

## Chapter 3

### Enterprise bargaining, productivity and economic performance: where is the evidence?

3.1 The Government's central justification for its industrial relations changes is based on the assumption that it is only through such changes that the economy can grow and employment rates increase. As this chapter will show, such an assumption is based less on any serious economic analysis than on unquestioning faith. In the face of evidence and assertion to the contrary, the Government has convinced itself of the exclusive nexus between productivity and industrial relations. All other factors, perhaps more difficult to rationalise or explain in public debate, are conveniently ignored. It has been said that, for the Prime Minister, whose personal crusade this is, the world is painted in:

...vivid black and white, with enemies and supporters, bad and good, wrong and right, all lined up neatly on the two sides of the party divide. Critics putting arguments and reasoned differences are treated as opponents and shoved into the Labor camp. There is no room here for hearing a range of points of view, grappling with complexity, acknowledging uncomfortable facts. Rational nuanced debate about complex and difficult matters of public policy becomes well-nigh impossible.<sup>1</sup>

3.2 The Government has a policy to sell and the money to sell it, and repetition of an idea and constant reinforcement of a message is recognised as a successful sales pitch. Reiteration can establish credibility even when reality suggests unpredictable consequences. An instance of the Government's avoidance of any argument beyond rhetoric is indicated by the following Four Corners exchange:

**Sally Neighbour:** Numerous labour market economists are saying that there is no evidence that these [proposed industrial relations] changes will boost productivity but that what they will do is cut the income of the poorest workers and increase inequality. What do you say to that?

**John Howard:** Well, I don't agree with them and I point around the world to those countries that have a less regulated labour market – workers are better off...All the evidence suggests that as you free the labour market, you boost productivity, you lift wages and you reduce unemployment.<sup>2</sup>

3.3 This chapter examines the debate over the effects of enterprise bargaining and individual contracts on national economic performance. It challenges the Government's claim that individual contracts deliver higher productivity and that

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1 Judith Brett, *Relaxed and Comfortable: the Liberal Party's Australia*, Quarterly Essay 19, 2005, pp.41-42

2 Four Corners, Monday 26 September 2005, Brave new workplace: investigation into proposed industrial relations reforms, transcript, p.12

greater coverage of AWAs is necessary to deliver a much needed 'productivity spike' to the economy. Like the debate comparing employees' wages on AWAs and collective agreements discussed in chapter 2, the committee finds that the overwhelming view of labour market economists is that a connection between individual contracts and productivity has not been demonstrated by any economic evidence, either in Australia or abroad. As one newspaper columnist has put it, there is as much evidence that the Government's proposed industrial relations changes will promote productivity growth as there was for the claim that Saddam Hussein possessed weapons of mass destruction.<sup>3</sup> Assertions by Business Council of Australia (BCA), Australian Chamber of Commerce and Industry (ACCI) and Australian Industry Group (AiG) submissions about the link between AWAs and productivity are also without foundation or economic evidence.

3.4 The committee notes that the evidence from New Zealand shows conclusively that its system of individual contracts introduced during the 1990s was a disaster for productivity. Professor David Peetz has drawn attention to the fact that New Zealand's productivity growth under its radical Employment Contracts Act fell 14 per cent below what it would have been had it kept pace with Australia, which then favoured collective enterprise bargaining.<sup>4</sup> A similar story holds for Western Australia today. The Western Australian Government submission argued that it is doubtful that AWAs make any significant contribution to enhanced productivity or efficiency. In fact, the opposite appears to hold true. The submission pointed out that:

Western Australia has recorded the highest labour productivity of all the States over the last three years, despite the repeal of its former system of workplace agreements...This clearly demonstrates the fact that radical labour market deregulation is unnecessary for achieving productivity improvements.<sup>5</sup>

3.5 Nor is the committee convinced by additional information from ACCI which is alleged to show a strong connection between AWAs and productivity. The material ACCI refers to, including from AWA ambassadors and one working paper by the Melbourne Institute published in 2002, cannot be relied upon as either authoritative or conclusive. Most of it relies on business and industry sources and reflects that bias. The committee does not believe this material contributes anything new to the debate. During the inquiry there was no attempt by ACCI or any other employer organisation to respond to the research by Professor David Peetz, which has succeeded in debunking economic arguments underpinning the Government's WorkChoices policy.<sup>6</sup> This is reminiscent of the Government's approach to evidence received by the committee's unfair dismissal inquiry. In that inquiry, authoritative academic voices critical of Government policy to exempt small business from unfair dismissal laws

