

8. STATE AND TERRITORY SUBMISSION

8. STATE AND TERRITORY SUBMISSION.....	1
8.1 State of The Economy	1
8.2 Wage Movement	2
8.3 Economic Effect.....	3
8.4 Needs and the Nature of the Low Paid.....	10

8.1 STATE OF THE ECONOMY

- [8.1] Similar to the ACTU's submission, the State and Territory (the States) submission on the state of the economy is now greatly out of date due to significant recent economic announcements and data. Most of the statements put in that submission have already been addressed in the state of the economy section of this submission (Sections 2 and 3), including in relation to the States perspectives being overtaken by developments in recent weeks. This chapter will not go over this again.
- [8.2] ACCI has comprehensively shown that the state of the national economy is significantly weaker than the ACTU and States argue in their submissions (see Section 2 of this submission).
- [8.3] This argument naturally transfers to the performance of individual States. Each of these arguments should be discounted to the same extent that the State and Territory argument about the national economy is discounted.
- [8.4] In particular, all of the data in the States' submission preceded the very weak National Accounts Figures for December 2004. A quick glance at the relevant parts of the State Accounts will show that there was a weakening in most, if not all, measures of State & Territory performance broadly commensurate to the national weakening. The table below provides an outline of the performance of each State and Territory in the two most recent quarters.

Table 8-1¹

State/Territory	Quarterly change in Demand plus Net Exports	
	September quarter	December quarter
New South Wales	-7.7	0.5
Victoria	-6.3	-2.5
Queensland	-2.5	-4.9
South Australia	-8.8	-11.4
Western Australia	-15.1	10.9
Tasmania	-3.8	9.2
Northern Territory	-14.3	-55.4
ACT	2.1	0.1

[8.5] The reduced performance of these jurisdictions, and the extent to which their submissions are already outdated, should be clear. Therefore, ACCI is not entering into a detailed further rebuttal of the performance of each State or Territory.

8.2 WAGE MOVEMENT

[8.6] The States argue that there are reasons why concerns about wages pressures should be ‘kept in perspective’ (paragraph 6.3). ACCI has however shown comprehensive evidence that wages pressures are building in Chapter 2. We say the States extrapolations are rendered unreliable and unrealistic by this ACCI analysis.

[8.7] Some other important points to make about the States submission:

- a. The fact that there are skills shortages implies that people who are currently underemployed or unemployed are unable to meet these vacancies. This implies that there is not “*significant capacity to engage*”

¹ Source: Australian National Accounts, Tables 24-31. Demand plus Net Exports is a broadly similar measure (but not identical) to Gross State Product (the state equivalent of GDP).

more labour” (States submission paragraph 6.4) unless the skills of the underemployed or unemployed are improved. Inter-changeability of labour cannot be assumed as the States would have you conclude.

b. The States argue that changes in the structure of the labour market mean that wages pressures are less likely (paragraph 6.6 and 6.7) – particularly increased market pressures and less centralisation:

6.6 Thirdly, to the extent that the labour market is tightening, changes in the structure of the labour market and wage-fixation system are such that they are unlikely to feed into wage pressures in the same way as in the past. Even if wage pressures do appear in some pockets of the labour market, their impact will be more muted than in the past.

6.7 The uncoupling of market rates with award rates, the dismantling of comparative wage relationships and the fragmentation of the bargaining system since the early 1990s is such that wage increases in these pockets of the labour market will not flow generally throughout the workforce as occurred in the 1970s and 80s. The flexibility for firms and sectors to respond to their particular circumstances, including through higher wage increases if appropriate, was after all one of the major objectives of industrial relations reform.

c. ACCI does agree with this argument to some extent – but we argue minimum wage moderation can contribute to moderating the wages pressures that are already building. In addition, this argument does not seem consistent with the State argument later that a decentralised system does not perform well (paragraphs 7.4 and following).

8.3 ECONOMIC EFFECT

[8.8] The States argue that there is no conclusive evidence on the relationship between minimum wages and employment outcomes (paragraphs 7.1.1 to 7.1.27).

[8.9] In paragraph 7.1.7, the States submission argues that empirical studies have not found a link between award wage increases. This point is largely rebutted in ACCI’s submission on economic effects of the claim in Chapter 3. The further analysis of Leigh’s evidence is particularly important.

[8.10] The States' that the IMF and OECD fail to provide empirical evidence (paragraph 7.1.7), which directly matches what the ACTU say, is comprehensively rebutted in Section 6 of this Submission.

[8.11] Of particular note is the OECD Employment Outlook for 1998 Chapter 2 "*Making the most of the minimum: statutory minimum wages, employment and poverty*" (Attachment 3-6). The paper observes that "*at high levels, there is general agreement that a statutory minimum wage will reduce employment.*" (p57) As argued elsewhere in this submission, Australia effectively has the highest minimum wage in the developed world.

[8.12] The States in passing argue that predictable increases in minimum wages are beneficial (paragraph 7.1.1).

