

Ai GROUP

Initial Submission
to the
2022-23 Productivity Commission Inquiry
into
Australia's Productivity Performance

23 MARCH 2022

Ai
GROUP

About Australian Industry Group

The Australian Industry Group (Ai Group®) is a peak national employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for nearly 150 years.

Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Our vision is for *thriving industries and a prosperous community*. We offer our membership high quality services, strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

Australian Industry Group contact for this submission

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Executive summary

Ai Group welcomes the opportunity to contribute to this inquiry. Our objectives in making this initial submission are to firstly provide some comments on the *Call for Submissions* and the terms of reference and then to highlight the areas we regard as central to improving Australia's productivity performance and, in particular, to put the case for including two of the listed areas that might not otherwise be included.

The areas we identify are:

- Workplace relations including in promoting greater diversity and inclusion in workplaces.
- Skills, education and training.
- Best practice regulation.
- Industry policy.
- Energy and climate policy
- Taxation.
- The federation.

We will explore these areas more fully in our main submission in September.

1. *Call for Submissions and the terms of reference*

In this section we comment on the underpinnings of strong productivity growth as set out in the Productivity Commission's *Call for Submissions* and on a few specific areas in the terms of reference for the inquiry.

The *Call for Submissions* (p.2) identified the following factors as the underpinnings of strong productivity growth:

- *an openness and access to leading technologies, business innovation and data use;*
- *the skills, capability and culture to take up new technology and data, and a workforce and businesses that explore, innovate and adapt;*
- *markets that facilitate resources (labour and capital) moving in a timely way to higher value uses; and*
- *institutions (public and private) and regulatory frameworks that support these features, and are efficient and effective in their contribution to improving Australians' wellbeing.*

Ai Group agrees these are the critical underpinnings while noting the importance of a wide interpretation of the final underpinning listed above so that consideration of the following is included:

- In a mixed economy such as Australia's the conduct and cultures of public sector agencies and the degree to which they explore, innovate and adapt is an important underpinning of productivity growth; and
- Generally markets have a small role in facilitating the efficient and timely reallocation of resources within and between public sector agencies and between levels of government so that the non-market arrangements that bear on resource allocation in the public sector also warrant attention.

We have some initial comments on the numbered items 1, 2 and 3 in the terms of reference.

1. *Analyse Australia's productivity performance in both the market and non-market sectors, including an assessment of the settings for productive investment in human and physical capital and how they can be improved to lift productivity.*

We strongly support the dual focus on the public and private sectors. The public sector is large and its own productivity performance weighs on national performance. Further, the way it operates is often critical to the productivity performance of the private sector.

2. *Identify forces shaping Australia's productivity challenge as a result of the COVID-19 pandemic and policy response.*

The COVID-19 experience is having significant impacts on work patterns. To a large extent, these changes have accelerated and broadened the impact of trends that

already existed and include the ability to work from outside of the workplace and the increased demand from employees for more flexible work arrangements including to better accommodate work and family/household responsibilities.

Changes in the nature and role of direct supervision and other hierarchical arrangements in the labour process associated with more flexible work arrangements may pose important questions about the productivity of work.

This highlights the importance of the ability of businesses and other organisations to substitute alternative contractual forms (for example independent contracting) for the hierarchical controls in place in their organisations and/or to reconsider conditions (including over patterns of remuneration) as currently set out in labour agreements. While individual contracts and enterprise agreements may be more readily reshaped, our industrial awards are much less flexible. Further, the current interpretation of the better-off-overall-test that limits the degree to which non-award labour agreements can depart from award conditions, extends these inflexibilities across the Australian labour market.

The near-unique role of industrial awards in Australia and their inflexibilities may inhibit the ability of Australian organisations to adapt to these challenges to the detriment of productivity growth and our relative productivity performance.

3. *Consider the opportunities created for improvements in productivity as a result of Australia's COVID-19 experience, especially through changes in Australia's labour markets, delivery of services (including retail, health and education) and digital adoption.*

The corollary of the points in the paragraphs immediately above is the considerable opportunity to boost productivity by addressing the inflexibilities in Australia's current approach to workplace relations.

