Australian Manufacturing Workers Union (AMWU)
Budget 2010-2011: Budget Submission

As the Treasury Department has noted in recent submissions and in its Working Papers series there has been a significant slowing of productivity growth in the Australian economy during the current decade.

In fact as highlighted in Table 1 below, Australia was one of only 18 nations out of the 123 recorded in the Groningen Productivity Report where productivity growth in the current decade was more than 50% below the levels of the previous decade.

Table 1
World Labour Productivity Growth: Annual Average Growth Rates

	1990-2000	**2000-2008**
Australia	2.2%	1.0%
World	1.6%	2.7%
Northern and Western Europe	1.7%	1.2%
Southern Europe	1.3%	0.8%
Eastern Europe	-1.8%	5.8%
North America	1.6%	1.2%
Latin America	1.5%	1.2%
Africa	-0.1%	2.8%
Middle East	-0.4%	0.6%
East Asia and the Pacific	3.2%	5.5%
South Asia	3.4%	4.5%

Source: Groningen: World labour productivity growth is based on labour productivity of the 123 countries included. The Conference Board Total Economy Database June 2009 with GDP converted to US$ Purchasing Power Parity (PPP) from Madison (2007). The table above is GDP per person. There is little difference for hourly productivity although the methodological consistency of international data collections on hours worked may make GDP per person in PPPs a more reliable measure. It should also be noted that unlike the Treasury data considered in Chart one this table does not adjust for the business cycle which is an important consideration.

The AMWU believes that policies that strengthen long term productivity growth and expand the nation's productive capacity should be one of the central budget priorities in 2010-2011 and through the forward estimates. Doing this while continuing to build on the nation's ethos of fairness, particularly through measures that enhance job and income security is the main game.

The AMWU explained in a detailed submission to the House of Representatives Inquiry into Productivity[1]what had led to the productivity slowdown during the first decade of the 21st century

"Just as suboptimal levels of investment in infrastructure, skills/education and innovation played a major part in the slow-down in productivity growth in this decade, so too will more appropriate investments in infrastructure, skills/education and innovation play a key role in lifting long term trend productivity growth in the decades ahead."

Accordingly, as Treasury deals with the task of fiscal consolidation those Commonwealth initiatives that contribute to investments in infrastructure education/skills and innovation should be prioritised for growth. And those initiatives that promote fairness, particularly by helping to provide greater job and income security to workers and their families should also be prioritised for growth. These priorities of nation building and fairness should not be compromised by the 2% real growth ceiling that was previously set for Government expenditure.

This should be achievable. The task of fiscal consolidation will be somewhat more manageable as one would expect Treasury to once again revise downwards the outlook for net public debt following the stimulus programs to deal with the GFC.

a) In the May 2009 budget Treasury projections saw Australian Government General Government sector net debt projected to hit $188.7 billion or 13.6% of GDP in 2012-2013.
b) In the Mid Year Economic Outlook Treasury revised down this debt figure for 2012-2013 to $135.5 billion or 9.4% of GDP
c) Instead of peaking at close to 14% of GDP in 2012-2013 net debt was expected to peak at around 10% in 2012-2013.
d) With Treasury expected to revise down its projections for unemployment and make other revisions in the May 2010 budget we would expect further downward revisions to net debt

The bottom line is that Australia has about the lowest net public debt in the OECD and there is ample room for additional expenditure on infrastructure, skills, innovation and initiatives that promote fairness in the budgets that are brought down over the next decade.

In the 30 years to 2007-08 Australian Government General Government net debt has averaged around 7% of GDP. Net debt always increases in

[1] Manufacturing Alliance August 2009 submission to House of Representatives Economics Committee Inquiry into Productivity

recessions. In the early 1980's recession it peaked at just over 10% of GDP and in the early 1990's recession it peaked at 18% of GDP. But it now appears that during this downturn the peak will be around 10% of GDP.

At the end of the day Government debt should be a non issue in Australian public policy. In fact one of the reasons productivity stagnated in the current decade is because the fetish of zero Government debt and balanced budgets led Government at both the Federal and State level to under invest in infrastructure, skills and innovation. The opportunity cost of underinvestment is effectively the cost of public debt or the long term bond rate of around 6%. In the AMWU's assessment most investments in social justice/fairness on the one hand and infrastructure, skills and innovation on the other, easily exceed the opportunity cost hurdle.

In this context, a key issue in the 2010-2011 budget is investment in innovation. The AMWU submits that Government should scrap the existing Finance/Treasury Draft Exposure Legislation for the R&D Tax Credit and implement the scheme as was intended in the Cutler Review and in the Government's Powering Ideas statement that outlined the benefits that would come from enhanced R&D.

