



TRANSCRIPT OF PROCEEDINGS
Fair Work Act 2009

**JUSTICE ROSS, PRESIDENT
VICE PRESIDENT HATCHER
DEPUTY PRESIDENT ASBURY
COMMISSIONER HAMPTON
PROFESSOR RICHARDSON
MR COLE
MR GIBBS**

C2017/1

s.285 - Annual wage review

**Annual Wage Review
(C2017/1)**

Melbourne

9.56 AM, WEDNESDAY, 17 MAY 2017

Continued from 24/10/2016

PN404

JUSTICE ROSS: Can I have the appearances, please?

PN405

MR T CLARKE: Trevor Clarke, from the ACTU. With me is Dr McKenzie and also some instructions from Mr Kyler. Thanks.

PN406

MR T LYONS: My name is Lyons, initial T. I appear for United Voice, your Honour.

PN407

MS A DURBIN: Alison Durbin from the Department of Employment.

PN408

JUSTICE ROSS: Thank you.

PN409

DR A MOREHEAD: Alison Morehead, Department of Employment.

PN410

MR N STONEY: Nick Stoney, Department of Treasury.

PN411

MR S SMITH: Yes, Smith, initial S, of the Australian Industry Group with Ms Toth.

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JUSTICE ROSS: Thank you. Mr Lyons, I understand you've got a commitment. Does it create any problems for you if we hear from the Commonwealth first, then the ACTU, and then United Voice and then Ai Group?

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MR LYONS: No.

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JUSTICE ROSS: I don't imagine the – well, based on past practice, Commonwealth is not going to be very long, so - - -

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MR LYONS: Yes. No, it's a Senate inquiry hearing in the city at 1.45.

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JUSTICE ROSS: I think we'll be well done by then.

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MR LYONS: Yes. Yes, okay.

PN418

JUSTICE ROSS: Does anyone else have any problem with that order? No? All right. Ms Durbin or Ms Morehead? Someone?

PN419

DR MOREHEAD: Thank you for the opportunity to appear before the expert panel on behalf of the Australian Government. To provide further context to the Government's submission of 29 March 2017 I'll provide a brief introduction and my colleague from the Treasury, Mr Nick Stoney, will then discuss the economic outlook.

PN420

There is a lack of community understanding that the expert panel of the Fair Work Commission has the important responsibility of setting both the national minimum wage and award classification wages. The national minimum wage and award classification wages are really two different concepts. The national minimum wage is currently 17.70 per hour which for a full-time worker is 672.70 a week or 34,980.40 per year.

PN421

The Government estimates that in 2016 around 196,300 adults were paid the national minimum wage.

PN422

JUSTICE ROSS: Just while you're on that, Ms Morehead, in ACCR's submission they propose a higher increase to the national minimum wage than that which would apply on their proposal to modern award minimum wages, and that seems to be predicated on a desire to improve the position of single wage earner, couple parent families. So they seem to have a particular target group in mind.

PN423

When you look at that 196,300, who are on the national minimum wage, does that include those who are award reliant on those 45-odd awards that have the national minimum wage as a benchmark?

PN424

DR MOREHEAD: Yes.

PN425

JUSTICE ROSS: Or is it the award free?

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DR MOREHEAD: It's both.

PN427

JUSTICE ROSS: If we were to take, and I'm not sure whether this – I understand the limitations of the data in this area. If you take the 196,300 that are on the national minimum wage, and, look, at some point, if anyone contests the numbers who are covered by, or affected by directly the decision in terms of movement in modern award minimum wages or the national minimum wage, from any of the other parties, if they contest the Commonwealth's figures they should let us know during the course of the consultation, but I hadn't taken it that there was much contest around some of these issues.

PN428

So we've got 196,300 who are on the national minimum wage. That's in two groups; those who are award agreement free, and therefore on the – they're on it by virtue of the national minimum wage order, and then there is a group who are on that rate by virtue of their coverage of an award, one of the 45 awards that specifies - - -

PN429

DR MOREHEAD: There is also a third group.

PN430

JUSTICE ROSS: Yes.

PN431

DR MOREHEAD: They're in enterprise agreements.

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JUSTICE ROSS: Yes.

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DR MOREHEAD: Yes.

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JUSTICE ROSS: So they're not affected by, or directly, the national minimum wage, but they're affected by the Act because they can't get less than the - - -

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DR MOREHEAD: The ordinary pay rate per hour, yes.

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JUSTICE ROSS: That's right. If you take out – or you able to disaggregate that 196,000, then let's look at, if there's an adjustment to the national minimum wage order, how many would be directly affected by that adjustment. That's the first step. The second is, well, what do we know about the characteristics of that group? I think that's where it becomes a little more difficult, but you do have some data on that and I'm just wondering whether it goes to that level. So I'm trying to focus on, for the moment, those who would be directly affected, well, subject the national minimum wage order and hence directly affected by the agreement.

PN437

DR MOREHEAD: So on chart 2.1 of our submission, which I think is page 6.

PN438

JUSTICE ROSS: Yes, it is.

PN439

DR MOREHEAD: That's where we set it out.

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JUSTICE ROSS: Yes.

PN441

DR MOREHEAD: So you can see, in the fourth column there, where we have split the 196,300 into the three groups, so we do at least know the number of people who are award reliant, then we know the number of people who are on common law contracts or whatever.

PN442

JUSTICE ROSS: So it's 66,100 is the direct answer to the issue?

PN443

DR MOREHEAD: The direct answer, yes.

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JUSTICE ROSS: Yes. No, I follow.

PN445

DR MOREHEAD: Yes.

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JUSTICE ROSS: What do we know of those 66,000?

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DR MOREHEAD: Because we get this information from EEH, the employee earning and hours survey - - -

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JUSTICE ROSS: Yes.

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DR MOREHEAD: - - -we don't know much about them. We would have to go to HILDA to look at their broader characteristics, which I don't think we can do. We certainly can't data match between the two surveys. So unfortunately we don't know too much about them.

PN450

JUSTICE ROSS: All right. What do we know, and you say something about the 196,300; about their characteristics?

PN451

DR MOREHEAD: All we know is that they're, you know, 1.9 per cent of all employees in the country, and we haven't – I've just asked Ms Durbin, but I don't think we can – can we get that by gender if we went back to EEH?

PN452

MS DURBIN: No, Dr Morehead is correct is my understanding, is about the whole 196,000 population, and we really know very little about their characteristics.

PN453

DR MOREHEAD: And is that because the employer answers?

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MS DURBIN: That's right.

PN455

DR MOREHEAD: Yes.

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MS DURBIN: So the information that we use elsewhere through the submissions around low paid is sourced from HILDA which, of course, gives a much wider range of characteristics.

PN457

DR MOREHEAD: So because the ABS says to the employer, "Can you please pick a random sample of employees from your workplace and tell us about them?" it only asks about their pay.

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JUSTICE ROSS: Yes.

PN459

DR MOREHEAD: Yes.

PN460

JUSTICE ROSS: So when we're talking about the low paid employees, that includes the 66,100 we've been talking about, and we know something about the characteristics of the 1.2 million low paid employees based on HILDA. But because of the data matching limitations we can't - - -

PN461

MR MOREHEAD: Cross reference.

PN462

JUSTICE ROSS: - - - extract from low paid those 66,000 and see what their characteristics are.

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MR MOREHEAD: That's right.

PN464

JUSTICE ROSS: Thank you.

PN465

MR MOREHEAD: So as you know we have a chart on the characteristics of low paid workers from HILDA in our attachment and it's table 8.4 which goes through a whole range of demographic details, including marital status and age of youngest child. So that would be the best place to sort out family characteristics but as we say you can't get to the 66,100.

PN466

As you have said, the national minimum wages features in 45 of the 122 modern awards, according to the 2016 employee earning in our survey there were 2.3 million award reliant Australians in 2016. That is there were 2.3 million workers paid at the award rate. Those workers are paid a range of wage rates across the thousands of award classifications, which for adults there are around 2000 different wage rates. In just over one third of the 122 awards the lowest wage rate

is equal to the national minimum wage and then it goes up to the highest wage rate under an award, which currently is \$165,842 a year for a full-time worker under the Air Pilots Award.

PN467

The needs of the low paid must be considered by the expert panel under the relevant objectives in the Fair Work Act, and the impact of increases to award classification wages on improving the living standards of the lowest paid Australians needs to be carefully considered in light of a considerations. Firstly, most award reliant workers are paid above the rate which defines low pay, that is they receive more than two thirds of the median hourly wage. So low pay for an adult is defined as \$19.33 per hour or less in May 2016.

PN468

More than a quarter of award reliant workers receive an hourly wage above the median wage of \$29 per hour. Secondly, in addition to taking into account relative living standards and the needs of the low paid, the expert panel is also required to consider the need to promote social inclusion through increased workforce participation. As such, the panel also needs to consider the potential impacts of the minimum wage on those who currently do not have a job. That is the minimum wage should not act as a disincentive for employers to employ new workers. Just to note there, if you're single and on Newstart you receive around \$14,000 a year without rent assistance, or about \$17,000 a year if you do receive the full rent assistance amount.

PN469

The Australian Government's submission provides an analysis of the distribution of low paid employees across both employee households and all households based on the HILDA survey. Employee households are those with at least one person who usually works as an employee. All households, that is all 9 million households in Australia also include jobless households and households with, for example, a small business owner or a retiree.

PN470

PROFESSOR RICHARDSON: Could I just confirm that it also includes all retired people?

PN471

MR MOREHEAD: Yes.

PN472

PROFESSOR RICHARDSON: Do you know what proportion of the non-employed that would represent, non-employed households?

PN473

MR MOREHEAD: We could give you that. We don't have that here today but we do know that there is two and a half million of the 9 million households are either jobless or retired.

PN474

PROFESSOR RICHARDSON: Yes, but for the purposes of setting national wages, there's a very big difference between jobless and retired.

PN475

MR MOREHEAD: Between the two. I think we can do that on notice, yes. Low paid workers are located across the entire all household income distribution including in the top quintile. Nearly half, 47.3 per cent, of low paid workers are in the top 50 per cent of household income when examining all households. When examining low paid workers across the employee household distribution, 37.6 per cent are in the top 50 per cent of household income. Examining the income distribution across all households gives a more complete picture of relative living standards and the overall state of affairs of low paid employees.

PN476

Thirdly, wage increases interact with the tax and - - -

PN477

PROFESSOR RICHARDSON: Sorry, if I might again.

PN478

MR MOREHEAD: Yes.

PN479

PROFESSOR RICHARDSON: Because this is a really significant question that we've had taken issue with the government's position in the past. Are you saying that the standard of living of pensioners, age pensioners, is a pertinent comparison when assessing the needs and the relative standard of living of the low paid?

PN480

MR MOREHEAD: Yes.

PN481

PROFESSOR RICHARDSON: You are?

PN482

MR MOREHEAD: Yes. Taking in mind of course that some pensioners do work.

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PROFESSOR RICHARDSON: But they'll be employee households in that case.

PN484

MR MOREHEAD: Yes, so they would be employee households, so slipping between the two categories can happen, so they might work, then they might not work. They might work and the same with the jobless. They're not strict broken into three. Obviously they move in and out of those categories over time. With age pensioners, obviously there would be a tapering off.

PN485

PROFESSOR RICHARDSON: Yes.

PN486

MR MOREHEAD: With some of the jobless households they're very long term unemployed and less likely to get jobs than some of the short term unemployed, or short term jobless.

PN487

Thirdly, wage increases interact with the tax transfer system. Not all of an increase to award wages is necessarily received by the worker due to personal income tax. Also a worker may face the withdrawal of transfer payments because of a higher income.

PN488

So turning now to inequality. The targeted nature of the tax transfer system helps to address income inequality in Australia. For example, for a single adult with no children who is working 15 hours a week on the national minimum wage the welfare system steps in and provides support. That person would receive \$21,510 per year of which \$7704 is Newstart Allowance. They could also get rent assistance, in which case that would be in addition to that amount.

PN489

The rise in income inequality in Australia has been lower than that of some comparable English speaking countries. The courses of rising inequality are the subject of much debate and will likely vary from country to country, however the research suggests that technological change, globalisation and institutional change are all possible contributing factors.

PN490

As the government's submission indicates, rises in the minimum wage reduce earnings inequality to some extent, however the effect on household income inequality which is a more comprehensive measure of living standards is less conclusive.

PN491

MR COLE: I'm just wondering, you have a chart at 8.2 I think it is, 8.1 and it's got - it's Gini coefficients and you're doing an international comparison and you've got four countries other than Australia. I'm wondering how you chose those four. I'm just curious. I would have expected a table with or a chart with a whole heap of countries in it and I'm surprised to see one with four and I just wonder the rationale.

