Ai GROUP SUBMISSION

Fair Work Commission

Annual Wage Review 2021 – 2022

Reply Submission

8 June 2022

1. Introduction

This submission details our response to:

- The issues raised in the new Australian Government submission lodged with the Fair Work Commission (FWC) on 3 June 2022.

- Various issues raised by other parties in submissions filed on 3 June.

Nothing raised by the Australian Government or any other parties detracts from the merit of Ai Group's position that the Expert Panel should award a modest wage increase of **2.5%**. This equates to an increase of about **$19.30 per week** in the National Minimum Wage (bringing it to $791.90 per week) and about **$22.50** at the base trade level. When the proposed 2.5% wage increase is considered alongside the **0.5% Superannuation Guarantee increase** that is operative from 1 July 2022 and the equivalent of a **1.3% increase in pre-tax income** that an employee on the National Minimum Wage will receive in coming months as a result of the legislated increase in the Low and Middle Income Tax Offset, our proposal would result in the equivalent of a **4.3% increase** in pre-tax remuneration for low paid employees.

2. Response to the Australian Government's new submission

Quantum and structure of minimum wage increases

In its submission of 3 June, the Australian Government *"recommends that the Fair Work Commission ensures that the real wages of Australia's low-paid workers do not go backwards".* There is nothing in the submission which indicates:

- What the Government means by the expression 'low paid' in the above statement; or

- What the Government means by 'do not go backwards'.

It appears that the Government's use of the expression 'low paid' is intended to refer only to employees at the lower levels of award classification structures and not to the definition that the FWC has adopted when interpreting the expression 'low paid' in the Minimum Wages Objective in s.284 of the *Fair Work Act 2009* (FW Act).[1] If the Government intended the FWC to interpret its reference to 'low paid workers' in its submission as a reference to employees earning less than two-thirds of median adult full-time ordinary earnings, it surely would have clarified this. We note that the Government's submission states:

> *7. The new Government does not want to see Australian workers go backwards; in particular, those workers on low rates of pay who are experiencing the worst impacts of inflation and have the least capacity to draw on savings.*

[1] *Annual Wage Review Decision 2020-21,* [137].

With regard to the Australian Government's submission that employees should 'not go backwards', the Government has not urged the Panel to depart from its longstanding approach of taking into account changes to taxation levels and transfer payments. As the Panel has consistently stated, the effect of taxes and transfers on disposable incomes of the low paid are relevant to the needs of the low paid and their relative living standards. As set out in Ai Group's submissions of 1 April, 10 May and 3 June, the Panel should take into account the 0.5% Superannuation Guarantee increase that is operative from 1 July 2022 and the equivalent of a 1.3% increase in pre-tax income that an employee on the National Minimum Wage will receive in coming months as a result of the announced increase in the Low and Middle Income Tax Offset.

In addition, the following statement in the Government's submission addresses an important issue that should not be overlooked:

> 8. *The Government notes that over the past decade, in 9 out of 10 years, the Panel has increased the minimum wage rate in line with, or above, inflation. The largest increase in recent years was in 2018-19 where a 3.5 per cent increase was ordered, when inflation was only 1.9 per cent. This submission does not suggest that inflation should be the only consideration when determining wages.*

To the extent that the Australian Government's submission could be interpreted as urging the Panel to award a different level of wage increase to employees earning the National Minimum Wage or classified at lower levels in award classification structures, we do not support this approach. The same percentage increase should apply to all classification levels. Also, we do not support the awarding of a flat dollar increase. Such approaches would disturb the relativities between classification levels and make the assessment of work value far more complicated.

