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

March 2009

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1

Introduction

1.1 The Australian Fair Pay Commission (AFPC) has conducted three reviews of minimum wages in Australia.

1.2 The ACTU welcomed the decision of the AFPC in the 2008 Wages Review to provide one level of increase to all minimum wages workers.

1.3 The period June 2005 to October 2008 was a period of economic prosperity in Australia. During this period minimum wages above the level of the Federal Minimum Wage have fallen in real terms. The Federal Minimum Wage has just kept pace with inflation over that period.

1.4 The economic outlook for the 12 months 1 October 2008 to 1 October 2009 is for slowing economic growth.

1.5 The ACTU totally rejects the notion that employees who depend on minimum wages should suffer a cut in real wages, either in times of economic prosperity or in times of slowing economic growth.

1.6 The ACTU also rejects the views of those who seek to use the current economic downturn as a justification for further reductions in real minimum wages.
1.7 The evidence provided by the ACTU to the AFPC over the past four years provides strong support for the proposition that moderate, predictable and regular increases in minimum wages do not cause a net contraction in employment growth or increases in unemployment. On the contrary such increases are often associated with improvements in the functioning of labour markets including through their positive effects on recruitment-retention. Such pay increases really make a difference to the well being of low paid workers, their families and communities. Importantly appropriate increases in the minimum wage also contribute to the legacy of a fair go in this country through their contribution to greater equity including a narrowing of the gender pay gap relative to what would otherwise be the case. These are matters of considerable substance that need to be taken into account in providing a safety net for the low paid.

1.8 In comparison with the early 1980s and early 1990s, the economic environment in 2008-09 shows:

- The profit share of national income is higher
- Real unit labour costs are lower
- Minimum wages as a percentage of AWE, AWOTE and employee mean and median earnings are lower.

1.9 Relative to other nations in dealing with the adverse consequences of the global financial crisis, Australia’s financial system is strong and secure.

1.10 Policy authorities here and abroad have injected large fiscal and monetary policy stimulus early in the slowdown, which will cushion the economic downturn.
1.11 In such circumstances a reduction in real minimum wages would be both unfair and counterproductive.

1.12 The ACTU seeks wage increases for all minimum wages workers to ensure working families can maintain and improve their standards of living.

1.13 The ACTU requests a $21.00 increase in all pay scale wage rates. If granted the ACTU request would take the Federal Minimum Wage to $564.78 per week or $14.86 per hour, and the benchmark Tradespersons rate to $658.64 per week or $17.33 per hour. This request is within the Treasury estimate of wages growth for 2008-09 and 2009-2010.

1.14 Based on the WPI from June 2005 and the Treasury forecast for WPI growth through the year to June quarter 2009, these increases will see the FMW move in line with, but the Tradesperson rate increase by less than, general wage movements over the period.

1.15 This is not the time to cut real minimum wages. The increase to minimum wages sought by the ACTU will have a negligible impact on aggregate wages and inflation whilst improving the lives of minimum wage workers and their families who face cost pressures, and will provide added stimulus to domestic demand by providing wages increases to employees with a large marginal propensity to consume.

1.16 In Section 10 of this submission, the ACTU provides a costing of its $21.00 per week request. It is estimated that should the AFPC grant the request then the impact will add a negligible 0.3 per cent to economy wide ordinary time earnings and a 0.16 per cent addition to the CPI.
1.17 If the ACTU’s cost estimates are applied only to the upper estimate of the jurisdiction of the AFPC at 12 per cent of the workforce, the addition to ordinary time earnings is estimated at only 0.19 per cent with a CPI impact of 0.1 per cent.

1.18 Adjustments to income tax must be treated as complementary to minimum wages not substitutes for wages adjustments.

1.19 One-off payments or tax bonuses must not be taken into account by the AFPC.

1.20 The ACTU will seek to address any implications of the 2009-10 Commonwealth Budget in a Post Budget Submission to the AFPC.
Overview and Context for Wages Review

2.1 The economic background for this Wages Review is framed by the global financial crisis and its consequences for world growth and growth in the Australian economy.

The Credit Crisis

2.2 The global financial crisis (GFC) is now into its second year. The crisis was triggered by a rapid escalation in the number of sub-prime mortgage defaults in the US housing market in 2006-07.

2.3 The combination of slowing economic growth, rising Federal interest rates, and mortgage deals that provided for sudden rate increases following the expiration of introductory low-rate periods, acted to push increasing numbers of low-income and economically insecure households across the US into default.

2.4 The packaging of sub-prime mortgage debt into Collateralised Debt Obligations, which were then traded around the world, meant the defaults impacted on the value of assets held by key agents in the global financial system such as banks and hedge funds.

2.5 The sudden decline in asset values, in the context of widespread uncertainty about the full scale and nature of the ‘toxic debt’ that had been accumulated on their balance sheets, led an increasing number
of financial institutions to radically reduce their lending, hoard high-quality capital, and increase their wholesale interest rates.

2.6 The reduced availability and higher cost of interbank lending has led a number of financial institutions to collapse, be taken over by rivals, or seek bailouts from government to secure their liquidity.

2.7 The financial crisis escalated in mid-September 2008 with the collapse of Lehman Brothers, the fourth largest investment bank in the US, and the government bailout of AIG insurance. These events have significantly increased uncertainty across the global financial system about the extent to which ostensibly secure financial institutions are vulnerable to toxic debt and the extent to which existing insurance contracts would act to protect companies from defaults and losses. One consequence was to bring the ‘overnight commercial paper market’ (short-term lending between financial institutions on the basis of unsecured promissory notes) to an end.

The Global Economic Outlook

2.8 Every major national economy and economic region is expected to experience reduced economic growth in 2009. Forecasts by the Australian Treasury published in February 2009 are summarised in the table below.

2.9 In general the world economy is expected to grow by 2 per cent less in 2009 than in 2007. Given the high degree of uncertainty that presently characterises global economic conditions some expect this forecast to be revised downwards in the months ahead.
Table 2.1: International GDP growth forecasts

<table>
<thead>
<tr>
<th></th>
<th>Actual 2007</th>
<th>Estimate 2008</th>
<th>Forecasts 2009</th>
<th>Forecasts 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>2.0</td>
<td>1.2</td>
<td>-1 3/4</td>
<td>1 3/4</td>
</tr>
<tr>
<td>Euro area</td>
<td>2.6</td>
<td>0.8</td>
<td>-1 3/4</td>
<td>3/4</td>
</tr>
<tr>
<td>Japan</td>
<td>2.4</td>
<td>-0.2</td>
<td>-2 1/2</td>
<td>1</td>
</tr>
<tr>
<td>China(b)</td>
<td>13.0</td>
<td>9.0</td>
<td>0 1/2</td>
<td>8 1/4</td>
</tr>
<tr>
<td>India(b)</td>
<td>9.3</td>
<td>7.8</td>
<td>5 1/2</td>
<td>6</td>
</tr>
<tr>
<td>Other East Asia(c)</td>
<td>5.9</td>
<td>3.2</td>
<td>-1</td>
<td>3 3/4</td>
</tr>
<tr>
<td>Major trading partners</td>
<td>5.5</td>
<td>2.9</td>
<td>0</td>
<td>3 1/4</td>
</tr>
<tr>
<td>World</td>
<td>5.2</td>
<td>3.4</td>
<td>1/2</td>
<td>3</td>
</tr>
</tbody>
</table>

(a) World and Euro area growth rates are calculated using GDP weights based on purchasing power parity, while growth rates for major trading partners and Other East Asia are calculated using export trade weights.

(b) Production-based measures of GDP.

(c) Other East Asia comprises the Newly Industrialised Economies (NIEs), constituting Hong Kong, South Korea, Singapore and Taiwan, and the Association of Southeast Asian Nations group of five (ASEAN-5), constituting Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Source: National statistical publications; IMF and Treasury.
Source: Treasury UEFO

2.10 On 19 March 2009, the International Monetary Fund (IMF) released March 2009 projections for world economic growth, derived from an analysis provided to the Group of Twenty (G-20) economies.

2.11 The IMF stated:

Global activity is now projected to contract by ½ to 1 percent in 2009 on an annual average basis, before recovering gradually in 2010. The revised projections relative to the January WEO update reflect unrelenting financial turmoil, negative income data, sinking confidence, and the limited effect to date of policy responses with respect to the restoration of the financial system health.

- Global growth is still projected to stage a modest recovery next year, conditional on comprehensive policy steps to stabilize financial conditions, sizeable fiscal support, a gradual improvement in credit conditions, a bottoming of the US
housing market, and the cushioning effect of sharply lower oil and other major commodity prices.²

Table 2.2: IMF World Economic Outlook Projections

<table>
<thead>
<tr>
<th></th>
<th>4th Qtr over 4th Qtr</th>
<th>Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 %</td>
<td>2009 %</td>
<td>2010 %</td>
</tr>
<tr>
<td>World output</td>
<td>3.2</td>
<td>-1.0 to -0.5</td>
</tr>
</tbody>
</table>

Source: IMF WEO database, March 2009 Table 1

2.12 Responding to the release of the IMF update, the Treasurer stated:

Against the sobering backdrop of a much deeper and more protracted global recession than previously envisaged, it is inevitable that Australia’s economy and Australian jobs will be affected. However, Australia is much better placed than most other advanced countries to withstand the crisis.

Our financial system is strong, our regulatory framework is working well and the Reserve Bank has cut interest rates aggressively.

... 

The Government has already acted swiftly and decisively to support jobs and growth in the face of the global recession. Australia's economic stimulus measures meet the recommendations of the IMF, providing a fiscal stimulus of around 2 per cent of GDP this fiscal year and next.³

² ibid., p7
Sources of Stability and Growth

2.13 There are two forces that will act to soften and shorten the impact of the GFC.

2.14 Firstly, the continued strength of the Chinese economy. Between 2002 and 2007 the Chinese economy grew by 10 per cent or more each year. That growth has slowed and some expect it to fall to below 8 per cent in 2009. However, Chinese consumers, businesses and the government are not carrying significant quantities of debt and so retain a significant capacity to borrow and spend. In November the Chinese government announced a stimulus package of 4 trillion Yuan, much of which will be spent on boosting investment in public infrastructures such as roads, public housing and railways.

2.15 Secondly, the impact of government policy. The nature and severity of the GFC has prompted national governments to loosen fiscal discipline and monetary policy. In a reversal of policy orthodoxy the IMF has advised governments to engage in deficit spending.\(^4\)

2.16 Across many OECD countries interest rates have been cut, some taxes have been cut and governments are borrowing to finance increased public spending.

2.17 In addition, many governments have taken unprecedented action to restore confidence, trust and liquidity to the financial system by guaranteeing deposits and pumping the banking sector with approximately AU$4 trillion of publicly provided funds.

2.18 The IMF finds:

\(^4\) IMF Chief Economist Olivier Blanchard interview, IMF Spells Out Need for Global Fiscal Stimulus, IMF Survey online, 29 December 2008
Most of the world’s leading advanced and emerging market economies have adopted stimulus measures to counter the growing financial and economic crisis, according to an analysis by the IMF that estimates the collective impact on growth of around \( \frac{1}{2} \) -\( \frac{1}{4} \) percentage points.\(^5\)

2.19 The RBA Assistant Governor (Economic), in a speech on 4 March 2009 stated:

But, in thinking about the outlook, it’s important to recognise that governments and central banks around the world have taken some very significant steps to support growth. Interest rates have been cut to low levels in most countries, and there are some very large fiscal policy initiatives in the pipeline around the world. In a number of countries, including the United States and China, discretionary fiscal expansions of the order of 2 per cent of GDP look like being implemented in the next couple of years.

In addition to that, the major economies have taken a range of steps to provide direct assistance to their financial sectors. These have taken several forms – including central bank actions to improve access to liquidity, direct injections of capital into financial institutions and the provision of government guarantees.

More needs to be done in the major countries on this front. But there are some tentative signs, at least, that these steps are contributing to some improvement in the functioning of financial markets. The extreme volatility that followed the Lehman collapse has eased off in the last couple of months. And the availability of government guarantees has seen a recovery in bond issuance by banks around

\(^5\) IMF, Stimulus Measures Bolstering Demand Amid Crisis, IMF Says, IMF Survey online, February 6, 2009
the world. This is helping to put banks in a position where they can be more confident of their long-term funding.\footnote{Malcolm Edey, Assistant Governor (Economic), The Economic Landscape in 2009, Address to Australian Industry Group Annual Economic Forum, 4 March 2009, p5}

2.20 Table 2.3 is derived from a table included in the (printed version of the) RBA Assistant Governor’s speech.

**Table 2.3: Discretionary Fiscal Easing - Selected Economies, per cent of GDP**

<table>
<thead>
<tr>
<th></th>
<th>Estimated easing*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>United States</td>
<td>1¼</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1¾</td>
</tr>
<tr>
<td>Germany</td>
<td>1½</td>
</tr>
<tr>
<td>Japan</td>
<td>1¼</td>
</tr>
<tr>
<td>China</td>
<td>over 2</td>
</tr>
<tr>
<td>South Korea</td>
<td>over 2</td>
</tr>
<tr>
<td>Taiwan</td>
<td>over 2</td>
</tr>
<tr>
<td>Australia</td>
<td>2¾</td>
</tr>
</tbody>
</table>

*Based on policy announcements and media reports

Source: RBA

2.21 There is considerable uncertainty about how deep and how long the global recession will prove to be. Some expect a recovery to begin in late 2009. Others believe 2010 is more likely. Much depends on the willingness and ability of the major banks to begin lending to each other and to business at levels and rates comparable to the pre-crisis period.

2.22 On the upside risk the RBA in the February 2009 Statement on Monetary Policy identifies the same simultaneity that characterised the downturn and the size and timing of the policy response as factors:

The principal upside risk that can be identified arises from the same simultaneity that characterised the sharp international downturn of the past several months, together with the speed and size of the
policy responses being put in place around the world. Provided that policy makers in key countries are able to stabilise financial systems to the point where growth in bank lending resumes, macroeconomic policy stimulus stands a good chance of restoring higher levels of confidence as well as providing a direct boost to demand. The rapidity with which production has responded to weaker demand could also mean that the inventory cycle will be relatively muted – that is, firms may have identified the slowing in demand at an earlier stage than in past cycles, so the unintended build-up in inventories may have been smaller. If so, when demand returns, production will pick up more quickly than in past cycles. In such a scenario, a synchronised upturn in the world economy would be a distinct possibility.  

2.23 The ACTU notes this important upside potential in the global economic outlook.

2.24 In an interview on 15 March 2009, the Federal Reserve Chairman, Ben Bernanke, spoke about the prospects for recovery in the USA:

The lesson of history is that you do not get a sustained economic recovery as long as the financial system is in crisis. We’ve seen some progress in the financial markets, absolutely. But until we get that stabilized and working normally, we’re not gonna see recovery. But we do have a plan. We’re working on it. And I do think that we will get it stabilized, and we’ll see the recession coming to an end probably this year. We’ll see recovery beginning next year. And it will pick up steam over time.

7 RBA Statement on Monetary Policy, February 2009, p67
8 Board of Governors Federal Reserve System, Chairman Bernanke, Transcript, 60 Minutes interview, 15 March 2009
2.25 The ACTU notes that the Minutes of the RBA Board Meeting, 3 March 2009, note that conditions in global money markets were considerably better than late last year.\(^9\)

**Impact on Australian Domestic Economy**

2.26 To date the impact of the GFC on the Australian labour market has been limited but all signs point to an increase in job loss in 2009-10. The table below summarises changes in employment totals by industry in the year to February 2009.\(^10\)

**Table 2.4: Employment totals by industry February 2008 to February 2009 (seasonally adjusted)**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Employed Total</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Feb-08</td>
<td>Feb-09</td>
</tr>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>327.1</td>
<td>358.8</td>
</tr>
<tr>
<td>Mining</td>
<td>138.0</td>
<td>165.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1072.8</td>
<td>1014.5</td>
</tr>
<tr>
<td>Electricity, Gas, Water and Waste Services</td>
<td>114.7</td>
<td>148.7</td>
</tr>
<tr>
<td>Construction</td>
<td>984.4</td>
<td>979.7</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>409.3</td>
<td>394.5</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>1227.1</td>
<td>1212.5</td>
</tr>
<tr>
<td>Accommodation and Food Services</td>
<td>705.5</td>
<td>704.7</td>
</tr>
<tr>
<td>Transport, Postal and Warehousing</td>
<td>537.2</td>
<td>593.3</td>
</tr>
<tr>
<td>Information Media and Telecommunications</td>
<td>228.5</td>
<td>224.8</td>
</tr>
<tr>
<td>Financial and Insurance Services</td>
<td>399.9</td>
<td>393.2</td>
</tr>
<tr>
<td>Rental, Hiring and Real Estate Services</td>
<td>200.3</td>
<td>176.2</td>
</tr>
<tr>
<td>Professional, Scientific and Technical Services</td>
<td>805.7</td>
<td>769.4</td>
</tr>
<tr>
<td>Administrative and Support Services</td>
<td>348.4</td>
<td>355.7</td>
</tr>
<tr>
<td>Public Administration and Safety</td>
<td>632.5</td>
<td>666.0</td>
</tr>
<tr>
<td>Education and Training</td>
<td>802.7</td>
<td>792.1</td>
</tr>
<tr>
<td>Health Care and Social Assistance</td>
<td>1103.4</td>
<td>1153.6</td>
</tr>
<tr>
<td>Arts and Recreation Services</td>
<td>191.9</td>
<td>212.0</td>
</tr>
<tr>
<td>Other Services</td>
<td>470.6</td>
<td>450.4</td>
</tr>
<tr>
<td>All Industries</td>
<td>10700.1</td>
<td>10765.0</td>
</tr>
</tbody>
</table>

Source: ABS Cat No 6291.0.55.003

\(^9\) op cit. p3

\(^10\) Table refers to total employment, not employment of employees.
2.27 During the last year employment in most industries has either increased or decreased slightly. The industries recording significant declines (more than 20,000 persons) include Manufacturing, Rental, Hiring and Real Estate Services, Professional, Scientific and Technical Services and Other Services.

2.28 Available post-September 2008 data suggests the impact of the crisis on aggregate employment has so far been limited. After falling in November 2008 total employment grew in the months of December 2008, January and February 2009. However, the unemployment rate has increased to 5.2 percent.

2.29 Aggregate unemployment is expected to rise during 2009 – although there remains uncertainty about the likely extent and timing of the rise. Treasury forecasts the unemployment rate rising to 7 per cent by June 2010.

Factors mitigating the impact of the GFC on the Australian Economy

Government actions

2.30 The Commonwealth Government acted preemptively to stimulate the economy.

2.31 In two recent speeches, the Prime Minister has summarised the elements of the Government response to the global financial crisis.

2.32 Firstly on 3 December 2008 the Prime Minister stated:

The first phase of the Government’s response to the global financial crisis was the announcement of a $10.4 billion Economic Security Strategy - delivering relief to pensioners, low
income families and first home buyers, as well as a significant boost to job training. It is estimated this will help protect the equivalent of 75,000 jobs.

The second phase of the Government’s response was our $6.2 billion commitment to Australia’s automotive industry from 2010 onwards.

The third phase of the Government’s response was our $300 million commitment to local infrastructure programs though the Regional and Local Community Infrastructure. This will create thousands of jobs throughout Australia.

The fourth phase was the agreement reached at the Council of Australian Governments last weekend when we increased our funding to the states and territories by $15.1 billion to help create up to 133,000 jobs while driving forward our reform agenda.

The fifth phase of our response will be making an early start on ready-to-go nation-building infrastructure projects, after we receive an interim national infrastructure priority list from Infrastructure Australia shortly.\textsuperscript{11}

\textbf{2.33} On 3 March 2009 the Prime Minister noted:

In responding to the global economic crisis, the Government has taken decisive policy action to cushion Australia from the full impact of the crisis.

\textsuperscript{11} Prime Minister, \textit{Tackling Australia's Economic Challenges}, Address At Australian Chamber Of Commerce And Industry 2008 Annual Dinner, Canberra, 3 December 2008
... acting to maintain the stability of domestic financial markets because private credit flows are essential for economic recovery.

... injecting economic stimulus through a nation building plan to support growth and jobs in the short term and in a manner which allows the Government to continue to prosecute a long-term strategy of economic reform to build long term productivity growth.\(^\text{12}\)

2.34 Details of the $10.4 billion Economic Security Strategy, a package of around 1 per cent of GDP, as documented in the Treasury Mid Year Economic and Fiscal Outlook include:

- $4.9 billion a one-off payment of $1,400 to eligible single pensioners and $2,100 to eligible pensioner couples, including Commonwealth Seniors Health Card holders, and a one-off payment of $1,000 to Carer Allowance recipients for each person in their care;
- $3.9 billion for a one-off payment of $1,000 for each child in families eligible for Family Tax Benefit (A);
- $1.5 billion for a First Home Owners Boost for established homes of $7,000 (to take the total grant to $14,000), and for newly-constructed houses of $14,000 (to take the total grant to $21,000);
- $187 million to create 56,000 new training places for the 2008-09 Productivity Places Program.\(^\text{13}\)

2.35 Details of the $42 billion Nation Building and Jobs Plan, providing a boost to the economy of around \(\frac{1}{2}\) per cent of GDP in 2008-09 and around \(\frac{3}{4}\) to 1 per cent of GDP in 2009-10 as documented in the Treasury Updated Economic and Fiscal Outlook includes:

\(^{12}\) Prime Minister, Address to the Australian Chamber of Commerce and Industry and NSW Business Chamber, 3 March 2009

\(^{13}\) Treasury, Mid Year Economic and Fiscal Outlook, November 2008 pp14-15
$14.7 billion over three years Building the Education Revolution program.

