ACCI – LEADING AUSTRALIAN BUSINESS

ACCI has been the peak council of Australian business associations for 105 years and traces its heritage back to Australia’s first chamber of commerce in 1826.

Our motto is “Leading Australian Business.”

ACCI and its predecessor organisations have been at the forefront of Australian minimum wage fixation for over a century. We have consistently represented Australian business throughout the creation of the arbitration and award wage system, through depression and wars, and as the system evolved in the later 20th century to facilitate the integration of more women into employment, and to take better account of issues such as wage arrangements to support the employment of persons with disabilities.

We are also the ongoing amalgamation of the nation’s leading federal business organisations - Australian Chamber of Commerce, the Associated Chamber of Manufactures of Australia, the Australian Council of Employers Federations and the Confederation of Australian Industry.

Membership of ACCI is made up of the State and Territory Chambers of Commerce and Industry together with the major national industry associations.

Through our membership, ACCI represents over 310,000 businesses nationwide, including over 280,000 enterprises employing less than 20 people, over 55,000 enterprises employing between 20-100 people and the top 100 companies.

Our employer network employs over 4 million people which makes ACCI the largest and most representative business organisation in Australia.
Our Activities

ACCI takes a leading role in representing the views of Australian business to government.

Our objective is to ensure that the voice of Australian businesses is heard, whether they are one of the top 100 Australian companies or a small sole trader.

Our specific activities include:

• Representation and advocacy to governments, parliaments, tribunals and policy makers both domestically and internationally.

• Business representation on a range of statutory and business boards, committees and other fora.


• Research and policy development on issues concerning Australian business.

• The publication of leading business surveys and other information products.

• Providing forums for collective discussion amongst businesses on matters of law and policy affecting commerce and industry.
Publications

A range of publications are available from ACCI, with details of our activities and policies including:

- The ACCI Review a monthly analysis of major policy issues affecting the Australian economy and business.

- Issue papers commenting on business’ views of contemporary policy issues.

- Policies of the Australian Chamber of Commerce and Industry – the annual bound compendium of ACCI’s policy platforms.


- The ACCI Survey of Investor Confidence – which gives an analysis of the direction of investment by business in Australia.

- The Commonwealth Bank-ACCI Business Expectations Survey - which aggregates individual surveys by ACCI member organisations and covers firms of all sizes in all States and Territories.

- The ACCI Small Business Survey – which is a survey of small business derived from the Business Expectations Survey data.

- Workplace relations reports and discussion papers, including the ACCI Modern Workplace: Modern Future 2002-2010 Policy Blueprint and the Functioning Federalism and the Case for a National Workplace Relations System and The Economic Case for Workplace Relations Reform Position Papers.

- Occupational health and safety guides and updates, including the National OHS Strategy and the Modern Workplace: Safer Workplace Policy Blueprint.
• Trade reports and discussion papers including the Riding the Chinese Dragon: Opportunities and Challenges for Australia and the World Position Paper.

• Education and training reports and discussion papers.

• The ACCI Annual Report providing a summary of major activities and achievements for the previous year.


Most of this information, as well as ACCI media releases, parliamentary submissions and reports, is available on our website – www.acci.asn.au.

**ACCI and Australian Minimum Wages**

ACCI has represented employers in relation to wage pauses, wage freezes, basic wage and margins, moves into and out of indexation, and through the Accord and safety net eras. We have participated at the highest level of Australian wage fixation as lead employer advocates under the *Conciliation and Arbitration Act 1904*, the *Industrial Relations Act 1988*, and each evolution of the *Workplace Relations Act 1996*.

Throughout the past decade in particular, ACCI has been at the forefront of moves to reform our system. We have been very active policy proponents of precisely the type of modernisation and fresh thinking which led to the creation of the AFPC.

ACCI continues to be the pre-eminent representative of the organisations which actually pay additional minimum wages when uprating occurs. We represent over 300,000 businesses employing over 4 million Australians, and in doing so have a very substantial interest in this matter.
ACCI Membership and the AFPC Review

Linked to the preceding, it is appropriate to note the breadth of ACCI’s membership, and the extent to which we represent those particularly affected by minimum wages in contemporary Australia.

ACCI’s 36 member organisations have as their members employers of all sizes (small, medium and large), in all states, territories and regions, and working across all industries and sub-industries.

Two particular matters should be noted, through our membership:

- ACCI is Australia’s largest representative of small businesses – including hundreds of thousands of diverse small enterprises within our membership.

- ACCI is Australia’s foremost representative of employers in the industries where minimum wages are most widely applied (i.e. where bargaining and over-minimum payments are lowest), including the retail and hospitality industries in particular.

In simple terms, we represent more of those employing on the minimum wage, and on minimum wages, than any other organisation. We represent a key component of those who stand to be most directly affected by the AFPC’s decision in this matter.

These considerations underscore the relevance of this substantial ACCI input to the AFPC’s considerations and the relative weight which should be attached to it. Notwithstanding the deliberate differentiation between the AFPC process and the preceding AIRC cases, key representative organisations actually representing those most affected, in greatest numbers, should be central to the decision making process.

We again look forward to participating in the AFPC process as one the key organisations / primary partners of the AFPC in its minimum wage fixing task. We raise a substantial range of considerations in this submission and look forward to expanding on them in an ongoing discourse with the AFPC during coming weeks and months.
We have also encouraged ACCI member organisations, Australia’s State and territory chambers of commerce and major national industry associations (a list of which appears at the back of this submission), to make submissions to the AFPC on this major matter. The submissions of ACCI member organisations should be considered in conjunction with this submission.
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ACCI MEMBER ORGANISATIONS
1. INTRODUCTION - OUTCOMES & IMPLEMENTATION

1.1 - INTRODUCTION

1.1 The Australian Chamber of Commerce (ACCI) is the largest and most representative organisation of Australian business, representing more than 300,000 employers employing more than 4 million Australians. ACCI’s membership extends across all industries and to businesses of all sizes. Within this network, ACCI has particularly strong membership representation across the profile of workplaces most subject to minimum wage increases (smaller to medium sized businesses and those in industries such as retail, hospitality and business services).

1.2 ACCI and its wider membership network of employer organisations (a number of whom will also make submissions to this review) represent the views of one of the core interests in setting and increasing any minimum wage; those who must pay the increase. Relevantly for the prescribed role of the AFPC, the ACCI network also covers those who will create or not create additional employment for Australia’s unemployed and under-employed (i.e. the s.23(a) and (b) considerations).

1.3 ACCI and its members have been the key employer voices in Australian minimum wage setting for more than a century. ACCI and its progenitors have consistently led industry in the evolution of Australian minimum wages both through the AIRC’s national wage cases and safety net reviews, and more recently through the creation of the AFPC and its reviews.

1.4 This submission addresses the Australian Fair Pay Commission (AFPC) on appropriate outcomes and approaches for its third review of minimum wages under the amended Workplace Relations Act 1996.

1.2 - **ACCI Position**

1.5 Taking due account of the previous AFPC decisions, their timing, the timing of this review, and in particular the economic and labour market circumstances in which it is being undertaken and the considerations which the AFPC is to have regard to; ACCI considers the outcome of this 2008 review should be as follows.

1.6 Any increase(s) ordered in this review should:

a. Be of a **genuinely moderate nature** only.

b. Take proper account of increases to incomes as a consequence of tax cuts from 1 July.

c. Take proper account of inflationary pressures which have emerged in the economy, the moderation of economic activity and low levels of productivity growth.

d. Be based on minimum wages playing a safety net role in a bargaining based system.

e. Take proper account of the considerations and conclusions outlined in this submission, including the nature and circumstances of small and medium sized employers primarily affected by these increases.

f. On this basis and taking into account the 1 July 2008 tax cuts, be comparable in quantum and application to that determined by the AFPC in 2007.

1.7 ACCI proposes that real incomes for the lower paid be increased/met in real terms by a combination of the July 2008 tax cuts and a minimum wage increase of comparable size to that ordered in 2007. This is vastly preferable for the economy to having wages attempt to chase prices.

1.8 Despite the significant domestic and international economic challenges facing the nation, this ACCI submission recognises that a balanced approach to wages policy justifies a moderate increase to minimum
wage(s), the factoring in of the value of tax cuts, and the overriding priority of linking wages to productivity, rather than prices.

1.9 Australia’s labour productivity (GDP per hour worked, annual to December 2007) is running at just 0.7%. Over the current productivity cycle the average growth has been just 1%. This is far lower than underlying inflation at 3.6 percent (year to December 2007).

1.10 It is widely acknowledged that if wages chase prices, the economy would falter unless our productivity is lifted. With inflationary pressures, it is now crucial that wages policy be directed towards raising of productivity. Centralized minimum wage increases are not productivity linked.

1.11 These Fair Pay Commission decisions should not be treated as the sole source of wage increases. Wages rise much more regularly through a combination of employee promotion or new employment, increased skills, a tight labor market, performance pay, contractual rises above minimum wages and collective bargaining.

1.12 At a time when interest rates and costs of living are rising it is understandable that lower paid workers are seeking another wage rise from the central regulator. However, those interest rates and rising costs are also impacting on the businesses (usually small businesses) that employ these workers. A balance must be struck which does not fuel inflation further or make jobs less secure.

1.13 The way to achieve that balance in 2008 is to focus on overall real incomes, not just wages. The AFPC opened this broader assessment in its July 2007 decision, and now is the appropriate time to proceed on that basis, including particular consideration of additional incomes for the lower paid from a further round of tax cuts.
1.3 - **Key Considerations / Key Themes**

1.14 A number of key themes run through this submission, and are in ACCI’s view the key considerations which should lead the AFPC to conclude in favour of an outcome in the terms not opposed by ACCI (see 1.2, above).

1.15 The majority of these considerations are not new to the AFPC, and indeed are reflected in its 2007 decision in particular.

1.16 Perhaps the key contentions of ACCI are that:

a. There is no reason in 2008 to depart in essence from the conclusions and approaches of 2007, both in regard to the quantum of increase, and the various conclusions which underpinned that determination.

b. There is every reason to continue these approaches, and to award a comparable quantum of minimum wage increase.

1.3.1 - Moderation

1.17 ACCI indicates above that any increase which is awarded from this review, regardless of its timing, must be genuinely moderate. How then would ACCI have the AFPC proceed?

1.18 To some extent, all parties claim their minimum wage positions are moderate, and therefore support the concept of minimum wage moderation. Minimum wage setters like the AIRC claimed they were acting moderately in increasing minimum wages by levels ACCI would argue were immoderate and certainly in excess of inflation. Even the ACTU characterises its clearly ambit claims as moderate.

1.19 The universal use of this term is not only unhelpful, but it risks robbing what is a quite legitimate and important approach to minimum wage setting of any meaning and utility. If the notion of moderation becomes something of a motherhood statement devoid of determinative
relevance, the AFPC would lose one of the important guidelines on how it should proceed.

1.20 However, moderation remains a meaningful concept and moderation should remain the hallmark of operationalising the AFPC’s statutory duties under the *Workplace Relations Act 1996*.

1.21 How do employers say the AFPC should balance the considerations it is directed to consider under the *Workplace Relations Act 1996*?....by exercising moderation and responding with only genuinely moderate uprating of minimum wages.

1.22 ACCI would argue that ‘moderate’ in the context of current circumstances means that minimum wage increases should not be in excess of inflation. Thus, we would argue the starting point for minimum wage fixing is a limit that no employee can move below (taking into account that it is not only wages which determine the incomes of the lower paid).

1.23 In contrast, increases in real terms through genuine workplace bargaining offset by productivity improvement, are not inappropriate beyond the minimum wage system.

1.24 To act beyond maintaining purchasing power\(^2\) would (particularly in a low productivity environment) would make an increase one which inflates purchasing power. To move above inflation, any increase would cease to be moderate and would become ‘improving’ or ‘advancing’ or ‘activist’. In ACCI’s view it would also cease to be consistent with the AFPC’s directions under the *Workplace Relations Act 1996*, particularly in the current economic and labour market context.

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\(^2\) In conjunction with the tax and social security systems.
1.3.2 - Caution

1.25 Indivisible from the principle of moderation is the principle of caution. This does not mean paralysis, or never uprating minimum wages (i.e. not an excess of caution) but it does mean exercising proper care. It also means:

a. Exercising wariness, circumspection and guardedness in the level of minimum wage increases ordered.

b. Erring on the side of moderation and prudence, particularly in periods of uncertainty and risk.

1.26 The performance of the Australian economy and labour market does not give any wages setter carte blanche, or unlimited scope to increase minimum wages. This is amplified by considerations of emerging economic softness, downturn, risk and uncertainty.

1.27 There always needs to be a degree of caution in the setting of minimum wages. Particular caution needs to be exercised at the present time, in the present economic context, and coming in a period of economic change. Ensuring the price effectiveness of minimum wage employment appears particularly crucial at this time.

1.3.2.1 - An illustration of the need for caution

1.28 An illustration of the need for caution is provided by the AFPC’s 2006 observations on the relationship between minimum wages and employment (See also Part C of this submission):

Even if there were conclusive international evidence one way or the other as to the relationship between minimum wages and employment, it may not be relevant to Australia, given the unique structure of our minimum wage system. Compared with other OECD countries:

- Australia’s minimum wage system prescribes not only minimum wages but other wages at higher levels through the wages distribution;
- Australia’s minimum wage is higher in relative terms; and
• Australia’s minimum wage system covers a higher proportion of employees than other countries (20 per cent in May 2004).³

1.29 When one stops to consider those factors, then the only valid conclusion is that Australia potentially, if not in all probability, has a higher negative impact of wage increases on employment than the international literature and research would suggest.

1.30 Looking at the three (3) points listed:

a. “Australia’s minimum wage system prescribes not only minimum wages but other wages at higher levels through the wages distribution”

i) So, Australia has more and higher minimum wages than those examined in the international literature, and which were found to have a negative impact on employment.

ii) Logically, we must proceed on the basis that the negative impact in Australia will be as high or higher than the international literature would suggest.

iii) Alternatively, if a range of elasticities of employment to minimum wage increases is identified in the literature, in the absence of empirical information for Australia, the AFPC should proceed on the assumption that the impact in Australia will be towards the higher end of the distribution.

b. “Australia’s minimum wage is higher in relative terms”

i) So, any ‘bite’ on employment is going to be bigger. If there is any negative impact, our minimum wage will be closer to the negative impact point than even the international models upon which the literature is based.

c. “Australia’s minimum wage system covers a higher proportion of employees than other countries (20 per cent in May 2004)”

i) So, Australian minimum has more ‘bite’ on the wages distribution. If there are any negative impacts on employment they will be more pervasive and more far-reaching in Australia than even the international literature suggests as our minimum wages have more application.

1.31 Appropriate caution under the Workplace Relations Act 1996 supports a conclusion that the negative impact in Australia will be as high as or higher than the international literature would suggest, and that it will be towards the higher end of the range of elasticities posited. Increasing minimum wages will have as bad or worse an impact in Australia as in any international system. This underscores the importance of caution as a general operating concept (and s.23 of the Workplace Relations Act 1996 supports this).

1.3.3 - Wages are not the sole source of income for the low paid

1.32 As expanded upon in Section 6, and as the AFPC clearly recognised in 2007, minimum wages are not the sole source of income for the low paid. Taxation and social security settings also play a role in determining incomes and purchasing power in the face of changes in prices.

1.33 A fresh round of tax cuts in 2008 will add to the real incomes of the low paid. In any consideration of the level of the minimum wage (and minimum wages) against price changes in 2008/2009, all facets of income need to be considered, and not just minimum wages.

1.34 The low paid will gain additional purchasing power from minimum wage uprating and tax changes, and the combination of both is important and relevant.

1.35 (This does not of course mean that ACCI concedes that real incomes need to be maintained or advanced each year, by whatever combination of sources. Such a conclusion would be at odds with the construction of s.23 of the Workplace Relations Act 1996)
1.3.4 - Minimum wages are not required to chase prices

1.36 A great deal is said about real wage maintenance and minimum wages keeping pace with changes in prices. Some would have you believe real wage maintenance at all times and in all circumstances is the sole factor upon which any minimum wage system must be judged.

1.37 Some would have you conclude that notwithstanding the actual terms of legislation, real wage maintenance is obligatory.

1.38 If mandatory indexation in all cases were the will of Parliament, it would have said so. With respect it would also not have needed to convene and expert and well resourced AFPC, with a strong research function and the range of considerations in s.23 of the Workplace Relations Act 1996.

1.39 Linked to the preceding, whilst there may in some years be opportunities for real wage maintenance (in combination with the tax and social security system), in others this will not reflect an appropriate balancing of the AFPC’s statutory considerations / evidence on the economy and labour market.

1.40 This said, ACCI understands that a combination of minimum wage uprating, tax cuts and income transfers in 2008 can deliver a change in the incomes of the low paid which broadly equates to changes in prices.

1.3.5 - Extend frames of reference

1.41 Another factor in considering the relative levels of real incomes and comparing incomes to changes in prices, is that each year should not be viewed as standing alone.

1.42 There have been a number of years during the period since 1997 in particular when minimum wages have increased in excess of changes in prices.

1.43 This provides any wage setter with a margin of confidence to pursue real wage moderation when prices do become volatile, and the balance of considerations should not see a minimum wage uprating fully
reflecting changes in prices. This is not an issue in 2008 when there should be an uprating, and where the uprating in the minimum wage and tax changes should deliver real wage change, but it remains a relevant consideration.

1.3.6 - Macro v micro focus

1.44 It is relevant to also recognise the importance of not adopting an unduly macroeconomic approach to economic and labour market considerations.

1.45 This has been an error in the ACTU’s approach. The ACTU seeks to wash out the economic and labour market impact of minimum wage rises by diluting them across the economy as a whole.

1.46 Australia does have a strong mining industry and some industries, particularly export industries, are performing comparatively strongly. Australia is writing some good business with Asia, including from the resources sector – and this is creating jobs, confidence and investment.

1.47 However, the macro economy can tell the AFPC comparatively little about the impact of increasing minimum wages in the industries in which minimum wages have greatest application. It is the hospitality and retail industries which predominantly pay minimum wages, not the mining industry which long ago abandoned minimum wage employment for agreement making based on productivity.

1.3.7 - The economy has changed, and changed rapidly

1.48 As set out in Sections 2 and 3, there has been a significant and rapid change in the performance of the Australian economy, and forecasts for its performance in the 2008/2009 period – during recent months.

1.49 Whilst the labour market may still be performing strongly, a variety of other indicators signal that economic conditions have softened.

1.50 In contrast to more than a decade of minimum wage decision making, when the AFPC comes to consider the economy and labour market, it will see a level of softness and downturn not seen in recent years.
1.51 This is a key factor favouring caution and moderation. ACCI is not arguing for no increase in minimum wages in 2008, but for moderation and a recognition of the positive impact of other income measures such as tax cuts. Consideration of a changing, moderating economy should further bolster conclusions in favour of the outcome ACCI proposes.

1.3.8 - **There is more risk around than for many years:**

1.52 Linked to the preceding is the heightened level of economic risk and uncertainty in early 2008. As outlined in Section 3, there is a level of domestic and international risk to outlooks and overall economic uncertainty not seen for some years.

1.53 A key element of this is internationalised economic risk, which brings to the forefront of consideration the internationalisation of Australia’s medium sized economy, and exposure to international economic developments.

1.54 Again, properly appreciating risks to the Australian economy and labour market should favour caution in this decision, and an outcome in the terms identified by ACCI.

1.3.9 - **Now is the time to balance s.23 considerations**

1.55 Linked to the preceding, it was previously argued from some quarters that economic circumstances justified significant minimum wage raises in the period between the mid 1990s and the mid 2000s. The economy performed well. Inflation was kept within its bounds with minimal interest rate responses for much of this period. Jobs growth was significant and sustained, and there were real inroads into unemployment. (Productivity however was patchy, and the spread of bargaining slowed).

1.56 At various times there were high minimum wage rises, often in excess of inflation. Whilst these had an impact at the industry, regional and workplace level, overall economic and employment growth continued.
1.57 Implicit in the arguments of the ACTU and some others was the suggestion that minimum wages could be increased by sizable amounts without economic detriment in such an environment.

1.58 Whatever the accuracy or otherwise of this take on history, and the previous thinking of decision makers and those making submissions, times are changing. The economy is changing, and risks have increased markedly. Change has come rapidly.

1.59 The AFPC has taken into account each of the items in s.23 of the Workplace Relations Act 1996 in 2006 and 2007. However, in 2008 it is particularly important to balance these statutory considerations and reconcile them in the face of more acute opposing considerations, and an economic and labour market environment in which responses will be sharper, more immediate and more damaging.

1.60 The AFPC faces an environment where the competitiveness of enterprises is at risk, in which jobs growth may downturn and indeed in which both employers and employees are facing higher prices and higher interest rates.

1.61 ACCI does not argue that the considerations in s.23, properly balanced, favour no increase, but that they favour a moderate increase when viewed in conjunction with the 2008 tax cuts.

1.3.10 - Previous years’ experience cannot be determinative

1.62 ACCI congratulates the AFPC on its research work to understand the impact of each of its decisions. This is a significant information resource long lacking from Australian wage setting (although we maintain feedback from employers and employees through their networks remains equally important).

1.63 However one of the key considerations this year is how much things have changed since 2007 and how rapidly. ACCI would urge the AFPC to be cautious in proceeding on the basis that its understanding of what happened in 2007 means it will know what will happen in 2008 at a given level of wage increase.
In the current economy and with levels of risk and confidence in such flux, the impact of last year's increase cannot be assumed to be a guide this year, nor provide a basis for any higher increases (i.e. on the basis that if the economy coped with $10.25 last time, it must be able to cope with some higher amount in 2008). Section 7 expands on this theme.

1.3.11 - Safety net still a distant aspiration

Australia continues to have minimum wages which are yet to realise their role as a genuine safety net. Australia continues to have the highest or amongst the highest minimum wages in the world\(^4\), and certainly the most pervasive minimum wage system in the world. This continues to have a very real detrimental impact on the considerations the AFPC must advance under the *Workplace Relations Act 1996*.

As Australia confronts a period of economic uncertainty, we continue to have more regulated minimum wages, at a higher level than any other country. Again this is a factor favouring moderation and caution in 2008. ACCI can see no basis for a substantial real wage gain as proposed by the ACTU.

1.3.12 - Bargaining and productivity more important than ever:

Section 4 addresses the intersection of minimum wages with changes in prices. It does so in the context of the importance of stimulating bargaining and enhancing productivity.

Given the changes in the economy, levels of risk, and indications that various areas of economic performance are tapering off (along with increases in inflation) – ACCI would place additional emphasis this year on minimum wage setting which encourages bargaining and increased productivity.

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1.69 The path to non-inflationary, sustainable, job sustaining wage increases is productivity and this is achieved through bargaining. This is not up for grabs – it is what Parliament tells all of us under the Workplace Relations Act 1996.

1.70 It is particularly important in this period that the level of minimum wage increase not discourage scope for pro-productivity bargaining – both for those already agreement making, and for the remaining approximately 20% of employees not subject to agreements.

1.3.13 - Productivity challenge is acute

1.71 Linked to the preceding, Australia’s productivity challenge is acute, and is set to become more pressing in our changing economy. Again – this path to non-inflationary, sustainable, job sustaining wage increases is productivity, and this becomes more important than ever when the economy threatens.

