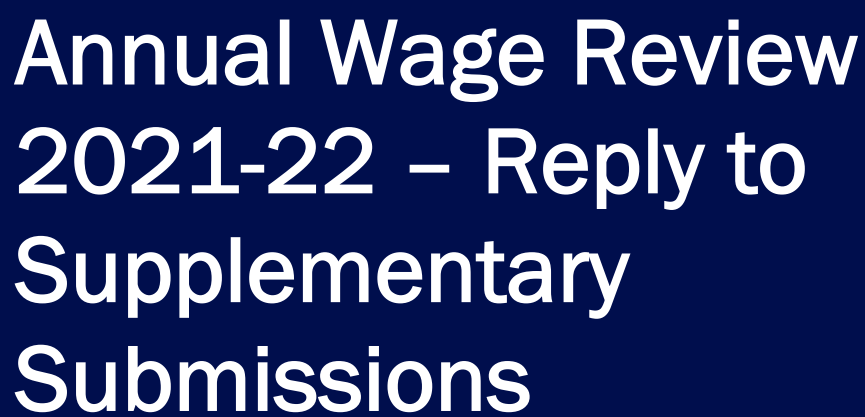

Annual Wage Review 2021-22 – Reply to Supplementary Submissions

ACTU Submission, 8 June, 2022
ACTU D. No 21/2022

australian council of trade unions

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1. This brief submission responds to the supplementary submissions of other parties. We are disappointed that the submissions of major employer associations have no regard to the increasing costs of living burden faced by the employees who rely on the Panel's decisions. It seems to us that the overriding concern of employer associations is to establish a precedent whereby ever diminishing differences in industry performance, on any measure and for whatever reason, become a basis to delay wage increases to low paid workers year after year. Whilst we have dealt with the employer's arguments extensively in our prior submissions to this review, we once again urge the Panel to not allow the exception to become the rule.

2. We also take this opportunity to inform the Panel that the ABS labour account data for the March quarter 2022 was released today, which provided yet further evidence of high labour demand. In it shows an increase of 0.6% in total jobs, an increase in filled jobs of 0.4% and a 4.6% increase in job vacancies in the quarter. The change in the number of jobs as well as the decrease in secondary jobs (-0.4% over the quarter) and multiple job holders (-1.3%) provides some context for interpreting some of the negative movements in payroll jobs indexes as was discussed in paragraphs 101-102 of our supplementary submission.

Australian Business Industrial

3. Australian Business Industrial ('ABI') cite downside risks to the economy including consumer confidence, business confidence and rising costs.

4. As noted in our supplementary submission, in recent times consumer confidence has been dragged down by consumer's perceptions of their financial well-being. In our view, raising incomes may go some way to supporting that measure, particularly in an environment of rising costs (which ABI does not seem to acknowledge are also faced by households). Meanwhile, business confidence on the measure that ABI chooses to rely on in Chart 1 of its submission is clearly on the rise and looks to be at around the level experienced pre-pandemic in September-December 2019. Whilst ABI asserts that "fragile consumer and business confidence may linger for some time as the community adjusts to living with COVID safely, delaying the full recovery of the economy", it is not immediately apparent either what further adjustment remains to be achieved or what a "full recovery" entails in ABI's conception. The current level

(or rather absence) of public health restrictions is reflective of professional and political assessments of acceptable risk (with which we accept there is much contention) and they do not appear to be a constraint on economic activity in the latest available data.

5. ABI's claim that total labour costs have increased by 9.6% between December 2021 and March 2022 is attributed in Table 2 of its submission to the ABS Labour Account release of December 2021. That release did not contain a March 2022 figure, not was any later release available as at the date ABI filed its submission. The March 2022 figure became available on 8 June 2022 and showed that total labour costs rose only 1.8% between December quarter 2021 to March quarter 2022.[1] ABI's argument in reliance on Table 2 of its submission that labour costs have outpaced growth in income from sales of goods and services is not sustainable.

6. Whilst ABI claims that it has "received" anecdotal evidence that "the long term closure of international borders continues to severely hamper recovery of the accommodation and food services industry", this is difficult to substantiate using the data from the National Accounts. Chain volume Gross Value Added is 1.1% less in March quarter 2022 than it was in March quarter 2020 in that industry, yet the industry fell 3.3% between September quarter 2016 and December quarter 2016 with no collapse in arrival numbers or closures of international borders. Gross value added in March quarter 2021 in that industry was only 0.6% below March quarter 2020 levels yet the international border was also closed to tourists at that time. Whilst it is obvious that international tourists stay in hotels and spend money in restaurants, the extent to which the fortunes of the sector as a whole are dependent on the patronage of international guests seems based on assumption rather than measurement. Few could argue that quantities are important, yet ABI invites the Panel to treat the $113m shortfall in Gross Value Added in the sector in March 2020 compared to March 2022 as evidence in support of a deferred wage increase to awards in that sector, while at the same time regarding the $216m greater Gross Value Added in the arts and recreation sector in March 2022 compared to March 2000 as supporting that same conclusion in respect of arts and recreation sector linked awards.

