

# ACTU Responses to Consultation Questions Annual Wage Review 2016-17

15 May 2017

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# Decision making Process

## 2.3 Question to all parties

*The latest Consumer Price Index (CPI) from the Australian Bureau of Statistics showed an increase of 2.1 per cent over the year to the March quarter 2017 and increase of 1.8 per cent in underlying inflation, both higher than the 1.5 per cent increase over the year to the December quarter 2016.*

*Given that a number of parties referred to the CPI in reaching their proposed increase to the NMW and/or award minimum wages, with some parties suggesting that their proposal provided a real increase in the standard of living of award-reliant employees, do any parties seek to revise their proposal?*

We addressed the most recent CPI figures in our post-budget reply submission.

# The Economy

## 3.5 Question to the ACTU

*The ACTU submitted that '[t]he increase in the minimum wage and modern award minimum wages will raise household spending and demand for goods and services in the Australian economy'.*

The intellectual pedigree of this approach is well established. It stretches back to JM Keynes' work during the Depression, in *The General Theory of Employment Interest and Money* (1936). The question was, how unemployment could be reduced. It is a simple idea in essence. The argument is that increases in spending result in increases in aggregate spending, output, income and employment that are greater than the initial amount of spending. This is the multiplier effect.

An increase in the minimum wage and awards would lead to an increase in net incomes for low paid workers. There is extensive empirical evidence both domestically and internationally that the marginal propensity to consume out of income is higher for lower income households than high income households.<sup>1</sup> Put simply a lower income household will spend a higher proportion on any extra dollar they receive than a higher income household.

At low income levels, an increase in income is likely to see a high marginal propensity to consume that is the proportion of the extra income that is spent; this is because people on low incomes have many goods / services they need to buy. However, at higher income levels, people tend to have a greater preference to save because they have most goods they need already. The higher is the propensity to consume the greater is the multiplier effect. The Treasury multipliers used by the ACTU in its estimate of the impact assumed that the increase in income was received across the income spectrum which includes higher income households with much higher savings rates, and are not sensitive to the greater propensity to consume of those with lower income. The Treasury estimates may therefore be regarded as conservative for that reason.

The multiplier effect comes about because injections of new demand for goods and services stimulate further rounds of spending – in other words “one person's spending is another's income”. This can lead to a bigger eventual final effect on output and employment than the initial injection. Hence the effect of an injection of new demand for goods and service, e.g. from an increase in the minimum wage, will have positive demand consequences that flow throughout the economy.

### Other Multipliers

The IMF's World Economic Outlook 2012 gives estimates based on the IMF's own empirical research across countries suggests that fiscal multipliers (taking an average of the multipliers for public spending changes and tax

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<sup>1</sup> Bank of England (2012), Bank of England Quarterly Bulletin 2012 quarter 4.  
[www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb1204.pdf](http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb1204.pdf)

and benefit changes) averaged around 0.5 in advanced economies in the three decades leading up to 2009. However, the IMF's new research suggests that multipliers are higher: between 0.9 and 1.7 (IMF, 2012: see also Weldon, 2012).<sup>2</sup>

### The multiplier effect

A multiplier effect is defined as the amount by which national income is increased divided by an initial increase in aggregate expenditure. The formula is  $\text{multiplier} = 1/(1-\text{mpc})$  where mpc is the marginal propensity to consume. That is, if households are paid an initial amount such as in the stimulus package, they will spend a proportion of that and save the rest of the increase. The lower the income of the household, the more they will spend of the additional income they have received.

The extra amount they spend on goods and services creates extra sales revenue for business. Business will accordingly put in extra orders requiring extra hours of work, and yielding additional profits. The extra hours worked yield the workers extra income of which a proportion is spent on goods and services, again. This process continues, so that the total increase expenditure, income and employment resulting is (much) higher than the initial increase in income and expenditure. It is important to note that it does not matter where the initial increase in expenditure came from. *Once the multiplier process is underway, it cannot be ascertained where the extra sales revenue, profits, employment, income and expenditure come from.* This makes it difficult to evaluate the effects empirically of a specific change in income or expenditure.

A number of factors affect the multiplier process emanating from any given initial increase in expenditure. It takes place when there is unemployment, underutilized resources, in the economy. It is an aggregate effect which happens in real time, so it is difficult to determine the speed at which this occurs in aggregate. The size of the multiplier effect will be bigger if people spend more out of the extra income they receive. This is why increasing the minimum wage would be very effective as the low paid would spend the most out of extra income they receive. If people pay taxes out of income that lowers the multiplier, but increases the tax take. If people spend some of that income increase on imported goods and services, then that raises the aggregate demand for other countries' exports, and reduces the multiplier for Australia. To the extent that the extra increase in demand contributes to inflation, then the multiplier for real goods and services will be smaller. To the extent that any of the initial increase in expenditure, for instance government expenditure, gives rise to borrowing and yields higher interest rates, the multiplier will be lower.

