

ACTU Submission Annual Wage Review 2016-17

29 March 2017

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CONTENTS

Table of Figures	iii
1. Introduction	1
2. Our claim.....	2
2.1 The form of the increase in minimum wages	2
2.2 The timing of the increase in minimum wages	3
2.3 The uniformity of the increase in minimum wages	4
2.4 An increase that takes into account all the relevant factors	6
3. Observations regarding the legislative framework	9
4. Who relies on minimum wages in Australia?	12
4.1 Sources and definitions.....	12
4.2 How many people rely on minimum wages in Australia?.....	13
4.3 Overview of the minimum wage workforce	14
4.3.1 Industry	16
4.3.2 Occupation	18
4.3.3. Employer size	22
4.3.4 Classification and earnings	22
4.4 Why does award reliance continue to rise?.....	25
4.5 Indirect “reliance” on modern award wages	28
5. What do minimum wages do?	30
5.1 International evidence	31
5.2 Australian evidence.....	38
6. The state of the Australian economy	41
6.1 Economic growth	42
6.2 International comparison of economic growth	45
6.3 Growth by industry	45
6.4 Consumer spending and retail trade	47
6.5 Productivity growth	50
6.6 Wage measures.....	53
6.7 Multifactor productivity	57
6.8 Industry sector productivity.....	58
6.9 International comparisons of productivity growth	60
6.10 Unit labour costs and the labour share of income.....	63
6.11 Profits.....	66
6.12 Business bankruptcy rates	68
6.13 Business entry and exit	69
6.14 Inflation and wage growth.....	70
7. The state of the labour market.....	78
7.1 Employment, unemployment and vacancies.....	79
7.2 Participation in the labour force	81
7.3 The youth labour market	82
7.4 Underemployment.....	84
7.5 Employment by industry.....	87
7.6 Regional dispersion of labour force conditions	91
8. The economic outlook.....	95
8.1 The growth outlook	95

8.2	The outlook for the labour market	97
8.3	Estimating the demand impacts of our claim	99
8.3.1	The increase in total income from an increase in the minimum wage	99
8.3.2	The spending multiplier	99
9.	Relative living standards and the needs of the low paid	102
9.1	Reversing the decline in relative living standards.....	103
9.2	The Minimum Wage has fallen relative to relative poverty lines	108
9.3	Improving the Wage Bite	112
9.4	Relative earnings in the more award-reliant industries.....	113
9.5	Australia’s minimum wage in international context.....	117
9.6	Minimum wages and inequality.....	123
9.7	The needs of the low paid.....	128
9.8	Absolute Poverty, financial stress and deprivation.....	131
9.9	Securing a fair share of productivity growth.....	132
9.10	The relevance of taxes and transfers	135
9.11	The effect of the cost of working on living standards.....	138
10.	Equal remuneration for men and women workers	139
11.	Other matters	144
11.1	Juniors, apprentices and trainees	144
11.2	Employees with disability	145
11.3	Casual loading	145
11.4	Piece rates.....	146

Table of Figures

Figure 1: Employees by method of setting pay	14
Figure 2: Award only employees by age – May 2016.....	15
Figure 3 Density of award only employees in most award-reliant occupations	19
Figure 4: Number of award-reliant employees in the most award-reliant occupations	20
Figure 5: Distribution of hourly earnings of award-only employees at May 2016	24
Figure 6: Agreement Terminations by the Fair Work Commission	26
Figure 7: Change in level of award reliance between May 2014 and May 2016 by industry	28
Figure 8: Real GDP growth, annual, year on year, 1996 to 2016	43
Figure 9 Growth in GDP without mining, growth in mining GVA, and the share of mining in GDP, annual average, year on year, per cent, 1996-2016	44
Figure 10: GDP growth rates, year to December 2016, OECD countries, per cent	45
Figure 11: Growth in industry gross value added, year to December 2016, seasonally adjusted, per cent.....	46
Figure 12: Annual growth in household income and final consumption, year on year, 2006-2016.....	48
Figure 13: Household saving ratio.....	48
Figure 14: Growth in the quarterly volume of retail sales and consumer spending, year on year, %.....	49
Figure 15: Retail turnover by industry sub-sector, real, (Index: December 2006=100).....	50
Figure 16 Various measures of labour productivity and wages, 1995 to 2015.....	53
Figure 17 Growth in the wage price index for total industry, year on year, 1998 to 2016,%.....	55
Figure 18: Growth in public and private sector WPI, year on year, 1998 to 2016.....	55
Figure 19 Growth rates in various measures of labour productivity	56
Figure 20 Growth rates in various wage measures.....	57
Figure 21: Estimates of labour, capital and multifactor productivity, market sector*, annual	58
Figure 22: Growth in labour productivity from MFP estimates and GVA per hour worked, per cent change 2015-16.....	59
Figure 23: Level of labour productivity (GDP per hour worked) in OECD countries in 2015, US dollars converted at Purchasing Power Parity	61
Figure 24: Average annual labour productivity growth in OECD countries – ranked by 2009-14, compared with 2001-08, %.....	62
Figure 25: Growth in real unit labour costs, OECD countries, year to September 2016.....	63
Figure 26: Nominal and real Unit Labour Costs, index, 1996-2016.....	64
Figure 27: Share of compensation of employees in total factor income, 1996-2016.....	65
Figure 28 Total wages, annual, constant dollars, 2001-2016.....	66
Figure 29: Shares of profits in factor income by industry, annual, 1994-2016.....	67
Figure 30 Industry sector total operating profits, annual, real terms, 1995 to 2016.	68

Figure 31: WPI growth 2016 and the 10 year annual average WPI, by industry, per cent per year.....	71
Figure 32: Measures of wages growth	72
Figure 33 <i>RBA Bulletin</i> March 2017, Bishop and Cassidy (2017) p.13, Graph 1.....	73
Figure 34 Nominal growth in NMW, median earnings, and AWOTE, and cpi, per cent	76
Figure 35 Real growth in NMW, median earnings and AWOTE, per cent.....	77
Figure 36: Unemployment rate over the last 20 years, per cent of the labour force	80
Figure 37: Ratio of number of unemployed to number of vacancies, May 1979 to November 2015	81
Figure 38: Participation rates, age 15-24, 25-64, and total 15 and over, percentages of respective group populations, 1997-2017	82
Figure 39: Unemployment rate, 15-24, and 25-64, seasonally adjusted, 1996-2016.....	83
Figure 40: Youth unemployment rate in OECD countries, annual, % of youth labour force, 2015	84
Figure 41 The rate of unemployment and underemployment, quarterly, seasonally adjusted, per cent of labour force	85
Figure 42 Part time workers as a share of total workforce, per cent	86
Figure 43 Part time employed per cent of workforce, and part time hours as a per cent of total hours worked.....	87
Figure 44 Employment by industry, 1000s, November 2016.....	88
Figure 45: Growth in employment in the year to November 2016 (thousands of persons).....	89
Figure 46: Growth in employment in the year to November 2016, per cent	90
Figure 47: Total growth in employment in industry sectors over the 10 years to November 2016.....	91
Figure 48: Unemployment rate, States and total, seasonally adjusted, January 2017, per cent of labour force.....	92
Figure 49: Change in unemployed numbers, states and total, year to January 2016, 1000s.	92
Figure 50: Unemployment percentage of work force, States, trend, over the 10 years to January 2017..	93
Figure 51: Change in unemployment rate, over year to January 2016 and annual average over 10 years to January 2016	94
Figure 52: Forecasts of various indicators by the SMH Business Day Economic Survey, February 2017 ...	97
Figure 53: Minimum wage bites, ratio of the NMW to AWOTE, ratio of NMW to median FT earnings, 1983 to 2016	104
Figure 54: Average weekly ordinary time earnings, median full time earnings and the minimum wage, 1983 to 2016, constant dollars (1983 = 100)	106
Figure 55 National minimum wage, Average Weekly Ordinary Time Earnings, Median Earnings, and 60% of Median Earnings, nominal (current) dollars	109
Figure 56 National minimum wage, Average Weekly Ordinary Time Earnings, Median Earnings, and 60% of Median Earnings, real, 1983 dollars.....	109

Figure 57 Nominal NMW minus 60% of median earnings	110
Figure 58: Change in minimum wage bite between November 2010 and November 2016.....	114
Figure 59: Change in minimum wage bite between November 2010 and November 2016, percentage points, and six year total growth in industry real AWOTE, %	115
Figure 60: Real average weekly ordinary time earnings and NMW, May 1997 to November 2015.....	116
Figure 61: NMW as a percentage of average earnings, award dependent industries, May 2010 to November 2016.....	116
Figure 62 Average and minimum wages, OECD countries, constant US PPP dollars, 2015	118
Figure 63 Total growth over 10 years in the real minimum wage, 2006 to 2016	119
Figure 64 Minimum wage as a fraction of median wage, OECD, 2015	120
Figure 65 Minimum wage as a fraction of average wage, OECD, 2015	121
Figure 66 Total change over 10 years in minimum wage as a share of full time mean earnings, change in minimum wage as a share of median earnings, percentage points, 2005 to 2015	122
Figure 67: Real wages for full-time non managerial adults.....	124
Figure 68: Measures of earnings inequality among full-time non-managerial adult employees	124
Figure 69: Gini coefficient, a measure of inequality where higher is more unequal, for equalized household disposable income distribution in Australia 1994-95 to 2013-14	126
Figure 70 Cpi indexes for a range of essential expenditures, and total cpi	130
Figure 71: Increase in Mortgage Delinquencies	131
Figure 71: Industry Gross Value Added per hour worked in the more award-reliant industries, compared to increases in the real NMW, indices.....	134
Figure 72: Labour's share of income in the market sector and in some more award-reliant industries	135
Figure 75: The gender profile of pay in Australia, share of full time male and female employees by hourly ordinary time pay range, May 2016	141
Figure 76: Gender pay gap in median earnings of full-time workers in OECD countries, most recent year, per cent	142
Figure 77: Gender pay gap in median earnings of full-time workers, Australia and OECD average, per cent	143

1. INTRODUCTION

1. The Panel's decision this year will directly impact a higher proportion of the workforce than was the case only 4 years ago. There are now 2.3 million workers who are dependent on the Annual Wage Review for an increase to their wages. That is 2.3 million workers who currently are paid the lowest that they can lawfully be paid. These low paid workers are more likely to women, more likely to be in insecure work and more likely to work in the services sectors which are supposedly the key to Australia's economic future.
2. These workers are doing it tough, and are not getting their fair share of the nation's economic prosperity. Today wages make headlines because an economically conservative Treasurer has declared record low wage growth to be the biggest challenge facing the Australian economy. The developing trends we have seen are now reaching a critical point where significant and decisive action as required.
3. Wage distribution over the last 3 decades has been characterised by stagnation at to bottom and expansion at the top. In recent times the gap between labour productivity growth and wage growth has continued to widen on a range of measures. Real wages are growing at a glacial pace and while real unit labour costs and the share of wages in national income is declining. Economic growth however continues, beyond many expectations.
4. A declining household savings ratio and higher consumption growth than income growth shows workers are spending, but their capacity to continue to do so is threatened by the disproportionate increases in the costs of non-discretionary items (such as utilities and housing) relative to headline CPI as well high levels of household debt and recent movements in retail interest rates on home loans.
5. The decisions of the Fair Work Commission have tended to closely follow headline CPI, and the movements in minimum wages have largely followed the direction of market wages albeit generally more conservatively so relative both to AWOTE and median earnings. A trend declining minimum wage bite has generally been observed, with more recent flattening the more the result of lower growth in wages above the minimum rather than growth at the bottom.
6. In our submission, now is the time to lead, not follow. It should not be the case that minimum wages adjustments result in either a falling, or roughly stable, minimum wage bite. In our view, the living standards of low paid workers are too low relative to other workers. Current minimum wage levels, in our view, provide neither a fair nor relevant safety net. The increase we propose would begin to reverse the erosion of relative living standards and restore fairness. This also has the advantage of arresting the drag on growth produced from increased inequality and increasing aggregate demand.

2. OUR CLAIM

7. We submit that the Panel should increase the National Minimum Wage for full-time adults by \$45 per week, to \$717.70 per week or \$18.89 per hour. Award minimum wages up to and including the benchmark C10 tradespersons' award rate (and its equivalent rates) should also be increased by \$45 per week. Award rates above the C10 rate should be increased by 5.7%.
8. The minimum rates of pay we propose for each classification level in the Manufacturing and Associated Industries and Occupations Award 2010 are set out in Table 1.

Table 1: ACTU's proposed minimum rates of pay

Award classification	Current rates		Proposed rates				
	Weekly	Hourly	Weekly	Hourly	% increase	Weekly \$ increase	Hourly \$ increase
NMW/C14	\$672.70	\$17.70	717.70	18.89	6.7	\$45.00	1.19
C13	\$692.10	\$18.21	737.10	19.40	6.5	\$45.00	1.19
C12	\$718.60	\$18.91	763.60	20.09	6.3	\$45.00	1.18
C11	\$743.30	\$19.56	788.30	20.74	6.1	\$45.00	1.18
C10	\$783.30	\$20.61	828.30	21.80	5.7	\$45.00	1.19
C9	\$807.70	\$21.26	854.10	22.48	5.7	\$46.40	1.22
C8	\$832.30	\$21.90	880.12	23.16	5.7	\$47.82	1.26
C7	\$854.60	\$22.49	903.70	23.78	5.7	\$49.10	1.29
C6	\$897.90	\$23.63	949.48	24.99	5.7	\$51.58	1.36
C5	\$916.30	\$24.11	968.94	25.50	5.7	\$52.64	1.39
C4	\$940.90	\$24.76	994.95	26.18	5.7	\$54.05	1.42
C3	\$990.10	\$26.06	1046.98	27.55	5.7	\$56.88	1.49
C2(a)	\$1,014.80	\$26.71	1073.10	28.24	5.7	\$58.30	1.53
C2(b)	\$1,059.10	\$27.87	1119.94	29.47	5.7	\$60.84	1.60

2.1 The form of the increase in minimum wages

9. In 2010, the Commission awarded a flat dollar increase to the NMW and modern award minimum wages. In doing so, the Commission observed that:

"We consider there is a strong case for a percentage adjustment to all modern award minimum wages. While not all award-reliant employees are low paid, uniform dollar increases reduce the relevance of the safety net at the higher award levels and erode the real value of award wages at most levels. These are particularly important considerations at the commencement of the modern awards system. Nevertheless most of the major parties supported a dollar increase rather than a percentage one.

With some hesitation we have decided on a dollar increase. There are two reasons. The first is that to the extent there is a choice between a percentage increase benefiting the higher levels and a dollar amount

benefiting the lower levels we think that the current circumstances favour a greater benefit for the lowest paid. We are required in particular to take the needs of the low paid into account. In light of the fact that award-reliant employees have not had an increase in wages since 2008, it is desirable that we increase award rates by the largest amount consistent with the statutory criteria. Secondly, we have very little data concerning the impact of a percentage increase on costs and employment. We have insufficient information to be confident that a percentage increase would not have disproportionate effects on employment at the higher award levels...¹

10. Since 2011, the Panel has awarded percentage increases in the NMW and award minimum wages at each Review. The considerations that have led the Panel to adopt percentage increases are important. Award relativities were compressed quite substantially in the 1990s and 2000s. Percentage increases have prevented further erosion in these relativities, by maintaining them at their July 2010 levels.
11. However, we believe strongly that a hybrid increase best balances the various considerations that the Panel must take into account. It would ensure that the largest wage rises, in percentage terms, go to the lowest paid workers. At the same time, it would prevent any further erosion of the skill-based wage relativities above the C10 tradespersons' rate. Further, the basis of any threat of negative employment effects as a consequence of minimum wage rises remains highly contestable, as discussed in the Chapter on 5. What do minimum wages do?. Rather, as detailed in that Chapter, the view of the ACTU is that developments in the academic and policy literature increasingly support the argument that raising the minimum wage under current circumstances would in fact promote increases in employment.

2.2 The timing of the increase in minimum wages

12. A national minimum wage order made in an Annual Wage Review comes into operation on 1 July in the next financial year, unless there are exceptional circumstances.² Similarly, a determination varying modern award minimum wages that is made in an annual wage review comes into operation on 1 July unless there are exceptional circumstances.³
13. There are no exceptional circumstances that would warrant a delay in the Panel's determination coming into operation. The NMW and modern award minimum wages should be increased with effect from 1 July.

¹ [2010] FWAFB 4000 at [336]-[337]

² Fair Work Act 2009 (Cth), s.287

³ Fair Work Act 2009 (Cth), s.286

2.3 The uniformity of the increase in minimum wages

14. We submit that all award rates of pay equal to or less than the C10 tradespersons' rate in the Manufacturing and Associated Industries and Occupations Award 2010 should be increased by \$45 per week, while all higher rates should rise by 5.7%.
15. With some hesitation, our view at the time of drafting this submission is that we will not contend for a variation in the increase across industries. At a principled level, we continue agree with the Panel in its 2014-15 Review when it endorsed the observation that "the legislative framework reveals a preference for consistent variation determinations across all modern awards...[t]he notion of a fair safety net of minimum wages embodies the concepts of uniformity and consistency of treatment", and that "the award-by-award approach to minimum wage fixation, based on sectoral considerations, advocated by some parties in these proceedings is inimical to the safety net nature of modern award minimum wages."⁴
16. However, there can be no doubt that, as a result of the decision by the Full Bench in the *Penalty Rates* case, many low paid workers in highly award dependent industries will suffer a reduction income, a reduction in their living standards and a reduction in their capacity to meet their needs. So much is explicitly recognised in the *Penalty Rates* decision:

"A substantial proportion of the employees covered by the modern awards which are the subject of these proceedings are 'low paid' (within the meaning of s.134(1)(a)). The award variations we propose to make are likely to reduce the earnings of those employees and have a negative effect on their relative living standards and on their capacity to meet their needs.

The evidence of the United Voice and SDA lay witnesses puts a human face on the data and provides an eloquent individual perspective on the impact of the award variations. Many of these employees earn just enough to cover weekly living expenses, saving money is difficult and unexpected expenses produce considerable financial distress. We are conscious of the adverse impact the award variations we propose to make upon these employees.

The immediate implementation of all of the variations we propose would inevitably cause some hardship to the employees affected, particularly those who work on Sundays. There is plainly a need for appropriate transitional arrangements to mitigate such hardship."⁵

17. The Full Bench in the *Penalty Rates* case identified that the penalty rate changes it determined which would be of greatest negative impact on such employees were those relating to Sunday penalty rates. The Full Bench has not, at the time of writing, determined what the transitional arrangements

⁴ FWC 2015 Annual Wage Review 2014-15 [12],[13]

⁵ [2017] FWCFB 1001

will be in relation to the implementation of those penalty rate reductions, either over the cycle between this Annual Wage Review and the next or beyond. The lack of certainty about these matters makes it difficult at this point in time to mount the type of case that the Commission has identified as necessary in order to persuade it that there ought to be differential treatment on an industry basis, as has often been sought by employers. For example, in the 2012/2013 Annual Wage Review, the Panel made the following comments:

“The Panel has had regard to the range of submissions seeking consideration of differential treatment of any wage increase. The submissions generally sought the provision of either an exemption, deferral or variation of any wage increase in connection with particular industry circumstances.

As determined by the Panel in the 2011–12 Review, the onus is on the party seeking to rely on economic incapacity and a strong case must be made out in order to warrant relief. Also, an “incapacity claim” needs to be supported by oral and/or documentary evidence capable of analysis and evaluation. Further, such claims will only rarely be successful in respect of a whole industry. In a number of cases the diversity of experience in the sectors covered by an award have made it inappropriate to exempt all sectors from an increase.

Nothing has been put to us to alter this approach.

The parties have had the opportunity to raise economic and business conditions with the Panel to demonstrate the case for exemptions or differential outcomes and we must deal with those circumstances based upon the material before us.

In this case, the material provided in the submissions was predominately in the form of reference to broad economic conditions said to be affecting the industry concerned. There was no evidence setting out particularised, current, acute and definable circumstances (relevant to an industry or sector) that would justify different treatment in the particular sectors drawn to our attention.”⁶

18. Against this, the *Penalty Rates* decision dealt at a general level with the issue of “relative living standards and the needs of the low paid” in this way:

“In the *2015–16 Annual Wage Review* decision the Expert Panel also observed that increases in modern award minimum wages have a *positive* impact on the relative living standards of the low paid and on their capacity to meet their needs. It seems to us that the converse also applies, that is, the variation of a modern award which has the effect of reducing the earnings of low-paid employees will have a *negative* impact on their relative living standards and on their capacity to meet their needs.”⁷

- and -

⁶ [2013] FWCFB at [542]-[546]

⁷ At [173]

“The ‘needs of the low paid’ is a consideration which weighs against a reduction in Sunday penalty rates. But it needs to be borne in mind that the primary purpose of such penalty rates is to compensate employees for the disutility associated with working on Sundays rather than to address the needs of the low paid. The needs of the low paid are best addressed by the setting and adjustment of modern award minimum rates of pay (independent of penalty rates).”⁸

19. This has led us to a view that the appropriate approach, is to take into account the fact that penalty rates will reduce. In the event additional information becomes available prior to the consultations for this Review, we would seek the opportunity to further contend for or support an adjustment to modern award minimum wages that more directly addresses the negative impacts on employees affected by the *Penalty Rates* decision.

2.4 An increase that takes into account all the relevant factors

20. The ACTU’s submission to this year’s Review, as in previous Reviews, addresses all the statutory considerations to which the Panel must give consideration.

21. Crucially, awarding our claim will help to improve the declining relative living standards of workers who are increasingly reliant on minimum wages. It will help the low paid to meet needs which have continued to increase. Given the fact that women are increasingly disproportionately represented among the ranks of low-paid workers, our claim will help to reduce the gender pay gap. It will help to promote social inclusion through workforce participation, by ensuring that work pays.

22. Our claim is also consistent with the economic factors that the Panel must take into account. It will encourage growth in the economy. It will encourage spending and aggregate demand through raising incomes at the lower end where people spend the most out of their incomes. It will increase the profitability of business accordingly. This submission outlines a range of pertinent observations about the state of the Australian economy that support granting our claim in this Review, including the following:

- a. The Australian economy has grown 2.4% over 2016, better than generally forecast. Unemployment declined, and is within forecast. Calendar year inflation is the lowest in twenty years. Business bankruptcy numbers are lowest since the GFC and the rate is close to the lowest in the thirteen years since the series began. Wages growth continues to be very slow.
- b. The indicators of the both the state of economy and labour market have exceeded those forecast for 2016, and are strong for 2017. The macroeconomic environment remains better than anticipated, but it needs the boost to spending, employment and profits that an increase in the minimum wage and awards would bring. Low paid workers deserve

⁸ At [823]

this raise now. An increase in the minimum wage and awards is also required that would be sufficient to contribute to improving the economy. We respectfully recognise that an increase in the minimum wage and awards is the mechanism by which such an improvement can be brought about.

- c. The gap between the living standards of low-paid workers and workers on average wages continues to grow on trend, despite the stall in growth in average wages over that period. The gap has widened almost every year for decades, through boom times and recession, and under each of the three institutions that has had responsibility for adjusting minimum wages.
- d. The NMW⁹ as a percentage of average full-time earnings (AWOTE) is still below the level it was in 2008 at the GFC, nearly ten years ago. Improving the relative value of the NMW is necessary but not sufficient, in order to maintain a fair safety net.

23. Awarding the increase we seek in this Review would not only prevent further erosion in the relative living standards of the low paid, but would advance the vital task of restoring ground that has been lost. We project that, if awarded in full, the increase we seek would result in the NMW being restored to around 46.6% of average weekly full-time earnings, two percentage points up from 44.8%.¹⁰ This would be a modest boost from its current level, but still only just above its level at 2009 (45.8%) in the context of almost zero current growth in real wages. We are calling on the Panel to deliver what is in effect a modest increase in the relative living standards of the low paid.

24. Raising the minimum wage will also contribute to a reduction in inequality and promote growth in the economy. This process is being increasingly recognised in a mounting literature that examines the relationship between inequality and economic growth. An increase in the minimum wage is called upon in order to alleviate inequality and to promote economic growth.

25. We estimate conservatively that if our claim is accepted, between 35,000 and 80,000 jobs would be created over the year. The process and effect is similar to that which occurred with the Stimulus Package after the GFC. Business profits would increase commensurately out of the sales revenue received from the additional expenditure.

26. Our claim is affordable and appropriate, having regard to all the social and economic criteria the Panel must take into account. This submission addresses each of these criteria in detail.

⁹ Or the equivalent C14 award rate of pay.

¹⁰ Projection based on the assumption that average weekly ordinary time earnings (AWOTE) of full-time adults will increase by 2.8% over the year to November 2015, as it did in the year to November 2014. This is not a forecast, merely a projection assumption.

27. A fair safety net of minimum wages is necessary to protect the living standards of Australian workers and to promote economic growth in Australia.

3. OBSERVATIONS REGARDING THE LEGISLATIVE FRAMEWORK

28. The recent decision of the Full Bench in the Penalty Rates matter¹¹ makes some observations about the operation of the legislative framework for the Four Yearly Review of Modern Awards. It is proper for the Panel to consider whether those observations are applicable, and if so, to what extent, to the Annual Wage Review.
29. Firstly, the Full Bench there decided that the question of a “relevant” safety net (as referred to in the modern awards objective) “is intended to convey that a modern award should be suited to contemporary circumstances”¹². The Modern Awards Objective also applies to the exercise of functions of powers in the Annual Wage Review “so far as they relate to modern award minimum wages”¹³. We have, in past reviews, made what we consider to be rather uncontroversial submissions about the beneficial nature of the Minimum Wage Fixation functions of the Commission. In essence, the proposition is that the creation by statute of a regulatory function to centrally set and maintain “fair” minimum wages is a labour market intervention that stems from the legislature taking the position that in the absence of such an intervention, the minimum wages of employees would not (or at least might not) be fair. If one accepts that proposition, it cannot follow that “relevant” centrally determined minimum wages – minimum wages that are suited to contemporary circumstances – must always follow, predict or seek to reproduce the trends observed in market wages. Rather, contemporary circumstances may demand that the intervention enabled by the legislation be exercised to a much fuller extent, including an extent that results in a major disparity between market wage movements and movements in minimum wages. We aim to demonstrate in other sections of this submission those circumstances are present here. There are some parallels between the desirability of leading versus following the market with the reasoning behind our support of United Voice’s position in the preliminary hearing that the Panel should adopt a medium term target for the setting of the minimum wage:

“It is important to distinguish, as United Voice has, between a binding target and the setting of an expectation, or expression of support of the merits in favour of progressing toward a particular goal. For the reasons expressed by United Voice, we submit that the Commission can and has done this in undertaking the Annual Wage Review, including as recently as its decision in May of this year.

Further, and at the risk of appearing trite, it is important to recall that since the commencement of the *Fair Work Act* and subject only to its amendment or repeal by the parliament, the Commission is the institution in exclusive control of national minimum

¹¹ [2017] FWCFB 1001

¹² At [120]

¹³ s. 134(2)(b)

wage policy. While it is specifically required to make annual determinations, its processes are more in the nature of an inquiry than an arbitration. It would be passing strange and an erroneously naïve construction of the legislative purpose that led to a conclusion that that Commission was precluded from adopting , developing or reviewing policy positions that informed its evaluation of the highly variable and granular detail that it properly has regard to year to year.

Indeed, the failure to adopt any such policy positions would essentially leave the Commission rudderless in navigating its task from year to year. Moreover, it would leave the Commission with no basis to satisfy itself that it had met the overarching requirement in both the minimum wages objective and the modern awards objective: that the outcome of its decision is *fair*. The Commission’s adherence to and refinements of statements of principle in Annual Wage Reviews to date are explicable in that light.”¹⁴

30. Secondly, the Full Bench determined that, in the context of a four yearly review of modern awards, it had no basis to vary an award at all, let alone consider the relative merits of competing proposals before it to vary those awards, unless it had first reached a decision that the award as it stood did not meet the modern awards objective:

“Contrary to the Unions’ contention the Commission’s task in the Review is to make a finding as to whether a particular modern award achieves the modern objective. If a modern award is not achieving the modern awards objective then it is to be varied such that it only includes terms that are ‘necessary to achieve the modern awards objective’ (s.138).”¹⁵

31. Against this, the Commission added that it was not necessary to make a specific finding as to the considerations enumerated in the modern awards objective, but rather to balance the various considerations to ensure there was a fair and relevant safety net:

“In order for the Commission to be satisfied that a modern award is not achieving the modern awards objective, it is not necessary to make a finding that the award fails to satisfy one or more of the s.134 considerations. Generally speaking, the s.134 considerations do not set a particular standard against which a modern award can be evaluated; many of them may be characterised as broad social objectives..

..There is a degree of tension between some of the s.134 considerations. The Commission’s task is to balance the various considerations and ensure that modern awards provide a fair and relevant minimum safety net of terms and conditions”¹⁶

32. We note in passing that it would be very difficult in any event to make a finding about whether considerations forming part of the modern awards objective were met by an award at a particular

¹⁴ ACTU Submission to the Preliminary Issue, at page 1.

¹⁵ [2017] FWCFB 1001 at [141]

¹⁶ *Ibid.* at [162]-[163]

point in time where those considerations are expressed in forward looking language or require the examination of the likely impact of the Commission exercising particular powers¹⁷.

33. The question of whether it is necessary to adopt such a threshold approach to the annual wage review arises because, like the four yearly review:
- a. the annual wage review is expressed as a “review” in section 285 in similar terms to the four yearly review in section 256;
 - b. is guided by the modern awards objective, because that objective “applies” to it by force of section 134(2)(b), in so far as the annual wage review is concerned with the minimum wages in modern awards; and
 - c. is constrained by section 138, in so far as the annual wage review is concerned with the minimum wages in modern awards (minimum wages being “terms that may be included in modern awards” by force of section 139(1)(a)).
34. We have no concluded view on whether it is, in effect, necessary to establish:
- a. that the existing minimum wage fails to meet the minimum wages objective; and/or
 - b. that modern award minimum wages fail to meet the minimum wages objective and/or the modern awards objective.

as a pre-requisite to the Panel exercising powers in this review. We do however put our case highly that the present minimum wage and modern award minimum wages are failing those objectives. Simply put, the most glaring failure in labour market for all workers, including low paid workers affected by the Panel’s decision, is low wages, the very thing that this Panel is tasked with addressing. This is demonstrated through multiple measures including the downward trend in the minimum wage bite, the falling wage price index, declining wage growth relative to labour productivity, and widening earnings distributions, to name a few. Low paid workers are on trend as being in the worst position they have been relative to other workers, a trend that is relatively recent and requires urgent reversal.

¹⁷ S.134(1)(f) and (h) both refer to “the likely impact of any exercise of modern award powers”.

4. WHO RELIES ON MINIMUM WAGES IN AUSTRALIA?

35. Award reliance continued to increase between 2014 and 2016. There are now 2.3 million Australian workers, 22.7% of all employees, who are on the National Minimum Wage or who are reliant on awards for their wages, according to the most recent data of May 2016, up from 1.86 million, 18.8%, at May 2014. Most of those workers are women (61.8%), and most of them are adults (21 and over) (85.6%) at May 2016, both also increased from May 2014.
36. These data mean that more than one in five employees in Australia are paid the lowest wage that they may legally be paid. They lack bargaining power, and rely on the increases granted as part of the Annual Wage Review to improve their living standards. The increases granted in the AWR are all the more pertinent as the share of workers on the NMW and award-only continues to increase.

4.1 Sources and definitions

37. This chapter refers widely to the ABS Employee Earnings and Hours (EEH) survey, which is conducted every two years, with the last one conducted in May 2016. Results from this survey were released in January 2016. The ACTU has also acquired unpublished data at finer ANZIC industry subdivisions and ANZSCO levels of occupation.
38. In the EEH survey, employees are classified according to the 'main method' of setting their pay, 'award only', 'collective agreement', and 'individual arrangement'. They are 'award only' if they are "paid exactly at the rate specified in the award, and are not paid more than that rate of pay."¹⁸ Workers paid above an award are classified to either the 'collective agreement' or 'individual arrangement' categories.
39. The ACTU understands that workers who are paid the National Minimum Wage (NMW) are classified as 'award only' in the EEH survey. 'Awards' are defined for the purposes of ABS surveys as "legally enforceable determinations made by Federal or State industrial tribunals or authorities that set the terms of employment (pay and/or conditions) usually in a particular industry or occupation."¹⁹ This includes Modern Awards and the National Minimum Wage Order. The EEH survey appears to classify both groups as 'award only'.
40. In this submission, the ACTU uses the phrase 'award-reliant workers' to refer to employees who are classified as 'award only' in the EEH survey. 'Award-reliant', 'award only', 'minimum wage workers', and 'workers reliant on minimum wages' are used interchangeably in this submission to mean workers paid exactly at an award rate or the NMW. 'Low paid workers' is also intended to have the same meaning, except where it is clear that 'low paid' refers to workers with earnings below a particular threshold, regardless of their pay-setting method.

¹⁸ ABS 2017, *Employee Earnings and Hours*, Australia, May 2016, Catalogue number 6306.

¹⁹ ABS 2013, *Labour Statistics: Concepts, Sources and Methods*, 2013, Catalogue number 6102.0.55.001.

4.2 How many people rely on minimum wages in Australia?

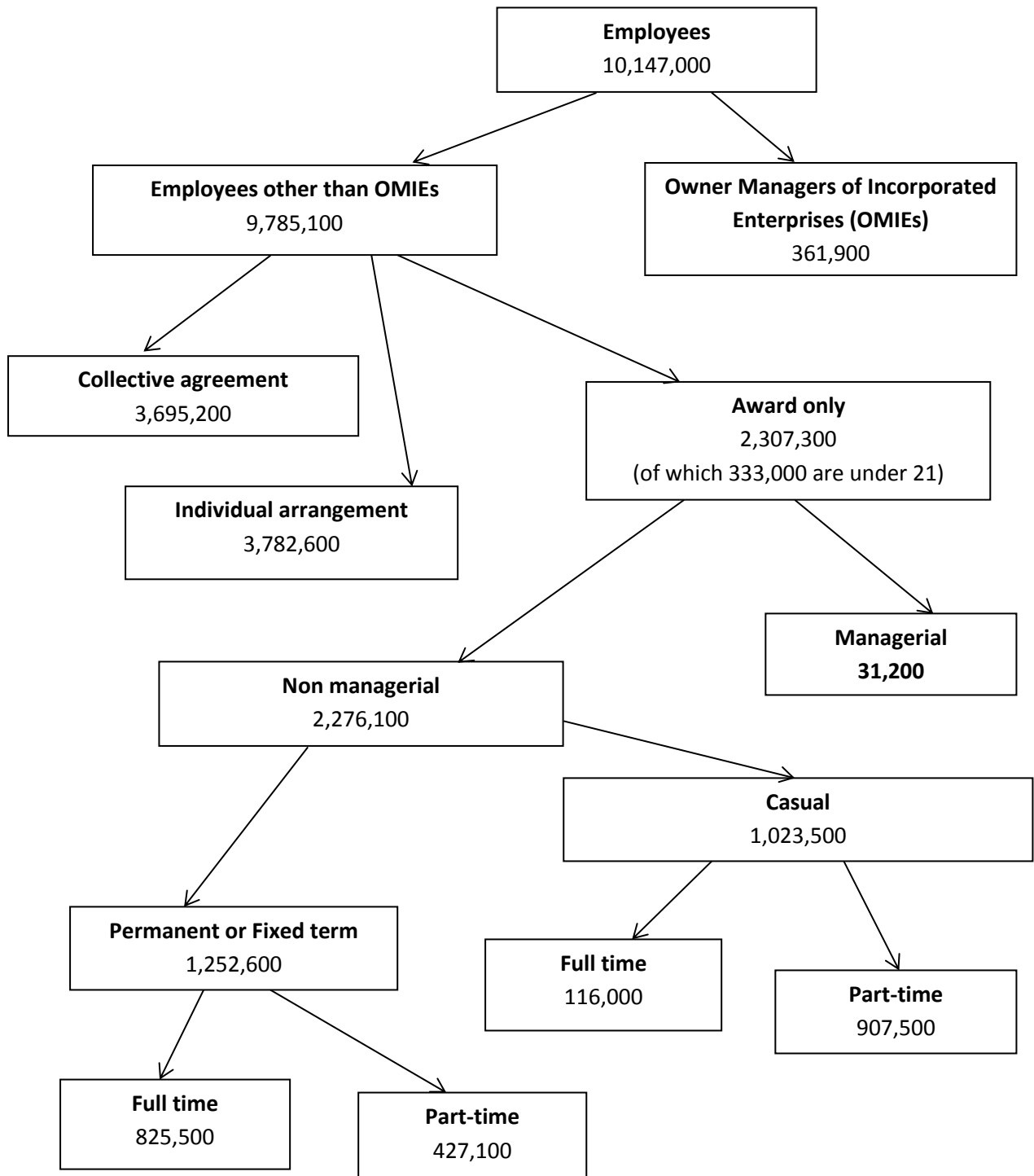
41. There were 2,307,300 employees paid exactly at an award rate in May 2016, representing 22.7% of all employees²⁰. There were 36.4% of employees paid according to a collective agreement and 37.3% paid according to an individual arrangement. Another 361,900, or 3.6%, were “Owner Managers of Incorporated Enterprises”.
42. The proportion of employees paid according to an award has been rising in recent years after falling during the previous decade, based on the EEH data. In 2000, around 23.2% of employees were award-reliant, falling throughout the 2000s to a low of 15.2% in 2010. Award reliance rose to 18.8% of employees in May 2014 to a share of 22.7% in May 2016, an increase of 3.9 percentage points in the share over the two year period. The proportion on collective agreements fell 4.7 percentage points in its share over the same period.
43. This is an extra 446,600 workers depending on the NMW and award only at May 2016 compared with May 2014, and a fall of 375,000 in the number of workers on collective agreements over that period. During the two years up to May 2016, the total number of employees increased 248,100, so these are disproportionately large movements in employment composition by method of setting pay.
44. It would not appear that the slow growth in the minimum wage and awards has encouraged an increase in the numbers on collective agreements.
45. Some important considerations regarding the increase in award reliance are examined in chapter 9.

²⁰ ABS EEH Cat 6306, employees includes OMIEs (Managers of Incorporated Enterprises at 6306DO005_201605

4.3 Overview of the minimum wage workforce

46. Figure 1 shows the minimum wage and award dependent workforce by age and full-time/part-time status as at the most recent ABS data breakdown, May 2016.

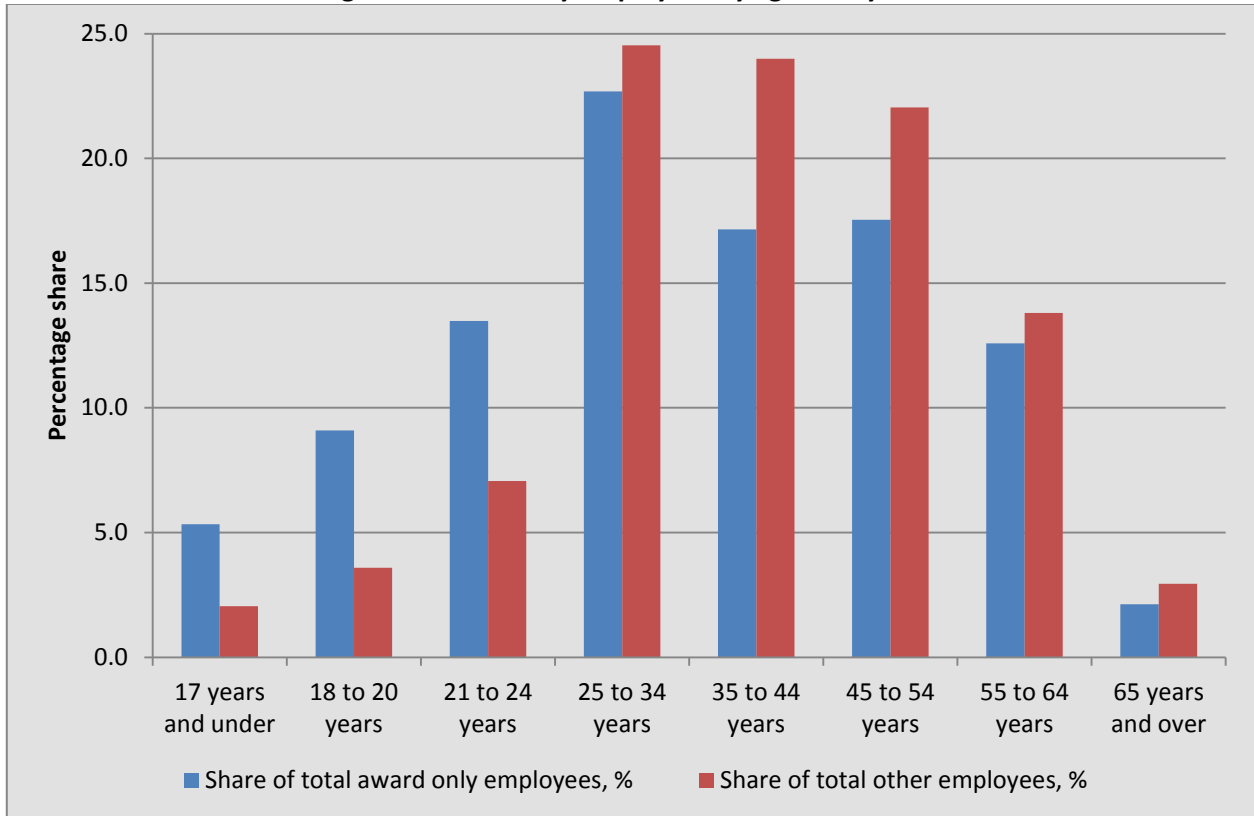
Figure 1: Employees by method of setting pay



Source: ABS 6306

47. Most award only workers are adults, with 85.6% of them aged 21 or above – the equivalent figure for all employees is 92.4%. Figure 2 compares the proportions of employees on award only in each age group with the proportions of all other employees in each group. Award only employees are over represented in the age group under 25, after which the position is reversed. The ‘under representation’ of award only in the 35 to 54 in particular is not only due to people rising into over award positions. It is also due to women with children being removed from employment, where women are disproportionately reliant on award only.

Figure 2: Award only employees by age – May 2016



Source: ABS 6306 and ACTU calculations.

48. Compared to other workers, award only workers are:

- a. more likely to be female – 61.8% of award only workers are female, up from 57.5% at May 2014. 49.3% of other workers are female, up from 48.9% in May 2014;²¹
- b. more likely to be part time than other workers (58.6% vs 36.7%)
- c. more likely to be casual rather than permanent or fixed term (45.0% vs 18.0%);
- d. more likely to work in a small business (33.6% vs 19.9%), although one half (50.0%) of award only workers are employed in businesses with more than 50 employees;
- e. now more likely to work in the public sector (20.8% vs 19.6%), a big shift from May 2014 when 9.5% of those on awards were working in the public sector; and for

²¹ These figures are for non managerial employees.

- f. for full time non managerial workers paid at the adult rate, 36.8% of award only are earning less than \$1000 per week, compared with 18.0% of other workers

4.3.1 Industry

49. Two-thirds of all award only workers (66.5%) were employed in five industries at May 2016,

- a. Retail trade (employed 16.2% of award only workers),
- b. Health care and social assistance (15.5%),
- c. Accommodation and food services (13.9%),
- d. Administrative and support services (10.6%), and
- e. Education and training (10.3%).

50. The number of industry divisions with more than 20% of employees who are award reliant has increased from seven to eight out of eighteen over the two years to May 2016. The industry with the highest level of award reliance at May 2016 is Accommodation and food services, in which 42.7% of employees are award only. This proportion is called the 'density' of award only employees. There are seven other industries in which the density of award only employees exceeded 20%. These are Retail trade, Rental hiring and real estate, Administrative and support services, Health care and social assistance, Other services, Arts and recreation, and Education and Training. This is shown in Table 2.

Table 2: Award only employees, non managerial (NM), by industry – May 2016

Industry	Award only NM employees (Thousands)	Total NM employees (Thousands)	Density of award only employees in industry (Per cent)	Industry's share of all award only employees (Per cent)	Industry's share of total NM employment (Per cent)
Mining	ns	163.1	ns	0.0	1.8
Manufacturing	118.5	671.0	17.7	5.2	7.2
Electricity, gas, water and waste services	6.4	98.7	6.5	0.3	1.1
Construction	117.3	595.1	19.7	5.2	6.4
Wholesale trade	69.7	414.4	16.8	3.1	4.5
Retail trade	367.6	1,065.8	34.5	16.2	11.5
Accommodation and food services	316.6	742.2	42.7	13.9	8.0
Transport, postal and warehousing	50.6	377.1	13.4	2.2	4.1
Information media and telecommunications	7.9	143.5	5.5	0.3	1.5
Finance and insurance services		368.3	0.0	0.0	4.0
Rental, hiring and real estate services	45.6	167.8	27.2	2.0	1.8
Professional, scientific and technical services	58.9	631.5	9.3	2.6	6.8
Administrative and support services	240.7	572.4	42.1	10.6	6.2
Public administration and safety	118.9	656.5	18.1	5.2	7.1
Education and training	235.4	906.6	26.0	10.3	9.8
Health care and social assistance	353.9	1,229.1	28.8	15.5	13.2
Arts and recreation services	39.9	152.1	26.2	1.8	1.6
Other services	115.0	334.9	34.3	5.1	3.6
All Industries	2,276.1*	9,290.1*	24.5	100.0%	100.0%

Source: ABS 6306 and ACTU calculations. ns=not significant. *Non managerial employees.

51. The share of award reliant employees in industries with award only densities over 20% has increased to 75.3%, or 1.7 million workers. These industries employ 55.7% of total employees.
52. In the past, the ACTU has been able to obtain unpublished data from the ABS from Cat 6306 Employee Earnings and Hours (EEH) released biennially for the breakdown of award reliant employees by subdivision of the most award reliant industries. These are shown for May 2014 in Table 3 below, from the ACTU's submission to the 2014-15 AWR.²²
53. However the ACTU was informed that due to changes in the confidentiality arrangements for release of ABS data, the same breakdown was unable to be supplied at all for the release of the EEH data for May 2016. This is unfortunate.
54. The May 2014 data showed that within the four industries that employ the largest proportions of award only employees at that time, there was substantial variation in the extent of award reliance. For example, within the Health Care and Social Assistance industry, 50.9% of employees in the 'Social assistance services' subdivision were award only, but only 4.7% of employees in 'Residential care services' were award only. Within Administrative and support services, 'building cleaning, pest control and other support services' had a particularly high award reliance at 60.2%, or 95 000 employees.²³
55. We cannot be sure how the distribution of award reliance across industry subdivisions has changed since May 2014, given the changes in award reliance across industry divisions over the two years since then, including the strongly increased award reliance in Education and training. The distribution of award reliance across industry subdivisions may have changed considerably, but we have no further information in this area in which these data had been historically available.

²² ABS 6306 unpublished data from May 2014, cited in ACTU 2015 *Submission to Annual Wage Review 2014-15*, 27 March, pp.16.

²³ ABS 6306, unpublished data for May 2014. Density and proportion are ACTU calculations.

Table 3: Award-reliant employees by subdivisions of the most award-reliant industries as at May 2014, most recent data available

	Award-reliant employees in industry (thousands)	Total employees in industry (thousands)	Density of award-reliant workers (per cent)	Proportion of all award-reliant workers in industry (per cent)
Retail trade	320.3	1122.3	28.5%	17.2%
Motor vehicle & motor vehicle parts retailing	25.9	99.7	-	-
Fuel retailing	np	*17.2	-	-
Food retailing	59.7	354.5	16.8%	3.2%
Other store-based retailing	224.9	635.1	35.4%	12.1%
Non-store retailing & retail commission-based buying &/or selling	np	**15.8	-	-
Accommodation & food services	316.9	739.7	42.8%	17.0%
Accommodation	*41	88.4	46.4%	4.8%
Food & beverage services	275.9	651.3	42.4%	14.8%
Administrative & support services	227.9	611.8	37.3%	12.2%
Administrative services	132.8	453.8	29.3%	7.1%
Building cleaning, pest control & other support services	95.1	158.0	60.2%	5.1%
Health care & social assistance	281.4	1262.4	22.3%	15.1%
Hospitals	103.4	506.1	20.4%	5.6%
Medical & other health care services	50.4	281.8	17.9%	2.7%
Residential care services	11.5	246.5	4.7%	0.6%
Social assistance services	116.1	228.0	50.9%	6.2%

Source: ABS 6306 unpublished data from May 2014, cited in ACTU 2015 *Submission to Annual Wage Review 2014-15*, 27 March, pp.16. Density and proportion columns are ACTU calculations. * indicates a relative error or between 25% and 50%; ** indicates a relative standard error greater than 50%. 'np' means the ABS has not published the information.

4.3.2 Occupation

56. Table 4 shows the number and proportion of award only employees by broad occupational group. Almost 40% of community and personal service workers (39.2%) and 37.0% of labourers are award only, with 31.0% sales workers reliant on awards.

Table 4: Award only employees, non managerial (NM), by broad occupational group – May 2016

Occupation	Award only NM employees (Thousands)	Total NM employees (Thousands)	Density of award only NM employees in occupation (Per cent)	Occupation's share of all award only NM employees (Per cent)	Occupation's share of total NM employment (Per cent)
Managers	35.2	358.4	9.8	1.5	3.9
Professionals	325.6	2,055.5	15.8	14.3	22.1
Technicians and trades workers	275.2	1,175.9	23.4	12.1	12.7
Community and personal service workers	496.2	1,265.0	39.2	21.8	13.6
Clerical and administrative workers	263.9	1,551.8	17.0	11.6	16.7
Sales workers	406.7	1,311.0	31.0	17.9	14.1
Machinery operators and drivers	131.3	648.7	20.2	5.8	7.0
Labourers	342.1	923.7	37.0	15.0	9.9
All occupations	2,276.1*	9,290.1*	24.5	100.0%	100.0%

Source: ABS 6306 and ACTU calculations. *Non managerial employees.

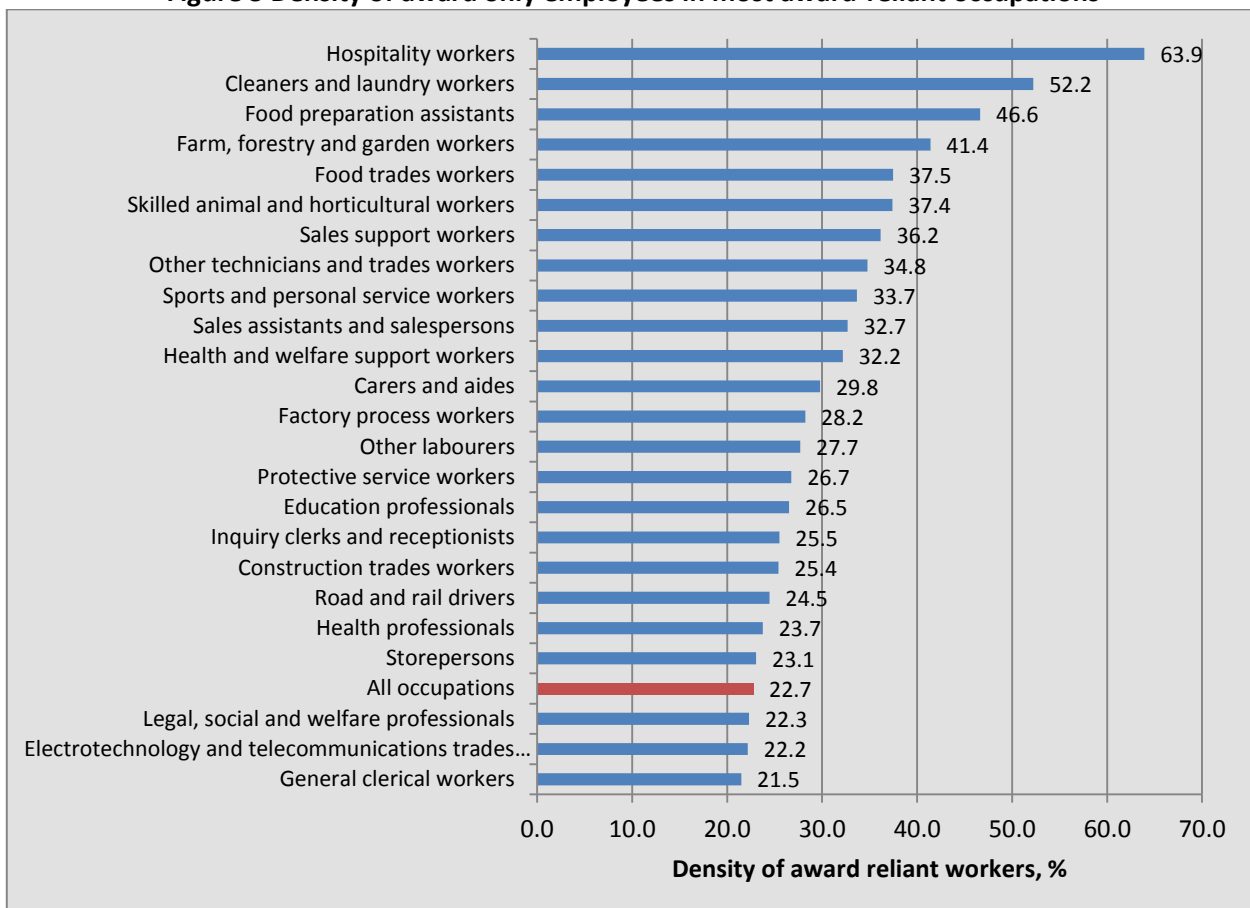
57. 1.6 million employees or 69% of all award reliant non managerial employees, are in four occupations, one of them having joined the more award reliant occupations in the last two

years. These are Community and personal service workers (496,200), Sales workers (406,700) Labourers (342,100), and Professionals (325,600). The number of award reliant Professionals has increased from 143,400 at May 2014 to 325,600 at May 2016, an increase of 182,200 over the two years to May 2016. These five award reliant occupations are the occupations of 59.8% of total employees.

58. In order to ascertain more information about the types of jobs that award reliant employees are doing, the ACTU has again been able to acquire some unpublished data from the ABS's biennial EEH survey, the most recent being May 2016, released on 19 January 2017. The unpublished data shows the number of award only workers by two-digit ANZSCO code, a much finer grained definition of occupation.

59. As shown in Figure 3, Hospitality workers and Cleaners and laundry workers have the highest density of award-reliant employees, with over half of the employees in each of those occupations being paid by an award only.

Figure 3 Density of award only employees in most award-reliant occupations

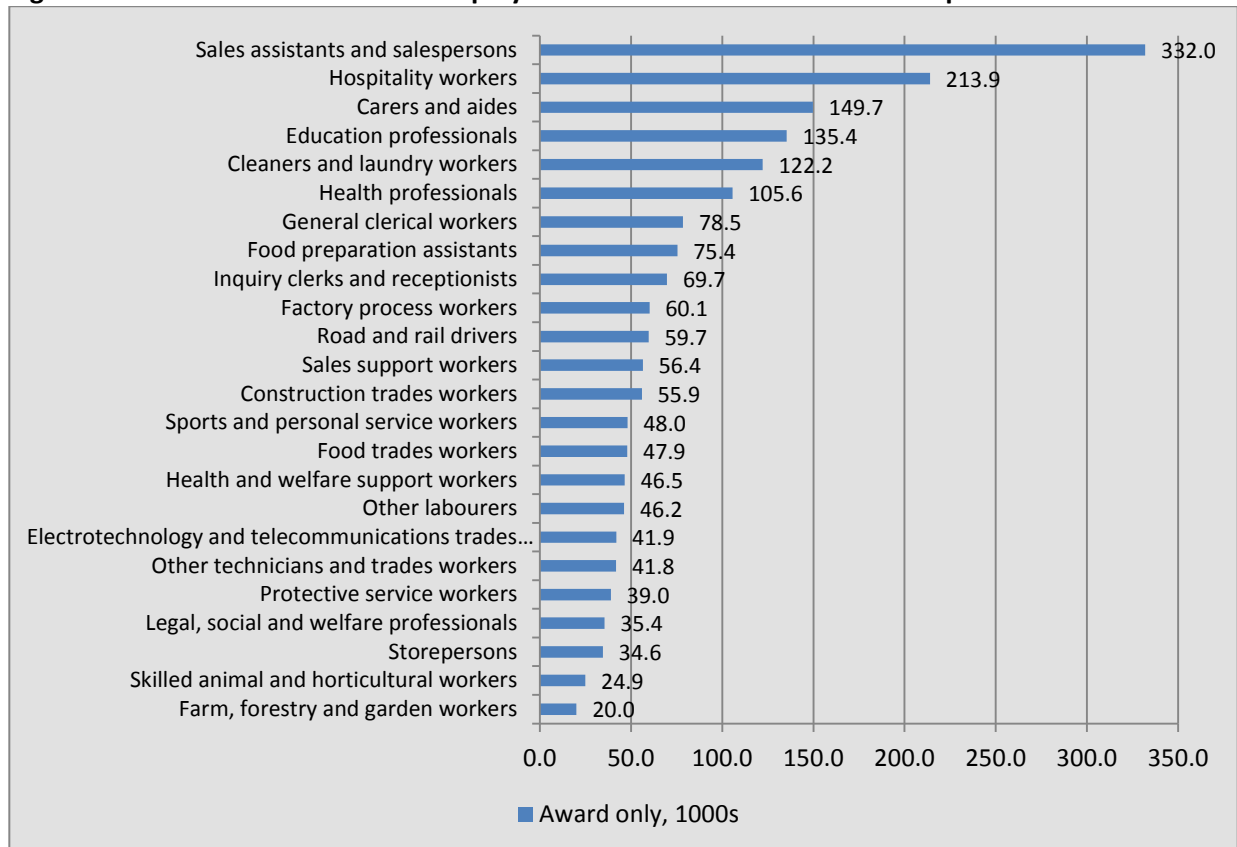


Source ABS 6306 May 2016 (unpublished data) and ACTU calculations.