PN492

MR MOREHEAD: I think we were choosing like-minded countries and countries that people often point to in debate as being relatively similar to Australia. But I could take that on notice and go back and get further information on that if you like, or I can do that chart with other countries if you like.

PN493

MR COLE: Yes, that would be useful.

PN494

MR MOREHEAD: Right, yes. Going back to the inequality discussion. The effect on household income inequality which is a more comprehensive measure of

living standards is less conclusive. This is in part because minimum wage workers can be found across the household income distribution; i.e. some minimum wage workers live in low income households and some live in high income households, and some don't get the full flow on of the rise due to income or tax welfare payment withdrawals - income tax or welfare payment withdrawals.

PN495

Now turning to employment impacts. The government's submission is that it supports a safety net of minimum wages and conditions for workers. At the same time the government supports employment growth. Employment has positive benefits for individuals, their families and the community. Employment not only provides a financial benefit but it can build self-worth and positive wellbeing. Low paid jobs are a common entry point to the workforce and usually act as stepping stones to higher paid work. This is particularly true for groups such as young people and the low skilled, as well as students who are working part-time in low paid jobs whilst studying.

PN496

Chapter 7 of the government's submission considers a wide range of research on the employment impacts of minimum wage increases. Although there are diverse views and noting that Australia's minimum wage system is different to the countries in which employment impact studies, such as the US and UK tend to be undertaken, there is broad agreement that raising minimum wages above a certain level can reduce employment.

PN497

In conclusion, the Australia government's submission indicates the expert panel's decision should balance an appropriate concern for the needs of the low paid and award reliant employees with the need to support job opportunities for the 750,000 people who are unemployed, the low skilled, and for young people in general. I will now hand over to my Treasury colleague, Mr Stoney.

PN498

MR COLE: I wonder whether we can just talk a little bit about the employment effects. You stated to us - I think the government has, every year that I've been on this panel - that above a certain level wage rises will cost jobs. Our formulation, which I think you probably see means the same thing, is that regular modest increases are unlikely to cause loss of employment.

PN499

MS DURBIN: Yes.

PN500

MR COLE: I'm interested in the way you persist in saying one half of it but not the other half, modest increases won't cause a problem; but above a certain level - is there any way we can work out what that certain level is? For example, have any of the increases that have been awarded in Australia been on the borderline or past the borderline of that certain level?

PN501

MS DURBIN: I think this is a fundamental issue that the expert panel is faced with. There is no quantitative level that we set or that we can find in data, or that is well known, and so the term - what we can see is that it is above a certain level there will be effects; but actually quantifying that, there isn't the data to quantify it. And there is no commonly agreed or often used figure for this country about what that level is.

PN502

MR COLE: The UK has been setting minimum wages now for about 17 years. I think the average increase that they've had over that time has been a 4 per cent increase per annum; some of the increases have been significantly higher, some significantly lower. But have you looked at those? Do they seem to be levels - I mean, the research which has been undertaken on the employment effects suggests that there hasn't been any employment effects.

PN503

MS DURBIN: Certainly we take a very strong interest in the international evidence that becomes available, so the submission briefly touches on the new findings from Seattle; and we're, you know, we keep a very close eye on what's happening in the UK; we're aware of the March 2017 report that came out from the UK Low Pay Commission that looked at the latest phase that came in from 2016, and we're aware of the findings that they had around, you know, early days, mixed effect, and the challenges that they face in terms of disaggregating the changes to the national living wage to the other broader economic and labour market characteristics in the UK.

PN504

I don't think I can add too much to what Dr Morehead said other than it is something that we take a very strong interest in and keep a very close eye on in terms of the international developments; noting, of course, that they're not always applicable to Australia; and the different structures that we have in Australia means that we need to treat them with a level of caution.

PN505

MS MOREHEAD: Yes. We have quite a high proportion of people, when you look at who are award reliant, because we do go across those 2000 pay rates. It's not one floor.

PN506

MR COLE: We understand that, but what we're trying to do is find what's a modest increase, what's an excessive increase, and we're trying to find some definition of that. I don't think the structural differences make that much of an effect. I mean, we talk about modest, regular; they do it yearly, we do it yearly; we have adult rates and junior rates, they have the living wage for people over 25 and then they have the development rate and the junior rate.

PN507

So there are a lot of similarities, it seems to me, as well as - I mean, there are differences, but there are similarities, which make that perhaps a - I mean, if we were looking at other models, the other model that you can look at is the US, and it's not really a model at all because you've got the centralised federal wage, and

then you've got the state wage, and you've got the municipal wage, and the employer has to pay the highest; and the provision for the juniors is for the first - typically, because it varies from state to state and municipality to municipality, but typically they get a lower wage for the first six months and then they go onto the adult wage, so the impact on youth is quite different from the impact on youth that we have here in Australia.

PN508

So I can't see that we can draw a lot from the US, but I don't know why the UK can't be seen as a model that we should be looking at.

PN509

MS DURBIN: I think, really, you know, in essence the UK system is still based on pretty much the five simple living wage standards, a national minimum wage standard, so in terms of the wage rates that Dr Morehead talked about, you know, the 2000 across the 122 modern awards, we do think that we would still need to take that into account in considering the relevance of the UK research into the Australian system.

PN510

JUSTICE ROSS: I suppose when you look at the relevance up the structure, it's also - the essence of your submission is that where the employment effect is likely to bite is at the bottom because that's where you have the lower skill levels and the entry point. That's so, isn't it?

PN511

VICE PRESIDENT HATCHER: Does the UK research identify - - -

PN512

JUSTICE ROSS: Just hang on. The transcript can't record a nod. What's your position in relation to that?

PN513

MS MOREHEAD: I guess our position is that you mentioned earlier that you have the technical capacity - I'm reading that into what you said - you have the technical capacity to give a different wage rise to - - -

PN514

JUSTICE ROSS: No, that wasn't what I was talking about. What I'm talking about here is you've made the point that the difference between the UK structure and ours is of course ours has an effect up the wages structure.

PN515

MS MOREHEAD: Yes.

PN516

JUSTICE ROSS: But the proposition I was putting to you is I understood your submission to be that the employment effects of the minimum wage adjustment are most likely to be experienced at the lower end of the wages structure - - -

PN517

MS MOREHEAD: Are at the lower end, yes.

PN518

JUSTICE ROSS: For the reasons you articulate, that's where new entrants to the labour market are; that's where there's a lower level of skill, et cetera.

PN519

MS MOREHEAD: Yes. I think the term "more likely" is probably something that we - I'm not sure whether we said that in the submission, but I think we're doing it in the context of the expert panel usually making a wage rise for the whole 2.3 million. And while you're saying that we then focus on saying that that might have an employment impact for the young - youth and the low skilled, it is in the context of an employer having to pay all those higher rates for the workers at their firm, I guess.

PN520

PROFESSOR RICHARDSON: Dr Morehead, if I might just pursue this point a little further. The research for this annual wage review, and last year as well, showed that there were actually very few firms that employ award reliant workers on high rates as well as award reliant workers on low rates.

PN521

MS MOREHEAD: Well, within each award or the other.

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PROFESSOR RICHARDSON: It tends to be one or the other.

PN523

MS MOREHEAD: Within each award there are obviously, say, up to eight levels within the award; and yes, they may have, like, someone who is higher up the ranks, and then the other people are lower down the ranks, or more down at the bottom, but yes.

PN524

PROFESSOR RICHARDSON: But the evidence is that not many firms do have people on high rates and people on low rates. Mostly it's one or the other. And I think the point that was being made was if the employment effects - as, for example, identified in the UK research - are showing low effects for people on low wages with low skills, then there's a strong reason to believe that there would be even smaller effects on people on higher awards. I would like you to say if that's a reasonable proposition.

PN525

MS MOREHEAD: Yes, I guess yes. I mean, I guess what we're saying is we are a bit concerned about the employment impacts at that lower end. That is what we're saying.

PN526

PROFESSOR RICHARDSON: But not at the higher end? So the fact that we have this different award structure to the UK doesn't mean that we couldn't reasonably rely on their findings?

PN527

MS MOREHEAD: I think there's definitely evidence that you could consider, as we have quoted in the submission; and as you're saying, you are considered - I mean, how you actually end up settling on what you think about that evidence in terms of how you're setting national minimum wage, I guess is a matter for the panel.

PN528

VICE PRESIDENT HATCHER: But does that English research identify the proportion of the workforce that's affected by their minimum wage decisions?

PN529

MS DURBIN: I believe it does. I have not got that figure in front of me, but, I mean, it does look also at the broader occupational level potential impact, so, yes, certainly issues around how individual firms structure their payment methods is one, but the UK Commission does look at the broader industry of occupations and so for those low paid occupations. You know, it does say that early days, and it does commit to doing further research as the changes are phased in; that some occupations have seen a decline, and some have seen an increase but it's too early necessarily to be able to directly attribute that to one circumstance or another.

PN530

PROFESSOR RICHARDSON: If I could just follow up on that, I mean, it's not early days. They've been doing this now for 17 years.

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MS DURBIN: In terms of this - - -

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PROFESSOR RICHARDSON: There's a great deal of research.

PN533

MS DURBIN: Yes. Sorry, I was talking about in terms of specific changes to the national living wage.

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PROFESSOR RICHARDSON: The most recent with a medium term target of 60 per cent of medium?

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MS DURBIN: Yes.

PN536

PROFESSOR RICHARDSON: But there's a lot of evidence prior to that.

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MS DURBIN: But I meant in similar issues in terms of - - -

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PROFESSOR RICHARDSON: Over 17 years.

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MS DURBIN: Yes.

PN540

JUSTICE ROSS: Just before we go to you, Mr Stoney, Ms Morehead, can I just take you to the responses to the questions on notice? There's just one in particular; question 4.4. It's on page 7 of your - - -

PN541

DR MOREHEAD: Yes.

PN542

JUSTICE ROSS: One is a question about a question, which I probably shouldn't have to ask you, but nevertheless, it notes there that you submitted that 57.9 per cent of low paid workers were single without children. I was just having trouble turning up that figure from your submission. I notice in the attachment A4 it identifies there are 71.1 per cent of low paid employees with no children, but I'm just not sure where the 57.9, whether it's derived from what you've put, or whether it's expressed somewhere. I've just missed it when I've read your submission again.

PN543

DR MOREHEAD: Sorry.

PN544

JUSTICE ROSS: You can come back to that if you wish.

PN545

DR MOREHEAD: Can we come back to that? Yes.

PN546

JUSTICE ROSS: That's fine. Look, the question put is how changes to the tax transfer system will affect single low paid workers without children, and, speaking for myself, I wasn't much assisted by the response. Will changes to the tax transfer system affected single low paid workers without children or not?

PN547

DR MOREHEAD: Sorry, is this the question, your Honour, "Can the Australian Government also provide"?

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JUSTICE ROSS: No.

PN549

DR MOREHEAD: No, sorry, which question?

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JUSTICE ROSS: It's 4.4.

PN551

DR MOREHEAD: Yes.

PN552

JUSTICE ROSS: On page 7 and it asks, "You're invited to comment on".

PN553

DR MOREHEAD: Sorry, (a)?

PN554

JUSTICE ROSS: Yes, (a), sorry.

PN555

DR MOREHEAD: Yes.

PN556

JUSTICE ROSS: Bearing in mind that the tax transfer system seems to be more directed at either single parents or couples with children, et cetera. How does it intersect at all with single low paid with no children?

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DR MOREHEAD: I guess it's more on the income tax side because in terms of welfare payments - - -

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JUSTICE ROSS: Yes.

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DR MOREHEAD: - - -if you are working full time on the national minimum wage you don't get welfare; you don't get income support.

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JUSTICE ROSS: Yes. That's the short answer. Yes.

PN561

DR MOREHEAD: However, in my opening statement, as I said, if you're working 15 hours a week on the national minimum wage, for example, you get \$7704 still per year on Newstart so it interacts in that way, but if you're talking about a full-time low paid worker, then they're off welfare.

PN562

JUSTICE ROSS: Yes.

PN563

DR MOREHEAD: However, they do have to pay some income tax.

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JUSTICE ROSS: Yes.

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DR MOREHEAD: And the Medicare levy.

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JUSTICE ROSS: Yes. No, I follow.

PN567

DR MOREHEAD: Yes.

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JUSTICE ROSS: All right. Thank you.

