

# 1. Introduction

- 1.1 Last year award workers received a lower wage increase than any other sector in Australian society, most received a real wage cut. At a time of increasing earnings inequality last year's safety net adjustment meant that award workers fell further behind the rest of the community and many low paid workers saw their living standards reduced.
- 1.2 Life for the low paid is a struggle. It means going without, juggling commitments to make ends meet and enduring significant levels of financial stress. The low paid need and deserve a decent wage increase. They need a living wage.
- 1.3 The ACTU claim this year is for a \$25 weekly increase in all award rates with a commensurate increase in allowances. This will deliver a significant wage increase to low paid award workers within the bounds of economic responsibility and sustainability. Even on the most conservative of assumptions, granting the ACTU's claim will have a net impact on economy wide earnings of 0.2%. To put this in perspective, for the last 12 months wage costs as measured by the Wage Cost Index have risen by 3.6%. All other things being equal, granting the ACTU claim would mean growth in wage costs of 3.8%. At this level it can be seen that the impact of the ACTU's claim on inflation and employment can properly be described as negligible.
- 1.4 The ACTU's claim will deliver an average increase to award workers consistent with outcomes for others in the community and provide a moderate real increase for the lowest paid. There is no economic impediment to awarding the ACTU claim.

1.5 The Australian economy is generally performing well. Whilst growth has moderated, Australia's estimated growth for 2001 and forecast growth for 2002 and 2003 will exceed the US, EU, OECD and G7 averages. Inflation as measured by the CPI is currently around the top end of the Reserve Bank target range but is not expected to be of concern in the foreseeable future. Wages growth has been moderate and there are encouraging signs of improvement in the labour market.

## The Established Principles

1.6 This is the sixth living wage case application to be determined under the provisions of the *Workplace Relations Act 1996* ("the Act"). The principles which the Commission has determined in relation to such cases are now well established, they are:

- i. A moderate safety net increase will have a minimal impact on inflation: see *Safety Net Review Wages 2001* PR002001 at 30, paragraphs 86 & 87.
- ii. Moderate wage increases do little or nothing to diminish job prospects: see *Safety Net Review Wages 2001* PR002001 at 32, paragraph 98.
- iii. Employees on low wages experience difficulties making ends meet and affording what are generally considered by the broader community as basic necessities: see *Safety Net Review Wages 2001* PR002001 at 39, paragraph 126.
- iv. Whilst safety net adjustments are not perfectly targeted to meeting the needs of the low paid they assist in meeting those

needs: see *Safety Net Review Wages 2001* PR002001 at 39, paragraph 127.

- 1.7 The ACTU accepts the validity of each of these four principles. They have been restated in various ways but have remained virtually unchanged since 1997. Despite repeated attempts neither the Commonwealth Government nor employers have successfully challenged the validity of any of the four fundamental principles outlined above. The critical question in these proceedings then is whether the ACTU's claim is moderate.

### **The ACTU Claim Is Moderate**

- 1.8 As outlined above the ACTU claim has a net impact on economy wide earnings of 0.2%. At this level the impact of the ACTU claim falls within the range of measurement error for earnings growth in the economy. The macroeconomic impact of the ACTU claim can genuinely be described as negligible.
- 1.9 Table 1.1 shows a comparison of the average increases as a result of the ACTU claim with wage measurements for the rest of the community. The increase proposed is broadly consistent with wage movements for the rest of the community.

**Table 1.1: Average increase in award rates as a result of the ACTU claim compared to other wages measures (a).**

ACTU Claim			
Average increase award only	Average increase award only private sector	Average increase award only full time	Average increase award only private sector full-time
4.2	4.5	3.8	4.1

AWOTE	AWE All Employees	AWE Full Time adults	AENA	WCI	ADAM	DEWR	MCED Senior Management
5.4	4.6	4.9	4.5	3.6	4.0	3.9	5.0

(a) See notes to table 3.6

1.10 Because the ACTU seeks a flat across the board increase in award rates, the ACTU claim delivers the greatest percentage increase to the lowest paid. The ACTU claim delivers a 6% increase to those on the Federal Minimum Wage. Whilst this is a significant increase it needs to be understood in a context where the needs of the low paid are acute and in light of the relatively small increase last year. At C14 the average annual increase for the periods 1997 - 2002 (assuming the ACTU's claim is granted) would be less than 4%.

1.11 To the extent that it is implicit in the result of previous Living Wage Case decisions that a moderate increase in good economic conditions results in an increase for the lowest paid in the order of \$14 - \$15 and in uncertain conditions a few dollars less, the ACTU submits as follows:

- In light of wage movements for others in the community dollar increases in the mid to low teens are properly described as low increases rather than moderate.