$6.0 billion to fund construction of approximately 20,000 new public and community housing dwellings, to be largely completed by December 2010.

$2.7 billion Energy Efficient Homes program

$2.7 billion temporary tax break to small and other businesses to boost business investment

$30 million in 2008-09 and $60 million in 2009-10 to extend the Black Spot Program

$150.0 million over two years for the Boom Gates Program

$150 million in 2008-09 for the Repairing Regional Roads Program

$500 million over two years for the Regional and Local Community Infrastructure Program — Strategic Projects.

$8.2 billion for a one-off Tax Bonus for Working Australians

$1.4 billion in 2008-09 for a one-off Single-Income Family Bonus

$20.4 million in 2008-09 for a one-off Farmers Hardship Bonus

$2.6 billion one-off Back to School Bonus

$511 million one-off Training and Learning Bonus.\(^{14}\)

2.36 The ACTU is confident that the stimulus packages have already had, and in the immediate, medium and long term, will have a positive, significant effect on the Australian economy.

2.37 As a recent IMF Staff Position Note finds:

As is clear from our simulations, either government investment expenditure and/or targeted transfers would have sizable multiplier effects on the economy. In an ideal scenario where fiscal stimulus is both global and supported by monetary accommodation, and where financial sectors that are under pressure are being

\(^{14}\) Treasury, Updated Fiscal and Economic Outlook, February 2009 pp18-24
supported by governments, every dollar spent on government investment can increase GDP by about $3, while every dollar of targeted transfers can increase GDP by about $1.\textsuperscript{15}

2.38 In a recent speech on 3 March 2009 the Prime Minister noted:

The Economic Security Strategy has also helped employment. As Deutsche Bank Chief Economist Tony Meer has said, in response to the January Labour Force figures:

"Retailers [were] ... bolstered by the cash-bonus-inspired strength in sales, they have responded in January by retaining higher than usual post-Christmas staff levels".\textsuperscript{16}

**RBA Interest Rate Reductions**

2.39 Since its September 2008 Board meeting the Reserve Bank of Australia has cut the cash rate by 400 basis points. In the February 2009 Statement on Monetary Policy the RBA finds that this has brought the monetary policy to an expansionary setting, and estimates that there has been substantial flow through of these reductions to mortgage rates, and reductions in business loan rates:

The Board has responded to these developments with a series of unusually large reductions in the cash rate at its recent meetings. This has brought the monetary policy setting to a position that is providing significant stimulus to the economy, with the cash rate now well below its previous cyclical lows. Substantial pass-through of these reductions to most borrowers over recent months has also seen variable lending rates fall significantly. In the period ahead,

\textsuperscript{15} Freedman C. Kumhof M., Laxton D, and Lee J, , IMF Staff Position Note, The Case for Global Fiscal Stimulus, International Monetary Fund, March 6, 2009, SPN/09/03, p16

\textsuperscript{16} op cit.
the economy will receive a large fiscal stimulus, with the Australian Government announcing further discretionary measures in early February in addition to those announced late last year. While the international situation is likely to remain difficult for some time, the combination of expansionary monetary and fiscal policies now in place will help to cushion the Australian economy from the contractionary forces coming from abroad.

... Business interest rates have declined over the past two months, as the marked fall in bank bill rates over the latter half of 2008 was more fully reflected in interest rates on outstanding large business loans, and as banks passed on most of the December cash rate reduction to their small business rates.  

2.40 The RBA, Minutes of the Monetary Policy Meeting of the Board, 3 March 2009, note that the monetary policy easing implemented over recent months was large by historical standards, and that housing lending rates were now at multi-decade lows and business lending rates were well below average.  

2.41 The ACTU notes that at its March 2009 meeting the RBA Board left interests rates unchanged, having judged that the stance of monetary policy was appropriate for the moment.

op cit., pp3-4, 54  
18 op cit., p4
**Unemployment rate**

2.42 Australia is going into this slowdown with record low unemployment.

2.43 Leading into the 1982-83 recession, in the calendar year 1981 the unemployment rate averaged 5.8 per cent. Leading into the 1990-91 recession, in the calendar year 1989 the unemployment rate averaged 5.9 per cent. Leading into the current economic slowdown, in the calendar year 2008 the unemployment rate averaged 4.2 per cent.

**Figure 2.1: Unemployment Rate: 12 months of 1981, 1989, 2008**

![Unemployment Rate Chart](chart.png)

Source: ABS Cat No 6202.0.55.001

**Wage and Profit Share**

2.44 The profit share of total factor income is at record levels, and much higher than leading into the last two downturns. In 1981 the profit share of total factor income was 18.1%, in 1989 22.0%, currently it is 26.6%.
Real Unit Labour Costs

2.45 Real Non Farm Unit Labour Costs are currently much lower than leading into the last two downturns. In index number terms, the index of Real Non Farm Unit Labour Costs in December 1981 was 117.5, December 1989 107.1 and December 2008 99.5.
Consumer confidence

2.46 The current RBA Chart Pack Consumer Sentiment chart, based on the Westpac–Melbourne Institute series, shows that the standard deviation from the long-run average of consumer confidence in 2009 is less than in the early 1990s.\(^{19}\) The chart suggests that the pre-Christmas stimulus package may have assisted in stabilizing confidence levels after a period of sharp decline.

\[\text{Figure 2.4: Consumer Confidence}\]

Source: RBA

Minimum Wages

2.47 Minimum wages, as a percentage of Average Weekly Earnings, Average Weekly Ordinary Time Earnings, and Employee Mean and Median Earnings are much lower than leading into the last two downturns.

Table 2.5: FMW/C14 and Tradesperson/C10 Ratio of AWE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AWE: Persons: Total Earnings (Nov 83*) (Nov 89) (Nov 08)</td>
<td>$311.70</td>
<td>$455.30</td>
<td>$912.40</td>
</tr>
<tr>
<td>C14 (6.10.83) (20.9.89) (1.10.08)</td>
<td>$210.50</td>
<td>$285.10</td>
<td>$543.78</td>
</tr>
<tr>
<td>Ratio FMW / AWE</td>
<td>67.5%</td>
<td>62.6%</td>
<td>59.6%</td>
</tr>
<tr>
<td>C10 (6.10.83) (20.9.89) (1.10.08)</td>
<td>$269.00</td>
<td>$358.90</td>
<td>$637.64</td>
</tr>
<tr>
<td>Ratio C10 / AWE</td>
<td>86.3%</td>
<td>78.8%</td>
<td>69.9%</td>
</tr>
</tbody>
</table>

*November 1983 earliest data available
Source: ABS Cat No 6302.0, Metal Industry Award (various)

Table 2.6: FMW/C14 and Tradesperson/C10 Ratio of AWOTE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AWE: Persons: Total Earnings (Nov 83*) (Nov 89) (Nov 08)</td>
<td>$345.20</td>
<td>$515.70</td>
<td>$1166.50</td>
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<tr>
<td>C14 (6.10.83) (20.9.89) (1.10.08)</td>
<td>$210.50</td>
<td>$285.10</td>
<td>$543.78</td>
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<td>Ratio FMW / AWOTE</td>
<td>61.0%</td>
<td>55.3%</td>
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<tr>
<td>C10 (6.10.83) (20.9.89) (1.10.08)</td>
<td>$269.00</td>
<td>$358.90</td>
<td>$637.64</td>
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<tr>
<td>Ratio C10 / AWOTE</td>
<td>77.9%</td>
<td>69.6%</td>
<td>54.7%</td>
</tr>
</tbody>
</table>

*November 1983 earliest data available
Source: ABS Cat No 6302.0, Metal Industry Award (various)

Figure 2.5: Ratios of FMW and C10 with AWE, AWOTE 1983-2008

Source: ABS Cat No 6302.0, Metal Industry Award
Table 2.7: FMW/C14 & Tradesperson/C10 Ratio of Employee Mean Earnings

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Mean Earnings (Aug 81) (Aug 89) (Aug 07)</td>
<td>$236.00</td>
<td>$423.00</td>
<td>$923.00</td>
</tr>
<tr>
<td>C14 (18.12.81) (20.9.89) (1.10.07)</td>
<td>$190.90</td>
<td>$285.10</td>
<td>$522.12</td>
</tr>
<tr>
<td>Ratio FMW / Employee Mean</td>
<td>80.9%</td>
<td>67.4%</td>
<td>56.4%</td>
</tr>
<tr>
<td>C10 (18.12.81) (20.9.89) (1.10.07)</td>
<td>$243.90</td>
<td>$358.90</td>
<td>$615.98</td>
</tr>
<tr>
<td>Ratio C10 / Employee Mean</td>
<td>103.3%</td>
<td>84.4%</td>
<td>66.5%</td>
</tr>
</tbody>
</table>

Source: ABS Cat No 6310.0, Metal Industry Award (various)

Table 2.8: FMW/C14 & Tradesperson/C10 Ratio of Employee Median Earnings

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Median Earnings (Aug 81) (Aug 89) (Aug 07)</td>
<td>$221.00</td>
<td>$392.00</td>
<td>$785.00</td>
</tr>
<tr>
<td>C14 (18.12.81) (20.9.89) (1.10.07)</td>
<td>$190.90</td>
<td>$285.10</td>
<td>$522.12</td>
</tr>
<tr>
<td>Ratio FMW / Employee Median</td>
<td>86.4%</td>
<td>72.7%</td>
<td>66.5%</td>
</tr>
<tr>
<td>C10 (18.12.81) (20.9.89) (1.10.07)</td>
<td>$243.90</td>
<td>$358.90</td>
<td>$615.98</td>
</tr>
<tr>
<td>Ratio C10 / Employee Median</td>
<td>110.4%</td>
<td>91.6%</td>
<td>78.5%</td>
</tr>
</tbody>
</table>

Source: ABS Cat No 6310.0, Metal Industry Award (various)

Conclusion

2.48 Decisive and preemptive fiscal and monetary action has been taken globally and in Australia to meet the challenges of economic slowdown.

2.49 There is a lot of stimulus in the Australian economy. It is early, preemptive and large.

2.50 As the RBA Governor stated in evidence to the House of Representatives Standing Committee on Economics:

We are being affected by the global downturn and we cannot realistically expect other than weak conditions, at least in the first part of 2009. But the very large reduction in interest rates, the lower
exchange rate and the major fiscal initiatives will work to support demand, increasingly so as the year goes on.\textsuperscript{20} 

...

We, as you know, have claimed all along that Australia was better positioned than many countries to ride out the international difficulties. Credit standards do seem to have tightened further over recent months and banks are seeing the inevitable increase in bad debts as the economy slows. But our major financial institutions are still in a strong condition. They have access to debt and equity markets, are still earning good profits and are still in a position to lend for sound proposals.

Our housing sector is not overbuilt; instead there is considerable pent-up demand and affordability is improving quickly. Most of the corporate sector is not overgeared. Going into this episode, the scope to use macroeconomic stimulus was bigger than most countries enjoyed, and that scope is being used. Moreover—and this is important—the transmission channels are still working. Interest rates paid by borrowers do generally fall when the cash rate is reduced.\textsuperscript{21}

...

So there are reasonable grounds at this stage, ..., to believe that the Australian economy will come through this difficult episode not unscathed but well placed to benefit from a renewed expansion. Things will be difficult over the next year, but, as I have said before, the long-run prospects for Australia have not deteriorated by as much as we may all be feeling just now. China’s emergence, for example, has not finished. China has slowed a lot recently, but its emergence has years to run and Australia will benefit from that. So

\textsuperscript{20} Reserve Bank of Australia, Proof Committee Hansard, House Of Representatives Standing Committee On Economics, Canberra, Friday, 20 February 2009, An Uncorrected Proof Of Evidence, p3

\textsuperscript{21} ibid.
we should not lose sight of that or of the other positives that we have. We can have confidence in our long-run future and in our demonstrated capacity to adjust to changing circumstances. If we retain all that, there is no reason for any downturn to be a deep one.22

2.51 An integral part of the buffer against a downturn in employment is decent wages. Decent wages are part of the defence against a serious recession. In the current economic circumstances, the importance of maintaining real wages must be recognised. In terms of measures to stimulate demand, maintaining real wages and a focus on jobs are compatible and absolutely essential to the health of the economy.
3

Impact of AFPC Wages Review 2008 Decision

3.1 The period October 2007 to October 2008 was one of continued economic prosperity and low unemployment.

3.2 The RBA Governor in a speech given in November 2008 stated:

   Employment, for example, remained quite solid, and unemployment very low, through into October, ...\(^{23}\)

3.3 Inflation, however, to the September quarter 2008 was higher than forecast. Inflation forecasts by RBA (3.5 per cent) and included in Budget 2008 (2.75 per cent) were exceeded.

Impact on real minimum wages

3.4 The $21.66 per week increase awarded in the AFPC Wages Review was equal to a 4.15 per cent increase at the Federal Minimum Wage, and lower percentage increases above the FMW. CPI for the year to September quarter 2008 was 5.0 per cent. As shown in Table 3.1, AFPC Decision 2/2008 resulted in real wage reductions for all minimum wages workers.\(^{24}\)

---

\(^{23}\) RBA Governor, The Economic Situation, Address to CEDA Annual Dinner Melbourne, 19 November 2008

\(^{24}\) The ACTU request of $26.00 was equal to 5 per cent at the Federal Minimum Wage.
### Table 3.1: Real Wage change per week Decision 2/2008

**1 October 2007 to 1 October 2008**

<table>
<thead>
<tr>
<th></th>
<th>Real change $ per hour</th>
<th>Real change % per hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>C14</td>
<td>-$0.11</td>
<td>-0.8%</td>
</tr>
<tr>
<td>C13</td>
<td>-$0.14</td>
<td>-0.9%</td>
</tr>
<tr>
<td>C12</td>
<td>-$0.17</td>
<td>-1.1%</td>
</tr>
<tr>
<td>C11</td>
<td>-$0.19</td>
<td>-1.2%</td>
</tr>
<tr>
<td>C10</td>
<td>-$0.24</td>
<td>-1.4%</td>
</tr>
<tr>
<td>C9</td>
<td>-$0.26</td>
<td>-1.5%</td>
</tr>
<tr>
<td>C8</td>
<td>-$0.29</td>
<td>-1.6%</td>
</tr>
<tr>
<td>C7</td>
<td>-$0.32</td>
<td>-1.7%</td>
</tr>
<tr>
<td>C6</td>
<td>-$0.36</td>
<td>-1.9%</td>
</tr>
<tr>
<td>C5</td>
<td>-$0.39</td>
<td>-1.9%</td>
</tr>
<tr>
<td>C4</td>
<td>-$0.41</td>
<td>-2.0%</td>
</tr>
<tr>
<td>C3</td>
<td>-$0.47</td>
<td>-2.1%</td>
</tr>
<tr>
<td>C2a</td>
<td>-$0.49</td>
<td>-2.2%</td>
</tr>
<tr>
<td>C2b</td>
<td>-$0.54</td>
<td>-2.3%</td>
</tr>
<tr>
<td>C1a</td>
<td>-$0.65</td>
<td>-2.5%</td>
</tr>
<tr>
<td>C1b</td>
<td>-$0.82</td>
<td>-2.8%</td>
</tr>
</tbody>
</table>

Source: ACTU calculations

3.5  Inflation over the period June 2005 to September 2008 was 12.2 per cent. Over that period only the Federal Minimum Wage has retained its real value. The real wage effect of the three AFPC decisions over the period June 2005 to October 1 2008 is shown in Table 3.2.\(^{25}\)

---

\(^{25}\) The ACTU Claims of $84, cumulatively, over the three reviews would have resulted in increases in real wages up to classification C6.
### Table 3.2: Real Wage change per week Decisions 1/2006, 3/2007 and 2/2008

<table>
<thead>
<tr>
<th>Weekly Pay Rates</th>
<th>% increase over</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate before 2006 decision</td>
<td>Rate after 2006 decision</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CPI Inflation</th>
<th>%</th>
<th>%</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>C14</td>
<td>$484.50</td>
<td>$511.86</td>
<td>$522.12</td>
<td>$543.78</td>
</tr>
<tr>
<td>C13</td>
<td>$501.10</td>
<td>$528.58</td>
<td>$538.84</td>
<td>$560.50</td>
</tr>
<tr>
<td>C12</td>
<td>$523.60</td>
<td>$551.00</td>
<td>$561.26</td>
<td>$582.92</td>
</tr>
<tr>
<td>C11</td>
<td>$544.50</td>
<td>$571.90</td>
<td>$582.16</td>
<td>$603.82</td>
</tr>
<tr>
<td>C10</td>
<td>$578.20</td>
<td>$605.72</td>
<td>$615.98</td>
<td>$637.64</td>
</tr>
<tr>
<td>C9</td>
<td>$599.10</td>
<td>$626.62</td>
<td>$636.88</td>
<td>$658.54</td>
</tr>
<tr>
<td>C8</td>
<td>$619.90</td>
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<tr>
<td>C7</td>
<td>$638.80</td>
<td>$666.14</td>
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<tr>
<td>C6</td>
<td>$680.50</td>
<td>$707.94</td>
<td>$713.26</td>
<td>$734.92</td>
</tr>
<tr>
<td>C5</td>
<td>$701.40</td>
<td>$723.52</td>
<td>$728.84</td>
<td>$750.50</td>
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<td>C4</td>
<td>$722.20</td>
<td>$744.42</td>
<td>$749.74</td>
<td>$771.40</td>
</tr>
<tr>
<td>C3</td>
<td>$763.90</td>
<td>$785.84</td>
<td>$791.16</td>
<td>$812.82</td>
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<tr>
<td>C2(a)</td>
<td>$784.80</td>
<td>$806.74</td>
<td>$812.06</td>
<td>$833.72</td>
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<tr>
<td>C2(b)</td>
<td>$822.50</td>
<td>$844.36</td>
<td>$849.68</td>
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<td>C1(a)</td>
<td>$906.00</td>
<td>$927.36</td>
<td>$933.28</td>
<td>$954.94</td>
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<tr>
<td>C1(b)</td>
<td>$1,031.10</td>
<td>$1,052.98</td>
<td>$1,058.30</td>
<td>$1,079.96</td>
</tr>
</tbody>
</table>

Source: ACTU Calculations

3.6 The table shows that 92 per cent of minimum wages workers have seen their wages go backwards in real terms over the period June 2005 to October 2008.

3.7 The wages of minimum wage workers should not go backwards in real terms.

3.8 Inflation is projected, by the RBA, to increase by 1¼ per cent over the year to the June quarter 2009 and by 2½ per cent over the year to December quarter 2009. Treasury forecasts inflation of 2 per cent over 2008-09 and 2009-10.
3.9 Minimum wage workers are already behind in real terms over the last three years.

3.10 Taking these factors into account, the ACTU has decided to request a flat dollar increase of $21 per week.

3.11 The percentage changes to existing minimum wage rates arising from a $21 per week increase are shown in Table 3.3.

Table 3.3 Percentage Increase: ACTU $21.00 Request

<table>
<thead>
<tr>
<th>Classification</th>
<th>1 October 2008 wage rate per week</th>
<th>Wage Rate per week with ACTU $21.00 Request</th>
<th>Percentage Increase</th>
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<tbody>
<tr>
<td>C14</td>
<td>$543.78</td>
<td>$564.78</td>
<td>3.86</td>
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<tr>
<td>C13</td>
<td>$560.50</td>
<td>$581.50</td>
<td>3.75</td>
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<td>C12</td>
<td>$582.92</td>
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<td>C11</td>
<td>$603.82</td>
<td>$624.82</td>
<td>3.48</td>
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<td>C10</td>
<td>$637.64</td>
<td>$658.64</td>
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<td>C9</td>
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<td>$698.06</td>
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<td>$734.92</td>
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<td>$771.40</td>
<td>$792.40</td>
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<td>$812.82</td>
<td>$833.82</td>
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<td>$833.72</td>
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</tr>
<tr>
<td>C1a</td>
<td>$954.94</td>
<td>$975.94</td>
<td>2.20</td>
</tr>
<tr>
<td>C1b</td>
<td>$1079.96</td>
<td>$1100.96</td>
<td>1.94</td>
</tr>
</tbody>
</table>

Source: ACTU Calculations

Conclusion

3.12 Maintaining the real value of minimum wages is paramount to allowing minimum wages workers to keep pace with inflation and maintain their purchasing power. A further reduction in the real value of minimum wages must not be the outcome of the current AFPC Wages Review.
Profile of Minimum Wages Workers, Industries and Occupations

4.1 The AFPC estimates that 1.3 million workers are pay scale reliant.\(^{26}\) For one reason or another, these workers are not in a position to bargain with their employer, and therefore rely on decisions of the AFPC for wage adjustments.

4.2 The ABS survey which identifies method of pay setting and therefore the characteristics of award or pay scale minimum wages workers is presently undertaken biennially. The May 2008 survey results are not yet to hand.

4.3 Therefore the ACTU relies on the major points we made in our submission of March 2008 based on the ABS Employee Hours and Earnings May 2006.\(^{27}\)

4.4 Minimum wage workers are paid significantly less than the remainder of the workforce. In May 2006 minimum wage earners earned on average $491.10 per week whilst the average for all methods of pay

\(^{26}\) AFPC, Media Release, Commission Announces $21 Per Week Increase In Minimum Wages, 8 July 2008

\(^{27}\) ABS Cat No 6306.0 Employee Earnings and Hours, May 2006
setting was $852.30 per week (Table 4.1). There is no wage incentive to remain on minimum rates.