60. Sales assistants and salespersons are only the tenth most award-reliant occupation, with 32.7% of employees in the occupation being paid by award only. However, the occupation is very large, with over one million, 1,015,500 total employees. As a result, it employs more award-

reliant employees (332,000) than any other occupation, by some margin. The other occupations which have largest numbers of award reliant employees in order are Hospitality (213,900) which has the highest proportion of award reliance, Carers and aides (149,700), twelfth most award reliant, and Education professionals, (135,400), sixteenth most award reliant, moving Cleaners and laundry workers (122,000), second most award reliant, into fifth place.²⁴ The number of award-reliant employees by occupation is shown in Figure 4.

Figure 4: Number of award-reliant employees in the most award-reliant occupations



Source: ABS 6306 (unpublished data)

61. Table 5 shows the number and density of award-reliant employees for each 2-digit ANZSCO occupation in May 2016.

²⁴ ABS 6306 unpublished data, May 2016 and ACTU calculations.

Table 5: Award only employees by occupation (2-digit ANZSCO), May 2016 (most recent)

Occupation	Award reliant employees (^{'000})	Total employees (^{'000})	Density of award-reliant workers per cent	Occupation's share of all award-reliant workers per cent
Managers	63.6	908.9	7.0	2.8
Chief executives, general managers and legislators	2.6	132.6	2.0	0.1
Farmers and farm managers		1.7	0.0	0.0
Specialist managers	50.3	588.2	8.6	2.2
Hospitality, retail and service managers	10.7	186.4	5.7	0.5
Professionals	326.4	2,178.3	15.0	14.1
Arts and media professionals	2.5	35.2	7.1	0.1
Business, human resource and marketing professionals	25.3	560.7	4.5	1.1
Design, engineering, science and transport professionals	19.8	268.0	7.4	0.9
Education professionals	135.4	510.5	26.5	5.9
Health professionals	105.6	444.9	23.7	4.6
ICT professionals	2.4	200.2	1.2	0.1
Legal, social and welfare professionals	35.4	158.8	22.3	1.5
Technicians and Trades Workers	275.2	1,239.6	22.2	11.9
Engineering, ICT and science technicians	21.5	238.0	9.0	0.9
Automotive and engineering trades workers	41.3	278.0	14.9	1.8
Construction trades workers	55.9	220.0	25.4	2.4
Electrotechnology and telecommunications trades workers	41.9	188.9	22.2	1.8
Food trades workers	47.9	127.9	37.5	2.1
Skilled animal and horticultural workers	24.9	66.6	37.4	1.1
Other technicians and trades workers	41.8	120.2	34.8	1.8
Community and Personal Service Workers	497.1	1,270.4	39.1	21.5
Health and welfare support workers	46.5	144.6	32.2	2.0
Carers and aides	149.7	502.7	29.8	6.5
Hospitality workers	213.9	334.7	63.9	9.3
Protective service workers	39.0	145.8	26.7	1.7
Sports and personal service workers	48.0	142.6	33.7	2.1
Clerical and Administrative Workers	264.7	1,622.3	16.3	11.5
Office managers and program administrators	39.9	310.1	12.9	1.7
Personal assistants and secretaries	16.4	93.2	17.6	0.7
General clerical workers	78.5	365.5	21.5	3.4
Inquiry clerks and receptionists	69.7	273.3	25.5	3.0
Numerical clerks	24.6	285.1	8.6	1.1
Clerical and office support workers	9.9	58.4	17.0	0.4
Other clerical and administrative workers	25.7	236.7	10.9	1.1
Sales Workers	406.7	1,324.3	30.7	17.6
Sales representatives and agents	18.3	152.8	12.0	0.8
Sales assistants and salespersons	332.0	1,015.5	32.7	14.4
Sales support workers	56.4	156.0	36.2	2.4
Machinery Operators And Drivers	131.3	668.3	19.6	5.7
Machine and stationary plant operators	21.3	180.0	11.8	0.9
Mobile plant operators	15.7	94.1	16.7	0.7
Road and rail drivers	59.7	244.1	24.5	2.6
Storepersons	34.6	150.1	23.1	1.5
Labourers	342.1	935.1	36.6	14.8
Cleaners and laundry workers	122.2	234.0	52.2	5.3
Construction and mining labourers	18.2	111.2	16.4	0.8
Factory process workers	60.1	213.0	28.2	2.6
Farm, forestry and garden workers	20.0	48.3	41.4	0.9
Food preparation assistants	75.4	161.7	46.6	3.3
Other labourers	46.2	166.9	27.7	2.0
All occupations	2,307.3	10,147.0	22.7	100.0

Source: ABS 6306, including unpublished data. The final two columns are ACTU calculations. * indicates a relative standard error between 25% and 50%; ** indicates a relative standard error greater than 50%.

4.3.3. Employer size

62. There is a shift in concentration of award-only workers from small business towards big business.
63. Small businesses, those with fewer than 20 employees, employ 771,500 award only workers. This is 33.4% of the workers reliant on awards. This share has fallen from 37.9% at May 2014.
64. Although award only employees are more likely (33.4%) than other employees (23.7%) to be employed in small businesses, a substantial proportion of them are employed in larger businesses. Half, just 50.0%, of award-reliant workers are employed in businesses with 50 or more employees at May 2016, up considerably from 42.4% at May 2014. This compares with the share of other employees in employment in businesses with 50 or more employees which is 65%.
65. The shift in the share of award reliant workers towards employment in larger businesses does not suggest that award increases would be a particular imposition on smaller businesses as their share of workers on awards is declining anyway. This decline in award only share of employment in small businesses is occurring notwithstanding the trend of an increasing gap between award wage increases and the growth in other wages.

Table 6: Award only employees by size of business – May 2016

Business size	Award only employees (Thousands)	Total employees (Thousands)	Density of award only employees by business size (Per cent)	Business size share of all award only employees (Per cent)	Business size share of total employment (Per cent)
Under 20 employees	771.5	2,629.6	29.3	33.4	25.9
20 - 49 employees	382.0	1,269.6	30.1	16.6	12.5
50 - 99 employees	184.2	693.6	26.6	8.0	6.8
100 - 999 employees	545.4	2,545.9	16.2	18.4	25.8
1 000 and over employees	263.3	2,940.4	18.5	23.6	29.0
Total	2,307.3	10,147.0	19.5%	100.0%	100.0%

Source: ABS 6306 May 2016 unpublished data and ACTU calculations.

4.3.4 Classification and earnings

66. In previous reviews we made use of unpublished ABS EEH data on the distribution of award only workers by hourly earnings to estimate the number of employees at each award classification level.
67. We estimate that 41.9% of award only employees have hourly earnings at or below the C10 rate of pay at May 2016. In our analysis, we deflate casual employees' hourly earnings by a fifth to remove an assumed casual loading of 25%, consistent with our practice in previous years.
68. Using unpublished data obtained from ABS 6306 for May 2016 we estimate of the number and proportion of award only workers in each award classification range as at May 2016. These data are presented in Table 7.

Table 7: Estimate of the number of award only employees by classification (May 2016)

Classification level	Number of employees in range (thousands)			Percentage of employees in range
	Award only perm/fixed term, 1000s	Award only casual, 1000s	Total award only	Total award only, %
Below NMW/C14	89.9	214.9	304.8	13.2
At or above NMW/C14, below C9	205.4	460.6	666.0	28.9
At or above C9, below C5	179.7	153.5	333.3	14.4
At or above C5, incl. C2(b)	218.2	92.1	310.4	13.5
Over C2(b)	590.5	102.4	692.9	30.0
Total award reliant	1283.8	1023.5	2307.3	100

Source: ACTU calculations based on ABS 6306 (unpublished), May 2016. The figures include juniors, apprentices, trainees, and people with disability. The classification levels are based on adult minimum wages. The earnings of casual have been deflated by a fifth to remove an assumed 25% casual loading. The 'At or above C5, incl. C2(b)' earnings range includes workers with hourly earnings up to \$1 above the C2(b) range. 'Over C2(b)' is all those with hourly earnings more than a dollar higher than C2(b).

69. Our estimate of the proportion of award only employees whose earnings are at or below C10 at May 2016, at 41.9% was a little lower than estimates for 2012 and 2014. Previous estimates of the proportion of award-reliant workers employed at or below the C10 rate, by the ACTU and others, have ranged widely.²⁵

70. The increase in proportion which are award reliant at or over C2(b) to 30.0% at May 2016 up from 20.9% at May 2014 is likely to be related to the massive increase in Education professionals reliant on awards from 21,400 at May 2014 to 135,400 at May 2016, with a jump in award density from 4.3% to 26.5%. The number of Health professionals on award has also risen from 66,800 at May 2014 to 105,600 at May 2016 with a corresponding increase in award density from 15.4% at May 2014 to 23.7% at May 2016. In the absence of industry subdivision breakdowns previously available from ABS, we are unable to analyse the change in award reliant structure in relation to industrial changes. This further highlights the increased dependence on award increases across the spectrum of workers.

71. Award only workers employed in small business have lower average hourly earnings. The average earnings of award-reliant workers rises with the size of the firm, from \$23.30 per hour on average in firms with under 20 employees to \$41.60 an hour on average in firm with over 1000 employees as shown in Table 8.

²⁵ See ACTU 2015 Submission to Annual Wage Review 2014-15, 27 March, p.22 Table 9

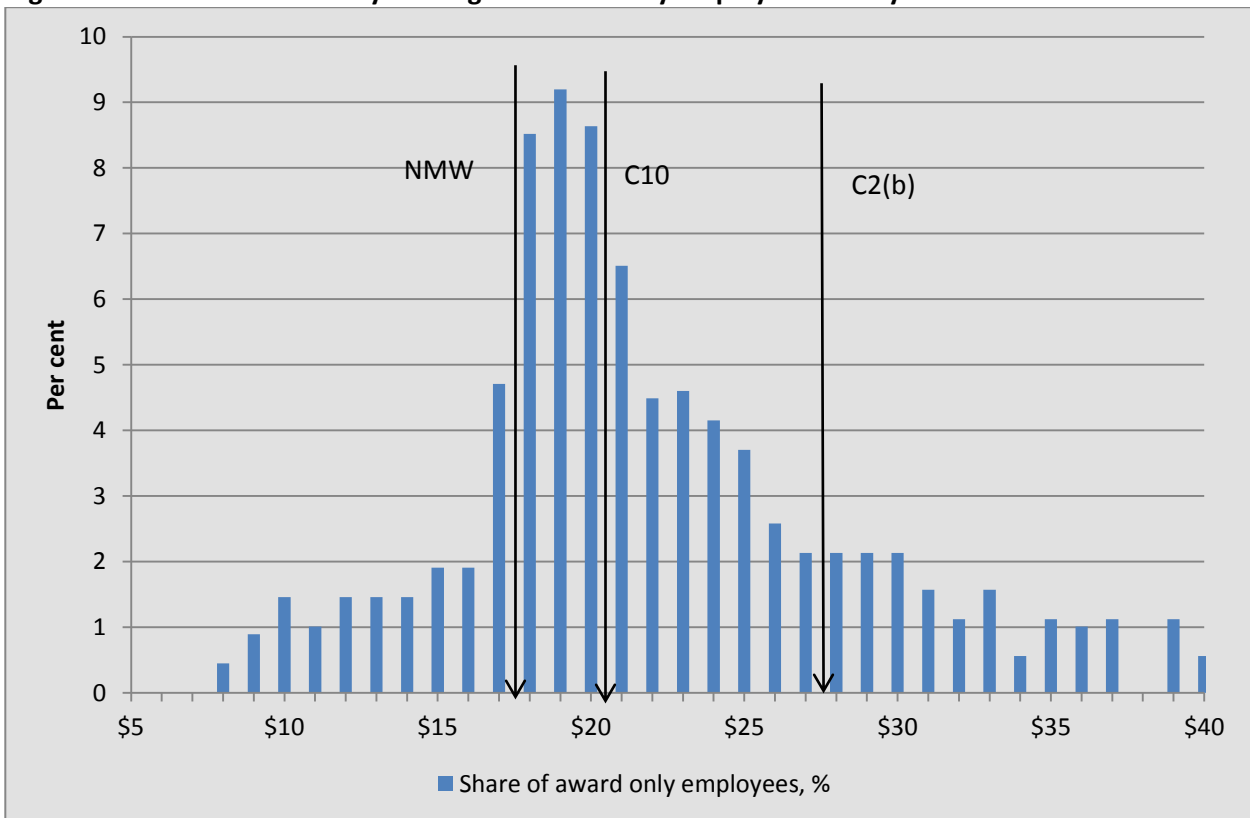
Table 8: Average hourly ordinary time cash earnings of non-managerial award-only employees by firm size

	Permanent/fixed term	Casual	Total
Under 20 employees	22.50	24.30	23.30
20 to 49 employees	24.10	25.70	24.80
50 to 99 employees	25.10	26.30	25.50
100 to 999 employees	28.30	27.50	28.00
1000 and over employees	42.70	33.50	41.60

Source: ABS 6306 (unpublished), May 2016

72. Figure 5 shows the distribution of award-only employees by earnings. The chart shows the percentage of award-only employees who are employed in each \$1 earnings interval. The highest frequencies of award only employees lie in the range from NMW up to an including C10, about 30% of award only employees. Another 28% lie in the range between C10 and C2(b). The distribution of nominal hourly earnings appears to have shifted downwards since May 2014.²⁶

Figure 5: Distribution of hourly earnings of award-only employees at May 2016



Source: ACTU analysis of ABS 6306 (unpublished), May 2017. Casuals' earnings deflated by a fifth.

²⁶ See ACTU 2015 Submission to Annual Wage Review 2014-15, 27 March, p.23 Figure 6

4.4 Why does award reliance continue to rise?

73. The reliance on the awards has risen from 18.1% of employees in the 2014 EEH survey to 22.4% of employees in the 2016 survey. The Panel is required to take into account “the need to encourage collective bargaining.”²⁷ The Panel said in its Decision in the AWR 2015-16:

“...[W]e are not satisfied that the recent decline in agreement approvals is a consequence of the level of minimum wage adjustments in recent Reviews. Many factors may influence federal enterprise agreement approvals including the shifts in employment as a consequence of the economy transitioning from Manufacturing and Mining to the services sector, where collective bargaining has historically been far less prevalent. There is also likely to be an impact from the different levels of union density across various sectors and from the timing of bargaining rounds in some major industries.”

and that

“..the available research does not reveal any particular relationship between the incentive to bargain and increases in the NMW and modern award minimum wages. Instead it points to a complex mix of factors that may contribute to employee and employer decision-making about whether or not to bargain.

“The Panel’s previous conclusions as to the relationship between increases in minimum wages and collective bargaining remain valid, in particular:

- whilst the gap between minimum wages and bargained wages is likely to increase the incentive for employees to bargain, a large gap may be a disincentive for employers to bargain; and
- minimum wages are only one element of the incentive to bargain.”²⁸

74. The ACTU’s view is that it is hard to argue that the increase in the minimum wage has deterred collective bargaining. The increases in the real minimum wage have been so small recently that the decline in the share of employees on collective agreements could hardly be attributed to that. The implication of the argument is that minimum wages increases would need to be negative in real terms before they are a sufficient incentive for collective bargaining. In any case this runs up against the other factors that *The Act* obliges the Panel to take into account.

75. The ACTU is in agreement with the Panel’s view that a big gap may act as a disincentive for employers to bargain. The ACTU suggests that this is in fact the situation we are in, and that a bigger increase in the minimum wage is accordingly warranted.

76. As previously argued, employees may take a larger increase as a signal that collective bargaining may be more worthwhile. A larger increase may encourage employers to bargain about the complex of conditions in the employment relationship. Such bargaining also takes place in the

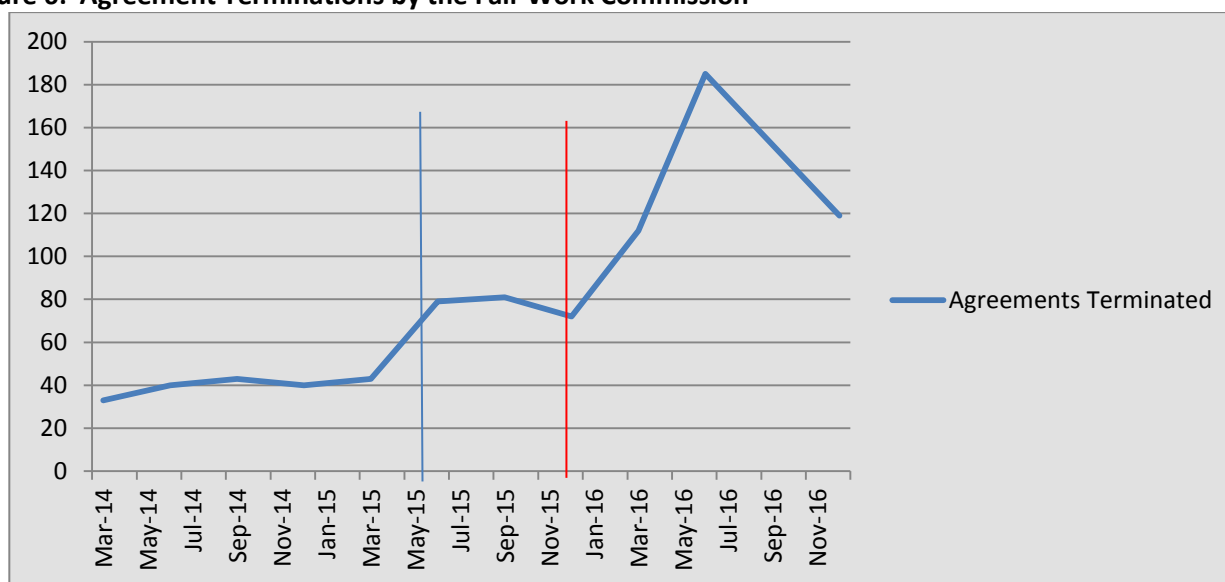
²⁷ *Fair Work Act 2009* (C’th), s.134(1)(b)

²⁸ FWC 2016 *Annual Wage Review 2015-16* [537],[538],[539]

context of the state of demand in the output market, both for the business’s own output and aggregate demand. The reverse may be true about a smaller increase, although no symmetry can be assumed in relation to the incentives engendered by the size of increase.

77. Another observation that may be made about change between 2014 to 2016 relates to the increased incidence of agreement terminations by the Fair Work Commission. This may provide insights into incentives to bargain, incentives to terminate a bargain, or the *type* of bargaining that is incentivised, by the workplace relations system of which the wage fixation function forms part. Figure 6 shows an increase in the number of agreement terminations over the period (measured by quarters of the calendar year), beginning with 33 Agreements Q1 of 2014 and ending with 119 Agreements in Q3 of 2016:

Figure 6: Agreement Terminations by the Fair Work Commission



Source: Data from the Workplace Agreements Database administered by the Department of employment, cited in Departmental Submission to the Senate Education and Employment References Committee Inquiry into “The incidences of, and trends in, corporate avoidance of the Fair Work Act”.²⁹ Data presented in the submission suggests that number of employees whose agreements have been terminated over the period equates to approximately 5.7% of the number of employees today covered by extant agreement.

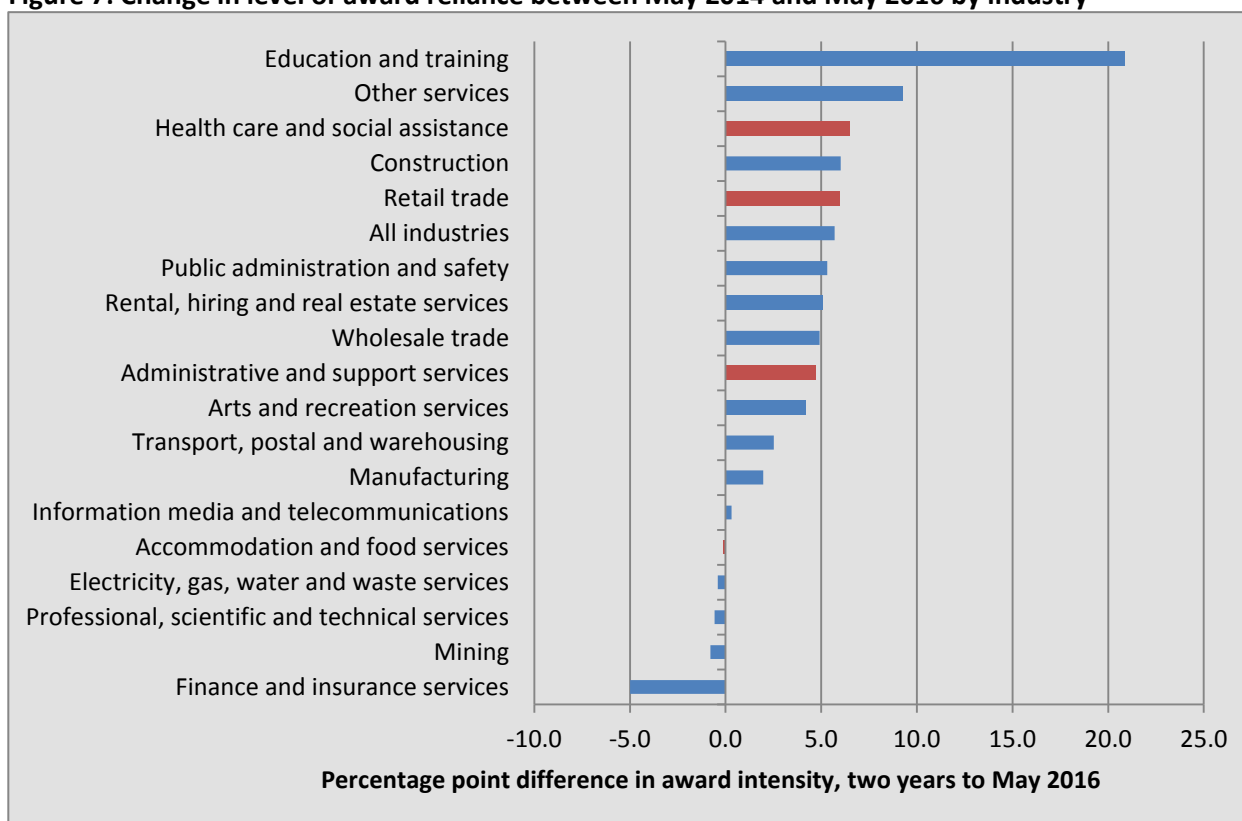
78. An agreement termination has the effect that an employee’s wage entitlement under the Act is to a minimum wage as set in the minimum wage order or to modern award minimum wage. The practical effect may be different, but it cannot be assumed that none of the employees whose agreements were terminated are now among the “award only” category defined in the EEH. Statistics produced by the department (upon which Figure 6 is based) indicate that 115,479 employees were impacted by the terminations over this period. At least 775 of the 847 agreements terminated were those where the legislative framework at the relevant time required the agreement to have been tested against a no disadvantage or better off overall test as part of their certification or approval (the majority in the latter category). Some of the more

²⁹ <http://www.aph.gov.au/DocumentStore.ashx?id=531f14e6-63c7-4728-a189-26fd5471a827&subId=462641>

well known cases involve termination applications made while bargaining for a new agreement was underway. The data does not prove that the gap between award and agreement wages is an incentive to terminate the types of agreements that the modern award objective seeks to “encourage”, but it is an indication to that effect.

79. Award reliance is a consequence also of changing industry structure with new and changing areas of demand for industry outputs, particularly for services. The most rapidly growing industries are service industries where employment growth is part time and casual.
80. In any case there is a likely to be lag in fast growing areas between initial award reliance and the undertaking of collective bargaining. This is an argument for a higher increase in the minimum wage and awards, where the fast growing sectors are dependent up on them.
81. 38.9% of non-managerial employees were paid according to a collective agreement in May 2016, a fall from the 41.1% share at May 2014. Moreover the share on individual arrangements has fallen also, from 40.1% at May 2014 to 36.6% at May 2016. With low real minimum wage increases, it is hard to say the increase in award reliance is due to the relative unattractiveness of collective bargaining outcomes for workers.
82. It may be that employers have a diminished incentive to bargain given that minimum rates have fallen so far relative to average or median wages.
83. Award reliance continues to rise disproportionately in the public sector so that at May 2016 the share of public employees in award reliant employees, 20.1%, exceeds the share of public employees in total employees, 19.9%. While public sector employees are represented in collective agreements in a much higher proportion, 36.9%, the data reflect the shrinking proportion of public sector employees in total employment. Most public sector employees are not covered by the Fair Work Act. This means that an increase in the minimum wage and awards is more important than ever as a mechanism for wage increase.
84. The increase in award reliance was far from uniform across industries, including across the more award reliant industries.
85. Comparing the 2016 and 2014 EEH data shows the following three trends. For non managerial employees, the density of award-reliant employees in the private sector rose from 23.0% to 24.2%. The density of non managerial award-reliant employees in the public sector rose extraordinarily, from 9.8% to 25.6%, despite the relative concentration of collective bargaining in the public sector. The private sector’s share of total non managerial employment fell from 80.6% to 80.1%.
86. The change in award reliance by industry between May 2014 and May 2016 is shown in Figure 7, with the more award-reliant industries shown in blue. It can be seen that the change in award reliance among the more award-reliant industries is not uniform.

Figure 7: Change in level of award reliance between May 2014 and May 2016 by industry



Source: ABS 6306 and ACTU calculations. Industries in which more than 20% of employees were award only in 2014 are shaded blue.

87. The absence of a relationship between the level of award reliance in 2014 and the change in award reliance between 2014 and 2016 supports that the Panel’s decisions have not increased award reliance. The more award-reliant industries have not experienced the largest increases in award reliance. We would argue that a larger increase in the minimum wage will not reduce collective bargaining.

4.5 Indirect “reliance” on modern award wages

88. The 2014 Australian Workplace Relations Study “First Findings Report” made some observations about the extent to which the pay setting practices of enterprises are influenced by modern award rates of pay³⁰. It included three relevant categories to this end:

- a. *Award Reliant* was defined as setting a pay rate exactly at the applicable award rate.
- b. *Over Award* was defined as a method of pay where is set with reference to an award rate but not at exactly the applicable award.

89. The “First Findings Report” indicated that 2014 Australian Workplace Relations Study “First Findings Report” indicated that 24.6% of enterprises classified *Award Reliant* as their main

³⁰ <https://www.fwc.gov.au/resources/research/australian-workplace-relations-study/first-findings-report/5-wage-setting-and-outcomes/incidence-different-methods-setting-pay>

method of setting pay. A further 24.8% of enterprises classified *Over Award* as their main method of setting pay: This was particularly prevalent among smaller enterprises (27% for enterprises with between 5-19 employees). This data was used to make estimates of the method of setting pay for employees. Those estimates were that 14.8% of the employee population were *Award Reliant* and that 5.1% were *Over Award*.

90. One expects that, based on the change in levels of award reliance as measured by the EEH from 2014 to 2016, there would be some differences were the same AWRS measures taken and estimated today. However, there is no reason to doubt the general point that a small proportion of the workforce, varying greatly as between their employers, receives pay rates that are determined having some regard to movements in modern award wages.

5. WHAT DO MINIMUM WAGES DO?

91. This Chapter examines developments since the AWR 2016 in the findings from research on the effects of minimum wages. There are recent developments regarding the impacts of a minimum wage in several areas.
92. Literature on the impact includes that of the standard area of analysis, the impact on employment and unemployment and other labour market behaviour.
93. But there is an increasing volume of literature regarding the effects of minimum wages on in the area that addresses the impact of the minimum wage on the level of wages at the bottom, the dispersion of wages and the increase in wages as a result of an increase in the minimum wage. This work is pertinent to the criteria of relative living standards and the needs of the low paid.
94. There is also an increasing literature which recognises the relation between minimum wages and macroeconomic conditions in the economy. This literature acknowledges that the introduction or increase in the minimum wage may be of benefit to the economy and employment over all because it raises spending and aggregate demand. The benefits of the minimum wage towards reducing inequality and thereby promoting economic growth are also included. This denotes a major shift in the mainstream academic and international policy approaches towards addressing these issues.
95. In the ACTU's view these approaches deserve the weight they are currently being given in academic and international institutional thinking.
96. The Australian Treasurer, Scott Morrison has "declared record low wage growth the "biggest challenge" facing the Australian economy, commenting on the ABC." He said the "biggest challenge we have is to ensure what Australians are earning every week is increasing", and "We've had flat wage prices; our wage price index has been flat for some period of time now. ... Increasing what Australians earn — whether it's wage earners or small businesses — is what I think is the big challenge now."³¹ The Treasurer indicated that profitability is critical to Australians earning more. The ACTU's view is that spending is critical to profits.
97. The ACTU seeks an increase in the NMW and award rates that are not so low they worsen employment, aggregate demand, inequality and productivity growth. Rather on this basis we seek an increase in the NMW and awards that is sufficient as to promote employment, address relative living standards and the needs of the low paid, and promote productivity increases and economic growth.
98. In its last Decision the Panel stated that

"We welcome the arguments and evidence that the parties provided about the impact of increases in minimum wages on the number of jobs. This issue is likely to remain contested,

³¹ <http://www.abc.net.au/news/2017-03-13/scott-morrison-low-wage-growth-biggest-challenge-economy/8350032>

especially for Australia where the application of conclusions from US and UK research is not straightforward. The additional evidence presented to this Review, especially that from the work of the PC, is consistent with our conclusion that an increase in the NMW and award wages of the size that we have determined, and in the economic circumstances that we face, will not have a measurable impact on employment.³²

99. The view of the ACTU is that developments in the academic and policy literature increasingly support the argument that raising the minimum wage under current circumstances would in fact promote increases in employment.

100. The Australian economy and institutional context is not so unique that findings from international studies do not apply. Rather, those findings need to be carefully considered in order to assess where and how they might or might not apply.

101. The Australian system is unique in that it fixes the minimum wage plus a host of other higher minimum wage levels across occupations and industries more comprehensively than anywhere else, on a national basis. Yet the empirical findings for the impact of the minimum wage on employment in Australia are basically similar to those found for other countries, across a range of statistical methodologies.

102. If minimum wage increases are employment reducing as the standard neoclassical competitive model anticipates, the effect ought to be reinforced through raising the structure of NMW and modern awards wages in Australia. Yet this is not observed. We maintain that even greater increases would not lead to falls in employment, based on the current literature.

103. Here we review the international and Australian evidence which has presented itself since the last AWR, 2016. Overall, raising the minimum wage in Australia is not found to be detrimental to the level of employment, or to bear any particular relationship with unemployment. This may be because the increases in the minimum wage have not been sufficient to raise expenditure and aggregate demand in the economy through increased capacity utilization. Increases in the minimum wage in recent years have not been sufficient to overcome the drag on the economy through slow growing wages and widening wage distribution.

5.1 International evidence

104. The international literature continues to add to the evidence which supports little or no negative effect on employment of the introduction of or actual increases in minimum wages, including for low waged workers and youth. We view this evidence as relevant for the minimum wage in Australia, notwithstanding its unique system.

³² FWC 2016 Annual Wage Review 2015-16 [517]

105. We observe the continuing lack of international evidence of a negative relationship between minimum wage increases and employment, which have been investigated for much larger percentage wage increases than those awarded in Australia. We also note the wide range of estimates of that impact, from negative to positive which are found in the literature.

The UK

106. The UK National Living Wage (NLW) was introduced on 1 April 2016 at £7.20 for workers 25 and over, 7.5% increase overnight and 10.8% increase annual increase in the main rate of the minimum wage.³³ This was the joint largest increase ever, at a time when median earnings for the same age group increased by 3.1%. Coverage increased to 6.7% of the workforce aged 25 and over, up from 3.4% of workers aged 22 and over at the introduction in 1999.

107. The NLW for age 25 and over operates alongside pre existing youth minimum wage rates. The NLW is different from the youth minimum wage rates in that it is subject to a target for its future level. The ambition is for the NLW to rise to 60% of median earnings by 2020, with the Government having the objective of the NLW reaching more than £9 by 2020.³⁴

108. Even the UK Low Pay Unit faces limited hard data with which to evaluate coverage and noncompliance, the impacts on pay and employment, and even less hard data for the impact on competitiveness including including profits, prices, investment, and business failure.³⁵

109. The UK NMW Report of Autumn 2016 also reports the findings of a study it commissioned from Rand regarding the impact of the UK NMW on employment.³⁶ The Rand study conducted a meta analysis of existing literature on the effect of the UK NMW on employment, hours and job retention rates. "It found no evidence of a publication bias in the UK literature, and, in line with our previous assessments of the impact of the NMW, found no evidence of a genuine adverse employment effect when looking at the impact of minimum wages on overall employment, hours or employment retention rates."³⁷ It did find that the number of part time employees was more adversely affected than full time, but not in terms of hours, in contrast to previous research, and not in the recession. Youth had minimum wages which did not move in tandem with adult minimum wages, and youth unemployment was adversely affected only during the recession. This is in a context where results are likely to be different than in Australia owing to the universal application of the NMW and awards increases in largely constant proportions the latter.

³³ UK Low Pay Commission 2016 *National Minimum Wage Low Pay Commission Report Autumn 2016*, November, p.37.[UK LPC]

³⁴ UK Low Pay Commission 2016 *National Minimum Wage Low Pay Commission Report Autumn 2016*, November, p.vii.

³⁵ UK Low Pay Commission 2016 *National Minimum Wage Low Pay Commission Report Autumn 2016*, November, p.37

³⁶ Cited in the UK LPC, p.83: RAND Europe, 2016. *The Impact of the National Minimum Wage on Employment: A Meta-analysis*. Research Report for the Low Pay Commission. October.

³⁷ UK Low Pay Commission 2016 *National Minimum Wage Low Pay Commission Report Autumn 2016*, November, p.84

110. The Rand meta analysis covered periods when the increases in the UK NMW were not as great as its current increase. “The history of the minimum wage in the UK is that moderate increases are consistent with gains for workers that do not reduce jobs or hours significantly. There is more limited research evidence on the impact of much faster and sustained increases.”³⁸
111. The NMW Report also indicated that “As we argued in our Spring 2016 Report, the NLW is, from an economic point of view, effectively a natural experiment, but one which will take time to assess. Econometric analysis takes time to properly assess the impact, requiring at least several quarters of employment data after a rate increase has been implemented. Cumulative increases need testing over a longer economic cycle to get a full sense of their affordability, benefits and costs.”³⁹
112. The UK NMW Report looked at “the aggregate changes in employment and hours for the UK over the period from before the introduction of the NLW to mid-2016”, and “found evidence of record employment levels and continued strong growth, but also some possible signs of softening”⁴⁰ This included many low pay areas. Of course it recognises the absence of a counterfactual in which the NLW had not been introduced, but “this suggests no obvious negative impact on those workers most likely to be paid the rate during its earliest stages.”⁴¹
113. The UK NMW Report found that youth earnings continued to grow strongly after the introduction of the NLW in April 2016.⁴² We note that this is despite the slower growth in the NMW for youth compared with the new NLW for 25 and over.
114. A UK study of effect of the increase in wage at age 22 due to eligibility of the UK National Minimum Wage found that “the employment rate among low-skilled individuals increases by about 2-4% points.”⁴³ The UK minimum wage has not applied to youth wages, allowing comparison with the move onto the minimum wage at adulthood to be made. The study found its result to be robust to a large number of “different parametric and non-parametric specifications.” It attributes the increase in employment when moving onto the higher minimum wage to a simple model of intertemporal labour supply, whereby participation increases result from the higher wage available at age 22. Some of the increase in employment came from reductions in unemployment and in labour market inactivity.
115. A UK study of September 2014 of the economic impact of an increase of £1.50 in the National Minimum Wage from £6.31 per hour to £7.81 per hour found that it would benefit 4.6 million workers in the UK, by an average £813 per year, with the biggest benefit going to lower income

³⁸ UK Low Pay Commission 2016 *National Minimum Wage Low Pay Commission Report Autumn 2016*, November, p.84

³⁹ UK Low Pay Commission 2016 *National Minimum Wage Low Pay Commission Report Autumn 2016*, November, p.84

⁴⁰ UK Low Pay Commission 2016 *National Minimum Wage Low Pay Commission Report Autumn 2016*, November, p.84

⁴¹ UK Low Pay Commission 2016 *National Minimum Wage Low Pay Commission Report Autumn 2016*, November, p.85

⁴² ⁴² UK Low Pay Commission 2016 *National Minimum Wage Low Pay Commission Report Autumn 2016*, November, p.100

⁴³ Richard Dickens, Rebecca Riley and David Wilkinson 2011 *The UK Minimum Wage at Age 22: A Regression Discontinuity Approach* Economics Department Working Paper Series No. 21-2011, University of Sussex., p.13

households, and in retail and hospitality in particular.⁴⁴ Employment would increase by at least 30,000, “once the potential stimulus effects of increasing the minimum wage are taken into account”.

116. A 2016 UK paper in the *British Journal of Management* on the impact of the UK minimum wage on productivity used a differences-in-differences analysis with individual firm data aggregated to the level of low pay sectors and found that the UK NMW positively affected aggregate low paying sector productivity.⁴⁵

The USA

117. The number of studies of the impact of the minimum wage in the US has continued to accumulate.

118. A 2012 study of the effect of a US\$1 increase in the minimum wage would increase household spending by \$700 in a quarter while increasing household income by about \$250 a quarter, due to an increase in downpayments on durable goods especially cars, with the increased debt mainly collateralized.⁴⁶

119. A study of March 2016 of the effects of a \$15 minimum wage increase in New York State found that it would generate a 23.4% or US\$4,900 per annum average wage increase for 3.16 workers in the state, with very little effect on employment, by 2021.⁴⁷

120. A study by Horton (2017) based on an experimental methodology which assigns a different minimum wage to each employer found that those employers facing higher minimum wages also hired more productive workers, but that hours fell due to employing more productive workers who got the work done in less time. The study suggests that “observational findings are that there is little decrease in hiring after the imposition of the minimum wage, but some evidence of a reduction in the posting of job openings likely to pay minimum wages. The wage of hired workers increased substantially after the imposition of the minimum wage, in line with the experimental estimate.”⁴⁸ However others have argued that the study’s use of an employee’s previous wage level as an indication of productivity is problematic.⁴⁹ It was also argued by Dube that this did not address what would happen if minimum wages were raised

⁴⁴ Howard Reed, 2014 The Economic Impact of a £1.50/hour increase in the National Minimum Wage, A Report for Unite by the Director of Landman Economics, <http://www.unitetheunion.org/uploaded/documents/MinimumWageReport211-19867.pdf>

⁴⁵ Marian Rizov, Richard Croucher and Thomas Lange 2016 The UK National Minimum Wage’s Impact on Productivity *British Journal of Management*, Vol. 27, pp.819–835 <http://onlinelibrary.wiley.com/doi/10.1111/1467-8551.12171/epdf>

⁴⁶ Daniel Aaronson, Sumit Agarwal, and Eric French 2012 *American Economic Review* 2012, 102(7): 3111–3139

⁴⁷ Michael Reich, Sylvia Allegretto, Ken Jacobs and Claire Montialoux, 2016 The Effects of a \$15 Minimum Wage in New York State, Center on Wage and Employment Dynamics Institute for Research on Labor and Employment University of California, Berkeley, March <http://irl.berkeley.edu/files/2016/The-Effects-of-a-15-Minimum-Wage-in-New-York-State.pdf>

⁴⁸ John J. Horton 2017 Price Floors and Employer Preferences: Evidence from a Minimum Wage Experiment Stern School of Business, January 13. http://john-joseph-horton.com/papers/minimum_wage.pdf

⁴⁹ https://www.nytimes.com/2017/01/10/business/economy/national-minimum-wage-.html?_r=0

uniformly across a state. Rather the findings were analogous to the situation in which Walmart had found more productive workers when it raised its wage. Also a uniform increase in the minimum wage did not sort workers according to their individual levels of productivity as productivity in the minimum wage jobs did not vary much and was not determined by the workers, implying it was determined by the conditions of the job. Also cited by the New York Times was an American Economic Association conference paper by Michael Luca of Harvard and Dara Lee Luca of Mathematica Policy Research which found that a minimum wage increase resulted in no change in restaurant closures, but the proportion of more poorly rated restaurants closed.⁵⁰

121. A paper by Autor et al (2017) finds that since 1980 while the real fall in the US minimum wage does contribute to widening inequality in the lower parts of the income distribution, it is not the main cause of this increase in inequality, which is mainly due to changes in the wage structure. However we note that the coverage of the US minimum wage is a lot smaller relative to the US labour force compared with Australia's.⁵¹
122. A paper by Michael Reich et al (2017) finds that raising the minimum wage to US\$15 in California would increase the annual pay of 38% of the workforce by 25.4% or US\$3,900 (2015 dollars) on average by 2023. Wage costs for restaurants would increase 15.7% and 2.8% across all employees, with a minimal employment increase.⁵²
123. Bárány (2016) finds that a permanent decrease in the minimum wage in the US would affect overall inequality through widening the range of abilities present on the labour market, at general equilibrium, affecting the shares of high-skilled and low-skilled at every percentile in the wage distribution, and would lower inequality from the top end through a third channel of lowering the skill premium paid per unit of work of equivalent efficiency.⁵³
124. Hoffman (2016) re-examines earlier negative employment findings for low educated young workers of the minimum wage, using a bigger sample for the natural experiment. This time he finds a small positive employment effect.⁵⁴ His findings are challenged by the authors of the earlier study for their assumptions about trend values.⁵⁵

⁵⁰ <https://www.nytimes.com/2017/01/10/business/economy/national-minimum-wage.html> , <https://www.aeaweb.org/conference/2017/preliminary/1441?page=6&per-page=50>

⁵¹ David H. Autor, Alan Manning, and Christopher L. Smith 2016 The Contribution of the Minimum Wage to US Wage Inequality over Three Decades: A Reassessment *American Economic Journal: Applied Economics* 8(1) pp58-99 <http://economics.mit.edu/files/3279>

⁵² Michael Reich, Sylvia Allegretto and Claire Montialoux with the assistance of Ian Perry 2017 Effects of a \$15 Minimum Wage in California and Fresno Institute for Research on Labor and Employment University of California, Berkeley, January

⁵³ Zsófia L Bárány 2016 The Minimum Wage and Inequality: The Effects of Education and Technology *Journal of Labor Economics* vol. 34, no. 1, pt. 1

⁵⁴ Saul D. Hoffman 2016 Are the Effects of Minimum Wage Increases Always Small? A Reanalysis of Sabia, Burkhauser, and Hansen *ILR Review*, 69(2), March 2016, pp. 295–311

⁵⁵ Joseph J. Sabia, Richard V. Burkhauser, and Benjamin Hansen 2016 When Good Measurement Goes Wrong: New Evidence That New York State's Minimum Wage Reduced Employment *ILR Review*, 69(2), March 2016, pp. 312–319

125. Dube et al (2016) investigates the effect of minimum wages on employment flows for the whole US using a matching methodology.⁵⁶ It finds that the minimum wage reduces flows (separations, hires and turnover rates) but not stocks of employment for restaurant and youth workers, occurring within three quarters of the wage increase, and persisting. The minimum wage increase does not change the duration of unemployment.
126. The Seattle Minimum Wage Study Team (2016) reported on the impact of Seattle's Minimum Wage Ordinance.⁵⁷ It found that a 1.1% decrease in low wage employment was offset by the increase in earnings, in an improving macroeconomic environment so the effects of the minimum wage increase were hard to isolate. While low wage employees improved their chances of employment, it was less than in the regions around Seattle. There was a net increase in the number of businesses opening.
127. Gorry and Jackson (2017) use a search and matching model to find that the impact of US Federal minimum wage increases on youth unemployment depends on how high the minimum wage was before the increase and the share of employees affected by the increase. They find that a higher level before the increase results in increased youth unemployment. But the increase in unemployment is less or reversed the faster other wages and productivity are increasing.⁵⁸
128. Lopresti and Mumford (2016) supports large minimum wage increases over smaller ones, due to the impact on wages generally. Using median regression methods, it takes account of the overall movement in wages and the heterogeneity of employees subject to minimum wages in assessing the impact of an increase in the minimum wage on low wage workers in the US. It found that low-wage workers who experience a small increase in the minimum wage tend to have lower wage growth than if there had been no minimum wage increase, because employers would have granted larger wage increases otherwise. However "a large increase to the minimum wage not only increases the wages of those workers who previously earned less than the new minimum wage but also spills over to workers with moderately higher wages."⁵⁹
129. Lundstrom (2017) finds that "a good time to raise the minimum wage is when it is already high."⁶⁰ Using a simulation method, this is evaluated in terms of efficiency, the criterion being how much raising the minimum wage flows through to workers in poverty. He finds that a

⁵⁶ Arindrajit Dube, T. William Lester, Michael Reich 2016 Minimum Wage Shocks, Employment Flows, and Labor Market Frictions *Journal of Labor Economics* vol. 34, no. 3

⁵⁷ The Seattle Minimum Wage Study Team. 2016. *Report on the Impact of Seattle's Minimum Wage Ordinance on Wages, Workers, Jobs, and Establishments Through 2015*. Seattle. University of Washington.

⁵⁸ Aspen Gorry and Jeremy J. Jackson 2017 A note on the nonlinear effect of minimum wage increases *Contemporary Economic Policy* Vol. 35, No. 1, January 2017, 53–61

⁵⁹ John W. Lopresti and Kevin J. Mumford 2016 Who Benefits from a Minimum Wage Increase? *ILR Review*, 69(5), October, pp.1171–1190

⁶⁰ Samuel M. Lundstrom 2017 When is a Good Time to Raise The Minimum Wage? *Contemporary Economic Policy* Vol. 35, No. 1, January, 29–52

higher percentage of the increase flowed through to workers in poverty in the most recent Federal minimum wage increase, when the real minimum wage was the highest so far, possibly increasing the employment of low-skilled poor individuals relative to low skilled non poor individuals.

130. As Borland (2016) has commented, “the story of mixed findings from [US] state-level panel models has continued. It seems that there is no result that cannot be reversed on further analysis.”⁶¹ He points out the range of the amount by which a minimum wage introduction or increase can affect employment is small, and the number directly affected is relatively small, in the case of the US.

Other Studies

131. A 2017 study of the labour market effects of wage inequality and skill-based technical change in Germany found that inequality has negative long-run impacts on the labour market, with no productivity gains resulting. It states that the “rising wage inequality in Germany since the 1990s should not be seen as a precondition for the German labour market upswing of the recent ten years”, and instead, “higher inequality appears to harm employment and productivity.”⁶²

132. Roser and Cuaresma (2016) investigate why inequality is increasing in the developed world.⁶³ It says the tax share of GDP is a “significant determinant of income inequality” and that the “tax share of GDP tends to be strongly correlated with regulation of the labor market, such as minimum-wage laws and stronger labor protection.”⁶⁴ It recognises the empirical result of Koeniger et al (2007) that “rising minimum wages reduce inequality.”

133. Kaufman (2016) discusses the extent to which the conventional monopsony model widely used is likely to understate the positive effects of the minimum wage, “because of the imperfect and socialized nature of economic agents and the imperfect and tipped nature of labor markets” which produces indeterminate employment and wage outcomes. It argues that Adam Smith’s work implies broader support for a minimum wage, because it acknowledges wider market failures in the labour market in a second best world. It argues that “Smith rejects the competitive model for a form of historical/institutional analysis in which boundedly rational humans bargain wages in a context of master-servant contracts, workers’ disparate hold-out

⁶¹ Borland J (2016), *A brief review of US studies of the effect of the minimum wage on employment*, Labour market snapshot #29, Department of Economics, University of Melbourne, p.4

⁶² Christian Hutter and Enzo Weber 2017 Labour market effects of wage inequality and skill-biased technical change in Germany IAB Discussion Paper 5/2017, Institute for Employment Research, Federal Employment Agency of Germany, <http://doku.iab.de/discussionpapers/2017/dp0517.pdf>

⁶³ Max Roser and Jesus Crespo Cuaresma 2016 Why is income inequality increasing in the Developed world? *Review of Income and Wealth* Series 62, Number 1, March, p.22

⁶⁴ Roser and Cuaresma (2016, p.22, citing Koeniger, W., M. Leonardi, and L. Nunziata, Labor Market Institutions and Wage Inequality, *Industrial and Labor Relations Review*, 60, 340–56, 2007, which provides the empirical result that rising minimum wages diminish wage inequality

ability, families unable to subsist without wage income over the week or month, and local labor markets typically segmented and over-stocked.”⁶⁵ By this logic the focus on minimum wage increases as impacting employment negatively is unbalanced at best.

134. Baek and Park (2016) finds from a differences-in differences analysis with plant level data that the introduction of the minimum wage in South Korea in 1988 induced low wage plants to increase their average employee remuneration and did “not adversely affect plants’ employment despite its effect on the labour cost of plants.”⁶⁶

135. Manning (2016) reviews the reasons for the failure to find in the literature on the employment effect of the minimum wage “the negative effect that so many economists strongly believe to find.”⁶⁷ It says the literature has been focused heavily on the evidence for American teens, even though they are a relatively small group and decreasing as a share of those affected by the minimum wage, and that “we have reached the point of diminishing returns on this.” It says a “balanced view of the evidence on teen employment makes it clear that any evidence of a negative employment effect is not robust to reasonable variation in specification, even when the wage effect is robust.” Either the labour demand elasticity is very small, that is employers do not change the amount of labour they use very much relative to wage changes, or the effect is not negative at all. That “the employment effect might not be negative continues to be met with incredulity in some quarters, or euphemistically described as ‘non-conventional’.” In the conventional view the level of employment is a result of workers choosing between leisure and work, without constraint. It says to “be internally consistent those who argue that the minimum wage must reduce employment need to sign up for the ‘great recessions as a great vacation’ hypothesis.”⁶⁸

5.2 Australian evidence

136. As widely recognised, the number of Australian studies focussing on minimum wages remains limited. Previous AWRs have covered the earlier work extensively, which in general has found a weak impact of minimum wages on employment, mostly close to zero, with some findings somewhat more negative for employment amongst youth and low paid.

137. In particular in its Decision for the AWR 2015-16 the Panel referred to Productivity Commission’s (PC) Workplace Relations Framework Final Report (PC Report) of 2015 which found little or no effect of wage increases on employment. The Panel stated

⁶⁵ Bruce E. Kaufman 2016 Adam Smith’s Economics and the Modern Minimum Wage Debate: The Large Distance Separating Kirkcaldy from Chicago *J Labor Res* (2016) 37:29–52

⁶⁶ Jisun Baek and WooRam Park 2016 Minimum wage introduction and employment: Evidence from South Korea *Economics Letters* 139 (2016) 18–21

⁶⁷ Alan Manning 2016 The Elusive Employment Effect of the Minimum Wage CEP Discussion Paper No 1428, May

⁶⁸ Alan Manning 2016 The Elusive Employment Effect of the Minimum Wage CEP Discussion Paper No 1428, May, pp.15-16

“As noted by the PC, the results were mixed and ambiguous. Some tests showed a negative impact on employment or hours worked. Others showed positive impacts. The study included 2009, a year when there was no increase in the minimum wage. All the approaches taken showed significant effects for that year when there should have been none.”⁶⁹

and that the Australian Government submission said, “The scenario used by the PC for its CGE modelling (comparing the impact of holding minimum wages to one per cent less than general wage increases) was very similar to the actual history of the minimum wages system.”⁷⁰

138. The Panel also stated that

“The broad outcomes of this modelling exercise should not be a surprise. A general equilibrium model would be expected to show an increase in output if the cost of a major input were reduced. There would also generally be an increase in the use of the cheaper input where it could be substituted for other inputs. Similar exercises using tax cuts, tariff cuts or slower increases in middle management or executive salaries would also be shown by such modelling to produce faster growth.”⁷¹

139. This is consistent with the increasingly recognised possibility, uninvestigated by the Productivity Commission, that raising the minimum wage could raise employment through the channel of increased income and spending which would raise aggregate demand and employment, assisted by the reduction in inequality.

140. The article by Tahlee Stone in the *Reserve Bank of Australia Bulletin* of December 2016, The Sensitivity of Personal Income to GDP Growth, analyses the effects of GDP growth on income across the income distribution based on HILDA data.⁷² This is pertinent to the effects of raising the minimum wage to the extent that it reduces inequality at the bottom. The study finds that “the incomes of bottom- and top-income earners are the most sensitive to the state of the economy.” At the bottom incomes this is because during strong economic conditions, the labour income of bottom-income earners rises, due to lower unemployment, and that inequality should decline when economic conditions are strong. In the ACTU’s view this suggests that the more that minimum wage increases are able to reduce inequality at the bottom as workers enter the labour market in good economic conditions, the more inequality will be reduced and those at the bottom end of the income distribution will benefit. The ACTU maintains we have those conditions now.

141. An RBA Research Discussion Paper by Bishop et al (2016) examines the increase in the relative share of changes in hours worked relative to numbers employed over the 2000s in Australia,

⁶⁹ FWC 2016 Annual Wage Review 2015-16 [474], and footnote 354 PC technical supplement (2015), *Exploring the effects of minimum wage increases on employment using a large administrative dataset*, p. 67.

⁷⁰ FWC 2016 Annual Wage Review 2015-16 [477] and Australian Government submission, 7 April 2016 at p. 60, para. 261.

⁷¹ FWC 2016 Annual Wage Review 2015-16 [478]

⁷² Tahlee Stone 2016 The Sensitivity of Personal Income to GDP Growth *RBA Bulletin* Dec

<http://www.rba.gov.au/publications/bulletin/2016/dec/pdf/reserve-bank-bulletin-2016-12.pdf>

three times the OECD average.⁷³ The paper finds that changes in the industrial relations regulatory framework in the 1990s toward enterprise bargaining encouraged flexibility in wages and hours to arise from workers' direct negotiations with employers. However as the paper indicates adjustment through wages is not examined. The slower growth of wages and upward trend in underemployment are not addressed in the paper, nor is anywhere the shift attributed to the growth of the NMW and awards.

142. A key paper by Watson (2016) examines wage inequality in Australia from 1982 to 2012 and finds that “wage inequality grew steadily over this period and was particularly strong from 1996 onward.”⁷⁴ From quantile regression it decomposed the growth into three components, change in the wage structure, change in workforce characteristics, and a residual (‘unobservables’). It found that for full-time male employees three quarters of wage inequality was a result of change in the wage structure, and for full time females it was half. This finding runs counter to the conventional wisdom that wage inequality increase was due to the changing nature of the workforce. Rather, it finds that “deindustrialization and financialization appear to be closely related to increased wage inequality.” The wage distribution over the last 30 years is characterised by stagnation at the bottom and “substantial expansion at the top.” It argues that the striking persistent long-term and under-employment and increasingly casualised work over the last 30 years “ensure downward pressure on wages at the bottom of the labour market”, and “explain much of the stagnation of real earnings which has been evident over 30 years.” The distribution of wages became more unequal within all industries, but particularly those that expanded. Institutional changes such as enterprise bargaining magnified the gains and quarantined them to the most profitable parts of the economy, instead of flowing on to the benefit of others as they had previously.⁷⁵ The findings imply a crucial role for the increase in the minimum wage to address stagnation in wages overall, as a mechanisms for raising earnings throughout the economy, not only for those who are award reliant.

143. Kenney et al (2016) examines why companies fail in Australia and finds that public (listed on stock exchange) ownership, leverage and aggregate conditions are the main factors in company failure, while the minimum wage, wages and labour costs are not referred to once in the paper.⁷⁶

⁷³ James Bishop, Linus Gustafsson and Michael Plumb 2016 Jobs or Hours? Cyclical Labour Market Adjustment in Australia RBA Research Discussion Paper 2016-06 <https://www.rba.gov.au/publications/rdp/2016/pdf/rdp2016-06.pdf>

⁷⁴ Ian Watson 2016 Wage inequality and neoliberalism: the Australian experience *Journal of Industrial Relations*: Vol. 58(1) 131–149, February

⁷⁵ Ian Watson 2016 Wage inequality and neoliberalism: the Australian experience *Journal of Industrial Relations*: Vol. 58(1) 131–149, February, pp.21-22

⁷⁶ Rose Kenney, Gianni La Cava and David Rodgers 2016 Why Do Companies Fail? RBA RDP 2016-09 <https://www.rba.gov.au/publications/rdp/2016/pdf/rdp2016-09.pdf>

6. THE STATE OF THE AUSTRALIAN ECONOMY

144. The Australian economy has proved more resilient than expected following the dissipation of the resources boom.

- a) The Australian economy grew by 2.4% over the year 2016 exceeding Treasury and RBA forecasts, and well above the OECD average rate;
- b) Although there is no common trend to the average growth rates across the more award-reliant industries, output grew in three of the four most award-reliant industries in 2016. Health care and social assistance, the biggest employer in the economy, grew at 3.8%. Growth of 2.2% was observed in both education & training and retail trade. Health care & social assistance, and accommodation & food services recorded amongst the fastest growth rates in the number of businesses in 2015-16;
- c) Consumer spending grew faster than household incomes in 2016 (a falling savings ratio reflecting slow wages growth). This consumption should assist those industries that rely on it and aggregate demand and employment generally;
- d) The volume of retail sales grew 2.0% in real terms in 2016, with Clothing and footwear retailing growing at 6.2%. All award reliant areas saw retail sales growth over the year to December 2016, including restaurant and takeaway food at 2.5%;
- e) The gap between labour productivity growth and wage growth continues to widen on trend according to a range of measures ;
- f) Labour productivity continues to grow faster than that of many comparable countries, at 1.7% compared with 0.9% average for the OECD over the five years to 2015;
- g) Labour productivity in the award reliant labour intensive industries of Accommodation and food services and Retail trade grew slowly at rates close to that of productivity in the total economy; As labour intensive areas, labour productivity growth is normally expected to be slower than for the total economy which includes capital intensive industry;
- h) Real unit labour costs remain below those of December 2007, eight years ago, as by a range of measures, real wages are growing more slowly than ever;
- i) The share of wages in income has fallen by two percentage points to 52.3% over the year to December 2016;
- j) The share of wages in income has increased slightly in two of the more award reliant industries which are labour intensive;
- k) Business bankruptcies remain close to their lowest since the GFC and the rate is close to the lowest since the series began 13 years ago;

- l) The entry rate for new business continued on trend, and strong growth was observed in some most award reliant sectors; and
- m) inflation is the lowest in twenty years, while the Wage Price Index grew by only 1.9% in the year to December (the slowest growth in the history of the measure). Low inflation and the fall in mining related earnings also meant that real average weekly ordinary time earnings increased only .6% in the year to November 2016.

