5 February 2026

Select Committee on Productivity in Australia
PO Box 6100
Parliament House
Canberra ACT 2600

Sent via email: productivity.sen@aph.gov.au

Dear Committee

Thank you for the opportunity to submit to this inquiry. Productivity is, clearly, an extremely important, complex and challenging topic. With reference to your discussion paper, we focus this submission on the questions of measurement, performance by industry and regulation (particularly as it relates to industrial relations).

In 2025 we had the privilege of serving as independent reviewers of the operation of the *Fair Work Legislation Amendment (Secure Jobs, Better Pay) Act 2022*. Appendix 4 (Productivity and the Industrial Relations System) of our review (pages 414-436) is attached to this covering letter and forms the basis of our submission to this inquiry. In the latter we note:

1. **Perspectives on productivity growth**:
   A divergence of views on how productivity should be defined and measured (see pages 415-416). The lack of consensus is a clear source of divergence of opinions as to policy to grow and distribute productivity gains.
2. **Measuring productivity:**
   The measurement of productivity is unquestionably complex. In our submission we argue (see pages 416-426):
   (a) It is important to distinguish between productivity at the national, industry/sectoral and enterprise/organisational levels.
   (b) It is extremely difficult, if not impossible, to measure productivity in the non-market sector. As we note in our submission, a work around is to estimate the value of output in this sector using an income approach (labour costs + other input costs). But this approach can yield counterintuitive results. For example, a reduction in the number of teachers per student would lead to lower measured output/productivity in education but could also see the quality of learning improve.
   (c) When monitoring national trends in productivity a common approach is to simply focus on the market sector. The limitation of this approach is that, over recent decades, most employment growth has been in the non-market sector.
3. **Trends 1995 to 2024:** Figure 63 in the attached (see page 419) shows that since 1995 labour productivity has been increasing while capital productivity has declined.

4. **Growth since 2022**: Recent years (since 2022) has seen a decline in labour productivity. We argue that the latter is a result of a strong growth in hours worked, underpinned by labour shortages and low unemployment. We also emphasise the importance of considering growth cycles rather than monitoring quarter to quarter or even year to year measures.
5. **Labour productivity of select industries**: Figure 64 (see page424) provides estimates of labour productivity growth for select industries over the period 1995 to 2024. Retail trade and manufacturing have experienced above average labour productivity growth during this period. This likely reflects the effects of technological advancements.
6. **Enterprise level productivity trends**: There is a dearth of data measuring productivity at the enterprise level.
7. **Labour productivity and bargaining arrangements:**
   (a) European evidence shows that multilevel bargaining (as opposed to single-employer bargaining) drives higher national productivity growth, especially when it is 'coordinated'.
   (b) The industrial relations mechanism driving greater productivity growth occurs through the bargaining process or the practice of bargaining (patterns of cooperation).
8. **Gender and productivity:**
   (a) Many productivity reports and inquiries are silent on the question of gender. The Productivity Commission's 2023 report 'A More Productive Labour Market' makes only four references to gender. This is concerning as women now account for 48% of total employment and are significantly over-represented in the non-market economy.
   (b) The emerging productivity debate poses new challenges and risk for women. Highly feminised sectors such as Health, Care, and Social Assistance, for example, have been described as a 'drag on productivity'[1] This framing shifts responsibility onto care workers rather than acknowledging the structural undervaluation of their work and the difficulties of measuring productivity in care-intensive sectors. The potential consequences were illustrated in the 2025 Annual Wage Review, where weak labour productivity growth was cited as a 'restraining factor' on the size of the increase that the FWC settled on.[2]
   (c) There is a limited understanding of the relationship between gender equality and productivity. Work value exercises, for example, are not simply about closing the gender pay gap. Realigning wages through work value cases can drive productivity at the enterprise and national level by enhancing employee effort, addressing labour shortages and reducing turnover.

[1] Fair Work Commission (FWC) Annual Wage Review 2025 – consultation hearing. *Transcript of Proceedings*, Wednesday 21 May 2025 [c2025/1], PN209; Maltman M (2024) *A careful transition in Australia's labour market*. e61 Institute. https://e61.in/a-careful-transition-in-australias-labour-market/
[2] Fair Work Commission (FWC) (2025) Decision – Annual Wage Review 2025 [FWCFB 3500], paragraph 9.

9. **Distribution and real wages:** It is frequently asserted that productivity growth is fundamental to economic growth and living standards. What is missing in much of the productivity debate is 'how' the gains from productivity growth – the gains central to living standards – are to be distributed. Since the turn of this century and the 2007/8 global financial crisis in particular, there has been a 'decoupling' in the relationship between productivity growth and real wages. Real wages have not kept apace with productivity growth. Why? In part this reflects bargaining power and bargaining arrangements reflected in the erosion of collective bargaining and the rise in precarious work. Real wage growth is important, not just for distributive justice but also as a source of aggregate demand. Flat or declining real wage growth shows up in falling consumer sentiment and declining GDP.

Thank you for considering this submission. As previously indicated, further detail is contained in the attachment to this letter.

Regards,

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&

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Appendix 4
Productivity and the industrial relations system

Extracted from **Secure Jobs, Better Pay Review: Report**, pp. 419-441.

Citation of full report:[#] Mark Bray & Alison Preston, Secure Jobs, Better Pay Review: Report, Department of Employment & Workplace Relations, Australian Government, Canberra, 31 March 2025.

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Abstract

The appendix's point of departure is an observation that the recent industrial relations debate in Australia is deeply flawed. The main aim of the appendix, therefore, is not to provide a definitive or comprehensive account of productivity in Australia, but rather to identify key aspects of the Australian productivity debate and stimulate discussion. In so doing, the appendix first highlights the different and often competing perspectives on productivity, as reflected in submissions to this Review (section 2). Second, it examines the definitional and measurement challenges in productivity debates and explores empirical trends in Australian productivity at three levels: the national, specific industries and then the individual enterprise/workplace (section 3). Third, it explores how, and by how much, the bargaining system influences productivity growth, at both the 'macro' (national) and 'micro' (enterprise) levels (section 4). Finally, it underscores the importance of gender equality for productivity growth and the need to focus the distribution of productivity gains via wages as well as the generation of productivity (section 5). Section 6 draws together the main points and makes some conclusions.

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Appendix 4 – Productivity and the industrial relations system

1. Introduction

Productivity is clearly an important topic. Since the mid-2000s, however, productivity growth in Australia has been slow, a pattern consistent with other advanced economies.[1338] The slowdown has prompted renewed debate and various inquiries into its causes and consequences. Indeed, some have suggested that productivity should be a critical criterion when assessing the operation of industrial relations reforms, such as the Secure Jobs, Better Pay Act amendments.[1339]

Although the Terms of Reference for the Review did not preclude consideration of productivity, the Review Panel chose not to make productivity a central focus. This decision was based not only on the fact that productivity was not an explicit stated objective of the amendments but also on the complexities of the relationship between industrial relations and productivity, as well as the challenges associated with measuring productivity.[1340]

Notwithstanding the above, the Review Panel does wish to engage in the productivity debate, particularly as it relates to industrial relations. This is because some employers and employer groups submitted that the Secure Jobs, Better Pay amendments will undermine productivity. It is also because the Panel sees a number of problems with the existing productivity debate in Australia. It is, for example, unclear how important the amendments specifically, and industrial relations in general, are to productivity. Much of the current productivity debate is preoccupied with national-level trends, with contributions shaped by the values and frames of reference of various participants. Moreover, the discussion is limited, often overlooking distributional aspects (such as wage growth) and other outcomes (such as gender equality and job security).

The primary aim of Appendix 4 is, therefore, to identify key aspects of the Australian productivity debate and stimulate discussion. In so doing, the appendix first highlights the different and often competing perspectives on productivity, as reflected in submissions to this Review (section 2). Second, it examines the definitional and measurement challenges in productivity debates and explores empirical trends in Australian productivity at three levels: the national, specific industries and then the individual enterprise/workplace (section 3). Third, it explores how, and by how much, the bargaining system influences productivity growth, at both the 'macro' (national) and 'micro' (enterprise) levels (section 4). Finally, it underscores the importance of gender equality for productivity growth and the need to focus the distribution of productivity gains via wages as well as the generation of productivity (section 5). Section 6 draws together the main points and makes some conclusions.

[1338] Z Duretto, O Majeed and J Hambur 'Overview: understanding productivity in Australia and the global slowdown', *Treasury Roundup* (October 2022),

[1339] See, for example, Business Council of Australia (BCA) submission in response to draft report.

[1340] As explained in the introduction to this report, the focus of this Review is on whether the operation of the Secure Jobs, Better Pay amendments is appropriate and effective and whether there are any unintended consequences. In making this assessment the Review Panel has evaluated each specific amendment against the stated intent of the legislation, as outlined in ministerial speeches and the accompanying Explanatory Memorandum.

2. Different (and often competing) perspectives on productivity

There is a divergence of views about how the industrial relations system – and, more specifically, the Secure Jobs, Better Pay amendments – can contribute to productivity outcomes. This emanates from differences over how productivity should be defined and measured, the importance of industrial relations as a cause of productivity growth and prescriptions for how to change the generation or distribution of productivity growth.

