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## **HOLLOW SHELLS: THE ALLEGED LINK BETWEEN INDIVIDUAL CONTRACTING AND PRODUCTIVITY GROWTH**

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Many of the claims about the benefits of individual contracts ride on the proposition that individual contracts deliver higher productivity (BCA 2005:12; ACCI 2004:1; Langoulant 2004; Andrews 2004; OEA 2004a; Gollan & Hamberger 2003; Howard & Andrews 2005:3). When productivity is higher, the corporation can afford to pay more and is more than willing to do so. Individual contracts, therefore, are a 'win win' for both corporation and employee. It is on this basis that public policy changes since 1996 have sought to discourage union-related collective bargaining and promote individual contracting. This paper seeks to assess the claims of corporate lobbyists and the Federal government that individual contracting raises productivity. It compares the effects on productivity of individual contracting and union-related collective bargaining. It also refers to comparison between the effects of individual contracting and of awards on productivity growth. It starts by looking at national level evidence in New Zealand (where a system of individual contracts was abruptly introduced in 1991) and Australia (where individual contracts have been encouraged in the federal jurisdiction since 1997), then turns to closely examine the basis of the evidence put forward by the Business Council of Australia (BCA) and, more recently, the federal government. It also considers the argument that encouragement of individual contracting will help solve the current skills shortage, and the relationship between contracting and profitability.

There is no shortage of assertions about the productivity benefits of individual contracting. In early 2005 the BCA set out the business case for more individual contracting:

The mining sector has led most other sectors in the adoption of more flexible workplace arrangements as labour market deregulation has progressed. The mining sector has a very low reliance on awards and a very high reliance on more flexible agreements including AWAs. In fact, around 50 per cent of mining sector employees covered by Federal agreements are on AWAs, while in some parts of the sector AWA coverage is as high as 80 per cent. Greater flexibility in workplace arrangements in the mining sector has delivered significant benefits. It has supported innovation; greater accountability for performance; high levels of productivity as well as sustained, strong productivity growth; high levels of wages; and outstanding returns to shareholders. Australia's competitiveness has been sustained by ongoing strong productivity growth. Over the period from 1994 to 2002, productivity growth in the mining sector averaged around 6 per cent per annum, outpacing all other sectors in the economy.

The mining sector provides a clear and excellent example of the benefits of workplace reform and greater flexibility that allows workplace arrangements and requirements for an enterprise to be determined by those who understand them best – employers and their employees (BCA 2005).

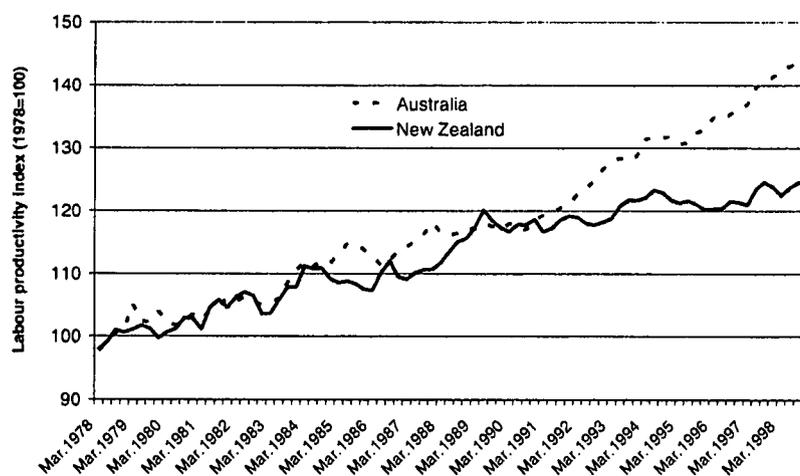
Even mainstream political commentators appear to have accepted the line (eg. Kelly 2005). Yet the evidence, examined throughout this paper, is weak. Corporations are interested in higher profitability, not higher productivity. The latter is just one of several means towards the former. As we shall see, they are enthusiastic about individual contracting, not because it leads to higher productivity but because it leads to higher profits.

### **National Level Effects?**

A simple way of testing the impact of individual contracting on productivity is to examine the New Zealand experience in the 1990s.

After all, this was the country that experienced the sharpest shift of any from collective arrangements to individual employment contracts, with the passage of the now-repealed *Employment Contracts Act 1991* (ECA). From 1991 to 1996, New Zealand had a national government favouring individualism in employment relations, while Australia had one that favoured collectivism and promoted collective enterprise bargaining. During this period productivity growth was substantially higher in Australia – and, as shown in Figure 1, this was after the two countries had had similar rates of productivity for the previous 14 years (Dalziel 2002:33). As Dalziel pointed out, the introduction of the Employment Contracts Act ‘appears to have marked the end of a long period of strong comparability between New Zealand and Australian labour productivity growth, to New Zealand’s great disadvantage’ (Dalziel 2002:42).

