



WORKFORCE PARTICIPATION,
SKILL SHORTAGES AND
INDUSTRIAL RELATIONS REFORM

Speech
by
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to
Melbourne Institute and the *Australian* Newspaper
2005 Economic and Social Outlook Conference
Sustaining Prosperity
The University of Melbourne

31 MARCH 2005

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Introduction

I have been asked to speak today about business attitudes to industrial relations, welfare reform and workforce participation.

Let me begin by giving a brief snapshot on the organisation I head up.

ACCI is the peak council of Australian business associations. Our motto is "*Leading Australian Business*".

ACCI's members are 36 employer organisations in all States and Territories and all major sectors of Australian industry. Through our membership, ACCI represents over 350,000 businesses nation-wide, including the top 100 companies, over 55,000 enterprises employing between 20-100 people and over 280,000 enterprises employing less than 20 people.

That makes ACCI the largest and most representative business organisation in Australia.

The role of ACCI is to represent the interests of business at a national level as well as internationally. Through its network of businesses, each ACCI member organisation identifies the concerns of its members and plans united action.

Where we are today

Despite the doom and gloom in the media in the last few weeks, there is no doubt that Australia has one of the strongest economies in the world.

It is reforms by *both* Labor and Liberal-led governments in the last 20 years that have delivered this result.

We are still forecast by the markets to have one of the fastest growing industrial economies. The *Economist* magazine consensus forecasts has us still running at the second fastest growth rate in 2005 behind the USA.

We have good inflation figure.

We have good interest rate figures, despite the recent rise announced a few weeks ago by the Reserve Bank.

We have the best unemployment figures for almost 30 years.

Reserve Bank Governor, Ian Macfarlane, gave a speech a year ago in which he examined the various published surveys on GDP per capita rankings of OECD countries.

He found that Australia's position is variously recorded as 7th, 10th, and 12th out of 22 countries according to the tables prepared by the University of Pennsylvania, OECD and World Bank, respectively.

And where there is a relevant time-series, both the University of Pennsylvania and the World Bank show Australia's rankings having improved in the twenty years since 1980.

On a simple, shoot out of the world's largest economies we come in at a very high 15th.

In fact many of the problems we have today, like skill shortages, are the result of unprecedented success in the last decade.

However, ACCI has identified a number of challenges still facing Australia.

One is the ability to improve home grown research and development (R&D) and innovation.

A related issue is the maintenance and upgrading of our built infrastructure.

Next, skills development is an issue increasingly on the radar screen of the business community, particularly in view of an ageing population and the need to boost the level of workforce participation.

Another, despite the recent good improvements, is unemployment and related welfare issues.

And finally, there is the trade challenge facing Australia.

More specifically, I note the following.

Whilst we have a headline unemployment rate of 5.1%, we have a serious underemployment problem.

The latest ABS data, released in recent months, shows that in September 2004 there were 569,700 unemployed (or the then rate of 5.5%), there were also some 578,300 underemployed, and 128,600 people with a marginal attachment to the workforce that together represent what the ABS define as the "extended" unemployment level of 1,276,500 or an "extended" unemployment rate of 12.3% of the labour force.

Further, I am indebted to Des Moore, former Deputy Secretary to the Commonwealth Treasury for recently pointing out the following:

- Although there has been an increase in the proportion of the working age population employed since the early 1990s, that proportion has only recently attained the peak reached in the late 1980s if one adopts the ABS definition of the working age as being all those over 15 years.
- Further, using the OECD definition of 15-64 years, Australia still has proportions employed significantly lower than in countries with economic, welfare and political systems that are broadly similar to ours. For example, data in the OECD's *Employment Outlook* published in June 2004 (for 15-64 year olds) show that in 2003 Australia had 69.3 per cent of the working age population employed compared with the US (71.2 percent), the UK (72.9 percent and New Zealand (72.5 percent).

- If Australia could attain the same proportion as the UK our employment would have been around 400,000 higher. That is about two thirds of those officially unemployed.
- Australia's part-time versus full-time employment could be better. In 2003 we had 28 percent employed part-time compared with 13 percent in the US, 23 percent in the UK and 22 percent in New Zealand.

What we need to do

Therefore at the last meeting of our General Council before Christmas 2004, the collective membership decided upon five areas of greatest priority in the course of 2005.