The boost to the digitalisation of activity is a further opportunity and one that can be accelerated by close attention to regulatory inhibitors to digitalisation; the additional regulatory burdens that have been imposed in recent years in response to digital technologies; and the severe skill shortages in digital-related fields both in workforces and among the owners and managers of small and medium-sized businesses.

The COVID-19 experience has also brought Australia's federation into the spotlight and should be the catalyst for a close examination about how the federal structure can be better harnessed to boost productivity. This applies particularly to the productivity of public agencies and in the provision of public services but also extends to the impact of different policy approaches on private sector productivity.

In addition, the COVID-19 experience highlighted the extent to which additional costs were imposed on the community by the often-wide differences in COVID-related regulation adopted by the different states and territories and by the federal government. This element of the COVID experience echoed the more widespread issue of the additional costs of regulatory compliance arising from different

regulatory requirements aimed at achieving the same outcomes. Drawing lessons and solutions from this element of the COVID-19 experience presents an important opportunity to reduce associated burdens on managerial time and otherwise divert organisational resources to the detriment of productivity.

2. Main areas for consideration

In this section we outline the main areas that we recommend be considered in the inquiry with a brief outline of the issues. We will provide greater detail on these areas in our main submission to the inquiry in September. In section 3 below we provide a bit more detail on a number of these areas to reinforce our case for their inclusion in the inquiry.

Workplace relations

Flexible workplace relations arrangements are important in enabling productivity growth. Conversely, inflexible workplace relations arrangements are a barrier to productivity growth.

As a result of its 2015 Inquiry into the Workplace Relations Framework, the Commission made a series of recommendations for improvements to the workplace relations framework. The Commission's recommendations were intended to *"improve productivity, increase employment, and aid flexibility for employees and employers, without destabilising the system"*.¹ Most of the recommendations have not yet been implemented and it would be worthwhile for the Commission to consider whether some of the recommendations should be re-stated as part of the current inquiry.

Ai Group has recently published four policy papers which identify important workplace relations areas with close links to productivity.

- Ai Group's [Enterprise Agreements Policy Paper](#) highlights serious problems with Australia's declining enterprise agreement system that need to be addressed to encourage agreement-making. Enterprise agreement making should be a relatively simple process for employers and employees – not the 'minefield' that it currently is. With a few sensible reforms, the enterprise agreement system can once again play a key role in delivering higher productivity, improved remuneration to employees and more competitive businesses.
- Ai Group's [Forms of Employment and Engagement Policy Paper](#) argues that it is vital that businesses have the ability to engage workers in whatever form of employment or engagement suits the needs of the business.
- Ai Group's [Safety Net of Minimum Conditions Policy Paper](#) argues that Australia's industrial relations system is far too complicated. The safety net of minimum conditions needs to be modernised to reflect the needs of contemporary workplaces.
- Ai Group's [Gender Equality, Diversity and Inclusion Policy Paper](#) points out that businesses with a gender equal, diverse and inclusive workforce have

¹ Productivity Commission, *Inquiry into the Workplace Relations Framework*, Inquiry Report, 0.4.

improved performance. The policy paper proposes a number of initiatives in this area.

The pandemic has led to a dramatic acceleration in digital technologies and brought forward the future of work. The pandemic has accelerated processes that have changed and are continuing to change workplaces forever, particularly for workers who are able to work productively from home or another remote location. Employees in many jobs have become accustomed to working from home and generally employers have reported that their employees in these types of jobs have worked productively.

The workplace relations system and awards have not kept up with the fast pace of changes in work practices. For example, when working from home, often there is no reason why an employee needs to work their hours continuously, with a one hour meal break in the middle of the day, as awards often require. Also, the three hour or four hour minimum engagement periods for casuals under awards were set based on assumptions about the cost and inconvenience of travelling to and from work.

The case for including diversity and inclusion in workplace relations in the considerations of this inquiry is set out in greater detail in section 3.

Skills, education and training

Greater investment in, and improved approaches to skills development, education and training are central to lifting Australia's productivity growth.

