Ai GROUP

Submission
to the
2022-23 Productivity Commission Inquiry
into
Australia's Productivity Performance

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Ai GROUP

About Australian Industry Group

The Australian Industry Group (Ai Group®) is a peak national employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for nearly 150 years.

Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, retail, labour hire, mining services, the defence industry, the case sector, civil airlines and ICT.

Our vision is for *thriving industries and a prosperous community*. We offer our membership high quality services, strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

Australian Industry Group contact for this submission

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Executive Summary

Ai Group welcomes the opportunity to provide further input into the Productivity Commission's inquiry. We agree with the Commission's arguments about the fundamental importance of productivity for Australia's economic and social progress.

Raising rates of productivity improvement has become more important over recent years. The lower average rate of productivity improvement has stifled the growth of real incomes. This has many consequences one of which is the immediate issue of households and businesses less well equipped to absorb the sudden increase in inflation since the end of 2021. In a matter of months, a large proportion of real incomes growth over the past decade has been eroded by this bout of price pressures.

More importantly, Australia faces formidable challenges from the imperative to transition to net zero emissions in a short space of time; accumulating demographic pressures; and a fiscal outlook that requires both a faster growing tax base and more efficient taxation arrangements. Lifting the rate of productivity growth is a key contributor to addressing these challenges while still raising Australia's living standards.

We have not addressed all the issues raised in the Commission's Interim Reports but have concentrated our efforts on a handful of areas that we feel we have contributions that might be of some value in the Commission's deliberations. We have grouped these contributions in the following sections:

- The measure of productivity
- Education and training
- Workplace relations
- Decarbonisation
- Innovation
- Skilled migration

1. The Measure of Productivity

In this Submission our focus is on lifting the efficiency of economic activity. We see this as raising output from a given quantity of inputs (and raising the ratio of output to inputs if the quantity of inputs changes). This means that we do not include in our discussion ways to increase hours worked or the quantity (as opposed to the quality) of capital deployed in production. In short, our orientation is on Multifactor Productivity (MFP).

This is not to assert that changes in the quantity of inputs is unimportant or that policy measures aimed at stimulating labour force participation and investment are of lesser importance. Rather it reflects what we think of as "productivity" (ratio of output to inputs) and concentrates our discussion for the purposes of this submission on questions of raising the quality of inputs and the efficiency with which they are combined.

In contrast, much of the conceptual discussion in the Interim Report *Key to Prosperity* is focused on labour productivity. As the report itself makes clear, labour productivity (value added per hour worked) includes the contribution from capital deepening to increased output.

No criticism of the Commission's approach is implied in our orientation on MFP which in any case is a component of the labour productivity concept preferred by the Commission. In practice, the Commission's focus in its other Interim Reports is on the issue of lifting the ratio of output to inputs and little attention is placed on ways to lift the quantity (as opposed to the quality) of the capital stock.

We do however have a strong preference for using MFP rather than labour productivity.

The main reason for this preference is that MFP is a much sharper measure of changes in the efficiency of production. In its discussion of the two measures the Australian Bureau of Statistics[1] makes the following points:

- *Labour productivity indexes reflect not only the contribution of labour to changes in production per labour unit, but are also influenced by the contribution of capital and other factors affecting production such as technological change*.
- *MFP statistics are designed to inform how much economic growth originates from productivity growth (increased outputs from the same quantity of inputs) and how much from increased inputs (increased outputs from more capital goods or additional working hours). MFP, therefore, is most commonly used in rigorous productivity analysis.*

The distinction is particularly relevant in the context of recent Australian experience characterised by the once-in-a-century mining investment boom. While it was not the only factor, a quick indication of the impact of this boom is that the ABS's

[1] Australian Bureau of Statistics, Australian System of National Accounts; Concepts Sources and Methods, Chapter 19 Productivity Measures.

measure of the capital / labour ratio for the market sector of the Australian economy grew by 44% over the 10 years to the end of 2012-13.[2] The impacts of this sharp increase in the capital stock have continued to be felt, and will continue to be felt for the many years over which the large quantity of new capital invested in the mining investment boom will be amortized.

