Introduction

On 28 March 2013, the Australian Industry Group (Ai Group) provided to the Minimum Wage Panel our submissions for the Annual Wage Review 2012-13. We also provided a Reply Submission on 19 April 2013.

In our submissions we have urged the Minimum Wage Panel to take a cautious approach in adjusting minimum wages. The Federal Budget and the latest economic forecasts reinforce this position, as discussed below.

This submission also addresses various questions published by the Minimum Wage Panel.

The Federal Budget and the latest economic forecasts

In May the RBA refined its GDP growth forecast for 2013 to 2.5% (previously published as an expected range of 2%-3%). The RBA also reduced the cash rate to 2.75% in May, the lowest level in the history of the RBA dating back to 1960. For 2014, RBA expects GDP growth to return to around the trend rate of 3.0% p.a.

Key reasons given by the RBA for the cash rate cut in May and for the reduced GDP growth forecast for 2013 were:

- “below trend” growth in Australia in 2012-13 (i.e. GDP growth below 3.0% p.a.), with subdued demand for credit, a slow labour market and weak activity in key sectors such as retail, manufacturing, construction and business investment;
- relatively low inflation (at 2.5% p.a. in Q1 2013) and moderating wages growth;
- the stubbornly high Australian dollar, which the RBA notes “is unusual given the decline in export prices and interest rates” over the past 18 months; and
- “growth a little below trend this year” for the global economy, due to slower, more “sustainable” growth in China and continuing recession in the Eurozone. The US and Japan are likely to achieve a “moderate expansion”, while commodity prices will stay relatively high.

The monthly labour force numbers for April were better than most economists expected, but the data continue to show extreme volatility from month to month. Reading between the volatility, the trend data show the labour market is treading water, growth in employment and work hours is weak (1.4% p.a. and 0.8% p.a. respectively in April) and unemployment continues its slow rise.
In trend terms, employment growth in 2013 is so far looking very much like a repeat of 2012’s relatively weak performance. Labour force growth is, however, proving to be stronger (due to adult population growth), which is forcing the unemployment rate to gently drift up. The employment to population ratio, which reflects both the unemployment and the participation rates, went back to 61.7 (percent of the adult population) from 61.6 last month (trend data). This ratio has sat at 61.6 and 61.7 since August 2012 (trend data), which is a similar level to that seen in 2009.

The monthly job ads series (from ANZ and SEEK) continue to fall month on month and are around 15% lower than a year ago. This suggests weak labour demand can be expected for at least the next six to nine months.

Consistent with this flat labour market and with subdued inflation (headline CPI was 2.5% in Q1 2013), wages pressures are easing. The Australian Wage Price Index (WPI) for the private sector decelerated to 3.1% p.a. in Q1 2013, down from 3.4% p.a. in Q4 2012 and 3.7% p.a. in Q3 2012 (seasonally adjusted). Private sector wages in manufacturing grew by 3.0% p.a. in Q1, in line with the all-industry average. Across the economy as a whole, WPI growth in Australia slowed to 3.2% p.a. in Q1 2013 from 3.4% p.a. in Q4 2012. Following the pick-up in CPI inflation in Q1 2013, this implies that real wage growth (that is, inflation-adjusted) in Australia moderated to 0.7% p.a. in Q1 2013 from 1.2% p.a. in Q4 2012.

The Australian Government handed down its Budget for 2013-14 on 14 May. In it, the Government confirmed it expects GDP growth to slow in 2013, to 2.75% from 3.1% in 2012. This is lower than the forecast put forward by the Government six months earlier in the Mid Year Economic and Financial Outlook (MYEFO). Even with this revision, the Federal Budget remains relatively optimistic about Australia’s short-term growth prospects.

