

**Annual Wage Review** **2014**

**Australian Government**

**Response** **to the**

**Consultation Questions**

**16 May 2014**

**Quantum of increase**

**Question 1.1**

**The Queensland Government and New South Wales Government recommended that the Commission take a “*cautious approach*” in determining the level of any adjustment in minimum wage rates. The Australian Government also submitted that a “*cautious approach*” is needed in order to support the economy through an economic transition. The Victorian Government submitted that the Panel should “*exercise caution*”, while the Western Australian Government supported the Panel taking “*a balanced approach to the 2013–14 Review*”.**

**Given that these submissions did not specify a quantum of increase, what is the position of these parties on what would constitute a “*cautious*” or “*balanced*” approach when considering a dollar or percentage outcome for the Annual Wage Review 2013–14?**

1. The Australian Government did not specify a particular dollar amount or percentage outcome in its initial submission to the Annual Wage Review 2013-14 and, respectfully, does not propose to do so. The quantum of any increase is a matter for the Fair Work Commission to determine based on the evidence before it having taken into account the Minimum Wages Objective. No Australian Government submission to an annual wage review process since 2005 has specified an amount as a suggested outcome of an annual wage review. Further, it appears this is the first time in that period the Panel has requested the Australian Government to indicate an amount.
2. To the extent it may assist, the Australian Government can indicate the approach it is taking to the question of quantum of wages in a different circumstance. In respect of the federal public service, the new bargaining framework that applies to enterprise bargaining requires that any increase in enterprise agreement wages must be sustainable, from within existing operating budgets, and offset by genuine productivity gains.
3. By its submissions in this matter, the Australian Government seeks to assist the Commission with information that may inform the exercise of the Panel’s discretion and judgement in the task before it. To that end, the 2014-15 Budget forecasts unemployment to reach 6¼ per cent through the year to the June quarter 2015 and 2016 and wages will grow by 3 per cent per year over the two years. Lower aggregate wage growth is an important part of the transitions occurring in the Australian economy due to the tapering of the resources boom. It is in this context that the Australian Government has called upon the Commission to take a cautious approach.
4. By way of historical background, Table 1 below lists the spread of recent minimum wage decisions.

***Table 1: Minimum wage increases since 1997***

|  |  |  |  |
| --- | --- | --- | --- |
|    | **Actual** |  | **Annualised (a)** |
| **Increase$/wk** | **Nominal(%)** | **Real(d)(%)** | **Increase$/wk** | **Nominal(%)** | **Real(%)** |
| **Australian Industrial Relations Commission** |
| 1997 | 10.00 | 2.9 | 2.5 |  | 10.00 | 2.9 | 2.5 |
| 1998 | 14.00 | 3.9 | 3.2 |  | 14.00 | 3.9 | 3.2 |
| 1999 | 12.00 | 3.2 | 2.1 |  | 12.00 | 3.2 | 2.1 |
| 2000 | 15.00 | 3.9 | 0.7 |  | 15.00 | 3.9 | 0.7 |
| 2001 | 13.00 | 3.2 | -2.6 (b) |  | 13.00 | 3.2 | -2.6 |
| 2002 | 18.00 | 4.4 | 1.5 |  | 18.00 | 4.4 | 1.5 |
| 2003 | 17.00 | 3.9 | 1.2 |  | 17.00 | 3.9 | 1.2 |
| 2004 | 19.00 | 4.2 | 1.7 |  | 19.00 | 4.2 | 1.7 |
| 2005 | 17.00 | 3.6 | 1.1 |  | 17.00 | 3.6 | 1.1 |
| **Australian Fair Pay Commission** |
| 2006 | 27.36 | 5.6 | 0.8 |  | 18.07 | 3.7 | 0.6 |
| 2007 | 10.26 | 2.0 | 0.0 |  | 12.34 | 2.4 | 0.0 |
| 2008 | 21.66 | 4.1 | -0.8 |  | 21.66 | 4.1 | -0.8 |
| 2009 | 0.00 | 0.0 | -1.2 (c) |  | 0.00 | 0.0 | -1.2 |
| **Fair Work Australia/ Fair Work Commission** |
| 2010 | 26.00 | 4.8 | 2.7 |  | 14.78 | 2.7 | 1.5 |
| 2011\* | 19.40 | 3.4 | -0.2 |  | 19.40 | 3.4 | -0.2 |
| 2012\* | 17.10 | 2.9 | 1.7 |  | 17.10 | 2.9 | 1.7 |
| 2013\* | 15.80 | 2.6 | 0.2 |  | 15.80 | 2.6 | 0.2 |

