

CHAPTER 2

ECONOMIC CONDITIONS

'Never forget the politics and never forget which side we're on. We're on the side of making profits. We're on the side of people owning private capital.'

- Peter Reith, 9 July 1999

Introduction

2.1 Very little evidence has been put to the Committee supporting the notion that the reforms of 1996, of themselves, have had a positive impact on employment and industrial outcomes on the Australian economy.

2.2 Employment growth is a function of a number of factors and not restricted to the one-dimensional solutions often cited by some – be they unfair dismissal or reduced wages and conditions.

2.3 A multiplicity of factors influence the efficient and equitable operation of the labour market. Often, the operation of the labour market is analysed from a purely static and narrow perspective. For instance, the fact that wages paid to workers, while representing a cost to employers also represent income to individuals and families is often overlooked. From a dynamic perspective, it is important to recognise the linkages between the labour market, narrowly defined, the macro economy and living standards when considering labour market reforms.

2.4 A well functioning labour market should underpin good microeconomic and macroeconomic policies and also contribute to the standard of living of families. Income and job security and job satisfaction are important criteria in this respect.

2.5 The Inquiry has been presented with very little evidence that the 1996 reforms are directly responsible for strong employment outcomes, strong growth in capital and labour productivity, or improved standards of living.

2.6 From a dynamic perspective, labour market reforms should effect improvements in both the supply and demand for labour. The reforms since 1996 have done little to advance improvements in skills and human capital. Indeed, severe budget cuts have targeted education and labour market assistance programs. These are major deficiencies represented by unbalanced policy making, the consequences of which are dynamic in nature and not generally reflected in the short run.

2.7 An important, but often overlooked element, in labour market reform relates to management practices. International best practice and management horizons which

extend beyond the short term are fundamental to generating harmonious workplaces and generating both labour efficiencies but also innovation amongst workers. Organisational structure is a fundamental source of innovation, yet barely rates a mention in either the 1996 labour market reforms or the Government's proposed 1999-2000 reforms. The Committee received convincing evidence specifically addressing this issue from Mr Hugh McBride who said:

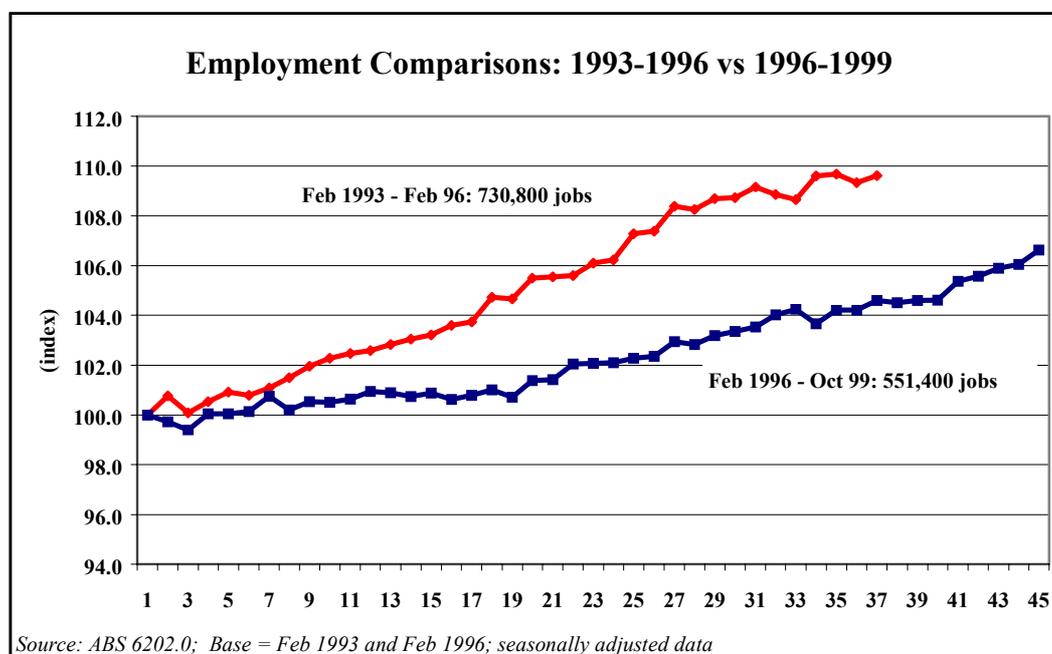
In other words, the problems are not in the workplace, they are not in the unions – they are in the system. That is not a matter of hearsay, ideology or theory; it is fact. There is plenty of evidence to support that. The evidence is the productivity and competitiveness of the Japanese firms and the US firms that have adopted total quality management in partnership with their unions. Those are facts. You do not fix it by getting rid of unions, you do not fix it by bashing the unions over the head and you do not fix it by punitive measures on the workers. If you go down this path – and this is the significant point – you create an atmosphere in the workplace where it is very difficult to get cooperation and accommodation out of the workers.¹