**Figure 1: Labour Productivity, Australia and New Zealand, 1978-98**



Source: Dalziel (2002:41).

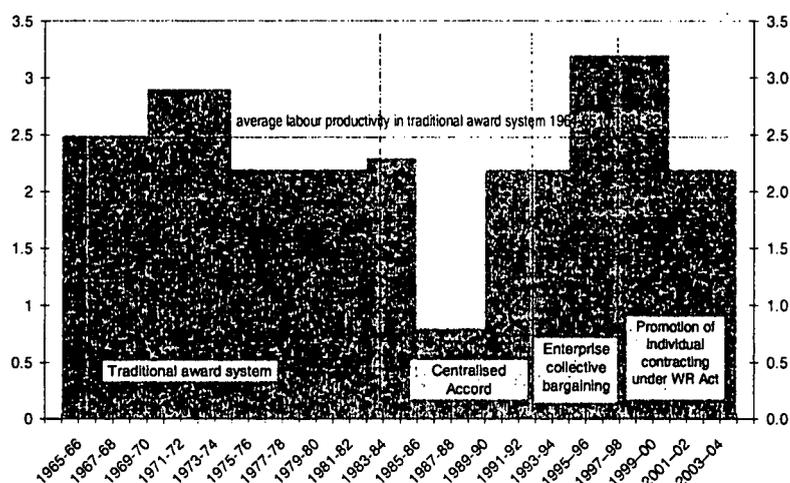
But in Australia, hasn't productivity growth been much higher since 1998, after the Workplace Relations Act came in and spread the individualisation philosophy nationally? Productivity growth figures fluctuate significantly, heavily influenced by the business cycle, so while

the ABS publishes quarterly and annual labour productivity data, it also publishes estimates of productivity growth averaged over productivity growth cycles. Figure 2 depicts how labour productivity has grown over the various productivity cycles since 1964-65, and compares it to the institutional arrangements that applied at the time, as well as the level of union density (union membership as a proportion of employees). It shows that, under the traditional award system that operated prior to the prices and incomes Accord of the 1980s, productivity growth was between 2.2 and 2.9 per cent per annum (averaging 2.6 per cent per annum, as shown by the horizontal dashed line). In 1983 the centralised Accord was introduced, radically altering wage fixing through the first effective national incomes policy in Australia. In the context of tax cuts and improvements in the social wage, real wages fell. This reduced the incentive for employers to introduce labour saving technology and innovate, and annual labour productivity growth fell to 0.8 per cent in the mid cycle, until the award restructuring process commenced. The shift to enterprise bargaining flowed from the abandonment of centralised wage controls, and with this the next productivity cycle saw productivity growth peak at 3.2 per cent (ABS Cat No 5204.0). About half way through this cycle, the *Workplace Relations Act* (1996) was implemented, though it was some time before there was much growth seen in the number of AWAs. Bear in mind that all institutional changes take time to take full effect on economic outcomes.

The next and most recent productivity cycle commenced in 1999-2000. The *Workplace Relations Act*, which has actively promoted individual contracting, was in effect for the full period of this cycle. It has seen a fall in annual productivity growth, to just 2.2 per cent per annum. Perhaps surprisingly in the light of the claims cited at the start of this paper, this is even below the rate of labour productivity growth that applied during the traditional award period (ABS Cat No 5204.0), despite the fact that average union density, at 53 per cent, was then over twice the rate of union density that has applied in the current cycle (24 per cent). These data are mirrored in a chart produced, ironically, to support the BCA's case for further individualisation (Access Economics 2005:17).

The most recent growth current productivity cycle has finished. Since then, labour productivity has fallen by 1.3 per cent (ABS Cat No 5204.0).

**Figure 2: Labour Productivity Growth and Wage Fixing Institutions, 1964-65 to 2003-04**



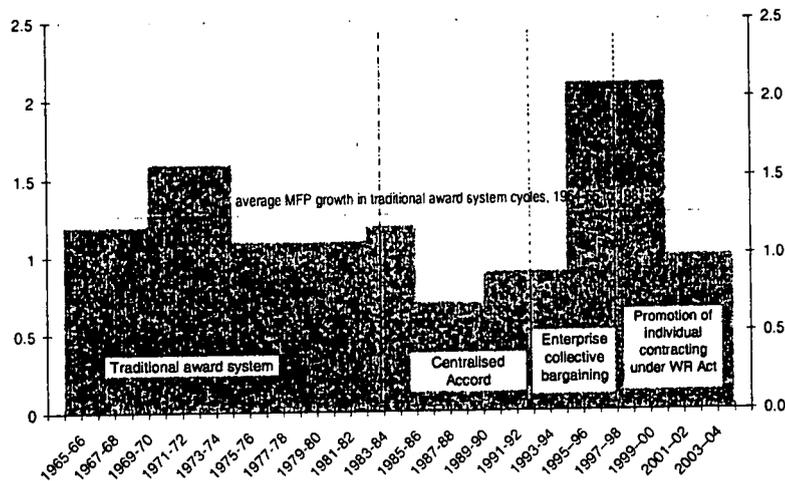
Source: ABS Cat No 5204.0.

