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Small Business Employment
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INQUIRY INTO SMALL BUSINESS EMPLOYMENT

SUBMISSION BY

SHOP DISTRIBUTIVE & ALLIED
EMPLOYEES' ASSOCIATION

National Office
5th Floor
53 Queen Street
Melbourne 3000

PH: (03) 9629 2299
FAX: (03) 9629 2646

SMALL BUSINESS SUBMISSION

The purpose of this submission is to argue that:

- government regulation in areas such as workplace relations, superannuation and occupational health and safety does not hamper the capacity of small business to employ more people;

- employees have a basic and fundamental right to fair wages and working conditions and this includes the right to work in a workplace which is safe and healthy, irrespective of the size of that business;

- retention and attrition rates are a major problem for employers and workers; and

- inadequate wages and working conditions are the prime cause of employees leaving employers.

The government has placed a number of Bills before the Parliament with the aim of changing the Workplace Relations Act. Those Bills include the:

- Workplace Relations Amendment (Genuine Bargaining Bill) 2002
- Workplace Relations Amendment (Fair Dismissal) Bill 2002
- Workplace Relations Amendment (Fair Termination) Bill 2002
- Workplace Relations Amendment (Secret Ballots for Protected Action) Bill 2002
- Workplace Relations Amendment (Prohibition of Compulsory Union Fees) Bill 2002

These Bills are the subjects of Inquiries by this Senate Committee. The SDA has made an extensive submission in respect of those Bills. That submission is attached as Appendix A.

In summary, we argue that **none of the Bills concerned, if they were to be passed into law, would "enhance the capacity of small business to**

employ more people". Indeed, in some instances, the government's proposed reforms would actually hamper significantly the capacity of small business to function effectively and efficiently. A case in point is the "*Workplace Relations (Pattern Bargaining) Bill*".

As we point out in our submission, some small employers choose to enter into agreements with the SDA through a process which the government describes as "pattern bargaining". This suits the employer and the employees.

Abolition of the right to pursue such a process would prevent some employers from taking business decisions they would otherwise prefer to take.

In placing such an imposition upon employers the government would actually increase costs for those employers. Under a "pattern bargaining" arrangement employers may "pool" resources to ensure that in the bargaining process they are represented by a skilled and experienced negotiator. An individual small business cannot afford such representation. Forcing small business to conform to a government philosophical position may actually increase costs for some small businesses and thus inhibit their capacity to employ staff.

At least in some instances current arrangements facilitate the operation of small business. Proposed changes may actually do the opposite.

The government has two Bills before the Parliament in relation to "unfair dismissals". Those Bills are:

- Workplace Relations Amendment (Fair Dismissal) Bill 2002
- Workplace Relations Amendment (Fair Termination) Bill 2002

Our detailed comments on these Bills may be found in Appendix A.

In short our position is that there is no evidence which suggests that the current unfair dismissal laws have any detrimental effect upon employment.

The Association takes this opportunity to draw attention to aspects of a recent Federal Court decision in which a Full Court of the Federal Court, comprising Justices Wilcox, Marshall and Katz, engaged in a reasonably thorough examination of the effect of unfair dismissal laws on employment growth. This examination by the Federal Court on what is predominantly a political argument, arose because the Minister, who had intervened in the proceedings before the Federal Court, led evidence supporting a contention that there was a strong link between the presence of unfair dismissal laws and growth in employment.

Essentially, the Minister argued before the Court that a regulation excluding a range of casuals from unfair dismissal laws, was justified because casual employees were a group of employees against whom the availability of access to unfair dismissal provisions would operate to their disadvantage by limiting growth in casual employment. In other words, there was a direct nexus between the existence of unfair dismissal laws and the availability of, and growth of, employment for casual employees.

As this matter was argued before a court of law, the Government could not rely merely on political rhetoric, but was forced to produce "evidence" to justify its assertions that there was a link between the presence of unfair dismissal laws and growth in employment. The Minister's evidence consisted of both ABS statistics and expert evidence from Professor Mark Wooden, a Professorial Fellow with the Melbourne Institute of Applied Economic and Social Research at the University of Melbourne.

