
MINIMUM WAGE CASE 2005

11 APRIL, 2005

Opening Address – Richard Watts, ACTU Advocate

INTRODUCTION

In what could be the last case of its kind, the Commission has an historic opportunity to assist low paid workers. Workers have looked to this Commission and its predecessors for pay equity, recognition of skills and responsibilities, appropriate conditions and wage justice for over 100 years, and working Australians come again to the Commission as currently constituted to seek a \$26.60 wage increase. On behalf of these workers the ACTU will demonstrate that its moderate claim is both justified, economically affordable and economically responsible.

Australia's low paid workers have not adequately shared in the benefits of economic prosperity, prosperity that we will show continues today.

The Commission has rightly accepted in the past that Award workers are not in a strong bargaining position. They are seeking a fair go from the Commission, and turn to the Commission not because they do not wish to bargain, but because they can't achieve bargaining outcomes.

Those that rely on minimum award wages look to the Commission for assistance. The Commission, possibly for the last time, can make a real difference to lives of these workers and their families. The Commission can make a lasting difference in the knowledge that a sizeable increase in award minimum wages is economically responsible.

Low paid award workers are not looking for a handout, welfare or other benefits, they are seeking recognition of the dignity of their work and honesty of their toil.

Last year the Commission awarded a \$19 increase to award workers. This increase made a real difference but there is a long way still to go.

Australia's low paid workers deserve a wage rise. This wage rise is justified by the evidence before the Commission. The evidence is that:

1. That 1.6 million workers rely on award rates of pay.;
2. These award workers are indeed low paid;
3. These low paid workers have unmet needs;
4. The Commission can award minimum wage increases that make a difference to the lives of these workers;
5. The claim is consistent with the objects of the Act;
6. The claim will not discourage enterprise based bargaining;
7. Even with a recent slowing of growth, the economic fundamentals are good and will remain positive;
8. The ACTU 's claim is economically responsible;
9. The cost of the claim is moderate;
10. Granting the ACTU's claim will not have a negative impact on employment opportunities for low-skilled or other award workers. The evidence is that moderate wage increases of the nature of the claim before the Commission do not result in high levels of unemployment or underemployment among the low paid.

The ACTU's opponents are seeking a real wage cut to the wages of low paid workers. At Tag R1 of the ACTU's Reply Composite Exhibit, The ACTU shows that the proposals by the Commonwealth, Ai Group, NFF and ACCI will result in pay cuts ranging from \$1.15 per week to \$26.37 per week.

If the ACTU's opponents were to be honest they would portray their positions as supporting wage cuts. They don't even portray them as wage freezes. They claim they are moderate wage increases. They are nothing of the sort.

We don't operate in the brave new world just yet. Australia's low paid workers still have an umpire and they seek a fair and reasoned decision, most likely for the very last time. Australia's low paid workers look to the Commission – the umpire, for assistance - for the setting of a fair minimum wages. The ACTU's moderate claim is affordable and economically responsible. We urge the Commission, for possibly the last time, to make a difference to the lives of Australia's low paid workers and their families.

The state of the economy

Its ironic that ACCI and AIG accuse us of being backward looking in our analysis of the economy. Their key thrust is that we have taken insufficient account of more recent economic data which shows (in their words) that the economy is slowing. But they fall into precisely the same error of which they accuse us – we don't know what the economy is doing at the moment - there are mixed signals. In effect their argument on this ground is that because the economy barely grew in the last six months of last year low paid Australians on award wages should be denied a decent wage increase.

This argument does not withstand scrutiny. We do know that in the last half of last year the economy did slow (not is slowing but unequivocally and without argument did slow). For six months growth was barely there (0.1 in September quarter and 0.2 in the December quarter an annualised rate of just 0.6%). We

also know that in the very same economy which was barely growing the \$19 Safety net adjustment took effect. Was there any sign of an adverse labour market impact of this \$19 increase in an economy which was growing at an annualised rate of just over ½ a percent? None, not a skerrick. In fact, employment growth has continued robustly throughout that period and into this year and unemployment remains at twenty year 28 lows.

ACCI and Ai Group make great play of the Reserve Bank Governor's comments that Australia might have to get used to growth numbers with 2s and 3s in front of them rather than 4s and 5s – so we might, but is there even the slightest indication that at such levels a pay rise of the order we seek will have adverse effects – no not a skerrick. If an economy growing at 0.6% annually can sustain a \$19 increase without a blip, with record growth in employment and sustained low levels of unemployment the an economy growing at 2s or 3s can sustain our claim.