Table 4.1: Methods of Pay Setting: Sector

<table>
<thead>
<tr>
<th>Private Sector</th>
<th>Males</th>
<th>Females</th>
<th>Persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Award Only</td>
<td>547.60</td>
<td>444.90</td>
<td>485.70</td>
</tr>
<tr>
<td>All Methods of pay setting</td>
<td>985.70</td>
<td>615.70</td>
<td>812.30</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>All Sectors</th>
<th>Males</th>
<th>Females</th>
<th>Persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Award Only</td>
<td>552.70</td>
<td>450.90</td>
<td>491.10</td>
</tr>
<tr>
<td>All Methods of pay setting</td>
<td>1020.30</td>
<td>677.80</td>
<td>852.30</td>
</tr>
</tbody>
</table>

Source: ABS Cat No 6306.0 Table 12

4.5 For non-managerial employees, all sectors, and on average, male award only employees earned $18.00 per hour and female award only employees earned $18.60 per hour, while for all methods of pay setting males earned $26.30 per hour and females $23.20 per hour (Table 4.2). For persons, a minimum wage worker earned on average $18.30 per hour which is significantly less than the $24.90 earned on average by all other workers.

Table 4.2: Methods of pay setting, Average Weekly Total Cash Earnings: Non-managerial employees Australia

<table>
<thead>
<tr>
<th></th>
<th>Average Weekly Total Cash Earnings*</th>
<th>Average Hourly Cash Earnings*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Males</td>
<td>Females</td>
</tr>
<tr>
<td>Minimum Wages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Award only)</td>
<td>550.30</td>
<td>448.50</td>
</tr>
<tr>
<td>Registered collective agreements</td>
<td>1038.00</td>
<td>729.80</td>
</tr>
<tr>
<td>Unregistered collective agreements</td>
<td>873.00</td>
<td>580.20</td>
</tr>
<tr>
<td>Registered individual agreements</td>
<td>1119.30</td>
<td>689.10</td>
</tr>
<tr>
<td>Unregistered individual arrangements</td>
<td>1021.40</td>
<td>719.10</td>
</tr>
<tr>
<td>All methods of setting pay</td>
<td>946.00</td>
<td>652.00</td>
</tr>
</tbody>
</table>

* comprises regular wages and salaries in cash, including amounts salary sacrificed.
Source: ABS EEH May 2006 6306.0 Table 20
4.6 Minimum wages workers earned less on average than employees whose wages were set under all other methods of setting pay (Table 4.3).

Table 4.3: Earnings by Method of Setting Pay by Private Sector and All Sectors

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

**estimate has a standard error greater than 50% and is considered too unreliable for general use
Source: ABS Employee Earnings and Hours 6306.0 May 2006 unpublished data.

4.7 Whether measured by proportion of all employees in the industry who are minimum wage earners or proportion of minimum wage earners employed in the industry, four industries are identified as industries in which minimum wages workers predominate – Retail, Accommodation, Cafes and Restaurants, Health and Community Services, and Property and Business Services (Table 4.4). In each industry, minimum wages are, on average, less than those determined under all methods of pay setting.
### Table 4.4: Pay Scale Reliance and Average Total Weekly Cash Earnings by Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Proportion of all employees in Industry who are Award Reliant^%</th>
<th>Proportion of All Award Reliant Employees by Industry^%</th>
<th>Award Reliant Average Weekly Total Cash Earnings $(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>$497.40</td>
</tr>
<tr>
<td>Health and Community Services</td>
<td>25.4</td>
<td>15.9</td>
<td>$569.20</td>
<td>$786.60</td>
</tr>
<tr>
<td>Personal and other services</td>
<td>23.4</td>
<td>4.6</td>
<td>$437.60</td>
<td>$775.60</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>$663.80</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>12.8</td>
<td>3.3</td>
<td>$527.00</td>
<td>$931.40</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><strong>Total</strong></td>
<td><strong>19.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>$491.10</strong></td>
<td><strong>852.30</strong></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) Table 15 and ABS Cat No 6291.0.55.003 Labour Force, Australia, Detailed Quarterly, February 2007

4.8 Community and personal service workers, Sales workers and Labourers and related workers are the predominant occupations for minimum wages workers (Table 4.5). Within each occupation on average minimum wages are less than those determined by all methods of setting pay wage rates for the occupation.
Table 4.5: 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 employees in occupation who are Pay Scale Reliant %</th>
<th>Pay Scale Reliant Average Weekly Total Cash Earnings*</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>Labourers</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>Total All Occupations</td>
<td>19.0</td>
<td>$491.10</td>
<td>$852.30</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)

4.9 Minimum wage earners are more likely to be employed as casuals. 23 per cent of all employees are employed on a casual basis. However 47 per cent of minimum wage workers are employed on a casual basis (Table 4.6). 50 percent of women who are minimum wage earners are employed as casuals whilst 41 percent of male minimum wage workers are employed as casuals.

Table 4.6: Methods of Pay Setting: Proportion of Casual Employees

<table>
<thead>
<tr>
<th></th>
<th>Males</th>
<th>Females</th>
<th>Persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Award Only</td>
<td>41%</td>
<td>50%</td>
<td>47%</td>
</tr>
<tr>
<td>All methods of pay setting</td>
<td>18%</td>
<td>27%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: ABS Cat No 6306.0 Table 20

4.10 Compared to an average proportion for all employer sizes of 19.0 per cent of employees, minimum wages workers are overrepresented in
businesses sized 20-49 at 27.2 per cent of employees, in businesses sized 59-99 at 26.90 per cent of employees, in businesses sized under 20 at 25.2 per cent of employees and in businesses sized 100-499 at 22.6 per cent of employees (Table 4.7).

Table 4.7: 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>
</tr>
</thead>
<tbody>
<tr>
<td>Under 20 employees</td>
<td>28.1</td>
<td>37.6</td>
</tr>
<tr>
<td>20 to 49 employees</td>
<td>27.2</td>
<td>17.3</td>
</tr>
<tr>
<td>50 to 99 employees</td>
<td>26.0</td>
<td>10.6</td>
</tr>
<tr>
<td>100 to 499 employees</td>
<td>22.6</td>
<td>21.8</td>
</tr>
<tr>
<td>500 to 999 employees</td>
<td>14.1</td>
<td>5.4</td>
</tr>
<tr>
<td>1000 and over employees</td>
<td>5.3</td>
<td>7.3</td>
</tr>
<tr>
<td>Total</td>
<td>19.0</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: ABS Cat No. 6306.0 EEH May 2006 unpublished data.

4.11 Women are disproportionately represented amongst the ranks of minimum wage workers. In May 2006 25 per cent of female employees were minimum wage workers compared to 17.0 per cent of males.²⁸

4.12 Looking at current average weekly earnings, Full Time Adult Average Weekly earnings for Health and Community Services, Retail and Accommodation, Cafes and Restaurants are lower than earnings for all other industries, individually and on average (Table 4.8).

²⁸ ibid., Table 20
### Table 4.8: Persons Full Time Average Weekly Ordinary Time Earnings by Industry November 2008

<table>
<thead>
<tr>
<th>Industry</th>
<th>$ per week</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>1965.2</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>1442.3</td>
</tr>
<tr>
<td>Electricity, Gas and Water Supply</td>
<td>1395.3</td>
</tr>
<tr>
<td><strong>Property and Business Services</strong></td>
<td>1283.4</td>
</tr>
<tr>
<td>Education</td>
<td>1216.2</td>
</tr>
<tr>
<td>Communication Services</td>
<td>1199.3</td>
</tr>
<tr>
<td>Construction</td>
<td>1194.5</td>
</tr>
<tr>
<td>Cultural and Recreational Services</td>
<td>1146.2</td>
</tr>
<tr>
<td>Personal and Other Services</td>
<td>1123.4</td>
</tr>
<tr>
<td>Transport and Storage</td>
<td>1120.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1100.3</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>1096.8</td>
</tr>
<tr>
<td><strong>Health and Community Services</strong></td>
<td>1091.9</td>
</tr>
<tr>
<td><strong>Retail Trade</strong></td>
<td>881.3</td>
</tr>
<tr>
<td><strong>Accommodation, Cafes and Restaurants</strong></td>
<td>836.2</td>
</tr>
<tr>
<td><strong>All Industries</strong></td>
<td>1165.3</td>
</tr>
</tbody>
</table>

Source: ABS Cat No 6302.0

---

**AFPC commissioned research on minimum wages employees and industries**

4.13 In research commissioned by the AFPC, ACIL Tasman find strong long term employment growth in the Accommodation, cafes and restaurants industry.

There has been a long term upward trend in employment in the Accommodation, cafes and restaurants industry. Employment in the industry has increased from 325,000 people in May 1990 through to 521,800 in May 2008. 29

4.14 ACIL Tasman note that the Australian Government (2007) has projected employment growth in the Accommodation, cafes and restaurants industry of 1.5% per annum to 2011-12 which exceeds the

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29 ACIL Tasman, Accommodation, Cafes and Restaurants, Industry Profile, Report commissioned by the AFPC, 2008, p43
all industries projected growth of 1.3%. The projection is positive for all industry classes ranging from 0.3 per cent per annum in Clubs (hospitality) to 2.2 per cent per annum in Pub, taverns and bars.

4.15 ACIL Tasman find that wage rates in the industry are low compared to all industries:

- Compared to an average hourly wage rate across all industries of the economy of $25.11 in May 2006, wage rates in the industry classes comprising Accommodation, cafes and restaurants were between 17.2 per cent and 26.3 per cent below the average wage rates across all industries.
- The two lowest paid classes per hour are workers in Cafes and restaurants and Accommodation, where the average hourly wage rate was $18.60 or 26.3 per cent below the average across all industries.
- Full time average total earnings in the Accommodation, cafes and restaurants industry were $868 per week in May 2007 compared to $1,136 across all industries. Earnings in the industry are the second lowest of all industries and only surpass Retail trade earnings of $857 per week.
- A significantly higher proportion of employees in Accommodation, cafes and restaurants earn below $600 per week, and a significantly lower proportion earn more than $1300 per week relative to the average across all industries.
- Median earnings in Accommodation, cafes and restaurants in May 2006 were $729 while in All Industries, median earnings were $926 per week. 30

30 ibid., pp 5, 71, 77
4.16 In further research commissioned by the AFPC, ACIL Tasman also find strong long term employment growth in the Health and Community Services industry.\textsuperscript{31}

Employment in the health and community services industry has grown strongly over time, from 658,000 in May 1990 to 1.12 million in May 2008. Over the last 15 years, employment growth in the industry has averaged 3.3 per cent against employment growth of 2.2 per cent across all industries.\textsuperscript{32}

4.17 ACIL Tasman find the Australian Government in October 2007 projected above annual employment growth in Health and Community Services of 3.0 per cent per annum to 2011-12. Within the industry, the fastest growing industry class is projected to be Child care services (3.7 per cent per annum). ACIL Tasman find:

These projections suggest that the Health and Community Services industry will be a significant creator of jobs for the Australian economy in the next three to four years.\textsuperscript{33}

4.18 ACIL Tasman find employees in Community services earned a below average hourly wage of $22.00. Within Community services, the lowest paid workers are in Child care services, where average full-time wages were $18.20 per hour in May 2006.

\textbf{Business Entry Rates and Survival Rates}

4.19 Minimum wages in Australia are not deterring business entry rates into industries in which minimum wages workers are predominantly

\textsuperscript{31} ACIL Tasman, Health and Community Services Industry Profile, Report commissioned by the AFPC, 2008
\textsuperscript{32} ibid., p3
\textsuperscript{33} ibid., p33
employed or impacting business survival rates in low-paid industries, when compared to the economy as a whole.

4.20 ABS data on Counts of Australian Businesses show that over the period 2003-04 to 2006-07, the rate of business start-ups in two of the industries in which minimum wages workers are predominately found was greater than in the economy as a whole. Further, business entries in the retail industry in two years were greater than in the economy as a whole, and in the other two years approximate in rate to economy wide start-ups.

Table 4.9: Business Entry Rates by Industry: 2003-04 - 2006-07

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Accommodation, Cafes and Restaurants</td>
<td>23.2</td>
<td>21.0</td>
<td>18.9</td>
<td>19.2</td>
</tr>
<tr>
<td>Property and Business Services</td>
<td>18.8</td>
<td>17.9</td>
<td>16.8</td>
<td>17.5</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>17.8</td>
<td>17.5</td>
<td>15.9</td>
<td>16.5</td>
</tr>
<tr>
<td>Health and Community Services</td>
<td>12.7</td>
<td>12.6</td>
<td>12.5</td>
<td>13.1</td>
</tr>
<tr>
<td>All industries</td>
<td>17.4</td>
<td>16.9</td>
<td>16.2</td>
<td>17.0</td>
</tr>
</tbody>
</table>

Source: ABS Cat No 8165.0

4.21 During the period of the AFPC operation, in each of the industries where minimum wages workers are predominantly found, there has been an increase in number of businesses operating in the industry, from June 2005 to June 2007.
Table 4.10: Number of Businesses by Industry June 2005 to June 2007

<table>
<thead>
<tr>
<th>Number of businesses</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jun-05</td>
</tr>
<tr>
<td>Health and Community Services</td>
<td>86,946</td>
</tr>
<tr>
<td>Property and Business Services</td>
<td>480,936</td>
</tr>
<tr>
<td>Accommodation, Cafes and Restaurants</td>
<td>54,686</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>216,960</td>
</tr>
</tbody>
</table>

Source: ABS cat No 8165.0

4.22 The business survival rates over the period June 2003 to June 2007 in two of the industries in which minimum wages workers are predominately found were greater than in the economy as a whole, and broadly comparable in the other two industries.

Table 4.11: Business Survival Rates June 2003 to June 2007

<table>
<thead>
<tr>
<th>Survival Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and Community Services</td>
</tr>
<tr>
<td>Property and Business Services</td>
</tr>
<tr>
<td>Retail Trade</td>
</tr>
<tr>
<td>Accommodation, Cafes and Restaurants</td>
</tr>
<tr>
<td>All Industries</td>
</tr>
</tbody>
</table>

Source: ABS cat No 8165.0

4.23 The Business Entries Survival rate over the same period in two of the industries in which minimum wages workers are predominately found were greater than in the economy as a whole, and comparable in the other two industries.
### Table 4.12: Entries Survival Rates: June 2003 to June 2007

<table>
<thead>
<tr>
<th>Industry</th>
<th>Survival Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and Community Services</td>
<td>59.0</td>
</tr>
<tr>
<td>Property and Business Services</td>
<td>50.8</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>48.2</td>
</tr>
<tr>
<td>Accommodation, Cafes and Restaurants</td>
<td>45.5</td>
</tr>
<tr>
<td>All Industries</td>
<td>48.6</td>
</tr>
</tbody>
</table>

Source: ABS Cat No 8165.0
5 The labour market

Minimum wages and employment

5.1 Moderate, regular, predictable increases in minimum wages do not create unemployment.

5.2 In its Wages Review 2008 Reasons for Decision the AFPC stated:

The Commission also believes the impact on employment and unemployment will be relatively minor in the context of current economic circumstances. 34

5.3 As the AFPC in its second Monitoring report finds:

However, the Commission’s general Wage-Setting Decisions do not appear to have had a discernible negative effect on employment in low-skilled occupations compared to high-skilled occupations. 35

5.4 In commissioned research for the AFPC, Weame, Southwell and Selwyn report on strategies small and medium businesses in the Retail, Health and community services (H&CS), and Accommodation, cafes and restaurants (ACR) industries have considered or implemented in

34 AFPC Wages Review Decision 2008, p.9
35 AFPC Economic and Social Indicators – Monitoring Report, January to June 2008, p22
response to the impact on their businesses of changes to the FMW and Pay Scales.\textsuperscript{36}

5.5 The authors report the top five strategies that participants have implemented when wage rates increase.

**Table 5.1: Strategy Implemented by industry**

<table>
<thead>
<tr>
<th>Strategy ranking</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ACR</td>
</tr>
<tr>
<td>1</td>
<td>Personally work increased hours</td>
</tr>
<tr>
<td>2</td>
<td>Reduce number of staff per shift</td>
</tr>
<tr>
<td>3</td>
<td>Increase prices</td>
</tr>
<tr>
<td>4</td>
<td>Reduce staff hours</td>
</tr>
<tr>
<td>5</td>
<td>Reduce overall staff numbers</td>
</tr>
<tr>
<td></td>
<td>H&amp;S S</td>
</tr>
<tr>
<td>1</td>
<td>Training to increase productivity</td>
</tr>
<tr>
<td>2</td>
<td>Personally work increased hours</td>
</tr>
<tr>
<td>3</td>
<td>Increase prices</td>
</tr>
<tr>
<td>4</td>
<td>Train existing staff to fill vacancy</td>
</tr>
<tr>
<td>5</td>
<td>Reduce staff hours</td>
</tr>
<tr>
<td></td>
<td>RETAIL</td>
</tr>
<tr>
<td>1</td>
<td>Personally work increased hours</td>
</tr>
<tr>
<td>2</td>
<td>Increase prices</td>
</tr>
<tr>
<td>3</td>
<td>Training to increase productivity</td>
</tr>
<tr>
<td>4</td>
<td>Reduce overtime with penalties</td>
</tr>
<tr>
<td>5</td>
<td>Reduce staff hours</td>
</tr>
</tbody>
</table>

Source: TNS Social Research

5.6 For Health & Community Services and Retail the strategy to reduce staff hours is ranked fifth of the top five strategies for business in those industries, but reducing overall staff numbers is not in the top five strategies. For Accommodation, cafes and restaurants reducing overall staff numbers is ranked fifth.

5.7 For business delineated in terms of size, reduce staff hours is ranked no higher than 3\textsuperscript{rd} (medium size) or 4\textsuperscript{th} (micro size). Reducing overall staff numbers does not rank in the top five strategies.

Table 5.2: Strategy Implemented by size of business

<table>
<thead>
<tr>
<th>Strategy ranking</th>
<th>Size of business</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Micro</td>
<td>Personally work increased hours</td>
</tr>
<tr>
<td>2</td>
<td>Micro</td>
<td>Increase prices</td>
</tr>
<tr>
<td>3</td>
<td>Small</td>
<td>Reduce overtime with penalties</td>
</tr>
<tr>
<td>4</td>
<td>Small</td>
<td>Reduce staff hours</td>
</tr>
<tr>
<td>5</td>
<td>Medium</td>
<td>Change operating hours</td>
</tr>
</tbody>
</table>

Source: TNS Social Research

Labour market

5.8 The most recent ABS data indicate that the while total employment continues to increase, albeit at a slow pace, with the labour force participation rate remaining at a high level, unemployment has started to increase.

Employment

5.9 ABS Labour Force data for February 2009 records employed persons increasing by 0.8 per cent in trend terms, 0.7 per cent seasonally adjusted, over the year to February 2009. In seasonally adjusted terms, employed persons grew by 0.7 per cent or 72,500 persons from February 2008 to February 2009. Employment grew by 1,800 persons in February 2009.

5.10 Since June 2005 the number of employed persons has increased by 806,900 persons.
5.11 Seasonally adjusted, full time jobs decreased by 53,800 in February 2009, by 36,900 over the year to February 2009 but have increased by 486,700 persons since June 2005.

Source: ABS Cat No 6202.0.
5.12 The part time proportion of total employment has been in the range of 28 – 30 per cent since June 2005.

Unemployment

5.13 February 2009 Labour force data record the unemployment rate in trend terms at 4.9 per cent and seasonally adjusted terms 5.2 per cent. Unemployed persons, in seasonally adjusted terms, increased by 157,900 from February 2008 to February 2009, and by 47,100 in February 2009.

5.14 Since June 2005 unemployed persons has increased by 67,100 persons, while the unemployment rate has increased from 5.0 per cent to 5.2 per cent.

![Figure 5.3: Unemployment rate](image)

Source: ABS Cat No 6202.0

Labour Force Participation
5.15 The Labour Force participation rate for February 2009 was 65.5 per cent, seasonally adjusted, having increased by 0.2 per cent over the year to February 2009. The labour force increased by 230,400 persons over the year to February 2009, and by 48,900 persons in February 2009.

5.16 In seasonally adjusted terms, the male participation rate fell from 72.5 per cent in February 2008 to 72.2 per cent in February 2009. The female participation rate was 58.4 per cent in February 2008 rising to 59.0 per cent in February 2009.

![Figure 5.4: Labour Force Participation Rate](image)

Source: ABS Cat No 6202.0

**Underemployment**

5.17 ABS quarterly data on Underemployed Workers indicates that the Labour Force Underutilisation rate has declined from 11.4 per cent in August 2006 to 10.8 per cent in November 2008, and the Underemployment rate has declined from 6.7 per cent to 6.4 per cent
over the same period. Over recent months both series show a modest rise, consistent with the slowing of employment growth and decline in full time employment.

**Figure 5.5: Labour Underutilisation rates August 2006 - November 2008**

Source: ABS Cat No 6105.0

**Employment Growth by States**

5.18 Over the year to February 2009 employment growth, seasonally adjusted, was positive in all States other than Victoria and NSW. Since June 2005 all States have experienced solid employment growth.