Notes:

(a) Prior to the establishment of the Australian Fair Pay Commission, increases in the Federal/National Minimum Wage generally occurred on an annual basis. The period between the Australian Fair Pay Commission’s first two wage increases were 18 months and 10 months respectively. Accordingly, for comparability, the decisions have been presented in annualised terms.

(b) The decline in the Federal Minimum Wage in 2001 was due to the introduction of the GST, which caused a 6.0 per cent spike in the CPI over the year to the June quarter 2001.

(c) Assumes a date of effect of 1 October 2009 had the AFPC awarded an increase in its 2009 decision.

\* In 2011, 2012 and 2013, the Commission increased all minimum wages by percentage amounts rather than dollar amounts.

(d) Real increases were calculated as the nominal increase discounted by increases in the consumer price index (CPI) over the same period.

Source: AIRC, AFPC, FWA/FWC data, various years, and ABS Consumer Price Index (Cat. No. 6401.0).

**Productivity**

**Question 2.1**

**In its initial submission, the New South Government submitted that *“labour productivity is an incomplete measure that should not be used as a guide to assess the appropriateness of minimum wage adjustments”* and *“should not be used to guide minimum wage decisions due to its inherent volatility, and its tenuous link to actual productivity”*. In particular, the New South Wales Government submitted:**

***“Labour productivity is largely driven by factors that are not entirely related to productivity, namely capital deepening. Two industries, mining and electricity, water and gas have undergone rapid capital deepening in the past decade and this has driven much of the growth in labour productivity over that time.”***

**Do other parties share this view?**

1. The Australian Government agrees that the measurement of labour productivity, particularly over short periods such as one year, is volatile, cyclical and subject to significant measurement issues. Accordingly, and for the reasons outlined below, care should be taken with the weight given to this measure and its use.
2. Labour productivity growth can be decomposed into two components: multifactor productivity growth and capital deepening[[1]](#footnote-2). During the last complete productivity growth cycle from 2003-04 to 2007-08, capital deepening was slightly higher than labour productivity growth. During the current (incomplete) productivity growth cycle, the rate of capital deepening has increased, such that it now accounts for more than the total growth in labour productivity as shown in Figure 1. This indicates that in the last complete productivity growth cycle, labour productivity growth was entirely accounted for by workers having additional capital to work with, with the same applying to the current cycle[[2]](#footnote-3).
	* The grey diamonds in Figure 1, show the rate of average annual labour productivity growth which during the latest complete productivity cycle, and the current incomplete cycle, was/is being dragged down by falling multifactor productivity (MFP), the blue bar. Labour productivity growth during these two periods is entirely accounted for by capital deepening, the red bar.

***Figure 1: Productivity growth cycle - decomposition***



Source: Department of Employment calculations based on ABS Cat No. 5260.0.55.002; Estimates of Industry Multifactor Productivity, 12 Industry market sector.[[3]](#footnote-4)

1. Labour productivity can also be affected by structural changes within and between industries. For example, industry productivity can rise due to the exit of low productivity firms within an industry. Likewise, aggregate labour productivity can increase due to labour shifting from low to high productivity industries. These changes, although affecting labour productivity at the industry or national level, are not linked to increases or decreases in productivity by workers in a particular industry. Therefore, the measure of labour productivity should not be considered in isolation when determining the full picture of productivity trends.

