Submission to the

Australian Fair Pay Commission

on behalf of the

New South Wales Government

18 March 2008
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New South Wales Government Position

1. The New South Wales Government believes that maintaining a fair minimum wage is essential to the achievement of sound economic and social outcomes, continued incentive to participate in the workforce and the preservation of an effective barrier against the exploitation of our vulnerable workers.

2. A viable safety net is one that provides adequate protection of the real incomes of award reliant workers. Notwithstanding the Minimum Wage Review decisions handed down by the AFPC in 2006 and 2007, the value of federal minimum wages does not appear to have been maintained.

3. It is worthwhile reflecting on the economic pressures that low paid workers currently face. Minimum wage reliant workers, including women, indigenous, migrant, young, non-unionised workers and workers with a disability are disproportionately affected by significant financial stress, indeed the ‘triple whammy’ of rising interest rates, increased petrol prices and higher costs of living generally. These vulnerable workers should not be expected to carry the burden of economic restraint.

4. Equal remuneration for work of equal value is a fundamental principle. Although there is no requirement in the AFPC’s terms of reference to consider pay equity when setting wage rates the NSW Government submits that the AFPC should embrace this principle. An effective regulatory framework is necessary if pay equity is to be achieved.

5. In this context, the New South Wales Government supports a moderate increase to the Federal Minimum Wage and Australian Pay and Classification Scales (APCSs).
6. A moderate increase to the Federal Minimum Wage will ensure that the lowest paid workers receive some benefit from Australia's improved competitiveness and economic growth.

7. The New South Wales economy is well placed to sustain a moderate increase.

Structure of our Submission

8. The balance of our submission provides relevant data in support of the above position including the following matters:
   - The Legislative Framework
   - Who are the low paid?
   - Needs of the low paid
   - Employees who will benefit from an increase
   - Earnings of award reliant employees
   - Employers and employees impacted by the claim
   - Economic cost
   - The New South Wales Economy
   - Impact on Labour Market Participation
   - Impact on Employment
   - Pay Equity
The Legislative Framework

9. The New South Wales Government believes that the legislative parameters within which the Australian Fair Pay Commission (AFPC) must make its decision impose constraints upon ensuring a fair and decent safety net is maintained. The New South Wales Government position is and has always been that the principles of fairness and equity must be the foundation of any minimum wage consideration.

10. Despite these limitations it is the view of the New South Wales Government that the AFPC must make a decision that is consistent with its statutory mandate to provide a safety net for low paid workers.

11. However, the New South Wales Government acknowledges that the former Federal government imposed a legislative requirement on the AFPC to have regard to the following in performing its wage-setting function:

- the capacity for the unemployed and low paid to obtain and remain in employment;
- employment and competitiveness across the economy;
- providing a safety net for the low paid;
- 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.
**Who are the low paid?**

12. Low paid employment is concentrated in the hospitality, retail and service based industries as shown below in Table 1. These same industries also have the highest proportions of award-reliant employees as seen in Table 2.

<table>
<thead>
<tr>
<th>Table 1: Industry Location of Low Paid 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry (Top 6)</td>
</tr>
<tr>
<td>Agriculture</td>
</tr>
<tr>
<td>Hospitality</td>
</tr>
<tr>
<td>Retail</td>
</tr>
<tr>
<td>Construction</td>
</tr>
<tr>
<td>Cultural and Recreational Services</td>
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<tr>
<td>Health and Community Services</td>
</tr>
<tr>
<td><strong>All industries</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 2: Award Reliant Industries, Australia 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
</tr>
<tr>
<td>Hospitality</td>
</tr>
<tr>
<td>Retail</td>
</tr>
<tr>
<td>Health and Community Services</td>
</tr>
<tr>
<td>Personal Services</td>
</tr>
<tr>
<td>Prop and Business Services</td>
</tr>
<tr>
<td><strong>All Industries</strong></td>
</tr>
</tbody>
</table>

13. Low pay is generally found in jobs of low social status and/or performed by workers with low labour market standing and bargaining power. Minimum wage reliant workers, include women, indigenous, migrant, young, non-unionised workers, and workers with a disability.

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2 Ibid
Needs of the low paid

14. Based on the Australian Bureau of Statistics Household Expenditure Survey 2006, the mean gross household income per week for those in the lowest and second lowest income quintiles is $752 and $1091 respectively, compared to $1212 for all households.³

15. The average weekly expenditure of households in the lowest income quintile is $438.94 and $609.39 for households in the second lowest income quintile. By contrast, expenditure across all households is $947.51, as seen in Table 3.⁴

16. For households in the two lowest income quintiles, meeting the costs of food and non-alcoholic beverages, housing, and transport represents more than half of these households’ total expenditure on all goods and services.