**Table 5.3: Employment Growth by State (*Trend data)**

<table>
<thead>
<tr>
<th>State</th>
<th>Jun 05 - Feb 09</th>
<th>Feb 08 - Feb 09</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>153,500</td>
<td>-28,000</td>
</tr>
<tr>
<td>VIC</td>
<td>179,000</td>
<td>-12,300</td>
</tr>
<tr>
<td>QLD</td>
<td>256,900</td>
<td>61,300</td>
</tr>
<tr>
<td>SA</td>
<td>49,900</td>
<td>4,300</td>
</tr>
<tr>
<td>WA</td>
<td>129,700</td>
<td>23,900</td>
</tr>
<tr>
<td>TAS</td>
<td>24,500</td>
<td>12,000</td>
</tr>
<tr>
<td>NT*</td>
<td>22,200</td>
<td>4,500</td>
</tr>
<tr>
<td>ACT*</td>
<td>16,500</td>
<td>2,400</td>
</tr>
</tbody>
</table>

Source: ABS Cat No 6202.0.55.001
The DEEWR Small Area Labour Market Series shows that in September 2008 of the 19 DEEWR Labour Market Regions, three had unemployment rates below three per cent, five had unemployment rates below four per cent, nine had unemployment rates below five per cent, and only two had unemployment rates above five per cent (but below six per cent). Over the year September 2007 to September 2008, ten of those regions experienced a decline in the rate of unemployment, three no change, and only six regions experienced a rise in the rate of unemployment, and then of 1 per cent or less.

Table 5.4: DEEWR Labour Market Regions Unemployment Rates September Quarter 2007 and September Quarter 2008

<table>
<thead>
<tr>
<th>Labour Market Region</th>
<th>Sep-07</th>
<th>Sep-08</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Territory</td>
<td>3.9</td>
<td>2.4</td>
<td>-1.5</td>
</tr>
<tr>
<td>Perth</td>
<td>2.9</td>
<td>2.6</td>
<td>-0.3</td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>2.4</td>
<td>2.9</td>
<td>0.5</td>
</tr>
<tr>
<td>South Western Australia</td>
<td>4.2</td>
<td>3.0</td>
<td>-1.2</td>
</tr>
<tr>
<td>Southern Queensland</td>
<td>3.3</td>
<td>3.2</td>
<td>-0.1</td>
</tr>
<tr>
<td>Brisbane</td>
<td>3.6</td>
<td>3.4</td>
<td>-0.2</td>
</tr>
<tr>
<td>Central and Northern Queensland</td>
<td>3.2</td>
<td>3.5</td>
<td>0.3</td>
</tr>
<tr>
<td>Greater Western Australia</td>
<td>3.9</td>
<td>3.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Melbourne</td>
<td>4.2</td>
<td>4.1</td>
<td>-0.1</td>
</tr>
<tr>
<td>Eastern Victoria</td>
<td>4.1</td>
<td>4.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Tasmania</td>
<td>5.2</td>
<td>4.1</td>
<td>-1.1</td>
</tr>
<tr>
<td>Riverina</td>
<td>5.0</td>
<td>4.2</td>
<td>-0.8</td>
</tr>
<tr>
<td>Illawarra and South East Coast</td>
<td>5.0</td>
<td>4.3</td>
<td>-0.7</td>
</tr>
<tr>
<td>South Australia Country</td>
<td>3.6</td>
<td>4.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Sydney</td>
<td>4.2</td>
<td>4.5</td>
<td>0.3</td>
</tr>
<tr>
<td>Western NSW</td>
<td>5.6</td>
<td>4.8</td>
<td>-0.8</td>
</tr>
<tr>
<td>Adelaide</td>
<td>4.9</td>
<td>4.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Western Victoria</td>
<td>4.9</td>
<td>5.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Hunter and North Coast</td>
<td>4.6</td>
<td>5.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Australia</td>
<td>4.1</td>
<td>4.0</td>
<td>-0.1</td>
</tr>
</tbody>
</table>

Source: DEEWR
Job Vacancies

5.20 The monthly DEEWR Vacancy Report includes information on the number of vacancies on Australian JobSearch, the government run jobs online database. The data are for number of positions available rather than the number of vacancy advertisements by employers.

5.21 The number of positions available posted on the Australian JobSearch database in February 2009 was 40,528. Employers are continuing to hire, albeit at lower rates than in previous months.

5.22 A drop in job advertisements should not be interpreted as indicating no hiring. Job vacancy data does not tell the whole story on positions available. As the “Employers Guide” website notes:
Remember that only an estimated 20% of positions are to be found in the newspapers. Most positions are filled by 'word of mouth'.

5.23 ABS Job Search Experience data for July 2008 finds:

Almost three quarters (980,700 or 70%) of employee (excluding OMIEs) job starters reported that they had prior knowledge that work was available before attaining the job. Over one-third (36%) of these were aged 15–24 years and 17% were aged 45 years and over. Overall, knowledge about the availability of work was largely sourced from friends, relatives or company contacts (45%) and advertisements on the Internet (20%).

Detailed Labour Force data

5.24 Commencing with the February 2009 quarter, the industry and occupation data in the ABS quarterly labour force data are categorised according to the ANZSIC 2006 and ANZSCO 2005 standards. The industry and occupation data which follows reflects that categorisation.

Hours Worked

5.25 The Labour Force measure of total aggregate weekly hours worked in the Australian economy increased by 21,374,600 hours over the period August 2005 to February 2009. Employee aggregate weekly hours increased by 26,475,200 hours over the same period.

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38 ABS Job Search Experience Cat No 6222.0 July 2008, p9
5.26 Aggregate hours and employee hours decreased over the year to the February quarter 2009, reflecting the impact of the GFC. Notwithstanding, employee hours increased in the November 2008 and February 2009 quarters.

5.27 From August 2005 to February 2009 employee hours increased in Health Care and Social Assistance by 13.8 per cent, in Retail by 4.1 per cent and in Accommodation and Food Services by 0.1 per cent. Employee hours in Rental, Hiring and Real Estate Services declined by -0.6 per cent.

Industry Employment

5.28 From August 2005 to February 2009 employee employment increased in Health Care and Social Assistance by 16.4 per cent, in Accommodation and Food Services by 6.8 per cent, and in Retail by 5.7 per cent but was flat in Rental, Hiring and Real Estate Services.

Occupational employment

5.29 From August 2005 to February 2009 employee employment increased for Labourers by 9.1 per cent, and Community and personal service workers by 12.2 per cent. The number of Sales workers was 0.5 per cent higher in the November quarter 2008 than the August quarter 2005, but declined in the February quarter 2009, again reflecting the impact of the GFC.

Occupation Unemployment Rates

5.30 Unemployment rates for Community and personal service workers were lower in August 2008, and for Labourers and Sales workers lower in November 2008 than in August 2005. The unemployment rates for
these occupations have increased in the last one or two quarters, reflecting the impact of the economic slowdown.

**Occupational Job vacancies**

5.31 The DEEWR Vacancy Report – Vacancies on Australian Jobsearch (AJS) for December 2008, January 2009 and February 2009 identify occupation groups in which minimum wage workers predominate – Labourers, Factory and Machine Workers, Food, Hospitality and Tourism and Sales Assistants and Storepersons in the top ten vacancies by occupation. In December 2008 and January 2009 these low paid occupations were in the top four vacancies and in February 2009 in the top six vacancies.39

5.32 Figures 5.7, 5.8 and 5.9 demonstrate that employers are continuing to hire workers in the occupations in which minimum wages workers are predominantly found.

**Figure 5.7: Top Four vacancies by occupation December 2008**

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Vacancies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labourers, Factory &amp; Machine Workers</td>
<td>8816</td>
</tr>
<tr>
<td>Food, Hospitality &amp; Tourism</td>
<td>6307</td>
</tr>
<tr>
<td>Accounting, Finance &amp; Management</td>
<td>4627</td>
</tr>
<tr>
<td>Sales Assistants &amp; Storepersons</td>
<td>3922</td>
</tr>
</tbody>
</table>

Source: DEEWR Vacancy Report December 2008

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39 DEEWR Vacancy Report
Figure 5.8: Top Four vacancies by occupation January 2009

Source: DEEWR Vacancy Report January 2009

Figure 5.9: Top Six vacancies by occupation February 2009

Source: DEEWR Vacancy Report February 2009
Labour market forecasts

5.33 Labour market forecasts are dealt with in the Economic Outlook section.

Conclusion

5.34 Notwithstanding the global recession, total employment continues to grow albeit at a slower pace. Employers continue to place job vacancies, including for minimum wages occupations, albeit at a slower pace. While the unemployment rate has increased to 5.2 per cent in February 2009, the participation rate remains at a high level.

5.35 There is no evidence that the level of minimum wages is having a negative impact on employment.
Movements in wages

6.1 There is steady but moderate real growth in wages in the economy in general. General wages movements are consistent with the ACTU request for a $21.00 per week increase.

Wage Price Index

6.2 The Wage Price Index (WPI) Total Hourly Rates of Pay excluding bonuses Index increased by 1.2 per cent in the December quarter 2008 and by 4.3 per cent over the twelve months to the December quarter 2008, in seasonally adjusted terms.\(^{40}\)

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 2008. The index increased by 4.2 per cent over the twelve months to the December quarter 2008.

6.4 RBA, Minutes of the Monetary Policy Meeting of the Board, 3 March 2009 find:

\(^{40}\) ABS Cat No 6345.0 Labour Price Index December Quarter 2008 (seasonally adjusted terms)
The main news in relation to inflation over the past month was the release of the wage price index for the December quarter, which indicated an increase of 1.2 per cent in the quarter and 4.3 per cent over the year. The slightly stronger rise in the quarter mainly reflected a bunching of some major public-sector agreements; the private-sector component rose more slowly and around the same rates recorded in previous quarters.41

6.5 The WPI is stable.

![Graph showing change in the Wage Price Index](image)

Source: ABS Cat No 6345.0

6.6 Increases over the year to December quarter 2008 in the WPI for ordinary time hourly rates of pay, Private Sector, for the Retail, Health and Community Services and Accommodation, cafes and restaurants industries were 3.8 per cent, 3.7 per cent and 2.8 per cent, all below the All Industries average of 4.3 per cent.

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41 op cit. p3

*ACTU Submission AFPC 2009*
Figure 6.2: Percentage increase in WPI, ordinary time hourly rates of pay, Private Sector Industry, December 2007 - December 2008

Source: ABS Cat No 6345.0

6.7 The ABS, in commentary published with the December Quarter 2008 Labour Price Index, stated:

The Australian Fair Pay Commission (AFPC) 2008 Wage Setting Decision had a date of effect of 1 October 2008. Standard Federal Minimum Wage and all Australian Pay and Classification Scales were increased by $21.66 per week for adults. The increase impacted the December quarter 2008 wage price index.

There has been some variation in the date of effect and timing of AFPC Wage Setting Decisions. The 2006 decision had a date of effect of 1 December 2006, and its impact was upon the March quarter 2007 wage price index. The 2007 decision had a
date of effect of 1 October 2007 and affected the December quarter 2007 wage price index.\footnote{op cit., p5}

6.8 The ACTU expects that, like the 2007 decision, the AFPC 2008 decision will mostly impact on the December quarter 2008 Wage Price Index figures.

**Labour Price Index**

6.9 The Labour Price index (LPI) reflects the total price of labour to the employer. Growth in private sector LPI, excluding bonus for the financial year 2007-2008 was 4.1 per cent.\footnote{ABS Cat No 6345.0 September 2008}

**Table 6.1: Percentage change in LPI excluding bonuses, Private Sector**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>3.6</td>
<td>3.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Vic</td>
<td>3.9</td>
<td>3.2</td>
<td>3.9</td>
</tr>
<tr>
<td>Qld</td>
<td>4.6</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>SA</td>
<td>3.5</td>
<td>3.8</td>
<td>4.8</td>
</tr>
<tr>
<td>WA</td>
<td>4.6</td>
<td>4.8</td>
<td>6.0</td>
</tr>
<tr>
<td>Tas</td>
<td>3.7</td>
<td>3.8</td>
<td>3.2</td>
</tr>
<tr>
<td>NT</td>
<td>3.5</td>
<td>3.5</td>
<td>5.0</td>
</tr>
<tr>
<td>ACT</td>
<td>3.8</td>
<td>3.5</td>
<td>4.1</td>
</tr>
<tr>
<td>Australia</td>
<td>4.0</td>
<td>3.6</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Source: ABS Cat. No. 6345.0
Average Weekly Earnings

6.10 ABS Average Weekly Earnings, seasonally adjusted estimates, data for November 2008, public and private sectors, shows that Full Time Adult average weekly ordinary time earnings increased by 1.6 per cent in the November quarter, to be 5.5 per cent higher over the year. Full time Adult Total earnings increased by 1.4 per cent in the November quarter to be 5.3 per cent higher over the year. All employees total earnings for the year to November 2008 increased by 4.2 per cent, having increased by 1.4 per cent in the quarter. As Figure 6.3 shows the yearly increases to November 2008 in these earnings measures are within the range of increases since November 2005. 44

6.11 ABS Average Weekly Earnings data for the private sector shows that Full Time Adult average weekly ordinary time earnings increased by 1.6 per cent in the November quarter 2008, to be 5.9 per cent higher over

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44 ABS Cat No 6302.0 November 2007
the year. Full time Adult Total earnings also increased by 1.3 per cent in the November quarter to be 5.7 per cent higher over the year.

6.12 All employees total earnings, private sector, for the year to November 2008 increased by 4.5 per cent, having increased by 1.5 per cent in the quarter. As Figure 6.4 shows the yearly increases to November 2008 in these earnings measures are within the range of increases since November 2005.

Figure 6.4: Average Weekly Earnings Private Sector: Change from corresponding quarter of previous year: August 2005 to November 2008

Average non-farm compensation per employee

6.13 The National Accounts measure of wages and salaries, Average non-farm compensation per employee, in seasonally adjusted terms, grew by 1.2 per cent in the December quarter 2008, lower than the 1.9 per cent increase in the June and September quarters 2008, to be 6.0 per cent higher through the year. This is a highly volatile series, and is not the ACTU preferred measure of wage movements.
Agreements

6.14 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’. 45

6.15 The AAWI for agreements registered in the December quarter 2008 was 4.3 per cent. Over the four quarters to December 2008 the AAWI for agreements certified in each quarter has averaged 4.0 per cent, all industries and private sector.

Figure 6.5: AAWI Federal wage Agreements Formalised in the quarter

Source: DEEWR Trends in Federal Enterprise Bargaining

6.16 The number of employees covered by current federal bargaining agreements for All Industries has declined slightly over the last twelve months but is higher than in June 2005. In the Private Sector the

---

employee coverage of federal bargaining agreements continues to increase - by 251,200 since June 2005 and by 54,700 over the last twelve months.

Figure 6.6: Employees covered by Current Agreements: June 2005 to December 2008

6.17 In the four industries in which minimum wages workers are predominantly found the AAWI for agreements registered in the four quarters of 2008 remained steady in the range of 3.2 - 4.6 per cent.
Figure 6.7: AAWI Federal wage Agreements Formalised in the quarter

Source: DEEWR

Management and Executive Remuneration

6.18 The Mercer Quarterly Salary Review in December 2008 showed that the total remuneration of executives classified as Senior Management increased over the year to end December 2008 by 5.5 per cent, higher than in the previous two years. 46

Table 6.2: Senior Management Remuneration Annual percentage movements: December 2006 – December 2008

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Salary</td>
<td>5.1 per cent</td>
<td>4.9 per cent</td>
<td>5.0 per cent</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>5.1 per cent</td>
<td>5.0 per cent</td>
<td>5.5 per cent</td>
</tr>
</tbody>
</table>

Source: Mercer Quarterly Salary Review

6.19 A study of Chief Executive Officer salaries, conducted by the Australian Financial Review, found that in 2008 the total salary

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46 Mercer Human Resource Consulting, Quarterly Salary Review, December 2008. Increases are for individuals in same position, in same organisation from one year to the next.
package of the chief executives of the top 300 share-market-listed companies averaged $2.97 million, up from $2.96 million in 2007. The median salary package was $1.66 million.47

6.20 An analysis by the Australian Council of Super Investors of Chief Executive Officer Pay in the top 100 Australian listed companies found:

Over the period from 2001 to 2007, median fixed remuneration increased by 96.4 percent in total, ... 48

Wages forecasts

6.21 Wages forecasts are dealt with in the Economic Outlook section.

Conclusion

6.22 There is steady but moderate real growth in wages in the general economy. General wages movements are consistent with the ACTU request for a $21.00 per week increase.

6.23 Minimum wages play a crucial role in achieving wage justice for those unable to collectively bargain.

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.49

7.2 The economy grew over the year to the December quarter 2008, although growth was negative in the December quarter. In seasonally adjusted terms the change in inventories detracted 1.6 percentage points from GDP growth in the quarter. However, this augurs well for growth in the medium term as Manufacturers and Retailers restore their inventory levels.

Economic Growth

7.3 Gross Domestic Product (GDP) declined by -0.1 per cent in the December quarter 2008 in trend terms, -0.5 per cent in seasonally adjusted terms, to be 0.6 per cent higher, in trend terms, and 0.3 per cent higher, seasonally adjusted, for the year to December quarter 2008.

7.4 Non Farm GDP (GNFP) declined by -0.3 per cent for the December quarter 2008 to be 0.3 per cent higher than at the same time last year, in

49 ABS Cat No 5206.0 December Quarter 2008

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trend terms. GNFP in seasonally adjusted terms declined by -0.8 per cent in the December quarter 2008, to be flat over the year.

7.5 Commenting on the Australian economy in its February 2009 Statement on Monetary Policy the RBA stated:

... a number of factors are helping to insulate the Australian economy from events abroad. Monetary and fiscal policies are providing substantial stimulus to demand and activity. The Australian financial system remains in better shape than many of its international counterparts, and as a result the monetary transmission process has been working more effectively here than elsewhere. Since the start of the current monetary easing cycle in September, substantial cuts in interest rates have been passed on to household and business borrowers. ... Another factor working to dampen the impact of global events on Australia has been the adjustment of the exchange rate, which depreciated by around 20 per cent in trade-weighted terms over the past year. Reflecting these ameliorating factors, the impact of the global crisis on Australia has to date been less than in other advanced economies.\(^{50}\)

7.6 The RBA, Minutes of the Monetary Policy Meeting of the Board, 3 March 2009 note that recent indicators suggested that economic activity had remained subdued in the early part of the March 2009.\(^{51}\)

**Domestic Final Demand**

7.7 Domestic final demand grew 0.3 per cent in the December quarter 2008, and by 2.9 per cent over the year, in trend terms. In seasonally adjusted

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\(^{50}\) op cit., p2
\(^{51}\) op cit.
terms, growth in the December quarter was 0.1 per cent, and growth over the year was 2.6 per cent.

**Consumption**

7.8 The December quarter 2008 saw total final consumption expenditure increase by 0.1 per cent, to be 1.2 per cent higher over the year, in trend terms. Seasonally adjusted, total final consumption expenditure increased by 0.1 per cent in the quarter and 1.0 per cent over the year.

7.9 Household consumption expenditure was flat in trend terms in the quarter but a positive 0.7 per cent over the year. It grew by 0.1 per cent during the quarter, to be 0.6 per cent higher than a year earlier, seasonally adjusted.

7.10 Commenting on the release of the December quarter National Accounts, the Treasurer stated:

> The Government’s stimulus – along with significant interest rate cuts in recent months - will continue to support consumption in coming months.\(^52\)

7.11 The December quarter National Accounts recorded a rise in household savings. This must be seen in the context of the counterfactual – that is, what would have happened to savings absent the Economic Security stimulus package.

7.12 Notwithstanding, the extent to which the one-off payments and on-off bonuses in the two stimulus packages are fully spent or fully saved, the

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\(^{52}\) Treasurer, Media Release No 21/09, National Accounts – December Quarter 2009, March 2009
ACTU believes they provide an appropriate and timely stimulus to economic activity. We note the RBA Governor in evidence to the House of Representatives Standing Committee on Economics stated:

... even if some of it is saved, it is true that that does not give you a stimulus to spend today. But it does help speed up the process of the balance sheet strengthening, if that is what households want to do, and that is still helping them get to a position where they are able to expand spending, even though that may well be some time down the track.\textsuperscript{53}

**Investment**

7.13 Total private fixed capital formation expenditure grew by 0.8 per cent for the December quarter 2008 to be 6.9 per cent higher over the year, in trend terms. Seasonally adjusted, growth in the quarter was 0.4 per cent and 6.7 per cent for the year.

**Private Business Investment Expenditure**

7.14 Private business investment expenditure increased by 1.1 percent in the December quarter 2008, and by 12.0 per cent over the year, in seasonally adjusted terms.

7.15 Machinery and equipment investment increased by 0.3 per cent in the quarter and by a positive 11.3 per cent over the year. Non-dwelling construction increased by 1.9 per cent in the quarter to be 12.7 per cent higher over the year.

\textsuperscript{53} op cit., pp16-17
7.16 The RBA, Minutes of the Monetary Policy Meeting of the Board, 3 March 2009 find:

... business investment was still growing during the latter months of 2008, and had now recorded seven years of double-digit growth on average.\textsuperscript{54}

Public Investment Expenditure

7.17 Total public fixed capital formation expenditure declined by -1.5 per cent for the December quarter 2008 but increased by 6.8 per cent over the year, in seasonally adjusted terms.

Change in inventories

7.18 In the December quarter 2008, two of the three largest inventory holding industries reduced stocks. The ABS stated:

Changes in inventories detracted 1.6 percentage points from seasonally adjusted GDP growth during the quarter.\textsuperscript{55}

7.19 Inventories have been run down in Manufacturing for the last three quarters and in Retail in the December quarter. However, this augurs well for recovery in the medium term, as Manufacturers and Retailers restore their stock levels.