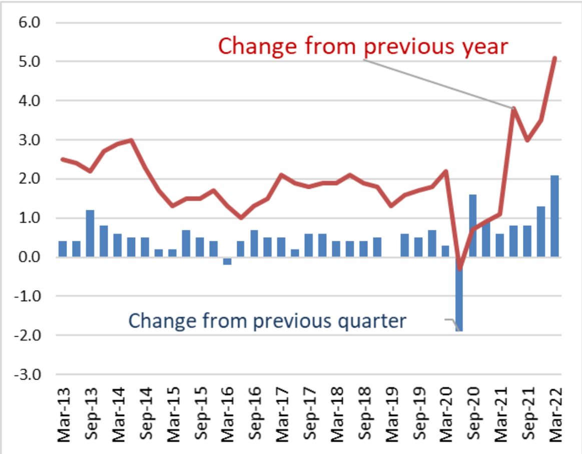
A wage increase of 5.1%, or anything like this level, would add substantially to the risks of raising inflation expectations, entrenching inflation and greater increases in interest rates. It would have adverse impacts on the economy, on unemployment, on underemployment and on sentiment, and would be a setback for many low-income households. In contrast, the wage increase that Ai Group has proposed strikes the right balance.

Recent changes in the Consumer Price Index (CPI) and inflationary pressures

The Australian Government's submission places a lot of emphasis on the latest headline inflation figure.

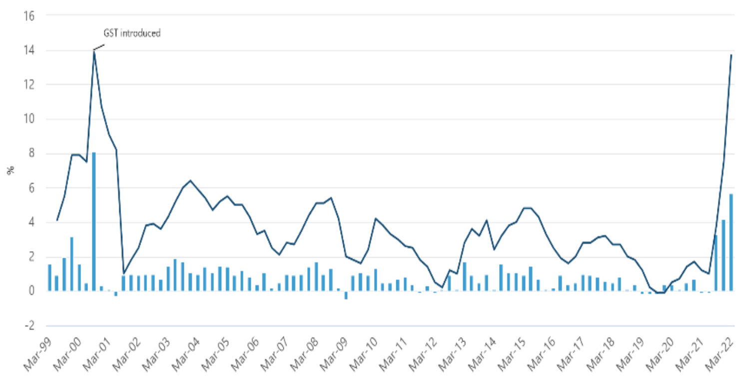
According to the CPI data released by the ABS on 27 April 2022, the CPI rose by 2.1% this quarter. Over the preceding 12 months this equates to a 5.1% increase in CPI with the largest increases being in the components of the CPI relating to new dwelling purchases by owner-occupiers (+5.7%) and Automotive fuel (+11.0%) (charts 1, 2, and 3).

Chart 1: CPI, changes by year and quarter



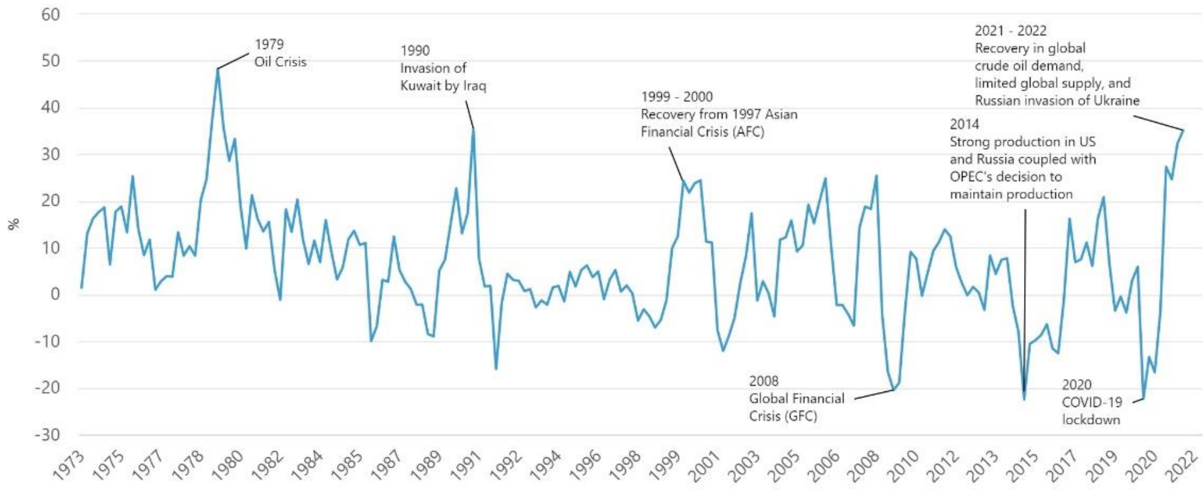
Sources: ABS, CPI, March 2022

Chart 2: New dwelling purchases, quarterly and annual movements (%)