In submissions to this Review, the divergence of views about the industrial relations system and its relationship with productivity was particularly stark. Employers generally viewed productivity through the lens of flexibility, competition and cost-efficiency (similar to the Productivity Commission in its recent reports).[1341] They (employers) emphasised the importance of enterprise-specific solutions that are designed by managers (unilaterally or through consultation with employees but not unions). More specifically, they argued that the Secure Jobs, Better Pay amendments, such as multi-employer bargaining, would be harmful for productivity.[1342] Some went further and argued 'there is not a single element of these measures that will enhance productivity or cooperation in workplaces. They are all doing the opposite'.[1343]

For employers, productivity is tightly linked to reducing regulatory burdens and fostering an environment that encourages tailored workplace agreements and business-specific strategies. Rarely did employer submissions address the productivity consequences of the amendments concerning job security or gender equality. To the extent that they did comment on amendments addressing these issues, it was to assert that measures such as flexible working arrangements would 'likely result in a significant loss in efficiency or productivity'.[1344]

Unions, on the other hand, rarely made any reference to productivity. Exceptions to this were the Australian Council of Trade Unions (ACTU) and the Community and Public Sector Union (CPSU). The ACTU, in particular, primarily focused its productivity arguments on the distributional aspects of the debate (better pay). Similar to the Organisation for Economic Co-operation and Development (OECD)[1345] in its latest jobs strategy report, the ACTU also flagged serious social and economic consequences arising from factors such as wage stagnation and job insecurity. Accordingly, they welcome the recent legislative amendments and focus on facilitating multi-employer bargaining as well as other changes, such as the strengthening of the right to request flexible work.

The divergent views between employers and unions reflect deeper philosophical differences – a point previously noted by the Productivity Commission.[1346] Indeed, these differences are typical of the adversarial character of Australian industrial relations and politics.

[1341] Productivity Commission, *Five-year Productivity Inquiry: A More Productive Labour Market* (Interim Report, October 2022); Productivity Commission, *Five-year Productivity Inquiry: A More Productive Labour Market* (Final Report, 2023) Vol 7.
[1342] See, for example, submissions from Council of Small Business Organisations Australia (COSBOA), the Business Council of Australia (BCA), the Chamber of Commerce and Industry WA (CCIWA) and Australian Resources & Energy Employer Association (AREEA).
[1343] Minerals Council of Australia (MCA) submission, 5.
[1344] See, for example, Australian Chamber of Commerce and Industry (ACCI) submission, 88.
[1345] OECD, *Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy* (Report, 2018).
[1346] See Productivity Commission, *Five-year Productivity Inquiry: A More Productive Labour Market* (Interim report, October 2022).

One way of identifying more clearly the philosophical differences between the parties is to focus on their respective 'frames of reference'.[1347] Australian employers demonstrate a preoccupation with 'unitarist' frames, which emphasise causes of weak productivity growth in external factors, like the legislative framework or the unhelpful contributions of unions. At the same time, they emphasise solutions to the 'productivity problem' in the unilateral actions of managers (i.e. 'autocratic unitarism') or actions resulting from managers working with their employees but never with unions (i.e. 'consultative unitarism').

Unions, on the other hand, display attitudes towards productivity more consistent with 'radical' or 'adversarial pluralist' frames. They see the causes of 'the problem' in the actions of managers, while mostly denying a role for unions. Unions also tend to focus mostly on the distribution of productivity gains while generally ignoring the generation of productivity growth.

Consistent with these divergent philosophical positions, there was little in the way of discussion, or in evidence submitted, on the relationship between the specific industrial relations amendments and productivity. This, in part, stems from the challenges associated with defining, measuring and monitoring productivity and in isolating the causal effects of specific industrial relations reforms on productivity.

3. The definition, measurement and trends in productivity

At a basic level, 'productivity measures how efficiently inputs (say, labour, capital or raw materials) are used to produce outputs (goods or services)'.[1348] In the words of the Productivity Commission, productivity growth 'is the process by which people get more from less: more and better products to meet human needs produced with fewer hours of work and fewer resources'.[1349] Productivity measurement is therefore fundamentally about the relationship between outputs and inputs used to produce them, and these outputs and inputs are mostly physical.

Beyond these simple definitional issues, the measurement of productivity is unquestionably complex. Given that productivity is defined as being about inputs and outputs, it is difficult to develop measures appropriate across different enterprises and industries, particularly where the outputs are intangible. It is important therefore to understand the detail underlying productivity measurement and to distinguish between productivity at three levels: national, industry/sectoral and enterprise/organisational. Most contributions to this Review, and to the debate over productivity and the industrial relations system more generally (in Australia and elsewhere), either conflate these levels or fail to even acknowledge them and the different analyses they require.

3.1 Productivity at the national level

The first challenge at the national level is how to measure productivity given the different inputs and outputs of different industries. To facilitate comparison across the economy the conventional approach is to convert the outputs into a monetary value and then aggregate. Conveniently, the latter is available in the national accounts in the form of gross domestic product (GDP).

[1347] M Bray, JW Budd and J Macneil, 'The Many Meanings of Co-operation in the Employment Relationship and Their Implications' (2020) 58 *British Journal of Industrial Relations* 114.
[1348] Productivity Commission, *What is Productivity?* (Web Page, n.d.) <https://www.pc.gov.au/what-is-productivity>.
[1349] Productivity Commission, *Advancing Prosperity: Five-year Productivity Inquiry Report* (Report, 2023) Vol 1, 1 <www.pc.gov.au/inquiries/completed/productivity/report/productivity-volume1-advancing-prosperity.pdf>.

GDP is the total monetary value of all final goods and services produced domestically. It is conceptually akin to gross value added (GVA) at the industry level, where GVA is industry output minus the value of inputs used in the production process. GDP is basically an aggregation of GVA across industries, with an adjustment for taxes and subsidies.

GDP is, therefore, commonly used as the numerator in national level equation for measuring productivity outcomes. Using GDP as a measure of output, however, is not without its problems. One important problem is that it is affected by the prices received by enterprises in markets; this is especially a problem in industries/enterprises where market prices fluctuate (e.g. commodity markets and/or where firms/industries have market power).[1350]

The first question is whether this reduction of outputs to dollar values actually measures productivity, which is by definition about resources used and outputs produced?

A second, and related, problem is that it is extremely difficult, if not impossible, to put a dollar value on the 'outputs' in the 'non-market' sector – that is, sectors producing goods and services without the primary goal of generating a profit. The non-market sector is often associated with the government, public services and not-for-profit organisations (e.g. it includes sectors such as health and social care, education and training, and public administration and safety). In other words, GVA in the non-market sector may not be adequately measured because much of the output in these sectors are not sold at market prices.

A work-around for the non-market sector has been to estimate the value of output using an income approach. In this way, GVA in the non-market sector is based on labour costs + other input costs (e.g. utilities, costs of infrastructure et cetera).[1351] This approach may, however, yield counterintuitive results. For example, a reduction in the number of teachers per student would lead to lower measured output in education. Yet, paradoxically, an increase in the number of students per teacher would show up as an improvement in productivity. Alternatively, the measurement of productivity is at odds with socially desirable outcomes like the quality of teaching and/or the education received by students. Similar issues arise with measuring the productivity in areas such as a health system or an aged care home.

Given the difficulty of measuring productivity in the non-market sector, a common approach when monitoring national trends in productivity is to simply focus on the market sector. This, however, is far from ideal. It means that the non-market sector is effectively ignored. If the latter were only a small part of the economy then this might not matter, but this is not the case for Australia. Indeed, the non-market sector is the largest and the fastest growing sector in Australia. On its own, the health care and social assistance sector now accounts for 15.5% of total employment (the highest share across all industries). Of all new jobs created in the 12 years to 2024, 28% were in the health care and social assistance sector, followed by 12% in education and training and 9.4% in public administration and safety. Taken together these three non-market sectors accounted for 49% of

[1350] For a more detailed discussion of the numerator issues, see RL Martin, 'What Economists Get Wrong About Measuring Productivity' *Harvard Business Review*, 14 September 2015 <https://hbr.org/2015/09/what-economists-get-wrong-about-measuring-productivity>.
[1351] For further discussion on measuring productivity see Australian Bureau of Statistics, *Interpreting ABS Productivity Statistics* (2023). This note explains that industries that considered to be predominantly non-market in nature (public administration and safety, education and training, and health care and social assistance) are not included in the published multi-factor productivity (MFP) estimates. This is because it is difficult to measure their capital productivity or MFP.

new jobs growth between 2012 and 2024. It is also worth emphasising that women dominate employment in the non-market sector.

Returning to the measurement issue, in the market sector, national productivity may be measured in three main ways: labour productivity, capital productivity and multifactor productivity (MFP). Each is defined and measured as follows:

$$Labour\ productivity\ = \frac{\text{Output (GDP)}}{\text{Labour input (hours worked or total employment)}}$$

$$Capital\ productivity = \frac{\text{Output (GDP)}}{\text{Capital input (capital services or stock)}}$$

$$Multifactor\ productivity\ (MFP) = \frac{\text{Output (GDP)}}{\text{Combined input (weighted labour and capital inputs)}}$$

It can be seen, therefore, that all three measures of national productivity have the same numerator: total output measured in dollars terms by GDP. It is their denominators that differ: labour productivity uses hours worked (or total employment); capital productivity uses a measure of capital services or stock, measured by dollar value; and multi-factor productivity (MFP), which is commonly considered as a broader measure of productivity, combines the contributions of labour and capital.

