



**MASTER BUILDERS
AUSTRALIA**

Submission to

**The House of Representatives
Standing Committee on Economics**

on

**Raising the Level of Productivity Growth
in the Australian Economy**

August 2009

Master Builders Australia Ltd ACN 137 130 182

building australia



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1 INTRODUCTION

- 1.1 This submission is made by Master Builders Australia Ltd (Master Builders).
- 1.2 Federated on a national basis in 1890, Master Builders Australia is the nation's peak building and construction industry association. Its members are the Master Builder state and territory Associations. Over the past 118 years the movement has grown to cover 31,000 businesses nationwide, including the top 100 construction companies.
- 1.3 Master Builders is the only industry association that represents all three sectors of the building and construction industry - residential, commercial and engineering.

2 PURPOSE OF THIS SUBMISSION

- 2.1 The House Economics Committee is conducting a wide-ranging inquiry into raising the level of productivity growth in the Australian economy. This submission responds to an invitation from the Inquiry Secretary dated 1 July 2009.
- 2.2 In this submission Master Builders Australia sets out the key factors influencing Australia's productivity growth and outlines further reforms within the building and construction industry that can lift productivity growth.

3 OVERVIEW

- 3.1 The building and construction industry can play an important role in lifting Australia's productivity growth. The key areas are as follows:
 - Industrial relations: maintain productivity-boosting, industry-specific reforms, including adequate powers for the successor to the ABCC.
 - Australian Building Codes Board: keep the ABCB focused on nationally consistent, cost-effective minimum building codes and standards.
 - Tax: the Henry review should develop a blueprint for reform encouraging improved state government accountability and removal of narrowly-based, highly distorting taxes, particularly stamp duties on property transactions.
 - Housing affordability: remove supply constraints; abolish or reduce economically irresponsible developer charges.
 - Infrastructure: Meeting infrastructure needs in cities and regions is of paramount importance - if Australia's comparative advantage in low cost and

well serviced urban land is eroded, our productive capacity and overall economic performance will suffer.

- Training policies: ensure an adequate and flexible skilled workforce for the future, focusing on apprenticeship training in vocational education and training.

4 WHAT IS PRODUCTIVITY?

4.1 Productivity measures are used at the level of firms, industries and entire economies. Productivity is a 'supply-side' measure that captures technical production relationships between inputs and outputs. It is also about the production of goods and services that are desired, valued and in demand.

4.2 Depending on the context and the selection of input and output measures, productivity calculations are open to different interpretations. Productivity is a measure of the rate at which outputs of goods and services are produced per unit of input (labour, capital, raw materials, etc). It is calculated as the ratio of the quantity of outputs produced to some measure of the quantity of inputs used.

4.3 Productivity can be increased by minimising the use of inputs - for example, through more efficient production processes that minimise waste. Equally, productivity can be increased by maximising output – for example, by using resources in the production of goods and services that add the most value.

4.4 Labour productivity is more easily understood and measured, and is simply the ratio of output to the input of labour. Labour productivity should be used cautiously as a measure of efficiency because it reflects more than just the efficiency or productivity of the workforce. Output is influenced by many factors other than labour, such as the quantity and quality of capital equipment, managerial techniques, and work practices.

4.5 Another measure of productivity is multifactor productivity. This measures the output compared with the total input of labour and capital. Multifactor productivity is therefore a better indicator of efficiency, since it measures how efficiently and effectively labour and capital combine. Unfortunately, capital input can be very hard to measure.

5 WHY IS PRODUCTIVITY IMPORTANT?

5.1 Productivity growth is the key to long term prosperity. The importance of long-term productivity growth in maintaining growth in living standards has been emphasised

in a number of 'intergenerational' studies by the Treasury. Evidence of productivity growth usually means that better ways have been found to create more output from given inputs. New technologies mean that inputs can be used in ways that generate a greater quantity of outputs or higher-value products.

