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JUSTICE ROSS, PRESIDENT

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s.285 - Annual wage review

Annual wage review
(C2019/1)
Public Consultations

Melbourne

10.06 AM, TUESDAY, 14 MAY 2019

PN1

JUSTICE ROSS: Could I have the appearances, please.

PN2

MS A DURBIN: Alison Durbin, Group Manager, Workplace Relations Group for the Department of Jobs and Small business.

PN3

JUSTICE ROSS: Thank you, Ms Durbin.

PN4

MS L WONG: Les Wong, Branch Manager, Wages Policy and the Minimum Standards, and Branch of Department of Jobs and Small business.

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JUSTICE ROSS: Thanks, Ms Wong.

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MS L BERGER-THOMSON: Laura Berger-Thompson, Principal Advisor, Forecasting, in the Department of Treasury.

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JUSTICE ROSS: Thank you.

PN8

MS K BAKER: Kristen Baker, Principal Advisor, Structural Reform, Division of Treasury.

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MR S BARKLAMB: Thank you, your Honour. My name is Barklamb, initial S. I appear for the Australian Chamber of Commerce and Industry. With my today are Mr Grist, initial P, the Chamber's Senior Economist, and Ms Laurence, initial T, the Chamber's Deputy Director, Workplace Relations, if it pleases the panel.

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JUSTICE ROSS: Thanks, Mr Barklamb. So for the Government, who'd like to go? Thanks, Ms Durbin.

PN11

MS DURBIN: Thank you, very much, for the opportunity to appear before the expert panel on behalf of the Australian Government today. As you would be aware, the government is currently operating in a caretaker role. As such, there is a longstanding convention that outlines the role of the Public Service throughout this period. Under that convention we are unable to comment or express an opinion on that as a policy, such as the Government position on the annual wage review. However we may be able to assist the expert panel by providing any additional factual information that may be of assistance and relevant to your consideration. I will now hand over to my Treasury colleague, Ms Berger-Thompson, who will provide the expert panel with information on the economic outlook.

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JUSTICE ROSS: Thank you.

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MS BERGER-THOMPSON: Thanks. So, as has been standard practice I am happy to provide an opening statement touching on the economic outlook that was outlined in both the budget papers and the pre-election fiscal outlook. So I am going to start with global economic conditions. So global growth strengthened in 2017 and into 2018 with a pick up in activity in advanced emerging market and developing economies. However some moderation in growth occurred in the second half of 2018, as the expansion matured in the advanced economies and with some emerging markets such as Turkey and Argentina, experienced difficulties.

PN14

Global growth is expected to remain solid with strong labour market conditions evident across most advanced economies. Unemployment rates in the United States, Euro area and Japan are all near record lows. There has been an increase in wage growth in the United States after a number of years of modest growth, reflecting the strong labour market and wage growth has picked up in the Euro area and Japan. US non farm labour productivity also rose solidly in 2018.

PN15

Core inflation increased slightly in the US, and the US Federal Reserve tightened monetary policy through 2018. Inflation remains relatively contained in major advanced economies compared with historical experience. Headline inflation has eased in response to the declining global oil prices between October and December. The Australian economy is expected to continue to benefit from growth in major trading partners with economies in the Asian region growing relatively strongly.

PN16

Turning to the domestic economy, economic growth in Australia has been solid. Employment growth has been strong. The unemployment rate remains around recent lows and the participation rate is at a near record high. Non-mining business investment growth is solid. The economy is forecast to grow at around its estimated potential rate of two and three quarter per cent in 2019/20, and 2020/21. This is expected to sustain solid employment growth and support a pick up in wage growth. Household consumption, business investment, public final demand and exports are all expected to contribute to growth.

PN17

Accommodative monetary policy settings continue to support the domestic economy despite some evidence of tightening credit conditions and a recent decline in housing prices which appear to be weighing on activity. The Australian dollar remains at levels which are supportive of growth and these are around one third lower than the 2011 peak against the US dollar.

PN18

Household consumption growth is expected to pick up over the forecast period, supported by continued growth in employment, increasing wage growth, historically low interest rates and personal income tax cuts. Non-mining business investment is forecast to record solid growth, supported by historically low interest rates, while mining investment is expected to make its first contribution to real GDP growth in around seven years.

PN19

Public final demand will also contribute to growth with investment in the National Disability Insurance Scheme and infrastructure. Growth in exports in 2019/20 is expected to be supported by major liquefied natural gas projects ramping up production, along with continuing strong demand for education and travel services from Asia.

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I want to focus now on the labour market, wages and prices. As you will be aware, employment growth has been above its lower and average rate for almost two years. The unemployment rate has been trending down over this period and is currently near recent lows. The participation rate has also been high, relative to historical standards.

PN21

Looking forward, solid growth and output is expected to continue to support employment growth with forecast growth of one and three quarter per cent, through the year to the June quarter 2020, and through the year to the June quarter 2021. The participation rate is forecast to be 65.5 per cent, consistent with continuing strong employment prospects, and the unemployment rate is forecast to be five per cent across the forecast period.

PN22

Consistent with low rates of unemployment, growth in the wage price index has been picking up and was 2.3 per cent through the year to December quarter 2018, its equal strongest outcome in more than three years. All states and territories and most industries recorded higher wage growth compared with a year ago. However, in Australia as in other advanced economies the response of wages to improving market conditions has been slower and more muted than in past cycles. While the unemployment rate has fallen, broader measures of labour under-utilisation indicate that there remain spare capacity in the labour market. Additional capacity has also been found outside the labour force with strong employment growth helping to draw in people who were not previously looking for work.

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As economic growth strengthens and spare capacity in the labour market continues to be absorbed, wage growth is expected to continue to pick up to be two and three quarter per cent through the year to the June quarter 2020, and three and a quarter per cent through the year to the June quarter 2021. Consumer price inflation has eased over recent quarters and was 1.3 per cent through the year to the March quarter 2018. Lower petrol prices have contributed to softer inflation recently.

PN24

Inflation is expected to increase over the forecast period as growth in the economy picks up and spare capacity in the labour market continues to be reduced. Consumer price inflation is forecast to be two and a quarter per cent through the year to the June quarter 2020, and two and a half per cent through the year to the June quarter 2021. And that particular rate is consistent with the middle of the RBA's target band.

PN25

As always, there are a number of risks and uncertainties in the forecasts. Downsize risks remained around trade tensions, emerging market debt vulnerabilities, and geo-political issues. There is also uncertainty associated with the how quickly some of the temporary factors that affected global growth in the second half of 2018, such as natural disasters in Japan, will dissipate.

PN26

Domestically, uncertainty about the outlook for the housing market, in particular, the extent to which housing prices fall, poses the downside risks to the forecast for both dwelling investment and consumption. A more subdued outlook for household income or a further tightening in credit conditions could constrain household spending amid high levels of household debt. Thank you. We are available to answer your factual questions.

PN27

JUSTICE ROSS: You touched on the position in the US. You indicated that there has been some increase in wages growth. What has been the increase in wages growth there? I think their unemployment rate last time I looked was around 3.6, something like that?

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MS BERGER-THOMSON: Yes, so there's a number of different methods of wage growth in the US as I'm sure you're aware, so the one that we tend to look at is the employment cost index. You know, we look at them all but you know I guess that's one measure that we pay particular attention to, which is a weighted average of wage indices calculated for a basket of occupations. That's picked up just below 3 per cent. That's a three (indistinct) rate.