1.4 - IMPLEMENTATION

1.4.1 - Introduction

1.72 The preceding sub-section outlined the position or level of increase which ACCI considers should properly arise from this review.

1.73 This sub-section addresses the implementation of the projected 2008 decision more broadly and provides detail on specific implementation considerations in actually delivering any increase in minimum wages.

1.74 It comes in the wake of Section 3 of ACCI’s 2007 submission\(^5\) which identified and critiqued implementation issues in some detail, and the 2006 AFPC decision in particular.

ACCI welcomes the extent to which the 2007 AFPC decision took into account implementation considerations raised by parties and responses to the initial 2006 decision. Many of the issues raised in this sub-section essentially call for the approaches of 2007 to be maintained in implementing any 2008 increase.

1.4.2 - Flow on

Section 4 of the 2007 decision addressed arrangements for the proportionate or pro-rata flow on of any general minimum wage increase to subsidiary minimum wages (for juniors, trainees, apprentices etc). The 2007 Reasons for Decision state that:

Flow on

The Commission intends that the Wage-Setting Decision 3/2007 general pay increase flow on to junior employees, employees to whom training arrangements apply, employees with disabilities, and basic piece rates of pay in ways that preserve existing relativities to the extent this is possible.

In the majority of cases, the general wage increase flows automatically to casual employees through the adjustment of basic periodic rates of pay. In some limited circumstances, however, specific adjustment is necessary to flow on the increase.

The Commission’s decision flows on the general increase to these rates of pay in ways consistent with the intent of Wage-Setting Decision 1/2006.

This remains the correct approach. ACCI supports the AFPC again flowing on any increase proportionately to such associated or subsidiary minimum wages. This would repeat the approach outlined in Section 4 of the 2007 decision.

1.4.3 - Absorption

ACCI has previously raised the issue of absorption, which was dealt with explicitly in the pre-WorkChoices wage case decisions and safety clauses handed down by the AIRC. It was welcome therefore that the following was included in the AFPC’s 2007 Reasons for Decision:

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1.79 We thank the AFPC for clarifying this issue. A comparable passage should be included in the 2008 decision clarifying the full absorbability of any increase.

**1.4.4 - Tiering**

1.80 Any genuine safety net minimum wage increase should be restricted to the minimum wage only, or failing that, be strictly capped at some appropriate point to properly target it to the genuinely lower paid.

1.81 However, the AFPC has adopted a different approach, tiering its increase at $700 per week in both 2006 and 2007.

1.82 In the absence of restricting any increase to the minimum wage only or a cap, tiering is the correct approach which most properly accords with the role of minimum wages as a safety net for the low paid.

1.83 The AFPC found that a tiered approach, at $700 per week gave best effect to the balance of considerations it must have regard to, including in particular those in s.23 of the *Workplace Relations Act 1996*. It maintained tiering – at the $700 level across the 2006 and 2007 decisions.

1.84 ACCI can see no basis to conclude that there should be any change to the 2006 and 2007 conclusions on tiering, in regard to:

   a. The use of a tier to properly target minimum wage increases to the low paid.

   b. The tiering point of $700 per week.

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c. The extent of the step down or tier included in the 2007 decision, which amounted to a 48% step down from $10.25 per week, to $5.30 per week.

1.85 In 2008 (on the basis of a decision that all minimum wages are to increase) ACCI supports the AFPC:

a. Again making any increases subject to a single tier, which applies a higher increase to those on lower minimum wages, and a lower increase to those on higher minimum wages.

b. Maintaining that tier at $700 per week.

c. Continuing the magnitude of tier, which saw the higher paid tier receive a level of increase approximately 52% of that flowing to the lower paid.

1.86 ACCI examined the tier point and its calculation in detail in its 2007 submission. In response to this material, the AFPC maintained the 2006 tier point ($700) on the basis that:

While the Commission increases the standard FMW and Pay Scales, it has determined (as it did in Wage-Setting Decision 1/2006) a differential increase recognising the low paid as being more reliant on minimum wages than higher-paid workers. The Commission also considers that its decision is consistent with providing a safety net for the low paid, acknowledging that workers in low-paid employment are more likely to be Pay Scale reliant and less able to bargain given generally lower skill levels.\(^8\)

1.87 ACCI can see no basis to depart from this conclusion. The lower paid remain more reliant on minimum wages than their higher paid colleagues, and remain less able to bargain. ACCI can see no reason to conclude that the factors which supported a $700 tier in 2006 and 2007 have changed.

1.88 The AFPC has maintained an approach across 2006 and 2007. There would need to be some basis to depart from that approach for that to be considered in 2008.

ACCI cannot see any basis (in data, in economics, in bargaining, or industrial relations) to conclude that any other approach, or any change in the tier point should be adopted.

1.4.4.1 - Why Increases Should Be Tiered

There are a large number of reasons why increases should be capped or tiered. The AFPC has accepted some of these reasons:

a. A capped increase will come at a smaller cost to business and the economy more generally.

b. Capping will reduce adverse employment effects.

c. A capped increase will better target those in need/the lower paid.

d. Combining these initial points, the cost-benefit of a capped increase is better than the same analysis of an uncapped increase.

e. Over time, capping increases will ensure the award system becomes a genuine safety net.

f. Capping takes account of the ability of higher income earners to bargain and their increased bargaining power.

g. Conversely, capping ensures encouragement to bargain is provided to more of the labour force.

h. Capping will ensure that businesses are able to provide more performance incentives for higher income earners.

i. Capping is more in line with the approach of other developed countries, who only adjust a single minimum wage.

j. Limiting award wage increases will increase the flexibility on businesses to employ higher income earners, while addressing concerns that lower income earners need protection.

9 As outlined in ACCI’s 2006 submission at p.24.
k. The Act provides no reason for increasing pay scales to workers who are not low paid, as the Act requires the AFPC to have regard to providing a safety net for the low paid.

1.91 The AFPC made very clear its reasons for making its minimum wage increases subject to tiering:

While the Commission increases the standard FMW and Pay Scales, it has determined (as it did in Wage-Setting Decision 1/2006) a differential increase recognising the low paid as being more reliant on minimum wages than higher-paid workers. The Commission also considers that its decision is consistent with providing a safety net for the low paid, acknowledging that workers in low-paid employment are more likely to be Pay Scale reliant and less able to bargain given generally lower skill levels.10

1.92 There is no basis to depart from these conclusions in 2008. The AFPC should be confident in again concluding that any increases should be properly tiered at the $700 tier point, and should again conclude as set out above.

1.93 The ACTU and others supporting increases in award wages implicitly argue for tiering or capping when they focus entirely on the needs of the low paid and critique pay increases for those who are already highly paid.

1.4.5 - Rounding / individual pay scale implementation

1.94 Another consideration is the guidance AFPC decisions can provide about rounding, particularly as new pay scales will not be issued.

1.95 ACCI raises three considerations regarding rounding in any 2008 decision increasing minimum wages:

a. The AFPC again address in its decision, the proper rounding of its increases11.

b. The AFPC clarify when rates are to be rounded, particularly in relation to rounding prior to additional loadings or up-ratings.

11 AFPC, Wage Setting Decision and Reasons for Decision - October 2006, Item E, p.22
c. The AFPC decision may usefully include worked examples of the uprating of APCS/former award classifications. This is the best way to ensure users of the decision properly understand how rates are to be increased. This will provide useful examples of how rounding is to occur, when etc. This should include:

i) Examples which cover the range of possible models of applying an increase to awards (e.g. examples of a standard classification rate derived from a former weekly award rate, an annualised rate, casual hourly rates etc).

ii) Examples tracing back the 2006 increase, the 2007 increase, and any 2008 increase, showing when rounding should occur.

1.4.6 - Scope for industry and regional arguments

1.96 ACCI again reiterates the principle that the AFPC should not grant increases, in whole or in part, where circumstances of an industry or region do not warrant such increases.

a. To the extent that any such outcome is requested of the AFPC at any stage, it should be a live consideration based on the material brought before the AFPC. There should be scope for such an outcome to be included in the minimum wage system where raised with the AFPC and where a merit basis exists to do so.

b. Nothing should preclude future scope for an industry or region to raise its fundamental incapacity to be subject to a general increase, and to seek a differential minimum wage outcome. This would include (but not necessary be restricted to) drought, natural disaster, international market changes (e.g. tourism in the Asian currency crisis), a major change in commodity demand etc.
1.4.7 - Drought

1.97 Important aspects of the 2007 decision addressed the drought, and the AFPC made a specific accommodation of drought circumstances for farm businesses on the basis that:

The Commission accepts that there is a need to provide some assistance to those farm businesses most severely affected by the drought and will grant a deferral of the 2007 wage increase in certain circumstances.\(^{12}\)

1.98 ACCI understands that significant areas of Australia remain drought affected and subject to considerable economic adversity, including where attempting to recover as weather patterns change (See also Section 2).

1.99 If any party seeks drought based relief of the type granted in 2007, ACCI calls on the AFPC to again seriously consider such relief, and to defer, qualify or adjust wage increases as requested/merited.

1.4.8 - Input in finalising orders / exposure draft

1.100 In 2006 and 2007, ACCI requested an opportunity for post-decision input into the form of orders to be issued\(^ {13}\).

1.101 This remains a relevant approach. Any AFPC decision should be issued in draft form with a limited period for technical comment towards the final wording of the order.

1.102 This would not be a chance to re-argue the outcome. The decision maker would have announced its decision, and would have done so publicly, with the date of effect. Those closest to the matter would then have a strictly limited opportunity to make technical comment on the execution of the decision according to the prevailing statute or principles.

\(^ {13}\) ACCI (2006) *ACCI Primary Submission*, [3.76 – 3.79], p.50
1.4.9 - Notice of pending Increases

1.103 The 2007 increase was announced in July and commenced on 1 October 2007, a period of 3 months notice. The 2007 decision also indicated that:

Wage-setting decisions will be announced in July each year, with an implementation date in October of that year.

1.104 This is a an area of significant improvement in the operation of the AFPC over preceding AIRC approach. As ACCI has argued in previous submissions, employers need at least three months notice of pending wage increases to properly implement them.

1.105 ACCI supports any 2008 increase being subject to an October commencement as foreshadowed in the 2007 decision.

1.4.10 - First pay period on or after

1.106 In 2007, ACCI argued that:

1.32 Any increase in pay scales arising from this review should be applied on a first full pay period commencing on or after basis, rather than a stand-alone date basis (the approach in 2006). Section 3 of this submission expands upon this.\(^{14}\)

1.107 A number of other submitters also raised this issue.

1.108 This concern was successfully addressed in the 2007 AFPC decision, with the 2007 increase being awarded from the “first pay period on or after” 1 October 2007, rather than from a set date and time.

1.109 This should be maintained in 2008. Any 2008 increase should apply from the first pay period commencing on or after the chosen date in October 2008, rather than from a set date and time.

\(^{14}\) ACCI (2007) ACCI Primary Submission, [1.32], p.8
1.5 - **SUBSIDIARY MINIMUM WAGE RATES**

1.5.1 - **Introduction**

1.110 In addition to its general minimum wage setting function, the AFPC is specifically empowered to set various “subsidiary wage rates”. These are the particular minimum wage arrangements for juniors, trainees and apprentices, employees undertaking piecework, casuals, persons with a disability etc.

1.111 ACCI put substantial submissions before the AFPC in both 2006 and 2007 dealing with the “subsidiary minimum wage rates” (juniors, trainees and apprentices, piecework, casuals etc).

a. Sections 5 to 10 of the AFPC’s 2006 decision addressed these rate settings in considerable detail.

b. Sections 4 and 5 of the AFPC’s 2007 decision addressed these rate settings in considerable detail.

1.112 For each of the subsidiary wage rates, we provided substantial background material and the history and basis of the wage settings the AFPC inherited from the AIRC and state industrial tribunals.

1.113 This was a major research exercise. We again commend our 2006 and 2007 materials to you as useful background research. We have not sought in 2008 to repeat this level of detail, but merely to note some short points in relation to subsidiary minimum wage consideration.

1.5.2 - **The approach to flow on is correct**

1.114 As set out above at paragraph 1.76, the AFPC has already applied the correct approach to flowing on its headline minimum wage increases to subsidiary minimum wage rates.

1.115 This obviates many areas of potential concern in the operation of minimum wage increases for these particularly important (and potentially minimum wage reliant) cohorts of employees.
1.5.3 - Juniors

1.116 ACCI welcomed the AFPC’s announcement on 18 December 2007\(^\text{15}\), that the review into junior and training wages would not proceed, given changed circumstances.

1.117 On this basis, ACCI calls on the AFPC to again:

a. Proportionately flow on the general adult decision for Australian Pay and Classification Scales (Pay Scales) to junior rates in preserved Pay Scales and to employees to whom training arrangements apply.

b. Pro rate the general wage increase(s) for junior employees and employees to whom training arrangements apply, based on formulas applying in relevant pre-WorkChoices wage instruments.

c. Increase wage rates on the basis of pre-WorkChoices relativities with appropriate adult rates in relevant preserved Pay Scales where no formula or method appeared in a pre-Work Choices wage instrument.\(^\text{16}\)

1.118 The AFPC should again include a paragraph to the following effect in its decision:

Junior employees

The Commission will flow on the general decision in relation to Pay Scales to junior wages in Pay Scales. The general pay increase will be pro rated on the basis of formulas applying in the relevant pre-Work Choices wage instruments.

In circumstances where there was no formula in the pre-Work Choices wage instrument (for example, where a junior rate was originally expressed as a dollar value rather than a percentage), the general increase will be pro rated so that the junior rate retains its relativity to the relevant adult rate in the preserved Pay Scale. If no relevant rate is identified, the junior rate will be adjusted to retain its relativity to the lowest adult rate in the Pay Scale.

\(^{15}\)http://www.fairpay.gov.au/fairpay/Media/Mediarelease-Commissionannouncesfuturewage-settingprogram.htm

\(^{16}\)This is taken from AFPC (2007) Wage Setting Decision and Reasons For Decision – July 2007, p.89
For example, if the dollar value of a junior rate represented 70 per cent of the relevant adult preserved Pay Scale prior to the general wage increase being applied to the adult Pay Scale, then the junior rate should be adjusted so that it remains as 70 per cent of the relevant adult preserved Pay Scale after the general increase has been applied to the adult rate.\(^{17}\)

1.5.4 - Employees to whom training arrangements apply

1.119 Similarly, ACCI calls on the AFPC to again include a proportionate flow on paragraph in its 2008 decision to the following effect:

Employees to whom training arrangements apply

The Commission will flow on the general decision in relation to Pay Scales to employees to whom training arrangements apply.

Apprentices

The general pay increase will be pro rated on the basis of formulas applying in the relevant pre-Work Choices wage instruments so as to maintain the relativity of the basic periodic rates of pay for apprentices with the relevant tradesperson rate. Formulas, where available, will be used to adjust basic periodic rates of pay for full-time and part-time apprentices, and school-based apprentices (noting that the Pay Scale derived from repealed s. 552 of the WR Act retains a formula suitable for flowing on the general minimum wage increase). Where apprentice rates are derived from a specific rate in another Pay Scale, they will be adjusted to reflect the parent rate on which they are based, where the parent rates have been adjusted to give effect to the general decision.

Trainees

Trainee basic periodic rates of pay provided for in preserved Pay Scales will be adjusted to flow on the general decision using the method described in the transcript of the application to vary the National Training Wage Award 2000 for the 2003 Safety Net Review (see Appendix C). This method is also adopted to flow the general increase to related traineeships. Related traineeships include traineeships with rates that were originally drawn from the National Training Wage Award prior to 27 March 2006. Broader issues of diverse training arrangements and associated wages will be considered in the context of Pay Scale rationalisation.\(^{18}\)

1.5.5 - Employees with a disability

1.120 ACCI continues to support and participate in the work of the AFPC in regard to minimum wage arrangements for employees with a disability through the AFPC’s Disability Round Table.

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1.121 We intend to continue this process through the remaining period of operation of the AFPC.

1.122 Within this paradigm, ACCI continues to support key principles such as (but not limited to):

   a. Proportionate flow on of wage increases to employees with a disability (which is achieved through the long agreed supported wage system, SWS).

   b. Ensuring there are no gaps in access to appropriate minimum wage coverage for employees with a disability.

   c. A safety net or minimum level of payment for employees working in open employment under the SWS.

1.5.6 - Casual loadings

1.123 Again, ACCI supports the AFPC maintaining the approach of 2006 and 2007 in regard to casual loadings. As described by the AFPC in 2007:

   The general pay increase flows to casual employees through adjustments to the basic periodic rates of pay (or as otherwise specified where Pay Scales provide for differing methods of causal compensation).

1.124 This remains the correct approach, the AFPC should again include a paragraph in its 2008 decision consistent with the following:

   The Commission will not make any adjustment to the casual loadings expressed as a percentage contained in preserved Pay Scales or the default casual loading at this time.

   Where preserved Pay Scales provide a flat dollar amount for casual employees, these rates will be increased by the same amounts and in the same way as the general increase.

1.125 The AFPC indicated on the last occasion that:

   Further consideration of any casual loading adjustments will be undertaken in the context of the Pay Scale rationalisation process to commence in 2007.

1.126 The AFPC is no longer going to review pay scale rationalisation. Casual loadings in modern awards are now an issue for the award modernisation process during 2008 and 2009.
1.127 On this basis the AFPC should not consider any changes to the default casual loading in the current *Workplace Relations Act 1996*.

1.5.7 - Piecework rates

1.128 Again, ACCI supports the AFPC maintaining the approach of 2006 and 2007 in regard to piecework rates, which was as follows:

The Commission will flow on the general wage-setting decision to basic piece rate Pay Scales in the following manner.

The general pay increase will be flowed on to basic piece rate Pay Scales through applying a XX\(^{19}\) per cent increase to basic piece rates in preserved Pay Scales which are not otherwise increased as a result of the general decision.

However, due to the diversity within basic piece rate Pay Scales, an affected person or business may make a submission to the Commission on the grounds that such an adjustment would result in an anomalous outcome inconsistent with the Commission’s intention to flow on the general increase to piece rate workers.\(^{20}\)

1.129 ACCI considers that notwithstanding the 18 December 2007 announcement that new pay scales will not be issued, the AFPC should maintain capacity for an “affected person or business [to] make a submission to the Commission on the grounds that such an adjustment would result in an anomalous outcome inconsistent with the Commission’s intention to flow on the general increase to piece rate workers”. Further, where appropriate, such submissions should be acted upon, and rates duly adjusted.

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\(^{19}\) Percentage to be determined by the quantum of increase, consistent with the approach in the 2007 decision, which was for a 2% increase.

2. STATE OF THE NATIONAL ECONOMY

2.1 - ECONOMIC OVERVIEW

2.1 The main issues facing the Australian economy stem from international turmoil and domestic inflation (see also Section 3). However, the economy and international conditions must at all times be considered in light of the fact that Australia has the highest minimum wage\(^1\) amongst comparable countries.

2.2 The world financial markets have been set back substantially as a result of ongoing financing issues due to a reassessment of US lending practices. This in turn has lead to a steep decline of house prices and economic activity in the US and restricted the capacity of business, be they US or not, to source investment funds (and thereby increased the costs of funds). The US turmoil has also had other contagious effects internationally, such as, raising bank interest rates, exchange rates and significantly reducing shareholder’s asset values. Inflation has also been rising strongly in a number of OECD nations highlighting the risk that growth will slow and inflation accelerate.

2.3 The growth rate of the US economy has slowed and unemployment has risen whilst inflation has emerged. US inflation is rising significantly which will constrain the ability of the Federal Reserve to lower interest rates in a bid to raise the economic growth rate. At some point the Reserve may be in the unfortunate position of having to make a judgement as to whether inflation is to be suffered or an economic slowdown.

2.4 Australia being a relatively small open economy imports much of its inflation through import prices and domestically produced import competing items such as commodities, most manufactures, and some services.

2.5 While the Australian economy is seen as somewhat decoupled from the US economy, the US remains the third largest trading partner and indirectly supports the economies of Japan and China our largest and second largest trading partners respectively.

2.6 World growth has been projected to fall by the International Monetary Fund (IMF). The international economic environment is also significantly affecting share prices in Australia, which remain down significantly from their peak in November 2007. Section 3 expands on risks to the Australian economy.

2.7 The exchange rate has risen strongly over the past two years, both relative to the United States and some other major trading partners.

2.8 The Australian economy grew by 0.8 percent in the December 2007 quarter, and by 3.9 percent over the year to December. Despite annual growth remaining strong, the figures show growth has eased from the strong rates of growth in the first half of 2007.

Annual and Quarterly Growth of GDP

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2 Ranking based on exports and imports of merchandise only, and excludes the European Union as a trading block. Data from Department of Foreign Affairs and Trade, September 2007.

3 World Economic and Financial Surveys, World Economic Outlook, Globalization and Inequality, October 2007.

4 ABS, Australian National Accounts, Cat No 5206.0.
2.9 The slowing in growth may continue. The RBA forecasts show that growth is expected to remain modest through the projection period. The RBA forecasts for GDP and inflation are shown below.

**GDP and CPI Forecasts**

<table>
<thead>
<tr>
<th>Table 15: Output and Inflation Forecasts(a))</th>
<th>Percentage change over year to quarter shown</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>4.3</td>
</tr>
<tr>
<td>Non-farm GDP</td>
<td>4.5</td>
</tr>
<tr>
<td>Consumer price index</td>
<td>1.9</td>
</tr>
<tr>
<td>Underlying inflation</td>
<td>3.0</td>
</tr>
</tbody>
</table>

\(a)\) Actual GDP data to September 2007 and actual inflation data to December 2007. Underlying inflation refers to the average of trimmed mean and weighted median inflation. For the forecast period, technical assumptions include AS$ at US$0.89, TWD at 69, cash rate at 7.0 per cent, and WTI crude oil price at US$88 per barrel and Tapis crude oil price at US$50 per barrel.

Sources: ABS; RBA

2.10 This is the consensus view of economic commentators and forecasters. For example, the former Governor of the Reserve Bank of Australia, Ian MacFarlane, has said:

I think we will have to get used to seeing GDP growth rates starting with the numbers 2 or 3 rather than 3 or 4, which we became accustomed to for such a long time.\(^{6}\)

2.11 Critically, while economic growth is forecast to remain low, inflation is forecast to remain high.

2.12 While Australian growth is to remain relatively buoyant but easing, world growth has been forecast to ease as well.

2.13 The IMF projections show a significant slowdown for China and a moderation in the rate of growth of the world economy. The slowing of world economic growth will also impact on Australian growth since Australia is well integrated with world markets.

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\(^{5}\) RBA Statement on Monetary Policy, February 2008.
2.14 The RBA has been leaning heavily on their monetary policy lever raising interest rates from 6.25 percent to 7.25 percent over the past nine months. Interest rates have now risen to the highest level since June 1996. Given the rise in interest rates it would be expected that economic growth should slow in response and the unemployment rate increase.

IMF Chart of GDP and Projections

![IMF Chart of GDP and Projections](chart)

Chart of interest rates and unemployment\(^7\)

![Chart of interest rates and unemployment](chart)

\(^7\) Source: RBA, ABS 6202.0.
2.15 The above chart shows the trend measure of unemployment plotted with the RBA cash rate. The two previous completed tightening cycles have both exhibited similar effects on the unemployment rate.

