

UNIONSWA

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Submission by UnionsWA to the Economic Regulation Authority's Inquiry into Microeconomic Reform

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Introduction

UnionsWA is Western Australia's peak union body, representing over 30 affiliated unions and 150,000 union members. UnionsWA welcomes the opportunity to make a submission to this inquiry into the development of microeconomic reform priorities for Western Australia.

UnionsWA believes that any new package of microeconomic reform measures proposed for the WA economy must address

- Ongoing issues of fairness and inequality such as WA's persistently high gender pay gap
- The need to up skill the WA workforce and promote the manufacturing sector
- Removing unnecessary regulations which do not improve productivity but do hamper the legitimate exercise of workplace rights

Addressing the above is the 'high road' to productivity, in which long term efficiency gains are delivered through innovation and skills in a knowledge based, high wage economy.

The alternative, all too often adopted by Australian governments, is the 'low road' of cost cutting, lay-offs and cuts to working conditions. According to Green, Toner and Agarwal (2012) policies that lead to these outcomes 'will not deliver sustained productivity growth'

Rising unemployment through mass lay-offs and the creation of a working poor in Australia through the erosion of workplace protections are very real risks if we take the productivity low road.¹

In 2010 The House of Representatives Standing Committee on Economics issued a report on 'raising the level of productivity growth in the Australian economy' argued that

The main aim of economic policy is to improve community wellbeing, with improved living standards central to this. Productivity growth is one way of achieving improved living standards however using productivity as the sole policy evaluation criteria is limited because it is only one determinant of community wellbeing.²

Productivity, Fairness and Inequality

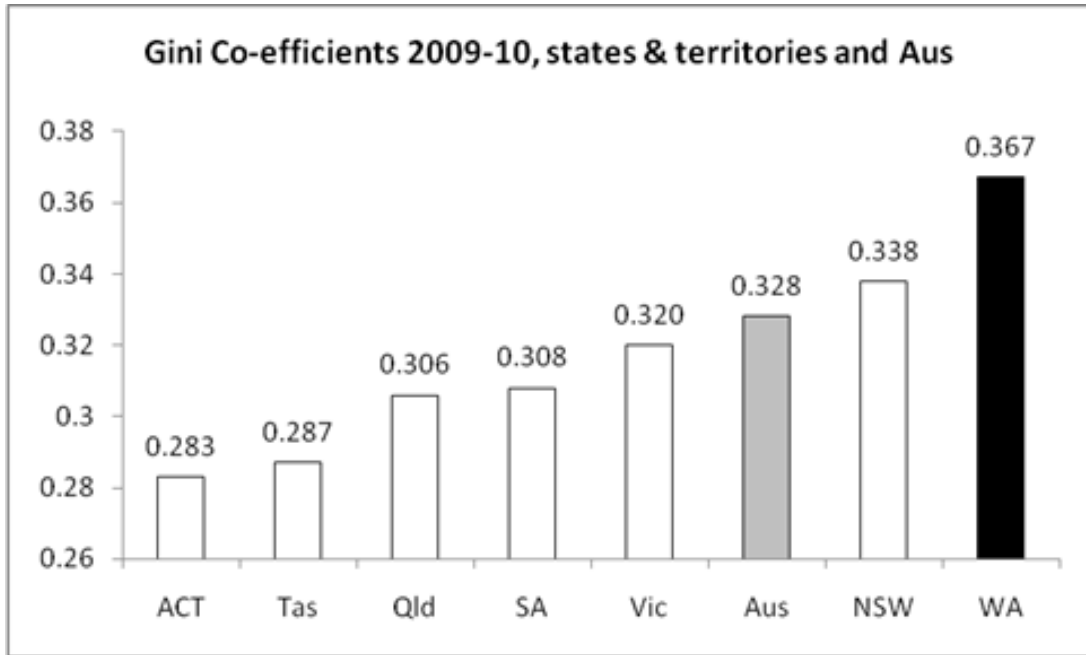
UnionsWA believes that many previous microeconomic reform measures have prioritised 'productivity' over 'fairness' – and ended up with neither.

