Notes on the Costing Methodology

The ACTU has raised a number of points in regard to the private sector costing methodology adopted by ACCI which are incorrect.

We would first note that the ACTU argued that our estimate was incorrect because we had used the total economy estimate of award coverage rather than that for the private sector. We note that the private sector proportion is 26.8% and is therefore higher than the proportion that was in the original table. We had chosen the all economy data because we wished to parallel as closely as possible the data provided by the ACTU in its submission.

Further, the ACTU claim that the costing done by ACCI employs earnings data from November 2000 is incorrect. The data used was the latest data available for Private Sector Earnings from the February 2002 publication by the ABS of Average Weekly Earnings. No attempt was made to account for wages growth since the effect would have been only limited and would not materially alter the argument that the cost of the claim are actually much higher than what the ACTU will demonstrate.

The ACTU also argues that the data sources for over-award employees and non-award employees include other categories of wage payment. We note, for example, that the definition of 'employees whose pay is set by individual agreements' consists of 'employees whose pay is set by an individual common law contract, employees receiving overaward payments by individual agreement, and working proprietors who set their own rate of pay.' This is a grouping that would overwhelming in terms of

numbers be made up of those who receive overaward payments so that using this category to estimate the percentage of overaward employees is a reasonable approach, particularly as the other important category, employees whose pay is set by an individual common law contract, would also be as likely to receive the flow on from the Safety Net decision as overaward employees.

The glossary from the EEH survey from May 2000 is attached.

Furthermore, ACCI has recalculated the cost of the claim using the earnings data for private sector employees, which is shown below.

Even where one might seek to account for wages growth during the year the difference is only marginal. If we assume that the ABS Wage Cost Index is a suitable guide then at 3.5 percent per year growth the wage rate for all employees is likely to be in the order of $702.14 by November 2002. This would give a result of 1.3 percent addition to earnings rather than the 1.4 percent derived from the all employees data.

However, it might also be noted that in using the ACTU's own figures so as not to be seen to overestimate the impact of the claim we used the ACTU estimate for the weighted increase sought rather than the $25 claimed. If one included the $25, the cost of the ACTU claim rises to 1.7%.

The point we make here is that if one costs the claim properly by recognising that the increases will occur almost entirely in the private sector and that there will be flow on to others not directly in receipt of the

Safety Net, then a very different, and much higher estimate of the cost of the claim emerges.

This still does not get away from the fact that for an employee on the minimum wage, an increase of $25 represents an increase of 6.0% and for an employee on $500 per week, the increase is 5.0%.

But if the focus is to be on the economy in general, then the correct figure to use to understand the impact on private sector employment and on inflation is the figure for the addition to costs if the claim is granted and that is in the range of 1.3% to 1.7%. This is the kind of cost impost that should never be placed on an economy, let alone one in which full-time employment growth remains as subdued as it is.

The Addition to All Private Sector Employee Total Earnings From a Flat $25 Increase

	Proportion of Total Private Sector Employees (%)	Proportion of Employees per Category Receiving Increases Directly Through Safety Net Decision (%)	Proportion of Private Sector Employees Receiving Increases Directly Through Safety Net (%)	Weighted Increase Sought by the ACTU ($)	Addition to Earnings Growth ($)	All Employees Total Earnings ($)	Addition to Earnings (%)
Column	1	2	3	4	5	6	7
Data Source or Calculation	ABS	ACCI	1*2	ACTU	3*4	ABS	5/6
Private Sector Award Dependent Employees	26.8	100.0	26.8	19.97	5.35	678.40	0.79
Over-Award Employees	49.3	30.4	15.0	19.97	2.99	678.40	0.44
Non-Award Employees	23.8	18.8	4.5	19.97	0.89	678.40	0.13
Total			46.3		9.24		**1.4**