2.16 It should also be noted that interest rates have also been rising due to bank difficulties in sourcing low priced lending funds. While most attention has been focused on household lending rates, business lending rates have risen by relatively more. For instance, small business operators with secured overdrafts have had a 13.0 percent increase in the spread over the RBA cash rate in the November 2007 to January 2008 period. In comparison, households with standard variable mortgages have faced an 8.3 percent rise in the mark-up over the cash rate\(^8\).

2.17 These small businesses form a large cohort of businesses that have to factor in the cumulative effect of slow economic activity, interest rate rises and mandatory wage increases.

2.18 This increase above and beyond the rises imposed on the economy by the RBA will also serve to reduce growth and investment and raise the difficulties in finding or maintaining gainful employment.

2.19 Interest rates are thought to work through the economy at a lag of between 9-18 months\(^9\). Given the recent four increases from August 2007 to March 2008 it would be expected that the increases have not yet had their maximum effect. The four increases (6.25 percent to 7.25 percent) will not have had their full effect in slowing growth until the end of 2008 and beginning of 2009.

2.20 Given these lags it should be expected that economic growth should slow and the rate of unemployment rise as they have in previous tightening cycles.

\(^8\) Source: RBA, F05 Indicator Lending Rates.
2.21 The wage lever will also be a critical part of an overall containment strategy for inflation. So long as (and perhaps only if) wages are primarily set at the enterprise level and based on productivity a wage–price spiral can be avoided.

2.22 There have been a number of relevant developments regarding inflation over the past couple of years. The ‘headline’ measure itself has been volatile and subject to large movements due to banana prices first rising significantly and then returning to normal along with the vagaries of oil prices and other compositional changes.

2.23 The volatility in the headline measure has lead to the development of two new (but related) measures of underlying inflation. The first new measure being the weighted median, the second the trimmed mean. These new underlying measures have been used predominantly by the RBA in their discussions of inflation and they have been actively discounting the use of the headline measure. Taking an average of the two measures provides a useful reading of underlying inflation. Using this underlying measure, inflation has risen by 3.6 percent over the twelve months to December 2007.

Underlying Inflation Growth

![Underlying Inflation Graph]

- Quarterly Growth Underlying Inflation
- Annual Growth Underlying Inflation
2.24 ACCI does not believe tax cuts scheduled to begin on July 2008 (which will amount to an estimated $7.1 billion over the 2008-09 financial year) will of themselves spur on inflation. In contrast, they support workforce participation and obviate any case for larger before-tax increases in wages.

2.25 The Federal Treasurer has also indicated the government is supportive of tax cuts for these reasons.\(^{10}\)

2.26 The effect on inflation and after-tax wages of the proposed federal tax cuts for the 2008-09 financial year are discussed in greater detail in Section 6.

2.27 ACCI also wishes to stress that the performance across the economy masks the performance of various industry sectors, particularly those that are the most affected by pay scale / minimum wage dependence.

2.28 The Australian economy has performed relatively well over the past twelve months but has entered a period of greater international risks with domestic inflation reducing growth prospects. It will be critical that all policy makers are framing policy decisions with inflationary impacts in mind. Wages will form a key plank in mitigating overall inflationary outcomes and policy restraint is warranted.

### 2.2 - The Economy in Detail

#### 2.2.1 - International Economic Conditions and Australian Impacts

2.29 The growth rate of the US economy has slowed and unemployment has risen from 4.5 percent in February 2007 to 4.9 percent in February 2008 whilst and at the same time a growth rate of 4.4 percent in inflation has emerged over the year to January 2008.

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\(^{10}\) Address to the Business Council of Australia, A Modern Platform for Business, Melbourne, 26 February 2008
2.30 US inflation is rising significantly which will constrain the ability of the Federal Reserve to lower interest rates in a bid to raise the economic growth rate. At some point the Reserve may be in the unfortunate position of having to make a judgement as to whether inflation is to be suffered or an economic slowdown.

2.31 China’s growth should continue strongly in 2008. However, there has unlikely been a decoupling of China’s growth rate from US economic growth. The net exports contribution to GDP remains very important for China. Despite the larger volumes of inter-regional trade occurring throughout the Asian region, this doesn’t imply that Asian growth is any less dependent on the US and other developing nations.

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2.32 Looking at the detailed trade data shows that the majority of the inter-regional trade is intermediate goods meaning they are intended for further processing rather than as final domestic consumption.

2.33 However, China still retains sound fundamentals to achieve strong growth if there is only a modest world slowdown. China’s fiscal balance remains relatively strong and significant government infrastructure and investment spending would be used to fill the gap left by a reduction in export growth or domestic demand. This would still have sizable effects on Chinese company profits in the transition stage but should continue to keep the growth rate of Australian bulk exports relatively steady.

2.34 China is experiencing higher inflation rates than in previous growth periods and has continued the appreciation of the Yuan and has raised interest rates and reduced credit growth.

2.35 Should the growth rate in China fall significantly, world growth, and particularly Australian growth, would be affected. However, our estimate is that it is unlikely that China will slow substantially given the rapid industrialisation that is taking place. This places Australian in a sound position for continuing commodity export growth.

2.36 While the Australian economy is less directly impacted by US growth and prices than it might have once been, the US remains the third largest trading partner and indirectly supports the economies of Japan and China our largest and second largest trading partners respectively.\(^\text{14}\)

2.37 World growth has been projected to fall from 4.9 in December quarter 2007 to 4.5 in December quarter 2008 by the International Monetary Fund (IMF)\(^\text{15}\).

\(^\text{13}\) Ibid.

\(^\text{14}\) Ranking based on exports and imports of merchandise only, and excludes the European Union as a trading block. Data from Department of Foreign Affairs and Trade, September 2007.

\(^\text{15}\) World Economic and Financial Surveys, World Economic Outlook, Globalization and Inequality, October 2007.
2.38 The international economic environment is also significantly effecting share prices in Australia, which remain down by 16.8 percent (as at 25/02/2008) from the peak in November 2007.

**Australian Share Price Index**

![Australian Share Price Index Chart](chart.png)

Source data: Yahoo finance.

2.39 The exchange rate has risen strongly over the past two years, both relative to the United States and some other major trading partners. The Trade Weighted Index has risen by 5.7 percent over the year to February 2008 and by 9.1 percent since February 2006.

2.40 The rise of the exchange rate will act to squeeze the domestic economy by reducing exports of goods and services, production of import competing manufactures and increasing imports. The rise in imports will to some extent reduce inflation since Australian imports tend to be composed of low cost manufactures. The net effect should slower economic growth and reduce inflation.
2.41 Another main variable on the exchange rate has been elevated commodity prices since the Australian dollar is regarded as a commodity currency.

![Commodity price index](image)

2.42 This surge in commodity prices results in a significant change to Australian terms of trade. This increases the volume of imports relative to exports and slows the domestic economy by reducing domestic production of import competing goods and services. In particular
manufacturing and import competing services such as education and tourism.

2.43 Terms of trade benefit consumers since for any given level of output we can afford more imports since our export prices rise relative to our import prices.

2.44 Overall the external economy and economic environment present significant benefits and risks to the Australian economy. In net terms risks are clearly higher in 2008 than in 2006 or 2007. Given recent developments in the global economy it would be expected that world growth will have a dampening effect on domestic activity. Section 3 expands on these themes.

2.2.2 - GDP and Real Net National Disposable Income

2.45 The latest GDP data from the December quarter 2007 shows that growth was notably slower in December 2007. The data shows that while economic growth grew by 3.9 percent for the year to the December quarter 2007, there was only 0.6 percent growth over the quarter. Growth has slowed markedly over the December quarter falling from 1.1 percent in the September quarter.
The data suggests that international events and higher interest rates are beginning to take effect. This is particularly true given the significant slowdown in retail spending evident in ABS data. In order to maintain employment growth the economy must be growing at a healthy rate.

The most recent Retail Trade figures released by the ABS shows that retail sales growth is slowing notably. Annual growth in retail sales has slowed from 9.5 percent in the month of August 2007 to 4.5 percent in January 2008 on an annualised basis. Given the strong growth in the first half of last year the annual retail sales figures remain healthy at 7.4 percent but these figures will continue to fall given the poor rates of growth from the second half of 2007 and the first month of 2008.

The GDP data is consistent with recent ACCI surveys suggesting a moderation in economic activity.

A trade off between growth and jobs, or higher interest rates, is not in the national interest. It is important that the reform agenda is given priority in order to reduce inflationary pressures and allow the economy to continue to create jobs.

Source: ABS, 5206.0 December 2007.
2.50 The main area of reduced economic growth continues to be net exports, which detracted 1.0 percentage points from the annual growth rate. This net exports effect stems from a very strong exchange rate relative to our trading partners, which makes imports relatively less expensive compared with domestically produced items.

2.51 A continuing strong exchange rate will further reduce the competitiveness of the Australian economy and will particularly impact manufacturing and import competing service sectors such as tourism and education. It is into this environment that a minimum wage increase will be implemented.

Source: ABS, 8501.0 - Retail Trade, Australia, Jan 2008.
Overall GDP growth has slowed notably while net exports have detracted significantly from growth. It would be expected that this trend will continue as the Australian dollar continues to appreciate relative to our trading partners.

2.2.3 - Domestic Demand

Final domestic demand (similar to household consumption) grew by 1.6 percent during the December quarter 2007 to be 5.7 percent over the year.

Domestic demand is growing faster than GDP. However, domestic demand is less relevant for setting minimum wages, because domestic demand does not include net exports. Money spent on imports is not available to the economy to pay for award wage increases. In addition, higher consumption growth detracts from saving and can increase the current account deficit.
2.2.4 - Investment

2.55 Capital Expenditure (Capex) grew by 11.5 percent over the year to December 2007. Like the GDP figures the annual rate masks the slowdown which is evident in the quarterly figures. Over the December quarter 2007 the growth rate has slowed to 0.3 percent after reaching 6.8 percent in March 2007.18. The December figures are well down from previous growth. Growth has peaked in the December 2007 quarter as is evident from the following chart.

New Capital Expenditure

![CAPEX chart]

2.56 The annual growth has also not been balanced throughout the economy with mining and other services contributing significantly to the figures while manufacturing, transport, and finance have all detracted from growth.

18. ABS, Australian National Accounts, Cat No 5206.0.
Investment is critical to increase the capacity of the Australian economy. If capacity is not lifted inflationary pressures will continue to build as the supply side of the economy falls behind the needs to the community. Infrastructure bottlenecks are particularly problematic and long-term investment must be encouraged by all policy makers.

### 2.2.5 - Profits and Sales

The data on company profits showed growth has slowed significantly over 2007. Growth has slowed from 12.2 percent over the year to December 2006 to 5.5 percent in the year to December 2007. Again the annual results mask the significant softening that has taken place over the 2007 calendar year. The growth of profits before income tax declined over the December quarter by 0.2 percent after growing by only 0.3 percent in the September quarter. Current growth rates are well below the average of 13.6 percent since 1985 when the data was first collected.
2.59 Gross operating profits (GOP) have also moderated over 2007. GOP growth declined well under the long-term average of 12.1 percent annual growth, recording growth of only 10.4 percent over the year to December 2007. The quarterly data shows that growth has averaged only 1.1 percent per quarter over the past three quarters. Given this quarterly growth rate the annual series will be likely to fall further over the March 2008 quarter. The annualized rate of growth given the recent history would be in the order of 4.4 percent.

2.60 The likelihood that the profit data will continue to decline is reinforced by the latest figures from the ABS on retail sales. The latest retail trade figures show a significant slowing in sales over the past 6 months.

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19 ABS, 5676.0 Business Indicators, Australia, December 2006.
2.61 The retail trade figures show a current annualised growth rate of only 4.9 percent. These retail figures and profit figures are also not adjusted for inflation and hence in real terms are substantially lower than appears in the following figures.

2.2.6 - Prices & Inflation

2.62 Australia being a relatively small open economy imports much of its inflation through import prices and domestically produced import competing items such as commodities, most manufactures, and some

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20 Source: ABS, 8501.0 - Retail Trade, Australia, Jan 2008.
services. However, it appears that domestically based prices have been rising by more than international prices with non-traded goods and services rising markedly quicker than traded goods and services. Additionally service prices, which tend to be more labour intensive and less traded have also risen significantly faster than goods prices. Given the spread between services and goods prices labour prices may be having an impact on service delivery.

**Chart OECD inflation**

![OECD and Australia Consumer Price Index Growth](image)

2.63 While there are clear divergences in the international index and the Australian index, such as the introduction of the GST and the banana induced price spike, it is important to monitor international events in framing domestic policy.

2.64 Inflation was 3.0 percent for the year to December 2007 with a rise of 0.9 percent recorded for the quarter. Inflation on this measure is at the top of the RBA’s target band of 2-3 percent, and the RBA raised official interest rates by 0.25 percentage points to 7.25 percent in March 2008. This is the highest interest rate since June 1996.

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21 ABS, Consumer Price Index, Cat No 6401.
2.65 Wages should not be adjusted for inflation given that this policy has a tendency to reinforce inflation rather than compensate for its effects. The dangers of indexing wages to inflation is discussed in Section 4.

2.66 The ‘headline’ measure itself has been volatile and subject to large movements due to banana prices first rising significantly and then returning to normal along with the vagaries of oil prices and other compositional changes.

### Annual CPI Growth

![Diagram showing annual CPI growth from 1999 to 2007](image)

2.67 Taking an average of the two ‘underlying’ inflation measures provides a useful reading of underlying inflation. Using this underlying measure, inflation has risen by 3.6 percent over the twelve months to December 2007.
2.68 The Reserve Bank’s measures of underlying inflation are: the weighted median annual inflation of 3.8 percent and the trimmed mean is at 3.4 percent.

2.69 Given the very large growth in underlying inflation it is not surprising that the RBA has been very aggressive on interest rates.

2.70 The following sections examine inflation using different approaches, showing the relevant risks to the inflation outlook.

2.2.7 - Price of traded & non-traded goods and services

2.71 Recent inflation in Australia has been moderated by lower prices for goods and services that are traded internationally (either imported or having price set on international markets). Since 2002 the traded component of the CPI has been significantly lower than the non-traded component.

2.72 The chart clearly shows that non-tradable inflation has been consistently strong and above the RBA’s target. Total inflation has been kept down by low inflation in the tradable sector. This effect will wear off as the currency stabilises or begins to retrace its upward movement.
2.2.8 - Prices of goods and services

Likewise the prices for services have been rising faster than the prices for goods. The rise in services prices may be due to accelerating labour costs (see Section 2.2.13 - below), because services tend to be delivered in a labour intensive manner and tend not to be able to substitute towards capital to the same extent that goods manufactures often are. Below is a chart of the relative price of goods and services.

Annual Growth in Goods and Services Prices\textsuperscript{23}

\textsuperscript{22} ABS, Consumer Price Index, Cat No 6401.0.
\textsuperscript{23} ABS, Consumer Price Index, Cat No 6401.0.
2.2.9 - Producer prices

2.74 The following graph shows the prices of the three categories of producer prices.

2.75 The chart shows the producer price growth has been relatively high since 2004 and has begun to increase once more after a brief lull through 2006 and the first half of 2007. The rise in producer prices implies that businesses are facing higher input prices which tends to reduce margins or raise selling prices. Given the squeeze also coming from wages and interest rates input prices may need to be passed on through higher prices and will impact on inflation rates.
2.2.10 - Link between price rises and award increases

2.76 ACCI does not consider that current levels of inflation, properly assessed and understood in their full context, justify a large increase in award rates of pay.

2.77 High minimum wage increases not funded by productivity merely add to inflationary pressures and make price rises worse. ACCI provided substantial evidence on the effect of minimum wage increases on inflation in our 2006 Submission at section 8.5.3.

2.78 High minimum wages and high minimum wage increases do impact on employment (see Chapter 8). Adding to unemployment is clearly not the best way to deal with any increases in the cost of living.

2.79 In addition, costs to businesses increase just as strongly as they do on individuals following both price and interest rate changes. Employers pay higher input prices at the same time as the CPI changes (whilst of course themselves paying more as consumers), and they experience often higher interest rate rises than individual borrowers.

24 ABS, Producer Price Indexes, Cat No 6427.0.
2.2.11 - Interest Rates & Monetary Policy

2.80 The RBA has been leaning heavily on their monetary policy lever raising interest rates from 6.25 percent to 7.25 percent over the past twelve months. Interest rates have now risen to the highest level since June 1996. Given the rise in interest rates it would be expected that economic growth should slow in response and the unemployment rate increase.

Interest Rates and Unemployment

2.81 The above chart shows the trend measure of unemployment plotted with the RBA cash rate. The two previous completed tightening cycles have both exhibited similar effects on the unemployment rate. This chart shows that unemployment falls particularly when interest rates are steady or falling. All other things being equal, when interest rates are rising, there is pressure towards unemployment rising or at the very least unemployment stops declining.

2.82 The AFPC is invited to consider the balance of its goals under s.23 of the Workplace Relations Act 1996 in such a context. There is a wider negative impact on jobs and unemployment from other sectors of the

25 Source: RBA, ABS 6202.0.
economy / other policy setters. This should clearly favour caution in minimum wage setting from the AFPC having mind to the matters Parliament has directed it to consider.

2.83 It should also be noted that interest rates have also been rising due to bank difficulties in sourcing lending funds. (See Attachment 2-B where *The Age* features a story on banks passing the latest increase on to consumers with an additional mark-up.) While household lending rate increases have occupied much of the headlines, business lending rates have risen by relatively more.

2.84 The RBA Governor recently indicated that:

> Sentiment in global financial markets remains fragile. Australian financial intermediaries are experiencing increases in funding costs, which are being passed on to customers. Some tightening in credit standards for more risky borrowers is occurring.\(^{26}\)

2.85 The spreads over the cash rate have increased as banks’ sources of funds have been more difficult to procure. Small business operators with secured overdrafts have had a 13.0 percent increase in the spread over the RBA cash rate while households with standard variable mortgages have faced an 8.3 percent rise.

**Bank Overdraft and Residential Lending Rates\(^{27}\)**

![Graph of Bank Overdraft and Residential Lending Rates](chart.png)

\(^{26}\) From the 4 March 2008 RBA media release announcing the latest rate increase.

\(^{27}\) Source Data: RBA, F05 Indicator Lending Rates.
This increase above and beyond the rises imposed on the economy by the RBA will also serve to reduce growth and investment and raise the difficulties in finding or maintaining gainful employment.

Over the whole economy the spread is apparent in the spread between the 90-day bank bill rate and the RBA cash rate. The spread has risen from 15 basis points to 70 basis points over the past year.

Interest rates are thought to work through the economy at a lag of between 9-18 months\(^{29}\). Given the recent three increases from August 2007 to February 2008 it would be expected that the increases have not yet had their maximum effect. The three increases (6.25 percent to 7.0 percent) will not have had their full effect in slowing growth until the end of 2008 and beginning of 2009.

Given these lags it should be expected that economic growth should slow and the rate of unemployment rise as they have in previous tightening cycles.

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\(^{28}\) Source Data: RBA, F05 Indicator Lending Rates and A02 Reserve Bank Of Australia - Monetary Policy Changes

\(^{29}\) For instance see Gruen, Romalis and Chandra, Research Discussion Paper, April 1997.
2.90 However, the RBA is committed to reducing inflation, which should contain inflation expectations. The action of the RBA should make some progress in heading off a wage - price spiral whereby wages are increased based on an expectation of accelerating inflation rates.

2.91 Higher interest rates may also cut investment, which is vital to address the bottlenecks being faced by the economy. It may also reduce consumption and domestic demand.

2.2.12 - Monetary Policy Impact on Small Business

2.92 Interest rate increases have a particular impact on small business. The Senate Employment, Workplace Relations and Education References Committee has found:

Most small businesses rely on their own equity or borrowings, frequently using the family home as security. This is a particular problem for those in areas with depressed housing markets, including some rural and regional areas. In addition, small business is often subject to higher interest rates, and higher bank fees and
charges, partly because of a more limited bargaining capacity and also because of perceptions of increased risk.30

2.93 As previously discussed in the interest rate rise has been particularly burdensome for business relative to households and small business in particular. Small business often secure their overdrafts or other borrowing commitments through pledging personal assets such as the family home. It is critical that the squeeze already present through wages, interest rates and input prices is not compounded by large wage rises not based on productivity and bargaining.

2.2.13 - Wages

2.94 The preferred measure of labour costs is the Labour Price Index (LPI). In the December quarter 2007, LPI rose by 1.1 percent (seasonally adjusted) with the public sector index rising by 1.0 percent, while the private sector index rose by 1.1 percent. The increase over the year is 4.2 percent. There appears to be a medium-term upward trend in the index, as shown by the chart below.

2.95 The Reserve Bank of Australia (RBA) has noted31 that the data on wages32 is at the “high end of the range of recent readings” and that they receive widespread comments from businesses that there are upward pressures on labour costs. For instance the ACCI Business Expectations Survey shows that wages have been rising strongly since 2004.

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31. Reserve Bank appearance before the House of Representatives Economics Committee, 21 February 2007
32. the Wage Price Index for the December quarter, which does not include the effect of the AFPC’s 2006 decision.
The survey data points to continuing upwards pressure in wages, which suggests that employers that are able to are providing wage increases to retain employees. Given employers are providing increased wages there should be less need to the AFPC to intervene.

33 ABS, Labour Price Index, Cat No 6345.0.
Minimum wages in Australian remain very high by international standards.

2.97 The UK Low Pay Commission has found that Australia ranks as the highest minimum wage in comparable economies on Purchasing Power Parity (PPP) comparisons and third using an exchange rate basis. These comparisons are better made using PPP as a basis given a better reflection of the relative costs of wages. Given that Australia ranks as the highest minimum wage, labour will remain relatively uncompetitive in Australia. Additionally, the AFPC has room to manoeuvre in increasing wage rates by less than inflation to address the international imbalance.

