

IR Reforms Will Reshape Our Society

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Australia's industrial relations system. Opinion piece by Dr Chris Briggs, University of Sydney. Canberra Times, Monday 6 June 2005.

For decades, one of the distinctive aspects of Australian society was its commitment to a 'fair go' for all employees - reflected in widespread support for an independent body, the IR Commission, to set minimum wages and employment conditions.

The Prime Minister, John Howard, announced major reforms to our IR system last week to a torrent of media comment - but the debate is so technical most people are probably still unsure what it means and how it will affect them.

The existing system works like this. Most occupations have a minimum wage and basic employment standards set out in a legal document called an 'award'. The IR commission updates the minimum award wage annually for employees who have no bargaining power.

For the rest, their wages and conditions are set through a workplace agreement with their employer which must meet the 'no-disadvantage test' - overall employees cannot be worse off than they would be under the award. So awards act as a 'safety net', especially for employees in non-union workplaces.

John Howard says his latest reforms retain awards and the IR commission, modernising our employment system without disadvantaging employees - but the reality is the reform package will set in motion changes which will signal the death of the award safety net.

The big change is the replacement of awards as the benchmark for workplace agreements with just 5 legislated minimums. From now on, any agreement only has to contain the minimum wage, some leave entitlements (personal, parental, annual) and maximum ordinary working hours (how many is unspecified at this stage).

See what this means? Any employer can now opt out of the award safety net if they get their employees to sign a workplace agreement.

Common award conditions which could now be stripped out include overtime rates, shift penalties, casual loadings, leave loadings, on-call allowances, payments for dangerous work, redundancy pay, long service leave, study leave and lunch/tea breaks.

Around one-fifth of employees are totally dependent on the award safety net. They are there because they have no bargaining power to do better and their employers have decided the administrative costs of making an agreement outweigh the benefits. That will now change.

These award-only employees are mostly in retail, hospitality and health/community services – usually casual, mostly women, often students. Awards will quickly wither away here.

Employers can offer Australian Workplace Agreements (AWAs) to their employees individually on a ‘take-it-or-leave-it’ basis when they start a new job, change jobs within the organisation or even lock-out their employees without pay until they sign the AWA. These ‘AWA lockouts’ are already on the rise.

Once one employer gets a competitive jump by taking advantage of the cost savings on offer from removing weekend penalties and the like, others will have to follow suit if they are to survive in the marketplace.

Awards will still exist, as John Howard says, but over time there will be virtually no-body actually covered by them.

Employment conditions for a further 50 per cent or so of employees are primarily or partly determined by awards (though many wouldn’t know this). The impact here will take some time and vary according to whether your skills are in surplus or shortage.

Up-market, and in areas where skills are in shortage, not much will change.

But there will be downward pressure on wages and conditions where there is surplus labour and low bargaining power. The impact will probably be sharpest in the bush and accelerate the drift of young people to the cities looking for better jobs.

As for the IR commission, it will now lose its most significant role, minimum wage-setting role, to a new tribunal.

Modeled on the UK’s Low-Pay Commission, the Federal Government is establishing a new ‘panel of experts’ such as academic economists to set the minimum wage (though the Government’s version will be called the ‘Fair Pay Commission!').

The motive behind setting up a new bureaucracy is transparent. The Government has repeatedly attacked the IR Commission, claiming it has increased the minimum wage too much, and is setting up a more like-minded body to slow increases for the low-paid.

Will these reforms create jobs and inject the required workers back into the labour market as our population ages? Unlikely.

Many academic economists believe minimum wage increases cost jobs as an article of faith.

However, the UK Low-Pay Commission recently concluded (like our IR Commission):

‘All the signs are that the minimum wage can be increased without producing damaging economic effects.’ The OECD in its most recent ‘Employment Outlook’ Report also noted that most studies of real-world ‘micro-data’ reached the same conclusion.

Nor is removing the award safety net going to solve labour or skill shortages. It’s not going to produce more blue-collar trades, stem the exodus of health professionals or encourage women with children back into the workforce – the richest untapped source of skilled labour.

Women with children face the crippling loss of 60 to 80 cents in every dollar they’re paid when they re-enter work as family payments are withdrawn (more once you factor in the cost of childcare) so it’s hardly surprising their labour market participation is low. Removing the safety net for part-time jobs which might act as a bridge back into employment is hardly going to encourage them into work.

But these reforms will profoundly reshape Australian society. This is US-style de-regulation. Life is going to get a lot tougher for those in the bottom and middle reaches of the labour market. Its impact will go beyond the workplace though, changing the Australian way of life and shaking one of our proudest boasts – that everyone here gets a ‘fair go’.

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