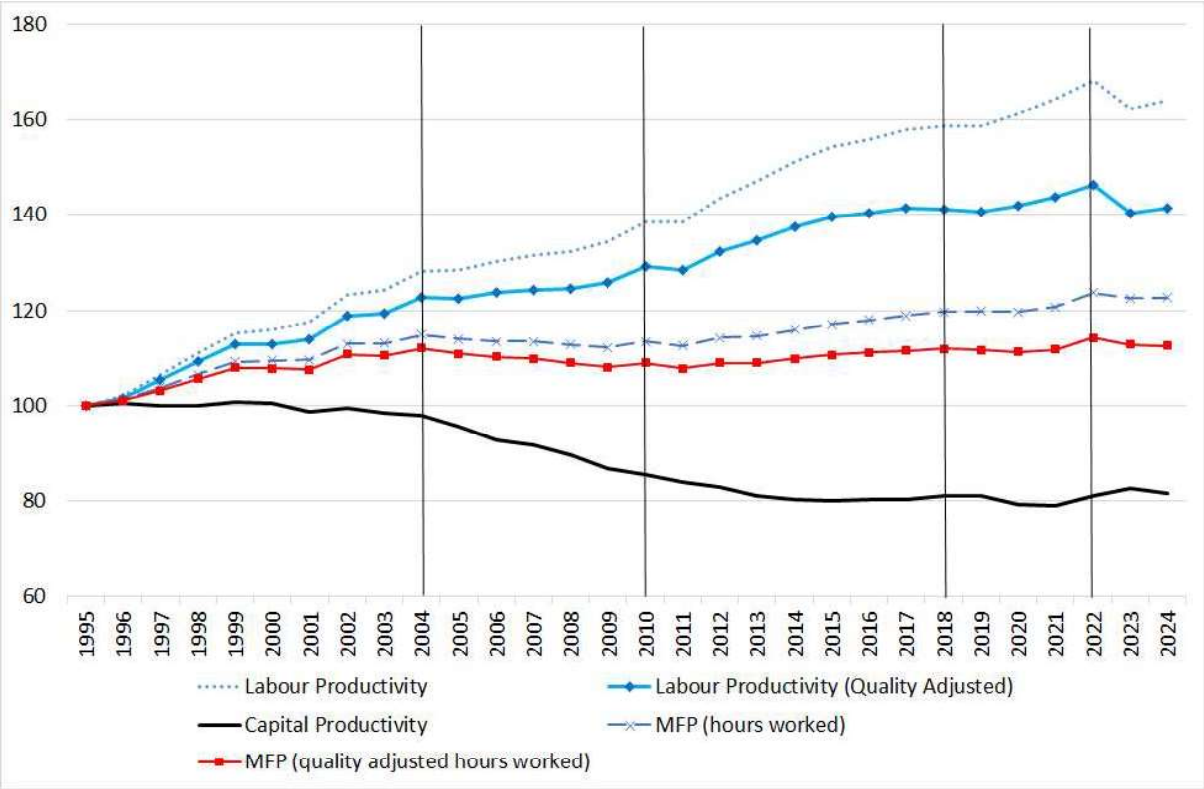
Drawing on these measures, Figure 63 presents Australian trends in productivity in the market sector between 1995 and 2024. Two measures of **labour productivity** are shown – one that simply divides by the hours worked (as per the formula above) and another that adjusts for the quality of hours worked. The recognition here is that not all hours contribute equally to output. A skilled tradesperson may, for example, take just one hour to do what an unskilled person might do in four hours. To accommodate this, the Australian Bureau of Statistics (ABS) publishes a 'quality adjusted hours worked' series of estimates.[1352] These estimates set aside any improvements in productivity due to training or skill formation: if improvements in these are the only source of productivity gains, then productivity growth is set to zero.

The data in Figure 63 shows that in the market sector, the quality adjusted measure of labour productivity lies below the non-adjusted measure. This indicates that the shift in hours worked has been towards higher quality hours (more skilled labour).[1353] The estimates also show a steady increase in labour productivity in the market sector up until 2022. Between 2022 and 2024, however, labour productivity in the market sector fell by 3.4%.

The decline in labour productivity since 2022 is considered by many to be a 'problem'. But what caused this problem? Statistically, it mostly resulted from a significant increase in hours worked after 2022. Between December 2022 and September 2024 (eight quarters) total hours worked in all jobs in Australia increased by 14%. This compares to a 9% increase over the eight quarters to December 2022.[1354]

[1352] Australian Bureau of Statistics (ABS), *Understanding Labour Quality and its Contribution to Productivity Measurement* (2022).
[1353] For further discussion of these two measures of labour productivity and interpretation, see K Hancock, 'Enterprise Bargaining and Productivity' (2012) 22(3) *Labour and Industry* 289.
[1354] Source: ABS 6150.0.55.003 Labour Account Australia, Table 1, seasonally adjusted.

Figure 63: Productivity in the market sector, 1995 to 2024



Note:

1. MFP: multifactor productivity.

2. Annual estimates of productivity at June of each year.

3. Data indexed to 1995.

4. The vertical lines delineate various productivity growth cycles as identified by the Australian Bureau of Statistics (ABS). These are: 2003–04 to 2009–10, 2009–10 to 2017–18, 2017–18 to 2021–22.

Source: ABS 5204.0 Australian System of National Accounts, Table 13. Series IDs used: A2421358T, A2421359V, A2421360C, A2421361F, A2421362J.

Alt-text: A line chart showing the trend in Labour Productivity, Labour Productivity (Quality Adjusted), Capital Productivity, multifactor productivity (hours worked) and multifactor productivity (quality adjusted hours worked) between 1995 and 2024.

What was behind the unprecedented increase in hours worked after 2022?[1355] It could be that, after COVID-19, businesses were meeting the demand for output by hiring more workers instead of investing in productivity-enhancing capital (e.g. technology or automation), which meant that productivity per worker declined. A preference for labour over technology/capital may be driven, in part, by low wages.

The trend may also be the result of labour shortages (and low unemployment) and businesses having to hire less experienced or otherwise less productive workers. It is also consistent with a

[1355] The Productivity Commission makes the same observation in its recent annual productivity bulletin. See Productivity Commission, *Annual Productivity Bulletin 2024* (PC Productivity Insights Annual Report Series, 2024).

greater share of recent migrants entering the workforce and perhaps needing time to integrate and upskill, moving into low paid jobs in the meantime.[1356]

A related explanation could be that firms may be hoarding labour, given the difficulties and cost of recruiting skilled workers in a tight labour market (or in the context of perceived future skill shortages). This might explain rising employment alongside falling hours of work. Non-compete agreements, designed to prevent turnover, could be contributing to this labour hoarding.[1357]

Another potential explanation is that workers are burning out (tiring). It might also be that cost of living pressures and associated financial stress are affecting health outcomes (e.g. mental health) with a flow on effect to performance at work.

The second productivity measure presented in Figure 63 concerns capital productivity. As shown, capital productivity has been declining steadily since 2004, with this becoming more pronounced after the 2007/8 Global Financial Crisis (GFC). When compared to June 2009, capital productivity in 2024 is down by 5.7%. One significant contributor to the observed decline in capital productivity is the substantial increase in capital investment in sectors such as mining, where the returns are slower to materialise.

The third measure of national productivity presented in Figure 63 is MFP. MFP is similar to a weighted average of labour productivity and capital productivity, in that it is influenced by both. For example, if capital productivity is affected by heavy investment in mining in anticipation of future returns, MFP will also reflect this impact.

Between 2009 and 2024 MFP increased by 8.5%, while quality-adjusted MFP increased by 4.1%. Overall, however, both these measures show that there have been long-term improvements in the combined contributions of capital and labour – in other words, in the way capital and labour complement each other. The dip in MFP after 2022 could be the product of a labour-intensive recovery. Other potential contributory factors might include economic pressures such as inflation, rising input costs and increased uncertainty, making it hard for businesses to plan investments.

Productivity measurement or monitoring, such as presented in Figure 63, is best assessed over a longer term as year to year – or even quarter to quarter – movements in the measure may be highly erratic. Some commentators prefer to monitor and compare outcomes over five-year window. In Australia, the Australian Bureau of Statistics (ABS) and the Productivity Commission examine growth over '**growth cycles**'. The latter refer to periods of sustained expansion and slowdown in trend productivity growth. They help separate out short-term fluctuations (e.g. due to business cycles or COVID) from longer term structural trends.

Vertical lines have been introduced into Figure 63 to recognise various 'productivity growth cycles'. Growth cycles may vary in length, with each cycle endeavouring to capture peaks in

[1356] In a recent report on immigration and productivity by the e61 Institute the authors show that migrant workers are more likely to be employed in lower productivity industries and firms compared to non-migrants and that this trend has intensified in recent years. In other words, the allocation of migrant workers has become less efficient, contributing to Australia's productivity slowdown. The authors suggest that the work restrictions that the Australian Government places on particular migrant groups (e.g. students) may have unintended negative economic consequences. For more, see D Andrews, E Clarke, L Vass and A Wong, *Misallocated Migrants: Immigration and Firm Productivity in Australia* (e61 Research Note No 5, 2023).