In any event ACCI and Ai Group are, as the Commission will be aware from past cases, have a wage case strategy on the economy which goes something like this:

Scour the economic data for every bit of bad news you can find ignore every contrary indication of positive prospects and whatever the economic circumstances always argue against a decent wage increase.

You wouldn't want ACCI and Ai Group as you doctors – the minute you sneezed they'd have written out the death certificate and advised the trustees to start distributing your property.

One of the best examples of this that we've seen in the last 9 years is contained in paragraphs 2.102 and 2.103 of their original submissions where they say:

There are upside and downside risks to these forecasts:

- *Economic growth could stall, cutting employment growth, forcing unemployment up and cutting wages growth; or*

- *Employment growth could continue, decreasing unemployment and putting upward pressure on wages.*

Neither possibility is congenial to an increase in award wages.

There you have it in a nutshell. ACCI could have saved all that paper over all those years in their submissions and just said, in effect, look whatever happens we don't reckon you should ever award a wage increase.

So what are the facts about the economy

Growth, whilst having moderated, is forecast to continue and the economy remains strong and robust with private housing investment being replaced by private business investment which will ensure continuing growth and productivity improvements in a low inflation and low (very low) unemployment environment.

The December 2004 quarter national accounts indicated that **GDP growth** has moderated to 1.9 per cent for the year and 0.3 for the quarter in trend figures.

Much has been made of this slowing in the rate of growth. However, growth does continue. At R2.6 of their submissions ACCI recognises that the economy continues to grow, albeit at slower rates than in previous years. The ACTU does not shy away from the fact that growth has moderated. We recognise this and also accept that there has been a shift from private, largely housing, investment to business investment. This is a good sign for the economy in the medium to longer term.

No party in these proceedings has directly argued that the increase in minimum wages last year by \$19 has caused a slowing of growth.

The recent decision by the RBA to increase **interest rates** by 25 basis points was a clear indication by the RBA that they were of the view that the economy needed a 'tap on the brake'. An increase in interest rates in these circumstances is not necessarily unwelcome. The submissions of the ACTU's opponents portray rising interest rates as yet another cloud on the economic horizon. There is a silver lining to increases in interest rates. Rising interest rates are an indication that the RBA believes the economy has built up too much steam.

It remains unclear if further interest rate rises will occur in the coming months. We simply don't know. In their reply submissions ACCI quotes the Shadow Treasurer and Opposition leader, in our reply we quote the Prime Minister and the Treasurer. The fact is none of us know, the signals are mixed.

One area where the signals are reasonably clear is inflation. We remain in a **low inflation** environment with the CPI at 2.6 per cent for the year to December 2004. This is almost dead centre of the RBA's target range of 2-3 %. Increasing oil prices are one of the biggest contributors to inflation. These pressures have been in the economy for more than a year and inflation has not responded dramatically. In the ACTU's original submissions at 2.90 to 2.91 and in our reply at R2.99 to R2.101 the ACTU points out that the views of the Treasury, Treasurer on the impact of oil prices on inflation. Treasury's view, which we share, is that high oil prices have a moderate negative impact, which may be countered by the fact that Australia is a net energy exporter.

MYEFO forecast CPI to increase by 2 ¼ % in year average terms for 2004-05 and 2005-06.

We have all heard much noise about rising **wages pressures** in the economy. Everyone is talking about wages pressure, but none can show systemic wages pressure. There is no evidence before the Commission that

widespread wage pressures are building. The **Wage Price Index (WPI)** grew by 3.6 per cent in the year to December 2004 and 3.3 per cent in the private sector. **Average Weekly Ordinary Time Earnings (AWOTE)** also rose by 3.6 per cent during the same period.

Wages outcomes from Federal Agreements according to DEWR's **Average Annual Wage Increase (AAWI)** per employee for agreements in the December quarter are at 4 per cent

The ACTU sees no impediment to the awarding of its \$26.60 claim in full.

As recently as the 3rd March in an interview with radio 2GB the Prime Minister Agreed with the ACTU when he said (this quote can be found at R2.81 of the ACTU's reply submissions):

Well, I don't want to get into future predictions except to say this: inflation is low, there is no sign that wages are breaking out, there's some wages pressure in some areas but there's no sign they're breaking out, and there are signs that the latest growth in the economy has moderated – although once again they are very mixed. Business investment is still very strong; we have a thirty-year low in unemployment.

There is no general or widespread wages pressure for a variety of reasons. One of those is the nature of the current system. Employees, even if they felt compelled to do so, can't simply break out of existing agreements. If, last year a 3 year agreement was entered into, you simply can't come back now and ask for an additional couple of per cent because the economy seems to be ok, even if there are skills shortages providing pressure in certain areas.

