

3. The ACTU Claim is Moderate

Introduction

3.1 In this chapter we focus on the critical question of the moderateness of the ACTU claim.

3.2 We analyse this from a number of different perspectives. In particular, this chapter demonstrates:

- The macroeconomic impact of the ACTU claim is negligible with a net impact on economy wide earnings of 0.2%.
- The average increase for award workers under the ACTU claim is consistent with wage movements for others in the community.
- The average real increase proposed by the ACTU is modest particularly when seen in light of the real wage cut most award workers received last year and in the previous year.

3.3 In this section we rely heavily on unpublished data obtained from the survey of *Employee Earnings and Hours, May 2000* ABS Cat. 6306.0 (“**EEH May 2000**”). In last year’s proceedings parties made extensive reference to the preliminary results of the same survey published in ABS Cat. 6305.0. The final data in 6306.0 differs from the preliminary data in 6305.0 in two key respects:

- The overall number of award only employees has been revised from 24.1% of the workforce to 23.2%; and
- The proportion of public sector employees who are described as award only has been revised down from 14.7% to 9.8%.

- 3.4 The impact of these revisions is to narrow the differences between the ACTU's costing estimates of its claim and those of the Joint Coalition Governments.
- 3.5 This year the ACTU seeks a flat dollar increase in all award rates. This allows the Commission to deliver a maximal increase to the low paid whilst at the same time awarding an average increase to award based employees which is consistent with other community wage movements. Using unpublished data from the EEH May 2000 survey an accurate estimate of the average increase sought can be obtained.
- 3.6 In this context, the Commission should be aware that the ACTU continues to be concerned about the ongoing relevance of middle and upper award classification rates of pay. However, in these proceedings the ACTU has made a decision to target the increase sought to the low paid.
- 3.7 The ongoing relevance of middle and upper award classification rates of pay is becoming acute and is a matter which needs to be addressed. A Percentage increase to award rates or stepped flat increases (as in last year's safety net decision) will not properly address this issue. A Percentage increase simply preserves existing relativities whilst stepped flat increases continue to compress relativities (admittedly less than a flat across the board increase). The ACTU believes the ongoing relevance of middle and upper award classification rates of pay needs a comprehensive response not a piecemeal solution.

3.8 In this context the ACTU signals its intention to ensure that proper skill based classification structures are not allowed to wither on the vine but are addressed in a responsible and economically sustainable way consistent with the requirements of the Act. The matter will not be agitated in these proceedings which can focus on delivering a decent increase for the low paid.

Costing the Claim

3.9 The ACTU claim this year is for a flat dollar amount, rather than a composite flat dollar and Percentage based increase. This makes costing the ACTU claim a more straight forward exercise than in recent years.

3.10 The ACTU's costing methodology is summarised as follows:

- We first weight the flat dollar increase for various kinds of employment status: full time adult permanent, full time adult casual, part time adult permanent, part time adult casual and juniors.
- We then multiply the weighted flat dollar increase by the proportion of affected employees and divide by estimated all employee AWOTE.

3.11 Full details of the mathematical justification for this methodology and the assumptions underpinning our preferred costings are set out at Tag 4 of the ACTU Composite Exhibit. The assumptions which were disputed by the Joint Coalition Government last year are:

- We cost on the assumption that award reliant employees in the public sector do not receive safety net adjustments due to

residual amounts above properly fixed minimum rates in some awards and the existence of some s.170MX awards;

- We calculate a range for the cost impact by reference to the evidence from the *Award and Agreement Coverage Survey* that not all employees classified as award reliant benefit from safety net increases.

These assumptions are entirely appropriate, but in order to assist the Commission we have also provided estimates of costs for all award only employees and without making any adjustment for safety net flow.

3.12 These submissions demonstrate that focusing on the net impact of the ACTU claim, rather than its overall magnitude renders the differences in costing methodology much less significant, as Table 3.1 below shows.

Table 3.1: Net impact of ACTU claim various assumptions

Costing Assumption	Net Impact
Private sector only adjusted for safety net flow	0.17
All award dependents adjusted for safety net flow	0.19
Private sector only	0.22
All award dependents	0.26

3.13 The net impact costing for all award dependents without adjustment for safety net flow must be seen as demonstrating the potential net cost impact rather than the actual cost: see *Safety Net Review - Wages, May 2001* PR002001 at 29, paragraph 81.