145. Low-paid workers deserve to share in the benefits of productivity growth and a growing economy. The increase we seek is appropriate and reasonable in the economic circumstances. Whatever eventuates, low paid workers deserve this raise now and if it is granted it will not have adverse consequences, rather it is likely to contribute to improvement in the economy. Other workers will benefit from a decent increase in the minimum wage.

6.1 Economic growth

146. The Australian economy grew by 2.4% in real terms over the year 2016, the same rate as in 2015, seasonally adjusted. This remains relatively healthy, and is above the most recent RBA forecast to date of 2.0% for the year 2016. The RBA expects GDP growth of 2.5% to 3.5% over the year 2017 and 2.75% to 3.75% for 2018.⁷⁷ Annual real GDP growth, original data, year on year, is presented in Figure 8.

⁷⁷ RBA 2017 *Statement on Monetary Policy* Feb., p.57, Table 6.1, first line

Figure 8: Real GDP growth, annual, year on year, 1996 to 2016

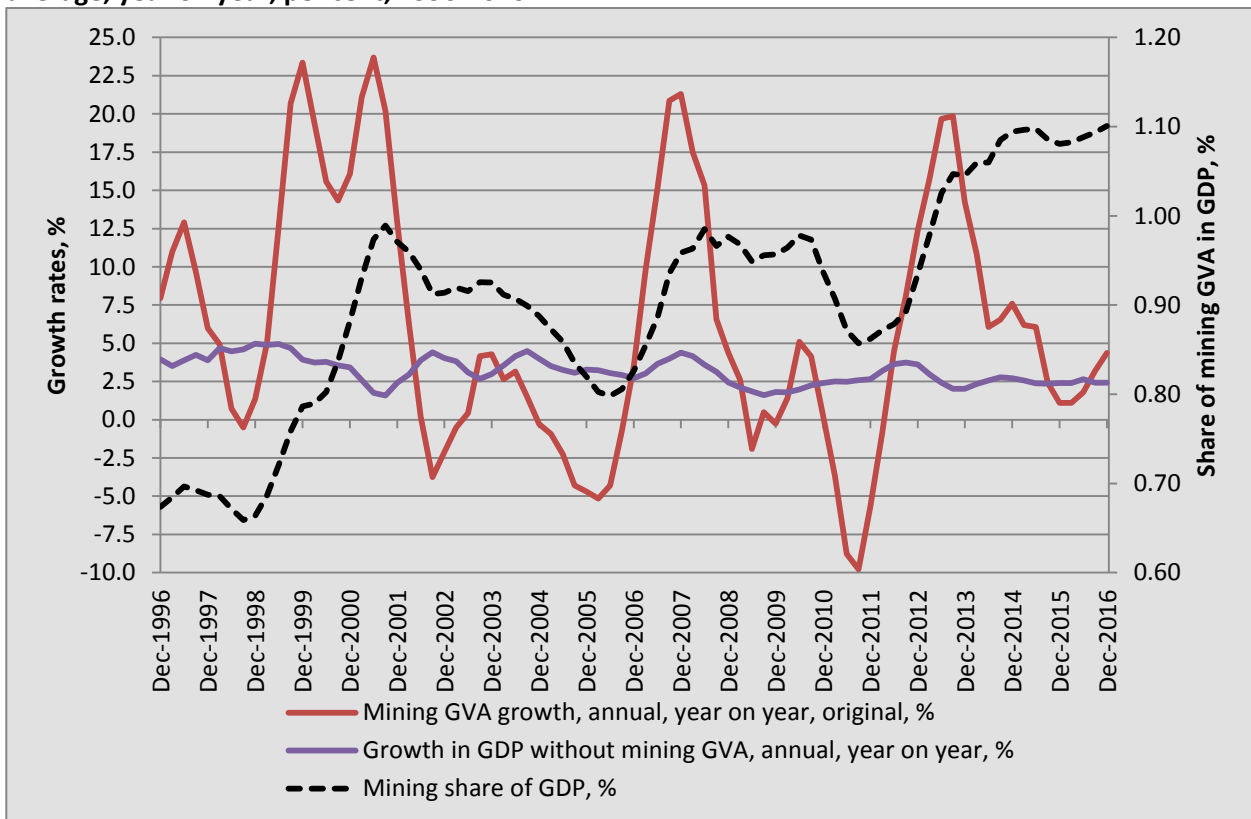


Source: ABS 5206, original data, and ACTU calculations

147. The average annual growth rate of GDP was 3.3% for the seven years up to the low point at the GFC at September 2009. GDP growth has not recovered to pre GFC level, with an average annual growth rate of 2.6% for the seven years up to December 2016. Slow growth rates in average and minimum wages have not translated into higher GDP growth. We maintain on the contrary that slow growth in wages is one reason that GDP growth has not recovered, as it has held up spending and demand for labour.

148. The contribution of the mining boom to GDP growth is not readily seen in the data. This is shown in which presents on the left hand vertical axis average annual growth rates in real GDP without mining and GVA in the mining sector. The right hand side axis of shows the share of GVA in mining in GDP.

Figure 9 Growth in GDP without mining, growth in mining GVA, and the share of mining in GDP, annual average, year on year, per cent, 1996-2016



Source: ABS 5206, and ACTU calculations

149. As indicated from the share of mining GVA in GDP in Figure 9, the contribution of mining to GDP growth is very variable, adding around 9% to annual GDP growth on average, or 0.25 percentage points of GDP growth per annum.
150. However there are clearly other factors determining the direction of the economy apart from mining, as there is no evident relationship between growth in mining GVA and that of the non mining economy as shown in Figure 9. Sometimes growth in the rest of the economy moves in the opposite direction to growth in the mining sector.
151. The Panel was referring to the absence of award dependency in mining employment when it stated that “For the purposes of setting the NMW and award rates of pay, developments in the Mining sector have little direct relevance”.⁷⁸ The data on GDP and mining GVA growth indicate that the economy is not entirely dependent on the mining sector for its performance and is able to adjust to changing circumstances including benefit from a decline in the dollar.
152. Clearly the economy can continue to grow through structural transition past the mining boom phase. Accordingly it is other factors such as the increase in inequality and loss in spending power which will hold it back.

⁷⁸ FWC 2016 AWR 2015-16 [227]

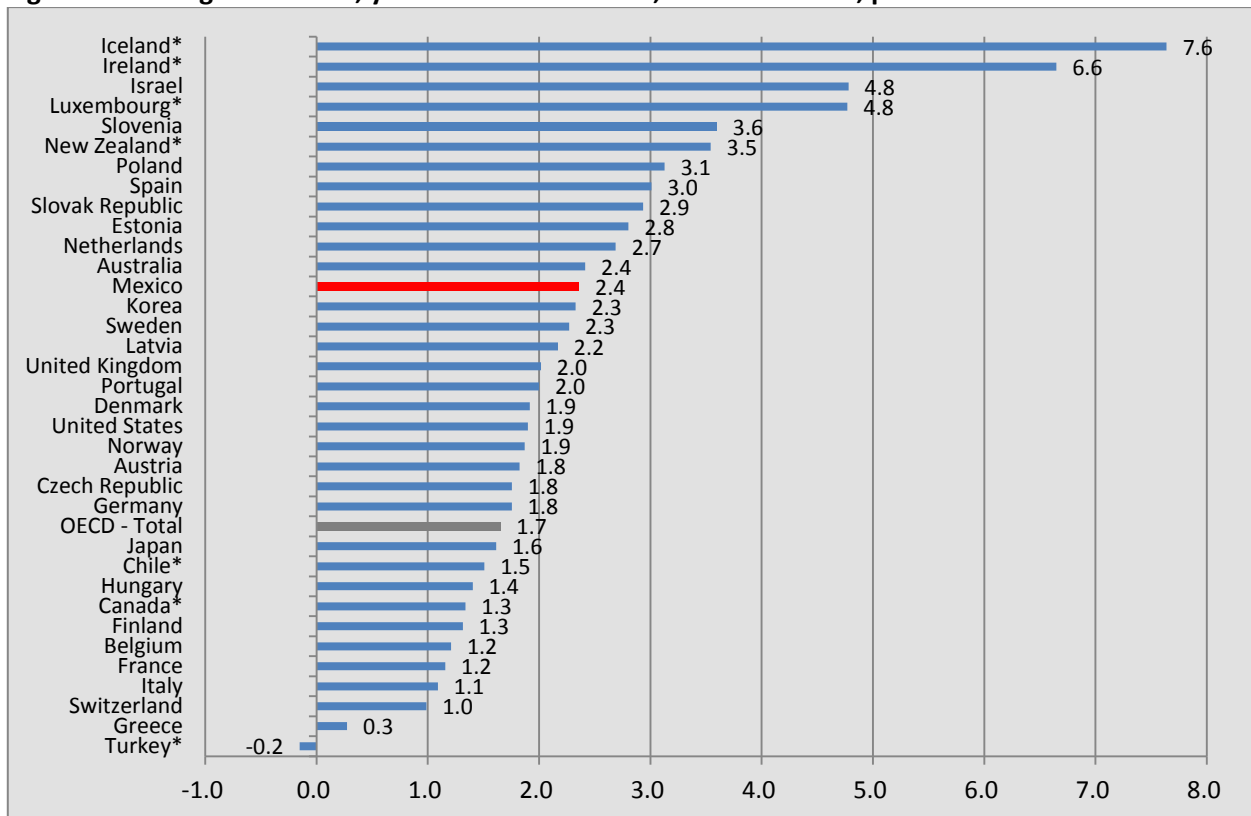
6.2 International comparison of economic growth

153. Australia’s real GDP growth of 2.4% over the year to December 2016 was above the OECD average of 1.7% and the OECD median of 2.0%. The gap between Australia’s GDP growth and the OECD average remained similar in 2015 and 2016.

154. Australia’s quarterly GDP growth of 1.1% in the December 2016 quarter was a recovery after the 0.5% fall of the September quarter. The December quarter figure was above the OECD and G7 averages of 0.4% for the December quarter.⁷⁹

155. The absence of signs of any significant downturn and the continuation of moderate growth is consistent with the views of the RBA in its *Statement on Monetary Policy* of February 2017 which does not include the improvement in the December quarter data.⁸⁰

Figure 10: GDP growth rates, year to December 2016, OECD countries, per cent



Source: OECD Stat, <https://stats.oecd.org/index.aspx?queryid=350> (quarterly national accounts). Chart shows growth in seasonally adjusted real GDP (expenditure approach) over the year to 2016. *year to September 2016 available only.

6.3 Growth by industry

156. Real economic output (gross value added) grew in four out of the five most award-reliant industries in 2016. Growth was particularly strong in Health care and social assistance.

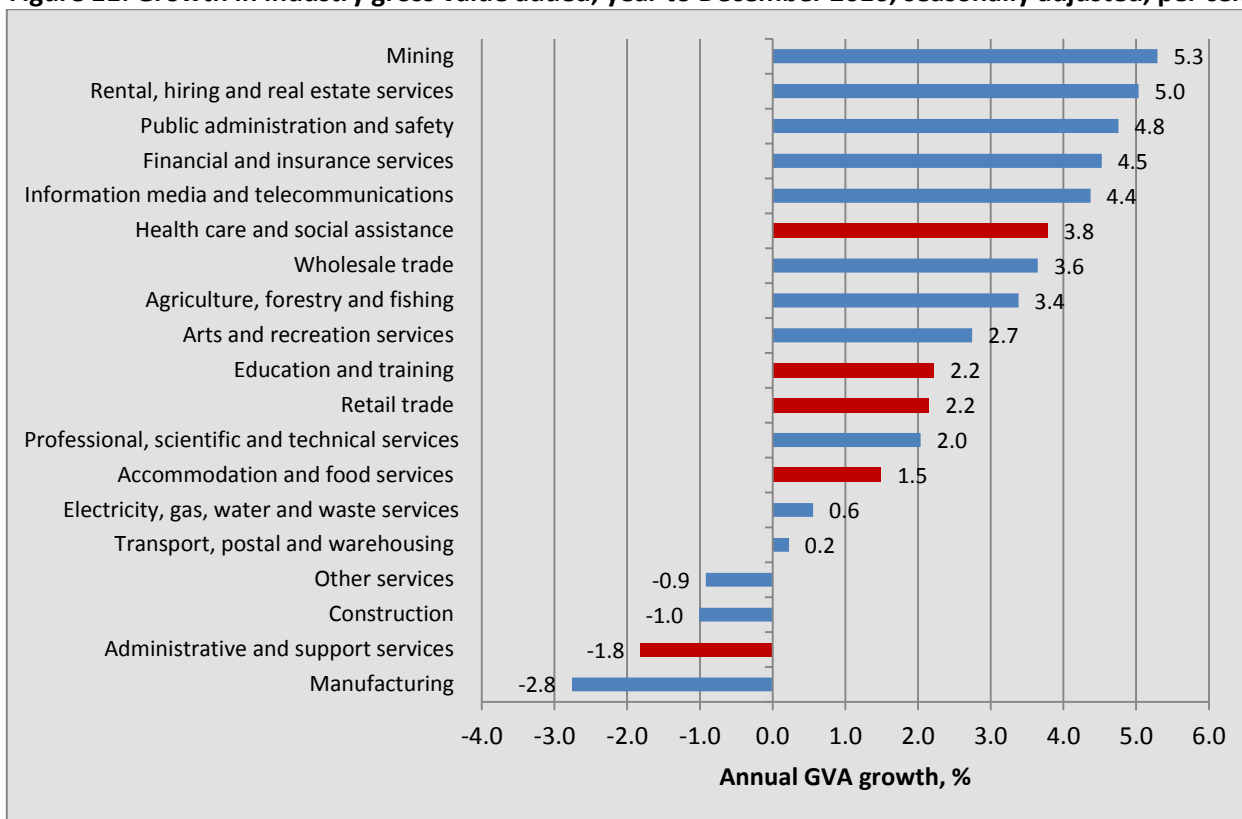
Accommodation and food services grew but was affected by international tourism demand as a

⁷⁹ OECD quarterly reports <https://stats.oecd.org/index.aspx?queryid=350>

⁸⁰ RBA 2016 *Statement on Monetary Policy* February, pp.2, 27-28.

result of recent declines in the exchange rate.⁸¹ The growth in gross value added, seasonally adjusted, in each industry over the year to December 2016 is shown in Figure 11.

Figure 11: Growth in industry gross value added, year to December 2016, seasonally adjusted, per cent



Source: ABS 520606 (seasonally adjusted) and ACTU calculations.

157. Four industries experienced a fall in real output in the year to December 2016, while the other fifteen grew. The range of sectoral growth reflects trends in industry restructuring taking place rather than any relation with the degree of award intensity.

158. There is no evidence that the growth rates of output across industries over time are related to the proportion of workers in the industry who are award reliant, or to the rate of increase in awards, as commented on in previous ACTU submissions.⁸² That is, it cannot be seen that the more award reliant industries grow more slowly, or grow more slowly in years when higher rates are awarded.

159. For instance, the four most award reliant industries have all grown at rates approaching or faster than the whole economy over the last twenty years. Accommodation and Food services, and Admin and Support Services have grown at rates approaching those of the whole economy. Retail Trade has grown faster than the whole economy, while Health care and social assistance has grown nearly twice as fast as the total economy, with the rise in aged and other care. If

⁸¹ RBA 2016 *Statement on Monetary Policy* February, p. 24 Graph 2.19

⁸² For instance ACTU submission to AWR 2015, [233]-[235]

award reliance held up industry growth, then the shares of the more award reliant industries in the economy should grow more slowly, but this is not observed.

6.4 Consumer spending and retail trade

160. Many of the more award reliant sectors of the economy, such as hospitality and retail, tend to rely on consumer spending to a greater degree than other industries. Consumer spending grew a little faster than the overall economy in 2016. Households' final consumption expenditure rose by 2.7% in real terms in the year to December 2016 compared with 2.4% growth in GDP. This helped contribute to the growth in industry value added the Retail Trade and Accommodation and Food Services industries, as shown in Figure 11.

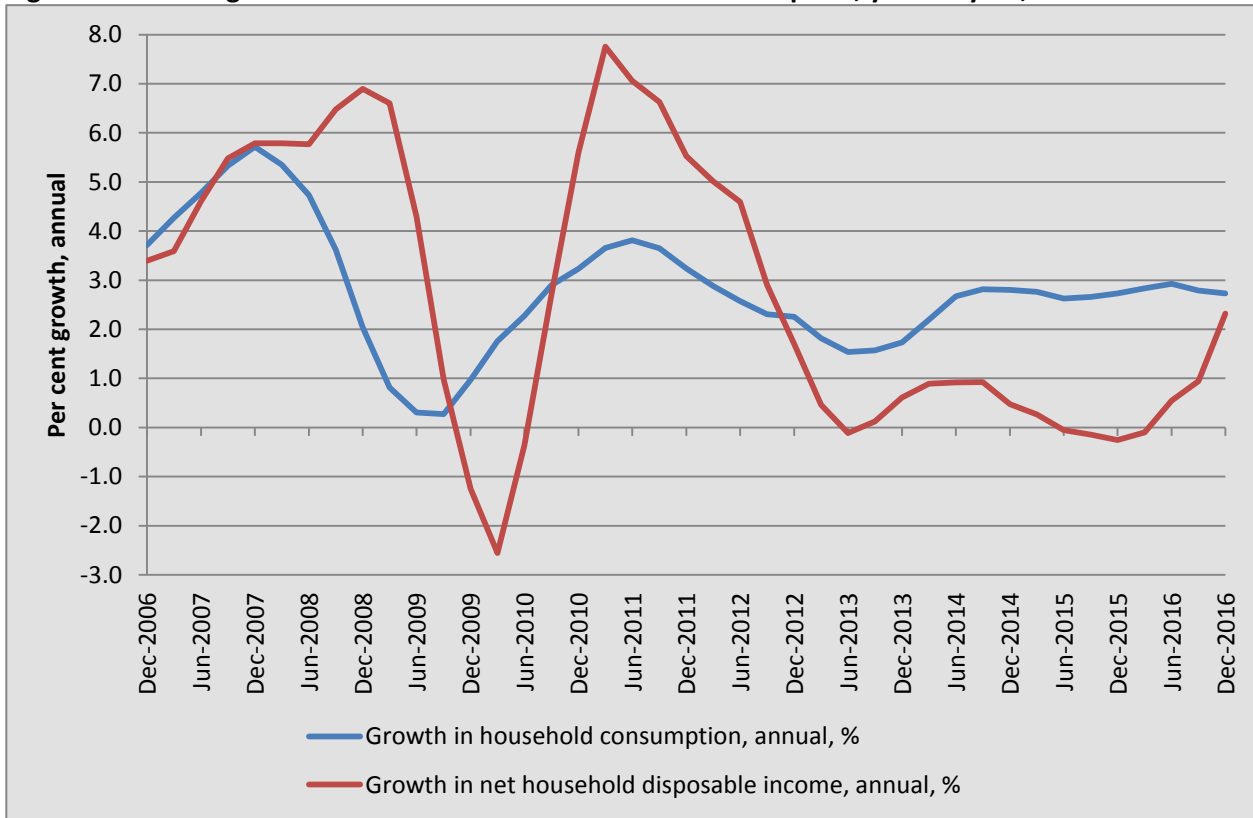
161. Households' spending grew by 2.7% in real terms in the year to December 2016, around its typical pace for the post-GFC era. Consumption grew slightly faster than households' real incomes, which rose by 2.3%.⁸³ This is shown in Figure 12. Because consumption outpaced income growth slightly, the household savings ratio fell slightly from 6.2% in December 2015 to 5.2% in December 2016, as shown in Figure 13⁸⁴.

162. The savings ratio reached a post-GFC peak at December 2011 and has fallen on trend since then. A consequence of the slow growth in wages is being revealed in the downward trend of the savings ratio. This is because people spend more out of income when income is lower. Also households at the lower end of the income distribution spend a larger proportion out of income, and this may be a net consequence as income distribution widens over time.

⁸³ The income measure referred to is household net disposable income, which is household gross disposable income less household consumption of fixed capital. This measure is used as this is what the ABS uses to calculate the household saving ratio. See ABS 2014, *Australian System of National Accounts, Concepts Sources and Methods*, Catalogue number 5216, p.669.

⁸⁴ ABS 5206 and ACTU calculations

Figure 12: Annual growth in household income and final consumption, year on year, 2006-2016



Source: ABS 5206 and ACTU calculations. Household net disposable income is calculated as household gross disposable income less consumption of fixed capital.

Figure 13: Household saving ratio



Source: ABS 5206. "The household saving ratio is the ratio of household net saving to household net disposable income. Household net saving is calculated as household net disposable income less household final consumption expenditure. Household net disposable income is calculated as household gross disposable income less household consumption of fixed capital." <http://www.abs.gov.au/Ausstats/abs@.nsf/glossary/5206.0>

163. Consistent with the solid growth in consumption, the volume of retail sales rose by 2.0% over the year 2016, growing more slowly than household consumption which grew 2.6% in real terms over the same period. This compares with an average growth of 2.9% in retail spending in real terms over the ten years to December 2016 including the GFC, and an average of 2.8% per annum growth in consumption in real terms over the 10 years from December 2006. This continues healthy growth in spending in the Australian economy.

Figure 14: Growth in the quarterly volume of retail sales and consumer spending, year on year, %

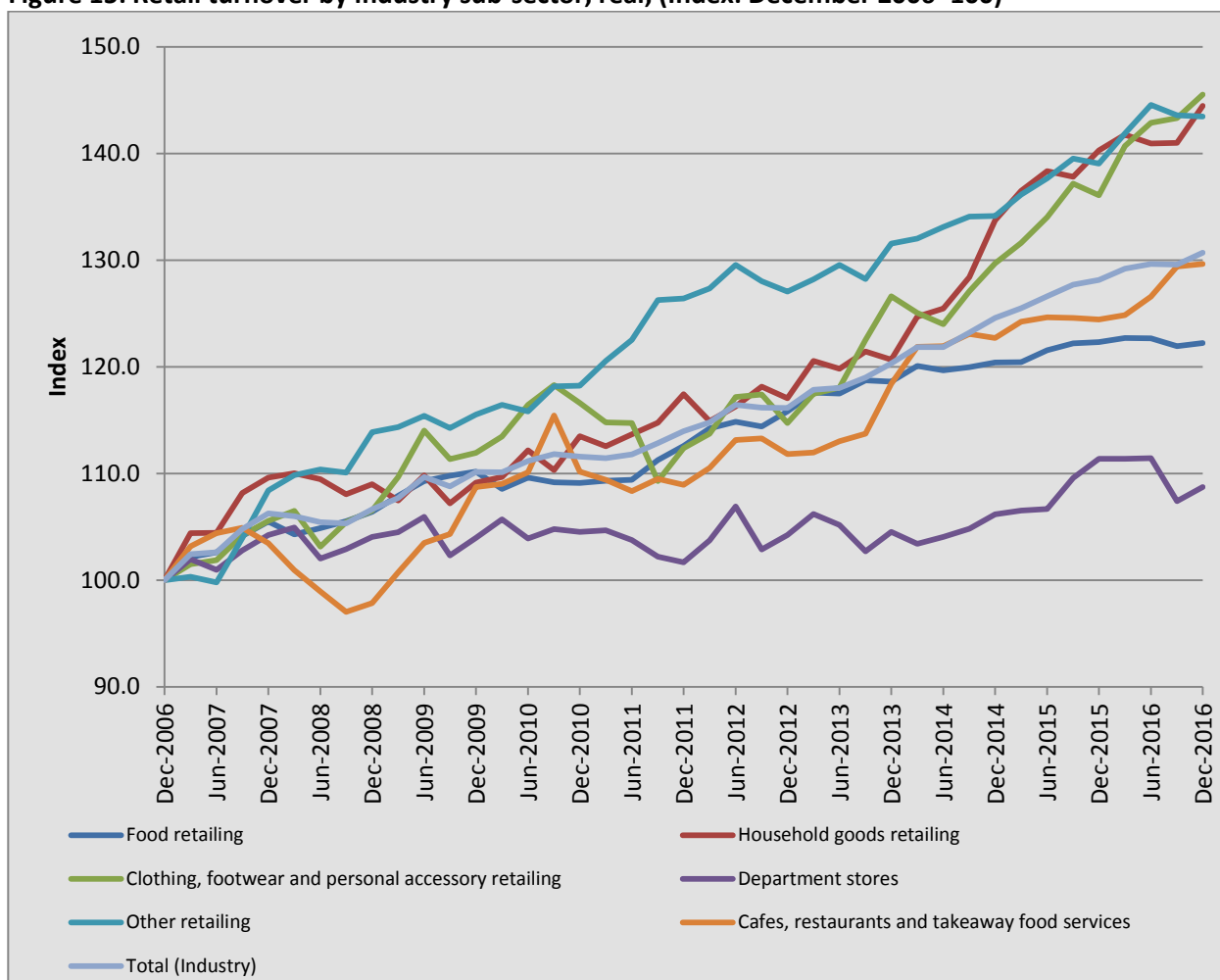


Source: ACTU calculations based on ABS 5206, 8501.

164. The retail sector grew at an annual average of 2.2% in real terms over the year 2016, lower than the average of 2.6% over the last five years. There is a great deal of variation in the pace of turnover growth among different sub-sectors and from year to year. All sectors grew over the year 2016.⁸⁵ Clothing and footwear grew the most at 6.2%, followed by Other retail at 3.8% and Household goods at 2.8%. All the award reliant areas experienced positive retail sales growth over the year to December 2016, including restaurant and takeaway food at 2.5% (higher than the previous year) and food retailing at 0.6%, down from the previous year. All sub sectors increased real turnover in the last quarter of 2016, except for other retail which decreased by less than 0.1%. These are hardly signs of a downturn imminent in the Australian economy, despite the slow growth of wages.

⁸⁵ 'Other retailing' includes newspaper and book retailing; sports, camping equipment, entertainment media, and toy and game retailing; pharmaceutical, cosmetic and toiletry goods retailing; stationery goods retailing; antique and used goods retailing; and flower retailing.

Figure 15: Retail turnover by industry sub-sector, real, (Index: December 2006=100)



Source: ABS 8501, chain index, seasonally adjusted, and ACTU calculations.

6.5 Productivity growth

165. In its 2015-16 decision, the Panel indicated that “Given the short-term volatility in measures of productivity change and the susceptibility to influences which vary across the economic cycle, we routinely consider the full range of measures of productivity, understanding the different basis of each measure.”⁸⁶

166. When labour productivity increases above the rate of increase of wages, it is an indication that wages are not reflecting the contribution of labour to output.

167. Wages would be expected to rise if they reflect gains in real income arising from the contribution of labour to productivity improvements and output. But it is not just a question of equity. Conversely rises in real wages drive demand and accordingly would be expected to drive

⁸⁶ FWC 2016 AWR 2015-16 [223]

innovation in production and in turn further productivity improvements and growth in GDP in the longer term. It is a two way street.

168. In particular raising wages at the lower end of the earnings distribution is most effective in raising demand as this is where people spend more of their incomes. This is one reason why reducing inequality has been found to improve productivity and economic growth.

169. The connection between labour productivity and wages is complex. Ultimately labour productivity is an outcome of the particular combination of inputs and technology which produces the range of outputs of goods and services, and the set of institutions that brings them together. Wages and working conditions are determined through a set of processes emanating from within those institutions.

170. We compare various measures of wage growth with those of labour productivity growth annual averages over the periods before and after the GFC, the last three years and the last year, in Table 1.

Table 9 Annual average growth rates of labour productivity and real wage measures before and after the GFC, and the last three years.

Indicator:	Annual average growth rate, %			
	2001-2008	2009-2016	2014-2016	Year to June 2016
GDP real growth, %	3.3	2.5	2.6	2.7
Labour productivity:				
GDP per capita, real, growth, %	2.0	0.7	0.8	0.8
GDP per hour worked, real, growth, %	1.5	1.6	1.7	2.5%
GVA per hour worked market sector, real, growth, % ⁸⁷	2.0	2.0	1.7	1.9%
Wages:				
Real unit labour cost: growth, %	-0.7	-0.3	0.2	-0.6
AWOTE real, growth, %	1.3	1.6	0.4	1.2
NMW real, growth, %	0.5	0.5	0.8	1.4
Real labour income per hour worked, growth, %	1.9	1.2	0	0.3
Median full time weekly earnings, real, growth, %	1.3*	0.7*	1.0*	na
Hours worked market sector, growth, %	1.5	0.4	0.4	0

Sources: ABS 5204, 6302, 6401, 6333, NMW from Bray (2013), and ACTU calculations. *Median earnings available only to 2015.

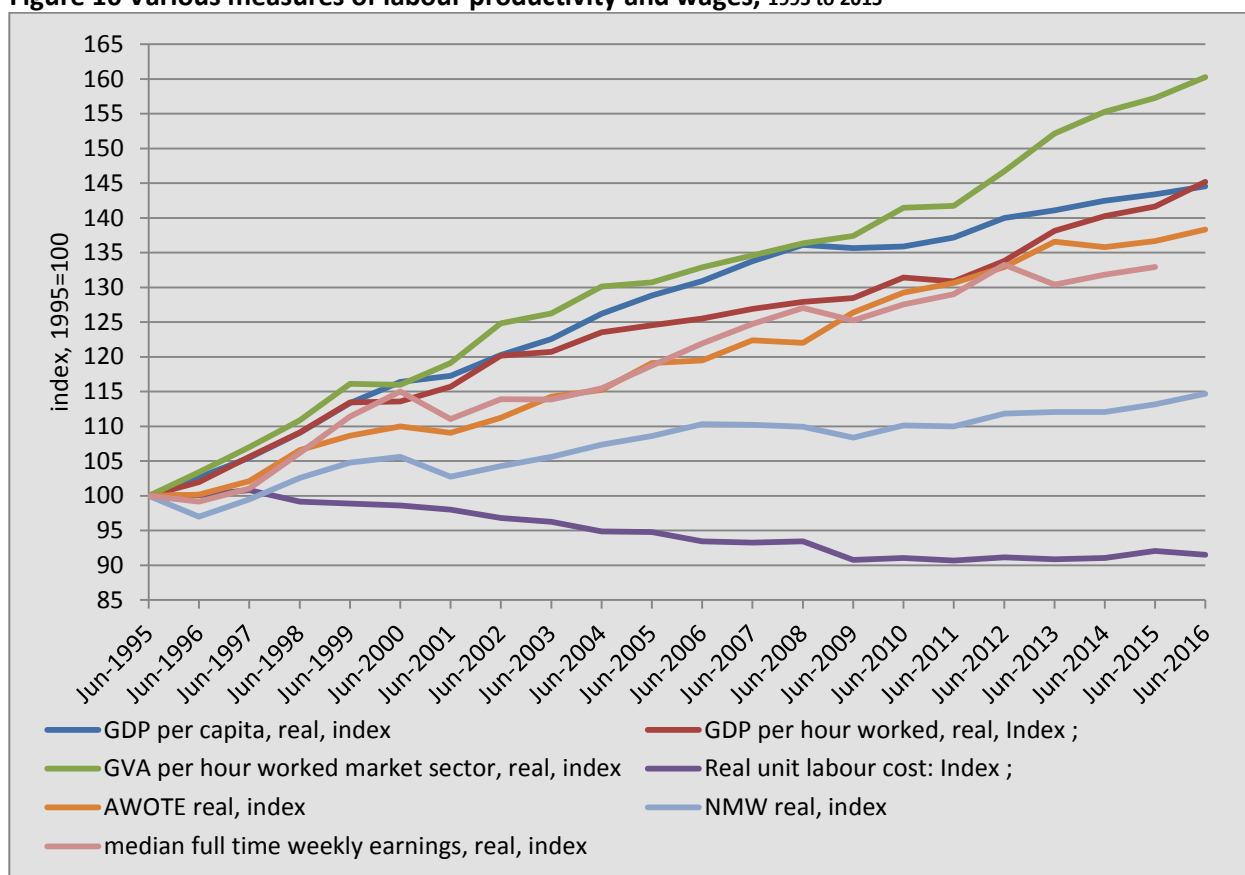
⁸⁷ Gross Value Added (GVA) represents the part of GDP produced by a sector of the economy. The market sector consists of the industries where output is easiest to measure, so it excludes services such as education, where the output is hard to measure and where input cost e.g teaching salaries, is often included instead. Gross Value Added is the part of output that is produced in the market sector.

171. For the most recent year, in terms of wages, Average Weekly Ordinary Time Earnings in real terms (deflated by cpi) rose 1.2% over the year to May 2016, having grown more slowly previously due to the loss of mining related earnings at the top, and benefitting from low inflation of 1.0%. Low inflation also benefitted real NMW which grew at 1.4%, still below longer term average measures. Real unit labour costs fell 0.6% to June 2016, lower than ever, while real labour income per hour worked rose a mere 0.3% over the year to June 2016, having been flat recently.
172. The measures of labour productivity all increased as fast or faster than the wage measures over the year to June 2016, except for real GDP per capita which rose only 0.8% as population growth exceeded GDP growth. Real GDP per hour rose 2.5% and GVA per hour in the market sector rose 1.9%.
173. For productivity growth the longer term is more significant because of the length of time that processes affecting labour productivity take to work through. The gap between labour productivity growth and wages growth is manifest over the longer period as shown in Table 9. GDP growth and GDP per capita growth still remain below the rates before the GFC. GDP per hour worked has remained remarkably little changed before and after the GFC, picking up only in the year to June 2016, during which there was zero change in hours worked.
174. Despite their lack of recovery the labour productivity figures are mostly well above the wage growth rates. The effect of the mining boom on real AWOTE is observed in the 2009-2016 average, plunging in the most recent years despite low inflation. Real NMW growth is the lowest wage growth rate of all, benefitting slightly from very low inflation in the most recent years. The growth rates in hours worked in the market sector have failed to recover since the GFC. The clue to the lack of growth of labour productivity is not only related to low wage growth. Multifactor productivity (MFP), the unexplained contributions to output, has failed to grow over decades. The slow growth in minimum wages drives increasing inequality which in turn slows productivity growth and reduces economic growth and the standard of living in the long term.
175. In order to capture the longer term, Figure 16 presents indexes over twenty years of the measures of labour productivity and wages that were summarised in Table 9. Again these are expressed in real terms, with the effects of inflation taken out. As the measures in Figure 16 are expressed as indexes they only show the movements, *not the levels relative to each other* where comparable, at any point in time. The starting year for the indexes can affect the relativities of the indexes. But here the differences in growth rates here are large enough to ensure persistence over the last twenty years. The gap between labour productivity and wages growth has particularly increased since the GFC.

176. The top three lines in Figure 16 present indexes for three different measures of labour productivity. According to all three measures shown in Figure 16, labour productivity has been expanding strongly and fairly consistently since the mid 1990s, growing at rates that almost always exceed the growth in wages.

177. The green line at the top in Figure 16 shows GVA per hour worked in the market sector has been growing strongly and indeed has accelerated since 2011. The broader measure of GDP per hour of work (the red line) displays a similar trend. GDP per capita (the blue line) has still not recovered to pre GFC levels.

Figure 16 Various measures of labour productivity and wages, 1995 to 2015



Sources: ABS 5204, 6302, 6401, 6333, NMW from Bray (2013), and ACTU calculations. Median earnings most recent.

6.6 Wage measures

178. The broadest indicator of wage trends, real adult average weekly ordinary time earnings (AWOTE, the orange line), fails to match the growth in labour productivity throughout the entire period since 1995. It is particularly disturbing that since 2012 real average earnings have been more or less static while the growth in labour productivity has accelerated. As a result the gap between real wages and productivity (represented by the distance between the green and orange lines) has increased significantly since 2012. Similarly full time median weekly earnings, (the point at which half of workers earn less and half earn more, the pink line) has mostly grown more slowly than labour productivity, and at 2015 remains below the 2012 level in real terms.

The slow growth of median earning ensures that on average the bottom half of earners are worse off at 2015 than they were in 2012.

179. Nowhere else is the slow growth in wages at the bottom revealed more than in the glacial increase in the real minimum wage. The minimum wage index is shown by the pale blue line, which indicates that the minimum wage has grown more slowly than median or average earnings in real terms, increasing on average less than one per cent per annum over the last twenty years. The slow growth in the NMW and the divergence with average wages is a major reason for the widening inequality on trend.

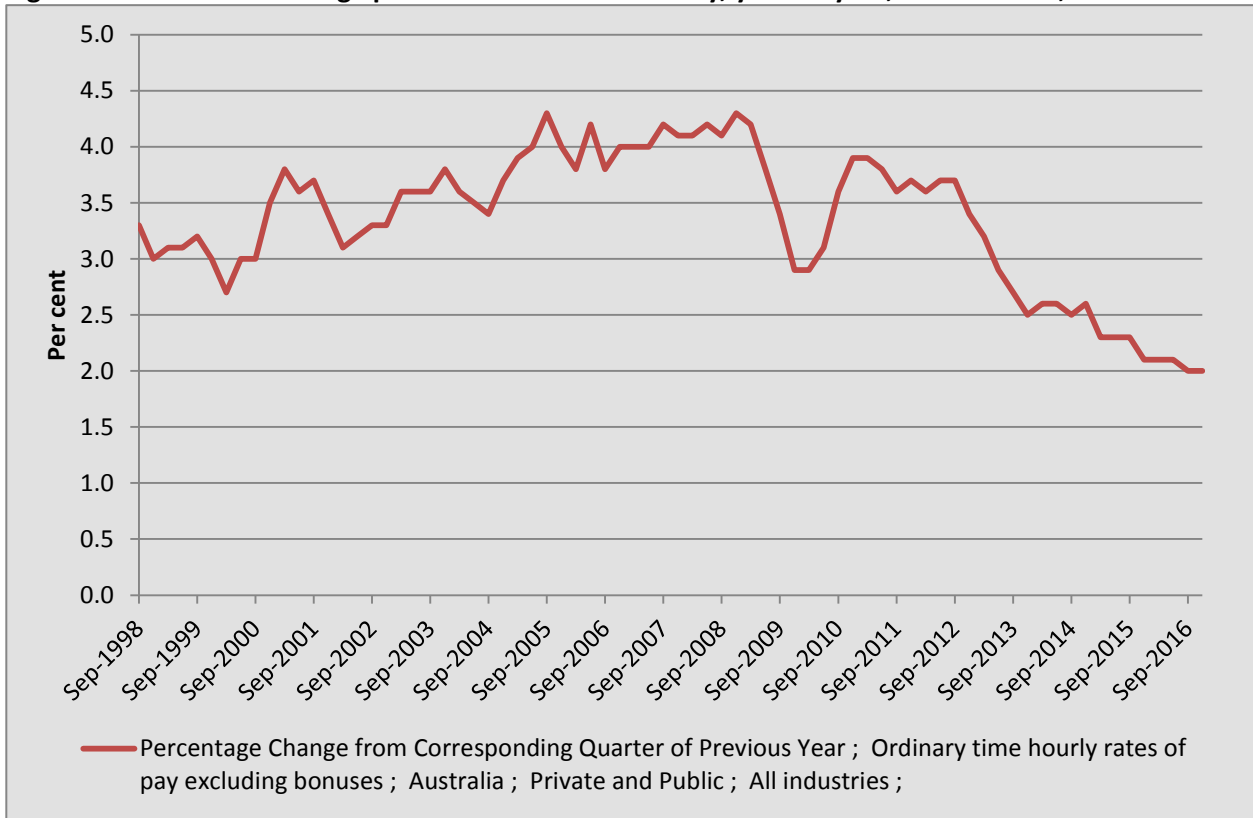
180. From the perspective of the employer a key indicator in Figure 16 is the real unit labour costs index (the purple line). Real unit labour costs fell sharply between the end of the 1990s and 2009. Over the last half decade real unit labour costs have remained fairly static at roughly 10 % below the level of 1995.

181. The wage price index (WPI) is another measure provided by ABS which also informs on wage movements. “The WPIs measure changes over time in the price of wages and salaries unaffected by changes in the quality or quantity of work performed.”⁸⁸ The Wage Price Index rose by only 1.9% in the year to December, compared with 2.2% the year before, the slowest rate of growth in the history of the measure. Slow growth particularly in the private sector continues. The growth rate of the WPI for total industry is shown in Figure 17.

182. The growth rates of WPI in public and private sector are shown in Figure 18.

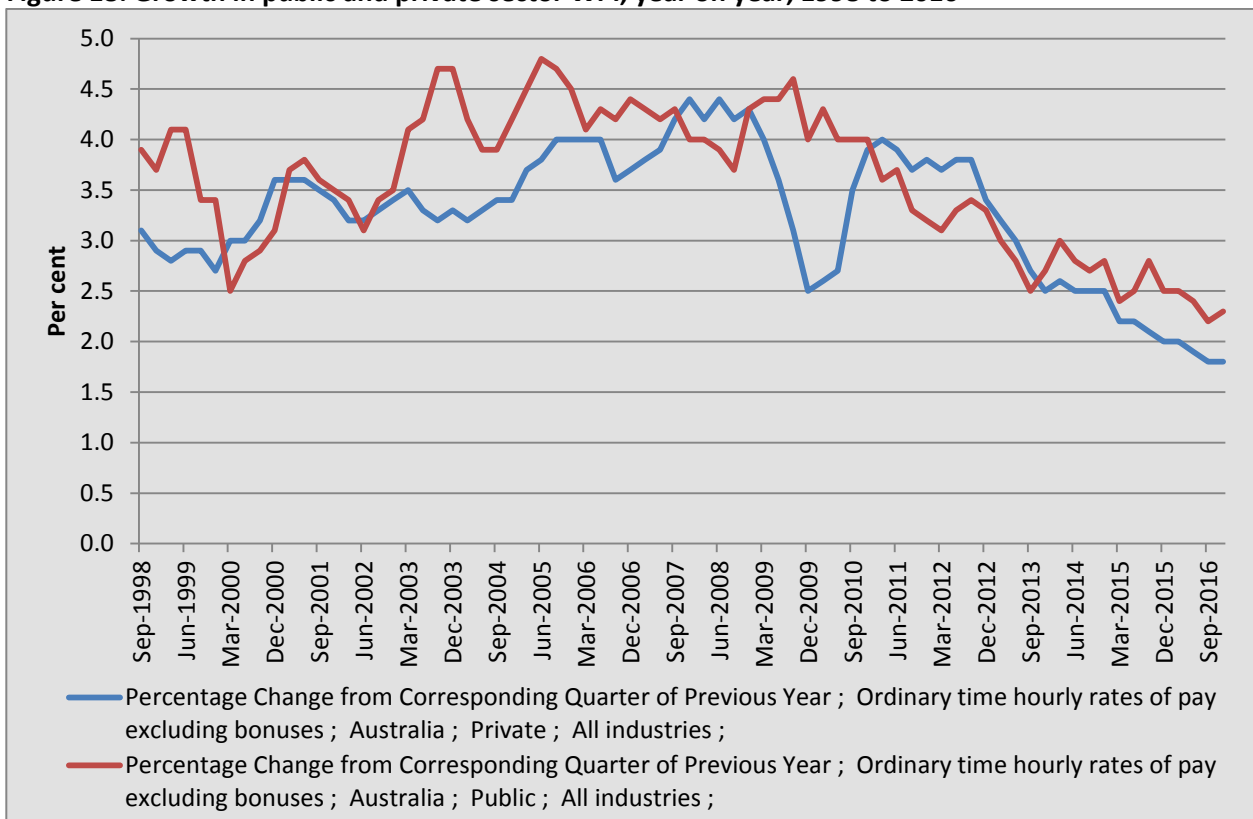
⁸⁸ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6345.0Explanatory%20Notes1Dec%202016?OpenDocument>

Figure 17 Growth in the wage price index for total industry, year on year, 1998 to 2016,%



Source: ABS 634509b

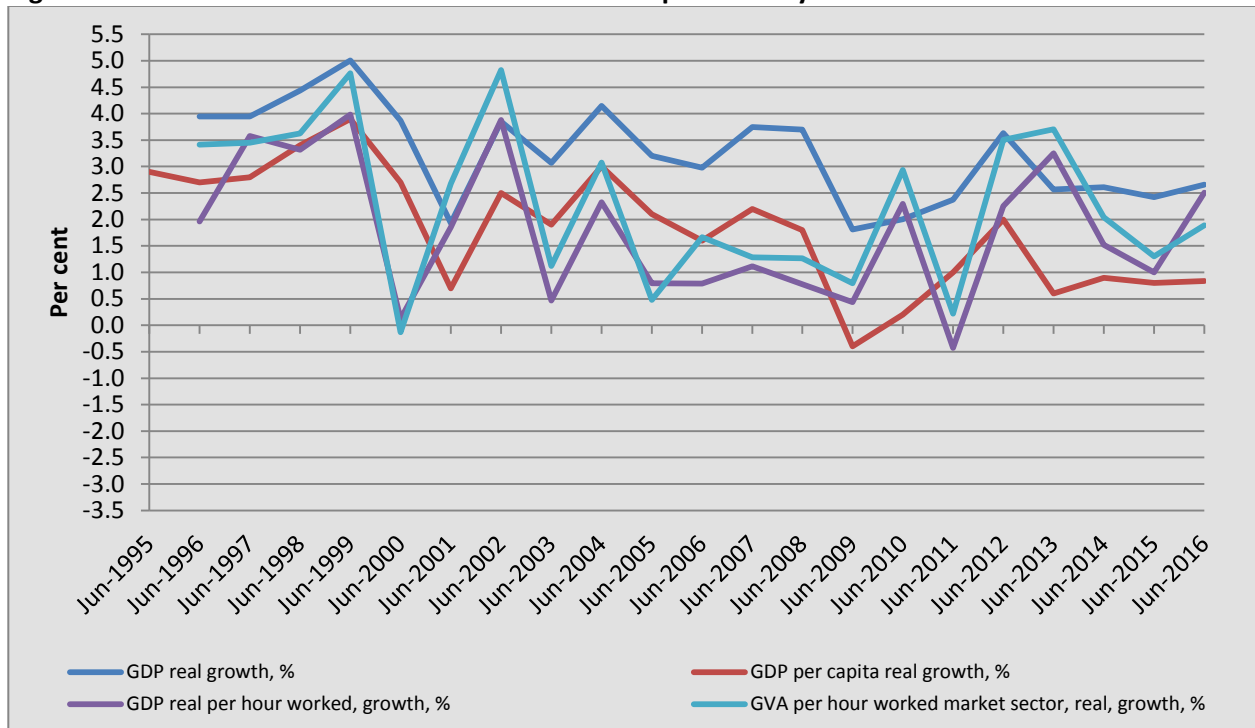
Figure 18: Growth in public and private sector WPI, year on year, 1998 to 2016



Source: ABS 634509b and ACTU calculations.

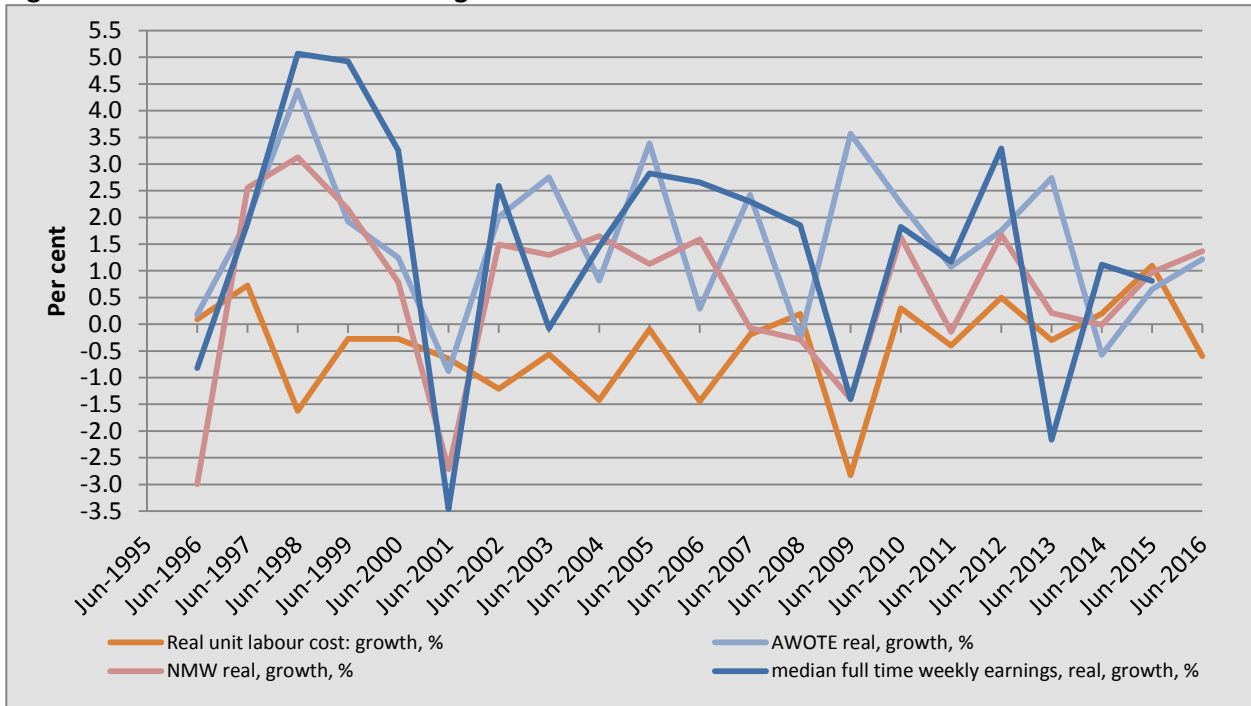
183. The growth rates of a range of measures of labour productivity and wages are shown in Figure 19 and Figure 20. The scale is the same range in Figure 19 and Figure 20, for the purpose of comparison. The downward trend over the period in the labour productivity growth rates in Figure 19 may be clearly seen. Each of the labour productivity growth measures has zero or small negative growth rates only at one year over the last twenty years. By contrast the wage growth measures in Figure 20 are much more volatile and spread out, also showing a downward trend, with many more negative points in all series.

Figure 19 Growth rates in various measures of labour productivity



Sources: ABS 5204, and ACTU calculations.

Figure 20 Growth rates in various wage measures.



Sources: ABS 6302, 6401, 6333, NMW from Bray (2013), and ACTU calculations. Median earnings most recent.

6.7 Multifactor productivity

184. The increase in labour productivity (adjusted for labour quality) is not matched by multifactor productivity growth (i.e. from sources other than capital or labour inputs) which is close to flat especially since the GFC, or by capital productivity which is declining, as shown in Figure 21.

185. Multifactor productivity, the contribution to the output of goods and services that is unseen, is affected by technological advance.⁸⁹ Measures of multifactor productivity take into account the contribution of other inputs, capital and labour, in production. The ABS makes use of standard economic assumptions about the relationship between aggregate inputs and outputs in order to arrive at its estimates (ABS Cat 5260.0.55.002). Figure 21 shows measures of labour, capital and multifactor productivity based on the ABS annual estimates.⁹⁰

186. Labour productivity grows faster than the others because the amount of labour added to produce each unit of output is growing more slowly than other inputs. Because labour is growing relatively more slowly, each additional hour is relatively more productive.

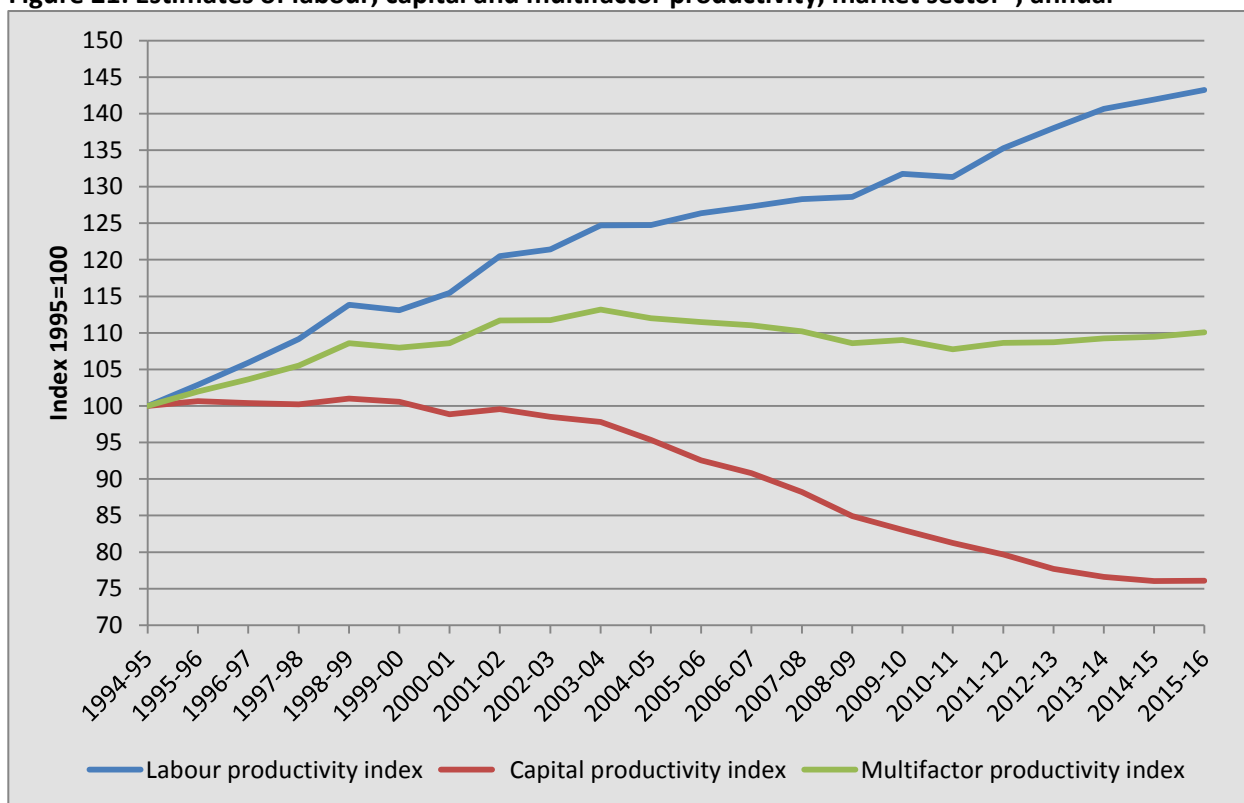
187. Capital productivity has been shrinking as the amount of capital added to produce each unit of input was growing faster than labour, making each hour relatively less productive. This capital addition appears not to embody much technological improvement.

⁸⁹ Technological advance also improves the contributions of labour and capital.

⁹⁰ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5260.0.55.0022015-16?OpenDocument>

188. Multifactor productivity has increased little reflecting Australia’s poor record in education, industry policy and the R&D and innovation which drive it, compared with other OECD countries.⁹¹

Figure 21: Estimates of labour, capital and multifactor productivity, market sector*, annual



Source: ABS Cat 5260.0.55.002 and ACTU calculations. * The market sector excludes services where output is not well measured.

6.8 Industry sector productivity

189. The industry sectors are ranked by labour productivity growth derived from MFP estimates which are compared with growth in GVA per hour for 2015-16, as shown in As will be addressed in the section 9.9 Securing a fair share of productivity growth, the real value of the NMW has not kept pace with productivity growth, either at the total-economy level or in the more award-reliant industries.

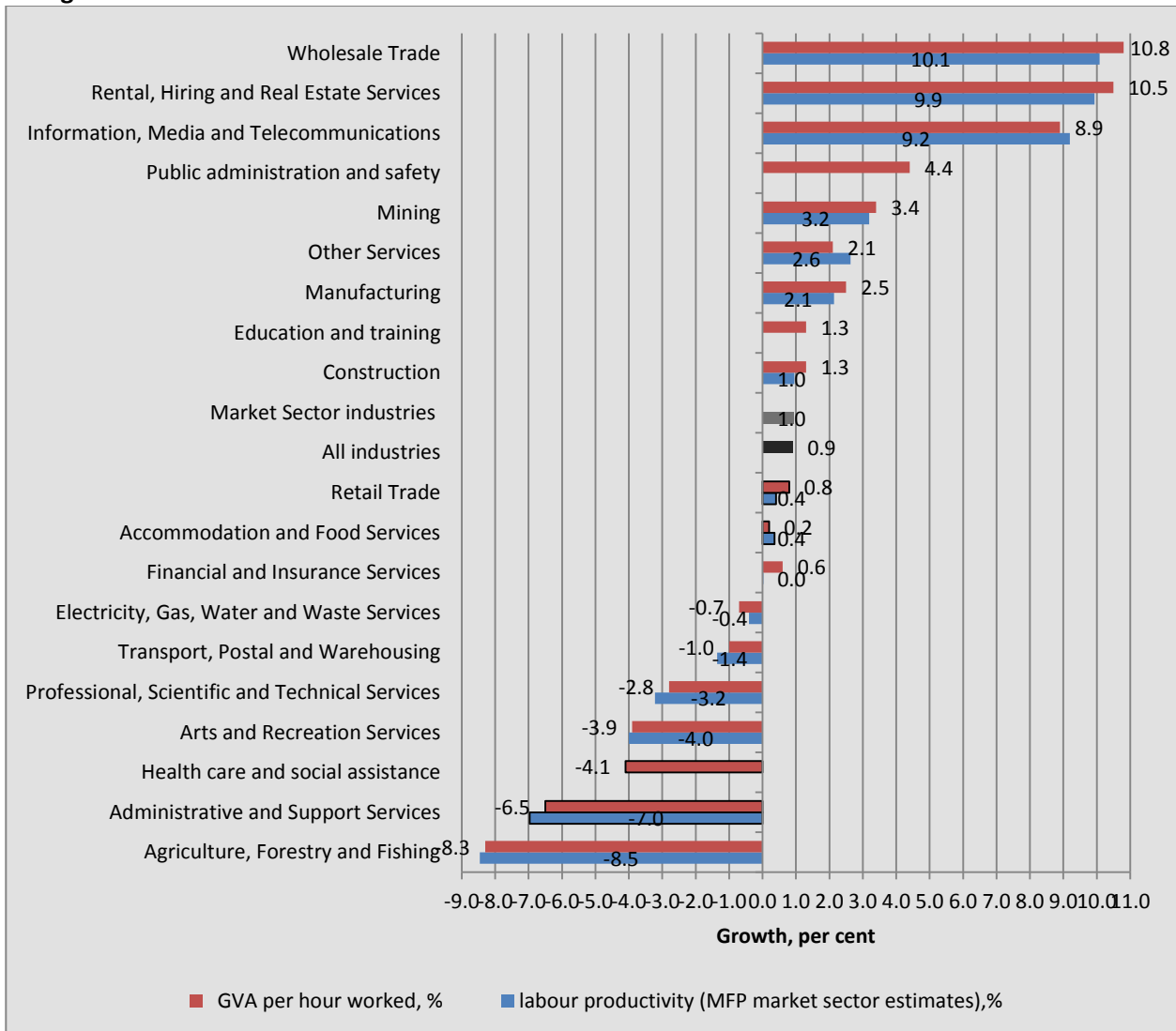
190. Figure 22. The two measures produce similar results. Labour productivity growth in the four more award reliant industries, are ranked in the bottom half of industries in 2015-16. Retail trade and Accommodation and food services have positive growth in labour productivity. Growth is negative in Health care and social assistance and Administrative and support services, sectors where productivity is less reliably measured. These are all very labour intensive

⁹¹ <https://industry.gov.au/Innovation-and-Science-Australia/Documents/ISA-system-review/index.html> at pxi`
<http://www.smh.com.au/business/innovation/we-need-to-significantly-lift-our-game-australia-is-not-the-innovation-nation-we-like-to-think-it-is-20170201-gu2x5b.html> accessed 16 Feb 2017

industries where labour productivity would not be expected to grow as fast as the rest of the economy which is more capital intensive and can increase labour productivity by adding to capital and / or improving technology.