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<sup>2</sup> Weldon, D (2012), 'Fiscal Multipliers, the IMF and the OBR'. TUC Touchstone blog post, 10th October 2012. <http://touchstoneblog.org.uk/2012/10/fiscalmultipliers->; Batini, N, Eyraud L, Forni, L, and Weber A 2016 Fiscal Multipliers: Size, Determinants and Use in Macroeconomic Projections. IMF <https://www.imf.org/external/pubs/ft/tnm/2014/tnm1404.pdf>

The ACTU's position is that an increase in the minimum wage and awards is an increase in income to households in the same manner that the stimulus packages are, or for instance the implementation of large scale investments by business. It is arguably more effective in that it would be ongoing.

*Is there any data or research concerning the effects of minimum wage increases upon household consumption and consumer demand?*

For the US, Reich et al (2016) estimates the impact of introducing a US\$15 minimum wage in New York State.<sup>3</sup> They find the initial increase in expenditure is highest for the lower income households, at around \$1.21 for each extra dollar received by households in the lower income ranges.

*Is there any data or research concerning the effects of minimum wage increases upon government taxation revenue?*

The ACTU is not aware of any estimates regarding the impact on tax revenue. Increases in the minimum wages and awards can be expected to increase the tax take. Moreover the higher the increase in the minimum wage and awards the higher the increase in tax take. We make a rough conservative assumption that people on the minimum wage and higher awards would pay a net extra 5% in income tax, not including the impact on GST. At the ACTU's bottom estimate of an increase in spending of \$2.2 billion this would mean another \$110 million in tax revenue.

Cooper (2016) indicates for the USA that raising the minimum wage both reduced government expenditure on public assistance and increased tax revenue.<sup>4</sup> <https://www.cbo.gov/sites/default/files/110th-congress-2007-2008/reports/01-09-minimumwageetc.pdf>

### 3.6 Question to the ACTU

*The ACTU submitted that '[l]ow-paid workers in Australia should share in the benefits of the growth in labour productivity'.*

*How does recent growth in multifactor productivity affect this assertion?*

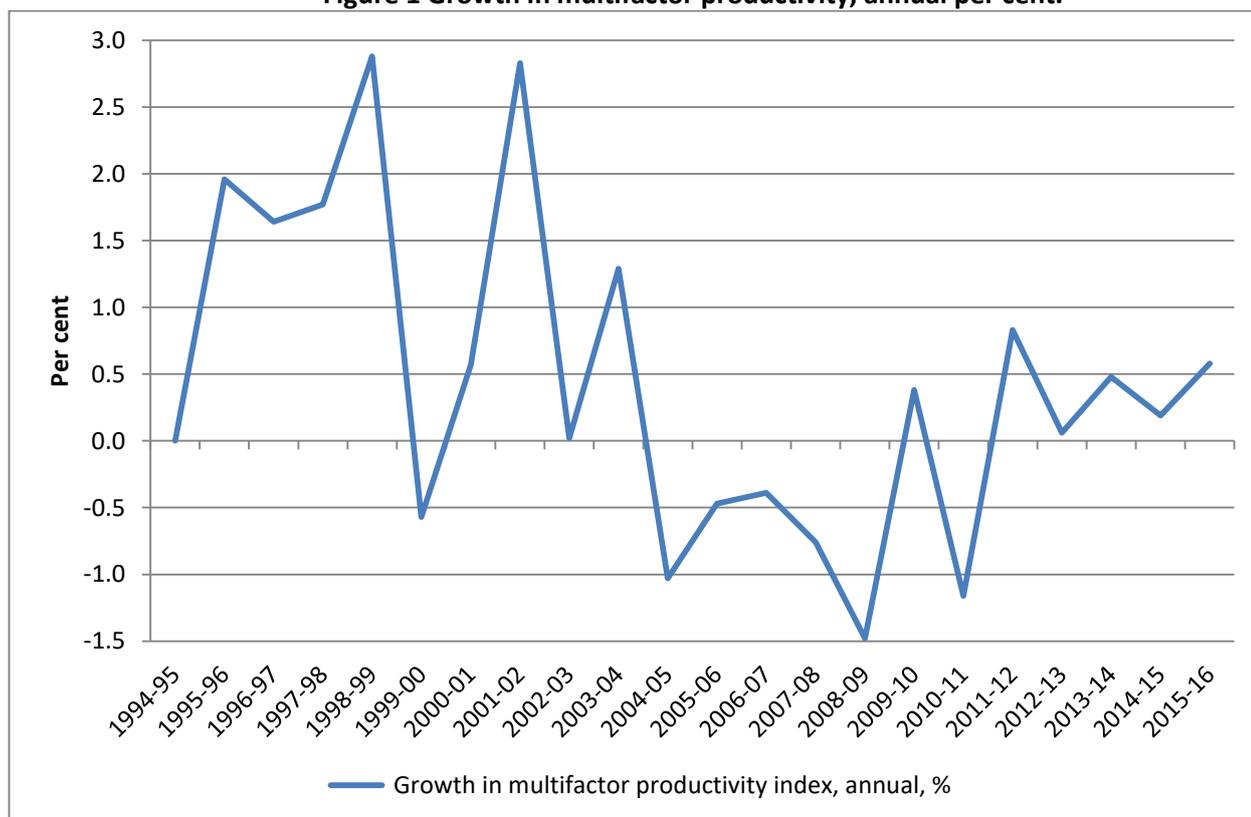
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<sup>3</sup> Michael Reich, Sylvia Allegretto, Ken Jacobs and Claire Montialoux 2016 The effects of a \$15 Minimum Wage in New York State Center on Wage and Employment Dynamics Policy Brief March