- 5.2 Put simply, productivity growth means that more value is added in production, and this means that more income is available to be distributed. The benefits of productivity growth can be distributed in a number of different ways: to the workforce through better wages and conditions; to shareholders and superannuation funds through increased profits and dividend distributions; to customers through lower prices; and to governments through increased tax payments, which can then be used to fund social and environmental programs.
- 5.3 Productivity growth is important to an individual firm because it allows the firm to meet its (perhaps growing) obligations to workers, shareholders, and governments - taxes and regulation - and still remain competitive or even improve its competitiveness in the market place. But it is just as important to industries as a whole. Just as firms within an industry compete, industries within an economy compete with other industries.
- 5.4 In the most immediate sense, productivity is determined by the available technology or know-how for converting resources into desired outputs and by the way in which resources are organized in firms and industries to produce goods and services. At the firm or industry level, a productivity-enhancing factor, such as the introduction of new technology, can mean that fewer workers are required, but this need not be the case. A firm with high productivity can stimulate demand, requiring it to hire more workers to raise production to meet the demand.
- 5.5 At a very broad level, productivity measures are often used to indicate the capacity of a nation to harness its human and physical resources to generate economic growth. Productivity growth is the oil of the economic machine. Small increases in productivity can compound over time and increase the prosperity of nations. While we tend to think of it in purely economic terms this is a narrow view. Only by concentrating on improving productivity can economies reduce unemployment and poverty and fund improvements in social and economic infrastructure for a prosperous society.
- 5.6 It is thus important that we continue to support policies that embrace openness, flexibility and competition, policies that allow structural change to occur and facilitate the efficient allocation of resources.

- 5.7 At the national level, the evidence overwhelmingly suggests that productivity growth does not reduce employment. By raising growth in income and output it actually adds to overall employment growth. There can be no better example of this than the experience of 1980s and early 200s. During this period record productivity growth was accompanied by very high levels of employment growth and declining rates of unemployment.

6 PRODUCTIVITY GROWTH CYCLES AND ECONOMIC REFORM

- 6.1 Labour productivity grew at an annual rate of 3.3 per cent per year in the 1990s (1993/94 to 1998/99), the fastest rate on record. This resulted from very strong multifactor productivity growth of 2.3 per cent per year, more than a full percentage point per year above the long-run average. Productivity grew particularly rapidly in Communication services; Finance and insurance; Electricity, gas and water supply; and Wholesale trade.
- 6.2 Productivity growth, and with it the resilience of the overall Australian economy to withstand shocks, has been improved by a series of reforms, most of which were instigated in the wake of the 1982/83 recession, including the floating of the currency and the de-regulation of the finance sector. Dismantling of the ‘tariff-wall’, competition reform, and increased labour market flexibility added significantly to prosperity and broadened employment opportunities. These reforms have transformed the economy into one that is robust, internationally competitive and better able to withstand global storm clouds than most other nations.
- 6.3 In the industrial relations sphere, less adversarial labour relations and greater labour flexibility over the past 20 years or so have encouraged innovation, facilitated greater acceptance of new work practices, organisational procedures and modern technologies, and contributed to the observed acceleration in productivity.

7 PRODUCTIVITY GROWTH HAS WEAKENED IN RECENT TIMES

- 7.1 Since the high productivity growth period in the 1990s, productivity growth has slowed down. Labour productivity grew by 2.2 per cent per year in the late 1990s to early-2000s cycle (1998/99 to 2003/04) and multifactor productivity grew by 1.1 per cent a year. In recent years, data from the Productivity Commission show that productivity growth has been unusually weak. As Table 1 shows, multifactor productivity (output per combined input of labour and capital) in Australia’s market

sector fell by 0.4 per cent in 2007/08 (www.pc.gov.au/research/productivity/estimates-trends).

