2. The State of the Economy

Economic Overview

[2.1] Despite there being a range of validly based concerns, it is accepted that the Australian economy is growing in contrast to its condition when this Safety Net hearing was last held. Yet whilst acknowledging that the economy is moving forward, it also remains equally true that it is performing well below its potential.

[2.2] At the time of the previous Safety Net hearing, the most recent data available showed that seasonally adjusted GDP had actually declined during the December quarter while full-time employment was continuing to fall. The growth rate for private investment was negative.

[2.3] Now, in spite of a very difficult world economic environment, there is evidence that, as an overall proposition, economic conditions in Australia are improving and are expected to continue to improve. Our robust rate of growth is almost unique amongst the economies of the developed world. The events of September 11 have contributed to, although did not cause, an international slowing that has thus far evaded Australia.

[2.4] There are a number of factors that have made the reasonably strong domestic growth rate possible, some of which are being experienced by Australia alone and which therefore separate us from other developed economies. Amongst those factors which are common are the reductions in interest rates which have lowered finance costs and the fall in world oil prices which have led to a reduction in the price of petrol.

[2.5] Reductions in interest rates occurred in the United States with a frenzy almost unknown amongst central banks. When the effects on economic activity of the prior increases became understood, rates were lowered at an unprecedented rate. These reductions were mirrored across the world, also occurring in Australia. These lower rates have made it again possible to commence recovery although from an unemployment rate almost a full percentage point higher than when rates began to rise.

[2.6] The fall in crude oil prices has also added to the growth of the economy. The higher cost of petrol had diverted expenditure away from domestic demand. The higher costs of transport and production generally had contributed to a slowing. The reversal of these price increases have allowed business costs to fall and added to the disposable incomes of consumers.

[2.7] But there are also factors that are relevant to Australia alone and the most important of these have been the personal tax cuts which accompanied the introduction of the GST in July 2000. It was this massive reduction in personal taxation that provided a crucial impetus at just the right moment. Thus, far from the tax package introduced at July 2000 being a net negative to the Australian economy, the effect has been one of the crucial factors in giving the economy momentum at a time when so many others are falling into recessionary conditions.

[2.8] The second matter unique to Australia was the introduction of the First Home Owners Grant Scheme. This followed the downturn in the house construction sector that occurred immediately after the introduction of the GST due to so much dwelling investment having been pulled forward into the pre-GST period. The growth in dwelling construction, and the ancillary demand that comes with it for consumer durables, have been a key part of the reason behind the relatively strong economic growth of the Australian economy.

[2.9] These factors have been instrumental in creating economic conditions that have defied the downturns occurring elsewhere. If international recovery does occur sooner rather than later, there is every reason to hope that economic conditions here will continue to move forward and at an accelerating pace.

[2.10] Yet there are genuine concerns that should be at the forefront of anyone contemplating an increase in business costs at this time. The recovery is minimal and at an early stage. The unemployment rate has gone up during the year and most of the jobs that have been created have been part-time.

[2.11] Private investment remains weak. Although there has been a partial recovery in investment, particularly within dwelling construction, there is still no certainty that investment will accelerate towards levels needed to raise living

standards. And with the ending of the First Home Owners Grant Scheme imminent, there is the likelihood that even dwelling construction will slow.

[2.12] One of our most serious concerns is the inflationary threat. The inflation rate has now gone over the Reserve Bank's target range of 2-3% which opens the possibility of higher rates of interest well before the economy has had an opportunity to implant genuinely self-sustaining rates of growth. Raising wages in an untargeted across-the-board fashion will only add to inflationary pressures, and will push the economy towards increases in rates that would not otherwise have occurred.

[2.13] And finally, one cannot take for granted a recovery in the rest of the world. The Governor of the Reserve Bank outlined the international economic environment Australia is in the midst of as part of his explanations for lowering official rates of interest on December 5, 2001. There he highlighted the issues that we confront. In his release, he made the following observations, all of which remain relevant to our economic circumstances today:

- "international conditions remain weak, with the US and Japanese economies in recession, growth in Europe stalled and significant contractions over the past year in a number of Australia's east Asian trading partners"

- "the timing and speed of a recovery in international conditions are as yet far from clear"

- "the dampening impact on other parts of the economy of global events will become increasingly clear during 2002, at a time when the housing upswing will begin to moderate"

- "the Australian economy can be expected to continue [to grow] … but at a rate below its longer-run potential"

- "the appreciable degree of spare capacity which has built up over the past year is likely to persist".

[2.14] It is in these circumstances that any decision in this case will need to be made. It is thus an economy in which decisions to raise the cost of labour must be made with genuine caution. The fact that the economy is on the mend cannot be allowed to cloud the facts of a very unsettled economic environment across the world, and of domestic threats to inflation and weakness in private investment and the labour market. The times are such that a measured and conservative approach to across-the-board wages policy is required. The ACTU claim, in both quantum and its scope of application is anything but that.

