# Table of Contents

Table of Contents .............................................................................................................. 2  
List of Figures ................................................................................................................... 3  
List of Tables ..................................................................................................................... 5  
Executive Summary ......................................................................................................... 7  

Section 1  Introduction ........................................................................................................ 16  
Section 2  Impact of 2007 Decision ................................................................................. 19  
Section 3  A Closer Look at Minimum Wage Workers .................................................... 29  
Section 4  Inflation ............................................................................................................ 44  
Section 5  The labour market ............................................................................................ 49  
Section 6  Movements in wages ....................................................................................... 72  
Section 7  Economic Conditions ...................................................................................... 80  
Section 8  Economic Outlook ........................................................................................... 89  
Section 9  ACTU Request ............................................................................................... 96  
Section 10 Providing a safety net for the low paid ......................................................... 105  
Section 11 Impact on agricultural workers ...................................................................... 128  
Section 12 Apprentices, trainees, junior rates, workers with disability, casual loadings and piece rates .................................................................................................................. 133  
Section 13 Pay equity ....................................................................................................... 140  
Section 14 The future ....................................................................................................... 142  
Section 15 Conclusion ..................................................................................................... 146
List of Figures

Figure 3.1: Real Average Full-Time Adult Total Earnings (Private Sector) 2003-2007 .........................38

Figure 4.1: Total Hourly rates of pay (excluding bonuses) – Australia – Private sector .....................45
Figure 4.2: Wages and Profit - shares of national incomes – 1959-2007 ..............................................46

Figure 5.1: Employed persons ..............................................................................................................57
Figure 5.2: Unemployment rate ............................................................................................................57
Figure 5.3: Labour Force Participation Rate ........................................................................................58
Figure 5.4: Labour Underutilisation rates September 2001 – September 2007 .................................59
Figure 5.5: Aggregate Weekly Hours Worked November 2006– 2007 .................................................62
Figure 5.6: Job Vacancies, Australia, Private Sector November 2007 ..................................................62
Figure 5.7: Lacked necessary skills or education ..................................................................................63
Figure 5.8: Insufficient work experience ..............................................................................................64
Figure 5.9: Number of job seekers without a non-school qualification ................................................64
Figure 5.10: Employment Growth – November 2006 – November 2007 ............................................65
Figure 5.11: Industry hours August 2005 – November 2007 .................................................................66
Figure 5.12: All Industries Vacancies November Quarter 2007 ...........................................................67
Figure 5.13: Top Four vacancies by occupation December 2007 .......................................................68
Figure 5.14: Top Four vacancies by occupation January 2008 ............................................................68
Figure 5.15: Top Four vacancies by occupation February 2008 ..........................................................69

Figure 6.1: Yearly movements to December quarter in the Wage Price Index: Total Hourly Rates Excluding Bonuses ........................................................................................................73
Figure 6.2: Average Weekly Earnings yearly increase to November quarter 2000-2007 ....................75
Figure 6.3: Average Weekly Earnings Private Sector yearly increase to November quarter 2000-2007 ...........................................................................................................................................76
Figure 6.4: AAWI Federal wage Agreements Formalised in the quarter ..............................................77
Figure 6.5: Employees covered by Current Agreements Sep 04 – Sep 07 ........................................78

Figure 7.1: Actual and Expected Total Capital Expenditure ..........................................................83
Figure 7.2: Wages share of total factor income ........................................................................85
Figure 7.3: Profit share of total factor income ...........................................................................85
Figure 7.4: Unit Labour Costs – Real Non-farm .........................................................................87

Figure 10.1: Vacancy Rates and Rents ....................................................................................116
Figure 10.2: Average Price of Unleaded Petrol .......................................................................120
Figure 10.3: CPI Items Rising Faster than 2.5 per cent .............................................................122
Figure 10.4 Disposable Income Changes 2005-2007 ...............................................................124
List of Tables

Table 2.1: Real Wage change per week Decision 3/2007 ................................................................. 22
Table 2.2: Real Wage change per week Decisions 1/2006 and 3/2007 ............................................ 23
Table 2.3 Growth in Wages June 2005 – October 2007 ................................................................. 26
Table 2.4: Wage Price Index March June September Quarters 2007 ................................................. 27

Table 3.1: Pay Scale Reliance and Average Total Weekly Cash Earnings
by Industry .......................................................................................................................................... 33
Table 3.2: Proportion of Minimum Wage Employees by Occupation by Average Weekly Total Cash
Earnings for Minimum Wage and Collective Agreement Employees ........................................... 34
Table 3.3 Earnings by Method of Setting Pay by Managerial status by Private Sector and
All Sectors ......................................................................................................................................... 36
Table 3.4: Average Weekly Total Cash Earnings and Minimum Wage Dependency
by Pay Setting and Sex .......................................................................................................................... 39
Table 3.5: Methods of setting pay, Average Weekly Total Cash Earnings (a) and Hours Paid For, Non-
managerial employees Australia ........................................................................................................... 41
Table 3.6: Minimum wage employee percentage & earnings by Business Size ................................ 42
Table 3.7: Minimum Wage as Proportion of all employees and Earnings by Type of Employment
Private Sector ....................................................................................................................................... 43

Table 5.1: Change in Median Earnings and Movement of jobseekers from unemployment ............. 53
Table 5.2: Budget and MYEFO Employment Forecasts ...................................................................... 55
Table 5.3: Employment Growth by State ............................................................................................ 60
Table 5.4: Unemployment Rate by Occupation November 2005, 2006 & 2007 ................................. 70

Table 6.1: Percentage change in LPI excluding bonuses, Private Sector ........................................ 74
Table 6.2: Senior Management Remuneration .................................................................................. 78
Table 7.1: Increase in Gross Value Added December 2006 – December 2007 ...........................................88

Table 8.1: Domestic Economic Forecasts (a) ..................................................................................................90
Table 8.2: Major economic parameters(a) ..................................................................................................91
Table 8.3 RBA Inflation forecasts (a) ........................................................................................................95

Table 9.1 Economy wide costing of a $26 per week increase to Minimum Wage rates in all jurisdictions
..................................................................................................................................................................98
Table 9.2: Estimated impact of various increases to ordinary time earnings and impact on CPI. For All
Minimum Wage Workers in all jurisdictions and within the jurisdiction of the AFPC. .........................99

Table 10.1: Analytical Living Cost Indexes for Selected Australian Household Types .........................114
Table 10.2: Interest Rate Increases – 2005-2008 .......................................................................................116
Table 10.3: Child Care Worker wages ......................................................................................................118
Table 10.4: Financial Stress Indicators .....................................................................................................123
Table 10.5: Changes in Rates of income tax .............................................................................................124
Table 10.6: Tax Cuts 1 July 2008 ..............................................................................................................126

Table 14.1: C6 Minimum Wage rate 2005-2006 .....................................................................................145
Executive Summary

Impact of the 2007 Decision

During a period of economic prosperity the AFPC is acting contrary to its statutory obligations when it continues to reduce the real value of minimum wages.

Sixty two per cent of minimum wage workers have suffered a decrease in their real wages as a result of the two Minimum Wage determinations by the AFPC.

The last AFPC determination increased weekly wages in real terms by 6 cents for 4 per cent of minimum wage workers and reduced the wage of 96 per cent of minimum wage earners between 28 cents and $15.67 per week.

These real wage declines would have been greater had the treatment of child care costs been unaltered in the September Quarter 2007 CPI.

The value of the income safety net needs to take into account changes in the real value of minimum wages beyond the FMW. Only 4 per cent of minimum wage workers receive the Standard FMW. It is disingenuous to argue that minimum wages have been “broadly steady” in real value.
Most workers employed on the Federal Minimum Wage, that is the lowest of the pay scales, are on that rate for a very limited period.

The ACTU rejects the proposition that reducing the value of minimum wages compared to average wages will boost employment opportunities for the unemployed.

The Federal Minimum Wage has grown by less than the growth in wages as measured by the Wage Price Index.

**A Closer Look at Minimum Wage Workers**

Minimum wage workers face multiple barriers to improved wages.

Minimum wage workers earn less. The majority being women, are employed in lower skilled jobs with low levels of unionization, are more likely to be employed as a casual, working less hours and are restricted to small and medium sized private sector business in few industries.

The proportion of minimum wage workers in the Australian workforce has dropped to 19 per cent or about 1.577 million workers. Approximately 1.1 million of these fall within the jurisdiction of the AFPC.

Minimum wage workers are concentrated in the Accommodation Cafes and Restaurants, Retail Trade, Health and Community Services and Property and Business Services Industries.

The AFPC has overseen a real reduction in the incomes of Minimum Wage Workers.
Inflation

The ACTU supports the fight against inflation, but not at the expense of Australia’s lowest paid workers.

Increases to minimum wages have not and will not cause inflation. There are other reasons for this trend.

Current Australian inflation is not attributable to wage demands by workers, particularly minimum wage workers.

The share of profits to wages in national income is at historical highs.

The granting of the ACTU request in full will have a negligible impact on inflationary pressures but will provide some real protection against rising prices for the low paid.

The labour market

Moderate real increases to the minimum wages do not have a negative impact on employment levels.

Studies show that increases in the rate of minimum wages do not price workers out of a job.

The labour market is strong with employment up, unemployment down and increased participation levels amongst low skilled workers.

Aggregate weekly hours worked and job vacancies have increased.

Minimum wage industries have had significant growth in employment and job vacancies.
Movements in Wages

There are steady but moderate growth in real wages.

The Wage Price Index is steady at 4.2 per cent for the year to December 2007.

The Labour Price Index reduced from 4.0 per cent in the financial year 2005-06 to to 3.6 per cent for the 2006-07 period.

Full – time adult Average Weekly Earnings increased by 4.8 per cent for the year to November 2007. Inflated by the privatisation of Telstra Corporation, private sector earnings for the same period increased by 5.4 per cent.

The measure of bargaining outcomes, the Average Annualized Wage Increase (AAWI) per employee was 3.9 per cent to September 2007.

Senior Management remuneration has increased by 7 per cent.

The granting of the ACTU’s request for a $26 per week increase will ensure the wages gap does not continue to widen.

Economic Conditions

GDP grew by 3.9 per cent for the year to December 2007 consequently the Australian economy is in its 27th consecutive quarter of growth. Domestic final demand, consumption and investment (actual and expected) are higher.

Australia’s Terms of Trade continue to improve.
The wages share of Total Factor Income has reduced as the profit share has increased. The Gross Operating Surplus of corporations is at historically high levels.

Productivity continues to grow and in most instances is above average in minimum wage industries.

There is no justification to not allow low wage earners to share in the fruits of a strong Australian economy.

**Economic Outlook**

Australia faces a positive economic outlook with the economy forecast to grow by 4 ¼ per cent in 2007-08 and 3 ½ per cent in 2008-09. Investment and demand are also forecast to grow.

Treasury forecasts the terms of trade to increase by 1 ¼ per cent in 2007-08.

Employment is forecast to grow by a further 2 ¼ per cent during 2007-08.

Unemployment is forecast to increase slightly from a historic seasonally adjusted low of 4.0 per cent.

Wages are forecast to grow by 4 ¼ per cent in 2007-08 and 2008-09.

Inflation is forecast by the RBA to be 3 ½ per cent to December 2008.

**Providing a safety net for the low paid**

More working families than ever before are under financial pressure.
The AFPC has an obligation to ensure there is an adequate safety net.

Increases in income support payments and tax reductions do have an impact on those low paid workers who qualify. This does not diminish the AFPC’s role in ensuring an adequate wage safety net.

Wages provide an incentive to work and are a necessary protection against hardship and reward for work and as such should be treated differently to social welfare payments.

Low income earners face relatively low effective marginal tax rates.

Low income wage earners come from households at the bottom 40 per cent of income distribution.

Working households with rising fuel, housing and other costs are under tremendous financial pressure.

As an example, full-time child care workers cannot afford home ownership, with mortgage repayments in many instances exceeding gross annual income.

Indicators show that low paid workers are suffering higher levels of financial stress than other workers.

Changes to the tax arrangements will only partially offset the extreme pressures facing low income earners.

Decent wages are the key to improved living standards.

The ACTU rejects the notion that employees who depend on minimum wages should suffer a cut in real wages.
Impact on Agricultural workers

The AFPC has frozen the wages of agricultural workers.

The vast majority of agricultural workers remain under the jurisdiction of the AIRC. However the AIRC is bound to follow the decisions of the AFPC.

The wages of agricultural workers have been frozen for an unacceptably long period.

Farm sector output is recovering with prices continuing to surge.

There is a labour force shortage in the agricultural sector and the AFPC is adding to this by freezing wages and consequently reducing the supply of labour.

The ACTU supports the AWU’s submissions regarding agricultural sector pay scale adjustments.

Apprentices, trainees, junior rates, workers with disability, casual loadings and piece rates

The general AFPC decision should flow to juniors and trainees and those working on a supported wage.

Minimum rates of pay for first year apprentices are below the poverty line and barely above the living standard of the unemployed.

The ACTU supports an approach that does not disadvantage casual employees.

There should be a cautious approach to the adjustment of piece rates.
Pay equity

More women are dependent on minimum wages and are paid considerably less.

The AFPC should have regard to pay equity considerations when making a decision.

The future

Future AFPC decisions should be made after the release of the June Quarter CPI data in the 3rd week of July.

The ACTU does not support the lesser adjustment of higher pay scales.

All workers who are 100 per cent reliant on minimum wages are 100 per cent reliant on minimum wages.

There is little evidence of collective bargaining at higher pay scales and individual arrangements are uneven.

Substantial numbers of median and higher income earners are unable to obtain agreement from their employer to pay anything other than minimum wages.

There are differences between the bargaining power of various occupational groups.

Minimum wages linked to skilled based classification structures are a mechanism to ensure equal minimum pay for work of equal value and to encourage skills formation.
Differential increases are doing harm to the skilled based structure of pay scales.

If the AFPC decides on a differential increase the current $700 cut off point should be indexed.
1

Introduction

1.1 The Australian Fair Pay Commission (AFPC) has conducted two reviews of minimum wages in Australia. Both wage setting decisions had the effect of cutting minimum wages despite being handed down during a period of economic prosperity. The first AFPC decision provided real wage increases to some - but not all - minimum wage workers; the second AFPC decision resulted in real wage declines for virtually all minimum wage workers.  

1.2 The ACTU totally rejects the notion that employees who depend on minimum wages should suffer a cut in real wages. The ACTU seeks wage increases for all minimum wage workers to ensure working families can maintain and improve their standards of living.

1.3 In its forthcoming review of minimum wages the AFPC must grant an increase that maintains the real value of wages for 1.55 million minimum wage workers and that does not add to income inequality in Australia. In 2008 the AFPC whilst meeting its statutory obligations can and should ensure that low paid minimum wages workers receive a decent real wage increase.

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1 In this submission reference to minimum wage workers is a reference to all workers employed at minimum wages at all levels.

2 The AFPC is directly responsible for the setting of pay scales for approximately 1.1 million of Australia’s 1.5 million minimum wage workers.
1.4 The ACTU requests a $26.00 increase in all pay scale wage rates. If granted the ACTU request would take the Federal Minimum Wage to $548.12 per week or $14.42 per hour. This would see the FMW increase in line with other wage movements over the period 2005 to 2008.

1.5 We argue in these submissions that the increase to minimum wages sought by the ACTU will have a negligible impact on inflationary pressures whilst improving the lives of minimum wage workers and their families.

1.6 Minimum wages play a crucial role in achieving wage justice for those unable to collectively bargain. Adjustments to minimum wages have also been an important vehicle for narrowing the gender pay gap.

1.7 The current economic conditions and the economic outlook support granting of the request. In particular the Australian labour market performance, both in general and for occupations and industries in which minimum wages workers are employed, provides no impediment to a decent real wage increase for minimum wages workers.

1.8 Whilst the productivity of minimum wage workers has improved and employment has grown the wages of minimum wage workers have decreased in real terms. It is important to note that the minimum wage is in fact a series of wage levels relating to different skill levels. Only 4 per cent of minimum wage workers are employed on the lowest of these levels. The AFPC has a statutory duty to properly adjust minimum rates for all minimum wage workers employed under minimum Pay Scales. We argue in these submissions that differential increases are not consistent with this duty.

1.9 The role of the AFPC is to set fair pay, not fair tax or transfer arrangements. In considering this matter, the Fair Pay Commission should have regard to
its role as a body that sets fair minimum pay for work performed and hours worked.

1.10 The ACTU notes that the Prime Minister has stated\(^3\):

\[
\text{... we are not calling on working families to engage in some freeze on their wage claims or wage outcomes. Working families are already under financial pressure.}
\]

1.11 Having regard to the timeframes involved, the ACTU will address any implications of the 2008-09 Commonwealth Budget in a Post Budget Submission to the AFPC.

1.12 Minimum wage workers should not have to substantially rely on social security payments and tax concessions to survive. We argue strongly that minimum wage workers and their families should earn a decent wage for a decent day’s work.

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\(^3\) Prime Minister, The Hon. Kevin Rudd, MP, Hansard 14 February 2008, House of Representatives, 380. We note that Federal Members of Parliament have recently voted to defer any pay increase until next year. Unlike minimum wage workers Federal Members of Parliament have received substantial real increases in their salaries over recent years.
Impact of 2007 Decision

2.1 Low paid workers and working families cannot afford to lose real wage income. Previous AFPC decisions have failed working families reliant on minimum wages.

Statutory obligations of the AFPC

2.2 The AFPC statutory obligations are contained in s.23 of the Workplace Relations Act 1996.

S 23 AFPC's wage-setting parameters

The objective of the AFPC in performing its wage-setting function is to promote the economic prosperity of the people of Australia having regard to the following:

(a) the capacity for the unemployed and low paid to obtain and remain in employment;

(b) employment and competitiveness across the economy;

(c) providing a safety net for the low paid;

(d) providing minimum wages for junior employees, employees to whom training arrangements apply and employees with
disabilities that ensure those employees are competitive in the labour market.

2.3 In its Reasons for Decision July 2007 the AFPC states:

Minimum wages therefore influence the extent to which unemployed and low paid Australians share the economic prosperity of the wider community.

2.4 The AFPC has not met its statutory obligations by providing for a decrease in the real wages of minimum wage workers. The $10.25/$5.30 per week increases provided in its July 2007 decision, indicate that the AFPC believes it is inappropriate that the lowest paid Australian workers equitably share in Australia’s economic prosperity. The promotion of economic prosperity should not be at the expense of fair living standards for low paid Australians. We argue the two goals are not mutually exclusive.

2.5 Sixty two per cent of minimum wage workers have suffered a decrease in their real wages as a result of the AFPC decisions.

2.6 In a period of continued economic prosperity and low unemployment the AFPC in its July 2007 Wage Setting Decision made a decision that reduced the real value of minimum wages. The AFPC Reasons for Decision did not specify why the AFPC believes it appropriate to decrease minimum wages in real terms. If the AFPC believes that a decrease in the minimum

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4 Wages Setting Decisions and Reasons for Decisions, July 2007, p48

ACTU Submission AFPC 2008
wage is an economic and social good, the AFPC should state this and argue its case.

2.7 The ACTU has been openly critical of the legislative changes that have resulted in the minimum wage being established by the AFPC. The new Labor Government has announced its intention to reverse those legislative changes. In its penultimate decision the AFPC can provide moderate but real and sustainable wage increases to low paid workers. Such a decision would make a real difference to the lives of minimum wage workers and have a positive impact on the legacy of the AFPC.

Real wage reductions

2.8 As shown in Table 2.1, AFPC Decision 3/2007 resulted in real wage reductions for virtually all minimum wages workers.5 In a buoyant economy this result is not consistent with low paid Australians sharing in the economic prosperity of the wider community.

