



Australian Business
Industrial

SUBMISSIONS

Re: Annual Wage Review 2012-13
Fair Work Commission

140 Arthur Street
North Sydney NSW 2060

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1. ABOUT ABI

- 1.1 ABI is registered under the *Fair Work (Registered Organisations) Act 2012* as an organisation of employers. ABI is the successor of the former Chamber of Manufactures of New South Wales.
- 1.2 ABI members are also members of the New South Wales Business Chamber and ABI is the industrial policy and representative affiliate of the New South Wales Business Chamber.

2. SUMMARY

- 2.1 Australian Business Industrial (ABI) recommends that the Minimum Wage Panel of the Fair Work Commission (MWP) increase the National Minimum Wage and award wages for 2013-14 by no more than a uniform 1.2 per cent (which equates to \$7.30 per week for the National Minimum Wage). This recommendation is based on the implications of changes in economic conditions and suggestions about the transparency of MWP's methodology for assessing economic conditions and the relative needs of the low paid.
- 2.2 Section 3 explains that the 2013-14 wage increase should be lower than the 2012-13 increase of 2.9 per cent because forecasts for economic growth and inflation in 2013-14 are weaker than the forecasts that were available prior to the MWP's last decision.
- 2.3 Treasury's October 2012 forecasts suggest that Consumer Price Index (CPI) inflation in 2013-14 will be 2¼ per cent, compared to forecast inflation (excluding the carbon tax) of 2½ per cent in 2012-13 at the time the MWP made its previous decision. This suggests that the MWP could increase wages by 0.25 per cent less in 2013-14 and still provide the same real wage increase that it intended to provide in 2012-13.
- 2.4 Treasury's October 2012 forecasts also suggest economic growth in 2013-14 will be around 3 per cent compared to the forecast for growth of 3.25 per cent in 2012-13 prior to the MWP's last decision. The participation rate and growth in the Wage Price Index (WPI) are also predicted to be lower in 2013-14 than they were predicted to be in 2012-13. It is not clear how the strength of the economy factors into the MWP's decisions, except in the very general sense that the recommended wage increase would be lower by some unspecified amount if the economy were weaker. However, it seems reasonable that if overall growth is 0.25 per cent lower, then the increase in the minimum wage should be lower by a similar amount.
- 2.5 Section 4 shows that the MWP's decision to increase wages by 2.9 per cent in 2012-13 seems, with the benefit of hindsight, to have been based on overly optimistic forecasts.
- 2.6 Since the MWP's last decision, Treasury's forecasts for GDP growth in 2012-13 were revised down from 3¼ per cent to 3 per cent. Employment growth and the participation rate have also been revised down. Following the same logic applied above with respect to differences in forecast growth in 2013-14 compared to 2012-13, this suggests that the MWP's proposed increase should be discounted by 0.25 per cent to compensate.
- 2.7 Inflation estimates have also been revised downwards from 3¼ per cent to 3 per cent. Following the same logic applied above with respect to differences in forecast inflation in 2013-14 compared to 2012-13, this suggests that the MWP's proposed increase should be discounted by 0.25 per cent to compensate.
- 2.8 The lower than expected inflation forecasts also confirm that low-income households were overcompensated for the introduction of the Carbon Price. This suggests a further discount to the 2013-14 wage increase would be appropriate.
- 2.9 Section 5 demonstrates that there have been similar downward revisions in forecast conditions following every National Minimum Wage Order issued under the *Fair Work Act 2009* (Fair Work Act). While the MWP's decisions have noted errors in the forecasts relied upon in its previous decision there does not appear to have been an explicit adjustment for over- optimistic forecasts.

- 2.10 Section 6 argues that the MWP's 2013-14 decision should be discounted to account for the 0.25 per cent increase to the Superannuation Guarantee. This is consistent with past treatment of increases in compulsory superannuation contributions. It also reflects the fact that the increased Superannuation contributions are paid by employers directly, they are a direct increase to wages. The Commonwealth has acknowledged this, with the Hon. Bill Shorten, the Minister for Financial Services and Superannuation and the Minister for Employment and Workplace Relations, stating that:
- The truth is that superannuation is part of an employee's total remuneration. So an increase in super means an increase in remuneration – or wages by another name.*¹
- 2.11 Section 7 notes the MWP generally relies on aggregate figures to assess the strength of the economy. However, it is the performance of award reliant firms and industries that determines the welfare effects of an increase in minimum and award wages. Aggregate economic performance has an influence, but it is of secondary importance. Since the economy as a whole has been performing better than award reliant industries, this suggests that past increases have been too high.
- 2.12 Section 8 addresses the fact that earlier decisions by the MWP have not formally addressed the role of capital deepening on recent changes in labour productivity, wage shares and real incomes. Failure to account for capital deepening may inappropriately suggest that employers have unfairly increased their share of income.
- 2.13 Section 9 notes that Australia's international competitiveness in relation to pay and productivity has declined over the last decade.
- 2.14 Section 10 encourages the MWP to consider the impact of increases to minimum and award wages on business owners, highlighting that the income distribution among business owners and their families is largely the same as it is for their employees.
- 2.15 Section 11 discusses the question of whether all awards should be treated in the same way before the review. ABI fully accepts that there is a presumption of uniformity in the Fair Work Act and compelling reasons for the system of modern awards for awards to be treated equally in Division 3 Part 2-6 reviews. Nonetheless, there is a statutory capacity to make exceptions which has a role. Making a statutory exception does not alter the fact of the existence of a general rule. ABI proposes that the MWP make explicit reference to the use of its consultation process by parties seeking an exception.
- 2.16 Section 12 addresses the consequences of ABI's recommended increase on different instruments.

