ACTU MINIMUM WAGES SUBMISSION 2004

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1 Introduction

1.1 For nearly 100 years the Commission and its predecessors have stood for fairness in the workplace. In this its hundredth year the Commission has an historic opportunity to continue that tradition by granting low paid minimum wages workers a decent wage increase.

1.2 At a time of unprecedented prosperity Australia has become more unequal. At a time when full-time earnings have grown by more than 6 per cent per annum average wages for full-time award workers have grown by less than 3 per cent per annum. In a 6 year period during which profits in the two most award dependent industries increased by more than 80 per cent, real award wages have increased by less than 8.8 per cent.

1.3 The ACTU claims a $26.60 increase in all award wage rates with a commensurate increase in wage related allowances. If granted the ACTU claim would take the Federal Minimum Wage to $475.00 per week or $12.50 per hour.

1.4 A $26.60 increase is fair. Fair to low paid workers whose life is a constant struggle to make ends meet, juggling budgets and going without things which others in the community would regard as necessities. Fair also for employers who have seen profits and productivity rising to record levels. Fair, in the context of a society whose economy prepares to enter its 13th year of continuous economic growth, where inflation is contained and where job growth has been strong. Awarding the ACTU claim requires of the Commission no more than it should perform its historic and statutory function – that of maintaining fairness in the workplace.

Australia's Economy is Strong

1.5 Australia's economy is growing strongly. Having weathered the storm of arguably the worst drought in 100 years, a weak world economy, the outbreak of SARS and geo-political tensions in Iraq, growth in the September quarter

2003 rebounded to 1.2 per cent. All indicators point to continued strong growth in the December quarter 2003 and throughout 2004.

1.6 Business sentiment is strong with total private business fixed investment up nearly 20 per cent in the year to June 2003. Company profits before income tax increased 23.1 per cent over the year to September 2003.

1.7 Meanwhile price and wages growth has been moderate. The Consumer Price Index is well within the Reserve Bank of Australia's medium term target range of between 2 and 3 per cent and is forecast by Treasury to be 2.25 per cent in year average terms for this financial year. The Wage Cost Index shows wage cost pressures are moderate with the increase in the Wage Cost Index for the year to September 2003 being 3.6 per cent.

1.8 Employment growth has been strong and Australia's unemployment rate continues to fall. At 5.6 per cent for December 2003, the unemployment rate has not been lower for 22 years.

The Contribution of Award Workers to Australia's Prosperity

1.9 Award workers have made a real contribution to Australia's economic strength and prosperity. An analysis of the three most award dependent industries: Accommodation, cafes and restaurants, Retail trade and Health and community services, shows an impressive economic performance.

1.10 These industries have had growth in output and employment exceeding the all-industry average for the period 1996-2003. Significant increases in productivity have meant real unit labour costs have continued to fall throughout the same period. In the two most award dependent industries (Accommodation, cafes and restaurants and Retail trade) there has been strong growth in profits[1]. The growth in productivity and the growth in output for the most award dependent sectors exceeds the growth in real wages for award workers.

[1] ABS Cat. No. 5676.0 does not record profits for Health and community services.

1.11 As Table 1.1 shows while output has grown by 30 per cent or more, whilst productivity growth increases have ranged between 9.1 per cent and 16.6 per cent and whilst profits have increased by more than 80 per cent, real award wages have increased by less than 8.8 per cent.

Table 1.1 Award Dependent Sectors – Economic Performance and Wages 1996-2003

	Increase in output (%)	Increase in Productivity (%)	Increase in Employment (%)	Increase in Profits (%)	Increase in Wages[(a)] (%)
Accommodation, cafes and restaurants	31.2	14.6	28.5	82.1	8.8
Health and community services	29.8	9.1	23.2	na.[(b)]	8.8
Retail trade	33.8	16.6	16.2	99.0	8.8

a. Increase in wages is real growth in Federal Minimum Wage deflated using all groups CPI. Note for all wage rates above the FMW real increase is less than 8.8 per cent.
b. ABS Cat. No. 5676.0 does not record profits for Health and community services.

Source: ABS Cat. Nos. 5204.0, 5676.0, 6291.0.55.001.

1.12 Granting award workers a decent pay rise is not a matter of charity, it is not an act of beneficence – it is a matter of fairness and justice.

Award Wages Lag Behind

1.13 Last year award workers received an average wage increase of 3.1 per cent. For full-time award workers the increase was 2.9 per cent. As Table 1.2 shows award workers received a smaller increase than every other indicator of wages growth. While full-time award workers received an average increase of less than 3 per cent, average full-time earnings have grown at more than double this rate. In the longer term award wages have grown less than average and median earnings.

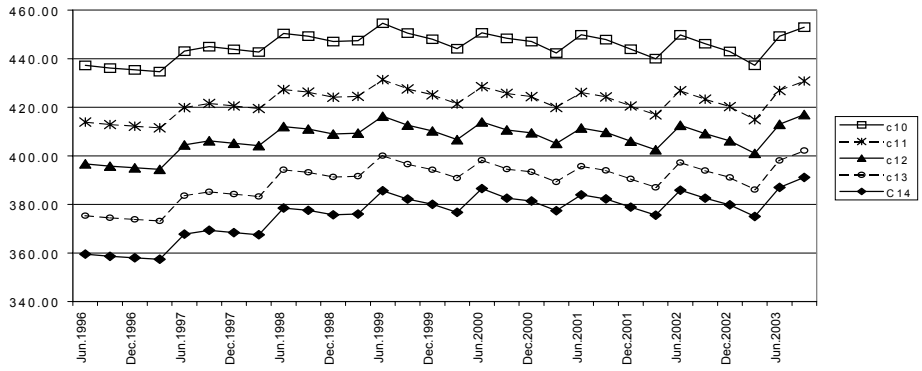
Table 1.2 Annual percentage increase in key wage measures

AWOTE	AWE full-time adults	AWE all employees	AENA	WCI	ADAM	DEWR	MERCER
6.1	6.2	5.4	3.5	3.6	4.5	4.1	4.5

Source: ABS Cat. Nos 6302.0 August 2003, 5206.0 September 2003, 6345.0 September 2003 (all figures trend), ADAM and DEWR AAWI for current agreements in September quarter, Mercer Quarterly Salary Review September 2003, increase in base salary Senior Management

1.14 In a period of relatively low inflation and strong economic growth the after tax position of low paid award wage earners has barely moved and in some cases worsened in the last four years. An employee on C10 (a wage rate the Commonwealth concedes is low paid) has an after tax income of $452.96 in September 2003 (exclusive of any Medicare levy payable) $1.63 less in real terms than the corresponding figure in June 1999. The increase on the Federal Minimum Wage in the corresponding period is just $5.47 or an average of 0.5 per cent per annum. Figure 1.1 below shows the real after tax position for the five lowest classifications in the Metal Industry Award between 1996 and 2003.

Figure 1.1: Real After Tax Wages



1. All figures September 2003 dollars
2. After tax wages includes low income tax off-set (where applicable) but excludes Medicare levy

Needs of the Low Paid

1.15 Independent research on the needs of the low paid by the University of New South Wales Social Policy Research Centre (SPRC) confirms the need for significant increases in minimum wages to allow working Australian families a decent standard of living. SPRC updates its budget standards work originally commissioned by the Commonwealth in 1995. These budget standards provide empirically determined budgets for a range of working households at two levels: a low cost standard (which was developed to assist in the setting of social security payments) and a modest but adequate standard. SPRC concludes that in the context of minimum wage setting the low cost budget standards are too low and the modest but adequate standards are probably too high.

1.16 Significantly, the SPRC research shows that for a number of household types the Federal Minimum Wage together with all forms of government benefits would not guarantee even the low cost standard in September 2003. In the case of a couple with no children and a couple with two children on the Federal Minimum Wage disposable income falls $44.80 and $21.06 respectively below the low cost standard. The SPRC research provides a compelling case for a significant increase in minimum wages.

1.17 Seven low paid witnesses provide further evidence of the struggle to make ends meet on low wages. Their real life stories are of juggling bills, going into debt, significant financial stress and going without things that many in the community regard as necessities. Some witnesses go without new clothes, others without holidays or social outings, others without motor vehicles or medical insurance. One witness describes his life as "*ruled by lack of money*".

1.18 As the SPRC research shows even a wage increase of the order of the ACTU claim will not completely ameliorate the circumstances of the low paid but it will provide real and significant assistance.

There will be no adverse economic effects

1.19 The ACTU claim will not adversely impact on economic growth, employment, inflation or productivity. The ACTU claim will add about 0.1 per cent to economy wide earnings. As Commonwealth economic modelling of the previous two ACTU claims shows, at this level the ACTU claim will have a negligible impact on growth, employment and inflation.

1.20 Further, an analysis of award dependent sectors shows no adverse impact on the economic performance of those sectors from past safety net adjustments. In its last decision the Commission specifically found that its 2002 safety net increase had not had any adverse economic impact. This finding is of key significance in this case because the economic impact of granting the ACTU claim is broadly comparable with the economic impact of the 2002 Safety Net Adjustment combined with the 1 per cent increase in compulsory Superannuation Guarantee Contributions which took effect at about the same time as the 2002 safety net increase. Table 1.2 below shows the combined effect of the SNA and SGC increases for award only workers in 2002 compared to the effect of the ACTU claim in 2004.

Table 1.3 Comparing the ACTU claim with combined effect of the 2002 SNA and SGC Increases

	2002 SNA and SGC	**2004 ACTU Claim**
Net addition to earnings	0.12	0.14
Gross addition to earnings	0.40	0.41
Average % increase	4.4	4.7
FMW % increase	5.3	5.9

1.21 In short there is simply no case on the basis of available data for any suggestion that previous safety net adjustments have lead to any adverse economic outcomes. In light of the conjunction of the safety net increase in 2002 and the increase in compulsory superannuation contributions at that time it can safely be concluded that an increase in the order of the ACTU's

claim will equally have no adverse economic impact either at the aggregate or sectoral level.

The ACTU claim is justified

1.22 The ACTU claim is justified:

- It is justified by strong economic growth which permits a decent increase for the low paid;
- It is justified by the contribution which award dependent workers have made to Australia's prosperity and growth;
- It is justified as a wage increase which will help restore the relative value of award wages and give low paid award workers a decent real increase;
- It is justified by the evidence of the needs of the low paid; and
- It is justified by an analysis which shows that a claim of the magnitude of the ACTU claim will have no adverse economic impact.

2 Award Workers and Award Industries

2.1 This chapter looks at the economic performance of those industries with a high concentration of award workers in the period 1996-2003 and then considers how the wages of award workers have moved in the same period. This analysis shows that the economic performance of the most award dependent sectors has been strong and in some key respects exceeds all industry averages. Yet award workers have seen their wages fall behind others in the community and after tax award wages for the low paid have essentially been stagnant since 1999.

The Economic Performance of Award Industries

2.2 Data from the *Employee Earnings and Hours May 2002 Survey* ABS Cat. No. 6306.0 (EEH) shows the proportion of award only employees in each industry as at May 2002. Table 2.1 shows these proportions.

Table 2.1: Proportions of award only employees in industries

Industry	Proportion of Award only Employees in Industry
Mining	**5.9
Manufacturing	12.5
Electricity, Gas and Water Supply	*1.1
Construction	17.1
Wholesale trade	11.7
Retail trade	34.2
Accommodation, cafes and restaurants	61.2
Transport and Storage	16.4
Communication Services	*2.4
Finance and Insurance	*4.9
Property and Business Services	18.1
Government Administration and Defence	6.0
Education	7.8
Health and community services	30.3
Cultural and Recreational Services	10.9
Personal and Other Services	22.2
Total	**20.5**

Source: ABS Cat No. 6306.0

2.3 Table 2.1 demonstrates that award only workers are most heavily concentrated in the industry sectors of:

- Accommodation, cafes and restaurants;

- Retail trade; and
- Health and community services.

and are least concentrated in the following industry sectors:

- Communication services;
- Finance and insurance; and
- Electricity, gas and water supply.

2.4 As the ACTU noted in its submissions last year, the three most award dependent sectors have not changed since the May 2000 EEH. EEH surveys prior to 2000 did not record proportions of award only employees. Unpublished data from the preliminary release of the May 2002 EEH ABS Cat. No. 6305.0 shows that the three most award dependent sectors also account for nearly 60 per cent of all award only employees with about a quarter of all such employees in the Retail industry and more than 15 per cent in each of Accommodation, cafes and restaurants and Health and community services. Our focus in this section is therefore on the economic performance of these three industry sectors. It should be noted that other sectors with relatively high concentrations of award only workers such as Construction and Property and business services have also had strong growth in output and productivity for the period of Safety Net Adjustments.

2.5 Analysis of a range of economic data shows that:

- the three most award dependent industries have performed better than all industry averages in terms of growth in output and growth in employment for the period 1996-2003;
- in the same three industries and for the same period, productivity growth has outpaced the growth in real award wages and as a result real unit labour costs have fallen;

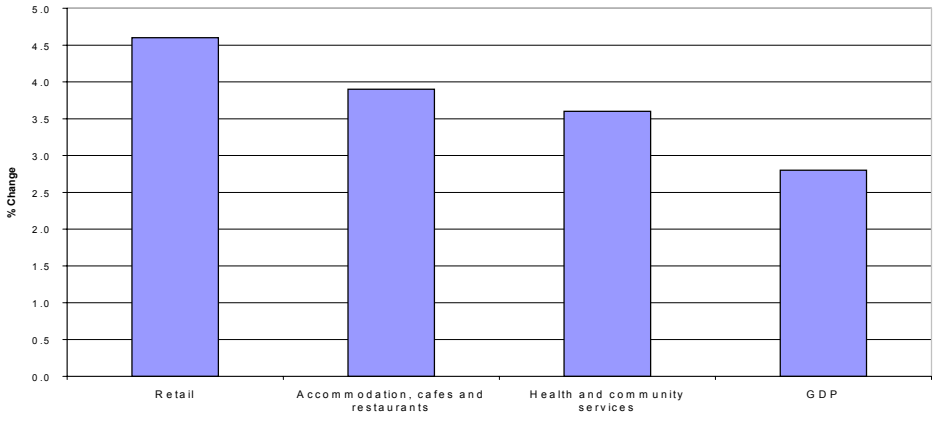
- in the two most award dependent industries profits have increased by more than 80 per cent for 1996-2003 whilst real award wages have grown by less than 8.8 per cent.

- the recent performance of the three most award dependent sectors has continued to be strong with output and productivity growth for 2002-03 exceeding the all industry average.

Output

2.6 Industry gross value added in the Accommodation, cafes and restaurants sector increased 3.9 per cent over the 2002-03 financial year. The corresponding figure for Retail trade was 4.6 per cent and for Health and community services 3.6 per cent. In each instance these figures exceed the overall growth in gross domestic product of 2.8 per cent and compare very favourably with the performance of other industry sectors. Figure 2.1 below shows industry comparisons of gross value added for the last financial year for each of these heavily award dependent sectors.

Figure 2.1: Output Growth Award dependent industries 2002-2003



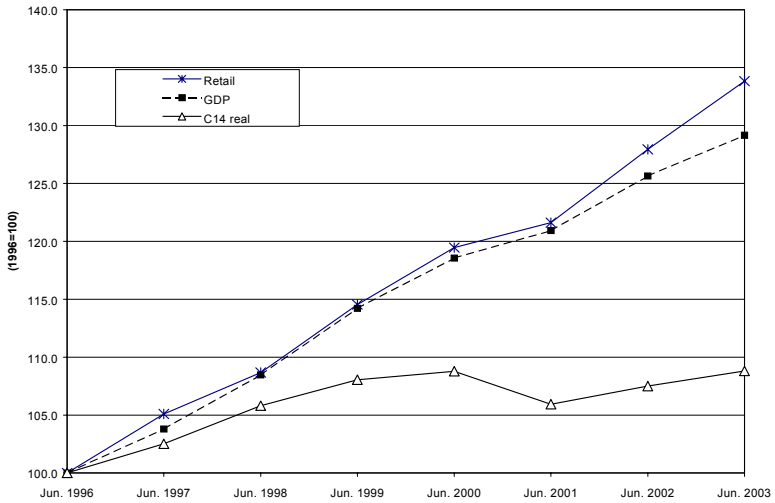
Source: ABS Cat. No. 5204.0

2.7 Growth in award dependent sectors generally (not just the three industries shown above) was at least as good as output growth in non-award sectors in 2002-03. The most recent national accounts data shows no evidence of any departure from this trend. In the first quarter of 2003-04 industry gross value

added for Accommodation, cafes and restaurants was 1.5 per cent, for Retail trade 2.0 per cent and for Health and community services 0.8 per cent. In each case exceeding the gross domestic product increase of 0.7 per cent. Indeed, Retail trade recorded the second highest growth in industry value added for the quarter behind only Agriculture, forestry and fishing where a "bounce back" from drought affected figures was occurring.

2.8 As the figures below show in each of the three most award dependent industries growth in output has exceeded growth in GDP and has significantly outstripped real growth in wages for the period 1996 to 2003[2]. It should also be borne in mind that percentage growth in all wage rates above the FMW has been less than percentage growth in FMW for the period.

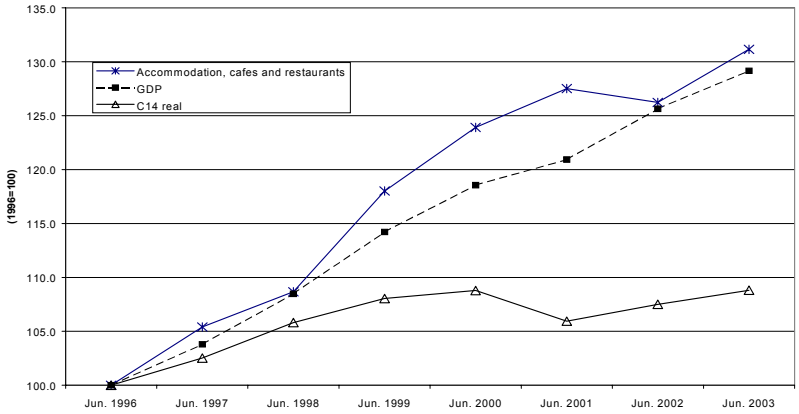
Figure 2.2: Output vs. Wages (Retail) 1996-2003



Source: ABS Cat. No. 5204.0 and Metal Industry Award

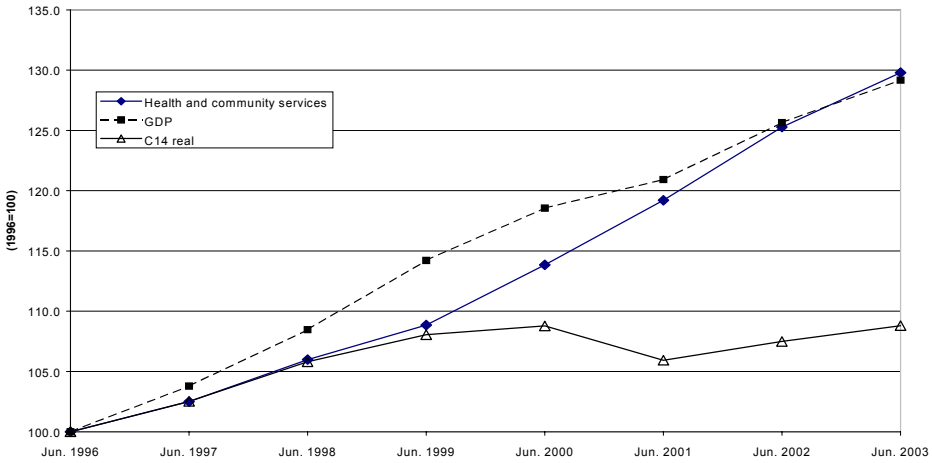
[2] Growth in GDP is a "real" figure (though not deflated by CPI) so the appropriate comparison is real wages. Similarly ABS movements of productivity and profits, referred to later in this chapter, are "real" figures (though again not deflated by CPI).

Figure 2.3: Output v. Wages (Accommodation, cafes and restaurants) 1996-2003



Source: ABS Cat. No. 5204.0 and Metal Industry Award

Figure 2.4: Output v. Wages (Health and community services) 1996-2003



Source: ABS Cat. No. 5204.0 and Metal Industry Award

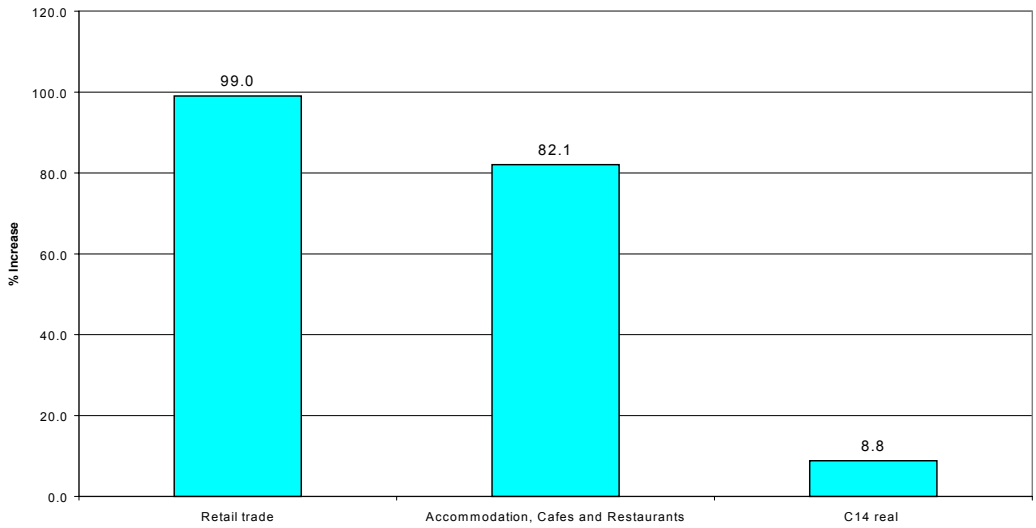
Profits

2.9 ABS data also reveals significant increases in gross operating profits for the two most award dependent sectors in 2002-03. The increase in gross operating profit for Retail trade for 2002-03 was 21.7 per cent with the

increase for Accommodation, cafes and restaurants 12.7 per cent. In each case this substantially exceeds the average increase for all industries of 8.2 per cent. It should be noted that the ABS Cat. No. 5676.0 does not measure gross operating profits for the Health and community services sector.

2.10 As the figure below shows in each of Retail trade and Accommodation, cafes and restaurants growth in gross operating profits since 1996 vastly exceeds real wage growth in C14 for the corresponding period. It should also be borne in mind that growth in all other wage rates above C14 will be less for the period than growth in C14. So whilst profits have increased by nearly 100 per cent in retail trade and 82.1 per cent in Accommodation, cafes and restaurants for the period 1996-2003 real award wages have increased by less than 9 per cent for the same period (the real growth in C14 is 8.8 per cent).

Figure 2.5: Profits v. Wages – Award Dependent Industries 1996-2003



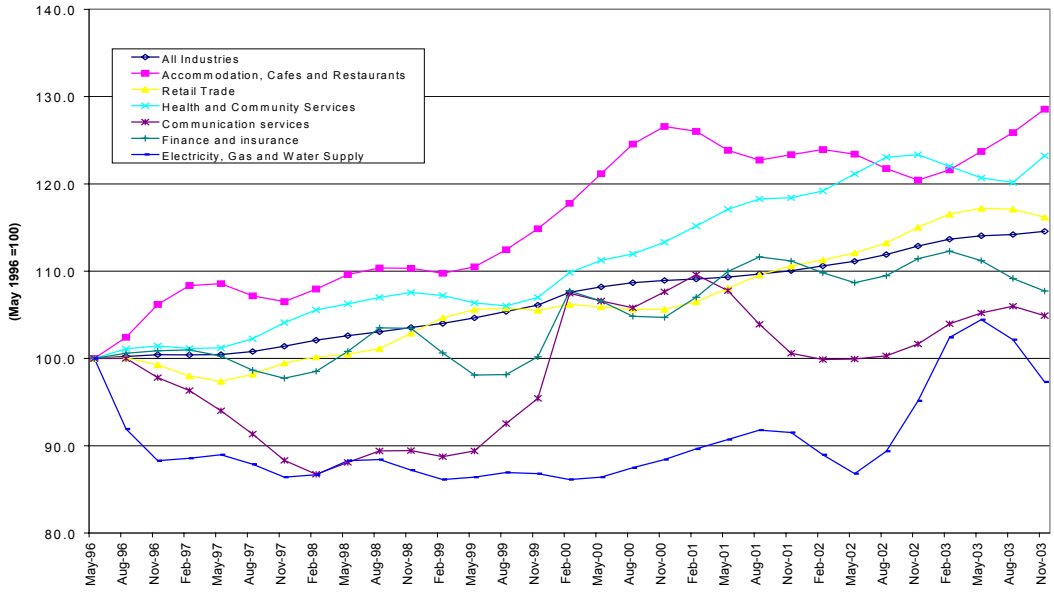
Source: ABS Cat. No. 5676.0 published and unpublished data, and Metal Industry Award

Employment

2.11 Figure 2.6 below compares employment growth between the three highest award dependent industries and the three least award dependent industries since May 1996 using a common index base. The “all industries” series has

also been included. The figure has also been reproduced at Tag 2 of the ACTU Composite Exhibit to allow easier reading.

Figure 2.6: Employment Growth – Most Award Dependent and Least Award Dependent Industries 1996-2003



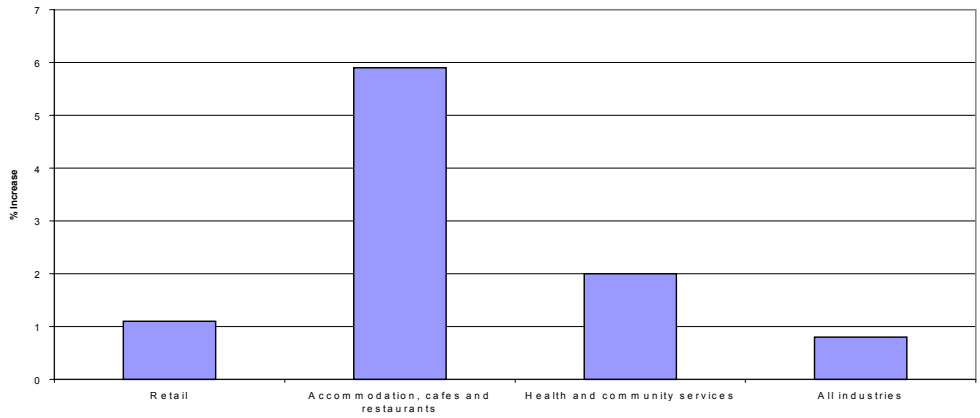
Source: ABS Cat. No. 6291.0.55.001

2.12 As the figure shows employment growth in the three most award dependent industries has outstripped the all industry average and exceeded that of the three least award dependent industries throughout the period of safety net adjustments.

Productivity

2.13 Labour productivity increased in all of the major award dependent sectors for 2002-03. Productivity growth in Accommodation, cafes and restaurants was 5.9 per cent for that financial year, whilst in Health and community services productivity growth increased 2.0 per cent and in Retail trade 1.1 per cent. In each case productivity growth in these heavily award dependent sectors exceeds average productivity growth for all industries for the financial year 2002-03 of 0.8 per cent. Figure 2.7 below shows industry comparisons for productivity growth during 2002-03 for the three most award dependent sectors.

Figure 2.7: Productivity Increases Award Dependent Industries 2002-2003



Source: ABS Cat. No. 5204.0

2.14 In the period of safety net adjustments real unit labour costs have fallen in each of the three most award dependent sectors. That is the increase in productivity has outpaced the increase in real wages. The table below shows growth in productivity for the three most award dependent sectors June 1996 to June 2003. In each instance that growth exceeds the real growth in award wages for the period (real growth for C14 is 8.8 per cent with real growth in other award rates less than this).

Table 2.2: Productivity Increases Award dependent industries 1996-2003

	% Increase Productivity June 1996 – June 2003
Retail trade	16.6
Accommodation, cafes and restaurants	14.6
Health and community services	9.1

Source: ABS Cat. No. 5204.0

Award Workers

2.15 This Case is about employees who receive the award rate of pay. From ABS data we know that there are about 1.6 million award only employees, representing approximately 20.5 per cent of all employees, who are:

- Generally paid less than the rest of the working community;
- More likely to be in casual or temporary employment;
- More likely to be women;
- Concentrated in three industry sectors: Accommodation, cafes and restaurants, Retail trade, and Health and community services;
- Overwhelmingly in the private sector;
- Overwhelmingly employed in non-managerial occupations and most heavily concentrated in lower skilled occupations.

Award workers are paid less

2.16 As the previous section demonstrates, sectoral data shows that award workers have done their fair share in terms of their contribution to Australia's prosperity – to its growth in output, profits, employment and productivity. Yet award workers are paid less than the rest of the community and have seen their wages decline in relative terms for some time. Recent average award increases have failed to keep pace with other wages measures and since 1999 the growth in real after tax wages of low paid award workers from year to year has essentially been static.

2.17 The 2002 EEH data tells us that 85 per cent of award only employees have adjusted total weekly earnings less than Average Weekly Total Earnings for all employees and 94 per cent of award only employees have adjusted weekly earnings less than Full-time Average Weekly Total Earnings.[3] A similar picture emerges from a consideration of hourly earnings with 89 per cent of award only employees earning less than Non-managerial Average Hourly Earnings.

