ATTACHMENT – PART I

COMMONWEALTH'S RESPONSES TO QUESTIONS AND REQUESTS TAKEN ON NOTICE

The relative value of the minimum wage in Australia

SENIOR DEPUTY PRESIDENT WATSON: [With reference to the second paragraph of Box 5B of the Commonwealth submission, page 37, which compares the relative value of the minimum wage to average earnings in Australia and the UK…] In terms of that box, Mr Cole, you compared this in the second paragraph, the Federal minimum wage with full-time adult ordinary earnings in Australia, and the National minimum wage with full-time average gross earnings, presumably inclusive of juniors and of overtime. How valid is the comparison on those different bases? (PN2161)

The comparison is valid, because the UK data for full-time average gross earnings used by the Commonwealth **excludes** both juniors and overtime.

For UK earnings data, the term 'gross' usually means that the data is inclusive of overtime, shift payments, piecework payments and any residual payments. However, the New Earnings Survey 2002 (First Release) provided data on full-time adult gross earnings excluding overtime.[1] It is these data that were cited in Box 5B of the Commonwealth submission, as these provided the most appropriate basis for comparison with Australian data. Hence, the data on the relative value of the minimum wage in the UK cited in the Commonwealth submission are for full-time **adult** gross average hourly earnings, **excluding overtime.**

In 2002, the National Minimum Wage in the UK was 35.8 per cent of full-time adult gross average hourly earnings, excluding overtime,[2] while the Federal Minimum Wage (FMW) in Australia was 49.1 per cent of full-time adult average earnings excluding overtime.[3]

It should be noted that the Commonwealth presented data on **average** earnings in order to provide the most up-to-date international comparison of the relative value of the minimum wage in Australia. However, as the OECD note in its Employment Outlook, June 1998, it is preferable to compare the value of the minimum wage relative to **median** earnings. The OECD point out that "a large rise in the earnings of a few highly-paid workers may be sufficient to raise the mean [average] relative to the minimum wage, but it would be mistaken to regard this as a sign of a decline in the potential number of workers affected by the minimum".[4] Consequently, the information in Box 5B should be considered in conjunction with that in Figure 5.1 of the Commonwealth submission (page 38).

In the ACTU's oral reply, Mr Watson states, with reference to the bite of the FMW in Australia, that "at box 5(B), the Commonwealth themselves say that the most up to date ratio is 49.1 per cent for the federal minimum wage to median earnings." (PN2569). This is incorrect. Box 5B clearly refers to the ratio of minimum wages to **average** earnings, not **median** earnings.

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[1] First Release: New Earnings Survey 2002, National Statistics, United Kingdom, 17 October 2002.
[2] First Release: New Earnings Survey 2002, National Statistics, United Kingdom, 17 October 2002.
[3] ABS Average Weekly Earnings (Cat No.6302.0), August 2002.
[4] OECD Employment Outlook, June 1998, page 38.

ABS Employee, Earnings and Hours data reveal that the FMW in Australia was 56.1 per cent of full-time median earnings as at May 2002.[5] According to the Low Pay Commission, Fourth Report, the National Minimum Wage in the UK is 44.7 per cent of full-time median earnings.[6]

There has not been "a significant decline in the relative value of the federal minimum wage in Australia", as claimed by Mr Watson in ACTU's oral reply (PN2570). This statement reflects a misreading of the data, particularly confusion of median earnings with **average** earnings.