191. As will be addressed in the section 9.9 Securing a fair share of productivity growth, the real value of the NMW has not kept pace with productivity growth, either at the total-economy level or in the more award-reliant industries.

Figure 22: Growth in labour productivity from MFP estimates and GVA per hour worked, per cent change 2015-16



Source: ABS Cat 5260.0.55.002 for market sector (excludes services where output is not well measured) labour productivity estimates based on MFP, ABS 5204 for sector GVA, and ACTU calculations.

192. Low-paid workers in Australia should share in the benefits of the growth in labour productivity. A widening academic literature, and the OECD, the IMF and the Office of the US President

recognise that higher inequality worsens productivity and growth, and that inequality is related to slow growth in wages at the lower end.⁹²

193. A 2017 OECD study examined the decoupling of wages from productivity across OECD countries and found that the cross-country heterogeneity in labour shares and wage inequality “suggests that longer-term global trends such as technological change and globalisation alone cannot fully account for decoupling of wages from productivity. Country-specific factors, including public policy settings, may play a significant role in shaping the effects of global trends on labour shares and wage inequality.”⁹³ In Australia’s case, we would posit that the slow growth of the minimum wage and wages in general, together with poor performance in R&D and innovation, have contributed to the increasing gap between wages growth rates and productivity growth rates.

194. The increase we seek in this review would ensure that workers reliant on minimum wages receive a fair share of recent productivity growth, while restoring some ground lost in previous years.

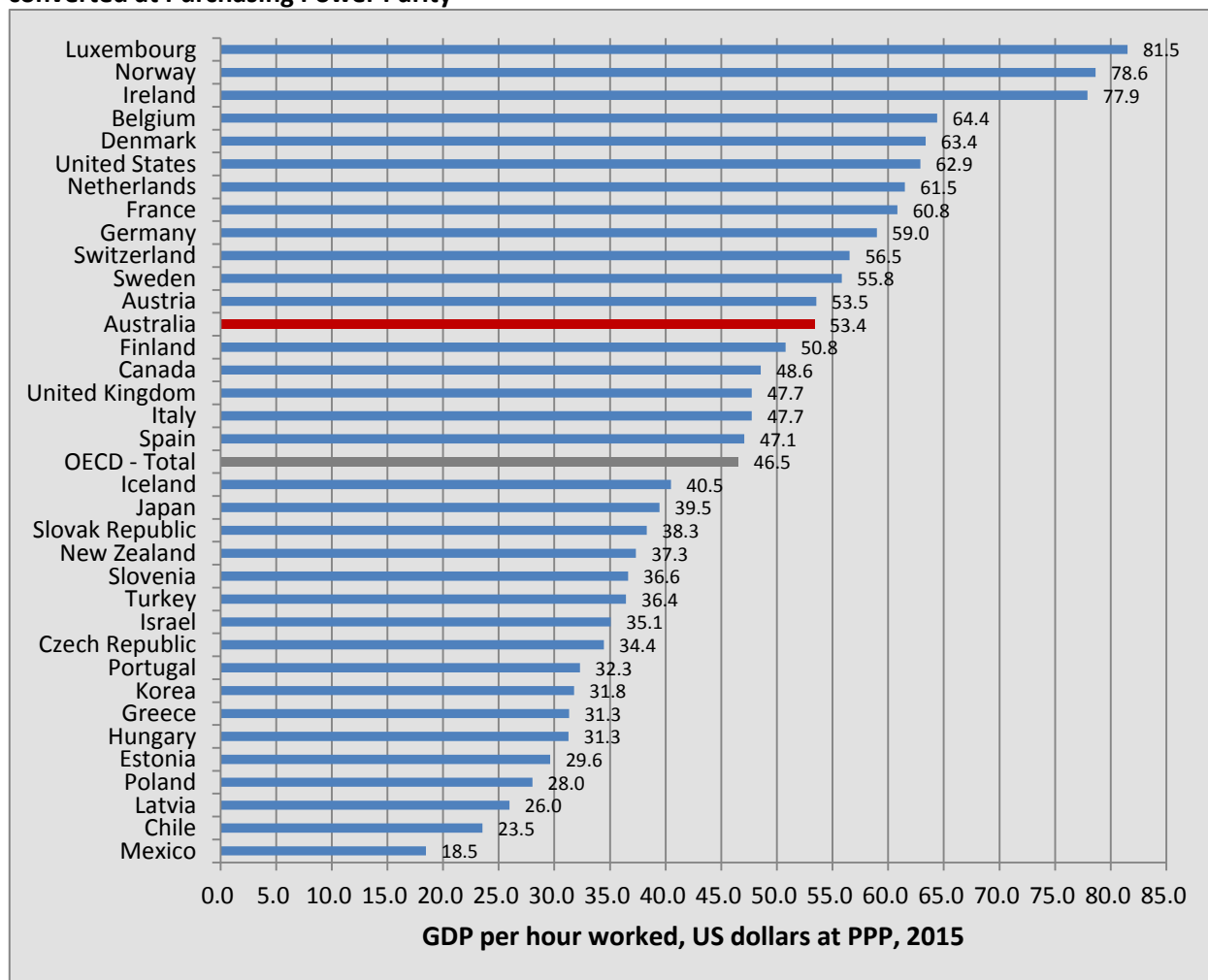
6.9 International comparisons of productivity growth

195. Australian workers are among the more productive in the world. On average in 2015, Australian workers produced goods and services worth US\$53 per hour worked in Purchasing Power Parity (PPP) terms. This compared to an OECD average of US\$46 per hour worked. Australia’s level of labour productivity in 2015 was higher than that of Canada (US\$49), the United Kingdom (US\$48), New Zealand (US\$38) and most other OECD countries, as shown in Figure 23. This is a reflection of the capital and other inputs combined together with each hour of work.

⁹² OECD 2015b *In It Together: Why less inequality benefits all*, May, p15. <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm> , <http://www.imf.org/external/pubs/ft/survey/so/2016/INT010416A.htm>

⁹³ Cyrille Schwellnus, Andreas Kappeler and Pierre-Alain Pionnier 2017 Decoupling of Wages from Productivity: Macro-level Facts , OECD Economics Department Working Papers No. 1373, 27 January

Figure 23: Level of labour productivity (GDP per hour worked) in OECD countries in 2015, US dollars converted at Purchasing Power Parity

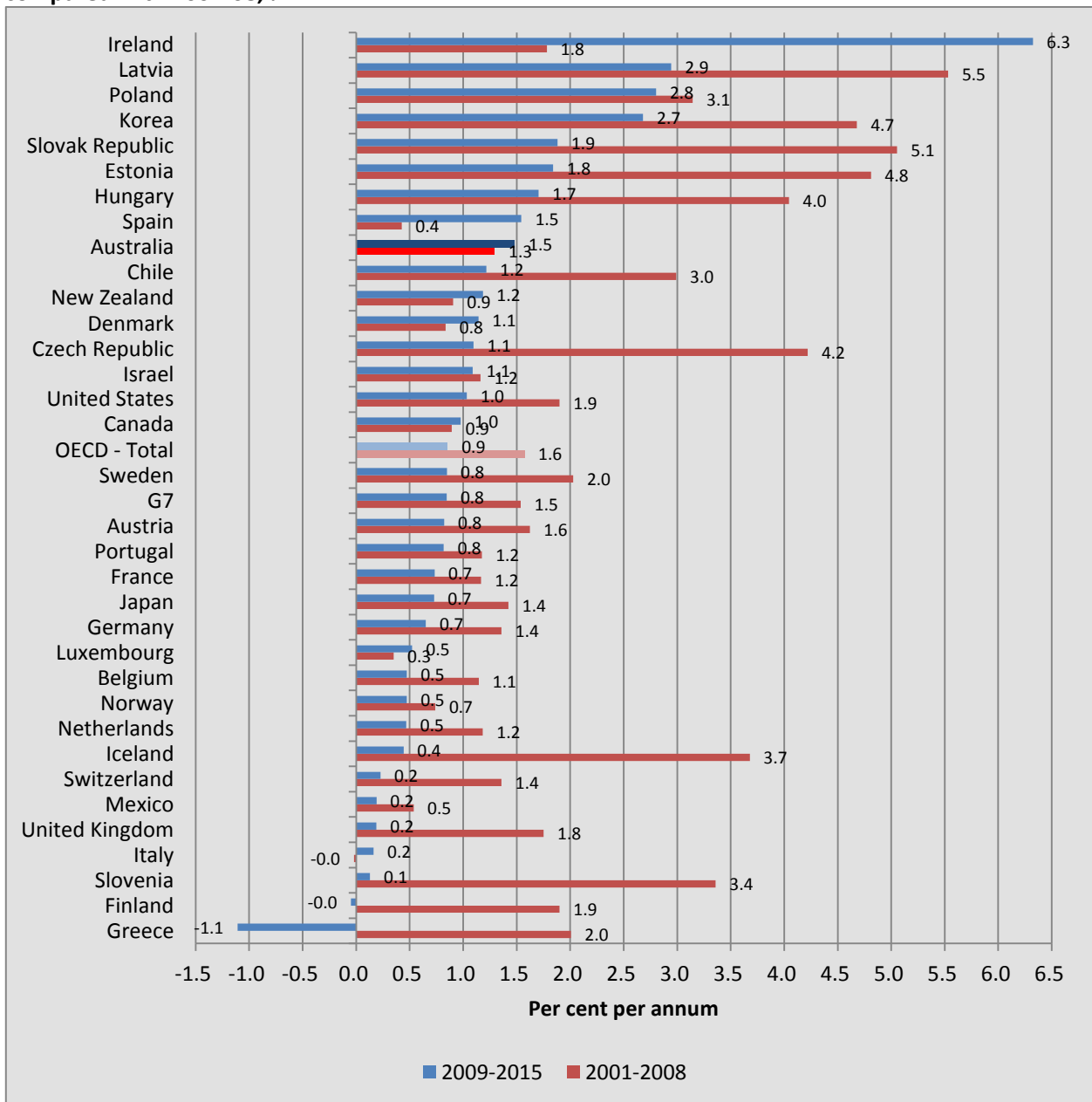


Source: OECD Stat https://stats.oecd.org/Index.aspx?DataSetCode=PDB_LV

196. Australia’s level of labour productivity was 7 percentage points higher than the OECD average and thirteenth highest out of the 38 OECD countries in 2015.

197. Figure 24 shows annual average labour productivity growth rates across OECD countries ranked for 2009-15 and compared with 2001-08. Australia’s labour productivity growth rates increased slightly after the GFC, whereas most OECD countries experienced drastic falls. Australia’s annual average labour productivity growth was 1.3% for 2001-08 compared with the OECD average of 1.6%. However after the GFC, OECD average annual labour productivity growth fell to 0.9% whereas Australia’s rose slightly to 1.5%. Yet the sustained labour productivity growth in Australia is not reflected in wage increases.

Figure 24: Average annual labour productivity growth in OECD countries – ranked by 2009-14, compared with 2001-08, %



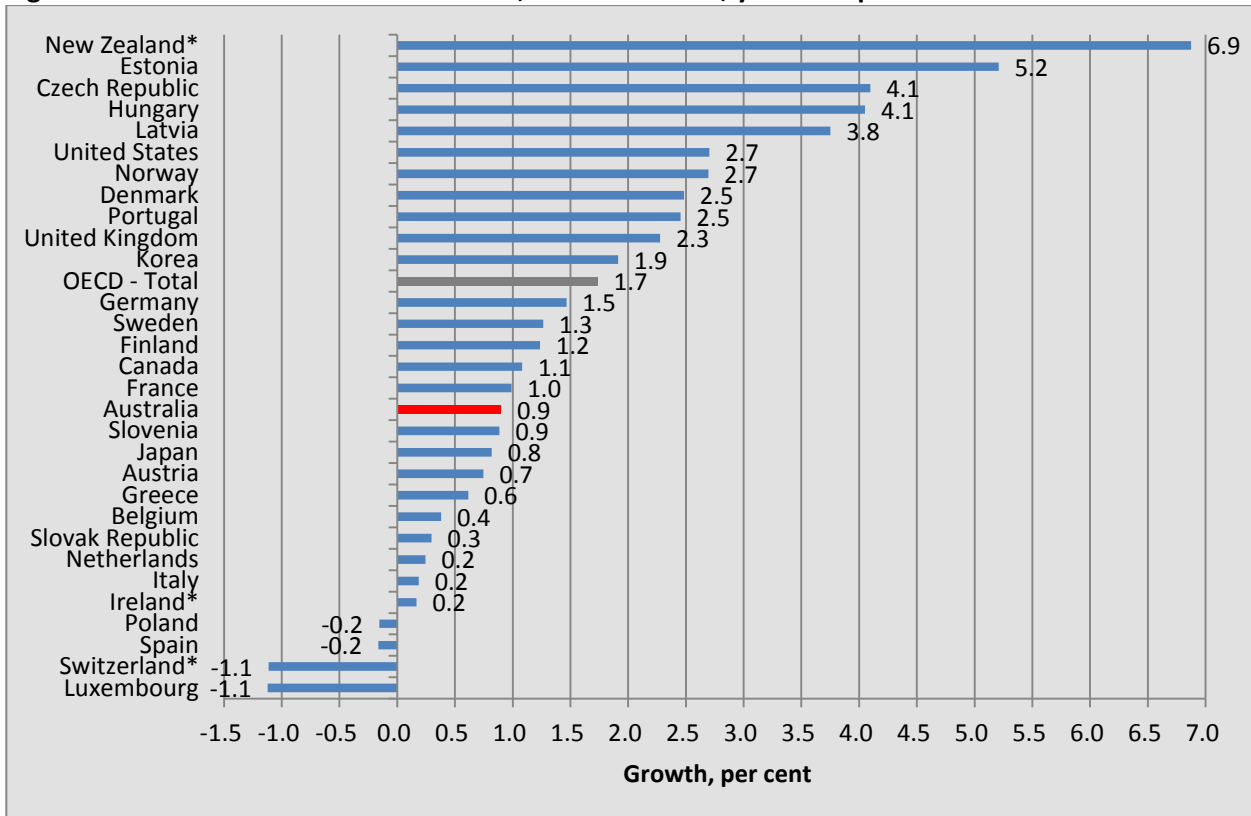
Source: OECD Stat (http://stats.oecd.org/Index.aspx?DataSetCode=PDB_GR)

6.10 Unit labour costs and the labour share of income

198. The Panel in its 2015-16 decision indicated that unit labour costs bring together wages growth and productivity,⁹⁴ and that there “is no suggestion in the unit labour cost data of cost pressures from the labour market”.⁹⁵ The lack of cost pressures from the labour market is even more manifest in this year’s data.

199. Real unit labour costs provide a measure of the inflation-adjusted cost of employing labour to produce a given quantity of output. Australia’s real unit labour cost grew 0.9% over the year to September 2016, more slowly than most other OECD countries, as shown in Figure 25 below. The OECD average unit labour cost grew by 1.7%. Labour productivity growth increased in most OECD countries for the year to September 2016, compared with the previous year.

Figure 25: Growth in real unit labour costs, OECD countries, year to September 2016



Source: OECD http://stats.oecd.org/index.aspx?DataSetCode=ULC_FEQ unit labour costs, growth, seasonally adjusted, and ACTU calculations

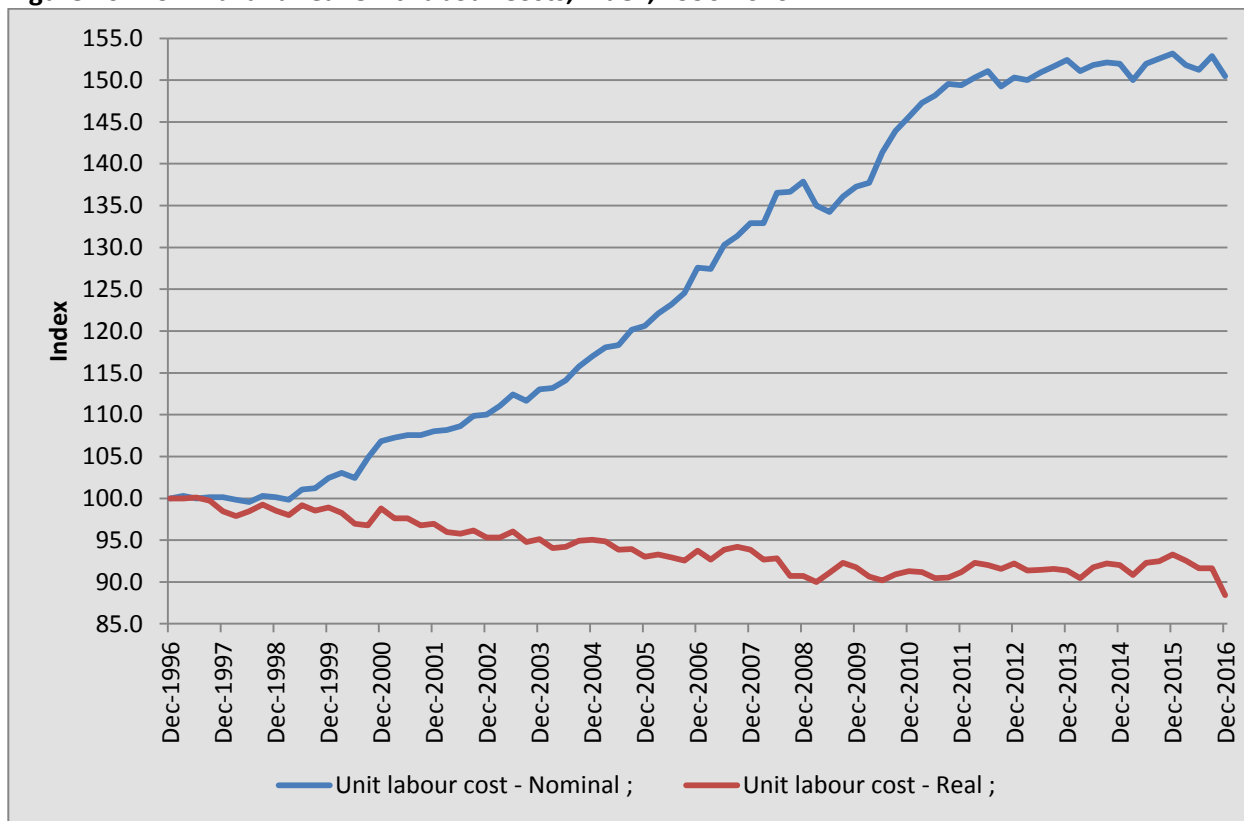
200. According to ABS data, over the year to December 2016 Australia’s real unit labour costs fell 5.2% compared with an increase 1.4% for the year before (seasonally adjusted, ABS Cat 5206042). Real unit labour costs had been declining over the decade preceding the GFC when they reached record low levels, then rose throughout the mining boom reflecting the influence of faster growing labour costs in the mining sector relative to the rest of the economy. They

⁹⁴ FWC 2015 AWR 2015-16 [252]

⁹⁵ FWC 2015 AWR 2015-16 [253]

reached pre GFC levels at 2015, and it is likely that the falling capital intensity of production after the mining investment phase is also reflected in falling real unit labour costs. Real unit labour costs are still 11.6% below the level of twenty years ago as shown in Figure 26, and 15.4% below the level of thirty years ago.

Figure 26: Nominal and real Unit Labour Costs, index, 1996-2016



Source: ABS 5206042, seasonally adjusted, ACTU calculations

- 201. Changes in real unit labour costs are equivalent to changes in the wages share of total income in the economy. So the movements in labour’s share of income closely reflect the changes in the real unit labour cost and the ground that labour has lost in wages over a long period.
- 202. Figure 27 shows that the share of labour income has fallen 2.0 percentage points in the year to December 2016 and is back to the level of five years ago. The decline in the share of labour income is despite the relative decline in capital intensive sectors such as mining and manufacturing, and the labour intensive character of the fastest growing sectors, services. The slow growth in wages is a contributor to the current decline in labour’s share of income.

Figure 27: Share of compensation of employees in total factor income, 1996-2016



Source ABS 5206007, seasonally adjusted, and ACTU calculations

203. The estimates of the wages share of income from ABS data are the mirror images of the profits shares presented in Figure 29. The wages share of income in three more award reliant industries over 2015-2016 increased slightly, but this was clearly not due to wage rate increases. This left most industries with a wage share which was still at or below pre GFC levels.⁹⁶

204. The wages share of income in Accommodation and Food Services fell from a peak of 87% in 1997-98, to 80% in 2008-09 (the final year before the Fair Work Act), to 77% in 2015-16. The wages share in Retail Trade was 79% in 1997-98, 74% in 2008-09, falling before returning again to 74% in 2015-16. Again these reflect a fall in returns to assets and the level of profits in these concentrated industries, rather than any increase in wage rates, especially minimum wages and awards.

205. The ABS Business Indicators survey also provides data for total wages which is available from 2001.⁹⁷ This was deflated into real terms using the cpi and is presented in Figure 28 below.

⁹⁶ The fourth award reliant industry, Health care and social assistance, is not included the ABS market sector measure of output.

⁹⁷ ABS Cat 5676 Table 17.

Figure 28 Total wages, annual, constant dollars, 2001-2016



Source: ABS Cat 5676 Table 17, 6401, and ACTU calculations.

206. The sharp flattening out of wage growth at June 2012 is evident, after the post GFC recovery. This does not track real GDP increase which is greater.

207. Minimum wages and awards have grown more slowly than average wages. It follows that minimum wages and awards have lagged even further behind productivity growth. In particular the real value of the NMW has not kept up with productivity growth over the past decade, including within the more award-reliant industries. Small rises in the wage share in award reliant industries cannot be due to the minimum wage.

6.11 Profits

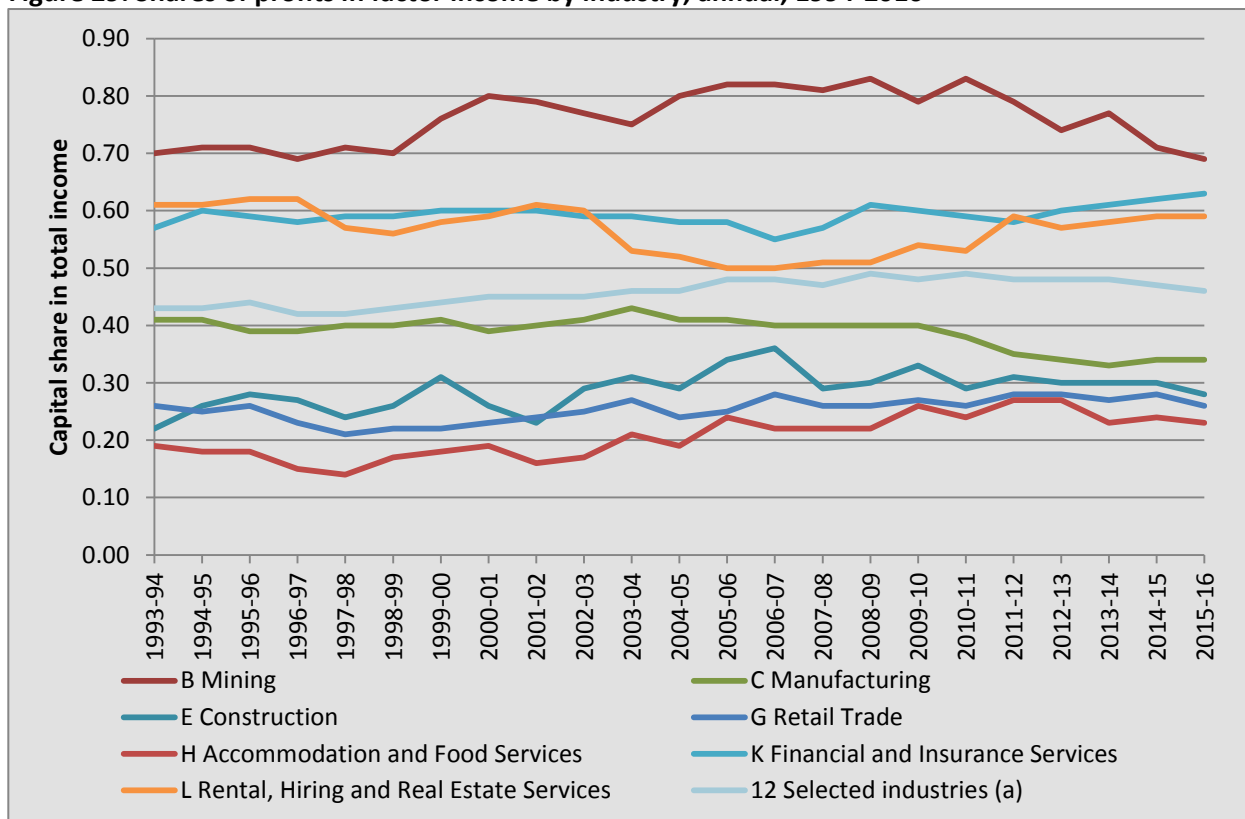
208. Profit growth has picked up in the December 2016 quarter, based on data from ABS Business Indicators, as shown in Chart 3.3 of the FWC Statistical Report AWR 2016-17.⁹⁸ Total industry profits in current dollars grew 20% in the December 2016 quarter, and for total industry without mining they grew a healthy 8%. This does not suggest that an increase in the NMW and awards would place business in jeopardy. On the contrary business would benefit from the extra spending.

209. The share of profits (payments to capital) in total factor income is shown in Figure 29, for two award reliant industries, mining, manufacturing and construction, two other service industries

1. ⁹⁸ FWC 2017 Statistical Report – Annual Wage Review 2016-17, p.7.

and a 12-sector measure of the market sector of the economy where the output is more reliably measured. The change in industry sector wage / profit ratios also reflects the changing industry structure.

Figure 29: Shares of profits in factor income by industry, annual, 1994-2016



Source: ABS 5260.0.55.002 Estimates of Industry Multifactor Productivity, Australia

210. Figure 29 above shows the fall in the mining profits share of sales since 2010 in that very capital intensive industry, due to lower commodity prices and lower returns to mining sector assets, with a slight flattening in 2016. The slight fall in profits share over the last two years in the relatively capital intensive market sector also reflects the fall in commodity prices and asset pricing in resource dependent sectors including mining. The key point is that this is not due to any increase in compensation of employees, but rather, constitutes a fall in payments to capital.

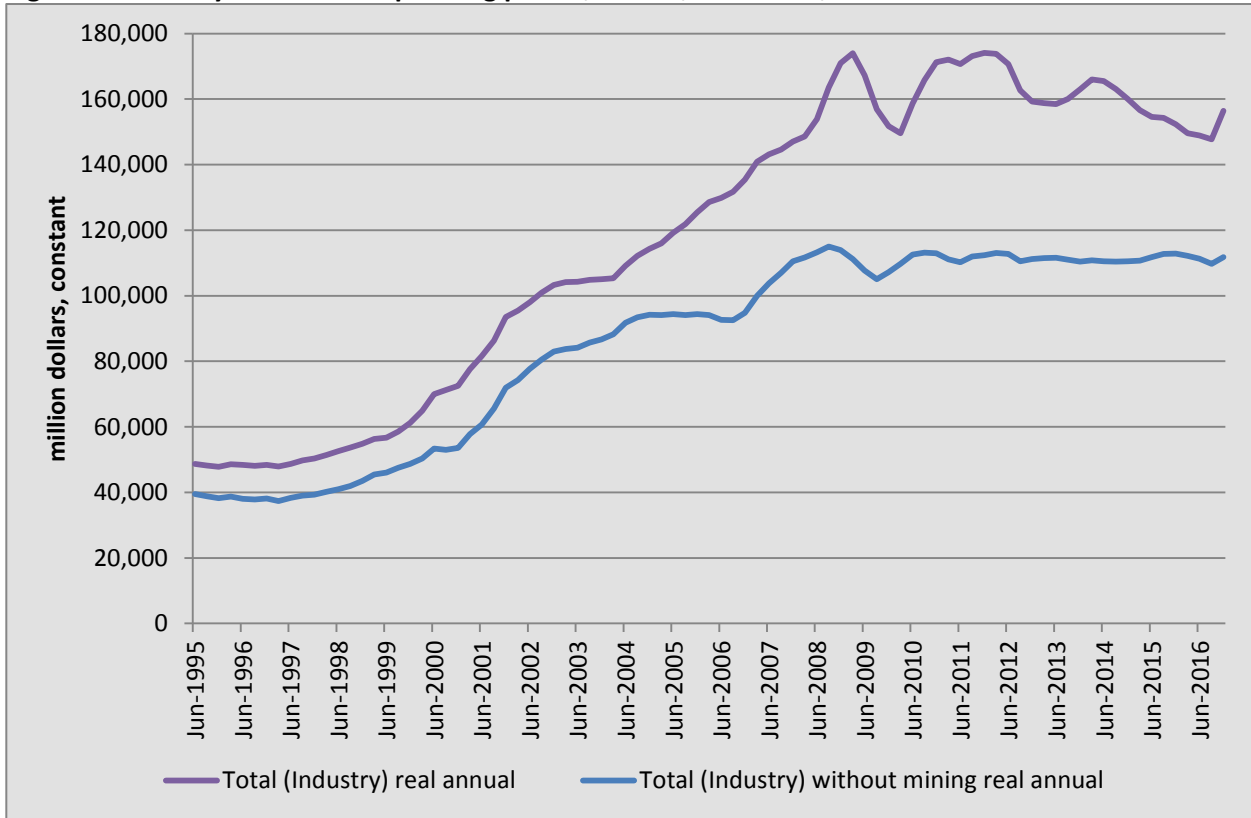
211. Profits were also measured using gross operating profits for total industry with and without the mining sector, from ABS' Business Indicators.⁹⁹ The nominal measures were deflated by cpi in order to obtain real measures, and presented in Figure 30. They are clearly volatile. In general the profit increase for the year to December 2016 came in the December quarter.

212. Annual real gross operating profits for total industry for the year 2016 were 2.7% higher than the previous year, but without mining they fell 0.9% in real terms for the year 2016. But real gross operating profits for total industry for the December quarter were 19.4% higher than for the September quarter. Although a lot of this was due to increases in mining profits in the

⁹⁹ ABS Table 56760011

December 2016 quarter, real gross operating profits for total industry without mining for the December quarter still increased 8.1% from the September quarter, and were also 8.1% higher than the December quarter 2015.

Figure 30 Industry sector total operating profits, annual, real terms, 1995 to 2016.



Source: ABS Table 56760011, cat 6401 and ACTU calculations.

213. The figures vary a lot across industry sectors. Real gross operating profits picked up 10.5% in manufacturing for the December quarter 2016 over the September quarter, and 31.5% in construction. Real gross operating profits for the December quarter fell 3.5% in Retail trade and 14.9% in Accommodation and food services, award reliant sectors. Accommodation and food services was affected by the increase in the Australian dollar reducing tourism to Australia. The gross operating profits to sales ratio increased in the December quarter in Retail trade and stayed constant in Accommodation and food services, suggesting that profits are not being squeezed.¹⁰⁰

6.12 Business bankruptcy rates

214. The FWC Statistical Report for the AWR 2016-17 shows that the business bankruptcy rate rose slightly from 0.33% for 2014-15 to 0.35% in 2015-16, still not much above the lowest point of 0.34% at the GFC based on Australian Financial Security Authority (ASFA) data. The bankruptcy

¹⁰⁰ ABS

rate is defined as the number of business-related bankruptcies divided by the number of owner managers of an unincorporated enterprise in the economy.¹⁰¹

215. There were fewer business-related bankruptcies in 2015-16 than in the last thirteen financial years, except for 2014-15 and 2008-09, since the start of the ASFA data series in 2003-04. The series is volatile. There were 4,323 business-related bankruptcies in the past financial year, 2015-16, up from the 3,838 recorded in 2014-15. The 12.6% growth in bankruptcies for 2015-16 exactly matched the 12.6% fall the year before. The biggest percentage increases in bankruptcies for 2015-16 by far were in WA (35%, 145), Queensland (23.8%, 287) and NT (27.3%, 6), showing the effects of the decrease in mining related activity.¹⁰² The total number of bankruptcies for the other states fell 17.8% in 2014-15 and 13.9% in 2015-16. This shows current the health of the less mining related business areas.
216. The large fall in the rate of non mining related business-related bankruptcies shows the positive environment for business currently continues.

6.13 Business entry and exit

217. The number of businesses overall grew by 1.0% in 2015-16, the same rate as the previous two years, consistent with higher entry than exit rates in the three years. This is a sign of a continuing healthy business environment, especially where increasing firm concentration would be expected to reduce the number of businesses.
218. Entries were 14.6% of the number of businesses in at the start of 2015-16, up from 13.4% in 2014-15. Exits were 12.3% in 2015-16 compared 12.4% in 2014-15.
219. The number of businesses in the award-reliant sector of Health care and social assistance grew second fastest at 4.0% in 2015-16 after Financial and insurance services as shown in Table 10 below, followed by the newly award reliant Education and training at 2.8%. The number of businesses in Retail shrank 1.7%, by slightly less than the previous year. Increasing concentration in the sector would be a factor in this. The number of businesses operating in the Accommodation and food services industry increased by 2.5% over the year, slightly more than the previous year. This is shown in Table 10.
220. The award reliant industries are a big and increasing share of industry employment. Health care and social assistance and Accommodation and food services both increased their employment, and Education and training increased employment by 10.0%, and its hours also increased 4.8%, the second highest increase.

¹⁰¹ See Chart 3.3 of the FWC AWR Statistical Report 2016-17.

¹⁰² Australian Financial Security Authority 'Provisional business and non-business personal insolvency time series December quarter 2016', Australian Government, Canberra <https://www.afsa.gov.au/statistics/time-series> [Accessed 4 March 2017].

Table 10: Growth in the number of businesses by industry, share of employment, growth in employees and in hours worked, 2015-16

Industry	Growth in number of businesses, % 2015-16	Share of employment, November 2016	Growth in number of employees, % Year to November 2016	Growth in hours worked, % Year to November 2016
Agriculture, Forestry and Fishing	-2.4	2.5	-7.0	-13.8
Mining	-2.7	1.9	5.6	0.5
Manufacturing	-0.7	8.0	12.0	14.0
Electricity, Gas, Water and Waste Services	1.8	1.1	-1.7	-3.1
Construction	1.9	8.8	1.3	2.5
Wholesale Trade	0.1	3.0	-7.4	-6.1
Retail Trade	-1.7	10.5	-3.5	-3.8
Accommodation and Food Services	2.5	7.1	2.7	0.2
Transport, Postal and Warehousing	0.3	5.2	0.4	-1.8
Information Media and Telecommunications	1.6	1.8	-2.5	-2.6
Financial and Insurance Services	5.1	3.5	-7.9	-5.2
Rental, Hiring and Real Estate Services	1.8	1.8	-0.4	-1.8
Professional, Scientific and Technical Services	1.5	8.3	-0.5	-1.6
Administrative and Support Services	0.8	3.6	-2.7	-4.6
Public Administration and Safety	-0.9	6.4	1.7	-0.5
Education and Training	2.8	8.3	10.0	4.8
Health Care and Social Assistance	4.0	12.8	1.6	-3.4
Arts and Recreation Services	-0.2	1.7	-8.5	-7.9
Other Services	1.5	3.8	-2.3	-6.7
All Industries	1.0	100.0	0.7	0.1

Source: ABS cats 8165, 6291.0.55.003 and ACTU calculations. First column shows the percentage change from businesses operating at the start of the 2015-16 financial year.

221. Health care and social assistance had the highest business survival rates of any industry, that is continuously trading over the four years from June 2012 to June 2016.¹⁰³

222. These data do not suggest business is facing increasing hardship. The fall in hours worked in most award dependent industry sectors is an indication of the importance of increasing NMW and awards for award dependent employees.

6.14 Inflation and wage growth

223. The ACTU's view is that a low inflation environment provides the opportunity to raise the minimum wage and lead rather than follow movements in prices. Inflation was at 1.5% for the year 2016, down from 1.7% for the previous year as measured by cpi.¹⁰⁴ This is the lowest year to December cpi figure in 20 years. The cpi figure is consistent with the RBA's forecast from its November 2016 *Statement on Monetary Policy*.¹⁰⁵ According to the RBA the earlier exchange rate depreciation is no longer putting inflationary pressure on tradeables' prices. The RBA also said 'Labour costs are an important determinant of non-tradable inflation. Wage growth is low

¹⁰³ FWC AWR Statistical Report 2016-17 p.9 Chart 3.5

¹⁰⁴ ABS 6401 and FWC AWR Statistical Report 2016-17 Chart 4.1.

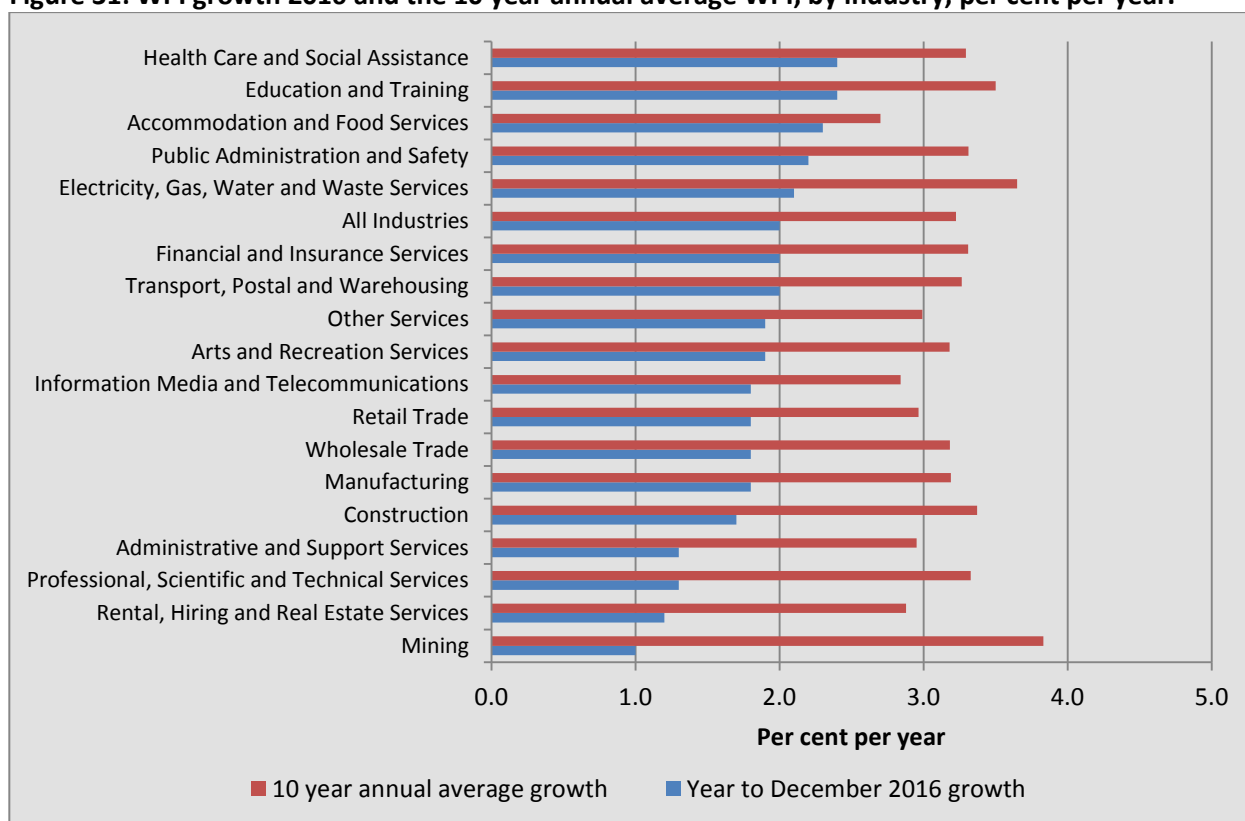
¹⁰⁵ RBA 2016, *Statement on Monetary Policy*: November 2016, p.57.

and slowed a little further in the September quarter. ... The effect of labour cost growth on inflation depends on the extent to which it is offset by higher labour productivity. For around the past five years, productivity growth has largely offset increases in labour costs, leaving unit labour costs little changed.’¹⁰⁶

224. The RBA forecasts inflation between 1½ % and 2½ % over the year 2017 and 2018.¹⁰⁷ There is little reason to think that accepting our claim would contribute to inflation, with other domestic and international factors of far greater impact on the rate of inflation.

225. Wages growth continues to slow across the board according to the Wage Price Index. Wages growth in each industry for the year 2016 was below the industry’s long-run average, as shown in Figure 31.

Figure 31: WPI growth 2016 and the 10 year annual average WPI, by industry, per cent per year.



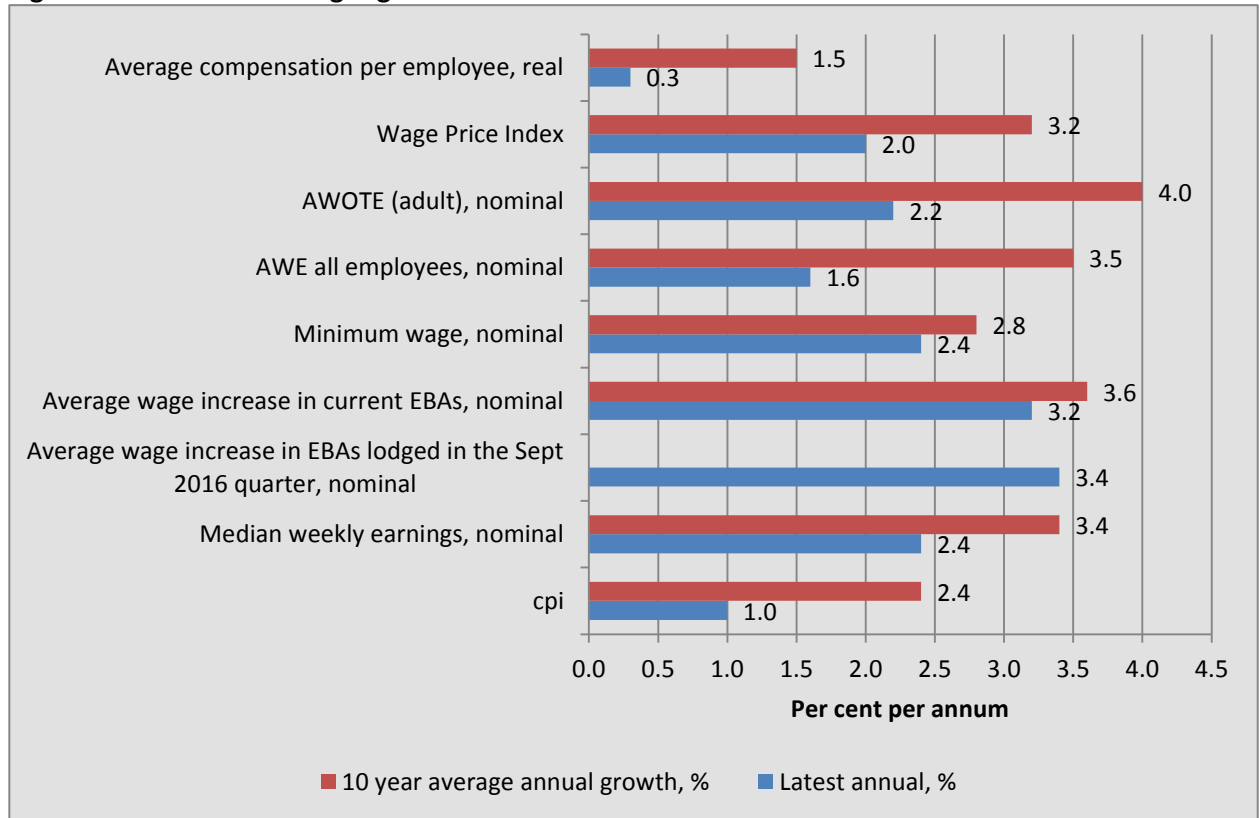
Source: ABS 634509b and ACTU calculations

226. The WPI is not alone in showing a significant deceleration in wages growth. All measures of wages have grown below their average pace over the last ten years, as shown in Figure 32.

¹⁰⁶ RBA 2017, *Statement on Monetary Policy*: February 2017, pp.51-52.

¹⁰⁷ RBA 2017, *Statement on Monetary Policy*: February 2017, p.57

Figure 32: Measures of wages growth



Source: Average compensation per employee is from ABS 5206 and 6401. Wage Price Index from ABS 6345. AWOTE and AWE from ABS 6302. Median earnings from 6310, 6333. Minimum wage from past FWC/AFPC/AIRC decisions and Bray (2013). Average annualised wage increases in federal enterprise agreements ('EBAs') from the Department of Employment Trends in Federal Enterprise Bargaining. Rates of change are ACTU calculations.

227. Wages growth has continued to slow more than would have been expected given the state of the macroeconomy. The RBA noted in its *Statement on Monetary Policy* of February 2017 the slower than expected wage growth to September 2016, observing that it was the “lowest growth in the index since the series began in the late 1990s. Part of the decline in the quarter can be attributed to the Fair Work Commission’s annual minimum award wage increase which was slightly smaller than the corresponding increase in 2015, taking effect.”¹⁰⁸ The RBA also said “the slower wage growth in recent years has occurred alongside the decline in the unemployment rate” and that “another possibility is that the significant increase in underemployment over the past year has had a dampening effect on wage growth.”¹⁰⁹

228. The article in the *RBA Bulletin* of March 2017 by Bishop and Cassidy seeks to explain why the real wage increases in recent years have been consistently less than those forecast by the RBA at earlier years.¹¹⁰ The RBA’s graph showing the increased divergence between forecast and actual Wage Price Index as the forecast period lengthens is stark, as reproduced here from the

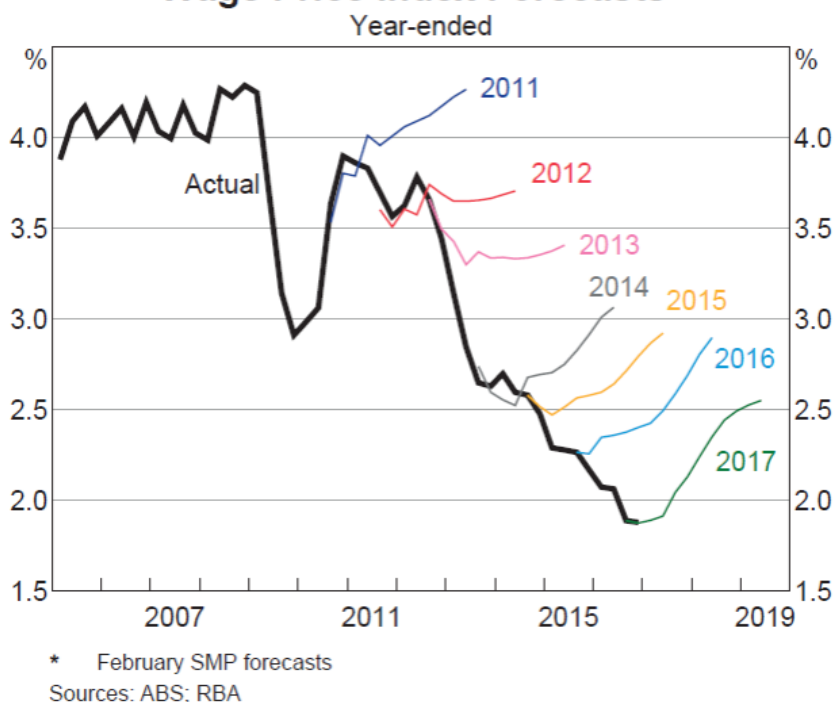
¹⁰⁸ p.34 RBA 2017, *Statement on Monetary Policy*, February.

¹⁰⁹ p.35 RBA 2017, *Statement on Monetary Policy*, February.

¹¹⁰ James Bishop and Natasha Cassidy 2017 Insights into low wage growth in Australia *RBA Bulletin* March, pp.13-20 <https://www.rba.gov.au/publications/bulletin/2017/mar/>

RBA *Bulletin* article, see Figure 33. In the ACTU's view this is a highly pertinent question in relation to determining the increase in the NMW and awards.

**Figure 33 RBA *Bulletin* March 2017, Bishop and Cassidy (2017) p.13, Graph 1
Wage Price Index Forecasts***



Source: James Bishop and Natasha Cassidy 2017 *RBA Bulletin* March, p.13
<https://www.rba.gov.au/publications/bulletin/2017/mar/>

229. The RBA said there was a reduction in the average size of wage increases following the decline in the terms of trade which was “particularly pronounced” in mining related industries. Wage outcomes around 2-3% were viewed as “further support for” the influence of inflation and inflation expectations on wage-setting, with reference to factoring in cpi to bargained wage increases or minimum wage and award increases.

230. Yet the RBA article expects wage growth to pick up over the next few years “as the adjustment following the end of the mining boom runs its course”. This would depend on how wage growth responds to “improving labour market conditions, including the level of underutilization”, with difficulty identifying “if structural changes are partly driving recent wage outcomes”.¹¹¹

231. The *RBA Bulletin* article by Bishop and Cassidy considers whether the relationship between wages and spare capacity is changing due to structural changes in the labour market, referring to the international literature which posits that “low wage growth may reflect a decline in workers’ bargaining power.”¹¹² It says for example that “restructuring of work processes due to technological progress, an increase in contract work, and increased competitive pressure from

¹¹¹ James Bishop and Natasha Cassidy 2017 *RBA Bulletin* March, pp.19-20

¹¹² James Bishop and Natasha Cassidy 2017 *RBA Bulletin* March, p.16

growing internationalisation of services trade, may be weighing on wage growth.” It says that along with the spare capacity in the labour market, workers may be feeling “less secure about their jobs and less inclined to push for wage increases.” It argues that such changes to bargaining power are difficult to observe and, as a result, the evidence of this occurring in Australia is limited.

232. The *RBA Bulletin* article by Bishop and Cassidy also analyses the decline in frequency and average size of wage changes based on a micro job-level WPI (Wage Price Index) data, shown in its Chart 6. It says

“Overall, the declining size of wage increases has contributed more than two-thirds of the overall fall in wage growth since 2012, and the reduction in the frequency of wage adjustments has contributed the remainder. This pattern is similar across public and private sector wages.”¹¹³

233. The fall in average frequency of wage adjustment to one fifth per quarter now compared with one quarter per quarter at 2012 is attributed to “more wage freezes or longer delays in renegotiating wage contracts, and is “likely to reflect an inability of many firms to cut wages.” It refers to the Australian Fair Pay Commission’s decision to freeze the minimum wage and awards in 2009 as a reason for low frequency of wage adjustments at the GFC. It suggests the decline in frequency “since the early 2000s may reflect a longer-run shift towards contracts that make less frequent wage adjustments.”

234. The average size of wage changes where there is one has also fallen since 2012. “Wage rises of more than 4% have fallen from over one-third in the late 2000s to less than 10% of jobs in 2016”, apparent across all industries.

235. The *RBA Bulletin* article says the rise in share of wage changes of 2-3% to almost half of all wage changes “may indicate some degree of anchoring to cpi outcomes.”¹¹⁴ It says that

“Decisions by the Fair Work Commission, which sets awards and minimum wage outcomes, are heavily influenced by the CPI. A little over 20 per cent of employees have their pay determined directly by awards, and it is estimated pay outcomes for a further 10–15 per cent of employees (covered by either enterprise agreements or individual contracts) are indirectly influenced by awards.”

The article does not mention that the share of workers on minimum wage and award only has also increased from 18.8% since May 2014, contributing to the share of wage increase which are “heavily influenced” by cpi. It does refer to EA data from the Department of Employment database which suggests that “7% of employees covered by EBAs have wage outcomes linked to

¹¹³ James Bishop and Natasha Cassidy 2017 *RBA Bulletin* March, p.17, and Chart 6

¹¹⁴ James Bishop and Natasha Cassidy 2017 *RBA Bulletin* March, p.18, and Chart 7

the cpi, and two fifths of “a selection of firms” in the RBA’s liaison program indicated the cpi was “a primary determinant of wage setting.” It says that evidence from unions also suggested that “inflation outcomes and expectations are an important consideration.”¹¹⁵

236. The RBA Bulletin article says that while wage growth across all pay-setting measures has declined, it has recently declined most in industries which now have a high prevalence of individual agreements.¹¹⁶

237. However the *RBA Bulletin* article does not refer directly or explicitly to changes that have occurred over the corresponding period to the industrial relations institutional framework unique to Australia. In the ACTU’s view changes in the industrial relations framework underpin a weakening in workers’ bargaining power.

238. The RBA’s evidence reinforces the case for minimum wage increases to address the fall in wage growth and improve the macroeconomy. It is apparent and now widely understood that ‘labour market flexibility’ does not achieve this. The minimum wage has increased 2.8% per annum on average over the last 10 years. This is a period over which the cpi average growth is 2.4% per annum. This means a bare 0.4% real growth per annum in the minimum wage over the period.

239. The findings of Bishop and Cassidy (2017) in *The RBA Bulletin* also assist with the possibility that wages have grown more slowly to the extent that they have followed cpi growth.¹¹⁷

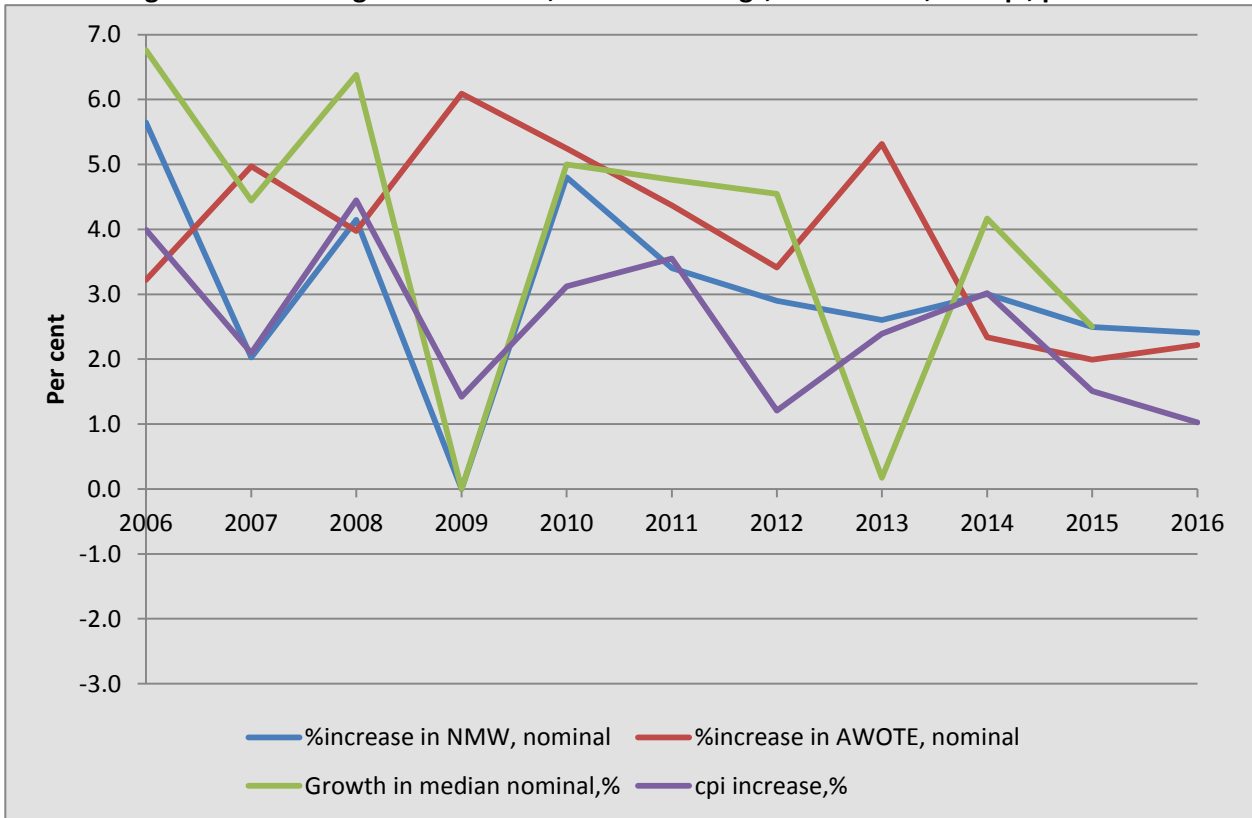
240. Nominal growth in NMW, median earnings, AWOTE and cpi growth are shown in Figure 34 and real growth in NMW, median earnings, AWOTE and cpi increase are shown in Figure 35. The Figures are shown on the same vertical scale for comparison.