Heather Ridout, the Ai Group CEO appears to agree with us when on the 5 April 2005 Ms Ridout told the ABC's PM program:

Exhibit

REPORTER: And the Australian Industry Group's Chief Executive, Heather Ridout, says there are no signs that inflation is about to break out.

HEATHER RIDOUT: "I look at the areas of sensitivity from skills shortages, we're not seeing that flow through into generalised wage increases yet. I see the huge increases in input prices, which came through again in the services index today. And only a limited number of companies are being able to pass that on in higher prices and not all of it's sticking.

So the internationally contested nature of this economy, the toughness of business conditions, are putting real discipline on unions and on business."

On the same day Dr Ron Woods a market strategist for Challenger told the ABC's TV 7.30 Report TV program:

Exhibit

EMMA ALBERICI: But you suspect that's exactly why they have been raising rates?

Dr. RON WOODS: "I suspect so. I can't see another reason. One of the reasons they said is it's supposedly capacity constraints. But you know, there's no linkage between wages growth and therefore inflation, and unemployment. Wages growth has been relatively stable at 3 point something or other per cent for nearly a decade now and unemployment has ranged between .11 and 5 per cent. There's no link at all between the two."

Unemployment is at a 28 year low, with participation rates also rising we have a good news story here you would think. But no, the ACTU's opponents argue both sides of coin again. Lower supply for labour must

mean higher wage costs and wages pressures therefore must be building and will have an impact on inflation, investment and growth.

But, for good measure they also argue the opposite, they argue that there is significant underemployment, particularly amongst low skilled workers. The ACTU recognises that there remains underemployment, some part-time and casual employees continue to seek more work. We do not however, like our opponents, argue that this is the result of high minimum wage levels. You simply can't argue as ACCI does, that there is a labour undersupply and a labour oversupply for the same jobs.

We do not accept that minimum wages have kept low skilled workers out of work. Of the 311,665 new jobs created in the year to March 2005, 197,919 or a massive 63.5 % were full-time positions. With part-time employment increasing by 113,746 or 36.5%. At the same time employment growth in the award reliant industries has grown. Where is the bad news? All this in the face of a \$19 increase in minimum wage levels last year. The facts don't support the assertions of ACCI and others. Unemployment remains at a historically low 5.1%, what the Treasurer and Prime Minister have described as close to its natural rate. Don't bury the economy yet!

Investment

It appears that all parties agree that business investment is growing. The ACTU recognises the importance of business investment. Whilst there has been much talk of capacity constraints, the real story is that investment is flowing from households to business - into future economic activity, production and employment.

Unlike our opponents, the ACTU does not believe that the granting of a reasonable wage rise to low paid workers will divert investment, or at least divert investment in any measurable way. In fact, the evidence is that the awarding of a \$19 increase last year did nothing to dampen business investment. In fact business investment increased.

At R2.49 of their reply submission ACCI counter the ACTU's use of the BRW survey of economists who forecast strong business invest with their own ACIL-Tasman/ACCI survey which shows slightly below neutral future investment. The ACTU noted in its reply submissions at R2.26 that the BRW's survey included Dr Steven Kates who took a more pessimistic outlook than his colleagues on most indicators in the survey.

Trade

In its reply submission at R2.101 the ACTU said:

[R2.101] There is an expectation that Australia's current account deficit will improve with an expected export improvement and a devaluation of the Australian dollar.

The ACTU at R2.103 of its submissions said that there was a growing capital investment which would remove some capacity constraints and that these are starting to have an impact on export flows.

The ACCI replied by quoting surveys indicating that exports would dampen [R2.51]. Well on Tuesday 5 April 2005 the Hon. Mark Vaile, MP, Minister for Trade released a press release entitled *Exports on Target to Hit Record High as Growth Hits 14%*:

Exhibit

The Minister's press release says that "Exports are on track to hit historically high levels with trade figures released today showing a 14 per cent increase in export growth for the last 12 months to February.

"Australian exports rose in February, reaching \$13.7 billion, their second highest monthly level ever."

Importantly Mr Vale's press release noted:

“While imports remained steady in February, there has been a shift in the composition of imports. Consumption goods imports are moderating, while capital goods imports remain strong showing businesses are investing in expanding productive capacity.”

Mr Vale was then quoted as saying:

“This is consistent with broader economic trends, with domestic demand rebalancing from households to business.”

It appears the ACTU was right and ACCI incorrect.