The aim is for ACCI to maximise its influence on the public debate in these areas through the course of the year. This is to come about by the development of the highest quality analysis and argument.

It is to be based on the views of the membership and communicated across the Australian community and principally with key decision makers.

The ACCI General Council agreed to the following priority areas:

- 1) Fundamental and Structural Workplace Relations Reform
- 2) Taxation Reform
- 3) Skills Development and Training
- 4) China Free Trade Agreement and Other Trade Issues
- 5) Cutting the Size of Government, Reducing Regulation and Fostering an Enterprise Culture

Clearly, all five areas have a direct bearing on the current debate about the economy and except for the one on trade issues, also directly or indirectly related to the issues of boosting productivity and dealing with skill shortages.

I want to now concentrate on the needed policy responses to the issue of skill shortages in the areas of training, skilled migration, taxation, welfare, and workplace relations reform.

Skills Development and Training Reform

ACCI's 2004 Pre-Election Survey found that 79 per cent of employers are concerned about their ability to recruit employees with appropriate skills and ACCI's quarterly *Survey of Investor Confidence* reported during the last year that the "Availability of Suitably Qualified Employees" was now the number one constraint on future business investment decisions.

Initiatives to improve the skills of the Australian workforce will be a critical element of the 2005 national policy agenda.

On 8 March 2005 I lead a delegation of around 30 employer groups to see Dr Brendan Nelson, Minister for Education, Science and Training, and Mr Gary Hardgrave, Minister for Vocational Education.

Our key message was that there is not a “skills crisis” but there are very big challenges facing the Australian economy today.

One of the things we said was that Australia needs much greater reform than we have seen to date in the area training.

The business community is keen to play a proactive role in the further development of the national training system.

Business needs to have greater input into promoting proven employer-responsive training providers. Post-secondary education and training must be made more business centred and demand driven so that students are better qualified to take their place in the Australian labour market.

Further education outside of university is not and should not be regarded as some sort of second-class education and training option.

We look forward to working with the Australian Government on the establishment of the new Institute of Trade Skill Excellence and the 24 Australian Technical Colleges during the course of this year.

The Institute of Trade Skills will provide:

- an industry led arrangement which specifically targets occupations which are the primary trades-related skill shortages areas;
- development of pathways with public and private providers but linked closely to the choice of employers over training provider selection; and
- clearer and more accessible information for students, their parents and teachers.

Further, ACCI lobbied hard for the \$104m Australian Network of Careers Advisers program, announced by the Government during last year’s election campaign, which will seek to assist teenagers with the transition from school to further education, training and work by improving teenager knowledge of career pathways, and we look forward to working with the Government, on behalf of the business community during this year.

We will also continue to work towards:

- increased State and Territory Government funding for training programs;
- the full implementation of “User Choice” policy, which attempts to increase the level of choice employers have in directing staff to obtain relevant training;
- appropriate consultative mechanisms to ensure that skills and training activity and policy is employer-led;
- the integration of post-compulsory education and training options.

Competition Policy in the VET sector

Put in a simpler way “User Choice” is simply the implementation of competition policy in the vocational education and training (VET) sector.

There is a need to reform this sector in a similar way to the how the University sector has been reformed over the last ten years. There needs to be more demand driven signals in the system, like fees and HECS and greater flexibility in workplace relations arrangements.

There needs to be more competition between TAFEs themselves and between TAFEs and private providers.

Basically state governments, which have the primary responsibility here, have only been paying lip-service to “User Choice” policy.

It has now forced the Federal Government to step in with its proposals for the 24 Australian Technical Colleges to provide a catalyst for reform in the VET sector.

Again, we support this move by the Federal Government.

New Apprenticeships

Introduced in 1998, New Apprenticeships represented a major reform and modernisation of the arrangements for entry level training. There are currently around 400,000 people engaged in New Apprenticeships an increase of over 200,000 since their introduction. This represents over 4 per cent of the workforce. A particular strength of the system is the strong employment outcomes for those undertaking New Apprenticeships.

ACCI welcomed the release in early March of the Department of Education, Science and Training (DEST) report *Skills at Work - An Evaluation of New Apprenticeships*.

