ACTU LIVING WAGE SUBMISSION 2002

ACTU Reply Submission

20 March 2002

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R1. Introduction

R1.1 Since the ACTU filed its original submissions, the economic outlook has improved significantly. Release of the December quarter National accounts data shows Australia's economy growing strongly. Recent Labour Force data shows an increase in employment and a decrease in unemployment. The length and severity of the international slowdown seems likely to be significantly less than had earlier been expected, with encouraging signs already emerging. In short, the economy can afford a decent pay rise for the low paid.

R1.2 None of the opposing submissions warrant departure from the principles established in previous safety net reviews of the key propositions which the ACTU established in its original submissions:

The ACTU claim is moderate

- The only other serious costing in this case (that of the Commonwealth) confirms the veracity of both the net impact (0.2%) and gross (0.5%) impact of the ACTU claim.
- Revised and updated data shows average increases as a result of the claim to be broadly consistent with community wage movements.

A moderate safety net increase will have a minimal impact on inflation and do little or nothing to diminish job prospects.

- The opposing submissions re-hash arguments which have been rejected in previous safety net reviews. Nothing of substance is advanced which would cause the Commission to revise its earlier findings.

Life is a struggle for the low paid

- No opposing party produces evidence regarding the needs of the low paid. Their criticisms of ACTU evidence on the low paid are mean-spirited, petty and misplaced.

Inequality is on the increase

- Only the Commonwealth addresses this issue and it concedes the critical point regarding earnings inequality.

R1.3 Despite the stridency of their assertions the opposing submissions simply fail to provide evidence to the Commission which would dissuade it from accepting the ACTU claim.

R2. Wages Update

Introduction

R2.1 In the ACTU's original submissions, after an extensive analysis of recent and historical wage movements the following key findings were established:

- Award wages have failed to keep pace with community wage movements;
- An estimated 82% of all award workers received a real wage cut last year;
- Since 1983 the C14 and C10 wage rates have fallen markedly as a percentage of AWOTE; and
- The C10 wage rate as a percentage of AWOTE is now only slightly above the C14 wage rate as a percentage of AWOTE in 1983.

R2.2 None of these key findings are challenged by the opposing submissions. In essence, the approach of the opposing submissions is either to decry the use of comparisons with community wage movements in general or AWOTE in particular or alternatively, to focus only on more recent movements in the C10 and C14 wage rates.

Trends in Wages Growth in the Australian Economy

R2.3 Since the ACTU filed its original submissions more recent data on wage trends has become available, in particular, the Wage Cost

Index to December 2001, the Average Weekly Earnings series to November 2001 and the Department of Employment and Workplace Relations Trends in Federal Enterprise Bargaining report to December 2001.

R2.4 Table R2.1 below shows this most recently released information:

Table R2.1 Update on Wages Measures

	Percent Change on Previous Quarter	Percentage Change on Year Earlier
AWE Survey [1]	***November 2001***	***November 2001***
AWOTE – Full-time Adults	1.5	5.9
AWE – Full-time Adults	1.3	5.4
AWE – Total Earnings – All Employees	1.0	4.4
Wage Cost Index[2]	***December 2001***	***December 2001***
Total Hourly Rates of Pay excluding bonuses	0.7	3.4
Average Earnings on a National Accounts basis[3]	***December 2001***	***December 2001***
Non Farm Compensation per employee	0.6	3.7
Trends in Enterprise Bargaining[4]	***December 2001***	***December 2001***
Wage Agreements in the Quarter	0.0	3.8
All Current Wage Agreements	0.0	3.7

R2.5 The recent data confirms that wage cost pressures are moderate and that community wage movements continue to exceed the level of increase which award workers received as a result of last year's Safety Net Increase.

[1] ABS Cat. 6302.0 Trend
[2] ABS Cat. 6345.0
[3] ABS Cat. 5206.0 Trend
[4] Department of Employment and Workplace Relations Average Annualised Wage Increase per employee (Average Annualised Wage Increase)

R2.6 At a number of points in its submissions the ACCI asserts an inflationary impact as a result of last year's safety net decision and raises the spectre of increased inflation if the ACTU claim is granted. There is simply no evidence that previous safety net decisions have added significantly to inflation. No commentator says so and nor does the Reserve Bank. Similarly, as we discuss in Chapter 5 there is no serious risk to inflation as a result of the ACTU claim.

R2.7 At paragraph 2.87 the Commonwealth government criticises the ACTU's comparison of award wages growth with AWOTE and AWE movements. The ACTU asserted in its original submissions that AWOTE and AWE movements (along with AENA) provided the best guide to movements in living standards because they measure wages as earnings rather than merely as costs. At paragraphs 2.87 and 2.89 the Commonwealth acknowledge this point. Further at paragraphs 2.69 – 2.71 and 6.37 to 6.38 where the Commonwealth discusses changes in real earnings it uses AWOTE derived from the AWE survey and average weekly earnings derived from the EEH Survey. In footnote 4 on p.31 of its submissions the Commonwealth asserts that the WCI is described by the ABS as "far superior". Nowhere is this reference sourced and the ACTU has not been able to locate any ABS publication which contains it.

R2.8 The Commonwealth's criticism of the ACTU at paragraphs 2.87 to 2.90 rests on the alleged invalidity of comparing movements in award rates with movements in earnings. In this respect the Commonwealth simply fails to pay regard to the legislative requirements of the Act. The Commission is required by s.88B(2)(a) to "provide fair minimum standards … in the context of living standards generally prevailing in the Australian community". As the

Commonwealth submissions themselves demonstrate AWOTE and AWE are appropriate indicators of living standards. The comparison the ACTU makes between growth in award rates and growth in AWOTE and AWE is precisely the comparison contemplated by the Act.

R2.9 In paragraph 6.38 the Commonwealth asserts that real wages have risen for all parts of the earnings distribution. This is not correct. The Commonwealth's data in Chart 6.1 is limited to full-time adult non-managerial employees. Compositional change in the workforce (the increase in part-time and casual work) means that focussing on the Commonwealth's cohort creates a misleading picture.

R2.10 In its original submissions the ACTU referred to unpublished data from the EEH May 2000 survey regarding adjusted non-managerial adult AHOTE (by adjusted we mean that casual rates are multiplied by 5/6 to take account of an average 20% loading).

R2.11 The ACTU has now commissioned further unpublished data from the 1991 and 1996 EEH surveys. The data is for non-managerial adult employees and is adjusted AHOTE – as a result it accurately captures increases in part-time and casual employment shares.

R2.12 As Tables R2.2 and R2.3 below show, contrary to the impression given by the Commonwealth Chart 6.1, significant sections of the earnings distribution have not had real increases in the period 1996 to 2000. Further, the data shows real wage increases for the bottom half of the wage distribution much lower for the period 1996-2000 than in the period 1991 to 1996.

Table R2.2: Real Wage Growth – Non Managerial Adults 1996 to 2000

	1996	1996 in 2000 dollars	2000	Real change 1996-2000 (%)
pct10	10.93	11.52	11.63	0.9
pct20	12.00	12.64	12.55	-0.7
pct25	12.50	13.17	13.01	-1.2
pct30	12.96	13.65	13.56	-0.7
pct40	13.89	14.63	14.75	0.8
pct50	14.99	15.79	16.11	2.0
pct60	16.31	17.19	17.84	3.8
pct70	18.14	19.11	20.13	5.3
pct75	19.32	20.35	21.53	5.8
pct80	20.73	21.84	23.16	6.0
pct90	24.36	25.66	27.50	7.2

Table R2.3: Comparison Real Wage Growth 1991-1996 to 1996-2000

	Real change 1991-1996	Real change 1996-2000
pct10	4.6	0.9
pct20	5.9	-0.7
pct25	6.2	-1.2
pct30	6.3	-0.7
pct40	5.7	0.8
pct50	6.1	2.0

R2.13 In fact the data shows 21% of all adult non-managerial employees received a real wage cut in the period 1996-2000. Those employees who received real wage cuts were all located in the bottom half of the wages distribution – where about 80% of award only workers are concentrated.

R2.14 The data in Table R2.2 accentuates the picture of a dramatic increase in earnings inequality in the last half of the decade. Higher paid employees received significant real wage increases whilst the lower paid received real wage cuts or small increases. For example

a real increase for the 80th percentile of 6.0% compares with a real decrease at the 20th percentile of –0.7%.

How Award Workers Have Fared

R2.15 In its original submissions the ACTU contended that last year award workers received an average increase well below wage movements for the rest of the community: see Paragraphs 2.45 to 2.49. The ACTU also contended that for most award workers last year's decision delivered a real wage cut. None of the opposing submissions contradict either of these propositions.

R2.16 In its submissions at Paragraph 4.30 the Commonwealth queries some proportions data which the ACTU obtained from the ABS. This data was utilised in the ACTU's costing. In Paragraph 4.31 the Commonwealth asserts that the correct EEH data in fact produces a lower costing than that relied on by the ACTU. Following receipt of the Commonwealth's submissions, the ACTU checked with the ABS regarding unpublished data which the ABS had supplied to the ACTU. Following discussion with the ABS it became clear that some unpublished data provided by the ABS related to award only employees, but that some data provided by the ABS related to the wider category of "award covered employees". Award covered employees includes employees who are on agreements or individual arrangements but who have some portion of their remuneration determined by the award.

R2.17 The provision of the "award covered" data leads to:

- An overstatement of the macroeconomic cost of the ACTU claim in relation to award only employees; and

- An understatement of the average percentage increase as a result of the ACTU claim and the two previous Safety Net decisions.

R2.18 It does not affect:

- The calculation of the macroeconomic costing for award only private sector employees;
- The calculations regarding the proportion of employees who received a real wage cut over the past two years (see Paragraph 2.51);
- The ACTU data regarding where award workers sit on the earnings distribution (see Paragraph 7.23 – 7.30);
- The ACTU's substantive conclusion that as a result of last year's decision award workers received an average increase below 3% and well below wage movements for the rest of the community;
- The ACTU's submission that the ACTU claim is broadly consistent with community wage movements.

R2.19 Below the ACTU presents updated and revised versions of Tables 2.2, 2.4 and 2.5 in its original submissions. This updating utilises the correct award only data from the ABS EEH May 2000 survey and incorporates more recent data on community wage movements. (See Tag 2 of the ACTU Reply Composite Exhibit for calculations.)

Table R2.4: Average Percentage increase – 2001 Decision (Revised)

Award Only	Award Only Private Sector	Award Only Full-Time	Award Only Private Sector Full-Time
2.8	2.9	2.7	2.8

Table R2.5: Annual Percentage increase in key wage measures (Updated)

AWOTE(a)	AWE All Employees(b)	AWE Full Time adults(c)	AENA(d)	WCI(e)	ADAM(f)	DEWR(g)	MCED Senior Management(h)
5.9	4.4	5.4	3.7	3.4	4.0	3.8	5.0

(a) Trend AWOTE to November 2001

(b) Trend AWE All Employees to November 2001

(c) Trend AWE – Full Time Adults to November 2001

(d) Trend Average Compensation per Non-farm Employee – to December 2001.

(e) Wage Cost Index to December 2001

(f) Average Annualised Wage Increase per agreement (AAWI)– September 2001

(g) Average Annualised Wage Increase per employee (AAWI) – certified in December quarter

(h) Increase in base salary of Senior Management to December 2001.

Table R2.6: Movements in Wages (excluding award employees) [(a)]
(Updated and Revised)

AWOTE (exc. Award)(b)	AWE All Employees (excluding award)(c)	AWE Full time adults (excluding award)(d)	AENA (excluding award)(e)	WCI (excluding Award)(f)
6.5	4.9	5.9	4.0	3.6

(a) See Tag 2 of ACTU Reply Composite Exhibit for details of methodology

(b) Trend AWOTE to November 2001 (excluding award employees)

(c) Trend AWE All Employees to November 2001 (excluding award employees)

(d) Trend AWE – Full Time Adults to November 2001 (excluding award employees)

(e) Trend Average Compensation per Non-farm Employee – to December 2001. (excluding award employees)

(f) Wage Cost Index to December 2001 (excluding award employees)

R2.20 As the AIG notes there is a typographical error in Table 2.3. The figure 2.1% should read 2.7%, as it does in the corresponding table in Chapter 3 (Table 3.9).

R2.21 The substance of the Commonwealth's submissions regarding recent movements in award rates is that the Commission should only be concerned regarding the comparison of the lowest award rates with the Wage Cost Index. For the reasons already advanced in establishing a fair minimum standard by reference to generally prevailing living standards the more appropriate comparison is with those items which measure wages as earnings. We note that where the Commonwealth discusses real wages growth it refers to AWOTE (see paragraphs 2.69-2.71). Further, the Commission ought have regard to more than simply the C14 and C10 wage movements on which the Commonwealth's submissions almost exclusively focus.

R2.22 The ACCI's submission in relation to this issue amounts to little more than a suggestion that the Commission should ignore

comparisons with other wage movements. This is spurious. The Commission is required to maintain a fair safety net within the context of generally prevailing living standards.

R2.23 In its submissions regarding this issue at Paragraphs 4.4 – 4.12 the AIG incorrectly characterises award only employees under the EEH survey. The matters referred to in paragraph 4.5 as included in the salary of "award only" employees are not accurate. The matters listed by the AIG in that paragraph are those matters which are included in the base pay of employees by the EEH May 2000 survey, however the structure of the survey questions is such that employees classified as "award only" will not have any amounts referable to agreement payments or overaward payments or indeed any other amount not prescribed by the award: see questions 24 and 25 EEH May 2000 survey.

R2.24 The increases in the Victorian retail industry sector actually confirm the ACTU's point in relation to the level of increase received by award workers. Only two classification levels show increases greater than the percentage increase in the Federal Minimum Wage (C14 in the metal industry award). An examination of the award indicates that these rates are for pharmacy students and trainees. All non-student/trainee adult rates were adjusted by amounts less than or equal to the percentage adjustment to the Federal Minimum Wage.

R3. The ACTU Claim is Moderate

Introduction

R3.1 In its original submissions the ACTU demonstrated the moderate nature of its claim by reference to the following key facts:

- The macroeconomic impact of the ACTU claim is negligible with a net impact of economy wide earnings of 0.2% and an absolute impact in the order of 0.5%;
- The average increase for award workers under the ACTU claim is consistent with the wage movements of others in the community;
- The average real increase proposed by the ACTU is modest when seen in light of the real wage cut most award workers received last year and in the previous year.

R3.2 The opposing submissions fail absolutely in their attempt to counter these propositions.

R3.3 The AIG does not even attempt a macroeconomic costing of the ACTU claim. The costing of the Commonwealth is for an absolute impact of 0.59% on economy wide earnings. For reasons which will be discussed below this must be seen as demonstrating the potential cost impact rather than the actual cost. Significantly, it is implicit in the Commonwealth Government's costing of the claim that the net impact on economy wide earnings of the ACTU claim is 0.18%, that is virtually the same as the net impact estimate of the ACTU of 0.17%. The ACCI purports to provide a costing of the claim by reference to private sector total earnings. This costing is so totally flawed as to be of no assistance to the Commission.

R3.4 None of the opposing submissions dispute that the average increase for award workers is consistent with other community wage movements. As we noted in Chapter 2, our average increase calculations in our original submissions utilised AHOTE and AWOTE data based on the "covered by an award" rather than the "award only" population. We have recalculated the increase using the "award only" figures. Whilst the level of increase is higher using the corrected population, it is still broadly consistent with community wage movements. Similarly none of the opposing submissions dispute that most award workers have received a real wage cut in the past two years.