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3 Kenneth Davidson, 'IR changes put profit before productivity', *Age*, 13 October 2005, p.15

4 David Peetz, 'Reform isn't working', *Courier Mail*, 4 July 2005, p.9

5 Western Australian Government, *Submission 48*, pp.20-21

6 Professor David Peetz, *Submission 33*

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were either ignored or brushed aside by employer groups and the workplace relations department, DEWR. While the committee has had the benefit of examining Peetz's research for this inquiry, Senators on the committee were denied the opportunity to question him and other witnesses at a public hearing which was scheduled for 17 November, after the Government refused to grant an extension to the inquiry's reporting date beyond 31 October.

## **Productivity and economic performance**

3.6 As discussed in chapter 1, the introduction of enterprise bargaining as the centrepiece of industrial relations policy during the 1990s placed greater emphasis on employers and employees handling their own workplace arrangements and making agreements that best suited their own interests. The presumption was that reduced interference by the state would improve productivity and through it national welfare. The Howard government had a belief that agreements on wages and conditions reached at the level of the workplace would assist a properly functioning market, a strong economy and employment growth. The Howard Government has an abiding belief that a reduction in union power would also assist a properly functioning market, a strong economy and employment growth. According to one assessment, the industrial relations changes announced in Parliament in May 2005 are the fullest expression of this philosophy.<sup>7</sup>

3.7 The Prime Minister's statement to Parliament made it clear that only with a simplified agreement-making process 'will the full potential for productivity gains in the Australian economy be realised'. It concluded that the Government's new framework for industrial relations will 'drive future productivity growth, create jobs and increase further living standards'. The clearest expression of the Government's claim that agreement-making at the workplace, especially individual contracts, will lift productivity is the Prime Minister's response to questions during a Four Corners program on the Government's proposed changes. During that interview, the Prime Minister stated that encouraging increased use of individual workplace agreements will generate the 'biggest single productivity boost' of all the changes being proposed by the Government:

**Sally Neighbour:** How will these [industrial relations changes] boost productivity?

**John Howard:** Because they will give a much greater focus on agreement-making at the workplace level. And experience all around the world tells us that if we allow individual employers and employees to work out the arrangements that best suit them, the businesses go better, they make more money and they pay their workers higher wages.

**Sally Neighbour:** And how does that actually boost productivity as in output per working hour?

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7 Mike Stekette, 'The wages gap is about to get a whole lot wider', *Australian*, 13 October 2005, p.12

**John Howard:** Well, it must automatically. If you run your firm more efficiently, then productivity is lifted. And higher wages result because if you make higher profits and you want to maintain that higher efficiency, you'll pay your workers more so they'll contribute more. It really is getting it at a workplace level, rather than having arrangements imposed from on-high or in some kind of pattern across an industry.<sup>8</sup>

3.8 Submissions from employers groups pushed the same line, arguing that individual contracts, encouraged by the WR Act, have lifted productivity and that a higher take-up of AWAs is therefore required to boost productivity further. The BCA submission stated that AWAs have been a positive development in workplace relations policy in Australia. While they represent only a small proportion of total agreements, it is alleged they have played an important role in driving greater flexibility and improved enterprise productivity and performance in key sectors of the economy.<sup>9</sup> The same argument is found in the ACCI and AiG submissions. The committee notes that employer group submissions do not include any evidence to back these assertions.

3.9 The committee notes the effort by ACCI to provide it with additional information which is alleged to show a strong connection between AWAs and productivity growth. Some of the information relates to questions which ACCI agreed to take on notice at the committee's Melbourne hearing. In correspondence that followed, Mr Scott Barklamb, Manager, Workplace Relations, stated: 'Any suggestion that there is no link between AWAs and productivity is at odds with the experience of employers. An ample demonstration of this is found in the experiences reported by the OEA AWA Ambassadors...and from key industries such as the mining and hospitality industry'.<sup>10</sup> The OEA website describes the OEA ambassadors as employers who have implemented AWAs or possibly employees who have been on AWAs and who are willing to speak publicly about how their AWAs have been of benefit to them.<sup>11</sup> Is it any wonder that ACCI referred the committee to a small sample of ambassador reports from employers and employees willing to write glowing reports of their experiences of AWAs.