PN569

MR GIBBS: Sorry, can I just ask, you mentioned the question:

PN570

Can the Australian Government also provide details of the changes in the tax transfer system over the past two years that have increased the living standards of the low paid and improved their relative living standards?

PN571

The second dot point to your answer is:

PN572

Introducing the low income superannuation tax offset so that most low income earners will not pay tax on their superannuation contributions; those with adjusted taxable income of 35,000 per will receive a refund into their superannuation account of the tax paid on their concession superannuation contributions up to a cap of \$500 per year.

PN573

Can you tell me, please, how the low income superannuation tax offset differs from the low income superannuation contribution which was in place until the day before the LISTO came into effect?

PN574

DR MOREHEAD: We can look that up while we're here.

PN575

JUSTICE ROSS: All right.

PN576

DR MOREHEAD: So we will do that comparison of what it replaced. Is that what you're after? What did it actually – because we know that there was an offset beforehand, and what you want to know - - -

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MR GIBBS: But I put it to you they're exactly the same except for the name. If that's the - - -

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DR MOREHEAD: So you're looking at the word "introducing"? Sure.

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MR GIBBS: Introducing.

PN580

DR MOREHEAD: Yes.

PN581

MR GIBBS: And we ask the question what have you done in the last two years.

PN582

DR MOREHEAD: Yes.

PN583

MR GIBBS: You've said the Government has done something, but all it's done is in fact replaced something that had a sunset date on it, exactly the same, under a new name.

PN584

DR MOREHEAD: Yes.

PN585

MR GIBBS: That's misleading at best.

PN586

DR MOREHEAD: Yes. Although obviously if it did have the sunset date on it, it was due to expire, and what's happened is then it's been re-introduced, I guess. So maybe re-introduced. Yes. Thanks.

PN587

MS DURBIN: Your Honour, I can just answer the question now in terms of the data that we mentioned in that question? So in section 2.2.1 we mention that around 57.9 per cent of low paid workers were single without children.

PN588

JUSTICE ROSS: Yes. Which paragraph is that?

PN589

MS DURBIN: So that's in paragraph 48.

PN590

JUSTICE ROSS: Which dot point?

PN591

MS DURBIN: It's the fourth dot point.

PN592

JUSTICE ROSS: Yes. Thank you. Thanks very much. Yes?

PN593

PROFESSOR RICHARDSON: Sorry, if I might just pursue this line of questioning, so, we've identified, or you've identified for us that actually a very high proportion of people who are low paid do not have children. We don't know, I don't think from your data, how many of those are employed full time. But they don't have children, and if you don't have children, actually there is very little assistance that they get from the welfare system.

PN594

DR MOREHEAD: Unless they're part time.

PN595

PROFESSOR RICHARDSON: That's right. That's why I said, we don't know what proportion of them are full time. So if they're part time, they get some assistance, if it's a small number of hours. You know, you might be part time and working 30 hours and maybe you wouldn't get a lot of assistance.

PN596

DR MOREHEAD: We can get that for you if you like. I've got a feeling you still may get some. Yes.

PN597

PROFESSOR RICHARDSON: Yes. So this goes to the question, of course, you're repeated position that the tax transfer system is the primary means, and I'm quoting here:

PN598

of redistributing income in Australia and it provides better targeted and more effective assistance to maintained living standards including of low paid workers.

PN599

DR MOREHEAD: Yes. Yes.

PN600

PROFESSOR RICHARDSON: We're trying to really identify what contribution it makes to the relative living standards of low paid award reliant workers who are single, and what changes have occurred in the last year or two that have added to the living standards of low paid workers who are single. Are you able to address those things directly?

PN601

DR MOREHEAD: We have got the answer, as we've mentioned there, at 4.4(a), and then we do have table 8.6 in our submission, that you then ask the following supplementary question on to show the real impact of the national minimum wage on singles. But I guess the overwhelming thing we're saying, and as I said in the opening statement, when you're earning that national minimum wage as a full-time worker, the close to \$35,000 a year, you are considered not in need of income support.

PN602

PROFESSOR RICHARDSON: Yes, and we accept that.

PN603

DR MOREHEAD: Yes.

PN604

PROFESSOR RICHARDSON: I mean, sorry, we don't dispute it, but it goes back to this question, the tax transfer system is the primary means, and provides a better targeted form of assistance to maintain the living standards of low wage workers.

PN605

DR MOREHEAD: Yes. That is for people on below \$35,000 a year as a single – and that's another reason we do our all households and the employee households, where you have an equalized income so we do know if you're looking at a household income, you're not saying that \$35,000 a year, for example, in the harvester wage model, if we still were operating on that, and that's \$35,000 a year was supporting other dependents - - -

PN606

JUSTICE ROSS: I think ACCR is still operating on that model.

PN607

DR MOREHEAD: I think so. I think so. Then of course the welfare system steps in, but if you're single, alone, that nearly \$35,000, that's it.

PN608

PROFESSOR RICHARDSON: So how - - -

PN609

DR MOREHEAD: Anything below that you start getting assistance from the welfare system.

PN610

PROFESSOR RICHARDSON: That's right. But they're probably a minority of the people who are low paid. That's the point, isn't it, from your own data? So the question is how is their - - -

PN611

DR MOREHEAD: We need to look at the part-time, I think. Yes. I mean, looking at - - -

PN612

JUSTICE ROSS: Yes.

PN613

PROFESSOR RICHARDSON: How is their relative living standard maintained if we don't use increases in minimum wages?

PN614

DR MOREHEAD: As you can see from table 8.6 the increase in the national minimum wage has a large effect on the living standards, a larger effect than if you're a family.

PN615

PROFESSOR RICHARDSON: Yes, that's right. That's my question. So would you agree that in order to maintain the relative living standards of low paid in-work singles who do not have children, then the primary - - -

PN616

DR MOREHEAD: Full-time.

PN617

PROFESSOR RICHARDSON: - - - vehicle is the national - is as minimum wages?

PN618

DR MOREHEAD: Yes, for full-time, yes.

PN619

MS DURBIN: Professor, I just - in appendix C of our submission we do provide a range of household modelling scenarios where we do include the part-time single without children scenario.

PN620

PROFESSOR RICHARDSON: The question is are they a big part of the group that we're interested in or are they a small part or very small part of the group that we're interested in? From your data it would suggest that they're probably quite large.

PN621

DR MOREHEAD: Then the other question I guess to consider is how long are they in that situation. So when you have a family you're in the situation for a long time. A child takes a long time to not become a dependent. When you are a single, in a \$35,000 a year minimum wage job, I think there is some data in our submission somewhere - - -

PN622

JUSTICE ROSS: About transition.

PN623

DR MOREHEAD: - - - about how long you're in that position for, which is probably a factor to consider as well. That's in the stepping stone to a higher paid job line, yes.

PN624

PROFESSOR RICHARDSON: Or into unemployment.

PN625

DR MOREHEAD: Or back into full welfare and then the gap between the two becomes a bit of an issue, yes.

PN626

MS DURBIN: Well, certainly I think the data that we provide in section 7.4, our understanding is that the vast majority do move into employment. Certainly yes, some do become unemployed or leave the labour force but the vast majority do move into other forms of higher paid employment.

PN627

DR MOREHEAD: Another job.

PN628

MR GIBBS: Can I just follow that up with a question? I don't particularly like things like vast majority. In fact it's 51.9 per cent who move in the first year from a low paid job to a higher paid job.

PN629

MS DURBIN: But then over time - - -

PN630

MR GIBBS: 67.8 per cent leave within - leave low paid employment within one year and of those 76.6 per cent go to higher paid work. That means that just over half, so it's not a vast majority and of those just over half, you would concede surely that there would be a reasonable number of those who are university students working part-time who then go to a full-time job after they graduate.

PN631

DR MOREHEAD: We can - I mean if you like we can see if we can break that - can we break that down any further that sort of stepping stone what happens over time, because if we can we would be happy to provide that for you.

PN632

PROFESSOR RICHARDSON: Well, you exclude students.

PN633

DR MOREHEAD: Could we? Yes.

PN634

MS DURBIN: I'm not sure, I'd be happy to have a look and see if we can.

PN635

DR MOREHEAD: We can look at that, yes, sure.

PN636

JUSTICE ROSS: I've just track of where the discussion with Professor Richardson went on the 57.9 per cent of low paid workers who are single and without children. That cohort and I think you identified that look, there will be a proportion of that 57.9 per cent who are working part-time as opposed to full-time employment. Did you indicate you're able to identify what that proportion was or - because of the dataset that can't be done?

PN637

MS DURBIN: We've got it in the attachment but we don't have the proportion. Is that right?

PN638

DR MOREHEAD: No, in attachment A.4 - - -

PN639

MS DURBIN: We've got low paid.

PN640

DR MOREHEAD: - - - we haven't - it's low paid.

PN641

JUSTICE ROSS: Yes, but not that - - -

PN642

DR MOREHEAD: But it's a slightly different configuration.

PN643

JUSTICE ROSS: It is.

PN644

DR MOREHEAD: Where we look at the age of the youngest resident child and not by whether someone is single or has a partner. So consequently the figure there is higher in terms of the proportion that does not have a child.

PN645

JUSTICE ROSS: Yes, but it doesn't split that down into those that work part-time and full-time. Is that data available or not?

PN646

DR MOREHEAD: I don't believe that part-time data is available. I understand permanent data is available and I think also casual is available. I don't believe we have it by part-time.

PN647

JUSTICE ROSS: Well, that might be helpful in any event. Look, it might at least give some sort of proxy if it's permanent - well, maybe not, no.

PN648

PROFESSOR RICHARDSON: No, I don't think so.

PN649

JUSTICE ROSS: No, it won't.

PN650

DR MOREHEAD: We'll look.

PN651

JUSTICE ROSS: Thank you.

PN652

PROFESSOR RICHARDSON: May I ask one more question on this general point of yours that the tax transfer system should do the heavy lifting on maintaining relative living standards. I mean it's unquestionably true that it's a pretty highly targeted system but as everybody knows the drawback of that is that we have very high effective marginal tax rates.

PN653

DR MOREHEAD: Yes.

PN654

PROFESSOR RICHARDSON: So if a person is working - is in a household and gets a part-time job at the national minimum wage, they retain quite a small proportion of that. To be perfectly honest I can't remember which submission gave as evidence that part-time jobs are an important stepping stone to full-time jobs. So this disincentive effect that the high effective marginal tax rates have on low paid or low skilled people getting employment seems to me a significant issue

which you haven't addressed. Would you agree with that? I mean you focus entirely on the demand side but not on the supply side of low skilled people looking for work.

PN655

DR MOREHEAD: Well, I guess - so the issue there is do you raise the minimum wage for them or do you change the taper rates on the income support payment, and your role I guess in that is to work out your role, I suppose, yes.

PN656

PROFESSOR RICHARDSON: But your advice to us is that our role should be very small. That's the point of your repeated assertion that most of the heavy lifting should be done by the tax transfer system.

PN657

DR MOREHEAD: Well, I think your role would be to - the role might be to look at the effect on inequality of having a job or not having a job, and that even small increases to income in those very low paid households is quite significant. So in a job you're going to have more money than if you're not in a job on welfare, so we can categorically say that, that you will be bringing in more income. The fact that you don't get the gross amount per hour, so you're not going to get your whole 17.70 per hour is something that you could take into account, I guess, but does that mean you would therefore raise the minimum wage higher for everyone? I mean that's your task.

PN658

PROFESSOR RICHARDSON: I just wanted you to comment on this issue of relying on the tax transfer system when it has this significant problem, particularly for people looking for part-time work where you might retain what 20 per cent of your wage after your higher effective marginal tax rates.

PN659

DR MOREHEAD: But is that not also the same argument as to why you wouldn't have a much higher rate of Newstart Allowance, and if you're onto that disincentive incentive, I mean people who argue that Newstart Allowance should be much higher, is that the same sort of argument that you're going to here, that then there is a disincentive to take up a job because you already have the higher welfare payment? Is it the same line of reasoning?

PN660

PROFESSOR RICHARDSON: No, I don't think it is. That's a separate line of reasoning that ACOSS of course pushes quite vigorously, that you need to retain the gap between what you receive on welfare and what you receive as a worker and that historically that minimum wages have been around 40 per cent higher than welfare and there is a link notionally if not at least that can be observed even if it's not explicitly expressed in policy. So that low minimum wages actually have the effect of giving very little room for rises in the tax transfer benefits.

PN661

DR MOREHEAD: But it's also - is it also too saying that someone just - that someone thinks it's not worthwhile getting into a job if they can increase their income but they're not increasing it enough. Is that what you're saying, yes?