¹ Shorten, B. (2012) 'A more comfortable retirement for working Australians', *The Australian*, Thursday 22 March 2012 page 28, available online at <http://billshorten.com.au/opinion-piece-more-comfortable-retirement-for-working-australians>.

3. WEAKER OUTLOOK

- 3.1 It appears consistent with the objects of the Fair Work Act and the minimum wages objective that the MWP's decisions should be consistent from year to year. This means the MWP should respond the same way to the same data and respond consistently to changes in data unless there are clearly stated changes in methodology. This being so, the change in the recommended wage increase should reflect the difference between the May 2013 forecasts for 2013-14 that will be available prior to the MWP's forthcoming decision and the May 2012 forecasts for 2012-13 that were available prior MWP last decision to raise wages.
- 3.2 Table 3.1 shows that current forecasts for economic conditions in 2013-14 are substantially weaker than the May 2012 forecasts for 2012-13 that were available prior to MWP's decision to increase wages by 2.9 per cent.

Table 3.1 Current forecasts for 2013-14 compared to forecasts for 2012-13 prior to the last AWR decision

	2012-13	2013-14	Difference
Treasury			
GDP growth	3¼	3	-0.25
CPI	2.6 ^(a)	2¼	-0.3
WPI	3¾	3½	-0.25
Employment growth	1¼	1¼	0
Unemployment rate	5½	5½	0
Participation Rate	65¼	65	-0.25
RBA			
GDP growth	2½–3½	2–3	-0.5
CPI	2½–3½	3	0
CPI (excl. Carbon Price)	2–3	2–3	0

Notes: (a) Adjusted down by 0.7 to account for the anticipated impact of the carbon price.

Source: Commonwealth Budget 2012-13, May 2012; RBA Statement on Monetary Policy, May 2012; Commonwealth MYEFO 2012-13, October 2012; RBA Statement on Monetary Policy, February 2013.

- 3.3 The predicted weakness in 2013-14 relative to 2012-13 reflects the fact that improvements in the global economic outlook are not expected to be enough to offset domestic headwinds associated with the persistently high Australian dollar, the peak in mining construction and significant consolidation in public spending.
- 3.4 The RBA noted in its February 2013 Statement on Monetary Policy that the fact that growth is forecast to remain around trend in 2013-14 is predicated on a recovery in non-mining business investment that has not yet eventuated, stating that:
- While the underlying drivers of investment are supportive of growth, the absence of any clear indications of a pick-up in non-mining investment means that the outlook remains quite uncertain. The preconditions for an ongoing recovery in dwelling investment are also in place, although the lack of improvement in the demand for new detached houses to date raises questions about the breadth and strength of the recovery.²*
- 3.5 International conditions insofar as they affect the likely future performance of the Australian economy have improved from where they were prior to the last MWP decision.

² RBA (2013) 'Statement on Monetary Policy: February 2013', available online at <http://www.rba.gov.au/publications/smp/2013/feb/pdf/0213.pdf>. pp. 66-67.

However, risks remain on the downside, particularly in Europe, as problems in Cyprus demonstrate.

- 3.6 Recent developments internationally are usefully summarised in the Minutes of the RBA's March Board Meeting:

Global economic conditions continued to be more positive than they had been for much of 2012. Growth had stabilised in China at what appeared to be a sustainable pace, while picking up in the rest of Asia (excluding Japan) and recording a moderate pace in the US economy. Conditions in Japan and the euro area had been particularly weak in the second half of 2012, although some recent indicators had been a little more positive. Risks to the global outlook appeared more balanced than they had been in the previous year, although vulnerabilities remained, particularly in Europe.³

- 3.7 IMF projections (not forecasts) in January 2013 implied that global growth would strengthen in 2013 and 2014, but the IMF noted that major risks remain, stating that:

The euro area continues to pose a large downside risk to the global outlook. In particular, risks of prolonged stagnation in the euro area as a whole will rise if the momentum for reform is not maintained. Adjustment efforts in the periphery countries need to be sustained and must be supported by the center, including through full deployment of European firewalls, utilization of the flexibility offered by the Fiscal Compact, and further steps toward full banking union and greater fiscal integration.

In the United States, the priority is to avoid excessive fiscal consolidation in the short term, promptly raise the debt ceiling, and agree on a credible medium-term fiscal consolidation plan, focused on entitlement and tax reform.

In Japan, the priority is to underpin the renewed emphasis on raising growth and inflation with more ambitious monetary policy easing, adopt a credible medium-term fiscal consolidation plan anchored by the consumption tax increases in 2014–15, and raise potential growth through structural reforms. Absent a strong medium-term fiscal strategy, the stimulus package carries important risks. Specifically, the stimulus-induced recovery could prove short lived, and the debt outlook significantly worse.

In China, ensuring sustained rapid growth requires continued progress with market-oriented structural reforms and rebalancing of the economy more toward private consumption.⁴

- 3.8 International conditions should only be relevant to the MWP's decisions insofar as they provide guidance on the risk to forecast conditions in Australia in the coming fiscal year. The impact of a wage increase in Australia largely depends on the strength of the Australian economy, not Australia's strength in comparison to other countries. To the extent that the MWP intends to measure the impact of a wage increase on the international competitiveness of the Australian economy, it is arguably more appropriate to compare unit labour costs.