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JUSTICE ROSS: And - - -

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PROFESSOR RICHARDSON: Sorry, could I just ask would that be comparable to the wage price index?

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MS BERGER-THOMSON: Yes, yes, so it adjusts the composition, yes.

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JUSTICE ROSS: Can I ask you a question about your response to the additional question on notice?

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MS BERGER-THOMSON: Mm-hm.

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JUSTICE ROSS: Bear with me. Two aspects of this one, just to make sure I'm clear about what's provided in the table. The results of the modelling. So is what you're modelling there the impact of the budget measures which took effect on 1 July 2018, in particular two of them. The lower middle income tax offset and the increase in the Medicare levy low income thresholds?

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MS BAKER: That's right. In addition to that the further (indistinct) in the 1920 budget, although unlegislated have - - -

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JUSTICE ROSS: No, that's fine. I'm only focusing on the ones that are legislated for the moment.

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MS BAKER: Sure.

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JUSTICE ROSS: Am I right in reading there that that shows that for all of the household types modelled bar two, there was an increase in weekly disposable income between 4 and $5 per week?

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MS BAKER: That's correct.

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JUSTICE ROSS: The two are the single parent working part-time, one is with one child and the other's with two children, and not in receipt of the Newstart Allowance.

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MS BAKER: That's right, your Honour.

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JUSTICE ROSS: Do I - I mean we put the supplementary questioning, can I just take you to that. The ACTU is suggesting - this is in response to Ai Group's analysis of the low and middle income tax offset, and we underlined the last part of their quote, the quote from their submission. They say:

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> *And in fact may entail a fall in income after taxes and transfers, amounting to income traps.*

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Am I interpreting your analysis correctly that you don't agree with that proposition, or is it referring to something different?

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MS BAKER: So my interpretation of the modelling results is that that wouldn't be the case, but I am happy to take that on notice because I could consult further with the modellers to get a conclusive view of that particular statement.

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JUSTICE ROSS: Right, thank you.

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PROFESSOR RICHARDSON: You tell me if you can't answer this question but the terms of trade of course have a significant effect on not only government revenue but also on average profitability and possibly other aspects of the economy, and it's been put to us that we should ignore changes in the terms of trade because they're principally driven by changes in the prices of resources, and in effect that's a separate part of the economy. So my question to you is whether you would have reason to believe that - and let's say an increase in the terms of trade would have an impact on the capacity to pay of the non-mining sector.

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MS BERGER-THOMSON: So I think it's a matter for the Commission to determine how - you know, how to take into account changes in the terms of trade but I'm very happy to take you through how we think about how that effects the economy and in particular wage growth in the economy.

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PROFESSOR RICHARDSON: Outside the mining sector.

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MS BERGER-THOMSON: Outside the mining sector. You know, so we've obviously recently had a really big terms of trade cycle and it shows you how the terms of trade can in fact impact wages in the economy. So when we had the very significant ramp up in the terms of trade, you know, through the kind of early 2000s up to about 2011 or so, we - you know, we certainly saw kind of increase in profitability in mining companies. But what that did was that encouraged them to invest very significantly in additional mines and additional investment in their capacity to produce. In doing so what that did was that it increased demand for labour in the economy and very specifically in those parts of the economy in the mining sector. But also it was kind of, you know, very regionally - regional specific, this increase in growth in demand for labour at least initially.

PN51

So because of that we did see increases in mining sector wages and we had some spill over in demand then to kind of other parts of the economy. Now we did see, you know, some spill over of wage growth but kind of generally speaking and especially compared with what had happened in previous terms of trade booms, that spill over to kind of more generalised wage increases was relatively contained. So we, you know, we do - we did see at least in that episode some wage spill over but we need to think about the context in which that occurred which was with a very significant increase in demand for labour through mining investment in particular.

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PROFESSOR RICHARDSON: Thank you. What about any spill over to wages in other parts of the economy or profits?

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MS BERGER-THOMSON: So we did see, you know, some spill over into non - wages in the non-mining sector and, you know, partly this depends on how you define the mining sector. So you can think about the mining sector in a very narrow sense where you have, you know, just that - effectively that digging minerals out of the ground and selling it. In fact what happened during the mining investment boom was that there was a lot of kind of more - you know, kind of related - kind of mining related but not necessarily in a narrow mining industry sense.

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A lot of, you know, demand for things like consultancy services, engineering services, you know, rental hiring and leasing services. So certainly the increasing demand for some of those services spilled over into wage growth in that area. I think, you know, there certainly also was at that time a very strong sense that because there was, you know, a number of jobs being created in the economy for investment in the mining sector and related activities, that we did see a tightening in the labour market at that time and you know generally when we see a tightening in the labour market we see some increase in wage pressures kind of more broadly as well. But as I said, they were relatively contained.

PN55

PROFESSOR RICHARDSON: Thank you. Now the terms of trade is sometimes confused with the price of minerals, but in fact we export a lot more than just minerals. We export agriculture products, we export education, we export tourism, amongst other major examples. Are you able to give us any information on how the relative price of those on the international market has changed in recent years, not just - so the difference between the impact that they're having on the aggregate terms of trade?

PN56

MS BERGER-THOMSON: So I don't have that precise information with me but I'm very happy to take it on notice. The one point that I would make is that by far away the biggest factor that effects movements in our terms of trade is commodity prices, just because they are so - well they're a very large basket. Commodities account for over 50 per cent of our exports and we know that the prices of those goods are particularly volatile. So yes, I'm happy to take the other components on notice but you know I would expect that really in terms of the volatility in the terms of trade, a large share of it does come from commodity prices.

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PROFESSOR RICHARDSON: So if you were able to do that reasonably promptly.

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MS BERGER-THOMSON: Yes.

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PROFESSOR RICHARDSON: That would be appreciated. Certainly if I might have one other question. The latest statement on monetary policy from the Reserve Bank, as I understand it, has down graded. It's projections of growth in GDP and I haven't actually done the comparisons but are you able to tell us a) what the difference now is between the Reserve Bank's projections and your own and why? I mean perhaps I won't ask you to speculate on why they're different.

PN60

MS BERGER-THOMSON: So we do year average growth in GDP as our measure of economic growth that we report. The RBA usually - kind of their headline measure of growth that they produce is a through the year or year ended measure of growth but they do in one of their tables, in I think their outlook section have a comparison of how to report their year average numbers. And broadly speaking we look quite similar. So I think in 2018/19 we both have 2.25 per cent. I think the RBA is slightly softer than we are in 2019/20 and we're both the same in 20/21 in the year average sense.

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PROFESSOR RICHARDSON: Sorry, I'm not understanding the difference between your average and their year end. What's the difference?

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MS BERGER-THOMSON: So a through the year is effectively a point to point, so it's a - I take the December quarter 2018, for example, or maybe I'll take the June quarter 2018 and I calculate a growth rate from the June quarter 2017. So it's an over the year or a through the year growth rate. The year average is taking effectively the average or the sum of the four quarters over the sum of the previous four quarters.

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PROFESSOR RICHARDSON: Thank you.

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JUSTICE ROSS: Thank you. Mr Barklamb?

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MR BARKLAMB: Thank you, your Honour. Just bear with me for a moment, I'll grab the lectern from my colleagues. We thank the panel for the opportunity to appear today. The panel should have three written submissions from the Australian Chamber dated 15 March, 12 April and the most recent of 10 May. We don't intend to make long or traditional oral submissions or lead you through our material at length, or deliver a traditional opening statement. Instead we want to briefly signpost the key arguments in our submission for the panel and use that introduction as a structure to allow the panel to get to the heart of our argument and hopefully a structure for some interesting and useful questions.