PN662

PROFESSOR RICHARDSON: Well, not many people are prepared to work for \$6 an hour, which is the net effect.

PN663

DR MOREHEAD: Yes, but the aim is to get off the welfare and into full-time work. I guess the aim is that you would then - you know, that this is a pathway to full-time work which you can - I guess it's the policy framework of what you're assuming that individual's incentive is.

PN664

PROFESSOR RICHARDSON: The point that I really wish to make is that the tax transfer system has its own limitations and negative effects.

PN665

DR MOREHEAD: It definitely - I mean there is no doubt that the taper rates - - -

PN666

PROFESSOR RICHARDSON: On incentives.

PN667

DR MOREHEAD: - - - withdraw the effect of what you have earned that hour and then income tax does the same thing.

PN668

PROFESSOR RICHARDSON: So it seems to be a little disingenuous to present it as the solution to - as the primary means of redistributing income in Australia and more targeted and more effective systems.

PN669

DR MOREHEAD: But you're talking about part-time work.

PN670

PROFESSOR RICHARDSON: The illustration is part-time work, yes.

PN671

DR MOREHEAD: It's the same thing when we're talking about the single full-time person on the national minimum wage and I'm saying they don't get any welfare but of course they do if they're part-time. So it's that in-between period of the welfare and work issue. So you've got welfare to work and there is the in-between period where you take up a few hours work hopefully with the intention of you know getting off welfare at some stage, or if not, if you've got a family and it's impossible to get off welfare for you at that stage of your life, you can work 15 hours a week and still be on welfare. You can work, you know, 20 hours a week and then you don't have to seek more work and then you have that amount of welfare and work supporting your family for that stage, so it's all the welfare to work debates and arguments and policy solutions. But we do know that for

parents, once they hit a certain stage of part-time work they do not have to look for full-time work.

PN672

JUSTICE ROSS: Mr Stoney.

PN673

MR STONEY: As has been the standard practice, I'm happy to provide an opening statement that touches on the economic outlook that was outlined in last week's budget papers. Turning first to global economic conditions, in the budget we noted that last year the global economy recorded its slowest growth rate since the global financial crisis, but there are encouraging signs that the global economy is strengthening in 2017.

PN674

This recovery was nascent recovery in global growth marks, a welcome break from the prolonged period of downgrades to global growth forecasts since the global financial crisis. Encouraging signs include that China has entered 2017 with good momentum, the United States economy is also performing well. There have also been signs of improvement in other advanced economies such as Japan and the Euro area, and some of the emerging economies such as Brazil and Russia, which have been affected previously by sharp falls in commodity prices.

PN675

Some of the major advanced economies are growing about potential, gradually pushing down their unemployment rates. In the United States this has enabled the Federal Reserve to continue to adjust its monetary policy settings. Importantly Australia's major trading partners are forecast to grow at a stronger pace than the wider global economy, with Australia's Asian trading partners in particular forecast to grow strongly.

PN676

In terms of the domestic economy, Australia's transition towards broader based activity is well advanced, supported by historically low interest rates, a lower exchange rate, and a flexible labour market. We expect economic growth to rebound to two and three quarter per cent in 2017/18 and 3 per cent in 2018/19, that is broadly around potential, after growth slowed in 2016/17, largely as a result of some weather-related factors in the early part of that financial year, and more recently tropical Cyclone Debbie.

PN677

One factor underpinning this forecast rebound in growth is expected to be a reduction in the extent to which mining investment subtracts from growth as large resource projects are completed. At the same time, non-mining business investment is expected to pick up, supported by strengthening demand, solid business conditions, and low financing costs.

PN678

After a period of relatively moderate growth in recent years, consumption is also expected to pick up over the forecast horizon, and to continue to grow by more than household income, resulting in a further decline in the house of savings rate.

Exports are expected to continue to support growth, while dwelling investment is forecast to contribute to growth in the near term, but peak during the first period.

PN679

One thing that is worth bringing to the Commission's attention is that in the budget papers we drew attention to the fact that economic performance across the States and Territories continue to vary widely. The impacts of shifts away from mining investment and towards resource exports is being experienced most strongly in WA and Queensland; in contrast, New South Wales and Victoria are growing faster than their decade averages, supported by lower interest rates, solid population growth, and a lower exchange rate.

PN680

Turning to labour market wages and prices: although full-time employment has strengthened recently, labour market conditions have generally softened after strong employment growth in '15, with the majority of employment growth since that time being in part-time employment. The unemployment rate is currently at 5.9 per cent, having partially reversed the decline that occurred through 2015 and most of 2016. In addition, the under-employment rate has edged up, reaching 8.7 percentage debris of this year.

PN681

In the budget we note that there is some uncertainty around the labour market outlook. On the one hand the modest rise in the unemployment rate is consistent with the slower GDP growth on average that we saw in the second half of 2016; but other indicators such as job advertisements, vacancies and business survey measures suggest that labour market conditions will improve in the period ahead.

PN682

Taking that together and on balance, we expect employment to grow at 1 per cent over the year to June 2017, before strengthening to one and half per cent to the June quarters of '18 and '19.

PN683

PROFESSOR RICHARDSON: Mr Stoney, can I just ask at that point, is that numbers of people employed, or do you have a view about hours worked?

PN684

MR STONEY: That figure is a heads measure. We don't publish a figure that takes into account hours. I can understand why you would raise this as an issue, given this trend towards part-time employment that we have seen for a long time in this country, but in particular recently, so I'm not sure I can add to that. We are aware - we do think about hours over the forecast horizon in coming to a view about labour market conditions, but it's not something that we actually - we don't publish separately information about what's happening to average hours.

PN685

PROFESSOR RICHARDSON: And you don't have any view you could share with us?

PN686

MR STONEY: No, I'm not sure I can add, except to say perhaps that, you know, we have seen this trend towards part-time employment in recent times, and so you might expect that to continue over the forecast horizon, and that might have some implications then for average hours, but - yes, I'm not sure I could say much more than that.

PN687

So the unemployment rate is forecast to decline modestly through the forecast period, consistent with the forecast that GDP growth will rebound. The outlook for the labour market participation is stable or relatively stable, with the discretion rate forecast to be at 64 and a half per cent in the June quarter 2019. Wages growth has been recently low by historical standards across industry states, and indeed the public and private sectors.

PN688

And in thinking about wages, it's also noting that subdued wage growth has also been a feature of many advanced economies over the past few years; even countries such as the United States, Japan and the United Kingdom, all of which have relatively low unemployment rates. We expect wages growth to improve as domestic demand strengthens over the forecast horizon, but in the near term the outlook for wages growth remains subdued, reflecting spare capacity in the labour market.

PN689

In the budget we have the wage price index increasing by 2 per cent through the year to the June quarter '17, before picking up to two and a half per cent through the year to the June quarter '18, and 3 through the year to the June quarter '19. The near-term outlook for inflation is also subdued.

PN690

After growing by 2.1 per cent over the year to the March quarter 2017, consumer prices are expected to grow by 2 per cent through the year to June quarters of '17 and '18, and two and a quarter per cent through to the June quarter of '19. Downward pressure on inflation are expected to come from subdued wage growth and heightened competition in the retail sector.

PN691

Just to conclude, it's always worth noting that there's a high degree of uncertainty around the central forecast that I've just outlined. We expect global growth to recover over the forecast horizon; still, a range of uncertainties surround the forecast for growth. Heightened policy uncertainty has emerged in a number of countries, including growing support for policies that could restrict global trade, and hence growth; high levels of debt; potential imbalances; and overcapacity in some sectors also remain as risks to China's economy, while Europe continues to face a range of persistent issues following the global financial crisis and the European sovereign debt crisis. And the recalibration of interest rates in the US is also a source of uncertainty for that economy, and indeed the global economy.

PN692

Domestically there are risks to the real economy around the momentum in household consumption, in particular whether consumption will continue to grow

by more than disposable income, resulting in a further decline in the savings rate. In this regard a change in households' attitude towards saving could lead to household consumption being weaker than forecast.

PN693

With a significant number of medium to high density dwellings due for completion of forecast horizon, a faster than expected decline in dwelling investment could also constrain overall real output growth. And just finally, as was the case at last year's hearing, the timing and pace of recovery in non-mining business investment continues to remain a source of risk for the domestic outlook. Thank you.

PN694

JUSTICE ROSS: You've got - forecast a little bit below the Reserve Bank's, but the risks that you've seen sounded to me to be pretty much all on the down side.

PN695

MR STONEY: That is with the domestic economy or the - - -

PN696

JUSTICE ROSS: Both.

PN697

MR STONEY: Right. I'm not sure that's how we would characterise the outlook that we've got in the budget. We tend to focus perhaps a bit more at times on the downside risk because that's what keeps us awake at night. That's what tends to be what we worry more about, but there are also upside - which I tended to draw to the Commission's attention, some of the downside risks, but there would also be upside risks too.

PN698

MR COLE: Right. This is a question, I don't know whether you'll have an answer to it or not, but it intrigues me that over the seven years since the global financial crisis the US growth rate has averaged 2.1 per cent a year and I can't reconcile that with apparent - they're apparently running at more than potential. I would've thought their potential was higher than 2.1, and therefore getting unemployment down and employment up quite dramatically for an economy that's still in the doldrums. I don't know whether you've got any comments that might relieve me of sleepless nights wondering about that.

PN699

MR STONEY: On that matter?

PN700

MR COLE: Yes.

PN701

MR STONEY: Perhaps a couple of thoughts: so (1) so it is true when you look at the unemployment rate in the US that it does look as though it's nearing full employment, but when you look at perhaps some broader measures of the labour market, you know, there's an argument that there might be some more capacity, so

the participation rate, I think, still hasn't fully recovered, say, to where it was perhaps prior to the GFC, noting that there are aging affects that are probably relevant there. So there might be perhaps some more encouraged workers that could be brought in, you know, over time as the economy continues to - - -

PN702

MR COLE: If wages go up enough.

PN703

MR STONEY: Perhaps if wages go up enough too. As to the US potential growth rate, as no doubt you're aware, there has been a bit of a debate around the world about whether we are in a situation where post the GFC the potential growth rate of many countries, including the US, has slowed perhaps due to lower productivity growth, might be one of the reasons. The problem is it's very hard to disentangle what might be underlying structural changes in an economy like the US from the impacts of the global financial crisis, but there is a debate and it's something that we have discussed internally, you know, whether the potential growth rate of countries like the US is slower than what it might've been perhaps a decade ago. You know, perhaps partly reflecting a lower level of productivity growth, but also aging affects too must be relevant as well. So I don't know whether that was the line of thinking that you had, or - - -

PN704

MR COLE: Pretty much, I think. I think the discouraged worker effect, of having very low real incomes, and very low wages has probably contributed to it, and aging shouldn't be as big a problem in America as it is in Europe, because they haven't aged as much.

PN705

DEPUTY PRESIDENT ASBURY: Can I ask about your comments in relation to underemployment edging up, and the suggestion in one of the Reserve Bank papers that that may be related to lower wages growth, and people seeking more hours because of that lower wages growth. Could you comment on your view in relation to that?

PN706

MR STONEY: Yes. So when thinking about spare capacity in the labour market you naturally go to the unemployment rate as your first measure, but it's also important to take into account broader measures, such as the underemployment rate which would look at part-time workers who may not necessarily want to be, you know, looking for full-time work, but may not be getting the hours that they desire, so you need to add to the unemployment, those part-time workers who can't get their desired level of hours, and that's what the underemployment rate does, and, you know, we think it's a factor explaining, you know, this low wage environment that we've currently got. You need to take that into account as well as what you're seeing just with the unemployment to understand what's happening to wages.

PN707

DEPUTY PRESIDENT ASBURY: But is the low wage environment impacting on the underemployment rate? Because that's the suggestion.

PN708

MR STONEY: Yes. As I understand, I don't think that's the – so I would've thought the causality was because you had people looking for more hours, and there isn't sufficient, if I can put it this way, demand in the economy to provide them with those hours, that's then holding down wages growth, rather than - the causality you're suggesting is that the low wages growth is leading to part-time workers not - - -

PN709

DEPUTY PRESIDENT ASBURY: The RBA paper is suggesting that it may be the other way around.

PN710

MR STONEY: I don't think that - that wasn't my – I'd have to look at the - - -

PN711

DEPUTY PRESIDENT ASBURY: It's in a footnote. Footnote 4 in the paper.

PN712

MR STONEY: Right. Okay. I'd have to look at that in detail. That wasn't my interpretation but I might be - - -

PN713

DEPUTY PRESIDENT ASBURY: But it's there.

