ACTU Submission

Annual Wage Review 2014-15

27 March 2015

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Contents

Introduction

1. The ACTU asks the Fair Work Commission Expert Panel ('the Panel') to increase the National Minimum Wage ('NMW') and all award minimum wages up to and including the C10 tradespersons' rate by $27 per week. We submit that award rates above the C10 rate should be increased by 3.6%.

2. The gap between the living standards of low-paid workers and workers on average wages has been steady for the past two years. This pause is comes after the gap had widened almost every year for decades, through boom times and recession, and under each of the three institutions that has had responsibility for adjusting minimum wages.

3. While we welcome the fact that the gap between low-paid workers and other workers has not widened since 2012, we do not accept that stasis in relative living standards is the best that can be hoped for in Annual Wage Reviews. The NMW[1] has never been lower as a percentage of average full-time earnings (AWOTE). In our view, preventing the relative value of the NMW from reaching a new record low is necessary, but not sufficient, to maintain a fair safety net.

4. Awarding the increase we seek in this Review would not only prevent further erosion in the relative living standards of the low paid, but would begin the vital task of restoring ground that has been lost. We project that, if awarded in full, the increase we seek would result in the NMW being restored to around 44% of average weekly full-time earnings.[2] This would be a modest boost from its current level of 43.4%, but still below its level in 2011 (44.3%).

5. With its past two decisions, the Panel has stopped the relative living standards of low paid workers from continuing to fall. Now we are calling on the Panel to go further – to deliver a modest increase in the relative living standards of the low paid.

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

7. A fair safety net of minimum wages is necessary to protect the living standards of Australian workers. Workers' living standards also depend on the social wage. Australian unions will confront any attempt to undermine the social wage, such as through the seven year delay in increases to employer superannuation contributions. An increase to minimum employer superannuation contributions in awards forms part of our claim.

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[1] Or the equivalent C14 award rate of pay.
[2] Projection based on the assumption that average weekly ordinary time earnings (AWOTE) of full-time adults will increase by 2.8% over the year to November 2015, as it did in the year to November 2014. This is not a forecast, merely a projection assumption.

Our claim

8. We submit that the Panel should increase the National Minimum Wage for full-time adults by $27 per week, to $667.90 per week or $17.58 per hour. Award minimum wages up to and including the benchmark C10 tradespersons' award rate (and its equivalent rates) should also be increased by $27 per week. Award rates above the C10 rate should be increased by 3.6%.

9. The minimum rates of pay we propose for each classification level in the *Manufacturing and Associated Industries and Occupations Award 2010* are set out in Table 1.

Table 1: ACTU's proposed minimum rates of pay

Award classification	Current rates		Proposed rates				
	Weekly	Hourly	Weekly	Hourly	% increase	Weekly $ increase	Hourly $ increase
NMW/C14	$640.90	$16.87	$667.90	$17.58	4.2%	$27.00	$0.71
C13	$659.40	$17.35	$686.40	$18.06	4.1%	$27.00	$0.71
C12	$684.70	$18.02	$711.70	$18.73	3.9%	$27.00	$0.71
C11	$708.20	$18.64	$735.20	$19.35	3.8%	$27.00	$0.71
C10	$746.20	$19.64	$773.20	$20.35	3.6%	$27.00	$0.71
C9	$769.60	$20.25	$797.40	$20.98	3.6%	$27.80	$0.73
C8	$793.00	$20.87	$821.70	$21.62	3.6%	$28.70	$0.75
C7	$814.20	$21.43	$843.70	$22.20	3.6%	$29.50	$0.77
C6	$855.50	$22.51	$886.50	$23.33	3.6%	$31.00	$0.82
C5	$873.00	$22.97	$904.60	$23.81	3.6%	$31.60	$0.84
C4	$896.40	$23.59	$928.80	$24.44	3.6%	$32.40	$0.85
C3	$943.30	$24.82	$977.40	$25.72	3.6%	$34.10	$0.90
C2(a)	$966.80	$25.44	$1,001.80	$26.36	3.6%	$35.00	$0.92
C2(b)	$1,009.10	$26.56	$1,045.60	$27.52	3.6%	$36.50	$0.96

Protecting the retirement savings of low paid workers

10. The increase in minimum wages we seek from this Review is vital to protecting and improving the living standards of low paid Australian workers.

11. However, low paid workers rely not only on a safety net of fair minimum wages, but also on the other components of their remuneration and the social wage. The ACTU will defend the living standards of low paid workers against attacks on all these fronts.

12. One key component of low paid workers' living standards is their retirement savings. Their retirement savings will be lower than they otherwise would have been as a result of the Government's decision to delay further increases in the Superannuation Guarantee (SG) rate.

13. The Superannuation Guarantee (SG) rate will not be altered in 2015. The Commonwealth Government announced its intention to delay further increases to the SG rate in the 2014-15 Budget. The changes were included in schedule 6 of the *Minerals Resource Rent Tax Repeal and Other*

Measures Act 2014 (Cth), which received Royal Assent on 5 September 2014. The Act amends the *Superannuation Guarantee (Administration) Act 1992* (Cth) such that the SG rate will remain at the current 9.5% until 1 July 2021, at which point it will rise to 10%.

14. Australian unions are not prepared to allow the retirement savings of Australian workers to be undermined in this way. In response to this attack on workers' superannuation, we seek a direction under section 615 or 582 of the FW Act that a Full Bench be convened in the current Award Review so as to vary the model superannuation term in modern awards from its current formulation:

> "S.2 Employer contributions
>
> An employer must make such superannuation contributions to a superannuation fund for the benefit of an employee as will avoid the employer being required being required to pay the superannuation guarantee charge under superannuation legislation with respect to that employee." [3]

to this formulation:

> S.2 Employer contributions
>
> An employer must make such superannuation contributions to a superannuation fund for the benefit of an employee at the level specified in (a) or (b) below, whichever is the higher:
>
> (a) the level as will avoid the employer being required being required to pay the superannuation guarantee charge under superannuation legislation with respect to that employee.
>
> (b) the level that would apply if the *charge percentage* as specified in section 19 of the *Superannuation Guarantee (Administration) Act* 1992 was instead:

Year starting on 1 July 2015:	10
Year starting on 1 July 2016:	10.5
Year starting on 1 July 2017:	11
Year starting on 1 July 2018:	11.5
Year starting on 1 July 2019:	12

15. The preferred formulation complies with section 149B and 139(1)(i) of the FW Act. It is not a "default term" that would necessitate the referral of the matter to the process prescribed by Division 4A of Part 2-3.

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[3] [2013] FWCFB 10016

16. For a worker paid the NMW, this 0.5 percentage point increase in employer superannuation contribution will be worth $3.20 per week based on the current NMW, or $3.34 if our claim for a $27 increase in the NMW is awarded.

17. Table 2: Protecting the retirement incomes of low paid workers

	Current	With our $27 claim
National Minimum Wage per week	$640.90	$667.90
Current 9.5% employer super contribution	$60.89	$63.45
10% employer super contribution	$64.09	$66.79
Difference per week in super contribution	$3.20	$3.34
Difference per year in super contribution	$167.09	$174.13

18. We estimate that as a result of this $167.09 in lost superannuation contributions in 2015-16, a 20 year old NMW worker will retire with $3 329 less in retirement savings than they otherwise would have.[4]

19. The Treasurer, Mr Hockey, claimed in September 2014 that it is "almost inevitable that any increase in superannuation would come out of workers' wages. Therefore, by delaying this… we are ensuring that actually, workers get more money in their pockets."[5]

20. There is nothing inevitable about wage rises for low paid workers. For the 1.86 million Australians who are paid the NMW or an award minimum wage, increases that come as a result of this Review are the only opportunity they have of receiving a pay rise.

21. The Panel has however considered the impact of changes in Superannuation Policy on its decision making process. The Panel stated that the increase in minimum wages it awarded in the 2013-14 Review was "lower than it otherwise would have been in the absence of the SG rate increase."[6] There will not be an SG rate increase in 2015. It follows that, if all other things were equal, the increase in minimum wages the Panel awards in this Review should be greater than that awarded in the previous Review. Our present claim is formulated on the basis that our complementary position concerning changes to the model superannuation clause *will* succeed. If that is not the case, or if the direction we seek is not to be granted, then it stands to reason that a higher increase in the NMW and award minimum wages than that which we have sought is appropriate.

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[4] Assumes average annual nominal post-tax, post-fee fund earnings of 6.5% and a retirement age of 67.
[5] Hockey, J. 2014, 'Interview with Fran Kelly, Radio national', 3 September. Transcript available from: http://jbh.ministers.treasury.gov.au/transcript/089-2014/ [Accessed 19 March 2015].
[6] [2014] FWCFB 3500, [52]

The form of the increase in minimum wages

22. Since 2011, the Panel has awarded percentage increases in the NMW and award minimum wages at each Review. In its decision in the 2013-14 Review, the Panel explained its choice as follows:

    As to the form of the increase, past flat dollar increases in award minimum rates have compressed award relativities and reduced the gains from skill acquisition. The position of the higher award classifications has reduced relative to market rates and to average earnings and has fallen in terms of real purchasing power. These considerations led the Panel to determine a uniform percentage increase.[7]

23. The considerations that have led the Panel to adopt percentage increases are important. Award relativities were compressed quite substantially in the 1990s and 2000s. Percentage increases have prevented further erosion in these relativities, by maintaining them at their July 2010 levels.

24. However, we believe strongly that a hybrid increase best balances the various considerations that the Panel must take into account. It would ensure that the largest wage rises, in percentage terms, go to the lowest paid workers. At the same time, it would prevent any further erosion of the skill-based wage relativities above the C10 tradespersons' rate.

The timing of the increase in minimum wages

25. A national minimum wage order made in an Annual Wage Review comes into operation on 1 July in the next financial year, unless there are exceptional circumstances.[8] Similarly, a determination varying modern award minimum wages that is made in an annual wage review comes into operation on 1 July unless there are exceptional circumstances.[9]

26. There are no exceptional circumstances that would warrant a delay in the Panel's determination coming into operation. The NMW and modern award minimum wages should be increased with effect from 1 July.

The uniformity of the increase in minimum wages

27. We submit that all award rates of pay equal to or less than the C10 tradespersons' rate in the *Manufacturing and Associated Industries and Occupations Award 2010* should be increased by $27 per week, while all higher rates should rise by 3.6%. There should be no variation in the increase across industries, occupations, or regions.

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[7] [2014] FWCFB 3500, [60]
[8] *Fair Work Act 2009* (Cth), s.287
[9] *Fair Work Act 2009* (Cth), s.286

28. There are no exceptional circumstances that would warrant exempting an industry from the increase. We agree with the Panel in its 2013-14 decision, when it concluded that in the absence of truly exceptional circumstances, sectoral variations in economic conditions should be taken into account as part of determining the appropriate level of the overall quantum of increase in minimum wages, rather than as the basis for awarding differential increases by industries.[10] We demonstrate in this submission that the variation in economic conditions across industries is around its typical level (see paragraph 232).

29. We also agree with the Panel's view in the 2013-14 Review that awarding different increases in minimum rates across industries:

> …would inevitably lead to the loss of any relativity between the wages specified in modern awards. This would not sit comfortably with the principle of equal remuneration for work of equal or comparable value, which forms part of the minimum wages objective.[11]

30. In our view, the Panel was correct in its decision in the 2012-13 Review when it stated:

> The award-by-award approach to minimum wage fixation, based on sectoral considerations, advocated by some parties… is inimicable to the safety net nature of modern award minimum wages.[12]

31. Just as the increase should be uniform across awards, so too should it be consistent across geographical regions. There is some variation in economic and labour market conditions across the country, but nothing that would warrant awarding differential increases or dates of operation across regions. As demonstrated in this submission (see paragraph 341 onwards), the variation in labour market conditions across regions of the country is not markedly high.

An increase that takes into account all the relevant factors

32. In its 2013-14 decision, the Panel stated that "the submissions of the parties focus, naturally enough, on those statutory considerations which support the outcome for which they contend."[13] The ACTU's submission to this year's Review, as in previous Reviews, addresses **all** the statutory considerations to which the Panel must give consideration.

33. Our claim in this Review is appropriate, taking into account all the factors the Panel must consider. Crucially, awarding our claim will help to improve the relative living standards of workers reliant on minimum wages. It will help the low paid to meet their needs. Given the fact that women are

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[10] [2014] FWCFB 3500, [517]
[11] [2014] FWCFB 3500, [518]
[12] [2013] FWCFB 4000, [13]
[13] [2014] FWCFB 3500, [8]

disproportionately represented among the ranks of low-paid workers, our claim will help to reduce the gender pay gap. It will help to promote social inclusion through workforce participation, by ensuring that work pays.

34. Our claim is also consistent with the economic factors that the Panel must take into account. This submission outlines a range of pertinent facts about the state of the Australian economy that support granting our claim in this Review, including the following:

  a. The Australian economy grew by 2.5% in 2014, which was faster than many OECD countries;

  b. Output grew in each of the four most award-reliant industries in 2014, including by a very strong 8% in Accommodation and Food Services;

  c. Consumer spending grew faster than households' incomes in 2014, which should assist those industries that rely on consumer spending;

  d. The volume of retail sales grew at a solid pace in 2014;

  e. Turnover in some sectors of the retail sector has continued to to grow at a rapid pace – notably cafes, restaurants and takeaway;

  f. Above-trend labour productivity growth has been sustained for another year;

  g. Labour productivity rose quicker in each of the four most award-reliant industries than in the total economy;

  h. Business bankruptcies have fallen to their lowest level in the post-GFC era;

  i. The entry rate for new businesses rose in 2013-14, and the exit rate for existing businesses fell, with small business and some of the more award-reliant industries seeing an improvement in entry and exit rates;

  j. Employment growth has picked up in recent months;

  k. The unemployment rate appears to have stabilised;

  l. Employment grew rapidly in the most award-reliant industry (Accommodation and Food Services) and was solid in the Retail Trade industry – overall there is no relationship between the level of award-reliance in an industry and the pace of employment growth;

m. Forward-looking indicators of the labour market have improved in recent months, with sustained growth in job advertisements and vacancies and an improvement in consumers' unemployment expectations.

35. We have formulated our claim based on all the social and economic factors which the Panel must take into account. We submit that it should be granted in full.

Who relies on minimum wages in Australia?

36. The Annual Wage Review process directly affects 1.86 million Australian workers, 18.8% of the workforce. Most of those workers are women (57.5%) and most of them are adults (84.5%). These workers are all paid the lowest wage that they may legally be paid. They lack bargaining power, and rely on increases granted as part of the Annual Wage Review to improve their living standards.

Sources and definitions

37. Most of the information used in this chapter is derived from the ABS *Employee Earnings and Hours* (EEH) survey. The latest EEH survey was conducted in May 2014; key results from this survey were released in January 2015. The ACTU has also obtained unpublished data from the ABS via a customised data request. Where our analysis relies upon unpublished data, we make this clear in the text, in a footnote or in the source note to a table or chart.

38. In the EEH survey, employees are classified via the main method used to set their pay. Workers are classified as 'award only', 'collective agreement', 'individual arrangement', or 'owner-managers of incorporated enterprises '(OMIEs). Employees are classified as 'award only' if they are "paid exactly at the rate specified in the award, and are not paid more than that rate of pay."[14] Workers paid above an award are classified to either the 'collective agreement' or 'individual arrangement' categories.

39. The ACTU understands that the small number of award-free workers who are paid the National Minimum Wage are classified as 'award only' in the EEH survey. 'Awards' are defined for the purposes of ABS surveys as "legally enforceable determinations made by Federal or State industrial tribunals or authorities that set the terms of employment (pay and/or conditions) usually in a particular industry or occupation."[15] Modern awards are such a determination, as is the National Minimum Wage Order. Although there is a legal distinction between award-free employees paid the NMW and employees paid an award rate, the EEH survey appears to classify both groups as 'award only'.

40. In this submission, the ACTU uses the phrase 'award-reliant workers' to refer to employees who are classified as 'award only' in the EEH survey. 'Award-reliant', 'award only', 'minimum wage workers', and 'workers reliant on minimum wages' are used interchangeably in this submission to mean workers paid exactly at an award rate or the NMW. 'Low paid workers' is also intended to have the same meaning, except where it is clear that 'low paid' refers to workers with earnings below a particular threshold, regardless of their pay-setting method.

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[14] ABS 2015, *Employee Earnings and Hours, Australia, May 2014,* Catalogue number 6306.
[15] ABS 2013, *Labour Statistics: Concepts, Sources and Methods, 2013,* Catalogue number 6102.0.55.001.

41. The Fair Work Commission's Australian Workplace Relations Study provides a wealth of relevant and important information about low-paid workers and their employers. One area in which the AWRS findings can be used is to shed light on the population of workers who are paid above the relevant award rate, but whose pay is nevertheless set by some reference to the award rate. The ABS data provides little insight on this group, as they're subsumed within the 'individual arrangements' category. We commend the Commission staff for the rigorous and consultative process they have undertaken to complete the AWRS and we look forward to the full release of the data from the study.

42. However, in this chapter of the ACTU's submission, the ABS figures regarding award only workers are used rather than the AWRS figures. This is because the AWRS *First Findings* report makes it clear that the AWRS "should not be a substitute for ABS catalogues that provide more robust estimates of the employer and employee populations in Australia primarily due to the significantly larger sample sizes and higher response rates that ABS estimates are based on."[16] The AWRS findings are a useful supplement to, rather than a replacement for, the ABS estimates.

How many people rely on minimum wages in Australia?

43. There were 1 860 700 employees paid exactly at an award rate in May 2014, representing 18.8% of all employees. There were 41.1% of employees paid according to a collective agreement and 36.6% paid according to an individual arrangement, with the remainder (3.4%) being OMIEs.

44. The proportion of employees paid according to an award appears to have risen somewhat in recent years after falling during the previous decade. In 2000, around 23.2% of employees were award-reliant; this fell throughout the 2000s and reached a low of 15.2% in 2010. Award reliance rose to 16.1% of employees in May 2012 and 18.8% in May 2014, an increase of 2.7 percentage points.

45. This rise in award reliance came at the expense of a 0.9 percentage point fall in the proportion of employees on a collective agreement and a 1.8 percentage point fall in the proportion of employees paid according to an individual arrangement. This is shown in Figure 1.

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[16] Pay Equity Unit 2015, *First Findings Report: Consolidated content from online publication,* Fair Work Commission, Melbourne, p.9.

Figure 1: Proportion of employees by method of setting pay

Proportion of employees
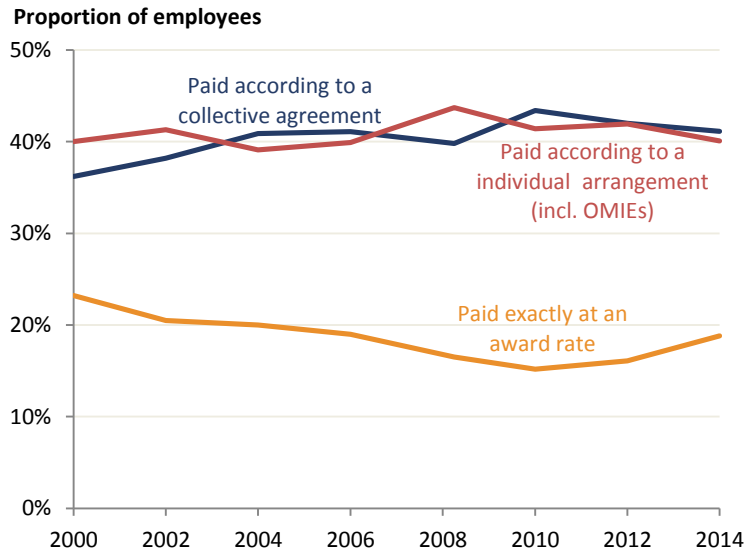
Source: ABS 6306 (various years) and ACTU calculations. Individual arrangements include owner-managers of incorporated enterprises (OMIEs).

46. Some important considerations regarding the increase in award reliance are examined in a later section of this submission on paragraph 68.

Overview of the minimum wage workforce

47. Figure 2 shows the award only workforce by age and full-time/part-time status.

Figure 2: Employees by method of setting pay
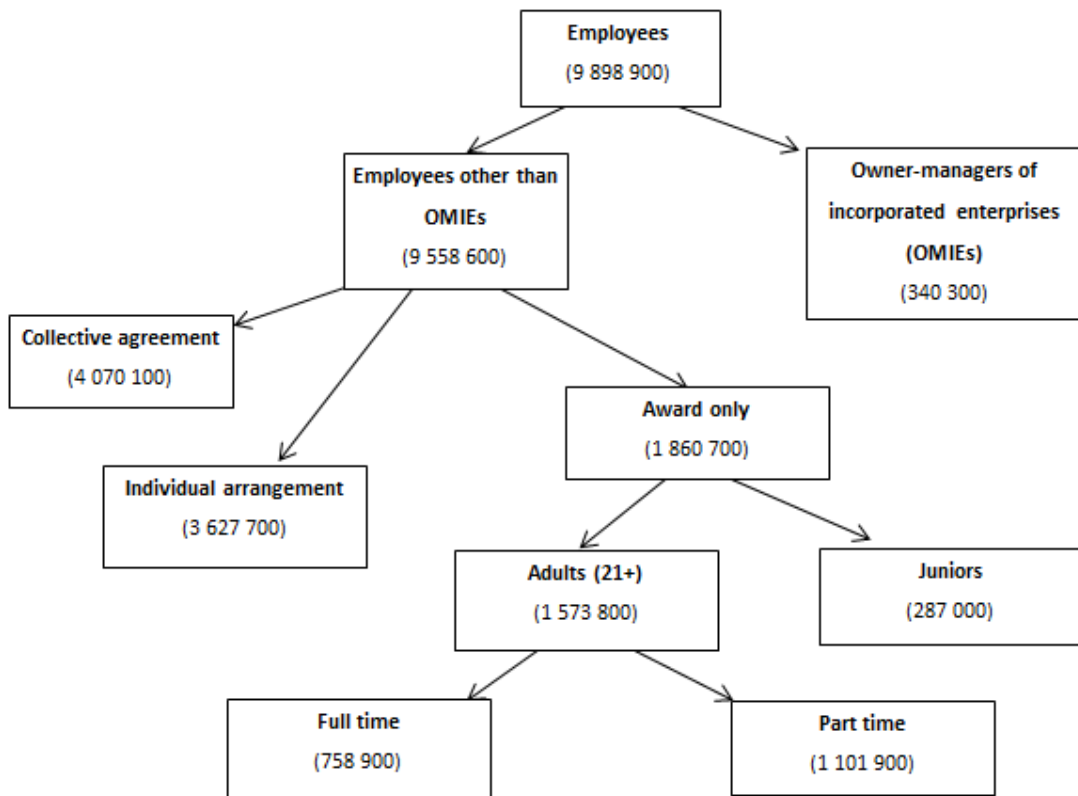
Source: ABS 6306

48. The average age of award-reliant workers is 35.7, a little younger than the average of 39.5 for all workers. Most award only workers are adults, with 84.5% of them aged 21 or above – the equivalent figure for all employees is 92.3%.

Figure 3: Distribution of employees by age
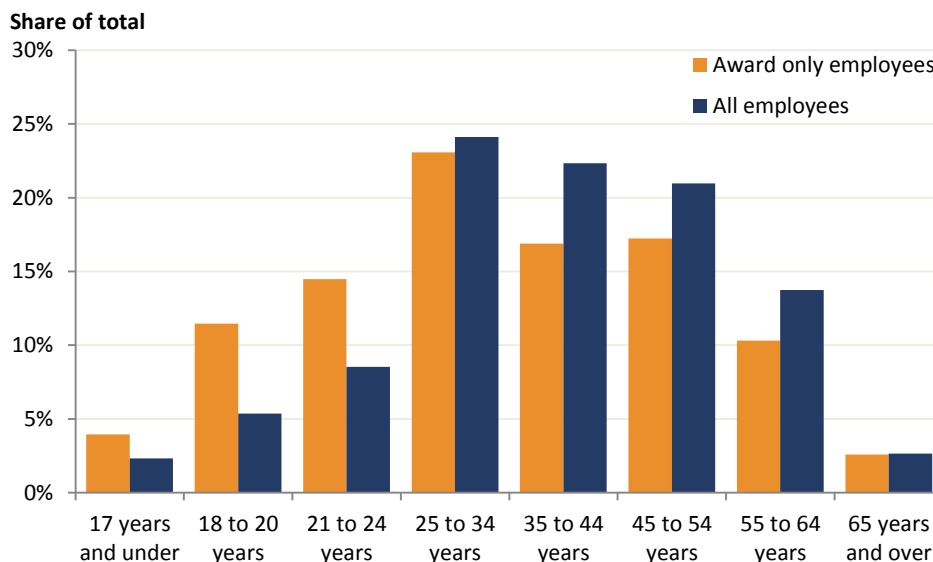
Source: ABS 6306 and ACTU calculations.

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

    a. more likely to be female - 57.5% of award only workers are female, compared to 48.9% of other workers;

    b. more likely to work part-time (59.2% vs 35.5%);

    c. more likely to be casual rather than permanent or fixed term (44.6% vs 16.2%);

    d. more likely to work in a small business (37.9% vs 19.7%), although a majority of award only workers are employed in businesses with more than 20 employees;[17]

    e. more likely to work in the private sector (90.5% vs 79%); and are

    f. more likely to have weekly cash earnings below $1000 (78.4% vs 42.2%).

Industry

50. Nearly two-thirds of all award only workers (61.6%) are employed in four key industries:

    a. Retail trade (which employs 17.2% of award only workers);

    b. Accommodation and food services (17%);

    c. Health care and social assistance (15.1%); and

    d. Administrative and support services (12.2%).

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[17] The 'all other workers' figure for business size excludes owner-managers of incorporated enterprises.

51. The industry with the highest level of award reliance is Accommodation and food services, in which 42.8% of employees are award only. This is referred to as the 'density' of award only employees in this submission. There are five other industries in which the density of award only employees exceeds 20%. This is shown in Table 3.

Table 3: Award only employees by industry – May 2014

Industry	Award only employees (Thousands)	Total employees (Thousands)	Density of award only employees in industry (Per cent)	Industry's share of all award only employees (Per cent)	Industry's share of total employment (Per cent)
Mining	1.3	169.1	0.8%	0.1%	1.7%
Manufacturing	109.9	698.6	15.7%	5.9%	7.1%
Electricity, gas, water and waste services	7.9	114.1	6.9%	0.4%	1.2%
Construction	93.8	685.7	13.7%	5.0%	6.9%
Wholesale trade	53.2	445.5	11.9%	2.9%	4.5%
Retail trade	320.3	1,122.3	28.5%	17.2%	11.3%
Accommodation and food services	316.9	739.7	42.8%	17.0%	7.5%
Transport, postal and warehousing	48.0	438.6	10.9%	2.6%	4.4%
Information media and telecommunications	8.3	161.0	5.2%	0.4%	1.6%
Finance and insurance services	20.1	400.9	5.0%	1.1%	4.0%
Rental, hiring and real estate services	39.2	177.7	22.1%	2.1%	1.8%
Professional, scientific and technical services	76.9	777.3	9.9%	4.1%	7.9%
Administrative and support services	227.9	611.8	37.3%	12.2%	6.2%
Public administration and safety	79.7	622.3	12.8%	4.3%	6.3%
Education and training	47.6	938.0	5.1%	2.6%	9.5%
Health care and social assistance	281.4	1,262.4	22.3%	15.1%	12.8%
Arts and recreation services	37.6	170.8	22.0%	2.0%	1.7%
Other services	91.0	363.1	25.1%	4.9%	3.7%
All Industries	**1,860.7**	**9,898.9**	**18.8%**	**100.0%**	**100.0%**

Source: ABS 6306 and ACTU calculations.

52. Within the four industries that employ the largest proportion of award only employees, there is substantial variation in the extent of award reliance. For example, within the Health Care and Social Assistance industry, 50.9% of employees in the 'Social assistance services' subdivision are award only, but only 4.7% of employees in 'Residential care services' are award only. Table 4 shows employment within the subdivisions of the four industries which are the biggest employers of award only workers.

Table 4: Award-reliant employees by subdivisions of the most award-reliant industries

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

Source: ABS 6306, unpublished data. Density and proportion columns are ACTU calculations. * indicates a relative error or between 25% and 50%; ** indicates a relative standard error greater than 50%. 'np' means the ABS has not published the information.

Occupation

53. Table 5 shows the number and proportion of award only employees by broad occupational group. Around a third of community and personal service workers and labourers are award only, with a slightly smaller proportion of sales workers (29.7%) reliant on awards.

Table 5: Award only employees by broad occupational group – May 2014

| Occupation	Award only employees (Thousands)	Total employees (Thousands)	Density of award only employees in occupation (Per cent)	Occupation's share of all award only employees (Per cent)	Occupation's share of total employment (Per cent)
Managers	64.8	915.1	7.1%	3.5%	9.2%
Professionals	143.4	2,073.6	6.9%	7.7%	20.9%
Technicians and trades workers	256.5	1,176.0	21.8%	13.8%	11.9%
Community and personal service workers	394.2	1,151.9	34.2%	21.2%	11.6%
Clerical and administrative workers	208.0	1,689.0	12.3%	11.2%	17.1%
Sales workers	384.7	1,295.7	29.7%	20.7%	13.1%
Machinery operators and drivers	101.9	620.0	16.4%	5.5%	6.3%
Labourers	307.3	977.6	31.4%	16.5%	9.9%
All occupations	1,860.7	9,898.9	18.8%	100.0%	100.0%

Source: ABS 6306 and ACTU calculations.

54. The occupational groups above, which correspond to four-digit groupings in the Australian and New Zealand Standard Classification of Occupations (ANZSCO), are so broad as to be somewhat uninformative about the types of jobs typically performed by award-reliant workers. The ACTU has

acquired unpublished data from the EEH survey showing the number of award only workers by two-digit ANZSCO code, a much finer grained definition of occupation.

55. Hospitality workers and cleaners and laundry workers have the highest density of award-reliant employees, with over half of the employees in each of those occupations being paid by an award only. Figure 4 shows the density of award only employees in the 20 occupations (2-digit ANZSCO) with this highest density. Recall that 'density' of award only employees indicates the proportion of employees within the occupation whose pay is set by award only.

Figure 4: Density of award only employees in most award-reliant occupations
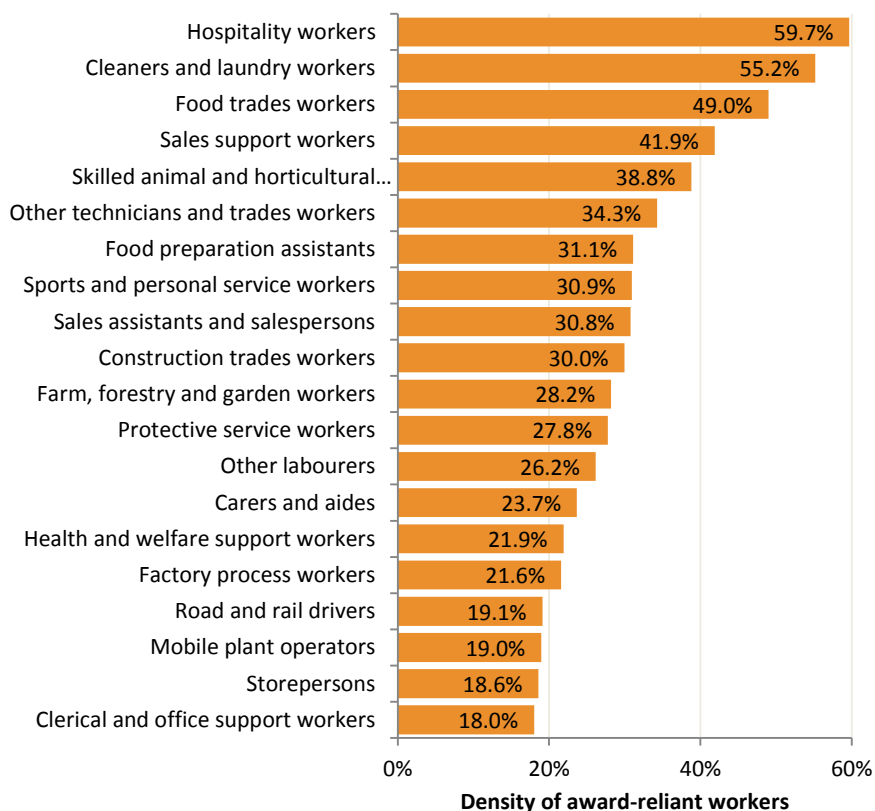
Source ABS 6306 (unpublished data) and ACTU calculations.

56. The occupations in Figure 4 are ranked by the density of award-reliant workers. By this metric, Sales assistants and salespersons are only the ninth most award-reliant occupation, with 30.8% of employees in the occupation being paid by award only. However, the occupation is very large, with 896 600 total employees. As a result, it employs more award-reliant employees than any other occupation, by some margin. The number of award-reliant employees by occupation is shown in Figure 5.

Figure 5: Number of award-reliant employees in most award-reliant occupations

Occupation	Thousands of award-reliant workers
Sales assistants and salespersons	275.8
Hospitality workers	182.2
Cleaners and laundry workers	128.7
Carers and aides	107.7
Sales support workers	97.0
General clerical workers	68.0
Health professionals	66.8
Other labourers	59.6
Construction trades workers	54.0
Food trades workers	53.7
Inquiry clerks and receptionists	48.5
Food preparation assistants	48.4
Road and rail drivers	43.4
Factory process workers	41.9
Protective service workers	38.1
Other technicians and trades workers	38.0
Hospitality, retail and service managers	36.9
Sports and personal service workers	35.9
Automotive and engineering trades…	32.8
Skilled animal and horticultural workers	32.6

Source: ABS 6306 (unpublished data)

57. Table 6 shows the number and density of award-reliant employees for each 2-digit ANZSCO occupation in May 2014.

Table 6: Award only employees by occupation (2-digit ANZSCO)

	Award-reliant employees	Total employees	Density of award-reliant workers	Occupation's share of all award-reliant workers
	thousands	thousands	per cent	per cent
Managers	**64.8**	**915.1**	**7.1%**	**3.5%**
Chief executives, general managers and legislators	0.9 *	137.2	0.7%	0.0%
Farmers and farm managers	-	1.5 *	-	-
Specialist managers	27.0	531.8	5.1%	1.5%
Hospitality, retail and service managers	36.9	244.6	15.1%	2.0%
Professionals	**143.4**	**2073.6**	**6.9%**	**7.7%**
Arts and media professionals	1.9 *	38.7	4.9%	0.1%
Business, human resource and marketing professionals	19.3	497.8	3.9%	1.0%
Design, engineering, science and transport professionals	12.0	267.4	4.5%	0.6%
Education professionals	21.4	494.1	4.3%	1.2%
Health professionals	66.8	433.0	15.4%	3.6%
ICT professionals	4.7 **	190.1	2.5%	0.3%
Legal, social and welfare professionals	17.2 *	152.5	11.3%	0.9%
Technicians and Trades Workers	**256.5**	**1176.0**	**21.8%**	**13.8%**
Engineering, ICT and science technicians	19.9 *	242.6	8.2%	1.1%
Automotive and engineering trades workers	32.8	267.4	12.3%	1.8%
Construction trades workers	54.0	180.2	30.0%	2.9%
Electrotechnology and telecommunications trades workers	25.5 *	181.2	14.1%	1.4%
Food trades workers	53.7	109.6	49.0%	2.9%
Skilled animal and horticultural workers	32.6 *	84.0	38.8%	1.8%
Other technicians and trades workers	38.0	110.8	34.3%	2.0%
Community and Personal Service Workers	**394.2**	**1151.9**	**34.2%**	**21.2%**
Health and welfare support workers	30.4	138.7	21.9%	1.6%
Carers and aides	107.7	454.8	23.7%	5.8%
Hospitality workers	182.2	305.3	59.7%	9.8%
Protective service workers	38.1	137.1	27.8%	2.0%
Sports and personal service workers	35.9	116	30.9%	1.9%
Clerical and Administrative Workers	**208.0**	**1689.0**	**12.3%**	**11.2%**
Office managers and program administrators	23.1	290.8	7.9%	1.2%
Personal assistants and secretaries	11.2	108.8	10.3%	0.6%
General clerical workers	68.0	428.3	15.9%	3.7%
Inquiry clerks and receptionists	48.5	287.8	16.9%	2.6%
Numerical clerks	23.2	256.4	9.0%	1.2%
Clerical and office support workers	14.0 *	77.7	18.0%	0.8%
Other clerical and administrative workers	20.1	239.2	8.4%	1.1%
Sales Workers	**384.7**	**1295.7**	**29.7%**	**20.7%**
Sales representatives and agents	11.9	167.7	7.1%	0.6%
Sales assistants and salespersons	275.8	896.6	30.8%	14.8%
Sales support workers	97.0 *	231.4	41.9%	5.2%
Machinery Operators And Drivers	**101.9**	**620.0**	**16.4%**	**5.5%**
Machine and stationary plant operators	16.8	171.7	9.8%	0.9%
Mobile plant operators	19.3 *	101.8	19.0%	1.0%
Road and rail drivers	43.4	226.7	19.1%	2.3%
Storepersons	22.3	119.9	18.6%	1.2%
Labourers	**307.3**	**977.6**	**31.4%**	**16.5%**
Cleaners and laundry workers	128.7	233.1	55.2%	6.9%
Construction and mining labourers	16.8	125.5	13.4%	0.9%
Factory process workers	41.9	194.1	21.6%	2.3%
Farm, forestry and garden workers	11.7 *	41.5	28.2%	0.6%
Food preparation assistants	48.4	155.5	31.1%	2.6%
Other labourers	59.6	227.9	26.2%	3.2%
All occupations	**1860.7**	**9898.9**	**18.8%**	**100.0%**

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

Employer size

58. Small businesses, those with fewer than 20 employees, employ 705 900 award only workers. This is 37.9% of the workers reliant on awards.

59. Although award only employees are more likely than other employees to be employed in small businesses, a substantial proportion of them are employed in larger businesses. Nearly half (42.4%) of award-reliant workers are employed in businesses with 50 or more employees.

Table 7: Award only employees by size of business – May 2014

Business size	Award only employees (Thousands)	Total employees (Thousands)	Density of award only employees by business size (Per cent)	Business size share of all award only employees (Per cent)	Business size share of total employment (Per cent)
Under 20 employees	705.9	2,225.8	31.7%	37.9%	23.3%
20 - 49 employees	366.6	1,210.5	30.3%	19.7%	12.7%
50 - 99 employees	171.5	729.5	23.5%	9.2%	7.6%
100 - 999 employees	353.5	2,545.9	13.9%	19.0%	26.6%
1 000 and over employees	263.3	2,846.9	9.2%	14.2%	29.8%
Total	**1,860.7**	**9,558.6**	**19.5%**	**100.0%**	**100.0%**

Source: ABS 6306 and ACTU calculations.

Classification and earnings

60. In submissions to previous Reviews, we have used unpublished EEH data on the distribution of award only workers by hourly earnings to estimate the number employed at each award classification level. We have repeated the analysis using unpublished data from the 2014 EEH survey.

61. We estimate that 43% of award only employees had hourly earnings at or below the C10 rate of pay in May 2014. In our analysis, we have deflated casual employees' hourly earnings by a fifth to remove an assumed casual loading of 25%, consistent with our practice in previous years.

62. Our estimates of the number and proportion of award only workers in each award classification range as at May 2014 are shown in Table 8.

Table 8: Estimate of the number of award only employees by classification (May 2014)

Classification level	Number of employees in range (thousands)			Percentage of employees in range
	Award only perm/fixed term	Award only casual	Total award only	Total award only
Below NMW/C14	107.5	159.7	267.2	14.4%
At or above NMW/C14, below C9	182.8	350.0	532.8	28.6%
At or above C9, below C5	183.8	173.7	357.5	19.2%
At or above C5, incl. C2(b)	226.0	88.7	314.7	16.9%
Over C2(b)	330.6	57.5	388.2	20.9%

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

63. Our estimate of the proportion of award only employees whose earnings are at or below C10 is a little lower than previous estimates. Our estimate for 2012 was 48.5%, and for 2010 it was 45%. However, given the imprecision of these estimates, we do not believe these differences should be given too much weight. Some previous estimates of the proportion of award-reliant workers employed at or below the C10 rate, by the ACTU and others, are shown in Table 9.

Table 9: Estimates of the proportion of award-reliant workers employed at or below the C10 rate

Analysis performed by	Data source	Date of data collection	Group analysed	Notes	Key finding
ACTU	ABS EEH (unpublished)	May 2014	Award only non-managerial employees (incl. juniors, apprentices/trainees, and people with disability)	Earnings of casuals deflated by a fifth to remove assumed casual loading	43% have hourly earnings at or below the C10 rate
Wright and Buchanan 2013[18]	Award reliance survey	2013	Adult award-reliant employees	Some differences of definition and scope from the EEH survey	75% paid below the C10 rate
ACTU	ABS EEH (unpublished)	May 2012	Award only non-managerial employees (incl. juniors, apprentices/trainees, and people with disability)	Earnings of casuals deflated by a fifth to remove assumed casual loading	48.5% have hourly earnings at or below C10 rate
ACTU	ABS EEH (unpublished)	May 2010	Award only non-managerial adult employees	Earnings of casuals deflated by a fifth to remove assumed casual loading	45% have hourly earnings at or below the C10 rate
Bolton and Wheatley 2010[19]	ABS EEH CURF	May 2006	Adult permanent award-only employees		34.6% have earnings at or below the C10 rate
Bolton and Wheatley 2010[20]	ABS EEH CURF	May 2006	Adult casual award-only employees	Earnings of casuals deflated by a fifth to remove assumed casual loading	63% have earnings at or below the C10 rate

Source: As noted in the table.

64. Award only workers employed in small business have lower average hourly earnings. The average earnings of award-reliant workers rises with the size of the firm, as shown in Table 10.