<table>
<thead>
<tr>
<th>Table 3: Gross household income quintile, household expenditure per week, NSW 2003-04</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average weekly expenditure</strong></td>
</tr>
<tr>
<td>Current housing costs</td>
</tr>
<tr>
<td>Food and non-alcoholic beverages</td>
</tr>
<tr>
<td>Transport</td>
</tr>
<tr>
<td>Total expenditure on goods and services</td>
</tr>
</tbody>
</table>

³ Australian Bureau of Statistics 2006, Household Expenditure Survey, cat. no. 6530.0, Table 3.
⁴ Ibid.
17. The costs of other essentials such as domestic fuel and power, and household services and operation also represent a significantly higher proportion of expenditure for households in the two lowest income quintiles than for all other households. When compared against income based on the minimum wage, currently $522.12, after expenditure on these necessities there is little left over for those in the lowest income quintiles.

18. The most disadvantaged households are households in the bottom income quintile with no housing equity. Of those in the lowest and second lowest household net worth quintiles, 94.2 per cent and 49.4 per cent respectively rent, compared to 29.4 per cent of all households.\(^5\)

19. In New South Wales the mean household net worth of the lowest quintile is $24,681, compared to $138,990 for the second lowest quintile, and $564,879 for all households.\(^6\)

20. According to the ABS publication Australian Social Trends, 2007 and as shown in Figure 1, more than half of all households in the lowest income quintile reported that in an emergency they could not raise $2,000 in a week. Significant proportions of these same households also reported they could not pay a utility bill on time.\(^7\)

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\(^6\) Ibid
21. Non-homeowners comprised 30 per cent of all Australian households but represented approximately three quarters of households experiencing even more severe financial difficulties such as going without meals, pawning or selling possessions, or seeking welfare assistance.\footnote{Ibid}

22. Such circumstances jeopardise household stability and formation, as well as the wellbeing of children. Raising the minimum wage helps to ameliorate the pressures low income earners face when meeting essential and emergency costs.

\textit{Employees who will benefit from an increase}

23. The foundation in deriving the cost of the claim is to identify those employees in New South Wales who will directly benefit from a AFPC wage increase. To identify these employees, the most appropriate data source is the Australian Bureau of Statistics (ABS) survey of Employees Earnings and Hours, 2006 (Cat.No. 6306.0).
24. According to ABS data more than 2,224,100 or 65.4 per cent of employees in New South Wales are employed in incorporated businesses. Of these employees, approximately 510,120 or 15.0 per cent are award reliant. The following table demonstrates the breakdown of employees in incorporated businesses that are award reliant by gender and employment status.⁹

25. It should be noted that in New South Wales, the operation of the Child Employment Act means that some children under the age of 18 will be protected by the State Wage Case rather than the AFPC Minimum Wage Review.

26. The Minister of Industrial Relations commissioned unpublished data from this ABS data set, to better identify the employees of incorporated and unincorporated entities. Research undertaken by the Office of Industrial Relations based on this data estimates that approximately 24 per cent of award reliant employees in New South Wales are employed under federal awards. Such employees will be the direct beneficiaries of a federal wage increase.

27. In addition to those employees detailed in Table 4 above, there are a number of award reliant employees who are employed by an entity that is classified as neither incorporated nor unincorporated, and are most likely to be employees of the Crown.

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28. It should be noted that while this ABS data does not differentiate between permanent and casual employment, other ABS data estimates that approximately 27 per cent of all employees are casual, having no access to leave entitlements.\(^\text{10}\) As such, the AFPC should be mindful of the reliance of casual employees on wage increases to compensate for periods of leave.

**Impact by gender**

29. Female employees comprise a high proportion of the total number of award reliant employees employed by incorporated entities in New South Wales, representing close to two-thirds of the total number of award reliant employees. Of particular significance, part-time female employees represent almost 40 per cent of the total number of award-reliant employees who will benefit from an increase to the minimum wage.\(^\text{11}\)

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\(^{10}\) Australian Bureau of Statistics, *Employee earnings, benefits and trade union membership*, cat.no.6310.0, August 2006.


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**Table 4: Employees of incorporated businesses who are solely reliant on awards (NSW)**

<table>
<thead>
<tr>
<th></th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full time</td>
<td>129,230</td>
<td>95,222</td>
</tr>
<tr>
<td>Part time</td>
<td>88,421</td>
<td>197,246</td>
</tr>
</tbody>
</table>

*Australian Bureau of Statistics - Employees, Earnings and Hours (Cat No 6306.0), May 2006 and Labour Force Survey (Cat No 6202.0) , February 2008*
30. Male employees comprise a smaller but still significant proportion of award-reliant employees employed by incorporated entities, representing 42 per cent of the total number of award reliant employees, and with part-time male employees representing 17 per cent of the total.\textsuperscript{12}

**Impact on non-award reliant employees**

31. There are approximately 914,815 or 26.9 per cent of employees of incorporated entities in New South Wales who are currently employed under unregistered, common law employment agreements underpinned by awards, but receiving over award payments. While they will not receive a direct benefit, it is often the case that wage increases awarded in the federal wage review, form the benchmark for contractual arrangements outside the formal bargaining process.\textsuperscript{13}

**Earnings of award reliant employees**

32. For full-time award reliant employees, average weekly total earnings are $757.80 compared to the federal minimum wage of $522.12. This is a gap in wages of more than 30 per cent. An increase to the federal minimum wage would increase the proportion of average full-time earnings for award-reliant employees with the potential to marginally close the variance in total earning for the low paid of New South Wales that are employed in incorporated entities.\textsuperscript{14}

