

## Beware the law of unintended consequences



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As Australia's *Workchoices* engine gathers speed, it is amusing to see 'the market' enthusiastically touted as the answer to our every economic challenge. Removing long-standing labour law limits on industry and freeing-up employment to 'market forces' will boost productivity, increase employment and tackle our disappointing labour participation rates, we are told. Adam Smith's supposedly 'invisible hand' is featuring widely in justifications for further deregulation of the Australian economy. Yet as well as ignoring many of Smith's views on the downside of unrestrained markets, his present-day admirers seem unaware of his interest in unintended consequences. Smith's writings are full of examples of bad outcomes arising from good intentions. In this, of course, he was merely illustrating the 16<sup>th</sup> century proverb about the road to hell – it's paved with good intentions.

What does this have to do with *Workchoices*? Well, quite a lot, actually. In a globalised world, Australia has no bigger challenge than to maintain – or ideally increase – its workforce. Presently, the national labour participation rate stands at 64.4 per cent, having risen slowly since 1979 when it stood at 60.8 per cent. But our workforce is ageing. By the 2020s, it is likely to be growing only a quarter as quickly as it did in the 1980s. According to 2005 Treasury modelling, ageing alone could cause aggregate participation to fall a full ten percentage points to only 54 per cent over the next 30 years. This would be a huge setback for the economy. Put simply, the potential economic growth rate is a combination of growth in the workforce and improved productivity. Without major productivity improvement – and it has recently been falling – slower workforce growth will mean slower economic growth. No wonder federal Treasurer Peter Costello talks about demography as destiny. No wonder he told the ABC recently: 'We've got to increase labour participation'.

But how to do it? The strongest source of employment growth in Australia in the last 20 years has been female part-time work. Librarians have featured strongly in this. Women's full-time employment has grown slightly faster than total employment, but part-time work has increased much more rapidly. Nevertheless, women's participation (55.6 per cent) remains well below that of men (72 per cent). It is lower than in comparable countries too: Canada (61.7 per cent), Denmark (60.4 per cent), Norway (59.8 per cent), Sweden (59.7 per cent) and US (59.2 per cent), for example. So it is not difficult to conclude that the single biggest contributor to a fix for Australia in the years ahead could be action that maintains the strong recent growth in women's employment and brings their participation rates closer to men's. Self-evidently, this means making it easier for women to work and, most importantly, easier for them to work in ways that do not neglect the

much talked-about work/family balance. And here's where *Workchoices* comes in.

Speaking at the recent 2006 ACIRRT Conference in Sydney, Sex Discrimination Commissioner Pru Goward made some powerful points in her paper 'Workchoices: advance or setback for Australian working life?' The wage gap between men and women really only starts to bite when women are around thirty, she says. That is, when many are having children. Strong evidence suggests child-raising is the primary source of female disadvantage. In Australia, there is a notable decrease in women's workforce participation in the age groups 25–29 to 35–39. This is not apparent to anything like the same extent in the USA, UK or Canada. Among women aged thirty to forty with two or more children, 43 per cent of Australians are in the workforce, compared to 81 per cent in Sweden and 64 per cent in the USA.

After many years of struggle, there has at last been some modest improvement in family-friendly benefits in Australia. But predominantly these improvements, maternity leave and genuinely flexible working hours for example, have been won through collective effort. Paid maternity provisions are available to staff in 60 per cent of Australia's top two hundred organisations and in its public sector institutions mostly through collective agreements and other whole-of-workforce policies. In stark contrast, only 8 per cent of individual Australian Workplace Agreements (AWAs) contain paid maternity clauses. Yet a switch to AWAs is the centrepiece of *Workchoices*.

The ability of families to balance work and family rests heavily on how working hours are arranged. Recent analyses of AWAs confirm that employers often use them to increase operating hours and reduce or even remove penalty rates. Overall, AWAs provide for longer working hours than collective agreements, contain fewer overtime benefits and make it much easier for employers to unilaterally require additional time to be worked, often at short notice. Further concerns arise from the likelihood of a further surge in casual work under the new system, since insecure employment often damages work/life balance.

Nobody would sensibly argue that Australia's new industrial regime is deliberately intended to put pressure on an already-worrying labour participation rate. Its *Intergenerational Report* (002–03 Budget Paper No 5) clearly shows the government regards this as a critical issue for attention. But the risk of unintended consequences looks very real. The Treasurer has said 'We've got to increase participation amongst women coming back into the workforce'. He is right. The concern is that, on the face of it, downward pressure on maternity leave benefits, reduced bargaining power in AWAs and less capacity to tailor hours to suit domestic circumstances just do not look like the way to achieve it. ■

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