- a. ACCI argues that a predictable increase in award wages are detrimental – because other economic variables are not predictable, such as economic growth, productivity and inflation.
- b. A predictable increase in award wages does not account for changes in these variables. In particular, significant disruption would occur to business and hence the economy if a significant but predictable minimum wage increase occurs when productivity is falling (such as the case at the moment).
- c. This is also a curiously blunt argument. How do you weigh predictability against the level of increase and its impact? Would the pure predictability of 3 x \$50 increases render them bearable, simply of itself? Clearly there is a point where such an argument would necessarily fall down.

HILDA data analysis

[8.13] The States attempt to use the HILDA dataset to show that minimum wage increases did not affect unemployment (paragraphs 7.1.12 to 7.1.24). There are a number of significant problems with their analysis:

- [8.14] Firstly, the differences between minimum wage and non-minimum wage workers in their study are fairly small (see for example Table 7.1). The States do no tests of statistical significance. Without access to the underlying data and particularly their standard errors, we do not know whether the results they present are statistically significant (in other words, do they happen by chance).
- [8.15] A particular concern is that there may not be many people in the HILDA dataset who are on the federal minimum wage (FMW), meaning that the results for FMW workers will have large standard errors. (See Section 5 of this submission for our discussion of Effective Minimum Wages, or EMWs) As a result, it will be difficult for a test of differences between FMW workers and other workers to be used.
- [8.16] Secondly, testing what happens to individuals may not provide evidence of employment effects on minimum wage changes, particularly when overall employment is growing strongly. The data does not reveal what would have happened to minimum wage workers in the absence of an increase in the minimum wage.
- [8.17] Thirdly, the States define minimum wage workers as those earning \$10.88 per hour or less.
- a. It is not clear how or why people would be earning less than the minimum wage. How does it come about that they are reporting cohorts of people earning less than minimum wages? Is this junk data?
 - b. How many people are in this category?
- [8.18] Fourthly, the study does not acknowledge that most people affected by award wage changes will not be on the minimum wage. Employment changes for award workers above the minimum are recorded as being “non-FMW”, despite the fact that they are caused by the same process. In other words, the effect of Commission decisions is recorded in both

categories, FMW and non-FMW. This makes it difficult, if not impossible, to separate out the effect of changes in award rates. A decision to increase award rates could have the same negative employment effect on FMW and non-FMW categories.

[8.19] Therefore, until a fuller analysis is conducted, the Commission should place no reliance on this study. However, it should be noted that it is unlikely that the last concern will be able to be addressed at all.

Quality of employment

[8.20] The discussion by the States at section 7.1.27 and 7.1.28 states that increasing minimum wages provides material benefits to those on lower wages, but also increases the ‘*dignity*’ of the low paid. ACCI has a number of concerns with this argument.

- a. What is meant by “dignity” here? How is it defined? How is it measured? How do we know whether it goes up or down?
- b. The States argue that there is solid evidence of this effect, but then don’t provide this evidence. They include a quote from Professor Jerold Waltman, but this more an anecdote which should hardly be decisive on this issue.
- c. As we don’t have any solid evidence, we do not know the strength of any relationship between pay and dignity. If the relationship is weak, then a only a very large increase in pay will improve dignity. Noone is proposing such an increase. Again – to make sense of any claims as to relationships, we need to know how they are claiming to operationalise dignity in this context.
- d. It is hardly surprising that low-income earners are not satisfied with their pay – many people are at various points of the income distribution based on a complex range of factors. However, it is not clear that satisfaction is closely linked with “dignity” – the States provide no evidence to support this argument.

- e. As the States acknowledge (paragraph 7.1.28), factors other than pay are more important than pay in determining quality of work.
- f. As outlined in Chapter 5, high tax rates apply to workers around the minimum wage. Therefore, this is not the best way to ‘increase dignity’.
- g. The Commission’s role does not appear to extend to addressing dignity.

Incentive to bargain

[8.21] The States argue that safety net adjustments do not act as a disincentive to bargaining (Section 7.2). ACCI does not agree with this argument.

- a. Award coverage is trending downwards (Table 7.7), but this trend could have been faster in the absence of significant award increases. The States do not address this possibility.
- b. The States argue that *“Proponents of the argument that minimum wage increases are a disincentive to bargaining are asking the AIRC to accept the proposition that employees choose to be paid the lowest rate possible.”* (paragraph 7.2.1). We certainly are not arguing this. The connection between this argument and the position the States are putting is unclear.
- c. The States appear to argue against their own case: *“The existing gap between pay rates under awards and certified agreements provides sufficient incentive for employees to negotiate an agreement.”* (paragraph 7.2.5). They are basically agreeing that reducing the difference between awards and certified agreements will reduce the incentive to bargain. In other words, increasing awards will reduce the incentive to bargain.
- d. The States argue that the characteristics of award workers mean that they are less able to bargain (paragraph 7.2.6). However, they

provide no evidence that people who are “*female, from a non-English speaking background, live in a regional area and or work in a low-skilled occupation*” are less able to bargain. Evidence is needed in these matters, and then a rational basis to conclude in favour of causation and relationships. Simplistic colloquial truisms will not do.