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5 ABS EEH unpublished data indicate that only 4 per cent of award/pay scale reliant workers are employed at the FMW.
Table 2.1: Real Wage change per week Decision 3/2007

<table>
<thead>
<tr>
<th></th>
<th>Real change $ per week</th>
<th>Real change % per week</th>
</tr>
</thead>
<tbody>
<tr>
<td>C14</td>
<td>0.06</td>
<td>0.0</td>
</tr>
<tr>
<td>C13</td>
<td>-0.28</td>
<td>-0.1</td>
</tr>
<tr>
<td>C12</td>
<td>-0.72</td>
<td>-0.1</td>
</tr>
<tr>
<td>C11</td>
<td>-1.14</td>
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<tr>
<td>C10</td>
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</tr>
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<td>C9</td>
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<td>C8</td>
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</tr>
<tr>
<td>C7</td>
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<td>-0.4</td>
</tr>
<tr>
<td>C6</td>
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</tr>
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<td>-1.3</td>
</tr>
<tr>
<td>C2a</td>
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<td>-1.3</td>
</tr>
<tr>
<td>C2b</td>
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<td>-1.3</td>
</tr>
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<td>C1a</td>
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</tr>
<tr>
<td>C1b</td>
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<td>-1.5</td>
</tr>
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</table>

2.9 The last AFPC decision increased weekly wages in real terms by 6 cents for 4 per cent of minimum wage workers and reduced the wage of 96 per cent of minimum wage workers by between 28 cents and $15.67 per week.

2.10 The ABS Employee Hours and Earnings minimum wage survey shows:

- 38 per cent of minimum wage employees are below C10,
- 37 per cent are C10 to C7, and
- 25 per cent are above C7.

2.11 The real wage effect of the two AFPC decisions over the period June 2005 to October 1 2007 is shown in Table 2.2. The data shows 62 per cent of minimum wages workers have suffered a decline in their real wages since June 2005.
<table>
<thead>
<tr>
<th></th>
<th>Real change $ per week</th>
<th>Real change % per week</th>
</tr>
</thead>
<tbody>
<tr>
<td>C14</td>
<td>4.32</td>
<td>0.8</td>
</tr>
<tr>
<td>C13</td>
<td>3.30</td>
<td>0.6</td>
</tr>
<tr>
<td>C12</td>
<td>1.67</td>
<td>0.3</td>
</tr>
<tr>
<td>C11</td>
<td>0.23</td>
<td>0.0</td>
</tr>
<tr>
<td>C10</td>
<td>-1.96</td>
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<td>C9</td>
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<td>C5</td>
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</tr>
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<td>C4</td>
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<td>-2.9</td>
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<tr>
<td>C3</td>
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<td>-3.1</td>
</tr>
<tr>
<td>C2a</td>
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</tr>
<tr>
<td>C2b</td>
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<td>-3.3</td>
</tr>
<tr>
<td>C1a</td>
<td>-34.99</td>
<td>-3.6</td>
</tr>
<tr>
<td>C1b</td>
<td>-43.67</td>
<td>-4.0</td>
</tr>
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</table>

2.12 These real wage declines would have been greater had the treatment of child care costs been unaltered in the September quarter 2007 CPI. The effect of the change in treatment of child care costs in that quarter is summarised by the ABS:

The large fall in child care this quarter has resulted from a change in the eligibility criteria for the Child Care Tax Rebate (CCTR) that has brought it in-scope of the CPI this quarter and from the additional 10% indexation of the Child Care Benefit (CCB) rates on top of the usual annual CPI indexation. The fall in child care reduced the September quarter CPI increase by –0.2 percentage points (–0.29 index points) 

2.13 If treatment of child care costs had been unaltered, even the value of the Federal Minimum Wage would have decreased in real terms.

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6 ABS Cat No 6401.0 September Quarter 2007

ACTU Submission AFPC 2008
2.14 The ACTU notes the AFPC Economic and Social Indicators Monitoring Report Issue 01, associated Key Findings document states:

In order to monitor trends in the value of the income safety net and work incentives, the Commission examines changes in the real value of the Federal Minimum Wage. The real value of that wage has been broadly steady in the year to December 2007.

2.15 Section 3 of the Workplace Relations Act refers to a safety net of minimum wages and conditions. The safety net comprises all minimum wage rates associated with all skill levels in pay scales/awards. The value of the income safety net needs to take into account changes in the real value of minimum wages beyond the FMW. Only 4 per cent of minimum wage workers receive the Standard FMW. It is disingenuous to argue that minimum wages have been “broadly steady” in real value. The AFPC acknowledged in its Monitoring Report that there has been a reduction in real wages.

The real value of the FMW has increased by 10 per cent over the decade from the September quarter 1997 to October 2007, while the real value of some of the higher Pay Scale rates has decreased.\(^8\)

2.16 As Table 2.2 graphically demonstrates the real value at the FMW has hardly moved under the jurisdiction of the AFPC. This small 0.8 per cent movement only applies to 4 per cent of minimum wage earners. At the

\(^7\) AFPC Economic and Social Indicators Monitoring Report Issue 01, Key Findings, p2
top of the Pay Scale minimum rates there has been a reduction in the real value of minimum wages of 4 per cent.

2.17 The AFPC has an obligation to ensure there is an adequate safety net for all those who rely on minimum wages.

2.18 Most workers employed on the FMW are on that rate for a very limited period. After the completion of induction and/or training the vast bulk of workers move to another level in the pay scale. This introductory nature of the FMW classification explains the low numbers employed at this level. Consequently, the FMW is not a representative level for discussion of the impact of AFPC Wage Setting Decisions.

2.19 As stated in the AFPC Monitoring report, the real FMW has increased by 10 per cent over the decade September 1997 to September 2007. However, the FMW increased by 9 per cent in real terms from 1997 to 2005, a yearly average of 1.1 per cent. From 2005 to 2007 the FMW has only increased by 1 per cent in real terms, a yearly average of 0.43 per cent. C10 had increased in real terms by 3 per cent from September 1997 to June 2005. Since June 2005 it has not increased in real terms.

2.20 The ACTU does not regard as an achievement the decline in minimum wages relative to average earnings depicted in Chart 19 of the AFPC Monitoring report\(^{10}\). The ACTU rejects the proposition that reducing the value of minimum wages compared to average wages will boost employment opportunities for the unemployed.

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\(^9\) As an example, the Metal, Engineering and Associated Industries Award 1998 classification description for the C14 classification is: C14: Engineering/Production Employee - Level 1: Up to 38 hours induction training

\(^{10}\) Op cit., p25
2.21 We note the claim by the AFPC in the July 2007 Wages Setting Decision\textsuperscript{11} that:

\textit{On implementation of Wage-Setting Decision 3/2007, the minimum wage will be some 7.8 per cent higher than it was in June 2005, which is broadly in line with growth in wages over the period.}

2.22 Table 2.3 compares the growth in the FMW, C10 and C1b to growth in wages as measured by the WPI over the period June 2005 to October 2007.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|}
\hline
 & Aug-05 & Oct-07 & Increase \\
\hline
FMW  & 484.40 & 522.12 & 7.8 \\
WPI (index) June 2005 - Sep 2007 & 105.4 & 115.2 & 9.3 \\
C1b  & 1031.10 & 1058.30 & 2.6 \\
C10  & 578.20 & 615.98 & 6.5 \\
\hline
\end{tabular}
\caption{Table 2.3 Growth in Wages June 2005 – October 2007}
\end{table}

Source: ABS Cat No 6302.0, 6345.0

2.23 If wages in general as measured by the WPI increase as forecast\textsuperscript{12}, increasing the FMW by $26 per week from 1 October 2008 will see the FMW increase by 13.2 per cent over the period June 2005-October 2008, broadly in line with growth in wages over the period.

Impact of AFPC decisions on labour costs

\textsuperscript{11} Op cit., p71
\textsuperscript{12} The October 2007 Mid Year Economic and Fiscal Outlook (MYEFO) forecasts the WPI to increase by 4\% per cent 2007-2008 and 4\% per cent 2008–2009.
The AFPC at page 64 of its July 2007 decision comments on the "noticeable" impact of its Wage Setting Decision 1/2006 on labour costs in the March Quarter 2007 in some Pay Scale reliant industries.

As Table 2.4 below shows this was a temporary effect restricted to one quarter. Accommodation, Cafes and Restaurants quarterly increase dropped from 1.4 per cent in the March quarter 2007 to 0.5 per cent in the June quarter 2007, Health and Community Services from 1.2 per cent to 0.3 per cent, Retail from 1.1 per cent to 0.8 per cent and Property and Business Services from 0.8 per cent to 0.6 per cent.

### Table 2.4: Wage Price Index March June September Quarters 2007

<table>
<thead>
<tr>
<th>Industry</th>
<th>From corresponding quarter</th>
<th>From corresp. quarter of previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mar Qtr</td>
<td>June Qtr</td>
</tr>
<tr>
<td>Mining</td>
<td>1.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Electricity, gas &amp; water supply</td>
<td>0.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Construction</td>
<td>1.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Wholesaler trade</td>
<td>0.9</td>
<td>0.3</td>
</tr>
<tr>
<td>Retail trade</td>
<td>1.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Accommodation, cafes &amp; restaurants</td>
<td>1.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Transport &amp; storage</td>
<td>0.9</td>
<td>1.1</td>
</tr>
<tr>
<td>Communication services</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Finance &amp; insurance</td>
<td>0.7</td>
<td>1.6</td>
</tr>
<tr>
<td>Property &amp; business services</td>
<td>0.8</td>
<td>0.6</td>
</tr>
<tr>
<td>Government administration &amp; defence</td>
<td>1.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Education</td>
<td>1.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Health &amp; community services</td>
<td>1.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Cultural &amp; recreational services</td>
<td>1.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Personal &amp; other services</td>
<td>1.2</td>
<td>0.6</td>
</tr>
<tr>
<td>All industries</td>
<td>1.1</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: ABS Cat No 6345.0 December Quarter 2007
2.26 In commenting upon the Wage Price Index December quarter 2007\textsuperscript{13} data, the ABS states:

\begin{quote}
The Australian Fair Pay Commission (AFPC) has had responsibility for setting Federal Minimum Wage rates since early 2006. The first decision by the AFPC had a date of effect of 1 December 2006 and it mostly impacted upon the March quarter 2007 wage price index figures. The second AFPC Federal Minimum Wage decision had a date of effect of 1 October 2007 and has mostly impacted the wage price index figures this quarter.
\end{quote}

2.27 The ACTU expects that, like the 2006 decision impact on the March quarter 2007 WPI, the AFPC 2007 decision will mostly impact on the December quarter 2007 wage price index figures.

**Conclusion**

2.28 The real wage incomes of minimum wage earners have fallen during a time of economic prosperity and wages growth. The wage gap continues to grow between the 81 per cent of Australians whose wages are growing in real terms and the 19 per cent who look to the AFPC for a pay rise.

2.29 The economy is performing well and minimum wage workers deserve to share in the national prosperity to which they have contributed. Living expenses continue to rise - so should the real wages of hard working minimum wage workers.

\textsuperscript{13} ABS Cat No 6345.0 December 2007

*ACTU Submission AFPC 2008*
A Closer Look at Minimum Wage Workers

3.1 Over one million workers look to the AFPC for wage justice. These are workers who have not been in a position to bargain with their employer. Approximately 19 per cent of the Australian workforce are only paid the statutory minimum wage. A close examination of who these people are is instructive.

Minimum wage workers face multiple barriers

3.2 A cursory glance at the makeup of typical minimum wage earners will reveal that most minimum wage earners face significant barriers to improved wages.

Minimum wage workers earn much less

3.3 Minimum wage workers are paid significantly less than the remainder of the workforce. As of May 2006 minimum wage earners earn on average $491.10 per week whilst the average weekly wage for all methods of pay setting was $852.30 per week. For further detail see Table 3.1 below.

3.4 Minimum wage workers earn just over half the wages of than other employees. There is no incentive to remain on minimum rates of pay.

---

14 19 per cent is approximately 1.5 million employees. The AFPC’s decisions impact on approximately 1.1 million employees.  
15 Ibid
The majority of minimum wage earners are women and they earn less.

3.5 Women are disproportionately represented amongst the ranks of minimum wage workers.

3.6 In May 2006 the average weekly total cash earnings for males was $1020.30 and $677.80 for female employees. A staggering $342.50 per week or $17,810 per year difference. Females earn nearly 35 per cent less than males.\(^\text{16}\) Females are more likely to be employed on a casual and part-time basis. Full time female workers earn on average 10 per cent or in excess of $100 per week less than male workers.

3.7 Table 3.4 below demonstrates the significant discrepancy in wages between male and female workers, minimum wage dependent and overall.

The majority of minimum wage earners are employed in lower skilled non-managerial positions.

3.8 Nearly 60 percent of employees in the accommodation, cafés and restaurant industry are minimum wage earners. Table 3.1 also shows high percentages of employees in the retail, health and community services, personal and property and business services industries employed on the statutory minimum wage.

Low levels of unionization amongst minimum wage workers reduce income

3.9 The majority of Registered Collective Agreements have a union as a party. The average weekly total cash earnings within Registered Collective

\(^{16}\) ABS Cat 6306.0 Employee Earnings and Hours May 2006
Agreements as of May 2006 were $895.80, significantly higher than minimum or award wages at $491.10.\textsuperscript{17}

A significant number of minimum wage earners are employed on a casual basis.

3.10 Minimum wage earners are more likely to be employed as casuals\textsuperscript{18}. Just over 25 per cent of all employees are employed on a casual basis. However 43.5 per cent of minimum wage workers are employed on a casual basis. Nearly 48 percent of women who are minimum wage earners are employed as casuals whilst 38.5 percent of male minimum wage workers are employed as casuals.\textsuperscript{19}

Minimum wage workers are concentrated in few private sector industries in low paid jobs.

3.11 Concentrated within four industries in low paying jobs in small to medium businesses, there is little chance for progression, consequently minimum wage workers often feel trapped.

Number of and Industries employing minimum wage workers

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

3.13 The ABS’s Employee Earnings and Hours survey indicates that there are 1,577.7 million non-managerial minimum wage employees in Australia. Not all of these have their pay and conditions set by the AFPC. It is estimated that approximately 1,087,100 (excluding Agriculture, forestry and fishing)
are paid rates of pay derived from the Pay and Classification Scales determined by the AFPCajan.

3.14 This number continues to decrease as increasing numbers of employees are forced onto statutory individual contracts. Given the long transitional period adopted by the new Labor Government prior to the phase out of statutory individual contracts, this number is expected to continue to grow and conversely the jurisdictional breadth of the AFPC’s Pay Scales to reduce.

3.15 Table 3.1 demonstrates that Workers who are minimum wage reliant are concentrated in four industries. Accommodation, Cafes and Restaurants, Retail Trade, Health and Community Services and Property and Business Services.

3.16 The average weekly Total Cash Earnings for all minimum wage employees was highest in the Mining industry ($902.30) and the lowest in Retail trade ($348.00) and Accommodation, Cafes and Restaurants ($414.50).

3.17 Table 3.1 shows, not unexpectedly, that for all industries minimum wage workers earn less with the gap being dependent on the density of minimum wage workers employed in the industry.

3.18 With significant numbers and percentage of workers employed on minimum wages the average weekly total cash earnings gap in the accommodation, cafes and restaurant industry is much less than that found in the mining industry which only has 2.4 per cent of its employees on minimum wages.

---

ACTU Submission AFPC 2008
<table>
<thead>
<tr>
<th>Industry</th>
<th>Proportion Of Award Reliant Employees by Industry^%</th>
<th>Proportion Of All Award Reliant Employees by Industry^%</th>
<th>Award Reliant Average Weekly Total Cash Earnings $\text{(a)}</th>
<th>All Methods of Pay Setting by Industry %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation, Cafes and Restaurants</td>
<td>57.2</td>
<td>15.1</td>
<td>$414.50</td>
<td>485.00</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>28.7</td>
<td>23.4</td>
<td>$348.00</td>
<td>497.4</td>
</tr>
<tr>
<td>Health and Community Services</td>
<td>25.4</td>
<td>15.9</td>
<td>$569.20</td>
<td>786.6</td>
</tr>
<tr>
<td>Personal and other services</td>
<td>23.4</td>
<td>4.6</td>
<td>$437.60</td>
<td>775.6</td>
</tr>
<tr>
<td>Property and Business Services</td>
<td>23.2</td>
<td>14.3</td>
<td>$509.80</td>
<td>910.70</td>
</tr>
<tr>
<td>Cultural and Recreational Services</td>
<td>19.2</td>
<td>2.7</td>
<td>$438.80</td>
<td>663.8</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>12.8</td>
<td>3.3</td>
<td>$527.00</td>
<td>931.4</td>
</tr>
<tr>
<td>Transport and Storage</td>
<td>12.4</td>
<td>3.1</td>
<td>$714.70</td>
<td>1008.70</td>
</tr>
<tr>
<td>Construction</td>
<td>12.0</td>
<td>4.5</td>
<td>$603.80</td>
<td>1007.40</td>
</tr>
<tr>
<td>Education</td>
<td>11.9</td>
<td>5.0</td>
<td>$634.00</td>
<td>862.30</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10.6</td>
<td>6.4</td>
<td>$609.00</td>
<td>985.00</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>5.1</td>
<td>1.1</td>
<td>$686.00</td>
<td>1204.50</td>
</tr>
<tr>
<td>Mining</td>
<td>*2.4</td>
<td>0.2</td>
<td>$902.30</td>
<td>1738.00</td>
</tr>
<tr>
<td>Electricity, Gas and Water Supply</td>
<td>*0.9</td>
<td>0.0</td>
<td>$645.00</td>
<td>1345.60</td>
</tr>
<tr>
<td>Communication Services</td>
<td>**0.9</td>
<td>0.1</td>
<td>$566.40</td>
<td>1068.80</td>
</tr>
<tr>
<td>Government Administration and Defence</td>
<td>*0.6</td>
<td>0.2</td>
<td>$633.20</td>
<td>990.10</td>
</tr>
<tr>
<td>Total</td>
<td>19.0</td>
<td>100.0</td>
<td>$491.10</td>
<td>852.30</td>
</tr>
</tbody>
</table>

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

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

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

^ Includes managerial employees.

Source: ABS Cat No. 6306.0 Employee Earnings and Hours May 2006 (Reissued) and ABS Cat No 6291.0.55.003 Labour Force, Australia, Detailed Quarterly, February 2007
Occupations of minimum wage workers

3.19 The occupations of minimum wage workers are shown in Table 3.2.

Table 3.2: Proportion of Minimum Wage Employees by Occupation by Average Weekly Total Cash Earnings for Minimum Wage and Collective Agreement Employees

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Proportion Of Pay Scale Reliant Employees %</th>
<th>Pay Scale Reliant Average Weekly Total Cash Earnings $(^{(a)})</th>
<th>All Methods of Pay Setting Average Weekly Total Cash Earnings $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community and personal service workers</td>
<td>39.2</td>
<td>$448.40</td>
<td>$573.90</td>
</tr>
<tr>
<td>Sales workers</td>
<td>32.4</td>
<td>$348.30</td>
<td>$483.80</td>
</tr>
<tr>
<td>Laborers</td>
<td>29.7</td>
<td>$390.00</td>
<td>$597.70</td>
</tr>
<tr>
<td>Technicians and trades workers</td>
<td>18.7</td>
<td>$570.80</td>
<td>$948.10</td>
</tr>
<tr>
<td>Machinery operators and drivers</td>
<td>16.3</td>
<td>$683.60</td>
<td>$947.50</td>
</tr>
<tr>
<td>Clerical and administrative workers</td>
<td>13.4</td>
<td>$534.80</td>
<td>$735.00</td>
</tr>
<tr>
<td>Professionals</td>
<td>6.6</td>
<td>$872.80</td>
<td>$1125.10</td>
</tr>
<tr>
<td>Managers</td>
<td>2.6</td>
<td>$922.20</td>
<td>$1488.50</td>
</tr>
<tr>
<td><strong>Total All Occupations</strong></td>
<td><strong>19.0</strong></td>
<td><strong>$491.10</strong></td>
<td><strong>$852.30</strong></td>
</tr>
</tbody>
</table>

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

Source: ABS Cat No. 6306.0 EEH May 2006 (Reissued)
**Earnings of Minimum Wage Workers**

The AFPC has overseen a real wage reduction for minimum wage workers.

