

Reform—the Uncertain Road Ahead

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RECENTLY it has become fashionable to say that people are suffering from reform fatigue, that there has been too much change inflicted on us, either by Governments or by globalization, or both, and that it's time to take a breather in the pursuit of world's best practice in Australia.

But the rest of the world is not going to stand still while we take a breather. Our exchange rate, for instance, is the scoreboard that determines how we are doing against the competition. We should be shocked to learn that, once, an Australian dollar would buy US\$1.50. Today it buys about one-third of that. It used to buy more than 500 Yen. Today it buys 67 Yen—a 750 per cent adverse change. So we are not doing so well that we can afford to be complacent.

Tiredness is not a reason for us to stop the change process. Fear of the complexity, the obstacles and the consequences of change, however, might be the reasons for many to be reluctant.

Let me explain.

What happens when a business decides that it needs to change the way it does business, to enable it to survive in today's global marketplace? What obstacles are thrown up which discourage businesses from confronting head-on many of the structural problems which inhibit their performance and which very often condemn them to economic mediocrity?

Just look back to 1998 and the Patrick waterfront reform process.

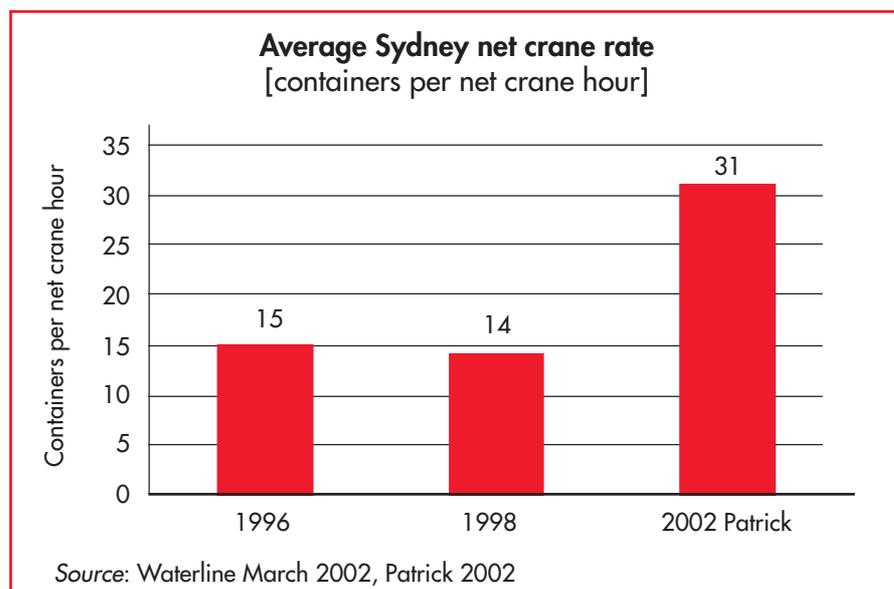
This illustrates just what is possible in a reform process and just how tough these obstacles are.

One approach to measuring waterfront productivity is the 'net crane rate', that is, the number of containers moved per hour by one crane whilst it is working. The Federal Government had set a benchmark of 25 moves per hour as the target to bring Australia up to world standard. According to studies by the Bureau of Transport Economics, Port Botany in Sydney was running at a low 15 moves an hour in 1996. It had slipped pathetically to less than 14 moves by early 1998. It was slightly better up in Brisbane at Fishermen's Island at 16.

At the time, the maritime union argued that 25 moves an hour was an impossible dream. The ships were too small, they called at too many ports, the equipment was no good etc, etc.

In 1998, you could hear countless reasons why it was impossible to improve the waterfront ... the most laughable explanation being that it had already been reformed by the Hawke Government in their so called 'Reforms' of the early nineties! In fact, that was nothing more than a \$450 million early retirement scheme for waterside workers, which we taxpayers funded.

But what was actually achieved? The respected Access Economics, in a report which examined the effects of waterfront reform on our export industries, recently reviewed the performance of Australia's ports in 2002. It spent most of this year investigating port performance, talking to port users, to exporters of meat, wool, cotton and dairy produce. It was able to claim that, 'On virtually all measures in this study, Australia is



at, close to or superior to world best practice’.

It should be added that many of those workers who so vehemently opposed the reform agenda are now earning as much or more than they were five years ago. Through a bonus system, linked directly to productivity, our best employees earn in excess of \$100,000 per year. Most average around \$75,000 a year.

So that’s the good news. Much needed reform was achieved despite the most orchestrated and well organized union and political campaign of opposition ever marshalled in this country. But those were special circumstances. The waterfront was a national disgrace and Patrick was left with no other option but to tackle the problem head-on if it was to survive.

But what happens to small and medium-sized businesses without deep pockets? Let’s assume we have a mythical CEO who decides he has no choice but to dramatically change the way he does businesses if he is to compete in the global marketplace. This means a reduction in staff and a change to the work practices of those who remain.

His first call should be, not to a human resources professional, but to a lawyer with specialist knowledge of the industrial system and the unfair dismissal laws. Why? Because the labour market is a regulated market. We have deregulated markets in goods and services and we have deregulation in the financial markets and the currency market. We have, for the most part, removed tariffs and trade impediments. We persist, however, with the ridiculous notion that the market for our own human skills and effort should be determined by some legal bureaucrat we will probably never meet.

Implicit is the idea that, somehow, this person with whom we have had no contact knows and can negotiate better what we want

than we can ourselves. That is the fundamental proposition advanced by those in favour of regulation, namely the Labor Party, the Democrats and most of the minor parties. It didn’t work in the Soviet Union and it isn’t working here either. In other words, our desperate Chief Executive Officer is not allowed to do what makes economic sense.