**International Comparison of Wage Rates**

**Table A4.1**

<table>
<thead>
<tr>
<th>Country</th>
<th>In national currency expressed as hourly rate$^{(a)}$</th>
<th>In UK £, using: Exchange rates$^{(b)}$</th>
<th>Date of last uprating</th>
<th>Age full minimum wage usually applied$^{(a)}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia$^a$</td>
<td>A$$ 13.74</td>
<td>5.76</td>
<td>October 2007</td>
<td>21</td>
</tr>
<tr>
<td>Belgium$^b$</td>
<td>€7.41 ($\ 128.19/\text{month}$)</td>
<td>5.11</td>
<td>April 2007</td>
<td>21</td>
</tr>
<tr>
<td>Canada$^c$</td>
<td>Can $7.92$</td>
<td>3.92</td>
<td>(b)</td>
<td>16</td>
</tr>
<tr>
<td>France</td>
<td>€8.84</td>
<td>5.24</td>
<td>July 2007</td>
<td>18</td>
</tr>
<tr>
<td>Greece$^d$</td>
<td>€3.37 (€29.37/day)</td>
<td>2.53</td>
<td>May 2007</td>
<td>15</td>
</tr>
<tr>
<td>Ireland$^e$</td>
<td>€8.35</td>
<td>4.53</td>
<td>July 2007</td>
<td>20</td>
</tr>
<tr>
<td>Japan$^f$</td>
<td>¥488.8</td>
<td>2.96</td>
<td>October 2007</td>
<td>16</td>
</tr>
<tr>
<td>Netherlands</td>
<td>€7.50$^{(f)}$ (€300.99/euro)</td>
<td>5.24</td>
<td>July 2007</td>
<td>23</td>
</tr>
<tr>
<td>New Zealand</td>
<td>NZ$1.125</td>
<td>4.00</td>
<td>April 2007</td>
<td>18</td>
</tr>
<tr>
<td>Portugal$^{g}$</td>
<td>€2.39 (€103/month)</td>
<td>1.61</td>
<td>January 2007</td>
<td>16</td>
</tr>
<tr>
<td>Spain$^{h}$</td>
<td>€3.29 (€270/30/month)</td>
<td>2.27</td>
<td>January 2007</td>
<td>10</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>£5.52</td>
<td>5.52</td>
<td>October 2007</td>
<td>22</td>
</tr>
<tr>
<td>United States</td>
<td>US$8.15$^{(m)}</td>
<td>2.09</td>
<td>July 2007</td>
<td>20</td>
</tr>
</tbody>
</table>

Sources: British Embassies and High Commissions, OECD Minimum Wage Database, LPC calculation of exchange rates and PPPs. PPPs derived from CPIs, OECD Main Economic Indicators, September 2007.

*For exchange rates, Bank of England monthly average spot exchange rates, September 2007.*

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2.98 ACCI supports the conclusion of the AFPC that there is some flow-on from its decision to other wages.\textsuperscript{35} It would be helpful if the AFPC conducted research in this area, including research into the flow-on of AFPC decisions to broader wages.

\section*{2.3 - Productivity}

\subsection*{2.3.1 - Economy-wide productivity}

2.99 Australia’s productivity increase over the past year has been lower than the underlying inflation rate. It is widely acknowledged that if wages chased prices, the economy would falter unless our productivity lifted. With inflationary pressures, it is now crucial that wages policy be directed towards the raising of productivity. These centralized minimum wage increases are not productivity linked.

2.100 When capacity constraints are being reached the rate of productivity may tend to slow. Multifactor productivity is the broadest measure of economy wide productivity since it takes into account capital, labour and how the two are combined. On this measure, productivity has been low or declining over the past three years.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{productivity_graph.png}
\caption{MFP Quality Adjusted Hours Worked}
\end{figure}

\textsuperscript{35} AFPC (2006) \textit{Wage Setting Decision and Reasons For Decision – October 2006}, p.73
2.101 Labour productivity growth was also low relative to what had come to be expected. While the latest growth cycle has not yet been completed, the results thus far into the cycle do not suggest that a high rate of growth will be achieved.

![GDP Per Hour Worked and Growth Cycle Averages](image)

2.102 It is too early to see whether the cycle will turn and translate into a sustained rise of productivity. Without productivity growth the capacity of business to afford minimum wage increases is lessened, and this increases the risk of inflation due to wage increases.

2.103 Businesses are able to afford wage rises if productivity increases, so low and variable productivity can make even small pay increases unaffordable. They also have the effect of magnifying the effects of downturns in the economy. It is clear that Australia needs to lift productivity growth in order to sustain broadly based non-inflationary wage growth.

**2.4 - Labour Market**

**2.4.1 - Employment**

2.104 Employment growth has been sound over the past year averaging 2.8 percent over the twelve months to February 2008. However, growth has been trending down since March 2007.
2.105 Notwithstanding the sound employment growth figures based on the annual growth rate, the most recent composition of employment growth has shifted substantially towards part-time employment rather than full-time employment which had been occurring in the first three quarters of 2007. The move to part-time employment can be viewed in the context of the labour market participants seeking part-time or casual work or a reluctance by employers to take on full-time staff.
2.106 The annual growth figures do not mean that large increases in minimum wages can be easily absorbed since monthly growth figures are beginning to slow and part-time employment is on the rise. Additionally underemployment rates have not decreased despite the reduction in the unemployment rate. This is discussed in more detail in following sections.

2.4.2 - AFPC View

2.107 Notwithstanding the evidence above, ACCI supports the following view of the AFPC:

The range of factors other than wages that can affect employment growth makes it difficult to isolate the effects of minimum wage increases. Yet it is this isolated effect that studies of the relationship between minimum wages and employment typically try to measure. Models such as those used by Econtech and CoPs do allow for most, if not all, of the significant factors likely to affect employment including wages...  

2.108 This means that more weight should be placed on the rigorous studies of the effect of minimum wages, rather than placing too much weight on the more macro analysis described in the section above.

2.4.3 - Employment forecasts

2.109 The Budget has forecast that employment growth is expected to slow substantially over 2008-09, growing by only 1.75 percent. Additionally, growth is forecast to continue to fall, with the 2009-10 rate falling to 1.25 percent.

2.4.4 - Unemployment

2.110 In February, the unemployment rate was 4.1 percent in trend terms. It has remained relatively unchanged since May 2007 falling by only 0.2 percentage points, suggesting that the labour market has consolidated around recent levels.

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37 ABS, Labour Force, Cat No 6202.0.
2.111 While the official unemployment figures are currently relatively very good, there are many more people out of work who are not counted in these figures. On this issue, the AFPC reached a useful conclusion in its 2006 decision:

The Commission is open to considering broader definitions of labour underutilisation and notes that there is still a pool of under-utilised labour in Australia.\(^{38}\)

2.112 As at September 2007, 993,000 people wanted to work but were unable to do so either at all or not at the intensity they would like. This shows the generational low unemployment rate is not a reason to be complacent about increasing employment.

### Labour Underutilisation - September 2007

<table>
<thead>
<tr>
<th></th>
<th>Males '000</th>
<th>Females '000</th>
<th>Persons '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total unemployed</td>
<td>238.2</td>
<td>236.5</td>
<td>474.7</td>
</tr>
<tr>
<td>Underemployed workers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underemployed full-time</td>
<td>35.2</td>
<td>11.0</td>
<td>46.2</td>
</tr>
<tr>
<td>Underemployed part-time</td>
<td>171.8</td>
<td>300.3</td>
<td>472.1</td>
</tr>
<tr>
<td>Total underutilised labour</td>
<td>445.2</td>
<td>547.8</td>
<td>993.0</td>
</tr>
<tr>
<td>Groups with marginal attachment</td>
<td>34.3</td>
<td>55.9</td>
<td>90.2</td>
</tr>
<tr>
<td>Labour force</td>
<td>5,918.1</td>
<td>4,857.8</td>
<td>10,775.9</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>3.9</td>
<td>4.8</td>
<td>4.3</td>
</tr>
<tr>
<td>Underemployed and marginal attachment proportion (%)</td>
<td>4.1</td>
<td>7.6</td>
<td>5.6</td>
</tr>
<tr>
<td>Extended unemployment rate (%)</td>
<td>8.1</td>
<td>12.4</td>
<td>10.1</td>
</tr>
</tbody>
</table>


2.113 Further data employing the ABS methodology to construct an extended measure of unemployment is presented below.\(^{39}\)

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\(^{38}\) AFPC (2006) *Wage Setting Decision and Reasons For Decision – October 2006*, p.82

\(^{39}\) ABS, Labour Force, Cat No 6202.0; ABS, Underemployed Workers, Cat No 6265.0; and ABS, Persons Not in the Labour Force, Cat No 6220.0
2.4.5 - Scope for further reductions in unemployment

2.114 With unemployment low, further reductions in unemployment become harder to secure. However, policy makers should try to ensure that further reductions can and will occur.

2.115 We should not ignore the plight of the 456,000 unemployed, or those underutilised. It is important not to lock these people out of the labour market.

2.116 The underemployment figures show that there is a large and persistent number of underemployed and marginally attached to the labour force component that has not yet been addressed. While unemployment has continued to fall gradually the proportion of those not able to enter the labour force as they would like has not declined. This represents a significant stock of underutilised resources and further economic growth and job creation must be promoted in order to furnish these people with the work they require.

2.117 With low unemployment, it is likely that the people still unemployed have lower skill levels than when unemployment was higher (it is reasonable to assume that people with higher skills are more likely to move from unemployment into work). This is supported by the fact that there are labour shortages in several skilled industries – suggesting that the current unemployed are not able to fill these vacancies.

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2.4.6 - Other relevant points

2.118 According to the OECD Economic Outlook, the following ten OECD countries had lower or the same rate of unemployment than Australia in 2007: Denmark, Iceland, Japan, Korea, Mexico, Netherlands, New Zealand, Norway, Sweden, and Switzerland. Therefore, Australia hardly stands out by international standards.

2.119 Skills shortages are evident in many sectors of the economy. One of the reasons why these pressures have not translated into a wages ‘breakout’ is the increasingly decentralised wage setting system. The Governor of the Reserve Bank stated:

[There are] high levels of labour scarcity. For the past year or so, many businesses have been in the unusual position of reporting that scarcity of suitable labour was a bigger constraint on their activities than their traditional concerns about the adequacy of demand or sales. […] One area of uncertainty relates to wages growth, where there is a risk that current labour market tightness will result in higher-than-expected wage increases.

2.120 Excessively high minimum wage increases do not assist with the goal of reducing the likelihood of a wage-price spiral.

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41 OECD, Economic Outlook, December 2007.
2.5 - DROUGHT

2.121 ACCI’s submission highlights the divergent performance of different parts of the Australian economy. Especially important is the hardship being faced by farms because of the continuing drought. The latest GDP data shows that value added in agriculture fell by 22.9 percent in the year to December, or 11.2 percent in the December quarter alone.

2.122 Agriculture has subtracted from GDP growth for the year. We understand that NFF’s submission provides substantial evidence on the impact of the drought on agriculture and regional Australia. Specific options to respond to the drought are addressed in Section 1.
3. ECONOMIC UNCERTAINTY AND RISK IN 2008

3.1 INTRODUCTION

3.1 One of the key considerations the AFPC should have regard to in considering the parameters of a genuinely moderate minimum wage increase(s), is a level of domestic and international risk not seen for many years, and certainly not during the life of the AFPC.

3.2 There have been a number of quite significant recent changes in the economic landscape and in perceptions of the economy’s short and medium term performance. This should be a material consideration for the AFPC in setting minimum wages, and we say favours confining minimum wage increases to a properly merited and genuinely moderate level.

3.3 There is also a sea change in perceptions of economic certainty. Sentiment and forecasts have been progressively revised downward over the past few months. This is a domestic and international phenomenon, and again it is directly relevant to minimum wage setting.

3.4 Uncertainty and risk further favours a cautious approach. It favours at best a broad continuation of approach of 2007. Current economic conditions certainly could not favour abandoning the 2007 level of increase in favour of an increase based on meeting inflation in full.

3.2 DOMESTIC ECONOMIC RISK

3.5 There are distinct risks and negatives predicted for the Australian economy during 2008, which should favour a cautious approach to varying minimum wages.
3.2.1 - RBA

3.6 The Reserve Bank of Australia (RBA) undertakes a continuous monitoring, commentary and forecast role in relation to the Australian and international economy through its various speeches, releases, outlooks and reports.

3.7 In its most recent Statement on Monetary, the RBA links domestic and international uncertainty and risk. It points to the sustained inflation and potentially further tightening of monetary policy:

The situation in the global economy and financial markets remains a major source of uncertainty for this outlook. It is possible that there will be a sharper downturn in the world economy than is currently forecast, and there is also a risk that tighter credit supply could constrain demand and activity in Australia to a greater extent than is assumed. Should those risks eventuate, inflation would fall more quickly than is currently forecast. On the other hand, domestic demand has to date shown considerable momentum, and there are further income gains from the terms of trade and other factors ahead. There thus remains a risk under the current monetary policy setting that demand does not moderate sufficiently to achieve the forecast reduction in inflation. A further risk is the possibility that inflation expectations could rise, which would make the reduction in inflation more difficult to achieve.

On the current outlook, then, and allowing for the inevitable uncertainties in forecasting, the risk of inflation remaining uncomfortably high for some time is considerable. Absent a further shift in economic risks to the downside, therefore, monetary policy is likely to need to be tighter in the period ahead.1

3.8 The RBA also emphasises the extent of recent changes in the economy and labour market, and the clear trend towards greater domestic and international risk:

Since ...last year, the economic situation in Australia and abroad has changed quite markedly. The outlook and risks for the global economy have clearly shifted, and so have the prospects for domestic inflation.2

...inflation in early 2008 is appreciably higher than appeared likely a year ago.3

...the outlook has softened since the previous Statement as a result of the tightening in financial conditions and downward revisions to the forecasts of global growth.4

1 RBA - Statement On Monetary Policy – February 2008
4
3.9 The RBA also highlights the importance of not over stimulating consumer spending. Excessive or immoderate minimum wage increases would go against this, and would likely only contribute to further interest rate pressures to dampen consumer spending, potentially removing any extra spending power from employees that the AFPC may have considered it was delivering:

In its recent statements, the Bank has made clear that there will need to be a significant slowing in domestic spending if inflation is to be brought back within the 2–3 per cent target over time.  

3.10 Importantly, the RBA (as with the AFPC in 2007) notes the extent to which tax cuts will increase personal spending power during 2008, regardless of any increase in minimum wages:

The slowing in growth is expected to be spread over most of the major expenditure components of GDP. Announced tax cuts over coming years and the tight labour market should continue to support household income and consumption growth, although higher interest rates, lower confidence and negative wealth effects from recent falls in equity markets are forecast to weigh on consumer spending. 

3.11 This is important. It should give the AFPC confidence in looking again at the same consideration. The AFPC should again recognise the extent to which changes in personal taxation will increase living standards / meet the safety net role without an over-reliance on otherwise damaging increases in minimum wages.

3.2.2 - OECD Outlook For Australia

3.12 OECD GDP forecasts are for Australian growth to remain low over 2009. The OECD has also noted that:

Output growth, which could reach 4¼ per cent in 2007, is expected to slow gradually to 3½ per cent in 2008 and 3% in 2009, a pace close to the potential growth rate. This slowdown, which will be accompanied by a further tightening of monetary policy to keep inflation in line with the Reserve Bank’s inflation target, should ease strains in the labour market.

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4 RBA - Statement On Monetary Policy – February 2008
6 RBA - Statement On Monetary Policy – February 2008
7 OECD Economic Outlook No. 82 - Country summaries – Australia.
3.13 The remark from the OECD concerning alleviating labour market strains should sound a warning against complacency on wages and on the labour market more generally. Eased constraints on the labour market reflect growing unemployment and slower economic growth.

### Australia: Demand, output and prices

<table>
<thead>
<tr>
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<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tr>
<td>Current prices AUD billion</td>
<td>508.8</td>
<td>503.9</td>
<td>503.9</td>
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<td>Percentage changes, volume (2004=2005 prices)</td>
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<th>2009</th>
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<tbody>
<tr>
<td>Private consumption</td>
<td>508.8</td>
<td>503.9</td>
<td>503.9</td>
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<td>Exports of goods and services</td>
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<td>Net exports¹</td>
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<td>GDP deflator</td>
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### Memorandum items

- **Consumer price index**: 2.7 3.5 2.8 3.2 2.7
- **Private consumption deflator**: 1.8 2.7 2.5 2.9 2.5
- **Unemployment rate**: 5.0 4.8 4.3 4.4 4.3
- **Household saving ratio²**: -0.6 -0.5 -0.6 -0.5 -0.6
- **General government financial balance³**: 1.2 1.2 1.3 1.2 1.0
- **Current account balance⁴**: -5.7 -5.4 -5.0 -5.4 -5.0

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see OECD Economic Outlook Sources and Methods, (http://www.oecd.org/guesourcesandmethods).

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.

3.2.3 - ANZ Economic Outlook

3.14 ANZ Economic Outlook for March 2008⁸ identifies inflation as Australia’s primary policy concern:

16 years of uninterrupted growth has been good but the legacy is that Australia now has an inflation problem…⁹

...inflationary pressures are widespread…¹⁰

Domestically sourced inflation is running at an annual rate of 4.1% which is being offset by still subdued tradable inflation of 1.4%. Upstream producer price pressures remain elevated.¹¹

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3.2.4 - ANZ Job Ads

3.15 A key series which has for many years provided a forward indication on employment and unemployment in Australia is the ANZ Job Advertisement Series\(^\text{12}\).

3.16 The recent performance of this series further adds to the overall picture of risk and potential downturn for the Australian labour market: The total number of jobs advertised in major metropolitan newspapers and on the internet declined by 2% in February 2008.

3.17 ANZ Head of Australian Economics, Mr Tony Pearson, has said:

“Total job advertisements fell in February for the first time since November 2006, and the annual rate of increase cooled to the lowest in a year. Trend advertisements have now been easing for three months. We don’t want to make too much of one month’s data, as the series can be volatile. Nevertheless, it may be that the cumulative impact of interest rate rises and continued volatility on financial markets is leading to some caution on the part of employers…”\(^\text{13}\)

3.18 In fact, the extent of recent change in our economy and labour market is illustrated by the headlines for the last three months of ANZ media releases:

a. 11 March, 2008 – “Job Advertisements ease in February”

b. 11 February, 2008 – “Job Advertisements continue to strengthen in January”

c. 14 January, 2008 - “Job Advertisements surge in December”

3.19 In three months a ‘surge’ has become a ‘strengthening’, and has now become an ‘easing’. The direction of change appears clear.

3.20 It is early days, and there should not be an overreaction to a single month’s figure.


\(^{13}\) ANZ Media Release: Tuesday, 11 March 2008 “Job Advertisements ease in February”.
3.21 However, this is an indication that jobs growth may be coming off to some extent. Considered in conjunction with falls in consumer sentiment, this should lead the AFPC to act cautiously in increasing minimum wages.

3.3 **INTERNATIONAL ECONOMIC RISK**

3.22 Australia’s globalised economy is of course, affected by the wider international economy. The forecasts for the global economy and its key constituents (such as the US) are worse than those domestically. International risk and softness is particularly striking.

3.23 There is a straight line of course between international economic developments and the business environment into which this increase will be implemented. The international economy affects considerations such as:

- a. The operation of Australia’s internationalised finance market.
- b. Demand for Australian products and services (the balance of trade etc).
- c. The availability and cost of capital for Australian businesses.
- d. Australian confidence.
- e. International investment in Australia.

3.3.1 - OECD

3.24 The OECD indicates a weakening outlook for the world economy:

The latest composite leading indicators (CLIs) suggest that a slowdown in economic activity lies ahead in the OECD area. January 2008 data indicate a weakening outlook for all the major seven economies. The latest data for major OECD non-member economies point to a potential downturn in China and India, while continued expansion is ahead in Brazil and Russia.\(^\text{14}\)

\(^{14}\) OECD Composite Leading Indicators, News Release, 7 March 2008.
The above graphs show each country's growth cycle outlook based on the CLI which may signal turning points in economic activity approximately six months in advance. Shaded areas represent observed growth cycle downswings (measured from peak to trough) in the reference series (economic activity).

3.3.2 - IMF

3.25 The IMF is also emphasising moderation in global growth in response to financial turbulence:

Following strong growth through the third quarter of 2007, the global economic expansion has begun to moderate in response to continuing financial turbulence. Global growth is projected to decelerate from 4.9 percent in 2007 to 4.1 percent in 2008, a markdown of 0.3 percentage point relative to the October 2007 World Economic Outlook.1 Risks to the outlook remain tilted to the downside.

The overall balance of risks to the global growth outlook is still tilted to the downside. The main risk to the outlook for global growth is that the ongoing turmoil in financial markets would further reduce domestic demand in the advanced economies and create more significant spillovers into emerging market and developing economies.15

3.3.3 - US – Federal Reserve

3.26 US Federal Reserve Governor Frederic S. Mishkin, recently emphasised the challenges facing the US (and thereby global) economy:

The U.S. economy is facing substantial challenges. The housing sector continues to weaken, production and spending in other parts of the economy have decelerated, the labor market has softened noticeably, and the turmoil in financial markets has led to a reduced availability and a higher cost of credit to many households and businesses. Indeed, real gross domestic product (GDP) rose at an annual rate of only 0.6 percent in the fourth quarter, and the available data suggest that the economy has relatively little momentum going into the first quarter. Moreover, upward pressures on inflation have emerged, emanating in part from the rapid increases in prices of crude oil and some other commodities\(^{16}\).

3.27 He neatly summarises the financial market crisis and its impact on the US economy:

The strains in financial markets that emerged last summer were triggered by problems in the markets for subprime mortgages and related securities. As the financial landscape became more uncertain, a broader tightening of credit conditions took hold, with investors becoming less willing to bear risk, more concerned about the valuations of a wide range of complex financial instruments, and more concerned about counterparty credit risk. Reflecting these concerns, the functioning of the short-term credit markets deteriorated dramatically, corporate bond spreads rose, and the market value of leveraged loans and other securities fell. In addition, banks were forced to bring onto their balance sheets a significant volume of loans and other securities, and in the second half of 2007, banks took large write-downs on mortgage-related and other assets.\(^{17}\)

3.28 He emphasises ongoing risk and weakness in the US economy:

For the reasons cited, I continue to expect a period of economic weakness in the near term that should be offset to a degree in future quarters by the monetary easing already in place and the fiscal stimulus package. Nonetheless, the economy faces significant downside risks that could contribute to a worse outcome. Key among those risks is a worse-than-expected outcome in the housing market as a result of more adverse housing-price dynamics. In particular, declines in housing prices, rather than stimulating demand, could further depress home purchases, at least for a time.\(^{18}\)

3.29 Again, for Australia these translate quickly into risks to our internationalised economy.


3.3.4 - ECB

3.30 The European Central Bank (ECB) in its recent Monthly Bulletin editorial\(^\text{19}\) emphasises levels of risk and uncertainty, and an overall bias towards of downside revisions:

As the reappraisal of risk in financial markets continues, there remains unusually high uncertainty about its overall impact on the real economy. While the economic fundamentals of the euro area are sound, incoming data have confirmed that the risks surrounding the outlook for economic activity lie on the downside...

3.31 Uncertainty across the euro region is described as “unusually high”, and various risks are foremost in the minds of the stewards of Europe’s economies:

That said, uncertainty about the prospects for economic growth is unusually high and the risks surrounding the outlook for economic activity have been confirmed to lie on the downside. Risks relate mainly to a potentially broader than currently expected impact of financial market developments on financing conditions and economic sentiment, with negative effects on world and euro area growth. Further downside risks stem from the scope for additional oil and other commodity price rises, concerns about protectionist pressures and the possibility of disorderly developments due to global imbalances....

3.32 In the end, as with all decision makers, the ECB acknowledges its lack of knowledge during this period:

The impact of the ongoing reappraisal of risk in financial markets on the real economy is still surrounded by unusually high uncertainty.

3.33 The response to so many unknowns and risks must be a conclusion in favour of caution, particularly where consideration is being given to uprating an economic setting which it has been accepted impacts on prices and jobs (i.e. minimum wage setting).

