



Australian Council of Trade Unions Post Budget Submission to the Fair Work Australia Minimum Wage Panel

May 2010



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Introduction

- 1.1 In this Post Budget Submission to the FWA Minimum Wage Panel the ACTU makes further submissions on the economic outlook for the Australian economy, based on the Treasury forecasts as updated by the Federal Budget 2010-11, released 11 May 2010 (the Budget), and the RBA forecasts in the RBA Statement on Monetary Policy, May 2010, released on 7 May 2010 (the Statement).
- 1.2 The ACTU also takes the opportunity to respond to the ABI Submission in Reply in relation to expense related allowances, and to the ACCI Submission in Reply, at Section 3, in relation to the youth labour market.
- 3.1 The ACCI Submission in Reply, Section 6.1, refers to the ACTU commissioned research by Dr Ian Watson, “Mobility Among the Low Paid Workforce in Australia 2001 to 2008”. We attach to this submission a response by Dr Ian Watson to ACCI.
- 1.3 The Budget reinforces the previous submissions by the ACTU that the Australian economy is recovering steadily from the mild downturn and the prospects for the Australian economy are good. The Budget includes improved forecasts for sustained economic growth, lower unemployment, increasing average hours worked and inflation within the Reserve Bank target range. The RBA Statement similarly reports and forecasts improving global and domestic economic conditions and an improved economic outlook.
- 1.4 The Budget makes no significant changes to transfer and taxation arrangements for award workers that alter the fundamental thrust of the ACTU previous submissions to this Review.

Budget measures

2.1 This section provides an overview of relevant measures announced in the Budget.

Assistance to Business

2.2 The Budget has provided significant assistance to business through measures designed to reduce the cost of business:

- Small business instant asset write-off for assets under \$5,000 commencing 1 July 2012.
- For small business, company tax rate cut to 28 per cent from 2012-13.
- Company tax rate cut to 29 per cent in 2013-14 and to 28 per cent from 2014-15 for other businesses.

2.3 These measures will take effect in their commencement years and should be considered in future reviews.

Assistance to Employees

2.4 The Budget provides assistance to employees through several measures:

- 50 per cent deduction on taxation on the first \$1,000 of interest on savings commencing 1 July 2011.

- A low income earners Government superannuation contribution – from 1 July 2012. The Government will provide a superannuation contribution tax rebate of up to \$500 annually paid into the superannuation account of workers on adjusted taxable incomes of up to \$37,000.
- Choice of standard deduction to replace deductions for work-related expenses and cost of managing tax affairs of \$500 from 2012-2013 and \$1,000 from 2013-14.
- Superannuation Guarantee (SG) phased increase to 12 per cent by 2019. Phased increases are a 0.25 per cent increase in 2013-14 and 2014-15, followed by annual 0.5 per cent increments until the SG reaches 12 per cent by 2019-20.

2.5 Where relevant, these measures will not have an impact on the disposable income of award workers for a considerable period. Where relevant, these changes should be considered in future reviews.

Measures previously accounted for

2.6 We note that the Personal Income Tax changes from 1 July 2010 are unchanged from those already legislated. These changes have been fully canvassed in submissions in the initial and reply stages of this Review

Economic Outlook

- 3.1 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 and the Reserve Bank of Australia.
- 3.2 The Budget forecasts a positive economic outlook for the Australian economy. In Budget Paper No 1 Treasury refers to "The economy's solid performance through the global financial crisis" and finds "the outlook for the Australian economy is increasingly positive with strong prospects for the Asian region expected to support a rising terms of trade and a rebound in business investment."¹
- 3.3 While Treasury notes that the global economy nevertheless presents risks to the domestic outlook, Treasury also notes on the upside there is potential for the global economy to recover more strongly, with flow-on effects to the Australian economy.²
- 3.4 The Statement similarly notes "Conditions in the global economy have generally continued to improve" and that "Economic conditions in Australia continue to improve" with a "substantial increase in the terms of trade" in prospect.³

¹ Commonwealth Budget 2010-11, Budget Paper No 1, pp 1-7 and 2-3

² Budget, p 2-4

³ Statement on Monetary Policy, May 2010, pp 1-3

The Outlook for the Domestic Economy

3.5 The official forecasts paint a positive picture of the Australian economy over the near future.

3.6 The Treasury Economic Outlook Overview states:

The positive outlook is being increasingly underpinned by an improved global outlook and by our close trade links to the rapidly growing Asian region, and in particular China. Large emerging economies are growing strongly, providing an impetus to global growth, supported by a modest recovery in the major advanced economies. The global economy is forecast to grow by 4¼ per cent in both 2010 and 2011, with stimulus measures continuing to support global growth this year.

Against this backdrop the Australian economy is forecast to grow by 3¼ per cent in 2010-11, rising to 4 per cent in 2011-12. Private sector activity is expected to be the key driver of growth, as the Government's fiscal stimulus is phased out and detracts from GDP growth.

Improved external conditions should significantly increase demand for Australian exports, boosting the terms of trade and supporting a recovery in business investment.

Solid private sector growth, and continued labour market strength, should see the economy return to full employment more quickly than previously expected.⁴

3.7 The Reserve Bank assessment is:

Conditions in the world economy have continued to improve since the February Statement.

...

The domestic forecasts are based on the expectation that global output will grow by just under 4½ per cent in year-average terms in 2010 and by around 4 per cent in 2011

...

⁴ Budget, p 2-3

Australia's terms of trade are increasing strongly, and this year will probably regain the peak seen in 2008.

...

In year-ended terms, GDP growth is forecast to be around 3¼ per cent over 2010 and to strengthen to around 3¾ - 4 per cent over the remainder of the forecast period. In year-average terms, GDP is expected to grow by 2¼ per cent in 2009/10, 3½ per cent in 2010/11 and 3¾ per cent in 2011/12.⁵

- 3.8 The major economic parameters used in preparing the Budget are contained in Table PB3.1.

Table PB3.1: Major economic parameters (a)

	Forecasts			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14
Real GDP	2	3 1/4	4	3	3
Employment	2 1/2	2 1/4	2	1 1/2	1 3/4
Unemployment rate	5 1/4	5	4 3/4	5	5
CPI	3 1/4	2 1/2	2 1/2	2 1/2	2 1/2
Nominal GDP	2 3/4	8 1/2	5 3/4	5 1/2	5 1/2

(a) Real and nominal GDP parameters are year average. CPI and employment are through-the-year growth to the June quarter. The unemployment rate is the rate in the June quarter.

Source: Treasury, Commonwealth Budget 2010-11, Budget Paper No. 1

- 3.9 The RBA forecasts are shown in Table PB3.2.

Table PB3.2: Output Growth and Inflation Forecasts (a)

Per cent, over year to quarter shown

	Dec 2009	June 2010	Dec 2010	June 2011	Dec 2011	June 2012	Dec 2012
GDP growth	2.7	2½	3¼	3¼	3¼	3¼	4
Non-farm GDP growth	2.5	2½	3¼	3¼	3¼	3¼	4
CPI inflation	2.1	3¼	3¼	3	2¾	3	3
Underlying inflation	3¼	2¾	2¾	2¾	2¾	3	3

(a) Technical assumptions include A\$ at US\$0.91, TWI at 71, WTI crude oil price at US\$87 per barrel and Tapis crude oil price at US\$90 per barrel.