Employment

Employment growth post 1996

2.8 It is instructive to note that with roughly similar economic growth rates in the period 1993-1996 and 1996-1999, the employment growth rate has been slower post-1996 reforms. **Graph 1** highlights this differential performance.

Graph 1



1 Evidence, Mr Hugh McBride, Melbourne, 7 October 1999, p. 123.

2.9 The clear slow down in the pace of employment growth in the last 3½ years, despite similar economic growth rates to the previous three years correlates with:

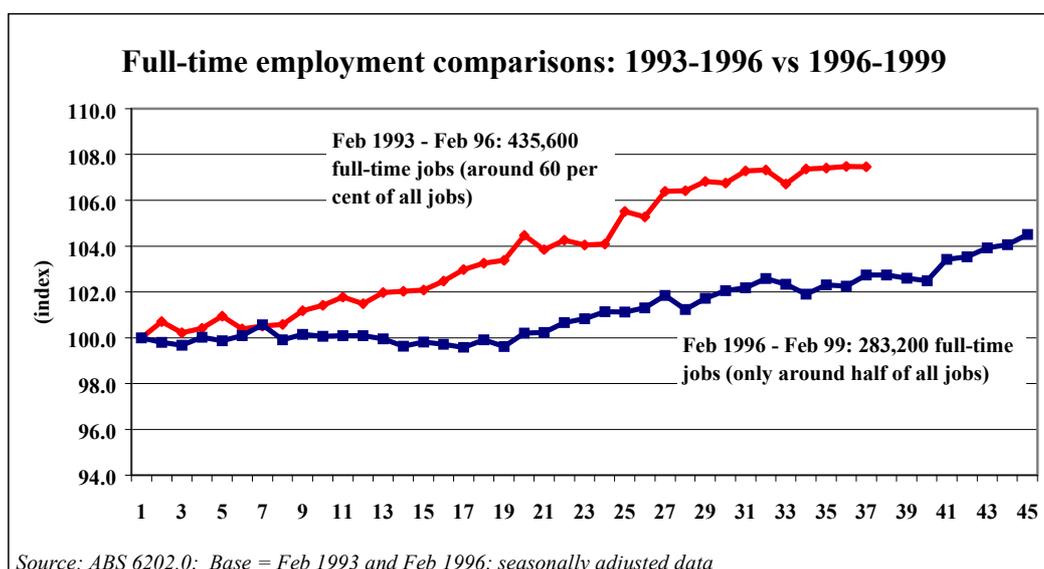
- Severe budget cuts in Commonwealth budgets since 1996-97;
- \$1.8 billion worth of budget cuts by the Commonwealth in labour market assistance programs;
- Cuts to education in Commonwealth budgets since 1996-97; and
- Cuts to assistance provided to research and development – primarily through the cuts to the tax concession available for research and development activities.

2.10 In sum, these budget cuts go to those things that drive economic growth in the medium to long term – employability and adjustment to work, skills and innovation.

Full time employment growth post 1996

2.11 A closer examination of the aggregate data reveals that in the period February 1993 to February 1996, nearly 60 per cent of the 730,800 jobs that were created were full-time jobs. By contrast, in the period between February 1996 and October 1999, only around half of 551,400 jobs created were full-time jobs. **Graph 2** highlights the comparative employment performance in full-time job creation.