Professor Wooden provided expert evidence on the basis both of an affidavit and in oral examination before the court.

Whilst the expert evidence of Professor Wooden dealt with the issue of casual employment only, Professor Wooden admitted before the court that his opinions and views, in relation to the link between employment growth and the presence of unfair dismissal laws, applied equally to full time and part time employees.

This was particularly noted by the Federal Court in paragraph 64 of its decision, when the Court said:

"During the course of cross-examination, Mr. Rogers suggested to Professor Wooden that, if his assumption about the effect of unfair dismissal laws on casual employment opportunities was correct, it would also apply to full time permanent employment. Professor Wooden agreed. His evidence went on:

Do I take it then that you accept the consequence for employment is not dependent upon the designation of the employee, that is as between full time, part time and casual, correct?……Yes.

Is it dependent upon the fact that the given employee or the given class of employees have access to unfair dismissal laws?……Correct."

Thus, where Professor Wooden gave evidence in relation to casual employment in each instance, the reference can be interpreted as being for all employees. The Court noted, at paragraph 59 of its decision that:

"In paragraph 69 of his affidavit, Professor Wooden stated what he understood (accurately) to be the effect of the current regulations. In paragraph 70 he said:

'In my view, the application of the unfair dismissal provisions of the Federal Workplace Relations Act 1996 to the types of casual employees excluded by regulations would be likely to have an adverse effect of job creation in Australia. In particular, I consider that it would be considerably more difficult for more vulnerable classes of potential employees, such as early school leavers, to find work and to gain the ability to progress to other positions within the workforce.' "

Of this assertion by Professor Wooden, which is also the constant assertion of the current Minister and the Coalition Government, the Federal Court said at paragraph 60:

"Professor Wooden did not offer any empirical evidence to support his view. He was unable to do so. In cross-examination, Professor Wooden said:

*'**There certainly hasn't been any direct research on the effects of introducing unfair dismissal laws.**'"* (Emphasis added)

The Federal Court immediately went on to say at paragraph 61:

"Professor Wooden's view was an entirely theoretical construct. He said in his affidavit:

'The question may well be asked as to what would happen if the unfair dismissal laws were to apply to the types of casual employees excluded by the regulations. The answer essentially is that there would be fewer jobs, especially for early school leavers, unemployed people and persons seeking to re-enter the workforce after a period of absence. Firms value the flexibility afforded by casual employment. In particular, they value the ability to vary working hours quickly and sever employment relationships at short notice. Extending the reach of unfair dismissal laws to casual employees would effectively remove one of these flexibilities. That is, employers would no longer have the same flexibility to vary employment numbers in line with variations in demand for their product. Further, employers would have to spend more time, money and effort in deciding who they hire. If they hire someone who is a poor fit with their business, it will now be much more difficult and costly to remove that person.'

The Federal Court went on at paragraph 62 to say:

Professor Wooden conceded 'many employers do not use this flexibility', 'as is reflected in the large proportion of casuals working regular hours in apparently long term jobs'. However, he argued that, 'just because a firm does not use the flexibility that casual employment potentially affords does not mean it does not value it."

At paragraph 63 the Full Court said:

Professor Wooden suggested flexibility was especially important to small business enterprises, which had relatively higher casual

> *densities. However, he did not offer any evidence, either statistical or anecdotal, to support his belief about the importance of flexibility to small business."*

Much of what Professor Wooden argues is exactly the same as the line of argument consistently run by the current Government in support of attempts to remove unfair dismissal protections from a range of employees.

On another aspect of the matter before the Court, the ABS statistics on employment growth were drawn to Professor Wooden's attention.

