



Australian Business
Industrial

SUBMISSIONS

**Re: Annual Wage Review 2012-13 Post Budget Submission
Fair Work Commission**

140 Arthur Street
North Sydney NSW 2060

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1. ABOUT ABI

- 1.1 ABI is registered under the *Fair Work (Registered Organisations) Act 2012* as an organisation of employers. ABI is the successor of the former Chamber of Manufactures of New South Wales.
- 1.2 ABI members are also members of the New South Wales Business Chamber and ABI is the industrial policy and representative affiliate of the New South Wales Business Chamber.

2. RELEVANCE OF THE 2012-13 COMMONWEALTH BUDGET TO THE ANNUAL WAGE REVIEW

- 2.1 Following the release of the 2013-14 Commonwealth Budget (the Budget), Australian Business Industrial (ABI) reiterates its recommendation that the Minimum Wage Panel of the Fair Work Commission (MWP) increase the National Minimum Wage and award wages for 2013-14 by no more than a uniform 1.2 per cent (which equates to \$7.30 per week for the National Minimum Wage).
- 2.2 The updated forecasts contained in the Budget and the Reserve Bank of Australia's (RBA) May 2013 Statement on Monetary Policy confirm that official forecasters believe that:
- current forecasts for conditions in 2013-14 are substantially worse than the forecasts for conditions in 2012-13 that were available prior to the 2011-12 AWR; and
 - the forecasts relied upon in the 2011-12 Annual Wage Review (AWR) were overly optimistic.
- 2.3 Table 1 reproduces the figures presented in Table 3.1 of the earlier ABI submission along with updated forecasts for 2013-14 from the May 2013 Statement on Monetary Policy and 2013-14 Budget. The only change is that Treasury forecasts for inflation have risen slightly since the MYEFO forecasts that were available in April.

Table 1. Forecasts for 2013-14 compared to forecasts for 2012-13 prior to the last AWR decision

	Forecasts for 2012-13 at June 2012	Forecasts for 2013-14 at April 2013	Difference reported in first ABI submission	Forecasts for 2013-14 at May 2013	Updated Difference
Treasury					
GDP growth	3¼	3	-0.25	3	-0.25
CPI	2.6 ^(a)	2¼	-0.25	2 1/2	-0.1
WPI	3¾	3½	-0.25	3 1/2	-0.25
Employment growth	1¼	1¼	0	1¼	0
Unemployment rate	5½	5½	0	5 1/2	0
Participation Rate	65¼	65	-0.25	65	-0.25
RBA					
GDP growth	2½–3½	2–3	-0.5	2-3	-0.5
CPI	2½–3½	3	0	2-3	0
CPI (excl. Carbon Price)	2–3	2–3	0	2-3	0

Notes: (a) Adjusted down by 0.7 to account for the anticipated impact of the carbon price.

Source: Commonwealth Budget 2013-14, May 2013; RBA Statement on Monetary Policy, May 2013; Commonwealth Budget 2012-13, May 2012; RBA Statement on Monetary Policy, May 2012; Commonwealth MYEFO 2012-13, October 2012; RBA Statement on Monetary Policy, February 2013.

- 2.4 Table 2 reproduces the figures presented in Table 4.1 of the last ABI submission along with updated forecasts for 2012-13 from the May 2013 Statement on Monetary Policy and 2013-14 Budget. Treasury forecasts for GDP growth have further deteriorated and forecasts for inflation have both now fallen by 0.75% relative to the forecasts at the last AWR.

Table 2. Revisions to economic forecasts for 2012-13 since the last AWR decision

	Forecasts at June 2012	Forecasts at April 2013	Difference reported in first ABI submission	Forecasts at May 2013	Updated Difference
Treasury					
GDP growth	3¼	3	-0.25	2¾	-0.5
CPI	3¼	3	-0.25	2½	-0.75
WPI	3¾	3½	-0.25	3½	-0.25
Employment growth	1¼	1	-0.25	1¼	0
Unemployment rate	5½	5½	0	5½	0
Participation Rate	65¼	65	-0.25	65	-0.25
RBA					
GDP growth	2½–3½	2½	-0.5	2½	-0.5
CPI	2½–3½	3	0	2¾	-0.75

Source: Commonwealth Budget 2013-14, May 2013; RBA Statement on Monetary Policy, May 2013; Commonwealth Budget 2012-13, May 2012; RBA Statement on Monetary Policy, May 2012; Commonwealth MYEFO 2012-13, October 2012; RBA Statement on Monetary Policy, February 2013.

