

Impact of the Global Financial Crisis on Economic Sustainability and Employment Relations

**Heather Ridout, Chief Executive,
Australian Industry Group**



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It is an honour and a pleasure to be invited to participate in the International Industrial Relations Association's World Congress.

The Economic Environment

There are a lot of metaphors around at the moment - turning the corner; rebounding and coming out the other side.

Given that in the last quarter of 2008 and in the early months of this year we were in a potentially devastating position of extreme financial trauma and global credit crisis, today, almost a year after its onset, there is certainly good reason for us all to breathe a little easier.

In the recently released Australian Industry Group / American Express report, *Looking Towards the Upturn* we found that:

- One in every six business respondents believed an improvement in business conditions was already underway
- well over half of companies surveyed expect the upturn to be well underway by the first quarter of 2010;

This has been reinforced by recent data on business and consumer confidence.

A few short months ago, very few thought we would be seeing signs like this.

At the same time, we need to be wary of getting ahead of ourselves. The enthusiasm with which people are grabbing on to every favourable snippet is not without its dangers.

For example when the Governor of the Reserve Bank recently noted the possibility that the current downturn could turn out to be somewhat milder than other downturns of recent times, this was leapt upon as a sign that we were about to hit boom times.

I think a closer reading of the Governor would dispel any undue optimism as would a look at the cautionary tones in Treasury Secretary Ken Henry's warning at last week's Ai Group Annual National Forum that this war has not yet been won.

Certainly this more cautionary note is what we are taking out of the gradual turnaround evident in Ai Group's monthly measures of performance in the manufacturing (Australian PMI®), services (Australian PSI®) and construction (Australian PCI®) sectors.

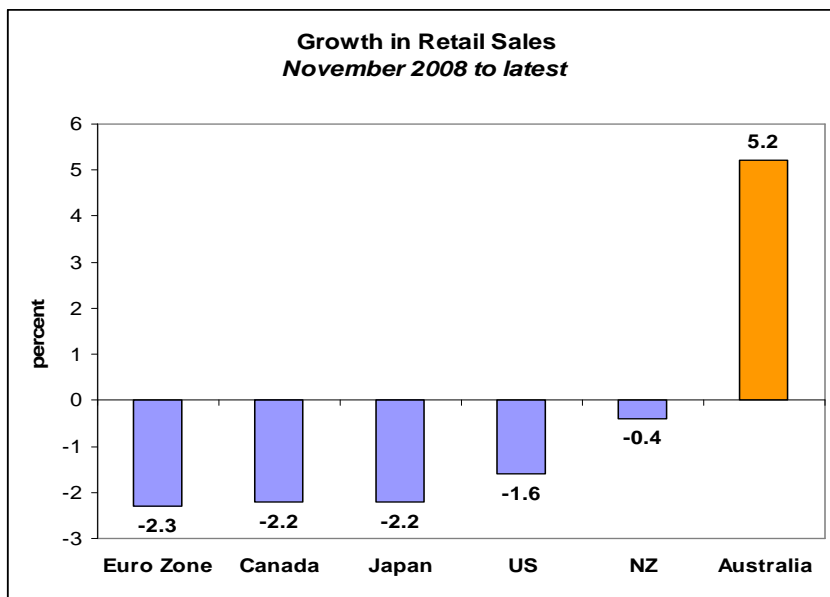
This is further backed by the expectations in the *Looking Towards the Upturn* report I mentioned a moment ago:

- While well over ½ expect an upturn by the middle of next year:
- the anticipated rebound in sales overall is a very modest 0.7%;
- employment is expected to remain under pressure with a 0.9% reduction forecast over the next six months; and,
- investment is expected to stay subdued with a forecast 4.1% decline.

Perhaps a little paradoxically one of the reasons that we should be very cautious about the current encouraging signs is the success of the policy response put in place in the last quarter of last year and the first half of this year.