[1] ABS 6150.0.55.003 – Table 1.

7. Whist we agree with ABI that many award reliant industries exhibit volatile patterns of employment, when viewed in light of the vacancy data we do not consider that this reflects that they have not recovered from the adverse demand side impacts of the pandemic. ABI essentially doesn't bother to mount a proper case for a deferral based on exceptional circumstances and merely "recommends" the outcome it sought in its initial submission. It is not an outcome which the evidence supports.

Australian Chamber of Commerce and Industry

8. The Australian Chamber of Commerce and Industry (ACCI) once again repeatedly bemoan the debt burden faced by business and also, once again, fail to present any evidence to support their complaint. Nor is there anything beyond the business conditions and sentiments data offered in justification of the assertion that "businesses are finding it difficult, or are unable, to pass on these increasing costs to their customers". We refer in response to the cumulative data relating to price setting expectations contained in paragraphs 87-94 of our supplementary submission and further suggest that Consumer Price Index, by design, reflects the effect of businesses passing on costs to consumers.

9. ACCI begins its discussion of the March quarter National Accounts data by claiming that GDP growth reflects the "strong headwinds from the COVID omicron outbreak". However, it goes on to undermine (if not contradict) that bold statement by noting that "people appeared confident that economic conditions were improving and were prepared to spend" and describing "growth powered by household spending…stimulated by discretionary spending on travel, hotels, restaurants cafes, recreation and cultural activities" (i.e. spending in sectors that it later goes on to describe as warranting deferred wage increases on account of exceptional circumstances). In our reply submission, we set out the basis for our scepticism concerning claims that there was a "shadow lockdown" in early 2022. The material presented in our supplementary submission is also inconsistent with those claims.

10. Another area of confusion in ACCI's submission emerges from the discussion of their complaint about the use of job vacancy data in the information note prepared by the Fair Work Commission and Professor Borland. Whilst ACCI ultimately seeks that the outcome in this review should be a product of "Applying the approach taken by the Panel in the 2020-21 Review", ACCI seems to concede that the circumstances in this review are indeed very

different. On page 7 and page 8 of its submission, it identifies that employees working in some of the award reliant sectors for which it seeks deferred wage increases are choosing to work elsewhere. It also concedes that that there are high vacancies which "are a constraint on businesses capacity to operate at full capacity". In our view, it defies logic to place the industries facing such constraints in a position where the industries with which they are evidently competing with for workers will pay higher wages in the immediate short term. Moreover, ACCI seems to ignore two important facts about job vacancy data. Firstly, as discussed in paragraphs 27-29 of our reply submission, the more recent data tends to show that a greater share of vacancies are attributable to increased workload and that there has been a full recovery in (if not surpassing of) the pre-pandemic share of vacancies attributable to business expansion – both signals of demand for goods and services. Secondly, job vacancies as defined by the ABS[2] are a direct signal of *actual capacity* to pay wages – the polar opposite of the *incapacity* to pay wages which is an essential ingredient for any successful claim that there are "exceptional circumstances" justifying deferred wage increases.

11. ACCI, like ABI, also fail to acknowledge the impacts of rising energy costs on households and invite the Panel to draw opposing conclusions on movements in GVA between accommodation and food services and arts and recreation services.

Ai Group

12. In their list of points of relevance from the March National Accounts, Ai Group's supplementary submission curiously omits the fact that productivity grew by 1.7 per cent in the March quarter and by 2.8 per cent in the year-to-March (a substantial improvement over the December National Accounts, where productivity fell by 0.8 per cent in the December quarter and grew by 1.9 per cent in the year-to-December), while real unit labour costs fell 2 per cent in the March quarter alone and fell by 2.7 per cent for the year-to-March. Meanwhile, profits (gross operating surplus, private non-financial corporations) grew by 7.3 per cent in the March quarter and by 21.6 per cent for the year-to-March.

13. Indeed, on page 14 of their supplementary submission, Ai Group claims "given that businesses will face rising wage pressures, given stagnant gross profit growth, low productivity, other

[2] See ABS 'Glossary' in Job Vacancies Australia Methodology

input cost pressures, worsened cash positions, and already dwindling survival rates, businesses will be forced to pass input cost pressures to consumers in the form of price hikes (59% of retail operators expect prices to rise). Such price hikes could result in rampant inflation and the RBA will respond with increases in interest rates." Once again, Ai Group is misleading the Panel on labour productivity growth. The productivity growth recorded in the March National Accounts illustrates businesses can afford modest real wage increases without adding to inflationary pressures.