In our September submission we will detail the potential for productivity growth from changes to institutional arrangements and performance to ensure greater relevance, flexibility and connectedness with workforce needs; an increased emphasis on work-based and work-integrated learning; and a greater focus on foundation skills – including among the existing workforce.

Best practice regulation

Improving regulatory design and administration has the potential to remove barriers to productivity and to release resources currently tied up in unnecessary regulatory burdens for much more productive uses.

Despite the existence of regulatory guidelines and numerous commitments to reduce regulatory burdens, both the stock of regulation and new additions to that stock continue to fall well short of best practice. All too frequently, regulatory changes are put forward without adequate Regulatory Impact Statements (RIS) and sometimes without any RIS at all. Neither alternatives to regulation nor alternative regulatory models are given appropriate consideration. Embodied reviews of existing regulation are not producing improvements to regulatory burdens or regulatory practices.

The potential productivity gains from addressing shortcomings in our approach to regulation and regulatory oversight should be considered by the current inquiry and

steps towards a substantial improved performance included in the productivity roadmap the inquiry has been asked to recommend.

Industry policy

Improvements to Australia's approaches to industry policy have the potential to lift productivity both by giving greater weight to the objective of lifting nation-wide productivity and by raising the industry policy expertise within the public sector.

The case for including industry policy in the considerations of this inquiry is set out in greater detail in section 3.

Energy and climate policy

A successful transition to net zero emissions by 2050, development of a new energy advantage and adaptation to unavoided climate impacts will all require very high levels of capital investment and construction. Renewable electricity is likely to dominate energy supply by volume, and most of the cost of renewables lies in capital not operating costs.

Converting households and businesses to use clean energy for transport and heating, and to safely withstand dangerous climate extremes, will require a more rapid turnover of significant parts of the existing capital stock. Upgrades will be needed to the industries that provide physical inputs to construction such as steel, cement, glass and so on.

A potential hydrogen industry is also capital intensive, and its major operating expense will be the cost of electricity. And if Australia does indeed have the opportunity to supply a significant share of a large global market for renewable hydrogen, that would require expanding electricity output substantially – potentially adding multiples of the existing Australian electricity generation and transmission sectors.

All of the above implies both that global productivity growth will be extremely important to the achievement of global decarbonisation, and that Australia's relative performance help determine our competitiveness in energy and energy intensive activities.

To lift Australia's performance, we should focus on:

- Construction sector productivity, particularly in infrastructure and major projects. There may be many ideas, and differing priorities, across industry sectors, unions and government. But all stakeholders should consider that rather than maximizing sector employment, maximizing sector productivity will unlock more growth and employment potential across the wider economy.
- Planning and other regulatory compliance for energy. Renewable energy generation and transmission lines will affect large land areas. Community disquiet and regulatory processes are very large potential hurdles to the

delivery of many essential projects. These concerns can't be ignored, but must be answered and managed in ways that allow the large overall level of investment required to proceed briskly.

- Full participation in robust international supply chains. While many recent events remind us that security of supply is important, the benefits of specialization and the international division of labour remain large. Meeting Australia's ambitious and necessary goals for climate will create new local opportunities, but it will be much harder if we try to maximise those opportunities by discouraging international supply chains. Our prospects as a globally significant exporter of hydrogen or green steel depend in part on other countries remaining open to the gains from a liberal global trade environment.

Taxation

Australia raises around 30 per cent of GDP in taxes and royalties. We also face considerable pressures to fund more services. These include services related to demographic pressures; the NDIS; defence spending; and the need to adapt to, and help limit, the threat of climate change. There is also a strong case to rebuild recently depleted fiscal buffers.

There are well-recognised options for reducing the economic costs of taxation in Australia. Many of these have the potential to add to (reduce barriers to) productivity growth. While this inquiry is not the place to set out detailed tax reforms, there is a strong case for the Commission to consider the potential productivity payoff from improved tax arrangements and to include steps towards such improvements in the productivity growth roadmap.

