

# Individual contracts and labour productivity



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As predicted here in January, the push for industrial relations reform is gathering pace. Government members and business leaders are already out spruiking the case for a single national IR system, and there are solid arguments for it: cost, removal of duplication and greater consistency, to name but three. Despite the controversy surrounding states rights aspects of the proposal, it can hardly be disputed that this is the sort of big picture policy debate economists have been calling for. Its goal — a more efficient and productive Australian economy — can hardly be challenged.

But there are other worrying aspects too. There is a tendency to assume that all the other suggested changes will automatically boost our productivity. A case in point is individual contracts. In all the commentary about the need for them, there is an almost total absence of persuasive evidence to say *why* they will produce the desired outcome. This is especially alarming when the hyperbole is so obvious. Peter Costello, for example, says individual contracts are 'a lifetime productivity opportunity'.

Before we all get too excited, we should take a look across the Tasman. In the early 1990s, New Zealand did exactly what our government is now proposing. The *Employment Contracts Act 1991* brought in a system of employment regulation based firmly on individual contracts. It saw employment relationships as no different from any other commercial contracts. Unions were relegated to a minor role. Courts of limited jurisdiction replaced industrial tribunals and handled workplace claims as mere contractual disputes. Business and the conservative side of politics held out great hopes for these changes. They said they would revolutionise New Zealand's labour productivity.

In Australia, both the Keating and Howard governments pursued better productivity throughout the last decade. The *Industrial Relations Reform Act 1993* and the *Workplace Relations Act 1996* made notable deregulatory changes to labour laws. Overall, these changes were important but less radical than the Howard government and its business constituency would have liked. They fell short of the 'big bang' New Zealand approach that in one giant step took the Kiwis straight to individual agreements and a fully deregulated labour market. Throughout this period, there were persistent calls for even more deregulation in Australia. We had not gone far enough, it was claimed; we should look at what others, like New Zealand, were doing. These became perennial catchcries. So much so that Senate obstruction of further IR changes was repeatedly invoked as a regrettable brake on our productivity growth.

This has continued to the present day. Proposals for more IR reform again featured heavily in our recent election campaign. With control of both chambers soon to become a reality, the gov-

ernment has talked up individual contracts and more IR deregulation as the answer to numerous economic problems, through improved labour productivity. This mantra threatens to become indisputable 'truth'. But is it? Not if New Zealand's experience is anything to go by. Far from being an impediment to better labour productivity, there is evidence that Australia's more gradual deregulation has actually driven far better outcomes. The Senate's softening of the government's agenda may actually have done Australia a favour.

When New Zealand's great IR adventure began in 1991, its Treasury measured national labour productivity at around 5 per cent better than Australia's [see table]. After just four years of full deregulation they had already fallen behind us. Over the next five years they dropped further and further astern. By the time the *Employment Contracts Act* was repealed in 2000 in favour of a more inclusive IR model, New Zealand's labour productivity was more than 8 per cent behind Australia's — a 13 per cent turnaround in just nine years. Under the system proposed then and now by the champions of total deregulation, New Zealand boosted labour productivity in the 1990s by less than 15 per cent. In the same period, Australia's performance was up by 30 per cent, despite constant business carping about our industrial relations system.

## Australia/New Zealand Productivity Series — Labour productivity 1988–2000

Year [March]	Australia	New Zealand
1988	1.0000	1.0000
1989	1.0276	1.0825
1990	1.0552	1.1119
1991	1.0524	1.1048
1992	1.0772	1.1391
1993	1.2227	1.1332
1994	1.1366	1.1551
1995	1.1669	1.1369
1996	1.1724	1.1440
1997	1.2193	1.1810
1998	1.2593	1.2069
1999	1.3131	1.1975
2000	1.3641	1.2652

New Zealand Treasury 03/06 *Productivity in Australia and NZ 1988–2000*; Table 7

Everybody — government, industry and workers — should want the best labour productivity Australia can get. It is in all our interests. But simply throwing workers to the wolves of individual bargaining and total deregulation is no sure-fire route to that outcome. It had exactly the opposite effect in New Zealand. We should be careful not to make the same mistake here. At the same time, Australia could profitably look at its commitment to education, training and skills formation as far more fertile productivity soil. And we might all remember that job growth the government is understandably proud of has taken place under the system of labour regulation they now deride. ■

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