Table 1: Australian Productivity Growth

Productivity / Components	2004-05	2005-06	2006-07	2007-08	Long-term average
					1964-65 to 2007-08
Labour productivity	0.1	2.5	0.7	1.1	2.2
Capital deepening	0.7	2.3	1.0	1.6	1.1
Multifactor productivity	-0.6	0.3	-0.3	-0.4	1.1
Output	3.0	2.8	3.6	3.8	3.3
Combined capital and labour	3.6	2.6	3.8	4.3	2.2
Capital	4.6	5.6	5.3	6.3	3.9
Labour	2.9	0.2	2.8	2.7	1.1

Source: Productivity Commission (www.pc.gov.au/research/productivity/estimates-trends), based on ABS data

7.2 This is now the fourth successive year in which multifactor productivity growth has been well below average. Taking these years together, multifactor productivity is estimated to have fallen by a total of 1.0 per cent since 2003/04.

7.3 As Table 2 shows, since 2003/04 there has been a divergence between the productivity performance of Electricity, gas and water supply; Agriculture; and Mining, where there has been a significant fall in productivity, and the remainder of the market sector. In other industries including Construction, productivity has continued to grow strongly.

Table 2: Recent growth in multifactor productivity by industry contributions

	2007-08		Four years to 2007-08	
	Growth %	Contribution % points	Growth % per year	Contribution % points
Agriculture, forestry and fishing	7.6	0.3	-1.4	0.0
Mining	-7.9	-1.0	-4.8	-0.4
Manufacturing	-0.2	-0.1	-0.8	-0.2
Electricity, gas and water supply	-5.8	-0.2	-4.2	-0.1
Construction	2.1	0.2	1.0	0.1
Wholesale trade	3.2	0.2	0.3	0.0
Retail trade	-0.1	-0.1	0.6	0.0
Accommodation, cafes and restaurants	-3.4	-0.2	-0.2	0.0
Transport and storage	-0.7	0.0	0.8	0.1
Communication services	4.7	0.2	3.0	0.1
Finance and insurance	3.2	0.4	2.2	0.4
Cultural and recreation services	-0.7	0.0	0.2	0.0
Market sector	-0.4		-0.3	

Source: PC (www.pc.gov.au/research/productivity/estimates-trends), based on ABS, MFP Experimental Estimates, 2007-08.

8 PRODUCTIVITY IN BUILDING & CONSTRUCTION HAS BEEN STRONG

- 8.1 As Table 2 shows, the productivity of the market sector (ie non-government) has fallen by 0.3 per cent per year over the past four years. In contrast, productivity in the building and construction industry has grown by 1.0 per cent per year on average over the same period.
- 8.2 Without strong building and construction industry productivity growth, Australia's productivity performance would have been even worse.
- 8.3 Why has the building and construction industry experienced such strong productivity growth during the past four years? What reforms are needed to ensure that this rate of growth continues?

9 INDUSTRIAL RELATIONS

- 9.1 Industry-specific building and construction industrial relations reforms in the 2000s have played a major role in the sector's outperformance in recent years, delivering benefits via reduced building costs, higher productivity and fewer strikes. These have flowed through to economy-wide benefits of lower inflation and higher economic growth.
- 9.2 A KPMG Econtech report, 'Economic Analysis of Building and Construction Industry Productivity: 2009 Report', commissioned by Master Builders, clearly demonstrates the economic benefits of reforms such as the establishment of the Australian Building and Construction Commission (ABCC) in lifting productivity and promoting industrial harmony in the construction industry.
- 9.3 Building contractors have been reporting major benefits ever since the establishment of the ABCC, and the KPMG Econtech report provides quantification of significant improvements across a range of productivity measures:
- 6.2 per cent productivity gain in commercial building relative to residential building since 2004;
 - 9.4 per cent addition to labour productivity in the construction industry due to the ABCC and associated reforms;
 - 10.2 per cent outperformance in construction industry labour productivity compared with predictions based on historical performance to 2002.
- 9.4 The KPMG Econtech report provides convincing evidence of economy-wide benefits deriving from the building and construction industry-specific reforms, in

terms of higher GDP and lower CPI outcomes, as well as an ongoing economic welfare gain to the community of \$5.5 billion per annum. These are largely attributable to the establishment of the ABCC.