2.18 Table 6.10 below shows the proportion of award only employees falling below a range of hourly and weekly earnings amounts (all figures are 2002 dollars).

[3] As in previous years we adjust casual earnings by a factor of 5/6 to take account of an average 20 per cent loading.

The table provides further confirmation of the significant numbers of award workers who are low paid.

Table 2.3: Earnings of Award Only Workers

Adjusted AHOTE	% Award Only who earn less
$13.00	35
$14.00	50
$15.00	60
Median ($17.60)	81
Adjusted AWE	**% Award Only who earn less**
$500.00	64
$600.00	81
Median ($635.00)	83

Source: ABS Cat No. 6306.0 unpublished data

2.19 Some researchers use two thirds of the Full-time Adult Median wage as an indication of low pay. In May 2002 the unadjusted Full-time adult non-managerial median wage was $769.00 ($19.47 per hour). This figure being for non-managerial employees will understate the actual median wage for all Full-time Adults. Whilst these figures are unadjusted a comparison of adjusted and unadjusted data for all employees shows relatively little difference between the results. Two thirds of award only employees have adjusted weekly income below the weekly wage equivalent to two thirds of Full-time Adult Non-Managerial earnings ($513 per week). Whilst 35 per cent of award only employees have adjusted hourly earnings below the equivalent hourly rate of $12.98.

Recent award increases have failed to keep pace

2.20 Last year, award dependant workers received a $17 per week increase in all award rates up to and including $731.80 per week and a $15 per week increase in all award rates above $731.80. This equates to an average increase of 3.1 per cent for non-managerial award only workers and 2.9 per cent for full-time award only workers in 2003. Table 2.4 below shows the average increase for award only and award only full-time workers for the

period 2000-2003. The percentages are calculated using data from the 2000 and 2002 EEH surveys. Full details of the calculations and methodology are contained in Tag 3 of the ACTU Composite Exhibit.

Table 2.4: Average Increase Award Workers 2000-2003

	2000	2001	2002	2003	Average 2000-2003
Award Only					
Nominal	2.9	2.8	3.4	3.1	3.1
Real	-0.2	-0.2	0.4	0.4	0.1
Award Only Full-time					
Nominal	2.8	2.6	3.3	2.9	2.9
Real	-0.4	-0.4	0.4	0.2	0.0

2.21 As the table shows in the past four years average award only wages have barely had a real increase, while after four years of relatively strong economic growth average full-time award wages have not moved at all in real terms.[4]

2.22 While award only workers received an average increase of 3.1 per cent as a result of last year's decision the rest of the community fared better. This is evident in Table 2.5 which shows the most recent annual increase in the other main measures of wage movements. Each of the key measures recorded a higher percentage increase than the average increase for award workers.

Table 2.5 Annual percentage increase in key wage measures

AWOTE	AWE full-time adults	AWE all employees	AENA	WCI	ADAM	DEWR	MERCER
6.1	6.2	5.4	3.5	3.6	4.5	4.1	4.5

Source: ABS Cat. Nos 6302.0 August 2003, 5206.0 September 2003, 6345.0 September 2003 (all figures trend), ADAM and DEWR AAWI for current agreements in September quarter, Mercer Quarterly Salary Review September 2003, increase in base salary Senior Management

2.23 The average award only full-time workers increase was 2.9 per cent for 2003; this is less than half the percentage increase in the key measures for earnings growth for full-time workers AWOTE (6.1 per cent annual increase) and AWE (6.2 per cent annual increase).

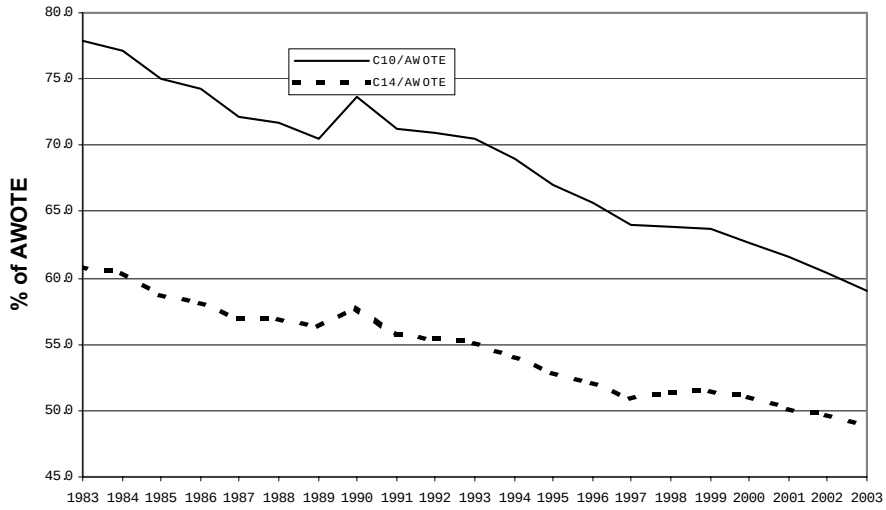
[4] In Tag 3 real increases are calculated extracting 3 per cent from CPI for the effect of the GST. Note this is not done where real wages are compared to other real series (where GST effects will be present in both sets of deflators).

2.24 The average increase in award wages for the four year period June 1999 to June 2003 at 3.1 per cent falls well below the average increase in the Wage Cost Index (WCI) of 3.4 percent for the same period. Indeed in every year but 2002 the increase in award rates has been less than average movement in the WCI for the period.

Historical trends in Award rates of pay

2.25 Award wages have been declining in their relative value over time. Figure 2.8 reveals the extent of the decline in the relative value of the C10 and C14 classifications since 1983. The C10 classification has gone from 77.8 per cent of AWOTE in 1983 to 59.1 percent of AWOTE in 2003. The C14 classification has gone from 60.9 per cent of AWOTE in 1983 to 48.9 per cent. In 2003, the C10 classification is worth less relative to AWOTE than what the C14 classification was worth relative to AWOTE in 1984.

Figure 2.8: C14 and C10 as a proportion of AWOTE

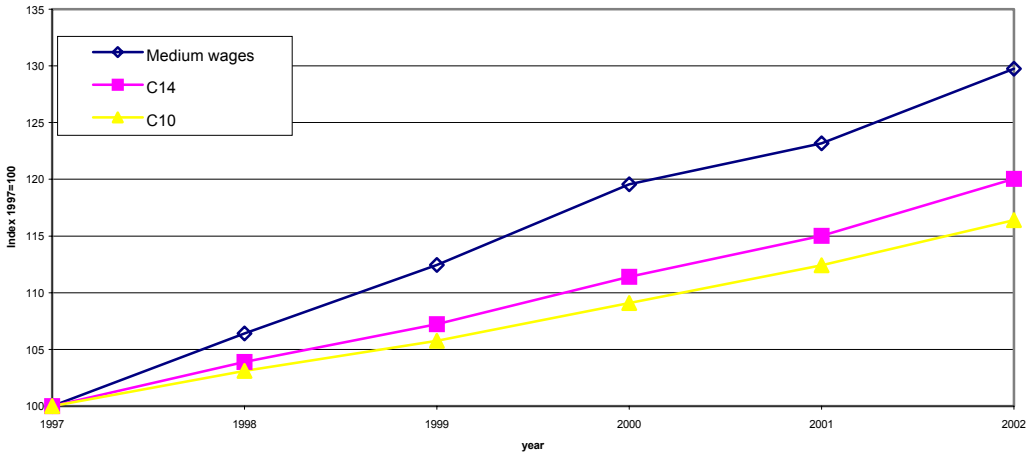


Source: ABS Cat. No. 6302.0 and Metal Industry Award

2.26 Both Figures 2.9 and 2.10 show comparisons in median wages and C10 and C14. Figure 2.9 utilises data from ABS Cat. No. 6310.0 *Employee Earnings, Benefits and Trade Union Membership* for full-time adult workers. The first issue of this survey was conducted in August 1975 and was a regular survey until the mid 1980s. It then became an irregular series until 1993. There was

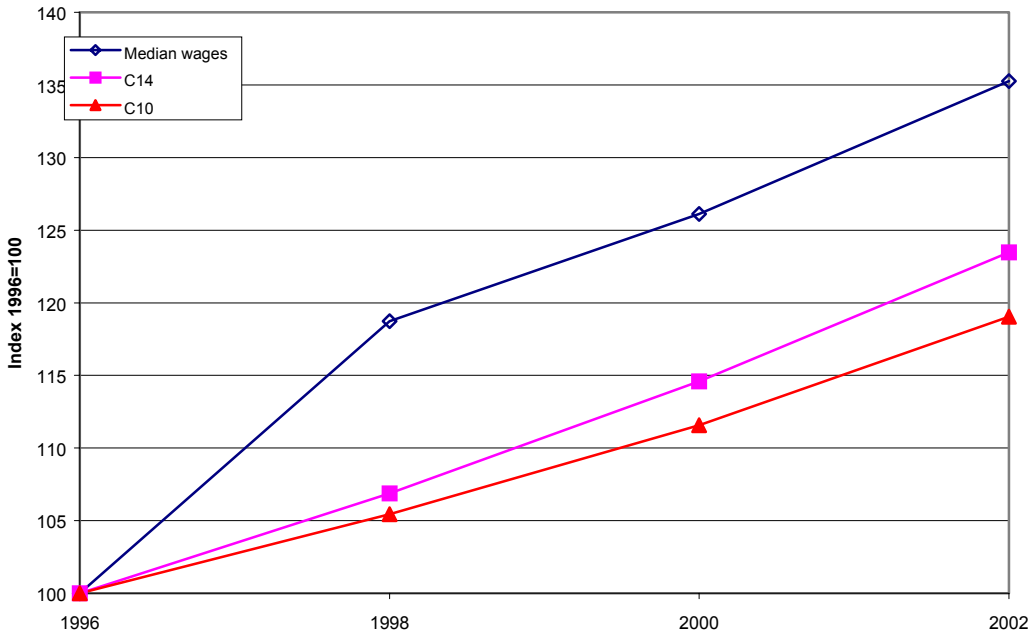
no survey conducted in 1994, 1995 and 1996 and then it became an annual series from 1997 with a reference period in August of each year.

Figure 2.9 Wages Growth Comparison – Median wages, C10 and C14



Source: ABS Cat. No. 6310.0 and Metal Industry Award

Figure 2.10: Wages Growth Comparison – Median wages, C10 and C14



Source: ABS Cat. No. 6306.0 and Metal Industry Award

2.27 Figure 2.10 utilises data from ABS Cat. No. 6306.0 *Employee Earnings and Hours* for full-time adult non-managerial workers. This is a biennial survey conducted in May of the reference year and its estimates are obtained from a sample survey of employers.

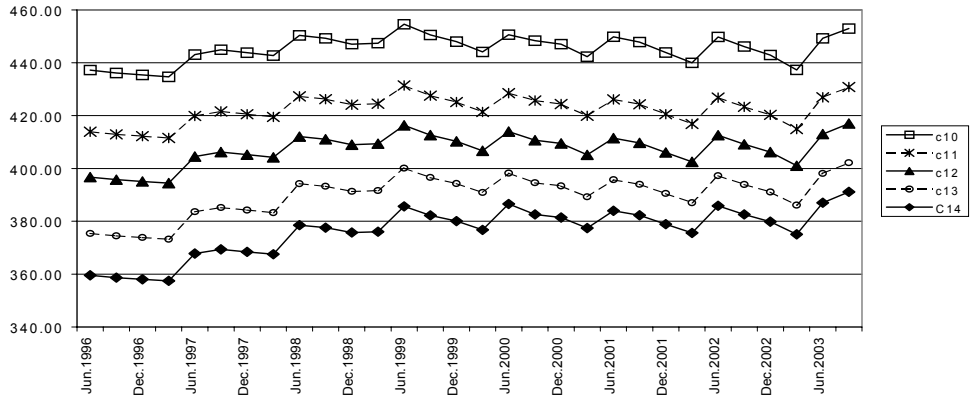
2.28 Given that 6310.0 was not conducted in 1996 and 6306.0 was not conducted in 1997 it is impossible to compare both series over the same time frame.

2.29 However, what can be seen from both Figures 2.9 and 2.10 is that growth in award wages have failed to keep pace with growth in median wages (irrespective of which survey is used).

Real after tax wages

2.30 This year the ACTU supplements its consideration of real increases in gross award wages with a consideration of real increases in after tax award wages. Figure 2.11 below shows the real after tax wage for all wage rate classifications in the Metal Industry Award at or below the C10 level June 1996 to September 2003. As the figure illustrates the real after tax wage for C14 has barely increased since 1999 and wage rates C11 and C10 are currently worth less in real terms than they were in June 1999.

Figure 2.11: Real After Tax Wages



1. All figures September 2003 dollars
2. After tax wages includes low income tax off-set (where applicable) but excludes Medicare levy.

2.31 The figure starkly demonstrates that in a period of relatively low inflation and strong economic growth the after tax position of low paid award wage earners has barely moved in the last four years. The real after tax wage for an

employee on the Federal Minimum Wage in September 2003 is $391.12 just $5.47 more than the corresponding June 1999 figure, an increase of just 1.4 per cent in over 4 years – an average annual real increase of 0.5 per cent. Indeed award workers in the C11 and C10 classifications have suffered real declines in after tax income in the period ($0.58 and $1.63 respectively) with workers at C12 and C13 essentially at exactly the same position in September 2003 as they were in June 1999.(Real after tax wage for C12 has increased $0.68 in the four year period and for C13 $2.04).

2.32 All these workers are accepted by the Commonwealth as low paid and none has received a significant real increase in after tax pay in the last four years.

Conclusion

2.33 Award workers have contributed their fair share to Australia's growth and productivity but they have not received their fair share in wages. Whilst output, profits and productivity have all improved substantially, award workers have received lower wage increases than the rest of the community, seen the relative value of their wages fall and their after tax wages stagnate since 1999. As a result the most recent EEH data shows a dramatic difference in the distribution of wage income for award workers compared with the rest of the community with more than 80 per cent of award workers earning less than median earnings.

2.34 The recent economic performance of award dependent sectors provides no justification for continuing the relative decline of award wages. To the contrary, it provides compelling evidence in support of a decent increase.

3 Wages Update

Trends in Wages Growth in the Australian Economy

Measures of wage movements

3.1 In Australia there are several measures of wages growth that can, at times, provide different signals of wage trends. These differences occur because the series are designed to measure different concepts.

3.2 The four most commonly used measures are:

- Average Weekly Earnings (AWE) of non-farm wage and salary earners, from the ABS survey of the same name, published for both all employees, and also full-time adult employees;
- Average Weekly Ordinary Time Earnings (AWOTE), which is derived from the same AWE survey but includes only ordinary time earnings of adults working full-time;
- Average Compensation per Non-Farm Employee - published as part of the ABS's Quarterly National Accounts – also referred to as Average Earnings on a National Accounts basis (AENA); and
- The Wage Cost Index (WCI) – which provides an index for total hourly rates of pay excluding bonuses.

3.3 The first three series are all measures of the wage bill, designed to measure the average level of wages or labour costs per employee. As these are measures of labour costs per employee, their movements will reflect both movements in wage rates and in the compositional change of the labour force. Compositional changes in the labour force which may impact on wage bill measures include:

- changes in the relative share of full-time and part-time workers; and

- increases in the number of high paid full-time jobs and low paid part-time jobs.

3.4 The AENA differs from the other two wage bill measures as it incorporates the major non-wage costs superannuation, redundancy payments and workers compensation payments. Thus an increase in any one of these will result in an increase in the AENA even though wage payments remain the same.

3.5 The WCI is designed to measure changes in wage rates rather than earnings levels and unlike the AENA it does not incorporate non-wage costs. The WCI is constructed measuring the cost of purchasing the same quality and quantity of labour input. It is analogous in its construction to that of the CPI. Hence the WCI is less subject to compositional change and therefore less volatile than the other measures of wage movements.

3.6 Which of the above is the best indicator of wage movements? This depends on how they are to be used. The Commission, in any consideration of wages, needs to consider wages growth for both:

- the economic impact that any adjustment in award rates may have on the costs to employers; and

- the general living standards in the community when assessing the needs of the low paid.

3.7 The wage bill measures provide the best measure for standard of living comparisons, as they provide average measures of earnings movements within the community whether this is due to increased earnings or changes in the composition of employment.

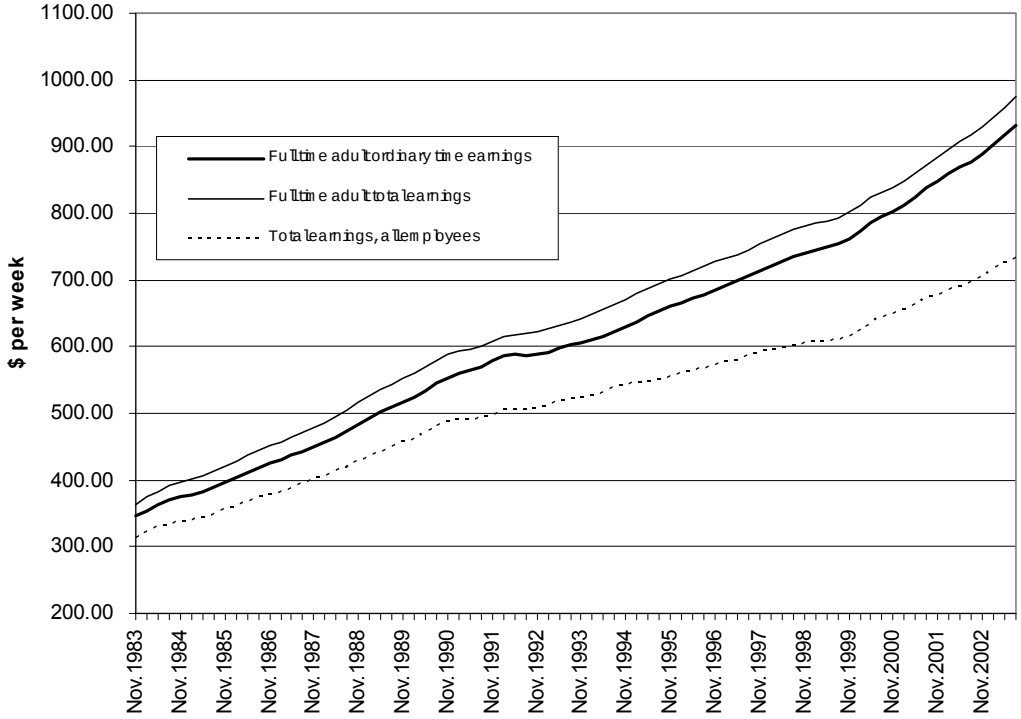
3.8 As the WCI is not affected by compositional change it is the best measure to assess the economic impact of wage changes to the employer.

Average Weekly Earnings

3.9 Figure 3.1 below shows the movement in the three main wages series from the ABS *Average Weekly Earning* Survey (ABS Cat No. 6302.0):

- Average Weekly Ordinary Time Earnings for full-time adults (AWOTE);
- Average Weekly Total Earnings for full-time adults (AWE); and
- Average Weekly Total Earnings for all employees (AWE Total Earnings)

Figure 3.1: Average Weekly Earnings – comparison – 1983 to 2003



Source: ABS Cat. No. 6302.0

3.10 It is clear from the chart that there has been a divergence between the series covering full-time employees and the all employee series (which has grown at a slower rate). This divergence can be traced back to the early 1990s, with the growth in the share of part-time employment since this time resulting in a slower overall growth in the 'all employees' earning measure.

3.11 The AWOTE and AWE for full-time adult measures have each increased at an average annual rate of 5.0 per cent since they where first introduced in 1983. The Total Earnings measure, on the other hand, has grown at a lower average annual rate of 4.3 per cent over the same period.

3.12 The most recent data available is from the August quarter 2003 survey, published in November 2003. AWOTE and AWE for full-time adults increased 1.5 and 1.6 per cent respectively during the August quarter in trend terms, to be 6.1 and 6.2 per cent higher than at the same time a year earlier.

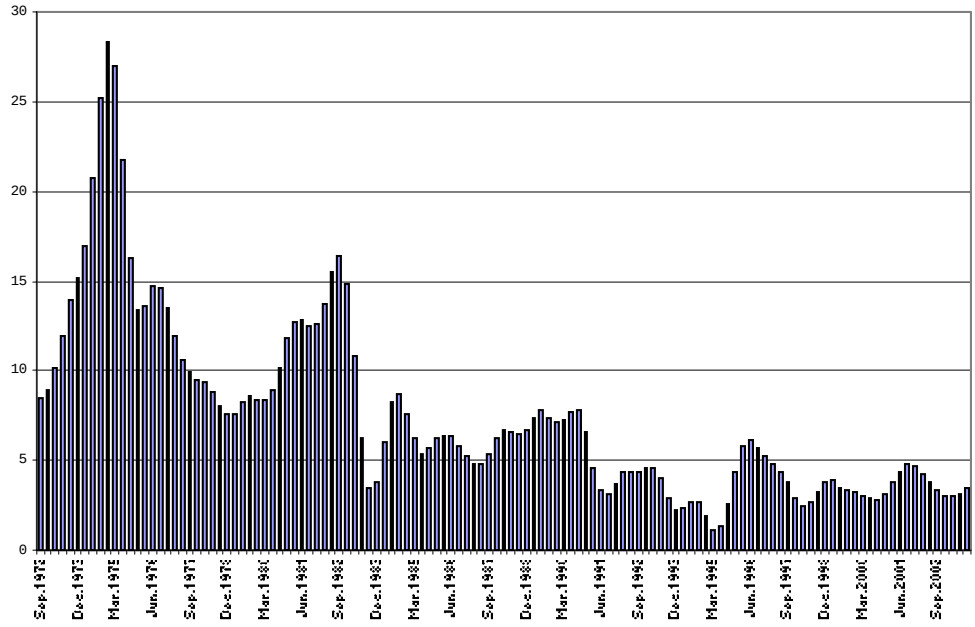
3.13 The AWE Total Earnings Figure for 'all employees' grew by 1.3 per cent during August 2003, to be 5.4 per cent higher over the year to August 2003. This is higher than the long term average of 4.3 per cent.

Average Earnings on a National Accounts Basis (AENA)

3.14 The history of the AENA measure of wages growth since it was first published in 1972 can be seen in the Figure 3.2 below.

3.15 Over the entire history of the measure, AENA has grown at an average annual rate of 7.9 per cent. Much of this, however, can be attributed to very large wage growth recorded during the high inflation years of the 1970s and early 1980s. Since December 1984 (a period broadly in line with the life of the AWE series), the National Accounts measure has grown at a more moderate pace of around 4.6 per cent per year.

Figure 3.2: Growth in the AENA wages measure – 1972 to 2003



Source: ABS Cat. No. 5206.0

3.16 The AENA measure of wages grew by 0.8 per cent in seasonally adjusted terms during the September 2003 quarter, while the trend figure rose 1.1 per cent. AENA rose by 3.5 per cent over the year to September 2003, in trend and 3.2 per cent in seasonally adjusted terms.

Wage Cost Index

3.17 The WCI is a relative new series compared to the other measures of wage movements. It was first published in September 1997 and as such until recently the ABS could only publish original figures as at least five years of quarterly data is needed to calculate seasonally adjusted and trend figures. In late 2001 the ABS started to investigate the seasonality of the WCI and published experimental data. In the September quarter 2003 the series was long enough to identify the underlying seasonal pattern and the experimental label was removed and seasonally adjusted and trend figures were published

for total Australia, public and private sectors (the ABS only published original figures for industry estimates).

Table 3.1 WCI Original, Seasonally Adjusted and Trend – September 2003

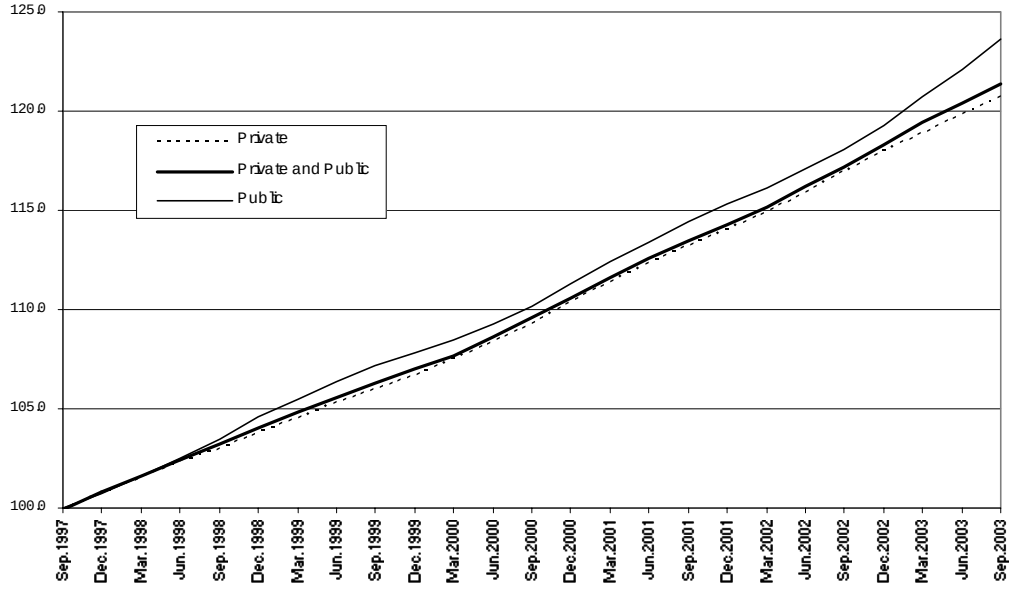
	Original	Seasonally Adjusted	Trend
Change from corresponding quarter of previous year (%)	3.6	3.7	3.6
Change from previous quarter (%)	1.2	1.0	0.8

Source: ABS Cat. No. 6345.0 *Wage Cost Index*, September quarter 2003

3.18 Table 3.1 shows the variation in the three different measures of the WCI for the September quarter 2003. It illustrates the importance of the choice of measure used, especially in the case of the quarterly change as the original figure shows a 1.2 per cent increase in wage costs for the September quarter 2003 whereas trend figure shows that there has only been a 0.8 per cent increase in wage costs over the September quarter 2003. The trend data removes variation in the seasonally adjusted figure and is the best measure to determine any underlying direction of the series. Therefore, unless otherwise specified trend figures for the WCI will be used in this submission.

3.19 Figure 3.3, below, shows the history of the WCI. Over the entire period from September 1997, wage rates have increased at an average rate of 3.3 per cent per annum, with public sector wage rates growing at a slightly higher rate, increasing by 3.5 per cent per annum over the life of the series.

Figure 3.3: Wage cost Index – Total Hourly Rates of Pay, excluding bonuses 1997 to 2003.



Source: ABS Cat. No. 6345.0

3.20 As noted above, according to the most recent WCI publication, Total Hourly Rates of Pay, Excluding Bonuses for all employees increased 0.8 per cent during the September quarter 2003, to be 3.6 per cent over the year.

3.21 Public sector wage rates continued to grow faster than those in the private sector, increasing 4.7 and 3.3 per cent respectively for the year to September 2003.

Agreements

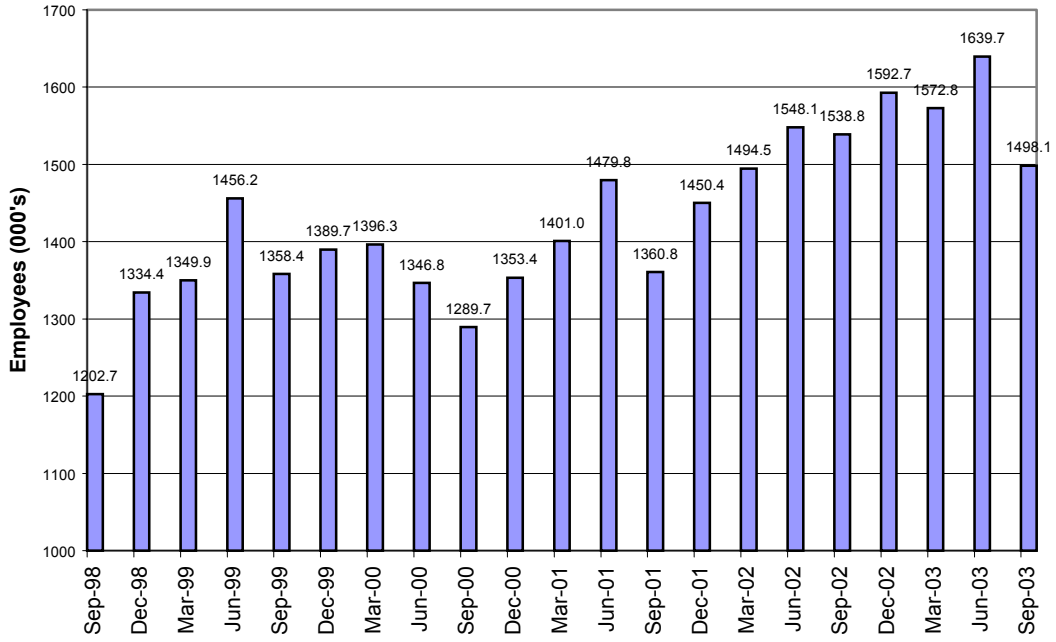
3.22 Data on the wage trends in enterprise bargaining is available from two main sources;

- The *Trends in Enterprise Bargaining*, series which is published quarterly by the Department of Employment and Workplace Relations (DEWR); and
- The *Agreements Database and Monitor Report* (ADAM), published quarterly by ACIRRT.