3.10 The committee does not believe that the sample of ambassador reports listed on the OEA's website can be taken seriously as evidence of any link between AWAs and productivity. Apart from the ambassador reports and one Melbourne Institute Working Paper, Mr Barklamb referred the committee to so-called 'evidence' which is already contained in OEA publications and other employer group submissions. The committee does not believe that any of the additional evidence contained in Mr Barklamb's correspondence adds anything new to the debate.

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8 Four Corners, Monday 26 September 2005, Brave new workplace: investigation into proposed industrial relations reforms, transcript, pp.3-4

9 Business Council of Australia, *Submission 25*, p. 6

10 Mr Scott Barklamb, correspondence and additional information, 19 October 2005

11 <http://www.oea.gov.au/graphics.asp?showdoc=/employers/ambassadors.asp&SubMenu=4>

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### *Is there a link between individual contracts and productivity?*

3.11 The Government's argument linking individual contracts to productivity is rejected by one of Australia's leading academic researchers of industrial relations and labour market issues, Professor David Peetz. He has pointed out that the economic evidence to support the Government's assertion does not exist. The lack of economic evidence that individual contracts boost productivity has even been acknowledged by head of the Australian Industry Group, Heather Ridout.<sup>12</sup> The research by Professor Peetz on individual contracts and productivity is very important in this regard. It hinges on two separate lines of inquiry. The first is a comparison of labour productivity over the various productivity cycles since 1964-65 and the various institutional arrangements that applied at the time (see Figure 1). The analysis shows that under the award system that operated before the prices and incomes accord of the 1980s, productivity growth was between 2.4 and 2.9 per cent per annum. It fell to 0.8 per cent following the introduction of a centralised accord. With the shift to enterprise bargaining in the mid-1990s, productivity growth peaked at 3.2 per cent. The current productivity cycle, which commenced in 1999-2000, has seen a fall in annual productivity growth to just 2.3 per cent per annum. According to Peetz: 'this is even below the rate of labour productivity growth that applied during the traditional award period. It is despite the fact that average union density, at 53 per cent, was over twice the rate of union density that has applied in the current cycle'.<sup>13</sup>

3.12 The figures on multi-factor productivity tell a similar story (see Figure 2).<sup>14</sup> They show that during the most recent cycle, which has taken place under the Workplace Relations Act, the rates of multi-factor productivity growth have been below the average that applied during the traditional award period.

3.13 Peetz also challenged claims by the Business Council of Australia (BCA) linking individual contracts and productivity. He pointed out that as the most important corporate lobby group supporting the Government's industrial relations reforms, the BCA co-funded three large-scale academic studies to examine, in part, this relationship. The studies were based at the National Institute of Labour Studies, Flinders University; Melbourne Institute for Applied Economics and Social Research, Melbourne University; and the University of New South Wales. Peetz found that none of the studies' conclusions were what the BCA would have wanted:

The Flinders project showed that "unions apparently are good for productivity, but only at workplaces where unions are active". The Melbourne project showed that collective bargaining coverage was associated with higher claimed levels of productivity. The New South