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There is also new information and recent developments in a number of areas we want to touch on. So we intend to briefly touch on six areas which don't follow the order of our submissions, some brief introductory comments, recent economic developments and risks and here there are some very recent developments we want to mentions. The labour market briefly and wages, living standards and the needs of the low paid including the most recent question on notice 3.1, which we addressed in our third submission which we have we think some work to do with the panel to engage with.

PN67

Finally we want to address two practical issues and I can signal at this stage one of those is the foreshadowed intention of the federal opposition to were it be elected on Saturday seek to change the timetabling of this matter, which was foreshadowed in today's media. We propose that minimum wages increase by 1.8 per cent in 2019/20 with commensurate increases to other minimum rates and awards and orders as per standard practice. This is not a mechanistic or formula driven approach linked to inflation to the last quarter of last year. Rather it's a derivation. It is the basis upon which we fixed a figure but we are not commending to the panel an indexation approach, it's a point of time. We address this in our first submission at sections 1.2 and 1.3

PN68

The figure was chosen to ensure that the wages of low paid employees keep pace with changes in the cost of living, which we see as the prudent approach in 2019 consistent with current circumstances, merits and your statutory task.

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The aim is to ensure that those earning minimum wages are not worse off following the next minimum wage decision.

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We say you can proceed based on a moderation, or a consideration of a moderation in living costs. The ABS living cost index, which is similar to but not the same as inflation, is showing according to the statistical report at tables 4.1 and 5.1, charts 4.2 and 5.1, apologies, that the living cost index is showing as to be tracking well below wages growth, measured by the wage price index and average weekly ordinary time earnings, as well as below, underlying inflation and the CPI since 2012.

PN71

The ABS recently updated the labour cost index in May and this shows a zero per cent change in the living costs of employee households in the March quarter 2019, and the LCI growing by 1.6 in the year to March 2019. Therefore the 1.8 per cent increase we commend to you will provide a real increase in minimum award wages relative to living costs for employee households. Some argue that lifting the minimum wage will drive household consumption and inflation as low paid workers are likely to spend every dollar of every increase in the minimum wage they receive, or minimum wages they receive on consumer goods. By way of shorthand you might term this a stimulatory approach, and were it persuasive we say it risks a bias towards inflating increases in these matters on an ongoing basis.

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Such a position does not take into consideration the impact of additional costs on businesses, particularly small to medium size enterprises, and the impact on the workforce as businesses attempt to absorb higher labour costs. Following any large increase in the minimum wage some businesses are left with a difficult decision. Are they able to retain all existing staff, are they able to employ new staff, or will they cut hours. They will decide whether they can invest in new physical capital to complement human capital, or seek to replace human capital.

PN73

New technologies are becoming more economic than employing people, in many areas and this underlies a significant consequence for the low paid. An obvious question that this is, "But Mr Barklamb, we've put minimum wages up in excess of inflation on a number of occasions, and in fact, each occasion since the current legislation was put in place, in some years by significant amounts, in some years by lower amounts, lower differentials or lower real wage increases. Why aren't we seeing the impacts that you're arguing now, and your organisation has argued for some years?"

PN74

The key answer is that it's a large and complex economy. These effects are diffuse. And you can see from the Commonwealth's materials, particularly the Chart 2.1 that we find so useful, that only a comparatively small percentage is directly affected by these matters. But we say if you are in the sectors that are affected - retail, small business, directly award reliant enterprises, the impact of the increases is significant and occasions exactly those questions I just put to you. Can I employ new staff, can I afford to retain existing staff, and can I afford to maintain hours at current levels.

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COMMISSIONER HAMPTON: So, Mr Barklamb, does the data for the award reliant sectors you have referred to support the conclusion that there has been some detrimental effect in those sectors?

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MR BARKLAMB: We say it is localised, and again you've got various and diffuse parts of the economy across the country. So I can't come to you with an observed macro effect. This is part of the point we are attempting to illustrate, that it's a very localised effect within particular profiles of small businesses in particular places. We think there's something complex going on because we suspect that a lot of small businesses, and certainly the feedback to us, is that belts are being tightened, decisions are being delayed, and small businesses are going to every effort to retain staff and retain hours. So the observable effect is very difficult. But the feedback to us, the clear feedback from our members, is that these are real decisions and when we get wage increases that are significantly discordant with changes in prices, changes in what a business can charge, that that creates operational difficulties. But I don't come to you saying that I've got any necessary indicator that I can point to about business closures. We say it's a more subtle and diffuse effect, but it's a real effect, nonetheless, for our members.

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PROFESSOR RICHARDSON: Sorry, could I take you at this point to table 7.2 in the statistical report? Would you have that?

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MR BARKLAMB: Yes, Professor, just give me a moment.

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PROFESSOR RICHARDSON: 7.2.

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MR BARKLAMB: And just so while I'm finding that, I may answer some of these but I might seek the assistance from Mr Grist for a number of these, as well.

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PROFESSOR RICHARDSON: Of course.

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MR BARKLAMB: Thank you, Professor.

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PROFESSOR RICHARDSON: So that does focus specifically on the most reward reliant industries, the ones most directly affected by our recent decisions.

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MR BARKLAMB: Yes.

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PROFESSOR RICHARDSON: And leaving aside retail where a great deal of things are going on in retail, including of course, technological change, is there evidence there that there have been particularly adverse effects? If we look at accommodation and food services, hours worked went up by 6.8 per cent; wages under – and employment went up by more than the national average. The business exit rate doesn't seem to be particularly high. There's a lot of new entries. Company gross operating profit has been quite robust.

PN86

MR BARKLAMB: Yes, I'll make a couple of points in response to that, Professor, and then perhaps hand over to Mr Grist, if he wants to elaborate. I go back to my point about diffusion and differential effects in a large and complex economy. We know our economy is driven by the strengths of some metropolitan areas, and differential regional effects in others. I can recall in an earlier life in an earlier forum my ACTU colleague used to describe each year a table of zeros, because they were able to wash out the effect of the increase across the economy more generally. Yes, this does localise to those sectors where the effect, or the direct application of awards rates is greatest.

PN87

This is where one would expect, or indicate this and the likely indicators are where one would expect to see observed effects at such point as they are found. We are concerned that the macro numbers not disguise the stressors that businesses face in trying to implement increases which are, as I say, discordant with the amount of money coming in the door. And I think I mentioned before that we think employers, or our feedback from our members is that they are going to every effort to retain staff and maintain hours, even to the detriment of their own finances, particularly in the small business sector. But we don't think it's necessarily observed in such data. But Mr Grist, do you want to add?

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MR GRIST: (Indistinct).

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MR BARKLAMB: No.

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PROFESSOR RICHARDSON: But that just doesn't seem consistent to me if I look at the first three, and look at hours worked. Hours worked have gone up well above the national average in the first three of the most award reliant businesses. That's not just peddling very hard to stand still.

PN91

MR BARKLAMB: No, it's not, and it is in the context of an overall growing economy. So, no, we're acknowledging it is difficult to find in the data, the – perhaps I should put it this way. We are cautioning that there may be something going on beneath the macro data and what is observable to the panel based on the statistics, based on, and we'll get shortly to economic projections to the things that go to the confidence of business in the macro economy which is different circumstantially to the circumstances that led to previous increases. So one of our positions would be, I'm not sure we can have the confidence that that effect will necessarily occur again. But no, we acknowledge that there is, in the macro data, little observable effect of what we're putting to you.