Graph 2



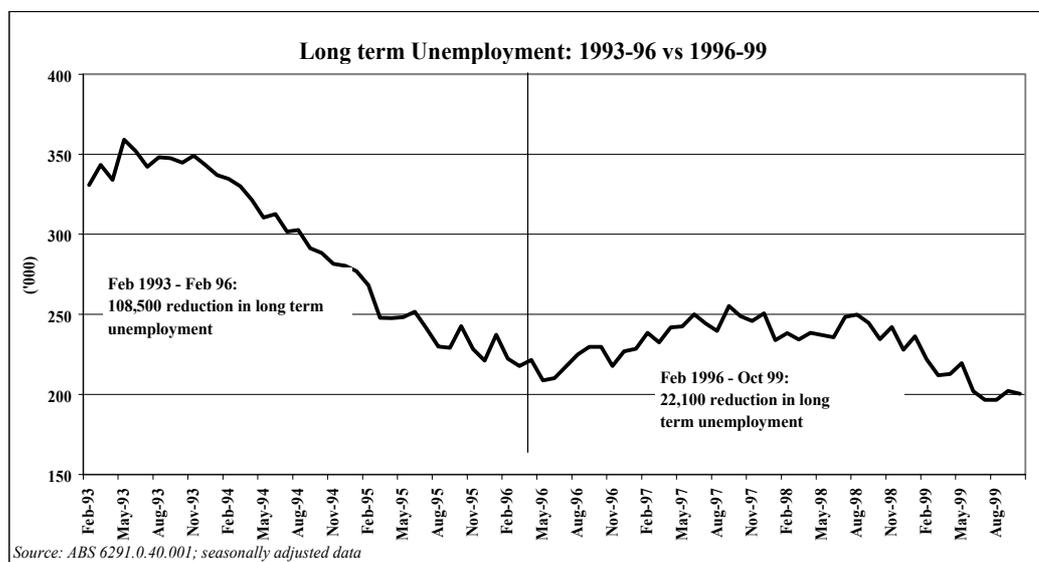
2.12 One of the important elements to reducing the potential for labour market bottlenecks and, to some extent, a quasi measure of flexibility in the labour market is the extent to which the economic system assists those most disadvantaged in the labour market. The long term unemployed, in particular, are recognised amongst the most disadvantaged in the labour market. They represent a pool of non-utilised workers in the economy and to the extent that their capabilities are not utilised, there is an associated economic loss to the nation.

2.13 With respect to the performance of the economy and the labour market to address this economic problem, it is instructive that in the period since the 1996 reforms and the \$1.8 billion budget cuts to labour market assistance programs, there has been a marked slowdown in improvements in this area of the labour market.

Reduction on long term unemployed weaker after 1996

2.14 **Graph 3** highlights this marked difference in long term unemployment outcomes within the past 6 and half years. In the period February 1993 to February 1996, the number of long term unemployed declined by 108,500 . In comparison, in the period February 1996 to October 1999, the reduction has been a mere 22,100.

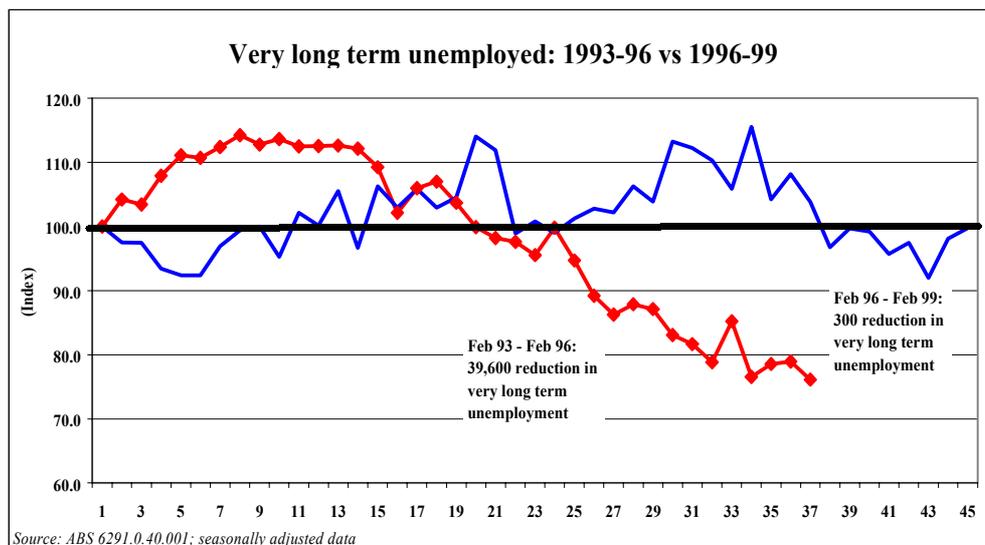
Graph 3



2.15 More importantly, the benefits of economic growth has failed to distribute the benefits to those who have been unemployed for more than 2 years – the very long term unemployed. This is a group with an over representation of mature aged Australians, and has significant implications for the standard of living of Australians who have already contributed much to the economy but who now find themselves being structured out of the labour market with few means of effecting a transition back to work.