In fact, the relative value of the FMW has been stable in recent years. It was 55.8 per cent of full-time median earnings in May 2000, compared to 56.1 per cent in May 2002.[7]

JUSTICE GIUDICE: [With reference to the third paragraph of Box 5B of the Commonwealth submission, page 37, which compared the purchasing power parity of Australia's minimum wage with that of other OECD countries…] There is a table there which is a ratio of minimum to median wages in the OECD countries, and I take it, if you just go back to the box on the previous page, the reference there in that last paragraph to the level of Australia's minimum wage by reference to the level in other OECD countries. Is that statement there based on the following table, the figure 5.1? The reason I ask is because the figure 5.1 is based on data for - well, 2000, 1999, and the paper it comes from is apparently published in 2001. It is hardly up-to-date, but my question really is whether the submission or statement on the previous page is based on the data in that figure. (PN2143)

The statement on the level of the minimum wage in Australia (purchasing power parity) in the third paragraph of Box 5B (Commonwealth submission, page 37) is not based on the data in Figure 5.1 on the following page (page 38). The statement in Box 5B relates to purchasing power parities, while the data on Figure 5.1 is on the ratio of minimum to median wages.

In Box 5B of the Commonwealth Submission, the Commonwealth cites a table included in the UK Low Pay Commission's Third Report, which lists the purchasing power parity of the minimum wage in 15 OECD countries. This Table shows that Australia's minimum wage is the highest among the 15 selected countries.[8]

The Fourth Report of the UK Low Pay Commission was not available at the time the Commonwealth produced its original submission. The Fourth Report shows that Australia's minimum wage, in terms of purchasing power parity, remains the highest of the OECD countries listed by the UK Low Pay Commission (see Table).[9]

[5] ABS Employee Earnings and Hours (Cat No.6306.0), May 2002.
[6] The National Minimum Wage: Fourth Report of the Low Pay Commission, page 254.
[7] ABS Employee Earnings and Hours (Cat No.6306.0), May 2000 and May 2002.
[8] The National Minimum Wage: Third Report of the Low Pay Commission, page 133.
[9] The National Minimum Wage: Fourth Report of the Low Pay Commission, page 253

Table: Comparison of Level of Minimum Wages Across Countries, end 2002

Country	Purchasing Power Parities (£)
Australia	5.12
Belgium	4.74
Canada	3.67
France	4.74
Greece	2.47
Ireland	4.12
Japan	2.66
Netherlands	5.02
New Zealand	3.65
Portugal	1.90
Spain	2.14
United Kingdom	4.20
United States	3.46

Source: Table A5.1, The National Minimum Wage: Fourth Report of the Low Pay Commission, page 253. Comparisons expressed in terms of UK pounds sterling.

The UK Low Pay Commission

SENIOR DEPUTY PRESIDENT WATSON: [With reference to whether the UK Low Pay Commission intends that the number of employees covered by the National Minimum Wage should be extended…] The Low Pay Commission seems to adopt the view that it is appropriate that that coverage be extended. Is that a reasonable reading of this report? (PN2174)

There is nothing explicit on this matter in the terms of reference for the UK Low Pay Commission. However, the Low Pay Commission does seem to adopt this view but it qualifies the importance of increasing coverage by referring to economic goals. In Section 6 of the Report, titled Choosing New Rates, the Report states that the Commission's "aim is to have a minimum wage that covers as many low-paid people as possible without any adverse impact on inflation, employment and competitiveness".[10]

Senate Inquiry into Poverty

VICE PRESIDENT ROSS: Mr Cole, I wonder if you, in providing some of that material, could also provide some information on the inquiry the ACCI mentioned into poverty. I think it was a House of Representatives Inquiry, and they were responding to calls by ACOSS in particular, for an inquiry into the issue, and the point that was made was that there was already an inquiry into one of those matters. It is really just by way of - all I was thinking was some background from the Commonwealth as to the inquiry's terms of reference, and the stage that it is up to, in due course. (PN2392)

The Inquiry into Poverty is being conducted in the Senate rather than the House of Representatives. The Senate has referred the following matters to the Senate Community Affairs References Committee for inquiry:

[10] The National Minimum Wage: Fourth Report of the Low Pay Commission, page 184.

