TCCI Submission to the Australian Fair Pay Commission

Overview of Tasmanian economy

- Tasmania's Gross State Product (GSP) reached $19,239 million in 2006-07, an increase of $397 million or 2.1% from the 2005-06 figure of $18,842 million.

- This is weaker than the mining boom states, but stronger than NSW and SA.

In 2006-07 the all groups CPI in Hobart increased by 2.5% from 2005-06. Rises in food prices (5.7%), health (4.2%) and housing (3.4%) were the main contributors to this change.

The annual average size of the labour force in Tasmania continued to grow steadily over the years 2002-03 to 2005-06, but decreased again slightly in 2006-07 to 238,000. The participation rate slowed from 60.9% in 2005-06 to 60.3% in 2006-07.

The number of people employed continued to grow, but increased by only 0.8% from 2005-06 to 2006-07. The number of people in full-time work also continued to increase, reaching 154,100 in 2006-07.

Tasmania’s unemployment rate fell to an historically low level of 4.3% (seasonally adjusted) in May 2007. The Australian unemployment rate reached 4.3% at the same time. This was the lowest level of unemployment recorded for Tasmania since the current series began in 1978.

The State’s wage price index has grown faster than the national index in every quarter since March 2005 (on an annual average basis), pushed higher by wage rises in mining and utilities. Tasmania’s relatively high unemployment rate, 5.7% (seasonally adjusted) average through the year 2006-07, has improved but it remains second only to the Northern Territory.

Source: Australian National Accounts: State Accounts (cat. no. 5220.0)
Tasmania is still behind

- GSP per capita in Tas in 2006-07 was $39,160, well behind the Australia’s $47,954.

- Recent economic growth is mostly attributable to growth in overseas and interstate trade. This is a cyclical factor rather than a structural improvement.

- Labour productivity, while at its strongest, is still only around 90 per cent of the national average.

- Business investment has gone backwards since its peak of 2005. If it does not pick up then Tasmania will reverse most of the gains that it made over the past few years.

- Tasmanian business sector is the least innovative in the country.

- Tasmania has the lowest educated and skilled population in the nation. It is also attracting a below average share of skilled overseas migrants.

- Labour force participation is still the lowest in the nation, this is only partly attributable to demographic profile. 20-29 y/o Tasmanians have a much lower participation level than national average.

Work and pay in Tasmania

Tasmania is dominated by small businesses - 96.7% of businesses employ under 20 people. This creates a particular dynamic that is supported by the comments on Tasmania’s economic outlook. It supports employment of lower levels of skill, which in turn creates poorer participation levels. The fact that Tasmania has a higher proportion of low skilled labour intensive industry means that minimum wages place a higher burden on the Tasmanian economy. There is a 'brain drain' which sees ambitious young employees moving to 'the mainland' to pursue career pathways which don’t exist here - either because the businesses they work in are too small to have a career structure, or because the population is older and stable and opportunities don’t arise so regularly. Admittedly, large numbers of those who leave return later in life, they then perpetuate the pattern as they occupy senior roles for long periods of time.

Tasmania businesses continue to support two industrial regimes – federal and state. This places a heavy burden on business broadly in two dimensions – the indirect costs associated with operating a state system, as well as the direct costs of a state system that over the past four years has delivered minimum wage increases of $19.67 per week on average – in excess of the average for national wage increases of $18.40 for the same period. Although we estimate that only 10% of businesses are covered under the state system, this places a heavy burden on those businesses directly. There is still considerable confusion in small businesses in particular, about the awards that govern them, and even what system they operate within. The need
for award simplification is clear – one of our members in the textile industry has pointed out how difficult it is for his business when the award specifies a 33.3% loading for casuals, rather than 20% as in most other awards.

The central issue for Tasmanian businesses to address is the low level of productivity the state achieves compared to other states. This implies that Tasmanian businesses need to find a better balance between pay and productivity. This suggests more rigour in agreement making, which in turn is possibly a lack of commercial and HR skill. This is compounded by the numbers of small businesses that don’t have the capacity to support high end commercial and HR skills that would drive and measure productivity.