2.16 **Graph 4** highlights the comparative employment performance for the very long term unemployed.

Graph 4



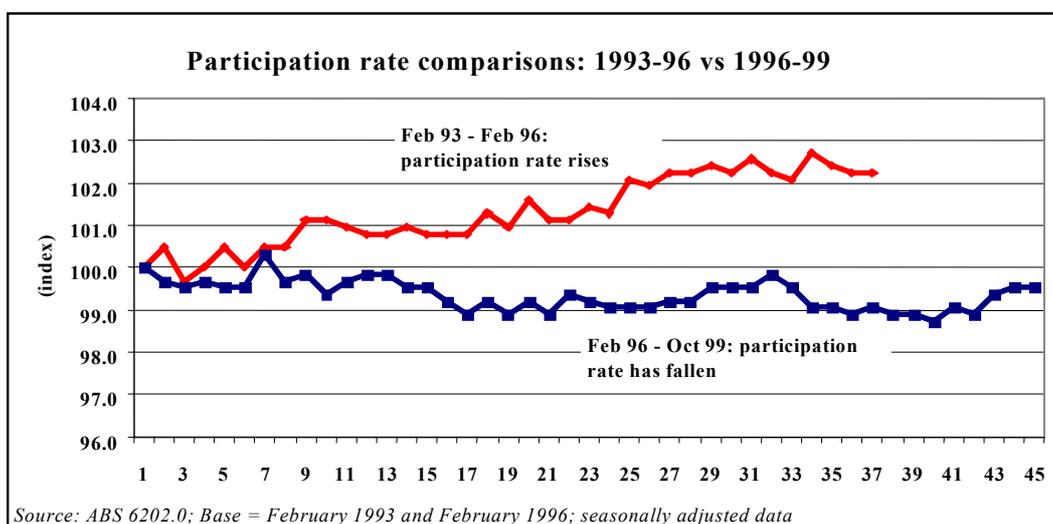
2.17 **Graph 4** is instructive in highlighting the lack of progress made in the period since 1996 of getting those unemployed for more than 2 years back into work.

Participation rate post 1996

2.18 The divide between 1993 – 96 and 1996 – 99 with respect to the labour market has not been confined only to actual employment outcomes, but has extended to the degree of participation in the labour market. Contrary to economic expectations and historical evidence, the continuation of economic growth in the post 1996 period has not been associated with strong growth in the participation rate.

2.19 **Graph 5** highlights this comparative performance on the participation rate for two periods within the past 6 and half years. It reveals that in the period February 1993 to February 1996, the participation rate rose strongly, while it has fallen in the period February 1996 to October 1999. In a period of continued economic growth, Australians have been discouraged out of the labour market in the period post 1996.

Graph 5



2.20 While the Government has cited the improvement in labour productivity as vindication of the 1996 industrial relations laws, it is important, from an economic perspective, to recognise that it is the combined effects of labour and capital productivity that are the key to economic growth and reform in the economy.

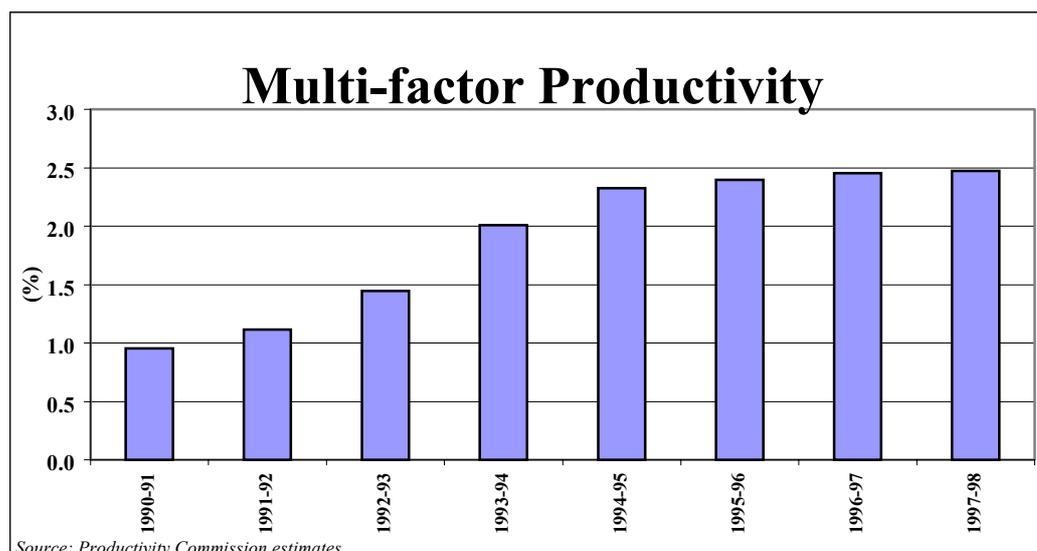
2.21 Sustained improvements in productivity are derived from structural reforms generating significant benefits over time. It is widely recognised that Australia's 'step-up' in productivity is the function of reforms made primarily as a result of the economic policies of the Hawke and Keating Labor Governments in diverse areas such as:

- Financial market deregulation in the 1980s and early 1990s;
- Greater openness of the economy;
- Tariff reforms during the 1980s and early 1990s;
- Wage and industrial reforms during the 1980s and 1990s; and
- Competition reforms during the late 1980s and 1990s.

2.22 The major reforms which have resulted in the improvement in both capital and labour productivity occurred prior to the 1996 changes to the industrial relations laws. The improvement in both the level and growth rate of *multi-factor productivity* represents the gains resulting from 13 years of micro economic reforms.

2.23 As can be seen from **Graph 6** the major improvements in Australia's productivity performance occurred during Labor's term in government a result of more than a decade of micro economic reforms.

Graph 6



Conclusion

2.24 Despite consistent economic growth over the last 6 years, the labour market, in the period 1996 to 1999 has, when compared to the previous 3 years, failed to generate the same employment outcomes. Indeed, the average annual growth of employment in the period February 1993 to February 1996 was 3.1 per cent, while the average annual growth rate in employment in the period February 1996 to October 1999 has been just 1.76 per cent. As a result the average monthly employment generation in the period February 1993 to February 1996 was over 20,000 when compared with only just over an average of 12,000 jobs per month in the period February 1996 to October 1999.

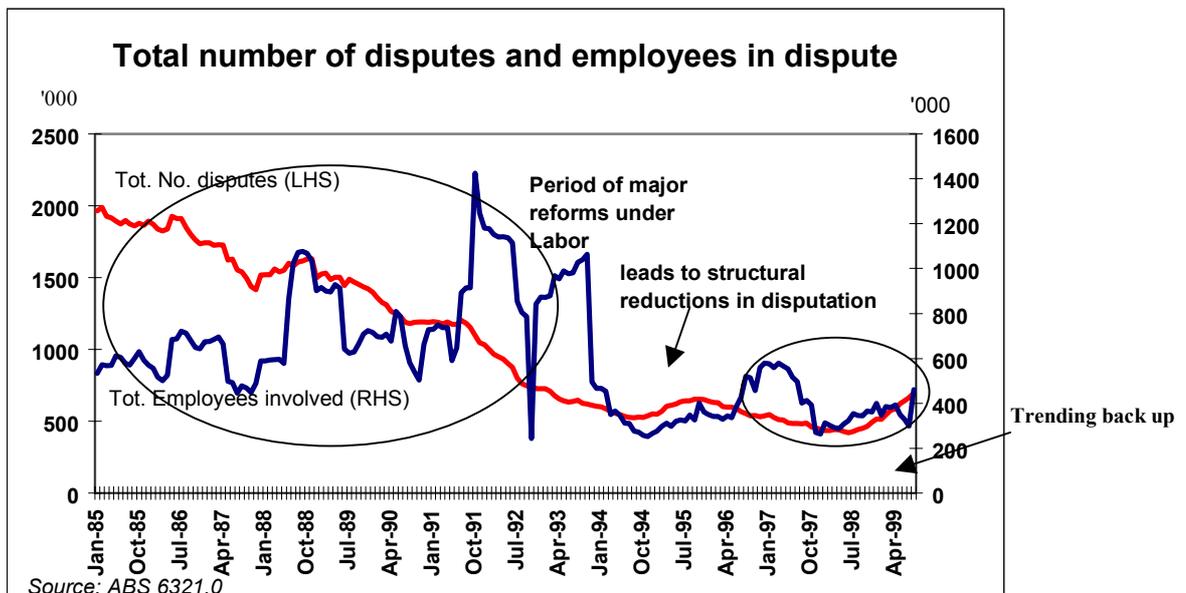
Causes of disputes

2.25 Contrary to Government claims, the casual observation of the data on the causes of disputes highlights some important insights into the effects of many years of reform under Labor:

- A pronounced downward trend in the number of disputes over the period of the late 1980s and early 1990s; and
- A structural reduction in the number of employees in disputes in the 1990s.