Sources: ABS; RBA

Source: RBA

- 3.10 The Treasury's key domestic forecasts for 2009-10, 2010-11 and 2011-12 are summarised in Table PB3.3 below. We consider each of the forecasts in more detail.

⁵ Statement, pp 55, 56

Table PB3.3: Budget Domestic Economic Forecasts (a)

	Outcomes(b)			
	2008-09	2009-10	2010-11	2011-12
Panel A - Demand and output(c)				
Household consumption	1.9	2 3/4	3 1/2	4
Private investment				
Dwellings	-1.9	3	7 1/2	4
Total business investment(d)	6.6	-2	7	12 1/2
Non-dwelling construction(d)	8.5	-7	8	14 1/2
Machinery and equipment(d)	4.8	- 1/2	6	13
Private final demand(d)	2.3	1 3/4	4 1/2	6
Public final demand(d)	4.3	7 1/4	1	- 1/2
Total final demand	2.7	3	3 3/4	4 1/2
Change in inventories(e)	-0.9	3/4	1/2	0
Gross national expenditure	1.8	3 3/4	4 1/4	4 3/4
Exports of goods and services	0.1	1 1/2	5	6
Imports of goods and services	-2.8	5	9	8 1/2
Net exports(e)	0.6	- 3/4	-1	- 3/4
Gross domestic product	1.3	2	3 1/4	4
Non-farm product	1.0	2	3 1/2	4
Farm product	17.6	6	1	2
Nominal gross domestic product	6.5	2 3/4	8 1/2	5 3/4
Panel B - Other selected economic measures				
External accounts				
Terms of trade	9.6	-3 3/4	14 1/4	-3 3/4
Current account balance (per cent of GDP)	-3.0	-4 3/4	-3 3/4	-5
Labour market				
Employment (labour force survey basis)(f)	0.1	2 1/2	2 1/4	2
Unemployment rate (per cent)(g)	5.7	5 1/4	5	4 3/4
Participation rate (per cent)(g)	65.4	65 1/4	65 1/2	65 1/2
Prices and wages				
Consumer Price Index(h)	1.5	3 1/4	2 1/2	2 1/2
Gross non-farm product deflator	5.5	1	5	1 3/4
Wage Price Index(f)	3.8	2 3/4	3 3/4	4

(a) Percentage change on previous year unless otherwise indicated.

(b) Calculated using original data.

(c) Chain volume measures except for nominal gross domestic product which is in current prices.

(d) Excluding second-hand asset sales from the public sector to the private sector.

(e) Percentage point contribution to growth in GDP.

(f) Seasonally adjusted, through-the-year growth rate to the June quarter.

(g) Seasonally adjusted estimate for the June quarter.

(h) Through-the-year growth to the June quarter.

Note: The forecasts are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade-weighted index of around 70 and a United States dollar exchange rate of around 90 US cents. Interest rates are assumed to move broadly in line with market expectations. World oil prices (Malaysian Tapis) are assumed to remain around US\$88 per barrel. The farm sector forecasts are based on an assumption of average seasonal conditions.

Source: Australian Bureau of Statistics (ABS) cat. no. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

Source: Treasury, Commonwealth Budget 2010-11, Budget Paper No. 1

Economic Growth

- 3.11 Treasury expects the recovery in the domestic economy to continue to gather pace, and forecasts real GDP growth in the 2009-10 financial year of 2 per cent, rising to 3¼ per cent in 2010-11. These forecasts are revised up from MYEFO. Treasury forecasts real GDP growth of 4 per cent in 2011-12.
- 3.12 Non-farm GDP is forecast to grow by 2 per cent in 2009-10, 3½ per cent in 2010-11 and by 4 per cent in 2011-12
- 3.13 Farm GDP is expected to rise by 6 per cent in 2009-10, 1 per cent in 2010-11 and 2 per cent in 2011-12.
- 3.14 Treasury expects the economy to approach “full capacity” in 2011-12, “significantly earlier than previously anticipated”.⁶
- 3.15 The RBA real growth forecasts are slightly higher than Treasury in 2009-10 and 2010-11, and slightly lower than Treasury in 2011-12.
- 3.16 Treasury expects nominal GDP to recover strongly, from a decline of more than 1 per cent in the year following the collapse of Lehman Brothers, and forecast growth of 2¾ per cent in 2009-10, to above-trend growth in 2010-11 and 2011-12.

Nominal GDP is forecast to grow by 8½ per cent in 2010-11, underpinned by a recovery in the real economy together with strong growth in output prices driven by rising non-rural commodity prices. In 2011-12, the nominal economy is expected to grow at 5¾ per cent, driven primarily by above-trend growth in real GDP, supplemented by a more modest contribution from growth in output prices.⁷

- 3.17 Treasury expects the strength in nominal GDP growth to be broadly distributed throughout the economy, encompassing compensation of employees, gross operating surplus and gross mixed income.

⁶ Budget, p 2-15

⁷ Budget, p 2-35

As the labour market continues to strengthen, so too will incomes. Compensation of employees is forecast to grow by 7¼ per cent in 2010-11 as employment growth remains solid and wages growth increases. Gross operating surplus is expected to grow strongly, reflecting rises in non-rural commodity prices. Gross mixed income, which includes profits of farm and non-farm unincorporated enterprises, is also forecast to increase strongly.⁸

Consumption

3.18 Treasury finds that household consumption has continued to grow solidly in recent months.⁹ Treasury forecasts household consumption to increase by 3½ per cent in 2010-11, rising to 4 per cent in the 2011-12 financial year. Treasury state:

Household consumption is expected to continue to recover. A strong labour market, sustained improvements in consumer confidence and higher asset prices are expected to see household consumption grow by 3½ per cent in 2010-11 and 4 per cent in 2011-12.¹⁰

3.19 The RBA notes “Households appear to be quite optimistic about the future, and particularly the outlook for the economy”.¹¹

Dwelling investment

3.20 Treasury forecasts investment on dwellings to have increased by 3 per cent in 2009-10, rising to 7½ per cent in 2010-11, and then easing to 4 per cent in 2011-12.

A strong recovery in dwelling investment is expected over the next year, with growth of 7½ per cent forecast in 2010-11, followed by solid growth of 4 per cent in 2011-12. Earlier increases in housing approvals and housing finance, supported by historically low interest rates, are expected to flow through to investment activity in the near term.