ACCI believes that the New Apprenticeship system has been a very successful government initiative that has significantly benefited employers and employees alike. It is also of note that the increase in New Apprenticeships across a range of occupations has not come at the expense of the “traditional trades” as apprenticeships in these trades have grown 51 per cent since 1996.

However, notwithstanding these successes, ACCI believes that further reform to the New Apprenticeship system is needed:

- 1) The system should be strengthened 1) to make it easier for existing workers who have experience in an industry to upgrade their skills to meet a shortage in a particular area.
- 2) Training programs should also be developed to meet the needs of other mature age workers who wish to change industries or re-enter the workforce.

- 3) People returning to work after injury, particularly those on Disability Support Pensions, will also need special training programs designed to meet their specific needs and to address the challenges for prospective employers.
- 4) There are many migrants in the Australian workforce who possess skills and qualifications gained in their country of origin that could be recognised in Australia with a program of training specifically designed to establish their current skill level and tailored meet the gaps that prevent them being fully qualified here. A special program for migrants to upgrade their skills to become qualified workers could be linked to a scheme that addresses shortages in regional areas.

Skilled Migration

There is also a case for using the migration programme to deal with skill shortages.

ACCI welcomed recent reports that the Howard Government is considering a one-off increase in the skilled migration intake of 20,000 workers as part of its efforts to address the national skills shortage.

ACCI has a longstanding policy supporting an increase in the migration intake to stimulate demand and enhance the provision of labour, skills, technology, business investment and awareness of valuable export markets.

As noted earlier, attention should also be given to attracting semi-skilled workers who could improve their skill base in Australia through the New Apprenticeships Program.

We note however that immigration issues are very sensitive ones for the Australian community and while we support such an increase in skilled migrants we note that it needs to be a reasonable level which gains community support.

Further, it is worth noting again that the principal means of dealing with skills shortages is to ensure that the local workforce is adequately trained.

Taxation Reform

Australia needs a fairer tax system that encourages innovation, investment, workforce participation, skills development and economic growth.

In November 2004, ACCI published its Taxation Reform Blueprint: *A Strategy for the Australian Taxation System 2004-2014*.

The Blueprint advances an argument for taxation reform that sets the scene for where ACCI would like to see personal and business taxes heading by the year 2014.

In particular, Australia's high marginal tax rates and low thresholds are uncompetitive by international standards. This harms innovation, education and training, workforce participation, skilled immigration and entrepreneurship, while promoting tax avoidance and evasion. ACCI's 2004 Pre-Election Survey showed that the level of taxation was the Number 1 issue of concern for Australian business followed closely by the complexity of tax legislation.

Business is specifically calling for:

- Major reductions to personal income tax, in particular increasing the top tax threshold to \$100,000, the indexation of tax thresholds to inflation (i.e. the permanent abolition of bracket creep), the reduction of tax thresholds to preferably no more than two and the long term alignment of the top marginal tax rate with the 30% corporate tax rate.
- Reducing the cost of complying with the tax system. ACCI is proposing that the Government introduce a Tax Administration Impact Statement to ensure that the costs of tax compliance are fully measured.
- The abolition of the state taxes as originally proposed by the Australian Government in *A New Tax System*, reform of Fire Insurance Levies and a proposal to abolish payroll taxes.
- Further reductions in Capital Gains Tax (CGT) to promote innovation and entrepreneurship including the introduction of a 'stepped rate' CGT where the percentage of gains subject to the tax reduces the longer an asset is held.
- Removing taxes on superannuation contributions and earnings, replacing these with tax on benefits only.
- A range of other initiatives.

Specifically, with respect to skill shortages, we note that some 1 million Australians live and work overseas. Most of these people are skilled workers that we can ill afford to lose.

These people usually go overseas for a lot of reasons apart from our tax system. The main reason is to seek further qualifications and broaden their life experiences.

However, it is often the combination of the high remuneration they can get overseas combined with the various taxation systems that keep them overseas.

We need a competitive personal taxation system as possible to attract some of the 1 million Australians back to our shores.

In this parliamentary term, and with a Senate majority from July 2005, the Federal Government has a golden opportunity to put in place a taxation system that encourages and rewards work, investment and enterprise. Australian business hopes that this opportunity will not be wasted.

Welfare Reform

ACCI has a great interest in welfare reform issues.

Indeed, for the last few years I have been a member of the Government's Welfare Reform Consultative Forum.