2.26 These trends, however, have started to reverse in more recent years. **Graph 7** highlights this for both the total number of disputes and the number of employees involved.

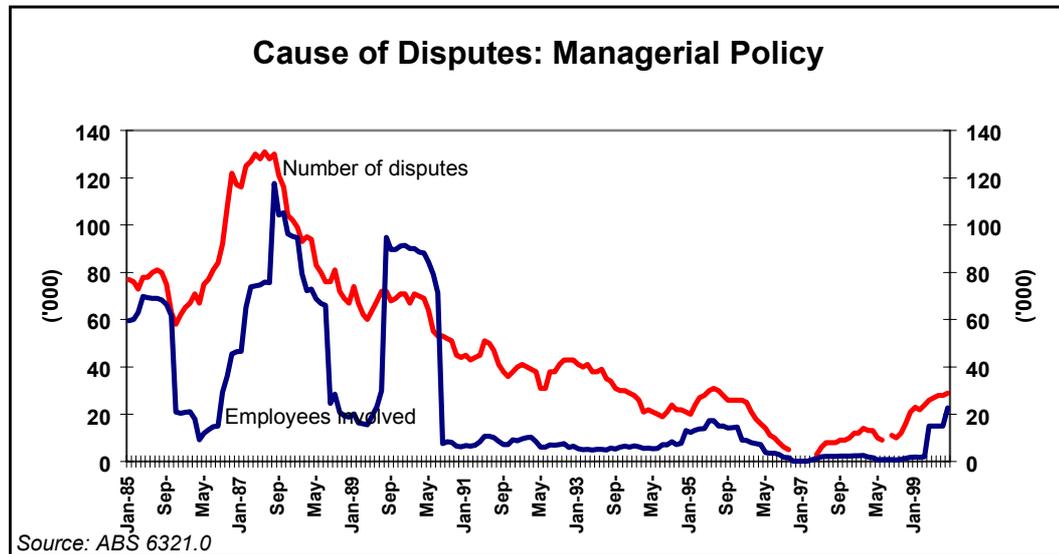
Graph 7



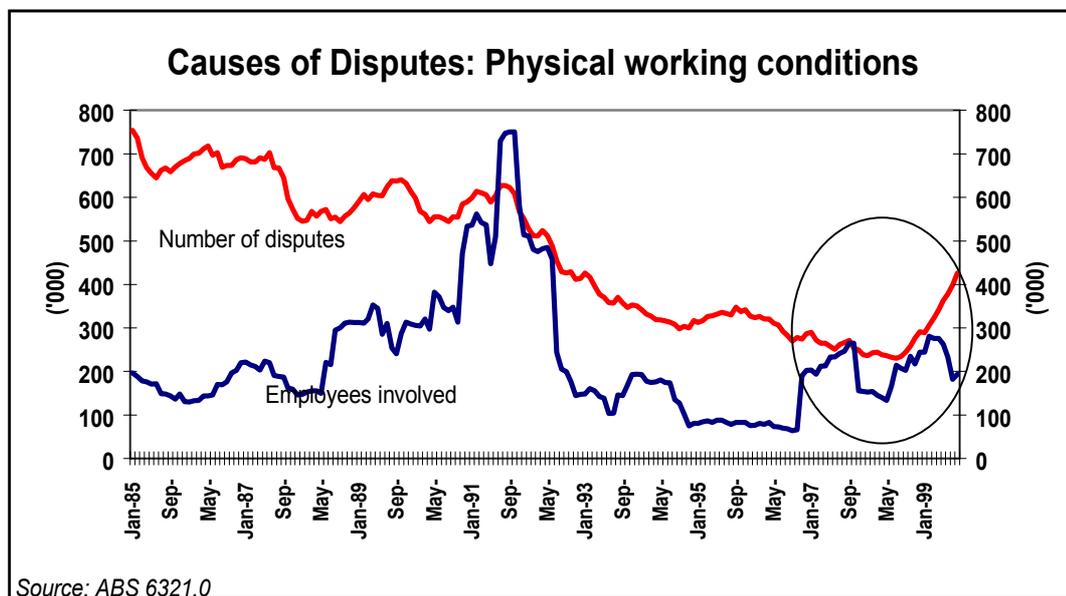
2.27 Indeed, contrary to Government claims, the data reveals some disturbing developments in the post 1996 period. The Government's ideological obsession of continually attacking the rights and conditions of workers has blinded it to the flipside