14. On page 4 of their supplementary submission, Ai Group claims:

> "Furthermore, while changes in all industry gross value added (GVA), gross operating surplus (GOS), and compensation of employees (COE) seem to indicate that there has been a converging of the ratio of GOS to GVA and COE to GVA (chart 3), i.e., both owners and employees likely benefit from increases in profits, further investigation reveals that in certain sectors, particularly retail and arts and recreation services, there has been a shift from GOS to COE (charts 4 and 5). A significant portion of increases in GOS are skewed towards the mining sector, with the change in mining sector GOS accounting for 102.4% of the economy-wide change in GOS over the last quarter by sector (including ownership of dwellings) (chart 6)."

In our view, the shift the Ai Group describes reflects a return-to-normalcy after a bump in profit growth due to COVID-related subsidies. This lack of appreciation of the relationship between subsides and the measurement of GVA, GOS and COE is a fundamental weakness in their analysis. We include at Appendix 1 a detailed explanation of the interaction of these measurements and the influence of government subsidies on them in recent years. Moreover, the Wage Price Index is a better measure than Compensation of Employees, because the WPI measures changes in wages on a fixed bundle of labour hours, whereas the COE does not. So COE can increase because workers are working more hours and working overtime (at the cost of their leisure time).

15. In any event, the "convergence" of the ratio of GOS to GVA and COE to GVA only stretches back to June 2021 according to Chart 3 of their supplementary submission. The Ai Group selectively wants the Panel to use a period less than 12 months old to deduce that rising profits are benefiting workers, but ignore data from this same period showing WPI growth is roughly half that of inflation and that productivity has grown strongly. Their claim that this recent convergence shows "both owners and employees likely benefit from increases in profits" is both speculative and tenuous. Moreover, it is not substantiated by real wage growth, which

continues to be (increasingly) negative, nor by the surge in GOS, despite the robust productivity growth of 2.8 per cent for the year-to-March.

16. Ai Group's claim that "in certain sectors, particularly retail and arts and recreation services, there has been a shift from GOS to COE" does not appear to be substantiated by the data Ai Group cites in Charts 4 and 5 of their supplementary submission. Chart 4 shows the ratio of GOS to GVA for the retail sector is higher today than it was prior to the pandemic in March 2020, and the ratio of COE to GVA for retail is lower than it was in March 2020. Furthermore, Chart 4 shows that GOS-to-GVA has increased over time while COE-to-GVA has decreased over time. The former is higher than it was at the beginning of the reference period (2002) while the latter is lower than it was at the beginning of the period. As for the arts sector, Chart 5 indicates GOS-to-GVA is higher than it was at the beginning of the pandemic (March 2020), while COE-to-GVA is slightly lower. GOS-to-GVA also spiked dramatically for both sectors during the pandemic, while COE-to-GVA contracted sharply in the arts sector.

17. Ai Group's claim that "a significant portion of the increases in GOS are skewed towards the mining sector, with the change in mining sector GOS accounting for 102.4 per cent of the economy-wide change in GOS over the last quarter by sector (including ownership of dwellings) (chart 6)" simply means that mining is doing exceptionally well compared to other sectors, not that other sectors are doing poorly or that they cannot afford wage increases. Indeed, in the very retail trade sector where Ai Group highlights the respective ratios of GOS and COE to GVA, profits grew 25.3 per cent for the year-to-March while compensation of employees grew by only 1.4 per cent according to the latest ABS Business Indicators.

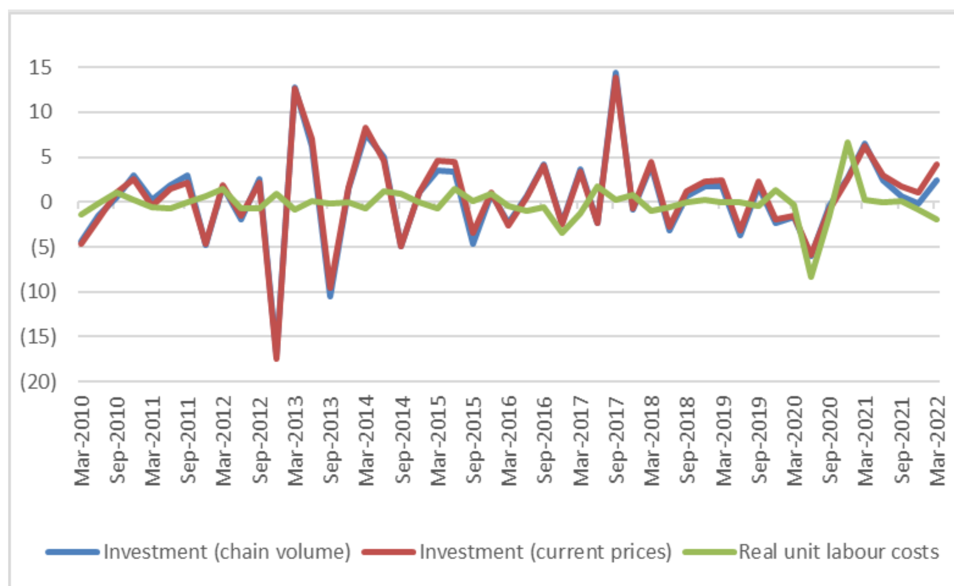
18. Ai Group claims on page 5 of their supplementary submission that:

> "The aforementioned developments with regards to falling cash surpluses as a proportion of gross value added by industry (particularly in retail and arts and recreation services) indicate the worsening cash position of businesses and are representative of issues that businesses are facing with regards to supply chain crises, labour shortages, and extreme weather events."

We dispute this, because, as noted previously, neither the surge in mining's contribution to the overall change in GOS nor the changes in the ratio of GOS to GVA means other sectors are suffering worsening cash positions.

19. Ai Group's supplementary submission goes on to assert that "Such issues, if not resolved, will have greater long-term consequences for the Australian economy in the form of deterred/lagging private sector investment (i.e., falling reinvestments)." The implication seems to be that ongoing real wage cuts are necessary to raise private investment. However, real wages growth has been largely stagnant for most of the past decade, and yet these low labour costs did not translate into higher private sector investment. Figure 1 illustrates that fluctuations in business investment growth rates have had almost nothing to do with changes in real unit labour cost growth rates, and in fact, since the pandemic, real unit labour cost growth has been followed by investment growth, and as it fell, investment growth fell too, with the exception of the last quarter.

Figure 1: Quarterly growth rates (percentages) for real unit labour costs and gross fixed capital formation in non-mining private businesses, 2010 to 2022



Source: ABS (2022), 'Australian National Accounts', March quarter, Table 24.

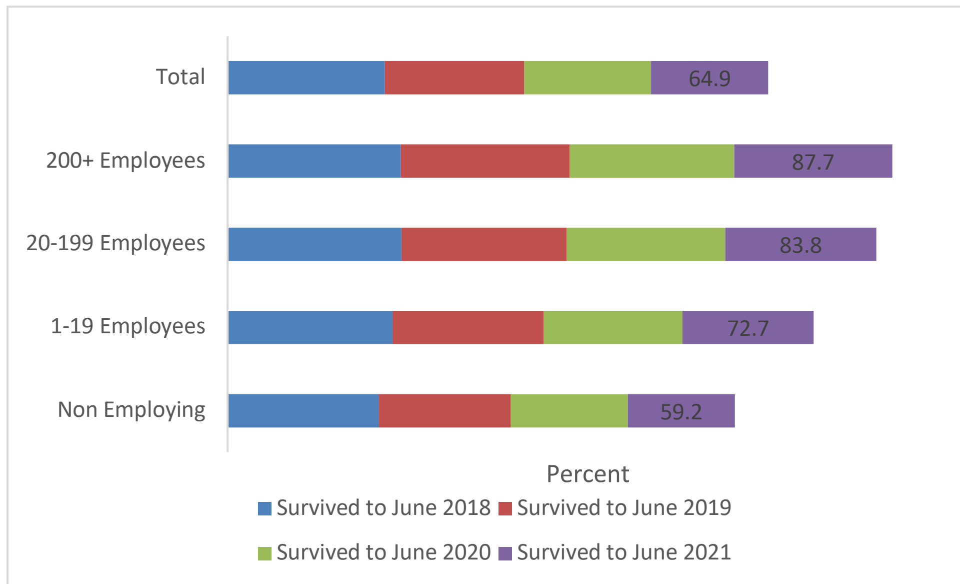
20. In any event, Ai Group's concerns regarding investment are inconsistent with the statement issued by RBA alongside its decision to raise interest rates on 7 June, which noted that "an upswing in business investment is underway".[3]

[3] RBA, Statement by Philip Lowe, Governor: Monetary Policy Decision, 7 June 2022