3.14 As indicated in the introduction, if the Wage Cost Index is utilised as the most appropriate estimate of increases in labour costs, the ACTU claim all other things being equal would result in the annual increase in that index moving from 3.6% to 3.8%. Seen in this light the negligible overall impact of the ACTU claim is clear.

3.15 To assist the Commission further in this regard Table 3.2 below shows the net impact for various dollar amounts awarded on the basis of a range of costing assumptions.

Table 3.2: Net Impact – various safety net adjustments

Costing assumptions	\$10	\$12	\$14	\$16	\$18	\$20	\$22	\$24
Private sector only adjusted for safety net flow	-0.10	-0.06	-0.02	0.01	0.05	0.08	0.12	0.15
Private sector only	-0.12	-0.07	-0.03	0.01	0.06	0.10	0.15	0.19
All award dependents adjusted for safety net flow	-0.11	-0.07	-0.03	0.01	0.05	0.09	0.13	0.17
All award dependents	-0.15	-0.10	-0.04	0.01	0.07	0.12	0.18	0.23

3.16 We cost on the basis that the safety net increase only impacts on the private sector. This assumption is appropriate when regard is had to the following:

- There is no evidence of any significant area of public sector employment which benefits from safety net adjustments. In this regard the ACTU relies on the evidence of public sector union officials tendered in last year’s Living Wage Case proceedings (ACTU 6 and 6A) and on the failure of any other party to provide any evidence to the contrary.
- The Commission has accepted that a proportion of people described as “award reliant” will not benefit from safety net increases because of the absorption by residual amounts in

some formerly paid rates awards and of the existence of section 170MX awards: see *Safety Net Review – Wages, May 2001* PR002001 at 29, paragraph 81. These kinds of awards are most prevalent in the public sector.

- The proportion of public sector employees who are described as award only is small at 9.8%. This is entirely consistent with all but an insignificant minority of such employees being on formerly paid rates awards with residual amounts which absorb the safety net increase and section 170MX awards.
- The assumption is consistent with the results of the Award and Agreement Coverage Survey 1999, on which the Joint Coalition Governments relied in the 2000 Living Wage Case proceedings. Table 5.7 at page 99 of the Joint Coalition Government's 1999 – 2000 submissions and Table 5.8 at page 100 of those submissions demonstrate that the Percentage of employees who were described as 'award only' in that survey and who either did not receive a wage increase or did not receive a safety net adjustment exceeds the Percentage of employees found by the EEH May 2000 to be public sector award only (2.1% of the total employee population).

3.17 The ACTU adjusts its costing estimate for flow of safety net adjustments. This is justified on the following basis:

- As the Commission has noted, not all award reliant employees benefit from safety net increases, reflecting formerly paid rates awards with residual amounts sufficient to absorb safety net increases, section 170MX awards and some reporting errors: see *Safety Net Review – Wages, May 2001* PR002001 at 29,

paragraph 81.

- We provide an estimate of safety net flow relying on the Commonwealth Government's own Award and Agreement Coverage Survey 1999. In these costings where we exclude the public sector and adjust for safety net flow we ensure there is no double counting of our exclusions.

3.18 In calculating the net impact of the ACTU's claim an estimate has to be generated of the addition to economy wide earnings resulting from last year's safety net increase. This is done using the same basic methodology as is utilised for calculating the cost of the claim.

3.19 The two key differences between the calculation of the cost for last year's safety net decision and the cost of the ACTU claim are:

- It is necessary to convert the various dollar amounts awarded as a result of last year's safety net decision into an equivalent flat dollar increase.
- The all employee AWOTE figure from the EEH May 2000 survey is only adjusted for twelve months of wages growth.

Full details of the methodology utilised to cost the economic impact of last year's safety net decision are contained at Tag 4 in the ACTU Composite Exhibit.

3.20 To convert last year's decision to an equivalent flat dollar increase the ACTU uses adjusted AHOTE data for award only employees. This allows us to calculate the proportion of award only employees whose base rate of pay would have entitled them to a \$13, \$15 or \$17 dollar increase. The proportions are multiplied by the respective

dollar amounts and the resulting three figures summed to provided an equivalent flat increase figure.