33. The average weekly total earnings for all award reliant employees (including part-time) in New South Wales is $518.30. Earnings rise to $530.20 for those employees of incorporated entities. This is a


\textsuperscript{14} Australian Bureau of Statistics, *Employee earnings and hours*, cat.no.6306.0, May 2006, unpublished data.
differential in wages of just 2.2 per cent of average weekly total earnings for all award reliant employees. 15

34. Nearly two thirds of New South Wales workers who rely on award rates of pay are part-time and will derive a direct benefit from a federal wage increase. The average weekly total earnings for award reliant part-time employees is $351.80. Earnings are $373.30 or 6.1 per cent higher for those employees of incorporated entities. 16 This is a noticeable variance, however, part-time employees rely on regularity in hours to maintain income stability. It is important that the AFPC consider the need for part-time workers to be adequately compensated for the irregularity in hours they can be exposed to.

Employers and employees impacted by the AFPC decision

35. Internal research by the Office of Industrial Relations from unpublished data supplied by the Australian Business Register indicate that in 2005, there were approximately 500,000 private sector employing entities based in New South Wales. Of these, 290,000, 17 or almost 58 per cent, were incorporated and within the federal industrial relations system.

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15 Australian Bureau of Statistics, Employee earnings and hours, cat.no.6306.0, May 2006, unpublished data.
16 Australian Bureau of Statistics, Employee earnings and hours, cat.no.6306.0, May 2006, unpublished data.
17 Approximately 150,000 are unincorporated entities such as sole traders and partnerships and 50,000 are defined as trusts; a proportion of trusts will be incorporated entities.
**Economic cost**

36. The number of employees in New South Wales who would be directly reliant upon the federal wage review for an increase in their weekly rates of pay is estimated to be approximately 510,000 employees. The previous wage determination cost these employers just over $5.2 million. The private sector wages bill in New South Wales in 2006 was in the region of $140 billion. Given the magnitude of the private sector wages bill, the last wage determination only further increased the wages bill by 0.37 per cent.

37. However it must be noted that more than 50 per cent of workers who will benefit from the claim are not full-time employees, and accordingly the economic cost of the last wage increase would have been significantly lower. It is not possible to quantify the exact number of hours worked by these employees, in order to generate a better estimate of the cost of the claim.

38. In broad terms another increase in private sector business wages costs would be unlikely to have a major impact on the State’s economy. That is, the macroeconomic impact of an increase is likely to be small in terms of its impact on employment. The New South Wales economy has grown at modest rates in recent years, notably due to a downturn in the housing construction sector. Looking ahead, growth is expected to lift a little as a modest recovery begins in the housing sector, and growth in household consumption lifts, while business spending remains at high levels.
39. A moderate increase in the Federal Minimum Wage ($522.12) would most likely be a reasonable effort at keeping wages more closely aligned with inflationary pressures. In 2007, the ABS Labour Price Index for all private sector employees in New South Wales rose by 3.8 per cent over the year to December 2007. As such, a moderate increase in wages is unlikely to have a significant impact on the present New South Wales economy.

40. Data on private sector industries in Australia show divergences in increases to the Labour Price Index for the year to December 2007. In particular, the industries that stand out include the award-reliant accommodation, cafes and restaurants sector and retail sector with increase of 2.6 per cent and 2.9 per cent, respectively. In contrast, other areas such as mining, construction, and utilities sectors show shifts in the labour price index of 6.0 per cent, 4.7 per cent and 4.8 per cent, respectively.

41. The ABS has indicated the round of wage cases before the respective state tribunals last year affected very few jobs and had a minimal impact on the wage price index. Rather, the main seasonal impact on the index was over March 2007 due to the turbulence of industrial relations changes and the Australian Fair Pay Commission’s inaugural decision that affected the majority of workers in Australia after an 18 month hiatus in wage determinations.

Potential Impact on Young Workers.

42. Particular note should be taken of the potential effects of changes to the minimum wage on child employees.

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43. The youth labour market in Australia is now characterised by an increasing component of part-time casual jobs and a declining proportion of full-time permanent jobs consistent with higher participation rates in non-compulsory schooling as well as changes to the labour market in general.

44. Young people aged 15-19 years represent a significant section of the labour market in New South Wales, with a participation rate of 57.2 per cent in February 2008, of whom 61.7 per cent were employed on a part-time basis. It is estimated there are more than 104,000 young workers between the ages of 15 and 18 years are employed in New South Wales.

45. Young people’s employment is concentrated in the retail trade, and accommodation, cafés and restaurants industries—industries which offer part-time and casual jobs and jobs requiring lower skill levels.

46. Table 5 below, illustrates that nationally, young part-time workers (aged 15-19 years) are concentrated in retail trade (60.5 per cent), followed by accommodation, cafes and restaurants (12.3 per cent). By contrast, young full-time workers are employed across a range of industries, although the highest concentration (28.6 per cent) is employed in the retail trade.