- Bank guarantees
- Monetary easing
- Fiscal stimulus 1
- Dec – shovel-ready infrastructure
- February stimulus package
- Budget measures

In combination these measures have exerted a strong influence on our economy. The OECD and the IMF have commended Australia for its fiscal response.



Fiscal stimulus is temporary. Households may still have some in their bank accounts but this is finite. Also the boost to the home owner's grant will come to an end in a short while.

There do remain further measures in the pipeline – home insulation, business investment incentive, housing and schools spending, and these will continue to be very important.

However the point remains that until the economy builds momentum that is not reliant on these external supports, we will not be able to say that we are out of the woods.

There is more fiscal stimulus in the pipeline and this remains appropriate.

It is also appropriate that we look to the future:

Business will power the recovery: business will invest, export, employ and innovate and these are the key ingredients of a sustainable economy both in the recovery phase but beyond that as well as we look forward a decade and more.

In the recovery phase, timing is everything. Stimulus measures cannot be withdrawn too early - before those green shoots have taken root - but neither can we maintain them for too long – putting at risk swamping recovery with price instability and higher interest rates.

Beyond the recovery we need to build the prospects for a sustainable future. This means investing in infrastructure (more and smarter) adding to our workforce and our business capabilities and getting policy settings right.

It also means improving our workforce relations – both in the policy sense and, critically, at the coalface of individual businesses.

Cooperative workplace relations during a crisis

Since the GFC began in September last year, Australian workplaces have generally exhibited a high degree of cooperation and goodwill between management, employees and unions.

As set out in the Ai Group / American Express *Looking Towards the Upturn Report*, employment losses have so far been relatively mild and employers have endeavoured to retain staff wherever possible.

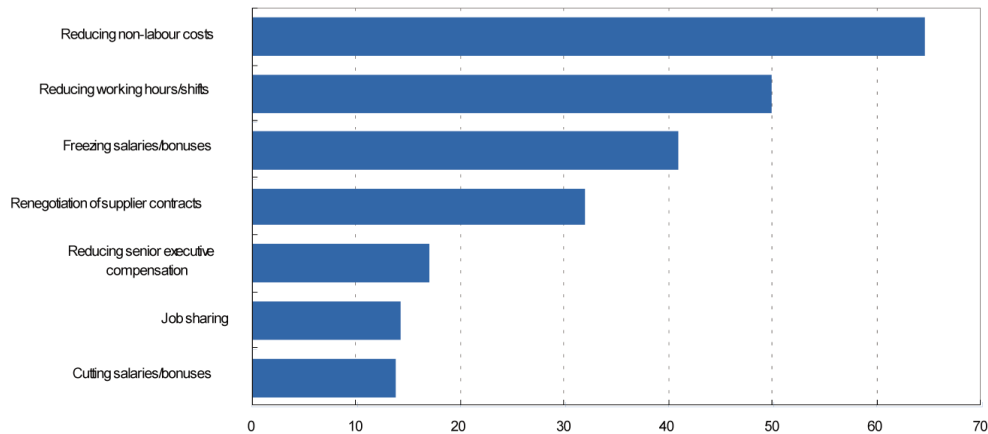
No doubt the skill shortages of the recent past are fresh in employers' minds and they know that they will once again face challenges in attracting and retaining skilled staff once the economy improves.

In the survey, employers were asked what measures they had taken to avoid cuts in employment. 65 per cent cited reductions in non-labour costs; 50% said that they had reduced working hours or shifts; and 41 per cent reported that they had frozen salaries or bonuses. (See Chart below).