1. (a) the extent, nature and financial cost of:
   - (i) poverty and inequality in Australia,
   - (ii) poverty amongst working Australians,
   - (iii) child poverty in Australia, and
   - (iv) poverty in Australian communities and regions;
   - (b) the social and economic impact of changes in the distribution of work, the level of remuneration from work and the impact of under-employment and unemployment;
   - (c) the effectiveness of income-support payments in protecting individuals and households from poverty; and
   - (d) the effectiveness of other programs and supports in reducing cost pressures on individual and household budgets, and building their capacity to be financially self-sufficient.
2. That, in undertaking its inquiry, the committee also examine:
   - (a) the impact of changing industrial conditions on the availability, quality and reward for work; and
   - (b) current efforts and new ideas, in both Australia and other countries, to identify and address poverty amongst working and non-working individuals and households.

The date for receipt of submissions was 31 March 2003 and the reporting date is 8 September 2003.

Sectoral Analysis based on hours worked

SENIOR DEPUTY PRESIDENT WATSON: Yes. Can I say, Mr Cole, that I have looked at the relationship in growth of employment by hours and award reliance by industry over time, and that seems to suggest a positive relationship between growth and employment hours, and this is over the period '97/8 to 2001/2. A positive relationship between award reliance and the growth in employment hours. (PN2258)

MR COLE: Well, I think, your Honour, not least in view of what your Honour has just indicated as to some material that your Honour has looked at, and we will probably also have a look at that same material. (PN2261)

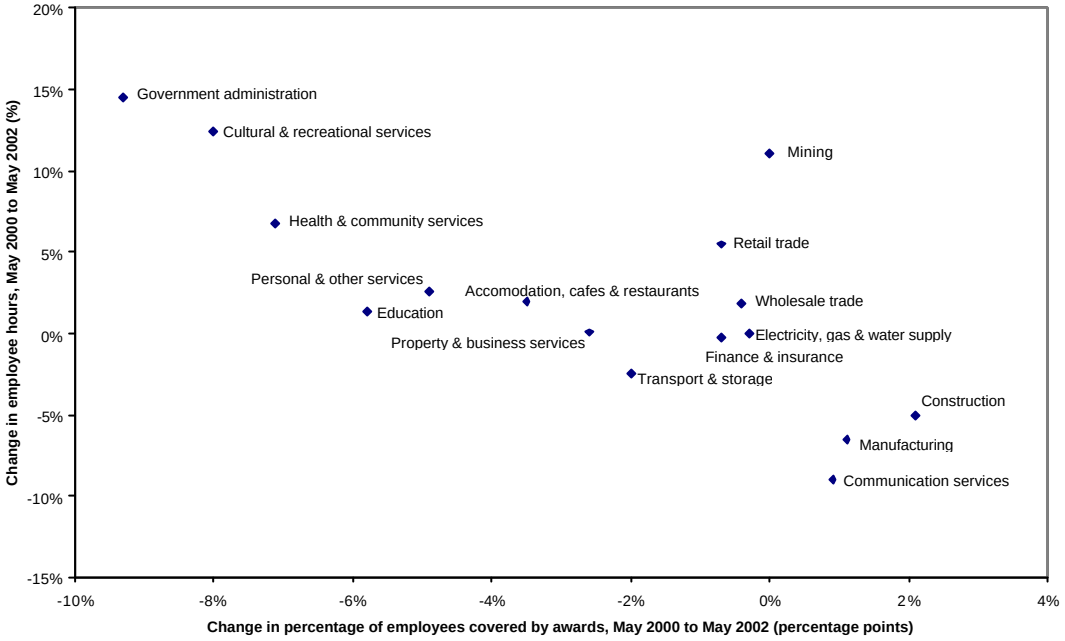
In its submissions the Commonwealth provided strong evidence of a negative relationship between changes in award coverage and employment growth by industry. During the course of the Commonwealth's oral submission, however, Deputy President Watson noted that there were suggestions of a positive relationship between growth in employment by hours and award reliance by industry over the period 1997-98 to 2000-01.