⁸ Budget, p 2-36

⁹ Budget, p 2-17

¹⁰ Budget, p 2-4

¹¹ Statement, p 28

Demand in the sector is expected to be supported over the forecast period by strong population growth, rising incomes and a positive employment outlook, but tempered by higher mortgage interest rates.¹²

Business Investment

- 3.21 Treasury expects business investment to rise significantly in both 2010-11 – by 7 per cent, and 2011-12 – by 12½ per cent, and notes that this is expected to see total business investment approach its recent highs as a proportion of GDP.¹³

The Small Business and General Business Tax Break has supported machinery and equipment investment in recent times, but strong business confidence and easing credit conditions are expected to support a broader-based recovery, recent interest rate increases notwithstanding. A surge in new mining investment is expected as a number of large projects come on line. Non-residential building investment is expected to remain subdued before recovering in response to the broader economic recovery.¹⁴

and

Reflecting the improved outlook, survey measures of business conditions and confidence have generally tracked above long-run averages since late 2009, with confidence currently around eight-year highs. There are also indications that the production and inventory cycles have reached their turning points. As business conditions recover further and the economy's spare capacity is absorbed, businesses are expected to resume spending to expand capacity to satisfy future demand growth.¹⁵

- 3.22 The forecast for growth in business investment in non-dwelling construction is 8 per cent for 2010-11, rising to 14½ per cent growth in 2011-12.

- 3.23 Investment in new machinery and equipment is forecast to grow by 6 per cent during the 2010-11 rising to 13 per cent in 2011-12.

¹² Budget, p 2-17

¹³ Budget, p 2-18

¹⁴ Budget, pp 2-4 and 2-5

¹⁵ Budget, p 2-19

3.24 The RBA observes that:

*conditions and confidence in the business sector remain above long-run average levels after rising strongly through 2009, while measures of capacity utilisation are around average levels.*¹⁶

3.25 The RBA observes further:

*The business sector as a whole is in a generally sound financial position, as reflected in reduced gearing ratios and a low level of corporate insolvencies.*¹⁷

Private Final Demand

3.26 In total, Private Final Demand is forecast to grow by 4½ per cent in 2010-11 and by 6 per cent in 2011-12.

Public Final Demand

3.27 Public Final Demand is forecast to ease in 2010-11 and 2011-12 as the fiscal stimulus unwinds.

*New public final demand is forecast to grow by 7¼ per cent in 2009-10, then by 1 per cent in 2010-11 and fall by ½ of a per cent in 2011-12. This profile of activity is driven by the fiscal stimulus measures and their subsequent withdrawal.*¹⁸

Net exports

3.28 Treasury forecasts exports to grow solidly in the next two years as the world economy continues to strengthen.

¹⁶ Statement, p 32

¹⁷ Statement, p 33

¹⁸ Budget, p 2-22

Export volumes are expected to increase over the forecast period, in line with the anticipated recovery in global economic activity. Export volumes are forecast to grow by 5 per cent in 2010-11 and 6 per cent in 2011-12.

...

Rural exports are expected to remain at a high level over the forecast period, in line with the outlook for farm production. After recovering to above pre-drought levels in 2008-09, farm production is expected to increase by 6 per cent in 2009-10, followed by more moderate growth over the remainder of the forecast period.¹⁹

3.29 Import growth is expected to grow in line with strengthening domestic activity by 9 per cent in 2010-11 and 8½ per cent in 2011-12.²⁰

Terms of Trade

3.30 The 2009-10 Budget forecast the terms of trade to decline in 2009-10 by 13¼ per cent and MYEFO 9¾ per cent. Treasury now forecasts a much lower fall of 3¾ per cent in 2009-10. Treasury expects the terms of trade to “surge” in 2010-11 to their highest level in 60 years. The terms of trade are forecast to rise by 14¼ per cent in 2010-11 before falling by 3¾ per cent in 2011-12 as global non-rural commodity supply expands.

Labour market

3.31 The 2009-10 Budget forecast a fall in employment through the year to the June quarter 2010 of 1½ per cent and MYEFO a rise of ¼ per cent. Treasury has upgraded that forecast to growth in employment through the year to the June quarter 2010 of 2½ per cent. Similarly, Budget 2009-10 forecast the June quarter 2010 unemployment rate to reach 8¼ per cent, MYEFO 6¾ per cent. Treasury now forecasts the unemployment rate in the June quarter 2010 to be a much lower 5¼ per cent. Treasury notes that the relatively mild deterioration and subsequent recovery in the labour market has seen Australia record an unemployment rate of just 5.3 per cent in March 2010.²¹

¹⁹ Budget, p 2-24

²⁰ Budget, p 2-25

²¹ Budget, p 2-31

3.32 Treasury forecasts continued momentum in the labour market. Employment is forecast to increase by 2¼ per cent through the year to the June quarter 2011 and by 2 per cent through the year to the June quarter 2012. The unemployment rate is forecast to decline to 5 per cent in the June quarter 2011 and to 4¾ per cent in the June quarter 2012.

The unemployment rate is expected to continue to fall, reaching 5 per cent by the end of 2010-11 and 4¾ per cent by the end of 2011-12, around its full employment rate. Employment is expected to grow by 2¼ per cent through the year to the June quarter 2011 and 2 per cent through the year to the June quarter 2012, absorbing strong growth in the labour force associated with rapid growth in the working age population and an expected increase in the participation rate.²²

3.33 The ACTU does not accept that “full employment” corresponds with an unemployment rate of 5 per cent.

3.34 Treasury also expects the ongoing strength in the labour market will be met through an adjustment in workers’ average hours.

As the labour market has recovered, businesses have increased workers’ average hours and this is expected to continue, with average hours returning to more normal levels over the course of 2010-11.²³

3.35 The RBA notes:

Forward-looking indicators point to solid employment growth in coming quarters. Business survey measures of hiring intentions have risen in recent months to above average levels.²⁴

...

the labour market is expected to tighten gradually over the forecast period, with solid employment growth and a gradual fall in the unemployment rate.²⁵

²² Budget, p 2-5

²³ Budget, p 2-31

²⁴ Statement, pp35-36

²⁵ Statement, p57

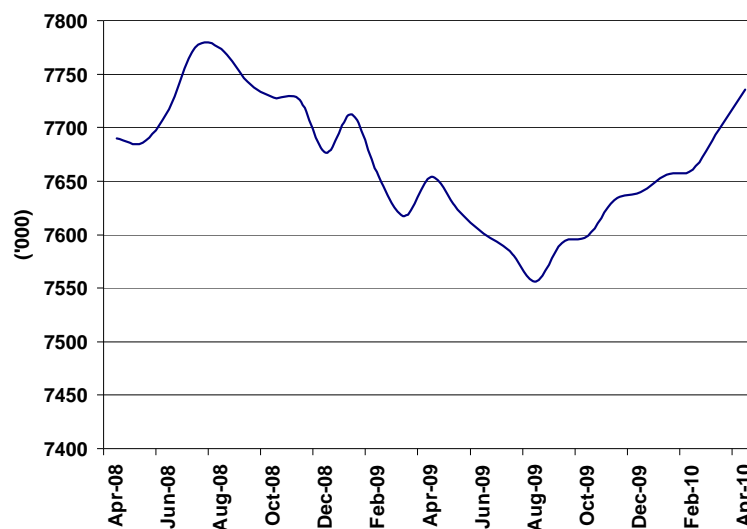
3.36 ABS Labour Force data for April 2010, released 13 May 2010, in seasonally adjusted terms, records:

- An increase in full time employment of 37,500 persons
- A decrease in part time employment of 3,900 persons
- An increase in total employment of 33,700 to 11,025,500
- An unemployment rate of 5.4 per cent (constant from a revised March 2010 figure).
- A participation rate stable at 65.2 per cent.
- A decline in average monthly hours worked of 8.3 million hours.