Sources: ABS, CPI, March 2022

Chart 3: Automotive fuel, annual movement (%)



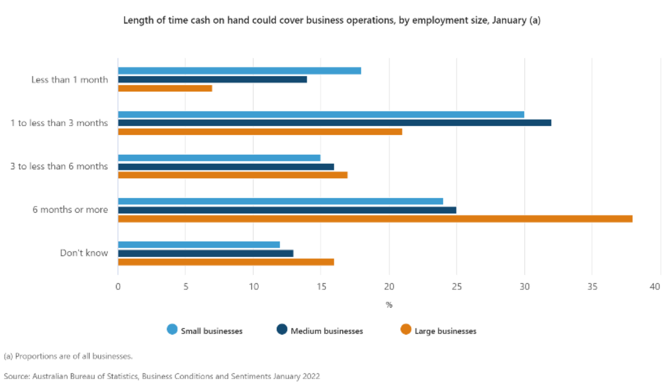
Sources: ABS, CPI, March 2022

As evidenced by the findings of the ABS relevant to the latest CPI data and as evident from the graphs above, the recent spike in CPI is driven by the fuel price surge related to the Russian invasion of Ukraine and the changes in new dwelling prices.

Given that the Australian Government believes that these cost pressures are likely to dissipate in 2023 (Section 2, paragraph 18 of the Government's submission), a large wage increase such as the one proposed by the Government, is likely to have long lasting effects that would equate to overcompensating for the temporary inflation spike and would have long term inflationary consequences.

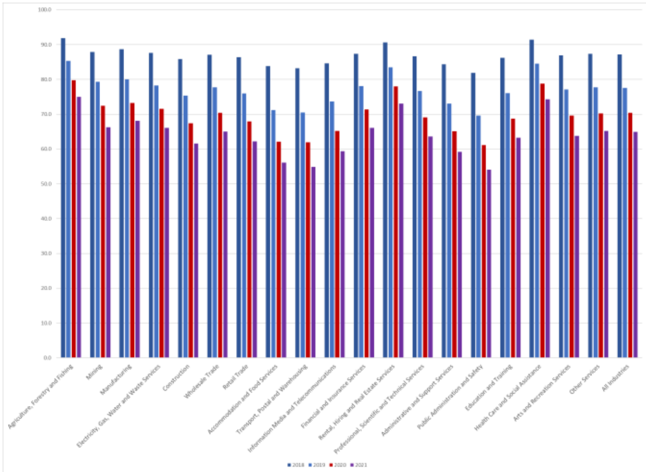
The RBA will counter this inflationary spike with increases in the cash rate, as is evident by the 0.5% increase on 7 June 2022, the 0.25% increase on 3 May 2022 and the 0.1% increase on 5 April 2022. Increases in the cash rate will lead to increases in the cost of debt servicing for households in respect of credit card debt, personal loans and regular mortgage payments. As detailed in our submission relating to the National Accounts, such increases in the cash rate will also make it more expensive for businesses to obtain bridging loans and overdrafts should they have any cash flow issues relating to their presently worsening cash positions (chart 4), particularly given the already dwindling business survival rates (chart 5). We must also keep in mind that this year employers will be required to increase superannuation contributions for their employees by 0.5% from 1 July 2022 under the Superannuation Guarantee.

Chart 4: Length of time that 'cash on hand' can cover operations, Feb 2022



Source: ABS Business Conditions and Sentiment, Feb 2022

Chart 5: Business survival rates by industry



Sources: ABS, Count of Australian Businesses, 2021

Given that the inflationary spike is likely temporary and a large increase in minimum wage rates carries the risks of raising inflation expectations and inflation itself, Government assistance measures to address cost of living pressures would be a more appropriate response. Currently, low and middle income earners are due to receive the higher level of the Low and Middle Income Tax Offset which is explicitly in place to address cost of living pressures. The Government utilises such one-off payments as a go-to for alleviating the effects of inflationary cost pressures while reducing the risks of ongoing inflation.

