

EDUCATION, SCIENCE AND TRAINING

SENATE LEGISLATION COMMITTEE - QUESTIONS ON NOTICE 2005-2006 BUDGET ESTIMATES HEARING

Outcome: 2
Output Group: 2.4 – Higher Education Group

DEST Question No. E356_06

Senator Carr provided in writing.

Question:

Isn't it the case that the Labour Cost Indices, now known as the Labour Price Indices, are designed specifically to exclude productivity-related factors?

Didn't the 1996-98 Triennial Report specifically indicate that when it said, "*The indexation arrangements for the salary components of operating grants will be reviewed when a new Labour Cost Index (LCI), which will remove the effects of productivity-based wage increases, is developed by the Australian Bureau of Statistics*"?

The explanatory notes of the ABS Labour Price Index publication seek to confirm this view, wouldn't you agree?

They say:

"6. The wage, non-wage and labour price indexes measure changes over time in the price of labour unaffected by changes in the quality or quantity of work performed. A range of procedures have been developed to identify and measure quality and quantity changes and ensure that only pure price changes are reflected in the indexes.

7. Price determining characteristics of the jobs are detailed in fixed pricing specifications and any changes in labour payments due to changes in the pricing specifications are removed from index movements. The following are examples of changes in price determining characteristics which are not reflected in index movements:

- o Changes in the nature of work performed (e.g. different tasks or responsibilities)*
- o Changes in the quantity of work performed (e.g. the number of hours worked)*
- o Changes in the characteristics of the job occupant (e.g. age, apprenticeship year, successful completion of training or a qualification, grade or level, experience, length of service, etc.)*
- o Changes in location where the work is performed.*

8. Changes in the price of labour resulting from changes in the composition of the labour market are also excluded from index movements."

Wouldn't you say that these indices exclude productivity-based increases? What productivity-based increases are left in there? Can you specify them?

Answer:

Indexation

As noted in the answer to Question E354_06, the *Review of Indexation Arrangements in the Higher Education Sector* noted that “when considering price movements for labour services [in the Labour Price Index], no adjustment is made for productivity changes within the production process that arise from factors such as capital investment, technological change, more efficient organisational arrangements, and entrepreneurial activities.” Thus, changes in the price index may reflect changes in productivity that cannot be attributed to labour input, but which may affect the wage cost of such input.