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Dear Mr Blayney,

**UnionsWA submission to Inquiry into technical and service innovation in Western Australia**

UnionsWA is the governing peak body of the trade union movement in Western Australia, and the Western Australian Branch of the Australian Council of Trade Unions (ACTU). As a peak body we are dedicated to strengthening WA unions through co-operation and co-ordination on campaigning and common industrial matters. UnionsWA represents around 30 affiliate unions, who in turn represent approximately 140,000 Western Australian workers.

UnionsWA thanks the Committee for the opportunity to make a submission on how technical and service innovation can be expanded in Western Australia.

The Australian union movement sees innovation as crucial for fulfilling a national agenda to genuinely lift productivity and improve living standards for all Australians. The role of the government and the public sector in promoting innovation is particularly important. To this end UnionsWA has supported the ACTU in its criticism of the Commonwealth government for cutting funding, and consequently jobs, at the CSIRO. In the words of ACTU Secretary Dave Oliver

*Cutting jobs at the CSIRO will be bad for productivity in the long run. Our national productivity growth depends on innovation and research, and the application of that research in the development of new products and new technologies.... Continued austerity measures, particularly in science and research, will cripple Australia's ability to grow and expand. We will be left behind as our brightest and best leave our shores to go and work elsewhere.<sup>1</sup>*

UnionsWA recommends that the WA state government should champion the case of CSIRO funding at a national level as vital to the promotion of innovation in all Australian states, including WA.

Addressing the above is a crucial part of the 'high road' to productivity, in which long term efficiency gains are delivered through innovation and skills in a knowledge based, high wage economy.

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<sup>1</sup> ACTU 'Job freeze at the CSIRO could stunt productivity and innovation' (8 November 2013)  
<http://www.actu.org.au/actu-media/media-releases/2013/job-freeze-at-the-csiro-could-stunt-productivity-and-innovation>

The alternative, all too often adopted by Australian governments, is the ‘low road’ of cost cutting, lay-offs and cuts to working conditions. According to Green, Toner and Agarwal (2012) policies that lead to these outcomes ‘will not deliver sustained productivity growth’

*Rising unemployment through mass lay-offs and the creation of a working poor in Australia through the erosion of workplace protections are very real risks if we take the productivity low road.<sup>2</sup>*

In 2010 The House of Representatives Standing Committee on Economics issued a report on ‘raising the level of productivity growth in the Australian economy’ argued that

*Human capital reforms are considered the ‘third wave of reforms’ (opening up the economy was the first wave and domestic microeconomic reforms the second). The third wave reforms target firm-level capabilities rather than capacity—market competition and firm-level flexibility as part of previous reforms improved firm capacity.<sup>3</sup>*

Unfortunately many of the reforms aimed at ‘human capital’ (basically at employees) have taken the form of attacks on so-called ‘labour market rigidities’. These are commonly associated with the notion that the labour market needs to have its regulation levels reduced.

Labour market deregulation is too often associated with the removal of collective worker protections such as award conditions, and the institution of individualist arrangements that shift the power in the employment relationship firmly towards the employer. This process is often referred to as labour market ‘deregulation’ – although it is more accurately described as the labour market being re-regulated in favour of employers. Labour market deregulation is often given credit for the surge in productivity over the 1990s. Commentators who make this claim often go on to call for further rounds of labour market reform to ignite a fresh wave of productivity.

However the trouble with such claims is the complete lack of evidence which accompanies them. As Green, Toner and Agarwal note – advocates of this argument have difficulty ‘both theoretically and empirically establishing such a relationship’

*For every argument that can be advanced for the adverse effects of collective agreements and union ‘interference’ with management, opposite arguments can be produced pointing to the positive effects of labour standards and higher wages on the incentive to invest in training, to invest in innovation and to lower the transaction cost burden of employers negotiating individual contracts.<sup>4</sup>*

According to David Peetz, attempts to address productivity growth through industrial relations policies usually stumble by aiming at more objectives than they can meet.

*With few exceptions, it has much more of an impact in the long run on fairness, however defined, than on economic performance. If claims are made that a particular industrial relations policy is going to have a very large (positive or negative) consequences for*

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<sup>2</sup> Green, Roy, Toner, Phillip, Agarwal, Renu, *Understanding Productivity: Australia’s Choice*, The McKell Institute (2012), p.12 [http://mckellinstitute.org.au/wp-content/uploads/2012/11/McKell\\_Productivity\\_Report\\_A4.pdf](http://mckellinstitute.org.au/wp-content/uploads/2012/11/McKell_Productivity_Report_A4.pdf)

<sup>3</sup> House Standing Committee on Economics, *Inquiry into raising the productivity growth rate in the Australian economy*, (2010), p.6. [http://www.aph.gov.au/parliamentary\\_business/committees/house\\_of\\_representatives\\_committees?url=economics/productivity/report.htm](http://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=economics/productivity/report.htm)

<sup>4</sup> Green, Toner, Agarwal, p.35.