Once again the ACTU notes that Australia’s terms of trade are favourable. ACCI in their reply submissions at R2.58 argue both sides of the coin. Firstly favourable Terms of Trade are in fact bad and not good economic news as the benefits go to a few multinational mining companies and the local non mining exporter are stuck with higher productions costs, but in case you think (as most do) that getting high prices for exports is good economic news, they then go on to say that expanding production will drive prices and our terms of trade down and that is also bad news. This contradictory position makes your head spin.

There is no doubt that with high commodity prices for exports, some companies will see this as a positive and others as a negative. It is suggested that for the economy as a whole it is considered an economic good, not as ACCI would have you believe, an economic problem.

Profits

At paragraph 3.55, the Commonwealth state that profits in the three award dependent industries have not kept pace with labour costs in these industries.

They come to this conclusion by comparing average annual growth of Compensation of employees with a combination of GOS and GMI. As we stated in our reply submission at paragraphs R2.69 and R2.70 GMI is a mixed measure that includes returns to labour and returns to capital therefore not a true measure of profits.

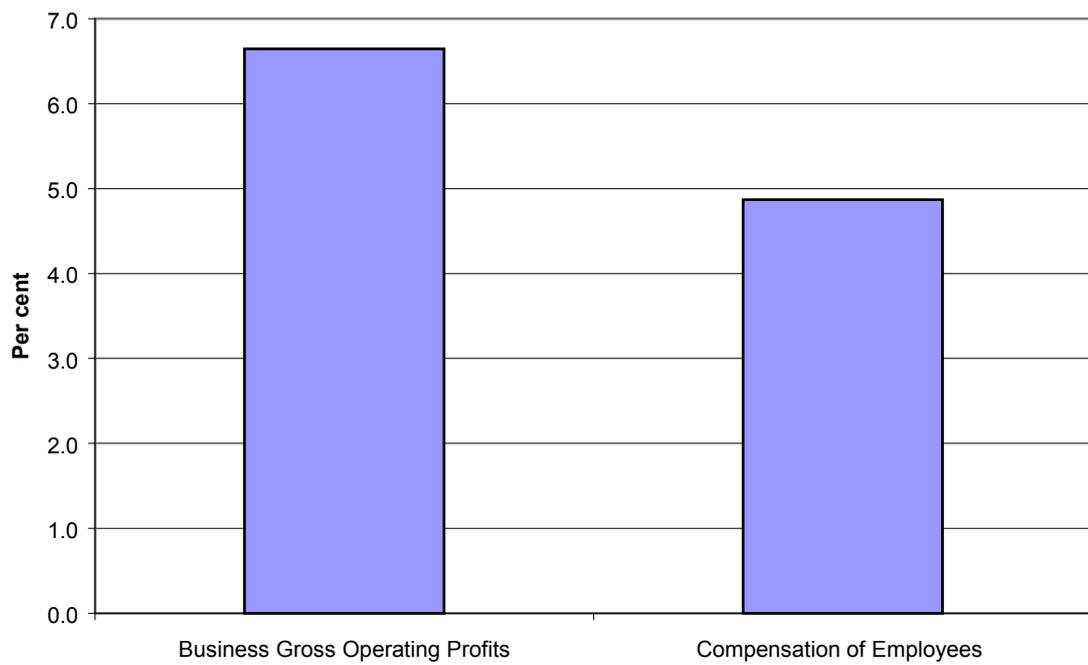
As pointed out at paragraph R2.71 of the ACTU's reply submissions in September 2004 the ABS introduced a new measure of profits called Business Gross Operating Profits which is the sum of company and unincorporated gross operating profits. This series was backcast to 2001.

ACCI is simply wrong when at R2.93 of their submissions they said that the ACTU's measure of profits did not include unincorporated business.

By comparing combined average annual growth in business gross operating profits in Accommodation cafes and restaurants and Retail trade industries (this data is not collected for health and community services) to average annual growth in compensation of employees in the same industries from 2001-02 to 2003-04 the results are remarkably different to what the Commonwealth purport.

Exhibit

**Business Gross Operating Profits and Compensation of Employees for
Accommodation, cafes and resaurants and Retail trade combined, average annual
growth, 2001-02 to 2003-04**



As the exhibit shows average annual growth in compensation for employees increased by 4.9 per cent while business gross operating profits, increased 6.6 per cent.

ACCI in the reply submissions at R2.97 once again make the trite comment that of course each year we have record profits, because each year they grow. Well in fact they don't grow each year. In some years they fall, and wouldn't we hear about it then! What is remarkable is the rate of growth of profits, not just that they are higher, they are a lot higher. High growth in profits is the key point. There has been a 22.9% increase in business gross operating profits since 2001 with a 8.7% increase from the December quarter 2003 to the December quarter 2004..