In applying any minimum wage increase, businesses need to expect some return from that investment. The AFPC can support that thinking by providing a productivity focus in the way it presents its findings. Whilst responsible businesses know that they need to apply the increase, in many cases they are already paying well above those rates. In that situation, understanding that these increases need to be considered in relation to productivity overall, will help raise confidence in employers to pursue better balanced agreements.

Industry issues

There are some specific issues facing some industry sectors. Although the mining sector is undergoing resurgence, it is struggling to be competitive in employing the labour it needs. The mining sector now has to compete for labour with the larger states and the resources boom, and is not as successful in being able to meet its needs.

Tourism is particularly vulnerable to an economic downturn – in light of today’s anticipated interest rate increase; people will have even less discretionary income to spend on travel. Visitors to the state have flattened over the past year which suggests that this is happening already. Tourism is a large employer of the younger and unskilled worker and is particularly vulnerable to changes in wage rates. Tourism is also closely related to the hospitality sector which is faces similar demand pressures. Both industries include a large number of small operators in regional areas where unemployment can be endemic. Changes in the minimum wage rates can impact these areas profoundly to the extent that they can become unviable overnight.

Aged care is a large employer of labour both skilled and unskilled and its rapid growth reflects the underlying age demographic of the state. Tasmania has the oldest demographic of all states and territories and is expected to age more rapidly than any other state or territory. Over the next 20 years the proportion of Tasmanians under the age of 15 is projected to decline by approximately 14 per cent while the proportion of people aged 65 years and over could grow by almost 80 per cent. In Tasmania today there are around 8 600 persons aged over 85 years. This number is
Projected to increase to 16,500 over the next 20 years, and to 32,800 over the following two decades.

The aged care sector employers are dominated by not-for-profit businesses that are highly sensitive to wage increases. Employers are dependant on Federal funding that increase annually by 1.95%. This is quickly outstripped by operating costs including wage increases. In addition the shortage of nurses, care workers, kitchen and cleaning staff is having an impact on the aged care industry. Although employers in this sector are able to offer salary packaging involving $16,000 of tax free benefits however there is only a 40% take up of this benefit. Those workers at the lower end of the wage scale see minimal benefit from this employment benefit as their domestic budgets are so tight they have no surplus income to package and are reluctant to give others control over the limited income they do have.

One of the larger aged care facilities in the state is in dispute with the unions over a wage claim - the company has offered 3%, the unions want 4% and the company doesn’t believe it has the capacity to pay. In addition, if it can and does, many of the smaller aged care facilities around the state would find themselves unable to offer the same rate. This highlights one of the other key factors in the Tasmanian economy - decisions made by one employer, can impact the whole sector, and even in the case of large employers, the whole state. Ensuring that productivity gains accompany wage increases is vital to providing a stable industrial regime.

Forestry is another large employer of unskilled labour operating in remote regional areas, and they compete against other sectors in those areas to attract and retain labour. The vast majority of forest products have not increased in price for the many years but wage growth has increased, resulting in a sector that has reached capacity in terms of what it can absorb. The TFGA has commented that there is a need to find a better balance between pay and productivity. The TCCI strongly endorses this view.

Changes to Tasmania's industrial profile
Unskilled labour is most impacted by minimum wage increases and the opportunities for those who are unskilled are probably not decreasing. Unlike larger economies where investment in mechanisation and plant improvements has reduced the need for unskilled labour, the competition for unskilled labour in Tasmania is increasing. This is because Tasmania is increasingly becoming the ‘food bowl’ for the nation - both because of widespread drought, and also because of Tasmania’s clean and green image. The demand for Tasmanian produce has resulted in widespread increases in fruit production, fish and seafood farming, cheese and wine. All of these are large employers of seasonal unskilled labour and all contribute to creating an economy very vulnerable to increases in wages, and changes in consumer spending.

Summary
The TCCI urges the AFPC to consider the picture of the economy and labour force that we have painted here. Tasmania’s economy is small and particularly vulnerable to