- 3.21 As indicated above the ACTU has focused on the net impact of its claim because a consideration of the net impact demonstrates the moderate nature of the claim and places in its proper perspective the controversy over the various costing methodologies. However, the ACTU accepts that the Commission must pay regard to the absolute impact of the ACTU claim not just the net impact.
- 3.22 The ACTU claim adds 0.45% in total to the economy wide wages bill. Table 3.3 below shows the cost of the ACTU claim based on a range of assumptions. The ACTU's preferred costing figure (private sector, adjusted for safety net flow) is 0.45% but as the table demonstrates two other methods (award only, adjusted for safety net flow and all private sector award only) provide estimates of the same order. Costing for all award dependents without adjustment for safety net flow produces a higher estimate 0.68% but this must be seen as demonstrating the potential cost impact rather than the actual cost: see *Safety Net Review – Wages, May 2001* PR002001 at 29, paragraph 81.

Table 3.3: Gross impact of ACTU Claim

	Addition to economy wide earnings
Private sector only adjusted for safety net flow	0.45
All award dependents adjusted for safety net flow	0.49
Private sector only	0.56
All award dependents	0.68

3.23 To further assist the Commission we provide cost estimates for a range of dollar amounts

Table 3.4: Gross Impact various safety net adjustments

Costing assumptions	\$10	\$12	\$14	\$16	\$18	\$20	\$22	\$24
Private sector only adjusted for safety net flow	0.18	0.21	0.25	0.29	0.32	0.36	0.39	0.43
Private sector only	0.22	0.27	0.31	0.36	0.40	0.45	0.49	0.54
All award dependents adjusted for safety net flow	0.20	0.24	0.28	0.32	0.35	0.39	0.43	0.47
All award dependents	0.27	0.32	0.38	0.43	0.49	0.54	0.60	0.65

3.24 In this context, it is worth comparing the cost estimate of the ACTU's claim this year with the cost estimate of Commission decisions in years prior to last year. There are significant data limitations for all years prior to 2000. Nonetheless, we note that in its 1998 Safety Net Review decision the Commission held that the increase awarded in that case was a 0.44% addition to aggregate wage costs and implicitly accepted that the decision in the previous year, 1997, added approximately 0.34% aggregate wage costs: see *Safety Net Review Wages – April 1998* Print Q1998 at 41.5.

3.25 Further, the Commission's estimate of the cost impact of the ACTU claim in its May 2000 decision (0.5% - 0.65%) implicitly suggests a range of between 0.31% and 0.41% for the cost of its decision: see

Safety Net Review Wages – May 2000 Print S5000 at 25, paragraph 59.

- 3.26 In this regard we note that the estimated increase in aggregate wage costs as a result of the ACTU claim is virtually the same as the Commission's estimate of the impact of its 1998 decision and not greatly beyond that which was awarded in 1997 and 2000.
- 3.27 Further comparisons can be made between the Joint Coalition Governments' estimates of the impact on wage costs of the various decisions from 1997 to date. Table 3.5 below shows the Joint Coalition Government cost estimates provided for the Living Wage Case outcome for each of the years 1997 to 2001. This data shows that the estimated impact of the ACTU claim in this case can properly be described as moderate in light of the Joint Coalition Governments' estimates of the cost impact of previous safety net decision outcomes of previous safety net reviews.

Table 3.5: Joint Coalition Government estimate of cost impact of Commission decision.

1997(a)	1998(b)	1999(c)	2000(d)	2001(e)
0.35	0.57	0.41	0.42	0.38

(a) Joint Coalition Government submission 1997 – 1998, p.63.8

(b) Joint Coalition Government submission 1997 – 1998, Appendix H, p.259, award coverage method

(c) Joint Coalition Government submission 2000 – 2001, Table 7.3, p.110, 1999 year average figure plus 0.1% estimate for Joint Coalition Government capped \$8 increase: see Joint Coalition Government submission 1997 – 1998 p.62.3

(d) Joint Coalition Government submission 1999 – 2000, Appendix F, p.452

(e) Joint Coalition Government submission 2000 – 2001, Response to Questions, p.351

The Level of Increase for Award Workers

3.28 In this section we demonstrate that the ACTU claim delivers a wage increase for award workers consistent with the level of wage increases for others in the community.

3.29 Table 3.6 compares the average increase as a result of the ACTU's claim for award only employees, private sector award only employees, full time award only employees and full time private sector award only employees with a variety of other wages measures.³

³ Full details of the method by which we calculate the average increase in award only rates are contained at Tag 5 - of the ACTU Composite Exhibit. In summary, we obtained unpublished data from the EEH May 2000 survey to calculate the appropriate weighted flat dollar increase. This weighted flat dollar amount is then divided by an adjusted AWOTE or AHOTE (as appropriate) and multiplied by one hundred to give a percentage.