Finally, we must also remember that the CPI only picks up cost pressures that are passed on to the consumer. Cost pressures borne by employers and businesses are not included in the CPI calculus. Such pressures can be witnesses by the worsening cash positions of businesses (chart 4) and their declining survival rates (chart 5). A large increase in minimum wage rates would have adverse long-term ramifications for Australian businesses and the Australian economy.

Productivity

The Australian Government's submission states (at paragraph 8): "The key driver of real wage growth (excluding inflation) over the longer-term is Labour Productivity". In addition, the ACTU submission makes references to supposed increases in Labour Productivity and argues that increases in national minimum wages that are smaller than the increases in Labour Productivity will not result in inflationary pressures, for which they refer to Mankiw (2018). Basic economic textbooks such as the one cited above propound this statement but also go on to state that wage increases above rises in productivity will have inflationary consequences, which is more relevant for Australia's current situation, as discussed below.

Furthermore, this claim makes the assumption that there was an increase in Labour Productivity and argues that, in light of this claim, minimum wages should increase. The sections below detail how the analysis relating to the increase in Labour Productivity is misdirected, and how wages have increased more than the supposed increases in Labour Productivity

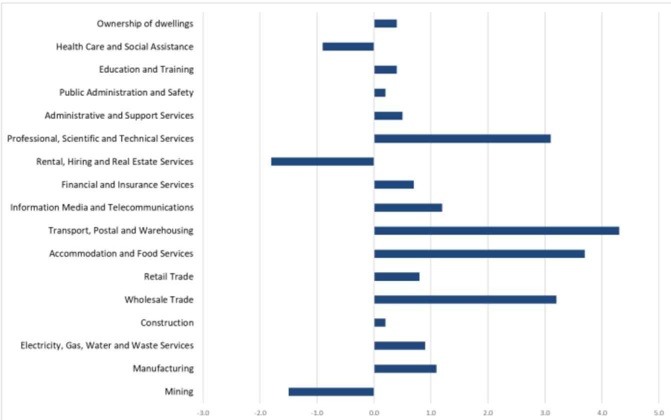
Was there an increase in Labour Productivity?

Several submissions, such as the one by the ACTU, use the GDP per hour worked figure from the National Accounts to argue that Australia has witnessed an increase in Labour Productivity. GDP as a statistic accounts for all increases in production regardless of the factor of production. If we are interested in measuring changes in GDP because of improvements in Labour Productivity, we would need to use an econometric identification strategy that allows us to hold all other factors (i.e., capital investments) constant, primarily because GDP is not just a function of labour but also capital, among other things. Thus, the inference that an increase in GDP per hour worked is purely because of Labour Productivity is questionable.

Furthermore, when we examine the production figures from the March National Accounts data published by the ABS, we can see that the increase in production output is largely driven by sectors such as Wholesale Trade; Manufacturing; and Transport, Postal and Warehousing activities (chart 6). Such sectors are particularly more reliant on capital for their production, and in instances impossible to function *sans* substantial capital requirements. Furthermore, Transport, Postal, and Warehousing's increase in GDP was offset by a decrease in road freight (an activity that would arguably be more labour intensive compared to the sector's other activities). Another sector exhibiting growth is Professional, Scientific, and Technical services; a sector where very few employees are being paid minimum wages. Consequently, any inference from GDP per hour worked must be made in light of the capital investments of that sector. Capital investments, as per the ABS CAPEX publication, have increased in most sectors relevant to the increase in production (chart 7).

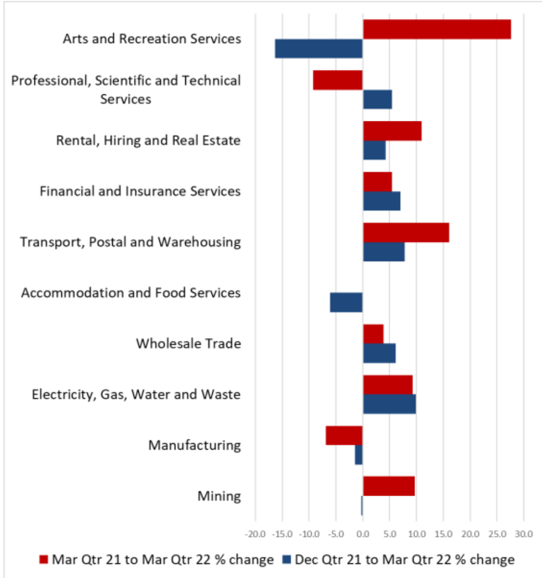
Given the increase in capital investment (particularly in equipment and machinery (chart 8), and the subsequent increase in GDP per hour worked, the change in GDP per hour worked is either more likely due to the increase in capital investments, or undeterminable (see next sub-section). Therefore, it is unlikely that increases in GDP per hour worked are purely because of improvements in Labour Productivity.

