ACTU MINIMUM WAGES CASE 2003

ACTU Written Reply Submission

March 2003

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R1 Introduction

R1.1 The ACTU claim for a $24.60 per week increase in all award rates is moderate, economically responsible and fair. Nothing in the submissions of those opposing the ACTU claim warrants any different conclusion. Indeed, properly analysed much of the material advanced by those opposing the ACTU claim provides confirmation of the ACTU's initial submissions.

R1.2 These submissions provide a detailed reply to the submissions of the Commonwealth and opposing employer groups. Of necessity, the submissions inherently concentrate on those areas where there are differences between the propositions advanced by the ACTU and those asserted by the Commonwealth and opposing employers. However, at the outset it is important to note the degree to which the Commonwealth and employer submissions provide support for key elements of the ACTU claim:

- The Australian economy is still growing strongly, notwithstanding one of the worst droughts in 100 years and uncertainty regarding a possible war with Iraq. No party in this case seriously advances a contrary proposition;
- The only other genuine macroeconomic costing in the case confirms that the ACTU claim will add 0.1% to the total wages bill;
- The Commonwealth's own macroeconomic modelling shows that the impact of a net increase of 0.1% in wages on the economy is negligible;
- No party disputes that since the Safety Net adjustment process began employment growth in highly award dependent sectors has been higher than the all industry average and employment growth in least award dependent sectors;
- The AiG, in effect, concede that there is no credible evidence that last year's $18 increase had a negative impact on business when, in Chapter 6 of their submissions, they call for the Commission to conduct

its own survey regarding the effect of Safety Net adjustments to compensate for the methodological deficiencies of their own survey;

- No party, apart from the ACCI, attempts to diminish the significance of the ACTU's material on the needs of the low paid.

R1.3 Not surprisingly the Commonwealth and opposing employers focus much of their submissions on:

- The economic effects of the drought and uncertainty surrounding a possible war with Iraq; and
- The alleged unemployment effects of an increase in minimum wages.

R1.4 The ACTU accepts that the drought has had a negative impact on Australia's economy. The impact is being felt now. If, as now seems increasingly likely, the drought breaks all credible economic assessments suggest a rapid bounceback for the economy.

R1.5 Uncertainty about a war with Iraq is also having an economic impact now. Whilst the Commonwealth and employers focus on the downside risks associated with this uncertainty, they all but ignore other possibilities.

R1.6 The contentions of the Commonwealth and employers regarding the disemployment effects of increases in minimum wages are unsustained by the evidence. They consist of little more than repetitive assertion.

R1.7 In this regard it is important that the Commission pay regard to the submissions of the States and Territories, ACOSS and the ACCER. All these submissions have genuinely taken into account the position of the unemployed and the low paid in their considerations. Significantly, all those submissions provide substantial support for the ACTU claim:

- This year for the first time the ACCER supports the full amount of the ACTU claim as an increase in the Federal Minimum Wage and supports appropriate increases in all other award wages;

- ACOSS supports a significant increase in award rates.

- The Joint Labor States support an $18 increase in all award rates. This is substantially more than proposed by the Commonwealth and employer groups and consistent with the ACTU's view that last year's decision had no adverse impact.

R1.8 In short, the ACTU claim is justified.

The Economy

R1.9 On Monday, 3 March 2003, five days after the Commonwealth and employers filed their submissions in these proceedings, the Prime Minister John Howard made the following statement in Parliament:

> *"The strength of the Australian economy now is more evident, more real, more broadly based, more widespread and more internationally recognised than at any time since the late 1960s."*
>
> [Hansard, House of Representatives, 3 March 2003, at 932]

R1.10 The Prime Minister's assessment came in an environment where the Australian economy was suffering the effects of one of the worst droughts in 100 years and international uncertainty regarding a possible war in Iraq.

R1.11 The following day National Accounts Data released by the ABS showed, as everyone had acknowledged would be the case, that Australia's growth had moderated in the last quarter of 2002. Seasonally adjusted growth for the December quarter was 0.4% and growth in the year to December 2002 was 3.0%. (The corresponding trend figures were 0.7% and 3.2%.) On the release of these national accounts figures the Treasurer, Peter Costello, gave an equally robust assessment of the state of the Australian economy when he said:

"The good outcome in the December quarter national accounts is against a backdrop of weak global economic conditions with the prospect of war and rising oil prices. During the quarter, Australia was in the grip of the worst drought in a century. Even so, the domestic economy has remained resilient."

[Press release, 5 March 2003]

R1.12 Since the release of the national accounts data, the unemployment rate has dropped to 6.0 per cent, it's lowest level for 13 years.

R1.13 Table R1.1 details the most recent data on a range of key economic indicators, provides the data on the same indicators for the comparable period last year and, where available, the Treasury's own MYEFO forecasts for those economic variables for the financial year 2003-04.

Table R1.1: Key Economic Indicators Comparison

In Table R1.1 "Non-farm GDP" should read "Gross non farm produce".

1 April 2003

In Table R1.1 figure "2.8" should read "3.2".
1 April 2003

	This time last year	Most recent data	MYEFO forecast (2003-04)
GDP	4.0	3.2	4.0
Non-farm GDP	4.0	4.0	N/a
Inflation (CPI)	3.1	3.0	2.75
Employment Growth	1.6	2.8	1.75
Unemployment	6.6	6.0	<6.0
Wages			
WCI	3.4	3.4	N/a
AENA	4.5	3.5	4.25

Notes:
(a) In the first two columns:
Trend data has been used for all items where this available (ie, all except CPI and WCI)
GDP, non-farm GDP, CPI and WCI figures are year to December 2001 and 2002, respectively
Labour Force statistics are year to February 2002 and 2003, respectively
(b) Third column figures are from MYEFO 2002-03 pages 16 and 17

R1.14 Table R1.1 demonstrates that notwithstanding the Commonwealth and opposing employer groups focus on drought and uncertainty, the economy is performing well. Growth has moderated, but this has clearly been due largely to the drought, as the strength of the Gross Non-Farm Product figure indicates. Inflation is contained and in the Reserve Bank target range.

Wages growth is moderate and, significantly for this case, growth in the Wage Cost Index in the year to December 2002 was exactly the same as growth in the Wage Cost Index in the year to December 2001 at 3.4%. The performance of the labour market has been strong and continues to defy the expectations of those with a penchant for the gloomy forecast.

R1.15 Two salient facts emerge from Table R1.1:

- There is simply no evidence that the Commission's decision to award an $18 increase in all award rates last year has had any adverse impact on the Australian economy; and
- The Commission's decision this year will take effect in an economy which Treasury predicts will grow more strongly than has been the case in the year to December 2002.

Last year's $18 increase

R1.16 There is nothing in the economic data, either at a macroeconomic or sectoral level, that suggests last year's Safety Net increase had any adverse economic impact. There is no data and the submissions of the Commonwealth and the opposing employers simply cannot and do not point to any.

R1.17 Instead, the Commonwealth and employer groups rely on frequent recourse to introductory neoclassical economic theory. ACCI, AiG and the RMI employers, in addition, rely on surveys of their membership to argue that last year's Safety Net Adjustment had a negative impact.

R1.18 A simplistic explanation of economic theory, no matter how often repeated, is not a substitute for evidence. *A Survey of the Literature on Minimum Wages* [Tag 8 of the original ACTU Composite Exhibit] by Professors Dowrick and Quiggin shows that the assertion of an automatic negative relationship

between changes in minimum wage rates and employment is not justified by the evidence.

R1.19 An analysis of the employer surveys conducted by ACCI and AiG conducted by Associate Professor Ian Gordon of the University of Melbourne concludes that each of the surveys is seriously deficient. Indeed, the AiG concedes as much of its own survey in Chapter 6 of its submissions, when it refers to the methodological limitations of its survey and requests the Commission to conduct a survey of its own. The RMI survey is also seriously deficient.

R1.20 Last year's Safety Net Adjustment was the largest increase in award rates since the Minimum Rates Adjustment process. On the basis of the positions advanced by the Commonwealth and employers in this and previous Safety Net Reviews if a demonstrable adverse impact could be shown it should have been evident as a result of last year's decision. In fact, what is transparent is that the employers and the Commonwealth have provided no credible evidence of any kind suggesting any adverse economic impact as a result of last year's decision.

The Economic Impact of the ACTU claim

R1.21 The ACTU claim adds 0.1% to the aggregate wages bill when the effects of last year's Safety Net increase are taken into account. The Commonwealth's own costing methodology confirms this figure.

R1.22 In correspondence with the Commonwealth the ACTU asked the Commonwealth to model the macroeconomic effects of a 0.1% addition to the total wages bill. We asked for this modelling to be conducted on the realistic assumption that such a small increase in the wages bill would be unlikely to have any impact on the Reserve Bank so far as interest rates were concerned. Table R1.2 below shows the results of that Commonwealth modelling.

Table R1.2: Commonwealth Modelling of macroeconomic effects of ACTU claim[1]

	TRYM model		Murphy Model	
	2003-04	**2004-05**	**2003-04**	**2004-05**
GDP level (year-average)				
- Deviation from baseline	0.0	0.0	0.0	0.0
- Growth rate	0.0	0.0	0.0	0.0
Inflation (through-the-year)	0.1	0.1	0.1	0.0
Employment level				
- Deviation from baseline (June)	0.0	0.0	0.0	0.0
- Growth rate (through-the-year)	0.0	0.0	0.0	0.0
Employment ('000)				
- Deviation from baseline (June)	-1	-2	-1	-2
- Growth (through-the-year)	-1	-1	-1	-1
Unemployment rate (June)	0.0	0.0	0.0	0.0
Wages Growth (through-the-year)	0.1	0.1	0.1	0.0

1 Figures are per cent deviation from baseline unless otherwise indicated.

R1.23 The table mostly consists of zeros. To the extent that the table contains any numbers other than zero they are a product of the negative assumptions of the model and as the evidence of a Commonwealth witness in last year's case confirms represent no meaningful departure from the baseline utilised for the modelling.

R1.24 The Commonwealth's own modelling suggests the ACTU claim will have no significant economic effect.

R1.25 Once again the Commonwealth and employers have sought to argue for substantial indirect effects as a result of the ACTU's claim. The evidence they rely on is essentially the same as the evidence on which they have relied in previous years and which has been rejected by the Commission.

R1.26 In short there is no evidence of any likely adverse economic impact from the ACTU claim and there is evidence from the Commonwealth that the claim will have no significant adverse impact at all.

Needs of the Low Paid

R1.27 The States and Territories, ACOSS and the ACCER accept that the needs of the low paid warrant a substantial increase in award rates.

R1.28 Neither the Commonwealth nor AiG address the needs of the low paid in any substantive way. In circumstances where the Commonwealth has recently introduced legislation to the Parliament intended to make the focus of these proceedings the needs of the low paid it is curious, some might say disingenuous, that in its submissions the Commonwealth has no chapter on the needs of the low paid and indeed uses the phrase "the needs of the low paid" three times only in a 118 page submission.

R1.29 The AiG devote three paragraphs of their submission to the needs of the low paid – none of these paragraphs actually involve a substantive consideration of their needs.

R1.30 The ACCI devotes 57 pages of its submission to telling the Commission why it should ignore the issue of executive pay but devotes only 49 pages to the needs of the low paid. That 49 pages is a sustained attempt to belittle and diminish the experience of low paid workers who struggle to make ends meet and who experience financial hardship. It is nasty, petty and mean-spirited.

R1.31 In the end, no party other than the ACTU brings direct evidence of the needs of the low paid. The witness evidence on which the ACTU relies is unchallenged and that evidence confirms the need for a decent and significant increase in award wages.

A Fair Go

R1.32 In our original submissions we asserted that the ACTU claim represented a fair go for award workers. Nothing in the submissions of opposing employers and the Commonwealth gainsays that proposition. Indeed, much of the material on which they rely confirms and bolsters the case already put by the ACTU.

R1.33 Australia has a strong and resilient economy. Last year's Safety Net increase had no adverse economic impact. A $24.60 increase will not have an adverse economic impact. The needs of the low paid demand a decent and significant increase in award rates.

R2 Characteristics of Award Only Employees

R2.1 For the most part the opposing submissions do not contradict, in any way, the matters dealt with in Chapter 2 of the ACTU submissions.

R2.2 The submissions of the Commonwealth confirm the propositions of the ACTU so far as industry and occupational distribution: see paragraphs 4.18, 4.21 and figure 7.1.

R2.3 The AiG submissions do not deal with these issues in any way other than to twice incorrectly state the proportion of award only employees based on the ABS *Employee Earnings and Hours* May 2000 figures rather than the more recent May 2002 figures: see paragraphs 5.1 and 5.20.

R2.4 ACCI deals with these issues primarily at paragraphs 15.54 to 15.84. It is to be noted that the ACCI does not contest the facts which the ACTU asserts in relation to gender, age, employment type, industry sector or earnings: see paragraphs 15.67, 15.74 and 15.76.

R2.5 The bulk of the ACCI submissions on this issue are directed towards the following:

- Dealing with the macroeconomic consequences of the decline in the number of award only employees;
- Seeking to explain the high number of casual, part-time and temporary employees on award only rates;
- Justifying the earnings disparity between award workers and the rest of the Australian community.

R2.6 At paragraphs 15.57 to 15.64 the ACCI asserts what it regards as the consequences of the declining proportion of the workforce whose pay is set only by awards. Significantly the ACCI submissions accept that the macroeconomic effects of award rate increases will decline. Its response to

this issue is to suggest a greater indirect impact of increases in award wage rates on other wage outcomes (a matter with which we deal in the chapter 4) and to assert that the Commission should, in effect, only pay regard to microeconomic impacts. The ACTU accepts that the macroeconomic effects of its claim are negligible. Contrary to the ACCI's assertion there is no evidence of adverse microeconomic impacts from moderate safety net adjustments.

R2.7 At paragraph 15.70 the ACCI attempts to explain the high numbers of part-time, casual and temporary employees on award only rates. What is noteworthy regarding this paragraph is that the ACCI provides six reasons why bargaining may not be prevalent for such employees, significantly all but one are to do with employer reluctance to bargain. In other parts of its submissions and in the submissions of the Commonwealth there are references to the alleged adverse impact of the ACTU claim on the incentive of employees to bargain. At paragraph 15.70 however, at least for part-time, casual and temporary employees, ACCI note, in effect, that the real problem is employer reluctance to bargain in areas of high award dependence.

R2.8 At paragraph 15.71 the ACCI makes a series of assertions regarding award only employees and business size, capacity for productivity and efficiency gains, and regional dimensions. The ACCI misstates the results of the *Employee Earnings and Hours Survey* regarding business size. Award only employees are most heavily concentrated in businesses which employ between 20 and 99 employees. As we noted at paragraph 6.18 of our original submissions productivity increased in all the major award dependent sectors in 2001-2002. There is simply no evidence regarding the regional distribution of award only employees available from ABS data.

R2.9 It is noteworthy that in this section of the ACCI submission (paragraphs 15.76 to 15.84) it is not disputed that award only employees overwhelmingly earn less than the rest of the community and are overwhelmingly concentrated in the bottom half of the wages distribution. This is important because in other parts of its submission the ACCI focuses its argument on the possibility of

workers earning more than $1,000 per week being beneficiaries of the ACTU claim. In fact, the adjusted AHOTE data on which the ACTU relies (and which ACCI does not challenge) suggests less than 4 per cent of award only workers have this level of wages.

R2.10 At paragraphs 15.82 to 15.83 the ACCI argue that the disparity of earnings between award only employees and others should be considered in the context of non-managerial employees only. This argument is specious. The Commission is required to pay regard to living standards generally prevailing and the needs of the low paid, it would be impossible to make a proper assessment regarding these issues without paying regard to all wage earners. Further, the adjusted AHOTE data on which the ACTU relies in paragraphs 2.20 to 2.25 of its original submissions is for non-managerial employees only (the ABS will only provide AHOTE data for non-managerial employees).

R2.11 In a sense the ACCI argument serves to emphasise our point: 80% of award workers earn less than median non-managerial AHOTE. More than 80% earn less than median earnings for the entire workforce population. Another way of looking at this is to note that unpublished EEH data shows that non-managerial AHOTE for award only employees is $15.50, about 30% less than non-managerial AHOTE for employees on other pay-setting methods.

R2.12 The NFF assert a high degree of award dependence in agriculture. The evidence does not establish this proposition.

R2.13 At paragraph 18 of their submission, the NFF suggest that there were 380,000 persons employed in agriculture in 2001-02. This figure is however misleading, as it refers not only to ‘employees’ (ie. wage and salary earners) but also includes ‘employers’, ‘own-account workers’ and ‘unpaid voluntary wokers’ and ‘contributing family workers’.

