Table of Contents

1. Overview of Comments on the Economy in Response to the ACTU Reply Submission

[1.1] The Australian economy is in recovery and conditions are improving. But in discussing the state of the national economy, we would begin by noting that in important areas of the economy the level of activity remains below the level that had been achieved up to something like a year to a year and a half ago. The proper approach to current conditions and to the improved prospects for growth is one of cautious optimism. It would be far better to be looking back over a prolonged period of improvement than one in which economic conditions are only just turning up.

[1.2] In relation to the written submission tendered at the start of March, we note that the December quarter growth rate was at the top of the range of general expectations, if not actually above, but we would also emphasise that we are dealing with only a single quarter. In paragraph R4.16, the ACTU tries to highlight a number of examples where our previous submission has supposedly been comprised of 'old and outdated assessments of Australia's economic growth'. It is therefore worth looking at the particular quotations that the ACTU has chosen to portray this as an 'old and outdated assessment'. These are found on pages 41 and 42 of the ACTU reply submission.

Economic Conditions

[1.3] The first of the ACCI statements the ACTU chooses to quote reads as follows:

> *'Yet whilst acknowledging that the economy is moving forward, it also remains equally true that it is performing well below its potential.'*

[1.4] It then quotes the following:

> *'The recovery is minimal and at an early stage.'*

[1.5] And finally its cites the following paragraph as somehow no longer of relevance in the economy today:

> *'The aim of policy must be to return Australia's growth rate to a sustained rate of increase of more than 4%, 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.'*

[1.6] Yet it is the data the ACTU itself presents that more than establishes the fact that all of the statements made by ACCI in that earlier submission are correct and remain correct. On page 40 of the ACTU reply submission [reproduced at **Tag 1**] we see figure R4.2 which is the annual GDP growth over the current economic cycle. What will be seen is that the last four quarters are well below the kinds of growth rate that had become the norm over the previous period shown in that chart.

[1.7] Looking at that data who could doubt that the recovery is minimal and at an early stage? Given the kinds of growth rates we can see in earlier periods, it is clear that the economy is moving forward but also that it is performing well below its potential. We are returning from previous low rates of growth, and the recovery process often allows rapid rates to occur because the economy is merely putting already existing capital assets into use. The point we are continuously making is that it is a recovery of already traversed ground that we are presently going through.

[1.8] In regard to that third quotation the ACTU chose to highlight, the point there is that we are looking for a sustained rate of increase of more than 4%, with the emphasise on the word 'sustained'. To have reversed the downturn is

very different from entering new and untried territory. The December quarter of 2000 was the trough of the most recent downturn. The 3.7% annual growth over the year is thus built on the back of a very low base.

Labour Market

[1.9] Should we be looking for further evidence that the economy is moving forward at rates well below its potential, or that the recovery is minimal and at an early stage, the data in figure R4.4 in the ACTU reply submission on employment growth also provide ample further evidence [also reproduced in **Tag 1**]. Employment growth has come down from a rate of well over 2% and upwards of almost 3.5% in the period up until the end of calendar year 2000 and is now working back towards those kinds of growth rates.

[1.10] This again is reinforced by the data on the unemployment rate found in figure R4.5 of the ACTU reply submission. There too it can be seen that the unemployment rate has gone from just over 6.0% and has reached up towards almost 7.0%. It is now beginning to come back down again but a difference of one percentage point represents something like 90,000 employees.

[1.11] And when it is also recalled that within those who have returned to the labour market there has been a profound switch from those working full-time to those working part-time, so that the total number of hours worked in the economy has not yet begun to increase, it will again be seen that we are at an early stage of recovery, that the recovery does remain partial, and that there is a long way to go before we can actually be content with the state of economic conditions.

Productivity

[1.12] The ACTU also makes much of the measured growth in productivity. On page 51 of its reply submission the ACTU notes that:

> *'GDP per hour worked increased 1.7% to be 5.0% higher over the year – representing the largest quarterly and yearly increase on record.'*

[1.13] What is truly astonishing about this is that not only does this supposed improvement depend on the fall in the number of hours worked but the actual number of hours worked has been falling at an increasing rate through to the most recent quarter of December 2001. In that quarter the number of hours worked across the economy had fallen by 0.5%. [The national accounting data is found at **Tag 2**.]

[1.14] Over the year hours worked had fallen across the entire economy by 1.2%. Thus, the recorded growth in productivity is based on what we have in the past referred to as 'spurious productivity' which is the productivity which occurs not through improved capital investment, not through increased skills within the workforce, but through actual reductions in the number of hours worked across the economy.

[1.15] GDP, it is true, is measured to have increased by 3.7%. The number of hours worked is also, however, measured to have fallen by 1.2%. Thus, the growth in GDP per hour worked has been 5.0% during that period of time.

[1.16] Productivity growth that comes from businesses reducing their number of employees is hardly the kind of productivity that ought to be spread through the workforce via increased levels of remuneration.

[1.17] This is not productivity growth that is making anyone more prosperous. Rather it is the kind of productivity growth that should convince the Commission that the Australian economy cannot sustain a large increase in award rates and should instead make the Commission wary of granting an amount anything remotely like that sought by the ACTU.

[1.18] We would also note that the number of hours worked in the market sector had also been falling and had decreased by 1.3% across the previous year.

Indeed, market sector hours worked has been falling for six consecutive quarters. This represents a fall of 2.3% in the number of hours worked in the market sector over the last year and a half.

[1.19] It might also be noted that the growth in GDP in the market sector has been far below that of GDP across the entire economy (2.9% over the four quarters to December and also shown in Tag 2). A good deal of what is represented as the growth in productivity when using total GDP is merely an estimate made of wages paid and by definition cannot record any productivity growth. They do not represent actual measured value added because at this stage of our knowledge we are not capable of measuring the value added in a number of sectors of the economy. The focus on the market sector brings attention to just those sectors where productivity growth is measurable.

[1.20] Thus, the growth rate in the market sector is below that of GDP generally and the productivity estimate we have is based on an actual fall in the number of hours worked across the economy. Rather than these being evidence of economic strength and an ability raise wages significantly, these are evidence of continued economic weakness and of the indisputable fact we are at an early stage of recovery and that there is a very long way to go.

Investment

[1.21] Turning to another aspect of the ACTU reply to our submissions, we turn to look at the issue of private sector investment. The ACTU again quotes a number of statements from our submission and these are found on page 47 of its reply submission. There is, firstly, the following excerpt from the ACCI submission:

> *'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.'*

[1.22] The ACTU then quotes the following from the ACCI submission:

> *'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.'*

[1.23] And finally the ACTU quotes the following:

> *'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 below 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.'*

[1.24] Why the ACTU believes that these statements are out of date is hard to understand. We would repeat each of these statements now. 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.

[1.25] If one looks at the data on business investment it should be clear that while we have had some return to growth across the four quarters to December 2001 the increase has been a very insignificant 0.1%. As it happens the level at December 2001 remains below the level we had already reached in June 1999. The level of business investment remains 3.0% lower than it was more than two and a half years ago.

[1.26] Between March 1993 and June 1999 the average annual growth rate in business investment had been 9.1% per year. Had that growth rate continued as at December 2001 business investment would have been more than 22.7% higher than it actually was. Instead we have the level of business investment lower than it had been in June 1999.

[1.27] We do not think anyone can take comfort in the growth rate we have actually achieved over the past two and a half years. These are dismal growth

rates. But we are also somewhat dismayed that the ACTU can ignore this two year retreat in the level of investment and think that just because we have had one quarter and perhaps two of decent investment growth means that these are issues that can be put behind us.

[1.28] Even with the data on machinery and equipment, it should be noted that the trend quarterly growth rate in December 2001 of 3.7% still left the level of investment in this category lower than it had been in September 2000.

[1.29] We therefore repeat what we said before: there is still no certainty that investment will accelerate towards levels needed to raise living standards. And while investment expectations are positive seldom has there been such a moment in which counting ones chickens before they are hatched would be more inappropriate.

[1.30] The likelihood, as anyone following money market commentary would know, is that interest rates are about to rise. And the increases that are now being discussed are not minor increases but are expected to perhaps even exceed one full percentage point before the end of this year.

[1.31] Business is profoundly opposed to these increases, and believes they will do far more harm than any imaginable good, and that a good deal of that harm will be found in reduced levels of business investment. The notion that we can support higher living standards as well as maintaining our current level of employment will not survive another series of interest rate adjustments of the kind we have only so recently had to endure.

[1.32] It has been higher interest rates which have taken the heat out of recovering economies three time since 1989. The expectations data in regard to future levels of investment in the financial year 2002/2003 may yet be revised downward with the result that investment may not occur to anything like the extent that is now imagined.

2. Updated Economic Material

[2.1] Since we provided our written submission at the beginning of March, there has been a good deal of update on economic material published by the ABS. In particular, there has been the release of the December 2001 national accounting data and there has been the publication of revised figures on the labour force. In addition, the labour force data has been updated so that we now have the figures for February 2002.

[2.2] The new data are found at **Tag 3** but in order to preserve the continuity of our presentation, we have also included the data not changed since then. The table numbers we refer to are therefore the same as is found in our previous written submission.

[2.3] We would also note that these data are comprised of the trend figures where they are available. The seasonally adjusted data are highly volatile and subject to a large random component which often leads to misleading impressions of the strength of movements, either upwards or downwards. The ABS is itself categorical about the importance of using the trend data rather than the seasonally adjusted from which it is comprised. ACCI agrees with the view taken by the ABS on the importance of focusing on the trend data if we are to get a picture as accurate as it is possible to draw during a particular period.

[2.4] It is clear that the Australian economy has picked up as the data in Table 1 of Tag 3 show. Having slowed to a crawl at the start of the 2000 calendar year there has now been, over the past three measured quarters, a return towards quite a good rate of growth. During the period between March 2000 and March 2001 the aggregate growth rate across the year was 1.4%. This is the slowest growth rate since the recession of 1989/1992 when the economy had actually contracted. And again, the main reason had been the increase in interest rates

which began to rise towards the end of 1999 and which were not again lowered until the beginning of 2001.

[2.5] But as we will show, the recovery is partial and that if we are interested in sustaining the growth rate beyond just one or two years, we are going to need to be cautious in the wages decisions made. In particularly, the harm done during this recession to the labour market has not even yet begun to reverse in any kind of major way.

[2.6] We would also note that the ACTU, in the presentation of its economic data, prefers to show growth rates rather than also including the levels for each of the indicators it reproduces. As we are at pains to argue, ignoring the level of an indicator and only looking at its most recent growth rate will prevent an appropriate assessment being made of the actual state of recovery in the economy.

Investment

[2.7] Looking at the data in Table 4 of Tag 3, for example, where we see Private Sector Investment, it will be noted that during the period between March 2000 and December 2001 there has actually been a contraction in the level of private sector investment. Even though there has been an increase since June 2001, the increase thus far has not yet returned the level of private sector investment to the level it had already reached in March 2000.

[2.8] In contrast, over the period between March 1993 and March 2000, the increase, in aggregate had been 71.3% which was an average rate of growth of 8.0% per year. Recognising the level as well as the rate of growth should make us aware that we have not returned to level already achieved in this economy and moreover the growth rate of 7.0%, as good as it is, is still below the average increase that had occurred during that earlier period.

[2.9] Even in regard to dwellings investment, where the greatest improvement in private sector fixed capital formation has been taking place, it is clear that the level of dwelling construction remains well below the peak which had been achieved in the March quarter 2000. To some extent that peak was artificial, due to the pull forward effects of the GST, but it should also be borne in mind that the most recent improvement is also in its own way artificial, and due to the effects of the first home owners grants scheme.

[2.10] The data in Table 7 show Investment in Other Buildings and Structures. Here, not only is the most recent data lower than the last peak achieved in the September quarter of 1998, but the level of capital formation in this area remains negative as it has been since the end of 1998.

[2.11] Table 8 shows the data for Machinery and Equipment and, once again, we find that the current level is lower than levels that had previously achieved. In this case, the peak level of investment in Machinery and Equipment had occurred in the September quarter of 2000. The growth rate, thus, is a recovery of past ground already achieved. And while the past half-year has been good, looking at the annual figure, the growth rate of 1.5% over the four-quarter period is by no means exceptional.

[2.12] The last table that we look at in terms of investment is Table 9. This shows business investment which is the private sector and is made up of Other Buildings and Structures, Machinery and Equipment, Livestock and Intangible Fixed Assets.

[2.13] What is evident from the table is that the quarterly growth rate of 1.3% while being good is hardly exceptional by past standards. The half yearly growth rate of 1.8% is certainly not exceptional. Across the year the increase has been a minuscule 0.1%.

[2.14] Thus, what we find in terms of business investment, is that since June 1999 the level of this most important of economic indicators has been flat.

[2.15] The average annual growth rate between March 1993 and June 1999 had been 9.1%. Since then, there has been virtually no growth at all in the level of business investment in real terms.

[2.16] The issue from the business perspective is that if we are to raise real wages we are firstly going to have to strengthen the economy overall. And to do that, the single most important area of expenditure is private sector investment. We do not say it is the only important area, but there is no area of more importance to living standards than raising the level of business investment. And as is clear from this table, business investment has been flat for something like two and a half years.