**Question 2.2**

**The ACCI submission claims that it is highly likely that *“…Australia’s recent productivity improvements have been driven by increases in mining production, as well as a tightening [sic] of the labour market… These circumstances could hardly be less supportive of more rapid wage increases.”***

**The Australian Government submission states that on average labour productivity rose by 1.6 per cent per annum in the decade to 2013, but that it rose at well below this rate for award-reliant industries.**

**Both these submissions imply that the sources of increase in labour productivity that might reasonably be shared with low wage workers are confined to productivity growth in the more award-reliant industries. What are the views of parties on this approach?**

1. The capacity for firms to pay wages is determined at the firm level. As such, improvements to productivity at the firm level also improve the capacity to pay for increases in wages. The productivity performance of the industry reflects an aggregate measure of firm level productivity within that industry. Therefore, labour productivity increases within an industry provide a more accurate reflection of the capacity for employers in that industry to afford potential wage increases. This is more direct than considering the national aggregate of productivity growth. For example, high productivity growth in Agriculture, the industry with the highest productivity growth in the current cycle, does not increase the ability of employers in the Accommodation and Food services sector to afford higher wages (particularly if productivity in the latter industry has not improved).
2. As the Government’s submission shows, the majority of award-reliant workers are clustered in four industries: Retail Trade; Accommodation and Food services; Administration and Support services and Other Services. Collectively, these industries have experienced labour productivity growth over the last decade to 2012-13 of 0.9 per cent per year, compared to 1.6 per cent per year for the market sector as a whole. This indicates that award-reliant industries have less potential capacity to pay wage increases than the market sector as a whole.

**Question 2.3**

**The Australian Government’s submission provided that the labour share of income is *“…influenced by the number of people in work”*. Could the Australian Government elaborate on this submission?**

1. In its initial submission, the Government noted that the concept of the labour share of total factor income is influenced by a number of factors, including factors that are not attributable to the income received by the low paid and their relative living standards. The labour share of income is, however, a particularly useful indicator at the industry level to assess the degree to which industry income and the returns to capital investment flow to the workers and the owners of capital in any given period. It is affected by a number of factors including: the level of capital intensity; the level of total factor income (through output and prices); the lag between investment and output; taxes; as well as the remuneration levels and the quantity of workers employed within the industry.
2. The ABS calculates the labour share of income using the following formula:

where: is the share of labour income; is Compensation of Employees; is the labour share of Gross Mixed Income and are taxes less subsidies on production and imports.

1. In the above calculation, Compensation of Employees includes wages and salaries, employer contributions to superannuation and workers' compensation premiums. The total of these payments, at the industry and aggregate levels, is affected not only by rates of pay, but the number of employees in the industry, or workforce. Therefore, the labour share of income can be influenced by the number of people in work. In particular, when increases in output are, proportionally, outpaced by increases in the number of workers, the labour share of income will increase where the additional workers are paid at the existing wage level.

**Question 2.4**

**In discussing labour market conditions and the decline in work opportunities, particularly for men, Australian Business Industrial and the Australian Industry Group refer to structural change in the economy away from labour intensive industries such as construction. However, the *Statistical Report* for the Annual Wage Review 2013–14 shows that employment in the construction sector has grown considerably over the last decade, including in the year to February 2014. As the construction phase of the mining boom continues to contract we may see a decline in the industry in the year(s) ahead, although an upturn in home building and infrastructure spending may cushion that decline. There is also the possibility that private sector investment will pick up but the signs there are still very tentative.**

**Based on these trends, how should the Panel take into account structural change in the economy?**

1. A comparison between the FWC’s statistical report and the analysis presented by the ABI and Ai Group shows that, depending on which starting point is used, both observations are technically correct. Employment in the Construction industry has grown considerably over the last decade, and has also been strong over the last year, coming off a low point. In particular, the data shows that in the 10 years to February 2008, employment in construction on a seasonally adjusted basis grew at an average annual rate of 5.0 per cent (See Figure 2 below). However, in the six years since February 2008 average annual growth of employment in Construction has slowed to 0.7 per cent, with some volatility in between. In the five years[[4]](#footnote-6) from August 2008 to August 2013, the industry added approximately 48,000 workers, compared to over 238,000 workers over the previous five year period (2003-2008).