In particular, and the Court noted this at paragraph 65 of its decision:

> *"It was pointed out to him that, in the period of approximately three years, from March 1994 to December 1996, during which the more comprehensive unfair dismissal protections of the 1993 Act were in place, employment growth was stronger than in the following three years, during which less comprehensive protections applied. Employment growth under the 1993 Act was also stronger than in the three years immediately before the commencement of that Act, when there was no comprehensive unfair dismissal protection."*

At paragraph 66 of it decision the Federal Court noted:

> *"Professor Wooden agreed 'the peak in increased employment happens to coincide with the most protective provisions, from the employees' point of view'. He also agreed that the pattern in relation to permanent employment was similar. It was suggested this 'rather demonstrates that the existence or non-existence of unlawful dismissal legislation has got very little to do with the growth of employment and that it is dictated by economic factors'. Professor Wooden agreed 'the driving force behind employment is clearly the state of the economy' and mentioned the recovery from recession after 1993."*

Thus even on this point Professor Wooden was prepared to concede that unfair dismissal laws do not necessarily inhibit growth in employment.

Whilst the general evidence of Professor Wooden and the Government was challenged by contrary evidence presented to the Court from Dr. Richard Hall, a Senior Research Fellow with the Australian Centre for Industrial Relations Research and Training at the University of Sydney, the Court did not overly rely upon Dr. Hall's evidence when dealing with its conclusions on Professor Wooden's evidence.

The key conclusion drawn by the Full Court of the Federal Court of Australia in relation to the arguments run by the Government that there was a link between the existence of unfair dismissal laws and employment growth was expressed in paragraph 70 of its decision as follows:

> "*In the absence of any evidence about the matter, it seems to us the suggestion of a relationship between unfair dismissal laws and employment inhibition is unproven. It may be accepted, as a matter of economic theory, that each burden that is placed on employers, in that capacity, has a tendency to inhibit rather than encourage, their recruitment of additional employees. However, employers are used to bearing many obligations in relation to employees (wage and superannuation payments, leave entitlements, the provision of appropriate working places, safe systems of work, even payroll tax). Whether the possibility of encountering an unlawful dismissal claim makes any practical difference to employers' decisions about expanding their labour force is entirely a matter of speculation. We cannot exclude such a possibility; but, likewise, there is no basis for us to conclude that unfair dismissal laws make any difference to employers' decisions about recruiting labour."*

It was clearly the lack of any clear evidence to support the contentions of the Commonwealth Government which moved the Court to find against the Government. The Court, however, was very concerned about the lack of evidence. It made the following, highly relevant comments at paragraph 67 and 68 of its decision, when it said:

> *"It seems unfortunate that nobody has investigated whether there is any relationship between unfair dismissal legislation and employment*

> *growth. There has been much assertion on this topic during recent years, but apparently no effort to ascertain the factual situation.*
>
> *Professor Wooden thought research would be difficult because of the absence of an appropriate control group. However, unfair dismissal provisions were introduced gradually during the 1980's on an industry by industry basis, by awards of industrial commissions. It may have been possible, and may still be possible, for a researcher to have compared, or to compare, the pattern of employment in an industry newly affected by such a provision with the pattern, over the same years, in industries to which no unfair dismissal provisions applied. The results of any comparison might need to be treated with caution; however, any empirical material would be an improvement on mere assertion."*

The very clear, and the very strong, message flowing from this decision of the Full Court of the Federal Court of Australia is that the Government's arguments about links between employment growth and the presence of unfair dismissal laws is totally and absolutely unfounded.

It may be a part of economic theory but it is unproven theory.

As the Court makes abundantly clear, it is the case that the Government has not made any effort whatsoever to generate the research that would establish once and for all whether or not there was a real and actual link between the presence of unfair dismissal laws and employment growth.

It is abundantly clear that real benefits flow to employees from the presence of unfair dismissal laws. Their very name suggests the reality of that benefit. These laws prevent employees from being treated unfairly by their employer in relation to termination of employment. The setting aside, or removal of these laws, should only occur, if at all, if there is compelling and overwhelming evidence that the presence of these laws is harming, to a significant degree, the Australian economy.

To date the Government has not produced one iota of empirical data to support its assertions that the presence of unfair dismissal laws does inhibit employment growth.

The most unfortunate aspect of the debate over unfair dismissal laws for the last few years has been the total absence of solid empirical data to support any of the rhetoric and assertions of the government and those supporting the Government's political line.

