

**Senator Andrew Murray**  
**Australian Democrats<sup>1</sup> Workplace Relations Spokesperson**

**Australian Fabians: WA Fabian Society**  
Maylands Sports & Recreation Club Perth

***Between a Rock and A Hard Place: Balancing global competitiveness with erosion of rights and living standards***

Friday 23<sup>rd</sup> September 2005 19h00

Check against Delivery

I am pleased to have been asked to speak to the WA Fabian Society this evening on the theme *Between a Rock and A Hard Place: Balancing global competitiveness with erosion of rights and living standards*.

You have asked me to give an overview of the Federal Government's proposed IR changes, and also to consider: if the proposed changes to the 1996 Act are really necessary; the importance of balancing employee and employer rights; if any loss of global competitiveness and higher unemployment will result if IR changes do not occur; and should tax reform be undertaken in conjunction with further IR reform?

I stand before you as currently the longest serving IR spokesperson in the country.

I also stand before you not only as the man who has negotiated the passage of 12 of the Howard Governments 18 Workplace Relations Act laws, including the big one of 1996, but as the man who has stood between the Coalition and the fulfillment of their complete IR agenda.

At the 2004 election the people of Australia, particularly of Queensland, took that balance of power role from me and the Democrats.

For nearly a decade of Coalition rule, the Democrats have held the balance of power in the Senate.

The Democrats have successfully tempered the ideological extremes of both Labor and Liberal by knocking off the rougher edges of legislation and in doing so have helped keep industrial relations reform on an even keel.

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<sup>1</sup> Senator Murray is the national spokesperson for the Australian Democrats on: Accountability; Electoral Matters; Taxation, Finance & Corporate Affairs; Workplace Relations. Also see [www.andrewmurray.org.au](http://www.andrewmurray.org.au).

I use the term ideology deliberately, as it stems from belief. Belief is not always a rational way to proceed when dealing with society and the economy.

We have tried hard to hold true to a simple and principled position, a position that is complex and difficult to achieve.

Namely, the Democrats support a workplace relations system that provides for the orderly regulation of employment practices in a way that maximises and balances productivity, competition, jobs growth and job security while ensuring fair and just pay and conditions and treatment.

It was this principle that we took to the table in negotiating the 1996 IR reforms and the reason why we made 176 amendments to the legislation, to ensure a fairer balance between employees and employers.

In their recent full page advertisements, the Government draw a comparison with their 2005 plan with their 1996 proposals. They say the strong concerns expressed then were unfounded and that '*Australians clearly benefited with more jobs, higher wages and a stronger economy.*' In John Howard's words, 'the sky did not fall in.'

The sky did not fall in because of us. The reason the 1996 reforms worked is because of the Australian Democrats.

Our 176 amendments ripped the ideology out of that 1996 package, and made the law socially acceptable while keeping it economically effective.

We have continued that role over 9 years, passing sensible law changes, often after moderating the original aggressive proposals.

As a result I think the Democrats can rightly claim to have played a key part in ensuring that federal workplace relations law has made a major positive contribution to Australia's economy and importantly Australia's society.

Australia now has lower unemployment, low interest rates, higher productivity, higher real wages and very significantly lower levels of industrial disputation than in the past.

I fear that the long period of stability and overall good results in industrial relations will end once the Government puts through its politically-driven raft of reforms.

The Liberals think the fight is between them and the unions, who they wrongly think of as just an extension of Labor.

They risk however making it a fight between the Government and the people.

The complex legal route they appear to be taking also means it could end up as a battle between the Government, the states and the courts, with their hopes resting (in Tim Fischer's immortal phrase) on their 'Capital C conservative High Court judges'.

Those judges might well disappoint them.

So if there is a lot of social political legal and economic angst in store for us, are the proposed changes to the 1996 Act really necessary?

The 1996 second-wave reforms were built on the back of the 1993 first-wave Keating reforms, and introduced much needed flexibility and enterprise bargaining.