[2.17] It is possible that this period of no growth is about to end as is indicated in the data in Table 5 of Tag 3 on New Fixed Capital Expenditure. But our aim must be to ensure that the expectations data that we find in that table are actually realised. This flat investment has done genuine damage to the Australian economy and has made it difficult to raise living standards while also maintaining the level of employment.

[2.18] It is not enough to achieve one or two quarters or even a year or two of growth in investment. What is necessary is to achieve such rates of growth year in and year out. That it has only just begun does not imply that it will be sustained. There is far more distance to go yet.

[2.19] Moreover, with every financial commentator now indicating that interest rates are about to be raised by the Reserve Bank, there is less likelihood that the expectations data found in table 5 will be realised. As our own survey material has made abundantly clear, the increases in rates by the Reserve Bank have

tended to slow the economy, and that greater have been the increases, the more profoundly the Australian economy has slowed.

[2.20] By looking at the outcome of half a year of investment which has been entirely a recovery from ground previously lost does not demonstrate that this improvement will continue. We have turned the economy around from a downturn to an upturn. But the important issue now for us is to do more than just point the economy's nose in the right direction. The aim now must be to continue this growth rate and sustain it as far and as long as possible into the future. Granting the ACTU claim, or anything remotely like it, would not achieve that end.

Employment

[2.21] It is again true that the labour market has begun to improve to some small extent but unless this improvement is looked at in the context of the previous deterioration, the problems that need to be faced will not be properly seen in their appropriate context.

[2.22] Table 11 of Tag 3 shows Total Employment. First we note that the March quarter is comprised of only January and February. The data for that March quarter are thus compared with January and February of 2001 to get the annual growth rate and are compared with October and November 2001 to get the growth rate since the previous quarter.

[2.23] The data on this Table 11 begin in March 1993 and continue through until the figure for March 2002. Across all this period, both including lean times and the good times, the growth rate in employment has averaged 2.2% per year. Thus, there is an appropriate context for the 1.4% annual increase that has occurred during the year to March 2002. That is, while it is a start towards better times, it can only be seen as a start.

[2.24] Table 12 also puts the unemployment figures into the appropriate context.

[2.25] The number of unemployed has been on the increase since the September quarter of 2000 and appears to have reached a peak as at December 2001. There has, during this period, been an increase in the number of unemployed of around 81,000.

[2.26] The March quarter figure shows the first steps towards the improvement and represents the fall in the number of unemployed of 0.6%. We might just note in passing that the data show a similar rise in the level of unemployment in the period after the previous increase in interest rates at the end of 1994 and the beginning of 1995. We then find that between December 1995 and March 1997 there were six consecutive quarters in which the level of unemployment rose. There is thus a genuine cause for concern in regard to whether or not the Reserve Bank will again see fit to push interest rates up.

[2.27] Table 13 shows the Unemployment Rates in Trend Terms. We just note that the unemployment rate for February itself had fallen to 6.7% but as we average it for the quarter it remains at 6.8%.

[2.28] But the important point to note is that the unemployment rate has returned to the level it had fallen to in September 1999 and that there is a long way to go before the unemployment rate will again fall back to the 6.1% that had already been achieved then.

[2.29] Table 14 shows the data on Full-Time Employment. The figures make it absolutely clear that the labour market has by no means been restored to anything like the health that all of us would prefer. The peak level of full-time employment occurred in the September quarter 2000. Since then there have been four quarters of contraction and then something of a reversal during the last two.

[2.30] But what is also clear is that the growth rate even across the year has remained negative so that in the March quarter employment is still 0.4% lower than it had been in the previous March.

[2.31] Looking across the full scope of the nine years represented on this table, the average annual rate of growth is 1.5% per year. Thus averaging good years and bad you can expect something like 1.5% growth in the level of full time employment each year. In the poor years it will be less and in the good years it will be more but over the longer term something like 1.5% per annum is the expectation.

[2.32] What is find now is that the rate of growth in full-time employment remains well below the long-term average, and it will not be until towards the end of the current year that the level of full-time employment will even return to what had already been achieved back in September 2000.

[2.33] We now risk seeing whatever improvement we have had in the labour market slow yet again through higher interest rates and the effect of increased labour costs through higher award rates and the higher minimum wage will contribute to the slowing of the improvement in the labour market.

[2.34] Increases in the cost of labour not supported by higher productivity slow employment growth and add to inflationary pressure. By slowing employment growth there is a direct effect on the number of employees. By pressing higher on the inflation rate, there is the indirect effect on the labour market through the interest rate increases that it invites.

[2.35] The data on part-time employment show why there is at least the appearance of a reasonable return to acceptable all rates of employment growth. It is part-time employment growth which has maintained the growth rate in the labour market.

[2.36] Across the nine years shown on the table, the average growth rate in part-time employment has been 4.2%. It will thus be seen that the most recent increase of 6.4% is above the average shown on this table, and indeed, is above all the periods shown here except the period between June 1994 and June 1995. That is, we have exceptionally rapid part-time employment growth at a time when there is virtually no growth at all in the full-time labour market. We are continuing to switch employment from full-time to part-time. It is certainly a positive aspect of the labour market that there is this alternative, but it is a sign of weakness rather than strength that the jobs that are being created are predominately part-time rather than full.

Market Sector Productivity

[2.37] Turning to Table 21 of Tag 3 which shows GDP in the Market Sector we see a different kind of perspective on the performance of the Australian economy. Quite a large proportion of the growth rate in the economy has been in terms of public sector expenditure which, generally speaking, does not have an immediately calculable value added. In order to get a better picture of what is happening in terms of value added, the national accounts also publish data on GDP in the market sector, which are those parts of the economy in which a market value of the output is the basis for the estimate of economic growth and output. These figures provide a more robust estimate of the kinds of growth rate that occurred during particular periods of time because they are more closely associated with the market sector.

[2.38] As the table shows, the growth rate over the four quarters to December 2001 has been 2.9%. This is better than the negative growth rate over the four quarters to June but is yet another reminder of how minimal the recovery has been. In comparison with the previous peak in this measure of economic performance, which occurred in the June quarter 2000, the level of market sector

activity at December 2001 is only 1.4% higher. That is, over a period of one and a half years, the growth rate has only been a minimal 1.4%.

[2.39] There is no question at all that while there is recovery, the recovery is at an early stage and needs to be sustained for a period of time into the future before it can be genuinely embedded in the state of the economy.

[2.40] Table 22 shows that the national accounting estimates for productivity. These are the GDP per hour worked in the market sector figures and the data are exactly as produced by the ABS. We have not done the calculations of the indexes so that the index in the third column on GDP per hour is that of the Bureau rather than of our own.

[2.41] The first set of figures on GDP market sector have been looked at in the previous table. The second set of tables shows the hours worked as an index. What is truly striking is that the slowdown in the level of employment in the market sector has not yet been arrested. The index as at December 2001 is 98.7 which is some 2.3% below the peak reached in June 2000 when the index was 101.0.

[2.42] The labour market is clearly not doing well. The hours data allow one to amalgamate the full-time and part-time employment figures into a single index and what that index shows is that employment in terms of hours worked is contracting. Even with the economy picking up, it has not yet led to an increase in the number of hours worked in the market sector.

[2.43] We also note that the number of hours worked across the entire economy has also continued to contract during the most recent quarter, and indeed by half a percent in the December quarter itself.

[2.44] What are we to make then of the growth in this measure of productivity found in the last column? According to this estimate, GDP per hour worked in

the market sector rose by 4.3% during the year. This is comprised of a rise of 2.9% in market sector activity and a fall of 1.3% in the number of hours worked.

[2.45] Only when there is good growth in the number of hours worked as well as in GDP for the market sector can one genuinely state that there is an improvement in the underlying productivity. What we have here is an example of what ACCI have termed 'spurious productivity' which is the kind of productivity that occurs when labour can no longer be afforded for whatever reasons. The high cost of labour means that productivity growth has to be found one way or another and if it cannot be found through increased investment or better skilling of the workforce then it will be found through the shedding of those employees who are less productive. The effect on the economy is that when the cost of labour is not affordable, fewer people end up with jobs.

The Future is Never Certain

[2.46] The Australian economy is picking up but it is not yet in anything like the kind of condition required. There is still an international slowdown in place across much of the developed world and while there are great expectation that an international upturn is occurring at the moment, these are still expectations, not confirmed facts. Even here in Australia what we are achieving is a retracing of steps back towards levels of production, investment and employment we have already been able to achieve. We are not yet breaking new ground and there is a long way still to go.

[2.47] Beyond that there is the likelihood that interest rates are about to rise. Money market economists have been speaking of nothing else and the only issue that seems to be in doubt is the extent to which rates will rise, not whether rates will rise. There are some who argue that a year from now we will have had an increase of more than one percentage point in the level of official rates set by the Reserve Bank.

[2.48] What makes an increase even more likely is the rise in the CPI to 3.1% in the four quarters to December. As we have noted, this growth rate in the domestic price level is well beyond the growth rate experienced in other similarly placed economies. Using the identical basis to make the comparison, Australia has a growth rate in prices of 3.2%, which is one full percentage point higher than the next highest amongst major OECD economies. While the Reserve Bank has stated that it expects the price level to move back underneath the upper limit of its 2-3% target, one can be certain that the Reserve Bank is itself quite mindful of the higher inflation rate here in Australia in comparison with overseas economies.

[2.49] Six months of reasonable economic growth does not a recovery make. The data should make it clear that there is still a long way to go and that the wage outcome from this case should be consistent with maintaining growth, improving investment and achieving much more rapid rates of growth in the labour market.

3. Costing the Claim

[3.1] There are two aspects to the ACCI approach to costing the claim criticised by the ACTU and we will deal with each in turn. There is, firstly, the issue of the reliability of the survey we have used to assess the flow-on implications of decisions granted through the Safety Net. There is then, secondly, the way in which this data has been used to assess the impact of the ACTU claim on the economy in general. We totally reject the ACTU criticisms and believe them to be without any foundation.

[3.2] The ACTU has two approaches to arguing that our costings should be ignored. They first argue that since the costing only applies to the private sector that it isn't really a valid attempt to estimate the impact of the claim on the economy as a whole. For example, the ACTU in paragraph R3.15 (found on pages 25-26) states the following:

'The ACCI purports to calculate the addition to private sector earnings only. Even if it did this accurately, that costing would still need to be adjusted to provide a true economy wide picture.'

[3.3] This is yet one more example of the approach by the ACTU to spread the base as widely as possible so as to minimise the apparent impact of its claim. As we have pointed out in past submissions, the use of the ACTU of a wide base, which includes the wages of those who are not affected by safety net decisions, leads to the situation in which the apparent cost of the claim can be minimised.

[3.4] Representing as we do the private sector, we have constrained our focus to the private sector alone. But the ACTU gives the game away about why it insists that we should include the entire economy, and therefore include the public sector, where it states in paragraph R3.12 on page 23 the following:

> *'All but an insignificant minority of public sector employees do not receive the benefit of safety net increases.'*

[3.5] In other words, it criticises ACCI for not including in its costings a body equivalent to something like a quarter to a third of all employees in the economy almost all of whom do not receive any safety net increases at all. By including this group the obvious effect is to lower the percentage effect of the safety net on the level of wages growth. But it would also, in our submission, lead to a serious underestimate of the cost of the claim to Australian business.

[3.6] In particular, in our attempt to point out the inflationary consequences of granting the ACTU claim, it is clear that most prices in the CPI are the prices of goods and services produced by the private sector.

[3.7] Thus, not only do we reject the ACTU's criticism of the approach we take, but we would go further and say that it is the only correct approach to take if one is attempting to estimate the impact of the claim on both employment and prices because it is in the private sector that these claims have primary relevance. Thus, where the ACTU states that the Commission has before it only 'two genuine attempts to estimate the impact of the claim, that of the ACTU and that of the Commonwealth' it is merely attempting to deny the validity of the approach taken by ACCI which focuses on the part of the economy where the increases will need to be borne. It attempts to argue that in costing the claim one must include all of the public sector employees, virtually none of whom actually receive an increase directly as a result of the safety net.

[3.8] As we have already noted, the crucial issue is not what happens to wages overall when an increase is granted but what will happen to those specific employees who actually receive the increases claimed by the ACTU. As we noted in our original written submission, this is the problem of the inflated denominator which leads to a measured increase in costs far below the actual impact of what the true impact would be if the claim were granted.

[3.9] We specifically also note that the ACTU does not dispute the manner in which our costings have been constructed. The ACTU argues that we have used

in our costings the data for all award employees and not that for the private sector alone. It argues that the costings use the November 2000 estimate of all employee earnings derived from the Average Weekly Earnings survey and that we did not update this to appeared at which the Commission's decision would take place. And here we merely note that we chose the estimates of all employee earnings used by the ACTU in its own submissions and we used the November 2001 estimates of all employee earnings for the private sector.

[3.10] But finally, and this in its own way the most interesting, the ACTU states the following in paragraph R3.16:

> *'The costings significantly overstate the "flow-on" effects of the Commission's decision.'*

[3.11] In its own way it is progress that the ACTU finally agrees that there are flow-on effects from the safety net decisions. Until now, the ACTU has insisted that safety net increases have been absorbed into over-award payments. Now we find that rather than its insisting that there is no flow-on, it is only arguing that our survey has for some reason, in the ACTU's view, overstated the flow-on effect. It accepts that there is flow, but only that our estimate of flow is too high.