PN714

MR STONEY: Yes, I might not be right there.

PN715

PROFESSOR RICHARDSON: Yes. Just two quick questions: one is you referred to the participation rate and you said it was expected to be around 64 per cent. That's the participation rate using as the denominator everyone aged over 15; is that correct?

PN716

MR STONEY: Yes.

PN717

PROFESSOR RICHARDSON: So can you tell me why you think that's a useful measure, particularly in terms of evaluating the state of the labour market?

PN718

MR STONEY: Right.

PN719

PROFESSOR RICHARDSON: So we include 90 year olds in this?

PN720

MR STONEY: Yes. So we take into account aging in doing our participation rate forecast, so implicitly you would have abstracting from the effects of aging, you would have presumably some modest rise in participation that is then being offset by this compositional effect due to aging leading to a flat overall forecast. So I

think I agree with you. We haven't – so traditionally we publish the 15 plus measure of participation. Perhaps that's something we should think about in the budget papers.

PN721

PROFESSOR RICHARDSON: That would be very helpful.

PN722

MR STONEY: Publishing the 15 to 64 or publishing both perhaps.

PN723

PROFESSOR RICHARDSON: Or a proper age adjusted one.

PN724

MR STONEY: Or a proper age adjusted one because – yes, as you say, it's less useful, and this is going to become an increasingly important issue as time progresses, so – yes, it can be hard to change the format of what's in these budget tables.

PN725

PROFESSOR RICHARDSON: I'm sure you're up for it.

PN726

MR STONEY: But I think there's a very strong logic for doing so. I agree.

PN727

PROFESSOR RICHARDSON: My second question goes to your response to our question on notice, 3.2.1, and this question asks the Government whether the, and I emphasise here, the main reason for the recent decline in real unit labour costs was the rise in profits accruing to resources companies, so real unit labour costs have fallen about 5 per cent in the last quarter.

PN728

MR STONEY: Yes.

PN729

PROFESSOR RICHARDSON: We're looking for the main reason or, in particular, we're hypothesising that the main reason was the increase in profits going to resources companies because of the increase in the terms of trade. So that was our question really. Was it the main reason? Your response was that it was in part because of a rise in export costs, and I don't think that that answers our question to be honest. I want to know whether it's a little part or a big part, and I'd like to know, if you're able to tell us this, whether that most of that rise in export prices has gone to profit?

PN730

MR STONEY: Yes. I think that's my understanding. So the rise in the GDP deflator which you use to deflate nominal unit labour costs has been driven by – we mentioned, you know, sharp increases in commodity prices and that's flowed through to profits predominantly, so I agree with what you're saying. I thought that was implicit in the answer to this question, but perhaps not completely. Yes.

PN731

PROFESSOR RICHARDSON: Yes.

PN732

MR STONEY: Is that sufficient?

PN733

PROFESSOR RICHARDSON: I think we can take it that you've confirmed our view.

PN734

MR STONEY: Yes.

PN735

PROFESSOR RICHARDSON: That it's largely a result of this rise in resource prices and hence going in profits to the resource companies. We did ask a much bigger question, which was triggered by the ACTU proposition that an substantial increase in minimum wages will have a multiplier effect that will increase aggregate demand, and we asked you for your considered view on that, and I think you would agree that we did not get a reply on that point. Do you have anything that you would care to tell us?

PN736

MR STONEY: So perhaps one thing that I can add to our answer, which is to refer the Commission back to an answer that we gave to a very similar question was this, in 2015 - I don't know whether you recall that answer. Just see if I can find it. I've got it here. So in that answer - so you asked a similar question about the symmetry effects of minimum wages that had been - you know, evidence that had been provided to that effect by the ACTU's submission in 2015.

PN737

In response to that we noted that the, and I'll broadly just read from the answer if I may, "That the ACTU's suggestion that raising minimum wages is a symmetry measure that has macroeconomic benefits" is based on a very partial analysis in our view. This is partly because, you know, the orthodox view of the labour market is that employers - that workers are employed to the degree that they are able to contribute to the profitability of their employing enterprise.

PN738

Employment contributes to profitability where the marginal revenue product produced by a worker is larger than the cost of their employment. In this framework raising the level of the floor on wages may price some workers out of employment.

PN739

So this would be familiar, a pretty orthodox theory to you and the point we're making is that that effect was not taken into account by the ACTU in thinking about the effect of minimum wages on the economy.

PN740

We then went onto say that:

PN741

The net effect of raising minimum wages on aggregate household incomes is ambiguous and rough calculations suggest the net effect can be close to zero.

PN742

In doing these rough calculations we drew on a paper by Professor Jeff Borland, it was a CDPR discussion paper that we referenced in our answer a couple of years back. I think - so I think that was the answer that we gave a couple of years back and I think you asked some questions of my colleague, Brenton Goldsworthy, at the time about this and he - I mean he kind of put forward this view, and he also made the point that you know we would just caution the Commission in thinking about minimum wages as a tool for counter-cyclical kind of, you know, policy basically. That was the tenor of what he said in response to some questions.

PN743

PROFESSOR RICHARDSON: Can I be clear about this. You're saying that the reason it would not have a positive effect on aggregate demand in your view is because you expect it to reduce employment?

PN744

MR STONEY: Well, what we are saying is that the ACTU's evidence was partial - you asked us to comment on the ACTU's evidence and we said that was partial because it didn't take into account the potential - - -

PN745

PROFESSOR RICHARDSON: Yes, but I'm asking you in 2017 with respect to the current submission by the ACTU.

PN746

MR STONEY: So the point that we made in addition in our answer in 2015 was you know some rough calculations set the net - suggest that the net impact on incomes could be - can be close to zero. This was drawing on the wage elasticity of demand that Professor Borland had estimated in a paper. We did some very calculations which suggest that it could be close to zero.

PN747

PROFESSOR RICHARDSON: Well, I'll read my question, is that because you expect or your estimations expect a fall in employment?

PN748

MR STONEY: That was - yes.

PN749

PROFESSOR RICHARDSON: Is that the mechanism by which you get very little effect?

PN750

MR STONEY: That's the implicit - that's implicit or explicitly what these rough calculations were taking into account, yes. It wasn't - - -

PN751

PROFESSOR RICHARDSON: So if there was no fall in employment, would it be stimulatory?

PN752

MR STONEY: Well, potentially but we haven't formally modelled that, so you could get a range of impacts depending on the state of the cycle and indeed what you thought about the employment impacts. But in our view, we think the net effect would be close to zero.

PN753

JUSTICE ROSS: Anything further? Is there anything further from you? Thank you. Mr Clarke.

PN754

MR CLARKE: The robust fundamentals of the Australian economy has seen in its swift and sizeable recovery from the September quarter downturn growth of 2.4 per cent on December figures outstrips that on the OECD average and its median. It's above MYEFO and only .1 per cent down on the treasury forecast from last year's budget. The bouncing growth over that period was reflected by a rise in profits share total income at the expense of the wages share. The recovery of the wages share observed since 2011 and commented on in last year's decision has reversed with the December quarter figures for 2016 down .1 per cent below the 2011 figure.

PN755

The net business entry rate is positive and growing and business bankruptcies remain at historically low levels. Using the December quarter figures in the Fair Work Commission Statistical Report, company gross operating profits have surged to levels not seen in a decade. Even excluding the mining sector these figures are up more than sevenfold on the year to December 2014. In the non-mining sector the recent growth is not an outlier, it has been building for three years.

PN756

Unemployment fell and then rose slightly over the year to March 2017 and appears to have stabilised at 5.9 per cent. The movement in under employment to 8.6 per cent of the labour force is not out of step with this. There's been a recent albeit a small positive turnaround in employment to population ratio and we're continuing to see some growth albeit not universal in service sector employment, and refreshingly also in manufacturing.

PN757

The macroeconomic picture is one of a healthy economy but workers dependent on a minimum wage and modern award minimum wages are not seeing their fair share of economic prosperity. That's evident across a range of measures. Diagrammatically we can see from chart 5.1 in the statistical report that the average annualised wage increases and (indistinct) both continue their long term and accelerating divergence from C14 and C10 as well as the wage price index, notwithstanding some market sector restraint post-mining boom. Similar trends over the decade are also visible in table 2 in the initial submission by the State of Queensland.

PN758

Movements in labour productivity on a variety of measures also continues to outstrip wages growth. The long term decline in the minimum wage bite persists and the bite was flattened in recent years, notwithstanding the interventions of this panel. This is co-existent with a long term overall rise in the 90/10 ratio and some very low real increases in the national minimum wage. All of these measures suggest an earnings inequality problem that has become entrenched. The reality of living standards of minimum wage workers have not improved to the extent that an observer might expect, given the statutory command to assess that very thing in arriving at a judgment about fair and relevant minimum wages.

PN759

In terms of the costs of living, we've also seen some increases across CPI and LCI. As our submission shows, the CPI increase is now ahead of the historically low wage price index, and some of the larger CPI increases are in areas that might be regarded as less discretionary, particularly if the objective is and the panel has identified to ensure the capacity to purchase for a decent standard of living.

PN760

In our submission, the fact that a small appliance like a toaster might be relatively cheaper now than it was in the recent past is little comfort when compared to total CPI, the price of food has increased 20 per cent faster, housing 27 per cent faster, electricity 213 per cent faster, other utilities 73 per cent faster, health costs 146 per cent faster, childcare 440 per cent and education 120 per cent faster.

PN761

As figure 70 of our initial submission shows, differences in the changes in the compositional elements of CPI are not new trends but it is also true that the situation has worsened over the last 10 years. The lack of any overall improvement in financial stress indicators is therefore unsurprising. Again, we have something that is not a new problem but that doesn't mean that it should be ignored. It should be remedied. In what is a more recent problem, we've also pointed out in our initial submission that rises in household indebtedness and home loan delinquencies are on the rise as are major bank home loan interest rates. This places pressure on rents even without speculating on any flow on effects from this proposed bank levy.

PN762

In the circles that I move in, if I had a dollar for every time someone brought up the frog in the boiling pot analogy and a theoretical discussion about income inequality and the social and economic problems that are associated with it, I'd have a very lucrative few years. But to move from the theoretical discussion to the rhetorical question, can we not see that this is already starting. To people, whose job it is, in the media and players in mainstream political debate they're paid to take the temperature about a range of issues, and they've twigged that they're on a winner in finding someone or something to blame, if not hate, for people's predicaments.

PN763

The search is on for a concrete, if not, personified bogey man to lynch in pursuit of what some describe as a re-assertion of Australian values. But what is really more

likely some sense that a lot of people have lost something; they feel that life is a lot harder than it was, or a lot harder than it should be. These feelings are real and they're based on something real. They're based on the everyday experiences of the people who are behind the data I've taken you to. We can quarrel about whether or not the underlying cause is conscious policy decisions of successive governments, but the data about the manifestations of it doesn't make the ideological judgments that are indispensable to that kind of a debate. The data is telling us that our country is not as equal as it used to be.

PN764

The panel has accepted time and time again that raising minimum wages can help to address that problem, and it's also blindingly obvious from the discussion between the Bench and the Commonwealth this morning. The Fair Work Commission's own research shows that more than two-thirds of award reliant employees are located in the bottom half of the employee household income distribution and about half are in the bottom three deciles. Any suggestion that raising minimum wages would not target people in need, or would not improve their position, is clearly wrong. You can take it from that, that we're in agreement that the comparison across employee households is a more relevant comparator when assessing relative living standards.

PN765

Wages are lower than we'd like to see, and unemployment and underemployment are higher than we would like to see notwithstanding a draft in terminology in what constitutes full employment. To that extent, we and the Commonwealth speak with one voice, to that extent. But to the extent that unemployment and underemployment are seen as indicators of spare capacity, we submit that increasing minimum wages is a way to address this. Our estimates of the demand effects of raising the minimum wage has excited some response but we're pleased to see mainly the area of contentions on the basis of degree rather than attack on the basic soundness of the underlying theory. There does seem to be some resistance on the basis of a chicken and egg type discussion about productivity, in relation to which we'd point out there is already uncompensated labour productivity growth in the market and further the wage increase itself would be predicted to stimulate the search for more.

PN766

We also stress, in our more recent material, that an increase in minimum wages is likely to have a more profound effect than increases of other wages because of the higher marginal propensity to spend of low income workers. We're under no illusions that what we're asking the panel to do this year is make a substantial intervention, but, in our submission, the substantial intervention is what's called for; a substantial intervention, a break from CPI, and leads rather than closely follows movements in market wages is good for workers and good for the economy.