Table 3.6: Average increase in award rates as a result of the ACTU claim compared to other wages measures.

Wage Measures							
AWOTE ^(b)	AWE All Employees ^(c)	AWE Full Time adults ^(d)	AENA ^(e)	WCI ^(f)	ADAM ^(g)	DEWR ^(h)	MCED Senior Management ⁽ⁱ⁾
5.4	4.6	4.9	4.5	3.6	4.0	3.9	5.0

ACTU Claim			
Average increase award only ^(a)	Average increase award only private sector	Average increase award only full time ^(a)	Average increase award only private sector full-time
4.2	4.5	3.8	4.1

- (a) It should be noted that data limitations mean that the figures, which include part-time and casual employees, actually result in a slight overstatement of the Percentage increase. This is because AHOTE figures (on which these calculations are based) are only available for non-managerial employees. The exclusion of managerial employees, who receive a smaller Percentage increase, inflates slightly the average Percentage increase.
- (b) Trend AWOTE to August 2001
- (c) Trend AWE All Employees to August 2001
- (d) Trend AWE – Full Time Adults to August 2001
- (e) Trend Average Compensation per Non-farm Employee – to September 2001.
- (f) Wage Cost Index to September 2001
- (g) Average Annualised Wage Increase per agreement (AAWI)– September 2001
- (h) Average Annualised Wage Increase per employee (AAWI) – certified in September quarter
- (i) Increase in base salary of Senior Management to December 2001.

3.30 Table 3.6 shows that however one views it the average increase for award employees as a result of the ACTU's claim is consistent with the general quantum of wage increases for the whole community.

3.31 As we noted in Chapter 2 each of the aggregate economy-wide wages measures is affected by the inclusion of award only employees. Table 3.7 compares the average increase as a result of the ACTU claim with estimates of the increase in economy wide wages measures excluding award only employees.

Table 3.7: Comparison of ACTU Claim with wage movements excluding award wage employees.

ACTU Claim

Average increase award only	Average increase award only private sector	Average increase award only full time	Average increase award only private sector full-time
4.2	4.5	3.8	4.1

Aggregate Wage Measures (excluding award employees)

AWOTE (excluding award)(a)	AWE All Employee (excluding award)(b)	AWE Full time Adults (excluding award)(c)	AENA (excluding award)(d)	Wage cost index (excluding award)(e)
6.2	5.2	5.5	5.1	3.9

(a) AWOTE for twelve months to August 2001 adjusted to exclude all full-time award only employees

(b) Trend AWE all employees for twelve months to August 2001 adjusted to exclude award only employees

(c) Trend AWE all full time adults twelve months to August 2001 adjusted to exclude award only employees

(d) AENA to September 2001 adjusted to exclude award only employees

(e) WCI for twelve months to September 2001 adjusted to exclude award only employees

3.32 Table 3.8 shows that even with the ACTU claim granted in full, the average annual increase for award only employees over the period 2000-2002 will be of the order of 3 per cent, still well below likely wages growth for the rest of the community.

Table 3.8: Average increase in award rates 2000-2002

	Average increase award only	Average increase award only private sector	Average increase award only full time	Average increase award only private sector
2002	4.2	4.5	3.8	4.1
2001	2.5	2.7	2.3	2.5
2000	2.7	2.8	2.4	2.6
Average annual increase	3.1	3.3	2.8	3.0

3.33 Table 3.9 below shows the Percentage increase as a result of the ACTU's claim for certain selected award rates from the key metal industry award. The table shows increases of the order of 5 – 6% for the lowest paid with smaller increases for those on higher rates of pay. This is the direct consequence of our seeking to provide maximal assistance to the lowest paid in this case.

Table 3.9: Percentage increase as a result of ACTU claim – selected award rates

	C14	C10	C7	C1(b)
2002	6.0	4.9	4.4	2.6
2001	3.2	3.0	2.7	1.8
2000	3.9	3.1	2.8	1.6
Average Annual Increase 2000 – 2001	4.4	3.7	3.3	2.0
Average Annual Increase 1997 - 2002	3.9	3.2	2.8	1.6

3.34 The ACTU has sought a flat across the board increase in these proceedings so that within the bounds of an average increase consistent with community wage movements a maximal increase can be delivered to the low paid. Even so, the lowest paid will only

receive an increase over the three year period 2000-2002 which is broadly in line with other wage movements.