ACCI's interest is focussed on increasing workforce participation. This is obviously a focus of the Government as well and culminated in the creation of the position of Minister for Workplace Participation straight after the last election.

It is also the case, despite minimal media attention, that the Government is furiously working on options for welfare reform in the lead-up to the May Budget.

Our view is that the focus should be on expanding the coverage of Mutual Obligation. In particular, with the explosion in the number of people on the Disability Support Pension to 696,742 (to June 2004) there is a need to review who is capable of working.

There is also a case for streamlining the payments system from the very complex system of multiple payments that we have today.

However, it would be remiss of me, at a forum organised by the Melbourne Institute not to make some comments on welfare reform as it relates to the tax reform debate.

As we know, the interaction of welfare payments criteria and the personal income tax system can give rise to high effective marginal tax rates for low-income earners. As welfare beneficiaries take up paid employment their income supplements are withdrawn and they begin to pay tax on earned income. The combined effect can give rise to severely impaired incentives to participate in the workforce. This is especially the case for sole parents and families with children.

That these 'poverty traps' exist has long been recognised and the subject of ongoing public policy debate. One possible means of addressing the problem which is gaining currency is an earned-income tax credit (EITC) targeted at low income families.

The idea of an EITC was given national prominence when it was included among a suite of reforms suggested in a 1998 open letter to the Prime Minister from the so-called *Five Economists* (the five economists are Peter Dawkins, John Freebairn, Ross Garnaut, Michael Keating, and Chris Richardson). The letter set out policy options aimed at significantly reducing the rate of unemployment over a period of several years.

Key amongst these proposals was a wage tax trade-off designed to stimulate jobs growth by reducing real wages while providing offsetting compensation in the form of tax credits for low-income earners in low-income families.

This wage-tax trade-off was to be achieved by:

- freezing award safety net increases for several years. In real terms the safety net wage would fall in line with inflation; and
- introducing an EITC for low-income earners in low-income families to offset the impact of a declining minimum wage.

It was argued that reducing the real wages of the low paid, in particular reducing the *relative* wages of the low paid, would lead to the creation of a substantial number of new jobs and reduce the level of unemployment. The tax credit would be implemented to compensate for the reduction in real wages and was also intended to go some way toward reducing the high effective marginal rates of taxation experienced by low income households.

ACCI has examined the *Five Economists* plan and has very strong reservations about this proposal. Although it has a new name, it is simply a variation of the 1980's *Prices and Incomes Accord* as it was known at the time.

It is generally accepted that the centralised wage fixing system that the *Accord* relied on delivered inferior outcomes. It was not until the previous Government started moving down the road to a more decentralised enterprise-based bargaining system (accelerated by the present government), that has seen the delivery of real wage increases, lower inflation and improved employment outcomes.

The *Five Economists* proposal relies on the ability to do a “deal” with either the ACTU or the Australian Industrial Relations Commission (AIRC) or both to secure lower wages growth through award decisions in a trade-off for tax credits. This type of centralised wage “dealing” is an anathema. It would require turning our back on the hard won gains in enterprise bargaining that we have made in the last ten years.

While the ACTU may theoretically be prepared to do a deal, it's doubtful whether it would be in their practical interest. For its part, the AIRC is an independent tribunal and it is our understanding that it simply would not do such a deal.

More broadly, in its own right, and separated from a re-constituted *Accord* arrangement, an EITC represents a policy option that could potentially increase work incentive and raises the disposable incomes of low- income families. As such, its examination as a means of promoting workforce participation warrants consideration.

Nonetheless, any proposal for a tax credit would not eliminate ‘poverty traps’, merely shift them around (usually higher up) the income scale where they are phased out.

It would cost large amounts of money without necessarily removing the problem.

There is little indication that the Government would lend its support to the introduction of an EITC.

Workplace Relations Reform

Another critical area which will help deal with the skill shortage issue is further reform of the workplace relations system.

In recent weeks we have seen the most encouraging signs for almost a decade that the Australian government is seriously considering another major round of micro economic reform, including reform to the labour market.

Senior cabinet Ministers, including the Minister for Employment, Workplace Relations, the Treasurer and the Prime Minister have stated the need to review our labour market regulation and consider whether it meets our economic and social objectives over the medium to longer term.

Some policy direction has already been given by cabinet and announced by the Minister, although little detail is known.

