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Does Industrial Relations Policy Affect Productivity?

David Peetz*

Abstract

This article considers the link between productivity, fairness, and industrial relations (IR) policy at workplace, national, and international levels using data from micro- and macro-level empirical studies as well as data from the Australian Bureau of Statistics (ABS), the OECD, and other sources. There is some evidence that policies that enhance fairness enhance economic performance. But the effects are conditional; they are neither consistent nor universal. Government policies to encourage or discourage unions, to restrict the extent or scope of collective bargaining or related action, or to encourage or discourage non-unionism or individual contracting, will not do a great deal in net terms to improve economic performance. However, in any specific workplace, industrial relations and the decisions management makes can have a notable effect on productivity. While welfare and industrial relations systems do not make a large inherent difference to economic efficiency, they make a very large difference to social outcomes.

1. Introduction

A thread through much economic policy discourse in the late 20th century was the alleged trade-off between equity and efficiency (Okun 1975). In the labour market, this is typically underpinned by the idea that the optimal allocation of resources will be achieved by the operation of a totally free labour market (Manning, 2004). Any divergence from that ideal in the interests of promoting 'equity' would be seen as harming efficiency. Yet the idea that efficiency and equity are opposed has been challenged by more recent developments in economics, which have led to the argument that more equal societies grow faster than less equal ones (Osberg 1995; Wilkinson and Pickett 2009).

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In debate on industrial relations (IR), in Australia and elsewhere, this conflict is manifested as arguments that policies should, and can, focus on productivity improvement, rather than equity. In recent times, a campaign to make fundamental changes to the *Fair Work Act*, on the grounds of improving productivity, has been pursued (Hewett 2011; Ridout 2011; Business Council of Australia 2012). This article questions the extent to which industrial relations policy affects productivity. Productivity is the *quantity* of output per *unit* of input. *Labour* productivity is output per hour worked. It is *not* measured by the value of that output, or the cost of that input, or the amount of output not produced when there are no hours worked due to strikes. Debate is often complicated by confusion over the meaning of productivity.

Proponents of particular IR policies often *portray* their preferred systems as being designed to enhance economic performance. The reason for that is straightforward. Almost everyone agrees that, other things being equal, people are better off in an economy with high productivity, high employment, and low inflation than the opposite. It is not possible to obtain the same sort of consensus about the distribution of income and power. So arguments about the allocation of resources and power will tend to be couched in terms of its benefits for the economy.

IR policy often appears aimed at more objectives than it 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 very large (positive or negative) consequences for 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. The rest of this article considers the link between productivity, fairness, and IR policy at (in order) workplace, national, and international levels.

2. Micro-level evidence

The major policy questions in IR focus around the extent to which policies advantage or disadvantage unionism, individual contracting or collective bargaining, and the taking of industrial action by unionised workers as part of collective bargaining, or the protection of employment. These are what contemporary debate on the *Fair Work Act*, and much of the debate on WorkChoices, has been about.

There is a long history of studies in Australia and especially internationally that looked at the impact of unions on economic performance. There is a much smaller group of studies that look specifically at individual contracting.

First, we refer to the studies on union effects. The ways in which unions can impede economic performance of a firm are by imposing restrictive work practices or by impeding the introduction of innovations such as new technology. I set aside the question of defining just what a restrictive work practice is. (Is it something that tempers unfettered managerial prerogative or a practice that management was willing to accept in the past but which it is no longer willing to accept?) There is some international evidence from the 1970s showing that restrictive practices had harmful effects (Elbaum and Wilkinson 1979; Lazonick 1979; Pencavel 1977). Such practices were common in Australia in that period up until the mid and late 1980s, but were mostly removed by the two-tier wage system, and then award restructuring and nearly two decades of enterprise bargaining. Restrictive practices were typically associated with demarcations arising from multiple unionism, but union amalgamations, single bargaining units, and the processes mentioned above substantially diminished or ended the impact of demarcations. As to whether unions restrict the introduction of new technology, while there were some cases of this, the evidence even from the 1980s was that, in general, unions did not substantially restrict new technology (for example Batstone and Gourlay 1986; Daniel 1987 McLaughlin 1979; Nichols 1986, p. 232).

Still, it was generally thought amongst conventional economists that unions had a negative impact on economic variables until the emergence in the 1980s of a new literature, based principally around Richard Freeman and James Medoff's book *What Do Unions Do?* (Freeman and Medoff 1984). This showed that unions could have a *positive* effect on productivity through two mechanisms. One was through what they called the union 'monopoly' effect: unions raise wages and the higher wages lead employers to invest in labour-saving technology. This leads to higher labour productivity—though not necessarily higher multi-factor productivity. The second mechanism was the 'voice' effect: employees express their voice through unions and this leads to lower covert conflict at work and to improved techniques of production. In *non-union* workplaces, dissatisfied workers leave, causing turnover costs for employers; in *union* workplaces, they stay and seek to change the problems they identify. There is a body of evidence collected over the years that shows benefits from employee *voice* for economic performance. Direct and indirect participation by employees in decision making—preferably in combination—on average lead to lower absenteeism, lower labour turnover, higher morale and employee satisfaction, and higher productivity, though this may be conditional upon favourable workplace and institutional circumstances (Jones and Svejnar 1982; Strauss 1992; Zwick 2004; Grimsrud and Kvinge 2006).

Whether unionism increases productivity is really a question of how far these competing factors offset each other. It is an empirical question that is likely to produce different results at different times and in different places. After Freeman and Medoff's book came out, there was mixed evidence from the United States. Some were in support of their argument (Allen 1985; Ben-Ner and Estrin 1986; Phipps and Sheen 1994) some were counter to it (Addison, John, and Barnett 1982; Drago and Wooden 1992). Initial British evidence was adverse (Edwards 1987), but by the 1990s negative productivity effects from unionism appeared to have disappeared (Addison, John, and Belfield 2004). There *was* consistent evidence that unions reduced quits and increased job tenure (Freeman 1980; Addison, John, and Belfield 2004).