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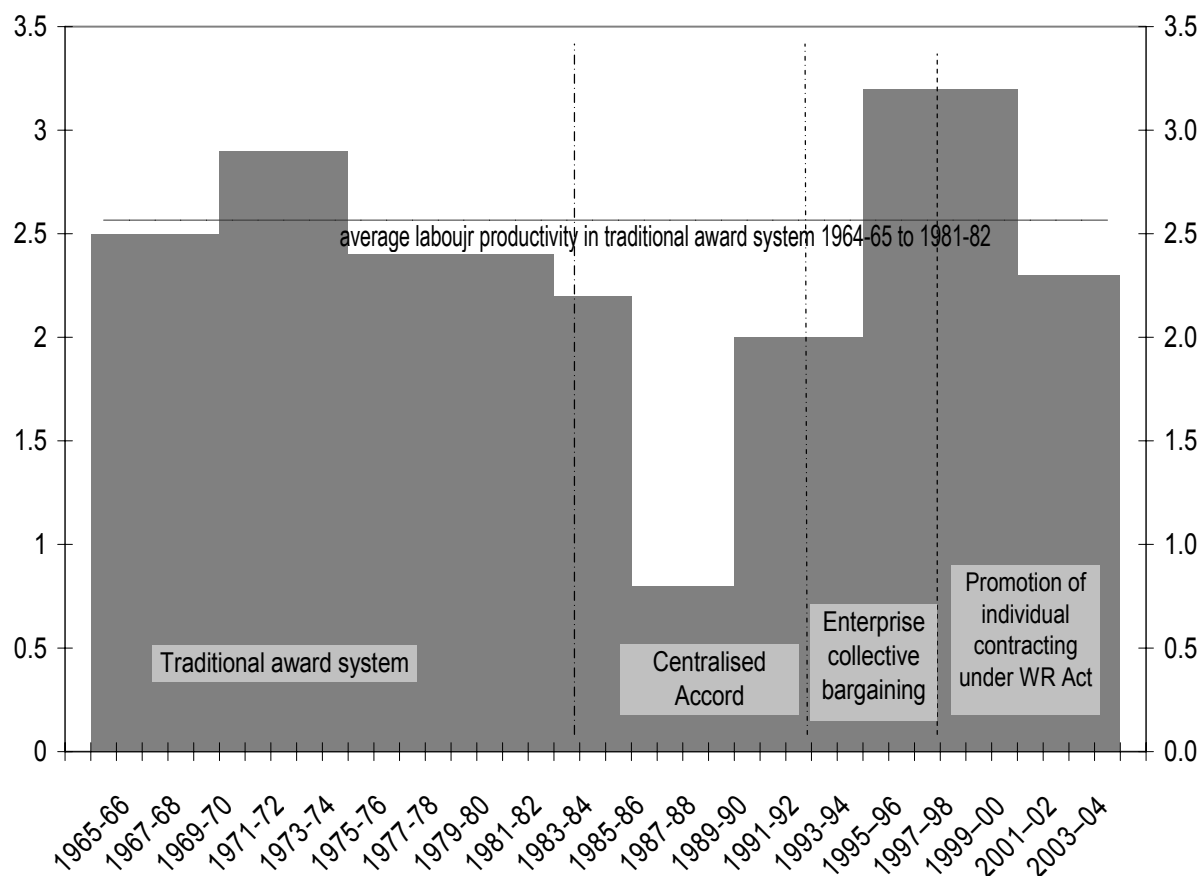
12 Four Corners, Monday 26 September 2005, Brave new workplace: investigation into proposed industrial relations reforms, transcript, p.10

13 Professor David Peetz, *Submission 33*, p.20

14 Multi-factor productivity refers to all inputs into the production process, such as machinery and computer equipment as well as person-hours of labour. A thorough measure of multifactor productivity includes the amount of input divided by *all* the inputs.

Wales projects identified 15 "key drivers" for excellence but "working arrangements and representation" (individual versus collective bargaining) were not among them: indeed they were "points of difference".<sup>15</sup>

**Figure 1**  
Labour productivity growth and wage fixing institutions, 1964-65 to 2003-04<sup>16</sup>



3.14 In his submission, Peetz continued his critique of the BCA by pointing out that its Workplace Relations Action Plan released in February 2005 does not refer to any evidence from the three academic studies that it had jointly funded. It relied instead on a series of observations on the mining industry, notably the contentious claim that labour productivity growth from 1994 to 2002 was higher than in other industries.<sup>17</sup> The Action Plan ignored ABS data for the eight years to 2003-04 which was released by the ABS in November 2004. It showed that mining had the *lowest* rate of productivity growth, which was only a quarter of the national average growth rate for this period. Peetz is also critical of a February 2005 report by Access Economics, which the BCA commissioned to give an 'authoritative basis' for its latest claims. The

