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# **Australian Council of Trade Unions Submission to the Australian Fair Pay Commission**

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March 2007



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## **Executive Summary**



### **Timing of Submissions**

There is little new economic data available since the AFPC's variation to the pay and classification scales on 1 December 2006. The AFPC will no doubt consider the implications of the forthcoming May 2007 federal budget.

The ACTU will make further submissions to include additional and updated economic data and to include matters relevant to the 2007 budget.

### **Impact of AFPC decisions**

There is no evidence that the AFPC's decision to increase minimum wages has had a negative economic impact. Nor is there evidence that previous real wage increases have had a detrimental impact.

### **Unemployment at Historic Low**

Unemployment levels are at a historic low level and forecast to continue at low levels.

### **Inflation is low and set to fall further**

CPI is at 3% and forecast to fall to 2.5 per cent and to remain at that level until 2010.

## **The Economic Conditions Warrant a Real Wage Increase for Low Paid Workers**

The economy is strong and is forecast to remain strong. GDP growth is at a very healthy rate. Expected business investment grows as does profit share. The terms of trade are such that Australia's purchasing power is at a 31 year high.

## **The Economic Outlook is Strong**

MYEFO paints a very positive economic forecast with continued growth, low inflation and high employment.

## **ACTU's claim**

The ACTU is seeking a \$28 per week increase for all Pay and Classification Scale employees. The ACTU's claim is moderate and provides for a real wage increase given forecast inflation. The 2006 decision by the AFPC resulted in the real value of the wages of over 80 per cent of minimum wage reliant employees falling backwards.

## **Movements in Wages**

Wage movement is moderate and sees real wage levels for many workers growing. The ACTU's claim will ensure minimum wage earners do not fall further behind the rest of the workforce.

## **Need for AFPC to Maintain Adequate Safety Net for Pay Scale Reliant Workers**

Research shows that minimum wage earners are disproportionately found in low income households. High EMTR's only impact on a small minority of employees. Housing, Child Care, Health Care and transport cost increases are eroding an effective safety net.

## **A Closer Look at Pay-Scale Reliant Workers**

Minimum wage earners receive 58 per cent less than the rest of the workforce, are more likely to be women, and employed on a casual basis.

Contrary to popular mythology, minimum wage earners are spread evenly throughout different sized workplaces up to those with 500 or more employees.

All pay scale reliant workers are 100 per cent reliant on minimum wages.

Working families are suffering real cuts under the new industrial relations laws. The pay-gap for women has widened.

The pay gap between those who have negotiated an agreement, collectively or otherwise, and employees on minimum wages is so great that there remains a massive incentive to bargain.

## **Junior Rates, Apprentices, Trainees and Piece and Casual Rates**

There should be a continued cautious approach to the adjustment of the rates applying to juniors, apprentices, trainees and piece and casual rates.

The AFPC should adjust junior, trainee and apprentice rates as they were adjusted in the AFPC decision of 1 December.

## **Workers with a Disability**

The AFPC should adjust the SWS minimum rate to reflect the change to the income test free area of earnings for the Disability Support Pension (weekly equivalent), which will apply from 1 July 2007.

## **Further Observations**

The AFPC should publish the Pay and Classification Scales.

The AFPC should determine a regular date for submissions and operative date for any increase.

The AFPC should record all its meetings in a public register.

The AFPC should round any increase to the nearest 10c.



# 1

## Introduction

**There has never been a better time to improve minimum wages for low paid workers who are not in a position to bargain. The Australian economy is strong with a positive outlook within a low inflation environment.**

The AFPC can, indeed should allow for the improvement of the real value of minimum wages. In these circumstances should the AFPC not provide for a real wage increase, the AFPC would be doing no more than orchestrating a real reduction in the wages of Australia's lowest paid employees.

For most minimum wage earners the first increase awarded by the AFPC resulted in a reduction in the real value of their wages. In fact 82 per cent of minimum wage workers suffered a real wage cut following the AFPC's initial decision. This was a profoundly disappointing result during a time of high employment, low inflation and growth. The inaugural decision of the AFPC failed low paid workers. It appears that Professor Harper agrees with this analysis when he publicly recognised the real reduction in wages for all pay scales other than the bottom two. Professor Harper has been reported to have said:

Every other pay classification, ladies and gentlemen, goes down in real terms. The weighted average increase over all the Pay and Classification Scales of this decision is 4.5% over 18 months. Inflation over 18 months we estimate to be about 5.4%.<sup>1</sup>

<sup>1</sup> *Workplace Express, Harper downplays impact of minimum wage rise, looks for jobs growth, 23.11.2006*

There is no justification for real reductions in minimum wages. The evidence is that past real increases in minimum wage levels, have coincided with positive employment growth and a low inflation environment. This continues to be the case today.

It is safe to assert that it is highly unlikely that during the AFPC's much maligned community consultation process, not one low paid worker sought a real wage reduction.

The ACTU is seeking a small real wage increase for the less than 19 per cent of workers who rely on minimum wages which are set by the AFPC.

The ACTU's claim is economically responsible and affordable. The claim will have no negative impact on unemployment or participation rates and no significant inflationary impact.

Importantly the claim to increase minimum wages for Australia's lowest paid workers will have no negative impact on the factors to which the AFPC must have regard.

To maintain any semblance of fairness, the AFPC must grant a real wage increase to Australia's minimum wage workers.

## Timing of Submission

### Further submissions required

The ACTU believes that the AFPC's call for submissions only four months from the implementation of the last decision of the AFPC is problematic. This difficulty is compounded by the uncertainty of any operative date for any future adjustment. We simply don't know from when the Commission intends to vary pay scales, if at all. This causes considerable difficulties for those parties making submissions to the Commission.

The ACTU is expected to make submissions four months from the date of the operative date of the last increases to the pay scales in the knowledge that the AFPC will be making a decision in June or July 2007 with an unknown operative date. The only information available to the ACTU regarding possible operative dates flow from press reports and public hints from the Commission. It is possible that the operative date will be as late as 1 December 2007.

This raises the possibility that economic data relied upon by those making submissions to the Commission could be at least 12 months old by the time the next decision of the AFPC is introduced. Given the statutory obligations upon the AFPC this seems a highly unusual position for all involved.

There is little new economic data available since the variation to the Pay Scales on 1 December 2006. It is not possible for any party making submissions to the AFPC to point to any economic or other reliable evidence regarding the impact of the last AFPC decision. All that can be dealt with at this point is the state of the economy at the time submissions are made,

potentially 3 months from the first decision of the AFPC and eight months from the implementation of any decision.

The ACTU presumes that the unique timing of the calling of submissions has nothing to do with the desire to announce a decision prior to State Wage Tribunals or the calling of a federal election.

## **Post Budget Submissions**

The ACTU intends to make post budget submissions to the AFPC. At this time, in addition to the budget papers, there will be further economic data available.

A significant component of the ACTU's submissions relate to unpublished data from the Employee Earnings and Hours statistics. The May 2006 EEH data 6306.0 was released on 28 February 2007. The Australian Bureau of Statistics informs the ACTU that the required unpublished data will not be available prior to the AFPC's closing date for submissions. The ACTU intends to rely on this data in its submissions to the AFPC and we believe that this unpublished data will be of considerable assistance to the Commission.

The ACTU's post budget submissions will allow the ACTU to make proper representations on behalf of working men and women and will allow the Commission to make an informed decision.

Consequently the ACTU will be restricting these submissions to observations that are capable of being made with the available but limited economic and other data. The ACTU will then elaborate on its submissions following the May 2007 federal budget.

## Impact of 2006 AFPC decision

### Recent increases in minimum wages have not had a negative impact on employment or inflation

The ACTU has consistently argued that there is no evidence that increases in minimum wages have a negative impact on employment. We reiterate these claims. At section 10 of the July 2006 submission to the Commission the ACTU claimed that moderate real increases in federal minimum wages do not have an adverse impact on employment and the economy. We stand by our submissions from last year and previous submissions to the Australian Industrial Relations Commission (AIRC) on this matter.

The ACTU agrees with the AFPC observation that "The impact of minimum wage increases is difficult to estimate."<sup>2</sup>

We also agree with the view that:

*There are other problems confronting those trying to estimate the effects of minimum wages on employment, as indicated by the extensive criticisms of various studies in the literature. Even if there were conclusive international evidence one way or the other as to the relationship between minimum wages and employment, it may not be of relevance to Australia, given the unique structure of our minimum wages system. Compared with other OECD countries:*

- *Australia's minimum wage system prescribes not one minimum wage but a series of minimum wages at higher levels through the wage distribution;*
- *Australia's minimum wage is higher in relative terms; and*

<sup>2</sup> Australian Fair Pay Commission, Wage-Setting Decision October 2006 Page 71.

- *Australia's minimum wage system covers a higher proportion of employees than other countries (20 per cent in May 2004).<sup>3</sup>*

The ACTU does not agree with the AFPC's view that:

*On the basis of the evidence available, the Commission considers that there is a negative relationship between the level of minimum wage increases and employment in Australia. The basis of any disagreement seems to involve the magnitude of the relationship rather than its existence.<sup>4</sup>*

## **Minimum wages increase as does employment**

There is simply no evidence that recent increases in minimum wages have had a negative impact on employment. Employment growth in minimum wage dependent industries continues to grow, as does employment generally. There are of course many factors that impact on employment growth and participation levels. What is clear is that moderate increases, including real increases in minimum wage levels, have coincided with positive employment growth.

Unlike the Commission, the ACTU does not believe there is a negative relationship between the level of minimum wages and employment levels in Australia.

## **Low unemployment**

In the six years to February 2007 there have been 1,330,900 jobs created (seasonally adjusted), 1,306,200 (trend).

Australia's unemployment rate is at historically low levels. Employment growth in pay scale dependent industries continues to grow as does participation levels.

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<sup>3</sup> Ibid, pp 71-72

<sup>4</sup> Ibid, p73

## **Low inflation environment**

Inflation for the 2006-07 year is forecast to be 3 per cent and to decrease to 2.5 per cent in 2007/08.

There has never been a better opportunity to improve the pay of Australia's working poor.

The Commission can readily meet its statutory obligations and provide the increase sought by the ACTU to be benefit of low wage earners in Australia.

# 4

## Unemployment at Historic Low

### Employment of minimum wage workers continues to grow

Unemployment levels are at historically low levels. Over 10.3 million persons are now employed in Australia. Most new jobs created are full-time, demand for labour is high and unemployment in pay scale dependent industries continues to fall.

#### Unemployment may be at natural rate

There is speculation that Australia's unemployment levels are at their natural rate or near their natural rate. With the majority of new jobs being full-time positions the level of underemployment appears to be diminishing. Treasurer Costello said of the latest Labour Force data:

*"We have unemployment at 4.5 per cent. We have had 300,000 new jobs in the last year and we have had 2 million new jobs over the last 10 years".<sup>5</sup>*

When we use the term natural rate of unemployment we use it as commonly used as distinct from the 'non-accelerating inflation rate of unemployment' (NAIRU). Although given the current inflation forecasts NAIRU may have indeed been reached.

Milton Friedman described the natural rate of unemployment as being influenced by:

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<sup>5</sup> Treasurer Peter Costello. House of Representatives Hansard. February 8, 2007.



“... the actual structural characteristics of the Labor and commodity markets, including market imperfections, stochastic variability in demands and supplies, the cost of gathering information about job vacancies and Labor availabilities, the costs of mobility and so on.”<sup>6</sup>

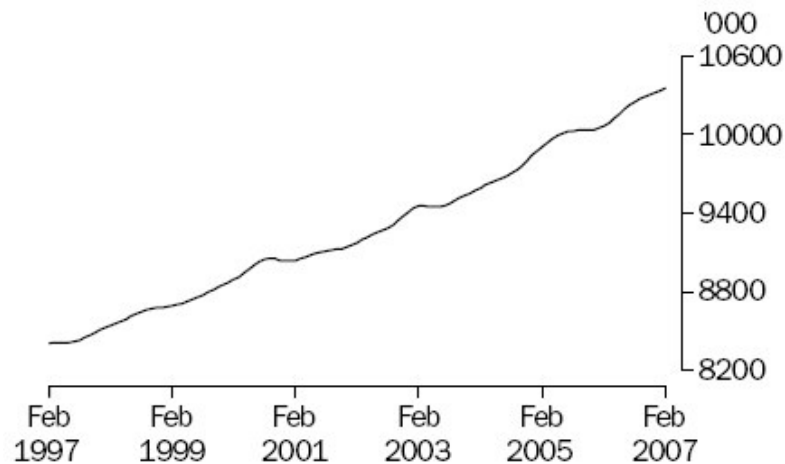
To these we can add others influences which include but are not limited to structural and technological change and skills mismatches.

Employment continues to grow in pay scale dependent occupations and unemployment continues to fall.

## Labour Market

Employment continues to grow. There are now over 10.3 million people employed in the economy. Figure 4.1 below shows that total employment increased by 2.9 per cent over the year to February 2007.