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PROFESSOR RICHARDSON: Thank you.

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MR BARKLAMB: Thank you.

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VICE PRESIDENT HATCHER: Mr Barklamb, while you're on table 7.2, if you look at the wage price index for these award reliant sectors, one of the odd things seems to be that the increases that we awarded last year don't seem to have significantly much wages growth in these sectors beyond the experience for the economy generally. Do you want to say anything about that?

PN95

MR BARKLAMB: No, I thank you for that. And what I would interpret that in the context of, if you'd just bear with me for a second, there is the well known and well fund(?) table in here about award reliance, which I seem to recall is about six – 7.1, just bear with me for a second. In those sectors, your Honour, the award reliance is not a hundred per cent. So I've thought heavily about this. I think you asked a question on notice to our retail member about this, about – this is Mr Barklamb's shorthand, about a leakage between what you deliver and what translates into the aggregate figure. Firstly, in any sector there is a white collar professional administrative supportive strata, for example, that may be covered by the range of things in the third of the economy, or the third of the way market that

I roughly think conceptualise of the white collar, the professional, et cetera. That would account for some leakage.

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VICE PRESIDENT HATCHER: So that suggests that they're not getting any wage increase, or a lower wage increase than the WPI average?

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MR BARKLAMB: Mr Grist?

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MR GRIST: Yes, I would just sort of like to add to that but it's quite likely that as a result of the increase to the award reliant employees, the businesses are limited in their ability to be providing wage increases to other employees, so - - -

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JUSTICE ROSS: Don't the numbers also suggest, because there hasn't been the flow through and that they're managing the wage pressure, as you've put it, from the panel's decisions throughout their business by balancing the level of increase and – because if you look at the overall it doesn't show that their WPI's are increasing markedly differently to other sectors.

PN100

MR BARKLAMB: It is certainly the case in any business that you have a mandated, and they're not thirds, but conceptually they're thirds - - -

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JUSTICE ROSS: Yes.

PN102

MR BARKLAMB: You have a mandated set of increases you must do if you have directly award reliant people. One of the other explanations I was going to give for this leakage point, is your also have potentially enterprise agreements and you have expired enterprise agreements. And we don't quite know with some of those expired enterprise agreements whether there is no wage increase being provided, whether there might be something other than the wage increase provided in this matter, or whether it flows on.

PN103

JUSTICE ROSS: But in any event it would have to be above the minimum hourly rate in the award.

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MR BARKLAMB: It would indeed be.

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JUSTICE ROSS: Otherwise it would automatically flow.

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MR BARKLAMB: But it may have eaten up, your Honour, an earlier differential, or buffer.

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JUSTICE ROSS: Yes. Yes.

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MR BARKLAMB: That may account for this, as well. There may be timing effects. You're asking whether, in practice, one plays off one against the other, in a sense. That's not my wording, not what you put to me, but in shorthand terms. The answer is, in a small business, absolutely. Because if I have to pay in a small shop, if I have to pay an increase to employee A and employee B, the only place that can come from is my earnings, whether I pay myself a wage and the like. So we think there's a lot of proprietor diminution or stalling in wages there. But you might have, for example, one of the scenarios we were envisaging was, an employed shop manager, but not in the shop manager classification in the award, somebody more akin to a manager with responsibilities for purchasing decisions, for – say it's a fashion business, for style decisions.

PN109

You're paying them essentially a salary, not a wage. And we think that may also account for a degree of the leakage in some of these areas. But is it something that would stand some further examination and consideration over time. But we go back again to the Commonwealth's table 2.1, and it is 21 per cent of employees who are directly award reliant, and as we say in table 7.1, those figures are well less than 50 per cent. So some leakage would seem reasonably clear.

PN110

To continue, we previously spent some time addressing the panel on the construction of various pertinent provisions of the Act. We're not going to repeat those submissions today but we don't resile from our previous thinking about construction. And it may be in any future review that we return to those considerations, or even potentially a new expression of them.

PN111

I want to now turn to recent economic developments and risks, and when we talked about some of this in chapters 2 and 3 of our initial submission, which is where we addressed, incidentally, the range of individual indicators that the panel has regard to, and if any questions arise from those this might be a suitable time, or some other when we get to it. There are three things we want to focus on and they partly got to the matters that you're addressing my friends from the Australian Government on. The three things we want to talk about are our slowing economy, heightening risks, and that where there are uncertainties, the uncertainties seem to be towards the downside, towards weakening. And we say that the prudent course in light of that is to treat many of the unknowns in this matter with caution in the current environment, but with some greater caution.

PN112

Our initial and second submissions, in particular, illustrate a clear picture of this slowing and uncertainty and we can add to those, recent trade tensions globally, and official signals from the RBA directly prior to the stage of the review that points towards greater pessimism or some weakening in the outlook.

PN113

The ABS data shows GDP growth slowed considerably in the second half of 2018 down to 0.3 per cent in the September quarter and 2.2 per cent in December, compared to 1.1 in March and 0.8 in June. This led to overall GDP growth falling from 2.8 per cent in the year September 2018 to 2.3 in the year to December.

PN114

Forecast for domestic economic growth have also weakened. Treasury, the budget, and PFO, and the RBA through the most recent statement on monetary policy, continued to revise down forecasts for 2019-20 and 2020-21. GDP growth forecast for 2018-19 were revised down to 2.25 per cent from earlier expectations of 2.75 per cent. Similarly, forecasts for 2019-20 were revised downwards from 3 per cent to 2.75, with a similar adjustment for 2020-21.

PN115

Updates in the statistical report showed IMF data on the Australian GDP growth was revised down from an estimate of 3 per cent to an actual of 2.8, and projections were revised down for 2019 from 2.7 per cent on the 4 April to 2.1 per cent on 26 April, and this is the different iterations of the statistical reports show us this in real-time as these matters proceed. Similarly the IMF data on GDP growth for advanced economies was also revised downwards, both estimates and actuals.

PN116

The upcoming election and the potential for a change of government is also increasing uncertainty across a number of factors that will influence the economy, as well as minimum award wages, and indeed in due course as we will get to it, the living standards of the lower paid. This is of course not the place to prosecute particular policies. However, it is clearly foreseeable that policy changes following the formation of the next government may well have an impact on matters germane to these reviews.

PN117

It seems to us that after Saturday the panel may be in a position of reduced certainty regarding the impacts of why the policies on needs, capacities and living standards of the lower paid and the businesses that employ them, it certainly will merit caution given the debate on the effect of various competing policies to and fro.

PN118

We are concerned, for example, whether there may be a new element of uncertainty as to whether an incoming Labour government, were it elected, were it able to get its cost-saving measures through a changed Senate, and that would be germane to a number of areas of your consideration.

PN119

JUSTICE ROSS: But we don't - historically we've not had regard to any policy announcements, proposed legislation. We've consistently taken the view that you wait until it's enacted in law.

PN120

MR BARKLAMB: Absolutely, but the effect of foreshadowed changes create and uncertainty to the economy in some key areas, your Honour. But we are not arguing in any way to change the way this panel and the preceding minimum wage-fixers have looked at competing policies, we simply say that there's some uncertainty in regard to both the dynamics of the macro economy and the dynamics for some of the needs of the lower paid and incomes to the lower paid which could be created by the outcome in just four or so days' time.