³ RBA (2013) 'Minutes of the Monetary Policy Meeting of the Reserve Bank Board - 5 March 2013', available online at <http://www.rba.gov.au/monetary-policy/rba-board-minutes/2013/05032013.html>.

⁴ IMF (2013) 'January 2013 World Economic Outlook', available online at <http://www.imf.org/external/pubs/ft/weo/2013/update/01/>.

Implications for the MWP's decisions

- 3.9 Treasury's October 2012 forecasts suggest that CPI inflation in 2013-14 will be 2¼ per cent, compared to forecast inflation (excluding the carbon tax) of 2½ per cent in 2012-13 at the time the MWP made its previous decision. This suggests that the MWP could increase wages by 0.25 per cent less in 2013-14 and still provide the same real wage increase that it intended to provide in 2012-13.
- 3.10 Treasury October 2012 forecasts also suggest economic growth in 2013-14 will be around 3 per cent compared to the forecasts for growth of 3.25 per cent in 2012-13 which was available prior to the MWP's last decision. The participation rate and growth in the WPI are also predicted to be lower in 2013-14 than they were predicted to be in 2012-13. It is not clear how the strength of the economy factors into the MWP's decisions, except in the very general sense that the recommended wage increase would be lower by some unspecified amount if the economy were weaker. However, it seems reasonable that if overall growth is 0.25 per cent lower, then the increase in the minimum wage should be lower by a similar amount.
- 3.11 The lower than expected inflation forecasts also confirm that low-income households were overcompensated for the introduction of the Carbon Price. This suggests a further discount to the 2013-14 wage increase would be appropriate.

4. REVISIONS TO FORECASTS FOR 2012-13

- 4.1 The MWP makes its decisions based on the information that is available. If the forecast conditions underlying the MWP's decision to increase wages are revised down, then the MWP's next decision should be adjusted down to compensate.
- 4.2 Table 4.1 shows that the latest forecasts suggest that conditions for 2012-13 will be substantially worse than the forecasts that were available prior to the last MWP decision in June 2012 suggested.

Table 4.1 Revisions to economic forecasts for 2012-13 since MWP's June 2012 decision

	Jun-12	Updated	Difference
Treasury			
GDP growth	3¼	3	-0.25
CPI	3¼	3	-0.25
WPI	3.8	3.5	
Employment growth	1¼	1	-0.25
Unemployment rate	5½	5½	0
Participation Rate	65¼	65	-0.25
RBA			
GDP growth	2½–3½	2½	-0.5
CPI	2½–3½	3	0

Source: MYEFO 2012-13, October 2012; RBA Statement on Monetary Policy, February 2013; Commonwealth Budget 2012-13, May 2012; RBA Statement on Monetary Policy, May 2012.

- 4.3 There is little point discussing monthly or quarterly movements in the forecast indicators as they have been or will be captured in the overall forecasts – though it is worth emphasising that the apparent recovery in employment shown in seasonally adjusted employment figures for February 2013 are universally agreed to be almost entirely the result of measurement issues.⁵
- 4.4 One figure that is not captured in the aggregate forecasts is hours worked, which Table 4.2 shows has remained virtually flat since June 2012 in trend terms across the economy.

Table 4.2 Changes in aggregate monthly hours worked since June 2012 (trend)

	Hours (million)	Change (%)
Jun-2012	1621.9	-0.10
Jul-2012	1619.8	-0.13
Aug-2012	1618.1	-0.10
Sep-2012	1618.3	0.01
Oct-2012	1619.8	0.09
Nov-2012	1621.7	0.11
Dec-2012	1623.4	0.11
Jan-2013	1625.2	0.11
Feb-2013	1627.3	0.13

Source: ABS, Labour Force, February 2013, Catalogue number 6202.

⁵ Martin, P. (2013) '71,500 more jobs. It isn't true, the bureau knows it' available online at <http://www.petermartin.com.au/2013/03/71500-more-jobs-it-isnt-true-government.html>.

Implications for MWP's decision

- 4.5 RBA and Treasury forecasts for 2012-13 will be updated again in May 2013. If forecast economic conditions for 2012-13 remain substantially weaker than they were predicted to be prior to the MWP's last decision, then a discount should be applied to the wage increase for 2013-14 to compensate.
- 4.6 Since the MWP's last decision, Treasury's forecasts for GDP growth in 2012-13 were revised down from 3¼ per cent to 3 per cent. Employment growth and the participation rate have also been revised down. Following the same logic applied above with respect to differences in forecast growth in 2013-14 compared to 2012-13, this suggests that the MWP's proposed increase should be discounted by 0.25 per cent to compensate.
- 4.7 Inflation estimates have also been revised downwards from 3¼ per cent to 3 per cent. Following the same logic applied above with respect to differences in forecast inflation in 2013-14 compared to 2012-13, this suggests that the MWP's proposed increase should be discounted by 0.25 per cent to compensate.

5. REVISIONS TO EARLIER FORECASTS

- 5.1 Table 5.1 shows that there have been downward revisions in forecast conditions following every National Minimum Wage Order issued under the Fair Work Act 2009. Specifically, the figures show downward revisions in GDP of more than 2 per cent and downward revisions in inflation of 0.4 per cent to 3.1 per cent. All other variables have also been subject to downward revisions.
- 5.2 While the MWP's decisions have noted errors in the forecasts relied upon in its previous decisions there does not appear to have been an explicit effort to adjust for over optimistic forecasts.
- 5.3 Moving forward, the MWP should monitor and discount for such revisions on an ongoing basis. Past errors should also be taken into account in the MWP's decision on how to change wages for the 2013-14 fiscal year. However, given the size of the errors and the strength of other downward pressures with respect to the wage increase that would be appropriate for 2013-14 it may be better to spread the impact of addressing past errors over several years.