It must be remembered that the sweeping 1993 and 1996 IR reforms occurred at a time when the economy needed picking up. We then had high unemployment, low productivity, high inflation, and high interest rates.

This is not the case now, the economy is doing well. Can we afford to risk that by unsettling a Federal system that is working well?

Mr Howard rests all his claims on the assertion of economic benefits. Has the economic case for change been made?

The Government has completely failed to provide a credible economic case for the changes.

In contrast to the GST where you had huge documents, graphs, tables, cameos, and substantive arguments offered to justify their case, in this case we've got a seven-page announcement in May and the Prime Minister and various other ministers popping up every now and again to beat out bushfires.

Where is the modeling? Where are the cameos, graphs and tables? Where is the empirical evidence that radical change is needed?

Our economy has low unemployment. We have low inflation. We have good growth. We have low disputation. The economic contract is supported by social acceptance.

I know about the *assertions* but tell me what *evidence* the Government has produced to justify radical change to the federal system?

Our IR system is making a great contribution to the way in which the country is performing. In contrast, the GST was needed to address a declining and deteriorating state and federal financial system.

The only item of reform that the Coalition have even tried to make an economic link for is the exemption of business with less than 100 employees from unfair dismissal claims.

Even this argument is fatally flawed.

We have over 10 million employed, 1.6 million jobs have been created this decade, and there are only 15 000 unfair dismissal applications under the state and federal unfair dismissal regimes.

Those 15 000 would reduce by a third if lax state systems were replaced by the tight federal system.

The most comprehensive research undertaken to date by Senior Lecturer Paul Oslington and PhD student Benoit Freyens at the University of NSW School of Business found that ending unfair dismissal laws for employers with fewer than 100 employees would create only 6,000 jobs, not the 77,000 claimed by the Howard Government.

Don't take my comments to mean that the Democrats are opposed to *any* IR reform.

We are not; so long as it is moderate steady considered and fair, and so long as it delivers productivity efficiency and competitive gains that accord with the values and goals of a civilised first-world society.

I think the only big-ticket economic reform left that can deliver significant productivity and efficiency gains is a unitary system.

Both within my party and without, in private meetings and public, for over nine years I have criss-crossed Australia arguing that we must have a unitary IR system in the national interest.

We believe that Australia needs one industrial relations system and not six. We need common human rights across Australia. We need easily administered and understood rules and laws that support efficient, competitive and productive enterprise.

We do not need forum shopping, harrowing inconsistency and complexity between and within systems across state borders, or two regimes in just the one workplace.

However to be successfully bedded down, a national system needs to be consistent and continuous with the past. Based on Victoria's attitudes and experience under one system since 1997, I strongly assert that the present federal law can win through as the national system.

Change the present federal law substantially and I am far less sure.

And which is the greater prize? A federal system well accepted now, and therefore (even if imposed) more likely to be accepted by the states as the unitary system, or an aggressively new federal system dictated by ancient ideological passions, which might therefore be rejected or overturned in time?

Why risk the bigger prize just to satisfy Coalition triumphalism and hubris?

The remaining intended major workplace relations reform may indeed have more of a political than an economic motivation – change promoted more because of ideology and beliefs than necessity.

The Government has argued that the IR changes are necessary to ensure future competitiveness. Will a loss of global competitiveness and higher unemployment be the result if IR changes do not occur?

These questions are always difficult to answer, mainly because of the difficulty of isolating the nature of change and what drives what.

Global competitiveness is a difficult concept to measure. Globalisation is not new. It has always been with us.

Australia is doing quite well thank you. In last years Global Competitiveness Report Australia was ranked 14<sup>th</sup> of 104 countries.

In terms of competitiveness Australia has one of the lowest Government debts in the OECD; compared to other countries we have a relatively low unemployment rate, low interest rates, and low inflation.

It is worth mentioning that countries who ranked better than Australia on the Global competitiveness index like Norway, Finland, Denmark, and the Netherlands have relatively higher regulated labor markets and better work and family provisions than Australia and yet remain globally competitive.