The issue of unfair dismissal laws, and the issue of employment growth, are both matters of significant importance to the Australian economy as a whole. Decisions on such important issues should not be made merely on the basis of political rhetoric and assertion. The Australian community should deserve no less than that there be a proper debate over the effect and application of unfair dismissal laws with such debate, by both Labor and the Coalition, being based upon genuine and tested empirical data.

The Federal Court decision has, for the very first time, thrown into very stark relief, the reality that the Government has argued for removal of unfair dismissal laws on nothing other than assertion and rhetoric. The decision of the Full Court of the Federal Court of Australia deserves to be taken seriously and it offers quite clear instruction to all players in the political debate on this matter, namely, generate the accurate empirical data which will allow the debate to go ahead on the basis of facts rather than rhetoric.

It may well be that a section of the small business community has become confused as to when or how they may dismiss an employee. There is substantial precedent and case law on this matter. To the extent there is confusion it should be addressed. The answer is not to amend legislation so as to deny a section of the workforce fundamental rights. Rather the government should instruct the relevant departments to undertake proper educative programs designed to ensure that all persons in the community are aware of their rights at work.

It is not surprising that some small business employers may be unsure of the situation given that there is a vocal element amongst employers,

employer organisations and political interest groups calling for further draconian changes to Australia's industrial relations laws, especially in relation to placing further limitations on workers' access to unfair dismissal processes.

It is important to clearly understand that those who claim to champion the cause of small business, especially in relation to unfair dismissal legislative reform, do not produce or rely upon any hard data supporting their claims.

There is no evidence that workplace regulation adversely affects employment.

Workers have a right to fair wages and working conditions, including the right to a safe and healthy workplace.

In relation to occupational health and safety it must be stressed that the absence or non-observance of occupational health and safety legislation imposes enormous costs upon business and the community.

There are around 2,750 work-related deaths in Australia each year. This estimate does not include some areas of occupational health concern such as stress-related disorders.

Around 400 of those deaths, an average of eight per week, are the result of a traumatic incident at work – for example, explosions, falls from heights, electrocution, radiation, being hit by moving or falling objects, crushing, or acute chemical exposures. A further 60 to 70 deaths occur while travelling to or from work.

It is estimated that at least another 2,300 people die each year as a result of work-related injuries or illnesses – mostly exposure to chemicals at work. This figure is expected to rise in the future to as many as 4,000 per year, due to the expected increase in asbestos-related fatalities.

It is clear that there is a need for strong occupational health and safety laws. This is in the interests of all employers and workers. Small business has as

much at stake in avoiding the costs of workplace injury as large business. Safe and healthy workplaces cannot be a matter of size of the business.

In 2001 the Victorian Wholesale Retail and Personal Services Industry Training Board was funded by the Victorian government to undertake a Destination Survey of hairdressing graduates. (This survey is available from the Wholesale, Retail and personal Services Industry Training Board, Skipping Girl Place, Suite 10, 651-653 Victoria St., Abbotsford, VIC, 3067)

"The Hairdressing Destination Survey was planned to identify the reasons behind the skills shortage and attrition rate with the following clear objectives:

1. To ascertain why the industry was having difficulty retaining staff.

2. To determine why young people were not selecting hairdressing as a genuine career choice.

3. To provide adequate data to support critical decisions regarding the development of training, marketing and promotional activities, which will ensure that an appropriately skilled workforce is available to support the hairdressing industry.

"Analysis of the data has identified some problems within the industry that will need to be addressed before the industry can successfully move on. An example being that 18% of respondents left the industry for another career, 4% left because of the training issues, 7% decided they had made an incorrect career choice and **41% citing working conditions being the reason for leaving their current employer. This included employer exploitation, superannuation not being paid and general dissatisfaction with the industry.** The attrition rate, the identified skills shortage and the number of respondents who have left the industry and have said they would never return are major concerns.

"Full time college graduates have reported that 23% leave their first place of employment because of working conditions and 10% change career paths within the average 21 months after becoming qualified. 2% of full time

respondents don't commence work in the hairdressing industry after graduating.

"19% of full time graduates leave their first place of employment to become salon owners. It would be appropriate for marketing information to be developed and distributed, identifying the pitfalls of becoming an employer so early in one's career. This information could lead to business training prior to purchasing a salon.