¹¹⁵ James Bishop and Natasha Cassidy 2017 *RBA Bulletin* March, p.19

¹¹⁶ James Bishop and Natasha Cassidy 2017 *RBA Bulletin* March, p.19

¹¹⁷ James Bishop and Natasha Cassidy 2017 Insights into low wage growth in Australia *RBA Bulletin* March, pp.13-20
<https://www.rba.gov.au/publications/bulletin/2017/mar/>

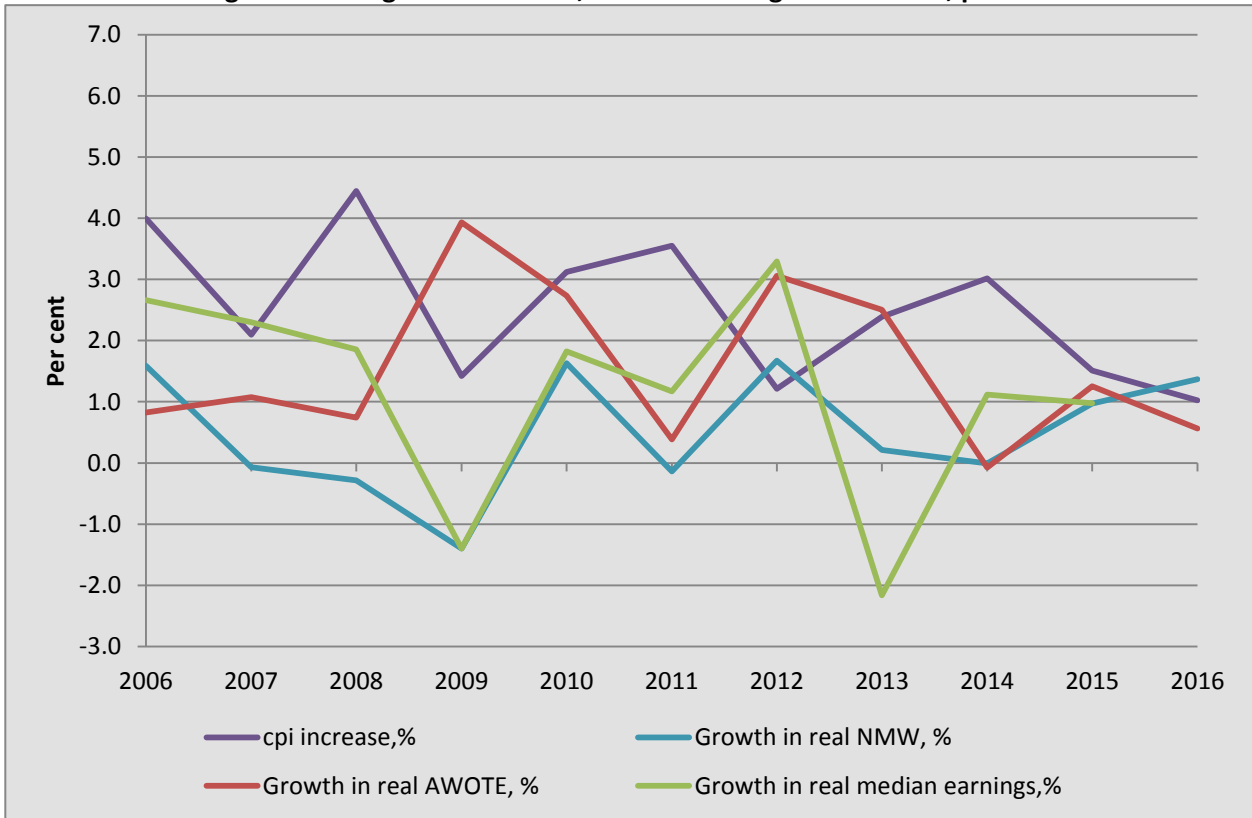
Figure 34 Nominal growth in NMW, median earnings, and AWOTE, and cpi, per cent



Sources: ABS 5204, 6302, 6401, 6333, NMW from Bray (2013), and ACTU calculations. *Median earnings available only to 2015.

241. The downward trend in growth in both nominal and real series is evident in both Figure 34 and Figure 35. From 2010 the real NMW growth in Figure 35 has been mostly below cpi, and mirrors cpi movements. Where cpi has grown more slowly than anticipated, real NMW grown accordingly, but overall not matching growth in real AWOTE or real median earnings. An increase in real NMW occurs when cpi actual growth is lower than the increase that was forecast.

Figure 35 Real growth in NMW, median earnings and AWOTE, per cent



Sources: ABS 5204, 6302, 6401, 6333, NMW from Bray (2013), and ACTU calculations. *Median earnings available only to 2015.

242. It is the ACTU’s view that the low inflation environment provides the opportunity to increase NMW by an amount that would reflect a genuine real increase. Given the spare capacity in the economy in the current circumstances, this would not be likely to engender inflation. The low inflation environment is the opportunity to do this. Further, to the extent that there is some “spillover” effect of movements in modern award minimum wages to the general market, as the observations from the First Finding Report referred to in section 4.5 above would imply, this would be positive albeit small market consequence.

7. THE STATE OF THE LABOUR MARKET

243. This chapter of the ACTU's submission shows that:

- a. Employment increased 90, 100 or 0.8% in the year to January 2017 in original terms.
Although there is no relationship between the level of award reliance in an industry and the pace of employment growth, 25% of the observed employment growth was in the award reliant Accommodation and food services and another 20% in Administrative and support services. Close to 50% employment growth was observed in education and training;
- b. The unemployment rate has fallen slightly from 6.0% at January 2016 to 5.7% at January 2017, seasonally adjusted;
- c. the number of unemployed persons per vacancy has fallen from 4.0 to 3.7 in the year to November 2016;
- d. The participation rate has risen for all persons aged 15 and over was 64.6% at January 2017, down from 65.2% (seasonally adjusted) in January 2016, and participation for adults age 25 to 64 fell slightly from 79.9% at January 2016 to 79.3% but still is at an unprecedented level;
- e. Youth unemployment has fallen faster than total unemployment, from 12.7% in January 2016 to 12.3% in January 2017;
- f. The large variation in the unemployment rate over time is an outcome of a complexity of factors including the level of aggregate demand in the economy and the pace and capital intensity of economic growth;
- g. The level of unemployment is also an outcome of a process of labour market restructure in which part time workers share in employment has increased from 25% twenty years ago to 32.3% at January 2017, and underemployment has exceeded unemployment since 2000, however in the ACTU's view the unemployment rate is still a reliable summary indicator;
- h. Employment grew in three of the four most award reliant industries, particularly in Administrative and support services (4.7%) and Accommodation and food services (2.7%) over the year to November 2016. Overall there is no relationship between the level of award-reliance in an industry and the pace of employment growth; and
- i. The unemployment rate has improved in seven jurisdictions, with only Western Australia increasing unemployment by 0.6 percentage points. The dispersion in labour market conditions across regions remains relatively low reflecting the degree of labour mobility between states.

244. The labour market indicators are above forecast as shown in section 8.2 below.

7.1 Employment, unemployment and vacancies

245. Employment has increased over the year to January 2017. There were 90,100 more Australians in work in January 2017 than in January 2016, a growth of 0.8% in the numbers employed, in original data terms. The increase in numbers is one third that of the previous year of 282,800. It is stark that the increase in part time numbers employed was more, at 165,400, than the total employment increase. Accordingly, there was a fall in full time employed numbers of 75,300 in original terms.¹¹⁸ For every full time worker lost two entered part time work over the year to January 2017. The share of part time workers in employment has increased rapidly, standing at 32.3% in January 2017, almost one third of the workforce, up from 28.4% ten years before, now standing at 3.8 million people.¹¹⁹
246. The labour force increase of 50,200 in original terms was more than met by the increase in employment over the year to January 2017 of 90,100, so the unemployed numbers fell 40,000.
247. Population of working age increased faster than the numbers participating, so the participation rate fell slightly from 65.2% at January 2016 to 64.6% at January 2017.
248. The employment to population ratio has also decreased slightly from to 61.3% in January 2016, to 60.9% in January 2017.
249. The unemployment rate has fallen from 6.0% at January 2016 down to 5.7% at January 2017 (seasonally adjusted) as shown in Figure 36. It is still almost at the level it was at the GFC of 5.9%.

¹¹⁸ ABS Cat 6202, which defines part-time employed persons as those who **usually** work less than 35 hours per week, **and actually** worked less than 35 hours in the survey reference week **in all of their jobs**. Full-time employed persons are defined as those who **usually** work 35 hours or more per week, regardless of how many hours they actually worked, or those who **actually** worked 35 hours or more in the reference week despite usually working less than 35 hours per week. This definition results in a bias towards people being categorised as employed full-time. It does not distinguish whether their employment status is 'casual' or 'permanent'.

<http://www.abs.gov.au/ausstats/abs@.nsf/Previousproducts/6202.0Main%20Features4Sep%202013?opendocument&tabname=Summary&prodno=6202.0&issue=Sep%202013&num=&view=>

¹¹⁹ ABS Cat 6202, seasonally adjusted

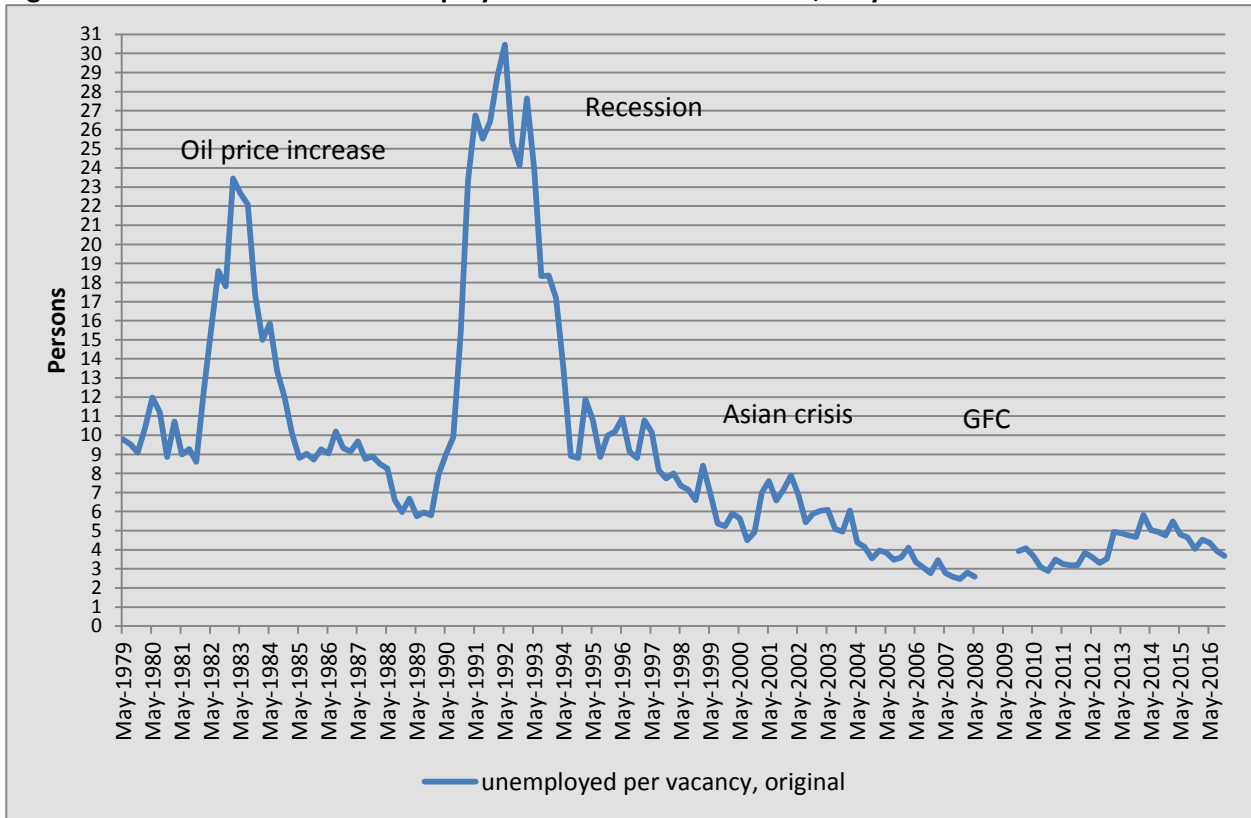
Figure 36: Unemployment rate over the last 20 years, per cent of the labour force



Source: ABS 6202

250. Comparison of measures of official unemployment with recorded vacancies provides an indication of the level of involuntary unemployment in the economy and its sensitivity to cyclical influences on the level of aggregate demand in the economy, as shown in Figure 37. The ratio of number unemployed to number of vacancies is countercyclical, increasing in downturns and falling in upturns. It has fallen slightly, from 4.0 to 3.7 unemployed persons per vacancy in the year to November 2016. This is a reflection of the lower unemployment rate. The net take up of jobs is entirely in part time jobs however.

Figure 37: Ratio of number of unemployed to number of vacancies, May 1979 to November 2015



Sources: ABS 6202, 6354 (original) and ACTU calculations. Vacancies data is unavailable from Feb 2008 to Feb 2010

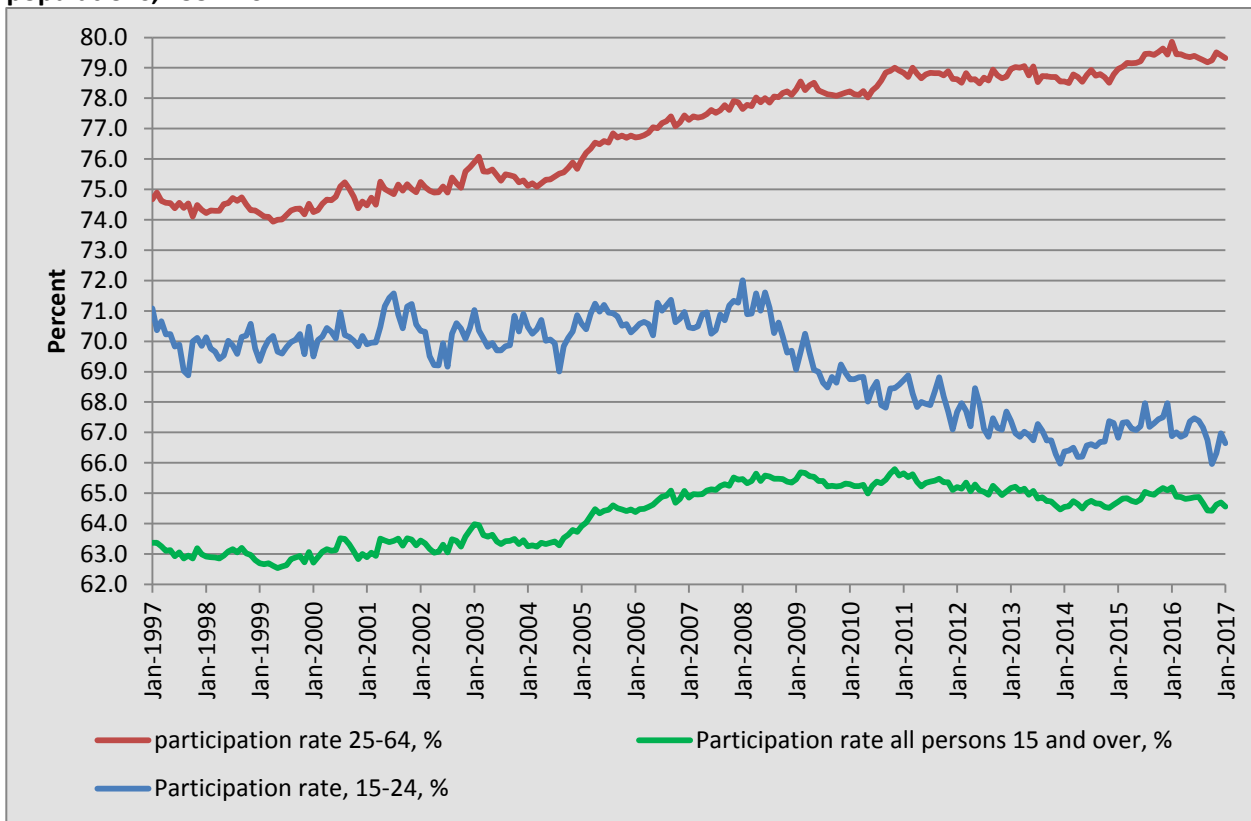
251. Changes in the unemployment rate summarise the cyclical state of the labour market, which is more dependent on the level of aggregate demand than anything else. Most unemployment is seen to be involuntary, that is people would work or work more if it were available, regardless of the wage rates being offered. Rates of underemployment in the context of increasing rates of part time work also suggest that a large part of labour market behaviour is not determined by the choices of workers.

7.2 Participation in the labour force

252. The labour force participation rate has decreased slightly in the year to January 2017, but is still at a level similar to that of three years ago, as shown in Figure 38. The participation rate for all persons aged 15 and over was 64.6% (seasonally adjusted) in January 2017, down from 65.2% in January 2016. There was still a net increase in participation of 65,000 added to the labour force, as the employment grew, but not as fast as population.

253. Labour force participation is of course higher among people aged 25-64 than for the total which includes youth and those over 65 with lower participation rates. Participation rate for the 25-64 age group fell slightly to 79.3% in January 2017 down from 79.9% a year earlier, seasonally adjusted, with an increase of 45,000 in the labour force aged from 25 to 64.

Figure 38: Participation rates, age 15-24, 25-64, and total 15 and over, percentages of respective group populations, 1997-2017



Source: ABS Cat 6202, ACTU calculations

254. Participation rates are an outcome of a multitude of factors. Adult participation rates are sustained on trend despite the slowest wage growth rates on record. That does not suggest a ‘discouraged worker effect’ arising from the low wage growth rates. Nor do participation rates relate directly to wage rate movements from year to year.

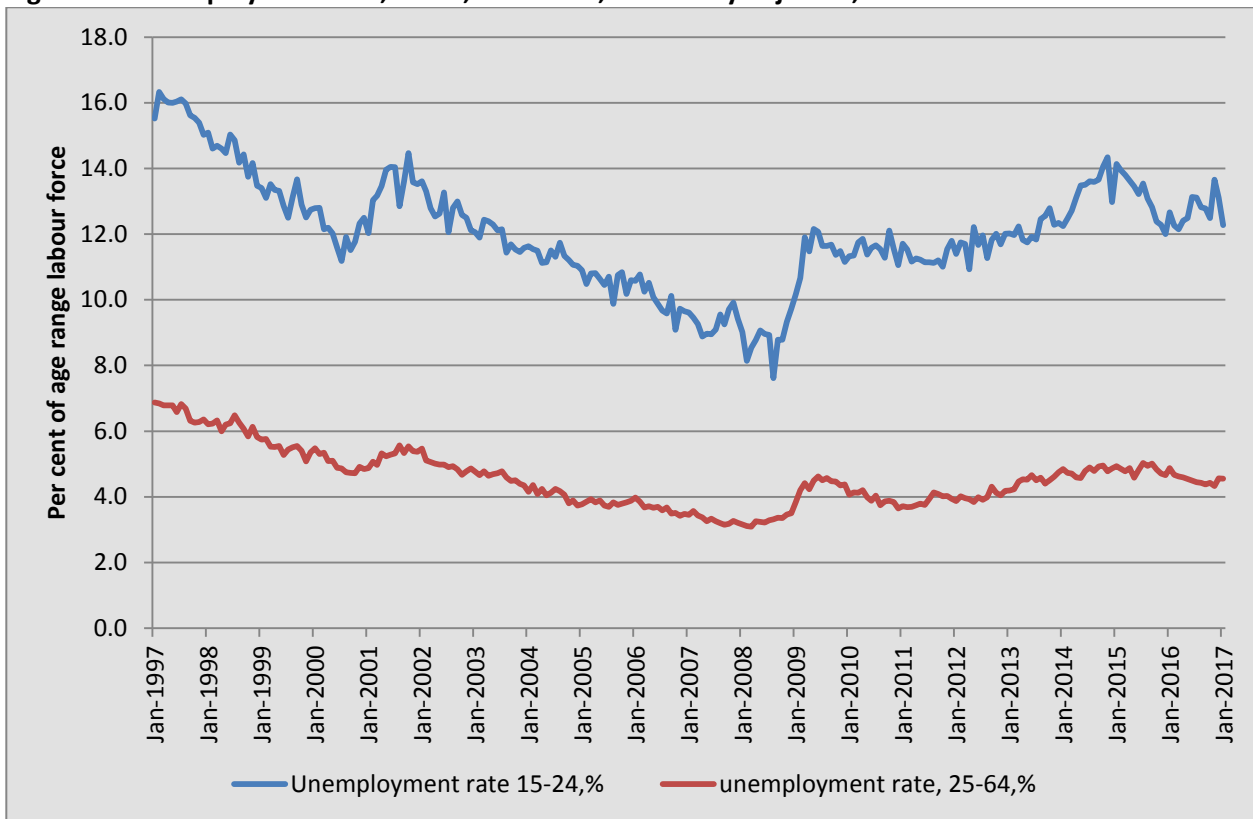
7.3 The youth labour market

255. The youth participation rate declined five percentage points in six years post GFC down to 66.0% at December 2013, recovered two percentage points over the next two years to December 2015 at 68.0%, than has fluctuated down again to 66.6% at January 2017, as shown in Figure 38 above. The trend fall in youth participation rate since the GFC is the result of a complex of factors, including the interaction between changing labour market and education conditions.

256. The youth unemployment rate has fallen from 12.7% at January 2016 to 12.3% in January 2017, remaining close to the high of 12.2% at the GFC. The unemployment rates for age 15-24 are compared with those for adults, age 25-64 in Figure 39. While more volatile due to smaller numbers, the movement in the youth unemployment rate tends to track the adult unemployment rate, with the difference between youth and adult unemployment narrowing as

unemployment falls and increasing as unemployment rises. Similarly adult unemployment has come down from 4.9% to 4.6% over the year to January 2017.

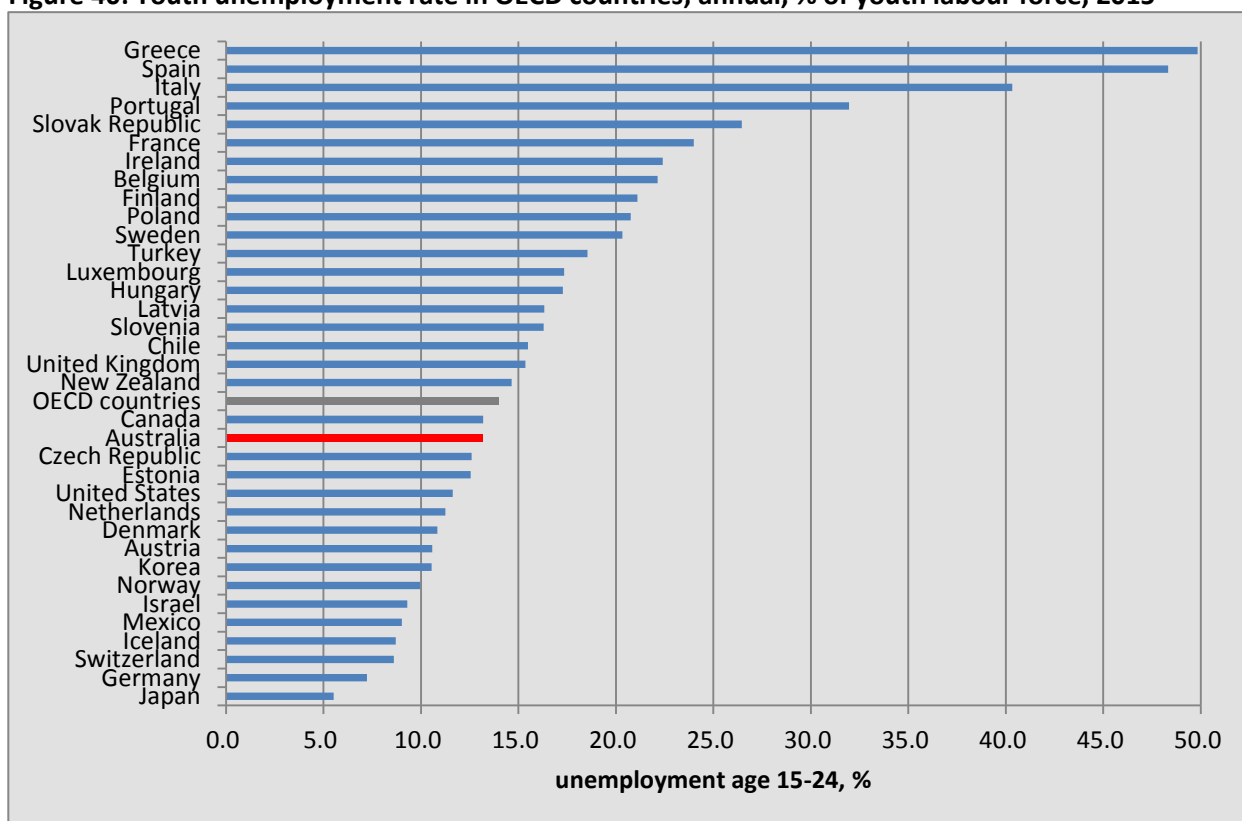
Figure 39: Unemployment rate, 15-24, and 25-64, seasonally adjusted, 1996-2016.



Source: ABS Cat 6202, rate for 15-25 yo is trend ACTU calculation

257. Australia’s youth unemployment rate has stayed high in the years following the GFC, whereas it has come down for other OECD countries, the same pattern as for total unemployment. Australia’s youth unemployment rate is just below the OECD average for 2015, most recent, as shown in Figure 40 below.

Figure 40: Youth unemployment rate in OECD countries, annual, % of youth labour force, 2015



Source: <https://data.oecd.org/unemp/youth-unemployment-rate.htm>

258. The relationship between total unemployment and youth unemployment cannot be attributed to movements in wages or the minimum wage and awards. The evidence suggests that movements in unemployment in Australia have been cyclical in nature and are related to the state of aggregate demand and the pace of economic growth. There are not structural changes occurring in the labour market which would for instance change the relationship between youth and other sectors of the labour market.

259. The movements in the unemployment rate are much bigger than wage changes over time and primarily reflect the state of aggregate demand for the economy. Wage increases will in fact encourage growth in aggregate demand and we would seek that.

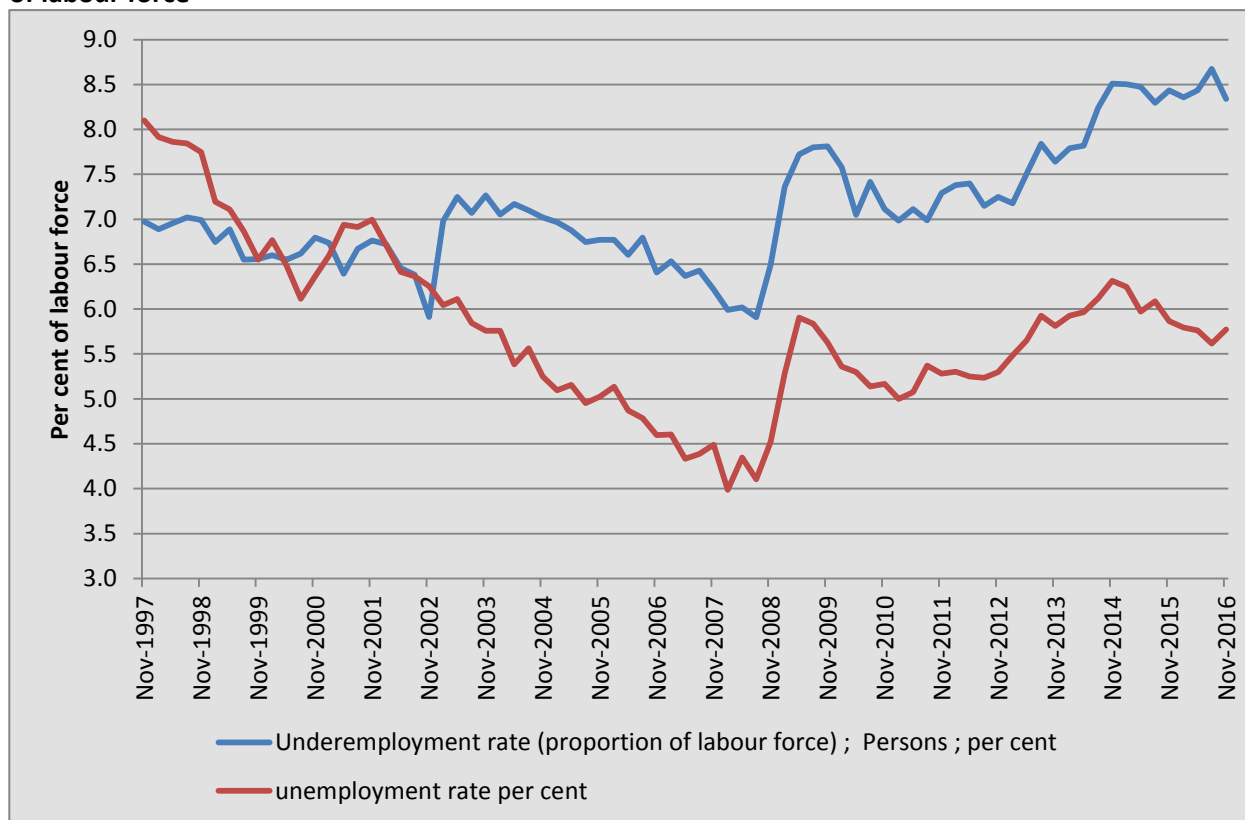
7.4 Underemployment

260. The rate of unemployment has long been accepted as an indication of the state of aggregate demand in the economy, whereby most unemployed people want to work but cannot find work. However another increasingly important indicator of spare capacity in the economy is the rate of underemployment in the economy, as discussed by the RBA.¹²⁰ The rate of underemployment measures the proportion of the workforce (working part time) who would

¹²⁰ RBA 2016 *Statement on Monetary Policy* February, pp.38-40, Box B

like to work more hours if they were offered. Underemployment has become more significant over time as shown in Figure 41.

Figure 41 The rate of unemployment and underemployment, quarterly, seasonally adjusted, per cent of labour force



261. The unemployment rate exceeded underemployment before the year 2000 and since then it has been the reverse with the underemployment rate trending above unemployment. Underemployment has tended to move in tandem with unemployment in a cyclical manner reflecting the state of aggregate demand through booms and slumps. But since November 2014 unemployment has trended down while underemployment has not fallen.

262. However the RBA finds that because underemployed workers contribute less to hours based measures than heads based measures and although the heads based measures of underemployment and unemployment have diverged over the last couple of years, “the unemployment rate remains a broadly reliable guide to changes in labour market spare capacity.”¹²¹

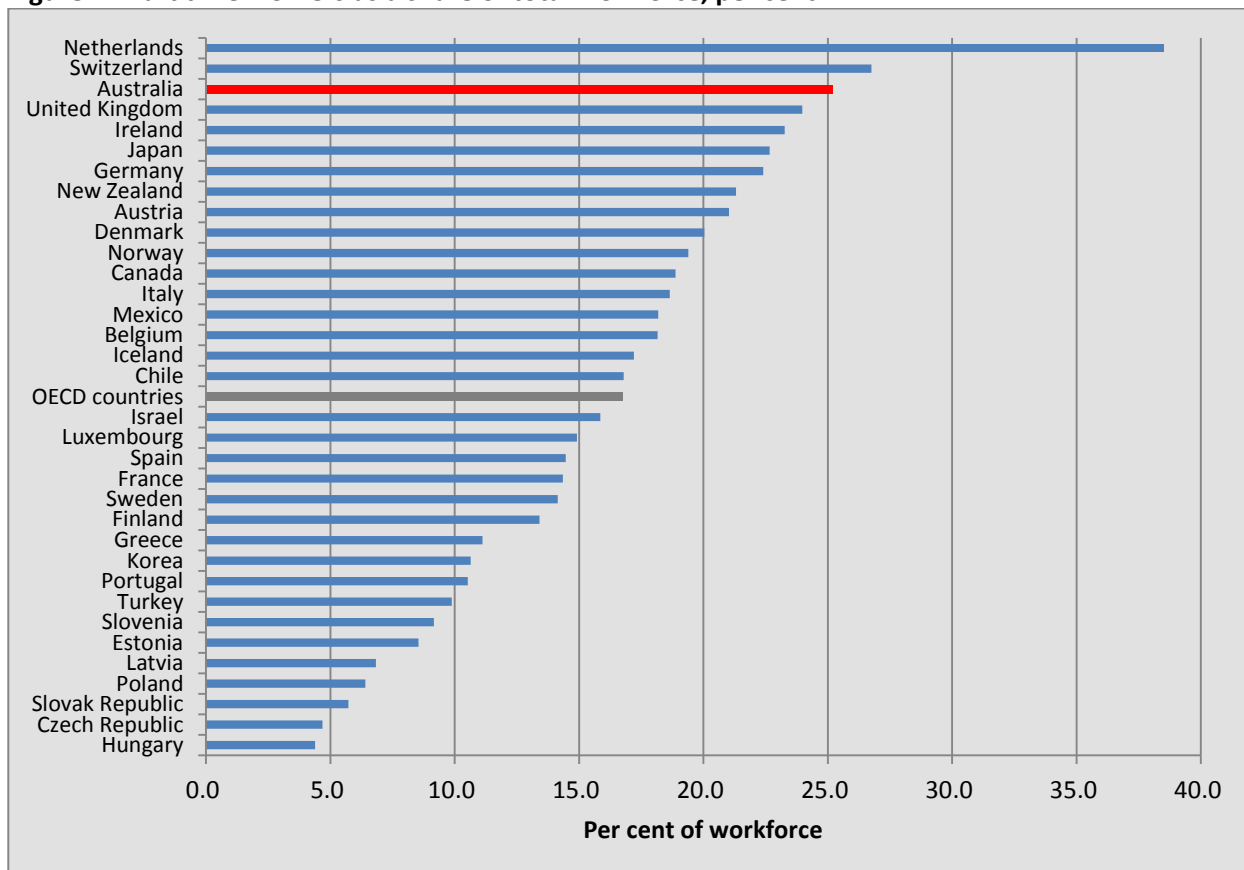
263. It appears that since then there has been a change in structural behaviour of the labour market whereby underemployment and unemployment have moved from being complements to being substitutes. The unemployment rate has fallen as full time work has been replaced by part time work in which around a third of people now want to work more hours.

¹²¹ RBA 2016 Statement on Monetary Policy February, p.40

264. The move into part time work does not make sense as a worker response to slower growth in wages. However the increase in the unrequited desire to work more hours may be a response to low wage growth if more people find that they cannot make ends meet.

265. Moreover the share of part time employment in the workforce in Australia is the third highest in the OECD after the Netherlands and Switzerland, as shown in Figure 42.

Figure 42 Part time workers as a share of total workforce, per cent



Source: <http://stats.oecd.org/>

266. The combination of the increase in part time work and the increase in underemployment over recent decades suggests an increase in capacity underutilization in the economy. This has contributed to slow growth in income per capita. This makes raising the minimum wage and awards all the more imperative in order to increase spending and raise aggregate demand, sustaining the livelihoods of both workers and employers.

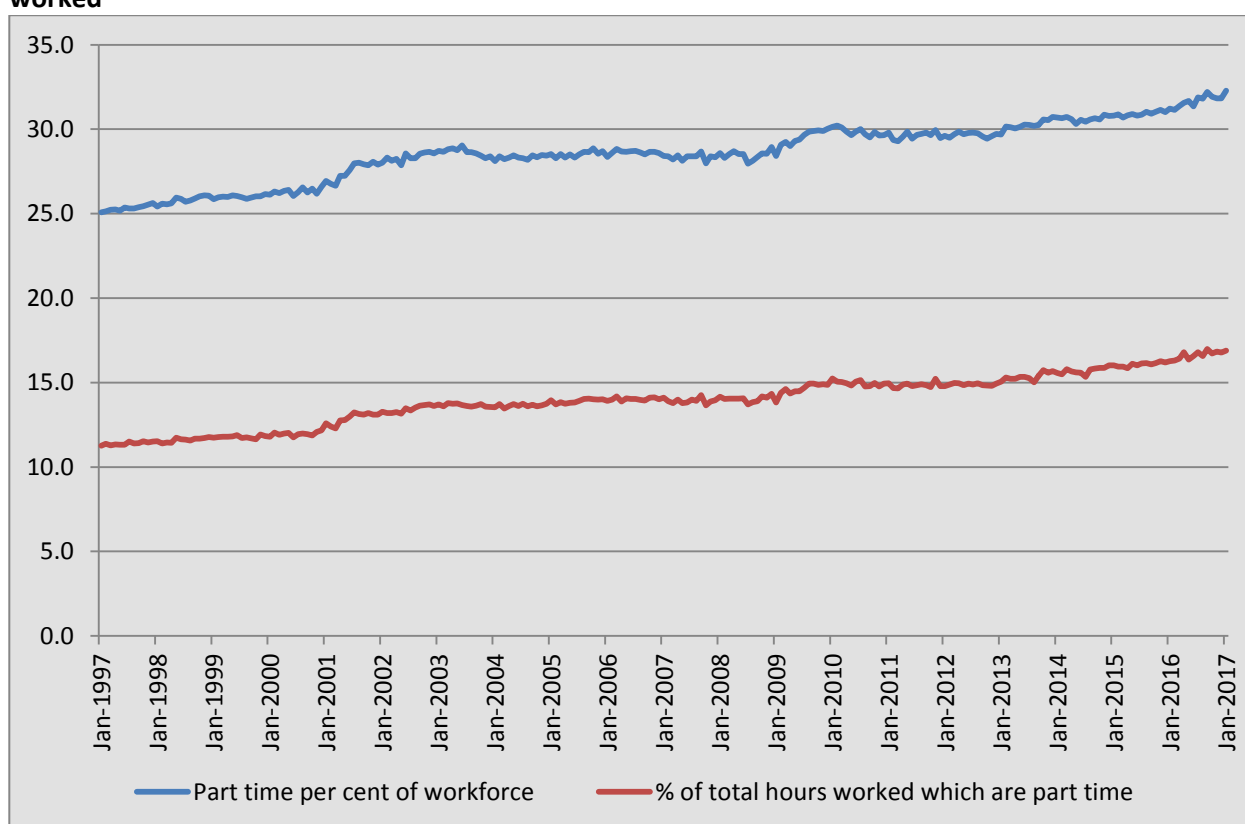
267. At the same time the wage level has evidently not been the main decision factor in whether people work and how much they work, on average. The average full time worker is working 172 hours per month, 3.7 hours or 2.1% less time than 20 years ago, while the average part time worker is working 73.4 hours per month, 6.7 hours or 10.1% more than 20 years ago.¹²²

¹²² ABS 6202

268. The share of those working part time in the total number employed has risen from 25.1% at January 1997 to 32.3% at January 2017. In particular the share of part time workers has risen from 29.7% in the 4 years since January 2013. Over the last twenty years the share of part time hours in the total has also risen from 11.3% at January 1997 to 16.8% at January 2017, seasonally adjusted, as shown in Figure 43.

269. The total number of hours worked in full time jobs increased 27.4% over 20 years, whereas the total number of hours worked in part time jobs increased 104.0%. Correspondingly the number of full time workers increased 28.8%, while the number of part time workers increased 85.3% over the 20 years to January 2017, seasonally adjusted.

Figure 43 Part time employed per cent of workforce, and part time hours as a per cent of total hours worked



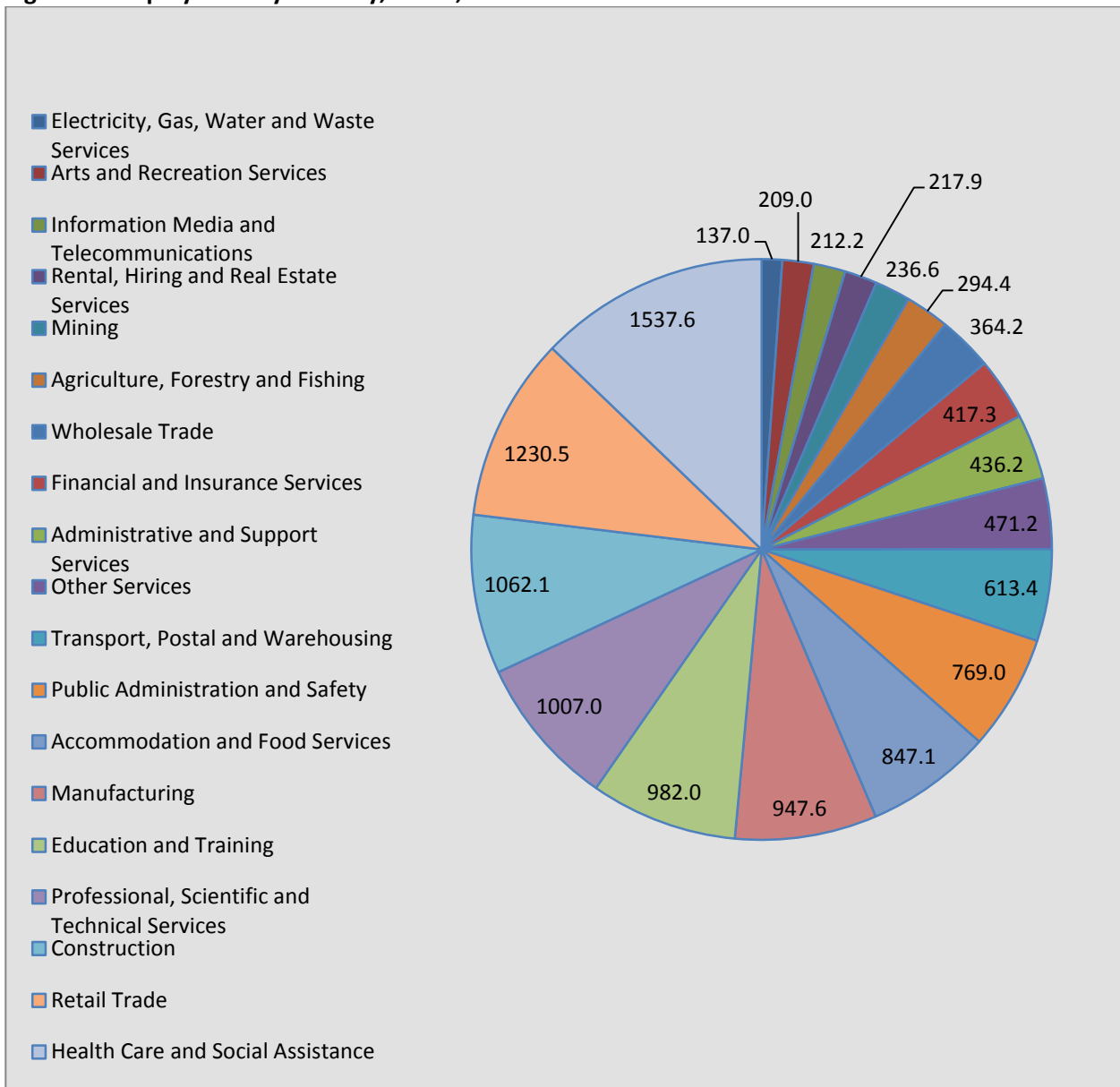
Source ABS 6202 and ACTU calculations

7.5 Employment by industry

270. The significance of award reliant industries in the economy is indicated by the numbers employed in each as shown in Figure 44, with just over four million people employed in the most award reliant industries at November 2016, just 4,000 or 0.1% more than November 2015, seasonally adjusted. The share of the most award reliant sectors in total employment fell very slightly over the year, from 34.1% to 33.8% as total employment grew slightly. Health care and social assistance and Retail trade were the two largest sectors in terms of employment.

However award reliance has also increased and is more than twenty per cent in several other industries with big shares of employment, such as Education and training.

Figure 44 Employment by industry, 1000s, November 2016.



Source 6291.0.55.003 (seasonally adjusted) and ACTU calculations

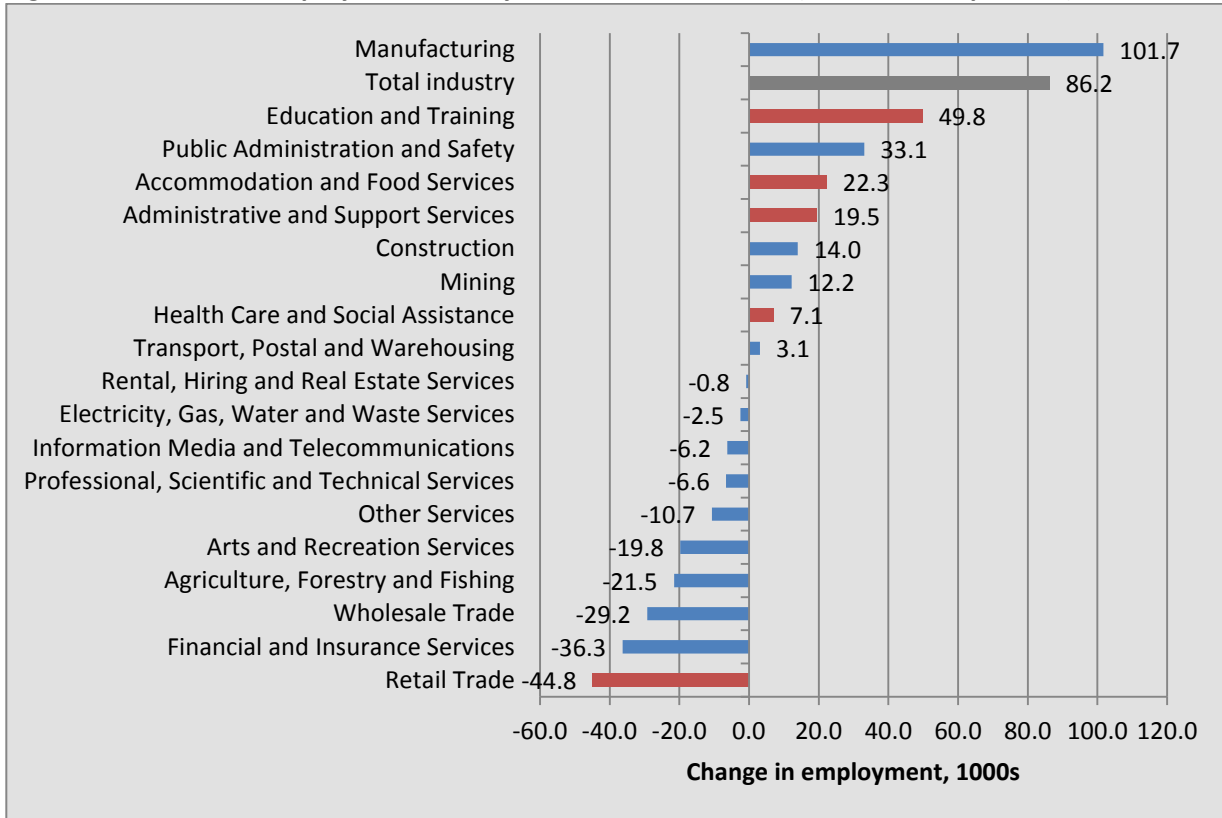
271. There was no particular pattern of industry employment growth in relation to award reliance, as shown in the FWC *Statistical Report – Annual Wage Review 2016-17*, p.20, Chart 6.4.¹²³

Employment grew in three out of four of the most award reliant industries. Employment growth in Accommodation and food services, that most award reliant sector, grew by 22,300, or 2.7% over the year to November 2016, as shown in Figure 45 and Figure 46, a quarter of the total employment increase. Employment also grew in the fifth most award reliant, Education and training.

¹²³ FWC 2017 Statistical Report – Annual Wage Review 2016-17, p.20, Chart 6.4.

272. Retail employment fell by 44,800, or by 3.5%, possibly an outcome of retailers reorganising their businesses towards ecommerce, however employment in Retail trade increased by 6,600 in the November 2016 quarter.¹²⁴ Administrative and Support Services grew by 19,500 workers, 4.7%, over the year to November 2017.

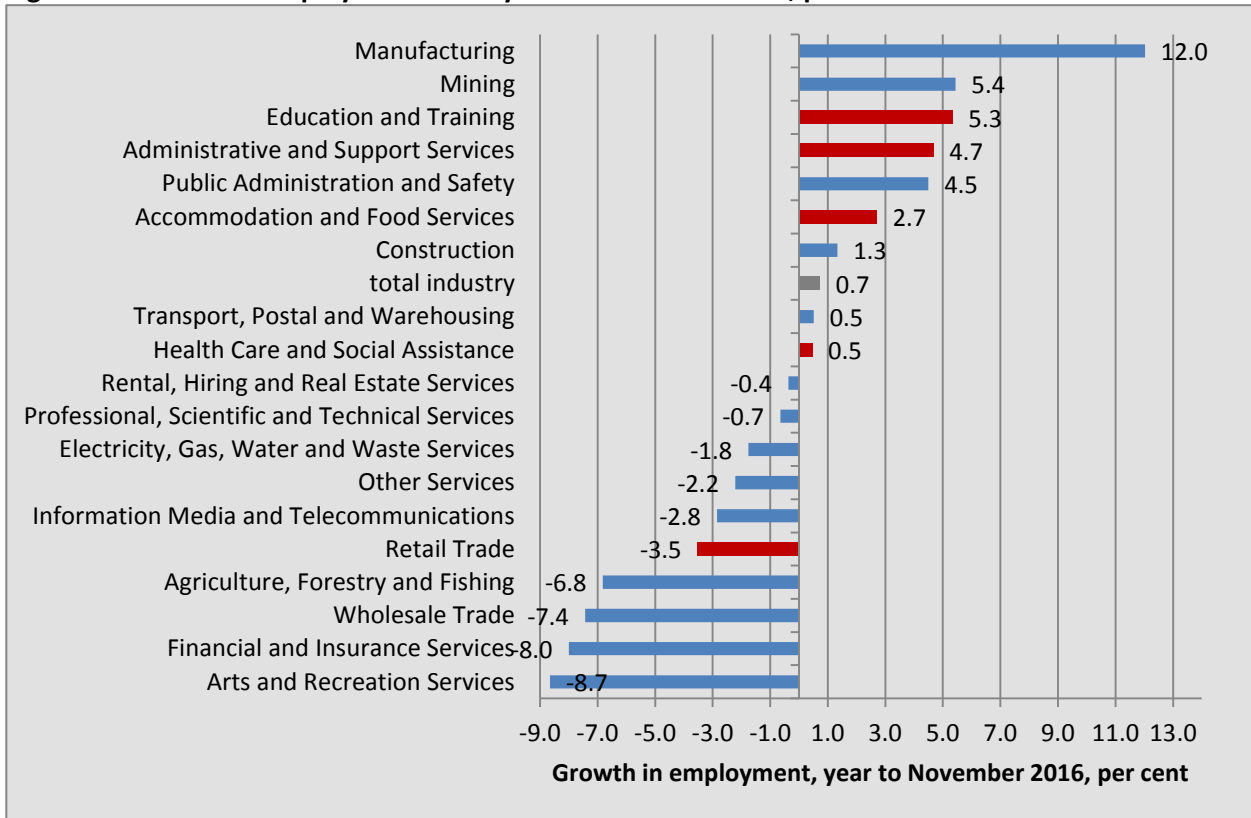
Figure 45: Growth in employment in the year to November 2016 (thousands of persons)



Source: ABS 6291.0.55.003 (seasonally adjusted) and ACTU calculations.

¹²⁴ <https://www.insideretail.com.au/blog/2016/01/21/record-australian-retail-employment-figures/>

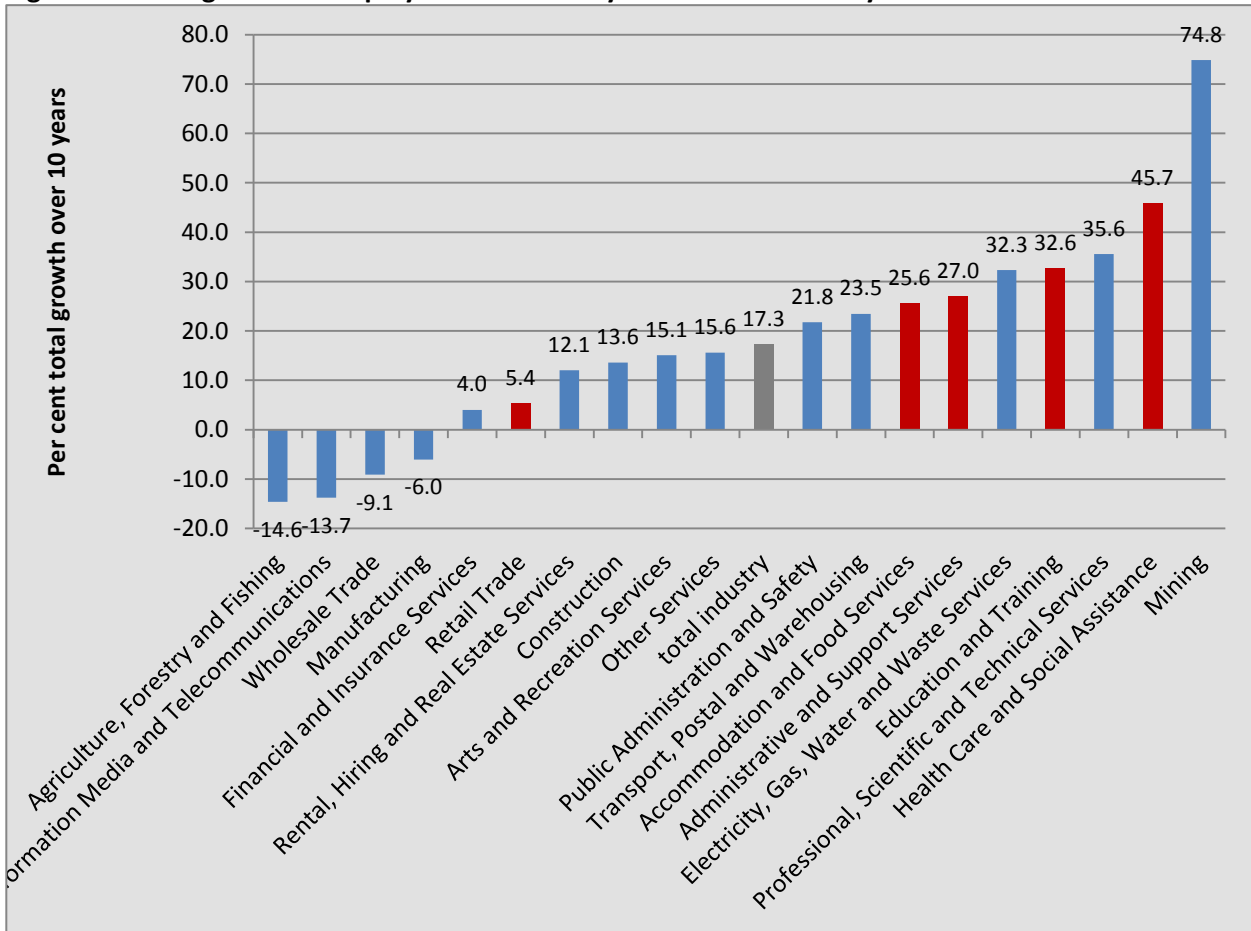
Figure 46: Growth in employment in the year to November 2016, per cent



Source: ABS 6291.0.55.003 (seasonally adjusted) and ACTU calculations.

273. The wide range of growth in employment across industries is shown in Chart 6.5, p.20 of the Statistical Report of the AWR 2016-17. Figure 47 shows the big range of total growth for the ten years in employment across the four more award reliant industries compared with the total employment growth, seasonally adjusted, over ten year to November 2016. Health and Social Assistance grew 45.7%, Administrative and Support Services grew at 27.0% and Accommodation and Food grew 25.6% compared with total employment growth of 17.3% over the ten years. Retail trade grew at 5.4% over the ten year period to November 2015.

Figure 47: Total growth in employment in industry sectors over the 10 years to November 2016.



Source: ABS 6291.0.55.003 (seasonally adjusted figures) and ACTU calculations.

274. As previously, employment growth in the most award-reliant industries is likely to be strongly influenced by industry specific factors. Retail service and sales includes online sales which are less labour intensive. Accommodation and food services is likely to be sensitive to movements in the Australian dollar and preferences related to cooking. Health and social support is related the ageing population.

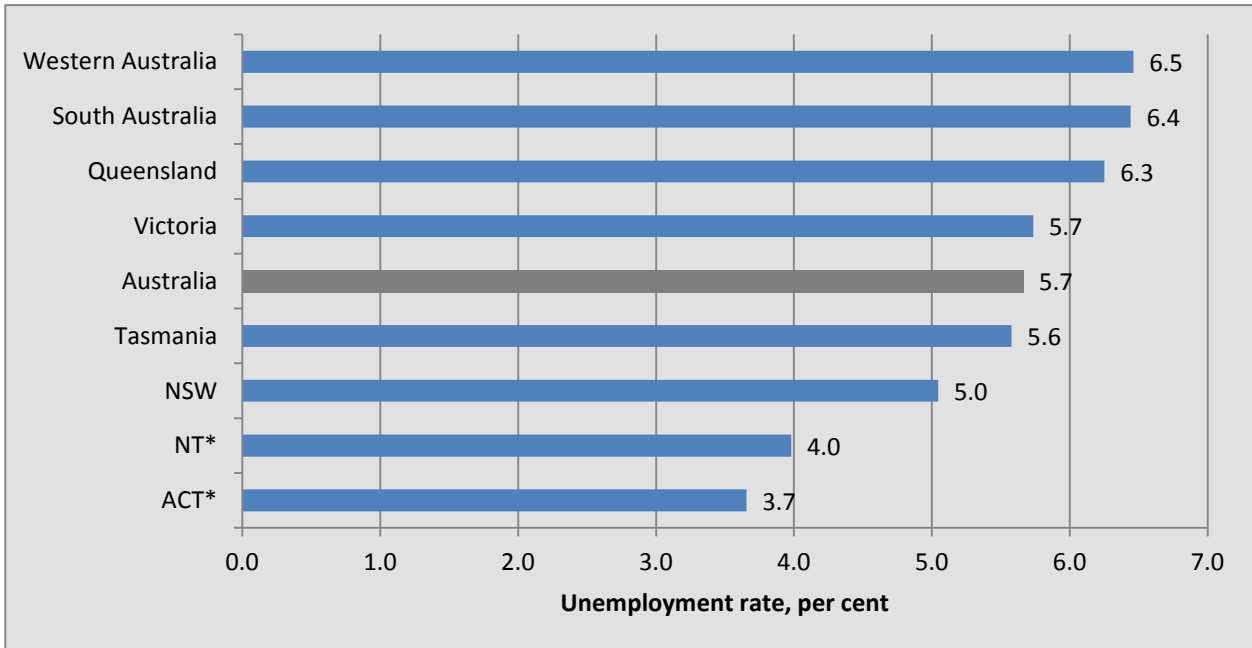
275. There is no consistent long-term trend in the employment shares of these award reliant industries that can be related to specific changes in minimum wages and awards. Growth in those consumption service industries may be related to higher expenditure related to higher household incomes related to higher wages. Given the increase in award reliance that is taking place, the slower growth in minimum and award wages may be limiting expenditure and growth in those industries, thereby slowing employment growth.

