Business SA’s submissions | **AFPC 2008 Minimum Wage Review**

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## ATTACHMENTS

- Attachment A – 2007 SWC Decision
- Attachment B – 2008 MSR
- Attachment C – List of Pay Scale Summaries (NAPSA’s) still to be issued
- Attachment D – List of Pay Scale Summaries (Pre-Reform Awards) still to be issued
1 Introduction

Business SA is the State’s leading business organisation and represents thousands of businesses through direct membership and affiliated industry and association groups.

We deliver a wide range of integrated services to business, including:

- lobbying and representation on issues significant to industry
- workplace relations advice, advocacy and consulting services
- health, safety, environmental and injury management training and consultancy services
- wide-ranging training programs
- reference publications and handbooks
- international trade and business development services
- management of apprenticeships and traineeships
- administrative support services for industry and trade associations
- networking opportunities
- Workplace Relations seminars and workshops

Business SA is a registered association of employers under the South Australian Fair Work Act 1994 and recognised under that and other legislation as the State’s peak business and employer group.

Business SA has also been granted federal registration under the Transitional Provisions of the Workplace Relations Act 1996.

As the peak employer organisation in South Australia, Business SA is well placed in representing the interests of members across most industries in South Australia.

Business SA provides a comprehensive representative and advisory service on approximately 100 State awards and approximately 230 Federal awards including Notional Agreements Preserving State Awards (NAPSA). Our service not only extends to the supply of requested awards to industry but also includes continual updates of Pay Scale Summaries in federal instruments and consulting with the relevant industrial parties in award related matters.

Through membership of the Australian Chamber of Commerce and Industry (ACCI), Business SA is able, on behalf of the South Australian business community, to play an active role in national issues that impact on the local business community.

Business SA again welcomes the opportunity to make submissions on the 2008 Australian Fair Pay Commission (AFPC) Minimum Wage Review.
Business SA largely endorses the submissions of ACCI in relation to this matter, however, we have also attempted to provide information more specific to South Australia which may be of assistance to the Commission.

We appreciate the opportunity of meeting with members of the AFPC, of being involved in the consultative process and to assist the Commission in its 2008 Minimum Wage Review.

2 Background

2.1 Previous AFPC Decisions

Following its inaugural wage setting decision in October 2006 (operative from 1 December 2006) the AFPC handed down its second wage setting decision in July 2007.

2.2 The 2007 AFPC Decision – General Comments

2.2.1 On 5 July 2007, the AFPC handed down its second wage setting decision to be operative from the first pay period commencing on or after 1 October 2007.

2.2.2 Except for certain interim exemptions for farm businesses that were severely affected by the drought and in receipt of the Exceptional Circumstances Interest Rate Subsidy (ECIRS), the following increases were approved:

   > An increase of $10.25 per week ($0.27c per hour) in all Australian Pay and Classification Scales (APCS) up to and including $700.00 per week ($18.42 per hour),

   > An increase of $5.30 per week ($0.14c per hour) in all APCS’s above $700 per week ($18.42 per hour)

2.2.3 The federal minimum wage was increased to $522.12 per week ($13.74 per hour)

2.2.4 The increases were to flow-on on a pro-rata basis to junior employees, trainees, employees with a disability and employees on basic piece work rates of pay.
2.2.5 While the increases were moderate in nature, the combined increases of the 2006 and 2007 decisions amounted to a maximum of $37.62 within a ten (10) month period.

2.2.6 However, given that the increases in fact represented a period of approximately two years in general terms since the June 2005 AIRC decision, this averages out to between $18 to $19 per week, which remains a significant increase in minimum wages over this period. Employers also generally do not consider increases in average terms but instead focus on the given increase as awarded.

2.2.7 ACCI estimated that the cost impact of the 2007 decision equated to approximately $625 million per year in additional wages and on costs.

2.2.8 The AFPC indicated that the increase would result in a minimum wage that was 7.8% higher than the minimum wage in June 2005 which is broadly consistent with the growth of wages over that period.

2.2.9 The operative date of the 2007 AFPC decision took into account the concerns raised by most of the employer parties that it should apply from the first pay period commencing on or after the operative date rather than from the operative date itself.