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24 Australian Bureau of Statistics, Supertables, E05 cube, February 2006
Table 5: Industries in which young people aged 15 to 19 years are employed at February 2006

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of young people employed in industry</th>
<th>Proportion of young people employed in industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full Time</td>
<td>Part Time</td>
</tr>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>8,700</td>
<td>10,600</td>
</tr>
<tr>
<td>Mining</td>
<td>1,500</td>
<td>200</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>32,300</td>
<td>14,700</td>
</tr>
<tr>
<td>Electricity, Gas and Water Supply</td>
<td>2,100</td>
<td>300</td>
</tr>
<tr>
<td>Construction</td>
<td>47,700</td>
<td>8,900</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>9,900</td>
<td>5,700</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>71,700</td>
<td>281,500</td>
</tr>
<tr>
<td>Accommodation, Cafes and Restaurants</td>
<td>18,700</td>
<td>57,100</td>
</tr>
<tr>
<td>Transport and Storage</td>
<td>6,700</td>
<td>4,700</td>
</tr>
<tr>
<td>Communication Services</td>
<td>3,400</td>
<td>3,100</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>2,500</td>
<td>1,400</td>
</tr>
<tr>
<td>Property and Business Services</td>
<td>17,000</td>
<td>18,200</td>
</tr>
<tr>
<td>Government Administration and Defence</td>
<td>5,900</td>
<td>1,400</td>
</tr>
<tr>
<td>Education</td>
<td>3,400</td>
<td>4,400</td>
</tr>
<tr>
<td>Health and Community Services</td>
<td>7,700</td>
<td>14,900</td>
</tr>
<tr>
<td>Cultural and Recreational Services</td>
<td>3,000</td>
<td>24,300</td>
</tr>
<tr>
<td>Personal and Other Services</td>
<td>8,500</td>
<td>14,200</td>
</tr>
<tr>
<td>Total</td>
<td>250,700</td>
<td>465,600</td>
</tr>
</tbody>
</table>

Source: Australian Bureau of Statistics, Supertables, E05 cube, February 2006

47. Young people are generally employed in occupations which are less skilled, reflecting their lower levels of work experience and educational attainment. This is apparent from the profile of the main occupations which employ young people: elementary clerical, sales and service workers; tradespersons and related workers (apprentices); labourers.
and related workers, and intermediate clerical, sales and service workers.\textsuperscript{25}

48. In December 2006, the \textit{Industrial Relations (Child Employment) Act 2006} (the Act) largely came into effect. The Act applies to the employment of a child under 18 who is employed by an employer who is a constitutional corporation and who employs the child under an individual or collective agreement, or other arrangement, which was entered into on or after 27 March 2006.

49. The Act states the employer must provide the child with the minimum conditions of employment for which provision is made from time to time, in a comparable New South Wales state award and industrial relations legislation or provide employment conditions that do not, on balance, result in a net detriment to the child when compared with the relevant minimum award and statutory employment conditions.

50. Positive adjustments to the federal minimum wage support young workers to continue to meet cost of living increases and protect against the need for young workers to increase hours of work to maintain their income in real terms and allow them to balance study and training commitments.

\textbf{The New South Wales Economy}

51. The New South Wales Government submits that a good understanding of this environment is necessary for determining appropriate minimum wage increases.

\textsuperscript{25} Australian Bureau of Statistics, Employee Earnings and Hours, Australia, Preliminary, cat. 6305.0.55.001; Australian Bureau of Statistics, Labour Force, Australia, Detailed – Electronic Delivery January 2006, cat 6291.0.55.001; Australian Bureau of Statistics, Australian Social Trends, 2005, cat 4102.0.
52. The snapshot of the New South Wales economy has been provided by the New South Wales Treasury to assist the Australian Fair Pay Commission (the AFPC) and is consistent with their analysis in the 2007-08 Half Yearly Budget Review.

53. The following discussion provides a detailed examination of the current economic conditions that are influential in the New South Wales labour market.

The New South Wales economy today

54. New South Wales economic growth softened in 2006-07, with growth in Gross State Product (GSP) of 1.8 per cent from 2.1 per cent (revised) in 2005-06. Growth in the New South Wales economy should remain below the national average in 2007-08 reflecting the greater impact of higher interest rates, lower population growth than the rest of Australia, the impact of the drought and comparatively little direct exposure to the recent resource sector boom.

55. Bearing in mind the abovementioned factors, the New South Wales economy lifted in the second half of 2007 with strong growth in consumer spending, business investment and public sector investment, while employment growth accelerated to a 2.3% annualised pace.

56. State Final Demand (SFD) has been largely driven by consumer spending growth with strong contributions also from business and public investment. Dwelling investment seems to have stopped declining, though remains at historically low levels with a recovery hampered by ongoing interest rate rises. A strong labour market should continue to support consumer spending growth though some moderation is expected. SFD is expected to grow by 4.0 per cent in 2007-08 with a strong labour market continuing to support consumer spending growth, while public demand growth will be firm.
57. The New South Wales consumer has thus far remained resilient to recent interest rate rises and increasing petrol prices. Consumer spending grew by a strong 3.7 per cent through the year to the December quarter 2007. Consumers have responded positively to healthy employment conditions and real wage growth, notwithstanding volatility in equity markets and rising mortgage rates. Real retail sales volumes grew by 1.7 per cent in the December 2007 quarter and at a 6.6 per cent annualised rate in the six months to the December quarter 2007.

