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Industrial Relations Legislation Policy Background Paper

The primary policy for debate at Congress 2006 is the industrial relations legislation policy.

As at the 2000 and 2003 Congresses, this policy will be debated against a backdrop of a national government that is hostile to unions.

The policy will also be debated in the context of the significant structural changes to the economy that have occurred over the past three decades. These changes have resulted in fundamental reshaping of the labour market and include:

- the reduction in tariffs and an increasingly global trade environment;
- a move from centralised wage fixation to decentralised bargaining;
- changes in labour market participation, including a move from a full time male bread-winner model to dual income households, more employed sole parent households, and a growth in part time and casual employment; and
- an ageing population and predicted labour market shortages.

Australia's economy has experienced 15 consecutive years of economic expansion. GDP growth has averaged 3.6% a year since 1993 though there has been some slowing in the recent period to 2.3% (through the year to June quarter 2006 in trend terms).

Reasonable growth is expected in 2006-2007, although the RBA is expected to reassess growth prospects for the year in its quarterly statement on monetary policy in November.

The recent period has also been characterised by low inflation. However headline consumer price inflation reached 4.0% in the June quarter of 2006 compared with the RBA's medium-term target of 2 to 3% over the cycle.



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Employment has grown over the past three years, and total employment grew by 2.2 per cent over the year to August 2006, to reach 10.2 million people employed. The official unemployment rate (measured as a proportion of the working age population working 1 hour or more) is 4.8 per cent. The participation rate is at an historical high.

While wages have grown over the period, average full time earnings in the year to June 2006 dropped in real terms by 1% – that is, working Australians have experienced a fall in average weekly earnings of \$11 a week as a result of downward pressure on wages and rising living costs.

Australian workers have contributed to the economic prosperity of the country:

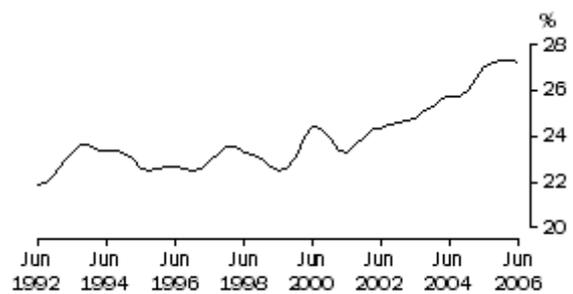
- Average annual productivity has increased at about 2.1 per cent per annum over the period since 1993;
- Real unit labour costs have declined from a ratio of 97.5 in 1996 to 90.6 in June 2006, while average labour productivity per person per hour has grown just under 20 per cent over the same period;¹ and
- During the period of economic expansion company profits have taken the lion's share of the growth, at the expense of wages. Profit share of total factor income has increased by 26.9 per cent, while the wages share has declined by 4.4 per cent.

Wages(a) share of total factor income²



(a) Total compensation of employees.

Profit share of total factor income:



(a) GDS of non-financial and financial corporations.

Source: ABS cat 5206.0 June 2006

However the period of prosperity has not been used to narrow the gap between rich and poor, or to overcome sources of inequality.