[3.12] The question then is, on what basis does the ACTU make that assertion? What other source of data does it have on the effect of safety net decisions on other increases? The data provided in the ACCI survey give the only estimate of flow-on from the Safety Net, and for reasons that we shall come to, it is likely to be an accurate indicative estimate of the flow-on from the Safety Net decision.

[3.13] At paragraph R3.22 on pages 28-29 of the ACTU reply submission, ACTU raises a number of issues in regard to information that was not included with the survey. We have since then supplied all of the information by the ACTU which is found in the ACTU's submission as well as in our own at **Tag 4.** The ACTU is quite right to have noted that we had not provided this data and we are pleased to have now included all of these background details.

[3.14] The ACTU then goes on to argue on the basis of the information that we have supplied that the results of the survey are, in its words at paragraph R3.26 'wholly unreliable'. This is a claim that we fully reject.

[3.15] The issue that the ACTU finds important is that the response rate to the survey was 17.6%. It argues that extrapolating from this base to the economy as a whole would likely lead to a statistically invalid conclusion.

[3.16] On this we could not disagree more. While it is true that one can always seek higher response rates, the survey was replied to by 381 respondents which is, in our view, a very good response to a survey of this kind. It is through results from this survey that we are able to provide accurate data on the state of the national economy which we publish separately.

[3.17] The ACTU itself has quoted from our most recent ACCI-Westpac survey to demonstrate there is growing strength in the national economy. Such surveys do have an extraordinarily good track record in picking turning points in the economy and this is because they are representative of business overall.

[3.18] The data found in our Business Barometer are constructed from ACCI survey material and it will be seen just how well this index tracks the actual movements in the economy, and does so well before information provided by the ABS is available.

[3.19] In essence, the sum total of the ACTU's criticisms is that the sample results we have obtained may not properly reflect the underlying reality of the economy in total.

[3.20] But, of course, if the standard errors are large, it is just as likely that our results provide an overestimate of these matters as there is likely to be an underestimate.

[3.21] In addition, the ACTU argues that there is significant risk of a non-response bias in relation to the survey. That is, in its words, 'employers who did not respond are more likely not to have noticed any safety net effects'.

[3.22] There are two responses we would make to this. Firstly, the questionnaire is simply answered by those who traditionally fill out the questionnaire. There are at different times different supplementary questions attached to the survey form so that basically what we have are the respondents to the questionnaire overall who then come upon a set of supplementary questions at the very end of the form. As in the past, most respondents have completed these additional questions while only 6% did not. There is no selection bias in the procedure.

[3.23] But there is another, more important reason for not needing to be concerned about the responder bias. And that is because the data are broken down between those with no employees who had received the safety net and those who had. The clear division in these results indicates how important it is for those who had been subject to the safety net. Even if there were a bias towards the firms completing the questionnaire who were subject to the safety net, only so that they could answer the questions on the safety net – a bias which we categorically deny exists – even if that were the case, the results for just those firms where the safety net does apply would be of major importance to this case.

Results by Size of Firm

[3.24] As added evidence confirming the accuracy of the surveys we would draw the Commission's attention to the data on the safety net results by employment levels. These results are found in **Tag 5**.

[3.25] What we have done with the data is break it down by size of firm. We have reduced the results according to three categories, 'small', which are firms

with 1-19 employees, 'medium' sized firms, which are firms with between 20 and 99 employees, and then finally, 'large' sized firms in which there are 100 employees or more.

[3.26] What is important in understanding these results is that the respondents in each of the size categories are entirely different firms. They are found in different industries in difference parts of Australia. There is absolutely no overlap between these firms. What we have are the results from, in effect, three separate surveys in which exactly the same questions were asked at exactly the same time. One set of questionnaires went to small business, another to medium sized firms and a third to large business.

[3.27] Thus, as will be seen, the results being as similar as they are is itself a confirmation of the accuracy of the survey. It is therefore worth looking at the results for each of these questions.

[3.28] Firstly, it should be noted that a similar number of responses by size of firm are found for each of the categories. There is a tendency for the proportion of firms amongst small businesses to be lower than for medium and large but in terms of employee numbers, this would be generally representative of the breakdown of employment across the economy.

[3.29] But that is not the issue in this case. What is important here is to note how similar the results are irrespective of size of firm, but also that where there are differences, that the differences make sense in terms of what one might have expected before the survey was conducted.

[3.30] The first question asked 'Did any of your employees receive an increase in wages directly because of the safety net decision?' What the data show is that in small firms 57.9% said yes, in medium sized firms it was 52.9% who had replied yes and then, finally, in large firms, it was 57.6% who had stated that

employees in their own enterprises had received an increase directly because of the safety net decision.

[3.31] The second question asked whether any over-award employees had received an increase directly as a result of the safety net decision.

[3.32] The results show that there was virtually the same proportion irrespective of size of firm. In small business it was 29.3%, in medium sized firms it was 31.3% and amongst large business it was 31.4%.

[3.33] The next question sought information whether any non-award employees had received an increase because of increases granted to award employees as part of the safety net decision. Although there is more variation in this reply, they are all of the same order of magnitude. Amongst small business it was 20.9%, for medium sized firms it was 27.5% and then for large business it was 23.8%.

[3.34] Question 4 asked about whether the increases in the safety net had any effect on the level of employment in their firms. Given that the smaller the firm the less latitude there is in reducing employee numbers, it is notable that there is an upward progression in the replies. We find that the data show that for small business 9.6% had fewer employees as a result of the safety net decision, in medium sized firms the proportion is 9.8% and then in large firms it was 10.8%.

[3.35] Question 5 then asked about the effect on full-time employment in each firm as a result of the safety net decision. Here the differences are far more pronounced but again make good economic sense. What we find is that amongst small businesses 4.5% stated that the number of full-time employees was lower then it otherwise would have been. For medium sized firms the proportion is 9.3% and for large business it has risen to 14.7%.

[3.36] Finally the last question asked whether as a result of the safety net decision the number of full-time employees was reduced and the number of part-

time or casual employees was increased. Again we see an upwards progression in the results with the larger the firm the more likely it would be that they would shift some employees from full-time to part-time. The results show that this had occurred in only 2.3% of small business but that the number had risen to 4.6% of medium sized firms. For large business the proportion had risen to 12.3%.

[3.37] Unlike the ACTU criticisms of the size of the survey (criticisms that are themselves flawed) the results of the survey do stand up to the most careful examination. These are results that cannot be ignored because they demonstrate the effect that the previous safety net decision had on both the level of wages paid across the private sector as well as on the level of employment within private sector firms.

[3.38] The close parallel between the categories by size of firms shows that the final results present an accurate picture in terms of order of magnitude. No one is ever going to know the exact number or proportion of businesses that reacted in particular ways as a result of the last safety net decision but this survey takes us close. The ACTU is reduced to saying that the survey is neither representative nor accurate but must nevertheless concede that if the data are a proper reflection of the consequences of the last Safety Net decision, that the decision did flow on to other employees beyond those to whom it was specifically directed.

Results by Industry

[3.39] We have also included data which divides the results up by industry. In this case there is a much wider variation between the different industry groupings but where there are these variations the differences do tend to confirm what our expectations would be.

[3.40] For example, it is in retail and personal services that a higher proportion of firms passed on the safety net increase in comparison within manufacturing

industry, construction and services to business. This is our own understanding from anecdotal evidence and it is confirmed by the results of the survey.

[3.41] The data also confirm that the flow-on to over-award employees is clustered in the retail and personal services area but that there is a similar rate of flow across all of the industry sectors shown.

[3.42] This same tendency to flow to a greater extent in wholesale and retail trade and personal services is shown in a table in regard to a non-award employee, but here too we find that the flow-on occurred in all industry sectors.

[3.43] The effects on employment, however, are clearly more pronounced in the retail and personal services sectors, again where the preponderance of employees paid according to the award rate would be found. Given the prevalence of over-award payments in manufacturing and construction it is not surprising to find the lower effect in those industries relative to retail and personal services.

[3.44] Again we note that the survey is conducted so that the same questions are asked at one and the same time across a number of industry sectors. The results are, in effect, different surveys conducted in different industries but in which each set of respondents is asked exactly the same questions. There is no communication between the respondents; they are not the same people and therefore the comparisons between industries present further evidence of the overall accuracy of the survey.

[3.45] Nor do we merely present the unweighted results but we weight the survey responses as we do with most of our other surveys. And given that we weight the results according to industry and size of firm, the final results are structured to conform with the actual contours of the Australian economy.

[3.46] Indeed no large survey, by us or by anyone else, attempts to replicate in its sample the exact contours of the Australian economy. This would be

enormously difficult and extraordinarily expensive. Surveys are conducted so that individual frames of smaller cells within the economy are sampled and then the samples are put together using a weighting index as we have ourselves put together.

[3.47] The ACTU has not discussed the weighting program that we have employed even though it was provided to them. This is because the manner in which we weight the data is the appropriate manner. All the ACTU can say is that the sample is small and therefore the results cannot be relied on to the extent they could be relied upon if the sample were larger.

[3.48] But, more importantly, given all of the internally consistent self confirming outcomes provided by the survey when it is broken down into its different elements, we are confident that these figures provide highly indicative results of the flow-on effects of the safety net decisions and the employment consequences of these higher costs of labour.

Costing the Claim

[3.49] Using these survey results to provide some kind of estimate of the aggregate cost of labour in the private sector is entirely appropriate and provides an accurate estimate of the actual cost to the private sector of granting the ACTU claim. We acknowledge that the data available through the ABS is not as suitable for our purposes as we would like. But at the end of the day, that is all there is. We acknowledge that the data are not equivalent to the proportion of employees but are only the proportion of firms. We had already noted this in our original written submission and we note it again now.

[3.50] This does not, however, mean that the data are necessarily smaller than the percentages we have provided because they could just as easily have been larger. Our costing show that with the flow on there would be an increase of 1.4 percentage points added to the cost of labour in the private sector and that is by

anyone's calculation a very large increase. **Tag 6** contains a further discussion of our costings and places the range of estimated increases between 1.3% and 1.7%.

The Final Weighted Survey Results

[3.51] But even if one wished to argue that using the proportion of firms as a substitute for the proportion of employees, there is still the obstacle provided by the data itself. What can be said is what is said by our own economic data.

[3.52] When we have finally taken our original raw results and weighted them according to size of firm and industry what we have found is that 42.2% of firms granted some of their employees an increase due to the safety net decision. As a result, according to our survey, there were increases granted to over-award employees in 30.4% of private sector firms. The survey also states that in 18.8% of such private sector firms there was an increase granted to non-award employees as a direct result of the safety net decision.

[3.53] The results also give us an indication of what had happened to the number of employees because of the decision. The data show that in 8.1% of firms there was a reduction in the level of employment relative to what otherwise would have occurred. In regard to full-time employment there was a reduction relative to what otherwise would have taken place in 6.7% of firms. Finally, the data show that in 2.0% of firms there was a transfer of the type of employment from full-time to part-time or casual.

[3.54] The data also made it clear that in firms in where there had been employees who had received an increase as a direct result of the safety net, that there was a very significant flow-on to non-award employees and to those who were paid over-awards. It also shows that in those firms there was a significant effect on employment and on full-time employment. It showed that there was

also a significantly large proportion of such firms which had reduced the number of full-time employees and had replaced them with more part-time employees.

[3.55] The survey stands on its own as an accurate measure of what takes place when the safety net is increased and labour costs go up beyond business productivity growth and thus increase beyond the capacity of firms to maintain employment as a result. The ACTU can no longer say that there is no evidence of a cost to jobs because now there is this evidence.

[3.56] Surveys of any kind invariably attract predictable criticisms from those who find their results uncomfortable. But our surveys are also accurate reflections of the economic reality in Australia as shown by the very fact that the ACTU quotes the ACCI-Westpac when it suits it. The economy has begun to pickup and our surveys show it. The safety net has pushed up the cost of labour beyond just those who received the increases as a direct result of the decision and it has also lead to less employment as a result. This, too, has been shown by our surveys.

[3.57] It is not as if the ABS data has shown large growth in employment and that our results are contrary to national outcomes. Rather than that being the case, what our survey results do is reflect the fact that the economy in general has not been raising employment to the extent that any of us would desire. Our survey shows that part of the reason for this outcome is due to the increases that have been granted through the safety net. What we therefore seek is a more careful consideration of the nature of these increases and their size.

[3.58] We do not say grant no increases. What we do say is grant increases in a way that will cause the least amount of damage to the Australian economy. On that basis increases should be moderate and targeted – granted only to those on the minimum wage. As the ACTU's own material has shown (not just in the present case but in all cases since the safety net began), that approach will do the most good to a targeted group at the bottom of the income distribution while

minimising the negative impact on their employment prospects. This is the right approach, and the approach that Australian employers believe the Commission ought to take.