***Figure 2: Employment growth in Construction***



Source: ABS, Cat. No. 6291.0.55.003 Labour Force, Australia, Detailed, Quarterly

1. The large decline in the trend rate of employment growth in Construction reflects the reduction in construction activity in the resources sector and the softening of economic conditions. To the extent that these trends are reflected in the broader economy, this would indicate the need for a cautious approach to minimum wage policies that might affect employment. This is particularly so, as the economy transitions from resources to non-resource sources of growth.

**Business competitiveness and viability**

**Question 3.3**

**Submissions on behalf of retail employers draw attention to subdued growth in retail prices. What information is available which sheds light on the cause of lesser growth in retail prices and the extent to which product cost to retailers is relevant?**

1. Historically, through the year (tty) growth in retail prices tends to be lower than through the year growth in the consumer price index (see Figure 3 below).
2. The majority of industry subgroups that fall under retail trade are businesses that predominantly sell tradeable items. The ABS defines a commodity as a tradeable if a significant proportion of its domestic output is exported or if a significant proportion of its demand for domestic consumption is imported.  So most food items, clothing and footwear, appliances, and audio, visual and computing equipment are tradeable, while rent and dwelling purchases, utilities, health and dental services, education, and insurance and financial services are all examples of non-tradeables.
3. The CPI is largely driven by price changes in non-tradable items, which account for approximately 58 per cent of the CPI by weight. CPI inflation is therefore influenced more by domestically sourced price pressures than retail prices, which reflect tradeable prices and are more influenced by international price pressures.
4. So while changes in retail prices may largely be due to changes in the cost of imports as inputs to Australian retailers the more pressing issue facing retailers is likely to be pressure on their margins. Treasury’s liaison program suggests that retail margins have been under pressure for some time. Information on margins is specific to individual firms so it possible that the Australian National Retail Association may be able to provide more useful information on this issue.

***Figure 3: Retail prices and CPI March 1986 – March 2014***



**Question 3.4**

**Citing Dissolve—Business Stress Report March 2014, which we understand to be published by the insolvency practitioner Dissolve Pty Ltd, the R&CA submit that *“[c]ompany insolvencies were the highest on record in calendar year 2013 as illustrated in the table below with 10,821 businesses placed into external administration”.***

**Are the Dissolve figures based on data from the Australian Securities and Investment Commission (ASIC)? Is a higher absolute number of insolvencies to be expected as the absolute number of business registrations rises? Is the ratio of companies entering external administration (EXAD) relative to new incorporations in 2013 at a low level compared with the long term trend of 6 per cent, used by ASIC?**

1. The Government has examined ASIC Australian insolvency statistics: series 2: insolvency appointments (released in May 2014).  These do not line up with the information from *Citing Dissolve – Business Stress Report March 2014.*
2. According to ASIC’s annual insolvency appointments statistics there were 13,013 external administration appointments in 2011-2012 and 13,274 external administration appointments in 2012-2013. This represents a 2 per cent increase in the number of external administration appointments. A break up of these numbers is provided below.

***Table 2: ASIC’s annual insolvency appointments statistics***

|  |  |
| --- | --- |
| **2011-2012** | **2012-2013** |
| Provisional winding up                                 28 | Provisional winding up                                 20 |
| Court winding up                                      4000 | Court winding up                                       3494 |
| Creditor vol. winding up                           6818 | Creditor vol. winding up                           7698 |
| Voluntary administration                        1615 | Voluntary administration                        1644 |
| Deed of company arrangement            552 | Deed of company arrangement            418 |
| **Total                                                        13013** | **Total                                                        13274** |

1. With regard to ASIC’s 2012 and 2013 new company registrations statistics, there were 184,894 new company registrations in 2012 and 202,378 new company registrations in 2013. This is a 9 per cent increase in new company registrations.

