



Australian Business  
Industrial

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# SUBMISSIONS

Re: Annual Wage Review 2012-13 Responses to Consultation Questions  
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.

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## **2. BASIS FOR THESE RESPONSES**

- 2.1 The Minimum Wage Panel (Panel) has invited responses on a large number of questions, many of which deal with detailed methodological issues that warrant in-depth analysis and debate that is difficult to achieve in the short time-frames that are available.
- 2.2 ABI submits that it may be preferable that the questions for the consultation round should seek to clarify aspects of the submissions that were made by parties or seek further information on matters of dispute between submissions.
- 2.3 Fundamental methodological questions such as the appropriate measure of productivity growth and inflation might better be raised at the beginning of the Annual Wage Review (AWR) process – perhaps by inclusion in the Panel’s forthcoming decision.
- 2.4 Accordingly, ABI has responded selectively to the questions that were posed and the responses that have been provided represent initial comments rather than a fully-fledged analysis of the issues.

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### 3. PRODUCTIVITY

#### 1.1 Question to all parties

All parties are invited to consider, and comment upon an article published in the Australian Financial Review from Dean Parham 'Productivity boost first, then labour can share'.

What are the best measures of productivity to use when thinking of the improvements that are available to share between labour and capital?

#### 1.2 Question to all parties

In Figure 55 of its initial submission, the ACTU shows that real output per hour worked (labour productivity) has risen faster than real hourly labour income, particularly since the early 2000s.

In Table 8.1 of their initial submission, ABI provides data showing that the source of recent trend growth in labour productivity is capital deepening. This capital deepening is illustrated in their Chart 8.1. On the basis of this evidence, they conclude, "Long term changes in the share of income are more likely to be attributable to changes in the share of inputs."

Parties are invited to comment on the implications of these developments for the setting of minimum rates of pay.

- 3.1 As these questions deal with similar issues, ABI has responded to them collectively.
- 3.2 As a general principle, the MWP should consider whether it is appropriate to approach the question of how much individuals should be paid through the prism of the amount of national income that is 'available to share between capital and labour'.
- 3.3 The allocation of resources to different factors of production is the fundamental function of a market based economy and any attempt to change this allocation through centralised wage fixing will distort the economy and produce large welfare losses. Business will certainly be far less likely to invest if there were a set proportion of their return on investment that must go to labour.
- 3.4 In any case, award-reliant employees only represent around 15 per cent of workers so there is little the AWR could do to arrest an overall change in income shares, though attempting to do so would still cause substantial damage to those industries and firms that are award reliant. Moreover, any attempt to do so would involve providing award-reliant workers with an advantage over their counterparts in the broader workforce.
- 3.5 There are various challenges associated with taking productivity into account in the context of AWR decisions. Firstly, annual productivity measures are unreliable because they are heavily affected by factors such as changes in capital utilisation levels. Secondly, there will be different levels of productivity growth in different segments of the labour market and between individuals within those segments. Recent increases in inequality in market income suggest that a substantial proportion of productivity growth is occurring among high income earners. Moreover, many award reliant employees that improve their productivity will be promoted to higher rates of pay. These factors cast serious doubts on the usefulness of aggregate productivity figures in general. There are also specific problems

associated with using labour productivity, as noted in ABI's initial submission, because it is heavily affected by capital deepening.

3.6 These are difficult issues and should be considered more fully as part of the next AWR.

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## 4. REAL WAGES, PRODUCTIVITY AND LIVING STANDARDS

### 2.2 Question to all parties

The ACTU has adopted the Living Cost Index—Employees as its preferred measure of changes in the cost of living for the purpose of evaluating the real value of changes to award wages, in preference to the Consumer Price Index in figures 55, 96 and 97 in its submission.

Do any other parties have a view about which is the more appropriate measure?

4.1 There a range of issues that need to be taken into account when considering the appropriate cost of living index. For example, the consumer price index has the advantage being forecast while the living cost index is not. Additionally, low paid workers may be more likely to live in low cost locations.

4.2 The measurement of cost of living is fundamental to AWR considerations. If there is to be a decision about the most appropriate measure it should be occur in detail as part of the next AWR.

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## 5. UNDEREMPLOYMENT

### 3.1 Questions to ACCI

The ABS measures underemployment as:

- part-time workers who would prefer to work more hours and were available to start work with more hours, either in the reference week or in the four weeks subsequent to the survey; and
- full-time workers who worked part-time hours in the reference week for economic reasons (such as being stood down or insufficient work being available). It is assumed that these people would prefer to work full-time in the reference week and would have been available to do so.

Full-time workers comprise a very small portion of the underemployed (around 6 per cent) hence underemployment is essentially a measure of part-time workers who would prefer more work.

ACCI submit that “Over 55 per cent of all underemployed persons are working in the four industries that employ the largest number of award dependent employees.”

Given the fact that 53 per cent of part-time employees are working in those industries and 57 per cent of part-time casual employees are working in those industries, on what basis is it submitted that “Award reliance correlates positively with underemployment across industries and suggests that award rates have negatively impacted on the capacity of employees to obtain sufficient hours of work.”?

What does ACCI submit in relation to the proposition that the high relative incidence of underemployment in the four industries referred to as being award reliant, is explained by the relatively high incidence of part-time workers in those industries than by award rates?

### 3.2 Question to ABI

Table 6.2 of the ABI submission is said to show ‘Underemployment in award reliant industries compared to the broader economy (Feb 2013)’. Table 6.2 is said to be sourced from ‘ABS, Labour Force, Detailed, Quarterly, Feb 2013, Catalogue No. 6291.0.55.003’ but the table shows underemployment rates substantially above those in the ABS publication and those reflected in the ACCI submission. The rates shown are indeed in excess of those shown in the underutilisation rate (which adds together the unemployment rate and the underemployment rate) in the ACCI submission (and the graph there included).

ABI is asked to explain the basis for the figures for “proportion underemployed” shown in table 6.2 of its submission and provide any comment in relation to the question concerning underemployment directed to ACCI above.

5.1 ABI used the underemployment figures reported in the original release of the February 2013 ABS Detailed Quarterly Labour Force Statistics, which contained an error that was corrected in a re-release on 4 April 2013. The corrected table is presented below.<sup>1</sup>

**Table 1. Corrected underemployment in award reliant industries compared to the broader economy (Feb 2013)**

	Proportion underemployed (%)	
	Original	Corrected
Retail Trade	28.9	14.8
Accommodation and Food Services	36.3	18.3
Rental, Hiring and Real Estate Services	9.7	4.8
Administrative and Support Services	24.3	12.2
Other Services	15.5	7.1
Australia	16.0	7.8

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

5.2 The key point, that underemployment is higher in award reliant industries, remains unchanged. In relation to question 3.1, clearly most underemployed workers are likely to be part-time. The point is that higher wage increases make it less likely that employers will increase hours.

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<sup>1</sup> See ABS, 2013, *Labour Force, Australia, Detailed, Quarterly, Feb 2013 – History of Changes*, online at <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/6291.0.55.003History%20of%20Changes0Feb%202013?opendocument&tabname=Summary&prodno=6291.0.55.003&issue=Feb%202013&num=&view>.