4. Needs, and the Low Paid

[4.1] In dealing with the issue of the 'needs' of the low paid, we accept that there is such a thing as a general community standard. But it is precisely because there is no such thing as an absolute standard that makes the ACTU approach to dealing with this issue unacceptable.

[4.2] If there were an absolute standard then we could determine with relative ease whether some particular individual were achieving whatever that standard is. We could then make up whatever the difference was between the actual level achieved and the standard we had set.

[4.3] Instead, however, there is no such absolute standard so that we must determine some other means to decide where the community's minimum standard must lie. In this case we are discussing the minimum which is what the meaning of the safety net is. It is a level below which no one in the labour market should be permitted to fall.

[4.4] There are here two complicating factors. The first is that a person's standard of living is not determined by that person's wage alone. Individuals, depending on their circumstance, receive different levels of government benefits so that there are a range of different supplementary forms of assistance that are provided. Moreover, individuals are often part of a larger income unit so that the amounts that a person receives is pooled and becomes part of a shared income stream. The individual wage a person receives is that only one part of a more complete story of their command over goods and services.

[4.5] The second complicating factor is that because of the awards system, there is not just one standard we are discussing but a range. The ACTU attempts to assist the low paid but as we have noted in the past, the 'low paid' can earn more than $1000 per week. The notion of a safety net and a community standard becomes almost meaningless in the context in which it is placed by the ACTU.

[4.6] The notion of 'need' therefore disappears into an incoherence. The ACTU cannot genuinely discuss the 'needs' of the low paid because all it is actually stating is that wherever one might be on the income scale, there is a preference for an even higher income.

[4.7] Need must therefore be seen in the context of what can be afforded. What good is it to set a standard for award wages that means that some proportion of employees who are paid the award find their jobs have disappeared. It is in this context that the ACTU never approaches this question. It just seeks to increase wages, and did so even last year in the midst of a labour market that was contracting.

[4.8] The proper standard against which to match the question of what the ACTU describes as the needs of those who are in low paying jobs is the ability of their employers to afford to pay higher wages. It is because it is recognised that higher wages not underpinned by higher productivity do come at a cost of lost jobs that the welfare system has developed as it has in Australia, to ensure that those towards the bottom end of the income scale have supplementary earnings paid through various forms of government program.

[4.9] It ought to be clear in another sense that needs do not come as an absolute, but that there is a hierarchy of needs for those looking to earn an income through paid employment. The hierarchy is as follows:

1. The need for a job
2. The need for more hours of work
3. The need for greater job security
4. The need for higher pay than one currently has.

[4.10] What is more, it is not that these are 'needs' so much as what many individuals are looking for in life. They first of all want a job. Many of those with jobs would like to have more hours of work then they currently have. Beyond having the hours of work that they seek, many need greater job security. And finally most of those working for a living would like higher incomes as a result of the work they do.

[4.11] No one would deny that for those who work for a living, higher real earnings are better than lower real earnings. If there were no harmful consequences in raising the level of earnings, then there would be no objection from business to the ACTU claim. But higher wages not financed by higher productivity harms the rate of economic growth, it slows down investment and it

reduces the growth in productivity. In addition such increases add to inflationary pressures which leads to upwards pressure on rates of interest.

[4.12] But even in terms of that hierarchy of needs, it's only when one has a secure job that one can indulge in the luxury of seeking higher wages than one currently has. Because if higher wages lead to less job security, fewer hours worked and increased unemployment, then one cannot state that the increases had been beneficial to those who received them.

[4.13] Moreover, the variation between households and individual circumstance is critical to understanding that even here 'need' is a very elastic and relativistic concept. Those on $400 a week want $450 a week. Those on $450 a week want $500 a week. And this continues throughout the wage structure. There are simply vast differences between the circumstances of individuals. The wages system is much too blunt a tool to be trying to address this kind of problem, given the particular harm that higher labour costs do.

[4.14] These differences of circumstances are highlighted by the ACTU itself in its table on expenditure on necessities found at paragraph R6.19 (page 82) of its reply submission. There is found a table showing the range of percentages of income spent on necessities by the various witnesses that the ACTU has presented.

[4.15] You have at one extreme Jacqui Coates who has spent 89.9% of her income on necessities. At the other extreme is found Michael Howells who has spent 38% of his income on necessities. These are very large differences and while one might think that if we could concentrate on just those at the top of that table that would be a better outcome, it is very difficult to identify through the wages system which of these will be receiving an increase and which would not. We elaborate further on this in paragraph 4.56.

[4.16] It might also be noted in passing that so far as this table is concerned, 100% of all necessities are covered by income received and even in the case of those with the highest proportion of expenditure on necessities, there is still something left over.

[4.17] Whatever the circumstances of the individual, or whatever that individual's needs might be, at the end of the day what is actually relevant is

what the economy can afford to pay. And if the economy cannot afford the additions to cost that the ACTU claim represents then the effect will be to force some employees out of jobs, or to keep others who are now currently unemployed out of jobs for even longer than they would have otherwise have had to be unemployed.

Wages and Employment

[4.18] It is also intriguing to read the ACTU comment on the ACCI proposal that the Safety Net be applied only to those on the minimum wage. This is, of course, the approach used in all other industrialised economies and the ACTU has the following to say about this means of protecting the lower paid (page 90 of its reply submission):

> *'The ACCI proposal is for an increase which would flow to only 6% of award only workers, less than 1.4% of the Australian workforce. It is a derisory and insulting proposal and completely without merit.'*

[4.19] One can only be left wondering what the ACTU has been doing all these years referring to the decisions of the Low Pay Commission in the United Kingdom or to the decisions to raise the minimum wage in the United States. In this very case, the ACTU has provided further examples of how increases in the minimum wage provide protection for those at the bottom of the pay scale without damaging their employment prospects. Presumably, in these other economies the approach is 'derisory' and 'insulting' and, in their own words, 'completely without merit'.

[4.20] Yet it must be asked what the merits are of a wages system that continues to put individuals out of work and which prevents thousands of others from finding employment. Our survey material has made it clear that in a very significant proportion of firms the level of employment is systematically kept lower then it otherwise would have been because of these decision.

[4.21] An interesting insight into the approach to the employment question is shown in paragraph R5.43 on page 74 of the ACTUs reply submission. In discussing the ACCI survey material, after arguing that our survey results are wrongly compiled it says:

> *'Even so, the survey results suggest that the overwhelming preponderance of firms recorded no impact on employment with nearly 92% suggesting no effect on employment as a result of the Safety Net increase.'*

[4.22] In other words, the fact that 8% of firms had cut employment because of the increases granted means it hardly affected anyone. In the ACTU's view this was just a trivial number and the employees of those 8% of businesses could be simply ignored while the employees in the other 92% of firms pocketed the increases that the ACTU sought.

[4.23] The ACTU throughout its submission complains about the fall in real earnings of employees. For example, on page 13 at R2.13, the ACTU states the following:

> *'The data shows 21% of all adult non-managerial employees received a real wage cut in the period 1996-2000.'*

[4.24] This statement is almost certainly false. The plain fact of the matter is that it is impossible to make any estimate at all of the proportion of employees in the economy who have had a fall in their real wage. The data we have only show the proportion of non-managerial employees who might have received a cut in real wages but it does not refer to any individual. The certainty is that the true figure was substantially smaller than the number specified by the ACTU.

[4.25] To understand why the ACTU estimate is wrong and vastly overstated it is important to understand that for a large proportion of non-managerial employees there was a continuous upwards movement in the earnings they received. This would either have occurred because of internal promotion within a firm or through the switching of employments between one business and another. The tendency in these circumstances is that individuals will have moved from jobs at one level of payment to jobs at another, higher level of payment.

[4.26] The ACTU in actuality looks only at the average pay at different deciles and quintiles. What happens to individuals is quite a different matter. And it might also be noted that because of the nature of the labour market there are always some who are moving downwards through the various income classifications although, in most periods of time, the general movement in the wages of particular individuals is upwards because of the increased experience

they have had and the likelihood that they will have taken on more responsibility in the workplace.

Calculating the Real Wage

[4.27] But it is also important to appreciate the methodology of calculating real wages to understand why the ACTU's approach to dealing with wages as an average circumstance, rather than as an economic outcome, is inappropriate.

[4.28] No one is paid a real wage, only a nominal wage. Each individual receives a certain income denominated in Australian dollars. What those dollars can buy is determined by nature of the economy and by nothing else.

[4.29] When the ACTU states that the real wages of some particular group may have fallen, what it is saying is that the nominal amount of money received in dollars has risen by some percentage amount while the price level, however measured, has risen by an even larger percentage amount.

[4.30] One of the main reasons why the price level tends to rise is that productivity has not risen to the same extent as the growth in nominal wages. There is, of course, much roughness in this calculation but as an estimate over periods of time, one may assume that real wages growth will tend to match the growth in the underlying labour productivity of the economy.

[4.31] And where real wages rise beyond productivity, the tendency is for the excess in the cost of labour to be reflected in reductions in the level of employment.

[4.32] An interesting discussion of this issue is found in a forthcoming paper that will be published in the March 2002 issues of the *Economic Record*. The paper is by Phillip Lewis of the Centre for Labour Market Research and School of Economics and Marketing at the University of Canberra, and Gary MacDonald of the School of Economics and Finance at Curtin University of Technology. The paper is entitled 'The Elasticity of Demand for Labour in Australia'

[4.33] Much of this paper is presented in a highly mathematical form. But what is clear is the conclusion reached by this paper which puts an estimate on the

effect on employment in Australia of movements in real wages. On page 17 of the paper we find the following estimate which is the conclusion to the mathematical estimations that Lewis and MacDonald have conducted:

> *'This implies an elasticity of demand for labour with respect to real wages of -(0.6*1+0.2), that is -0.8. Thus, the correctly interpreted and estimated elasticity is 'somewhat fortuitously' close to the wrongly interpreted and estimated 'elasticity' of other studies.'*

[4.34] What that means is that in Australia a 1% increase in the real wage not supported by increased output, that is unsupported by increased productivity, will lead to a 0.8% fall in the level of employment. The higher wages are paid for through higher levels of unemployment.

[4.35] There are a number of other statements in the paper which are also of interest. On page 23 the paper states:

> *'The truly substantial effect of wage cuts comes from the effect on employment via a reduction in costs and hence their effect on output.'*

[4.36] What this states is that the fall in the real wage induces increased levels of employment because it increases the level of output. This statement could be reversed so that its importance for this ACTU claim becomes more apparent. In terms of this case, the statement that is made on page 23 amounts to this:

> *'The truly substantial effect of wage increases comes from their effect on employment via an increase in cost and hence their effect on output.'*

[4.37] That is, increases in costs lower the rate of growth in output and therefore lower the level of employment.

[4.38] Finally we would note the following observation made on page 24 of the paper in which it discusses the rate of growth in GDP necessary to lower the unemployment rate. There it states the following:

> *'Technical progress is found to be labour saving of about 1.2% per year. From a policy perspective, this estimate and the appropriate growth in the labour force of 2% per year, implies that output must increase by at over 3% per year for the unemployment rate to be reduced.'*

[4.39] If we are to get the unemployment rate down then we are going to have to maintain our economic growth rate at well over 3% per year. That we have returned to a rate above 3% is a positive outcome for the economy but if there is to be a substantial reduction in the unemployment rate, the growth rate of the economy will have to continue well above 3% for some considerable time into the future.

[4.40] There is a second paper by Phillip Lewis which is also of interest in this case. It is titled 'The Economics of the Minimum Wage' and is reprinted from the *Australian Economic Review* for 1997. It is found at Tag 8 in the submission.

[4.41] The point made by Lewis in this paper is similar to the one made in the paper just discussed. On page 2 of this paper, he again notes that the elasticity of the demand for labour is –0.8:

> *'There is considerable empirical research on the labour market in Australia and the effects of rises in average wages on employment. This research indicates that the 10% increase in average wages reduces employment by about 8%. Thus, moderation in average wages increases employment and, with the usual caveat that all of the things are equal, unemployment will fall.'*

[4.42] By why this paper is also valuable is that it is an invaluable reminder that the proper focus of the effect of wage increases is not the economy in general but the particular labour market where those on low pay are actually found. The point that Lewis is attempting to make is that it is not appropriate to think in terms of a single market for labour with some sort of average price, which is the way that the ACTU does its costings, but instead there should be a recognition of the segmentation which occurs in the labour market. As Lewis writes, again on page 2:

> *'Since most workers would obtain a wage higher than the minimum anyway, the effect of imposing a minimum wage is to increase the wages only of those who would otherwise receive the lowest wages. The effect on the average wage is small and, thus, the impact on employment and unemployment is also small. This theoretical argument is supported by international empirical evidence which shows that the impact of minimum wages on total employment and unemployment are small.'*

[4.43] The point that Lewis tries to make is found on page 3 where he writes as follows:

> *'Given the above framework it is relatively easy to understand the impact of minimum wages on employment and unemployment. The imposition of minimum wages affects only those in low skilled, low paid jobs. These individuals are, generally, very poor substitutes for the majority of the workforce and, therefore, the minimum wages have little impact on the wages and employment of most workers. However, those workers earning just above the minimum wage are highly substitutable for those who would have otherwise earn below the minimum. This is because although there is still a skilled differential between them the jobs are still, relatively, unskilled.'*

[4.44] That is, it is wrong to look at the effect on the economy overall when discussing the minimum wage since most employees are not in the range where their wages are increased. The conclusion to this analysis is then found on page 5. There it is written:

> *'Employers employ less of those who would have earned below the minimum wage and, therefore, unemployment among this group rises. However, these workers are substituted by more workers earning just above the minimum wage. Thus, the net effect on total employment and unemployment is small. However, there is a large fall in employment of workers who could otherwise have earned below the minimum wage.*
>
> *'In summary, the impact of the minimum wage on total employment and unemployment is small but the impact on low skilled, low paid workers is high.'*

[4.45] The conclusion that should be drawn is that the place to focus on the effect of increases in the minimum wage is not on the economy overall, which is the way in which it is done by the ACTU, but on the particular employees receiving the increases that occur. The Lewis paper discusses the effect at the minimum wage level and draws attention to the need to be aware of what takes place there. In Australia we do raise the minimum wage when we adjust awards and therefore there is an effect at the lower end of the wage distribution. But in Australia the Safety Net raises pay along the entire awards system so that there are many others besides those at the bottom of the pay scale who receive such increases and whose job prospects are affected.