3.23 One of the main differences between the two series is that Trends in Enterprise Bargaining reports the *Average Annualised Wage Increase* (AAWI) 'per employee', while the ACIRRT report measures AAWI increases 'per agreement'.

3.24 According to the DEWR *Trends in Enterprise Bargaining* series, the number of employees on agreements continues to increase over time. Figure 2.4 shows that the number of people covered by federal enterprise agreements reached record highs of 1.6 million to June 2003. However, the number of employees covered by federal enterprise agreements fell during the September quarter 2003. This was due to the fact that a large number public service agreements expired during the June quarter 2003 which cover a large number of employees. Figure 3.4 also highlights the cyclical nature of enterprise agreements and the September quarter usually sees a decrease in the number of employees on federal enterprise agreements as agreements are renegotiated.

Figure 3.4: Employees covered by Federal Wage Agreements (all current agreements)

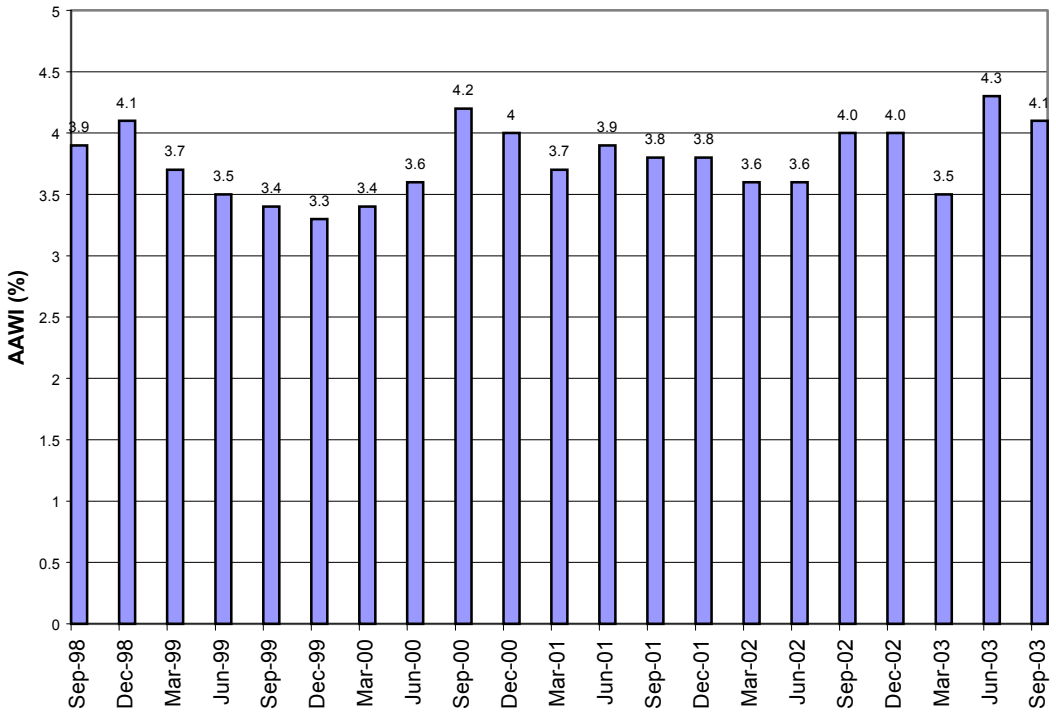


Source: DEWR, Trends in Enterprise Bargaining, September 2003

3.25 The September 2003 issue of *Trends in Enterprise Bargaining,* also reported that the Average Annual Wage Increase per employee for those agreements certified in the September 2003 quarter was 4.1 per cent (up slightly compared with the 4.0 per cent AAWI for agreements certified in September 2002).

3.26 Over the four quarters to September 2003, the AAWI for agreements certified in each quarter has averaged 4.0 per cent.

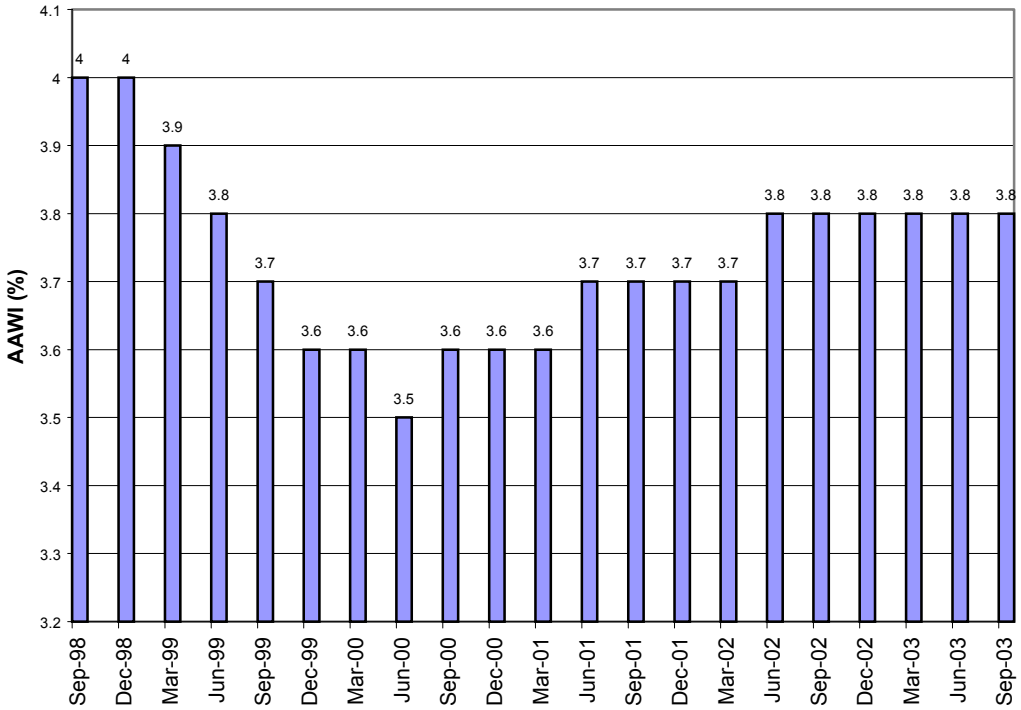
Figure 3.5: Average Annual Wage Increase per employee for agreements certified in the current quarter



Source: DEWR, Trends in Enterprise Bargaining, September 2003

3.27 Figure 3.6, below shows the AAWI per employee for All Current Agreements. The latest data shows that the AAWI per employee for All Current Agreements has remained steady at 3.8 per cent over the past year, up slightly from the previous year.

Figure 3.6: Average Annual Increase per employee (for all current agreements)

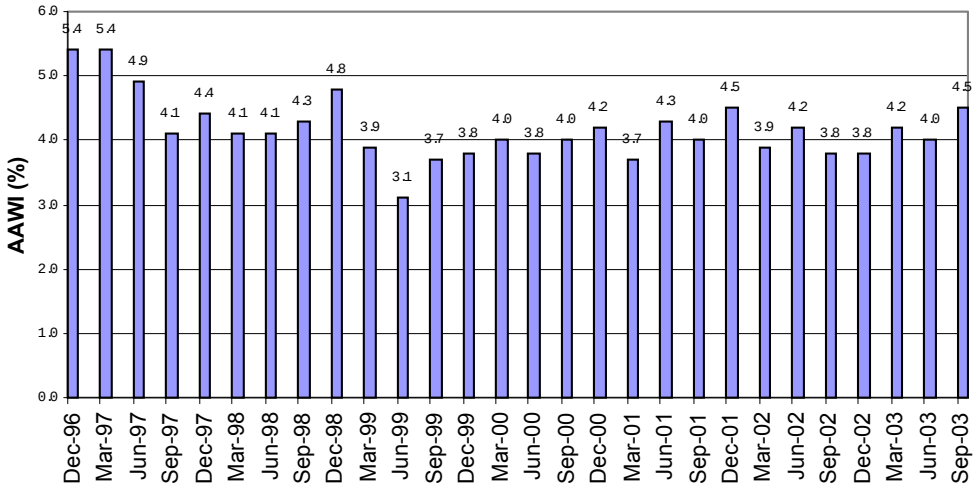


Source: DEWR, Trends in Enterprise Bargaining, September 2003

3.28 As mentioned above ACIRRT's *ADAM Report* differs to the DEWR measure of wages growth in agreements in that it measures Average Annual Wage Increase (AAWI) 'per agreement'.

3.29 Figure 3.7 shows the AAWI for agreements registered in the September 2003 quarter as measured by ADAM was 4.5 per cent. The AAWI for certified agreements registered during the four quarters over the year to September 2003 averaged 4.1 per cent.

Figure 3.7: Average Annual Wage Increase per agreement – for all agreements registered during the quarter

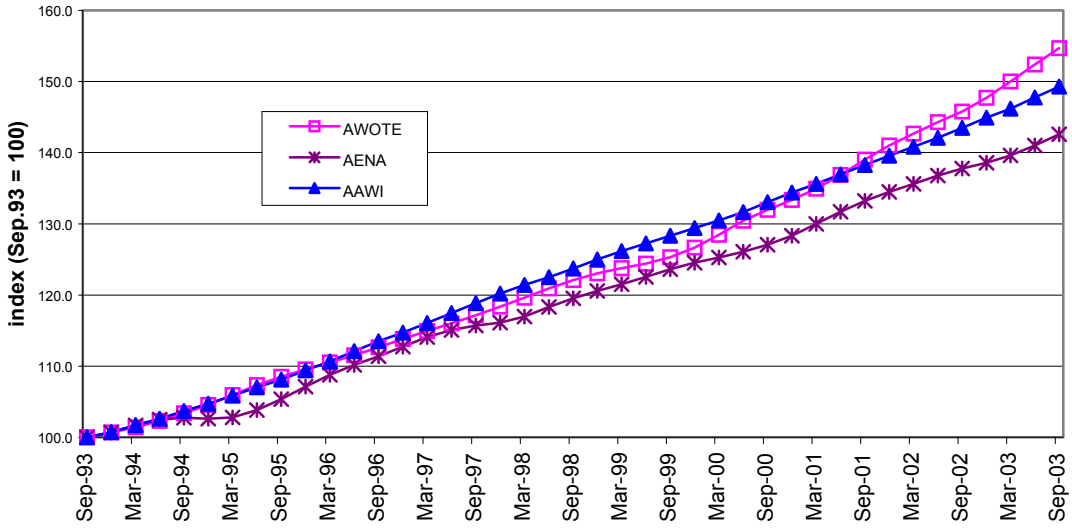


Source: ACIRRT, ADAM Database, December 2003

Comparing recent trends in Wages Growth

3.30 Figure 3.8, below, compares the growth in the main wage-bill measures of aggregate economy-wide wages growth (AWOTE, and AENA), with the general trends in enterprise bargaining, as measured using the Department of Workplace Relations measure of Average Annualised Wage Increases per employee (AAWI), for newly certified agreements. The data is presented for the past decade.

Figure 3.8: Quarterly Wage Movements: September 1993 to 2003

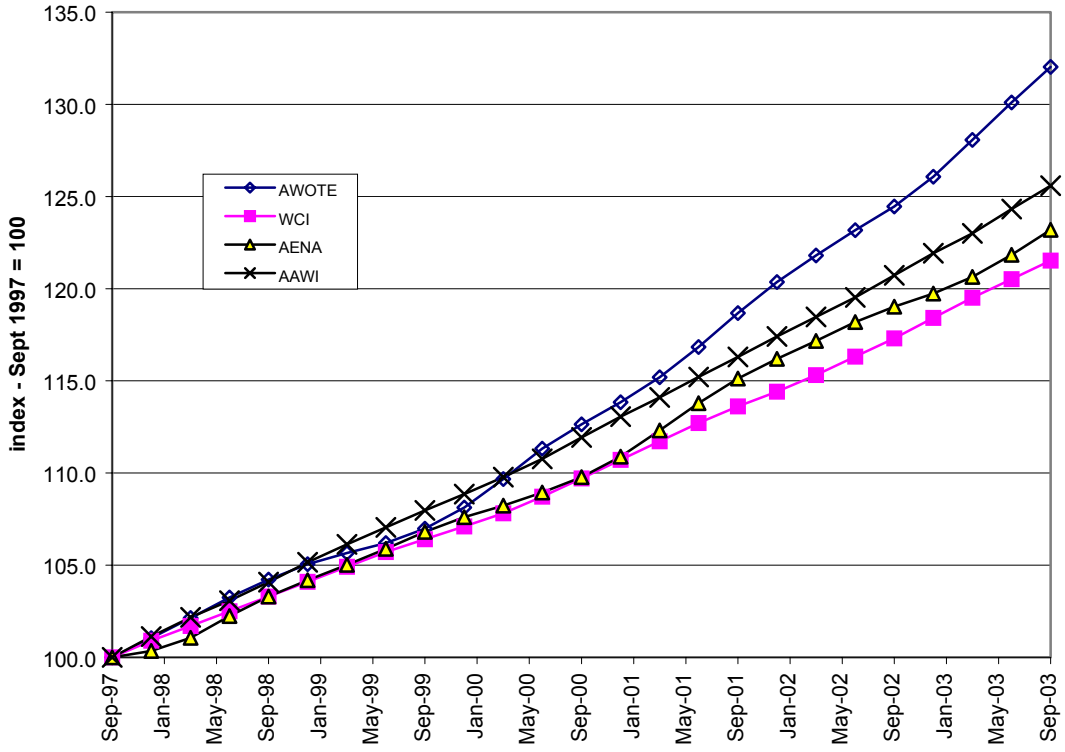


Sources: ABS Cat No.s 5206.0, 6302.0, and DEWR

3.31 The AWOTE, AENA and AAWI wage measures have each grown at average annual rates of 4.3, 3.5 and 4.0 per cent respectively since September 1993. The slightly lower growth in the AENA series largely reflects the effects of growth in the share of part-time employment on that measure.

3.32 Due to its shorter history, it is only possible to compare movement in the WCI to these other series over a shorter time period of 6 years. Since the introduction of the WCI in September 1997, the AWOTE, AENA and AAWI measures have grown at average annual rates of 4.7 per cent, 3.6 per cent, and 3.8 per cent respectively. As can be seen in Figure 3.9, the WCI measure has increased by a slower rate of 3.3 per cent per year on average over the same period.

Figure 3.9: Quarterly wage trend comparisons – September 1997 to 2003



Source: ABS Cat. No.s 5206.0, 6302.0, 6345.0, and DEWR

Management and Executive Remuneration

3.33 According to the most recent review of executive salaries conducted by the *Australian Financial Review* in November 2003, the incomes of Australia's top 100 CEOs increased by an average of approximately 47 per cent last year

with the average annual salary being in excess of $2.9 million up from just above $2 million the previous year.

3.34 In 2003, the top 100 CEO's average income was 125 times the Federal Minimum Wage. This is up from 65 times the Federal Minimum Wage in 2001.

3.35 The increases in income for the top 100 CEO's was equivalent to the Safety Net Increase for about 107,000 award workers, nearly double the corresponding number from last year.

3.36 The excessiveness of the top CEO salaries is not lost on the CEO's themselves with Wesfarmers chairman Trevor Eastman describing top executive salaries as "outrageous" and "obscene". [See Australian Financial Review, *Chief executive pay is on the up and up*, 5 November 2003, page S3].

3.37 The latest issue of the Mercer Human Resource Consulting – Quarterly Salary Review, for September 2003, shows that the remuneration of management and executives continues to grow strongly.

3.38 In both 'Base Salary' and 'Total Remuneration' terms, the overall trend increased by 4.2 and 4.4 per cent respectively over the year to September 2003 for all occupations surveyed.

3.39 Remuneration of those in 'Senior Management' increased at an even faster rate, up 4.5 per cent over the year to September 2003 in 'Base Salary' terms. 'Total Remuneration' for those in senior management increased 4.4 per cent during the year to September 2003.

Remuneration Tribunal Decisions

3.40 The Remuneration Tribunal is responsible for determining the remuneration, including allowances and entitlements of federal Parliamentarians, including Ministers and Parliamentary office holders, judicial and non-judicial offices of

federal courts and tribunals, full-time and part-time holders of various public offices and Principal Executive Offices.

Judicial and related officers

3.41 The Remuneration Tribunal, as part of its 2002 review into Judicial and related officers' remuneration awarded judicial officers a 17 per cent increase over three years; 7 per cent effective from 1 July 2002, 5 per cent effective from July 2003 and a further 5 per cent from July 2004. These increases were granted *independent* of annual reviews of judicial remuneration.

3.42 During the 2003 annual review into judicial remuneration the Remuneration Tribunal awarded an increase of 4 per cent to judicial and related officers. Therefore, judicial officers received an annual pay increase of 9 per cent effective from 1 July 2003. Currently, the base salary for a full-time Federal Court Judge is $258,920 per annum.

3.43 In deciding on the 4 per cent increase in 2003 the Remuneration Tribunal took into account the WCI, executive remuneration data and broader economic indicators.

Public Executive Offices (PEO)

3.44 The Remuneration Tribunal sets the parameters or bands that enable PEOs to negotiate their total remuneration with their employing body.

3.45 Effective as at 1 July 2003 the maximum for each of the PEO bands was increased by 4 per cent. In addition to the bands set by the Remuneration Tribunal employing bodies have the option to vary a PEO's total remuneration by 5 per cent.

Ministerial and Parliamentary Remuneration

3.46 In December 1999 the Remuneration Tribunal set the pay levels of Senators and Members of Parliament in line with that awarded to PEOs. As of 1 July 2002 the base salary for the bottom band was $98,800 per annum. On 29

May 2003 the Remuneration Tribunal increased the base salary of the lowest band to $102,760 per annum effective from 1 July 2003. This amounts to a 4 per cent pay rise for backbenchers.

Conclusion

3.47 While overall wage growth continues to be moderate, an analysis of the various wages measures considered in this chapter confirms that movements in award wages are less than movements in wages for the rest of the community.

4 The ACTU Claim is Moderate

Introduction

4.1 The ACTU claim for a $26.60 increase in all award rates is moderate. The claim:

- Will have a negligible impact on aggregate earnings of 0.1 per cent;
- Provides an average increase for full-time award workers of 4.5 per cent and an average increase for all award workers of 4.7 per cent;
- Will result in an average increase for award workers in the five year period 2000 to 2004 (inclusive) of 3.4 per cent the same as the average annual increase in the Wage Cost Index for the period June 1999 to June 2003;
- Will provide a real increase which will provide a modest increase in the real value of after tax wage income for the lowest paid award workers whose real after tax wages have been essentially stagnant since 1999 .

4.2 The ACTU claim is very similar both in quantum and structure to its claims in the previous two Safety Net Reviews. Once again, the ACTU has sought a flat dollar increase so that, within the bounds of a claim which has a negligible macroeconomic cost, a maximal increase can be awarded to the low paid.

4.3 As it has done in the previous two Wage Case submissions, the ACTU notes that acceptance of its claim will result in further compression of middle and upper award classification rates of pay. The relevance of middle and upper award classification rates of pay is a matter of ongoing concern to the ACTU and one which is fundamental to the proper functioning of the award system. Nonetheless, in these proceedings the ACTU and its affiliates have agreed to seek a flat dollar increase in order to ensure provision of the greatest possible outcome to the low paid.

Costing the Claim

4.4 The ACTU has utilised precisely the same methodology to cost its claim as it has utilised in the previous two years. The costing shows:

- A net impact on aggregate wages of 0.1 per cent;
- A gross impact on aggregate wages of 0.4 per cent; and
- An impact on the CPI of less than 0.1 per cent.

Full details of the ACTU's costing and its methodology at Tag 4 of the ACTU Composite Exhibit.

4.5 Table 4.1 below shows to two decimal places the net and gross cost of the ACTU claim for this year and its claims in the previous two safety net adjustments. As will be seen from the Table the gross cost of the claim this year is broadly the same as the gross cost of the claim in the two previous years with the net cost impact for this year's claim falling between the net cost impact of the 2002 claim and the net cost impact of the 2003 claim.

Table 4.1 Comparison Recent ACTU Claims

Year	Gross Addition to Total Ordinary Time Earnings [%]	Net Addition to Total Ordinary Time Earnings [%]
2002	0.45	0.17
2003	0.42	0.10
2004	0.41	0.14

4.6 The net impact of the ACTU claim at 0.1 per cent of economy wide earnings is properly described as negligible. The experience of the previous two Cases suggests that Commonwealth modelling of the net impact of the ACTU claim will show a negligible impact on economic growth and employment: see *Safety Net Review Wages May 2003* PR002003 at 166 and 188 and *Safety Net Review Wages May 2002* PR002002 at 117.

4.7 In addition, the relative standard error on the level of all employees' Average Weekly Earnings is 1.1 per cent: see *Average Weekly Earnings* ABS Cat No. 6302.0 August 2003 at 31. That is, the movement in aggregate wages which would result from the ACTU claim is almost an order of magnitude less than the relative standard error on the calculation of average weekly earnings by the ABS.

4.8 Using data from the Employee Earnings and Hours May 2000 and May 2002 surveys, ABS Catalogue No. 6306.0, the ACTU estimates the gross addition to aggregate wages costs as a result of the Commission's 2000 to 2003 decisions. These estimates are calculated in Tag 5 of the ACTU Composite Exhibit. In addition, in June 2000 and June 2002 at about the same time as the Commission's Safety Net Decision took effect compulsory superannuation contributions increased by 1 per cent. Tag 5 of the ACTU Composite Exhibit also shows the net addition to labour costs for award only employees as a result of the increase in the compulsory superannuation contribution. This understates the "wages shock" resulting from the SGC increases in 2000 and 2002 because the SGC increase applied to all employees. However, consideration of the impact on award only employees provides a useful comparator for the purposes of considering the effect of the ACTU claim which will only impact on award only employees.

4.9 Table 4.2 shows the ACTU's estimates for the cost impact of the Commission's Safety Net Review decisions 2000 to 2003 together with the cost estimates for the increase in compulsory superannuation contributions for award only employees in 2000 and 2002.

Table 4.2 Estimates of addition to aggregate wages costs: award only employees SNA and SGC increases 2000-2003

	2000	**2001**	**2002**	**2003**
SNA impact	0.30	0.28	0.31	0.27
SGC impact	0.10	n.a.	0.09	n.a.
TOTAL	**0.40**	**0.28**	**0.40**	**0.27**

4.10 As can be seen from the table the gross addition to aggregate earnings from the ACTU's claim this year is essentially the same as the addition which resulted from the combined effect of the SGC and SNA for award only employees in the years 2000 and 2002. The net addition to wages growth from the ACTU claim (0.14 per cent) is also essentially the same as the net addition to labour costs which flowed from the combined effect of the SNA and SGC increase for award only employees in 2002. This is particularly significant in light of the Commission's finding that the 2002 safety net increase had no adverse aggregate economic impact: see *Safety Net Review Wages May 2003* at 145.

4.11 Further support for the view that the gross addition to aggregate wage costs resulting from the ACTU claim is properly regarded as moderate can be gleaned from the Commission's and Commonwealth's estimates of the cost of the Commission's previous decisions (where these are available) and estimates of the addition to aggregate wages resulting from the Commission's decisions implicit in cost estimates of the ACTU claim. These estimates are set out in the table below.

Table 4.3 Estimates of the gross cost impact of previous Commission Safety Net Review decisions

	1997	1998	1999	2000	2001	2002	2003
Commonwealth	0.35	0.57	0.41	0.42	0.38	0.43	0.36
Commission	0.34	0.44	n.a	0.31	n.a	0.36	0.27

(a) Commonwealth Government estimates from Joint Coalition Government submission 1997-98, page 62.3, 63.8, Appendix H, page 259, Joint Coalition Government submission 1999-2000, Appendix F, page 452; Joint Coalition Government submission 2000-2001, Table 7.3, page 110 and Response to Questions, page 351; Letter Commonwealth Government to Commission, 24 April 2002; and 2003 estimates derived from estimate of cost of ACTU Claim, Commonwealth Submission, page 45.

(b) For Commission estimates 1997 and 1998 see Safety Net Review Wages, April 1998, Print June 1998 at 41.5. Estimates for 2000, 2002 and 2003 derived from the Commission's lower bound estimate of the cost of the ACTU claim.

4.12 The cost of the ACTU claim is less than the aggregate cost of the 1998 decision as estimated by both the Commonwealth and the Commission.

Further, the gross addition to economy wide wages is essentially the same as that resulting from the 1999 to 2002 decisions and not greatly in excess of the cost of the 2003 decision as estimated by the Commonwealth. The ACTU claim results in an addition to economy wide earnings which does not greatly exceed that which implicitly arises from the Commission's lower bound estimate in its May 2002 decision of the cost of the ACTU claim. If one takes into account the increase in labour costs arising from increases to the SGC in 1998, 2000 and 2002 it is clear that the increase in wage costs resulting from the ACTU claim is less than the cost estimate of the Commission's decision (explicit or implicit) as estimated by both the Commission and the Commonwealth together with the cost impact of the increase in the SGC for the award only population.

4.13 In the circumstances, the Commission can conclude that the net impact of the ACTU claim is negligible and that its gross impact is properly described as moderate.

4.14 To further assist the Commission we provide net and gross cost impacts for safety net adjustments at a range of other dollar amounts.

Table 4.4 Cost Impact Various Dollar Amounts

	$10	**$12**	**$14**	**$16**	**$18**	**$20**	**$22**	**$24**
Gross Cost Impact	0.16	0.19	0.22	0.25	0.28	0.31	0.34	0.37
Net Cost Impact	-0.11	-0.08	-0.05	-0.02	0.01	0.04	0.07	0.10

4.15 Table 4.4 above shows that a $20 increase this year would have essentially the same impact on aggregate wages as that estimated by the ACTU for the Commission's 2002 decision alone.

The Level of Increase for Award Workers

4.16 The average increase for all award workers arising from the ACTU claim is 4.7 per cent. The average increase for full-time award only workers is 4.5 per cent.

4.17 The methodology used to calculate the average increase as a result of the ACTU claim is the same as utilised in previous years and is set out in full at Tag 3 of the ACTU Composite Exhibit.

4.18 The average increase in award wages as a result of the ACTU's claim is less than the most recent annual increase in all of the Average Weekly Earning measures (AWOTE 61 per cent, AWE Full Time 6.2 per cent, AWE all employees 5.4 per cent) and is broadly comparable with the Mercer measurement of increases in base salary for senior management and ADAM's figure for AAWI for agreements registered in the September quarter 2003 (4.5 per cent in both cases).

4.19 If the ACTU claim is granted the average annual increase for the five years 2000 to 2004 will be 3.4 per cent for all award employees and 3.2 per cent for full-time award only employees. This compares to an average increase in the Wage Cost Index for the period June 1999 to June 2003 of 3.4 per cent. In other words, granting the ACTU claim will ensure that average movements in award wages mirror the average movement in the Wage Cost Index. (Currently average movements in award wages are 3.1 per cent for the four years June 1999 to June 2003, significantly less than the average movement in the Wage Cost Index for the corresponding period).

4.20 In the four years June 1999 to June 2003 the average real increase in award rates is 0.1 per cent per annum and for full-time award only workers there has been a real decline in the period. The ACTU's claim would provide a real increase in the order of just above 2 per cent, but as Tag 3 shows this will result in only modest real increases over the five year period from June 1999 to June 2004; an average annual real increase of 0.6 per cent for all award

only workers and an average annual real increase of 0.4 per cent for award only full-time workers.

4.21 Table 4.6 shows the percentage increase as a result of the ACTU's claim in selected award classification rates in the Metal Industry Award. A full list of increases in Metal Industry Award classifications is at Tag 6 of the ACTU Composite Exhibit. The increase for all award rates is less than 6 per cent, with the increase at the Federal Minimum Wage 5.9 per cent. At this level the increase in all award rates is less than the most recent annual movement in AWOTE and full-time AWE as measured by the ABS Average Weekly Earnings series and for all wage rates above C12 is less than the movement in Average Weekly Earnings for all employees as measured by the same series.

Table 4.6: Increases in selected Metal Industry Award classifications

	C1(b)	C7	C10	C14
2003 Increase	2.7	4.4	4.9	5.9
Average Annual Increase 1997-2004	1.6	2.8	3.2	3.9

4.22 In previous years the ACTU has provided information regarding the real increase in selected award rates in the Metal Industry Award. Table 4.7 below reproduces that information in the context of this year's Case.

Table 4.7: Real Increases in selected Metal Industry Award classifications

	C1(b)	C7	C10	C14
Real Increase ACTU Claim	0.4	2.1	2.6	3.6
Average Annual Real Increase for 4 Years to 2000	-0.1	1.0	1.4	2.1
Average Annual Real Increase for 4 Years to 2004	-0.8	0.5	0.9	1.6

4.23 As the table above shows even with the ACTU claim granted the real increase in wage rates in the four years to 2004 will be significantly less than the real

increase in wage rates in the four years to 1999. In the past four years all wages C8 and above in the Metal Industry Award have suffered a real decline in value. Granting the ACTU claim would ameliorate this effect for middle classification levels, though higher classifications would still suffer a real decline even with the ACTU claim granted.

4.24 Granting the ACTU claim provides an economically responsible opportunity to give low paid workers a modest real increase in their after tax income of the order of $10 per week ($11.20 at the FMW, $10.25 at C10). As the analysis in Chapter 2 shows, such an increase would come after four years where real after tax wages for the lowest paid award workers have barely moved.