2.2.10 The AFPC also indicated that in relation to future AFPC decisions that it would follow the pattern that it had set in the 2007 decision, namely, that future decisions would be made in July of the following year to be operative from 1 October of that year.

2.3 Decisions of the AIRC

The Australian Industrial Relations Commission (AIRC) subsequently handed down separate decisions flowing-on the major elements of the two AFPC decisions into a number of transitional awards. The AIRC adopted the same operative dates as determined by the AFPC.

2.4 2007 State Wage Case (SWC) Decision

2.4.1 The South Australian Industrial Relations Commission (SAIRC) approved an agreement reached between the major industrial parties to State Awards, including Business SA, to take a two stage approach in its 2007 SWC decision.
2.4.2 The first adjustment involved a ‘catch-up’ to bridge the gap between the increase awarded by the SAIRC in its 2006 General Award Wages decision and the increase awarded by the AFPC in its October 2006 decision.

2.4.3 Accordingly, the following adjustments were approved:

> $10.40 per week, for adult award wages up to and including $587 per week

> $9.40 per week, for adult award wages above $589 and less than $718 per week

> $4.00 per week, for adult award wages above $718 per week.

The increases were operative from the anniversary date of the 2006 General Review of Award Wages increase in an Award.

2.4.4 The second adjustment equivalent to the 2007 AFPC determination was made operative from the anniversary date of the 2006 General Review of Award Wages increase in an award or the date of the 2007 AFPC decision (1 October 2007) whichever is the latter.

2.4.5 As a consequence, State award adult wage rates are now predominantly consistent with their federal counterpart NAPSA’s.

2.4.6 It should be noted that the agreed position contained three tiers. The experience of Business SA working with South Australian employers is that business is quite capable of working with a tiered or differentiated increase. On this basis, with ACCI, we would support the maintenance of the established $700.00 tier point in the 2008 AFPC Review.

2.5 Minimum Standard of Remuneration – Pursuant to the Fair Work Act 1994 (MSR)

2.5.1 The SAIRC also adjusted the existing MSR by the same amount approved in State Awards (i.e. the combination of the catch-up plus the flow-on of the AFPC determination) to be operative from 1 January 2008.

The minimum weekly rate for an adult employee working 38 ordinary hours per week is $522.15.

2.5.2 The minimum amount payable under the Supported Employment Provisions of the MSR was also increased to $66.00 per week to be consistent with the previous AFPC determination.
2.6 Child Labour Application – Pursuant to the Fair Work Act 1994

2.6.1 As indicated in our submissions to the AFPC in relation to the 2007 Minimum Wages Review (Refer Para 2.4 of Business SA’s Submission 30 March 2007), SA Unions filed an application for the establishment of a SA Child Labour General Award under S98 (A) of the Fair Work Act 1994.

2.6.2 Business SA’s application opposing the establishment of an award of general application was not successful.

2.6.3 Given that the federal Workplace Relations Amendment (WorkChoices) Act 2005 (the Act) specifically excludes child labour law from the provisions of the Act, it is our understanding that the proposed General Award would therefore apply to all businesses in South Australia.

2.6.4 SA Unions have since determined not to progress the draft award at this stage following the election of the new federal government and pending the enactment of the Transitional Bill.

2.7 Jurisdictional Coverage

2.7.1 The Australian Bureau of Statistics (ABS) has recently released new data on the coverage of employees following the introduction of the Act.

2.7.2 The new ABS data indicates that in May 2006, 79.1% of employees (6.6 million) were covered by the federal system, 11.9% of employees were covered by one of the remaining State systems (1 million), while a further 9% of employees were unable to be determined (750,000) due to insufficient information.

2.7.3 The ABS data is consistent with previous submissions of Business SA in relation to jurisdictional coverage. A significant majority of our membership is now in the federal jurisdiction.

3 Impact of New Federal Government

3.1 Workplace Relations – Amendment Legislation

3.1.1 The incoming Labor Government intends to progressively amend legislation, introducing changes over a two (2) year period with the intention that its full changes to workplace relations laws will be operative from 1 January 2010.
3.1.2 On 13 February 2008, the first stage of amendment legislation entitled “The Workplace Relations Amendment (Transition to Forward with Fairness) Bill 2008” (the Transitional Bill) was introduced into Parliament.