3.37 The trend measure of aggregate monthly hours worked increased in April 2010 by 500,000 hours to be 1,538 million hours, 23 million hours above June 2009 (1,515 million) and 14 million below July 2008 (1,552 million).

3.38 Full time employment, at 7,735,500 persons, is higher than in April 2008, 7,689,700 persons, and only 39,500 below the previous peak in July 2008 of 7,775,000. Full time employment has increased by 179,000 since August 2009. The recovery in full time employment is occurring at a faster rate than the decline.

Figure PB3.1: Full Time Employment, Seasonally Adjusted, April 2008-April 2010



Source: ABS, Seasonally Adjusted data

Wages

- 3.39 Treasury expects wages growth to increase over the forecast period in line with the anticipated strengthening of labour market conditions. Growth in the Wage Price Index is forecast to increase from 2¾ per cent in through the year to the June quarter 2010 to 3¾ per cent through the year to the June quarter in 2011 and 4 per cent through the year to the June quarter 2012.
- 3.40 Similarly, the RBA anticipates “some pick-up in wage growth as the labour market tightens”.²⁶

Prices

- 3.41 Treasury forecast the CPI to increase by 3¾ per cent through the year to the June quarter 2010.
- 3.42 Inflation is expected to stabilise through 2010-11 and 2011-12. Treasury forecast the CPI to increase by 2½ per cent through the year to the June quarter 2011 and 2012, well within the RBA’s target range.
- 3.43 The RBA forecasts for inflation are slightly higher than Treasury over the next two years. Underlying inflation remains within target over this period.

Conclusion

- 3.44 The Treasury and RBA economic outlooks are positive for the economy and the labour market. Both anticipate solid growth in output and employment with benign inflation, notwithstanding slight differences around the absolute magnitudes for some variables.

²⁶ Statement, p57

3.45 The economic outlook for 2010-11 can be summarised as:

- Real GDP growth of $3\frac{1}{4}$ - $3\frac{1}{2}$ per cent.
- Household consumption growth of $3\frac{1}{2}$ per cent.
- Dwelling investment growth of $7\frac{1}{2}$ per cent.
- Business investment growth of 7 per cent.
- Public Final Demand growth of 1 per cent.
- Export growth of 5 per cent and Import growth of 9 per cent.
- Terms of Trade growth of $14\frac{1}{4}$ per cent.
- Employment growth of $2\frac{1}{4}$ per cent;
- an Unemployment Rate of 5 per cent.
- Growth in average hours worked.
- WPI growth of $3\frac{3}{4}$ per cent.
- CPI growth of $2\frac{1}{2}$ - $2\frac{3}{4}$ per cent.

3.46 The economic outlook supports the granting in full of the ACTU claim of \$27.00 per week.

Response to ABI reply submission regarding the adjustment of expense related allowances in Modern Awards

- 4.1 The ACTU has submitted that expense related allowances in Modern Awards should be adjusted concurrently with the 2010 Annual Wage Review.
- 4.2 The ACTU makes no submission that the adjustment of expense related allowances is within the purview of the Annual Wage Review itself. We readily concede that it is an ancillary step that must be referable to Fair Work Australia's powers outside of that process.
- 4.3 Fair Work Australia has a discretionary power to make a determination varying a modern award, otherwise than to vary modern award minimum wages, on its own initiative.²⁷ The pre-condition for exercising that power is that the Tribunal is satisfied that such a determination is necessary to achieve the modern awards objective. The ACTU submits that the Tribunal can be so satisfied and that it ought to exercise its discretion to make determinations varying awards to adjust expense related allowances.
- 4.4 It is to be remembered that expense related allowances, unlike most allowances in Modern Awards, remain expressed as dollar amounts. These dollar amounts are subject to a self executing adjustment by virtue of a model clause which provides:

²⁷ *Fair Work Act 2009* s. 157(1) and 157(3).

At the time of any adjustment to the standard rate, each expense related allowance must be increased by the relevant adjustment factor. The relevant adjustment factor for this purpose is the percentage movement in the applicable index figure most recently published by the Australian Bureau of Statistics since the allowance was last adjusted.

The applicable index figure is the index figure published by the Australia Bureau of Statistics for the Eight Capitals Consumer Price Index (Cat No. 6401.0) as follows:

Allowance	Applicable Consumer Price Index Figure
<i>Carbon black overall allowance</i>	<i>Clothing and footwear group</i>
<i>Meal allowance</i>	<i>Take away and fast foods sub-group</i>
<i>Vehicle allowance</i>	<i>Private motoring sub-group</i>
<i>Tool allowance</i>	<i>Tools component of the household appliances, utensils and tools sub-group.</i>

4.5 The above model term is self executing, however only Fair Work Australia has the Authority to alter the text of a Modern Award. It is not consistent with the Modern Award objective “to ensure a simple, easy to understand”²⁸ Modern Award system, for Modern Awards to contain clauses referring to dollar amounts to be paid which are different to the dollar amounts that the Modern Award actually obliges an employer to pay.

4.6 In their reply submissions, ABI seem to urge (at page 7, Technical Matters (a)) that the expense related allowances in Modern Awards are novel creations as of 1 January 2010 and have not previously been adjusted. The logical consequence of this is that under the terms of the model clause, they can *never* be adjusted because there will *never* be an index figure “published...since the allowance was last adjusted”. This would indicate that ABI’s advice to employers, should there be any adjustment to modern award minimum wages in this annual wage review, will be to continue to pay the allowance rates in the dollar amounts expressed in the Modern Awards. We submit that this represents an incorrect view, and the mere expression

²⁸ *Fair Work Act 2009* s.134(1)(g)

of it, particularly in this forum, tends to make the case that it is necessary to vary the allowances so as to ensure the allowance provisions remain simple and easy to understand.

4.7 If one traces the recent history of Award Modernisation and the approach to allowances therein, it becomes clear that the content of Modern Awards in so far as it relates to allowances is drawn from content in award based transitional instruments, rather than being unrelated novel provisions as ABI appears to assert. The process appears to be one of rationalising the existing safety net of allowances – questioning what should be *retained*, rather than introducing a new paradigm. Indeed, as the extracts below demonstrate, the prospect of a “clean break” from the conventional manner of expressing and fixing allowances was explored and rejected by the Australian Industrial Relations Commission after it was met with opposition by those representing both employees and employers.

4.8 As ABI correctly identify, the Minister’s Award Modernisation request required the Australian Industrial Relations Commission to ensure that all Modern Awards included an appropriate method or formula for automatically adjusting relevant allowances when minimum wage rates are adjusted. The Commission’s response to this at an early stage was as follows:

We propose that all allowances, including those that relate to the reimbursement of expenses, should be expressed as a percentage of the key classification rate. Under this proposal the definition clause will identify the minimum wage for the key classification in the award and each allowance would be expressed as a percentage of that rate, called the standard rate.

