



SPEECH

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The contest of ideas

Tonight's COSBOA dinner is the first of 2007 - an election year.

Conventional wisdom is that political expedience dominates good policy in such politically-charged environments as parties scramble to appeal to identified constituencies in exchange for electoral support.

But a big change is now underway.

For the first time since the change of government in 1996 there is a real prospect that the 2007 election will be a contest of ideas.

Not a contest on a single issue like 1998 and 2001 were. Not a contest of personalities like 2004.

Instead, it will be a contest of ideas for the country's future.

Labor enters this contest as the long-time champion of productivity-raising reform, having argued for the last two parliamentary terms that the government is reform lazy.

Structural weaknesses in the Australian economy had been emerging for years, but they became more visible in 2005 when organisations like the OECD and the Reserve Bank began warning of skill shortages, infrastructure bottlenecks and persistent trade deficits.

Price pressures unleashed by strong domestic demand smashing up against capacity constraints forced the Reserve Bank to lift interest rates in March 2005, just five months after an election campaign when the Prime Minister promised to keep interest rates at record lows.

Three subsequent interest rate rises have raised questions in the minds of the Australian people – and mortgage holders in particular – as to how well the economy is going.

Indeed, far from being at record lows, Australia's interest rates are now among the highest in the OECD.

At the heart of the critique of the Howard era is a failure to invest in the nation's future.

A failure to invest in education and technical skills has contributed heavily to the current skill shortages and, through Reserve Bank concerns about wage pressures, to upward pressure on interest rates.

As the Governor of the Reserve Bank confirmed last Wednesday, the resulting inflationary pressures remain a problem and could force the Reserve Bank to increase interest rates again some time this year.

A failure to invest adequately in research and development is prejudicing Australia's international competitiveness, contributing to deterioration in Australia's exports of manufactured goods and services.

In the period of the Howard government, the volume of manufactured exports has increased by 5.5 per cent per annum, sharply down from more than 16 per cent per annum during the corresponding period of the previous Labor government.

The story for services exports is pretty much the same: a 3.5 per cent annual increase in the Howard era compared with a 10 per cent increase during the same period of the previous Labor government.

A failure to invest adequately in expanding and upgrading the nation's infrastructure is also hampering growth in mineral export volumes in response to the highest mineral prices in more than half a century.

Between early 2004 and late 2006 the international prices of Australia's mineral exports surged by more than 110 per cent per cent but mineral export volumes have increased by less than 10 per cent.

Is it any wonder that Australia has now recorded a record 57 successive monthly trade deficits?

A failure to invest in the future is disturbingly showing up in Australia's poor productivity performance so far this century.

Today's productivity growth is tomorrow's prosperity.

Australia's modern prosperity is built on the productivity boom of the 1990s.

But productivity growth began to falter at the turn of the century and is now sharply negative.

In the latest six months for which statistics are available productivity has *fallen* by 1.6 per cent.

Instead of investing in the nation's future to sustain the productivity boom of the 1990s the Howard government has relied first on the housing boom of the early 2000s and a mining boom from 2004.

Australia's faltering productivity growth during the 1990s – when combined with the ageing of the population – is why the Reserve Bank has warned that we will have to get used to an economic growth rate with a two in front of it.

And it is why the government's own *Intergenerational Report* projects that from 2010 onwards Australians will experience the slowest growth in income per person since the decade of the Great Depression.

So when the government claims to be a superior economic manager, it should explain why it has sat back and watched the productivity boom of the 1990s turn into a productivity slump in the 2000s.

Labor is setting out a productivity-raising reform program ahead of the 2007 federal election centred on investing in education and skills formation – the dominant source of productivity growth and prosperity around the world in the 21st century.

And easing skill shortages will assist in putting downward pressure on interest rates.

It will help by moderating inflationary pressures and it will assist small businesses in dealing with their number one concern – a shortage of skilled staff.

Who are the workers?

Labor supports the aspirations of all working Australians for a better life – for them and their families. But who are these workers in 21st century Australia?

Sharp distinctions between workers and capitalists are a relic embedded in the class conflicts of the past.

In the 21st century, the workers and the capitalists are often the same people.

Union members work hard.

Non-union members work hard.

Small business owners work hard.

Independent contractors work hard.

But working Australians now own much of the nation's capital as well.

Their superannuation savings have reached \$1,000 billion, or \$1 trillion.

By around 2017 those savings are expected to have risen to \$3.3 trillion.

Through their superannuation savings, working Australians will not only be investors in Australian business, they will be owners of capital in the People's Republic of China, still formally a communist nation (but one which is displaying distinctly capitalistic tendencies).

Working Australians are not just investors through their superannuation savings, they are active participants in the share market.

Almost half of all adult Australians actively own shares in companies listed on the Australian Stock Exchange.

More and more working Australians are setting up businesses or becoming independent contractors.

Official figures released just yesterday indicate that there are 1,150,000 non-employing businesses in Australia and another 720,000 businesses employing between one and 20 staff.

That's almost 1.9 million operating small businesses.