R3.5 In short despite strident assertions to the contrary the opposing submissions fail to dent the central proposition of the ACTU's submissions that the ACTU claim is moderate both in terms of its macroeconomic impact and in terms of the average increase it provides for award workers.

Costing the Claim

R3.6 Despite much obsfucation the Commonwealth Government's submissions confirm the veracity of the ACTU's costing methodology and its results. Indeed despite eschewing the approach of calculating a net impact of the claim by reference to last year's decision it is evident from the Commonwealth's own submission that its estimate of the net impact of the ACTU claim is less than 0.2% of economy wide earnings.

R3.7 In particular at paragraph 4.6 it asserts that the absolute impact of the claim would be a 0.59% addition to aggregate wages growth. In

the same paragraph of its submission it asserts that its proposed $10 increase capped at C10 would add 0.11% to aggregate wages growth. In table 4.5 the Commonwealth asserts that the impact of last year's safety net decision relative to the Commonwealth's position in last year's case (which was also for a $10 safety net increase capped at C10) was a 0.30% addition to aggregate wages growth in year average terms. On this basis the Commonwealth's figures imply a net addition to economy wide earnings as a result of last year's decision in the order of 0.41% and, therefore, a net impact of the ACTU claim on wages growth of 0.18%, that is almost exactly the same as the net impact calculated by the ACTU.

R3.8 In its submissions the Commonwealth Government makes four substantive criticisms of the ACTU's costing:

- It claims the ACTU's calculation of a "net impact" by reference to the cost of last year's safety net decision is "misleading";
- It does not accept that any adjustment should be made for safety net flow;
- It asserts that the public sector should be included in the costing; and
- It says that the proportions data used to calculate the ACTU's costing which includes all award only employees (not just the private sector) results in an overstatement of the impact of the claim.

R3.9 The assertion that it is impermissible to consider the net impact of the claim by reference to the cost of last year's safety net increase is simply unsustainable. The ACTU calculates that last year's safety

net decision added about 0.3% to economy wide earnings and that this year's claim will add about 0.5% to economy wide earnings. The calculation of a net impact on wages growth is a matter of simple mathematics. It does not require any assumption as to the likely increase the Commission will grant this year but simply a recognition that if the ACTU claim is granted this will not occur in a vacuum but rather against the backdrop of previous increases.

R3.10 The Commission has in previous decisions looked at the effect on the "aggregate net rate of wages growth" by reference to the "pipeline" effect of previous decisions, this is precisely the approach of the ACTU: see Safety Net Review Wages – May 2001 PR002001 at 30, paragraph 86, Safety Net Review Wages – May 2000 Print S5000 at 27, paragraph 66, Safety Net Review Wages – April 1999 Print R1999 at 20, paragraph 42 and Safety Net Review Wages – April 1998 Print Q1998 at 41.3 – 41.7.

R3.11 At paragraphs 4.8 – 4.11 and 4.26 – 4.28 of the Commonwealth's submissions the Commonwealth restates its view that the costing estimate should not be adjusted for safety net flow. This view has been consistently rejected by the Commission (see Safety Net Review Wages – May 2001 PR002001 at 29, paragraph 81, Safety Net Review Wages – May 2000 Print S5000) and nothing in the Commonwealth's submissions warrants departure from the Commission's previous conclusion. It is on this basis that it can be concluded that the 0.59% estimate of the Commonwealth measures potential rather than likely actual cost.

R3.12 At paragraph 4.10 the Commonwealth asserts that "evidence suggests there are, in fact, public sector employees who do benefit from SNA's". No evidence for this proposition is provided in the

Commonwealth's submission despite the fact that the matter has been squarely raised in the ACTU's submissions in this case and in the ACTU's submissions last year. Instead, the Commonwealth's submission footnotes a reference to the Joint Coalition Government's supplementary submissions in last year's proceedings. That reference contains no evidence. There is contained in the portion of the supplementary submissions referred to an interchange on transcript between Counsel for the Joint Labour States and His Honour, the President. Nothing in that interchange is inconsistent with the proposition that all but an insignificant minority of public sector employees do not receive the benefit of safety net increases. In short, whilst this issue has been squarely raised in the last two cases the Commonwealth has conspicuously avoided producing any evidence which would contradict the assumption on which the ACTU bases its costing.

R3.13 Paragraphs 4.29 – 4.32 of the Commonwealth Government submissions point out that the ACTU's calculations for all award only employees overstate the addition to total ordinary time earnings as a result of the claim. As we noted above some of the data supplied by the ABS was for "award covered" rather than "award only" employees. The ABS has since provided data for the appropriate cohort of employees and the ACTU has recalculated the cost of the claim for all award only employees. As the Commonwealth indicates the correct figures result in a reduction in the total cost of the ACTU claim if all award only employees are considered. The costings for private sector award only employees remain the same. At Tag 3 of the ACTU Reply Composite Exhibit, the ACTU provides a revised costing of the claim for all award only employees using the correct figures as supplied by the ABS.

R3.14 The tables below provide revised figures for Tables 3.1, 3.2, 3.3 and 3.4 of the original submissions utilising the correct ABS data for all award only employees. The suggestion that the ACTU may have deliberately inflated its costing for all award only employees is bizarre. The ACTU has consistently argued that the impact of its claim is minimal. It beggars belief that it would deliberately inflate the cost of the claim.

Table R3.1: Net impact of ACTU claim various assumptions (Revised)

Costing Assumption	Net Impact
Private sector only adjusted for safety net flow	0.17
All award dependents adjusted for safety net flow	0.17
Private sector only	0.22
All award dependents	0.24

Table R3.2: Net Impact – various safety net adjustments (Revised)

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	-0.10	-0.06	-0.03	0.01	0.04	0.08	0.12	0.15
All award dependents	-0.14	-0.09	-0.04	0.01	0.06	0.11	0.16	0.21

Table R3.3: Gross impact of ACTU Claim (Revised)

	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	0.45
All award dependents	0.62

Table R3.4: Gross Impact various safety net adjustments (Revised)

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	0.18	0.22	0.25	0.29	0.33	0.36	0.40	0.43
All award dependents	0.25	0.30	0.35	0.40	0.45	0.50	0.55	0.60

R3.15 The ACCI does not provide an estimate of the addition to economy wide earnings as a result of the ACTU's claim. Rather 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.

R3.16 In fact, the ACCI costing is significantly flawed for the following reasons:

- The ACCI purports to cost for the private sector only but uses the weighted increase for all award only employees not that for private sector award only employees (note also that as we indicated above and as the Commonwealth Government points out in its submissions the ACTU has overestimated the weighted increase for all award only employees in its original submissions by reason of the use of incorrect proportions data);

- The costing uses a November 2000 estimate of all employee earnings derived from the *Average Weekly Earnings Survey* and makes no attempt to adjust that figure for likely increases in earnings between November 2000 and the time at which the Commission's decision will take effect;

- The costing significantly overstates the "flow on" effects of the Commission's decision (a matter to which we return below).

R3.17 No other party attempts to provide any estimate of the overall cost impact of the ACTU claim. In effect, the Commission has before it two genuine attempts to estimate the impact of the claim that of the ACTU and that of the Commonwealth. In essence, these two costings establish that the cost of the ACTU claim is around 0.2% in net terms and 0.5% in absolute terms.

R3.18 Both the Commonwealth and the ACCI argue that the ACTU claim will have significant "flow on" effects: see Commonwealth

Submission, paragraphs 4.11 – 4.17 and ACCI Submissions Chapter 4 and paragraphs 5.9 – 5.22.

R3.19 In response to similar submissions in previous cases the Commission has consistently held that the evidence "does not support a conclusion that the indirect costs of a moderate safety net adjustment would be other than limited": *see Safety Net Review Wages - May 2001*, PR002001 at 29, paragraphs 84 and 85, *Safety Net Review Wages - May 2000*, Print S5000 at 25 – 27, paragraphs 60 – 65, *Safety Net Review Wages - April 1999*, Print R1999 at 20, paragraph 41 and *Safety Net Review Wages – April 1998*, Print Q1998 at 24 – 27. Nothing in the evidence before the Commission in this case warrants a departure from the conclusions in previous cases.

R3.20 The Commonwealth's evidence establishes that only 1% of employees on current Federal Wage Agreements automatically receive a safety net increase. Assuming this percentage were replicated across all employees covered by collective agreements the EEH May 2000 survey data suggests that only 0.4% of the workforce receive automatic safety net increases under the terms of a registered collective agreement.

R3.21 The Commonwealth's reliance on other categories of agreement is simply unfounded. The 302,300 employees covered by agreements which do not specify circumstances in relation to safety net increases would not be eligible for such increases merely because the agreement does not specify what is to occur in relation to them. The 69,500 employees whose agreements refer to receipt of safety net increases where consistent with safety net review decisions or principles would, overwhelmingly, not be entitled to receipt of any

increase by reason of the absorption principle (In this regard the Commission is reminded that the average differential between collective agreement rates and award rates is $301.30 per week). Further, a similar situation pertains in relation to the 92,500 employees whom the Commonwealth alleges are covered by agreements where safety net increases may be awarded depending on the level of changes in award rates. The Commonwealth asserts that the majority of this group received agreement increases well below the level represented by the ACTU claim. This may be so in percentage terms if the comparison is between the C14 percentage increase and the agreement percentage increase but would not be true if the comparison is between dollar amounts in the ACTU claim and those in agreements.

R3.22 The ACCI estimates of flow on derive from their survey and a misapplication of ABS data. In its submission the ACCI details in Chapter 4 the results of a survey on safety net increases. Results for the survey are presented in percentage terms only. Critical information relevant to the assessment of the validity of the survey was not provided by the ACCI in its submission, in particular the ACCI submissions provided no information as to:

- The number of firms to whom the survey was sent;
- The basis of selection of firms to whom the survey was sent;
- The number of responses to the safety net survey;
- The number of responses to each question;
- The covering letter or other material sent out with the survey; and
- The weighting process utilised by the ACCI to generate the final

percentages.

R3.23 Absent this information the Commission would have simply no basis on which to assess the validity of the survey results.

R3.24 On 5 March 2002, the ACTU by letter requested some of the information referred to above. The ACCI responded on 8 March 2002. The ACTU requested further information on 12 March 2002. The ACCI provided a further response on 15 March 2002. The ACCI letters of 8 and 15 March can be found at Tag 4 of the ACTU Reply Composite Exhibit.

R3.25 The additional information supplied by the ACCI demonstrates:

- The response rate to the survey was poor at 17.6%. This was despite an exhortation in the covering letter attached to the survey in the following terms: "If this is to be a credible survey, it is important that there is a strong response from industry. We therefore request that you complete the questionnaire at your earliest opportunity and return it by September 21" (emphasis added);

- The response rate to the safety net adjustment questions was even lower ranging between 15.8% and 16.5%;

- 6.3% of those responding to the survey did not respond to any of the safety net questions;

- There is a significant risk of non-response bias in relation to the survey (employers who did not respond are more likely not to have noticed any safety net effects);

- There is a significant risk of non-response bias in relation to the

safety net questions;

- The sample size for the respondents to the safety net questions is small, standard errors for results are likely to be large. This is particularly so in relation to the weighting process in respect of which the ACCI concedes that many cells had less than 10 respondents.

R3.26 In short, the ACCI survey is wholly unreliable.

R3.27 Further, in its costing the ACCI misdescribes ABS EEH survey categories and treats those categories as synonymous with the terms used in its survey. In particular, the ACCI describes 49.3% of the workforce as "over award employees" – in fact this percentage is obtained by summing the EEH May 2000 survey data for employees covered by registered and unregistered individual agreements in the private sector (see Table 23, page 44 of the published EEH May 2000 data). Persons employed on registered individual agreements are not in any sense properly described as being "over award employees". Some persons on unregistered individual agreements will be in receipt of over award payments but as the Commonwealth's submission notes this proportion of employees is not separately identified: see Footnote 6 to the Commonwealth's Submission on page 68.

R3.28 Similarly, the ACCI costing relies on a percentage of "non award employees" of 23.8%. This figure is derived from the EEH May 2000 survey by adding the figures for registered and unregistered collective agreements. In no sense can persons covered by registered collective agreements be described as "non award employees". Nor is it likely that such a description is appropriate for

any or any substantial proportion of those persons covered by unregistered collective agreements.

R3.29 Further, the ACCI utilises the proportion of firms responding to its survey as the proportion of private sector employees receiving increases directly through the safety net for the particular categories of employees. So, for example, 30.4% of respondents to the survey are alleged to have responded yes to the question "as a direct result of the safety net decision, did you raise the wages of any employees receiving over award payments". This tells us nothing about the proportion of employees in respect of whom there was flow on. Indeed, even accepting the veracity of the survey result (which is not accepted), nothing can be said about the relevant proportion of employees.

R3.30 In short, the ACCI costing of the indirect effects of the ACTU claim is wholly specious.

The Level of Increase for Award Workers

R3.31 The ACTU's original submissions made the following propositions:

- That the average increase as a result of the ACTU claim was broadly consistent with the level of wage increases for others in the community;
- That whilst, by design, the ACTU claim would deliver increases of the order of 5 - 6% for the lowest paid, average annual increases over the last 3 years would still be moderate;
- The average real increase as a result of the ACTU claim is moderate in light of two years of average real decreases; and

- The real increase proposed for the lower end of the award spectrum whilst at the high end of the range previous Commission decisions will still deliver average annual real increases for the period 2000 – 2002 substantially below the real growth for the period 1997 – 1999.

R3.32 Nothing in the opposing submissions compels any different conclusions. As we noted in Reply Chapter 2 it has become apparent that data on which the ACTU relied for its calculation of average increase relates not to "award only" employees but rather to "award covered" employees (the difference between these two groups has been explained in Chapter 2). However, as we noted in Chapter 2 whilst a re-calculation of the data by reference to the "award only" figures does result in an adjustment in all of the figures, it does not alter the veracity of the fundamental propositions on which the ACTU relies.

R3.33 Below, we provide updates of tables 3.6, 3.7, 3.8 and 3.10 in our original submission all calculated on the basis of "award only" rather than "award covered" data.

R3.34 The ACCI's response to the proposition that the claim is consistent with other wage movements is to simply disparage notions of "comparative wage adjustments": see Chapter 10 and to focus only on the impact of the claim at lower award rates: see paragraphs 5.29 – 5.33. Similarly, the Commonwealth focuses its critique on the impact of the claim on the C14 and C10 wage rates: see paragraphs 2.91 – 2.97 and 8.15 – 8.17. The AIG and other submissions give no direct consideration to this issue accept by way of bald assertion that the ACTU claim is too high.

R3.35 The ACTU claim seeks to deliver a maximal increase to the low paid. It does so by design and it does so within the bounds of an overall increase broadly consistent with community wage movements. By focussing, as they do, on the percentage increase at lower award rates the Commonwealth and the ACCI simply leave untouched the proposition that the average increase is broadly consistent with movements for others in the community.

Table R3.6: Average increase in award rates as a result of the ACTU claim compared to other wages measures.

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
4.6	4.8	4.4	4.6

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)
5.9	4.4	5.4	3.7	3.4	4.0	3.8	5.0

(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 November 2001

(c) Trend AWE All Employees to November 2001

(d) Trend AWE – Full Time Adults to November 2001

(e) Trend Average Compensation per Non-farm Employee – to December 2001.