of the industrial equation, management practices. What is clear from the data is that disputes over managerial policy and physical working conditions have begun to trend upwards since the Coalition came to office (*Graph 8 and 9*).

Graph 8



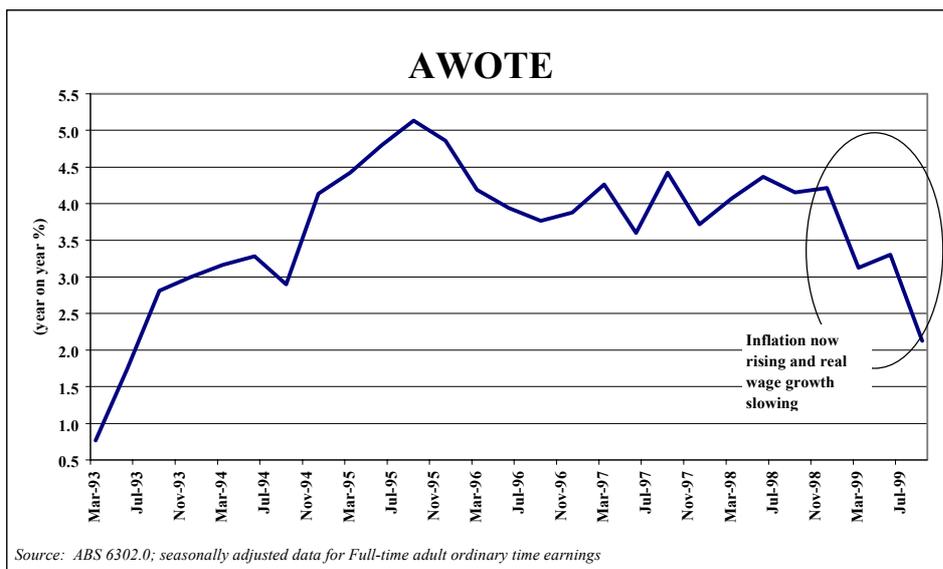
Graph 9



Wage Disparity

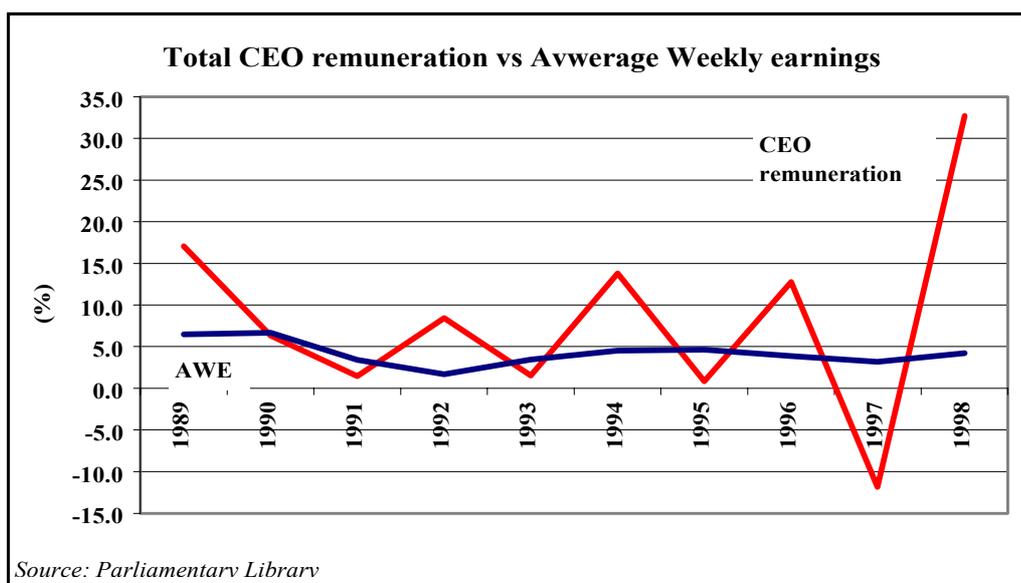
2.28 Latest figures on CEO remuneration reveal a 32.7 per cent rise in total earnings between 1997 and 1998 while the latest data on average weekly earnings reveal that the wages of Australian workers rose by a mere 2.1 per cent in the year to August 1999 (see *Graph 10*).