<sup>4</sup> David Cooper 2016 Balancing paychecks and public assistance: how higher wages would strengthen what the government can do Economic Policy Institute Briefing Paper #418 February 3

Figure 21 of the ACTU’s initial submission presents the index for multifactor productivity in the market sector which shows slight growth between 2010-11 and 2015-16. Small increases in annual multifactor productivity growth are shown in Figure 1. Multifactor productivity growth is the increase in output that cannot be attributed to measured inputs, including the technological advance that is not embodied in inputs. It appears that capital deepening has given rise to little technological advance, only to increases in labour productivity. Developments in the international literature referred to in the ACTU’s initial submission suggests that slow growth in wages has increased inequality and hindered innovation. Low growth rates in multifactor productivity in Australia are consistent with the slow growth in wages and widening inequality. The inference is that an increase in the minimum wage would reduce inequality and help technological advance including multifactor productivity.

**Figure 1 Growth in multifactor productivity, annual per cent.**



Source: ABS 5260.0.55.002 Estimates of Industry Multifactor Productivity, Australia

### 3.7 Question to the ACTU

*The ACTU submitted that ‘GDP per capita ... has still not recovered to pre GFC levels’.*

*Can the ACTU explain how this statement matches with the data provided in Figure 16 of its submission?*

There was an error in our submission, for which we apologise. The extract should read **“The growth in real GDP per capita .. has still not recovered to pre GFC levels”**

Growth in real GDP per capita is shown by the red line in Figure 19 page 56 of the ACTU initial submission. This clearly shows that growth in GDP per capita still has not reached pre GFC levels.

### 3.8 Question to the ACTU

Figure 25 in the ACTU submission presents data from the OECD and shows an increase of 0.9 per cent in real unit labour costs for Australia over the year to the September quarter 2016. However, Chart 5.3 in the Statistical report shows that real unit labour costs fell over this period

a) Can the ACTU confirm that the data show real, and not nominal, unit labour costs?

Figure 25 in the ACTU initial submission shows the OECD data for growth in Unit Labour Costs across OECD countries. The OECD says “Unit labour costs (ULC) measure the average cost of labour per unit of output and are calculated as the ratio of total labour costs to real output.”<sup>5</sup> This indicates the OECD measure is real.

b) Can the ACTU also explain how the data in Figure 25 reconciles with the following statement:

*‘According to ABS data, over the year to December 2016 Australia’s real unit labour costs fell 5.2% compared with an increase 1.4% for the year before’.*

The ACTU view is that the adjustments in the data by the OECD in order to obtain comparable real GDP across countries have resulted in the discrepancy between the Australian domestic data and that used in the OECD comparisons. The figure based on ABS data in 52060042 for real unit labour costs growth for the period of the year to September 2016 is -0.9%, much closer to the corresponding OECD figure in Figure 25 of 0.9%.

The ACTU’s view is that the OECD data for unit labour cost growth is at least indicative of Australia’s international *ranking*, where the growth data are very sensitive to small changes in other data used to obtain them, and are clearly volatile anyway. It is more a question of identifying trends.