As discussed in our reply submission (R7.9 to R7.12), the relationship between award reliance and changes in employee levels is best examined by using the changes in award reliance, rather than the levels of award reliance. Unfortunately such comparisons can only be made over the period May 2000 to May 2002, due the lack of data for other periods. The following analysis repeats the analysis provided in the Commonwealth reply submission, but uses changes in hours worked by employees instead of changes in employee numbers.

Figure 1 shows the percentage change in employee hours against the percentage point changes in award reliance over the period May 2000 and May 2002. There is a clear negative relationship

between growth in hours and changes in award reliance, similar to that found between changes in award reliance and growth in employee numbers.

Figure 1: Comparison of changes in award coverage with changes in employment hours by industry, May 2000 to May 2002



Regression analysis shows that the relationship is significant, with changes in award coverage accounting for 46 per cent of the observed changes in employee hours. This is less significant than the relationship between changes in award reliance and growth in employee numbers. Nevertheless, there is only about one chance in five hundred that such a negative relationship could appear by chance.

Thus growth in hours worked by employees has a strong negative relationship with changes in award coverage, as does changes in employee numbers. This is entirely consistent with the Commonwealth's submission that award coverage, and by implication large safety net adjustments, has a negative impact on employment growth.

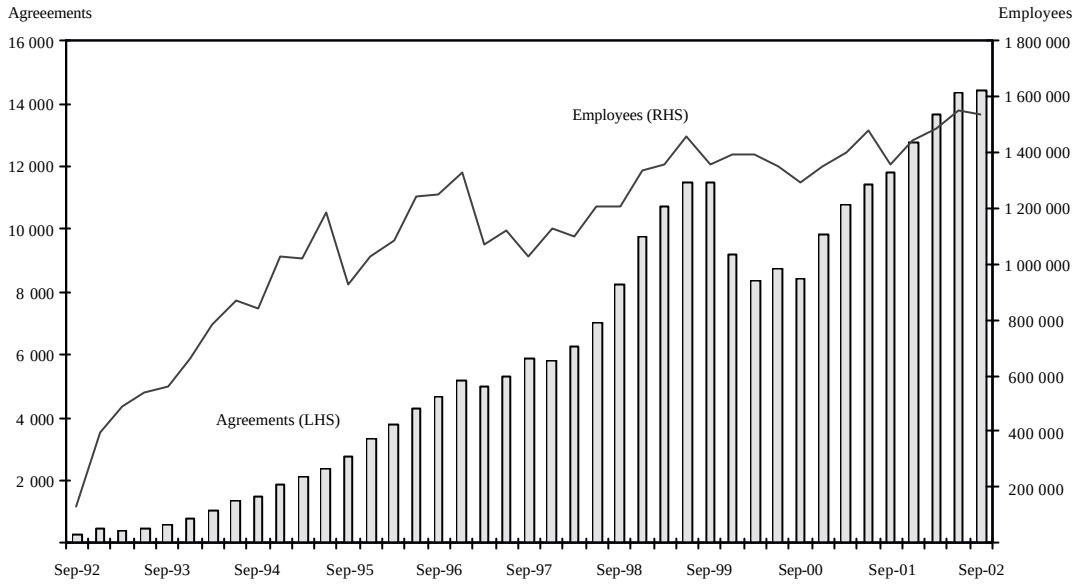
Agreement coverage

JUSTICE GIUDICE: Yes. It doesn't - is there any material on the proportion of the workforce covered by agreements? I am just wondering whether it would show a different picture to the one that is in figure B.2, B2. (PN2324)

