



Regulating for Productivity

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Some questions about productivity

- What is it, and does it matter?
- Does the regulation of labour and employment relations affect productivity?
- How is the Fair Work Act intended to promote productivity?
- What changes do business groups say are needed?
- How is the Abbott Government proposing to change labour regulation to improve productivity?
- What *should* we be doing to improve productivity?

What is productivity?

‘Productivity (the ratio of output produced to inputs used) measures how efficiently inputs, such as capital and labour are used to produce outputs in the economy. It is sometimes referred to as productive efficiency. Productivity increases if output grows faster than inputs (or shrinks more slowly).

Multifactor productivity (output produced per unit of combined inputs of labour and capital) is the measure that comes closest to the underlying concept of productivity — efficiency of producers in producing output using both labour and capital. Labour productivity (output produced per unit of labour input) measures efficiency in the use of labour but it also captures the value added from growth in capital that supports increased output without increasing labour.’

Productivity Commission, *PC Productivity Update April 2014*

What is productivity?

“Productivity” is, at its simplest, a measure of how effectively or efficiently a workplace, a business or government agency, a region or a nation as a whole uses the resources at its disposal to produce goods and services which are in turn valued, in some way, by those who consume or use them ... Economists have long recognised that productivity is a Good Thing (in the Sellar and Yeatman (1930) sense) as the most important source of improvements in material living standards.’

Saul Eslake, ‘Productivity: The Lost Decade’ (2011)

Does it matter?

Peter Harris (PC chairman), November 2013:

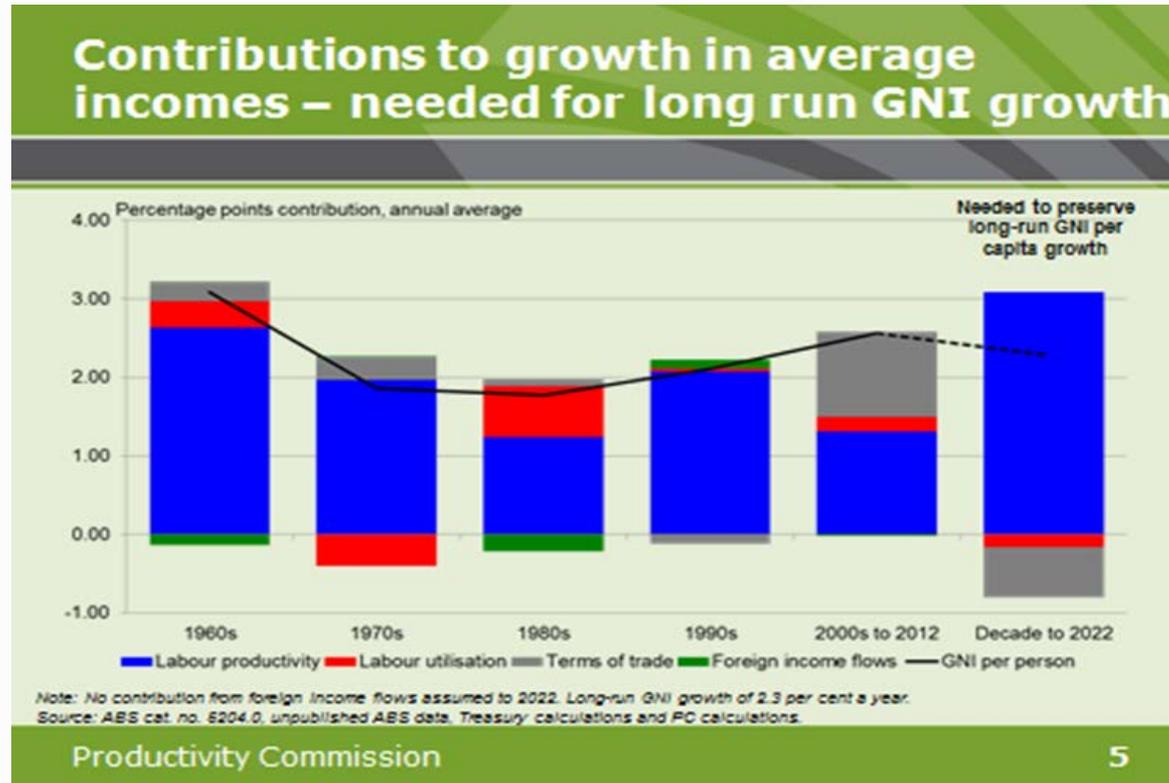
- ‘Without a serious effort to resume sustained productivity growth – an effort genuinely to be shared between governments, business and employees – the truth ... is that with the terms of trade declining from an unparalleled height, our national income growth looking forward will be at best a pale reflection of the past decade.’

