TCCI Submission to the
Australian Fair Pay
Commission

February 2009
TCCI SUBMISSION TO THE AUSTRALIAN FAIR PAY COMMISSION

OVERVIEW OF TASMANIAN ECONOMY

- Tasmania's Gross State Product (GSP) reached $20,907 million in 2007-08, an increase of $686 million or 3.3% from $20,221 million (2006-07).

- This is weaker than the mining boom states (Western Australia and Queensland), but stronger than South Australia.
• The annual average size of the labour force in Tasmania continued to grow over 2008 to record levels (239 600). The Unemployment Rate reached a record low of 4.0% in September. The participation rate grew to a record of 62.3 in September and October. The unemployment rate has increased during December 2008 due to effects of the slowdown in the global economic environment. The Australian unemployment rate reached 4.3% at the same time.

![Unemployment Rate (Feb 1978 - Dec 2008)](image)

• The State’s wage price index has grown faster than the national index in every quarter since June 2004 (on an annual average basis), pushed higher by wage rises in mining, utilities and public service. The current Wage Price Index (WPI) for all sectors is 4.0% (September 2008), this is lower than twelve months ago when it was 4.1%

**TASMANIA IS STILL BEHIND**

• GSP per capita in Tasmania in 2007-08 was $42 994, well behind the Australia’s $53 523.

![GSP per Capita (2007-08)](image)

• Recent economic growth is mostly attributable to growth in overseas and interstate trade. This is a cyclical factor rather than a structural improvement.
• Business investment in Tasmania reached a peak in 2007-08 of $2,624 million. This is up 30% on 2006-07. The national average business investment grew by only 15.1% during the same period.

![Business Investment vs State Final Demand (1984/85 - 2007/08)](chart)

• 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.

![Proportion of persons with a qualification at Certificate III level or above aged 15-64 - 2007](chart)

• Labour force participation is still the lowest in the nation; this is only partly attributable to demographic profile. Tasmanians aged 20-24 have an unemployment rate of 13.2% and participation rate of 79.9% in December 2008, this compares to the National average of 7.1% unemployment and 82.6% participation.
WORK AND PAY IN TASMANIA

Tasmania is dominated by small businesses – 96% 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.

Many other factors remain as reported in 2008. Tasmania businesses continue to support two industrial regimes – federal and state. However last year for the first time, the minimum wage increase was lower than other states at $19.00 per week or 3.5%.

However in the current financial situation, Tasmanian businesses are already starting to lose confidence in forward orders.

INDUSTRY ISSUES

There are some specific issues facing some industry sectors. Unlike last year the mining sector is undergoing a significant downturn with worldwide drops in demand and pricing for resources. There are significant job losses being forecast for this sector and for the west coast in particular.

Aged care continues to increase in demand and 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 (2028) the proportion of Tasmanians under the age of 15 is projected to decline by approximately 2.5 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 9 300 persons aged over 85 years. This
number is projected to increase to 17 300 over the next 20 years, and to 40 100 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.

**CHANGES TO TASMANIA’S INDUSTRIAL PROFILE**

Unskilled labour is most impacted by minimum wage increases and the opportunities for those who are unskilled are 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 employees of seasonal unskilled labour and all contribute to creating an economy very vulnerable to increases in wages, and changes in consumer spending.

**CURRENT INDUSTRIAL RELATIONS REGIME**

The proposals included in the Fair Work Bill will provide an alternative mechanism for unions to pursue claims on behalf of those they believe are ‘low paid employees’. This has traditionally been the role of the AFPC and the purpose of a minimum wage. Assuming that these provisions are passed relatively unchanged, there will be an alternative bargaining process available for the low paid employees to access and that needs to considered when making this decision.

**CURRENT ECONOMIC CHALLENGES**

Currently the Australian economy is experiencing the effects of a slow-down in the world economy with predictions of 300 000 job losses within Australia. The lowest skilled workers will be greatly affected by such a reduction in employment, especially in Tasmania where there is a higher proportion of low skilled workers than the rest of the nation. An increase in the minimum wage will cause further job losses as it puts greater pressure on employers through an increase in their wage bills.