3.20 There is a compelling case for a real wage increase for minimum wage earners.

3.21 Minimum wage earners receive on average 58 percent of average weekly earnings (AWE) or approximately $348.60 per week less than Average Weekly Ordinary Time Earnings (AWOTE).²¹ AWOTE for minimum wage workers is only $470.30 compared to $818.90 for the workforce as a whole.

3.22 The ABS’s Employee Earnings and Hours data shows that minimum wage earners earn $404.70 less than workers on Registered Collective Agreements ($491.10 compared to $886.90) or almost half that of all male non-minimum wage earners. A minimum wage worker earns on average $18.30 per hour which is significantly less than the $29.60 earned on average by all other workers.

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²¹ ABS. Employee Earnings and Hours. May 2006.
<table>
<thead>
<tr>
<th>Sector</th>
<th>Method of Setting Pay</th>
<th>Average Weekly Total Cash Earnings</th>
<th>Average Weekly Ordinary Time Cash Earnings</th>
<th>Average Hourly Ordinary Time Cash Earnings</th>
<th>Average Weekly Overtime Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>Min Wage</td>
<td>485.70</td>
<td>464.70</td>
<td>18.00</td>
<td>20.90</td>
</tr>
<tr>
<td>Private</td>
<td>Collective Agreement</td>
<td>791.40</td>
<td>730.00</td>
<td>24.70</td>
<td>61.30</td>
</tr>
<tr>
<td>Private</td>
<td>Individual Arrangement</td>
<td>980.40</td>
<td>952.40</td>
<td>31.20</td>
<td>28.00</td>
</tr>
<tr>
<td>Private</td>
<td>Proprietors</td>
<td>974.30</td>
<td>973.60</td>
<td>n.a.</td>
<td>**0.70</td>
</tr>
<tr>
<td>Private</td>
<td>Total</td>
<td>812.30</td>
<td>778.20</td>
<td>28.60</td>
<td>34.10</td>
</tr>
<tr>
<td>All Sectors</td>
<td>Min Wage</td>
<td>491.10</td>
<td>470.30</td>
<td>18.30</td>
<td>20.90</td>
</tr>
<tr>
<td>All Sectors</td>
<td>Collective Agreement</td>
<td>886.90</td>
<td>838.70</td>
<td>28.10</td>
<td>48.20</td>
</tr>
<tr>
<td>All Sectors</td>
<td>Individual Arrangement</td>
<td>990.70</td>
<td>963.30</td>
<td>31.80</td>
<td>27.40</td>
</tr>
<tr>
<td>All Sectors</td>
<td>Proprietors</td>
<td>974.30</td>
<td>973.60</td>
<td>n.a.</td>
<td>**0.70</td>
</tr>
<tr>
<td>All Sectors</td>
<td>Total</td>
<td>852.30</td>
<td>818.90</td>
<td>29.60</td>
<td>33.40</td>
</tr>
</tbody>
</table>

Source: ABS Employee Earnings and Hours 6306.0 May 2006 Unpublished.

**Average weekly earnings**

3.23 Earnings continue to rise for non-minimum wage earners as the gap widens between minimum wage and other workers. ABS data on Average Weekly Earnings\(^{22}\) released in February 2008 shows:

- Total earnings for workers in the private sector increased by 4.6 per cent for males and 4.5 per cent for females for the year to November 2007.
- In real terms these increases were 1.9 per cent for males and 3.2 per cent for females for the year to November 2007.
- The increase in AWE for all full-time adult-total earnings was 5.5 per cent seasonally adjusted.

\(^{22}\) ABS Cat No 6302.0 November 2007.
The Average Weekly Earnings of $840.70 was an increase of 4.5 per cent on the year to November 2007.

3.24 It should be noted that Average Weekly Earnings data can be affected by compositional change. The ABS notes that:

Movements in average weekly earnings can be affected by both changes in the level of earnings per employee and changes in the composition of the labour force. For example, changes in the proportions of full-time, part-time, casual and junior employees and variations in the distribution of occupations can affect movements in earnings series.\(^{23}\)

3.25 It is for this reason most commentators prefer to refer to the Wage Price Index. However, AWE is instructive as it clearly shows the large and growing weekly income gap between workers in minimum wage dependent industries and other workers.

\(^{23}\) ABS Cat No 6302.0 Notes.
Figure 3.1: Real Average Full-Time Adult Total Earnings (Private Sector)  
2003-2007

Source: ABS Cat No 6302.0, 6401.0

3.26 The average weekly pay for an employee in the Mining industry is $1866.10, an increase of 6.1 per cent for the year to November 2007. Construction workers received a 13 per cent increase during the same period to take their average weekly rate to $1,084.70. Only 2.4 per cent of employees in the Mining industry receive minimum rates of pay and less than 1 per cent in the Construction industry.

3.27 The comparison with the Accommodation, cafes and restaurants industry is stark. Workers in that industry receive a meager average weekly wage of $493.00 and, reflecting the fact that 57.2 per cent of employees in that industry are paid minimum wages, they received an increase of only 1.4 per cent – a real decrease. This accurately reflects the AFPC’s recent decisions.24

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24 ABS Cat No 6302.0 Average Weekly Earnings Nov 2007 and ABS Cat No 6306.0 Employee Earnings and Hours May 2006 (Reissue).
Table 3.4 below shows that more females than males are employed on minimum wages and males earn significantly more in all pay settings. It also shows that minimum wage workers receive considerably less than other workers.

Table 3.4: Average Weekly Total Cash Earnings and Minimum Wage Dependency by Pay Setting and Sex

<table>
<thead>
<tr>
<th>Pay setting</th>
<th>Proportion All employees and Average weekly Total Cash Earnings (Ordinary Time)</th>
<th>Proportion Private Sector and Average weekly Total Cash Earnings (Ordinary Time)</th>
<th>Female Private Sector and Average weekly Total Cash Earnings (Ordinary Time)</th>
<th>Male Private Sector and Average weekly Total Cash Earnings (Ordinary Time)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum wage workers (Pay Scale/Award)</td>
<td>19.0</td>
<td>23.1</td>
<td>29.7</td>
<td>17.4</td>
</tr>
<tr>
<td></td>
<td>$470.30</td>
<td>$464.70</td>
<td>$436.70</td>
<td>$506.90</td>
</tr>
<tr>
<td>Registered Collective Agreement</td>
<td>38.1</td>
<td>24.4</td>
<td>25.8</td>
<td>23.2</td>
</tr>
<tr>
<td></td>
<td>$845.70</td>
<td>$728.20</td>
<td>$580.40</td>
<td>$873.30</td>
</tr>
<tr>
<td>Unregistered Collective Agreement</td>
<td>3.0</td>
<td>3.8</td>
<td>3.6</td>
<td>3.9</td>
</tr>
<tr>
<td></td>
<td>$750.80</td>
<td>$741.80</td>
<td>$594.70</td>
<td>$862.70</td>
</tr>
<tr>
<td>Unregistered Individual Arrangement</td>
<td>31.7</td>
<td>39.0</td>
<td>34.4</td>
<td>43.1</td>
</tr>
<tr>
<td></td>
<td>$963.70</td>
<td>$960.00</td>
<td>$753.70</td>
<td>$1,105.10</td>
</tr>
<tr>
<td>Registered Individual Agreement</td>
<td>3.1</td>
<td>3.3</td>
<td>2.7</td>
<td>3.9</td>
</tr>
<tr>
<td></td>
<td>$958.30</td>
<td>$863.30</td>
<td>$613.60</td>
<td>$1,017.10</td>
</tr>
<tr>
<td>Working Proprietors</td>
<td>5.1</td>
<td>6.3</td>
<td>3.8</td>
<td>8.6</td>
</tr>
<tr>
<td></td>
<td>$973.60</td>
<td>$973.60</td>
<td>$764.80</td>
<td>$1,055.10</td>
</tr>
<tr>
<td>Total</td>
<td>48.7</td>
<td>40.9</td>
<td>55.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$818.90</td>
<td>$778.20</td>
<td>$605.80</td>
<td>$930.30</td>
</tr>
<tr>
<td>All Pay Settings</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: ABS EEH May 2006 6306.0

ACTU Submission AFPC 2008
Hours of Minimum Wage Workers

3.29 Minimum wage earners work less weekly hours than employees on other forms of pay setting. They also earn approximately 30 per cent less than the hourly rate of other employees.

3.30 The total remuneration package of minimum wage earners is much less when we consider the fact that 43.5 per cent of minimum wage workers are employed as casuals and receive a payment of at least 20 per cent to compensate for the lack of other conditions such as leave, and other payments.
**Table 3.5: Methods of setting pay, Average Weekly Total Cash Earnings (a) and Hours Paid For, Non-managerial employees Australia**

<table>
<thead>
<tr>
<th>Method of Setting Pay</th>
<th>Average Weekly Total Cash Earnings (a)</th>
<th>Average Weekly Hours Paid</th>
<th>Average Hourly Cash Earnings (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Males</td>
<td>Females</td>
<td>Persons</td>
</tr>
<tr>
<td>Minimum Wage (Award only)</td>
<td>550.30</td>
<td>448.50</td>
<td>488.70</td>
</tr>
<tr>
<td>Registered collective agreements</td>
<td>1038.00</td>
<td>729.80</td>
<td>871.20</td>
</tr>
<tr>
<td>Unregistered collective agreements</td>
<td>873.00</td>
<td>580.20</td>
<td>737.80</td>
</tr>
<tr>
<td>Registered individual agreements</td>
<td>1119.30</td>
<td>689.10</td>
<td>949.60</td>
</tr>
<tr>
<td>Unregistered individual arrangements</td>
<td>1021.40</td>
<td>719.10</td>
<td>890.80</td>
</tr>
<tr>
<td>All methods of setting pay</td>
<td>946.00</td>
<td>652.00</td>
<td>795.10</td>
</tr>
</tbody>
</table>

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

Source: ABS EEH May 2006 6306.0
Minimum wage workers are predominantly employed in small to medium sized businesses and are paid less.

3.31 Minimum wage workers are concentrated in small to medium sized businesses. Table 3.6 shows that 65.5 per cent of minimum wage workers employed in businesses with less than 100 employees. A not insignificant 34.5 per cent are employed in businesses with 100 or more employees.

3.32 There is a correlation between the size of the business and the rate of pay. The higher the number of employees in a business the higher the average weekly total cash earnings.

Table 3.6: Minimum wage employee percentage & earnings by Business Size

<table>
<thead>
<tr>
<th>Business Size</th>
<th>Minimum Wage (Award only)%</th>
<th>% of Minimum Wage employees</th>
<th>Minimum wage/Award Average Weekly Total Cash Earnings $\text{(a)}$</th>
<th>Collective Agreement Wage %</th>
<th>Collective Agreement Weekly Total Cash Earnings $\text{(a)}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 20 employees</td>
<td>28.1</td>
<td>37.6</td>
<td>$436.80</td>
<td>10.1</td>
<td>$732.40</td>
</tr>
<tr>
<td>20 to 49 employees</td>
<td>27.2</td>
<td>17.3</td>
<td>$482.60</td>
<td>18.0</td>
<td>$819.00</td>
</tr>
<tr>
<td>50 to 99 employees</td>
<td>26.0</td>
<td>10.6</td>
<td>$489.40</td>
<td>27.8</td>
<td>$890.00</td>
</tr>
<tr>
<td>100 to 499 employees</td>
<td>22.6</td>
<td>21.8</td>
<td>$535.00</td>
<td>41.4</td>
<td>$878.50</td>
</tr>
<tr>
<td>500 to 999 employees</td>
<td>14.1</td>
<td>5.4</td>
<td>$549.30</td>
<td>55.7</td>
<td>$896.40</td>
</tr>
<tr>
<td>1000 and over employees</td>
<td>5.3</td>
<td>7.3</td>
<td>$619.50</td>
<td>84.5</td>
<td>914.10</td>
</tr>
<tr>
<td>Total</td>
<td>19.0</td>
<td>100</td>
<td>$491.10</td>
<td>41.2</td>
<td>$886.90</td>
</tr>
</tbody>
</table>

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

Source: ABS Cat No. 6306.0 EEH May 2006 Unpublished.
Form of employment of minimum wage workers

As mentioned earlier minimum wage workers are nearly twice as likely to be female and more than three times more likely to be employed as a casual.

Table 3.7: Minimum Wage as Proportion of all employees and Earnings by Type of Employment Private Sector

<table>
<thead>
<tr>
<th>Minimum Wage Type of Employee</th>
<th>Minimum wage proportion of all employees</th>
<th>Minimum Wage Average Weekly Total Cash Earnings $\textsuperscript{(a)}</th>
<th>All methods of Pay setting Average Weekly Total Cash Earnings $\textsuperscript{(a)}</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female Total</td>
<td>23.4</td>
<td>$450.90</td>
<td>$677.80</td>
</tr>
<tr>
<td>Female Permanent or fixed term</td>
<td>15.6</td>
<td>$582.40</td>
<td>$795.00</td>
</tr>
<tr>
<td>Female Casual</td>
<td>46.7</td>
<td>$320.40</td>
<td>$329.10</td>
</tr>
<tr>
<td>Male Total</td>
<td>14.7</td>
<td>$552.70</td>
<td>$1020.30</td>
</tr>
<tr>
<td>Male Permanent or fixed term</td>
<td>10.3</td>
<td>$658.60</td>
<td>$1114.60</td>
</tr>
<tr>
<td>Male Casual</td>
<td>38.5</td>
<td>$398.70</td>
<td>$510.20</td>
</tr>
<tr>
<td>All Permanent or fixed term</td>
<td>12.8</td>
<td>$615.70</td>
<td>$967.40</td>
</tr>
<tr>
<td>All Casual</td>
<td>43.5</td>
<td>$347.50</td>
<td>$400.00</td>
</tr>
<tr>
<td>Total</td>
<td>19.0</td>
<td>$491.10</td>
<td>$852.30</td>
</tr>
</tbody>
</table>

Source: ABS Cat No. 6306.0 EEH May 2006 Table 14

Table 3.7 graphically outlines the disadvantages faced by minimum wage employees.
4

Inflation

Overview

4.1 The ACTU supports the fight against inflation, but not at the expense of minimum wage workers.

4.2 Minimum wage workers have not caused inflation to rise and must not be encumbered with principal responsibility for bringing it down. Shifting the burden to those most unable to bear it is not good economic policy or morally justifiable.

4.3 There is little disagreement on the importance of low inflation and low inflation expectations per se. Low Inflation assists businesses in making sound investment decisions, underpin the creation of jobs, protect the savings of Australians and protect their living standards.

4.4 Current Australian inflation, and inflation prospects over the year ahead, reflect primarily sustained long term trend increases in the global price of oil, and (through the economic rise of China) the world prices of Australian commodity exports feeding into national income and domestic demand. Domestic factors include capacity constraints arising from the previous government’s neglect of infrastructure – skills and training, transport and communication, and the drought.
4.5 Current Australian inflation is not attributable to rapacious wage demands by minimum wage workers. Wage Price Index (WPI) increases are tracking around the 4 per cent mark having been in the 3.5 per cent to 4 per cent range for the past five years. Wage increases have been lower in minimum wage reliant sectors including retail and hospitality and higher in the booming mining and construction sectors.

![Figure 4.1: Total Hourly rates of pay (excluding bonuses) – Australia – Private sector](image)

Source: ABS cat No 6345.0

4.6 Enterprise Bargaining Agreements (EBA) are delivering increases of similar order, also in line with the past five years. Measures of Average Earnings growth are a little higher than this, reflecting compositional factors, again broadly in line with recent history.

4.7 The share of profits in national income is at historical highs and the wages share is at historical lows. The pace of overall demand in the economy cannot be separated from this distributional reality.
Figure 4.2: Wages and Profit - shares of national incomes – 1959-2007

![Graph showing wages and profit shares from 1959 to 2007.]

Source: ABS cat No 5206.0

4.8 The RBA in its February 2008 Statement on Monetary Policy\(^\text{25}\) notes growth in some business margins:

> In addition, it is likely that the strength of demand has allowed some growth in business margins. … estimates based on ABS profits data suggest that margins in the goods distribution sector (retail and wholesale trade, plus transport) and the broader economy have recently been at fairly high levels. Data from the NAB survey on the net balance of respondents increasing margins also suggest some increase in margins in 2007 in both the retail sector and the broader economy, after a period when they had been declining.

\(^{25}\) Reserve Bank of Australia *Statement on Monetary Policy, February 2007*, p50
Price measures

4.9 The Consumer Price Index (CPI) increased by 0.9 per cent during the December quarter 2007, to be 3.0 per cent higher over the year.\textsuperscript{26}

4.10 The average of the RBA estimates of underlying inflation in the December quarter 2007 is 3.6 per cent.

4.11 In a statement on 5 February 2008\textsuperscript{27} the RBA Governor stated:

\begin{quote}
CPI inflation on a year-ended basis picked up to 3 per cent in the December quarter, with underlying measures around 3½ per cent. This was a little higher than was expected a few months ago. Indicators of demand remained strong through the second half of 2007, and reports of high capacity usage and shortages of suitable labour persist.
\end{quote}

4.12 Inflation forecasts are discussed in the Economic Outlook section of this submission.

Impact of minimum wage increases on inflation

4.13 At page 96 of this submission, the ACTU provides a costing of its $26 per week request. It is established that should the AFPC grant the request then the impact will add a negligible 0.38 per cent to economy wide ordinary time earnings and a 0.2 per cent addition to the CPI.

\textsuperscript{26} ABS Cat No 6401.0 December quarter 2007
\textsuperscript{27} http://www.rba.gov.au/MediaReleases/2008/mr_08_02.html
4.14 If the ACTU’s cost estimates are applied only to the upper estimate of the jurisdiction of the AFPC at 12 per cent, the addition to ordinary time earnings is approximated at only 0.25 per cent with a CPI impact of 0.13 per cent.

4.15 There is no justification for the continual reduction in the real wages of Australia’s lowest paid employees. The granting of the ACTU request in full will have a negligible impact on inflationary pressures whilst improving the lives of working families who are under financial pressure.

4.16 The ACTU notes that Professor David Neumark, who on Friday 3 August 2007 addressed an AFPC forum, was reported\(^{28}\) to state:

\[
\text{The influence of the minimum wage relative to macroeconomic policy is trivial … I wouldn’t claim, and I don’t think anyone else would, that the minimum wage has anything to do with inflation and the unemployment rate …}
\]

**Conclusion**

4.17 An increase of $26 per week would have no discernible impact whatsoever on overall inflation outcomes over coming years, but would provide some real protection for low paid workers against rising prices.

---

\(^{28}\) Minimum wage setting "trivial" in overall economic policy: Neumark, Workplace Express 6 August 2007
5

The labour market

5.1 In this section the ACTU canvasses both the relationship between minimum wages and employment and the performance of the Australian labour market.

Minimum wages and employment

5.2 The AFPC in its 2007\textsuperscript{29} decision states:

\textit{The relationship between the level of minimum wage increases and employment in Australia remains pivotal to the Commission.}

5.3 The impact of minimum wage increases on employment have been the subject of much debate between employer and employee organisations, government and others. In past submissions to the AFPC and the AIRC the ACTU has detailed its case that moderate real increases to minimum wages do not have a negative impact on employment levels.

5.4 This year, as in the past, the AFPC will receive submissions from employer organisations that will claim a real increase in minimum wages will cost thousands, if not tens of thousands, of jobs. They are not based on any

\textsuperscript{29}Op cit., p51
examination of the data available. Year after year these prophets of
doom claim the sky is about to fall. When it doesn’t the proponents simply
ignore the facts. They continue to argue that if times are bad then
minimum wages are to blame and cause unemployment and minimum
wages must be reduced. If times are good, they argue that these good
times should not be undermined by “inflationary” minimum wage rises.
Whether it is the best of times or the worst of times, minimum wage workers
lose either way.