*economic performance, such claims should be examined sceptically, as there is a reasonable probability that the effects may be small, even non-existent, or perhaps the opposite of what is claimed.*<sup>5</sup>

To highlight such concerns about the interaction of productivity and the industrial relations system is not union special pleading. Peetz argues that so-called 'deregulation' (meaning non-unionism and individual contracts) will seldom work as their advocates predict because they bring up problems of fairness

*If workers perceive unfairness, they will sense relative deprivation and feel the wage bargain has been breached; and they will then respond with absenteeism, exit, reduced effort, or direct conflict.*<sup>6</sup>

In 1999 Deery, Iverson and Roderick published the results of a longitudinal study on *The Impact of Industrial Relations Climate, Organisational Commitment, and Union Loyalty on Organisational Performance*. They set out to examine, within the banking industry 'the factors that affect the development of a co-operative industrial relations climate, the impact of that climate on union loyalty and organisational commitment and the effect of those forms of loyalty and commitment as well as other variables on a number of organisational performance measures'.<sup>7</sup>

Deery and Iverson found that, on average

*... workers who are more committed to their union are also more committed to their employer. So effort that goes into breaking employees' commitment to their union is also counterproductive.*

As a result, productivity was higher 'when employees displayed loyalty to their union, were satisfied with their performance and believed that the industrial relations climate between the two parties was trustful and co-operative.' A more collective industrial relations climate meant that employees 'were less likely to engage in forms of individualistic behaviour that may be dysfunctional for the firm and for their co-workers'.<sup>8</sup>

Economist John Quiggin has highlighted the importance of what he calls amateur content production, and networked innovation

*... a wide range of motives lead people to contribute to amateur collaborative innovation. Possible motives include altruism, self-expression, advocacy of particular political or social views, display of technical expertise and social interaction. Different motives will be dominant in different situations. In general, these motives are complementary or at least mutually consistent. For example, an altruistic desire to improve open source software will be complemented by enjoyment of a technically challenging task, and by a desire for the*

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<sup>5</sup> Peetz, David, 'Does Industrial Relations Policy Affect Productivity', *Australian Bulletin of Labour*, Vol.38, No.4 (2012), p.269.

<sup>6</sup> Peetz, p.272.

<sup>7</sup> Deery, Stephen J, Iverson, Roderick D, 'The Impact of Industrial Relations Climate, Organisational Commitment, and Union Loyalty on Organisational Performance: A longitudinal Study', *Academy of Management Proceedings* (1999), p.C1.

<sup>8</sup> *ibid.*, p.C5

*admiration of a peer group. However, motives like these do not co-exist well with a profit motive.*<sup>9</sup>

Yochai Benkler, in his book 'The Wealth of Networks' argues that the contemporary networked information environment has

*... increased the role of nonmarket and nonproprietary production, both by individuals alone and by cooperative efforts in a wide range of loosely or tightly woven collaborations. These newly emerging practices have seen remarkable success in areas as diverse as software development and investigative reporting, avant-garde video and multiplayer online games.*<sup>10</sup>

The Committee should be cautious in assuming that sources of innovation come from heroic individuals in the private sector. History shows that they are far more likely to be supported by collaboration that is at least facilitated by the public sector. An industrial relations environment in which individual arrangements promote unfair outcomes will be bad for innovation in WA.

UnionsWA notes that the Committee has decided to focus on certain sectors of the WA economy: agriculture and food; mining and energy; advanced manufacturing.

We agree with the Committee that, in the wake of the easing of the resources boom, examining the need for innovation in these industries is particularly important. UnionsWA has made submissions to other inquiries about the importance of manufacturing, and our concern that the lack of proper attention to this industry during the resources boom meant that it could not fulfil its role as a source of decent work and skilled, secure employment. Harvard University economist Professor Dani Rodrik has described the manufacturing sector as

*... where the world's middle classes take shape and grow. Without a vibrant manufacturing base, societies tend to divide between rich and poor – those who have access to steady, well-paying jobs, and those whose jobs are less secure and lives more precarious. Manufacturing may ultimately be central to the vigor of a nation's democracy.*<sup>11</sup>

Supporting, maintaining and expanding the WA manufacturing sector will be beneficial not just for the sector itself – but also for skills maintenance and development throughout the WA economy. Skilled, secure and well-paying jobs are crucial prerequisites for innovation.