There is an unresolved issue concerning allowances variously described as district, locality or remote area. A number of pre-reform awards and NAPSAs contain such allowances. Questions arise about such allowances. They are by nature confined to particular locations. In that connection, it is relevant that modern awards will apply throughout Australia. If it is appropriate that these allowances be included in modern awards, which is a matter for discussion, there must be a consistent and fair national basis for their fixation and adjustment. Without a rational system the inclusion of these allowances in modern awards could lead to inconsistency and

consequent unfairness. We would welcome views and proposals on these questions. The allowances have not been included in the exposure drafts.²⁹ (emphasis added)

4.9 Following further consultation, the Commission said the following in its decision in relation to the making of Modern Awards for the priority industries:

The consolidated request requires the Commission to include an appropriate method or formula for automatically adjusting relevant allowances when minimum wages are adjusted. The exposure drafts included provisions which expressed allowances as a percentage of a standard rate. This would ensure that where the standard rate was altered the allowances were adjusted accordingly. The draft provision applied to all allowances, including those that are expense-related. In relation to allowances which are expense related, it is obvious that adjustment by references to wage increases would not directly reflect increases in relevant price levels. Given the relative magnitude of the increases however, the difference would not be great. Any significant disadvantage could be addressed in periodic award reviews. Expressing expense-related allowances as a percentage of the standard rate would ensure that allowances would not need updating in the normal course. Almost without exception, the main union and employer representatives are opposed to the adjustment of expense related allowances in line with wages. For that reason, we have decided to provide for the adjustment of expense-related allowances by reference to the Consumer Price Index. The terms of the provision will be standard, allowing for changes in each allowance by reference to the change in a specified index.

...

*In order to ensure that those covered by each award have access to the current amount, arrangements will be made for the expense related allowances to be updated in accordance with the specified index at the time of any general wage adjustment.*³⁰ (emphasis added)

²⁹ AIRC Statement [2008] AIRCFB 717, 12/9/2008.

³⁰ AIRC Decision [2008] AIRCFB 1000, 19/12/08

- 4.10 When considering allowances in the context of the Stage 2 exposure drafts, the Commission said:

Rationalisation of Allowances

In a number of industries there are many different allowances in federal awards and NAPSAs, some of quite small amounts. It is often difficult to know the origin and purpose of the allowances and whether they are still relevant. In some cases the allowance will not be appropriate for inclusion in a safety net award because it is outmoded, is the result of enterprise bargaining or for some other reason.

*In some industries there is a strong case for rationalising allowances. The manufacturing and building and construction industries are examples. We encourage parties to give attention to the number, amount and purpose of allowances with a view to rationalising them and eliminating those that are no longer relevant.*³¹ (emphasis added)

- 4.11 This sentiment was echoed in relation to the exposure drafts for the Stage 3 Modern Awards:

*We again draw to parties' attention the need in a number of industries to update and rationalise allowances. Many allowances in pre reform awards and NAPSA's are inappropriate for inclusion in a modern award because they apply only to one establishment or in one State or Territory. Others may be of uncertain application, excessively detailed, difficult to apply, of little monetary value or simply obsolete. We urge parties to give further consideration to this issue in relation to the State 3 awards.*³² (emphasis added)

- 4.12 In addition to demonstrating that Modern Award allowances have as their genesis the allowance provisions of award based transitional instruments (albeit in many cases a subset thereof), the above extracts disclose a clear intention by the Australian Industrial Relations Commission that expense related allowances be adjusted in conjunction with the Annual Wage Review. We submit that the expression of that intention, as well as the expectations or assumptions among employers and

³¹ AIRC Statement [2009] AIRCB 50, 23/1/2009

³² AIRC Statement [2009] AIRCFB 450, 22/5/09

- employees that properly follow on from it, are powerful factors in favour of Fair Work Australia exercising its discretion to adjust allowances in the manner contended for.
- 4.13 The process of Award Modernisation was a recent experience, and the participants in that process are presumably still able to participate in the Annual Wage Review. Presumably many are doing so either directly or through representative parties who themselves were involved in Award Modernisation. The co-occurrence of this Annual Wage Review therefore provides an ideal opportunity to take stock of the origins of all expense related allowances and the dates on which they were last adjusted, for the purposes of applying the adjustment criteria referred to in the model provision. To do so at this juncture would be consistent with the requirement that Fair Work Australia performs its functions and exercises its powers in an efficient manner, which is mandated by section 581 of the *Fair Work Act 2009*.
- 4.14 The ACTU requests that FWA adjusts expense related allowances in modern awards from 1 July 2010 to reflect *the percentage movement in the applicable index figure most recently published by the Australian Bureau of Statistics since the allowance was last adjusted*.
- 4.15 In our submission FWA should exercise its discretion under s157(1) and (3) of the Act and adjust expense-related allowances in this way, concurrently with variations arising from the 2009-10 Annual Wage Review. This is necessary to achieve the Modern Awards Objective of securing a simple, easy to understand system, to avoid uncertainty and confusion, and to deliver a fair result in this matter.

Response to ACCI Additional Material on Youth Labour Market

5.1 Section 3 of the ACCI Reply Submission lodged 3 May introduces 11 pages of new material on youth unemployment and youth underemployment. None of this new material is in response to submissions from other persons or organisations. It was open to ACCI to submit this material in its principal submission lodged 22 March but it did not do so. Introducing material *de novo* in reply submissions is an abuse of process. [The text of section 3 of the ACCI Reply submission is reproduced verbatim in an ACCI Issues Paper Youth Employment released 6 May 2010.]

5.2 At paragraph 19 of its reply submission ACCI quotes an OECD paper which refers to '*relatively high minimum wages*' as a '*demand-side barrier faced by youth*' in obtaining employment. At paragraph 20 ACCI submits:

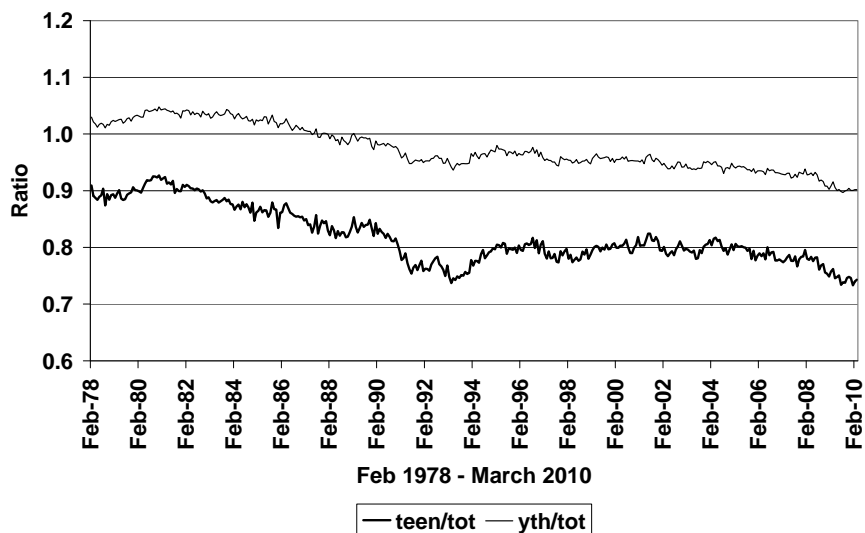
Any decision by the Tribunal which threatens the employment opportunities of younger workers is contrary to the statutory objectives and also the Government's strategy for young Australians'

5.3 ACCI's analysis in section 3 of its reply submission covers the period from March 2005 to March 2010 (only paragraph 54 and the chart on page 19 refer to the youth participation rate since March 1980). There is nothing whatsoever in the ACCI submissions to support any inference that the minimum wage relativity between teenagers or young workers and adults has changed over this time.

