

Opening Statement by Australian Industry Group
Chief Executive, Innes Willox
Productivity Commission's Inquiry into the Workplace
Relations Framework

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CHECK AGAINST DELIVERY

The Productivity Commission's Draft Report has laid the groundwork for an important public debate about the shape of Australia's workplace relations system and the changes that are needed to remove barriers to productivity improvement, competitiveness and investment.

While Ai Group is not proposing that the *Fair Work Act* and the modern award system be scrapped, some major changes are needed. Australia's current workplace relations system is not delivering the adaptability that employers and employees need.

Ai Group maintains that more flexible workplace relations arrangements are fundamental to the improved productivity that is so important to our national competitiveness and our capacity to further improve Australian living standards. In recent years, the emphasis on improving productivity performance has lifted as productivity outcomes across a wide range of industries have trended down and, particularly in the face of demographic factors, the relative importance of improved productivity as a source of growth has risen.

While the Commission has pointed out that, both from an historical perspective and in terms of aggregate measures – including of working time lost, and economy-wide and sectoral wage outcomes, Australia's workplace relations arrangements are far from dysfunctional, there are substantial improvements that can and should be made to enable more

productive performance in individual businesses. This is certainly the view from the coal-face where, as we pointed out in our initial submission, business owners and managers participating in the WEF Global Competitiveness surveys consistently rank restrictive labour regulations as leading the list of most problematic factors for doing business in Australia.

Ai Group commends the Commission for opening up the debate about the relative merits of income support arrangements (including possible earned income tax credits) and adjustments to minimum wages in achieving some of the objectives sought from Australia's minimum wage arrangements. For many years Ai Group has argued that using changes to minimum wages as a means of improving household income distribution and improving living standards for the low paid is likely to be of considerably higher social and economic cost than fine-tuning income support arrangements.

While income support arrangements have budgetary costs and their financing would require higher taxation and an associated increase in deadweight losses, using minimum wages to achieve these ends has a number of important drawbacks. These include:

- The degree to which increases in minimum wages are dispersed across the household income distribution;
- The wedge between the additional costs imposed on employers (due to extra costs such as payroll tax, workers compensation premiums and superannuation payments) and the actual change in disposable incomes of low income people (due to additional income tax paid and a reduction in income support entitlements); and

- The risks of adverse impacts (in terms of unemployment and underemployment) on low-income people.

We urge the Commission to give close consideration to these important issues.

There are some very good proposed reforms in the Draft Report, including:

- Reducing Sunday penalty rates in the retail, hospitality and some other industries; (We assume that this would include the fast food section of the retail industry);
- Discontinuing the 4 Yearly Reviews of Awards;
- Protecting employers from increased costs where State Governments decide to proclaim additional public holidays;
- Outlawing clauses in enterprise agreements that impose restrictions on the engagement of contractors, labour hire and casuals.
- Introducing a new form of enterprise agreement called the Enterprise Contract;
- Reducing the emphasis on procedural issues in unfair dismissal matters; and
- Imposing a six month compensation cap on general protection matters.

There are some issues of detail that need to be worked through with each of these proposals but conceptually we believe that the proposals have significant merit.

There are other parts of the Draft Report which we believe deal with important areas where changes are necessary, but we believe that significant amendments are needed to the Productivity Commission's draft proposals including:

- Long service leave; and
- Greenfields agreements.

Further parts of the Draft Report contain proposals that we have concerns about given various practical and other implications of the draft recommendations. These include:

- The proposed restructuring of the Fair Work Commission into two Divisions; and
- The changes to section 423 of the *Fair Work Act* regarding industrial action which threatens to significant harm the bargaining parties.

There are other proposals in the Draft Report that we do not support, including:

- Disturbing the existing requirements that protected action ballots specify the type of industrial action and that industrial action must be taken within 30 days of the declaration of ballot results;
- Relaxing the current 4 hour minimum deduction period when unlawful industrial action is taken; and
- Abolishing the Small Business Fair Dismissal Code.

Finally, there are a number of areas where we continue to urge the Productivity Commission to recommend more substantial changes than those proposed in the Draft Report. These include:

- Tightening the general protections and implementing additional measures to discourage speculative claims;
- Fixing the transfer of business laws which are operating as a major barrier to business restructuring and outsourcing;
- Tightening industrial action rights so that industrial action becomes more of a last resort during bargaining;
- Outlawing industry-wide pattern bargaining; and
- Tightening union right of entry by reversing the changes that the former Labor Government implemented from 1 January 2014.

We are happy to discuss any of these issues today and to endeavour to answer any questions that the Commission may have.