3.34 The ECB goes a step further and actually emphasises the importance of wage moderation:

Risks to this medium-term outlook for price developments are confirmed to lie on the upside. These risks include the possibility that stronger than currently expected wage growth may emerge, taking into account high capacity utilisation and tight labour market conditions. Furthermore, the pricing power

\(^{19}\) 14 February 2008 - Monthly Bulletin, 
of firms, notably in market segments with low competition, could be stronger than expected. At this juncture, it is therefore imperative that all parties concerned meet their responsibilities and that second-round effects on wage and price-setting stemming from current inflation rates be avoided. In the view of the Governing Council, this is of key importance in order to preserve price stability in the medium run and thereby the purchasing power of all euro area citizens.

3.3.5 - Bank of England

3.35 The Bank of England is also concerned about prices, risks, and overall about uncertainty and the financial market:

Global financial markets have been febrile since the November Report, and are vulnerable to further shocks. Equity prices declined, reflecting the deterioration in the economic outlook. The market for securitised debt remained virtually closed. Although conditions in money markets improved somewhat, term interest rates remained well above expected policy rates, reflecting heightened concerns about creditworthiness.20...

There were particular uncertainties relating to the severity of the tightening in credit conditions and the future path of inflation expectations.21

3.36 The Bank emphasises risks to its inflation outlook:

As usual, there are substantial uncertainties surrounding these projections. The key risks are: on the downside, the potential for a greater tightening in credit conditions, and the associated impact on demand, at home and abroad; and, on the upside, the possibility that the short-term rise in inflation leads to a more persistent rise in medium-term inflation expectations. Overall, the risks around the central projection to growth lie to the downside, while those to inflation are balanced. But there is a range of views among the Committee on both the central projection and the balance of risks.22

3.3.6 - RBA

3.37 In announcing its last increase in interest rates, the RBA indicated:

The world economy is slowing and it appears likely that global growth will be below trend in 2008...

Sentiment in global financial markets remains fragile. Australian financial intermediaries are experiencing increases in funding costs, which are being passed on to customers. Some tightening in credit standards for more risky borrowers is occurring.23

23 4 March 2008, Statement By Glenn Stevens, Governor - Monetary Policy
There is significant uncertainty as to the likely size of the eventual impact of recent financial market tensions on economic activity in the United States and other developed economies, and the effect this will have on the rest of the world.\textsuperscript{24}

3.38 Again, the key concept is uncertainty, and in this case a mix of domestic and global economic uncertainty:

While there is considerable uncertainty over the outlook for the world economy, our baseline assumption is that GDP growth in Australia’s major trading partners will slow significantly in 2008, following four years of well-above-average growth.\textsuperscript{25}

3.39 Along with uncertainty, there is global, and in particular US economic weakness:

...although 2007 as a whole was an above-average year for world growth, conditions in the US and the other major industrial economies started to weaken markedly towards the end of the year. In the US, fourth quarter national accounts indicated a sharp slowdown, and most expectations now are for a period of further weakness in the first half of this year (Graph 8). Some observers are saying the US is about to enter a recession, or is already in one.\textsuperscript{26}

The main driver of the US weakness has been a slump in the housing market. Housing starts are down by more than 50 per cent from their peak two years ago (Graph 9). Even though housing is typically only about 5 per cent of the economy, falls of this magnitude are a significant drag on growth because they feed back into employment, incomes and other forms of spending. Adding to the contractionary impact is a downturn in established house prices. According to one major index, these are down about 10 per cent from their peak, and still falling (Graph 10). These forces, and the ongoing fall-out from the sub-prime crisis, could continue to dampen the US economy for a while yet.\textsuperscript{27}

3.40 Even potentially positive or counter indicating factors in the US economy are uncertain, and “hard to predict”..

At the same time, it’s important to note that there are still forces supporting growth. The US export sector is getting the benefit of a lower dollar; there’s a significant fiscal package in the pipeline, which will add more than one per cent of GDP to private spending power; and sharp cuts have been made in US official interest rates, with financial markets expecting more to come. The

\textsuperscript{24} RBA - Statement On Monetary Policy – February 2008
\textsuperscript{25} RBA - Statement On Monetary Policy – February 2008
\textsuperscript{26} Malcolm Edey, Assistant Governor (Economic), RBA, Address to the Australian Industry Group "Growing your Business in 2008", Sydney - 5 March 2008
\textsuperscript{27} Malcolm Edey, Assistant Governor (Economic), RBA, Address to the Australian Industry Group "Growing your Business in 2008", Sydney - 5 March 2008
overall course of the US economy will depend on the net impact of all these forces, and this is still hard to predict.  

3.41 This translates into a forecast weakening in demand from our trading partners:

The extent to which the current weakness in the G7 economies will spread to the Asian region in 2008 is still uncertain. But some dampening impact has to be expected, and this is likely to mean a below trend rate of expansion in Australia’s trading partners in aggregate this year.  

3.3.6.1 - International Financial Market

3.42 RBA Assistant Governor Edey has also identified uncertainty and other developments in world financial markets, and how this has flowed on quite rapidly and directly into Australia:

...world financial markets have become much more unsettled in the period since the middle of 2007.

From around that time, the strains that originated in the sub-prime debt market in the US began to spill over to credit markets more widely. Conditions have fluctuated in the period since then, but the general results have been a widening of credit spreads and greater difficulties being faced by private borrowers in accessing capital markets. Money markets have come under strain, and banks have faced higher funding costs.

These events, in conjunction with rises in the policy interest rate, have contributed to an appreciable tightening in domestic financial conditions. One gauge of that is the increase in the 90-day bill rate. Taking into account yesterday’s decision, the cash rate has increased over the past year by 1 percentage point, while the bill rate is up by about 1½ percentage points (Graph 13). Banks have been responding to the higher funding costs by increasing their lending rates. They’ve also tightened their lending standards to risky borrowers, and that process may have further to go.

3.43 It is also appropriate to mention that this impacts on interest repayments by businesses, including minimum wage reliant businesses, and increases the cost of capital available to Australian employers. This reduces capacity to digest increased labour costs.

3.3.6.2 -

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Terms of Trade

3.44 The RBA has indicated the following in regard to commodities:

This outlook is largely driven by expected large increases in coal and iron ore contract prices in mid 2008, reflecting ongoing strength in commodity demand from Asian countries, particularly China. The effect of these increases is forecast to be partially offset by declines in base metals and rural export prices from their recent high levels. Together, these developments imply that the terms of trade will reach fresh highs in mid 2008, before declining somewhat due to the slowing in global growth and as demand and supply respond to the current high commodity price levels.\(^{30}\)

3.45 ACCI would point out that commodity based operations are not the minimum wage part of the economy. So commodity price stability (apparently the key moderating factor for the impact of the international economy on Australia) does not help employers who pay minimum wages.

3.3.6.3 - Conclusion

3.46 Ultimately, the RBA identifies a highly worrying mix of downturn and uncertainty:

...there are significant dampening forces also at work. These include higher interest rates and tighter lending standards in the domestic economy, as well as the slowdown now underway globally. The recent appreciation of the exchange rate will work in the same direction. Weighing up these factors, the RBA’s recently published assessment was that growth of the Australian economy would slow to a below-trend pace this year and next, and that this would contribute to some easing in underlying inflation pressures. Obviously this assessment will need to be further updated to take into account yesterday’s policy decision as well as other important pieces of information, including the national accounts due out today.

Given the nature of the forces at work, it’s important to note that there are significant uncertainties in both directions. The global economic situation is one important source of uncertainty, as is the situation in world and domestic financial markets. Another is the risk that the recent rise in inflation feeds back into wage and price expectations. All of these will be important areas to watch in the period ahead.

3.47 This mix of downturn and uncertainty is precisely what leads ACCI to argue in favour of a moderate outcome from this review. We say these are matters the AFPC must have regard to.

\(^{30}\) RBA - Statement On Monetary Policy – February 2008
3.3.7 - ANZ Economic Outlook

3.48 The ANZ Economic Outlook for March 2008 supports the overall negative international outlook and its potential consequences for Australia:

The financial market clouds hanging over the global economic horizon have darkened in the early weeks of 2008. Growth will slow in most countries.

Fears that these actual or potential losses, and the underlying forces which have led to them (such as declining US house prices and rising mortgage defaults) could precipitate a US recession or even a global ‘credit crunch’…

By historical standards, this is a serious financial crisis. And serious financial crises do often occur amidst, or lead to, serious recessions…

One recent estimate…is that such crises lead to a drop in real per capita GDP growth of 2%, and that it typically takes two years for growth to return to trend.

3.49 Looking beyond the US, the ANZ indicates that:

Other advanced economies are also likely to experience weaker economic growth this year…

In summary, economic growth across the developed world is expected to average about 1¾% this year, down from 2.2% in 2007, and the slowest since 2003.

3.50 Overall the ANZ’s concludes by highlighting the wider consequences and open ended nature of current market turmoil:

Notwithstanding the initial success which the Fed’s actions in January have had in stabilising global financial markets, investor sentiment remains fragile and asymmetrically vulnerable to further bad news. It would be highly premature to conclude that markets are near to bottoming.

3.3.8 - Australia’s International exposure

3.51 Ultimately, Australia has an internationally exposed economy. The positives of economic and financial internationalisation are balanced by a quite direct and only partly mediated exposure to global economic forces, and an exposure to down turns and uncertainties such as that we are presently experiencing.

3.52 This means that any decision maker responsible for one of the key levers of our economy, be it interest rates or minimum wages, must have regard to international as well as domestic forecasts and (in the present situation) to levels of risk.

3.53 In the current climate, consideration of international factors further supports the case for moderation and a maintenance rather than sea change of approach.

3.4 CONFIDENCE

3.54 What then of the confidence factors in the Australian and international economy? Properly assessed, these also support caution and moderation.

3.4.1 - Consumer Confidence

3.4.1.1 - Westpac – Melbourne Institute

3.55 The latest Westpac-Melbourne Institute index of consumer sentiment was released on 12 March 2008. It shows consumer Australian consumer confidence at a 15 year low, and a record fall across recent months:

**Consumer confidence sinks to record low**

By finance reporter Adrian Thirsk

Successive interest rate increases appear to have dealt a crushing blow to consumer confidence, which has sunk to its lowest level since 1993.

The Westpac and Melbourne Institute consumer sentiment index has plunged a further 9.1 per cent this month to stand at a mere 88.6 per cent.
"That's the lowest level we've seen in confidence since September 1993," Westpac chief economist Bill Evans said.

The cumulative fall over the past three months is the largest since the index was first measured in 1975.

Besides rising interest rates, consumer confidence has been buffeted by the global credit market crisis and tumbling share markets.

Mr Evans says the collapse in sentiment signals the Reserve Bank has done enough on interest rates.39

3.4.1.2 - Sensis Consumer Report

3.56 The most recent Sensis Consumer Report was released on 13 March 2008. It also shows a rapid fall in Australian consumer confidence. According to Sensis40:

Concerns about rising interest rates have triggered a record fall in consumer confidence,

…the consumer confidence indicator plummeted 17 percentage points during the quarter to 44 per cent.

“This is the largest one-quarter fall we have on record. It is also the lowest level of consumer confidence since May 2006, when confidence was one percentage point lower at 43 per cent.

“Rising interest rates are the key reason Australians are worried about their financial prospects.

One quarter of Australians feel they are better off than a year ago, while just under a quarter feel they are worse off, taking the indicator down 16 percentage points over the quarter. The indicator now sits at one per cent, the lowest level on record. Increases in the cost of living and interest rates on mortgages topped the list of reasons for feeling worse off.

Expectations about the strength of the Australian economy over the next 12 months also deteriorated markedly, with the indicator down 22 percentage points to the lowest level on record.

Only two out of every 10 Australians said they thought the economy would be stronger in 12 months time, while four out of 10 believe it would be weaker.

“And when we look at Australians’ overall concerns, we can see economic issues are coming to the fore," she explained.

Economic issues account for two out of three of our top concerns this quarter. The cost of petrol is our major concern overall, followed by the environment and the cost of living. Concerns about the state of the economy overall rose more than any other issue.

“This is in contrast to last quarter, where economic issues did not rank highly at all,” she explained.

The drought was our major concern last quarter, followed by the environment and the health system.

3.4.1.3 - Roy Morgan

3.57 The Roy Morgan survey of consumer confidence shows a pronounced downturn since late 2007.

As at 7 March 2008, the March Roy Morgan Consumer Confidence Rating is 109.5, down 6.3 points from February and significantly 11.2 points below the March 2007 result of 120.7.

The proportion of Australians (30%) who say their personal financial situation is better now than it was last year has fallen 5%, while the number who say they are now worse off is up 5% to 30% — the first time since September 2006 that those “worse off” has matched those “better off”.

Now, 32% (down 4%) of Australians’ expect “good” economic conditions in Australia in the next year, marginally higher than the 30% (unchanged) who expect “bad” economic conditions in the next 12 months.

3.61 The number of Australians expecting good economic times over the next five years is down 4% to 33%, compared to 20% (unchanged) of Australians who expect bad economic times over the next five years.

3.4.1.4 - US

3.62 Consumer confidence in the USA fell to a 16-year low in March, as consumers respond to declining home values, a weaker job market and high oil prices. The Reuters/University of Michigan preliminary index of consumer sentiment fell to 69.6 from 78.4 in January. Confidence among American consumers slumped to the lowest level since 1992 and factory output failed to increase, indicating the damage from the housing contraction is pushing the economy toward a recession.

3.63 The decline in confidence indicates that pledges of tax rebates and lower interest rates failed to ease Americans' concerns about falling home and stock prices and rising unemployment. President George W. Bush signed a $168 billion stimulus package this week, including tax rebates to more than 130 million households.42

3.4.2 - Investor / Business Confidence

3.64 Business and investor confidence also appears to have weakened in Australia during recent months.

3.65 The Commonwealth Bank – ACCI Business Expectations Survey for December 200743 indicates the following:

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43 Released 5 February 2008.
3.66 The SAI Global / ACCI Survey of Investor Confidence indicates that:

Over the December quarter many indicators levelled off or declined moderately and less optimism is being expressed regarding future business conditions. This may be due to ongoing international and domestic financial problems but may also be a result of business' higher inflation, interest rates and wages growth expectations.\(^4^4\)

The Trend in National Economic Conditions, Trend in Climate for Investment and Expected Business Investment indexes are all down and the Expected Movement in Prices index is at its highest level for seven years.

Expected Wages Growth and Expected Interest Rates are now at its highest level in the ten years of this Survey...

The index of Trend in Climate for Investment in the Australian economy trended down to 49.6 in the current survey after a brief peak in mid-2007. This shows that business is expecting that economy-wide conditions for investment will deteriorate significantly over the next quarter.\(^4^5\)

3.67 Business is also concerned about inflation:

The index of Expected Movement in Prices continued to rise strongly over the December quarter. The index now stands at 70.2 a further rise from the 66.2 recorded in September and 62.4 at the same time last year. This is the highest

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level for seven years. The prices data indicates that business is likely factoring inflation into business decision making.\(^{46}\)

3.68 Business is also concerned about emerging unemployment:

The index of Expected Unemployment Rate rose to 58.1 in the December quarter – its highest level since 2002. The index level suggests that business believes that the unemployment rate will increase to some extent over the next twelve months.\(^{47}\)

3.69 Confidence and expectations are a material factor affecting considerations like investment, costs of capital, scope for growth, etc. They should be viewed by the AFPC as underlining levels of risk and uncertainty, and the potential for downturn. They further favour a moderate outcome on minimum wages.

### 3.5 Conclusions

3.70 The ultimate picture is one of an emerging level of economic risk and uncertainty. There is also a clear picture of change from an economy which has performed extraordinarily well for an long period.

3.71 The expert and community outlook again favours genuine caution and moderation in uprating minimum wages in 2008.

3.72 Uncertainty combined with negatives in the performance of the economy, favours not adversely impacting on the minimum wage reliant sector, through excessive minimum wage increases.


4. INFLATION, PRODUCIVITY & BARGAINING

4.1 - INFLATION

4.1.1 - Current inflationary climate

4.1 Australia as a relatively small open economy imports much of its inflation through import prices and domestically produced import competing items such as commodities, most manufactures, and some services. Internationally, inflation is on the rise. The United States and China are currently particularly vulnerable to inflation.

4.2 However, domestic sources of inflation remain critical given that inflation has breached the top of the RBA’s target and is forecast to remain above target for some time.

a. Underlying inflation has risen by 3.6 percent over the twelve months to December 2007 and headline inflation was 3.0 percent over the year to December 2007. The two key measures of inflation show a considerable acceleration over the past year.

b. ACCI does not believe tax cuts scheduled to begin on July 2008 will, of themselves, spur inflation. Rather, the tax cuts should add to the productive capacity of the economy and provide a non-inflationary benefit to lower income earners.

c. A more complete analysis of inflation is furnished in Section 2.

4.1.2 - Inflation forecasts

4.3 The most critical inflation forecast is that of the RBA since the RBA must look forward in setting interest rates given the large lags involved in Monetary Policy (see section 2 for more detail on the lags from implementation to maximum effect).

4.4 The RBA has forecast inflation in 2008 to be higher than the RBA target band of 2-3 percent over the course of the cycle.
Table 15: Output and Inflation Forecasts

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<td>3½</td>
<td>3¾</td>
<td>3¾</td>
<td>3½</td>
<td>3¾</td>
</tr>
<tr>
<td>Underlying inflation</td>
<td>3.0</td>
<td>3.6</td>
<td>3¾</td>
<td>3¾</td>
<td>3¾</td>
<td>3¾</td>
<td>3</td>
</tr>
</tbody>
</table>

|a| Actual GDP data to September 2007 and actual inflation data to December 2007. Underlying inflation refers to the average of trimmed mean and weighted median inflation. For the forecast period, technical assumptions include A$ at US$0.69, WTI at $69, cash rate at 7.0 per cent, and WTI crude oil price at US$86 per barrel and Tapis crude oil price at US$90 per barrel.

Sources: ABS; RBA

4.5 The RBA has issued a statement indicating that:

Inflation is likely to remain relatively high in the short term, and will probably rise further in year-ended terms, before moderating next year in response to slower growth in demand.¹

4.6 This inflation forecast from the RBA highlights the need for all policy makers to be concerned about inflation. Inflation is a very real concern for the AFPC in 2008, as it comes to balance consideration of price changes, with not stimulating further inflationary pressures.

4.7 Clearly, inflation is germane to the AFPC considerations under s.23 of the Workplace Relations Act 1996. The dangers of inflation should be a critical consideration in this year’s minimum wage setting.

4.1.3 - Inflation risks

4.8 There are very real risks to the inflationary outlook, including:

a. Higher world commodity prices, including oil.

b. Higher import prices.

c. Higher food prices.

d. Capacity constraints.

¹ Statement By Glenn Stevens, Governor Monetary Policy, 4 March 2008.
4.9 We have not yet removed the risk of inflation rising faster than the RBA anticipates warranting further interest rate rises. Higher interest rates slowing demand growth and the economy in response to inflation would mean that unemployment may be higher than it otherwise would be.

4.10 Minimum wage setting is a factor. Should wages and prices start being set with circular reference to each other inflation could become entrenched and accelerate further.

**4.1.4 - Why wages shouldn’t chase prices in 2008**

4.11 The AFPC, as with all minimum wage setters will come under pressure to increase minimum wages to reflect various measures of inflation. Full compensation for changes in prices will be advanced as the minimum expectation in this matter from some quarters.

4.12 This would ignore the extent to which tax cuts will increase incomes for the low paid, it would also ignore the AFPC’s previous acceptance that incomes for the low paid come from multiple sources and not solely from minimum wages (see Section 6).

4.13 The danger in such an approach is that (in a low productivity environment) inflation based wage increases could stimulate further inflation. Wages chasing inflation raise the danger that a wage-price spiral can emerge.

4.14 Such a spiral can be particularly difficult to break once it has been established since expectations of inflation become embedded in setting wages, and wage expectations in turn become embedded in price setting.
Wage increases in excess of productivity tend to lead to businesses increasing prices to compensate. These increases in prices further fuel price growth in areas particularly affected by labour inputs. Services in particular are at risk of these impacts, potentially making the sector less competitive.

Higher inflation through the economy also means that interest rates will be higher than they otherwise may be and that economic growth will be slowed in turn. Higher interest rates increase mortgage repayments and negate the supposed benefits of minimum wage increases for those with mortgages.

The 2008 decision occurs at a critical juncture. Price pressures have emerged on business through input prices and interest rates. Investment has begun to ease as has profit growth (see Section 2).

Productivity growth which makes wage rises affordable has been low for some years and shows that workplaces are not in a position to afford large non-productivity based wage rises.

The fact that the economy has low unemployment relative to the recent past makes the inflationary dangers from wages even greater.

The challenge in 2008, as indeed in all years, is not a minimum wage increase which chases changes in prices, particularly not in a period of price volatility and inflation breaching the RBA’s guidelines. Far more relevant is a consideration of a genuinely moderate and balanced minimum wage rise which properly balances the considerations in s.23 the Workplace Relations Act 1996.

In ACCI’s view this is determined by having principal regard to considerations such increasing productivity, encouraging bargaining, and taking into account income changes through tax cuts (see Section 6).
4.1.5 - Inflation Expectations

4.22 It is also critical in avoiding a wage price spiral that inflation expectations be kept in check.

4.23 A recent survey by the Melbourne Institute\(^2\) of consumer inflation expectations indicated that expectations overall were for 4.5%. The survey found that operators and labourers have the highest median expectation of inflation (6.1%), while clerks and salespersons expected 5.2% inflation.

4.24 Clearly inflation expectations are rising and it is vital that the AFPC attempt to keep wage and inflation expectations contained.

4.2 - Productivity

4.2.1 - Australian productivity remains too low

4.25 Australia’s productivity growth over the past year has been significantly lower than the underlying inflation rate, and too low overall. With inflationary pressures, it is now crucial that raising productivity (and capacity for bargaining) inform minimum wage setting.

4.26 Multifactor Productivity (MFP) is the broadest measure of economy wide productivity since it takes into account capital, labour and how the two are combined.

a. On this measure, productivity has been low or declining over the past three years.

b. The average growth rate of MFP since 2004 has been negative 0.3 percent per annum. The growth rate to June 2007 was -0.6 percent.

c. While the growth cycle is not yet complete there is no evidence to suggest that significant growth will emerge in at least the near term.

d. When capacity constraints are being reached the rate of productivity may tend to slow.

**Multifactor Productivity and Growth Cycle Analysis**

4.27 Labour productivity growth is also low relative to what had come to be expected. While the latest growth cycle has not yet been completed, results to date do not suggest that an acceptable rate of productivity growth will be achieved. The current average annual growth rate is just 1.1 percent per annum and the latest observation of productivity growth from December 2007 showed only 0.7 percent annual growth.
4.28 Without productivity growth the capacity of business to afford minimum wage increases is diminished. This in turn increases the risk of inflation based on such wage increases (as outlined above).

4.29 It is clear that Australia needs to lift productivity growth in order to deliver and sustain broadly based non-inflationary wage growth. Businesses are able to accommodate wage rises if productivity increases, so low and variable productivity can make even small pay increases unaffordable. This can also have the effect of magnifying the effects of downturns in the economy.

4.30 Australia’s labour productivity growth is also low by international standards. The following table illustrates the performance of Australia against some key economies / competitors³.