Table 5.1 Revisions to economic forecasts for 2012-13 since MWP's June 2012 decision

	2010-11	Actual	Difference	2011-12	Actual	Difference	Total difference
Treasury							
GDP growth	3%	2.4	-1.4	4	3.4	-0.6	-2.0
CPI	2½	3.7	1.2	2%	1.2	-1.6	-0.4
WPI	3%	3.8	0.1	4	3.6	-0.4	-0.3
Employment growth	2½	2.1	0.2	1%	1.1	-0.7	-0.5
Unemployment rate	5	5.1	0.1	4%	5.2	0.5	0.5
Participation Rate	65½	65.5	0.0	66	65.3	-0.7	-0.7
RBA							
GDP growth	3%	2.4	-1.4	4%	3.4	-0.9	-2.2
CPI	3%	3.7	0.0	4%	1.2	-3.1	-3.1

Source: Commonwealth Budget 2011-12, May 2011; May 2011 RBA Statement on Monetary Policy, May 2011; Commonwealth Budget 2010-11, May 2010; May 2010 RBA Statement on Monetary Policy, May 2010; ABS, Australian National Accounts: National Income, Expenditure and Product, Dec 2012, Catalogue No. 5206.0. ABS; Labour Force, Australia, Detailed, Quarterly, Feb 2013, Catalogue No. 6291.0.55.003.

6. SUPERANNUATION GUARANTEE

- 6.1 From July 2013, employers must pay an additional 0.25 per cent Superannuation, a direct increase on ordinary wages. This increase should be factored in and subtracted from any increase the MWP arrives at.
- 6.2 Offsetting increases to the superannuation guarantee charge percentage is consistent with past treatment of statutory increases in compulsory superannuation contributions. It also properly reflects the fact that the increased superannuation contributions are paid by employers directly as a direct percentage on the top of the ordinary wage.
- 6.3 The Commonwealth has acknowledged that increases in compulsory Superannuation contributions are equivalent to an increase in real wages. The Hon. Bill Shorten, the Minister for Financial Services and Superannuation and the Minister for Employment and Workplace Relations, stated that:

The truth is that superannuation is part of an employee's total remuneration. So an increase in super means an increase in remuneration – or wages by another name. And so by taxing this portion of wages concessionally, an increase in the super guarantee from 9 to 12% really means that worker's receive a deferred wage increase. And they are better off overall because they pay less tax on the increased portion of their income that is superannuation.⁶

⁶ Shorten, B. (2012) 'A more comfortable retirement for working Australians', *The Australian*, Thursday 22 March 2012 page 28, available online at <http://billshorten.com.au/opinion-piece-more-comfortable-retirement-for-working-australians>.

7. NEED TO FOCUS ON THE AWARD RELIANT SECTOR

7.1 In its last decision, the MWP said that in setting minimum wages that it must have regard to the economy as a whole:

In fixing fair and relevant minimum wages in the context of consistent minimum wage rates, we must have regard to the economy as a whole. Like monetary policy, minimum wage fixation has a national focus.⁷

7.2 It is true that under the Fair Work Act minimum wage fixation has a national focus because modern awards cannot contain terms which are determined by state or territory boundaries.

7.3 However, the circumstances of award reliant industries are far more relevant to the effect of an increase to award wages on the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth, than the circumstances of the broader economy. For example, the capacity of a restaurant to pay its workers is determined by demand for its products, other cost pressures and changes in productivity. Better overall economic conditions are only of secondary relevance – they mean that employees who lose their jobs in the award reliant industry can find employment elsewhere and that the restaurant will be under pressure to increase wages on its own to maintain staff or that an increase in prices will have less effect on demand.

7.4 Economic conditions in award reliant industries (with the exception of the public sector dominated health care and social assistance sectors as per the MWP's own statistical summary) have been substantially weaker than the economy as a whole in recent years. Table 7.1 shows the difference between the average compound quarterly growth in award reliant industries and the economy wide average since the global financial crisis. Cells where an industry is below average are coloured red.

Table 7.1 Compound quarterly growth in award reliant industries compared to broader economy

	All industries GDP	Difference				
		Accommodation and food services GVA	Rental, hiring and real estate services GVA	Administrative and support services GVA	Other Services GVA	Retail trade GVA
Actual hours worked (from Aug 2008)	0.32	-0.09	-0.08	0.63	-0.43	-0.38
Employment (from Aug 2008)	0.57	0.23	-0.58	0.44	-0.35	-0.35
Value added (from June 2008)	0.30	-0.37	0.02	-0.66	-0.53	-0.16

Source: ABS, Australian National Accounts: National Income, Expenditure and Product, Dec 2012, Catalogue No. 5206.0; ABS; Labour Force, Australia, Detailed, Quarterly, Feb 2013, Catalogue No. 6291.0.55.003.

7.5 Table 7.2 shows that award reliant industries also generally have far higher levels of under-employment than average.

⁷ Para 134, [2012] FWAFB 5000

Table 6.2 Under-employment in award reliant industries compared to the broader economy (Feb 2013)

	Proportion underemployed (%)
Retail Trade	28.9
Accommodation and Food Services	36.3
Rental, Hiring and Real Estate Services	9.7
Administrative and Support Services	24.3
Other Services	15.5
Australia	16.0

Source: ABS; Labour Force, Australia, Detailed, Quarterly, Feb 2013, Catalogue No. 6291.0.55.003.