58. Housing construction continues to be hampered by higher interest rates, despite underlying demand conditions being favourable. By the December quarter 2006, housing investment had declined by over 23 per cent from its peak in the March quarter 2004. Over the year to the December quarter 2007, there was virtually no growth in housing investment. With low vacancy rates, rising rental prices, renewed growth in established house prices and the recent cuts to developer infrastructure levies, recovery in the housing sector is inevitable, however, it may continue to be delayed by the recent interest rate rises.

59. Business investment strengthened in response to tight capacity and buoyant demand and remains at historical high levels. Business investment grew by a very strong 12.3 per cent in the year to the December quarter 2007. The recently released Private New Capital Expenditure Survey suggests that further strong growth is likely in 2008-09 (the expected level of spending in 2008-09 is 20 per cent higher in nominal terms than the expectation for spending in 2007-08).

60. In line with the New South Wales State Infrastructure Strategy, public sector spending growth contributed strongly to State Final Demand. State and local government investment, including both public corporations and general government, rose by 6.0 per cent over the year to the December quarter 2007.
61. Exports have performed well in New South Wales, notwithstanding the drought, relatively little direct exposure to the resource sector boom and the appreciation of the Australian dollar, making it harder for New South Wales’ export manufacturers to compete. Exports from New South Wales increased by 4.2 per cent through the year to the December quarter 2007.

62. The New South Wales labour market remains in an extremely healthy state, with the unemployment rate at historic lows. In the seven months through to January 2008, the unemployment rate averaged 4.7 per cent. Employment growth has been stronger than expected with growth in the seven months through to January 2008 of 1.9 per cent compared to the same period a year earlier.

63. In year average terms the Sydney CPI increased by 2.7 per cent in 2006-07. However, the year average increase masked a slowing through the year, with the Sydney CPI increasing by 1.7 per cent through the year to the June quarter 2007. In more recent quarters the Sydney CPI has been trending a little higher due to higher automotive fuel prices, higher costs of financial services and higher housing costs. The Sydney CPI grew by 2.4 per cent through the year to the December quarter 2007, noticeably lower than the national average of 3.0 per cent.

64. In the first half of 2007-08 the NSW Wage Price Index (WPI) was 3.9 per cent higher than in the corresponding period of 2006-07. National WPI growth was higher at 4.2 per cent for the same period reflecting stronger wages growth in both the public and private sectors. For 2007-08 the NSW WPI is expected to grow by around 4 per cent.

**Looking forward**

65. The view forward to 2008-09 is fraught with considerable uncertainty as the US housing downturn and credit concerns have continued unabated in recent months and are beginning to affect other sectors of the US economy as growth in incomes and spending declines.
66. In addition to the problems in the US, rising world oil prices are continuing to drive up inflation, reducing disposable income and lowering corporate profitability.

67. Further, strong growth in domestic demand and non-farm GDP at a time when capacity constraints are apparent have led to higher inflation prompting the Reserve Bank to recently raise rates further and there is an upside risk that the Reserve Bank will continue to raise interest rates in 2008.

68. At the time of the 2007-08 Half-Yearly Budget Review (released in December 2007), NSW Treasury forecasts for major aggregates in 2007-08 were:

<table>
<thead>
<tr>
<th>Aggregate</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross state product</td>
<td>2.75%</td>
</tr>
<tr>
<td>State final demand</td>
<td>4.0%</td>
</tr>
<tr>
<td>Employment</td>
<td>2.0%</td>
</tr>
<tr>
<td>Unemployment rate (year average per cent)</td>
<td>4.75%</td>
</tr>
<tr>
<td>Sydney CPI</td>
<td>2.25%</td>
</tr>
<tr>
<td>Wage price index</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

(a) Per cent change, year average, unless otherwise indicated

69. Economic forecasts for 2008-09 will be released with the State Budget in June 2008. The Minister of Industrial Relations will provide the AFPC with further details regarding the New South Wales economy following the release of the State Budget and the close of submissions to the State Wage Case.

**Impact on Labour Market Participation**

70. Increasing participation rates is vital for a growing economy and will result in positive outcomes for individuals and families.
71. Working life in Australia is continuing to change. There are more
diverse employment arrangements, more flexible working time
patterns, and more people working part-time hours. Workforce
participation reduces individual vulnerability to financial pressures, but
more broadly, increases wealth and leaves Australia in a better position
to cope with an ageing population.

72. A contraction in participation rates will ultimately have a negative effect
on the economy in terms of output, and will result in a lowering of the
current standard of living, affecting many families and households who
are already amongst the low paid.

73. Recent data from the ABS indicates despite the overall low
unemployment rate, a further 5 per cent of the labour force is
underemployed.\(^26\) It is the New South Wales Government’s view that
minimum wages should provide a reasonable entry point into the
labour market in order to encourage higher participation rates. If
minimum wages do not move to encourage workers dependent on
federal minimum wages to participate in the workplace, they may
become discouraged from looking for work and ‘hidden’ unemployment
will increase.