During the recent resources boom WA had the distinction of being the most unequal state in Australia – according to the Gini Co-efficient measure utilised by the ABS.³

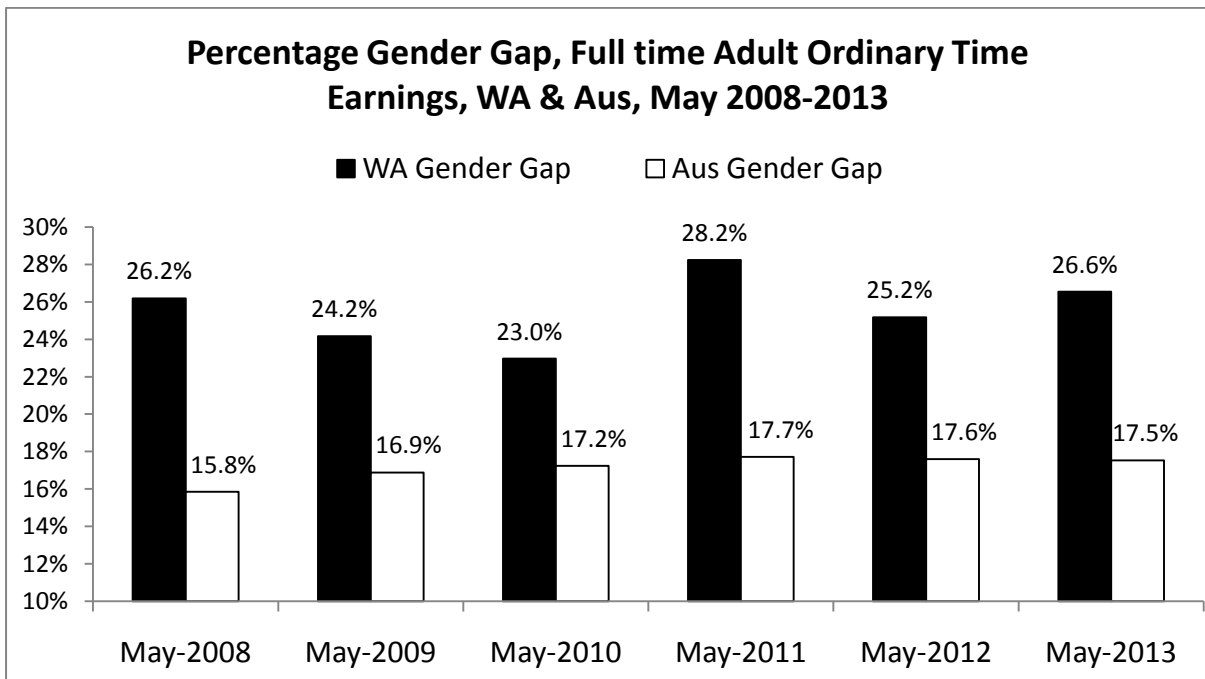
¹ Green, Roy, Toner, Phillip, Agarwal, Renu, *Understanding Productivity: Australia's Choice*, The McKell Institute (2012), p.12 http://mckellinstitute.org.au/wp-content/uploads/2012/11/McKell_Productivity_Report_A4.pdf

² House Standing Committee on Economics, *Inquiry into raising the productivity growth rate in the Australian economy*, (2010), p.xxi
http://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=economics/productivity/report.htm

³ ABS *Household Income and Income Distribution, Australia, 2011-12*
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6523.02011-12?OpenDocument>