Current Economic Conditions

[2.15] Although the National Accounts are already six months out of date, they remain the most comprehensive set of official data on the state of the national economy. The figures in the table are divided into the data showing the main aggregates over the full year to September 2001 as well as the annualised data for the half years to March 2001 and to September 2001.

Major National Accounting Aggregates
Four Quarters to September 2001
Percentage Change
Trend Data

	Four Quarters to Sept 2001	Half Year Annualised to:	
	Mar 2001		Sept 2001
Household Consumption	3.8	3.4	4.3
Private Fixed Capital Formation			
Dwellings	-6.7	-30.4	25.0
Other Builds and Structures	-1.3	-8.5	6.4
Machinery and Equipment	-7.4	-10.4	-4.3
Total Private Sector	-2.1	-10.7	7.3
Domestic Final Demand	1.9	-0.2	4.0
Gross National Expenditure	1.1	-0.6	2.9
Exports	1.9	3.8	1.2
Imports	-6.4	-7.9	-4.8
Gross Domestic Product	2.6	1.2	4.0

Source: ABS – National Income, Expenditure and Product

[2.16] What is immediately obvious is that the period over the year to September has been divided into two very different halves. In the half year to March, that is, during the first half of the period, conditions were depressed in all areas with the major exception being Household Consumption. In all other areas, there is no question that the economy was in the midst of a severe slowdown, with the largest area of contraction taking place within private sector investment.

[2.17] It was well understood that dwelling construction was in a very depressed state following the introduction of the GST. Over the half year the fall had been a very large 30.4% on an annualised basis.

[2.18] But it was not just dwelling investment which had contracted but so too did investment in other buildings and structures and in machinery and equipment, the second being the largest category of private sector fixed capital

formation. Overall, private investment contracted at an annual rate of 10.7% during the half year.

[2.19] The data also show the fall in Domestic Final Demand and Gross National Expenditure which both contracted. Only the relative strength of exports and the large fall in the level of imports allowed the GDP figure to be as positive as it was. GDP rose by 1.2% on an annualised basis over the six months to March. It was, all in all, a very poor performance, largely the result of the rises in interest rates, the increased prices of petrol and the adjustment process due to the introduction of the GST.

[2.20] The second half of the period saw what was literally a recovery from the depths experienced during the first half. Looking at the outcome during this latter period it can be seen the extent to which it was a different picture entirely from the very sorry state found in the first half of the period.

[2.21] In the second period, the growth rate in Household Consumption rose to 4.3%. This was up on the still very good growth rate of 3.4% during the first half and indicated that whatever might have been the weak points in the economy, it was not to be found in consumer confidence.

[2.22] More importantly, there was a turnaround in the data on private investment, with the most notable change experienced in the data on Dwelling Construction. Having fallen by 30.4% in the first half of the period, it had recovered with a rise of 25.0% in the second half.

[2.23] There was also an improvement in Other Buildings and Structures which rose at an annualised rate of 6.4% in the second period, a reversal from the fall of 8.5% during the earlier half yearly period. However, for Machinery and Equipment, the largest category of private investment, there was again a contraction in the real level of expenditure, with a fall of 4.3% recorded during the half year.

[2.24] The effect of these trends is shown in the data on Domestic Final Demand, which rose by 4.0%, and on Gross National Expenditure, which rose by 2.9% on a half year basis. With exports still rising, although at a diminished rate, and imports continuing to fall, the growth in GDP was recorded at an annualised rate of 4.0% for the half year.

[2.25] The final set of figures shown are for the entire period over the four quarters to September. They summarise the movements over the two half year periods that make it up. And what is clear is that the period of downturn has not been fully compensated by the subsequent period of growth. This is particularly the case in regard to the data on investment.

[2.26] The growth in Household Consumption was 3.8% across the year. This was a reasonable rate of growth and it is this alone which has kept the momentum of the economy positive.

[2.27] But it is with investment that the proper story is found. The data show that in all areas of the private sector, the second half recovery has not fully eradicated the effects of the first half downturn. In each of the areas of private investment, the movement across the four quarters has been negative.

[2.28] Even the rapid growth in dwelling investment in the second period has not restored a positive net movement over the four quarters, during which there has been a fall of 6.7%.

[2.29] Similarly, in Other Buildings and Structures, the second half has not been sufficiently strong to lead to an upturn in the net position across the year. Finally, Machinery and Equipment, having had two negative halves in succession, has recorded a full year reduction of 7.4%.