7.6 Regional dispersion of labour force conditions

276. The state of the labour force has been uneven across the country. The unemployment rates of the states and territories range from 3.7% (trend) in the ACT to 6.5% in Western Australia

(seasonally adjusted), as shown in Figure 48. The dispersion across states has narrowed from the previous year.

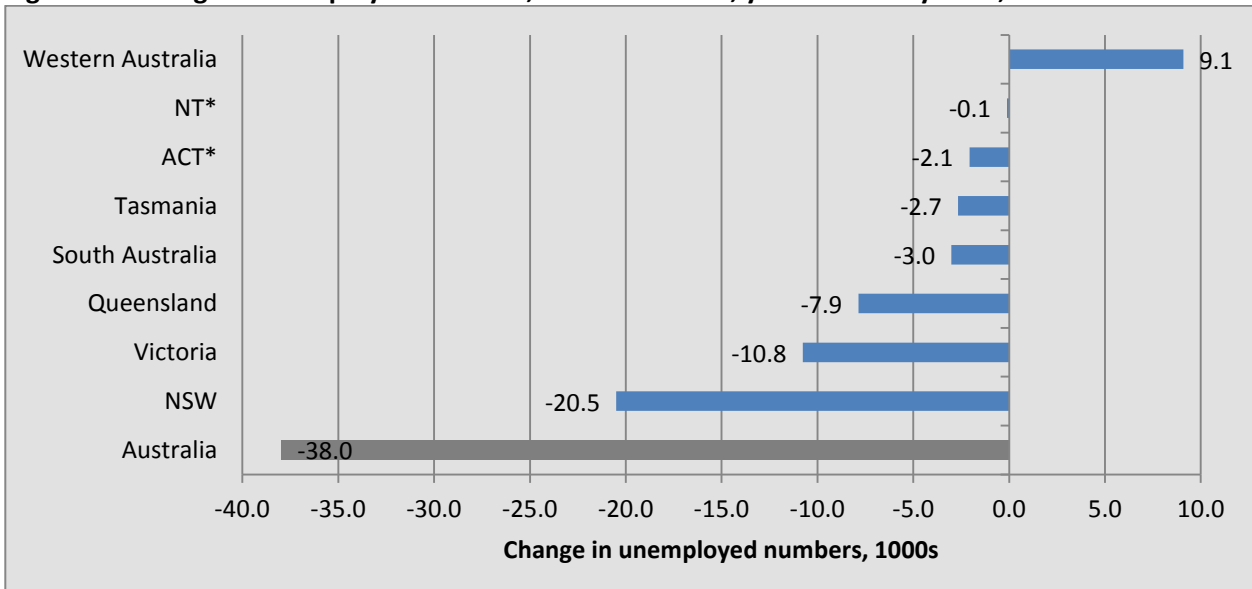
Figure 48: Unemployment rate, States and total, seasonally adjusted, January 2017, per cent of labour force



ABS 6202, *trend (seasonally adjusted not available)

277. Figure 49 shows the overall reduction in numbers of unemployed over the year to January 2017. In WA, the increase in unemployed numbers is 9,100 over the year, seasonally adjusted.

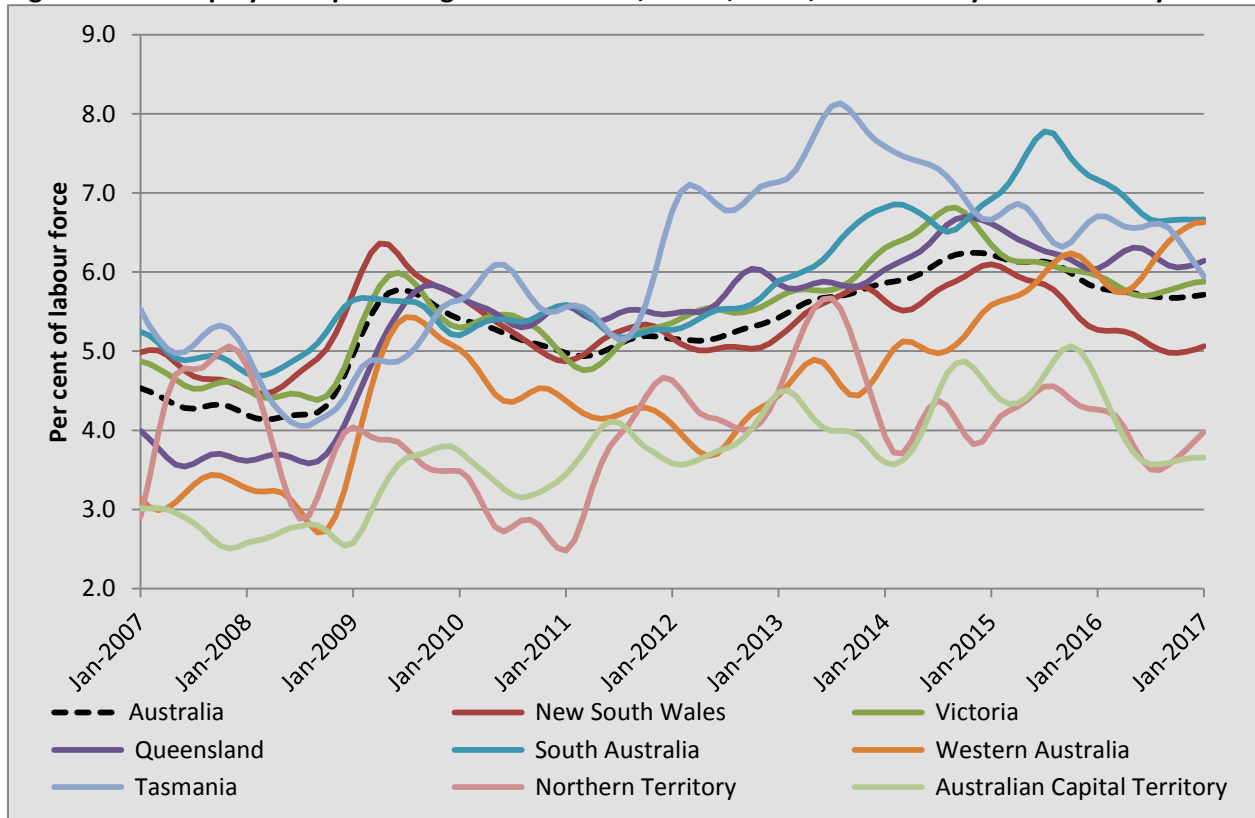
Figure 49: Change in unemployed numbers, states and total, year to January 2016, 1000s.



Source: ABS 6202 and ACTU calculations, seasonally adjusted, except *NT and ACT, trend figures only.

278. The spread of unemployment results is typical and the range has widened then narrowed as shown in Figure 50 below which shows trend unemployment rates over the last ten years. This does not suggest the mining boom has widened state disparities in unemployment rates.

Figure 50: Unemployment percentage of work force, States, trend, over the 10 years to January 2017



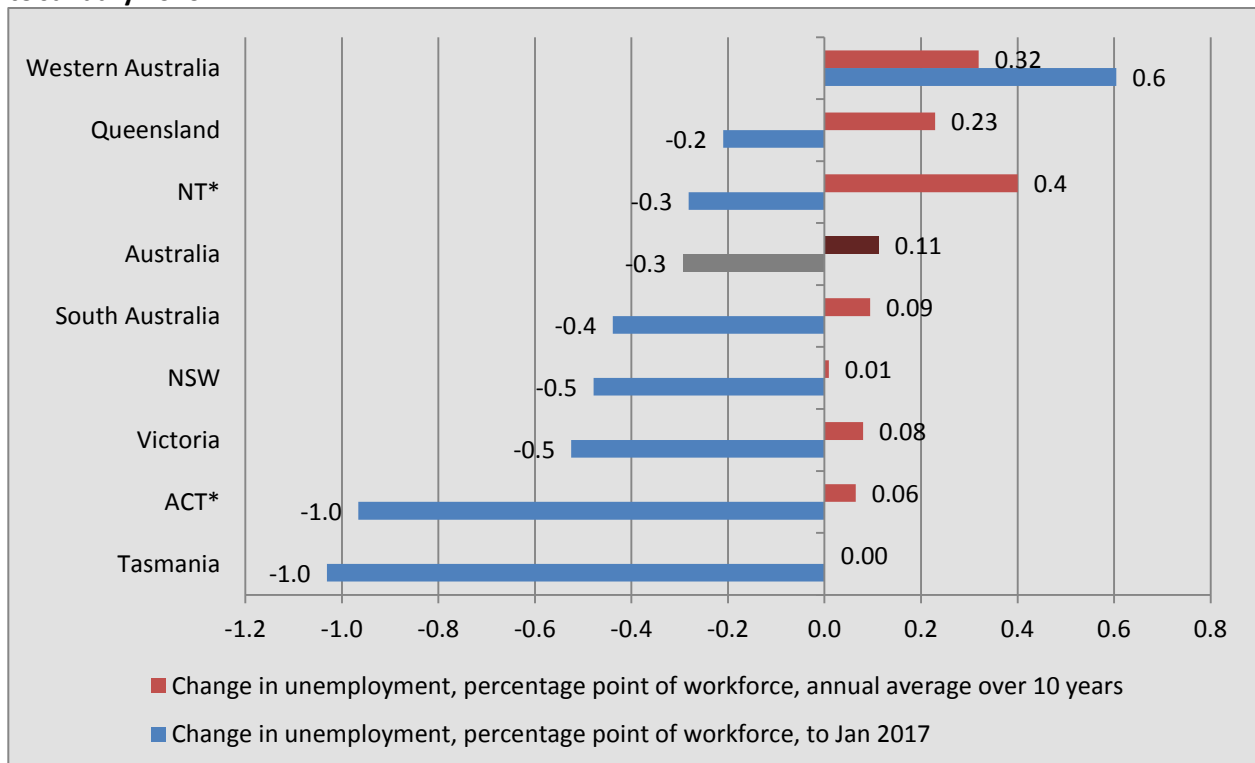
ABS 6202, trend

279. Over the year to January 2017, the unemployment rate fell in seven out of eight jurisdictions.

The change in unemployment ranged from biggest falls in the unemployed share of the workforce of 1.0 percentage points in Tasmania and the ACT to the only increase of 0.6 percentage points in Western Australia, seasonally adjusted.

280. Figure 51 compares the changes in percentage of the workforce unemployed over the year to January 2017 with the average annual changes over the 10 years to January 2017. By contrast with the current year all experienced at least slight annual average increases in unemployment over the last ten years, indicating a better performance this year. Unemployment did not worsen in Queensland in 2016, whereas it did in WA. The biggest improvement was of 1.0 percentage point in Tasmania.

Figure 51: Change in unemployment rate, over year to January 2016 and annual average over 10 years to January 2016



Source: ABS 6202 and ACTU calculation. Seasonally adjusted except for *NT and ACT, trend only.

281. The relatively small disparity in unemployment rates across States reflects the degree of labour mobility between them. If workers moved around less across State borders to find work then higher unemployment would be much more persistent in some States than others. There would be rigidities in the labour market across States. This is confirmed by the persistently higher unemployment in the island State of Tasmania between which and the other States less mobility would be expected. There is no evidence that unemployment disparities and changes in them are related to the minimum wage and award changes.

8. THE ECONOMIC OUTLOOK

282. The Australian economy has grown at or above the forecast range for 2016, with GDP growth at 2.4%, with increased uncertainty reflected in the range of forecasts.

283. We anticipate that Australia's economy this year will grow at a rate at least similar to or higher than last year, and that growth will pick up further in 2018, as the economy undergoes some restructuring after the mining investment phase.

284. There is cause for optimism about the outlook for the labour market. Forward-looking indicators of the state of the labour market, including job vacancies have improved in recent months. Forecasts from the IMF and OECD expect the unemployment rate not to rise or else to fall.

285. Whatever circumstances arise, we maintain that the minimum wage increase we request is warranted, and that a higher increase is likely to benefit the economy more through reducing inequality and raising aggregate demand.

8.1 The growth outlook

286. The 2.4% growth in GDP for the year to December 2016 released on 1 March 2017¹²⁵ exceeded the RBA forecast of 2.0% for that year which was influenced by the unexpected drop of GDP of 0.5% in the September quarter,¹²⁶ and made before the increase of 1.1% in the December quarter, seasonally adjusted. In particular the mining and manufacturing sectors picked up over 2016. We would expect the higher growth in GDP to continue through 2017 and 2018, and to be within the RBA range forecast of 2.5% to 3.5% for 2017 and 2018. The corollary is that we expect forecasts to be revised upwards in response to the better than expected results.

287. This disparity between forecast and actual is symptomatic of the uncertainty inherent in economic forecasting. If anything the uncertainty surrounding the multitude of factors that can affect the Australian economy – from international developments to domestic policy decisions to the ephemeral confidence of consumers and households – has increased with international developments. The Reserve Bank can only be 90% sure that GDP growth in 2017 will be somewhere between 0.4% and 4.6%, this is similar to its range for 2016.¹²⁷

288. The GDP result also exceeded Treasury forecasts, which had also been downgraded from its Budget forecast of GDP growth of 2.5% for 2016-17 to 2.0% in its MYEFO of 17 December 2016, prior to the release of the 2016 GDP growth figures.¹²⁸

¹²⁵ ABS Cat 5206.0

¹²⁶ Table 6.1, p.57, RBA 2017 *Statement on Monetary Policy* February

¹²⁷ Graph 6.3, p.59, RBA 2017 *Statement on Monetary Policy* February.

¹²⁸ The Treasury 2016 *MidYear Economic and Fiscal Outlook* December, p.2.

289. The OECD forecast at 7 March 2017 for world GDP in 2018 is broadly unchanged from November 2016, indicating it will pick up from just under 3.0% for 2016 to 3.3% in 2017.¹²⁹ Australia's growth figure of 2.4% for 2016 was slightly below the *OECD Outlook of Autumn 2016* (which had projected output growth of a little over 2.5% for 2016 and 2017), as their *Economic Survey of Australia 2017* indicated it would be, and 2.6% for 2017.¹³⁰ Such variations indicate the uncertainty surrounding forecasting and would apply to the OECD forecasts for other countries. In any case the OECD's growth forecast for Australia in 2017 remains at the sixth highest of 23 high income OECD countries, with Norway the lowest and Iceland the highest.
290. The IMF Article IV consultation with Australia in November 2016 indicated a 2.3% growth rate for Australia in 2016, slightly below the actual, and has forecast 2.6% for 2017 and 3.0% for 2018.¹³¹
291. *The Economist* conducts a regular poll of private forecasters, most of which are major international financial institutions. Australia's actual GDP growth of 2.4% for 2016 was slightly below the forecasters' average forecast of 2.6% for that year, and within the range of 2.0% to 2.8%. In the latest poll of March 2017, these forecasters expect the Australian economy to grow by 2.6% in 2017, more than any other of 16 high income countries.¹³² Again based on GDP growth and other indicators for Australia in 2017 as addressed in the Chapter on 6. The state of the Australian economy, we would suggest that these forecasts are still on the conservative side.
292. The *Sydney Morning Herald* (SMH) Business Day surveyed a panel of 27 Economists from a range of backgrounds and institutions. The edition of 3 February 2017¹³³ provides the data for Figure 52 which summarises the forecasts of the panel for the year 2017. The Figure shows the highest, median, average (mean), and lowest forecasts by the panel. A lower median than mean indicates that most forecasts are in the lower part of the range, while a higher median than mean indicates that most forecasts are in the higher part of the range. While the wide range

¹²⁹ OECD 2017 *Interim Economic Outlook* 7 March <http://www.oecd.org/eco/outlook/Will-risks-derail-the-modest-recovery-OECD-Interim-Economic-Outlook-March-2017.pdf> accessed 8 March 2017.

¹³⁰ <http://www.oecd.org/australia/economic-survey-australia.htm> 2017, p.12

¹³¹ IMF Article IV consultation, Country Report no. 17/42 p.4,

<http://www.imf.org/en/Publications/CR/Issues/2017/02/09/Australia-2016-Article-IV-Consultation-Press-Release-Staff-Report-Staff-Statement-and-44632>

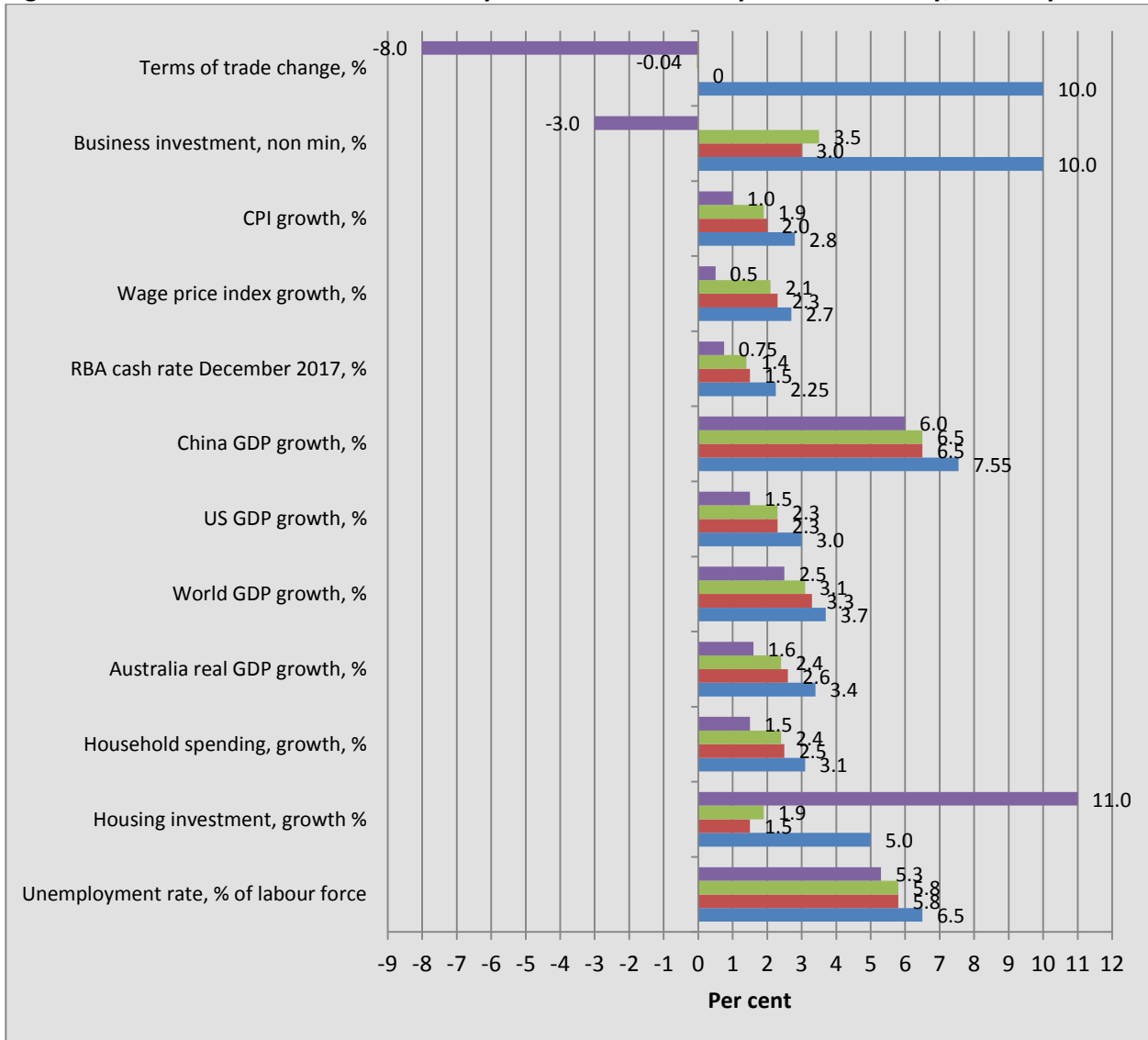
¹³² Source: *The Economist*, 11 March 2017. Available from: <https://www.economist.com/news/economic-and-financial-indicators/21718509-economist-poll-forecasters-march-averages>. The forecasters included in the poll are Bank of America, Barclays, BNP Paribas, Citigroup, Commerzbank, Credit Suisse, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, ING, Itau BBA, JPMorgan, Morgan Stanley, RBS, RB of Canada, Schroders, Scots Bankl, Société Générale, Standard Chartered, and UBS.

¹³³ <http://www.smh.com.au/business/the-economy/businessday-scope-economic-survey-stephen-anthony-shines-in-a-year-of-gloom-20160113-gm5f75.html>, Peter Martin, 4 February 2017 accessed 9 March 2017. The panel are Stephen Anthony, David Bassanese, Paul Bloxham, Bill Evans, Shane Oliver, Su-Lin Ong, Mardi Dungey, Renee Fry-McKibbin, Steve Keen, Guay Lim, Jakob Madsen, Bill Mitchell, Neville Norman, Saul Eslake, Nicki Hutley, Stephen Koukoulas, Richard Robinson, Shane Garrett, Margaret McKenzie, Julie Toth, Richard Yetsenga, Janine Dixon, Paul Dales, Riki Polygenis, Michael Blythe, Sally Auld, Besa Deda,

within most forecasts is evident, many are not very different from 2016. Again real GDP forecasts do not reflect the unexpected growth in GDP of 2016, because they were made without the knowledge of the 2016 figures released by ABS on 1 March 2017. Unemployment is forecast to remain similar to 2016.

293. We maintain that the outlook for the economy remains sound, given the GDP growth around forecast for 2016, and the slightly improved rate of unemployment.

Figure 52: Forecasts of various indicators by the SMH Business Day Economic Survey, February 2017



Source: SMH Business Day survey, published 3 February 2017 <http://www.smh.com.au/business/the-economy/scope-businessday-forecasting-panel-predicts-steady-rates-in-a-slightly-better-year-ahead-20170131-gu2jef.html> and ACTU calculations

8.2 The outlook for the labour market

294. The RBA indicates that the ‘unemployment rate is expected to edge lower over the forecast period suggesting only a modest reduction in the degree of spare capacity in the labour market from current levels’ ..and that the ...‘ongoing spare capacity in the labour market is likely to limit

wages growth.¹³⁴ We posit that the sustained GDP growth for 2016 and downward trend in unemployment over 2016 suggest that the unemployment rate may improve through 2017 and 2018.

295. The Reserve Bank of Australia's projections indicate that the unemployment rate will be at around 5.0% to 6.0% by end 2017, within its 70% confidence interval¹³⁵ The OECD's most recent forecast of unemployment, in its *Economic Surveys* for Australia of March 2017, was of 5.5% for 2017.¹³⁶ The IMF forecast an average unemployment rate of 5.7% for 2016 prior to the same actual result for 2016, and forecast 5.7% for 2017, revised downward from 6.0% forecast earlier.¹³⁷

296. Employment has grown 91,100 or 0.8%, original terms, in the year to January 2016, after the unanticipated increase of the previous year as indicated in the chapter on 7. The state of the labour market. The RBA says the net increase in employment has moderated. The RBA said there could be some pick up over the next 6 months although employment growth was weaker than expected over the past year given the increase in job vacancies. Employment growth was the strongest in household service industries where the share of part time employment is increasing and is forecast to continue to grow by the RBA.¹³⁸

297. The ratio of unemployed persons per vacancy has fallen from around 4 at November 2015 according to ABS data to 3.7 at November 2016 in original terms while the participation rate has decreased slightly from 65.2% at January 2016 to 64.4% at January 2017.

298. At the same time the ABS measure of job vacancies has increased for three consecutive years now, by 9.0% over the year to November 2016, after an increase of 11.8% in the year to November 2015, in original terms (the latest available data)¹³⁹. The data is based on a survey of businesses.

299. The number of job advertisements (as measured by the ANZ series¹⁴⁰), including internet and newspaper has grown by 6.9% over the year to February 2017, and as with the ABS data slightly lower than the 8.2% over the previous year, seasonally adjusted, but still healthy. Based on previous experience, the growth in job advertisements, can be taken as an indication that employment will continue to grow.

300. As indicated in 7. The state of the labour market, the unemployment rate has fallen slightly and the expectation is that it is unlikely to worsen given the relative strength of other macroeconomic indicators.

¹³⁴ RBA 2017 Statement on Monetary Policy, Feb., p.58.

¹³⁵ RBA 2017 *Statement on Monetary Policy*, Feb., Chart 6.5 p.60.

¹³⁶ OECD Economic Surveys Australia –March 2017

¹³⁷ IMF Article IV consultation, Country Report no. 17/42, p.4.

¹³⁸ RBA 2017 Statement on Monetary Policy, March., p.33.

¹³⁹ ABS Cat 6354

¹⁴⁰ ANZ Australian Job Ads <http://www.media.anz.com/phoenix.zhtml?c=248677&p=irol-jobad&nyo=0>

301. There is cause for optimism that the pace of economic growth and the state of the labour market will improve over the remainder of 2017 and into 2018. Even if this is not the case, the minimum wage increase we propose is warranted to improve the conditions of those with low pay, to reduce inequality and to increase aggregate demand.

8.3 Estimating the demand impacts of our claim

302. The increase in the minimum wage and modern award minimum wages will raise household spending and demand for goods and services in the Australian economy. The increase in sales revenue will increase employment and profits. The ACTU has made conservative estimates of the impact on spending and employment.

8.3.1 The increase in total income from an increase in the minimum wage

303. We have attempted to estimate how much the total wage bill increases from the increase in the minimum wage. The increase in modern award rates at and above C10 in our claim is 5.7%. The dollar figure for the increase in the minimum wage and awards is obtained by calculating 5.7% of the figure for total average weekly earnings for all award only employees, including for part time, casual etc. from ABS 6306 unpublished data. We are conscious that this is likely an underestimate as the increase we seek to the minimum wage and modern award minimum wages below C10 is higher in percentage terms and these lower classifications are where a greater proportion of the award dependent workforce are found. This produces an average \$796.50 per week for all employees on award only, including part time and casual. This is multiplied by 52 to get the annual figure of \$41,418 per annum as the average annual wage for those on minimum wage and awards. 5.7% of that figure yields the annual increase due to raising the minimum wage and awards as \$2360 per award only employee per year. The total annual income increase in income is found by multiplying the increase of \$2360 per award only employee by the number of award only employees, 2.307 million. The total increase in annual income is \$5446.43 million.

8.3.2 The spending multiplier

304. We have attempted to estimate the impact of the above increase in income on spending and employment. Apart from the increase in income tax on this, people will go out and spend most if not all the resulting addition to disposable income on goods and services, especially if they are low paid. People spend more on goods and services when they get more income, so it is received as additional sales revenue by business. When businesses observe sales increasing, they need to order more goods, or supply additional services. It's good for business.

305. In order to supply the increase in goods and services demanded, businesses will have to increase the number of hours worked by employees in their businesses, throughout the supply chain. This can be done by increasing overtime or the hours of large numbers of part time and underemployed who are on their books. Or they can take on more employees which will reduce unemployment. However this is done, the increase in spending due to raising the minimum wage and awards will result in more hours worked either by current or 'new' employees in order to produce and sell the additional goods and services.
306. The additional working hours due to the new sales demand from raising the minimum wage will be paid across the whole range of wages which prevails. The extra disposable income workers receive for working the additional hours also will be spent, except for what they decide to save out of it. The timing and scale of these processes is a key uncertainty, but with unemployment and underemployment and low inflation, increased employment and profits will be the outcome. It is kickstarting the usual processes that keep the economy working.
307. Estimating the increase in household spending which results from this is complex and involves predicting the extent to which the initial increase in minimum wage and award income translates to sales revenue for businesses. We can assume that the low paid will spend most if not all of their additional disposable on current consumption, including consumer durables. The tax they pay will be small at the average weekly earnings for those on award only, at around 10% of their income, leaving a total disposable income from the minimum wage increase of \$4.9 billion.¹⁴¹
308. We can calculate how much extra spending and employment results from the initial increase in the minimum wage and awards in the first year after the increase. This is known as the multiplier. We use three different estimates of the multiplier, low, medium and high.
309. The low estimate is based on the Treasury multiplier of 0.4, which we regard as very conservative.¹⁴² That is the initial increase in the minimum wage and awards pay results in a 0.4 increase in spending in year one.
310. The Treasury made assumptions about the size of the multiplier in Australia in its economic modelling of the stimulus package, with the size of the multiplier depending on where the increase (or decrease) in demand comes from. They cite OECD and IMF estimates and settle on a range 'The Budget uses multipliers for the fiscal stimulus of between 0.5 and 1.' We use the same assumptions and methodology.

¹⁴¹ We note in passing that the additional income from raising the minimum wage and awards would be kind to the government budget in two ways. It will increase tax revenue, and reduce welfare payments.

¹⁴² http://www.budget.gov.au/2009-10/content/bp1/html/bp1_bst4-03.htm

311. Table 11 below shows the Treasury’s multiplier assumptions. In general the multiplier impact of increases in public spending is higher than the multiplier impact of tax cuts or benefit increase, largely because consumers tend to save rather than spend a portion of the extra disposable income which they gain from the tax cut, which reduces the multiplier effects. This is likely to be similar for an increase in the minimum wage.

Table 11: OECD and IMF estimates of fiscal multipliers

	OECD - Australia		OECD - US		IMF - G-20
	Year 1	Year 2	Year 1	Year 2	
Spending measures					
Infrastructure	0.9	1.1-1.3	0.9	1.1-1.3	0.5-1.8
Government consumption	0.6	0.7-1.0	0.7	0.8-1.1	
Transfers to households	0.4	0.7-0.8	0.5	0.8-0.9	
Revenue measures					
Personal income tax cuts	0.3-0.4	0.4-0.8	0.3-0.5	0.5-0.9	0.3-0.6
Indirect tax cuts and other	0.2-0.3	0.3-0.5	0.2-0.3	0.3-0.5	

Source: Treasury, 2009-10 Budget Paper No.1, Statement 4: http://www.budget.gov.au/2009-10/content/bp1/html/bp1_bst4-03.htm

312. The Treasury multiplier of 0.4 results in an increase of \$2.2 billion in spending, and employment of 35,000.
313. The ACTU’s middle estimate for the multiplier is 0.7 which conservatively corresponds to an addition to spending out of award only disposable income after taxes. This results in an increase of \$3.8 billion in spending and around 60,000 in employment.
314. The high estimate for the multiplier is 1.0, that is all the increase in the minimum wage and awards is spent. This results in an increase of \$5.4 billion in spending and 87,000 in jobs.
315. We estimate conservatively that if our claim is accepted, between 35,000 and 80,000 jobs would be created over the year. The process and effect is similar to that which occurred with the Stimulus Package after the GFC. Business profits would increase commensurately out of the sales revenue received from the additional expenditure.

9. RELATIVE LIVING STANDARDS AND THE NEEDS OF THE LOW PAID

316. The relative living standards of workers reliant on minimum wages are still declining. They have declined on trend for many years throughout the 1990s, 2000s and early 2010s. They have declined through periods of economic boom and slowdown, and declined under the AIRC and AFPC and FWA/FWC.
317. In the last two and a half years the minimum wage bite has flattened out and this is due to falling wages at the top in resource based industries rather than an improvement in the real minimum wage relative to the average. The \$45/6.7% increase we seek to the national minimum wage (and the 5.7% increase to modern award minimum wages above C10) in this Review would stop any further decline in the relative living standards of low paid workers and would help to restore some lost ground.
318. If our claim were awarded in full, and the average weekly ordinary-time earnings of full-time adults (AWOTE) increases by a conservative 1.6% this year, the NMW would increase from 44.4% to 46.6% of average full-time earnings. This would still be less than it was 2008 at the GFC.
319. If our claim were awarded and AWOTE growth increased by 1.8%, then the minimum wage bite would increase to 46.5%. If AWOTE growth picks up to 3.0%, the minimum wage bite would increase to 46.0%. These figures are still well below the 60% median measure for the relative poverty line.
320. Table 12 provides a more complete range of projections of what the minimum wage bite would be under different combinations of growth rates in the NMW and AWOTE in 2016.

Table 12: Minimum wage bite under different combinations of NMW/AWOTE growth in 2016

		AWOTE growth in year to November, per cent							
\$ NMW increase	% NMW increase	1.6	1.8	2	2.2	2.4	2.6	2.8	3
\$16.82	2.5	44.77	44.68	44.59	44.50	44.42	44.33	44.24	44.16
\$20.18	3.0	44.98	44.90	44.81	44.72	44.63	44.55	44.46	44.37
\$23.54	3.5	45.20	45.11	45.03	44.94	44.85	44.76	44.68	44.59
\$26.91	4.0	45.42	45.33	45.24	45.15	45.07	44.98	44.89	44.80
\$30.27	4.5	45.64	45.55	45.46	45.37	45.28	45.20	45.11	45.02
\$33.64	5.0	45.86	45.77	45.68	45.59	45.50	45.41	45.32	45.23
\$37.00	5.5	46.08	45.99	45.90	45.81	45.72	45.63	45.54	45.45
\$40.36	6.0	46.30	46.20	46.11	46.02	45.93	45.84	45.75	45.67
\$43.73	6.5	46.51	46.42	46.33	46.24	46.15	46.06	45.97	45.88
\$45.07	6.7	46.60	46.51	46.42	46.33	46.24	46.15	46.06	45.97
\$47.09	7.0	46.73	46.64	46.55	46.46	46.37	46.28	46.19	46.10

321. We welcome the Panel’s statement that “Increases in the minimum wage and award classification wages have directly impacted on the relative living standards of the low paid and their capacity to meet relevant needs. They do play a role as part of a package of measures to address inequality.”¹⁴³

322. Awarding our claim in full is necessary to begin to address low-paid workers’ relative living standards which has been occurring over decades. The ACTU is aware that this is the only opportunity for the increasing proportion of award reliant low paid workers to restore and improve their relative living standards.

9.1 Reversing the decline in relative living standards

323. The ACTU welcomes the statement of the Panel that “The current environment of low inflation and low wages growth generally provides an opportunity to provide a moderate improvement in the relative living standards of the low paid and to better meet their needs.”¹⁴⁴

324. Minimum wages have fallen sharply as a proportion of both average and median full-time earnings (the ‘minimum wage bites’) in the past few decades. For instance both average and median wage bites increased by 8.0 percentage points over the two decades from 1996 to 2016, as shown in Figure 53.

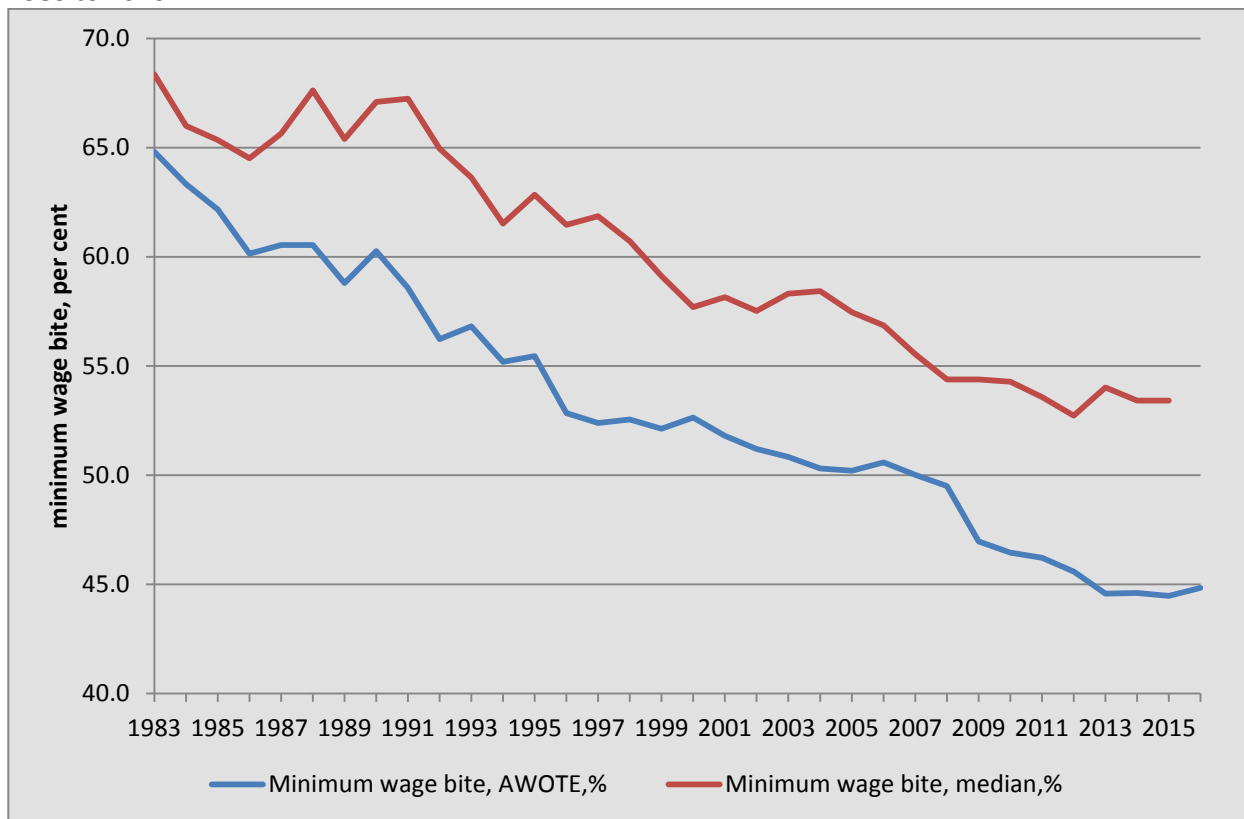
325. The average wage bite has flattened out in the last three or four years due to the reduction in mining related earnings at the top which affected average weekly earnings, not because the minimum wage itself has increased much, as may be seen in Figure 54. The median wage bite

¹⁴³ FWC 2016 Annual Wage Review 2015-16 [415]

¹⁴⁴ FWC 2016 Annual Wage Review 2015-16 [67]

has also flattened out even though median earnings have grown very slowly, and this may be due to the increasing proportion of employees who are award reliant, together with the decline in those on collective agreements, who are receiving lower wages accordingly.

Figure 53: Minimum wage bites, ratio of the NMW to AWOTE, ratio of NMW to median FT earnings, 1983 to 2016



Sources: Average full-time earnings is AWOTE from ABS 6302. Median from ABS 6333, most recent. NMW All series deflated by the CPI (ABS 6401). ACTU calculations.

326. Real Average Weekly Ordinary Time Earnings (AWOTE) for adults have risen more slowly, by 39.4% between 1996 and 2016, than real GDP which rose 87.8%. The real minimum wage (NMW) has risen by only 18.2% over the same twenty years, as shown in Figure 54.¹⁴⁵ The real GDP increase of 87.8% over the last twenty years was more than twice as much as the increase in real AWOTE and almost five times that of the real NMW.¹⁴⁶

327. Real GDP per capita rose 42.1% over the last twenty years, faster than the increase in real AWOTE or the real median wage which increased 36.1%, and more than twice as fast as real NMW.

328. The NMW and median earnings have seriously lagged behind GDP and GDP per capita in terms of growth over decades, much more so in the case of the NMW. This indicates the widening of

¹⁴⁵ ABS 6302 and Bray, J Rob, 2013 Reflections on the evolution of the minimum wage in Australia: options for the future, paper commissioned by the Crawford School of Public Policy, ANU, ABS 5204, 6333, , 6302, 6401, and ACTU calculations.

¹⁴⁶ ABS 5604.

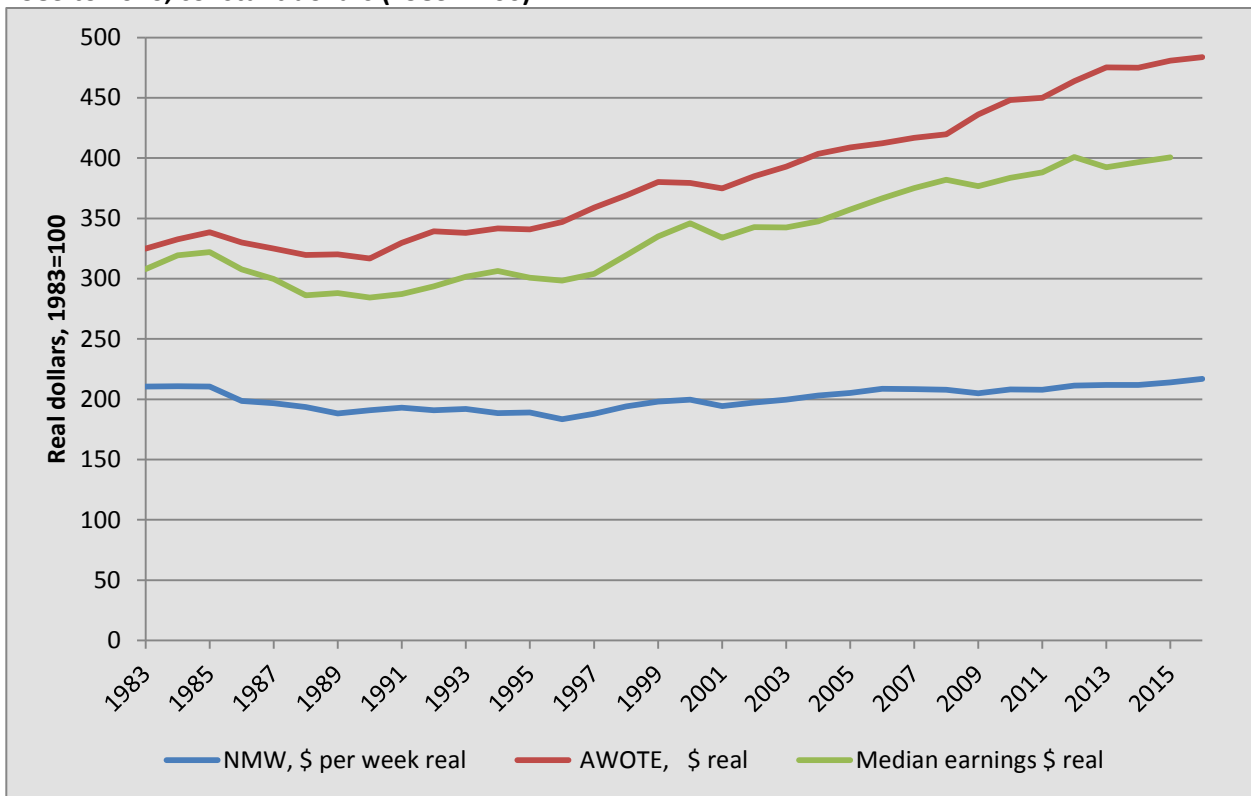
income distribution and the a substantial decline in the relative living standards of low paid workers over decades, assisted by the extremely small average increase in the NMW compared with the average and median earnings measures.

329. After trending slowly upward over a long period, real AWOTE has flattened out in since 2013, increasing only a total of 1.7% in real terms since then, less than half a per cent per year. This is a strong indication of the effect of the end of the mining investment boom on earnings at the top. It is also perhaps due to the fall in employees paid by collective agreement. This is highlighted particularly because the rate of inflation has been low for some years now, 1.5% over the year 2016. In other words the nominal increases were particularly small. This supports the RBA's suggestion that wage formation around cpi has slowed wage growth.¹⁴⁷

330. The real NMW has increased slightly more than half a per cent per year since 2013, but this has still left the minimum wage bite, the NMW as a share of AWOTE, to increase barely at all, as shown in Figure 53. The minimum wage bite out of median earnings, has fallen from 2013 to 2015, most recent available. The difference in wage bite growth between the two measures is because of the effect of the reduction of top earnings on AWOTE, not because of any increase in median earnings as shown in Figure 54.

¹⁴⁷ James Bishop and Natasha Cassidy 2017 *RBA Bulletin* March, pp.13-20

Figure 54: Average weekly ordinary time earnings, median full time earnings and the minimum wage, 1983 to 2016, constant dollars (1983 = 100)



Source: Average full-time earnings - AWOTE from ABS 6302. Median ABS 6333, most recent. NMW from Bray (2013) and FWC. All series deflated by the CPI (ABS 6401). ACTU calculations.

- 331. The NMW was 61.5% of the median full time earnings at 1996. This has fallen overall to 53.4%, stable at the two years 2014 and 2015, most recent median figures available. The fall in the minimum wage bite as a share of AWOTE is even starker, from 52.8% down to 44.8% at 2016.
- 332. The increases awarded by the Panel in recent years have not been sufficient to reverse the decline in relative living standards. This is shown in Table 13. As above, the minimum wage bite has flattened out because both AWOTE and median wages increased so slowly in nominal terms with such low rates of inflation that they have not changed much in real terms.

Table 13 Nominal NMW, AWOTE, median earnings and minimum wage bites in selected years

	Nominal NMW/C14 rate	Nominal AWOTE	Minimum wage bite (NMW as % of AWOTE)	Nominal median earnings	Minimum wage bite (NMW as % of AWOTE)
Dec-97	\$359.40	\$710.50	50.6	\$584.97	61.9
Dec-00	\$400.40	\$798.40	50.2	\$595.38	57.7
Dec-05	\$484.40	\$1,012.70	47.8	\$629.60	57.5
Dec-09	\$543.78	\$1,227.90	44.3	\$628.42	54.4
Dec-10	\$569.90	\$1,276.30	44.7	\$640.18	54.3
Dec-11	\$589.28	\$1,331.10	44.3	\$640.08	53.6
Dec-12	\$606.40	\$1,396.00	43.4	\$645.71	52.7
Dec-13	\$622.20	\$1,437.00	43.3	\$648.52	54.0
Dec-14	\$640.90	\$1,477.00	43.4	\$652.95	53.4
Dec-15	\$656.90	\$1,500.10	43.8	\$659.33	53.4
Dec 2016	\$672.70	\$1533.10	43.9	-	

Source: NMW from Bray (2013). AWOTE from ABS 6302. CPI from ABS 6401, re based to November 2015. Real wages and minimum wage bite are ACTU calculations.

333. This is consistent with the findings of both the *RBA Bulletin* article by Bishop and Cassidy (2017) including that that “low wage growth may reflect a decline in workers’ bargaining power” as detailed in the section on 6.14 Inflation and wage growth. Watson (2016) in the *Journal of Industrial Relations* argues that increasingly casualised work and the introduction of collective bargaining have quarantined those on low wages, as detailed in the chapter 5.

What do minimum wages do? in the section on 5.2 Australian evidence. ¹⁴⁸

334. The minimum wage bite out of AWOTE remains close to its lowest level on record, even with slow growth in the average wage which is keeping the bite up. The minimum wage bite out of AWOTE dropped particularly rapidly since the GFC and is nearly five percentage points lower than it was in 2008. It is now 2.1 percentage point lower than it was at the end of 2009, after the AFPC decided not to increase minimum wages. The gap in living standards between workers reliant on minimum wages and other workers is very close to as high as it has been. The Panel’s decision is key to addressing that deficit for workers on low pay.

335. Without the Panel raising the NMW in each AWR to the extent that the minimum wage bite is increased, there is nothing to prevent earnings inequality, and prevalence of low pay, from continuing to increase into the longer term. We believe that in order to meet the objective or taking into account the relative living standards of the low paid, it is necessary for the Panel to take the lead in raising the minimum wage sufficiently in each AWR in order to do that.

¹⁴⁸ James Bishop and Natasha Cassidy 2017 *RBA Bulletin* March, Ian Watson 2016 Wage inequality and neoliberalism: the Australian experience *Journal of Industrial Relations*: Vol. 58(1) 131–149, February

9.2 The Minimum Wage has fallen relative to relative poverty lines

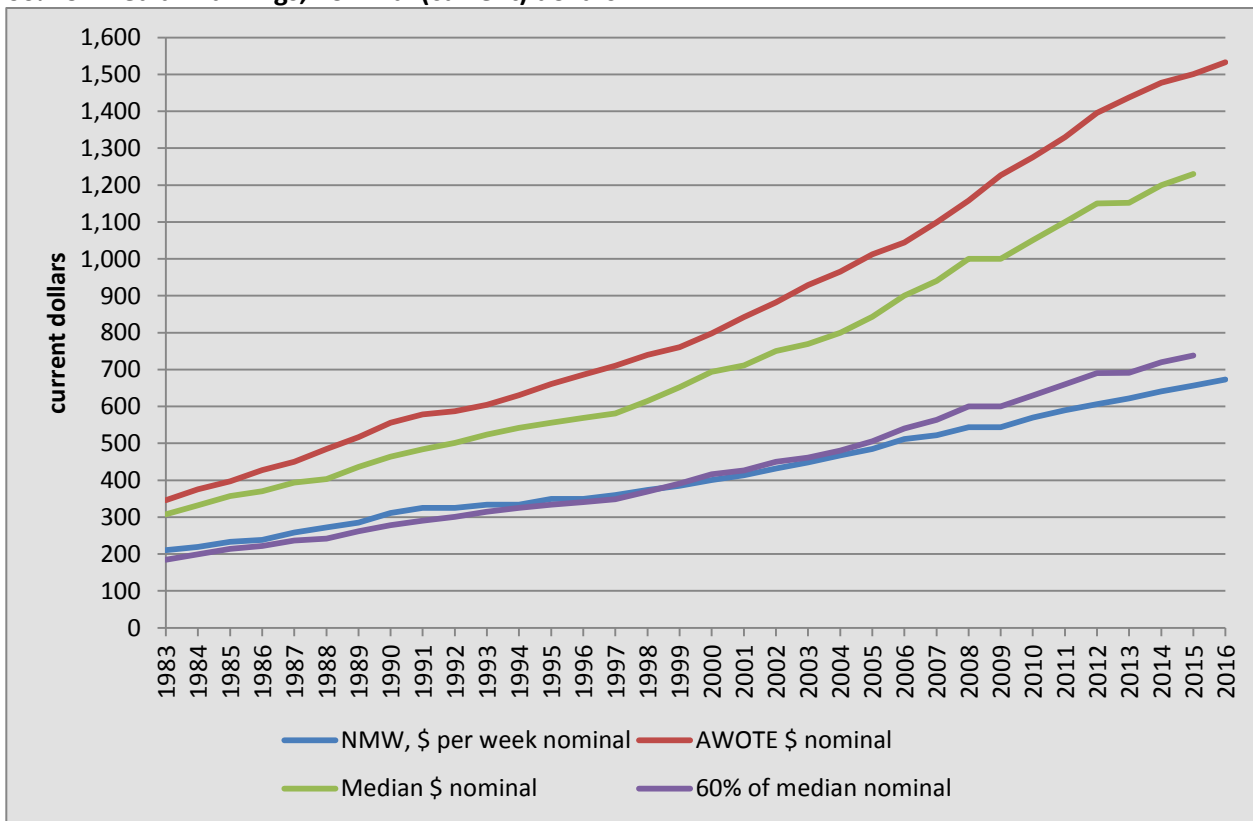
336. In order to take account of relative living standards and the needs of the low paid it makes sense to consider the NMW in relation to relative poverty lines that are well recognised. The NMW has not kept pace with relative poverty thresholds such as 60% of the median. Sixty per cent of median earnings is the measure of the relative poverty level used by the UK Low Pay Commission¹⁴⁹, and is accepted by other jurisdictions and international organisations.

337. Use of a poverty measure relative to median or average wages enables assessment of how well minimum wage increases have served to address relative poverty. It highlights the need to assess increases in the minimum wage for addressing relative living standards according to criteria other than cpi. This is because anticipating cpi increases appears to have constrained wage increases disproportionately in recent years.

338. Figure 55 shows the NMW, AWOTE, median earnings and 60% of median earnings in nominal terms, and Figure 56 shows these data in real terms, deflated by CPI, and expressed in 1983 dollars, by adding the series for 60% of median earnings to Figure 54. Thus both figures start at the same values in 1983 but the nominal data in Figure 55 increase much faster than the real data in Figure 56. The wide variation from year to year is apparent, including in the NMW. The variation from year to year becomes even greater in Figure 56 where the unforeseeable consequences of variations in the CPI become apparent.

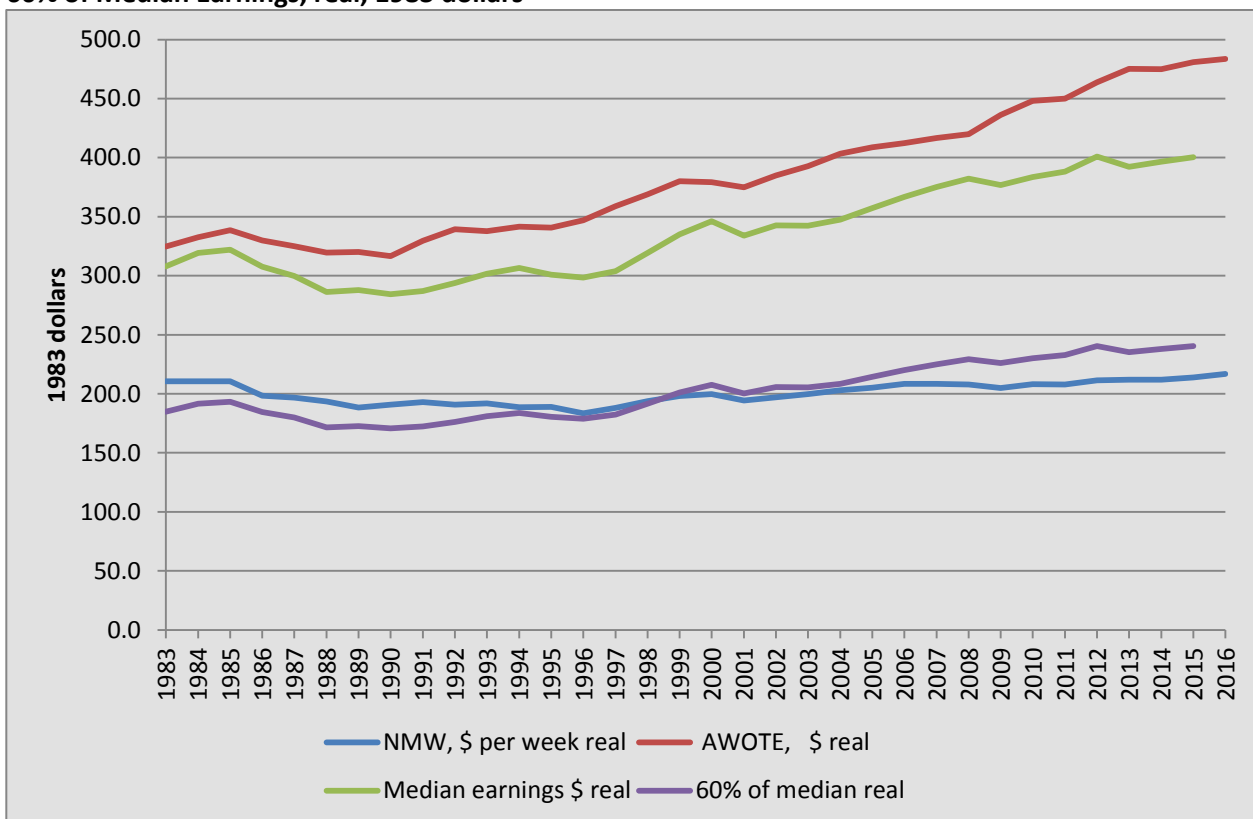
¹⁴⁹ Marianne O'Neill and Feargal McGuinness 2016 National Minimum Wage Statistics UK House of Commons Library, Briefing Paper 7735, 13 October <http://researchbriefings.files.parliament.uk/documents/CBP-7735/CBP-7735.pdf>

Figure 55 National minimum wage, Average Weekly Ordinary Time Earnings, Median Earnings, and 60% of Median Earnings, nominal (current) dollars



Sources: FWC and Bray (2013), ABS Cats 6302, 6310, 6333, and ACTU calculations

Figure 56 National minimum wage, Average Weekly Ordinary Time Earnings, Median Earnings, and 60% of Median Earnings, real, 1983 dollars

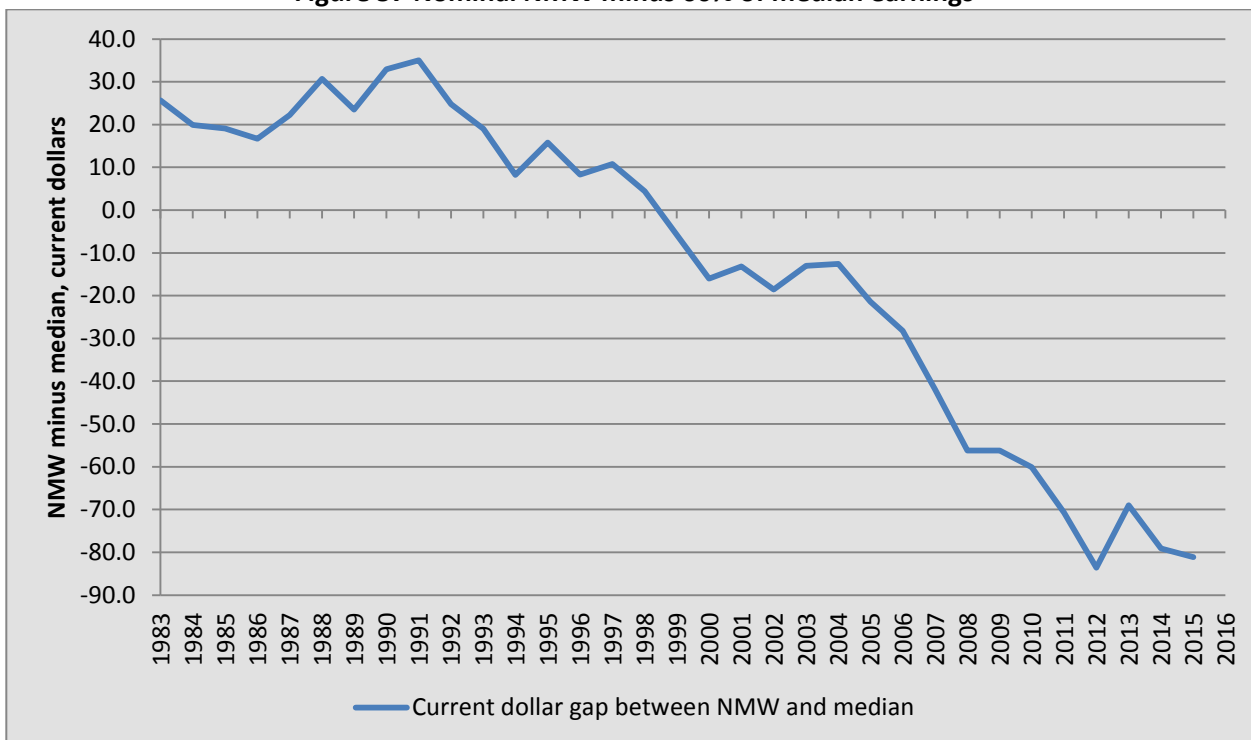


Sources: FWC and Bray (2013), ABS Cats 6302, 6310, 6333, 6401, and ACTU calculations

339. We also subtract 60% of nominal full time median earnings from the NMW for each year from 1983 to 2015, with median figures for 2016 not yet available, as shown in Figure 57, where 60% of median earnings is given by zero on the vertical axis. The NMW fell below 60% of the median wage at 1999 and has trended further below ever since. Moreover this is over a period when real median wages are growing very slowly. The gap at 2015, most recent data, was \$81.10, down from a slight reduction in the gap to \$69 dollars at 2013.