8. CAPITAL DEEPENING

8.1 Past decisions have given little formal attention to the role of capital deepening in changes in productivity, factor income shares and unit labour costs.

Productivity

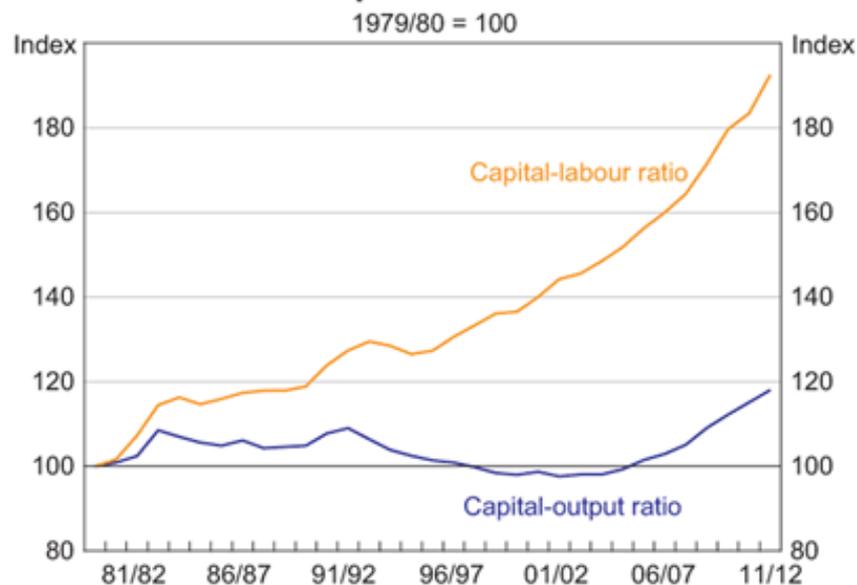
8.2 In the year to December 2012, labour productivity, as measured by gross value added and GDP per hour worked, increased by over 3 per cent. This is a substantial improvement on recent years, but it should not be interpreted as evidence in favour of a large wage increase.

8.3 Labour productivity measures the changes in output per hour worked. Average wages cannot be sustainably increased by more than the average change in output per hour worked. However, this does not mean that wages should be increased by the same amount as labour productivity or that larger increases in labour productivity always mean that wages can be increased by more.

8.4 Changes in labour productivity reflect improvements in output from the amount of capital available to labour and the degree to which available capital is actually put to work in the production process. Measuring labour productivity also attributes to labour improvements in the productivity of capital due to changes such as better management practices, economies of scale and scope and new technologies.

8.5 Chart 8.1 reproduced from the RBA's March 2013 Chart Pack shows that there has been an almost exponential growth in the ratio of capital to labour over the last three decades. While this capital deepening does allow for increased wages, some of the additional output must be used to service the additional capital inputs. Theoretically, the change in the average wage should reflect the change in the marginal product that an additional worker could produce using the new capital stock.

Chart 8.1 Capital Ratios
Capital Ratios*



* Capital stock excludes livestock & orchards, dwellings and ownership transfer costs

Sources: ABS; RBA

Source: Reproduced from RBA (2013) 'March 2013 Chart Pack'

8.6 Table 8.1, reproduced from a 2012 RBA staff paper, suggests that outside the mining and utilities sector, recent productivity growth has been exclusively due to capital deepening with the productivity of labour with respect to a given capital stock actually going backwards.

Table 8.1 Decomposition of Trend Productivity Growth

	Annual average percentage change		
	1973/74 to 1993/94	1993/94 to 2003/04	2003/04 to 2010/11
Selected market-sector industries^(a)			
Labour productivity	1.8	3.1	1.4
<i>of which:^(b)</i>			
Capital deepening	1.3	1.3	1.8
Multifactor productivity	0.6	1.8	-0.4
Excluding mining and utilities			
Labour productivity	–	3.1	1.7
<i>of which:^(b)</i>			
Capital deepening	–	1.3	1.3
Multifactor productivity	–	1.9	0.4

(a) Market sector excluding rental, hiring & real estate services, professional, scientific & technical services, administrative

& support services and 'other services' due to difficulties with measuring capital services for these industries

(b) Contributions to labour productivity growth may not sum to totals due to rounding

Source: Reproduced from D'Arcy, P and Gustafsson L (2012) 'Australia's Productivity Performance and Real Incomes', RBA Bulletin, June Quarter 2012, available online at <http://www.rba.gov.au/publications/bulletin/2012/jun/3.html>.

8.7 Table 8.2 shows the results of a similar exercise by the ABS with broadly similar results.

Table 8.2 Contribution of output growth (MFP - Quality adjusted hours worked basis)

	1998-99 to 2003-04	2003-04 to 2007-08	1998-99 to 2007-08
Capital services	1.73	2.62	2.13
Hours worked	0.71	1.50	1.06
Labour composition	0.27	0.19	0.23
Multifactor productivity	0.83	-0.65	0.18

Source: ABS (2012) 'Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, December 2012', Catalogue number 5260.0.55.002.

8.8 As these tables illustrate, productivity is rarely analysed on a year to year basis. Short-term movements in measured productivity cannot be taken as indicative of long-term changes because they are greatly affected by the degree to which available capital and labour are actually put to use in the production process during that period. Instead, changes in productivity over productivity cycles, which involves identifying and dividing the data into peaks in MFP growth, based on the assumption that these peaks represent similar levels of capacity utilisation.