PN767

There's two final matters that I wish to clarify. In its initial submission our affiliate, the SDA, advanced a proposal that was responsive to the penalty rates decision. It's withdrawn that proposal. The South Australian Government also advanced a proposal in response to that decision. We advance no separate

proposal to respond to the penalty rates decision, and we do not advocate for the position put by the State of South Australia. We're not convinced that it is possible to directly deal with the penalty rates decision in a satisfactory way through the annual wage review process.

PN768

JUSTICE ROSS: We've also asked the State of South Australia to explain the jurisdictional basis for its proposal and we've received no reply. I don't think anyone that's commented on this suggests there is a jurisdictional basis to do what they wish us to do. The submissions that have been made question whether there's any power to make an order in the terms sought.

PN769

MR CLARKE: Yes. The final matter I'd want to raise is that we agree with the Ai Group, consistent with recent practice, that it's appropriate to again raise the casual loading in the Business Equipment Award by 1 per cent to continue its trajectory towards the national standard.

PN770

JUSTICE ROSS: Mr Clarke, can I just ask you something about that – it arises in your submission in reply. This is the fascinating topic of reviewing transitional instruments.

PN771

MR CLARKE: Yes.

PN772

JUSTICE ROSS: At paragraph 9 there. Can I take you to that?

PN773

MR CLARKE: Sorry, I'm just – yes, sorry, about that.

PN774

JUSTICE ROSS: That's all right. I note over the page this is a matter – it's not without doubt. Speaking for myself I'm not sure that a direction is the appropriate way to deal with it. 582 of the Act provides that I can give directions as to the manner in which the Commission is to perform its functions, exercise its powers or deal with matters, but the nature of the direction that's suggested in paragraph 9 isn't really about the manner in which functions or powers are to be dealt with. It's to expand the panel's functions or powers. The function of the panel is really clearly set out in the Act, and, on that basis, it would seem that the better course is the one that you advocate in paragraph 11. I just couldn't quite follow how 582 would get you the required distance. It may not matter because you'll land in the same spot in any event.

PN775

MR CLARKE: That's right. I mean, I think it was more an implicit issue with limitations. The limitations on the function of the expert panel I think are more implicit because, as part of the structuring of the Commission you have to establish an expert panel, and there's only a small bit of the Act that actually says what it's supposed to do, but it does form part of the Fair Work Commission.

PN776

JUSTICE ROSS: Yes.

PN777

MR CLARKE: That was where I thought the in might have been, but I recognise that you're sort of in a bit - - -

PN778

JUSTICE ROSS: Yes.

PN779

MR CLARKE: Trying to be a bit creative.

PN780

JUSTICE ROSS: It might be better to proceed on an abundance of precaution.

PN781

MR CLARKE: Yes.

PN782

JUSTICE ROSS: Is there a – you know, how there are restrictions as to the – well, Full Benches have to deal with award variations arising from the four yearly review. Is there any indication in the Transitional Act as to how the Commission is to be constituted to deal with the termination of those instruments that you can recall?

PN783

MR CLARKE: Not that I can recall.

PN784

JUSTICE ROSS: No. That's all right.

PN785

MR CLARKE: I'm sorry I'm not able to assist.

PN786

JUSTICE ROSS: No, no, that's fine. Any others?

PN787

PROFESSOR RICHARDSON: Yes. Mr Clarke, you said in your remarks that the national minimum wage and with it, of course, C14 has grown less rapidly than the other major indicators of wages, but you probably don't have our statistical report with you.

PN788

MR CLARKE: I do.

PN789

MR COLE: Excellent.

PN790

PROFESSOR RICHARDSON: If you do, could you go to table 5.1, Measures of Nominal Wages Growth?

PN791

MR CLARKE: Yes.

PN792

PROFESSOR RICHARDSON: It shows that from the December quarter 2013 to the present the growth in the C14 has exceeded that in the wage price index and in the average weekly ordinary time earnings. Would you agree with that?

PN793

MR CLARKE: Yes. My comments were based on two things: the chart on the other side of that, so I'm looking at page 19, chart 5.1, which is looking in nominal terms shows a break; shows a divergence, and the measures that we set out in our submission in – let me just find the reference. Was it page 53 was it? No, that's labour productivity. Yes. Yes, sorry, figure 16 on page 53. Again, you can see that divergence over time.

PN794

PROFESSOR RICHARDSON: Yes, over time.

PN795

MR CLARKE: Yes.

PN796

PROFESSOR RICHARDSON: But we do agree that that trend has ceased, and in fact has been somewhat reversed in the last three or four years.

PN797

MR CLARKE: We do agree that there has been a little bit of compression at the top end, which is potentially associated with the mining boom coming off, and that may have been a reason that the minimum wage bite has flattened, as opposed to further deteriorated.

PN798

PROFESSOR RICHARDSON: So you're suggesting the relatively low growth in the wage price index and average weekly ordinary time earnings is because of low growth at the top end?

PN799

MR CLARKE: Both, yes.

PN800

PROFESSOR RICHARDSON: Do you have any evidence that you could give us for that? Really, what you're suggesting is that that's not terribly relevant to the relative living standards of people on award rates. Is that what you're saying?

PN801

MR CLARKE: No, I'm saying that the real growth of the national minimum wage - the growth in real national minimum wages has been relatively low. The wage price index is also low. That takes into account, obviously, people who are reliant

on the decisions of this tribunal as well as the market sector, and so the softening in the market sector is also affecting the wage price index. I'm not sure I can take it further than that, although - - -

PN802

PROFESSOR RICHARDSON: My second question was about the size of your claim.

PN803

Yes.

PN804

PROFESSOR RICHARDSON: I won't go to the question of whether it will increase aggregate demand, but there seems to be widespread agreement that there is some sort of level of wage rise that would trigger a reduction in employment. Would you agree with that general proposition, which is close to tautological?

PN805

MR CLARKE: It's not a definite proposition, as such, it's a theoretical proposition based on years of black box thinking about these issues. We went through the torturous process last year of reviewing the Productivity Commission report and attempting to kind of come up with a magic number, and we don't know what the magic number is. certainly if you accept the outcome of the penalty rates decision, the view there was that if you double people's wages on weekends there might be a dis-employment effect. We're not asking to double the minimum wage.

PN806

PROFESSOR RICHARDSON: I guess my question to you is: what confidence do you have that the increase that you advocate is below whatever this threshold might be?

PN807

MR CLARKE: The confidence that we have is that we were restoring a situation that has existed in Australia before in terms of relative earnings, and we believe that there are - the demand-generating impacts of the increase are also job-generating impacts of the increase.

PN808

PROFESSOR RICHARDSON: That would be disputing the existence of a threshold if you're relying on that second point, because you would say the demand-generating effects are an income effect that offset, in effect, the price effect, so there wouldn't be any job loss.

PN809

MR CLARKE: We haven't - because of the nature of the position that's put, our use of the multiplier doesn't product job losses because we don't have the magic number to plug in. And we think if there is a magic number, it's more appropriately described as "significant". You know, as a significant rise in wages is one where perhaps you're more likely to see effect; but we stress that these are

productions. These are things that haven't been observables in any reliable way. Dr McKenzie may be able to expand on that, being the economist.

PN810

DR MCKENZIE: Again I hesitate to resort to international evidence, but in some of the papers it actually emerged that higher increases in wages led to a bigger response in employment than actually very small increases. That was one American study in particular. Sorry, I've forgotten the reference, but it was in our submission. The other thing is - - -

PN811

PROFESSOR RICHARDSON: I might just comment on that. It's a technical point, but you would be aware of the issue of publication bias.

PN812

DR MCKENZIE: That applies throughout every - - -

PN813

PROFESSOR RICHARDSON: But it looks for bigger effects, rather than smaller effects; more likely to get published. Anyway, that's an aside.

PN814

DR MCKENZIE: That was published amid a big range of papers that found small effects. But the other one is that - I know that international institutional contexts are different, but some very high one-off type wage increases have not manifestly reduced employment. So for instance in the UK our long trends in having variable - low-ish but variable increases in the minimum wage and awards hasn't actually ever been able to be connected with reductions in employment that one is aware of; having a slightly bigger increase, we have no reason - I know it's a silent reason, but we have no reason to assume that this will suddenly reduce employment.

PN815

We have no reason to think that businesses couldn't accommodate that kind of increase. This is partly because they are able to finance any other regulatory changes or changes in their own costs for market reasons. There's no reason why that couldn't happen in the case of a minimum wage increase.

PN816

PROFESSOR RICHARDSON: Maybe I will just get a little more elaboration, though, on this: we've done this before so we can do it again. Mr Clarke, is that a fair summary: we've been in this position before? Is that what you meant, that - - -

PN817

MR CLARKE: I'm talking about the - - -

PN818

PROFESSOR RICHARDSON: The wage bite?

PN819

MR CLARKE: The wage bite, yes.

PN820

PROFESSOR RICHARDSON: But would you agree that the economy today has a rather different shape to it from the last time that the wage bit was that high; and would you think that was relevant in evaluating its impact?

PN821

MR CLARKE: Yes, I do acknowledge that the economy is different now than it has been in the past. There are always a number of variables in this, but the context of our effort to estimate this was the interest of the panel on the last occasion to say, "What can you tell us about this?" And so we had a very good look at it and we did what we could using established techniques: we looked at the IMF numbers, we looked at the Treasury numbers, and we've attempted to try and provide this additional piece of information.

PN822

Of course that's going to interact with other factors; it will. It's an estimate, but we believe it's an informative one that perhaps provides a little bit of new information compared to the way that this criteria of increasing social inclusion by increased workforce participation tends to be considered in panel decisions, which is all about what's the magic number.

PN823

So, well, hang on a minute, there's something going on on the other side of the ledger as well, which is good, and here's our estimate of how it works.

PN824

MR COLE: I think the discussion about the magic number is right. I don't know whether it's magic, but it's very difficult to define. I note in the review of the British system done by the RAN group, they concluded that there had been no employment effect to date from the minimum wage system set up in the UK over 17 years ago, but they warned that future large increases could go too far and be unsustainable for business.

PN825

They're talking about a system that has been granted increases that are larger than have been granted here, but if we go to America - and you refer in your submission to work about increases in wages in New York State. The minimum wage in New York State has been increased from 9 per cent to 15 per cent over a period of three years, I think it is, for large employers - sorry, for New York City and four years for the rest of the state. The people who are undertaking that study Michael Reich et al have actually said that they don't expect that to have any employment effect or it's a negligible employment effect. It's like hundreds rather than thousands. To have a very, very minor, I think it's .01 or something per cent impact on prices.

PN826

So you get away with - you can get away with a lot because that's a 66 per cent increase over three years but he hasn't found the magic number but acknowledges in the paper that at some point there will be loss of employment but the magic

number is very magic, it's got a very wide - very wide ambit that people are talking about on what that is. I just thought you might - the other point I wanted to make about that study is that it does - it's got a very big wage increase but it doesn't argue that it's stimulatory. I mean these macro outcomes apart from very small price rises and very small changes in employment are the same as they would be in the case of not doing the wage increase.

PN827

DR MCKENZIE: Yes, I guess that was specific to New York in a much bigger US context where macroeconomic effects would be much harder to discern from a specific increase like that.

PN828

MR COLE: No, there is actually right through the State of California, there's a state minimum wage in California which has been increased a little more slowly and from a slightly higher level but end up - also to end up at 15 per cent. I think there are 15 cities in California that actually have their own minimum wage and they will have to go to 15 per cent ultimately because otherwise they become irrelevant, because you have - the employers have to pay whatever the highest is of the federal state or local minimum wage.

PN829

DR MCKENZIE: Also the other thing about the finding a particular level that's a too high level, we would actually consider that conceivably that would be at full employment, and that's certainly in the literature. But we would take the position that Australia's nowhere near what we would judge to be full employment, especially considering the level of under employment and unemployment currently. So that any threshold that was premised on a full employment level we're nowhere near. So that actually gives a lot of wriggle room in terms of greater minimum wage and awards on that basis.

PN830

MR COLE: Yes of course if you're phasing them in as we discussed when we convened earlier on the five yearly or multiyear targets, if you're phasing them in you don't know what year four is going to be like. So you can't tune it to macro if you're doing it on a phased system like that.

PN831

DR MCKENZIE: Yes.

PN832

MR GIBBS: Mr Clarke, can I just take you to section 4.5 of your original submission. You refer to some AWRS study of a few years ago about award reliance and your submission says it's included three relevant categories to this end and then you only give us two, but that's neither here nor there. I'm just getting to the substantive point and that is that 14. - you've done some estimates that 14.8 per cent of employee population were award reliant and 5.1 were over award. That comes to just under 20 per cent.