5 Economic Conditions and Outlook

5.1 The economy is growing at 2.6 per cent per annum; this has been driven by strong consumer demand and strong investment. During the first half of 2003 the Australian economy was able to grow even though we had a severe drought; a weak world economy; the outbreak of the Severe Acute Respiratory Syndrome (SARS) epidemic and geo-political tensions in Iraq.

5.2 The housing sector growth subsided in the second half of 2003 but economic growth is picking up because most of the factors outlined above have subsided.

5.3 Moderation of economic growth did not stop the labour market from creating new jobs in 2003; with the unemployment rate falling from 6.1 per cent in January 2003 to 5.6 per cent in November 2003 (trend figures).

5.4 Price movement has remained within the Reserve Bank of Australia's target band of 2.0 to 3.0 per cent. Businesses also experienced a strong 2003 with company profits growing strongly.

5.5 Overall the economy has performed robustly in 2003 in light of some significant factors pulling against it. More recently, with an abating of these factors, growth has picked up and the economy is forecast to grow even more strongly in 2004.

Current Economic Conditions

5.6 This section of the submission discusses the recent developments in the Australian economy along with a summary of the current economic conditions. Further detail regarding each of the matters discussed below is contained at Tag 1 of the ACTU Composite Exhibit.

Economic Growth

5.7 In the first half of 2003 the Australian economy had to weather several adverse shocks such as: a severe drought, a weak world economy, the outbreak of the Severe Acute Respiratory Syndrome (SARS) epidemic and geo-political tensions in Iraq. However, throughout all of these shocks the Australian economy has continued to grow and outperformed most other OECD countries

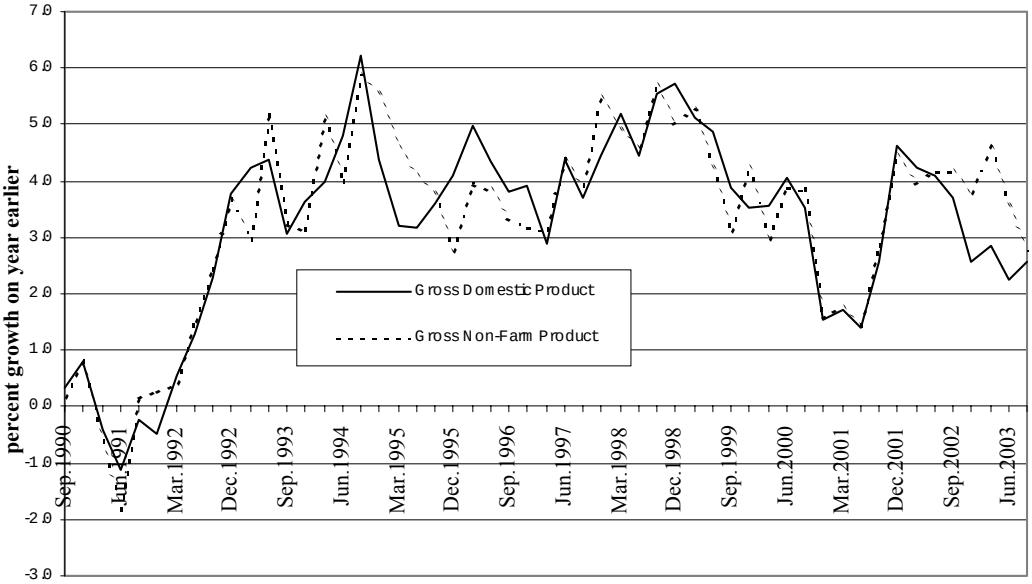
> *When you put together the last year – a weak world economy still reeling from the effects of a US recession; the worst drought in 100 years; the SARS epidemic, which affected the tourism industry; the war in Iraq, which was also affecting world confidence and world markets – you find that, despite all of those events, the Australian economy showed remarkable resilience. To have a growth of 1.2 per cent for the September quarter, which was announced yesterday, is a testament to the resilience of the Australian economy….*
>
> [House of Representatives Hansard, 4 December 2003, Mr Costello pg 23367]

5.8 Australia's Gross Domestic Product (GDP) grew by 1.2 per cent during the September quarter 2003 (0.7 per cent in trend terms), to be 2.6 per cent higher than at the same time a year ago (2.5 per cent trend).

5.9 Abstracting from the volatility in the farm sector, the non-farm sector of the economy continues to show robust growth. Gross Non-Farm Product (GNFP) increased 0.8 per cent during the September quarter 2003 in seasonally adjusted terms (0.6 per cent trend); to be 2.8 per cent higher than at the same time a year earlier (2.9 per cent trend).

5.10 Figure 5.1 below, details the yearly movements in GDP and GNFP for the current economic growth phase.

Figure 5.1: Yearly GDP and GNFP Growth – 1990 to 2003
(seasonally adjusted estimates)

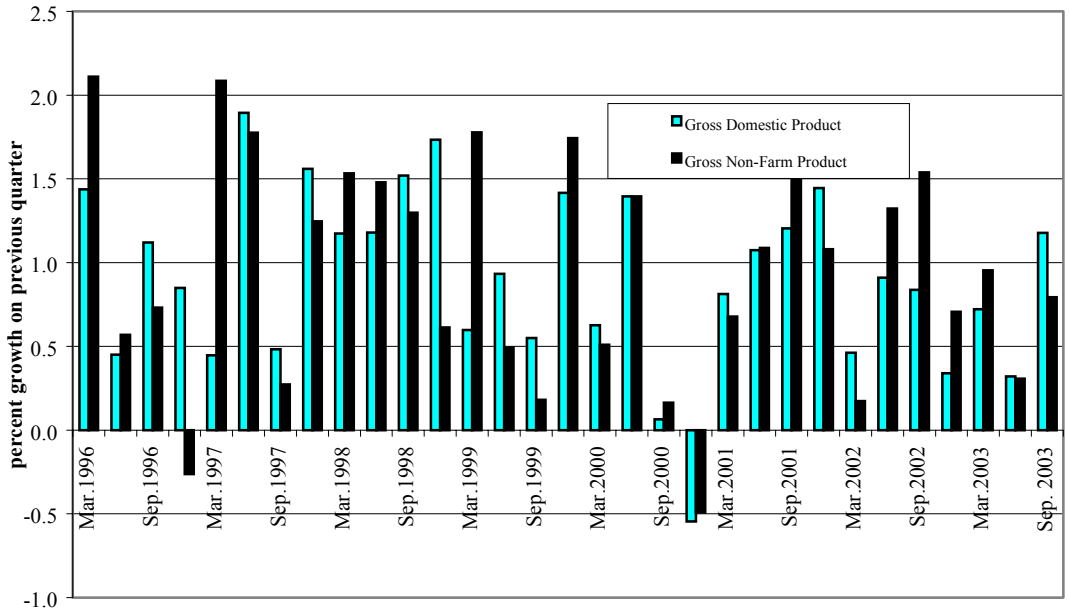


Source: ABS Cat No. 5206.0

5.11 Figure 5.2 shows the quarterly movements in GDP and GNFP for the past seven years. For the March and June quarters 2003 the rate of growth slowed due to factors outlined above. However, the September quarter 2003 saw the Australian economy rebound strongly, up 1.2 per cent and 0.8 per cent (for GDP and GNFP respectively). The September quarter 2003 is the first quarter since December 2001 that GDP has grown by over 1 per cent for the quarter.

5.12 Another obvious element in Figure 5.2 is that in the June and September quarters 2003 GDP was greater than GNFP for the first time since the March quarter 2002, indicating the growing improvement in the farming sector which grew by 17.3 per cent seasonally adjusted during the September quarter 2003.

Figure 5.2: Quarterly GDP and GNFP Growth – 1996 to 2003 (seasonally adjusted estimates)



Source: ABS Cat No. 5206.0

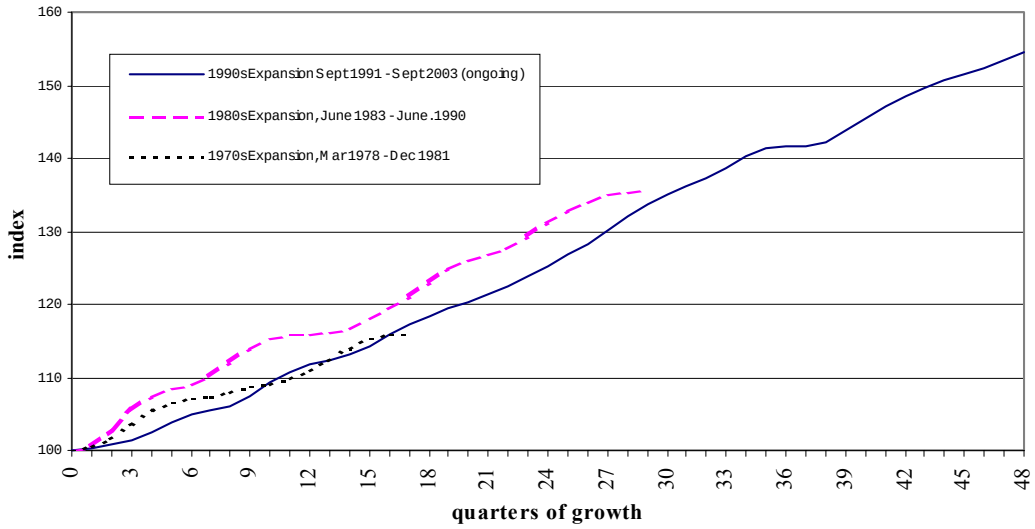
5.13 Following the release of the September 2003 quarter *National Accounts* data, the Treasurer made the following comment:

> *Today's National Accounts show that Australia's economic growth rebounded very strongly in the September quarter, growing by 1.2 per cent in the quarter and by 2.6 per cent over the year. Domestic demand continues to retain significant momentum, underpinned by strong growth in business investment and consumer spending. The National Accounts also provide further evidence that inflationary pressure remains in check.*
>
> *The ABS estimates that farm production rebounded by 17.3 per cent in the September quarter, contributing 0.4 of a percentage point to overall economic growth.*
>
> [Costello, P., *Press Release*: *National Accounts – September quarter 2002*, No. 101, 3 December 2003]

5.14 The current economic expansion is now 12 years long, with a total of 48 consecutive quarters of positive growth (the last recorded negative GDP quarter was in September 1991).

5.15 Figure 5.3 below shows a comparison between Australia's last three economic expansions. The present expansion (which began in the September quarter 1991), is now 48 consecutive quarters in length – by far the longest on record. During the current economic expansion the economy has averaged a rate of growth of around 0.9 per cent per quarter, or 3.7 per cent annually.

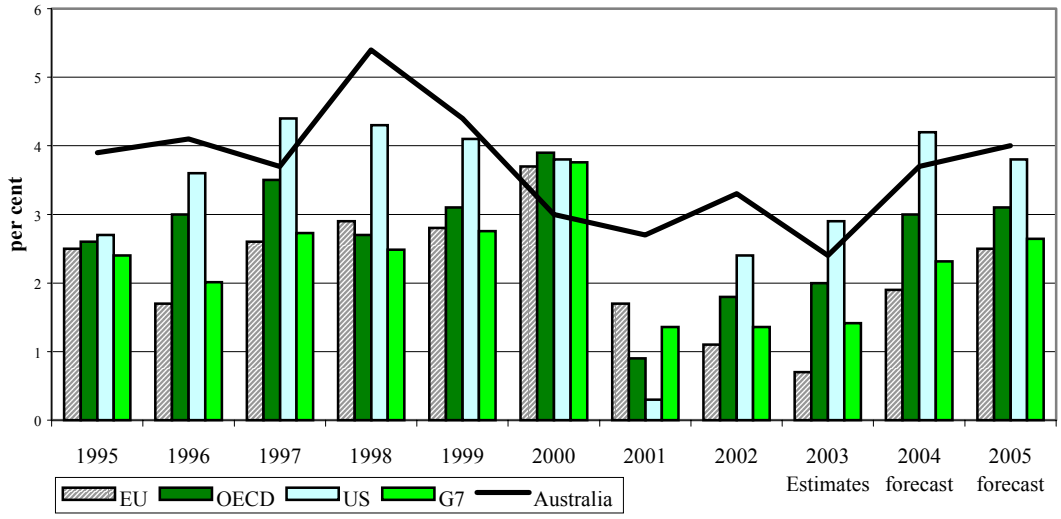
Figure 5.3: Comparison of past three economic expansions



Source: ABS Cat No. 5206.0

5.16 Figure 5.4 shows how Australia's economic growth has compared to that of other industrialised nations.

Figure 5.4: International comparisons of Real GDP growth (1995-2005)



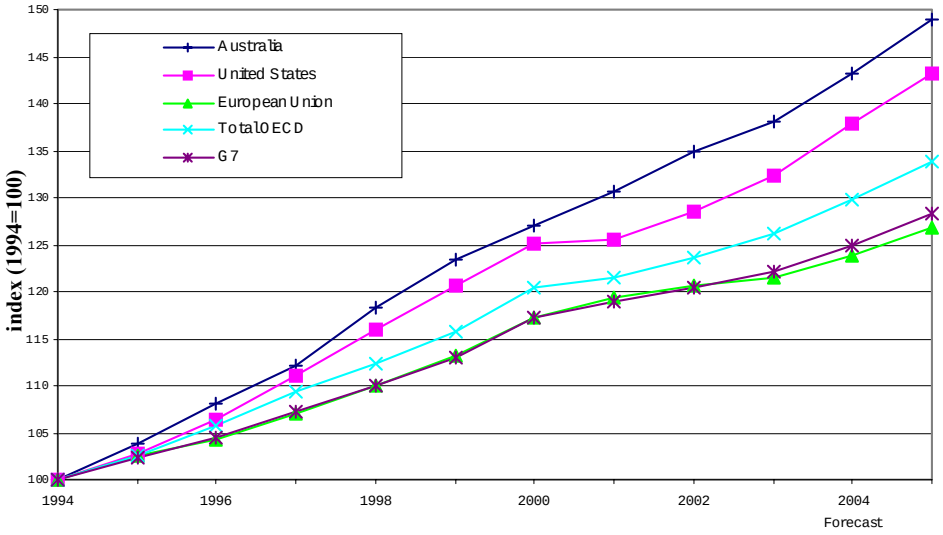
Source: OECD Economic Outlook – December 2003

5.17 In both 2001 and 2002 Australia's economic growth outpaced that of the world's major economies. During 2002 Australia's GDP growth was three times that of the European Union; and twice that of G7 nations and the total OECD.

5.18 The estimates of growth for GDP during 2003 have Australia's economic growth being higher than that of total OECD countries, G7 nations and the European Union. Forecasts of GDP see Australia once again outperforming the rest of the OECD countries by 2005.

5.19 Figure 5.5, below, shows the cumulative increases in real GDP growth over the past nine years and the most recent forecasts for Australia and the other major OECD economies. The figure shows that Australia has performed exceptionally well in comparison with the rest of the developed world.

Figure 5.5: International comparisons of Real GDP growth (1994-2005)



Source: OECD Economic Outlook – December 2003

5.20 The remainder of the chapter addresses the movements and drivers of each of the major components of the economy in turn.

Aggregate Demand

5.21 Private final domestic demand grew 1.3 per cent in the September 2003 quarter to be 5.1 per cent higher over the year.

Private Consumption

5.22 The biggest driver of final demand has been private consumption, with the most recent data for September 2003 revealing that private consumption expenditure grew by 1.3 per cent during the quarter, to be 4.2 per cent higher than a year earlier. Strong private consumption growth has been fuelled by a buoyant property market:

> *Consumer spending in Australia has picked up over recent months, with strong growth being recorded in retail sales and motor vehicle sales. Consumer confidence, after increasing earlier in the year, has in the past few months been close to historical highs. The buoyancy of consumer spending is being supported*

by rising household wealth, driven in large part by continuing increases in house prices.

[RBA, Statement on Monetary Policy, November 2003, page 2]

Retail turnover and motor vehicle sales

5.23 Consumers have maintained strong retail and motor vehicle purchases, throughout 2003. For instance retail turnover increased 1.0 per cent during the month of November 2003, and was 8.9 per cent higher than at the same time a year earlier. New motor vehicle sales showed a remarkable increase during the financial year 2002-03 growing by 7.8 per cent. While latest data shows that motor vehicle sales decreased during December 2003 by 1.4 per cent sales are still 6.7 per cent higher than at December 2002.

5.24 A more detailed look at two of the major indicators of consumption expenditure – retail turnover and new motor vehicle sales – is provided in Table 6, at Tag 1 of the ACTU Composite Exhibit.

Private Investment Expenditure

5.25 Private investment expenditure has continued to grow over the past year. The latest data suggests that total private investment expenditure grew by 7.9 per cent over the year to September 2003 [See Table 3 at Tag 1 of the ACTU Composite Exhibit]

The Housing Sector

5.26 The recent strength in Australia's housing market continued over the past year, although in recent months there has been a slow down in growth in the housing market.

5.27 Private Dwelling expenditure, as measured in *National Accounts* ABS Cat. No. 5206.0, increased by 0.1 per cent in both the June and September 2003 quarters to be 3.4 per cent higher over the year to September 2003.

5.28 The monthly ABS *Building Approvals* data for 2003 shows that the *number* of new dwelling approvals recorded during the months of October and November 2003 increased 0.7 per cent and 0.3 per cent respectively and remained 5.2 per cent higher in November 2003 than at the same time a year earlier. The *value* of new dwelling approvals increased 1.0 per cent in the year to November 2003.

5.29 A more detailed analysis of recent changes in Australia's housing sector data is provided in Table 8 at Tag 1 of the ACTU Composite Exhibit.

Business Investment

5.30 Investment expenditure by businesses has also grown strongly over the past year, with both the 'Non-dwelling construction' and 'Machinery and equipment' items of the National Accounts showing strong gains.

5.31 Growth in expenditure on Non-dwelling construction grew significantly over the 2002-03 financial year. Non-dwelling construction grew by a staggering 34.6 per cent over the year to June 2003. While the latest data shows a slight contraction of 1.1 per cent during the September quarter 2003, this needs to be viewed in the light of the increase in the year to June 2003.

5.32 Investment in Machinery and equipment has also grown significantly over the past year, increasing by in excess of 2 per cent per quarter since the December quarter 2001. Machinery and equipment expenditure grew 2.6 per cent during the September 2003 quarter, to be 14.0 per cent higher than at the same time a year earlier.

5.33 Further details regarding business investment over recent years can be found in Table 9 at Tag 1 of the ACTU Composite exhibit.

The Business Sector

5.34 In line with strong growth in domestic demand, businesses have generally experienced favourable conditions through the past year. The RBA recently noted in its *Statement on Monetary Policy*, that:

> *In addition to the strength of consumer spending, the prospects are for continued strength in business investment. Businesses are reporting substantial improvements in business conditions and confidence about the future. According to a range of surveys, business confidence has now risen to levels consistent with well-above-average growth of the economy, with profits, sales and employment all reported to have increases strongly in the past few months.*
>
> [RBA, *Statement on Monetary Policy*, November 2003 page 2]

Manufacturing

5.35 Surveys by the Australian Industry Group (Ai Group), suggest that growth in the manufacturing industry had decreased slightly during the first half of 2003. However, the manufacturing industry picked up in second half of 2003 returning to levels consistent with levels twelve months previous.

> *The Australian PMI™ showed that a rise in new orders was continuing to flow through to manufacturing, with orders up almost 13 points or 27 per cent since August.*
>
> *Eleven of the twelve sectors reported a rise in new orders (excluding transport equipment), with seven reporting a strengthening on the previous month. The clothing and footwear; chemicals, petroleum and coal products; and construction material products sectors reported the largest improvements.*
>
> *The Australian PMI™ results points towards annual growth in the non-farm economy of close to 4 per cent for the December quarter 2003.*
>
> *Ai Group Chief Executive, Bob Herbert, said the strengthening in orders since August 2003 was a positive sign.*

"The strengthening in orders is likely to ensure that manufacturing ends 2003 on a solid note despite the impact of continued weakness in exports.

[Australian Industry Group, *Media Release – Manufacturing consolidates, underpinned by stronger new orders* 1 December 2003]

5.36 The most recent survey by the Ai Group reinforced the strength of the manufacturing industry.

Ai Group Deputy Chief Executive, Heather Ridout, said the latest ***Australian PMI™*** *demonstrated that a strong economy is ensuring that the manufacturing sector is performing well, with manufacturing set to continue to improve into 2004.*

"As the Australian PMI is showing, the Australian economy looks set to return to growth of around 4 per cent next year, a good outcome given how global currency realignments and the appreciating Australian dollar have opened the door to greater import competition.

"Importantly, our two largest manufacturing states, New South Wales and Victoria, are showing signs of improvement.

…

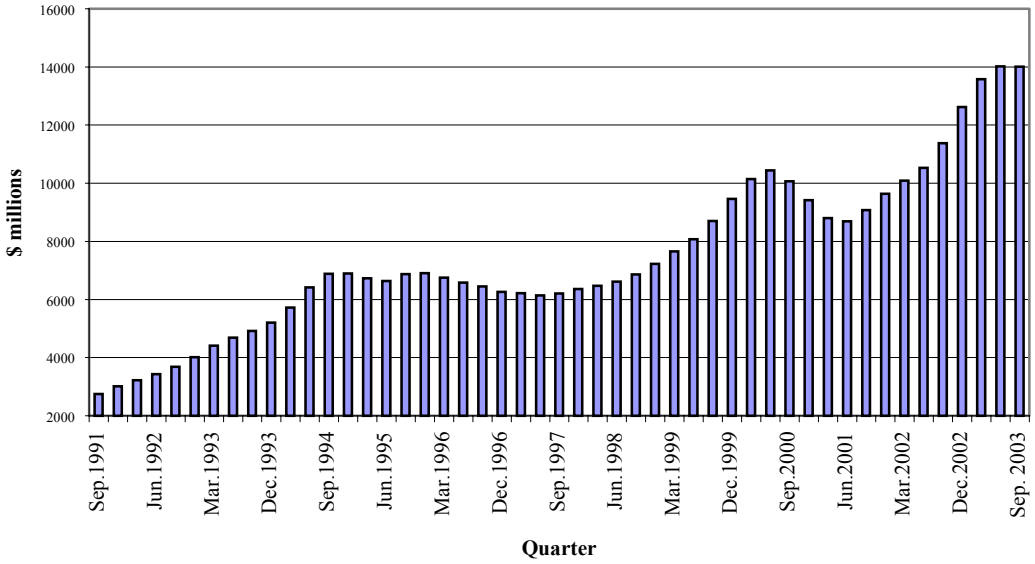
"Deliveries lifted in December; employment growth remained steady (the third successive rise); while finished stocks fell as orders were filled," Mrs Ridout said.

[Australian Industry Group, *Media Release – Manufacturing remains firm, 2* January 2004]

Company Profits

5.37 Company profits before income tax has enjoyed an impressive 23.1 per cent increase over the year to September 2003 and as Figure 5.6 clearly indicates company profits before tax have been increasing since the June quarter 2001 by an average of 5.5 per cent per quarter.

Figure 5.6: Company profits before income tax
1991 to 2003 ($ millions)

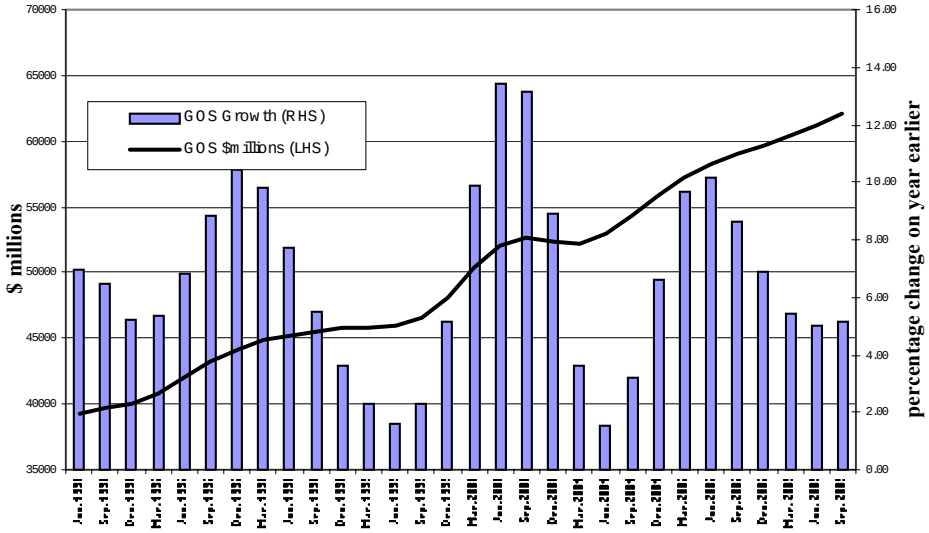


Source: ABS Cat No. 5676.0

5.38 The Gross Operating Surplus (GOS) measure of company profits, as measured as part of the ABS *National Accounts* publication, has continued to grow strongly over the past year (see Figure 5.7 below), despite the slowdown in economic growth during the first half of 2003. Recent business surveys have reported an expected increase in economic growth going forward in the first half of 2004, which should see an increase in the growth rate of GOS.

5.39 GOS increased 1.5 per cent during the September quarter 2003, and is now 5.1 per cent higher than at the same time a year ago.

Figure 5.7: Gross Operating Surplus – Australia 1996 to 2003

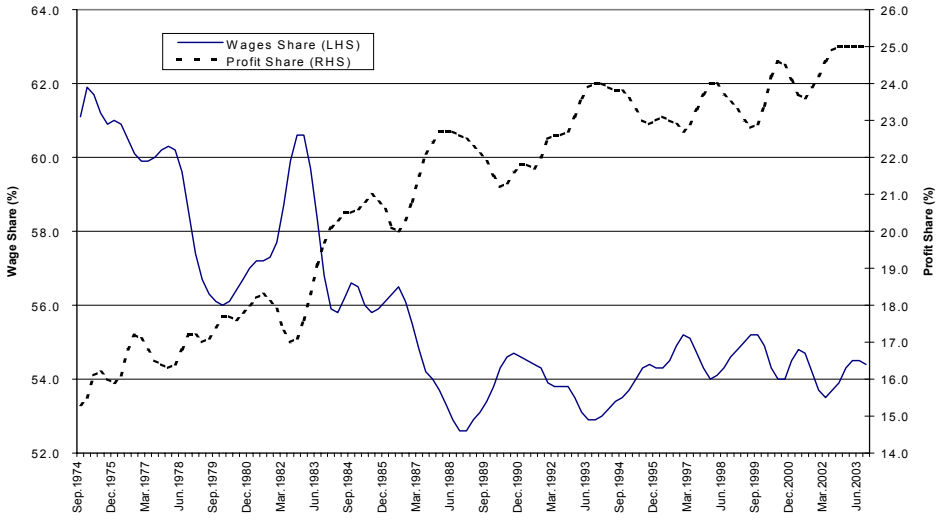


Source: ABS Cat No. 5206.0

Wage and Profit Shares

5.40 Figure 5.8 shows the wage and profit shares of total factor income since September 1974.

Figure 5.8: Wage and Profit shares of total factor income – 1974 to 2003



Source: ABS Cat No. 5206.0

5.41 The profit share of total factor income remained steady over the last five quarters at a record high of 25.0 per cent. The wages share, comparatively, remains at near record lows.

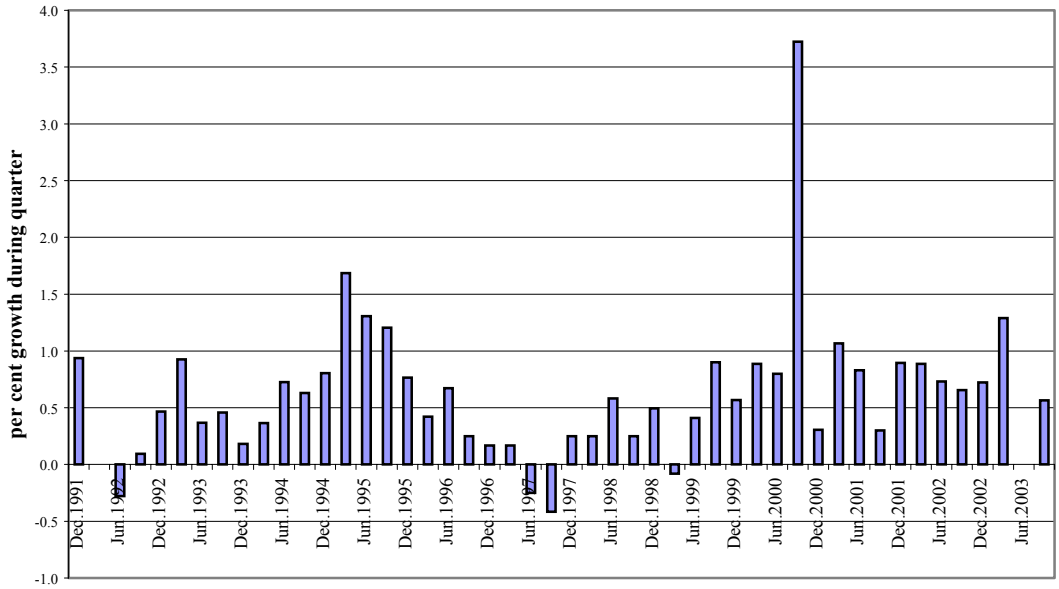
Wages

5.42 Wages growth has been moderate over the past year with the WCI at 3.6 per cent for the year to September 2003. Recent trends in wages growth have been dealt with in more detail in Chapter 3.