Ai Group – and many private sector economists – believe these Government forecasts are probably too optimistic given the current pressures on business profitability and therefore on incomes and government taxation revenues. We note that the Government forecasts remain higher than those published by the RBA. The Federal Budget assumes GDP growth will dip to 2.75% in 2013-14 before reverting quite quickly to Australia’s long-range average growth rate of 3.0% in 2014-15. It assumes employment growth of 1.25% in each of 2012-13 and 2013-14, even though employment growth was just 0.9% nationally as of March 2013 and the various job ads series are suggesting no strong pick-up in jobs growth in the next six to 12 months. The unemployment rate is expected to rise to 5.75% over the next two to three years, before falling back to 5%. It is already at 5.5% and could easily jump higher should the participation rate recover at all.
The Budget forecasts are predicated on the expectation that the housing investment cycle and consumer spending will pick up in 2013-14, to replace waning mining investment as the biggest driver of growth in the domestic economy. Housing investment is currently at a cyclical low and is yet to reach a meaningful turning point, yet the Budget expects it to grow by 5% in 2013-14 and a further 5.5% in 2014-15 (in real terms). Further, the terms of trade are forecast to decline only slightly from levels that are still very high by historical standards. The risks are overwhelmingly to the downside in this set of Government forecasts.

**Ai Group performance of industry indexes**

On pages 9 and 10 of Ai Group’s 28 March 2013 submission, the following Ai Group indexes were outlined and discussed:

- Australian Industry Group Performance of Manufacturing Index (Australian PMI®);
- Australian Industry Group/Commonwealth Bank of Australia Performance of Services Index (Australian PSI®);
- Seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (Australian PCI®)

An updated Chart 3 from Ai Group’s March 2013 submission is included below.

**Chart 3: Ai Group performance of industry indexes (monthly surveys)**
For the month of April 2013 (Note: Readings below 50 indicate a contraction in activity with the distance from 50 indicative of the strength of the decrease):

- The *Australian Performance of Manufacturing Index (PMI)* was down 7.7 points to 36.7
- The *Australian Performance of Services Index (PSI)* was down 5.5 points to 44.1; and
- The *Australian Performance of Construction Index (PCI)* was down 3.8 points to 35.2.

**Questions published by the Minimum Wage Panel**

1 **Productivity**

1.1 **Question to all parties**

*Question*

All parties are invited to consider, and comment upon an article published in the Australian Financial Review from Dean Parham ‘*Productivity boost first, then labour can share*’.

What are the best measures of productivity to use when thinking of the improvements that are available to share between labour and capital?

*Answer*

Productivity is a notoriously difficult concept to measure accurately. The best measures available in Australia at present are the ABS estimates of Multi-factor Productivity for individual industry groups (annual) and the labour productivity estimates (quarterly). It is also possible to calculate similar labour productivity measures using gross value added real value (from National Accounts, quarterly) and actual hours worked (from Labour Force detail, quarterly) for each major industry group. Changes in real national disposable income (absolute and per capita) are also useful in considering the total income ‘pie’ that is available for distribution, and how well the pie is growing.
1.2 Question to all parties

Question

In Figure 55 of its initial submission, the ACTU shows that real output per hour worked (labour productivity) has risen faster than real hourly labour income, particularly since the early 2000s.¹

In Table 8.1 of their initial submission, ABI provides data showing that the source of recent trend growth in labour productivity is capital deepening.² This capital deepening is illustrated in their Chart 8.1.³ On the basis of this evidence, they conclude, “Long term changes in the share of income are more likely to be attributable to changes in the share of inputs.”⁴

Parties are invited to comment on the implications of these developments for the setting of minimum rates of pay.

Answer

It is reasonable to expect that income shares accruing to different factors of production will change as factor intensities change and as the relative quality of different factors change. The increased relative importance of capital – physical and intellectual - to production is clearly a fundamental feature of industrial and post-industrial economies. Other things being equal, it would be reasonable to expect the share of returns to these factors to rise with the greater capital intensity of production.

A further consideration is that the categories “labour” and “capital” are very broad and assessment of factor shares might reasonably be extended to a more disaggregated level – including to different categories of skilled labour, semi-skilled labour and unskilled labour for instance.

The relevance of factor share analysis to the setting of minimum wages is highly questionable.

The difficulties of working out the “right” share are immense. Indeed it is far from apparent what the basis of a “right” share might be. Should it be “right” from a fairness perspective? Against what benchmark? Should it be “right” from an efficiency

¹ ACTU submission at p. 56, para. 169.
² ABI submission at p. 16, para. 8.6.
³ ABI submission at p. 18, para. 9.2.
⁴ ABI submission at pp. 16–17, paras 8.8–8.9.
perspective? Would the appropriate benchmark be the combination of rates of return that would clear all markets?