**Australian Participation Rates**

74. Approximately 11,106.400 million of Australians aged 15 years and
over are either working or actively seeking work.\(^27\) The last 20 years
has seen a dramatic shift in the composition of Australia’s workforce
with participation rates steadily increasing, rising from 61.9 per cent in
1986 to 65.2 per cent in February 2008.

\(^{26}\) Australian Bureau Of Statistics 2007, Underemployed Workers, Australia, September 2007,
cat 6265.0

75. Overall there is a higher participation rate of men than women in the labour force, but the long term increase in participation rates has been driven by increasing participation rates for women. The participation rate for women have increased from 48.7 per cent in 1986 to 58.2 per cent in February 2008. Conversely, the male workforce has experienced a slight decline in participation, falling from 75.6 per cent to 72.4 per cent over the same period. National trends in participation rates are illustrated in Table 6.

Table 6: Labour force participation rates, Australia

<table>
<thead>
<tr>
<th>Year</th>
<th>Males</th>
<th>Females</th>
<th>Persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986-87</td>
<td>75.6%</td>
<td>48.7%</td>
<td>61.8%</td>
</tr>
<tr>
<td>1990-91</td>
<td>72.4%</td>
<td>53.9%</td>
<td>60.0%</td>
</tr>
<tr>
<td>1994-95</td>
<td>71.2%</td>
<td>56.8%</td>
<td>60.4%</td>
</tr>
<tr>
<td>1998-99</td>
<td>69.9%</td>
<td>58.7%</td>
<td>60.7%</td>
</tr>
<tr>
<td>2002-03</td>
<td>68.5%</td>
<td>60.2%</td>
<td>60.5%</td>
</tr>
<tr>
<td>2006-07</td>
<td>67.2%</td>
<td>61.8%</td>
<td>60.7%</td>
</tr>
</tbody>
</table>

(a) Annual averages.
Source: Labour Force, Australia, Detailed – Electronic Delivery (6291.0.55.001).

76. Some factors that may help explain these trends include:

- the changing age profile of the population;
- increased participation in education;
- the need for mothers and married women to return to the labour force;
- the inability of families to survive on single incomes;
- the restructuring of male dominated industries such as manufacturing;
- the increased number of young people working while studying;
- falling unemployment rates which result in more people actively seeking work.

77. In spite of the increase in women’s participation rates within the workforce, international comparisons indicate Australia fares poorly. In a recent study undertaken by the Productivity Commission it was shown the workforce participation rate for child-bearing aged women ranked twenty third out of thirty OECD countries.\(^{29}\) Two-thirds of workers who will derive a direct benefit from an increase to the minimum wage are female; three quarters of female workers work part-time.

**New South Wales Participation Rates**

78. Labour force participation, employment and unemployment vary across states and territories, and across capital cities and regional areas.

79. In February 2008, New South Wales had a labour force numbering 3,566,600 people\(^{30}\), which represents an overall participation rate of 63.5 per cent of available civilian population aged 15 years and over. Trends of participation rates in NSW by gender are largely reflected by the national data outlined earlier. Overall there was a seasonally adjusted unemployment rate of 4.2 per cent for those actively seeking employment in New South Wales.

80. Sydney has a higher participation rate than the rest of the State, with a 65.1 per cent participation rate and a lower unemployment rate of 4.2 per cent. The balance of New South Wales has a lower participation rate of 60.3 per cent and a higher unemployment rate of 5.2 per cent. For example, regional unemployment rates as at November 2007 ranged from:

\[\text{Lowest – Murray-Murrumbidgee – 3.1 per cent} \]
\[\text{Highest – Wollongong – 8.3 per cent}^{31}\]

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\(^{29}\) Productivity Commission, Annual Report Series 2006 - 2007


81. It is important to acknowledge that regional workers have less mobility between jobs. The following table shows it is incorrect to assume that workers in regional areas operate in the same labour market as workers in metropolitan areas. Labour market participation and unemployment rates may vary dramatically from location to location for a variety of reasons.

<table>
<thead>
<tr>
<th>Table 7: Unemployment and participation rates, NSW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment (%)</td>
</tr>
<tr>
<td>Sydney</td>
</tr>
<tr>
<td>Balance of NSW</td>
</tr>
<tr>
<td>Total NSW</td>
</tr>
</tbody>
</table>


82. Higher unemployment rates mean that workers in regional areas often have less bargaining power than workers in metropolitan labour markets. It is the view of the New South Wales Government that workers with less bargaining power are more likely to benefit from minimum wage increases.

83. Participation rates in New South Wales for males and females lag those of all other states except South Australia, being 70.9 per cent and 56.5 per cent respectively in February 2008. The participation rate for all persons in New South Wales, with a rate of 65.3 per cent, is the third lowest rate after Tasmania and South Australia. Table 3 below demonstrates that New South Wales has a consistently lower participation rate when compared against the national rate.  

84. ABS data on methods of setting pay reveal that maintaining a decent and fair minimum wage that reflects changes to wages more generally in society provides an incentive for people to look for work and participate in the labour market. A decrease in the minimum wage in real terms provides a disincentive to participate.