**Figure 4.1: Employed persons – Australia – 1997 to 2007**



• Source: ABS Cat No. 6202.0 February 2007

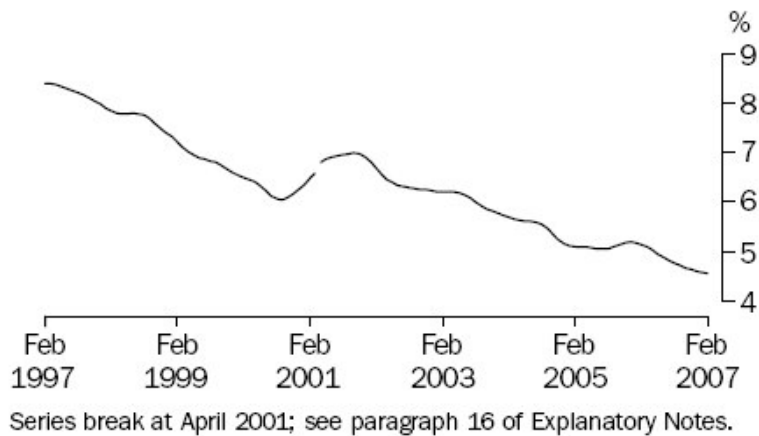
Full-time jobs growth continues to make up the vast bulk of new jobs growth. In fact 75 per cent of all new jobs filled in the past 12 months are full-time jobs. This is an indication of the strength of the labour market.

<sup>6</sup> Friedman, M. (1968), 'The role of monetary policy', *American Economic Review*, 58(1), 1-17 Page 8.

In February 2007 employment increased by 22,000 to 10,357,900 (seasonally adjusted). At the same time the participation rate increased by 0.1 percentage points to 64.9 per cent.

Unemployment has been on a downward trend since 1993. In February 2007 the unemployment rate increased 0.1 per cent to 4.6 per cent (seasonally adjusted), close to its 30 year low. Male unemployment is at 4.2 per cent with female unemployment at 5.1 per cent.

**Figure 4.2: Unemployment rate – Australia – 1997 to 2007**



• Source: ABS Cat No. 6202.0 February 2007

The Minister for Employment and Workplace Relations said the figures released on 15 March 2007:

*“... show more Australians are now in work than ever before.”<sup>7</sup>*

Table 1 shows the consistent trend of employment growth in the most award-reliant industries.

<sup>7</sup> The Hon Joe Hockey MP, Minister for Employment and Workplace Relations, Media Release, Employment Numbers at Record High, 15 March 2007

**Table 1: Percentage change in employment Australia, February 2001 to February 2007**

<b>Industry</b>	<b>% change Australia</b>
Agriculture, forestry & fishing	13.8% decrease
Mining	79.6% increase
Manufacturing	4.9% decrease
Electricity, gas & water	32.2% increase
Construction	47.4% increase
Wholesale trade	9.1% increase
Retail trade	13.6% increase
Accommodation, cafes and rest.	11.4% increase
Transport & storage	12.6% increase
Communication services	3.0% increase
Finance and insurance	21.1% increase
Property & business services	11.1% increase
Govt admin & defence	30.1% increase
Education	16.6% increase
Cultural & recreational services	20.5% increase
Health & community services	26.3% increase
Personal and other services	16.2% increase

• Source: ABS Labour force data cat no 6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, February 2007

Table 1 shows the remarkable strength in jobs growth in the mining and to a lesser extent the construction industry. These are industries whose employment arrangements are dominated by union negotiated collective agreements.

There continues to be further and higher rates of growth in pay scale dependent industries. There is continued jobs growth in the retail industry, albeit at a lower level that previously reported. This decline in growth is due to structural and technological change.

## Vacancies

The RBA Statement on Monetary Policy 12 February 2007 states:

*Vacancies data suggest that demand for labour remains high, both nationally and across the States. The ABS measure of job vacancies increased by 5.9 per cent in the three months to November and, at 1.5 per cent, the nationwide vacancy rate is at its highest level since the 1970s.*

**Figure 4.3 Vacancy Rate**



Source: RBA Statement on Monetary Policy February 2007 Graph 49

ABS Cat No 6354.0 Job Vacancies, Australia, released on 29 March 2007, shows 161,900 job vacancies in February 2007. An industry breakdown shows vacancies of 36,600 in Property and Business Services, 26,700 in Retail, 17,100 in Manufacturing, 15,500 in Health and Community Services, and 10,000 in Accommodation, Cafes and Restaurants – industries in which pay scale reliant employees are concentrated. For each industry, these vacancy levels are higher than at the same month the previous year.

## Unemployment levels low in pay scale dependent occupations

The DEWR *Australian Labour Market Update, January 2006 and January 2007*, in the section Employment and Unemployment by Occupation shows low unemployment rates for the occupations in which many low paid workers are employed:

**Table 2: Unemployment by Occupation November 2005 and November 2006**

<b>Occupation</b>	<b>Unemployment Rate at November 2005</b>	<b>Unemployment Rate at November 2006</b>
Tradespersons	2.7%	1.9%
Advanced Clerical and Service Workers	1.3%	1.1%
Intermediate Clerical, Sales and Service	2.4%	2.7%
Intermediate Production and Transport	3.6%	3.6%
Elementary Clerical, Sales and Service	4.0%	3.8%
Labourers and Related Workers	7.8%	6.7%

Source: DEWR Australian Labour Market Update January 2006 and 2007

### **Employment growth forecast to continue**

Employment growth is set to continue into the year and beyond. The Treasury forecast is for continued employment growth, including growth in pay scale dependent industries.

# 5

## Inflation Low and Set to Fall Further

### Inflation moderate

Treasury predicts the Consumer Price Index (CPI) to fall from 3 per cent in the financial year 06/07 to 2.5 per cent in 07/08 and to remain at 2.5 per cent until 09/10.

**Table 3: Major economic parameters(a)**

	Forecasts		Projections	
	2006-07	2007-08	2008-09	2009-10
Real GDP	2 1/2	3 3/4	3	3
Employment	2 1/4	1 1/4	1 1/4	1 1/4
Wage Price Index	4	4	4	4
CPI	3	2 1/2	2 1/2	2 1/2

(a) Year-average percentage change.

Source: MYEFO December 2006 Table 2

The Treasurer has stated:

*Well, we have set an inflation target for interest rates to be directed towards and the inflation target is 2 to 3 per cent. Now the indications are that on underlying basis inflation is within that band, and looks like it will stay within that band through 2007-2008.<sup>8</sup>*

Clearly the inflationary outcome for Australia is expected to be low. There are no indications that wage pressures are adding to inflationary

<sup>8</sup> The Hon Peter Costello, Doorstop Interview, Duxton Hotel, Perth, Thursday, 22 February 2007

expectations. This is in an environment where those workers in a position to bargain have achieved real wage outcomes ahead of inflation. This is reflected in the WPI at 4 percent and forecast to continue at that rate.

There is an expectation on the part of the ACTU that employer organisations, the Commonwealth and others traditionally opposed to higher minimum wages will claim the increase sought by the ACTU will be inflationary. This claim is made on every occasion and no evidence is provided. Less than 20 per cent of the workforce is pay scale reliant.

Commenting on the most recent CPI data the Treasurer said:

*When we leave out the volatile items, the underlying inflation rate was about 0.5 per cent ... and it shows that inflation is moderate.<sup>9</sup>*

With the wages growth for more than 80 per cent of employees running in excess of inflation, inflation is forecast to fall further. A moderate increase in pay scales is capable of being absorbed with no noticeable inflationary impact. Granting the ACTU's claim will not add to inflationary pressures.

The Minister for Finance Senator Nick Minchin says:

*The national accounts measure of inflation—the private consumption and consumer price index—was steady in the quarter, consistent with the negative headline CPI result for that quarter.<sup>10</sup>*

## **Estimation of inflationary impact of the ACTU claim**

The ACTU has in the past provided estimates of the inflationary impact of its increase. Whilst there has been some debate regarding the methodology used by the ACTU, by in large these criticisms have been minor.

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<sup>9</sup> Treasurer Peter Costello. Hansard. House of Representatives 6 February 2007.

<sup>10</sup> The Hon Nick Minchin, Minister for Finance, Senate Hansard, Tuesday 20 March 2007, Page 24

The ACTU has not provided an economy wide costing of the increase sought on this occasion as the required unpublished data has not been available from the Australian Bureau of Statistics prior to the submission deadline. The ACTU may include a costing of its claim in its post-budget submissions.

The CPI impact of the ACTU's claim for a \$30 increase in minimum wages was 0.29% with a total addition to total ordinary time earnings of 0.54%. With a smaller claim and the proportion of minimum wage reliant employees falling from 19.9% to 19.0 % it is expected that the CPI impact of the ACTU's claim will be less than 0.29%. This is a negligible impact given the social and real benefits derived from increasing minimum wages.<sup>11</sup>

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<sup>11</sup> Many of the benefits of increasing the minimum wage were outlined in the section 7 of the ACTU's July 2006 submissions to the AFPC. In particular reference was made to the OECD's *Economic Survey of Australia* February 2005 and the OECD's *Employment Outlook* 2004.



# 6

## The Economic Conditions Warrant a Real Wage Increase for Low Paid Workers

### Increasing Minimum Wages is Affordable and Fair

The Australian economy is robust and can readily absorb a real increase in minimum wages.

The Australian economy is in its 61st consecutive quarter of economic growth (trend data) while unemployment is at a 30 year low. There will be no better time to provide real wage increases to Australian minimum wage earners.

The Fair Pay Commission can provide a fair outcome to those workers who are not in a position to bargain and meet its statutory obligations.

In commenting on the National Accounts the Minister for Finance<sup>12</sup> stated:

*The individual components of the national accounts also indicate the underlying health of the economy. In nominal terms.*

<sup>12</sup> The Hon Nick Minchin, Minister for Finance, Senate Hansard, Tuesday 20 March 2007, Page 24

## Economic Growth

Gross Domestic Product (GDP) grew by 1.0 per cent, seasonally adjusted, in the December quarter 2006, to be 2.8 per cent higher for the year. This is higher than last quarter's figure of 0.3 per cent.

Abstracting for the volatility of the farm sector Gross Non Farm Product (GNFP) grew by 1.4 per cent for the December quarter 2006 to be 3.5 per cent (seasonally adjusted) higher than at the same time last year.

The Finance Minister Senator Minchin describes GDP growth as robust:

*...the Australian economy has continued on its longest ever economic expansion. Real GDP grew by a robust one per cent in the quarter to be 2.8 per cent higher throughout the year.<sup>13</sup>*

Senator Minchin continued:

*...non-farm GDP is growing at a very healthy rate of 3½ per cent per annum—one of the best growth rates in the Western world.<sup>14</sup>*

The current economic expansion is entering its 16<sup>th</sup> year, with a total of 61 consecutive quarters of positive growth (the last recorded negative GDP quarter was in September 1991)<sup>15</sup>. This is by far the longest economic expansion on record with the economy averaging a rate of growth of around 0.9 per cent per quarter, or 3.6 per cent annually.

## Aggregate Private Demand

Private final demand grew 1.3 per cent in the December 2006 quarter to be 3.7 per cent over the year. (ABS Cat. No. 5206.0; National Income, Expenditure and Product; December 2006 Seasonally Adjusted)

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<sup>13</sup> Opcit. The Hon Nick Minchin.

<sup>14</sup> Ibid

<sup>15</sup> ABS Cat No 5206.0 December 2006 Trend data

The most recent data for December quarter 2006 revealed that private consumption expenditure grew by 0.8 per cent during the quarter, to be 3.5 per cent higher than a year earlier.

Growth in private capital expenditure grew by 1.3 per cent for the December quarter 2006 to be 2.0 per cent higher than in the same quarter in the previous year in seasonally adjusted terms. (ABS Cat. No. 5206.0; National Income, Expenditure and Product; December 2006)

### **Private Business Investment Expenditure**

Private business investment expenditure increased by 1.7 percent in the December quarter 2006 increasing by 2.1 over the year in seasonally adjusted terms.

Examining the two major components of business investment, in the December quarter 2006 while machinery and equipment investment decreased by 1.1 percent to be down 3.8 per cent over the year, non-dwelling construction increased by 5.6 per cent to be 10.3 per cent higher over the year. Within non dwelling construction, new engineering construction increased by 9.6 per cent to be 12.7 per cent higher over the year and non-dwelling construction new building investment expenditure increased by 2.2 per cent to be 8.5 per cent higher than in the same quarter in 2005. (ABS Cat. No. 5602.0 National Income, Expenditure and Product, December 2006).