Table 10: Average hourly ordinary time cash earnings of non-managerial award-only employees by firm size

|	Permanent/fixed term	Casual	Total
Under 20 employees	21.20	23.40	22.10
20 to 49 employees	23.10	24.20	23.40
50 to 99 employees	24.00	24.70	24.30
100 to 999 employees	25.60	25.80	25.70
1000 and over employees	38.70	28.90	36.70

Source: ABS 6306 (unpublished)

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[18] Wright, S. and Buchanan, J. 2013, 'Award Reliance', Research Report 6/2013, Fair Work Commission, Melbourne, p.68.
[19] Bolton, T. and Wheatley, T. 2010, 'Earnings of Employees Who Are Reliant on Minimum Rates of Pay', Research report 4/2010, Fair Work Australia, Melbourne.
[20] Ibid.

65. Figure 6 shows the distribution of award-only employees by earnings. The chart shows the percentage of award-only employees who are employed in 50c earnings ranges. The black line is a smoothed version of the earnings distribution.

Figure 6: Distribution of earnings of award-only employees (May 2014)
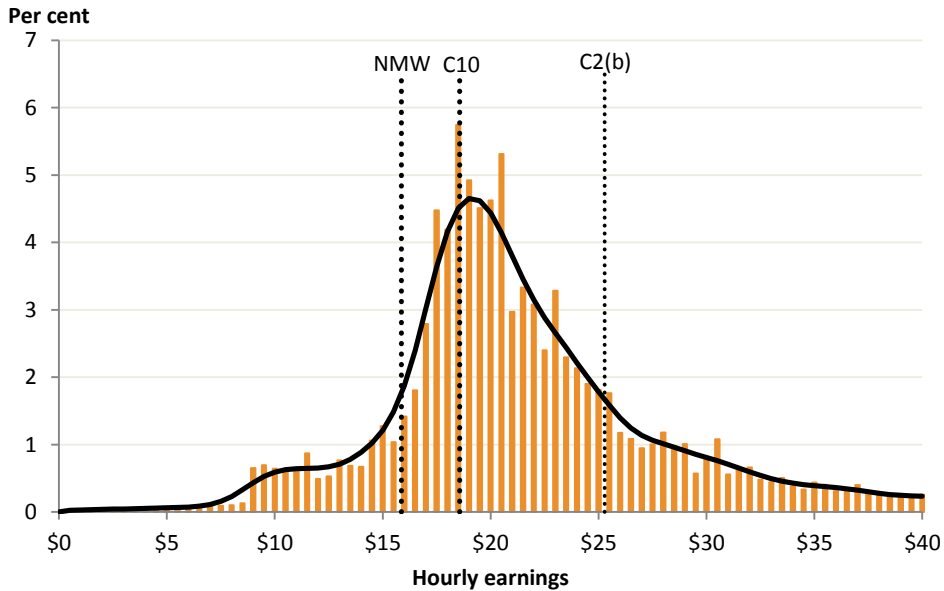
Source: ACTU analysis of ABS 6306 (unpublished). Casuals' earnings deflated by a fifth.

66. Figure 7 compares the (smoothed) earnings distribution in May 2012 with that in May 2014. The figures have not been adjusted for inflation.

Figure 7: Distribution of earnings of award-only employees (May 2014 and May 2012)

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

67. Compared to countries with a single national minimum wage, Australia has a less pronounced 'spike' in hourly earnings above the minimum. As an example of this, Figure 8 compares the distribution of hourly earnings in Australia and the UK. Nearly 5% of UK workers earn within 25p per hour of the UK

NMW, whereas the effect of Australian minimum wages on the earnings distribution is much more diffuse. In the ACTU's view, this is a positive feature, not a drawback, of our system.

Figure 8: Distribution of hourly earnings in Australia and the UK
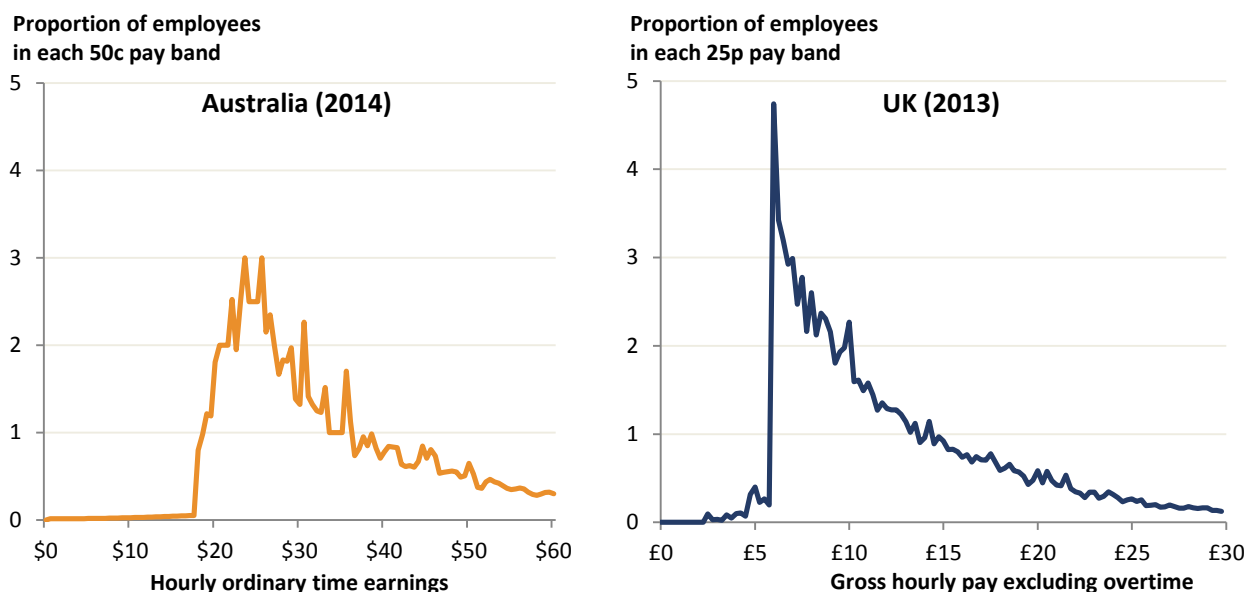
Source: Australian distribution is an ACTU calculation based on ABS 6306 (unpublished). Includes all employees. Casuals' earnings not deflated. UK distribution is Resolution Foundation analysis of data from the ONS Annual Survey of Hours and Earnings, used in Figure 6 of *Low Pay Britain 2014* (http://www.resolutionfoundation.org/wp-content/uploads/2014/10/Low-Pay-Britain-20141.pdf). Resolution Foundation data supplied to the ACTU on request.

Why has award reliance risen?

68. The Panel is required to take into account "the need to encourage collective bargaining."[21] Some parties in previous Reviews have suggested that awarding increases in minimum wages above inflation, or awarding percentage increases in award minimum wages, discourages collective bargaining.[22] We do not accept that that is the case.

69. The Panel found that research commissioned for the 2013-14 review:

    …does not reveal any particular relationship between minimum award increases and the incentive to bargain. Instead it points to a complex mix of factors that may contribute to employee and employer decision making about whether or not to bargain.

70. We believe this is a fair characterisation of the decision-making process regarding bargaining. At the margin, a larger minimum wage increase may somewhat reduce the incentive to bargain for some employees. However, it is likely to increase the incentive to bargain for employers, who may wish to bargain about other aspects of the employment relationship. The net effect of this on the rate of enterprise bargaining is ambiguous.

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[21] *Fair Work Act 2009* (C'th), s.134(1)(b)
[22] For example, see Australian Government submission to the 2013-14 Annual Wage Review, p.18 at para 64.

71. As noted earlier in this submission, at paragraph 43 and in Figure 1, the proportion of employees reliant on awards rose by 2.7 percentage points between May 2012 and May 2014, following a slight rise between 2010 and 2012. There is no evidence to support the contention that this rise was due to the form or size of minimum wage increases awarded by the Panel in previous Reviews.

72. We make a number of points in relation to this matter:

   a. The increase in award reliance could be partly due to statistical noise. The ABS estimates that there were 1 860 700 award only employees in 2014, with a standard error of 74 800 persons. This means the 95% confidence interval around the estimate of the number of award only employees spans from 2 010 300 to 1 711 100 persons, or from 17.2% to 20.3% of employees.

   b. The increase should be kept in perspective. The proportion of employees paid exactly at an award rate remains low, below the level of award reliance recorded in any ABS EEH survey prior to 2008. 41.1% of employees are paid according to a collective agreement, a figure higher than any recorded prior to 2010. A similar proportion (40.1%) are paid according to an individual arrangement. A rise of a few percentage points in the proportion of employees reliant on awards should be seen in the context of a labour market in which more than four-fifths of workers are not paid an award rate. Collective bargaining remains more prevalent than it was prior to the commencement of the *Fair Work Act*.

   c. Where award reliance has risen in the private sector, there is no evidence to suggest this is due to the percentage increases in award rates. Rather, it could be that minimum rates have fallen so far relative to average or median wages that employers have a diminished incentive to bargain.

   d. Around a quarter of the rise in award reliance between 2012 and 2014 was due to the public sector. Most public sector employees are not covered by the *Fair Work Act*. Of the public sector employees who are covered by the Act, it is likely that any rise in award reliance is due to policy decisions regarding bargaining, rather than the size or form of increases in minimum wages.

   e. The increase in award reliance was far from uniform across industries, including across the more award reliant industries. The Accommodation and Food Services industry, which has the highest proportion of award only workers of all industries, saw a 2 percentage point fall in award reliance between 2012 and 2014.This does not accord with the view that the form or size of the recent increases in minimum wages have increased award reliance.

73. Points (d) and (e) are examined in further detail below.

74. Comparing the 2014 and 2012 EEH data shows the following three trends:

    a. The density of award-reliant employees in the private sector rose from 18.4% to 21%;

    b. The density of award-reliant employees in the public sector rose from 6.7% to 9.5%; and

    c. The private sector's share of total employment rose from 80.4% to 81.2%.

75. This raises the question: what is the relative contribution of each of these three factors to the overall 2.7 percentage point rise in the density of award-reliant workers? The ACTU has answered this question using the decomposition below.

76. The density of award-reliant workers, ie. the proportion of workers who are award only, can be decomposed as follows:

$$D_{2014} = \left(D_{Pri,2014} \times S_{Pri,2014}\right) + \left(D_{Pub,2014} \times D_{Pub,2014}\right)$$

where D denotes the density of award-reliant workers, S is the public or private sector's share of total employment, the $_{2012}$ and $_{2014}$ subscripts are the years of the EEH surveys, and the $_{Pri}$ and $_{Pub}$ subscripts refer to the private and public sectors, respectively.[23] The contributions of the three factors to the rise in overall density are as follows:

$Contribution\ of\ rise\ in\ private\ density$
$$= \left(D_{Pri,2014} \times S_{Pri,2012}\right) + \left(D_{Pub,2012} \times S_{Pub,2012}\right) - D_{2012}$$
$$= (0.2095 \times 0.8045) + (0.0667 \times 0.1955) - 0.1607 = 0.0208$$

$Contribution\ of\ rise\ in\ public\ density$
$$= \left(D_{Pri,2012} \times S_{Pri,2012}\right) + \left(D_{Pub,2014} \times S_{Pub,2012}\right) - D_{2012}$$
$$= (0.1836 \times 0.8045) + (0.0951 \times 0.1955) - 0.1607 = 0.0056$$

$Contribution\ of\ change\ in\ employment\ shares$
$$= \left(D_{Pri,2012} \times S_{Pri,2014}\right) + \left(D_{Pub.2012} \times S_{Pub,2014}\right) - D_{2012}$$
$$= (0.1836 \times 0.8117) + (0.0667 \times 0.1883) - 0.1607 = 0.0008$$

$Change\ in\ density = D_{2014} - D_{2012} = 0.1880 - 0.1607 = 0.027 = 0.0208 + 0.0056 + 0.0008$

77. In other words:

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[23] Note that S_{Pri} and S_{Pub} sum to 1, ie. $S_{Pri}=(1-S_{Pub})$. A rise in the private sector's share of total employment implies a fall in the public sector's share of total employment.

a. the rise in award reliance in the private sector contributed 2.1 percentage points to the overall rise in the density of award reliant workers;

b. the rise in award reliance in the public sector contributed 0.6 points; and

c. the fall in the public sector's share of total employment contributed 0.1 points.[24]

78. About a quarter (0.7 of 2.7 percentage points) of the rise in award reliance is due to the public sector – this comprises the rise in award reliance in the public sector and the decline in the public sector's share of total employment. We submit that these factors are unlikely to be related to the Panel's decisions in previous reviews (whether the size or the form of the increase awarded). The majority of public sector employees are employed under jurisdiction-specific industrial relations frameworks and are thus not directly affected by the Panel's decisions. There were 1 908 200 public sector employees as at June 2014, 1 088 400 of whom were employed by State Governments other than Victoria, the NT, or the ACT and are thus not covered by the Act.

79. For the minority of public sector employees who are covered by the *Fair Work Act,* we submit that any change in the method of setting pay is more likely to have been caused by policy decisions regarding bargaining than by the Panel's decisions.

80. As noted above, a small proportion (0.1 of 2.7 percentage points) of the rise in overall award reliance was due to a fall in the public sector's share of total employment, and a concomitant rise in the private sector's share. It is not plausible that this compositional change was driven by the Panel's decisions.

81. We submit that, in evaluating any effect of past decisions on the level of award reliance, the Panel should disregard the 0.7 percentage points of the increase in award reliance that can be ascribed to the public sector.

82. This leaves 2.1 percentage points of the 2.7 point total that are due to a rise in award reliance in the private sector.[25]

83. If it were the case that the Panel's previous decisions had increased award reliance, we submit that the more award-reliant industries would be the most affected. They were not. Accommodation and Food Services is by far the most award-reliant industry, with 44.8% of its employees award reliant in 2012, but this industry experienced a two percentage point fall in award reliance between 2012 and 2014. The industry recorded a large increase in the proportion of employees covered by a collective

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[24] Components do not sum to 2.7% due to rounding.
[25] These figures are rounded, which is why the 0.7% and 2.1% don't sum to 2.7%. For the unrounded figures see the final line of the decomposition.

agreement, which rose from 23.8% to 32%. This is not consistent with the hypothesis that the Panel's decisions have undermined the incentive to bargain collectively.

84. The change in award reliance by industry between May 2012 and May 2014 is shown in Figure 9, with the more award-reliant industries shown in blue. It can be seen that the change in award reliance among the more award-reliant industries is far from uniform.
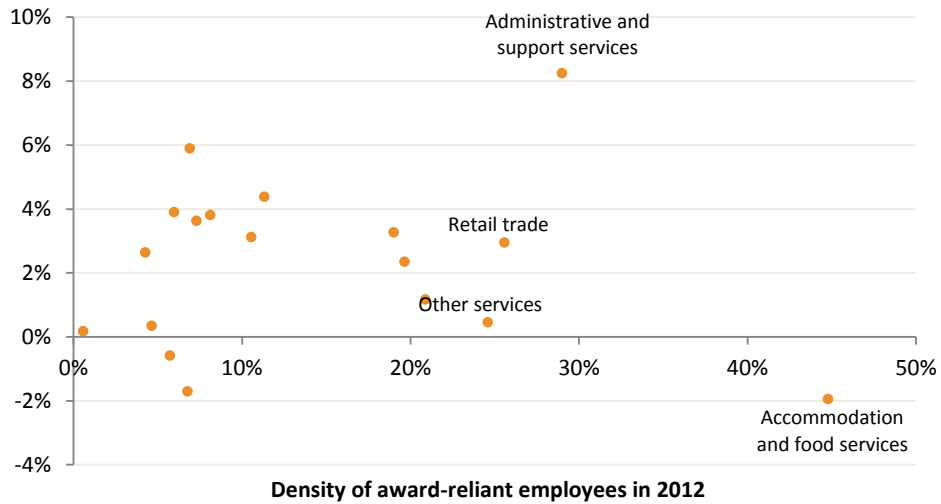
Figure 9: Change in level of award reliance between May 2012 and May 2014 by industry
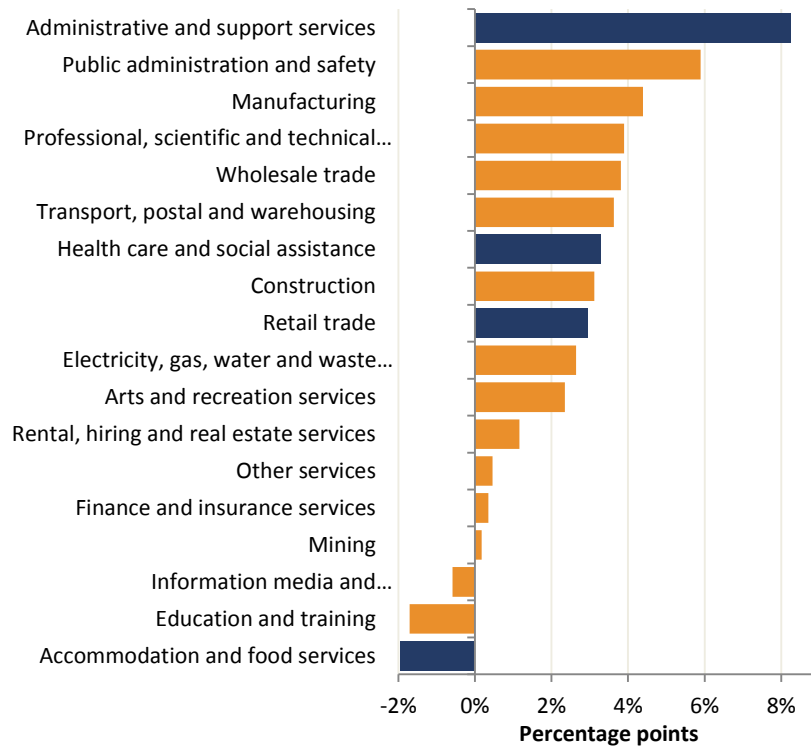
Source: ABS 6306 and ACTU calculations. Industries in which more than 20% of employees were award only in 2012 are shaded blue.

85. There is no relationship between an industry's level of award reliance in May 2012 and the change in the level of award reliance between May 2012 and May 2014. This is shown in Figure 10. If a trendline is fitted to this scatterplot, it is essentially flat and the slope coefficient is not statistically significant.[26]

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[26] A regression of the change in density between 2012 and 2014 on the density in 2012 yields an estimated slope coefficient of -0.01, with an associated t-statistic of -0.19. The R^2 of the regression is 0.002.

Figure 10: Industries' change in award reliance by level of award reliance

Change in density of award-reliant employees -
May 2012 to May 2014 (Percentage points)

Density of award-reliant employees in 2012

86. The absence of a relationship between the level of award reliance in 2012 and the change in award reliance between 2012 and 2014 undermines the hypothesis that the Panel's decisions have increased award reliance. If the hypothesis were correct, it would be expected that the more award-reliant industries would have experienced the largest increases in award reliance. This did not occur.

87. . The Panel should not alter its view, stated in the decision in the 2013-14 Review, that "the available evidence indicates that the level of increases in minimum award wages over the past decade or so have been compatible with the encouragement of collective bargaining."[27]

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[27] [2014] FWCFB 3500, [473]

Relative living standards and the needs of the low paid

88. The relative living standards of workers reliant on minimum wages declined for many years throughout the 1990s, 2000s and early 2010s. They declined through periods of economic boom and slowdown, declined under the AIRC and AFPC and FWA/FWC, and declined in both before- and after-tax terms.

89. In each of the past two years, the Panel has awarded increases in minimum wages that are sufficient to stop the relative living standards of low paid workers from falling further. The ACTU welcomes this pause in the trend towards lower relative living standards for workers reliant on minimum wages and looks forward to its reversal. The $27/3.6% increase we seek to minimum wages in this Review would stop the relative living standards of low paid workers from declining further and would begin to restore some lost ground.

90. If our claim were awarded in full, and the average weekly ordinary-time earnings of full-time adults (AWOTE) increases by 2.8% this year (as it did last year), the NMW would increase from 43.4% to 44% of average full-time earnings. If our claim was awarded and AWOTE growth slowed to 1.8%, then the minimum wage bite would rise to 44.4%. If AWOTE growth picks up to 3.8%, our claim would lift the minimum wage bite to 43.6%, only a little above its current level. The range of plausible outcomes for the minimum wage bite if our claim is awarded is shown in Figure 11.

Figure 11: Projection of plausible minimum wage bites if our claim is awarded
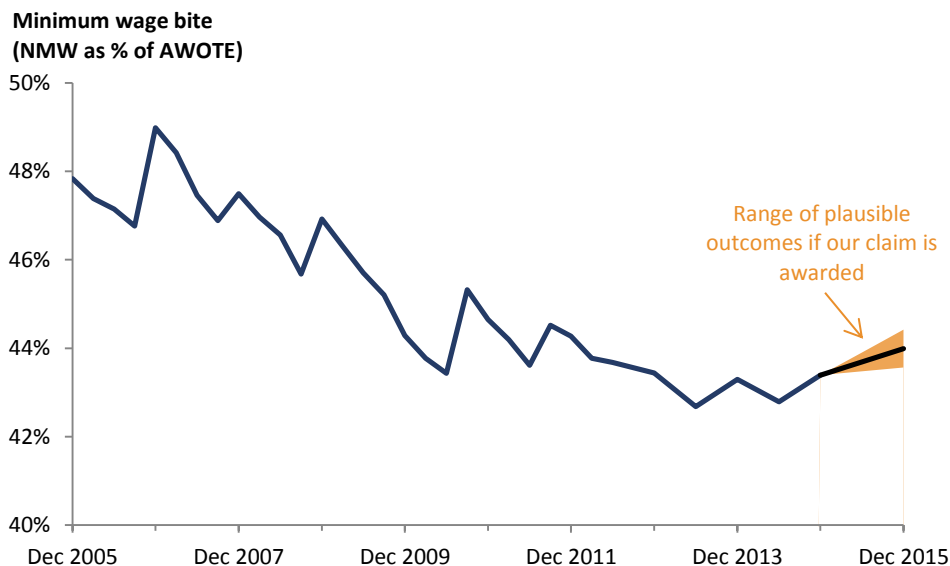
Source: Historical minimum wage rates from FWC/AFPC/AIRC decisions. AWOTE from ABS 6302. Minimum wage bite is an ACTU calculation. The 'base case' for the projection is AWOTE growth of 2.8% over the year to the fourth quarter of 2015. The shaded area indicates the range of values the minimum wage bite would take if our claim were awarded in full and AWOTE growth fell in the 1.8% to 3.8% range.

91. Even if our claim is awarded in full and AWOTE growth slows to just 1.8% this year, the minimum wage bite would still rise to just 44.4%, around its level in 2011. This would remain over a percentage

point below the 45.7% minimum wage bite of mid-2009, just before the Fair Work Act came into effect.

92. Table 11 provides a more complete range of projections of what the minimum wage bite would be under different combinations of growth rates in the NMW and AWOTE in 2015.

Table 11: Minimum wage bite under different combinations of NMW/AWOTE growth in 2015

$ NMW increase	% NMW increase	AWOTE growth in year to November												
		1.8%	2%	2.2%	2.4%	2.6%	2.8%	3.0%	3.2%	3.4%	3.6%	3.8%	4.0%	4.2%
$11.54	1.8%	43.4%	43.4%	43.3%	43.2%	43.1%	43.0%	42.9%	42.8%	42.8%	42.7%	42.6%	42.5%	42.4%
$12.82	2.0%	43.5%	43.4%	43.4%	43.3%	43.2%	43.1%	43.0%	42.9%	42.9%	42.8%	42.7%	42.6%	42.5%
$14.10	2.2%	43.6%	43.5%	43.4%	43.4%	43.3%	43.2%	43.1%	43.0%	42.9%	42.9%	42.8%	42.7%	42.6%
$15.38	2.4%	43.7%	43.6%	43.5%	43.4%	43.4%	43.3%	43.2%	43.1%	43.0%	42.9%	42.9%	42.8%	42.7%
$16.66	2.6%	43.8%	43.7%	43.6%	43.5%	43.4%	43.4%	43.3%	43.2%	43.1%	43.0%	42.9%	42.9%	42.8%
$17.95	2.8%	43.9%	43.8%	43.7%	43.6%	43.5%	43.4%	43.4%	43.3%	43.2%	43.1%	43.0%	42.9%	42.9%
$19.23	3.0%	44.0%	43.9%	43.8%	43.7%	43.6%	43.5%	43.4%	43.4%	43.3%	43.2%	43.1%	43.0%	42.9%
$20.51	3.2%	44.0%	43.9%	43.9%	43.8%	43.7%	43.6%	43.5%	43.4%	43.4%	43.3%	43.2%	43.1%	43.0%
$21.79	3.4%	44.1%	44.0%	43.9%	43.9%	43.8%	43.7%	43.6%	43.5%	43.4%	43.4%	43.3%	43.2%	43.1%
$23.07	3.6%	44.2%	44.1%	44.0%	43.9%	43.9%	43.8%	43.7%	43.6%	43.5%	43.4%	43.4%	43.3%	43.2%
$24.35	3.8%	44.3%	44.2%	44.1%	44.0%	43.9%	43.9%	43.8%	43.7%	43.6%	43.5%	43.4%	43.4%	43.3%
$25.64	4.0%	44.4%	44.3%	44.2%	44.1%	44.0%	43.9%	43.9%	43.8%	43.7%	43.6%	43.5%	43.4%	43.4%
$26.92	4.2%	44.5%	44.4%	44.3%	44.2%	44.1%	44.0%	43.9%	43.9%	43.8%	43.7%	43.6%	43.5%	43.4%

93. Awarding our claim in full is necessary to begin to reverse the decline in low-paid workers' relative living standards. The size of the reversal would be modest, but important.

Reversing the decline in relative living standards

94. Minimum wages have fallen sharply as a proportion of average full-time earnings in the past few decades. The C14 rate, equivalent to the NMW, was 56.1% of the average weekly ordinary time earnings (AWOTE) of full-time adults in 1990. This fell to 50.2% by 2000, then 47.8% in 2005, the last year in which the AIRC had responsibility for adjusting minimum wages. By 2009, the last year of the AFPC, the minimum wage bite had fallen to 44.3%. The 1990s and 2000s saw a substantial decline in the relative living standards of low-paid workers.

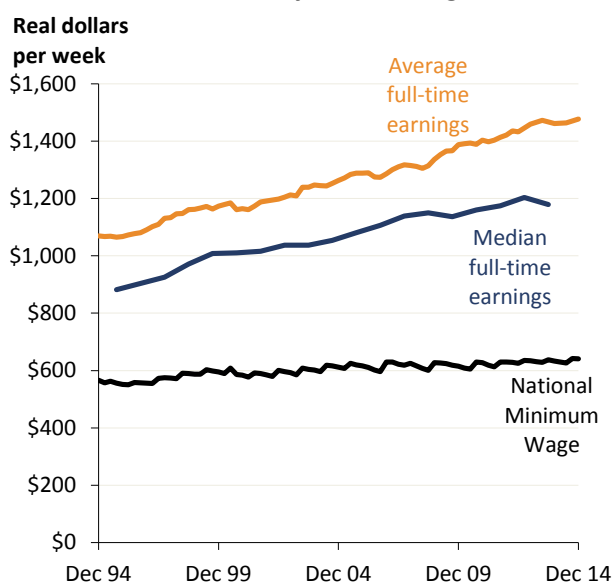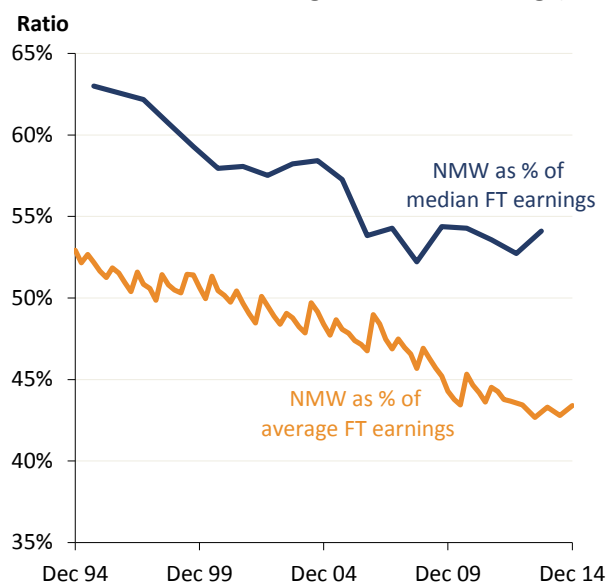**Figure 12: Average, median and minimum full-time weekly real earnings**

Figure 13: Minimum wage bite (ratio of the NMW to median and average full-time earnings)

Source: Average full-time earnings is AWOTE from ABS 6302. Median full-time earnings is from ABS 6310. NMW from past decisions of FWC and predecessors. All series deflated by the CPI (ABS 6401).

95. By 2012, the minimum wage bite had reached a new low of 43.4%. It has since remained at that low level. The increases awarded by the Panel in the past two Reviews have been sufficient to stop the relative living standards of low paid workers from falling further, but not sufficient to reverse the decline in relative living standards. This is shown in Table 12.

Table 12: Minimum wage bite in selected years since 1990

	Nominal NMW/C14 rate	Nominal AWOTE	Real NMW/C14 rate	Real AWOTE	Minimum wage bite (NMW as % of AWOTE)
Dec 1990	$311.30	$555.10	$562.45	$1,002.94	56.1%
Dec 1995	$341.40	$661.00	$551.41	$1,067.62	51.6%
Dec 2000	$400.40	$798.40	$583.89	$1,164.29	50.2%
Dec 2005	$484.40	$1,012.70	$616.19	$1,288.23	47.8%
Dec 2009	$543.78	$1,227.90	$614.71	$1,388.06	44.3%
Dec 2010	$569.90	$1,276.30	$626.95	$1,404.06	44.7%
Dec 2011	$589.28	$1,331.10	$629.43	$1,421.80	44.3%
Dec 2012	$606.40	$1,396.00	$633.75	$1,458.96	43.4%
Dec 2013	$622.20	$1,437.00	$632.89	$1,461.68	43.3%
Dec 2014	$640.90	$1,477.00	$640.90	$1,477.00	43.4%

Source: NMW/C14 rate from past FWC/FWA/AFPC/AIRC decisions. AWOTE from ABS 6302. CPI from ABS 6401. Real wages and minimum wage bite are ACTU calculations.

96. The Panel's welcome decisions in 2013 and 2014 stopped the erosion of the minimum wage. The gap between low paid workers' living standards and those of other workers is large and had been growing for more than two decades, as shown above. Without the Panel stopping the decline in the minimum wage bite, we soon would have reached the level of other OECD countries with higher levels of earnings inequality and higher prevalence of low pay (as projected in Figure 21, later in this submission).

97. However, while the minimum wage bite has not fallen further in the past two years, it remains at its lowest level on record. It is a percentage point lower than it was at the end of 2009, after the AFPC decided not to increase minimum wages. It is 4.4 percentage points lower than in 2005 and 6.8 points below its 2000 level. The gap in living standards between workers reliant on minimum wages and other workers is as high as it has been.

98. Minimum wages are substantially lower than they would be if the minimum wage bite had been held constant from some earlier time. Table 13 shows the difference between the current NMW and the value it would have taken if the minimum wage bite had been preserved from earlier periods. For example, if the minimum wage bite had remained at 47.8%, as in 2005, then the NMW would now be $706.49 per week rather than $640.90 per week, a difference of $65.59. If the minimum wage bite had been preserved at its 2010 level of 44.7% then the NMW would be $18.62 higher than it is today.

Table 13: The effect of the falling minimum wage bite

If the minimum wage bite was still as it was in	Then the NMW would be	Instead of	A weekly difference of
Dec 1990	$828.30	$640.90	$187.40
Dec 1995	$762.86	$640.90	$121.96
Dec 2000	$740.72	$640.90	$99.82
Dec 2005	$706.49	$640.90	$65.59
Dec 2009	$654.09	$640.90	$13.19
Dec 2010	$659.52	$640.90	$18.62
Dec 2011	$653.87	$640.90	$12.97

Source: ACTU calculations based on sources as per Table 12.

99. Our proposed increase in minimum wages would prevent the minimum wage bite from falling further, and would begin the vital task of restoring the relative living standards of low paid workers.

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

Relative earnings in the more award-reliant industries

101. Average and median earnings for Australian workers have grown significantly faster than the NMW and award minimum wages over the past decade. This divergence is not just due to rapid wages growth in the mining industry and other high-growth sectors.

102. Figure 14 shows that the NMW fell relative to average full-time earnings in every industry over the decade to November 2014, save for the Other Services industry in which the minimum wage bite was the same in November 2014 as it had been a decade earlier.

103. Minimum wages have failed to keep pace with average earnings in the more award-reliant industries, such as Retail Trade and Accommodation and Food Services. Over the past decade, the ratio of the NMW to average full-time earnings in the Accommodation and Food Services industry fell by 4.3 percentage points, while in Retail Trade it fell 3.7 percentage points.

Figure 14: Change in minimum wage bite between November 2004 and 2014
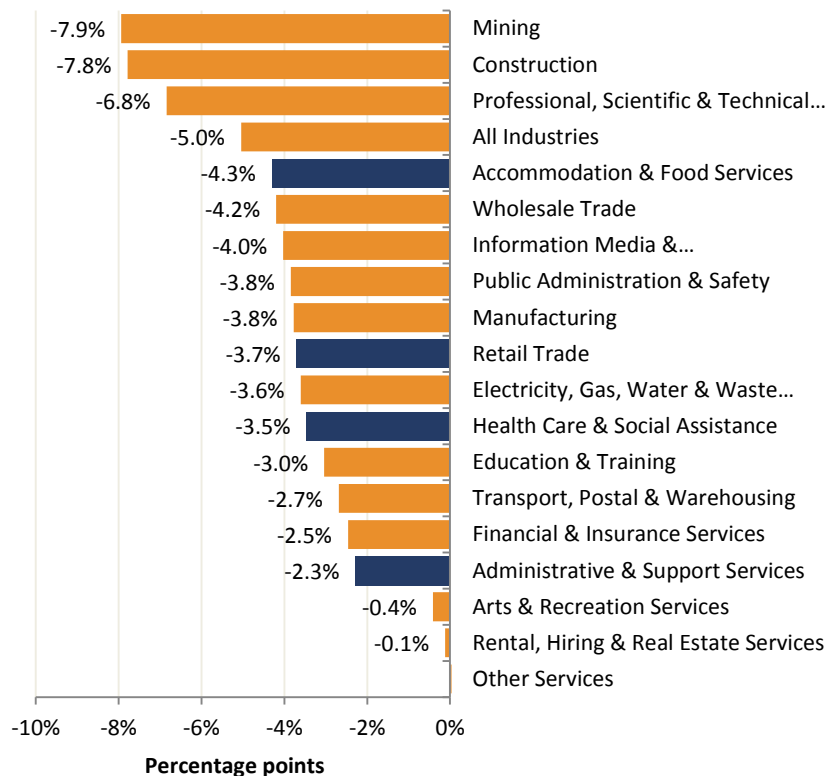
104. The figures below focus in particular on the Retail Trade and Accommodation and Food Services industries, the two largest employers of workers reliant on minimum wages. It is clear that the gap has grown between minimum wage workers and other workers even within the industries in which the low-paid are typically employed.

Figure 15: Real weekly wages full-time wages
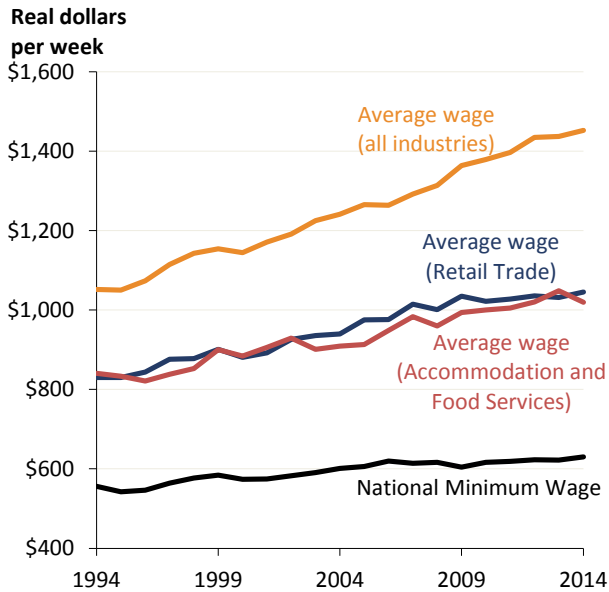
Figure 16: NMW as a percentage of average earnings
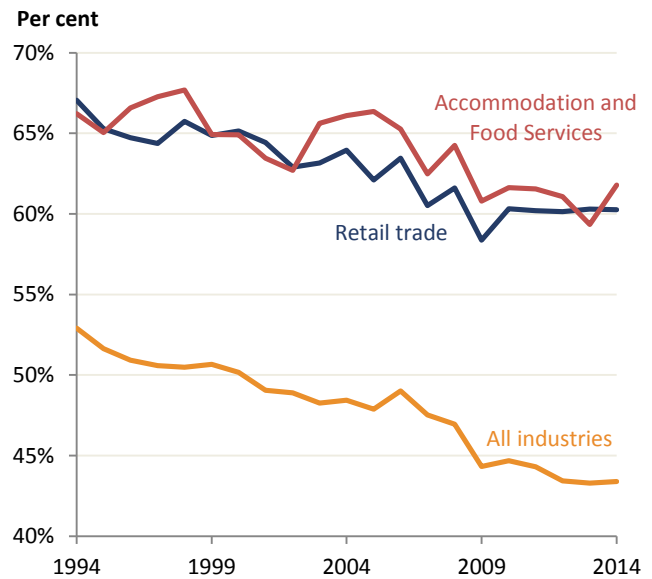
Source: AWOTE from ABS 6302. NMW from past FWC/AFPC/AIRC decisions. CPI from 6401. Real wages and minimum wage bites are ACTU calculations.

105. In the past few years, as the overall minimum wage bite has stabilised, so has the bite in the more award-reliant industries. The gap between low-paid workers and other workers is as large as it has ever been (at least as far back as we have earnings statistics), but the gap has ceased growing.

106. Awarding our claim in this Review would begin to reverse the decline in the living standards of low paid workers relative to other workers, including other workers within their industries.

Australia's minimum wage in international context

107. The Panel is required to take into account relative living standards. However, the statute specifies no particular level of relative living standards that should be deemed satisfactory, nor does economic theory provide a clear indication of the optimal minimum wage bite. Given that this is the case, we believe it is appropriate for the Panel to take into account all relevant information regarding relative living standards. The most significant information pertains to the level and change over time in relative living standards in Australia, which was examined in the previous section of this submission. However, we believe that regard to the minimum wage bites of other developed countries can assist the Panel.

108. The Panel has expressed reservations about the relevance of international comparisons in previous Reviews. In its 2014 decision, the Panel stated that "it remains our view that data about the Australian minimum wage bite relative to other OECD countries is of limited significance in evaluating the relative living standards supported by award wages."[28]

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[28] [2014] FWCFB 3500, [356]

109. We acknowledge the Panel's view regarding the relevance of international comparisons of minimum wages. We nevertheless respectfully submit that such comparisons do provide some relevant information for adjusting the Australian safety net.

110. Is a falling minimum wage bite is a necessary and inevitable consequence of globalisation and/or technological change? A comparison of minimum wage bites across the OECD suggests this is not the case. Relatively few OECD countries experienced a falling minimum wage bite over the past ten years (as shown in Figure 18). None experienced a fall as large as Australia's. This suggests that there is nothing inevitable or necessary about a falling minimum wage bite.

111. A comparison of minimum wage bites across countries can also shed some light on the possible consequences of allowing Australia's bite to fall further. There is an inverse cross-country correlation between a country's minimum wage bite and its level of earnings inequality, as measured by the 50:10 ratio in wages. There is also a correlation between the minimum wage bite and the incidence of low pay, with countries that have lower minimum wage bites tending to have a greater share of their employees in low-paid work. Of course, many factors other than minimum wages can affect the level of inequality and the prevalence of low pay. Nevertheless, we submit that if Australia's minimum wage bite were to be allowed to continue to fall, then higher inequality and more prevalent low pay would likely result. International comparisons can be a useful cautionary guide.

112. In 2013, the Australian NMW was 44% of average earnings – this was the equal fourth highest minimum wage bite in the OECD.[29] While Australia's minimum wage bite is higher than those of most OECD countries, it has fallen dramatically.

113. Table 14 compares the minimum wage bite in OECD countries. The minimum wage bite is shown both as the minimum wage as a proportion of the average (mean) wage, and the minimum wage as a proportion of the median wage. The table also compares the real level of the minimum wage across OECD countries, converted to US dollars at Purchasing Power Parity (PPP). The table then shows the total change over the past ten years of the minimum wage bite (measured both ways) and the real minimum wage in PPP terms.