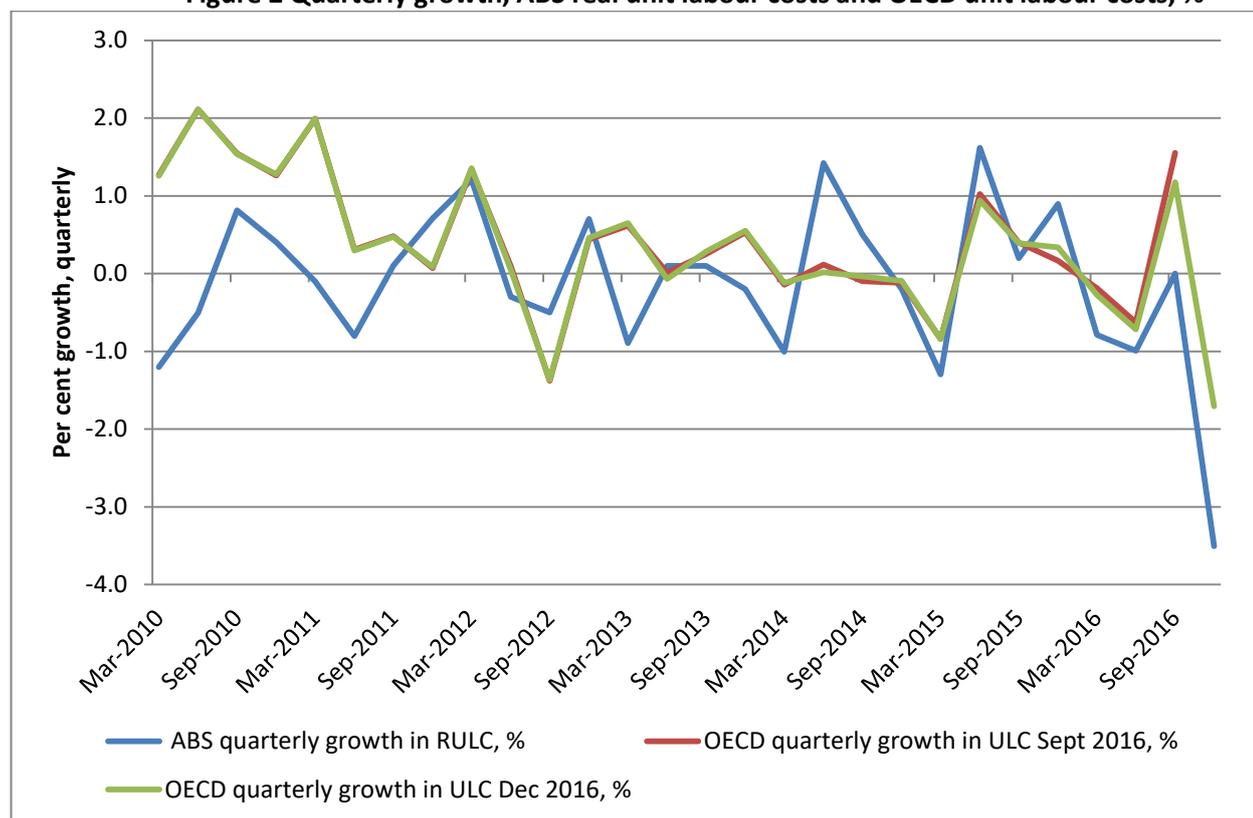
Figure 26 in the ACTU initial submission is similar to Chart 5.3 in the Statistical Report, but the ACTU’s index starts ten years earlier. Much of the fall of 5.2% for the year to December 2016 based on 52060042 is a result of the substantial fall in real unit labour costs in the December 2016 quarter. There was a fall of 3.5% for the December quarter, after no change for the September quarter, a fall of 1% in the June quarter and a fall of 0.8% in the March quarter.

Figure 2 below compares quarterly growth in the ABS and OECD series. The OECD series for Table 25 in the ACTU initial submission and the update series are both shown. The ABS and OECD series are fairly similar.

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<sup>5</sup> <https://stats.oecd.org/glossary/detail.asp?ID=2809>

Figure 2 Quarterly growth, ABS real unit labour costs and OECD unit labour costs, %



Source: ABS 52060042 and ACTU calculations, and [http://stats.oecd.org/index.aspx?DataSetCode=ULC\\_EEQ](http://stats.oecd.org/index.aspx?DataSetCode=ULC_EEQ).

### 3.9 Question to the ACTU

The ACTU submitted that the ‘[p]opulation of working age increased faster than the numbers participating, so the participation rate fell slightly from 65.2% at January 2016 to 64.6% at January 2017’.

Can the ACTU explain how it defines ‘population of working age’?