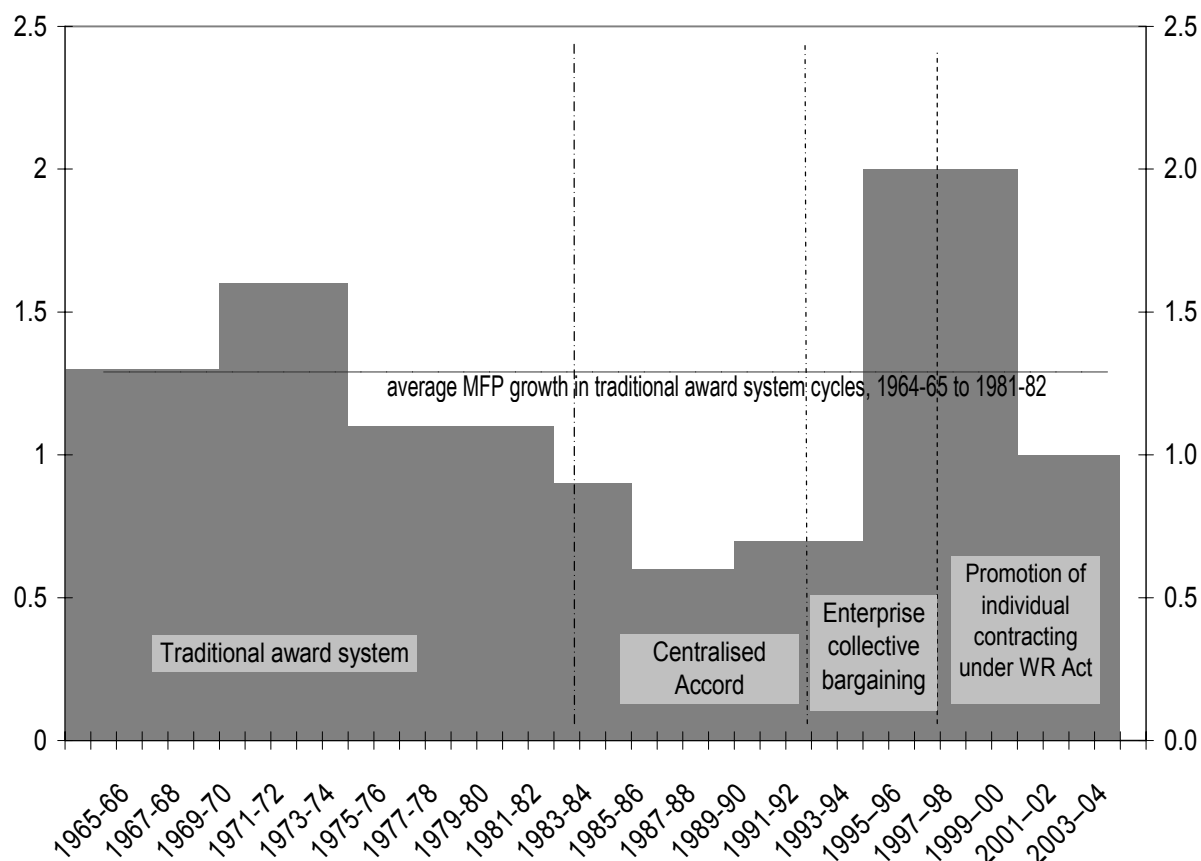
15 David Peetz, 'Reform isn't working', *Courier Mail*, 4 July 2005, p.9

16 Professor David Peetz, *Submission 33*, p.20

17 Professor David Peetz, *Submission 33*, p.23

report, according to Peetz, is dominated by sweeping generalisations about productivity.<sup>18</sup>

**Figure 2**  
Multi-factor productivity growth and wage fixing institutions, 1964-65 to 2003-04<sup>19</sup>



3.15 Peetz concluded that there is no compelling evidence presented by or on behalf of the BCA to support the claim that individual contracts leads to higher productivity. What evidence is presented '...is shallow and dependent on either misrepresentation or failure to use current data that has been available for some time'. Peetz maintained that the lack of a 'smoking gun' is not surprising. It is consistent with academically rigorous quantitative studies which show there is no consistent relationship between either individual contracts and productivity or unionism and productivity.<sup>20</sup>

3.16 The argument linking AWAs to productivity relies essentially on enhanced employee commitment. However, studies show that company commitment is higher amongst people also committed to a union and collective bargaining. There is a strong argument that individual contacts may actually reduce productivity because of

18 *ibid.*, pp.23-25

19 *ibid.*, p.21

20 *ibid.*, p.25

employee mistrust. That collective bargaining delivers higher productivity growth than do individual contracts is a view widely shared, including from some unlikely sources. It is supported by the research of Professor Peetz as well as that of Professor Mark Wooden, who told a recent Four Corners program:

I think that the biggest gains for productivity still revolve around a system which is collectively based...with or without unions. I don't think unions are critical to this though there's plenty of evidence around...that unions can enhance productivity where they're very active representing the worker's interest and collaborate cooperatively with firms.<sup>21</sup>

3.17 Research by Professor Bradon Ellem and his colleagues compared productivity growth in Australia and New Zealand to challenge the Government's claim that individual contracts deliver higher productivity. It showed that productivity growth was substantially higher in Australia during the period when Australia had a 'collectivist national Government' and New Zealand an 'individualistic one':

Australian productivity growth increased in the productivity cycle that commenced after the introduction of collective enterprise bargaining, but fell back in the cycle that commenced after the introduction of the Workplace Relations Act. Current rates of productivity growth in Australia are, if anything, inferior to the rates that were achieved under the traditional award system in the 1960s and 1970s.<sup>22</sup>

3.18 The committee finds it difficult to align the goal of productivity growth to the Government's WorkChoices policy because productivity is a function of many factors such as enhanced skills and technical progress. It is not a product of workplace flexibility and labour regulation.<sup>23</sup> According to Peetz, the rate of technical production won't come to a halt because a system of individual contracting has not been introduced or unfair dismissal laws for workers in firms with less than 100 employees have not been abolished. The Australian Manufacturing Workers Union National Secretary, Mr Doug Cameron, told the committee that Ireland was able to move from a rural economy to one of the highest productivity manufacturing economies in the world through 'skills, intervention and investment', not through labour deregulation.<sup>24</sup>

3.19 Peetz's criticism is consistent with the broader critique of the neo-liberal orthodoxy which holds that deregulated labour markets improve economic performance. The committee notes that the doyen of US labour market economics, Professor Richard Freeman of Harvard University, has published a paper which draws attention to substantive and growing objections to the evidentiary base on which the

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21 Four Corners, Monday 26 September 2005, Brave new workplace: investigation into proposed industrial relations reforms, transcript, p.11

22 Professor Bradon Ellem, *Submission 32*, p.3

23 'PM's bid for voters' trust: Explaining workplace reform', editorial, *Sydney Morning Herald*, 10 October 2005, p.10

24 Mr Doug Cameron, Australian Manufacturing Workers Union, *Committee Hansard*, Monday, 26 September 2005, p.77



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new orthodoxy rests. Freeman's paper reportedly describes as 'non-robust and ill-specified' and as 'more sawdust than hardwood' the belief that deregulating labour markets and weakening trade unions will cure employment and spur economic growth.<sup>25</sup>

3.20 The committee notes that a number of analysts believe that Government policies risk slowing the rate of productivity. The acting director of the Australian Centre for Industrial Relations Research and Training (ACIRRT), Dr John Buchanan, has expressed his concern that the policies contained in the WorkChoices document, especially a further weakening of unions and publicly defined standards, will dampen the incentive for employers to find creative ways to boost productivity: 'The dismal – zero – rate of productivity in the United States' services sector attests to this'. He also drew attention to the effect of similar policies on part-time supermarket workers in New Zealand whose rates of pay fell by 30 to 45 per cent in real terms in the decade after its reforms were brought in.<sup>26</sup>

### ***Profits before productivity***

3.21 Peetz's work has demonstrated that individual contracts are attractive for employers because they increase managerial prerogative, and can be used to raise profits and weaken union power. Productivity is not the driving motive. It is easier for companies to drive down labour costs in the short term than it is for them to increase productivity over the long term. His findings are widely supported in the literature.

3.22 The committee finds that the Government's proposals are designed to increase short-term profitability rather than productivity, principally by driving down the cost of labour. It is true that profits can be increased by gains in productivity, as ACCI pointed out, but it is easier for firms to increase their profits by cutting employees' wages by reducing or abolishing penalty and overtime rates, which is already a common feature of AWAs. The committee notes that a reduction in employee entitlements is often dressed up as productivity. Employers in the hospitality industry, for example, may claim that abolishing penalty rates for night or weekend work increases labour productivity. But it does not. All that happens is that the wage cost per meal is reduced while profits increase. Productivity, however, is unchanged.<sup>27</sup> The same would apply to waiters in cafes and restaurants. Cutting their penalty rates would not result in more plates being carried out per hour, but in a reduction in pay. Peetz concluded his study by stressing that productivity is not what corporations seek: 'it is profitability they seek'.<sup>28</sup>