(f) Wage Cost Index to December 2001

(g) Average Annualised Wage Increase per agreement (AAWI)– September 2001

(h) Average Annualised Wage Increase per employee (AAWI) – certified in December quarter

(i) Increase in base salary of Senior Management to December 2001.

Table R3.7: 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
4.6	4.8	4.4	4.6

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)
6.5	4.9	5.9	4.0	3.6

(a) AWOTE for twelve months to November 2001 adjusted to exclude all full-time award only employees
(b) Trend AWE all employees for twelve months to November 2001 adjusted to exclude award only employees
(c) Trend AWE all full time adults twelve months to November 2001 adjusted to exclude award only employees
(d) AENA to December 2001 adjusted to exclude award only employees
(e) WCI for twelve months to December 2001 adjusted to exclude award only employees

Table R3.8: 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	4.6	4.8	4.4	4.6
2001	2.8	2.9	2.7	2.8
2000	2.9	3.1	2.8	2.9
Average annual increase 2000-2002	3.5	3.6	3.3	3.5

Table R3.10: 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	2.1	2.3	1.8	2.1
2001 decision	-0.2	-0.1	-0.4	-0.2
2000 decision	-0.2	-0.1	-0.4	-0.2
Average Annual Increase 2000-2002	0.5	0.7	0.4	0.6

R4. Recent Economic Developments

R4.1 Since the ACTU filed its Living Wage Case Submission on 8 February 2002, there have been a number of important developments in the Australian and international economy – not least of all the publication of the ABS's National Accounts for the December 2001 quarter.

R4.2 The release of this and other data since our first submission would appear to add further weight to our original submissions that the Australian economy had recovered strongly from its post-GST slump around December 2000, and has since shown remarkable resilience in weathering the international storm.

R4.3 The economic submissions on the part of a number of the opposing parties now appear out-of-date in light of the new data – and their assessments on the state of the economy should be discounted.

R4.4 The recent developments have led a number of commentators to revise up their forecasts for the year, with many now expecting the official Treasury MYEFO forecasts to be comfortably achievable:

> *"Reviewing our forecasts last week, we couldn't keep output growth next year under 4%, and kept it under 5% only by assuming that business investment grows at less than half the rate implied by the latest capital expenditure survey. If our forecasts are right, this time next year unemployment will be heading back under 6% and the current account deficit this year will widen beyond $30 billion."*
>
> [HSBC, *Australia & New Zealand Weekly – Firing on all cylinders*, 18 March 2002]

R4.5 In this section of our reply submission we first of all review the economic developments since 8 February 2002, as well as address

a number of the arguments made by the opposing parties on the state of the economy.

R4.6 The tables at Tag 1 of the original composite exhibit have been reproduced at Tag 1 of the ACTU Reply Composite Exhibit to reflect the new data available.

Economic Growth

R4.7 The ABS released its most recent National Accounts publication for the December 2001 quarter on 7 March 2002. This new data has ramifications for a number of the economic submissions made by the opposing parties.

R4.8 During the December quarter 2001, the Australian economy continued to display its resilience and strength in a sluggish international environment. Gross Domestic Product (GDP) increased a very strong 1.3 per cent in seasonally adjusted terms during the December 2001 quarter, and a strong 4.1 per cent over the past year. (In trend terms the economy grew 1.2 per cent for the quarter to be 3.7 per cent higher than at the same time a year earlier.)

R4.9 In both trend and seasonally adjusted terms, the Australian economy has now grown by at least 1 per cent in each of the past three quarters. This represents a return to annual growth easily in excess of 4 per cent.

R4.10 Table R4.1 below shows the recent movements Australia's GDP growth.

Table R4.1: GDP Growth – Australia – December 1999 to 2001

	Quarterly Increase		Yearly Increase	
	trend	s.a	trend	s.a
1999				
December	1.1	1.3	4.4	4.3
2000				
March	1.0	0.5	4.2	3.9
June	0.6	1.1	3.8	4.2
September	0.3	0.3	2.9	3.2
December	0.1	-0.4	2.0	1.5
2001				
March	0.4	0.6	1.4	1.6
June	1.0	1.1	1.7	1.6
September	1.2	1.1	2.7	2.4
December	1.2	1.3	3.7	4.1

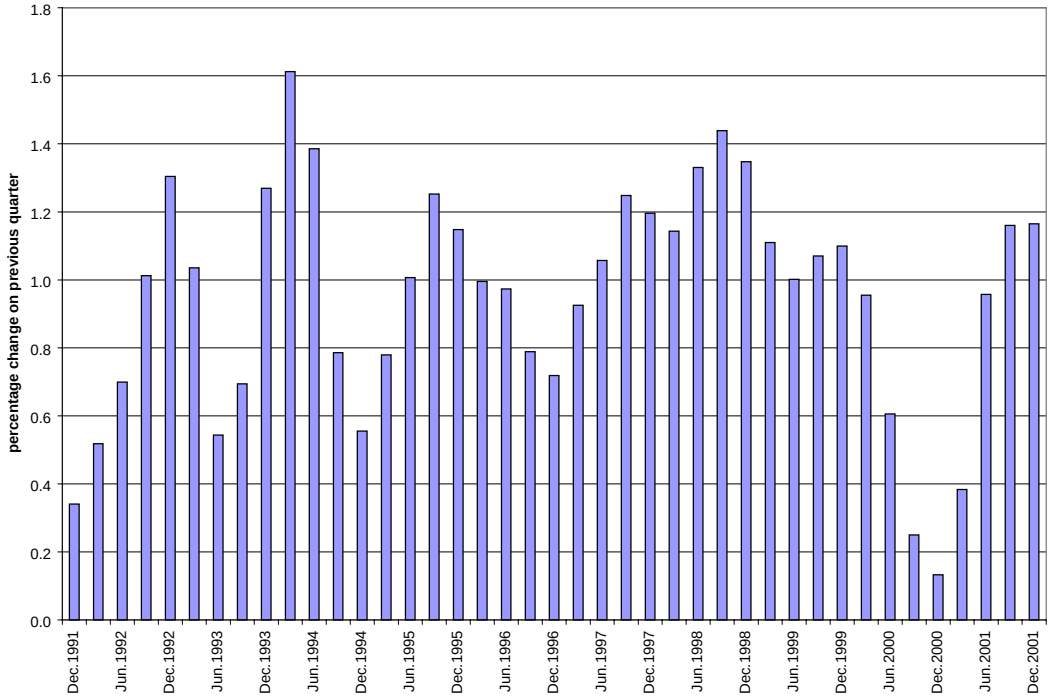
s.a. - seasonally adjusted

Source: ABS Cat No. 5206.0

R4.11 The trend data has been reproduced below in Figures R4.1 and R4.2 for the entire period of the current economic expansion, so as to give some perspective to the recent developments in GDP growth.

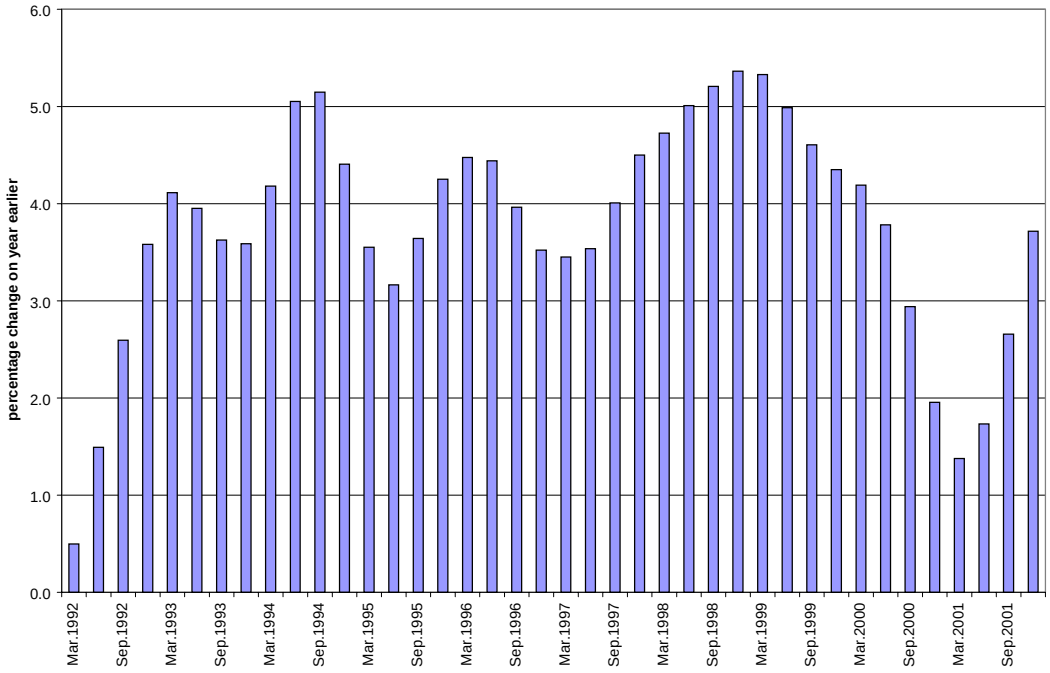
R4.12 As can be seen in each of these figures, growth during the past three quarters has been at or even above the average growth over the current economic upturn. Yearly growth over the year to December 2001 has once again returned to the levels it was attaining prior to the GST induced slump.

Figure R4.1 Quarterly GDP Growth over the current economic cycle



Source: ABS Cat No. 5206.0

Figure R4.2 – Annual GDP Growth over the current economic cycle



Source: ABS Cat No. 5206.0

R4.13 Both the Commonwealth and the ACCI on a number of occasions in their submissions criticise the ACTU for focusing on the relative performance of the Australian economy. They assert that the relative strength of the Australian economy is not important, rather the degree to which the economy performs with respect to its growth potential. For example at paragraph 2.3 the Commonwealth states:

> *"The rate of growth relevant to the growth potential is more relevant from a labour market perspective. And on this score, it is of little comfort that economic growth is currently below trend and is forecast to remain below trend until 2002-03."*

R4.14 These assertions were of course made before the release of the December 2001 quarter National Accounts, which suggest not only has the Australian economy returned to its long-term growth rate, but has in fact surpassed it.

R4.15 The ACCI makes a number of similar assertions throughout its submissions regarding the strength of the Australian economy. Like the Commonwealth, however, a number of these comments would appear to have little relevance in light of the recent National Accounts and other data.

R4.16 Some examples where the ACCI make their old and outdated assessments of Australia's economic growth include:

Paragraph 2.1

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

Paragraph 2.10:

"The recovery is minimal and at an early stage"

Paragraph 2.31:

"The aim of policy must be to return Australia's growth rate to a sustained rate of increase of more than four per cent, 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"

R4.17 The National Accounts instead show an economy which has grown at 4.1 per cent over the last year.

R4.18 Abstracting from the March 2001 quarter (when the GST-slump was just beginning to recover), would show an even stronger more recent picture. On an annualised basis, growth over the last three quarters of 2001 was a very strong 4.7%. The most recent December 2001 quarter itself was growing at an annualised rate of 5.2%. Clearly any suggestion that the economy is performing at below its potential are out of date.

R4.19 Along similar lines, both the Commonwealth and ACCI on a number of occasions suggest that measuring Australia's performance relative to that of other countries is not important.

At paragraph 2.75 the Commonwealth state that :

"The ACTU frequently cites in its submission that the Australian economy has outpaced most of the other developed countries. However, the absolute performance of the Australian economy is more relevant to this case than relative performance, as the absolute performance of the economy is the key factor in determining economic outcomes."

R4.20 We are not alone in the world in highlighting the strength of the Australian economy relative to other world economies – something done repeatedly by many economic forecasters including the Federal Treasurer and the OECD:

> *"Over the course of 2001, the Australian economy markedly outperformed the world's developed economies. Australia's economic growth rate of 4.1 per cent over 2001 compares with an OECD average of less than 0.5 per cent over the same period. Amongst G7 economies, the strongest growth rate over 2001 was the UK at less than 2 per cent, with the remaining members below 1 per cent."*
>
> [Costello, P., *Media Release – National Accounts – December Quarter 2001*, 7 March 2002.]

and

> *"The National Accounts showed that notwithstanding the events of the last quarter of 2001, September the 11th, pessimism that was around, Australians showed a sunny optimism and led by private final demand and good corporate profitability, Australia's economy continued to grow and is not just one of the fastest of the developed world, but it was growing faster than most of the other economies of the developed world by a very large margin. In fact the growth rate of 4.1 per cent through the course of 2001 was about 10 times the OECD average and about 10 times that of the G7."*
>
> [Costello, P., *Press Conference – National Accounts*, 7 March 2002]

Components of Economic growth

Consumption

R4.21 Household consumption expenditure increased a strong 1.3 per cent during the December 2001 quarter (in seasonally adjusted terms) to be 4.2 per cent higher than a year earlier. Given the importance which household consumption plays in contributing to total GDP, this is a particularly encouraging result, and one of the major reasons behind the good overall GDP result.

R4.22 This has come at a time following the events of 11 September and an expected decline in consumer confidence. Despite these concerns, Australian consumers have continued to demonstrate considerable confidence, which has been reflected in a strong increase in their level of consumption.

R4.23 This consumption has also been reflected strongly in sales in a number of sectors, notably including retail trade, which increased 1.4 per cent, seasonally adjusted, in the month of January 2001, and up 8.7 per cent in the year to January 2002.

R4.24 Household consumption expenditure contributed 2.5 percentage point to total GDP growth over the 2001 calender year (of a total of 4.1 percentage points). In other words, some 60 per cent of the growth experienced during 2001 came from household consumption.

R4.25 Public consumption expenditure also increased during December 2001, largely the result of increased spending on Defence. Total public consumption increased 0.9 per cent in seasonally adjusted

terms to be 2.2 per cent higher than at the same time a year earlier (defence spending increased by 8.7 per cent in the December quarter 2001, to be 12.1 per cent higher than in December 2000)

Investment

R4.26 The December 2001 National Accounts were also particularly positive in terms of the results for investment expenditure. Total private gross fixed capital formation expenditure increased 3.1 per cent during the quarter to be 10.9 per cent higher on a year earlier in seasonally adjusted terms (the trend data increased 3.7 per cent for the quarter and 7.0 per cent for the year).