- 5.4 There has been no change in Australian minimum wage relativities as between youth and adults in the past 5 years, nor has there been in the past 30 years.
- 5.5 Accordingly, changes in the labour market outcomes for young workers compared to adult workers must have to do with factors other than relative minimum wages. (Moreover, in the present matter, the Minimum Wages Panel of Fair Work Australia is not separately determining minimum wages for youth.)
- 5.6 The ACTU believes youth employment outcomes matter greatly for the nation's future. Skills and training opportunities are key determinants of enduring success in the labour market. There has been secular change in the labour market for young workers over recent decades, reflecting changes in technology and in the structure of the national economy.
- 5.7 The limited material in section 3 of ACCI's reply submission sheds no useful light on these long-term developments. It is characterized by a short-term focus, lack of definitional clarity, and failure to compare youth with adult developments coherently or consistently.
- 5.8 We believe it imperative to assess recent developments in the context of a longer term view of labour market outcomes for young workers.
- 5.9 Figures PB5.1 through PB5.10 below cover the entire period for which monthly Labour Force data is available from the ABS. We take a range of indicators for teenagers (aged 15-19 years), for youth (aged 15-24 years), and compare them to corresponding indicators for all persons (aged 15-64 years). All data are seasonally adjusted and are drawn from ABS Cat No 6202.0 Tables 14, 17 and 18 sourced on-line.
- 5.10 In all charts the plots 'teen/tot' and 'yth/tot' are respectively, the variables for teenagers (15-19) and youth (15-24) relative to (ie divided by) the corresponding variable for all persons (15-64). This allows us to gauge the performance of youth in the labour market relative to adult workers.

5.11 Figure PB5.1 shows the long-term trend decline in the participation rate of young workers relative to adults. From the late 70s through to the late 80s the youth participation rate exceeded the all persons rate; from a peak relativity in the early 1980s the rate fell below the all persons participation rate in the late 80s and generally continued to slide thereafter, notwithstanding a slight rebound coming out of the 91-93 recession. A similar pattern is apparent for teenagers. These broad trends reflect the continuing rise in participation by adult women and in year 12 school retention rates.

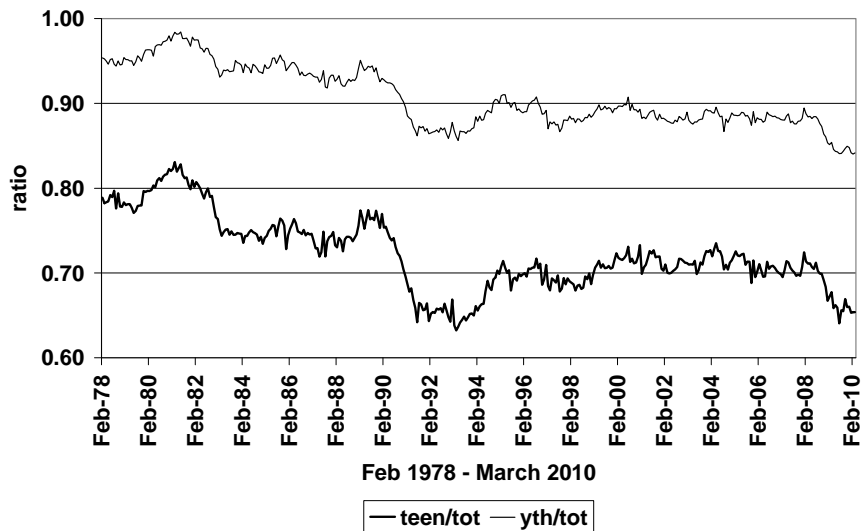
Figure PB5.1: Participation Rate Ratios (total % sa)



Source: ABS

5.12 Figure PB5.2 shows the long-term trend decline in the employment rates of young workers relative to adults. (The employment rate is the employment to population ratio for each cohort, measured as the percentage of that population in employment.) Clearly evident are the impacts of recessions on the relative employment densities of young workers relative to all persons. Both series decline sharply in the three recessions; a partial recovery is evident in the mid nineties, but the secular trend is clear.

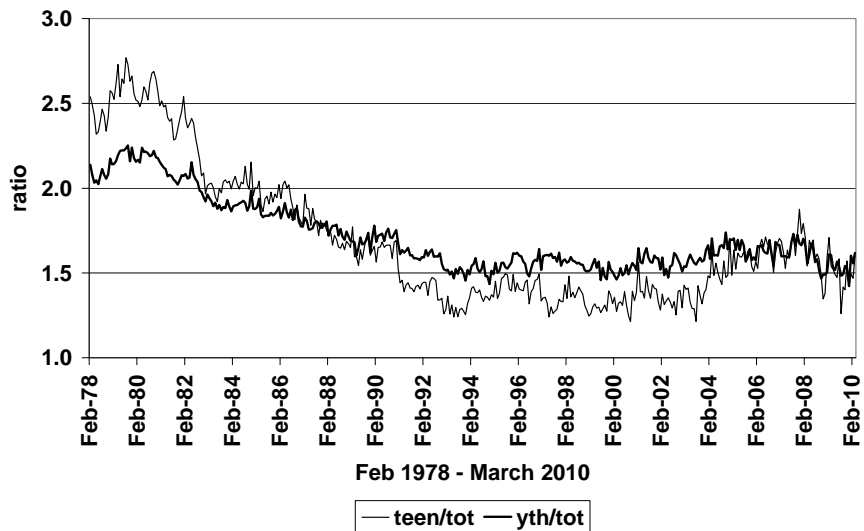
Figure PB5.2: Employment Rate Ratios (total % sa)



Source: ABS

5.13 Figure PB5.3 plots the relativity in (full-time) unemployment to population ratios. (Specifically, for each cohort the number of persons unemployed and seeking full-time work is divided by the corresponding population to produce the f-t unemployment to population ratio; the plot shows the relativity when the teen and youth rates are divided by the adult rate.) The teen and youth age cohorts have a higher proportion of persons unemployed and seeking full-time work than all persons. After falling steadily during the 80s the teen ratio has remained broadly flat since the mid 90s. Over the same period the youth ratio fell from above to below the teen ratio and remained there for a decade before rising a little in 03-04. On both measures the proportion of young people looking for full-time work is much lower relative to all persons than it was 30 years ago.