Net Exports

7.20 In the December quarter 2008 net exports contributed 1.5 percentage points to GDP growth, in seasonally adjusted terms. Exports of goods and

\textsuperscript{54} op cit., p2.
\textsuperscript{55} op cit., p 4
services decreased by -0.1 per cent, trend, in the December quarter, but increased by 3.8 per cent over the year. Seasonally adjusted, exports decreased by -0.8 per cent in the quarter but were up 3.9 cent over the year. Imports of goods and services declined by -1.7 per cent, trend, in the quarter to be 5.2 per cent higher over the year. Seasonally adjusted imports decreased by -6.8 per cent in the quarter to be 2.6 per cent higher over the year.

**Terms of Trade**

7.21 Australia’s terms of trade fell 2.8 per cent in the December quarter 2008. Gains in the previous three quarters, saw the terms of trade over the year to December quarter 2008 increase by 16.5 per cent, in seasonally adjusted terms. The projected decline in the terms of trade over the coming years must be seen in the context of these recent record highs.

![Figure 7.1: Terms of Trade (2006-07 = 100.0)](image)

Source ABS Cat No 5206.0

7.22 The RBA, Minutes of the Monetary Policy Meeting of the Board, 3 March 2009 find:
Movements in commodity prices largely determined Australia’s terms of trade, which peaked in the September quarter following a large run-up over the preceding decade. Although the terms of trade were now falling sharply, and therefore subtracting from growth in Australian national income, the expected level over the next year or so was still relatively high.56

Wage and Profit Shares

7.23 Since June 2005 the profit share of total factor income has increased from 26.2 per cent to 26.6 per cent of total factor income while the wage share of total factor income has decreased from 54.0 per cent to 53.3 per cent.

7.24 In the December quarter 2008 compensation of employees (COE) represented 53.3 per cent of total factor income. In seasonally adjusted terms COE grew by 1.2 per cent in the quarter reflecting a rise of 0.8 per cent in average earnings and a 0.4 per cent rise in the number of wage and salary earners.

7.25 The Gross operating surplus (GOS) of corporations represented 26.6 per cent of total factor income in the December quarter 2008. The quarter saw a 5.4 per cent decrease in GOS in seasonally adjusted terms. The ABS stated:

Though slightly lower then last quarter, this continues the high share of total factor income seen in this series in recent periods.57

7.26 In the February 2009 Statement on Monetary Policy the RBA noted:

56 op cit.
57 ibid., p6
Recent data on business margins, based on ABS profits data, suggest that margins – including in the goods distribution sector that comprises retail & wholesale trade and transport – declined slightly in the September quarter, but remained at above-average levels. 58

7.27 The RBA, Minutes of the Monetary Policy Meeting of the Board, 3 March 2009 find:

The December half-year corporate profit reporting season had revealed that headline profits were significantly lower owing to higher provisioning and write-downs, but underlying profits had been relatively stable. In terms of market capitalisation, the bulk of companies reporting had recorded reasonable increases in underlying profits.59

Figure 7.2: Wage and Profit shares of total factor income:1994-2008

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58 op cit, p61
59 op cit.

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**Productivity**

7.28 Hours worked in the economy and in the market sector both declined, by -0.1 per cent and -0.8 per cent, respectively, in the December quarter, but were higher over the year, by 0.8 per cent and 0.1 per cent, respectively, in seasonally adjusted terms.

7.29 GDP per hour worked over the year to December quarter 2008 declined by -0.5 per cent. GDP per hour worked in the market sector grew by 0.2 per cent in the quarter and by 0.2 per cent over the year, seasonally adjusted.

**Non-farm Real Unit Labour Costs (RULC)**

7.30 The ABS National Accounts measure of Non-farm RULC increased by 1.2 per cent in the December quarter 2008, in seasonally adjusted terms, but declined by -0.2 per cent over the year. Non-farm RULC remain below their level of June 2005.

![Figure 7.3: Unit Labour Costs - Real Non-farm 2005-2008](source: ABS Cat No 5206.0)
Industry Gross Value Added

7.31 Over the year to the December quarter 2008, in seasonally adjusted terms, three of the four industries in which minimum wages workers are predominantly found, had an increase in industry gross value added. Three of the four industries had an increase in industry gross value added over the six months to December quarter 2008.

Table 7.1: Change in Industry Gross Value Added

<table>
<thead>
<tr>
<th>Industry</th>
<th>Dec 07-Dec08</th>
<th>Jun 08-Dec08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture Forestry and Fishing</td>
<td>13.9%</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>3.5%</td>
<td></td>
</tr>
<tr>
<td><strong>Health and Community Services</strong></td>
<td><strong>3.5%</strong></td>
<td><strong>1.2%</strong></td>
</tr>
<tr>
<td>Electricity Gas and Water</td>
<td>3.1%</td>
<td></td>
</tr>
<tr>
<td>Communications</td>
<td>2.8%</td>
<td></td>
</tr>
<tr>
<td>Transport and Storage</td>
<td>2.7%</td>
<td></td>
</tr>
<tr>
<td>Personal and Other Services</td>
<td>1.9%</td>
<td></td>
</tr>
<tr>
<td>Mining</td>
<td>1.7%</td>
<td></td>
</tr>
<tr>
<td><strong>Property and Business Services</strong></td>
<td><strong>1.5%</strong></td>
<td><strong>-3.2%</strong></td>
</tr>
<tr>
<td>Education</td>
<td>1.5%</td>
<td></td>
</tr>
<tr>
<td>Cultural and Recreational Services</td>
<td>0.9%</td>
<td></td>
</tr>
<tr>
<td><strong>Retail Trade</strong></td>
<td><strong>0.5%</strong></td>
<td><strong>0.5%</strong></td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>-1.5%</td>
<td></td>
</tr>
<tr>
<td><strong>Accommodation Cafes and Restaurants</strong></td>
<td><strong>-1.9%</strong></td>
<td><strong>0.2%</strong></td>
</tr>
<tr>
<td>Government and Defence</td>
<td>-2.3%</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-3.4%</td>
<td></td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>-3.4%</td>
<td></td>
</tr>
</tbody>
</table>

Source: ABS Cat No 5206.0

Other current economic conditions indicators

Retail Trade

7.32 The ABS monthly Retail Trade, seasonally adjusted series, estimate for retail turnover increased by 0.2% in January 2009, following an increase of 3.8
per cent in December 2008. In seasonally adjusted terms, in January 2009 retail turnover increased in Food retailing by 1.5 per cent, Clothing and soft good retailing by 0.8% per cent, Other retailing by 0.2 per cent and Cafes, restaurants and takeaway food services by 2.3 per cent.60

7.33 The RBA, Minutes of the Monetary Policy Meeting of the Board, 3 March 2009 find:

Turning to the household sector, retail spending had increased sharply in December, after a run of weak readings in previous months. This produced a rise in spending in inflation-adjusted terms in the December quarter, following three quarters in which sales had been relatively flat. Data released during the meeting showed that the higher level of December sales was maintained in January, with sales rising by a further 0.2 per cent.61

7.34 In the Economic Roundup, Issue 1, 2009, Treasury finds:

A positive impact from the Economic Security Strategy (ESS) was particularly evident among retailers of mid-value to lower value products. Supermarkets, retailers of lower value household items and hardware/home improvement businesses reported a significant spike in December sales. In contrast, retailers of higher end products and consumer durables reported weaker trading conditions.

... Contacts felt that together with lower interest rates and lower petrol prices, the fiscal stimulus had helped to keep consumer confidence higher than it otherwise would be. There were also reports of improved trading conditions being sustained into January and early February.

60 ABS Cat No 8501.0 January 2009
61 op cit. p2
though several contacts considered the effects were beginning to fade.62

7.35 Access Economics is reported to forecast real sales growth for the Retail sector of 0.8 per cent in 2008-09, 0.2 per cent in 2009-10, and 1.7 per cent in 2010-11.63

Housing Finance

7.36 ABS Housing Finance data for January 2009, in seasonally adjusted terms, show the total value of dwelling finance commitments, excluding alterations and additions, increased by 0.7 per cent. Seasonally adjusted, the number and total value of owner occupied housing commitments increased by 3.5 per cent and 2.3 per cent, respectively. This is the fourth consecutive month recording increases in these measures.64 Over the four months the number and total value of owner occupied housing commitments is up 14.9 per cent and 15.6 per cent, respectively.

7.37 In original terms, first home buyers represented 26.5 per cent of total owner occupied housing finance commitments in January 2009. The ABS notes that this is the highest level recorded since the series commenced in 1991.

7.38 In the Economic Roundup, Issue 1, 2009, Treasury finds:

According to a number of residential construction companies, real estate and lending firms, the First Home Owners Boost was having a strong

62 Treasury, Economic Roundup, Issue 1, 2009 p74
64 ABS Cat No 5609.0, January 2009
impact on that market segment. What started as an initial surge in inquiries has begun to translate into loans and approvals should follow.\textsuperscript{65}

7.39 Similarly, the RBA, Minutes of the Monetary Policy Meeting of the Board, 3 March 2009 find:

In a sign of increased demand for housing, patterns of housing finance indicated an increase in housing loan approvals of about 10 per cent over the past few months, partly spurred by the increased incentives for first home buyers to enter the market.\textsuperscript{66}

\textbf{Expected Business Investment}

7.40 The ABS Private New Capital Expenditure and Expected Expenditure for December 2008 shows that the seasonally adjusted series for actual total new capital expenditure rose 6.0\% in the December quarter 2008.\textsuperscript{67}

7.41 The seasonally adjusted estimate of actual expenditure for:

- Buildings and Structures rose 11.5\%
- Equipment, Plant and Machinery rose 1.0\%

7.42 In terms of expected total capital expenditure the ABS states:

Estimate 5 for total capital expenditure for 2008-09 is $98,145 million. This is 14.3\% higher than Estimate 5 for 2007-08. Estimate 5 is 4.4\% lower than Estimate 4 for 2008-09 after sustained growth in the estimate for 2008-09 in the three preceding quarters. Expectations

\textsuperscript{65} op cit., pp74-75
\textsuperscript{66} op cit.
\textsuperscript{67} ABS Cat No 5625.0
for the first half of 2009 were 8.5% lower in the December quarter survey than when collected in the September quarter.

Estimate 1 for total capital expenditure for 2009-10 is $79,866 million. This is 0.6% higher than Estimate 1 for 2008-09.68

Figure 7.4: Actual and Expected Total Capital Expenditure

Source: ABS Cat No 5625.0

7.43 The RBA Assistant Governor (Economic) in a recent speech stated:

... last week's capital expenditure survey reported continued strength in investment spending through to the end of 2008. In fact the recent period has been one of remarkably strong investment, with growth averaging in the double digits for the past five years.69

Inflation

7.44 The Consumer Price Index peaked at 5.0 per cent in the September quarter 2008. Current Australian inflation is 3.7 per cent in the December

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68 ibid., p6
69 op cit., pp. 9-10

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quarter 2008, having declined by 0.3 per cent in the quarter on the back of reduced petrol prices. 70

7.45 The average of the RBA estimates of underlying inflation in the December quarter 2008 is 4.35 per cent.

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

**Interest Rates**

7.47 The RBA has reduced its cash rate by 400 basis points since the RBA Board meeting of September 2008. RBA analysis indicates substantial flow-on of these reductions to housing finance. In Australia most home loans are variable rate, meaning the reduction is passed on in savings to mortgagees.

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70 ABS Cat No 6401.0 December quarter 2008

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Small business loan rates have also declined. A high proportion of small business loans are variable rate, meaning interest rate reductions are passed on in savings to business.

**Figure 7.6: Australian Small Business Interest Rates**

![Graph showing interest rates over time](source)

Source: RBA Chart Pack

**Figure 7.7: Composition of Australian Small Business Loans**

![Graph showing composition of loans over time](source)

Source: RBA Chart Pack

RBA analysis indicates that fixed rate loan rates have also declined.
Figure 7.8: Australian Fixed Term Interest Rates (3 year maturity)

Source: RBA Chart Pack

7.50 The RBA Financial Aggregates for the month of January 2009 indicate that total credit provided to the private sector by financial intermediaries in January increased by 0.6 per cent, more than reversing the fall of -0.2 per cent in December 2008.71

7.51 Commenting on economic conditions the Prime Minister in a speech on 3 March 2009 stated:

In 2008, the Australian economy had stronger growth than any of the G7 economies and most recent figures suggest that Australia had the fifth highest growth rate of the 30 OECD members. Our unemployment rate is lower than all but one of the G7 and is the fourth lowest out of the 30 members of the OECD.

Our budget deficit to GDP ratio is the lowest compared to any of the G7 and among the lowest of the OECD. Our public net debt to

GDP ratio is nearly one tenth that of the public net debt to GDP ratio of the OECD economies. Our banks’ exposure to sub-prime mortgages represents less than 1 per cent of total mortgage assets. Our regulators are independent, strong and competent. Our consumers, notwithstanding the crisis, remain among the most confident in the OECD.

And our nation has taken early, decisive action to support the economy ahead of the curve. That is in large part why so far we have fared well against the rest of the developed world. 72

Conclusion

7.52 The Australian economy has slowed and economic growth will remain subdued over the next year. There are signs in Retail Trade, and Housing Finance figures to suggest that the substantial easing in monetary policy and the Government’s Economic Security fiscal stimulus are having positive effects on activity. More substantial flow-on effects from the already announced monetary and fiscal policy measures are likely to be felt over the coming financial year.

7.53 The slowing of the economy does not mean that minimum wages workers should suffer a cut in real wages. Already during a period of good economic conditions minimum wages workers have seen their real wages decline. This must not be the outcome of this Wages Review.

7.54 An increase in the rates of pay of minimum wages workers, which maintains their real wages, will assist to provide the needed stimulus to demand. This in itself, as part of all the other measures enacted, will operate to protect employment.

72 op cit.
Economic Outlook

The Outlook for the Domestic Economy

8.1 The Commonwealth Treasury’s Updated Economic and Fiscal Outlook (UEFO) was released in February 2009. The UEFO provides the Treasury’s economic forecasts for the state of the economy. The forecast is for a reduced but positive rate of real economic growth in 2008-09 and 2009-10.

8.2 The Treasury’s key domestic forecasts for 2008-09 are summarised in Table 8.1 below. The UEFO forecasts for 2008-09 and the Treasury’s projections for the medium term are outlined in Table 8.2.

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op cit.
### Table 8.1: Domestic Economic Forecasts

<table>
<thead>
<tr>
<th>Panel A - Demand and Output(c)</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Household consumption</strong></td>
<td>3.7</td>
<td>2</td>
<td>1 3/4</td>
</tr>
<tr>
<td><strong>Private investment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dwellings</td>
<td>1.4</td>
<td>0</td>
<td>-2</td>
</tr>
<tr>
<td>Total business investment(d)</td>
<td>14.2</td>
<td>5 1/2</td>
<td>1/2</td>
</tr>
<tr>
<td>Non-dwelling construction(d)</td>
<td>11.2</td>
<td>1/2</td>
<td>-2</td>
</tr>
<tr>
<td>Machinery and equipment(d)</td>
<td>16.0</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td><strong>Private final demand(d)</strong></td>
<td>5.5</td>
<td>2 1/2</td>
<td>3/4</td>
</tr>
<tr>
<td><strong>Public final demand(d)</strong></td>
<td>4.6</td>
<td>3 1/2</td>
<td>5 1/2</td>
</tr>
<tr>
<td><strong>Total final demand</strong></td>
<td>5.3</td>
<td>2 3/4</td>
<td>1 3/4</td>
</tr>
<tr>
<td>Change in inventories(e)</td>
<td>0.2</td>
<td>- 1/4</td>
<td>- 1/4</td>
</tr>
<tr>
<td>Gross national expenditure</td>
<td>5.5</td>
<td>2 1/2</td>
<td>1 1/2</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>4.3</td>
<td>6 1/2</td>
<td>1/2</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>12.7</td>
<td>7</td>
<td>2 1/2</td>
</tr>
<tr>
<td>Net exports(e)</td>
<td>-1.9</td>
<td>- 1/2</td>
<td>- 1/2</td>
</tr>
<tr>
<td><strong>Real gross domestic product</strong></td>
<td>3.7</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Non-farm product</td>
<td>3.8</td>
<td>1 3/4</td>
<td>1</td>
</tr>
<tr>
<td>Farm product</td>
<td>8.5</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>Nominal gross domestic product</td>
<td>8.2</td>
<td>7 3/4</td>
<td>6 3/4</td>
</tr>
<tr>
<td><strong>Panel B - Other selected economic measures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terms of trade</td>
<td>5.1</td>
<td>10 3/4</td>
<td>9</td>
</tr>
<tr>
<td>Current account balance (per cent of GDP)</td>
<td>-6.2</td>
<td>-4 1/2</td>
<td>-3 3/4</td>
</tr>
<tr>
<td>Employment (labour force survey basis)(f)</td>
<td>2.5</td>
<td>1/2</td>
<td>- 1/4</td>
</tr>
<tr>
<td>Unemployment rate (per cent)(g)</td>
<td>4.3</td>
<td>5</td>
<td>5 1/2</td>
</tr>
<tr>
<td>Participation rate (per cent)(g)</td>
<td>65.3</td>
<td>65</td>
<td>64 3/4</td>
</tr>
<tr>
<td>Prices and wages</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer price index(f)</td>
<td>4.5</td>
<td>3 1/2</td>
<td>2</td>
</tr>
<tr>
<td>Gross non-farm product deflator</td>
<td>4.4</td>
<td>6</td>
<td>5 3/4</td>
</tr>
<tr>
<td>Wage price index(f)</td>
<td>4.1</td>
<td>4 1/4</td>
<td>3 3/4</td>
</tr>
</tbody>
</table>

(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data.
(c) Chain volume measures except for nominal gross domestic product which is in current prices.
(d) Excluding second-hand asset sales from the public sector to the private sector.
(e) Percentage point contribution to growth in GDP.
(f) Through the year growth rate to the June quarter.
(g) Estimate for the June quarter.

Note: The domestic economic forecasts are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade weighted index of 55 and a United States dollar exchange rate of around 88 US cents. Interest rates are assumed to move broadly in line with market expectations. Oil prices (Malaysian Tapis) are assumed to remain around US$45 per barrel. The farm sector forecasts are based on an assumption of average seasonal conditions in the future, but take into account current low water storage levels.

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

Source: UEO November 2008 Table 3.2
Table 8.2: Major economic parameters(a)(b)

<table>
<thead>
<tr>
<th></th>
<th>Forecasts</th>
<th>Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008-09</td>
<td>2009-10</td>
</tr>
<tr>
<td>Real GDP</td>
<td>1</td>
<td>3 1/4</td>
</tr>
<tr>
<td>Employment</td>
<td>1</td>
<td>- 3 1/4</td>
</tr>
<tr>
<td>Wage price index</td>
<td>4</td>
<td>3 1/2</td>
</tr>
<tr>
<td>CPI</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Nominal GDP</td>
<td>6 3/4</td>
<td>0</td>
</tr>
</tbody>
</table>

(a) All parameters except the CPI are year average percentage changes. The CPI is through the year growth to the June quarter.
(b) The forecasts include the fiscal stimulus measures announced at the time of MYEFO and assume an interest rate profile in line with market expectations at the time that the forecasts were prepared. The projections of economic growth are based on analysis of underlying trends in employment and productivity. With a sharp fall in key non-rural commodity prices included in the forecasts, the Budget and MYEFO assumption of a further fall in commodity prices during the projection years is no longer appropriate. The projections of inflation are consistent with the medium term target band.

Source: UEFO Table 1.2

Economic Growth

8.3 The Australian economy is forecast to grow by 1.0 per cent in 2008-09, and by ¾ of a per cent in 2009-10. While this forecast is down from the MYEFO forecast of 2 per cent and an outcome of 3.7 per cent in 2007-2008, real GDP growth is forecast to remain in positive territory. Real GDP growth continues to be projected to be 3.0 per cent in 2010-11 and 2011-12.

8.4 The Treasury notes:

With the Nation Building and Jobs Plan, economic growth is only expected to slow to 1 per cent in 2008-09 and ¾ of a per cent in 2009-10.

... The Nation Building and Jobs Plan delivers a fiscal stimulus package of about 2 per cent of GDP in 2009.

... While Australia cannot resist the pull of global economic forces, we are better placed than most other nations to face this global recession.

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The domestic slowdown is expected to be milder than in most of our major trading partners who are facing sharp contractions in GDP...  

8.5 The RBA in the February 2009 Statement on Monetary Policy finds:

The outlook for the international economy has weakened since the time of the November Statement. As a consequence the domestic growth forecasts have also been revised down, though the extent of the impact on domestic growth will be moderated by the easings that have occurred in monetary and fiscal policy and by the significant depreciation of the exchange rate.

... The sharp contraction in the global economy in late 2008 suggests that the near-term growth outlook is materially weaker than projected in the November Statement. However, it is likely that the slowdown in Australia will be less severe than in many of our major trading partners. This partly reflects the stronger momentum in the Australian economy in the period leading into the global crisis.

... The economy is expected to begin to pick up from late 2009, with quarterly growth gradually recovering to around trend rates by late 2010.75

8.6 The December National Accounts do not negate the UEFO growth forecasts. The ACTU will address changes, if any, to the Treasury forecasts in our post-Budget submission.