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

Table 14: Minimum wages in OECD countries

Country	Level in 2013			Change: 2003 to 2013		
	Bite (mean) - 2013	Bite (median) - 2013	Level in US dollars in PPP terms	Bite (mean) - percentage points	Bite (median) - percentage points	Real level (USD PPP) - per cent
Australia	44.0%	54.0%	$10.50	-5.8%	-4.3%	5.4%
Belgium	42.6%	50.0%	$10.10	-2.2%	-1.0%	1.2%
Canada	39.4%	44.1%	$7.80	3.4%	4.4%	21.9%
Chile	43.2%	67.8%	$2.90	0.0%	0.0%	30.0%
Czech Republic	31.0%	36.4%	$3.30	-0.8%	-0.7%	3.1%
Estonia	32.6%	38.8%	$2.80	0.9%	-0.5%	50.5%
France	49.6%	61.3%	$10.70	2.9%	3.3%	14.3%
Greece	30.4%	44.7%	$4.50	-3.6%	-0.5%	-13.8%
Hungary	40.2%	53.9%	$3.90	3.4%	5.5%	21.1%
Ireland	44.0%	47.9%	$9.00	0.8%	-3.3%	14.9%
Israel	42.7%	57.7%	$5.30	1.2%	2.1%	4.5%
Japan	33.9%	39.0%	$6.70	4.7%	5.9%	14.5%
Korea	35.2%	43.3%	$5.30	10.0%	13.1%	54.5%
Luxembourg	34.0%	41.4%	$10.80	-0.4%	-0.5%	7.5%
Mexico	27.4%	36.8%	$0.80	-2.8%	na	-4.8%
Netherlands	41.7%	47.4%	$9.50	-2.3%	-2.4%	-1.3%
New Zealand	50.7%	59.5%	$8.70	4.5%	6.4%	27.4%
Poland	39.7%	49.7%	$4.80	4.8%	6.6%	50.9%
Portugal	38.3%	55.8%	$4.00	2.4%	4.8%	11.7%
Slovak Republic	36.0%	45.5%	$3.30	-0.1%	0.8%	73.7%
Slovenia	49.7%	61.2%	$6.70	na	na	36.7%
Spain	34.6%	41.3%	$4.80	2.1%	0.7%	11.6%
Turkey	38.3%	69.4%	$4.40	7.4%	11.0%	47.7%
United Kingdom	38.8%	46.9%	$8.00	4.3%	4.7%	11.6%
United States	26.8%	37.4%	$7.30	1.1%	4.2%	11.3%

Source: OECD Stat. Available from http://stats.oecd.org/Index.aspx?DataSetCode=RMW and http://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE. Rates of change are ACTU calculations.

114. The minimum wage bite (as a proportion of the mean) in Australia fell 5.8 percentage points between 2003 and 2013, from 49.8% to 44%. This was the largest decline in the minimum wage bite of any OECD country. Most OECD countries experienced an increase in their minimum wage bites over this decade.

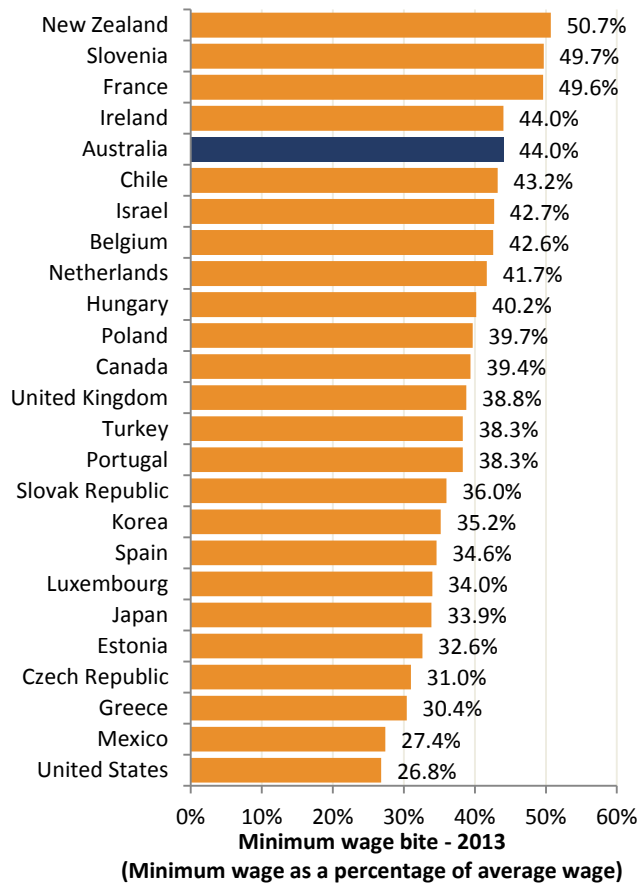**Figure 17: Minimum wage bite in 2013 in OECD countries**

Country	Minimum wage bite - 2013
New Zealand	50.7%
Slovenia	49.7%
France	49.6%
Ireland	44.0%
Australia	44.0%
Chile	43.2%
Israel	42.7%
Belgium	42.6%
Netherlands	41.7%
Hungary	40.2%
Poland	39.7%
Canada	39.4%
United Kingdom	38.8%
Turkey	38.3%
Portugal	38.3%
Slovak Republic	36.0%
Korea	35.2%
Spain	34.6%
Luxembourg	34.0%
Japan	33.9%
Estonia	32.6%
Czech Republic	31.0%
Greece	30.4%
Mexico	27.4%
United States	26.8%

Minimum wage bite - 2013
(Minimum wage as a percentage of average wage)

Figure 18: Change in minimum wage bite between 2003 and 2013

Country	Change in minimum wage bite - 2003 to 2013 (percentage points)
Korea	10.0%
Turkey	7.4%
Poland	4.8%
Japan	4.7%
New Zealand	4.5%
United Kingdom	4.3%
Hungary	3.4%
Canada	3.4%
France	2.9%
Portugal	2.4%
Spain	2.1%
Israel	1.2%
United States	1.1%
Estonia	0.9%
Ireland	0.8%
Slovak Republic	-0.1%
Luxembourg	-0.4%
Czech Republic	-0.8%
Belgium	-2.2%
Netherlands	-2.3%
Mexico	-2.8%
Greece	-3.6%
Australia	-5.8%

Change in minimum wage bite - 2003 to 2013
(percentage points)

Figure 17 source: OECD Stat. Available from http://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE.
Figure 18 source: ACTU calculations based on OECD Stat data.

115. Australia's minimum wage bite was, for a long time, the highest in the OECD. It has been allowed to fall for several decades, at the same time that the minimum wage bites in most OECD countries have risen. The result is that Australia is drifting towards the middle of the pack, as shown in Figure 19.

**Figure 19: Distribution of minimum wage bites (relative to the mean)
in OECD countries in 1993, 2003 and 2013**
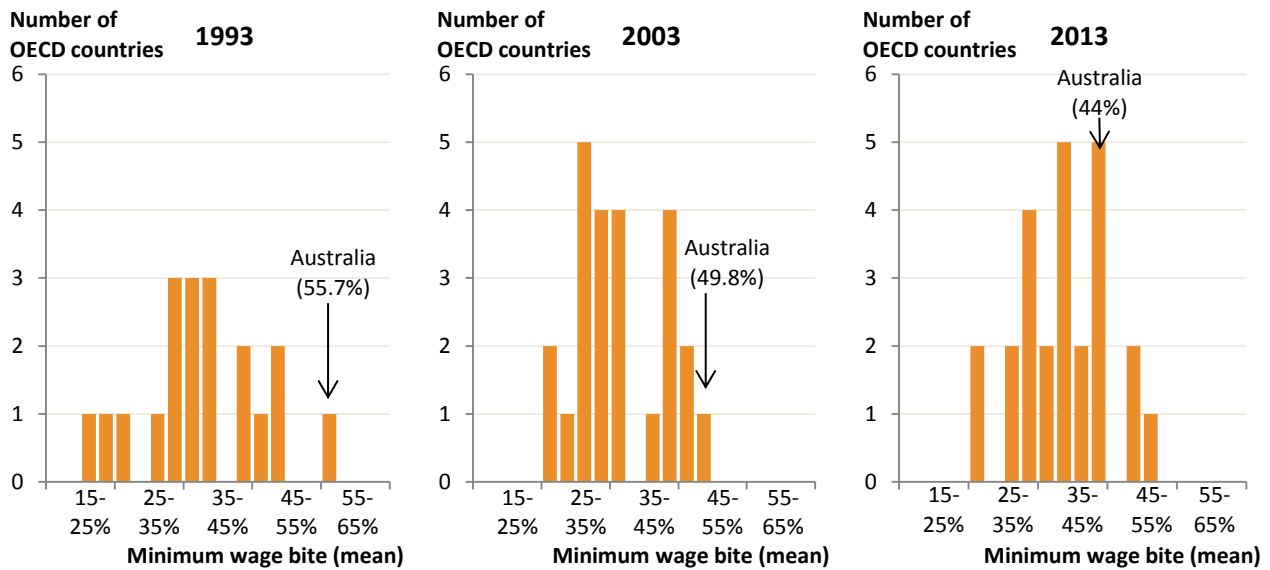
Source: ACTU calculations based on OECD Stat data. Charts shows the number of OECD countries with minimum wage bites (minimum/mean wage ratios) in 2.5 percentage point bins in each year. The chart includes all countries for which OECD Stat had the necessary data in each year – this is 19 countries in 1993, 24 countries in 2003, and 25 countries in 2013.

116. A similar picture emerges if the minimum/median wage ratio is used as the minimum wage bite, rather than the minimum/mean ratio as above. In 1993, Australia had the highest bite in the OECD, but it has fallen sharply and is now close to the middle of the pack.

**Figure 20: Distribution of minimum wage bites (relative to the median)
in OECD countries in 1993, 2003 and 2013**
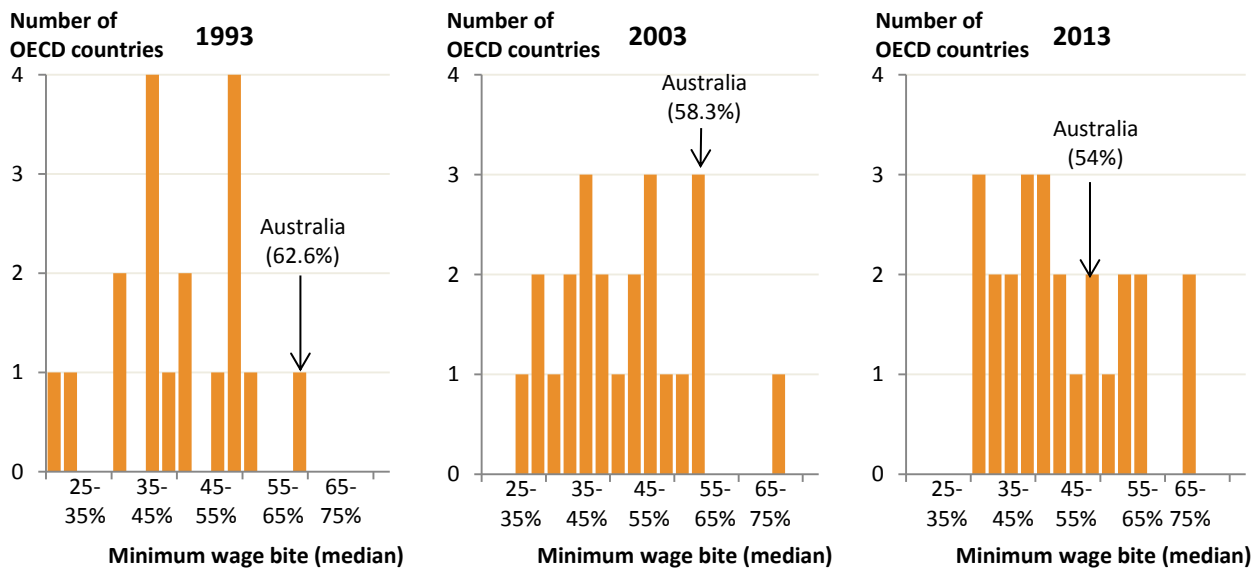
Source: ACTU calculations based on OECD Stat data. Charts shows the number of OECD countries with minimum wage bites (minimum/median wage ratios) in 2.5 percentage point bins in each year. The chart includes all countries for which OECD Stat had the necessary data in each year – this is 18 countries in 1993, 23 countries in 2003, and 25 countries in 2013.

117. The drift of Australia's minimum wage bite towards the middle of the pack (in mean terms) is also shown in Figure 21. Australia's minimum wage bite remains above those of the UK and Canada, but the gap is rapidly closing. A projection depicted in Figure 21 shows what the future path of Australia's minimum wage bite would be if it continued to decline at the same pace it has since 1990.

By 2018, if past trends continue, Australia's minimum wage bite would be around 39.4%, the current level in Canada. By the following year, Australia's bite would be around 38.8%, the UK's current level.

Figure 21: Minimum wage bite in Australia and key OECD countries, including future projection
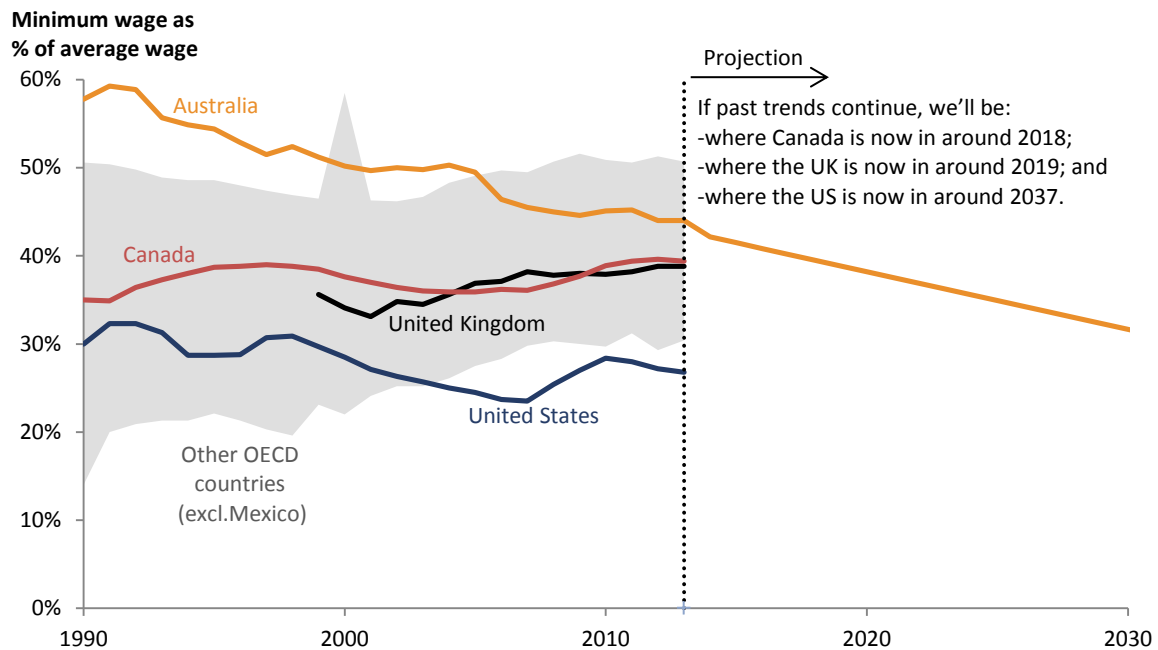
Source: Data to 2013 from OECD Stat. The future projection is an ACTU calculation. The projection is based on an OLS linear regression of Australia's minimum wage bite on a time trend from 1990 to 2013, inclusive. The beta coefficient in the regression is -0.066. If the trend is calculated from 2003 to 2013, the coefficient is not significantly altered (-0.064).

118. Allowing the minimum wage bite to fall, as it did through the 1990s and 2000s, would be likely to result in an Australian labour market that increasingly came to resemble those of Canada, the UK, and other OECD countries with higher levels of earnings inequality.

119. The minimum wage bite examined above is a relatively imprecise measure of the living standards of minimum wage workers relative to workers on average or median wages. This imprecision arises because the comparisons do not take account of income taxes, social security contributions, and in-work benefits. The OECD has recently published estimates of the 'net' minimum wage bite, as a proportion of median wages. It shows that Australia's minimum wage bite, once taxes and transfers are taken into account, is closer to the middle of the OECD pack. Table 15 reproduces the OECD's calculations, with countries ranked in ascending order by net minimum wage bite. The UK's gross minimum wage bite is 47.2%, substantially lower than Australia's bite of 52.7%. However, once taxes and transfers are taken into account, Australia's net bite is 47.7% while the UK's is 50.5%. Australia's net minimum wage bite (47.7%) is only a little above the OECD average (44.9%). Note that the OECD's calculations of net bites are for single adults without dependents.

Table 15: Gross and net minimum wage bites (% of median) in OECD countries in 2012

	Minimum wage bite (gross)	Minimum wage bite (net of taxes and transfers)
Estonia	35.7%	30.9%
USA	37.8%	33.7%
Poland	46.5%	35.3%
Greece	43.4%	36.4%
Germany*	48.9%	37.8%
Hungary	53.9%	38.3%
Luxembourg	42.0%	38.5%
Korea	42.4%	38.8%
Canada	45.1%	41.0%
Belgium	50.7%	41.1%
Slovak Rep	47.0%	41.2%
Spain	44.2%	41.7%
Netherlands	46.9%	44.7%
OECD	47.1%	44.9%
Ireland	47.6%	45.1%
Czech Rep	36.0%	45.3%
Australia	52.7%	47.7%
Japan	38.3%	49.0%
France	61.5%	49.8%
UK	47.2%	50.5%
Slovenia	59.5%	51.5%
Chile	67.4%	54.2%
NZ	59.9%	54.2%
Portugal	57.7%	55.5%
Israel	57.4%	57.4%
Turkey	72.5%	60.7%

Source: OECD 2014, *Employment Outlook 2014,* p.68. Data available from: http://dx.doi.org/10.1787/888933132146. *The figure for Germany is the forecast minimum wage bite for 2016, deflated to 2012 terms by the OECD.

120. Figure 22 also shows the gross and net minimum wage bites in OECD countries in 2012. Australia is close to the middle of the pack. A number of countries that have lower gross minimum wage bites than Australia (such as Japan and the UK) have higher net minimum wage bites.

Figure 22: Minimum wage bite in OECD countries before and after taxes and transfers (2012)
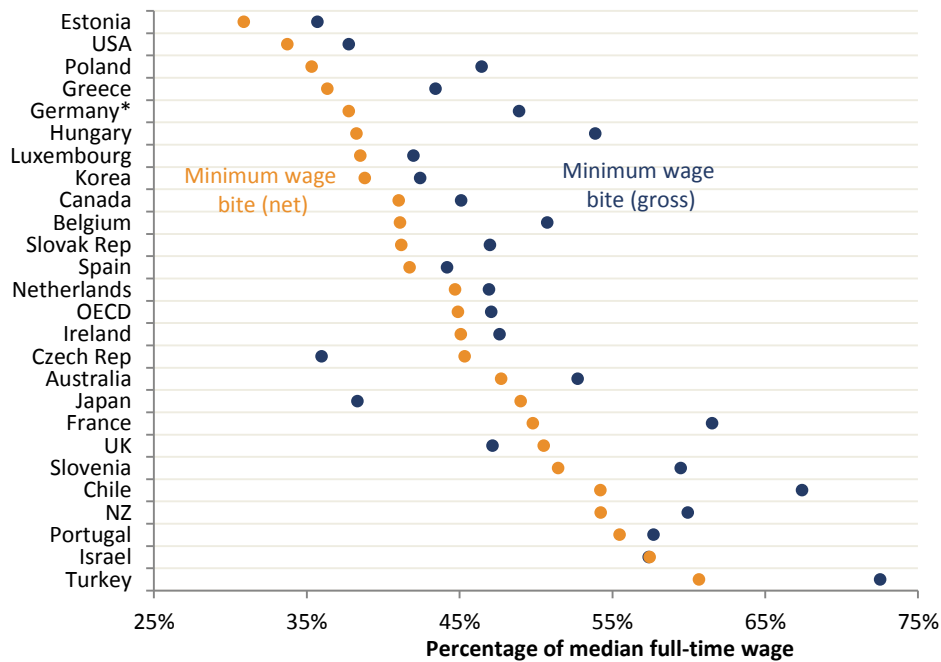
Source: OECD 2014, *Employment Outlook 2014,* p.68. Data available from: http://dx.doi.org/10.1787/888933132146. *The figure for Germany is the forecast minimum wage bite for 2016, deflated to 2012 terms by the OECD.

121. The relative living standards of minimum wage workers in Australia are close to the OECD average, and below those of many comparable countries. Unlike in most OECD countries, the relative living standards of Australian minimum wage workers fell during the 2000s.

Minimum wages and inequality

122. The falling minimum wage bite has contributed to greater earnings inequality among workers. The Panel noted in its decision in last year's Review that:

> *No party disputed the fact that the distribution of earnings has become more unequal in Australia over recent decades and the Panel acknowledges that annual wage review decisions have a role to play in ameliorating inequality.*[30]

123. Earnings inequality has risen in Australia over the past several decades, particularly during the 1990s and 2010s. A key measure of earnings inequality relevant to Annual Wage Reviews is the 50:10 ratio – this measures the ratio of median earnings to earnings at the 10th percentile of the distribution. The higher this ratio, the more unequal is bottom half of the earnings distribution. The 50:10 ratio among full-time non-managerial adult workers was 1.41 in 1990, then rose to 1.49 in 2000, then 1.57 in 2010 and 1.58 in 2012. The 50:10 ratio did not change between 2012 and 2014, remaining at 1.58.[31]

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[30] [2014] FWCFB 3500, [57]
[31] The figure for 2014 pertains to full-time non-managerial employees paid at the adult rate, rather than full-time non-managerial adult employees.

124. The figures below show the earnings of full-time workers at the 90th, 50th (median), and 10th percentiles, as well as the ratios between these levels of earnings.

Figure 23: Real wages for full-time non-managerial adults	Figure 24: Measures of earnings inequality among full-time non-managerial adult employees
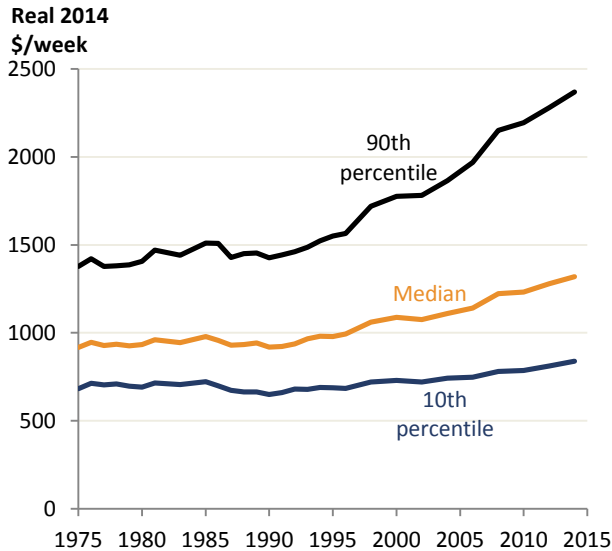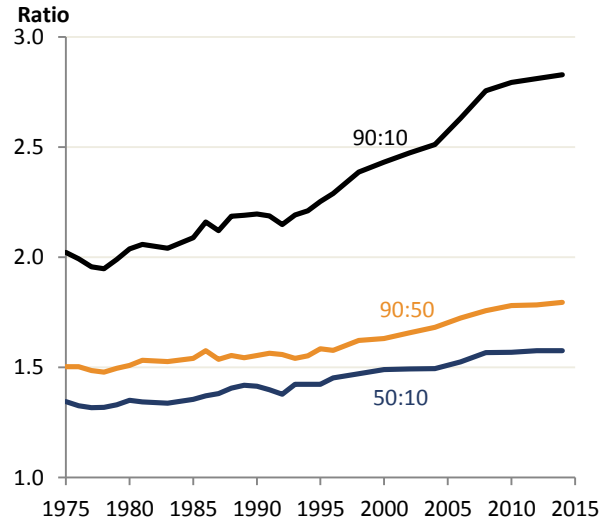
Source: ABS 6306, various years. Note that the earnings figures from 1975 to 2012 (inclusive) pertain to full-time non-managerial adult employees. The 2014 figures are for full-time non-managerial employees paid at the adult rate.

125. Earnings inequality remains at a record high level, but it did not rise in the past two years. This mirrors the trend in the minimum wage bite, which remains at a record low level, but did not fall between 2012 and 2014. The concurrence of the trends in these two measures supports our contention that there is a causal relation between them –falls in the minimum wage bite have contributed to increases in earnings inequality, and the stability in the minimum wage bite in the past two years has contributed to stability in earnings inequality.

126. The correlation between the 50:10 ratio and the minimum wage bite is very strong, as shown in Figure 25. On average, a 1 percentage point fall in the minimum wage bite is associated with a 0.014 point increase in the 50:10 ratio. The fall in the relative value of the minimum wage has been closely associate with a rise in earnings inequality in the bottom half of the labour market, as would be expected.

Figure 25: Minimum wage bite and the 50:10 ratio in Australia over time (1983 to 2014 inclusive)
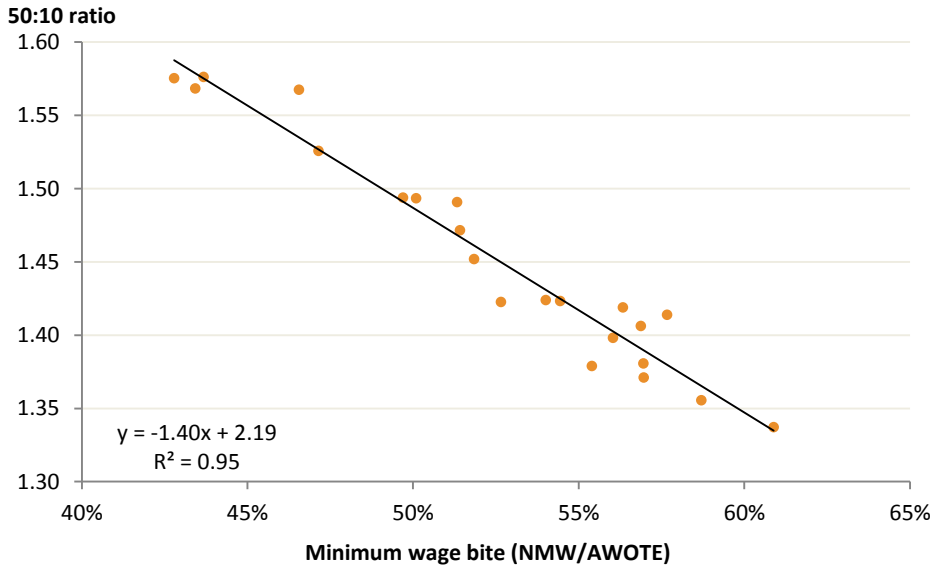
Source: 50:10 ratio calculated from ABS 6306, various years. AWOTE from ABS 6302. NMW/C14 rate from past FWC/AFPC/AIRC decisions. Minimum wage bite is an ACTU calculation. Chart includes all years in which the ABS 6306 survey was conducted.

127. This correlation between a lower minimum wage bite and higher 50:10 earnings inequality also holds across OECD countries, as shown in Figure 26.

Figure 26: Minimum wage bite and the 50L10 ratio in OECD countries in 2013 or latest year
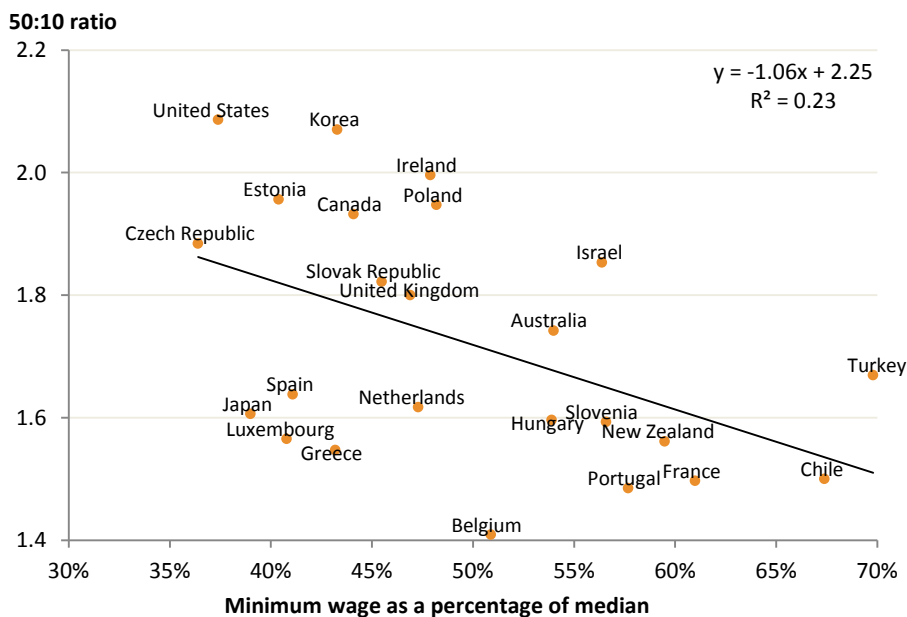
Source: OECD Stat and ACTU calculations. Chart uses the latest data available in OECD Stat for each country. This is 2013 for Australia, Canada, Czech Republic, Hungary, Ireland, Japan, Korea, New Zealand, Slovak Republic, UK and US; 2012 for Belgium, Greece, Poland, Portugal and Spain; 2011 for Chile and Israel; and 2010 for Estonia, France, Luxembourg, Netherlands, Slovenia and Turkey.

128. It is clear that a smaller minimum wage bite is associated with greater earnings inequality. In our submission to the 2013-14 Review, we also noted this association. The Panel said in its 2013-14 decision that "we believe that there is some force in this point."[32]

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[32] [2014] FWCFB 3500, [344]

129. However, the Panel appeared somewhat unmoved by the evidence of rising earnings inequality, due to the fact that household income inequality has not risen in recent years. The Panel stated:

> *We accept that the evidence is clear that households of various types that are reliant on the lower award classification rates or the NMW have had a fall in their relative incomes and are thereby less able to meet their needs. We accept also that the distribution of earnings has become steadily less equal over recent decades. However, it is important to appreciate that in recent years this has not translated directly into rising inequality of equivalent household disposable income.[33]*

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

131. Equivalised household disposable income was more equally distributed in 2011-12, the date of the latest ABS *Survey of Income and Housing*, than in 2007-08, the last pre-GFC household incomes survey. The Gini coefficient in 2007-08 was 0.336, which had fallen to 0.32 by 2011-12.[34] However, while the Gini coefficient fell a little between 2007-08 and 2011-12, equivalised household disposable incomes were more unequal in 2011-12 than at any time prior to 2007-08 for which data is available. This is shown in Figure 27. The figure also shows the Gini coefficient for equivalised household disposable incomes based on the HILDA data – this source shows that inequality increased in 2010 and again in 2011, reaching a level (0.317) just below the pre-GFC peak (0.319).

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[33] [2014] FWCFB 3500, [374]

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

Figure 27: Inequality of equivalised disposable household incomes

Gini coefficient
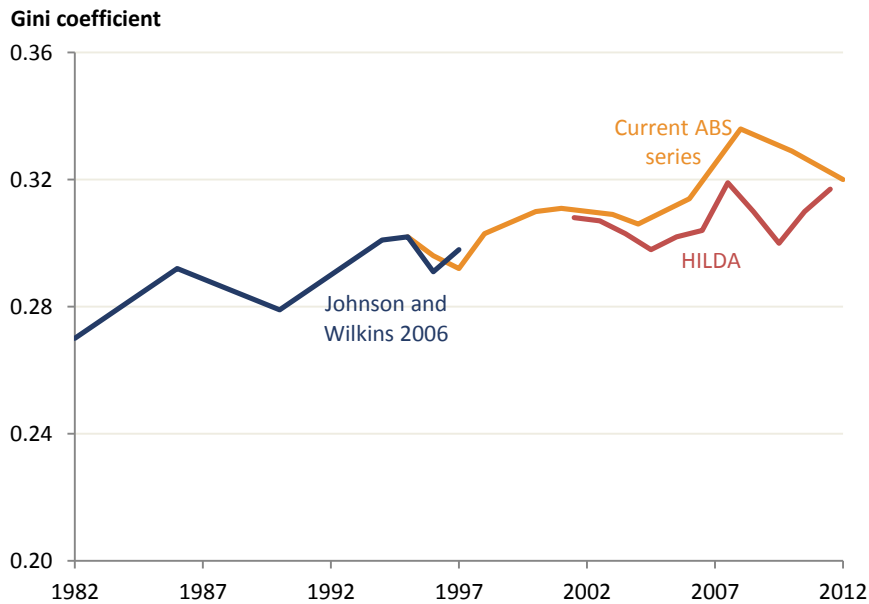
Source: 'Current ABS series' is from ABS 6523. HILDA is from Table 4.2 of the 2014 HILDA Statistical Report (https://www.melbourneinstitute.com/downloads/hilda/Stat_Report/statreport-v9-2014.pdf). 'Johnson and Wilkins' series is from Johnson, D. and Wilkins, R. 2006, 'The causes of changes in the distribution of family income in Australia, 1982 to 1997-98', Social Policy Research paper Number 27, Department of Families, Community Services and Indigenous Affairs, Australian Government, Canberra (https://www.dss.gov.au/sites/default/files/documents/05_2012/prp_27.pdf).

132. The increase in the base rate of pensions (including the Age Pension and Disability Support Pension) contributed to the decline in inequality in the post-GFC period. A fall in incomes from assets (such as dividends) also contributed. Both of these factors are unrelated to the labour market and working people.

133. The increase in income inequality over the past decade is even more apparent if lone person working-age households are examined. It is the living standards of these households that the Panel has indicated are most relevant to Annual Wage Reviews.[35] Inequality has also grown sharply among households for which the main source of household income is wages and salaries. This is shown in Table 16.

134. Inequality in disposable incomes among lone person households aged 25-44 rose by 13.6% between 2003-04 and 2011-12. For lone person households aged 45-64, inequality rose by 13.3%. For households (of all ages and family types) in which the main source of income was wages and salaries, inequality rose by 11.2%.

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[35] [2014] FWCFB 3500, [38]

Table 16: Inequality of equivalised disposable household incomes (Gini coefficient) for particular household types

	2003-04	2005-06	2007-08	2009-10	2011-12	Change: 03-04 to 11-12
Lone person aged 15-24	0.312	0.304	0.247	0.273	0.325	4.2%
Lone person aged 25-44	0.285	0.293	0.311	0.325	0.324	13.6%
Lone person aged 45-64	0.354	0.420	0.439	0.420	0.401	13.3%
All household types, all ages - main source of household income is wages and salaries	0.232	0.240	0.270	0.264	0.258	11.2%
Total	0.306	0.314	0.336	0.329	0.320	4.6%

Source: ABS 6523. Change over time is an ACTU calculation.

135. To the extent that levels of inequality can be compared over time[36], it is clear that inequality remained high in 2011-12 despite a moderate fall in the post-GFC period. This was particularly the case for households that are more directly relevant to the Annual Wage Review, notably lone person households of working age and households for which the main source of income is wages and salaries.

136. Associate Professor Roger Wilkins of the Melbourne Institute has carefully examined the evidence on inequality in Australia. He concludes as follows:

There are… some seemingly unambiguous facts about income distribution changes over the decade. No data source shows inequality decreasing and indeed there is agreement between… [various data sources] that inequality increased from approximately 2003-04 to 2007-08… and then decreased in the next two years. In addition, all three series show that changes to income taxes and to government benefits acted to increase income inequality over the decade.[37]

137. Both HILDA and the ABS data show that inequality was higher in 2011 than at any point in the 2000s prior to 2007. The ABS data shows that inequality has risen particularly among lone person households and working households.

138. Rising inequality is a matter of serious concern. The Panel is required to take relative living standards into account, for good reason. A declining minimum wage bite exacerbates earnings inequality and is associated with higher incidence of low pay. If other things are equal, higher

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[36] Caution should be exercised when comparing Gini coefficients over time, particularly prior to 2003-04, due to changes to the ABS definition of 'income' and to its survey method. The ABS has improved its methodology over time and harmonised its definition of income with the international standard. This means that the recent estimates of the Gini coefficient are more likely to be accurate than earlier estimates. Figures from prior to 1994-95 should be viewed with particular caution and are presented in Figure 27 for illustrative purposes only.

[37] Wilkins, R. 2013, 'Evaluating the Evidence on Income Inequality in Australia in the 2000s', Working Paper No. 26/13, Melbourne Institute Working Paper Series, Melbourne Institute, University of Melbourne, Melbourne, p.55. Available from: https://www.melbourneinstitute.com/downloads/working_paper_series/wp2013n26.pdf [Accessed 25 March 2015].

inequality of earnings among workers generally translates into higher inequality of incomes among households.

139. Higher inequality is a significant concern in and of itself. The maintenance of a fair safety net that takes into account relative living standards is not consistent with high and rising levels of inequality. Higher inequality is also undesirable for the potential effect it may have on health, social cohesion, and the economy. There is also a growing consensus that inequality can be harmful to economic growth. Recent research from the IMF[38] and the OECD[39] has found a negative relationship between inequality and growth.

140. Awarding our claim in this Review will put downward pressure on earnings inequality and income inequality, particularly among working households. This is a social and economic imperative.

The needs of the low paid

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

142. In 2014, the Panel awarded a 3% increase in minimum wages. Over the year to the September quarter, the quarter in which the increase in minimum wages took effect, CPI inflation was 2.3%, while the employee Living Cost Index (LCI) increased by 1.9%.[40] The increase in minimum wages awarded by the Panel was therefore sufficient to result in a modest increase in real wages for low paid workers. Such workers are more able to meet their needs than they were prior to the Panel's 2014 decision, a fact that we welcome.

143. The Reserve Bank of Australia (RBA) forecasts CPI inflation of 2-3 per cent over the year to the December 2015 quarter.[41] Taking the midpoint of this range, nominal wages growth of at least 2.5% would thus be needed in order to prevent a fall in real wages.

144. The ability of low paid workers to meet their needs improved last year. However, this improvement does not mean that low paid workers are able to meet their needs to a satisfactory extent. The extent to which they are able to meet their needs is difficult to measure directly, but can be inferred from information such as poverty rates and measures of financial stress and deprivation.

145. We agree with the Panel's conclusion regarding poverty lines in the 2013-14 Review:

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[38] Ostry, J.D., Berg, A. and Tsangarides, C.G. 2014, 'Redistribution, Inequality, and Growth', IMF Staff Discussion Note SDN/14/02, International Monetary Fund, Washington, DC. Available from: https://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf [Accessed 25 March 2015].

[39] Cingano, F. 2014, 'Trends in Income Inequality and Its Impact on Economic Growth', OECD Social, Employment and Migration Working Papers, Organisation for Economic Cooperation and Development, Paris. Available from: http://www.oecd-ilibrary.org/social-issues-migration-health/trends-in-income-inequality-and-its-impact-on-economic-growth_5jxrjncwxv6j-en [Accessed 25 March 2015].

[40] We continue to maintain that the employee living cost index (LCI) is preferable to the CPI as a measure of the change in the cost of living for workers.

[41] Reserve Bank of Australia 2015, *Statement on Monetary Policy: February 2015,* RBA, Sydney, p.71.

In assessing the needs of the low paid, we accept that if the low paid are forced to live in poverty then their needs are not being met. We also accept that those in full-time employment can reasonably expect a standard of living that exceeds poverty levels.[42]

146. Obtaining an income in excess of poverty levels does not necessarily indicate that low-paid workers' needs are being met to a satisfactory extent. Clearing the poverty line is necessary, but not sufficient, for a fair and relevant safety net of minimum wages. Financial stress and deprivation measures are also imperfect measures of the degree to which needs are not being met. The absence of deprivation among workers (eg. if workers do not have to go without meals due to lack of money) does not necessarily indicate that their incomes are sufficient to meet a socially acceptable standards. These measures are nevertheless useful, when viewed in conjunction with other information about low-paid workers' living standards.

147. Recent research by academics at the Bankwest Curtin Economics Centre (BCEC) at Curtin University contains some pertinent findings. The BCEC report finds that:

    a. Among households in work, "the proportion of single-earner, single adult households in severe poverty, at 6.4%, corresponds to an incidence more than twice that for single-earner couple households and around a third higher than for the general population."[43]

    b. 21.5% of single earner, one adult households are below the 60% of median income poverty line (based on equivalised disposable household income after housing costs). 13.5% of single earner, one adult households are below the 50% of median income poverty line. 8.8% are in "significant" poverty, ie. below the 40% line.[44]

    c. "…wages in and of themselves do not prevent income poverty entirely. The high proportion of households that are reliant on wages and salaries as their main source of income across the poverty depth groups indicates the existence of a 'working poor' sub-population."[45]

    d. Single person households in poverty are more likely than couple households to experience forms of deprivation such as going without meals.[46]

148. We note that the Panel concluded in its decision in the 2013-14 Review that "the appropriate reference household for the purposes of setting minimum wages is the single person household,

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[42] [2014] FWCFB 3500, [323]
[43] Cassells, R., Dockery, M. and Duncan, A. 2014, 'Falling Through the Cracks: Poverty and Disadvantage in Australia', Focus on the States Report Series, No. 1, October, Bankwest Curtin Economics Centre, Curtin University, Perth, p.6.
[44] Ibid, p.33.
[45] Ibid., p.7.
[46] Ibid, p.44.

rather than the couple household with children."[47] If this is the case, the BCEC report's findings about the extent of poverty and deprivation among single person households should be of significant concern. It shows that there is a substantial minority of workers whose needs are not being met to an adequate extent.

149. The FWC Statistical Report also contains a range of relevant information about financial stress, deprivation and hardship. Table 11.1 of the Statistical Report shows the following for 2013:

   a. Among all employee households, 14.8% experienced some form of financial stress, 2.7% experienced moderate stress and 0.8% experienced high stress;

   b. Among low-paid employee households, 30.5% experienced some form of financial stress, 7.1% experienced moderate stress and 2.1% experienced high stress.

150. Financial stress is much more common among low-paid employees than other employees. The table also shows that the incidence of financial stress has risen over time, particularly relative to 2009.

151. Table 11.3 of the Statistical Report shows that 21.2% of low-paid adult employees would have been unable to raise $2000 in a week for something important, up from 16.8% in 2002. This compares to 12.9% of all adult employees. 20.2% of low-paid adult employees couldn't pay electricity, gas, or telephone bills on time, which has also risen over time.

152. Table 11.4 of the Statistical Report shows that deprivation among households with low-paid adult employees is high and has risen over time. It shows, as at 2009-10:

   a. 38.4% of households with only low-paid adult employees could not afford a holiday for at least one week a year (up from 33.7% in 2003-04);

   b. 31.5% of low-paid worker households could not afford a night out once a fortnight (up from 24.8% in 2003-04);

   c. 10.9% of low-paid worker households could not afford friends or family over for a meal once a month (up from 5.6% in 2003-04); and

   d. 19.6% of low-paid worker households could not afford leisure or hobby activities (up from 11.1% in 2003-04).