5.5 In relation to the international studies of the relationship between
minimum wages and employment, upon which the ACTU anticipates
others will rely, the ACTU notes that Access Economics\textsuperscript{30}, in its Monitoring
Strategy for Wage Setting Decisions report, commissioned by the AFPC, states:

\begin{quote}
The relevance of this international analysis for Australia is not clear, as
we have a number of labour market institutions and workplace
practices that are not common to the other countries under study.
\end{quote}

and

\begin{quote}
Another reason to place a modest weight on the usefulness of
international studies for monitoring wage decisions is that the
theoretical models underlying most of the international empirical
analysis of minimum wages make a number of unrealistic
assumptions in order to identify the impact of minimum wage shifts.
\end{quote}

\textsuperscript{30} Access Economics Pty Ltd, Report commissioned by the AFPC, 2006, Monitoring
Strategy for Wage Setting Decisions, p8-9
5.6 A significant contribution in relation to minimum wages and employment in Australia was made by Dr Steven Kennedy, General Manager, Domestic Economy Division, Department of Treasury, in a speech to the NSW Economic Society on 11 December 2007. In commenting on unemployment rates by educational attainment, Dr Kennedy stated:

> It is worth noting that differences in unemployment rates by educational attainment are not unique to Australia. Data for the US (Chart 9) show very similar differences to those for Australia. This has interesting implications for policy. Australia has a relatively high minimum wage as a proportion of median earnings (58 per cent, see OECD, 2006) compared with the OECD average. On the other hand, the US minimum wage is quite low. To argue that a relatively high minimum wage in Australia is leading to high unemployment rates for the less skilled, one needs also to explain why the unemployment rates of the less skilled in the US are around the same as in Australia. This is not to suggest that minimum wages and their interaction with the welfare system have no consequences for unemployment, especially for the less skilled, merely that the effects may be relatively small.

---

5.7 In its own Monitoring report\textsuperscript{32} the AFPC notes:

Given the general trends in the labour market, it is difficult to determine whether changes in employment of low-skilled workers have been influenced by adjustments in the minimum wage and Pay Scales. Many factors determine employment for this group of workers, and the lack of detailed data at the workplace level precludes attempts to isolate the effects of minimum wages, for the time being. Nonetheless, there have been some positive trends in employment for low-skilled, Pay Scale reliant workers.

5.8 Indeed, there have been some positive trends. Increasing minimum wages will not have an adverse impact on employment or participation rates.

\textsuperscript{32} Op cit, p22
Transitions into and out of low paid employment

5.9 A recent Australian study which looks at transitions into and out of low paid employment is Labour mobility of low paid workers, a 2007 study by Dr Ian Watson, Visiting Research Fellow, Macquarie University. Watson utilises the Household Income and Labour Dynamics Australia (HILDA) Survey to answer the question: Are low paid jobs a bridge for the unemployed?

5.10 Watson tests the debate that minimum wages are ‘pricing workers out of employment’ by looking at the change in the median rate per hour for employees in the bottom quintile of earnings and the movement of jobseekers from unemployment to the bottom quintile across Wave 1 to Wave 5 of the HILDA survey, as shown in Table 5.1:

<table>
<thead>
<tr>
<th></th>
<th>Wave 1</th>
<th>Wave 2</th>
<th>Wave 3</th>
<th>Wave 4</th>
<th>Wave 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median rate per hour</td>
<td>$9.63</td>
<td>$10.00</td>
<td>$10.13</td>
<td>$10.75</td>
<td>$11.20</td>
</tr>
<tr>
<td>Change</td>
<td>37c ph</td>
<td>13c ph</td>
<td>62c ph</td>
<td>45c ph</td>
<td></td>
</tr>
<tr>
<td>Maximum rate per hour</td>
<td>$12.00</td>
<td>$12.40</td>
<td>$12.89</td>
<td>$13.50</td>
<td>$14.12</td>
</tr>
<tr>
<td>Change</td>
<td>40c ph</td>
<td>49c ph</td>
<td>61c ph</td>
<td>62c ph</td>
<td></td>
</tr>
<tr>
<td>Unemployed to bottom quintile</td>
<td>15%</td>
<td>16%</td>
<td>18%</td>
<td>21%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Watson 2007

5.11 Watson finds that while there is growth in rates of pay in the bottom quintile right through the period there is also strong growth in rates of entry into employment for the unemployed. Watson concludes that the rates of pay have not impacted on the employment of the unemployed, and recent levels of wage increases have not blocked movement of the unemployed into jobs.

---

33 Ian Watson, Freelance researcher & Visiting research fellow, Macquarie University, Labour mobility of low paid workers, Low Paid Work Symposium, Melbourne, 17 October 2007
5.12 Watson also tracks one group of low paid workers over the same period. In terms of destinations of these workers, Watson finds that:

- losses to unemployment never rise above 5 per cent in any wave
- departures from labour market never rise above 14 per cent
- the analysis is not sensitive to earnings – with the same story for the FMW and C10 rates
- restricting the sample to adults results in a big drop in those ending up Not in the Labour Force (NILF) and a smaller drop for those moving to unemployment.

5.13 The Watson study shows that despite increases in minimum wages over the period losses of low paid employed persons to unemployment or to outside the labour force are low, that is, the low paid are able to sustain their employment, to remain in employment, and the unemployed have experienced strong growth in rates of entry into employment.

Labour market strong

5.14 The AFPC in its 2007 Wage Setting Decision stated:

> The major factors for the Commission’s consideration in the Budget forecasts are the slow down in employment growth and the projected increased participation of lower-skilled workers.

5.15 The strength of the labour market is clear from Table 5.2 which shows that, for the period 2004-05 to 2007-08, each Budget forecast of employment growth was lower than the outcome reported in the subsequent MYEFO, and each Budget forecast was revised upwards by the MYEFO forecast.

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34 op cit, p.61
Table 5.2: Budget and MYEFO Employment Forecasts

<table>
<thead>
<tr>
<th></th>
<th>Forecast</th>
<th>Forecast</th>
<th>Forecast</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.75</td>
<td>1.75</td>
<td>1.0</td>
<td>1.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Forecast</th>
<th>Outcome</th>
<th>Forecast</th>
<th>Outcome</th>
<th>Forecast</th>
<th>Outcome</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.0</td>
<td>3.0</td>
<td>2.0</td>
<td>2.2</td>
<td>2.25</td>
<td>2.7</td>
<td>2.25</td>
</tr>
</tbody>
</table>


5.16 Regarding the Budget projection of increased participation of lower skilled workers, the RBA in its February 2008 Statement on Monetary Policy\(^{35}\) stated:

The participation rate also increased further, reaching a new high of 65.2 per cent in the December quarter. Part of this increase may reflect additional labour supply in response to welfare-to-work policies that became effective in mid 2007, although any effect of these reforms on the measured unemployment rate appears to have been muted; the unemployment rate has been largely unchanged since July, at around 4¼ per cent.

\(^{35}\) Op cit p32
The discussion of the labour market concluded that the market remained tight. Employment rose by 2½ per cent over the course of 2007, and the unemployment rate remained at 30-year lows. Job vacancies in the December quarter, measured as a share of the labour force, were at the highest level in 30 years. Despite tight conditions in the labour market, the wage price index (WPI) had maintained a steady growth rate of around 4 per cent per annum.

5.18 ABS Labour Force data for February 2008 record Employed persons increasing by 2.7 per cent in trend terms and 2.9 per cent, seasonally adjusted, over the year to February 2008. Employed persons, in seasonally adjusted terms, increased by 297,830 from February 2007 to February 2008, and by 36,700 in February 2008.

---

36 Reserve Bank of Australia, Minutes of the Monetary Policy Meeting of the Board, Sydney - 5 February 2008
Unemployment

5.19 February 2008 Labour force data record the unemployment rate in trend terms at 4.1 per cent and seasonally adjusted terms 4.0 per cent. Unemployed persons, in seasonally adjusted terms, decreased by 59,931 from February 2007 to February 2008, and by 16,797 in February 2008.
Labour Force Participation

5.20 The Labour Force participation rate remained at 65.2 per cent in February 2008, having increased by 0.3 per cent from 64.9 per cent to 65.2 per cent over the year to February 2008.

![Figure 5.3: Labour Force Participation Rate](image)

Source: ABS Cat No 6202.0.55.001

5.21 In its Monitoring Report the AFPC notes:

Labour force participation and employment for many demographic groups who tend to have relatively higher numbers of low-skilled or low-paid workers have continued to improve over the past year.

and

37 Op cit, p3 and p22
However, participation rates have increased and unemployment rates have decreased for those demographic groups that contain a relatively high proportion of low-skilled workers.

5.22 Employment and participation rates amongst minimum wage workers continue to increase. They increased while minimum wages increased and continued to increase as the AFPC sought to reduce real minimum wages.

Underemployment

5.23 ABS data on Underemployed Workers, for September 2007 indicate that the Labour Force Underutilisation rate has declined from 12.6 per cent in September 2001 to 8.9 per cent in September 2007, and the Underemployment rate has declined from 5.7 per cent to 4.7 per cent over the same period.

Figure 5.4: Labour Underutilisation rates September 2001 – September 2007

Source: ABS Cat No 6265.0
Employment Growth by States

5.24 Employment growth has been Australia wide, with all States and Territories contributing to/participating in the growth. The ACTU notes that while all States with State IR jurisdictions, (with the possible exception of South Australia), have higher minimum wages than those set federally by the AFPC, there has been no negative effect on employment growth in those States.

Table 5.3: Employment Growth by State

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>78,300</td>
<td>43,300</td>
<td>$531.40</td>
</tr>
<tr>
<td>VIC</td>
<td>90,300</td>
<td>56,200</td>
<td>$522.12 (FMW)</td>
</tr>
<tr>
<td>QLD</td>
<td>36,200</td>
<td>21,500</td>
<td>$528.40</td>
</tr>
<tr>
<td>SA</td>
<td>16,000</td>
<td>14,600</td>
<td>$522.15</td>
</tr>
<tr>
<td>WA</td>
<td>46,400</td>
<td>26,700</td>
<td>$528.40</td>
</tr>
<tr>
<td>TAS</td>
<td>5,500</td>
<td>5,600</td>
<td>$527.10</td>
</tr>
<tr>
<td>NT</td>
<td>6,500</td>
<td>3,600</td>
<td>$522.12 (FMW)</td>
</tr>
<tr>
<td>ACT</td>
<td>500</td>
<td>500</td>
<td>$522.12 (FMW)</td>
</tr>
</tbody>
</table>

Source: ABS Cat No 6202.0.55.001

5.25 The RBA in its February 2008 Statement on Monetary Policy\(^\text{38}\) states:

> Across the states, employment growth continued to be strong in the resource-rich states. Nonetheless some convergence has been observed over the past two years as year-ended growth eased in Queensland while most other states saw employment growth increase.

\(^{38}\) Op cit., p32-33
Unemployment rates fell in all states except Western Australia over 2007 (where unemployment was already very low), while participation rates rose across the country.

### Aggregate Weekly Hours Worked

5.26 Employee Aggregate weekly hours worked have increased by 10,234,500 hours between November 2006 and November 2007 (the period since the first AFPC decision), and by 3,496,500 hours between August 2007 and November 2007, the most recent period since the AFPC July 2007 decision.
Job Vacancies

5.27 ABS Job Vacancy data for November 2007 indicates that vacancies in the private sector are increasing, rising by 19,400 over the year to November 2007, in seasonally adjusted terms.
Job vacancies data from the ABS continue to signal a tight labour market. At the national level, the ratio of vacancies to employment reached a three-decade high of 1.7 per cent; vacancies rose by 6 per cent in the three months to November and by 13 per cent over the year. Firms continue to experience difficulty in finding suitable labour, with some surveys suggesting that labour shortages have worsened in recent months.

### Job Search Experience data

5.29 ABS Job Search Experience\(^{40}\) data indicate that the number of unemployed persons who reported that their difficulty in finding work was lacked necessary skills or education increased by only 716 persons over the year to July 2007 but has declined by 4,222 persons over the last two years.

**Figure 5.7: Lacked necessary skills or education**

![Graph showing the trend of lacked necessary skills or education from 2000 to 2007](chart.png)

Source: ABS Cat No 6222.0

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\(^{39}\) Ibid., p33  
\(^{40}\) ABS Cat No 6222.0 Job Search Experience, July 2007
5.30 The Job Search Experience data also indicate that the number of unemployed persons who reported that their difficulty in finding work was insufficient work experience has declined by 4,876 persons over the period July 2006 – July 2007 and by 8,585 persons over the last two years.

Figure 5.8: Insufficient work experience

[Graph showing the number of persons reporting insufficient work experience from 2000 to 2007.]

Source: ABS Cat No 6222.0

5.31 ABS Job Search Experience data also reveal that the number of job seekers without a non-school qualification has declined by 28,400 over the period July 2006 – July 2007 and by 48,400 over the last two years.

Figure 5.9: Number of job seekers without a non-school qualification

[Graph showing the number of job seekers without a non-school qualification from 2004 to 2007.]

Source: ABS cat No 6222.0
Labour Force data by industry

Employment

5.32 Figure 5.10 below shows employment growth by industry, in trend terms, over the 12 month period November 2006 to November 2007. Figure 5.10 shows that over that period the industry in which almost a quarter of minimum wage workers are found – Retail Trade had the largest increase in number of persons employed. Other industries in which large numbers of minimum wage workers are found – Health and Community Services, Manufacturing and Property and Business Services were ranked 4th, 5th and 6th in terms of increase in numbers employed over the period.

Figure 5.10: Employment Growth – November 2006 – November 2007

Source: ABS Cat. No. 6291.0.55.003
5.33 The RBA February 2008 Statement on Monetary Policy\textsuperscript{41} notes increased employment in industries in which the low paid are employed:

Employment growth in 2007 was broad-based across industries. Over the year to the December quarter, the largest increase in employment was in retail trade, with the transport & storage, education, health & community services and manufacturing industries also showing strength.

Growth in employee hours

5.34 Each of the industries in which low paid employees predominate has experienced growth in hours worked.\textsuperscript{42}

Figure 5.11: Industry hours August 2005 – November 2007

Source: ABS Cat No 6291.0.55.003

5.35 Over the period August 2005 – November 2007 (the period of the AFPC operation), hours in Community and Health Services increased by 5.5 per

\textsuperscript{41} Op cit., p32
\textsuperscript{42} ABS Cat No 6291.0.55.003
cent, Retail by 5.3 per cent, Property and Business Services by 1.4 per cent and Accommodation, cafes and restaurants by 3.7 per cent. This compares to growth in hours for All Industries of 5.1 per cent. Over the 12 months November 2006 – November 2007, hours in Retail increased by 7.0 per cent, Community and Health Services by 3.3 per cent, Property and Business Services by 0.1 per cent, and Accommodation, cafes and restaurants by 4.5 per cent. This compares to growth in hours for All Industries of 3.3 per cent.

Job vacancies

5.36 The Figure 5.12 shows that in November 2007 the industries with the highest job vacancies were the five industries in which low paid workers are predominantly employed.

![Figure 5.12: All Industries Vacancies November Quarter 2007](image)

Source: ABS Cat No 6354.0

5.37 Vacancies in Retail and Accommodation cafes and restaurants in November 2007 are the highest recorded for those industries over the period November 2000 to November 2007. Vacancies in Property and Business Services, Health and Community Services and Manufacturing are the second highest recorded for those industries over the same period.

Figure 5.13: Top Four vacancies by occupation December 2007

Source: DEEWR Vacancy Report December 2007

Figure 5.14: Top Four vacancies by occupation January 2008


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43 DEEWR Vacancy Report
5.39 A recent call for reductions in minimum wages is based on a claim of weakening demand for low-skilled or unskilled labour. The DEEWR vacancy reports for December 2007, January and February 2008 show this claim to be unfounded.

**Occupational employment**

5.40 The Department of Education, Employment and Workplace Relations publication *Australian Labour Market Update* presents the unemployment rates for those who had worked for two weeks or more in the past two years by occupational group. This data indicates that the unemployment rates for occupations in which the low paid are found remain low. The unemployment rate for Labourers has declined from 7.8% in 2005 to 6.0 per cent in 2008.
Table 5.4: Unemployment Rate by Occupation November 2005, 2006 & 2007

<table>
<thead>
<tr>
<th>Occupation</th>
<th>November 2005</th>
<th>November 2006</th>
<th>November 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tradespersons and Related Workers</td>
<td>2.7%</td>
<td>1.9%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Advanced Clerical and Service Workers</td>
<td>1.3%</td>
<td>1.1%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Intermediate Clerical, Sales and Service Workers</td>
<td>2.4%</td>
<td>2.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Intermediate Production and Transport Workers</td>
<td>3.6%</td>
<td>3.6%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Elementary Clerical, Sales and Service Workers</td>
<td>4.0%</td>
<td>3.8%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Labourers and Related Workers</td>
<td>7.8%</td>
<td>6.7%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>


Small and medium businesses

5.41 As Table 3.6 shows, most low paid workers are employed in small and medium businesses.

5.42 RBA Minutes of Monetary Policy Meeting of the Board 4 December 2007\(^{44}\) stated:

> A recent survey of small and medium businesses showed that while a sizeable proportion of respondents had no major concerns, finding quality staff had clearly become a greater concern than the lack of work or sales over the past two years. This supported other indicators of very tight conditions in the labour market.

\(^{44}\) Reserve Bank of Australia, Minutes of the Monetary Policy Meeting of the Board, Sydney - 4 December 2007

ACTU Submission AFPC 2008
Labour market forecasts

5.43 Labour market forecasts are dealt with the Economic Outlook section.

Conclusion

5.44 Demand remains high for labour, including minimum wage occupations. There is no evidence that the level of minimum wages is having a negative impact on employment or participation rates.
6

Movements in wages

6.1 There is steady but moderate real growth in wages. General wages movements are consistent with the ACTU request for a $26.00 per week increase. Minimum wages play a crucial role in achieving wage justice for those unable to collectively bargain. If the AFPC does not grant the ACTU request in full the gap between minimum wage and other wage earners will continue to grow.

Wage Price Index

6.2 The Wage Price Index\(^{45}\) (WPI) Total Hourly Rates of Pay excluding bonuses Index increased by 1.1 per cent in the December quarter 2007 and by 4.2 per cent over the twelve months to the December quarter 2007. The WPI rate of growth over the year to December quarter 2007 is the same rate of growth of 4.2 per cent to December quarter 2005, and only slightly higher than the 4.0 per cent growth to December quarter 2006. The WPI is stable.

\(^{45}\) ABS Cat No 6345.0 labour Price Index December Quarter 2007 (seasonally adjusted terms)
6.3 The Wage Price Index (WPI) Total Hourly Rates of Pay excluding bonuses index for the private sector increased by 1.1 per cent in the December quarter 2007, the same rate of increase as in the September quarter. The index increased by 4.3 per cent over the twelve months to the December quarter 2007.

6.4 The ACTU considers this measure to be the most accurate measure of wages growth because it excludes compositional change.

**Labour Price Index**

6.5 The Labour Price index\(^{46}\) (LPI) provides an indication of the total price of labour to the employer. As seen in Table 6.1 growth in private sector LPI, excluding bonus for the financial year 2006-2007 was 3.6 per cent. This was lower than growth in 2005-06 where the LPI increased by 4.0 per cent.

\(^{46}\) ABS Cat No 6345.0 September 2007
Table 6.1: Percentage change in LPI excluding bonuses, Private Sector

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>3.6</td>
<td>3.4</td>
</tr>
<tr>
<td>Vic</td>
<td>3.9</td>
<td>3.2</td>
</tr>
<tr>
<td>Qld</td>
<td>4.6</td>
<td>4.1</td>
</tr>
<tr>
<td>SA</td>
<td>3.5</td>
<td>3.8</td>
</tr>
<tr>
<td>WA</td>
<td>4.6</td>
<td>4.8</td>
</tr>
<tr>
<td>Tas</td>
<td>3.7</td>
<td>3.8</td>
</tr>
<tr>
<td>NT</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>ACT</td>
<td>3.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Australia</td>
<td>4.0</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Source: ABS Cat. No. 6345.0

Average Weekly Earnings

6.6 ABS Average Weekly Earnings data\textsuperscript{47} for November 2007, public and private sectors, shows that Full Time Adult average weekly ordinary time earnings increased by 0.6 per cent in the November quarter, to be 4.7 per cent higher over the year. Full time Adult Total earnings also increased by 0.6 per cent in the November quarter to be 4.8 per cent higher over the year. All employees total earnings for the year to November 2007 increased by 3.8 per cent, having also increased by 0.6 per cent in the quarter. As Figure 6.2 shows the yearly increases to November 2007 in these earnings measures are within the range of increases since November 2000.