- 9.5 Master Builders has always considered that these labour market reforms were not only vital for the building and construction industry, but also critical to continued economic growth and prosperity generally. Labour market reforms have made the economy more adaptable to rapid changes in the economic environment and have permitted the economy to operate closer to its potential.
- 9.6 Master Builders' therefore believes that the specific building and construction industry reforms delivered in the 2000s are national issues with enormous policy implications for the Australian economy. The Government must ensure that policies work to preserve the productivity gains made in the building and construction industry over recent years. The enormous benefits, both to the industry and the wider economy, will be lost if the powers of the ABCC replacement body are watered down from February 2010.

10 AUSTRALIAN BUILDING CODES BOARD

- 10.1 Another factor essential to productivity improvements in the building industry has been the ability of the Australian Building Codes Board (ABCB) to deliver timely, nationally-consistent, uniform regulations. It is critical that the ABCB remains adequately resourced, particularly as its brief has widened in recent times to include issues such as sustainability and disability access.
- 10.2 Over the past decade and a half, the ABCB has overseen the development of nationally consistent building codes, standards and regulatory systems that have created significant economies of scale and benefits. These have provided certainty to a variety of industry stakeholders including manufacturers, builders, design professionals, and professional service providers. A nationally consistent BCA has allowed building products to be modularised, prefabricated and transported across state boundaries. For designers, it has allowed nationally consistent design parameters. For builders, it has meant the ability to work easily across state boundaries and contributed to the development of consistent practices in occupational health and safety and training.
- 10.3 Further productivity-enhancing reform is needed. A nationally uniform set of administrative regulations is needed across the states to complement the BCA. A reform of this nature would deliver additional certainty and drive productivity in the

building industry – growth that would flow through to the benefit of the wider community.

11 TAX

- 11.1 Reforms to the tax system will have implications for the way in which Australia emerges from the economic downturn and, more obviously, for long-term productivity growth. Productivity-boosting tax reform will enhance Australia's long term economic growth prospects. The Henry review of Australia's tax and transfer system is to report to the Government by the end of 2009.
- 11.2 The building and construction industry is one of the most widely taxed industry sectors. Master Builders has long advocated fundamental reform to reduce personal and business tax burdens that militate against achieving optimum economic and social objectives, distort investment decisions, reduce employment opportunities and add to the cost of compliance. This high tax burden also reduces housing affordability, increases housing stress and places a greater burden on governments for housing assistance.
- 11.3 Master Builders strongly supports the retention of a number of existing taxes relating to housing, the First Home Owners Grant, the tax exempt status of the family home, and the current negative gearing provisions.
- 11.4 Master Builders supports further fundamental reforms that would reduce the tax burden and maintain global competitiveness. Reforms should include further reductions in personal tax rates; further reductions to the company tax rate; and moves to gradually reduce the top marginal rate of personal tax to align with the corporate tax rate. In order to reduce the burden of tax on capital gains and encourage increased investment, Master Builders advocates the introduction of a stepped rate capital gains tax whereby the percentage of gains subject to the tax falls the longer an asset is held.
- 11.5 Master Builders believes the Henry review presents an ideal opportunity to develop a blueprint for reform of Australia's federalism model to achieve a more efficient taxation regime. Master Builders is concerned that state governments lack fiscal discipline. The recommendations of the Review should not be overly influenced by the status of state and territory budgets, but must be far-reaching and practical. They should look at the removal of the range of narrowly-based, highly distorting taxes on which the states still rely for their revenue, particularly stamp duties on residential property transactions.

