

**SUBMISSION TO  
FAIR WORK AUSTRALIA**

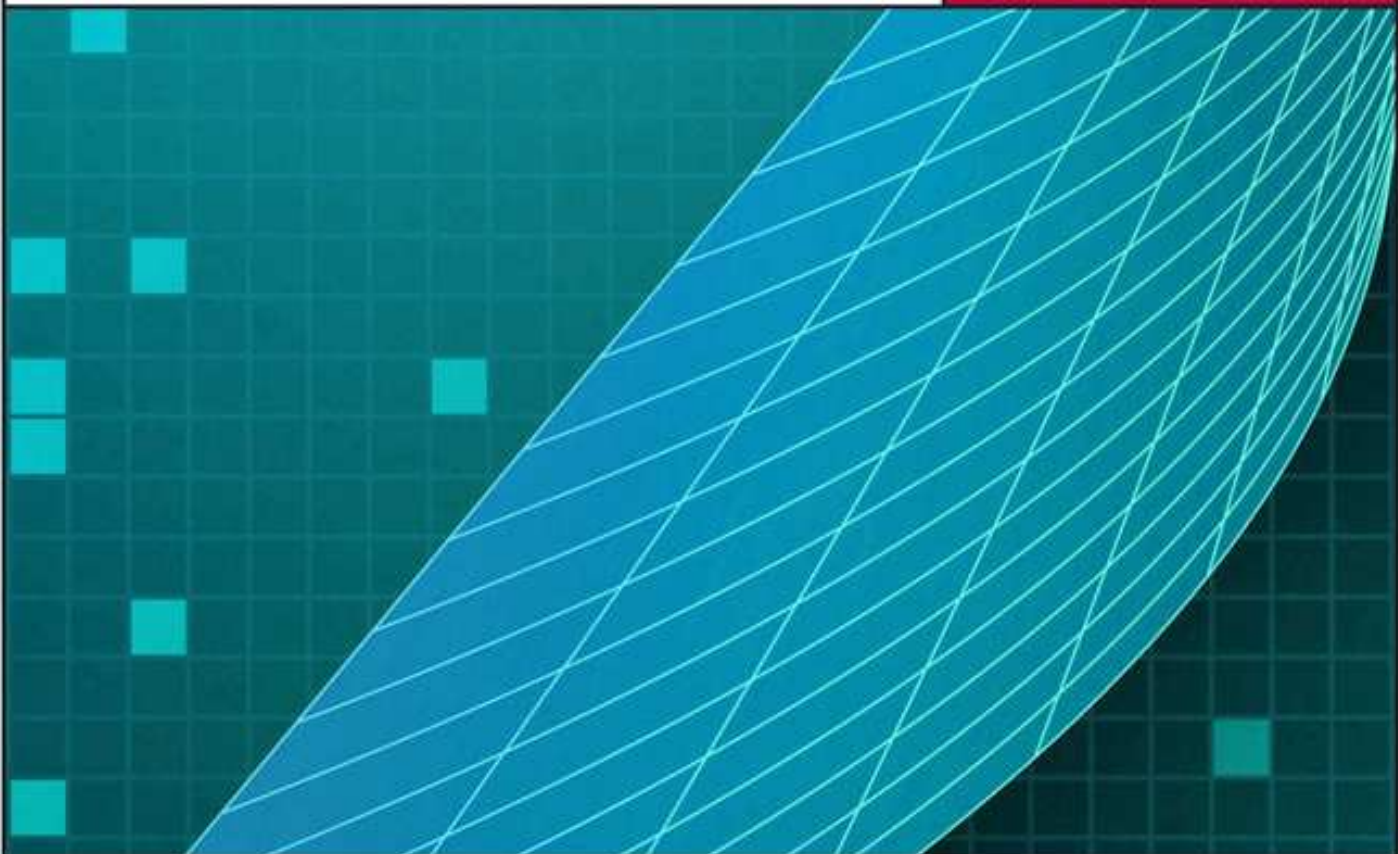


**ANNUAL WAGE REVIEW 2010-11**

**REPLY SUBMISSION**

 **AUSTRALIAN INDUSTRY GROUP**

**29 April 2011**



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## REPLY SUBMISSION

### 1. Introduction

1. In its Statement of 23 December 2010, the Minimum Wage Panel invited parties to file reply submissions.
2. Ai Group has considered the submissions of other parties and none have led us to change the views which we expressed in our March 2011 submission. Our views on most of the issues raised in other submissions will be apparent from the content of our March 2011 submission.
3. Accordingly, this submission deals only with a few matters of particular importance.