- 3.35 Further, assuming a similar picture in relation to the spread of enterprise bargaining outcomes as was relied upon by the Joint Commonwealth Governments in its submissions last year (see Joint Coalition Government, 2000 – 2001, submission charts 6.1 and 6.2 at p.99) the ACTU's claim would grant the lowest paid a Percentage increase of the order of that obtained for those employees in the 50th – 75th percentiles of enterprise bargaining agreement outcomes. This follows eight years (on the Commonwealth's material) of C10 employees receiving below the average increase in enterprise bargaining and only one instance in the last eight years (2000) of C14 employees receiving more than the average enterprise bargaining increase.
- 3.36 The ACTU claim results in a modest real increase in wages for award workers. In last year's proceedings there was some controversy whether CPI to March or CPI to June quarter should be used as the appropriate deflator and whether it was appropriate to extract for the effects of the GST. The Joint Coalition Governments argued that the appropriate deflator was CPI to the June quarter and for extraction of any GST effects. Without conceding the validity of the Joint Coalition Governments claim in this regard, in order to avoid distractions regarding the choice of deflator the ACTU in this section uses estimates of CPI to the June quarter 2001 of 3% and to June quarter 2002 of 2.5%. The estimate of 3% for June quarter 2001 CPI extracts for the effects of GST. The estimate of 2.5% for June quarter 2002 is from the MYEFO.

- 3.37 The assumptions we make regarding the choice of deflator are conservative. No-one really knows the precise impact of the GST on inflation. If “underlying” inflation to June 2001 was 3.25% (rather than 3.0%) then all award workers received a real wage cut last year. More significantly perhaps, the most recent CPI figure, (3.1% to the year ended 31 December 2001) highlights the possibility that the MYEFO forecast will be exceeded. This accentuates the need to ensure that low paid workers receive a decent real increase this year so that their living standards are not eroded.
- 3.38 Table 3.10 below shows the average real increase for various cohorts of award only employees as result of the ACTU’s claim, as a result of the 2000 and 2001 safety net decisions and averaged over three years assuming the ACTU’s claim is granted. The Commission will see that granting the ACTU claim in full gives only a modest average real increase for three of the cohorts of award only employees below over the three year period 2000-2002. For award only full-time employees even with the ACTU claim over the three year period 2000 – 2002 there will have been a small real wage cut.

Table 3.10: Real increases – ACTU Claim, 2000 and 2001 safety net decisions

	Average real increase award only	Average real increase award only private sector	Average real increase award only full time	Average real increase award only private sector full time
ACTU Claim	1.6	2.0	1.3	1.6
2001 decision	-0.5	-0.3	-0.7	-0.5
2000 decision	-0.5	-0.3	-0.8	-0.6
Average Annual Increase 2000-2002	0.2	0.4	0.0	0.1

- 3.39 If we focus on the C14 and C10 pay levels the real increase as a result of the ACTU claim is larger. This is a necessary corollary of targeting the benefit of the increase to the low paid. The real increase proposed for C14 is 3.5% and for C10 2.4%.
- 3.40 At 3.5% the real increase proposed for C14 is of the same order as the real increase as a result of the Commission’s 1998 decision (3.2%). For C10 the proposed real increase is less than the real increase in 1998 (2.5%) and not greatly in excess of the 1997 real increase (1.9%).
- 3.41 Whilst the proposed real increases for the lowest paid classifications as a result of this year’s case are at the higher end of the range of previous Commission decisions, a comparison of average annual real increases for the periods 1997 – 1999 and 2000 – 2002 shows that real growth at C14 and C10 will be substantially less for the period 2000 – 2002 (assuming the ACTU claim is granted) than it was for the period 1997 – 1999, as shown in Table 3.11 below.

Table 3.11: Real Growth in C14 and C10 during 1997-1999 and 2000-2002

	1997 – 1999	2000 – 2002
C14	2.6	1.5
C10	2.0	0.8

Conclusion

3.42 The ACTU claim is moderate in terms of its economy wide impact, in terms of the average increase it delivers for award workers and in terms of the real increase which is proposed. Utilising the most conservative of assumptions the ACTU claim if granted would have a negligible impact on the economy and deliver award workers an average increase consistent with wage movements for others in the community but still provide the lowest paid with a modest and sustainable real wage increase.