PN833

The latest otherwise award reliance data is about 25 and given this AWRS is three years old, that's probably more likely the figure but whatever it is, whether it's 20 or 25, I don't think I would describe that as a small proportion of the workforce, which you do. A small proportion is a bit like those terms many and often and most that are very difficult to work out what it is. But anyway, what I'm getting to is what's the point you're trying to make here about a small proportion of the workforce?

PN834

MR CLARKE: The point I'm seeking to make is that to the extent that it's accurate to say that there is any flow outside of the strictly award dependent sector of the decisions of this tribunal, that might be a positive influence in the current environment where you know the policy making - a lot of policy making institutions in this country are saying the wages are too low and should go up.

PN835

MR GIBBS: Thank you.

PN836

COMMISSIONER HAMPTON: Mr Clarke, you made mention of the fact that the SDA have withdrawn their supplementary claim. Is it the ACTU's position that this panel should have no regard to the impact of the penalty rates decision?

PN837

MR CLARKE: Well, it's difficult at this point to have regard to what exactly the penalty rates decision will be until - there are a few things down the road. There's the transitional matter, there's also matters I understand happening elsewhere in relation to that. So it's a bit like wrestling with an unknown at the moment. The expectation is that in this financial year there is a risk that workers in a highly award dependent sector will suffer a decrease in their earnings but the tools that we have at our disposal in this process are not flexible and targeted enough to address that problem directly or in a specific way. That's the difficulty that we alluded to in our initial submission which we continue to have those reservations.

PN838

JUSTICE ROSS: So there's more of a general contextual matter rather than one that calls for a specific response in either particular awards or generally?

PN839

MR CLARKE: I think that's right. I think that a specific response is not one that the tribunal can deliver through this process without upsetting the apple cart more generally.

PN840

JUSTICE ROSS: Thank you, Mr Clarke. Any further question for the ACTU? Mr Lyons.

PN841

MR LYONS: Thank you, Your Honour.

PN842

JUSTICE ROSS: Sorry, Mr Clarke, was there anything further?

PN843

MR CLARKE: I wonder if I might be excused?

PN844

JUSTICE ROSS: No, no, certainly.

PN845

MR CLARKE: Thank you.

PN846

MR LYONS: Thank you, Your Honour. United Voice appears for the purposes of supporting in general the submission that's been made by the ACTU. You'll note from our submission given the panel did not come with us on our attempt to persuade you to set a median term target, we propose a larger increase in the federal minimum wage than is proposed by the ACTU, that is a figure of \$20. We say the aggregate economic conditions that have been set out and analysed in the ACTU's submissions support a larger increase in fact than they have sought. We have filed a submission in support of that proposition and I wanted to touch on one or two aspects of that. But in doing that I did wish to take issue with a couple of matters that the Commonwealth raised.

PN847

First is I note that the representative of the treasury did indicate what the forward projections in respect of wage growth is but stopped before the last of the out years and forward estimates. The last budget indicated that in 2021 nominal wage growth would have reached 3.75 per cent. Now the cynic in me might suggest that number is included for the purposes of making the tax take in respect of personal income tax look slightly better and therefore the deficit looks slightly better. But nevertheless the position is that they are projecting that wage growth will effectively double from its current level over the next three years.

PN848

In our submission, given the general weakness in wages, it's impossible to imagine that occurring without our important labour market institutions, of which this Commission is the most important, actually beginning to award levels of wages which are sufficient to put some upward pressure from the bottom, if you like, in respect of wage growth. In our submission, it's extremely curious that while the treasurer has repeatedly said, including last week, that low wage growth was "the biggest challenge facing the Australian economy" that the Commonwealth, in their submissions to you, in respect of, I think, every matter they put to you were matters which, in their submission, mitigated against the award of significant increase. It's hard to square that public position that says wage growth is a problem and we need more of it, with a position that says in respect of, as I say, our most important labour market institutions, that it should not award an increase.

PN849

Secondly, we say that you ought not accept the proposition that high effective marginal tax rates for certain people either returning to the workforce or obtaining

more hours, which are entirely within the control of the Commonwealth, is a reason not to award an increase. Frankly, coming from the Government that is, in effect, them saying particularly when they've done nothing about those effective marginal tax rates, which have been the subject of complaint by unions and ACOSS and others for long periods of time, they're effectively taking those workers hostage, in our submission.

PN850

Finally, we would, along with the ACTU, I think, reject the proposition that the relative living standards of low paid workers who receive market incomes should be assessed as against – or in a sample including households which receive 100 per cent of their income via transfer payments; whether that be the OAP or some other payment. Similarly we are somewhat bewildered I think by the continuing reliance of the Government on the existence of some workers in receipt of minimum wages who may be in higher income households because while it's clearly important that the tribunal understand the distribution of low wage work, it's a question of where does that submission or information actually take the panel. We do not set wages by reference to household composition. Household composition is adjusted for as a result of the tax and transfer system. It seems to me a position that says, well, some low wage workers are in higher income households seems to end only one of two ways: one is well, some people are worth less for the performance of work in the market sector because of the composition of their household; or alternatively the existence of those workers means that the minimum wage and award wages generally should be set at a lower level than it otherwise would be for those workers that are in low income households. Neither of those, in our submission, is an appropriate outcome.

PN851

Given the quantum of our claim I did want to deal with that question about employment effects which was the subject of some discussion between both the ACTU and the Commonwealth, with Mr Cole and Professor Richardson in particular. What we do know in relation to the Australian system is this: is that no decision of this panel or indeed its predecessors has resulted in a detectable negative employment effect, that is, there's never been a submission put, I think, either by employers or the Commonwealth, that a previous decision of the Commission or a tribunal has ever had a detectable negative employment effect. So we say whatever the magic number is you are well below it. The increases that have been awarded are well below it, and we do support the submission put by the ACTU that the previous much closer relationship between minimum wages and medium wages suggests that the panel has significant head room in order to be able to award a large increase, and indeed a larger increase than has been previously awarded. We do refer to the larger increases that have occurred in the United Kingdom and the lack of a detectable negative employment effect as partial grounds for that.

PN852

The only additional international comparison I might raise, and I'm happy to provide the panel with a couple of references to this after the proceeding, but there is also the example of Germany, and this, I think, goes to one of the possible employment effects is actually not a negative employment effect in terms of the

destruction of the jobs but a change in the composition of jobs. So in Germany two things occurred: one is a federal minimum wage was created for the first time, but effectively a form of insecure low wage work called a mini job which had a maximum wage rate of 400 Euros a month was effectively abolished.

PN853

There'd been some suggestion that that was going to have a negative employment effect. What it actually did was have the effect of creating more and better jobs, that is, the rate of increase in jobs that were above the trigger point for the payment of social security contributions in Germany, which is a rough definition of a good and secure job, rose faster in the period after the introduction of the minimum wage than it had in the preceding periods, and part of that was due to the fact that employers in fact made some capital investment to replace work that was otherwise performed by very low wage insecure workers. But that had a knock on effect, if you like, of creating better quality and less insecure work. So while again the institutional contexts are different, that is an example of where a country that effectively had no minimum wage floor, although very strong collective bargaining institution, took some steps, and there wasn't a negative employment effect; there was a positive employment effect, both in net jobs and the quality of those jobs through the increase in the minimum wage and, as I said I'm happy to provide the panel with some references to that work.

PN854

The final matter that I wish to just pull out of our submission to the panel is this: we have included in our submission seven case studies of members of our union and their personal experience of work reliant on award wages. The case studies were prepared by officers of the union and recount correspondence. We anticipate and understand the challenges in terms of regarding this as evidence of probative value, but we include it for this reason; that it is important, we say, beneath the aggregate data, for us all to remember in this process that real people do rely on the outcome of it for income security and for personal dignity.

PN855

What we say is that the case studies, which come from a range of key areas of award dependency in our union's coverage; hospitality, home care, security, cleaning. They vary by age, gender, by city and regional location, by mode of engagement, and, dare I say, by household composition. But the common thread that emerges from this, the common thread of these case studies, is a common lived experience of relying on award minimum wages which is one of insecurity; insecurity, both in respect of take home pay, hours of work or even your job per se, of economic anxiety of a week to week existence. As one of our members said, "where any unexpected circumstances cause trouble". Perhaps in reference I might say to the exchange between the Deputy President and the Commonwealth about that RBA footnote, our members also talk about a weekly and ongoing search for more hours; a desire or a necessity to work more in order to make ends meet and that search for hours. So to the extent what our members told us is supportive of a view that lower wages result in people needing to seek more work.

PN856

We say that the safety net, as it's currently set, the level that it's currently set is failing to meet the needs of these workers, and accordingly we seek that the panel

award a very large increase in the minimum wage, and, in our submission, the national minimum wage should be set at \$20. If the panel pleases.

PN857

JUSTICE ROSS: Thanks.

PN858

COMMISSIONER HAMPTON: Mr Lyons, I think the \$20 originally put is I think your fall-back proposition for reasons I understand.

PN859

MR LYONS: Yes.

PN860

COMMISSIONER HAMPTON: Then in the submissions in reply United Voice has said well, the \$20 becomes the position.

PN861

MR LYONS: Yes.

PN862

COMMISSIONER HAMPTON: Then at point 7 of the reply you say:

PN863

With flow on percentage increases to all award minimum wages.

PN864

I just want to understand what that would mean in practice. Is that the 13.5 per cent necessary to achieve \$20?

PN865

MR LYONS: We're conscious that both the ACTU and other unions have views about that and the relativities question which is less important to us given the nature of our coverage. The important thing for us is that we do seek that \$2.30 adjustment to the national minimum wage but we would be content with any approach the panel took in terms of how an increase of that level might be flowed on or reflected in adjustments more generally. I just - I don't want to cut across the position of other unions.

PN866

COMMISSIONER HAMPTON: I understand. That's helpful, thank you.

PN867

MR COLE: I was just going to mention that we've seen the German material and an interesting point about the German debate was that most economists predicted there would be hundreds of thousands or even a million jobs lost if the system were introduced, and a year after the unemployment rate is the lowest it's been in Germany since the early 1990s.

PN868

MR LYONS: Yes, and the participation rate rose I think as well, Mr Cole.

PN869

MR COLE: Yes. So it does - there is a problem with priors and I think, you know, we saw that in the Productivity Commission, they complained about our priors but their prior was that increases in wages would reduce employment. They searched hard to find something that proved that and they couldn't find that so, yes, thanks.

PN870

MR LYONS: Yes, Mr Cole. I think there is a couple of papers where the Bundesbank Bank released some research before and after the decision where they effectively had to swap their position and say nothing we said was going to happen about the labour market as a result of this happened. In fact there was actually a series of positive consequences.

PN871

JUSTICE ROSS: Thank you, Mr Lyons.

PN872

MR LYONS: Thank you.

PN873

JUSTICE ROSS: Yes, Mr Smith.

PN874

MR SMITH: Thank you. The expert panel has our various submissions, we know and in those submissions we've argued for a \$10.10 increase to the national minimum wage or more correctly 1.5 per cent and a similar increase to other rates of pay. In those submissions we put that proposition on the basis of a number of factors. Firstly, that employment growth is very weak, there's rising youth unemployment and under employment, inflation has been low for an extended period, cost pressures have eroded businesses capacity to afford wage increases, productivity growth is very weak and national aggregate income remains weak and unevenly distributed.

PN875

As we argue in our submission for those factors, when they're taken into account properly, a modest increase, 1.5 per cent, is appropriate and in a moment I'll hand over to our chief economist Ms Toth to make a few comments about that economic and business environment that support what we're proposing. But what I would like to do before doing that is just respond to the answers that the ACTU and the Commonwealth have given on question 6.2 for the final consultations, which as you'll recall is that question about enterprise bargaining and the research report 4 of 2017 by Professor Peterson and his colleague.

PN876

In that question there's obviously an issue raised about the recent decline in enterprise bargaining and the recent increase in award reliance, and the research report points to a decline in union density as being a key reason and also a decline in new enterprise agreements being those that are being entered into for the first time rather than replacement agreements, and various other factors. We don't take issue with any of those findings in the research report but we would like to

highlight just four issues that we think are significant factors behind this current decline in enterprise agreements.

PN877

The first one relates to the well-known problems that are being experienced with some of the technical aspects of the bargaining system, and the legislation is now before parliament of course to address that problem. That is acting as a deterrent in our experience for employers to enter into agreements but there's another similar factor relating to the better off overall test. In the research report it identifies the significance of the retail sector experiences when it comes to the decline in agreement making. But we are seeing a significant deterrent effect there in terms of retail and fast food, relating to the issue of the better off overall test.