21. On page 12 of its submission, Ai Group invites the Panel to consider "how an increase in the national minimum wage will affect business survival which has significantly decreased over the last few years (chart 21)". In our view the situation concerning business survival is much more nuanced than the Ai Group's glib reference or barely legible chart 21 reveals and in fact is positive for the businesses most likely to be award reliant. In particular:
    a. Non-employing businesses have the lowest survival rate at 59.2%, lower than the average survival rate of 64.9% (Figure 2).
    b. Non-employing businesses also shared the largest proportion of businesses operating in 2017. There were 1,273,094 or 59.6% of all businesses at the start of the period. By the end of the comparison period in 2021, this number went down to 753,349 or 54.2% of all businesses; their importance in the composition has reduced (Figure 3).
    c. Compared to last year, survival rate has dropped for non-employing businesses from a survival rate of 60.4% to 59.2%; and for 200+ employees businesses from 88% to 87.7%. Survival rates have improved for other business types: for 1-19 employees, the rate has gone up from 71.5% to 72.7%; and for 20-199 employees from 83.1% to 83.8%.

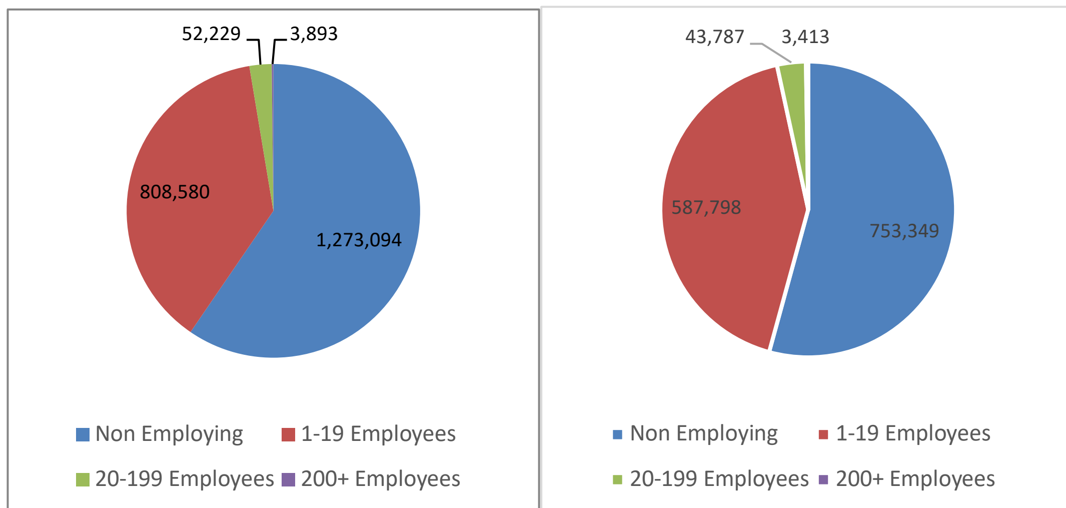
22. There are a number of plausible explanations for these survival rates: First, it is possible that some of non-employing firms have grown and moved to employ some employees. Second, there could be reshuffle within industries whereby larger firms have resized for reasons of improved agility, efficiency or competitiveness. Statistics on the labour market confirm that employment has gone up and not down, in light of this survival rate. Third, the lowest survival rate by turnover size was amongst businesses with turnover of "Zero to less than $50k". The survival rate for this type of business is 48.4%. For those who have left businesses and likely entered the labour force given the tight labour market, Ai Group's concern for this group would be best re-directed to support ACTU's wage proposal.

Figure 2: Business survival rates by business types 2017-2021



Source: ABS 8165 Data Cube 4 and 6, ACTU Calculation

Figure 3: Number of businesses operating at 2017 and number of businesses survived to June 2021



Source: ABS 8165 Data Cube 4 and 6, ACTU Calculation

23. Ai Group further says on page 12 of its submission:

> "Considering the supply chain shortages, rising energy prices, stagnant profit growths, slowing increases in production, rising wages, labour shortages, and the fact that most of these inflationary pressures are structural and unlikely to dissipate in the foreseeable future, large wage increases are likely to have disemployment consequences for the economy."

Nominal wage growth is slow at 0.7 per cent for the March quarter and 2.4 per cent for the year-to-March according to the latest ABS WPI release, while the March National Accounts reported real unit labour costs fell 2 per cent in the March quarter alone and fell by 2.7 per cent for the year-to-March. Wage cost pressures are minimal and it is unfair to expect employees to shoulder the burden of other input cost pressures through their already falling real wages.

24. Much like ACCI, Ai Group fail to provide any logical rationale as to why the job vacancy data referred to in the information note offers any justification for the deferral of wage increases to particular awards. Their complaints about the claimed impacts of "discontinuing delayed increases" are bereft of any specific supporting argument (let alone one which identifies how past deferrals had benefited anyone) and disclose a flawed expectation that such deferrals ought to continue in perpetuity as the rule rather that than the exception.