Does it matter?

Martin Parkinson (Treasury Secretary), July 2014:

- ‘If we assume labour productivity grows at its long-term average, then incomes will grow on average over the decade ahead by around 1 per cent per year, or less than half of the rates to which Australians have become accustomed. To achieve average income growth in line with its long-term average, we will need sustained labour productivity growth of around 3 per cent. This is significantly more than in the past and around double what has been achieved since the turn of the century.’

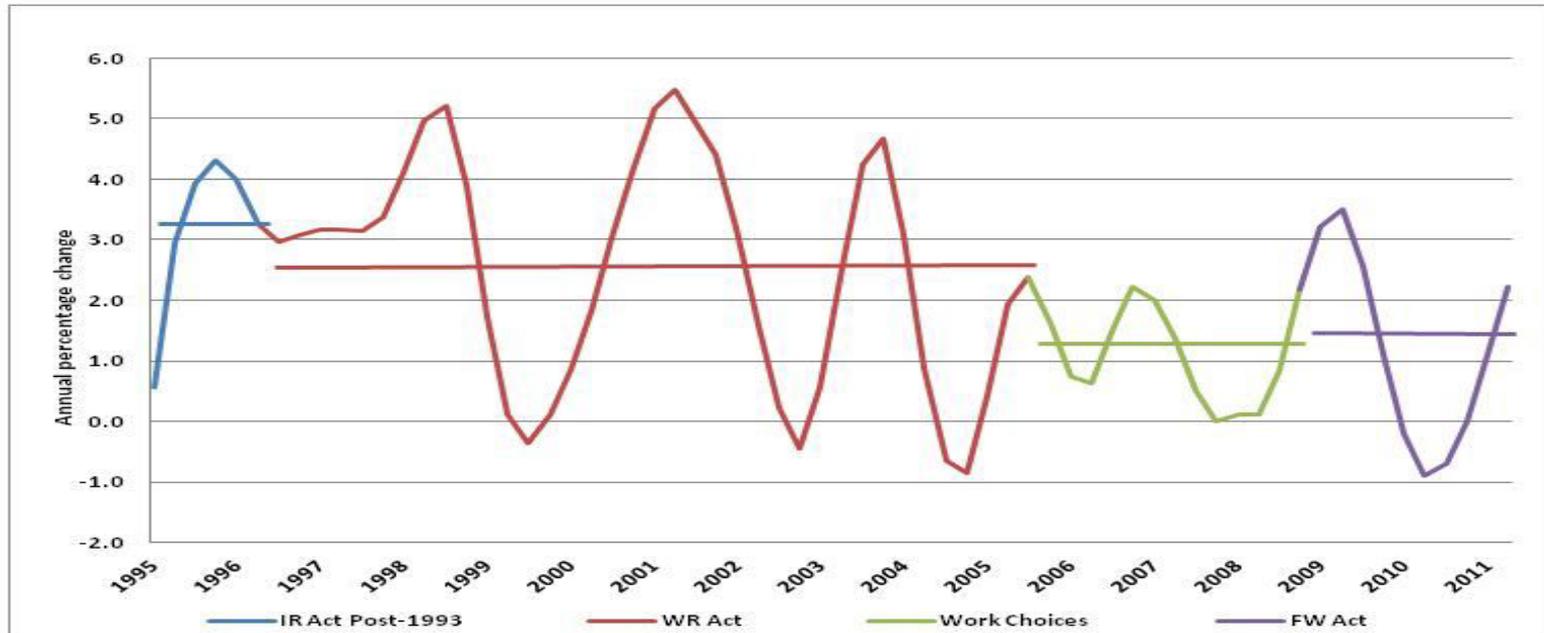
Does it matter?



Does labour regulation affect productivity?

- Of course ... but how and to what extent is hard to say
- Hence, for example, conflicting/uncertain evidence from international studies about links between different types of labour regulation and economic performance
- Australia ought to have been the perfect laboratory for the past 25 years
- But hard to see any pattern from the data!

Labour productivity, 1995-2011



Source: ABS, reproduced in *Fair Work Act Review* (2012)

The Fair Work Act and productivity

- According to Explanatory Memorandum for Fair Work Bill 2008, the legislation would mainly promote productivity through enterprise-based collective bargaining
 - ‘Enterprise agreements can ensure that increases in pay and entitlements are linked to productivity increases at the enterprise. This is due to negotiations at the level of the enterprise better reflecting the financial situation of the enterprise. Furthermore, collective bargaining will shift the focus of negotiations towards boosting productivity.’