There has been an unusually large divergence between the rate of growth in capital inputs to production and the rate of growth of hours worked with a correspondingly large divergence between the rates of growth of labour productivity and MFP.[3]

To the extent that the Australian mining investment boom meant a larger increase in the domestic capital / labour ratio than was the case in other economies, it will also mean that comparisons of Australia's labour productivity record with the labour productivity performance in other countries has become less useful as a measure of changes in relative efficiency than would generally be the case.

A second reason for our preference for the use of MFP concerns the confusion that surrounds the term "labour productivity" and the scope for its misunderstanding and misuse in public discussion. One dimension of this occurs when "labour productivity" is used as if it measures the contribution of labour to output growth.

As is very clear in the Commission's work, labour productivity is a very broad measure that combines two important and interrelated drivers of ouput growth: changes in the stock of capital and changes in the ratio of output to inputs (MFP).

In reality, labour productivity is particularly ill-suited as a measure of the contribution of labour to output growth. This is not just because increased use of capital, incorporation of new technologies, process improvements and changes in workforce skills are all bundled together in the labour productivity measure but also because the main direct contribution of labour to changes in output growth (changes in hours worked) is taken out of play in the measure of value added per hour worked.

[2] Australian Bureau of Statistics, Estimates of Industry Multifactor Productivity, 2021.

[3] If (but only if) the quantity of non-labour inputs changes in the same proportion as the quantity of labour inputs over a period, the change in MFP and change in labour productivity will be the same.

2. Education and Training

The Interim Report, *From Learning to Growth*, demonstrates the central influence people's capabilities have on productivity. Recognising that our education sectors are the primary suppliers to the development of knowledge and skills, the Commission discusses a number of potential changes by governments to improve outcomes from the education sectors. Recommendations recognise the need for sustainable growth in tertiary education, effective targeting of government investment, improved price setting, access to loans, an increased government role in lifelong learning, better informed student choice, support to improve the quality of teaching and support for student retention.

As the Commission's recommendations are finalised, Ai Group is keen to emphasise the potential for productivity growth from changes that would ensure greater relevance, flexibility and connectedness with workforce needs. These are major areas in which improvement will positively impact the relevance of productivity benefits of skilling in Australia.

Better connected tertiary education

The Interim report raises several ways in which common policies could operate across both VET and higher education. Ai Group urges establishing a long-term policy view for tertiary education that leads to a coherent and connected tertiary education system with systematic methods to facilitate student movement between the sectors.

Public funding for the tertiary education system should be at a level that enables quality outcomes across VET and higher education and be equitable across the sectors and between levels of government. It must be sufficient to deliver on access and equity principles, practices and programs and must appropriately support both public and private VET providers.

Fully implemented and revised Australian Qualifications Framework

The reforms from the Noonan Review propose a modern qualifications framework that allows for more flexibility in the way we combine the teaching of skills and knowledge, and a deeper understanding of the importance of context and application in education and training.

The proposed framework will better connect the tertiary education sectors and is adaptable by industry and individuals. Its implementation will initiate a review of funding models, the role of providers and the relationship between learning and credentialling.

Expanded and reinvigorated apprenticeship system

With evidence of better employment outcomes for apprentices/trainees compared to other students, the apprenticeship system must be well-supported into the future.

Current settings of the Apprenticeship & Traineeship Incentive system are not adequately encouraging employers and apprentices to participate.

The Australian Apprenticeship Priority List is too restrictive and misses vital traineeships particularly in female dominated industries. Re-design needs to include apprentice support across ALL trade apprenticeships and longer traineeships (not limited to a priority list), as well as completion payments. It needs to increase first year employer incentives, reinstate completion incentives and increase mentoring support.

The apprenticeship system is suited to fast changing skills in the workplace environment. The system has great potential to be extended beyond the trades and adapted as a major work-based learning pathway at technician and paraprofessional levels and beyond.

Ai Group's current collaboration with BAE Systems to introduce a degree apprenticeship model in Australia is one example.

Another innovation, that introduces a new mature-age apprenticeship model, would address the difficulty workers have in transitioning to a trade at later stages of their working lives.

Increased accessibility to micro-credentials for industry and existing workers

The Commission's report recognises the increased need for lifelong learning. An education and training system that can rapidly and flexibly upskill existing workers helps build a lifelong learning culture. Australia's system needs to be better geared to support Australians to upskill and reskill quickly.

Funding to education and training providers must remove barriers to provision and encourage an increase in the delivery and integration of shorter training options, including micro-credentials.