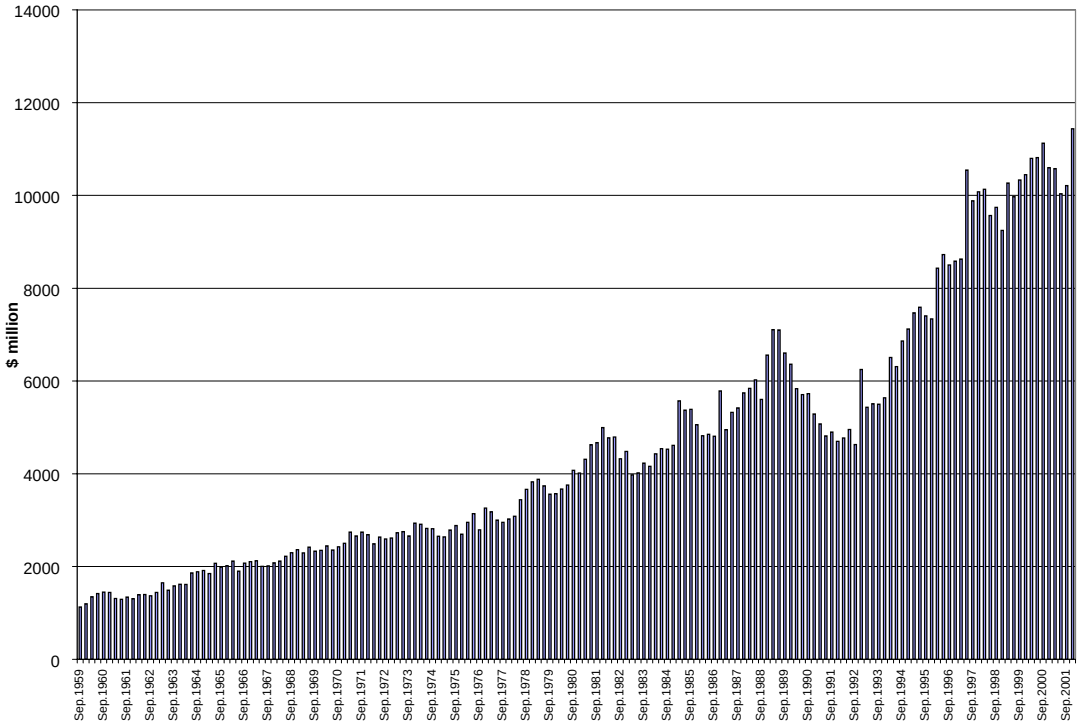
R4.27 While in previous periods, much of the increase in investment expenditure had been as a result of the pick-up in new dwelling investment, the December quarter also saw very encouraging gains in the areas of business investment – most notably for machinery and equipment investment (the single largest private investment item in the accounts) as shown in Figure R4.3 below.

R4.28 Total dwelling investment grew 4.1 per cent during the December quarter in seasonally adjusted terms (7.2 per cent trend), and was 21.5 per cent higher than at the same time a year earlier (16.7 per cent in trend terms).

R4.29 In seasonally adjusted terms, total machinery and equipment investment grew by a whopping 12.0 per cent during the December 2001 quarter alone, on the back of a moderate 1.8 per cent increase in September 2001, to be 7.9 per cent higher than at the same time a year earlier. This has resulted in the value of machinery and

equipment expenditure not only returning to its pre-slump levels, but in fact to a new historical high, as seen in Figure R4.3 below.

Figure R4.3 : Machinery and equipment investment ($ millions)



Source: ABS Cat No. 5206.0

R4.30 The equivalent trend data saw machinery and equipment expenditure increase 3.7 per cent in December, following 2.4 per cent increase in September, to be 1.5 per cent higher than at the same time a year earlier.

R4.31 Public investment also increased strongly in the December 2001 quarter, largely as a result of increased investment on defence, although public corporations also made a strong contribution.

R4.32 During the December quarter 2001, total public gross fixed capital formation increased 14.3 per cent (seasonally adjusted), defence up 96.3 per cent, and public corporations 19.0 per cent, to be 10.1, 33.6

and 17.0 per cent higher respectively than they were at the same time a year earlier.

R4.33 Again the release of this most recent National Accounts data suggests that the assessments made by a number of the opposing parties with respect to the investment climate are now out of date.

R4.34 For example, in quite a number of places throughout their submission (eg. paragraphs 2.11, 2.18, 2.23, 2.40, 2.41 and 2.93) the ACCI make comments along the lines of the following:

Paragraph 2.11:

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

Paragraph 2.23:

> *"…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."*

Paragraph 2.93:

> *"Private sector investment has been falling for the past two years. Although there is evidence that this contraction is about to be reversed it has not happened yet. The upturn is still a [sic] 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."*

R4.35 Clearly these comments are now out of date following the release of the December data which showed that machinery and equipment investment instead *increased* 7.9 per cent over the year. Further

references to the more positive outlook for investment have been discussed below in relation to recent business surveys.

Manufacturing Output

R4.36 Output in the manufacturing sector continued to increase for the third quarter in a row, following a mild slump over the early part of the 2000-01 financial year – partially resulting from the impact of the introduction of the GST.

R4.37 Manufacturing output grew 1.4 per cent, in trend terms, during the December 2001 quarter and was 3.0 per cent higher than in December 2000.

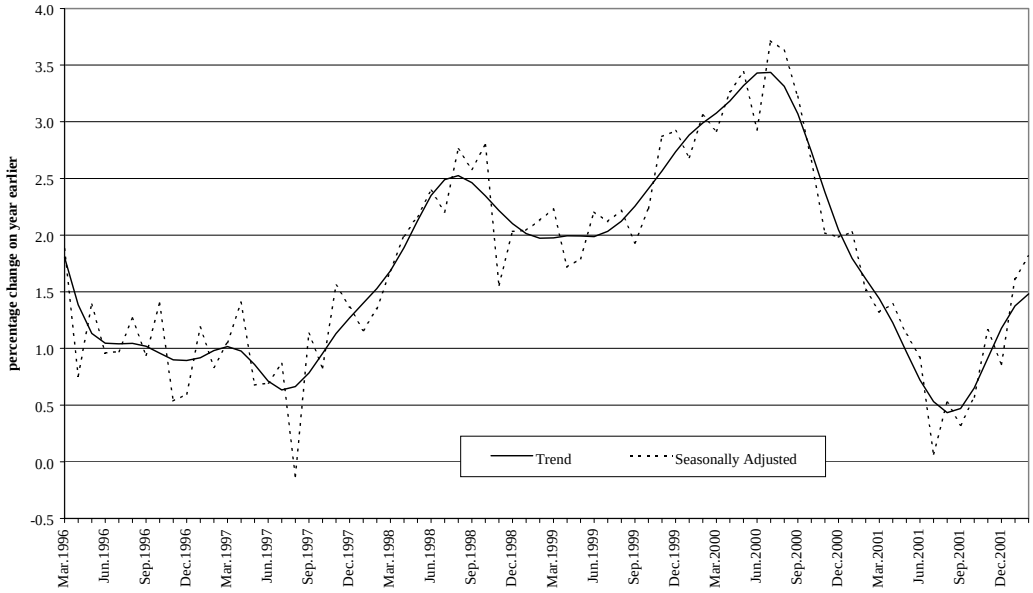
The Labour Market

R4.38 The most recent Labour Force data for February 2002 was released on 14 March 2002, and shows further encouraging signs that the labour market is beginning to respond to the recent increases in economic growth. (Employment growth generally lags growth in GDP).

R4.39 Employment grew 0.2 per cent in seasonally adjusted terms during the month of February 2002, to be 1.8 per cent higher than at the same time a year earlier. This comes on the back of strong employment growth of 0.7 per cent during January 2002, and paints an encouraging picture for the labour market in the first part of 2002. (In trend terms employment increased 0.2 per cent during each of the months of January and February 2002, to be 1.5 per cent higher than in February 2001.) The recent movements in employment growth are shown in Figure R4.4 below.

R4.40 These recent growth figures saw the total number of employed persons rise to it highest level on record, with a total of 9,283,000 persons in work during February 2002.

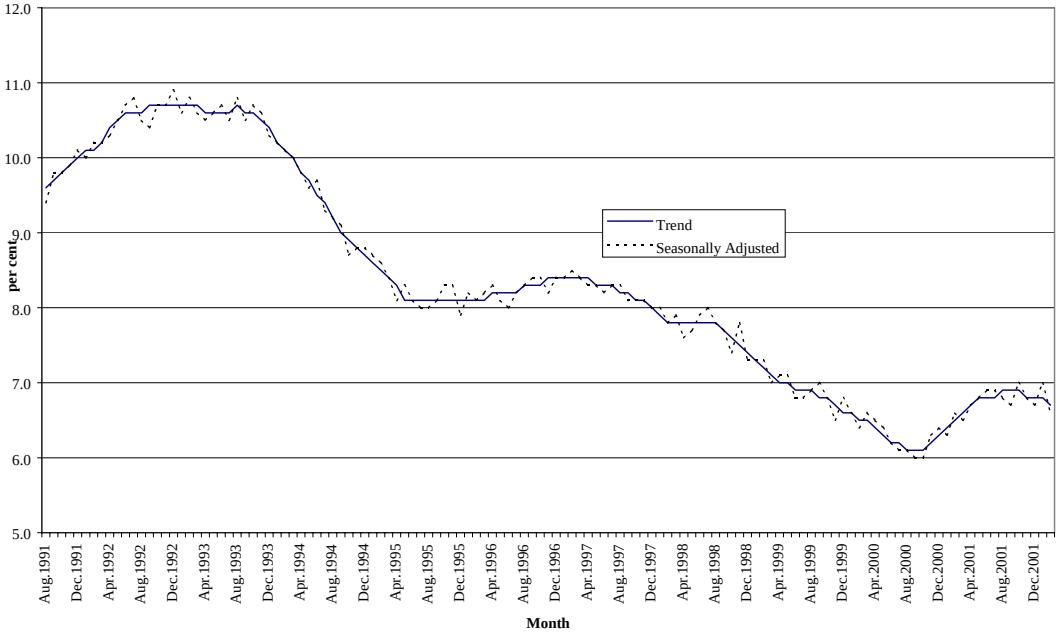
Figure R4.4: Employment Growth – Australia – 1996 to 2002



Source: ABS Cat No. 6202.0

R4.41 The rate of unemployment is also on the improve, with the seasonally adjusted unemployment rate falling from 7.0 per cent in January 2002 to 6.6 per cent during February 2002, its lowest level in over a year. The trend rate fell from 6.8 per cent in January 2002 to 6.7 per cent in February 2002, as shown in Figure R4.5 below.

Figure R4.5: Unemployment rate – Australia – 1991 to 2002



Source: ABS Cat No. 6202.0

R4.42 The Commonwealth state at paragraph 2.76:

> *"Although employment growth in Australia has outperformed these regions over the last few years, Australia's employment growth over 2001 was subdued, and the unemployment rate increased. Hiring intentions have been significantly affected by the weak world economy which, along with cost cutting strategies via staff shedding, has resulted in a subdued outlook for the labour market in the first half of 2002"*

they then criticise the ACTU at paragraph 2.77:

> *"The ACTU Submission casts the labour market in a favourable light by referring to the large January increase in the ANZ Job Advertisements survey, and other forward indicators of labour market and economic activity. Too much emphasis should not be placed, however, on a single increase in the seasonally adjusted ANZ series. The ANZ Job Advertisements count has shown only a mild increase in trend terms over recent months. The DEWR Skilled Vacancy Series has fallen slightly since November 2001. Both of these vacancies measures are at levels significantly lower than a year ago."*

They then contradict themselves by saying in the next paragraph (2.78):

> *"In general, the leading indicators are pointing to continued solid growth in the economy which is gradually feeding through to the labour market. Growth in employment is likely to be sufficient to meet the modest forecast in MYEFO of approximately ¾ of one per cent in 2001-02 in year average terms."*

R4.43 Further comments by Minister Abbott, would also appear to add support to the comments in the ACTU's submission:

> *"There are also encouraging signs of a pick-up in job-vacancies. The ANZ newspaper job advertisement series rose by 12.5 per cent in January while the Department of Employment and Workplace Relations' Skilled Vacancies Index also rose by 0.8 per cent"*
>
> [Abbott, T, *Media Release – Labour Force – January 2002*, 14 February 2002]

Productivity

R4.44 Productivity continued to grow strongly during the December 2001 quarter, on the back of solid improvements in recent quarters.

R4.45 During December 2001, GDP per hour worked increased 1.7 per cent to be 5.0 per cent higher over the year – representing the largest quarterly and yearly increase on record, as the Treasurer recently commented:

"The National Accounts also provide further evidence that strong economic growth continues to be accompanied by low inflation and record high productivity growth.

[Costello, P., Media Release – National Accounts – December Quarter 2001, 7 March 2002.]

"There is very strong productivity growth that has been recorded in these National Accounts rising to be 10.8 per cent higher at the end of the year than it was at the beginning of the year. In fact the highest rise in productivity since quarterly National Accounts have been taken.

[Costello, P., Press Conference – National Accounts, 7 March 2002]

R4.46 Further in response to the statement by the Commonwealth at Paragraph 2.79:

"It is particularly important for the case to focus on expected labour productivity corresponding to the case's reference period, instead of relying on past estimates"

The ACTU, in its submission, relies on both current economic data and forecasts where available. No official expectations exist for labour productivity growth, otherwise we would use them.

Wages and Prices

R4.47 The most recent movements in wages have been covered in Chapter 2

R4.48 There have been no new data from the ABS's *Consumer Price Index (CPI)* series.

Company Profits

R4.49 Company profits (as measured by the Gross Operating Surplus measure from the National Accounts), increased 4.3 per cent in seasonally adjusted terms during the December 2001 quarter, to be 9.2 per cent higher than at the same time a year earlier. (In trend terms GOS increased 1.7 per cent on the quarter to be 5.0 per cent higher over the year).

R4.50 The recent trend towards stronger profits was reflected in the profit share of total factor incomes, which increased a full one percentage point during the December 2001 quarter to 23.7 per cent in seasonally adjusted terms (the trend data saw a 0.1 percentage point increase over the same period to be 23.2 per cent in December 2001)

Recent Survey Results

R4.51 A number of private sector survey results have also been released following our original submission was filed with the Commission. By and large, these surveys reinforce the picture of a strengthening domestic economy

- **ACCI – Westpac *Survey of Industrial Trends;***

  "The new year has began on a confident note. Results of the March quarter 2002 Survey show that economic activity in Australia has continued to expand. All activity indicators have continued to rise. Business confidence, shaken in the previous quarter by external shocks and uncertainties generated by the 11 September terrorist attacks in the

United States, have rebounded to high levels. Forward projections for the next three months are buoyant and reflect robust actual activity levels."

[ACCI-Westpac, Press Release on the 162nd Survey of Industrial Trends – March Quarter 2001 [sic], 12 March 2002]

Mr Lyndon Rowe, Acting Chief Executive, ACCI commented:

"This is very good news. The Australian economy has proved very resilient. Solid, sustained growth is under way. Outcomes and predictions for new orders and output are robust. Capacity utilisation is as historical high levels. Capital expenditure plans for the next 12 months are strong. Export performance has recovered.

Particularly encouraging is the pause in job shedding, resulting from the continuing improvement in the labour market"

R4.52 These comments would appear to be starkly different to the picture the ACCI is attempting to paint of the economy in its submission.

Mr Bill Evans, General Manager Economics, Westpac Banking Corporation, commented:

"These are very strong results. It is clear that the sharp fall in business confidence indicators and forward projections that had marred the otherwise solid results in the December quarter was a dramatic one-off reaction to the terrorist attacks in the United States and concerns associated with recessions in US and Asia. Business confidence has now recovered strongly.

…

Of most interest is the strong growth in the employment conditions. Our research indicates that this is likely to be pointing to a solid recovery in labour market conditions through 2002."

Further the Survey reported that:

"More than one third of the manufacturers surveyed (35% vs 29% previously) reported plans to upgrade their investment spending on plant and equipment.

…

Export performance has recovered markedly (17% vs 3%), greatly exceeding predictions. Solid growth of export deliveries is predicted for the next quarter (14% vs 8%).

…

In line with predictions, there was a pause in job shedding as the labour market continued to improve in the March quarter (0% vs –5%). The strong outcome for numbers employed is reinforced by predictions of strong employment growth in the next quarter (11% vs –2%). Overtime worked also firmed markedly (16% vs –2% net balance). Further, albeit more modest, growth (9% vs –17%) is predicted for the June quarter. Historically, these labour market indicators are consistent with strengthening employment outcomes for the economy.

…

Profit expectations remained firm, with the same net outcome as three months ago (22%)."