The federation

Australia like many other countries (and groups of countries such as the European Union) has a federal structure in which responsibilities for regulation, service provision and taxation are divided between different levels of government.

There are important productivity gains that can be made by improving the workings of the federation. These include measures (within the limits of the constitution) to:

- More clearly allocate responsibilities between levels of government (and to preserve the clearer allocation once it has been achieved).
- Ensure intergovernmental financial arrangements (including conditional grants) do not deter experimentation, innovation and adaptation by the jurisdictions with responsibility for service delivery.
- Make sure that the states and territories have sufficiently robust sources of revenue that are efficiently structured; that give the states and territories discretion to raise and lower taxes while limiting their scope to add to the inefficiency of taxation by eroding their tax bases.

- Reduce regulatory costs by curtailing divergence between the regulatory approaches by the states and territories and by the commonwealth. This can be achieved for example by harmonising different regimes (as has been attempted in workplace health and safety) or by centralising regulatory responsibilities (workplace relations for example).

As with taxation, this inquiry is not the place to set out detailed reform of the federation. However, there is a strong case for the Commission to consider the potential productivity payoff from an improved federation and to include steps towards such improvements in the productivity growth roadmap.

3. Greater detail

In this section we provide further argument in support of the inclusion in the present inquiry of two of the areas above.

Industry Policy

While industry policies are sometimes viewed as inherently detrimental to productivity because they divert resources away from their most productive uses, more nuanced views, including those expressed by the former Chair of the Productivity Commission, see judiciously targeted, carefully designed and well governed industry policies as "integral to achieving the productivity performance that this country must aspire to if it is to meet the challenges that lie ahead."²

Considerable resources are directed to industry policy in Australia. In its 2019-20 *Trade and Assistance Review* the Productivity Commission estimated the amount of assistance provided to industry in 2019-20 at \$13.7 billion. As the Commission acknowledged, there is a wide range of industry policies not included in this estimate. This range includes:

- Regulatory restrictions such as those relating to pharmacies, air services, media and broadcasting.
- Government purchasing preferences and local content arrangements, such as defence procurement.
- State, territory and local government support to businesses.
- Anti-dumping and countervailing duties.

Not all these policies are directed towards lifting productivity. Other policy objectives include the development of defence capabilities (including for sustainment); greater diversification of the economy; and the prevention of supply chain disruption or even sabotage.

Where there are objectives other than promoting productivity, there is often considerable scope to design and administer policies in ways that also lift productivity (for example by requiring that businesses receiving support operate at, or move towards, the frontier of global productivity performance).

Other existing industry policy measures whether inherently or by the way they are designed or administered may be detrimental to Australia's national productivity performance - such as those favouring one sector at the expense of others.

At the same time, as Gary Banks suggested, there are important opportunities for industry policies to contribute positively to increased productivity particularly if they are rigorously selected, carefully designed and well administered.

² Banks, G., *Industry Policy for a Productive Australia*, Colin Clark Memorial Lecture, University of Queensland, 2008.

Improvements to industry policy that substitute measures that are positive for productivity for those that detract from productivity would be doubly advantageous.

There are therefore substantial potential gains to productivity from a reshaping of industry policy in Australia and Ai Group recommends this area be included in the inquiry and in the productivity roadmap. A key element in such a reshaping should involve raising the industry policy capabilities applied to the selection, design and administration of such policies.

Diversity and inclusion in workplaces

Policy settings that remove barriers to building diverse and inclusive workforces are key to improved productivity.

In particular, a policy framework to increase and align women's workforce participation to educational levels has the potential for a significant uplift in productivity.

Persistent, costly and unchallenged gender norms still exist around the performance of unpaid child-rearing and unpaid domestic work. This comes at a heavy price of constraining the supply of skilled female labour resulting from longer periods of time out of the workforce and/or the entrenchment of occupational downgrading to manage unpaid responsibilities.

The World Economic Forum's (**WEF**) Global Gender Gap Index 2021³ ranks Australia as first for educational attainment, but 70th for economic participation and opportunity. This ranking has slipped from 12th in 2006 notwithstanding that 58.6% of domestic university students are women⁴ while 36.2% of women aged 15-64 hold a bachelor degree or above.⁵ Australia is not capitalising on its levels of education and the severe misalignment with educational attainment and economic participation for women appears to be increasing.