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74 ibid. pp 1, 3, 6
75 op cit., pp.63, 64-65
Consumption

8.7 The outlook for household consumption growth has been revised down from a 2 per cent MYEFO forecast, but remains positive for growth of 1¼ per cent in 2008-09, and growth of ½ per cent in 2009-10. Treasury finds:

Substantial fiscal and monetary policy stimulus is acting to support consumption. The Government’s Economic Security Strategy is boosting household consumption over the December and March quarters particularly, and has been bolstered by substantial monetary policy easing and lower petrol prices. The Nation Building and Jobs Plan will provide an additional $12.7 billion to households in 2009, which will further boost consumption. Nevertheless, it is expected to be some time before household confidence improves and to the levels of recent years. As a result consumption growth is forecast to be ½ of a per cent in 2009-10.76

8.8 Treasury also notes in UEFO that if households increase their savings and rebuild their balance sheets, this will strengthen their financial position which will help bolster confidence and lead to a more rapid recovery in household consumption.77

8.9 The ACTU expects that some of the Economic Security one-off payments will have been spent in the March quarter. The Nation Building and Jobs Plan one-off bonuses are currently being received by eligible persons and will have some impact on household consumption in the March and June quarters.

76 op cit., pp31-32
77 ibid., p31
**Investment**

8.10 The forecast is for negative growth in dwelling investment of -0.2 per cent in 2008-09, returning to positive growth of 4.0 per cent in 2009-2010. Treasury finds:

Dwelling investment is expected to recover somewhat over the forecast horizon, although near-term results are likely to be weak. Building approvals fell sharply at the end of 2008, a legacy of the high interest rates and low levels of confidence which prevailed over much of 2007-08. However, large interest rate cuts, strong underlying demand and the First Home Owners Boost for new houses are expected to support a recovery in dwelling investment in 2009-10, with growth expected to rise to 4 per cent.78

8.11 Similarly, the RBA in the February 2009 Statement on Monetary Policy finds prospects for some recovery in the residential building industry in 2009:

... prospects for the year ahead should be supported by the significant declines in interest rates that have occurred, along with the increase in the first home owners' grant announced in October. A recent pick-up in housing loan approvals and in reported display home traffic suggests that these factors are now starting to add to housing demand.79

8.12 In UEFO Treasury has revised down expectations for business investment in 2008-09 from forecast growth of 5½ per cent at MYEFO to

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78 op cit p32
79 op cit., p3
growth of a $\frac{1}{2}$ per cent in 2008-09 and a fall of 15½ per cent in 2009-10. Treasury notes:

Investment is now expected to fall by 15½ per cent in 2009-10.

The Nation Building and Jobs Plan aims to counter the effects of falling business investment through measures to support private investors and a well timed boost to public investment which will strengthen the economy’s capacity in the future. Incentives to boost private investment will be provided through the Small Business Tax Break. In addition, the Australian Business Investment Partnership, announced earlier this year, will help to support investment by providing liquidity support to the commercial property sector.80

8.13 Details of the Small Business and General Business Tax Break are as follows:

The Government will provide an additional $2.7 billion temporary tax break to small and other businesses to boost business investment.

Small businesses will be able to claim a 30 per cent deduction for the cost of eligible assets costing $1,000 or more that they acquire from 13 December 2008 to 30 June 2009 and install by 30 June 2010.

For eligible assets costing $1,000 or more that they acquire from 1 July 2009 to 31 December 2009 they can claim a 10 per cent deduction if they are installed by 31 December 2010.

80 op cit., pp 30, 31
Other businesses can receive the same deductions for eligible assets greater than $10,000.

This trebles the investment allowance announced in December 2008.\(^1\)

8.14 In this regard the RBA in the February 2009 Statement on Monetary Policy notes:

> Business investment, which has recently been at its highest level as a share of GDP since the early 1970s, is expected to fall through most of the forecast period albeit by less than would otherwise have occurred due to the Government’s introduction of tax deductions on eligible investment. \(^2\)

8.15 The RBA finds benefits for business in the recent interest rate reductions:

> ... while the health of the business sector will come under some stress, it entered the downturn in good shape and the decline in average business interest rates in recent months should provide some relief to the business sector’s net cash flow.\(^3\)

\(^1\) ibid., p21  
\(^2\) op cit., p66  
\(^3\) ibid., p36
Public final demand

8.16 The Treasury expects public final demand to grow by 5½ per cent in year average terms over 2008-09, 2 per cent stronger than expected at MYEFO, and by 7¼ per cent in 2009-10. The Treasury forecasts:

The Nation Building and Jobs Plan adds around $17 billion to Commonwealth, State and local government investment over the forecast period. Public sector investment is providing support to growth over the forecast horizon, with public final demand expected to grow by 5½ per cent in 2008-09 and by 7¼ per cent in 2009-10.84

8.17 The RBA in the February 2009 Statement on Monetary Policy notes:

Public demand is expected to make a significant contribution to growth over the forecast period, reflecting the measures announced in late 2008 and early 2009 by the Government.85

8.18 The ACTU notes that of the infrastructure projects likely to be brought forward in the calendar year 2009 following the Eddington Report and the May 2009 Budget, some will be ‘shovel ready’ and this is likely to help underpin stronger public final demand.

Net exports, terms of trade and the current account

8.19 As a result of the global economic slowdown, the terms of trade are now expected to fall. UEFO forecasts an increase in the terms of trade.

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84 op cit., p31
85 Op cit., p66
of 9 per cent 2008-09, followed by a decline in 2009-10 of 12¾ per cent. Treasury finds:

The terms of trade are now expected to fall by around 20 per cent over 2009, a much larger fall than expected at MYEFO. The weaker outlook for the terms of trade is reflected in a significantly weaker outlook for national incomes, with corporate profits expected to fall by 9¾ per cent in 2009-10.86

8.20 However, as the RBA, in evidence to the House of Representatives Standing Committee on Economics, has commented:

... our terms of trade, which rose by about 65 per cent over five years—the biggest such rise in half a century—look like they will fall by about 20 per cent over the next year or so. That would still leave them historically high, and several commodity prices important to Australia have stabilised in recent months after quite sharp falls.87

8.21 Treasury expects net exports to subtract ½ of a percentage point from GDP growth in 2008-09; unchanged from MYEFO and less than the 1.9 percentage point subtraction in 2007-08. Net exports are forecast to add ¾ per cent to growth in 2009-10. The forecast for export growth is an increase of ½ of a percentage point in 2008-09, and 2009-10, revised down from MYEFO but still positive. The Treasury’s outlook is for reduced imports growth of 2½ per cent in 2008-09, down from a forecast of 7 per cent at MYEFO, and a negative 3 per cent in 2009-10. Treasury finds:

86 Op cit p30
87 op cit., p2
Net exports are expected to detract \( \frac{1}{2} \) of a percentage point from growth in 2008-09, before adding \( \frac{3}{4} \) of a percentage point in 2009-10. The outlook for export growth has been revised down sharply to just \( \frac{1}{2} \) of a per cent in 2009-10. ... Offsetting this in 2009-10 is the significantly weaker outlook for imports, which are expected to fall by 3 per cent in that year.88

8.22 Treasury forecasts the Current Account Deficit (CAD) to narrow in 2008-09 to \(-3\frac{3}{4}\) per cent of GDP, down from a \(-6.2\) per cent outcome for 2007-08.

Labour Market

8.23 The forecasts for the labour market reflect the weaker outlook for the Australian economy as a result of the impact of the global slowdown. The Treasury UEFO forecast for the employment growth rate through the year to the June quarter 2009 is for a contraction of \( \frac{1}{4} \) of a per cent and no growth through the year to the June quarter 2010 (Table 8.1).

8.24 In year average terms, Treasury forecast employment to grow by 1 per cent in 2008-09, and to decline by \( \frac{3}{4} \) of a per cent in 2009-10. In year average terms, projections for 2010-11 and 2011-12 have employment returning to growth, by 1\( \frac{1}{4} \) per cent in each financial year (Table 8.2).

8.25 With the participation rate expected to remain high at 64\( \frac{3}{4} \) per cent and 64\( \frac{1}{2} \) per cent, the unemployment rate is expected to be around

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88 op cit p32

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5½ per cent in the June quarter 2009 and 7 per cent in June quarter 2010. Treasury notes:

In line with the significant slowdown in the domestic economy, employment is expected to contract through 2009 and remain weak in 2010. This will flow through to a substantial rise in the unemployment rate, which is expected to increase to 5½ per cent by June 2009 and 7 per cent by June 2010. The Government’s Nation Building and Jobs Plan is expected to provide significant support to employment as the economy weakens. The Plan will support up to 90,000 jobs over the forecast period.89

8.26 It is important to note that the projected rise in unemployed persons does not reflect, in the main, workers losing their jobs. In evidence provided in February 2009 to the Senate Finance and Public Administration Committee, the Secretary to the Treasury Dr Ken Henry addressed the number of Australians who would be unemployed if the unemployment rate reached 7 per cent:

Dr Henry—I think is about 300,000, or something in that order. But bear in mind that not all of those 300,000 presently have a job, in fact the majority do not. We are talking about out to June 2010, so that is more than 12 months away. What happens over that 12 month period is that the labour force grows because new people come into the labour force—from education or immigrants or just people who are returning to the labour force after having a child or whatever—and some of those will not be able to find a job. In addition, some who presently have a job will lose it.

89 op cit., p32
Senator FIELDING—So out of that 300,000, roughly how many may have had a job and lost it over that period?

Dr Henry—I think it is about one-third.90

8.27 The ACTU notes reporting of Access Economics and NAB predictions of unemployment for June 2010 of 7½ per cent, and ANZ predictions, on the basis of the Job Advertisement Series, of 6½ per cent by the end of 2009 and 7½ per cent by mid 2010.91,92,93

Wages

8.28 The Treasury UEFO forecast is for wages (WPI) to grow by 3¾ per cent through the year to the June quarter 2009, and 3¼ per cent through the year to June 2010. The ACTU request for an increase in minimum wages falls well within the Treasury forecast of wages growth for the economy in general.

Inflation

8.29 Treasury UEFO predicts the Consumer Price Index (CPI) will ease to be 2 per cent through the year to June quarter 2009 and 2.0 per cent through the year to June quarter 2010.

91 The Age, Labor’s Second Cash Splash Begins Today, 11 March 2009, p9
8.30 The UEFO wages and inflation forecasts combined indicate that Treasury expects real wages to increase by 1¾ per cent to the June quarter 2009 and 1¼ per cent through the year to June 2010.

8.31 The RBA, in the February 2009 Statement on Monetary Policy, forecast inflation increasing by 1¾ per cent over the year to the June quarter 2009, rising to 2½ per cent over the year to the December quarter 2009, and 2¼ per cent over the year to the June quarter 2010.94

<table>
<thead>
<tr>
<th>Table 8.3: RBA Inflation Forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: RBA</td>
</tr>
</tbody>
</table>

8.32 The RBA, Minutes of the Monetary Policy Meeting of the Board, 3 March 2009, note that the RBA inflation forecasts remain unchanged from those published in the February Statement on Monetary Policy.

**Conclusion**

8.33 While forecasts for economic growth have slowed, the forecasts remain positive. As Treasury states:

The Nation Building and Jobs Plan will support jobs by boosting household consumption, supporting private sector investment and providing additional public investment spending. To the extent that households save part of their payments and tax bonuses, this will help

94 op cit., Table 14 p65
repair household balance sheets, provide a boost to confidence and support a return to more normal levels of consumption over time.\textsuperscript{95}

8.34 The ACTU notes that should both corporate profits and the terms of trade decline in the calendar year 2009, such a fall:

- Would be off record high bases,
- Would occur in an economic policy environment of an early and large injection of monetary and fiscal policy stimulus, the ripple effects of which will be felt throughout 2009 and into 2010.

8.35 The maintenance of real wages for Australia’s low paid employees will complement the demand maintaining objectives of the Government Economic Security Strategy and the Nation Building and Jobs Plan packages as a whole.

8.36 The expected rise in unemployment noted above is not because employees have been pricing themselves out of jobs. Rather, as the Treasury in UEFO find the global recession will mean higher unemployment in Australia as private sector spending slows.\textsuperscript{96}

\textsuperscript{95} op cit., p6
\textsuperscript{96} op cit., p6
9

Providing a safety net based on the needs of the low paid

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

9.2 A decent safety net of wages must take into account the effect that inflation has on real wages.

9.3 Many Australian working families, particularly the low paid, continue to face financial pressure. Rent increases, and other cost pressures mean minimum wages workers continue to struggle to meet their day to day costs of living. Wage increases which protect the real value of minimum wages are an important means of easing the financial stress on workers and their families.

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

9.5 Adjustments to income tax should not be treated as substitutes for wage increases. Indexation of transfer payment does not improve their real value. One-off payments/tax bonuses should not be taken into account.
9.6 In its Reasons for Decision, at page 62 the AFPC stated:

The Commission is confident that the minimum wage increase of $21.66 per week, in combination with the 2008-09 tax cuts and regular indexation of transfer payments, will provide the great majority of workers earning Pay Scale wages with household disposable incomes in October 2008 that are higher in real terms than in October 2007.

9.7 Table 4.3 of the 2008 Decision estimated the impact of the general Wage-Setting Decision 2008 and tax/transfer changes on disposable income between October 2007 and October 2008 for various Pay Scale classifications and household types. The estimated increases in gross disposable income in the table ranged from 4.7 per cent to 6.0 per cent. Allowing for the impact of inflation of 5.0 per cent over the year to 1 October 2008, the minimum wage increase of $21.66 per week, in combination with the 2008-09 tax cuts and regular indexation of transfer payments, the ACTU estimates the real disposable income of the various households represented in AFPC Table 4.3 were in fact either lower in real terms, unchanged in real terms, or marginally higher in real terms.

9.8 AFPC Reasons for Decision Table 4.2 estimates increases in selected minimum wages earners household gross disposable income over the period July 2006 to July 2008.97 Table 9.1 shows that the real disposable

97 The ACTU does not agree that a continuously employed employee can earn the FMW beyond a period of probation. Pay Scales remain subject to classification definitions in awards.
income outcomes for those households are substantially lower than the gross outcomes.

Table 9.1: Increases in disposable income, gross and real, selected minimum wage workers households, July 2006-July 2008

<table>
<thead>
<tr>
<th></th>
<th>Gross</th>
<th>Real</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single person 100% FMW</td>
<td>10.1%</td>
<td>$43.66</td>
</tr>
<tr>
<td>Couple no children, one 100% FMW</td>
<td>8.4%</td>
<td>$49.51</td>
</tr>
<tr>
<td>Couple no children, one 100% FMW, one 50% FMW</td>
<td>8.5%</td>
<td>$60.06</td>
</tr>
<tr>
<td>Couple two children 6-12, one 100% FMW</td>
<td>8.0%</td>
<td>$65.42</td>
</tr>
<tr>
<td>Couple two children 6-12, one 100% FMW, no Newstart</td>
<td>8.9%</td>
<td>$63.20</td>
</tr>
<tr>
<td>Couple two children 6-12, one 100% FMW, one 50% FMW</td>
<td>8.5%</td>
<td>$60.06</td>
</tr>
<tr>
<td>Couple two children 6-12, one 100% FMW, no Newstart</td>
<td>8.9%</td>
<td>$63.20</td>
</tr>
<tr>
<td>Single parent one child 7, earning 50% FMW</td>
<td>8.9%</td>
<td>$54.38</td>
</tr>
<tr>
<td>Single parent one child 7, earning 100% FMW</td>
<td>11.7%</td>
<td>$82.10</td>
</tr>
<tr>
<td>Single parent one child 12, earning 50% FMW</td>
<td>8.3%</td>
<td>$43.04</td>
</tr>
<tr>
<td>Single parent one child 12, earning 100% FMW</td>
<td>9.1%</td>
<td>$57.18</td>
</tr>
</tbody>
</table>

Source: AFPC Table 4.2 and ACTU Calculations

9.9 These outcomes demonstrate that in a period of record incomes growth and record tax cuts, for the households of pay scale reliant workers the increases in real disposable incomes are modest.

Indexation of transfer payments

9.10 We repeat the position previously put that indexation of transfer payments and thresholds does not increase their value in real terms. The ACTU notes that the Treasury in the Australia’s Future Tax System paper Architecture of Australia’s tax and transfer system finds indexation to CPI leaves allowances flat in real terms:

The rate and indexation of pensions and allowances has changed over time (Chart 7.8). In the past 10 years, the real value of the pension has increased. Over the same period, allowances have remained flat in real terms, being linked to the CPI.98

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98 Treasury, Architecture of Australia’s tax and transfer system, August 2008, p.237
**Tax cuts scheduled for 1 July 2009**

9.11 Budget 2008-09 Budget Paper No 2 states:

From 1 July 2008 the 30 per cent threshold will increase from $30,001 to $34,001, the 40 per cent threshold will increase from $75,001 to $80,001 and the 45 per cent threshold will increase from $150,001 to $180,001. In addition, from 1 July 2009 the 30 per cent threshold will increase to $35,001 and the 40 per cent marginal tax rate will be reduced to 38 per cent. From 1 July 2010, the 30 per cent threshold will increase to $37,001 and the 38 per cent marginal tax rate will be reduced to 37 per cent.

and

From 1 July 2008, the low income tax offset will increase from $750 to $1,200. From 1 July 2009 it will increase further to $1,350 and from 1 July 2010 to $1,500. The offset will continue to be withdrawn once income exceeds $30,000.

9.12 Table 9.2 shows the tax cuts scheduled from 1 July 2009 will provide increases in gross disposable income for full time minimum wages workers ranging from $2.88 per week to $5.77 per week.
Table 9.2: Minimum wages workers gains from personal income tax changes from 1 July 2009.

<table>
<thead>
<tr>
<th>Column</th>
<th>Gain ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C14</td>
<td>2.88</td>
</tr>
<tr>
<td>C13</td>
<td>2.88</td>
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<tr>
<td>C12</td>
<td>2.88</td>
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<td>C11</td>
<td>2.88</td>
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<tr>
<td>C10</td>
<td>2.88</td>
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<tr>
<td>C9</td>
<td>3.59</td>
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<tr>
<td>C8</td>
<td>5.77</td>
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<tr>
<td>C7</td>
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<td>C6</td>
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<tr>
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<td>5.77</td>
</tr>
<tr>
<td>C1a</td>
<td>5.77</td>
</tr>
<tr>
<td>C1b</td>
<td>5.77</td>
</tr>
</tbody>
</table>

Source: ACTU calculations

9.13 Below $34,000 pa there is no impact from increasing the 30 cent tax rate threshold from $34,000 to $35,000 so the gain is $150 per year from the increase in LITO. Half of the increase will be received fortnightly, the other half after filing a tax return after 30 June 2010.

9.14 Annual earnings from full-time wages on current minimum wage rates are:

- **FMW** $28,350
- **Shop Assistant** $31,420
- **Tradesperson** $33,250

9.15 Above $35,000 the gain from increasing the 30 cent tax rate threshold from $34,000 to $35,000 is $1000 multiplied by 15 cents (30 cent rate minus 15 cent rate of tax) = $150 pa plus LITO of $150 pa.
9.16 Consideration as part of this Wages Review of these scheduled tax cuts will compromises the achievement of the Commonwealth Government stated objectives for the tax cuts:

- increase take home pay / disposable income
- Reward for effort
- Long awaited tax relief
- To really help take the financial pressure off working families.

**Tax Bonuses**

9.17 The Federal Government Economic Security Package provided a one-off payment of $1000 per eligible child to working families receiving Family Tax Benefit Part A.

9.18 The Federal Government Nation Building and Jobs Plan includes one-off:

- tax bonuses of up to $900 for all persons, with annual income up to $100,000, who paid net tax in the 2007-2008 tax year.
- $900 Single Income Family Bonus to eligible families receiving Family Tax Benefit Part B.
- $950 per child Back to School Bonus for eligible children of families receiving Family Tax Benefit Part A.

9.19 The Government Economic Security Strategy and Nation Building and Jobs plan tax bonuses have been welcomed by the ACTU as a measure to stimulate the economy. Minimum wages households

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99 Commonwealth Budget Overview 2008-09 p8
100 ibid., p10
101 Treasurer, Media Release 13 May 2008, Personal income tax cuts
102 Treasurer, House of Representatives Hansard, Tuesday, 13 May 2008, p2602
103 Minister for Families, Housing, Community Services and Indigenous Affairs, House of Representatives Hansard, 14 May 2008
should not be discriminated against by those tax bonuses being used to justify a lower increase to minimum wages.

9.20 The tax bonuses are one-off payments designed to create additional spending to boost economic activity.

9.21 Treasury in the UEFO states:

Like the Economic Security Strategy, the Nation Building and Jobs Plan includes measures that can be implemented quickly, so that it will support growth through to June 2009, and has been targeted towards those low- and middle-income households who are most likely to spend additional income... 104

9.22 The Treasury’s Dr Gruen, in evidence provided to the Senate Finance and Public Administration Committee, stated:

The evidence is quite strong that something like two-thirds of a one-off payment gets spent within the first six months.

... there is a lot of evidence that suggests that people with lower levels of wealth or lower levels of income tend to consume a higher share of any dollar that is given to them. 105

9.23 In a comment, which demonstrates the greater capacity to consume of lower income earners, retailer Myer executive chairman Bill Wavish is reported to have stated:

The first stimulus package definitely helped our sales, notably in the lower demographic struggle suburbs. ... Myer supports the second

104 op cit., p13
105 op cit., p 43
stimulus package ... it will undoubtedly help those struggle suburbs where many of the citizens are not enjoying the benefits of lower interest rates and petrol prices, especially if they rent their home and use public transport.\textsuperscript{106}

9.24 Tax bonuses are one-off payments. To take them into account when determining wages for minimum wages workers when they are not an ongoing payment would dampen minimum wages workers wage rates into the future when those payments will have no effect on disposable income.