R2.14 As the NFF themselves note in quoting the ABS at paragraph 17 of their submission:

> *"The structure and characteristics of agricultural businesses can be quite different to those in other industries. Agricultural businesses tend to be dominated by owner operated family businesses, engage few regular employees; and show greater income volatility over time than businesses in other industries"*
>
> [NFF Submission, paragraph 17]

R2.15 These characteristics of agricultural businsses have historically made it difficult for the ABS to compile reliable data on the characteristics of 'employees' employed within this industry. As such, when compiling surveys such as the *Employee Earnings and Hours Survey* (EEH, Cat No. 6306.0), which has been relied on by a number of parties in this Case for evidence on award coverage, the ABS explicitly excludes businesses engaged in the Agriculture, Fishing and Forestry sector of the economy from its suvey.

R2.16 The ABS notes more generally that in ABS business surveys, of which the EEH is one:

> *"While the scope of ABS labour-related business surveys varies across collections, most are restricted to employing businesses. However, the following groups of employing businesses are generally excluded:*
>
> - *Employing businesses in the agriculture, forestry and fishing industry (ANZSIC Division A). Units in this industry are exluded, primarily because a very high proportion of agricultural enterprises have no employees. It would be disproportionately costly to survey a sufficient number of these enterprises to obtain a sample of employees large enough to adequately represent this industry."*
>
> *[ABS,* Labour Statistics: Concepts, Sources and Methods, *Cat. No. 6102.0, 2001]*

R2.17 The often transitory nature of those employees employed in the agricultural sector also makes it difficult for the ABS to reliably analyse the employment characteristics of these employees.

R2.18 The ABS is able to provide a breakdown by 'status in employment' of persons employed in the agricultural industry as part of its regular household survey – *Labour Force.*

R2.19 The ACTU has obtained unpublished data from the ABS's Labour Force Survey, which suggest that there were a total of 155,700 employees (those earning a wage or salary) working in the Agriculture industry in November 2002, less than half the 380,000 number suggested by the NFF.

R2.20 There is little evidence to support the view that the majority of these employees are award dependent. While evidence may suggest that there is only a small incidence of formalised agreement making in this industry, this does not translate to be saying that all employees in the industry must be award dependent.

R2.21 Unregistered individual agreements are the largest form of pay setting method amongst small businesses. It would not be surprising if there were a large incidence of unregistered individual agreements amongst small farming businesses.

R2.22 The Retail Motor Industry submission relies on results of its National Survey to suggest that those more likely to benefit from the ACTU claim will not necessarily be in casual or part-time employment: see page 10 of Appendix 3 to the RMI submissions. Two points can be made regarding this proposition:

- The A.C. Nielson Survey is a survey of members of the various constituent organisation of the Retail Motor Industry. It is not and does not purport to be a comprehensive survey of all of those dependent on awards; and

- In any event, the table at page 22 of the A.C. Nielson survey confirms the very proposition advanced by the ACTU – that part-time and casual employees are much more likely to be on award only rates of pay than full-time permanent employees.

R2.23 In short, none of the opposing submissions provide any credible data challenging the matters advanced by the ACTU in Chapter 2 of its written submissions and, in key respect, the submissions of the Commonwealth and

the ACCI confirm and/or accept the matters advanced by the ACTU in Chapter 2 of its original submissions.

R3 Wages Update

Introduction

R3.1 In the ACTU's original submissions, evidence was presented which suggested that:

- Award wages have generally failed to keep pace with community wage movements;
- As a result the relative value of award rates have fallen markedly over the past decade;
- The C10 wage rate expressed as a proportion of Average Weekly Ordinary Time Earnings (AWOTE) is now worth less than the C14 wage rate as a proportion of AWOTE was worth in 1983;
- The C14 wage rate has now fallen to less than 50 per cent of the value of AWOTE for the first time.

R3.2 None of these key findings has been seriously challenged by the opposing submissions. In essence, the approach of the opposing submissions is to either decry the use of comparisons with community wage movements in general or AWOTE in particular.

R3.3 While the Commonwealth appear to go to great lengths to suggest that AWOTE is not the correct measure by which to compare community wage movements, they themselves continue to use AWOTE as their measure of choice when considering real earnings growth (see Commonwealth Submission, paragraph 3.19).

R3.4 As the Commonwealth itself notes at paragraph 3.24 of its submission, the WR Act requires the Commission to adjust award rates having regard to the 'need to provide fair minimum standards for employees in the context of living

standards generally'. AWOTE provides a useful indication of changes in living standards.

R3.5 The Commonwealth says at paragraphs 3.22 and 3.23 that the decline in C14 and C10 as a proportion of AWOTE are a function of the award system acting as a 'safety net'. Two points may be made regarding this contention:

- It is not clear why a decline in C14 as a proportion of AWOTE is in any sense influenced by the safety net role of awards. If C14 is used as a proxy for the Federal Minimum Wage then presumably it represented in 1983 and represents now an amount below which it was believed a full-time adult should not be paid. The value of C14 relative to AWOTE thus becomes an important indicator of the effectiveness of the Federal Minimum Wage;

- The ACTU is not seeking a restoration of C14 or C10 to their 1983 value relative to AWOTE, its case is that the Commission should seek to avoid a further decline in these values.

R3.6 Aggregate wage measures in the Australian economy have continued to remain moderate, and have in some cases declined slightly since the ACTU first submitted its original Submission on 5 February 2003.

R3.7 In its submission, the Commonwealth suggest that the last safety net adjustment has made an important contribution to wages growth in the September and December quarters of 2002, and appear to be suggesting that the slight rise in the Wage Cost Index (WCI) measure during these quarters has been solely the result of last year's Safety Net Decision.

R3.8 In respect to this the ABS itself noted in the release of the December quarter 2002 WCI publication that:

> *"There was no single mechanism dominating private sector pay movements, with Collective Agreements (CA), Awards, and Salary reviews all being important sources of wage increases."*
>
> [ABS, *Wage Cost Index,* December 2002, Cat No. 6345.0]

R3.9 The Department of Employment and Workplace Relations' (DEWR) own data on enterprise bargaining outcomes, for example, show that Average Annual Wage Increases (AAWIs) for all federal agreements certified in the quarter increased from 3.6 per cent during each of the March and June quarters 2002, to 4.1 per cent in the September and December 2002 quarters.

R3.10 We note also that a comparison of the industry level WCI data suggest that while some award sectors have posted above average results in the last two quarters (such as Accommodation, Cafes and Restaurants) others have recorded below average growth for the economy as a whole (such as retail trade and health and community services). Further, growth in a number of non-award sectors has been well above average.

Average Weekly Earnings

R3.11 Table 12 at Tag 1 of the Reply Composite Exhibit contains the most up to date Average Weekly Earnings data, released on 20 February 2003 for the November 2002 quarter.

R3.12 The Average Weekly Ordinary Time Earnings (AWOTE) measure for full-time adult employees increased by 1.1 per cent in trend terms during the November 2002 quarter, and has now been growing at this rate for the past three quarters. Over the year to November 2002, AWOTE has increased by 4.7 per cent in trend terms (4.8 per cent seasonally adjusted).

R3.13 The Average Weekly Total Earnings (AWE) measure for full-time adults employees has continued to grow broadly in line with AWOTE, also increasing

1.1 per cent in trend terms during the November 2002 quarter, and a slightly higher 4.9 per cent over the year to November 2002. In seasonally adjusted terms, AWE increased 0.9 per cent during the November 2002 quarter, and 5.2 per cent over the year.

R3.14 Finally, growth in the Average Weekly Total Earnings measure for all employees (AWE Total Earnings), remained slightly flatter than the other two during the November 2002 quarter, increasing 0.9 per cent in both trend and seasonally adjusted terms. AWE Total Earnings grew by 3.7 per cent in trend (3.9 per cent seasonally adjusted) over the year to November 2002.

R3.15 Each of the figures above for the November quarter is generally in line with results recorded in the earlier August 2002 period, with some gentle easing in the yearly data.

Average Earnings on a National Accounts Basis (AENA)

R3.16 Average Non-Farm Compensation per Employee, as measured in the ABS's quarterly *National Accounts,* increased 0.6 per cent in trend terms during the December 2002 quarter, to be 3.5 per cent higher over the year.

Wage Cost Index

R3.17 The Wage Cost Index (WCI) for total hourly rates of pay excluding bonuses increased by a moderate 0.8 per cent in the December 2002 quarter, to be 3.4 per cent higher than at the same time a year earlier. The December data saw both the Private and Public sector WCI measures each also rise 0.8 per cent during the December quarter.

R3.18 The December 2002 data suggests that growth in the WCI remains broadly constant, with the 3.4 per cent growth in WCI recorded over the year to December 2002 exactly the same as that recorded over the previous year to December 2001.

R3.19 The ACTU submits that last year's decision by the Commission to award an $18 increase in awards has had negligible impact on aggregate economy wide wages growth, as measured using the Wage Cost Index.

R3.20 Under the heading *Wages no threat to inflation*, the *Australian Financial Review* reported the new WCI figures:

> *"The Australian jobs market remains healthy, with wages rising 0.8 per cent in the December quarter.*
> *The increase, in line with expectations, took the rise for 2002 as a whole to a robust 3.4 per cent, reflecting both the $18-a-week safety net decision and higher enterprise bargaining agreements.*
> *But market watchers said the rise did not pose a threat to inflation, predicting the official cash rate would remain unchanged at 4.75 per cent in the coming months."*
>
> [Australian Financial Review, *Wages no threat to inflation*, 20 February 2002, page 5]

Agreements

R3.21 According to the most recent publication of *Trends in Enterprise Bargaining*, released by the Department of Employment and Workplace Relations (DEWR) on 27 February 2003, federal agreements certified in the December 2002 quarter allowed for an average annualised wage increase (AAWI) per employee of 4.1 per cent, unchanged from the September 2002 quarter.

R3.22 Federal agreements current at the end of the December 2002 quarter provided an AAWI of 3.8 per cent per employee, also unchanged from the September 2002 quarter.

R3.23 The December quarter Trends in Enterprise Bargaining also reported that there were a total of 1397 agreements certified in the December quarter, covering an estimated 222,100 employees. This brings the total number of federal agreements formalised by the AIRC from 1991 to the end of the December 2002 quarter to 49,330.

R3.24 Considering all current agreements (ie. those which have been certified anytime in the past which have not yet expired or have been terminated), the latest December figures show that the number of employees covered under federal agreements has continued to grow strongly over the past year.

R3.25 As of December 2002, there were a total of 1,582,300 employees covered by a current federal agreement, compared with 1,443,900 at this time last year. In other words the calendar year 2002 saw an additional 138,400 covered by federal agreements, an increase of 9.6 per cent. Clearly the Commission's decision last year to award an additional $18 a week to all award workers has had no impact on the spread of agreement making in the federal sphere.

Executive Salaries

R3.26 On 12 March 2003, the *Australian Financial Review*, reported on the *Director and Executive Remuneration Top 500 Report*, produced by remuneration specialists RPC Group.

R3.27 The news story reported that:

> *"Chief executives at Australia's top 500 companies pocketed a 16 per cent pay increase in the past financial year, boosting average remuneration from $648,000 to $796,000 as company boards ditched a period of restraint.*
>
> *…*
>
> *An analysis of the 2002 annual reports of the country's largest listed companies by market capitalisation shows CEOs weren't the only board members to benefit.*
>
> *…*
>
> *Chairmen netted a 7 per cent increase in average remuneration, no including options or long-term incentives, to $107,000; non-executive directors rose 10 per cent to $64,000; and executive directors were up 15 per cent to $433,000.*
>
> *…*

The average bonus collected by managing directors or chief executives in 2002 was $361,000, up from $342,000 last time. Forty-two per cent of CEOs collected a bonus, down 3 per cent from 2001. Average CEO base salaries also increased after levelling off for a few years, reaching $504,000 in 2002, up from $441,000."

[Australian Financial Review, *Generous salaries across the board*, 12 March 2003, page 9]

R3.28 In 'Question Time' on 4 March 2003, Minister Abbott made the following comments regarding excessive salaries of executives:

"I can certainly understand the frustration and the annoyance of workers on comparatively low earnings at the excessive payments which have been made to people on very high earnings. I can understand that."

[Abbott, T., *House of Representatives – Hansard*, 4 March 2003, page 1035.]

R3.29 The ACCI respond at great length on this issue, devoting 57 pages of their submission ostensibly demonstrating that it has no relevance to the Commission's determination in this case. In this regard the ACCI "doth protest too much".

R3.30 The ACTU refers in its submission to a range of data regarding wages. The wages paid to executives are relevant because they cast light in conjunction with other materials, on living standards generally prevailing in the community.

R3.31 The material goes to the issue of fairness of the safety net because the moderate nature of the ACTU claim can be judged in part by reference to the immoderate nature of executive remuneration. The material also serves as a reality test to some of the more absurd propositions advanced by employers in these proceedings as to the economic constraints on wage setting.

R3.32 In its defence of the salaries paid to executives ACCI clearly positions itself at odds with most of the Australian community, including Prime Minister Howard, and Minister Abbott. Amongst the factors on which ACCI places weight for its defence of executive salaries are the risks associated with that employment. These risks are detailed at paragraph 13.121 – all but one of them can fairly be said to apply to non-executive employees.

R3.33 At paragraphs 13.157 to 13.162 the ACCI presents material which it regards as presenting a fairer picture of the executive remuneration issue. The table in paragraph 13.161 shows that the executives whom ACCI regards as the most relevant cohort, those in low quartile and median companies, had pay increases of 17.4 per cent and 8.9 per cent in the year to 2002 (ie. between two and four times the percentage increase for Federal Minimum Wage workers). If these are, as ACCI contends, the enterprises which pay award increases then there seems little justification on this basis for the opposition of these companies to the modest increase proposed by the ACTU in this case.

R4 The ACTU Claim is Moderate

Introduction

R4.1 Despite much assertion and rhetoric to the contrary, there is no evidence in the submissions of those opposing the ACTU claim which would warrant the conclusion that the ACTU claim is anything other than moderate. In particular:

- The Commonwealth's costing of the ACTU claim confirms the veracity of the ACTU's costing;
- No party disputes that the average increase for award workers is 4.4 per cent;
- No party disputes the ACTU's calculation of the real increase which flows from its claim.

Costing the Claim

Direct Costs

R4.2 Although it utilises a different methodology, what is noteworthy about the Commonwealth's costing of the ACTU claim is the degree to which it provides confirmation for the ACTU's own costing. The Commonwealth costing suggests that the ACTU claim will directly add 0.51 per cent to the wages bill in absolute terms. This figures does not make any allowance for safety net flow: see Commonwealth submissions, paragraph 6.7.

R4.3 In its last decision on the Safety Net Review and in previous cases the Commission has accepted that some adjustment, based on safety net flow, is appropriate: see *Safety Net Review Wages, May 2002* at paragraph 99. The Commonwealth estimate of a 0.51 per cent addition to wages growth is therefore better described as "*showing the potential cost impact, rather than the actual impact*" of the ACTU claim.

R4.4 The Commonwealth also eschews any consideration of the net impact of the ACTU claim, focussing instead only on the gross impact. Once again, this is contrary to the decision of the Commission in May 2002 and its previous decisions: see *Safety Net Review Wages May 2002* at 100. In assessing the macroeconomic effects of the ACTU claim it is appropriate to have regard to the fact that current wages growth is influenced by the addition to earnings of the previous Safety Net adjustment.

R4.5 Whilst the Commonwealth does not directly provide an estimate for the net impact of the ACTU claim one can be gleaned from its calculations in Appendix A. Using the Commonwealth's methodology the gross addition to the aggregate wages bill as a result of the Commission's 2002 decision was 0.39 per cent, giving a net addition to the wages bill as a result of the ACTU claim of 0.12 per cent, ie. virtually the same as that calculated by the ACTU.

R4.6 No other party attempts a genuine macroeconomic costing the ACTU claim. The assertions of other parties regarding the impact of the ACTU claim should be seen in the light of their failure to provide any credible costing of that claim. The frequent and repetitive assertion of adverse economic impacts is not a substitute for evidence of the actual impact by reference to a proper macroeconomic costing.

R4.7 The ACCI once again repeats its process of estimating the addition to wages costs in the private sector in chapter 8 of its submission. That costing is self evidently not a proper macroeconomic costing. Further, the costing is substantially influenced by the failure to adjust for safety net flow and for the alleged indirect effects it attributes to the ACTU claim.

R4.8 At paragraph 6.37 of its submissions the Commonwealth suggests that because its costing and that of the ACTU cost the increase in ordinary time earnings as a result of the ACTU claim, the cost estimates underestimate the economy wide impact because of the level of "on costs" associated with employment. ACCI deal with "on costs" in Chapter 14 and AiG do not provide

a macroeconomic costing but "on costs" are the basis of their analysis in Chapter 4 of their submissions.

R4.9 So far as costing the ACTU claim is concerned the issue of on costs is a complete red herring. As the ACCI submissions show on costs represent a relatively small proportion of the total wages bill (approximately 12.6% in 1996/97). The primary contributors to on-costs are superannuation, workers compensation and payroll tax. An increase in ordinary time earnings of 0.4% will thus, other things being equal, increase on costs in essentially the same proportion. Thus the proportionate increase in the total wages bill (including on-costs) as a result of the ACTU claim may properly be calculated by estimating the proportionate increase in ordinary time earnings.