**Impact on Employment**

85. There is perennial debate concerning the relationship between wage adjustments and employment outcomes. Evidence and arguments have been a constant feature of past federal and state wage cases.

86. It is often simply assumed that minimum wage increases create unemployment. This assumption has been based on an economic framework that requires the labour market to set a ‘market clearing’ wage. A large number of empirical studies have investigated a possible link between increases in minimum wages and unemployment and have not been able to conclusively support such an assertion.
87. The New South Wales Government vigorously rejects this assertion and strongly believes that moderate, predictable increases in minimum award wages will not adversely impact on employment and will instead contribute to stability, harmony and decency in the workplace.

88. In the 2005 Safety Net Review decision the Australian Industrial Relations Commission referred to approximately fifty overseas studies and ten Australian studies the Commonwealth had presented in previous safety net reviews investigating the impact of increases in minimum wages on employment. The AIRC was largely dismissive of such evidence stating:

As we have noted previously, most of this material is of very limited assistance. The research is either largely irrelevant, limited in scope or has serious methodological flaws.  

89. The AIRC has been particularly critical of studies based on increases in a single minimum wage. As safety net adjustments in Australia apply to a range of minimum rates at various levels throughout the award system, such studies do little to assist the understanding of employment effects of multiple wage adjustments. This limitation is exacerbated by the diversity of research findings.

90. In its 2005 Decision, the Australian Industrial Relations Commission referred to the difficulties associated with such conclusions in the following manner:

To illustrate the problems with the research...in the 2004 proceedings the Commonwealth relied upon a study which showed an elasticity of demand for labour of -0.21 per cent. This year it urged us to accept a study which showed an elasticity of -0.63 per cent. On the Commonwealth’s submission this year we would have been wrong to accept its submission in last year's safety net review.

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33 PR002005 para 164 & PR002004 para 229
34 PR002005 para 409
91. The international material available also does not provide direct assistance in the context of the Australian workplace. The OECD has recently noted that empirical evidence concerning a negative impact of minimum wages on employment is mixed, with a number of studies finding an adverse impact is modest or non-existent.  

92. Indeed in its publication, _OECD Employment Outlook: Boosting Jobs and Incomes 2006_, it notes that a minimum wage can encourage higher participation by assisting to make work economically worthwhile for the low skilled. It further notes that a well-designed minimum wage can contribute to broader strategies to encourage employment growth by guaranteeing that work is more beneficial than remaining on social benefits.

93. In its 2006 State Wage Case decision, the New South Wales Industrial Relations Commission referred to the OECD study noting that: …the impact of minimum wage adjustments…remains somewhat contentious. Some part of that controversy will, no doubt, be alleviated or resolved by the recent authoritative announcement by the OECD… The OECD study plainly indicates that there is a scope for moderate minimum rate adjustments without significantly affecting employment growth in an adverse way…

94. The most relevant evidence refuting the supposed negative relationship between predictable minimum wage increases and employment outcomes is the current economic climate of falling unemployment and strong employment growth. Current economic indicators simply do not support the arguments advocated by the various major employer groups. The Australian economy has experienced 16 years of continuous economic growth and in terms of living standards there has been an improvement in Australia’s relative international position, rising from nineteenth in 1990 to eighth in 2004.

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35 OECD Employment Outlook 2006, Boosting Jobs and Income p.86
36 Ibid pp 86-88
37 State Wage Case 2006 NSWIRComm 204, para 254
38 Paper presented to Committee for Economic Development of Australia (CEDA) by Stephen Smith MP, 24 February 2006
95. In February 2008 the unemployment rate was 4 per cent, (the lowest unemployment rate for thirty one years) and the participation rate increased to a seasonally adjusted rate of 65.2 per cent.\(^{39}\)

96. The Australian experience proves that it is possible to have falling unemployment while experiencing wages growth. Figures 2 and 3 below indicate the steady national growth in participation rates and decline in unemployment rates over the last decade.

97. After a decade of safety net adjustments, if there was any foundation for the view that predictable minimum wage increases have a negative effect on employment it is reasonable to assume such outcomes would be reflected in the national economic framework. To date, no such effect has been demonstrated in the Australian context.

98. In its 2005 decision, the Australian Industrial Relations Commission concluded:

In light of the growth in employment over the last eight years and the fact that [un]employment has declined to its lowest level in 28 years, it would be difficult to accept that the Commission’s safety net adjustments have been excessive even if employment was the only matter the Commission had to take into account in maintaining the safety net.\(^{40}\)

99. The New South Wales Industrial Relations Commission endorsed the above comments in its 2006 State Wage Case decision. It noted that, notwithstanding the expressions of concern by the federal government about the impact on employment growth of wage increases, those fears have clearly not been realised.\(^{41}\)

100. The New South Wales Government submits that the available economic evidence supports the view that responsible increases in minimum wages are entirely compatible with positive and continuing employment outcomes.

Consideration of equal work for equal pay when determining minimum wages

101. Equal remuneration for work of equal value is a fundamental principle. Although there is no requirement in the AFPC’s terms of reference to consider pay equity when setting wage rates the NSW Government submits that the AFPC should embrace this principle. An effective regulatory framework is necessary if pay equity is to be achieved.