However UnionsWA also notes the absence from the Committee's list of the services and construction sector. This seems to be an important oversight, as the Commonwealth Department of Employment's five year projections of employment growth in WA show that Health Care and Social Assistance, retail trade and construction, will be important sources of employment in this state.<sup>12</sup>

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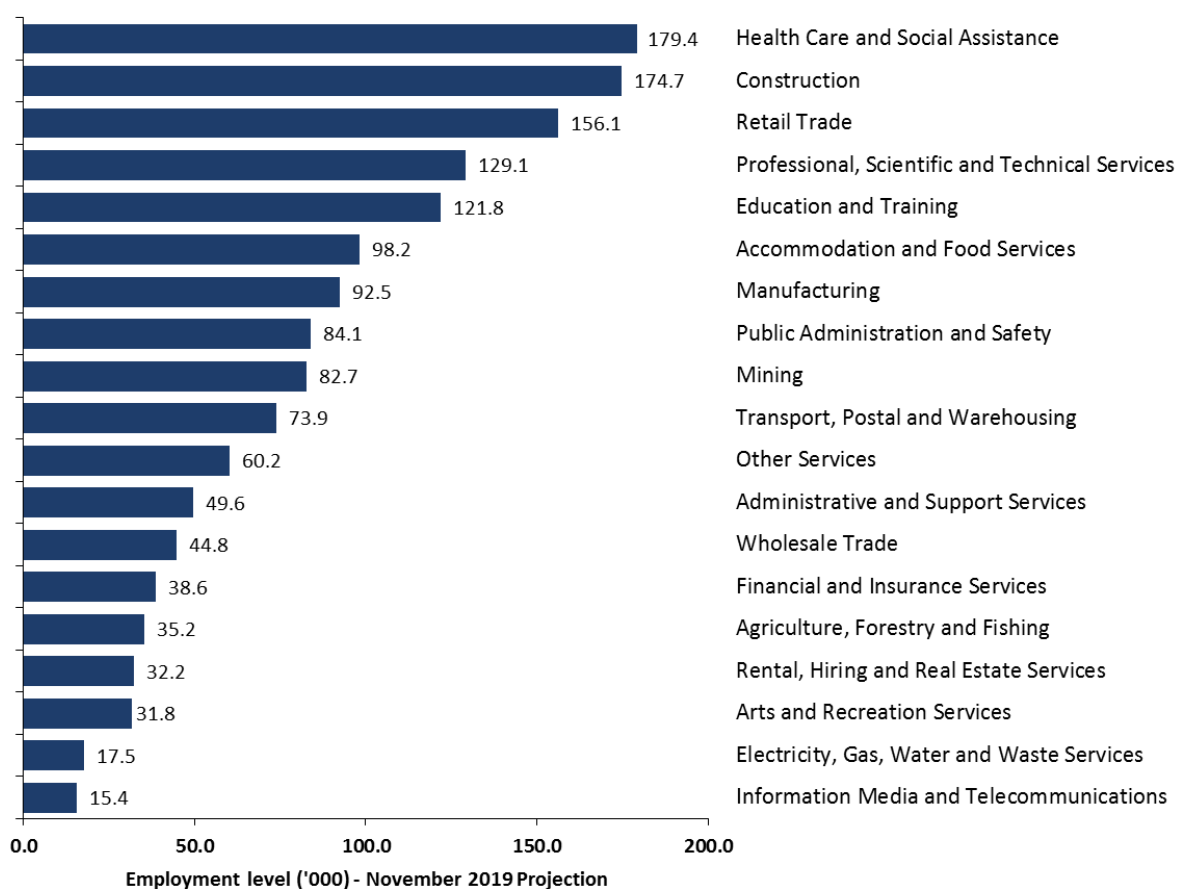
<sup>9</sup> Quiggin, John, 'Amateur content production, networked innovation and innovation policy' *Risk and Sustainable Management Group, School of Economics, University of Queensland*, p.8 <http://cultural-science.org/journal/index.php/culturalscience/article/download/14/53>

<sup>10</sup> Benkler, Yochai, *The wealth of networks: how social production transforms markets and freedom*, Yale University Press (2006), p.2.

<sup>11</sup> Rodrik, Dani, 'The Manufacturing Imperative', *Project Syndicate* (10 August 2011) <http://www.project-syndicate.org/commentary/the-manufacturing-imperative>

<sup>12</sup> Department of Employment, 2015 Employment Projections, <http://lmip.gov.au/default.aspx?LMIP/EmploymentProjections>

## Western Australia



Given these forecasts, it seems remiss of the Committee not to consider how innovation might be encouraged in the services industries. John Quiggin describes human services as being vital to achieving a fair society for the following reasons

*First ... the universal provision of these services is at least as important as direct income redistribution in ameliorating the risks and inequalities inherent in a capitalist society. Second, market provision of these services has repeatedly proved inadequate and unsatisfactory. Finally, public funding and provision of human services is an expression of social solidarity against the atomism and self-seeking that is at the core of economic liberalism.<sup>13</sup>*

Given the importance we have already ascribed to collaboration and networking in fostering innovation and the 'high road' to productivity, the social solidarity arising from the services industry must be a crucial consideration for the future economic progress of WA.