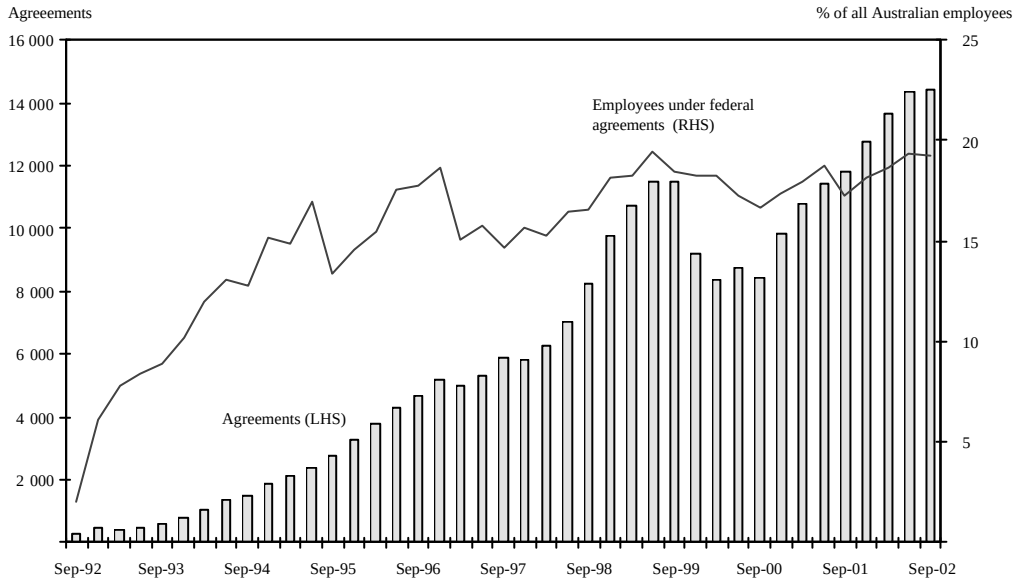
Presented below is the original Figure B.2 referred to above and a second figure which provides the proportion of employees on federal agreements as a share of the workforce. It is not possible to produce a time series of the proportion of employees on state agreements due to data limitations.

(Original Figure B.2 in Commonwealth Submission Appendix B page 111)

Figure B.2 The Spread of Bargaining - The number of federal wage agreements current and number of employees covered at the end of each quarter



Spread of Bargaining - The number of federal wage agreements current and the percentage of all Australian employees who were covered by federal wage agreements current at the end of each quarter



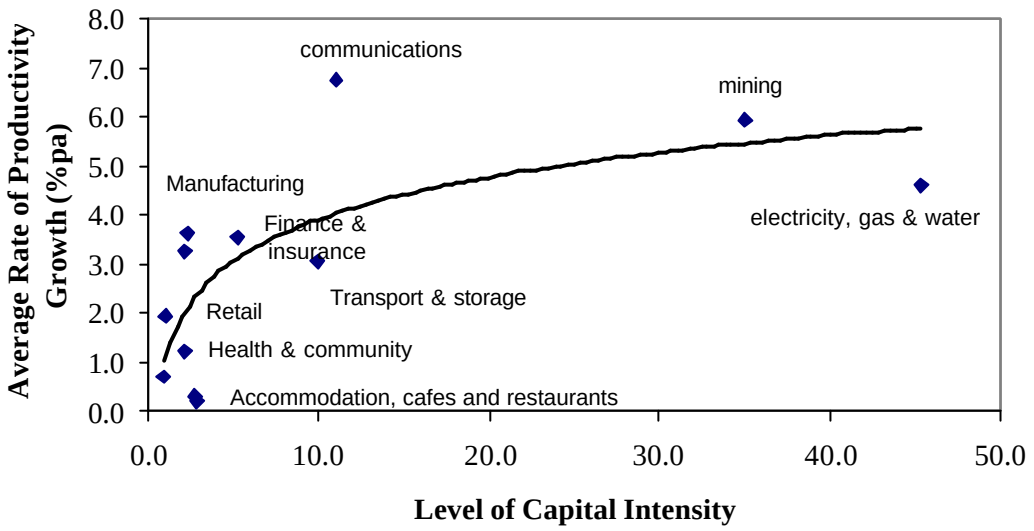
Source: DEWR, Workplace Agreements Database
ABS Labour Force, 6202.0