³ Source: OECD, [http://www.oecd.org/topicstatsportal/0,3398,en_2825_30453906_1_1_1_1_1,00.html](http://www.oecd.org/topicstatsportal/0,3398,en_2825_30453906_1_1_1_1_1,00.html)
International Comparison of GDP per Hour Worked

<table>
<thead>
<tr>
<th>Japan Growth (%)</th>
<th>Australia Growth (%)</th>
<th>United Kingdom Growth (%)</th>
<th>United States Growth (%)</th>
<th>OECD Growth (%)</th>
<th>OECD-Europe (excluding Turkey) Growth (%)</th>
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<td>1.7</td>
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<td>0.6</td>
<td>2.4</td>
<td>1.0</td>
<td>1.5</td>
<td>1.8</td>
</tr>
</tbody>
</table>

4.31 The latest available comparable OECD material shows that on this measure we have again lagged well behind other major economies.\(^4\)

MFP International Comparison - Annual Average

<table>
<thead>
<tr>
<th>Australia</th>
<th>Japan</th>
<th>United Kingdom</th>
<th>United States</th>
<th>OECD-Europe (excluding Turkey)</th>
</tr>
</thead>
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<tr>
<td>2000-2005</td>
<td>1.0</td>
<td>1.4</td>
<td>1.2</td>
<td>1.7</td>
</tr>
</tbody>
</table>

4.2.2 - Australia Must Do Better

4.32 Minimum wages are not the sole source of income increases for the lower paid. Wage rises much more through a combination of employee promotion or new employment, increased skills, a tight labour market, performance pay, contractual rises above minimum wages, collective bargaining, and tax reforms.

4.33 At a time when interest rates and costs of living are rising, it is understandable that lower paid workers are seeking another wage rise from the central regulator.

\(^4\) Ibid.
However, interest rates and rising costs are also impacting on the businesses (usually small businesses) that employ these workers. A balance must be struck which does not fuel inflation further or make jobs less secure.

The way to achieve that balance in 2008 is to focus on real incomes, not just wages. The AFPC applied this broader approach in 2007. It is appropriate that this be continued, and that the moderate increase employers propose be adopted. This is a matter requiring even further policy attention beyond the 2008 review – attention primarily by government in terms of the taxation and welfare systems, but also by the AFPC within its more limited charter.

There is a wide political consensus that productivity growth should be one of the foremost aims of the Australian workplace relations system. The Deputy Prime Minister and Minister for Employment and Workplace Relations has recently indicated that:

“So while my portfolios can be a mouthful, I’ll be happy to be referred to simply as ‘the Minister for Productivity’.

“The Government intends to get the productivity revolution underway quickly, starting with the full implementation of the important promises we made during the campaign.”

The importance of productivity is reflected in the objects of the Workplace Relations Act 1996, and in the specific parameters for the exercise of the AFPC’s functions. The objects of the Workplace Relations Act 1996 (s.3) commence as follows:

The principal object of this Act is to provide a framework for cooperative workplace relations which promotes the economic prosperity and welfare of the people of Australia by:

(a) encouraging the pursuit of high employment, improved living standards, low inflation and international competitiveness through higher productivity and a flexible and fair labour market; and

Parliament identifies continuous and unabated productivity growth as the foremost mechanism it believes will enhance the employment

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5 “Productivity is my portfolio: Gillard”, The Australian, Sid Marris, 3 December 2007
and living standards, and thereby ‘the economic prosperity and welfare of the people of Australia’.

4.39 Parliament has specifically identified continuous and unabated productivity growth as the mechanism which will improve living standards, deliver low inflation and enhance international competitiveness.

4.40 This in turn links to the objectives of the AFPC in its minimum wage setting functions. There is a direct link between the objectives in s.23 of the Workplace Relations Act 1996 and the principle object in s.3.

4.2.3 - Productivity will not moderate inflation without help

4.41 In 2006, the then government argued “the cyclical upswing in [labour] productivity ... [should] have a moderating influence on inflation”⁶.

4.42 This principle is entirely correct. Increased productivity will moderate inflation and allow for wage increases which are not inflationary, whilst also structurally improving the competitiveness of the Australian economy.

4.43 However, we now face a very different consideration in 2008, including:

a. Inflation numbers breaching the RBA target band.

b. Productivity numbers that show no such upswing, and indeed show paused or largely static productivity.

4.44 The challenge in 2008 is to provide a minimum wage increase which does not add to inflation. This will be a level of increase which encourages bargaining and productivity improvement (as well as meeting considerations in regard to the safety net, labour market, competitiveness etc). In ACCI’s view this will be achieved by an increase in the terms employers recommend (Section 1).

4.2.4 - Previous AFPC conclusions

4.45 The AFPC has proceeded on the basis that its obligations under s.23(b) of the Workplace Relations Act 1996 relating to competitiveness should be operationalised having substantial regard to productivity. This is part of the AFPC’s approach of interpreting economic prosperity “broadly”.

4.2.4.1 - The 2006 Decision

4.46 In its first decision, the AFPC accepted that its minimum wage decisions potentially affect Australia’s productivity (and thereby scope for jobs growth and prosperity), as follows:

...The international competitiveness of the Australian economy, ultimately reflecting its productivity, is also an important determinant of economic prosperity. Both are potentially affected by the Commission’s decision in relation to minimum wages.

4.47 This is particularly important at this time. In 2008 there is a worrying mix of poor productivity, arising at precisely the time it can be most damaging; in the context of rising prices and increased economic risk / international uncertainty.

4.48 At the time of the 2006 decision, the AFPC noted the “importance of productivity to the future competitiveness of the Australian economy” and importantly also noted:

a. “considerable gaps between Australia’s level of labour productivity and those of other advanced countries”...

b. “considerable scope for continuing improvements in Australia’s productivity level”.

4.49 These challenges persist, and have been exacerbated by:

a. Australia’s recent low productivity performance.

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4.50 Ultimately, the AFPC accepted the importance of productivity to the future competitiveness in its initial decision\(^{10}\). In 2008, consideration of Australia’s productive performance and the current inflationary and bargaining climate should see the AFPC award a moderate increase in terms broadly consistent with that of 2007.

4.2.4.2 - The 2007 Decision

4.51 In its 2007 decision, the AFPC examined changes in the national accounts measures of productivity in 2006 and 2007. In 2007 the AFPC cited with apparent approval the following from the RBA “It is also possible that the apparent improvement in productivity growth in the latest national accounts and the implied slowing in growth in unit labour costs has helped to temper the pace of recent price increases”.

4.52 This is entirely on the right track. Its relevance can only have increased since 2007. Productivity growth can temper the pace of price increases, and it is one of the key measures our Parliament has directed the AFPC to have regard to in delivering sustainable increases in living standards.

4.53 However:

a. The inflation challenge is now more acute.

b. There is no apparent improvement in productivity growth.

4.2.5 - What this means for minimum wage uprating

4.54 Linking the themes in this section...

a. It is bargaining which increases productivity.

b. It is productivity which redresses inflation and provides sustainable non-inflationary wage increases.

4.55 This favours a wage uprating in 2008 which encourages growth in agreement making, across a few dimensions:

a. Encouraging productive, innovative agreement making, and overcoming bargaining fatigue in some quarters.

b. Appreciating that many sectors of the economy will make a major transition from individual to collective agreement making from 2008.

c. Attracting as much as possible of the remaining minimum wage, non-bargaining workforce off minimum-wage-only employment into bargained, above minima based employment.

4.3 - BARGAINING

4.56 Section 11 of ACCI’s 2006 submission\textsuperscript{11} addressed the importance of encouraging workplace bargaining when reviewing minimum wages. This was followed up with a further detailed examination of bargaining, and incentives to bargain in Section 4 of ACCI’s 2007 submission\textsuperscript{12}.

4.57 We again commend to the AFPC our 2007 analysis of the statutory imperatives to encourage agreement making when setting minimum wages.

4.58 When the AFPC convenes its next research group we request that the impact of minimum wage uprating on bargaining be placed high on the agenda for future research.


4.3.1 - 2006 and 2007 AFPC conclusions

4.3.1.1 - The $700 tier point

4.59 The decision box on p.91 of the October 2006 AFPC decision contains the following:

In making its decision, the Commission notes its obligation to avoid creating disincentives to bargain at the workplace level as far as possible. In particular, the decision to award a smaller increase to those employees earning above $700 per week is partly based on the proposition that these employees are better equipped to reach workplace agreements themselves and should be encouraged to do so.

4.60 The AFPC included the following in its 2007 decision (p.9):

While the Commission increases the standard FMW and Pay Scales, it has determined (as it did in Wage-Setting Decision 1/2006) a differential increase recognising the low paid as being more reliant on minimum wages than higher-paid workers. The Commission also considers that its decision is consistent with providing a safety net for the low paid, acknowledging that workers in low-paid employment are more likely to be Pay Scale reliant and less able to bargain given generally lower skill levels.

4.61 The AFPC has thereby accepted there is some cut off point in the minimum wage distribution at which employees are better equipped to reach workplace agreements.

4.62 This is an important point and it remains ACCI’s view. It favours maintaining the tiered approach and the maintenance of the $700 tier point.

4.3.1.2 - Comparison to agreement wage outcomes

4.63 Page 90 of the 2006 AFPC decision examines arguments for and against there being some nexus between wage outcomes in enterprise agreements and minimum wage increases.

4.64 ACCI considers minimum wages should not be varied based on notions of maintenance or comparability, nor should they seek to match market rates. The Workplace Relations Act 1996 is quite specific in requiring minimum wages to be genuine minima set at the safety net level.
4.3.2 - ABS Employee Earnings and Hours

4.65 ACCI understands the 2006 Employee and Earnings and Hours Survey (EEH) data (released in February 2007) remains the most recently available picture of the spread of employees away from minimum wage employment, and into higher paying, agreement based employment.

4.66 ACCI addressed the EEH and what should be made of it in significant detail in our 2006 and 2007 submissions. We stand by this material, and the conclusions we say the AFPC should draw from it.

4.67 The EEH data continues to underscore ACCI’s calls for the need for bargaining to better guide minimum wage setting. ACCI can see no reason to conclude that there would have been any material shift into bargaining in the past 12 months which would invalidate the extant EEH data, particularly in a climate in which there was some reticence to enter into new agreements (during a period of statutory and system change).

4.3.2.1 - Conclusions from the EEH

4.68 In summary, the best available ABS data supports conclusions that:

a. The spread of bargaining in Australia has slowed. There has continued to be little recent additional movement from the cohort of employees in receipt of award rates of pay only, into either registered or unregistered agreement making.

b. There is effectively a cohort of employees denied productivity improvement and the attendant additional remuneration, job security and living standards it yields.

c. The growth of agreement making in Australia pre-WorkChoices has tapered or slowed, particularly in some industries.

d. For the private sector workplaces most subject to the AFPC’s decision (in hospitality, retail, personal and other services, property and business services, cultural and recreational
services) - bargaining has proved illusory. Very few have shifted from awards to agreements in recent years, and massive cohorts of “award only”/minimum wage only employment, remain unaltered.

e. Something has stopped non-bargaining enterprises in these industries from bargaining. It would be illogical and unfounded to suggest that the level of the safety net is not playing a role. It will be appropriate, indeed essential, to take this into account in setting minimum wages in this new process.

f. There are key award reliant industries which are disproportionately impacted on by minimum wage increases – and these industries remain disproportionately award reliant year after year. Cohorts of employees are being locked out of the additional income and job security bargaining provides year after year by the magnitude and pervasiveness of minimum wage increases.

g. Part time and casual employees have remained essentially locked out of bargaining and disproportionately reliant on minimum wages consistently since the creation of the bargaining system.

h. It is employees in smaller businesses which are the most marooned on awards, and which have demonstrated the least capacity to bargain.

i. The industries which actually directly implement minimum wage increases for “award only employees” have been robbed of incentives to move to any other form of arrangement. There is little further spread of bargaining in these industries – the EEH data shows it has been stopped dead. Other industries have gone backwards, with less employees bargaining. It is important to consider the role the opportunity cost of agreement making plays in the failure to bargain in these industries. In particular, it must be asked what return or
incentive there can be for workplace productivity/reform in these industries, where there is a constantly increasing level of labour costs which is constantly raising the floor for any bargain.

j. Excessive increases increase the risk of running ahead of the lower range of bargaining increases.

k. The AFPC should have regard to the extent of bargaining, and the failure of ongoing bargaining in key industries in making its 2008 minimum wage decision.

l. The AFPC has a direct imperative under the amended Workplace Relations Act 1996 to ensure the minimum wages it is responsible for better encourage bargaining and the spread of bargaining to those presently excluded.

m. Employers welcome the recognition in the previous decisions of the relevance of this consideration and the relationship between minimum wages and the capacity of more workplaces to participate in bargaining.

n. In 2008 this should translate into continued moderation in the level of minimum wage increase awarded. There should in future be a greater nexus between conclusions regarding bargaining and the outcome of the wages review (i.e. the level at which the minimum wage is uprated).

4.69 A consideration of the state of agreement making further underscores the need for minimum wages to be set at genuinely moderate levels and as genuine minima, such as the approach proposed by ACCI in this submission.

4.4 - Conclusion

4.70 Inflation is perhaps the overarching and most widely discussed concern in the Australian economy going into this review.
4.71 Changes in prices remain a significant concern amongst a wider series of considerations which must be balanced.

4.72 Australia’s employers view the correct approach in 2008 as delivering a moderate and balanced level of increase. A correct approach will not lie in attempting to have minimum wages chase changes in prices at this time.

4.73 As ACCI points out in this section, there is a nexus between prices, productivity and bargaining. This includes:

   a. Productivity based bargaining having less inflationary impact than non-productivity based/non-productivity enhancing minimum wage increases.

   b. Productivity based wage rises being particularly important when inflationary pressures do emerge (i.e. in 2008).

   c. Agreement making being the key avenue to productivity improvement.

4.74 This is germane to the AFPC’s decision on the level of the 2008 increase. The AFPC should address the inflation challenge in 2008, not through no increase, but through an increase which encourages greater productivity and greater scope for bargaining. The increase we commend to the AFPC in 2008 meets such requirements along with balancing other factors, as set out throughout this submission.
5. LABOUR MARKET RESEARCH

5.1 INTRODUCTION

5.1 One the AFPC’s principal considerations is having regard to “the capacity for the unemployed and low paid to obtain and remain in employment”.

5.2 Such labour market factors have been at the forefront of the work and considerations of the AFPC since its inception, and have been principal matters in submissions from ACCI and other submitting parties.

5.2 PREVIOUS CONCLUSIONS

5.3 The AFPC has reached a range of relevant and valid conclusions in its 2006 and 2007 decisions on the interaction between minimum wage setting and the labour market.

5.4 Generally:

a. ACCI supports the AFPC ‘s previous conclusions on the impact and potential impact of minimum wage increases on jobs.

b. ACCI calls in 2008, in consideration of the full operation of the Workplace Relations Act 1996, for the already established approaches and principles to lead to a genuinely moderate increase in the terms employers propose (Section 1).

2.2.1 - 2006 Decision

5.5 Various principles and conclusions have already been accepted by the AFPC in these reviews. In 2006, this included. At p.9:

Assessing how the level of minimum wages affects the capacity of the unemployed and low paid to obtain and remain in employment involves labour supply as well as labour demand considerations.
5.6 At p.70:

The proposition that setting minimum wages ‘too high’ can have an adverse impact on employment opportunities is generally accepted in all of the research and studies considered by the Commission.

5.7 At p.9

While acknowledging the wide variety of factors that may influence people’s decisions to participate in the workforce, non-financial issues are beyond the remit of the Commission. For this reason, the discussion of incentives focuses primarily on the effect of financial factors. Within the arena of financial incentives, the Commission has only one lever of adjustment – namely – to adjust minimum wages.

5.8 Also at page 9, the AFPC concluded as follows:

The Commission acknowledges that high minimum wages may induce employers to reduce the number of employees they hire and/or retain, as well as adjust the number of hours they offer to their employees. The size of these effects will in part depend on the magnitude of the rise.

5.9 These are significant conclusions. The AFPC has effectively accepted that:

a. Minimum wages (and changes in minimum wages) may induce employers to reduce the number of employees they hire and/or retain.

b. Minimum wages (and changes in minimum wages) may induce employers to reduce the number of hours they offer to their employees.

c. The size of increases is the key determinant. This will become a threshold point on any occasion where the level of minimum wage increase can become damaging to at least one of the key considerations Parliament has asked the AFPC to deliver on under s.23 of the Workplace Relations Act 1996.

5.10 The AFPC accepts at various points that the performance of the Australian labour market is not uniform, and that positive macro numbers can mask differential performance in particular regions.
5.11 At p.71:

The impact of minimum wage increases is difficult to estimate. This difficulty is partly explained by the fact that, in most countries, only a small proportion of the workforce is subject to the minimum wage. As a result, increasing the minimum wage usually has a very small impact on average wages, and therefore, on total employment. The problem centres on identifying those people directly affected by an increase in the minimum wage, as the extent of any effect will be more noticeable amongst them.

5.12 And ultimately (p.73):

On the basis of the evidence available, the Commission considers that there is a negative relationship between the level of minimum wage increases and employment in Australia.

2.2.2 - 2007 Decision

5.13 At p.11:

The labour market cannot guarantee that a person who enters low-paid employment will progress to higher-paid employment over time, nor that a person employed in a casual or part-time capacity will progress to more secure or substantial employment. However, if minimum wage increases were to reduce the overall availability of low-paid work or the willingness of employers to offer jobs to people who have been out of work for some time, this would clearly exacerbate unemployment whatever definition of unemployment were adopted.

5.14 The AFPC has thereby accepted that:

a. Minimum wage increases can, at a certain level, reduce the overall availability of opportunities for low-paid work (and thereby opportunities for the unemployed / employment for the precariously employed).

b. Minimum wage increases can at a certain level, reduce the willingness of employers to offer jobs to people who have been out of work for some time.

c. There is scope for minimum wage increases to clearly exacerbate unemployment whatever definition of unemployment (is) adopted.
5.15 The AFPC has effectively rejected claims that minimum wage employment is impervious to minimum wage increases, and that it in the contemporary labour market minimum wages can effectively be uprated without an impact on job opportunities.

5.16 Also at p.11, the 2007 decision indicates:

The relationship between the level of minimum wage increases and employment in Australia remains pivotal to the Commission. In conjunction with developing its monitoring strategy, the Commission will focus on furthering Australian research into the impact of minimum wage adjustments on labour demand.

5.17 This relationship should be pivotal in 2008, in the context of a more vulnerable economy. It should lead to a genuinely moderate minimum wage outcome, such as that recommended by ACCI.

5.18 The AFPC has also noted the potential relevance of underemployment, and the extent to which headline jobs data can hide unmet demand for work (p.11):

Several employer groups suggest that the Commission take full account of underemployment and marginal labour force attachment when considering the capacity of unemployed people to obtain and remain in employment.

The Commission will continue to monitor broader measures of labour underutilisation as they become available.

5.19 These remain valid conclusions, and ACCI would see no reason to depart from them in 2008. They support an increase in the terms proposed by ACCI in Section 1.

5.3 **NEW RESEARCH**

5.20 New papers not included in previous submissions include:

10.3.1.1. **Wooden, Wilkins and McGuiness Paper**

5.21 This paper uses data from the HILDA Survey to examine whether or not a minimum wage increase can do much to alleviate poverty or reduce earnings inequality. It concludes that:

a. That any poverty reducing effects will be modest.

b. Most low wage employees are not found living in the poorest households.

c. Many low wage employees combine part-time work with receipt of a government benefit.

d. Minimum wage increases are likely to be of limited effectiveness in protecting the living standards of the “working poor”. This is because the large increases in hourly wages experienced by most low-wage workers do not always translate into similarly large increases in annual earnings.

10.3.1.2. Leigh Paper


5.22 This paper examines the impact of raising of the minimum wage on family incomes.


5.24 Those who earn near-minimum wages are disproportionately female, unmarried and young, without post school qualifications and overseas born.

5.25 About one-third of near-minimum-wage workers are the sole worker in their household.

5.26 Due to low labour force participation rates in the poorest households, minimum-wage workers are most likely to be in middle income households.
5.27 Under plausible parameters for the effect of minimum wages on hourly wages and employment, it appears unlikely that raising the minimum wage will significantly lower family income inequality.

2.3.2 - Burkhauser & Sabia Paper


5.28 Extending the work of Card and Krueger, this paper finds that minimum-wage increases (1988 – 2003) did not affect poverty rates overall, or among the working poor or among single mothers.

5.29 Despite employment growth among single mothers, most gainers lived in non-poor families and most working poor already had wages above the proposed minimums.

5.30 Simulating a new federal minimum wage of $7.25 per hour, it found 87% of workers who benefit lived in nonpoor families. Poor single mothers receive 3.8% of all benefits.

5.31 It found in the US context that expanding the Earned Income Tax Credit would far more effectively reduce poverty, especially for single mothers.

2.3.3 - Conclusion

5.32 These papers further support the case for moderate minimum rises, particularly in light of considerations around productivity, bargaining, tax/welfare considerations and inflation discussed in other sections of this submission.

5.4 Conclusions

5.33 Based on the preceding, ACCI would support the AFPC maintaining its previous conclusions regarding the impact of minimum wage increases on the labour market.
5.34 More importantly, ACCI would call on the AFPC to distil its established conclusions on the impact of minimum wage increases on the labour market, into support for an overall conclusion in favour of minimum wage moderation in 2008, consistent with this submission.
6. WAGES, TAXES AND REAL INCOMES

6.1 INTRODUCTION

6.1 One the key advances in Australian minimum wage setting delivered by the AFPC has been the recognition that real incomes and purchasing power for employees working on minimum wages are not delivered by minimum wages alone, but also by the interaction between minimum wages, taxation settings, and the social security/transfer payments system.

6.2 The AFPC has shown an enhanced capacity to engage with the interaction of the wages, taxes and transfers systems, and to appreciate the holistic and multifactor determination of the purchasing power of the lower paid working on minimum wages.

6.3 This section builds on important conclusions in the 2007 decision in particular, and examines the combined benefits of tax cuts and potential wage increases. It shows that an increase in the terms proposed by ACCI, along with income tax reductions will deliver real wage stability for the low paid in 2008/09.

6.2 PREVIOUS CONCLUSIONS

6.4 The 2007 AFPC decision contained a number of conclusions on the determinants of incomes for the lower paid, and their relevance for minimum wage setting. The AFPC should maintain and not depart from these conclusions in 2008:

6.2.1 - Wages are only part of the system

6.5 Firstly, the AFPC has recognised that it controls only one of the levers affecting incomes levels for the low paid, and that there are limits on what it can achieve (and should seek to achieve):
While many factors affect the economic prosperity of all Australians – including the level of minimum wages – the Commission is responsible only for setting and adjusting minimum wages for employees within its jurisdiction.\(^1\)

6.6 ACCI welcomes this recognition. The AFPC should continue to proceed on the basis that it is not the sole determiner of incomes of the lower paid, and it cannot deliver, on its own, significant real income change (or take sole responsibility for real income maintenance).

6.2.2 - Tax Cuts Improve Incomes For the Low Paid

6.7 The 2007 decision contained the following:

The 2007-08 Australian Government Budget contains a number of measures that improve disposable incomes of low-paid Australians and incentives for people to take low-paid work. In combination with the December 2006 increase in the minimum wage, these tax cuts have improved the financial incentive to enter low-paid work.