Senator Minchin describes private business investment as being at very high levels:

*Private business investment has been at very high levels in recent years but still grew a further 2.1 per cent in 2006. Engineering construction rose 9.6 per cent just in the December quarter.<sup>16</sup>*

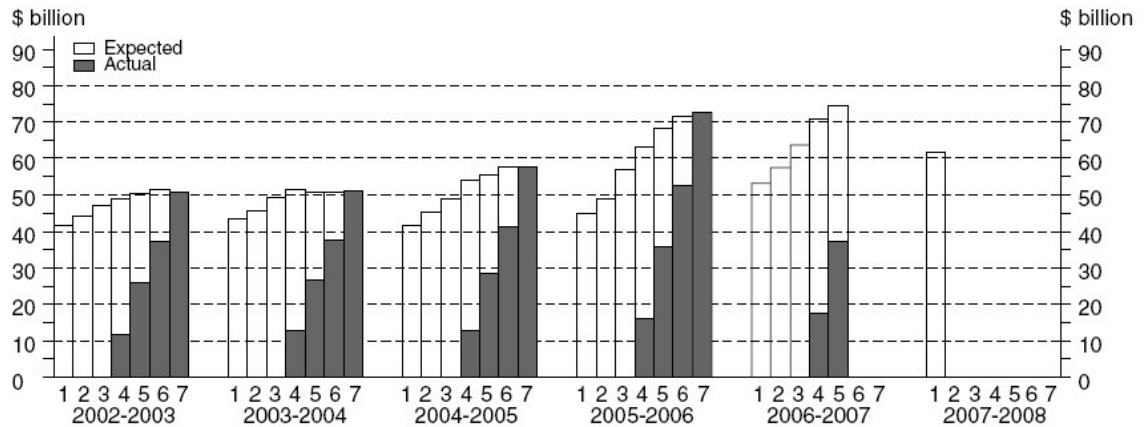
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<sup>16</sup> Opcit. The Hon Nick Minchin.

## Expected Business Investment

The Australian Bureau of Statistics' Private New Capital Expenditure and Expected Expenditure December 2006 (ABS Cat No 5625.0), released on 1 March 2007, provides data on the seven estimates of actual and expected Total Capital Expenditure for each financial year.

**Figure 6.1: Actual and Expected Total Capital Expenditure**



Source: ABS Cat No 5625.0 December 2006

The ABS states:

*The first estimate for 2007-08 is 17.7% higher than the first estimate for 2006-07 and is the highest first estimate ever recorded.*<sup>17</sup>

## Wage and Profit Shares

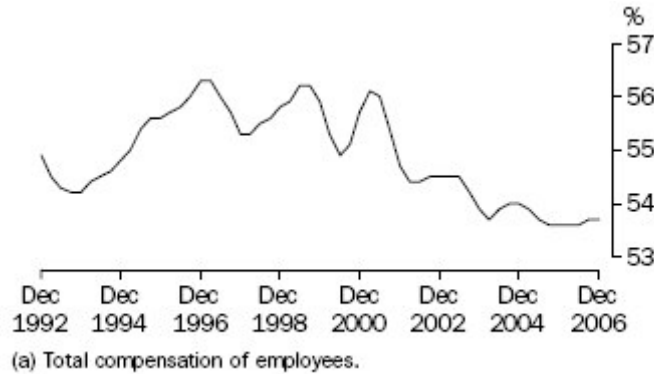
During the current economic expansion profit share of total factor income has increased by 29.4 per cent while wage share of total factor income has decreased by 4.3 per cent.

In December 2006 compensation of employees (COE) represented 53.8% of total factor income in the December quarter. The trend increase of 1.9% in the December quarter reflected a rise of 1.1% in average earnings and a 0.8% rise in the number of wage and salary earners. Seasonally adjusted,

<sup>17</sup> ABS Cat No. 5625.0, Page.6.

compensation of employees grew by 2.2%. Average earnings increased by 1.7%, while the number of wage and salary earners increased by 0.5%.

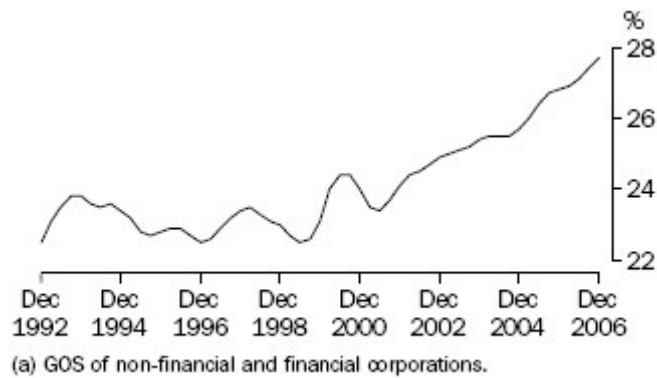
**Figure 6.2: Wages(a) share of total factor income**



• Source: ABS National Accounts Cat No. 5206.0 December 2006

The Gross operating surplus (GOS) of corporations represented 27.7% of total factor income in the December quarter. The December quarter saw a 2.8% increase in trend GOS (2.9% in seasonally adjusted terms). GOS remained at historically high levels.

**Figure 6.3: Profit(a) share of total factor income**



• Source: ABS National Accounts Cat No. 5206.0 December 2006

The Federal Government recognises the growth in profits.

*...company profits were up 10.9 per cent for the year. The profit share of the economy is at an all-time high.<sup>18</sup>*

## **Prices**

The Consumer Price Index (CPI) decreased by 0.1 per cent during the December quarter 2006, to be 3.3 per cent higher over the year. (ABS Cat. No. 6401.0 Consumer Price Index, original data).

## **Terms of Trade**

Australia's terms of trade continue to improve.

In 2006 Australia's purchasing power reached a 31 year high. The December quarter 2006 1.7 per cent increase in trend terms in the terms of trade index took the index to a record high, since September quarter 1959.

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<sup>18</sup> Opcit. The Hon Nick Minchin.

## **The Economic Outlook is Strong**

**Economic indicators support granting of ACTU's claim**

### **Australia's Minimum Wage Earners should not be denied the benefit of continued economic growth**

The Commonwealth Treasury's MYEFO 2006-07 was released on 20 December 2006. The MYEFO provides the Treasury's economic forecasts for the state of the national economy and is the most authoritative official outlook available for Australia. The forecast is for continued economic growth.

#### **The Outlook for the Domestic Economy**

The official forecasts paint a positive picture of the Australian economy over the near future.

Growth in the non-farm sector of the economy is expected to be 3 per cent during 2006-07, up from an outcome of 2.8 per cent in 2005-06.

The Treasury's key domestic forecasts for 2006-07 are summarised in Table 4 below. The MYEFO forecasts for 2006-07 and the Treasury's projections for the medium term are outlined in Table 5.

**Table 4: Domestic Economic Forecasts (a)**

	2005-06	2006-07	
	Outcomes(b)	Forecasts	
	Year average	Budget Year average	MYEFO Year average
<b>Panel A - Demand and output(c)</b>			
Household consumption	2.6	3	3
Private investment			
Dwellings	-3.8	-1	2
Total business investment(d)	16.0	8	1
Non-dwelling construction(d)	21.0	6	6
Machinery and equipment(d)	14.5	9	-4
Private final demand(d)	4.3	3 3/4	2 1/2
Public final demand(d)	4.3	3 1/4	3 1/4
Total final demand	4.3	3 1/2	2 3/4
Change in inventories(e)			
Private non-farm	-0.5	0	1/4
Farm and public authorities(f)	0.2	- 1/4	- 1/4
Gross national expenditure	4.0	3 1/2	2 1/2
Exports of goods and services	2.2	7	4
Imports of goods and services	7.3	7	5
Net exports(e)	-1.1	- 1/2	- 1/2
Gross domestic product	2.9	3 1/4	2 1/2
Non-farm product	2.8	3 1/4	3
Farm product	4.5	2	-21
<b>Panel B - Other selected economic measures</b>			
External accounts			
Terms of trade	10.9	0	5
Current account balance			
\$billion	-53.6	-62 1/2	-51 1/4
Percentage of GDP	-5.6	-6 1/4	-5
Labour market			
Employment (labour force survey basis)	2.2	1	2 1/4
Unemployment rate (per cent)	5.1	5 1/4	5
Participation rate (per cent)	64.5	64 1/4	64 3/4
Prices and wages			
Consumer Price Index	3.2	2 3/4	3
Gross non-farm product deflator	5.0	2 1/2	4
Wage Price Index	4.1	4	4

(a) Percentage change on preceding year unless otherwise indicated.

(b) Calculated using original data.

(c) Chain volume measure.

(d) Excludes second-hand asset sales from the public sector to the private sector.

(e) Percentage point contribution to growth in GDP.

(f) For presentation purposes, changes in inventories held by privatised marketing authorities are included with the inventories of the farm sector and public marketing authorities.

Source: Australian Bureau of Statistics (ABS) Cat. No. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

Source: MYEFO December 2006 Table 4



**Table 5: Major economic parameters(a)**

	Forecasts		Projections	
	2006-07	2007-08	2008-09	2009-10
Real GDP	2 1/2	3 3/4	3	3
Employment	2 1/4	1 1/4	1 1/4	1 1/4
Wage Price Index	4	4	4	4
CPI	3	2 1/2	2 1/2	2 1/2

(a) Year-average percentage change.

(a) Year-average percentage change.

• Source: MYEFO December 2006 Table 2

## Economic Growth

The Australian economy is forecast to grow 2½ per cent in 2006-07, down slightly from an outcome of 2.9 per cent for 2005-06. Economic growth in 2006-07 will be characterised by high levels of investment with improvements in export growth.

*Ongoing strong world economic growth and the continued high level of Australian business investment are expected to support a gradual shift in the composition of economic growth towards exports.<sup>19</sup>*

## Consumption

The outlook for consumption growth is to remain moderate with household consumption to strengthen slightly in 2006-07 to 3 per cent from 2.6 per cent in 2005-06. Consumption growth is expected to remain a little below trend reflecting ongoing consolidation in household balance sheets.

## Investment

Treasury expects business investment to slow significantly to 1 per cent in 2006-07 and remain moderate in 2007-08. This is weaker than expected at Budget and follows four years of robust growth.

<sup>19</sup> MYEFO Page 5

Treasury finds that:

*“..the investment environment remains favorable, particularly for the mining sector and new buildings and structures investment, with the cost of capital remaining low, corporate finances healthy and capacity utilization around record highs.”<sup>20</sup>*

## **Public final demand**

The Treasury expects public final demand to ease to 3¼ per cent in year average terms over 2006-07, following two years of strong public investment growth.

## **Net exports, terms of trade and the current account**

Treasury expects net exports to subtract ½ a percentage point from GDP growth in 2006-07; this is less than the 1.1 percentage point subtraction in 2005-06.

The forecast for export growth is an increase of 4 per cent in 2006-07, down from 7 per cent at Budget reflecting a weaker outlook for rural and elaborately transformed manufactures. Non-rural commodity exports are expected to grow strongly in 2006-07 and 2007-08 as production from newly completed projects increases.

The Treasury’s outlook for imports is for growth to remain around 5 per cent in 2006-07 and 6 per cent in 2007-08 reflecting solid growth in gross national expenditure.

Treasury forecasts the Current Account Deficit (CAD) to narrow in 2006-07 to 5 per cent of GDP from 5.6 per cent of GDP in 2005-06.

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<sup>20</sup> Ibid., Page 12

## **Labour Market**

Treasury's outlook for employment is to increase by 2¼ per cent during 2006-07. Treasury finds that recent employment outcomes have been substantially stronger than anticipated at Budget. The unemployment rate is expected to be around 5 per cent in 2006-07, lower than the Budget forecast of 5¼ per cent.

## **Prices and Wages**

The Treasury forecast for CPI 2006-07 year average is 3.0 per cent.

Treasury forecast a 4 per cent increase in the WPI in 2006-07 and 2007-08. Treasury find that growth in the WPI has recently moderated partly reflecting a change in the timing of award wage increases announced by the Fair Pay Commission.

## **Conclusion**

The economic conditions and forecast support a granting of the ACTU's claim for a small real increase to minimum wage levels.

# 8

## **ACTU's Claim**

### **Claim is moderate and justified**

The ACTU's is seeking a \$28.00 per week increase to all pay scale rates of pay. We believe that such a claim is reasonable and justified given the economic circumstances.

The AFPC has an obligation to ensure that those employees who are not in a position to bargain do not fall further behind.

The ACTU's claim is not an ambit claim and is moderate and justified. A small real increase in the wage levels of Australia's lowest paid employees will not harm the economy or cause employment to fall or unemployment to increase.

### **ACTU Claim Moderate**

The ACTU Claim, if granted, would provide a real wage increase for all but the highest pay scale.