\textsuperscript{47} ABS Cat No 6302.0 November 2007
6.7 ABS Average Weekly Earnings data for the private sector shows that Full Time Adult average weekly ordinary time earnings increased by 0.5 per cent in the November quarter, to be 5.4 per cent higher over the year. Full time Adult Total earnings also increased by 0.4 per cent in the November quarter to be 5.4 per cent higher over the year.

6.8 All employees total earnings, private sector, for the year to November 2007 increased by 4.5 per cent, having increased by 0.5 per cent in the quarter. As Figure 6.3 shows the yearly increases to November 2007 in these earnings measures are within the range of increases since November 2000. The private sector increases through to the year November 2007 have been influenced (inflated) by the privatisation of the Telstra Corporation in November 2006 which impacted the series from the February quarter 2007.
Average non-farm compensation per employee

6.9 The National Accounts measure of wages and salaries, Average non-farm compensation per employee grew by 0.1 per cent in the December quarter, lower than the 1.2 per cent increase in the September quarter 2007, to be 4.6 per cent higher through the year. This is a highly volatile series, a point recently noted by the RBA Assistant Governor Malcolm Edey:

Given its volatility, we have to be careful in giving this too much weight\(^48\).

\(^{48}\) Malcolm Edey, RBA Assistant Governor (Economic), Talk to CEDA Economic and Political Overview 2008, Committee for Economic Development of Australia (CEDA) Economic and Political Overview 2008 Sydney - 19 February 2008
Agreements

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

6.11 The AAWI for agreements registered in the September quarter 2007 was 3.9 per cent. Over the four quarters to September 2007 the AAWI for agreements certified in each quarter has averaged 3.9 per cent.

Figure 6.4: AAWI Federal wage Agreements Formalised in the quarter

![Graph showing AAWI Federal wage Agreements Formalised in the quarter]

Source: DEEWR Trends in Federal Enterprise Bargaining

6.12 The DEEWR Trends in Federal Enterprise Bargaining report for the September Quarter 2007 shows the number of employees covered by federal bargaining agreements is increasing. The “All Industries” number

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49 DEEWR, Trends in Federal Enterprise Bargaining,

ACTU Submission AFPC 2008
increased by 310,900 since the September quarter 2004, Private Sector by 272,400 and the Public Sector by 38,500.

Figure 6.5: Employees covered by Current Agreements Sep 04 – Sep 07

Management and Executive Remuneration

6.13 The Mercer Quarterly Salary Review in September 2007 showed that the incomes of executives classified as Senior Management increased over the year to end September 2007 by 6 to 7 per cent, higher than in the previous two years.

Table 6.2: Senior Management Remuneration

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Salary</td>
<td>4.5 per cent</td>
<td>4.0 per cent</td>
<td>6.0 per cent</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>5.7 per cent</td>
<td>4.0 per cent</td>
<td>7.0 per cent</td>
</tr>
</tbody>
</table>

Source: Mercer Quarterly Salary Review

50 Mercer Human Resource Consulting, Quarterly Salary Review, September 2007. Increases are for individuals in same position, in same organization from one year to the next.
Wages forecasts

6.14 Wages forecasts are dealt with the Economic Outlook section.

Conclusion

6.15 There is steady but moderate real growth in wages. General wages movements are consistent with the ACTU request for a $26.00 per week increase. The granting of this increase will ensure the currently unacceptable wages gap between minimum wage and other wage earners does not widen.
7

Economic Conditions

7.1 This section of the submission considers the recent developments in the Australian economy and presents a summary of the current economic conditions. The data is derived from the ABS Cat No 5206.0 Australian National Accounts.\(^{51}\)

7.2 The Australian economy is in its 27\(^{th}\) consecutive quarter of economic growth\(^{52}\), while unemployment, at 4.0 per cent is at a 33 year low. There will be no better time to provide real wage increases to Australian minimum wage earners. With a considerable gap increasing between the rates of pay of minimum wages workers and other workers the AFPC can grant the ACTU request without impacting upon the competitive position of low paid employees in the labour market.

7.3 The AFPC can meet its statutory obligations by providing a fair outcome to those workers who are not in a position to bargain.

\(^{51}\) ABS Cat No 5206.0 December quarter 2007

\(^{52}\) The September quarter 2007 National Accounts revised trend data GDP growth for the December quarter 2000 to negative growth of -0.1 per cent. (This reflects introduction of the GST, and “bring forward” of activity into the first half of 2000.) Therefore the current economic expansion is entering this year with a total of 27 consecutive quarters of positive growth. Looking through the December quarter 2000 result, the economy has grown steadily for 17 years (66 quarters) since the recession of the early nineties.
Economic Growth

7.4 Gross Domestic Product (GDP) grew by 0.6 per cent in the December quarter 2007 in seasonally adjusted terms, 0.8 in trend terms, to be 3.9 per cent for the year to December quarter 2007.

7.5 Abstracting for the volatility of the farm sector Gross Non Farm Product (GNFP) grew by 0.7 per cent for the December quarter 2007 to be 4.0 per cent higher than at the same time last year, in both trend and seasonally adjusted terms.

7.6 The RBA February 2008 Statement on Monetary Policy\textsuperscript{53} states:

\begin{quote}
The performance of the Australian economy has to date remained robust.
\end{quote}

Domestic Final Demand

7.7 Domestic final demand grew 1.6 per cent in the December quarter 2007 to be 5.7 per cent over the year in seasonally adjusted terms.

Consumption

7.8 The December quarter 2007 saw total final consumption expenditure increase by 1.6 per cent to be 4.7 per cent higher over the year.

7.9 Household consumption expenditure grew by 1.6 per cent during the quarter, to be 5.0 per cent higher than a year earlier.

\textsuperscript{53} Op cit., p2
Investment

7.10 Growth in total private fixed capital formation expenditure grew by 0.7 per cent for the December quarter 2007 to be 8.9 per cent higher than in the same quarter in the previous year in seasonally adjusted terms.

Private Business Investment Expenditure

7.11 Private business investment expenditure increased by 0.4 percent in the December quarter 2007, increasing by 11.9 per cent over the year in seasonally adjusted terms.

7.12 Examining the two major components of business investment, in the December quarter 2007 while machinery and equipment investment increased by 3.8 percent to be up 12.3 per cent over the year, non-dwelling construction decreased by 3.6 per cent to be 9.4 per cent higher over the year.

7.13 The RBA February 2008 Statement on Monetary Policy\textsuperscript{54} notes

\begin{quote}
Business investment spending has also grown at a fast pace. [p.2]
\end{quote}

\textsuperscript{54} Ibid.
Expected Business Investment

7.14  The ABS Private New Capital Expenditure and Expected Expenditure December 2007 (ABS Cat No 5625.0), provides data on the seven estimates of actual and expected Total Capital Expenditure for each financial year.

**Figure 7.1: Actual and Expected Total Capital Expenditure**

Source: ABS Cat No 5625.0 December 2007

7.15  Commenting on the data the ABS states:

*Estimate 5 for 2007-2008 is $84,786 million. This is an increase of 14.7% from the previous estimate 5 in 2006-07.*

and

*The first estimate for 2008-9 has risen 23.6% from the corresponding estimate of 2007-08 to be at $78,545 million*
Public Investment Expenditure

7.16 Growth in total public fixed capital formation expenditure grew by 5.5 per cent for the December quarter 2007 to be 4.7 per cent higher than in the same quarter in the previous year in seasonally adjusted terms.

Net Exports

7.17 In the December quarter 2007 net exports detracted 0.1 per cent, in seasonally adjusted terms, from GDP. Exports of goods and services declined by 0.6 per cent in the December quarter, but increased by 2.6 per cent over the year. Imports of goods and services increased by 3.6 per cent in the quarter to be 10.3 per cent higher over the year.

Terms of Trade

7.18 Australia’s terms of trade continue to improve. In 2007 Australia’s purchasing power reached a 31 year high. The Terms of Trade in the December quarter 2007 rose 0.7 per cent in seasonally adjusted terms, to be 1.3 per cent higher over the year, to remain at historical highs.

Other National Accounts Indicators

Wage and Profit Shares

7.19 During the current economic expansion⁵⁵ the profit share of total factor income has increased from 23.9 per cent to 26.9 per cent of total factor income while the wage share of total factor income has decreased from 55.9 per cent to 53.6 per cent.

7.20 In the December quarter 2007 compensation of employees (COE) represented 53.6 per cent of total factor income. In seasonally adjusted

⁵⁵ That is, since the early nineties; see footnote 49 above.
terms COE grew by 1.5 per cent the quarter reflecting a rise of 0.9% in average earnings and a 0.6% rise in the number of wage and salary earners.

7.21 The Gross operating surplus (GOS) of corporations represented 26.9 per cent of total factor income in the December quarter 2007. The quarter saw a 1.2 per cent increase in GOS in seasonally adjusted terms. The ABS notes that GOS of corporations remains at historically high levels.
Productivity

7.22 ABS National Accounts indicate over the year to December quarter 2007 growth in hours worked of 3.0 per cent in trend terms and 3.4 per cent in seasonally adjusted terms, and in hours worked market sector of 3.2 per cent, trend, and 3.6 per cent seasonally adjusted.

7.23 GDP per hour worked over the year to December quarter 2007 grew by 0.8 per cent (0.5 per cent, seasonally adjusted), and in GDP per hour worked market sector grew by 0.7 per cent in trend terms (no growth, seasonally adjusted).

7.24 RBA Assistant Governor Malcolm Edey, in a speech given on 5 March 2008 noted:

The economy over the latest year has grown at a significantly faster pace than a year ago – about 2 percentage points higher.

... With employment still growing at around the same rate as before, this means that productivity growth has now picked up to a more normal pace ...

Non-farm Real Unit Labour Costs (RULC)

7.25 The ABS states that the Non-farm measure of real unit labour costs is generally preferred as it removes some of the fluctuations associated with Agriculture. The ABS National Accounts measure of Non-farm RULC

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decreased by 1.0 per cent in the December quarter 2007, in seasonally adjusted terms, to be 0.1 per cent higher over the year.

**Figure 7.4: Unit Labour Costs – Real Non-farm**

Index

Source: ABS Cat No 5206.0

**Industry Gross Value Added**

7.26 The ABS National Accounts provides data on Industry Gross Value Added. Table 7.1 ranks industries according to gross value added over the year to December quarter 2007. Four of the seven industries in which low paid workers are predominantly employed are in the top half of the table.

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57 AFPC Monitoring Report footnote 9 states that the AFPC have included Education as a minimum wage decision sensitive industry. With 5 per cent of minimum wage workers employed in the industry, comprising 12 per cent of education industry workers, the ACTU does not regard Education as a minimum wage sensitive industry.
Table 7.1: Increase in Gross Value Added December 2006 – December 2007

<table>
<thead>
<tr>
<th>Position</th>
<th>Industry</th>
<th>Increase in Gross Value Added %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Finance and Insurance</td>
<td>14.2</td>
</tr>
<tr>
<td>2</td>
<td>Communications</td>
<td>7.9</td>
</tr>
<tr>
<td>3</td>
<td>Retail Trade</td>
<td>6.1</td>
</tr>
<tr>
<td>4</td>
<td>Personal and Other Services</td>
<td>5.7</td>
</tr>
<tr>
<td>5</td>
<td>Transport and Storage</td>
<td>4.8</td>
</tr>
<tr>
<td>6</td>
<td>Government and Defence</td>
<td>3.9</td>
</tr>
<tr>
<td>7</td>
<td>Property and Business Services</td>
<td>3.2</td>
</tr>
<tr>
<td>8</td>
<td>Health and Community Services</td>
<td>3.1</td>
</tr>
<tr>
<td>9</td>
<td>Cultural and Recreational Services</td>
<td>2.6</td>
</tr>
<tr>
<td>10</td>
<td>Wholesale Trade</td>
<td>2.5</td>
</tr>
<tr>
<td>11</td>
<td>Construction</td>
<td>1.8</td>
</tr>
<tr>
<td>12</td>
<td>Manufacturing</td>
<td>1.7</td>
</tr>
<tr>
<td>13</td>
<td>Education</td>
<td>1.6</td>
</tr>
<tr>
<td>14</td>
<td>Accommodation Cafes and Restaurants</td>
<td>1.0</td>
</tr>
<tr>
<td>15</td>
<td>Agriculture Forestry and Fishing</td>
<td>0.8</td>
</tr>
<tr>
<td>16</td>
<td>Mining</td>
<td>-1.6</td>
</tr>
<tr>
<td>17</td>
<td>Electricity Gas and Water</td>
<td>-2.3</td>
</tr>
</tbody>
</table>

Source: ABS Cat No 5206.0

Conclusion

7.27 There is nothing in Australia’s economic performance that would prevent the AFPC granting the ACTU request thereby providing a real wage increase to low paid workers. The Australian economy continues to grow. By any measure the economy is strong and economic indicators favourable. Productivity in the economy generally and within the sectors with high levels of minimum wage workers is increasing. There is no justification for withholding the fruits of this growth from those who would benefit the most.
Economic Outlook

8.1 The Commonwealth Treasury’s MYEFO 2007-08 was released in October 2007. The MYEFO provides the Treasury’s economic forecasts for the state of the national domestic economy. The forecast is for continued economic growth.

The Outlook for the Domestic Economy

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

8.3 The Treasury’s key domestic forecasts for 2007-08 are summarised in Table 8.1 below. The MYEFO forecasts for 2007-08 and the Treasury’s projections for the medium term are outlined in Table 8.2.

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58 Department of Treasury Mid Year Economic and Fiscal Outlook, 2007-2008, October 2007
### Table 8.1: Domestic Economic Forecasts (a)

<table>
<thead>
<tr>
<th>Panel A - Demand and output(c)</th>
<th>2006-07 Outcomes(b)</th>
<th>2007-08 Forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year average</td>
<td>Budget Year average</td>
</tr>
<tr>
<td>Household consumption</td>
<td>3.7</td>
<td>3 1/2</td>
</tr>
<tr>
<td>Private investment</td>
<td></td>
<td></td>
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<tr>
<td>Dwellings</td>
<td>3.6</td>
<td>2 1/2</td>
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<tr>
<td>Total business investment(d)</td>
<td>7.1</td>
<td>7 1/2</td>
</tr>
<tr>
<td>Non-dwelling construction(d)</td>
<td>12.6</td>
<td>7</td>
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<tr>
<td>Machinery and equipment(d)</td>
<td>3.1</td>
<td>6 1/2</td>
</tr>
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<td>Private final demand(d)</td>
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<td>4 1/4</td>
</tr>
<tr>
<td>Public final demand(d)</td>
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</tr>
<tr>
<td>Total final demand</td>
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<td>4</td>
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<tr>
<td>Change in inventories(e)</td>
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<tr>
<td>Private non-farm</td>
<td>0.3</td>
<td>0</td>
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<tr>
<td>Farm and public authorities(f)</td>
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<td>1/4</td>
</tr>
<tr>
<td>Gross national expenditure</td>
<td>4.5</td>
<td>4 1/4</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>3.9</td>
<td>5</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>9.5</td>
<td>6 1/2</td>
</tr>
<tr>
<td>Net exports(e)</td>
<td>-1.4</td>
<td>-1/2</td>
</tr>
<tr>
<td>Gross domestic product</td>
<td>3.3</td>
<td>3 3/4</td>
</tr>
<tr>
<td>Non-farm product</td>
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<td>3 1/2</td>
</tr>
<tr>
<td>Farm product</td>
<td>-19.2</td>
<td>18</td>
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</tbody>
</table>

### Panel B - Other selected economic measures

<table>
<thead>
<tr>
<th>External accounts</th>
<th>2006-07 Outcomes(b)</th>
<th>2007-08 Forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terms of trade</td>
<td>7.3</td>
<td>-1 1/2</td>
</tr>
<tr>
<td>Current account balance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$billion</td>
<td>-59.2</td>
<td>-65 3/4</td>
</tr>
<tr>
<td>Percentage of GDP</td>
<td>-5.7</td>
<td>-6</td>
</tr>
<tr>
<td>Labour market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment (labour force survey basis)</td>
<td>2.7</td>
<td>1 1/2</td>
</tr>
<tr>
<td>Unemployment rate (per cent)</td>
<td>4.5</td>
<td>5</td>
</tr>
<tr>
<td>Participation rate (per cent)</td>
<td>64.8</td>
<td>65</td>
</tr>
<tr>
<td>Prices and wages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>2.9</td>
<td>2 1/2</td>
</tr>
<tr>
<td>Gross non-farm product deflator</td>
<td>4.9</td>
<td>2 1/2</td>
</tr>
<tr>
<td>Wage Price Index</td>
<td>4.0</td>
<td>4 1/4</td>
</tr>
</tbody>
</table>

(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data.
(c) Chain volume measures.
(d) Excluding second-hand asset sales from the public sector to the private sector and including the impact of the privatisation of Telstra.
(e) Percentage point contribution to growth in GOP.
(f) For presentational purposes, inventories held by privatised marketing authorities are included with the inventories of the farm sector and public marketing authorities.

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

Source: MYEFO October 2007 Table 4
### Economic Growth

#### 8.4 The Australian economy is forecast to grow by 4¼ per cent in 2007-08 and 3½ per cent in 2008-09, up from the Budget forecast of 3¾ per cent and an outcome of 3.3 per cent in 2006-2007.

#### 8.5 Commenting on recent international events, the RBA Governor in a speech⁵⁹ presented on 18 January 2008 stated:

> Based on what we can see at present, my judgement is that the direct financial effects of the global turmoil on Australia are likely to be confined mainly to the impact on borrowing costs of the liquidity squeeze of recent months, which has pushed up the cost of wholesale finance a bit in addition to the effects of monetary policy changes. Taking into account the strength of demand, this increase in borrowing costs does not seem likely to pose a particular problem for the economy as a whole. There is no evidence, moreover, of a ‘credit crunch’ in the domestic financial sector. On the contrary, thus far the core elements of the domestic system have stepped into the potential gap left by the capital markets.

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Consumption

8.6 The outlook for household consumption growth is to increase by 4¼ per cent in 2007-08, revised up from a 3½ per cent Budget forecast and a 3.7 per cent outcome for 2006-07. Treasury states that the upward revision reflects a more positive outlook for household incomes, largely as a result of stronger anticipated employment growth.

Investment

8.7 The forecast for dwelling investment in 2007-08 is revised upwards by MYEFO to 3.0 per cent up from a Budget forecast of 2½ per cent.

8.8 Treasury expects business investment in 2007-08 to grow by 9½ per cent, revised upwards from a Budget forecast of 7½ per cent, and higher than the outcome for 2006-07 of 7.1 per cent.

8.9 Treasury finds that:

"Strong corporate balance sheets and profits will continue to support high levels of business investment."\(^{60}\)

Public final demand

8.10 The Treasury expects public final demand to grow by 4½ per cent in year average terms over 2007-08, stronger than expected at Budget (3¾ per cent).

\(^{60}\) Op cit, p.18
Net exports, terms of trade and the current account

8.11 Treasury expects the terms of trade to increase by 1¼ per cent in 2007-08, rather than decline by the 1½ per cent Budget forecast.