The Commission considers that, overall, the tax changes announced in the 2007-08 Budget are targeted to low-income earners and will, in most cases, have beneficial effects on Effective Marginal Tax Rates (EMTRs). People working full-time at the level of the standard FMW will now face a marginal tax rate of 15 per cent rather than 30 per cent. The Commission will continue to monitor EMTRs.\(^2\)

6.8 The decision also indicates that:

The 2007-08 Australian Government Budget contains a number of measures that improve disposable incomes of low-paid Australians and increase incentives for people to take low-paid work. Lower-paid employees will pay less tax in 2007-08 as a result of:

- an increase in the income threshold from which the 30 per cent tax rate applies from $25 000 to $30 000;  
- an increase in the Low Income Tax Offset from $600 to $750;  
- an increase in the Dependent Spouse Tax Offset from $1655 to $2100; and  
- Consumer Price Index (CPI) linked increases in the Medicare low-income thresholds.

The effects of these changes on the tax liabilities of households with one employee earning either 100 or 150 per cent of the standard Federal Minimum Wage (FMW) are summarised in Table 1.1.

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6.9 This is again a highly welcome recognition, and is again supported by ACCI.

6.10 There will be substantial further tax cuts during 2008, which should lead to the same conclusion, and to an increase in minimum wages which will operate in the wider tax and social security context (and in turn, should be in the terms identified by ACCI in this submission).

6.2.3 - Minimum Wages Are Not Primarily An Anti-Poverty Device

6.11 The 2007 decision contained the following:

In the Commission’s view, statutory minimum wages are not, first and foremost, an anti-poverty device. This is in part demonstrated by the distribution of low-income earners across all household types, including high-income households.

6.12 This is again a welcome conclusion by the AFPC. Minimum wages have a role to play, but are not (and should never be viewed as) the sole or pre-eminent determinate of relative incomes for the low paid.

As the AFPC observes:

The Commission does, however, consider that statutory minimum wages, along with the tax/transfer system, have a significant role to play in providing a safety net for the low paid. This role is better understood in the context of s.23 of the WR Act as providing a statutory minimum to protect low paid workers whilst minimising the negative impact on demand for labour.

6.13 ACCI would agree with this. Minimum wages do have a role to play in incomes for the low paid, along with the tax/transfer system, and this is the role set out in s.23 of the Act. The statute does not allocate sole responsibility for real income levels to the minimum wage system.

6.2.4 - Incomes For Those In Work Must Be Balanced Against Jobs

6.14 The 2007 decision continues by stating:

In considering interactions with the tax/transfer system, the role of statutory minimum wages is also important in the context of ‘the capacity for the unemployed and low paid to obtain and remain in employment’. The relationship between the Government tax/transfer system and statutory minimum wages has the potential to affect labour supply.

6.15 Again, the AFPC is absolutely on the right track. Incentives and opportunities to work are affected by minimum wage setting, as they are by other policy settings, such as tax cuts.

6.2.5 - Safety Net Is Only One Consideration

6.16 Providing a safety net for the low paid (s.23(c)) is only one consideration in s.23 of the Workplace Relations Act 1996.

6.17 At all times the needs of the low paid, real wage levels, income maintenance, EMTRs, tax cuts etc are only part of the story. There is an equal and potentially countervailing requirement to consider jobs, competitiveness, and the impacts on those that pay the wages, on business costs on inflation and thereby on productivity and bargaining.

6.18 This is recognised in the previous determinations of the AFPC:

At the broadest level, the Commission understands its role as balancing a desire for minimum wages to promote employment opportunities for unemployed and low-paid Australians with the need for minimum wages to play their part in maintaining a safety net. The Commission therefore interprets economic prosperity broadly rather than narrowly. An economically prosperous Australia is one where those seeking work have ample opportunity to participate in employment and where a safety net mitigates hardship.4 …

6.19 And further that:

As indicated in Wage-Setting Decision 1/2006, the Commission accepts that setting minimum wages ‘too high’ will have a detrimental effect on employment growth and could even cause unemployment to rise. On the other hand, minimum wages form part of the safety net and help to sustain the living standards of the low paid. Minimum wages therefore influence the extent to which unemployed and low-paid Australians share the economic prosperity of the wider community.

While many factors affect the economic prosperity of all Australians – including the level of minimum wages – the Commission is responsible only for setting and adjusting minimum wages for employees within its jurisdiction.

The Commission understands that unemployed and low-paid Australians are among those most directly affected by its wage-setting decisions. The Commission continues to be aware of the potential for its decisions to do more harm than good, especially to some of Australia’s most vulnerable citizens.5

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6.20 Thus, no approach to incomes for the lower paid, even one which takes into account tax cuts and social security transfers, can mechanistically yield an answer, calculator like, on what the level of minimum wage increase should be in any year.

6.21 At all times the effect of any proposed decision on economic considerations (including specifically inflation and the labour market) needs to be taken into account, and considerations need to be balanced. ACCI believes that the approach we commend to the AFPC represents the best possible balancing of the considerations the must have regard to, and is consistent with the approaches of the AFPC to date.

6.3 2008-09 TAX CUTS AND REAL INCOMES

6.22 Tax cuts are a very useful tool in addressing and increasing after tax incomes, including real incomes.

6.23 The Federal government has announced that it intends to deliver further tax cuts in 2008-09. These tax cuts will markedly improve the incomes of several classes of tax payers, including those on minimum wages, and will meet changes in prices for these minimum wage reliant employees.

6.24 The combination of a minimum wage rise in the terms ACCI commends to you ($10 to $11, consistent with 2007), plus tax cuts, will ensure that the lower paid working on minimum wages will see their real incomes maintained or marginally increased.

6.25 The AFPC has an opportunity in 2008 to:

a. Deliver a minimum wage rise.

b. Deliver maintenance or a slight increase in real incomes.

c. Do so consistent with its prescribed range of considerations under the Workplace Relations Act 1996.
6.26 The tax cuts and ACCI’s proposed pay increase are combined in the table below, as assessed against changes in prices to indicate a net level of real increase.

Real After Tax Impact of $10.25 Weekly Wage Rise - Various Pay Points

<table>
<thead>
<tr>
<th>Current Rate</th>
<th>Wage Increase $</th>
<th>Tax Cut $\textsuperscript{6}</th>
<th>Combined Increase $</th>
<th>Net Real Increase $</th>
<th>Net Real Increase %</th>
</tr>
</thead>
<tbody>
<tr>
<td>$522.12 (min wage)</td>
<td>$10.25</td>
<td>$9</td>
<td>$19.25</td>
<td>$3</td>
<td>0.6%</td>
</tr>
<tr>
<td>$616 (Trades Rate\textsuperscript{7})</td>
<td>$10.25</td>
<td>$15</td>
<td>$25.25</td>
<td>$6</td>
<td>1.2%</td>
</tr>
<tr>
<td>$700 (Low Pay Cut Off)</td>
<td>$10.25</td>
<td>$20</td>
<td>$30.25</td>
<td>$9</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

6.27 The combination of the tax cuts and a $10-$11 per week increase in minimum wages up to $700 per week (and tiered from that point) will deliver real wage increases in 2008. These are in the magnitude of:

a. $3 extra per week (0.6%) on the minimum wage.

b. $6 extra per week (1.2%) on the tradespersons rate.

c. $9 extra per week (1.5%) at the AFPC’s threshold for low pay ($700 per week).

6.28 These would be real wage rises, and additions to purchasing power for the low paid.

6.3.1 - The 2008 Tax Cuts

6.29 A single person on the Federal minimum wage will receive a $9.00 per week income rise once the new tax cuts are implemented on 1 July 2008\textsuperscript{8}.

\textsuperscript{6} Assuming CPI growth rate of 3.0 percent, no HECS, single person, no dependants, indexed Medicare Levy thresholds and unchanged rates, no private health insurance.

\textsuperscript{7} C10 Rate from the Metals, Engineering and Associated Industries Award
6.30 Through the pay range of $522.00 to the AFPC tier point of $700 the benefit of the tax cuts will be between $9.00 to $20.00 dollars per week.

6.31 The tax cuts will be substantial for lower income brackets as the Low Income Tax Offset (LITO) will be raised significantly in the 2008-09 financial year. The LITO will increase from $750 to $1200.

a. The LITO works by offsetting taxable income acting as a defacto tax-free threshold for low income earners.

b. The LITO has full effect until a wage earner earns up to $25,000 per annum and phases out at the rate of 4 percent above this threshold.

6.32 The tax changes scheduled for 2008/09 to 2010-11 are as follows:

<table>
<thead>
<tr>
<th>Rate (%)</th>
<th>Threshold ($)</th>
<th>Rate (%)</th>
<th>Threshold ($)</th>
<th>Rate (%)</th>
<th>Threshold ($)</th>
<th>Rate (%)</th>
<th>Threshold ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007/08</td>
<td>0</td>
<td>6,000</td>
<td>15</td>
<td>30,000</td>
<td>30</td>
<td>75,000</td>
<td>40</td>
</tr>
<tr>
<td>2008/09</td>
<td>0</td>
<td>6,000</td>
<td>15</td>
<td>34,000</td>
<td>30</td>
<td>80,000</td>
<td>40</td>
</tr>
<tr>
<td>2009/10</td>
<td>0</td>
<td>6,000</td>
<td>15</td>
<td>35,000</td>
<td>30</td>
<td>80,000</td>
<td>38</td>
</tr>
<tr>
<td>2010/11</td>
<td>0</td>
<td>6,000</td>
<td>15</td>
<td>37,000</td>
<td>30</td>
<td>80,000</td>
<td>37</td>
</tr>
</tbody>
</table>

6.33 A Federal minimum wage earner on $522 per week during the 2007-08 financial year receives a gross annual income of $27,144 and an

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8 ACCI tax modelling for single full-time wage earner, with no HECS, excluding superannuation, Private Health Insurance, no dependants, assuming Medicare Levy thresholds are adjusted for inflation and Medicare Levy rates remain unchanged.
approximate after tax income of $24,234. Take home pay is therefore $466 per week and gives an average tax rate of 10.7 percent.

6.34 This same income in the 2008-09 financial year will yield an after tax income of $24,679 per annum or $475 per week. The LITO will rise from $664 per annum to $1,114 per annum.

6.35 Take home pay / overall income will therefore rise by $9.00 per week, as a function of the tax cuts alone.

6.36 This should be viewed as an income input/benefit. Additional income from tax cuts should be considered along with minimum wages in assessing overall incomes for the lower paid.

6.37 This is a particularly useful consideration where there are already inflationary pressures in the economy, and a real prospect that some not all of the cost impact of higher wages would be funded by small and medium sized businesses raising prices. It should be noted that a tight labour market makes it more likely that un-absorbable costs feed into prices rather than labour.

6.38 This should moderate minimum wage raises since income available to meet changing costs and prices is a function of not only the level of minimum wages but also the tax regime.

6.39 After tax wages illustrate the tax cuts component of the overall income equation for the lower paid:

<table>
<thead>
<tr>
<th>Year</th>
<th>Weekly Wage ($)</th>
<th>Annual Income ($)</th>
<th>Income Tax ($)</th>
<th>Average Tax Rate (%)</th>
<th>Weekly Wage ($)</th>
<th>Tax Savings per week</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>522</td>
<td>27,144</td>
<td>24,229</td>
<td>10.7</td>
<td>466</td>
<td>-</td>
</tr>
<tr>
<td>2008/09</td>
<td>522</td>
<td>27,144</td>
<td>24,679</td>
<td>9.1</td>
<td>475</td>
<td>9</td>
</tr>
<tr>
<td>2009/10</td>
<td>522</td>
<td>27,144</td>
<td>24,829</td>
<td>8.5</td>
<td>477</td>
<td>3</td>
</tr>
<tr>
<td>2010/11</td>
<td>522</td>
<td>27,144</td>
<td>24,979</td>
<td>8.0</td>
<td>480</td>
<td>3</td>
</tr>
</tbody>
</table>

*Single person, no HECS, full time, not including Superannuation, assuming medicare levy thresholds adjusted for inflation
6.40 Minimum wage earners at $600 per week will also receive sizable after tax increases, earning an extra $12.00 per week.

<table>
<thead>
<tr>
<th></th>
<th>Weekly Wage ($)</th>
<th>Annual Income ($)</th>
<th>Income Tax ($)</th>
<th>Average Tax Rate (%)</th>
<th>Weekly Wage Savings per week</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>600</td>
<td>31,200</td>
<td>27,274</td>
<td>12.6</td>
<td>525</td>
</tr>
<tr>
<td>2008/09</td>
<td>600</td>
<td>31,200</td>
<td>27,904</td>
<td>10.6</td>
<td>537</td>
</tr>
<tr>
<td>2009/10</td>
<td>600</td>
<td>31,200</td>
<td>28,054</td>
<td>10.1</td>
<td>540</td>
</tr>
<tr>
<td>2010/11</td>
<td>600</td>
<td>31,200</td>
<td>28,204</td>
<td>9.6</td>
<td>542</td>
</tr>
</tbody>
</table>

*Single person, no HECS, full time, not including Superannuation, assuming medicare levy thresholds adjusted for inflation

6.41 Those on the $700 tier point will also continue to benefit from the tax cuts. These earners will gain an extra $20.00 per week after tax in the 2008-09 financial year.

<table>
<thead>
<tr>
<th></th>
<th>Weekly Wage ($)</th>
<th>Annual Income ($)</th>
<th>Income Tax ($)</th>
<th>Average Tax Rate (%)</th>
<th>Weekly Wage Savings per week</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>700</td>
<td>36,400</td>
<td>30,628</td>
<td>15.9</td>
<td>589</td>
</tr>
<tr>
<td>2008/09</td>
<td>700</td>
<td>36,400</td>
<td>31,678</td>
<td>13.0</td>
<td>609</td>
</tr>
<tr>
<td>2009/10</td>
<td>700</td>
<td>36,400</td>
<td>31,978</td>
<td>12.1</td>
<td>615</td>
</tr>
<tr>
<td>2010/11</td>
<td>700</td>
<td>36,400</td>
<td>32,338</td>
<td>11.2</td>
<td>622</td>
</tr>
</tbody>
</table>

*Single person, no HECS, full time, not including Superannuation, assuming medicare levy thresholds adjusted for inflation

6.3.2 - Real Incomes

6.42 As the table at the start of this sub-section shows that the tax cuts scheduled for 2008-09 go most of the way towards maintaining real wages leaving less work to be done by adjusting nominal wages (i.e. reducing the ‘need’ for minimum wage increases).

6.3.2.1. Effect of Tax Cuts Alone – Prior to Any Minimum Wage Increase

6.43 ACCI has estimated the real after tax effect of changes from taxation and inflation (i.e. prior to any minimum wage response).
At the minimum wage level tax cuts and inflation (in the absence of a wage increase) mean that the minimum wage is slightly eroded in real after tax terms. At the $700 tier point the tax cuts compensate completely for inflation based on an annual rate of 3.0 percent.

ACCI modelling suggests that the after tax real impact on wages ranges from $-7.00 to $0.00 based again on a single person, without dependants, no HECS, no private health insurance, and indexed Medicare Levy thresholds.

### After Tax Wages*

<table>
<thead>
<tr>
<th>Year</th>
<th>Weekly Wage</th>
<th>Real Annual Income</th>
<th>After Tax Income</th>
<th>Inflation</th>
<th>Real Weekly Wage</th>
<th>After Tax Benefit per Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>522</td>
<td>27,144</td>
<td>24,229</td>
<td>3.0</td>
<td>466</td>
<td>-</td>
</tr>
<tr>
<td>2008/09</td>
<td>522</td>
<td>26,353</td>
<td>23,889</td>
<td>-</td>
<td>459</td>
<td>-7</td>
</tr>
</tbody>
</table>

*Single person, no HECS, full time, not including Superannuation, assuming medicare levy thresholds adjusted for inflation

### After Tax Wages*

<table>
<thead>
<tr>
<th>Year</th>
<th>Weekly Wage</th>
<th>Real Annual Income</th>
<th>After Tax Income</th>
<th>Inflation</th>
<th>Real Weekly Wage</th>
<th>After Tax Benefit per Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>600</td>
<td>31,200</td>
<td>27,274</td>
<td>3.0</td>
<td>525</td>
<td>-</td>
</tr>
<tr>
<td>2008/09</td>
<td>600</td>
<td>30,291</td>
<td>26,995</td>
<td>-</td>
<td>519</td>
<td>-5</td>
</tr>
</tbody>
</table>

*Single person, no HECS, full time, not including Superannuation, assuming medicare levy thresholds adjusted for inflation

### After Tax Wages*

<table>
<thead>
<tr>
<th>Year</th>
<th>Weekly Wage</th>
<th>Real Annual Income</th>
<th>After Tax Income</th>
<th>Inflation</th>
<th>Real Weekly Wage</th>
<th>After Tax Benefit per Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>700</td>
<td>36,400</td>
<td>30,628</td>
<td>3.0</td>
<td>589</td>
<td>-</td>
</tr>
<tr>
<td>2008/09</td>
<td>700</td>
<td>35,340</td>
<td>30,618</td>
<td>-</td>
<td>589</td>
<td>0</td>
</tr>
</tbody>
</table>

*Single person, no HECS, full time, not including Superannuation, assuming medicare levy thresholds adjusted for inflation
6.46 The conclusion to draw from this analysis of real after tax income is that nominal minimum wage rise does not need to be large in order to deliver a real wage increase. The ‘work’ to be done by any minimum wage rise is reduced.

6.3.2.2. Adding In An Appropriate Minimum Wage Rise

6.47 A $10.25 per week increase in wages combined with the announced tax changes for 2008/09 will result in a real pay rise for the those on minimum wages.

6.48 The proposed $10.25 figure will maintain real wages and also deliver a real wage increase but one that will not be inflationary.

**Real After Tax Wages - $10.25 Increase***

<table>
<thead>
<tr>
<th></th>
<th>Weekly Wage ($)</th>
<th>Annual Income ($)</th>
<th>Real After Tax Income ($)</th>
<th>Inflation Rate (%)</th>
<th>Real Weekly Wage ($)</th>
<th>Real After Tax Increase per Week ($)</th>
<th>Real After Tax Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>522.12</td>
<td>27,150</td>
<td>24,234</td>
<td>3.0</td>
<td>466</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2008/09</td>
<td>532.37</td>
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<td>24,377</td>
<td>-</td>
<td>469</td>
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<td>0.6</td>
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</tbody>
</table>

*Single person, no HECS, full time, not including Superannuation, assuming medicare levy thresholds adjusted for inflation

**Real After Tax Wages - $10.25 Increase***

<table>
<thead>
<tr>
<th></th>
<th>Weekly Wage ($)</th>
<th>Annual Income ($)</th>
<th>Real After Tax Income ($)</th>
<th>Inflation Rate (%)</th>
<th>Real Weekly Wage ($)</th>
<th>Real After Tax Increase per Week ($)</th>
<th>Real After Tax Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>529</td>
<td>27,508</td>
<td>24,519</td>
<td>3.0</td>
<td>472</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2008/09</td>
<td>539.25</td>
<td>28,041</td>
<td>24,653</td>
<td>-</td>
<td>474</td>
<td>3</td>
<td>0.5</td>
</tr>
</tbody>
</table>

*Single person, no HECS, full time, not including Superannuation, assuming medicare levy thresholds adjusted for inflation
### Real After Tax Wages - $10.25 Increase*

<table>
<thead>
<tr>
<th></th>
<th>Weekly Wage ($)</th>
<th>Annual Income ($)</th>
<th>Real After Tax Income ($)</th>
<th>Inflation Rate (%)</th>
<th>Real Weekly Wage Increase per Week ($)</th>
<th>Real After Tax Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>616</td>
<td>32,032</td>
<td>27,811</td>
<td>3.0</td>
<td>535</td>
<td>-</td>
</tr>
<tr>
<td>2008/09</td>
<td>626.25</td>
<td>32,565</td>
<td>28,145</td>
<td>-</td>
<td>541</td>
<td>6</td>
</tr>
</tbody>
</table>

*Single person, no HECS, full time, not including Superannuation, assuming medicare levy thresholds adjusted for inflation

### Real After Tax Wages - $10.25 Increase*

<table>
<thead>
<tr>
<th></th>
<th>Weekly Wage ($)</th>
<th>Annual Income ($)</th>
<th>Real After Tax Income ($)</th>
<th>Inflation Rate (%)</th>
<th>Real Weekly Wage Increase per Week ($)</th>
<th>Real After Tax Increase (%)</th>
</tr>
</thead>
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<tr>
<td>2007/08</td>
<td>700</td>
<td>36,400</td>
<td>30,628</td>
<td>3.0</td>
<td>589</td>
<td>-</td>
</tr>
<tr>
<td>2008/09</td>
<td>710.25</td>
<td>36,933</td>
<td>31,089</td>
<td>-</td>
<td>598</td>
<td>9</td>
</tr>
</tbody>
</table>

*Single person, no HECS, full time, not including Superannuation, assuming medicare levy thresholds adjusted for inflation

### 6.3.3 - Benefits of Tax Cuts

6.49 The after tax wage increases are unlikely to be inflationary in the same way as a mandated minimum wage increase might be. A mandated minimum wage increase is not linked to productivity or enterprise performance.

In contrast, an increase through the tax system yields an increase that does not come as an additional businesses expense, particularly where they are already under pressure from interest rates and input price increases.

6.50 Taxes have significant efficiency costs, so tax reductions will also increase the efficiency and productivity of the Australian economy. As noted elsewhere in this submission, improving productivity should be a key goal of the 2008-09 Budget, and is an ongoing (and mandatory) consideration for the AFPC.
6.51 For example, Campbell & Bond (1997)\(^9\) find that the efficiency costs of taxation are at least 19-24%. This means that a reduction in tax by $1 has an economic return of 19-24%, which is a very high rate of return.

6.52 Other studies show that the efficiency costs are even larger when tax evasion and avoidance are taken into account.

6.53 The Government’s commitment to significant reductions in personal taxes over the next few years, as tax cuts, will:

a. Improve the efficiency of the economy and provide a very large economic return.

b. Increase economic growth.

c. Encourage investment in education and training.

d. Reduce the adverse effects of other inefficiencies in the economy (eg monopolies).

e. Encourage innovation, risk taking and entrepreneurship.

f. Reduce inflationary pressures by encouraging labour force participation and investment while reducing business costs.

6.54 While taxes can reduce the static efficiency of the economy, taxes can also have a long run adverse effect on growth. ACCI strongly supports the new Government’s focus on improving education and training. ACCI considers that continuing tax reform plays an important role in encouraging investment in education and training (or human capital). Some studies supporting this include:

a. Milesi-Ferretti & Roubini (1998)\(^{10}\) find that personal income taxes reduce growth because they reduce investment in human capital.

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b. Lucas (1990)\textsuperscript{11} shows that income taxation lowers the return to human capital and reduces the incentive to accumulate human capital.

c. King and Rebelo (1990)\textsuperscript{12} and Rebelo (1991) find that an increase in the income tax rate decreases human capital accumulation and economic growth.

6.55 ACCI believes that tax cuts are necessary for the long term performance of the Australian economy and obviate the need for large nominal wage increases.