A fund for existing worker upskilling, focusing on priority industries/skills would provide greater access for individuals and industry to micro-credentials. Micro-credential development should encourage education and training providers to engage with industry resulting in micro-credential design and content specific to re-skilling and upskilling needs.

Work-based and work-integrated learning (WIL)

Work readiness, and employment outcomes, for VET and higher education graduates can be improved at scale by incorporating student internships and placements more broadly into qualifications.

Higher Education and VET funding regimes should encourage and support education and training providers to embed increased WIL experiences. For industry's part, incentives are needed that support the supervisory, regulatory and cost burdens on businesses who take on students as interns/placements.

Foundation skills

The Commission discusses the importance of strong foundational skills developed through schooling. It also cites academic support programs that address tertiary non-completions due to a lack of literacy and numeracy skills. A recent Ai Group survey highlighted the dimensions of low levels of literacy and numeracy which are reported as a perennial issue for employers. In the forthcoming 2022 report, 74% of businesses say they are affected in some way by low levels of literacy and numeracy[4]

Australia needs to endorse the draft National Foundation Skills Strategy for Adults. A refreshed national language, literacy, numeracy and digital (LLND) skills strategy should recognise the impact that digital transformation is having on the workforce, especially on lower skilled workers performing tasks in jobs, occupations and industries impacted by the digitisation of economic activity.

[4] 2022 Skills Survey: Listening to Australian businesses on skills and workforce needs, Australian Industry Group, 2022 (due for release in early November).

3. Workplace Relations

Ai Group is broadly supportive of the overarching recommendations made in the Interim Report. Here we address specific issues of significance.

Enterprise Bargaining

To raise the pace of productivity growth and real wages and to underwrite the competitiveness of industry enterprise-based bargaining should remain the cornerstone of our workplace relations system.

Further, productivity improvements need to be a key feature of enterprise bargaining. The following proposed common-sense changes to the FW Act's enterprise bargaining framework would substantially reduce the existing focus on procedural matters and allow for an increased focus on productivity outcomes.

- Simplifying the Better Off Overall Test by ensuring that hypothetical types and patterns of work that are unlikely to be engaged in are not taken into account.
- Simplifying the requirements for the Fair Work Commission (FWC) to be satisfied that genuine agreement has been reached.
- Simplifying the requirement for employers to explain the terms of a proposed enterprise agreement to employees prior to the vote.
- Clarifying the cohort of casual employees who are entitled to vote on an enterprise agreement.

The decline in enterprise bargaining has been attributed in part to the uncertainty and delays many employers are experiencing who have engaged in the process. While Ai Group acknowledges the administrative changes made by the FWC in respect of handling enterprise agreement approval applications, these improvements do not address more entrenched barriers to enterprise bargaining imposed by certain provisions of the FW Act itself and the body of case law that has developed in interpreting those provisions.

With the changes proposed, the enterprise agreement system can once again play a key role in delivering improved remuneration to employees and boosting productivity.

To further support this, Ai Group advocates for the development of sustained education and guidance material for both employers and employees around the types of productivity enhancing terms and conditions that the parties should consider for inclusion in enterprise agreements.

In addition, to address some of the more extreme restrictions in enterprise agreements, such as restrictions on adopting new technologies in some maritime enterprise agreements, greater use of specific Industry Codes that address enterprise agreement content. Such codes can be created through amendments to the FW Act.

The FW Act already provides for a Code for Outworkers in the Clothing Industry (s.789DA) and a Small Business Fair Dismissal Code (s.388). In addition, the FW Act already contains some industry-specific prohibitions on enterprise agreement content that apply to emergency management bodies, namely that agreements which apply to these bodies cannot include provisions that restrict or limit the ability of a body to engage or deploy its volunteers (s.195A). Therefore, there is no reason the FW Act cannot contain industry-specific prohibitions on enterprise agreement content, such as in the Maritime and Ports Industry to enable stevedores to reasonably manage their businesses and to enable businesses to move their products through ports efficiently and at a reasonable cost.

As a general principle, Ai Group supports the Interim Report's proposal of restrictions on enterprise agreement clauses that significantly adversely impact productivity, provided that such restrictions do not make the bargaining and approval process more complex and less certain for the parties.