8.12 Treasury expects net exports to subtract 1.0 percentage point from GDP growth in 2007-08; this is less than the 1.4 percentage point subtraction in 2006-07. The forecast for export growth is an increase of 4½ per cent in 2007-08, (slightly lower than the Budget forecast of 5.0 per cent), reflecting strong growth in elaborately transformed manufactures and services and significant growth in non-rural commodity exports. Rural exports are expected to be constrained by weakness in farm production. The Treasury’s outlook for imports is for growth of 8½ per cent in 2007-08, down from an outcome of 9.5 per cent in 2006-07 (but up on the Budget forecast).

8.13 Treasury forecasts the Current Account Deficit (CAD) to widen in 2007-08 to 6¼ per cent of GDP, up from 5.7 per cent of GDP in 2006-07.

Labour Market

8.14 The MYEFO forecast for employment is to grow by 2¼ per cent during 2007-08, revised up from 1½ per cent forecast at Budget, reflecting strong GDP growth. The unemployment rate is expected to be around 4½ per cent (currently 4.1 per cent trend, 4.0 per cent seasonally adjusted) and the participation rate 65¼ per cent, only 0.05 per cent above the current 65.2 per cent, in both trend and seasonally adjusted terms.
8.15 The Treasurer recently noted:

.. I have no advice from the Treasury that suggests that unemployment will increase substantially for all of the reasons that I outlined before. We've still got strong domestic investment, we still have strong employment creation. We also have the addition to the economy from the commodity price increases flowing there, I think that will mean still a relatively strong outlook for the year ahead.

Wages

8.16 The Treasury MYEFO forecast is for wages (WPI) to grow by 4¼ per cent in 2007–08 and 2008-09. This remains at 0.05 per cent above the current rate of growth in WPI to the December quarter 2007.

Inflation

8.17 Treasury MYEFO predicts the Consumer Price Index (CPI) to be 2¾ per cent in both financial years 2007-2008 and 2008-2009.

8.18 The Reserve Bank of Australia (RBA) forecasts on inflation are higher at 3½ per cent over the year to June 2008 and over the year to December 2008.

---


ACTU Submission AFPC 2008
8.19 In a statement on 5 February 2008, the RBA Governor stated:

CPI inflation on a year-ended basis picked up to 3 per cent in the December quarter, with underlying measures around 3½ per cent. This was a little higher than was expected a few months ago. Indicators of demand remained strong through the second half of 2007, and reports of high capacity usage and shortages of suitable labour persist. In the short term, inflation is likely to remain relatively high and will probably rise further in year-ended terms, though the Bank expects it to moderate somewhat next year.

Conclusion

8.20 The economic outlook supports the granting of a real wage increase to Australia’s low paid employees.

---

ACTU Request

Costing of the ACTU Request

9.1 The ACTU request for a $26 per week increase to minimum wages is affordable. The ACTU has estimated the maximum cost of its request adds a negligible 0.38 per cent to ordinary time earnings and a barely measurable CPI impact of 0.20 per cent.

9.2 These impacts are significantly overestimated as they are based on an assumption that the full $26 increase will be granted and paid concurrently and to all private sector minimum wage earners regardless of the jurisdiction in which they fall.

9.3 It is important to note that whilst 19 per cent of all employees rely on minimum wages, 18.5 per cent of these are employed in the private sector. However, ABS unpublished data\(^6\) approximates that 42.7 per cent of these employees are employed in unincorporated businesses outside the jurisdiction of the AFPC. The total number of incorporated pay scale reliant employees as a proportion of the workforce is estimated to be as little as 10-12 per cent.

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\(^6\) ABS Cat No. 6306.0 EEH May 2004 Unpublished data. It is likely that the level of incorporation will have risen since the May 2004 survey.
9.4 If the ACTU’s cost estimates are applied only to the upper estimate of the jurisdiction of the AFPC at 12 per cent, the addition to ordinary time earnings is approximated at only 0.25 per cent with a CPI impact of 0.13 per cent.

9.5 Notwithstanding this, the ACTU has provided a cost which assumes all minimum wage employees across all jurisdictions will receive the full increase sought and that they will all do so at the same time. This is a clear overestimate and more than compensates for any claimed underestimation as a result of the non-calculation of overtime or potential flow on to workers on agreements.

9.6 There is an expectation on the part of the ACTU that employer organisations, and others traditionally opposed to higher minimum wages will claim the increase sought by the ACTU will be inflationary. A CPI impact of between 1/10 and 2/10 of 1 per cent should not be considered inflationary by any reasonable person.

9.7 In the context of continual productivity growth, a moderate increase in pay scales is capable of being absorbed with no noticeable inflationary impact. Granting the ACTU request is affordable and will not add to inflationary pressures.
Table 9.1 Economy wide costing of a $26 per week increase to Minimum Wage rates in all jurisdictions

Costing a $26.00 increase to all Private Sector Minimum Wage Employees*

Weighted increase for Minimum Wage Reliant Employees

<table>
<thead>
<tr>
<th>Adults</th>
<th>Juniors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent/Fixed Term</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Casual</td>
<td>Permanent/Fixed Term</td>
<td>Casual</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of Minimum Wage Employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30.40</td>
<td>16.90</td>
<td>15.60</td>
</tr>
<tr>
<td>Weighting</td>
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<td>1.0</td>
</tr>
<tr>
<td>Weighted Increase</td>
<td>26.00</td>
<td>15.60</td>
</tr>
</tbody>
</table>

* Assumes the AFPC decision will be immediately flowed on to all jurisdictions

Calculating the Addition to Total Ordinary Time Earnings

<table>
<thead>
<tr>
<th>Percentage of Total Australian Workforce</th>
<th>Weighted Increase</th>
<th>Forecast AWOTE May 2008</th>
<th>Addition to Total Ordinary Time Earnings (%)</th>
<th>CPI Effect %</th>
</tr>
</thead>
<tbody>
<tr>
<td>18.50</td>
<td>18.29</td>
<td>891.26</td>
<td>0.38</td>
<td>0.20</td>
</tr>
</tbody>
</table>
Table 9.2 shows the economy wide impact of various increases to minimum wage rates above and below the $26 per week sought by the ACTU both for all private sector minimum wage earners in all jurisdictions (18.5% of the workforce) and limited to the jurisdiction of the AFPC (estimated at a maximum of 12%).

Table 9.2: Estimated impact of various increases to ordinary time earnings and impact on CPI. For All Minimum Wage Workers in all jurisdictions and within the jurisdiction of the AFPC.

<table>
<thead>
<tr>
<th>Wage Increase $ per week</th>
<th>Addition to Total Ordinary Time Earnings %</th>
<th>CPI Effect %</th>
<th>Addition to Total Ordinary Time Earnings %</th>
<th>CPI Effect %</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>0.15</td>
<td>0.08</td>
<td>0.09</td>
<td>0.05</td>
</tr>
<tr>
<td>11</td>
<td>0.16</td>
<td>0.09</td>
<td>0.10</td>
<td>0.06</td>
</tr>
<tr>
<td>12</td>
<td>0.18</td>
<td>0.09</td>
<td>0.11</td>
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<td>0.10</td>
<td>0.12</td>
<td>0.07</td>
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<tr>
<td>14</td>
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<td>0.11</td>
<td>0.13</td>
<td>0.07</td>
</tr>
<tr>
<td>15</td>
<td>0.22</td>
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<td>0.08</td>
</tr>
<tr>
<td>16</td>
<td>0.23</td>
<td>0.13</td>
<td>0.15</td>
<td>0.08</td>
</tr>
<tr>
<td>17</td>
<td>0.25</td>
<td>0.13</td>
<td>0.16</td>
<td>0.09</td>
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<td>18</td>
<td>0.26</td>
<td>0.14</td>
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<td>0.09</td>
</tr>
<tr>
<td>19</td>
<td>0.28</td>
<td>0.15</td>
<td>0.18</td>
<td>0.10</td>
</tr>
<tr>
<td>20</td>
<td>0.29</td>
<td>0.16</td>
<td>0.19</td>
<td>0.10</td>
</tr>
<tr>
<td>21</td>
<td>0.31</td>
<td>0.16</td>
<td>0.20</td>
<td>0.11</td>
</tr>
<tr>
<td>22</td>
<td>0.32</td>
<td>0.17</td>
<td>0.21</td>
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<td>0.35</td>
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<td>0.23</td>
<td>0.12</td>
</tr>
<tr>
<td>25</td>
<td>0.37</td>
<td>0.20</td>
<td>0.24</td>
<td>0.13</td>
</tr>
<tr>
<td>26</td>
<td>0.38</td>
<td>0.20</td>
<td>0.25</td>
<td>0.13</td>
</tr>
<tr>
<td>27</td>
<td>0.39</td>
<td>0.21</td>
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</tr>
<tr>
<td>29</td>
<td>0.42</td>
<td>0.23</td>
<td>0.27</td>
<td>0.15</td>
</tr>
<tr>
<td>30</td>
<td>0.44</td>
<td>0.23</td>
<td>0.28</td>
<td>0.15</td>
</tr>
</tbody>
</table>
ACTU Methodology for estimating the cost impact of a $26 rise in Minimum wages for all minimum wage levels

9.9 We cost a $26 increase in all minimum rates of pay in Australia using unpublished data from ABS Cat. 6306.0 Survey of Employee Earnings and Hours, May 2006, (May 2006 EEH”).

9.10 The first step is to weigh the $26.00 increase for full-time, part-time, permanent, casual, adult and junior status. This is done on the following assumptions:

- a full-time permanent adult receives the full increase;
- a full-time casual adult receives a 20 per cent loading (ie a 1.2 weighting);
- a part-time permanent adult works on average 22.2 ordinary hours per week (ABS Cat 6306.0) (ie a 0.6 weighting);
- a part-time casual adult receives a 20 per cent loading and works on average 19.2 hours per week (ie a weighting of 0.6);
- juniors receive 0.48.3 per cent of adult earnings on average with casual juniors weighted in the same way as adults. Part-time juniors work an average of 12 ordinary hours per week (ABS Cat. 6306.0), thus for juniors the relevant part-time rating is 0.33. This gives an overall weighting for juniors of 0.3.
9.11 The mathematical basis for this is as follows:

We define the following key terms:

\( W = \) total weekly ordinary time earnings for all employees

\( \Delta W = \) change in weekly ordinary time earnings for all employees as a result of the proposed increase

\( N = \) total no. of all employees

\( N_A = \) total no. of minimum wage employees

\( AWOTE = \) average weekly ordinary time earnings for all employees

\( \alpha = \) proportion increase in total ordinary time earnings as a result of the proposed increase.

For each cohort of minimum wage employees we define:

\( W_i = \) total weekly ordinary time earnings for all employees in the cohort

\( \Delta W_i = \) change in weekly ordinary time earnings for all employees in the cohort as a result of the proposed increase

\( N_i = \) total no. of employees in the cohort

\( w_i = \) flat increase in ordinary time earnings for each cohort

From the above we note the following relationships:

\( N_A / N = \) the number of award only employees as a proportion of all employees

\( N_i / N_A = \) the number employees in a particular cohort as a proportion of all award only employees

\( AWOTE = W / N \Rightarrow N \times AWOTE = W \)

\( \Delta W_i = w_i \times N_i \)

\( \Delta W = \sum \Delta W_i \)

We calculate the proportionate increase in ordinary time earnings using the following formula:

\[ \sum \left( w_i \times \left( N_i / N_A \right) \right) \times N_A / N \times 1/AWOTE \]

\[ = \sum \left( \left( w_i \times \frac{N_i}{N_A} \right) / (N \times AWOTE) \right) \]

\[ = \sum \left( \Delta W_i / W \right) \]

\[ = \Delta W / W \]

\[ = \alpha \]
9.12 The next step is to involves taking the weighted dollar increase and multiplying it by the proportion of Australian Private Sector employees employed in incorporated businesses who are award dependent (receiving the statutory minimum wage) and divided by estimated AWOTE for May 2008 to give a maximum addition to ordinary time earnings.

9.13 Our aim is to measure the total increase in ordinary time earnings for all employees attributable to the proposed increase in minimum wages rates.

9.14 AWOTE for May 2006 using the EEH survey 6306.0 is $818.90.

9.15 AWOTE for May 2007 is estimated by taking AWOTE for all employees from the May 2006 survey ($818.90) and adjusting by the change in all Australian employees AWE in the year to May 2007 measured by Average Weekly Earnings, November 2007, ABS Cat 6302.0 (4.4 per cent); a total of $854.93.

9.16 For the May 2008 figure we adjust by a further 4.25 per cent, which is the Budget estimate for the increase in the Wage Price Index for 2007-08; a total of $891.26.

9.17 These cost estimates assume that 100 percent of eligible employees receive the proposed increase and receive the increase immediately. It is further presumed that the AFPC increase will be flowed on by the AIRC and State Industrial Tribunals with the same operative date. Of the 1.5 million minimum wage workers in Australia it is estimated that approximately 1.1 million are under the jurisdiction of the AFPC.

9.18 It is presumed that there will be a significant overestimation of the impact of an increase in award rates of pay.
9.19 The net CPI impact is calculated by adjusting the net addition to AWOTE by the wage share of total factor income 53.6 per cent - see ABS Cat No. 5206.0 December 2007.

Nature of Request

9.20 The ACTU is seeking a flat rate increase in all pay scale rates because all minimum wage workers are fully reliant on those pay scales. It is simply not the case that those at higher levels of wages are less reliant on the pay scale rate than those employed at lower levels. The ACTU is seeking a flat dollar amount because it provides a greater percentage increase for those workers employed at lower levels of the pay scales. Notwithstanding, ACTU is increasingly concerned about compression of relativities. This effect is compounded by the AFPC decision to deliver differential increases in its two decisions.

Compression of relativities

9.21 The ACTU notes that acceptance of its request will result in further compression of middle and upper pay scale classification rates of pay. The relevance of middle and upper classification rates of pay is a matter of ongoing concern to the ACTU and one which is fundamental to the proper functioning of the minimum wages system. Nonetheless, the ACTU and its affiliates have agreed to seek a flat dollar increase in order to ensure provision of the greatest possible outcome to the low paid.

9.22 Equity considerations and the needs of the low paid are the drivers for this decision. In making the decision to pursue a flat dollar increase the ACTU recognises that the continued compression of award relativities causes some difficulties. The ACTU is committed to the ongoing relevance of properly established career paths and relativities.
9.23 It has been consistently concluded that, to be fair and effective, classification structures must reflect minimum rates properly set by reference to work value considerations. These considerations have equal applicability to all levels of a classification structure. There is a dual responsibility on the AFPC and those seeking minimum wage increases to consider the needs of low paid workers and the need to ensure fairness at all levels. Integral to this proposition is the argument that the concept of “low paid” needs to be viewed relative to the particular award.

9.24 The compression of relativities and lack of recognition of new skills and training does not assist the current skills shortage within industries, particularly at the above trade levels.

Conclusion

9.25 Granting the ACTU request is affordable and will not add to inflationary pressures.

9.26 The AFPC can minimise the impact of its decision on the compression of relativities by delivering one level of minimum wages increase, instead of differential increases.

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64 These matters have previously been considered by the Commission. For example: April 1997, Safety Net Review Wages, Print P1997 at p. 72; May 2002, Safety Net Review Wages at para. 159.
Providing a safety net for the low paid

10.1 Despite sixteen years of positive economic growth and more people in work than ever before, many Australian working families, particularly the low paid, are under tremendous financial pressure. Successive interest rate increases, rent increases, rising personal debt, and spiraling costs of petrol, childcare, health care and education mean that low paid working Australians are struggling to meet their day to day costs of living. Wage increases are an important means of easing the financial stress on workers and their families, particularly the low paid.

10.2 A principal foundation of fair workplaces and a fairer society is the maintenance of a decent safety net of wages, and conditions.

10.3 The AFPC has an obligation to ensure there is an adequate safety net for all those who rely on minimum wages.

Complementary roles of wages and tax/transfer systems

10.4 Increases in the real value of income support system payments do have an impact on the disposable income of low paid employees (albeit only those eligible to receive such payments). The same is true for tax reductions. However, transfer payments and improvements in their real value and tax reductions do not replace the Commission’s role. There is no statutory direction to discount wages for social wage factors.
10.5 Providing a safety net for the low paid and its adjustment are about ensuring fair wages. Fair wages are about the dignity of knowing that the work you do is worthy of a living wage. Speaking of the protections of social security in their chapter Economic and Social Effects in the book The New Province for Law and Order Keith Hancock and Sue Richardson state:

Those protections, however generous, cannot replace the tribunals’ historic role of enforcing a fair day’s pay for a fair day’s work.\textsuperscript{65}

10.6 At the present time, in the federal jurisdiction, the AFPC is charged with this historic role.

10.7 We seek fair pay for minimum wage workers. The role of the AFPC is to set fair pay, not fair tax or transfer arrangements. The Fair Pay Commission should consider its role as a body that sets fair minimum pay for work performed and hours worked.

\textbf{Minimum wages and work incentives}

10.8 Wages are a necessary protection against hardship and a reward for work. The level of minimum wages relative to social security transfer payments is critical in making work pay.

\textsuperscript{65} Isaac J and MacIntyre S, Eds, The New Province of Law and Order 100 years of Australian Conciliation and Arbitration, 2004, p.205
10.9 In its 2006 decision the AFPC stated:

In setting minimum wages, the Commission is required to consider how the level of minimum wages affects the capacity of the unemployed and low paid to obtain and remain in employment. This consideration bears on labour supply as well as labour demand. In other words, is there sufficient incentive for people who are otherwise jobless or underemployed to take up, or increase their hours of, low-paid work?

and

The smaller the difference or gap between the level of government benefits for those who are unemployed and the minimum wage of the low paid, the lower the incentive for the jobless to seek low-paid work and to remain in low-paid work.

and

By the same token, those without jobs and those in low-paid employment, particularly part-time, will weigh up the net benefits of work relative to the net benefits of being without work.

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66 Australian Fair Pay Commission, Wage Setting Decision, October 2006, pp76 and 80
10.10 As Healy and Richardson\textsuperscript{67} state in their report commissioned by the AFPC, *A Strategy for Monitoring the Micro-economic and social Impacts of the Australian Fair Pay Commission*:

> It is generally noted … low skilled individuals make decisions about labour market participation partly on the basis of the minimum wage, especially the gap between it and available social welfare benefits.

10.11 Minimum wages provide an incentive to work. The level of minimum wages relative to social security transfer payments is critical in making work pay.

10.12 Income support payments are indexed to the Consumer Price Index, thereby maintaining their real value. The reduction in real minimum wages as a result of the AFPC 2007 decision will have reduced the incentive to work provided by minimum wages. The AFPC should encourage, not discourage entry into the workforce.

**Effective Marginal Tax Rates**

10.13 An effective marginal tax rate (EMTR) is the percentage of a one dollar increase in private income that is lost to income tax and, for those eligible to receive income support, withdrawal of benefits. An employee’s effective marginal tax rate will determine the increase in disposable income that employee receives from a $1 increase in private income from, for example, an increase in minimum wages.

\textsuperscript{67} J Healey and S Richardson, NILS, Report commissioned by the AFPC, 2006, A Strategy for Monitoring the Micro-economic and social Impacts of the Australian Fair Pay Commission, p8-9
10.14 In 2006 the AFPC commissioned NATSEM to model EMTRs. Since NATSEM modelled the tax transfer parameters applying in the 2006-07 financial year, modifications to EMTRs include the 1 July 2007 income tax rate changes.

10.15 These reductions in marginal income tax rates will have reduced EMTRs.

10.16 The NATSEM research68 commissioned by the AFPC stated:

Some 13.4 per cent of part-time employees have ETRs greater than 50 per cent, compared to 6.5 per cent of full-time employees.

10.17 Recent research by NATSEM69 on effective rates shows that these percentages have declined:

The proportion of part-time workers facing EMTRs of more than 50 percent has remained at around six percent of part-time workers. About three in every 100 full-time workers now also face EMTRs of more than 50 percent – … .