- 2.5 The Budget contains tax and fee increases that will result in a net revenue increase of \$25.6 billion over the forward estimates and spending cuts worth \$5.7 billion. The NSW Government also recently announced that it would defer the planned abolition of several duties on commercial mortgage and changes in ownership of non-real business assets, which will increase state tax revenue by around \$330 million a year.
- 2.6 These tax increases and spending cuts weaken the case for a wage increase as they will slow investment and reduce consumer spending meaning that businesses will have less revenue with which to pay their staff. While many of the announced measures will not be implemented until after the end of the 2013-14 financial year, they will still weaken consumption and investment decisions ahead of time.
- 2.7 Some measures will affect the purchasing power of award-reliant individuals. However, it would be inappropriate for a government regulator such as the MWP to force businesses to provide compensation for benefits that the executive arm of government chose to remove.
- 2.8 Indeed, as noted in the previous paragraph, such changes typically mean that businesses actually have less capacity to pay their employees.
- 2.9 This does not mean there is not a case for providing adjusting the MWP's recommended increase downwards where Government does provide additional redistribution to low income earners given a substantial proportion of the tax revenue being redistributed ultimately comes from businesses.
- 2.10 The MWP did not recognise this argument last year when business groups argued for a lower award wage increase recognising that low income earners were overcompensated for the introduction of the carbon price.
- 2.11 The substantially lower than expected inflation figures confirm that low income earners were significantly overcompensated and are likely to be better off even if the promised increase in family tax benefits do not proceed.

2.12 When considering the impact of changes in government transfer policies, the MWP should also take into account that small business owners have relatively low incomes. Table 1 which shows the cumulative distribution of full-time workers by employment type and earnings as reported in the 2011 Census. The results show that only 25% of full-time employees report income less than \$800 per week compared to 44% of owners of non-employing businesses, 50% of owners of unincorporated businesses with 1 to 19 staff and 27% owners of incorporated businesses with 1 to 19 staff.

Table 3. Cumulative distribution of fulltime workers by employment type

	Owner managers of unincorporated enterprises - Nil employees	Owner managers of unincorporated enterprises - 1-19 employees	Owner managers of unincorporated enterprises - 20 or more employees	Owner managers of incorporated enterprises - 1-19 employees	Owner managers of incorporated enterprises - 20 or more employees	Contributing family workers	Employee not owning business	All full-time employees
Negative income	1%	1%	0%	0%	0%	8%	0%	1%
Nil income	2%	3%	1%	1%	1%	23%	0%	1%
\$1-\$199 (\$1-\$10,399)	4%	5%	1%	2%	1%	34%	1%	2%
\$200-\$299 (\$10,400-\$15,599)	8%	10%	1%	4%	1%	44%	1%	4%
\$300-\$399 (\$15,600-\$20,799)	14%	22%	2%	6%	2%	53%	3%	11%
\$400-\$599 (\$20,800-\$31,199)	28%	37%	4%	15%	4%	66%	9%	26%
\$600-\$799 (\$31,200-\$41,599)	44%	50%	8%	27%	8%	75%	25%	42%
\$800-\$999 (\$41,600-\$51,999)	58%	63%	12%	39%	14%	82%	41%	58%
\$1,000-\$1,249 (\$52,000-\$64,999)	72%	71%	17%	53%	22%	87%	58%	70%
\$1,250-\$1,499 (\$65,000-\$77,999)	81%	81%	22%	64%	31%	89%	70%	85%
\$1,500-\$1,999 (\$78,000-\$103,999)	90%	97%	29%	78%	46%	92%	85%	99%
\$2,000 or more (\$104,000 or more)	98%	100%	98%	98%	99%	96%	99%	100%
Not stated	100%	100%	100%	100%	100%	100%	100%	100%
Not applicable	100%	100%	100%	100%	100%	100%	100%	100%

Source: 2011 Census.

2.13 Overall, it would be extremely inappropriate for the MWP to adjust this year's award wage increase upwards to take into account the decisions made in in this year's budget, given: the MWP did not adjust last year's award wage increase downward to take into account the overcompensation of low income households in last year's budget; and the fact that

low income households are likely to continue to be overcompensated despite the decisions taken in this year's budget.

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