PN121

JUSTICE ROSS: How? How was the income of the low-paid going to be affected in a way that we have to look at in this review by a change of government?

PN122

MR GRIST: There are some factors that both parties have indicated that they will support, so things like the low to middle-income tax offset and the like will affect household disposable income - - -

PN123

JUSTICE ROSS: In the out years.

PN124

MR GRIST: Yes.

PN125

JUSTICE ROSS: It has got to be legislated first, doesn't it?

PN126

MR GRIST: Yes.

PN127

MR BARKLAMB: Well, we're back to the same point. I think your Honour points to the long-standing understanding of the way that that's proceeded with.

PN128

VICE PRESIDENT HATCHER: So quite simply, that uncertainty should lead to a prudent approach. Is that what you say?

PN129

MR BARKLAMB: The point of raising it, we say, is that there is a downwards revision in a number of forecasts. The uncertainties - I think I attempted to frame as saying that where the uncertainties exist, the uncertainties are towards a downward scenario, and we say that the effect of the changes that have been foreshadowed play into that wider alchemy. But we do take his Honour's point that the Commission and its predecessors have a very firmly established approach at how to look at these matters, which is a standing one and one that we generally support.

PN130

I want to take you now, if we can, to the latest thinking of the Reserve Bank. There are three recent releases from the RBA, some of which are very new information, which we think are directly pertinent to the decision that the panel will make in this matter. The three things are the media release of 7 May following the most recent RBA board meeting; the minutes of the preceding April meeting, which were released on 16 April; and the quarterly statement on monetary policy on 10 May.

PN131

We note just in passing that you will have another set of RBA board minutes before you before determining your decision in this matter if we understand correctly. We would encourage the panel to engage with this analysis of the macro economy and outlooks. We think the RBA is a useful source. Again what we say is looking at this RBA material the outlook for the global economy remains reasonable, although the risks are regained tilted to the downside.

PN132

Growth forecasts are being revised downwards. Domestic uncertainty, or the main domestic uncertainty appears to be the outlook for household consumption, which is being affected by a protracted period of low income growth and declining housing prices. And we note that the Reserve Bank board itself appears to be in a position of some uncertainty and is looking at its monetary policy settings on an ongoing basis.

PN133

By far the most pertinent thing we want to raise is their observation on wages, that to some - some further - and I quote here from the most recent media release:

PN134

> *The RBA has indicated that some further lift in wages growth is expected, although this is likely to be a gradual process.*

PN135

What the RBA seem to be telling us here, and perhaps I might step myself back a step. We see this panel as with a firm responsibility on minimum wages, on minimum wage setting. Aggregate or average wage growth across the economy may be a pertinent consideration for some of your factors of consideration in determining the nonwage outcomes, but the panel is not responsible for the pace or breadth of average wage growth across the economy; for somehow kick-starting it all for somehow being responsible for it.

PN136

That is the responsibility of other areas of macroeconomic policies and government setting and the operation of our economy more generally. So what we say, though, is there is an indication, to the extent there is any relevance to that general macroeconomic observation, the RBA are telling us that consistent with the outcome in some other economies; the US and the UK, that were experiencing comparatively lower growth in recent years; there are signs towards returning or reverting to longer term trends.

PN137

On inflation we ask that you now to the RBA's observation that inflation for the March quarter was noticeably lower than expected and that this suggested subdued inflationary pressures across much of the economy. And again there was a later paragraph in the RBA's observations on spare capacity. This supports a few conclusions, principally that needs, prices and living costs are not rising by an amount that would justify an expansionist or high level of increase in minimum wages in 2019.

PN138

From the RBA analysis we see no basis for the panel to conclude that inflation will approach 2 per cent in the next 18 months, and we say this should inform the increasing of minimum wages and see a different approach to an outcome this year than that of recent years. We raise the RBA as its independent analysis supports our contention that minimum wages can increase. They can maintain or marginally increased in real terms. Our 1.8 per cent is now in excess of the rate of inflation, but risks and down-side revisions make this nought a year in which there should be a substantial increase well in excess of inflation and living costs.

PN139

Our first submission contained an extensive analysis indicated by indicator across the macro economy that was expended on after the budget. As I said, we don't intend to take the panel to this, but if there are any questions on particular indicators at this point, this may be an opportune time for a convenient time, as we are going to go onto the labour market.

PN140

PROF RICHARDSON: Not on your particular points in your initial submission, which was helpful, thank you, but we are getting two rather different pictures of the state of the macro economy and the labour market from the government on the one hand and from you on the other. So if I can go back to what we've previously been told this morning, the Australian economy is solid, expecting growth at - I hope I'm not misrepresenting you - expecting growth at the estimated potential rate, and the low dollar is supportive of that growth.

PN141

So that's one view, and you're putting a view that: hang on, the brakes on and we are heading for a much more negative next year or so. I'm just finding it difficult to reconcile those two positions.

PN142

MR BARKLAMB: I will ask my colleague Mr Grist to answer that question if I may, Professor.

PN143

MR GRIST: We are aware that - sorry - that there is - sorry, I will start all over again. What we've observed over the last six to nine months is a weakening economy with GDP and also employment rate has remained relatively stable over the last probably nine months since September. So we're not necessarily talking down the economy, but we are observing that the economy has slowed in recent months and it is likely - there is uncertainty about it into - to begin to pick up over the next three to six months or 12 months.

PN144

But just observing the indicators over the last six to nine to 12 months, there has been a significant - and we're uncertain about the relative rate that it will pick up.

PN145

PROF RICHARDSON: So you would disagree with the government that the economy is operating at close to its potential?

PN146

MR GRIST: We don't directly disagree, but we think there is some uncertainty and there are still risks out there.

PN147

MR BARKLAMB: Perhaps rather than disagreement, Professor, points of emphasis on uncertainty and risk, would be how we would seek to present our position. On the labour market, and this goes perhaps to the point you may be somewhat pointing to, there are obvious strengths in areas of our economy. Employment continues to grow up to 0.2 per cent in March 2019 and 0.5 per cent for the March quarter; up 2.4 per cent for the year to March and 2.2 in the year to December.

PN148

Unemployment appears to have settled at a low of 5 per cent, which is historically comparatively low, but the RBA indicates there's still scope for it to fall towards a more contemporary understanding of full employment, which would be closer to 4.5 per cent. And certainly too many of our fellow Australians remain unemployed and remain under-employed.

PN149

The labour force continues to grow, although the participation rate appears to have peaked at around 65.7 per cent. Growth is keeping pace with increases in the working-aged population. Slack in the labour market continues to be taken up as under-employment continues to trend down, although we freely put that it's too many of our fellow Australians are both under-employed and unemployed, down to 8.6 per cent in March 2019 compared to 9 per cent a year earlier.

PN150

These are all positive signs for our labour market. They show a healthy, tightening labour market, which feeds into this wider pressure, to begin to see pressures exerted on wages growth across the community.

PN151

As the RBA point out, wages growth returned to longer term trend levels of wages growth as a gradual process, and we believe that the panel, to the extent it's relevant - and we've had a discussion about the extent to which it is directly relevant - believe the panel and wider analysts can have confidence that wages will recover; but we can't have confidence, as we indicated before, that a high minimum wage increase, so comparatively high minimum wage increase in an environment of uncertainty and an environment of some revision downwards in forecasts, will not interrupt employment growth or cause difficulties, be they localised ones, as we went into the discussion earlier.