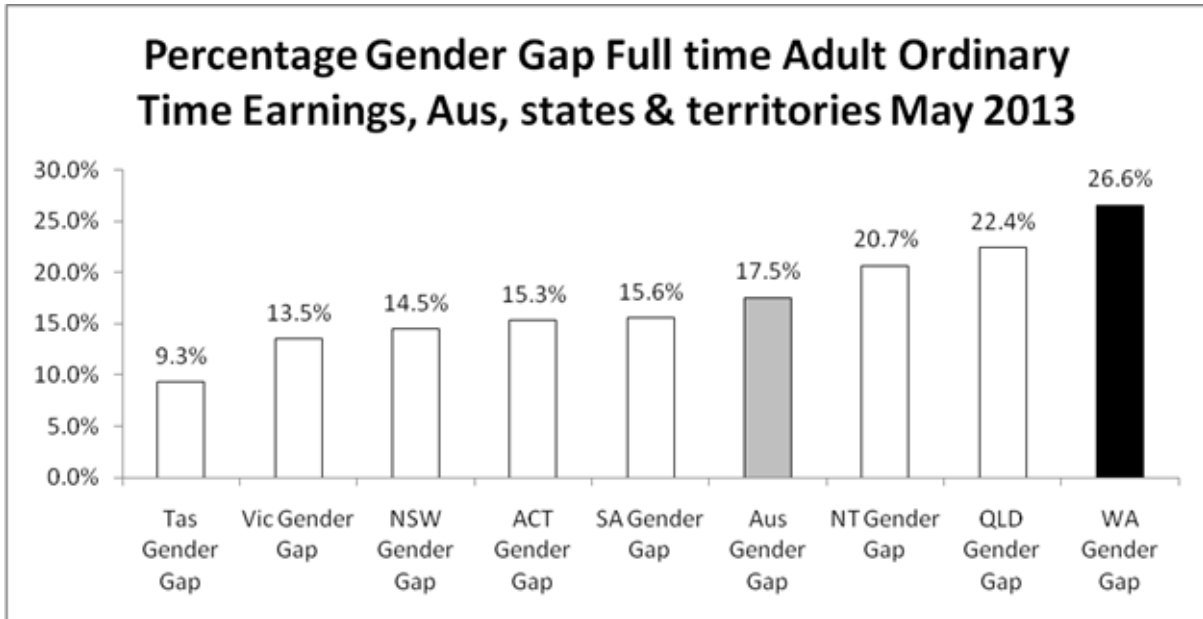


While the most recent figures have WA's Gini Co-efficient reducing to 0.325 in 2011-12, WA has retained the dubious distinction of having a persistently higher gender pay gap than Australia as a whole.⁴



WA also has the largest gender pay gap of all Australian states and territories – a situation that has persisted over the last decade.

⁴ ABS Average Weekly Earnings, Australia, May 2013
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6302.0Main+Features1May%202013?OpenDocument>



Given the scale and durability of WA's gender pay gap, the state government should make addressing it a priority for microeconomic reform. The government could utilise its own position in the WA economy to promote pay equity in both the public and private sectors.