Multi-Employer Bargaining

The expansion of multi-employer bargaining has the real potential to create harm and disruption to businesses, supply chains, the broader economy and communities.

Ai Group is opposed to any undue expansion of multi-employer bargaining in the FW Act such that it:

- discourages employers and employees to reach agreements at the enterprise level;
- ceases, including in practice, to be voluntary for employers;
- facilitates (intentionally or otherwise) industry-wide bargaining;
- extends the access to the current low-paid bargaining steam beyond sectors that are low-paid or otherwise unduly weakens the limits on access to such bargaining;
- attracts compulsory arbitration from the FWC in circumstance beyond what is currently provided for; or
- enables industrial action in pursuit of multi-employer bargaining, including industry-wide industrial action.

An expansion of the FW Act's existing multi-employer bargaining provisions with any of these outcomes is likely to be harmful to the economy and with a lesser impact on wages growth when compared to bargaining at the enterprise.[5]

Ai Group concurs with the Interim Report's findings:

> "…<u>removing restrictions on protected industrial action and bargaining orders would pose significant risks to productivity and real wages if it led to wider industrial action, with impacts on the broader economy</u>. In the extreme, multi-

[5] See Mark Wooden, September 2022, "Despite high hopes, multi-employer bargaining is unlikely to 'get wages moving" at https://theconversation.com/despite-high-hopes-multi-employer-bargaining-is-unlikely-to-get-wages-moving-190131

employer agreements could morph into industry-wide agreements, undermining competition across industries, weakening the growth prospects of the most productive enterprises in any industry, and creating wage pressures that cascade into other industries. Given that industrial action is the most important source of leverage for employee bargaining, the overall level of industrial disruption could also be expected to increase. Stoppages do not just reduce the output and productivity of the businesses affected, but have flow-on effects through disrupted supply chains." (emphasis added)

Indeed, recent history tells us this. In a 2002 inquiry the Productivity Commission noted that the estimated cost of lost production from two industrial disputes in the automotive industry that stopped production across the industry in 2001 were up to $630 million.[6]

Multi-employer agreements that morph into industry-wide agreements would be extremely damaging to the industry sectors of construction, maritime logistics, manufacturing, mining and other industries. These industries are not generally recognised as low-paid.

In its recent Draft Report on *Lifting Productivity at Australia's Container Ports*, the Productivity Commission observed the impact on third parties and suppliers as a result of industrial action and found that:

- Disruptions during recent enterprise bargaining imposed large costs on businesses dependent on maritime freight.
- Industrial action impeded container terminal operations and, in some cases, led to ships by-passing ports.

It also found that "*more effective remedies are needed to limit unreasonably protracted bargaining and industrial action and that incremental reforms to the FW Act would support effective bargaining and reduce overly harmful industrial action*."[7]

An expansion of multi-employer bargaining into the maritime sector, including provisions that facilitated (deliberately or otherwise) industry-wide bargaining, would be likely to impose considerable economic damage on the maritime and logistics industry with flow-on effects to sectors such as manufacturing, construction and retail and of course to households.

Even lower-paid industries such as the sectors of childcare and aged care could be faced with industry-wide conditions that could not easily be absorbed by both not-for-profit and privately-owned care service operators without passing on additional labour costs to households requiring care services and already vulnerable to inflationary pressures on costs of living.

Many employers in these sectors also rely on Government-funding or subsidies to meet labour costs in the delivery of essential care services. . Increases to labour costs places demands on Government funding arrangements to ensure those providers are viable and/or increased costs are not imposed on the community who rely on such services.

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6 Productivity Commission, *Review of Automotive Assistance*, p.53

7 Productivity Commission, Draft Report on *Lifting Productivity at Australia's Container Ports,* p.26

For instance, a recent report into the state of aged care showed a continued declining financial sustainability for the sector for the 12 months ending June 2022, with residential aged care now remaining at a critical financial sustainability position for many providers.[8] The Report identified that the additional costs of the 0.5% increase in the superannuation guarantee, award wage increases from 1.7% - 3.5% and rising inflation (6.1%) were factors contributing to the deterioration of the sector's financial viability and that short-term emergency Government funding was required to save aged facilities in regional areas from closing before structural funding reform is implemented.