153. The increase we propose in this Review would increase real wages, and thus improve the ability of low paid workers to meet their needs. It would ensure that low paid workers enjoy some benefits

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[47] [2014] FWCFB 3500, [38]

from rising productivity growth, after a long period in which productivity has risen much faster than real minimum wages.

Securing a fair share of productivity growth

154. Low paid workers should share in the benefits of productivity growth. This has not occurred over the past decade, with the real NMW lagging behind productivity growth at the total economy level and in the more award-reliant industries. The labour share of income has fallen, both at the total economy level and in the more award-reliant industries. We submit that the restrained growth in real minimum wages has played a part in this fall in the labour share.

155. Submissions to previous Reviews by some employer organisations and state governments have suggested that real wage maintenance would be a sufficient outcome that would satisfy the criteria the Panel must take into account. We disagree, as did the Panel in its 2013-14 decision.[48] The maintenance of real wages is necessary, but not sufficient, to maintain a fair and relevant safety net.

156. Merely maintaining real wages would deny low-paid workers the benefits of productivity growth, and would see their earnings and living standards decline relative to those of other workers. This is not consistent with the minimum wages and modern awards objectives of the Act.

157. We reject mere real wage maintenance as inconsistent with the minimum wages and modern award objectives. We do not propose an alternative mechanistic 'rule' for minimum wages adjustment, such as increasing minimum wages by inflation plus productivity growth. The factors that the Panel must take into account are too broad and varied, and require too much judgement, for a rule to be used to guide the Panel's decision making process in Annual Wage Reviews. We also advocate a medium-term approach that does not give undue emphasis to short-term fluctuations in inflation, productivity growth, or other factors.

158. While we do not advocate a predetermined rule for minimum wages adjustment, we strongly submit that low paid workers should share in the benefits of productivity growth. This entails minimum wages increasing in real terms over time. If average real wages are rising roughly at the same pace as productivity growth, preserving relative living standards would require real minimum wages to rise in line with labour productivity. Restoring some of the lost ground in relative living standards would require some increase in real minimum wages in excess of labour productivity growth.

159. In comparing real wages growth to productivity growth, care must be taken in accounting for inflation. It is typical, when calculating real wages, to deflate nominal wages using a measure of

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[48] [2014] FWCFB 3500, [334]

consumer prices, such as the CPI. Real GDP per hour worked (ie. labour productivity), however, is deflated using a measure of output prices – the GDP chain price index. Real wages deflated using consumer prices give a measure of the real purchasing power to workers of the wages they receive. Wages deflated using output prices is a measure of the real cost to businesses of employing labour, relative to the price they receive for the goods and services those workers produce. Wages are deflated in both ways below.

160. In 2014, the Panel's decision to increase nominal minimum wages by 3% meant that low paid workers did share in productivity growth last year. The real NMW rose by 1.3% (when deflated using the CPI) or 3.7% (when deflated using the GDP chain price index, as this price measure fell over the year). However, this came after many years in which labour productivity rose much faster than real wages for low paid workers. The increase in minimum wages we propose in this review would ensure that some of this lost ground is restored.

161. Table 17 shows the average annual increase in labour productivity and the real value of the NMW over the past year, past five years, past 10 years, and past 20 years. It is clear that the real NMW has increased much more slowly than labour productivity.

162. Between the December 2009 and December 2014 quarters, labour productivity rose at an average of 1.6% per year. Over the same period, the real NMW rose by 0.8% (when deflated using the CPI) or 1.3% (deflated using the GDP chain price index). Looking over longer periods – the last decade or two decades – shows an even greater divergence between labour productivity growth and the increase in real wages. Whichever price index is used to deflate wages, and whichever period is used as the basis for comparison, it is clear that real minimum wages have lagged significantly behind labour productivity.

Table 17: Labour productivity growth and the real NMW

		Labour productivity: GDP per hour worked (index)	Real NMW/C14 - Deflated with CPI	Real NMW/C14 - Deflated using GDP chain price index
Level	Dec 94	72.7	$565.93	$575.61
	Dec 04	90.3	$611.35	$628.59
	Dec 09	95.1	$614.71	$599.58
	Dec 13	101.5	$632.89	$617.92
	Dec 14	103.1	$640.90	$640.90
Average annual growth rate	Dec 94 to Dec 14	1.8%	0.6%	0.5%
	Dec 04 to Dec 14	1.3%	0.5%	0.2%
	Dec 09 to Dec 14	1.6%	0.8%	1.3%
	Dec 13 to Dec 14	1.6%	1.3%	3.7%

Source: GDP per hour worked and GDP chain price index from ABS 5206. Nominal NMW/C14 from past FWC/AFPC/AIRC decisions. CPI from ABS 6401. Real wages and rates of change are ACTU calculations. The growth rates are compound annual rates.

163. This divergence between productivity growth and the growth in the real value of the NMW is further illustrated in Figure 28.

Figure 28: Labour productivity growth compared to growth in the real NMW
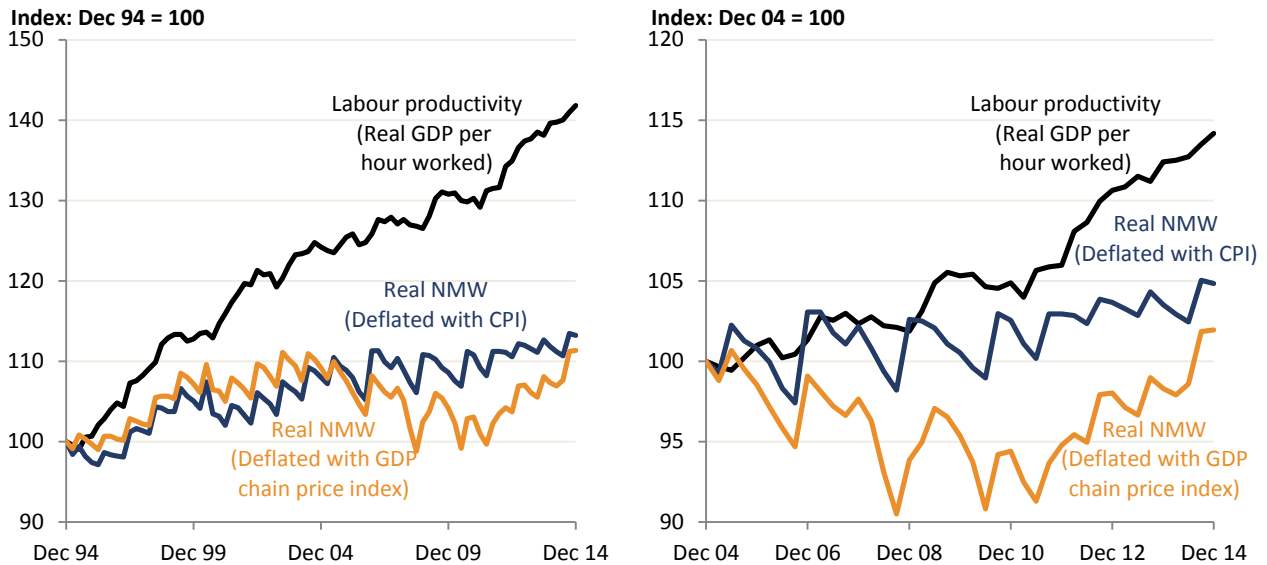
Source: GDP per hour worked and GDP chain price index from ABS 5206. Nominal NMW/C14 from past FWC/AFPC/AIRC decisions. CPI from ABS 6401. Indexes are ACTU calculations.

164. The real value of the NMW has not kept pace with labour productivity even within the more award-reliant industries. This is shown in Figure 29. Note that the industry-level productivity statistics pertain to financial years, the most recent of which is 2013-14 and thus does not cover the period in which the Panel's 2014 decision came into effect. 'GVA' stands for gross value added, a measure of output at the industry level. GVA per hour worked measures labour productivity at the industry level. It can be seen that labour productivity in the Retail Trade industry grew substantially faster than labour productivity across the total economy in the decade to 2013-14, while labour productivity in the Accommodation and Food Services industry rose a little slower than the total economy figure. Nevertheless, labour productivity in the Accommodation and Food Services industry grew substantially faster than the real NMW (in output price terms). Low-paid workers have not shared in the benefits of productivity growth.

Figure 29: Labour productivity growth in the more award-reliant industries compared to increases in the real NMW

Index: 2003-04 = 100
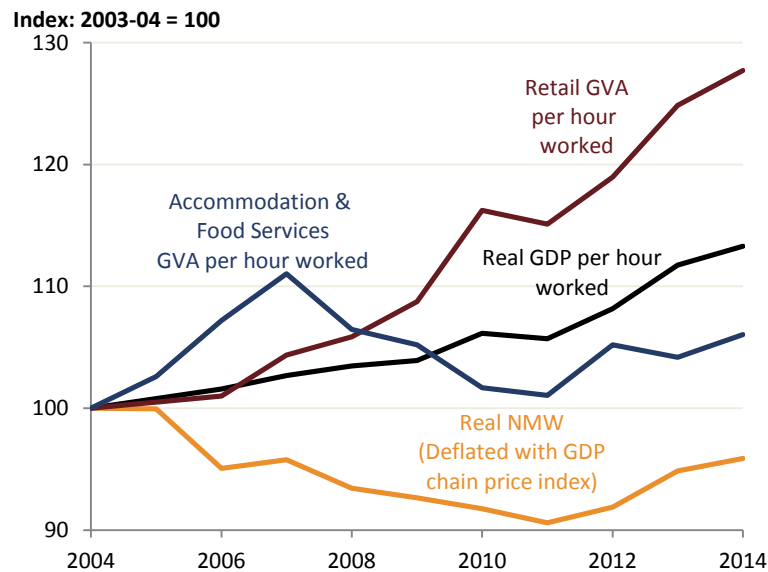
Source: Real GDP per hour worked and industry gross value added per hour worked are from ABS 5204, re-based to equal 100 in 2003-04 by the ACTU. Nominal NMW/C14 is from past FWC/AFPC/AIRC decisions. GDP chain price index from ABS 5204. Real NMW calculated by the ACTU.

165. Labour's share of income in the total economy has fallen over the past decade as has labour's share in the more award-reliant industries. The Panel noted this trend in its decision in the 2013-14 Review, observing that "over the longer term, growth has benefited capital disproportionately to labour and the labour share of income has declined materially over the past two decades."[49] The fall in the labour share reflects the failure of average real wages[50] (in output price terms) to keep pace with labour productivity growth, labour's share of income falls.

166. The fall in the labour share is shown in Figure 30. In 2013-14, the labour share in the market sector was 2 percentage points lower than in 2003-04. The labour share also fell by 2 percentage points in the Accommodation and Food Services industry and by 1 percentage point in the Retail Trade industry.

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[49] [2014] FWCFB 3500, [24]
[50] Including non-wage compensation such as superannuation contributions.

Figure 30: Labour's share of income in the market sector and in the more award-reliant industries
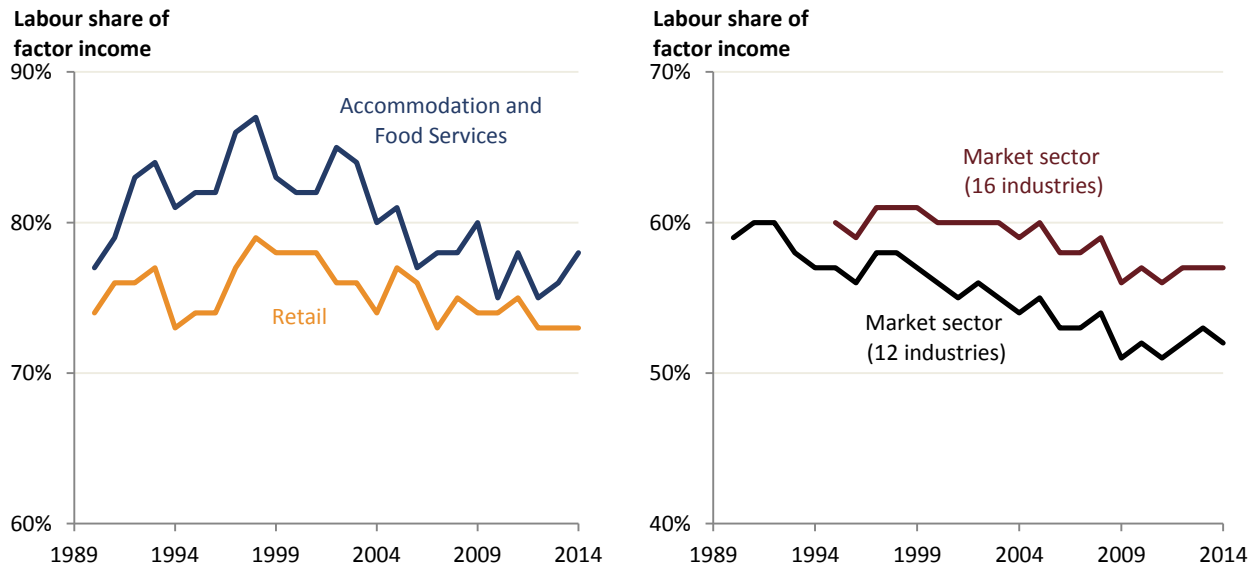
Source: ABS 5260.0.55.002.

167. We submit that restraint in minimum wage increases has played a role in the failure of average wages growth to keep up with average productivity growth. Of course, it is likely that the fall in the labour share of income has been caused by a broad range of factors, including technological change and globalisation. But institutional changes in the labour market, including the fall in union density and the fall in the relative value of minimum wages, are likely to have contributed to this undesirable trend.

168. Labour productivity growth is examined in more detail in a later section of this submission (see paragraph 245 onwards).

The relevance of taxes and transfers

169. The Panel has repeatedly expressed the view that "the tax-transfer system has a significant role to play in alleviating the impact of earnings inequality and supporting the living standards of low-paid workers."[51]

170. The ACTU does not disagree with the principle that the effect of taxes and transfers on the living standards of low paid workers should be taken into account in Annual Wage Reviews. Our view regarding the relevance of taxes and transfers remains unchanged from the view we put to the Panel in our submission to the 2013-14 Review. To reiterate:

   a. The Panel has a statutory obligation to establish and maintain a fair safety net of minimum wages. It is appropriate for it to take taxes and transfers into account when doing so, but it should not award small increases in minimum wages in the belief or hope that doing so may encourage the Commonwealth to improve the living standards of the low paid through the

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[51] [2014] FWCFB 3500, [357]

tax-transfer system at some future time. This would not be consistent with the requirement to maintain a fair safety net.

    b. There is currently no legislated measure that would substantially boost the living standards of low paid workers, such as an Earned Income Tax Credit (EITC), nor is there much prospect of such a measure being introduced, given the fiscal pressures facing the Commonwealth. Given this fact, the question of how the Panel should respond to the introduction of a measure like an EITC which could boost low paid workers' living standards is largely moot – it is not immediately relevant to the Panel's task in this Review.

    c. We do not accept that an EITC should be used as a substitute for a fair safety net of minimum wages. Transfer programmes, like the EITC, can complement minimum wages. They are not substitutes for minimum wages. In the absence of a fair safety net of minimum wages, an EITC (or similar payment) would effectively be a subsidy to employers, as wages would be expected to fall relative to where they would've been in the absence of the EITC.

171. In its 2013-14 decision, the Panel was more explicit about the way in which it takes taxes and transfers into account than it had been in previous Reviews. The Panel has adopted a 'single person test' for minimum wages, stating that:

…the appropriate reference household for the purposes of setting minimum wages is the single person household, rather than the couple household with children. For this reason it should not be assumed that the tax-transfer payments announced in the 2014-15 Budget will be automatically taken into account in determining the level of the increase in next year's Review. [52]

172. We accept that the Panel has formed the view that single person households are the appropriate reference household for the purposes of the Annual Wage Review.

173. However, there was some ambiguity in the Panel's 2013-14 decision about the extent to which (if at all) it has taken into account the circumstances of family types other than the single person household. Despite the Panel's assertion that the single person household is the "appropriate reference household for the purposes of setting minimum wages," it appears to have taken family circumstances into account in a number of instances in its decision in the 2013-14 Review. For example:

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[52] [2014] FWCFB 3500, [365]

a. The Panel noted that "the needs of the low paid are difficult to identify and to quantify, since many live in households with others."[53]

b. The Panel stated that "the relative living standards of the low paid are affected by the level of wages that they earn, and by the circumstances of the households in which they live. Increases in minimum wages are a blunt instrument for addressing the needs of the low paid."[54]

c. The Panel asserted that "the needs of the low paid are difficult to identify and to quantify, since many live in households with others."[55]

174. On the one hand, the Panel has formed the view that the single person household is the appropriate reference, and that as such changes to taxes and transfers that affect families with children may not have any bearing on the outcome in Annual Wage Reviews. On the other hand, the Panel has stated that minimum wages are a "blunt instrument" because the living standards of minimum wage workers are affected by the circumstances of their households.

175. While we accept the Panel's decision to focus on single person households, we strongly submit that the Panel should be consistent in its application of this principle. If cuts to transfer payments affecting families are not to be taken into account, then neither should the benefit that some low-paid workers receive from living in households with others. To take into account the financial benefit received by some low-paid workers from living with others, but to ignore the effect of reduced transfers on such low-paid workers' living standards, is inconsistent and in our view unacceptable.

176. The Panel adopted a 'single person' test in its 2014 decision. It follows that the weight to be put on the following should be strictly limited:

a. The fact that some minimum wage workers live in households with higher paid workers.

b. The high effective marginal tax rates faced by some family types (generally associated with the withdrawal of family benefits). Most single person households that are in work do not receive transfers and most will therefore retain the vast majority of any increase granted by the Panel after taxes and transfers are taken into account.

c. Any future changes to taxes and transfers that boost the living standards of families with children. If the Panel is to apply the 'single person test' when family benefits are to be cut, we submit it should apply the same test if and when they are increased.

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[53] [2014] FWCFB 3500, [39]
[54] [2014] FWCFB 3500, [360]
[55] [2014] FWCFB 3500, [394]

177. We also submit that when examining evidence of financial stress, deprivation and poverty, the Panel should put most weight on indicators pertaining to single person households. We showed in a previous section of this submission (at paragraph 147 onwards) that single person households experience higher levels of stress, deprivation and poverty.

The effect of taxes and transfers on living standards

178. The gap between minimum and average full-time wages is smaller when taxes and transfers are taken into account. The 'gross' minimum wage bite in July 2014 was 43.7%[56], while the 'net' bite was 51.7%.[57] However, the 'net' minimum wage bite has fallen nearly as much as the 'gross' bite, as shown in Figure 31.

Figure 31: NMW as a percentage of AWOTE, before and after taxes
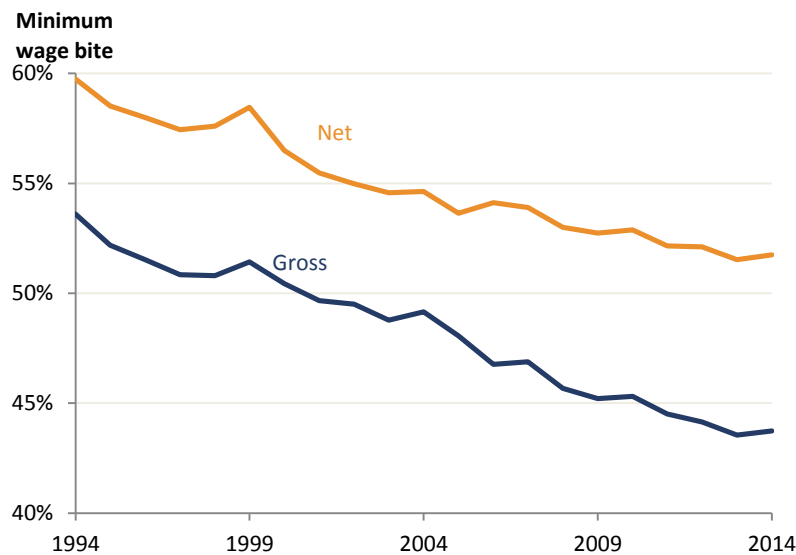
Source: ACTU calculations. Minimum wage rates from FWC/AFPC/AIRC decisions. AWOTE from ABS 6302. Tax rates and thresholds from the ATO.

179. The sharp decline in the living standards of minimum wage workers relative to workers on average full-time earnings is clearly evident whether the comparison is done on a pre-tax or post-tax basis. The tax system has not offset the decline in relative living standards.

180. A range of changes to taxes and transfers were proposed in the 2014-15 Budget, with many to take effect from 1 July 2014. In its decision in the 2013-14 Review, the Panel stated that "we have not taken into account the proposed changes to the tax-transfer system announced in the 2014-15 Budget."[58] It remains to be seen whether a number of these measures will become law. Notably, the Australian Government has introduced legislation to cancel the planned cuts in personal income tax. However, the Bill to abolish these tax cuts (*Labor 2013-14 Budget Savings*

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[56] This figure uses the May quarter AWOTE figure, and is thus higher than the 43.4% quoted elsewhere in this submission, which uses the November quarter AWOTE figure.

[57] ACTU estimate based on tax parameters as at 1 July 2014.

[58] [2014] FWCFB 3500, [20]

(Measures No. 1) Bill 2014) has not yet passed the Parliament. Unless the Bill is passed, the tax cuts will come into effect on 1 July, which will affect low-paid workers.

181. While the fate of this and other tax-transfer measures remains unclear, it is not possible to put a position to the Panel regarding the proper approach to taxes and transfers in this Review. We will address this matter in our post-Budget submission.

The effect of the cost of working on living standards

182. The costs of working are typically higher for low-paid workers, as a proportion of their weekly wage. The Fair Work Commission's Australian Workplace Relations Survey asks employees about their cost of working, the results of which are included in Table 14.1 of the FWC Statistical Report and summarised in Table 18, below.

**Table 18: The cost of working (other than childcare)
as a percentage of weekly gross wage**

	Full-time	Total
Award-reliant employees	8.1%	9.2%
Non-award reliant employees	6.2%	6.7%

Source: FWC Australian Workplace Relations Survey, as reported in the FWC Statistical Report 2014-15, table 14.1.

183. The higher cost of working for low-paid workers (relative to their incomes) means that the gap in living standards between low-paid workers and other workers is bigger than it appears based on a comparison of gross wages.

Equal remuneration for men and women workers

184. The Panel is required to take into account the principle of equal remuneration for work of equal or comparable value.[59] This requires that minimum rates of pay for different occupations and classifications are the same, where those occupations and classifications perform work that is of equal value.

185. The Panel should also have regard to gender pay inequity more broadly. There is a large gap between the earnings of men and women. A fair increase in minimum wages can contribute to more equal remuneration between workers who are paid minimum rates and those who perform work of equal value who have the capacity to bargain.

186. Out of the 1.86 million award only workers, 1.071 million (57.5%) are women. Increasing minimum wages has the mechanical effect of reducing the gender pay gap.

187. There are many measures of wages growth, derived from different surveys with varying scope and definitions of earnings. The Australian Government, in its submission to the 2013-14 Review, emphasised the gender pay gap based on the hourly earnings of permanent, full-time, non-managerial employees. This narrow measure only pertains to 51.6% of employees. We do not accept that it is the best measure of gender pay inequity.

188. The gender pay gap is conventionally measured using the average weekly ordinary time earnings (AWOTE) of full-time adults. We concur with the Panel in its 2013-14 decision that AWOTE is an appropriate wages measure to use to calculate the gender pay gap.[60]

189. While we view AWOTE as the most appropriate basis for calculating the gender pay gap, other wage measures can also provide useful information about the extent and nature of gender pay inequity. Table 19 shows the gender pay gap calculated using fifteen different wage measures, from three different ABS surveys. Whichever measure is used, women are paid less on average than men.

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[59] *Fair Work Act 2009* (C'th), s.284(1)(d)
[60] [2014] FWCFB 3500, [490]

Table 19: Gender pay gaps using different earnings measures

Earnings measure	Weekly or hourly	Employees covered	Source and date	Male earnings	Female earnings	Gender pay gap
Average ordinary time earnings	Weekly	Full-time adults	ABS 6302, Nov 2014	$1,587.50	$1,289.40	18.8%
Average total earnings	Weekly	Full-time adults	ABS 6302, Nov 2014	$1,678.50	$1,307.70	22.1%
Average total earnings	Weekly	All employees	ABS 6302, Nov 2014	$1,371.50	$886.40	35.4%
Average total cash earnings	Weekly	Full-time employees paid an adult rate	ABS 6306, May 2014	$1,725.00	$1,392.10	19.3%
Average total cash earnings	Weekly	All employees	ABS 6306, May 2014	$1,429.80	$940.20	34.2%
Average total cash earnings	Hourly	Non-managerial full-time employees paid an adult rate	ABS 6306, May 2014	$40.00	$34.60	13.5%
Average total cash earnings	Hourly	Non-managerial employees	ABS 6306, May 2014	$37.60	$32.50	13.6%
Average total cash earnings	Weekly	Award-only full-time employees	ABS 6306, May 2014	$1,113.20	$1,011.30	9.2%
Average total cash earnings	Weekly	Award-only employees	ABS 6306, May 2014	$849.50	$609.40	28.3%
Average total cash earnings	Hourly	Award-only full-time non-managerial employees	ABS 6306, May 2014	$26.70	$26.40	1.1%
Average total cash earnings	Hourly	Award-only non-managerial	ABS 6306, May 2014	$26.20	$25.60	2.3%
Median earnings in all jobs	Weekly	Full-time workers	ABS 6310, Aug 2013	$1,250.00	$1,025.00	18.0%
Median earnings in main job	Weekly	Full-time workers in the public sector	ABS 6310, Aug 2013	$1,460.00	$1,250.00	14.4%
Median earnings in main job	Weekly	Full-time workers in the private sector	ABS 6310, Aug 2013	$1,200.00	$961.00	19.9%
Median earnings in main job	Weekly	All workers	ABS 6310, Aug 2013	$1,112.00	$790.00	29.0%

Source: ABS 6302, ABS 6306 and ABS 6310, as listed. GPG is an ACTU calculation.

190. The gender pay gap based on AWOTE, the conventional measure, was 18.8% as at November 2014. This is the largest gender pay gap among full-time adults since 1983. The gap rose from 17.3% a year earlier, in November 2013, and from 15% in November 2004. It is of significant concern to the ACTU that the gender pay gap is at its highest level in over three decades.

Figure 32: The gender pay gap in Australia
(based on average weekly ordinary time earnings of full-time adults)
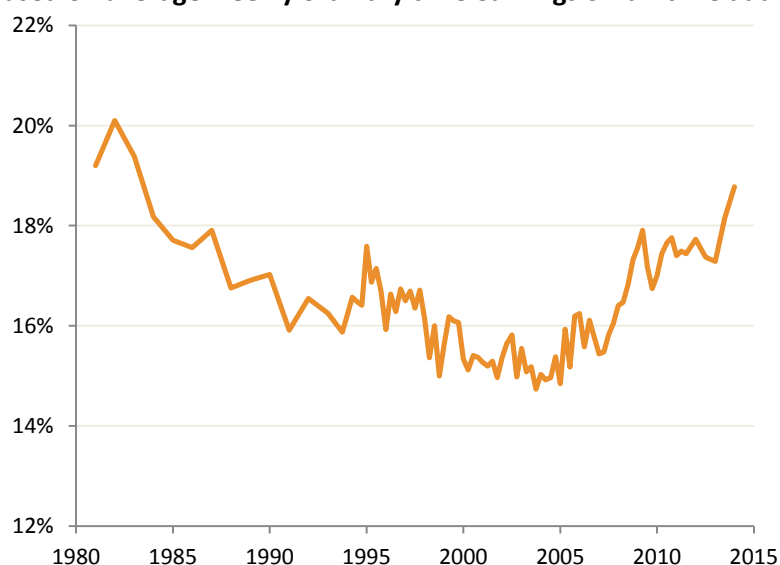
191. The gender pay gap has risen sharply. During the mining boom period, much of the rise in the gap was often ascribed to the boom, which lifted the average earnings of employees in the mining industry (most of whom are men) and entailed a compositional shift in the workforce towards mining (which has higher average earnings than any other industry). However, in the past year, employment in the mining industry has contracted and has experienced very low growth in average earnings. The recent rise in the gender pay gap therefore cannot be explained by the mining boom.

192. Our gender pay gap among full-time workers is now among the highest in the OECD, higher than those of many countries to which Australia is typically compared. Figure 33 shows the gender pay gap in OECD countries, measured using the median earnings of full-time workers.

Figure 33: Gender pay gap in median earnings of full-time workers in OECD countries

Country	Gender pay gap (%)
Korea	36.6
Estonia	31.5
Japan	26.6
Israel	21.8
Netherlands	20.5
Turkey	20.1
Canada	19.0
Finland	18.7
Switzerland	18.5
Austria	18.2
Australia	18.0
United States	17.9
United Kingdom	17.5
Germany	16.6
Portugal	16.3
Chile	16.0
Czech Republic	15.5
Sweden	15.1
Slovak Republic	14.1
Iceland	14.1
France	14.1
Ireland	12.8
Slovenia	11.6
Italy	11.1
Poland	10.6
Hungary	8.7
Spain	8.6
Denmark	7.8
Norway	7.0
Greece	6.9
Luxembourg	6.5
Belgium	6.4
New Zealand	5.6

Gender pay gap (median earnings of full-time workers) - per cent

Source: OECD Stat (http://stats.oecd.org/Index.aspx?DataSetCode=GENDER_EMP). Data uses the latest year available for each country. This is 2013 for Australia, Canada, the Czech Republic, Hungary, Ireland, Japan, Korea, NZ, Norway, the Slovak Republic, the UK and US. The latest year ranges from 2010 to 2012 for the other countries.

193. Numerous academic studies of the gender pay gap in Australia have concluded that most of the gap is unexplained by differences in experience, educational attainment, or other observable characteristics other than gender. For example, a major report by NATSEM in 2009, commissioned by the Department of Families, Community Services, Housing and Indigenous Affairs, found that 60% of the gender pay gap in hourly earnings remained after controlling for workers' characteristics other than gender.[61] This fact suggests, though it is not conclusive proof, that women are not receiving equal remuneration to men for work of equal or comparable value.

194. The ACTU accepts that, in isolation, adjustments to minimum wages play only a modest role in reducing the gender pay gap. Maintaining a fair and relevant safety net is nevertheless an important component of efforts to reduce gender pay inequity. The effect of minimum wage adjustments on the gender pay gap may be modest, but it's likely to be in the desired direction. All other things equal, a larger minimum wage rise will reduce the gender pay gap.

195. Gender inequity is multi-faceted; no single public policy intervention will eliminate or perhaps even substantially reduce it. Ensuring that low-paid workers, who are disproportionately women, receive

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[61] Cassells, R., Vidyattama, Y., Miranti, R. and McNamara, J. 2009, 'The Impact of a Sustained Gender Wage Gap on the Australian Economy', Report to the Office for Women, Department of Families, Community Services, Housing and Indigenous Affairs, National Centre for Social and Economic Modelling, University of Canberra, Canberra. Available from: http://www.natsem.canberra.edu.au/storage/gender_wage_gap.pdf [Accessed 24 March 2015].

fair remuneration is necessary, but admittedly insufficient, intervention to ensure equal pay. Awarding our claim in this Review will help to ensure gender pay equity.

What do minimum wages do?

196. The Panel concluded in its 2013-14 decision:

> *The Panel's view continues to be that modest minimum wage adjustments lead to a small, or zero, effect on employment. What is considered to be a modest minimum wage adjustment will depend on the prevailing circumstances.*

197. The ACTU submits that there is no new evidence that should cause the Panel to alter its view in this Review.

The effect of minimum wages in theory

198. In our submission to the 2013-14 Review, we provided the Panel with an in-depth summary of developments in economic theory that can explain repeated empirical findings of employment effects of minimum wages that are small and statistically insignificant, and even positive in some cases.[62]

199. The key points of our summary of theoretical advances in understanding labour markets are:

   a. The model of a perfectly competitive labour market rests on assumptions that are not plausible. It assumes employees face no costs of job search, have perfect information about all vacancies, and homogeneous preferences.

   b.   Many empirically observed features of labour markets are inconsistent with the perfectly competitive model. These include the existence of vacancies; substantial differences in wages across workers with similar characteristics and jobs; the differences in turnover between industries that pay high wages versus those that pay low wages; the willingness of some employers to pay for general training rather than only the acquisition of firm-specific skills; the existence and persistence of racial and gender pay gaps; and the fact that minimum wages do not necessarily reduce employment.[63]

   c. Repeated empirical findings that do not accord with the perfectly competitive model have led economists to develop new theories with which to analyse labour markets. The 'dynamic monopsony' theory is widely, and increasingly, used.

   d. In the perfectly competitive model, firms face a horizontal labour supply curve. This implies that if any employer pays even slightly below the prevailing market wage, the firm will

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[62] See paragraphs 90 to 104 (inclusive) of ACTU 2014, *Submission to the 2013-14 Annual Wage Review.*
[63] See Bhaskar, V., Manning, A. and To, T. 2002, 'Oligopsony and Monopsonistic Competition in Labor Markets', *Journal of Economic Perspectives,* vol. 16, no. 2, Spring, pp. 155-174; and Zavodny, M. 1998, 'Why Minimum Wage Hikes May Not Reduce Employment', *Economic Review,* Federal Reserve Bank of Atlanta, pp. 19-20.

immediately lose all existing workers and be unable to fill vacancies. A firm in a perfectly competitive market that wishes to expand its workforce by whatever amount can always do so at the prevailing market wage.

e. By contrast, in the dynamic monopsony model, firms face an upward-sloping labour supply curve. The implication of this is that a firm that wishes to expand its workforce and fill vacancies may need to pay a higher wage than is paid to its existing workforce. If it offers the higher wage necessary to fill vacancies, it will need to increase the wage of existing employees.

f. In a monopsonistic labour markets, employers have some power over wage setting. This power need not stem from being the monopolist in the product market. The 'dynamic' in dynamic monopsony models indicates that the market power held by employers in such models stems from frictions in the labour market.

g. Dynamic monopsony and similar models of the labour market have become widely accepted as analytical tools for the study of labour markets.

h. The profit-maximising level of employment and wages will be lower for a firm under dynamic monopsony than under perfect competition.

i. A minimum wage imposed in a labour market that is well described by the dynamic monopsony model can result in an increase in both employment and earnings. The employment effect of a minimum wage in the dynamic monopsony framework is ambiguous – the effect could be positive, negative, or nil.

j. Given the theoretically ambiguous effect of minimum wages on employment, the effect is an empirical question that cannot be resolved *a priori*.

200. It is not the case that minimum wage increases must, as a matter of economic theory, reduce employment. The employment effect (if any) of minimum wage increases is an empirical question. Much empirical work has found employment effects that are small and statistically insignificant.

International evidence

201. In previous Reviews, the Panel has questioned the relevance to Australia of international empirical studies of the effects of minimum wages. We acknowledge and, to some extent, share those concerns. Historical, institutional and cultural differences between countries exist and condition the relevance of comparisons. However, we continue to believe that international evidence is relevant and of some use to the Panel.

202. International evidence is useful in that much of it refutes the notion that labour markets are accurately represented by the perfectly competitive model. The fact that many high-quality studies have repeatedly found that the employment effects of minimum wages are small and/or statistically insignificant fatally undermines the theoretical proposition that minimum wage increases must necessarily reduce employment. These studies typically also find that minimum wage increases have a statistically significant positive effect on earnings, indicating that the wages are 'binding' and have a real effect on the wages paid and received. These findings lend support to the contention, with which the Panel has agreed in previous Reviews, that minimum wage increases do not necessarily reduce employment.

203. The relevance of international research to Australian minimum wage setting has arguably increased over time. This is because Australia's minimum wage bite has fallen while those of many other OECD countries have risen, such that Australia's minimum wage is no longer top of the range among advanced economies. With the convergence of minimum wage bites, Australia's labour market and those of other advanced economies have become more similar, thus increasing the relevance of conclusions drawn from international research. Similarly, the compression of award relativities has meant that Australia's array of minimum wages – while still distinctive – is less distinctive than in the past.

204. We note that the Panel concurred with an aspect of our argument regarding the increased relevance of international evidence in its 2013-14 decision, stating:

> *We also note that the value of minimum wages relative to median earnings in Australia has been growing steadily closer to that of other countries, and as a result, this particular aspect of distinctiveness of the Australian system is less significant than it has been.[64]*

205. In our submission to the 2013-14 Review, we provided an extensive summary of recent international research.[65] The Panel reached the following conclusion in relation to the recent international literature:

> *This new literature is a considerable advance on existing studies. It uses superior empirical techniques and data.[66]*
>
> …
>
> *The new literature has been highlighted by the panel because it further develops the theoretical understanding that may explain the counter-intuitive empirical results. These results have shown*

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[64] [2014] FWCFB 3500, [426]
[65] See paragraphs 114 to 137 (inclusive) of ACTU 2014, *Submission to the 2013-14 Annual Wage Review.*
[66] [2014] FWCFB 3500, [421]

that the observed rises in minimum wages have had little or no negative impact on employment (although they have substantially raised earnings).[67]

…

[T]*he quality of this new research and the refined theoretical understandings are consistent with the view taken by the Panel that a modest increases in minimum wages leads to a very small, or even zero, effect on employment.[68]*

206. There is no new research that should cause the Panel to alter its conclusions regarding the effect of minimum wages on employment.

The Australian evidence

207. In our submission to the 2013-14 Review, we noted findings from the following studies of the Australian labour market:

   a. Olssen found "no evidence at all that award minimum wage have any short term causal impact on employment… mean hours worked is not statistically different for individuals in the higher award minimum wage group relative to those in the lower award minimum wage group." [69]

   b. Lee and Suardi examined the labour markets of Victoria, the ACT and the NT from 1997 onwards, when those jurisdictions did not have State industrial relations systems. They find "the tentative conclusion is that the seven minimum wage increases in Australia from 1997 to 2003 appear to not have had any significant negative employment effects for teenagers. A possible explanation is that the increases have generally been moderate and predictable."[70]

   c. Booth and Katic found evidence that supports the dynamic monopsony model, finding "the Australian wage elasticity of labour supply to a firm is around 0.71, only slightly smaller than the figure of 0.75 reported by Manning (2003) for the UK. These estimates are so far from the perfectly competitive assumption of an infinite elasticity that it would be difficult to make a case that labour markets are perfectly competitive…. this is in accord with the assumptions of much of the 'new monopsony' theory – that there are labour market

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[67] [2014] FWCFB 3500, [422]
[68] [2014] FWCFB 3500, [426]
[69] Olssen, A. 2011, 'The Short-Run Effects of Age-Based Youth Minimum Wages in Australia: A Regression Discontinuity Approach', Paper presented at New Zealand Association of Economists Annual Conference, Wellington, 29 June-1 July 2011. Paper available from: http://www.motu.org.nz/publications/detail/the_short-run_effects_of_age_based_youth_minimum_wages_in_australia_a_regre [Accessed 11 March 2014].
[70] Lee, W-S. and Suardi, S. 2011, 'Minimum Wages and Employment: Reconsidering the Use of a Time Series Approach as an Evaluation Tool', *British Journal of Industrial Relations,* vol.49, no.S2, pp. 376-s401.

frictions, search costs and non-pecuniary factors keeping workers in a job and consequently allowing the employer to extract some rents."[71]

208. There is no new Australian evidence that should cause the Panel to alter the view adopted in previous Reviews regarding the effect of minimum wage increase on employment.

Why is there a relative lack of Australian evidence?

209. There is a relative paucity of empirical evidence about the employment effects of minimum wages in Australia. Our understanding of the reasons for this lack of evidence fuels our scepticism that the Panel's proposed research project regarding the employment effects of minimum wages can yield a study or studies with a credible research design.

210. This lack of evidence does not arise because of a lack of academic interest in the topic. The lack of evidence in Australia is due to the lack of opportunities for constructing a plausible counterfactual estimate of what the level of employment would have been in the absence of a minimum wage increase. The difficulties in constructing a plausible counterfactual arise because of the nature of our system – it's national, it's complex, and the annual adjustments to minimum wages are generally small.

211. The theoretical benchmark for establishing the causal effect of some treatment (such as an increase in the minimum wage) is a randomised controlled trial. Under such a trial, some geographical regions would be subject to the increase in minimum wages; others would not. As long as the regions were randomly selected and similar in observable ways other than the change in the minimum wage, any difference in average employment growth between the treated and non-treated regions could be interpreted as having been caused by the differences in minimum wages.

212. Of course, such an experiment would be unlikely to be carried out in real life. In the absence of such randomised controlled trials, researchers look for 'natural experiments'. For example, Card and Krueger's famous study compared fast food employment in one state (New Jersey) with an adjacent state (Pennsylvania) when New Jersey increased its minimum wage and Pennsylvania did not. They used an approach called 'difference in differences', in which the difference in the rates of employment growth in the two states over the period in which the minimum wage was increased is interpreted as the causal effect of the minimum wage increase in New Jersey. The state that was not 'treated' (Pennsylvania) provides the control for the state that was treated (ie. had a minimum wage

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[71] Booth, A.L. and Katic, P. 2010, 'Estimating the Wage Elasticity of Labour Supply to a Firm: What Evidence is there for Monopsony?', CAMA Working Paper 35/2010, Centre for Applied Macroeconomic Analysis, Crawford School of Public Policy, Australian National University, Canberra.

increase (New Jersey). It is assumed that, in the absence the minimum wage increase, employment would have grown or shrunk by the same proportion in New Jersey as it did in Pennsylvania.

213. The widely cited Dube, Lester and Reich paper[72] extends the difference-in-differences methodology employed by Card and Krueger. Rather than comparing two states, they compare all adjacent pairs of US counties in which one county raised its minimum wage while the other county did not, over the period 1990 to 2006.

214. Crucially, this difference in differences approach rests on the assumption of common trends – for example, the assumption that in the absence of an increase in the New Jersey minimum wage, employment in the two states would have grown at the same rate. If (and only if) this assumption is satisfied, the non-treated state (Pennsylvania) is a suitable control group for treated state (New Jersey). The differences in differences approach has become widely used in labour economics, both for examining the effect of minimum wages and for other empirical questions.