Recommendations

The WA state government should act to close the gender pay gap by

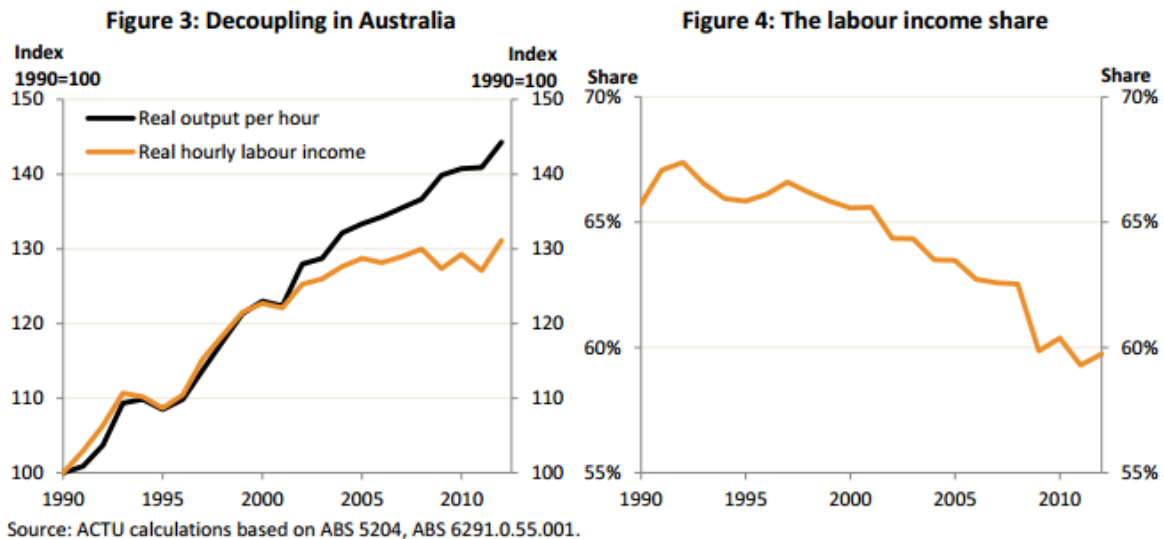
- Addressing pay equity within its own public sector workforce
- Insisting on pay equity plans and outcomes from the private sector and NGOs with which it does business or where they seek to access mineral resources

While inequality persists in WA, taking the 'high road' to improved productivity becomes increasingly important if microeconomic reform measures are going to be accepted in the WA community. Measures that promote the 'low road' will mean productivity is associated with insecure work, low skills, and low levels of worker commitment. Such outcomes will ensure that so-called 'pro-productivity' microeconomic reforms will have unfair, unproductive and unsupportable outcomes.

Research conducted by the ACTU has established that wages in Australia, far from being linked to productivity in the 2000s, actually got decoupled – with the result that productivity has risen faster than wages.

Between 2000 and 2012, productivity rose by an average 1.3% per year, while real hourly labour income rose by only 0.6% per year on average. This meant that labour's share of national income fell over the decade, and fell quite sharply. In 2000, the labour share was 65.6% - this had fallen to 59.7% by 2012. The labour share recorded in 2011 was the lowest for at least fifty years.⁵

⁵ ACTU, *A Shrinking Piece of the Pie*, The Working Australia Papers No. 1 of 2013, pp.9-10
<http://actu.org.au/Publications/WorkingAustraliaPapers/AShrinkingSliceofthePie.aspx>



The benefits of productivity improvement have not been going to workers. Microeconomic reform measures which fail to promote fair outcomes for employees will not gain political support in the broader population.

The inquiry Terms of Reference (ToR)

This submission sets out UnionsWA’s responses to the terms of reference set out by the ERA. It also sets out the paths which we believe the ERA should *not* go down in its recommendations. Specifically it should not make recommendations which will result in the erosion of take home pay and conditions for WA workers. In short – microeconomic reform in WA should take the high road not the low road.

ToR 1: Improved productivity and flexibility of the Western Australian economy

The 2010 House of Representatives report found that

Human capital reforms are considered the ‘third wave of reforms’ (opening up the economy was the first wave and domestic microeconomic reforms the second). The third wave reforms target firm-level capabilities rather than capacity—market competition and firm-level flexibility as part of previous reforms improved firm capacity.⁶

Unfortunately many of the reforms aimed at ‘human capital’ (basically at employees) have taken the form of attacks on so-called ‘labour market rigidities’. These are commonly associated with the notion that the labour market needs to have its regulation levels reduced.

Labour market deregulation is too often associated with the removal of collective worker protections such as award conditions, and the institution of individualist arrangements that shift the power in the employment relationship firmly towards the employer. This process is often referred to as labour market ‘deregulation’ – although it is more accurately described as the labour market being re-regulated in favour of employers. Labour market deregulation is often given credit for the surge in productivity over the 1990s. Commentators who make this claim often go on to call for further rounds of labour market reform to ignite a fresh wave of productivity.