- **National Australia Bank, *Monthly Business Survey – February 2002.***

"The main message from National's Monthly Business Survey for February is that Australia's strong growth momentum of 2001 has continued into the first quarter of 2002. Indeed, the Survey points to that growth momentum accelerating – with the business conditions index now consistent with on-going annual growth in non-farm GDP of around 4½ percent.

…

…the retail/wholesale and construction sectors led the way,…

…

With forward orders at high levels and capacity utilisation picking up, it is likely that this growth momentum will continue for some time.

…

Not surprisingly, in that environment, business confidence remained at very robust levels – albeit slightly off the recent high recorded in January. On-going high levels of business confidence mean that we can be more confident of business investment picking up substantially during 2002/03.

…

Another encouraging finding from the Survey was that the growth momentum has not yet generated any signs of emerging wage/price pressures – albeit there was some evidence of margin 'rebuilding' in retail/wholesale and margin 'building' in construction."

- **Westpac-Melbourne Institute Index of Consumer Sentiment – March 2002.**

The survey found that consumer sentiment had risen to its highest levels in more than two years during March 2002, suggesting that the strong household spending that has been powering the economy in recent months is set to continue:

"The Westpac-Melbourne Institute Index of Consumer Sentiment jumped 2.7% to 116 in March from 112.9 in February 2002.

The index has now risen for 5 consecutive months to be 16.4% higher than its October lows. Even abstracting from the post terrorist attack slump in confidence, the Index is still 5.9% above its September levels, indicating that consumers are significantly more confident than 6 months ago. The index is now 16% above its long-term average and is at the highest level since early 1999, when it briefly exceeded 116. To find sustainable strength above the current levels we need to go back to June/July 1994 when the index exceeded 120."

- **Dun and Bradstreet – Monthly D&B Business Expectations Survey – February 2002.**

"The February D&B National Business Expectations Survey looking ahead at the June quarter 2002 shows the highest employment expectations in 18 months. Similarly, while sales and profits expectations fell slightly this

month, they are still stronger than at any time in the 18 months from May 2000 to November 2001.

…

This is the best employment outlook in 18 months.

…

Christine Christian, Chief Executive Officer, D&B Australia & New Zealand, said the slow but steady rise in expectations over the last few surveys indicated that economic growth was likely to continue throughout 2002:

> *'What is very encouraging is the continued growth in employment expectations that we have seen in recent surveys. In February, employment expectations improved across all sectors.*
>
> *…*
>
> *On another positive front, it would appear that businesses in Australia are weathering the global economic downturn well. Fifty-three per cent of executives said the downturn has had no effect on their businesses over the past six months. Moreover, more than 70 per cent said it would have no effect whatsoever on their business in the coming six months.'*

Dr Duncan Ironmonger, D&B Economic Consultant, said that stronger business expectations last months indicated the economy would continue on a fairly steady recovery path following the downturn of 2000/01.

> *'As well as an improved employment expectations outlook, there are signs that the long-awaited recovery in capital expenditure is on the way. Recent surveys show a steady improvement in expectations to spend more on capital investment.'*

Economic Developments overseas

R4.53 A number of forecasters and commentators are predicting an earlier, and in a number of cases, stronger recovery for the US than was expected only a month or two ago.

> *"There's been strong dwelling construction, business investment is now starting to kick in, profits have been strong and the only negative is the negative which is coming from the external environment over which we have little control but maybe it's bottomed. Well in fact I'll go further, I think it probably has bottomed."*
>
> [Costello, P., *Press Conference – National Accounts*, 7 March 2002]

R4.54 The OECD released its latest *Composite Leading Indicator* (CLI) for January 2002 on 8 March 2002. In the absence of any new forecasts on world economic growth, it provides an important insight into recent developments in the world economy, and is described by the OECD as follows:

> *"The OECD CLI is designed to provide early signals of turning points (peaks and troughs) between expansions and slowdowns of economic activity. The OECD uses the six-month rate of change of the CLI as its preferred pointer to possible turning points."*
>
> [OECD, Media Release - *OECD Composite Leading Indicator Increases in January 2002: Improvement for G7 Countries*, 8 March 2002]

R4.55 The CLI for the OECD area increased by 1.1 points in January 2002 to 114.5, while at the same time the six-month rate of change improved for four consecutive months.

R4.56 The CLI for the United States increased by 2.2 points for January and its six-month rate of change also improved for three consecutive months. The CLI for the Euro area increased by 0.7 points in January. The area's six-month rate of change improved for four consecutive months. The CLI for Japan increased by 0.2 points in January. Japan's six-month rate of change has improved for five consecutive months.

R4.57 Following the release of the January CLI, Financial Market commentators, *Schroder Salomon Smith Barney*, made the following comments on their perceived implications of these figures:

> *"The OECD leading indicators for the G7 support other signs that a strong and broadly based recovery in global growth is under way. Moreover, the leading indicators hint that the recovery will have greater momentum than many currently expect. The new data is the leading indicators for January, which rose 1.1% MoM after a 1.2% gain in December and a 0.9% rise in November. December's result was the biggest since the mid 1970s, and January's gain is the biggest since the early 1980s. As a result, the YoY change in the leading indicator is turning up very rapidly from October's low.*
>
> *…*
>
> *…the pace of improvement in the leading indicators is so stunning that – at the very least – it is worth considering the chance of a very strong upturn in G7 industrial production in coming months.*
>
> *…*
>
> *By region, the strongest gains in the leading indicators are in the US, … but the gains in the leading indicators are broadly based, with marked improvements also in the euro area and Japan.*
>
> *…*
>
> *The likelihood of a fairly sharp upturn in global industrial production seems quite high given the rapid monetary easing last year, plus a positive*

contribution to growth from inventories after widespread and large inventory cutbacks in recent years."

[Schroder Salomon Smith Barney, *Media Release – G7: OECD Indicators Point to Strong Economic Recovery*, 8 March 2002]

While not all commentators would at present consider a sharp upturn in the international economy the most likely outcome, it appears that there is an emerging view amongst most economic forecasters that the worst is behind us, and that the news overseas is certainly encouraging.

"Of course, the other critical ingredient for continuing strong growth in Australia through 2002 and 2003 is the forecast recovery in global conditions. Here, the 'big picture' is still very much the USA – and recent news there has been encouraging."

[National Australia Bank*, Monthly Business Survey – February 2002*]

R5. Economic Effects

R5.1 In Chapter 5 of the ACTU's original submissions the ACTU contended that:

- The macroeconomic impact of the ACTU claim would be minimal with a 0.2% net increase in economy wide earnings growth and an impact on inflation of less than 0.1%;
- That there was no basis for the Commission to depart from its earlier conclusion that "moderate wage increases in the wages of the low paid, of themselves, do little or nothing to diminish job prospects".

R5.2 The Commonwealth devotes three chapters of its submissions to the alleged economic impact of the ACTU claim: Chapters 3, 4 and 5. Having engaged in its flawed costing exercise, the ACCI attempt no substantive analysis of the economic effects of the ACTU claim other than the repetitive and strident assertion that the ACTU claim will cost jobs. Other employer submissions, including that of the AIG, provide no macroeconomic costing of the ACTU claim and simply assert that it will have a negative impact in economic terms.

R5.3 Issues relating to the costing of the ACTU's claim have been dealt with in Reply Chapter 3. Suffice to say at this point that the opposing submissions of the Commonwealth confirm the overall veracity of the ACTU's costing of its claim.

R5.4 The Commonwealth once again relies heavily on Treasury Macroeconomic Model (TRYM) modelling for its estimate of the economic effects of the ACTU claim. The Commission should place

no weight on the outcomes of this modelling for the following reasons:

- TRYM's forecasting record is poor;
- Given the magnitude of the forecasting errors in TRYM the alleged impact of the ACTU claim is statistically speaking not significant;
- The TRYM model assumes a negative relationship between any wage increase and employment;
- The Commonwealth's submission inputs the alleged difference between the ACTU claim and the Commonwealth's proposal to produce departures from the MYEFO baseline. This is highly misleading. Departures from the MYEFO baseline would more appropriately be modelled by inputting the net impact of the ACTU claim compared with the impact of last year's Commission decision;
- The TRYM modelling assumes a Reserve Bank response to the alleged inflationary impact of the ACTU claim which is wholly inconsistent with experience of the Reserve Bank's approach to interest rate movements; and
- The counter-factual modelling of the Commission's previous decisions with the position advocated by the Joint Coalition Governments (as they then were) relies on a forward looking Reserve Bank which knows of the outcome of the 2001 Safety Net Review in 1997 (an unrealistic and absurd assumption).

R5.5 Table R5.1 below provides a comparison of Treasury Budget Forecasts with actual outcomes for the years 1996-97 to 1999-2000. It reproduces data from Table 3 in JLS2 in last year's proceedings.

Table R5.1: Commonwealth Treasury Budget Forecasts Compared with Actual Outcomes

	1996-97 %	1997-98 %	1998-99 %	1999-00 %
GDP Growth				
Forecast	3.5	3.75	3.0	3.0
Actual	3.7	4.8	5.3	4.4
Employment Growth				
Forecast	1.5	2.0	1.75	1.75
Actual	1.0	1.4	2.2	2.7
Unemployment Rate				
Forecast	8.5	8.25	8.0	7.5
Actual	8.6	8.3	7.6	6.9
Inflation (Consumer Price Index)				
Forecast	2.0	1.0	2.5	2.0
Actual	1.4	0.1	1.6	2.4

R5.6 As the JLS noted in its submissions last year, for the above period Treasury Forecasts came within 0.2 percentage points of the actual result only three times, once for GDP growth and twice for the unemployment rate. All of those results were in the first two years covered in the table.

R5.7 As the Joint Labour States also pointed out last year the table highlights implausibility of the Commonwealth's claim regarding the internal consistency of the TRYM estimates. On those occasions when the model has correctly, or nearly correctly, forecast the unemployment rate it has incorrectly predicted employment growth.

R5.8 Recent MYEFO forecasts which only attempt to forecast in the order of 6 months ahead also show a poor record of prediction. Last year MYEFO forecast GDP growth of 4.0% compared to actual growth of 2.7%, Employment growth of 3.0% compared to actual growth of 2.1%, Unemployment for the June quarter of 6.25% compared to actual of 6.9%, Wages Growth of 4.25% compared to actual of 3.9%. This year the MYEFO forecasts are already showing signs of considerable inaccuracy. The MYEFO forecast for GDP Growth was 3.0%. Recent National Accounts Data suggests that this figure will almost certainly be exceeded by a considerable margin (growth in the first 6 months of the financial year has been 2.4%, that is an annual growth rate of 4.8%). If TRYM gets it so wrong so often in terms of key economic predictions no weight can be placed on modelling outcomes which produce effects in the order of 0.2% and 0.3%.

R5.9 Further, it is worth noting that the standard error on the level estimate for employment numbers in the Labour Force Survey is 37,400. The alleged employment impact of the ACTU claim as modelled therefore falls within measurement error for employment numbers.

R5.10 The Commonwealth Government inputs a figure it calculates as the difference between the ACTU claim and its proposal into the TRYM model. This figure (0.48%) is an overestimate because of the overestimate inherent in the Commonwealth's own costings of the ACTU claim and, indeed, its own proposal. Particularly, the Commonwealth includes the public sector in its calculation and fails to make any adjustment for safety net flow.

R5.11 More significantly, the Commonwealth claims that the modelling with this input number can be compared to the MYEFO baseline because that baseline "encompasses the effect of the Government's proposal of a $10 per week increase capped at C10". This is highly misleading.

R5.12 ACTU Reply Composite Exhibit Tag [5] are letters received from the Commonwealth on 12 and 15 March 2002. Those letters and the TRYM documentation tendered in previous cases make clear that :

- The MYEFO forecasts were prepared months prior to the Commonwealth finalising its position in response to the ACTU's 2002 Living Wage Claim;
- The inputs for the MYEFO forecasts in relation to wages growth figures utilise data available at the time the forecasts are prepared;
- There is no specific input for MYEFO modelling of award wages growth. To the extent that award wages growth is taken into account it is only taken into account by reference to the inclusion of aggregate wages data from periods prior to the preparation of MYEFO.

R5.13 In this context the speciousness of modelling the difference between the ACTU claim and the Joint Government's proposal can be seen. If anything is to be modelled in this way it should be the net impact of the ACTU claim compared with last year's decision. The very thing which in its submissions, the Commonwealth spends so much time disparaging.

R5.14 Such modelling would still be flawed because TRYM itself is flawed but it would show the overall negligible effect of the ACTU claim.

R5.15 The outcomes of the TRYM modelling presented in Table 4.4 rely on an imputed Reserve Bank response in relation to interest rates which seems unlikely. In its two previous quarterly statements the Reserve bank has noted the ACTU claim without commenting adversely on its impact on inflation. Further, as recent events have shown the Reserve Bank is unlikely to overreact to small movements in inflation.

R5.16 The ACTU estimates the inflationary impact of its claim at less than 0.1%. At Chart 4.1 the Commonwealth asserts an effect in the order of 0.3% for an addition to Wages Growth of 0.48%. If, as we contend, the figure which should be inputted into any such modelling is the net impact of the ACTU claim compared to last year's decision (0.17%) then our estimate of the inflationary impact is entirely consistent with the Commonwealth's own modelling outcome.

R5.17 It is hardly likely that the Reserve Bank would respond to a 0.1% addition to the inflation rate by lifting interest rates. This is significant because the TRYM model generates significantly more adverse employment effects when the Reserve Bank and financial markets respond to increases in inflation. As Chart 4.2 of the Commonwealth's submission shows the employment effects without such alleged response are significantly less than those with such response.

R5.18 Finally, it is worth noting that last year a 0.86% impact on wages growth was alleged to have a –0.3% employment impact. This year a 0.48% increase is alleged to have a –0.4% employment impact. In

other words this year the Commonwealth claims that a claim with just over half the impact on wages growth will have a third greater impact on employment growth.

R5.19 Once again the Commonwealth continues the absurdity of its counterfactual modelling of the Commission's previous decisions compared with amounts it has contended for in previous Safety Net Adjustments. We observe that just as in last year's case, the alleged impact of previous decisions is different to the alleged impact in previous years cases. So, for example, last year the Commonwealth alleged that the 1998-99 decision had an adverse employment impact of 20,000. This year it asserts an adverse employment impact for the same decision of nearly twice that figure.

R5.20 As the Commonwealth conceded last year and, as is evident from this year's submissions, this absurdity results from the assumption that a forward looking Reserve Bank adjusts interest rate policy knowing the outcome of future Living Wage Case decisions. As a result, each time a new decision is fed into the counterfactual modelling the alleged impact of all decisions prior to that decision alters under the model. The Reserve Bank is an important institution whose officers and employees are, no doubt, blessed with considerable skill and insight but to run a "counterfactual" analysis based on the supposition that the Reserve Bank in 1997 knows the outcome of the 2001 Safety Net Decision only has to be stated to highlight its absurdity.

Microeconomic Effects

R5.21 In Chapter 3 of its submissions the Commonwealth restates its position that rises in the real value of minimum wages have an adverse impact on employment. There is nothing in this material which should cause the Commission to alter its view that moderate wage increases do little or nothing to diminish job prospects. The ACCI argues that its survey provides evidence of a negative impact on employment as a result of Safety Net Adjustments. The Commission should place no reliance on the results of the ACCI survey.