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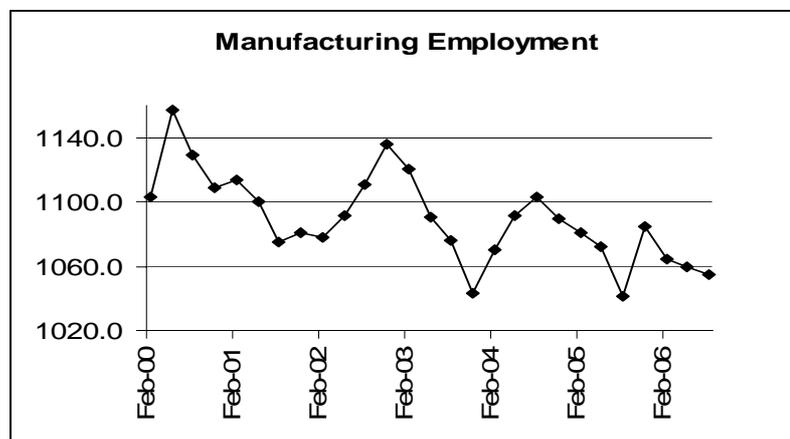
- The wealthiest 20% of households in Australia account for 59% of total household net worth, with average net worth of \$1.4 million per household; and the poorest 20% of households account for 1% of total household net worth, with an average net worth of \$23,000 per household.³ Executive salaries are reaching obscene levels.
- While average wages have grown in real terms, there has been dispersion in earnings, due in part but not entirely to changes in the occupational composition of the workforce. The earnings of the typical 'low-paid' worker have declined relative to 'high-paid' workers. Hence, the individual located at the 10th percentile point of the wage distribution in 1994 was paid 45.2 per cent of the person at the 90th percentile. By 2004, the P10/P90 ratio had declined to 40.8 per cent.⁴
- That this wage inequality is not reflected in significant increases in official measures of household income inequality is due to increased labour force participation levels and increasing reliance by working families, particularly those with children, on government assistance.
- Low paid working families are under pressure. While poverty is generally associated with joblessness, some studies estimate almost a quarter of Australia's poor are wage and salary earners.
- Low aggregate inflation is disguising rising costs that have a disproportionate impact on low-income households. Low-income households spend 52 cents in every dollar on housing, food and transport. The cost of each of these items has risen at greater than CPI over the past 12 months.
- And, as a nation we have made no progress in closing the gender pay gap. In fact, between 1994 and 2004, the growth in average hourly ordinary-time earnings among full-time adult non-managerial employees was higher for males than females, resulting in a slight widening of the gender wage gap.
- Households are relying on debt to maintain living standards. Households are highly geared, with regular payments such as mortgage payments, insurance premiums, council rates and rent accounting for 21 per cent of after-tax income. This compared to 10 per cent twenty years ago.⁵
- The Reserve Bank estimates that interest paid on mortgages and consumer debt in June hit 11.4 per cent of household disposable income. Interest paid on mortgages is now 9.1 per cent of household disposable income, compared with 5.6 per cent in March 1996.



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- Since June 2002 household consumption has been greater than household income, meaning that Australia's net savings are diminishing. Australia's household savings rates are the worst in the OECD.

The economic growth has not been evenly spread across the economy. The industrialisation of China has benefited the Australian resources sector, as its demand for commodities has lifted prices. At the same time this has been associated with changes that have created challenges for the Australian manufacturing sector where production has contracted, employment fallen, and exports stagnated.



Despite high aggregate employment, underemployment and under-utilisation of labour remains unacceptably high.

- In 2005 1.8 million people wanted to work, or wanted to work extra hours. Of these 627,000 people were seeking a job or extra working hours and could start work within four weeks;
- The most common difficulty these people had in finding work was that they 'lacked the necessary training, qualifications and experience' (17% said this was their main difficulty). 348,500 people would have preferred to work or work more hours, but were not available to start within four weeks. The main barrier for men in this group was 'long-term sickness or disability', while the most common barrier for women was 'child care, pregnancy or home duties';⁶
- Over half a million Australians, or 22 percent of part time workers, want more hours of work and are available to start work. These individuals do not appear in the unemployment data, but are underemployed; and



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- Around 15 per cent of young people are neither studying nor employed and youth unemployment, particularly in regional areas remains unacceptably high.

The aggregate employment figures also mask structural and compositional changes to the labour market.