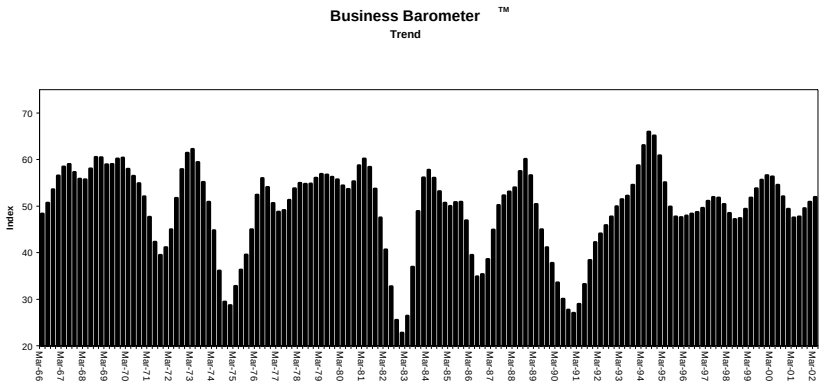
[2.30] The data show Domestic Final Demand at 1.9% and Gross National Expenditure rising even more slowly at 1.1%. The positive lustre given by the data from Net Exports exists only because of the large fall recorded in imports which have decreased by 6.4%, itself a sign of economic weakness.

[2.31] Finally, the figure for GDP is recorded at 2.6%, a normally very ordinary result but still more positive than that found in much of the world. As the Reserve Bank noted last December, this is below the economy's long-term potential. The aim of policy must be to return Australia's growth rate to a sustained rate of increase of more than four percent per year, the kind of rates which had become almost routine during the latter half of the 1990s. Such rates of growth are thus not an unrealistic aim for this economy, but are the kind of increase that ought to be the general aim of policy makers across the spectrum.

[2.32] It is the growth rate in the economy relative to the number of hours worked which has the greatest bearing on the growth rate of real earnings across time. Thus, if we are concerned with the earnings of the lowest paid, amongst the most important tasks we must set ourselves is to ensure that the Australian economy is permitted to grow at the fastest rate achievable without setting off inflationary pressures. We have seen that four percent per year is within this compass and ought to be the kind of growth rate targeted.

Business Barometer

[2.33] But as we noted last year, with the mid-point of the September quarter occurring in August, these national accounting figures are already six months out of date. On March 7 we will have the December quarter 2000 accounts at which point, given that the mid-point of the quarter is November, they will only be four months out of date. It is of serious concern that aside from the labour force data, there are no official sources of data that can provide a picture of the state of the national economy that crosses all industry sectors and looks at the economy in total.



[2.34] To remedy this problem, and as we noted in our submissions last year, ACCI now publishes a measure of economic activity built from its own business surveys. What the ACCI Business Barometer™ does is provide a contemporary measure of economic activity that provides an indication of the state of the economy and its current trends that is almost entirely contemporary with the

present. We have attached at Tag 2 a discussion which outlines the barometer's construction and accuracy.

[2.35] Using the barometer, we can see that the economy has turned upwards relative to the low point reached at the end of 2000. It is an improvement but only in relative terms – relative to the sharp downturn that preceded it. Both the downturn and the subsequent upturn are recorded which shows the peak in the December quarter 1999, a subsequent decline through to the December quarter 2000 and a reversal which has continued through to the latest set of data for the March quarter 2002.

[2.36] What is clearly most noteworthy is that the barometer shows a continuation of recovery into the March quarter. Although the data present a picture of a relatively weak upturn, they nevertheless indicate the economy has, relatively speaking, remained on a positive growth path.

[2.37] It might also be noted that the barometer is a reminder of the value of business surveys which provide information on the strength and direction of the economy well before data from official sources becomes available. It is because of survey material such as this that both the downturn last year and the upturn that is occurring now are recognised prior to the publication of official data. These surveys accurately track economic conditions and provide information unavailable as early and from no other sources.

[2.38] What is also evident is just how elusive a sustained recovery has been. While the data from the barometer show that there has been no major downturn since 1992, it also shows the absence of a continuous period of rapid growth.

National Accounts

[2.39] As already noted, the data from the National Accounts only take us up to the September quarter at this stage, although the December quarter figures will be released on March 7. The data, paralleling the data in the barometer, show the economy entering a slowdown during the March quarter 2000 and reaching its trough in the December quarter of the same year. There has since then been a return towards better conditions, with the growth rate in September 2000 being 1.1%. The growth rate of 2.6% over the year captures with some precision the generally poor economic outcome over the period.

GDP

Trend Data

		$m	Quarterly Percentage Change	Annual Percentage Change
1999	Sept	155000		
	Dec	156735	1.1	4.4
2000	Mar	158216	0.9	4.2
	June	159062	0.5	3.7
	Sept	159310	0.2	2.8
	Dec	159450	0.1	1.7
2001	Mar	160255	0.5	1.3
	Jun	161708	0.9	1.7
	Sept	163412	1.1	2.6

Business Investment

[2.40] Yet it is important, indeed crucial in this case, to appreciate the extent to which this recovery has not affected the two most important areas of economic performance: the level of private investment and the level of employment. Until there are large rates of increase in both areas, it cannot be said that a proper recovery has taken hold.