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25 Ross Gittins, 'More slant than substance in jobs reform ideology', *Sydney Morning Herald*, 8 October 2005, p.42

26 John Buchanan, 'Workchoices: a hostile takeover', *Sydney Morning Herald*, 11 October 2005, p.13

27 Kenneth Davidson, 'IR changes put profit before productivity', *Age*, 13 October 2005, p.15

28 Professor David Peetz, *Submission 33*, p.29

3.23 The other avenue open to firms to increase profits is to increase the hours of work, which is a central feature of many AWAs. According to Professor Bradon Ellem, two of the biggest changes that have taken place in the services sector and in manufacturing are an increase in the number of employees on 12 hour shifts and an increase in the length of their working day to 12 hours.<sup>29</sup> Changing the hours of work is not a measure of productivity but a way for companies to increase profits by getting more value for labour than was previously the case, and without any long-term strategic planning to improve the nature of the organisation.<sup>30</sup> Professor Richard Mitchells' research shows that much of the productivity growth of the past decade is because people are working harder, their working lives are more fraught, there is greater employer control over people's working lives and people are doing more tasks.<sup>31</sup>

### **WorkChoices: economic and social risks**

3.24 The committee believes that the Government is moving into uncharted waters with its new WorkChoices Bill. It has not satisfactorily explained how it will address the social consequences of radical change and the slowdown in productivity. Nor has it explained how it will create more jobs, alleviate the labour and skills shortage, ease work-family tensions and address the growth of low-paid and precarious employment. The committee is not even sure that employers and business are convinced of the Government's rhetoric that the industrial relations system is so outdated that a complete re-write of the WR Act is needed. Far from it. Professor Andrew Stewart told the committee that most of the large employers which his law firm represents: 'are not desperately unhappy with the system that we have. There are certain things that irritate them and that they would like to see fixed up, but they are not clamouring to go out and do individual agreements. Many of them are already dealing with the unions and they are content to continue to deal with unions'.<sup>32</sup> The committee is critical of the Government's approach to national economic debate, where views and perspectives contrary to its own are dismissed as wrong and irrelevant, or ignored altogether.

3.25 Nowhere is uncertainty over the consequences of the Government's proposals clearer than on the issue of skills shortages. The Government is now arguing that individual contracts will help repair the current shortage of skilled labour. The argument appears to be that individual contracts offer workers more flexible working hours which will encourage people, especially women, back in to the workforce. It is a view which the committee does not support. The committee, if anything, believes that AWAs will make labour shortages worse, at least in the short term. Lower wages under AWAs will mean fewer people will want to enter the workforce. Women in

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29 Professor Bradon Ellem, *Committee Hansard*, Sydney, 26 September 2005, p.32

30 *ibid.*, p.28

31 Professor Richard Mitchell, *Committee Hansard*, Melbourne, 29 September 2005, p.32

32 Professor Andrew Stewart, *Committee Hansard*, Melbourne, 29 September 2005, p.11

particular will not think it worthwhile to get a job when minimum wages under the proposed WorkChoices legislation fall steadily behind the current award rate. As the committee found in chapter 2, AWAs increase flexibility only in how working hours are paid for. This means that individual contracts increase flexibility for employers only, who can use them to achieve cost reductions.<sup>33</sup>

3.26 No one, it seems, outside Government and some business circles is convinced there is an economic imperative mandating the Government's industrial relations reform agenda. Yet the Government is pushing ahead regardless of growing concerns that it has turned a blind eye to community standards in the pursuit of economic objectives. The evidence before the committee points in the other direction – that the Government should be crafting innovative workplace changes that will deliver on economic *and* social outcomes. The committee agrees with the research by Professor Bradon Ellem and his colleagues which found that the 'old-fashioned low-wage solution' proposed by WorkChoices is a missed opportunity.<sup>34</sup>

3.27 The committee believes that the Government has failed to come up with solutions to the significant labour market and workplace challenges which lie ahead. Dr Ron Callus and Dr John Buchanan from ACIRRT have argued that a new approach is needed to remedy major problems affecting an increasing number of workers: 'More than a third of part-timers want more hours of work. More than half of those working more than 50 hours a week want to work less'.<sup>35</sup> In Dr Buchanan's view, WorkChoices has failed the challenge. It is a policy that will deepen rather than solve the major problems facing workers:

Problems in work-life balance, skills shortages and productivity growth are real. They require the creative blending of standards for flexibility, not an erosion of standards in the name of flexibility. The changes proposed by WorkChoices will become part of the problem, not part of the solution.<sup>36</sup>

3.28 The debate over whether AWAs are necessary for productivity growth leads the committee to speculate on the relationship between enterprise bargaining and factors external to the workplace, such as the effect of a strong economy, low unemployment and demographic change on the demand for skilled and unskilled labour. The committee is particularly concerned by forecasts that Government policy is taking Australia down the American path of low skills and low wages, which will see the terrible social and economic consequences of New Zealand's failed deregulation policies revisited across the Tasman.<sup>37</sup> The committee fears that this will

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33 Professor David Peetz, *Submission 33*, p.28

34 Professor Bradon Ellem, *Submission 32*, p.4

35 Ron Callus and John Buchanan, 'What the Government should do to solve the problems of the labour market', *Sydney Morning Herald*, 20 October 2005, p.17

36 John Buchanan, 'Workchoices: a hostile takeover', *Sydney Morning Herald*, 11 October 2005, p.13

37 Professor Andrew Stewart, *Submission 12*, p.3; Professor Richard Mitchell, *Committee Hansard*, Melbourne, 29 September 2005, p.36

result in higher levels of poverty and economic deprivation with corresponding threats to social cohesion. Isolated pockets of skilled labour surrounded by unskilled and low-paid workers comprising women, young and casual workers and persons from non-English speaking backgrounds will be created. One commentator has argued that many of the harsher provisions of WorkChoices will come into play in a recession, especially for new employees. In this scenario, employers will be laying-off workers or threatening to do so unless employees agree to cut back on their conditions.<sup>38</sup> There is also a risk that consumer confidence will slide as a result of penalty rates being stripped away without the protection of awards.<sup>39</sup>

3.29 The Government's claim for increased flexibility and a simpler agreement-making process may also produce an insecure, unstable and de-motivated workforce. Professor Andrew Stewart has predicted that as a result of the Government's proposals:

...we could certainly expect to see an even bigger gap developing between those fortunate enough to be in high skill, high demand occupations or in powerful unions, and those who...must effectively agree to whatever their employer demands. Needless to say, women...are likely to be disproportionately represented in the latter category. If the Government believes that this is the price that must be paid for improved economic performance, then so be it – but they should have the courage to come clean and say so, not hide behind spurious rhetoric as to individual "freedom" and "choice".<sup>40</sup>

3.30 The Government's claim that its workplace reforms will lift the employment rate has been brought into question by independent researchers. It has been pointed out that under the WorkChoices policy, the Government is only guaranteeing that the nominal value of the last safety net wage increases given by the Commission will be preserved. Yet there is no proposed indexation of the present minimum wage to ensure that its real value is maintained. It is the Government's belief that this new 'Fair Pay' Commission is necessary to create more jobs. Yet, the committee believes that the scope for increasing employment by reducing the minimum wage will be limited. This is because, as one commentator put it: 'the more wages are cut, the closer they come to bumping up against welfare benefits and the less incentive people have to take jobs'.<sup>41</sup>

3.31 The committee believes that the Government is taking an unnecessary risk with the economy with its WorkChoices legislation. It has failed to make an empirical economic case for its industrial relations reforms. It has failed to explain why a large unprotected underclass of workers and a widening gap between skilled and unskilled

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38 Ross Gittins, 'The changing shape of workplace muscle', *Sydney Morning Herald*, 12 October 2005, p.17

39 Ms Sharan Burrow, ACTU, *Committee Hansard*, Sydney, 26 September 2005, p.57

40 Professor Andrew Stewart, *Submission 12*, p.3

41 Mike Stekette, 'The wages gap is about to get a whole lot wider', *Australian*, 13 October 2005, p.12

labour must be the price for its narrowly conceived vision of improved economic performance. The committee is concerned by the prospect that WorkChoices will be a blueprint for undoing the economic gains made over the last 15 years and will seriously threaten the quality of life and Australian society. It may even be a trigger for an economic downturn.