More recently, three studies in Australia published in the last decade provide some evidence to support Freeman and Medoff. A *positive* relationship was found between unionism and productivity at workplaces where unions are active (Wooden 2000, p. 173). Collective bargaining coverage was associated with *higher* levels of self-claimed productivity (Fry, Jarvis, and Loundes 2002). Firms with high rates of union membership were more productive than firms with no union members (Tseng and Wooden 2001). Another study from the 1990s showed that the intensity of *collaboration* between management and workers (through unions) had a positive effect on workplace performance (Alexander and Green 1992). More recently again, and in contrast, a consultant's report was commissioned to show that reform of the building industry achieved 10 per cent productivity gains through reducing union influence (Econtech 2007). Its core data have since been discredited, as either false or subject to selective or inappropriate interpretation (Allan, Dungan, and Peetz 2010).

Two decades after the publication of *What Do Unions Do?*, the general consensus amongst those who reviewed the literature was that there was no *consistent relationship* evident between unions and productivity, with a wide variety of results; but the direct impact of unions on productivity tended towards *zero*. The impact, it appears, depends on circumstances (Addison, John, and Belfield 2004; Hirsch 2004; Freeman 2005; Kaufman 2005). Overall, studies from Australia and internationally suggest that unionised workplaces with good union-management relations and high employee participation or involvement will probably have *higher* average productivity than non-union workplaces. However, for those with adversarial and non-participatory union-management relations, the *reverse* is probably the case. Probably the most influential study is that of Black and Lynch, which found that:

Unionized establishments that have adopted human resource practices that promote joint decision making, coupled with incentive-based compensation, have higher productivity than other similar non-union plants; whereas unionized businesses that maintain more traditional labor management relations have lower productivity. (Black and Lynch 2001)

With respect to the evidence specifically on individual contracting, several studies are relevant. New Zealand workplace researchers (Gilson and Wagar 1997, p. 230) reported that they could find no 'significant or reliable relationship between organisations pursuing individual contracts and [their] exhaustive measures of firm performance'. This helps to explain why the *Employment Contracts Act*, often perceived at the time as unlocking productivity gains, was associated with no higher growth in labour productivity than occurred in Australia over the same period (Dalziel 2002; Dalziel and Peetz 2008). A British study found that firms that derecognised unions and pursued individualisation 'did not gain any flexibility advantage over those that retained collective bargaining' (Brown et al. 1998, p. ii). A study of 'excellent workplaces' by researchers from the University of New South Wales found that whether employee representation was collective, or whether individual arrangements were in place, had no impact on whether workplaces could achieve excellent performance (Hull and Read 2003, p. 8).

One reason that non-unionism and individual contracting seldom work out as predicted is that they are often associated with problems of fairness. If workers perceive unfairness, they will sense relative deprivation and feel the wage-effort bargain has been breached; and they will then respond with absenteeism, exit, reduced effort, or direct conflict (Baldamus 1961; Walker and Pettigrew 1984). Six decades of research demonstrate a phenomenon called 'dual commitment' (Dean 1954; Purcell 1954; Gallagher 1984; Fukami and Larson 1984; Angle and Perry 1986; Magenau, Martin, and Peterson 1988; Bamberger, Kluger, and Suchard 1999; Snape and Chan 2000). It means 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 often counterproductive.

On the other hand, the evidence that individual contracting and non-unionism have an adverse effect on fairness is strong (for example Elton et al. 2007; Bertone, Marshall, and Zuhair 2008; Peetz and Preston 2009). The earnings distribution is more equal when union density is higher (Card 2001; Charlwood 2007; Gittleman and Pierce 2007). In most Australian

industries, union members receive higher wages than non-members, more so when membership density is higher or unions are more active (Wooden 2000; Baarth, Raaum, and Naylor 1998); and workers on union collective agreements received higher wages than workers on registered individual contracts under WorkChoices. The exceptions are where individual contracts are used as a union-avoidance device or are in those mostly professional and managerial occupations where workers have lots of individual bargaining power anyway (Peetz and Preston 2009). Especially, but not exclusively, when the no-disadvantage test was removed from registered individual contracts, they were used to remove penalty rates, overtime pay, shift premiums, redundancy benefits, and job security from employees, especially from those without strong labour market power. So even though only a small minority of workers were ever employed on registered individual contracts under WorkChoices, surveys indicated that 30 to 40 per cent of people personally knew someone who had been made worse off (Silmalis 2006; Farr 2007). Individual contracts had a substantial impact on fairness, but very little impact, and not necessarily positive, on productivity.

3. National Level

Claims have been made that the changes made by the *Fair Work Act*, compared to the industrial relations framework of WorkChoices, have damaged productivity growth. So a key question to examine is how bad the damage is, how consistent is it across industries, and can the country sustain it? The left-hand panel of Table 1 looks at which industries experienced productivity growth in the WorkChoices period from 2005–06 to 2007–08. It shows that during WorkChoices eight market-sector industries had growth in productivity, eight had productivity falls, the mean was 2.2 per cent growth, and the median was a decline of 0.1 per cent. (There followed a transition year, during which most provisions of WorkChoices remained but the core features of individual contracting had been removed). The right-hand panel of Table 1 shows which industries sustained productivity growth under the first two years of the *Fair Work Act*, from 2008–09 to 2010–11. In that period, nine industries had productivity growth, seven had falls, the mean growth rate was slightly higher at 2.4 per cent and the median was substantially higher than WorkChoices at 2.3 per cent. The most noteworthy drop was in the expanding mining sector, where high commodity prices have made it worthwhile to extract lower-grade ores with more waste rock to remove and therefore lower productivity (ore produced per worker hour).