However the trouble with such claims is the complete lack of evidence which accompanies them. As Green, Toner and Agarwal note – advocates of this argument have difficulty ‘both theoretically and empirically establishing such a relationship’

⁶ *Inquiry into raising the productivity growth rate*, p.6.

For every argument that can be advanced for the adverse effects of collective agreements and union ‘interference’ with management, opposite arguments can be produced pointing to the positive effects of labour standards and higher wages on the incentive to invest in training, to invest in innovation and to lower the transaction cost burden of employers negotiating individual contracts.⁷

According to Peetz (2012), attempts to address productivity growth through industrial relations policies usually stumble by aiming at more objectives than they can meet.

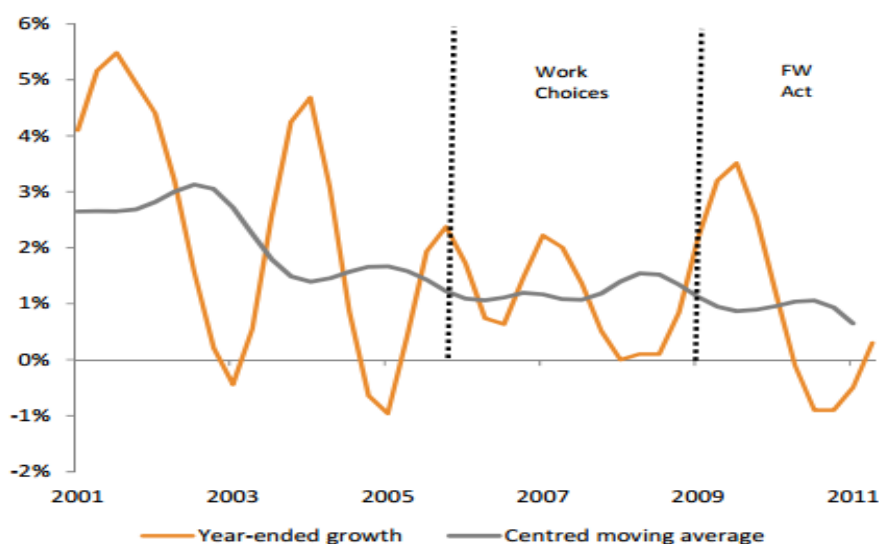
With few exceptions, it has much more of an impact in the long run on fairness, however defined, than on economic performance. If claims are made that a particular industrial relations policy is going to have a very large (positive or negative) consequences for economic performance, such claims should be examined sceptically, as there is a reasonable probability that the effects may be small, even non-existent, or perhaps the opposite of what is claimed.⁸

The WorkChoices era policies of individual contracts without a ‘No-Disadvantage Test’ were found, according to Peetz, to have been used ‘to remove penalty rates, overtime pay, shift premiums, redundancy benefits and job security from employees, especially from those without strong labour market power’

So even though only a small minority of workers were ever employed on registered individual contracts under WorkChoices, surveys indicated that 30 to 40 per cent people personally knew someone who had been made worse off. Individual contracts had a substantial impact on fairness, but very little impact and not necessarily positive on productivity.⁹

Research prepared by the ACTU for the post-implementation review of the Fair Work Act shows that the implementation of the WorkChoices ‘low road’ did not lead to any resurgence of productivity growth.¹⁰

Figure 20: Year-ended growth in GDP per hour worked in the market sector (trend)



Source: ACTU calculations based on ABS 5206.0

⁷ Green, Toner, Agarwal, p.35.

⁸ Peetz, David, ‘Does Industrial Relations Policy Affect Productivity’, *Australian Bulletin of Labour*, Vol.38, No.4 (2012), p.269.

⁹ *ibid*, p.273.