Finally, UnionsWA would like to stress to the Committee the importance of not falling for the siren song of the so called sharing economy when considering 'innovation'.

<sup>13</sup> Quiggin, John, 'An agenda for social democracy' *Risk and Sustainable Management Group, School of Economics, University of Queensland* p.24, [http://www.uq.edu.au/rsmg/WP/Australian\\_Public\\_Policy/WPP09\\_3.pdf](http://www.uq.edu.au/rsmg/WP/Australian_Public_Policy/WPP09_3.pdf)

Currently regulators and politicians are currently struggling with how to respond to services being provided by large multinational corporations who are part of the sharing economy.

While there is no official definition of the sharing economy, most descriptions could be essentially reduced to 'an economic model in which individuals are able to borrow or rent assets owned by someone else.' It is important to remember that 'assets' as used here also includes 'labour'.

While the sharing economy started with sharing assets such as cars, bikes or beds for the night (e.g. AirBnB) it has quickly evolved into a 'sharing' of labour in industries such as transport (e.g. Uber's alternative to taxi services).

While this type of arrangement has been justified as entrepreneurial, in practice it has become a relabelling of employment as sharing. By becoming 'sharers' of an asset (labour), rather than sellers (employees), workers are excluded from the protections of industrial law. This has had far reaching industrial relations consequences around the world

- In the United States services have started which force workers to compete in a classic 'race to the bottom' against each other to bid for the right to work.
- In Australia Uber has been lobbying regulators claiming that workers want the 'flexibility' of becoming 'entrepreneurs' and driving for Uber.

The reality of sharing is that workers are on zero hour contracts with zero entitlements and are forced to carry risk on behalf of a large multinational. Because workers are also competing against each other for work – they will be tempted to cut costs on their 'businesses' by forgoing vital insurance measures such as public liability and income protection. It is also far from clear how 'sharing economy' workers will be covered by workers compensation and health and safety laws. These social protections are not just a matter for the benefit of individual employees. Society as a whole benefits these laws and obligations minimising social costs in the event of catastrophic events and injuries.

While the notion of a sharing may superficially read like collaboration or networking as described elsewhere in this submission, the practical operation of initiatives such as Uber show that they actually work against those elements that foster innovation. Writing in Fastcompany.com, Heimans and Timms point out that

*Uber has built an extraordinary new power network, but it is failing to build or champion a new power community. Its business relies on participation, sharing and self-organization, but it seems to have little commitment to these values. It has a "many by many" model, but often defaults to a "serve the few" mindset. And if Uber does not start to build greater community with both its drivers, riders and beyond, it will making a very big bet that it can survive simply on the strength of its new power model alone. But this may be a very big risk.<sup>14</sup>*

It is also the case that around the world Uber has shown itself to be an extremely aggressive company when it comes to pushing its own interests against, for example, local and regional

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<sup>14</sup> Heimans, Jeremy and Timms, Henry 'Uber's New Power Failure' (26 November 2014)  
<http://www.fastcompany.com/3039042/ubers-new-power-failure>

governments, as well as taxation authorities and regulators. Most recently Uber has been taking on the Australian Taxation Office.

*The company's battle with the Australian Taxation Office takes things to a new level though, as here Uber is not battling a local government but a national authority.... And its strategy in this skirmish could prove instructive. Through Freedom of Information requests, Uber obtained correspondence that it argued showed the taxi lobby had influenced the ATO's decision to (try to) force Uber to pay GST. But the report was leaked to the media before ATO commissioner Chris Jordan had even seen it.<sup>15</sup>*

If this is innovation, it is not the kind the Committee should be seeking to encourage.

In conclusion, UnionsWA argues that technical and service innovation in Western Australia can best be served by

- Safeguarding the crucial role of the public sector in research and development
- Taking the 'high road' to innovation and productivity by promoting fairness and co-operation within workplaces
- Supporting, maintaining and expanding crucial sectors such as manufacturing to ensure skilled, secure and well paid employment
- Taking seriously the role of the services sector, especially those human services that promote social solidarity, and help create the collaborative atmosphere that fosters innovation
- Treating with scepticism the claims that the so-called sharing economy represents 'innovation' as opposed to old fashioned exploitative work practices.

Thank you for the opportunity to comment on this issue. Please contact me if you would like to discuss matters further.

Yours sincerely



**Meredith Hammat**

**Secretary**

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<sup>15</sup> AFR 'Uber versus Australia - in one interactive map' (31 July 2015) <http://www.afr.com/technology/uber-versus-australia--in-one-interactive-map-20150731-gionbq>