Gendered Wage Disparity

102. Australian women who work full time still earn an average of 17% less than men who work full time. According to figures from the Australian Bureau of Statistics’ most recent \textit{Average Weekly Earnings Survey}, in November 2007 women working full time earned an average of about 84% of average full time male earnings, or $991 compared to $1176.

\(^{40}\) PR002005 para 410 – It should be noted in the AIRC’s 2005 SNR decision the word ‘employment’ was printed. The context of the paragraph clearly shows the intention of the Bench was to use the word ‘unemployment’.

\(^{41}\) State Wage Case 2006 NSW IR Comm 204, para 120
This gap widens considerably to 35% for total earnings of all employees, including those employed on a part-time or casual basis. According to the same figures women’s total earnings were 65% of average male total earnings, or $682 compared to $1044\textsuperscript{42}.

103. Various labour surveys available from the Australia Bureau of Statistics illustrate the correlation between gender and work value by showing that workers in traditionally feminised industries are paid the lowest wages in Australia. Women also tend to be more reliant on awards and concentrated in jobs with less access to a range of over award payments and bonuses and in jobs affected by minimum wage regulation\textsuperscript{43}.

104. Further, women tend to be concentrated in part-time and casual work in Australia. Only 35% of full-time employees are female. On the other hand, females represent 71% of all part-time employees\textsuperscript{44} and 67% of part-time casual employees\textsuperscript{45}. The availability of part time work is however, advantageous to many women with family responsibilities. Despite this, women's concentration in part time and casual employment has a number of pay equity implications including but not limited to more precarious and lower-remunerated work, less access to training and more limited opportunities for advancement and career development than full-time employees.

\textsuperscript{42} ABS 6302.0 \textit{Average Weekly Earnings}, February 2008.
\textsuperscript{44} ABS 6202.0 \textit{Labour Force}, Australia, April 2006.
\textsuperscript{45} ABS 6310.0 \textit{Employee Earnings, Benefits and Trade Union Membership}, 2005. and ABS 6202.0 \textit{Labour Force}, Australia, April 2006.
105. The gap between men and women’s earnings reflects a number of distinct, yet complex and interrelated factors. Prior to the introduction of the Work Choices Act and the subsequent formation of the Australian Fair Pay Commission (AFPC), mechanisms existed in both the state and federal jurisdictions to address the systematic causes of the gender-based pay gap.

106. The pay equity inquiries conducted in various states across Australia have established some of the causes of and means to rectify, entrenched gender pay inequity.

107. In June 2000, the landmark *Equal Remuneration and Other Conditions Principle* was established by the Industrial Relations Commission of New South Wales to redress pay inequity. The principle followed a recommendation of the 1998 New South Wales Pay Equity Inquiry that a new principle to address the undervaluation of women’s wages be made.

108. The objective of the Equal Remuneration Principle is to redress pay inequity by providing the framework for unions to bring equal pay cases before the Industrial Relations Commission Industrial Relations Commission of New South Wales. The Principle seeks to remedy the effect of the historical gender-based undervaluation of work, particularly in feminised industries, and the consequential gap in women’s earnings. The Principle provides the mechanism to achieve pay equity without the traditional need for comparisons between female and male dominated industries and ensures the reassessment of the value of work is gender-neutral. This principle has been successfully applied to librarians, archive workers under the Crown Employees Award, and more recently to child care workers in New South Wales.
109. An effective regulatory framework is therefore a necessary component if pay equity is to be addressed. Opportunities to raise the issue, have it properly investigated and determined must be available, regardless of workplace arrangements.

110. The New South Wales Government’s view is that the AFPC must address the important economic and social issue of pay equity by using the pay equity principle in the determination of minimum wages.

**Conclusion**

111. The New South Wales Government believes that maintaining a fair minimum wage is essential to the achievement of sound economic and social outcomes, continued incentive to participate in the workforce and the preservation of an effective barrier against the exploitation of our vulnerable workers.

112. Minimum wage reliant workers, including women, indigenous, migrant, young, non-unionised workers and workers with a disability are disproportionately affected by significant financial stress, indeed the ‘triple whammy’ of rising interest rates, increased petrol prices and higher costs of living generally. These vulnerable workers should not be expected to carry the burden of economic restraint.

113. Notwithstanding the Minimum Wage Review decisions handed down by the AFPC in 2006 and 2007, the value of federal minimum wages does not appear to have been maintained.

114. Changes in the federal minimum wage and the state equivalent should especially consider those employees that have already gained the least benefit from previous wage determinations.

115. The New South Wales Government strongly believes that moderate, predictable increases in minimum award wages will not adversely impact on employment and will instead contribute to stability, harmony and decency in the workplace.
116. Equal remuneration for work of equal value is a fundamental principle. Although there is no requirement in the AFPC’s terms of reference to consider pay equity when setting wage rates the NSW Government submits that the AFPC should embrace this principle. An effective regulatory framework is necessary if pay equity is to be achieved.

117. In this context, the New South Wales Government supports a moderate increase to the Federal Minimum Wage and Australian Pay and Classification Scales (APCSs).

118. The New South Wales economy is well placed to sustain a moderate increase.