**Table 6: ACTU Claim**

	<b>Current Pay Scale</b>	<b>ACTU Claim</b>	<b>Adjusted Pay Scale</b>	<b>Nominal Increase</b>	<b>CPI 07</b>	<b>Dec</b>	<b>Real Wage change</b>
C14	511.76	28	539.76	5.47	2.75		2.72
C13	528.46	28	556.46	5.30	2.75		2.55
C12	550.96	28	578.96	5.08	2.75		2.33
C11	571.86	28	599.86	4.90	2.75		2.15
C10	605.56	28	633.56	4.62	2.75		1.87
C9	626.46	28	654.46	4.47	2.75		1.72
C8	647.26	28	675.26	4.33	2.75		1.58
C7	666.16	28	694.16	4.20	2.75		1.45
C6	707.86	28	735.86	3.96	2.75		1.21
C5	723.44	28	751.44	3.87	2.75		1.12
C4	744.24	28	772.24	3.76	2.75		1.01
C3	785.94	28	813.94	3.56	2.75		0.81
C2a	806.84	28	834.84	3.47	2.75		0.72
C2b	844.54	28	872.54	3.32	2.75		0.57
C1a	928.04	28	956.04	3.02	2.75		0.27
C1b	1053.14	28	1081.14	2.66	2.75		-0.09

**2006 decision was not generous**

**Table 7: Change in real value of Metal Industry Pay Scale December 2006**

<b>MEAI Award</b>		<b>AFPC</b>	<b>APCS</b>	<b>Percentage</b>	<b>Inflation over</b>	<b>Change in real wage</b>
<b>Classification</b>		<b>Increase</b>	<b>1-Dec</b>	<b>Increase</b>	<b>18 months</b>	<b>%</b>
				<b>%</b>	<b>%</b>	
C14	484.40	27.36	511.76	5.65	5.4	0.25
C13	501.10	27.36	528.46	5.46	5.4	0.06
C12	523.60	27.36	550.96	5.23	5.4	-0.17
C11	544.50	27.36	571.86	5.02	5.4	-0.38
C10	578.20	27.36	605.56	4.73	5.4	-0.67
C9	599.10	27.36	626.46	4.57	5.4	-0.83
C8	619.90	27.36	647.26	4.41	5.4	-0.99
C7	638.80	27.36	666.16	4.28	5.4	-1.12
C6	680.50	27.36	707.86	4.02	5.4	-1.38
C5	701.40	22.04	723.44	3.14	5.4	-2.26
C4	722.20	22.04	744.24	3.05	5.4	-2.35
C3	763.90	22.04	785.94	2.89	5.4	-2.51
C2a	784.80	22.04	806.84	2.81	5.4	-2.59
C2b	822.50	22.04	844.54	2.68	5.4	-2.72
C1a	906.00	22.04	928.04	2.43	5.4	-2.97
C1b	1031.10	22.04	1053.14	2.14	5.4	-3.26

As Table 7 above clearly demonstrates, the inaugural decision of the AFPC on 1 December 2006 was by no means generous. More than 50 per cent of pay scale reliant workers earn the equivalent of a sum between C8 and C7 on the above scale. On the last available figures less than 19 per cent of pay scale reliant employees obtained a real increase from the 2006 decision.

Professor Harper appears to agree with us on this point when, having noted that the decision delivered an increase at above or equal to inflation at only the two lowest Australian Pay and Classification Scales, he said:

*Every other pay classification, ladies and gentlemen, goes down in real terms. The weighted average increase over all the Pay and Classification Scales of this decision is 4.5% over 18 months. Inflation over 18 months we estimate to be about 5.4%.<sup>21</sup>*

It is disappointing that the reduction in the real value of the minimum wage for the lowest paid and most vulnerable Australians is lauded as a positive. We see such an outcome as a negative and a failure to meet moral and statutory expectations.

### **Further data will be provided to the Commission**

In last years submission to the Commission the ACTU provided considerable material regarding the characteristics of low paid workers. The ACTU awaits data from the most recent Employee Earnings and Hours (EEH) survey and will provide further unpublished ABS data on in its post budget submissions.

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<sup>21</sup> Workplace Express, Harper downplays impact of minimum wage rise, looks for jobs growth, 23.11.2006

## Movement in Wages

### Low paid workers should not fall further behind

There is steady but moderate real growth in wages. General wages movements are consistent with the ACTU's claim for a \$28 per week increase.

#### Measures of Wages Growth

We outline below a range of wage growth measurers, each designed to measure different concepts. The ACTU believes that the most useful measure is the Wage Price Index (WPI).

**Average Weekly Earnings (AWE)** is a measure of non-farm wage and salary earners, from the ABS survey of the same name (Cat No. 6302.0), published for both all employees, and full-time adult employees.

For the year to November 2006 AWE all employees increased by 4.4 per cent to be \$846.70. The AWE for full-time employees increased by 2.6 per cent for the year to November 2006 to be \$1105.70 [Trend data].

**Average Weekly Ordinary Time Earnings (AWOTE)**, is derived from the AWE survey but includes only ordinary time earnings of adults working full-time. For the year to November 2006 AWOTE increased by 3.0 per cent to be \$1058.90.

**Average Non-Farm Compensation per Employee** - published as part of the ABS's Quarterly National Accounts (Cat. No. 5206.0) – also referred to as Average Earnings on a National Accounts basis (AENA).

For the year to December 2006 the AENA grew by 4.2 per cent, seasonally adjusted, 4.0 per cent, trend.

**The Wage Price Index (WPI)**, forms part of the expanded Labour Price Index (LPI) Survey (Cat No. 6345.0) is published by the Australian Bureau of Statistics is an index which measures changes in wage movements rather than levels and does not include non-wage costs. It is constructed by measuring the cost of purchasing the same quality and quantity of labour input.

Therefore, it is analogous in its construction to that of the Consumer Price Index (CPI). The WPI is not subject compositional change or change in non-wage related costs. As the WPI is not affected by compositional change, it is the best measure to assess the economic impact of wage changes to the employer. The WPI is the RBA's preferred measure of wages growth.

The increase sought by the ACTU is consistent with movements in the Wage Price Index. The WPI for the twelve months to the December quarter 2006 is 4.0 per cent.

## **Labour Price Index**

The LPI provides an indication of the total price of labour to the employer. As seen in Table 8 growth in LPI, excluding bonus for the financial year 2005-2006 was 4.1 per cent. This was higher than growth in 2004-05 where the LPI increased by 3.8 per cent.



**Table 8: Percentage change in LPI excluding bonuses, All sectors**

	<b>2004-2005</b>	<b>2005-2006</b>
NSW	3.6	4.1
Vic	3.9	3.8
Qld	3.8	4.4
SA	3.5	3.8
WA	4.3	4.5
Tas	4.1	4.1
NT	3.7	4.3
ACT	4.3	4.1
Australia	3.8	4.1

• Source: ABS Cat. No. 6345.0 Table 2

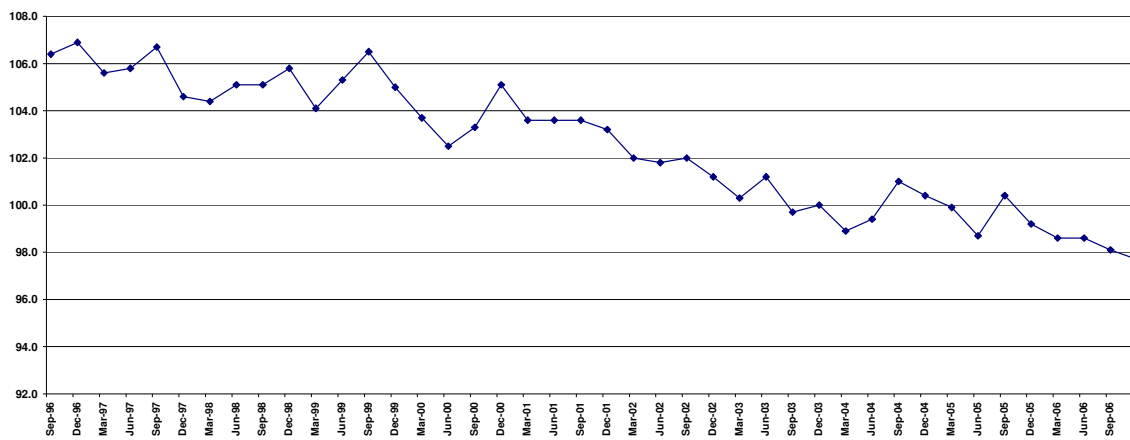
According to the most recent LPI publication, Total Hourly Rates of Pay, Excluding Bonuses for all employees increased 1.1 per cent during the December quarter 2006, to be 4.0 per cent over the year.

### **Real Unit Labour Costs**

Real Unit Labour Costs (RULC) continue to fall. Real unit labour costs fell by 1.5 per cent for the year to December quarter 2006.

The RULC is an indicator of cost pressures in the labour market and is the ratio of average labour costs divided by productivity (output per worker per hour worked). The cost of labour in producing one item (unit) of production is a factor influencing price levels.

**Figure: 9.1: Unit Labour Costs – Real Non-farm**



Source: ABS Cat No 5206.0 December Quarter 2006 Table 38

## Agreements

Agreement wage outcomes are averaging 3.9 per cent.

The **Trends in Federal Enterprise Bargaining**, series which is published quarterly by the Department of Employment and Workplace Relations (DEWR) reports the *Average Annualised Wage Increase (AAWI)* 'per employee'.

The AAWI for agreements registered in the December 2006 quarter was 3.8 per cent. Over the four quarters to December 2006 the AAWI for agreements certified in each quarter has averaged 3.9 per cent.

The **Agreements Database and Monitor Report (ADAM)**, published quarterly by Workplace Research Centre measures AAWI increases 'per agreement'

The AAWI for agreements registered in the September 2006 quarter was 3.6 per cent. The AAWI for certified agreements registered during the four quarters over the year to September 2006 averaged 3.9 per cent.

## **Management and Executive Remuneration**

The most recent review of executive salaries in the Mercer Human Resource Consulting Quarterly Salary Review<sup>22</sup> in December 2006 showed that the incomes of executives classified as Senior Management increased over the year to end December 2006 by:

- Base Salary 5.1 per cent
- Total Remuneration 5.1 per cent<sup>23</sup>

## **Conclusion**

The ACTU's claim for a \$28 per week increase to all minimum rates of pay is reasonable and is necessary to ensure those relying on the determinations of the AFPC do not fall further behind other wage earners.

The wages of minimum wages dependent workers should increase in a way that is comparable to increases for others in the community.

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<sup>22</sup> Mercer Human Resource Consulting, Quarterly Salary Review, December 2006. Increases are for individuals in same position, in same organisation.

<sup>23</sup> Excludes taxation on salary packaged items.

# 10

## Need for AFPC to Maintain Adequate Safety Net for Pay Scale Reliant Workers

### Minimum Wage earners need a wage increase

The ACTU has consistently advanced propositions in relation to the low paid salary earners of the population of wage and salary earners:

- The low paid are concentrated in lower deciles of income distribution
- Wage mobility is not universal.
- Effective Marginal Tax Rates do not absorb all minimum wages increases, and

Research commissioned by the AFPC found:

Lower paid workers are relatively concentrated in lower income households.<sup>24</sup>

Ultimately, there may be little scope for wages policies to influence the extent of upward earnings mobility.<sup>25</sup>

Modeling undertaken for the Commission confirms that most low-income earners face relatively low effective marginal tax rates (EMTRs) and would therefore retain most of any pay rise.<sup>26</sup>

<sup>24</sup> Australian Fair Pay Commission, Wage-Setting Decision October 2006, Page 8

<sup>25</sup> Op cit, Page 9

<sup>26</sup> Op cit, Page 12

## Household characteristics of the low paid

In its reasons for decision the AFPC states that:

*...NILS... finds that relative to adult population as a whole, employees earning below, around or slightly above the minimum wage are concentrated in the middle of the overall household income distribution. However, comparing the household income of low paid employees with that of two sub-populations that more closely resemble them (adults in the labour force [i.e. employed or looking for work] and all adult employees), there is greater concentration in-low income households.<sup>27</sup>*

## Research

Healy and Richardson<sup>28</sup> looked at household, rather than income unit, income which assumes all members of a household pool and share income. The following graphs are based on the Healy and Richardson findings, as apprehended by the ACTU.

Healy and Richardson find:

Minimum wage workers are disproportionately found in the bottom four deciles of a distribution that makes no adjustment for household size or workforce status... the position of above FMW workers... resembles the FMW curve but usually with lower proportions in the very bottom deciles, and often with a one decile 'offset' or 'shift' towards the higher deciles.<sup>29</sup>

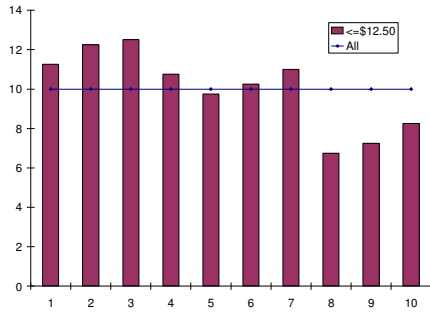
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<sup>27</sup> Op cit, p 69

<sup>28</sup> Healy J and Richardson S, An Updated profile of the minimum wage workforce in Australia, Page 16

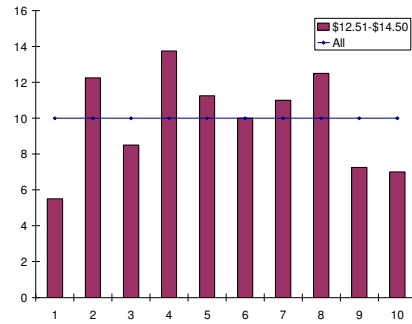
<sup>29</sup> ibid.