The government has been consulting on matters beyond the narrow confines of its October 2004 election policy.

Consultation has included discussion of its 1996 policy that is still yet to be fully implemented.

The Need for Labour Market Reform

This analysis comes not a moment too soon.

In recent months we have been reminded by the OECD, the IMF, the Reserve Bank, the Productivity Commission and the statistician that the Australian economy is owed no favours by anyone. Our capacity to participate in the global economy in a competitive and productive manner is the product of policy decisions we make today.

Labour market reform in Australia in the late 1980's and 1990's has taken an economy from one riddled with industrial disputes and union and tribunal intervention on a large scale to one that at last accepts in word (if not deed) the wisdom of direct employer and employee relationships, the efficient use of contracting, and the empowerment of employees in local decision making about their wages and employment conditions.

It is no coincidence that this reform effort has not just led to a sustained period of competitiveness and productivity but also massive jobs growth, higher incomes and better (including safer) working conditions.

Recent weeks have also produced some mixed messages about the state of our economy.

Amidst the controversy over the Reserve Bank decision on rates, and the mixed recent data of the statistician and industry surveys, there are few who would seriously contest the proposition that Australia needs a new round of productivity growth to sustain our economic performance and living standards.

The challenge of global competition does not stand still.

But structural reforms to the legal framework in which the Australian labour market operates have barely changed since 1997.

That is eight years ago. Australia is, at best, one decade into its transition from the nine decade old centralised system of highly regulated and interventionist employment laws.

We still sit uncomfortably in the middle of two workplace relations systems. The 1993 and 1996 changes did not displace the former system.

They were more modest than labour market changes at about the same time in comparable countries, for example the United Kingdom and New Zealand. Being more modest, the result has been that our labour market regulation to this day is more severe than in those countries.

Instructively, subsequent Labour governments in those countries did not reverse those changes that conservative governments had implemented.

Why? Because they were essential responses to a globalised economy.

It is also worth noting that the unemployment rate in both countries are lower than that in Australia, being 3.6% (December 2004) in New Zealand and 4.7% (January 2005) in the UK.

In contrast, the Australian changes were evolutionary - introduced over the former system, not as a substitute.

They were enabling - reforms that allowed for workplace change, but did not compel it.

The consequence is that, at the start of 2005, Australia has:

- an improved framework at a federal level, but one which has not moved significantly since 1997 and which remains complex and heavily regulated; and
- a move by State governments (except the Victorian government, to its credit) to re-regulate State industrial systems.

This scenario sends mixed and confusing signals to employers and employees in the workplace, particularly those enterprises that are at various stages of implementing workplace change on the basis of a less centralised system.

I mention the past because it should inform the future.

There are two important lessons of recent economic history that challenge the Australian government right now, and should challenge all of us (including the trade union movement).

Firstly, both history and commonsense tell us that buoyant economic conditions are not just the product of current economic growth, but also the product of economic reforms in the preceding years.

It was the economic reforms of the mid 1980s and then the further economic reforms of the mid 1990s that laid the foundation for the jobs growth and economic recoveries that we experienced in the final years of each decade.

In the second half of this decade, that is what we again want – more jobs and productivity that pays for higher living standards.

Secondly, during the 1970s, 1980s and 1990s, the experience of Australia was that economic downturns saw unemployment skyrocket to levels that were never experienced or contemplated in the 1950s and 1960s.

In the second half of this decade, that is what we want to avoid – a spike in joblessness if the economy turns against us for global or domestic reasons.

We cannot alter the global economy, but we can shape our place in it.

In 2005, we can make decisions that will be reflected in jobs that we and our children have in ten years time when they leave school and enter the workforce.

Put simply, another significant round of microeconomic reform in Australia will lay the foundation for our jobs and living standards.

It may even lock in a sustained cycle of high employment and low unemployment.

A Progressive Reform Agenda

A central component of micro economic reform must be further workplace relations reform – in addition to the obvious need for education and training, welfare and taxation reform.

I specifically want to highlight welfare policy reform in this context – because it is difficult to see how we can achieve what should be the national goal of moving tens of thousands from welfare to work without the welfare system and the workplace relations reforms complementing each other.

On workplace relations reform, there are two broad and interlinked dimensions.