"Many secondary students interviewed stated that they made their career selections based on their participation and experience through their schoolwork experience program. There are sound reasons for this program to be structured to ensure students are given a realistic view of the industry, and not just cleaning the salon as many students identified. Other key factors are the influence of career teachers and the Job Guide.

"Salon owners were critical of the lack of commitment, enthusiasm and work ethics of the current entrants and cited these reasons for the vast turnover in staff. This could also be attributed to the entrant's lack of understanding about the hairdressing industry before seeking employment. Salon owners also identified the difficulty they faced in employing senior staff, citing examples where advertisements placed in the Age newspaper over periods of weeks did not attract any applicants. This has lead to salon owners exploiting other means of engaging staff to enable them to grow their businesses. 25% of employers have concerns with the quality of training delivery……"

Industrial relations regulation was not cited as a problem in the recruitment or retention of staff by the employers interviewed.

Staff attrition places great financial strains upon businesses.

It is clear that whilst "enhancing the capacity of small business to employ more people" is important, it is at least equally important to enhance the capacity of small business to retain staff.

Decent wages and working conditions are critical factors in the recruitment and retention of staff.

If employment in small business is to be properly considered then the vast changes which have taken place in the Australian workforce over recent years must be taken into account.

The contemporary period has been characterised by substantial changes in the structure of the paid workforce. We have seen a decline in full-time employment and the rise of non-traditional and more precarious employment practices. These developments have had adverse implications and consequences for families. Many prime income earners do not have full time jobs.

Casual employment has more than doubled as a percentage of paid employment in Australia since 1982, having risen from 14% of the workforce to 26.4% in 1999. Moreover, 71.4% of all employment growth between 1990 and 1999 was casual.

Women are more likely to be employed as casuals than men. A paper released by the federal government in 1999 stated that, "*ABS data indicates that many casuals have been with their current employer for lengthy periods of time*", indicating that casual employment is now an entrenched part of employers' overall employment plans .

Permanency is increasingly being replaced by employment insecurity. Many young couples are reluctant to "start families" until they "get established". At least in part this is due to the insecurity of most employment and worries of "how will we cope if we do not have a job".

The distribution of available paid work in Australia is becoming increasingly concentrated. On one hand we have what might be described as job rich households where more than one person in the household is employed and on the other hand we have job poor households where no-one is employed. This "increased inequality in the distribution of employment", with more two-income families and more no-income families than ever before, is continuing to grow.

Australia today has 70,000 people on unemployment benefits who have been unemployed for five years or more. Robert Fitzgerald, the Community Services Commissioner for New South Wales, in a speech given in 1999, pointed out that there were 850,000 children in Australia in families where nobody was in paid employment.

The outcome of entrenched unemployment is socially disengaged citizens, poverty and social alienation. Statistics also show that ill-health is higher among the unemployed.

There is a clear tendency towards the transfer of welfare dependency across generations. Large numbers of children are affected by these fundamental developments in workforce structure.

In terms of working hours, only 53% of the employees in full-time employment now work a "standard" working week with no overtime. Of other full-time employees, 15% work paid overtime and 28% work unpaid overtime (4% have second jobs).

According to the Centre for Applied Social research at RMIT University, between 1982 and 2000 full-time male workers increased their working week by 4.3 hours and women by 3 hours. In the past two years, an average of 48 minutes was added to the working week. The study estimated that without the increased hours, 55,000 extra full-time jobs would have been created.

Those with full time jobs and requirements to "do extra hours" complain at the lack of time they have to interact with their partner and children.

A two-tiered labour market, polarised between high and low wage earners, has also emerged. This is precipitating increased social inequality and division.

We now have a labor market where in addition to substantial unemployment there is also a widespread fear of unemployment.

There is no real debate in the community that the most important thing to do for the unemployed is to get them a job. However, associated with the job must be a fair and just wage which is sufficient to enable them, when it is supplemented with government assistance, to meet the needs of their family.

There is a clear need, if we are to be concerned with employment, for there to be a fairer distribution of work. The Workplace Relations Act should be amended to encourage full-time, permanent employment. Limitations should be placed upon the working of excessive hours. All workers should be entitled to receive a living wage. Initiatives such as these would do far more to reduce unemployment than exempting small business from fair and just laws.