The story on 'multi factor productivity' is not much different.<sup>1</sup> It is shown in Figure 3 which, like Figure 2, shows average productivity within the various productivity cycles since 1964-65. Multi-factor productivity averaged 1.3 per cent per annum under the traditional award system. It fell to half that level during the centralised Accord, rose significantly to 2.1 per cent (its highest level) in the cycle that commenced a couple of years after the introduction of collective enterprise bargaining, and halved, to just 1.0 per cent, in the latest cycle that commenced a couple of years after the introduction of the *Workplace Relations Act*. Again, that latest cycle, all of which took place under the *Workplace Relations Act*, exhibited rates of multi-factor productivity

<sup>1</sup> Multi factor productivity (MFP) takes account of the amount of capital as well as labour used in the production of goods and services.

growth that were below the average that applied during the traditional award period.

**Figure 3: Multi-factor Productivity Growth and Wage Fixing Institutions, 1964-65 to 2003-04**



Source: ABS Cat No 5204.0.

In short, rates of productivity growth since the introduction of the *Workplace Relations Act* have been, if anything, inferior to the rates that were achieved under the traditional award system in the 1960s and 1970s. The New Zealand experience suggests that further moves to reduce the safety net under individual contracts are likely to lead to reductions in the rate of growth or productivity.

### The BCA Search for Evidence

The BCA co-funded three large academic studies of Australian workplaces and organisations, amongst other things to look for a positive relationship between productivity and a more individualised labour market. The first project, called *The Transformation of Australian*

*Industrial Relations*, led by Mark Wooden from the National Institute for Labour Studies (NILS), involved analysis of data from the Australian Workplace Industrial Relations Survey (AWIRS). Wooden did not test the relationship between individual contracts and productivity in AWIRS, but he did find a *positive* relationship between unionism and productivity in certain circumstances. In his own words, 'unions apparently are good for productivity, but only at workplaces where unions are active' (Wooden 2000a:173).

Another study partly funded by the BCA was *The Impact of Enterprise and Workplace Focused Industrial Relations on Employee Attitudes and Enterprise Performance*, undertaken at the Melbourne Institute for Applied Economic and Social Research. It involved, amongst other things, a survey of 281 of Australia's largest corporations in which they were asked to rate their own productivity levels against those of their competitors. The results showed no negative relationship between unionism and productivity, but collective bargaining coverage was associated with *higher* levels of self-claimed productivity (Fry, Jarvis & Loundes 2002). This was consistent with other data from AWIRS positively linking collective agreement coverage and productivity improvements (DIR 1995:166, 173).

The BCA's third project was *Simply the Best: Workplaces in Australia*. This project was undertaken in 2001 by Daryll Hull and Vivienne Read from the University of New South Wales. Its purpose was to identify excellent workplaces and 'analyse the basis for their outstanding performance'. It identified fifteen 'key drivers' for excellence but 'working arrangements and representation' (collective or individual arrangements) were not among them – indeed they were 'points of indifference'. The researchers found that high performing workplaces 'had a variety of arrangements, both collective and individual' and that 'both union and non-union workplaces were excellent' (Hull & Read 2001:8).

It is notable that the BCA's campaign to individualise employment relations has relied less and less on evidence as time has progressed. In 1989, when it launched the first stage of its campaign to remake industrial relations, it issued a large 'research' report to back up its policy agenda (BCA 1989) which included substantial research commissioned

from NILS. Evidence in the report did not support the headline claim, that Australian productivity would be increased by 25 per cent if we moved to the BCA's preferred model of industrial relations. Indeed, the data did not support a lot of the policy conclusions (Frenkel & Peetz 1990), but at least on that occasion the BCA presented some empirical evidence. Contrast that with the BCA's February 2005 release of its *Workplace Relations Action Plan*, calling for laws promoting further individualisation of employment relations. This Action Plan did not refer to evidence from the three academic studies from NILS, the Melbourne Institute or the University of New South Wales that it had jointly funded. There had been no 'smoking gun' in the data proving that individual contracts lead to higher productivity, particularly by comparison with collective bargaining. What evidence did it instead rely on?

### **The Mining Case Study**

In its *Action Plan* the BCA presented no substantive evidence, other than a series of observations (a 'case study') on the mining industry, much of which was quoted at the beginning of this paper. This claimed to show that labour productivity growth from 1994 to 2002 was higher than in other industries. There are several things to note about this.