3.1.3 It is the Government’s intention to introduce further legislation into Parliament later in the year to implement its substantive workplace relations reforms.

3.1.4 We also note the intention of the new Government in its major legislative reforms to abolish the existing minimum wage setting arrangements and to establish a new authority called Fair Work Australia (FWA) to set minimum wages. It is also our understanding that the objective is to restore wages to awards by 1 January 2010 and incorporate minimum wage setting into the work of the new FWA agency.

3.2 Role of AFPC

3.2.1 The existing legislative criteria relating to the wage setting powers of the AFPC and the criteria relating to its wage setting determinations are undisturbed in the Transitional Bill.

3.2.2 The Government has indicated that FWA will commence its role in January 2010 which in turn confirms that the AFPC will continue to have the wage setting responsibility for 2008 and 2009.

3.2.3 Rationalisation of Pay Scales by the AFPC has now ceased.

3.2.4 It is anticipated that these changes will be addressed in the final and substantive phase of the workplace relations legislative programme expected later this year.

4 Economic Outlook

4.1 SA economy in 2007

4.1.1 Performance of the South Australian economy has been solid throughout the year - in 2006-07. State Final Demand (SFD) reached $69.1 billion, a 2.4 percent increase from the previous year. On the other hand, the drought negatively affected South Australian Gross State Product (GSP) growth. Gross State Product was $65.7 billion in 2006-07.
4.1.2 In 2006–07 the highest growth recorded in GSP was by the mining boom jurisdictions of Western Australia (up 6.3 percent). The lowest growth was recorded by South Australia (up 0.8 percent). Most States and Territories also recorded positive real growth in GSP in per capita terms in 2006-07, with the exception being South Australia (down 0.3 percent).

4.1.3 Although the Construction and finance and Insurance industries made the largest contributions to the GSP growth in 2006-07, South Australia’s economy still depended heavily on the agricultural sector. Most of South Australia has been declared as afflicted with drought except for small pockets in the south east of the State and Kangaroo Island. This situation is continuously reviewed. Agriculture exports are consequently affected by drought and the strong Australian dollar. However, the strength of the Australian dollar may see some of this loss recovered through a higher price for agricultural exports in 2007-08.

4.1.4 In Adelaide, the Consumer Price Index (CPI) increased 2.7 percent in 2006-07 which compares to the national average of 3.0 percent increase in the same period. Automotive fuel was the main contributor to the CPI increase state and nation wide and remains a volatile commodity.

4.2 Effects of the drought

4.2.1 Crop prospects in South Australia were low throughout the winter cropping season. Growing season rainfall varied from well below average on the Eyre Peninsula to below average in most remaining areas. Conditions from August through to October were particularly bad, where lack of rainfall was combined with high temperatures and gale force winds, putting additional stress on crops. The Australian Bureau of Agricultural and Resource Economics (ABARE), estimates the 2006-07 South Australian wheat product to be 1.35 kilo tonnes, 60 percent lower than the five year average to 2005-06.

4.2.2 In South Australia, total grape crush for 2006/07 was down by 500,000 tonnes from the previous year. The drought also continues to affect the grain industry, with wheat exports down $22 million in the same period. Exports of road vehicles, parts and accessories were down 40 per cent in the State.

4.2.3 More than half of South Australia’s native freshwater fish are now listed as endangered, vulnerable or rare and the drought is worsening the problem. Similar to all sectors affected by the drought, the decline in fish numbers may cause a decrease in aquaculture businesses’ income and thus employment levels.
4.2.4 The drought does not only affect the agriculture and aquaculture sectors but also tourism along the Murray River. Tourism operators suffer from the drought’s effects on the river as the number of visitors declined drastically in the last year.

4.2.5 South Australians continue to struggle with the drought in the new year. The State missed out on water flowing into the Murray-Darling River system from heavy rain in the eastern states from late December 2007 to early January 2008. In 2008, South Australian wheat production is estimated at 2.3 million tonnes, a 70 per cent increase from 2006-07, but well below average.