For many of those who are unemployed government financial assistance is crucial.

At the end of 1999-2000, the ratio of the single rate of Newstart Allowance to the Federal Minimum wage was around 41 per cent. When the Minimum Wage was first introduced in 1997 the ratio was 45 per cent. The 4 per cent increase in July 2000 to 'compensate' for the GST, took the ratio to 43 per cent.

Assuming the 4 per cent was to compensate for introduction of the GST, for this payment to have maintained its ratio to the Federal Minimum Wage the 4 per cent should have been added to the 45 per cent initial ratio.

In other words, had this payment retained its real 1997 ratio value, the ratio today would be 49 per cent. The value of this payment has declined in real terms, when measured against the Minimum Wage, by 6 per cent since 1997.

Newstart should be increased by at least 6%.

It is no constructive contribution to the problem of the unemployed to label them with terms such as "dole bludger" or "job snob". While we do not support the notion of providing the lazy with a free ride, many unemployed,

including many of the 200,000 long term unemployed, are in their particular position through no fault of their own.

"Concerted strategies need to be developed by government in partnership with the corporate sector, unions and local communities to provide more comprehensive and effective pathways for Australians out of work for more than twelve months, or at risk of long term unemployment, to re-engage with work." (Pathways To Work, January 2001).

Boston Consulting estimates that the public cost for one episode of long term unemployment will vary from $51,000 in the case of a single 21-year old to $146,000 in the case of a 50-year old white collar worker. (Pathways To Work, January 2001)

Those most vulnerable to the growth in insecure employment are people entering the workforce for the first time (mainly young people), or re-entering it after full-time parenting (mainly married women). Many women and full-time students prefer part-time employment as it helps them balance employment and other roles. However, many people are unable to break into secure full-time employment when they wish to pursue a career. For example, a recent study found that young people aged 16 to 19 years, who leave full-time education to seek full-time employment, had only a 50% chance of succeeding. (*Australian Council of Educational Research*, quoted in *Sydney Morning Herald*, 20.11.96.) (ACOSS 1996.)

Access to education and training, employment placement assistance and career advice, financial assistance and a taxation system which recognises the difficulties of returning to employment are all important to help people re-establish themselves in the paid workforce.

There is clear justification for a taxation system which provides government with sufficient revenue to meet its social objectives. At the same time there is no justification for allowing the perpetuation of a taxation system which allows some individuals or companies to avoid meeting their taxation obligations.

A key reason for the growing wealth gap in Australian society, increased poverty rates, and especially the growth of a "working poor" sub-group, is the taxation system, especially the lack of integration between the social security and taxation systems.

Both the taxation system and the social security system must be restructured in tandem to ensure an overall outcome which is equitable for working and low income families in particular.

In a paper to the Conference of Economists in 1997, Gillian Beer of NATSEM, illustrated that government assistance for working families and the associated income tests provided a financial disincentive for women to increase their workforce participation.

She reported that her research showed that a low income family with three children is financially worse off if the mother works between 10 and 24 hours a week rather than just 9 hours a week. By increasing her hours of work from 5 to 35 hours a week, the family benefits by just $12 a week. (*NATSEM Annual Report*, 1997, p.12).

The study concluded that, for many women, the poverty traps caused by overlapping means tests for government programs meant that there was little benefit from some types of paid work.

Also in 1997 in a study presented at an international tax reform conference in Potsdam, Germany, Ann Harding and Gillian Beer of NATSEM reported that they had found that about 7 per cent of Australians of working age - about 700,000 people - faced effective marginal tax rates of 60 per cent or more. The 30 per cent of families just below the middle of the income distribution face the highest effective tax rates and three-quarters of those facing effective tax rates have children.

ACOSS has pointed out that the interaction of the income tests for Family Tax Benefit, Youth Allowance and Child Care Benefit is a particularly crucial factor for low income working families. For example, where a family has more than one child attracting these payments such as where one child is under 16 and another is a dependant student over 16, the income tests

stack together to produce very high marginal tax rates, perhaps in excess of 80%.