The first is the legal and institutional framework of laws, regulations and decisions that govern the rights and responsibilities of employers and employees in workplaces with respect to wages, employment conditions and how employers and employees are allowed to deal with each other on these matters.

The second is nature and quality of the workplace culture and the dealings at work between employers and employees, between supervisors and staff, between managers and work groups and between employees themselves.

The Australian legal and institutional framework of laws, regulations and legal decisions on employment matters has had a long history of being highly interventionist, to the point of regulating how, when and where employers and employees in workplaces can deal with each other on issues that concern their wages and employment conditions.

I readily accept that industry has a large responsibility to continuously improve both workplace culture and grass-roots relationships between managers, supervisors and employees.

Yet industry can only do so to the extent that the legal and institutional framework allows.

Workplace relations reform requires, at least in large part, structural change to the institutional framework of laws, regulations and legal approaches.

We all know that from July 2005 the government parties have legislative control of the Senate.

That is important because it means that the process of making legislative change does not need to be the subject of such significant gridlock or political compromise that characterised other major reform efforts over the past decade.

But I would like to think that the parliament as a whole can be convinced that the national interest requires a continuation of the reform direction (if not detail) towards flexibility and decentralisation of decision making to workplaces that was – at least from 1993 to 1996 – accepted by all significant political players of the day – the conservative Opposition, the Labor Party government and the Democrats in the Senate.

It is important though that none of us get carried away with the fact that a government now has, for the first time in a generation, this legislative mandate and capacity to implement it.

At the end of the day, the substance of reform is what matters.

If reform is to have benefits into the long term, if it is to strengthen the economy against major external challenges, then the substance of reform needs to be for the long term.

The policy behind workplace relations measures that may be proposed by the Australian government later this year needs to be the result of long term thinking, not short term expediency.

In other words, the reform needs to be structural in nature and be in areas that matter and will make a difference.

It should be change that reflects core values of contractual freedom within a simple safety net, choice and building stronger workforce relationships.

It needs to be change that is practical, useable – not change that is simply driven by ideology.

Nor should it be change that puts band-aids on problems for another day or skirts around the edges of difficult issues.

Fortunately there are good starting points for government to assess where we are at and what needs to be done. Amongst the best is the *Modern Workplace: Modern Future* Blueprint that was developed two years ago by Australia's leading business and employer organisations through ACCI.

It was a bold undertaking – a Blueprint prepared to mark out new reform ground at a time when the Senate was spending years in gridlock over single issues of detail.

There were times over the past two years when I have despaired that the good work of the Blueprint may be lost in the politics of the Senate or the attempts by industry to simply hold to the gains that were made in 1993 and 1996.

Fortunately that bold undertaking by Australia's employer bodies and ACCI is paying off.

Our Blueprint forms the basis on which we are today seeking to convince the Australian government to embark on further change along the path commenced in 1993 and 1996.

Critically the ideas that ACCI advance are not devised by academics or in law offices.

They are the combined ideas and expertise of business organisations - those responsible for voicing the views of private sector employers who created the record level of jobs that governments rightly and proudly laud.

Policy makers responsible for developing pro-employment reform policies should take on board the experience and ideas of the very employers in the community who have created the jobs and improved wages and working conditions, and who want to continue to keep doing so.

For example, there is no substitute for looking at what has worked in the resources sector, and why – and applying those principles and values to future reform.

The challenge now for policy makers is to give Australia a world class workplace relations system that serves the Australian national interest into the long term.

I note that some in the trade union movement are, not surprisingly, taking a reactionary view to proposed reforms.

For example, the newly elected secretary of the Victorian Trades Hall Council – ex BLF official Brian Boyd – said publicly that the reforms would be opposed, that they would cut wages and would slash working conditions, and is proposing a day of industrial action in June – all of this before the government has even decided on or announced the changes.

How anyone can intelligently comment on changes before they are known is beyond me.

It is that type of prejudgement that does the union movement a disservice, and makes the workforce conclude that union ideology is put before the interests of the working people.

No wonder last week's ABS data showed a further decline in union membership to only 17.4% of the private sector.

In contrast I note the more constructive comments made by federal Labor frontbencher and industrial relations spokesman Stephen Smith MP who indicated, in response to questions about proposals to vary minimum wage setting, that he would

examine proposals once he sees them, and whilst concerned about the impact on working people, he would seek to look at them on their merits.