¹⁰ ACTU, *Submission to the Post Implementation Review of the Fair Work Act 2009* (2012), pp.26-7
http://actu.org.au/Images/Dynamic/attachments/7538/ACTU_submission_to_Fair_Work_Act_Review_Feb_2012_Vol_1.pdf

Why might this have been the case? Peetz argues that so-called ‘deregulation’ (meaning non-unionism and individual contracts) will seldom work as their advocates predict because they bring up problems of fairness

*If workers perceive unfairness, they will sense relative deprivation and feel the wage bargain has been breached; and they will then respond with absenteeism, exit, reduced effort, or direct conflict.*¹¹

These findings are not new. In 1999 Deery and Iverson published the results of a longitudinal study on *The Impact of Industrial Relations Climate, Organisational Commitment, and Union Loyalty on Organisational Performance*. They set out to examine, within the banking industry ‘the factors that affect the development of a co-operative industrial relations climate, the impact of that climate on union loyalty and organisational commitment and the effect of those forms of loyalty and commitment as well as other variables on a number of organisational performance measures’.¹²

Deery and Iverson found that, on average

workers who are more committed to their union are also more committed to their employer. So effort that goes into breaking employees’ commitment to their union is also counterproductive.

As a result, productivity was higher ‘when employees displayed loyalty to their union, were satisfied with their performance and believed that the industrial relations climate between the two parties was trustful and co-operative.’ A more collective industrial relations climate meant that employees ‘were less likely to engage in forms of individualistic behaviour that may be dysfunctional for the firm and for their co-workers’.¹³

In short – the ERA should reject any and all recommendations for microeconomic reform measures that are premised on the ‘low road’ of cutting back on the working conditions of employees, and promoting individual contract style employment arrangements. The OECD itself found in 2006 that ‘the experience over the past two decades shows that there is no single combination of policies and institutions to achieve and maintain good labour market performance’.¹⁴

UnionsWA contends that microeconomic reform measures should be aimed at taking the ‘high road’ of innovation and up skilling in a high wage economy. The evidence demonstrates that collective workplace arrangements are more likely to deliver better outcomes for both employees and employers in terms of both fairness and productivity.

Recommendation

Microeconomic reform measures should recognise the superior outcomes of co-operative workplace arrangements between employers, and employees through their unions. Such arrangements should be promoted to ensure ‘high road’ outcomes of productivity, up skilling and high wages.

ToR 2: Increased choice for consumers and business that leads to net economic benefits to Western Australia

Providing increased choice for consumers and businesses must involve maintaining a diversity of industries that complement the ‘high road’ approach for the WA economy. This means that any microeconomic reform measures recommended by the ERC must ensure the continuing viability of

¹¹ Peetz, p.272.

¹² Deery, Stephen J, Iverson, Roderick D, ‘The Impact of Industrial Relations Climate, Organisational Commitment, and Union Loyalty on Organisational Performance: A longitudinal Study’, *Academy of Management Proceedings* (1999), p.C1.

¹³ *ibid.*, p.C5

¹⁴ OECD, *Boosting Jobs and Incomes: Policy Lessons from Reassessing the OECD Jobs Strategy* (2006), p.18
<http://www.oecd.org/els/emp/36889821.pdf>

the WA manufacturing sector. This is because, around the world, manufacturing continues to be the primary source of high skill, high wage, and secure jobs.

Dani Rodrik, Professor of International Political Economy at Harvard University, argues that despite the growth in information technologies, biotech, and high-value services 'countries ignore the health of their manufacturing industries at their peril'.

High-tech services demand specialized skills and create few jobs, so their contribution to aggregate employment is bound to remain limited. Manufacturing, on the other hand, can absorb large numbers of workers with moderate skills, providing them with stable jobs and good benefits. For most countries, therefore, it remains a potent source of high-wage employment.

Indeed, the manufacturing sector is also where the world's middle classes take shape and grow. Without a vibrant manufacturing base, societies tend to divide between rich and poor – those who have access to steady, well-paying jobs, and those whose jobs are less secure and lives more precarious. Manufacturing may ultimately be central to the vigor of a nation's democracy.¹⁵

Increased choice that benefits the WA economy must include the choice to have a viable manufacturing industry. WA manufacturing should compete on the 'high road' to productivity, and microeconomic reform should ensure that it has a fair opportunity to do so. UnionsWA argues that recent resource 'booms' have been anything other than fair to WA manufacturing.