The civilian population of working age is that aged 15 years and over, the standard ABS definition for its measure of participation rates.<sup>6</sup>

<sup>6</sup><http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6103.0~Jun%202016~Main%20Features~Concepts%20and%20data%20items:%20O%20-%20S~7>

# Relative Living standards and the needs of the low paid

## 4.6 Question to the ACTU

*The ACTU submitted that raising the minimum wage will reduce inequality and thereby promote economic and productivity growth.*

*All parties are invited to comment on this part of the ACTU submission.*

The IMF and the OECD have recognised that inequality limits economic growth as increasingly recognised by economists including in the case of Australia. <http://www.oecd.org/social/Focus-Inequality-and-Growth-2014.pdf>, <http://www.imf.org/external/np/fad/inequality/>.

The Washington Center for Equitable Growth has also recently published a review on these issues:

<http://equitablegrowth.org/research-analysis/the-importance-of-raising-the-minimum-wage-to-boost-broad-based-u-s-economic-growth/>

## 4.7 Question to the ACTU

*The ACTU submitted that:*

*'The NMW as a percentage of average full-time earnings (AWOTE) is still below the level it was in 2008 at the GFC, nearly ten years ago. Improving the relative value of the NMW is necessary but not sufficient, in order to maintain a fair safety net.'*

*The ACTU is invited to comment on whether the AWOTE in 2008 was substantially affected by the resources boom and is not a typical year on which to base a comparison, particularly given the growth rate of the AWOTE relative to WPI was unusually strong across 2007–2009.*

That 2008 is exceptional is not apparent in Figure 54 of the ACTU initial submission which shows all data in real terms. The year 2008 was chosen for comparison because it is taken to correspond to the year at which the GFC commenced. Figure 54 of the initial ACTU submission shows real AWOTE, real median wage and real NMW. The years prior to that would be expected to reflect higher wage growth. In fact real AWOTE continued to increase after that, while real median wages grew more slowly after the GFC capturing slower growth in lower and middle earnings. Real NMW grew very slowly from 2009. Figure 53 in the initial submission shows increase in the median bite after 2012 as even real median wages flattened out.

## 4.8 Question to the ACTU

*The ACTU submitted that:*

*'Most public sector employees are not covered by the Fair Work Act. This means that an increase in the minimum wage and awards is more important than ever as a mechanism for wage increase.*

*The ACTU is invited to explain this aspect of its submission.*

The statement that most public sector employees are not covered by the Fair Work Act is an accurate one (see for example ABS 6248.0.55.002), however ought not have been linked to the second sentence and rather ought to have been made elsewhere in the relevant section of our submission. We accept that there are limitations on what conclusions can be made about award density in the public sector. Our more recent examination of this issue is contained in response to Question 6.2 below.

## 4.9 Question to the ACTU

*The ACTU submission provided a discussion of relative living standards making reference to the minimum wage bite.*

- a) *Can the ACTU explain why AWOTE is used to calculate the minimum wage bite rather than median earnings?*

The minimum wage bite is calculated comprehensively for both AWOTE and median earnings. This includes at Figure 53, par [330], [331], Table 13 and Figures 55, 56 and 57. The basic story of the falling wage bite with some flattening out in the last few years due to slower growth in mean and median wages is unchanged.

- b) *Can the ACTU also provide an explanation of how the '60 per cent median measure for the relative poverty line' relates to its measure of the minimum wage bite using the AWOTE given that the measures of poverty use median equivalised household disposable income rather than wages?*

Median earnings are less than mean earnings (AWOTE), so 60% of median earnings is a more modest criterion for a relative poverty line.

We are referring to wage earnings. Household earnings are subject to the tax and transfer system and sources of earnings other than wages. We concur with the Panel's position on how taxes and transfers should be accounted for. One virtue of the minimum wage is that it considers and applies to the position of workers *absent* transfers or tax benefits, such as the single adult worker. We could consider a different poverty threshold than 60% of median earnings; a lower percent threshold would imply acceptance of even greater hardship for single adult workers, and a higher one would indicate how much more the minimum wage has fallen behind.

In fact the use of 60% of the median or mean wage is more modest than applying 60% of household income.

Any increase in the minimum wage and awards which reduces the number of people living in poverty is to be welcomed. The minimum wage bite relative to 60% of the median or mean wage is simply a means of tracking how well the increase in the minimum wage is tracking that.