25. Ai Group's own performance indicators on page 9-10 of its supplementary submission universally present a positive picture of the economy. Our supplementary submission provides a more detailed and compelling account of productivity, wages growth, profits, cash on hand and business survival than that provided by Ai Group in the concluding sections of its submission, and is to be preferred.

National Retail Association

26. The National Retail Association ('NRA') mounts an implausible argument in support of deferred wage increases to the *Restaurants* and *Hospitality* awards. While recognising that there has been increasing turnover in these sectors as well as job vacancies, NRA invites the Panel to accept that businesses will elect to not service growing demand and will voluntarily reduce employment if wages grow – at all – before 1 November 2022. Such resolute solidarity amongst highly competitive businesses seems inherently unlikely.

27. The basis for the NRA's claim that "labour market conditions have also driven up wage costs" in the accommodation and food services industry is at odds with both the status of that industry as the most heavily award reliant and with the NRA's position that *any* wage increases

before 1 November 2022 cannot be accommodated. The NRA also seems to have its figures on quarterly wage growth confused with annual wage growth.

28. Ultimately, the NRA is seeking to have two awards singled out on the basis of there being "exceptional" circumstances, yet the input cost pressures (which are rapidly being passed on to consumers) and tight labour market it complains of are economy wide conditions which cannot be alleviated by a period of real wage cuts. If anything, real wage cuts are likely to exacerbate the challenges that employers in these sectors are facing in finding staff.

Australian Government

29. We welcome the Australian Government's submission. Whilst the submission repeatedly refers to the low paid, would urge the Panel not to depart from adjusting the national minimum wage and modern award minimum wages by a uniform percentage amount in this review, for the reasons given in paragraph 39 of our supplementary submission.

Australian Chamber – Tourism

30. The submission of the Australian Chamber – Tourism adds little to that of ACCI, save for references to forward booking data. Its claim for deferrals should be rejected for reasons already given.

31. Consistent with the position presented on page 9 of its initial submission, the forward booking data it presents in its supplementary submission continues to show a short lead time between bookings and travel, save for December 2022 (which is presumably related to family plans to reunite over the Christmas – new year period). When comparing the chart presented on page 9 of its initial submission with those presented on page 2 of its supplementary submission, it is apparent that the position with respect to bookings and travel in the April-July period has improved considerably.

APPENDIX 1: SUBSIDIES, TAXES, PROFITS, EMPLOYEE COMPENSATION AND GROSS VALUE ADDED

1. Standard international practice in the System of National Accounts, including in Australia, disaggregates 'taxes on production and imports' into two components:
    a. taxes on products, which are payable when goods and services are produced, sold, transferred or disposed of by the producers with examples including GST, wholesale sale taxes, customs and excise taxes; and
    b. taxes on production, which relates to the payroll, as paid by employers or by employees themselves out of their salaries, taxes on the use of fixed assets, taxes on pollution, etc.

2. In the same vein, subsidies on production are also disaggregated into two components:
    a. subsidies on products payable when goods or services are produced, sold or imported, used for own capital formation; and
    b. subsidies on production which consists of those not classified under subsidies on products and include subsidies on workforce. JobKeeper and Boosting Cash Flow for Employers are examples of other subsidies on production.

3. Generally, government prefer higher taxes than subsidies, because it is these taxes that allow the flexibility to take care of the vulnerable section of the society, to invest in human capital enhancement through good public education and health care systems and fund its other programs and priorities.

4. Charts 3-5 in Ai Group's supplementary submission on Changes in COE (Compensation of Employees) and GOS (Gross Operating Surplus) vs. GVA (Gross Value Added) provide an incomplete picture because they miss an important aspect of the GVA during pandemic, being the component of 'Taxes less subsidies on production'. Usually, this component records a positive number when the economy is performing and the government is able to collect taxes to finance its various objectives, including some subsidy programs. We saw this in March quarter 2020. We can also see it much further back in the data, to September quarter 2002 when the data series began.

5. GVA at basic prices is the interplay between three components:
    a. The share that is accrued to owners of labour in the form of CoE;