340. It is estimated that the gap between NMW and 60% of nominal median earnings at 2015 would require an increase of around \$80 per week or 12% in order for the current NMW to reach a level of 60% of the median which was at \$738 per week in 2015. This amounts to around \$2.13 per hour. A practical proposal for an increase to the minimum wage of \$45 per week (6.7%) would mark significant progress in moving toward that objective. This increase would amount to \$1.18 an hour, to \$18.88 per hour. This is well within range of the minimum wage increases that other countries have put into place.

Figure 57 Nominal NMW minus 60% of median earnings



Sources: FWC and Bray (2013), ABS Cats 6302, 6310, 6333, 6401, and ACTU calculations

341. We can also examine whether the NMW and other award rates of pay result in employees' various types of households falling below the 60% of median level of disposable income, according to Table 8.6 in the FWC AWR Statistical Report 2016-17.¹⁵⁰ Table 8.6 of the Statistical

¹⁵⁰ FWC 2017 Statistical Report – Annual Wage Review 2016-17, p.40, Table 8.6.

- Report shows that being in households with children, and being on higher award rates, is no guarantee of getting employees' households much over the relative poverty line.
342. According to Table 8.6, across all awards from C14 to C4, all single earner couples, with and without children, with and without New Start Allowance (NSA), were either just above or below, 60% of median earnings for that household type.
343. Single earner couples with no children and no NSA were the most disadvantaged of all, being below the 60% of median threshold of \$785.47 for all award rates of pay from C14 to C4. Receiving an NSA got them just over the 60% threshold for all the awards shown.
344. Single earner couples with one child without receiving an NSA were below the 60% of median for the C14, C13 and C10 awards and just above it with C4. All other single earner couples with one child were just above the 60% threshold.
345. Single earner couples with two children and no NSA were below the 60% line for C14, C13 and C10, and just above it for C4. Receiving an NSA put Single earner couples with two children at or just above at all the awards shown.
346. The other household types, single adult, single parent with one or two children, and dual earners working full time plus 50% time, with no, one or two children were all above the 60% for all awards shown.
347. However, only two types of households approached 1.5 times 60% of median earnings and only at C4. These were single adult (1.47), on \$769.82, and dual earners with no children on \$1212.08 (1.54).
348. No households of award only employees got near the AWOTE rates for their type of household. Moreover Table 8.7 shows that the circumstances have not budged between December 2014 and December 2015.¹⁵¹
349. The ACTU agrees with the Panel that employees' standards of living should not be reliant on tax and transfer arrangements, which improve the level of disposable income for those with children through parenting payments and NSA. The ACTU view is that minimum wage and awards should be at a level of a living wage for workers, whether or not they are eligible for increasingly uncertain and currently declining welfare measures.
350. This view is borne out by the OECD *Income Inequality Update* of November 2016 which indicates that Australia has one of the smaller percentage reductions in market income inequality through taxes and transfers, thirteenth lowest out of 35 OECD countries.¹⁵² This has improved very little between 2007 and 2014.

¹⁵¹ FWC 2017 Statistical Report – Annual Wage Review 2016-17, p.41, Table 8.7.

¹⁵² <https://www.oecd.org/social/OECD2016-Income-inequality-Update.pdf> Chart 5

9.3 Improving the Wage Bite

351. It is to be recalled that in its inaugural Annual Wage Review decision, the Commission awarded a wage increase of \$26 (4.78%) to the minimum wage. The increase outstripped changes to the wage price index (3.0%) and CPI (2.9%) during the preceding 12 months, in circumstances where the WPI had softened from 4.1% in the previous year and living costs, at least as measured by ALCI, had softened from 2.4% to 1.9%. The Commission made the following comments in explaining its decision:

“We emphasise, as we noted earlier, that over the past decade there has been a relatively small growth in the real value of the NMW, about 2 per cent, which is well below the growth in labour productivity of 16 to 20 per cent. The implication is that minimum wage earners have only shared to a very limited extent in the benefits of productivity growth.

We turn now to a more detailed consideration of developments in the last two years. Several of the parties suggested that we should arrive at an increase in minimum wages based on developments since the last adjustment in minimum wages in the federal system. We consider that such an approach is useful. Several different starting points were suggested. We have decided that it is appropriate to consider changes in the key indicators that were available to the AFPC when it gave its wage-setting decision in July 2008.

Looking first at indications of wages growth, in the two years since March 2008 the WPI grew by 4.1 per cent and 3 per cent. Earnings as measured by AWOTE grew by 5.6 per cent and 5.8 per cent – 11.7 per cent in aggregate over the same period. While it would be unrealistic to base our decision on the growth in earnings as measured by AWOTE, because that series is affected by compositional change, the data are relevant in particular to an assessment of relative living standards. The WPI, a more accurate measure of wage growth, has also increased substantially – an aggregate of 7.3 per cent over the two years. On any view there has been strong growth in earnings during the period despite a significant slowing in growth in the WPI in the past 12 months.

Prices, as measured by the CPI, grew by 5.4 per cent between March 2008 and March this year. The employee household ALCI increased by 4.4 per cent over the same period. In light of the increases in these price measures it is clear that there has been a significant decline in the real value of minimum wages during this period. The decline in the real value of wages at the higher award levels has been relatively greater.

Our review of economic conditions indicates that since March 2008 the Australian economy has performed much better than expected. During that time, productivity, prices and real earnings have grown but minimum wages have not. There is a strong case for a rise in minimum wages to provide a fair and relevant safety net, protect the relative living standards of award-reliant employees and assist the low paid to meet their needs. The forecasts for 2010–11 give strong grounds to conclude that such

an increase could be awarded without threatening business viability, employment growth or adding to inflation. We have concluded that a significant increase in minimum wages is warranted. We deal now with the form of the increase. ..." ¹⁵³

352. We do not suggest that current economic conditions are equivalent to those that presented to the Panel when it so decided that a significant increase in minimum wages was warranted. We do however point out that, taking a longer term view, important matters that concerned the Commission over the two year period leading to its decision are now rather entrenched trends that in our submission require significant intervention to address, namely the decoupling of wage growth from productivity growth (refer to our discussion in sections 6.5 Productivity growth and 6.6 Wage measures) and persistent almost imperceptible growth in real terms in the national minimum wage.

353. Our proposed increase in minimum wages is intended to improve the minimum wage bite, and contribute to recovering and improving the relative living standards of low paid workers.

354. It should not be the case that minimum wages adjustments result in either a falling, or roughly stable, minimum wage bite. In our view, the living standards of low paid workers are too low relative to other workers. Current minimum wage levels, in our view, provide neither a fair nor relevant safety net. The increase we propose would begin to reverse the erosion of relative living standards and restore fairness. This also has the advantage of arresting the drag on growth resulting from increased inequality.

9.4 Relative earnings in the more award-reliant industries

355. While average and median earnings for Australian workers have grown significantly faster than the NMW and award minimum wages between November 2010 and November 2016, they have still grown quite slowly in real terms in the most recent years. The divergence is not just due to rapid wages growth in the mining industry and other high-growth sectors.

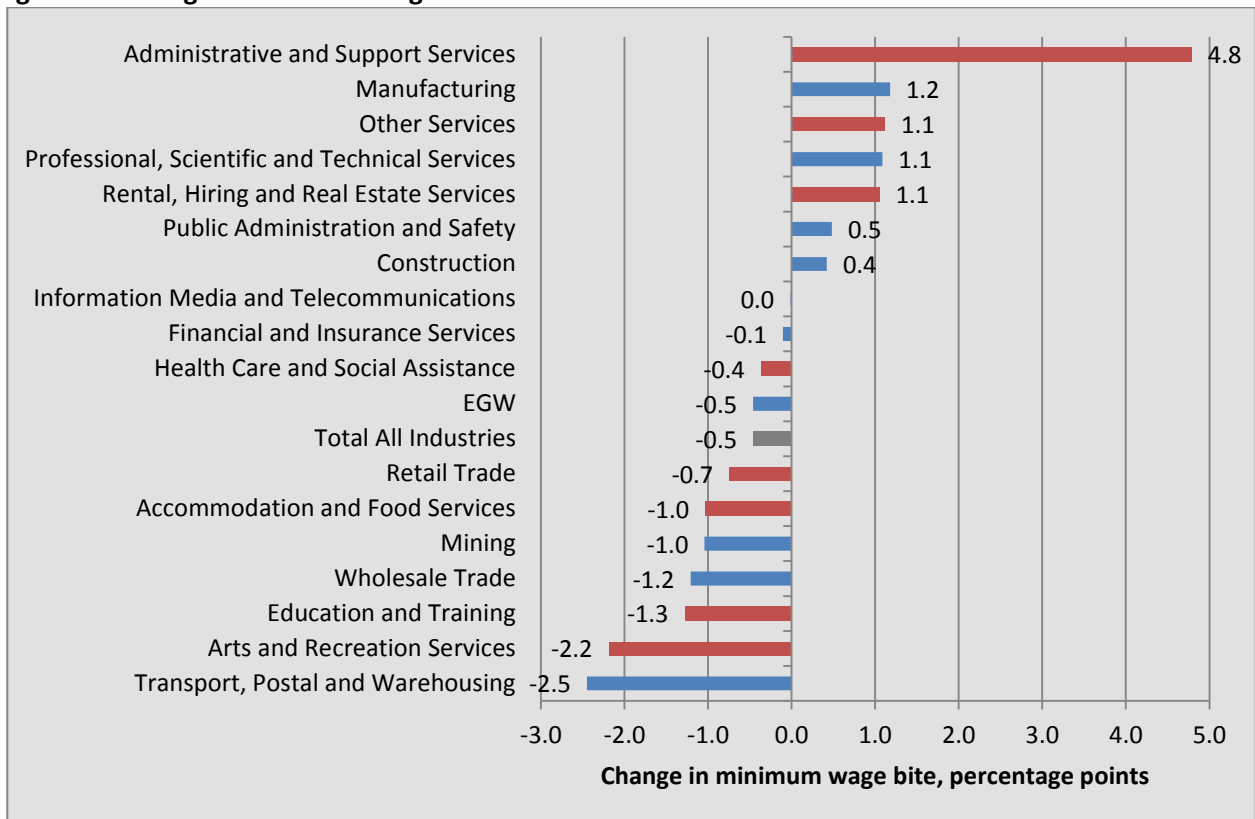
356. Figure 58 shows that the NMW fell relative to AWOTE in eleven industries out of the eighteen over the decade to November 2015. The seven industries where the minimum wage bite improved only showed improvements no better than around one percentage point, except for Administrative and support services where the minimum wage bite improved nearly five percentage points.

357. Minimum wages have failed to keep pace with average earnings in the more award-reliant industries of Retail Trade and Accommodation and Food Services. Over the past six years, the ratio of the NMW to average full-time earnings in the Accommodation and Food Services industry fell by 1.0 percentage points, while in Retail Trade it fell 0.7 percentage points. The

¹⁵³ [2010] FWA FB 1000 at [329]-[333].

minimum wage bite fell by 1.3 percentage points in the rapidly increasing and increasingly award dependent area of Education and training over six years.

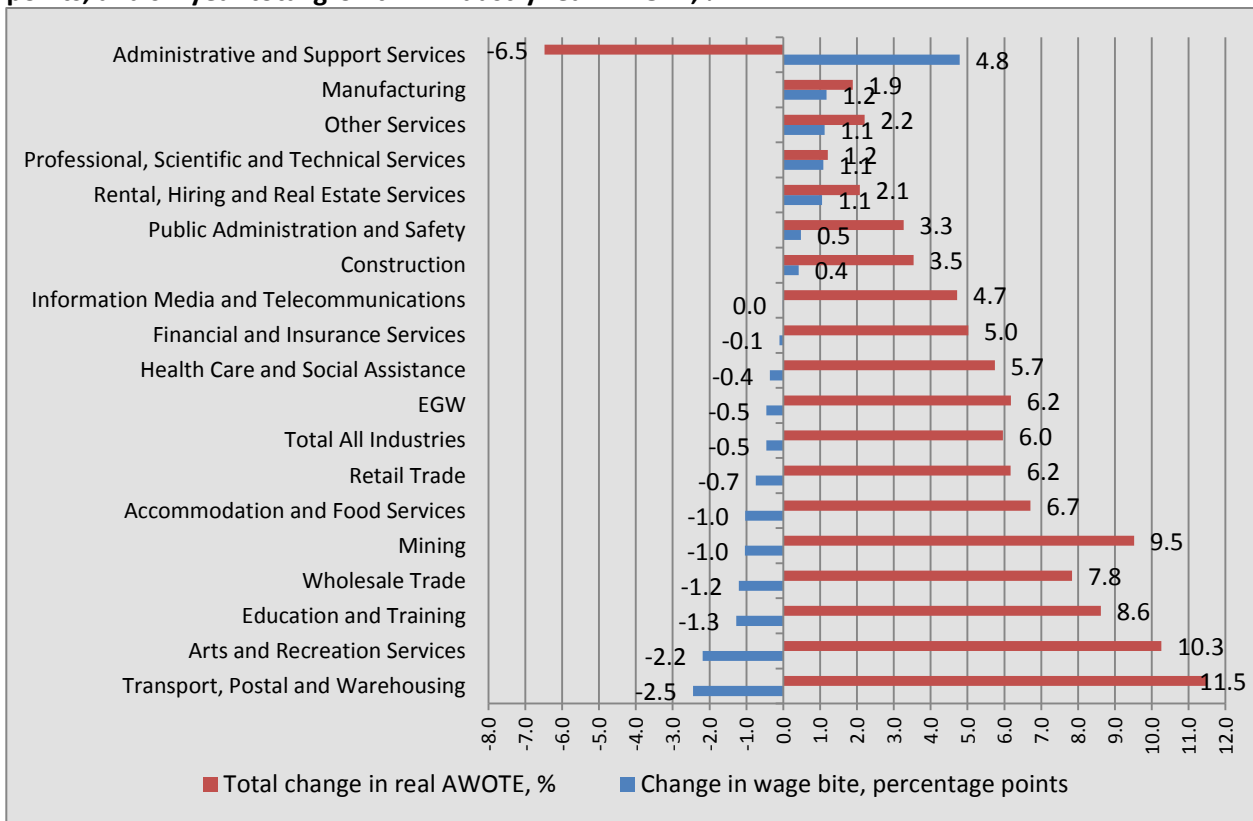
Figure 58: Change in minimum wage bite between November 2010 and November 2016



Sources: NMW from Bray (2013). AWOTE from ABS 6302, ACTU calculations

358. Where the NMW has been closer to keeping pace with average wages, it may be due to the slow growth in wages in the particular sector as shown in Figure 59. The industries with positive change in the minimum wage bite have very low or zero growth in real average wages over the six years to November 2016, where in Administrative and support real AWOTE fell.

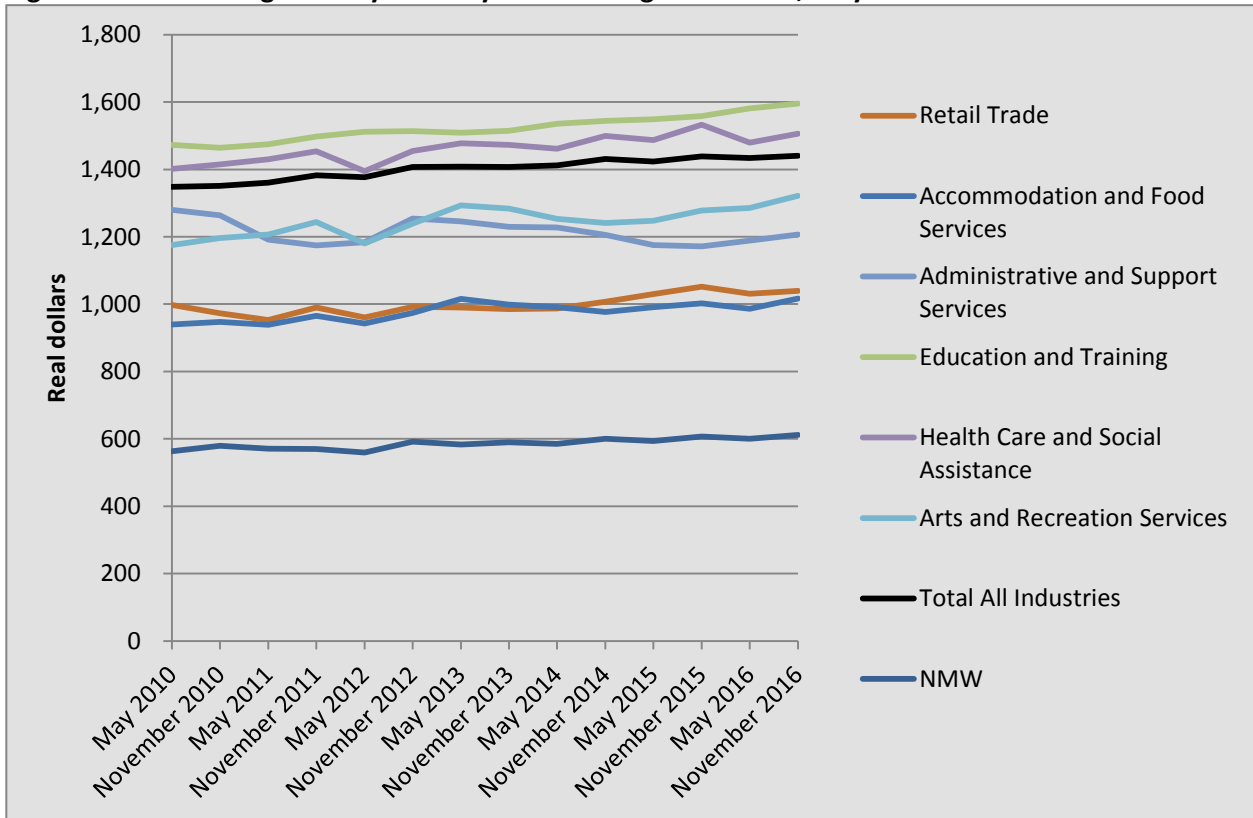
Figure 59: Change in minimum wage bite between November 2010 and November 2016, percentage points, and six year total growth in industry real AWOTE, %



Sources: NMW from Bray (2013). AWOTE from ABS 6302, cpi from ABS 6401, ACTU calculations

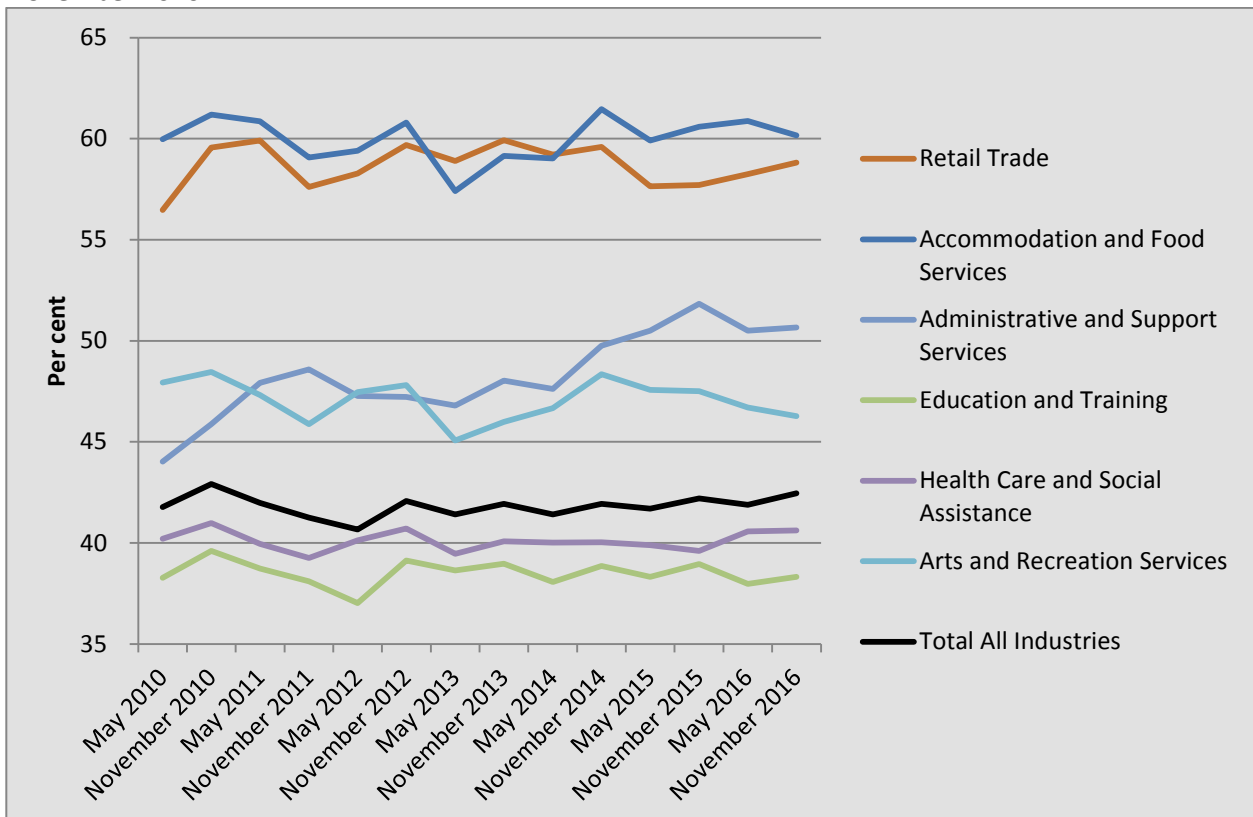
359. It is also clear that in Retail Trade and Accommodation and Food Services industries, the two largest employers of workers reliant on minimum wages, the gap has still grown between minimum wage workers and other workers. This is the case even in industries in which the low-paid are typically employed.

Figure 60: Real average weekly ordinary time earnings and NMW, May 1997 to November 2015



Sources: NMW from Bray (2013). AWOTE from ABS 6302, cpi from ABS 6401, ACTU calculations

Figure 61: NMW as a percentage of average earnings, award dependent industries, May 2010 to November 2016



Sources: NMW from Bray (2013). AWOTE from ABS 6302, cpi from ABS 6401, ACTU calculations

360. It can be observed that real average wages have grown so slowly in the past few years that they are keeping the minimum wage bite level or even increasing it, as shown in Figure 60 and Figure 61. However there is not a consistent pattern even across the award reliant industries. Where a slight increase in minimum wage bite has occurred, it is now usually a reflection of slides in relative living standards so great that it has impacted even on average wages, despite low inflation. In particular, the slide in real average wages has been in large employing, award reliant areas. This itself reflects the impact of the slow growth in the minimum wage in those award reliant areas. It also shows up in the widening gap between the average wages in those award reliant areas and other industry areas as shown in Figure 60. This constitutes little or no improvement of overall living standards in the more award reliant industries in absolute terms, and a worsening relative to the rest.

361. Awarding our claim in this Review is vital in order to reverse the slow growth in minimum wages and the trend fall in the relative living standards of low paid workers, including other workers within their industries.

9.5 Australia's minimum wage in international context

362. The Panel is required to take into account relative living standards. Comparisons of minimum wages and wage bites with other developed countries are also pertinent to relative living standards. The Panel has expressed reservations about the relevance of international comparisons in previous Reviews. In its 2016 decision, the Panel again stated that "Whilst, the decline in the NMW relative to median earnings provides one piece of information relevant to the relative living standards of the low paid, the Australian minimum wage bite relative to that of other OECD countries is of limited significance in that evaluation."¹⁵⁴

363. We acknowledge the Panel's view regarding the relevance of international comparisons of minimum wages. We nevertheless respectfully submit that such comparisons do provide some relevant information for increasing minimum wages in Australia.

364. A falling minimum wage bite is very far from a necessary and inevitable consequence of globalisation and/or technological change. On the contrary as increasingly recognised in the literature, it is an outcome of the regulatory frameworks and institutions specific to a country. Therefore insight is to be gained by comparing minimum wage outcomes for Australia as against other countries.

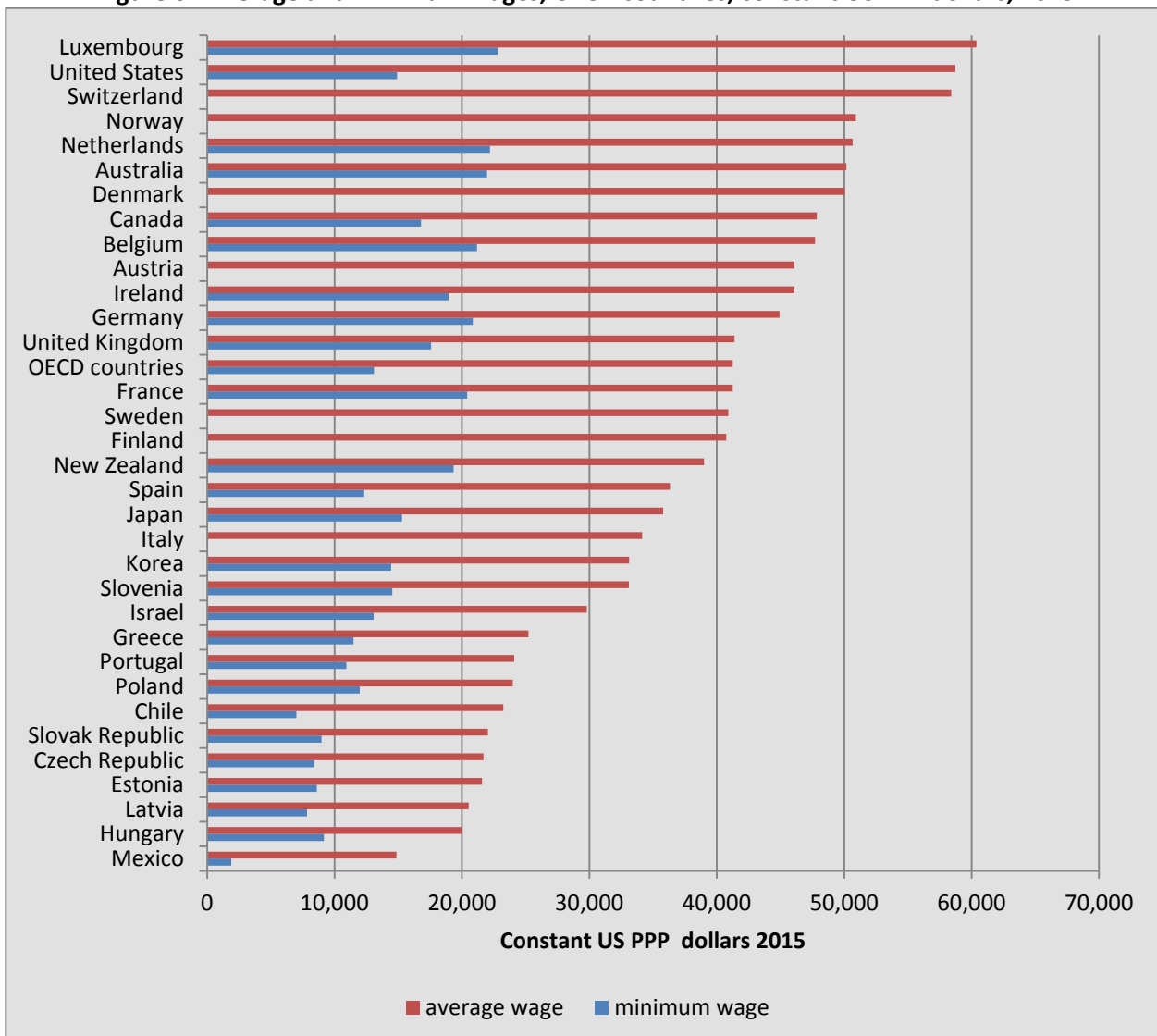
365. An increase in the minimum wage would encourage economic growth through its role in reducing inequality. A comparison of real minimum wages across the OECD in 2016 shows that while Australia has the third highest minimum wage at almost \$22,000 in 2016 in constant PPP

¹⁵⁴ [2016] FWCFB 3500, [385]

US dollars, there are two countries slightly above it and another three above USPPP\$20,000. The high income countries range up from the US minimum at \$14,800, with the rest of the OECD countries below that.¹⁵⁵ But this needs to be viewed in the context of the general level of development of those economies.

366. In fact it appears that the minimum wage is related to the level of development of the economy, see Figure 62. That is, there is no reason that raising the minimum wage would threaten the standard of living. On the contrary, slower growth in the standard of living may result if the minimum wage is not increased. Rather, the minimum wage is a strategy for sharing it around and encouraging economic growth.¹⁵⁶

Figure 62 Average and minimum wages, OECD countries, constant US PPP dollars, 2015



Sources: <https://stats.oecd.org/Index.aspx?DataSetCode=RMW>, [https://stats.oecd.org/Index.aspx?DataSetCode=AV AN WAGE](https://stats.oecd.org/Index.aspx?DataSetCode=AV_AN_WAGE)

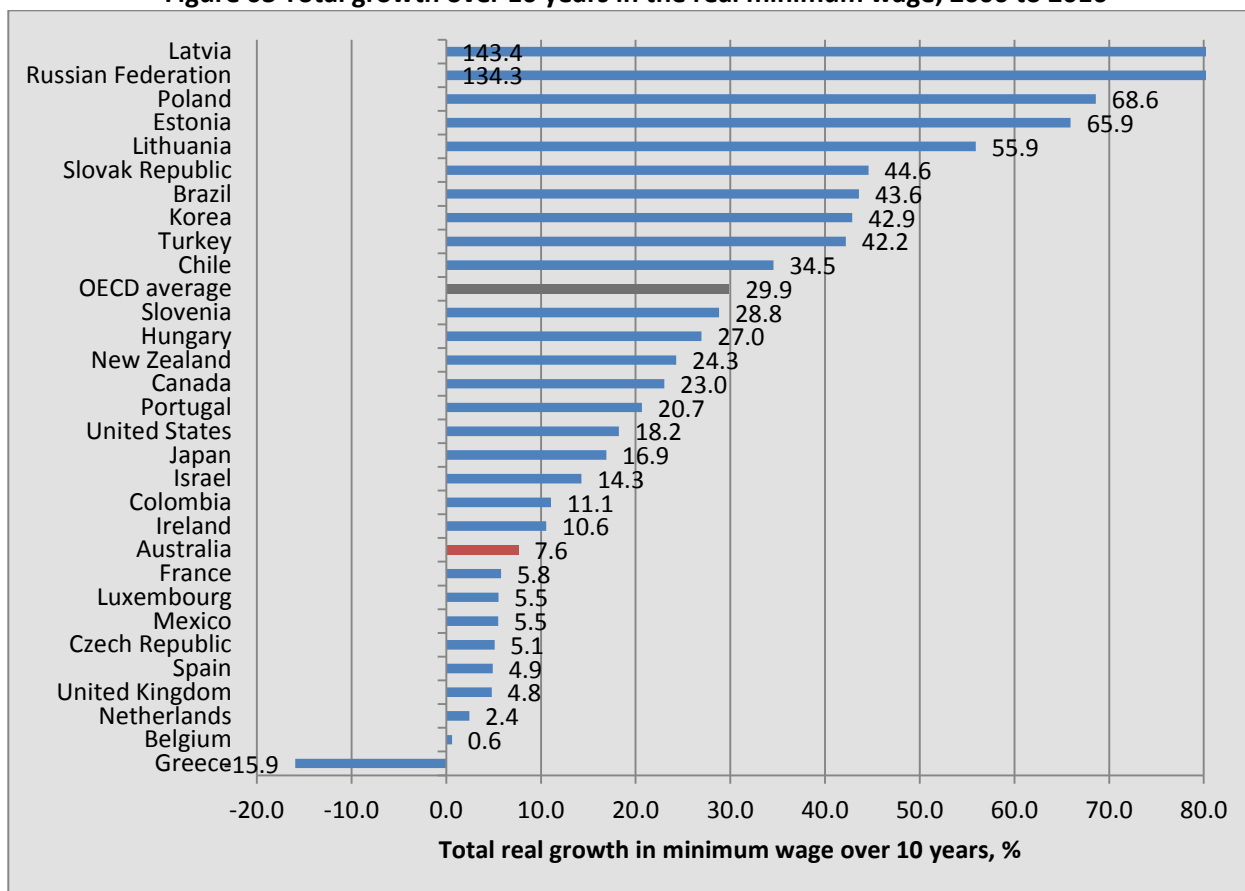
367. The total growth over ten years in the real minimum wage across OECD countries is shown in Figure 63. The OECD total figure would be 22.4% if Latvia and Russia were excluded. Australia's

¹⁵⁵ <https://stats.oecd.org/Index.aspx?DataSetCode=RMW>

¹⁵⁶ [https://stats.oecd.org/Index.aspx?DataSetCode=AV AN WAGE](https://stats.oecd.org/Index.aspx?DataSetCode=AV_AN_WAGE)

real minimum wage increase over ten years is the tenth lowest, followed by some high income OECD countries, but also with some much higher increases in countries such as the US, Canada and New Zealand and Japan, and countries which were affected more by the GFC.

Figure 63 Total growth over 10 years in the real minimum wage, 2006 to 2016



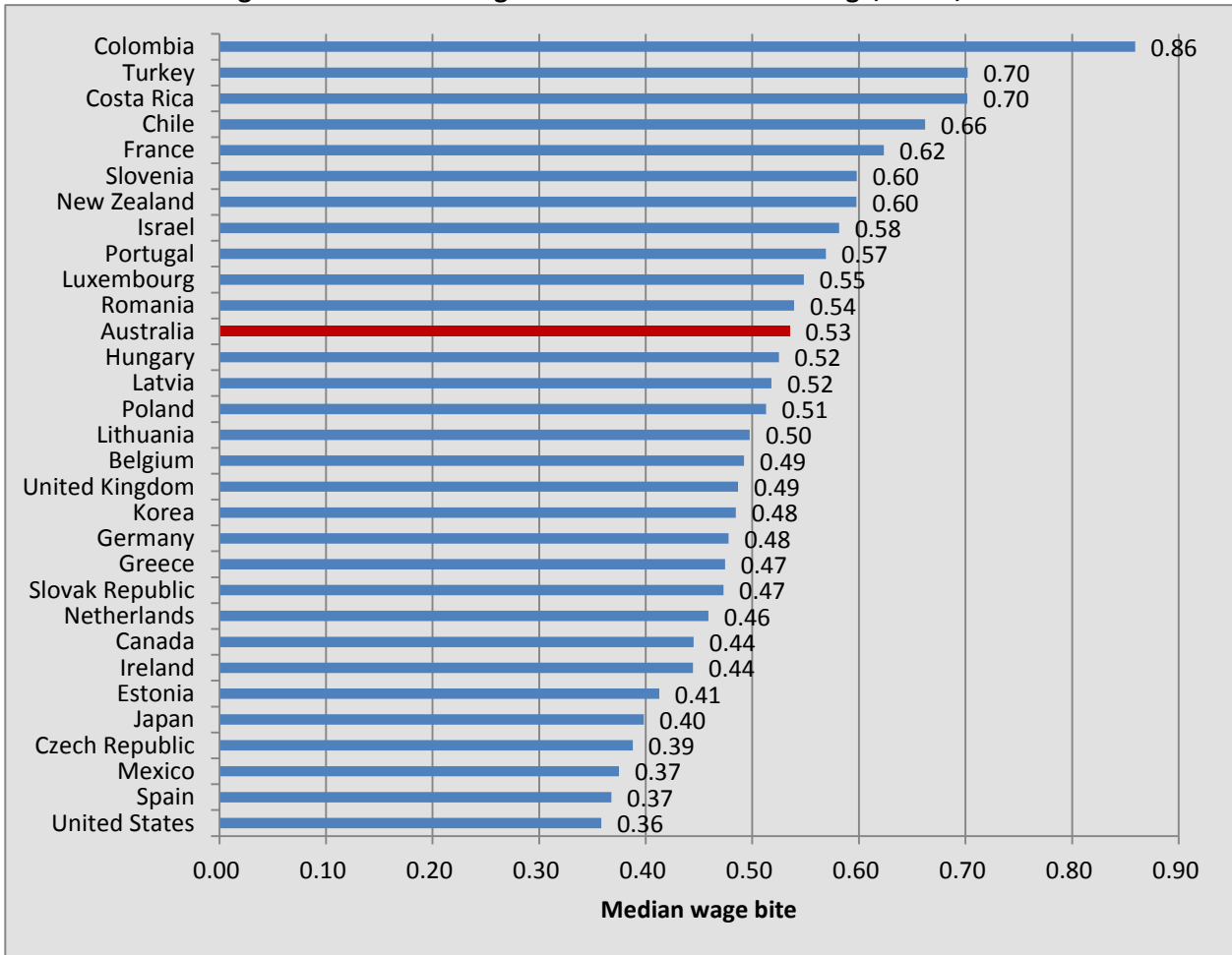
Source, OECD stats <https://stats.oecd.org/Index.aspx?DataSetCode=RMW> and ACTU calculations

368. A comparison of minimum wage bites across the OECD shows there is nothing inevitable about the size of the bite, as shown in Figure 64 and Figure 65. Australia’s median wage bite (full time) at 0.53 is just above the OECD average at 0.52 in 2015, with 11 countries with higher median bites.¹⁵⁷ Australia’s average wage bite (full time) at 0.44 is also above the OECD average at 0.40 in 2015.

369. Of course, many factors other than minimum wages can affect the level of inequality and the prevalence of low pay. Nevertheless, we submit that if Australia’s minimum wage bite is not raised, then higher inequality and even more prevalent low pay will prevail.

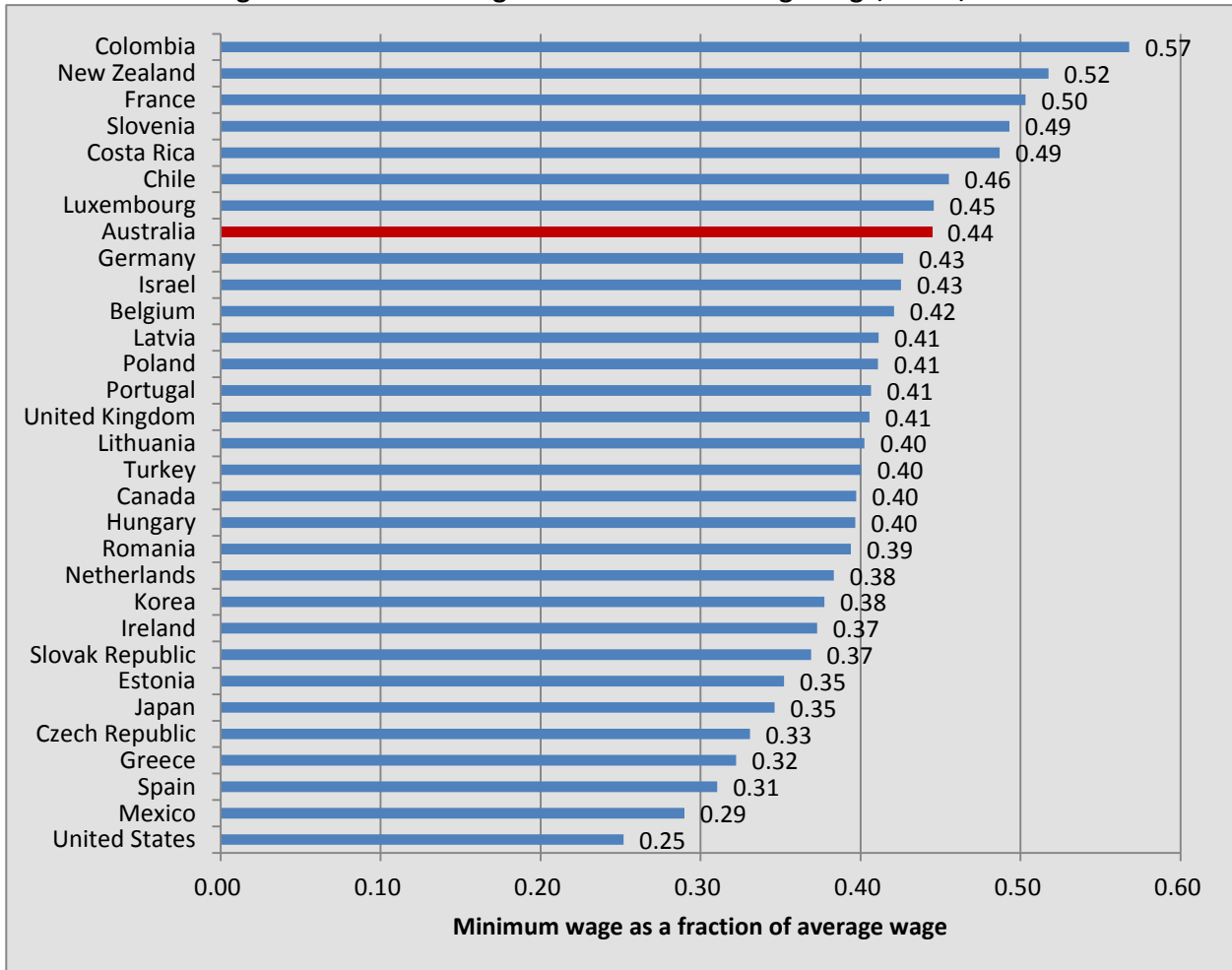
¹⁵⁷ In some years, the OECD figures differ slightly from those obtained by dividing the C14/NMW rate by AWOTE from ABS 6302. The difference is never greater than a percentage point. The ACTU has used the OECD figures for international comparisons to ensure comparability.

Figure 64 Minimum wage as a fraction of median wage, OECD, 2015



Source: <https://stats.oecd.org/Index.aspx?DataSetCode=RMW>

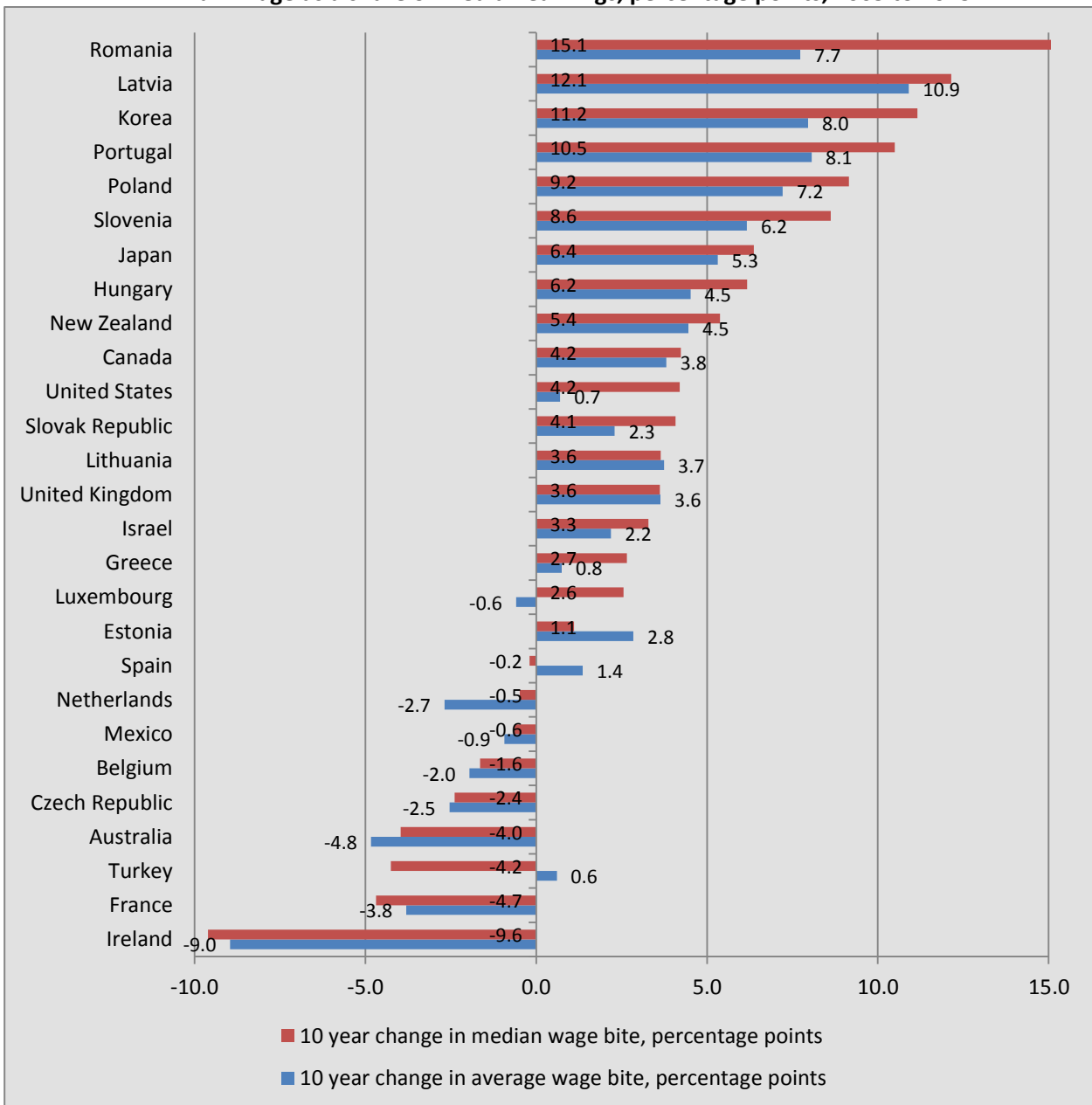
Figure 65 Minimum wage as a fraction of average wage, OECD, 2015



Source: <https://stats.oecd.org/Index.aspx?DataSetCode=RMW>

370. Nine OECD countries experienced a falling minimum wage bite over the ten years to 2015 as shown in Figure 66, including Australia with the fourth biggest negative change of 4.0 percentage points in the median bite after Turkey, France and Ireland. Despite Australia being one of the least affected countries by the GFC, wages growth and minimum wage growth have dragged.

Figure 66 Total change over 10 years in minimum wage as a share of full time mean earnings, change in minimum wage as a share of median earnings, percentage points, 2005 to 2015



Source: OECD stats <https://stats.oecd.org/Index.aspx?DataSetCode=RMW> and ACTU calculations

371. Australia’s minimum wage bite was, for a long time, the highest in the OECD. It has been allowed to fall for several decades, at the same time that the minimum wage bites in most OECD countries have risen. The result is that Australia is drifting towards the middle of the range of minimum wage bites for OECD countries. This is the case for both mean and median based wage bites.

372. Australia’s minimum wage growth has lagged while other countries are instituting increases in their minimum wages. This is despite more rapid growth in average wages in the countries recovering from the GFC. Recently average wages in Australia have grown even more slowly

than its minimum wage, flattening out its wage bite, but its relativity with other OECD countries has still slipped.

373. There is no reason why Australia cannot take the lead again in minimum wages. The last thing we want is for the Australian labour market to come to resemble those of some other OECD countries which have higher levels of earnings inequality.

374. Moreover the OECD countries have shown an increasing interest in minimum wages. Twenty-six OECD countries out of 35 now have minimum wages, albeit with a variety of institutional arrangements.¹⁵⁸

375. The impact of the minimum wage on relative living standards depends on the taxes paid and transfers received at that wage, including income taxes, social security contributions, and in-work benefits. Taking account of the impact of these on the minimum wage bite in each country changes the ranking significantly. Australia's taxes and transfers left it with a net minimum wage bite of 47.7% which was five percentage points lower than its gross minimum wage bite in the OECD study for 2014. This moved Australia's net minimum wage bite measure down the rankings enough at 2014 to leave it just above the OECD average net minimum wage bite of 44.9%, with only two countries in between (Ireland and Czech Republic).¹⁵⁹

376. A number of countries that had lower gross minimum wage bites at 2014 than Australia (such as Japan and the UK) had higher net minimum wage bites. Average difference between gross and net wage bite in the OECD study for 2014 was 2.1% whereas Australia's was 5.0%. The gross minimum wage in Australia has to do relatively more heavy lifting than in the average OECD country to bring up the wage bite after taxes and transfers. This is because Australia's tax and transfer system has not been as redistributive towards equity as other OECD countries.¹⁶⁰

377. Australia has led in the past on minimum wage rates, and the current circumstances provide the opportunity to move towards restoring that leadership.

9.6 Minimum wages and inequality

378. The Panel stated in the AWR for 2015-16 that "[64] Increases in the minimum wage and award classification wages do have a role to play as part of a package of measures to address inequality. Increases in the minimum wage and award classification wages have directly impacted on the relative living standards of the low paid and their capacity to meet relevant needs."¹⁶¹ We hope to respectfully show in this section that inequality has continued to increase on trend.

¹⁵⁸ <https://www.oecd.org/eco/growth/Going-for-Growth-Chapter-3-Overview-2017.pdf>

¹⁵⁹ OECD 2014, *Employment Outlook 2014*, p.68, update of estimates not available. The OECD's calculations of net bites are for single adults without dependents.

¹⁶⁰ <https://www.oecd.org/social/OECD2016-Income-Inequality-Update.pdf> Chart 5

¹⁶¹ FWC 2016 Annual Wage Review 2015-16 [64]

379. Earnings inequality has risen in Australia over the past several decades.

380. A key measure of earnings inequality relevant to Annual Wage Reviews is the 50:10 ratio – this measures the ratio of median earnings to earnings at the 10th percentile of the distribution. The higher this ratio, the more unequal is the bottom half of the earnings distribution. The 50:10 ratio among full-time non-managerial adult workers was 1.41 in 1990, then rose to 1.49 in 2000, then 1.57 in 2010, 1.58 in 2012 and 1.59 in 2016.¹⁶²

381. Figure 67 and Figure 68 below show the earnings of full-time workers at the 90th, 50th (median), and 10th percentiles, as well as the ratios between these levels of earnings. The data are for the two yearly intervals available from ABS *Employee Earnings and Hours*, most recently at May 2016.

Figure 67: Real wages for full-time non managerial adults

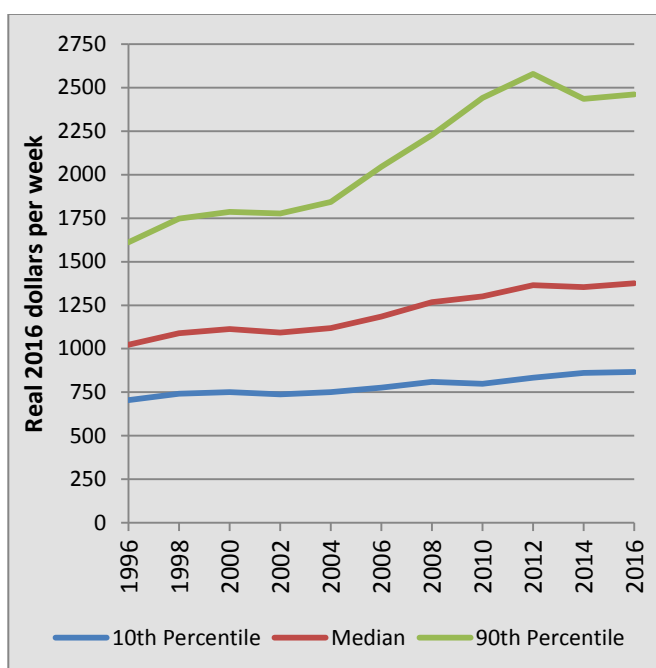
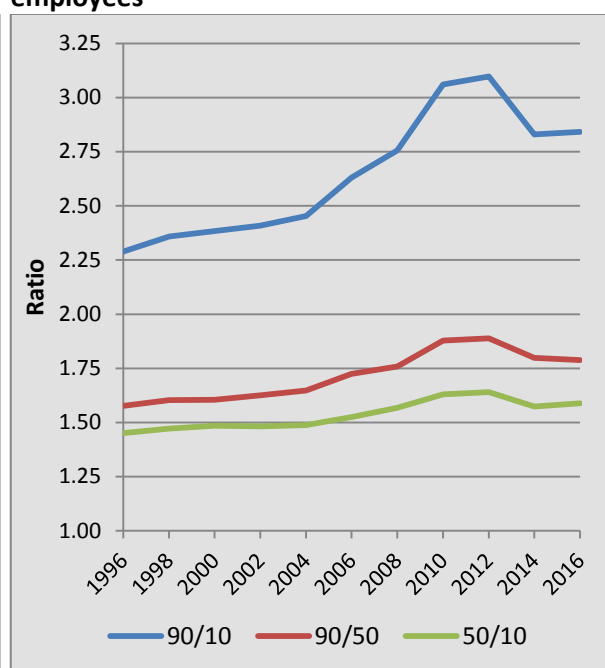


Figure 68: Measures of earnings inequality among full-time non-managerial adult employees



Source: ABS 6306 various years, 6401 and ACTU calculations. Earnings figures pertain to full-time non-managerial adult employees.

382. What is stark is the increase in real earnings in the 90th percentile between 2004 and 2012, and the resulting jump in earnings inequality followed by a fall in the 90th percentile real earnings. However this clearly did not spill over to earners on lower wages, although it is possible they would have been even worse off without the mining impact. Real earnings at the median rose slightly and then flattened out from 2012, and earnings at the 10th percentile rose very little from 2008.

383. Earnings inequality based on the 50:10 ratio fell a bit as median earnings flattened out from 2012 due to the fall in real earnings at the top, not because earnings rose in the bottom 10th or

¹⁶² ABS 6306 Cube 8, May 2016

50th percentiles, in real terms, with no benefit from low inflation. From 2014 inequality appears to have picked up again, with the 90/10 ratio rising slightly.

384. The correlation between a lower minimum wage bite and higher 50:10 earnings inequality has also held across OECD countries.¹⁶³ This is convincing because the institutional and economic environment varies widely amongst countries and the minimum wages and average wages are established basically independently in each country. It is clear that a smaller minimum wage bite is associated with greater earnings inequality.

385. It is important to note that inequality of equivalised disposable household income remains high by historical standards, high by the standards of other OECD countries, and has risen particularly among the groups most relevant to Annual Wage Reviews.

386. Based on the Gini coefficient, equivalised household disposable income was less equally distributed in 2013-14, most recent data, than 20 years earlier.¹⁶⁴ This displays the continuation of a widely recognised trend common across countries.

387. However the Gini coefficient is a blunt instrument for measuring changes in income distribution at the top and the bottom which are relevant to the minimum wage. Because of the way the Gini coefficient is calculated, it puts a relatively high weighting in importance on the middle sector of the income distribution relative to either end of the income distribution. Moreover it does not capture differences in the spread of income within the lower and upper ends, nor changes in these. It tends to display cyclicity as income shifts around the income distribution over time.

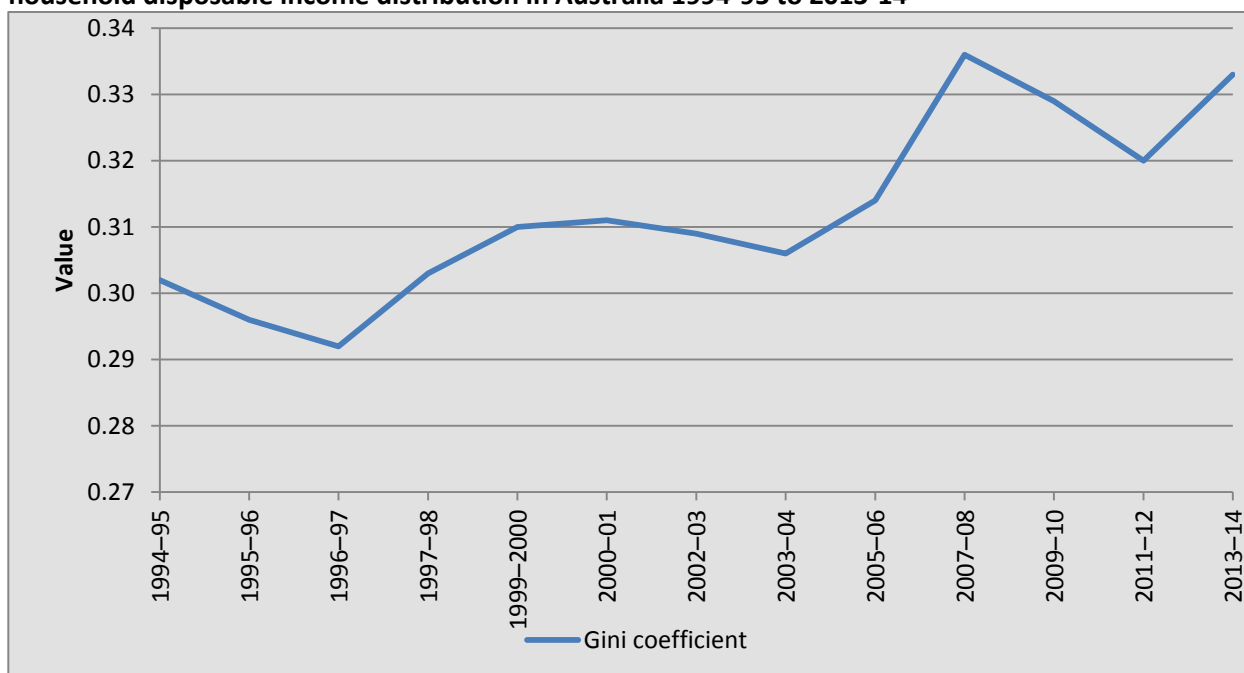
388. The Gini coefficient in 1994-96 was 0.302, rising to 0.333 by 2013-14.¹⁶⁵ The Gini coefficient fell a little over the GFC period and after, between 2007-08 and 2011-12, before rising in the most recent data of 2013-14 almost back to the level of 2007-08 (0.336). Equivalised household disposable incomes remain more unequal in 2013-14 than at any time prior to 2007-08 for which data is available. Based on the Gini coefficient for equivalised household disposable income on trend, it is a furphy to argue that income distribution has become more equal.