[1357] The Business Council of Australia (BCA) suggests that labour hoarding may, in part, have dragged down labour productivity – see BCA, *Australia's Flagging Competitiveness and Productivity* (November 2024). Research from e-61 suggests that one to five Australian workers are subject to a non-compete clause. See D Andrews and B Jarvis, *The Ghosts of Employers Past: How Prevalent are Non-compete Clauses in Australia?* (e61 Micronote, 2023).

productivity. As David Peetz notes, the trouble with growth cycles is that 'the end point is not easy to pick', especially when you are in one.[1358]

Returning to data on labour productivity, Table 71 shows annual growth in labour productivity. Three measures are presented: the first is for the market sector (which is all industries, not including health care and social assistance, education and training, and public administration and safety);[1359] the second is for the market sector minus the agricultural and mining industries; and the third is for all industries (measured as GDP/total hours worked). The last is added for comparison purposes while noting the limitations of this measure given the inclusion and weighting of the non-market sector.

Table 72 presents similar data but with the annual data averaged over a five year period, covering 1998–2002 through to 2018–2022. A five-year window that includes COVID-19 (2020–2024) is also provided for comparison. Column 1 (in Table 72) shows that in the 2018–2022 five-year period average annual labour productivity growth in the market sector was 1.1%, rising to 1.3% when agriculture and mining were excluded. In the 2020–2024 five-year window, average annual growth was 0.7% in the market sector and 1.2% when agriculture and mining were excluded.

Growth in labour productivity has clearly been slow for some time. In 2003–2007 average annual productivity growth was equal to 1.4% in the non-agriculture and mining market sector – although this slowed to just 0.8% in 2013-17. The bottom row in Table 72 – covering just two years – shows the productivity slowdown caused by the growth in hours worked.

[1358] D Peetz, 'Productivity is Often Mistaken for Wages. What Does it Really Mean? How Does it Work?', *The Conversation* October 2024.
[1359] It is acknowledged that not all organisations in sectors defined here as being 'non-market' are technically non-market. For example, an increasing number of childcare centres are for-profit and very much operate in the market sector.

Table 71: Annual growth in labour productivity, Australia, 2012 to 2024

	Market sector	Market sector minus agriculture and mining	All
	(1)	(2)	(3)
Sep-2012	3.3%	2.9%	2.9%
Sep-2013	2.4%	1.2%	1.5%
Sep-2014	3.0%	1.3%	2.4%
Sep-2015	1.6%	0.0%	0.9%
Sep-2016	1.1%	0.8%	1.0%
Sep-2017	1.0%	0.6%	0.5%
Sep-2018	0.5%	-0.2%	0.4%
Sep-2019	0.1%	-0.4%	0.0%
Sep-2020	2.1%	1.1%	2.1%
Sep-2021	2.0%	2.8%	1.7%
Sep-2022	0.9%	3.0%	0.6%
Sep-2023	-3.0%	-3.0%	-3.7%
Sep-2024	1.5%	1.8%	0.3%

Source: ABS National Accounts (5206), Table 1 and ABS Labour Account (6150.0.55.003), Table 1 and Labour Account Industry Summary.

Table 72: Average annual growth in labour productivity, Australia, 1998 to 2024

	Market sector	Market sector minus agriculture and mining	All
	(1)	(2)	(3)
1998–2002	2.8%	2.9%	2.6%
2003–2007	1.3%	1.4%	1.1%
2008–2012	1.8%	1.4%	1.2%
2013–2017	1.8%	0.8%	1.3%
2018–2022	1.1%	1.3%	1.0%
2020–2024	0.7%	1.2%	0.2%
2022–2024	-0.8%	-0.6%	-1.7%

Note: Annual estimates of productivity are computed over the four quarters to September of each year and then averaged over the five-year windows as reported.

Source: ABS National Accounts (5206), Table 1 and ABS Labour Account (6150.0.55.003), Table 1 and Labour Account Industry Summary.

3.2 Labor productivity at the industry level

In this section the focus is on labour productivity growth at the industry level. For each industry the numerator is GVA, while the denominator is hours worked. No adjustment is made in the latter for quality hours worked, reflecting the data that are published.

Table 73 presents data on the average annual growth in labour productivity in the market sector over the period 1998 to 2024. The average annual growth is shown over intervals of five years, reflecting the value of assessing productivity over longer time periods.

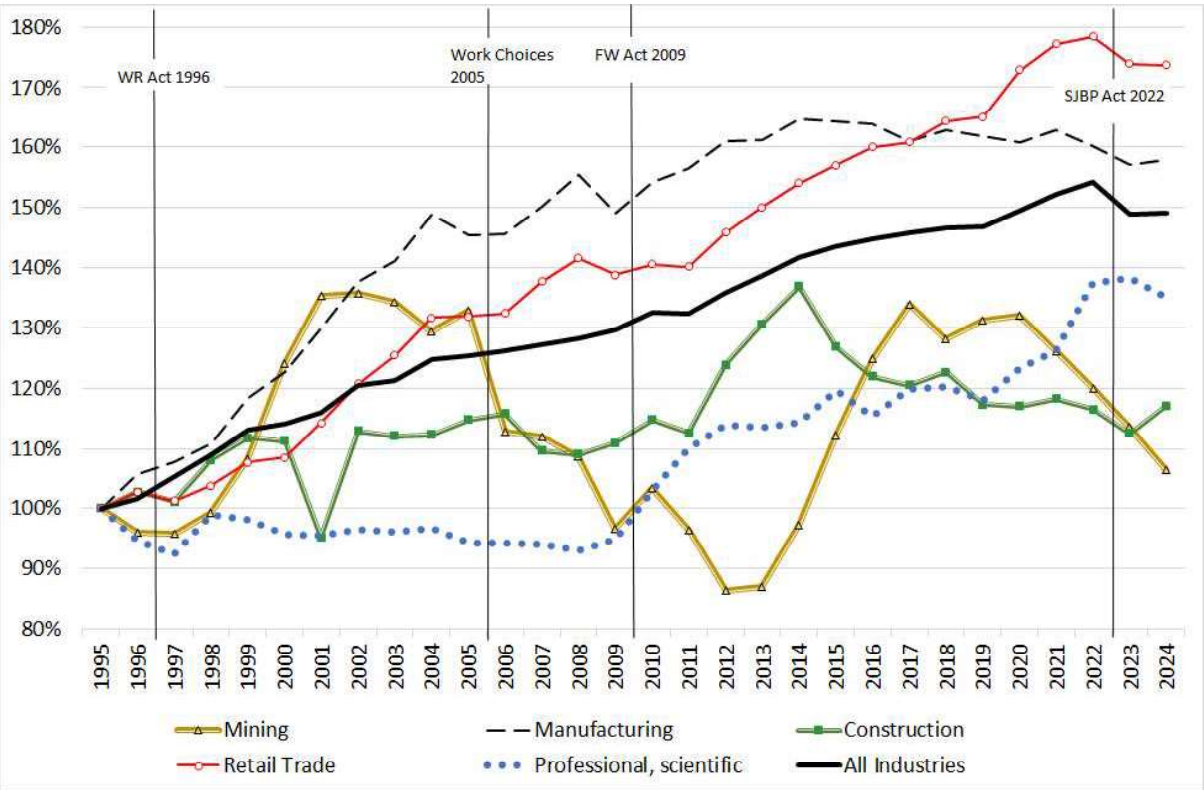
Figure 64 shows trends graphically, although for space reasons the analysis is confined to five market sector industries. An all-industry group that includes the non-market sector is included for comparative purposes, although the limits of this all-industry measure should be acknowledged. The choice of particular market sector to profile is based primarily on size (in terms of employment at August 2024). The sectors are retail; construction; professional, scientific and technical services; mining; and manufacturing. Mining has been included because it has a disproportionate effect on measures of Australia's national productivity; and manufacturing has been included because of its historical importance in the Australian economy.