PN152

305,000 jobs were created in the year to March 2019, and overwhelmingly they were full-time jobs rather than part-time jobs, and that's an accelerating concentration for full-time job creation. Our key point is that the labour market is travelling well and is delivering opportunities and incomes to some of those who are more marginally attached and those who are most likely to suffer detriment if demand were to fall or risks were to come to pass, and this is positive for workers, jobs, jobseekers and communities. That is a positive that is increasing or addressing or benefiting the various areas the panel is directed to take consideration of, without a minimum wage intervention, and we don't want to in any way shock, disrupt, or interrupt the momentum of jobs growth, and that would be through any public policy or regulatory intervention we make in our economy.

PN153

On wages, we have already addressed the question of comparatively slower wage growth across the economy. A key point we want to make, and we're not sure the extent to which any particular party is arguing this, and we're certainly not associating it with the panel, but the panel is not tasked with any task of stimulus or resuscitation for wages growth, and indeed, in saying those words, that's the thinking we were at 18 months or two years ago. There are signs of healthy pressures on wages growth across the economy, which make that type of language, that type of thinking, less urgent and less pressing than there was, and the consequences of doing so, we say, would be very concerning of any way seeking to inflate wages growth. That is being put as one necessary intervention in our labour market, that we must somehow kick-start wages growth through high minimum wage increase. That's a proposition that's being put before you by the ACTU and others. That's not something that we say finds favour in the balance of considerations the panel has in the Fair Work Act, nor indeed in the way you have gone about it. We have nine decisions (indistinct), I think, to date, and a well-developed communication from the panel about how it will look at its tasks and the balance of considerations it will have regard to, and we say when you look at that, colleagues who are prosecuting wage increases utterly discordant with the outcomes in these reviews - in the old language, what we would say is ambit - are not seeking to commend a course of action to you that is consistent with the Act. So we didn't need to know more really than note on wages that wages are increasing, and they are increasing faster than prices in a number of areas albeit at comparatively slower rates than the historic or longer term trend norm. Pace and perception of pace of wages growth is presenting concerns, but the reality is that wages growth is broadly in line with other indicators and the economy is still delivering real wage increases.

PN154

I want to just mention that youth unemployment obviously remains a concern, and a pressing public policy concern, not only in Australia but in comparable developed and developing economies throughout the world. The minimum wage represents the entry point into the workforce for the majority of young workers and a stepping stone to higher paid employment. This is an area that is very important we get right for our young people, and we note that the transitional point addressed at table 7.1 of the government's submission on page 62 - I think that would be the primary or first submission from the Australian government -

that by far the majority of employees employed on the minimum wage transition from that rate very rapidly within a period of years. This means that we are talking, when we focus on the national minimum wage itself, the $719.20 rate. We're focusing on a very small fraction of a very small fraction of our labour market, and by far, as is so clear from the statistical report, by far the majority of the impact of this decision is to higher award rates, higher skill classifications and indeed a percentage increase, which we in no way dispute the panel should award incidentally. We clearly say whatever increase you hand down should be in percentage terms. That has a higher differential effect at higher rates.

PN155

Just pardon me, if I might just take a moment. I might pause there, your Honours, panel members, and just indicate I've got two more sections of my submission to go, but they may take some time. One is on the living standards and the needs of the low paid, and the second one is the additional or procedural matters that I wanted to briefly go to.

PN156

JUSTICE ROSS: Well I can help you with the last one. We won't be - it's a hypothetical proposition that has been put in the letter. I've received the letter. It will be published on the website in due course. In the event that there is a change of government and an application is made in whatever form, then parties will be given an opportunity to comment on that. But I don't see any purpose in you commenting on it now.

PN157

MR BARKLAMB: Your Honour, may I just have a moment to review my planned engagement with that issue and see if there's anything I can usefully assist you with?

PN158

JUSTICE ROSS: Sure.

PN159

MR BARKLAMB: No, I thank your Honour for that, and I think it would be - I would perhaps only make this point, and it's one about timing. The panel has a process through to provide our members with due notice of pending wage increases on 1 July.

PN160

JUSTICE ROSS: I'm aware of the timing.

PN161

MR BARKLAMB: Yes, and so, look, I probably don't need to assist you further. We are concerned about uncertainty. We would like the opportunity to review and potentially be heard in relation - if were such an application made.

PN162

JUSTICE ROSS: Indeed.

PN163

MR BARKLAMB: Yes. Thank you. I'm indebted to your Honour for that indication. On that, let me briefly conclude then, I guess, this morning on needs. We addressed living standards and needs in chapter 6 of our first submission, and in section 3 at point 3 of our second, and at some length 3.1 of our third and most recent. Our key contention is that needs are increasing slowly, as measured by the living cost index and the CPI, and minimum wages and other sources of household income are more than keeping pace with them. Australia has one of the lowest levels of wealth inequality, and one of the narrowest wealth distributions of all OECD countries. The OECD places Australia at the highest levels for net wealth composition of the poorest 20 per cent of households, and third highest for the middle 20 per cent of households. This is derived from the OECD's wealth distribution database and a publication entitled, "Inequalities in household wealth across OECD countries, evidenced from the OECD wealth distribution database of 20 June 2018." We apologise for not including this in earlier materials. It's an addition today as we sought to put out our oral submission in context, but we'll provide your Honour that reference by way of an email to the administration of this review.

PN164

In addition, of course, Australia has the second highest minimum wage in dollar terms, behind only Luxembourg. This has an impact, along with taxes and transfer payments, in our substantial and complex economy and labour market. As shown in table 8.6 of the statistical report, only a small subset of minimum wage employees at C14 level have a household disposable income below 60 per cent of the median household disposable income, and that's the various scenarios, and I will just, pardon me, get my statistical report open to table 8.6 as I go through this.

PN165

JUSTICE ROSS: Which table?

PN166

MR BARKLAMB: 8.6, your Honour. It's the large landscape table of the ratios of disposable income of selected households earning various wage rates to a 60 per cent median income - well the poverty line; we would probably prefer the term "a comparator" - but it's the 60 per cent median income for illustrative purposes, not that we concede that that is determinative or germane to fixing the rate. So what we note from that table, and we did an analysis between the three broad columns on it, and what it shows in each and every one of the indicators between 2013 and 2017, and 2017 and 2018, in each case the ratio has gone up compared to that 60 per cent of median income level. It's also worth noting that there has been a steady increase in the circumstances based on that measure. Having a closer look, the numbers greater than one show a household that is already at or above the 60 per cent median comparator against household disposable income.

PN167

As I said, the situation for every household type has improved, and during this period the panel has handed down real increases, but to the extent to which they've exceeded inflation has varied. In some years they were substantial real wage increases; in other years more marginal ones, closer to 0.1 percentage points, from memory, above the inflation figure. We have a think about this, and what it seems to be telling us is that either it's not the minimum wages that are determining the adequacy of household disposable income, or that the panel need not try to exceed its longer term average level of increases across the business cycle, which is roughly in the 2 per cent range rather than the 3 per cent range. So you can see here, if the longer term average of increases in these matters is yielding these improvements, that we say there's not a basis necessarily to depart from, and not that we would all resile from our overall position of 1.8 per cent.