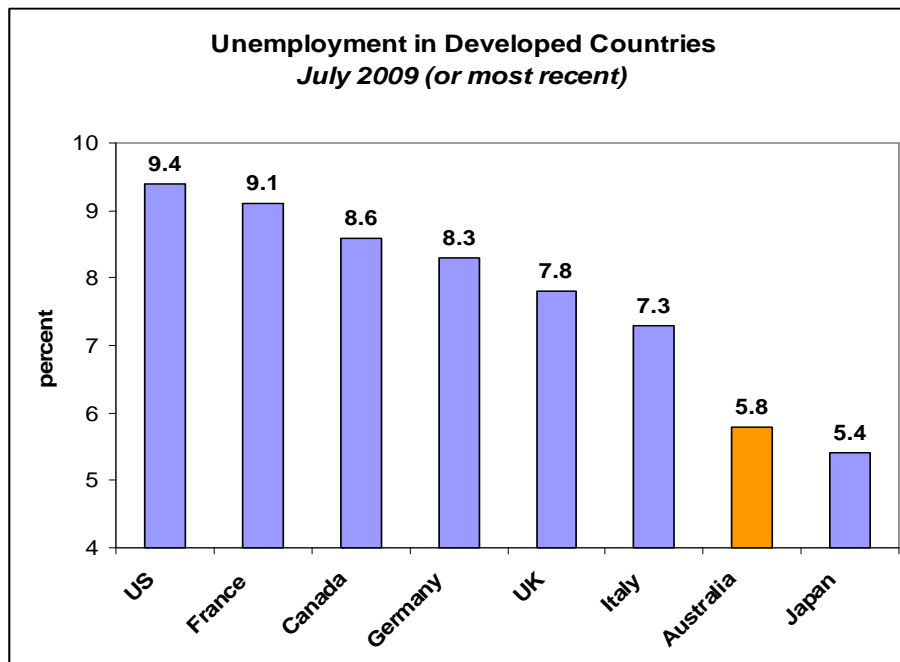
Employment strategies

Businesses have used a range of methods to avoid cuts in employment

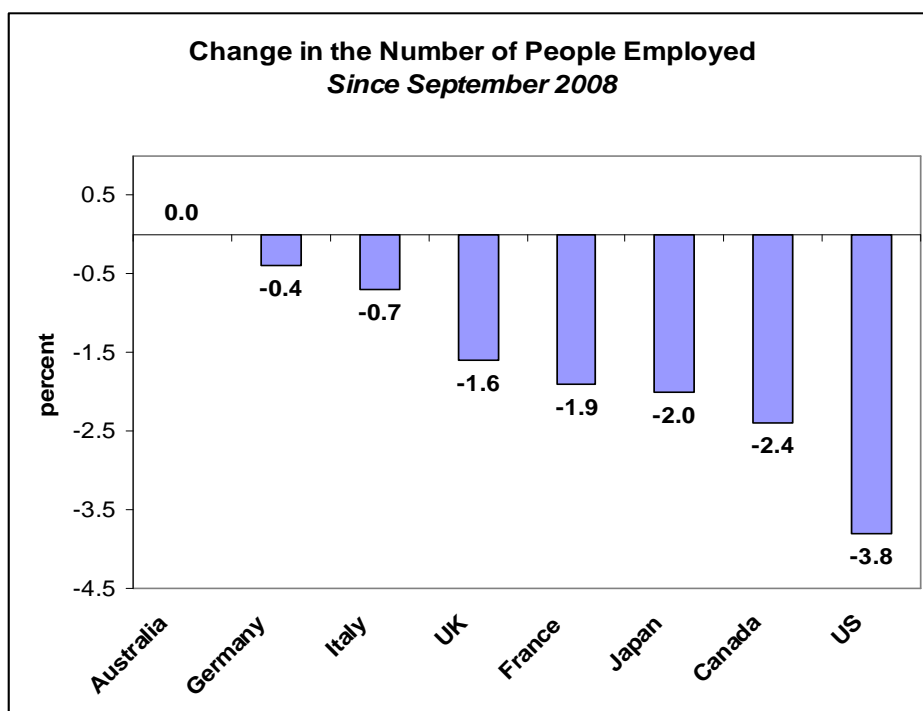
Chart 30: Measures to avoid cuts in employment



This is certainly one factor behind Australia's favourable labour market experience relative to the rest of the developed world.



and/or



A similar picture of cooperation emerges from a recent analysis of 38 enterprise agreements which Ai Group's Workplace Relations Advisers were involved in negotiating between 1 March and 30 June this year.