Family Tax Benefit (A) is withdrawn at the rate of 30% (lower than previously) but when a personal tax rate is added, the effective marginal tax rate becomes 60%.

There is a strong case to argue that poverty traps caused by the "stacking" of income tests should be ended.

Earned income tax credits would overcome the problem of high effective marginal tax rates.

Adjustment of income test thresholds to ensure that low income earners are not penalised for working would also be a major step forward .

The initiatives contained within the new taxation system do provide part of the solution. Reducing the family benefits withdrawal rate from 50% to 30% is certainly a significant start. However, the fundamental problem remains. For Newstart recipients the withdrawal rate now begins at 50% but can rise to 70%.

Bettina Arndt in the Melbourne Age (25/8/2001) suggested that under the new tax system a mother returning to work after maternity leave and earning half average weekly wages actually loses half of what she earns as a result of the interaction between the social security and taxation systems. When she moves from part-time to full-time work, she retains a mere 16% of her additional earnings. She also suggests that NATSEM research shows that a woman returning to part time work retains just 49% of her earnings where she is on a wage of $330 per week and her husband is on average weekly earnings.

The tax system introduced by the Howard government provided for income tax cuts. However those on higher incomes, especially those in the $60,000 to $80,000 bracket, received a larger benefit in terms of dollars saved.

The structure of the tax system should be re-visited to provide greater benefits to low income families.

The absence of tax indexation has led, over the years, to low income earners moving into brackets where they are paying a greater share of their income in tax than previously. Access Economics has estimated that 60% of the value of the tax cuts accounted for the impact of bracket creep since 1993.

The impact of "bracket creep" must be addressed.

At least 250,000 workers moved into higher tax brackets during the period 1998-99 to 2000-01. The ranks of the over $50,000 jumped from 16% of tax payers in 1998-99 to 19% in 2000-01.

This is an issue which must be addressed by the government. Increasing government revenue by stealth through bracket creep is not sound economic policy.

Progressivity in the taxation system should be facilitated by a restructuring of the income thresholds which gives genuine tax relief to low and middle income earners. There is no basis for precipitating further flattening of the income tax system.

Such action should not reduce the total level of revenue.

In some ways Australia has an unfair taxation system. There are still loopholes which can be exploited to allow some high earners and businesses to pay less than their fair share of tax.

Closing down taxation loopholes must become a priority.

As a first step towards this end, the Fringe Benefits Tax should be remodelled to prevent salary packaging. Under current arrangements, employer provided child care provides an unfair advantage to those who can access it. Equally, other arrangements such as company provided cars provide some taxpayers with access to non taxable or concessional tax benefits.

The current FBT exemption for employer provided child care and the concessional treatment of company cars should be abolished.

Capital Gains Tax arrangements should be remodelled so that the full rate of tax applies to all assets including those held for twelve months**.** Capital gains should be taxed at the relevant personal income tax rate, taking into account the impact of inflation.

Concessions associated with employee share and options schemes, especially where such schemes are targeted towards high earning senior executives, allow such beneficiaries to avoid paying their full rate of tax.

Income splitting between spouses and business partners in order to allow businesses to reduce tax, whether directly or through the use of trust arrangements, should not be permitted.

Trusts and private companies must not be able to be used as vehicles to avoid tax.

A minimum rate of corporate tax should be levied.

Australia is now estimated to have more than 100,000 millionaires, and the number of people with annual incomes of more than $1 million has more than doubled in just five years to about 600. The richest 10 percent of our families have 44 percent of the wealth. (*The Age* 24/3/1998.)

Research by Ibis Business Information, based on Bureau of Statistics data, indicates that the top 20 per cent of Australia's 6.7 million households have an average income of $142,000 and control 45.5 per cent of Australia's total household income of $423 billion. By comparison, the lowest 20 per cent of households command just 4 percent of national household income. (*The Age*, 24 March, 1998.)

A wealth tax on high net worth individuals would reduce the wealth gap and restore greater equity.