[4.46] It is simply methodologically wrong to incorporate, as just one example, the CEOs of Australia's largest businesses into the equation of the cost impact of raising the Safety Net, which is what the ACTU insists on doing in costing its claim. The focus must be on the effect where the increases occur. These are the individuals who are affected and would be a certain consequence of granting the ACTU claim that many of them would end up losing their jobs as a result.

[4.47] We would just note that our data on security of employment was ignored by the ACTU in its reply submission. The material produced by the Melbourne Institute was clear on how important job security is for employees, but that it was of particular concern for those at the bottom of the pay scale. The analysis by Lewis has shown that it is precisely claims of the kind made by the ACTU that make such jobs less secure for those whom security is one of the most important features of a job.

Ensuring A Full Range of Factors Are Considered

[4.48] The ACTU, as would be expected, accords a primacy to needs in its submissions, and in particular in examining witness materials. However:

a. Subsection 88B(2)(c) is only one part of s.88B. The section does not appear to accord any particular primacy to this consideration above the factors set out in ss.88B(2)(a) and (b). It would have been open to Parliament to make needs a pre-eminent consideration, but this was not done.

b. There are a range of further relevant considerations in Part VI of the *Workplace Relations Act 1996*, including economic and labour market considerations.

c. Section 88B(2)(c) operates in the context of the principal object of the *Workplace Relations Act 1996*.

d. Consistent with the Commission's approach over time in these cases, determination of the safety net is about balancing various considerations. Needs form an important, but not pre-eminent part of this consideration.

ACTU Witness Evidence

[4.49] The ACTU has made a number of responses to issues raised in our primary written submission [6.12]-[6.20].

a. In some cases the ACTU has clarified issues which were unclear in its original submission.

b. In most cases however, the additional material fails to address the fundamental concerns raised with the initial ACTU material.

c. The ACTU has not addressed ACCI's primary concerns with the witness material (and the weight the ACTU seeks to attach to it) outlined in the ACCI written submission. The ACTU has brought forward no evidence which alters the relevance which can be attached to its witness material.

d. ACCI can see no reason for the Commission to now accord weight to the ACTU witness material in the wake of the reply submission.

[4.50] The ACTU witness materials are not representative, and continue to show the diversity of expenditures and incomes outlined in the ACCI written submission at [9.10] – [9.34]. They continue to:

a. Address only one amongst a range of factors which the Commission must balance in this matter.

b. Do no more than provide information on the income and expenditure activities of a selected and unrepresentative group of comparatively low income earners. Even within this broad framework, there is a considerable disparity between the incomes of witnesses.

c. Are be capable of sustaining the weight which the ACTU seeks to place on them, nor of allowing the Commission to reach any meaningful conclusion under s.88B(2)(c), within the context of other considerations.

d. Reveal a wide diversity of expenditure and income experience from which any generalisation would be impossible.

[4.51] The ACTU concede that their witness material is only of a qualitative nature. It provides no valid basis upon which to make conclusions on the needs

of the lower paid more generally, nor on the capacity of wages incomes to meet genuine necessities.

Precariousness

[4.52] The ACTU contends at [R6.12] & [R6.16] that ACCI has misunderstood the evidence of Mr Evans and Ms Bennett. ACCI however reiterates our submission made over some years, that the lower paid can be precarious in their employment, and that high, non-productivity linked increases in award wage obligations in particular, have the capacity to lead to job losses.

[4.53] Whilst the ACTU appears to have successfully chosen witnesses with established service[1], the ACTU also continues to ignore the extent to which wage increases such as that sought would endanger employment, particularly at comparatively lower pay levels.

Expenditures

[4.54] That the witnesses, and lower paid employees generally, may spend the majority of their income on necessities does not appear to assist the ACTU [R6.18]. That a safety net level of minimum wages would provide substantially for necessities appears axiomatic.

[4.55] The ACTU claims to have a definition of necessities [R6.18], but there appears to be a disparity between necessities as described in [R6.18], and [R6.15]. A "necessity" is defined in the Macquarie dictionary[2] as "something necessary or indispensable: the necessities of life." This would appear to imply a commonality and universality which is not supported even in the 11 cases brought forward by the ACTU.

[4.56] ACCI reiterates that the persons brought forward as witnesses have varying expenditure priorities/requirements (Figures 7, 8 and 9 of the ACCI written submission). The ACTU's new table R6.2 again shows a diversity of expenditure on what the ACTU seeks to define as necessities. This appears to support observations ACCI made regarding the witness materials in the previous written submission.

[1] *ACTU Reply Submission, 20 March 2002*, Table R6.1, p.81

[4.57] In particular, it appears questionable whether genuine necessities would show this level of variation between individuals. Were the genuinely lower paid to have the concentration of spending on necessities proposed by the ACTU, table R6.2 would show a much lesser dispersion of expenditure distribution.

[4.58] The ACTU's 11 witnesses do not provide the Commission with a basis to conclude that there is any pervasive, widespread, or representative incidence of the needs phenomena described by the ACTU:

[4.59] "despite moderate expenditure these award wage earners experience difficulties making ends meet and affording what are generally considered by the broader community to be basic needs" [R6.13].

[4.60] The ACTU has provided evidence from just 11 just witnesses. ACCI has previously shown that there is considerable variation/lack of commonality in regard to both the incomes and expenditures of these witnesses.[3] There is no basis to generalise from this material to the expenditures of award wage earners more generally.

[4.61] The clarification of the employment of Mr Howells is welcome [R6.14]. Mr Evans however appears to be employed on an enterprise agreement.

[4.62] The ACTU questions ACCI's characterisation of some of the spending aspirations of the witnesses as "desires" [R6.15]. A desire is defined in the Macquarie as "to wish or long for; crave; want". This would appear to correctly describe a wish for a holiday, or to undertake preferred recreation or social activities, or in some circumstances to buy new clothes.

[4.63] This is not to belittle the importance of these priorities for individuals, but rather is to note that they identify different priorities for expenditures based on individual circumstances. Again the ACTU's own composite exhibit (Tag 11) indicates a range of spending levels on clothing, recreation, personal care, and miscellaneous spending. This appears to illustrate a range of priorities, or spending "desires".

[2] (1982 edition)
[3] *ACCI Written Submission, 1 March 2002,* Section 9 *passim*

Statistical Reliability

[4.64] It is welcome that the ACTU recognises that its witness information is not statistically representative [R6.20].

[4.65] However within the space of one page, the ACTU seeks to employ this information statistically at [R6.19] and Table R6.2. That a majority of cases in four unrepresentative samples of carefully selected persons do or do not appear to show something, provides no basis for extrapolating to the community generally, or award employees generally, on needs. That the "vast majority of witnesses" appear to spend their income in a particular way has no statistical validity.

[4.66] The ACTU seeks to support its non-statistical material with ABS data [R6.20]. However:

a. There appears to be a disparity between the ABS and witness evidence as outlined in Table R6.2. This further underscores the unreliability of the witness material – and the minimal weight which can be attached to it.

b. There is a big difference between spending 54% of one's income on necessities (which may arguably be appropriate for someone on a minimum wage [R6.20]) and spending over 80% (e.g. Table R6.19).

c. It appears axiomatic that someone on a safety net income would spend a higher proportion of their wages on necessities than at some other income levels.

[4.67] Generally, the ACTU has failed to demonstrate:

a. That there is a that an undue proportion of wages income being spent on necessities by persons on lower award rates of pay such that an increase of $25 per week would be justified in the face of its likely adverse economic and labour market impact.

b. The proportion of wages income being spent on necessities by persons on lower award rates of pay, is inconsistent with a minimum wages safety net as set out in the Workplace Relations Act 1996, such that the minimum wages should significantly increase.

[4.68] ACCI is proposing that the minimum wage entitlement of the lowest paid should increase on this occasion. A $10 per week increase in the minimum wage will provide additional income for expenditure by those genuinely receiving the lowest levels of remuneration under the award system. The ACCI proposal would ensure that the needs of the low paid continue to be provided for by the award system.

Wages, Taxes, and Social Security

[4.69] The Commonwealth has raised the capacity of alternative mechanisms to provide appropriate incomes to the lowest paid more efficiently and effectively, without the detriment to the economy and labour market associated with increasing minimum wages.

[4.70] This includes examining further use of use of taxation and social security mechanisms, and their appropriate ongoing interaction with the Commission's minimum wage fixing functions, e.g. proposals such as that of the five economists.

[4.71] ACCI does not agree with the ACTU assertion that these matters have been raised with the intention of obscuring the position of any parties [R6.35]. In fact ACCI supports this debate being conducted at a number of levels.

[4.72] The importance of policy makers continuing to consider and debate the wider social safety net appears clear. These are significant matters and have the scope to contribute to the ongoing evolution of a more appropriate, effective and contemporary safety net.

[4.73] The contribution of the five economists, or of other proposals of this nature, should not be dismissed cavalierly. A relevant and effective safety net for the future will rely on all parties properly considering such well thought-out proposals, and engaging options for change constructively.

[4.74] ACCI's analysis of the ACTU witness material has already highlighted that a better explanation of social security and other government payments to lower income earners would assist parties in understanding the full range of incomes flowing to households in receipt of lower wages, and in more completely understanding the relationship between needs and award incomes.

[4.75] ACCI's submission is not contrary to those of other parties [R6.35]. Section 7 of the ACCI written submission of 1 March does not have the effect described by the ACTU.

[4.76] ACCI correctly outlines an established approach to considering taxation changes in fixing minimum wages. This includes a short summary of the Commission's ongoing refusal to accord significance to ACTU submissions on the GST.

[4.77] Ongoing discussion of options to improve income transfers to the lower paid is appropriate. ACCI both welcomes and participates in the debate on fixing minimum wages in the context of any future approach to wages, taxes and social security.

5. The Wage Fixing Principles

Retrospectivity:

[5.1] The ACTU has argued for an amendment to the operative date for increases under Principle 8, to allow increases to have effect earlier than the date of variation of an award. ACCI and other parties have objected to this proposed amendment (e.g. ACCI Written Submission p.143).

[5.2] Whilst the ACTU does not claim to seek "carte blanche" retrospectivity (ACTU reply, R8.3), it does seek an unnecessary, unwarranted and inappropriate extension to the capacity of parties to seek retrospectivity in safety net increases:

a. As a threshold issue, the ACTU has failed to present any evidence as to why there is a need to amend the current Principles to allow retrospectivity.

b. The ACTU proposal is inconsistent with the established approach of this Commission to claims of retrospectivity, which is to grant retrospectivity only in exceptional circumstances where some significant problem requires remedy at an industry or enterprise level.

c. The ACTU proposal raises the serious prospect of further confusion for employers in determining minimum wages obligations under awards. In particular, increases may take effect well prior to employers becoming aware of such obligations.

d. The ACTU proposal ignores the financial and administrative burden on employers of making back payments, particularly for:

   i) Smaller businesses;

   ii) Businesses with narrow operating margins or limited cash flow; and

   iii) Those facing adverse financial operating conditions.

The Commission's Approach to Retrospectivity

[5.3] The principles and the Workplace Relations Act 1996 allow the Commission to award retrospectivity where warranted and consistent with the clearly established approach to this issue, and general legal principles. ACCI understands that previous decisions of this Commission and its predecessors demonstrate a general approach of restraint in awarding retrospectivity, and that retrospective effect should be awarded only in exceptional cases where necessary to meet the unusual and significant circumstances of particular matters.

[5.4] The limited, remedial nature of retrospectivity in law is well understood. Certainly, failure of a particular party to pursue their application expeditiously is not a sufficient ground for retrospectivity (e.g Australian Apparel Pty Ltd t/as Fletcher Jones – Warrnambool and Textile Clothing and Footwear Union of Australia, [Print S3124] 27 January 2000, particularly at paragraph 28).

[5.5] The CCH Macquarie Dictionary of Employment and Industrial Relations, provides the following summary of the exercise of retrospectivity in industrial law: "Industrial tribunals will not usually award retrospectivity unless there are special circumstances which justify it".