[2.41] The data on business investment in the table below shows the 4.3% fall during the past two years. These figures include other buildings and structures, machinery and equipment, livestock and intangible fixed assets but exclude investment in dwellings. Even with the improvement in the most recent quarter, the results remain depressed. The data on investment expectations provide no reason to believe there will be a strong and sustained upturn over a longer time frame.

Business Investment

Trend Data

		$m	Quarterly Percentage Change	Annual Percentage Change
1999	Sept	18804		
	Dec	18788	-0.1	5.4
2000	Mar	19008	1.2	3.5
	June	18365	-2.0	0.1
	Sept	18596	-0.2	-1.1
	Dec	18320	-1.5	-2.5
2001	Mar	18131	-1.0	-4.6
	Jun	17908	-1.2	-3.9
	Sept	17995	0.5	-3.2

[2.42] Yet there is the start of an upturn evident in the September data with the quarterly movement a positive 0.5%. This is only a start but one has to begin somewhere. The issue remains whether the commencement of a recovery in business investment will lead to stronger and more sustained improvement.

[2.43] What is also of some interest in these data is to note that the downturn commenced prior to the introduction of the GST in the September quarter 2000 and is therefore more closely associated with the increases in official rates of interest which began to rise in the December quarter 1999, rather than being a consequence of the introduction of the GST. Whatever role the GST did play, it was not the main factor leading to the downturn.

Employment

[2.44] The data on employment provide further evidence of an economy which has not yet emerged from the more subdued conditions of the past year. As the table below shows, coinciding with the ending of the Olympics, and partly caused by it, there was an unambiguous fall in the growth in employee numbers so that the annual growth rate in January 2002 is a third of the rate in the midst of 2000.

[2.45] Moreover, employment growth has only appeared as good as it has because of the growth which has occurred in the number of part-time employees. As the table on full-time employment shows, over the past two years, not only has the growth rate diminished, there has been an actual fall in the numbers full-time employees in Australia. This should be of serious concern, particularly in the context is these proceedings where substantial increases are sought to wager access all award rates and classifications, without workplace negotiated productivity trade offs.

Total Employment

Trend Data

		000's	**Quarterly Percentage Change**	**Annual Percentage Change**
1999	Sept	8833.5		
	Dec	8905.3	0.8	2.5
2000	Mar	8975.9	0.8	3.0
	June	9058.9	0.9	3.3
	Sept	9123.6	0.7	3.3
	Dec	9117.9	-0.1	2.4
2001	Mar	9120.5	0.0	1.6
	Jun	9147.1	0.3	1.0
	Sept	9169.1	0.3	0.5
	Dec	9198.2	0.3	0.7
2002	Mar(p)	9225.3	0.3	1.1

[2.46] It would take further growth of almost one percent just to take the level of full-time employment back to the level it had already reached in the September quarter 2001.

[2.47] If the recovery is allowed to continue, and the Australian economy is not badly harmed by events overseas or by inappropriate domestic policies, the labour market will continue to grow and full-time jobs will increase in number. Ensuring that increases in the cost of labour remain moderate will be one of the most important aspects underpinning future and faster employment growth.

Full-Time Employment

Trend Data

		000's	Quarterly Percentage Change	Annual Percentage Change
1999	Sept	6514.1		
	Dec	6565.7	0.8	2.3
2000	Mar	6613.2	0.7	2.8
	June	6674.5	0.9	3.2
	Sept	6716.4	0.6	3.1
	Dec	6703.3	-0.2	2.1
2001	Mar	6685.3	-0.3	1.1
	Jun	6648.9	-0.5	-0.4
	Sept	6624.3	-0.3	-1.4
	Dec	6645.3	0.2	-0.9
2002	Mar(p)	6663.9	0.3	-0.3

Inflation

[2.48] The latest CPI results have raised a number of questions about the future trend in the price level. The quarterly increase of 0.9% took the annual rate to 3.1%, above the RBA's target range of 2-3% "over the course of the cycle". Given that it is the course of the cycle that is the standpoint for adjustment, there is clearly no need for an automatic interest rate response but there is also every reason to believe that further reductions in interest rates may now be off the RBA's agenda and the next rate rise will be sooner than it otherwise would have been. This is so even with the economy still far from a robust recovery.

Consumer Price Index

		Index	Quarterly Percentage Change	Annual Percentage Change
1999	Sept	123.4		
	Dec	124.1	0.6	1.8
2000	Mar	125.2	0.9	2.8
	June	126.2	0.8	3.2
	Sept	130.9	3.7	6.1
	Dec	131.3	0.3	5.8
2001	Mar	132.7	1.1	6.0
	Jun	133.8	0.8	6.0
	Sept	134.2	0.3	2.5
	Dec	135.4	0.9	3.1

[2.49] This is a crucial issue in the midst of a Safety Net hearing. The question must obviously and automatically be raised over the relationship between increases in award rates and subsequent increases in the rate of inflation. What makes award rate adjustment different from increases negotiated at the workplace is the absence of an opportunity to discuss workplace productivity-improving change and the certainty that in many workplaces the only means to afford the increases granted is to raise the prices of the products sold.