Table 1: Labour Productivity Growth in 16 Market-sector Industries: WorkChoices (2005–06 to 2007–08) and Fair Work Act (2008–09 to 2010–11)

Industry	2005–06 to 2007–08 %	Industry	2008–09 to 2010–11 %
J Information, Media and Telecommunications	16.3	A Agriculture, Forestry and Fishing	13.6
N Administrative and Support Services	14.4	J Information, Media and Telecommunications	8.2
K Financial and Insurance Services	13.6	I Transport, Postal and Warehousing	7.9
G Retail Trade	4.2	M Professional, Scientific and Technical Services	6.4
C Manufacturing	2.8	C Manufacturing	4.8
I Transport, Postal and Warehousing	1.8	G Retail Trade	4.6
F Wholesale Trade	1.7	E Construction	3.7
E Construction	1.3	R Arts and Recreation Services	2.6
H Accommodation and Food Services	-1.6	K Financial and Insurance Services	2.0
B Mining	-2.1	F Wholesale Trade	-0.1
R Arts and Recreation Services	-2.3	S Other Services	-5.3
M Professional, Scientific and Technical Services	-3.4	L Rental, Hiring and Real Estate Services	-6.4
S Other Services	-5.4	H Accommodation and Food Services	-6.7
D Electricity, Gas, Water and Waste Services	-8.8	N Administrative and Support Services	-9.0
L Rental, Hiring and Real Estate Services	-11.4	D Electricity, Gas, Water and Waste Services	-9.6
A Agriculture, Forestry and Fishing	-14.7	B Mining	-13.8
median	-0.1	median	2.3
mean	2.2	mean	2.4

Source: ABS cat. 5204.0.

The productivity ‘crisis’ of the *Fair Work Act*, then, is no worse than the productivity crisis of WorkChoices. Yet the voices expressing concern over the alleged productivity costs of the *Fair Work Act* were not concerned about productivity under WorkChoices.

That said, the above is not the whole story. This is because productivity is very sensitive to the stage of the business cycle and needs to be placed in historical context. The ABS considers that the relevant comparisons are of productivity over whole growth cycles, each of which lasts for several years. Growth cycles are shown in Figure 1.¹ The current growth cycle (growth cycle 10), which started in 2008–09 and includes the *Fair Work Act*, is not complete. However, in the previous growth cycle (growth cycle 9) trend labour productivity growth was also low. Indeed, it was one of the two weakest cycles since records began—nearly half a century ago—in the mid-1960s. The gap between productivity growth in that cycle and previous ones started to widen at the time WorkChoices commenced.

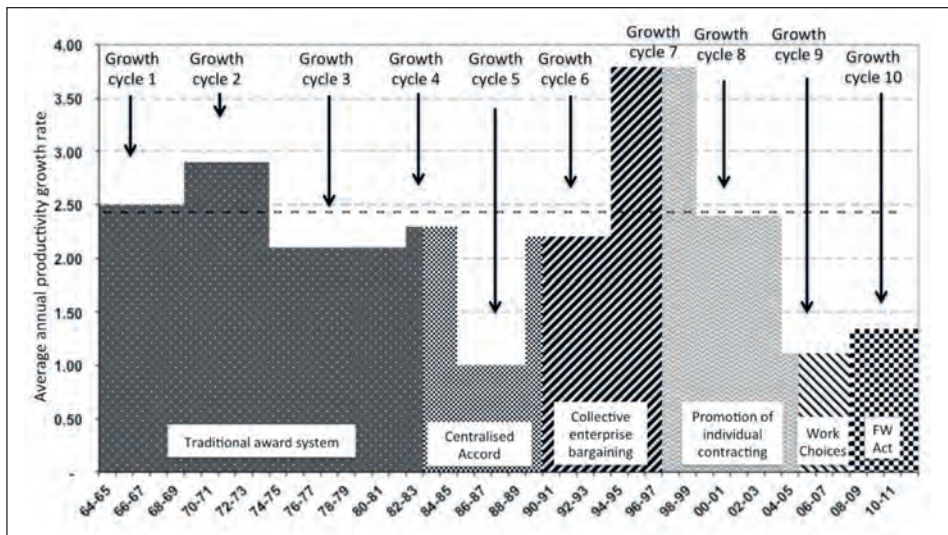
Some argued that poor productivity growth under WorkChoices was because ‘the statute allowed marginal workers to contract into the labour market, which reduced the observed growth of labour productivity’ (Sloan 2011; also Pearson 2007). However, the ABS also produces a measure of labour productivity that takes account of changes in the aggregate quality of labour due to changes in average educational attainment and experience. If labour productivity growth had been dragged down by the entry of low-skilled, low-productivity workers, this ‘quality-adjusted’ measure of labour productivity would have shown a greater increase than the conventional measure. In reality, this quality-adjusted measure of productivity grew even more slowly in growth cycle 9 than the conventional measure—at only 0.7 per cent over that cycle, compared to 1.1 per cent for the conventional measure, and down by more than half from the recorded 1.9 per cent in the previous growth cycle.

WorkChoices was not the only factor influencing productivity in this cycle, if it had any influence at all. But it is noteworthy that, in the first complete growth cycle under the *Workplace Relations Act* (growth cycle 8), labour productivity growth was merely 2.4 per cent per year, across the 12 market-sector industries for which data go back more than a few years. In the whole *Workplace Relations Act* period, which extends across two and a half growth cycles and encompasses the tail end of the strongest cycle, labour productivity growth averaged 2.5 per cent annually. Those numbers are in effect no tangible improvement on the 2.4 per cent a year averaged during

¹ Figure 1 refers to 12 industries, whereas Table 1 refers to 16 industries. This is because the data for the 16 industries are not available over the whole of the period from the mid-1960s.

the antiquated, ‘inefficient’, traditional *award* system of the 1960s and 1970s. The traditional award system was associated with restrictive work practices and demarcations, and it operated at a time when Australian industry was protected by high tariffs, with many important enterprises in the public sector, and many highly regulated industries. The award system was associated with productivity growth rates of similar magnitude to the years of the *Workplace Relations Act*, and considerably better than the WorkChoices era of the *Workplace Relations Act*.