Accordingly, a consequence of expanding multi-employer bargaining (including one that facilitates industry-wide bargaining), is that it is likely to lead to claims for increased terms and conditions that many operators would have no financial capacity to meet unless the Commonwealth Government was prepared to fund such measures beyond the significant funding commitments it has already announced. Without such additional funding many operators would simply not be viable and close. The disruption to the supply and continuity of care arising from any industry-wide industrial action would also be of significant concern to the community.

Improvements to awards

There is a need to continue to improve awards.

Further simplification of awards could improve the flexibility of employment conditions to better meet the needs of employers and employees and reduce compliance costs. As identified by the PC, different approaches could, and we contend should, be taken to reduce award complexity and improve flexibility.

The Fair Work Commission has made commendable efforts to simplify the wording of awards through their redrafting, including in many instances in plain language. There are however limits to the simplification that can be achieved through such processes. Changing the wording, format or presentation of awards will only take us so far.

There is a need to genuinely modernise and simplify the substantive content of awards that is overly prescriptive and restrictive. This should include ensuring that awards reflect contemporary circumstances, including changes in working practices such as the explosion in the adoption of working from home or other flexible remote working arrangements that has, to a large extent, reflected the preferences of employees.

In some industries, there is also a need to assess whether current award term are sufficiently flexible to enable workforces to be viably structured around use of an employment model, as opposed to a contractor models, given the rise of 'on-demand' sectors and platform businesses, as well as associated changed consumer demands. The development of such sectors and businesses provides significant benefits to both consumers and workers. The engagement of contractors within this context represents a legitimate arrangement that often offers mutual benefits to individual workers as well those that engage them. Nonetheless, the retention of unjustified rigidities within some awards, often based upon historical assumptions

[8] Stewart Brown, *Aged Care Financial Survey Report*, June 2022

around how work in a particular sector is undertaken, needs to be reassessed to ensure they do not represent a barrier to employment opportunities.

Ai Group strongly endorses finding 2.1 of the Interim Report. The Australian Government should continue to pursue avenues to help businesses to comply with awards through the provision of specific advice, information and increasingly sophisticated tool. Employer associations, given their expertise and connections with industry, can play an important role in facilitating this and should be supported to do so by government.

Further measures to facilitate the development and adoption of 'regtech' to enhance and ease compliance with awards should be explored, notwithstanding the associated challenges. Ai Group is supportive of the introduction of 'safe harbour' provisions associated with the use of award regtech, as described by the PC. There would be a need to ensure that any such proposals were carefully designed, but such challenges should not prevent the potential consideration and development of such initiatives.

Response to information request 2.1

The PC has specifically called for views on which elements of awards are overly complex or limit flexibility. We would identify the following issues:

- Many awards contain overly prescriptive regulation of the engagement and use of part-time employees, particularly in relation to the setting of hours that will be worked. Such obligations are commonly much more onerous than the approach adopted in the context of full-time employment. In most awards, hours worked outside of hours of work initially agreed upon engagement will attract over-time and mechanisms for varying such arrangements are unduly cumbersome. Employers report that such clauses operate as a disincentive to the engagement of permanent staff over casual staff or contractors. They also service to discourage employers offering additional hours to part-time staff.
- Many awards contain outdated requirements regarding the regulation of hours of work, minimum engagements, rest breaks and associated penalty rate regimes that do not reflect the realities of remote work or working from home arrangements. Often such provisions reflect a consideration of the disutility of needing to travel to an employer designated workplace.

  As identified by the PC, Ai Group has elsewhere argued that there is not the same imperative to require that ordinary hours of work are undertaken *continuously* when an employee works from home instead of an employer's premises. Indeed, such restrictions prevent employers agreeing to flexible work arrangements commonly desired by employees, such as the ability to break their working day to attend to caring or family responsibilities.
- The provisions contained within awards dealing with annualised wage arrangements have imposed highly burdensome record keeping requirements upon employers that make little practical sense in many employment contexts, and are difficult to comply with, particularly when employees are working remotely.

- There are some matters that are dealt with partly in awards and partly in the National Employment Standards (NES) or elsewhere in the legislation. This includes, for example, provisions dealing with annual leave and notice of termination. This patchwork of entitlements could be simplified by some of these issues being dealt with in a uniform manner in the NES. We agree with the Productivity Commission that further analysis and consultation would be required to evaluate the merits of alternative was to achieve this. Consideration should also be given to whether there should be scope for such matters to dealt with differently in enterprise agreements. A preparedness by government to adopt a balanced approach to any such reform would be critical to ensure a fair outcome from any such reforms that reflects the interests of both employers and employees.