4.2.6 We note that the AFPC granted some specific relief for some agricultural employers from its 2007 minimum wages increases. This was an important measure for those enterprises, and remains a relevant tool available to the AFPC to what is clearly an ongoing drought challenge.

4.2.7 However, the exposure of the South Australian economy to the effects of the drought go well beyond direct agricultural industries. The drought certainly does not stop at the farm gate. The impact of the drought on a State with lower levels of growth and of inflation, illustrate the overall case for moderation and caution in increasing minimum wages, as was demonstrated in the AFPC’s 2007 approach.

4.3 SA specific employment figures
(all employment figures in trend terms)

4.3.1 The State’s unemployment rate remains at historically low levels. In 2007, the annual average South Australian trend unemployment rate was 5.0 percent compared with the national rate of 4.5 percent. However, this rate is second highest in the nation behind Tasmania.

4.3.2 In December 2007, there were 775,300 people employed in South Australia, representing a 2.3 percent increase from the previous year.

4.3.3 South Australia’s youth (15 to 19 years) full-time unemployment rate was 25.7 percent in October 2007, the highest rate of any state or territory during the month. This remains a particular concern for the South Australian economy and labour market and given the minimum wage reliance of youth employment, a relevant consideration for the overall setting of minimum wages.

4.3.4 The State’s labour force participation rate was 63.2 percent in December 2007, second lowest in the nation after Tasmania.
4.4 SA Specific Economic Forecast

4.4.1 The condition of the South Australian economy in 2008 depends heavily on global factors which cannot be controlled directly.

4.4.2 Two of those factors are the drought and the slowing down of the developed economies. South Australia’s major exports are agricultural products which makes the SA economy more vulnerable to the drought, the strong Australian dollar and vagaries of international demand than other States.

4.4.3 The effects of the US subprime mortgage crisis are more evident than last year with turmoil in global financial markets. An economic recession is expected in the US in 2008, causing a global economic slowdown. As the US is the largest import partner of China, a fall in American demand for Chinese goods could result in a fall in Chinese demand for Australian coal and iron. This would affect South Australian and national economies greatly as more than a quarter of Australia’s total exports were accounted for by the minerals and energy resources sector in 2007.

4.4.4 The International Monetary Fund (IMF) has trimmed its estimate for 2008 world growth to 4.1 percent from its prior outlook of 4.4 percent. Growth in China will moderate from a thumping 11.4 percent in 2007 to 10 percent in the new year.

4.4.5 Estimating the extent of the fallout will depend on a judgment of the strength of economic ties to the U.S. economy, and whether policymakers in other countries are able to take action to mute the impact. Considering that the US is the largest export partner of South Australia, the State could feel the effect of the recession very closely.

4.5 Income Tax Cuts

4.5.1 The new Government has pledged $31 billion in income tax cuts starting on 1 July 2008.

4.5.2 The $31 billion plan will be implemented over 6 years concluding in 2013-14, by reducing the number of personal income tax rates from four to three – with a personal income tax scale of 15 percent, 30 percent and 40 percent.
4.5.3 There are some positive and negative effects arising from cuts in personal income tax, including:

- An increase in labour participation (lure more low-income earners into the workforce while giving incentives to those already working)
- An increase in disposable incomes
- An increase in personal investment
- An incentive for workers to increase consumption, putting upward pressure on inflation and result in higher interest rates.
- Assisting in improving Australia’s global competitiveness. With the fall in the top marginal tax rate as part of the planned tax cuts, Australia’s attractiveness to highly skilled workers from overseas will be enhanced.

4.6 Interest Rates

4.6.1 The Reserve Bank of Australia (RBA) increased its cash target rate twice in 2007, in August and in November.

4.6.2 The decision by the RBA to increase interest rates on the 5th February 2008 and the 4th March 2008 was a blow for the business community. The current interest rate of 7.25 percent pushes rates to a 13 year high with further increases this year likely.

4.6.3 As indicated above, in South Australia interest rates increased in a State economy with lower growth and lower participation rates than the national norm. This is the operating environment facing South Australian businesses which will be required to pass on any AFPC minimum wage increase.