**Question 3.8**

**Several employer groups warned that increasing labour costs, particularly in Retail trade, will have an adverse impact on the viability of businesses and put employment at risk. However, foreign investment in Retail trade has continued to increase over each year. Parties are invited to comment on the reasons for why foreign companies are continuing to invest in Retail trade in Australia?**

1. It appears the assessment that foreign investment in retail trade *“has continued to increase over each year”* is not supported by the data (given the Panel has not indicated the basis on which it makes this assertion, the Government has not been able to verify the accuracy of the conclusion the Panel has expressed in the question). The Australian Government can indicate, however, that according to the ABS data[[5]](#footnote-7), the steady trend increase in total stock of foreign investment (liabilities) in Australian retail trade peaked at $15.6 billion during the March 2013 quarter. It has experienced a steady decline since. As of December 2013, the total stock of foreign liabilities was at $14.5 billion, a decrease of around 8.1 per cent.

**Question 3.9**

**The Australian Workplace Innovation & Social Research Centre (WISeR) commissioned a study by the National Institute of Economic and Industry Research (NIEIR) to assess the impact of the closure of the motor vehicle industry in Australia following announcements by General Motors Holden (GMH), Ford and Toyota that they will be ceasing production in the country. The report concludes that:**

***“The effects of the announced motor vehicle industry closures in Australia have already begun to be felt throughout the sector. Projections of the likely impact up until 2017, around the time production will cease in Australia, as modelled by the National Institute of Economic and Industry Research, demonstrate the significance the closures will have on both employment levels as well as on Gross Domestic Product. Close to 200,000 jobs are forecast to be lost as a direct impact of the facilities closure, with a fall in GDP of $29 billion or more, with Victoria, New South Wales, Queensland and South Australia estimated to bear the greatest brunt.”***

**Do parties have any views on the report or any of the key findings?**

1. The Commonwealth estimates that the closure of Toyota, Ford and Holden automotive manufacturing facilities in Australia would result in 6,600 direct job losses. ABS data suggests that a further 37,600 jobs in automotive and automotive part manufacturing in Australia may be consequentially affected.
2. Treasury is contributing technical assistance and peer review for the Productivity Commission’s Inquiry into Australia’s Automotive and Manufacturing Industry and the Australian Government Economic Review of South Australia and Victoria. This inquiry was submitted to the Treasurer on 31 March 2014, and its economic modelling results will be presented as a supplement to the final report.
3. The model used by NIEIR assumes that the automotive manufacturing industry recovers significantly before it is shut down (15 per cent increase in employment due to a falling Australian dollar). Given this assumption is speculative, the predicted impact on jobs and GDP may not be fo the magnitude suggested by the model. Other baseline assumptions, such as that mining investment will decrease to $5.5 billion by 2017, are speculative.
4. Other recent analysis of the Australian automotive industry includes the September 2013 Allen Consulting Group report to the Federal Chamber of Automotive Industries on the Australian automotive manufacturing industry. That analysis suggests the cost of the combined decisions of Toyota, Ford and Holden to discontinue motor vehicle production in Australia is estimated to be $21.5 billion out to 2031, with direct and indirect job losses estimated at around 40,000 jobs.
5. Further, the NIEIR modelling will not have taken into account Government announcements after the modelling was conducted which may impact upon the industry.

**Relative living standards and needs of the low paid**

**Question 4.1**

**In its initial submission, ACCER submit that the Wage Price Index (WPI) is not *“an appropriate benchmark for the setting of wages”* as the WPI “*is designed to measure "pure price" changes in the costs of labour in work positions that are unchanged over time”*. Further ACCER submitted that:**

***“The WPI is not concerned with award classifications, for which rates of pay are set by the FWC. Those classifications are typically broad-banded classifications that are designed to encompass a broad range of skills and responsibilities, unlike the narrowly-defined classifications of the award system prior to the 1990s. Work value changes, increases in productivity and re-designed positions are encompassed within the award classifications. To use pure price changes as measured by the WPI is inconsistent with the setting of wages for work classifications that are generally undergoing constant change. The WPI reflects the static, and not the dynamic aspects of a firm's operations and the work being performed by workers within the scope of broad-banded wage classifications. To set wages by reference to the WPI devalues the work being performed in a changing workplace and fails to properly value it.”***