Table 73: Average annual growth in labour productivity by industry (market sector), Australia, 1998 to 2024

	Five-year periods							
	1998–2002	2003–2007	2008–2012	2013–2017	2018–2022	2020–2024	2022–2024	2012–2024
Agriculture, forestry and fishing	19.6%	26.4%	25.8%	3.2%	19.1%	46.3%	7.9%	36%
Mining	36.8%	-16.5%	-20.5%	54.0%	-6.4%	-19.4%	-11.2%	23%
Manufacturing	24.2%	6.3%	3.6%	-0.2%	-1.6%	-1.8%	-1.4%	-2%
Electricity, gas, water and waste services	4.7%	-4.4%	-4.9%	11.4%	-9.6%	-7.2%	-5.8%	-9%
Construction	4.5%	-2.2%	13.6%	-7.8%	-5.0%	0.1%	0.5%	-5%
Wholesale trade	7.6%	6.9%	6.5%	12.3%	4.7%	7.1%	1.2%	29%
Retail trade	16.2%	9.8%	3.1%	7.2%	8.6%	0.5%	-2.6%	19%
Accommodation and food services	15.6%	14.3%	-3.2%	6.4%	17.0%	13.1%	-5.9%	12%
Transport, postal and warehousing	10.5%	4.6%	7.8%	2.1%	0.8%	9.8%	5.2%	6%
Information media and telecommunications	31.0%	8.8%	3.8%	23.9%	20.6%	14.5%	5.2%	75%
Financial and insurance services	14.9%	10.8%	11.0%	1.6%	-1.2%	0.0%	-1.9%	7%
Rental, hiring and real estate services	-1.9%	-18.7%	12.1%	12.7%	10.5%	3.2%	0.6%	27%
Professional, scientific and technical services	-2.5%	-2.0%	22.5%	5.7%	14.4%	9.5%	-1.8%	19%
Administrative and support services	-18.8%	-6.2%	-8.2%	12.0%	12.9%	6.8%	-0.3%	23%
Arts and recreation services	12.7%	23.5%	8.8%	12.2%	12.4%	1.1%	-13.0%	6%
Other services	17.0%	8.0%	13.1%	-1.2%	1.8%	3.8%	6.5%	2%

Source: ABS 5204.0, Australian system of National Accounts, Table 15, Labour Productivity and Input, Hours worked and gross value added (GVA) per hour worked – by industry.

Figure 64: Estimates of labour productivity growth for select industries, Australia, 1995 to 2024



Note: Data indexed to 1995–96.

Source: ABS 5204.0, Australian system of National Accounts, Table 15.

Alt-text: A line chart showing the trend in Mining, Manufacturing, Construction, Retail Trade, Professional, scientific, and all industries between 1995 and 2024.

There are two initial observations flowing from Figure 64. First, the 'All Industries' line steadily increases until 2022, when it declines (for possible reasons, see above). Second, and more important for this section, trends in labour productivity growth vary enormously by industry (also demonstrated in Table 73). National productivity debates often fail to take account of the way that industry differences influence national-level outcomes.

Working through the separate industry stories revealed by Figure 64 (and Table 73), the 2008–2012 period shows a sharp fall in labour productivity in mining. This was during the mining boom and a period of significant investment in new infrastructure (capital) during the construction phase (also known as 'capital deepening'). During this boom, high commodity prices also made extracting lower-yield deposits profitable, but lower ore grades require more labour per unit of output, thus reducing output per hour worked (productivity).[1360] In the 2013–2018 period, labour productivity in

[1360] For further discussion on this point, see D Peetz, 'Does Industrial Relations Policy Affect Productivity' (2012) 38(4) *Australian Bulletin of Labour* 268–292; and KPMG, *Australia's Productivity Growth: Further Research and Findings* (KPMG Research Paper, June 2024) 14.

mining grew (on the back of the investments in the previous period). Labour productivity in mining has been declining since 2020. The ABS notes that mining recorded its fourth consecutive annual decline in MFP in 2023–24. It attributes the latest decline, in part, to a growth in hours worked on account of weather disruptions and unplanned maintenance.[1361]

Second, the labour productivity trends in **construction** moved in the opposite direction to mining. During the period of capital deepening phase in mining, high levels of mining related construction drove productivity. The subsequent slowdown may reflect a slowdown in mining infrastructure projects. The uptick since 2022 might relate to strong public infrastructure investment.

Third, the **retail trade** industry has shown strong growth in labour productivity, with the latter peaking in 2022. For all periods shown in Table 73, labour productivity in retail exceeds that for the all-industry average. Growth in retail sector likely reflects technological advancements (e.g. e-commerce, self-service checkouts, online shopping et cetera).

Fourth, labour productivity growth in **manufacturing** was also strong over most of the period shown, although there was some stalling after around 2016. Australian manufacturers have faced substantially increased competition since the Button Plans of the late 1980s, which progressively reduced tariffs on significant industries. But resultant increases in efficiency had their limits, with the dramatic reductions in, or total disappearance of, some industry sectors.[1362] Ford, for example, stopped manufacturing in Australia in 2016.

Fifth, in the **professional, scientific and technical services** sector labour productivity was weak (negative) until around 2009. Between 2009 and 2023 it exhibited strong growth. This is likely on the back of technological advancements, such as cloud computing, data analytics and so on. The decline since 2022 is associated a growth in hours worked.[1363]

The main observation here is that industries vary significantly in terms of measured productivity growth. Further analysis of these different trends is necessary and evidence-based industry variations should be part of future industrial relations debates over the causes of productivity growth and prescriptions to promote its growth.

3.3 Productivity at the enterprise level

The enterprise should be the level at which productivity is most easily and accurately measured. The definition and measurement of productivity at enterprise level, however, is rarely discussed or systematically analysed. This is particularly the case in debates concerning productivity and industrial relations. Why?

First, data for monitoring productivity at the industry and national levels are systematically collected and reported by organisations, such as the ABS and the Productivity Commission, but less so at the enterprise level. These organisations focus on broader economic trends, regulatory

[1361] Australian Bureau of Statistics, Estimates of Industry Multifactor Productivity, 22 January 2025 <https://www.abs.gov.au/statistics/industry/industry-overview/estimates-industry-multifactor-productivity/latest-release>.
[1362] Productivity Commission *From Industry Assistance to Productivity: 30 Years of the Commission* (Productivity Commission, 2003) 185.
[1363] See Australian Bureau of Statistics, *Estimates of Industry Multifactor Productivity*, 22 January 2025 <https://www.abs.gov.au/statistics/industry/industry-overview/estimates-industry-multifactor-productivity/latest-release>.

settings, labour market conditions, competition, and technological change rather than the granular dynamics of individual firms.

Second, measuring productivity at the enterprise can also be complex and resource intensive. In fact, it is unclear how many individual enterprises develop a systematic approach to the definition and measurement of productivity. It was found in 1990, for example, that only 68% of 'workplaces' had 'procedures in place which regularly measured labour productivity at the workplace'; this had only increased to 69% in 1995.[1364] This data is now over 30 years old, but it does suggest that the absence of productivity data at the enterprise level may at least partly arise from local managers not even gathering the data on any systematic basis.

Third, businesses are also often reluctant to disclose or share detailed performance metrics because managers fear that information will be used to their disadvantage by either competitor enterprises or unions. A partial compromise is that enterprise productivity is sometimes measured subjectively in surveys through questions asking managers (and sometimes workers) about their perceptions of the relative productivity performance of their enterprises. When asked in 1995, for example, to compare their current labour productivity with that of two years ago, 97% of managers responded positively.[1365]

There has been, however, growing interest in enterprise-level productivity in recent years. Recent examples include Green (2024),[1366] KPMG (2024),[1367] Deloitte's 2024 report on generative AI,[1368] Consult Australia's 2020 report on procurement and productivity,[1369] e61 Institute's 2023[1370] report on job switching (noting that non-compete clauses are a barrier to job mobility and are hampering productivity), the Productivity Commission's 2023 inquiry report on productivity and the labour market[1371] and various Treasury reports.[1372] With the exception of the Productivity Commission report, none of the other reports mentioned here would appear to have an explicit focus on industrial relations.

4. Labour productivity and the bargaining system

In section 3 above, trends in productivity at the national and industry level were presented and discussed, including some consideration of the 'causes' or drivers of the observed trends. It was a high-level commentary and made little mention of industrial relations factors. In this section, the focus is on how one part of the industrial relations system (namely, the bargaining system) can

[1364] A Morehead, *Changes at Work: The 1995 Australian Workplace Industrial relations Survey* (Longman, 1997) esp 107–110.
[1365] A Morehead, *Changes at Work: The 1995 Australian Workplace Industrial relations Survey* (Longman, 1997) 108.
[1366] R Green, *Australia's Productivity Problem is No Easy Fix* (Web Page, 2024) <https://www.uts.edu.au/news/business-law/australias-productivity-problem-no-easy-fix>.
[1367] KPMG, *Trends in Australia's Productivity Growth: Further Research and Findings* (KPMG Economics, Research Paper, 2024).
[1368] Deloitte, *Moving From Potential to Performance: Deloitte's State of Generative AI in the Enterprise Quarter 3 Report*, (Report, 2024).
[1369] Consult Australia, *Uplifting Productivity: Delivering Economic Growth Through Best Practice Procurement* (Consult Australia, 2020).
[1370] J Buckley, *Productivity in Motion: The Role of Job Switching* (e61 Institute Micro Note 14, November 2023).
[1371] Productivity Commission, *Five-year Productivity Inquiry: A More Productive Labour Market* (Report, 2023) Vol 7.
[1372] See e.g. D Andrews, J Hambur, D Hansell and A Wheeler, *Reaching for the Stars: Australian Firms and the Global Productivity Frontier* (Treasury Working Paper, January 2022); The Treasury, *Working Future: The Australian Government's White Paper on Jobs and Opportunities* (Report, 2023) Ch 4.

impact on productivity. Emphasis is first on national productivity and then on productivity at the enterprise level.