Chart 6: Changes in production for select industries, quarterly



Sources: ABS, National Accounts, March 2022

Chart 7: Total CAPEX, seasonally adjusted



Source: CAPEX, ABS, March 2022

Chart 8: Total investment in equipment and machinery

Source: CAPEX, ABS, March 2022

Is the increase in GDP per hour worked sufficient reason to award a large increase in the national minimum wage?

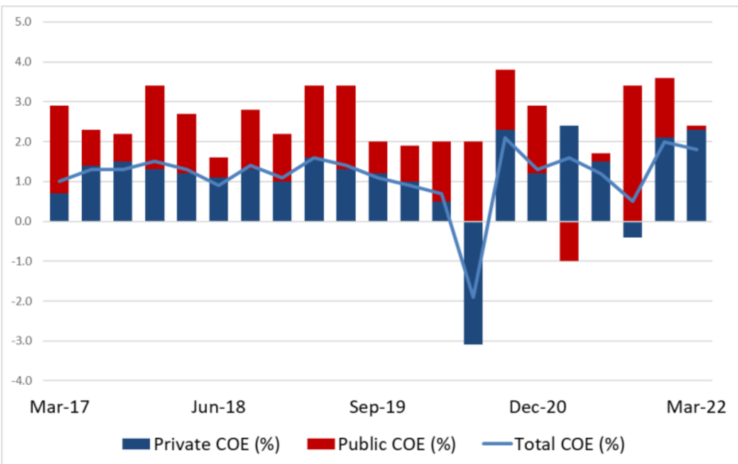
As per the ABS National Accounts March publication, there has been an increase in compensation of employees (COE) despite a decrease in hours worked:

> *"COE rose 1.8% this quarter. Employed persons rose 1.9%, while hours worked fell 0.9% due to Omicron-related absenteeism."*[2]

This indicates that labour has already received an increase in per unit compensation. Given that the increase in GDP per hour worked in the last year was 2.8% (which is a function of both capital and labour, in a country where labour has historically struggled with low levels of productivity) and the corresponding increase in the WPI was 2.4%, any increases in Labour Productivity have already been compensated for by employers.

In addition, Private sector COE rose 2.3% (chart 9), which would partially explain the continued worsening of business cash positions (chart 4). This indicates that if there was an increase in Labour Productivity, labour has been compensated for it (i.e., the need for wage increases in light of Labour Productivity increases, if any, has been met), meaning that any large increases in minimum wages would go beyond compensating employees for increases in productivity i.e., such increases would have significant inflationary and disemployment consequences for the Australian economy. The ramifications of these consequences include increases to the cash rate by the RBA which would negatively affect the household budgets of all Australians and substantially increase the cost of living via rising debt servicing burdens and would impede labour affordability for Australian businesses (as discussed above).

Chart 9: Quarterly growth in compensation of employees by sector



Source: ABS, National Accounts, March 2022

[2] ABS, National Accounts, March 2022, https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release#production

Gender pay gap

The Australian Government's submission states:

> *28. Low-paid workers have a diverse range of characteristics. In 2020, low-paid workers were more likely to be female, employed on a casual basis and under 30 years of age. Given this, a more substantial increase for those on low wages would be beneficial in assisting to narrow the gender pay gap.*

Ai Group's reply submission details the circumstances relating to female employment and the gender wage gap. Effectively, there are multiple other more effective and reliable avenues to address the gender pay gap than granting a large increase in minimum wages.