### 2. Economic conditions

4. The Australian economy is not growing as strongly as was expected.
5. Notwithstanding considerable evidence to the contrary, several submissions assert that the Australian economy is currently growing strongly. In these submissions this assertion is used to support a large increase in minimum wages.
6. Such assertions do not tally either with current business experience or with the most recent official data. While some sectors most notably the mining sector is experiencing very strong conditions, this contrasts with the vast bulk of the economy and in particular with the experience in trade exposed sectors outside of the mining sector. The patchy performance is manifested in the

fact that GDP growth over the second half of 2010 (which are the latest available data) grew at a disappointing average rate of 0.4% a quarter (seasonally adjusted). This is half the post-1980 average quarterly GDP growth rate of 0.8%. The fact is that GDP growth slowed markedly over the second half of 2010 well before the impacts of severe weather events further damaged the economic outlook.

7. This official data is fully supported by a range of business indicators. Ai Group's indices measuring business conditions in the manufacturing, services and construction sectors each spent the bulk of the second half of last year in negative territory. Further business indicators point to conditions worsening and not improving in the first quarter of 2011. In this period, both the Australian PCI® (construction sector) and the Australian PSI® (services sector) have recorded three consecutive months of decline while the Australian PMI® (manufacturing sector) has pointed to declines in two of the three months.
8. In these circumstances, with both official data and business experience pointing to relatively sluggish conditions, a large increase in minimum wages would carry significant risks. These risks are magnified in the case of the non-mining trade exposed sectors that are currently under such intense competitive pressures.

### **3. Enhancing social inclusion through increased participation in paid work**

9. Ai Group recognises the importance of social inclusion and the fact that social inclusion clearly has important dimensions other than those related to the greater access to financial resources from participation in paid work. That said, there is much to be said for the ACTU's conclusion that:

*“Social inclusion can best be promoted by ensuring that Australians have access to decent work with decent wages. This will facilitate effective participation in society.”<sup>1</sup>*

10. Considerably less confidence can, however, be attached to the ACTU’s further statement that:

*“Decent wages can promote workforce participation by inducing additional labour supply. The evidence suggests that moderate minimum wages increases are benign for labour demand.”<sup>2</sup>*

11. As Ai Group has previously argued, with most recently recorded labourforce underutilisation at 11.9% of the workforce (ABS 6202.0, April 2011), the labour market is clearly exhibiting a surplus of supply relative to demand. This is particularly the case in less skilled occupations that are more relevant to Annual Wage Review considerations. In this circumstance, inducing additional supply of itself is much more likely to add to unemployment and underemployment than to participation in paid work. Social inclusion would not be enhanced in this event.

12. Further, if, as is overwhelmingly held to be the case (notwithstanding isolated papers putting a different view), the elasticity of demand for labour with respect to changes in wages is negative (that is, if demand for labour is at least somewhat lower than would otherwise be the case in the face of higher wages), a rise in wages is likely to detract participation in paid employment (relative to what would otherwise occur). This would certainly not be consistent with enhancing social inclusion through participation in paid employment.

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<sup>1</sup> ACTU Submission, para 9.55, pp.118-9.

<sup>2</sup> Ibid.

13. This is the reason that Ai Group contends that a relatively high increase in minimum wage rates, particularly when fractionally less than 12% of the labourforce is looking for work or more work than they currently can obtain, runs the substantial risk of detracting from rather than enhancing social inclusion through greater participation in paid work (relative to what would otherwise occur).

#### **4. Relative living standards**

14. Chapter 10 of the ACTU Submission (pp 120-132), is devoted to relative living standards. The discussion contained in that chapter is extraordinary for the lack of any mention of the redistributive nature of the Australian income tax and social welfare system; the related lack of any mention of disposable income and the absence of any acknowledgement that living standards are intimately related to household rather than individual incomes.
15. In any objective analysis of relative living standards, the fact that Australia deploys the combination of a progressive personal income tax system and an income-tested system of social welfare and transfer payments to redistribute income (and to finance non-market access to education and health services) would be a central focus. In contrast, the ACTU can find no place for this central feature of Australian society in its discussion of relative living standards.
16. The ACTU's discussion of relative living standards examines different measures of pre-tax earnings. Clearly this is a relevant element of a proper discussion of relative living standards. However living standards require a comparison of disposable income (net of taxes and transfers). In this sense, at least, the ACTU's discussion is one-sided.

17. The final omission in the ACTU's discussion of relative living standards to which we would draw attention is the elementary social fact that Australians live in households of financially interdependent people. Clearly, relative living standards are shaped by this fact, and comparison of pre-tax wages paid to individuals in itself provides an extremely poor approximation of relative living standards across real Australian households.
18. Indeed, due to the complex composition of Australian households, comparison of wages between a low wage earner and a high wage earner is very frequently a more useful comparison of comparative earnings of different members of the same household than it is of living standards between different households.
19. Ai Group maintains that a proper examination of relative living standards needs to take full account of the impacts of Australia's redistributive tax and social welfare and transfer systems on disposable incomes. Further, it needs to take into account that it is the household that is the more relevant unit of comparison of relative living standards than the individual.

