

SOUTH AUSTRALIAN COMMENTS ON THE NEW ISSUES FOR THE 2017 UPDATE - WAGE COST ASSESSMENT - STAFF DISCUSSION PAPER (CGC 2016-18-S)

South Australia has the following comments on the *New Issues for the 2017 Update – Wage Cost Assessment* paper:

General discussion

South Australia continues to support the views expressed in our response to the initial 2017 Update New Issues paper regarding the conceptual validity of the wage cost assessment. We do not accept that state wage costs are primarily driven by relative private sector wages.

The National Institute of Labour Studies in their 2015 report *Public-private sector wage differentials in Australia: What are the differences by state and how do they impact GST redistribution decisions* (NILS Report) provides evidence to support further review and consideration of the wage cost assessment.

The NILS Report concluded that:

- Public sector wages were found to be strongly influenced by national, sector-specific labour market pressures.
- Private sector wages alone are not a good proxy for movements in public sector wages with true comparability of public sector employees across jurisdictions being questionable.

South Australia believes that there is sufficient evidence for the Commission to increase the current 12.5% discount applied to this assessment.

Staff recommendations

South Australia supports the staff recommendations to continue to include the education variable in its econometric model. Commission staff have demonstrated that inclusion of education variables result in a change in at least one state's GST outcome of more than \$10 per capita.

South Australia supports the staff recommendation to exclude the trade union membership variable from its econometric model on the basis of the analysis undertaken by Commission staff.

As discussed above South Australia does not support the staff recommendation to not change the level of general discount. The 2015 NILS Report provided further support to previously raised concerns about the conceptual validity of the assessment to warrant a greater discount.

South Australia notes the staff recommendations to not introduce a state specific adjustment for Tasmania and removal of the CSS adjustment.

Seeking state views

South Australia believes that the Commission should:

- Continue to include the education variable on an ongoing basis because it has been demonstrated that the adjustment is material.
- Exclude the trade union membership variable as it is not material.

The variable outcomes for Tasmania's relative public sector wages may, to some degree, reflect the conceptual weakness of the methodology underpinning the wage cost assessment. Rather than applying an additional discount to Tasmania, the Commission should consider increasing the general discount applied to all jurisdictions.