Ai Group contends that issues of gender pay equity are more appropriately addressed through the equal remuneration and work value provisions in the FW Act. The latter is the basis of a current application before the Commission to increase minimum wages in the *Aged Care Award 2020*, being a modern award covering a sector employing a large number of women.

In respect of the Panel's approach to gender pay equity and the valuation of women's work, Ai Group refers to the Panel's *Annual Wage Review 2016-2017 Decision* where it was observed that:

- Modern award minimum rates are structured to provide equal remuneration for work of equal or comparable value both within and across awards.[3]

- The grant of a uniform percentage adjustment to the National Minimum Wage and modern award wage rates would be the approach most consistent with the equal remuneration principle.[4]

- In relation to the gender pay gap, women are disproportionately represented among the low paid and hence an increase in minimum wages is likely to promote gender pay equity, although a moderate increase in minimum wages would be likely to have a relatively small effect on the gender pay gap.[5]

- The other mechanisms available under the FW Act, such as bargaining and equal remuneration provisions, provide a more direct means of addressing the gender pay gap.[6]

These points were also confirmed in the Panel's *Annual Wage Review 2017-2018 Decision* and more recently in the *2020-2021 Decision*.

In addition, there are a variety of other policy settings and interventions that would address key structural barriers hindering pay outcomes for women. These include addressing the high levels of gender segregation along industry and occupational lines by pursuing greater gender balance

[3] *Annual Wage Review 2016-2017 Decision,* [642].

[4] *Annual Wage Review 2016-2017 Decision,* [676].

[5] *Annual Wage Review 2016-2017 Decision,* [677].

[6] *Annual Wage Review 2016-2017 Decision,* [677].

across tertiary and vocational training disciplines, and greater Government investment in more accessible and affordable early childhood education care. Ai Group is a strong proponent of these public policy responses.

Recent years have witnessed a significant improvement in female employment with such employment accounting for 61% of employment growth since 2015. Table 1 below summarises the changes in employment by gender and by full-time and part-time positions in Australia over the period from March 2015 to March 2022 (ABS seasonally adjusted series). It shows that:

- The total increase in employment in this period was 1.7 million people.
- 61% of the increase (1,036,000) in employment was of females.
- Female full-time employment increased by 702,000 and female part-time employment increased by 334,000.
- Male full-time employment increased by 448,000 and male part-time employment increased by 215,000.
- These increases had clear impacts on workforce shares of females and males.
- The proportion of female full-time employment to total employment rose by 2.1 percentage points (from 24.6% to 26.7%) while the share of male full-time employment in total employment fell by 2.3 percentage points (from 44.7% to 42.4%).

Table 1: Changes in Composition of Employment 2015 – 2022

Change from March 2015 - March 2022		
	Employed	**Share of employment (percentage points)**
Full time Males	448.1	-2.3
Full time Females	701.8	2.1
Part time Males	215.0	0.4
Part time Females	334.4	-0.2
Total Employment	1,699.2	
Female share of growth	*61.0%*	

Source: ABS, Labour Force, Australia (6202.0) April Release.