Prices

5.43 The Consumer Price Index (CPI) increased by 0.6 per cent during the September quarter 2003, to be 2.6 per cent higher over the year. This is well within the RBA's target medium term average of 2.0 to 3.0 per cent.

Figure 5.9: Quarterly CPI growth – December 1991 to September 2003



Source: ABS Cat No. 6401.0

5.44 In the latest *Statement on Monetary Policy* released on the 10th November 2003 the RBA reported underlying inflation to be around 2¾ per cent.

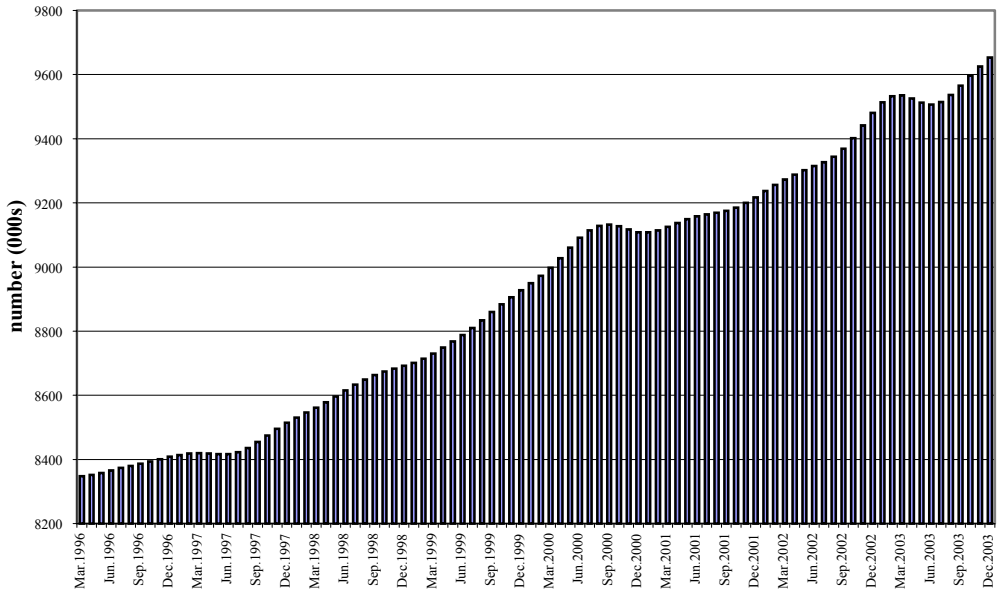
5.45 On the issue of inflationary pressures within the production process, the RBA made the following remarks:

> *Indicators of upstream inflationary pressures from business surveys remain generally subdued, reflecting the dampening effect of the exchange rate appreciation.*
>
> [RBA, *Statement on Monetary Policy*, November 2003, page 46]

Labour Market

5.46 Employment has grown solidly over the past year, as can be seen in Figure 5.10 below. Total employment grew 2.0 per cent over the year to December 2003 in seasonally adjusted terms (or 1.8 per cent trend); with a total of 9,666,100 persons now employed in the Australian labour market.

Figure 5.10: Total Employment – Australia – 1996 to 2003.



Source: ABS Cat No. 6202.55.001

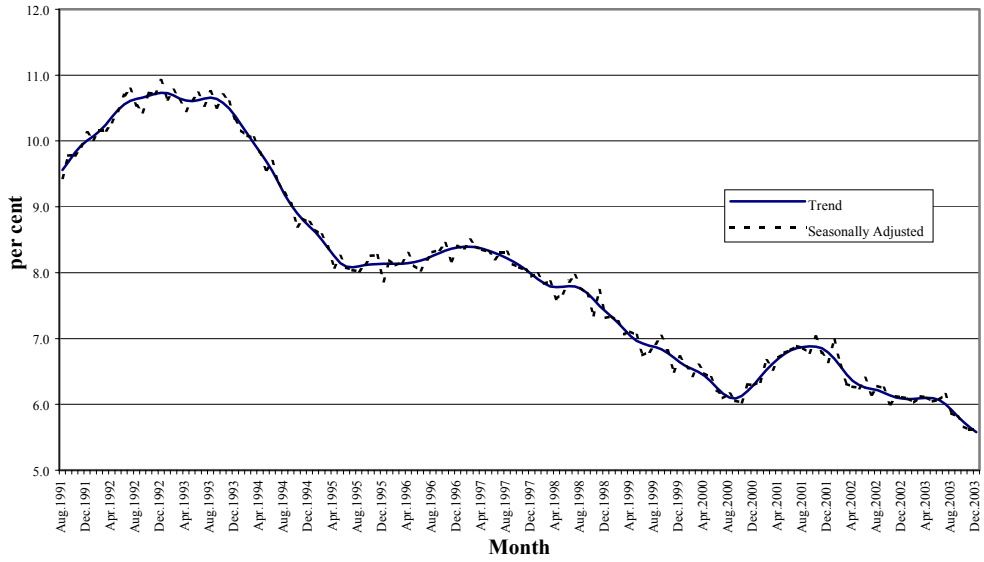
5.47 The year to November 2003 has seen solid growth in both full-time and part-time employment. Full-time employment grew 2.2 per cent over the year to December 2003 in trend terms. Part-time employment grew by 0.8 per cent in trend terms over the year to December 2003.

5.48 In comparison to this time last year, there are now an additional 172,000 employed persons working in Australia – 150,000 full-timers and 22,000 part-timers.

5.49 The remarkable strength in the labour market has been dominated by growth in full-time jobs over the last twelve months; with 87.2 per cent of all additional jobs being full-time.

5.50 Figure 5.11 below shows Australia's unemployment rate over the past decade. After an increase in the unemployment rate during the period following the introduction of the Government's GST, the rate resumed its downward trend and has not been at a lower rate for the past 22 years.

Figure 5.11: Unemployment rate – Australia – 1991 to 2003.



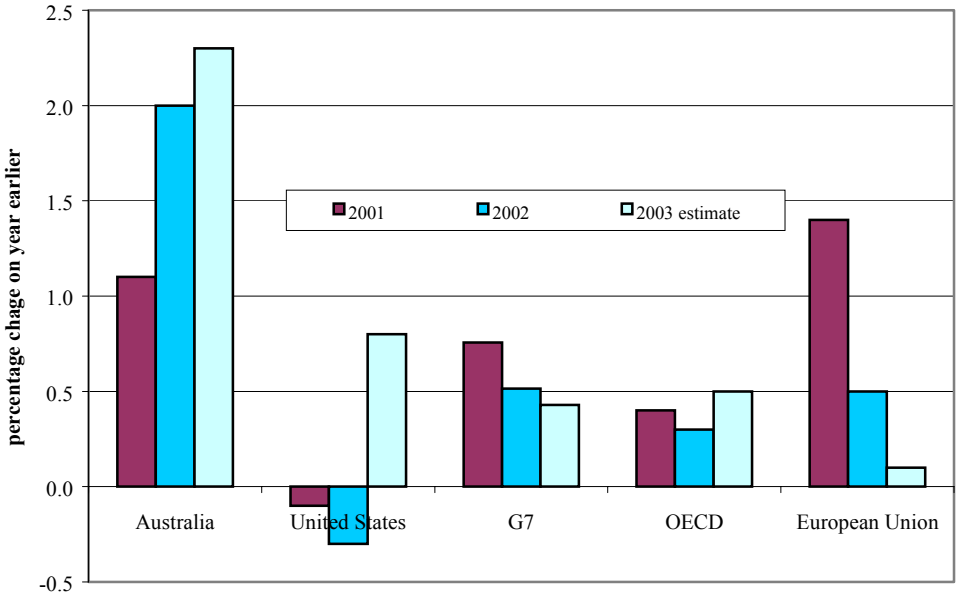
Source: ABS Cat. No. 6202.55.001

5.51 The unemployment rate for both November and December 2003 was 5.6 per cent which is the lowest unemployment rate since June 1981. This is the fifth consecutive month that the unemployment rate has been below 6.0 per cent.

International comparisons

5.52 Australia's employment growth continues to outpace that of other OECD economies, as can be seen from Figure 5.12 below. In its most recent assessment of international employment growth published in December 2003, the OECD suggest that the estimated rate of growth for Australia for the calendar year to December 2003 is in excess of twice that of the United States and over four times that of the OECD.

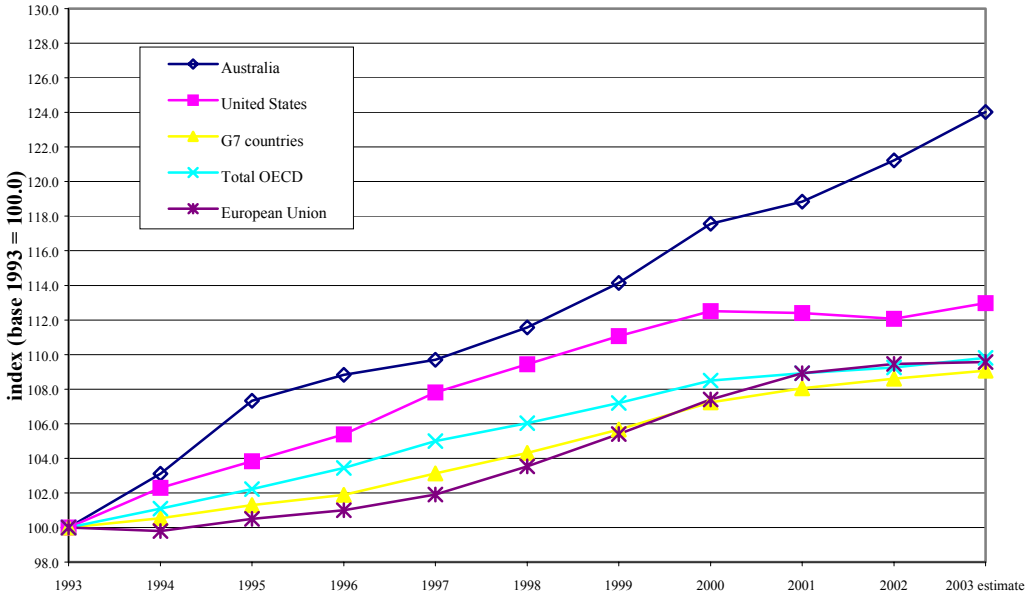
Figure 5.12: International Comparisons of employment growth 2000 to 2003



Source: OECD Economic Outlook – December 2003

5.53 Figure 5.13 below confirms Australia's solid performance in employment growth relative to the rest of the developed world. In particular, Figure 5.13 shows that on an international comparison since 1993 Australia's cumulative employment growth is stronger than the United States, OECD, G7 and the European Union.

Figure 5.13: Cumulative employment growth in OECD economies 1993 to 2003



Source: OECD Economic Outlook – December 2003.\

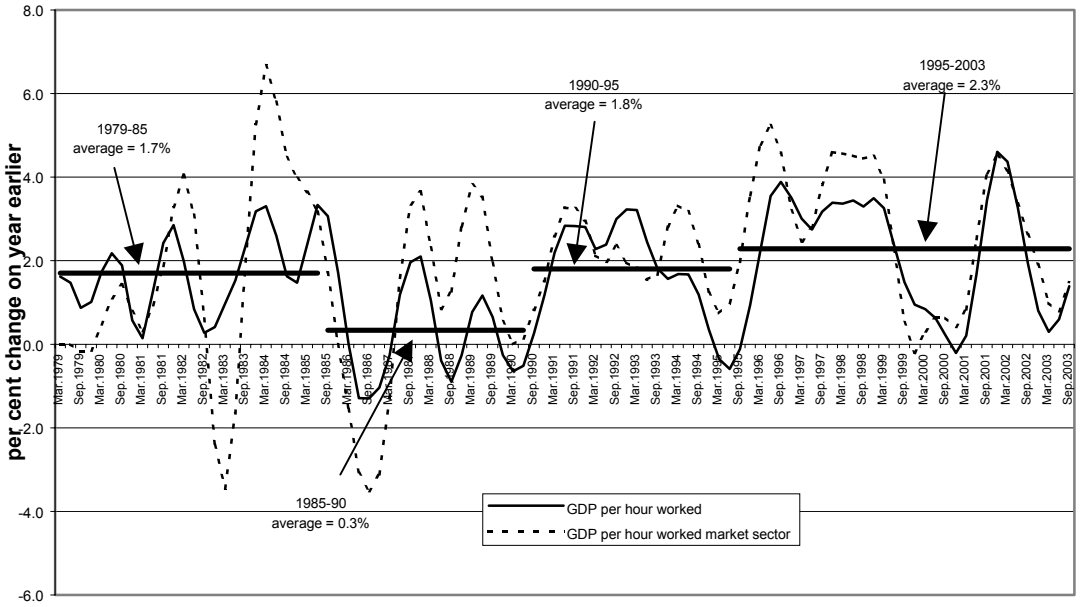
5.54 The OECD also expects Australia's employment growth to continue to outpace most of the industrialised world over the coming two years (see the section on labour market prospects below).

Productivity

5.55 Growth in labour productivity has moderated over the twelve months to September 2003. GDP per hour worked grew by 1.4 per cent for the year. GDP per hour worked market sector grew at a slightly better rate of 1.5 per cent for the year to September 2003.

5.56 However, given the large increase in employment over the year to September 2003 one would expect a decrease in labour productivity in the short term and as evident in Figure 5.14 below both measures of labour productivity increased during the September quarter by 0.9 per cent and 1.2 per cent respectively and the long term average is at a record high of 2.3 per cent.

Figure 5.14: Labour Productivity growth – Australia – 1979 to 2003



Source: ABS Cat No. 5206.0

The external sector

5.57 The Current Account Deficit (CAD) increased over the past twelve months largely as a result of a fall in exports. Exports fell by 12.2 per cent over the year to September 2003, as a result of the drought and an appreciation in the Australian dollar. The CAD as expressed as a proportion of GDP increased from 4.5 per cent in September 2002 to 6.6 per cent in September 2003.

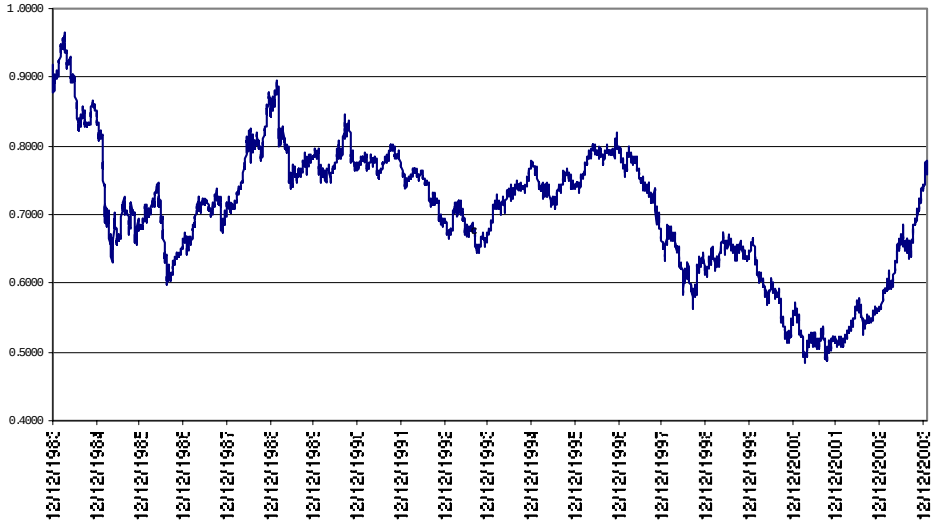
5.58 The latest figures for international trade show that Australia recorded a seasonally adjusted trade deficit on goods and services of $1,850 million in November 2003 which is a decrease of $63 million (or 3 per cent) from the previous month.

5.59 The number of exports rose over the month going from $11587 million in October 2003 to $11643 million a rise of $56 million with rural exports rising by 1 per cent over the month.

5.60 The number of imports fell over the month to November 2003 by $7 million, going from $13,500 in October 2003 to $13,493 in November 2003 with imports of intermediate goods falling by 1 per cent.

Exchange Rate

Figure 5.15: Daily exchange rates of the Australian Dollar against the US Dollar



Source: RBA

5.61 Figure 5.15 shows the movements in the Australian dollar against the United States (US) dollar since it was floated in 1983. The recent appreciation in the Australian dollar relative to the United States dollar is mainly due to:

- The under valuation of the Australian dollar in 2001 where the Australian dollar fell below 50 cents US; and
- Readjustment of the US dollar against other major currencies.

5.62 These sentiments are echoed by the Governor of the RBA, Ian Macfarlane:

> *Basically, the main part of the rise (in the exchange rate) you referred to – some 45 per cent – is explained by two factors. The first is that the starting point was ridiculously low….Obviously any increase which has occurred since then – once again, I hate to say this – has a lot to do with returning to normal.*
>
> *The second biggest influence which has been occurring lately is the fall in the US dollar over the last year. That explains the bulk of it. The US dollar has fallen*

against the major floating currencies, which would be the euro, the pound, the Swiss franc, the Australian dollar and the Canadian dollar. The US dollar has fallen by 23 per cent against those and it has fallen by 29 per cent against the Australian dollar – or ours has risen by 29 per cent against the US dollar. In other words, 23 of the 29 is basically the US dollar falling against everyone.

The Australian dollar has shown a fair bit of strength in the last three months. The very recent lift in the Australian dollar continues to be influenced by those two factors, but is also influenced the fact that the world economy is growing.

[RBA Governor Macfarlane, *House of Representatives - Standing Committee on Economics, Finance and Public Administration Hansard*, Brisbane, Monday 8 December 2003 page EFPA8]

5.63 The cyclical nature of the exchange rate is also evident in Figure 4.15. Since the Australian dollar was floated in 1983 its value relative to the US dollar has been characterised by peaks and troughs. Currently, the Australian dollar is in the upswing of the present cycle however, it is below the peaks reached in 1984, 1989, 1990 and 1996.

5.64 Whilst an appreciating dollar does make Australia's exports relative more expensive there is a positive side as the Minister for Industry, Tourism and Resources, Mr. Ian Macfarlane points out:

"At US 77 cents the dollar is now close to its historic level, the dollar averaged US 75 cents over the past 15 years, but appreciation of the dollar poses opportunities as well as challenges," said Mr Macfarlane.

"On the positive side, the rise in the dollar actually helps local manufacturers invest. Imported capital goods represent 50 to 60 per cent of private investment so a higher Australian dollar makes these investments, usually in US dollars, more affordable.

…

"The manufacturing sector has offsetting advantages for firms using imported inputs of investing in capital equipment. Such investment is critical to our long-term competitiveness," said Mr Macfarlane.

[Ian Macfarlane, Media Release: *Dollar's rise has to be seen in economic context,* 12 January 2004]

Conclusion

5.65 In last year's SNR the Commission awarded a wage increase to award workers which, as demonstrated throughout this chapter, has not had any negative impact on the economy. Over the course of 2003 despite several adverse shocks the economy continued to grow; unemployment fell to low levels and employment grew to record high levels. Further, profits are up, wage share of factor income is around record lows, and consumer demand while high has not generated any inflationary pressures. Therefore there is capacity for employers to absorb increases in award wages without increasing prices or decreasing employment.

Economic Outlook

5.66 This section of the submission considers the outlook and prospects for the Australian and international economy over the coming period. In this the ACTU has relied heavily upon the 'official' forecasts for the Australian and global economy produced by the Commonwealth Treasury, the Reserve Bank of Australia (RBA, or 'the Bank') and the OECD.

5.67 The Commonwealth Treasury's *Mid Year Economic and Fiscal Outlook* (MYEFO) for 2003-04 was released on 8 December 2003. The MYEFO provides a 'mid-year' update on the Treasury's economic forecasts as part of its usual Budget process in May each year. While this publication is now nearly two months old, it still remains one of the most authoritative official outlooks available for Australia. The RBA's most recent *Statement on Monetary Policy*, was released on 10 November 2003, and utilises largely the same set of data as that used by the Treasury.

The Outlook for the Domestic Economy

5.68 The official forecasts continue to paint a positive picture of the Australian economy over the foreseeable future, the drought has eased over much of

Australia and the there has been a marked improvement in the global economy which should boost the Australian economy.

5.69 The Australian economy is expected to exhibit continued strength during the coming year, with the official forecasts predicting that the Australia's GDP will grow by 3¾ per cent during 2003-04 (an upward revision from 3¼ per cent previously forecast in the May Budget). Growth in the non-farm sector of the economy is expected to remain solid, growing 3 per cent during 2003-04.

5.70 Over the next financial year, when any decision in this Case is likely to take effect, the Australian economy is expected to continue to grow strongly, with GDP forecast to grow by 3½ per cent during 2004-05.

5.71 Following the release of the Treasury's latest *MYEFO* forecasts, the Treasurer made the following comments:

> *The 2003-04 Mid-Year Economic and Fiscal Outlook (MYEFO) released today demonstrates the continued resilience of the Australian economy and reflects the Government's ongoing commitment to a strong economy through sustainable fiscal management.*
>
> *The Australian economy is forecast to grow by 3¾ per cent in 2003-04, an upward revision from the 3¼ per cent forecast at the 2003-04 Budget. The upward revision comes against a backdrop of improving sentiment about domestic and external growth prospects. Generally the near term outlook for the Australian economy has brightened since Budget with increasing signs of global recovery, particularly in the United States, and an easing of drought conditions over much of Australia.*
>
> *…*
>
> *The initial forecast for 2004-05 is for economic growth of around 3½ per cent. Domestic demand is expected to be solid and external conditions should be supportive of growth. Employment growth is forecast to be moderate and inflation is expected to fall a little further.*

There are still risks around the outlook, particularly regarding the sustainability of the international recovery, but overall the near-term risks have diminished since Budget and are now more evenly balanced.

[Costello, P., *Press Release: 2003-4 Mid-Year Economic and Fiscal Outlook*, No. 074, 8 December 2003]

5.72 Employment growth is forecast to be 1½ per cent in 2003-04 in year average terms and the unemployment rate is forecast to remain around current levels of 5¾ per cent.

5.73 Inflation is expected to remain unchanged from Budget, with the Consumer Price Index (CPI) forecast to grow by about 2¼ per cent in year-average terms during 2003-04, well within the RBA's medium-term inflation target range.

5.74 The Treasury's key domestic forecasts for 2003-04 are summarised in Table 5.1 below. The MYEFO forecasts for 2004-05 and the Treasury's projections for the medium term are outlined in Table 5.2.[5]. We shall now consider each of the forecasts in more detail.

[5]The longer term projections for the years 2005-06 and 2006-07 essentially reflect the medium-term average growth rates of the various measures used, and an assumption by Treasury that these will revert back to medium term trend levels over the medium-long term. The *projections* are produced by Treasury for the purpose of arriving at its Budget estimates, rather than providing an accurate outlook for the economy, and should not be confused with the *forecasts* for 2003-04 and 2004-05.

Table 5.1: MYEFO Domestic Economic Forecasts[(a)]

	Outcomes(b)	2003-04 Budget	2003-04 MYEFO
	2002-03 Year average	Forecasts Year average	Forecasts Year average
Panel A – Demand and outcome(c)			
Household consumption	4.1	3 1/4	4 1/2
Private investment			
Dwellings	16	-5	3
Total business investment(d)	16.9	7	7
Other buildings and structures(d)	31.9	14	11
Machinery and equipment(d)	16.4	4	5
Intangible fixed assets	5.7	9	4
Private final demand(d)	6.8	3	5
Public final demand(d)	4.2	3 1/4	2 3/4
Total final demand	6.3	3	4 1/2
Change in inventories(e)			
Private non-farm	0.1	0	- 1/4
Farm and public authorities(f)	-0.2	1/2	1/2
Gross national expenditure	6.2	3 1/2	4 3/4
Exports of goods and services	-0.6	6	3
Imports of goods and services	13.5	6	9
Net exports(e)	-3.0	- 1/4	-1 1/2
Gross domestic product	2.8	3 1/4	3 3/4
Non - farm product	4.0	2 3/4	3
Farm product	-28.7	25	27
Panel B – Other selected economic measures			
External accounts			
Terms of trade	2.2	1 3/4	3 1/4
Current account balance			
$billion	-41.1	-42 3/4	-46
Percentage of GDP	-5.5	-5 1/4	-5 3/4
Labour market			
Employment (labour force survey basis)	2.5	1 3/4	1 1/2
Unemployment rate (per cent)	6.1	6	5 3/4
Participation rate (per cent)	63.9	64	63 3/4
Prices and wages			
Consumer Price Index	3.1	2 3/4	2 1/4
Gross non-farm product deflator	2.7	2 1/4	2 3/4
Average earnings (g)	3.1	4	3 3/4

(a) Percentage change on preceding year unless otherwise indicated
(b) Calculated using data
(c) Chain Volume measure
(d) Excluding transfers of second-hand asset sales between the public and private sectors
(e) Percentage point contribution to growth in GDP
(f) For presentation purposes, forecast change in inventories held by privatised marketing authorities
Included with the inventories of the farm sector and public marketing authorities
(g) Average earnings (national accounts basis)

Source: Treasury, Mid-Year Economic and Fiscal Outlook, December 2003

Table 5.2: MYEFO Key Economic Forecasts and Projections[(a)]

	Forecasts		Projections	
	2003-04	2004-05	2005-06	2006-07
Real GDP	3 3/4	3 1/2	3 1/2	3 1/2
Employment(b)	1 1/2	1 3/4	1 1/2	1 1/2
Wages(c)	3 3/4	3 1/2	3 3/4	3 3/4
CPI	2 1/4	2	2 1/2	2 1/2

(a) Percentage change from previous year.
(b) Labour force survey basis.
(c) Average earnings (national accounts basis).

Source: Treasury, Mid-Year Economic and Fiscal Outlook, December 2003

Economic Growth

5.75 The Australian economy is forecast to grow strongly in 2003-04, with GDP expected to increase by around 3¾ per cent, up from 3¼ per cent forecast by the Treasury at Budget time.

5.76 Importantly, for the purposes of this Case, the economy is set for continued strong performance over the 2004-05 financial year – when any decision in the Case is likely to take effect.

5.77 The Treasury notes that:

> *The outlook is underpinned by solid, although moderating, consumption and business investment and a pick-up in exports in line with the ongoing recovery in world demand and farm production.*
>
> [Treasury *Mid-year Economic and Fiscal Outlook*, December 2003, page 6]

5.78 The RBA has echoed the Treasury's expectations for the economy to remain solid over the period ahead. Mr. Ian Macfarlane, RBA Governor, in his regular address to the House of Representatives Standing Committee on Economics, Finance and Public Administration made the following comments of Australia's growth prospects for 2003:

> *I turn now to the forecasts. I will start by discussing the forecast that I gave at the previous meeting and comparing them with how we think things are now going to turn out. When we last met in June, I said we expect GDP to grow by three per*

cent in real terms over the course of this year – that is, this calendar year 2003. Now, with three-quarters of the year behind us, we expect that figure will come in a little higher, at about 3½ per cent.

…

Looking ahead, over the course of 2004 we expect GDP to grow by four per cent. The profile of growth, however, is unlikely to be smooth. It would not surprise us if the four-quarter-ended growth rate of GDP reached 4½ per cent in mid-2004, due to the sharp rise in farm GDP, before returning to four per cent by end of year.

[RBA Governor Macfarlane, *House of Representatives - Standing Committee on Economics, Finance and Public Administration Hansard*, Brisbane, Monday 8 December 2003 page EFPA2]

5.79 The OECD has also expressed further support for Australia's strong growth outlook:

The projections are for an acceleration of economic growth, accompanied by a rebalancing of aggregate spending from domestic to foreign sources.

…

With the global economy recovering and the drought likely to break, exports are set to accelerate, narrowing the current external deficit from 6¾ per cent of GDP in mid-2003 to 4¾ per cent of GDP in 2005. The improved global environment should bode well for business investment, given existing high capacity utilisation, favourable company profitability and low corporate gearing. Inflation should remain within the Reserve Bank's 2 to 3 per cent target range, underpinned by the recent exchange rate appreciation, modest wage increases and a projected pick up in labour productivity.

[OECD, *Economic Outlook, Preliminary Edition,* No. 74, November 2003,page 111]

5.80 The remainder of this chapter addresses the outlook for each of the sub-components of growth over the period ahead.

Consumption

5.81 Treasury expects private consumption to increase by 4½ per cent in 2003-04, revised up from 3½ per cent forecast at Budget. Treasury suggest that consumer spending will be supported by growth in household wealth,

increased household borrowing, growth in income, low interest rates, the 2003-04 Budget tax cuts, high levels of consumer confidence and a sharp rebound in rural incomes. Treasury forecast consumption to continue to grow solidly in 2004-05.

5.82 Granting the ACTU's claim will support consumption growth over the year ahead by increasing household income, particularly for low-income earners who are likely to put money straight back into the economy.

Investment

5.83 The Treasury has increased its forecasts for dwelling investment growth during 2003-04, which is now expected to grow by 3 per cent, compared with a 5 per cent decline forecast at Budget. The growth in dwelling investment is expected to be underpinned by growth in detached housing and renovation work, which will be partly offset by a decline in medium density housing in the first half of 2004.

5.84 Treasury expects the recent strength in business investment to continue. Private new business investment is forecast to increase by 7 per cent in 2003-04 consistent with the Budget forecast. Investment in Machinery and equipment and Non-dwelling construction is expected to grow solidly, although the latter has been revised down slightly from Budget forecasts.