First, there is nothing remarkable about mining having a high rate of productivity growth over the period – for example, labour productivity in the Canadian mining industry also outstripped that in the rest of that economy (Ontario Mining Association 2004). Indeed, in the highly unionised Australian coal industry<sup>2</sup>, labour productivity also grew by 6 per cent per year between 1993 and 2003, the same rate quoted for the mining sector as a whole (Coal Services Pty Ltd & Qld Dept of Natural Resources and Mines 2004, cited in CFMEU 2004:5). So it does not appear that individual contracting has driven labour productivity gains in mining.

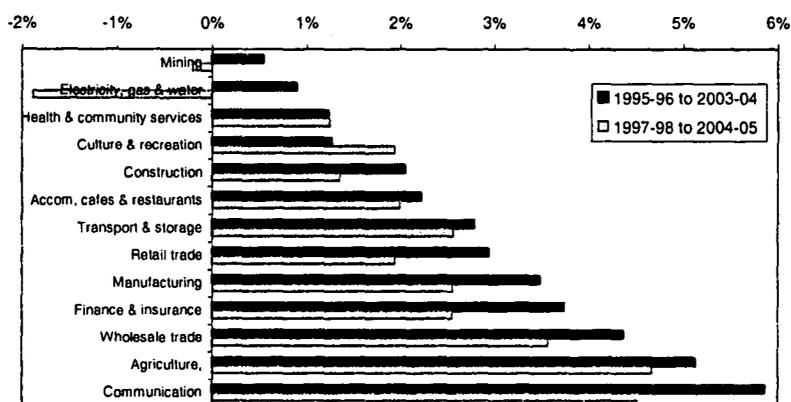
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2 Union density in coal mining in 2003 was 61 per cent, compared to 18 per cent in the rest of the mining sector. ABS Cat No 6310.0.

Second, the story is incomplete because, as the Productivity Commission (PC) pointed out, the mining industry's period of strong *multi-factor* productivity growth was from 1982-83 to 1992-93 (Cobbold & Kulys 2003:21). (Multi-factor productivity measures how efficiently all factors of production, including labour and equipment, are being used.) From 1992-93 to 2001-02, the period of rapid expansion of individual contracts in the mining sector, *multi-factor* productivity growth was 'low' (Cobbold & Kulys 2003:21). The seemingly strong growth in *labour* productivity in mining after 1992-93 was due almost entirely to 'capital deepening' – that is, replacing jobs with machines. 'Labour inputs' (that is, employment) in mining fell by 0.8 per cent a year (Cobbold & Kulys 2003:21).

But third, the BCA was remarkably selective in its choice of years on which to base its claims. In particular, it ignored the most recent data, despite their public availability. These figures present a very different picture. On 10 November 2004 (over three months before the BCA issued its *Action Plan* on 15 February 2005), the ABS released data for the eight years to 2003-04 (ABS Cat No 5204.0). They showed that mining, far from having the highest rate of labour productivity growth of all industries, had the *lowest* rate of productivity growth over the eight years to 2003-04. An update issued by the ABS in November 2005 still showed mining with the second lowest productivity growth over the eight years to 2004-05. The data for these periods are shown graphically in Figure 4. Eight year periods are presented here because that is the length of time used by the BCA, and it is also the period for which the ABS publishes industry data in November. Now, there is no reason to believe that this represents a permanent, terminal state of affairs for the mining industry, and every reason to believe that mining will bounce back to achieve respectable rates of productivity growth in the near future. The point is, however, that even this modicum of evidence supporting the claim that individual contracting leads to great productivity gains has been presented in what could politely be called a misleading manner.

**Figure 4: Average Annual Labour Productivity Growth by Industry, Australia, 1995-96 to 2003-04**



Source: ABS Cat No 5204.0

### The Consultant's Report

The BCA sought to give a more authoritative basis for its latest claims by co-releasing a report it paid private consultancy firm Access Economics to produce. This report, also dated as February 2005, was full of sweeping generalisations about productivity, with only three notable pieces of hard evidence. One chart compared productivity growth between many industries over 1994-2002, claiming to show a 'simple but compelling relationship': that labour productivity was positively related to 'flexibility' (Access Economics 2005:20).

The measure of 'flexibility' the consultant used was the proportion of workers in each industry covered by federal union collective agreements, federal non-union group agreements and AWAs added together. But the largest single component of this was *union collective agreements*. In substance, labour productivity growth was, on average, higher in industries with more union collective agreements!

But policy is not aimed at promoting union collective agreements, it is aimed at discouraging them and promoting AWAs. What, then was the pattern for AWAs? The consultant did not mention that, if you divide the thirteen industries into two groups according to their AWA penetration, based on data from the OEA used by the consultants,<sup>3</sup> a different story emerges. Labour productivity growth in the seven industries with the most AWAs was, on average, 0.2 percentage points *less* than in the six industries with the fewest AWAs for the years in which the consultant had depicted productivity. The margin is the same if you use the more recent productivity data published by the ABS in November 2004, instead of the outdated figures used by the consultant. Using the more accurate measure of registered individual agreement coverage collected by the ABS, there is no correlation between registered individual agreements and productivity growth over the eight years to 2003-04.<sup>4</sup> This should be no surprise, because registered individual agreements represent only a very small proportion (one to two per cent) of employment in the majority of industries.