R5.22 In Chapter 3 at paragraphs 3.4 – 3.8 the Commonwealth once again examines what it describes as the "bite" of the Australian Federal Minimum Wage. It does this initially by reference to a ratio of minimum to median wages, although in paragraph 3.5 it slides into a ratio of minimum to mean wages for the purposes of a comparison with the United Kingdom. It is to be noted that as the Commonwealth itself acknowledges in its discussion of Stewart at paragraph 3.22, 6.4% of United Kingdom employees were entitled to a wage increase as a result of the introduction of the UK Minimum Wage. The EEH May 2000 survey data suggests that a smaller proportion (about 3.5%) are entitled to the Federal Minimum Wage rate of pay in Australia.

R5.23 If employment effects are to be considered then the proportion of employees affected is presumably a more relevant consideration than simply the ratio to median or mean earnings.

R5.24 It might be said that in fact 23.2% of Australian employees are affected by minimum wages because this is the percentage who are

paid the award only rate. If this is the contention, it points to the absolute absurdity of the proposition for which the Commonwealth contends.

R5.25 Non-managerial AHOTE for award only employees in May 2000 (adjusted for casual rates) was $14.70. Median earnings for non-managerial employees in May 2000 as measured by the EEH survey (adjusted for casual rates) was $16.11. This gives a ratio of minimum (on the extended view that all award workers are appropriately considered for this purpose) to median wages in Australia of more than 90%. If the Commonwealth's broad propositions regarding the impact of minimum wages on employment were to be accepted then one would expect dramatic impacts on employment in Australia when compared with the performance of other countries. In fact, these dramatic differences are simply not observed. This is because the fundamental premise of the Commonwealth is wrong.

R5.26 To illustrate further, at 3.14 of its submissions the Commonwealth report Keil, Robertson and Symons as finding a long run employment effect of –0.19% for each 1% increase in minimum wages. This suggests that the level of employment in Australia with its minimum wage (in relative terms) at about 250% of the US should be in the order of 30% lower than the level of employment in the US. In fact, OECD Employment Outlook 2001 shows that the US has an employment to population ratio for 15-64 year olds of 74.1% with the Australian ratio at 69.1%. The dramatic negative impact on employment predicted by Keil, et al does not appear from the comparison. (Note this holds true even on the more limited basis of considering the Federal Minimum Wage only).

R5.27 At paragraph 3.13 of its submissions, the Commonwealth states that it is aware of four new empirical minimum wage studies. Two of those four studies find no evidence to support a significant negative relationship between minimum wages and employment. The Keil et al study (which does find a negative relationship) notes that the robustness of its results is affected by the starting point of the sample period:

> "We have experimented as well with varying the sample, 1977-1995 in the benchmark. … When the model is fitted 1980-1995, the elasticity falls to –0.124 (0.089); when the sample begins at 1983 or 1986, the point estimate of the elasticity is positive, about 0.1 with a standard error of about 0.05 in both cases. Further increases in the beginning-point yield negative elasticities again, though the standard errors now become large. Thus minimum wage effects appear not to be readily detectable if one relies only on more modern data."
>
> ***[Keil et al page 11, emphasis in original]***

R5.28 The extravagant claims as to the significance of their results made by Keil et al do not appear to be supported by the analysis itself. It would clearly be inappropriate and premature to accord much if any weight to the Keil et al discussion paper in the context of this Case.

R5.29 Williams and Mills report results from a vector auto regression [VAR] model in claiming to find evidence of significant negative relationship between minimum wages and employment. Earlier work by Williams purporting to find such a relationship in time series data is subject to a devastating critique in Card and Krueger [1995, see pages 217-222]. The complete WM paper is not provided by the Commonwealth at Appendix 3, with mathematical expressions, data tables and illustrations not being reproduced in the copy. WM claim to show that changes in the minimum wage 'Grainger cause' teen

employment; strictly, the Grainger tests have to do with precedence in data series and not 'causation'.

R5.30 To quantify the effect of a change in minimum wages on teen employment, WM rely on 'impulse response functions' in their VAR model. In this exercise the VAR model is 'shocked' by raising the minimum wage by 10%, and the subsequent time-path of teen employment is compared with the 'no shock' case. VAR models are computationally demanding, and importantly in the present context, regression results depend on the order in which variables enter the system of simultaneous equations. Thus interpretation of VAR models is highly problematic, and the estimated impulse response functions often carry substantial standard errors. WM apparently do not report standard errors for their IRF-based estimates of teen employment response to minimum wage shocks, though there is some reference to the issue at page 67 and possibly also in omitted illustrations 3-6 . WM rely on standard error minimisation in selecting their preferred VAR lag structure of 6 or 8 quarters.

R5.31 The results reported by WM provide no basis for overturning the Commission's previous findings that moderate increases in minimum wages do not harm the job prospects of low paid workers.

R5.32 The Commonwealth mis-characterises the Commission's reference in last year's decision to a paper by Tulip. The critical point regarding the Tulip paper is that it predicts a relatively small effect on the NAIRU for a large increase in the minimum wage "relative" to wages generally. As Chart 8.1 from the Joint Coalition Government's submission of last year shows the ratio of minimum to median wages in Australia has been declining over time. Increasing the Federal Minimum Wage by $25.00 will arrest some of this

decline, but will still not result in a Federal Minimum Wage higher in relative terms to median wages than in 1998.

R5.33 In Chapter 5 of its submissions the Commonwealth deals extensively with the sectoral impact of the ACTU claim. Broadly speaking this material demonstrates little else but that the ACTU claim will have a differential impact on different sectors of the economy, something which the Commission has acknowledged in previous cases.

R5.34 Paragraphs 5.9 to 5.13, the Commonwealth's submissions asserts that growth in hours worked has been strongest amongst high paid occupations and weakest amongst low paid occupations. The results presented focus on the period 1996 to 2001. The Commonwealth's analysis seems at odds with the analysis of Borland, Gregory and Sheehan for the periods 1980-2000 and 1990-2000 in Chapter 1 of their book *Work Rich, Work Poor – Inequality and Economic Change in Australia*. Table 1.7 and Figures 1.4 and 1.5 from that book show a dramatic increase in low paid jobs in the period 1980-2000 and the period 1990-2000 contrary to the results for which the Commonwealth contends for the period 1996-2001.

R5.35 In paragraphs 5.14 – 5.24 the Commonwealth's submissions attempt to highlight various industry effects. It is noteworthy that Chart 5.3 of the Commonwealth's submissions demonstrates precisely the proposition of the ACTU in this regard. Each of the main award dependant sectors has had employment growth since 1995 above the all industry average. To the extent that minimum wage adjustments have had any negative employment effects they are simple not observable in the employment performance of those industry sectors where award employees are concentrated.

R5.36 In paragraph 5.20 the Commonwealth asserts that safety net increases have their main impact in low productivity growth service sector industries. This is not demonstrated on the Commonwealth's own data. As the Commonwealth data shows, 78.1% of the impact of safety net increases occurs in industries which have moderate to high productivity or where productivity is not measured.

R5.37 Further, we note once again the comments of Gruen in *Australia's Strong Productivity Growth: Will It Be Sustained* (2 February, 2001):

> *"Several sectors experienced rapid productivity growth in the 1980s and 1990s expansions, including utilities (electricity, gas and water), communications and mining. But since these sectors experienced strong productivity growth in both decades, they clearly contributed very little to the pick-up in productivity growth between the two decades. Instead, the sectors which made the largest contribution to this pick-up were the non-traded sectors of wholesale trade, retail trade and construction. Together these sectors accounted for more than 100% of the pick-up in market sector labour productivity growth between the two sectors, despite contributing only 40% of the hours worked in the market sector."*

R5.38 We note also the AIG once again places reliance on *How Fast Can Australia Grow? Mark II* (Annexure E to the AIG submissions). In relation to productivity growth the author states:

> *"While most industrial sectors displayed some improvement between the decades, the big lifts came from wholesale and retail trade, construction and, to a lesser extent, the hospitality sector of accommodations, cafes and restaurants."*

R5.39 The Commonwealth's submissions with respect to the recent tourism downturn are dealt with in response to the AHA submissions.

R5.40 In relation to small business the Commonwealth's material establishes an improved outlook for small business.

R5.41 The Commonwealth's analysis of the impact of the claim on regions is fundamentally hampered by its inability to provide any data on the incidence of award dependency by region.

R5.42 The only evidence which the ACCI provides for its oft repeated assertion that safety net increases impact on employment is the response to questions in its survey dealt with in Chapter 4 of its submissions and contained at Tag 5.

R5.43 The ACTU has dealt extensively with the flaws in this survey in Chapter 3 of these reply submissions. In addition to the general problems in relation to reliance on the survey the ACTU notes the following in relation to the use of the survey to establish any effect on employment:

- The survey question requires employers to, in effect, conduct their own counterfactual exercise. That is they are asked to speculate on the level of employment as a result of the safety net compared to the level which would have pertained if no safety net increase had been awarded. The speculation of employers on this topic is of little assistance to the Commission;

- Even so, the survey result suggests 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. The balance of firms indicating that the number of employees was lower than it otherwise would have been give no quantification as to the precise employment impact and so nothing can be said of the employment effect in terms of number of employees;

- It is to be noted that there are internal inconsistencies in responses to questions:

- In firms where no employee received a safety net increase the proportion of firms responding that the number of full-time employees was lower than it otherwise would have been is less than the number who say they reduced full-time employees and increased part-time or casual employees;

- The number of firms reporting no effect on employment as a result of safety net increases in firms where no employee had received a safety net increase is greater than the number of firms reporting an effect on full-time employment;

- Questions 5 and 6 of the ACCI survey require responses regarding "full-time employment", but Question 6 contrasts "full-time employees" with "part-time or casual employees". It is unclear whether employers might have responded yes to this question simply on the basis that they had converted previously permanent full-time employees to casual full-time employment.

R5.44 Rather than rely on speculative answers to flawed survey questions from a small and unrepresentative subset of the Australian employer population, the Commission should have regard to the real evidence of sustained employment growth in award dependent sectors and

the emerging international consensus that moderate minimum wage increases do not cost jobs.

Conclusion

R5.45 Despite their rhetoric and hyperbole neither the submissions of the Commonwealth nor those of any employer demonstrate any likelihood of significant macroeconomic or microeconomic effects as a result of the ACTU's claim. Indeed, to the contrary, when properly analysed much of the material on which the Commonwealth relies bolsters the ACTU's assertion that any economic impact of the ACTU claim will be negligible.

R6. Needs of the Low Paid

Introduction

R6.1 There is nothing in the opposing submissions that should lead the Commission to depart from its conclusions that:

- Employees on low wages experience difficulties making ends meet and affording what are generally considered by the broader community to be basic necessities; and
- Whilst safety net adjustments are not perfectly targeted to meeting the needs of the low paid, they assist in meeting those needs.

ACTU Witness Evidence

R6.2 The Commonwealth Government (paragraphs 6.18 to 6.21), as they have done in previous cases, criticise the ACTU witnesses as not representative. The Commonwealth makes this statement on the basis of characteristics of the low paid as defined by Harding and Richardson. We note that the Commonwealth provides no evidence themselves on needs.

R6.3 The Government fails to acknowledge that the definitions of low pay employed by the ACTU and Harding and Richardson are not the same. The differences in characteristics of Harding's and Richardson's "Lowly paid" and the ACTU witness evidence reflect that difference in definitions. It is not a question of "important bias" or "misleading impression", it is simply a reflection of difference in definition.

R6.4 Harding and Richardson defined the low paid as adults earning $10 per hour or less and persons less than 21 years of age earning $6 per hour or less in 1995-96[5].

R6.5 The Commonwealth Government has never sought to demonstrate that the Harding and Richardson characteristics are relevant to low paid employees earning more than the current equivalent of $11.68 per hour for adults and $7.01 for persons less than 21 years of age[6], let alone employees paid at the award rate of pay.

R6.6 Using the unpublished adjusted non-managerial AHOTE data from the ABS EEH May 2000 Survey we note that only 13 per cent of award only workers earn less than the current equivalent of $11.68. We do not accept that employees above these percentiles are not low paid.

R6.7 The Harding and Richardson benchmarks exclude many adult, apprenticed and junior employees employed under federal minimum award rates of pay. For example, compared to the Metals, Engineering and Associated Industries Award wage rate structure, the $11.68 per hour or $444 per week sits between C13 and C12. The Harding and Richardson figure excludes all adult retail workers employed under federal minimum wage awards who earn at least $471.40 per week or $12.42 per hour. All adult Clerks employed under the Clerical and Administrative Employees (Victoria) Award are excluded – a Clerical Assistant Grade 1 – first six months

[5] A Harding and S Richardson, The Lowly Paid, the Unemployed and Family Incomes, Australian Journal of Labour Economics, Vol. 3 No. 1 March 1999, page 26

[6] We have adjusted the Harding and Richardson benchmarks by Living Wage Case decisions. Adjustment of the rate for persons under 21 years is based on the 60% relativity to the adult.

experience earns $462.10 per week. (see Tag 6 of the Reply Composite Exhibit)

R6.8 The $7.01 per hour or $266.38 for persons less than 21 years of age, for example, sits between the Metals first year and second year Apprentice, and the 17 and 18 year old Unapprenticed Junior. The rate fits between the 16 and 17 year old Clerk, and between the 16 and 17 year old Retail Worker. (see Tag 6 of the Reply Composite Exhibit). Apprentices, Unapprenticed Juniors and Junior Clerks and Junior Retail Workers, for example, earning more than this wage rate, for example, are excluded by the Harding and Richardson definition of low paid.

R6.9 The ACTU does not accept that the Harding and Richardson benchmarks define low paid award wage employees. Further, the Harding and Richardson benchmarks exclude from the definition of low pay employees who the Commonwealth include under their C10 cap.

R6.10 The ACTU provides some evidence, indeed the only evidence on the needs of low paid award-wage employees. The Commonwealth provides no evidence on the needs of the low paid.

R6.11 In commenting on ACTU Witness evidence at paragraphs 9.11 and 9.20 the ACCI implies that employees on award wages have not contributed to productivity improvements. We reject this position as it has been shown to be without basis.

R6.12 At paragraph 9.12 ACCI misrepresents the witness evidence of Max Evans. Mr Evans indicates that he has been employed for three years. Mr Evans does not state that his employment is precarious. Shirley Bennett does not associate her comments on job security

with the receipt of a safety net increase. In paragraph 15 of her statement Ms Bennett states:

> *"I think we should be given $25.00 a week increase that is being claimed this time around."*

R6.13 At paragraph 9.16 ACCI says the level of expenditure in the ACTU witness households is lower than the average because these households have income below that average. However, ACCI ignores the essential point of the evidence that 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 necessities.

R6.14 ACCI says in footnote 31 "Enterprise agreements also appear to apply to the workplace of Michael Howells". Michael Howells' wages and conditions are paid in accordance with the Metro Tasmania Award (Code AW788686).

R6.15 At paragraph 9.19 ACCI says the witness statements provide an insight into the "desires" of individuals. There is no reference in any witness statement to desire for anything beyond what the broader community considers to be basic necessities, for example:

- The ability to pay bills
- New clothes
- Access to social activities
- A holiday
- Contents insurance

- Access to recreation activities.

