challenge for all of us – unions, employers, regulators and governments – is to harness the technological opportunities and make them work for, rather than against, worker's best interests.

Conclusion: The test for Malcolm Turnbull

After all, this is the question posed by The Australian Financial Review's editorial of 27 November, which outlined the objective for today's gathering. It said:

> *"The big question is whether we can… devise a more flexible system that protects basic conditions but which encourages high-performing workplaces and rewarding jobs."*

My answer is yes. Of course we can.

Unions are fully prepared to back true innovation to create high-performing workplaces and well paid jobs.

But we won't be part of any attempt to use economic modernisation as an ideologically-driven excuse to redistribute a greater share of national income to those at the top. We want to create future wealth for everyone.

We need to modernize industries where possible, rather than just let them go. We need to prepare displaced workers for new jobs, rather than demonise them.

We need to collaborate, not engage in conflict.

And this is the test for Malcolm Turnbull. We are more than willing, like everyone in this room, to work with him.

Unions have been through this before. We have seen what works and what doesn't. We know the benefits of taking the high road.

The Prime Minister himself recently remarked on Channel Nine:

> *"We have to ensure that we are more productive, so that we have higher living standards, that we can maintain this high wage, generous social welfare net, first-world economy."*

This is a sentiment I echo whole heartedly.

He can talk the talk, now it's time to see if he can walk the walk.

We've seen the challenges he faces even from within his own government.

Treasury recently advised Scott Morrison to continue the stale focus on penalty rates and I.R reform as a means to combat a difficult economy. The PC report is due to come down with its recommendation to reduce penalty rates - the low road.

The test for Malcolm Turnbull is whether he can deliver his cabinet and his government to take the high road and not let them drag him down, back to the Tony Abbott low road.

Thank you.

ENDS