Workplace reform also requires the workplace relations system to take a broader view of those whose interests it serves.

The regulation of employment affects not just those who are in jobs, but those out of work and who want to work.

The regulation of employment also affects not just those operating businesses but those who want to start up a business.

In other words, the reforms must be designed to promote new jobs and new entrepreneurship and not just cater for those who are already on the inside of the labour market.

There are also other reasons for the reform effort.

As I said earlier, we should not be carried away with our economic success.

We must use the productive capacity of every Australian of working age population who seeks and is able to participate in the labour force.

Our ageing population, if nothing more, makes that an imperative.

That is why welfare reform is also so important.

Added to this note of caution is the experience that employers and employees continue to have with overregulation, duplicate regulation, union intervention in non-unionised businesses, union intervention in non union workplace agreements, tribunal intervention in bargaining and recent industry-wide or economy-wide tribunal rulings on redundancy, penalty rates, working hours and leave loadings.

As a result, the case for long term structural reform is overwhelming.

I have spent a good deal of time today on talking about the reasons why further reform is important because it is critical that industry makes out the case. It cannot and should not be left to government.

The case is clear, and employers must take an interest in it.

I deliberately say employers – because it is not just employer bodies and peak councils like ACCI who must speak out – but business owners and managers themselves.

This is a task for all employers – large and small.

The temptation for some larger employers who have moved into workplace bargaining or have established enterprise agreements might be to allow others to take

up the reform cudgels because they are comfortable in the enterprise specific control that reforms to date have given them.

The temptation for some smaller employers might be to think that the time and effort in speaking out about the problems of overregulation and dismissal laws might be too low a priority in the day to day challenges of making ends meet.

In both cases, I understand the temptation but I urge industry to get directly involved.

If as we know that our businesses are more productive and our relationships with our staff more harmonious when decision making is devolved to the workplace, then we need to explain to the community why the current system needs change.

For ACCI's part, our Council has adopted a structural workplace relations reform agenda as a priority.

In discussions with government over recent months ACCI has called for substantial and structural reform across eight areas of policy:

- a restructured Australian Industrial Relations Commission (AIRC) with more limited powers
- fewer, shorter and clearer AIRC Awards
- more accessible workplace agreements and contracts of employment
- a New Minimum Wage System
- reformed Unfair Dismissal and Termination Laws
- consideration of a National Workplace Relations System
- tougher Laws on Strikes and Sanctions
- Building Industry Reform; and
- legislation to Protect Contractors from the Industrial System.

And for those who wonder why we pursue parts of this agenda given that there has been a dramatic decline in the incidence of industrial disputation over the last 10 years, the answer is again found in the statistics.

As is noted in a recent book by Rodney Tiffen and Ross Gittins, *How Australia Compares* (CUP, 2004), the decline in the number of days lost through industrial disputes per 1000 employees has been common across OECD countries, not least since inflation has been brought under control in most countries since the 1970s.

The result is that while Australia's performance relative to its own history has been spectacular, compared to a list of 18 industrialised countries, Tiffen and Gittens show that "Australia was ranked 16th in the early 1970s with a figure of 547, and even though that number had dropped to 68 in the late 1990s, it still ranked 16th" (page 85).

One specific issue I wish to highlight from this reform agenda is reform to minimum wage fixation.

Reforming the Minimum Wage System

There is a strong imperative for fundamental reform of minimum wage setting in Australia.

- Australia has the second highest minimum wage in the world (behind only France).
- Minimum wages in Australia exceed any levels which could be regarded as a genuine safety net, or genuinely regard as applying to the low paid (e.g. 'minimum' wages of over Average Weekly Earnings and arbitrated 'minimum' wages of over \$1,000 per week).
- Australia's arbitrated minimum wages have been increasing in real terms across eight years.
- At a time when Australia has significantly decreased unemployment, minimum wages levels are serving to discourage further employment gains.
- There is not one minimum wage in Australia, there are tens of thousands.

The OECD, in its Economic Survey for Australia released in December 2004, called for reform of the system of minimum wage setting in Australia, in order to more closely link wage increases to productivity.

The most pressing reason for such a change is that the current system of court-style ambit claims in the AIRC is dysfunctional and has inherent limitations that the AIRC alone cannot cure.