The adjacent chart in the consultant's report showed that labour productivity growth was lower in industries with a high proportion of workers who were only paid the award rate and nothing more.<sup>5</sup> But that was also hardly surprising – it is low-wage workers who are only paid the award wage, and low wages mean there is little incentive for firms to modernise equipment and replace workers with machines. So one would expect that labour productivity growth would be slower. And when you look at the industries that had the largest award-only coverage – accommodation cafes, restaurants and retailing – it was no surprise that productivity growth was low. There are only so many plates a waitress can carry on one arm.

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3 This is, in effect, the same methodology used by the consultant. Access Economics' estimates of AWA penetration (included in its index of flexibility) was based on data collected by the Office of the Employment Advocate on the number of employees who signed AWAs in the preceding three years. This measure overstates AWA coverage as it includes employees who have left their jobs since signing an AWA.

4 The correlation coefficient:  $r=0.01$ . Data on registered individual agreement from DEWR/OEA 2003.

5 Access Economics 2005: 22, figure 5.

However, even this result was heavily dependent on failing to include, or choosing not to include, up-to-date data. Using the more recent ABS productivity data published three months earlier than the consultant's report would have generated a very different result – instead of there being a 'compelling relationship', there was *no significant relationship* between productivity growth over the eight years to 2003-04 and award-only coverage.<sup>6</sup>

There was one other notable piece of evidence presented by the consultant, a chart showing productivity growth from 1964-65 to 2003-04 that was mentioned earlier and that largely mirrors figures 2 and 3 above. It was evidence that supports, if anything, a return to the arbitration model of the 1960s and 1970s. In its commentary on the chart, the consultant failed to mention the more impressive data on productivity growth during the traditional award period. In noting that the data on the current cycle 'suggest a slowing down' of productivity growth, it commented that 'we need to be alert to signs that the benefits of past reform are beginning to wane' (Access Economics 2005:18), rather than noting that the proclaimed benefits of current reforms may not have been there in the first place.

In short, there was no 'compelling' evidence presented by or on behalf of the BCA to support the claim that individual contracting leads to higher productivity. In fact, there was barely any evidence at all and what evidence was presented was shallow and dependent on either misinterpretation or failure to use current data that had been available for some time. Incidentally, there is no reason to believe that the consultant (or therefore the BCA) was unaware of these more recent data – the

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6 Using 2002 award coverage data (as used by Access economics) and change in labour productivity from ABS Cat No 5204.0, the regression equation is  $\text{productivity growth} = 2.86 - 0.014 \times \text{award coverage}$ , with a correlation coefficient  $r^2 = 0.02$ , significance of equation (by F statistic) and of coefficient on award coverage (by t value) = .633. Using 2004 award coverage produces a similar equation:  $\text{productivity growth} = 2.82 - 0.012 \times \text{award coverage}$ ,  $r^2 = 0.02$ , significance of equation and of coefficient on award coverage = .704.

consultant used data from a table just two pages earlier in the same ABS publication to generate the chart referred to in the preceding paragraph.<sup>7</sup>

### **The Government Weighs In**

For most of the period since the *WorkChoices* campaign started unofficially in May 2005, the government has declined to offer any evidence to support its endlessly repeated claim that its legislative changes would lead to higher productivity. It would occasionally take up the theme of the BCA:

Ladies and Gentlemen it is clear that those industries with the most workplace flexibility also enjoy the highest productivity growth... Conversely, those that remain less flexible, have lower productivity growth. (Andrews 2005a)

Finally, in the Explanatory Memorandum accompanying the Workplace Relations Amendment (Work Choices) Bill 2005, the government presented some evidence. It was a chart which 'shows a reduction in award reliance has had a significant effect on productivity growth' and the presence of a 'strong correlation between productivity growth and the use of agreements in an industry' (Andrews 2005b:5-6). What was the chart? It was simply a variation on the BCA consultant's chart purporting to show award coverage was negatively linked to productivity growth, but with different time periods. It compared award coverage in May 2004 with productivity growth from June 1990 to June 2004. But hold on – how could award coverage in 2004 have determined the rate of productivity growth from 1990 to 2004? It was as if time was travelling backwards for the government. If you are trying to assert that award coverage influence productivity growth, you have to look at productivity growth *after* award coverage is measured. The first available measure of award coverage since the system of enterprise bargaining was introduced

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7 Compare Access Economics 2005:17, Figure 2; ABS Cat No 5204.0, 2003-04:47,49.

was in 2000.<sup>8</sup> It is possible to see how award coverage in 2000 might have shaped productivity growth after then. As we can see in Figure 5, which replicates the chart in the explanatory memorandum but using meaningful periods that do not require causal effects to operate backwards over time, there was a small but *positive* correlation between award coverage in May 2000 and labour productivity growth from 1999-00 to 2004-05.<sup>9</sup> Equally, comparing the *change* in award coverage between May 2000 and May 2004 with the rate of productivity growth also shows a positive correlation.<sup>10</sup> That is, the greater the decline in award coverage, the slower the rate of productivity growth.