If his business is in an industry which Greg Combet quaintly calls ‘highly organized’, our CEO will have to obtain agreement from the

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unions. If not, he can expect dire industrial threats followed by actual industrial action. The industrial action will be accompanied by a union-run publicity campaign aimed at seriously damaging his business and orchestrated by cynical PR machines. If he resists the strikes and bad publicity, he can expect calls to his customers urging them to stop using his company due to its ‘poor industrial relations record’. If he is leading a listed company, he can expect phone calls from institutional investors expressing concern about his company’s ‘anti-union stance’.

There will also be a legal campaign launched against the busi-

ness in the AIRC or the Federal Court alleging anti-union behaviour.

If our CEO is doing a merger, he will fall foul of the transmission of business laws. The transmission of business provisions act like a virus in that they can transmit bad work practices from one business to another. If not done properly a takeover can result in the unproductive working arrangements of the business which is in trouble being transmitted to the more successful business.

Our mythical CEO is now potentially fighting in court on three fronts: the AIRC, defending a huge unfair dismissal action; the federal court, on a charge of breaching the freedom of association provisions of the Workplace Relations Act; and a transmission of business case, which could result in his business inheriting the work practices which helped send his competitor under.

His share price will have been trashed and he spends his day going from lawyers’ offices to courtrooms to media interviews.

His board is unhappy, to say the least, and our CEO has probably lost sight of what he was trying to achieve in the first place. Certainly his family and friends will be starting to worry about his health or sanity.

Which is precisely what his opponents were seeking to achieve.

Most who have been through it don’t want to go through it again. Unless, of course, they are Irish. That’s my excuse.

At the end of it, many CEOs do the numbers and realize that it’s much easier to do nothing, or as little as possible, to stay average, to stay mediocre, to attract as little attention as possible. Staying out of trouble is common business sense, but ultimately it is to the nation’s economic loss.

Australia is a country that loves its sport. Imagine what would happen if we applied our crazy

labour laws, workers' compensation and safety laws to the sporting field. Everybody would need to be paid the same amount of money regardless of how good they were or how hard they tried. You couldn't drop anyone from the team just because of performance. That would be instantly overturned on appeal.

Coaches would need to be very careful that they were not bullying or discriminating on any grounds whatsoever. Even if you could afford the workers' compensation costs, you would really only be able to play touch football and even then not above jogging pace to minimize the risk of muscle strains.

I've often wondered how differently we might look at stevedoring if it were an Olympic sport. Instead of employees complaining about the hours, they would be getting up at the crack of dawn to do some extra training. Instead of being concerned about the rain, they would see it as a chance to try out in all weather conditions and to adjust their game accordingly. Instead of regarding the instructions from the boss as an overbearing imposition, they would see it as an important tactical and inspirational exhortation and hang on every word and nuance.

Ever-higher performance standards would be viewed as something to be aimed for and aspired to, not a concession to a class enemy.

Occupational health and safety would not be the front line battleground of industrial conflict. Rather, employees would be throwing their bodies on the line every day as if it were a grand final with the scores tied and ten minutes to full time. The irony is that sport is exempt from all these business constraints. We take sport seriously, but work is seen as a pastime.

There have been countless attempts to reduce the complexity and cost of the industrial and employment laws in Australia and this Federal Government has done

much to bring about change. But the sad fact is that the labour market reform debate today is absurdly unbalanced. On one side, we have a well organized and articulate labour movement backed, more or less, by the ALP, the Australian Democrats, the Greens and a host of other interest groups, promoting greater regulation. On the other side, you have a Federal Government, which despite good intentions is unable to pass key legislation in the Senate, an occasional employer who is silly or desperate enough to push the reform agenda, and a few

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dry economists who are quickly dismissed in the media as extreme right-wing.

The latest employer to put his head above the ramparts is Daniel Grollo, who has had the temerity to reveal that there are wide-spread rorts in the building industry. The union response? CFMEU Victorian Secretary Martin Kingham threatens with: 'He's got a few lessons to learn. There's a few bumps for the young fella but I'm sure he'll get there'.

The Australian Chamber of Commerce and Industry has recently put forward its much welcome blue print for industrial

reform. But where is the Business Council of Australia in this debate? The BCA said precious little in support of waterfront reform in 1998 and they are saying nothing today on the issue of labour market reform. Their silence is deafening, and one must ask, what are they afraid of?

Australia needs labour market reforms which will ensure average companies with average managers dealing with average problems can strive everyday for success over mediocrity. To use language which has some currency today, Australia desperately needs labour market reforms, not for the élites, but for the battlers. Because there is only one way we are going to have our living standards rising at an acceptable rate and that is by doing things more cleverly than the economies with lower cost bases.

That implies being clever, flexible, progressive, innovative and imaginative. When we look at the structure of our labour markets today, are those the words you would use to describe the state of play? Does anyone imagine that the Industrial Relations Commission, and the whole IR Club that surrounds it, is going to propel us to a new level of national productivity?

When we picture ourselves as the clever nation, does anyone picture the labour market structure and the pseudo legal/industrial circus that is our system today as the cutting edge of our genius? More likely it is the dead weight of a class war, which has become increasingly irrelevant to most of us, except those with a vested interest in its continuation.

Reform is something which we could be so good at in this country, to the lasting benefit of us all, if only we could escape the dead hand of regulation.

Chris Corrigan is the Managing Director of Patrick Corporation. This is an edited extract from a speech given in November to The Southport School Foundation business breakfast.

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