4.6.4 The RBA has justified the need for further interest rate hikes given that domestic demand remained high and inflation was forecast to remain above the target level of 2 – 3% for at least the next two years. In a recent statement on monetary policy, the RBA is quoted as saying ‘the risk of inflation remaining uncomfortably high for some time is considerable.’

4.6.5 The labour market shows no signs of easing in the near future and wages growth which is currently running at 4.2% a year remains a significant threat to the inflationary outlook. The RBA has previously said that wages growing above 4.5% would be dangerous for the Australian economy.

4.6.6 The RBA further believes that there is an immediate danger of wage pressures pushing up prices of goods and services creating a leap frogging effect.
4.6.7 Figures from national accounts shows that labour costs, including non-wage labour costs, are growing at their fastest since 1996.

4.6.8 The latest warning on wages, inflation and rates comes at a time when the Government is pushing through its Transitional Bill legislation for the next wave of industrial relations changes.

5 2008 AFPC Minimum Wage Review (FMW)

5.1 Wage Setting Function / Legislative Parameters / Overall Objective

The wage setting functions, legislative parameters and the overall objectives of the AFPC remain the same for the 2008 determination as in the previous reviews.

5.2 Implementation Issues – Pay Scale Summaries

5.2.1 In July 2007, the AFPC announced that it had commenced the process of creating and publishing minimum wage pay scales. When completed, the pay scales would provide certainty in relation to the minimum wage obligations and entitlements for employers and employees and that they would carry a legal authority.

5.2.2 The AFPC announcement followed calls by employer bodies and other industrial organisations for the AFPC to take control of these instruments as the existing pay summaries issued by the Department of Employment and Workplace Relations (DEWR) were largely acknowledged as being not an appropriate substitute for an APCS and lacked legal authority.

5.2.3 With the AFPC now indicating that it will no longer be required to publish pay and classification scales, the earlier concerns raised in relation to accurate and timely information and legal standing remain unaddressed and require urgent attention.

5.2.4 While we acknowledge and accept that this issue is now out of the hands of the AFPC, we believe that it is nonetheless valid to stress the difficulties being experienced by employer organisations in the absence of properly detailed wages orders.

5.2.5 It is unhelpful that the implementation of decisions of the AFPC are not being adequately dealt with. The existing situation of not providing for an up to date, comprehensive and authoritative set of pay scales should not be allowed to continue for the next two years.
5.2.6 It is our understanding that as at 6th March 2008 there remains some 66 NAPSA’s (SA) and 88 Pre Reform Awards that Business SA has an interest in that are yet to have official pay scales issued (i.e. pay scale summaries). This represents approximately 60% and 70% respectively of the total number of NAPSA’s and Pre-Reform Awards that Business SA has an interest in. (See Attachments C and D).

5.2.7 The impact of this issue on employer bodies such as Business SA who is a peak employer body covering a large number of industries has been stressful and has placed a continuous and unjustified demand on our resources.

5.3 Minimum Wages and the Federal Minimum Wage (FMW)

5.3.1 The AFPC indicated in its 2007 decision that it continued to focus its attention on the low paid and the capacity for the unemployed and low paid to obtain and remain in employment. “The relationship between the level of minimum wage increases and employment in Australia remains pivotal…” The wage setting role and the focus remains unaltered.

5.3.2 The AFPC also acknowledged 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’.

5.3.3 Taking into account the significant tax cuts to be implemented on 1 July 2008 (refer also to 4.5) some three (3) months prior to the implementation of the 2008 adjustment, and following the previous tax cuts from 1 July 2007, the appropriate measures are in place to maintain real standards of living for low paid workers.

5.3.4 The FMW represents the wage floor of the safety net. It also represents in many instances the initial or introductory level in an APCS and is generally regarded as a stepping stone to higher levels of remuneration after the acquisition of appropriate skills.

5.3.5 Consistent with its wage setting role, the AFPC is required to ensure that the capacity of employers to offer employment to unemployed low-skilled persons and to maintain employment to existing workers at that level is not detrimentally affected, especially in the current economic environment.