Even if these questions were settled, getting the data to get the right answer and at the right time would be very difficult.

2 Real Wages, Productivity and Living Standards

2.1 Question to all parties

Question – First Part

The ACTU submits that between the June quarter 2005 and the December quarter 2012:

- The purchasing power of the NMW/C14 rate fell by 0.3 per cent;
- The purchasing power of the C10 rate fell by 2.74 per cent;
- The purchasing power of the AWOTE rose by 11.7 per cent; and
- Labour productivity rose by 9.9 per cent.\(^5\)

Answer – First Part

These data are statistically correct but the inference that all of the benefits of labour productivity should be expected to accrue directly to employed labour does not flow from them.

For example, the 9.9% growth in labour productivity is GDP per hour worked (seasonally adjusted), which reflects changes in capital as well as in labour. A large part of this story could well be capital deepening per worker. It probably also reflects structural changes across the economy during this period, with more of the share of output (% of GDP) coming from capital-intensive sectors (such as mining) and less output (as a % share of GDP) coming from sectors that are relatively more intensive in their use of low-cost labour such as food and accommodation services, retail and parts of low-skill manufacturing.

We note also that the apparently large increase in real AWOTE over this period is largely due to steep rises in wages in mining, construction, parts of professional services and other niche high-skill areas. This is not immediately relevant to the sectors which employ minimum wage workers.

\(^5\) ACTU submission at p. 94, para. 280.
**Question – Second Part**

The ACTU also submits that about half of award reliant employees are on rates that are greater than the C10 level, including about 9 per cent who are employed as professionals.\(^6\)

Do any other parties dispute these figures?

**Answer – Second Part**

Ai Group disputes the ACTU’s figures.

In FWA Research Report 1/2010 — *An overview of compositional change in the Australian labour market and award reliance*, Chart 33 shows that Labourers and related workers and Elementary clerical, sales and service workers are the occupations with the highest proportion of award reliant workers.

Table 2.1 on page 9 of the report indicates that only 2.6% of managers, 3.4% of professionals, 8.8% of clerical and administrative workers, 16% of technicians and trade workers and 11.6% of machinery operators and drivers are award-reliant.

Ai Group urges the Panel to give priority to the needs of the low paid who are employed at lower classification levels.

**2.2 Question to all parties**

**Question**

The ACTU has adopted the Living Cost Index—Employees as its preferred measure of changes in the cost of living for the purpose of evaluating the real value of changes to award wages, in preference to the Consumer Price Index in figures 55, 96 and 97 in its submission.\(^7\)

Do any other parties have a view about which is the more appropriate measure?

**Answer**

Both measures have relevance as an indicator of the real purchasing power of a given wage level. Although the CPI is structured to reflect only consumer goods and services

---

\(^6\) ACTU submission at pp. 20–21, at paras 74–75.

\(^7\) ACTU submission at p. 55, para. 169; p. 93, para. 278.
(and therefore ignores changes in potentially relevant asset prices such as for housing), it remains an excellent benchmark for changes in day to day living expenses.

Ai Group understands that while these series tend to gravitate towards the same result over time, they can depart from each other over shorter periods. Because of this, the key issue should be that a consistent measure be used rather than a measure that best suits a particular argument at a particular time. For this reason Ai Group favours the Consumer Price Index as it more widely available and understood.

2.3 Question to all parties

Question

In what ways, if any, is the comparison between the purchasing power parity of the Australian National Minimum Wage and that of other OECD countries, and of its value relative to median (or mean) fulltime earnings, relevant to an assessment of the needs and relative living standards of minimum wage workers in Australia?

Answer

The issue of relative living standards is multifaceted and, as is generally the case in social sciences where there can be considerable debate about appropriate benchmarks, historical and international comparisons can provide very useful insights as part of a holistic assessment.

Certainly as far as living standards are concerned, international comparisons are insightful. When compared on a PPP basis, they provide a measure of the relative purchasing power (and therefore relative material living standards) of minimum-wage employees in different countries.

Further, international comparisons are very useful as a guide to the relative standards of living within Australia. The relativities between minimum wages and median or average wages between different countries provide useful insights into whether Australian minimum wage levels are relatively close to average wage levels in other countries. This can provide a basis for assessment of the relative living standards of low paid employees in Australia.