Figure 1: Labour Productivity Growth over Productivity Cycles, 12 Market-sector Industries, 1964–65 to 2010–11



Source: ABS cat. 5204.0; 5206.0, various years

This is not to say that the *Fair Work Act* has necessarily delivered a markedly better outcome. So far, the current growth cycle has produced only slightly higher labour productivity growth than the growth cycle that preceded it—even though the IR policy regime is said to be vastly different. This suggests that industrial relations policy has made little difference to productivity growth.

Indeed overall, looking back at the growth cycles over nearly half a century, there are not many occasions on which it can be said that IR policy had a notable impact. One was probably the centralised period of the Accord, when real wages dropped significantly (growth cycle 5). That meant there was no longer much incentive for firms to invest in labour-saving technology, as labour was cheap, and so labour productivity growth appeared to stall. The other was one cycle in the mid-1990s (growth cycle 7) which showed accelerated growth, coinciding with the consolidation of enterprise bargaining over the latter part of the *Industrial Relations Reform Act* and the early part

of the *Workplace Relations Act*, before the shift to individual contracting gathered momentum. But the acceleration of productivity was only for one cycle, it did not have a lasting impact, and there were a number of other economic reforms going on at the time. If the move to enterprise bargaining had an effect, it was small, one-off, perhaps removing most of the remaining inefficiencies in the IR system, but that was all. This is probably about all that can be expected. Whatever ‘surge’ in productivity growth occurred in that one cycle was not sustainable and not sustained. Indeed Hancock (2012), analysing productivity growth across industries as well as nationally, found no evidence of any effect from enterprise bargaining. Earlier, Quiggin (2006) had argued that the higher productivity growth rate achieved in just that one cycle in the mid-1990s (cycle 7 in Figure 1) was a statistical illusion anyway—not a signal that reforms had delivered a ‘new economy’ that could deliver permanently higher productivity growth rates, but rather, a blip caused by overestimation and, most importantly, an unsustainable increase in work intensity that was subsequently wound back, at least partly. Evidence in support of this included the very ordinary productivity growth in the subsequent period, growth cycle 8. Six years later, with the hindsight benefit of observing the even weaker productivity growth rates of cycles 9 and 10 that followed the WorkChoices reforms, the weight of evidence supports Quiggin even more strongly.

Indeed, the data do not suggest that the long period of ‘liberal market’ or ‘neoliberal’ economic reforms that Australia has experienced since the early 1980s has really done anything to boost productivity growth. Starting with the deregulation of financial markets in December 1983, these included the deregulating of product markets and the privatising of public assets. Rather, productivity growth has been slightly lower under ‘neoliberalism’.

However, there have been some fairly significant changes in the distribution of income. In the early 1980s, there was a popular idea of a ‘real wage overhang’: the notion that the wages share of national income had risen above its long-term average after 1972, and the profits share had fallen below its long-term average. This was squeezing profits and a major cause of the economic problems of the time. One of the implicit ideas behind the Accord was to return those factor shares to their previous levels. Figure 2 shows the share of trend national income going to profits, and the share going to wages. They do not add to 100 per cent because some also goes to government, so the key line is that which shows the ratio of total profits to total wages. Until 1972, the long-term average profit-to-wages ratio

was 38 per cent. The centralised Accord brought it back up from its 1970s trough and then some more.

The move to collective enterprise bargaining led to a slight shift in favour of wages, but from 1997 onwards there was a relatively sustained increase in the profit share. It reached a record of slightly under 50 per cent in 2005–06 under WorkChoices, dropped back slightly, then reached another record through 2010—under the *Fair Work Act*—of just under 55 per cent, before dropping more recently to below 52 per cent in 2011–12. (To use the parlance of the late 1970s and early 1980s, it represented a ‘profit overhang’, though less so now than three years ago.)

Figure 2: Wages and Profit Shares in Factor Incomes and Profit-to-wages Ratio, Australia, 1959–60 to 2011–12



Source: ABS cat. 5206.0

Of course, industrial relations policies like the Accord were not the only thing going on over that long period. As mentioned, there was also a series of liberal market economic reforms from December 1983, and since then (and probably in consequence) there has been an underlying upwards movement in the ratio of profits to wages. This was also the time that the boom in salaries of chief executive officers (CEO’s) commenced. Through the 1970s and into the early 1980s, the ratio between CEO pay and average earnings had been fairly stable. However, from the mid-1980s, CEO salaries started to grow much faster than average earnings. Indeed, the growth in