Does this mean that increasing award coverage would lead to higher productivity in an industry? No. There are many factors that influence productivity growth patterns within and between industries, and bivariate correlations of the sort used in Figure 5, in the explanatory memorandum and in the BCA consultant's report, with their small numbers of observations, disguise most of those factors. The point is rather that the simplistic evidence that is used to support the government claim that greater individualisation is needed in order to promote productivity growth collapses when it is subject to the slightest interrogation. It relies on carefully selected data periods which make no sense when a causal relationship is posited.

The government added one more chart in its explanatory memorandum – broadly comparable to Figure 2 in this paper – which it suggested 'shows that there are tentative signs of easing in productivity growth...Further reform is required to drive increased agreement making, facilitate greater flexibility and increase productivity' (Andrews 2005b:6). But if the easing of productivity growth reflects something happening in the industrial relations system that must be remedied, what is it? What is the

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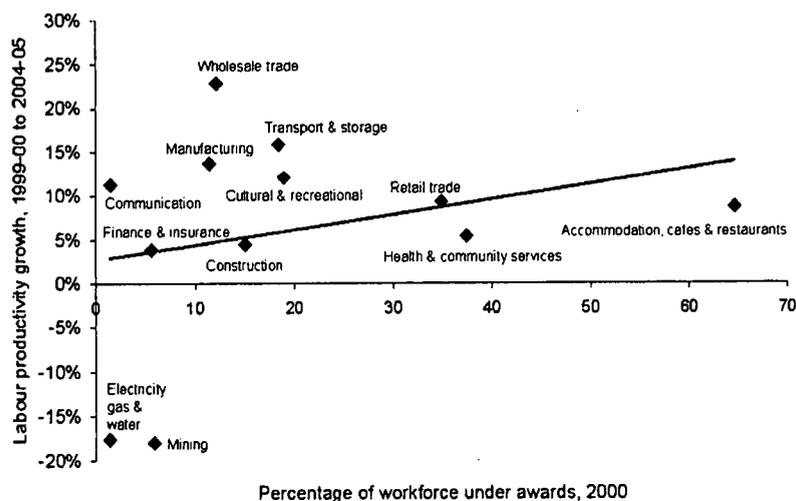
8 This measure of award coverage, from the ABS Employment, Earnings and Hours (EEH) survey (ABS Cat No 6306.0), is not comparable with those published in 1990 or earlier years, as those earlier estimates of award coverage also included employees who, in the EEH survey, would have been classified as being under 'collective agreements' and 'individual arrangements'.

9 The correlation coefficient,  $r^2 = .26$ . If a later period (2000-01 to 2004-05) is used, the correlation is slightly higher, at  $r^2 = .30$ .

10  $r^2 = .20$

special feature of 2004-05, a year when labour productivity fell by 1.3 per cent? The answer is that the rate of AWA registration increased substantially. In 2004-05 over 200,000 AWAs were registered, 41 per cent more than in the previous year and well over double the average rate for the preceding seven years (OEA 2005). Was the faster rate of AWA registration principally responsible for the drop in productivity? Perhaps not (mainly because AWAs still only accounted for less than 4 per cent of employees), but it cuts the ground from under any suggestion that we need more AWAs in order to overcome the latest productivity decline.

**Figure 5: Award reliance by Industry as at May 2000 and Labour Productivity Growth by Industry, 1999-00 to 2004-05**



Source: ABS Cat Nos 5204.0, 6306.0.

### Solving the Skills Shortage?

There is one other way in which individual contracting and industrial relations 'reform' are said to lead to increased productivity: by repairing the current shortage of skilled labour. The argument appears to be that industrial relations 'reforms' will address the skills shortage through encouraging women back into the workforce. For example, according to the Prime Minister, 'the best thing that we can do (to get skilled mothers back to work) is to provide an industrial relations system that gives people the maximum opportunities' (*SMH* 2005).

The purpose of changing the way minimum wages are set (part of the 'WorkChoices' agenda) is to bring them more in line with government policy. The AIRC has consistently awarded higher wage increases than the government recommended, so clearly the intended result of 'reform' will be lower minimum wages than would otherwise have been the case. The promotion of individual contracts (such as Australian Workplace Agreements) will also lead to lower wages, particularly for women (Dannin 1997; Mitchell & Fetter 2003; Oxenbridge 1999; Plowman & Preston 2005; Rasmussen & Deeks 1997; Todd & Eveline 2004; Van Barneveld 2004).