Proposed changes to the Modern Awards Objective and the capacity of the Fair Work Commission to vary award wages

Changes that would provide greater prominence to a consideration of the needs and interests of the unemployed and consumers would have significant merit. As the PC has identified, these parties are not commonly represented in proceedings concerning variations to awards but are significantly, albeit indirectly, impacted by the terms of such instruments. Limited benefits would likely be achieved from streamlining the modern awards objective.

Ai Group would be concerned by any proposed removal of the requirement that the FWC may only vary wages outside of the annual wage reviews if necessary for work value reasons. It is unclear what other legitimate basis the PC contends there would be for varying current award rates, aside from work value considerations. Should such a course be considered there would be a need to revisit the minimum wages objective to provide additional direction to the FWC. The objective is currently very broadly framed.

4. Decarbonisation

Reaching net zero emissions by 2050 will require colossal investment in and deployment of clean technologies to replace or transform most of our current primary energy supplies, heavy industries, transport systems and built environment. This requires not just construction but manufacturing, minerals processing, mining, as well as ongoing management. There are global opportunities for Australia in all this, but the challenge is not so much to maximise jobs as to achieve such a huge task with the human resources and productive capacity that we can muster.

The National Electricity Market (NEM) is supporting a once-in-a-century transformation in the way electricity is generated and consumed in eastern and south-eastern Australia. The Integrated System Plan Step Change is significant, requiring of at least $180 billion in new investment to 2050 and navigating many complex projects to meet current demands. Should we develop an export Hydrogen industry at scale, we may require between two to twenty times our current national electricity output. We will also see substantial increases in demand for a range of critical minerals essential to transition technologies. Putting all this together, we could be facing disruption comparable to the mining boom, but sustained over a much longer period.

Lifting productivity in construction and other sectors will impact our ability to get this transition done and our competitiveness in a net zero emissions world. The cost of renewable energy is largely the cost of initial construction and finance. Technology costs are similar globally with differences in installation costs the key to competitiveness. Installation costs as a proportion of total costs are about 6 per cent for large scale solar, 15 per cent for onshore wind and about 19 per cent for offshore wind. High relative performance on building renewables will lift our ability to attract energy intensive industry and be an energy superpower.

The transition may impact all industries, not just the low carbon and environmental goods and services sector. All businesses will need to use energy and natural resources efficiently and sustainably. Therefore, skill needs are likely to be multi-layered. Industry needs deep, technical skills but also transferable skills. The whole community will need clean economy literacy to enable a culture for transition.

Energy productivity is particularly important; in the short term we face severe global price pressures for gas and coal, while in the longer-term energy efficiency can moderate the pace of new supply investment required and make transition easier. While the faster relative growth of less energy-intensive services sectors will improve some measures of national energy productivity, it is important that we lift actual energy performance across all sectors to drive broad benefits.

There will be a growing need for skilled tradespeople and energy professionals in Australia; indeed, employers are already reporting skills shortages across these occupations as their businesses transition. In addition to needing a greater pipeline of workers with suitable university and VET qualifications, it is likely that short courses will be increasingly called on to rapidly upskill and reskill.

As with productivity improvement generally, automation and the use of AI and assistive robotics will be increasingly important to achieve and maintain a net zero emissions economy.

5. Innovation

Ai Group welcomes the discussion in the Commission's *Innovation for the 98%* Interim Report. Our focus in this section of our Submission is on that discussion as it relates to the business sector. In this section we draw to a large extent on Ai Group's, 2020 *Industry Development* Policy Paper.[9]

We welcome the emphasis on knowledge diffusion as critical to the movement of businesses towards the frontier of world-leading practice and agree with the finding (2.1) that policies in this area tend to be more general and broad-based than those aimed at extending that frontier. That said, as the Interim Report acknowledges, firm and industry characteristics vary widely and knowledge gaps and the relevance of different knowledge to different firms mean that generic material and advice can only go so far. Policy emphasis on knowledge diffusion should be seen as complementary to, rather than a substitute for initiatives aimed at stimulating pathbreaking innovation.