ToR 3: Increased opportunities for Western Australian businesses to effectively compete for national/international market share

Recent resources booms have provided cover for successive governments to simply let WA manufacturing disappear. Manufacturing should be providing opportunities for young Western Australians to obtain the training and apprenticeships they need to develop new skills that will last their whole lives. Instead our local workshops are operating below their capacity, with most of the manufacturing and fabrication work for our major projects being sent offshore.¹⁶

Having a manufacturing industry is therefore central to pursuing the 'high road' increased productivity in WA. While other industries certainly make use of skilled labour, they have not so far demonstrated that they are capable of investing in 'up skilling' the workforce of the future.

For example, in 2010 the National Resources Sector Employment Taskforce (NRSET) Report *Resourcing the Future* found that the resources sector's overall share of trade apprentices was lower than its share of trade employment. The Report referred to National Centre for Vocational Education Research (NCVER) research into the contribution made by the resources sector to the employment of trade apprentices relative to their trade employment share which noted:

... that the sector employs considerably fewer apprentices than would be expected from its share of trade employment. In fact the sector would have to double its number of apprentices to be on par with other industries.¹⁷

The most recent NCVER figures for Australian vocational education and training statistics: (apprentices and trainees) demonstrate that 'in-training' numbers for WA industries linked to manufacturing and construction have been declining even in situation where the overall numbers of employees have been increasing. The table below shows a -4.1% decline in Automotive and

¹⁵ Dani Rodrik, 'The Manufacturing Imperative', *Project Syndicate*, 10 August 2011, <http://www.project-syndicate.org/commentary/rodrik60/English>

¹⁶ 'Mining contracts "lock out Aussies" with "buy Chinese" clauses' <http://www.theaustralian.com.au/business/mining-energy/mining-contracts-lock-out-aussies-with-buy-chinese-clauses/story-e6frg9df-1226245921231#>

¹⁷ NSRT *Resourcing the Future Report*, p. 33 <http://www.innovation.gov.au/Skills/National/Documents/FinalReport.pdf>

Engineering (covering the metal fabrication trades) trainees since March 2013, and a -33.6% decline in construction trainees.¹⁸

<i>WA: In-training as at the end of each quarter by selected training characteristics, March 2008–13 ('000)</i>								
	Mar. 2008	Mar. 2009	Mar. 2010	Mar. 2011	Mar. 2012	Mar. 2013	Change 2008-13	% Change 2008-13
Technicians and trades workers	23.7	23.3	22.7	23.1	23.9	24.4	0.7	3.1%
Automotive and engineering	8.8	8.4	7.6	7.8	8.3	8.5	-0.4	-4.1%
Construction trades workers	5.4	5.0	4.6	4.5	4.0	3.6	-1.8	-33.6%

In training numbers in Automotive and Engineering trades is important, because it provides a measure of the ability of the local workforce to meet the demand for skilled workers that future major resources projects should drive. Low training numbers point to future capacity issues, a shrinking skills base and a potential worsening of local industry participation in WA's booming resources sector. Despite employer complaints about 'skills shortages' it is simply becoming harder to get an apprenticeship for a young person in WA.

Manufacturing is a source of skilled, secure work, thus a manufacturing industry is worth preserving in its own right. The decline of manufacturing will lead the WA economy directly down the 'low road' of low skilled work, with vulnerable young workers forced to take 'independent' contract employment with little prospect of job security or decent conditions.

Microeconomic reform measures recommended by the ERC must ensure that the sector most likely to generate high skilled, high wage jobs in our economy – the manufacturing sector – does not disappear from WA.