R6.16 The length of employment of the witnesses is not suggestive of the proposition on job security that the ACCI seeks to make at paragraph 9.21:

Table R6.1 Witness Length of Employment

Elizabeth Neville	9 years
Kevser Berat	7 years 6 months
Shirley Bennett	6 years 10 months
Michael Howells	5 years 11 months
Brenda Redmond	5 years
Tesfay Tsegay	4 years 8 months
Neil Mason	3 years
Les Whatnall	3 years
Max Evans	3 years
Albert Yakoubian	2 years 10 months

R6.17 At paragraphs 9.22 to 9.28 ACCI compares ACTU Witness Evidence presented to the last four Cases in an attempt to show that needs vary depending on the circumstances of each witness. The ACCI says at paragraph 9.29 that variability of personal circumstances, incomes and expenditures of witnesses to this Case shows only that different individuals and households have different expenditure demands, patterns and behaviours.

R6.18 In fact the ACCI ignores the overriding conclusion that can be drawn from the ACTU evidence to this Case and all previous cases that witnesses spend the majority of their income on necessities. In this regard it should be noted that the ACTU definition of necessities – housing, fuel and power, food, and clothing - is not generous. The definition could, for example, include transport as an essential for participating in working and private life.

R6.19 Notwithstanding this limited definition, and notwithstanding the variation in their circumstances, as the table shows the vast majority of witness across the four Cases on which the ACCI focuses spend a majority of their incomes on these necessities.

Table R6.2 Witness Evidence: Expenditure on Necessities, 1999 - 2002

Jacqui Coates	89.9%
Paul Hutchinson	89.1%
Kerry Bourke	85.6%
Ferdinand Zito	83%
Brett Perriman	81.4%
Kevser Berat	77%
Shirley Bennett	77%
Marilyn Boyle	73.8%
Scott Hansen	71%
Roslyn Dalhmann	68.8%
Leone McDermott	67%
Zenaida Aruta	65%
Syed Zaidi	65%
Beverley Bell	65%
George Nicolaidis	64%
Justine Olsen	64%
Elizabeth Neville	62%
Fiona Walsh	61.3%
Albert Yakoubian	61%
Gary Quinn	61%
Donna McKenzie	60.7%
Brenda Redmond (2002)	60%
Melissa Donald	59.4%
Jocelyn Taylor	55%
Leila Edgecomb	53.8%
Les Whatnall	51%
Greg Curle	50%
Neil Mason	50%
Tesfay Tsegay	48%
Peter Armstrong	44.2%
Max Evans	44%
Simon Peachman	42.8%
Michael Howells	38%

R6.20 At paragraphs 9.31 to 9.32 the ACCI says the ACTU Witness Evidence is not statistically representative. The ACTU Witness Evidence is presented as qualitative, not quantitative. The ACTU

supports this qualitative evidence with reference to the quantitative ABS data on low income households whose principal source of income is employee income. As noted at Table 6.3 of our opening submissions (page 126), the ABS data shows that the first quintile of households of employee income households spend 54% of the budgets on necessities, as defined.

Financial Stress Data

R6.21 At paragraph 6.8, referring to the McColl, Pietsch and Gatenby analysis of financial stress, the Commonwealth says the data shows the main cause of financial stress is unemployment (and limited access to paid employment) and not low pay. The authors data (Table 5 of the article) shows that a greater proportion of households whose main source of income is unemployment, education and sickness allowances report higher financial stress than households with other sources of income. However, in absolute household numbers, of the 900,000 Australian households the authors identify as experiencing higher financial stress, there are a greater number of households in the first quintile of households whose main source of income is employee income than households relying on unemployment, education and sickness allowances.

Table R6.3 Principal Source of Income, By Level of Financial Stress, 1998-99

Principal source of income	Higher stress	Moderate stress	No stress (a)	All households	
				%	Number
Wages & Salaries (b)	321000	843800	2918000	100	4082800
Self Employed	23632	67942	330426	100	422000
Superannuation	0	23664	208336	100	232000
Investment	4272	22695	240033	100	267000
Other private income	16351	23572	43077	100	83000
Age & Disability Support Pensions	175797	270793	646410	100	1093000
Unemployment, Education and Sickness allowances	116076	81201	62723	100	260000
Other government pensions & allowances	234585	152685	197730	100	585000
Household has zero or negative income	5538	23143	70319	100	99000
Total	897498	1510076	4715426	100	7123000
Employee income 1st Quintile (c)	159229	277630	379700	20	816560

(a) Only one or no stress indicators
(b) unpublished data
(c) % and number of households reflect the quintile share of total on the basis of equivalised disposable income.
Source: ABS Cat No 1350.0 June 2001 Table 5 page 24 and HES unpublished data

R6.22 The table shows that, of the 900,000 Australian households reporting higher level stress, in terms of absolute numbers of households, the greatest number, 321,000, are households whose principal source of income is wages and salaries. Households whose principal source of income 'other government pensions and allowances' – account for 234,600 households. Age and Disability Support pensions account for 176,000 households. Households whose principal income is unemployment, education and sickness allowances are the next most prevalent in the Australian total equalling 116,000 households. We note that households in the first

quintile of households whose principal source of income is employee income equal 159,200 households.

R6.23 At paragraph 6.10 the Commonwealth says the ACTU has exaggerated the disadvantage of the lowest income quintile and understated the extent of financial stress among higher quintiles.

R6.24 To reduce the scope for debate about the results, the ACTU commissioned, and presented, in original form and in our interpretation form, financial stress data for four measures of income – gross and disposable, original and equivalised.

R6.25 We note that last year in responding to our use of the HES financial stress data, the Commonwealth presented data based on equivalised disposable income. As we noted in our submission at paragraph 6.108 measured as equivalised disposable income the difference in reporting between the first and highest quintiles is the largest of the income measures. We note that the difference between the first and second quintiles also is the greatest for this measure. If we had sought to exaggerate the results we could have only presented these results. In paragraph 6.10 in commenting on the data the Commonwealth chooses the measures that emphasise the points it seeks to make:

- Difference between first and second quintiles combined financial stress (Commonwealth quotes only disposable income):

Table R6.4: Financial Stress reported by First and Second Quintile Households

	1st quintile	2nd quintile
Gross	44.5%	40.0%
Disposable	42.0%	40.5%
Equivalised gross	53.0%	39.5%
Equivalised disposable	53.5%	39.5%

- Proportion of first quintile reporting No financial stress (Commonwealth quotes only gross and disposable income):

Table R6.5: No Financial Stress reported by First Quintile Households

	1st quintile
Gross	55.5%
Disposable	58.0%
Equivalised gross	47.0%
Equivalised disposable	46.5%

- Combined financial stress of the first quintile compared to the aggregate of the three highest income quintiles (Commonwealth quotes only disposable income):

Table R6.6 Financial Stress: First Quintile compared to aggregate of Top Three Quintiles

	1st quintile	3 highest quintiles
Gross	31.0%	41.0%
Disposable	29.5%	42.0%
Equivalised gross	37.0%	35.0%
Equivalised disposable	37.5%	35.0%

- Combined financial stress: aggregate of the top two quintiles (Commonwealth quotes only disposable income):

Table R6.7 Financial Stress reported: aggregate of the Top Two Quintiles

	Two highest quintiles
Gross	20.5%
Disposable	21.5%
Equivalised gross	16.0%
Equivalised disposable	16.5%

R6.26 At paragraph 6.10 the Commonwealth says the financial stress reported by the highest income quintiles raises the issue of whether some of the financial stress indicators used in the survey reflect issues of factors other than an absolute incapacity to pay such as issues related to management of resources and consumption preferences of households. It should be recalled (as noted in ACTU Living Wage 2001 Composite Exhibit 2 February 2001 at Tag 8), questions of "choice" or "voluntarily sacrificed" and "other factors" are accommodated by the deprivation indicators, as the ABS provided for respondents to answer "don't want it" and "other reasons" as well as "not applicable" and "can't afford it".

R6.27 If the Commonwealth is concerned to focus on the data which is most likely to reflect issues of incapacity to pay than it should focus on the "higher financial stress" data reflecting households who reported five or more indicators. As the Commonwealth says in paragraph 6.13:

> *"Admittedly, the criterion devised by the ABS to identify the higher level of stress among individual respondents (five or more indicators) does raise the chances of detecting more severe instances of hardship." (page 126)*

R6.28 This data, whichever income measure is used, shows clearly that a greater proportion of those households reporting higher financial stress are found in the first quintile:

Table R6.8 Higher Level Financial Stress

	1st quintile	2nd quintile	3rd quintile	4th quintile	5th quintile	Sum of three highest quintiles	Sum of two highest quintiles
Gross	43.0%	26.5%	17.5%	9%	4.0%	30.5%	13%
Disposable	38.0%	29.0%	17.5%	9%	5.0%	31.5%	14%
Equivalised gross	52.0%	23.0%	16.5%	5.0%	2.5%	24.0%	7.5%
Equivalised disposable	49.5%	26.5%	16.5%	5.0%	2.5%	24.0%	7.5%

R6.29 The table shows that, on any measure of income, the first quintile reports the highest levels of higher financial stress, that is, reporting five or more indicators. The table also shows that, on any measure, of households reporting higher financial stress first quintile households make up a greater proportion than the aggregate of the three highest quintiles combined. Further, on the gross and disposable income measures the aggregate of the top two highest quintiles account for less than 15 per cent of the households reporting higher financial stress, on the equivalised measures the proportion falls to just 7.5%.

R6.30 At paragraph 6.14 and 6.15 the Commonwealth notes that HES was undertaken over twelve months between June 98 and June 99 and says that the financial position of low income earners has changed since that time. The Commonwealth makes specific reference to the implementation of the New Tax System. As we demonstrated in our submissions last year (Tag 11 of ACTU Composite Exhibit 2 February 2001), once the GST and bracket creep are taken into account many low paid workers were worse off under the New Tax System.

R6.31 In paragraph 6.16 the Commonwealth says that, in focussing on the stress amongst workers, we are asking the Commission to neglect

its duty under s.88B of the Act to take into account conditions generally prevailing in the community. In looking at the HES data the ACTU is addressing the needs of the low paid. Notwithstanding, the Commonwealth claim is incorrect. At paragraphs 6.110 to 6.113 and Tables 6.9 and 6.10 the ACTU compared the results for the first quintile employee income households with the data for "All Households" and found the higher financial stress than the average of All Households. Comparing the results for the first quintile employee income households with the data for the first quintile of all households showed less higher level stress (19.5% compared to 26.5%), greater moderate level stress (34.0% compared to 27.5%) and therefore comparable financial stress (46.5% compared to 46.0%).

The Capping Proposal

R6.32 Once again the Commonwealth argues for a safety net adjustment capped at C10 and the ACCI argues for a safety net adjustment to C14 only. Essentially the arguments in support of these proposals are unchanged and for the reasons given by the Commission last year (and the year before that and the year before that, etc) should be rejected: see *Safety Net Review Wages – May 2001*, Print PR002001 at 39 paragraph 127.

R6.33 The proposed Commonwealth cap means that a worker on as little as $26,500 per annum receives nothing. The ACTU does not accept that such a worker is not low paid. Further, contrary to Commonwealth assertions it cannot be assumed that such workers have the capacity to bargain for increases through enterprise bargaining. After 10 years of enterprise bargaining they remain on

an award rate some hundreds of dollars per week below equivalent agreement rates.

R6.34 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.

The Tax Transfer System

R6.35 The Commonwealth and the AIG argue that the tax-transfer mechanisms are more efficient for assisting those on low incomes than minimum wage increases. The stark reality is that neither makes any concrete proposal for improving assistance to those on low incomes. Their arguments in this regard are little more than smokescreen for the inadequacy of their proposed adjustments in award rates. Interestingly, the positions of the Commonwealth and AIG are completely contrary to those of the ACCI (see ACCI submissions paragraph 7.2).

R6.36 The ACTU accepts that the tax-transfer system plays a part in assisting the low paid. However, the tax transfer system is not a substitute for fair minimum wages for employees paid at the award rate of pay. It is not an alternative to decent minimum wages. Low paid workers need significant real wage increases as well as a decent tax and welfare system to stop them falling further behind. The tax-transfer system must complement fair minimum wages for low paid workers.

R6.37 In paragraphs 6.39 to 6.42 the Commonwealth once again argue that the safety net adjustments are “a blunt instrument for improving the position of low income families”. None of the material adduced

by the Commonwealth in this regard warrants departure from the Commission's earlier conclusion that whilst not perfectly targeted safety net adjustments assist in meeting the needs of the low paid.

R6.38 At paragraphs 3.7 to 3.18 the AIG considers the role of award wages, taxation and social security payments.

R6.39 At paragraph 3.8 the AIG refers to the concept of tax credits for low wage earners in low income families. The fact is there is no proposal for tax credits by the Government.

R6.40 At paragraph 3.9 the AIG presents a table which shows the tax rate on safety net increases of varying amounts. The main feature of this table is that the tax rate on any of the increases is a constant 30 cents. That is, the ACTU claim provides the highest after tax increase because the tax rate is constant.

R6.41 At paragraphs 3.10 and 3.11 the AIG says receipt of a safety net increase may result in employees losing various social security benefits. In this regard we understand:

- singles without children and couples without children do not receive social security benefits (for example, see AIG Submission 2001 Annexure L page 22 and 23: What is ANTS worth: a detailed analysis).

- Under the Family Tax Benefit Part A, a 30 cents in the dollar reduction applies between $29857 and $37,108 (above which the basic rate is paid up to $77,234)

- Family Tax Benefit Part B, paid to single income couples with children, does not apply an income test to the primary earner.

- Maternity Allowance and Maternity Immunisation Allowance: both are one-off lump sum payments, paid if a person qualifies for Family Tax Benefit Part A at any rate not just the maximum rate.

- Large Family Supplement and Multiple Birth Allowance are paid with Family Tax Benefit Part A. That is, if eligible the supplement / allowance is added on top of the Family Tax Benefit Part A rate and is then subject to the income test. Because the Family Tax Benefit Part A is not wholly reduced by the 30 cents taper rate until $80, 665 the supplement and allowance are not reduced below this income. We note that Large Family Supplement and Multiple Birth Allowance would not paid to great numbers of people.

- Rent Assistance is paid to people paying private rent and receiving more than the basic rate of Family Tax Benefit Part A. Rent Assistance payment is not affected by the income test until income reaches $37108.

R6.42 At paragraph 3.14 the AIG says the Commission should take into account reductions in taxation levels. The June 2000 personal income tax reductions were a hand back of bracket creep and to compensate for GST price rises. In fact our analysis last year showed they did not do this for many Australians.

R6.43 The AIG submission at paragraphs 3.17 and 5.7 seeks to shift responsibility for the needs of the low paid to government. As we stated last year, this is neither fair nor appropriate. As AIG notes in para 3.18 under the *Government's Workplace Relation's Act 1996* the Commission is responsible for the maintenance of award wages. The Act specifically requires the Commission to have regard to the

needs of the low paid in adjusting the safety net. The Commission cannot ignore the needs of the low paid on the presumption that government will cater for those needs.

R6.44 In Tables 6.1 and 6.2 the Commonwealth presents data on what it says is the impact of non-cash benefits on low income families. We have compared Tables 6.1 and 6.2 with the counterpart Tables 4.1 and 4.2 presented by the Commonwealth last year.[7]

R6.45 The table below shows starkly the decline in non-cash benefits for those on lower incomes. Little wonder the Government feels the need to talk about improving the operation of the tax-transfer system for those people.

Table R6.9 Difference: Non-Cash incomes: December 2000 and December 2001

	Non-cash Benefits
First (bottom)	-$45.84
Second	-$34.56
Third	-$24.22
Fourth	$2.35
Fifth (top)	$8.64

R6.46 The changes in non-cash benefits are significant. For the first quintile the value of non-cash benefits has declined by 15.6 per cent. In comparison, the top quintile non-cash benefits have increased in value by 7.1 per cent.