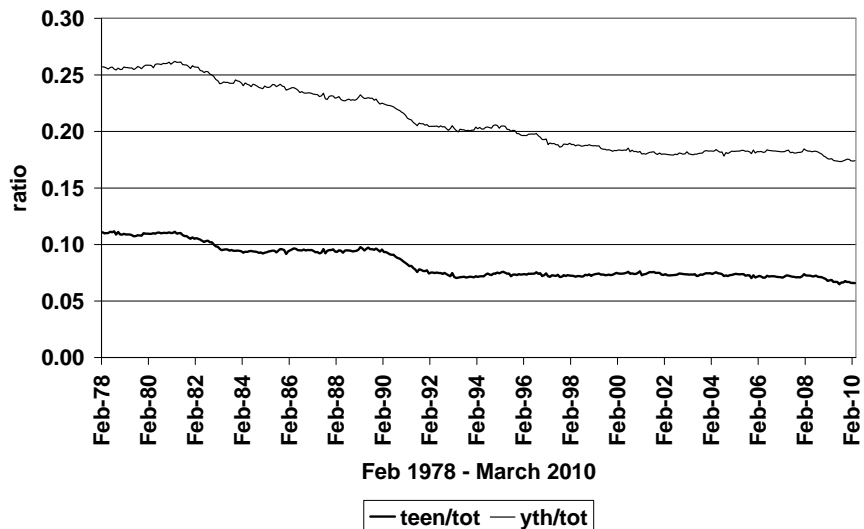
Figure PB5.3: Unemployment to population Ratios (sa seeking ft work)



Source: ABS

5.14 Figure PB5.4 compares total employment levels (in '000) for the same groups. Teenage employment was 11% of all person employment in the late seventies; after falling in the 80s recession and again in the 90s recession it remained flat at around 7% until 2008. Since then it has declined from just above to just below 7%. A similar pattern is evident for youth employment relative to all persons, declining from more than a quarter of total employment in the late seventies to less than one fifth today.

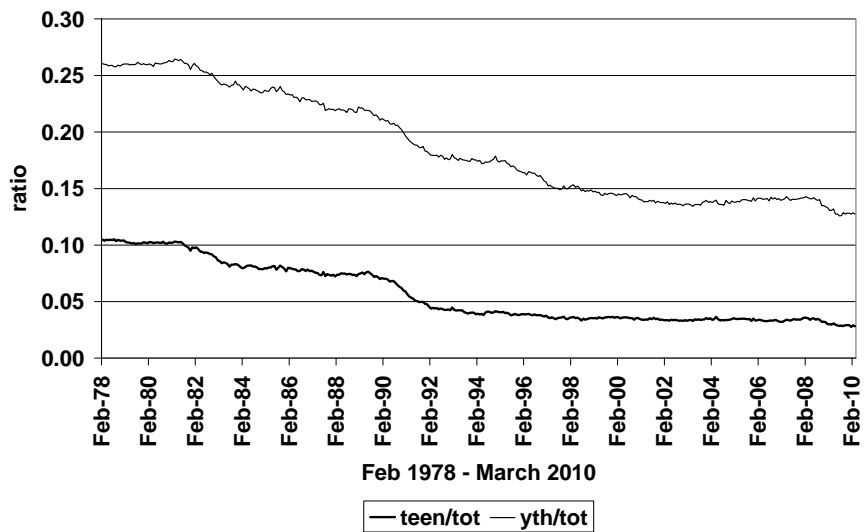
Figure PB5.4: Total Employment Ratios ('000s sa)



Source: ABS

5.15 Figure PB5.5 is the same as Figure PB5.4 except that it compares full-time (rather than total) employment levels. The direction and timing of movements is the same but the magnitude of the decline is greater. More young people are combining training / study with part-time work; teenagers account for less than 3% of full-time employment today, down from more than 10% just 30 years ago. The share of full time jobs accounted for by youth has halved in that time, from one quarter to one eighth.

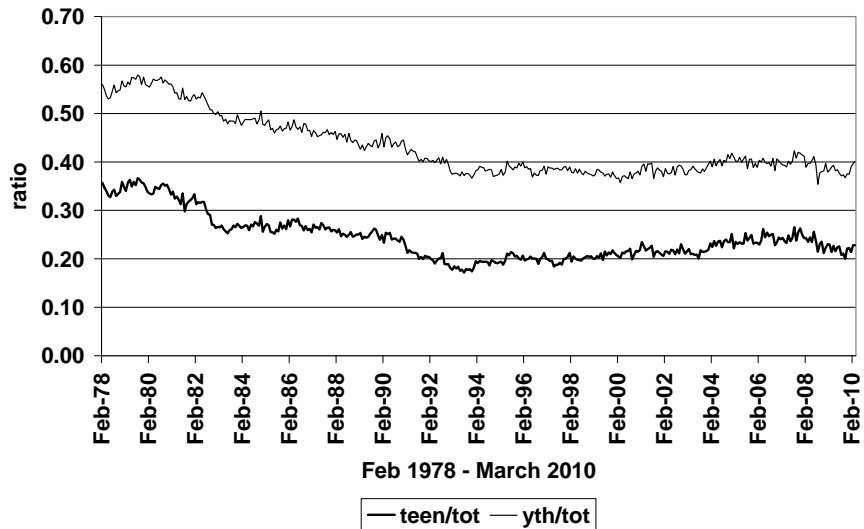
Figure PB5.5: Full-time Employment Ratios ('000s sa)



Source: ABS

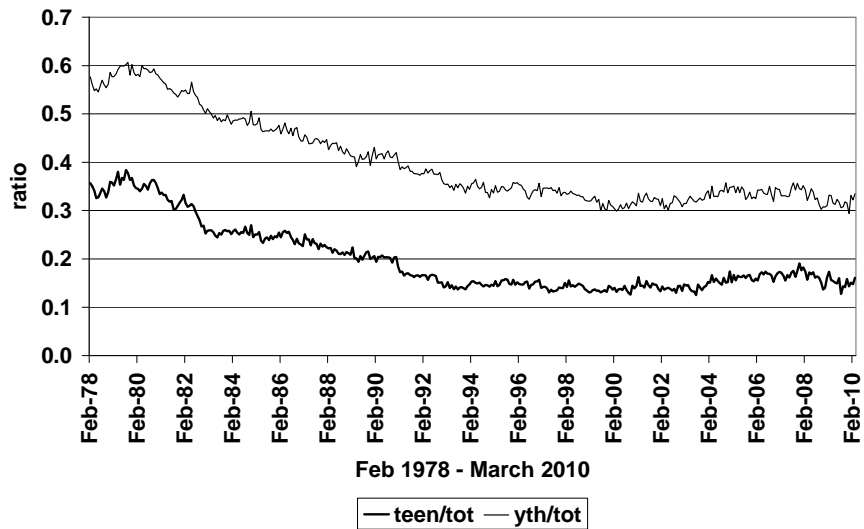
5.16 Figures PB5.6 and PB5.7, respectively, compare total and full-time unemployment levels for teens and youth relative to all persons. The broad trend is similar to that for relative employment outcomes shown in Figures PB5.4 & PB5.5. In the late 70s teenagers accounted for a third of total unemployment and youth more than a half; today these shares have dropped to one quarter and four-fifths respectively. Amongst those unemployed looking for full-time work the pattern of change is the same but the falls are greater.