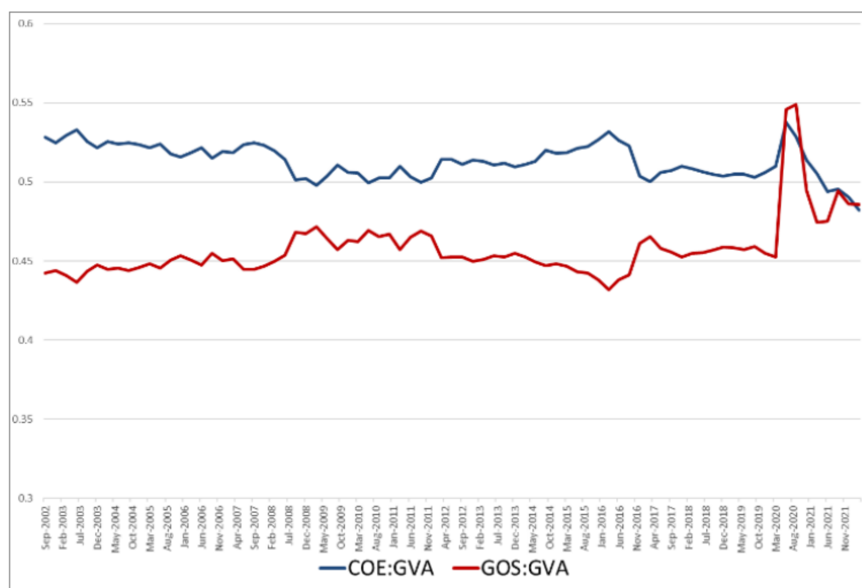
b. the share that is accrued to owners of capital in the GOS; and

c. in the case owners of capital and labour, the GMI[4]; and that which is collected by the government in the form of taxes after subsidies are accounted for.

From the onset of the pandemic response, the 'taxes less subsidies on product' component suffered major downward pressure since the government gave out in subsidies more than it took in in taxes. This effect can be seen in June, September and December quarters of 2020. In all these three quarters, GVA is smaller than the combined CoE, GOS and GMI, given the negative effect of the tax component. The share of GOS/GMI in GVA went up (as seen in the chart taken from AiG submission below), not necessarily because GOS became much higher as it appeared to be, but only because GVA became smaller, given the effect of the taxes component, so the proportion of GOS/GMI became superficially larger.

6. By the time the taxes component became welcomingly positive again, GOS appeared smaller as a proportion of GVA, but again not necessarily because it became smaller, but only because GVA no longer suffered the impact of negative taxes component. In monetary terms, GOS has grown and not shrunken.

Figure 4: Chart 3 from Ai Group supplementary submission



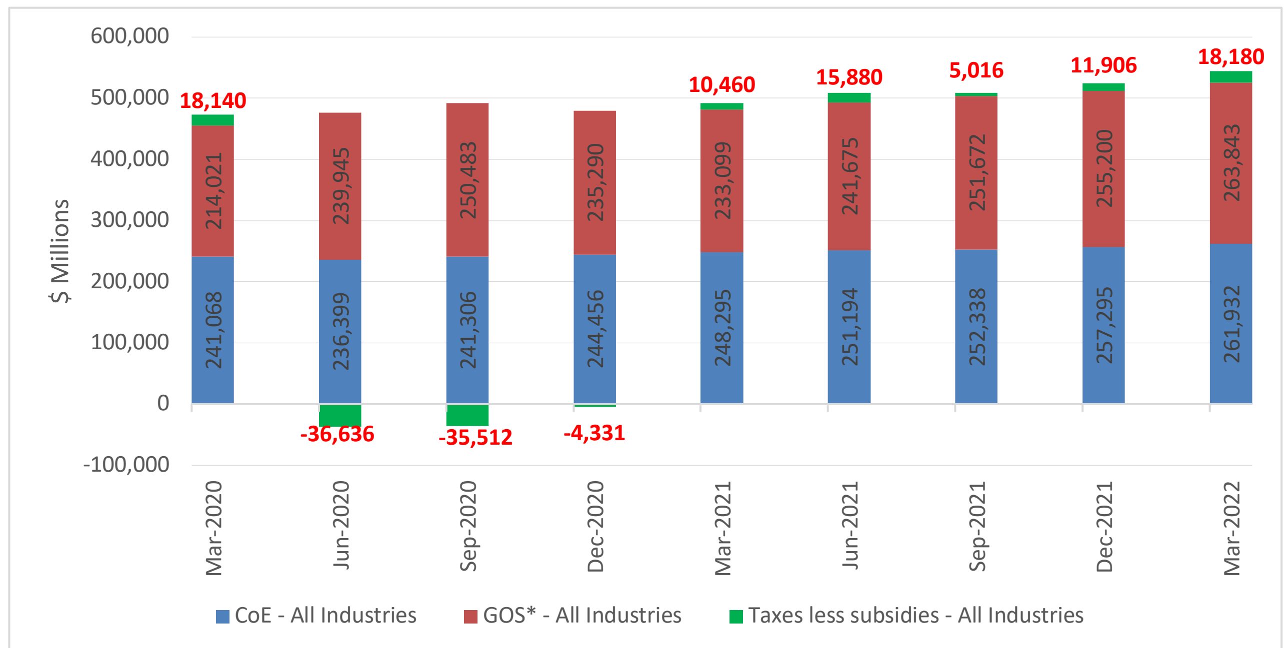
Source: Australian Bureau of Statistics, National Accounts, March Quarter.