- The Commission needs to pay proper regard to the much more limited economic impact of its decisions than in the past,
- The increase sought by the ACTU will add to economy-wide earnings an absolute amount that is moderate even in the context of earlier decisions.

1.12 The moderate nature of the ACTU claim needs to be considered in light of:

- The failure of award wages to keep pace with community wage movements and recent real wage cuts for most award workers;
- The recent performance of the Australian economy and its forecast robust growth;
- The needs of the low paid and the substantial levels of financial stress found in low income households; and
- The growing trend toward inequality of earnings in Australia.

## **Award Wages are Falling Behind**

1.13 In Chapter 2 we analyse recent and longer term trends in wages. This analysis confirms that award wages have failed to keep pace with community wage movements.

1.14 Last year the highest increase an award worker received as a result of the safety net adjustment was 3.2%. The average increase was in the order of 2.5%. At this level award workers received substantially less than the rest of the community on any of the accepted wage measures.

- 1.15 The most recent AWOTE data, for example, shows an annual increase of 5.4%, enterprise bargaining outcomes and increases for judges and politicians have hovered around 4%, whilst senior management received an average 5.0% increase. Even the Wage Cost Index (the lowest of any of the measures) was 3.6% and 3.9% if award workers are excluded from its calculation.
- 1.16 The fact is last year award workers got less than everybody else and not just a bit less but substantially less.
- 1.17 This builds on a longer term trend which has seen award rate increases fall consistently below average community increases. Since 1990 the lowest paid award workers have received an average annual increase of 3.1% compared with AWOTE growth averaging 4.2% per annum over the same period.
- 1.18 Award wages have also failed to keep pace with inflation for the majority of award workers. In the last two years an estimated 81% of award only workers have received a real wage cut.

## **There is no economic impediment to granting the claim**

- 1.19 Last year's safety net review proceedings were conducted shortly after the release of the December 2000 quarter *National Accounts*. That data showed a seasonally adjusted contraction in the economy of 0.6% (later revised to 0.5%).
- 1.20 In last year's proceedings the ACTU argued that the December 2000 *National Accounts* data was largely affected by transitional effects associated with the GST. In this context we urged the Commission to pay proper regard to the likelihood of a rebound in

growth. Subsequent events proved the ACTU's analysis to be correct. Growth has rebounded and were it not for a subdued international outlook Australia's growth for 2001-02 would likely be above 4%. As it is we will outpace the rest of the developed world.

- 1.21 CPI to December 2001 was 3.1% - just above the Reserve Bank's target range. However, the higher than expected December quarter figure (0.9%) is largely attributed to one-off effects and inflation is expected to fall back to the middle of the target range by the end of the financial year.
- 1.22 Wage cost pressures are moderate. The Wage Cost Index in the year to September 2001 increased by 3.6%.
- 1.23 The labour market moderated in conjunction with the GST – induced slump in growth but has essentially remained steady for most of the year. Unemployment has hovered around 6.8% in trend terms for most of the year. There are however some signs of a pick-up in the labour market with recent surveys of job advertisements and business hiring intentions showing some positive signs.
- 1.24 Labour productivity increased markedly in 2001 with GDP per hour worked increasing 3.0% over the year to September 2001. The past six years have seen the fastest average increase in labour productivity growth in recorded history.
- 1.25 There is, in short, no reason why the economy cannot sustain a moderate increase of the order sought by the ACTU.

## **Life is a Struggle for the Low Paid**

1.26 In this case the ACTU relies on the direct evidence of low paid award members and further analysis of financial stress data from the ABS 1998-99 Household Expenditure Survey.

1.27 The witness statements provide evidence of:

- Intensity of work effort
- Difficulties paying for necessities; and
- Going without, going into debt and significant financial stress.

1.28 The ABS financial stress data shows:

- Approximately 1.2 million working households suffering financial stress
- The lowest 20% of working households report substantial levels of financial stress and have a greater level of financial stress than any other quintile of working households

1.29 Being low paid is hard work – hard work at work and hard work at home making ends meet. A \$25 increase won't solve the problems of the low paid but it will help.

## **Inequality is on the Increase**

1.30 Earnings inequality increased significantly over the decade of the 90s. Our egalitarian ethos is at risk as the rich get richer and the poor get left behind. Award workers are concentrated at the bottom end of the earnings distribution. Another increase for these workers

which is less than that obtained by the rest of the community will exacerbate the trend to inequality – a decent increase will help ameliorate that trend.

## **It's Not Much to Ask For**

- 1.31 Twenty five dollars is not much to ask for. After tax it isn't much more than admission to the football. Over the year it might buy an insurance policy. It wouldn't buy much of a holiday.
- 1.32 It's not much to ask for but it will make some difference to the lives of the low paid. The Australian economy can afford a 0.2% increase in its wages bill to give award workers a living wage.

