

24th June, 2019

The Hon. Scott Morrison, MP
Prime Minister of Australia
Parliament House
CANBERRA ACT 2600
via email: Scott.Morrison.MP@aph.gov.au
cc: pminvites@pmc.gov.au

Dear Prime Minister

Firstly, congratulations on your victory at the recent Federal election.

We note today that you have asked the Minister for Industrial Relations, Christian Porter to take a fresh look at the industrial relations system and have asked business organisations to build the evidence for change. It would be wrong to exclude unions from this process. Furthermore, we firmly reject any process that undermines the rights and entitlements of workers.

Whilst we may differ in our views on other matters, we do share a broad common objective to make Australia a prosperous country where working people and business can succeed and living standards improve for Australians.

Information that has become available since the election suggests that our economy is not as strong as either of us would desire. The recent national accounts, retail sales and labour market indicators suggest that growth is slowing rapidly. We are now in our third consecutive quarter of a so-called per capita recession. This is the most protracted period of slow growth since the downturn in the early 1980s.

The decision by the Reserve Bank to reduce interest rates to record lows, and foreshadow further cuts, highlights the precarious nature of our current economic situation. The active use of monetary policy to try and stimulate higher consumption and investment is welcome, but as most observers have noted, this will not be adequate to lift economic growth back to levels we have enjoyed in the past.

Prime Minister, I would respectfully ask you to reconsider the evolution of real wages over the last six years and the plight of people trying to make ends meet on low incomes. As you are aware many of our fellow Australians are struggling to provide their families with the basic living conditions we have long come to expect in our country. Stretching a static pay packet to meet rising energy bills, childcare costs, medical expenses and other necessities of life is an ongoing nightmare for many families.

Boosting real wages is not merely desirable from a social perspective. There are also very sound economic reasons for lifting the incomes of middle and low income earners, particularly if this can be achieved while keeping unit labour costs low. I acknowledge that income tax cuts is one possible way to raise disposable incomes particularly if this takes place within a total tax system that is progressive and fair. But there are limits to such policies if we are to provide good quality public services and maintain fiscal responsibility.

I would therefore ask you to consider measures to improve the primary distribution of income. You will be aware that the Governor of the Reserve Bank (RBA), the institution responsible for ensuring sound money and macroeconomic stability, thinks that wage inflation is too low. Dr Philip Lowe and many other leading economic figures have argued that real wages should be rising in line with national productivity improvements and that this will have a more immediate and substantial impact on aggregate demand than other potential stimulatory fiscal measures.

Australian wages are experiencing an unusual and prolonged period of weakness. In fact, Australia has seen wages growth at the slowest of any sustained period since World War II. ¹ As a result, household saving levels, consumption expenditure levels and economic confidence are well below their desired levels. On top of this, hundreds of thousands of Australian workers will once again see their penalty rates cut on July 1st. Not only is this grossly unfair for some of our lowest paid and hardest working citizens, further cuts in penalty rates will not generate any economic benefits.

The ACTU is very concerned about the substantial decline in national productivity trends and its implications for long term potential growth levels and sustainable improvements in living standards. There is mounting international evidence demonstrating that the expansion of low paid insecure forms of work is hindering the dispersion of technological advances and thus retarding productivity growth.

Prime Minister, to reverse the slowdown in trend productivity, restore economic growth to robust levels and provide decent jobs for all will require action across a broad range of policies. The ACTU would welcome an opportunity to constructively discuss these issues with you and the Treasurer. Reforms are required across a broad range of economic, social, trade and industrial policies. For our part, as the representatives of working Australians, we would like to specifically propose action on three fronts:

- a reversal of the penalty rate cuts;
- restoration of normal wage increases for public sector workers; and²,
- the introduction of a Living Wage.

¹ 'The Wages Crisis in Australia', the University of Adelaide, edited by Andrew Stewart, Tess Hardy and Jim Stanford, 2018

² Figures are based on all Federal public sector workers. If we included all public sector workers across different levels of government the stimulus would be far higher.

New independent simulations from the Centre of Future of Work estimate that these three measures to support stronger wage growth would boost household incomes by \$10.2 billion dollars per year, stimulate \$8.5 billion per year in additional consumer spending, strengthen government revenues, and drive an ultimate increase in broader GDP of at least \$8.5 billion. Given the current state of Australia's economy this is desperately needed.

Implementation of our recommendations would provide the wage stimulus especially for low income earners that the Governor of the RBA has called for and would complement the recent cuts in interest rates. From an economic perspective the great advantage of the recommendations we propose is that wage increases in the hands of the low paid are highly likely to be spent immediately in our local communities and provide a rapid stimulus for small businesses thereby creating significant economic benefits for all. Further to this some of our recommendations, such as restoring penalty rates would have no fiscal impact.

There is also a need to act to reduce spare capacity in the labour market. The rising underemployment rate remains a serious concern and highlights the structural issues the labour market is facing. There are more than 1.8 million Australians looking for work, or more work, but unable to find it. Our plan for *'Jobs You Can Count On'* (which can be seen here³) aims to stabilise and restore job quality, at the same time as dramatically expanding the quantity of work available⁴. We specifically aim to support local business through effective industry policy to create more high quality, secure local jobs. Particularly in regional areas which have been left behind.

Prime Minister, as indicated above we would like to see a strong national economy as well as a country where the vast majority feel they are getting their fair share of economic growth. In the current turbulent international environment, I believe it is important that all Australians pull together to advance our national interest. No doubt we will continue to have different opinions in important areas of policy but constructive and open dialogue may lead to a narrowing of differences and even consensus on some points. Thus, as indicated above, we would welcome a chance to discuss these matters with you and the Treasurer.

Yours sincerely



Sally McManus

Secretary

³ <https://www.actu.org.au/media/1033878/jobs-you-can-count-on.pdf>