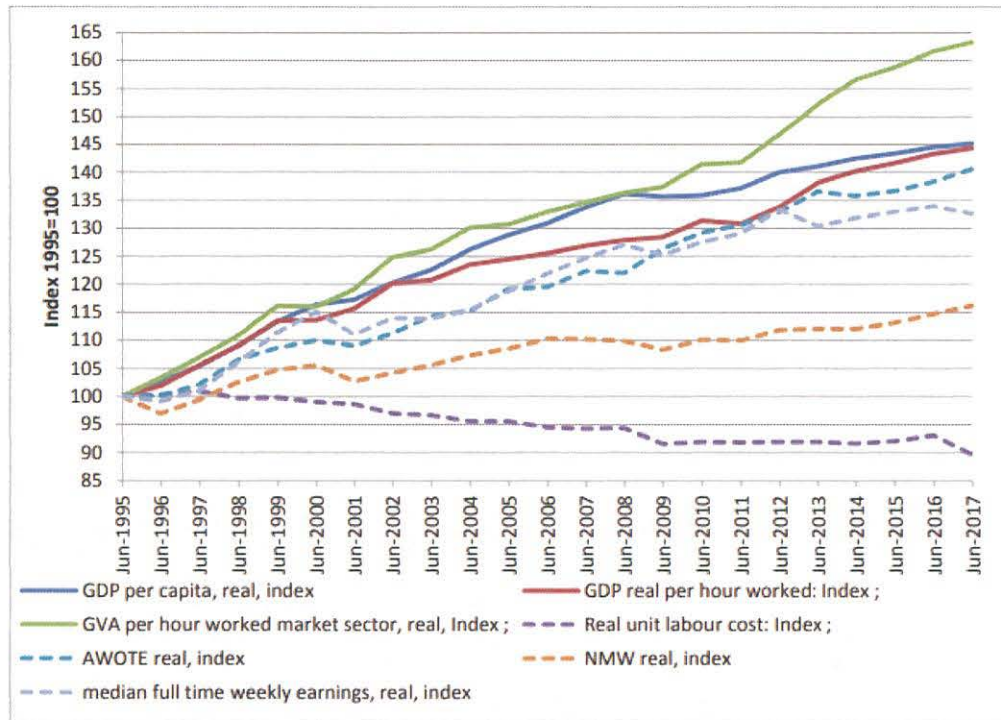




**Supplementary submission by UnionsWA on the issue of labour productivity**

At the State Wage Case Hearing on held on Wednesday, 23rd May 2018, UnionsWA tabled a page containing the following Chart from the ACTU’s initial Submission to the 2017-18 Annual Wage Review.<sup>1</sup>

**Figure 13 Various measures of labour productivity and wages, annual, 1995 to 2017**



Sources: ABS 5204, 6302, 6401, 6333, NMW from Bray (2013) and FWC, and ACTU calculations. Median earnings most recent.

Members of the Commission in Court Session asked a number of questions about the measures contained in the Chart, and their significance for the state wage case. Below is UnionsWA’s attempt to address these questions.

In relation to productivity and wages, the ACTU submission makes the following points:<sup>2</sup>

60. *The Panel’s 2016-17 Decision said that “the Panel continues to support a conclusion that increases in minimum wages are more likely to stimulate productivity measures by some employers directly affected by minimum wage increases.” The ACTU is in agreement with this statement.*

61. *The ACTU understands that the Panel recognises that minimum wages have in addition served as a guide to negotiating wages. By implication increasing the minimum wage and awards can also influence productivity movements in industries that are less heavily award reliant.*

62. *In the ACTU’s view an increase in the minimum wage indeed ought to be a driver of the wage increases that are needed to stimulate productivity and economic growth in the longer*

<sup>1</sup> ACTU Submission to the 2017-18 Annual Wage Review, p.34  
<https://www.fwc.gov.au/documents/sites/wagereview2018/submissions/actu-sub-awr1718.pdf>

<sup>2</sup> ACTU, p.30

term. This would occur through the resulting increases in aggregate demand. Increased wages for the low paid raise aggregate demand disproportionately because low paid people spend most or all of any increase to their incomes. ...

63. In the ACTU's view wages would also be expected to rise if they reflect gains in real income arising from the contribution of labour to productivity improvements and output: It is a two way street. But we do not see wages rising at the same rate as labour productivity, although the latter is growing only slowly. Clearly there is something missing throughout the methods of setting pay which enables appropriate increases in wages. One reason is the increase in weakness that has occurred in the bargaining power of workers. The ACTU maintains that increases in the minimum wage are intended to address this and should do so.