R6.47 In relation to non-cash or indirect benefits, Ann Harding, in her article for The Australian Newspaper, 25 February 2002, notes:

[7] JCG Submission Safety Net Review – Wages 2001, printed version, pages 44 and 45

"Every five years the ABS publishes new estimates on the receipt of these non-cash benefits by Australian households. Their latest study indicates the distribution of these indirect benefits has been skewed towards higher-income households. While the value of indirect benefits received by the bottom one-fifth of households increased by 37 per cent between 1989 and 1999, the value of benefits received by the top one-fifth rose by 47 per cent."

R6.48 It is important to keep in mind that the figures presented in Commonwealth Tables 6.1 and 6.2 are averages. Not all low paid persons or households receive cash transfer income, let alone cash transfer income at $178 per week. These households rely on their wage income. And they rely on safety net adjustments for the only pay increase they receive each year for their increased productivity.

R6.49 The Commonwealth once again spends a significant proportion of its argument attempting to disparage the effect of safety net adjustments in meeting the needs of the low paid. As we said in opening there is nothing in the Commonwealth's arguments which would lead the Commission to depart from its conclusion that whilst safety net adjustments are not perfectly targeted to meeting the needs of the low paid, they assist in meeting those needs.

R6.50 Fair minimum wages and the social wage are complementary mechanisms for addressing the needs of the low paid. They are not substitutes.

R7. The Increase in Inequality

R7.1 The submissions of the Commonwealth:

- Confirm that earnings inequality is increasing;
- Do not dispute that income inequality has increased over the last decade;
- Do not challenge the ACTU proposition that wealth inequality has increased if superannuation is excluded;
- Do not dispute the ACTU evidence regarding where award workers sit on the earnings distribution.

R7.2 No other party challenges the ACTU material on these issues.

R7.3 We note that the Commonwealth does not dispute that income inequality increased over the decade of the 90s. The Commonwealth focuses its argument only on the second half of the decade. Whilst researchers are cautious in respect of the statistical significant of change in the last half of the decade, none say that the trend to increasing inequality is reversed.

R7.4 At paragraph 6.31 the Commonwealth questions, in particular, our reference to the NATSEM paper by Kelly "Trends in Australian Wealth - New Estimates for the 1990s". As we noted in our opening submission, the paper finds that inequality of wealth would have increased had it not been for the introduction of superannuation. However, as the paper notes, unlike other forms of wealth, which generate income or can be accessed, superannuation is not

accessible, and therefore does not improve the day to day living standards of employees. Ann Harding, Director of NATSEM, makes the point in an article written for The Australian Newspaper, 25 February 2002[8]:

> *"The latest estimates suggest there has been no change in the overall concentration of wealth between 1986 and 1998. However, this relatively optimistic conclusion was entirely driven by the rapid spread of superannuation to lower-income groups over those years, due to the introduction of the compulsory superannuation guarantee levied on employers on behalf of their employees. Such superannuation will help to improve the living standards of those employees upon their retirement in later decades, but might not have the immediate effect upon living standards of some other forms of wealth holding. If superannuation is excluded, then the inequality of wealth increased sharply over the years to 1998."*

[8] 'Research highlights a nation growing apart', Ann Harding, The Australian Newspaper, 25 February 2002, page 8

R8. The Wage Fixing Principles

ACTU Proposed Change

R8.1 The submissions of the Commonwealth at Paragraphs 9.51 – 9.63, the ACCI at Paragraphs 13.8 – 13.17 and the AIG at page 37 oppose the variation to the Wage Fixing Principles suggested in the ACTU's original submissions. Only the Commonwealth and the ACCI provide any argument in support of this opposition.

R8.2 The essence of both the Commonwealth and ACCI's argument is the traditional position of the Commission that "retrospective" award variation should only occur in exceptional circumstances.

R8.3 The ACTU does not propose carte blanche retrospectivity. Rather, the amendment proposed by the ACTU would only apply in circumstances where:

i. 12 months has elapsed since rates in the award were increased for the last safety net decision; and

ii. Application for variation of an award was made a reasonable time before 12 months had elapsed.

R8.4 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.

R8.5 The 12 month "rule" was inserted in the Principles to ensure that employers were not subject to the uncertainty of more than two Safety Net Adjustments in a 12 month period. The operation of the Principles currently ensures that employees have no corresponding

guarantee that through no fault of their own or that of their union more than 12 months will not elapse prior to the next Safety Net Adjustment.

R8.6 The Commonwealth in its submissions refers to the decision of Commissioner Lewin in Re*: Hairdressing and Beauty Services – Victoria – Award 2001* [PR905754]. It is precisely in respect of circumstances such as those contained in that decision which the proposed amendment to Principle 8 would operate.

Economic Incapacity

R8.7 Each of the Commonwealth, the ACCI and the AHA argue for an alteration to the economic incapacity principle. Their submissions in support of this amendment border on the bizarre.

R8.8 In the Commonwealth's submissions they note that in 1999 the Australian Industrial Registry produced an information sheet on the principal which was displayed on the AIRC website and extensively promoted by the Department. Despite this, the Commonwealth acknowledges that there have been no applications under the principle of which it is aware, since 1999.

R8.9 The breathtaking leap of logic which the Commonwealth then makes is that this indicates some inadequacy in the existing principle.

R8.10 The ACCI makes a similar leap of logic in Paragraph 13.24 where it concedes the lack of use of the existing principle but nonetheless argues for further changes. The AHA do not even address the issue of the paucity of applications under the current principle.

R8.11 Each of the AHA, Commonwealth and ACCI make specious arguments regarding the evidentiary burden under the Economic Incapacity principle. The AHA's submission in this regard, whilst voluminous, is wholly without foundation. The suggestion that the current principle requires an onus of proof greater than the balance of probabilities is wrong and strains credulity. To suggest that the rigorous testing of evidence is any way inconsistent with a balance of probabilities standard shows a fundamental misunderstanding of the rules of evidence and the law relating to the balance of probabilities onus.

R8.12 The Commonwealth proposes a weakening of evidentiary requirements in relation to the Economic Incapacity principle for small business. The evidentiary requirements for businesses should be the same whether small or large. If an application is to be made to avoid passing on a Safety Net Adjustment it should be made on the basis of evidence subject to rigorous testing. Special pleading based on bald assertion should not substitute for evidence.

R8.13 Section 88B of the Act establishes a safety net of fair minimum wages and conditions. The Economic Incapacity to Pay 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. Given the primacy accorded to the safety net by Section 88B such applications, of necessity, should be treated as exceptional and as requiring rigorous testing. In these circumstances, the current requirements of a Section 107 application and rigorous testing are entirely appropriate. No change is warranted on the basis of the material supplied by the Commonwealth, the ACCI or the AHA.

R8.14 Further, the ACTU notes that in Economic Incapacity applications the Commission is required to attempt conciliation. Applicants should be encouraged in such conciliation processes options other than a safety net deferral prior to the hearing and determination of any award application.

Incentive to Bargain

R8.15 The Commonwealth also argues for an amendment to the Principles to incorporate reference to the need for "an incentive to bargain". There is simply no warrant on the evidence for any change to the existing Principles in this regard. In Appendix A, Paragraph 20 of the Commonwealth's submissions, the Commonwealth notes that:

> *"During the year to September 2001 the number of current agreements has further increased. Generally, the number of employees covered by current agreements has shown relatively steady growth. The few quarters where the number of employees under current agreements has declined, were for the most part reflecting the impact of the expiry of agreements with large numbers of employees."*

R8.16 On the basis of this evidence there is simply no need for the Commission to emphasise the "incentive to bargain". Further, the obligations of the Commission in relation to bargaining are clear and set out in the Act. They do no need to be restated or paraphrased in the Wage Fixing Principles.

Special Case Applications

R8.17 Both the Commonwealth and the ACCI claim some ambiguity in relation to special case applications. The ACTU does not oppose a change to the principles which makes it clear that where a special case application is made the President may determine that a Full Bench should not be granted but nonetheless a special case heard.

R8.18 The ACTU is concerned that the proposals of the Commonwealth and the ACCI are motivated by a desire to create a back door route for the processing of economic incapacity arguments. If this is the case then in its rejection of the proposed amendments to the Economic Incapacity Principle the Commission should make clear that the Special Case Principle should not be used to subvert the conditions placed on applications under the Economic Incapacity Principle.

R8.19 However, the ACTU does accept that there may be circumstances in which an application to make or vary an award for wages and conditions above or below the safety net should be heard and determined by a single Member without the matter being referred to a Full Bench.

R8.20 The proposed amendment to the Special Case Principle is, however inappropriate for a number of reasons:

- The insertion of the words “of wages and conditions prescribed by the award when the application is made” after the words “safety net” have the consequence that every application for variation of an award would be referred to the President. This is impractical, cumbersome and contrary to the clear intent of the current principles regarding the incorporation of variations

consistent with Principles 3 – 9 of the Principles: see Principle 2 of the current Principles;

- The amendments proposed by the Commonwealth require the President to in the first instance consider whether a special case has been made out. This is inappropriate, the President should merely determine whether the application for a special case is of such significance that it warrants hearing by a Full Bench. The determination of whether or not a special case exists ought only be made following the complete hearing of a matter.

- The words "pursuant to Section 107" should be deleted and the words "to the President" should be substituted therefor. This change will not preclude an applicant making a concurrent Section 107 application but in light of the changes proposed by the Commonwealth it is difficult to see why an applicant should be required to make one. The President's power to refer a matter to a Full Bench arises whether or not a Section 107 application is made and so, whether or not the applicant for a special case seeks a Full Bench, the President can in appropriate circumstances determine that the matter should be referred to a Full Bench.

R8.21 In these circumstances the appropriate amendments to the Special Case principle are as follows:

i. Delete "pursuant to s.107" and substitute "to the President";

ii. Insert the words "or single member of the Commission" after the words "Full Bench".

R9. Industry Specific Submissions

R9.1 The Commission should place little weight on the various industry specific submissions which have been filed in these proceedings. Section 90 of the Act requires the Commission to have regard to "the state of the National economy and the likely effects on the National economy" of its decision. Section 88B requires the Commission to establish a safety net of fair minimum wages and conditions of employment by reference to living standards generally prevailing in the Australian community, economic factors and the needs of the low paid.

R9.2 These are national proceedings and whilst industry specific issues must be considered, they should not be accorded undue weight.

R9.3 In any event, the industry specific submissions which the Commission has before it amount to little more than special pleading for favourable treatment in circumstances where all but one of those industries have had growth rates in the last 12 months exceeding the national average. In these circumstances there is simply no warrant for taking into account sectoral considerations relating to these industries.

Australian Retailers Association

R9.4 The Australian Retailers Association submission forms part of the ACCI submission. That submission relies on results of a survey of its members conducted as part of the overall ACCI survey regarding Safety Net Adjustments. Given that the total number of responses to the survey conducted by the ACCI was small (381)

the number of responses to the ARA portion of the survey must have been so small as to render any results meaningless.

R9.5 Further, at Page 155 of its submissions the ARA asserts that a high percentage of its members responded regarding any employment effects or employment effects on full-time employment as a result of Safety Net Increases. In fact this is not so.

R9.6 Recent results for the retail industry have been strong. The December quarter national accounts show trend growth in the year to December 2001 of 4.5% and growth of 1.0% for the quarter.

National Farmers Federation

R9.7 In its submission the National Farmers Federation concedes that 2001 was a good year for commodity prices and that forecasts for the coming financial year are strong.

R9.8 Once again the NFF continues its assertion that “the low paid are not only employees.” The ACTU maintains its submission that “the low paid” in Section 88B(2) must be a reference to employees only.

Printing Industries Association of Australia

R9.9 The Printing Industries Association of Australia’s submission relies for its assessment of economic conditions primarily on a survey of its members with some supplementation from ABS data. The recent December quarter national accounts show that printing

publishing and recorded media recorded 9.1% growth in the year to December 2001 and 2.4% growth for the December quarter. This is more than twice the national average.

Retail Motor Industry

R9.10 The submission of the Retail Motor Industry (which was served on the ACTU more than a week late) also relies on a series of membership surveys for comment on economic conditions. The buoyant economic conditions for the retail industry have been noted above.

R9.11 Page 17 of the AC Neilson survey demonstrates that the overwhelming majority of over award employees receive amounts in excess of the $25 which the ACTU has claimed in these proceedings. It is also to be noted that at page 23 and 24 of the AC Neilson report employee wage levels appear to have a negligible effect on profitability from those businesses surveyed notwithstanding the earlier suggestion in the report that award increases impact negatively on profitability.

Australian Hotels Association

R9.12 The ACTU has responded to those aspects of the AHA's submission which deal with the economic incapacity principle in Chapter 8 of these reply submissions. A comprehensive response to other matters contained in those submissions prepared by the ALHMU is contained in Tag 7 of the ACTU Reply Composite Exhibit.

R9.13 The key points to note regarding the AHA submissions are as follows:

- The AHA's submissions overstate the likely impact of adverse developments as a result of the September 11 terrorist attacks and the collapse of Ansett;

- December quarter national accounts data shows trend growth in the accommodation, cafes and restaurants sector at 5.2% for the year to December 2001. The seasonally adjusted figure is 4.5% for the year to December 2001;

- Trend growth for the December quarter 2001 was 0.3%. Whilst the seasonally adjusted figure for the December quarter was -2.3%. This needs to be placed in a context of very strong growth over the proceeding three quarters where the seasonally adjusted figures were 2.6% for the March quarter, 1.6% for the June quarter and 2.7% for the September quarter;

- Whilst clearly the events of September 11 terrorist attacks and the Ansett collapse had an impact on the tourist industry, recent indications are that that impact is not as severe as was originally anticipated;

- On 22 February 2002, the Minister for Small Business and Tourism, the Hon. Joe Hockey, MP said:

  "Australian inbound tourism industry has passed through the worst of September 11 and is moving into a period of recovery";

- The World Tourism Organisation expects growth in international travel in 2002 of three to four per cent;

- In light of the general buoyancy of economic conditions it is likely that by the time the Commission's decision in this case takes effect "mid-year" any ill-effects from the September 11 terrorist attacks and the Ansett collapse on tourism will have largely dissipated.

Restaurant and Catering Employers Association

R9.14 Submissions of the RCA assert that the percentage increase in base pay rates is "magnified" due to penalty rates etc. This is not so. A percentage increase in base rates will result in the same percentage increase in total wages where penalties are calculated by reference to a percentage of the base rate. There is no compounding in this situation.

R9.15 The RCA relies for its assertion of this magnification effect on ABS AWE data related to the increase in average weekly earnings for the accommodation, cafes and restaurants sector compared to the increase resulting from last year's Living Wage Case decision. This is not an apples with apples comparison. The AWE data can be inflated by increases in overtime working hours and includes all employees whether award dependent or not. In any event more recent AWE data suggests that the increase in average weekly earnings for all employees in accommodation, cafes and restaurants to November 2001 was 5% not the 6% figure quoted in the submission.

Conclusion

R9.16 Nothing in the industry specific submissions adds anything of substance to the argument in these proceedings. The submissions constitute little more than special pleading based on tenuous facts. They overwhelmingly rely for their assessment of economic conditions on self-serving membership surveys rather than real economic data. They are of little assistance to the Commission other than providing some indication of the degree to which employer self interest produces distorted perceptions of economic reality when compared with more reputable data sources.