Factor income shares

8.9 Changes in capital inputs also have implications for the conclusions that should be drawn from the changes in factor shares. Changes in factors shares have been reported in previous decisions as representing the competitiveness and viability. However, this is only

partly true. Rapid changes in factor shares, such as the change that occurred following the global financial crisis, may be indicative of changes in viability. Long term changes in the share of income are more likely to be attributable to changes in the share of inputs. Given the rapid increase in the capital labour ratio shown in Chart 8.1 it is surprising that factor shares have changed by so little.

- 8.10 In this context, the recent ACTU's research which indicates an increase in capital's share of income is less surprising.

Unit labour costs

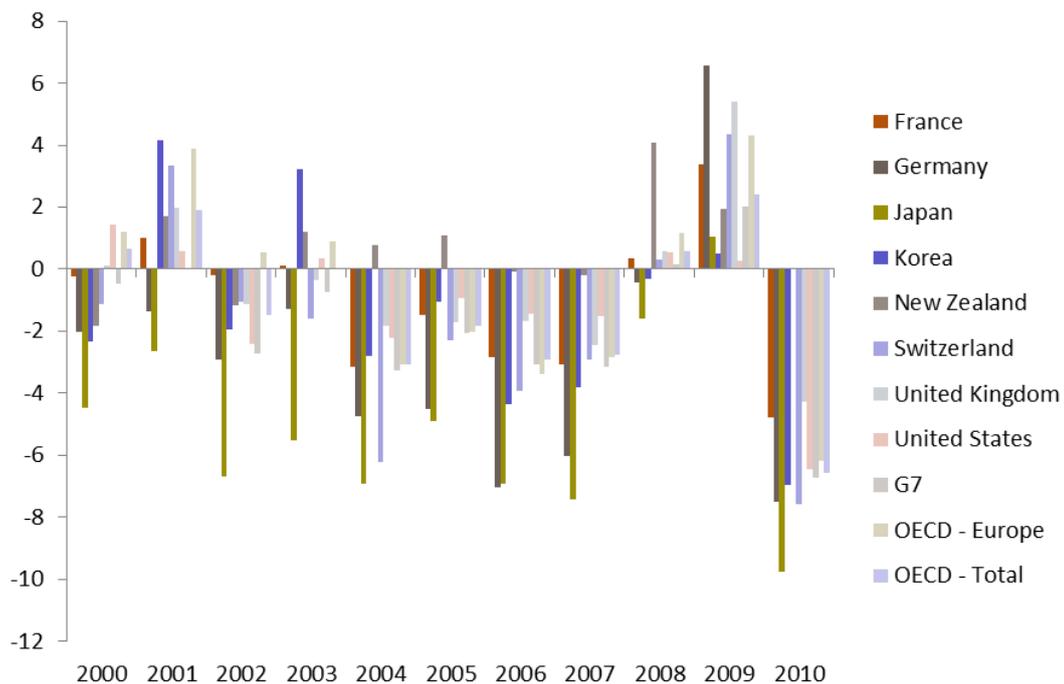
- 8.11 Changes in capital inputs are also relevant to the interpretation of unit labour costs. Productivity measures output per hour worked, but it does not take into account the cost of labour. Nominal unit labour costs show changes in the cost of a unit of labour relative to the cost of production. Increases in nominal unit labour costs show that output has gone up by less than the cost of a unit of labour.
- 8.12 Real unit labour costs show the change in the cost of labour relative to output with both deflated by the GDP price deflator. In other words, they show changes in the cost of labour relative to the cost other inputs to production. The fall in real labour costs does not mean that workers are not getting their fair share, it just shows that the cost of intermediate inputs and capital have increased more quickly.

9. INTERNATIONAL COMPETITIVENESS

9.1 According to the World Economic Forum's Report of competitiveness Australia's ranks 80th in terms of pay and productivity with a rating is 3.78 out of a possible 7.⁸ This compares with Australia's overall competitiveness ranking of 20th and is down from 26th in 2008-09.

9.2 As noted above, real unit labour costs represent the cost of labour as a share of total production costs. They do not represent the absolute cost of labour, which is what matters from the point of view of competitiveness. Nominal unit labour costs represent the competitiveness of a country with respect to the cost of labour. Chart 8.1 shows annual growth in nominal unit labour costs in Australia has been well above most other countries in most years.