> *Business investment is expected to grow by 7 per cent in 2003-04, consistent with Budget, underpinned by supportive financial conditions, strong growth in corporate profits over the last year, low interest rates and generally sound corporate balance sheets. Business surveys point to high levels of confidence and capacity utilisation remains relatively high.*
>
> [Treasury, *Mid-Year Economic and Fiscal Outlook*, December 2003, page 13]

5.85 Investment in machinery and equipment is forecast by Treasury to increase by 5 per cent in 2003-04. Business investment on buildings and structures is forecast by Treasury to grow by 11 per cent in 2003-04.

5.86 The Treasury's encouraging forecasts for business investment over the year ahead are further supported by the Reserve Bank which noted in its latest *Statement on Monetary Policy* that:

> *The outlook for business investment is positive, given the ready access to internal and external funding, the high levels of capacity utilisation and the high level of business confidence.*
>
> *…*
>
> *Forward-looking indicators of buildings and structures investment point to strong growth in coming quarters.*
>
> [RBA, *Statement on Monetary Policy,* November 2003, pages 26]

5.87 Over the longer term into 2004-05, the Treasury suggests that:

> *Dwelling investment is forecast to ease in 2004-05, with continued growth in both detached housing and renovation work expected to be offset by a long-anticipated decline in medium-density housing activity.*
>
> *Business investment growth is forecast to be solid in 2004-05, with continued growth in plant and equipment investment and non-residential construction. However, engineering construction activity is likely to ease from the high levels reached in 2003-04, as work on projects currently underway is gradually completed.*
>
> [MYEFO, December 2003, page 15]

5.88 The most recent ABS capital expenditure (CAPEX) survey for September 2003 shows that there has been a revision upwards in business new capital expenditure plans from the same time last year of 3.0 per cent. In particular, expectations of new capital expenditure on building and structures have been revised up from September 2002 by 22 per cent.

Public final demand

5.89 Public final demand (domestic government spending on consumption and investment items) is expected by Treasury to increase 2¾ per cent in year average terms over 2003-04, with defense and national security to remain the key expenditure items. At the state and local government level Treasury expect an increase in public expenditure, mainly driven by health and law and order, as well as some government funded infrastructure projects yet to commence.

Net exports, terms of trade and the current account

5.90 Treasury's forecasts for net exports are weaker than expected at Budget time, reflecting the sharp appreciation of the Australian Dollar over recent months. Net exports are now expected to subtract around 1½ percentage points from GDP growth in 2003-04, up from ¼ percentage point expected at Budget.

5.91 Export growth is predicted to rise by 3 per cent in 2003-04. The growth in exports is underpinned by an improvement in the world economy and easing of the drought.

5.92 The Treasury's outlook for imports is for growth of around 9 per cent in 2003-04 (revised up from 6 per cent at Budget). Treasury expects the appreciation of the Australian dollar to cause some switching of demand from domestic to foreign producers. However, the import growth will be offset slightly by the phasing down of the aviation industry's fleet upgrade.

5.93 Treasury predicts the terms of trade to increase by 3¼ per cent in 2003-04; this figure has been revised up since Budget where the terms of trade were predicted to grow by 1¾ per cent for the 2003-04 year. Treasury expects imported manufactured goods prices to fall driven by excess capacity in the world economy, competitive pressures and ongoing downward pressure on the prices of information communication and technology goods (ICT goods).

5.94 Treasury now predicts the current account deficit (CAD) to be 5¾ per cent of GDP during 2003-04, this has been revised up from Budget where the CAD was predicted to be 5¼ per cent of GDP

5.95 In relation to the forecasts for 2004-05, Treasury says that:

> *Exports are expected to pick-up further in 2004-05, with continued growth in both global demand and farm production and strong growth in non-rural commodity exports, as new production capacity in the mining sector starts to come on line, following the recent boom in engineering construction. Import growth is expected to moderate in line with the slowing pace of domestic demand.*
>
> [MYEFO, December 2003, page 15]

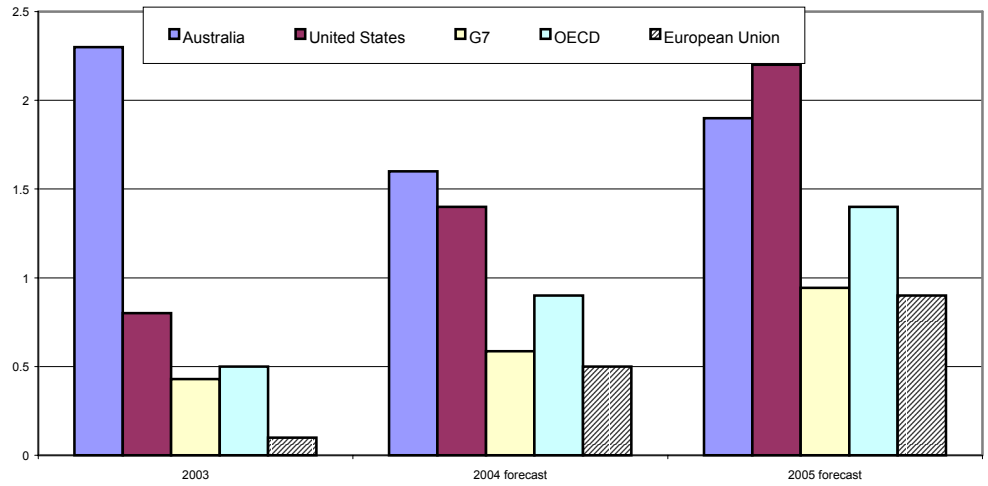
Labour Market

5.96 Treasury predicts employment to grow by 1½ per cent during 2003-04, with a sharp pick-up expected in farm and rural employment as farm production increases. Unemployment is expected to remain around the current levels for the remainder of 2003-04.

5.97 Employment is expected to grow by around 1¾ per cent during 2004-05, consistent with the generally solid outlook for the domestic economy. Treasury anticipates unemployment to be at, or slightly below, current levels.

5.98 Figure 5.16 shows that Australia's employment growth is expected to outpace the G7, European Union and the total OECD over the next two years.

Figure 5.16 OECD Employment growth forecasts – 2004 and 2005 International Comparisons



Source: OECD Economic Outlook, December 2003

Prices and Wages

5.99 Treasury forecast inflation to fall to 2¼ per cent during 2003-04. This reflects the fact that the appreciation of the Australian dollar in recent months has exerted downward pressure on import prices. Treasury also predicts that business costs will remain moderate.

5.100 Wages growth is also expected to remain steady over the year, forecast to grow by around 3¾ per cent through the year to June 2004. Treasury predicts that:

> *Wages pressure should remain well contained, with moderate wages growth and solid increases in productivity, further boosting prospects for sustained falls in the unemployment rate.*
>
> [MYEFO, December 2003, page 6]

5.101 Looking into 2004-05 Treasury predict that wages growth will ease slightly in line with anticipated falls in import prices and moderating domestic demand.

5.102 On the question of inflation the Reserve Bank suggests that:

> *At the time of the previous Statement the Bank judged that year-end underlying inflation was likely to fall to around 2 per cent in the first half of 2004, reflecting the appreciation of the Australian dollar, before edging up over 2005. Since that time, key developments have been further appreciation of currency and stronger than expected growth in domestic demand. The net effect of these factors is that, year-end inflation may now trough somewhat lower, while the pick-up in inflation in 2005 is now likely to be more pronounced, with underlying inflation expected to be back around 2½ per cent by the second half of the year…*
>
> [RBA, *Statement on Monetary Policy*, November 2003, pages 48]

The International outlook

5.103 World growth is expected to be 3½ per cent in 2003, with the forecast for 2004 expecting to see world growth pick-up to around 4 per cent. This is an improvement on the forecasts at Budget time by ½ per cent.

5.104 Much of the uncertainty in the world economy that persisted in the first half of the year has now dissipated which has resulted in an improved outlook for the world economy.

5.105 Treasury suggest that growth amongst Australia's major trading partners is expected to be 3¼ per cent in 2003, up ¾ of a percentage point from that anticipated at Budget, and 4 per cent in 2004 (up 1 percentage point from Budget).

6 Economic Effects

6.1 The ACTU claim, if granted, will have no adverse economic impact. We consider first the aggregate effects on the economy and then the effects at the sectoral or enterprise level.

Aggregate Effects

6.2 The macroeconomic effects which would arise if the ACTU claim were granted are properly described as negligible:

- As discussed in Chapter 4 the net impact of the claim of aggregate wages growth is 0.1 per cent; see Costings at Tag 4 the ACTU Composite Exhibit;
- Calculating the inflationary impact by reference to the wage cost share of total factor income gives a net impact on inflation of the order of 0.08 per cent; and
- Based on the Commonwealth's economic modelling (TRYM) analysis of the effects of the two previous ACTU claims it can safely be concluded that the current ACTU claim will have no significant impact on any macroeconomic indicators.

6.3 In the previous two Safety Net Reviews, the ACTU has requested the Commonwealth to model the net impact of its claim using its TRYM model. In each instance, modelling of the net addition to aggregate wages on the assumption of no monetary policy response from the Reserve Bank of Australia has produced no significant impact on any of the macroeconomic indicators. In addition, last year the Commonwealth also used the Murphy model to model the net impact of the ACTU claim with no monetary policy response with the same absence of any significant impact.

6.4 Table 6.1 below reproduces the "table of zeros" which resulted from the Commonwealth modelling of the macroeconomic effects of last year's ACTU claim: see *Safety Net Review Wages May 2003* PR002003 at 164, Table 19.

Table 6.1: Commonwealth Modelling of ACTU Claim 2003

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

Note: figures are per cent deviation from baseline unless otherwise indicated
[Source: Exhibit ACTU 4, Table R6.1 at para R6.5]

6.5 Table 6.2 below reproduces a portion of Table 16 from the *2002 Safety Net Review Wages Decision,* showing the impact of the ACTU claim in that Case without any Reserve Bank and financial market response.

Table 6.2: Commonwealth Modelling of ACTU Claim 2002

Without Reserve Bank and Financial Market Response	2002-03	2003-04
GDP Growth	0.0	-0.1
GDP Level [(a)]	0.0	-0.1
Inflation [(b)]	0.1	0.1
Employment Growth	0.0	0.0
Employment Level [(a)]	0.0	-0.1
Employment ('000) [(c)]	-2	-5
Unemployment Rate [(d)]	0.0	0.0
90 Day Bill Rate	0.0	0.0
Wages Growth [(b)]	0.2	0.1

Notes:
(a) The impacts are given in percentage point deviations from the official outlook unless otherwise stated.
(b) Per cent of baseline.
(c) Through-the-year (June) figures.
(d) June quarter

6.6 In 2002 the net impact of the ACTU claim was 0.2 per cent. In 2003 the net impact of the ACTU claim was 0.1 per cent. This year the net impact of the ACTU claim is 0.14 per cent (ie. falling between the net impact of the 2002 and 2003 claims). In her evidence in 2002 Ms Gabbitas, the Commonwealth's then modeller, confirmed that there is broadly a linear relationship between the size of the wages shock and the outcomes from the TRYM model for given initial conditions: see Transcript 3 April 2002, PN552. There is unlikely to be any dramatic change in the initial conditions for the modelling of this year's claim and thus it can safely be concluded that the macroeconomic effects of the ACTU's claim will fall somewhere between those modelled for the 2003 claim and those modelled for the 2002 claim, that is results without statistical significance: see Gabbitas Transcript 3 April 2002 PN578-582.

6.7 Further, as we noted in Chapter 4, the gross impact on wages resulting from the ACTU claim is virtually the same as the combined impact of the SNA and SGC increases for award only workers in 2000 and 2002: see Table 4.2. This is particularly significant in light of the Commission's specific finding last year that its 2002 decision had no adverse macroeconomic effect: see *Safety Net Review Wages* May 2003 PR002003 at 144 and 145.

6.8 In this Case, as it has in the previous two Cases, the Commission can safely conclude:

> *"Consideration of the net impact on aggregate wages costs of the ACTU's claim, absent a monetary policy response through increased interest rates, suggests a very limited impact of the ACTU's claim on economic growth and employment."*
>
> [See Safety Net Review Wages May 2003 PR002003 at 166 and Safety Net Review Wages May 2002 PR002002 at 116].

Sectoral and Enterprise Effects

6.9 The starting point for any consideration of the microeconomic effects resulting from the ACTU's claim is a consideration of the absence of any evidence of adverse microeconomic effects from previous Commission decisions.

6.10 The analysis in Chapter 2 shows part Safety Net Adjustments have had no discernible impact on those sectors in which award employees are most concentrated. Indeed, growth in all industry value added and employment have exceeded all industry averages during the period of Safety Net Reviews (1996-2003). In the last financial year 2002-2003 growth in output and productivity for the three most award dependent sectors was greater than all industry averages. In the period 1996-2003 real unit labour costs have fallen in each of these industries and for Accommodation, cafes and restaurants and Health and community services profits increased by more than 80 per cent. Table 6.3 below reproduces some of the key data from Chapter 2 regarding the performance of the three most award dependent sectors.

Table 6.3 Award Dependent Sectors – Economic Performance and Wages 1996-2003

	Increase in output (%)	Increase in Productivity (%)	Increase in Employment (%)	Increase in Profits (%)	Increase in Wages[(a)] (%)
Accommodation, cafes and restaurants	31.2	14.6	28.5	82.1	8.8
Health and community services	29.8	9.1	23.2	na[(b)]	8.8
Retail trade	33.8	16.6	16.2	99.0	8.8

a. Increase in wages is real growth in Federal Minimum Wage deflated using all groups CPI. Note for all wage rates above the FMW real increase is less than 8.8 per cent.
b. ABS does not record profits for Health and community services.

Source: ABS Cat. Nos. 5204.0, 5676.0, 6291.0.55.001

6.11 As it did last year, the Commission should find that:

> *A general assessment of employment data, including a focus on more heavily award reliant sectors does not disclose any basis to suggest that past safety net adjustments have had significant adverse employment effects.*
>
> [See Safety Net Review Wages May 2003 PR002003 at 175]

and that:

> *…the growth in productivity in [award] sectors does not support a conclusion that safety net increases impact negatively on productivity.*
>
> [Safety Net Review Wages May 2003 PR002003 at 180]

6.12 In addition, as the analysis in Chapter 2 shows, there is not any evidence of safety net increases impacting adversely on either output or profits.

6.13 The conclusion of the Commission in last year's Case that there was no basis to suggest that past safety net adjustments had had any significant adverse employment or productivity effects is of critical significance in these proceedings. As the Commission noted at paragraph 144 of that decision, it's May 2002 decision had resulted in an $18 increase in award rates which took effect at around the same time as an additional labour cost increase in superannuation contributions required of employers from 8 per cent to 9 per cent.

6.14 The combined effect of the $18 increase and the increase in the compulsory superannuation contribution in 2002 for an employee on the Federal minimum wage was 5.3 per cent (4.35 per cent from the wage increase and 0.95 per cent from the increase in superannuation contributions.[6]) The increase in wage costs as a result of the ACTU claim at the Federal minimum wage is 5.9 per cent broadly comparable to the increase which resulted from the combined impact of the increase in wages and superannuation costs which resulted in 2002. Indeed, a 5.3 per cent increase on the current Federal minimum wage is $23.80. In other words the Commission's own conclusion as to the absence of any evidence of an adverse impact from the 2002 decision compels the conclusion that in this year's Case an increase of $23.80 in similar economic circumstances will similarly have no impact.

6.15 Table 6.4 below shows the flat dollar amount increase in all the Metal Industry Award classification rates equivalent to the combined effect of the 2002 safety net adjustment and the increase in the superannuation guarantee contribution. As can be seen from the Table the combined effect of the 2002 safety net adjustment and the increase in superannuation guarantee contributions is equivalent to a flat dollar wage increase of the order of $24 for

[6] The increase in superannuation contributions is only payable on ordinary time earnings, thus for award only workers a 1 per cent increase in ordinary time earnings equates to a 0.95 per cent increase in total earnings; see EEH May 2002 Survey, ABS Cat. No. 6306 p.42

all wage rates up to and including C7 in the Metal Industry Award and is equivalent to greater dollar amounts for classifications at higher levels.

Table 6.4: 2002 SGC and SNA Increases

	2002 SNA (%)	2002 SGC (%)	Total 2002 increase in labour costs (%)	Wage rate 2004 ($)	Wage increase corresp-onding to 2002 increase in labour costs
C14	4.35	0.95	5.31	448.40	**$23.80**
C13	4.19	0.95	5.14	465.10	**$23.90**
C12	3.98	0.95	4.93	487.60	**$24.04**
C11	3.80	0.95	4.75	508.50	**$24.18**
C10	3.55	0.95	4.50	542.20	**$24.41**
C9	3.41	0.95	4.36	563.10	**$24.56**
C8	3.28	0.95	4.23	583.90	**$24.71**
C7	3.17	0.95	4.12	602.80	**$24.86**
C6	2.95	0.95	3.91	644.50	**$25.18**
C5	2.86	0.95	3.81	665.40	**$25.34**
C4	2.76	0.95	3.72	686.20	**$25.51**
C3	2.60	0.95	3.55	727.90	**$25.85**
C2a	2.52	0.95	3.48	748.80	**$26.02**
C2b	2.39	0.95	3.34	786.50	**$26.29**
C1a	2.15	0.95	3.10	870.00	**$27.00**
C1b	1.87	0.95	2.82	995.10	**$28.10**

6.16 In summary then, there is simply no basis to conclude that past safety net adjustments and in particular the 2002 safety net adjustment have had any adverse impact on employment, output, productivity or profits. Indeed, to the contrary the data shows that in a number of respects heavily award dependent sectors have outperformed non-award dependent sectors and/or all industry averages. It is also evident that growth in award wages has not matched growth in output or growth in profits (where this is measured) in the three most strongly award dependent sectors and that productivity growth has outstripped real growth in wages leading to a decline in real unit labour costs in those industries.

6.17 There is simply no case on the basis of available data for any suggestion that previous safety net adjustments have lead to any adverse economic outcomes and, in light of the conjunction of the safety net increase in 2002

and the increase in compulsory superannuation contributions, it can safely be concluded that an increase of the order of the ACTU's claim will equally have no adverse microeconomic impact.

Academic Research

6.18 In the last Safety Net Review the ACTU relied on a paper "A Survey of the Literature on Minimum Wages" by Professors Dowrick and Quiggin of the Australian National University and the University of Queensland. The Dowrick and Quiggin conclusions from their Executive Summary reproduced below:

- *The inequality of wages, and market incomes more generally, has increased in Australia over the past decade. The real value of the wage in low-pay occupations has not risen since the mid 1980's despite the high rate of growth in average labour productivity.*

- *A failure to increase minimum wages would contribute to further growth in inequality. To be justified, a decision to accept such growth in inequality would require convincing evidence that minimum wage workers would benefit from substantial employment growth. No such evidence exists.*

- *Econometric studies on the impact of changes in minimum wages have yielded ambiguous results. The work of Card and Krueger, and subsequent studies using similar methods suggests that, in some cases, increases in minimum wages may have no effect, or even a positive effect, on unemployment.*

- *Where a negative relationship between minimum wages and labour demand has been found, estimated elasticities of demand have been well below 1, implying that minimum-wage workers as a group would lose from lower minimum wages. To the extent that any demand response to lower minimum wages takes the form of an increase in hours per worker, rather than an increase in employment, all minimum wage workers would be worse off, working longer hours for less total pay.*

- *We present evidence confirming previous findings that countries with regulated labour markets have been able to resist the global trend towards rising inequality without suffering either higher unemployment or lower employment than countries with deregulated labour markets.*

- *It follows that there is little reason to expect strong employment benefits from freezing minimum wages in nominal terms, that is, reducing minimum wages in real terms.*

- *Furthermore, in order to avoid further widening of inequality, and to avoid the exacerbation of poverty traps, minimum wages need to be indexed not to the Consumer Price Index but to the average or median wage – allowing workers in low-pay occupations to share in the benefits of rising productivity.*

6.19 Since Dowrick and Quiggin completed their review a number of academic works have been completed which bear on the subject of the economic effects of minimum wages.

6.20 In footnote 49 of its decision the Commission referred to the recent publication by Princeton University Press of Professor Alan Manning's book *Monopsony in Motion – Imperfect Competition in Labour Markets*. Manning is Professor of Economics and Director of the Labour Markets Program in the Senate for Economic Performance at the London School of Economics. In his book Manning undertakes a theoretical analysis of the labour market working from the assumption that employers have significant market power and that they exercise this power.

6.21 Manning makes two key assumptions about the labour market. Firstly, that there are important frictions in the labour market and secondly, that employers set wages.

6.22 These frictions in the labour market include ignorance, heterogeneous preferences and mobility costs. It is said that these frictions result in firms facing an upward-sloping labour supply curve that is not infinitely elastic thereby allowing employers to exercise market power over employees by setting wages levels. As Manning states "…*it is very rare to see advertisements placed by workers setting down the wage at which they are prepared to work*." (page 5).

6.23 Manning calls the neo-classical bluff by dispelling the perfect competition myth that at a certain wage level all employees will quit if wages are reduced by one cent. Manning says that this will not take place and proceeds to utilise a monopsonistic explanation as to why this is so.

6.24 Manning argues that a monopsonistic approach to labour economics is a more "*natural and less forced*" approach which allows for a more "comfortable" explanation of labour market behaviour. For many years the accepted orthodoxy between astronomers was that the earth was the centre of the universe and that the sun and other planets revolved around the earth. Intricate models to demonstrate this accepted theory were developed. These models required the explaining away of certain anomalies and required certain assumptions such as the backward movement of some planets at certain points in time. These theories were accepted. The alternative and simpler explanation that the sun is the centre of the solar system and the earth with other planets revolves around the sun was considered heresy until Galileo's open mind, empirical data and the telescope proved otherwise. Manning seeks to do the same with labour economics.

6.25 Manning asks the reader to keep an open mind, he says:

> *The claim of this book is that, for many questions, the competitive model is not a tolerable approximation, and that our understanding of labour markets would be much improved by thinking in terms of a model where the labour supply curve facing the firm is not infinitely elastic.*
>
> *The belief that the elasticity of the Labor supply curve facing a firm is infinitely elastic is not based on any great weight of accumulated empirical evidence. (page 13).*

6.26 Manning proposes the monopsony model as a more apt description of the workings of the labour market and although similar to the matching model theory (which assumes pre-employment bargaining between employer and employee), the assumption that employers set wages *unilaterally "makes it easier to forge links with the rest of Labor economics*". (page 16).

6.27 Manning proposes that minimum wage regulation "pushes" wage distribution from below whilst trade union activity "pulls" wage distribution from above. The combined result is that an appropriate minimum wage level may raise employment levels.

6.28 Manning notes that "*Many labor economists have had problems in even conceiving of the possibility that the minimum wage does not destroy jobs, even likening (with a straight face) the Card-Krueger and other similar findings to a reversal of the laws of gravity. But, if labor markets are monopsonistic, one should not really be surprised by or sceptical of such findings as it is well-known that minimum wages do not necessarily reduce employment under monopsony. Indeed, textbooks often only discuss monopsony in the context of this "contrary" prediction about the impact of the minimum wage*". (page 338).

6.29 It is argued that employment at a certain point is maximised by choosing a minimum wage corresponding with the market-clearing level. There is, argues Manning, a possibility of concurrent increases in minimum wage and employment levels.

6.30 Manning asks that "…*one should be open minded and rely on good quality empirical research on policy before reaching any strong conclusions*." (page 365).

6.31 Manning does not argue that the monopsonistic perspective is the complete answer. He says that monopsonistic theory must play a valuable role in explaining labour market effects that have been all too often explained away as anomalies. Perhaps the sun is at the centre of the solar system after all.

6.32 Empirical support for the proposition that minimum wages do not harm employment is found in a paper presented by Hyslop and Stillman [7] to the October 2003 meeting of the New Zealand Econometrics Study Group investigating the labour market effects of a 41 per cent and 69 per cent

[7] Hyslop, Dean and Stillman, Steven. May 2003. *"Youth Minimum Wage Reform and the Labour Market*." Unpublished.

increase in the minimum wage applying to 16-17 and 18-19 year olds in New Zealand.

6.33 Using data from the New Zealand Household Labour Force Survey (HLFS) for the period 1997-2002 the joint New Zealand Treasury and Department of Labour study examines the employment, income, educational and other impact of the significant increases in junior rates payable in New Zealand.

6.34 The study finds no adverse impact of the minimum wage changes on youth employment or hours worked. For 18-19 year olds there was no significant impact on employment levels or hours worked while those in the 16-17 year age group saw an increase in the hours worked by 14 per cent. Further the study shows no significant effects on the hours worked for 20-21 year old workers following the reforms. The study is particularly significant because the neo-classical view is that the negative employment impact of minimum wages is likely to be most pronounced amongst young workers.

6.35 Teulings (2003)[8] has recently explored the interaction between minimum wages and wage inequality and finds that a reduction in the minimum wage in the US was the main cause of the rise in inequality in earnings in the US.

6.36 After establishing 20 different regions, or "economies", within the US (excluding Alaska and Hawaii), Teulings utilises 100,000 observations from the years 1973, 1979, 1985, 1989 and 1991 finding *that "minimum wages can explain the whole increase in wage inequality in the lower half of the wage distribution during the 1980's*". (page 831)

6.37 Teulings finds, after excluding the self employed and allowing for skill biased technological progress, de-unionisation and changes in the distribution of human capital, that a 10 per cent reduction in the minimum wage causes the wage of someone earning the previous minimum to fall by 8 per cent.

[8] Coen N. Teulings. *The Contribution of Minimum Wages to Increasing Wage Inequality*. The Economic Journal, 113 (October, 801-833. Royal Economic Society 2003.

6.38 The study also finds that where the minimum wage has increased strongly, such as 1991, that the spill-over effect for wage earners outside the minimum wage group is "exceptionally small". (page 814).

6.39 Leigh has written two papers which deal with issues related to minimum wages. His first *"What Affects Inequality? Evidence from Time Series Data"* presented to the RBA. Economic Research Seminar on 10 July 2003 concludes that:

> *The main factor that appears to affect inequality in the short run (1 year) is the real minimum wage.* (page 10)

6.40 The analysis conducted by Leigh suggests that:

> *A 20 percentage point rise in the real minimum wage would be associated with approximately a 2 point fall in the gini in the short-term.* (page 9)

6.41 Notwithstanding, that these conclusions are favourable to the ACTU's case (and consistent with the findings of Tuelings and others) some care needs to be exercised regarding Leigh's result. As Figure 3 in his paper at page 21 shows the data set on which he relies has a $100 increase (2002 dollars) in the male minimum wage in 1997. In this respect Leigh seems to have relied on a defunct wage rate in awards (ie one not paid in practice). It is not apparent how the use of this data affects Leigh's results.

6.42 Leigh's second paper "Employment Effects of Minimum Wages: Evidence from a Quasi-Experiment" published in the Australian Economic Review, Vol 36, No.4 at 361 is a shoddy analysis, flawed in its conception, subject to basic errors of calculation and selective in its interpretation of results. Leigh purports to find that six increases in the West Australian statutory minimum wage during the period 1994-2001 show that WA's employment to population ratio fell following each increase. He estimates an elasticity of demand with respect to the WA statutory minimum wage of –0.13.

6.43 Before dealing in detail with the flaws in Leigh's analysis, it is important to note that Leigh himself does not conclude from his analysis that increases in minimum wages should not occur. In article published in the Financial Review on 14 January 2004 Leigh notes the ACTU's current claim and writes:

> *The employment costs of raising the minimum wage appear relatively small, while the chance to provide a boost to the incomes of the working poor is real.*
>
> *The evidence from the West Australian minimum wage experiment appears to provide support for regular, moderate increases in the federal minimum wage.* (AFR 14/1/04, page 47).

6.44 A preliminary critique of Leigh's paper by Professor Raja Junankar of the University of Western Sydney appears at Tag 7 of the ACTU Composite Exhibit. As that critique notes:

- Leigh's choice of the rest of Australia as a "control" group in his quasi-experiment is difficult to sustain given the different compositional structures in GDP and policy settings between WA and the rest of Australia. Leigh's analysis controls for none of these differences;
- Leigh makes a basic computational error. The employment to population ratios contained in the analysis are wrong. The ratios listed in Table 2 are all in the high seventies (as percentages) the correct figures are all about fifty per cent;
- Leigh's aggregation of the full-time and part-time labour markets is problematic;
- When proper employment to population ratios are used the largest increase in the statutory minimum wage was in fact accompanied by an increase in employment in the WA relative to the rest of Australia.
- Leigh's implied elasticities are incorrectly calculated.

6.45 Other problems with Leigh's analysis include:

- His assumption that workers affected by the WA statutory minimum wage are a different population to award workers in the Rest of Australia. A key feature of the WA legislation during the period was the capacity it offered to employers to "contract" below award minima: see for example *Re: Bakers Delight*, PR930120. As a result Leigh's "control" group actually had higher minimum wages than his "treatment" group;

- His investigation of only six out of ten changes in the Statutory Minimum Wage in the period (counting the introduction of the statutory minimum wage as a change for these purposes);

- His use of the 15/40 ratio for part-time employment. EEH suggests a 0.5 ratio would be more appropriate. (Indeed during the period part-time hours always exceeded 15/40 of full-time hours). Leigh says a 0.5 ratio doesn't affect his results, but this appears not to be so when correct employment to population ratios are used;

- His crude approach to seasonality. Leigh uses a basic three year averaging technique rather than published seasonally adjusted data from the ABS;

- The dependence of his results on quite arbitrary selection of which months to investigate. Leigh investigates only the single month three months before an increase and the single month three months after an increase.