6.56 The importance of tax cuts, and the relevance we say they have to the AFPC’s determination in this review is reinforced by various recent comments from the government:

6.3.3.1. Tax cuts will be geared to the lower paid

6.57 Treasurer Swan has indicted that the scheduled tax cuts will be geared to benefiting the lower paid:

"Those income tax cuts are going to be delivered and for the first time they are going to substantially benefit in a proportionate way lower- and middle-income earners because, as the OECD report out today shows, the income tax cuts of the previous government predominantly went to higher-income earners.

"These tax cuts will go to lower- and middle-income earners. They will encourage those people to participate in the workforce and increase their skills. There is a good economic case as well as a social case."

6.3.3.2. Tax cuts - best approach to interest rates and cost of living rises

6.58 Treasurer Swan has also indicated that:

The introduction of promised tax cuts for low and middle income earners is the best relief the government can provide for the pain of increasing interest rates, Federal Treasurer Wayne Swan says.\textsuperscript{13}


6.59 The Treasurer also identifies the importance of tax cuts in providing incentives to work, and addressing the costs of living:

"Tax cuts are an important part of our plan to combat inflation.

"We've got labour shortages and skills shortages. The tax cuts play a very important part in encouraging people to participate in the labour market, to work some additional hours, find the incentive for people to upskill - they're a very important factor in enhancing the supply capacity of the economy.

"People out there, particularly on low and middle incomes in western Sydney or the northern suburbs of Brisbane, have not had significant tax cuts in a long time.

"We are going to give tax cuts because they play a very important role in enhancing labour force participation and also a very important role in recognising that people have cost-of-living pressures." 15

6.60 He has further emphasised the importance of tax cuts to addressing housing costs and costs of living, and in decreasing pressures on family budgets:

What we can best do is the measures we've outlined on housing ... deliver support for working families through tax cuts ... increasing the child care tax rebate which flows through from July 1 as well.

"All these things are designed to provide some help with the family budget in order to do something to assist families under pressure given two interest rate rises on the run in the last couple of months."16

6.3.3.3. Incentives for Labour Force Participation

6.61 The Prime Minister has recently indicated that:

On workforce participation we know from the survey work that's already been done that the introduction of the tax cuts is projected to increase the number of people in the labour force by a considerable number, up to 65,000. Inflation is an aggregation of all these factors, that's why we've got a program of action ahead in each of them.17

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6.62 The AFPC has had regard to incentives to work in its decisions to date. On this occasion it can do so in the knowledge of wider positive incentives to work arising from the tax cuts. Again, full responsibility does not lie with the minimum wages system, in this case in having regard to s.23(a).
7. OTHER MATTERS

7.1 ECONOMIC AND SOCIAL INDICATORS REPORT

7.1 On 25 February 2008 the AFPC released Issue 1 of its Economic and Social Indicators – Monitoring Report for July to December 2007\(^1\).

7.2 In releasing the report, the AFPC indicated that:

The Commission welcomes comment on the issues monitored in this report, as input into the 2008 Minimum Wage Review.\(^2\)

7.3 ACCI has a number of responses to make to this report and in particular its relevance to the 2008 AFPC decision.

7.1.1 - Better monitoring is a sound concept

7.4 Generally, it is a sound concept for minimum wage decision makers to attempt to gauge the impact of their wage upratings. More rigour, measurement and monitoring in this area will generally be useful.

7.5 Such research provides a framework for consideration of feedback from key users of the system, in particular from representative organisations of employers and employees who work with minimum wages and minimum wages employment on a regular basis.

7.6 Whilst employers and unions may not deal in metrics or measurements in providing feedback on minimum wages, they are at the front line of hearing about the impact of minimum wage increases, and knowing (in our case) how employers accommodate and process labour cost increases (for example that some employers cut available shifts, cut opening hours, or substitute proprietor labour for employment).


7.1.2 - Past Outcomes Must Be Qualified

7.7 It is stated that the purpose of the Monitoring Report is to inform future minimum wage decisions. With important qualifications, this must be so.

7.8 However, it cannot be assumed that impact of a 2008 decision will be exactly that of 2007, particularly given the current level of economic flux.

7.9 One of the key arguments in this submission is that the economy and labour market are changing, and changing rapidly. There is also a level of flux in consumer and business confidence unseen for some years.

7.10 Even if the Monitoring Report provided a snapshot of the impact of the previous 2007 increase, this will not accurately tell the AFPC what the impact of a 2008 increase will be in a changed (and changing) labour market and economy.

7.11 The relevance of such monitoring will be indicative, and its indicative value will change from year to year. 2008 appears significantly changed from 2007 in many regards, and this would appear to be a year in which monitoring of the previous decision would be comparatively less relevant, and provide less of an indicative basis for the 2008 decision.

7.12 There is an emphasis in the report on macro level indicators, and the performance of the entire economy (and indeed at the whole of industry level).

7.13 Caution is needed here. Our mature enterprise bargaining based system, focusing on the macro level outcomes means that determination of actual impacts can be risky.
a. In a system where less than 20% of the private sector work on minimum wage rates, of course the impact of wage increases will be obscured and less observable than it once may have been.

b. We are not in a period in which the effect of indexed minimum wage increases was transparent and near immediate.

c. Just because an impact may be washed out overall does not mean there is not an impact, or that it does not have a localised effect. The challenge, partly met by the monitoring report, is to understand the differential impact of minimum wage rises upon particular industries and workplaces, in a more complex and diffused system.

7.14 ACCI took strong issue with the ACTU’s infamous “table of zeros” in the previous national wage case process, which the ACTU used to argue that because wage impacts were not observable in macro level indicators, they didn’t exist. This served to obscure the true negative impacts of high minimum wage increases on key economic and labour market considerations.

7.1.3 - No harm means maintaining levels, not increasing them

7.15 If the main findings of the monitoring report were reduced to a single sentence, it would be “the 2007 AFPC increase did no harm to the Australian economy and labour market, nor to economic prosperity of the people of Australia, having regard to the AFPC’s wage setting parameters set out in the Workplace Relations Act 1996”.

7.16 If this is correct, what is to be made of this for the 2008 decision and increase? How should it guide the AFPC on this occasion?

7.17 (Putting to one side changes in the economy and labour market in recent months) ACCI submits that a finding that the 2007 increase did little or not harm favours broadly maintaining the 2007
approach and ongoing moderation in the level of minimum wage increase.

7.18 It does not favour a conclusion that if awarding $X in 2007 did no harm, then the AFPC can confidently award $(X+Y) this time and then ‘see how it goes’. The AFPC should reject any such calls to “stretch” wage increases to the point where there is an observable impact and harm becomes observable in the indicators monitored.

7.1.4 - Award reliant industries showing softness

7.19 The report indicates that:

Overall, wages in those industries with greater sensitivity to minimum wages have grown more slowly than in other segments of the economy in the past year.

Employment patterns have been diverse, with strong growth in the Retail trade sector, at 6.4 per cent, and the level of employment in the Accommodation, cafes and restaurants sector unchanged.³

7.20 Such findings should further persuade the AFPC towards a genuinely cautious approach in 2008. Clearly some of the award reliant industries are showing the first signs of softness in employment, even in the period in which this research was undertaken. This means that minimum wages in such industries should be adjusted at prudent rather than expansionary levels – as we propose in Section 1.

7.21 With the threat of an economic downturn, and rapid changes in confidence, the impact on industries such as retail and hospitality could be fast emerging and extensive. It is well understood that consumer confidence can rapidly impact on retail trade and (for example) tourism demand and the hospitality sector and discretionary spending.

7.1.5 - New Jobs Most Vulnerable

7.22 It is welcome that strong jobs growth was maintained across a period in which minimum wages increased, and that this included jobs growth for potentially vulnerable cohorts.

7.23 ACCI would caution however that some newly created jobs can be those most rapidly lost in any downturn or change in demand.

7.24 The challenge for the AFPC in setting minimum wages in 2008 is to not displace the recent labour market entrants / recently employed, and to support job retention. This will be met by a genuinely moderate increase in 2008. There are also some signs that the labour market is coming off (for example moderating jobs ads).

7.1.6 - Tax and other policy will influence income and opportunity

7.25 A strong theme running through the monitoring report is the extent to which tax rates (and tax cuts) influence the incomes and disposable incomes for particular households.

7.26 This is very welcome and (along with the extent of tax recognition in the 2007 decision) represents an improvement in minimum wage setting.

7.27 Further tax cuts are pending in 2008, which are again germane to the level of increase to be awarded. A key argument of ACCI is that consideration of taxes, social security and wages is required.

7.1.7 - Macroeconomic Developments (Section 1)

7.28 Pages 6-14 of the report outline various “macroeconomic developments”. These issues are addressed in detail in the preceding sections, however some additional comments on the Monitoring Report are warranted.

7.1.7.1 - Vacancies (p.9)

7.29 Page 9 of the report addresses vacancy levels indicating that “demand for skilled and unskilled labour remains high”. ACCI
notes that there will be an update on the November 2007 data, for February 2008 released on 27 March 2008 (after submissions close).

7.30 ACCI will examine this updated data for any supplementary, post budget submission.

7.1.7.2 - Job Forecasts (p.9)

7.31 The report indicates that:

   Overall, the labour market is expected to remain strong in the months ahead, notwithstanding forecasts of some easing of employment growth and a modest rise in the unemployment rate.⁴

7.32 ACCI would refer the attention of the AFPC to the preceding chapter on employment which examines this issue in detail. We note that some more cautious and negative forecasts are emerging.

7.1.7.3 - Wages and Prices (pp.10-11)

7.33 Wages are an important economic indicator and are a macro economic consideration the AFPC should have regard to in considering capacities for employment (s.23(a)), competitiveness (s.23(b)) and the safety net (s.23(c)).

7.34 This includes consideration of the extent to which the AFPC’s decisions will add to aggregate wages growth, and what this will mean for the economy generally.

7.35 However as ACCI has previously argued in detail (and the AFPC has accepted), the AFPC does not have a redistributive or comparative remit. Levels of aggregate wages growth across the economy (and wage outcomes under agreements) are not relevant to determining the level of a minimum wage increase as a safety net, and caution should be employed in working on the basis of such data in minimum wage setting.

Further on the issue of inflation – there have been very rapid movements in prices and in forecasts in more recent times which reduce the currency of the monitoring report on these matters (see instead Part B of this submission).

7.1.7.4 - Domestic Economic Forecasts (p.13-14)

ACCI has repeatedly stressed throughout this submission that economic circumstances are changing, and that forecasts are being revised. ACCI urges the AFPC to have regard to the forecast materials identified in this submission and the conclusions we say can be drawn from them, rather than the now outdated and only summary snapshot in the Monitoring Report.

7.1.8 - Employment of low paid workers (Section 2)

Pages 14-22 of the report address “employment of low paid workers”. ACCI wishes to make a few points in relation to this material.

The AFPC Monitoring Report indicates that:

In part, the ability of low-skilled people to gain employment, compared with that of higher-skilled people is influenced by the business cycle. As the labour market continues to tighten, low-skilled people, whether unemployed or not in the labour force, are more likely to be drawn into employment. This trend is also reflected in the steady decline in long-term unemployment (Chart 4).

However:

a. The capacity of any employer to draw additional persons into employment is a function of the price of labour (amongst other factors). It is not a given that additional opportunities for work will be created in a tight labour market if the price of work becomes prohibitive due to excessive minimum wage increases.

b. The business cycle is not universally consistent in its effect. The Australian economy runs at various speeds for various industries - and some of the key industries which can create jobs for the less skilled and experienced are highly minimum wage reliant and highly exposed to changes in demand and confidence.

7.41 ACCI would in particular draw the AFPC’s attention to the following from the Monitoring Report:

Given that the wage bill of low-paying sectors tends to be relatively high, on account of the share of labour costs in total costs, an increase in real labour costs may lead to lower employment growth in the more sensitive occupations compared to all others.6

a. This is entirely the correct focus. It identifies the sensitivity of particular occupations and the extent to which an increase in minimum wages has an impact. In turn, these occupations correlate with particular industries (others having become higher skill geared over time).

b. ACCI invites the AFPC to also consider the extent to which the sensitivity of such industries to labour cost changes is heightened in periods in which demand and confidence may be fragile (and indeed as our economy and labour market is changing markedly in 2008).

7.1.8.1 - A lack of data compels caution

7.42 The Monitoring Report indicates that:

There was a boost to wage growth for low-skilled industries and occupations in the March quarter 2007, the first quarter in which the Commission’s Wage-Setting Decision 1/2006 took effect. Data for the period in which the Commission’s Wage-Setting Decision 3/2007 came into effect are not expected until early 2008.

7.43 So:

a. Increases to pay scales have a direct and observable impact on the industries where growth, demand and employment is fragile (the minimum wage reliant industries).

b. There is no information at this stage on the impact of the last (2007) increase.

7.44 Such an information deficit clearly supports erring on the side of moderation. It cannot support an increase higher, or more broadly applied than that of 2007.

7.1.8.2 - Growth data should be updated

7.45 The Monitoring Report indicates that:

Output in the more sensitive industries appears to have been growing at slightly lower rates than output in other industries since 2003, after controlling for economy-wide shocks common to all industries (Chart 16). However, the relative growth rate of the sensitive industries appears to have improved in late 2007.7

7.46 This should be updated, and reassessed in light of changing circumstances for the economy as a whole / for these industries. The sensitive industries should be closely considered, with a particular consideration of reliable domestic and international forecast materials.

7.1.8.3 - Productivity

7.47 It would be helpful if future Monitoring Reports included productivity considerations, particularly at the industry level. As outlined through this submission, productivity is a directly relevant consideration for the minimum wage setting the AFPC is directed to undertake.

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7.1.9 - Safety net and work incentives (Section 3)

7.48 Pages 23-32 of the report address “the safety net and work incentives”.

7.1.9.1 - It isn’t just about wages

7.49 ACCI welcomes the recognition that wages alone do not comprise the income safety net. Incomes also come from income transfers, the social security system, tax transfers, and (relevantly for 2008) changes in levels of taxation on personal earnings.

7.50 It is also a welcome that the report recognises that households rely on a variety of income sources for their incomes, not restricted to wages.

7.1.9.2 - Real Wages

7.51 Real wage considerations are addressed in Part B of this submission.

7.1.9.3 - Comparisons to Average and Median Wages

7.52 This is addressed at p.24 of the Monitoring Report. As stressed throughout this and preceding submissions, ACCI can see no basis for the AFPC to proceed on the basis that it has a redistributive or comparativist role.

7.53 There is nothing in s.23 of the Workplace Relations Act 1996 which would support assessing minimum wage outcomes against average or median wage outcomes.

7.54 The average and median wage measures are based on the entire employed population, and on movements in employment markets unrelated to minimum wages (managers, professionals, CEOs etc). They are potentially distorted by skills shortages and demand factors for high skill / high remuneration employment.
7.55 They are also a factor of bargaining and of productivity based reward. They contain the productivity reward quotient for employees taking part in collective and individual bargaining, which enterprises can generate without inflationary or additional cost impact. Growth in average wages will almost by definition be higher than minimum wages growth.

7.56 An objective of wages policy should be that more employees move off minimum wages into higher paying, bargained or contractual arrangements. A high paying - high reward system would be characterised by a much higher level of average wage growth than minimum wage growth.

7.1.9.4 - Disposable incomes


7.58 ACCI very much welcomes that the analysis recognises that it is the combination of wages and other tax and social security settings which determine disposable incomes. It corrects the misapprehension that minimum wages are the sole determinant of meeting changing demands on incomes.

7.59 ACCI would add the following:

a. The AFPC has a range of considerations to balance under s.23 of the Workplace Relations Act 1996, not solely restricted to the maintenance of disposable incomes.

b. There is no mandatory obligation to maintain real incomes from one year to the next, or across any particular period.

c. In some economic circumstances maintaining real incomes will be outweighed by other s.23 considerations including the need for economic sustainability and job maintenance.
7.60 It is also relevant to note that Chart 20\(^8\) of the Monitoring Report outlines changes in real (inflation adjusted) disposable incomes. Having risen from an index level of 100 to 105-112, there would be scope in particular economic circumstances for a year of maintenance or a marginal decline in index levels. When viewed across the period of analysis, the wage index would still clearly have risen above the index level.

7.1.9.5 - **Relationship with overall distribution of household disposable income**

7.61 This information (pages 28 and 29 of the Monitoring Report) is unfortunately dated and thus too remote from the implementation of the 2007 increase to be relevant.

7.1.9.6 - **Work Incentives**

7.62 This is a largely new consideration in Australian minimum wage setting and one ACCI is watching with interest. It is welcome that the AFPC is creating mechanisms to begin to measure this, however whilst they remain developmental, their determinative relevance should be limited.

7.63 The analysis of replacement rates underscores the centrality of tax and social security settings, and the more limited role of wages in incentives to work. This underscores the need to be cautious in seeking to secure particular a policy outcome through the crude single lever of minimum wage increases.

7.64 This said, it would be unwelcome if the replacement rate were raised by an excessive wage outcome.

7.65 The “net financial gain” model\(^9\) illustrates the extent to which it is family structures not minimum wages themselves which determine factors such as work incentives. Minimum wage settings could not ever correct for such structural factors – nor should they attempt to.

7.66 Looking at Table 10 and the “Net proportion of earnings retained”\(^{10}\), model, it appears that on each measure, for each household type, outcomes have improved. On this basis:

a. There would be no basis to depart from moderate approaches. There have been gains to date in the incentive to work (and indeed in the proportion of earnings retained, which would seem to be a measure of more relevance than just work incentives) – and they should not be departed from.

b. Given the gains across the period analysed, if merited there could be some additional moderation in wage outcomes.

### 7.2 Targeted Focus Group Consultations

7.67 The AFPC website also contains the following piece of research by a number of authors and TNS Social Research:


7.68 ACCI has various comments on this material:

7.69 **We agree on diversity:** The overall finding of heterogeneity in the experiences, characteristics of the lower paid accords with the understanding of employers at workplace level. The detail of the research paper underscores the overall diversity of minimum wage

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employment, not only of experience but also of household structure, income etc.

7.70 It is therefore very difficult to see what can be taken from this research which would be germane to the AFPC’s considerations. The overall impression ACCI drew from the paper is that there were few if any common or representative conclusions which could legitimately be drawn from the focus groups.

7.71 In ACCI’s view this remains useful background information only, from which drawing any conclusions would be very difficult.

7.72 In particular, the focus group feedback is useful, but it is so wide ranging it inevitably strays into matters which are not relevant to determining whether to make a minimum wage increase and at what level. Many of the issues raised have little relevance to the determinations the AFPC must make in 2008.

7.73 There has been significant change: One of the key arguments in this submission is that the economy and labour market are changing, and are changing rapidly, along with changes in consumer and business confidence. Putting to one side ACCI’s general comments on what could legitimately be drawn from the focus group paper – a key consideration must be that it was undertaken in a materially different economic and labour market context.

a. From what ACCI can gather, the research was undertaken in December 2006. This was just 6 months into WorkChoices, preceding various recent interest rate increases, and preceding the growing threat of domestic and international economic downturn.

b. Importantly, it also precedes the most recent 2007 AFPC minimum wage increase.
Economic confidence has changed: The performance of the overall economy and labour market is likely to be the key determinant of the quality of life of individuals on minimum wages, not a given level of wage increase. The focus group may have really been hearing about the impact of the general economy rather than minimum wage settings.

7.75 **A minimum wage is only a minimum wage:** One of the key things the AFPC has recognised to date is the limitations of what a minimum wage is and what a minimum wage can ever achieve. It is quite legitimate for example to examine quality of life considerations for the lower paid in focus group discussions, however ACCI understands the AFPC has already recognised the limitations on its capacity to affect such a complex issue.

7.76 The AFPC cannot for example change the orientation of individuals towards working, perceived autonomy of decision making on one’s career, perceived work autonomy, or problems with Centrelink.

7.77 **Employees don’t pay minimum wages:** Page vii of the report indicates that focus group recipients “tended to take an altruistic approach when discussing minimum wages, focusing primarily on issues related to social responsibility. The cost of living was consistently raised as the most important issue to consider in setting minimum wages”\(^{12}\). This must be seen in context, the majority of the focus group participants were not people paying wages, managing a payroll or trying to run a business and provide employment to a number of people.

7.78 **Unemployed feedback especially useful:** ACCI found the views of the unemployed particularly interesting. There is an information gap in this area and there is no representative organisation of those who do not work for reward. Notwithstanding the inherent limitations on the relevance of the focus group material, this is a very useful input to the body of knowledge on the audience for minimum wages.

7.3 **NEEDS AND CHARACTERISTICS OF THE LOW PAID**

7.79 Sections 9 to 11 of ACCI’s 2007 submission addressed various needs/expenditures of the low paid, and characteristics of the low paid. This followed Part 10 of ACCI’s 2006 submission on the same issues.

7.80 ACCI does not intend to additionally address these matters on this occasion, beyond those in preceding sections of this submission. ACCI is not bringing forward any new material, but reserves the right to address any new material which is brought forward in supplementary submissions / discussions.

7.3.1 - Previous Conclusions

7.81 ACCI can see no basis for the AFPC to depart from various conclusions and observations in its previous decisions, including:

a. Low paid work occurs across the household income distribution.

b. Wages are not the sole source of income to the low paid, and combine with the taxation and social security transfer systems.

c. Tax cuts affect EMTRs and thereby available incomes.

d. Minimum wages cannot take into account the family circumstances of each employee and therefore cannot be targeted in the same way as income transfers\(^\text{13}\).

e. Whilst minimum wages can and do provide a safety net for the low paid, statutory minimum wages are not an anti poverty device.

f. The relationship between the government tax/transfer system and statutory minimum wages has the potential to affect labour supply.

### 7.4 Future AFPC Research

7.82 The issue of future AFPC research and monitoring is addressed in Section 7 of the 2007 decision.

7.83 ACCI is keen to continue to support meetings of the Stakeholder Research Advisory Group and Disability Round Table in 2008 and 2009 as the AFPC translates into the future FWA structure.

### 7.5 Discrimination

7.84 Section 6 of the AFPC’s 2007 decision\(^\text{14}\) addressed a range of issues under the broad heading of “Discrimination”.

7.85 ACCI accepts that the openness and accessibility of the AFPC process is inevitably going to attract calls for relief and changes of outcome which are not within the power of the AFPC (or perhaps any agency) to deliver. Indeed various “interests” raised non-relevant and beyond power matters with the AIRC under the national wage case process.

7.86 ACCI welcomes the following from the 2007 decision:

Some submissions address the circumstances of vulnerable workers and raise issues not covered by the ambit of this provision or the powers of the Commission including:

- the potential discriminatory effects related to Australian Workplace Agreements on certain vulnerable employees;

- issues more properly addressed by relevant federal or state anti-discrimination legislation; and

- the effects of the gender pay gap on incomes above statutory minimum wages.

7.87 These issues are not covered by the ambit of s.222 of the Workplace Relations Act 1996, nor the other powers of the AFPC. The AFPC should continue to treat such contributions politely, but as ultimately not at all germane to its determinations.

7.88 The AFPC should continue to proceed on the basis that “the Commission can only affect minimum wages underpinning actual earnings; that is, the Commission must apply the principle of equal remuneration to minimum wages only. The Commission cannot consider equal remuneration matters which are beyond the level of minimum wages”.\(^{15}\)