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68 A Harding, A Payne, Q Ngú Vu and R Percival, Interactions between wages and the tax/transfer system, A report commissioned by the AFPC, NATSEM 2006. p8
10.18 Therefore the conclusion reached by AFPC in Wage Setting Decision 2006\textsuperscript{70} remains apposite:

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

**Where low paid found**

10.19 Argument is put that low paid are found in all quintiles of income distribution of All Households.

10.20 The ACTU continues to argue that “All Households” is not the relevant population for making this assessment. The AFFC obligation is to take into account the unemployed and the low paid. As ACOSS\textsuperscript{71} has stated:

> Leigh’s research found that:

- Minimum wage earners come mainly from the middle of the income distribution when retired households are included. The reason for this is that around three quarters of retired people are age pensioners on very low incomes.

- However, since minimum wages only directly affect people of workforce age (whether in jobs or unemployed) it is appropriate to exclude retired people when examining the effect of minimum wages on income inequality. When this is done, half of all minimum

\textsuperscript{70} AFPC Wage Setting Decision and Reasons for Decision, October 2006, p12
\textsuperscript{71} ACOSS Submission to the Fair Pay Commission on minimum wages, ACOSS 2007 Paper 148, p14
wage earners come from households in the bottom 40% of the distribution.

This is consistent with the findings of research commissioned by the Commission last year, and with Richardson & Harding’s findings for 1995.

10.21 In their recent work for the AFPC A Strategy for Monitoring the Micro-economic and social Impacts of the Australian Fair Pay Commission,72 Healy and Richardson summarise their finding in An updated profile of the minimum wage workforce in Australia in the following terms:

It is generally noted, based on existing evidence, that minimum wage recipients live in families of varying means, but are over-represented in poorer households (Healey and Richardson, 2006)

10.22 The question of whether low paid work is pin-money or essential earnings is explored in a paper by Helen Masterman Smith: More Than Pin-Money: Women And Low Wages.73

While ever the popular image remains of the low paid worker as a woman who is dependent on a male partner, it will continue to be easier to sell and swallow the notion that many low paid workers are not the sole or main breadwinner in their household. In contrast, our

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72 Op cit., p8-9
interviews indicate that the ‘pin-money’ or ‘second earner’ stereotype applies to only a minority of low paid workers today.

10.23 Professor Ron McCallum\textsuperscript{74} in a recent speech also highlighted the essential nature of low paid wages:

> I think the people who framed Work Choices didn’t understand the modern way families are financed – the debt structures – and the way part time and other forms of employment are absolutely essential to the family’s operations.

10.24 Low paid work provides essential earnings. Low paid workers need a real wage increase.

**Working households are facing cost pressures.**

10.25 In its 2007 decision\textsuperscript{75} the AFPC stated:

> The Commission does not confine its attention to benchmarks and will continue to review a range of evidence when assessing the minimum wage as part of the safety net.

10.26 Rising costs, particularly housing mortgage repayment and rent increases, and fuel prices are having an effect on working families reliant on pay scales. The ACTU believes in terms of the need of the low paid or

\textsuperscript{74} Professor Ron McCallum, Address to IR Society of NT 2007 Conference, as reported in Workplace Express 13 August 2007 “Debt and work family collision a toxic mix for Work Choices “

\textsuperscript{75} Op cit., p70
providing a safety net for the low paid, these matters are significant factors to be taken into account in assessing any increase in minimum wages.

10.27 The ABS publishes Cat No 6463.0 - Analytical Living Cost Indexes for Selected Australian Household Types. The most recent data in this series for June 2007 was released on 29 August 2007. The ABS states:

The indexes represent the conceptually preferred measures for assessing the impact of changes in prices on the disposable incomes of households. In other words, these indexes are particularly suited for assessing whether the disposable incomes of households have kept pace with price changes. The Australian Consumer Price Index (CPI), on the other hand, is designed to measure price inflation for the household sector as a whole and, as such, is not the conceptually ideal measure for assessing the impact of price changes on the disposable incomes of households.

10.28 The June 2007 data indicate that the cost of living for Employee households went up by 3.1 per cent over the period June 2006 – June 2007 compared to an increase in the CPI of 2.1 per cent over the same period.
## Table 10.1: Analytical Living Cost Indexes for Selected Australian Household Types

<table>
<thead>
<tr>
<th>Commodity group</th>
<th>Employee</th>
<th>Age pensioner</th>
<th>Household type</th>
<th>Other government transfer recipient</th>
<th>Self-funded retiree</th>
<th>CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Percentage Change</td>
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<tr>
<td>Food</td>
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<td>1.3</td>
<td>2.2</td>
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<tr>
<td>Alcohol &amp; tobacco</td>
<td>3.2</td>
<td>3.1</td>
<td>3.5</td>
<td>2.7</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>Clothing &amp; footwear</td>
<td>0.8</td>
<td>0.7</td>
<td>0.8</td>
<td>0.8</td>
<td>0.7</td>
<td></td>
</tr>
<tr>
<td>Housing(a)</td>
<td>4.1</td>
<td>4.1</td>
<td>4.6</td>
<td>3.3</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>Household contents &amp; services</td>
<td>2.1</td>
<td>1.4</td>
<td>1.6</td>
<td>1.4</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>4.2</td>
<td>3.7</td>
<td>3.4</td>
<td>4.2</td>
<td>4.1</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>0.0</td>
<td>-0.3</td>
<td>-0.5</td>
<td>-0.2</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>1.5</td>
<td>7.4</td>
<td>5.9</td>
<td>3.1</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>Recreation</td>
<td>0.8</td>
<td>1.3</td>
<td>0.7</td>
<td>1.5</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>4.5</td>
<td>3.7</td>
<td>3.9</td>
<td>5.9</td>
<td>4.3</td>
<td></td>
</tr>
<tr>
<td>Financial &amp; insurance services(b)</td>
<td>11.4</td>
<td>3.4</td>
<td>8.4</td>
<td>4.4</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3.1</td>
<td>2.2</td>
<td>2.8</td>
<td>1.9</td>
<td>2.1</td>
<td></td>
</tr>
</tbody>
</table>

(a) House purchases are included in the CPI but excluded from the population subgroup indexes.
(b) Includes interest charges and general insurance. Interest charges are excluded from the CPI and general insurance is calculated on a different basis.

Source: ABS Cat No 6463.0 2007

10.29 Table 10.1 shows that over the period June 2006-June 2007 cost pressures for employee households were greater than those indicated by the CPI.

### Housing Stress

10.30 The AFPC modeling for tables in the 2007 decision assumes household are paying sufficient private rent to receive maximum rent assistance. If AFPC modeling of transfer assistance includes maximum rent assistance to all illustrative families, it is vitally important to consider recent changes in rental and mortgage costs.

*ACTU Submission AFPC 2008*
On 4 March 2008 the Federal Government released research by NATSEM which estimates that:

- Housing stress has increased by a quarter since 2004, with 1.1 million low and middle income families in housing stress;
- 685,000 low and middle income families and singles – more than one in five of all families who rent – are in rental stress.

The Government report concludes that housing stress is a particularly serious problem for low and middle income earners - those in the bottom 40 per cent of all earners in Australia.

The RBA February 2008 Statement on Monetary Policy states:

\[\text{The shortfall in the supply of new dwellings relative to underlying demand remains evident in the rental market; vacancy rates are close to historical lows in most cities, and rents have continued to accelerate.}\]

\[\text{Higher housing costs were the largest contributor to the increase in non-tradables prices both in the quarter and for the year as a whole, with house purchase costs, utilities and in particular rents growing strongly. Rents, which have a weight of around 5\% per cent in the CPI, rose by 1.6 per cent in the December quarter, to be 6.4 per cent}\]

77 Housing stress is where households spend more than 30 per cent of their income on mortgage repayments or rent
78 Op cit., p27-28, 48
higher over the year. This was the largest annual increase since early 1990. With rental vacancy rates around historical lows, it is likely that there will be continued strong growth in rents for some time.

Figure 10.1: Vacancy Rates and Rents

Vacancy Rates and Rents

![Graph showing vacancy rates and rents over time]

Source: RBA Statement on Monetary Policy February 2008

10.34 For those low paid workers with mortgages, mortgage interest rates have increased four times since the AFPC made it decision in July 2007. Major banks passed on these increases. A growing number of banks have increased rates beyond the increases in the official cash rate to recoup additional costs resulting from the sub-prime loan crises in the US.

Table 10.2: Interest Rate Increases – 2005-2008

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Change in cash rate (Per cent)</th>
<th>New cash rate target (Per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Mar 2008</td>
<td>+0.25</td>
<td>7.25</td>
</tr>
<tr>
<td>6 Feb 2008</td>
<td>+0.25</td>
<td>7.00</td>
</tr>
<tr>
<td>7 Nov 2007</td>
<td>+0.25</td>
<td>6.75</td>
</tr>
<tr>
<td>8 Aug 2007</td>
<td>+0.25</td>
<td>6.50</td>
</tr>
<tr>
<td>8 Nov 2006</td>
<td>+0.25</td>
<td>6.25</td>
</tr>
<tr>
<td>2 Aug 2006</td>
<td>+0.25</td>
<td>6.00</td>
</tr>
<tr>
<td>3 May 2006</td>
<td>+0.25</td>
<td>5.75</td>
</tr>
<tr>
<td>2 Mar 2005</td>
<td>+0.25</td>
<td>5.50</td>
</tr>
</tbody>
</table>

Source: RBA
10.35 Calculated on a $250,000 home loan, taken over a period of 25 years, since the AFPC made it decision in July 2007 monthly repayments have increased by approximately $168 or approximately $42 per week.\(^79\)

10.36 The most recent ABS CPI data\(^80\) show that this increase in housing costs is continuing:

\begin{quote}
Most categories of housing recorded price rises this quarter. Main contributors to the increases were increases in house purchase (+1.3%) and rents (+1.6%).

...

Over the four quarters to December quarter 2007, the housing group rose 4.8%, mainly due to rents (+6.4%) and new house prices (+4.3%)
\end{quote}

10.37 The Real Estate Institute of Australia\(^81\) recently stated:

\begin{quote}
Over the past year, interest rate rises and increasing house prices have seen average loan repayments increase by approximately $260 per month. Renters will also be negatively affected by the latest increase, as property owners seek to recoup increased mortgage costs by raising rents. This is a growing area of concern. REIA property data shows that up to 27.8% of family income is used for rent in some cities, with the proportion increasing each quarter.
\end{quote}

\(^79\) This data does not include the extra interest rate increases some banks have added to mortgage payments to offset higher cost of borrowing.

\(^80\) ABS cat No 6401.0 December quarter 2007

\(^81\) Real Estate Institute of Australia, Media Release, 5 February 2008: Inflation pressures and pain for home buyers

\(\text{ACTU Submission AFPC 2008}\)
10.38 On 1 August 2007 the Residential Development Council, a division of the Property Council of Australia released a report “Beyond Reach A workforce housing crisis in the making”\(^8\).  

10.39 The report examines housing and rental affordability for different household and occupation types. The report is based on the following parameters:

- The incomes used are, where possible, basic award rates, without overtime or other benefits taken into account.
- Incomes are based on the awards typically available to employees aged around the 27 to 30 years of age mark. Incomes quoted are gross pre-tax incomes.
- Prices quoted are as close as possible to ‘typical’ 3 bedroom houses or 2 bedroom home units.
- Mortgage repayments assume a 5 per cent deposit. A rate of interest of 8 per cent over a 25 year term (principal and interest) has been used in calculating annual repayments.\(^8\)

10.40 The report\(^8\) includes results for the ‘Full Time Child Care Worker’. The ACTU highlights these results as representative of low paid award workers. The following income ranges, based on award wages, are used in the report:

<table>
<thead>
<tr>
<th>Table 10.3: Child Care Worker wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>VIC</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td>$36,670</td>
</tr>
</tbody>
</table>

Source: Residential Development Council

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\(^{83}\) Ibid., p2

\(^{84}\) Ibid., p14
10.41 For this occupation the report finds:

There is almost no chance at all that a single child care worker earning full time wages of around $30,000 per annum could remotely afford home ownership in any of the locations studied throughout Australia.

Indeed, in several locations, mortgage repayments would exceed their gross annual income.

Renting as an option is restricted to either a house in Hobart or a home unit in only four of the 16 locations studied.

With so few housing choices, the options are either a share-house or to stay with their parents, if that is possible given the location of their work.

Transport costs

10.42 Another essential item of expenditure for low paid workers is transport costs. With fuel costs at a record high transport costs are consuming an increasing proportion of minimum wage earners incomes.

10.43 The ABS\textsuperscript{85} has noted:

The most significant increase in transportation costs this quarter was due to the rise in the price of automotive fuel (+7.3%).

Automotive fuel prices fell in July (−3.4%) and August (−2.2%) then rose in September (+0.7%), October (+2.0%), November (+5.8%) and

\textsuperscript{85} ABS Cat No 6401.0 p3-4

ACTU Submission AFPC 2008
December (+4.7%). The automotive fuel expenditure class contributed +0.47 index points to the overall 1.50 index points change in the All Groups CPI in December quarter 2007 and +0.87 index points to the through the year change.

Through the year to December quarter 2007, the transportation group rose 5.6%, the rise in automotive fuel (+14.3%) was the most significant contributor to the increase.

**Figure 10.2: Average Price of Unleaded Petrol**

Source: ABS Cat No 6401.0 December Quarter 2007

10.44 The RBA February 2008 Statement on Monetary Policy\(^{86}\) notes:

Retail petrol prices increased by 7 per cent in the December quarter and by 14 per cent over the year, largely driven by the recent sustained strength in world oil prices.

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\(^{86}\) Op cit., p48
10.45 It is important to note that research has found that low income households are likely to suffer high levels of car dependence and therefore be particularly affected by rising fuel prices. Research by the Urban Research Program\textsuperscript{87} has found:

Lower income households are, in general, more likely to obtain housing in lower cost outer and fringe areas than those on higher incomes. First home purchasers on modest incomes are consequently also more likely to locate in outer and fringe areas (Burnley et al. 1997) than higher income first home purchasers. These households are also likely to suffer high levels of car dependence that places them at higher financial risk from rising fuel prices.

Other costs

10.46 Beyond housing and fuel prices, the RBA in Statement on Monetary Policy February 2008\textsuperscript{88} finds that, during 2007, 70 per cent of CPI Items were rising at faster than 2.5 per cent.

Overall, around 70 per cent of items in the CPI (by expenditure weight) grew at an annualised rate of more than 2.5 per cent in the December quarter.


\textsuperscript{88} Op Cit., p47
Financial stress indicators

10.47 Minimum wage workers face extreme financial stress. In their recent work for the AFPC A Strategy for Monitoring the Micro-economic and social Impacts of the Australian Fair Pay Commission89, Healy and Richardson state:

we recommended the periodic analysis of indicators of ‘financial stress’ among low-income households whose main income is from wages.

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89 Op cit., p3
Helen Masterman-Smith in her study *Low pay in a Prosperous Land* presents data from the HILDA Survey on capacity to meet financial needs:

Table 10.4: Financial Stress Indicators

<table>
<thead>
<tr>
<th>Description</th>
<th>Non-low paid employees</th>
<th>Low paid employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Couldn’t pay utilities bill on time</td>
<td>17%</td>
<td>26%</td>
</tr>
<tr>
<td>Couldn’t pay mortgage/rent on time</td>
<td>8%</td>
<td>12%</td>
</tr>
<tr>
<td>Pawned or sold something</td>
<td>5%</td>
<td>9%</td>
</tr>
<tr>
<td>Went without meals</td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td>Unable to heat home</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>Asked for financial help from friends/family</td>
<td>15%</td>
<td>27%</td>
</tr>
<tr>
<td>Asked for financial help from welfare/charity organizations</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>Couldn’t raise $2000 easily</td>
<td>29%</td>
<td>49%</td>
</tr>
</tbody>
</table>

Source: Masterman Smith 2007, HILDA 2001

Table 10.4 shows on all of the financial stress indicators low paid employees displayed greater levels of financial stress than the non-low paid employees.

As the Treasurer recently noted, working families:

... are under tremendous financial pressure ...

Changes in disposable income

The AFPC Monitoring report reports disposable income increases based on the FMW. As depicted in Figure 10.4 the ACTU calculates that C6 equivalent classification single no children wage earners had only a 3 per

---

90 Helen Masterman-Smith, Low pay in a prosperous land, Low Paid Work Symposium, Melbourne, 17 October 2007, p2
91 Treasurer, The Hon. Wayne Swan, MP Hansard Thursday 14 February 2008, House of Representatives, 418
92 Op cit., p26
93 In AFPC Decision September 2006 C6 was deemed by the AFPC lower paid.
cent increase in their disposable income over the period August 2005 – November 2007. C1b equivalent wage earners have had a real disposable income reduction of 1 per cent.

![Figure 10.4 Disposable Income Changes 2005-2007](image)

**Proposed Income tax Changes from 1 July 2008**

10.52 The Federal Government has introduced the *Tax Laws Amendment (Personal Income Tax Reduction) Bill 2008*. The Bill provides for the marginal income tax rates changes as shown in Table 10.5.

**Table 10.5: Changes in Rates of income tax**

<table>
<thead>
<tr>
<th>Tax thresholds for 2007-08 (Income range)</th>
<th>Tax rate (%)</th>
<th>New tax thresholds from 1 July 2008 (Income range)</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0–$6,000</td>
<td>0</td>
<td>$0–$6,000</td>
<td>0</td>
</tr>
<tr>
<td>$6,001–$30,000</td>
<td>15</td>
<td>$6,001–$34,000</td>
<td>15</td>
</tr>
<tr>
<td>$30,001–$75,000</td>
<td>30</td>
<td>$34,001–$80,000</td>
<td>30</td>
</tr>
<tr>
<td>$75,001–$150,000</td>
<td>40</td>
<td>$80,001–$180,000</td>
<td>40</td>
</tr>
<tr>
<td>$150,001+</td>
<td>45</td>
<td>$180,001+</td>
<td>45</td>
</tr>
</tbody>
</table>

Source: *Tax Laws Amendment (Personal Income Tax Reduction) Bill 2008 Explanatory Memorandum*
10.53 The Bill also provides from 1 July 2008 for the Low Income Tax Offset (LITO) to increase from $750 per year to $1200 per year. The LTO will continue to be withdrawn from $30,000. Also from 1 July 2008, low-income earners will receive half the benefit of this offset through their regular pay, rather than receiving the total as a lump sum when their income tax returns are assessed.

10.54 The impact of these tax changes on disposable incomes varies with wage level.

**Tax cuts from marginal income tax rate changes.**

10.55 Below $30,000 there is no tax cut from marginal income tax rates changes. Between $30,000 and $34,000 marginal income tax changes mean a reduction in tax equal to salary over $30,000 x $0.15. Over $34,000 marginal income tax changes mean a tax cut of $11.54 per week (34,000 – 30000 x $0.15).