[2.50] While the acceleration in the CPI overall may represent a series of one-off factors, such as increases in the cost of holiday accommodation and travel and the higher prices of fruit and other food items, there is a general look of an inflation rate that is becoming more entrenched. The data on the CPI Excluding 'Volatile Items', shown below, indicate that underlying inflation may be more enduring.

Consumer Price Index

Excluding 'Volatile Items'

		Index	Quarterly Percentage Change	Annual Percentage Change
1999	Sept	130.2		
	Dec	131.0	0.6	1.6
2000	Mar	131.9	0.7	2.2
	June	132.7	0.6	2.6
	Sept	137.4	3.5	5.5
	Dec	137.7	0.2	5.1
2001	Mar	139.1	1.0	5.5
	Jun	140.4	0.9	5.8
	Sept	141.4	0.7	2.9
	Dec	142.7	0.9	3.6

[2.51] It is also useful to view the Australian outcomes in an international context. Over the past year, the inflation rates amongst major industrialised economies have been well under control as the following sample of major economies:

- Japan -2.0%
- the United States 0.9%
- the UK 1.4%
- Germany 2.0%
- Canada 2.2%
- Australia 3.2%

[2.52] All of these inflation rates, including Australia's, have been taken from the ABS Consumer Price Index publication and show price movements with the housing component removed. Given the different means of calculating the housing component between countries, this presents a better comparison of relative rates of inflation.

[2.53] While there are a number of conclusions that arise in looking at these data, there is one that is of particular relevance in a wage setting context. There has been a fixation on interest rate adjustment as the one and only means of keeping inflation under control as if it is only excess demand for products that can and does lead to inflation.

[2.54] In taking this approach, there are other factors that can create inflationary pressures that are being ignored, the most crucial one being the increases which are occurring through the Safety Net. The increases granted during the proceedings last year of $13, $15 and $17, depending on the award level, are not being recognised as having any impact at all. This represented an increase of 3.2% on the minimum wage with similar percentage changes having flowed through into higher award levels. These increases have also been incorporated into other non-award and overaward increases.

[2.55] There has been insufficient focus on the size of the Safety Net increases as a serious contributing cause of inflation when it ought to be clear just how important the impact actually is. It should not be ignored that Australia is unique amongst the economies of the OECD in having a systematic series of across-the-board wage increases that is now taking on the appearance of automaticity on an annual basis.

[2.56] The danger is that the Safety Net increases which the ACTU pursues or which the Commission grants will place sufficient pressure on the domestic rate of inflation that the rate will exceed the RBA's target range on a continuing basis. The RBA has indicated that it does not at this stage believe that there is an increase in inflationary pressures and there is thus no imminent threat that rates will rise. But with the rate of inflation now breaching the RBA's target range the effect on business decision making will have been to make it more cautious. The effect on activity levels at this stage would have been minimal, but the true issue

is what will be the effect if the inflation rate continues to exceed the target range.

[2.57] The effect of higher labour costs has an obvious direct relationship with the level of wages. The higher the cost of labour, all other things being equal the lower will be the level of employment. But there are also indirect effects, one of the most important being the consequences of higher inflation on RBA interest rate settings.

[2.58] To the extent that wages growth leads to an earlier rise in interest rates that would otherwise have occurred, the effect will be to have slowed the economy generally and the labour market in particular. Granting increases of around 2½-3 percent to award employees which constitute around a quarter of the labour force will have added around 0.75 percentage points to the aggregate cost of labour. Recognising that there is a flow on effect from the Safety Net adjustment into other wage non-award or overaward wage movements should make it apparent that there is a significant addition to costs, and therefore to the price level, that flows out of the increases granted as part of these proceedings.

[2.59] Careful consideration of the consequences of granting the ACTU claim or a substantial portion of it is essential given the effect that an increase of $25 on award would have on the cost of labour, prices of goods and services, the ultimate growth in the rate of inflation and RBA interest rate settings.

[2.60] It should therefore be clear that to the extent that rising costs have pushed prices upwards the increase in the price level does not in any way indicate an increased capacity by business to pay higher wages.

[2.61] By any kind of sensible calculation, the ACTU seeks an excessive increase in the cost of labour. The consequence of granting the ACTU claim, which would push the cost of labour upwards at a rate far beyond the growth rate of productivity, ought to be obvious. It would push up the price level, add to inflationary pressures and cost people their jobs.