4.1 Productivity and the bargaining system at the national level

Many submissions to this review argued that the Secure Jobs, Better Pay amendments would 'compromise productivity and Australia's future economic prosperity.'[1373] Echoing the former Chair of the Productivity Commission (Michael Brennan), their view is that productivity outcomes would be better 'from a firm-based system than an industry-based system'.[1374]

Studies of the primary drivers of national productivity, however, concluded that it reflects the impact of a range of non-industrial relations factors, including technology and innovation, health, education, industry concentration, economic shocks (e.g. COVID-19), capital markets, monetary and fiscal policies, trade and globalisation (and the list goes on).[1375]

The relative importance of these non-industrial relations factors is rarely quantified, but this should not eliminate consideration of how the industrial relations system can have an impact on productivity at the national level. Here again, however, the findings do not support the arguments about the negative impact of national industrial relations and/or bargaining systems. By way of illustration, the vertical lines in Figure 64 show that significant changes to the industrial relations system did not correspond with changes in national productivity growth. The key legal initiates were as follows:

- The Workplace Relations Act, first passed in 1996, saw increasing productivity levels in mining, retail and manufacturing but flat productivity growth in construction and professional services.
- The *Workplace Relations Amendment (Work Choices) Act 2005 (Cth)*, which came into effect in 2006, coincided with flat labour productivity growth in construction, falling in mining; flat in professional, scientific and technical services; and rising in retail and manufacturing.
- The adoption of the Fair Work Act in 2009 was accompanied by claims that the Fair Work Act would damage productivity growth,1376 but these concerns did not eventuate. For example, labour productivity in retail grew by 26% between 2010 and 2022, while professional, scientific and technical services grew by 34% over the same period. Across all industries, growth in labour productivity was equal to 16%.

The Australian conclusion that national labour laws and bargaining systems that did not greatly affect productivity growth broadly followed recent international research. In particular, the international debate over multi-employer collective bargaining is relevant. For example, over

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[1373] See, for example, the submissions from Whitehaven Coal and the Business Council of Australia.
[1374] T McIlroy and P Coorey, 'Multi-employer Bargaining Less Helpful for Productivity: Brennan', *Australian Financial Review* (online, 2 November 2022) <https://www.afr.com/politics/federal/multi-employer-bargaining-less-helpful-for-productivity-brennan-20221102-p5buzk>.
[1375] See D Andrews, J Hambur, D Hansell and A Wheeler, *Reaching for the Stars: Australian Firms and the Global Productivity Frontier* (Treasury Working Paper, January 2022); The Treasury, *Working Future: The Australian Government's White Paper on Jobs and Opportunities* (Report, 2023) Ch 4. <https://treasury.gov.au/sites/default/files/2023-10/p2023-447996-working-future.pdf>; and R Green, *Australia's Productivity Problem is No Easy Fix* (Web Page, 2024) <https://www.uts.edu.au/news/business-law/australias-productivity-problem-no-easy-fix>.
[1376] See Hewett (2011), Ridout (2011) and BCA (2012) as cited in D Peetz, 'Does Industrial Relations Policy Affect Productivity' (2012) 38(4) *Australian Bulletin of Labour* 268–292. J Hewett, 'Low Efficiency Won't Augur Well', *The Australian*, 25 August 2011, 24; H Ridout, 'The Fair Work Act – The Barriers To Productivity Improvement Need To Be Addressed' (Speech, 10th Annual Workforce Conference, Sydney, Australian Industry Group, 5 September 2011). Business Council of Australia *Pipeline or Pipe Dream? Securing Australia's Investment Future* (BCA, 2012).

recent years international agencies, like the OECD (2019), suggest that nationally coordinated collective bargaining systems have had a positive impact on employment, job quality, labour market inclusiveness and productivity. Coordinated bargaining is 'an attempt to achieve the same or related outcome in separate negotiations',[1377] typically in bargaining arrangements that occur at different levels (e.g. enterprise, sector and/or national levels). Grimshaw et al. summarised a 'comprehensive' European study, which found that 'multilevel bargaining is a necessary condition for delivered productivity growth'. They went on to draw two conclusions:[1378]

> (i) Enterprise bargaining and coordinated multilevel bargaining both generate higher productivity growth than either absent collective bargaining or uncoordinated bargaining.
>
> (ii) Strongly coordinated multilevel systems have superior productivity effects. Three types of vertically coordinated systems are especially effective: enterprise-sector systems, sector-national systems and enterprise-sector-national systems.

The OECD conclusions reversed the earlier support by international agencies for single-employer collective bargaining. Instead, they advocated multi-employer bargaining combined with enterprise-level bargaining because, amongst other things, they see this form of coordinated bargaining as producing greater national productivity growth. They are supported by related academic studies.[1379]

Where Australia fits into this internationally comparative analysis is not clear. The unambiguous implication, however, is that a national collective bargaining system based purely at the single-enterprise level is likely to be poor for national productivity.

4.2 Productivity and the bargaining system at the enterprise level

Much research attention in this area has focused on the effects of the **presence** of unions and/or collective bargaining within the organisation on productivity. The conclusions vary, but the first lesson is that the presence of neither unions nor collective bargaining are antithetical to good productivity outcomes. In other words, not all unions or all instances of collective bargaining lead to good or bad productivity performance. As a classic source said, 'unionism per se is neither a plus nor a minus to productivity'.[1380] Similarly, collective bargaining is frequently found to be correlated with good productivity, but there are no guarantees.

These research conclusions lead a different approach. Instead of universal definitive prescriptions for productivity growth in all circumstances, this approach focuses attention on the specific types of unions, managers and/or collective bargaining that contribute to good productivity growth within enterprises. There are at least two possible options here: productivity growth can come

[1377] D Sisson and P Marginson, 'Co-ordinated Bargaining: A Process For Our Times?' (2002) 40(2) *British Journal of Industrial Relations* 199.
[1378] D Grimshaw, B Brandl, F Bertranou and S Gontero, 'Tracing the Potential Benefits and Complex Contingencies of Multilevel Collective Bargaining' (2024) 163(4) *International Labour Review* 661.
[1379] For example, D Grimshaw, B Brandl, F Bertranou and S Gontero, 'Tracing the Potential Benefits and Complex Contingencies of Multilevel Collective Bargaining' (2024) 163(4) *International Labour Review* 657–675; CF Wright, 'Multi-employer collective bargaining in liberal market economies: Reasons for survival and reinvigoration' (2024) 163(4) *International Labour Review* 677-691; S Andersen, 'Multi-employer Bargaining in Denmark: Interwoven Processes of Coordination' S. (2024) 163(3) *International Labour Review* 693–710.
[1380] R Freeman and D Medoff, *What Do Unions Do?* (Basic Books, 1984) 179.

through the **outcomes** of collective bargaining (i.e. in the outcomes that are embodied in the resulting collective agreement), irrespective of whether the bargaining is within or outside the formal system of collective bargaining; or it can come through the **process** of collective bargaining. Each of these options will be discussed in turn.

First, some of the answers about the positive impact of collective bargaining on enterprise productivity arise from the periodic rounds of formal collective bargaining and the clauses of the resulting collective agreements. But what provisions contained in the final agreements are most important for productivity? Is it the provisions about wages or working hours or shift arrangements or flexibility of labour utilisation or disputes procedures or something else?

In a valuable (and much neglected) research paper, the Fair Work Commission explored this question with respect to collective agreements reached within the formal enterprise bargaining system. Most directly relevant here, the research paper examined, by way of case studies, the effectiveness of 26 different clauses of enterprise agreements in promoting productivity growth. These clauses fell into three broad categories, focusing on:

- flexibility and leave
- skills
- incentives and engagement.

Many of these enterprise agreement clauses corresponded with major causes or determinants of productivity growth mentioned above:[1381]

> productivity or innovation, including: change in work arrangements, competitiveness, changes in organisational or managerial processes, engagement, targets and incentives for employees, training and human resource planning.

In other words, these provisions often affect the efficiency of capital utilisation. The success of these clauses, however, was found to be closely affected by the organisational context:[1382]

> … in each case the operation and effect of the clauses discussed was highly dependent on organisational context and shaped by the policies or practices and particular work or operations to which they relate.

The importance of the organisational context – for both whether the collective agreements contain such clauses and whether the clauses effectively produce greater productivity in practice – is a recurring theme that pervades much of the literature.

Another way of producing outcomes that promote productivity growth is outside the formal system of periodic collective bargaining. This can be seen in five extended Australian case studies of cooperation between managers and union representatives, facilitated by tribunal members.[1383] In all five cases, greater cooperation in the workplace led to enhanced productivity growth, even though it was not necessarily the main motivation for change and it came in very different ways.

[1381] Fair Work Commission, 'Productivity and Innovation in Enterprise Agreement Clauses: An Overview of Literature, Data and Case Studies at the Workplace Level' (December 2014), *Future Directions 2014–15: Initiative 29*, 28.
[1382] Fair Work Commission, 'Productivity and Innovation in Enterprise Agreement Clauses: An Overview of Literature, Data and Case Studies at the Workplace Level' (December 2014), *Future Directions 2014–15: Initiative 29*, 28.
[1383] M Bray, J Macneil and A Stewart, *Cooperation at Work: How Tribunals Can Help Transform Workplaces* (Federation Press, 2017).

Just as pertinently, in two of the five cases, enterprise bargaining was largely irrelevant to the successful cooperative relationships and productivity generation. In the other three cases, cooperation involved the bargaining rounds, but they were never the 'main game'.