**Tax cuts from increase in LITO**

10.56 For those eligible for the full benefit of the $450 increase in LITO the weekly equivalent is $8.65.

**Combined tax cuts by wage level**

10.57 The tax reductions from 1 July 2008 for the various wage levels of the benchmark Metals classification structure are shown in Table 10.6. These amounts are nominal. The changes to real disposable income will be less than these amounts.
Table 10.6: Tax Cuts 1 July 2008

<table>
<thead>
<tr>
<th></th>
<th>Tax rate</th>
<th>LITO</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>C14</td>
<td>0</td>
<td>8.65</td>
<td>8.65</td>
</tr>
<tr>
<td>C13</td>
<td>0</td>
<td>8.65</td>
<td>8.65</td>
</tr>
<tr>
<td>C12</td>
<td>0</td>
<td>8.65</td>
<td>8.65</td>
</tr>
<tr>
<td>C11</td>
<td>1.03</td>
<td>8.65</td>
<td>9.68</td>
</tr>
<tr>
<td>C10</td>
<td>6.12</td>
<td>8.65</td>
<td>14.77</td>
</tr>
<tr>
<td>C9</td>
<td>9.26</td>
<td>8.65</td>
<td>17.91</td>
</tr>
<tr>
<td>C8</td>
<td>11.54</td>
<td>8.65</td>
<td>20.19</td>
</tr>
<tr>
<td>C7</td>
<td>11.54</td>
<td>8.65</td>
<td>20.19</td>
</tr>
<tr>
<td>C6</td>
<td>11.54</td>
<td>8.65</td>
<td>20.19</td>
</tr>
<tr>
<td>C5</td>
<td>11.54</td>
<td>8.65</td>
<td>20.19</td>
</tr>
<tr>
<td>C4</td>
<td>11.54</td>
<td>8.65</td>
<td>20.19</td>
</tr>
<tr>
<td>C3</td>
<td>11.54</td>
<td>8.65</td>
<td>20.19</td>
</tr>
<tr>
<td>C2a</td>
<td>11.54</td>
<td>8.65</td>
<td>20.19</td>
</tr>
<tr>
<td>C2b</td>
<td>11.54</td>
<td>8.65</td>
<td>20.19</td>
</tr>
<tr>
<td>C1a</td>
<td>11.54</td>
<td>8.65</td>
<td>20.19</td>
</tr>
<tr>
<td>C1b</td>
<td>11.54</td>
<td>3.71</td>
<td>15.24</td>
</tr>
</tbody>
</table>

10.58 The ACTU submits that these increases in disposable income will only go part of the way to assisting low paid Australians meet their needs and should be complemented by the AFPC delivering a decent real wage increase to all minimum wage workers.

10.59 The ACTU will address the impact of the Budget 2008-09 on disposable incomes of low paid workers in our post Budget submission to the AFPC.

Conclusion

10.60 Decent wages are at the core of improved living standards. Workers should have decent wages that provide fair compensation for the application of skills, the complexity of work and the environment in which work is performed.

10.61 The ACTU totally rejects the notion that employees who depend on minimum wages, who are under extreme financial stress, should suffer a cut in real wages. The ACTU seeks wage increases for all minimum wage
workers to ensure working families can maintain and improve their standards of living.

10.62 The ACTU presumes that the decision to provide tax cuts and welfare benefit changes have not been made in the knowledge that the Government can give with one hand while the AFPC will take with the other.

10.63 The 2007 decision of the Fair Pay Commission resulted in a real pay cut for low income workers. In its forthcoming review of minimum wages the AFPC should grant an increase that, firstly, maintains the real value of wages for 1.5 million minimum wage workers and, secondly, does not add to income inequality in Australia.
Impact on agricultural workers

11.1 In its 2007 decision the AFPC failed to pass on minimum wage increases to employees employed by farm businesses in receipt of Commonwealth Exceptional Circumstance Interest Rate Subsidies (ECIRS). This decision shifted the burden of drought hardship to those who can least afford it. Ironically those persons to bear this hardship are defined by another group (their employers) who receive Government assistance.

11.2 The AFPC should ensure that agricultural workers receive the deferred increase and future increases.

11.3 The vast majority of agricultural workers remain under the jurisdiction of the AIRC\textsuperscript{94}. However, as the AIRC is bound to flow on the AFPC decision the majority of agricultural workers have had their pay frozen for an unacceptably long period of time resulting in real hardship to some of Australia’s most impoverished workers.

11.4 The Australian Workers’ Union has made submissions to the AFPC. The ACTU supports those submissions.

\textsuperscript{94} As a result of in excess of 80\% of farm businesses being unincorporated businesses.
11.5  In its 2007 Wage Setting Decision the AFPC decided:

The Commission grants a deferral of Wage-Setting Decision 3/2007 to specified Australian Pay and Classification Scales for employees of farm businesses located in an Exceptional Circumstances declared area and where the employer is in receipt of the Farm Business ECIRS.

Specified Australian Pay and Classification Scales are at Appendix B.

The deferral of the general wage increase will be for a maximum period of 12 months from 1 October 2007. If a farm business ceases to be in receipt of an ECIRS, the farm business will cease to be exempt from paying the 2007 general wage increase.

11.6  The February 2008 RBA Statement on Monetary Policy\textsuperscript{95} notes:

However, climatic conditions in the farm sector have improved over recent months. A La Niña weather system (which is normally associated with higher-than-average rainfall) has become firmly established in the Pacific region. Consistent with this, recent rainfall across many of the major cropping regions has been well above average; severe flooding was experienced in north-east New South Wales and south-east Queensland. While heavy rains are likely to disrupt farm production in the short term, the outlook is becoming more positive for 2008/09.

The recent rain has resulted in a significant improvement in flows into the Murray-Darling system in January, while water storage in Queensland has also increased significantly.

\textsuperscript{95} Op cit., p30, 54
and

With farm sector output expected to recover over the next year or so, total GDP growth is forecast to be stronger than non-farm growth over 2008, at around 3¼ per cent.

11.7 We note the AWU submission96 on the outlook for the farm sector:

Rural commodity prices have picked up significantly over the past year. Following the recent rainfalls, the outlook for the rural sector in the year ahead has improved substantially.

Based on information from ABARE and other rural agencies, farm output is expected to increase by 2 per cent in 2007-08, after falling substantially in 2006-07. [Note, this is consistent with Treasury’s Budget time estimate of a positive contribution by the farm sector to GDP.]

11.8 The Westpac – NFF Index of Agricultural prices for February 200897 states:

Global agricultural commodity prices continued their surge over January with the Westpac-NFF Commodity Index rising to 21.8% above the same period last year, as demand shows no sign of abating.

96 AWU, Submission to the Australian Fair Pay Commission Minimum Wage Review 2008, p3
97 The Westpac – NFF Index of Agricultural prices February 2008, p1
11.9 The National Farmers Federation has made recent comments about labour shortages in the agricultural industry.

11.10 The NFF – 2007 Federal Election Policy Platform\textsuperscript{98} released 19 September 2007, stated:

\begin{quote}
Labour – access and supply

Overview

Despite prolonged drought conditions, a chronic national labour shortage for agricultural employment persists. This will be exacerbated by, and become more acute as, Australian farming emerges from drought.

This shortage already seriously constrains Australian farmers’ ability to achieve their full productive potential.

Access to labour across agriculture is not confined to one area or one particular skill set, but rather it is an overarching problem that is aggravated by the general labour shortages that exist across regional Australia, and, indeed, the entire economy.
\end{quote}

11.11 In its Federal Budget Submission, dated January 2008, commenting on labour force education and labour force supply constraints the NFF states:

The availability and capacity of the farm labour force is a significant potential deterrent to agriculture making a successful rebound from drought conditions. The NFF estimates that the farm sector will require an additional 50,000 to 80,000 workers to meet farm capacity on the resumption of normal seasonal conditions.

11.12 Labour shortages referred to by the NFF are aggravated by the low minimum wages paid to farm workers.

11.13 Given the public position of the NFF regarding the chronic national labour shortage for agricultural employment the ACTU believes that any AFPC decision in 2008 should not be deferred for these workers. The employers received and retain the benefit of deferral of the 2007 wage increase.

11.14 It is not in the public interest that there be two minimum wage structures. In effect the very low paid and the even lower paid. It is desirable that there be in place nationally consistent minimum wage rates via the pay scales adopted by the AFPC.

11.15 The existence of two minimum wage structures involves implementation costs, information delays and costs, and increased non-compliance through lack of implementation. These negative impacts should be avoided.

11.16 There is no justification for a continuing freeze on the minimum wages of agricultural workers.

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Apprentices, trainees, junior rates, workers with disability, casual loadings and piece rates

12.1 The general AFPC Wage Setting Decision should flow on to Junior Employees, Employees to whom training arrangements apply, and Employees with disability. The ACTU believes the AFPC should adjust junior, trainee and apprentice rates as they were adjusted in the AFPC Decision 3 of 2007.

Adjustment of apprentice rates in this Review

12.2 In its 2007 Decision the AFPC determined:

Apprentices

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

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100 Op cit., p90
Act retains a formula suitable for flowing on the general minimum wage increase.

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

12.3 The ACTU supports the continuation of this approach to the adjustment of apprentice rates of pay.

12.4 The ACTU notes the key findings of the Living Standards of Apprentices report commissioned by Group Training Australia\textsuperscript{101}. These are:

- A sample of six representative occupations shows in all cases, awards for minimum pay for first year apprentices are below the Henderson Poverty Line.

- Based on the Indicative Budget Standards the modest but adequate living standard is unattainable for first year apprentices unless they receive large allowances as part of their award.

- Allowances can substantially augment income in some industries. ... However, these allowances tend to be confined to the construction industry and for the remainder of apprentices they barely cover outlays on tools and special travel.

• Even when mandatory allowances are taken into account, 40 of the 42 award categories of first year apprentices studied in the report have disposable income below the poverty line.

• School leavers who engage directly in paid work are paid a junior wage, typically $40 - $70 a week higher than a first year apprentice.

• A comparison with the unemployment benefit Newstart shows that when the value of its cash and non-cash components is taken into account, a first year apprentice’s standard of living is barely above that of the unemployed.

• Second year apprentices are not that much better off, they universally earn above the poverty line though their standard of living is austere.

• Above award payments add little to apprentice earnings. The typical above award payment is 9 per cent and varies by occupation.

Adjustment of wages for trainees in this Review

12.5 The AFPC 2007 Decision\textsuperscript{102} determined:

\begin{quote}
\textbf{Employees to whom training arrangements apply}

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

\textbf{Trainees}

Trainee basic periodic rates of pay provided for in preserved Pay Scales will be adjusted to flow on the general decision using the method described in the transcript of the application to vary the National Training Wage Award 2000 for the 2003 Safety Net Review (see Appendix C). This method is also adopted to flow the general
\end{quote}

\textsuperscript{102} Op cit., p90
12.6 The ACTU believes that the AFPC should adjust trainee rates in the manner employed in the Schedule to the AFPC Decision No 3 of 2007.

12.7 To avoid confusion, the ACTU believes that the AFPC should repeat the reference, twice appearing\textsuperscript{103}, to the National Training Wage Award [Transitional] provision which notes that trainees undertaking Certificate Level IV traineeships receive a rate equal to the top rate of Skill Level A, B or C, as appropriate, plus 3.8 percent.

Adjustment of junior wage rates in this Review

12.8 In its 2007 Decision\textsuperscript{104}, the AFPC decided:

\begin{quote}
Junior employees

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

In circumstances where there was no formula in the pre-Work Choices wage instrument (for example, where a junior rate was originally expressed as a dollar value rather than a percentage), the general increase will be pro rated so that the junior rate retains its relativity to the relevant adult rate in the preserved Pay Scale. If no
\end{quote}

\textsuperscript{103} The provision appears in relation to both full time and part time rates.

\textsuperscript{104} Ibid.

\textit{ACTU Submission AFPC 2008}
relevant rate is identified, the junior rate will be adjusted to retain its relativity to the lowest adult rate in the Pay Scale.\textsuperscript{130}

For example, if the dollar value of a junior rate represented 70 per cent of the relevant adult preserved Pay Scale prior to the general wage increase being applied to the adult Pay Scale, then the junior rate should be adjusted so that it remains as 70 per cent of the relevant adult preserved Pay Scale after the general increase has been applied to the adult rate.

12.9 The ACTU supports this method of adjustment of junior rates which applies the historic relativities as they existed immediately prior to the 26 March 2006 reforms.

**Workers With Disability**

12.10 The ACTU seeks adjustment of the Supported Wage System minimum rate to an amount equal to the per week equivalent of the income test free area of earnings for the Disability Support Pension to apply from 1 July 2008, as per AFPC Wage Setting Decision No 5/2007.

**Adjustment of Casual Loadings in this Review**

12.11 In its 2007 Decision\textsuperscript{105} the AFPC decided:

\begin{quote}
The Commission will not make any adjustment to the casual loadings expressed as a percentage contained in preserved Pay Scales or the default casual loading at this time.
\end{quote}

\textsuperscript{105} Ibid., p97

\textit{ACTU Submission AFPC 2008}
Where preserved Pay Scales provide a flat dollar amount for casual employees, these rates will be increased by the same amounts and in the same way as the general increase.

12.12 The ACTU supports an approach which does not disadvantage casuals, and therefore continues to support the approach adopted by the AFPC.

**Adjustment of Piece Rates in this Review**

12.13 In its 2007 Decision\(^{106}\) the AFPC decided:

> The Commission will flow on the general wage-setting decision to basic piece rate Pay Scales in the following manner. The general pay increase will be flowed on to basic piece rate Pay Scales through applying a two per cent increase to basic piece rates in preserved Pay Scales which are not otherwise increased as a result of the general decision. However, due to the diversity within basic piece rate Pay Scales, an affected person or business may make a submission to the Commission on the grounds that such an adjustment would result in an anomalous outcome inconsistent with the Commission’s intention to flow on the general increase to piece rate workers.

12.14 The ACTU continues to advocate a cautious approach to adjustment of piece work rates. The ACTU view is that piece rates should be adjusted as they would have been adjusted had the 26 March 2006 reforms not commenced.

\(^{106}\) Ibid., p99
12.15 In circumstances where the Federal Government has announced a timetable for legislative change, the AFPC should avoid an adventurous approach.
13. Pay equity

13.1 The AFPC should place pay equity considerations at the forefront of deliberations.

13.2 Because women are more dependent on minimum wages, upward adjustment of minimum wages will have an impact on male – female wage inequality.

13.3 In its 2007 Wage Setting Decision\(^\text{107}\) the AFPC stated:

As at February 2007 the female to male earnings ratios were 84.3 per cent for full-time Average Weekly Ordinary Time Earnings and 81.1 per cent for full-time Average Weekly Earnings.

and

While there has been a gender wage gap in Australia, the measures reflect differences in actual earnings. The Commission can only affect minimum wages underpinning actual earnings.

\(^{107}\) Ibid., p101 and 103

ACTU Submission AFPC 2008
13.4 In seasonally adjusted terms, as at August 2007 the female to male ratios were 83.7 per cent for full-time Average Weekly Ordinary Time Earnings and 80.5 per cent for full-time Average Weekly Earnings.

13.5 Over 60 per cent of minimum wage workers are women who earn on average $101.80 less per week than their male counterparts.108

13.6 For the very reasons that minimum wages underpin actual earnings, and 60.1 per cent of low paid workers are women, the AFPC should have regard to pay equity considerations when it decides upon any wage increase to be delivered this year.

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108 Employee Hours and Earnings ABS Cat No. 6306.0 May 2006. Table 24 Average Weekly Total Cash Earnings
The future

Timing of AFPC decision

14.1 The AFPC decision to announce its wage setting decision in July each year for effect from the first pay period on or after 1 October means that each year the AFPC is denying itself the benefit of knowledge of the actual CPI for two quarters of the period the AFPC is taking into account. The AFPC based its 2007 decision on inflation for one month of the known December quarter 2006 CPI and the three months of the March quarter 2007 CPI. The AFPC then estimated six months of CPI - the three months of the June Quarter and the three months of the September Quarter 2007. Low paid workers have been disadvantaged by this decision because the rate of inflation was higher than estimated by the AFPC.

14.2 In future decisions the AFPC will have the benefit of three months of the December Quarter CPI and three months of the March Quarter CPI and, if it announces its decision in the first week of July, will again have to estimate the six months of the June and September Quarters CPI.

14.3 With the greatest of respect to the AFPC, the AFPC, with the encouragement of the employers associations, has chosen a procedure which means that the AFPC can no longer claim with any certainty the status of the real value effect of its decision. This not only affects the way the AFPC announces its decision but, more importantly, the living standards of minimum wage workers.
14.4 The ACTU accepts that the need to provide advance notice of its wage setting decision would always require the AFPC to estimate the September quarter CPI. However, we believe that the AFPC should amend its announced policy and make its decision after the release of the June Quarter CPI in the third week of July. This would allow at least six weeks notice to employers and employees of the AFPC decision.

Indexation

14.5 ACTU does not support differential increases.

14.6 We state again our position that all workers who are 100 per cent reliant on minimum wages are 100 per cent reliant on minimum wages.

14.7 Any argument that minimum wage workers higher up the wage scale are less reliant upon minimum wages is simply incorrect. If it be the view of the AFPC that they believe workers above $700 minimum wages per week are less deserving of a wage increase, then this should be stated and importantly reasons given to support such a view.

14.8 The AFPC conclusion that those above $700 are better equipped to reach workplace agreements themselves and should be encouraged to so do ignores the fact that employees are unable to force bargaining. No one chooses to be paid the minimum statutory amount possible. By way of elaboration there are two aspects to this argument.

14.9 Firstly, throughout the private sector, particularly in the manufacturing sector and small business there is little evidence of collective bargaining amongst managerial and professional employees. Secondly, in respect of individual bargaining, whilst it is correct that some managerial and
professional employees are able to earn relatively high salaries the overall situation is uneven.

14.10 Substantial numbers of medium to higher income earners are unable to obtain agreement from their employers to pay anything other than minimum wages. More than 20 per cent of private sector (non-managerial) minimum wage workers currently receive more than $700 in average weekly ordinary time earnings\textsuperscript{109}.

14.11 The lowest Australian Pay and Classification Scale applicable to professional employees working in the Metal Industry is that for a Professional Scientist 3 year degree holder which is $713.26 per week (C6). Therefore as a consequence of Fair Pay Commission decisions to award differential increases there is an implied equality in the bargaining power of a new graduate with more senior employees. Such a proposition needs to be properly examined if in fact it is going to form part of the Fair Pay Commission’s decision making process.

14.12 Allied to this point is the issue of differences between the bargaining power of various occupational groups and, in addition, there is the matter of pay equity for women. In this regard it is of relevance to refer to the APESMA Women in the Professions Survey Report 2007\textsuperscript{110}. One of questions in this survey asked was whether the respondents believed that they received equal compensation in the workplace for work of equal value. 26.8 per cent of respondents believed that they did not and in Western Australia, where the impact of the skills shortages appears most acute the figure was 29.7 per cent. In respect of those born overseas 30.8 per cent did not believe that they received equal pay.

\textsuperscript{109} ABS Cat No 6302.0 Employee Earnings and Hours May 2006 unpublished data
\textsuperscript{110} APESMA Women in the Professions Survey Report 2007, P6
14.13 Minimum wages linked to skill based classification structures are a mechanism to ensure equal minimum pay for work of equal value, and encourage employees to obtain new skills and qualifications. Particularly in a period of skills shortages, for these reasons all levels of minimum wages should be adjusted by the same amount. Differential increases are doing harm to the skills based structure of pay scales.

14.14 However, if the AFPC again decides on differential increases, the AFPC should index the $700 cut off point for the higher increase. Failure to index the cut off for the higher wage increase has seen classifications equivalent to the C6 level receiving the lower increase from the 2007 decision.

<table>
<thead>
<tr>
<th>Table 14.1: C6 Minimum Wage rate 2005-2006</th>
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<tbody>
<tr>
<td>C6 June 2005</td>
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<tr>
<td>$17.91 ph = $680.50</td>
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14.15 The ACTU believes that it is not reasonable to argue that employees at C6 are less reliant on pay scales after the 2006 AFPC decision than before that decision. Because the AFPC has not indexed the point of differential, those employees received the lower increase from the 2007 decision.
Conclusion

15.1 The ACTU request for a $26.00 per week increase to all minimum rates of pay is reasonable and is necessary to ensure those relying on the determinations of the AFPC do not fall further behind other wage earners. The wages of minimum wages dependent workers should increase in a way that is comparable to increases for others in the community.

15.3 The productivity of minimum wage workers continues to grow as does employment and participation levels. A moderate $26.00 per week increase is not inflationary and during a period of record profit margins is affordable.

15.2 Minimum wage workers are facing extreme financial pressures. There is no moral or economic justification for any argument that minimum wage workers should continue to suffer real wage reductions.

15.4 The economic conditions and forecast support a granting of the ACTU request for a small real increase to minimum wage levels. In David Neumark’s words the macroeconomic effect of moderate minimum wage adjustments is trivial. The Australian economy is robust and can readily absorb a real increase in minimum wages, without adding to inflation, and without detracting from employment growth.
The economy is strong, the outlook is excellent. The AFPC should ensure the benefits are not withheld from minimum wage workers.