[2.62] Wage moderation is a crucial aspect of maintaining rapid growth in employment and it is important that the decision in this case recognises the crucial importance of such moderation. Granting the ACTU claim would merely diminish job prospects at a time when our first concern ought to be ensuring that

the labour market expands to the greatest extent we can as a community manage. It is well understood that putting people back into jobs after their original jobs have disappeared is an extremely difficult task for many workers, particularly those who are older or who offer fewer skills. The first priority in this case should therefore be to ensure that those who have jobs are able to keep them and then to increase the number of jobs as rapidly as possible, rather than substantially and arbitrarily raising the wages in an across-the-board way of those who are fortunate enough to remain employed which puts at risk the livelihoods of thousands of employees across the economy.

[2.63] This is particularly salient given the high structural rate of unemployment, and the persistent problem of youth unemployment and long-term mature aged unemployment. That we have had multiple years of growth but still have a 7% unemployment rate, should be a concern to policy makers and to the Commission in these proceedings.

Private Sector Earnings

[2.64] The data on private sector earnings provide additional reason for concern. While there has been a chorus of those who say that the numbers are fatally flawed and cannot be trusted to tell us anything about what is going on in the labour market, they are a traditionally good measure of the cost impact imposed by labour. The movement in AWOTE adjusted for the growth in productivity has across time been a good estimator of the growth in the domestic rate of inflation. These numbers do seem to tell us something.

[2.65] And what they are saying at the present time is that earnings are growing more rapidly now than at any time during the past decade. Over the year to November, which is the December quarter proximate indicator, AWOTE is measured to have grown by 6.3%, an extraordinarily large rate of increase. This is more than double the rate of increase over the year to November 1999, only two years before. The upwards trend is charted in the final column showing the annual growth rate to that particular quarter. In the past half year, the growth rate expressed on an annual basis has been 7.0%.

Private Sector Full-Time Ordinary Time Earnings
Trend Data – Current Prices

		Ordinary Time Earnings ($)	Quarterly Percentage Change	Annual Percentage Change
1999	Aug	725.90	0.8	
	Nov	733.10	1.0	2.9
2000	Feb	743.70	1.4	3.9
	May	756.60	1.7	5.0
	Aug	766.20	1.3	5.6
	Nov	773.90	1.0	5.6
2001	Feb	782.70	1.1	5.2
	May	795.20	1.6	5.1
	Aug	809.20	1.8	5.6
	Nov	823.00	1.7	6.3

[2.66] To some extent there are distributional effects within this data. Relative movements in different parts of the economy, particularly if there are relatively large growth rates within sectors that traditionally have higher wages, such as the mining sector, can distort these figures. This is, of course, also the same as there being relatively slower growth rate within those sectors where there is traditionally a lower level of earnings growth which, if true, should also be a matter for concern when dealing with minimum rates and the Safety Net.

[2.67] But while one may decompose these data to uncover what is causing the growth rate to perhaps be distorted in this way, there remains the most simple explanation, and that is that wages growth is accelerating and that while the figures may not be precisely right, they are fully indicative of what is taking place within the labour market.

[2.68] Putting these figures side by side with the Consumer Price Index should be a matter that at least raises the suspicion that the cost of labour is having an effect on the price level. Both sets of numbers may be wrong, and the CPI might well fall back, but we do have one of the traditional danger signs now sounding a warning that increases in the cost of labour are adding to our inflationary pressures in a way that will sooner rather than later lead the RBA to conclude that rates must begin to rise and the economy begin to slow.

[2.69] The ACTU argues that its Safety Net claims, and the decisions that have arisen from such claims, have limited impact on labour costs and therefore on

inflation. Our data show that the Safety Net decision feeds directly into the wages paid to approximately half the private sector workforce. But if that is the case, then the effect of such decisions does not stop there.

[2.70] Increases granted through the Safety Net are given before negotiations take place, before considerations of workplace change are put on the table and before there is an adjustment for skill improvements or before wages offered are raised to attract new employees. The increases granted by the Safety Net are granted with none of this in mind, so that an expanding business, if it is to find new employees or to reward greater skills or do whatever else it must do to attract and hold labour, must first match the increases granted through the Safety Net and then build from there.

[2.71] The result is that we are putting a platform beneath our cost structure that creates pressures above it. This economy, in adjusting minimum award rates in the way it does, creates such pressures that do not exist in other economies and adds to inflationary pressures that raise price of adjustment.

[2.72] That the AWOTE figures would almost invariably rise more rapidly than the Wage Cost Index is certainly due to the need for such adjustment and to some extent is a measure of the fact that individuals are moving to other, more highly paid jobs. This differential between the WCI and AWOTE is itself something of a positive indicator for the economy. But in this case there can easily be too much of a good thing. The fact that the AWOTE figures for the private sector have risen at such a large rate indicates an inflationary problem that is, in part, being fuelled by the Safety Net. Applying increases to the minimum wage rather than across the entire awards structure would take some of the pressure from the labour market. The danger signals being provided by current movements in private sector AWOTE need to be taken seriously.