215. Like Australia, the UK has a single National Minimum Wage, but a range of studies on the employment effect of its NMW have been published, including many commissioned by its Low Pay Commission. Most of these find no statistically significant effect of UK NMW increases on employment.

216. The uniform, national nature of the UK NMW precludes the use of some of the techniques deployed in the US literature. However, many credible studies have been published. This is mainly because of two factors. First, the adoption of a minimum wage in the UK – from a position in which it had no minimum wage at all outside agriculture – created a sharp discontinuity. This makes studying the effects of policy change easier than in circumstances in which the minimum wage is increased by a small, incremental amount each year. Second, the UK has more variation in its minimum wage bite, richer regional data on employment, and less geographical distance between counties than Australia has between States. This allows some studies to use a variation of the spatial differences-in-differences approach used in Australia.

217. Australia's system, with a National Minimum Wage that does not vary across states or regions[73], precludes the deployment of a spatial difference-in-differences approach. When the minimum wage changes, the change is the same across the country. There is no control group of non-treated firms and workers to which the firms and workers experiencing a higher minimum wage can be compared.

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[72] Dube, A., Lester, T.W. and Reich, M. 2010, 'Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties', *The Review of Economics and Statistics,* vol. 92, no. 4, pp.945-964.
[73] The only private sector employees to whom the NMW does not apply are employees of non-constitutional corporations in Western Australia, a small group.

This lack of spatial variation (which we strong support on equity and efficiency grounds) precludes the deployment of the most credible research designs.

218. It has been suggested in the past that the 2009 decision by the AFPC to not adjust minimum wages may serve as the basis for research on the employment effects of minimum wages, as the pace of employment growth in 2009 could be compared to the pace of employment growth in 2008 or 2010 (when minimum wages were increased). This is obviously not a satisfactory approach. The rate of employment growth in 2008 or 2010 does not provide a relevant counterfactual for what would have happened in 2009 if minimum wages had been increased, as there were many differences other than the minimum wage decisions between the years that affected the pace of wages growth.

219. Over the period in which modern award rates of pay were phased in, there were some differences in minimum rates of pay between states and territories. However, these differences were for the most part fairly small. Any effects of such small differences are likely to have been swamped by other economic factors and would be difficult to detect.

220. The regression discontinuity design used by Olssen has merit. Updating this study using more recent data could be a worthwhile project. Olssen compared the employment rates of young people just before and after their birthdays. On reaching a birthday, young people are subject to higher minimum wages. If this had an effect on the employment of young people, the design used by Olssen should be able to identify it. The research did not find a statistically significant employment effect.

221. With the exception of the regression discontinuity design for young people, the nature of the Australian creates few opportunities for empirical work that uses credible research designs. The recent research that is available suggests no statistically significant employment effect of minimum wage increases.

The state of the Australian economy

223. The previous chapters of this submission have demonstrated that our claim for a $27/3.6% increase in minimum wages is necessary to ensure a fair and relevant safety net. This chapter, and the following chapters on the labour market and economic outlook, demonstrates that this claim is entirely appropriate in the economic circumstances.

224. Among other things , this chapter shows that:

   a. The Australian economy grew by 2.5% in 2014, which was faster than many OECD countries;

   b. Output grew in each of the four more award-reliant industries in 2014, including by a very strong 8% in Accommodation and Food Services;

   c. The dispersion of growth rates across industries is around its typical level;

   d. There is no common trend to the average growth rates across the more award-reliant industries;

   e. Consumer spending grew faster than households' incomes in 2014, which should assist those industries that rely on consumer spending;

   f. The volume of retail sales grew at a solid pace in 2014;

   g. Turnover in some sectors of the retail sector has continued to grow at a rapid pace – notably in cafes, restaurants and takeaway;

   h. Above-trend labour productivity growth has been sustained for another year;

   i. Labour productivity rose quicker in each of the four more award-reliant industries than in the total economy;

   j. Australian workers are among the most productive in the world, and our labour productivity has grown faster than that of many comparable countries in recent years;

   k. Real unit labour costs remain near a record low, as real wages[74] have not kept pace with labour productivity growth; and

   l. The entry rate for new businesses rose in 2013-14, and the exit rate for existing businesses fell, with small business and some of the more award-reliant industries seeing an improvement in entry and exit rates.

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[74] 'Real wages' here means hourly labour compensation deflated using output prices.

225. Low-paid workers deserve to share in the benefits of productivity growth and a growing economy. An increase of $27/3.6% is appropriate and reasonable in the economic circumstances.

Economic growth

226. The Australian economy grew by 2.5% over the year. Growth is expected to be a little faster over this calendar year and next year than it did in 2014, as discussed from paragraph 346.

Figure 34: Real GDP growth (year-ended)

Source: ABS 5206
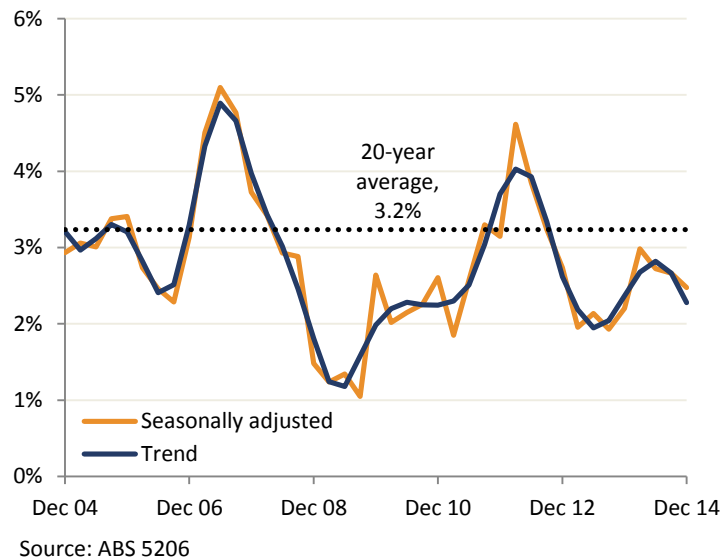
International comparison of economic growth

227. Australia's economic growth of 2.5% in 2014 was faster than the OECD average (1.8%) or the median for OECD countries (2.2%).[75]

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[75] The OECD average is reported in OECD Stat. The median for OECD countries is an ACTU calculation based on the growth figures in Figure 35. For most countries, the figures refer to the year to Q4 2014; for a few countries, marked with an asterisk, the growth figures are for the year to Q3 2014.

Figure 35: Real GDP growth in 2014

Luxembourg* 3.8
Ireland* 3.6
Hungary 3.4
New Zealand* 3.2
Poland 3.2
Norway 3.0
Estonia 2.9
Israel 2.9
Korea 2.8
United Kingdom 2.7
Canada 2.6
Sweden 2.6
Mexico 2.6
Turkey* 2.6
Australia 2.5
Slovak Republic 2.4
United States 2.4
Spain 2.0
Switzerland 2.0
Slovenia 2.0
Iceland 1.9
Czech Republic 1.5
Germany 1.5
Greece 1.3
Denmark 1.3
Belgium 1.0
Netherlands 1.0
Chile* 0.8
Portugal 0.7
France 0.2
Finland -0.2
Austria -0.2
Italy -0.5
Japan -0.7

Real GDP growth in 2014

Source: OECD Stat (quarterly national accounts). Chart shows growth in seasonally adjusted real GDP (expenditure approach) over the year to the fourth quarter of 2014. * denotes countries for which the chart shows growth over the year to the third quarter of 2014, as Q4 data is not yet available in OECD Stat.

228. Australian economic growth outpaced the OECD average and many comparable countries in 2014. This is remarkable given that most OECD countries are continuing to recover from prolonged recession and stagnation; it would typically be expected that countries recovering from severe downturns would experience rapid growth during their recoveries. The Australian economy was 18.6% bigger at the end of 2014 than it had been at the end of 2007, the last quarter before the year of the GFC. Over the same period, the Canadian economy grew by 12.1%, New Zealand by 11%[76], the UK grew by 3.7% and the US by 8.7%. The Euro area economies, taken together, remain 1.3% smaller than they were prior to the crisis. This is shown in Figure 36.

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[76] The New Zealand figure is from Q4 07 to Q3 2014, as Q4 2014 data is not yet available in the OECD quarterly national accounts for NZ.

Figure 36: Change in real GDP between December 2007 and December 2014 quarters

Real GDP - index
(December 2007 = 100)
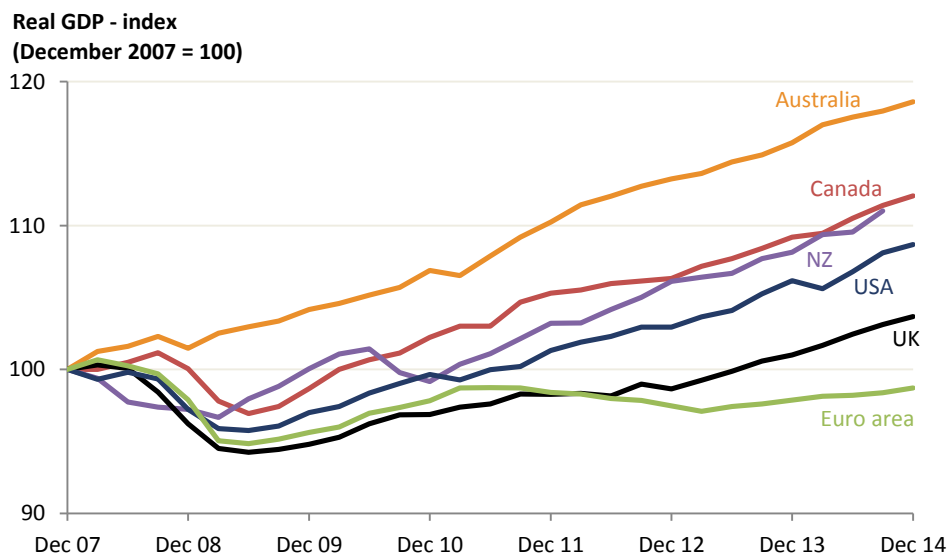
Source: ACTU calculations based on OECD Stat (quarterly national accounts).

229. Although economic growth was below its trend pace in 2014, Australia's economy has performed remarkably well in recent years. The country is facing challenges in adapting to the end of the mining construction boom, but so far the policy framework in place has helped to deal with those challenges reasonably well. That policy framework includes the floating exchange rate, an independent inflation-targeting central bank, and our system of labour market regulation. While growth has been below trend, it is important to keep the extent of the nation's economic challenges in perspective.

Growth by industry

230. Real economic output (gross value added) grew in each of the four most award-reliant industries in 2014. Growth was particularly strong in the Accommodation and Food Services sector, with gross value added rising by 8% over the year to the December quarter. The growth in gross value added in each industry over the year is shown in Figure 37.

Figure 37: Growth in gross value added over the year to the December 2014 quarter

Industry	Annual GVA growth
Information media and telecommunications	9.0%
Mining	8.9%
Accommodation and food services	8.0%
Financial and insurance services	6.1%
Arts and recreation services	6.0%
Health care and social assistance	5.3%
Rental, hiring and real estate services	2.9%
Other services	2.6%
Education and training	2.6%
Wholesale trade	2.3%
Retail trade	2.1%
Construction	1.5%
Electricity, gas, water and waste services	0.6%
Administrative and support services	0.5%
Public administration and safety	-0.4%
Manufacturing	-2.1%
Transport, postal and warehousing	-3.7%
Agriculture, forestry and fishing	-4.3%
Professional, scientific and technical services	-7.2%

Source: ABS 5206 (seasonally adjusted) and ACTU calculations.

231. The difference between the growth rates of the various industries is not unusually high. Out of the nineteen industry divisions in Australia, 5 experienced a fall in real output in 2014. This is the same outcome as in 2013, when five industries contracted. Six industries experienced a fall in output in 2012. On average, over the past decade, 4.1 industries have shrunk over the year to the December quarter. The number of industries experiencing a fall in output has been slightly higher in the post-GFC era as the Australian economy confronts structural change, but most industries continue to grow in most years.

Figure 38: Number of industries that experienced a fall in GVA over the year to the December quarter

Number of industries with
negative growth over the year
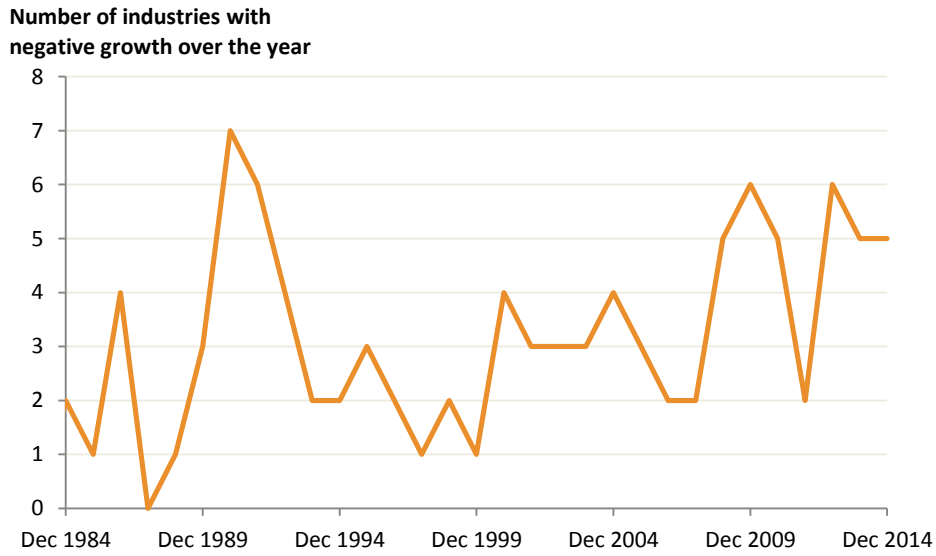
Source: ABS 5206 (seasonally adjusted) and ACTU calculations.

232. The gap in growth rates across industries in 2014 was a little higher than in the past few years, but unremarkable by the standards of the past two decades. The gap between the highest and lowest growth rates of industry GVA was 15.2 percentage points (in trend terms) – this is a little higher than the average for the past five years (12.8 ppts), but around the average for the past decade (15.5 ppts). A similar picture emerges if the unweighted standard deviation is used rather than the gap between the highest and lowest growth rates as a measure of the dispersion of growth across industries.

Figure 39: Measures of dispersion of growth in GVA across industries

Gap between highest and lowest   Unweighted standard deviation
Percentage points   Percentage points
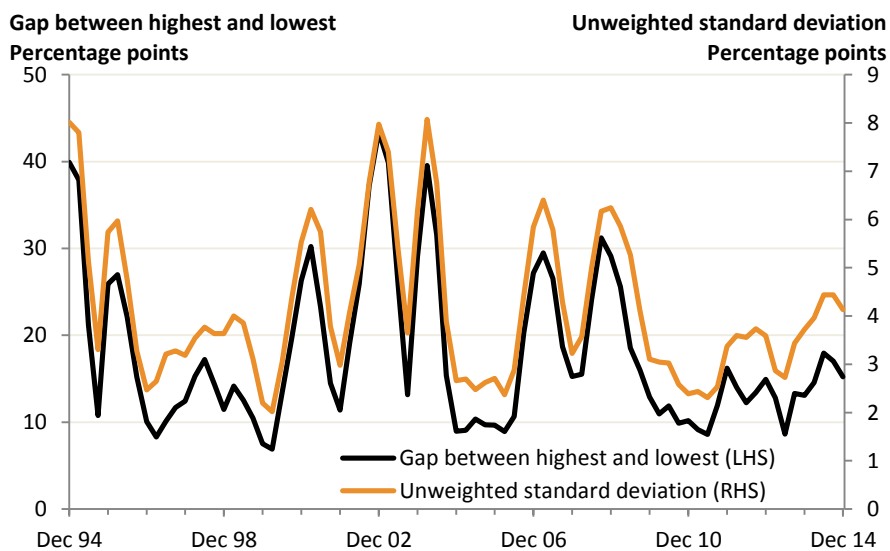
Source: ABS 5206 (trend) and ACTU calculations.

233. There is no evidence that past decisions by the Panel have caused difficulty within the more award-reliant industries; nor is there evidence that the industries are experiencing uniformly adverse conditions. This can be seen in Figure 40, which shows gross value added in each of the four more

award-reliant industries as a share of GDP in each financial year since 1989-90. When this share is steady, output in the industry is growing at around the same pace as output across the total economy. The Accommodation and Food Services industry accounts for around the same proportion of total output as it since 2003-03, coming in at 2.3% or 2.4% for each year over that period. Similarly, the Administrative and Support Services industry has seen its output share be more or less stable since 2003-04. These two industries have grown at a similar pace to the overall economy.

234. The Health Care and Social Assistance industry has long exhibited a steady upward trend in its share of total output, rising from around 5% in the late 1990s to 6.3% in 2013-14. The Retail Trade industry has experienced the opposite, with its output share falling from around 5% in the late 1990s to 4.4% in 2013-14. The Retail Trade industry's share of output has been fairly stable for the past few years; it was 4.4% in 2010-11 and has not fallen below that level.

Figure 40: Award-reliant industries' share of total output
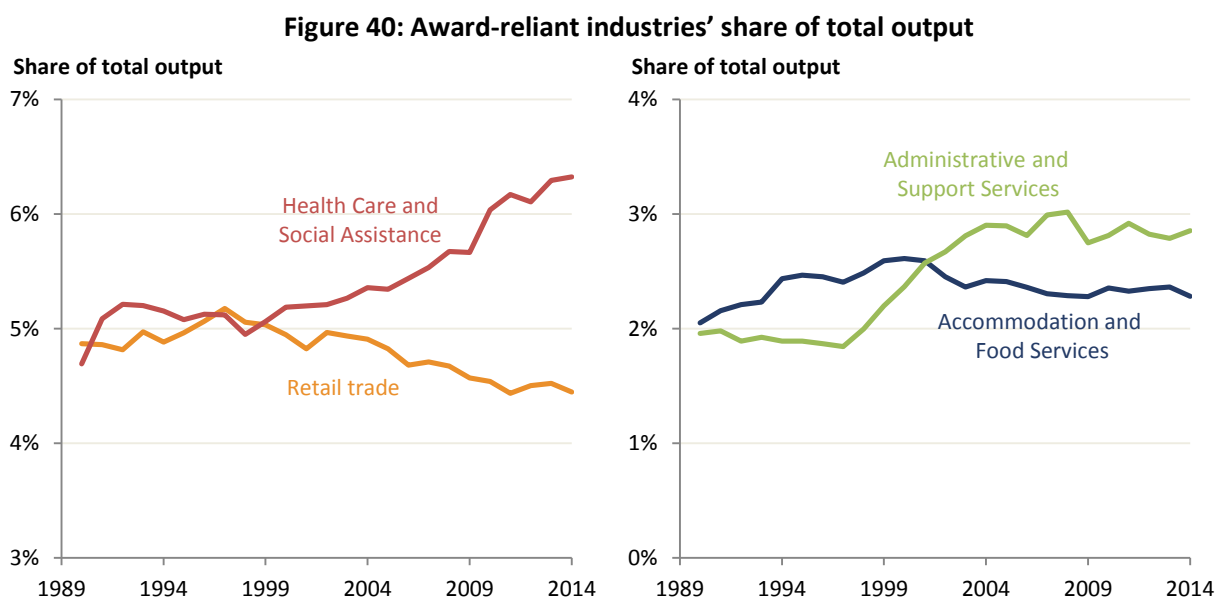
Source: ABS 5204 and ACTU calculations. Charts show nominal gross value added in each industry as a percentage of nominal GDP. Data pertain to financial years, so 2014 refers to the 2013-14 financial year.

235. It is clear that in the past few years, the more award-reliant industries have either grown at around the same pace as the total economy, thus maintaining the same share of total output, or have grown faster than the economy as a whole (in the case of Health Care and Social Assistance).

236. The Panel noted in its 2013-14 decision that:

> The diversity in outcomes between the award-reliant industries indicates that the most award-reliant industries do not face a uniformly difficult economic environment. The industry data does not provide a basis for concluding that recent minimum wage increases have significantly impacted on the economic performance of the award-reliant industries.[77]

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[77] [2014] FWCFB 3500, [30]

237. In our view, the Panel was correct to come to this view. We submit that it should adopt the same view in this Review. The data reviewed above do not suggest a uniformly difficult economic environment for the more award-reliant industries.

Consumer spending and retail trade

238. Many of the more award-reliant sectors of the economy, such as hospitality and retail, tend to rely on consumer spending to a greater degree than other industries. Consumer spending grew a little faster than the overall economy in 2014. Households' final consumption expenditure rose by 2.8% in real terms and by 4.4% in nominal terms. This helped contribute to the strong growth experienced in the Retail Trade and (particularly) Accommodation and Food Services industries, discussed earlier and shown in Figure 37.

239. Households' spending grew by 4.4% last year, around its typical pace for the post-GFC era. Consumption grew a little faster than households' nominal incomes, which rose by 3.5%.[78] This is shown in Figure 41. Because consumption outpaced income growth, the household savings ratio fell from 9.8% in December 2013 to 9% in December 2014, as shown in Figure 42. The savings ratio reached a post-GFC peak of 11.7% in June 2009 and has fallen steadily since then. The elevated household saving ratio is a factor that some employer groups have identified as a factor causing difficulty in industries that depend on consumer spending. To the extent that was true, it is causing less difficulty now than a year earlier, with consumers saving a smaller portion of their income.

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

Figure 41: Annual growth in household income and final consumption
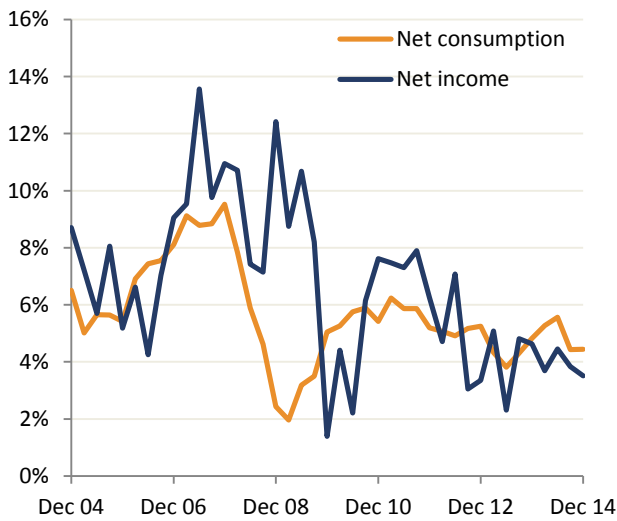
Figure 42: Household saving ratio
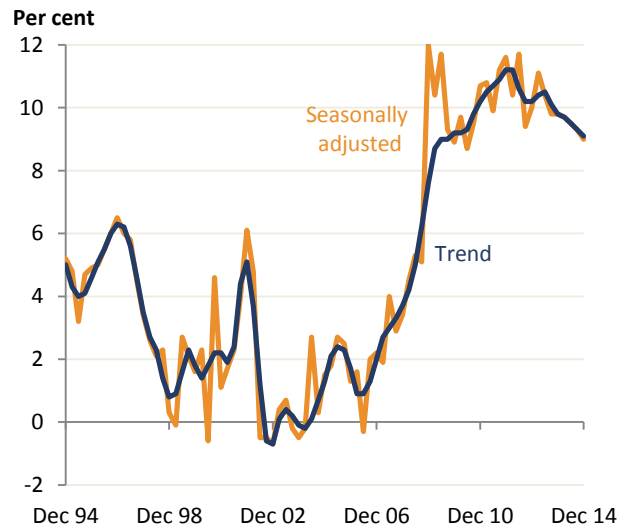
Source: ABS 5206 and ACTU calculations. The household saving ratio is the ratio of household net saving to household net disposable income. Household net saving is calculated as household net disposable income less household final consumption expenditure. Household net disposable income is calculated as household gross disposable income less household consumption of fixed capital.

240. Consistent with the solid growth in consumption, the volume of retail sales grew at a reasonable pace in 2014. Retail turnover rose by 3.6% over the year to the December quarter, close to the strongest growth in the volume of turnover since the stimulus packages of 2008/09. Retail sales volumes increased by 1.5% in the December quarter alone (in seasonally adjusted terms), which would equate to annual growth of around 6% if sustained.

Figure 43: Annual growth in the volume of retail sales (quarterly data)
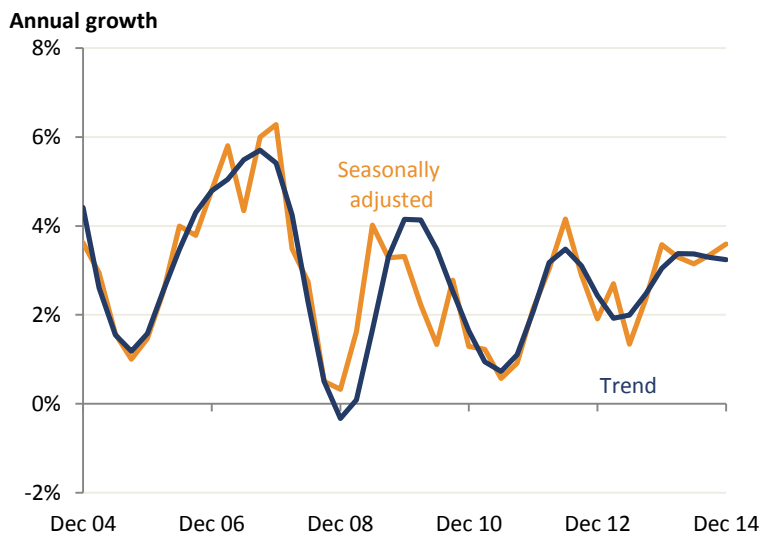
Source: ACTU calculations based on ABS 8501.

241. The Reserve Bank Board noted this strong growth at its March meeting. The minutes of that meeting recorded the following:

Growth of retail sales volumes had picked up to an above-average pace in the December quarter and liaison suggested that the value of retail sales had increased in January. Real household incomes had been buoyed by the recent decline in oil prices and measures of consumer sentiment were around average levels.[79]

242. There is a great deal of variation in the pace of turnover growth among different sub-sectors. Turnover in cafes, restaurants and takeaway food continues to grow at a rapid pace, as it has for several years now, growing by 5% over the year to January. Total turnover in cafes, restaurants and takeaway food was a little more than 30% bigger in January 2015 than it had been in January 2010.

243. Household goods retailing also saw very strong growth, up 8.7% over the year. Structural change in retailing means that department stores continue to languish, with turnover increasing just 1.2% over the year. The 'other retailing' sector also experienced relatively modest growth.[80]

Figure 44: Retail turnover by industry sub-sector (Index: January 2010 = 100)

Figure 45: Growth in retail turnover by industry sub-sector over the year and 5 years to Jan 2015
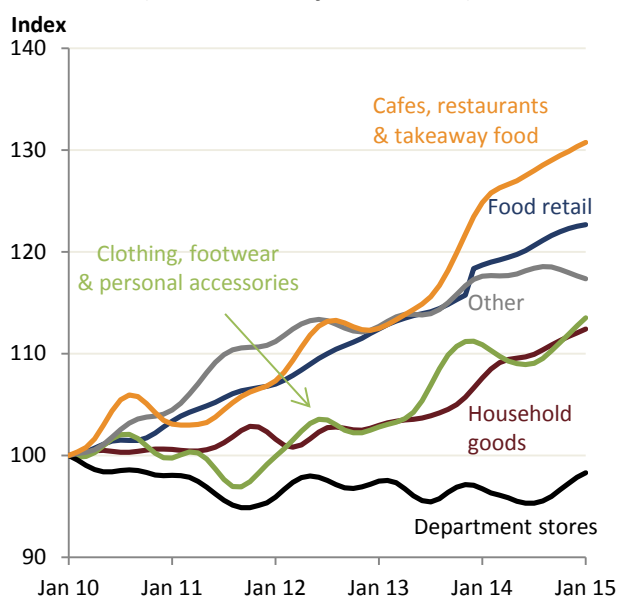
Source: ABS 8501 and ACTU calculations.
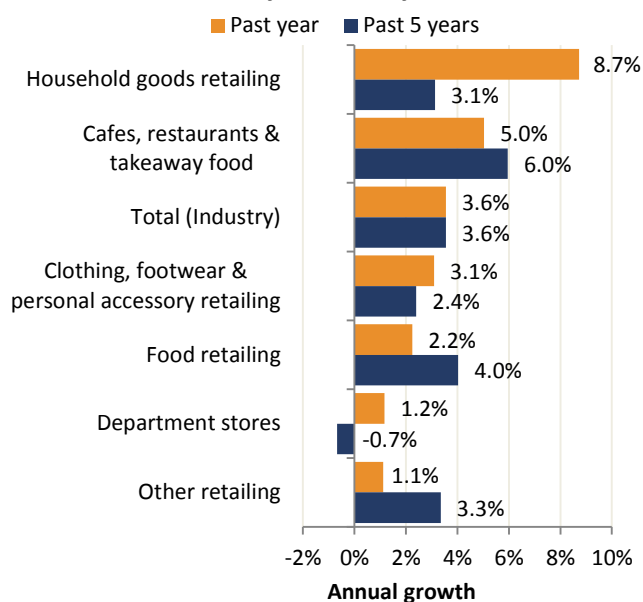
244. Turnover in most sectors that rely on consumer spending grew at a solid pace over the past year. Some of the more award-dependent sectors, such as cafes and restaurants, have continued to experience rapid growth.

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[79] Reserve Bank 2015, 'Minutes of the Monetary Policy Meeting of the Reserve Bank Board', 3 March, RBA, Sydney. Available from: http://www.rba.gov.au/monetary-policy/rba-board-minutes/2015/2015-03-03.html

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

Productivity growth

245. In its 2013-14 decision, the Panel reiterated its view that "if sustained, the recent improvement in labour productivity could provide the capacity to address the declining relative position of the low paid and for them to share in increasing community living standards."[81] The increase in labour productivity growth has been sustained.

246. Labour productivity, as measured by GDP per hour worked, continued its recent run of solid growth in 2014, increasing by 1.6% over the year to the December quarter. Labour productivity endured a period of sluggish growth in the 2000s, much of which was due to factors related to the mining and utilities industries that have been canvassed in previous Reviews. The rate of productivity growth has picked up in recent years, as shown in Figure 46 and Figure 47 below.

Figure 46: Annual growth in labour productivity (GDP per hour worked)
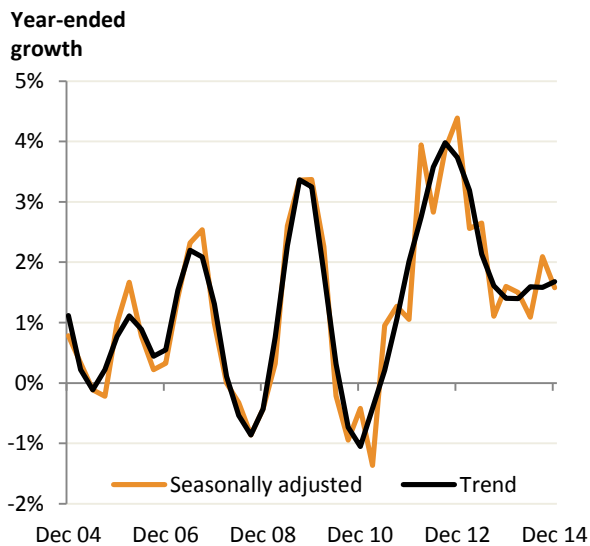
Figure 47: Level of labour productivity (GDP per hour worked; Dec 94=100)
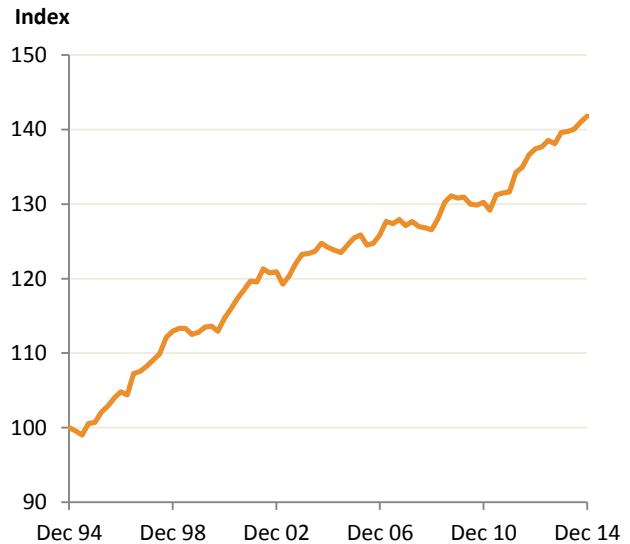
Source: ABS 5206 and ACTU calculations.

247. Labour productivity growth can be volatile in the short run, as evident in Figure 46. The pick-up in growth is more clearly evident when a longer timeframe is viewed. Between 2005 and 2012, there was no two year period in which labour productivity grew by 3.2% or more. Since 2012, labour productivity hasn't grown by less than 3.2% in any two year period. This is shown in Figure 48.

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[81] [2014] FWCFB 3500, [54]

Figure 48: Labour productivity growth (GDP per hour worked) over rolling two-year periods

Per cent
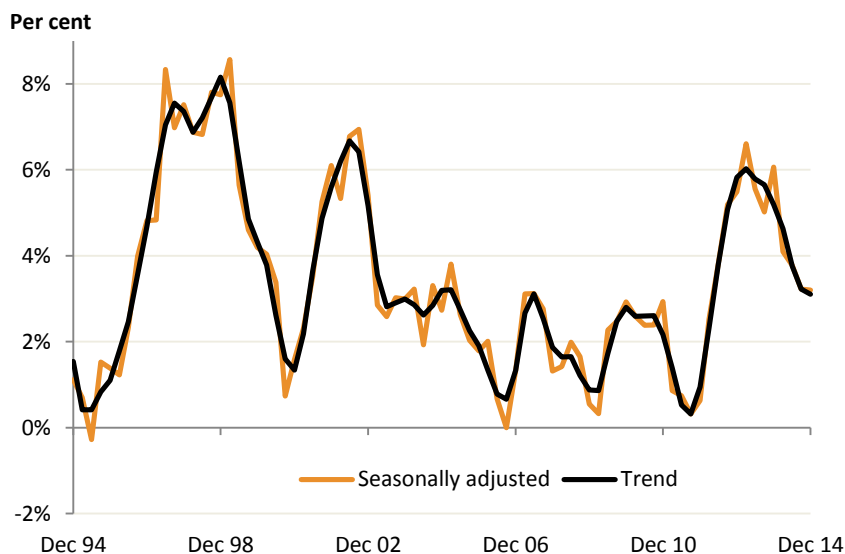
Source: ABS 5206 and ACTU calculations.

248. The lift in productivity growth has been broadly based across many sectors of the Australian economy. The RBA described recent productivity growth outcomes as follows in its February *Statement on Monetary Policy*:

> *Labour productivity growth has been higher over recent years than over much of the previous decade. Recent improvements partly reflect the transition of the resource sector to a phase of strong growth in output, which is much less labour intensive than the earlier period of significant investment. Growth rates of labour productivity and multifactor productivity in most other industries are also higher than the average pace recorded through much of the 2000s.[82]*

249. The more award-reliant industries were among those that experienced strong growth in productivity last year. Labour productivity grew faster in each of the four more award-reliant industries than in the economy as a whole in 2013-14. This is shown in Figure 49.

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[82] Reserve Bank of Australia 2015, *Statement on Monetary Policy: February 2015,* RBA, Sydney, p.67.

Figure 49: Growth in labour productivity (GDP per hour worked) in 2013-14

Industry	Growth
Electricity, gas, water and waste services	-8.2%
Other services	-5.9%
Agriculture, forestry and fishing	-2.8%
Transport, postal and warehousing	-1.9%
Professional, scientific and technical services	-1.6%
Construction	-1.0%
Professional, scientific and technical services	-0.1%
Manufacturing	0.0%
Education and training	0.3%
All industries	1.5%
Accommodation and food services	1.8%
Health care and social assistance	1.9%
Retail trade	2.3%
Financial and insurance services	3.0%
Rental, hiring and real estate services	5.0%
Administrative and support services	5.2%
Wholesale trade	6.2%
Mining	8.4%
Arts and recreation services	8.5%
Information media and telecommunications	14.9%

Source: ACTU calculations based on ABS 5204

250. As noted in an earlier section of this submission (see paragraph 154 onwards), the real value of the NMW has not kept pace with productivity growth, either at the total-economy level or in the more award-reliant industries.

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

International comparisons of productivity growth

252. Australian workers are among the most productive in the world. On average, Australian workers produce goods and services worth US$53 per hour worked, in Purchasing Power Parity (PPP) terms. This compares to an OECD average of $48 per hour worked. Australia's level of labour productivity is higher than that of the United Kingdom ($48.90), Canada ($48.80), New Zealand ($38.60) and most other OECD countries, as shown in Figure 50.

Figure 50: Level of labour productivity (GDP per hour worked) in OECD countries in 2013 – in US dollars converted at Purchasing Power Parity

Country	GDP per hour worked (USD at PPP)
Luxembourg	$93.60
Norway	$85.40
United States	$66.00
Belgium	$64.90
Netherlands	$62.70
Denmark	$62.30
France	$61.50
France	$61.50
Germany	$61.40
Switzerland	$60.10
Sweden	$57.10
Austria	$55.10
Euro area (18 countries)	$54.00
Australia	$53.00
Finland	$52.60
Spain	$50.60
Italy	$50.00
United Kingdom	$48.90
Canada	$48.80
OECD - Total	$48.00
Iceland	$45.50
Slovenia	$41.50
Japan	$40.90
New Zealand	$38.60
Slovak Republic	$36.90
Israel	$36.70
Greece	$35.40
Portugal	$34.70
Czech Republic	$34.00
Korea	$31.90
Turkey	$31.20
Estonia	$30.40
Hungary	$30.00
Poland	$29.00
Chile	$26.70
Mexico	$19.00

GDP per hour worked in 2013 (USD at PPP)

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

253. Not only is Australia's level of labour productivity higher than those of most comparable countries, but labour productivity has grown at a faster rate in Australia than in any of the countries to which Australia is usually compared. On average, Australian labour productivity grew by 1.6% per year between 2009 and 2013 – significantly faster than the OECD average (1%).

Figure 51: Average annual labour productivity growth in OECD countries – 2009 to 2013

Country	Value
Korea	4.0
Poland	3.7
Chile	3.4
Slovak Republic	2.9
Estonia	2.7
Turkey	2.1
Spain	2.0
Luxembourg	1.8
Australia	1.6
Ireland	1.6
Portugal	1.5
Israel	1.5
Japan	1.5
Hungary	1.4
Slovenia	1.4
Germany	1.4
Denmark	1.2
Sweden	1.2
Euro area (18 countries)	1.2
Austria	1.0
Czech Republic	1.0
OECD - Total	1.0
France	1.0
Finland	1.0
Switzerland	1.0
United States	1.0
Canada	0.9
New Zealand	0.6
Italy	0.5
Netherlands	0.5
United Kingdom	0.3
Belgium	0.2
Norway	0.2
Iceland	-0.1
Greece	-0.5
Mexico	-0.5

Average annual labour productivity growth 2009-2013 (per cent)

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

254. Australia's labour productivity has grown at a strong rate from a high base. Low-paid workers should share in the benefits of this growth.

Unit labour costs and the labour share of income

255. The Panel made the following observation regarding real unit labour costs in its 2013-14 decision:

They are at historically low levels, contributed to improved international competitiveness. In aggregate, there are no signs of cost pressures emanating from the labour market.[83]

256. This remains an accurate summary of the state of unit labour costs in Australia. The RBA noted in its February *Statement on Monetary Policy* that "unit labour costs have been little changed for more than two years."[84]

257. Over the year to the December quarter 2014, the average nominal earnings per hour of Australian workers rose by only 1.4%. Over the same period, average labour productivity (real GDP per hour worked) rose by 1.6%. Because productivity grew faster than nominal earnings, nominal unit labour

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[83] [2014] FWCFB 3500, [27]
[84] RBA 2015, *Statement on Monetary Policy,* February, RBA, Sydney, p.2.

costs fell by 0.2% over the year. The fall was even greater in the non-farm sector, in which nominal unit labour costs fell 0.5%.

Figure 52: Annual growth in nominal hourly earnings and real GDP per hour worked	Figure 53: Annual growth in nominal unit labour costs
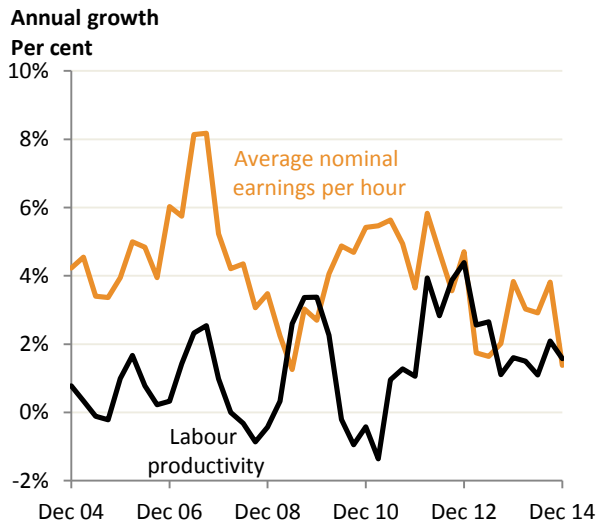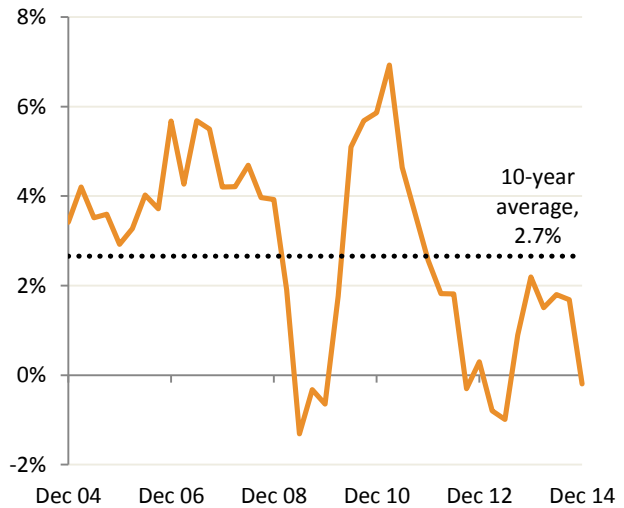
Source: ABS 5206 and ACTU calculations. 'Nominal earnings' is nominal labour compensation, including non-wage compensation such as employer superannuation contributions and workers compensation premiums.