The types of outcomes in these five cases that were consistent with productivity growth mostly focused, in substantive terms, on organisational change and, in procedural terms, on defining formal structures and roles for consultation over changes between managers, employees and union representatives. But again, it was not the outcomes of bargaining themselves that were important. Instead, it was the organisational context: the decisions of 'leaders' on both sides (i.e. managers and unions) to overcome past adversarialism and try 'something new'; the improving relations between managers and union representatives that led to growing trust between them; the new language and behavioural skills that all managers and employees were trained in; and the sharing of information in negotiation sessions.

This leads to the second aspect of collective bargaining that is central to productivity growth: the process of bargaining itself. In other words, bargaining at least forces the parties (usually managers and union representatives) to talk to each other. Only by being motivated to 'do things differently' and initiating conversations and compromises – engaging in dialogue – can cooperative relationships be developed. Once the practice of bargaining – or ideally a pattern of cooperation – is established, can the parties negotiate the bargaining outcomes that are necessary for productivity growth and ensure that those outcomes are effectively applied within the enterprise.

So research, both overseas and in Australia, suggests that the industrial relations mechanism by which greater productivity growth is achieved at the enterprise level is not just through the content of collective agreements – the outcomes of bargaining – but especially through the bargaining process and the relationships within the enterprise between managers, workers and unions.

Discussions about the potential contributions of unions and collective bargaining to productivity growth at an enterprise level are directly relevant to the intentions – if not the effectiveness – of the Secure Jobs, Better Pay amendments and this Review. In particular, they were raised by stakeholders in feedback about the amendments concerning the integration of institutions (Part 1 of the report) and those concerning bargaining and agreement making (Part 2 of the report).

5. Gender equality and wage growth

A particular focus of the Secure Jobs, Better Pay amendments has been on improving job security, engendering real wage growth and achieving gender equality. These outcomes, however, are frequently absent in productivity debates and analysis, notwithstanding their critical importance to productivity at the national and enterprise level. Section 5.1 below discusses gender equality and its relationship with productivity. In section 5.2, the focus is on the link between wage growth and productivity.

5.1 Gender equality

Gender equality is both a fundamental human right and a critical national productivity issue. Despite numerous reports from organisations such as the World Economic Forum (WEF),[1384] the

[1384] See World Economic Forum (WEF), Global Gender Gap Reports. The 2024 report was released June 2024.

Workplace Gender Equality Agency (WGEA)[1385] and the Women's Economic Equality Taskforce[1386] emphasising the 'business case' for gender equality, it remains largely absent from the debate about national productivity in Australia. This, in large part, is because the various statistical series used to generate national productivity estimates (such as those used above) do not disaggregate by gender and because much of the analysis is focused on (measurable) economic benefits rather than (unmeasurable) social benefits, like improved aged care or better educational outcomes.

By way of example, the Productivity Commission's 2023 report *A More Productive Labour Market* makes only four references to gender and two to women. This is notwithstanding the fact that women, on average, are now more highly educated than men and a critical source of skilled labour.[1387] Women also account for 48% of total employment, while 55% of the 3.2 million new jobs created since 2012 have gone to women.

Not only does the Productivity Commission's report largely overlook gender but also, where it does address the issue, it reflects a limited understanding of the relationship between gender equality and productivity. Again, by way of example, the Productivity Commission asserts that 'work value is largely a social goal and does not necessarily relate to the desirable outcomes of **efficient labour markets**' (emphasis added).[1388] Such a perspective fails to acknowledge that when work is not appropriately valued (e.g. wages do not reflect job complexity, skill level or effort) labour markets may become inefficient due to a misallocation of talent. Moreover, it ignores the social function of wages and the fact that market-driven wage systems do not always result in fair pay – as reflected in the historical undervaluation of many feminised industries, well below those workers' average productivity. Realigning wages through work value exercises can drive productivity at both the enterprise level and the national level by enhancing employee effort, motivation and job satisfaction while reducing turnover. Recognising work value is also essential for addressing labour shortages and mitigating the adverse effects of wage stagnation and inequality on national economic performance.

A second issue with a profound effect on organisational or enterprise productivity is workplace sexual harassment (which is also addressed as part of the Secure Jobs, Better Pay amendments). It is easy to see how sexual harassment at work could adversely affect productivity through proxy measures such as:

- working in less productive ways as a direct or indirect result of harassment (i.e. avoidance of certain tasks, people, places, circumstances; increased conflict)
- increased absences from work and higher staff turnover
- time taken in related processes, such as complaints, adjustments, investigations and hearings
- additional time spent in remedial (as opposed to preventative) training, policy communication, 'culture change' programs.[1389]

[1385] For example, WGEA, *Workplace Gender Equality: The Business Case* (Web Page, 2018) <https://www.wgea.gov.au/publications/gender-equality-business-case#economic-growth>.
[1386] Women's Economic Equality Taskforce, *A 10-year Plan to Unleash the Full Capacity and Contribution of Women to the Australian Economy* (Report, Department of the Prime Minister and Cabinet, 2023).
[1387] As of May 2024, 36.9% of Australian females aged 15–74 held a bachelor's degree or higher, compared to 29.8% of males in the same age group. See Australian Bureau of Statistics (ABS), *Education and Work, May 2024* Table 11: Highest education attainment (ABS, 2024).
[1388] Productivity Commission, *Five-year Productivity Inquiry: A More Productive Labour Market* (Report, 2023) Vol 7, 101.
[1389] AHRC, *2020 Respect@Work: National Inquiry into Sexual Harassment in Australian Workplaces* (Report, 2020) 208–209, 302, 316–320.

Moreover, experiences of workplace sexual harassment are higher for some workers, some types of work and in some industries. Insecure work can have a compounding effect. Women, including young women and migrant women, are disproportionately represented in insecure work and in incidents of sexual harassment.[1390]

A third gender equality issue with an important effect on organisational or enterprise productivity is parental leave.[1391] This is an area in which the economic, or 'business case', arguments are well established. The disagreement seems to be about where and by whom costs and benefits are accrued. At the level of organisations, the productivity benefits of increased uptake of parental leave would be captured in measures such as the number of workers who return to work and the associated benefits of skilled worker retention (e.g. reduced recruitment, training cost, retained knowledge).[1392]

The key to understanding the potential productivity benefits of many of the Secure Jobs, Better Pay amendments lies in the way they aim to use 'macro' mechanisms (ie. national laws) to change 'micro' behaviours (ie. harmful gendered attitudes, motivations and behaviours) and thereby increase workplace productivity.[1393] The legal innovations can be seen in the chapters of the report on paid family and domestic violence leave (Chapter 23), equal remuneration (Chapter 25), prohibiting pay secrecy (Chapter 27), prohibiting sexual harassment in connection with work (Chapter 28), anti-discrimination and special measures (Chapter 29), flexible work (Chapter 31) and unpaid parental leave (Chapter 32). Empirical confirmation of their impact on productivity is still to come.

5.2 Wage growth

One aspect of industrial relations that has received much attention over the years in Australia is the relationship between productivity and wages, although it has mostly been considered as a distributive issue.

Empirical studies show, for example, a (historically) strong relationship between productivity growth and real wage growth. As productivity grew over the decades, Australian firms shared (or were forced to share) the benefits via higher wages. This relationship, however, changed after 2000.[1394] In technical terms, there was a 'decoupling' in the relationship, with real wages growing at a slower pace than labour productivity. This is shown in Figure 65 (for the market sector). There was a catch-up during the GFC (2007–08), but decoupling set in again from 2011–12 onwards. The ABS refers to the gap (i.e. the difference between labour productivity growth and real compensation) as 'net decoupling'.[1395] Real wage decoupling is not unique to Australia. It has occurred in most OECD countries over recent years.[1396]

[1390] Women's Economic Equality Taskforce, *Women's Economic Equality: A 10-year Plan to Unleash the Full Capacity and Contribution of Women to the Australian Economy* (Department of the Prime Minister and Cabinet, 2023) 32.
[1391] M Baird, M Hamilton and A Constantin, 'Gender Equality and Paid Parental Leave in Australia: A Decade of Giant Leaps or Baby Steps?' (2021) 63(4) *Journal of Industrial Relations* 546–567.
[1392] Women's Economic Equality Taskforce, *Women's Economic Equality: A 10-year Plan to Unleash the Full Capacity and Contribution of Women to the Australian Economy* (Department of the Prime Minister and Cabinet, 2023) 29.
[1393] Women's Economic Equality Taskforce, *Women's Economic Equality: A 10-year Plan to Unleash the Full Capacity and Contribution of Women to the Australian Economy* (Department of the Prime Minister and Cabinet, 2023) 47.
[1394] See M Cowgill, *A Shrinking Slice of the Pie* (Australian Council of Trade Unions Working Paper 1, 2013).
[1395] Australian Bureau of Statistics, *Has Worker Compensation Reflected Labour Productivity Growth?* (ABS, 2022).
[1396] C Schwellnus, A Kappeler and P Pionnier, *Decoupling of Wages from Productivity: Micro-level Facts* (OECD Economics Department Working Papers No 1373, 2017) 3.