5.4 Impact of Minimum Wage Increases on Inflation

5.4.1 Successive interest rate rises have not dampened the spiralling of wages in the mining sector
5.4.2 In the view of economists, while the influence of wages on inflation has not been pronounced over the past decade, this has mainly been due to the fairly low levels of inflation and also the industrial framework which prevented pattern bargaining thereby making it more difficult for large wage claims in the mining sector to flow through to other sectors.

5.4.3 Economists are now of the view that with inflation increasing to levels of concern and the likelihood of imminent wage claims in most of the key areas of the economy, that there is a greater risk that wage growth will have a more pronounced effect on inflation. There is also the risk associated with the increase in global inflation and the uncertainty in international financial markets.

5.4.4 China’s inflation has soared to 7.1 percent in January 2008 and this figure is expected to worsen due to wages and food inflation.

5.4.5 Further to our comments in Part 4 of these submissions, according to the Reserve Bank of Australia (RBA), the outlook for the global economy remains uncertain and there’s still a risk that rising inflation will feed back into domestic wage demands.

5.4.6 RBA Assistant Governor of Economics, Malcolm Edey, stated there was “significant uncertainty” in the outlook for the world economy.

5.4.7 Domestic spending needed to slow down in order to bring inflation under control and back to within the RBA’s 2 to 3 percent comfort band.

5.4.8 An excessive increase in the minimum wage would cause an increase in domestic spending, resulting in higher inflation.

5.4.9 While the RBA had forecast domestic growth would slow to a below-trend pace this year and next – thereby easing inflation pressures – there were risks, including “the risk that the recent rise in inflation feeds back into wage and price expectations’.

5.4.10 The RBA is hence closely watching any increases in wages.

5.4.11 Key findings of the AFPC in its initial Monitoring Report published on 25 February 2008, indicated that seven industries account for 85 percent of all pay scale reliant employees.

5.4.12 These industries are Accommodation, Cafes & Restaurants, Manufacturing, Retail Trade, Property & business services, Education, Health & Community services and Personal & other services.
5.4.13 A review of NAPSA’s and Pre-Reform pay scales that Business SA has an interest in and which are associated with a number of the identified industries, namely Cafes & Restaurants; Retail Trade; Hotels & Clubs; Motels; Hospitality Industry – Accommodation, Hotels, Resorts & Gaming; Dry Cleaning; Hairdressing, Cleaning & Property Services; Manufacturing & Clerical, to name some of the relevant pay scales, has revealed that either all or a substantial proportion of the wage rates contained therein are below the benchmark rate of $700.00 per week.

5.4.14 If a substantial proportion of pay scale reliant employees are below the $700.00 wage rate, given the RBA’s concerns on wage growth, an excessive increase in wages below this rate can have a detrimental effect on inflation in the current circumstances.

5.5 BSA’s Proposal re: 2008 Decision

5.5.1 Business SA will not oppose increases that are moderate in nature and similar to the 2007 decision

5.5.2 In relation to juniors, apprentices, trainees, employees with disabilities and basic piece rates, we support the flow-on of the increase/s granted on a pro-rata basis.

5.5.3 Business SA supports the two tiered approach with the major focus on wage rates below the benchmark rate of $700/week established by the AFPC in earlier decisions.

5.5.4 While the differential approach may result in some minor extra calculations it should be noted that a majority of the safety net increases awarded in the past ten (10) years have taken a similar approach. Additionally, this approach, while providing consistency with earlier decisions, also focuses on maintaining a safety net for low paid workers pursuant to the wage setting criteria contained in the existing legislation.

5.5.5 Alternatively, if the AFPC is of a mind to award a single increase, Business SA would not oppose a moderate increase to wage rates below the benchmark rate of $700 per week.

5.5.6 While the take-up of assistance to drought affected employers as provided by the AFPC in its previous decision is yet unknown, Business SA supports the maintenance of such assistance in the coming review. Specifically, Business SA supports the differentiated treatment of Pay Scales associated with the Pastoral Industry (SA) Award and the Wine and Spirit Industry (SA) Award in this regard.
5.5.7 In terms of notice, Business SA supports the approach adopted by the AFPC in its previous decision, that is, making the decision known in July to be operative from the first pay period commencing on or after 1 October 2008.