Chart 8.1 Growth in nominal unit labour costs relative to Australia



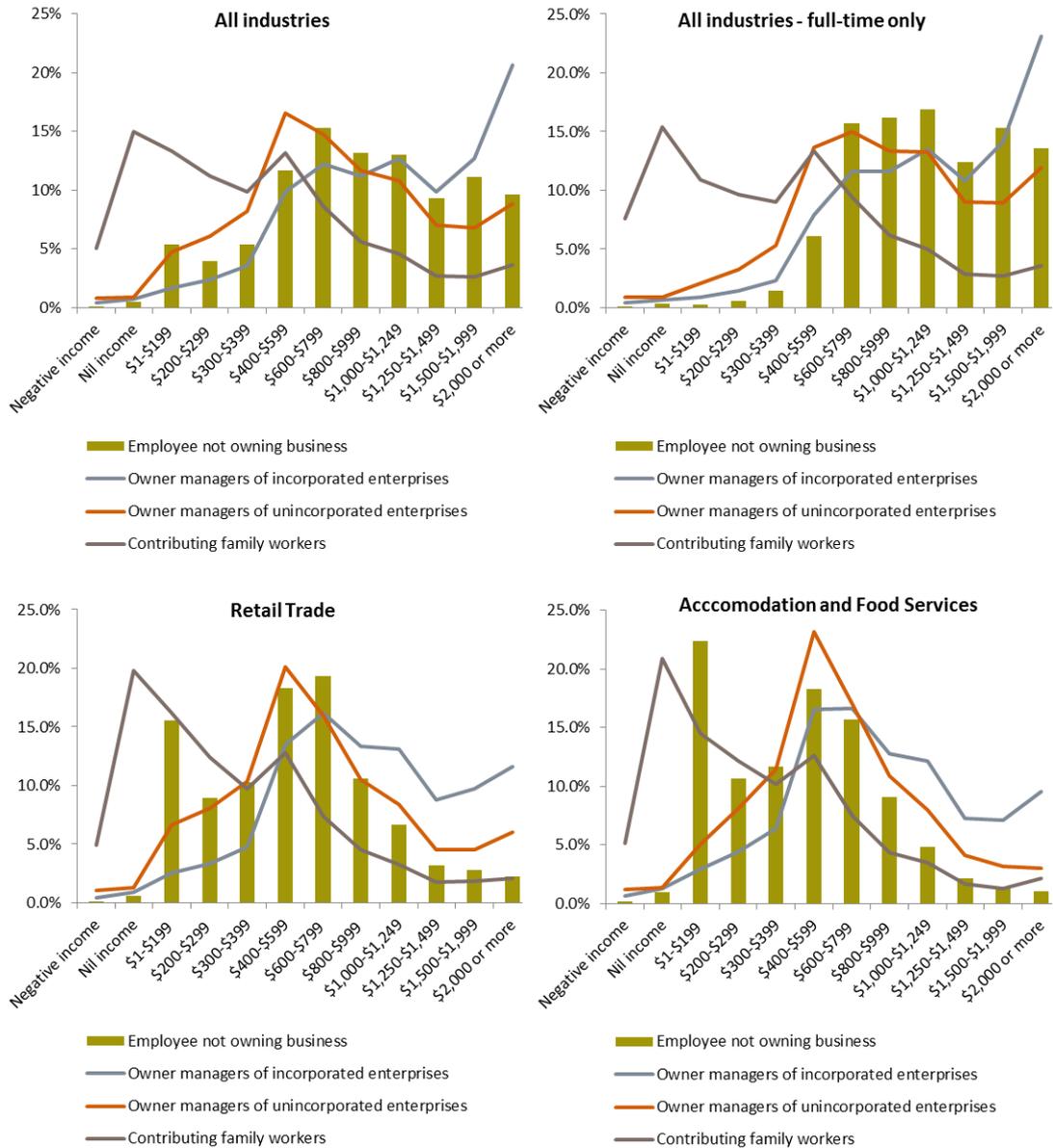
Source: OECD.Stat available online at http://stats.oecd.org/Index.aspx?DatasetCode=ULC_ANN

⁸ World Economic Forum (2013) 'The Global Competitiveness Index 2012-2013 data platform', available online at <http://www.weforum.org/issues/competitiveness-0/gci2012-data-platform/>.

10. RELATIVE NEEDS OF THE LOW PAID

10.1 When considering the relative needs of the low paid, the MWP should also consider the impact of a pay increase on low paid business owners and their family. Chart 10.1 uses Census data to show that the income distribution for owner managers is not that different from the income distribution for employees, including in the Accommodation and Food Services and the Retail Trade industries. Indeed, contributing family members typically have the higher proportion of the distribution in low-income brackets.

Chart 10.1 Distribution of total weekly income by employment type



Source: Census 2011

11. UNIFORM AWARD OUTCOMES

11.1 In its 2011-12 decision the MWP addressed the issues of capacity to pay and differential treatment of employers. It concluded that it was appropriate that the Commission generally adopt the approach to claims for incapacity to pay which had been mainly developed by the Australian Conciliation and Arbitration Commission. The decision also drew attention to the requirement that exceptional circumstances would need to be shown to depart from the 1 July operative date.

11.2 The MWP drew particular attention to the history, and reasons for, uniformity and consistency of treatment across the award system, saying:

*If differential treatment was afforded to particular industries this would distort award relativities and lead to disparate wage outcomes for award-reliant employees with similar or comparable levels of skill. In that context, it is important to note that in establishing and maintaining the minimum wages safety net, the Panel must take into account the principle of equal remuneration...*⁹

and to the macroeconomic and general factors which the MWP is obliged to give attention to. It said:

*The nature of these factors directs the Panel's attention to matters which are relevant to the variation of all awards.*¹⁰

11.3 None of this can be construed so that s 286(2) has no effect.

11.4 The MWP also discussed applications for deferred operative dates. It correctly noted that the impact of natural disasters such as floods was distributed between employers and employees and it would seem that there may be a need to distinguish the nature of the natural disaster and its consequences which may be differently felt by the various affected locations in any disaster. One clear distinction would seem to be between businesses which cannot operate as a result of the disaster and those which can but whose trade is disrupted.

11.5 Finally, in Chapter 9 of its 2011-12 decision the MWP addressed applications for industry specific exemptions from the intended increase. It is clear that the MWP was concerned that there seemed to be too great a diversity of experience between different parts of the industries for which an exemption was proposed.