Recommendations

Microeconomic reform must involve both government and private industry committing to ensure that WA can make the choice of a high road, high skill manufacturing sector that can effectively compete for market share. State Agreements for resources projects should include measures for

- **Credible Training Commitments:** Resource companies must demonstrate that they have invested in measures that ensure access by local apprentices and trainees to their projects. They must also demonstrate that they have invested in building the skills base of WA workers.
- **Local content opportunities on big resource projects:** The Barnett State Government has allowed projects like Gorgon and Wheatstone to source up to 90% of their manufacturing work from offshore while local steel fabrication businesses are struggling. WA workers want to see active measures and clear outcomes that increase local content levels in the resources sector.

The removal or streamlining of unnecessary regulation

In late 2012 the state government tabled the *Labour Relations Legislation Amendment and Repeal Bill*. This 'Green Bill' contained proposed changes to the WA state *Industrial Relations Act* which take WA down the 'low road' of potential cuts to working conditions. These include winding back rights to

¹⁸ NCVER, *Australian vocational education and training statistics: apprentices and trainees, 2013 – March quarter* <http://www.ncver.edu.au/publications/2654.html>

contest unfair dismissals, and a rushed award modernisation process that threatens unfair outcomes for award reliant workers.¹⁹

While UnionsWA does not wish to reiterate the points it has already made to government, this section of the submission will address a particular piece of unnecessary regulation that impacts WA workers generally and union members in particular: Restrictive Right of Entry rules which hamper representation and bargaining.

Right of Entry refers to the laws which regulate the rights of registered organisation officials (such as a trade union) to enter work premises. To enter those premises, an organisation official ('permit holder') must have a valid and current entry permit from Industrial Commission – Fair Work in the Federal system, and the WA industrial Relations Commission in the state system.

Right of Entry is not (contrary to myth) about the rights of a permit holder. Right of Entry is about the right of workers to join their union and meet with their representatives. Right of Entry exists because, while workplaces are not democracies, our rights as citizens do not simply disappear when we go to work.

Right of Entry is a valid workplace entitlement; however governments in Australia persist in maintaining, and increasing, petty rules and red tape around its exercise. The proposed changes to the WA Industrial Relations Act around Right of Entry which certainly constitute unnecessary regulation include²⁰

- Restricting investigations of breaches of industrial instruments
- Preventing access to non-member records of pay and conditions
- Holding discussions with employees only at mealtimes and other breaks
- Restrictive 'Reasonable suspicion' tests for investigating possible health and safety breaches
- Restrictions on where to hold discussions and routes to take to discussions

UnionsWA contends that current and proposed regulations to restrict Right of Entry will not improve productivity, but they will restrict the freedom of association of workers in Western Australia.

Recommendation

The unnecessary regulations around the exercise of Right of Entry should be removed from WA Industrial law, and should be replaced by a streamlined system that respects Australia's obligations on Civil and Political Rights to freedom of association.

Conclusion

UnionsWA believes that any new package of 'microeconomic reform measures' proposed for the WA economy must take the 'high road', in which long term efficiency gains deliver a knowledge based, high wage economy, not the 'low road' of cost cutting, lay-offs and cuts to working conditions. Microeconomic reform must address

- Ongoing issues of fairness and inequality such as WA's persistently high gender pay gap
- The need to up skill the WA workforce and promote WA's manufacturing sector
- Removing unnecessary regulations which do not improve productivity but do hamper the legitimate exercise of workplace rights

Productivity measures that do not address fairness will end up achieving neither productivity nor fairness. UnionsWA thanks the ERA for the opportunity to make our case on this issue.

¹⁹ The full UnionsWA submission in response to the *Labour Relations Legislation Amendment and Repeal Bill 2012* is available at <http://www.commerce.wa.gov.au/LabourRelations/PDF/Draft%20Bill%20submissions/UnionsWA.pdf>

²⁰ *Labour Relations Amendment and Repeal Bill 2012, Part13 – Amendments about Right of Entry*, http://www.commerce.wa.gov.au/LabourRelations/PDF/Draft%20Bill%20submissions/Labour_Relations_Legislation_Amen_dment_and_Repeal_Bill_2012.pdf