**Figure 10.1: All persons, unadjusted household disposable income, ≤ \$12.50**



Source: Healy and Richardson Figure 3A

**Figure 10.2: All persons, unadjusted household disposable income, \$12.51-\$14.50**

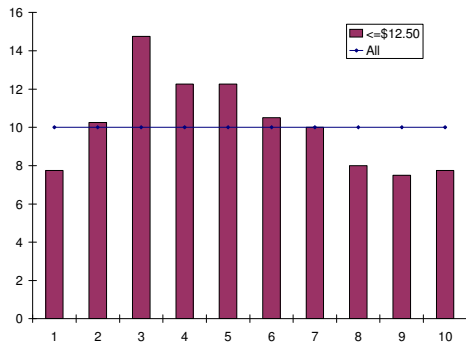


Source: Healy and Richardson Figure 3A

Healy and Richardson also find that when:

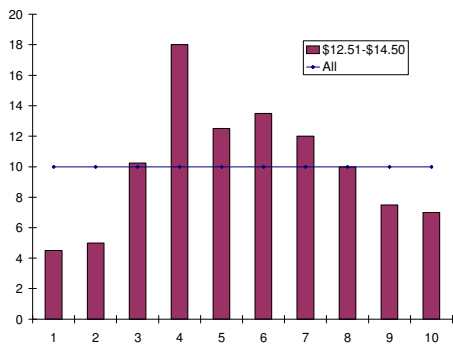
equivalent income is used FMW wages are most often situated in the middle income deciles of a distribution that contains all persons aged 21 years or more.

**Figure 10.3: Aged 21+equivalent household disposable income, ≤ \$12.50**



Source: Healy and Richardson Figure 3B

**Figure 10.4: Aged 21+equivalent household disposable income, \$12.51-\$14.50**



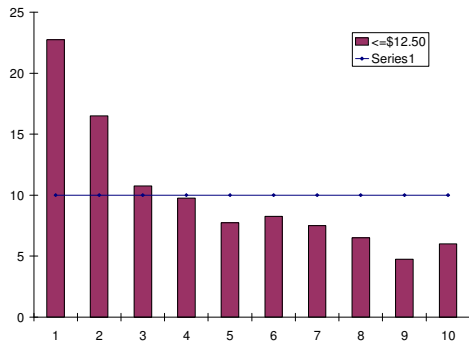
Source: Healy and Richardson Figure 3B

Healy and Richardson come to the conclusion that Federal Minimum Wage workers:

*... are clearly concentrated towards the lowest rungs of the distribution restricted to adults in the labour force.<sup>30</sup>*

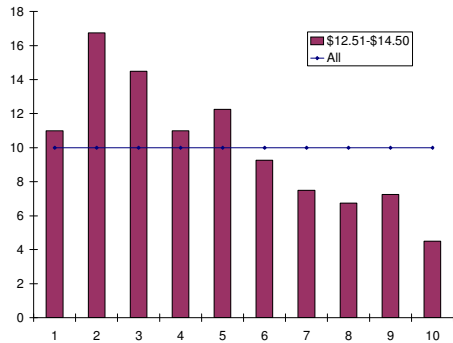
<sup>30</sup> *ibid.*

**Figure 10.5: Aged 21+in the labour force, equivalent household disposable income, ≤ \$12.50**



Source: Healy and Richardson Figure 3C

**Figure 10.6: Aged 21+in the labour force, equivalent household disposable income \$12.51-\$14.50**



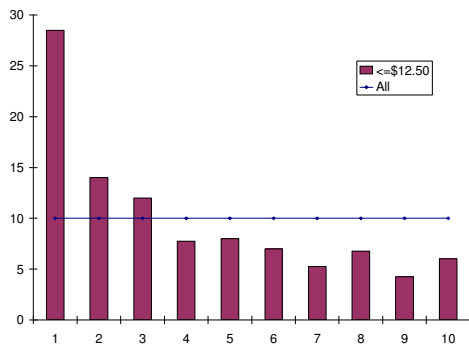
Source: Healy and Richardson Figure 3C

Finally, Healy and Richardson find Federal Minimum Wage workers are clearly concentrated towards the lowest rungs of the distribution restricted to:

*and, finally, to adult employees.*

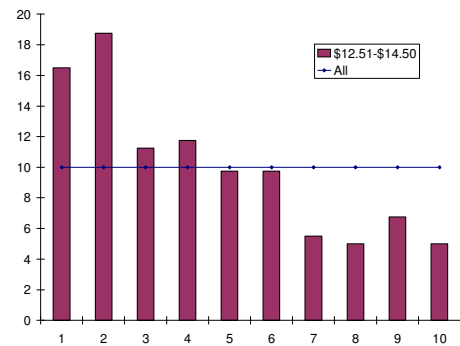


**Figure 10.7: Adult employees, equivalent household disposable income, ≤ \$12.50**



Source: Healy and Richardson Figure 3D

**Figure 10.8: Adult employees, equivalent household disposable income, \$12.51-\$14.50**



Source: Healy and Richardson Figure 3D

ACTU welcomes the outcomes of this research.

## Wage Mobility

In its reasons for decision the AFPC finds:

*Not surprisingly, the research finds that some people progress from low-paid jobs to higher-paid jobs while others do not and a significant minority cycle between non-employment and low-paid work.<sup>31</sup>*

<sup>31</sup> Op cit, Page 75

*Ultimately, there may be limited scope for wages policies to influence the extent of upward earnings mobility among those already in stable employment. For many people, the route to higher incomes will continue to lie in improving their skills, and hence their attractiveness to employers, or in moving to a location with more and better paid jobs.<sup>32</sup>*

## Research

The commissioned Melbourne Institute<sup>33</sup> research uses an “arbitrary cut-off point that was agreed after consulting with the AFPC”<sup>34</sup> of \$500 in 2004 to define low paid. As Table 9 shows, in May 2004 the C14 Federal Minimum Wage was \$448.40. The Classification C11 – one below Trades is deemed by the research as above minimum wages.

**Table 9: Minimum Wages 2004**

C14	C13	C12	C11	C10
448.40	465.10	487.60	508.20	542.20

We note that the AFPC in its October 2006 decision stated:

*“While the Commission has not sought to define low paid, it has used a range of minimum wage rates up to \$700 per week as the indicative low-paid range.”<sup>35</sup>*

Allowing for adjustments to the minimum wage since May 2004 the Melbourne Institute cut-off of \$500 in 2004 in 2007 rates would be \$563.36.

Even given this low cut-off point, the commissioned Melbourne Institute research found some low paid in 2001 remained so in 2004 - 25 per cent of part time low paid remained so, while 31 per cent of full time low paid remained low paid.<sup>36</sup>

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<sup>32</sup> *ibid* Page 76

<sup>33</sup> Mc Guinness S, Freebairn J and Mavromaras K Characteristics of minimum wage employees, Melbourne Institute.

<sup>34</sup> *ibid* Page 1-2

<sup>35</sup> Australian Fair Pay Commission. Wage-Setting Decision and Reasons for Decision. October 2006, p 63.

<sup>36</sup> *Op cit* Table 18, Page 30.

## Effective Marginal Tax Rates (EMTRs)

In its reasons for decision when considering the prevalence and impact of high effective marginal tax rates (EMTR's), the AFPC found:

*The effect of high EMTRs is qualified by the fact that they are faced by only a small minority of employees.<sup>37</sup>*

Harding A, Payne A, Ngu Vu Q and Percival R<sup>38</sup> looked at the effective tax rates of 1,927,000 low wage workers, based on a simulation of a 39 cents per hour pay increase, and find the following distribution:

**Table 10: Estimated distribution of EMTR's among low wage workers 2006-07**

Effective Tax Rate (ETR)	Low Wage Workers			
	Percentage of workers	Cumulative Percentage	Number of workers	Amount of pay increase retained
T=0	17.2	17.2	331,500	100%
0<t<=10	0.9	18.1	17,000	90-99%-
10<t<=20	21.3	39.4	411,000	80-89%
20<t<=30	12.7	52.1	245,500	70-79%
30<t<=40	32.7	84.8	629,000	60-69%
40<t<=50	4.8	89.6	92,000	50-59%
50<t<=60	4.3	93.9	82,000	40-49%
60<t<=70	3.6	97.5	69,500	30-39%
70<t<=80	1.4	98.9	26,000	20-29%
80<t<=90	0.2	99.1	4,500	10-19%
t>90	1.0	100.1	19,000	<10%
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>1,927,000</b>	

Source: Harding, Payne, Ngu Vu & Percival Table 3

<sup>37</sup> Op cit Page 77

<sup>38</sup> Harding A, Payne A, Ngu Vu Q and Percival R, Interactions between wages and the tax/transfer system, National Centre for Social and Economic Modelling

The research shows that 52.1 percent of low wage workers retain between 70 to 100 per cent of their pay increase, a further 33 percent of low wage workers retain between 60 to 69 per cent of their pay increase and another 4.8 percent retain 50 to 59 per cent of their pay increase - 89.6 percent of low wage workers, 1,726,000 of 1,927,000 workers face effective marginal tax rates in the range 0 to 50 percent, so they retain 50 per cent cents or more of their pay increase.

*Overall, the simulation suggested that nine in every ten low wage earners would keep at least half of any national pay increase.<sup>39</sup>*

The NATSEM research for the AFPC shows that 10.4 percent of low wage workers face ETRs of more than 50 per cent. Of these 201,000 workers, 151,500 face ETRs of 50 to 70 cents.

*Relatively few low wage employees faced extremely high ETRs of 70 per cent or more , with only about 2.5 per cent of all low wage earners – or just under 50,000 workers – facing such extremely high ETRs.<sup>40</sup>*

The ACTU welcomes the outcomes of this research commissioned by AFPC. It answers, and in our view, puts to rest claims that minimum wages increases are not effective in assisting low paid workers. On the basis of this NATSEM research, the AFPC can have confidence that real wage increases assist low wage workers.

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<sup>39</sup> ibid Page 32

<sup>40</sup> ibid Page 31

## OECD Report on EMTR's

A recent OECD report<sup>41</sup> concludes that some Australian families face high EMTRs. In relation to low wage workers, the NATSEM research for the AFPC addresses the issue of ETRs by family type.

Harding A, Payne A, Ngu Vu Q and Percival find that while 41.2 per cent of low wage sole parent families face ETRs above 50 per cent (NATSEM Figure 21), such a family type constitutes 5 per cent of all low wage families (NATSEM Figure 19). Similarly, while 17.3 per cent of couple with children low wage families face ETRs above 50 per cent, such a family type constitutes 33 per cent of all low wage families.

Low wage family types constituting 62 per cent of all low wage families face a low risk of high ETRs. Of single person family types, constituting 43 per cent of low wage families, 3.7 per cent face ETRs above 50 per cent. Similarly, of couple without children low wage family types, constituting 19 per cent of all low wage families, 5.4 per cent face ETRs above 50 per cent.<sup>42</sup>

## Evidence on needs since the last decision

### Rent increases

Recalling that Healy and Richardson show that *FMW workers are clearly concentrated towards the lowest rungs of the distribution restricted to adult employees*,<sup>43</sup> the ABS Household Expenditure Survey 2003-04 for the population whose principal source of income is Wages and Salaries, data for Tenure, shows 35 per cent of first quintile households are private renters.

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<sup>41</sup> OECD *Taxing Wages 2005/2006* 2006 Edition

<sup>42</sup> Op cit pp 26-27

<sup>43</sup> Op cit Page 16

**Table 11: Tenure and landlord type: Ist Quintile of households whose principal source of income is wages and salaries**

Owner without a mortgage	21.8
Owner with a mortgage	33.6
Renter	
State/territory housing authority	4.7
Private landlord	34.9
Other landlord type	*1.6
Total renters	41.3
Other tenure type	3.3
<b>Total</b>	<b>100.0</b>

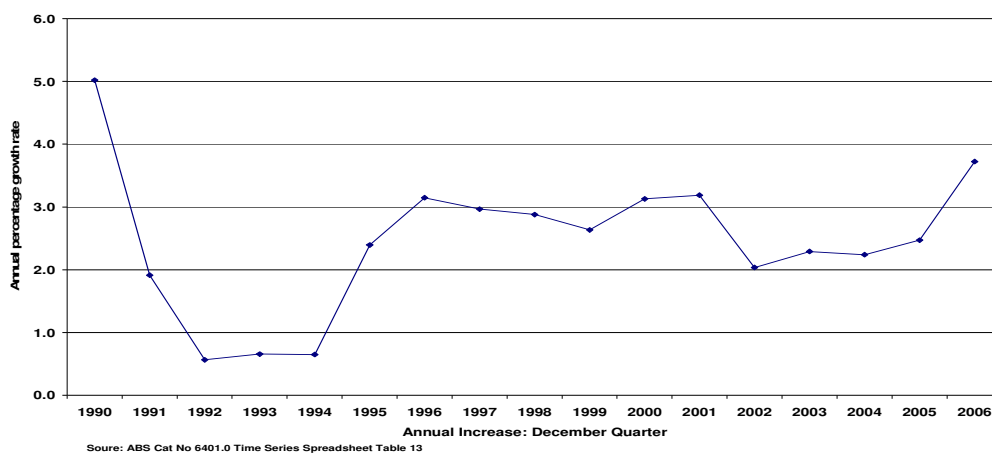
Source: ABS HES 2003-04 Unpublished data

Data released since the last AFPC Review demonstrate significant rises in private rental costs.