Addressing Delays

[5.6] Paragraph [R8.6] of the ACTU reply submission refers to Re: Hairdressing and Beauty Services Victoria – Award 2001 [Print N7895]. In that decision, Lewin C granted an application for a safety net increase to apply retrospectively and made the following observations:

> *"While the case must clearly be decided on the particular facts and circumstances I think the decision in Re Transport Workers Award 1998*[4] *stands for the proposition that, among other things, if a procedural delay to the implementation of a safety adjustment is no fault of the applicant then consideration will be given to a departure from the strict application of Principle 8 paragraph (b)."*

[4] [Print S7219]

[5.7] The situation described by the ACTU in paragraph 8.3 of their initial written submission is where delays in Commission processes have resulted in safety net award variations occurring after the 12 month period has elapsed. These are exactly the factors taken into account by Lewin C in awarding retrospective effect:

> *"In my view, the issue at the heart of the matter is whether or not a remedy should be provided to the perpetual delay which has been built into the cycle of award safety net adjustments arising from the delay occasioned in 2000, because of the demands on the Commission's resources in the circumstances that then existed".*

[5.8] This decision demonstrates an existing capacity to address retrospectivity issues in individual cases. Further amendment to the principles to allow retrospectivity principles appears unnecessary and unwarranted.

[5.9] The amendment proposed would lead to a situation where the reasonable, balanced, historically developed safeguards that currently exist with respect to retrospectivity are eroded without cause and without a demonstrated basis for action.

<u>Onus/Evidence</u>

[5.10] The onus in retrospectivity matters lies with the party seeking to have the Commission adopt this unusual approach, and it appears that in previous decades that the onus lay with unions in particular to satisfy the Commission that it should depart from its established approach to fixing wages.

[5.11] In its original five paragraphs, and in the six further paragraphs in its reply submission, the ACTU has not produced sufficient evidence to sustain a single retrospectivity application, let alone one which would potentially apply across awards. The ACTU has failed to bring forward the evidence necessary to convince the Commission that retrospectivity should be awarded, especially in light of the Commission's established approach of caution with respect to placing such onerous burdens on employers.

[5.12] It remains unclear on what basis the ACTU advances this proposition. It is difficult to escape the conclusion that one of two unsustainable propositions is being advanced:

a. Due to the timetable of these proceedings, there will be some delay in the 2002 safety net decision, and in access to varying individual awards, of such significance that this should be redressed through the extraordinary mechanism of retrospectivity; or

b. There is some other deficiency in the business of the Commission that is delaying the variation of awards in the wake of safety net decisions, such that the extraordinary mechanism of retrospectivity is warranted. The ACTU has not brought forward evidence for either proposition.

[5.13] The ACTU states in its reply [R8.4] that *"the effect of these conditions is to ensure that where delays in processing Safety Net Applications occur through no fault of the applicant, workers under the award should not be penalised."* The ACTU has not brought forward any evidence to support this. The timing of the Commission's final decision in this matter rests solely with the Commission, as a function of the arbitral and determinative challenge at the conclusion of proceedings on 10 April.

[5.14] It should be noted in this regard that April 10 is only 14 days after the last hearing day in 2001 (27 March). It is far from clear that there will be any "delay" in processing safety net increases during 2002 based on the timing of the Commission's 2002 Safety Net Review decision.

[5.15] There is also no established approach that dictates that awards must increase 12 months apart to the day, nor that the Commission must issue its safety net decision exactly 12 months apart. The principle which has been accepted by the Commission is that not less than 12 months should elapse between safety net increases in any award (save for in the exceptional circumstances accommodated with the support of parties on the last occasion)[5].

[5.16] In its 2001 decision, the Commission described its established approach to the timing of increases as follows:

> *"the requirement that safety net adjustments increases not be available within twelve months of the previous safety net adjustment."*[6]

[5] Safety Net Review Wages – May 2001 [Print PR002001], [143]
[6] Safety Net Review Wages – May 2001 [Print PR002001], [143]

[5.17] The Commission was most clear on the purpose of the "12 month rule" in its 2000 decision:

> *"We also intend to maintain the requirement introduced in the April 1999 decision that at least twelve months must have elapsed since the rates in the award were increased in accordance with the last safety net adjustment before the award is varied as provided for in this decision. The purpose of this requirement is to avoid the cost pressures which might arise if more than one safety net adjustment is implemented within a twelve month period."*[7]

[5.18] This is not a requirement that awards must vary exactly 12 months from each previous increase, nor that any minor changes in annual increase dates as a function of a wide range of factors extraneous to the workplace should be compensated for to the detriment of employers, and in contravention of established principles of this Commission.

The Timing of Award Wage Increases

[5.19] It is not clear that there will actually be any variation in the issue of the decision in this matter which could be viewed as inconsistent with the ordinary ebb and flow of decision making and implementation in this jurisdiction. The timing of the application of a safety net increase to any award is a function of a wide range of factors, involving a wide range of actors, including:

a. ACTU decision making, affiliate, and administrative processes influencing when applications are made, in what form, and at what level.

b. Safety net determination by the Commission, including considerations such as the hearing timetable, complexity of matters for consideration, and scope of material to be assessed (e.g. research, models, data).

c. The timing of any safety net decision to increase award wages, which is in turn a function of issues such as (b).

d. The date upon which unions choose to apply to increase each award. This is in turn determined by the internal processes, resource allocation, decision making structures, and industry priorities, of each union.

[7] Safety Net Review Wages – May 2000 [Print S5000], [122]

e. Drawing up, lodging and serving applications upon parties and the Commission, including research on award wage histories and the previous application of increases to each award. This can include consideration of often complex issues such as how many and which awards to seek to vary simultaneously, and variations to award allowances. It may also include research on whether a proposed increase falls within the original ambit of an award, and on accepted formula for annualised salaries.

f. The complexity of award wage arrangements, and the administrative task in drawing up (and properly responding to) applications to vary. For example, some awards contain only limited wages points, whilst others contain multiple wages points, and often multiple schedules of rates for different sub-industries and/or locations.

g. Commission processes, including administrative and listing processes.

h. Commission member availability, including any preference from parties that particular awards be heard in particular locations (e.g. for state or territory based awards).

i. Finalisation of orders, including discussions between parties, and with the assistance of the Commission.

Scope For Retrospectivity

[5.20] The ACTU is also underestimating both the scope for retrospectivity to be applied and the confusion its proposed change to the principles would cause.

[5.21] The ACTU seeks to frame its proposed claim in terms of a purely remedial action to correct delays in varying particular federal awards (something the system can already accomplish where genuinely warranted).

[5.22] However, under various State labour relations systems there is scope for the simultaneous effect of safety net increases, including by way of general orders to vary common rule awards. In the wake of this decision, there will be State wage cases, which will consider in some jurisdictions at least, a single date of effect for increases applying to entire industries, and many thousands of persons.

[5.23] ACCI is concerned that accommodating retrospective effect as proposed by the ACTU may eventually see many thousands of State covered employers making back payments and attempting to fund retrospective increases. This would perhaps be a function of State unions pursuing a date of effect 12 months from any 2001 increase via a general order to vary all awards, regardless of the date of any 2002 State wage case decision. Unions may claim at a State level that such a position is justified by any amended principle as sought by the ACTU.

[5.24] This would see retrospectivity applied well beyond the impact identified by the ACTU, particularly in industries where a high level of common rule employment correlates with a lower incidence of overaward remuneration (e.g. the retail industry in many States). Such industries may see a very serious impact of widespread back pay across many thousands of workplaces.

[5.25] The date of application of safety net increases to State awards/orders has been a source of some confusion and contest at the State level in recent years. Scope for further confusion, and complication in many thousands of workplaces, provides further mitigation against granting the ACTU's proposed amendment to the principles.

Conclusion

[5.26] ACCI reiterates its opposition to the ACTU proposal to alter principle 8 to allow scope for retrospectivity in the awarding of increases. ACCI also reiterates the lack of any nexus between the amendments to principle 8 in the May 2001 decision, and those sought by the ACTU on this occasion.

[5.27] The ACTU appears to have again ignored the fundamental difficulty for employers posed by any retrospective application of award wage increases. Applying a retrospective application is not a simple nor equitable matter for employers financially, administratively, or operationally.

[5.28] The ACTU is asking employers to assume sole responsibility for the range of factors which determine the timing of award wage increases, many of which are nothing to do with employers, and certainly are not open to their determination/influence.

[5.29] It is also unclear to what extent any ACTU concerns giving rise to this application represent new or novel considerations. Award variations have long been subject to the interaction of the complex range of factors outlined above, and can ebb and flow in effective date from year to year/period of variation to period of variation.

[5.30] ACCI reiterates the wider concern that there be more prospectivity in safety net increases. Rather than retrospectivity as proposed by the ACTU, there should be a greater opportunity for employers to become aware of pending increases in award wages prior to increased obligations coming into effect. This is just common sense.

[5.31] In addition, approximately 12 monthly access to apply for increases which has emerged in recent years remains a matter of ongoing concern. ACCI has regularly expressed concern in previous proceedings at the apparent annual cycle of application and increase.

Economic Incapacity

[5.32] ACCI reiterates its support for amendments to the operation of the economic incapacity principle, and for this principle to be rendered a more viable option for parties to argue cases of genuine incapacity to apply minimum wage increases.

[5.33] Various proposals for change in this area have been advanced in this case. ACCI considers granting these proposals would represent important steps in rendering this principle more accessible to parties experiencing economic incapacity.

[5.34] The proposals advanced will not see economic incapacity applications become commonplace, nor will significant components of the award covered labour force become subject to incapacity orders of the Commission. However to quote the ACTU it “strains credulity’ to believe that no workplace has suffered economic incapacity during the life of this principle, nor that safety net increases have not led to job losses or threats to business viability during recent years.

[5.35] ACCI understands the function of the principle is to ensure that there is a avenue available for businesses to seek a customised application of safety net increases where the general application would compromise the ongoing economic viability of the business and its capacity to provide employment. The Principle is a recognition that the pre-eminent importance of the award safety net is not such that it operates without regard to the minority of situations where its effect would be absurd, undesirable, or contrary to the principal objects of the *Workplace Relations Act 1996*.

[5.36] All parties have accepted the validity of including such a capacity within the wage fixing principles. What is at issue is whether the current principle is properly performing its intended role.

[5.37] That more employers have not accessed the provision illustrates that it has not properly operated to allow incapacity applications, and that the principle is in need of ongoing amendment. To argue that there are not cases of genuine incapacity to apply increases which should, but are not being accommodated under this principle, appears highly ambitious. This would assume an impossibly (and uniformly) positive performance for the economy and labour market, which is not supported by evidence.

[5.38] ACCI submissions and those of other parties point to a diversity of operational circumstances, and of capacities to viably increase award wages, particularly at a regional and industry level, and for some smaller businesses. This is underlined in particular by the submissions of industry associations.

[5.39] There are clearly circumstances in which workplaces and industries cannot accommodate increases in wages without a threat to employment and operational viability. To the extent that the purported avenue for allowing workplaces to argue incapacity remains little used in cases of genuine incapacity, the system fails to properly accommodate the needs of these industries, employers and employees.

[5.40] ACCI believes it is incumbent upon the Commission and parties to properly accommodate these workplaces, and provide them with scope to argue for differential approaches to ensure business viability. ACCI also considers that it is incumbent in particular upon a system of minimum wages which constitutes a comparatively high proportion of median or market earnings, to

properly accommodate scope to argue for adjusted application of increases to reflect unusual and threatening circumstances.

[5.41] ACCI also considers that the proposed amendments would deliver a better balance in the exercise of this principle. Providing genuine scope for businesses to argue their incapacity to viably apply increases without serious adverse consequences can be balanced with strong imperatives for movements in minimum wages.

[5.42] ACCI supports the various approaches outlined in submissions for reform of this principle.

More Appropriate Evidentiary Requirements:

[5.43] Changes to the evidentiary requirements under this principle have been advanced by the AHA/ MIMAA and the Commonwealth.

[5.44] ACCI shares the concern that the operation of the existing evidentiary requirement that material in support of incapacity prescription be "rigorously tested", may be discouraging applications in cases in which increases in labour costs would have an adverse effect on workplaces/employment.

[5.45] ACCI agrees with the Commonwealth that the requirement to "rigorously test" material can be particularly arduous on smaller businesses, and can render incapacity to pay prescription beyond their reach. It appears a clear disincentive to smaller businesses seeking to have the award system properly recognise the difficulties they would face in applying any increase.

[5.46] Under the current system, small (and indeed larger) businesses would need look only to the experience of expert and well resourced industrial advocates/organisations in seeking to argue incapacity, to conclude that it is beyond their reach as a response to individual business challenges. That employers are not pursuing claims for incapacity is a factor to which the commission should pay significant regard in varying this principle on this occasion.

[5.47] At a more general level, ACCI can see no reason why, as raised by the AHA/MIMAA there is any different approach to testing evidence under this principle than that under the *Workplace Relations Act 1996* more generally. It is unclear why there is a different evidentiary approach to:

a. Imposing new costs and obligations on employers, particularly small employers; and

b. Varying the application of any new entitlement for employees.