258. A fall in nominal unit labour costs is quite an extraordinary development. This means that the non-inflation-adjusted labour costs of producing a given amount of real output were lower at the end of 2014 than they were at the end of 2013.

259. Real unit labour costs provide a measure of the inflation-adjusted cost of employing labour to produce a given quantity of output. Changes in real unit labour costs (RULCs) are equivalent to changes in labour's share of income. When real wages[85] rise faster than labour productivity, RULCs and the labour share of income rise. When real wages grow more slowly than labour productivity, RULCs and the labour share of income fall.

260. In recent years, RULCs have remained near their lowest level on record. They were more or less steady during the 1990s, fell steadily through the 2000s, reached a nadir during the financial crisis, and have remained around that low level since that time. This suggests that, abstracting from minor differences year-to-year, labour productivity and average real wages have grown at about the same pace since the financial crisis, and none of the lost ground in labour's share of income has been restored.

261. Real unit labour costs are shown in Figure 54, for both the total economy and the non-farm sector. The series are expressed as indexes which take the value 100 in the December 1994 quarter. Total

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[85] 'Real wages' here refers to hourly labour compensation (including non-wage compensation such as employer superannuation contributions and workers' compensation premiums) deflated using output prices, such as the GDP chain price index.

economy RULCs are around 8% lower than they were 20 years ago; non-farm RULCs have fallen by a little over 6%.

262. Figure 55 compares the ABS measure of RULCs with the ACTU's estimate of the labour income share, with both expressed as an index. The differences between the two series are minor.[86] The third series in Figure 55 is the simple 'wages share' of income, expressed as an index. The 'wages share' takes no account of the labour income of the self-employed, as discussed at length in previous Reviews, and is thus an incomplete indicator of the relative growth rates of labour income and labour productivity.

Figure 54: Real unit labour costs – total economy and non-farm

Figure 55: Real unit labour costs, wages share and labour share of income (Index: Dec 94=100)
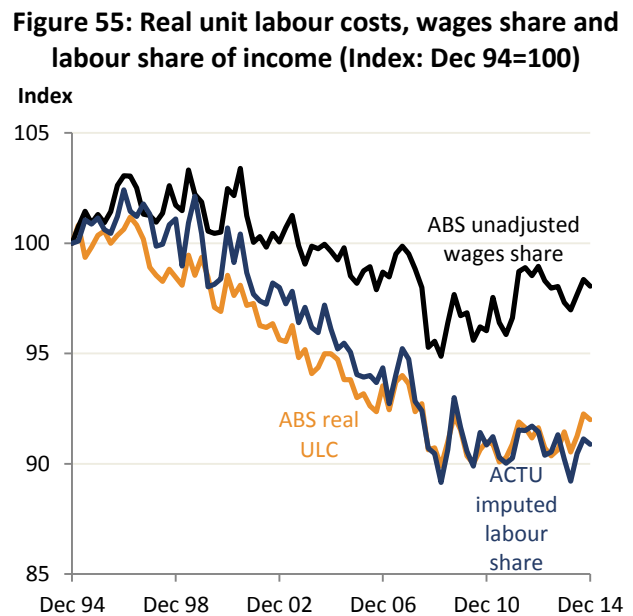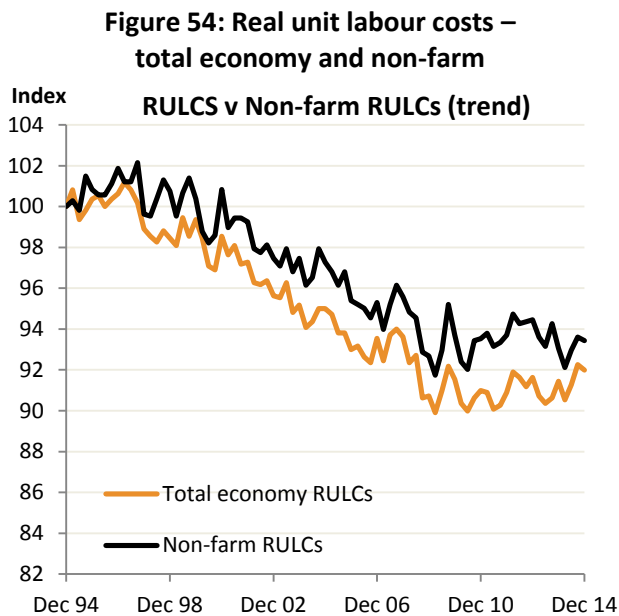
Source: ABS 5206 and ACTU calculations. The ACTU imputed labour share is the total compensation of employees multiplied by the ratio of total hours worked to hours worked by employees (from ABS 6291.0.55.001), as a percentage of total factor income.

263. The ABS estimate of the labour share of income has also fallen within the more award-reliant industries, as shown in Figure 30. The labour share of income in Accommodation and Food Services fell from a peak of 87% in 1997-98, to 80% in 2008-09 (the final year before the Fair Work Act), to 78% in 2013-14. The share in Retail Trade was 79% in 1997-98, 74% in 2008-09, and 73% in 2013-14. The fall in the labour share in these industries is equivalent to a fall in real unit labour costs. The share of income flowing to capital has increased in the past decade, as noted by the Panel in its 2013-14 decision.[87]

264. The fall in the labour share indicates that average real wages have not grown as rapidly as labour productivity, including in the more award-reliant industries. Minimum wages have grown more slowly than average wages, so it follows that minimum wages have lagged even further behind

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[86] Differences between the two series arise from different methods of imputing the labour income of the owner-operators of unincorporated enterprises, as has been discussed in previous Reviews.
[87] [2014] FWCFB 3500, [24]

productivity growth. It was demonstrated in an earlier section of this submission (see Figure 28 and Figure 29) that the real value of the NMW has not kept up with productivity growth over the past decade, including within the more award-reliant industries. We submit that modest rises in the real value of minimum wages have contributed to the fall in the overall labour share of income.

265. Awarding the increase we seek in this Review would ensure that low-paid workers share in the benefits of productivity growth.

Profits

266. We have shown above that real unit labour costs have fallen. This is equivalent to a fall in the labour share of factor income. A corollary to a falling labour share is a rising capital share of factor income – an increase in gross profits as a percentage of gross value added.

267. Over the past decade or so, the capital share of income has risen in the market sector (see Figure 57) and in the more award-reliant industries (Figure 56). The capital shares have remained more or less steady over the past few years, reflecting the stabilisation of real unit labour costs discussed above. In the market sector as a whole, as well as in the more award-reliant industries, the capital income share has stabilised near a record high level.[88]

Figure 56: Capital income share in the most award-reliant industries
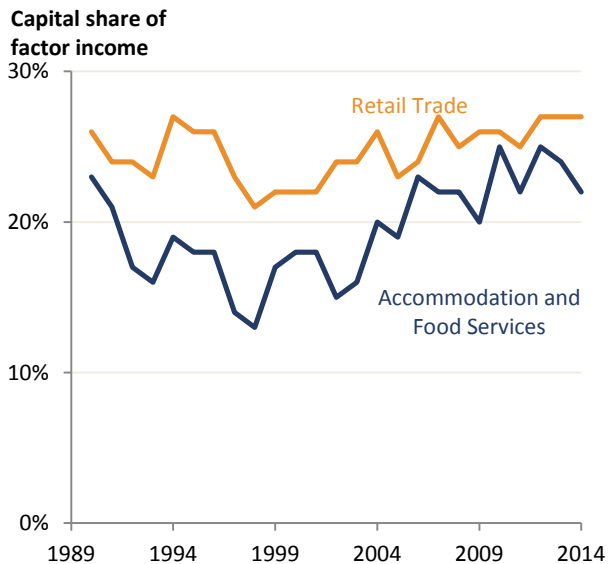
Source: ABS 5260.0.55.002

Figure 57: Capital income share in the market sector

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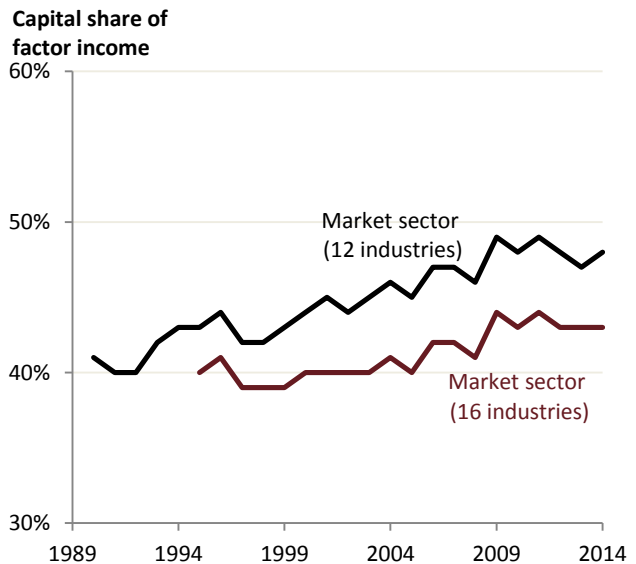
[88] Note that the measures used here are the ABS estimates of the capital income share. These differ from the simpler 'gross operating surplus as a percentage of total factor income' in that they include an imputation for the capital income of unincorporated enterprises. The imputation is performed by the ABS, not by the ACTU.

Business bankruptcy rates

268. The FWC Statistical Report for the current Review shows that the business bankruptcy rate was less than 0.4% - the lowest business bankruptcy rate of any financial year since the global financial crisis.[89]

269. There were fewer business-related bankruptcies in 2013-14 than in any financial year since 2008-09. There were 4 391 business-related bankruptcies in the past financial year, down nearly 20% from the 5 454 recorded in 2012-13.[90]

270. The fall in business bankruptcies has continued into the current financial year. The ASFA statistics show that there were 1 072 business-related bankruptcies in the September quarter 2014, down by 13.5% on the September quarter 2013. There were just 895 business-related bankruptcies in the December quarter 2014, a fall of 20.5% from the same quarter of the previous year.[91]

271. The number of business-related bankruptcies recorded in the December quarter 2014 was the second lowest in the 11 year history of ASFA's bankruptcy time series, with only June quarter 2014 recorded fewer bankruptcies. This is shown in Figure 58, which displays a clear downward trend in business-related bankruptcies since mid-2012.

Figure 58: Business-related bankruptcies per quarter
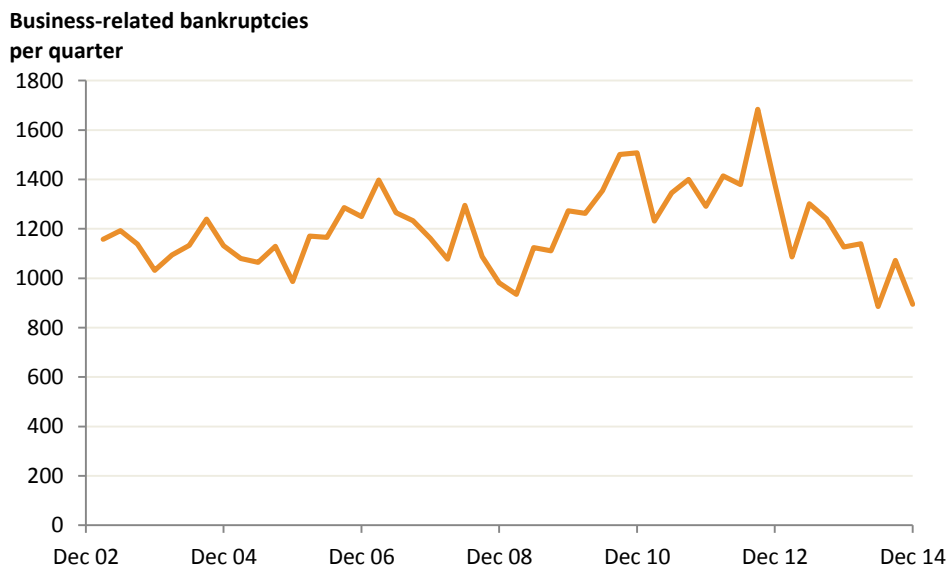
Source: ASFA 2015, 'Provisional business and non-business personal insolvency time series December 2014 update', Australian Government, Canberra. Available from: https://www.afsa.gov.au/resources/statistics/provisional-business-and-non-business-personal-insolvency-statistics/time-series

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[89] See Chart 3.3 of the FWC Statistical Report 2014-15.
[90] Australian Financial Security Authority 2015, 'Provisional business and non-business personal insolvency time series December 2014 update', Australian Government, Canberra. Available from: https://www.afsa.gov.au/resources/statistics/provisional-business-and-non-business-personal-insolvency-statistics/time-series [Accessed 23 March 2015].
[91] ASFA 2015, op. cit.

272. The fall in business-related bankruptcies has been broad-based. The only state in which there were more bankruptcies in the December quarter 2014 than in the December quarter 2013 was Western Australia. In the NT the number of bankruptcies was unchanged from a year earlier; it fell in every other State and territory.

Figure 59: Business-related bankruptcies by state/territory
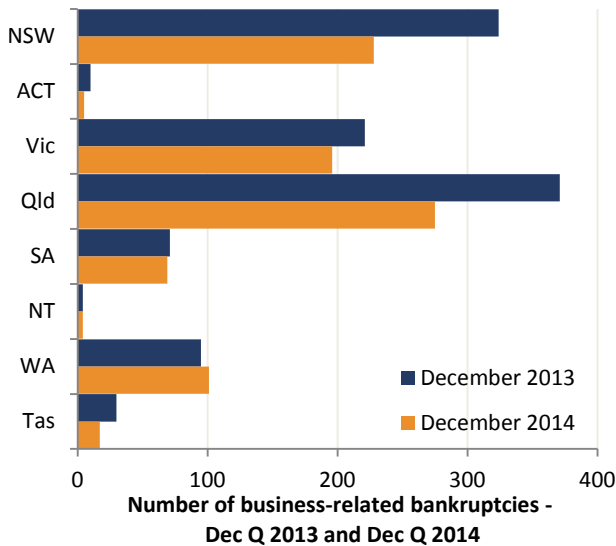
Figure 60: Change in number of business-related bankruptcies over year to December quarter 2014
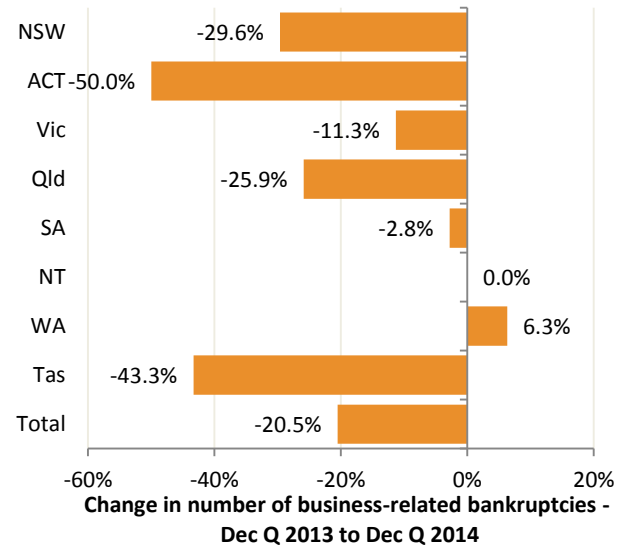
Source: ASFA 2015, 'Provisional business and non-business personal insolvency time series December 2014 update', Australian Government, Canberra. Available from: https://www.afsa.gov.au/resources/statistics/provisional-business-and-non-business-personal-insolvency-statistics/time-series. Rates of change are ACTU calculations.

273. The falling rate of business-related bankruptcies suggests that conditions for many businesses have improved.

Business entry and exit

274. The rate of entry of businesses increased, and the rate of business exits fell, relative to 2012-13. This also suggests that business conditions improved in 2013-14 relative to the previous year.

275. The number of businesses operating in Australia grew by 13.7% in 2013-14, compared to growth of 11.2% in 2012-13. The business entry rate in 2013-14 was the highest since 2010-11.

276. At the same time that the number of new businesses grew at a faster rate, the exit rate for businesses declined. In 2013-14, 12.7% of businesses ceased operating in 2013-14, while the exit rate in the previous financial year was 14%.

277. The entry rate increased for businesses of all sizes in 2013-14 relative to 2012-13. The exit rate fell for smaller businesses, those with fewer than 20 employees. The largest rise in the business entry rate was experienced by small business.

Table 20: Business entry and exit rates by business size – 2012-13 and 2013-14

	Entry rate			Exit rate		
	2012-13	2013-14	Change in entry rate	2012-13	2013-14	Change in exit rate
	(per cent)	(per cent)	(percentage points)	(per cent)	(per cent)	(percentage points)
No employees	12.3	15.0	2.7	17.4	15.5	-1.9
1-4 employees	11.7	14.6	2.9	10.2	9.7	-0.5
5-19 employees	4.3	5.3	1.0	5.9	5.4	-0.5
20-199 employees	2.6	3.3	0.7	3.9	4.1	0.2
200+ employees	2.3	3.6	1.3	4.4	5.6	1.2
Total	11.2	13.7	2.5	14.0	12.7	-1.3

Source: ABS 8165. Change in entry and exit rates is an ACTU calculation.

278. Two of the more award-reliant industries recorded the fastest growth in the number of businesses in 2013-14. The number of businesses operating in the Health Care and Social Assistance industry increased by 5.3% over the year, while those in the Accommodation and Food Services industry rose by 4.2%. This is shown in Table 21.

Table 21: Growth in the number of businesses in 2013-14 by industry

Industry	Growth in number of businesses
Agriculture, Forestry and Fishing	-2.0%
Mining	-0.2%
Manufacturing	-1.4%
Electricity, Gas, Water and Waste Services	2.9%
Construction	0.9%
Wholesale Trade	0.2%
Retail Trade	-0.8%
Accommodation and Food Services	4.2%
Transport, Postal and Warehousing	0.7%
Information Media and Telecommunications	2.9%
Financial and Insurance Services	3.5%
Rental, Hiring and Real Estate Services	1.9%
Professional, Scientific and Technical Services	1.4%
Administrative and Support Services	0.6%
Public Administration and Safety	-0.3%
Education and Training	2.4%
Health Care and Social Assistance	5.3%
Arts and Recreation Services	0.2%
Other Services	1.0%
Unknown	0.0%
All Industries	1.0%

Source: ABS 8165. Figures are the percentage difference between businesses operating at the end of the 2013-14 financial year and the number operating at the start of the financial year.

279. While the number of businesses in the Health Care and Social Assistance and Accommodation and Food Services industries rose rapidly over the year, growth in some other more award reliant industries was more modest. The number of businesses operating in the Retail Trade industry fell 0.8%. Overall, there is no relationship between the proportion of workers in an industry that are paid

an award rate, and the rate of growth in the number of businesses in that industry.[92] This is shown in Figure 61.

Figure 61: Growth in the number of businesses by industry (2013-14), compared to density of award only workers by industry (May 2014)
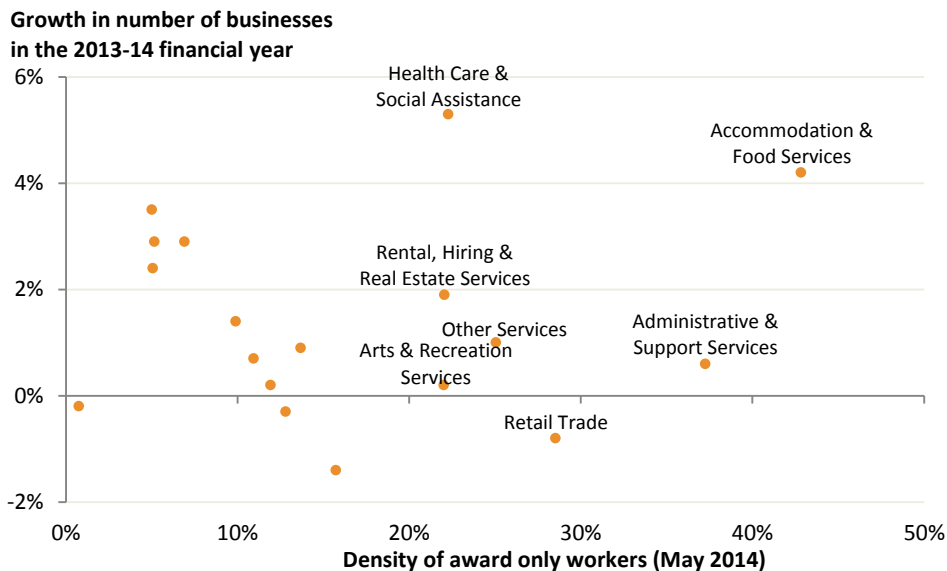
Source: ABS 8165 and ABS 6306. 'Density of award only workers' is the proportion of employees in the industry whose pay is set by award only. Scatterplot omits the Agriculture, Forestry and Fishing industry, as it is outside the scope of ABS 6303.

280. There was a noticeable increase in business entries in the past financial year, and a fall in business exits. Growth in small business was particularly notable, and some of the more award-reliant industries expanded at a strong rate. These figures suggest that business is not facing adverse conditions.

Inflation

281. Inflation fell in 2014, with the CPI rising by just 1.7% over the year to the December quarter. Some of this decline was due to the fall in global oil prices, which on the RBA's estimate reduced headline CPI inflation by about 0.25 percentage points in the second half of 2015 and continue to restrain inflation in early 2015.[93] 'Underlying' inflation, which strips out volatile items, also fell over the year, but remained within the RBA's target band – the weighted median CPI rose by 2.3% over the year to the December quarter while the trimmed mean increased by 2.2%.

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[92] If the rate of business growth by industry is regressed on the degree of award reliance by industry, the resulting coefficient is positive, small (0.01), and statistically insignificant (t-statistic=0.26), with an R^2 of 0.004.
[93] RBA 2015, *Statement on Monetary Policy: February 2015*, RBA, Sydney, p.48.

Figure 62: CPI inflation
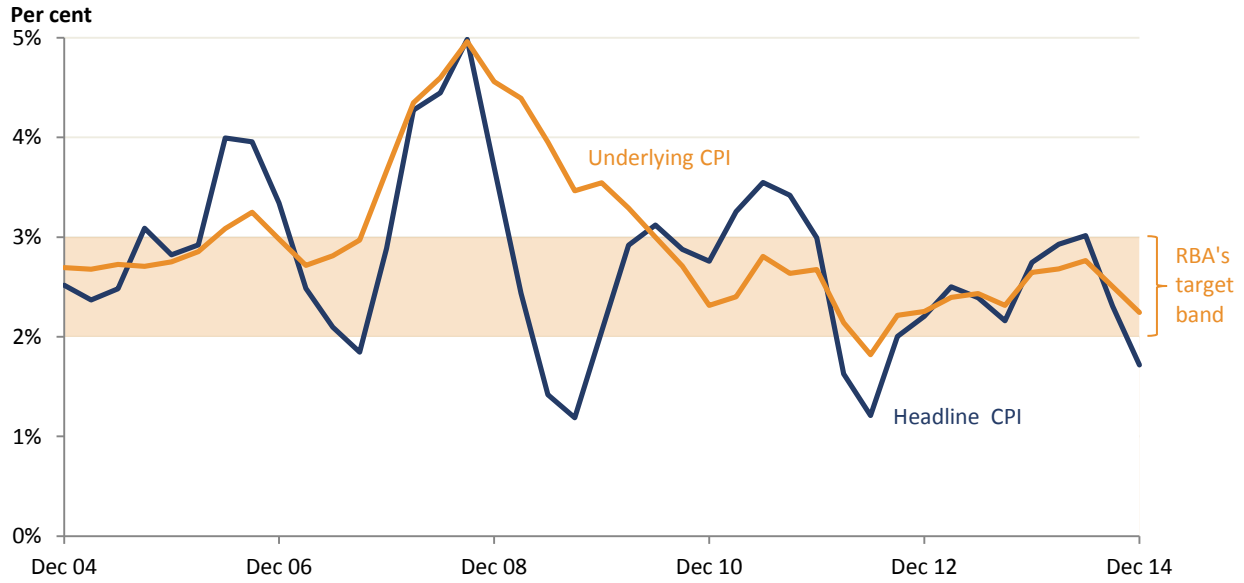
Source: ABS 6401 and ACTU calculations. The 'underlying CPI' series is an average of the ABS trimmed mean and weighted median.

282. The low rate of inflation in Australia is common to many economies of the world. Figure 63 compares the most recent inflation rates to inflation targets in countries that target inflation. Inflation in each of these countries is below the target – substantially below in many cases. This is partly, but not entirely, related to the effect of the oil price falls of 2014 on prices. Core/underlying inflation is somewhat closer to target, but still below target.

Figure 63: Inflation compared to central banks' targets
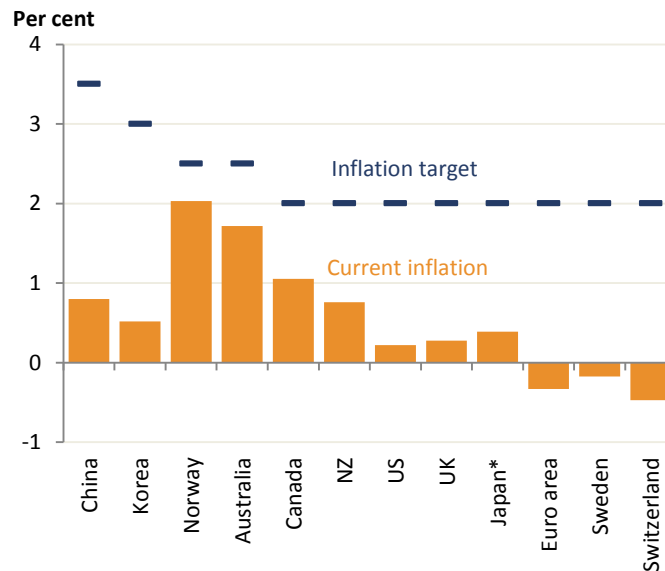
Source: Lowe, P. 2015, 'Low Inflation in a World of Monetary Stimulus', Speech to the Goldman Sachs Annual Global Macro Economic Conference, 5 March 2015, Reserve Bank of Australia. Available from: http://www.rba.gov.au/speeches/2015/sp-dg-2015-03-05.html. *Japan figure excludes the impact of the consumption tax increase on inflation.

283. The RBA forecasts that inflation will return to its target band. It forecasts CPI inflation of 2% to 3% over the year to the December 2015 quarter, and 2.25% to 3.25% over the year to the June quarter 2016.

Wages

284. Wages growth was slow in 2015, with the Wage Price Index rising by only 2.5% in the year to December, the slowest rate of growth in the WPI's history. Wages growth has slowed considerably in both the public and private sectors.

Figure 64: Annual growth in the Wage Price Index
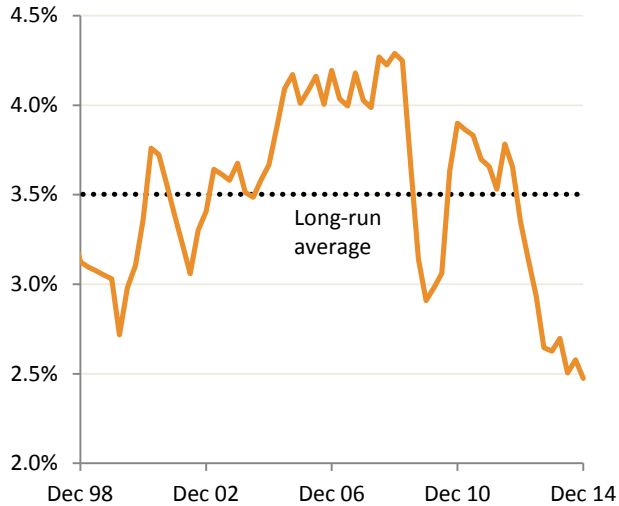
Figure 65: Growth in public & private sector WPI
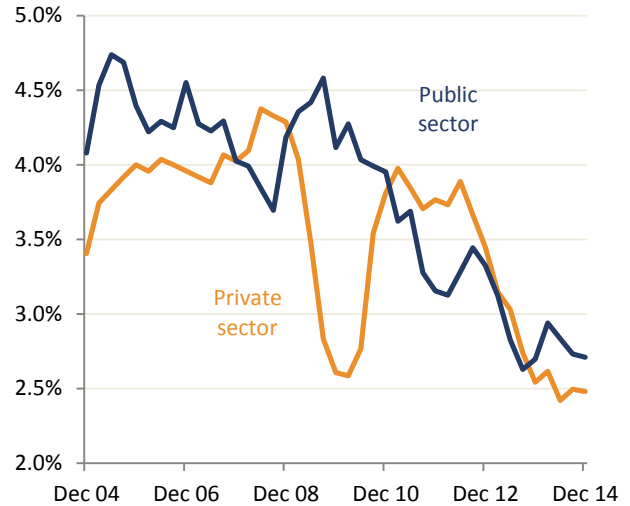
Source: ABS 6345 and ACTU calculations.

285. Wages growth has slowed virtually across the board. Wages growth in each industry in the year to the December 2014 quarter was below the industry's long-run average, as shown in Figure 66. The only exception to this is the small Arts and Recreation Services industry, in which the rate of measured wages growth is volatile.

Figure 66: Wages growth and the long-run average, by industry
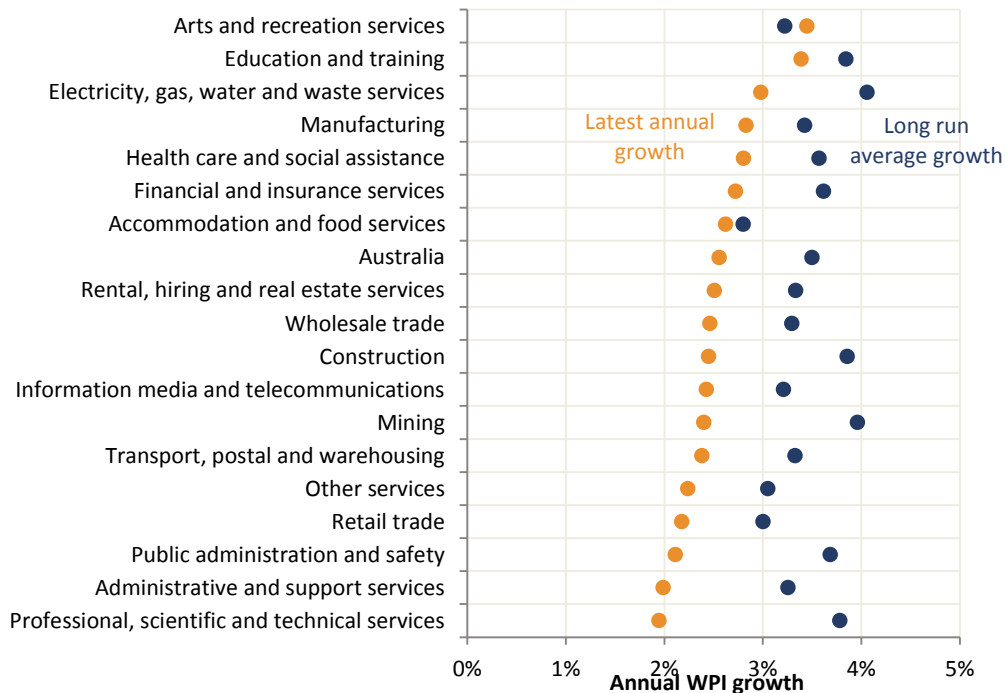
Source: ABS 6345

286. The WPI is not alone in showing a significant deceleration in wages growth. All measures of wages have grown below their average pace, as shown in Figure 67.

Figure 67: Measures of wages growth
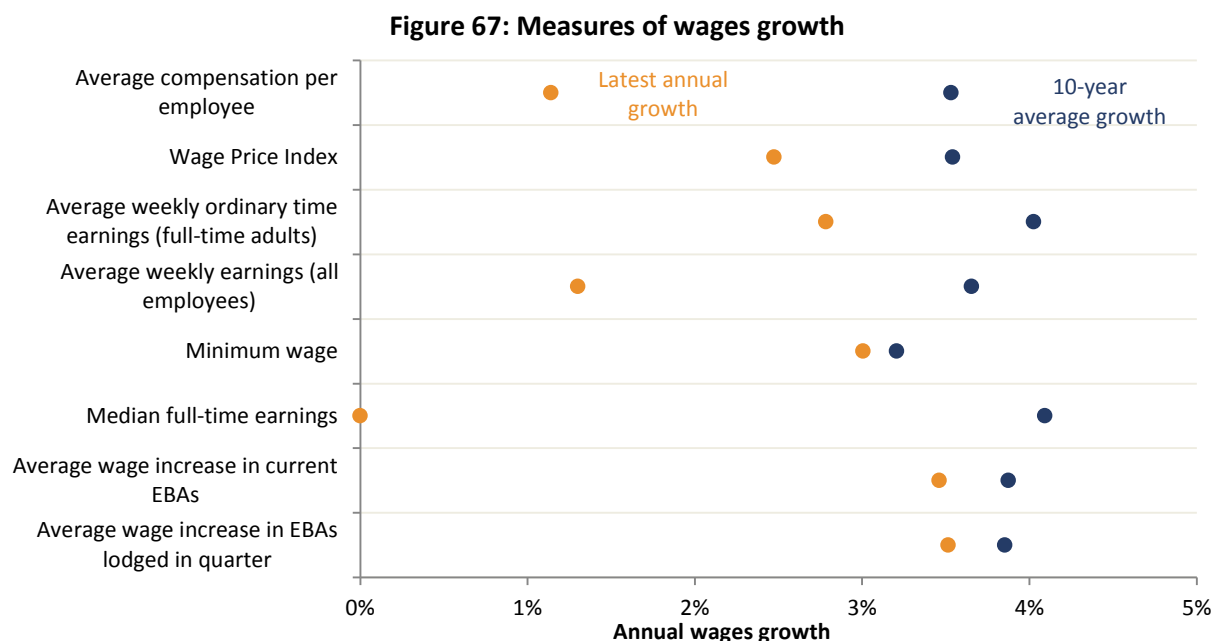
Source: Average compensation per employee is from ABS 5206. Wage Price Index from ABS 6345. AWOTE and AWE from ABS 6302. Minimum wage from past FWC/AFPC/AIRC decisions. Median full-time earnings from ABS 6310. Average annualised wage increases in federal enterprise agreements ('EBAs') from the Department of Employment Trends in Federal Enterprise Bargaining. Rates of change are ACTU calculations.

287. The slowing in wages growth is, to some extent, expected given the recent pace of economic growth and the rise in the unemployment rate. However, wages growth has slowed more than would have been expected given the state of the macroeconomy. The RBA noted this in its February *Statement on Monetary Policy,* observing that "the extent of the slowing in wage growth has been a little more pronounced than would have been expected based on its historical relationship with the unemployment rate."[94]

288. This is shown in Figure 68, which shows growth in the WPI along with the unemployment rate. The unemployment rate is inverted in this figure, such that a fall in the line is a rise in unemployment.

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[94] RBA 2015, *Statement on Monetary Policy,* February, RBA, Sydney.

Figure 68: Unemployment rate and WPI growth
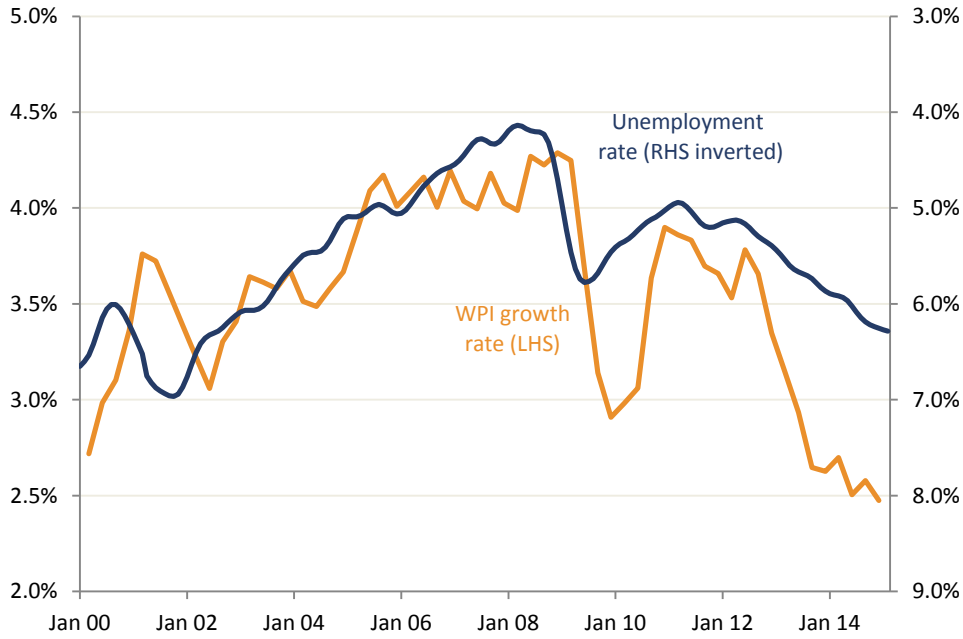
Source: ABS 6245, ABS 6202 and ACTU calculations.

289. The fact that growth has slowed more than expected based on the unemployment rate is made clearer in Figure 69. This figure shows the wage Phillips Curve relationship – the relationship between private sector WPI growth and the unemployment rate. Based on the relationship between these two variables over the period 1998 to 2009, WPI growth of around 3.4% would be expected with the unemployment rate at its current level. Instead, WPI growth is 2.5%. The Phillips Curve appears to have steepened in recent years.

Figure 69: Correlation between the unemployment rate and wages growth

Year-ended private sector WPI growth
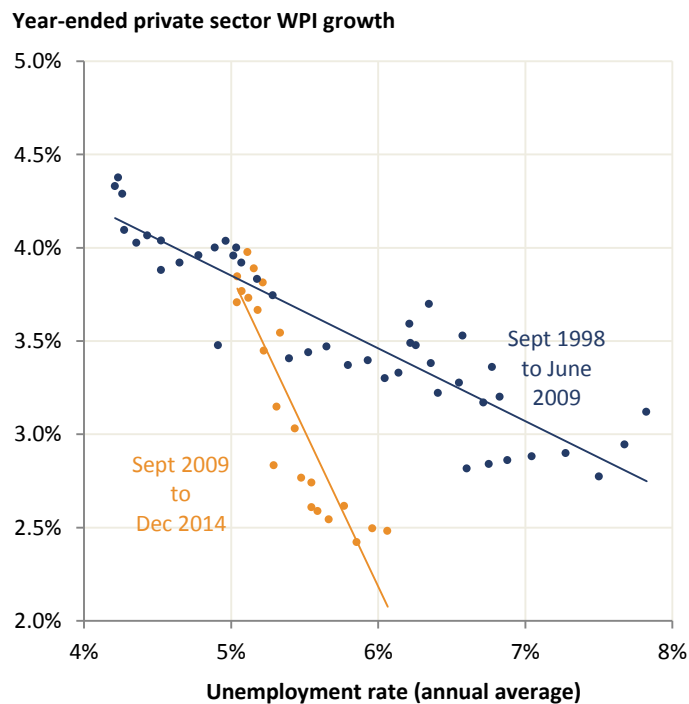
Source: ABS 6345 and ABS 6202 and ACTU calculations.

290. The relatively modest increases in minimum wages awarded in previous Reviews may have contributed to the extent of the fall in wages growth.

The state of the labour market

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

    a. Employment growth has picked up in recent months;

    b. The unemployment rate appears to have stabilised;

    c. The fall in the participation rate in recent years has almost entirely been due to the ageing of the population, with the rate for people aged 15-64 near its all-time high;

    d. Youth unemployment has risen, by it is around the expected level given the overall unemployment rate;

    e. The overall unemployment rate is around the rate expected given the pace of economic growth;

    f. Employment grew rapidly in the most award-reliant industry (Accommodation and Food Services) and was solid in the Retail Trade industry. Overall there is no relationship between the level of award-reliance in an industry and the pace of employment growth; and

    g. The dispersion in labour market conditions across regions is relatively low and is around its expected level given the overall unemployment rate.

292. Information provided in the next chapter shows that forward-looking indicators of the labour market have improved in recent months, with sustained growth in job advertisements and vacancies and an improvement in consumers' unemployment expectations.

293. Our claim is appropriate given the current state of the Australian labour market.

Employment and unemployment

294. There were 150 900 more Australians in work in February 2015 than in February 2014, representing reasonably solid employment growth of 1.3%. Most of the employment growth was in full-time work, with an extra 84 300 added over the year. This is shown in Figure 71.

295. The pace of employment growth picked up a little in February, with 15 600 extra people in work compared to January. Again, most of these additional positions were in full-time work, as shown in Figure 70.