Indirect Costs

R4.10 It is perhaps not surprising that, as the moderate nature of the direct cost of the ACTU claim has become more evident, those opposing the ACTU claim have placed increasing reliance on their assertions as to the alleged indirect effects of the claim. In its 2002 decision the Commission concluded that "*whilst there is likely to be some indirect cost associated with a safety net adjustment, it is limited*": see *Safety Net Review Wages May 2002*, paragraph 98. None of the evidence presented in this Case warrants any other conclusion. Indeed, the evidence in this case is in precisely the same form as that presented in last year's Safety Net Review and rejected by the Commission in reaching its conclusion in this regard.

R4.11 The Commonwealth essentially replicates the contents of its submission on the indirect cost of the ACTU claim from last year's Case.

R4.12 At paragraph 6.29 of its submission the Commonwealth asserts that the Workplace Agreements Database indicates that safety net increases could potentially flow on to around half a million employees covered by Federal Enterprise Agreements. This number is completely specious relying, as its

does, on the inclusion of some 302,000 employees who are covered by wage agreements which do not specify the handling of safety net issues.

R4.13 It is simply not open to the Commonwealth as a matter of law and, in light of the Commission's finding at paragraph 96 of last year's decision, to argue that safety net increases will be passed to employees covered by such agreements.

R4.14 Once again, properly analysed, the Commonwealth's material on this issue shows the limited extent of any flow on from the Safety Net Review into the agreement sector. Even assuming (adversely to the ACTU) that the data provided by the Commonwealth is replicated in state jurisdictions:

- Only 0.5 per cent of the workforce benefit from an agreement which provides for automatic safety net increases;
- Only 10.1 per cent of employees subject to federally registered agreements fall within the remaining categories of those agreements which provide for increases where consistent with the safety net and those agreements where safety net increases are conditional. Enterprise bargaining rates for the overwhelming majority of such employees are such that a $24.60 increase will not trigger the flow on provisions (we have in Chapter 2 of these submissions and Chapter 2 of our original submissions demonstrated the significant gap between average rates for awards and collective agreements);
- If the Commonwealth's figures for the percentage of employees covered by first time agreements from last year's case are used (14 per cent): see *Safety Net Review Wages May 2002*, footnote 24, a maximum further 0.5 per cent of the workforce might benefit from flow on as a result of these categories of agreement.

R4.15 In other words, as was the case last year, the Commonwealth's data suggests that of the order of about 1 per cent of the workforce might benefit from the flow on of safety net increases under registered agreements.

R4.16 A number of employer organisations have relied on surveys of their membership in order to establish the proposition that there are significant indirect flow on effects from the ACTU claim. In this year's Case these survey materials consist of:

- The ACCI survey contained at chapter 11 of its submissions and its costing of indirect effects contained at paragraphs 8.11 to 8.13;
- The AiG survey dealt with in chapter 5 of its submissions;
- The Retail Motor Industry survey in Appendix 3 of its submissions.

R4.17 The ACTU commissioned the Statistical Consulting Centre at the University of Melbourne to provide reports on the ACCI and AiG surveys. Associate Professor Ian Gordon has provided two reports which highlight the deficiencies in each of the ACCI and AiG surveys. Copies of the reports and a curriculum vitae for Associate Professor Gordon are contained at Tag 4 of the ACTU Reply Composite Exhibit.

R4.18 The ACCI calculation of the indirect impact of the ACTU claim is completely flawed and no weight should be place on it. The ACCI calculation:

- Misdescribes the ABS category of employees on individual pay setting arrangements as "over award employees";
- Misdescribes the ABS category of employees on collective agreements as "non award employees";
- Makes an arbitrary assumption that the proportion of over award and non award employees in receipt of safety net flow on is 50 per cent of the number of companies responding that they paid one or more such

employees a safety net flow on. As the Commission noted at paragraph 86 of last year's decision there is no evidentiary basis for this assumption;

- The derivation of the proportion of companies who pay safety net increases to over award or non award employees is the results of the ACCI survey. For the reasons set out below the Commission should place no weight on the results of this survey.

R4.19 Associate Professor Gordon details a range of concerns regarding the ACCI survey. These may be summarised as follows:

- There is insufficient information to allow an assessment of the appropriateness of the sample selection process;
- The response rate for the survey was low and raises the prospect of response bias;
- The wording of question 1 is imprecise;
- It is not clear who was supposed to fill out the surveys;
- No indications of 95 per cent confidence intervals are given but the small sample size suggests considerable uncertainty in some of the estimates due to sampling variation alone.

R4.20 The report's conclusion is succinct;

> *"I regard the ACCI survey as very limited in its reliability. The low response rate of 31% is a concern. The actual sample size was small, making the estimate imprecise, even on the assumption that there were no systematic biases. There were other features of the survey that were of low quality or cannot be assessed."*

R4.21 The AiG makes its case for safety net flow on the basis of its own admittedly inadequate survey. At paragraph 6.1 the AiG acknowledges the

methodological limitations of its survey and, in an extraordinary admission of its failure to provide cogent evidence, requests the Commission to conduct its own more methodologically defensible survey.

R4.22 Associate Professor Gordon has also analysed the deficiencies of the AiG survey. This analysis may be found at Tag 4 of the ACTU Reply Composite Exhibit. The deficiencies Associate Professor Gordon identifies may be summarised as follows:

- The AiG survey had an unacceptably low response rate;
- As a result there is a strong possibility of response bias;
- The instructions given in the note on the survey included a sentence which pushed respondents in the direction of negative response;
- Question 27 of the survey only allowed for the possibility of effects in a negative direction on profits and job advertisements;
- The survey instructions did not make clear who was to fill out the survey;
- There are no confidence intervals provided for reported values.

R4.23 Overall, Associate Professor Gordon's conclusion is that the AiG survey was "seriously deficient".

R4.24 In addition to the methodological problems with the AiG survey it is to be noted that the responses on the issue of safety net flow provide no basis on which to estimate any meaningful proportion of employees who received a pay increase as a result of safety net flow on. Even if the AiG data could be relied upon all it provides is a proportion of employers who say they paid the safety net increase to employees who were not entitled to it.

R4.25 The Retail Motor Industry once again relies on the results of its survey in this regard. The following comments may be made about this aspect of the survey results:

- The survey questionnaire ignores altogether the possibility of employees being covered by state collective agreements and incorrectly only recognises the possibility of a state registered individual agreement in Western Australia: see page 3 of the questionnaire. As a result a number of persons properly characterised as subject to a registered agreement may have been incorrectly characterised as in receipt of over award pay in the state jurisdictions;

- The survey results as published provide no basis on which to calculate the proportion of employees who were over award or non award and received a safety net adjustment;

- The data at page 20 of the A.C Nielson survey suggests only 16.5 per cent of businesses surveyed flowed safety net adjustments onto at least one over award employee who was not entitled to that increase (the table shows 65 per cent of some 257 employers that is 16.5 per cent of the overall sample flowed on the safety net adjustment to at least one over award employee who was not entitled to the increase);

- The results on page 23 suggest that even this is likely to be an overestimate as it appears the survey comprehended circumstances in which more than $18.00 per week was paid as exhibiting evidence of the flow on of the safety net adjustment;

- Indeed, if businesses which paid more than $18.00 per week and those who were not sure how much they had increased award rates of pay are excluded, only 14.3 per cent of businesses passed on any proportion of the safety net adjustment to any over award employee who was not entitled to receipt of that adjustment;

- Whilst the proportion of businesses who passed on a safety net adjustment tells us nothing about the proportion of employees who

received such an adjustment, it is noteworthy that the number of businesses flowing on the safety net adjustment in the Retail Motor Industry seems thus to have declined from 45 per cent in 2002 to 14.3 per cent in 2003: *see Safety Net Review Wages May 2002*, paragraph 88.

R4.26 In the circumstances there is no credible evidence presented either by employer organisations or the Commonwealth that the extent of any flow on of the safety net is anything other than limited. Further support for this proposition derives from the limited impact on wages growth evident from last year's decision.

R4.27 On the submissions of the Commonwealth and employer groups last year's decision should have resulted in significant flow on effects. Such effects are simply not observable. The Wage Cost Index increased by 3.4 per cent in the year to December 2001. In the year to December 2002 the Wage Cost Index increased by precisely the same amount.

R4.28 According to DEWR, the average annualised wage increase per employee for all current wage agreements in the December quarter 2002 was 3.8 per cent, virtually the same as the average annualised wage increase per employee for all current wage agreements in the December quarter 2001 of 3.7 per cent. The figures for the increases in private sector wage agreements certified in the quarter were precisely the same in December 2001 and December 2002 at 3.9 per cent.

R4.29 If there had been significant flow on as a result of last year's Safety Net Review decision it might have been expected to show in the Wage Cost Index or (on the Commonwealth's arguments) in the average annualised wage increases under certified agreements. In fact, neither of these measures shows any significant difference from the corresponding period last year.

R4.30 In summary then the Commission can proceed with some confidence on the basis that the overall cost of the ACTU's claim is about 0.4 per cent of the total wages bill and that the net addition to wage costs as a result of the ACTU claim is about 0.1 per cent of the total wages bill. The only other macroeconomic costing of the claim (that of the Commonwealth) bolsters the veracity of these figures whilst employers and the Commonwealth have yet again failed absolutely to demonstrate anything other than limited indirect costs associated with the safety net adjustment.

The Level of Increase for Award Workers

R4.31 It is to be noted that no party contradicts the materials advanced by the ACTU in its original submissions at paragraphs 4.21 to 4.35.

R4.32 Below is an updated version of Table 4.7 taking account of more recent wage measures data.

Table R4.1: Comparison Various Wage Measures (updated)

	AWOTE (a)	AWE All Employees (a)	AWE Full Time Adults (a)	AENA (b)	WCI (c)	ADAM (d)	DEWR (d)	Mercer (e)
Most recent figure	4.7	3.7	4.9	3.5	3.3	3.8	4.1	4.5
Most recent figure excluding award employees (f)	4.9	3.8	5.2	3.6	3.4	n/a	n/a	N/a
Average increase three years to June 2002	5.1	4.3	4.8	3.3	3.2	3.8	3.7	4.5

(a) ABS Cat. No. 6302.0 trend figures, most recent figure to November 2002.
(b) ABS Cat. No. 5206.0 trend figures, most recent figure to December 2002.
(c) ABS Cat. No. 6345.0, most recent figure to December 2002.
(d) Most recent figure is average annualised wage increase (AAWI) for agreements certified in September quarter 2002 in the case of ADAM and December quarter 2002 in the case of DEWR. Average increase calculated using AAWI for current agreements. ADAM records AAWI per agreement. DEWR records AAWI per employee.
(e) Mercer, Quarterly Salary Review, increase in base salary Senior management. Most recent figure is to September 2002.
(f) Wage measures excluding award employees utilise average increase of 3.3%. Percentage of award only employees 21%. Proportion of award only full-time employees as a percentage of all full-time employees 13.6%

R4.33 In the circumstances it is apparent that the level of increase for award workers as a result of the ACTU claim is moderate and broadly consistent with other community wage movements.

R4.34 This is to be contrasted with the positions advanced by the Commonwealth and opposing employers in these proceedings. If the Commission were to accede to their submissions, award workers would receive increases well below the level of wage increases others in the community receive and see their living standards decline as their wages failed to keep pace with rises in prices.

R4.35 Table R4.2 shows the average increase for award workers as a result of the positions advanced by ACCI, AiG and the Commonwealth calculated using the same methodology as we utilised to calculate the average increase as a result of the ACTU claim. It also shows the percentage increase in certain key award rates.

Table R4.2: Percentage Increase in Award Rates

	FMW (C14)	Shop Assistant (C12)	Trades Rate (C10)	C7	C1(b)	**Average Increase**
ACCI	0	0	0	0	0	**0**
AiG	2.5	2.3	2.1	1.9	1.1	**2.0**
Commonwealth	2.8	2.5	2.3	0	0	**0.9**

R4.36 Self-evidently the proposals of ACCI, AiG and the Commonwealth all result in award workers getting pay increases substantially below those in the rest of the community (even on the most conservative measure – the WCI). What is particularly noteworthy is that notwithstanding its professed concern for the low paid (in seeking a capped increase) the Commonwealth still proposes a wage increase for the low paid that will see them fall further behind.

R4.37 The ACTU contends that the Commission should not focus exclusively on the WCI as a measure of wage movements. This is because as its name suggests this measure focuses on wages as a cost rather then on wages as

earnings. In the ACTU's submission the AWE and AENA measures provide the Commission with useful information on living standards because they measure changes in wages as earnings.

R4.38 However, even if the WCI is utilised as the appropriate comparator it is apparent that award workers would require an increase of at least the order proposed by the State and Territory governments if the average percentage increase for these workers is to keep pace with community wage movements. The State and Territory governments proposal of an $18 increase results in an average percentage increase for award workers of 3.2% still slightly less than WCI which currently stands at 3.4% – indeed $19 is the first whole dollar amount at which the average increase equals the current WCI increase.

R4.39 If the Commission is to award a flat dollar increase it should do so on the basis that within the bounds of an average increase consistent with wage movements for the rest of the community it delivers maximal assistance to the low paid. Otherwise a flat dollar increase merely becomes a means by which award workers fall further behind. In this context, as we contended in our original submissions, $18 should properly be seen as a floor on acceptable outcomes.

R4.40 The harshness of the Commonwealth, ACCI and AiG positions can be seen when consideration is given to the position of award workers once the effects of inflation are taken into account. At current inflation levels (3.0%) every award worker suffers a real cut in pay as a result of the Commonwealth, ACCI and AiG proposals. If inflation is 2.75% (the year average forecast in MYEFO for 2003-04) all award workers see their living standards decline under the ACCI and AiG proposals as wages fail to keep pace with prices. Under the Commonwealth proposal any award worker earning more than $5 above the Federal Minimum Wage (about 94% of award workers on EEH data) will suffer a real decrease in pay.

R4.41 Table R4.3 shows the percentage of award workers who will suffer a real wage increase under various inflation scenarios under the ACCI, AiG and

Commonwealth wage case proposals. It also shows the weekly full-time earnings at which real cuts in wages commence. In every case the result of the ACCI, AiG and Commonwealth proposals is real wage cuts for low paid workers.

Table R4.3: Real Wage Cuts under ACCI, AiG and Commonwealth proposals

	Current inflation (3%)		**MYEFO Year Average Forecast 2003-4 (2.75%)**		**2.5%**	
	% award workers whose real wage is cut	F/t Weekly Wage which real wage is cut	% award workers whose real wage is cut	F/t Weekly Wage which real wage is cut	% award workers whose real wage is cut	F/t Weekly Wage which real wage is cut
ACCI	100	431.40	100	431.40	100	431.40
AiG	100	431.40	100	431.40	93	440.00
C'wealth	100	431.40	94	436.40	83	480.00

R4.42 The Commonwealth contend at paragraph 8.41 to 8.55 that the increase in award rates sought by the ACTU will have a negative impact on "the incentive to bargain". The evidence does not sustain this proposition. As the Commonwealth submission acknowledges enterprise bargaining has continued to spread including in those sectors where award dependence is high: see paragraph 8.44.

R4.43 The Commonwealth argument proceeds essentially from a comparison of the percentage increase in Federal certified agreements with the percentage increase in the Federal Minimum Wage and C10 [Note: ACCI undertake a similar exercise at paragraphs 13.169 to 13.173 of their submissions although for a different purpose].

R4.44 The Commonwealth analysis in this respect does not withstand scrutiny:

- As we have already noted, agreement making continues to spread in award dependent industries [see Commonwealth paragraph 8.44];

- It takes no account of the factors which ACCI details at paragraph 15.70 of its submission which highlight why award dependent areas may be inherently less likely to undertake enterprise bargaining;

- It compares percentage increases at the Federal Minimum Wage or trades rate with percentage increases to agreements, it thus says nothing about the incentive to bargain for those award workers above the trades rate;

- For award workers below the trades rate the comparison of percentages is misleading. An $18 increase last year was a 4.4% increase in the Federal Minimum Wage but the FMW is still only $431.40. A 2% increase for a worker on $500 would result in that worker receiving $510 per week. The Commonwealth analysis simply does not tell us the actual wage rates attaching to enterprise bargaining outcomes.

- The Commonwealth presumably is not contending that any significant numbers of employees are covered by enterprise agreements with rates of less than $456. Employees on the FMW for whom the Commonwealth's alleged disincentive effect is presumably highest thus have every reason to continue to seek enterprise bargaining outcomes.

- The Commonwealth's use at paragraph 8.51 of the average paid to all workers on collective agreements and the average paid to all employees on awards only in Accommodation, Cafes and Restaurants and Retail trade industries is misleading. The all employees averages are clearly affected by compositional questions such as the proportion of part-time and casual workers. The difference in full-time employee averages (on which the Commonwealth has previously relied) gives a more realistic picture – it is $54.50 per week in Retail trade, $35.50 per week in Accommodation, Cafes and Restaurants and $248.20 in Health and Community Services.