The ABS Consumer Price Index Housing Group Sub Group 'Rents' increased from:

- December Quarter 2005 – December Quarter 2006 by 3.7 percent
- September Quarter 2006 – December Quarter 2006 by 1 percent.

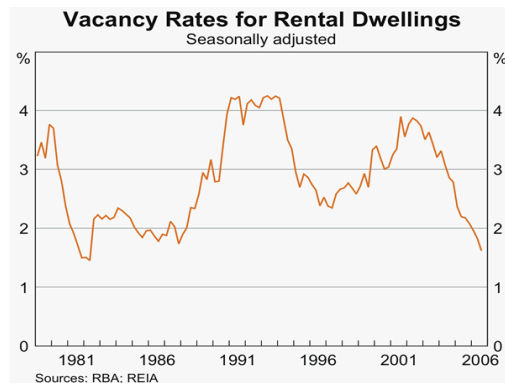
**Figure 10.9: Annual Increase in Rents: Australia**



The Reserve Bank has commented that there are significantly larger rent increases which are yet to pass into this measure. The Reserve Bank of Australia in its Statement on Monetary Policy 12 February 2007<sup>44</sup> stated:

*The result has been that conditions in residential rental markets have tightened, with the national vacancy rate now around its lowest level since the early 1980s (Graph 35). According to the state Real Estate Institutes, vacancy rates in all capitals are well below their long-run average levels (Table 8). The low vacancy rates are contributing to growth in rents and should boost dwelling construction over the medium term. Over the year to the December quarter, the CPI measure of nationwide rents increased by 3.7 per cent, its fastest pace of growth since 1991. However, information on new rental contracts suggests significantly larger rent increases, which are yet to pass through into the broader ABS measure for the total rental stock.*

**Figure 10.10: Vacancy Rates for Rental Dwellings**



**Table 12: Rental Vacancy Rates Per cent, seasonally adjusted**

	<b>1979–2005 Average</b>	<b>2006(a)</b>
Sydney	2.4	1.9
Melbourne	2.8	1.7
Brisbane	3.6	1.9
Adelaide	2.9	1.6
Perth	3.7	1.8
Canberra	2.9	1.8
<b>Australia</b>	<b>2.9</b>	<b>1.8</b>

(a) Estimate based on data for the first three quarters

Sources: RBA; state REIs

<sup>44</sup> Reserve Bank of Australia Statement on Monetary Policy 12 February 2007, Page 30

Rent of \$140-\$150 per week, for a single working full time on FMW, is 31-34 per cent of after tax income. According to a recent report by the St Vincent De Paul, this rent per week buys a room in a boarding house in the northern suburbs of Melbourne. A bungalow or caravan at the back of someone's house can cost up to \$140 per week.<sup>45</sup>

It is important that low paid people can afford housing within a reasonable distance from their place of employment.

### **Child care costs**

As already note, Harding, Payne, Ngu and Percival find that couple with children low wage families constitutes 33 per cent of all low wage families.<sup>46</sup>

For those low paid with children requiring child care, the ABS Consumer Price Index for the December quarter 2006 shows that child care costs increased by 2.0 per cent from the September quarter to December quarter 2006 and by 12.6 per cent over the year, December 2005 to December 2006, well above the general CPI.

### **Health Care Costs**

Private Health Insurance Costs have increased by an average of 4.5%.<sup>47</sup> This increase is also above the general rate of inflation.

Reductions in real wages do not assist employees reliant on pay scales to meet these, among other, needs.

### **Automotive Fuels**

The December quarter CPI was negative. According to the ABS:

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<sup>45</sup> Dufty G and Horton N, St Vincent De Paul, *Those who can't buy still merit a home*, The Age 24 February 2007.

<sup>46</sup> Op cit, Page 26

<sup>47</sup> The Hon. Tony Abbott, Minister for Health, Media Release, 23 February 2007

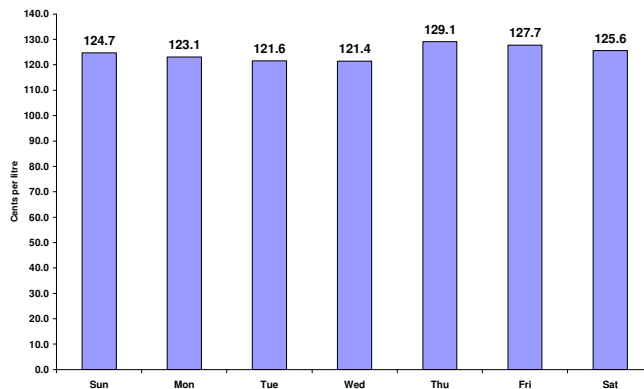


The most significant price falls this quarter were automotive fuel (-12.4%), fruit (-5.2%), pharmaceuticals (-5.0%) and audio, visual and computing equipment (-2.7%).

The decrease in automotive fuel contributed -0.86 index points to the December quarter CPI movement.

However, since the end of January 2007 petrol prices have been moving up.

**Figure 10.11: Unleaded fuel prices last week Melbourne**



Source: RACV<sup>48</sup>

## 2007-2008 Federal Budget

We assume the AFPC in its deliberations will be taking into account the impact of the 2007-08 Federal Budget.

Tax transfers are a targeted approach, but the AFPC's role is to provide a sound basis for all workers including those who do not benefit from family assistance.

The ACTU will be making further post-budget submissions to the Commission.

<sup>48</sup> Source: [www.racv.com.au](http://www.racv.com.au) accessed 25 March 2007

## **Conclusion**

In a time of economic growth and positive economic outlook and when increases in minimum wages have not had negative effects, reducing the real wages of those who rely on minimum wages does not sustain an effective safety net.

## **A Closer Look at Pay-Scale Reliant Workers**

**Minimum Wage earners receive 58% less**

### **All pay scale reliant workers are 100 per cent reliant on minimum wages**

In May 2006 the Australian Bureau of Statistics undertook the Employee Earnings and Hours Survey 2006 (EEH survey). The results of this survey were released on 28 February 2007. It is important to note that the methodology of the 2006 survey varied so that earnings include "regular wages and salaries in cash (including amounts salary sacrificed), that is, cash earnings. Earnings estimates for 2004 and 2006 have been revised to reflect the new methodology.

### **New Industrial Relations Laws are impacting on wages**

Significant changes to the industrial relations environment occurred on 27 March 2006 when the Workplace Relations Amendment (Work Choices) Bill 2005 legislation was passed. Earnings data for the EEH survey was taken a short time after the introduction of the new laws. It is the expectation of the ACTU that the unstated intention of the new laws to reduce wages will show up in future surveys. This we believe will be especially so for low paid workers without bargaining power. The Commonwealth Department of Employment and Workplace Relations own data verified the dramatic

reduction in pay for those employees required to sign Australian Workplace Agreements (AWA's).<sup>49</sup>

**Table 13: Reductions or losses of protected award conditions under AWAs, 2002-03 & Apr. 2006 (%)**

	2002-03	2006				2002-03 to 2006
	absorbed (abolished)	abolished	'modified' (reduced but not abolished)	total reduced	un-changed	increase in rate of abolition
Overtime pay	25	51	31	82	18	+104%
Penalty rates	54	63	na	na	na	+ 17%
Annual leave loading	41	64	na	na	na	+ 56%
Shift work loading	18	52	na	na	na	+189%
Rest breaks	na	40	29	69	31	na
Public holiday payments	na	46	27	73	27	na
Days substituted for public holidays	na	44	na	na	na	na
Declared public holidays	na	36	na	na	na	na
Incentive based payments/bonuses	na	46	na	na	na	na
Allowances (expenses; skills; disabilities)	41	48	na	na	na	+ 17%

Source: Peetz 2007 - (calculated from Department of Employment and Workplace Relations and Office of the Employment Advocate, 2004; McIlwain, 2006a; Office of the Employment Advocate, 2006a). na = not available.

## Working families suffer real wage cuts under Industrial Relations laws

The latest ABS data<sup>50</sup> on Average Weekly Earnings reveals that Australian working families are suffering under the new IR laws with average weekly earnings for full time employees failing to keep up with the cost of living.

ABS data on Average Weekly Earnings released in February 2007 shows:

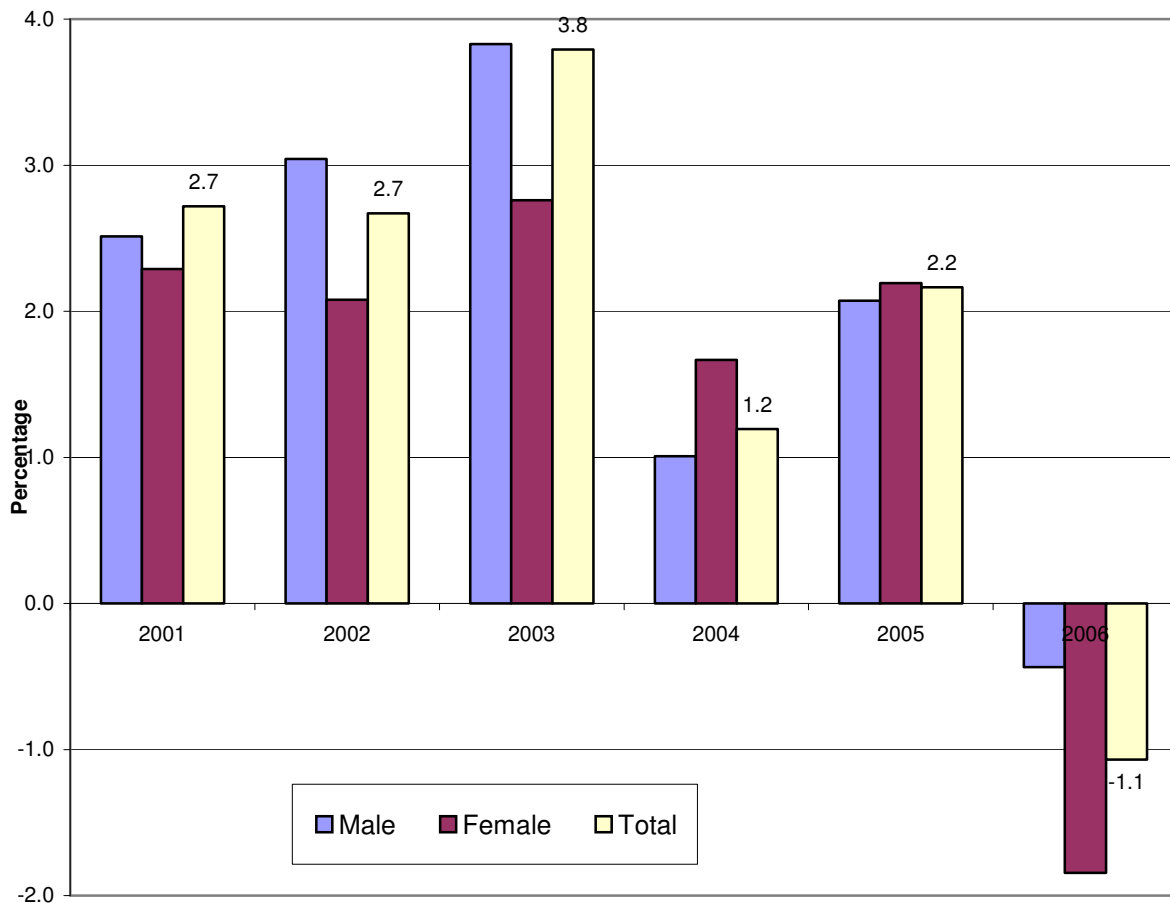
<sup>49</sup> Senate Employment, Workplace Relations and Education Legislation Committee, 2006-2007 Budget Estimates Hearing 29 & 30 May 2006. Employment and Workplace Relations Portfolio answer to questions on notice. Numbers: W210-07

<sup>50</sup> ABS Cat No 6302.0. Average Weekly Earnings Australia, November 2006.

- Total earnings for full time workers in the private sector dropped in real terms by 1.1% the past year.
- Women working full time in the private sector have been hit the hardest, suffering a 1.8% drop in real earnings.

These figures provide clear evidence that working families are going backwards under the Government’s IR laws. This is the third quarter in row since the new IR laws came in that has seen real average earnings for full time workers drop below the cost of living for the previous 12 month period.

**Figure 11.1: Average full time adult total earnings (Private Sector) <sup>51</sup>**



<sup>51</sup>Source: Full Time Adult - Private sector - Total Earnings 2001 – 2006. ABS Cat Nos 6401.0 and 6302.0

Working families are already struggling to keep their heads above water and the last thing they can afford is a real drop in their take home pay, but that is exactly what is happening under the new IR laws.

The only other occasion in the last twenty years which have seen such a reduction in real wages was when the GST was introduced. In addition, the decline in real earnings is notable given the current strength of the labour market. Strong labour markets are typically associated with a growth in real wages — even stagnation of real wages would be unusual in the current situation.