11.6 To some extent this concern may misconceive the dynamics of establishments where an exemption is in operation. The experience of the one instance of a sectional exemption¹¹ is that many of the employers who were able to avail themselves of the exemption had in fact brought rates up to the award rates before the exemption ceased. This is because all parties in such a workplace know that it is operating with reduced rates and they also have an understanding of how the business is going.

11.7 The MWP was unpersuaded by the fact of the impact of structural change on applicant industries. It said:

⁹ Para 258, [2012] FWAFB 5000

¹⁰ Para 260, [2012] FWAFB 5000

¹¹ Wage-Setting decision 7/2007

*The general matters relied upon by those supporting an exemption, such as structural changes in the Australian economy, changed patterns of consumer behaviour, utility and rental costs and corporate insolvencies, relate to the economy as a whole and do not support differential treatment for the modern awards that have been raised with the Panel. We have however taken these matters into account in our consideration of the economy in Chapter 4 of this decision.*¹²

- 11.8 This conclusion is in part a result of consideration of the evidentiary material before the MWP but it cannot be construed in an absolute way. Clearly structural change is an economy wide phenomenon. Equally clearly change impacts differently on different locations and sectors of the economy and this fact needs to be managed having regard to the matters the MWP is to take account of. Neither skills required nor numbers of jobs disappearing from declining sectors impacted by changing consumption patterns usually match the skills required and the numbers of jobs created in growing sectors. It is particularly true in Australia that relocation is not frictionless. Nor is it uniform; capacity to relocate differs across socio-economic groups, age and family circumstances.
- 11.9 Sectors experiencing decline because of changing patterns of consumption or consumer behaviour will become increasingly award reliant, although the level of award reliance in a sector is not a proxy for sectoral decline or future levels or types of employment in it.
- 11.10 When it addressed the applications for an exemption in its 2011-12 decision the MWP also rejected the idea that there might be a brief supplementary determination process. It drew attention to the time constraints in the Fair Work Act and also to the fact of its consultation process. It does seem reasonable that applicants for an exemption do avail themselves of the Panel's consultation process to assist the MWP to better understand the nature of then impact which has given rise to the claim. It would seem useful for the MWP to remake the point more strongly in its decision so there would be no doubt in future years.
- 11.11 The MWP was also concerned that the impact of exceptional circumstances does not necessarily coincide with the timing of the annual wage review decision and there is limited capacity outside statutory reviews to adjust wages. This is, of course, true. However the Panel's decision does provide the timing for an increase to wages and the consequential effects on actual rates and on costs.

¹² Para 278 [2012] FWAFB 5000

12. IMPLEMENTING THE RECOMMENDED INCREASE

- 12.1 ABI has recommended that the increase from the MWP's 2012-13 annual wage review be no more than 1.2% ("the adopted increase").
- 12.2 ABI is also recommending that the adopted increase be awarded as a percentage increase to be applied to award wages. Nothing has occurred since the last MWP decision to mean that a percentage increase is not consistent with the Minimum Wages Objective. For robust clarity ABI also submits that nothing has occurred since the MWP's last decision which would mean that the approaches adopted to the various special wages (such as the Special National Minimum Wages) are no longer consistent with the Panel's obligations or statutory constraints.
- 12.3 For the purposes of the National Minimum Wage Order a 1.2% increase represents an increase of \$7.30 per week to the adult minimum wage with standard rounding adopted.
- 12.4 For the purposes of the remaining components of the National Minimum Wage Order ABI recommends that:
- 12.4.1 The casual loading be increased by 1% to 24%;
 - 12.4.2 Rates in the junior rates pay scale be increased by same percentage as the adopted increase;
 - 12.4.3 Rates for employees undertaking non-apprenticeship based training are increased by the same percentage as the adopted increase;
 - 12.4.4 Rates for employees (both adult and non-adult) undertaking an apprenticeship rates are increased by the same percentage as the adopted increase;
 - 12.4.5 Rates for employees with a disability whose productivity is not affected be increased by the same percentage as the adopted increase;
 - 12.4.6 Rates for employees with a disability whose productivity is not affected be increased by the same percentage as the adopted increase but the minimum rate be adjusted in the same way as the minimum rate in the Supported Wages System when the new rate becomes available.
- 12.5 For the purposes of awards ABI recommends that:
- 12.5.1 Classification rates be increased by the same percentage as the adopted increase.
 - 12.5.2 National Training Wage schedules be increased by the application of the percentage of the adopted increase applied to each cell.
 - 12.5.3 Supported Wages System schedules, except for the minimum rate in the schedules, be increased by the application of the percentage of the adopted increase. The minimum rate be increased to the new amount set as the income free threshold for the Disability Support Pension when that is announced In June.
- 12.6 In the area of allowances the Commission has made a practice of issuing drafts of the changes to allowances and draft orders, and providing for comment. This is very helpful to assist consistent understanding of the increases and reducing the likelihood for

misunderstandings. ABI both thanks the Commission for undertaking this task and remains a strong supporter of its continuing.

- 12.7 There remain some transitional instruments in the system although their number has significantly declined. ABI recommends that:
- 12.7.1 Rates provided by the award based transitional instruments which continue their operation by virtue of the *Social, Community and Disability Services Industry Equal Remuneration Order 2012*¹³ be increased by the application of the same percentage as the adopted increase.
 - 12.7.2 Wage rates in enterprise based modernisable instruments be increased by the application of the percentage of the adopted increase.
 - 12.7.3 Wage rates in state reference modernisable instruments be increased by the application of the percentage of the adopted increase.
- 12.8 There are no good reasons to increase the casual loading in modern awards.

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¹³ PR525485