More regulated IR regimes in Scandinavia have lower long term unemployment, and higher wealth per capita than we do.

It is very unwise for the Coalition to point to Germany as symbolic of a European disease when other Europeans make a different case.

The New Zealand experience is often mentioned by the Government.

In 1991 the NZ National Government at the time radically deregulated the industrial relations system, introducing the Employment Contracts Act. Although some of these reforms produced the desired outcome, it is now clear that the reforms did not produce the results hoped for by their advocates.

According to analysts the rapid economic growth of the early 1990s proved to be little more than a cyclical recovery from the 1989–1991 recession, and the renewed onset of recession in 1998 showed that the reforms had not, as some had hoped, eliminated the ‘stop-go’ cycle of boom and bust.

A paper by a New Zealand economist, Paul Dalziel, published in the Review of Political Economy, says productivity and wages fell after New Zealand began pushing individual contracts in 1991 with the Employment Contracts Act.

His study found the New Zealand economy lost almost two full points of gross domestic productivity growth between 1987 and 1998, while from 1990 to 1998 Australian productivity rose by 21.9 per cent compared with just 5.2 per cent in New Zealand.

Australia went through a period of dramatic reform. Contemporary observers give little credit to the part played by the Australian Senate in ensuring balanced progressive reforms. This period when Australia outstripped NZ, a time, perversely, when the Liberal Party lovingly lauded the NZ agenda.

The saving grace for Australia was the Senate, which prevented the most extreme of the economic rationalists going completely mad. Would we have had the same productivity gains and sustainable growth without the Senate moderating gung-ho Governments?

We'll never know, but I doubt it.

Wages in NZ also flat lined during the 1990's. The state-set minimum wage moved 14 per cent while inflation rose 18 per cent. New Zealand's poor aggregate performance was accompanied by growing inequality in earnings and a more regressive tax system.

In 2000 the newly elected NZ Labour Government rolled back some of the National Government reforms, replacing the Employment Contractors Act with the new Employment Relations Act 2000, which placed greater emphasis on good faith bargaining; a concept the Democrats strongly support.

Since the rollback New Zealand's unemployment rate has continued to fall, despite concerns from critics about the rollback, and for most of 2004 was under 4%.

On to the third question: Is economic reform more important than social cohesion and is it important that we balance employee and employer rights?

Here we are addressing what political economists refer to as the social contract.

Unless an economy is genuinely in dire straits and needs radical surgery, economic reform is not more important than social cohesion. Both are important.

Academics have long argued that the preservation of social capital is crucial to economic and social success in the long run.

It is important that we balance employee and employer rights. If employers have all the power then what we would see in many cases is a race to the bottom where wages will be driven down, people will be forced to work longer for less and job security will be non-existent. The social contract would move from cooperation to opposition and conflict.

Employment, wages and working conditions directly affect the standard of living and quality of life of individuals and their families. Thus, while it is important that labour market arrangements foster the efficient use of labour and promote participation in the workforce, they also need to recognise that labour is a distinctive 'input' to production, and that wider social objectives and relationships are involved — including the relationships between work, leisure and family, providing safe workplaces and the role of workers in society at large..

The mark of a civilized successful first world liberal democracy is surely not just high living standards and equitably shared wealth, but an egalitarian society that respects and protects the working poor, and the disadvantaged, and that has advanced working conditions.

Our nation is our people. It is our *people* that count, so the social perspective is the one that really counts - reform that accords with Australian values and has broad community support.

The social perspective suggests that reform that is not seen to produce a 'fair go' and a fair and productive outcome will simply be unwound in time, as we have seen in New Zealand.

I would caution the hard-edged union bashers in business and politics to be aware that the union movement as a whole (rather than some of its extreme members), is very much part of the Australian social fabric.

I previously outlined where Australia stands on some economic indicators. If we look more broadly and take into account social factors, Australia outperforms the majority of countries, including the US and New Zealand.