- c) *Can the ACTU identify a reference to 60 per cent of median earnings as a ‘measure of the relative poverty level used by the UK Low Pay Commission’ or by any other jurisdictions in the report cited?*

The PSE, The Poverty and Social Exclusion project funded by the UK ESRC (Economic and Social Research Council) was completed in 2014. It said

“The UK government, the European Union and many other countries use 60 per cent of median household income as the poverty ‘threshold’. **Median** income is the middle point in the income range, with equal numbers of households on incomes above and below that point. The 60 per cent level is chosen as an indicator of the income at which those below are likely to be suffering hardship. As such, it is a proxy measure of poverty and, without validation from direct measures of people’s living standards, is essentially arbitrary. The threshold’s importance is that it does show how the poorest members of society are doing in relation to others, it can be tracked over time, and allows comparisons between different countries.”<sup>7</sup>

#### 4.10 Question to the ACTU

*The ACTU submitted:*

*‘The ACTU view is that minimum wage and awards should be at a level of a living wage for workers, whether or not they are eligible for increasingly uncertain and currently declining welfare measures.’*

*Does the ACTU submit that minimum wages should provide a living wage regardless of family size or if there is only one wage earner?*

The Panel is required to maintain a fair safety net of minimum wages. The ACTU submits that to meet this standard it is necessary, but not sufficient, to ensure that minimum wages are sufficient to allow a single adult to live in modest comfort, with dignity, and as a part of his or her community. The reason that the inquiry must not be confined to single person household is because, as the Panel observed in its 2014-15 decision:

*‘The Panel is bound to take into account relative living standards and the needs of the low paid, as prescribed by the Act, without limitation.*

*In this year’s review, as with previous reviews, the Panel’s decision reflects a range of considerations in taking into account relative living standards and the needs of the low paid. These considerations include (but are not limited to) single-person households.’<sup>8</sup>*

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<sup>7</sup> <http://www.poverty.ac.uk/definitions-poverty/income-threshold-approach>

<sup>8</sup> [2015] FWCFB 3500 at [38], and see [143] [144] and [323] to [344]

The Panel accordingly adopts a single person household comparator in assessing relative living standards and the needs of the low paid, but does not do so to the exclusion information about other household types:

*'We affirm our use of the single-person household as the principal, but not the sole, reference point. We consider the position of many family types and take into account the interaction between wages and the tax-transfer system to produce equivalent household disposable income.'*<sup>9</sup>

*'...the Panel it clear that the single adult household provides the starting point for its assessment of relative living standards and needs, but consideration is also given to the relative living standards and needs of other types of families, including single-income families, in meeting its responsibility to have regard to the relative living standards and the needs of the low paid and balancing the other considerations which it is required to take into account. We are obliged to and do take into account relative living standards and the needs of the low paid, as prescribed by the Act, without limitation.'*<sup>10</sup>

The tax and transfer system cannot be relied upon or act as a substitute for minimum wages and we do not understand the Panel's past decisions have established a principle or rule which requires that family households ought to enjoy a lesser living standard than the single person reference household.

#### 4.11 Question to the ACTU

*The ACTU submitted data on the change in the minimum wage bite between November 2010 and November 2016 by industry.*

*Is the AWOTE used as the base for the minimum wage bite rather than median earnings?*

The data in Figure 58 refers to a minimum wage bite relative to AWOTE.

#### 4.12 Question to all parties

*ACCER submitted that the Panel's 'policy of maintaining relativities set in the past ... based on relativities established prior to the enactment of the Fair Work Act, is not based on the terms of the legislation':*

*'The obligation on the FWC is to take into account the needs of the low paid unconstrained by wage relativities within award classifications.*

*ACCER submitted that the Panel, in deciding that a percentage increase should be applied to both the NMW and award wage rates, 'conflated what should have been two separate wage setting processes.*

*All interested parties are invited to comment on this aspect of ACCER's submission.*

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<sup>9</sup> [2015] FWCFB 3500 at [38], and see [48]

<sup>10</sup> [2016] FWCFB 3500 at [396]

We do not understand the FWC to have conflated the setting of modern award wages and the minimum wage. In paragraphs 9-11 our initial submission, it can be seen that the Commission has from the inception of Annual Wage Reviews under the *FW Act* been attune to the considerations for and against maintaining relativities, particularly where confronted with circumstances that point to a need to make a substantial adjustment to wages of the lowest paid workers.

The Panel is confronted with obligations to ensure “a safety net of fair minimum wages”<sup>11</sup> and that modern awards “provide a fair and relevant safety net”<sup>12</sup>. It is entirely appropriate for it to consider the “fairness” or “relevance” of an outcome that resulted in a disjuncture between remuneration and skill levels in that process – whether that be wholly within award pay classifications or between award classifications and the national minimum wage. If the process of setting of the national minimum wage was entirely siloed from the process of setting modern award minimum wages, there would be a strong suggestion or at least a high risk that the objectives of “fairness” and “relevance” had not been met. In this way, the “relativities policy” identified by ACCER is in our view a proper application of the statutory framework, rather than an externality limiting the Panel’s discretion in that framework.