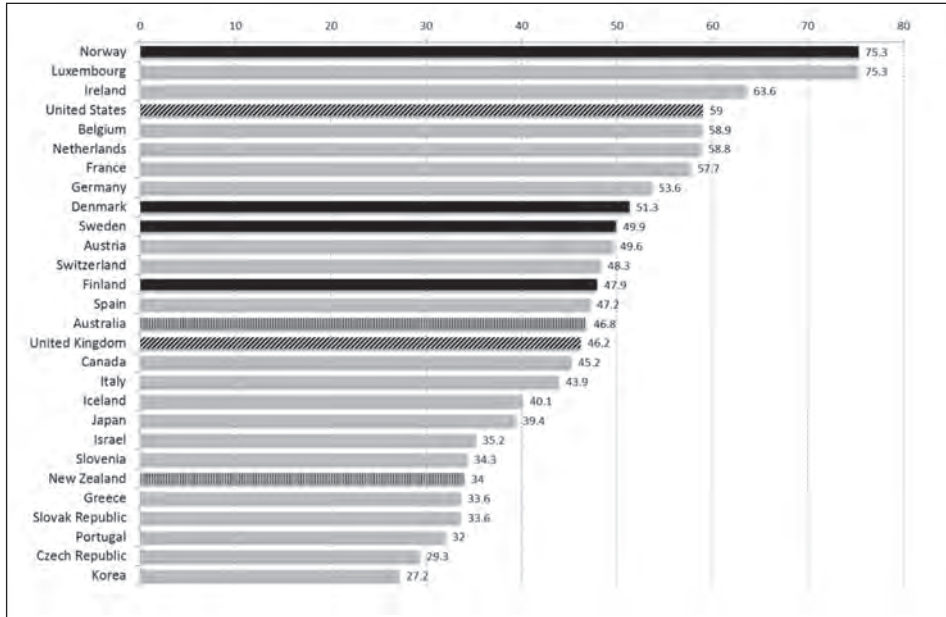
CEO earnings relative to wages was much greater than the growth in the ratio of profits to wages. It was also substantially greater than the increase in national productivity (Peetz 2009). This has been a major contributor to the widening gap between very high-income earners and the rest of the workforce from the mid-1980s. By contrast, the level of inequality between very high-income earners and the rest had actually declined across a period well over half a century before the 1980s (Atkinson and Leigh 2007). This suggests that there has been nothing natural or inevitable about widening inequality post-1980.

4. International Level

Some interesting and insightful patterns emerge through cross-national comparisons. In this respect, the ‘varieties of capitalism’ literature is quite useful in the contrasts it draws between different types of governance systems for developed capitalist economies (Hall and Soskice 2001). For our purposes it is not so important whether there are two ‘varieties’ of capitalism, as Hall and Soskice originally suggested, or several varieties, or a continuum with many nuances, as some critics have argued (for example Crouch 2005). My interest is in comparing the more extreme ends of the continuum, those with a high commitment to equality—a subset of what Hall and Soskice called the ‘coordinated market economies’—and those with a high commitment to the market—a group of the ‘liberal market economies’. The latter, liberal market economies, rely to a high degree on market forces, and have low protections for workers and a low welfare safety net. At the other end, to varying degrees the coordinated market countries are characterised by markets constrained through government intervention, a stronger welfare net, workers having higher protections, and the labour force being more unionised. The United States and to a lesser extent the United Kingdom epitomise the liberal market economies (while New Zealand has had several of their characteristics since the late 1980s). The Scandinavian countries of Norway, Sweden, Finland, and Denmark epitomise the egalitarian end of the coordinated market countries.

Figure 3 compares labour productivity *levels* across countries. It is apparent that there was no consistent, uniform pattern. The highest productivity (at 75.3 USD per hour) was achieved by Norway, a coordinated market country (solid black in Figure 3). There was quite a gap to the United States (59), a liberal market economy (diagonal stripes in Figure 3), then Denmark (51), Sweden (50), and Finland (48), all coordinated market countries, and then the liberal market United Kingdom (47). (Also shown, in vertical stripes, are: Australia (46) with similar productivity to the United Kingdom; and New Zealand (34), well below the others.)

Figure 3: Labour Productivity Levels (USD PPP), 28 OECD countries, 2010



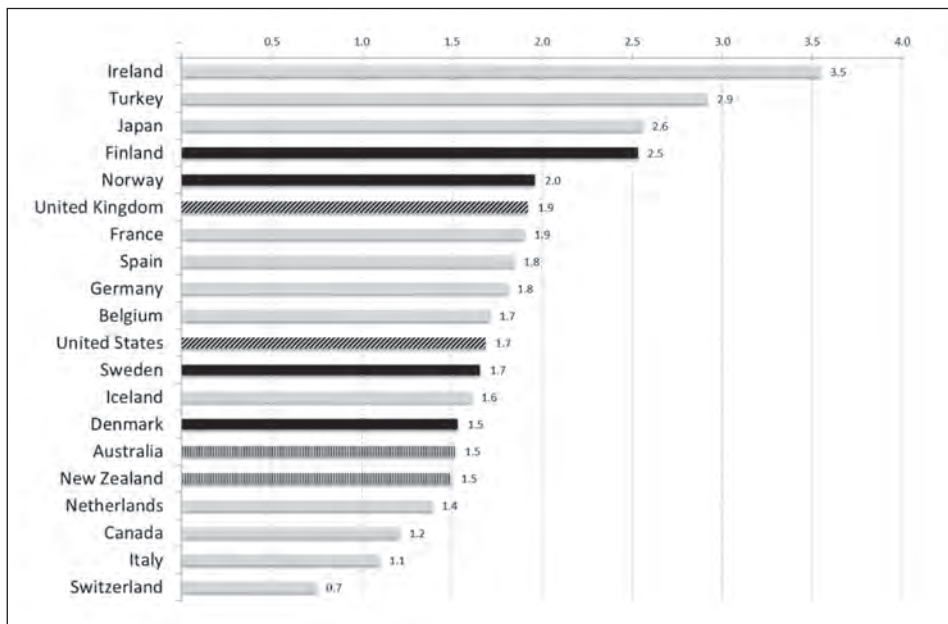
Source: Organisation for Economic Cooperation and Development (OECD) productivity database (data extracted on 17 February 2012 from OECD.Stat)

Another way to look at the question is to consider productivity *growth rates* over a 30-year period, 1980–2010, rather than levels (Figure 4).² By this criterion, the coordinated market countries Finland (2.5 per cent annual labour productivity growth) and Norway (2.0 per cent) did best, followed by the liberal market United Kingdom (1.9 per cent). Then the liberal market United States (1.7 per cent) is in a group with the coordinated markets Sweden (1.7 per cent) and Denmark (1.6 per cent). Australia and New Zealand are in a comparable cluster (with 1.5 per cent each), suggesting that the ‘gap’ between US and Australian productivity levels has not narrowed over that period. The latter is especially disappointing for advocates of industrial relations reform as the basis for productivity growth, since the Business Council of Australia (BCA) had claimed in the 1980s that the productivity of Australian workplaces ‘was between 20 and 50 per cent below their overseas competitors’ and a 25 per cent productivity improvement could be achieved through reform of the industrial relations system (Business Council of Australia 1989a, p. 25; Business Council of Australia 1989b). This reform has subsequently occurred without its promised impact. Over two decades later the BCA claimed that project productivity was 30 per cent or more lower in Australia than the United States, without any reference to the failure of its previously sponsored productivity reforms (Business Council of Australia 2012).