¹⁶³ OECD stat and ACTU calculations, ACTU 2015 Submission to Annual Wage Review 2014-15, 27 March, pp.43-44.

¹⁶⁴ ABS 6523

¹⁶⁵ The Gini coefficient is a measure of inequality that takes the value 0 when income is distributed equally among all members of the population and the value 1 when one member of the population receives 100% of the income. A higher value of the coefficient indicates a higher level of inequality.

Figure 69: Gini coefficient, a measure of inequality where higher is more unequal, for equivalized household disposable income distribution in Australia 1994-95 to 2013-14



Source: ABS 6523. Equivalized disposable household income standardizes as if a household's after tax and transfers income were that of a single individual.

389. We cannot expect taxes and transfers to perform the role of reducing inequality as indicated earlier.¹⁶⁶ That role is best and most efficiently served by an increase in the minimum wage. While this is true anyway, it is particularly the case in a policy context of reducing transfers to households at lower income levels and reducing taxes at the top end.

390. The ACTU's submission to the AWR 2015-16 described the increase in income inequality over the past decade for lone person working-age households. It is the living standards of these households that the Panel has indicated are most relevant to Annual Wage Reviews. The ACTU's submission also observed that inequality has also grown sharply among households for which the main source of household income is wages and salaries.¹⁶⁷

391. Inequality in disposable incomes among lone person households aged 25-44 rose by 16.5% between 2003-04 and 2013-14. For lone person households aged 45-64, inequality rose by 18.1%. For households (of all ages and family types) in which the main source of income was wages and salaries, inequality rose by 15.9%.

392. To the extent that levels of inequality can be compared over time due to data changes, inequality has increased again by 2013-14 after a slight fall in the post-GFC period. This was particularly the case for lone person households of working age and households for which the main source of income is wages and salaries.

¹⁶⁶ <https://www.oecd.org/social/OECD2016-Income-Inequality-Update.pdf> Chart 5

¹⁶⁷ ACTU 2016 Submission to Annual Wage Review 2015-16, 30 March, [239] to [241]

393. Rising inequality is a crucial issue. A declining minimum wage bite exacerbates earnings inequality and is associated with higher incidence of low pay. It is clear that higher inequality of earnings among workers generally translates into higher inequality of incomes among households.
394. The maintenance of a fair safety net that takes into account relative living standards is not consistent with high and rising levels of inequality. Higher inequality is also undesirable for the potential effect it may have on health, social cohesion, and the economy. A higher minimum wage will assist in reducing inequality.
395. It has now become recognised in mainstream economic literature and by international institutions such as the IMF¹⁶⁸ and the OECD¹⁶⁹ and national economic institutions in the US¹⁷⁰ and the UK for instance, that inequality can be harmful to economic growth. The research evidence that inequality has a negative impact on growth has become well established and widely accepted.
396. The Australian Government response of December 2016 provided by The Treasury to the Senate Community Affairs References Committee Report, *Bridging our growing divide: inequality in Australia: The extent of income inequality in Australia* recognised the importance of higher wages in stating that “The Australian economy needs investment that will provide more working hours and higher wages for employees and do its part to take the place left from the decline in mining investment” and that “The Parliament’s support for measures to boost investment and growth in the Australian economy will assist the Australian Government in its goal of alleviating poverty and associated inequality.”¹⁷¹ Aside from issues as to the effectiveness of those measures, this is an acknowledgement of the importance of higher wages. Raising the minimum wage is a very direct way of achieving that.
397. However The Government’s response also cited the OECD as finding that income inequality has increased by substantially less than many comparable OECD countries over the past 30 years and that key inequality measures have actually fallen since the GFC.¹⁷²
398. However it is well understood that many of those countries experienced a much bigger impact from the GFC and the accompanying widening of inequality.¹⁷³ The ACTU view also is that where key inequality measures have fallen for Australia it is primarily a result of falls in income

¹⁶⁸ Jonathan D. Ostry, Prakash Loungani, and Davide Furceri 2016 Neoliberalism: Oversold? *Finance & Development*, June 2016, Vol. 53, No.2

¹⁶⁹ <https://www.oecd.org/social/OECD2016-Income-Inequality-Update.pdf>, p.4

¹⁷⁰ <https://www.gpo.gov/fdsys/pkg/ERP-2017/pdf/ERP-2017.pdf> pp.22, 43, 59-60

¹⁷¹ The Australian Government response of December 2016 provided by The Treasury to the Senate Community Affairs References Committee Report, *Bridging our growing divide: inequality in Australia: The extent of income inequality in Australia*, p.4

¹⁷² The Australian Government response of December 2016 provided by The Treasury to the Senate Community Affairs References Committee Report, *Bridging our growing divide: inequality in Australia: The extent of income inequality in Australia*, p.4, citing OECD 2015 *In it together: Why Less Inequality Benefits All*

¹⁷³ <http://www.oecd.org/social/inequality-and-poverty.htm>

at the top rather than any increase in real wages at the bottom, as discussed above. These are not arguments against the need for a substantial increase in the minimum wage.

399. Moreover the OECD *Income Inequality Update* of November 2016 indicates that income inequality as measured by the Gini coefficient in Australia remains well above the OECD average, and is 12th highest out of 33 OECD countries.¹⁷⁴

400. Awarding our claim in this Review will help improve the earnings distribution. The intention is to improve earnings inequality and income inequality, particularly among working households. This is a social and economic imperative.

9.7 The needs of the low paid

401. Among other considerations, the Panel is required to take into account the needs of the low paid.

402. In 2016, the Panel awarded a 2.4% increase in the minimum wage. Over the year to December 2016, CPI inflation was 1.5%, while the employee Living Cost Index (LCI) for an employee household increased by 1.0%.¹⁷⁵

403. The Reserve Bank of Australia (RBA) has forecast CPI inflation of 1½ to 2½ per cent over the year 2017.¹⁷⁶ Taking the midpoint of this range, nominal wages growth of at least 2.0% might prevent a fall in real wages, but would still not stop the earnings of the low paid from falling behind the rest of earners.

404. Moreover an increase that merely covers likely cpi increase would not take account of the costs of essential, non negotiable items which have increased disproportionately relative to the average. The ACTU would seek a minimum wage increase that takes account of the greater hardship caused to award reliant employees by disproportionate increases in the cost of non negotiable items.

405. The slight increase in the real minimum wage of less than one per cent last year does not go far towards ensuring that low paid workers are able to live better. In particular the disproportionate increase in costs of a range of essential items such as health, education and the generally largest item, housing costs, means that discretionary spending is squeezed more at lower incomes.

406. Over the year 2016, food cpi increased 20% faster than total cpi , housing cpi increased 27% faster, utilities cpi increased 73% faster, electricity cpi increased 213% faster, child care cpi

¹⁷⁴ <https://www.oecd.org/social/OECD2016-Income-Inequality-Update.pdf> Chart 1

¹⁷⁵ LCI is 'concerned with measuring the impact of changes in prices on the out-of-pocket expenses incurred by households to gain access to consumer goods and services.' The biggest difference with cpi is that LCI accounts for housing costs in terms of actual cash outlays incurred, and may better reflect changes in purchasing power at lower income levels.
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6467.0Explanatory%20Notes1Dec%202016?OpenDocument>

¹⁷⁶ Reserve Bank of Australia 2016, *Statement on Monetary Policy: February 2017*, RBA, Sydney, p.57.

increased 440% faster, health cpi 146%, and education cpi 120% faster than total cpi.¹⁷⁷ This is shown in Table 14.

407. Table 14 also shows the contributions of spending in some essential categories by which the total cpi is weighted. The proportion of spending on these non negotiable items amounts to around 58% of the cpi basket which represents average expenditure.

408. The contributions shown in Table 14 represent proportions what average households spend, not what low income households spend. It would be expected that these items would be much larger proportions of lower income household spending and therefore price increases in those items would affect their disposable income much more.

409. For instance if housing expense share of total spending is larger than 26.7% for lower income households, then an increase of more than a quarter in that cost is a serious squeeze on disposable income. Even at that representative rate, it means housing costs increase to a share of one third of total expenditure. Childcare, an essential cost of employment for many, constitutes a much higher proportion than 1.1% of total expenditure for many of these households, even with the current subsidy arrangements which are likely to reduced.

Table 14 Various essential spending categories, contribution to total cpi and percentage increase compared to cpi, 2016

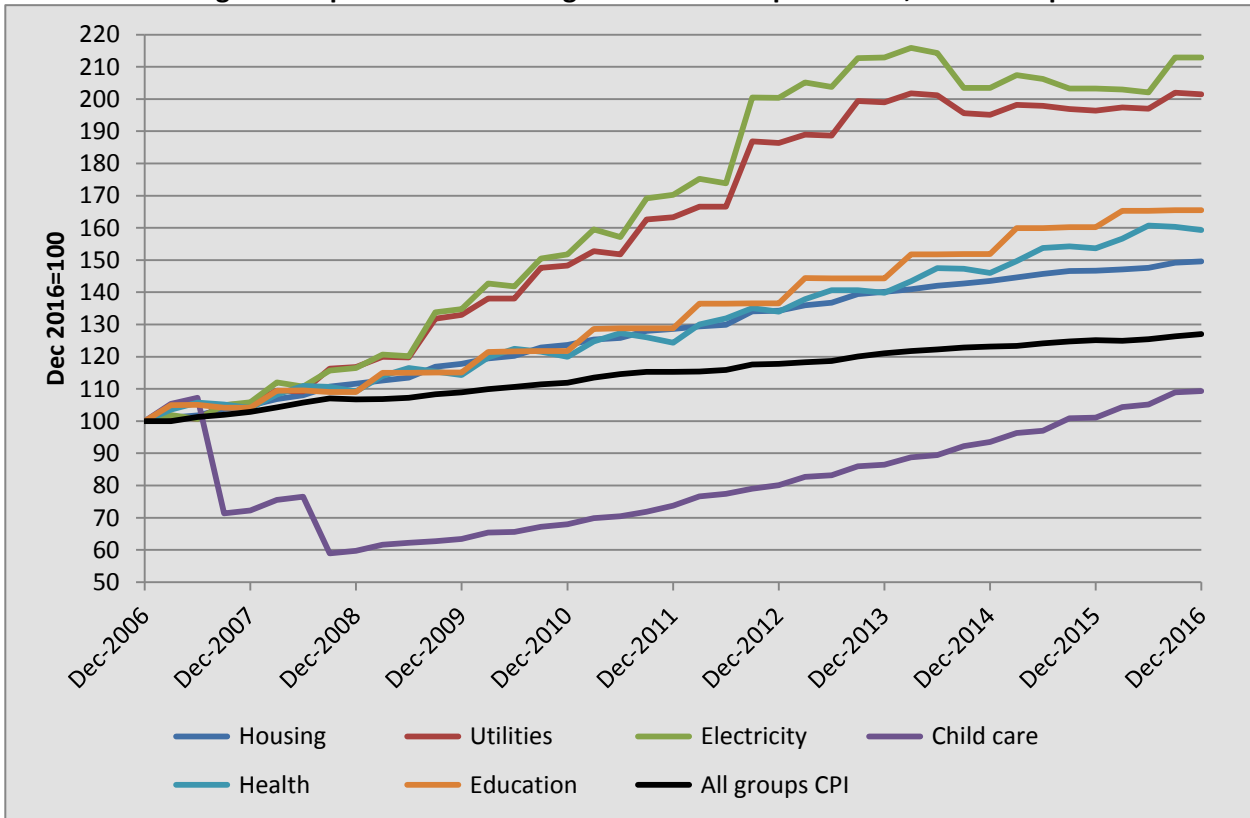
	Food	Housing	Utilities	Electricity	Gas	Childcare	Health	Education	total cpi
Contribution to cpi Dec 2016, %	17.4	26.3	4.8	2.7	1.0	1.1	6.6	4.1	100
cpi % increase above total cpi, year to Dec 2016	20.0	26.7	73.3	213.3	26.7	440.0	146.7	120.0	na

Source: ABS 6401 and ACTU calculations

410. Figure 70 shows cpi indices for some expenditure categories that cannot be avoided regardless of income, and are significant expenditure items for low paid employees. These are compared with total cpi over the last 10 years. All except childcare have increased faster than cpi over the whole 10 year period, which means they contribute an increasing proportion to total cpi increases and become on average an increasing expenditure impost out of income. Childcare costs have also risen disproportionately to total cpi from September 2008 onwards. People at lower levels of income are hit hardest as they are left with increasingly and disproportionately less disposable income after paying for these non discretionary items.

¹⁷⁷ ABS 640105 and calculations.

Figure 70 Cpi indexes for a range of essential expenditures, and total cpi



Source: ABS 6401

411. Another axis of need is that arising from a “record high” in the ratio of household indebtedness to income, as indicated in the speech by the Governor of the Reserve Bank, Philip Lowe of 22 February 2017.¹⁷⁸ Governor Lowe indicated that the debt servicing burden is not that high at the moment due to the low level of interest rates. However, we note that major banks and other lenders (ANZ, Westpac, National Australia Bank, Commonwealth Bank, AMP Bank, BankSa, St George) have announced increases in their loan rates although RBA interest rates remain unchanged. This comes on the back of reported observations late last year by both Moody’s¹⁷⁹ and Standard and Poors¹⁸⁰ - i.e. *before* any of the recently announced rises in home loan interest rates - that the level of delinquent mortgages (those in arrears more than 30 days) was on the rise. Moody’s produced the following chart which tends to indicate that small rises were observed in all States and Territories:

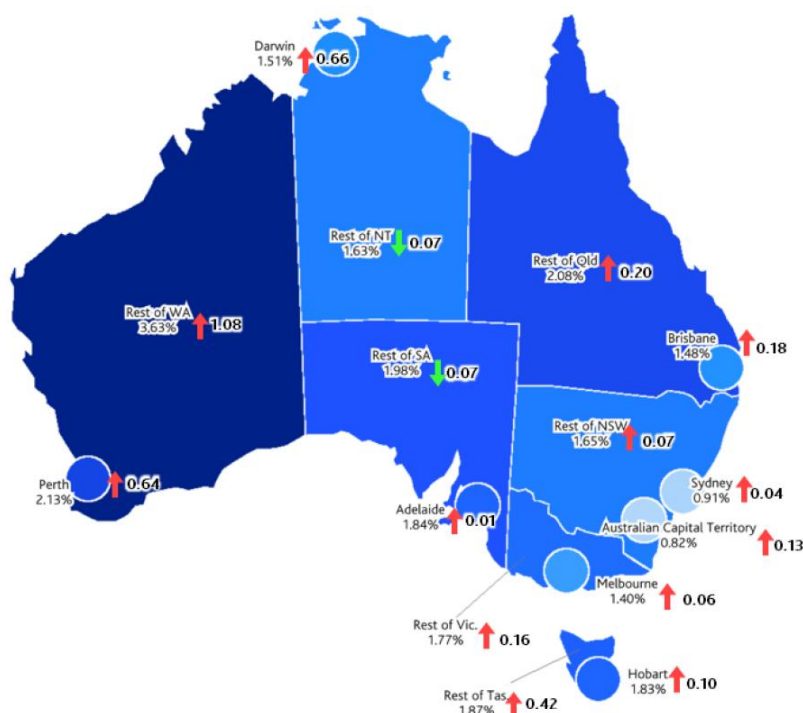
¹⁷⁸ Philip Lowe 2017 Australia and Canada – Shared Experiences, 22 February <https://www.rba.gov.au/speeches/2017/sp-gov-2017-02-22.html>

¹⁷⁹ <http://www.abc.net.au/news/2016-10-19/mortgage-delinquencies-hit-record-levels-in-two-states-and-nt/7946056>

¹⁸⁰ <http://www.investordaily.com.au/markets/40537-australian-mortgage-arrears-up-in-2016>

Figure 71: Increase in Mortgage Delinquencies

↑ Increase from May-15 (% pts.) ↓ Decrease from May-15 (% pts.)



Source: Moody's, reproduced by Australian Broadcasting Commission, note 177.

412. It is perhaps reasonable to predict that people's ability to spend is likely to be impacted by these developments in the house sector either directly (as owner occupiers) or indirectly (as renters). As people on low pay face even lower allocations of wealth out of total wealth than they do out of total income, which is most likely in the form of housing if any, their ability to withstand increase an increase in interest rates is even less than for others.

9.8 Absolute Poverty, financial stress and deprivation

413. Obtaining an income in excess of relative poverty levels does not necessarily indicate that low-paid workers' needs are being met to a satisfactory extent. Clearing the relative poverty line is an indicative only, that a fair and relevant safety net of minimum wages is being met. People above the relative poverty line may still experience poverty if as it is measured relative to median income. When median income grows more slowly or falls then those who are above the poverty line also fall behind.

414. The extent to which award reliant employees are able to meet their needs is difficult to measure directly, but can be inferred from information such as absolute poverty rates and measures of financial stress and deprivation.

415. Financial stress and deprivation measures are also imperfect measures of the degree to which needs are not being met. The absence of deprivation among workers (e.g. if workers do not

have to go without meals due to lack of money) does not necessarily indicate that their incomes are sufficient to meet a socially acceptable standards. These measures are nevertheless useful, when viewed in conjunction with other information about low-paid workers' living standards.

416. The FWC *Statistical Report* also contains a range of relevant information about financial stress, deprivation and hardship. Tables 10.1 and 10.2 of the Statistical Report shows that financial stress was about the same in 2015 compared with 2014, although for the low paid the stress worsened slightly more:

- a. Among all employee households, 15.8% experienced some form of financial stress compared with 15.9% the previous year, 12.4% experienced moderate stress up from 12.0%, and 1.0% experienced high stress compared with 0.8% the previous year;
- b. Among low-paid employee households, 31.2% experienced some form of financial stress, up from 31.0% the previous year, 22.1% experienced moderate stress up from 21.0% and 2.8% experienced high stress up from 2.0%.

417. Financial stress is much more common among low-paid employees than other employees. The table also shows that the incidence of financial stress has remained at been 31% and 32% for the low paid since 2011, whereas it has fallen slightly for total employees, from 17.5% in 2011 down to 15.8% in 2015. This indicates the low paid are in a worse position relative to other employees and inequality is widening. Moreover the numbers of employees experiencing financial stress will have increased as the population grows.

418. The increase we propose in this Review would increase real wages, and thus improve the ability of low paid workers to meet their needs. It would ensure that low paid workers enjoy some benefits from rising productivity growth, after a long period in which productivity has risen much faster than real minimum wages.

9.9 Securing a fair share of productivity growth

419. Low paid workers be able should share in the benefits of productivity growth which they have worked to achieve. They have not deserved the fall in share of labour compensation in total output that they have experienced on trend over past decades. This is set out in the sections from 6.5 Productivity growth through to 6.10 Unit labour costs and the labour share of income in the chapter on 6. The state of the Australian economy. It is manifest that the market is a failure as a mechanism for ensuring that remuneration reflects the contribution of labour to output. In turn the failure of the market to deliver appropriate compensation to workers also limits the growth potential for the economy.

420. A sufficient increase in the minimum wage is needed so as to arrest the widening gap between real wage growth and productivity growth, and to see their earnings and living standards

improve relative to those of other workers. This is consistent with the minimum wages and modern awards objectives of the Act.

421. This entails minimum wages increasing in real terms over time. If average real wages are rising roughly at the same pace as productivity growth, preserving relative living standards would require real minimum wages to rise in line with labour productivity. Restoring some of the lost ground in relative living standards would require some increase in real minimum wages in excess of labour productivity growth.

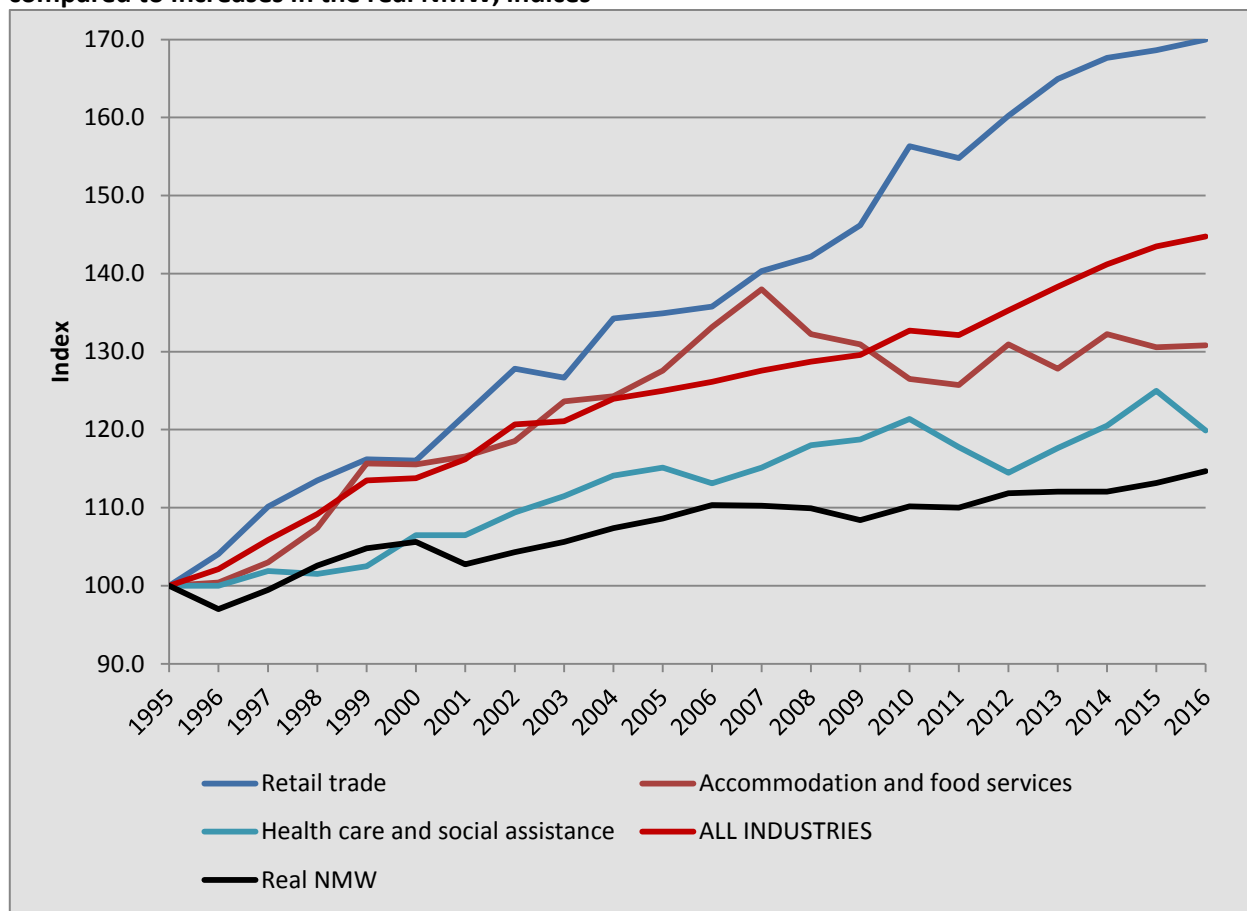
422. In 2016, the Panel's decision to increase nominal minimum wages by 2.4% further reduced the share in productivity growth to low paid workers from that of the previous year when 2.5% was awarded. The real NMW rose by 1.1% deflated by cpi for the year to March 2016, and has already increased by only 0.7% in real terms from March 2016 to December 2016.. This came after many years in which labour productivity rose much faster than real wages for low paid workers. The increase in minimum wages we propose in this review would ensure that some of this lost ground is restored, see Figure 16 and sections on 6.5 Productivity growth and 6.6

Wage measures. From the various index measures of annual labour productivity increase, real labour costs and the real minimum wage, it is clear that the real NMW has increased much more slowly than labour productivity according to aggregate measures.

423. The real value of the NMW has not kept pace with labour productivity even within the more award-reliant industries. This is shown in Figure 72. Note that the industry-level productivity statistics pertain to financial years, the most recent of which is 2015-16 and thus does not cover the period in which the Panel's 2016 decision came into effect. 'GVA' stands for gross value added, a measure of output at the industry level. GVA per hour worked measures labour productivity at the industry level.

424. Because these are service industries, industry gross value added may not fully reflect the value of the services output which is hard to measure. It can be seen that labour productivity in Retail trade grew substantially faster than labour productivity across the total economy in the decade to 2015-16, while labour productivity in the Accommodation and food services and Administrative and support services industries faster than the total economy figure up to June 2008 then grew more slowly. All award reliant industries grew substantially faster over the twenty years to 2016 than the real NMW. Low-paid workers have not shared in the benefits of productivity growth.

Figure 72: Industry Gross Value Added per hour worked in the more award-reliant industries, compared to increases in the real NMW, indices



Source: Real GDP per hour worked and industry gross value added per hour worked from ABS 5204, re-based to equal 100 in 1994-95 by the ACTU. NMW, Bray (2013) and FWC. GDP chain price index from ABS 5204. Real NMW calculated by the ACTU with 6401.

425. Based on ABS estimates of labour’s share of income for its productivity estimates, labour’s share in the total economy has fallen on trend since 2001-02, flattening out or rising slightly since 2011-12 as a result of the impact of the GFC on capital income, rather than due to wage improvements. Labour’s share in the more award-reliant industries has fallen on trend since 2001-02, even though these are labour intensive industries. The Panel noted this trend in its decision in the 2013-14 Review, observing that “over the longer term, growth has benefited capital disproportionately to labour and the labour share of income has declined materially over the past two decades.”¹⁸¹ The fall in the labour share reflects the failure of average real wages¹⁸² (in output price terms) to keep pace with labour productivity growth, labour’s share of income falls.

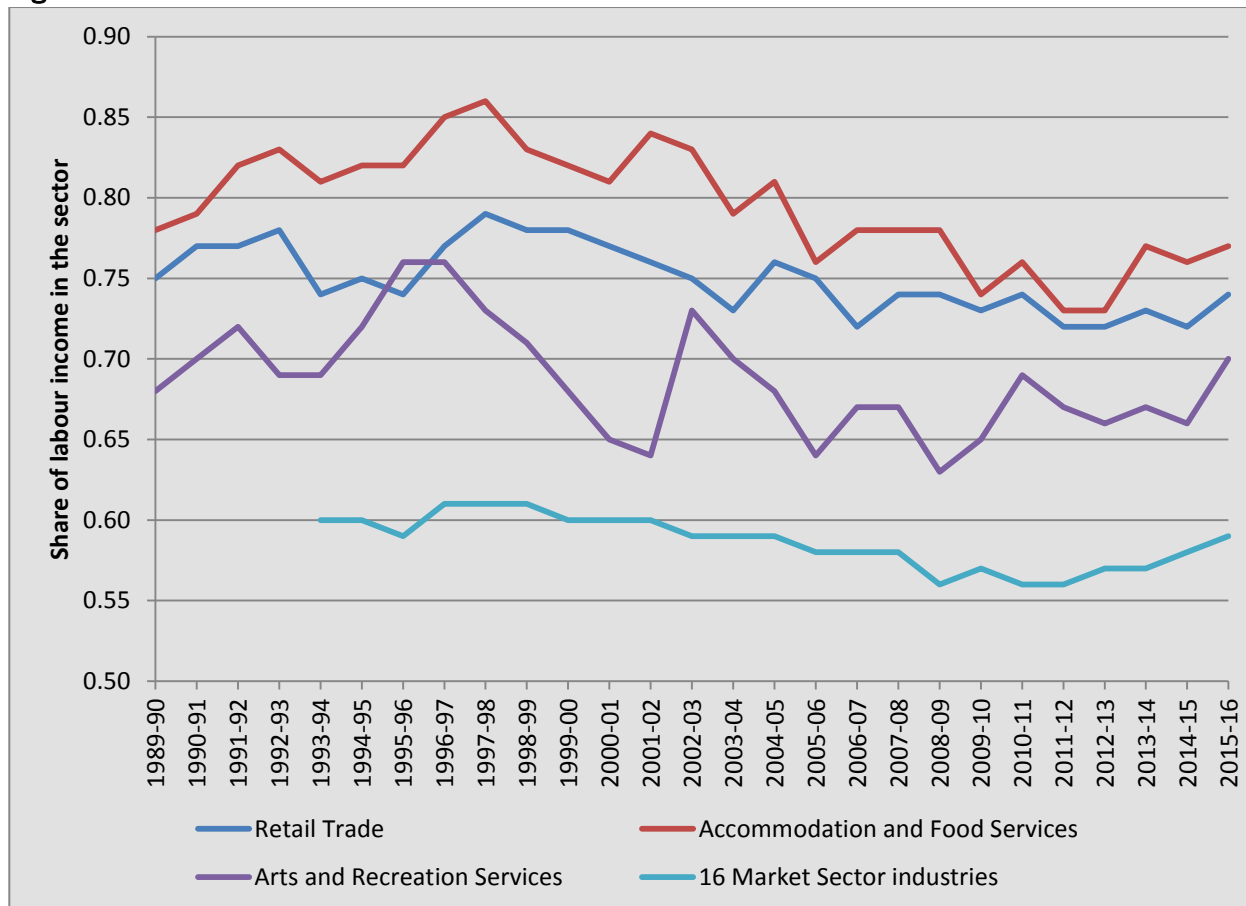
426. The long term fall in the labour share in various sectors is shown in Figure 73. In 2015-16, the labour shares of sector income were all lower than twenty years ago, and lower in Retail and

¹⁸¹ [2014] FWCFB 3500, [24]

¹⁸² Including non-wage compensation such as superannuation contributions.

Accommodation and food services than ten years ago, although they have recovered a little from after the GFC.

Figure 73: Labour’s share of income in the market sector and in some more award-reliant industries



Source: ABS 5260.0.55.002.

427. We submit that restraint in minimum wage increases has played a role in the failure of average wages growth to keep up with average productivity growth. A broad range of factors, including technological change and globalisation, asset price movements and increasing firm concentration have contributed to the trend decline in the labour share. But institutional changes in the labour market, including the fall in union density, changes in the regulatory institutions and the fall in the relative value of minimum wages, are likely to have made a major contribution to this undesirable trend.

9.10 The relevance of taxes and transfers

428. In its 2015-16 decision, the Panel said “The effect of taxes and transfers on disposable incomes of the low paid is relevant to the needs of the low paid and their relative living standards, both in terms of specific changes in the tax-transfer system at the time of a particular AWR and in

assessing broader information in relation to measures of the relative income of the low paid, which is affected by tax and transfer payments.”¹⁸³

429. The ACTU recognises that the Panel has a statutory obligation to establish and maintain a fair safety net of minimum wages. It is appropriate for it to take taxes and transfers into account when doing so. However we would submit that the tax and transfer system cannot be relied upon to alleviate the impact of small increases in the minimum wage. This is the case in the current policy environment where transfers are being reduced, in effect bringing more people into the low disposable income range.

430. As described in the ACTU submission to the previous AWR for 2015-16,¹⁸⁴ the most recent ABS data, for 2013-14, shows that after tax and transfer income has not become more equal over the last twenty years. The ABS standardises the household as if it were for a single individual after tax and transfers in order to compare, to take account of that bigger households tend to have higher income. Whereas the real disposable income average in each of the middle three quintiles had each risen by 58% to 60% over the twenty years to 2013-14, the real disposable income of the top quintile rose by 80%. The middle three quintiles are those most dependent on wage income, whereas the top income quintile is more dependent on income from profits. The second bottom and middle quintiles are more likely to be award reliant based on the income range. The tax and transfer system has clearly not served to alleviate widening inequality across the income distribution over time, arising from the slow growth in wage relative to profit income.

431. The most recent ABS data on the distribution of gross and disposable income distribution, before equalizing the household structure, is also for 2013-14.¹⁸⁵ In this data larger households are more likely to have higher incomes and so are likely to be more prevalent in the higher quintiles. The difference between gross and disposable incomes for 2013-14 shows that while there is some redistribution through taxes and transfers, in fact this is quite limited. It serves to move the ratio of top to bottom quintile incomes from 11.5 to 8.6. Even if the top quintile households have five people in them and the bottom only one, they are left with much higher disposable incomes than the lower quintiles. The redistribution due to taxes and transfers has also become more limited over time. It is wage growth, and in particular the minimum wage, which drives income distribution.

¹⁸³ FWC 2015 Annual Wage Review 2015-16 [391]

¹⁸⁴ FWC 2015 Annual Wage Review 2015-16 [276],[277], Figure 59

¹⁸⁵ ¹⁸⁵ FWC 2015 Annual Wage Review 2015-16 [278],[279], Figure 60

432. This is confirmed in the OECD data which shows that inequality in disposable income as measured by the Gini coefficient has not changed from 2007 to 2014, and that taxes and transfers have reduced market income inequality very little over that period.¹⁸⁶
433. There are some recent developments in national policy which we anticipate will have some further negative impact persons with low incomes, which ought to be taken into account. *The Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Act 2016* introduces a single payment known as the Child Care Subsidy to replace the existing childcare rebate and childcare benefit, which is subject to both an income and activity test. The subsidy covers a proportion (between 20-85%) of childcare costs, based on a set bench mark price. Families with a combined after tax income below the lower income threshold (initially set at \$65,710) will be exempt from the activity test but only eligible for 12 hours per week of childcare, compared to 24 hours available under the current system for families receiving the childcare benefit.
434. As early childhood education and care services are typically charged at a daily rate, low income families will have their entitlement to subsidised childcare reduced by 50%, from 2 days to 1 day per week. Child care costs vary from provider to provider and from state to state with the cost of long day care typically varying between \$70-200 per day¹⁸⁷. These costs will need to be borne directly by persons who need to continue to place their child or children in care on that additional day.
435. In addition, there are other Family Tax Benefit related reforms that are likely to have some negative impact. This includes the cessation in July 2016 of payments of the Schoolkids Bonus, which recipients of Family Tax Benefit A were eligible to receive, as well as the freeze on indexation of Family Tax Benefit A and B. The status of many more “savings measures” are uncertain as at the time of writing.
436. The level of wages, and the minimum wage in particular, remains the key driver of standards of living and address of inequality in any economy. This is recognised in an increasing literature on the subject. It is an abrogation of responsibility for submissions to call for a reduction in regulation of wages and then to seek address through the tax and transfer system. This is particularly the case when policy is delivering reductions in transfers and access to other services for low income people.
437. We also submit that when examining evidence of financial stress, deprivation and poverty, the Panel should put most weight on indicators pertaining to single person households. This is because single person households experience higher levels of stress, deprivation and poverty.

¹⁸⁶ <https://www.oecd.org/social/OECD2016-Income-Inequality-Update.pdf> Chart 1 and Chart 5

¹⁸⁷ <https://www.careforkids.com.au/child-care-articles/article/77/cost-of-child-care>

9.11 The effect of the cost of working on living standards

438. The costs of working are typically higher for low-paid workers, as a proportion of their weekly wage. The costs of childcare related to work are the biggest cost of working for both males and females, and these are bigger for award reliant males than females, and higher overall for award reliant employees.

439. The Fair Work Commission's Australian Workplace Relations results for the cost of childcare related to work, the results of which are in Table 12.1 of the FWC Statistical Report 2015-16 indicate that childcare costs were at 18.3% for award reliant employees, and 17.5% for non award reliant employees. This means the increase in childcare costs over 2016 as indicated in section on **Error! Reference source not found.**, even where subsidized for lower income households, would substantially worsen the costs of working for low paid employees with children, potentially driving them out of the workforce, women in particular.

10. EQUAL REMUNERATION FOR MEN AND WOMEN WORKERS

440. The Panel is required to take into account the principle of equal remuneration for work of equal or comparable value.¹⁸⁸ At a minimum, this requires that minimum rates of pay for different occupations and classifications are the same, where those occupations and classifications perform work that is of equal value.

441. The Panel should also have regard to gender pay inequity more broadly. There is a large and sustained gap between the earnings of men and women. An increasing proportion of those on award only are women. A fair increase in minimum wages can contribute to more equal remuneration between workers who are paid minimum rates and those who perform work of equal value who have the capacity to bargain. Adjustments to minimum wages would assist in reducing the gender pay gap. Maintaining a fair and relevant safety net is an important component of efforts to reduce gender pay inequity. All other things equal, a larger minimum wage rise will reduce the gender pay gap. The mechanisms that govern this were referred to in our submission to the Preliminary Hearing.

442. Out of the 2.3 million award only workers, 61.8% or 1.41 million are women, at May 2016.¹⁸⁹ This share has increased from 2014 when the share was 57.7% and the number of award only women was 1.1 million. Increasing minimum wages has the mechanical effect of reducing the gender pay gap.

443. The gender pay gap is conventionally measured using the average weekly ordinary time earnings (AWOTE) of full-time adults. AWOTE is an appropriate basis for calculating the gender pay gap, as it refers to full time adult earnings for 'ordinary time' or 38 hours per week. It is still affected by changes in industry and occupational composition over time.

444. Other wage measures also provide useful information about the extent and nature of gender pay inequity. **Error! Reference source not found.** shows the gender pay gap calculated using wage measures from data released over the last year by ABS from three different ABS surveys. Whichever measure is used, women are paid less on average than men. It is to be noted that in some cases the gap has narrowed or even reversed. One reason at the macro level is the fall in male average earnings at the top because of the reduction in mining related earnings, not because of an improvement in female real earnings.

445. Another reason for the narrowing of award only differentials is because a change in industry and occupational composition whereby employment has increased in relatively highly paid professional areas which are female dominated such as Education and training and Health and

¹⁸⁸ *Fair Work Act 2009* (C'th), s.284(1)(d)

¹⁸⁹ ABS 6306, non managerial employees.

social assistance. But the employment increase in those sectors is on award only. Males are still being paid relatively more in those sectors, outside award only employment.

446. The results for award only employees indicate that raising the minimum wage and awards would be a very effective way of reducing the gender gap.

Table 15: Gender pay gaps using different earnings measures

Earnings measure	Weekly or hourly	Employees covered	Source and date	Male earnings	Female earnings	Gender pay gap
Average ordinary time earnings	Weekly	Full-time adults	ABS 6302, November 2016	\$1631.90	\$1370.30	16.0%
Average total earnings	Weekly	Full-time adults	ABS 6302, November 2016	\$1719.90	\$1389.60	19.1%
Average total earnings	Weekly	All employees	ABS 6302, November 2016	\$1374.8	\$932.40	33.3%
Mean weekly earnings	Weekly	Full time Employees and OMIEs in main job*	ABS 6333, August 2015	\$1,591	\$1,289	19.0%
Mean weekly total earnings	Weekly	Employees and OMIEs in main job*	ABS 6333, August 2015	\$1,411	\$953	32.5%
Average total cash earnings	Weekly	Full-time employees paid an adult rate	ABS 6306, May 2016	\$1,674.50	\$1,402.20	16.3%
Average total cash earnings	Weekly	Non managerial employees	ABS 6306, May 2016	\$1,357.00	\$960.40	29.2%
Average total cash earnings	Hourly	Non-managerial full-time employees paid an adult rate	ABS 6306, May 2016	\$41.60	\$37.00	11.1%
Average total cash earnings	Hourly	Non-managerial employees	ABS 6306, May 2016	\$39.10	\$34.70	11.3%
Median ordinary time cash earnings	Weekly	All full time employees	ABS 6306, May 2016, unpublished	1,172.00	880.00	24.1%
Average total cash earnings	Weekly	Award-only employees	ABS 6306, May 2016	\$893.50	\$746.70	16.4%
Average total cash earnings	Weekly	Award only full-time employees paid an adult rate	ABS 6306, May 2016	\$1,281.80	\$1,279.20	0.4%
Average total cash earnings	Hourly	Award-only full-time non-managerial employees	ABS 6306, May 2016	\$31.90	\$34.20	-7.2%
Average total cash earnings	Hourly	Award-only part time non-managerial	ABS 6306, May 2016	\$27.70	\$27.70	0%

Source: ABS 6302, ABS 6333. GPG is an ACTU calculation. *OMIEs are Owner-Managers of Incorporated Enterprises.

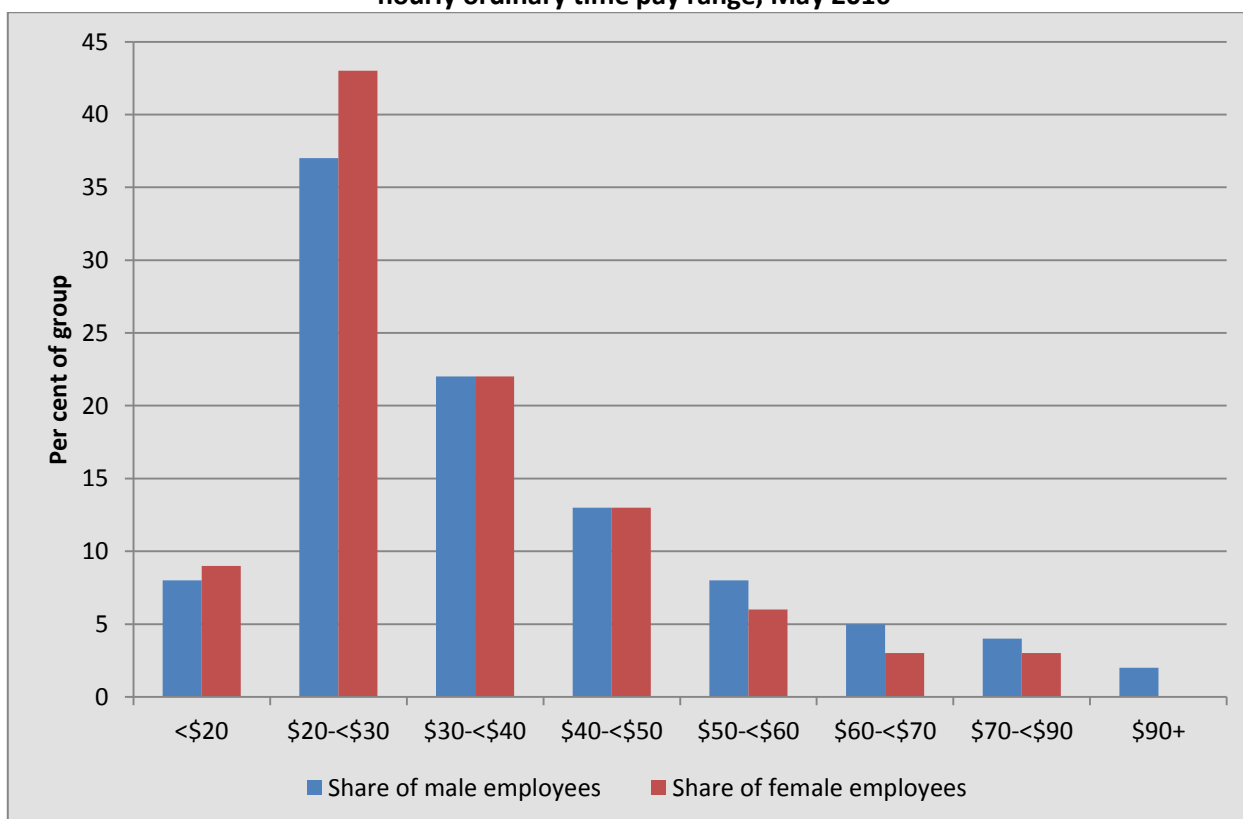
447. The gender pay gap based on AWOTE, the conventional measure, was 16.0% as at November 2016. This has fallen due to the fall in male AWOTE not because female AWOTE has increased. It is of significant concern to the ACTU that the gender pay gap persists notwithstanding the fall in male average wages. It is clear that deregulation has not assisted relative gender earnings. The

outcomes for award only employees show that the minimum wage is imperative to improving gender pay equity.

448. The following figure shows the gender pay gap by comparing the shares of non managerial total employment for female employees at each hourly ordinary time pay range with the shares of total non managerial employment for male employees (excluding OMIEs) at the corresponding pay range. For the lower pay ranges, up to \$30 per hour, there is a bigger share of female employment than male employment at each pay range. After \$50 per hour the share of male employment exceeds the share of female employment. 32% of non managerial male employees earned over \$40 per hour, while only 25% of females earned more than that.

449. Eight per cent of males earn less than \$20 ordinary time pay per hour and 9% of female non managerial employees. However in the \$20 to less than \$30 per hour ordinary time pay range the per cent of males is 37% whereas the per cent of females is 43%. That is the range corresponding to the higher award rates of pay. An increase in the minimum wage is a crucial measure for addressing the gender pay gap from the bottom up.

Figure 74: The gender profile of pay in Australia, share of full time male and female employees by hourly ordinary time pay range, May 2016

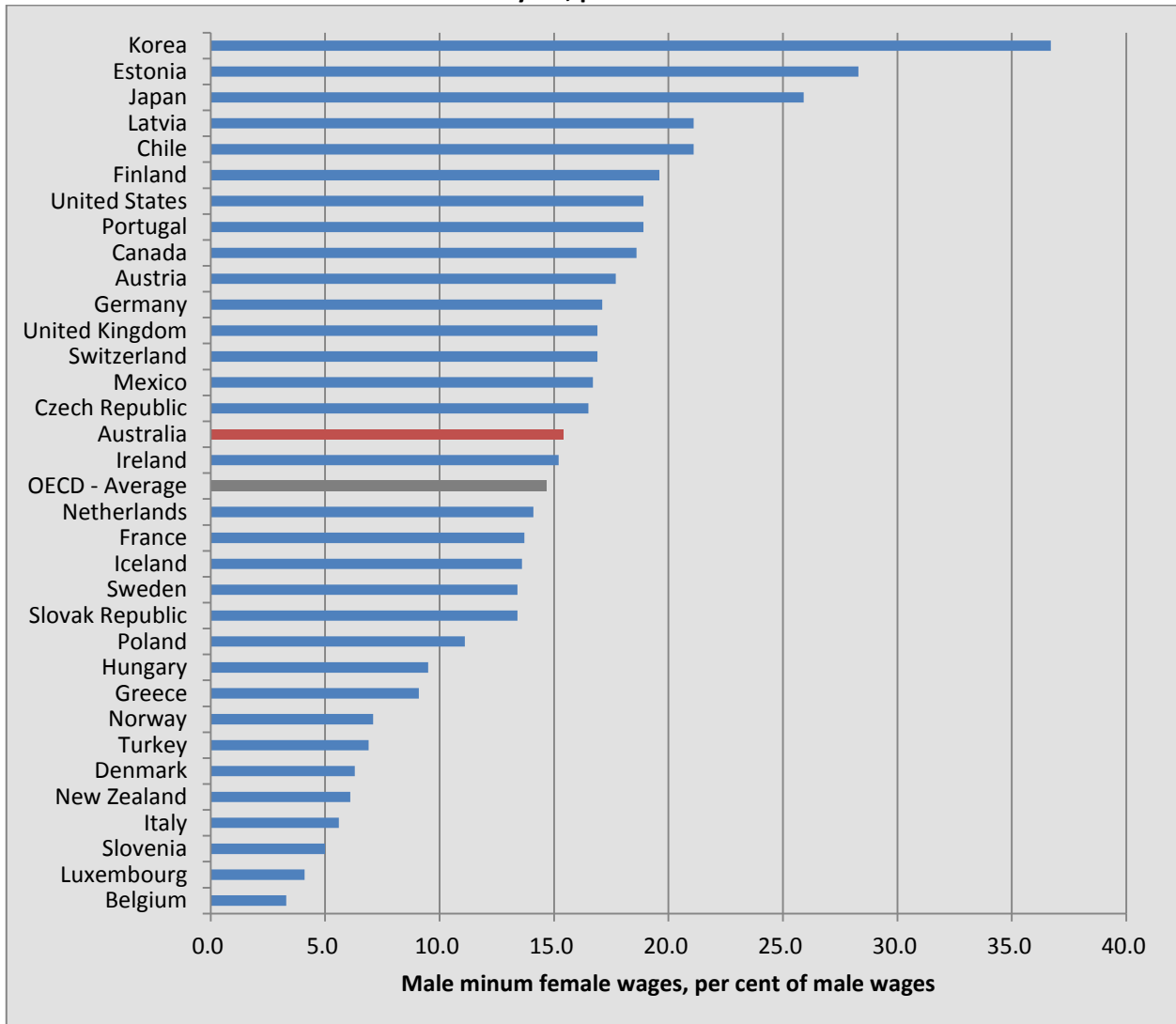


Source: ABS 6306 unpublished data, shares are an ACTU calculation.

450. Australia's gender pay gap according to the OECD measure which compares full time median female against male wages is shown in **Error! Reference source not found..** It is above the OECD average, and higher than many countries to which Australia is typically compared, but has come

down a bit due to the fall in Australian median male wages, not because the female median has increased.

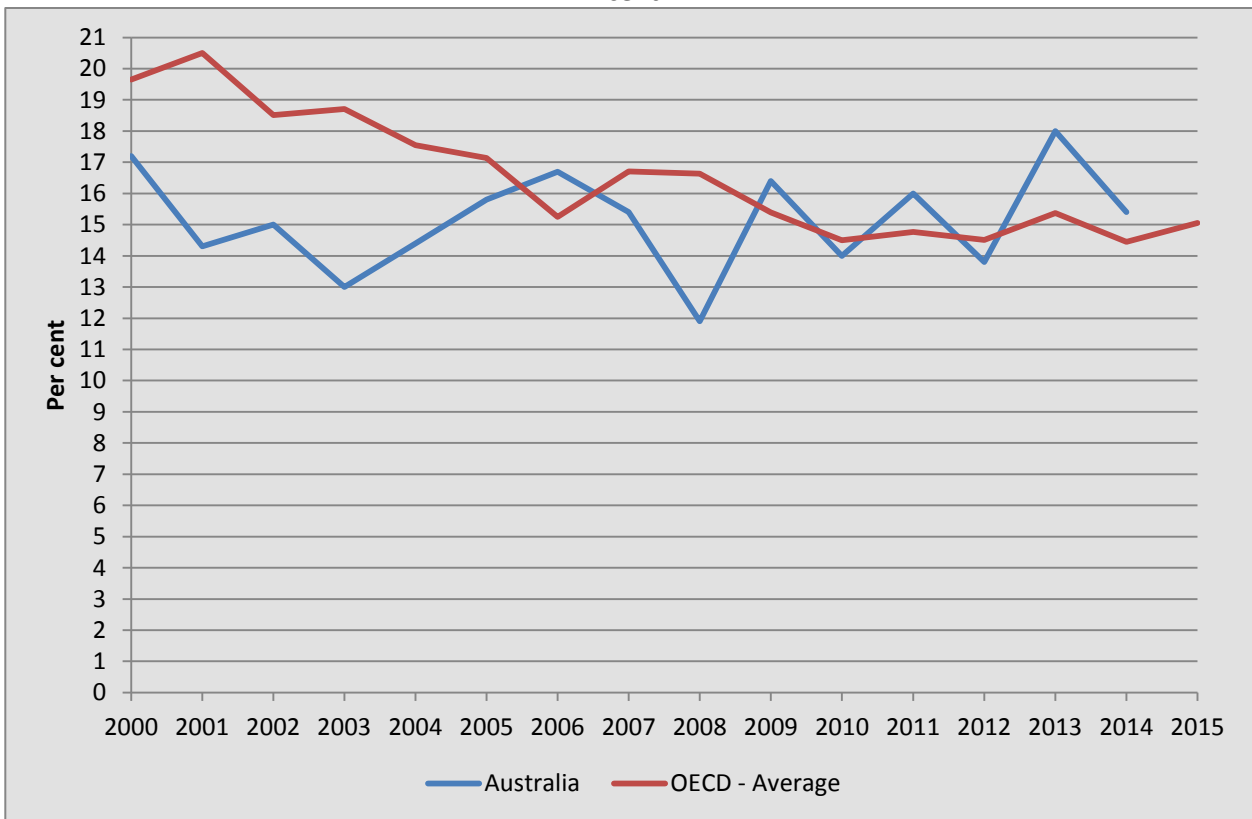
Figure 75: Gender pay gap in median earnings of full-time workers in OECD countries, most recent year, per cent



Source: OECD Stat (<http://stats.oecd.org/index.aspx?queryid=54751>). Data uses the latest year available for each country, from 2013 onwards, mostly 2014.

451. The OECD average gender pay gap has trended down since 2000, whereas Australia's has trended up from 2008, since the GFC, as shown in **Error! Reference source not found.** The OECD figure looks smoother because it is an average. The OECD average is based on year to year data where the odd observation is missing, but not enough to put the trend into question. Both series turned down in the 2014 measures.

Figure 76: Gender pay gap in median earnings of full-time workers, Australia and OECD average, per cent



Source: OECD Stat (<http://stats.oecd.org/index.aspx?queryid=54751>). OECD average computed by ACTU, some observations missing, especially at 2015

452. Numerous academic studies of the gender pay gap in Australia have concluded that most of the gap is unexplained by differences in experience, educational attainment, or other observable characteristics other than gender. Women are not receiving equal remuneration to men for work of equal or comparable value.

453. Increasing the minimum wages is a key strategy for reducing the gender pay gap. This is especially as the average for females on awards is greater than that for males on awards by some measures, because the increase in employment has been so great in some female intensive areas which are on some of the higher awards.

11. OTHER MATTERS

454. This chapter addresses some other matters, including such as minimum wages for juniors, apprentices, trainees, and people with disability.

11.1 Juniors, apprentices and trainees

455. As part of the Minimum Wages Objective, the Panel is required, inter alia, to establish and maintain fair minimum wages for junior employees and for employees to whom training arrangements apply, namely apprentices and trainees.

456. Minimum wages for juniors, trainees and apprentices in modern awards are generally tied to a percentage of an adult award rate of pay, or some other formula in the case of some traineeship rates under the National Training Wage Schedule (NTWS). The practical effect of these wage arrangements is that these workers are generally on rates of pay that fall well below the national minimum wage that applies to an entry-level adult employee. Incontrovertibly then, juniors, apprentices, and trainees are by definition some of the lowest paid workers in the country.

457. As we have already outlined, the ACTU seeks a hybrid increase to award rates of pay of \$45 per week for rates up to C10 and 5.7% above. The ACTU submits that this increase to award rates, or any other increase to minimum wages in modern awards that the panel decides on, should flow through to juniors, apprentices and trainees in the usual manner.

458. This means that minimum wages for both juniors and apprentices should be adjusted automatically in line with increases to the NMW and other award rates (by virtue of the fact that apprentice and junior rates are typically expressed as a percentage of the relevant adult classification).

459. In the case of trainees, consistent with our submissions in previous years, the ACTU supports a percentage increase to the rates in the National Training Wage Schedule that is equivalent in percentage terms to the increase awarded to the NMW. A percentage increase is important to prevent further compression of relativities within the NTWS and in relation to the NMW.

460. In the case of modern awards that contain separate trainee rates outside the NTWS, we support a \$45 increase to trainee rates that are equivalent to the C10 rate or less, and a 5.7 % increase to trainee rates that are in excess of the C10 rate.

461. We have read with interest Research Report 3/2017 published by the Commission concerning "Factors affecting apprenticeships and traineeships". For the avoidance of doubt, we are of the view the observations and conclusions in that report provide no basis from departing from the increased wage rate percentages for apprentices that were progressed by us and our affiliates through the Transitional Review with the support of employer associations. The report tends to

indicate that the most significant demand side factors influencing the rate of apprenticeships and trainees are those beyond the control of the Panel.

11.2 Employees with disability

462. We remain of the view expressed in our submission in relation to Preliminary Issue proceedings, that Special National Minimum Wage 1 should continue to be set at the same level as the National Minimum Wage.

463. In open employment, the Supported Wage System (SWS) Schedule provides for minimum wage rates for employees whose productivity is affected by disability and who meet certain eligibility criteria. Employees of Australian Disability Enterprises (ADEs) are largely covered by the Supported Employment Services Award 2010 (the SES Award), which lists a number of approved wage assessment tools, including the SWS tool, by which employees can have their wage rates determined.

464. In recent submissions to prior Annual Wage Reviews, we have referred to other proceedings before the Commission that are considering matters relevant to the setting of wages for employees whose productivity is affected by a disability. Those proceedings are continuing and we understand that some concrete proposals are likely to be made in those proceedings in the very near future, including in relation to the minimum payment of SWS wages.

465. In our submission, in circumstances where matters that might otherwise fall for consideration under this Review are being explored in other proceedings before the Commission, those other proceedings ought to be permitted to run their course before any different approach is adopted by the Review. Accordingly, we submit that that the Panel ought not in this Review depart from its previous approach to setting wage rates for employees whose productivity is affected by disability.

466. We anticipate that we will adopt a different position in a future Review once the other proceedings in the Commission have concluded. Alternately, if there are matters arising from Preliminary Issues decision relevant to this matter that require an immediate response, we will raise them in our reply submission.

11.3 Casual loading

467. The Panel would be aware that, as part of the *four yearly review of modern awards*, a number of matters are being ventilated in common issue proceedings which may alter the character of casual employment in several modern awards. Those proceedings are reserved for decision. We submit that the casual loading in modern awards and for award/agreement free employees should, in this Review, be maintained at 25 per cent.

11.4 Piece rates

468. Piece rates in modern awards are fixed by reference to minimum weekly or hourly wages in those awards. Any adjustment in modern award minimum wages will and should automatically flow through to employees engaged on piece work.¹⁹⁰

¹⁹⁰ [2011] FWAFB 3400, [376].

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