R4.45 The AiG submission on this issue is contradictory. They spend fourteen paragraphs (7.4 to 7.18) warning the Commission that acceding to the ACTU claim would fuel excessive wage claims and unrealistic wage outcomes at the enterprise level and then conclude in two paragraphs (at 7.19 and 7.20) that acceding to the claim would adversely affect the incentive to bargain.

R4.46 In short, the ACTU's claim is moderate. The positions of the Commonwealth, ACCI and AiG would leave low paid award workers further behind the rest of the community and on current levels of inflation would cut their living standards. There is simply no evidence which suggests that the ACTU claim would have any adverse impact on bargaining.

R5 Economic Update

> *"The strength of the Australian economy is now more evident, more real, more broadly based, more widespread and more internationally recognised that at any time since the late 1960s.*
>
> *…*
>
> *The Australian economy is now seen, justifiably, as having outperformed every other developed economy over the last five years. If you go right across the gamut of economic comparisons you cannot escape the conclusion that, over the time this government has been in office, we have experienced the most sustained period of economic growth since at least the late 1960s."*
>
> [Prime Minister, John Howard, *House of Representatives Hansard*, 3 March 2003, pages 932, 934]

R5.1 The Australian economy is still growing strongly. The above comments from the Prime Minister came in an environment where the Australian economy was suffering the effects of one of the worst droughts in 100 years and international uncertainty regarding a possible war in Iraq. Notwithstanding this the economy continues to perform well, with the outlook for 2003-04, the period most relevant to this Case, shows good signs of further strengthening and a bounceback in those sectors presently affected by drought and international uncertainty.

Economic Conditions[1]

R5.2 Since the ACTU's original submission was lodged on 5 February 2003, there have been a number of new data releases on the condition of the Australian economy. These have been discussed at length below in this part of the submission, and also in more detail at Tag 1 of the ACTU's Reply Composite Exhibit.

R5.3 Notwithstanding the Commonwealth and opposing employer groups' focus on drought and uncertainty, the economy has continued to perform well. Growth has moderated, but this has clearly been due largely to the drought as the

[1] As in our earlier submissions, the figures referred to in this chapter are trend numbers, unless otherwise identified. A more complete update of most of the relevant data has been supplied at Tag 1 of the Reply Composite Exhibit.

strength of the non-farm sector indicates. Inflation remains contained and within the Reserve Bank target range. Wages growth is moderate and the performance of the labour market has been strong and continues to defy the expectations of those with a penchant for the gloomy forecast. No party in this case seriously advances a contrary proposition.

R5.4 In its most recent *Statement on Monetary Policy*, released on 10 February 2003, the Reserve Bank of Australia (RBA, or the Bank) made the following comments:

> *"The Australian economy has continued to expand at a good pace in the recent period, despite the continued drag from the weak world economy and the drought. This outcome reflected continued strong growth in domestic demand, though the pace moderated somewhat in the second half of last year. The ongoing expansion of the economy has been sufficient to generate a further* strengthening of the labour market, with the unemployment rate declining significantly during 2002. "
>
> [RBA, Statement on Monetary Policy, February 2003, page 2]

Economic Growth – the December quarter national accounts

R5.5 The most recent December quarter 2002 National Accounts, were released by the ABS on 5 March 2003.

R5.6 This most recent data shows that Australia's GDP grew by 0.4 per cent in seasonally adjusted terms in the December quarter 2002, and 3.0 per cent over the year, underpinned by strong domestic consumption and investment. In trend terms GDP grew 0.7 per cent during the December quarter 2002, to be 3.2 per cent higher than at the same time a year earlier.

R5.7 Abstracting from the direct impact of the drought, the non-farm economy remained solid, growing by 0.8 per cent in seasonally adjusted terms during the quarter and 3.9 per cent over the year. The trend data show that Gross Non-Farm Product (GNFP) increased 1.0 per cent during the December quarter 2002, to be 4.0 per cent higher over the 2002 calendar year – the same as recorded during 2001.

R5.8 Following the release of the December figures, the Treasurer commented that:

> *"The good outcome in the December quarter National Accounts is against a backdrop of weak global economic conditions with the prospect of war and rising oil prices. During the quarter, Australia was in the grip of the worst drought in a century. Even so, the domestic economy has remained resilient.*
>
> *Private business investment increased by 7.4 per cent in the December quarter, and was underpinned by a 14 per cent surge in new machinery and equipment investment. Strong investment by the business community reflects the favourable investment environment in Australia, with low interest rates, high levels of capacity utilisation and strong corporate profitability."*
>
> [Costello, P., Media Release – National Accounts: December Quarter 2002, No. 010, 5 March 2003]

R5.9 He further noted in Parliament on the same day the continued resilience of the Australian economy despite the drought and recent international events:

> *"As the OECD remarked earlier this week, Australia remains one of the most resilient economies in the world. The fact that, in the face of the worst drought in 100 years, the economy still grows – and still grows in the face of an international downturn and oil prices rocketing in the way they are – indicates the resilience of the Australian economy and the importance of structural changes."*
>
> [Costello, *Hansard*, 5 March 2003. Page 1124]

Aggregate Demand

R5.10 Strong final domestic demand continued to underpin Australia's GDP growth into the December 2002 quarter, driven by continued strong growth in private consumption and an even stronger increase in investment.

R5.11 Private final domestic demand increased 1.5 per cent in trend terms (2.1 per cent seasonally adjusted) during the December 2002 quarter, to be 7.1 per cent (7.6 per cent) higher over the year.

Private Consumption

R5.12 The latest December 2002 data shows that private consumption expenditure increased 0.7 per cent in trend terms to be 4.1 per cent higher over the year.

R5.13 A more detailed look at the recent changes in two of the major indicators of consumption expenditure - retail turnover and new motor vehicle sales – is provided in Table 6, at Tag 1 of the Reply Composite Exhibit.

R5.14 Retail turnover increased 0.2 per cent during each of the months of December 2002 and January 2003, to be 6.1 per cent higher over the year to January 2003. Recent motor vehicle sales data suggest renewed strength with the number of new sales estimated by the ABS to have increased by 0.5 per cent and 0.7 per cent respectively in the months of December 2002 and January 2003. Over the year to January 2003 the number of new motor vehicle sales increased 3.2 per cent, to post a new record high in the month of January.

Private Investment Expenditure

R5.15 Private investment expenditure has continued to grow strongly during the December quarter 2002, adding significantly to the figures for the 2002 calendar year.

R5.16 Total private investment expenditure increased a very strong 6.5 per cent in seasonally adjusted terms (3.8 per cent in trend terms) during the December 2002 quarter to be 18.7 per cent (17.0 per cent) higher over the year.

R5.17 The recent strong growth in private investment expenditure continues to be underpinned by both continued strength in housing construction, and increasing strength in business investment, as noted below and also in greater detail in Tables 3, 8 and 9 at Tag 1 of the Reply Composite Exhibit.

The Housing Sector

R5.18 Private Dwelling expenditure rose 4.8 per cent in trend terms (4.2 per cent seasonally adjusted) during the December 2002 quarter to be 22.7 per cent (20.6 per cent) higher over the year.

R5.19 The most recent data on building approvals and finance lending for housing continue to show a rather mixed message, but suggest some easing in the housing sector back to more normal levels is likely over the coming year, as has been expected for some time now. The number and value of building approvals declined 3.8 per cent and 2.9 per cent respectively, although the value of lending for new dwellings grew 2.8 per cent in the month of January.

Business Investment

R5.20 Private Business Investment increased very strongly in the December 2002 quarter, up 3.8 per cent in trend terms and 7.5 per cent in seasonally adjusted terms during the quarter. On a yearly basis, business investment has now risen 18.9 per cent in trend terms over the year to December 2002 and 22.1 per cent in seasonally adjusted terms.

R5.21 Private business investment has been supported by strong growth in both of its major components, non-dwelling construction and machinery and equipment expenditure. Non-dwelling construction investment increased 5.1 per cent in trend terms during the December 2002 quarter to be a whopping 36.8 per cent higher over the year. In seasonally adjusted terms non-dwelling construction fell slightly by 2.2 per cent following especially strong growth during the previous three quarters averaging 11 per cent a quarter – ending the year a robust 33.8 per cent higher.

R5.22 Spending on machinery and equipment investment increased 3.1 per cent in trend terms and a very strong 12.8 per cent in seasonally adjusted terms during the December 2002 quarter, to be 11.4 per cent and 17.3 per cent higher respectively over the year.

The Business Sector

R5.23 The business sector of the economy continues to remain in good shape, with strong profits and relatively robust balance sheets. The RBA has continued to make strong comments in this regard in its most recent Statement:

> *"The business sector in Australia appears to be in much better shape than its counterparts abroad. Profitability is relatively high, and most surveys report that businesses are viewing current conditions as quite favourable. Notwithstanding some high-profile corporate failures during the past couple of years, businesses in aggregate are carrying low levels of debt, have strong internal funding, and have generally avoided the mistakes of over-investment that have characterised past business cycles. Against this background, it is not surprising that business investment is contributing strongly to expenditure growth at present or that employment is continuing to expand."*
>
> [RBA, Statement on Monetary Policy, February 2003, page 2]

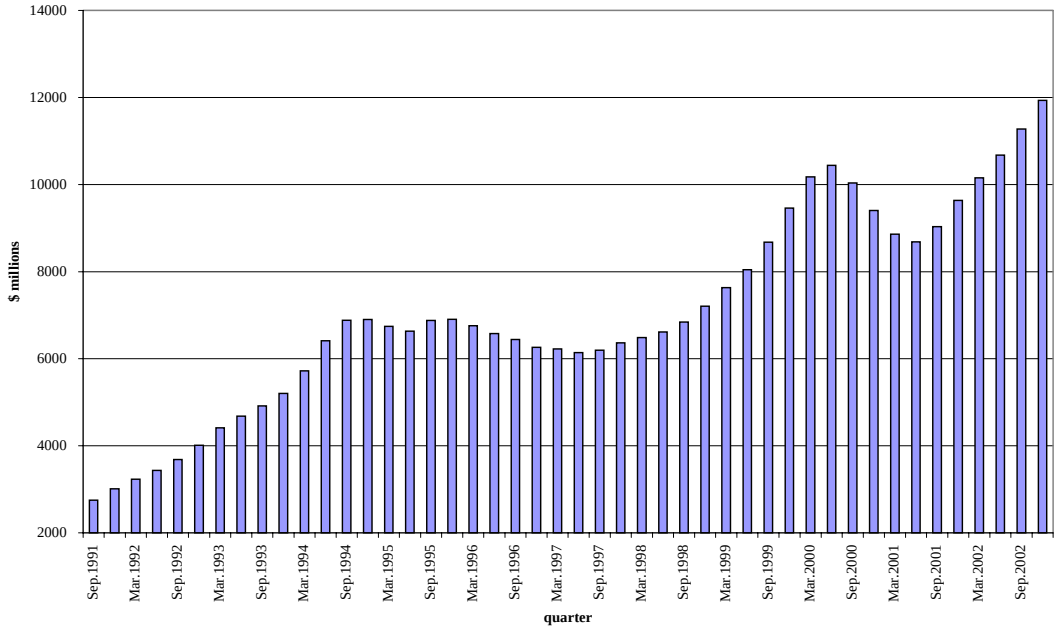
R5.24 These comments have been echoed more recently by RBA Assistant Governor, Malcolm Edey in an address to the AiGroup:

> *"Throughout the last few years the situation of the Australian business sector has contrasted quite markedly with the one I described earlier for the US. In the main, and despite some high profile exceptions, profits of Australian businesses in aggregate have remained at a good level by historical standards, and businesses have generally managed their balance sheets quite conservatively."*
>
> [RBA Assistant Governor, Malcolm Edey, *Economic Performance and Issues in 2003: Address to Australian Industry Group, Economy 2003 – Forecasting Industry Prospects Forum*, Sydney 5 March 2003.]

Company Profits

R5.25 Company profits continued to grow very strongly during the December 2002 quarter, posting new record highs. The Company Profits before Income Tax measure from the ABS's *Business Indicators* publication (Cat No. 5676.0) rose a solid 5.8 per cent in trend terms during the December quarter, to be a very strong 23.9 per cent higher over the year. Figure R5.1 Below shows company profits before tax have continued to rise strongly to new highs.

Figure R5.1: Company Profits before tax – Australia – 1991 to 2002 ($m)

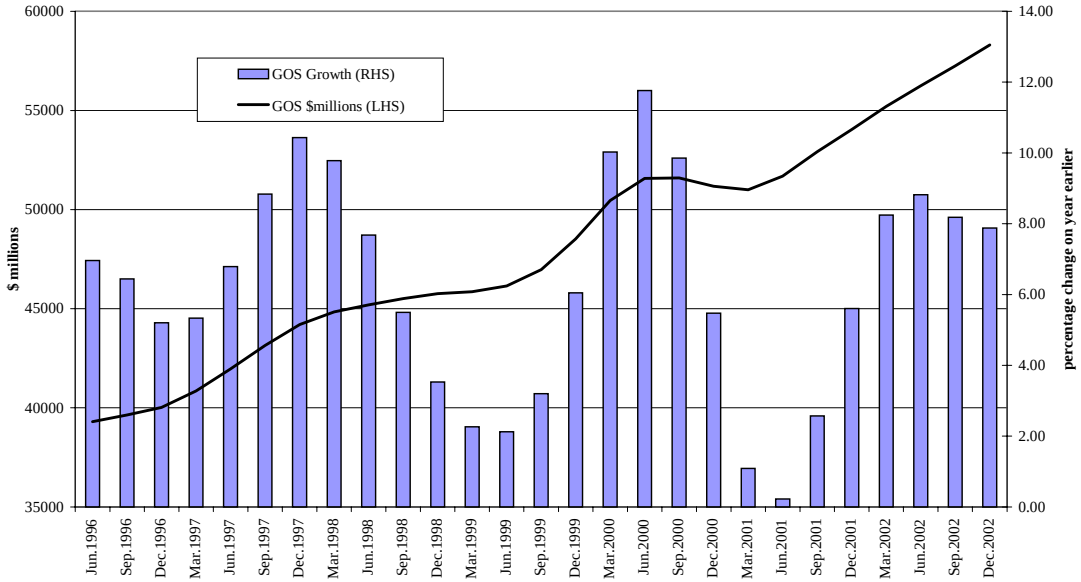


Source: ABS Cat No. 5676.0

R5.26 The seasonally adjusted data showed an even stronger picture, with company profits before income tax increasing 12.6 per cent during the December quarter, and 29.3 per cent over the year.

R5.27 The Gross Operating Surplus (GOS) measure of company profits, as measured as part of the ABS's *National Accounts*, has also continued to grow strongly, increasing 1.8 per cent during the December 2002 quarter to be 7.9 per cent higher over the year. (see Figure R5.2 below)

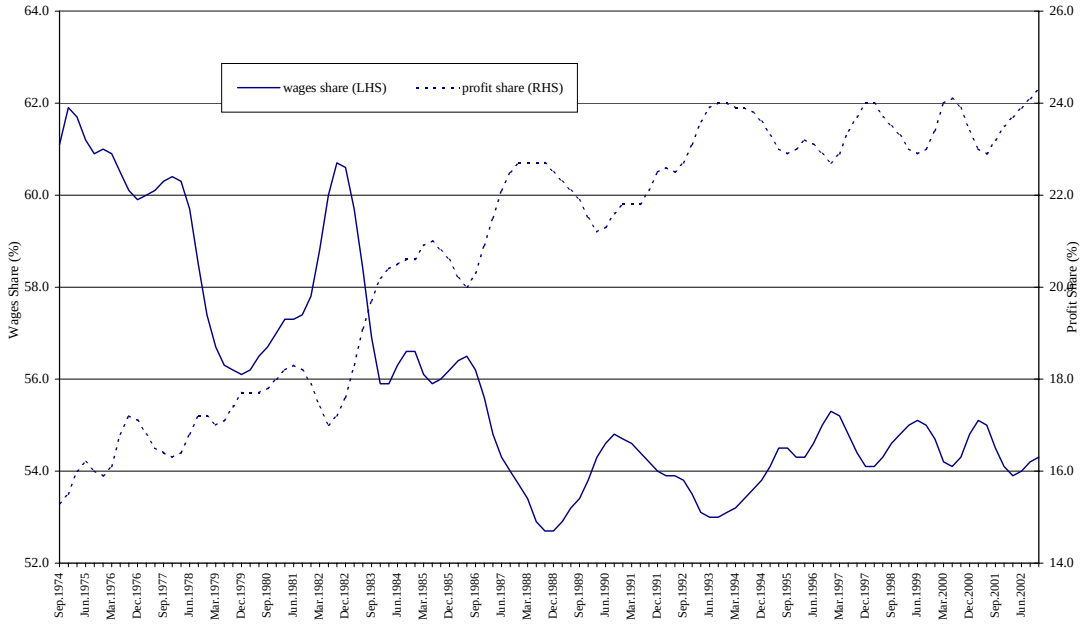
Figure R5.2: Gross Operating Surplus – Australia 1996 to 2002



Source: ABS Cat No. 5206.0

R5.28 The profit share of total factor income increased once again during the December 2002 quarter, to a new record high of 23.4 per cent, up 0.2 percentage points during the quarter, and 0.8 percentage points since December 2001. (Figure R5.3 below)

Figure R5.3: Wage and Profit Share of National Income: 1974 to 2002



Source: ABS Cat No. 5206.0

R5.29 Clearly last year's decision by the Commission to award an $18 has not resulted in a halt to the continued strong growth in company profitability.