- The industries that experienced stronger than average jobs growth over the past 5 years have been health and community services (19 per cent increase); retail trade (16.4 per cent increase), personal services (20 per cent increase), education (13.9 per cent increase), and government (30.9 per cent increase)⁷. Over the period 1989-90 to 2004-05, service-based industries have increased their share of employed people and now include the two largest industries. The increase was greatest for the property and business services industry (from 8% to 12%) while health and community services has risen from 8% to 10%, accommodation, cafes and restaurants from 4% to 5%, and retail trade from 14% to 15%.
- At the same time full time employment for prime aged males and traditional “blue collar” jobs are falling as a proportion of the labour force. Manufacturing has fallen from 15% of all employed people in 1989-90 to 11% in 2004-05. Industries experiencing below average jobs growth were transport and storage, manufacturing, communication services, and agriculture. The government has failed to address the transitional nature of the labour market. There are no systematic and universally available structural adjustment programs to promote alternative investment and ease the labour market transitions. Instead assistance, when provided, is available on an ad hoc basis and driven by political rather than economic imperatives and the need of working families.

The nature of employment has changed.

- Part time employment continues to grow. While women still account for the majority of part time employment, the proportion of employed men working part-time hours has increased from 6% in 1985 to 15% in 2005.
- There has been a growth in precarious employment, including casual employment and dependent contractors, and a shift away from employment to service contracts.



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- Working hours are increasingly dispersed. Full time jobs have been increasingly associated with longer hours, while part-time employment is associated with irregular and unsocial hours of work. Official figures show that very few workers now work a standard week. Between 1985 and 2005, the proportion of employed men working a standard week fell from 41% to 32%, but the proportion of employed men working longer than a standard week increased from 36% in 1985 to 42% today. The proportion of employed women working a standard week also decreased, from 37% in 1985 to 27% today.
- The rise of non-standard employment has been double-edged. While decent part time work can ease labour market transitions for students, workers with caring responsibilities and workers approaching retirement much part time work is casual and associated with low pay, job insecurity, irregular or unpredictable hours and income, poor or no access to annual, sick and carer's leave, poor access to training and increased risk of OHS hazards.
- More recently, there has been increased use of temporary migrant workers whose ongoing resident status is dependent upon continued sponsorship by their employer, leaving these workers vulnerable to exploitation.

Working arrangements are more diverse, more fragmented, and more responsive to employer demands. Yet, despite improved labour productivity and the redistribution of earnings from wages to profit share companies have failed to invest in the future.

There has been a failure to invest in skills, with labour market shortages appearing in some sectors. This is compounded by lack of investment in infrastructure, including social infrastructure such as schools and postsecondary education institutions. Business investment in skills and training has fallen since 1997.

The Federal Government has presided over a national skills crisis, with chronic shortages in key occupations. It is expected that over a quarter of a million additional tradespeople will need to be trained to meet the demand over the coming decade.

The Howard Government's has failed to address supply side of the economy. Its welfare to work package in the 2005 budget simply sought to push the long term unemployed, sole parents and the disabled into a deregulated labour market that will increasingly resemble a competitive auction for low paid, part time and casual jobs.



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The government changes to the work tests governing benefits for low-income parents and disability pension recipients could see disposable incomes of sole parents up to \$100 a week lower under the new system and people with disabilities could lose as much as \$120 per week.⁸

The new penalties and imperatives that force these Australians to participate and compete will occur in a very different labour market than in the past. It will be one in which the independent umpire has been pushed to the sidelines, the no disadvantage test abolished, award protections stripped bare, the employers prerogative to hire and fire strengthened and access to unions and collective bargaining diminished.

The legacy of a fair go and a fair day's work for a fair days wage is being replaced by the harsh reality of downward competitive pressure on the "going rate" at the bottom end of the labour market.

The government has also failed to tackle the real issues like training, childcare and high effective marginal tax rates faced by those in the transition from welfare to work.

And our investment in social infrastructure and public services is falling behind.

A recent OECD report shows Australia spends less on education as a proportion of GDP than the OECD average. Australia ranked 19 out of 29 countries, with public expenditure well below the OECD average with Australia ranking 21 out of 29 countries. Public expenditure fell from 4.5 percent of GDP in 2000 to 4.3 per cent in 2005.⁹ Australia also spends less on preschool education than the rest of the industrialized world. Despite strong evidence about the importance of early years education, Australia spends 0.1 per cent of gross domestic product on formal preschool education - the least of any of the 20 industrialized countries surveyed.¹⁰

A failure to invest in early childhood services, including childcare has led to a crisis in access to quality and affordable childcare. Almost a quarter of a million women are not working today because they cannot get childcare. Of these, 176,000 are available to work, but not working primarily because of a lack of childcare.