6.46 The ACTU has repeated Leigh's methodology using correct effective full-time employment to population ratios (not employment to labour force ratios as Leigh appears to have calculated), ABS seasonally adjusted data, part-time employment weighted at 0.5 and choice of months analysed changed to one month before and three months after the relevant change in the statutory minimum wage. On four out of ten occasions increases in the WA statutory minimum wage are associated with a better employment performance in WA relative to the rest of Australia with higher increases more likely to be associated with positive employment effects and the lowest increase of $3 (one which Leigh does not investigate in his analysis) associated with one of

the worst performances for WA compared to the rest of Australia. In other words Leigh's results are simply not robust to alternative equally plausible specification.

6.47 In short, no weight should be placed on Leigh's findings regarding the employment effects of the WA statutory minimum wage.

7 Needs of the Low Paid

Introduction

> *My income restricts our quality of life by providing just enough for the necessities of life, with little left for recreation or leisure. There are many things that we would like to do that others take for granted. We simply cannot afford to do those things because of the limitations imposed by my wage.*[9]

7.1 In this year's Case the ACTU provides further evidence of the needs of the low paid and an increase in inequality:

- Empirical research from the University of New South Wales Social Policy Research Centre (SPRC) provides updated budget standards for a range of family types:

Household Type	Modest but Adequate	Low Cost
	September 2003	*September 2003*
Single female	*$452.30*	*$353.90*
Single male	*$450.30*	*$360.10*
Couple, no children	*$565.80*	*$463.80*
Couple plus girl, 6	*$724.30*	*$568.70*
Couple plus girl, 6 and boy, 14	*$867.90*	*$708.70*

- The SPRC report says the low cost budgets are too low for use in setting minimum wages (they were designed as adequacy benchmarks for social security income support payments) and that the modest but adequate standards are probably too high – minimum wages should be set to afford expenditure levels between the two.

- In every instance the current Federal Minimum Wage would not provide a level of income sufficient for the modest but adequate budget. For all couple households modelled in the SPRC report private income alone would be insufficient to provide even the low cost budget standard where one member of the couple was employed full time on the Federal Minimum

[9] Witness Statement of Robyn Larnach.

Wage. Some couple households still fall below the low cost budget standard even when government assistance is taken into account. For single person households the Federal Minimum Wage provides an income just above the low cost budgets. In short the budget standards research provides substantial support for a significant increase in award minimum wages.

- Seven low paid witnesses provide illustrative evidence of the real life difficulties which confront low wage earners and their families; and
- Australian Bureau of Statistics (ABS) data now confirms that income inequality has increased in the period between 1995-96 and 2000-01.

Empirically Determined Benchmarks

7.2 The Commission in last year's decision found that their assessment of needs would be assisted by evidence of empirical studies of those needs.

7.3 In response to the proposals by ACCER and ACOSS that the Commission conduct an inquiry into the needs of the low paid, the Full Bench stated:

> *Our rejection of the proposals for an inquiry should not be taken as a rejection of the utility of empirically determined "benchmarks" such as the poverty line. Indeed, it seems to us that the use of such measures is relevant to an assessment of the needs of the low paid.* [paragraph 222]

Budget Standards

7.4 To assist the Commission in this regard the ACTU commissioned a report by the Social Policy Research Centre (SPRC) of the University of New South Wales on the incomes required by Australian working families to meet their needs in 2003. The report *Updated Budget Standards Estimates for Australian Working Families in September 2003*,[10] is included in the ACTU Composite Exhibit at Tag 8. The report was prepared by Professor Peter

[10] Saunders P, *Updated budget standards estimates for Australian working families in September 2003*, SPRC, University of NSW, January 2004

Saunders, Director of SPRC, whose witness statement may be found at Tag 1 of the ACTU Witness Statements. The report is based on the SPRC research on budget standards originally carried out in 1995 for the Commonwealth Department of Family and Community Services (then Department of Social Security). The 2004 report reviews the budget standards methodology and presents new estimates of a series of household budgets.

7.5 As SPRC notes, the research has been informed by, and takes account of, some of the criticisms of the original study that have been made since its release. (p. 1)

7.6 This research has direct relevance to the task before the Commission. As SPRC notes at pages 1 and 3 of the report:

> *A budget standard estimates what is needed, in terms of material goods and services, by a particular type of family in order to achieve a particular standard of living in a particular place at a particular time. (p. 1)*

and

> *The budget standards method begins by articulating a standard of living in terms of its consumption and activity patterns, and specifies the needs that must be met in order to maintain that standard. It then goes on to identify and price the basket of goods and services required to meet these needs, and adds up the resulting expenditures to produce the total family budget needed to achieve the presumed standard of living. (p. 3)*

Budget Standards Research Methodology

7.7 SPRC notes at page 3 that the principal value of a budget standard is that the assumptions and judgements on which it is based are made explicit, and this transparency provides a valuable basis for informed debate on questions of the adequacy of living standards. While the detailed budgets for those standards updated to September 2003 are not available, the SPRC has included at Appendix A of its report the Detailed Low Cost Budget Standard

(1997) for a Private Renter Couple with Two Children so the Commission can view the level of detail involved in a budget standard.

7.8 The original SPRC research was based on an incremental approach – it built on budget standards work undertaken in the United Kingdom. These budget standards were then modified (and in several areas significantly improved upon) to suit Australian circumstances and values and prevailing consumption and participation patterns of the Australian population. As SPRC notes in this sense, the SPRC research reflects 'international best practice' in the field of budget standards research, although it is rarely credited as such. (p. 4)

7.9 Two budget standards were developed in the original research and are updated for the ACTU. The modest but adequate standard is defined as one which affords full opportunity to participate in contemporary Australian society and the basic options it offers. It is seen as lying between the standards of survival and decency and those of luxury as these are commonly understood, and attempts to describe the situation of a household whose living standard falls somewhere around the median standard of living experienced within the Australian community as a whole. (p. 4)

7.10 The low cost standard is defined as a level of living which may require frugal and careful management of resources but would still allow social and economic participation consistent with community standards and enable the individual to fulfil community expectations in the workplace, at home and in the community. It is seen as a level below which it becomes increasingly difficult to maintain an acceptable standard because of the increased risk of deprivation and disadvantage, and a standard achievable at about one-half of the median for the Australian community as a whole. (p. 4)

7.11 At pages 4 and 5 of the report SPRC notes that the primary motivation for developing a low cost budget is to guide the setting of income support payments, as is clear from the reference to the "frugal and careful management of resources". In contrast the modest but adequate standard describes a level of comfort in the standard of living in which prevailing

consumption and participatory needs are met without the need for frugality, but also without any suggestion of luxury.

7.12 As SPRC notes at pages 5 and 6, in general, a budget standard must incorporate both normative factors (for example, nutritional guidelines published by the relevant authority) and behavioural factors. The normative standards must also reflect the actual behavioural patterns of the population if their relevance is not to be severely circumscribed. As SPRC concludes:

> *In practice, the best that any budget standard can achieve is to incorporate those community norms that are in existence but also be informed by expert judgements and existing patterns of behaviour, to the extent that these are known from the available data.* (p. 7)

7.13 The SPRC original 1997 budget standard estimates were exposed to external scrutiny at several stages of their development – a Project Steering Committee comprising experts in nutrition, health economics, housing, clothing needs, consumer behaviour, social security, the measurement of living standards and family budgeting; a series of focus groups and then comparison with actual expenditure patterns using data from the ABS Household Expenditure Survey. (p. 7)

7.14 In specifying and costing the SPRC budgets, and in differentiating the modest but adequate and low cost standards, the total budget for each household was split into nine main budget areas:

- Housing;
- Energy;
- Food;
- Clothing and footwear;
- Household goods and services;
- Health;

- Transport;
- Leisure; and
- Personal care. (p. 7)

7.15 SPRC notes that modest but adequate and low cost budget standards were developed for a range of households that varied according to size, the age and gender of individual members, the labour force status of adults and housing tenure.

> *Thus, the low cost standards generally assumed that adult household members are either unemployed or not in the labour force, whereas the modest but adequate standards assumed that at least one (working-age) adult is in full-time employment.* (p. 7)

7.16 Modest but adequate and low cost budget standards were differentiated in a number of ways. Only those items (goods), services used or activities undertaken by at least 50 and 75 per cent of households were included in the modest but adequate and low cost budgets respectively, (the 'ownership rule'). Low cost budgets were priced using generic ('No frills') brands, whereas modest but adequate budgets utilised 'leading brand' prices. Where there was a range of items that served the same purpose, a price at the lower end of the range of observed shelf prices in leading retail stores was used for low cost budgets, while something closer to the median price was used for modest but adequate standards. Modest but adequate housing rents were based on the median rent, while lower quartile rents were used for the low cost budgets. (p. 8)

7.17 The budgets were developed for households assumed to be living in the Hurstville Local Government Area of Sydney and were priced using February 1997 consumer prices.

7.18 SPRC concludes:

> *The most important strength of the budget standards approach is that the method confronts directly the many difficult issues that have to be faced when developing any kind of adequacy standard. The method involves identifying what needs have to be met in order to maintain a given standard of living, what items will meet those needs, and at what cost. This is a complex and formidable task, but one that has to be confronted in order to put a monetary figure on a particular standard of living. The fact that this requires judgements to be made which many will dispute reflects the inherent difficulties associated with obtaining quantitative measures of the standard of living, rather than any fundamental objection to the notion of a budget standard itself. (p. 9)*

7.19 Other strengths of budget standards research include:

- Transparency of the method;
- Budget standards provide a huge amount of information about contemporary living standards in an informatively structured manner;
- They provide a vital input into the important task of articulating what is needed to attain – and sustain – a specific standard of living in contemporary society, and thus provide an independent normative benchmark for assessing the adequacy of resources available to its members. (pp. 9-10)

7.20 At page 11 of the report SPRC notes that results from the budget standards research have been used by bodies like:

- ACOSS
- Association of Child Welfare Agencies
- Tasmanian Department of Health and Human Services
- Association of Superannuation Funds of Australia.

7.21 We note that as recently as December 2003 ACOSS used the budget standards to estimate the costs of children.[11]

7.22 At pages 5 and 6 of the report SPRC addresses the question of which of the two budget standards is most appropriate to guide the setting of minimum wages?

> *There is no clear cut answer to this question, although it would seem that if the low cost budget is the basis for setting income support payments, then a standard set somewhat above that level is appropriate for minimum wages, since considerations of both fairness and incentive suggest that even the lowest wage income should exceed social security benefits. Whether the modest but adequate standard is an appropriate minimum wage benchmark is more difficult to ascertain. In part, this decision depends upon the scope of the population with which the standard is being compared.*
>
> *In the original SPRC research, the comparator population included all families/households, as is appropriate when determining a minimum standard for the society as a whole. However, such a population is not relevant in the wage-setting context, since the population benchmark that is relevant when setting the wages of the low-paid covers only those who are employed. This is an important distinction, because both the low cost and modest but adequate standards are set conceptually relative to median income, which clearly varies according to how the population is defined (as will be demonstrated empirically later).*
>
> *Whilst a case can be made for setting the minimum wage at the modest but adequate standard for the whole population, this argument is much weaker when the modest but adequate standard is linked to the median income of employed households only. It is also important to bear in mind that the original SPRC estimates were developed around the notion of median income for society as a whole. In contrast the relevant population when assessing the needs of the low paid covers only those who are in employment and this has an important bearing on what adequacy means and where the median standard of living lies.*
>
> *Thus, while the arguments are by no means clear-cut, the SPRC low cost standard is too low for use in setting minimum wages and the modest but adequate standard is probably too high, although a case can be made for using it if the median is defined relative to the entire population. However, in general*

[11] ACOSS, *Cost of Kids the Key: new data*, ACOSS Media Release, 16 December 2003.

which precise point to choose on the continuum that separates the two standards is a complex decision that involves judgment.

Updating the budget standards

7.23 The SPRC has updated the original budget standards for a selected set of households to reflect increases in prices since 1997. SPRC notes that this makes no allowance for improvements in the type or quality of items included in the original budgets. Given the economic growth in the ensuing period, the relative position of the (updated) budget standards will decline, relative to actual living standards. (p. 23)

7.24 In updating the estimates the SPRC has modified very slightly the original estimates, as they incorporated a number of minor errors in the original spreadsheets that underlie them. Further, this study assumes all households are renting privately since this provides a more readily accessible and generalisable indication of typical housing costs resulting from the interaction of supply and demand forces in the housing market. (pp. 23-24)

Updated budget standards

7.25 The ACTU asked SPRC to provide budgets for five kinds of working households – a single male, a single female, and a couple with one person employed with no children, one child and two children. Those households were chosen to provide an indication of the variation of needs by reference to household type and to allow a consideration of households who receive no government benefit payments together with those who receive significant levels of government benefits.[12] Single income households have been utilised not because the ACTU makes any normative judgement about such a household model as being "ideal" but because if the adequacy of "safety net" wage income is to be assessed then single income households are the appropriate household type to consider. September 2003 budgets for these household types are shown in the following table.

[12] Children are aged 6 years and 14 years. The inclusion of a child aged under 5 years would maximise Family Tax Benefit. However, the updated budget standards households needed to be based on the original budget standards study households which did not include a child under 5 years.

Table 7.1: Updated Budget Standards, September Quarter 2003

Household type	Modest but Adequate	Low Cost
	September 2003	September 2003
Single female (employed Full Time)	$452.30	$353.90
Single male (employed Full Time)	$450.30	$360.10
Couple, no children (male employed Full Time, female Not in the Labour Force)	$565.80	$463.80
Couple plus girl, 6 (male employed Full Time, female Not in the Labour Force)	$724.30	$568.70
Couple plus girl, 6 and boy, 14 (male employed Full Time, female Not in the Labour Force)	$867.90	$708.70

Source: SPRC, 2004

7.26 The original budget standards total estimates, as amended, were increased by the increase in the CPI between the March Quarter 1997 to the September Quarter 2003 – 17.9 per cent. At page 29 of the report SPRC states it is important to emphasise that the methods used to produce these updated estimates take no account of:

- Movements in the relative prices of different commodity areas over the period; or
- Movements in real (CPI - adjusted) household incomes over the period.

7.27 That is, while the price adjusted value of the standards remains constant, their value relative to average incomes has declined.

7.28 The updated budget standards, split into the nine main budget areas follows.

Table 7.2: Detailed Updated Budgets for the September Quarter 2003 ($ per week)

	Family/household type				
	Single female	**Single male**	**Couple, without children**	**Couple plus girl, aged 6**	**Couple plus girl, aged 6 and boy, aged 14**
Modest but Adequate					
Housing	165.30	165.30	165.30	200.50	235.80
Energy	9.20	9.20	12.00	15.40	18.30
Food	59.80	71.90	130.90	168.10	230.50
Clothing & footwear	28.30	21.50	42.60	58.80	70.40
Household goods & services	35.60	35.60	3.50	57.50	48.70
Health	5.20	7.70	12.70	16.20	18.90
Transport	89.40	89.10	100.30	103.50	106.70
Leisure	33.10	38.30	64.60	68.60	102.00
Personal care	26.50	11.70	33.20	35.60	36.80
Total	**452.30**	**450.30**	**565.80**	**724.30**	**867.90**
Low Cost					
Housing	143.80	145.80	145.80	183.80	221.80
Energy	8.50	8.60	11.40	13.70	15.90
Food	56.40	57.30	103.30	132.50	182.00
Clothing & footwear	16.70	17.0	38.30	48.60	61.30
Household goods & services	27.90	28.40	35.50	45.50	69.60
Health	4.80	5.00	8.60	11.10	13.30
Transport	66.80	68.00	77.00	82.80	82.80
Leisure	23.10	23.50	29.40	35.50	44.00
Personal care	6.40	6.50	14.40	15.20	18.00
Total	**353.90**	**360.10**	**463.80**	**568.70**	**708.70**

Source: Appendix B Table B.1 SPRC 2004

7.29 The ACTU has calculated the disposable income of households earning the Federal Minimum Wage in order to compare that disposable income with the Budget Standards.

Table 7.3: Disposable Income of Households earning the Federal Minimum Wage

	Single Female / Male		Couple		Couple plus girl 6		Couple plus girl 6, boy 14	
	$pw	**$pa**	**$pw**	**$pa**	**$pw**	**$pa**	**$pw**	**$pa**
Gross wage	448.40	23380.86	448.40	23380.86	448.40	23380.86	448.40	23380.86
Tax*	64.69	3372.90	29.40	1533.20	57.96	3022.20	57.96	3022.20
Net Wage	**383.71**	20007.96	**419.00**	21847.66	**390.44**	20358.66	**390.44**	20358.66
Parenting Payment Partnered$^{\Delta}$	-	-	-	-	63.12	3291.26	63.12	3291.26
Family Tax Benefit Part A	-	-	-	-	65.24	3401.80	147.98	7716.10
Family Tax Benefit Part B	-	-	-	-	30.66	1598.70	30.66	1598.70
Rent Assistance#	-	-	-	-	55.44	2890.80	55.44	2890.80
Disposable income	**383.71**	20007.96	**419.00**	21847.66	**604.90**	31541.22	**687.64**	35855.52

*adjusted for Medicare levy, where applicable, and eligible rebates/tax offsets such as Dependent Spouse Rebate and Low income tax offset.
$^{\Delta}$ Parenting payment is taxable but levels below tax threshold
Rent Assistance is based on the budget standards rent component of Housing.

7.30 As Table 7.4 below shows, focusing first on the net wage, it is clear from the table that for all households modelled the federal minimum wage (after tax) alone is not sufficient to finance a Modest but Adequate standard of living. Indeed for all the chosen couple households the federal minimum wage (after tax) is not sufficient to finance a Low Cost standard of living. The level of the federal minimum wage is such that it is not sufficient for a family with children to achieve an acceptable standard of living without having to access government assistance.[13]

Table 7.4: Updated Budget Standards, September Quarter 2003

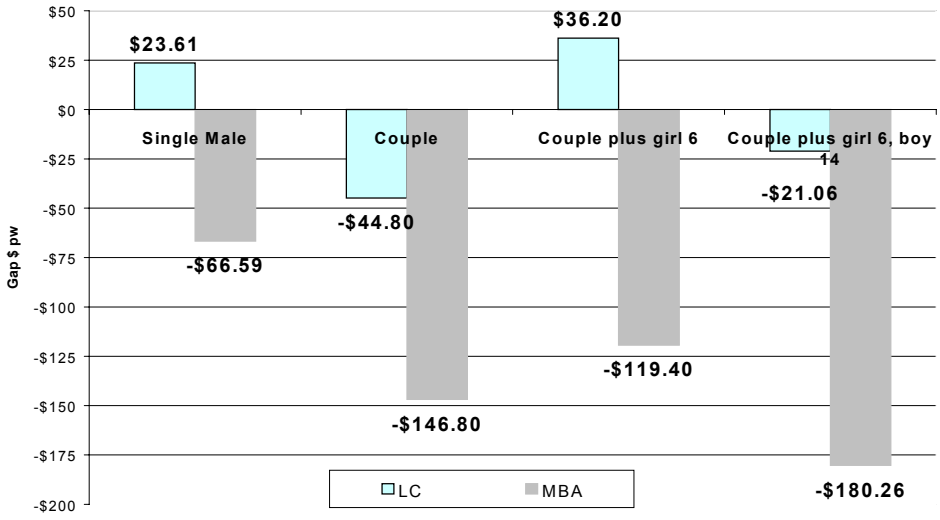
Household type	Net Wage	Low Cost	Modest but Adequate
	September 2003	**September 2003**	**September 2003**
Single male	$383.71	$360.10	$450.30
Couple, no children	$419.00	$463.80	$565.80
Couple plus girl, 6	$390.44	$568.70	$724.30
Couple plus girl, 6 and boy, 14	$390.44	$708.70	$867.90

Source: SPRC 2004

[13] Table 7.4 and Figure 7.1 show the single male budget standards only but the corresponding comparison based on the single female budget standards is very similar.

7.31 Figure 7.1 shows the gap between all disposable income for the household types modelled including a Federal Minimum Wage income and all tax and transfer payments. As the figure shows after both the tax and transfer systems are taken into account, there is a shortfall of earnings compared against the modest but adequate budget standards for all households modelled earning the federal minimum wage and a shortfall against the low cost budget standard for Couples and Couples with Two Children.

Figure 7.1: Gap between Disposable Income of Households earning the Federal Minimum Wage and Budget Standards, September 2003



Source: SPRC 2004 and Table 7.3

7.32 Thus in every instance the current Federal Minimum Wage is not sufficient to provide for a modest but adequate budget. For Lone Person and Couple with One Child households the Federal Minimum Wage provides an income just above the low cost budgets. In the case of Couple Only households and Couple with Two Children (girl 6 years, boy 14 years) the combined effect of the Federal Minimum Wage and the tax and transfer systems still leaves those households unable to afford a low cost budget. Granting the ACTU claim would substantially reduce this shortfall.

7.33 The ACTU estimates that the Couple Only household would need a wage of $528.20 per week to afford the low cost budget standard. The wage required

by the Couple plus Two Children household to afford a low cost budget standard is estimated at $561.20 per week.

Locating the standards in the HES

7.34 As SPRC notes (quoting Hancock) there is an element of circularity involved in locating the budget standards in relation to current household expenditure data. If the task is to determine empirically a level of expenditure required to satisfy needs then in a sense current expenditure patterns are irrelevant – they tell us what households currently spend not whether that spending is sufficient to meet their needs. Nonetheless, in order to provide an indicator of how the budget standards compare to current household expenditure the ACTU asked the SPRC to locate the updated budget standards in the observed distribution of Australian living standards using the ABS Household Expenditure Survey (HES) data. The SPRC has updated the HES data from 1998-99 using the June Quarter 2003 National Accounts movement in the measure of household final consumption expenditure, adjusted to a per household basis by deflating by the growth in the number of households. All negative expenditures in the HES data were set to zero. (p. 30)

7.35 Four sub-sets of the HES data have been derived:

- HES total (HES_T): all single income unit households – used to provide an initial indication of where the updated budget standards are located in the population wide distribution of expenditure;
- HES working age (HES_W): single income unit households where the reference person is below pension age;
- HES employed (HES_E): single income unit households where the reference person is in employment;
- HES employed full-time (HES_F): single income unit households where the reference person is employed on a full-time basis. (pp. 30-31)

7.36 As SPRC notes at page 31, in order to derive more meaningful comparisons it is necessary to restrict each of the broad sub-samples, defined in paragraph

7.35 above, to include only those households whose size and composition correspond to those to which the updated budget standards apply – single person, couple plus none, one and two children.

7.37 In addressing the issue of which household types are conceptually most appropriate to use to compare with the updated budget standards, SPRC finds that given the focus of the research is on the living standards of wage earning families, a strong case can be made for excluding families who exceed the age limit (65 years) normally used to define working-age. SPRC states:

> *If the 'needs of the low paid' are to be assessed relative to the circumstances of other workers only, then use of either the HES_E or HES_F distributions is indeed appropriate. However, given that an increasing proportion of those in employment do not work on a full-time basis, the former distribution appears to provide the better yardstick … On balance the view adopted here is that the most appropriate distribution against which to compare the budget standards in the context of assessing the needs of the low paid is that which covers the entire employed population,* … (pp.31-32).

7.38 To locate the budget standards in the HES expenditure distributions, the HES Expenditure distributions are separated into quintiles each containing one-fifth of all households in each distribution. The budget standards are then located in the distribution on the basis of the upper bounds of each quintile expenditure level. The mean quintile expenditures provide another benchmark with which the budget standards can be compared. (p. 32)

7.39 While the budget standards are compared to the expenditure distributions of All Households (in the report Table 7), as SPRC notes locating the standards in this distribution produces problematic results, because no account is taken of the fact that this distribution covers households that differ in size and composition and age and thus their incomes are not directly comparable with the budget standards, which are based on the identified needs of *specific* working households. The more relevant comparisons are thus those based on the distributions for specific household types – lone person, and couple

with none, one and two children (included in the SPRC report Tables 8-11). (p. 32)

7.40 As SPRC notes:

> … the results obtained by comparing a derived budget standard with the observed distribution of expenditure depend crucially on how that distribution is specified. *A budget standard that appears too generous when compared with the distribution of expenditure among all households will look increasingly less so as the coverage of the distribution is restricted to those with greater labour force attachment … Judgements about the adequacy of a budget standard raise the question of adequate relative to what? and different responses to this question will produce different distributions with different medians and thus different responses to the adequacy question.* (p. 33)

7.41 The following tables, based on the report Tables 5 and 8-11, provide the (updated to September 2003) HES expenditure data for the specific household types using all employed working age households as the comparator population and show into which quintile the budget standards fall on the basis of the quintile upper bounds. [14]

Table 7.5: Quintile Cut-Offs and Mean Expenditures: Lone Person Households, $ per week September 2003

Households	First	Second	Third	Fourth	Fifth
All employed working age households (median expenditure = $555.70)					
Upper bound Mean expenditure	381.20 281.30	500.20 447.60	617.80 555.20	870.60 716.40	 1202.20
Low Cost	360.10				
Modest but Adequate		450.30			

Source: SPRC, 2004 Tables 5 and 8

Table 7.6: Quintile Cut-Offs and Mean Expenditures: Couple Households without Children, $ per week September 2003

Households	First	Second	Third	Fourth	Fifth
All employed working age households (median expenditure = $916.40)					
Upper bound Mean expenditure	615.60 474.50	819.10 713.20	1027.20 923.90	1310.20 1150.70	 1775.40
Low Cost	463.80				
Modest but Adequate	565.80				

Source: SPRC, 2004 Tables 5 and 9

[14] Table 7.5 shows the male budget standards only but the corresponding comparison based on the female budget standard is very similar.

Table 7.7: Quintile Cut-Offs and Mean Expenditures: Couple Households with One Child, $ per week September 2003

Households	First	Second	Third	Fourth	Fifth
All employed working age households (median expenditure = $959.10)					
Upper bound Mean expenditure	677.90 538.50	864.20 771.60	1068.80 961.70	1453.50 1244.40	 1933.70
Low Cost	568.70				
Modest but Adequate		724.30			

Source: SPRC, 2004 Tables 5 and 10

Table 7.8 Quintile Cut-Offs and Mean Expenditures: Couple Households with Two Children, $ per week September 2003

Households	First	Second	Third	Fourth	Fifth
All employed working age households (median expenditure - $1039.50)					
Upper bound Mean expenditure	744.60 597.60	939.90 833.80	1173.00 1047.20	1547.60 1338.10	 2142.40
Low Cost	708.70				
Modest but Adequate		867.90			

Source: SPRC, 2004 Tables 5 and 11

7.42 Tables 7.5 to 7.8 show that in every instance the Low Cost budget standard falls within the first quintile of the expenditure distribution of the equivalent household type for employed working age households in the HES.

7.43 In all but one case the Modest but adequate standard falls in the second quintile of the expenditure distribution of the equivalent household type for employed working age households in the HES. In the case of the couple only household the Modest but adequate budget actually falls within the first quintile of the expenditure distribution of couple only employed working age households.

7.44 In relative terms the low cost budget standards are equal to 64.8 per cent (single), 50.6 per cent (couple without children), 59.3 per cent (couple with one child) and 68.2 per cent (couple with two children) of the median expenditure of the corresponding household types ($555.70, $916.40, $959.10, and $1039.50, respectively). The modest but adequate to median expenditure relativities are 81.0, 61.7 per cent, 75.5 per cent and 83.5 per cent, respectively.

7.45 These comparisons provide confirmation of the budget standards, as calculated by the SPRC, as appropriate empirically determined benchmarks which can be taken into account by the Commission in assessing the needs of the low paid.

Criticisms

7.46 In the report SPRC responds to a number of criticisms of both the methodology and application of budget standards, including criticisms relied upon by the Joint Governments when the ACTU used the original research in the 1998-99 Safety Net Review Case.