The existing Finance Treasury Draft Exposure Legislation should be amended as follows:

1) A new set of objectives. The existing objectives for the R&D Tax deduction program should be included rather than the reference to additionality and spill overs for all the reasons outlined in the 197 submissions to the Treasury September Consultation paper (particularly Deloittes and KPMG) and in the submissions that will be lodged by February 5 2010 almost all of which oppose the proposed legislation and the objectives.
2) The existing test for eligible R&D should be maintained (i.e. satisfying either the innovation test or the high technical risk test and not both) and the proposed split between core and supporting R&D and the dominant purpose test abandoned.
3) If there are a relatively small number of large claims that are inconsistent with the fiscal and/or program objectives of the R&D Tax Credit regime they should be isolated or quarantined and dealt with accordingly. The AMWU will never support firms that deliberately rort business assistance schemes with such abuses being a waste of tax payer's funds. Nor will we tolerate those who would use a handful of abuses to try and destroy a valued public policy instrument. Rorts if they exist should not be the basis for

gutting the major R&D incentive that Australia has used to its advantage for the past quarter of a century.

The AMWU also recommends that the Federal Government in the 2010-2011 budget announces its intention to adopt a new approach to macro economic stabilisation policy. While this may need to await the public release and debate around the Henry report on tax reform it is imperative that the Commonwealth develops a long term strategy to deal with fluctuations in the business cycle over coming decades. In this context both the Treasury Secretary and the RBA Governor have noted the implications for the Australian economy of the next stage of industrialisation and urbanisation of China.

The conclusions the AMWU draws from Australia's closer integration with China's business cycle is that there will be upward pressure on Australia's exchange rate and the potential for another boom bust cycle in our terms of trade that spills over to the real economy. This is more a question of when rather then whether.

This suggests that the 2010-2011 budget should foreshadow a new approach to stabilisation policy including:

a)The Commonwealth to undertake due diligence on how best to establish a sovereign wealth fund similar to that operated by the Government of Norway to offset the tendency of the Gregory effect from a rising exchange rate and to ensure that the fiscal dividend from the next resources boom is not squandered as it was in the last decade.

b) The Commonwealth to ensure that unlike the recent economic downturn, Australia will have a "shovel ready" shelf of infrastructure projects that can be started quickly. The AMWU agrees with the Treasury assessment that "The Government's economic stimulus was timely, temporary and targeted.

1)The Government responded quickly and decisively to the deterioration in the global outlook, implementing stimulus measures from October 2008. Timely action allowed the stimulus to support the economy when it was needed most.

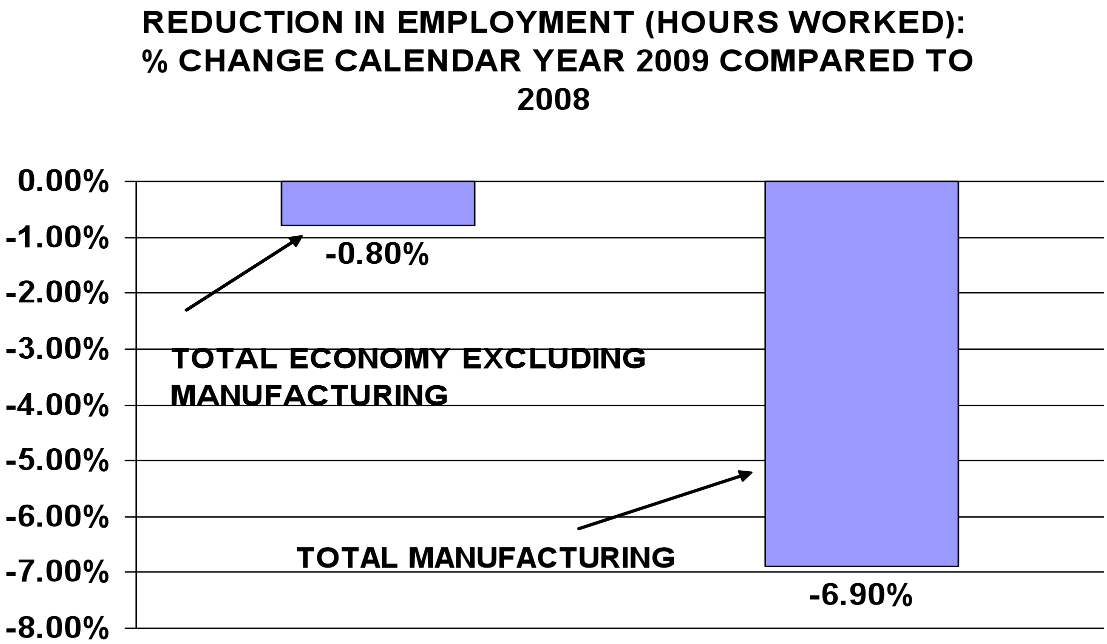
2)The stimulus measures were designed to ensure that they did not lock in higher baseline government spending; their temporary nature ensured that they did not affect the sustainability of the budget and that they would be withdrawn as the economy recovered.