9.25 Tax bonuses are to create additional spending. To take them into account when determining minimum wages would be counterproductive to the function tax bonuses have as part of the Government’s stimulus packages.

Working Households and Income Poverty

9.26 Alicia Payne, NATSEM, in Working Poor in Australia, utilises data from the ABS Survey of Income and Housing 2005-06 to analysis poverty among households in which a member is employed.\textsuperscript{107} Payne uses a threshold for income poverty at 50 per cent of median equivalised disposable income. Payne finds that the rate of poverty among households with at least one employee persisted at roughly 3 per cent over the period 1997 to 2006. Payne finds:

- In 2005-06 almost 390,000 Australians had incomes below the poverty line despite having a member of their household employed. This represents nearly one-fifth (18 per cent) of all

\textsuperscript{106} The Age, Retail sales boost as first stimulus package sets tills ringing, 7 February 2009, p4
\textsuperscript{107} Payne A., Working Poor in Australia Families, An analysis of poverty among households in which a member is employed, Family Matters Issue No 81, Australian Institute of Family Studies, 18 March 2009
Australians in poverty, and 2.7 per cent of all people in households were someone was employed part-time or full-time.

- In 2005-06 there were an estimated 135,000 working poor households.
- 48 per cent of working poor households were those supported by one part-time employee.
- However, over half of the working poor lived in households with either one full-time employee (24 per cent) or two employees, at least one of whom was part-time (28 per cent).
- Poverty for households with a full-time, or two part-time employees is more likely to reflect relatively low wages.
- 13 per cent of people in all poor households had wages and salaries as their primary source of income.
- Looking at those in poverty who derive their income primarily from wages and salaries, the rate of working poverty in 2005-06 is 2 per cent of all persons representing an estimated 264,000 Australians.
- 68 per cent of people in working poor households sourced the majority of their income from wages and salaries.\(^{108}\)

9.27 In research commissioned by the AFPC, Hahn and Wilkins use HILDA data to analyse the living standards of ‘low-paid’ employees, who they define as employees earning less per hour than 120 per cent of the hourly FMW.\(^{109}\)

9.28 For 2006, and utilising a 60 per cent of median equivalent disposable income of all households threshold to define ‘income poor’ Hahn and Wilkins find 3.6 per cent of all employees, or 15 per cent of all employees who are low paid, are low paid and poor. Hahn and Wilkins also find 2.4 per cent of all adult employees, or 15 per cent of all employees who are low paid, are low paid and poor.

\(^{108}\) ibid., pp15, 18, 19, 21, 22, 23

all adult employees who are low paid are income poor, as are 12.0 per cent of all junior employees or 15 per cent of all junior employees who are low paid.

9.29 Utilising a less austere 75 per cent of median equivalent disposable income of all households threshold to define ‘income poor’, Hahn and Wilkins find 6.7 per cent of all employees, or 28 per cent of all employees who are low paid, are low paid and poor. Hahn and Wilkins describe this group as a significant minority of low paid workers.110

9.30 Using the 75 per cent of the median threshold, Hahn and Wilkins also find 4.8 per cent of all adult employees, or 28 per cent of all adult employees who are low paid are income poor as are 21.4 per cent of all junior employees or 28 per cent of all junior employees who are low paid.

9.31 Hahn and Wilkins find that for the populations all employees and adult employees the low paid have a higher rate of financial stress than other employees. Hahn and Wilkins find:

Low-paid employees are consistently more likely than other employees to report experience of each of the seven indicators of financial stress. 111

110 op cit., Tables 15, 16 and 17, p26
111 ibid., p12
<table>
<thead>
<tr>
<th>Table 9.3: Proportion of employees experiencing financial stress</th>
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<tbody>
<tr>
<td>Employees of all ages</td>
</tr>
<tr>
<td>Low-paid</td>
</tr>
<tr>
<td>Not low-paid</td>
</tr>
<tr>
<td>Adult Employees</td>
</tr>
<tr>
<td>Low-paid</td>
</tr>
<tr>
<td>Not low-paid</td>
</tr>
</tbody>
</table>

Source: Hahn and Wilkins Table 18

9.32 The ACTU notes that the Department of Families, Housing, Community Services and Indigenous Affairs in the Australia’s Future Tax System Pension Review Background Paper find:

... over the past decade ... wage earners in the bottom half of the earnings distribution experienced lower real income growth than Age Pensioners wholly reliant on income support.112

Cost pressures

9.33 The December quarter 2008 CPI declined by 0.3 per cent to be 3.7 per cent over the year. Commenting on the CPI for the December quarter, the RBA in the February 2009 Statement on Monetary Policy noted:

Although price pressures remained quite broad-based – around 60 per cent of items in the CPI had annualised price increases of 2.5 per cent or more in the quarter - developments in a few items with large weights held down the CPI. 113

112 DFHCSIA, Australia’s Future Tax System Pension Review Background Paper, p12 (printed version), p14 online pdf.
113 op cit., p59
9.34 In our July 2006 submission the ACTU referred to unpublished ABS Household Expenditure Survey data which identified the proportion of total expenditure spent on broad expenditure groups by the first quintile of households whose principal source of income was wages and salaries.

Table 9.4: Broad expenditure groups: first quintile households – proportion of total goods and services expenditure

<table>
<thead>
<tr>
<th></th>
<th>First quintile expenditure proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current housing costs [selected dwelling]</td>
<td>20.7</td>
</tr>
<tr>
<td>Food and non-alcoholic beverages</td>
<td>16.5</td>
</tr>
<tr>
<td>Transport</td>
<td>15.1</td>
</tr>
<tr>
<td>Recreation</td>
<td>10.8</td>
</tr>
<tr>
<td>Miscellaneous goods and services</td>
<td>8.3</td>
</tr>
<tr>
<td>Household services and operation</td>
<td>6.2</td>
</tr>
<tr>
<td>Household furnishings and equipment</td>
<td>5.9</td>
</tr>
<tr>
<td>Medical care and health expenses</td>
<td>4.3</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>3.2</td>
</tr>
<tr>
<td>Domestic fuel and power</td>
<td>3.0</td>
</tr>
<tr>
<td>Alcoholic beverages</td>
<td>2.7</td>
</tr>
<tr>
<td>Tobacco products</td>
<td>1.8</td>
</tr>
<tr>
<td>Personal care</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: ABS unpublished data Household Expenditure Survey 2003-04

9.35 Table 9.5 records changes in costs as measured by the CPI for the broad expenditure groups from December quarter 2007 to December quarter 2008.
### Table 9.5: Changes in Costs as measured by CPI

<table>
<thead>
<tr>
<th>Expenditure Group</th>
<th>Weighted Average of Eight Capital Cities December Quarter 2007 to December Quarter 2008 % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>5.6</td>
</tr>
<tr>
<td>Alcohol &amp; Tobacco</td>
<td>5.8</td>
</tr>
<tr>
<td>Clothing &amp; Footwear</td>
<td>0.2</td>
</tr>
<tr>
<td>Housing</td>
<td>6.5</td>
</tr>
<tr>
<td>Household Contents &amp; Services</td>
<td>0.4</td>
</tr>
<tr>
<td>Health</td>
<td>4.9</td>
</tr>
<tr>
<td>Transportation</td>
<td>-1.2</td>
</tr>
<tr>
<td>Communication</td>
<td>0.5</td>
</tr>
<tr>
<td>Recreation</td>
<td>1.3</td>
</tr>
<tr>
<td>Education</td>
<td>4.8</td>
</tr>
<tr>
<td>Financial &amp; Insurance services</td>
<td>7.0</td>
</tr>
<tr>
<td>All Groups</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Source: ABS Cat No 6401.0

9.36 The second largest component of first quintile households expenditure on goods and services is expenditure on Food. Over the last twelve months the cost of food has increased by 5.6 per cent.

9.37 The largest expenditure item for first quintile wages and salaries households, comprising 20.7 per cent of total goods and services expenditure is housing. Over the last twelve months the cost of housing has increased by 6.5 per cent.

9.38 Rents continued to rise during the December quarter 2008, increasing by 1.8 per cent, and over the year to December quarter 2008, increasing by 8.4 per cent. The ABS notes that rents rose in every capital city.
Table 9.6: Rents: Percentage Change from Corresponding Quarter of Previous Year December 2005- December 2008

<table>
<thead>
<tr>
<th></th>
<th>Dec 05</th>
<th>Dec 2006</th>
<th>Dec 2007</th>
<th>Dec 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>1.8</td>
<td>2.8</td>
<td>5.4</td>
<td>8.0</td>
</tr>
<tr>
<td>Melbourne</td>
<td>1.2</td>
<td>2.7</td>
<td>5.4</td>
<td>6.6</td>
</tr>
<tr>
<td>Brisbane</td>
<td>5.6</td>
<td>5.3</td>
<td>8.6</td>
<td>10.1</td>
</tr>
<tr>
<td>Adelaide</td>
<td>3.1</td>
<td>3.6</td>
<td>4.7</td>
<td>5.4</td>
</tr>
<tr>
<td>Perth</td>
<td>2.7</td>
<td>6.8</td>
<td>11.2</td>
<td>12.2</td>
</tr>
<tr>
<td>Hobart</td>
<td>3.7</td>
<td>4.8</td>
<td>5.2</td>
<td>5.0</td>
</tr>
<tr>
<td>Darwin</td>
<td>3.8</td>
<td>6.8</td>
<td>7.3</td>
<td>12.0</td>
</tr>
<tr>
<td>Canberra</td>
<td>2.5</td>
<td>3.7</td>
<td>7.0</td>
<td>8.4</td>
</tr>
<tr>
<td>Australia</td>
<td>2.5</td>
<td>3.7</td>
<td>6.4</td>
<td>8.4</td>
</tr>
</tbody>
</table>

Source: ABS Cat No 6401.0

Figure 9.1: Percentage change in Rents from corresponding quarter of previous year, Capital Cities, June 2005 to December 2008

Source: ABS Cat No 6401.0

9.39 The third largest expenditure item for first quintile households, comprising 15.1 per cent of total goods and services expenditure is transportation. The cost of transportation over the last twelve months declined by -1.2 per cent.
9.40 The major reduction measured in the December quarter was lower fuel prices, as noted by the RBA:

The main contributor to the fall in the CPI in the quarter was an 18 per cent decline in petrol prices, which subtracted 0.9 percentage points from inflation.\textsuperscript{114}

\textbf{Figure 9.2: Average daily prices for unleaded petrol for the eight capital cities}

\begin{center}
\includegraphics[width=0.5\textwidth]{figure.png}
\end{center}

Source: ABS Cat No 6401.0

9.41 However, this year has seen fuel prices start to rise again. Westpac estimates that petrol prices have increased by 13.3 per cent in the three weeks leading up to 11 March.\textsuperscript{115}

9.42 The seven day rolling average of retail unleaded petrol prices in the five largest metropolitan cities, published by the Australian Competition and Consumer Commission shows a trough at around $1.00 per litre in December 2008 and increasing prices thereafter.\textsuperscript{116}

\textsuperscript{114} ibid.
\textsuperscript{115} Westpac Media Release, Westpac- Melbourne Institute Index of Consumer Sentiment, 11 March 2009
\textsuperscript{116} http://www.accc.gov.au/content/index.phtml/itemId/793605, accessed 17 March 2009
Figure 9.3: Seven day rolling average retail unleaded petrol prices in the five largest metropolitan cities

Source: Australian Competition and Consumer Commission

9.43 The reduction in fuel prices does not reduce the transport costs of those minimum wages workers who use public transport.

**Labour Mobility**

9.44 In AFPC commissioned research, Labour Mobility and Low-paid Workers, Bill Mitchell examines patterns of labour mobility to explore whether low paid workers are benefiting from mobility in terms of wages and employment. Looking at pay outcome by skill level, Mitchell finds:

Using the educational-basis for demarcation, Table 6.11 shows that only 26.1 per cent of the low-skilled workers enjoyed pay improvements between HILDA waves compared to 37.9 per cent of skilled workers who enjoy improved pay. Low-skilled workers who move have a lower chance of realising pay improvement (24 per cent) than those who did not move (26.4 per cent). Moving has no pay impact for
skilled workers. For the occupational demarcation, the figures are similar. Moving doesn’t provide many bonuses by way of pay improvement for either skill group. Thus even in a period when the Australian economy was growing relatively strongly, the low-skilled seem to be less able to participate in the growth via pay improvement.117

9.45 In paper presented to the AFPC Minimum Wages Research Forum, Healy, Kidd and Richardson find:

But the gender differential is only one of several important dimensions of earnings inequality. In the lowest-paid sectors, the problem of inequality manifest itself less in the specific form of gender disparities, and more in the form of a distribution which is highly-skewed towards low hourly wages. While employees remain within these industries their prospects of attaining better-paying jobs are curtailed by the very small number of such jobs on offer. Male and female wages may be more closely aligned in these sectors, but only because both genders are disadvantaged in theses sectors relative to most other Australian employees.118

9.46 The ACTU notes that part of the AFPC consultation process revolves around focus group work.

9.47 Helen Masterman Smith and Barbara Pocock interviewed 92 low paid workers.119 Looking at the question of earnings mobility utilising HILDA data for 2001-2003 Masterman-Smith and Pocock find:

119 Masterman-Smith H. and Pocock B., Living Low Paid The Dark Side of Prosperous Australia, 2008
• 28.7 per cent of low paid workers remain low paid from 2001 to 2003
• 8.7 per cent of low paid workers step up to higher paid jobs in 2002, then step back to low paid jobs in 2003
• 12.2 per cent of low paid workers remain low paid via different transitions between low paid work, non-low paid work and not working over the three years
• 9.7 per cent of low paid workers are not working in 2002 or 2003
• 40.6 per cent, a sizeable minority of low paid workers, step up to higher paid jobs in 2002 or 2003

9.48 That is, the majority did not step up to higher paid jobs.120

9.49 Masterman-Smith and Pocock further find:

The labour market experiences of many low paid workers point to blocked pathways out of low paid jobs. These stumbling blocks include business volatility, poor occupational ladders and discrimination. For many, there is no inevitable or typical progression from low to higher paid employment.121

HILDA data shows that, in 2004, 36 per cent of low-paid workers were not working for the same employer as they were in 2003, compared with 24 per cent of all workers (2003-04, waves 3-4).

Job continuity and predictable tenures are important to workplace training and skill development, which enables job progression. However, these are harder to find in the small to medium size sector where the low paid are concentrated. 122

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120 ibid., pp85-86
121 ibid., p92
122 ibid., p95
With little resources to spare, low paid workers make careful costs and benefit assessments about investing in higher qualifications. Central to these calculations is the likely pay-off for their time. As many find the outlays necessary to move into better paid work beyond their resources, they are often forced to make small investments in their employment prospects that typically produce small returns.\(^{123}\)

There is a tendency to see low paid jobs as an agglomeration of short-term, second-rate positions that serve some kind of a rite of passage into the world of real jobs. However, childcare is a low paid profession. It illustrates that low pay cannot be dismissed as a first step or transitory rung on an employment ladder that everyone inevitably ascends with sufficient individual effort.\(^{124}\)

**Incentives to work**

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

9.51 In a paper presented at the AFPC Minimum Wage Research Forum, Buddelmeyer and Kalb show that “the modest increase” in the FMW from $13.74 per hour to $14.31 per hour produces a greater labour supply response than reducing the first income tax rate by 0.15 percentage points from 15 cents to 14.85 cents or increasing the LITO from $1200 to $1250. Buddelmeyer and Kalb also show that the increase in the FMW has a small effect on reducing the Gini coefficient from 0.3142 to 0.3140, although this is greater than the LITO.

\(^{123}\) ibid., p100  
\(^{124}\) ibid., p105
change which reduces the Gini from 0.3138 to 0.3137, and the change to the tax rate which leaves the Gini coefficient unaltered.125

9.52 This is an important function for the minimum wage.

9.53 AFPC commissioned research by Austen et al also identifies the role minimum wages play in women’s labour supply decisions:

Available evidence therefore suggests that minimum wage decisions play a dual role: increasing wage equity and encouraging labour force participation, particularly among low wage employees.126

Labour market Payments

9.54 DEEWR labour market payments data indicate that in January 2009 the number of persons who were long term Newstart recipients had declined since June 2005 and over the previous two years. In January 2009 the total number of person who were recipients of Newstart Allowance was lower than in June 2005 and January 2007.127

<table>
<thead>
<tr>
<th>Table 9.7: Labour Market Payments - Newstart</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term Newstart Allowance</td>
</tr>
<tr>
<td>291,977</td>
</tr>
<tr>
<td>Total Newstart Allowance</td>
</tr>
<tr>
<td>488,910</td>
</tr>
</tbody>
</table>

Source: DEEWR

127 DEEWR, Labour Market and Related Payments - a monthly profile, January 2009
Jobless families

9.55 The ABS has recently published revised estimates of jobless families for the four year period August 2004 to December 2008, based on improvements to the family estimates from the Labour Force Survey.

9.56 The ABS data shows that the number of jobless families with children under 15 years fell from 16 per cent of all families with children under 15 in August 2004 to 13 per cent of all families with children under 15 in August 2008.

9.57 Since June 2005 the number of jobless lone parent families with children under 15 fell from 51.3% to 45.3% of all lone parent families with children under 15. The fall in jobless couple families with children under 15 fell from 6.3 per cent to 4.3 per cent of all couple families with children under 15.\(^{128}\)

9.58 The ABS notes that lone parent families account for 73 per cent of all jobless families. However, in the vast majority – 87 per cent, of these lone parent jobless families the parent is not in the labour force, rather than unemployed.

Conclusion

9.59 The low paid find it difficult to make ends meet. They will spend a wage increase on essentials to support their basic standard of living. In itself, this will provide a stimulus to economic activity in second half of 2009.

\(^{128}\) ABS Cat No 6224.0.55.001 - Labour Force, Australia: Labour Force Status and Other Characteristics of Families, December 2008. Percentages of all families in each family type where labour force status determined.
9.60 The ACTU does not accept the proposition that there is an inverse link between employment and moderate movements in the minimum wage.

9.61 We also reiterate our earlier evidence that minimum wages as a percentage of AWE, AWOTE and employee mean and median earnings are substantially lower than was the case in the early 1980s and 1990s as are real unit labour costs.

9.62 The challenge confronting the Australian economy today is a deficiency of aggregate demand caused by a fall in private sector sending, not a real wage overhang amongst minimum wages workers. Accordingly, the AFPC should grant the ACTU request in full.

9.63 It would be unfair and counterproductive to reduce the real minimum wages of one of the groups in the Australian community with the highest marginal propensity to consume.
10

ACTU Request

Costing of the ACTU Request

10.1 The ACTU request for a $21 per week increase to minimum wages is affordable. The ACTU has estimated the maximum cost of its request adds a negligible 0.30 per cent to ordinary time earnings and a barely measurable CPI impact of 0.16 per cent.

10.2 These impacts are significantly overestimated as they are based on an assumption that the full $21 increase will be granted and paid concurrently and to all private sector minimum wage earners regardless of the jurisdiction in which they fall.

10.3 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 estimates that 42.7 per of these employees are employed in unincorporated businesses outside the jurisdiction of the AFPC.\(^{129}\) 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.

10.4 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

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\(^{129}\) ABS Cat No. 6306.0 EEH May 2004 Unpublished data. It is likely that the level of incorporation will have risen since the May 2006 survey.
earnings is estimated at only 0.19 per cent with a CPI impact of 0.10 per cent.

10.5 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.