Under the current system, more than 26,000 separate arbitrated award minimum wage classifications have been set.

Under the current system, minimum wages are arbitrated at income levels of over \$1,000 per week, and not just for the low paid or low skilled.

Under the current system, the ACTU can initiate a review by the Commission as often as the ACTU sees fit.

For years, the Commission has been willing to hear cases and increase award wages on an annual 12 monthly basis.

Under the current system, the Commission has ruled that it is limited to examining the needs of low paid employees (that is, those in employment) and not the needs of other low income earners such as those on welfare seeking to move into the labour market or those unemployed seeking to do the same.

We all know that incomes of lower paid wage and salary earners are a factor of the wage paid and the treatment of income by the tax and welfare systems.

Yet the determination of minimum wages in Australia ignores that reality as if it does not exist, and has very little regard for whole of government economic policy.

Wage cases in the AIRC retain a very close resemblance to the national wage cases of the 1980's, despite a change in statutory systems and objectives.

In recent years government has provided through welfare and tax rebates and payments very substantial increases to the incomes of low paid persons and their families.

Despite this, minimum wage increases payable by employers have been increased by sizeable amounts without regard to such factors.

The vision for minimum wage fixation in Australia should give consideration to the following:

- Australian workplace relations should primarily rely on agreement making.
- The majority of employees should be covered by agreements and wage increases should be productivity bargained.
- Awards should exist as a safety net only, and should therefore be set a genuine minimum level, well below market rates in all industries.
- The minimum wage should be a single minimum wage, as it is in so many other countries.

ACCI is not seeking a reduction in the Australian minimum wage, notwithstanding its comparative high level by international standards.

Reform should focus on the system of setting minimum wages in the future.

Reform should have the objective of reducing the number of separate minimum wages.

Reform should give much greater prominence to economic factors.

Reform should give much greater prominence to the benefit of wage bargaining in workplaces.

Reform should give much prominence to the national goal of increasing workforce participation by those on welfare and the unemployed.

The key characteristics of a reformed system should be to limit the frequency of reviews, to have reviews conducted in an inquisitorial rather than adversarial manner, and for a broader range of economic and policy factors to be considered when the minimum wage is set.

We have raised with the Government the proposition that an entirely different panel of people from today's AIRC be used in minimum wage setting.

That model would co-opt economic experts and not be hostage to the legal arbitration we have at present.

We have some confidence that the Government is listening to our argument.

However, like everyone else we have to wait and see what eventuates.

The Reformed Landscape

We need to create a system where there is far less employment regulation and third party or tribunal intervention.

Remaining regulation would be simple, flexible, non prescriptive, regularly reviewed and apply only to the extent necessary to provide a genuine safety net.

In the majority of Australian workplaces, actual wages, employment conditions and day to day working arrangements would be determined by agreement – whether formal agreement or contract.

There would be greater freedom for productive and entrepreneurial changes in the labour market, including the continuing use of contract labour services.

Wages and wage increases negotiated in collective and individual agreements in workplaces would overwhelmingly be linked to productivity, performance, career development, and business conditions.

Industrial awards would only operate as a safety net of essential minimum standards.

Work practices, actual conditions of work, and implementation of standards would be determined in individual workplaces.

Over time, minimum legislated standards on core employment conditions would replace the need for most awards, and awards would become simpler.

There would also be a more rational interface between the industrial system, and the tax, welfare and superannuation systems.

Effective remedies would exist against economically damaging or unlawful industrial action.

In pursuing these objectives ACCI and the employer movement are all too aware of the need for government to make the right policy decisions.

Industry always has a natural wariness that governments, even with the best of intentions, are instinctive regulators.

We will be taking a very close interest in the detail of the proposed new laws, to make sure that they are workable and able to be upheld and effectively interpreted by the courts if legally challenged.

There is a great national challenge before us all on workplace reform.

The policy choices we make in 2005 will mater in the years ahead. 2005 will be a test to determine whether we are all – collectively – up to it.

Conclusion

In conclusion I note again that there is not a “skills crisis” but there are very big challenges facing the Australian economy today especially in increasing workforce participation.

We need much greater reform than we have seen to date, especially in the areas of industrial relations, training, welfare and taxation.

We can only hope that a government sympathetic to these arguments will be bold and brave in implementing what needs to be done.