- e. The States argue that award coverage is falling (7.2.2), but then argue that award coverage is higher amongst small business and small businesses are growing faster than larger businesses (7.2.1). This appears inconsistent.
- f. The fact that award coverage is higher amongst small business means that the impact of award increases on them is greater – and small businesses are less able to afford these increases.
- g. The States’ argument that “*if safety net adjustments discourage enterprise bargaining, it is because they are too low to provide adequate incentive for employers to bargain*” (7.2.11). The logic of this assertion is unclear. Are the States arguing that a \$100 increase in award wages will mean even more incentives to bargain? This also is inconsistent with their point that: “The existing gap between pay rates under awards and certified agreements provides sufficient incentive for employees to negotiate an agreement.” (paragraph 7.2.5)

The productivity effects of bargaining

[8.22] The States attempt to show that bargaining does not lead to productivity growth (Section 7.3). ACCI does not agree with this proposition. The substantial number of papers in Chapter 6 show that higher labour regulation (including from less enterprise-level setting of conditions) is associated with lower economic performance.

[8.23] In any case this argument is of limited relevance to the Commission – the Commission is required to promote bargaining, regardless of whether this promotes productivity or not.

[8.24] Specifically, the Commission is required to “*provide the means for wages and conditions of employment to be determined as far as possible by the agreement of employers and employees at the workplace or enterprise level*” (Section 3(d)(i)). This statement is not conditional upon workplace agreements or bargaining providing higher productivity.

Coordinated flexibility

[8.25] The States argue that moving towards a more decentralised system will not improve economic performance (7.4.2). This case is about dealing with applications to increase award wages, under the *Workplace Relations Act 1996* that Parliament provides us. To a great extent the States appear to be pursuing something not before the Commission and of no assistance to its task in this matter.

[8.26] ACCI however more generally disputes this argument.

- a. This argument is directly contradicted by paragraphs 6.6 and 6.7 of the State submission, where they argue that the decentralisation of the wage system has meant that wage pressures are less strong.
- b. The substantial studies in Chapter 6 of ACCI’s submission show that labour market deregulation is associated with better economic performance. These studies speak for themselves. A number of these studies cover a number of countries, rather than the single example quoted from New Zealand.
- c. The States argue that New Zealand’s poor performance occurred when the labour market was deregulated (paragraph 7.4.9). However, a very recent study of the difference in performance of Australia and New Zealand found that geography, location and

population were the causes of the poorer performance of New Zealand in recent years, not regulation.²

8.4 NEEDS AND THE NATURE OF THE LOW PAID

[8.27] At Part 8 of their submission, the States and Territories address their conception of the needs based considerations arising in this matter. Properly examined, this material is unremarkable and merely replicates material the ACTU and other interests have placed before the Commission across a series of these matters in recent years.

[8.28] Section 5 of this submission addresses in detail the lack of rigour in the type of analysis relied upon by the States and Territories, and more importantly sets out the proper assessments to be reached on the needs of the lower paid on award rates of pay. We rely on this information - we reiterate that the conclusions the Commission should reach on needs are those compelled by Section 5 of this submission.

[8.29] There are a number of particular errors in the State and Territories submission:

- a. The analysis of who earns the minimum wage in section 8 (e.g. 8.14 to 8.15) of themselves add nothing to an assessment of needs or poverty. This is no more than restatement of the incidence of particular pay arrangements with particular cohorts.
- b. NATSEM and HILDA data are addressed in Section 5. Based on this analysis we say the conclusion in this matter should not be in favour of an increase of the magnitude supported by the States.
- c. The reference to labour market transitions in Subsection 8.1 is an interesting one. ACCI would agree that award wage work can assist

² Davis & Ewing (2005) "Why has Australia done better than New Zealand – good luck or good management?" – Australian Treasury Working Paper 2005-01 – [Attachment 8.1](#)

in making labour market transitions. However, the States and Territories proceed with no regard to the impact on these transitional capacities of increasing labour costs to employers. What is at issue in this case is not only the needs of the low paid for income, but also for access to work.

- d. At 8.2 the States and Territories repeat the analysis of poverty using decile ratios. This is addressed in Section 5, and for the reasons set out therein, do not assist the level of increase claimed. Again, the conclusions of the States and their preferred approach to wage increases in this matter, do not compel themselves based on this data.

[8.30] ACCI will continue to examine the States and Territories material in regard to needs in light of the analysis in Section 5 and any responses to it. As we maintain throughout this matter however, we say the case on needs before the Commission on this occasion:

- a. Is not pressing or compelling generally.
- b. Is not determinative in regard to supporting the level of increases sought by the ACTU or the States.
- c. Instead supports no more than the more moderate level of increase embodied in the ACCI position.