PN168

We also say that, again, and as we've said repeatedly, that the minimum wage is a very blunt tool for trying to address persons living in poverty, and that seems to be accepted in regard to competing policy propositions under debate at the moment. And there seems to be a suggestion - and we'll wait until our colleagues put this to some extent - but we understand the ACTU may be talking about a degree of homelessness for people working on minimum wages. We are yet to see that material. I think that was reported yesterday. On this data, we're very sceptical about that. I mean, we'll wait and see and hopefully have an opportunity to react to it if we think it will be of assistance and not distract and be a waste of time. But it seems to us that you've got a range of scenarios where, under the range of household scenarios, very many of those are meeting the 60 per cent median comparator, for want of a better word, and in each and every circumstance they have got better across that period. So in a way, you could argue that there's not a lot more that the minimum wage part of this complex equation can do.

PN169

We also note, looking at our third supplementary submission, which I'll go to in a moment, but that minimum wage and award-reliant people are present in the income distribution of all households. So we're of the opinion, and we put to you, that rating the minimum wage is going to have a minimal effect in raising the lowest persons on this equation out of poverty, and I want to take you, I think now probably most usefully - apologies - I want to finish by addressing something from our final supplementary submission where we had a little confusion, and we think it's useful to raise this with you because perhaps we misunderstood, but we think there is a germane point here potentially to have a look at this. This is question 3.1 on living standards and the needs of the low paid. It was a long question and it put two propositions to us ultimately, but what we have done in our written response is to go through and parse or analyse the reasoning to get there and respond to it.

PN170

Most pertinently, our material, or the relevant part of it, starts at paragraph 29 on page 6 of our final submission dated 15 March. It says:

PN171

The available data suggests -

PN172

and this is based on chart 1, we understood -

PN173

that 25 per cent of award-reliant workers live in households that are in the second lowest quintile of the distribution of the equivalised household disposable income, and a further 30 per cent are found in the middle quintile.

PN174

Looking at chart 1, just before we go into the detail of this - and essentially I am to some extent asking for a - I'm asking a question because we had trouble engaging with this - but just looking at chart 1 first of all, it didn't seem particularly remarkable to us. So if we understand the grey columns to be the distribution of household incomes, that looks like a fairly normal distribution, and that would make sense in an economy - in our economy. And then we understand - and it was a little confusing, and it wasn't necessarily greatly elucidated by looking back at the Jimenez and Resendez (?) research - but the idea that you have a concentration of award wage earners towards the lower end of the distribution of households and a downward slope to the upper end of it, that didn't seem remarkable to us either. Perhaps we were a little surprised that it was so gentle a slope, and that there were so many. I think I mentioned earlier 34 per cent of people, adding up those figures, look like they live in households in the upper half of the income distribution. Regardless, we tried to get those 25 and 30 per cent figures, from what we presume should have been the darker columns, and we couldn't. So respectfully at 31 we answer the question we thought we were being asked, which was:

PN175

Does the data suggest that 27 per cent of people live in households in the second lowest quintile and a further 21 per cent in the third or middle quintile?

PN176

So looking at that we said to ourselves well the starting point in any analysis has to be to look at whether the percentage of people or the distribution of people differs from what one might expect. Being fairly simple mathematically you would expect a quintile to have 20 per cent of the distribution in it, it's 20 per cent of the people. So we see 27 per cent of people being in the second lowest quintile, or 21 per cent in the middle quintile not being particularly remarkable or illustrative of very much at all. All we see there is that minimum wages essentially are supplying perhaps a higher proportion of household income or more present in incomes towards the lower end of the income distribution. We don't think this is telling you anything about level, or anything germane to the decision that you want to reach.

PN177

I think in essence that's the point we were trying to make. We commend our written material to it, you'll see we've been through it in some detail trying to engage with this but I raise it today really to see if there's a question from the Bench that we can assist with, having looked at this in some detail and tried to engage with it this morning.

PN178

PROFESSOR RICHARDSON: I've read your submission in reply thank you and it was helpful, and I appreciate the effect that you've gone to, to engage with the question. I think the essential point of the question was not to say there's anything remarkable about where award reliant workers are found in the distribution across all households. As you'll be aware that's not a distribution that we normally would like to rely on - well, take into account because it includes all the people who are not in employment.

PN179

The reason that we use that distribution in this question is because it relates to chart 8.6 in the statistical report. So when we're inviting you to comment on that first proposition, it was just about do you agree that those data are broadly correct, not do we draw particular inferences about needs from that distribution. It was the link to the second chart which is in the statistical report chart 8.6.

PN180

MR BARKLAMB: Yes, indeed.

PN181

PROFESSOR RICHARDSON: Right. And chart 8.6 uses that distribution across all households, not just employee households.

PN182

MR BARKLAMB: Yes.

PN183

PROFESSOR RICHARDSON: So in order to compare like with like we had to use the distribution.

PN184

MR BARKLAMB: Indeed, I think we address that at some length in the second half of our answer roughly and including from around paragraph 57 I think we talk about that it must be the other sources of income.

PN185

PROFESSOR RICHARDSON: You do.

PN186

MR BARKLAMB: Given that indeed - well throughout that period, throughout the period 2007 to 2011 there were consistent real wage increases bar the year that the former Australian Fair Pay Commission paused minimum wages in 2009, but there was a higher than normal increase in the first one of this panel. So during that period, during the two periods - looking at chart 8.6, the period covered by the darker columns was a period in which there were real wage increases bar one year. That is in fact the year in which there are positive changes in disposable income.

PN187

In the second period, the grey columns, was actually the most consistent period of the panel in which your Honours, panel members, have delivered real wage increases each year. So our core contention would be if there's this variation, if there is a decline in growth in the second quintile - sorry, a reduction in the rate of growth in the second quintile and even though negative growth in the middle quintile that it's got to come from somewhere other than the wages component of those household incomes. Because we say either it's either been constant - - -

PN188

PROFESSOR RICHARDSON: The award wages.

PN189

MR BARKLAMB: Yes, the award wages have either been relatively been constant there, I think it's 2.7 or 2.8 per cent increase across what we see is the business cycle, the last seven increases or so, but certainly real wage increases in each year. So it's got to - whatever the causation is there it's probably, we'd respectfully say, not something that lies within the remit or control of the Bench here, which has been awarding real wage increases each year.

PN190

PROFESSOR RICHARDSON: We do know that there have been small increases in the real wages of the award reliant in that period, because it finishes in 2015/16, so it's not the last two years of wage rise, so they've been quite small. What we don't know is what's the counter factual. What would that grey bar have looked like in the absence of any increase in award rates of course. But I do take your point that this must be being driven. This decline in the weekly equivalised household disposable income of the middle quintile must be driven by factors other than award rate - increases in the award rates.

PN191

MR BARKLAMB: Thank you, professor. I think we'd say in regard to that - I'm indebted for your analysis from the Bench there. I think we'd say that you would need to see updated data before you could engage with this matter further. We'd almost need to see a third column after the previous two increases, not that we would in any way concede that they'd be determinative but we'd like to see a third column to see where this has gone and think about it a little further and engage with you a little further.

PN192

PROFESSOR RICHARDSON: Good, so would we. We just have to wait for the date.

PN193

MR BARKLAMB: Pardon me just for a moment, your Honour.

PN194

PROFESSOR RICHARDSON: Thank you.