PN878

The second factor that we're seeing is the tough economic environment and what we're now seeing with particularly the manufacturing sector, where companies have had perhaps eight consecutive enterprise agreements and in many cases there's been relatively generous wage increases in agreement after agreement, and concessions made on conditions and losses of flexibility in many cases in those agreements. A lot of those companies are now seeing those latest agreements as a significant barrier to competitiveness and are seeking to reset, but that is making the process of finalising agreements more challenging, and also from unions' points of view, they - we would suggest find it less attractive to achieve those outcomes that are now being pursued.

PN879

A third significant factor is what is happening in the construction industry and this isn't identified in that research report, but it's certainly identified in the report that the - or at least in the figures in the report that the Commonwealth has referred to. That Department of Employment Report that came out early this year, and the link to it is in the Commonwealth's response to question 6.2. What that report shows is that since particular 2014, the two sectors where there has been the biggest reduction in agreement making is firstly retail, as I've talked about, but secondly construction. This issue of the building code that is now in operation and the fact that agreements need to comply with that code and the fact that construction unions are not supporting the code, there are hundreds and hundreds of agreements held up at the moment in that process. We see that that would be a key factor behind the significant decline in agreement making in the construction industry at the moment.

PN880

The fourth factor is identified in the research report, and that is the public sector bargaining and the unions' resistance to the Commonwealth's bargaining framework. Now none of those factors in themselves are definitive of what we're seeing with the significant decline in agreement making but all of them are major factors in our experience and in the statistics. That doesn't necessarily explain the increased incidents of award reliance because what it indicates really is that there's a very large number of employees on expired enterprise agreements. The Commonwealth's report defines a current agreement as one that has passed its nominal expiry date, so all of the people under those agreements are not covered

under those statistics. So when we get to the issue of why is there an increased level of award reliance we can't shed a lot of light on that. There are a number of earlier research reports which the Commission has commissioned about the drivers of award reliance. That one that was done in 2005, research report 1 of - 15, sorry, 2015 - highlights some of the factors surrounding award reliance, and they still appear to be relevant.

PN881

Just one final point, and that is the ACTU's suggestion in its answer to 6.2 that a key reason is an alleged rise in insecure work, being casual work, as they see it, and part-time work. Firstly, as we've consistently pointed out publically and in submissions to the Commission, casual employment as a percentage of the workforce has not increased since 1998. It has been around 19 to 20 per cent now for all of those years, so the assertion that there has been an increase in casual employment is just not true.

PN882

And secondly, part-time employment cannot be seen, in our submission, as insecure employment. It has been widely reported in newspapers today, based on the Reserve Bank minutes that came out yesterday, that the Reserve Bank had a key discussion about this at its last board meeting, and what is cited in the minutes is that the Reserve Bank believes that the recent growth in part-time work mainly reflects personal choices of individuals and a shift to a more service-based economy.

PN883

VICE PRESIDENT HATCHER: If that's right, do we then treat the growth in part-time employment as not indicating underemployment? That is, you're saying it's a structural change in the workforce, not a significant indicator of under-employment.

PN884

MR SMITH: I might leave Ms Toth to provide a more sophisticated answer to that question, your Honour, as I know she knows a lot about this particular topic. If there are no questions on the points I've raised, if I could hand over to Ms Toth.

PN885

MR GIBBS: Mr Smith, sorry, before you sit down, can I just ask you a question. You mentioned four factors in your submission this morning about reductions in enterprise agreements - if I could just use that term - none of which have anything to do with us setting minimum wages or award minimum wages. In section 7 of your initial submission, page 32 - I perhaps should have asked this on notice, and I apologise I didn't - it says:

PN886

In Ai Group's experience, the higher the minimum wage increase granted by the expert panel, the less likely an employer and its employees will seek an enterprise agreement.

PN887

That doesn't seem to have any co-relation with what you put to us this morning for the four points. But the main question is: is there any evidence - do you have any evidence other than Ai's experience to back that statement up?

PN888

MR SMITH: I can just address the two points. Firstly the point about what I've just put about question 6.2, it's really only put in the context of the question that is asked about Prof Peck's report, so we don't put it any higher than that. But the other point about our view on minimum wage outcomes and enterprise bargaining, we've made that submission many, many times, and the expert panel and its predecessors has responded to it many times.

PN889

We have a large team of industrial officers who are out there all day, every day assisting companies to negotiate agreements, and in our experience that is a factor. The Commission's view on it and the expert panel's view in the last couple of years is as has been published. It can be debated both ways, but we don't put it any higher than that, is what we say. If you were to award a - in what we would see as an excessive wage increase, we think it would have a significant impact on bargaining. It would be seen as the floor for claims in our experience.

PN890

JUSTICE ROSS: Thank you.

PN891

MS TOTH: Good morning. I was going to give you the usual sort of update on the economy, but I note that we have already had a fairly comprehensive update from Treasury, and also from the ACTU. So if you don't mind me reading from my phone for this bit, while we've been talking the wage price index was released by the ABS for the first quarter of this year, so that does give us all some new information to go on. That's showing that in aggregate the wage price index is up 1.9 per cent over the year.

PN892

JUSTICE ROSS: What was the number?

PN893

MS TOTH: 1.9 for the total. Breaking it down, private sector wage growth is 1.8 per cent, so that's the same as it was in period 4, there's no change there; public sector wage growth is 2.4 per cent through the year; so they're all the annual growth rates. So Q1 is looking remarkably similar to Q4 last year, just on these headline numbers.

PN894

Looking at some of the detail, although I haven't got full access to it right now, we are still seeing a pattern of wage growth generally tracking quite closely to what we know about labour demand across the economy. So, for example, the weakest wage growth in this data is for the mining sector, just 0.6 per cent over the year; and related to that, WA is showing the weakest wage growth geographically.

PN895

The strongest industries for wage growth, at 2.3 per cent, are those that are predominantly in the public sector, so public administration, education, and health care are all showing a 2.3 per cent wage increase. Across the states again, you know, Victoria, New South Wales quite a bit stronger than the other states, but Tasmania actually got the highest wage increases in the quarter, 2.3 per cent over the year.

PN896

So not too sure what's going on with Tasmania, to be honest, but certainly, you know, this is showing the same pattern that we're seeing across a range of other indicators where Victoria and New South Wales have definitely taken the mantle from, previously, WA and Queensland as the areas of growth. Those divergent geographic patterns across the country are definitely still at play.

PN897

Just on the macroeconomic story, we did have a question on notice asking about our business surveys and what they're showing, and I've provided an update in response to those which takes the data to the end of April. That's the most recent data point we've got. So in aggregate when we look at the three surveys that Ai Group runs: the Australian PMI, manufacturing; the PSI for services; and the PCI for construction; when we put those together they track very closely to the Matheson survey, which is also run each month, fairly comparable coverage.

PN898

They are all showing that yes, business conditions are looking better at the moment than they have for some time, but they're not significantly higher this year than they have been over the last two years. We saw quite a big dip in Q3, which of course, you know, got confirmed later by the ABS with a big dip in GDP of that quarter, partly weather-related.

PN899

It's looking like when we do get the numbers for the first quarter of this year from National Accounts, that we will expect to see GDP hit again by weather - the cyclone in Queensland. And there might be some other factors, for example weak consumption spending, we've seen that already in the retail data; so it's possible that Q1 this year is also going to come in relatively weak. Over the year Treasury, as they've already outlined, is only looking at 1.75 per cent growth over the year for 2016/17, so quite weak, hopefully picking up next year.

PN900

I think the main things I want to highlight about the macro story is that the pattern we're seeing still isn't conducive to strong employment growth, and particularly, strong private sector employment growth. We are still seeing relatively weak growth numbers, both in the head counts and in aggregate hours worked. And in fact when we look at private sector employment it's weaker again because much of the employment growth has been in public sector in the public administration, education, and health care.

PN901

We're also, of course, not seeing that reflected in incomes growth. And I say incomes growth more broadly because it is in fact profits as well as wages that are

not growing as strongly as we'd all like them to be across the range of private sector industries. So bearing all of those in mind I think that's why we have moved from the recommendation that we put forward earlier in the process.

PN902

VICE PRESIDENT HATCHER: Do you want to deal with the question that Mr Smith asked, do you?

PN903

MS TOTH: Yes. Would you mind repeating it for me?

PN904

VICE PRESIDENT HATCHER: I thought Mr Smith was submitting that casual employment had been stable and the growth of part-time employment was – might be para-phrasing him incorrectly but he'll correct me if I'm wrong, in effect the labour market meeting the persons who wanted part-time work rather than an indicator of insecure employment. I'm wondering then whether the submission is that the recent growth predominantly in part-time employment is indicative of a structural change in the labour market perhaps associated with feminisation in the workforce.

PN905

MS TOTH: Yes.

PN906

VICE PRESIDENT HATCHER: Or is it, as a number of parties submitted, an indication of underemployment?

PN907

MS TOTH: I think that's a really good question and it's also really good that you're distinguishing between part-time work and casual work because you're quite right, part-time work, which is literally only defined in terms of how many hours people are working, is on the rise, and it has been for quite some time, but when we look at the ABS data on casual work, which is quite a different definition; that's to do with the tenure of the work, and really not related to how many hours people are working, that hasn't shown any change at all over quite an extended period of time as a proportion of the workforce. The numbers have, of course, increased because the entire workforce has, but we haven't seen any shift in the proportions that are employed on a casual basis.

PN908

PROFESSOR RICHARDSON: But I don't think that's the question. The question is, is the growth in part-time employment to be seen as an indicator of weakness in the labour market.

PN909

MS TOTH: Okay.

PN910

PROFESSOR RICHARDSON: And growth in underemployment.

PN911

MS TOTH: Sorry, I got confused with the reference to casual.

PN912

PROFESSOR RICHARDSON: Is that correct?

PN913

VICE PRESIDENT HATCHER: Yes. As distinct from some structural change in the workforce and the nature of the labour market.

PN914

MS TOTH: Yes. That's a really good question, is how much of it is coming from labour supply, and how much is coming from labour demand. Without sort of fudging it too much I'd say it's both. You know, there is quite a lot of evidence that some of the inquests in participation among women and at the older age groups, they are looking for part-time work only. We could see that, for example, when we look at the unemployment data on the proportion of unemployed people who are seeking part-time work only, that's where it does seem to be growing as a proportion of the unemployed fall, so to that extent there is some evidence that it's partly driven by people seeking part-time work only. On the structural side, the areas of growth in employment, as I've already outlined, you know, we are seeing a lot within the public sector at the moment, but also healthcare. Healthcare is now the single biggest industry of employment, and it does have fairly high rates of part-time work compared to other industries. I think, off the top of my head, around 45 per cent working part time. So to the extent that we have got more people working in the industries that prefer part-time work, yes, there is a structural element as well.

PN915

PROFESSOR RICHARDSON: Could I just put to you, Ms Toth, about the question that I also explored with the Commonwealth, which was the way in which we measure the participation rate, because you have been inclined in your submission, to use 15 plus as the denominator and you say that the changes in the age structure are moving so slowly that they don't have a significant impact in the sort of time horizon that we're considering. I think that's a fair summary of your position; is that correct?

PN916

MS TOTH: I think what I was trying to – to be fair, I think I was a little bit lazy in using the participation rate for all adults. I agree with you, we should just focus on the working age group. I think what I was trying to say is that, and I have attempted to sort of redo the data for you in the reply submission, is that the differences we're seeing, particularly by gender worried me a little bit, particularly the fall in participation for working age males, and, yes, age has an impact but there's definitely other things going on there that I was trying to highlight, and I apologise that it wasn't done as clearly as I would have liked.

PN917

PROFESSOR RICHARDSON: Thank you. Yes, the decline in male participation has been going on for a long time.

PN918

MS TOTH: Yes.

PN919

PROFESSOR RICHARDSON: It is a significant issue. But I can save you the trouble because it's in the statistical report.

PN920

MS TOTH: Yes.

PN921

PROFESSOR RICHARDSON: For the participation rate. At least a shorthand version that just looks at those of the prime working age.

PN922

MS TOTH: Yes. Yes, I guess that was the element that I was trying to highlight but not very successfully.

PN923

PROFESSOR RICHARDSON: Thank you.

PN924

JUSTICE ROSS: Anything further? No? Anything any other party wishes to say? No? All right. Thank you. We'll adjourn.

ADJOURNED UNTIL THURSDAY, 18 MAY 2017

[12.20 PM]