6 Workplace Agreement Making

6.1 Until workplace laws are amended by the incoming Federal Government, collective bargaining will continue under current laws.

6.2 Bargaining under the new Labor Government’s industrial relations policy is mainly founded on a statutory collective bargaining system with the proposed legislative removal of individual bargaining after the transitional period.

6.3 The new government proposes to change workplace laws subject to an induction period of two (2) years with the intent that the full industrial relations system will be operational by January 2010.

6.4 Bargaining in 2008 and 2009 are therefore likely to occur in an environment of transition and subject to laws which are in flux.

6.5 Under current laws, collective bargaining must occur on an enterprise basis not an industry basis. The Government has indicated its desire to maintain this approach.

6.6 With the abolition of any new individual Australian Workplace Agreements (AWAs) in the workplace, it is likely that there will be a big increase in collective bargaining activity in 2008 and 2009. Further, many collective agreements were struck in the 12 months prior to the implementation of WorkChoices in March 2006, and are now coming up for renewal.

6.7 It is also our understanding that a large number of wage claims are expected in some high profile unionized sectors in key areas of the economy particularly given the compulsory bargaining aspect of the new legislation.

6.8 The Australian Council of Trade Unions (ACTU) National Executive has now set out its new agenda for Union claims which includes a goal of achieving 12 percent in minimum employer contributions in Superannuation by 2012 and 15 percent by 2015.

6.9 The increase awarded to minimum wages has usually been used as a ‘benchmark’ by employees and their representatives in negotiating wage increases in workplace agreements. While it is very difficult to obtain any empirical data on this tactic, it is nevertheless commonly used in bargaining negotiations.
6.10 As indicated in 4.6 of these submissions, there is real risk of inflation increasing through the industrial relations system especially if wage claims are not matched by productivity gains.

6.11 In acknowledging the threat of rising inflation, the Government has in fact indicated that its new industrial relations system is designed to link wage movements to productivity at the workplace level.

7 Summary and Conclusion

7.1 Any transitional period of industrial laws is normally accompanied by an environment of uncertainty. In the current circumstances, businesses have had to operate under two transitional periods brought about by a change in federal Government.

7.2 The first of these commenced under the previous federal Government in March 2006 in what was generally acknowledged as the biggest changes in industrial relations laws for over a century.

7.3 This has now been followed by the present transitional arrangements implemented by the new incoming Government which will continue to implement far reaching changes being made to the industrial landscape of this country within a two year period.

7.4 Coming on top of this is economic uncertainty following from the expected economic recession that the United States is currently faced with and the reality that what falls from it is largely likely to be out of our control (see also 4.4).

7.5 The AFPC acknowledged the impact of the drought on farm businesses in regional Australia in its 2007 wage setting determination and accordingly saw the need to provide assistance to those businesses that were severely affected by the drought.

7.6 South Australia continues to be severely affected by the drought and this has adversely impacted on a number of sectors that are vital to the economic growth and wellbeing of this State (refer also to 4.2).

7.7 The AFPC also acknowledged in its previous decision the beneficial effects in most cases of the tax changes announced and implemented through the 2007-08 Budget.

7.8 Even more significant tax cuts are to take effect from 1 July 2008 which will provide a further incentive for unemployed persons to enter the workforce and will also improve the disposable incomes of low-paid workers.
7.9 The new federal government has repeatedly called for restraint in wage claims and has announced its intention to target inflation as the most urgent and important issue facing the Government. It has pledged to fight inflation in the attempt to keep interest rates as low as possible.

7.10 In the current economic environment, any significant rise in labour costs will inevitably lead to increases in prices. This in turn causes inflation to rise and the RBA is again pressurised to increase interest rates which are already at a level of some concern.

7.11 The recent warnings from the RBA that the rate of growth in wages is a significant threat to containing inflation reinforces this.

7.12 The Commission has to play its part in maintaining the fight against inflation and is urged to again adopt a moderate and cautious approach in ensuring that the outcomes are equitable and economically sustainable.