For the 38 agreements analysed:

- 19 of the agreements were reached with a union and 19 were reached directly with employees;
- The average annual wage increase was 2.4 per cent; and
- 13 of the agreements (over a third) contained a nil wage increase in the first year.

These agreements do not include the many workplaces where wage freezes and/or shorter working hours' arrangements have been agreed upon and implemented, without being reflected in formal enterprise agreements.

It is interesting to speculate why there has been so much cooperation between employers, employees and unions during this economic downturn when this has not been the experience in decades past.

There appear to be two key reasons:

- Firstly, employees and unions have recognised employers' genuine efforts to avoid retrenchments; and
- Secondly, Australian employers and employees have built very good workplace relations over the past 15 years, since the workplace relations system became focussed upon the enterprise rather than on centralised outcomes across industries. The level of industrial disputation is very low and employers and employees do not want to lose the positive environment that they have built.

In short, we are still experiencing a harmonious and positive workplace relations environment. The question is – will this environment continue in the future when the economy improves?

Looking towards the future – the new *Fair Work* workplace relations system

The *Fair Work* workplace relations system is now in operation and we hope that the laws will prove to be fair and workable for all parties.

The development of the legislation has been a long and difficult process. The consultation process was comprehensive and constructive and clearly the Government was put under huge pressure from all sides. Employers had little to gain and much to lose and Ai Group has worked extremely hard to achieve a workable outcome for employers.

The laws have not yet been tested and no doubt there are going to be many important cases over the months and years ahead.

It is too early to say whether the new good faith bargaining laws will be interpreted in a practical way, or whether they will be used by unions to frustrate agreements which are supported by the majority of employees but not by them.

Some parties are likely to argue that principles which apply under overseas good faith bargaining systems should apply under the *Fair Work* bargaining system.

For our part, we see far more relevance in Australian decisions than decisions of the tribunals and Courts of other nations.

Australia has always had a unique workplace relations system and this uniqueness has generally served the nation well.

We are a nation with a relatively small population, and we need a productive and flexible workforce to maintain global competitiveness.

There are a number of aspects of the new bargaining laws where we will be watching developments very closely and, in particular, watching how the laws are interpreted:

1. The good faith bargaining requirement to “disclose relevant information (other than confidential or commercially sensitive information) in a timely manner”.
2. The obligation to refrain from “capricious or unfair conduct that undermines freedom of association or collective bargaining”.
3. The obligation to recognise and bargain with the other bargaining representatives for an agreement.
4. The use by unions of bargaining orders to frustrate or delay ballots to approve agreements.
5. The requirement that enterprise agreements, majority support determinations and scope orders apply to a “fairly chosen” group of employees and the principles that will apply to determining such a group.
6. The means by which FWA establishes whether there is majority support for collective bargaining.
7. “Permitted matters” and “unlawful terms” in agreements.
8. The requirement to genuinely try to reach agreement before industrial action can lawfully be taken.
9. The low paid bargaining provisions.
10. The arbitration powers of Fair Work Australia.

Over the months ahead, decisions of Fair Work Australia and the Fair Work Division of the Federal Court will shape the new workplace relations system.

The jury is still out on whether the new system will prove to be fair, flexible and productive.

Parliament needs to remain open to amendments if problems arise.

Conclusion

While it is too early to call an end to the economic downturn, it is clear that the extremely dire scenarios that were distinct possibilities only six months ago have been averted.

The impacts of this shock will reverberate for some time however and even in our country which to date has stood up relatively strongly, the signs that we see in the real economy are little more than tentative. We will be still climbing out of this for some time yet.

As we do we need to get policy right – fiscal policy and measures that will drive longer term productivity. We also need to get our workplace relations right. We have seen the advantages of flexibility and cooperation. We need to make sure that these features which have contributed so positively to our current standings, are not eroded and in fact are further secured.