[5.48] ACCI is unsure whether the ACTU material at [R8.11] advances its argument. If the "rigorous testing" of evidence is clearly consistent with the standard of proof required under the *Workplace Relations Act 1996* as appears to be claimed, then why should the incapacity principle require the identification of any particular, or additional approach to evidence at all? Does the ACTU observation suggest that the superior approach may be for the principle to make clear that material will be required, but to remain silent on how it will be tested, leaving this to the Act more generally.

<u>The Needs of Small Business</u>:

[5.49] The ACTU claims [R8.12] that the Commonwealth is seeking to weaken the evidentiary requirements in relation to the economic incapacity principle for small business. This is not an appropriate way to conceive of the proposed variation. The various amendments proposed would render the principle genuinely able to meet its stated aim. That an evidentiary requirement is reformed in this process is far from inherently undesirable.

[5.50] The existing test appears considerably difficult to access for small business.

[5.51] It is questionable for example whether a small, and of course financially troubled business, has the time and financial capacity to satisfy "rigorous testing" of any material it brings forward to the Commission, as opposed to testing.

[5.52] As proposed by the Commonwealth[8], the principle should be amended to ensure that special regard is had for the operational circumstances of small business in deciding on evidentiary requirements affecting them.

[5.53] The Commonwealth's proposed alternative procedure for applications for incapacity to apply any safety net increases by businesses of less than 20 employees, is supported as an alternative for those smaller employers who wish to pursue incapacity claims on this basis.

Single Member:

[5.54] The Commonwealth proposes that a single member be able to deal with an application under this principle, without the need to make out a case under s.107.[9] This would appear to be an important change to:

a. Make arguing incapacity more accessible to the financially strapped employers who would seek to use the principle.

b. Expedite the listing and consideration of such applications, without the need to convene a full bench. Expeditious hearing and determination is a vital element of fairness to both employer and employees in these cases.

c. Ensure that incapacity redress is actually relevant and useful to addressing urgent operational difficulties.

d. Ensure incapacity is treated less as an exceptional matter, and is regularised within the work of the Commission as an option for parties suffering genuine operational difficulty.

Scope for Both Industry and Individual Applications:

[5.55] ACCI supports the Commonwealth's proposed variation to the current principle to reflect that incapacity claims should be able to be considered, and special application of safety net increases applied, on both a single business and at a "sectoral, industry or regional level".

[8] Commonwealth Submissions, 1 March 2002, [9.34], p.179
[9] Commonwealth Submissions, 1 March 2002, [9.16-17], p.173

[5.56] Evidentiary requirements to sustain/prove genuine cases of incapacity should not preclude scope to argue that groups of businesses at a "sectoral, industry or regional level" are experiencing common incapacity, and have a shared need for modified application of any increase.

[5.57] The existing principle begins: "*Any respondent or group of respondents to an award may apply…*". Clearly it is encompassed that group incapacity prescription can be awarded. This should therefore operate as viably, and accessibly as possible, consistent with the overall goals for this principle.

Information Sheet:

[5.58] The Commonwealth proposes that the AIR make available and promote an updated information sheet to assist applications for economic incapacity. Such a sheet would support parties in seeking to access these provisions and in bringing matters forward to the Commission. A revised information sheet would also be relevant to properly support any revised principle on economic incapacity.

[5.59] A revised information sheet could also provide parties with further guidance on evidentiary material the Commission considers relevant.

Further Review:

[5.60] The existing principle states:

> *Any decision to temporarily reduce or postpone an increase will be subject to a further review, the date of which will be determined by the Commission at the time it decides any application under this Principle.*

[5.61] This appears to require that any, and all decisions to either reduce or postpone an increase in award wages are subject to some form of additional Commission review.

[5.62] This may be a valid approach in some/many cases, but there may be cases where prescription based on incapacity does not require a review, and where a review would be inappropriate and unnecessary.

[5.63] If for example, the Commission determined that an increase should be deferred for a specific period (e.g. 3 or 6 months), it may be impractical that any review be undertaken during this period. A review may not be merited unless the adversity which led to the deferral actually dissipates or fails to be alleviated.

[5.64] The Commission should consider amending the principle to recognise that not all prescription in cases of incapacity will necessarily require review. There should be scope for:

a. Award incapacity prescription with a requirement for review, either at a date fixed at the time a decision is made, or to be fixed during the life of any order.

b. Awarding incapacity prescription without any requirement for review where appropriate (e.g. when there is a deferral for a defined short or medium term).

c. Awarding incapacity prescription without any requirement for review, but with a liberty for parties to apply for a review where circumstances change.

<u>The Safety Net</u>

[5.65] The ACTU argues there is a primacy accorded to the safety net under s.88B of the *Workplace Relations Act 1996.*[10]

a. The establishment and variation of the award safety net is but one of a balanced set of imperatives under the principal object of the *Workplace Relations Act 1996* (s.3).

b. The establishment and variation of the award safety net indeed occurs in part subject to s.88B, but its also occurs in the wider context of matters set out in Part VI, and the Act more generally.

c. There is also a clear statutory recognition of the importance of having regard to the matters set out in s.88B(b).

[10] ACTU Reply Submission, 20 March, [R8.13]

[5.66] ACCI finds it difficult to accept, in the context of the objects of the Act taken as a whole, and of s.88B as a whole, that the primacy of varying the safety net is such that it should operate regardless of its effect on the capacity to sustain employment, and the continued viable operation of particular workplaces.

Conciliation:

[5.67] The ACTU stress the role of conciliation preceding incapacity matters [R8.14]. It is not clear that an application for incapacity would trigger considerations such a those in s.100 of the *Workplace Relations Act 1996*.

[5.68] There is also scope under s.100 for the President to determine that conciliation would not assist the settlement of any dispute which did exist in regard to incapacity to pay. Section 107(2)(b) also appears to also contemplate that the President can proceed to conciliation or arbitration under this part. The ACTU may not therefore be correct in suggesting that "*the Commission is required to attempt conciliation*".

[5.69] There may be validity in attempting conciliation in some cases, however:

a. Speed of resolution is vital in these matters given the inherently pressing nature of economic adversity/genuine incapacity to pay, and the importance of employees being properly aware of whether, when and how wage increases will be applied. Any conciliation should not serve to delay the processing of matters under this principle.

b. Conciliation is only relevant to the extent that it is genuinely constructive and likely to address matters raised by parties seeking to argue incapacity. The Commission must retain the ability to quickly cease conciliation where it is clear that it will not assist in the expeditious resolution of the matter at hand.

c. Conciliation will not be appropriate in all or perhaps even most cases under this principle. It should be open to the Commission to quickly determine that conciliation is impossible and to proceed with the matter. This could include an assessment based on the public statements of parties.

[5.70] Employers (particularly in unionised businesses) would however welcome the change in union attitudes to incapacity implicit in undertaking genuine conciliation on this issue. A greater union willingness to appreciate and accept various propositions necessary to genuinely participate in conciliation, would be welcome, including a recognition of:

a. The adverse operating circumstances which can lead to incapacity applications.

b. The pressing need for an altered application of safety net increases for workplaces / industries / regions facing genuine hardship.

c. The employment consequences of failing to adopt a reasonable, constructive attitude when presented with incapacity applications.

[5.71] Conciliation should also not rely on, nor require employers to provide sensitive commercial and operating records to unions, nor to have these enter the public domain. If it does so, conciliation may have the effect of acting as a powerful disincentive for employers to engage in the process, since in many cases they will possess legitimate and real reservations against being required to make such disclosures.

Incapacity to Pay - Other Considerations:

[5.72] In [R8.13] the ACTU describes the Economic Incapacity principle in the following terms "*The Economic Incapacity Principle is a mechanism by which an employer is permitted to avoid payment of what has been determined as the fair safety net minimum wage*". With respect, this is precisely the thinking which has served to compromise the proper operation of this principle over time.

[5.73] ACCI suggests this debate would be significantly assisted if the Commission and parties instead addressed incapacity issues based on a recognition of guiding principles such as the following:

> *The Economic Incapacity Principle is a mechanism by which the Commission recognises that within its determination of a fair safety net of minimum wages, what is fair for particular workplaces/industries/regions can differ in a minority of instances.*

> *Where employers either as a group or individually face adverse operating circumstances which impact on their business, and their capacity to offer ongoing employment, the system recognises that different, customised approaches may be required, that properly balance the need to provide an appropriate wages safety net with the particular challenges facing workplaces/industries/regions*".

[5.74] The NFF, for whom ACCI appears in this matter has a strong record in these matters of seeking to ensure this principle is relevant and open to practical use by agricultural employers, many of whom regularly face periods of very real incapacity to apply any increases in labour costs. The NFF strongly supports reforms to ensure the relevance and accessibility of this principle.

Incentives to Bargain

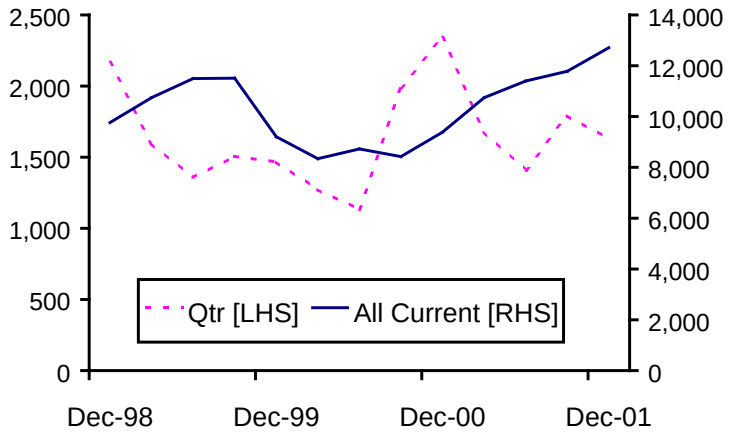
[5.75] ACCI supports the proposal to amend Principle 1 to embody the importance of an incentive to bargain.

[5.76] ACCI does not agree with the ACTU [R8.16] that there is no need for the principles to set out any intentions/aims for the award system. Principle 1 remains a valid and important part of the principles, and provides the context for their exercise. It is appropriate that it be revisited periodically to ensure it embodies the *Workplace Relations Act 1996*, and the practice of the Commission. The proposed amendment would do this.

[5.77] Principle 1 makes the following observation on the award system: *"It will, and is intended by the legislature to, change in response to economic, social and industrial circumstances."* ACCI considers such an approach could equally be applied to Principle 1 itself, and that it should change in response to circumstances as proposed by the Commonwealth. The proposed amendment will ensure the principles appropriately reflect the primacy accorded to enterprise level agreement making under the *Workplace Relations Act 1996*.

[5.78] The ACTU questions evidence to support this proposal. Whilst it is not clear that such a proposal need directly be supported by evidence as with other proposals addressed in this case, the following may be relevant to the ongoing importance of emphasising incentives to bargain:

Figure 6.1 – Progress of Certified Agreement Making[11]



Special Cases

[5.79] ACCI reiterates that parties would be assisted by amendments to clarify the operation of the special case principle. Specifically, the Commonwealth has advanced various proposals to vary principle 10 (Commonwealth written submission, para 9.45). ACCI supports these proposed amendments.

[5.80] It is welcome that the ACTU does not oppose the proposition that the principles could be amended to further clarify the operation of this principle [R8.17] and [R8.19].

[5.81] ACCI support for this Commonwealth proposal is made without regard to the separate proposal in regard to Principle 12. The concern outlined by the ACTU at [R8.18] need not be addressed by the Commission, and does not appear to have foundation in the revised principle advanced by the Commonwealth. It is not the basis upon which ACCI supports this proposition.

[5.82] ACCI does not reach the same conclusion as the ACTU in regard to the effect of the proposed principle, as outlined in [R8.20]. The inclusion of the words *"of wages and conditions prescribed by the award when the application is made"* would not have the consequence that every application for variation of an award would be referred by the President.

[11] Source: *DEWR Trends in Federal Enterprise Bargaining - December Quarter 2001*, Table 3

[5.83] Principles 2, 3, 4, 5, 6, 7, 8, and 9 would still operate in regard to many or most applications to vary awards, and variations outside these avenues would appear to largely be subject to the same administrative treatment, save that it would be clearer, in more cases, based on the amendment.

[5.84] Were, alternatively, the Commission to conclude the ACCI observation did have merit, it would best be addressed by drafting a revised principle which did not have this unintended effect, rather than any rejection of the amendments proposed by the Commonwealth.

6. Issues Arising From Other Submissions

ACTU Approach to Industry Issues

[6.1] ACCI cannot agree with the ACTU on the weight the Commission should place on material brought forward by industry based parties to these proceedings [R9.1].

[6.2] It would not be responsible/appropriate, and the Commission does not, make its decisions in these matters solely on the basis of aggregate national data without regard to the impact of increases on particular industries and regions.

[6.3] The Commission would not be able to properly assess its prescribed economic considerations through a solely or disproportionately macro focus.