As part of this inquiry, we recommend that attention is given to reducing the under-utilisation of existing workforce skills.

One important area is the role that affordable and accessible early childhood education plays in not just forming part of Australia's education framework but increasing the workforce participation of women after starting families. Australia needs a more accessible and affordable early childhood education sector that offers more productive and flexible care options beyond the constraints of centre-based care.

³ [Global Gender Gap Report 2021, World Economic Forum, Economy Profile - Australia](#)

⁴ [2020 Higher Education Facts and Figures](#), Universities Australia, October 2020. p.38

⁵ Statista, [Proportion of women with a bachelor degree or above in Australia from 2000-2021](#), released November 2021

Childcare options should be better targeted to the needs of working households, such as an alignment with flexible working and shift arrangements (which often do not involve an employee working consistent hours on the same days each week) or working at different locations. These working arrangements are common in rostering arrangements in many industries including essential services.

In a recent Ai Group [Gender Equality, Diversity and Inclusion Policy Paper](#), we proposed that Government subsidies should be extended to in-home early childhood educators, who are able to provide considerably more coverage and flexibility of care than many traditional childcare centres, particularly for multiple children. Unlike family day care, where households must attend an external family day care household or centre, under Ai Group's proposal an in-home early childhood educator would attend the relevant household requiring the care. Subsidised in-home early childhood and education care provides an alternative model that would enable many households to boost their participation in the workforce, including in essential services and business supply chains. Subsidised in-home early childhood and education care should be aimed at ensuring the best possible early learning foundation for children, to improve education, training and skill levels.

To support the capacity and supply for more accessible childcare, Ai Group supports greater funding for early child-care training programs.

At a firm level, it has been established that there is a causal relationship between more women in decision-making roles and business performance. Research in 2020 by BankWest Curtin Economics Centre (**BCEC**) in partnership with the Workplace Gender Equality Agency (**WGEA**)⁶ revealed that more women in key decision-making roles *deliver better company performance, greater productivity and greater profitability*. Specifically, increasing the representation of women across each of the key leadership roles in a company, added company market value of between \$52m and \$70m per year for an average sized organisation.

Also at a firm level, diverse workforces generally increase the range of opinions, experiences and inputs available in a business, which in turn improves its performance. This effect is especially important in decision-making, planning and strategy areas. McKinsey's recent study⁷ of 1,000 companies in 12 countries (2018) demonstrates that:

“Companies in the top-quartile for gender diversity on executive teams were 21% more likely to outperform on profitability and 27% more likely to have superior value creation. The highest-performing companies on both profitability and diversity had more women in line (i.e., typically revenue-generating) roles than in staff roles on their executive teams. ... Companies in the top-quartile for ethnic/cultural diversity on executive teams were 33% more likely to have industry-leading profitability. ... Companies in the bottom

⁶ [BCEC and WGEA Gender Equity Insights 2020, Delivering the Business Outcomes, 2020.](#)

⁷ Larson, E. *Diversity + Inclusion = Better Decision Making at Work*, Cloverpop; Woodley, A; Malone, T, *What Makes a Team Smarter? More Women*, Harvard Business Review, June 2011, p.129.

quartile for both gender and ethnic/cultural diversity were 29% less likely to achieve above-average profitability than were all other companies in our data set. In short, not only were they not leading, they were lagging."

Diverse businesses attract talent, have higher performing cultures and more readily attract customers from an increasingly diverse community.

Further, a diverse and inclusive workplace culture enables organisations to leverage diverse knowledge, skills, and perspectives to improve business outcomes, for example:

- Better innovation, and creative ideas development;
- Better response to changing consumer demands; and
- Better attraction and retention of talent.

It is essential that Australia's workplace relations framework and other policy settings foster opportunities for inclusive post-pandemic flexible work practices, work re-design and the participation of skilled and diverse workers.



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