Those arguing for a continuation of class struggle are really arguing for working Australians to struggle against themselves, for they are often worker, owner, investor and risk taker.

A fresh Labor perspective on small business

In the old days of class struggle it might have been accepted wisdom that Labor was the party representing workers and the Liberals were the party representing capital.

If that divide ever made any sense it lost all relevance with the emergence of a new entrepreneurial workforce that enjoys the freedom of being self-employed.

Since 1996 some of these people – having identified as Labor people in the past but then perhaps as Howard Battlers – have voted Liberal.

So Labor has not always been as effective in appealing to their interests and aspirations as we would have hoped.

But this is now changing, with their interests being well and truly on Labor's policy agenda.

Labor is taking a fresh approach.

Labor supports reward for effort, risk taking and entrepreneurship.

We support these values because they are the values of the new economy.

They are the values of Australia's 1.9 million strong small business entrepreneurs.

We support those Australians who choose to be members of trade unions, those who don't, those who choose to go out on their own as independent contractors and those who choose to pursue a career in business.

This is what we call balance – supporting the aspirations of all working Australians instead of pitting one group against another.

Small business owners and independent contractors have struck out for freedom and greater control of their lives.

Most are not wealthy but they legitimately seek wealth and prosperity.

They work hard and take risks and despite the hardships they would never give up their freedom - their sense of achievement from having a go by themselves.

One of the reasons Labor leader Kevin Rudd appointed me shadow minister for small business is that at the same time in our lives we were both small businesspeople.

I was in a partnership called Eco Managers offering economic and environmental advice.

My business partner and I started the business by putting in \$1000 each – enough to buy one laptop and a personal computer, to register our business name, and to have a logo designed and printed onto business cards and letterhead.

Then we walked the streets of Brisbane's CBD trying to convince major companies that they needed our economic and environmental expertise.

That expertise did not include political door-opening ability.

You see, we had been advisers in the recently-defeated Goss Labor government and had been made redundant by the incoming Borbidge Coalition government.

My partner and I were acutely aware that unless we landed clients and maintained a continuous flow of work, no money was coming in.

No money for public holidays.

No money for the Christmas holidays to take our families away.

No money for superannuation if we got sick.

We agreed that each month we would withdraw the same amount out of the business bank account – no more, no less – after putting away enough for our provisional tax.

Fortunately we didn't have to bother with completing quarterly BAS returns, since the GST was introduced only after I resigned from the partnership to contest the 1998 election.

Both our wives were at home having babies.

I remember on the last few working days of each month scrounging around the house for any one dollar and two dollar coins I could find for lunch money.

In the harder months I snaffled the silver coins.

As one consultancy job was winding up we searched for new contracts, always hopeful that somehow something would turn up, but never knowing where the next client was actually coming from.

At first it was scary but after a while we got used to the uncertainty and accepted it as one of the many challenges facing a new small business.

Now this sounds like an unsuccessful small business.

But it wasn't.

It was Reality Street, just as it is Reality Street for hundreds of thousands of small business owners and independent contractors to this day.

In fact, towards the end of the two years I spent in small business, we had built a reputation as high-quality energy consultants with superior knowledge in gas issues.

We were working on bids to buy gas pipelines for multinational gas companies and had persuaded Australian affiliates of seven of the world's biggest gas industry companies to form the Queensland Gas Industry Task Force and hire us as consultants.

We had been retained by Sun Metals to assist the company in meeting the stringent environmental standards required of the Korea zinc smelter in Townsville and advise on expansion possibilities.

And we had advised the government of Vanuatu on a mining taxation regime for the country.

With this background, it's understandable that I believe in reward for effort, risk-taking and entrepreneurship.

It's why I recognise and acknowledge the sense of achievement that small business owners and independent contractors enjoy from landing some extra business based on the good reputation they have established.

It's why I recognise the value they attach to self-reliance and the satisfaction they gain from having a go on their own.

It's why I recognise their sacrifice of not being able to spend the time with their families that they would like to.

And it's why I recognise the contribution that small business owners and independent contractors make to job creation and national prosperity.

From our direct experience, Kevin Rudd and I know the risks and challenges facing small businesses and contractors – as well as the rewards from this lifestyle choice.

Labor enters the contest of ideas for small businesses

It's a Tuesday night, it's the parliamentary dinner break and I have to get back to the House on the Hill to resume the contest of ideas for a better country.

In the time available with you this evening, I cannot realistically go through all the issues facing small business: the difficulty of obtaining skilled staff, the tedium and time-wasting in filling out the quarterly BAS, the impact of overbearing government regulation at federal, state and local government levels, the impact of any further interest rate rises and the commercial relationships with bigger businesses.

We will have ample opportunity to discuss these matters as Labor formulates its policies ahead of the next election.

But I know you will not want me to leave this dinner without saying at least something about unfair dismissal laws and small business.

So let me say this: Labor understands the special circumstances of small business when it comes to unfair dismissal laws.

Small businesses do not have human resource management departments.