The Labour Market

R5.30 Employment has continued to grow strongly since the ACTU first submitted its original Written Submission, with the latest Labour Force figures continuing to surprise the market with their strength.

R5.31 Following a surge of an additional 94,000 jobs in January 2003, February had been expected by the market to see a downward correction of around 30,000. Total employment, however, declined by only 12,300 during the month, seasonally adjusted, while full-time employment increased by an additional 10,000.

R5.32 Market commentators, HSBC, commentated on the release that:

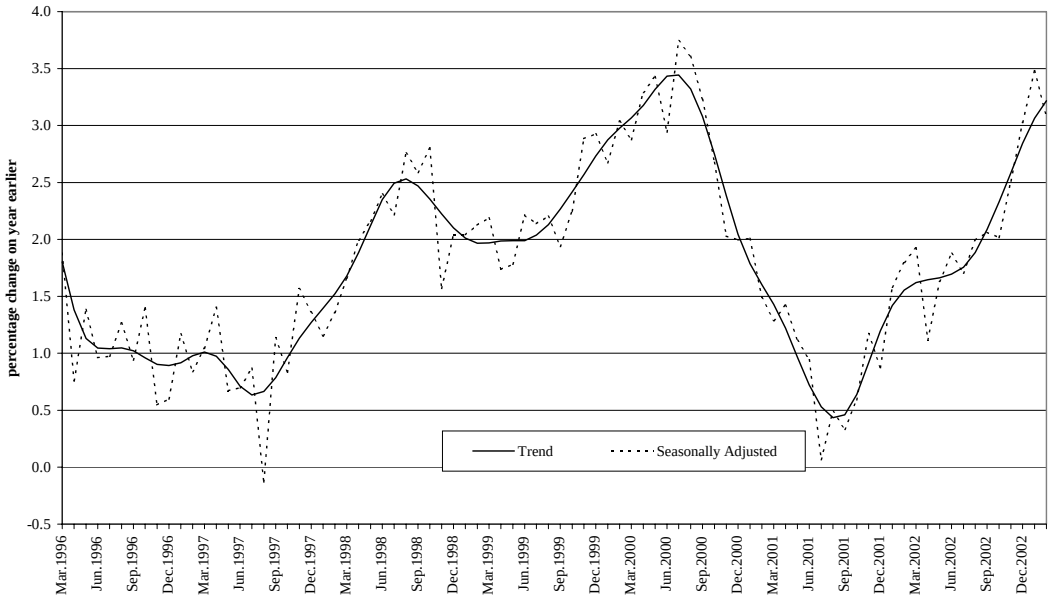
> *"Whichever way you cut it, today's labour force report for February was strong. Although total employment fell 12.3k s.a., this was much stronger than expected (consensus –30k). Full-time employment rose 10k s.a. (+62.3l prev.), its 4th consecutive gain for a cumulative rise of +165.5k s.a.*
>
> *…*
>
> *Additionally, the Statistician dispelled the belief that survey sample rotation was distorting the data, noting that adjusted matched sample methods or composite estimation of employment growth over the past 4 months produces an estimate that is 'broadly similar to the currently published figure' of +193.7k s.a.*
>
> *The pullback in total employment allowed some slowing in trend growth, but from an unbelievably strong +41.9k m/m to a very strong +33.5k m/m. Whilst we don't expect trend growth to continue at this pace for long, a slowing to around +20k m/m would still allow the unemployment rate to trend lower. Near-term, the strong February data may encourage higher participation and a higher unemployment rate, but we continue to expect the unemployment rate to break below 6% on the trend by mid-2003."*
>
> [HSBC, *Labour Force – February: Labour market strong whichever way you dissect the data*, 13 March 2003]

R5.33 Total employment has now increased by 193,700 in seasonally adjusted terms since October 2002, an increase of 2.1 per cent during this time. The number of full-time employees has increased by 165,500 or 2.5 per cent since October 2002.

R5.34 Since this time last year, the total number of employees has increased in seasonally adjusted terms by 285,800, of which 186,200 were part time. The trend data over the same period shows that there were an additional 298,000 additional jobs created (including 168,000 full-time) over the year to February 2003.

R5.35 In percentage terms, the latest data suggest that the total number of employees has grown by 3.2 per cent in trend terms (3.1 per cent seasonally adjusted) over the past year to February 2003. The number of full-time and part-time jobs increased 2.8 per cent and 3.8 per cent respectively in seasonally adjusted terms (2.5 per cent and 5.0 per cent, trend) over the past year. (Figure R5.4 below)

Figure R5.4: Employment Growth – 1996 to 2003



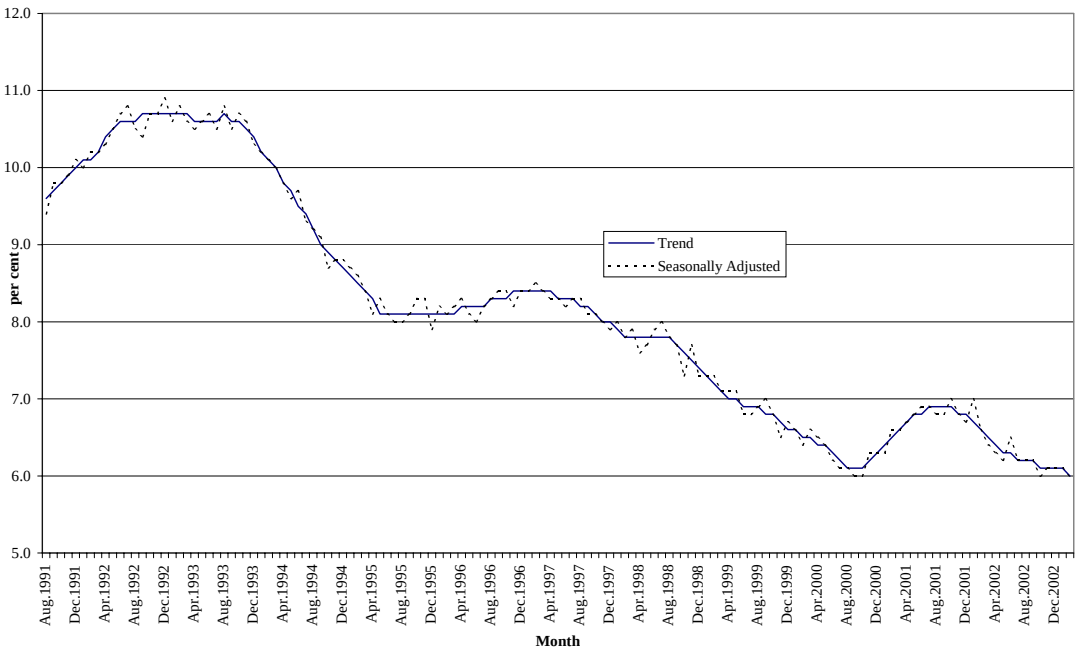
Source: ABS Cat No. 6202.0

R5.36 Minister for Employment and Workplace Relations, Tony Abbott, made the following comments regarding the February employment data:

> *"This is a welcome result. After the very strong employment growth over the last four months, a substantial correction in the published figures might have been expected. However, today's data show that the labour market has, in the main, held on to the recent employment gains.*
>
> *While leading indicators of labour market activity continue to point to some slowing in the pace of employment growth from around mid-2003, there remains significant underlying strength in the Australian labour market."*
>
> [Abbott, T., Media Release: Labour Force – February 2003, 13 February 2003]

R5.37 The latest February Labour Force figures also showed an improvement in Australia's unemployment rate. In both seasonally adjusted and trend terms, the unemployment rate fell to 6.0 per cent in February 2003, now its lowest level since March 1990. (see Figure R5.5 below)

Figure R5.5: Unemployment Rate – Australia – 1991 to 2003



Source: ABS Cat No. 6202.0

R5.38 The participation rate fell 0.2 percentage points in February to 64.4 per cent following a rise of 0.6 percentage points during January. This fall came,

however, from a historical high in January, and despite the fall, February's participation rate remains the second highest on record.

R5.39 Treasurer, Peter Costello, commented on the February Labour Force numbers that:

> *"Well, Australian's will welcome the fact that the unemployment rate fell in February to 6 per cent, which is the lowest rate since Labor's recession in 1990. In addition to that the very, very strong jobs growth that we saw in December and January, has been more or less maintained, a slight reduction in the number of jobs, but coming off increases of very substantial proportions in December and January means over the last four months, something like 190,000 new jobs have been created. Considering, in the light of the worst drought in a century, the difficult international situation, rising oil prices, weakness on international share markets, it demonstrates a very strong resilience in the Australian economy, the kind of resilience that was noted by the OECD in its recent report."*
>
> [Costello, P., Doorstop Interview – Parliament House, Canberra, 13 March 2003]

R5.40 More generally, the RBA had the following to say about the Australian labour market in its most recent February *Statement on Monetary Policy:*

> *"The ongoing expansion of economic activity is evident in the labour market, with employment increasing by 0.9 per cent in the December quarter, to be 2.5 per cent higher than a year earlier. In contrast to the previous year, full-time employment made a significant contribution to total employment growth, accounting for about 40 per cent of the jobs created over the year. Part-time employment continues to grow strongly, increasing by 1.9 per cent in the December quarter to be 5.2 per cent higher than a year earlier. The unemployment rate has fallen by 0.7 percentage points from its recent peak in the December quarter 2001 to 6.1 per cent. All states experienced positive employment growth and a decline in their unemployment rates over 2002.*
>
> [RBA, *Statement on Monetary Policy,* February 2003, page 27]

Wages

R5.41 Wages growth has continued to remain moderate according to the most recent data released since the ACTU lodged its original submissions on 5

February 2003. A more detailed analysis of the recent data has been provided in Chapter 3 of this Reply Submission.

Inflation

R5.42 While there have been no new releases of the ABS's *Consumer Price Index* publication since the ACTU first submit its original Written Submission to this Case on 5 February 2003, the Reserve Bank has added the following comments in its most recent *Statement on Monetary Policy*, in respect to its view on inflation:

> *"Australia's inflation rate in the second half of 2002 evolved broadly in line with the near-term outlook presented in recent Statements. During the year to December 2002 underlying inflation was around 2½ per cent, having declined from just over 3 per cent at the end of the previous year. … The Bank's current assessment is that underlying inflation is likely to remain close to its recent level of 2½ per cent over the next 18 months. This represents a slight downward revision to the forecast presented in the previous Statement."*
>
> [RBA, Statement on Monetary Policy, February 2003, page 3]

Economic Prospects

R5.43 No new official forecasts have been released for the outlook of the Australian economy as a whole since the ACTU's initial submissions. Recent commentary by the Reserve Bank, the Treasurer, the OECD and a number of market commentators suggests that the outlook for the economy is one of a strengthening in growth over 2003-04 and a bounceback in those sectors of the economy presently affected by the drought and international conditions.

R5.44 New forecasts released since the ACTU's original submission from the Australian Bureau of Agricultural and Resource Economics (ABARE) further add weight to the suggestion that the farm sector of the economy will bounceback strongly over 2003-04. Other relevant new data is also discussed below.

R5.45 Following a recent report on the Australian economy published in early March by the OECD, the Federal Treasurer commented that:

> *"In light of an expected improvement in the global environment the OECD predicts robust growth of 3¾ per cent for 2004, recovering from drought-affected growth of 3¼ per cent in 2003."*
>
> [Costello, P., Media Release – OECD Survey of the Australian Economy, no. 009, 3 March 2003]

> *"The OECD says that Australia is better placed than nearly all of the other countries in the world to withstand international downturns."*
>
> [Costello, P., *Doorstop Interview*, 4 March 2003]

> *"…let me make this point – compared to the United States, compared to the United Kingdom, compared to Japan, compared to France and Germany, the other developed economies of the world, Australia leads the pack, and the OECD said that yesterday.*
> *But one good thing about a world which has been through a recession, a United States economy which has been through a recession, is that Australia stood strong and tall and we survived"*
>
> [Costello, P., *Interview with Alan Jones, 2GB*, 4 March 2003]

R5.46 This assessment of the outlook for the economy has also been shared by a number of market commentators. For example on 10 March 2003, the *Australian Financial Review* reported that:

> *"BIS Shrapnel yesterday issued an upbeat assessment of the domestic economy, saying its prospects were better than many were making out.*
>
> *In its latest Economic Outlook report, the forecasting group said the economy's strengths – including healthy consumer demand and rising company profits – had been downplayed.*
>
> *'The economy is not heading into a tailspin, or even a downturn', it said. 'Interest rates will remain low supporting growth momentum.'*
> *…*
> *The Sydney-based group expects growth in gross domestic production – a measure of economic activity – to slow to 2.9 per cent this year, in line with most*

observers' views. However, it predicts the economy will accelerate in 2004 to a more bullish 4.9 per cent.

'The growth slowdown will also be short-lived,' it said. 'Most of the external negatives will fall away by the end of the year, and many will see a rebound effect lift growth in 2004.'

'Droughts don't last forever, the world economy is still fundamentally on a recovery path and concerns over the potential economic impacts of a conflict in Iraq will probably have dissipated.'

[Australian Financial Review, *Outlook brighter than others suggest, says BIS*, 10 March 2003, page 5]

AiG and ACCI outlooks for the Australian economy

R5.47 In its most recent edition of *Industry Today*, the AIG reported under the heading "Companies project continuing growth" that:

"Manufacturing has made a solid start to 2003 and companies expect the growth to continue.

…

Australian manufacturers are looking forward to a 4.2% increase in turnover, reasonable investment and modest employment growth in 2003

…

Respondents expected the growth to be driven by continuing solid domestic consumer demand and a modest pick-up in exports in the second half of the year.

…

Ai Group Deputy Chief Executive, Heather Ridout, said the survey findings highlighted the current strength of manufacturing, with the strong performance in the second half of 2002 carrying through into early 2003."

[Ai Group*, Industry Today*, February 2003, Edition 22]

R5.48 Further in the same edition, the AIG also present their key growth projections from their annual prospects survey, which point to an encouraging outlook for manufacturing in 2003.:

"Manufacturing turnover was projected to grow by 4.2% in 2003.

…

Over 70% of firms expected growth to come from the domestic economy

…

After a year of decline, manufacturing exports were expected to grow by a modest 5% during 2003.

…

Investment was forecast to rise by 5% in 2003.

…

Employment was forecast to rise by 0.6%, with the growth largely confined to small firms."

[Ai Group*, Industry Today*, February 2003, Edition 22]

R5.49 We note that the tone of the ACCI submission on the economy appears at odds with what their Chief Economist, Dr Steven Kates, has publicly declared as his outlook on the economy elsewhere.

R5.50 Table R5.1 below shows Dr Kates' key economic forecasts as presented in *The Age Half Yearly Economic Survey,* in January. Dr Kates for example has estimated that Real GDP growth during 2003-04 would increase by 3.8 per cent, and that Australia's unemployment rate would reach 5.9 per cent by the end of this calendar year.

.

Table R5.1: What the ACCI really thinks about the Australian Economy

	per cent
Real GDP Growth	
2002-03	3.5
2003-04	3.8
Private Consumption growth (2003)	3.9
Private Investment growth (ex. Housing) (2003)	7.0
CPI (four quarters to Dec quarter 2003)	2.9
WCI (four quarters to Dec quarter 2003)	3.4
Unemployment rate (as at Dec 2003)	5.9
Employment growth (12 months to Dec 2003)	1.8
OECD GDP (2003 growth)	2.3
World GDP (2003 growth)	3.2
US GNP (2003 growth)	3.0
Asia's GDP (2003 growth)	4.8

[Source: The Age, Half Yearly Economic Survey*, 6 January 2003]*

Investment Intentions

R5.51 As has been noted above, there has been strong growth in business investment over the past year, with this forecast to contribute strongly to overall growth in the economy over this year. The most recent data from the ABS's *Private New Capital Expenditure and Expected Expenditure* series suggests that business investment intentions continue to be strong for the rest of the year and into 2003-04.

R5.52 The most recent 'estimate 5' of business investment expenditure over the 2002-03 year was 15.2 per cent higher than the comparable estimate for 2001-02. Further the first estimate for 2003-04 was 4.5 per cent higher than the first estimate for 2002-03, and at $43,413 million, is the highest first estimate on record. This data suggests that the recent strong performance in business investment over the past year is set to continue strongly into 2003-04.