Figure 65: Labour productivity and real average hourly compensation – market sector

Source: Australian Bureau of Statistics (ABS) Has worker compensation reflected labour productivity growth.[1397]

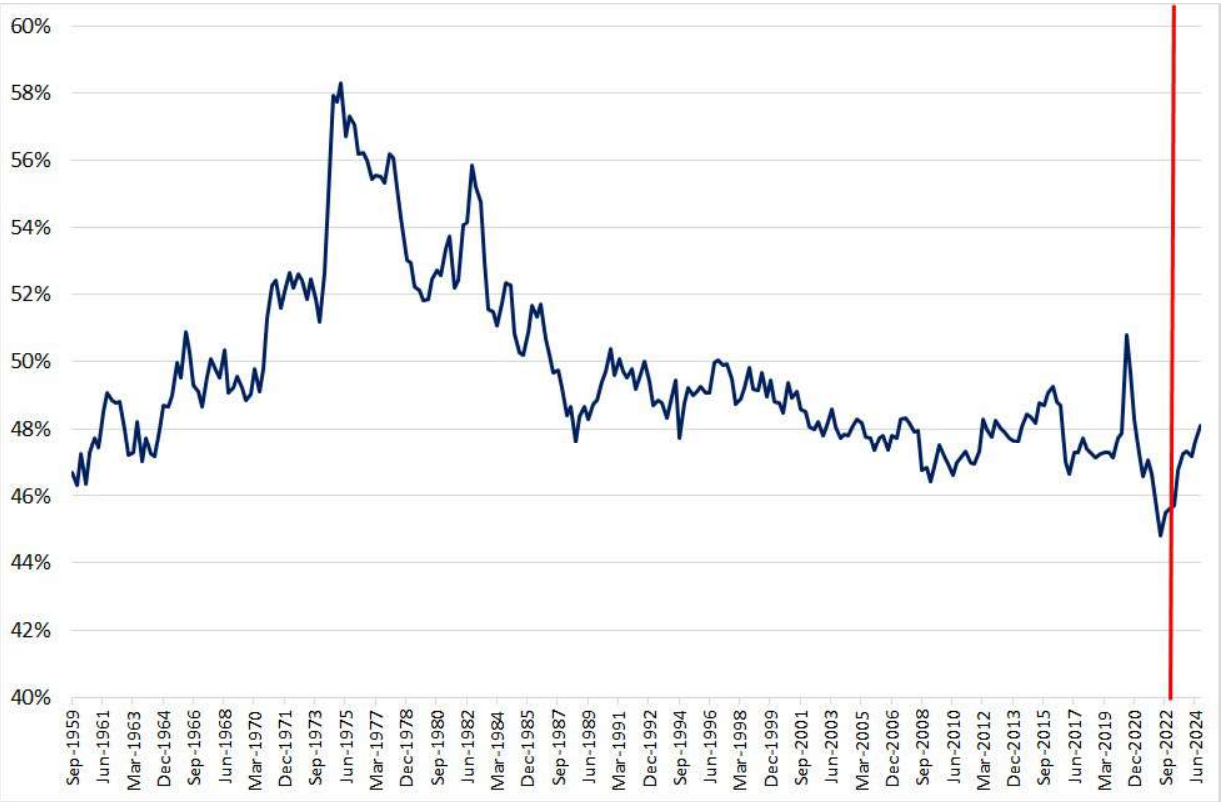
Alt-text: A line chart showing the trend in Average Hourly Compensation and Labour Productivity by financial year between 1995–1996 and 2021–2022.

If productivity is rising but wages are not growing proportionally, the gains from economic growth must be going somewhere else. This suggests that a smaller share of GDP is going to labour, and a larger share is being captured by capital (profits, rents, and returns on investment). A different way of looking at the issue is, therefore, through the distribution of national income between profits and wages; in other words, by considering the labour share of GDP.[1398]

Figure 66 plots the labour share of GDP between 1959 (the start of the series) and 2024. It shows that the share of GDP going to labour was declining from the mid-to-late 1980s until mid-2022, when it reached its lowest point ever. Thereafter, it has been rising, albeit only to the levels of the 2000s.

[1397] Australian Bureau of Statistics, *Has Worker Compensation Reflected Labour Productivity Growth?* (ABS, 2022).
[1398] For further discussion on measurement issues in relation to the labour share, see J Stanford, 'The Declining Labour Share in Australia: Definition, Measurement and International Comparisons' (2018) 81 *Journal of Australian Political Economy* 11–32.

Figure 66: Labour share of GDP, 1959 to 2024



Note: The red line shows when the Secure Jobs, Better Pay Act came into effect.

Source: ABS 6206.0, Table 7. Compensation of employees and GDP.

Alt-text: A line chart showing the trend in Labour share of gross domestic product between 1959 and 2024.

Another way of considering the distributional aspect of productivity growth is to consider trends in real unit labour costs (RULC). RULC measure real labour costs per unit of output – and so helps assess whether wage growth is aligned with productivity growth. If RULC are falling it suggests that real wages are not keeping up with productivity growth.[1399]

The trend in RULC in Australia is shown in Figure 67. It shows that between December 2000 and December 2012 (in quarterly terms and not smoothed), RULC fell by 7.3%. There was a further decline in RULC over the 2012 to 2022 period. The decline relates, in part, to the declining bargaining power of workers, influenced by changes such as declining union membership, the erosion of collective bargaining and the rise in precarious work.

Since the passage of the Secure Jobs, Better Pay amendments RULC have been rising – increasing by 5.3% between December 2022 and September 2024 – although, as concluded in Chapter 8 above, it remains to be seen whether this trend continues.

[1399] Australian Bureau of Statistics, *Has Worker Compensation Reflected Labour Productivity Growth?* (ABS, 2022).

Figure 67: Real unit labour costs, June 1994 to September 2024

Note:

1. The series has been smoothed using a four-quarter moving average.

2. The red line shows when the Secure Jobs, Better Pay Act came into effect.

Source: ABS 5206, Table 42.

Alt-text: A line chart showing the trend in real unit labour costs and real unit labour costs (non-farm) between 1994 and 2024.

There are at least two remaining questions about the relationship between real wages and productivity growth. First, what is the mechanism by which productivity gains flow through to real wages? A simple answer to this question centres on market forces – in other words, it is through the actions of enterprises and individual employees as they adjust to the forces of supply and demand. This is undoubtedly true, but in Australia this explanation needs to be supplemented by reference to industrial relations institutions. How have the real wage increases flowing from institutions and instruments like awards and enterprise agreements been affected by productivity growth – at either the macro or micro level? In particular, has the decoupling of real wages from productivity growth resulted from changes in institutional factors?

Second, do these distributional issues about real wages affect the generation of productivity growth? Again, there is a simple answer, which is no, because productivity is defined in physical terms (i.e. the output produced by inputs) and wages are essentially the price of labour. This denial, however, is often lost on stakeholders who assert that productivity growth is directly affected by wage increases.[1400] There is, however, also a more complicated answer, at least in

[1400] D Peetz, 'Productivity is Often Mistaken for Wages. What Does it Really Mean? How Does it Work?', *The Conversation*, 8 October 2024.

theory. Productivity growth is considered to be heavily dependent on technological change and the decisions of enterprise managers about whether to invest in technological change are affected by the price of labour – the lower the real wage, the more likely that labour will be chosen over capital, leading to reduced productivity growth. The extent to which this theoretical proposition has been tested – especially in Australia over recent years – is questionable. But at least some commentators have argued that some of Australia's recent decline in productivity growth is caused by the decline of real wages.

6. Summary and conclusion

Industrial relations are potentially more important in explaining productivity growth at the 'micro' level of the single enterprise than at the 'macro' national level. This is not to say that other factors are unimportant. Certainly, the impact of factors like technology, skills formation and utilisation and especially management competencies on productivity enhancement is widely confirmed, even if the relative impact of non-industrial relations factors versus industrial relations factors is rarely quantified. The key question is how can industrial relations make a difference? In other words, what are the key industrial relations factors that promote (or impede) productivity growth and by what mechanisms do they operate?

This appendix is not designed as a comprehensive account of productivity and its relationships with industrial relations. Rather, it aims to identify some key aspects of the Australian debate and provoke discussion of them, particularly as they relate to industrial relations. The key points are:

- It must not be assumed that productivity is a universal concept: in particular, interpretations of its causes and prescriptions for promoting productivity growth are deeply affected by the **values/frames of reference** of the parties.
- Productivity is **defined** and **measured** differently according to the 'level' in question. In particular, three levels are important and should be considered separately: the nation, the industry and the enterprise.
- Productivity growth is **generated** by many factors, only one of which is industrial relations:
  - at national level, industrial relations are widely accepted as less important than other factors, like technological innovation, market competition, infrastructure and both workforce and managerial skills
  - at enterprise level, industrial relations are more important.
- In both cases, however, it is important to explore not only the industrial relations factors that **generate** productivity growth but also the mechanisms by which that growth is generated.
- The **distribution** of gains generated by productivity growth – especially through wages and gender equality – is vital and it is not just determined by market forces; rather, the balance of power between the parties and the impact of institutional arrangements (like collective bargaining) are important.
- The key message is that the workplace relations system should focus on **both** the generation of productivity growth and the distribution of productivity growth, **in combination**. One without the other will not be effective.