Minimum Wages versus the Minimum Award Rate

[2.73] The ACTU again attempts to obscure its claim for an adjustment of all award rates with the suggestion that overseas literature demonstrates that increases in the minimum wage have minimal impact on the level of unemployment. It is important for the ACTU to try to establish this because increases in the cost of labour can and do have important negative consequences

for the employment prospects of the unemployed, or for those working part-time who would like to work more extended hours.

[2.74] But what the ACTU does is use evidence of the minimal impact of increases in the minimum wage to assert that there are no harmful effects from across-the-board increases in award rates. The two are so entirely different that it is almost impossible to see how evidence on the impact of raising the minimum wage has any relevance at all in this case given how the ACTU has framed its claim.

[2.75] The ACTU has repeated its arguments on the minimum wage in paragraphs 5.8 to 5.26 of its written submission. It has included the findings of the UK Low Pay Commission, a paper from Professor Mark Stewart dealing with "The Impact of the Introduction of the UK Minimum Wage on the Employment Probabilities of Low Paid Workers" and a third paper by Catherine Saget entitled, "Is the Minimum Wage an Effective Tool to Promote Decent Work and Reduce Poverty? The Experience of Selected Developing Countries".

[2.76] What is most interesting about these and other such submissions in the past is that rather than establishing the ACTU position it establishes ours. It is the view of ACCI that adjustments should take place at the level of the minimum wage. It is our view that this is the best means by which the lowest paid can be assisted without major consequences for their employment prospects.

[2.77] ACCI does not oppose a wage increase. What it seeks is an increase but only at the level of the minimum wage. What the ACTU seeks is a very different outcome. It looks for an increase across the entire awards structure. If the issue were only what to do with the minimum safety net figure of $413.40 then the case would have a different dynamic. But what the union movement seeks is something entirely different and far more costly and intrusive.

[2.78] Given that there is the evidence that adjustments to the minimum wage have minimal impact yet achieve the same kind of result that the ACTU says it seeks, the Commission should reject the ACTU approach, which is clearly more costly, untargeted and affects employees at all levels of income, and should adopt the approach of adjusting the minimum wage alone. In taking this

alternate approach, it would reduce the pressure on labour costs in general, it would more appropriately target those most in need and it would limit the harm done to the employment prospects of the lowest paid.

[2.79] In adjusting all award wages the Commission is achieving a different kind of result. Because it is not just the minimum wage that we are dealing with but all award rates we are not by any means dealing with only the low paid. Award rates run to upwards of $1000 a week or more. Thus, in focusing on award rates we are very poorly targeting the group the ACTU aims to assist.

[2.80] Coupling this with the fact that those on award rates are often second incomes in relatively prosperous households ought to make it clear that the approach adopted by the ACTU to assist the low paid is at best hit and miss.

[2.81] It is important to appreciate just how poorly targeted the ACTU claim is. The table below, taken from last year's submission, provides data for the private sector for full-time employees paid exactly the award rate. The table shows the proportion of employees in each industry paid the award as well as the average dollar award payment.

[2.82] These are average award rates in each industry sector and each is well above the minimum. Each would receive the increase sought by the ACTU if its claim were granted. There would then be the flow-on into related agreements for which the Safety Net is applied and the increases in overaward payments which are adjusted because of the movements in the award. There would also be adjustments for which the movement in award rates is the platform from which other increases are built.

Average Weekly Total Earnings
Full-Time Award Employees by Industry

	Proportion (%)	Average Award Rate ($)
Mining	4.61407.40	
Manufacturing	9.6	523.00
Electricity, Gas, Water	3.8	753.80
Construction	15.0	598.10
Wholesale Trade	10.1	544.10
Retail Trade	25.7	473.30
Accommodation, Cafes, Restaurants	44.3	572.10
Transport and Storage	20.1	655.20
Communications Services	3.9	619.20
Finance and Insurance	3.3	643.50
Property and Business Services	13.0	549.20
Education	25.5	810.70
Health and Community Services	40.8	603.60
Cultural and Recreational Services	14.1	528.40
Personal and Other Services	33.2	504.40

Source: ABS –Employee Earnings and Hours

[2.83] And what we find is that the average award payments are a good deal higher than the minimum wage. Even accepting that there are overtime and other forms of payment included in the figure for total earnings, the data make it clear that the minimum wage is not the relevant figure for most employees paid according to the award. Adjustments in award levels have little if anything to do with protecting those most in need and provide increases to large numbers of those who are not at the bottom of the pay scale.

[2.84] The effect on employment of adjusting the minimum wage is probably also not as benign as the material in the ACTU submission might suggest. As has been noted in our previous submissions, because firms had a long lead time to adjust to the impending introduction of the minimum wage in the UK, much of the labour force effects would have taken place in advance rather than after its introduction.