Figure 70: Employment growth between January and February 2015

Thousands

	Full time			Part time			Total		
	Males 9.0	Females 1.2	Total 10.3	Males 0.3	Females 5.1	Total 5.3	Males 9.3	Females 6.3	Total 15.6

■ Males ■ Females ■ Total
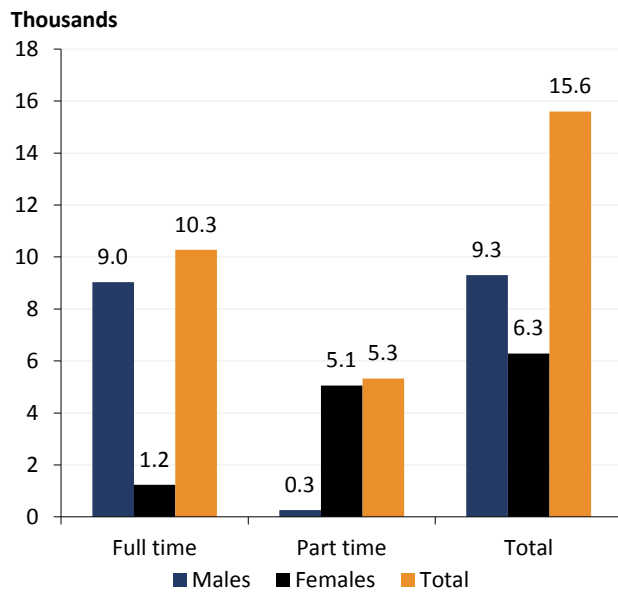
Figure 71: Employment growth between February 2014 and February 2015

Thousands

	Full time			Part time			Total		
	Males 62.3	Females 22.0	Total 84.3	Males 11.7	Females 54.8	Total 66.5	Males 74.0	Females 76.8	Total 150.9

■ Males ■ Females ■ Total
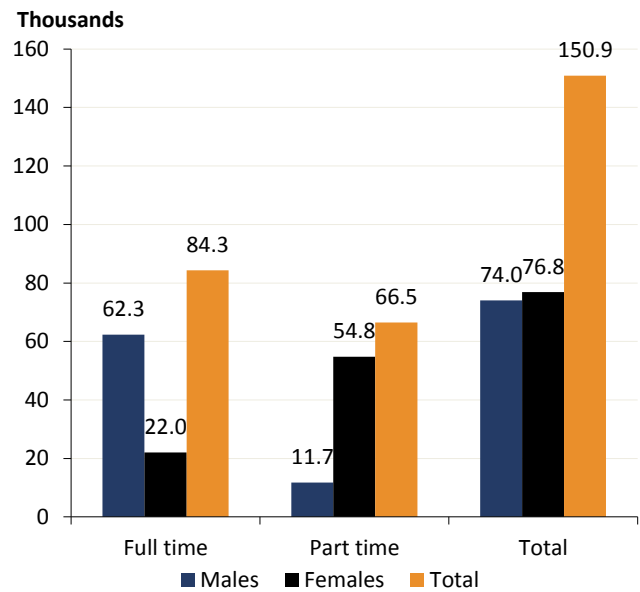
Source: ABS 6202 (seasonally adjusted) and ACTU calculations.

296. However, while the pace of employment growth over the past year was reasonably solid, it was less than the amount needed to keep up with population growth. Over the year to February, the population aged 15 and above grew by 320 300 people, or 1.7%. To stabilise the employment-to-population ratio, employment would have needed to grow by around 193 000 persons rather than 150 900.

297. As a result, the employment-to-population ratio fell by 0.2 percentage points to 60.6%. This is the lowest employment-to-population ratio since 2005. Note, however, that some of the decline in this ratio is due to the ageing of the population – the employment-to-population ratio for people aged 15-64 has also declined, but less severely. This issue is discussed in more depth in a later section of this chapter.

298. The pace of employment growth has picked up in recent months. Over the six months to February 2015, employment rose by 0.8% (in trend terms). This is the fastest employment growth in any six month period since early 2011. This is shown in Figure 72, which shows employment growth over rolling six-month periods (eg. the 'Feb 15' figure reflects employment growth over the six months to February).

299. As a result of this pick-up in employment growth in recent months, the employment-to-population ratio was the same in February as it had been six months earlier (in trend terms). This is the first six month period in which this ratio has not fallen since early 2011, as shown in Figure 73.

Figure 72: Employment growth in six month periods
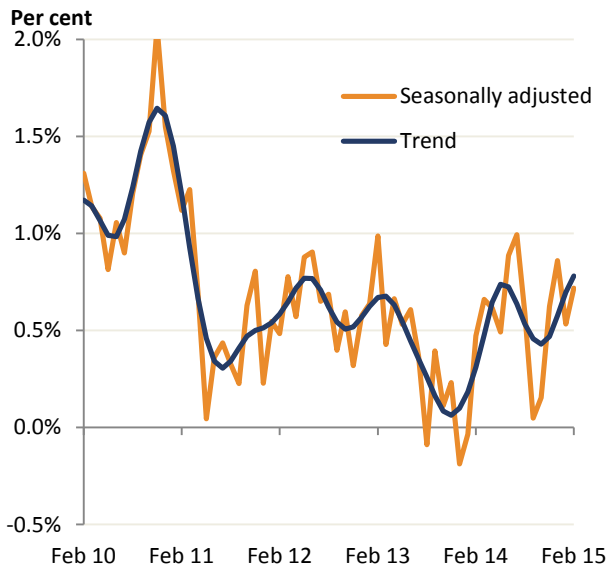
Figure 73: Change in the employment-to-population ratio over six month periods

Source: ABS 6202 and ACTU calculations
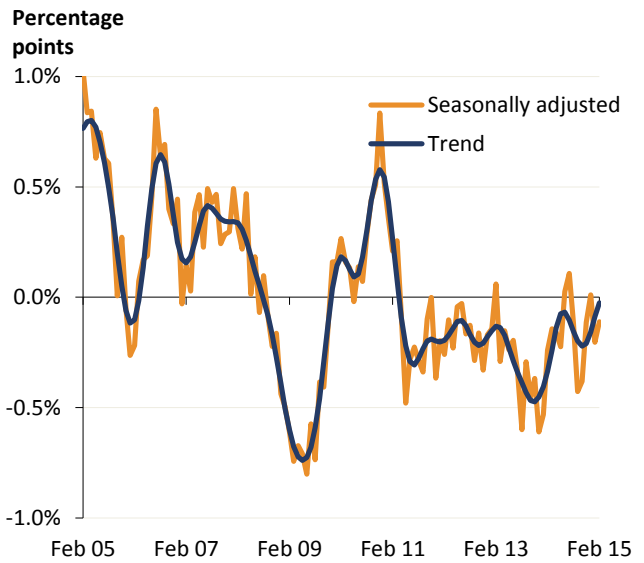
300. The unemployment rate rose from 6% at the beginning of 2014 to 6.3% by October. It has fluctuated around that level since then, remaining at 6.3% in February. In trend terms, the unemployment rate has been steady at 6.3% for the past three months.

Figure 74: Unemployment rate over the past 30 years
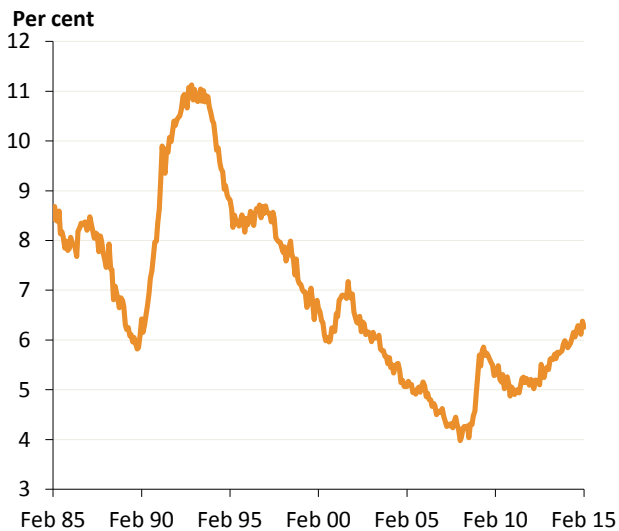
Figure 75: Unemployment rate over the past five years

Source: ABS 6202
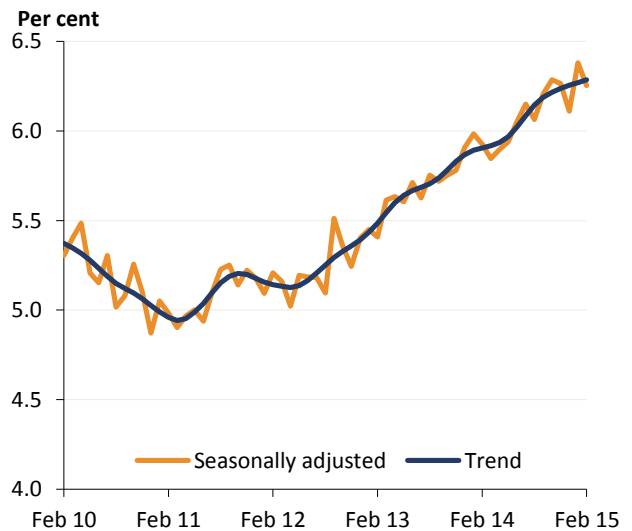
301. There are some encouraging signs that the unemployment rate may be near its peak. The recent pace of employment growth has not been sufficient to appreciably reduce the unemployment rate, but it has been enough to stabilise it (in trend terms). Forward-looking indicators of the labour market have improved in recent months (see paragraph 350 onwards).

Participation in the labour force and the effect of ageing

302. Labour force participation has reached a plateau and is beginning to rise again, particularly among people aged under 65. The participation rate for all persons aged 15 and over was 64.7% (in trend terms), slightly above its February 2014 level of 64.6%. The increase in labour force participation among people aged 15-64 has been more substantial, with the rate rising to 75.5% in February 2015 from 76.1% a year earlier.

303. At 75.5%, the participation rate for people aged 15-64 is now around the same level as its pre-GFC peak, and only slightly below the all-time high of 76.8% recorded in late 2010. The sharp recovery in the 15-64 participation rate in recent months may represent some renewed optimism on the part of Australian job-seekers – a greater proportion of them are actively looking for work, rather than remaining outside the labour force.

Figure 76: Participation rate for persons aged 15+ over the past 30 years
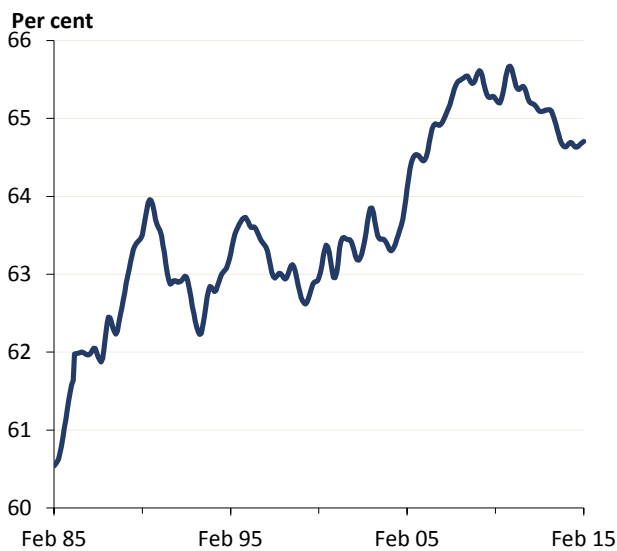
Figure 77: Participation rates for persons aged 15+ and aged 15-64 over the past decade

Source: ABS 6202 (trend).
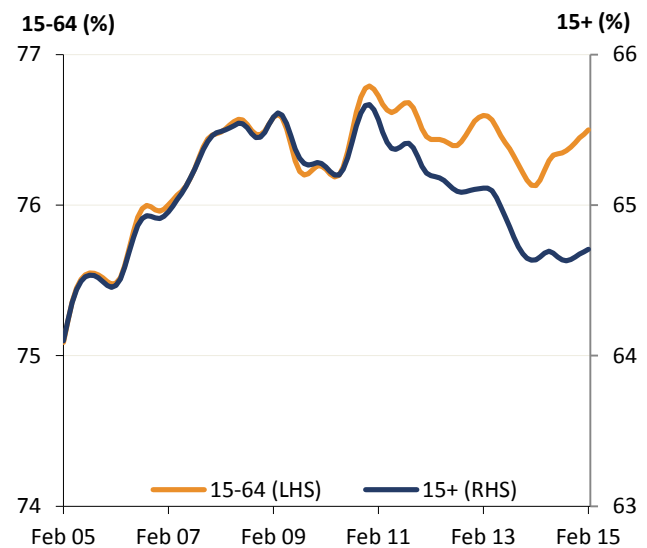
304. The fact that the participation rate for people aged 15-64 has recovered to be near its all-time peak indicates that the bulk of the decline in the 15+ ('headline') participation rate is due to the ageing of the population. Simply put, a rising share of the population is in age groups (such as 65+) that have lower average levels of labour force participation. This demographic effect has weighed heavily on the participation rate in recent years – five years have now elapsed since the first wave of baby boomers reached the traditional retirement age of 65.

305. The effect of population ageing on the headline participation rate is clear in Figure 77, which compares the 15+ and 15-64 participation rates. A more sophisticated means of calculating the contribution of ageing on the fall in the participation rate can be calculated using shift-share analysis. The participation rate is the weighted average of the participation rates of each demographic sub-

group, where the weights used are the groups' population shares. Shift-share analysis asks the question: if we held the population shares of various demographic groups constant from some point in time, what would the participation rate be today? Using this analysis, we can calculate how much of the decline in the participation rate is due to demographic change, and how much is due to falls in the participation rates within groups.

306. The results of our shift-share analysis are shown in Figure 78. The (trend) participation rate for persons aged 15+ is around a percentage point below its all-time peak in late 2010. We calculate that, as at January 2015, 0.1 percentage points of this decline are due to declining participation rates within age groups. The remaining 0.9 percentage points are due to the ageing of the population.

Figure 78: The effect of ageing on the fall in the 15+ participation rate
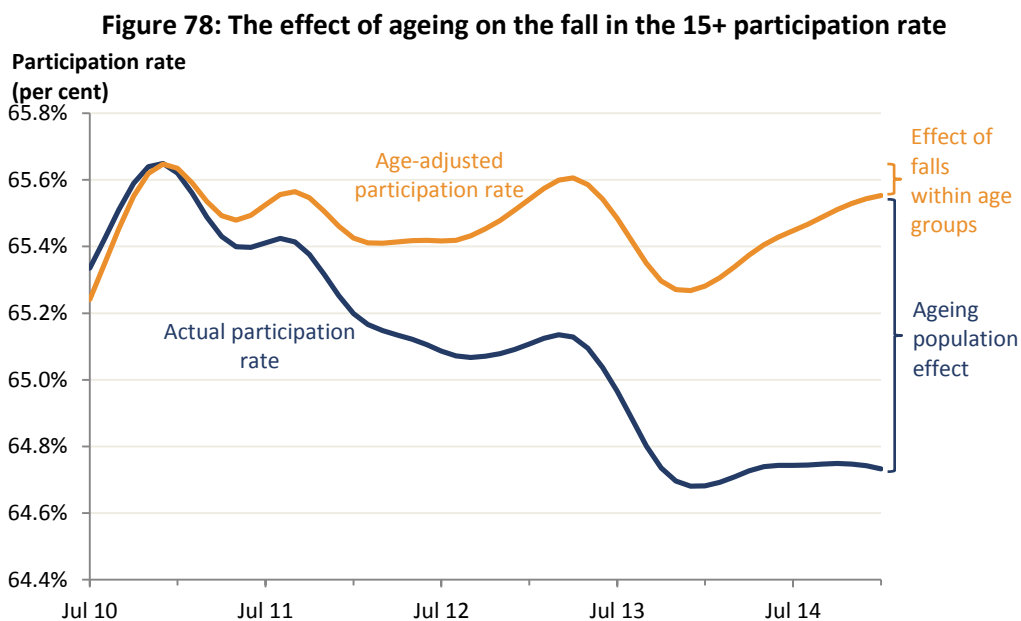
Source: ABS 6291.0.55.001 and ACTU calculations. Chart uses original data, seasonally adjusted by the ACTU using X12-ARIMA.

307. The 'headline' participation rate – the rate that pertains to all people aged 15 and over – can give a somewhat misleading view of the cyclical state of labour force participation when there is demographic change. The participation rate for people of traditional working age is only slightly below its all-time peak; this is evident whether you use an age-adjusted participation rate as per Figure 78 or simply the 15-64 rate as per Figure 77.

308. With participation among the 15-64 population remaining high, there has not been a 'discouraged worker effect' in recent years. Changes in the unemployment rate adequately summarise the cyclical state of the labour market.

The youth labour market

309. While the youth unemployment rate is high, it is around the level that would be expected given the unemployment rate for people aged 25 and over and the recent pace of economic growth. There do

not appear to be factors at play that have pushed the youth unemployment rate significantly higher than would be expected given the overall state of the economy. In addition, there has not been a large rise in the share of the youth population that is neither in employment or education.

310. The youth unemployment rate rose up by 1.5 percentage points over the past year, to 13.9% in February.

Figure 79: Unemployment rate by age (trend)
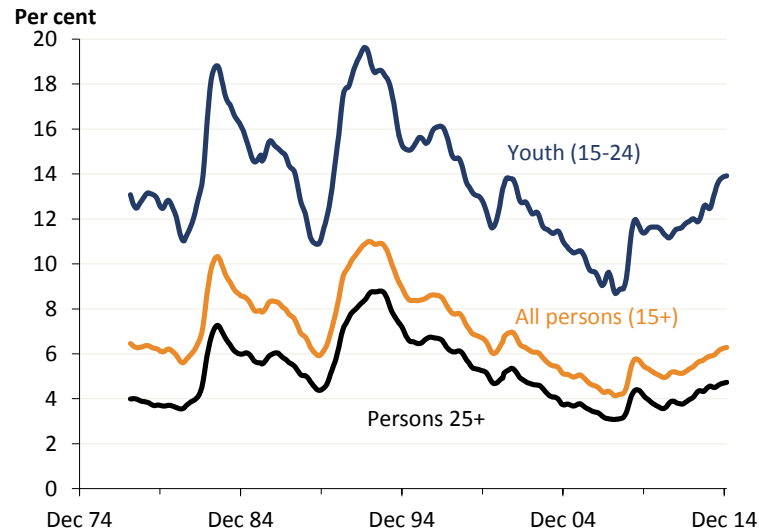
Source: ABS 6202

311. Despite the sharp rise in youth unemployment, there has not been an increase in the proportion of young people who are neither 'earning' nor 'learning'.[95] In the wake of the financial crisis, the proportion of the youth population who were neither in work nor in full-time education rose from about 10% to around 12%; it's remained around 12% for the past five years or so. This is shown in Figure 80.

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[95] We use 'earning' to mean 'employed' (full-time or part-time), and 'learning' to mean 'in full-time education'.

Figure 80: People not in work and not in full-time education as a proportion of the population aged 15-24
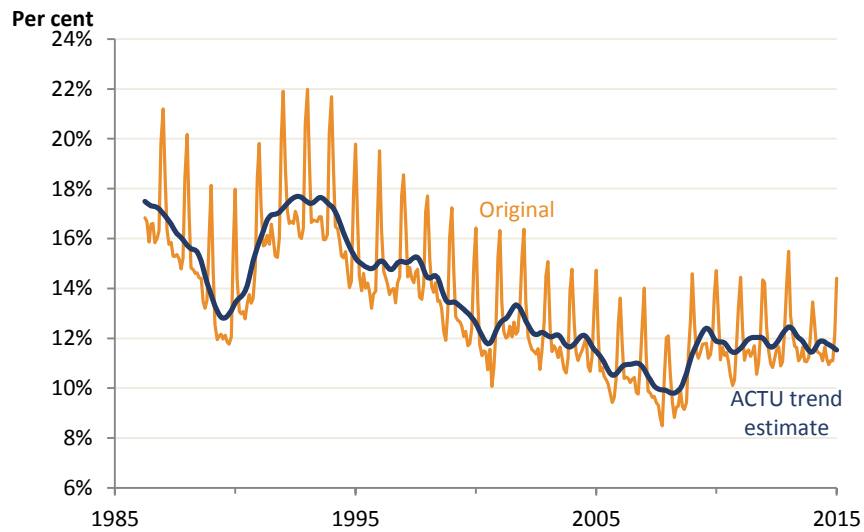
Per cent

Original

ACTU trend estimate

Source: ACTU calculations based on ABS 6291.0.55.001. 'Earning' = employed (full-time or part-time). 'Learning' = in full-time education. Trend series is seasonally adjusted by the ACTU using X12-ARIMA.

312. In the period since the financial crisis (taking January 2008 as a base period), the proportion of young people both earning and learning has remained about the same – around 22%. There has been a big drop in the proportion of young people who are earning, but not learning. This has been mostly offset by a rise in the share of the youth population that is learning, but not earning. This is shown in Figure 81. Some of the shift might reflect an increase in school leaving ages in some states (including NSW in 2010) and an increase in tertiary places.

Figure 81: Labour force status and educational attendance – persons aged 15-24
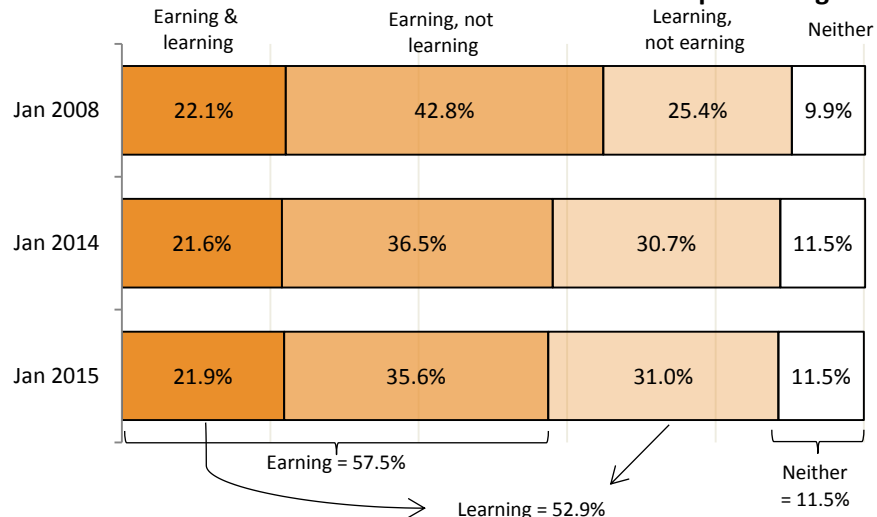
	Earning & learning	Earning, not learning	Learning, not earning	Neither
Jan 2008	22.1%	42.8%	25.4%	9.9%
Jan 2014	21.6%	36.5%	30.7%	11.5%
Jan 2015	21.9%	35.6%	31.0%	11.5%

Earning = 57.5%

Learning = 52.9%

Neither = 11.5%

Source: ACTU calculations based on ABS 6291.0.55.001. 'Earning' = employed (full-time or part-time). 'Learning' = in full-time education. Series are separately seasonally adjusted by the ACTU using X12-ARIMA and may not sum to 100 in some months.

313. Much of the rise in youth unemployment has reflected an increase in the proportion of young people who are unemployed but in full-time study. This is the highest on record, as shown in Figure 82. This is arguably a better outcome than a significant rise in the proportion of the population that is neither in employment or education.

Figure 82: Young people (15-24) unemployed & in full-time study
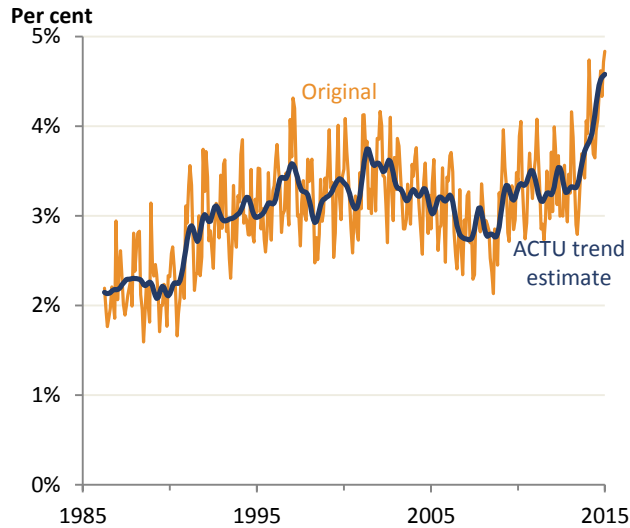
Source: ACTU calculations based on ABS 6291.0.55.001. Trend series is seasonally adjusted by the ACTU using X12-ARIMA.

314. Australia's youth unemployment rate remains lower than those of most other OECD countries, although the gap between Australia and the rest of the OECD is narrowing quickly. The OECD average in the fourth quarter of 2014 was 15%, compared to 13.6% in Australia.

Figure 83: Youth unemployment rate in OECD countries in fourth quarter of 2014
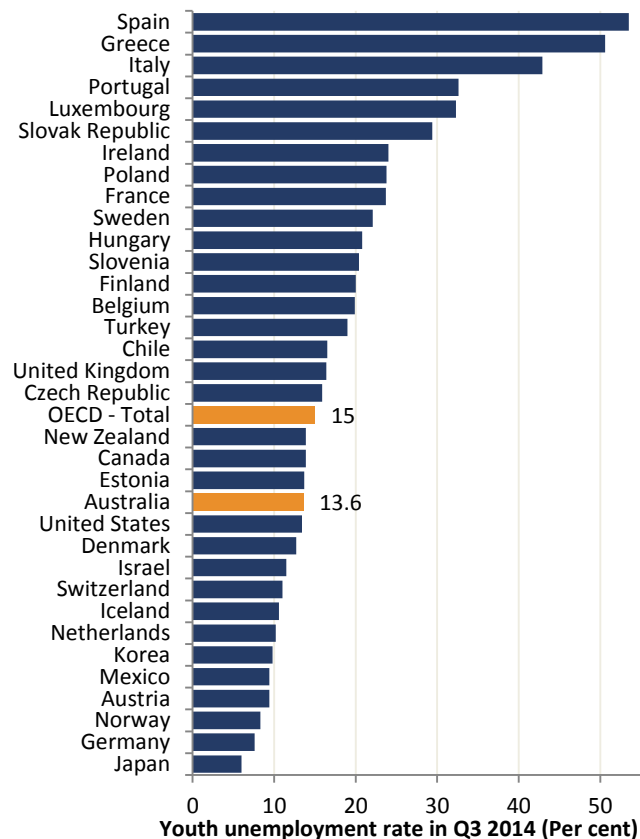
Source: OECD Stat

315. In the immediate aftermath of the financial crisis, Australia's youth unemployment rate reached a peak of just under 12%, while the UK's rate soared above 20% and those of Canada, the US and New

Zealand exceeded 15%. In the past year or two, though, youth unemployment in those countries has fallen fairly steadily, while Australia's rate has been rising, as shown in Figure 84.

Figure 84: Youth unemployment rates in selected OECD countries
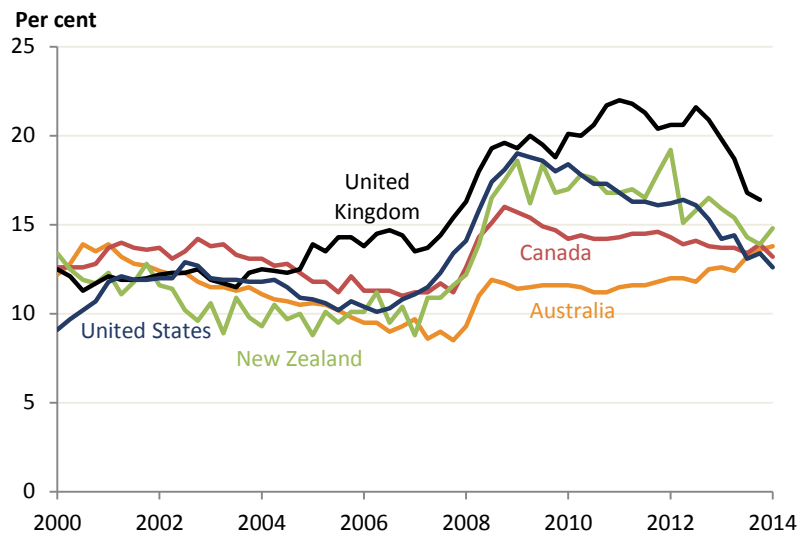
316. Unsurprisingly, youth unemployment tends to be higher in countries with higher overall unemployment. The relationship is quite strong[96] – once a country's unemployment rate for people aged 25-54 is known, a reasonably accurate estimate of the country's level of youth unemployment can be derived. This relationship is shown in Figure 85.

Figure 85: Relationship between 'prime age' and youth unemployment rates in OECD countries (2014 year average)
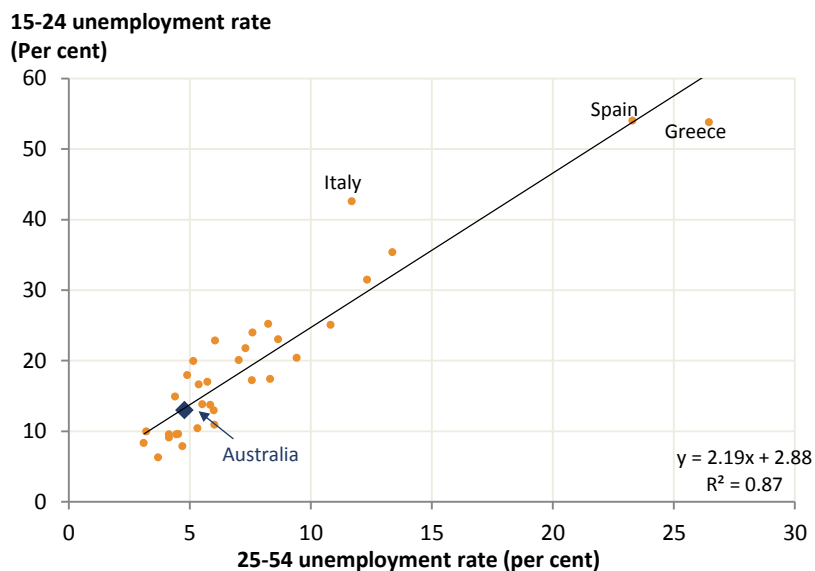
317. Australia's youth unemployment rate in 2014 was almost exactly what would be predicted given the prime-age unemployment rate and the cross-country relationship between the youth- and prime-age

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[96] The R^2 is 0.87.

unemployment rates, as shown in Figure 85. The unemployment rate for people aged 25-54 was 4.8% last year. Given this, a youth unemployment rate of about 13.3% is expected; the actual rate was 13%.[97]

318. While Australia's youth unemployment is higher than it has been in many years, it is around the level expected given our prime-age unemployment rate and the cross-country relationship between youth and prime-age unemployment. A similar story emerges if we look at Australia over time, as in Figure 86. Youth unemployment is a little higher than expected based on this past relationship, but it's within the range experienced in the past.

Figure 86: Unemployment rates for people aged 15-24 and people aged 25+ in Australia (Feb 1978 to Feb 2015)
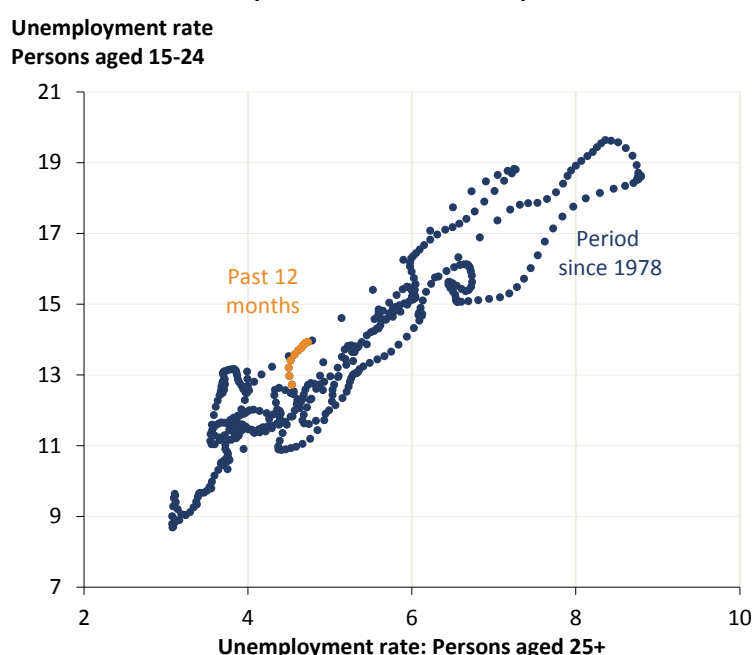
Source: ABS 6202 (trend) and ACTU calculations.

319. While youth unemployment has risen, the rise is more or less in line with expectations given the overall state of the labour market. That sate is, in turn, more or less in line with expectations given the pace of recent GDP growth. When real GDP grows at less than 3.2% a year, we tend to see unemployment rise in Australia. When unemployment rises, youth unemployment tends to rise even faster. That is what has occurred over the past couple of years: real GDP has not risen by 3.2% since September 2012, so unemployment and particularly youth unemployment have risen.

320. The Panel observed in its 2013-14 decision that "youth unemployment, while high, is not showing signs of a structural shift from its longer-term relationship with aggregate unemployment."[98] This remains the case.

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[97] As per Figure 85, these numbers pertain to annual averages over the period Q4 2013 to Q3 2014, as this the most recent full year for which OECD Stat has data for all advanced economies.

321. A rise in unemployment doesn't necessarily indicate that there are 'structural' problems to fix in the labour market, and a rise in youth unemployment doesn't necessarily indicate that there have been increased structural issues particular to young people that need to be addressed.

The relationship between unemployment and economic growth

322. A higher unemployment rate could, in theory, be a temporary result of weak economic growth; or it could reflect a longer-lived 'structural' rise in unemployment. The evidence suggests that the rise in unemployment over the past two years or so in Australia has been cyclical in nature – it has come about because of below-trend economic growth, not because of structural factors related to the labour market itself.

323. The relationship between economic growth and changes in the unemployment rate over the period since 1979 can be seen in Figure 87. This figure shows that economic growth of around 3.2% - the 'trend' pace of growth – has been enough to keep the unemployment rate stable over the past few decades. When real GDP grows by less than 3.2% over a 12 month period, the unemployment rate tends to rise. For each percentage point that economic growth falls below 3.2%, the unemployment rate tends to rise 0.4%. If the economy grew by 2.5%, as it did over the year to the December 2014 quarter, the relationship depicted in Figure 87 would predict a rise in the unemployment rate of 0.3 percentage points, very close to the actual rise of 0.4 percentage points.[99]

Figure 87: Okun's law –
the relationship between real GDP growth and change in the unemployment rate
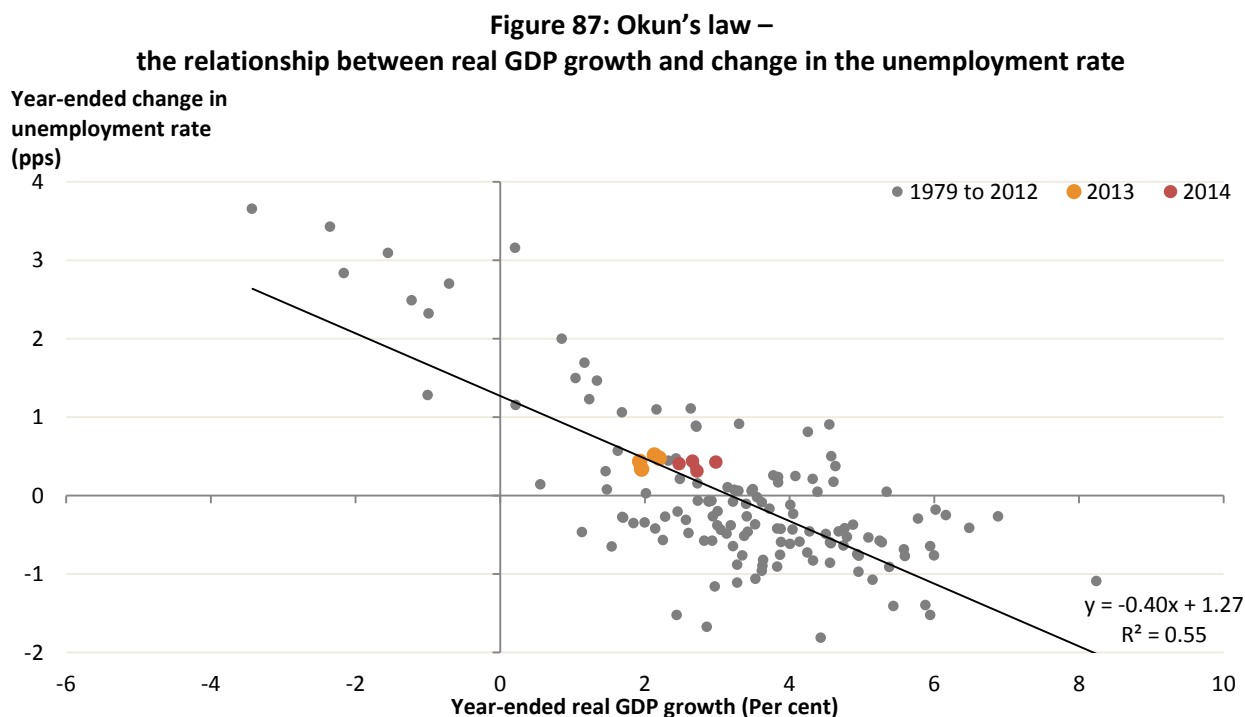
Source: ABS 5206, ABS 6202 and ACTU calculations.

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[98] [2014] FWCFB 3500, [28]
[99] The unemployment rate used here is the average of the seasonally adjusted rate for the three months that comprise the relevant quarter.

324. The rise in the unemployment rate over the past two years has been almost exactly of the magnitude that would have been expected given the pace of economic growth and the historical relationship between economic growth and changes in the unemployment rate.

325. A similar examination of the data was undertaken by Professor Jeff Borland of the University of Melbourne. In the 2014 Giblin Lecture at the University of Tasmania, Professor Borland concluded that "pretty much all of Australia's recent unemployment experience can be explained by its growth performance."[100]

326. The recent state of the Australian labour market is due to below-trend economic growth, which among other factors reflects the difficult transition away from the mining construction boom. The rise is not 'structural' in nature, and nor should it be inferred that the rise in unemployment should be ascribed to the Panel's decisions in past Reviews.

327. Recent analysis by the Reserve Bank also tentatively supports the assertion that the recent rise in unemployment is not structural in nature. A recent paper in the September 2014 edition of the RBA *Bulletin* included three estimates of the non-accelerating inflation rate of unemployment, or the 'structural' rate. One of the three estimates (based on unit labour costs) was lower in 2014 than it had been prior to the GFC. One (based on consumer prices) was around the same level in 2014 as it had been prior to the GFC, while the third (based on the domestic final demand deflator) was just slightly higher than it had been in 2008.[101] Each of the three estimates of structural unemployment was well below the current actual rate of unemployment, indicating on this analysis that there is spare capacity in the labour market and that the rise in unemployment has not been structural.

Employment by industry

328. Employment growth has been extremely strong in the Accommodation and Food Services industry, with employment growing by 1.7% in the February quarter and 6.9% over the year (in trend terms).

329. The Retail Trade also saw solid employment growth, adding 19 000 workers over the year, a growth rate of 1.5%.

330. Employment in the Health Care and Social Assistance industry was modest, adding just 1 700 new workers over the year to February (+0.1%). This comes after many years in which the industry has been one of the fastest growing – its share of total employment has risen from 10% to 12% over the past decade, and it is now the largest industry in the country in employment terms.

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[100] Borland, J. 2014, 'The Australian labour market: The more things change…', Giblin Lecture, 20 November, University of Tasmania. Available online: http://www.utas.edu.au/__data/assets/pdf_file/0012/622101/giblin2014.pdf [Accessed 14 March 2015]
[101] Ballantyne, A., De Voss, D. and Jacobs, D. 2014, 'Unemployment and Spare Capacity in the Labour Market', *RBA Bulletin,* September, RBA, Sydney.

331. Employment fell in the Administrative and Support Services industry by 18 700 workers, a 1.6% contraction in this relatively small, volatile industry.

332. The rate of growth in employment in each industry over the year to February 2015 (in trend terms) is shown in Figure 88 and Figure 89.

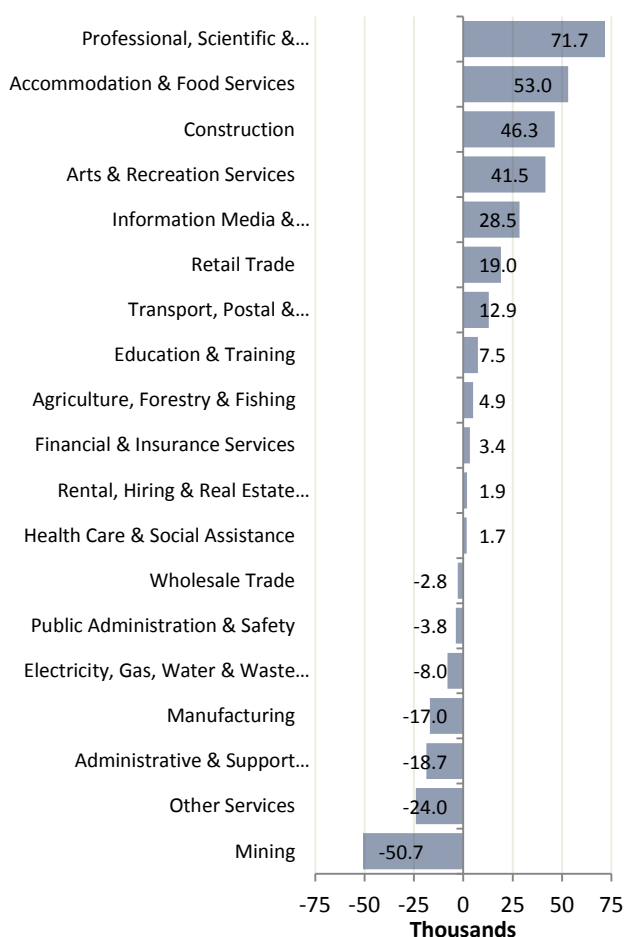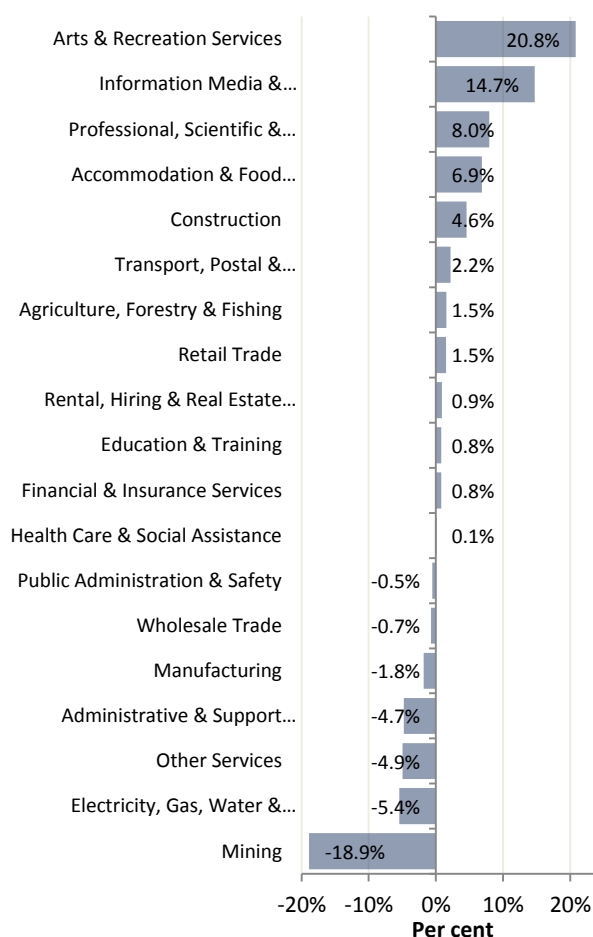**Figure 88: Growth in employment in the year to February 2015 (thousands of persons)**

Figure 89: Growth in employment in the year to February 2015 (per cent)

Source: ABS 6291.0.55.003 (trend) and ACTU calculations.