The Labour Market

R5.53 The latest data on Job Advertisements was released by the ANZ Bank on 3 March 2003. The latest survey suggests that:

> *"The number of job advertisements carried by major metropolitan **newspapers** rose by 3.2% (seasonally adjusted) in February, to an average of 20,988 per week. This follows a 4.3% increase in January, and a 12.5% decline in December 2002. Compared with February last year the number of newspaper job advertisements was up by 1.5%. Despite the past two months' increases, the underlying trend in newspaper job advertisements remains downwards. In trend terms, the number of advertisements fell by 1.2% in February, after a 1.3% decline in January (revised from 1.6%), to be 1.4% lower than in February 2002.*
>
> *…*
>
> *The **total** number of newspaper and internet job advertisements rose by 9.7% in February to a weekly average of 91,696. This was also the largest monthly increase since the combined print and internet series began in mid-1999, and the highest level of job advertising since July 2001.*
>
> *…*

'Last month's increases in the level of newspaper and internet job advertising are an encouraging signal for job prospects, given the potentially adverse influences of higher oil prices, falling share
prices and the apparently increasing likelihood of a military conflict in the Middle East,' ANZ Chief Economist Saul Eslake said. 'As we noted last month, it would be quite understandable if these developments led to some hesitancy on the part of employers about new hiring, or even about filling existing vacancies.' "

[ANZ, *Media Release – Newspaper job advertisements up 3.2% in February; internet job advertisements up 11.8%*, 3 March 2003, emphases in original]

R5.54 Contract labour hire company Skilled Engineering, was reported in the *Australian Financial Review* on 20 February 2003 as giving its shareholders:

"… a bullish outlook for the Australian economy, saying demand for blue-collar labour was expected to remain strong in 2003.
The contract labour company posted an 87 per cent increase in half-year profits yesterday to $8.5 million, saying almost half the earnings were generated from resilient blue-collar employment demand."

[Australian Financial Review*, Rosy outlook for the blue-collar labour market*, 20 February 2003, page 21]

R5.55 Asked whether he believed that there would be a slowdown in the rate of jobs growth in mid 2003, the Treasurer replied that:

"Well, you have got to remember this, that we forecast an unemployment rate of 6 per cent by the end of the financial year, which is June. We have already arrived at that forecast. The prospects for the Australian economy in the coming year will be influenced by a very difficult world situation, the threat of war in Iraq, rising oil prices. One thing that could go for us, we hope, is the breaking of the drought. You only get a drought like this every hundred years or so. So that will be going for us, the international situation will be going against us. But the resilience of the Australian economy, I believe, will mean that we can come through those difficulties."

[Costello, P., *Doorstop Interview – Parliament House*, Canberra, 13 March 2003]

Inflation outlook

R5.56 The outlook for inflation over the year ahead remains subdued, with the RBA estimating that the underlying rate of inflation will remain at around 2½ per cent over the next 18 months, with limited evidence of inflationary pressures existing:

> *"Over the year to the December quarter, underlying inflation was 2½ per cent, and the Bank's assessment is that it is likely to remain around that level during the next 18 months. This represents a slightly lower forecast than was presented in the previous Statement.*
>
> *…*
>
> *Australian economy continues to grow at a good pace, evidence of inflation pressures at present remains quite limited. The pace of upstream price increases eased during most of last year, before strengthening only modestly in the December quarter. Aggregate wage increases picked up slightly in the second half of 2002, but they remain at a pace consistent with the inflation target. While there have been isolated areas where strong demand has generated upward pressure on wages and prices, notably in the housing construction sector, these pressures have not spread across the economy more widely. Prospects at this stage are that inflation will remain contained."*
>
> [RBA, Statement on Monetary Policy, February 2003, page 48]

The Possible war with Iraq

R5.57 A number of the other parties to this case have presented material which focus on the downside risks of a war with Iraq.

R5.58 It is clearly very difficult to make an accurate assessment about how any war with Iraq may impact upon the Australian economy. Asked if the Reserve Bank had a view on what might happen to the Australian economy in the event of a war, the RBA Governor stated:

> *"As to the vexed question of what will happen if there is a war, I do not know very much at all. I do not think anyone does unless they are a military expert and able to forecast when the war will start and how long it will last. Obviously I do not even know whether there is going to be one.*
>
> *…*

If there is one, I do not know whether it is going to be a quick one, like the Gulf War, or a long one. If it is a quick one, the effects will not be very profound; if it is a long one, they could be. I also think that a lot of people do not even know the direction of the effects. We know that one of the effects will be to drive up the oil price in the short run, and that will be contractionary for the rest of the world. But historically, if you look over the last century, most wars have ended up being expansionary for economic activity. That was certainly true in the Second World War and the Vietnam War. The situation is so complex that it is not something you can factor into your assessments of how you should be conducting monetary policy now, in December 2002."

[Governor Macfarlane, *House of Representatives: Standing Committee on Economics, Finance and Public Administration – Hansard*, 6 December 2002]

R5.59 While the ACCI, AiG and the Commonwealth have focussed on downside risks, others take a different view. The latest *Economic Outlook* from BIS Shrapnel, for example, predicted that going to war would have only a minor impact on the Australian economy, with their forecasts for Australia to remain strong during 2003 and growing stronger during 2004.

R5.60 As reported by ABC news on 10 March 2003:

"A new economic study says a war in Iraq will not have a minor impact on the Australian economy.

The latest economic outlook from BIS Shrapnel is forecasting growth of 2.9 per cent for the 2003 calendar year, growing to 4.9 per cent next year. The study suggests a major investment boom is not far off but remains on hold due to the drought, the weak global economy, the housing decline and the threat of war.

BIS Shrapnel chief economist, Dr Frank Gelber, says an attack on Iraq will restrict growth by no more than 0.5 per cent.

'A war would have a relatively minor effect on the Australian economy,' Dr Gelber said.

'We're isolated from it and at the end of the day, the thing that's really affecting us now is the uncertainty associated with whether we're going to war or not. When you relieve that uncertainty, people will stop sitting on their hands and start making decisions instead.'

Dr Gelber says despite the drought, a softening in housing construction and the prospect of war, the underlying economy is strong."

[ABC, *War won't have major impact on economy: study*, ABC Online News, www.abc.net.au, 10 March 2003]

R5.61 The Federal Treasurer says that he is confident in the strengths of the economy, notwithstanding a possible war and its impacts:

"Well, the Australian economy, Alan, will be affected by world events, obviously, the threat of war, rising oil prices. But the economies of the world, and you heard it today from the OECD, it's the best placed to ride out these difficulties. And so, the Australian economy, although it will be affected by drought, we won't be immune to drought, it will be affected by war and rising oil prices, but the Australian economy will continue to lead, and so I think we can have a lot of confidence in the Australian economy"

[Costello, P., *Interview with Alan Jones, 2GB*, 4 March 2003]

Drought

R5.62 The impact of the drought on the economy is being felt now. If, as seems increasingly likely, the drought breaks, all credible assessments suggest a strong bounceback in the farm sector during the 2003-04 year.

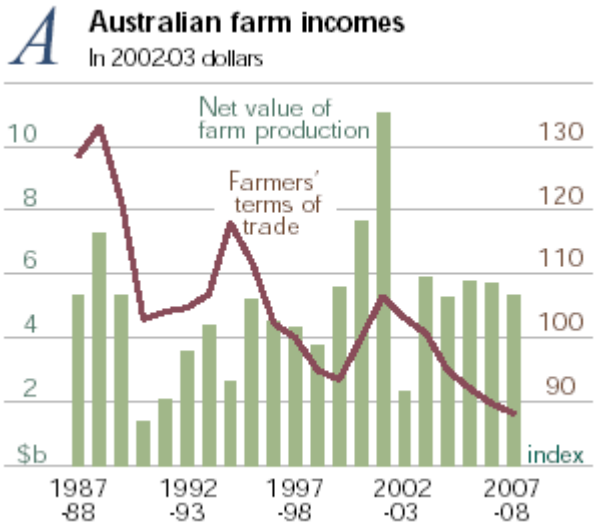
"Assuming that there is a good autumn break to the drought across much of the winter cropping and pastoral areas of Australia, there should be a dramatic improvement in the rural sector's fortunes in 2003-04.

Expanded crop plantings and greatly improved yields can be expected to result in a bounce back in grain grower incomes by late 2003. In the livestock industries, however, production will be lower in the short term as producers retain stock to rebuild depleted herds. As a result livestock incomes are not expected to rebound as quickly or as strongly as cropping incomes."

[ABARE, *Australian Commodities*, vol.10, no.1, March Quarter 2003]

R5.63 ABARE also expects that farm incomes will rebound significantly in 2003-04:

> *"Farm incomes are forecast to rise substantially in 2003-04 from the drought induced lows of 2002-03 (figure A). Drought is estimated to cut the net value of farm production to around $2.3 billion in 2002-03, close to 80 per cent less than in2001-02 when farm incomes were the highest in over two decades.*



> *On the assumption that drought-breaking rains prevent a large scale selloff of livestock and allow the planting and harvest of a successful winter crop, the net value of farm production is 2003-04 is forecast to rise by nearly 160 per cent to around $6.0 billion."*

[ABARE, *Australian Commodities*, vol.10, no.1, March Quarter 2003, page 22]

R5.64 The Treasurer has recently made the following comments on the prospects for renewed growth in the second half of 2003:

> *If the drought breaks (with signs already emerging), positive effects could emerge in the second half of 2003."*

[Costello, P., *Media Release – National Accounts: December Quarter 2002*, No. 010, 5 March 2003]

R5.65 Further, RBA Assistant Governor, Malcolm Edey, also commented recently regarding the potential for a quick turnaround in the outlook for farm production:

> *"…the historical record suggests that aggregate farm production has the potential to turn around quite quickly, and the recent rains across much of the country do offer the prospect of a better year ahead."*
>
> [RBA Assistant Governor, Malcolm Edey, *Economic Performance and Issues in 2003: Address to Australian Industry Group, Economy 2003 – Forecasting Industry Prospects Forum*, Sydney 5 March 2003.]

R5.66 The Reserve Bank commented at length on the prospects of a quick recovery in agricultural production following the end of the drought in its November 2002 *Statement on Monetary Policy* [See an extract of Box A: Economic Effects of the Drought, from the RBA's November *Statement*, which is reproduced at Tag 2 of the ACTU's Reply Composite Exhibit, for the complete text]

R5.67 On this issue the Reserve Bank concludes that:

> *"While the drought is a serious negative shock to the economy, past experience suggests that there will subsequently be a significant boost to growth when the drought breaks, as crop production typically rebounds strongly following drought years."*
>
> [RBA, *Statement on Monetary Policy*, November 2003, Box A: Economic Effects of the Drought, complete text reproduced at Tag 2 of the Reply Composite Exhibit]

R5.68 Since the ACTU lodged its original submission on 5 February 2003, there has been significant rainfall across much of Australia, with present forecasts from the Bureau of Meteorology suggesting a positive outlook for the months ahead.

> *"The national rainfall picture over the past week and current indicators on the El Niño show cause for some optimism in almost all of the worst drought-affected areas.*
>
> *Commenting on the recent rain, Dr Sharman Stone, Parliamentary Secretary responsible for the Bureau of Meteorology said that the Bureau's analysis*

showed that most areas of Australia have received falls of more than 25mm, with large areas receiving greater than 50mm.

…

The changing pattern of weather conditions is consistent with the breakdown of the El Niño event. Dr Stone said the most recent monitoring by the Bureau's National Climate Centre indicated that ocean temperatures and winds across the tropical Pacific Ocean were returning to more usual patterns. ' These are positive indicators that the Bureau's current seasonal outlook for a return to more average rainfalls is 'on track' ', Dr Stone said."

[Stone, Sharman, Parliamentary Secretary to the Minister for the Environment and Heritage, *Media Release – Rainfall Picture Optimistic*, 6 March 2003]

R6 Economic Effects

R6.1 In its original submissions the ACTU argued that awarding its claim would have a negligible economic impact. Whilst the submissions of employers and the Commonwealth are long on rhetoric regarding the likely calamitous effects should the ACTU claim be granted they are noticeably short on credible evidence. In particular:

- Properly analysed the Commonwealth's material provides confirmation that the macroeconomic impact of the ACTU claim will be negligible;
- The employer survey evidence is seriously deficient and no weight should be placed upon it.

Macroeconomic Effects

R6.2 Once again, the Commonwealth relies on the results of macroeconomic modelling to demonstrate alleged adverse economic effects as a result of the ACTU's claim. In relation to that modelling exercise the ACTU wrote to the Commonwealth on 28 February 2003 requesting further information. On 6 March 2003 the Commonwealth responded to that request. The ACTU's letter of 28 February 2003 and the Commonwealth's letter of 6 March 2003 (without the attachment regarding the specifications of the Murphy model) can be found at Tag 3 of the ACTU Reply Composite Exhibit.

R6.3 As the Commission found last year:

> *"consideration of the net impact on aggregate wages costs of the ACTU claim, absent of monetary policy response through increased interest rates, suggest a very limited impact of the ACTU claim on economic growth and employment."*[2]

R6.4 Reproduced below in Table R6.1 is the Commonwealth's own modelling of the net impact on aggregate wages costs of the ACTU claim, absent a monetary

[2] Safety Net Review Wages 2002 PR002002 at paragraph 116.

policy response. On any view that impact is properly described as negligible. Most of the table consists of zeros.

R6.5 To the extent that there is any negative impact on employment numbers this is a function of the assumptions of the model and the results indicated are not such as to be statistically significant: see Safety Net Review Transcript 3 April 2002, evidence of Ms Gabbitas at PN581 and 582. It is also worth noting the standard error on the Labour Force Survey estimate for employed persons is 38,200 (ABS Cat No 6202.0). This gives some idea of the relative size of the alleged effect.

Table R6.1: Commonwealth Modelling of macroeconomic effects of ACTU claim[1]

	TRYM model		Murphy Model	
	2003-04	**2004-05**	**2003-04**	**2004-05**
GDP level (year-average)				
- Deviation from baseline	0.0	0.0	0.0	0.0
- Growth rate	0.0	0.0	0.0	0.0
Inflation (through-the-year)	0.1	0.1	0.1	0.0
Employment level				
- Deviation from baseline (June)	0.0	0.0	0.0	0.0
- Growth rate (through-the-year)	0.0	0.0	0.0	0.0
Employment ('000)				
- Deviation from baseline (June)	-1	-2	-1	-2
- Growth (through-the-year)	-1	-1	-1	-1
Unemployment rate (June)	0.0	0.0	0.0	0.0
Wages Growth (through-the-year)	0.1	0.1	0.1	0.0

1. Figures are per cent deviation from baseline unless otherwise indicated.

R6.6 In previous years the Commonwealth modelled the net difference between the ACTU's claim and its own proposed increase. This year the Commonwealth has modelled the entirety of the ACTU claim compared to no increase. A number of comments may be made regarding this issue:

- Perhaps the most noteworthy feature of the Commonwealth's modelling this year is that even on the worst case scenario it can model, ie. the entirety of the ACTU's claim against a no increase position the economic effects it derives "absent a monetary policy response" are properly described as negligible in relation to GDP, employment and unemployment. The effects on wages and inflation are artificially inflated by unrealistic assumptions regarding the size and rapidity of feedback wage effects (see Commonwealth letter 6 March 2003, paragraph 3);

- There is a significant element of double counting in relation to such modelling. In the base line case for the TRYM model the wage variable increase is 4.1 per cent for 2003-04. It is inconceivable that a wage increase of this magnitude does not contain some assumption with regard to an award wage increase;

- Had the Commonwealth adopted its previous course and modelled the net impact of the ACTU claim vis a vis its own position it would have obtained even less significant effects than those contained in Figure 6.3. The ACTU contends this would still have been a flawed modelling exercise and have involved an element of double counting, but it is noteworthy that on this occasion because of the insignificant size of the alleged effects the Commonwealth has abandoned such an approach.

R6.7 Thus, to the extent that the Commonwealth macroeconomic modelling can be relied upon, it confirms the ACTU's basic premise that granting the ACTU claim will have a negligible impact on the economy.

R6.8 At paragraph 6.12 of its submission the Commonwealth asserts that the average wage increase under the ACTU claim is greater than the productivity growth rates for the economy as a whole over the last decade. We will deal with sectoral productivity questions in the next section, but the Commonwealth submissions ignores that the average real increase as a result of the ACTU claim of 1.9 per cent is less than the average productivity increase over the

last decade of 2.1 per cent. In other words, the ACTU claim is entirely consistent, at the aggregate level, with a further reduction in real unit labour costs.

Microeconomic Effects

R6.9 In its original submissions the ACTU demonstrated that:

- The three highest award dependent industries had above average employment growth between 1996 and 2002;
- Award sectors generally had higher gross value added in 2001-02 than non award sectors; and
- In 2001-02 the three most award dependent sectors experienced productivity growth, which in the case of Accommodation, Cafés and Restaurants was particularly strong.