### **Pay gap for women widens**

The Federal Government's new IR laws are causing a significant worsening of women's right to equal pay and the right to family-flexible working conditions.

The May 2006 EEH data,<sup>52</sup> which was released in February 2007, indicates that women in full time jobs now earn \$100 a week less than men and that the pay gap for working women is getting wider. Full time women currently earn on average 10% less than men — the same gender pay gap as 1978, almost 30 years ago.

Average Weekly Earnings data<sup>53</sup> also shows the real wages of female workers has fallen 1.8 per cent over the last 12 months. With almost one in four women (23%) reliant on awards (compared to only 15% of men), the erosion of award conditions like penalty rates, leave loading and public holiday payments is having a serious impact on women's take home pay.

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<sup>52</sup> ABS Cat 6306.0 Employee Earnings and Hours May 2006 Table 6. (Ordinary Time Hourly Cash Earnings)

<sup>53</sup> ABS Cat 6302.0 Average Weekly Earnings, Australia, November 2006 and ABS Cat No. 6401.0 Consumer Price Index, Australia, December 2006

Women are being disproportionately affected by the decline in the real value of minimum wages given the higher number of women who are dependent upon pay and classification scales.

## **Retail and hospitality workers are hardest hit**

It is apparent that the two industries hardest hit by the decline in real earnings are Retail and Hospitality (accommodation, cafes and restaurants).

Professor Peetz's analysis<sup>54</sup> shows that in the two quarters since Work Choices took effect, hourly earnings growth in these industries (at 1.0 per cent and 0.7 per cent respectively) were 47 per cent and 61 per cent lower than the all-industry average.<sup>55</sup>

It is highly likely that this reduction is a reflection of the loss of penalty rates and other conditions of employment.

It is also clear that women have been particularly affected. They represent the majority of employees in retailing and hospitality.

## **The Fair Pay Commission is wrong**

Within the Executive Summary of the of the October 2006 decision of the AFPC decision stated:

*While the Commission's decision increases the standard FMW and preserved Pay Scales, the increase is higher for lower-paid workers than for higher-paid workers. This difference recognizes that lower-paid workers are more reliant on minimum wages than higher-paid workers.*<sup>56</sup>

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<sup>54</sup> Peetz D, Brave New Workchoices: What is the Story So Far?, Griffith University, Brisbane. Presented to *Diverging Employment Relations in Australia and New Zealand?*, 24<sup>th</sup> Conference of the Association of Industrial Relations Academics of Australia and New Zealand, Auckland, New Zealand, 9 February 2007.

<sup>55</sup> Australian Bureau of Statistics, 6345.0

<sup>56</sup> Australian Fair Pay Commission. Wage-Setting Decision and Reasons for Decision. October 2006 Page 7

This finding is surprising. All pay scale reliant workers are 100 percent reliant on minimum wages. If an employee is paid and relies on the wages flowing from a pay scale they are no more or less reliant on this income than other employees who earn more or less than them. Indeed in many cases it can be shown that higher level income earners who are paid minimum rates of pay are not entitled to other forms of support and have higher non-tax deductible work related expenditure.

The Commission's statement indicates a fundamental misunderstanding of the bargaining position pay scale reliant workers are in. There are significant numbers of employees earning more than \$700 per week who have no bargaining power and are forced to work for the prevailing minimum wage.

Using unpublished EEH data the ACTU has previously shown that more than 60 per cent of employees relying on minimum wages earn rates at or above that found at the metal industry trade rate of C10 above.<sup>57</sup> More than a quarter of minimum wage earners earn more than \$700 per week.

There are architects, engineers, managers and other professionals working for minimum rates of pay. There may be a variety of reasons why these individuals are unable to negotiate an agreement with their employer. The fact remains that these workers are no less reliant on their minimum wage. They are 100 per cent reliant on minimum wages. The initial decision of the AFPC saw a real reduction in some pay scale rates of more than 3 per cent. There is no justification for the AFPC continuing to oversee a real reduction in these employees rates of pay.

Whilst the majority of pay scale reliant employees are low paid, all pay scale reliant employees are very much dependent upon the decisions of the AFPC.

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<sup>57</sup> ACTU Submission to the AFPC July 2006 page 48. EEH unpublished data May 2004



## **Unpublished data to be provided to the AFPC**

The ACTU has requested further EEH data from the Australian Bureau of Statistics. At the time the ACTU's submissions were due this data had not arrived. The ACTU intends to provide further information on the make-up of pay scale reliant employees when this data is received. These submissions will follow the format provided in the ACTU's last submissions.

## **Pay and Classification Scale Employees are Paid Less**

Pay and Classification Scale reliant employees receive all their earnings from the rate determined by the Minimum rates of pay included in the Pay and Classification Scale determined by the Australian Fair Pay Commission. These are workers formerly referred to as Award Only Workers.

The proportion of employees relying on minimum wage scales has reduced from 19.9 per cent of the workforce in May 2004 to 19.0 per cent in May 2006.

Table 14 below shows that more females than males are employed on minimum wages and males earn significantly more in all pay settings

**Table 14: Pay Setting All Employees Proportion and Earnings**

<b>Pay setting All Employees</b>	<b>Proportion All employees and Average weekly Total Cash Earnings (Ordinary Time)</b>	<b>Proportion Private Sector and Average weekly Total Cash Earnings (Ordinary Time)</b>	<b>Female Private Sector and Average weekly Total Cash Earnings (Ordinary Time)</b>	<b>Male Private Sector and Average weekly Total Cash Earnings (Ordinary Time)</b>
Pay Scale Reliant	19.0	23.1	29.7	17.4
	\$470.30	\$464.70	\$436.70	\$506.90
Registered Collective Agreement	38.1	24.4	25.8	23.2
	\$845.70	\$728.20	\$580.40	\$873.30
Unregistered Collective Agreement	3.0	3.8	3.6	3.9
	\$750.80	\$741.80	\$594.70	\$862.70
Unregistered Individual Arrangement	31.7	39.0	34.4	43.1
	\$963.70	\$960.00	\$753.70	\$1,105.10
Registered Individual Agreement	3.1	3.3	2.7	3.9
	\$958.30	\$863.30	\$613.60	\$1,017.10
Working Proprietors	5.1	6.3	3.8	8.6
	\$973.6	\$973.60	\$764.80	\$1,055.10
<b>All Pay Settings</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: ABS EEH May 2006 6306.0

### **Industries employing minimum wage workers**

There are 1.577.7 million non-managerial minimum wage employees in Australia. They are:

- Concentrated in four industry sectors: Accommodation, Cafes and Restaurants; Retail Trade, Health and Community Services; and Property and Business Services.
- Paid less than other workers;
- More likely to be casual;
- More likely to be women;
- Almost exclusively employed in the private sector;
- Spread evenly throughout different sized workplaces with 500 or less employees; and
- Overwhelmingly employed in non-managerial occupations and most heavily concentrated in lower skilled occupations.

There is a clear correlation between the number of minimum wages earners within an industry and the average weekly earnings of employees.

The May 2006 EEH data reflects data from previous surveys. Average weekly Total Cash Earnings for all minimum wage employees was highest in the Mining industry (\$902.30) and the lowest in Retail trade (\$348.00) and Accommodation, Cafes and Restaurants (\$414.50).

**Table 15: Pay Scale Reliant Workers by Industry and Earnings**

Industry	Proportion Of Award Reliant Employees by Industry <sup>^</sup> %	Proportion Of All Award Reliant Employees by Industry <sup>^</sup> %	Award Reliant Average Weekly Total Cash Earnings \$ <sup>(a)</sup>
Accommodation, Cafes and Restaurants	57.2	15.1	\$414.50
Retail Trade	28.7	23.4	\$348.00
Health and Community Services	25.4	15.9	\$569.20
Personal and other services	23.4	4.6	\$437.60
Property and Business Services	23.2	14.3	\$509.80
Cultural and Recreational Services	19.2	2.7	\$438.80
Wholesale Trade	12.8	3.3	\$527.00
Transport and Storage	12.4	3.1	\$714.70
Construction	12.0	4.5	\$603.80
Education	11.9	5.0	\$634.00
Manufacturing	10.6	6.4	\$609.00
Finance and Insurance	5.1	1.1	\$686.00
Mining	*2.4	0.2	\$902.30
Electricity, Gas and Water Supply	*0.9	0.0	\$645.00
Communication Services	**0.9	0.1	\$566.40
Government Administration and Defence	*0.6	0.2	\$633.20
<b>Total</b>	<b>19.0</b>	<b>100.0</b>	<b>\$491.10</b>

\*Estimate has a relative standard error of between 25% and 50% and should be used with caution

\*\*Estimate has a relative standard error of over 50% and is considered too unreliable for general use

Comprises regular wages and salaries in cash, including amounts salary sacrificed.

<sup>^</sup> Includes managerial employees.

Source: ABS Cat No. 6306.0 Employee Earnings and Hours May 2006 and ABS Cat No 6291.0.55.003 Labour Force, Australia, Detailed Quarterly, February 2007

## Occupations of minimum wage workers

Pay Scale reliant workers are concentrated in occupations with less recognition of skills. More than 70 per cent are found in classifications below trade level.

**Table 16: Pay Scale Reliant Employees by Occupation & Average Weekly Cash Earnings**

<b>Occupation</b>	<b>Proportion Of Award Reliant Employees %</b>	<b>Pay Scale Reliant Average Weekly Total Cash Earnings \$<sup>(a)</sup></b>
Community and personal service workers	39.2	\$448.40
Sales workers	32.4	\$348.30
Laborers	29.7	\$390.00
Technicians and trades workers	18.7	\$570.80
Machinery operators and drivers	16.3	\$683.60
Clerical and administrative workers	13.4	\$534.80
Professionals	6.6	\$872.80
Managers	2.6	\$922.20
<b>Total All Occupations</b>	<b>19.0</b>	<b>\$491.10</b>

Comprises regular wages and salaries in cash, including amounts salary sacrificed  
 Source: ABS Cat No. 6306.0 EEH May 2006

## Pay Scale Reliant employees are employed in a variety of sized businesses and are paid less

Workers who are dependent upon Pay and Classifications Scales are spread evenly throughout workplaces with 500 employees and less.

The evidence is that there are employers with significant numbers of employees who have not reached agreement with their employees on an individual or collective basis.

The evidence is also clear that there is a clear disincentive for employers to bargain with employees when Pay Scale Reliant employees are paid less. The smaller the workplace the lower the wage paid.

**Table 17: Pay Scale reliant employees by Business Size**

<b>Business Size</b>	<b>Pay Scale Reliance (Award only)%</b>	<b>Pay Scale Reliant Average Weekly Total Cash Earnings \$<sup>(a)</sup></b>
Under 20 employees	25.3	\$436.80
20 to 49 employees	27.2	\$482.60
50 to 99 employees	26.0	\$489.40
100 to 499 employees	22.6	\$535.00
500 to 999 employees	14.1	\$549.30
1000 and over employees	5.3	\$619.50
<b>Total</b>	<b>100.0</b>	<b>\$491.10</b>

<sup>(a)</sup> Comprises regular wages and salaries in cash, including amounts salary sacrificed

Source: ABS Cat No. 6306.0 EEH May 2006

### **Type of Employment of minimum wage workers**

Pay Scale reliant workers are nearly twice as likely to be female and more than three times more likely to be employed as a casual.

**Table 18: Pay Scale Reliant Employees as Proportion of all employees and Earnings by Type of Employment**

<b>Pay Scale Reliant Type of Employee</b>	<b>Pay Scale reliant Proportion of all employees</b>	<b>Pay Scale Reliant Average Weekly Total Cash Earnings \$<sup>(a)</sup></b>
Female Total	23.4	\$450.90
Female Permanent of fixed term	15.6	\$582.40
Female Casual	46.7	\$320.40
Male Total	14.7	\$552.70
Male Permanent of fixed term	10.3	\$658.60
Male Casual	38.5	\$398.70
Permanent or fixed term	12.8	\$615.70
Casual	43.5	\$347.50
<b>Total</b>	<b>19.0</b>	<b>\$491.10</b>

Source: ABS Cat No. 6306.0 EEH May 2006

Table 18 graphically outlines the disadvantages faced by pay scale reliant employees.

### **Earnings and Hours of work of Pay Scale Reliant Employees**

The Employee Earnings and Hours Survey The May 2004 EEH survey reveals the disturbing fact that minimum wages workers earn significantly less than other employees. Table 19 below demonstrates that minimum wages workers earn 58 per cent of average weekly earnings or \$304.48 per week less than AWOTE.

Employees reliant on the statutory minimum award rates earn on average \$306.40 per week less than total average total cash earnings. A staggering \$382.50 less than workers on Registered Collective Agreements. Almost all male employees earn at or near double the income of those relying on minimum rates of pay.

Table 19 also shows that minimum wage workers earn only 73.5 per cent of the hourly rate paid to employees on other forms of pay settings. As minimum wage earners comprise 43.5 per cent of all casual workers, the hourly rates of minimum wage earners are inflated by the higher rates usually associated with casual employment.