10.6 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 10.1: Economy wide costing of a $21 per week increase to Minimum Wage rates in all jurisdictions

**Costing a $21.00 increase to all Private Sector Minimum Wage Employees**

*Weighted increase for Minimum Wage Reliant Employees*

<table>
<thead>
<tr>
<th>Adults</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Full-time</td>
<td></td>
<td>Part-time</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Permanent/Fixed Term</td>
<td>Casual</td>
<td>Permanent/Fixed Term</td>
<td>Casual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of Minimum Wage Employees</td>
<td>30.40</td>
<td>4.80</td>
<td>16.90</td>
<td>32.30</td>
<td>15.60</td>
<td>100.0</td>
</tr>
<tr>
<td>Weighting</td>
<td>1.0</td>
<td>1.2</td>
<td>0.6</td>
<td>0.6</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>Weighted Increase</td>
<td>21.00</td>
<td>25.20</td>
<td>12.60</td>
<td>12.60</td>
<td>6.30</td>
<td>14.78</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 2009</th>
<th>Addition to Total Ordinary Time Earnings (%)</th>
<th>CPI Effect %</th>
</tr>
</thead>
<tbody>
<tr>
<td>18.50</td>
<td>14.78</td>
<td>917.58</td>
<td>0.30</td>
<td>0.160</td>
</tr>
</tbody>
</table>
10.7 Table 10.2 shows the economy wide impact of various increases to minimum wage rates above and below the $21 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 10.2: Estimated impact of various increases to Ordinary Time Earnings and impact on CPI.**

<table>
<thead>
<tr>
<th>Wage Increase per week</th>
<th>All Minimum Wage Workers in all jurisdictions</th>
<th>Within the jurisdiction of the AFPC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Addition to Ordinary Time Earnings</td>
<td>CPI Effect</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>$10</td>
<td>0.14</td>
<td>0.08</td>
</tr>
<tr>
<td>$11</td>
<td>0.16</td>
<td>0.08</td>
</tr>
<tr>
<td>$12</td>
<td>0.17</td>
<td>0.09</td>
</tr>
<tr>
<td>$13</td>
<td>0.18</td>
<td>0.10</td>
</tr>
<tr>
<td>$14</td>
<td>0.20</td>
<td>0.11</td>
</tr>
<tr>
<td>$15</td>
<td>0.21</td>
<td>0.11</td>
</tr>
<tr>
<td>$16</td>
<td>0.23</td>
<td>0.12</td>
</tr>
<tr>
<td>$17</td>
<td>0.24</td>
<td>0.13</td>
</tr>
<tr>
<td>$18</td>
<td>0.26</td>
<td>0.14</td>
</tr>
<tr>
<td>$19</td>
<td>0.27</td>
<td>0.14</td>
</tr>
<tr>
<td>$20</td>
<td>0.28</td>
<td>0.15</td>
</tr>
<tr>
<td>$21</td>
<td>0.30</td>
<td>0.16</td>
</tr>
<tr>
<td>$22</td>
<td>0.31</td>
<td>0.17</td>
</tr>
<tr>
<td>$23</td>
<td>0.33</td>
<td>0.17</td>
</tr>
<tr>
<td>$24</td>
<td>0.34</td>
<td>0.18</td>
</tr>
<tr>
<td>$25</td>
<td>0.35</td>
<td>0.19</td>
</tr>
<tr>
<td>$26</td>
<td>0.37</td>
<td>0.20</td>
</tr>
<tr>
<td>$27</td>
<td>0.38</td>
<td>0.20</td>
</tr>
<tr>
<td>$28</td>
<td>0.40</td>
<td>0.21</td>
</tr>
<tr>
<td>$29</td>
<td>0.41</td>
<td>0.22</td>
</tr>
<tr>
<td>$30</td>
<td>0.43</td>
<td>0.23</td>
</tr>
</tbody>
</table>
ACTU Methodology for estimating the cost impact of a $21 rise in Minimum wages for all minimum wage levels

10.8 We cost a $21 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).

10.9 The first step is to weight the $21.00 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.
10.10 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

\[
AWOTE = W/N \quad \Rightarrow \quad N \times AWOTE = W
\]

\[
\Delta W_i = w_i \times N_i
\]

\[
\Delta W = \Sigma \Delta W_i
\]

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

\[
\Sigma [w_i \times (N_i/N_A)] \times N_A / N \times 1/ AWOTE
\]

\[
= \Sigma [(w_i \times N_i) / (N \times AWOTE)]
\]

\[
= \Sigma [\Delta W_i / W]
\]

\[
= \Delta W/W
\]

\[
= \alpha
\]
10.11 The next step is to take 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 divide by estimated AWOTE for May 2008 to give a maximum addition to ordinary time earnings.

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

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

10.14 AWOTE for May 2009 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 2008 measured by Average Weekly Earnings, November 2008 ABS Cat 6302.0 (8.0 per cent); a total of $884.41.

10.15 For the May 2009 figure we adjust by a further 3.75 per cent, which is the UEFO estimate for the increase in the Wage Price Index for 2008-09; a total of $917.58.

10.16 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.

10.17 It is presumed that there will be a significant overestimation of the impact of an increase in award rates of pay.
10.18 The net CPI impact is calculated by adjusting the net addition to AWOTE by the wage share of total factor income 53.3 per cent - see ABS Cat No. 5206.0 December 2008.

**Nature of Request**

10.19 The ACTU is seeking a flat dollar increase in pay scales. Equity considerations and the needs of the low paid inform 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.

10.20 As we submitted last year 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.

10.21 The ACTU welcomes the decision of the AFPC in its Wages Review 2008 decision to grant one level of increase in all levels of pay scales:

> Unlike previous decisions, the Commission’s general Wage-Setting Decision 2008 is not a differential decision and therefore applies to all minimum rates of pay in Pay Scales. The Commission is aware that continuing to award differential increases could overlap, duplicate or even conflict with parts of the award modernisation process currently being undertaken by the Australian Industrial Relations Commission.

10.22 As the Award Modernisation proceedings continue in the AIRC the ACTU supports continuation of this approach.
10.23 Further, the ACTU continues to submit that those at higher levels of wages are equally reliant on the pay scale rate as those employed at lower levels.

**Conclusion**

10.24 Granting the ACTU request will have a negligible impact on AWOTE and will not add to inflationary pressures.

10.25 To minimise the impact on the continuing Award Modernisation process and the compression of relativities, the AFPC should repeat its 2008 decision to grant one level of minimum wages increase.
Fair Work Bill

The National Employment Standards

11.1 Under the proposed Fair Work legislation the new safety net will consist of ten National Employment Standards (NES) and modern awards will cover up to 10 additional matters.

11.2 The National Employment Standards comprise:

1. A standard 38 hour working week for full time employees and the right to refuse unreasonable overtime
2. Up to 24 months unpaid parental leave
3. A right for parents to request flexible working arrangements
4. 4 weeks paid annual leave each year, plus an additional week for shift workers
5. 10 days paid personal / carer's leave each year, 2 days paid compassionate leave and 2 days unpaid emergency leave
6. Unpaid community service leave
7. All national and state public holidays
8. Long service leave
9. Notice of termination and, if employed in a business with 15 or more employees, redundancy pay.
10. A requirement that all employers provide new employees with information about their rights (a Fair Work Information Statement).
11.3 Prior to 2006 these matters were generally included in awards or legislated as minimum standards. The ACTU does not accept claims that the NES will impose costs on business.

**Modem Awards**

11.4 The Australian Industrial Relations Commission (AIRC) has been charged with the duty to undertake the Award Modernisation process.

11.5 Modern Awards created by the Australian Industrial Relations Commission in accordance with the Award Modernisation Request of the Minister for Education, Employment and Workplace Relations, will come into effect on 1 January 2010.

11.6 The Award Modernisation process commenced in March 2008 and is scheduled to conclude in December 2009, allowing almost two years of consultation with stakeholders.

11.7 While Modem Awards will come into effect on 1 January 2010, the Modem Award will provide for a transitional period of up to five years. The award modernisation request requires that:

2. The creation of modem awards is not intended to:
   
   (c) disadvantage employees;
   (d) increase costs for employers.

11.8 In responding to employer concerns that implementation of the provisions encompassed in the Fair Work Bill will increase labour costs the Department of Education, Employment and Workplace Relations has stated:
2.5 Specific provisions in the Bill reflect the Government’s commitment to put in place a comprehensive safety net which cannot be “stripped away”. While it is difficult to quantify additional labour costs that may result from this measure - for example, some employers made agreements under the Workplace Relations Amendment (Work Choices) Act 2005 (the Work Choices amendments) that reduced wages and conditions - the Department anticipates it will not significantly affect costs for the vast majority of employers.

...

2.7 The NES will introduce greater certainty about entitlements and greater flexibilities for employees, which should have a positive impact on labour force participation and productivity. Similarly, the flexibilities and simplifications available through modern awards and the institutional framework should have a positive effect on business costs.\textsuperscript{130}

11.9 The ACTU notes that the AIRC, in conducting the process of Award Modernisation, is aware of the AFPC Wages Review 2009:

\textit{Variations prior to 1 January 2010}

[10] We have already referred to a number of situations in which it might be necessary to review or alter modern award provisions before the awards commence on 1 January 2010. ... There may also be a need to vary minimum wages as a result of an

\textsuperscript{130} Department of Education, Employment and Workplace Relations, Submission, Senate Education, Employment and Workplace Relations Committee, Inquiry Into The Fair Work Bill 2008, January 2009, p.6
adjustment to the pay and classification scales by the Australian Fair Pay Commission (AFPC).\textsuperscript{131}

Unfair Dismissal

11.10 The ACTU does not accept claims that unfair dismissal laws will create unemployment, or impose excessive costs on business. In 2005, the Senate Employment, Workplace Relations and Education References Committee concluded from its inquiry into unfair dismissal policy in the small business sector that:

there is no empirical evidence or research to support the Government's claim that exempting small business from unfair dismissal laws will create 77,000 jobs. The proposition at the heart of this argument is breathtaking for its lack of logic and empirical support. A review of the evidence shows conclusively that the claims made by the Government and employer groups are fuelled by misinformation and wishful thinking rather than objective appraisal of the facts...\textsuperscript{132}

...Evidence to this inquiry showed conclusively that the decision of small business operators to hire and fire is influenced by a range of factors other than unfair dismissal, including the state and profitability of the business, taxation arrangements and general economic conditions. The committee believes strongly that the Government's legislation is not an appropriate response to the problems facing small businesses...\textsuperscript{133}

\textsuperscript{131} [2008] AIRCFB 1000 AIRC Award Modernisation Decision, 19 December 2009
\textsuperscript{132} Senate Employment, Workplace Relations and Education References Committee, Inquiry into Unfair Dismissal Policy in the Small Business Sector, 21 June 2005, 4.1
\textsuperscript{133} ibid., 4.3.
11.11 International studies confirm that removing unfair dismissal protections will not have a significant positive economic impact. In 2006, the OECD found there to be no link between unfair dismissal laws and unemployment, concluding that “the overall impact of EPL [employment protection legislation] on aggregate unemployment is unclear, both in economic theory and in the empirical evidence.”

11.12 Statistics show that only 3.7% of workers who are dismissed (and who are within the scope of the federal unfair dismissal laws) bring an unfair dismissal claim.

11.13 The remaining 96.3% either accept that their dismissal was fair, or do not bring a claim for their own reasons (such as the costs involved, fear of confronting their former employer, etc.). Of the claims lodged with the AIRC, approximately 90% are settled before hearing.

11.14 Of the very small number of substantive claims (69 last year) that reach a hearing in the AIRC, half are found to be fair dismissals, and the other half are held to be unfair. Where the dismissal is held to be unfair, reinstatement is ordered in about half of all cases, and compensation (on average 16 weeks’ pay) awarded the other half of cases.

11.15 The Department of Education, Employment and Workplace Relations has stated:

2.6 While the Bill provides unfair dismissal rights in a way which may expose more businesses to unfair dismissals claims, it provides longer probationary periods and a Fair Dismissal Code for small businesses.

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In addition, the Bill aims to simplify the process and reduce the costs involved for employers who do find themselves the subject of unfair dismissal action.\textsuperscript{136}

**Minimum wages setting**

11.16 The Fair Work Australia wage setting criteria contain balance:

284 The minimum wage objective

What is the minimum wages objective?

(1) FWA must establish and maintain a safety net of fair minimum wages, taking into account:

(a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and

(b) promoting social inclusion through increased workforce participation; and

(c) relative living standards and the needs of the low paid; and

(d) the principle of equal remuneration for work of equal or comparable value; and

(e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.\textsuperscript{137}

11.17 Fair Work Australia will have the capacity to balance consideration of the criteria. There is nothing in the legislation which inherently draws consideration to one criterion or conclusion over the other.

\textsuperscript{136} op cit.

\textsuperscript{137} The Parliament of the Commonwealth of Australia, House of Representatives, Fair Work Bill 2008, p254
11.18 Fair Work Australia will have expertise available on the Minimum Wages Panel.

Before the Governor General appoints a person as a Minimum Wage Panel member, the Minister must be satisfied that the person is qualified for appointment because the person has knowledge of, or experience in, one or more of the following fields:
(a) workplace relations
(b) economics
(c) social policy
(d) business, industry or commerce.

Collective bargaining

11.19 The promotion of collective bargaining, in itself, will not determine the outcome of bargaining.

11.20 Bargaining outcomes will be responsive to the needs of those involved. Those bargaining will reach an agreement in their best interests.

Low pay bargaining

11.21 Factors to be taken into account by Fair Work Australia include:

- First agreement - no employer that will be covered by the relevant determination is, or has previously been, covered by an enterprise agreement or another workplace determination, in relation to the work to be performed by the employees to be covered;
- the interests of the employers and employees who will be covered by the determination, including ensuring that the employers are able to remain competitive;
- the public interest;
• The making of the determination will promote bargaining in the future, and productivity and efficiency in the enterprise(s).

11.22 The ACTU concludes that implementation of the provisions contained in the Fair Work Bill will not significantly affect costs for the vast majority of employers.
12.1 The ACTU has welcomed the Productivity Commission’s proposal for an 18 week, government-funded paid maternity leave scheme.

12.2 The Productivity Commission model is based on a government payment at the federal minimum wage level, with 9% superannuation paid by employers.

12.3 The federal minimum wage is proposed as a benchmark for the scheme.

12.4 Using wage levels as a benchmark is not a new phenomenon. Other Government payments have wage related benchmarks. For example, the Age Pension has a benchmark of Male Total Average Weekly Earnings.

12.5 The ACTU does not believe that creating federal minimum wage benchmark for the proposed Paid Maternity Leave Scheme will create any additional pressure for increases in the federal minimum wage or require the minimum wages fixing body to consider the circumstances of persons other than minimum wages workers who are paid minimum wages for their employment.
12.6 For example, the AFPC wage setting parameters are:

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.

12.7 The ACTU believes that these criteria restrict AFPC consideration to the circumstances of the unemployed and the low paid. A distinction must be made between those employees who are employed on minimum wages, who are in scope of AFPC consideration, and those who are receiving a government-funded payment, benchmarked at the FMW, for 18 weeks, who are not in scope of AFPC consideration. Many of the latter are not employed on the FMW but on other higher rates of pay.

12.8 Employees receiving the proposed PML payment are not employed on the FMW. For the period of the proposed PML payment there is no wage cost to the employer. The employer is the paymaster for the Government, and is reimbursed:

The employer would act as the paymaster for government. Using their usual pay cycle, they would pay an employee on paid parental leave the minimum adult wage, but only where the:

- employee was entitled to unpaid parental leave under the NES and
- employer made at least monthly PAYG withholding payments to the ATO.

The government would fully reimburse the employer for any paid parental leave payments.\textsuperscript{138}

12.9 There are approximately 100,000 employed on the FMW, and a further 1,150,000 employed on other minimum wages. The introduction of a PML Scheme will not disturb this fact.

\textsuperscript{138} Productivity Commission, Paid Parental Leave: Support for Parents with Newborn Children, Draft Inquiry Report, p.7.14
Apprentices, trainees, junior rates, workers with disability, casual loadings and piece rates

13.1 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 2 of 2008.

Adjustment of junior wage rates in this Review

13.2 In its 2008 Decision the AFPC decided:

Consistent with its previous approach, the Commission will flow on the general Wage-Setting Decision 2008 in relation to Australian Pay and Classification Scales (Pay Scales) to junior wages in Pay Scales. The general wage increase will be prorated on the basis of formulas applying in the relevant pre-Work Choices wage instruments.

In circumstances where there is no formula in the pre-Work Choices wage instrument, the general increase will be prorated so that the junior rate retains its relativity to the relevant adult rate in the preserved Pay Scale. If no relevant rate is identified,
the junior rate will be adjusted to retain its relativity to the lowest adult rate in the Pay Scale.¹³⁹

13.3 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. The ACTU notes, however, In relation to the last sentence, that the lowest adult rate in the Pay Scale may be a probationary period wage rate and, therefore, would not be suitable as a benchmark for ongoing employment.

Adjustment of apprentice rates in this Review

13.4 In its 2008 Decision the AFPC determined:

The general wage increase will be pro rated on the basis of formulas applying in the relevant pre-Work Choices wage instruments, 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, part-time and school-based apprentices.

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 are adjusted to give effect to the general Wage-Setting Decision 2008.¹⁴⁰

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

¹³⁹ op cit., pp 69-70
¹⁴⁰ op cit., p71
Adjustment of wages for trainees in this Review

13.6 The AFPC 2008 Decision determined:

Trainee basic periodic rates of pay in preserved Pay Scales will be adjusted to flow on the general Wage-Setting Decision 2008, using the method described in the transcript of the application to vary the National Training Wage Award 2000 for the 2003 Safety Net Review. This method is also adopted to flow on the general increase to related traineeships. Related traineeships include those with rates that were originally drawn from the National Training Wage Award prior to 27 March 2006.\(^{141}\)

13.7 The ACTU believes that the AFPC should adjust trainees rates in the manner employed in the Schedule to the AFPC Decision No 2 of 2008.

Workers With Disability

13.8 The ACTU supports an approach which flows on any increase in the FMW to Special FMW No 1.

13.9 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 2009.

Adjustment of Casual Loadings in this Review

13.10 In its 2008 Decision the AFPC decided:

The Commission can adjust casual loadings in Pay Scales. However, it considers that approach would overlap with the award modernisation process to be carried out by the Australian Industrial Relations Commission. Therefore, the

\(^{141}\) ibid.
Commission will not adjust casual loadings expressed as a percentage contained in preserved Pay Scales.

Where preserved Pay Scales provide a flat dollar amount for casual employees, these rates will be increased to give effect to the 2008 general wage increase.\(^{142}\)

13.11 As the Award Modernisation proceedings continue in the AIRC the ACTU supports continuation of this approach.

**Adjustment of Piece Rates in this Review**

13.12 In its 2008 Decision the AFPC decided:

The Commission will flow on its general Wage-Setting Decision 2008 to basic piece rate Pay Scales through applying a 4.15 per cent increase to basic piece rates in preserved Pay Scales which are not otherwise increased as a result of the general decision.\(^{143}\)

13.13 The ACTU supports this approach.

\(^{142}\) ibid., p80
\(^{143}\) ibid., p81
Pay Equity

14.1 While the proportion of the labour force that is award-reliant may continue to reduce, the award system remains an important means for dealing with gender pay inequity. It is both a robust minimum safety net and a decent foundation upon which workers are able to bargain.

14.2 On the basis of ABS EEH data which identifies that the majority of award only employees are women, the ACTU has consistently noted the importance of minimum wages adjustment for pay equity.

14.3 Because women comprise the majority (60.1 per cent) of workers who are dependent on minimum wages, upward adjustment of minimum wages will have an impact on male – female wage inequality.

14.4 AFPC commissioned research by Austen, Jefferson, Preston and Seymour, Gender Pay Differentials in Low-Paid Employment analyses the period 1995-96 to 2005-06. The researchers find:

- Women’s overrepresentation in low paid jobs implies that the current gender pay gap would be greater if minimum wage adjustments had not been introduced during 1995 and 2005. Analysis shows that the minimum wage adjustments awarded between 1995 and 2005 contributed to a reduction in the gender pay gap by approximately 1.2 percentage points.\(^\text{145}\)

\(^{144}\) op cit.
\(^{145}\) ibid., p2
• Minimum wage decisions play the role of an important source of wage growth for many women.\textsuperscript{146}

• The ability of countries to influence the gender pay ratio depends on labour market institutions.\textsuperscript{147}

• In the absence of minimum wage adjustments, it is likely that the gender pay gap would have been up to 2.7 per cent greater. This is an important outcome for arguments of wage equity.\textsuperscript{148}

14.5 The researchers conclude:

A key finding from this study is that minimum wage decisions are one of a range of important factors influencing gender differentials and patterns of women’s labour market participation.\textsuperscript{149}

Conclusion

14.6 The award system is integral to addressing gender pay inequity. This is because of the role of awards in establishing and maintaining decent minimum wages and conditions for award reliant women and as a decent foundation for enterprise bargaining.
15

Conclusion

15.1 Decisive and preemptive fiscal and monetary action has been taken globally and in Australia to meet the challenges of economic slowdown.

15.2 The Australian economy has slowed and economic growth will remain subdued over the next year. However, there are signs to suggest that the substantial easing in monetary policy and the Government’s Economic Security fiscal stimulus are having positive effects on activity. More substantial flow-on effects from the already announced monetary and fiscal policy measures are likely to be felt over the coming financial year.

15.3 The slowing of the economy does not mean that minimum wages workers should suffer a cut in real wages. Already during a period of good economic conditions minimum wages workers have seen their real wages decline. This must not be the outcome of this Wages Review.

15.4 An increase in the rates of pay of minimum wages workers, which maintains their real wages, will assist to provide the needed stimulus to demand. This in itself, as part of all the other measures enacted, will operate to protect employment.

15.5 Notwithstanding the global recession, total employment continues to grow albeit at a slower pace. Employers continue to place job vacancies, including for minimum wages occupations, albeit at a
slower pace. While the unemployment rate has increased to 5.2 per cent in February 2009, the participation rate remains at a high level.

15.6 The expected rise in unemployment is not because employees have been pricing themselves out of jobs.

15.7 The ACTU does not accept the proposition that there is an inverse link between employment and moderate movements in the minimum wage.

15.8 There is no evidence that the level of minimum wages is having a negative impact on employment.

15.9 There is steady but moderate real growth in wages in the general economy. General wages movements are consistent with the ACTU request for a $21.00 per week increase.

15.10 Minimum wages play a crucial role in achieving wage justice for those unable to collectively bargain.

15.11 Increases in the minimum wage also contribute to the legacy of a fair go in this country through their contribution to greater equity including a narrowing of the gender pay gap relative to what would otherwise be the case.

15.12 The low paid find it difficult to make ends meet. They will spend a wage increase on essentials to support their basic standard of living. In itself, this will provide a stimulus to economic activity in second half of 2009.

15.13 Granting the ACTU request will have a negligible impact on AWOTE and will not add to inflationary pressures.

15.14 The implementation of the provisions contained in the Fair Work Bill will not significantly affect costs for the vast majority of employers.