- 11.6 These taxes are an imposition on the business community because they distort decision-making, increase costs, impose high compliance costs and reduce economic efficiency overall. Stamp duty is particularly at fault here. These taxes affect all industry sectors but fall disproportionately heavily on the building and construction industry.
- 11.7 Stamp duty is an inefficient tax that adds directly to the price of houses and other buildings and also makes it more difficult for first home buyers to raise sufficient finance to pay both stamp duty and the initial equity in purchase of the house. These impacts are reduced to the extent that individual state and territory governments provide first home buyer exemptions. While stamp duty may be only a small fraction of the total price of a house, it can be a significant proportion of the initial funding (particularly in major capital cities) needed to enter into home ownership.
- 11.8 Residential stamp duty is an inefficient tax which not only reduces housing affordability but also makes it more difficult for people wishing to realise their housing preferences, such as first home buyers, baby-boomer 'empty nesters' wanting to downsize, and elderly people seeking appropriate accommodation in retirement. Stamp duties, as a transaction tax, are inefficient and other things being equal tend to reduce the turnover of housing, leading to less than optimum use of the current housing stock.
- 11.9 The effectiveness of eliminating (or at least substantially lowering) stamp duty would be reduced if the supply of land is not increased, since otherwise increased demand simply translates into higher prices for owners and tenants. Given the inter-relationships between demand and supply, it is critical that governments address the core structural problem affecting housing affordability, namely supply-side constraints. Enhanced cooperative arrangements between the three tiers of government are the key to solving the housing affordability problem.

12 HOUSING AFFORDABILITY

- 12.1 Housing affordability has implications for productivity growth if housing supply constraints fuel asset price inflation and thus lead to higher interest rates and lower economic growth. As stated by Reserve Bank Governor Glenn Stevens, failure to increase the number of dwellings built in Australia over the next few years would confirm serious supply side impediments to producing affordable shelter, something previous generations of Australians have taken for granted. The

policy challenge is to make sure the ready availability and low cost of housing finance translates into an increased supply of dwellings, and not higher prices. Otherwise there would be an elevated risk of over-leverage and asset price deflation.

- 12.2 Given that the housing issues are real and that many pieces of the puzzle form the solution, a problem like this cuts across local, state and Commonwealth responsibilities. The key to a sustainable, supply-orientated improvement in housing affordability will be better cooperation among Commonwealth, the states and local government.
- 12.3 The shortage of housing is already estimated to be at least one half of one year's production and growing by more than 30,000 dwellings per annum. The enormous backlog is a critical problem, given the size of the building task needed to overcome the shortfall. Reform is needed to overcome a shortage of available land and restrictive land release strategies; inefficiencies in the development approval process; and to moderate council development levies and taxes and charges imposed by state and territory governments that are in turn passed on to home buyers.
- 12.4 In recent years there has been a significant trend towards charging developers for the cost of building infrastructure for housing developments. Previously the costs of providing infrastructure for new residential housing developments were met by the general taxpayer in the form of local council rates and state/territory government taxes. A significant component of new infrastructure provision – from economic infrastructure like roads to social infrastructure such as libraries – is now funded through developer charges.
- 12.5 State governments and local councils that decide to provide infrastructure up-front have found imposing charges on developers to be a convenient method of raising revenue. A key attraction of this new form of tax is that charging developer fees is less politically painful than raising state taxes or increasing local government rates. Those directly impacted by the charges – developers – are an extremely small portion of the community, and the new home buyers that ultimately pay the higher price are also relatively few in number and generally unaware that they are paying higher prices as a consequence of upstream tax imposts. Developer charges are, in this sense, a “hidden tax”.
- 12.6 At local council level, many of those deterred from buying a new residence under the higher price will live outside the council's boundaries. Councils facing funding

pressures have found it easier to charge property developers – where the ultimate losers, new home buyers, are few in number and often live and vote outside the council boundaries – rather than increase rates on the voters inside their boundaries. State governments, similarly, have greatly expanded the weighting of developer charging in their revenue base in recent years.

- 12.7 Local councils and state governments have a built-in incentive to bias their revenue-raising towards the less politically painful developer, thus shifting the political pain to the federal level where the Commonwealth Government is seen to be responsible for housing affordability. This inherent flaw in the system — where state and local authorities have an incentive to impose a level of developer charges beyond what is economically responsible — is the nub of the current problem.