[6.4] ACCI cannot agree with the statutory approach advocated at [R9.1-R9.2].

a. Section 88B(2)(b) is not expressed in the same terms as s.88B(2)(a). Whilst the assessment of living standards is of those "prevailing in the Australian community" there is no comparable direction to any aggregate consideration of economic factors. Section 88B(2)(b) does not demand an assessment solely of economic factors prevailing "across Australia", or in the economy "generally".

b. The *Workplace Relations Act 1996* demands of the Commission and parties a balanced assessment of both macro and micro economic factors which cannot be read down as advocated by the ACTU. It is incumbent on the Commission to consider the differential impact that a safety net increase may have on various industries and regions.

c. Were parliament to have intended that the Commission have regard solely, or predominantly, to aggregate economic factors, it would have had at its disposal statutory mechanisms to focus the Commission's attention in this way. That parliament defined s.88B(2) in more general terms supports an ongoing assessment of both macro and micro factors, including materials brought forward for specific industries.

[6.5] Employer submissions do not seek to have the Commission place undue weight on differential (regional, sectoral, industry) factors. Rather, employers have been at pains for some years to stress the importance of considering both aggregate and differential factors, and of having proper regard to the impact of any increases on industries which may (a) be experiencing adverse circumstances, and (b) see a much greater translation of safety net increases into paid increases than may be indicated by aggregate data.

[6.6] It should also be recalled the substantial shifts in employment/business viability in a small range of industries can have significant effects on aggregate economic indicators. Recent concerns regarding the impact of adverse developments in the hospitality and travel industries upon the national and State economies support this view.

[6.7] The ACTU, and its supporters accorded significant weight during 2001 to the impact of industry developments on the national and State economies. This includes in particular the flow on from issues such as the closure of Ansett. For example, Queensland Premier Beattie made the following comments in a press release of 30 November 2001:

> *"Queensland's tourism industry was enormously resilient and was fighting back strongly against the double whammy of the Ansett collapse and the September 11 terrorism attack in the United States … Tourism is one of our priorities and rightly so because it earns this state more than $14 billion each year and employs some 150,000 Queenslanders."*

[6.8] It is not correct to characterise the very real concerns of industry parties as "special pleading". The submissions of industry parties reveal very real outcomes and adversities at an industry level that should be considered by the Commission in balancing its considerations. The economy is after all only the sum of its parts. Industry submissions also provide the Commission with some of its best information on what actually happens in Australian workplaces.

Industry Impacts

[6.9] The Australian Hotels Association (AHA) and the Motor Inn, Motel and Accommodation Association (MIMAA) seek the postponement of any increase that may be awarded as a result of these proceedings for a period of six (6) months from the date of operation determined by the Commission in relation to

those members of the AHA or MIMAA being respondents to the Award that are classified as Four Star and Five Star accommodation hotels in capital cities and major resort centres. [AHA, para 4]

[6.10] Whilst AHA/MIMAA make clear that there should be separate proceedings to determine this application for deferral [AHA, para 45], the application raises issues for Commission consideration. It is important that the award safety net system be able to accommodate an industry sector which brings forward so significant a case of adverse circumstances – especially where the proposal is for only a temporary modification of the general minimum wages prescription.

[6.11] It is disappointing that the ACTU does not seek to engage the AHA/MIMAA proposition on deferring the safety net increase, which is limited in its scope and application, and is advanced with a clear understanding of when increases should flow to employees. It is also disappointing that the ACTU appear to reject the AHA/MIMAA proposal without sufficient consideration of the precariousness of employment of persons employed in this, and allied industries in the current economic climate. It appears to ACCI that the proposed approach would serve to protect jobs as well as business viability. It is hoped that industry unions will engage this proposition more positively when it is considered in the wake of these proceedings.

Surveys

[6.12] It is not the case that the industry specific membership surveys are self serving, nor that they do not provide useful data [R9.16]. Such a characterisation does not assist the Commission in its determinative task, nor provide any basis to properly assess industry material.

[6.13] The membership of business organisations is a recognised source of important economic information in Australia, not restricted to these proceedings. Major economic material flows from business funded, managed and commissioned surveys. Business survey information informs important macro-economic decisions and debates in Australia.

[6.14] It is preposterous that the ACTU seek to belittle material brought before the Commission based upon its source – or to suggest that material be accorded less weight due to its source in this manner.

[6.15] The ACTU itself seeks to rely upon business surveys in this matter:

a. [R4.51] – ACCI / Westpac Survey of Industrial Trends

b. [R4.52] – National Australia Bank Monthly Business Survey

c. [R4.52] – Westpac – Melbourne Institute Index of Consumer Sentiment

d. [R4.52] – Dunn and Bradstreet Monthly Business Expectations Survey

[6.16] Employer bodies are at pains to secure reliable survey information from members, particularly where it may be used to assist the Commission in its deliberations. An ACTU contention not supported by specific identifications of where surveys are "self serving" or seek to advance "tenuous facts" should be disregarded, and should not influence the Commission's assessment of any employer material.

[6.17] Further the generalisation advanced <u>could not</u> apply to all the industry material brought forward by industry parties in these proceedings as this material is heterogeneous in purpose. For example, the *Printing Industry Trends Survey* appears to be a general survey of commercial and other issues for the industry. It addresses a very wide range of industry performance data, and does not appear to have been undertaken specifically for these proceedings. It is very difficult to see how it could be self serving.

Joint ALP States/Territories Submissions

[6.18] ACCI notes that the material provided by the Labor States in their joint submission is largely descriptive, including a restatement of the statutory tests for this case, and a purely descriptive presentation of macroeconomic information at both the federal and state level.

[6.19] Notwithstanding the lack of any clear supporting evidence from their economies or labour markets, the Joint Labor States endorse the ambit position

of the ACTU in full. The Labor States support a non-productivity linked wage increase in their State labour markets of $25 per week, or over 6%.

[6.20] The State Labor government's assessment of the best way forward for their economies and labour markets appears to be a centralised wage increase of over 6%, despite the prospects for strongly adverse impacts on economies and labour markets identified in this and other submissions.

[6.21] The Joint Labor States fail to advance any substantive material to support this position. If as the Joint Labor States' submission claims, the ACTU claim is *"reasonable given expectations of a relatively favourable economic outlook"*[12] it is disappointing that the Joint Labor States have not provided evidence to support this. Given the uniformity of the Joint Labour States and Territories position, this information would need to show a uniformly positive performance and outlook for their economies and labour markets. Do the Joint Labor States actually believe their local economies (including rural and regional areas) are so economically strong that such increases will have no negative effects?

[6.22] It is one thing for the ACTU to take a narrow and partisan view with respect to safety net increases, and to lodge an ambit claim in an attempt to maximise its chances of securing a high increase. However, State and Territory governments have overriding responsibilities to their economies and labour markets. It is difficult to see that these responsibilities are met by accepting in full an ambit ACTU claim, and championing a level of increase which has been rejected by this Commission in assessing previous claims.

[6.23] It is also peculiar that the State Labor governments so cavalierly seek to spend the money of private employers. The incongruity of this proposition is underscored by a consideration that most State public sector employees would not be subject to a wage increase based on an increase in award rates.

[6.24] In the absence of evidence from the States to support their position, their support for an ACTU ambit position should be accorded very little or no weight.

[12] Joint Labor States Submission, *paragraph 5*

National Farmers' Federation

1. Introduction

[NFF 1.1] This submission is made by the National Farmers' Federation (NFF) in response to the ACTU's reply submission on the 2002 Safety Net Review.

[NFF 1.2] The NFF submits that the ACTU's reply submission raises points that are either erroneous or should be irrelevant to the Commission's deliberations. The NFF therefore maintains its argument that an across the board wage increase should be rejected. The NFF maintains that a $10.00 increase on the current minimum wage (of $413.40) alone should be the Commission's preferred outcome.

[NFF 1.3] Since our earlier submission, the ABARE has released its latest forecasts for the agricultural sector. This current submission summarises these new forecasts, showing how they bolster our submission for rejecting the ACTU's case.

2. The rural labour market

[NFF 2.1] In our earlier submission, the NFF argued that unemployment in rural and regional Australia remains higher than in urban areas. Since that time, the disparity between employment conditions in rural and urban Australia has increased.

[NFF 2.2] Over the year to February 2002, metropolitan employment grew by 3.1% compared with 0.0% for non-metropolitan employment. Of the ten regions with the highest unemployment rates, all lie, at least partly, outside capital cities (compared with seven in our earlier submission). Nine of the ten regions with the lowest unemployment rates are in metropolitan areas – see table below.[13]

13. Source: ABS, *Labour Force Selected Summary Tables* Cat No 6291.0.40.001.

Highest Unemployment rates, February 2002

Region	%
Wide Bay/Burnett SR Queensland (non-metro)	**13.3**
Richmond/Tweed & Mid-North Coast SRS NSW (non-metro)	**13.0**
North & West Moreton SR Queensland (non-metro)	**11.5**
Northern/ North West SR Queensland (non-metro)	**10.2**
South & East Moreton SR Queensland (non-metro)	**10.0**
Gold Coast City Parts A & B SRSs Queensland (metro/non-metro)	**9.8**
All Gippsland Region Victoria (non-metro)	**9.8**
Hunter SR NSW (non-metro)	**9.7**
Mersey/Lyell SRS Tasmania (non-metro)	**9.7**
Newcastle SRS NSW (non-metro)	**9.6**

Lowest Unemployment Rates, February 2002

Region	%
Northern Beaches SR NSW (metro)	**2.8**
Central Western Sydney SR NSW (metro)	**4.2**
Hornsby-Ku-ring-gai SR & Baulkham Hills NSW (metro)	**4.3**
Lower Northern Sydney SR NSW (metro)	**4.4**
Darling Downs/South West SR Queensland (non-metro)	**4.5**
Outer Western Sydney SR & Blacktown NSW (metro)	**4.5**
St George/ Sutherland SR NSW (metro)	**4.6**
Eastern Suburbs SR NSW (metro)	**4.6**
Inner Eastern Melbourne SR Victoria (metro)	**4.9**
Central Metropolitan SR WA (metro)	**5.2**

[NFF 2.3] The NFF fully agrees with the Commonwealth and ACCI position that any across the board wage increase will increase unemployment. The above figures on the rural labour market indicate the difficulties already faced in these areas by high unemployment. The NFF submits that it would be inappropriate to impose any policy that could increase unemployment on these areas. The focus of policy should be on reducing the already unsustainable unemployment levels in these areas; the NFF submits that the ACTU claim will do nothing to assist this objective and will do much to hinder it.

[NFF 2.4] The latest ABARE forecasts continue to support our case that labour costs for agriculture have increased strongly in the past few years. The forecast increase in labour costs between last financial year and next financial year is

$205m (6.1 per cent)[14], which is the largest dollar increase of any farm cost over that period of time.

3.0 Agriculture Outcomes & Forecast

[NFF 3.1] Since our previous submission, the forecasts for agricultural prices and incomes for 2002-03 have been downgraded significantly. Exports of farm products are forecast to fall by 1.8% in value terms; the value of production is forecast to fall by a significant 19.7%[15]. Net farm cash income is forecast to fall by 13.1% or 15.6% in real terms[16].

[NFF 3.2] The following prices are forecast to fall: wheat (by 0.8%), barley (5%), canola (9.6%), cattle (15%), lamb (8%), wool (5%), milk (6%) and sugar (7% in US dollar terms). Cotton prices are expected to recover by 1.3%, but well below last year's levels.

[NFF 3.3] The NFF also maintains its position that it is necessary to maintain a longer term view on agricultural markets. It is highly improbable that award wages would be adjusted in times of adverse shocks. These shocks are inevitable in agricultural markets and are arguably currently occurring in sugar and cotton. Therefore, the NFF maintains that any across the board rise that may be affordable in the short term will be unsustainable in the longer term when negative shocks inevitably hit.

4.0 Distribution of farm income

[NFF 4.1] Figures presented in our previous submission indicate that many farmers are poorly paid. The ACTU has indicated that Section 88B(2) "must" be a reference to employees only. However they provide no argument to support this claim.

[NFF 4.2] The NFF instead argues that it is reasonable to suggest that "the needs of the low paid" does not need to be limited to employees only. In other parts of this section, the Commission is requested to examine "wages and conditions of

14. Source: ABARE, *Australian Commodities vol9 no1*, p255.
15. Source: ABARE, *Australian Commodities vol9 no1*, p20.
16 Source: ABARE, *Australian Commodities vol9 no1*, p255.

employment" and "minimum standards for employees". These phrases are specifically limited to cover employees only. However, the "needs of the low paid" is not specifically limited; therefore this phrase can be interpreted to cover people other than employees.

[NFF 4.3] In any case, the NFF submits that it is inappropriate from a policy perspective to state that the low paid should be interpreted as being only employees. While the NFF argues that it is inappropriate to address social equity through the Safety Net Review, even if that argument is rejected, the figures on farm income clearly indicate that across the board wage increases could impair social equity goals. The NFF submits that, if the Commission accepts the argument that social equity can and should be addressed through this current process, then it is illogical to say one group of low paid (employees) merits attention while another (employers) does not.

5.0 Conclusion

[NFF 5.1] The NFF therefore maintains its position that any across the board increase in award wages is totally unwarranted. The NFF submits that the wide range of farm circumstances and performance mean that standardized wage increases are highly inappropriate.

[NFF 5.2] The NFF submits that these factors indicate that the ACTU Safety Net case is not moderate and should be rejected. The NFF instead supports a moderate increase of $10.00 to the current minimum wage only.