Our submission in this review is that the circumstances require a break from the approach adopted in most previous reviews, by providing a higher and flat dollar level increase to the minimum wage and modern award minimum wages at the lower end. The statutory framework can accommodate that outcome and has done so in the past. The fact that we have urged the Panel to take such an approach in more recent reviews and have been unsuccessful certainly highlights a disagreement, but we do not assert it is an error of law.

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<sup>11</sup> s.285

<sup>12</sup> s.134

# Social inclusion through increased workforce participation

## 5.2 Question to the ACTU

*The ACTU submitted that its proposal would lead to an estimated increase in employment of 35 000 to 80 000 jobs.*

*All parties are invited to comment on the estimates derived by the ACTU.*

The ACTU would like to reiterate that the estimate assumes a very conservative increase in expenditure according to the lowest multiplier estimate by the Treasury as applied in the ACTU's initial submission at section 8.3.<sup>13</sup> In fact the figure of 0.4 and the range up to 1.0 apparently only refer to the first round effect of the increase in expenditure. It does not include the magnitude of the impact on expenditure, income and employment after the initial increases in sales revenue are experienced by businesses.

The ACTU wishes to emphasize that the multiplier effect of increases in the minimum wage are likely to be much higher as the low paid would spend almost all of the extra income received, whereas the Treasury multipliers assumed that the increase in income was received across the income spectrum which includes higher income households with much higher savings rates.

In its reply submission the AiG called the ACTU's claim of \$45 or 6.7% in the minimum wage rate (5.7% at C10 and above) 'outsized'.<sup>14</sup> They do not specify the criteria by which the claim is judged to be 'outsized'. The claim is modest from the standpoint that it still leaves those dependent on the minimum wage at an income well below the conservative relative poverty line of 60% of the median wage. The ACTU maintains that a decent increase in the minimum wage and awards will improve employment and profits.

The AiG says "As noted by the ACTU, "the size of the multiplier depend[s] on where the increase (or decrease) in demand comes from".<sup>15</sup> In fact what the ACTU initial submission said was "The Treasury made assumptions about the size of the multiplier in Australia in its economic modelling of the stimulus package, with the size of the multiplier depending on where the increase (or decrease) in demand comes from. They cite OECD and IMF estimates and settle on a range 'The Budget uses multipliers for the fiscal stimulus of between 0.5 and 1.' We use the same assumptions and methodology."<sup>16</sup> The ACTU has simply made use of the Treasury's multiplier range, as a conservative approach. The meaning of the multiplier is that one per cent increase in government expenditure gives rise to an extra 0.4% of output, with the corresponding increase in employment. This figure is particularly conservative as it applies only to the first round of expenditure.

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<sup>13</sup> ACTU 2017 Submission to AWR 2016-17 p.99

<sup>14</sup> AiG Reply submission to AWR 2016-17 p.14

<sup>15</sup> AiG Reply submission to AWR 2016-17 p.14

<sup>16</sup> The Treasury estimates are found in [http://www.budget.gov.au/2009-10/content/bp1/downloads/bp1\\_bst4.pdf](http://www.budget.gov.au/2009-10/content/bp1/downloads/bp1_bst4.pdf)

Use of the multiplier values in the Treasury paper was not intended to infer that the ACTU necessarily concurs with the importance placed by the AiG as to where the demand comes from for the size of the multiplier. Rather, we accept that, consistent with the standard notion of multiplier, once the initial expenditure for any purpose has been undertaken, the multiplier will continue to work through *regardless of the source of that expenditure*, as people spend as they wish the income they receive as a result.<sup>17</sup>

The ACTU *made use* of the conservative range of values that was posited for the multiplier by the Treasury, with the Treasury assumptions entailed. This does not imply the ACTU necessarily *agreed with* the underlying assumptions that gave rise to that conservative range. It needs to be understood that The Treasury estimates are taken to be particularly conservative estimates of the multiplier which is why they were used. A relaxation of the Treasury assumptions is likely to entail a higher multiplier. For example, the IMF Technical Notes on Fiscal Multipliers<sup>18</sup> note that countries with stronger labour market regulation have larger fiscal multipliers.