13 INFRASTRUCTURE

- 13.1 The provision of, and equitable and affordable access to, infrastructure is a critical determinant of productivity growth. It is an integral part of the performance of the Australian economy in general and the building and construction sector in particular. Without capacity-enhancing infrastructure investment, Australia's economic performance will deteriorate and living standards will fall over time.
- 13.2 The Government's commitment to infrastructure investment should be applauded. Master Builders has expressed strong concern at the decline in the level of public and private infrastructure investment in Australia. A long period of underinvestment has manifested itself in supply bottlenecks, inadequate urban infrastructure and ailing services in our hospitals, schools and other social infrastructure.
- 13.3 In light of the global financial crisis, Master Builders supports the Government's efforts to bring forward major works projects to help offset declining private sector spending. Provided it is worthwhile – passing appropriate cost benefit tests – and timely, discretionary fiscal easing and greater public investment should be integral parts of the macroeconomic policy response. The public benefits by obtaining community facilities earlier than they otherwise would.
- 13.4 The short term budgetary imperative to increase infrastructure spending can dovetail neatly with the challenge to ensure an optimal stock of infrastructure to ensure that Australia's growth is not constrained in recovery and in the longer

term. This approach should not neglect the need for strong fiscal rectitude involving balanced budgets over the medium to long term.

- 13.5 The need to rebuild national economic and social infrastructure will require significant investment and extend beyond the proposed broadband network. Of equal importance is investment in Australia's urban infrastructure, and in this regard proposals to build desalination and urban water recycling plants are a welcome start.
- 13.6 Meeting infrastructure needs in Australian cities and regions is of paramount importance. Australia should have a comparative advantage in low cost and well serviced urban land to underpin the productive capacity of the economy. If this advantage is eroded, overall economic performance will suffer.
- 13.7 The challenge will be for the various federal ministers to coordinate policy across the relevant portfolios and work collaboratively with state governments. Master Builders welcomes the Government's commitment to take a leadership role through the COAG process to develop a coordinated and disciplined plan for Australia's economic and social infrastructure needs.

14 TRAINING

- 14.1 An adequate and flexible skilled workforce for the future is another vital ingredient in the mix of factors determining Australia's productivity growth. It is widely recognised that the Australian labour market is suffering from a critical underlying or structural skills deficit that will not be lessened as a result of the current global financial crisis. The building and construction industry is also facing a structural skills deficit which will be masked in the short term because of the financial crisis and industry job losses.
- 14.2 The economic downturn will endanger both the retention and recruitment of apprentices in the building and construction industry. The forecast slump in building activity over 2009 and 2010 has led contractors to reduce labour costs including apprenticeship training. The cost to employers in training apprentices is high and disproportionate to the incentive received from government. In the immediate short term, we need measures to ensure that as many as possible of these apprentices complete their training and gain trade qualifications. This will help to ensure that the skills necessary for the future of our industry will be available.

- 14.3 Training policies must focus on apprenticeship training in the vocational education and training (VET) sector, but the role of career information and pre-vocational training courses is also acknowledged as vital to recruitment of trade apprentices and the successful completion of their training. It is recognised that the delivery of professional qualifications by both the VET and higher education sectors is an important element of providing the full range of the complex skills required by the building and construction industry.
- 14.4 The building and construction industry needs a large and very highly qualified workforce, when compared to other industries. Forty per cent of the building and construction workforce hold VET qualifications, 7.3 per cent hold higher education qualifications, 5 per cent hold VET diploma or advanced diploma qualifications and 7 per cent hold sub-trade VET qualifications. This profile arises from the wide range of advanced skills required by the industry and from licensing requirements that reflect public and worker protection requirements, both in safety and consumer affairs.
- 14.5 Following the change of federal government in November 2007 we have seen the implementation of a range of new VET policies, including the formation of a single tertiary education Ministerial Council, the establishment of Skills Australia, the establishment of VET qualification benchmarks to drive delivery and funding of training, expanded responsibilities for Industry Skills Councils and the provision of a large additional VET training places program.