## 5. Relativities

20. In the ACTU's submission, the unions argue that "*the time has come to address the distortion of award relativities and erosion of minimum wages*"<sup>3</sup>, but they go on to state that they have decided to pursue their claims in this area in 2012 rather than in the current Annual Wage Review.

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<sup>3</sup> Paras 1.15 to 1.18 and Chapter 3.

21. Ai Group intends to vigorously oppose any attempts by the unions to restore relativities, given the compression which has occurred over the past 18 years.<sup>4</sup> The compression is due to lower paid workers receiving higher wage increases than they would have received if a percentage increase had been awarded. It would be extremely unfair upon employers to re-establish relativities at this late stage.
22. Awards operate as a safety net, and award rates remain fair and relevant in that context, despite the compression of relativities. The relativities between award rates have not eroded to such an extent as to be ineffective or unworkable.
23. The arguments run by unions representing higher skilled workers, that the compression of relativities needs to be addressed, fail to recognise the reality that very few higher skilled workers are paid award rates. Skill shortages are widespread and worsening in Australia. Higher skilled workers are typically in high demand and receive substantial over-award payments. Market factors and the high incidence of over-award payments substantially reduces any detrimental impact of compressed relativities.
24. At paragraph 3.58 of the ACTU's submission, the following statement is made:

*"We respectfully ask the Panel to provide guidance in its decision (in the current review) regarding how these issues might be pursued during 2012. It appears that both issues of relevance and relativities can be addressed as part of the 2011-2012 Annual Wage Review and/or as part of the 2012 review of modern awards, We submit that it is appropriate for the Panel to confirm which vehicle is most appropriate to deal with these issues, and/or to map out a process and timetable for the way forward."*

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<sup>4</sup> Since 1993, flat dollar increases have been awarded.

25. Ai Group urges the Panel not to accept the ACTU's invitation to map out a process or timetable, or to outline a vehicle, to address the compression of award relativities. If the unions wish to pursue this matter then they have the right to develop a claim and to pursue that claim if permitted under the *Fair Work Act*. If they wish to pursue a claim, they should prepare it, lodge it with FWA, and serve it on employer representatives. FWA would then need to decide upon an appropriate process and timetable to deal with the unions' claim.
26. At paragraph 1.17 of its submission the following statement is made:
- "The ACTU acknowledges that the current Annual Wage Review may not provide adequate scope to consider the complex issues involved in restoring wage relativities."*
27. The above statement appears to be an acknowledgement by the ACTU that the Minimum Wage Panel through its role in conducting Annual Wage Reviews, does not have the jurisdiction to deal with all elements of the claims which the unions appear to be contemplating. It is not appropriate for the Panel to map out a process for FWA to exercise functions extending beyond minimum wage determination to deal with claims which the unions have not yet formulated, nor lodged with the Tribunal, nor served on employers.
28. Ai Group urges the Panel to not be distracted from its central role in determining the appropriate level for a minimum wage increase.
29. The Panel should give priority to the needs of the low paid rather than adopting the largely theoretical arguments put forward by unions about the alleged negative impact of compressed relativities on higher skilled workers.

30. In its *2009-10 Annual Wage Review Decision*, even though the Panel expressed concern about the compression of relativities, it decided that “*to the extent there is a choice between a percentage increase benefiting the higher levels and a dollar amount benefiting the lower levels we think that the current circumstances favour a great benefit for the lowest paid*”. Ai Group submits that a similar conclusion should be reached this year.

## **6. The ACTU’s proposed wage increase**

31. The ACTU's proposed increase of \$28.00 per week up to the base trade rate and 4.2% above that, is unrealistic and economically unsustainable.
32. Also, the ACTU’s proposal represents an attempt to have “two bites at the cherry” in order to put forward a claim which satisfies their union affiliates which represent lower paid workers as well as their affiliates which represent higher paid workers.
33. Rather than accepting the ACTU’s proposal, Ai Group submits that the Minimum Wage Panel should:
- Increase the national minimum wage by \$14.00, operative from 1 July 2011;
  - Increase award minimum wages for adults by \$14.00 per week, operative from 1 July 2011; and
  - Invoke the exceptional circumstances provisions of the *Fair Work Act* (s.286(2)) for employers who have been badly affected by the recent natural disasters. For these employers, Ai Group proposes an operative date of 1 January 2012 for the \$14.00 increase.