**Table 19: Methods of setting pay, Average Weekly Total Cash Earnings (a) and Hours Paid For, Non-managerial employees Australia**

	Average Weekly Total Cash Earnings (a)			Average Weekly Hours Paid For			Average Hourly Cash Earnings (a)		
	Males \$	Females \$	Persons \$	Males hours	Females hours	Persons hours	Males \$	Females \$	Persons \$
Pay Scale Reliant Employees (Award only)	550.30	448.50	488.70	30.6	24.1	26.7	18.00	18.60	18.30
Registered collective agreements	1038.00	729.80	871.20	36.2	28.3	31.9	28.70	25.70	27.30
Unregistered collective agreements	873.00	580.20	737.80	37.0	28.0	32.8	23.60	20.70	22.50
Registered individual agreements	1119.30	689.10	949.60	39.8	30.2	36.0	28.10	22.80	26.40
Unregistered individual arrangements	1021.40	719.10	890.80	37.6	31.2	34.8	27.20	23.10	25.60
<b>All methods of setting pay</b>	<b>946.00</b>	<b>652.00</b>	<b>795.10</b>	<b>35.9</b>	<b>28.1</b>	<b>31.9</b>	<b>26.30</b>	<b>23.20</b>	<b>24.90</b>

(a) Comprises regular wages and salaries in cash, including amounts salary sacrificed.

Source: ABS EEH May 2006 6306.0



## **Incentive to Bargain**

There remains a massive incentive to bargain. Minimum rates of pay are so far behind community standards that even if the AFPC was to grant significant real increases in minimum rates of pay a significant incentive to bargain would remain.

Table 19 above shows that the significant differential in rates of pay cannot be explained away by the higher proportion of part-time and casual work undertaken by minimum wage earners.

Minimum wage workers earn considerably less for each hour worked than other employees. This differential is even more significant for female minimum wage earners.

## Junior Rates, Apprentices, Trainees, and Piece and Casual Rates

The ACTU notes the AFPC intention during the course of 2007 to review junior rates of pay and rates of pay for employees to whom training wages apply:

*The Commission will also undertake a review of junior wage rates and a review of minimum wage rates for employees to whom training arrangements apply. Submissions to the review of junior wage rates will be invited in early 2007, with the decision announced in late 2007. Details of the trainees review are still to be confirmed.<sup>58</sup>*

The ACTU also notes recent comments by the AFPC Chairperson that the AFPC will this year commence a review of the rationalisation of pay and classification scales in light of the Award Review Taskforce recommendations.<sup>59</sup>

While the (post-reform) WRA contemplates some changes to the APCS, we also note recently reported comments by the AFPC Chairperson that all major stakeholders had warned that the rationalisation of the pay scales should proceed very carefully because it was complex and to avoid making "obvious mistakes in that area".<sup>60</sup>

<sup>58</sup> AFPC website

<sup>59</sup> Presentation, Chairman of the Australian Fair Pay Commission Professor Ian Harper to the Australian Workplace Relations Summit 2007.

<sup>60</sup> Skulley, M. Australian Financial Review *Canberra funds fix for pay scales* 19 March 2007 Page 3

Given these circumstances, the ACTU believes the AFPC should adjust junior, trainee and apprentice rates as they were adjusted in the AFPC Decision 1 of 2006.

## **Adjustment of apprentice rates in this Review**

In its 2006 Decision the AFPC determined:

### ***Decision***

*The Commission will flow on the general decision in relation to Pay Scales to employees to whom training arrangements apply.*

### ***Apprentices***

*The general pay increase will be pro-rated on the basis of formulas applying in the relevant pre-reform wage instruments so as to maintain the relativity of the basic periodic rates of pay for apprentices with the relevant tradesperson rate. Formulas, where available, will be used to adjust basic periodic rates of pay for full and part-time apprentices, and school-based apprentices (noting that the Pay Scale derived from repealed s. 552 of the WR Act retains a formula suitable for flowing on the general minimum wage increase).*

*Where apprentice rates are derived from a specific rate in another Pay Scale, they will be adjusted to reflect the parent rate on which they are based, where the parent rates have been adjusted to give effect to the general decision.*

Given the above considerations, it is our view that the apprentice rates of pay should be adjusted based on the historical relativities with the trades rate. As we stated in our submission to the AFPC Wages Review 2006, such a process does not prevent the AFPC from making further adjustments to the APCS as it applies to apprentices following a proper consideration of the issues involved. There is nothing in the legislation that dictates haste in the consideration of these matters.

## Adjustment of wages for trainees in this Review

The AFPC 2006 Decision determined:

### *Trainees*

*Trainee basic periodic rates of pay provided for in preserved Pay Scales will be adjusted to flow on the general decision using the method described in the transcript of the application to vary the National Training Wage Award 2000 for the 2003 Safety Net Review*

Again given the above considerations, the ACTU believes that the AFPC should adjust trainees rates in the manner employed in the Schedule to the AFPC Decision No 1 of 2006.

To avoid confusion, the ACTU believes that the AFPC should include a reference to the National Training Wage Award, [now Transitional] provision which notes that trainees undertaking Certificate Level IV traineeships receive a rate equal to the top rate of Skill Level A, B or C, as appropriate, plus 3.8 percent. While this rate is derived from an APCS and therefore technically does not need to be included in a Schedule, those seeking advice from the Schedule may be misled if the provision is not included.

## Adjustment of junior wage rates in this Review

In its 2006 Decision the AFPC decided:

### *Decision*

*The Commission will flow on the general adult decision in relation to Pay Scales to preserved junior wage Pay Scales. The general pay increase will be pro-rated on the basis of formulas applying in the relevant pre-reform wage instruments.*

*In circumstances where there was no formula in the pre-reform wage instrument (for example, where a junior rate was originally expressed as a dollar value rather than a percentage), the general increase will be pro-rated so that the junior rate retains its relativity to the relevant adult rate in the preserved Pay Scale. If no relevant rate is identified, the junior rate will be adjusted to retain its relativity to the lowest adult rate in the Pay Scale.*

At page 100 of its Reasons for Decision, 2006, the AFPC states:

*There is broad consensus among submissions regarding the retention of concessionary wage rates for young employees.*

The ACTU does not support the retention of age based wage rates for young people. As such, we do not agree that there was or is broad consensus regarding the retention of concessionary wage rates for young people. Rather our submission was, and is, that if junior rates are retained they should be adjusted on historical relativities.

Equally we do not agree with the ACCI contention that it is a settled matter of law and merit that age based junior wage be retained in Australia.<sup>61</sup>

The AFPC has announced its intention during the course of 2007 to review junior rates of pay and there is an indication from the AFPC that the decision arising from that review will be announced in late 2007.

Given that the Minimum Wage Review 2007 is to be announced by the AFPC in mid 2007, as we stated in our submission to the AFPC Minimum Wage Review 2006, we believe that the fairest and most appropriate method of adjusting the rates for juniors should be to employ the method adopted by the AFPC in its 2006 Decision to apply the wages outcomes to the adult rates and apply the historic relativities as they existed immediately prior to the reforms to the adult rates.

## **Adjustment of Piece rates in this Review**

In its 2006 Decision the AFPC determined:

*Decision*

*The Commission will flow on the general wage-setting decision to basic piece rate Pay Scales in the following manner. The general pay increase will be flowed on to basic piece rate Pay Scales through*

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<sup>61</sup> Australian Fair Pay Commission Wage-Setting Decision and Reasons for Decision, October 2006, Page 100

*applying a 5.65 per cent increase to basic piece rates in preserved Pay Scales which are not otherwise increased as a result of the general decision.*

*However, due to the diversity within basic piece rate Pay Scales, an affected person or business may make a submission to the Commission on the grounds that such an adjustment would result in an anomalous outcome inconsistent with the Commission's intention to flow on the general increase to piece rate workers.*

The ACTU advocated a cautious approach to adjustment of piece work rates. The ACTU welcomes the decision of the AFPC in relation to piece rates. Again it is our view that piece rates should be adjusted as they would have been adjusted had the reforms not commenced. Any re-adjustment necessary should then be undertaken in accordance with the provisions of the Act.

## **Adjustment of Casual Rates**

In the July 2006 submission to the AFPC by the ACTU the ACTU said:

*In the application of any increase to casual employees arising from any wage increase awarded by the AFPC, casual employees should not be disadvantaged....*

*Rates of pay for casuals should be adjusted in such a way that they are not disadvantaged on the basis of what they would have received had the reforms not occurred but there had been a wage movement that would have affected their rates of pay.<sup>62</sup>*

The ACTU continues to hold this view.

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<sup>62</sup> ACTU. Submission to the AFPC July 2006 Page 147

## Workers With a Disability

The ACTU acknowledges the establishment of the Special Federal Minimum Wage No 1 and No 2 and the new special Pay Scales for workers with a disability.

The ACTU also notes that in its 2006 Decision the AFPC adjusted the Supported Wage System minimum rate to an amount, utilising the minimum rate method, equal to \$64 per week.

This amount is equal to the income test free area of earnings for the Disability Support Pension (weekly equivalent of the fortnightly amount). This income test is traditionally indexed from the 1<sup>st</sup> of July each year. The ACTU believes the AFPC should adjust the SWS minimum rate to reflect the change in the income test free area of earnings, to apply from 1 July 2007.

In relation to Special Federal Minimum Wage No 2 and the new special Pay Scale, the ACTU understands that the question of the SWS minimum payment of \$64, as a per week amount, may be raised by some parties to this Review. The SWS minimum payment is described in AFPC Decision No. 1 of 2006 as follows:

Minimum rate method

The employee will be paid the amount worked out according to the following formula:

$$\$64 \div x$$

Where x is the actual number of hours worked by the employee per week, or 38 whichever is the lesser

## History of the payment

The SWS is a negotiated settlement between employers, disability groups, government and unions representing workers. Indeed, this system was negotiated by the National Labour Consultative Council.

The record of minutes from the NLCC meetings confirm that the ACTU supported the minimum payment as a (weekly) dollar amount because it provided a 'floor' below which no worker would be paid.

The Supported Wage System Handbook June 1995 Edition, at page 47, states:

### *Minimum Wage Outcome*

*In all cases the model clause requires that a minimum wage of \$45 per week is to be paid by the employer, regardless of the number of hours worked per week. This applies even where the wage assessment indicates a lower rate of payment.<sup>63</sup>*

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<sup>63</sup> Supported Wage System Handbook June 1995 Edition, Commonwealth Department of Human Services and Health, Supported wage Management Unit



The minimum payment under the SWS acts as a minimum wage does in general. It sets a floor below which no-one assessed under the SWS should be paid. Again, this is a system which has been negotiated by the stakeholder parties.

The ACTU does not believe that the AFPC should alter the minimum rate method in the Special Federal Minimum Wage No 2 and the new Special Pay Scale.

Rather, the parties to the Supported Wage System need to discuss any proposal to vary the SWS, consistent with the genesis of the SWS. All parties need to understand what is being proposed.

## Further Observations

### Pay and Classification Scale publications

The ACTU believes that there is considerable confusion regarding the actual rates of pay that pay scale reliant workers are entitled to. This confusion is growing with time. A further increase by the AFPC will see this problem compound.

The Australian Industrial Relations Commission no longer updates award rates of pay as pay and classification scales have been removed from those awards that now fall within the jurisdiction of the AFPC.

The Department of Employment and Workplace Relations has provided what they believe to be the adjusted pay scales for some former awards. Surprisingly DEWR has indicated that employers can rely on these scales, even in the event that they prove incorrect.

We believe that this confusion should be resolved as a matter of urgency and that the AFPC should publish or have cause to publish pay and classification scales. The lack of information available to employers and employees will result in confusion, inequities and hardship.

### **Operative date of decision**

We believe it would be of assistance to the parties if the AFPC set a regular date for review of pay and classification scales and that these dates were known well in advance. Importantly we believe that the proposed implementation date should be known to allow parties to make appropriate submissions on the proposed date of implementation and the quantum.

### **Open disclosure of meetings**

We believe it would be appropriate for the Commission to have a public register of all meetings held with interested parties, including government, employer organisations and employer representatives. Such a register should either disclose the subject of the meetings or indicate that the meetings were private.

Such arrangements would instill greater confidence in the operations of the AFPC.

### **Rounding of increase**

The AFPC should seriously consider rounding any increase to the nearest 10 cents. This is a common practice undertaken by industrial tribunals. Rounding enables greater ease of calculation for employers and employees alike.

## Conclusion

The AFPC can and should increase minimum wages at all levels through the Pay and Classification scales by \$28.00 per week. The economic circumstances warrant such an increase. There has never been a better time to improve the wages of Australia's lowest paid employees. The AFPC can grant the ACTU's claim, meet its statutory obligations and make a significant difference to the lives of Australian minimum wage workers and their families.

Australia's low paid employees have seen their real wages reduced since the AFPC took responsibility for the setting of Australia's minimum wages. These workers cannot afford to go backwards any further.

Through the granting of a \$28.00 per week increase the AFPC will be undertaking an economic and social good.