“Business argues that limiting minimum-wage increases would help employers maintain jobs in industries such as hospitality and retail that have been hit hard by the economic crisis.” – The Australian, 27 January 2009.

The latest Tasmanian Survey of Business Expectations (TSBE) has firmly indicated that business confidence has declined to the lowest point since the start of the survey in
March 1995. The 12 month outlook for both the Tasmanian and Australian economies is for a continued decline. The employment index has fallen to the lowest level since March 1995 and is below 50 index points, this indicates negative growth in employment for Tasmanian businesses.

The impact increasing the minimum wage will be borne by those employers who least can afford it – small and medium sized firms. It will make conditions more difficult for them in the midst of an economy that is in the worst slowdown since World War II. Any increase means an increase in the wages bill of Australian employers and it also means higher payroll taxes, higher superannuation, higher workers compensation, higher overtime rates and higher penalty rates. Tasmania continues to be a long way behind the rest of Australia but nonetheless appears to be better positioned for sustained economic growth than in the past two decades.

<table>
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<tr>
<th>Measure</th>
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<th>Australia</th>
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<td>CPI</td>
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<tr>
<td>AWE</td>
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<td>Aug 2008</td>
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<td>AWOTE</td>
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<td>1.5%</td>
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<tr>
<td>Wage Cost Index</td>
<td>Sept 2007</td>
<td>Sept 2008</td>
<td>4.0%</td>
<td>3.9%</td>
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At the end of the financial year 2007 there were 37,787 businesses operating in Tasmania. In January 2008 the number of people employed was 237,300. Of this number 47,761 employees are covered by agreements since March 2006 to December 2008 according to the Workplace Authority. Of the remaining 189,539 employees, approximately 25,000 are employed as owner operators (ABS stats) and 28,960 are employed in the State Government. We estimate that approximately 10% are employed under the Tasmanian industrial system, this then leaves 122,022 or 51% of the working population of Tasmania covered by the Federal awards and the minimum wage. This makes the impact of the decision on the Federal minimum wage a major factor influencing business confidence and directly affecting over half the Tasmanian working population.

Tasmania has many challenges and they include:
1. Low productivity

2. Chronic Skills Shortages

3. Higher than average unemployment rates and low participation rates

4. An increased real minimum wage may attract workers into the labour market, but whether these workers are returning from long-term unemployment or whether they are migrating to Tasmania is the question. The underlying problem of our lack of skills will not be addressed by real wage increase

**Summary**

- Business cannot afford to pay more for workers who are just not productive enough by GSP per capita figures
- A wage increase will not improve our productivity or address our unemployment issues, the underlying problem is education and the skills shortage
- We are not bridging the gap on GSP per capita or education levels
- A rise in the real wage will only exacerbate our competitiveness problems with our mainland counterparts
- Any increase in the wages bill for employees will also mean higher payroll taxes, higher superannuation, higher workers comp, higher overtime and higher penalty rates
- Tasmanian CPI is less than National figures and AWOTE has increased more than National average
- Business expectations for Tasmania and Australia are for continued record low confidence
- Cost of business is rising i.e. interest rates, petrol, bracket creep on payroll and land tax etc
- Wage Cost Index is increasing faster than the National standard
- Research and Development investment by business is significantly lower the Australian average
- Tasmania employers will be heavily affected by any marked increase in the minimum wage.

**Conclusion**
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 change. Its capacity to absorb wage growth and changes in demand, are limited. There is a general and urgent need for Tasmanian businesses to find a better balance between pay and productivity. We would urge the AFPC to take a conservative view when deciding the quantum of this year’s increase. Erring on the side of a conservative increase would be a prudent decision given the impact that would have on the state’s small businesses.

Thank you for giving us the opportunity to present.