The SDA opposed the introduction of the Goods and Services Tax (GST). There is ample evidence that that position was correct.
Many businesses are facing severe liquidity problems, the system remains highly complex and difficult to understand, consumer confidence has dried up leading to reduced retail spending and job losses in the retail sector, and those on low and fixed incomes are finding it more difficult than ever to make ends meet. The so-called compensation packages for these groups have proven to be inadequate.

A re-examination of the taxation system is necessary to restore equity and fairness to it. This would do a great deal to help employers and to encourage employment. It could lead to significant gains for Australian families.

Finally, it should be noted Australia is the fifth lowest country in terms of total tax revenue of all OECD countries. (*Economist*, 17/11/01, p100).

Any government approach must be long-term as well as short-term in its orientation.

There is now substantial evidence to show that Australia is becoming an aging society.

The future impact of this development upon the public purse in the form of government meeting aged pension and aged care requirements will be considerable.

Demographic data shows clearly that the Australian population is aging. During the past decade the number of people aged 65 years or more increased from 7.3% to 11.2%.

A significant number of retired people are on low incomes. Many are living in poverty.

Long term, this raises two critical issues – the cost of provision of adequate living standards to older Australians, and who will provide the care which will be needed.

In this context it makes sound, long-term economic sense for the government to facilitate individuals being able to plan and provide for their own income support beyond their wage earning years. Adequate superannuation is a crucial component of retirement security.

Research by Simon Kelly of NATSEM ("*Trends in Australian Wealth-New Estimates for the 1990's*", paper presented to the 30th Annual Conference of Economists) shows that superannuation is a critical factor in helping many retired people avoid poverty.

A report released by the CPA in 2001 shows that many Australians when they retire, will experience a significant drop in living standards if they rely only upon compulsory superannuation. ("*Superannuation, The Right Balance*", CPA, 2001)

Government should act to encourage and expand industry superannuation and to limit the taxation of genuine superannuation.

Other research by NATSEM (Simon Kelly, "*Women and Superannuation in the 21st Century",* NATSEM, 2001) shows that many women face bleak retirements because they lack adequate superannuation.

Of those women contemplating retirement by 2010 about 10% will have accumulated less than $27,300 by the time they retire. This is a significant improvement since 1993 when women's average superannuation was only $9,647. Nevertheless it leaves many women vulnerable to poverty in old age.

Women who have had interrupted working lives because they stopped work to raise children are generally the hardest hit. Consequently it is imperative that government should address the position of those with non-standard employment careers such as those who have interrupted labour market involvement in order to be able to raise children or to care for other family members.

An effective mechanism should be established to allow superannuation contributions to be split between the wage earning spouse and the non-wage earning spouse.

Superannuation is an egalitarian measure. Research by NATSEM (S. Kelly, *"Wealth On Retirement",* 2001) shows that the spread of industry superannuation has made superannuation assets the least concentrated form of wealth. For the bottom 20% on the wealth spectrum, it represents 90% of their total wealth.

As such, superannuation becomes an important factor in helping low income individuals, in particular take steps to ensure their financial security in retirement. This, in turn, will lessen the drain which will otherwise take place upon government resources.

To lessen or remove the obligation upon employers in respect of superannuation, payments will have adverse long term impact upon the entire national economy and/or the future well-being of the nation's senior citizens.

Government regulation in respect of workplace relations or workplace health or safety does not hinder the capacity of small business to employ more people. To change the legislation in these areas by further de-regulation could adversely affect both employers and employees.

Legislation providing for fair taxation at levels which enables the government to meet its obligations to ensure that all families and individuals can live decently with dignity is necessary and desirable. The long term benefits this provides to society outweighs any perceived disadvantages.

Superannuation is critical to ensuring retirement security in the future.

In these areas there is no unnecessary duplication of regulation by Commonwealth, State and Territory governments which inhibits growth or performance in the small business sector.

Small business does have "special needs" which should be addressed. Rather than nominating these needs on the basis of a flawed ideological

assessment, the government should take notice of independent and objective surveys such as the VIC WRAPS ITB exercise.

Small business would be aided through the facilitation of initiatives identified in that survey.

Overall there needs to be a balanced approach which recognises the needs of small business, employees therein and society as a whole.