333. Taken together, the four industries that are the largest employers of award-only workers grew at the same pace as the overall labour market in the year to February, with employment growing by 1.5% (as shown in Figure 90). Because of this, the combined employment share of the four award industries remained the same over the past year. This follows several years in which the combined employment share of the four award industries has grown, as these industries combined saw faster employment growth than the total economy, as shown in Figure 91.

Figure 90: Annual employment growth in the total economy and in the more award reliant industries
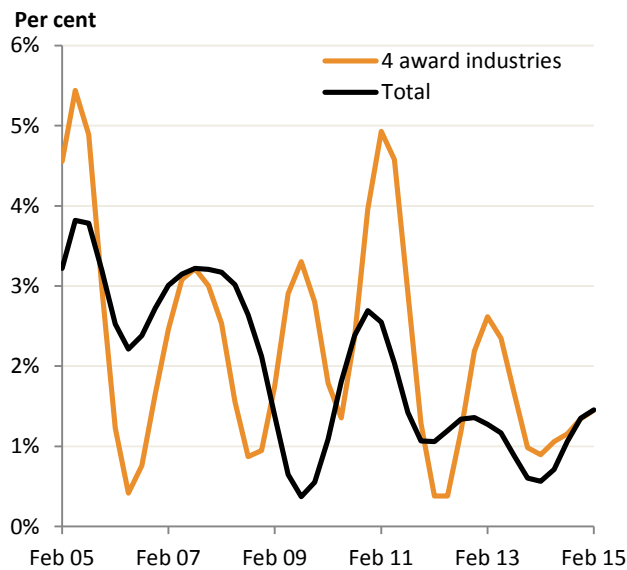
Figure 91: Employment share of the more award-reliant industries
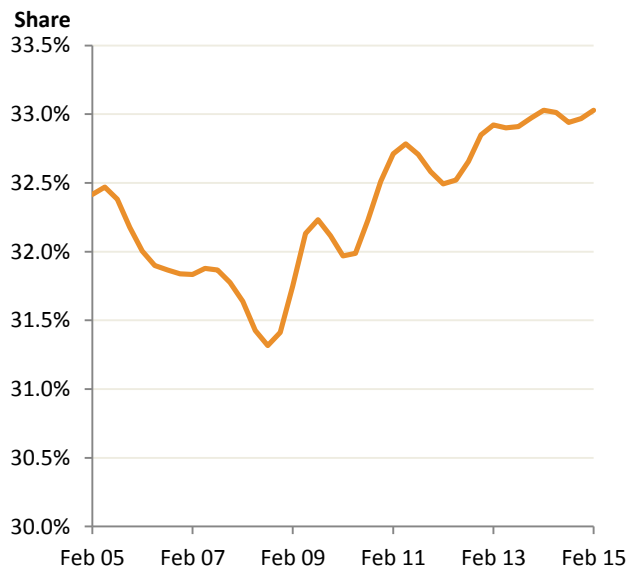
Source: ABS 6291.0.55.003 (trend) and ACTU calculations. The '4 award industries' are Health Care and Social Assistance, Retail Trade, Accommodation and Food Services, and Administrative and Support Services. The chart shows the annual growth in total employment in those four industries combined, compared to employment growth in the economy as a whole.

334. Employment shares are a useful way of gauging the growth rate of employment in an industry relative to employment as a whole. Figure 90 and Figure 91 make it clear that the more award reliant industries have experienced employment growth a little faster than the total economy on average over the past six years. However, aggregating the four award industries in this way obscures substantial differences between the growth rates of the industries. The industries' employment shares over the past decade are shown separately in the figures below.

335. It is clear in the figures below that there has been a high degree of heterogeneity in the rates of employment growth among the more award-reliant industries over the past decade. The Retail Trade industry's share of total employment fell steadily through the late 2000s until early 2012, and it has since picked up a little. Employment in Accommodation and Food Services has grown a little faster than total employment in most recent years, so the industry's employment share has increased a little. Employment in Administrative and Support Services has grown a little more slowly than the average and its share has shrunk; by contrast, the employment share of Health Care and Social Assistance has risen by a full two percentage points over the past decade as it has consistently been among the fastest growing industries.

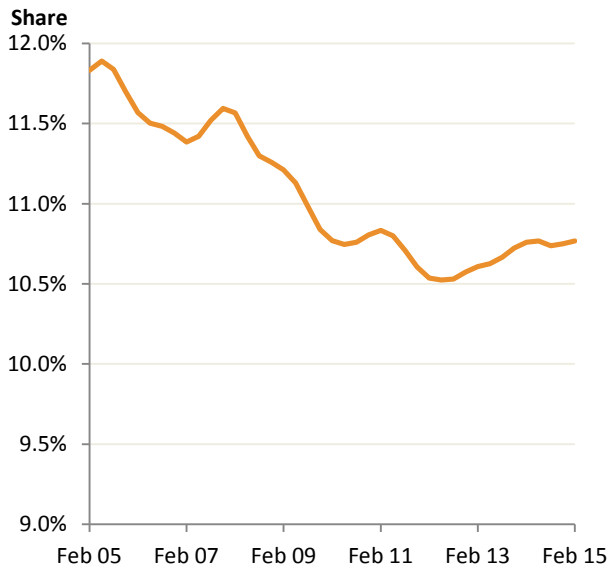**Figure 92: Employment in Retail Trade as a percentage of total employment**

Figure 93: Employment in Accommodation and Food Services as a percentage of total employment
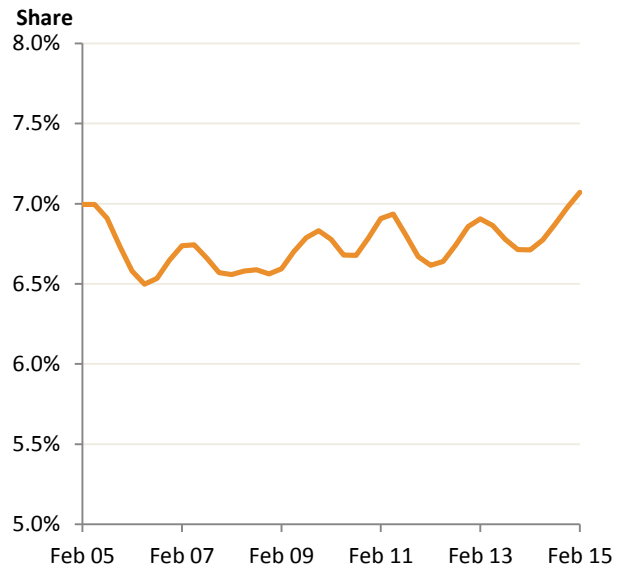

Figure 94: Employment in Administrative and Support Services as a percentage of total employment
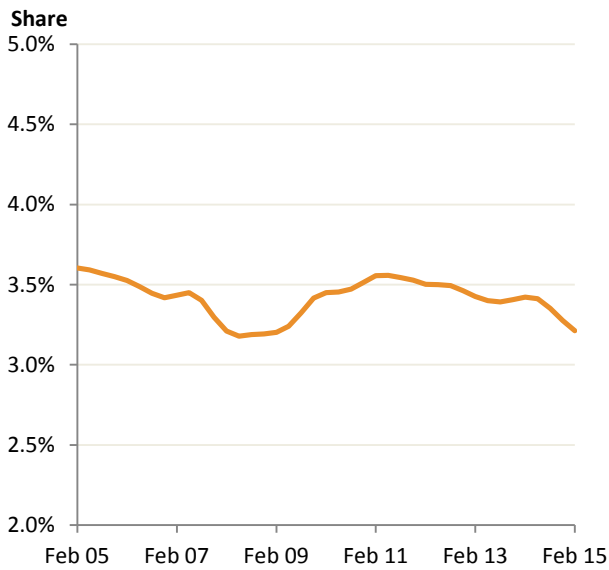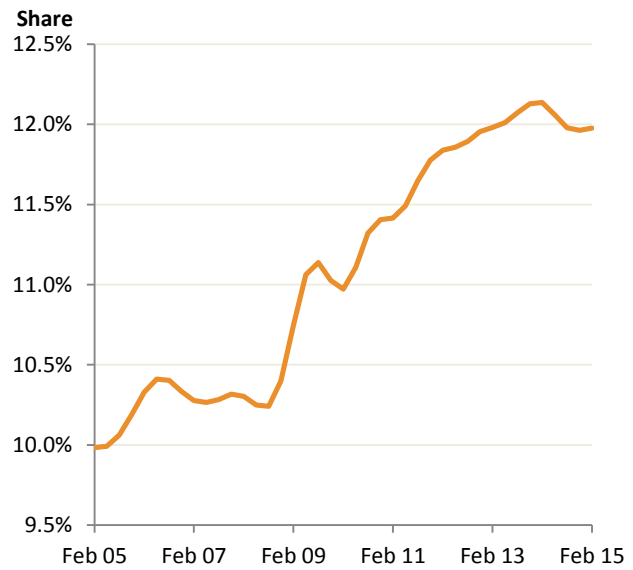

Figure 95: Employment in Health Care and Social Assistance as a percentage of total employment

Source: ABS 6291.0.55.003 (trend) and ACTU calculations.

336. There is no uniform trend among the more award-reliant industries. There is no consistent long-term trend in their employment shares, and nor is there a common (or identifiable) response to changes in minimum wages. The employment shares of the two most award-reliant industries (Retail Trade and Accommodation and Food Services) have increased in the past two years, which suggests that employment growth has not been dampened in those industries by the Panel's previous decisions.

337. The Department of Employment's latest projections for employment growth over the next five years show that employment in some of the more award-reliant industries is expected to continue to grow at a robust pace. The Department projects that total employment will rise by 10% over the five

years to November 2019. The most rapid employment growth (18.7%) is expected in Health Care and Social Assistance, one of the industries in which a significant number of award-reliant workers are employed. Employment is also projected to grow rapidly in Accommodation and Food Services (+13.9%), with 112 400 additional employed persons in the industry in November 2019 relative to 2014. The Department's projections are shown in Figure 96.

Figure 96: Projected employment growth by industry in the five years to November 2019

Industry	Projected employment growth – five years to November 2019	
	('000)	(%)
Agriculture, Forestry and Fishing	12	3.7%
Mining	-40.7	-17.8%
Manufacturing	-26.2	-2.9%
Electricity, Gas, Water and Waste Services	5.4	3.8%
Construction	137.9	13.0%
Wholesale Trade	24.8	6.3%
Retail Trade	111.1	8.9%
Accommodation and Food Services	112.4	13.9%
Transport, Postal and Warehousing	61	10.2%
Information Media and Telecommunications	8.6	4.0%
Financial and Insurance Services	46.4	11.3%
Rental, Hiring and Real Estate Services	27.8	12.6%
Professional, Scientific and Technical Services	136.6	14.4%
Administrative and Support Services	30.5	8.0%
Public Administration and Safety	51	7.0%
Education and Training	142.7	15.6%
Health Care and Social Assistance	258	18.7%
Arts and Recreation Services	31.3	13.8%
Other Services	36	7.6%
All Industries	**1166.4**	10.0%

Source: Department of Employment 2015, *Employment Projections*. Available from:
http://lmip.gov.au/default.aspx?LMIP/EmploymentProjections

338. There is no relationship between the level of award reliance in an industry and the projected rate of employment growth over the next five years. As discussed above, there are some industries with a high level of award reliance with strong projected employment growth, while some others have projected employment growth somewhat below the all-industries average. Figure 97 shows the level of award reliance in each industry as at May 2014[102], compared to the Department's projection for the pace of employment growth over the five years to November 2019.

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[102] As measured by the 'density' of award only workers, ie. award only employees as a percentage of all employees.

Figure 97: Level of award reliance and projected employment growth by industry
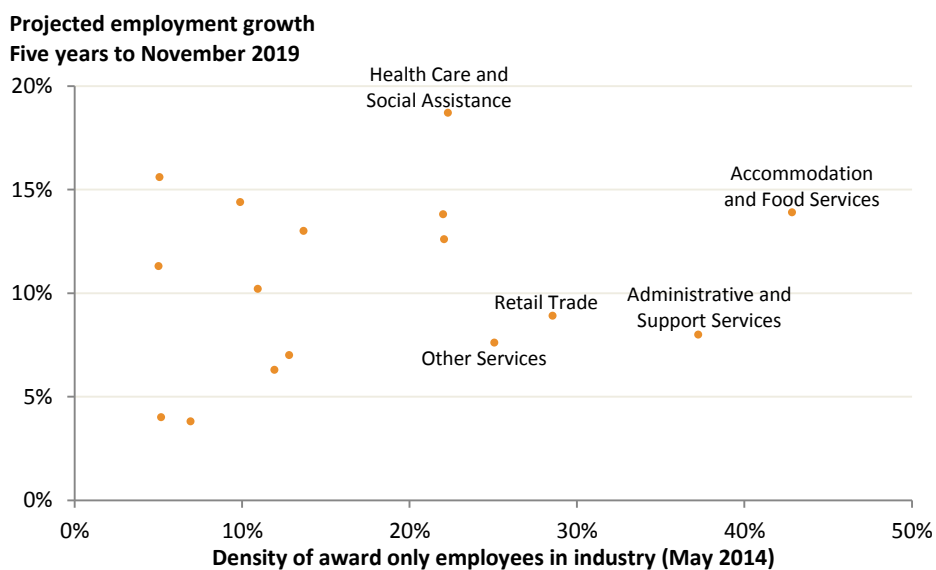
Source: Density of award only employees is an ACTU calculation based on ABS 6306, *Employee Earnings and Hours*. Projected employment growth is from the Department of Employment 2015, *Employment Projections*. Available from: http://lmip.gov.au/default.aspx?LMIP/EmploymentProjections. Note that the scatterplot omits the Agriculture, Forestry and Fishing industry, as it is outside the scope of ABS 6306.

339. If a trend line is fit to the points in Figure 97, it has an upward slope. In other words, on average, the industries with higher levels of award reliance are expected to experience faster employment growth. However, this relationship is weak (the slope coefficient is 0.26, R^2=0.13) and statistically insignificant (t-statistic=1.58). There is no statistically significant relationship between the level of award reliance in an industry and the expected pace of employment growth in the coming years. Some of the more award-reliant industries are projected to enjoy very strong employment growth.

Regional dispersion of labour force conditions

340. The state of the labour force has been uneven across the country. The unemployment rates of the states and territories range from 4.3% in the Northern Territory to 7% in South Australia (in trend terms).Over the year to February, the unemployment rate fell by 1 percentage point in Tasmania and 0.1 point in Victoria (in trend terms), while it rose by 1 point in the ACT and 0.8 points in WA.

341. However, this unevenness of labour market conditions is not new. The gap between the highest and lowest unemployment rates of the States and territories is around its average level for the past 12 years, as shown in Figure 99.

Figure 98: Range of unemployment rates in the states and territories
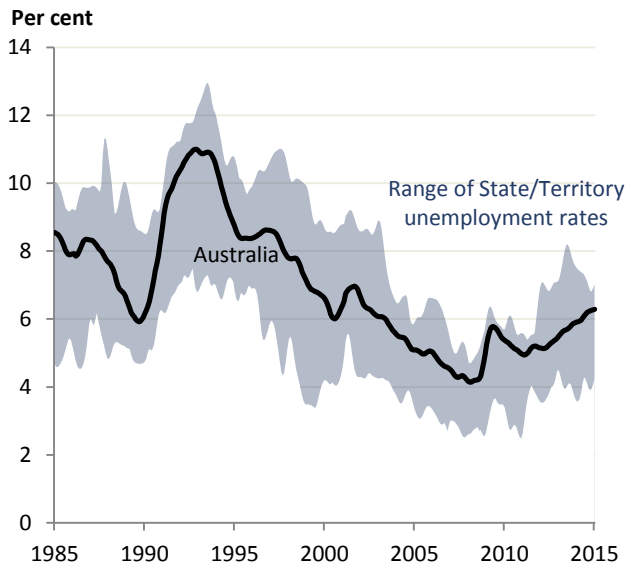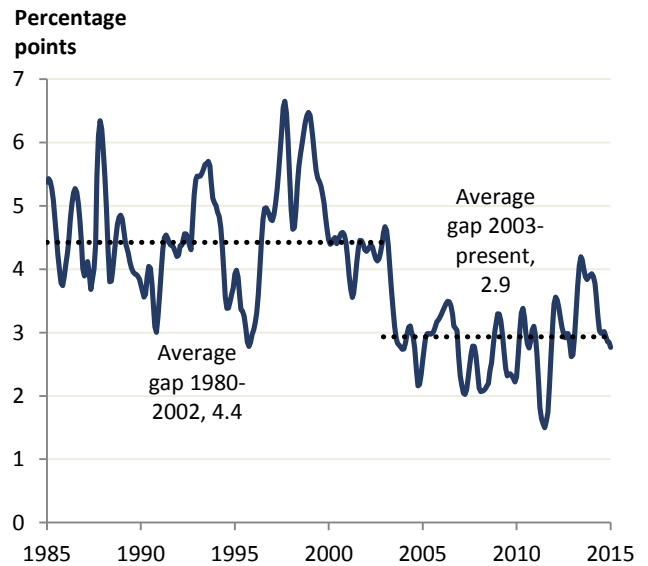
Per cent

Range of State/Territory unemployment rates

Australia

Figure 99: Gap between highest and lowest unemployment rates in the states/territories

Percentage points

Average gap 2003-present, 2.9

Average gap 1980-2002, 4.4

Source: ABS 6202 and ACTU calculations.

342. The same conclusion emerges if more granular labour force data is used, rather than state-level data. The ABS publishes unemployment rates for each of 87 regions across Australia. The dispersion among these regional unemployment rates (as measured by the standard deviation) tends to rise whenever the national unemployment rate rises, and similarly falls when the national unemployment rate falls. This relationship has remained intact in the recent period in which the unemployment rate has risen. In this period the standard deviation of regional unemployment rates also rose, by about the extent that would be expected given the rise in the national unemployment rate.

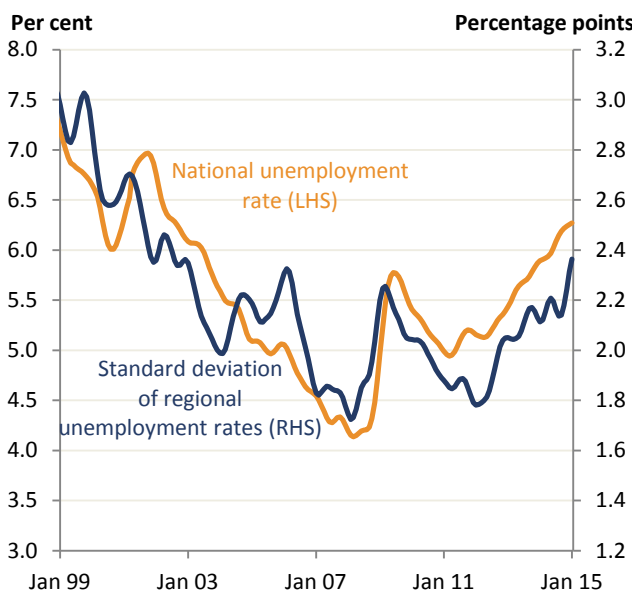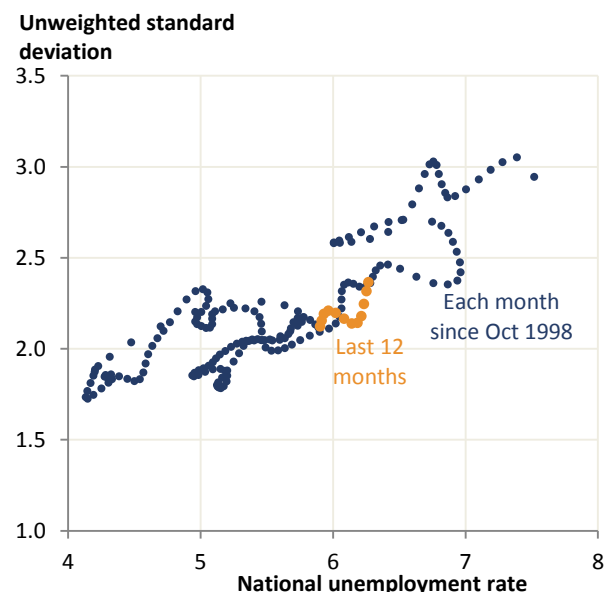## Figure 100: National unemployment rate and the standard deviation of regional rates

Per cent / Percentage points

National unemployment rate (LHS)

Standard deviation of regional unemployment rates (RHS)

Figure 101: Scatterplot of national unemployment rate and the standard deviation of regional rates

Unweighted standard deviation

Each month since Oct 1998

Last 12 months

National unemployment rate

Source: ABS 6202, ABS 6291.0.55.001 and ACTU calculations. Standard deviation of regional unemployment rates is based on original data, which is then seasonally adjusted by the ACTU using X12-ARIMA.

343. As always, some parts of the country are experiencing worse labour market conditions that other parts. However, the variation among the various parts of the country has not risen above its typical level. The Panel should disregard submissions that emphasise adverse labour market conditions in particular regions.

The economic outlook

344. Forecasts from the RBA and private sector forecasters anticipate that Australia's economy will grow faster this year than it did last year, and that growth will pick up further in 2016.

345. There is cause for optimism about the outlook for the labour market. Forward-looking indicators of the state of the labour market, including job advertisements, job vacancies, and consumers' unemployment expectations, have all improved in recent months. Forecasts from the IMF and OECD expect the unemployment rate to fall.

The growth outlook

346. The RBA forecasts that Australian GDP growth will reach a low point for this cycle in the March 2015 quarter before beginning to rise. By the time the Panel's decision in this Review comes into effect, in the third quarter of 2015, growth is expected to have picked up. The RBA forecasts that growth will increase to 3.25% - around its trend rate – in the year to the June 2016 quarter.[103]

347. The economic outlook, as always, is uncertain. The multitude of factors that can affect the Australian economy – from international developments to domestic policy decisions to the ephemeral confidence of consumers and households – cannot be predicted with any precision. The Reserve Bank can only be 90% sure that GDP growth in 2015 will be somewhere between 0.5% and 5%.[104]

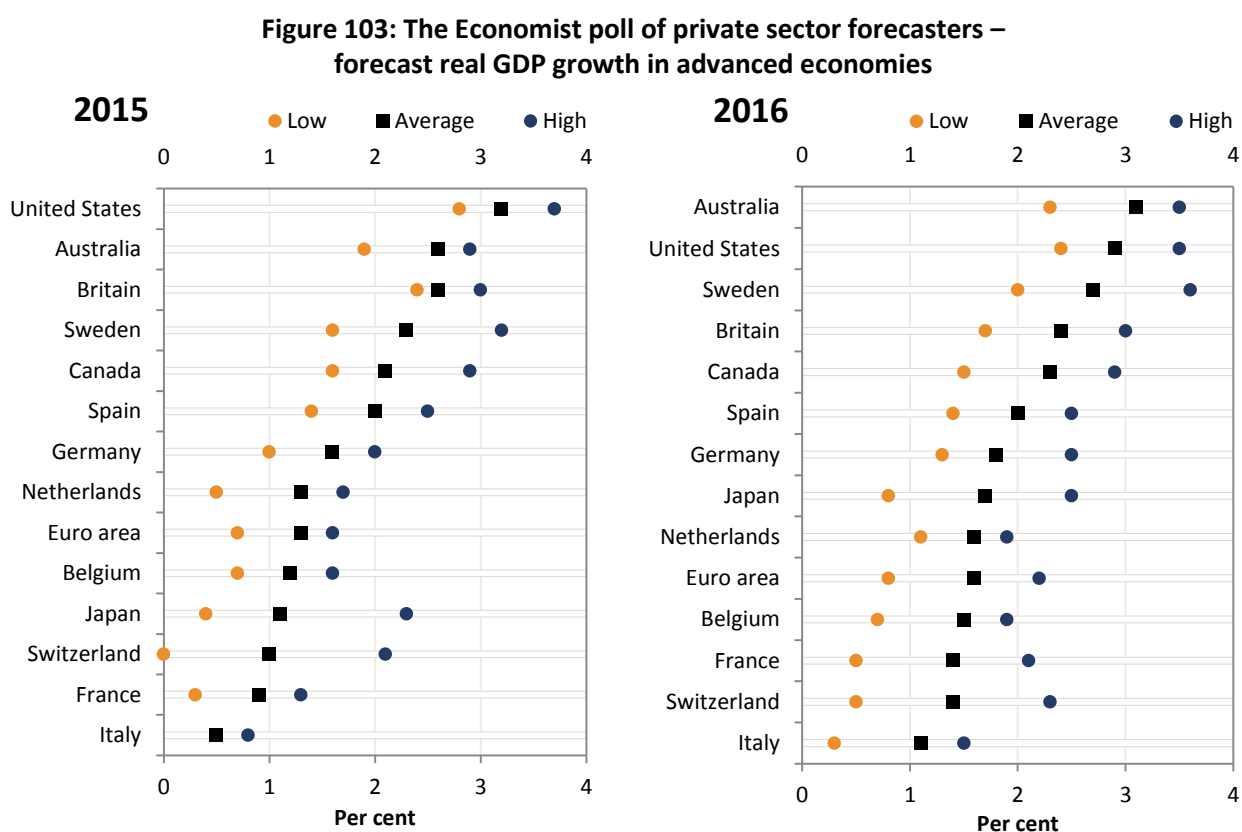**Figure 102: RBA's forecast for Australian real GDP growth**
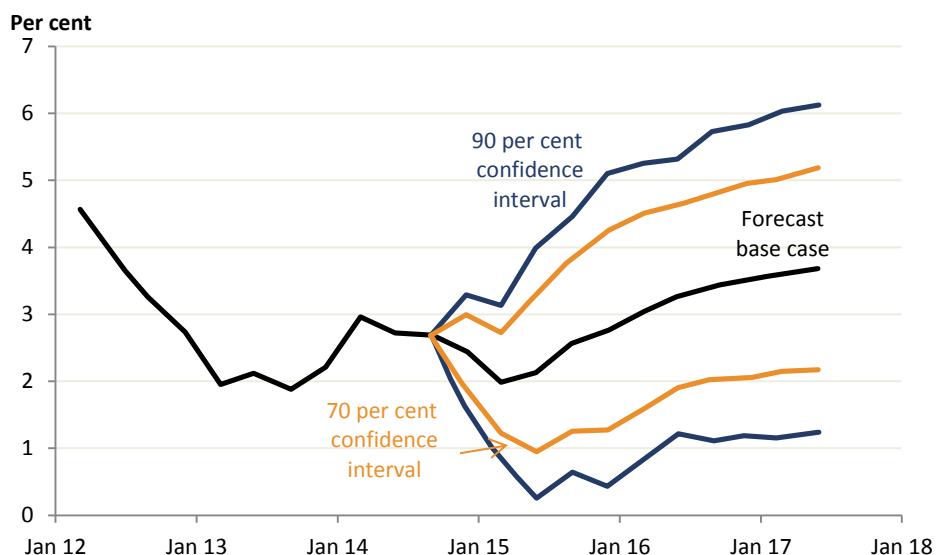
Source: RBA *Statement on Monetary Policy*, February 2015.

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[103] These growth forecasts are the mid-points of the RBA's forecast range.
[104] See Graph 6.3 in Reserve Bank of Australia 2015, *Statement on Monetary Policy,* February, RBA, Sydney, p.74.

348. *The Economist* conducts a regular poll of private forecasters, most of which are major international financial institutions. In the latest poll, conducted in early March, the forecasters are optimistic about the growth prospects for the Australian economy. *The Economist* asks forecasters for their expectations of GDP growth in 13 advanced economies, plus the Euro area. On average, these forecasters expect the Australian economy to grow by 2.6% this year – the second fastest of all the countries included in poll. The forecasters expect 3.1% growth for Australia in 2016 – the fastest of any of the countries included.

349. The results of the latest poll of forecasters by *The Economist* are shown at Figure 103. The average[105] GDP growth forecast is shown as a black square; the lowest growth rate expected by any of the forecasters is an orange dot and the highest is a blue dot. Australia's economy is expected to continue to grow at, or close to, the fastest pace of any advanced economy.

**Figure 103: The Economist poll of private sector forecasters –
forecast real GDP growth in advanced economies**

Source: *The Economist*, 7 March 2015. Available from: http://www.economist.com/news/economic-and-financial-indicators/21645743-economist-poll-forecasters-march-averages. The forecasters included in the poll are Bank of America, BNP Paribas, Citigroup, Commerzbank, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, ING, JPMorgan Chase, KBC Bank, Morgan Stanley, RBC, RBS, Schroders, Scotia Capital, Société Générale, Standard Chartered, and UBS.

The outlook for the labour market

350. The Australian Government forecasts that the unemployment rate will rise to 6.5% by the June quarter 2015 and remain there at the June quarter 2016. Other forecasts are more optimistic. The

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[105] Ie. the simple arithmetic mean forecast.

OECD forecasts a 6.1% unemployment rate for Australia in the fourth quarter of 2015, falling to 5.8% by the fourth quarter of 2016. The IMF forecasts an average unemployment rate in 2015 of 6.05%, falling to an average of 5.9% next year. These official forecasts are shown in Figure 104.

Figure 104: Forecasts for the Australian unemployment rate
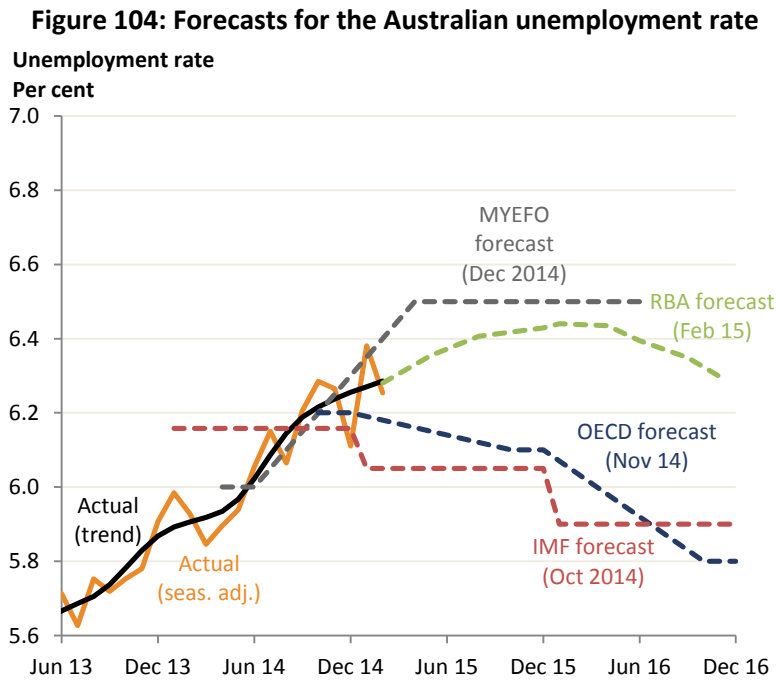
Source: ABS 6202, IMF WEO database April 2014, OECD *Economic Outlook* Annex Table 13, MYEFO 2013-14 Table 1.2, RBA *Statement on Monetary Policy* Feb 2015. Note that IMF forecasts are year averages; OECD forecasts are for the Dec quarter; MYEFO forecasts are for June quarter.

351. The IMF and OECD forecasts suggest that unemployment may have peaked. This is consistent with tentative positive signs that the labour market may improve in the coming months. When job advertisements grow, employment tends to grow in the period that follows, as shown in Figure 105. The number of job advertisements (as measured by the ANZ series) has grown each month since May 2014. Over the year to February 2015, job advertisements rose by 9.8%. Employment has also begun to grow a little faster (as noted earlier). Given the growth in job advertisements, it would be expected (based on past experience) that employment will grow at a quicker pace in the coming months.

**Figure 105: Growth in job advertisement and employment**
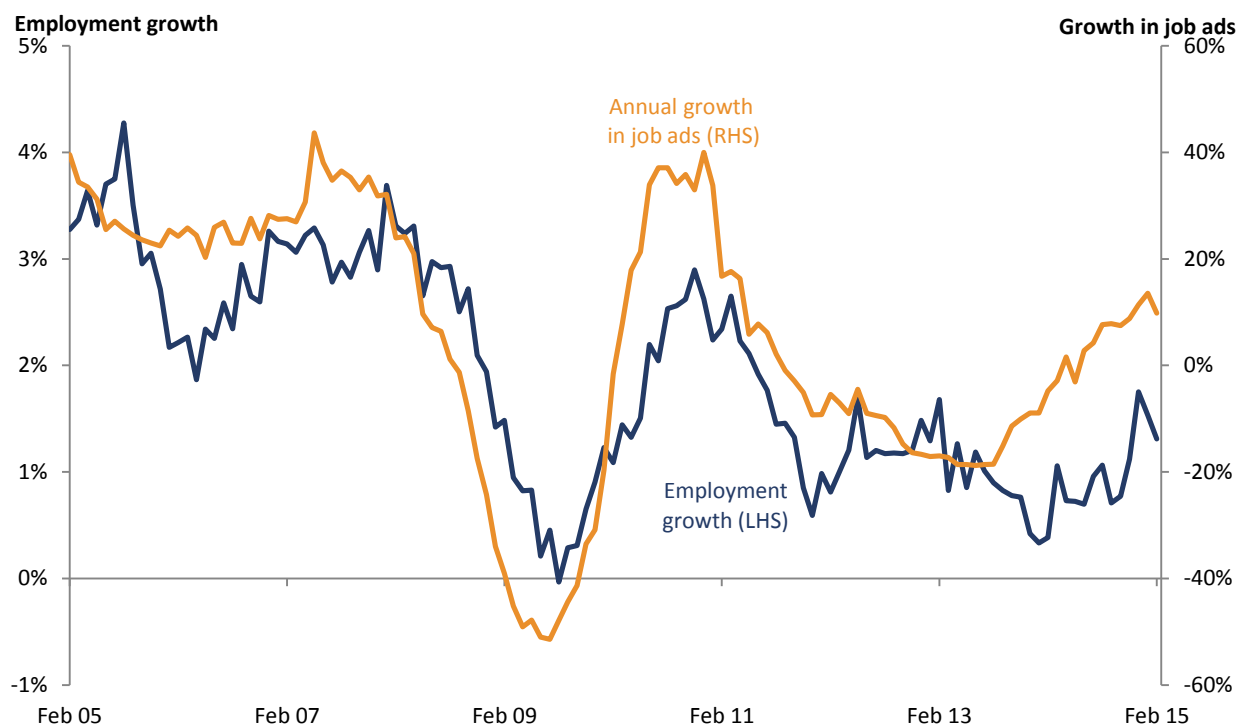
Source: ANZ job advertisements series, ABS 6202 and ACTU calculations.

352. Similarly, the ABS measure of job vacancies rose in each quarter between August 2013 and November 2014 (the latest available data). The number of vacancies rose by 6.7% over the year to the November 2014 quarter. A rise in vacancies is generally a positive indication of the likely change in labour force conditions over the coming period.

353. Another measure that tends to give some indication of the likely direction of change in labour market conditions is consumers' unemployment expectations. The Westpac-Melbourne Institute Survey of Consumer Unemployment Expectations asks respondents whether they expect unemployment to rise, fall, or remain the same over the following 12 months. The index is shown in Figure 106. Higher values of the index indicates that a larger proportion of respondents expect a rise in the unemployment rate. When a higher unemployment rate is expected, it tends to eventuate.

354. In the past few years, consumers have been pessimistic about the unemployment rate. Consumers' unemployment expectations fell each month between December 2014 and March 2015 (both in original and seasonally adjusted terms). Consumers remain pessimistic, but their pessimism appears to have subsided somewhat in recent months, which augurs well for unemployment in the coming months.

Figure 106: Consumers' unemployment expectations and the change in the unemployment rate
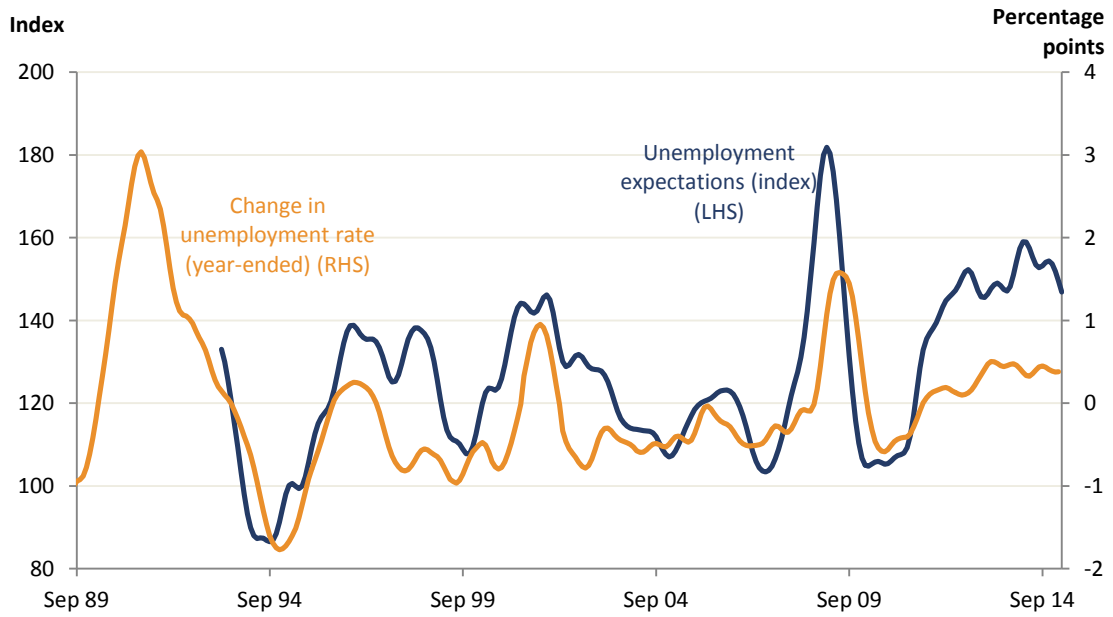
Source: Westpac-Melbourne Institute Unemployment Expectations Index and ABS 6202 (trend). Unemployment expectations index seasonally adjusted by the ACTU using X12-ARIMA.

355. There is cause for optimism that the pace of economic growth and the state of the labour market will improve over the remainder of 2015 and into 2016.

Other matters

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

Juniors, apprentices and trainees

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

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

359. As we have already outlined, the ACTU seeks a hybrid increase to award rates of pay of $27/3.6%.

360. The ACTU submits that this increase to award rates, or any other increase to minimum wages in modern awards that the panel decides on, should flow through to juniors, apprentices and trainees in the usual manner.

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

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

363. In the case of modern awards that contain separate trainee rates outside the NTWS, we support a $27 increase to trainee rates that are equivalent to the C10 rate or less, and a 3.6 % increase to trainee rates that are in excess of the C10 rate.

Employees with disability

364. In open employment, the Supported Wage System (SWS) Schedule provides for minimum wage rates for employees whose productivity is affected by disability and who meet certain eligibility

criteria. Employees of Australian Disability Enterprises (ADEs) are largely covered by the Supported Employment Services Award 2010 (the SES Award), which lists a number of approved wage assessment tools, including the SWS tool, by which employees can have their wage rates determined.

365. Following a judgement of the Full Court of the Federal Court in Nojin v Commonwealth of Australia [2012]FCAFC 192 (21 December 2012), the Business Services Wage Assessment Tool (BSWAT), a commonly used wage assessment tool in supported employment, was found to have unfairly discriminated against workers with an intellectual disability. As a result, ADEs have ceased assessing wages under the BSWAT.

366. The ACTU has been assisting United Voice and the Health Services Union in their joint application to vary the Supported Employment Services Award 2010. As part of this process, the parties have been undertaking conciliation hearings with a view to varying the SES Award to remove the BSWAT from the list of approved wage tools. Discussions are ongoing, and a trial is currently being undertaken to assess the viability of ADEs assessing their employees under a modified SWS tool. No decision has yet been made about the other wage assessment tools in the Award.

367. These developments do not indicate that there is a need for the Panel to depart from its previous approach to setting wage rates for employees whose productivity is affected by disability.

368. The minimum payment for SWS employees should be adjusted by reference to the annual CPI increase to the most recent March quarter in accordance with the adjustment mechanism established by Division 2-CPI indexation of the Social Security Act 1991('SSA'). [106]

369. The other wage assessment tools operate by reference to modern award minimum wages and will, if retained, continue to operate in the usual manner.

Casual loading

370. We submit that the casual loading in modern awards and for award/agreement free employees should be maintained at 25 per cent.

Piece rates

371. Piece rates in modern awards are fixed by reference to minimum weekly or hourly wages in those awards. Any adjustment in modern award minimum wages will and should automatically flow through to employees engaged on piece work. [107]

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[106] For further information, see ACTU's submission to the 2012 Annual Wage Review, at [460].
[107] [2011] FWAFB 3400, [376].