R6.10 None of the material advanced in opposition to the ACTU claim questions the veracity of these contentions. Indeed, for all their hyperbole what is remarkable is how little the two major employer organisations actually concentrate on the empirical evidence in relation to sectoral impacts of any ACTU claim.

R6.11 Whilst the Commonwealth does not contradict any of the key facts asserted by the ACTU it attempts to diminish their importance by arguing:

- That in low award dependent industries lower employment growth is attributable to higher productivity growth: see paragraphs 7.20 and 7.21;
- That increased levels of employment coincided with declines in award dependence in Accommodation, Cafes and Restaurants and Health and Community Services in the two years to May 2002;

- That recent increases in award wages have contributed to a decline in profit share in the retail industry.

Employment

R6.12 The tenor of paragraphs 7.20 to 7.22 and chapter 8 of the Commonwealth submission is that somehow or other increasing productivity growth is preferable to increasing employment numbers. This sits at odds with the Commonwealth's protestations of concern regarding employment impacts in other parts of its submissions. Nor is there any warrant in the legislative scheme for elevating productivity concerns above those in relation to employment in the Safety Net Review process: see section 88B of the Act.

R6.13 At paragraph 7.25 the Commonwealth attempts to link a decline in award dependency in the two year period May 2000 to May2002 with the increase in employment in the Accommodation, Cafes and Restaurants, and Health and Community Services sectors. This selective example establishes no causal link. As the data shows Retail Trade had an increase in award dependency and an increase in employment over the same period.

R6.14 The ACTU does not contend that there is a causal link between employment growth in award dependent sectors and award dependency. Rather it simply contends that on the available evidence there is no evidence of any adverse impact of safety net adjustments on employment growth in award dependent sectors.

R6.15 In summary then, despite its attempts to "explain away" the employment growth figures in award dependent sectors, it is apparent that the Commonwealth has failed absolutely to demonstrate any impact on employment growth in award dependent sectors as a result of safety net review increases. The Commonwealth's assertions in relation to adverse impacts rely on its use of neo-classical assumptions regarding the relationship between minimum wages and employment but are not sustained by the evidence.

Profits

R6.16 The Commonwealth's argument on profit share is equally spurious. Its suggestion that an increase in award coverage has contributed to a decline in profit share in the Retail industry does not square with the proposition that Accommodation, Cafes and Restaurants which it acknowledges had a decrease in award dependence suffered a marginally greater decline in profit share. In fact, company profits in retail trade increased by 43.4% in trend terms in the two years to December 2002 (*Business Indicators* ABS Cat. No. 5676.0 December 2002 at p.17).

Productivity

R6.17 At paragraphs 8.22 to 8.25 the Commonwealth attempts to establish a link between the rate of productivity growth for the twelve year period, June 1990 to June 2002 and award coverage as at May 2002. This process is entirely without merit and relies on a spurious causality generated by statistical coincidence. The process undertaken by the Commonwealth is to compare productivity growth averaged over a twelve year period with award coverage fixed at a particular point in time toward the very end of that period. As the Commonwealth itself acknowledges award coverage during the twelve year period has varied markedly.

R6.18 The absurdity of the Commonwealth's exercise can be highlighted when regard is had to the fact that for three years of the twelve year period used to average productivity growth enterprise bargaining simply did not exist in any significant way in the Federal Industrial Relations system. Indeed, at paragraph 8.18 of its submissions the Commonwealth itself seems to acknowledge that any impact on productivity growth from agreement making is unlikely to have occurred prior to 1995.

R6.19 This is important because it allows us to consider productivity performance of industries during the period 1990 to 1993 when issues regarding the spread of

agreement making simply would not have been having an influence compared with the period 1993 to 2002, the period of the spread of agreement making and the decline in award pay setting.

R6.20 The three most award dependent sectors all improved their productivity between 1993 and 2002 compared with the period 1990-1993. The three least award dependent sectors all had worse productivity during the period of the spread of agreement making (1993-2002) than they did in the period when agreement making simply was not prevalent (1990-1993)

R6.21 Table R6.2 below shows the percentage point difference between annual productivity growth for the periods 1990-93 and 1993-2002 by industry.

Table R6.2: Changes in average annual productivity growth 1990-93 and 1993-2002

Industry	Percentage Point Difference
Wholesale Trade	6.3
Accommodation, Cafes and Restaurants	3.3
Retail Trade	0.8
Transport and Storage	0.5
Health and Community Services	0.1
Manufacturing	-0.2
Electricity Gas and Water Supply	-0.4
Construction	-0.5
Finance and Insurance	-0.5
Mining	-2.8
Cultural and Recreational Services	-3.6
Communication Services	-6.2

R6.22 At paragraph 8.37 of its submissions the Commonwealth says:

> *"if employees in industries with lower productivity growth receive wage increases based on high aggregate productivity growth then real unit labour costs will increase as a consequence".*

R6.23 In fact, real unit labour costs in each of the three most award dependent industries have declined over the period of Safety Net Reviews 1996-2002.

R6.24 At paragraphs 5.22 and 5.23 the Commonwealth notes that the real increase in the Federal Minimum Wage has been 7.5% and the real increase in the trades rate 3.6% for the period 1996-2002. Productivity increases for the same period in Accommodation, Cafes and Restaurants were 13.7%, in Retail trade 15.5% and in Health and Community Services 7.3%.

R6.25 It can thus safety be concluded that real unit labour costs have declined in all three award dependent industries during the period of Safety Net Reviews (real unit labour costs in Health and Community Services would only not have declined on the patently false assumption that all workers in that industry are on the Federal Minimum Wage). Once again the Commonwealth prefers theoretical reasoning to established empirical facts.

Surveys on the Impact of the Safety Net

R6.26 The only evidence which employer groups offer for their constant and repetitive assertions of negative employment impacts as a result of the ACTU's claim are the results of their member surveys. This year ACCI, AiG and the Retail Motor Industries have conducted such surveys.

R6.27 The methodological limitations of such surveys is so great that no reliance or weight should be placed on them.

R6.28 The key findings of Associate Professor Ian Gordon of the University of Melbourne Statistical Consulting Centre, in relation to the AiG and ACCI surveys, are set out in Chapter 4. The full reports are contained at Tag 4 of the ACTU reply composite exhibit.

R6.29 Indeed, the AiG effectively concede the complete lack of substance which attaches to their survey when in chapter 6 of their submissions they acknowledge its limitations and ask the Commission to conduct its own survey. This amounts to the AiG saying that they have been unable to product cogent evidence of adverse economic impacts – something entirely

consistent with the reported comments of the AiG's CEO on the 7.30 Report: see paragraph 6.7 of the ACTU's original submissions.

R6.30 A number of other matters regarding the surveys are noteworthy. None of the surveys provides any basis for ascertaining net employment effects of safety net adjustments. Even if one ignores the methodological limitations inherent in the surveys, each survey so far as employment effects is concerned shows a number of employers reporting positive employment effects as a result of the safety net adjustment and a number reporting negative employment effects. No attempt is made by the surveys to estimate the scale of the employment effects in each direction and so no conclusion can be drawn regarding the net employment effect, even if one ignores the methodological flaws of the surveys.

R6.31 Further, in the ACCI survey the proportion of firms indicating that employment was higher than it otherwise would have been as a result of the safety net, has increased by a factor of more than eight between 2001 and 2002 – in circumstances where the safety net adjustment in 2002 was higher than the safety net adjustment in 2001.

R6.32 The Retail Motor Industry survey also cannot be relied upon. It is apparent from the survey form that all employers were asked to speculate on the impact of the award increase on their business whether or not they had employees and whether or not they had employees who were entitled to receive that adjustment.

R6.33 In this context the Table at page 25 suggests that 54 per cent of respondents (548 employers) responded that the award wage increase had an impact (either positive or negative) on the level of profitability of their business. This number of employers is nearly three times the number who are recorded at page 24 as having passed on the award increase (186 businesses). Indeed, the number of employers responding that the award increase had an impact on their business (either positive or negative) in every case exceeds the

number of businesses recorded as having passed on that increase on page 24.

R6.34 Further, it is evident that a business could be described as having passed on the increase, so far as the survey was concerned, if it paid its employees an increase of more than $18.00 per week: see page 23 and 24 of the survey. Such an increase cannot in any way be categorised as a flow on of the safety net adjustment.

R6.35 In order to ascertain the potential impact of these issues on the survey results the ACTU requested that the RMI provide a break down of responses to Question 6 of their survey (regarding whether the award increase impacted on the business) for the following groups:

- where the proportion of employees receiving the increase was zero;
- where between 1% and 100% of employees received the increase;
- where the business had no employees; and
- where the business passed on more than the $18 increase.

R6.36 The RMI provided the information on 12 March 2003 – this material can be found at Tag 5 of the ACTU Reply Composite Exhibit. The material shows that a number of businesses responded that the award increase had impacted on their business even though:

- they had no employees;
- they had no employees who received the safety net increase; or
- they had passed on more than the $18 increase to their employees.

R6.37 For example, 14% of businesses with no employees said that the award increase had affected the number of permanent employees in their business,

whilst 30% of businesses with no employees who received the award increase responded in the same way to that question.

R6.38 Indeed, this material shows that where employers are given an opportunity to respond negatively about the impact of an award increase on their business a number of them will choose to do so whether they have paid the increase, voluntarily paid more than the increase or had to pay nothing at all.

R6.39 Finally, it is to be noted that the RMI survey does not appear to countenance the possibility of state registered agreements (other than individual agreements in Western Australia) and, as a result, there must be the possibility that wage increases recorded as being award increases were in fact increases due to state registered agreements.

R6.40 In light of these flaws no weight can be placed on the RMI survey in so far as it suggests any impact of the safety net adjustment on businesses surveyed.

A Survey of the Literature on Minimum Wages

R6.41 The Commonwealth and ACCI seek to address the Survey of the Literature on Minimum Wages by Professors Dowrick and Quiggin submitted by the ACTU as part of its original submissions.

R6.42 The Commonwealth's own summary of the international evidence at paragraph 5.24 implies that 30 percent of US and other OECD studies did not find any significant negative relationship between employment and minimum wages. Dowrick and Quiggin's statement that studies yield ambiguous results holds. Second, in relation to those studies which did find a negative relationship, it should be noted that significant in this context means statistically significant not significant in terms of size of effect.

R6.43 At paragraph 5.29 of its submissions the Commonwealth blithely report the results of the Lewis and McDonald study which Dowrick and Quiggin comprehensively demonstrate suffers significant and fundamental flaws. In its

discussion of these matters at paragraph 5.29 the Commonwealth deal with Dowrick and Quiggin's criticisms by simply ignoring them. The Commonwealth also ignores the reference to Gregory and Duncan and the fact that Lewis and MacDonald themselves note (at pages 4 and 5) elasticities estimated in more recent data for Australia which are smaller.

R6.44 The ACCI's contribution in this regard is little more than a histrionic defence of the neoclassical view regarding the relationship between minimum wages and employment. Dowrick and Quiggin are two of Australia's most eminent economic researchers. Brief CV's can be found at Tag 6 of the ACTU Reply Composite Exhibit. Rather than provide a genuine critique of their work the ACCI submission relies on unsubstantiated pejorative attacks such as the last sentence in paragraph 9.1 of its submissions.

R6.45 At paragraph 9.14 the ACCI says that Lewis and MacDonald conceded (in relation to other studies) that a 10% rise in the real minimum wage would lead to a fall in employment of 8%. In fact the results to which Lewis and MacDonald refer are results with respect to real average wages and say nothing of the impact of increases in the minimum wage.

R6.46 At paragraph 9.15 of the ACCI submissions it is contended that any flaw in the Lewis and McDonald methodology is "something that we only have [Dowrick and Quiggin's] word for". This submission ignores firstly, the academic qualifications of those who assert the fundamental flaw in Lewis and McDonald's methodology and, more importantly, ignores the pages of detailed equations which demonstrate the flaw which is asserted. Further ACCI incorrectly asserts that "*all of the studies in Australia have shown similar results*". In fact Lewis and MacDonald cite studies with estimates ranging between –0.4 and –0.8 with only a minority of the upper end of –0.8

R6.47 The ACCI then go to two studies by Neumark, Schweitzer, and Wascher. Neither of these studies is new and, indeed, the Commission's attention has been drawn to them on previous occasions. To the extent that those papers suggest that minimum wages do not play a positive role in the distribution of

income to low income families they are contrary to the evidence of Quiggin and Dowrick at 11-12 (ACTU Composite Exhibit 104 to 105) and 19-20 (ACTU Composite Exhibit 112-113), Richardson at 13 (ACTU Composite Exhibit 152) and the ACOSS submission page 4-5.

Conclusion

R6.48 In short, despite the constant and repetitive assertion of the negative impact of safety net adjustments neither the Commonwealth or employer groups have been able to provide the Commission with any evidence of such adverse impacts:

- The Commonwealth's own macroeconomic modelling suggests that granting the ACTU claim will have a negligible macroeconomic impact;
- A consideration of sectoral impacts shows no adverse impact on employment, growth or productivity in award dependent sectors as a result of safety net adjustments;
- The surveys on which employers rely to assert negative impacts from safety net adjustments are simply unreliable;
- No opposing party has provided cogent evidence to counter the conclusions drawn by Professors Dowrick and Quiggin in their survey on the literature on minimum wages.

R6.49 Last year, the Commission awarded the largest increase in award rates for many years. If there was ever a year when the Commonwealth and employer groups, on their own arguments, have been able to bring the Commission robust empirical evidence of adverse effects of a safety net adjustment it would be this year. Instead, however, they have absolutely failed to provide such evidence.

R6.50 It is also noteworthy, in this context, that two groups in these proceedings who actually have the concerns of the unemployed to the forefront of their

consideration: ACOSS and ACCER provide broad support for the ACTU's claim. Neither ACOSS nor ACCER argue that last year's safety net adjustment had any adverse impact on the employment prospects of the unemployed. Neither argue that the ACTU claim will have any such impact. The Commission should accord these views, deriving as they do from actual experience of providing assistance to unemployed persons, considerably more weight than the ideological and self interested assertions of employer groups and the Commonwealth.

R7 Needs of the Low Paid

Introduction

R7.1 The submissions of opposing employers and the Commonwealth pay scant regard to the needs of the low paid.

- Notwithstanding that it has introduced legislation into parliament ostensibly for the purpose of increasing the focus of Safety Net Reviews on the low paid, the Commonwealth does not deal substantially with the needs of the low paid at all. Its submission contains no chapter on the needs of the low paid and it uses the phrase "needs of the low paid" only three times in the entirety of its submissions;

- The AiG submissions devote just three paragraphs (7.21 to 7.23) to the needs of the low paid. None of these paragraphs involves any detailed consideration of the needs of the low paid;

- The ACCI submission takes a different tack, it devotes 57 pages to arguing that the Commission should disregard Executive pay and only 49 pages to the needs of the low paid. Nearly all of these 49 pages are a sustained attempt to belittle and diminish the experience of the low paid who struggle to make ends meet and who experience financial hardship.

R7.2 These positions contrast starkly with the submissions of ACOSS and the ACCER, two organisations who do have some genuine understanding of need in the community and the needs of the low paid in particular.

R7.3 ACCER states *"there is an urgent need to address the position of those low paid employees who do not receive fair and just wages"* (paragraph 30). They support (as an interim measure) an increase of $24.60 in the Federal Minimum Wage and appropriate adjustments in the other award rates.

R7.4 ACOSS supports a substantial increase in minimum wages over time *"to enable low-paid workers … to meet reasonable basic living costs".* ACOSS suggest a before tax wage of approximately $550 per week would be necessary to achieve this outcome.

R7.5 What is also significant about the positions of ACCER and ACOSS is that these two organisations manifestly have a genuine concern for the unemployed and, in the case of ACOSS, having expressly considered the employment effects of minimum wage adjustments, provide substantial support for the ACTU claim.

R7.6 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.

Witness Evidence

R7.7 The ACTU witnesses are the only direct evidence of employees paid at award rates of pay before this Commission. For all of the witness households wage income is the predominant source of income and in all but two cases (Maria Corral, Noel Crouch) it is clear that award wage income predominates.

R7.8 The ACCI submission conducts a microscopic examination of the budgets and family circumstances of the ACTU witnesses. At times the tone of the submissions is offensive, but mostly it just misses the point.

R7.9 Perhaps the most offensive paragraph of the ACCI submissions is 10.71. In that paragraph ACCI says that, in assessing the needs of witnesses, the Commission should not pay regard to the fact that:

- Maria Corral has a disabled son;
- Doreen Taylor's husband is unemployed;
- Brenda Redmond has a partially dependent niece.

R7.10 Implicit in these assertions is the assumption that only the needs of individuals or "normal families" should be taken into account. The ACTU specifically rejects this approach. The Act requires the Commission to have regard to the needs of the low paid not simply those needs which ACCI deems acceptable or normal.

R7.11 At paragraph 10.59 ACCI after performing a hypothetical calculation in relation to the size of Joanne Minty's car loan (which they estimate to be $18,000) say:

> *"Ms Minty appears to have made a personal financial judgement/prioritisation to obtain a comparatively expensive vehicle which has contributed to any level of financial stress she experiences."*

R7.12 It seems that for ACCI the low paid should know their place and that place is not in a moderately priced car (as we would contend an $18,000 car really is).