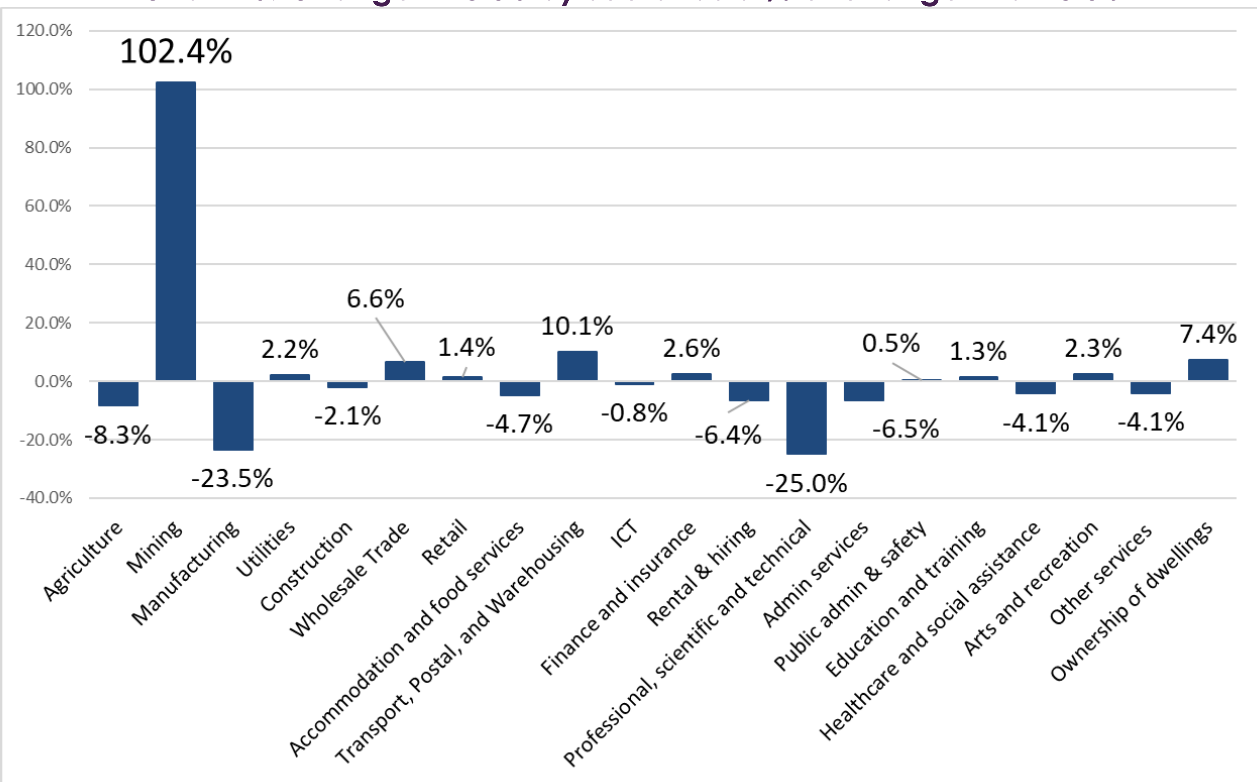
3. Response to the submissions of other parties regarding whether 'exceptional circumstances' exist in particular industries

The 3 June 2022 submission of the ACTU expresses opposition to any delayed operative dates for wage increases in any awards. In its submission of 3 June, the Shop Distributive and Allied Employees' Association expresses opposition to any delayed operative dates for wage increases in retail awards, including the *Hair and Beauty Industry Award 2010.*

In response to the unions' submissions, we rely on our submissions of 1 April 2022 (pages 53 to 60) and 3 June 2022 (pages 6 to 8).

In addition, in respect of the arguments in sections 4.9 and 4.9.1 of the ACTU's submission of 3 June, it should be noted that most improvements in businesses' gross operating surpluses (GOS) reported in the ABS National Accounts have been driven by the mining sector, with change in mining GOS accounting for 102.4% of the change in all GOS (chart 10).

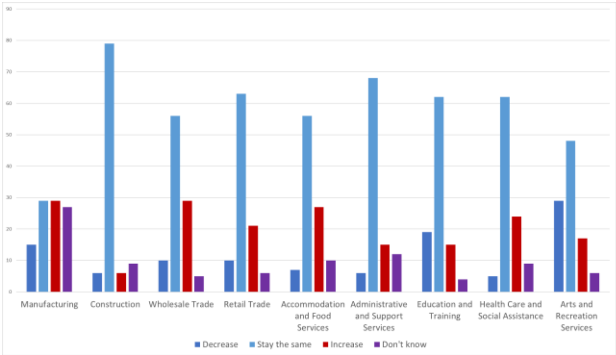
Chart 10: Change in GOS by sector as a % of change in all GOS