Graph 10



2.29 The Prime Minister recently cited the disparity between the strong growth in executive salaries compared to those of the average Australian worker. This is a rare acknowledgment that the benefits of Australia's good economic growth performance in recent years have not been shared across the nation. *Graph 11* depicts the downward wage outcomes being experienced by Australian workers. It is clear that real wage growth has been slowing in the economy while the salaries of executives have been rising.

Graph 11



2.30 The relative wages predicament of Australian workers will be exacerbated by the Government's policy to introduce a goods and service tax next year while

assuming no wage increases to follow from the consequent rise in the inflation rate. This assumption translates into a real wage cut for Australian workers.

Living standards

2.31 The Coalition Government's policies have had a negative impact on the living standards of Australian workers and the unemployed. Workplace insecurity, and the inability of jobseekers to be assisted back to work, reflect specific policy choices by the Howard Government. This has impacted most on those least able to deal with it – low paid workers and the unemployed.

2.32 Since 1996, there has been a distinct reduction in fairness within the Australian labour market, one that offends the egalitarian nature of our proud economic and social history.

2.33 On every measure affecting living standards, the gap between the rich and poor has been widened by Coalition policy:

- wage inequality has grown rapidly, with the wages of the low paid failing to keep pace with average wages, while executive salaries continue to soar;
- massive budget cuts since 1996 have hit low-income households the hardest, as evidenced by research from the Melbourne Institute of Applied Economic and Social Research;
- the Government's own modelling confirms that their proposed changes to the tax system disproportionately benefit high wage earners, while slugging low-income households with a GST; and
- the Government's GST package also assumes that Australian workers should accept a real wage cut stemming from the inflationary impact of the GST.

2.34 The majority also discounted the evidence of individuals who told the inquiry that their living standards had declined. The evidence is clear before the inquiry that different groups in the community have been severely disadvantaged by the Act. Even the Department of Workplace Relations and Small Business acknowledges this when it acknowledges that income inequality has increased.

2.35 Furthermore, as is discussed in greater detail later in the report, it is not possible to obtain a true indication of how the WR Act has impacted on the living standards due to serious deficiencies in the availability or existence of detailed data, particularly with respect to the content of AWAs. Labor Senators concur with the view expressed by Dr David Peetz that it is unfortunate that no surveys of employees have been conducted since the introduction of the WR Act. Such data would have provided a more complete picture of how the Act had impacted on the living standards of employees. As Dr Peetz described:

...an assessment of the impact of the Workplace Relations Act on pay and conditions would normally take as one of its main sources data from employees themselves. For example, information from agreements can tell

us about the size of wage increases (albeit not for all agreements) and the subject areas covered by changes in conditions, but they cannot tell us whether employees feel better or worse off as a result. Nor can they tell us the impact the implementation of the agreement had on productivity...

...The first official report on the operation of the Workplace Relations Act (Hawke et al 1998) failed to contain data from either employees or employers. (While such surveys are expensive, it is noteworthy that \$3m, more than enough for such research, was allocated to an advertising campaign for the Employment Advocate.) Data on the New Zealand experience (based on employee and employer surveys) indicated that radical legislative change has by far its greatest impact in the first couple of years after introduction (Hector & Hobby 1997), so it is particularly unfortunate that there are no officially collected data from employees on the early impact of the Workplace Relations Act.

Conclusion

2.36 Changes in industrial relations, taxation and spending have combined to drastically increase economic and social inequality.

2.37 The deepening divide between the haves and the have-nots in Australian society has been exacerbated by the increasing pressures placed on Australian workers, particularly those on lower wages without adequate bargaining power and protection. The inquiry heard that workforce insecurity is now commonplace, and is directly related to the 1996 legislation.

2.38 Workforce insecurity and growing inequality are seriously threatening not only our quality of life, but our social cohesion.