² For some countries, data this far back are not available. Figure 4 covers 20 countries compared to the 28 countries in Figure 3.

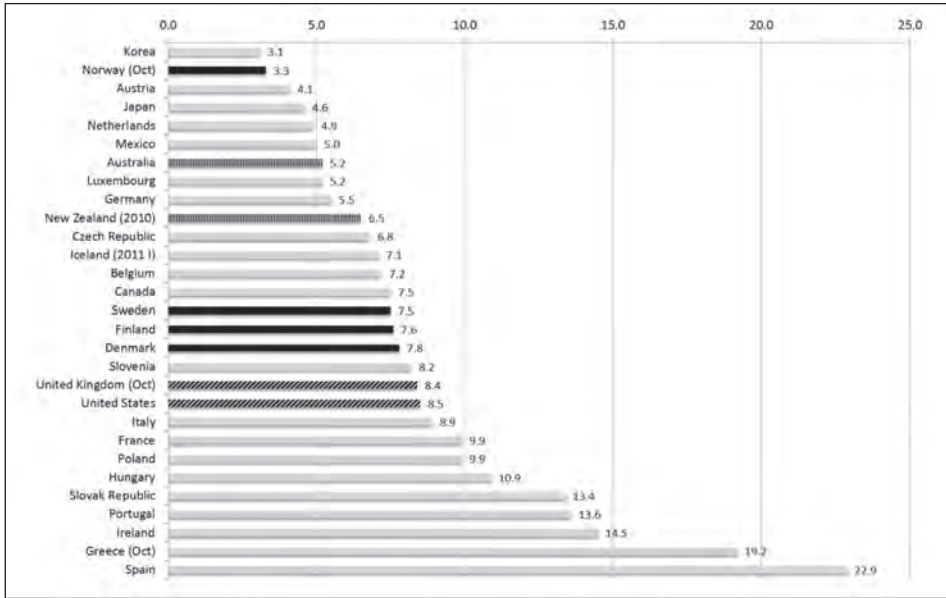
While unemployment is not necessarily reduced in the short term through higher productivity, it is nonetheless often used as an indicator of economic performance. Though outcomes here are heavily influenced by responses to the global financial crisis, it is worth referring to these data simply because the topic is often incorporated into debate about IR systems and economic performance. Unemployment rates at the end of 2011 are shown in Figure 5. Norway performed considerably better than the other countries that have been discussed, while Sweden, Denmark, and Finland were ahead of liberal market United Kingdom and United States. However, unemployment rates are influenced by labour force participation, so many consider the employment rate to be a better indicator of labour market performance. Employment rates (the ratio of employment to population in the 15-64 age group) are shown in Figure 6. Here the three major coordinated market countries, Norway (with an employment rate of 75 per cent), Denmark, and Sweden (both 73 per cent), all performed best, though Finland (68 per cent), while ahead of liberal market United States (67 per cent) was behind the United Kingdom (70 per cent).

Figure 4: Labour Productivity Growth Rates (USD PPP), 20 OECD Countries, 2010



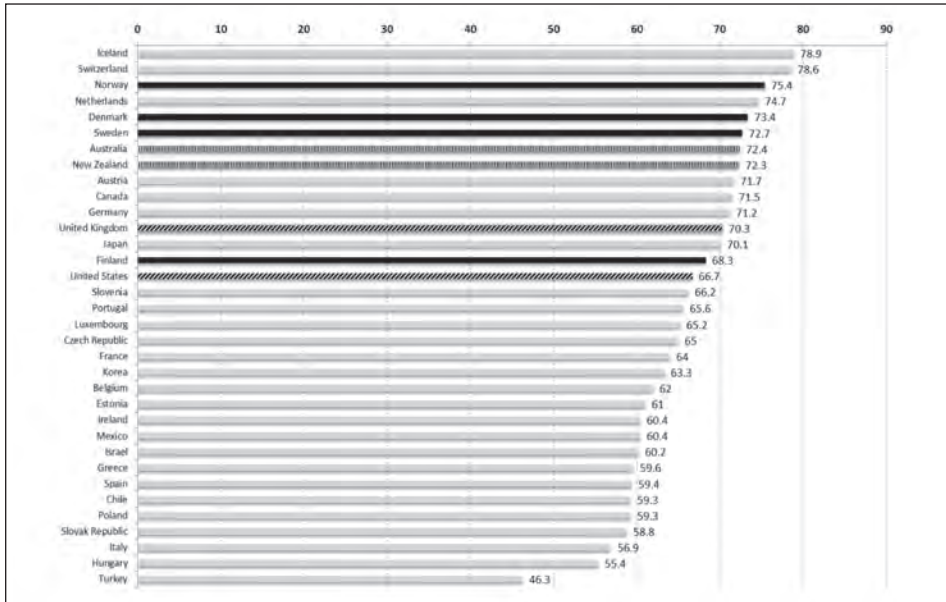
Source: OECD productivity database (data extracted on 17 February 2012 from OECD.Stat)

Figure 5: Unemployment Rates, OECD Countries, 2011



Source: OECD, Labour Force Statistics, Main Economic Indicators (database) accessed 23 Feb 2012