Source: Australian Bureau of Statistics, National Accounts, March Quarter

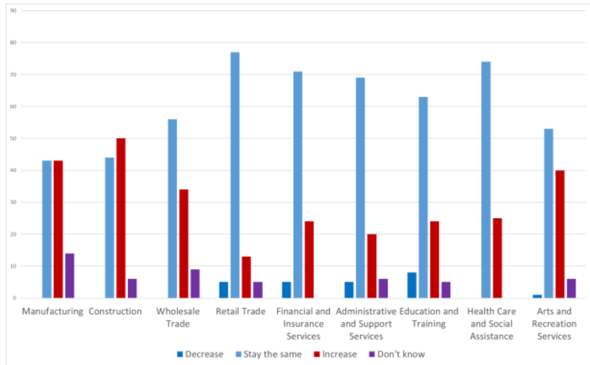
Furthermore, sectors that would be most affected by minimum wage increases such as Retail Trade; Accommodation and Food Services; and Other Services have all experienced decreases in GOS. A large increase in minimum wages would force these businesses, most of whom already expect falling revenues and rising expenses (charts 11 and 12), to make hard choices relating to the employment and retention of staff in order to meet the new higher wage rates and debt servicing costs as a result of cash rate rises. This would having significant disemployment consequences for the Australian economy.

Chart 11: Business expectations of changes in Revenue



Source: ABS Business Sentiments and Conditions, May 2022.

Chart 12: Business expectations of changes in Expenses

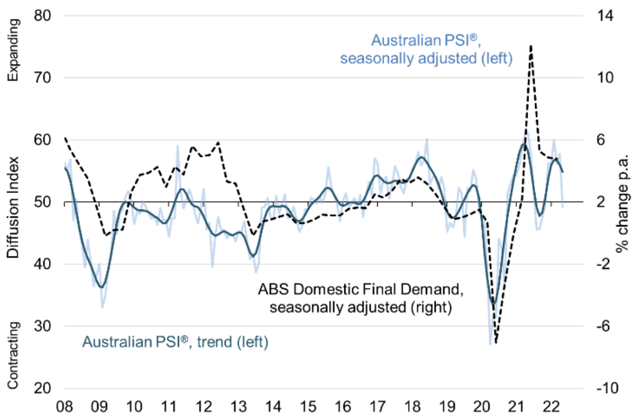


Source: ABS Business Sentiments and Conditions, May 2022.

4. Australian PSI, released on 7 June 2022

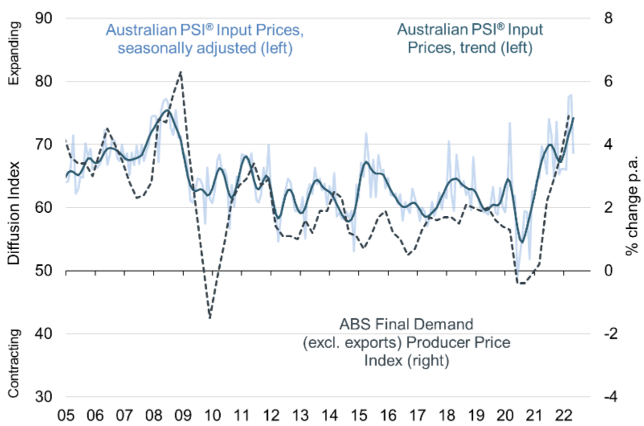
- The Australian PSI® indicates the services sector fell into contraction in May, for the first time in six months (chart 13).
- Services capacity utilisation remained at 82.3%; an all-time high for this series. Businesses report plans to increase capacity.
- Staff shortages, rising input prices and ongoing difficulties sourcing stock continue to constrain activity, but there are some signs of supply constraints easing in pockets of the services sector (chart 14).

Chart 13: Aust. PSI® and ABS domestic final demand



Sources: Ai Group and ABS

Chart 14: Aust. PSI® input prices



Sources: Ai Group and ABS

ABOUT THE AUSTRALIAN INDUSTRY GROUP

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We are a truly national organisation which has been supporting businesses across Australia for nearly 150 years.

Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Our vision is for thriving industries and a prosperous community. We offer our membership strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders (domestic and international) we have the resources and the expertise to meet the changing needs of our membership. We provide the practical information, advice and assistance businesses need. Our deep experience of industrial relations and workplace law positions Ai Group as Australia's leading industrial advocate.

We listen and we support our members in facing their challenges by remaining at the cutting edge of policy debate and legislative change. We provide solution-driven advice to address business opportunities and risks.

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