The health system is characterised by growing waiting lists for elective surgery, massive dental waiting lists, shortages in aged care and a crisis in mental health.



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In the three years since the last Congress, the tax system has become less progressive, with the focus on cutting the marginal personal tax rates for high-income earners.

Despite some adjustments to the taper rates for some benefits, complex withdrawal rates continue to discourage some people from entering paid employment or increasing their level of participation in the workforce.

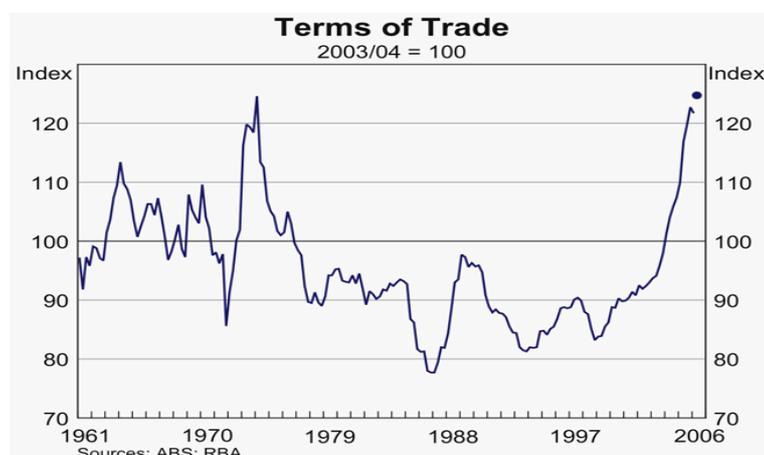
This is not an argument to cap minimum wages. The research clearly shows that minimum wage earners do not face high EMTR's. Seven in every ten of the estimated 7.1 percent of working age Australians, or 910,000 individuals face who face an Effective Marginal Tax Rate (EMTR) over 50 percent are middle-income families or singles.¹¹

Rather it is an argument to address EMTRs that continue to act as a disincentive to enter paid employment for low income individuals and second income earners in couple families.

Conclusion: A Decade of Wasted Opportunity

The defining feature of the past decade has been the failure of the Federal Government to use the benefits of economic prosperity to enhance the nation's ethos of fairness. They have had a once in a generation opportunity to use the billions of dollars of additional revenue generated by an increase in Australia's terms of trade (the ratio of export prices to import prices) of more than 40% since they were elected in March 1996. And this opportunity has been wasted.

The Windfall Gains from the surge in Australia's Terms of Trade Have Been Squandered





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Despite this windfall gain the legacy is one of underinvestment in health, education, training and infrastructure and growing inequality in market incomes. Not surprisingly inflationary pressures and constraints to growth have arisen because of the failure to make the necessary investments in the supply side of the economy.

1 www.treasury.gov.au/contentitem.asp?NavId=&ContentID=562

2 ABS 5206.0 - Australian National Accounts: National Income, Expenditure and Product, Jun 2006

3 ABS 6523.0 - Household Income and Income Distribution, Australia, 2003-04

4 NILS, 2006. Labour Market and Institutional Developments: Australia, June 2006, p9

5 Deutsche Bank's Financial Obligations Ratio, June 2006 reported in "More families knocking at debt's door", Sydney Morning Herald, September 12, 2006

6 ABS 6239.0 - Barriers and Incentives to Labour Force Participation, Aug 2004 to Jun 2005

7 ABS 6291

8 Harding, A. the Distributional Impact of the Proposed Welfare-to-Work Reforms upon Sole Parents and People with Disabilities, NARSEM September 2005

9 OECD 2006, Education at a Glance 2006, OECD Indicators Paris 2006

10 OECD 2006, Starting Strong II: Early Childhood Education and Care

11 NATSEM, 2006 The AMP.NATSEM Report on the trends in effective marginal tax rates