The ACTU utilises the information provided by the *Statistical report—Annual Wage Review 2017–18* provided as a research report to the Fair Work Commission. This shows the 'relative flatness of index measures of labour productivity over the last two years to September 2017, including GDP per capita, GDP per hour worked, and GVA per hour worked in the market sector'.<sup>3</sup>

The Statistical report refers to the Australian Bureau of Statistics (ABS) explanations of labour productivity measures, which are as follows:

*Labour productivity is measured as real GDP per hour worked. Gross value added measures the value of output at basic prices minus the value of intermediate consumption at purchasers' prices. The market sector includes all industries except for Public administration and safety, Education and training and Health care and social assistance.*

The specific ABS series referred to here is 5206.0 - Australian National Accounts: National Income, Expenditure and Product, Dec 2017 – which contains 'estimates of gross domestic product (GDP) and its components, components of state final demand, the national income account, the national capital account and supporting series'.<sup>4</sup> The ACTU also uses the ABS release 5204.0 - Australian System of National Accounts, 2016-17 – which sets out the various measures used in the chart provided:<sup>5</sup>

**Labour productivity:** *Indexes of real output per person employed or per hour worked. These are derived by dividing the chain volume measure of gross value added or GDP by hours worked. Labour productivity indexes not only reflect the contribution of labour to changes in production, but are also influenced by the contribution of capital and other factors affecting production.*

**Hours worked:** *The hours worked by all labour engaged in the production of goods and services, including hours worked by civilian wage and salary earners, employers, self-employed persons, persons working one hour or more without pay in a family business or on a farm, and members of the Australian defence forces.*

**Gross domestic product (GDP):** *Is the total market value of goods and services produced in Australia within a given period after deducting the cost of goods and services used up in the process of production but before deducting allowances for the consumption of fixed capital.*

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<sup>3</sup> *Statistical report—Annual Wage Review 2017–18*, pp.4-5

<https://www.fwc.gov.au/documents/sites/wagereview2018/statistical-reporting/statisticalreport.pdf>

<sup>4</sup> ABS, 5206.0 - Australian National Accounts: National Income, Expenditure and Product, Dec 2017

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5206.0Main+Features1Dec%202017?OpenDocument>

<sup>5</sup> ABS, 5204.0 - Australian System of National Accounts, 2016-17

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5204.0Main+Features12016-17?OpenDocument>

*Thus gross domestic product, as here defined, is 'at market prices'. It is equivalent to gross national expenditure plus exports of goods and services less imports of goods and services.*

**GDP per capita:** *The ratio of the chain volume estimate of GDP to an estimate of the resident Australian population.*

**GDP per hour worked:** *The ratio of the chain volume estimate of GDP to an estimate of hours worked. Hours worked estimates are derived as the product of employment and average hours worked. Movements in chain volume estimates of GDP per hour worked are commonly interpreted as changes in labour productivity. However, it should be noted that these measures reflect not only the contribution of labour to changes in production per hour worked, but also the contribution of capital and other factors (such as managerial efficiency, economies of scale, etc.)*

**Gross value added (GVA):** *The value of output at basic prices minus the value of intermediate consumption at purchasers' prices. The term is used to describe gross product by industry and by sector. Basic prices valuation of output removes the distortion caused by variations in the incidence of commodity taxes and subsidies across the output of individual industries.*

**Unit labour costs:** *These series represent a link between productivity and the cost of labour in producing output. A nominal Unit Labour Cost (ULC) measures the average cost of labour per unit of output while a real ULC adjusts a nominal ULC for general inflation. A ULC is calculated as the ratio of labour costs per hours worked by employees divided by volume gross value added per total hours worked. Positive growth in a real ULC indicates that labour cost pressures exist (UnionsWA emphasis).*

In its submission, the ACTU points out that:

*72. In all cases, the labour productivity indexes grow faster than the wage measures. Even with a different starting date for the index, the results would be very similar.*

It goes onto observe that

*73. Real unit labour costs fell, reflecting terms of trade improvements and a shift of income towards capital in the year to June 2017.*

And later in the submission:

*105. Changes in real unit labour costs are equivalent to changes in the wages share of total income in the economy. So the movements in labour's share of income closely reflect the changes in the real unit labour cost and the ground that labour has lost in wages over a long period.*

UnionsWA brings this information to the WA Commission's attention to make the following points

- As wages have not been rising at the same rates as labour productivity, where labour productivity can be measured, a substantial increase in minimum wages are necessary to assist in restoring a fair share of income to workers.
- The lack of a fair share going to workers is demonstrated by the fall in real unit labour costs, which also demonstrate that employers are not being excessively burdened by labour cost pressures.