3)The stimulus measures were also carefully targeted to ensure their effectiveness in boosting demand, in turn supporting jobs and economic activity. The large capital component of the stimulus addressed long-term needs for economic and social infrastructure."

However as the IMF amongst others has noted the multiplier from infrastructure projects is more than twice that of "cash splash" and infrastructure has long term productivity gains. It is acknowledged that the need to have a quick impact on aggregate demand in a downturn and most importantly the need to provide a boost to consumer and business confidence will always require flexibility and some component of cash injection via transfer payments.

Nevertheless, we are going to go down this path again and we all know it. There will be another boom bust cycle and the next one is more likely than not to be more severe than what we have just experienced. We didn't learn all the lessons from the early 1990's downturn because we didn't have a shelf of shovel ready projects ready to go in 2008-09. We need to do even better in the next downturn by having a programmed infrastructure response in the pipeline. It is the responsibility of Treasury to upgrade macro stabilisation policy.

c) Finally stabilisation policy needs a human capital agenda. It is an enormous achievement to have kept unemployment in Australia so low during the current GFC. Nevertheless as highlighted in the table below some groups of workers such as those in manufacturing suffered disproportionately from the downturn.



The graph suggests that manufacturing workers were more than 8 times harder hit by the downturn then non manufacturing workers.

Too many workers in this downturn (and potentially in the next one) lost both their job and substantial income as a result of job loss or their company going bust and employees not having their entitlements or their income protected (Appendix One outlines the AMWU's position on employee entitlements).

Alternatively too many employees during the recent economic downturn had to work a shorter week with the corresponding loss of income and there was no arrangement in place to encourage employers to retrain their workers during the downturn.

Accordingly AMWU believes that this budget must foreshadow the development of a stablisation policy with a human capital dimension that includes the following:

A) The 2010-2011 budget should, as a transition measure, increase funding for GEERS so that employees don't lose any of their entitlements in the case of their firm becoming insolvent and the measure should made retrospective to December Quarter 2008 when the current downturn commenced.

B) The Commonwealth should develop a program of Flexsecurity as recommended by the ACTU Executive to help protect employees against loss of income, protection of entitlements and ensure appropriate retraining in the context of job loss. This is the way forward and provides a better safety net of job and income security for working people.

The time has come for Australia to develop a stabilisation policy framework that enhances both productivity and fairness. There will be another business cycle and there can be no excuses for not being ready to act decisively.

That concludes the AMWU's 2010-2011 budget submission.

APPENDIX ONE: AMWU'S APPROACH TO GEERS AND EMPLOYEE ENTITLEMNTS

Too often when firms go broke, are declared insolvent and have their assets sold, there isn't enough money left to pay employees their accumulated annual leave and long service leave. In many cases employees are owed thousands of dollars in unpaid wages and superannuation. It is also the case that bankrupt firms leave many thousands of workers without the redundancy pay they are owed.

The General Employee Entitlement and Redundancy Scheme (GEERS) is supposed to act as a safety net to provide a partial payout of employee entitlements when firms go broke. However GEERS doesn't protect 100% of what workers are owed. It doesn't cover superannuation, untaken rostered leave days or untaken accrued sick leave. Many workers are also unable access GEERS because while their employer has closed a liquidator or administrator was not appointed.

Most importantly GEERS doesn't fully protect workers redundancy pay. Under GEERS, the most loyal long serving employees can hope to access if companies fold is 16 weeks of redundancy pay. New research by the AMWU shows that more than 1.6 million private sector workers are owed more than 16 weeks redundancy pay. More than 250,000 of these workers or around 1 in 6 are employed in the manufacturing sector.

These 1.6 million workers are entitled to more than $62 billion in redundancy payments. But at a maximum of 16 weeks GEERS only protects $25.6 billion. That leaves $37 billion dollars of unprotected redundancy pay, almost $6 billion of which is owed to more than 250,000 manufacturing workers. That means potentially that 1.6 million workers have almost $37 billion of redundancy pay at risk and not protected by GEERS.

More than a million of these workers have been with their employer for more than a decade and more than 400,000 for more than 20 years. These long serving loyal employees are usually older workers with small superannuation account balances. Less than 50% of blue collar workers in manufacturing had any super at all before the Super Guarantee Charge was introduced during the Hawke-Keating Years. If their employer goes broke, such workers need every cent of their redundancy pay or they are left with no livelihood or savings.

That is why the Australian Manufacturing Workers Union is calling for a new system of income protection that guarantees 100% of accumulated employee entitlements. Such a system could involve:

- A universal insurance scheme to cover employee entitlements. This could be developed and managed nationally or industry by industry

- A pay as you go contribution plan as exists in industries like building/construction
- Legislation that ranks employee entitlements above secured creditors.

Until a new system is put in place GEERS should pay out 100% of employee entitlements.