We agree strongly with the recognition (in Finding 2.2) that trade and inbound foreign investment and (in Recommendation direction 2.1) of the role of inbound skilled migration as critical channels for the diffusion within Australia of knowledge from abroad. Similarly, Australian businesses investing abroad and Australians returning from studying and working abroad also provide important channels supporting the diffusion within Australia of knowledge from abroad.

The attention drawn to the place of businesses whose satisficing owners have limited interest in sharpening their business practices is valuable. Nevertheless, in many such businesses, relevant knowledge gaps abound, for instance in succession planning. Further, well-targeted policies aimed at raising the ambitions of this and other segments of the SME sector could have strong payoffs.

In our 2020 *Industry Development* Policy Paper, we gave considerable attention to policy areas that would increase the pace and breadth of movement of SMEs, towards the frontier of leading practice. We noted (p.8) that:

> *A critical means of moving more businesses closer to the frontier of global practice is to improve business awareness of global practice and assist in lifting their capabilities. This policy area is a subset of the broader skills and education agenda but applies specifically to managers, owner-managers and directors of small and medium-sized businesses.*

We also observed (p.8):

> *There is already a wide range of programs at federal, state, territory and local government levels dedicated to building Australia's business capabilities. Extending the most successful programs and building greater links and coherence across the range of services has the potential to significantly improve outcomes and assist in identifying gaps and opportunities. There is also considerable merit in the more concerted development of accessible*

[9] See https://www.aigroup.com.au/news/policies/2020/post-pandemic-policy-paper-industry-development/

case study material through business success stories that highlight the ingredients of successful experiences.

Building a more coherent approach to business capability development will require intra-and inter-government dialogue and cooperation. There is no need for a single national approach and indeed diversity and experimentation in different jurisdictions alongside greater communication and coordination is likely to bring significant benefits.

A nationally linked approach to SME capability development could tap into existing networks such as those facilitated by industry associations, universities, government agencies, the growth centres, and the Industry Capability Network. There is strong potential also to stimulate diffusion by linking SME networking into some CRCs and similar research-business collaborative initiatives.

In our *Industry Development* Policy Paper, we point to the merit of tailored business advisory services including those linked to benchmarking and diagnostic tools such as futuremap® which was developed by the Innovative Manufacturing CRC.

We also identify a range of capability areas with widespread relevance across the SME sector. These include digital capabilities; cyber security; trade and international engagement and supply chain management.

We advocate for the development of accessible case study material to highlight and draw lessons from successful businesses experiences. There is considerable potential in this area for material relevant to more innovation-ready businesses and for raising ambition among other businesses including the satisficing group referred to above. The development of case study material could also be an area for partnership with industry associations who are more familiar with the target market and less likely to be restrained by political considerations and objectives than government agencies.

6. Skilled Migration

Ai Group is a strong supporter of Australia's migration program. While there is a variety of social benefits arising from migration, the economic benefits associated with skilled migration including the productivity benefits identified by the Commission are pronounced.

The proposal to abolish the skills lists used for migration purposes is certainly worthy of further consideration.

Employers know which skills they have difficulty in recruiting locally and skill shortage lists present unnecessary barriers and can be inaccurate. For example, there are local and regional pockets of skill shortages that are not identified in national data.

The relationship between the skill lists and work opportunities can be tenuous with many such migrants proceeding to work in occupations not included on the lists. While this is likely to represent an efficient labour market outcome, it does call into question of the role of the lists.

If the requirement for a skills list were to be removed, there would also be a need to end the division of the sub class 482 temporary skilled visa into long- and short-term streams. At present, visa applicants in identified skill shortage categories can stay in Australia for four years in most circumstances with one extension, while non skill shortage 482 visa holders can only stay for 2 years with one extension. For many potential applicants, the short-term nature of the visa is a deterrent and should be removed.

A single threshold wage combined with greater reliance of market forces as expressed in the willingness of employers to sponsor migrants is very likely to be a more efficient approach to rationing than the current approach centred on the skills list. However, the threshold needs to be set at a level that does not preclude immigration of skilled migrants where there is insufficient local supply to fill positions paid below the threshold. A prominent source of this issue is where wage levels are not set by market forces but are constrained by government funding arrangements such as in the care sector.

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