[4] Gross Mixed Income is the share of income accrued to owners/managers of enterprise. It is not clear how much of this is their share of labour income and how much is gross operating surplus, since they are employing themselves.

7. Figure 5 below shows CoE, GOS and GMI, and taxes less subsidies on production during the time of the pandemic. As can be seen, GOS has now grown above the level in March quarter 2020, as has CoE, though the share of CoE in factor income still hovered below its 20-year average as seen in Figure 6. In March quarter 2022, taxes less subsidies on production have now slightly moved up above its March quarter 2020 level. All these are seasonally adjusted but unadjusted for inflation, given the lack of the inflation-adjusted data on all these measures.

8. In Figure 6, we use the standard calculation as used by the ABS to calculate share of CoE in factor income. Factor income is the income that is to be shared between owners of labour (the workers) and owners of capital (business owners). After employers have claimed their share GOS, the rest is left for workers. As of March quarter 2022, workers' share in this income account for 49.8% of all factor income.

Figure 5: Compensation of Employees, Gross Operating Surplus (and Mixed Income), and Taxes less subsidies on production, Seasonally Adjusted, Current Prices, March quarter 2022

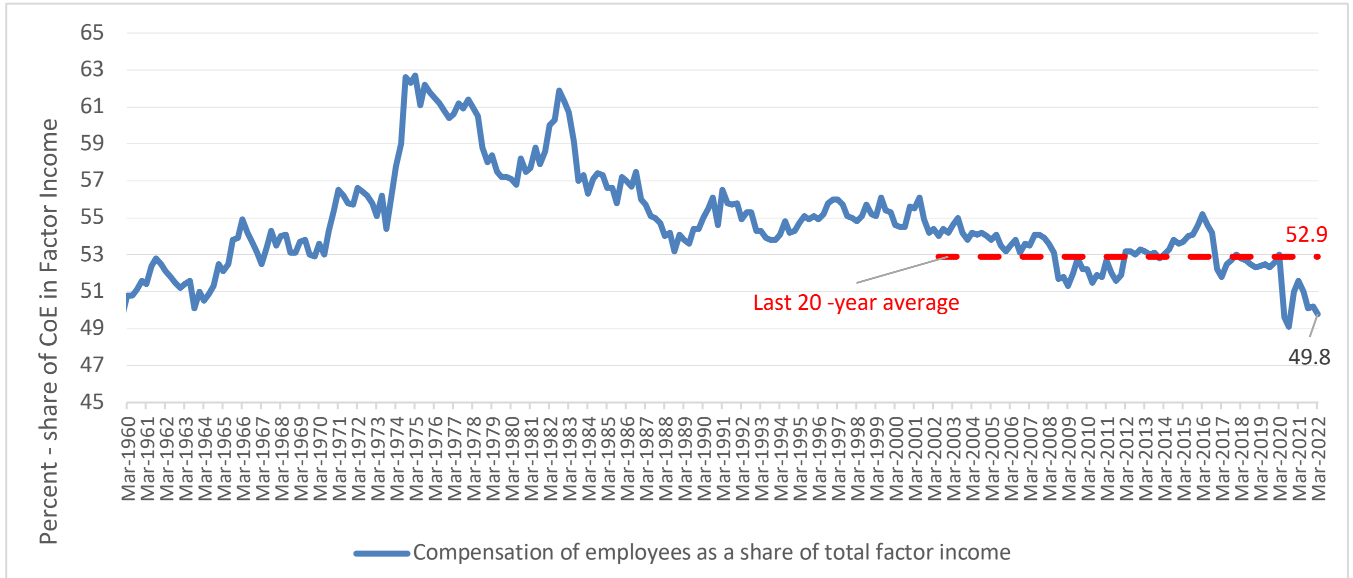


Source: ABS, 5206, Table 45, March 2022 Quarter (GOS* refers to GOS and GMI combined)

9. Ai Group's concern with regards to 'falling cash surpluses as a proportion of gross value added' is thus more a state of mind than the state of the statistics or the economy. Since Ai Group equates 'GOS' with cash surpluses, the figures now show that there is no falling of cash surpluses per se. After a period of subsidies, the transition from government assistance could

understandably distort business sentiments on normalcy. Apart from that, the economy has returned to normal: taxes after subsidies are back is the positive, the way they were before the pandemic; GVA is growing and so is GOS.

Figure 6: Compensation of Employees as a share of Factor Income, March quarter 2022



Source: ABS, National Account, Table 45, March quarter 2022, ACTU Calculation, results (apart from 20-years average line, which is not available) verified with results in Modellers' Database

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