R7.13 ACCI would have Mr Crouch make do with a 30 year old stove, on the basis that replacing it is not a justified need. They would have Ms Taylor live without a TV because it is an "entertainment device" and not a domestic appliance. They say that Glen Damanik's evidence that his family has not had a holiday "*away from"* Melbourne does not preclude holidays within Melbourne, that Mr Hawkins evidence of staying with relatives and friends *"and then only for a few days at time"* constitutes holidays as generally

understood, and that Mr Campbell's stay in his parents caravan - his first holiday in 4 years constitutes "Regular Holidays".

R7.14 As we said above the microscopic examination conducted by ACCI mostly just misses the point. ACCI cannot see the woods for the trees. In focussing on the detail of the expenditure of witnesses, they miss the picture of going without that they portray. The expenditure of the witness is moderate and it is concentrated on necessities. This is clearly shown in the following table.

Table R7.1: Witness Expenditure on Necessities[3]

	Gloria	**Cora**	**Maria**	**Joanne**	**Doreen**	**Noel**	**Craig**	**Glen**	**Lonnie**	**Brenda**
	$	$	$	$	$	$	$	$	$	$
Housing	210	287	155	100	112.40	95	150	149	215	123.56
Utilities	30	37	32	70	38	13	23	40.50	18	57.65
Food	80	50	100	100	80	100	50	150	95	70
Transport	48	45	137	150	18	110	35	94	73	15
Clothing	40				12	20	15	20	4	
Total	**408**	**419**	**424**	**420**	**260.40**	**338**	**273**	**453.50**	**405**	**266.21**
% on necessities	**79%**	**91%**	**73%**	**72%**	**65%**	**76%**	**70%**	**89%**	**78%**	**68%**

R7.15 The fact is the low paid witnesses make expenditure decisions within a constrained budget. Decisions to spend on particular items pushes out other options for expenditure which might be available. It is easy to criticise witnesses for choosing to spend in one particular area but all the witnesses live simple lives. They struggle to afford things the Australian community regard as basic necessities. They face financial difficulties.

R7.16 The ACCI analysis contains a significant number of errors:

- At paragraph 10.36 Noel Crouch's spending on housing is said to be $55 per week. In fact it is $95 per week.

[3] Housing: Mortgage/Rent, House & Contents Insurance, Rates and House Maintenance. Utilities: Electricity, Gas, Water and Home Telephone. Transport: Public Transport, Car, Petrol, Car Loan, Registration & Insurance, Car Maintenance. Last year Home Telephone not included in Utilities - percentage of budgets allocated to Home Telephone is 5% at maximum.

- At paragraph 10.38 they say the lowest expenditure on public transport is $3 per week – in fact it is $15 per week.

- At paragraph 10.63 it is asserted that Joanne Minty does not account for $59 per week expenditure. In fact Ms Minty's statement makes clear that the money she has not specifically detailed in her budget is used to pay for *"toiletries, milk, bread and other everyday items …".*

- At paragraph 10.71 Ms. Corral's mother is incorrectly described as a dependant parent.

- At paragraph 10.30 it is said that Ms. Taylor benefits from *"beneficial payment arrangements for low income earners".* In fact the Easyway plan Ms. Taylor identifies involves pre-paying instalments and involves no discount for services.

- At paragraph 10.69 the extent to which witnesses can save is seriously misrepresented. Only four witnesses mention 'saving', of them three (Ms. Taylor, Mr. Hawkins and Mr. Campbell) make clear that their 'saving' is used to pay expenses.

R7.17 The Minister for Employment and Workplace Relations said in concluding the Government case for the *Workplace Relations Amendment (Protecting the Low Paid) Bill* in Parliament on 5 March 2003:

> *"… I appreciate that people on low incomes, people doing it tough, appreciate every extra dollar they get. … I and other members on this side of the House are very keen to see more money in the pockets of ordinary Australian battlers."*

R7.18 Minister Abbott says people on low income are doing it tough. The Minister doesn't agree with the ACCI. ACOSS doesn't agree, the ACCER doesn't agree. The AiG and the Commonwealth do not go to the witness evidence. ACCI is alone in attempting to diminish the witness evidence on the needs of the low paid.

Low paid jobs are hard work/Fertility

R7.19 ACCI acknowledges that award wage workers, just like all other Australian workers work hard (paragraphs 15.106 and 15.110). We agree with the ACCI. Just like other Australian workers these employees have improved their productivity, notwithstanding the fact that they do not have an enterprise agreement. Employees on award rates of pay should receive a safety net adjustment of their wages to reward them for their increased productivity.

R7.20 As ACCI notes (paragraph 10.159) Dr Birrell is the pre-eminent Australian expert on population research. Dr Birrell has in fact undertaken and published research on partnering in the publication *"A Not So Perfect Match"*[4]. This research was based on the 1996 Census. The research found a strong correlation between levels of partnering and income. The link with fertility is that fertility is closely related to partnering – low rates of partnering mean low rates of fertility. In their study Birrell and Rapson find:

> *"For men aged 25-44 higher incomes increase the likelihood of their being in a partnership. Those in higher status occupations and higher incomes were more likely to be partnered than those in lower status occupations with a further gulf to the unemployed and those not in the labour force." [Executive summary]*
>
> *"Other effects, including the current low level of fertility in Australia, can also be linked to the partnering revolution described." [Chapter 5]*

R7.21 We rely on Dr Birrell's comments on the research of Dr Gray.

Interaction of Safety Net Adjustment and the Tax/Transfer System – Effective Marginal Tax Rates

R7.22 The AiG (paragraph 4.2) says that since last year's case the Government has initiated a substantial review of the income support system which will include an examination of the interaction between the award system and the broader social safety net.

[4] Birrell B and Rapson V: A Not So Perfect Match, Centre for Population and Urban Research, Monash University, October 1998

R7.23 Since the date of the AiG submission the Prime Minister has stated[5]:

- The Coalition has abandoned plans for a $10,000 single annual payment to replace family benefits.
- A major restructuring of family payments is *"off the agenda".*
- Regarding tax credits *"there are financial difficulties - tax credits are a very expensive way of sometimes achieving very little".*

R7.24 As the AiG notes on this occasion there are no specific proposals to make significant adjustments to the social safety net.

R7.25 On this basis the Commission should simply conclude (as it did last year) that:

> ***"[153]*** *For our part, we accept that significant adjustments in the social safety net may be relevant to the determination of the level of the award safety net. We note that there is no proposal on this occasion that we should adjust the amount that we would otherwise award because of a particular change in the social safety net."*

R7.26 The AiG's analysis of effective marginal tax rates (EMTRs) and "Actual Benefit Ratios" is specious:

- The various AiG charts select hypothetical examples of family type and income with no regard to the actual incidence of such examples. This is precisely the point NATSEM investigated in its paper *"Work Incentives under A New Tax System: The distribution of effective marginal tax rates in 2002"*. As the NATSEM paper shows individuals with earnings in the first three deciles of the income distribution face low average EMTRs of 30%, 36% and 36%, respectively.

[5] Transcript: Interview: John Howard, March 2 2003, Reporter Laurie Oakes, the 'Sunday' program, Channel Nine.

- Thus the AiG is simply in no position to assert, as it does in paragraph 4.4 that "many" low income households receive little or no benefit from safety net adjustments.

- The AiG's "actual benefit ratios" is artificially constructed nonsense. Items such as superannuation, workers compensation cover, overtime and loadings are treated as costs to employers but not benefits to employees. The estimates of 30 per cent on costs is more than double the ABS based figure of 14.4 per cent quoted by ACCI at paragraph 14.9 of its submission.

R7.27 This year the AiG argues that the Commission should take account of annual adjustments to benefit levels and thresholds (at paragraphs4.21 to 4.23). Last year, as we demonstrated in our original submission (at paragraphs 7.77 to 7.87) they ignored such effects in an attempt to overstate the "claw-back" impacts of the social security system – an approach they replicate in their Annexure J this year. It seems that AiG only wants the Commission to take these adjustments into account when it suits them.

R7.28 The Commonwealth is guilty of similar selectivity in its example at paragraphs 9.42 to 9.46 of a single income earner on the Federal Minimum Wage with a dependent spouse and two children aged under five and five to thirteen. This choice maximises social security income and social security "claw-back". The extent of the "claw-back" is a matter for government to fix, not a matter of which the Commission should take account.

R7.29 In any event however, only 6 per cent of award workers are paid at or near the Federal Minimum Wage. More significantly only 1.3% per cent of wage and salary earning households[6] fit the governments chosen profile of being in receipt of part parenting payment[7].

R7.30 Award minimum wages and the social security system are complementary, not substitutes, in assisting low paid workers to meet their needs.

[6] ABS Cat No 6523.0 Income Distribution 1999-2000 Table 5 Wages and salaries income units = 5,304,500.

[7] FACS Annual Report 2001-2002 Table 52: No of clients: Parenting Payment Partnered (PPP): 191,576, Table 51: percentage on part rate PPP due to means test: 35.9%

Minimum Wages are a critical floor

R7.31 ACCI and the Commonwealth both allege that minimum wages are an ineffective means of alleviating poverty (ACCI at paragraph 9.30, Commonwealth at paragraph 9.46). To do so they rely on old material previously considered in these Cases. This runs counter to the evidence of :

- Dowrick and Quiggin (paragraph 4.4);
- The OECD, in the paper cited by Richardson (page 13);
- The ACOSS submission (page 4).

R7.32 The ACOSS submission perhaps sums this matter up best when it says:

> *"While it is true that Government transfer payments can be more precisely targeted towards low-income households at risk of poverty, decent minimum wages provide a critical "floor" for the incomes of many low-income households. Without this floor, Governments would struggle to prevent widespread poverty among wage-earning households."*[8]

R7.33 At paragraph 15.93 ACCI comments on the ACTU reference to the Richardson paper "*Low Wage Jobs & Pathways to Better Outcomes"*. ACCI refers (without actually citing references) to information presented to previous Safety Net Reviews by the Commonwealth suggesting that a significant proportion of lower wages earners in Australia are represented in households throughout the income distribution. At paragraph 9.46 the Commonwealth refers to research by Harding and Richardson that many families with minimum wage workers lie in the middle or high income bands. These comments appear to be outdated. ACOSS address these arguments in its submission under the heading 'Distributional impact of changes in minimum wages'. Referring to arguments that there is a weak correlation between low wages at the individual level and low income at the household level, ACOSS

[8] See also ACOSS reference to the UNICEF graph which suggests a strong positive relationship between the incidence of low pay and child poverty rates. See also Smeeding "No child left behind" SPRC Discussion Paper No. 121 December 2002 Figure 5, page15

points out that such only holds (if it does at all) if retired households are included in the income distribution. ACOSS states:

> *"A more appropriate basis on which to locate low-paid workers within the household income distribution is to confine the analysis to households of workforce age. If this is done, the majority of low wage-earners clearly fall within the bottom half of the distribution." [page 7]*

Living Standards

R7.34 The Commonwealth devotes much of its Living Standards Chapter to the unemployed. The ACTU accepts that the circumstances of the unemployed are relevant to a consideration of living standards generally prevailing. However, the premise of the Commonwealth submission is wrong. There is no evidence that Safety Net Adjustments have had an adverse impact on employment needs of the unemployed. The Commonwealth and other parties have failed to provide such evidence.

R7.35 Further we note that ACOSS, who are among the advocates of the unemployed, support increased minimum wages:

> *"The establishment and maintenance of a fair safety net of minimum wages and conditions of employment is critically important to prevent an increase in poverty and widening income inequalities, and to preserve work incentives for jobless people. A fair safety net is one which (subject to macroeconomic circumstances) does all it can to assist low-paid workers meet their needs in the context of generally prevailing living standards."* [page 1]

Commonwealth Capping Proposal

R7.36 At paragraphs 9.47 to 9.57 the Commonwealth once again argues for a C10 cap on the safety net increase.

R7.37 The Commission's reasons for rejecting these arguments in past Cases should stand.

R7.38 The proposed Commonwealth cap means that a worker on as little as $27400 per annum receives nothing. The ACTU does not accept that such a worker is not low paid. As we said last year contrary to the Commonwealth assertions it cannot be assumed that such workers have the capacity to bargain for increases through enterprise bargaining. The ACTU maintains that the adjustment of all award wages will ensure the maintenance of an effective award system with properly established career paths. The ACTU remains concerned to ensure the ongoing relevance of middle and upper award classifications. The ACTU flat dollar claim gives priority to the lower paid.

R8 Other Matters

Industry Specific Submissions

R8.1 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.

R8.2 These are national proceedings and whilst industry specific issues must be considered, they should not be accorded undue weight.

R8.3 The submissions of the PIAA and RMI in this regard consist of little more than the presentation of the results of membership surveys. Such surveys are generally unhelpful. The Commission should focus its attention on evidence gleaned from more reliable sources.

R8.4 We note in passing that the RMI submission provides confirmation of the ACTU's view of Australia's economic prospects at pages 1-2 of Appendix 2 to its submission and that all constituent organisations rank a shortage of skilled labour as a more significant impediment to business performance than labour costs.

R8.5 The submissions of the NFF and WAFFIA focus on the impact the drought has had on the farm sector. Their submissions, in effect, seek to penalise low paid award workers wherever they are employed because of the drought. The no increase position they advance amounts to saying that the Commission should focus on the poor performance of the 3% of Australia's economy that is the farm sector to the exclusion of the 97% of the economy that is still growing at 4% per annum.

R8.6 So far as award workers employed in the farm sector are concerned the submissions of the NFF and WAFFIA are that these workers should be made to pay for the drought without assistance from the Commission whilst farmers themselves obtain direct financial assistance from various government schemes.

R8.7 The submissions of each of the NFF and WAFFIA should also be placed in the following context:

- On 31 October (at a time when the effects of the drought were evident) each of these organisations consented to varying the *Pastoral Industry Award* for the $18 safety net adjustment: see C2002/4817 Transcript 31 October 2002 PN 199 and 227;
- Indeed, at that time the NFF were consenting to an operative date of effect for that safety net adjustment which was less than 12 months after the operative date of the previous safety net adjustment;
- No application was made by either organisation at that time or at any time since in relation to economic incapacity either generally or for any specific employer;
- Any safety net adjustment to the *Pastoral Industry Award* will (absent further consent to bring the operative date of the adjustment forward) not take effect until 31 October 2003.
- As the ACTU has demonstrated earlier in these submissions the prospects of a bounce back in the economic performance of the farm sector are strong in the event (as now seems more likely) that the current drought breaks.

R8.8 As a result there is simply no warrant for the proposed change to the economic incapacity principle for which the NFF contends.

R8.9 Last year the Commission dealt with a similar application from the AHA based on the consequences of the September 11 attacks on the hotel industry. The AHA subsequently did not proceed with its economic incapacity application. No application is made by that organisation in this year's proceedings. It seems that whilst employers are happy to seek a watered down economic incapacity principle based on recent disaster or calamity they are not prepared to provide evidence of a genuine economic incapacity to afford moderate safety net adjustments.

AiG Miscellaneous Matters

R8.10 At paragraphs 7.4 to 7.18 the AiG submit in effect that the Commission should modify its safety net outcome because of the AMWU's Campaign 2003. This bizarre submission proceeds from the demonstrably false proposition that safety net outcomes have an impact on the claims and outcomes in bargaining. Self-evidently the Campaign 2003 claim has not been formulated by reference to the ACTU claim in these proceedings. It is also clear that the outcomes of recent bargaining rounds (in manufacturing and other industries) bear no relationship to Safety Net Review outcomes. There has been no flood of $18 agreements or even of 4.4% agreements as a result of last year's decision.

R8.11 In chapter 9 of their submissions the AiG seek a statement from the Commission to the effect that delays in the Commission's processing of a matter are not exceptional circumstances for the purposes of s.146 of the Act. The submissions of the AiG in this regard should be rejected. A long line of authority establishes that delays in the Commission's processing of a matter may (but won't necessarily always) constitute exceptional circumstances for the purposes for the purposes of s.146: see for example *Re Victorian Shops Interim Award 2000* PR922761.

Supported Wage Minimum Payment

R8.12 At paragraphs 15.41 to 15.53 ACCI raises the issue of the adjustment of the Supported Wages System (SWS) minimum payment.

R8.13 The ACTU notes that adjustment of the SWS minimum payment has been the subject of proceedings before a Full Bench of this Commission and that such proceedings are the appropriate forum for consideration of the matter ACCI raises.

The submissions of DEAC and NCID

R8.14 The ACTU considers the matters raised by the Disability Employment Action Centre (DEAC) and the National Council on Intellectual Disability (NCID) are matters of concern and importance.

R8.15 The ACTU does not believe that the Minimum Wages Case (Safety Net Review – Wages) is the appropriate forum for the consideration of these matters. We believe they should be considered in separately constituted proceedings of the Commission