PN195

MR BARKLAMB: Your Honour, panel members, if I just might flick to my very last page of what I had intended to say and to close. Unless there are any additional questions. Can we - I apologise, I've forgotten the first of my procedural matters, I got rather distracted by the rather more significant one. Can we offer a constructive suggestion, hopefully constructive suggestion for the future. Just pardon me for a second. I mentioned I had practical issues and your Honours disposed of the second of those. Can we just make a brief proposal on the statistical reports for the future. Can I start by I think we made some of them here with us today, by thanking the team that prepares those and the initiatives of the panel to provide that shared set of facts. You can see this morning how useful it was as a signpost for our submission.

PN196

At present the document on the website just changes quite a few times through the process of the review, and the old versions come down off the website, they get replaced. You'll see that we actually at some point in our submissions, we've tracked the changes between one and the other and we think that's really interesting and potentially germane information. It gets a little confusing when they come down and could be a bit less useful than it could otherwise be, so our idea for the future we'd ask you to consider would be that the reports be numbered iteratively.

PN197

JUSTICE ROSS: Sure.

PN198

MR BARKLAMB: 2020, volume number 1, number 2, number 3 with the dates.

PN199

JUSTICE ROSS: Yes.

PN200

MR BARKLAMB: And they stay on the website stacking themselves up so we can then look back, and then you can say well over the course of this review you've seen the IMF growth forecast revised upwards or downwards dynamically across the period these have been produced. If we were to push our luck we'd like a little indication on the front cover of which tables change between 1 and the next but that's a - - -

PN201

JUSTICE ROSS: Getting marginally more demanding but - - -

PN202

MR BARKLAMB: Yes, I mean that would actually be quite useful to know when - because on the surface - - -

PN203

JUSTICE ROSS: So just a note saying this edition updates tables x, y and z.

PN204

MR BARKLAMB: Yes.

PN205

JUSTICE ROSS: No that's fine, yes.

PN206

MR BARKLAMB: That would be very useful, and I think with that your Honours, panel members - - -

PN207

JUSTICE ROSS: Anything else, Mr Barklamb?

PN208

MR BARKLAMB: I'd like to say thank you to the panel and to the team behind you that prepares that material and assists in the review process, which has been as ever helpful throughout and if we can assist in any further way with any matters raised by the panel we look forward to doing so.

PN209

JUSTICE ROSS: Thank you. You mentioned - I've not seen the media report but the issue around homelessness and I'm not sure about the context in which it's put, and this was - you were referring to this as an argument the ACTU was proposing to put presumably tomorrow. You said if you've got anything you want to say about that. I'm just not sure what process you envisage for that. I mean you can certainly - you're welcome to come tomorrow and if they say something then respond to it but I'm not sure what you had in mind.

PN210

MR BARKLAMB: Your Honour absolutely, I thank you for that question because we - and this alludes to something which we don't want to go too much further with today. We don't want to be at all a party that's seeking to perpetuate or grind through or continue these matters. No, we pointed to that - it was in the nature and this is the difficulty because we've got a parallel conversation, we've got a technical conversation or a substantial or evidentiary conversation in here, and we do indeed have a parallel media conversation and this year we have a political or electoral conversation, we've got a double parallel.

PN211

All we wanted to say was that we were very sceptical based on the very rigorous information we've got on needs that there would be such a high degree of homelessness of people in receipt of minimum wages. Now homelessness is a very serious issue in our community - - -

PN212

JUSTICE ROSS: But really I mean we're not going to be looking at it on the basis there's some media report in an election context.

PN213

MR BARKLAMB: No, no, no.

PN214

JUSTICE ROSS: So I'm really looking at in the event that the ACTU puts something forward tomorrow, then what follows from that, I wasn't sure if you wanted some opportunity to respond to that or what you were saying. But if it's - look if it's a comment that someone's made well we all do that and we rely on the submissions you make rather than the media clippings about what they're reporting you saying, is the short answer to that.

PN215

MR GRIST: Yes, to some extent it just links back to what Mr Barklamb was saying about the poverty levels and the fact that the majority of full-time and - people working full-time on a minimum wage are considered above the arbitrary poverty level of 6 per cent to minimum wage - - -

PN216
JUSTICE ROSS: Yes, the relative poverty line, yes.

PN217
MR GRIST: (Indistinct).

PN218
JUSTICE ROSS: Right.

PN219
MR BARKLAMB: Thank you, your Honour. Look - - -

PN220
PROFESSOR RICHARDSON: Sorry, could I just - have you finished, Mr Barklamb?

PN221
MR BARKLAMB: Indeed. Perhaps I'll just say this. We don't intend to take that any further. If it were substantively relied upon by any party as new material we'll have a look but we understand the process has to finish.

PN222
JUSTICE ROSS: In any event you'll be following the consultations tomorrow - - -

PN223
MR BARKLAMB: Yes.

PN224
JUSTICE ROSS: - - - so you'll see what happens, yes. Thank you.

PN225
PROFESSOR RICHARDSON: I would just like to direct your attention to the substantial submission by the ACTU on recent research on the employment effects of increases in minimum wages covering research in the US, the UK and some small amounts in Europe and across national. I'm just wondering if you have any observations that you would like to make about that?

PN226
MR BARKLAMB: Yes, thank you, professor. Perhaps these cases have changed their character a little from the times that his Honour sat through me talking for two days in the past where I would (indistinct) rigorously and in the more adversarial context every contention made by our colleagues and reply to them. We have not spent a lot of time with that particular element of the ACTU's research but you've asked the question about what the panel effectively is to make or I interpret your question as what is the panel to make of employment effects research more broadly. It's been well traversed for some period.

PN227

We are concerned about the applicability and transplantability of research across national contexts. So we're very concerned about what can be extrapolated from a first time minimum wage to a mature minimum wage. We're concerned about what can be translated from academic research on a single minimum wage to the multiple minimum wage interventions we made in Australia, which are essentially unparalleled in any other national or regional system on earth to have so many wage stratification points for minimum wage regulation. We are, as I say, concerned about a first time minimum wage, so we hear - essentially this is in my rather vernacular way of putting it. The UK's put in a minimum wage and they're stretching it and stretching it and stretching it. That's a very different scenario than a minimum wage that has within those rates the Harvester judgment, the Piddington inquiry, the Depression, World War II, equal pay. These rates have a rich history, behind that number are relativity, structural efficiency, broad banding, all sorts of complex causation into those rates that the panel inherited from its predecessors that make it very different and distinguishable from a first time minimum wage which is exploratory, and is being tested to see where its bite on the market is.

PN228

In the US you have the problem of minimum wages that are not varied for many years. We say you can clearly distinguish a minimum wage which is varied periodically based on the political cycle and the legislative win, from one which is increased not just annually but across our history at times quarterly. So very, very different - so we're very cautious about that extrapolation, particularly from research, and this is not just in a partisan or bias sense from us but particularly from research which purports to show that minimum wages can be increased without observable negative effect.

PN229

Because - and we've mentioned to you, I mean economic orthodox, economic theory has a place, perhaps it's just not been tested to the point of being demonstrated in those systems but also, and we started on this, those we represent tell us so clearly that high minimum wage increases are difficult operationally, even existentially for some small businesses to deal with. That's obviously the assessment you make. So I think ultimately we question the utility of some or the utility and applicability and extrapolation from some of that research to our domestic system. Thank you, panel members, your Honour.

PN230

JUSTICE ROSS: Thank you, Mr Barklamb. Nothing further? Thank you, we'll adjourn until tomorrow.

ADJOURNED UNTIL WEDNESDAY, 15 MAY 2019 [11.31 AM]