The Fair Work Act and productivity

- More from the Fair Work Bill EM:
 - ‘Collective bargaining at the level of the enterprise is a productive form of agreement making that allows employer and employees to examine the way they work, discover new ways to improve productivity and efficiency and communicate to make workplaces more flexible. Research by the Melbourne Institute and Productivity Commission links productivity gains to collective bargaining.’

The Fair Work Act and productivity

- But query whether that view was or remains correct, given transaction costs and clear signs of EB fatigue
 - arguably, some sectors would do better from industry-level bargaining
- And note international studies suggesting that results from collective bargaining can vary dramatically, depending on ‘structural or strategic characteristics’

Collective bargaining and productivity

‘[A] large body of theory and research has demonstrated that collective bargaining can contribute to improving the productivity of individual firms or workplaces, and encourage economic competitiveness at the industry or national level. However ... [w]hile unions may form “productivity coalitions” with management and contribute to joint problem solving, they can also obstruct restructuring measures aimed at reducing labor costs and generate additional costs associated with industrial action.’

- Doellgast and Benassi, ‘Collective Bargaining’ in Wilkinson et al, *Handbook of Research on Employee Voice*, 2014, p 237

So what do business groups want changed?

- From the BCA, *Building Australia's Comparative Advantages*, July 2014
 - to improve competitiveness in mining and resources sectors, allow employer-only greenfields agreements and create new category of 'major project agreement'
 - to enhance flexibility, prohibit EAs from dealing with 'matters that do not relate to the employment relationship'
 - eg restrictions on contractors, rostering, shift duration

So what do business groups want changed?

- More from the BCA
 - to improve competitiveness in retail and hospitality, amend awards so that additional pay is only available for hours not agreed by employer and employee to be ‘standard’
 - strengthen incentives for ‘constructive’ and ‘fruitful’ engagement between employers and employees by lessening unwanted interposition by ‘third parties’

So what do business groups want changed?

- Note also BCA's wish list for the longer term
 - allow 'additional remuneration' in 'more favourable economic periods', but not 'locked in to the extent that it jeopardises a business's viability'
 - workplace relations should reflect shift in management focus 'away from compliance' towards an approach whereby 'senior executives ethically direct and control an organisation'
 - focus on employment relationship to avoid 'the complexity and overlap associated with issues for which separate systems have evolved, such as OH&S and discrimination'

The Abbott Government's agenda

- Fair Work Amendment Bill 2014 proposes
 - changes to NES entitlements and individual flexibility arrangements, based on FW Review recommendations
 - new rules for greenfields agreements
 - reduced rights of entry for union officials
 - no protected industrial action until employer agrees or is compelled by FWC to bargain (overturning *JJ Richards*)

The Abbott Government's agenda

- Building and Construction Industry (Improving Productivity) Bill 2013
- Fair Work (Registered Organisations) Amendment Bill 2014
- Paid Parental Leave Amendment Bill 2014
- Minerals Resource Rent Tax Repeal and Other Measures Bill 2013 [No 2] Sch 6 (SG contributions)

The Abbott Government's agenda

- Other election commitments (May 2013 policy)
 - FWC must not approve EA unless satisfied that the parties have 'considered and discussed ways to improve productivity'
 - protected industrial action permitted only in support of 'sensible and realistic' claims that 'would not adversely affect productivity'

The Abbott Government's agenda

- Plus commitment to initiate a 'comprehensive and broad' inquiry by the Productivity Commission
 - but nothing announced since draft terms of reference leaked in March 2014
 - compare approach to Royal Commission into Trade Union Governance and Corruption

The Abbott Government's agenda

- Note also Public Sector Workplace Bargaining Policy
 - ‘Agencies can only negotiate remuneration increases which are ... offset by genuine productivity gains’
 - ‘Changes to incremental salary arrangements may be counted as productivity improvements where they result in cashable savings’

The productivity debate

- Often said that Australia has been in a productivity slump
- But no evidence this is anything to do with Fair Work Act!
- Labor claims that renewed focus on collective bargaining would boost productivity arguably not borne out
- But little to suggest changes proposed by business groups would make much of a difference either
 - if anything, some may have a negative effect on productivity, while boosting *profitability*

The productivity debate

- The real drivers of productivity include skills and training, use of technology, smart management and positive workplace culture
- Fixating on law reform just distracts attention from these, reduces certainty and increases compliance costs
- Better to concentrate on making gains *within* current framework
 - eg simplification of awards, or FWC's 'engagement' agenda