What impact will lower wages have on the skills shortage? Lower wages mean fewer people will want to enter the labour market. As AWAs have an especially negative impact on women's wages, it will mean that women in particular will not think it worthwhile getting a job when the wages are so low. In short, it will make labour shortages worse.

It could be argued, however, that individual contracts will create more flexibility in working hours, and that this will bring more women into the labour market. Individual contracts increase flexibility in how employers pay for working hours. They focus on reducing or abolishing overtime pay, increasing the standard hours in a week and reducing or abolishing penalty rates for working at nights or on weekends (Cole, Callus & Van Barneveld 2001; Mitchell & Fetter 2003; Rasmussen & Deeks 1997). This increases flexibility for the employer, but not for the employee. AWAs mainly use flexibility in hours to achieve cost reductions for the employer. As one worker on an AWA said on national television :

we have to be available seven days a week, at any time that they choose to roster us. So in that way, being a single mum, I would much prefer to have certain set days so that I could plan things that I needed to do with my children. (ABC 2004)

The problem is not just the impact on people's willingness to enter the labour market. It also concerns the provision of training. British evidence indicates that workers not covered by a union collective agreement, workers on temporary or fixed-term employment contracts and part-time workers are less likely to receive training than other workers (Arulampalam & Booth 1998). In Australia, training is less likely to be associated with AWAs than with collective agreements: training provisions appeared in agreements covering 86 per cent of workers under certified agreements, but only 34 per cent of AWAs (DEWR/OEA 2003). Another British survey concluded 'that "low road" practices – the use of short-term and temporary contracts, a lack of employer commitment to job security, low levels of training and so on – are *negatively* correlated with innovation' (Michie & Sheehan 2003). We can think about two broad strategies of employers towards raising profits – a 'high road' based on productivity enhancement through innovation, training and skills development, and a 'low road' based on tighter managerial control and labour cost competition through reducing penalty rates, overtime pay and other components of labour costs, with productivity gain mainly achieved through work intensification (which cannot be continued indefinitely) (Curtain & Mathews 1990; Mitchell & Fetter 2003). To the extent that individual contracting depresses union membership, reduces wages and job security and increases the use of 'flexible' forms of labour, skills development is likely to be retarded and skills shortages exacerbated. It is more consistent with a 'low road' approach to profitability (Mitchell & Fetter 2003).

In short, there is little evidence that AWAs are going to help skills shortages. If anything, they would worsen them.

## Productivity or Profits?

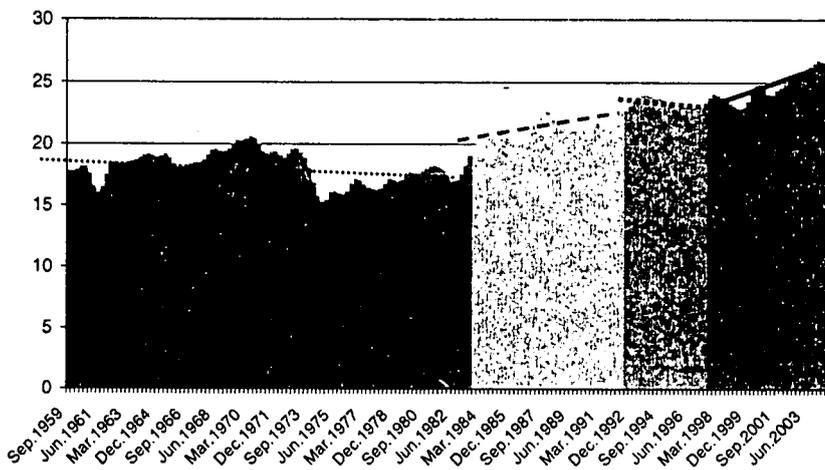
Productivity can rise under individual contracting, but it can also rise under collective bargaining. And it can fall, or slow down, under individual contracting or collective bargaining too. There is no inherent relationship between the form of coverage and growth of productivity. Really, other factors are more important in driving productivity - collective bargaining at the enterprise level can be a catalyst for change, but it is neither always necessary, nor sufficient, to improve competitiveness (Rimmer & Watts 1994:75-6). The same can be said for individual contracting.

If individual contracting does not inherently promote productivity, why do corporations and their representatives so keenly argue for it? The answer is simple. *Productivity* is not what corporations seek - it is *profitability* that they seek. Profits can be raised by increasing productivity (including by reducing the number of staff employed, while maintaining output) but they can also be raised by cutting costs, that is by cutting what workers are paid. This is often dressed up as productivity - for example, corporations may claim that not having to pay penalty rates for night or weekend work increases labour productivity in the hospitality industry. But it does not. There is no gain in the number of meals served per restaurant employee by abolishing their penalty rates. All that happens in that situation is that the wage cost per meal has gone down, and profits go up (and restaurant workers' incomes go down), even though productivity is unchanged. Changes in the payment of penalty rates or overtime rates (often through their abolition) are common in registered individual contracts (Rasmussen & Deeks 1997:283-4; Cole et al 2001; Mitchell & Fetter 2003).