7.47 SPRC notes at page 11 that many of the critics of budget standards methodology see the whole approach as requiring so many judgements and assumptions that the results are too complex to comprehend and essentially arbitrary. Further, as noted earlier, it is argued that attempts to relate that standards more closely to prevailing patterns of consumption and behaviour introduce elements of circularity because those patterns reflect existing resource constraints and cannot therefore be used as an independent adequacy benchmark. SPRC states in response to these criticisms that it is important to note that budget standards research provides a framework that can be used to assess how sensitive the standards are to variations in the judgements and assumptions that underlie them. As SPRC notes:

> *What is interesting about this aspect of the debate is that those who have made this kind of criticism of budget standards have* not *engaged in debate over the precise content of the budgets, but have preferred to question their accuracy, validity and relevance without trying to improve on them.* (p. 12)

7.48 Another criticism (as the report notes which is fully acknowledged in the original budget standards report) relates to the 'ownership rule' (explained in paragraph 7.16 above). This argument is that applying the ownership rule separately to each item ignores trade-offs that people make in practice leading to a potential upwards bias in the standards. SPRC notes that again the key issue is to estimate the magnitude of the bias induced and decide how

best to address this limitation – a response that will introduce a further set of judgements. (p. 13) As SPRC footnote :

> *It is notable that those who criticise budget standards because of the kinds of items they include rarely go to the trouble of checking how much difference they make to the cost of the final budgets, even though this is possible given the budgets standards framework. It is as if voicing the criticism itself is sufficient, there being no need to try to address it or see what practical impact it has. (footnote 5, p. 8)*

7.49 A further criticism is that there is a tendency to err on the side of generosity for fear of inadvertently providing a justification for cutting income. SPRC notes at page 13 that although there is a risk of this, in the budget standards methodology there are a series of steps designed to combat this by validating the estimates using focus group feedback from consumers and behavioural data on actual expenditure patterns. SPRC concludes:

> *Clearly, little credibility can be attached to those who argue against the budget standards* method *on the basis that it* results *in budgets that seem too high (or impose too high a cost on those who may have to bear the cost of setting social security benefits or wages at the levels implied by budget standards research). But this confuses the method used to determine the level at which an adequacy standard is set, with the cost of achieving that level of adequacy. … There are many pitfalls associated with developing a budget standard and it is important to make every effort to ensure that its assumptions and judgements are tested and made available for others to judge. However, the basic idea that one can assess a standard of living by identifying and costing the items needed to achieve it is simple, but durable.* (p. 13)

7.50 The treatment of consumer durables in budget standards has also been criticised. The argument put is that once a durable item has been purchased, the services it provides can be obtained free of charge. SPRC notes that budget standards researchers have acknowledged the issue and have distinguished between short-run budgets and long-run budgets, where the former assume that all durables are already owned and thus impose no additional cost on the budgets. (p. 14)

7.51 Of relevance here is the argument noted by SPRC at page 21 of the report, raised by the Joint Governments, that as those on low wages will generally move up the wage ladder, it is short-run budget standards (exclusive of the cost of consumer durables) that should be used to assess wage adequacy. In response SPRC states:

> *But while there may be a case for not paying someone who becomes unemployed in later life a benefit that includes an allowance for the cost of the consumer durables that they already own, many of those on low wages will be relatively young, new entrants to the labour market who by definition will* not *have had the time to acquire a full range of consumer durables. The logic of this argument implies that it is the long-run budgets that are relevant to the determination of minimum wages, not the short-run budgets. Further strengthening this conclusion is the fact that many of those who earn low wages do so for long periods of time and so need incomes set relative to the long-run budgets in order to buy the consumer durables they need. (pp. 21-22)*

7.52 SPRC notes that one area of budget standards research which gives rise to particular difficulties is in the area of housing costs, an issue also raised by the Joint Governments in the 1998-99 Case. The SPRC housing budgets were priced in a single Sydney location; the Joint Governments criticism related to regional variations in housing costs. At page 16 of the report, in Table 1, reproduced below, SPRC examines how housing costs vary by location using Real Estate Institute of Australia estimates of median and first quartile rents in different cities for the September Quarter 2003.[15] The last line of the table shows the Hurstville LGA September 2003 rents.

[15] While data on Melbourne rents was not available, SPRC notes that when capital city rents were compared in 1997, median and first quartile rents in Melbourne were approximately 10 per cent and 4 per cent, respectively, below those for corresponding properties in Brisbane.

Table 7.9: Median and First Quartile Apartment/Unit rents in Different Capital Cities, September Quarter 2003 ($ per week)

	Median Rents Number of Bedrooms:			First Quartile Rents Number of Bedrooms:		
	1	2	3	1	2	3
Inner Sydney	280	350	450	230	290	370
Middle Sydney	215	240	308	170	200	255
Outer Sydney	180	220	Na	140	175	na
Melbourne	na	na	Na	Na	na	na
Brisbane	135	190	225	120	170	210
Adelaide	120	155	195	100	135	165
Perth	107	139	161	100	120	138
Canberra	165	230	300	150	200	290
Hobart	100	135	200	80	120	140
Hurstville LGA	**160**	**196**	**246**	**141**	**179**	**226**

Source: SPRC, 2004

7.53 The Hurstville LGA is in the Middle Sydney region. As SPRC notes a comparison of the estimates in the second row (for Middle Sydney) and the final row (the CPI adjusted Hurstville rents included in the budget standards), shows that the increase in rents have outstripped the increase in consumer prices generally. Therefore, use of the CPI to update the budget standards housing costs produces a marked under-estimation of actual market movements. In relation to regional variation in housing costs, as SPRC notes:

> *More importantly, this in turn results in a narrowing of the differential between the (Sydney based) market used in the budget standards…and the actual rents in other capital cities.* (page 17).

7.54 Notwithstanding, SPRC acknowledges the regional variation in housing costs but notes that it is well known that the price of many items other than housing will also vary with location, and these variations can offset those associated with differential housing costs. SPRC further notes that taking full account of all (regional) price variations in a budget standard framework would involve a complete re-pricing of the Sydney budgets in other locations, rather than just a replacement of the housing costs component as some have suggested. (p.17)

7.55 Further, we note that the disparity in regional rents may be offset by differentials in Rent Assistance. For example, a single income Couple plus One Child household earning the Federal Minimum Wage and renting a two

bedroom unit at the first quartile rent ($120) in Hobart would receive $26.74 less per week in Rent Assistance than the corresponding household paying $179 per week in rent in Hurstville. (i.e. the updated Couple with One Child Low Cost Budget Standard rent). The difference in Rent Assistance is equal to 45 per cent of the differential in rent. Thus the net difference in housing costs in this case is $32.26 (not the $59.00 difference in rent levels).

7.56 In response to the Joint Government assertion that the most appropriate household type, with which to assess the adequacy of minimum wages, was a single adult household, SPRC notes that if this is accepted issues then arise about the ability of non-wage provisions, particularly in the tax and social security areas, to provide an adequate income to workers with families. (p. 22) As the analysis above shows in the case of couple households and couples with two children even when non-wage income is taken into account the Federal Minimum Wage is inadequate to provide even a low cost budget. As Ross V.P., albeit in dissent, stated in his decision in Safety Net Review – Wages 1997 (Print P1997):

> *… minimum wages still have a role to play alongside income support payments in preventing poverty within families. (p. 16)*

7.57 In summary, SPRC finds that criticisms of budget standards are generally misplaced and not compelling. In particular, in relation to the Joint Government SPRC finds that criticisms of the past use of budget standards appears to rest on a desire to undermine the contribution of budget standards to the whole issue of wage adequacy.

Conclusion

7.58 The principal results of the SPRC budget standards research are summarised in Table 7.10.

Table 7.10 Updated Budget Standards Relative to the Distribution of Expenditure Among All Employed Households, September Quarter 2003

	Low Cost			Modest but Adequate		
	Level	Quintile	% of median	Level	Quintile	% of median
Single female	$353.90	1st	63.7	$452.30	2nd	81.4
Single male	$360.10	1st	64.8	$450.30	2nd	81.0
Couple, no children	$463.80	1st	50.6	$565.80	1st	61.7
Couple plus girl, 6	$568.70	1st	59.3	$724.30	2nd	75.5
Couple plus girl, 6 and boy, 14	$708.70	1st	68.2	$867.90	2nd	83.5

7.59 As SPRC concludes the comparisons between the budget standards and the actual HES data give an indication of how the budget standards compare with the living standards of employed Australian families. They provide a basis for assessing the appropriateness of the budget standard estimates, and thus of the judgements and assumptions they embody. (p. 40)

7.60 The ACTU concludes that the comparisons provide confirmation of the budget standards as appropriate empirically determined benchmarks which can be taken into account by the Commission in assessing the needs of the low paid. The ACTU further concludes that the comparisons confirm that somewhere between the low cost and modest but adequate standards is appropriate for determining an increase in minimum wages and provide support for granting the ACTU claim.

The ACCER Questions

7.61 At paragraph 222 of last year's decision the Commission noted that it would be assisted by submissions and materials directed to answering a number of questions raised by ACCER – *what are needs, who are the low paid, what is the poverty line, what is living in poverty and how does the federal minimum wage compare to the poverty line.*

7.62 The SPRC budget standards report provides answers in relation to the level of expenditure required to meet a particular set of needs for various household

types. Below the ACTU provides further information of relevance to the specific ACCER questions. At the outset, however, it should be noted that the ACTU contends that minimum wages should be more than poverty wages. People who are in full-time paid employment (and their families) should not live in poverty. Thus whilst poverty research is relevant in this Case it should not be the focus.

What are needs?

7.63 Needs are the goods and services required in a particular place at a particular point of time in order to achieve a specific standard of living.

7.64 In its Poverty Inquiry Submission[16], ACOSS states:

> *Necessities are resources (goods and services) that people cannot reasonably "do without".*
>
> *…*
>
> *Poverty is usually defined with reference to a set of basic human needs. Two kinds of needs are often identified: physical survival and comfort (for which the corresponding necessities are resources such as food and housing), and the need to participate in the economic and social life of the community (for which the corresponding necessities include such items as transport. (p. 38)*

Who are the low paid?

7.65 As we noted in our submission last year, Professor Sue Richardson in her 2002 paper *Low Wage Jobs & Pathways to Better Outcomes*[17] found that studies of low wage workers in Australia conclude that:

- *"the risks of being in low wage work are higher for people who are female, employed part-time, aged 21-24, with low education, married if a woman and single if a man, and for non-student children living at home;*

[16] ACOSS, *The Bare Necessities Poverty and Deprivation in Australia Today*, Submission to the Senate Inquiry into Poverty and Financial Hardship, ACOSS Paper 127, June 2003.
[17] Richardson S assisted by Miller-Lewis L, Low Wage Jobs & Pathways to Better Outcomes, National Institute of Labour Studies, Monograph Series Number 7, October 2002.

- *the typical low wage worker is female, employed full-time, of prime working age, married and with little formal education; about one-third have dependent children;*

- *nearly all low wage men work full-time and 30 per cent have dependent children;*

- *one-quarter have a post-school certificate or diploma and over half are married;*

- *they are most likely found in sales, personal service or labouring jobs, employed in wholesale and retail industry;*

- *27 per cent lived at home with a parent;*

- *the lower the wage, the more likely were the workers to be female, of prime age, employed part-time and married with dependent children. " (pages 16-17)*

7.66 As we noted in Chapter 2 many award only workers are low paid and award only workers generally share many of the characteristics of the low paid identified by Richardson.

What is the poverty line?

The poverty line is the threshold income level below which a family is believed to be poor.[18]

7.67 In Australia the Henderson Poverty Line is regularly updated. The Half Average Income Poverty Line and Half Median Income Poverty Line have also been calculated for recent years.

7.68 Henderson Poverty Lines are updated and published by the Melbourne Institute of Applied Economic and Social Research. The current figures are for the September Quarter of 2003. Inclusive of housing costs, the poverty line is $560.00 per week for a family comprising two adults, one of whom is working, and two dependent children. The September 2003 figure for a Single

[18] David Johnson, *Some Reflections on Calculating Poverty*, Melbourne Institute News, Issue 6 December 2002

person in the workforce household, inclusive of housing costs, is $298.14 per week.[19] Henderson Poverty Line figures refer to income after tax.

7.69 The Half Average Poverty Line in 2002 was $452 for a Couple plus two children and $244 for a Single Adult. The Half Median poverty line for a Couple plus two children was $388 and $210 for a Single Adult [20] These poverty lines are also disposable income figures.

7.70 There has been recent debate about poverty lines. As Janet Taylor of the Brotherhood of St Laurence has pointed out:[21]

> *"Whereas the Henderson poverty line used to be the widely accepted measure of income poverty in Australia, recent debates have been about poverty lines based on measures such as 50 per cent of median income or 50 per cent of mean (average) income. Other issues have included disquiet about the methods of updating poverty lines, the need for international comparisons, and recently the accuracy of Australian Bureau of Statistics low income data."*

What is living in poverty?

7.71 The question what is living in poverty can be approached by examining accepted definitions. A widely accepted definition is that of academic Peter Townsend[22]:

> *Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged or approved, in societies to which they belong.*

7.72 ACOSS notes in its Poverty Inquiry Submission[23]:

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[19] Poverty Lines: Australia, September Quarter 2003, MIAESR, Uni of Melbourne, 6 January 2004

[20] ACOSS, *The Bare Necessities: Poverty and Deprivation in Australia Today*, Submission to the Senate Inquiry into Poverty and Financial Hardship, ACOSS Paper 127, June 2003, p. 8

[21] Taylor J, *Why measure poverty? Poverty, community attitudes and public policy*, Brotherhood Comment, November 2003

[22] Townsend P, *Poverty in the United Kingdom: a survey of household resources and standards of living*, Penguin Books, 1979

[23] op cit., p. 38

One of the simplest, yet clearest, definitions of poverty is that offered by Mack and Lansley:

> *"Poverty is an enforced lack of socially perceived necessities."*

This definition, and most others in poverty research, has three core elements:

- *a lack of necessities;*
- *that necessities are socially defined;*
- *that the lack of necessities is caused by limited material resources.*

7.73 David Johnson, then Deputy Director of the Melbourne Institute of Applied Economic and Social Research compared the concepts of absolute and relative poverty:[24]

> *Absolute poverty refers to the idea that poverty can be measured in relation to some fixed standard of need, … … relative poverty refers to standards set in comparison to prevailing societal standards (so that if general standards of living rise, then so does the standard of living afforded by the poverty line). Modern societies are concerned about both absolute and relative poverty, or to put it another way, about both material standard of living and the relativity between people.*

How does the Federal Minimum Wage compare to the poverty line?

7.74 The Federal Minimum Wage (taking into account the tax and transfers systems) exceeds the poverty line. However, as Ross V.P., (in dissent), noted in his decision in *Safety Net Review – Wages 1997* (Print P1997):

> *… it would not be appropriate to use the HPL as the primary benchmark for setting minimum wage rates, as the community expects full-time wages, together with income support payments where appropriate, to provide a standard of living significantly above "poverty" levels. (p. 19)*

[24] David Johnson, *Reflections on Calculating Poverty*, Melbourne Institute News, Issue 6, December 2002

7.75 We note that the Senate Community Affairs Committee Inquiry into Poverty and Financial Hardship, referred to by the Bench [paragraph 223], has an (extended) reporting date of 4 March 2004. Issues arising from this report will be addressed in later submissions.

Witness Evidence

7.76 In last years *Safety Net Review May 2003 Decision* in PR 002003 the Commission found:

> *[197] It is apparent from their evidence that the witnesses struggled to make ends meet. A significant proportion of their expenditure is on necessities and unexpected expenditures are difficult to finance.*
>
> *[198] Many of the witnesses live week to week and find it difficult to save.*

7.77 In this Case the ACTU presents further evidence which supports those findings. We rely on the direct evidence of seven low paid award wage workers. The witness evidence presented is illustrative of the real life experience of workers living on award rates of pay.

7.78 Robyn Larnach

46 years

Retail Worker (over 5 years)

Household Disposable Income: $420.50 (gross award wage $506.80, average net wage $420.50)

Household Expenditure: $420.40

(ACTU Witness Statements Exhibit Tag 2)

Robyn Larnach has three dependents living at home who do not contribute to household income. Ms Larnach has a mortgage and tries to make an additional payment each fortnight, however as she notes she needs to redraw on these "savings" to pay for larger than expected bills, repairs, and this year to pay the car registration. Ms. Larnach's budget reveals that she is redrawing on extra mortgage payments to pay for bills. Her averaged budget

is essentially the same as her averaged income showing that redrawing on extra payments (made in fortnights when the bills are not due) is necessary to pay those bills when they are due.

Money for clothing is spent on the children and grandchild – Ms. Larnach rarely (once every 12 months) buys a new piece of clothing for herself. Ms. Larnach states that she rarely enjoys entertainment outside the home. Dinner with friends occurs, on average, only once a year, other entertainment – hiring two videos – only once per quarter – *"My income restricts our quality of life by providing just enough for the necessities of life, with little left for recreation or leisure. There are many things that we would like to do that others take for granted. We simply cannot afford to do those things because of the limitations imposed by my wage."* Holidays mean staying with family members, or at their expense. The lounge suite needs replacing – it is 20 years old, worn out and uncomfortable because the foam seat padding has collapsed.

7.79 Rhonda Scannell

56 years

Manufacturing Production Employee Level 1

Household Disposable Income: $373.20 (gross wage $450.00, net wage $373.20 includes salary sacrifice $20 superannuation, union fees $5.80)

Household Expenditure: $388.19 per week

(ACTU Witness Statements Exhibit Tag 3)

Rhonda Scannell sometimes has difficulty paying bills on time, sometimes having to rely on family to meet these costs, and she has difficulty replacing domestic appliances which break down. Ms. Scannell's only holiday since 1988 was provided by her family who paid for her to join them. Otherwise Ms. Scannell describes "holidays" as time while on annual leave spent at her daughter's suburban home. Ms. Scannell can only afford a social outing once every three months.

7.80 Carolyn Stephenson

41 years

C13 Process Worker (3 years and 11 months)

Household Disposable Income: $559.12 (gross wage $465.12, net wage $389.12, family allowance and single (parenting) pension $170)

Household Expenditure: $608.00

(ACTU Witness Statements Exhibit Tag 4)

Carolyn Stephenson states *"I spend more weekly than comes in, so I use my credit cards to cover the difference. This is depressing as I am on a debt treadmill."* Ms. Stephenson's budget reveals her excess of expenditure over income is $48 per week or $2500 per annum. Her credit card debt is currently $13,000. In addition to a car loan, Ms. Stephenson has a loan taken out for home repairs/alterations and a further loan for furniture purchases. Ms. Stephenson details the things she and her son miss out on – holidays – few and far between, new clothes – for herself while her 16 year son gets some from time to time, regular servicing of the car, entertainment - maybe seeing a movie only once every two or three months and eating out – as there isn't any spare cash. Ms. Stephenson states *"My financial stress some months is very high due to not enough coming in to pay what's going out".*

7.81 Maria Perez

53 years

Sewing Machinist Skill Level 2 (9 years and 4 months)

Household Disposable Income: $504.30 (gross wage $487.60, net wage $404.30, plus $100 "rent" from daughters)

Household Expenditure: $496.50

(ACTU Witness Statements Exhibit Tag 5)

Maria Perez on occasions has difficulty paying bills on time, and on occasions has had to borrow from her daughters to pay for basic necessities such as groceries and phone bills. Ms. Perez does not take regular holidays, her last away from home a year ago *"my first real holiday in years"* was paid for by her

daughters. Ms. Perez does not own a motor vehicle because she cannot afford to do so. Ms. Perez worries about major domestic appliances breaking down – in the past breakdowns requiring urgent repairs have added to credit card debt. Ms. Perez currently has credit card debt of $3500 as a result of such repairs and payments for unbudgeted bills. Ms. Perez does not have contents insurance, she states *"because I can't afford to and there are more important things to spend what little money I have on."* Ms. Perez rarely goes out, her social life involves occasionally renting a video or having take away Pizza or Chinese food. She rarely buys new clothes. The excess of $7.80 per week of Ms. Perez's household income over expenditure she states is *"spent on unexpected bills like higher electricity and gas bills in winter months"*.

7.82 Symon Heaton

33 years

Food and Beverage Attendant Grade 2 (2 years and 10 months)

Household Disposable Income: $430.59 (average gross wage $534.59, average net wage $430.59)

Household Expenditure: $430.70 - $435.10

(ACTU Witness Statements Exhibit Tag 6)

Symon Heaton cannot afford private medical insurance and is hesitant about going to the doctor or having dental or optical check-ups because of the potential costs. Mr. Heaton is unable to save *"I have no savings, except for an amount left over sometimes to carry into my next pay for bills"*. He states that living on a low wage means he is unable to save for the future. *"It worries me that I cannot even think about buying a flat as some of my friends are doing".* Mr Heaton rarely buys new clothes because his budget does not allow for it. Annual holidays are usually spent at home as he cannot afford to go away. His last holiday – *"three days up north"* was financed via an increase on the credit card and is still being paid off. Mr. Heaton concludes *"Because of my low wage, I find that I cannot plan my life as it is ruled by lack of money. I am conscious of every cent I spend so I still have enough for my basic living costs"*.

7.83 Wilhelmina Wilson

59 years

Room Attendant Grade 2 (17 years)

Household Disposable Income: $477.40 (gross wage $593.40, net wage $477.40)

Household Expenditure: $517.30

(ACTU Witness Statements Exhibit Tag 7)

Wilhelmina Wilson's expenditure exceeds her income by $40.00 per week. To cope with this she has to rely on her (retired) boyfriend to sometimes give her financial assistance of up to $70 per week to help with food and groceries. Ms. Wilson cannot afford private health insurance or regular holidays. Ms. Wilson states "*I cannot afford to go on holidays"*. Her last holiday was three years ago and paid for by her sons. Ms. Wilson states that she doesn't go out very often because she needs all her money for the things she needs to live. Unexpected expenses are put on the credit card and paid off over time. Ms. Wilson has $3,300 credit card debt. Ms. Wilson states that she does not have any savings. *"If I have any money left over from my pay I use it for any bills but do not have any savings."*

7.84 Michelle Billington

44 years

C12 Production Worker (1 year and 9 months)

Household Disposable Income: $404.54 (gross wage $487.54, net wage $404.54)

Household Expenditure: $400.54

(ACTU Witness Statements Exhibit Tag 8)

Michelle Billington states that she has to budget tightly because her income doesn't allow for unplanned emergencies such as dentist's bills or even normal things like buying a birthday present. Ms. Billington states she cannot afford to have a social life *"because going out to see a movie or meal costs too much".* Ms. Billington cannot afford new clothes *"If I need clothing I do the rounds of second hand shops".* Ms. Billington, who has savings of just $10

per week states *"I'll never be able to afford a mortgage or a holiday or even a social life."*

Increasing Inequality

7.85 After some uncertainty, it now appears that income inequality has increased in the second half of the 1990's.

7.86 The ABS Survey of Income and Housing Costs (SIHC) published in ABS Household Income and Income Distribution 2000-01, Cat No 6523.0, released in July 2003 confirms that income inequality has increased. The ABS summarises selected Income Distribution Indicators as a table reproduced below:

Table 7.11 Selected Income Distribution Indicators, Equivalised disposable household income

		1994-95	1995-96	1996-97	1997-98	1999-00	2000-01
Ratios of incomes of households at Top of selected income percentiles							
P90/P10	Ratio	3.77	3.74	3.66	3.77	3.89	3.97
P80/P20	Ratio	2.56	2.58	2.54	2.56	2.64	2.63
P80/P50	Ratio	1.55	1.57	1.56	1.56	1.57	1.56
P20/P50	Ratio	0.61	0.61	0.61	0.61	0.59	0.59
Percentage share of total income Received by persons with							
Low income (a)	%	10.8	10.9	11.0	10.8	10.5	10.5
Middle income (b)	%	17.7	17.7	17.8	17.6	17.6	17.7
High income (c)	%	37.8	37.3	37.1	37.9	38.4	38.5
Gini coefficient	no.	0.302	0.296	0.292	0.303	0.310	0.311

(a) Persons in the second and third income deciles
(b) Persons in the middle income quintile
(c) Persons in the highest income quintile
Source: ABS Cat No 6523.0 2000-01

7.87 On changes in income distribution since 1994-95 the ABS states:

> *The Gini coefficient is a single statistic that lies between 0 and 1 and summarises the degree of inequality, with values closer to 0 representing a lesser degree of inequality, and values closer to 1 representing greater inequality. For 2000-01, the Gini coefficient was 0.311.*
>
> *…*

Changes in the income distribution measures presented in this publication tend to be relatively small from year to year but trends can emerge over longer time periods. Data are available from the SIHC from 1994-95.

While all the indicators in the … table rose over the period 1994-95 to 2000-01, only the increase in the P90/P10 ratio and the decline in the share of total income going to persons with low income are sufficiently large to be regarded as statistically significant at the 95 per cent confidence level... Relaxing the confidence level to 90 per cent results in the increase in the Gini coefficient also being statistically significant. The indicators therefore suggest some possible rise in income inequality over the second half of the 1990s.

In addition to looking at the changes in income distribution measures from one year to another, a perspective on changes in income distribution can also be obtained by bringing data from intervening years into the analysis. Looking at the results over the period 1994-95 to 1997-98 and comparing them with observations from 1999-2000 to 2000-01 shows somewhat greater changes in the income distribution measures than those resulting from a comparison between the single years of 1994-95 and 2000-01. Because the effective samples are greater when data are combined across years, and the sampling errors are therefore lower, the increases in inequality indicators can be regarded as statistically significant with a higher degree of confidence, further supporting a conclusion of some increase in inequality. (pp. 10-11)

7.88 In his article *Examining Recent Changes in Income Distribution in Australia*[25], Peter Saunders, SPRC, UNSW, examines the ABS Income Distribution data.[26] Reviewing changes in the distribution of income between 1994-95 and 2000-01, Saunders finds:

Over the period, the mean incomes of all households increased in real terms, with an average increase of $50 per person (in 2000-01 consumer prices) or 11.9 per cent, on the 1994-95 figure. However, those at the top gained most, mean income in the top quintile rising by $111 a week (or 14.0 per cent), more than eight times as much as the weekly increase of $13 (7.8 per cent) for those in the bottom quintile.

[25] Saunders P., *Recent Changes in Income Distribution in Australia,* SPRC Discussion Paper No. 130, October 2003, University of NSW.

[26] Saunders notes that the ABS has introduced a new method to scale up the numbers in the SIHC receiving welfare benefits since 1999-2000 to re-establish the historical average of 85 per cent coverage, thus addressing concerns about the accuracy of low income data collected by the survey.

> *These estimates thus reveal a steady increase in income inequality over the period, particularly since 1996-97. In terms of income shares, the share of the lowest quintile increased between 1994-95 and 1996-97 but has been lower in each subsequent survey conducted since then. The top quintile's share mirrors these changes, declining up until 1996-97 but rising substantially thereafter, particularly between 1996-97 and 1999-2000. (pp. 7-8)*

7.89 Saunders also finds:

> *… over the period since 1995-96, almost half (47.3 per cent) of all the income produced by a growing economy was received by those in the top quintile. This implies that almost half of the economy-wide increase in income generated by economic growth under the Howard Government was of no benefit to the bottom four-fifths of the population" (p. 9)*

7.90 If income distribution had remained the same over the period 1995-96 to 2000-01 Saunders finds that the top quintile would now be around $29 a week worse off, those in the bottom two quintiles would have gained by around $10 a week, - "*enough to give a significant boost to the living standards of lower-income families*".

7.91 Whilst the Commission cannot affect the overall distribution of income in Australia it can ensure that low income award dependent workers do not fall further behind. Awarding the ACTU claim will ensure that the incomes of award dependent workers increase in a way that is comparable to increases in incomes for others in the community.

7.92 In previous Cases the ACTU has noted the undisputed evidence of increasing earnings inequality[27] in Australia. Recently a paper by Keating – has suggested that the main driver of earnings inequality is changes in the structure of labour demand in favour of more skilled jobs. Keating says that

[27] Income inequality discussed above refers to all income and includes tax and transfer system payments whereas earnings inequality refers to private income.

relative rates of pay for major occupational groups *"appear hardly to have varied over the last 25 years".*

7.93 However, as Keating himself notes since 1997 the increase in pay in highly paid occupation groups have exceeded the increase for lowly paid groups. Keating says the difference is small but his Table 4 shows that in less than five years earnings for elementary clerical, sales and service workers have increased a full 4 percentage points less than the increase for professionals (hardly a small gap in such a small time frame).

7.94 More recent data shows this trend has continued with the gap between growth in professionals and growth in elementary clerical, sales and service workers having increased to 5.3 percentage points in the period from September 1997 to September 2003.

8 Conclusion

8.1 The ACTU claim for a $26.60 increase is fair.

8.2 In a strongly growing economy, with low inflation, contained wage cost pressures and strong productivity growth it is economically responsible. The ACTU claim will add only 0.1 per cent to aggregate wages. At this level its economic impact will be negligible. The impact of the ACTU claim this year would be essentially the same as the combined effect of the impact of the Safety Net Adjustment and the Superannuation Guarantee Contribution increase in 2002. In circumstances where the Commission has found that the 2002 safety net increase had no adverse economic impact it can now safely conclude that the ACTU claim this year will similarly have no adverse impact.

8.3 Available economic data on the economic performance of award dependent sectors tells us that award workers have contributed their fair share to economic prosperity. Yet award workers are amongst the lowest paid in the community and have been receiving wage increases substantially less than those received by others in the community. Since 1999 low paid award workers have essentially had no significant increase in their real after tax income.

8.4 Empirical research on the needs of the low paid confirms the need for a decent increase in minimum wages. Even when all forms of government assistance are taken into account, some family types on the Federal Minimum Wage fall below the SPRC low cost budget standard - a standard which SPRC says is too low for use in setting minimum wages and below which *"it becomes increasingly difficult to maintain an acceptable living standard because of the increased risk of deprivation and disadvantage".* The SPRC research says a minimum wage should be set somewhere between its low cost and its modest but adequate budget standards. None of the household types modelled in the research get anywhere near the modest but adequate standard on the Federal Minimum Wage, some just exceed the low cost standard others fall below it.

8.5 Six low paid award workers provide further evidence of their real life struggle to get by on low wages. They juggle finances, go into debt and go without things like holidays, new clothes, insurance cover and motor vehicles.

8.6 Granting the ACTU claim requires of the Commission only that it continue its work of the last nearly 100 years – ensuring fairness in the workplace and thus making Australia a better place.