Figure PB5.6: Unemployment Ratios total ('000s sa)



Source: ABS

Figure PB5.7: Unemployment Ratios – looking for full-time work ('000 sa)



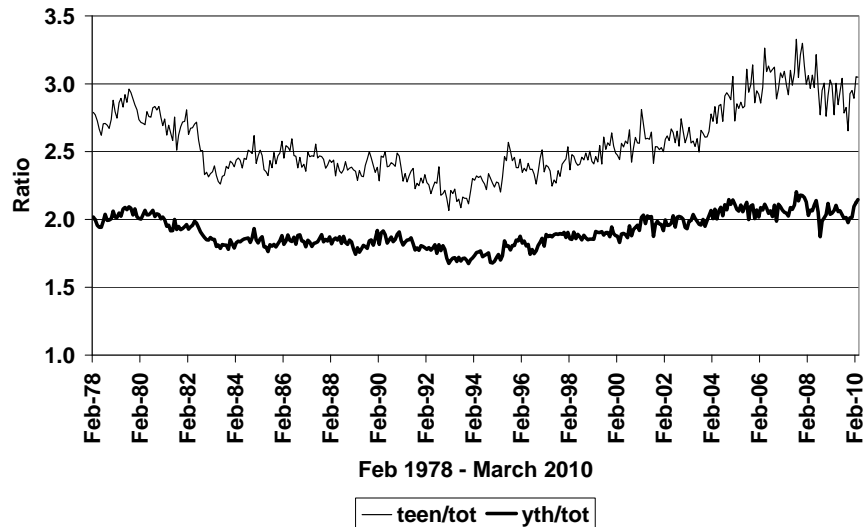
Source: ABS

5.17 Figures PB5.8 and PB5.9 plot respectively, the ratios of total and full-time unemployment rates, for teenagers and youth relative to all persons.

5.18 Figure PB5.8 shows for the total unemployment rates, that there was a general decline in both ratios from the late 70s to the early 90s, and a trend rise since that time. Over the entire period the unemployment rate ratio for youth to all persons has been around 2. The ratio for teens to all persons has fluctuated around 2.5 but with

greater amplitude. In neither case is there any apparent deterioration (secular rise) over the past 5 years. This evidence is directly contrary to ACCI's assertion at paragraph 44 of its supplementary submission, that "The increase in the youth unemployment rate has been more severe than the rise in unemployment rates across the broader labour market ..."

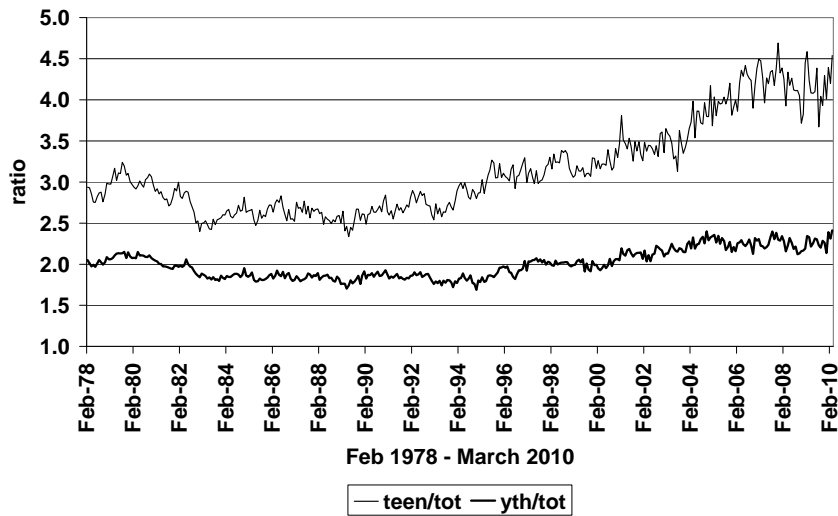
Figure PB5.8: Unemployment Rate Ratios (total % sa)



Source: ABS

5.19 In Figure PB5.9 the relative rise in the unemployment rate for teenagers looking for full-time work is pronounced since the early 90s; the broad direction of change for both teens and youth is similar to that shown in Figure PB5.8.

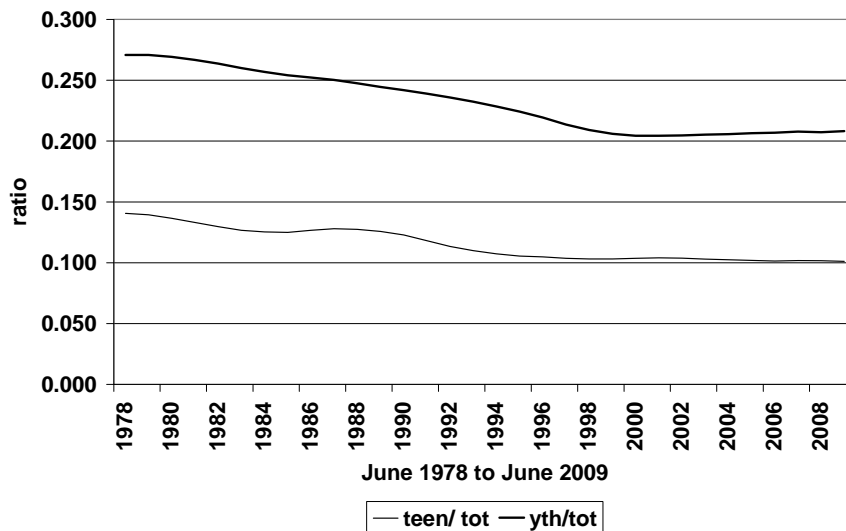
Figure PB5.9: Unemployment Rate Ratios (looking for ft work % sa)



Source: ABS

5.20 The dominant factor underlying the trends shown in Figures PB5.4, PB5.5, PB5.6 and PB5.7 is the changing shares of teen and youth in the population aged 15 – 64. This is shown in Figure PB5.10 (data are from ABS Cat No 3201.0). The aging of Australia’s population since 1978 has seen the share of teenagers in the working age population fall from 14% to 10% with most of the change complete by 1995. The corresponding share of youth has declined from 27% to 21% over the same period, with the share essentially flat for the past decade.

Figure PB5.10: Population Ratios



Source: ABS

- 5.21 On top of this fundamental demographic shift, changes in technology and the nation's industrial structure have driven the outcomes for relative employment and unemployment rates. There is simply no correlation between minimum wages developments affecting teens, youth or adults to be seen in these data.
- 5.22 In our submission the ACCI material included at section 3 of its reply submission is of no assistance to the Minimum Wages Panel in the present review.

6

Conclusion

- 6.1 The 2010-11 Budget and other official economic data show that the ACTU claim for a \$27.00 per week increase in award wages can be granted without adverse economic consequences.