International comparisons are also relevant to the relative competitive position of Australian businesses employing minimum wage employees and may provide insights into, for example, the possible employment impacts of a decision to adjust minimum wage rates in Australia.
2.5 Question to all parties

Question

In its initial submission, the ACTU provided unpublished data from the ABS Employee Earnings and Hours survey for May 2012 by industry and occupation concerning the characteristics of workers reliant on minimum wages.\(^8\) Does any party wish to comment on the data and/or the conclusions drawn from it by the ACTU?

Answer

We assume that the ABS data are correct, but the FWC may like to ask the ABS to confirm that.

3 Underemployment

3.3 Question to all interested parties

Question

Is overemployment (the percentage of employed people in a specified population group who wanted to work fewer hours than they actually worked)\(^9\) a relevant consideration in the Annual Wage Review?

Although dated, the ABS information suggests that overemployment exceeds underemployment:

Between April and July 2007, the ABS surveyed Australian workers aged 15 years and older about their employment arrangements. At that time, around two-thirds (65%) felt they were working close to their preferred number of hours. While 1.4 million workers (14%) wanted to work more hours, about 2.2 million (21%) preferred to be working fewer hours.\(^10\)

Answer

We note that these (very interesting) data from 2007 pre-date the GFC and coincide with a period of exceptionally low unemployment and underemployment in Australia. They are based on observations made at a time when there was considerable talk about, and some increases in interest rates, predicated upon, the Australian economy running up against “capacity constraints”. Both underemployment and overemployment can be expected to be very cyclical and are likely to move in opposite directions at different

---

\(^8\) ACTU submission at pp. 15–19, paras 61–70.


\(^10\) ABS *Australian Social Trends, Jun 2011*, Catalogue No. 4102.0.
stages of the cycle. These data would almost certainly look quite different if the same survey were undertaken today, given the difference in the labour market and differences in attitudes to incomes and income security among households now compared to 2007 (as evidenced, for example by the strong rise in the household savings ratio and the falls in consumer sentiment since that time).

More generally, Ai Group does not see how overemployment is a relevant consideration for the Annual Wage Review other than as an additional gauge of the state of the labour market and of the degree to which a change in wage rates may, or may not, worsen labour market outcomes. In any case ABS data do not appear to be available other than the few months in 2007.

8. Social Inclusion

8.2 Question to all parties

Question

It has been customary to measure the participation rate as the proportion of people aged 15+ who are in the workforce. Many parties do so in their submissions to this Annual Wage Review.

The ageing of the workforce and the movement of the large ‘baby boom’ cohort into the traditional retirement age bracket has caused a divergence between movements in the participation rate based on the entire population aged 15+ and that based on the population of traditional working age—either 15–64 (used, for example, in the ACTU submission\textsuperscript{11}) or 20–64 (used as one of the measures in the Statistical Report prepared for this Annual Wage Review\textsuperscript{12}).

The ACTU in its initial submission provides an illustration of the divergence.\textsuperscript{13} For the age group 20–64 used in the Statistical report the participation rate was higher in March 2013 (at 79.2) than in December 2011 (78.9), and unchanged from 2012. This contrasts with the decline in the participation rate when calculated on the population aged 15+, which has declined since 2011.

The Panel would appreciate the views of all parties on which is the best way, or ways, to measure the participation rate for the purpose of understanding the state of the labour market.

\textsuperscript{11} ACTU submission in reply at p. 6, Figure 1.
\textsuperscript{13} ACTU submission at p. 71, Figure 75.
Answer

It is well established that participation rates (and trends) vary significantly by age and by gender. All of these data are correct, given their stated age ranges. They are useful for different research purposes. Participation rates should only be compared across time for the same age range and gender definitions, and those data definitions should always be very clear.

With regard to the 65+ years age group, workforce participation in this group is relatively low but has risen strongly over the past decade. This age group should not be excluded from current concepts of ‘working age’.

That said, measures of participation that include older Australians should take into account the reality of retirement and to date age 65 has served as a convenient cut off point. However changing social practices may be making this way of recognising retirement less appropriate. How much these changes in social practices (i.e. later retirement) are cyclical and how much are structural remains to be seen.