15 SUMMARY

- 15.1 The building and construction industry is a major driver of the Australian economy and makes an enormous contribution to the generation of wealth and the welfare of the community, particularly through the provision of shelter. At the same time, the wellbeing of the building and construction industry is closely linked to the general state of the domestic economy. Gross value added by the building and construction industry was \$79.4 billion in the year to the March quarter 2009, or 7.3 per cent of GDP.
- 15.2 Master Builders estimates that the cumulative task for the building and construction industry over the next decade requires over \$2 trillion worth of work done in chain volume (or constant price) terms. In the residential building sector this is likely to involve close to \$1 trillion of work done over the same period, and \$1.1 trillion for the non-residential building and engineering construction sectors combined.

Table 3: Building & Construction Task Over the Next 10 Years (value of work done, \$billion, cumulative 2008/09-2017/18)

	Residential	Non-Res Building	Engineering	Total Construction
New South Wales	270	96	200	566
Victoria	240	80	120	440
Queensland	253	72	204	530
South Australia	60	17	42	119
Western Australia	135	32	190	357
Tasmania	9	5	13	27
Northern Territory	9	5	23	37
ACT	14	11	7	32
AUSTRALIA	990	320	800	2,110

- 15.3 Employment in the building and construction industry totalled 984,100 in the May quarter of 2009, or 9.1 per cent of the total Australian workforce. Over the past 8 years, employment growth in the construction industry has averaged 5.1 per cent per annum, almost double the employment growth in the overall economy (2.2 per cent per annum).
- 15.4 Australia's productivity growth, and with it the resilience of the economy to withstand shocks, has been improved by a series of reforms, mainly instigated over the past 25 years. Reform measures such as the floating of the currency, deregulation of the finance sector, dismantling of the 'tariff-wall', competition reform, and increased labour market flexibility have increased productivity, added to prosperity and broadened employment opportunities.
- 15.5 In the industrial relations sphere, less adversarial labour relations and greater labour flexibility over the past 20 years or so have encouraged innovation and facilitated greater acceptance of new work practices, organisational procedures and modern technologies. These developments have also made a significant contribution to the observed acceleration in productivity in Australia.
- 15.6 Since the high growth of the 1990s, productivity growth has slowed, and in recent years it has been unusually weak. Australia's recent poor productivity performance would have been even worse had it not been for strong productivity growth in the building and construction industry.

- 15.7 It is thus vital for both the industry and the wider Australian community that the factors driving strong productivity growth in the building and construction industry are not stifled.
- 15.8 There is little doubt that industry-specific building and construction industrial relations reforms since 2000 have played a major role in the industry's productivity outperformance in recent years. As well as higher productivity, the reforms have delivered benefits via reduced building costs and fewer strikes that have in turn meant lower inflation and higher economic growth.
- 15.9 Apart from industrial relations reform, there are a number of other areas requiring policy adjustment and reform in order to maintain strong productivity growth in the building and construction industry:
- Australian Building Codes Board: keep the ABCB focused on nationally consistent, cost-effective minimum building codes and standards.
 - Tax: the Henry review should develop a blueprint for reform encouraging improved state government accountability and removal of narrowly-based, highly distorting taxes, particularly stamp duties on property transactions.
 - Housing affordability: remove supply constraints; abolish or reduce economically irresponsible developer charges.
 - Infrastructure: meeting infrastructure needs in cities and regions is of paramount importance - if Australia's comparative advantage in low cost and well serviced urban land is eroded, productive capacity and overall economic performance will suffer.
 - Training policies: ensure an adequate and flexible skilled workforce for the future, focusing on apprenticeship training in vocational education and training.
- 15.10 As Dr Ken Henry, Secretary to the Treasury said in a recent speech, the task of economic reform is ongoing, and must continue.