The AiG submission in reply goes on to say “Indeed, the nature and incidence of the stimulus is indeed crucial to estimating its effect. The Treasury multiplier of 0.4 that is quoted by the ACTU, and the Treasury modelling undertaken in relation to it, was based on a situation in which macroeconomic stimulus comes from a fiscal expansion in current public spending that is wholly funded by reduced Government savings and/or increased Government debt. That is, it is an expansion in current spending that is paid for from future savings. This means that the expansion is not at the expense of other types of spending across the economy that would have occurred at the same time (e.g. public or private sector spending or investment). Instead, it effectively brings forward future spending (in this case future public sector consumption and investment), which will need to be reduced from what it otherwise would have been.”<sup>19</sup>

The argument as put in the AiG reply submission appears to assume an old textbook model that is increasingly contested again in the academic and policy literature. In that model which idealizes balanced budgets the impact of government expenditure is constrained by how it is financed and therefore may be crowded out by borrowing which can only be achieved by raising interest rates which would in turn discourage further expenditure. The AiG views the multiplier of 0.4 is supposed to be high because the stimulus spending does not have to be undertaken at the expense of other current government outlays which would otherwise be curtailed in order to balance the budget and thus limit the stimulus. Instead the funding through borrowing would increase future liabilities and constrain future spending in order to balance future budgets. This is the model that corresponds to a neoliberal

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<sup>17</sup> J.M Keynes 1936 *The General Theory of Employment Interest and Money*, Book 3, Section 6, par 3

<http://gutenberg.net.au/ebooks03/0300071h/printall.html>

<sup>18</sup> Batini, N., Eyraud, L., Forini, L., Walker, A. (2014) *Technical Notes and Manuals - Fiscal Multipliers: Size, Determinates and Use in Macroeconomic Projections*, IMF Fiscal Affairs Department.

<sup>19</sup> AiG Reply submission to AWR 2016-17 p.14

approach to policy which is no longer being supported in the international policy literature, including by the IMF, the OECD, the UK and the USA.

However a multiplier of 0.4 is not high but conservative. It assumes that the addition to output and employment is small and considers only first round effects. In fact current expenditure is not at the expense of future expenditure, but rather taxes increase and welfare payments decrease with the rise in income, in automatic stabilization. The alternative to deficit funding is not a substitution between current spending on the stimulus and other current expenditures: if it were, it would not be a stimulus. The assumption that increased expenditure merely substitutes for alternative (and assumed more productive) resource use is part of an austerity approach which is becoming outdated in the international literature on economic policy.

By the provisos expressed in the AiG's reply submission, we would expect raising the minimum wage to be even more effective a stimulus than raising government expenditure, as it would be unconstrained. Moreover it is hard to see borrowing by either government or private entities as any kind of constraint in the context of very low interest rates and quantitative easing policy. In any case domestic borrowing involves transactions between domestic residents and the government.

# Encouraging collective bargaining

## 6.2 Question to all parties

All interested parties are invited to provide more detailed consideration of the reasons for the increase in award reliance, including the findings from Fair Work Commission Research Report 4/2017—[Explaining recent trends in collective bargaining](#).

The changing structure of the labour market has been manifest in trends in which part time employment, underemployment and casual employment have become a significant proportion of the workforce. Less secure forms of employment are typically associated with lower bargaining power. This may be an influence on the increase in award reliance.

Another observation, which receives some attention in the research report referred to is the increase in award reliance in the public sector. The ABS series *Employment and Earnings, Public Sector Australia*<sup>20</sup> contains time series of numbers of employees employed by the Commonwealth, State and Local Government sectors respectively. It measures employment in each sector in June, whereas the EEH refers to the last pay period before a date in May. The Report therefore looked at changes in EEH as at May 2012 and May 2014. Table 1 below uses the June figures from *Employment and Earnings, Public Sector Australia*. It can be seen that this period is associated with a drop of employment in the Commonwealth public sector, an increase in the State Public Sector and relatively stable local government sector.

**Table 1: Change in composition of public sector employment**

Employees (000s)						
	Commonwealth	Change from 2 years ago	State	Change from 2 Years ago	Local	Change from 2 years ago
Jun-12	250.0		1,449.3		189.9	
Jun-13	250.7		1,454.2		192.5	
Jun-14	246.4	-3.60	1,472.9	23.60	188.9	-1.00
Jun-15	237.4		1,476.0		186.7	
Jun-16	243.3	-3.10	1,495.1	22.20	186.5	-2.40

Source: ABS (Note 10) and ACTU calculations.

If the decreasing number of Commonwealth public sector employees has influenced the level of award reliance in the Public Sector as referred to in the Report, this may suggest that the reductions in employment are concentrated in bargained areas of the Commonwealth public service, rather than those that are award

<sup>20</sup> 6248.0.55.002

dependent. It may also suggest that the State Public Sector are more likely covered by instruments that fall into the ABS definition of an Award for the purposes of EEH. Certainly, the State system in New South Wales describes such industrial instruments as Awards.

**ADDRESS**

ACTU  
365 Queen Street  
Melbourne VIC 3000

**PHONE**

1300 486 466

**WEB**

[actu.org.au](http://actu.org.au)

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