[2.85] In addition, the effects on employment in a growing economy are very hard to separate out. If the economy is expanding and the labour market is

growing along with the growth in the economy generally, the negative effect of the higher minimum wage is hidden in the surrounding growth rate. The effect on employment is in a sense delayed until the subsequent economic downturn when more lose their jobs, or have a reduction in hours of employment, than would otherwise have been the case.

Concluding Comment on the Economy

[2.86] There is an upturn now in place following a downturn. This seems to be a perennial position for the Australian economy which cannot, it seems, stand prosperity. A year ago the economy had actually contracted and now it is running at well below its potential.

[2.87] Yes conditions are better than they were. Yes we are growing more rapidly than most of our trading partners. Yes the international slowdown seems to be coming to an end.

[2.88] But these are not equivalent to saying that good times are here again. The most extraordinary aspect of the rise in unemployment and the year long contraction of the full-time labour market has been the virtual absence of public statements of concern. To go from an unemployment rate of 6% to 7% and believe that because the GDP growth rate has begun to rise again that we have no further concerns almost makes it appear that the 90,000 or so employees who have lost jobs or not found them, and the hundreds of thousands of unemployed, count for nothing.

[2.89] We then seem to ignore the rising level of inflation. The CPI went over the target range of 2-3% without there being much in the way of a genuine public concern that that the economy was potentially heading towards a very serious problem. It may well be the case, as the Reserve Bank has said, that this was a temporary aberration and that in a quarter or two it will all subside back within the upper limit of the target. Perhaps that is so, but the one certainty that the most recent CPI increase has done is ensure that there will be no further reductions in rates. Maybe such reductions were already a thing of the past, but the rise in the CPI has guaranteed that the next increase will be up.

[2.90] Yet it would be more comforting if the growth in the CPI were lower or if there were some specific underlying factor that one could say was more

clearly responsible. When crude oil prices were pushing up domestic costs, the rise in the CPI did not lead to the same kinds of concerns. But with crude oil prices falling the rise in the CPI has a different look about it. To state that the growth in prices was caused by one off factors evades the central fact that there are differential increases at all times. The concentration on the average is probably mistaken, but it is what the Reserve Bank does. And if the CPI stays higher than its target, it will, by the logic of its own institutional structure, be compelled to begin to raise rates once again.

[2.91] Then there are the data on Average Weekly Ordinary Time Earnings. Their importance as an indicator of wages pressure is denied just about everywhere. The increase in private sector earnings of more than six percent for the year is seen as just an error in the statistical series and of no relevance to the actual cost of labour. Yet the AWOTE has been in the past a reasonable guide to inflationary pressures, and its rise now should not be seen as just one of those things with no economic significance.

[2.92] If wages growth is now rising far more rapidly than productivity, then we will see two sets of reactions, one in the labour market and the other in the CPI.

[2.93] Private sector investment has been falling for the past two years. Although there is evidence that this contraction is about to be reversed it has not happened yet. The upturn is still a return to levels already achieved. Ignoring the very weak investment position of the past two years and acting as if it is a clean sheet so that during every upturn we can forget the downturn that came before means we can take comfort in the growth rate without also looking at the level. So that while the December 2001 Total New Capital Expenditure figures show a growth rate of 8.3% in the quarter, the increase over the year is still only 3.9%. This is an upturn following a slide.

[2.94] There is then the international economy. Australia may well be one economy to avoid a serious downturn at this time. The maintenance of a budget surplus, the fall in interest rates, the personal tax cuts and the First Home Owners Grant Scheme have combined to produce an economic structure that is defying the odds. It may also be true that the international economy is now in

recovery so that within a year we may have forgotten the problems that it is now posing.

[2.95] But that will be then. Right now there is an international slowdown that is being reflected in our export data and within the import data as well. The growth of the domestic economy may be compensating for lost international markets at precisely the right moment, but it is still the fact that there is a slowdown taking place across the world. It is not something that can be ignored.

[2.96] Where this should lead the Commission in its decision is towards a cautious approach to wage adjustment. There should be an increase but the increase should be designed to minimise the impact on employment growth and inflation. The ACTU has provided material during the period since the Safety Net cases commenced to show that adjustments to the minimum wage assist the lowest paid with minimal damage to the economy. This material supports the views being put to the Commission by employers. We are asking the Commission to take the approach represented in the ACTU's own material and adjust the minimum wage, not the minimum award rates of employees through the entire awards structure.

[2.97] So once again we are looking to achieve recovery from what has turned out to be a short and relatively shallow downturn in the economy but one which has nevertheless raised the unemployment rate by almost a full percentage point. The aim should be this time to ensure that the recovery on this occasion extends beyond the period of a year or two and does so in a way that leads to an extended period of investment growth.