On the Economists world wide quality of life index, which included measures of job security, gender equality, and family relations, Australia is ranked 5<sup>th</sup> out of 111 countries compared to the US which is ranked 13<sup>th</sup> and New Zealand which is ranked 15<sup>th</sup>.

I believe the more radical components of the Governments IR reform will threaten our standing on measures such as quality of life index. And for this cost, what is the measurable benefit? They have not produced evidence to back their assertions, yet they seek to risk our strong economy and our social cohesion.

Plans to reduce the real minimum wage, unfairly dismiss employees, reduce standard benefits, take away the safety net, trade-in annual leave, will result in less job security.

The Question that should be asked is why erode employee protection and conditions when our economy is relatively strong and when other areas in our economy can be targeted? This brings me to my final point for tonight.

My concern is that the Government is using IR reform to address problems that could be more effectively dealt with by other means.

The 2004 world competitiveness report referred to earlier showed that Australia was well behind on education, training and R&D investment. Employers find skilled labour harder and harder to find. We are a poor high technology exporter and we spend relatively little on R&D.

In February this year in their report on national competition the Productivity Commission argued that further IR reforms will not deliver any significant national

improvements - that efficiencies and productivity increases are better sought in education improvements and reforms to the health system - and in other changes.

Tax reform is another key area. For example the focus on changing the decision makers of the minimum wage award from the AIRC to the Low Pay Commission is a diversion from the real problems.

The Treasurer and the Minister for Workplace Relations have argued that increases in minimum wage puts pressure on wages and therefore interest rates.

Interest rate increases are caused by a combination of issues and wages are not the main culprit.

For instance in some industries the building pressure for wage rises is largely a result of a skills shortage which the Government has not effectively addressed.

Secondly, the Government's tax concessions have created an investment driven housing boom and has massively increased personal debt, consumer spending and asset price inflation.

Here is a major cause of interest rate rises.

Both the Productivity Commission and the Reserve Bank have said that tax incentives for property investment should be reviewed. Despite this advice, the Government remains committed to the overly generous tax system including negative gearing and the capital gains tax concessions.

The issue of the minimum wage is not that it contributes to inflation or higher interest rates; it is that it is a very ineffective way of producing significant increases in the disposable income of the lower-paid.

For an employer a wage increase is compounded by higher payroll taxes, superannuation, worker's compensation and other on-costs.

For the employee, for every dollar increase in wages, low-income workers can lose 70 cents in welfare benefits.

What is needed is reform of the tax and welfare system.

The Democrats have been advocating tax reform for low and middle income earners for years. It is pleasing to see members of the Liberal and Labor parties catching up.

It is ridiculous that people earning as little as the minimum subsistence level of \$12 500 a year are paying income tax on half their wages. Australia needs a much higher tax-free threshold.

Increasing the tax-free threshold would take the pressure off the AIRC as having the sole responsibility of increasing the disposable income of the working poor.



The Democrats support the idea of a unitary IR system based on the current system, and importantly, a new national workplace regulator. It is a major failing that in contrast to tax, competition, consumers and the financial markets – we do not have one for workplace relations.

These two changes alone would produce an intense rationalization and simplification in Australia's IR system. Better practice, productivity and efficiency are likely.

We do not however believe that further radical change to the current federal workplace relations system is necessary or wise.

Preferring the high-cost hard-access court system and reducing the role of the Australian Industrial Relations Commission is unwise. So too is trying to sideline the role of unions in protecting the rights of workers and fighting for their needs.

From a political and social perspective a civilised first-world progressive democracy works best with checks and balances.

The Commission and the Unions are a valued part of that mix. These two institutions are an essential part of Australia's socially progressive society.

The system is not crook.

It needs moderate steady continuous reform, not big bang ideology.

Efficiency and productivity, moderated by a fair go, should be the mantra. Aggressive law change that is perceived to be driven by union-hatred will be unproductive and produce a backlash.

(3227 words)