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Treasury blows lid on how reforms would hit low-paid - IR laws: What Costello was told

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EXCLUSIVE

TREASURY has secretly told **Peter Costello** the **workplace** relations reforms will deliver smaller wage rises for low-income earners and cut productivity in the short term as employers hire greater numbers of less efficient workers.

Confidential documents also reveal the Government's key economic advisers believe the changes will only ``moderately'' improve **employment**.

The analysis is contained in Treasury documents obtained by The Australian under Freedom of Information laws.

The documents question public claims by the Treasurer and Prime Minister **John Howard** that their **workplace** changes passed this month will boost wages and jobs and unleash a wave of labour productivity growth.

While Treasury believes the long-term economic effects of the changes will be positive, it is candid about the negative effects of the laws for up to 1.6 million low-skilled workers.

The advice concludes the laws would be good for **employment**, wages and productivity but would place short-term pressure on some workers.

Challenging the Government's claims that workers will be better off, Treasury instead predicts that the wages of people who rely on minimum pay rates will fall in real terms because of smaller increases granted by the Government's new Fair Pay Commission.

It admits the effect on **employment** growth will be ``not huge'' and says the impact on productivity growth will be ``slow'' and is ``difficult to quantify''.

The Australian revealed last month that the Government was concealing Treasury advice which called into question its claims about the economic benefits of overhauling the nation's **industrial** relations system.

The Australian's report was based on evidence to a Senate estimates committee hearing from senior Treasury official David Tune, who confirmed that Mr Costello was provided with advice on the Government's **industrial** relations changes in about May that included conclusions based on economic modelling. Mr Tune declined to reveal the advice.

Mr Costello refused to release the advice or say whether it supported the Government's claims when contacted at the time by The Australian. His office said cabinet-related matters were confidential.

But Mr Costello told parliament three days later that no secret advice existed and "it was certainly news to me".

"It was so secret that this report had not been written," he said. "Not only was it so secret that it had not even been written, it was so secret that it had neither been written nor released..."

According to the documents obtained, a Treasury executive minute on the **workplace** relations policy was sent to Mr Costello on October 6. It argued the "economic case for reform", including expectations of higher **employment** growth, while claiming that productivity would initially be "suppressed".

Treasury pointedly argued that wages growth would be slower under the new **industrial** relations system.

"Due to a greater focus on economic impacts, increases in minimum wages are likely to be lower than they would have been under the adversarial (federal **industrial** relations commission) system," Treasury said in its briefing minute to Mr Costello.

Other Treasury documents also confirm the department undertook various economic modelling to determine the

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effects of the reforms on **employment**.

"Economic studies generally suggest that slower growth in wages would provide moderate support to **employment** growth," says a Treasury document written on October 31.

Separate documents from Treasury's fiscal group dated October 27 predict productivity would be negative in the short term "as more low-productivity and lower-cost labour is employed, compared with capital".

The documents predict "slower growth in award wages" as the new Fair Pay Commission began its operations next year to replace the **Industrial** Relations Commission in setting the minimum wage.

And they argue -- contrary to the Government's clear preference for individual **employment** agreements -- that there is "no clear difference in productivity gains between collective and individual agreements".

Treasury's position damages the Government's claims that cutting **union** power by favouring individual **employment** agreements will improve

workplaces. Still reeling from the effects of the Robert Gerard-Reserve Bank scandal, Mr Costello was accused by Labor last night of misleading parliament when he denied in November having received advice from Treasury on the effect of the **workplace** changes.

A spokesman for Mr Costello strongly denied the Treasurer had misled parliament.

But Opposition Treasury spokesman **Wayne Swan** seized on the Treasury admissions, claiming Mr Costello's own department had "let the cat out of the bag".

"It is crystal clear from the Government's own economic advisers the IR package is designed to cut wages," he said.

Mr Swan, who led Labor's campaign against Mr Costello over the Robert Gerard affair, accused the Treasurer of misleading the parliament.

"He has misled parliament, and the Prime Minister has misled the Australian people," Mr Swan said. ACTU secretary Greg Combet accused the Government of "telling lies" after spending \$55 million of taxpayers' money for an advertising campaign to promote the **workplace** changes.

"Even according to Treasury's advice, the ads were lies because the **workplace** changes will not, in the view of Treasury, deliver more jobs, higher pay and higher productivity as the Government has argued," Mr Combet said.

Treasury argues the risk of **unemployment** will be reduced "with the economy better able to respond to shocks through wages rather than **employment**".

"In the longer term, the reforms should have a positive effect on labour productivity, with more flexible wage-setting allowing firms to better match workers with positions, and to more rapidly adopt new technologies and practices."

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PAPER CHASE

On November 7, 2005, Treasurer **Peter Costello** was asked a question without notice in parliament by the Opposition's Treasury spokesman and Member for Lilley **Wayne Swan**. It was the day after a report in The Australian. This is the Hansard transcript of the exchange:

MR SWAN:

Can the Treasurer confirm that he was briefed on modelling undertaken by his department in April and May of this year estimating the impact of **workplace** relations proposals on **employment**, wages and productivity? Treasurer, what precisely did this modelling show? If the modelling backs up the \$50 million advertising campaign claims of more jobs and higher wages, why has the Government chosen to keep it secret?

MR COSTELLO:

thank the honourable member for his question. I was rather surprised to read in The Australian on Saturday that the Howard Government was concealing especially commissioned advice from the Treasury.

It was certainly news to me.

INTERJECTION

MR COSTELLO:

For once he (the interjecter) has said something halfway decent in the House, and he is absolutely right: it was so secret that this report had not even been written. That is how secret it was. Not only was it so secret that it had not even been written; it was so secret that it had been neither written nor released, which I have to say was one of those top-secret things.

INTERJECTION

MR COSTELLO:

In fact, the Treasury put out a press release on Saturday confirming that it had not been commissioned to provide specific advice, nor had it written a report, nor had the report been concealed. So I regret to inform the honourable member for Lilley that the story was wrong.

The Australian's story on the economic modelling was supported by an exchange four days earlier, on November 3, between Labor's financial services spokesman **Nick Sherry** and Treasury official David Tune in a Senate committee:

Secret: The Weekend Australian of November 5-6

MR SHERRY:

On the last occasion I asked about the announcement of some **industrial** relations changes, in principle. This was back on June 1, 2005. Specific detail of the legislation not been released yet. Has the department recently carried out any modelling on various scenarios that eventuate from **industrial** relations changes? You replied, Mr Tune, that there has been some modelling done. When was that done? Over the last course of the last month or month-and-a-half.

That's not been released. Where is it? Has it been released yet?

MR TUNE:

No, Senator. It was work that was done in the context of advising the Government about **industrial** relations changes.

MR SHERRY:

So presuming the document then would have gone to the Treasurer's office, or Mr Andrews's office?

MR TUNE:

Well, the document, I don't think it was a document. There were some outcomes from it, but they were incorporated into advice we provided to the Treasurer.

MR SHERRY:

So that was some advice on this modelling that was carried out.

Where was the modelling carried out - within Treasury?

MR TUNE:

Within Treasury, yes.

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