Productivity growth

SENIOR DEPUTY PRESIDENT WATSON: I think, Mr Cole, if you might even think about plotting average productivity growth against labour or capital intensity, labour costs as a proportion of output or some measure of that kind to tell us that the r squared is there an (d) if it is in excess of .5 per cent if you would explain how more than all of the movement is explained. (PN2352)

The plot of the relationship between industries' capital intensity and productivity growth rates is shown below. The R2 indicates that the level of capital intensity explains 53 per cent of the variation in industry productivity growth rates.

Level of capital intensity as at June 2002 and labour productivity growth by industry June 1990 to June 2002



Note: The level of industries capital intensity is given by the ratio of the industries capital stock as at June 2002 (ABS AusStats 6204069) to the average number of hours worked per quarter in the industry during 2002 (ABS 6291.040.001 Table 18)

There was found to be a degree of interdependence between the capital intensity of an industry and the extent of award reliance. That is more highly capital intensive industries tend to have lower award reliant workforces. The R2 between the two variables is 0.56.

It is possible to include both the extent of award reliance and level of capital intensity variables in a model to explain the industry variation of productivity growth and to disentangle the effects of both variables.

The extent to the interdependence in their effect on industries productivity growth rates can be observed in the table below which describes the R2 of the relationships.

Explanatory power of the model and its components:

	Award reliance only	Capital intensity only	Combined variables
R2	0.56	0.53	0.63

It was found that the extent of award reliance alone explained 56 per cent of the variation in industries' productivity growth rates over the 1990-2002 period. When the level of capital intensity is included in the model 63 per cent of the variation in productivity growth is explained (see combined variables). Therefore capital intensity alone explained an extra 7 per cent (63 minus 56) of the variation. Using the same process it is possible to ascertain that the extent of award reliance alone explains 10 per cent (ie 63 minus 53) of the variation in the growth of industry productivity.

Explanatory power of award reliance and capital intensity on industries' productivity growth

Award reliance alone	10 per cent
Capital intensity alone	7 per cent
Award reliance and capital intensity interaction	46 per cent
Total	63 per cent

Conclusion

The extent of industry award reliance in 2002 explains slightly more of the variation (10 per cent) in the industries' productivity growth rates 1990-2002 than the level of industries' capital intensity (7 per cent). Nonetheless, the interaction between award reliance and capital intensity explains the bulk of the variation in industries' productivity growth rates (46 per cent) and suggests that productivity improvements from bargaining are most effective in industries with capital intensive operations. This is consistent with the microeconomic studies referenced in the Commonwealth Submission at 8.28. The results also indicate that a significant share (10 per cent) of the variation in industries' productivity growth rates is explained by bargaining independent of industries' levels of capital intensity.

SENIOR DEPUTY PRESIDENT WATSON: In various studies of productivity over time by Productivity Commission and many others, was the Commonwealth aware that in any case the percentage of the workforce under collective agreements has been found to be a significant determining factor of the rate of productivity? (PN2373)

At paragraphs 8.28 to 8.32 of the Commonwealth's original submission is listed a number of studies by the Productivity Commission and others describing the positive impact of workplace bargaining on productivity. This evidence is in the main drawn from case studies and surveys of businesses which seek information regarding the impact of the introduction of bargaining to their workplaces. The Commonwealth is not aware of other studies which explicitly link the percentage of the workforce on collective agreements to the rate of productivity at a macro level.

It should be emphasised that the Commonwealth has not asserted in its submission that bargaining alone is the determining factor in explaining differences in industries' rate of productivity growth. The strong productivity performance of the Australian economy in recent years has been driven underpinned by a wide-ranging structural reform program and technological change. However, as our analysis has demonstrated, differences in award coverage between industries are correlated with differences in their productivity.