In 2004, the profit share of national income was at its highest level since the ABS started publishing a consistent series on the profit share in 1959 (ABS Cat No 5206.0). Figure 6 shows the ABS 'trend' share of profits in national income since 1959. It also shows four lines representing linear trends in the level of profits, based on ordinary least squares (OLS) regression equations, over four key periods - the operation of the traditional award system, the centralised accord, enterprise collective bargaining, and the promotion of individual contracting under the WR

Act.<sup>11</sup> These are 'lines of best fit'. They show that, in linear trend terms, the profit share was relatively flat during the period of the traditional award system, there being a slight downward slope due to the wages explosion of the early 1970s which was gradually wound back through the 1970s and early 1980s. Next, the centralised Accord saw a notable trend towards an increasing share of national income going to profits.

**Figure 6: Profit Share of Total Factor Income Trend, 1959-2004**



Source: ABS Cat No 5206.0.

This was then halted with the shift to collective enterprise bargaining through the early to mid 1990s, during which time there was a small trend reduction in the profit share as workers recovered some of the real wages that had been lost during the centralised accord. Since the passage of the *WR Act*, however, there has been a marked and continuing increase in the profit share. The rate at which the profit share is increasing (as

11 It is the slopes of these 'lines of best fit' that matter, not their intercepts. Apparent 'jumps' in lines from one period to the next are of no moment, but differences in the slopes of the lines matter.

measured by the slope of the OLS trend line) is twice that under the accord. The increasing share going to profits reflects the changed institutional arrangements in the labour market, including the promotion of individual contracting and tighter constraints on union collective bargaining, that have weakened the bargaining power of employees, particularly in occupations outside the managerial/professional groupings, enabling employers to obtain greater profits.

This growth in profits has not delivered any greater reduction in unemployment than was already under way, however. The rate at which unemployment falls has been no greater during the seven years of the *Act* (0.4 per cent per annum) than during the five years of collective enterprise bargaining (0.5 percent per annum). Indeed unemployment, presently at 5.1 per cent, is above the average that prevailed during the 1960s and early 1970s of around 2 per cent, despite the much lower profit share then (ABS Cat No 6202.0).

### Conclusion

The assertions that individual contracting is necessary to promote higher productivity growth are mere hollow shells, with nothing of substance inside them. There is no evidence to support these claims. Rather, the available evidence indicates that there is no positive relationship between individual contracting and productivity, despite the numerous anecdotal stories to the contrary. While the 'success stories' receive much publicity, for each success it seems there is an untold 'failure story', of individual contracting leading to lower productivity growth than would have occurred under collective bargaining. Workplace data show no gains in terms of productivity for individual contracting over union collective bargaining. In fact they suggest that, if anything, the reverse is the case. National productivity data show no sustained productivity benefits from the promotion of individual contracting under the *Workplace Relations Act 1996*. The initial seemingly high rates of productivity growth that were seen in the 1990s owed more to the system of enterprise collective bargaining – and to the product market reforms of the 1980s and early 1990s – than they did to the *Workplace Relations Act*. As the *Workplace Relations Act* has settled in, productivity growth

has slowed, to the point where it now appears to be below the rate that applied under the traditional award system in the 1960s and 1970s. This is not surprising in light of the New Zealand experience. While productivity is not systematically influenced by individual contracting, the same cannot be said for profits. Promoting individual contracting may not do anything new to reduce unemployment but it appears likely to accentuate the trend in recent years towards record profit shares.

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The Senate resolved on 12 October 2005, that the *WorkChoices* Bill would be referred to the Senate Employment, Workplace Relations and Education Legislation Committee for inquiry and report by the 22 November 2005. Among the submissions was one by 151 I.R. academics which argued that the changes would:

- increase the complexity of Australia's I.R. system;
- advantage employer through the individualisation of bargaining and the restriction of union activity and ability to unionize;
- increase the scope for unilateral exercise of managerial power;
- lower minimum standards of employment;
- create deeper economic and social inequality in Australia with associated social exclusion, intergenerational disadvantage, violence and health effects;
- increase unfairness through the removal of effective arbitral powers;
- create adverse affects on families and carers; and that
- there was a lack of supporting evidence for the *WorkChoices* Bill.

See

[www.aph.gov.au/Senate/committee/eet\\_ctte/wr\\_workchoices05/submissions/sub175.pdf](http://www.aph.gov.au/Senate/committee/eet_ctte/wr_workchoices05/submissions/sub175.pdf)