Small business owners and operators cannot afford the time or expense of being dragged off to tribunals by ambulance-chasing agents representing frivolous or vexatious claims of unfair dismissal designed to extract go-away money.

While the unfair dismissal regime introduced by the previous Labor government in 1993 was well-intentioned, it did not work well in practice.

It became a lawyer's picnic.

Labor in government amended its own legislation and made regulations limiting the scope of the laws.

The incoming Howard government made further changes in 1996 but wanted to go further.

Between 1996 and 2002 it unsuccessfully tried to get Senate agreement for an exemption from unfair dismissal laws for small businesses with up to 15 employees.

Then, in 2002, through the so-called Fair Dismissal Bill, the government sought an exemption for businesses with up to 20 employees.

The Senate defeated this bill too.

When it comes to economic matters in general and industrial relations issues in particular, the government is fond of quoting OECD reports.

Well, the OECD has pointed out that, in relation to the unfair dismissal laws that applied from 1996:

*“OECD assessments consistently show that Australia’s employment protection legislation is one of the least strict in the OECD”.*¹

The OECD has also found that:

“... by promoting firms’ social responsibility in the face of adjustment to unfavourable economic circumstances, a reasonable degree of employment protection could be welfare improving.

...

*... an optimal policy would combine some employment protection legislation with effective re-employment services and active labour market policies”.*²

The government had sought in the last Parliament an unfair dismissal system that exempted small businesses with up to 20 employees.

But after the 2004 election, through Work Choices, the government moved to exempt businesses with up to 100 employees covering 99 per cent of all employing businesses.

No mention of this was made during the election campaign.

And no justification was provided for the claim that businesses with up to 100 employees are small businesses.

Can the government find any comfort for its 100-employee exemption from the OECD?

A handful of OECD countries provide exemptions for small businesses – but none for businesses with up to 100 employees.

Germany has an exemption for businesses with up to 10 employees, Sweden 10 employees, Portugal 9 employees, Korea 5 permanent employees, and France and the Slovak Republic have longer employment trial periods for firms with up to 20 employees.

The relevant ILO convention allows for signatories to the convention to take account of the special circumstances of small businesses in formulating unfair dismissal policies.³

These are all facts that I am putting on the table, some of them inconvenient truths but truths nevertheless.

¹ OECD (2003), *Economic surveys; Australia*, Paris, March, p. 100.

² OECD (2004) *Employment outlook*, Paris, March, p. 63.

³ The ILO's Termination of Employment Convention (No 158), Article 2 (5), states: ' In so far as necessary, measures may be taken by the competent authority or through the appropriate machinery in a country, after consultation with the organisations of employers and workers concerned, where such exist, to exclude from the application of this Convention or certain provisions thereof other limited categories of employed persons in respect of which special problems of a substantial nature arise in the light of the particular conditions of employment of the workers concerned or the size or nature of the undertaking that employs them.'

In the contest of ideas, it is wise to develop policies based on evidence and facts, not prejudice.

The government claims that the abolition of unfair dismissal laws for most businesses has contributed to the employment growth since Work Choices came into force.

There is no evidence to support this assertion.

Indeed, in the 10 months after Work Choices came into force, employment grew by 241,000 or 2.4 per cent, whereas in the 10 months following the introduction of the unfair dismissal laws by the previous Labor government in 1994, employment actually grew faster, by 256,000 or 3.3 per cent.

This is not to say by any means that the unfair dismissal laws created jobs, but nor can the government legitimately claim, based on these figures, that the removal of the unfair dismissal laws was responsible for the recent jobs growth.

Last week the Governor of the Reserve Bank was invited to nominate Work Choices, including the change in unfair dismissal laws, as a cause of the growth in employment since March 2006. He declined.

But while there is no evidence to support the government's claim, nor is there evidence that changes to unfair dismissal laws have no effect on the willingness of small businesses to take on staff.

It would be rational for a small business owner, confronted with heavy-handed unfair dismissal laws and procedures, to be cautious about taking on permanent staff.

Unfair dismissal laws that are open for abuse through demands for go-away money under threat of time-consuming legal action could create disincentives for small businesses to hire permanent staff and incentives to prefer casual and labour hire staff.

That's why, in formulating unfair dismissal policies, Labor will be going forward not backwards.

Labor will be mindful of the needs of small business.

Labor's policies will not see a return to the technical and time-consuming process that dragged small business employers away from what they needed to do – run their businesses.

We accept that, if small businesses are convinced there was a problem with the old unfair dismissal laws then there was a problem, since it is small businesses not political parties that make the hiring decisions.

My colleague, the Shadow Minister for Industrial Relations Julia Gillard, and I are working on the issue of unfair dismissals and small businesses.

We are seeking the views of relevant parties and are gathering evidence as a basis for a rational policy.

I invite COSBOA, its member organisations and any other small business organisations to participate in our policy development process in good faith.

While we are engaged in that process I give you this assurance: Labor will recognise the special circumstances of small business in formulating its policies on unfair dismissal.

Thank you for the opportunity of sharing these thoughts with you tonight. While I will soon have to get back to the House on the Hill, my door is always open to you.