Figure 6: Employment Rates, OECD Countries, 2010

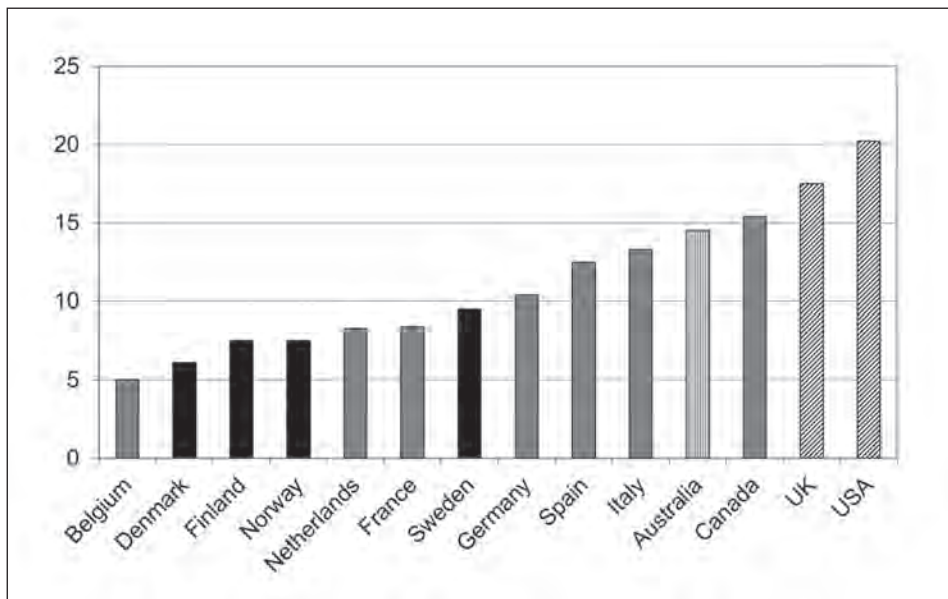


Source: OECD StatExtracts database, accessed 17 February 2012

Overall, what does it mean? It would be possible to make an argument that on average the *coordinated market countries* perform better. But on productivity there is not an overwhelming pattern—there is quite a lot of diversity between countries and indicators. It may be preferable to take the cautious conclusion that there is not a massive difference: that one cannot say categorically that coordinated market economies perform better or worse than liberal market ones in terms of productivity and employment. Productivity is driven more by technology, innovation, skills, and education (Engelbrecht 1997; Greenwood, Hercowitz, and Krusell 1997)—and in Australia’s case, even geographical isolation (Battersby 2006)—than by industrial relations or welfare policy arrangements.

However, a quite different pattern emerges when consideration is given to indicators of social cohesion. I focus here on just one: poverty rates. This is the proportion of people in poverty in each of 14 countries. The data are from a 1998 study. As can be seen in Figure 7, there is no ambiguity: the coordinated market countries had far lower poverty rates than the liberal market economies, particularly the United States where poverty is up to three times higher.

Figure 7: Poverty Rates, 14 OECD Countries, 1998



Source: Marx and Verbist (1998), cited in Rubery and Grimshaw (2003), p. 94.

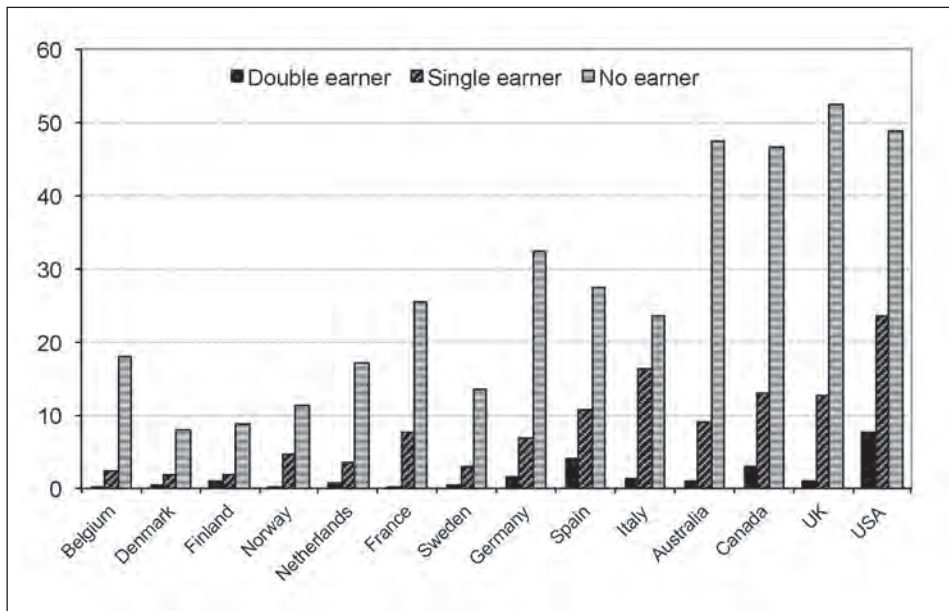
But the particularly notable feature is in Figure 8. This shows poverty rates in two-adult households, according to how many adults in the household are working. Poverty is in part a function of households’ access to employment, so,

in every country, poverty was lower among dual-earner households (shown in solid black in Figure 8), than in single-income households (in diagonal stripes), or in no-earner households (grey horizontal stripes). A single-income household in the United States was more likely to be in poverty than a single-income household in any of the other countries here.

But notice also how in the United States, a single-income household was more likely to be in poverty than a household with no employed income earners in Denmark, Finland, Norway, Sweden, or even the Netherlands or Belgium. And a two-income household in the United States was more likely to be in poverty than a single-income household in each of those countries plus Germany. And indeed, it was roughly as likely to be in poverty as an unemployed household in Denmark.

A more recent and more wide-ranging German study that assessed five dimensions of social justice (poverty, labour market inclusion, education, health, social cohesion, and non-discrimination, and inter-generational justice) across 31 countries ranked Iceland, Norway, Denmark, Sweden, and Finland in the top five positions, with the United Kingdom 15th and the United States 27th (ahead of only Mexico, Chile, Greece, and Turkey) (Schraad-Tischle 2011). In short, welfare and industrial relations systems do not make a large inherent difference to economic efficiency, but they make a very large difference to social outcomes.

Figure 8: Poverty Rates in Two-earner Households, 14 OECD Countries, 1998



Source: See Figure 7.

Moving to a global, temporal scale, in each industrialised country there has been a shift away from the policies of the ‘post-war Keynesian compromise’, that had seen incremental improvements in the conditions of workers, industrial protections, and the welfare state, towards ‘liberal market’ or ‘neoliberal’ policies. With that, across much of the OECD, the share of income going to profits has risen, although this is also something that varies between countries (Ellis and Smith 2007). However, productivity growth was higher before the neoliberal reform period gained momentum. Across the developed nations in Europe and elsewhere, growth in GDP per hour worked was lower in the period from 1973 to 1992 than it had been from 1950 to 1973 (Maddison 1995). Growth in GDP per hour in the G7 nations was much higher in the 1970s than in the decades from the 1980s onwards (OECD productivity database).

The period of neoliberal reforms has not brought about a period of unrivalled prosperity in terms of productivity advancement, but it has brought about a shift in income as the relative bargaining power of capital and labour has changed. Especially since the mid-1980s, the share of the top 1 per cent of income earners increased substantially in Australia, something that has been also seen in the other major English-speaking nations—the United Kingdom, Canada, and by most of all in the United States (Kapur, Macleod, and Singh 2006). Yet this share had been stable in the preceding period. Indeed, in the United States, as in many other countries, inequality between the top few and the rest had declined over much of the twentieth century (Kapur, Macleod, and Singh 2006).

Most recently, the global financial crisis has debunked the myth of efficient markets, the idea that markets ‘self-correct’ and find stable equilibrium, and the idea of ‘trickle down’ (or ‘a rising tide lifts all boats’) (Quiggin 2010). Also debunked was the myth of the superiority of numerical labour market flexibility. The United States experienced a worse deterioration in employment than Europe. The greater labour market flexibility in the United States that was meant to protect employment ended up more readily destroying it. Average employment in the United States fell by 3.8 per cent between 2008 and 2009, over double the fall in EU employment of 1.7 per cent. Yet GDP fell by considerably more in the European Union (4.2 per cent) than in the United States (2.4 per cent) (OECD 2010).

Thus the OECD in 2009 found no evidence that structural reform policies aimed at promoting flexibility had made labour markets ‘less sensitive to severe economic downturns than was the case in the past’. It now recommended that governments improve income support and unemployment insurance benefit systems, though it had previously said these would decrease flexibility

(OECD 2009, p. 40). Instead, active intervention by unions and governments, negotiating and facilitating firm-level agreements for adjustment, helped moderate the effects of a crisis created elsewhere (Peetz, Le Queux, and Frost 2011).

Indeed, before the global financial crisis the OECD—once an enthusiastic supporter of labour market deregulation—had already begun hedging its position on employment-related policies. In 2004 it acknowledged that the evidence for a link between high wages or compressed wage structures and lower employment was ‘fragile’ (OECD 2004, p. 165.). In its 2006 *Employment Outlook*, the OECD analysed its own research and that of others and observed that: the effect of employment protection legislation on overall unemployment ‘was probably small’; there is little or no significant union impact on overall labour market performance; a high degree of centralisation in bargaining was associated with lower unemployment; and evidence on the link between minimum wages and employment was ‘ambiguous’. Several countries with highly regulated labour markets and active labour market programs had on average better employment rates than ‘market reliant’ countries. It conceded ‘there is no single combination of policies and institutions to achieve and maintain good labour market performance’ (OECD 2006, pp. 12, 13 & 18).

5. Implications

Overall, then, what can be said? There is some evidence that industrial relations *policies* that enhance fairness enhance economic performance. However, although this is a trend on average, the effects are conditional; they are not consistent or universal. What can be said with more certainty is that, *in any specific workplace, industrial relations can* make a difference to productivity. The decisions management makes, and the relationship it has with employees and unions, will shape what happens in the workplace and can have a noticeable effect on productivity.

That is not the same as saying, though, that if IR policy is altered at the national level, it is going to have a widespread or noticeable impact on productivity. It is what happens at the *workplace* that matters—and some managers will make decisions under a new framework that will make things better than they would have been, and some will make things worse. Some will consult with and involve their employees, and some will exclude or exploit them. Many seek a holy grail in employment or industrial relations policy that is going to give a magic boost to the economy. But there is none—certainly not to be found in policies that aim to shift the balance of power in industrial relations one way or the other.

That does not mean that *no* IR policies can influence productivity. The results of research suggests that government policies to encourage or discourage unions, to restrict the extent or scope of collective bargaining or related action, or to encourage or discourage non-unionism or individual contracting, will not do a great deal in net terms to change economic performance. Policies aimed at giving employees more say or more voice at work may well improve economic performance. This is an area where Australian policy still lags many other industrialised countries, but one largely beyond the scope of this article.

Interestingly in this context, the name of the present law is the *Fair Work Act*. As discussed above, advocates for various policy positions often argue that changes should be made to legislation because of the impacts on economic efficiency and productivity, when often what is being sought will have little impact on economic efficiency and productivity, but will have significant implications for the distribution of power and hence income—that is, for fairness. While there are problems of confusion arising from naming the associated *institution* Fair Work Australia (McCallum, Moore, and Edwards 2012, p. 249), it can be said that labelling the statute the ‘Fair Work’ was at least a tacit recognition that fairness is the principal issue with which industrial relations legislation can deal. Fairness is not the only consideration, but it is certainly an important one, and very probably the one that that legislation has the better chance of affecting.

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