**ACCER also notes that the WPI *“is partly determined by the FWC; and past wage decisions are reflected in the WPI to some extent. Extracting that part of the WPI index which is the product of safety net decisions would give a higher figure for those who are not safety net workers.”***

**What are the views of parties on ACCER’s position?**

1. The WPI measures changes in the price of labour and is therefore a suitable indicator for the Panel to consider in its minimum wage determination. As discussed in the Australian Government’s initial submission (para. 148), the forecast of below trend growth in WPI should be a consideration of the Panel.
2. The WPI measures within‑job wage changes. Likewise, an Annual Wage Review (AWR) decision changes the wage within an award classification and hence a specific job. As such, WPI changes are comparable with AWR decisions.
3. The Government agrees that the WPI is “partly determined” by the Commission through the minimum wage decision. However, most of this effect takes place in the September quarter of WPI data and the effect is likely to be small. The information presented in the Government’s initial submission (para. 115) demonstrates that the weekly cash earnings of award-reliant employees comprised 9.1 per cent of the total weekly wage bill in 2012. The Government estimates that the 2013 AWR decision would have increased the total wage bill by approximately 0.2 per cent.

**Question 4.2**

**The Australian Government’s initial submission provides two definitions of low paid. The first is *“less than two thirds of median hourly earnings (including junior rates)”*, as measured by the ABS EEH 2012 data. This gives a figure of $17.35 per hour. The second defines low pay as equal to or less than two thirds of median hourly earnings in main job, using HILDA data for 2012. Separate low pay thresholds are set for juniors using ratios to the adult rate that are based on the relevant junior minimum wage rates. This gives a figure of $17.60 for adults. Both the Australian Government figures are lower than the more usual measure of two thirds of median adult ordinary time earnings ($18.60 in May 2012, as calculated by the ACTU from the ABS EEH data), or between $19 (on the assumption of a 40 hour week) and $20 (on the assumption of a 38 hour week), based on the median earnings data contained in Table 8.1 of the Statistical Report for the Annual Wage Review 2013–14. The Australian Government then finds that 42 per cent of low paid employees are aged under 25.**

**We would be assisted if the Australian Government could re-estimate the proportion of low paid employees who are aged under 25, using a figure such as $19 per hour.**

1. The Australian Government’s initial submission used two low pay thresholds, which are determined respectively by the two data sources examined (i.e. the ABS’s *Employee Earnings and Hours* (EEH) survey and the *Household, Income and Labour Dynamics in Australia Survey* (HILDA)). The Commonwealth maintains that it is more appropriate to define a low pay threshold that is consistent with the survey used to gather the data than it is to introduce a threshold from outside. In addition to other factors (such as the two surveys each have a different sample), there is a timing difference between the two surveys – EEH was for May 2012 and HILDA wave 12 collected most information during the fourth quarter of 2012.
2. While two‑thirds of median earnings is conceptually a well-accepted definition of low pay thresholds (e.g. FWC’s 2013 Annual Wage Review Decision and Table 8.1 of FWC’s Statistical Report), in practice median earnings and consequently the low pay dollar threshold vary depending on the samples used and the inclusion or exclusion of certain groups of employees (such as part-time and/or junior employees) in the sample. That is, there is not a usual measure of low pay definition in practice. When assessing the incidence of low paid workers, the Government has examined all workers, not just adult workers. This is because younger employees are one of the main groups affected by the Panel’s decision.
3. The Australian Government’s initial submission used EEH data (e.g. Table 1.1 for the overall picture of workers) because this is the only reliable dataset that provides information on methods of setting pay. It also used the 2012 HILDA data since it provides more detailed information on employee characteristics. For example, information on employee ages is available in HILDA, but not in EEH. Therefore, EEH cannot be used to estimate the number of low paid employees who are aged under‑25. The Australian Government’s initial submission used an adult low paid threshold of $17.60 for HILDA 2012 data. Appendix A of the Government’s initial submission explains and justifies the methodology used to calculate this threshold. This methodology is comprehensive and has been adopted elsewhere in academic research.
4. By adjusting the adult low paid threshold to $19.00 per hour and subsequently adjusting low paid thresholds for juniors using the same approach as in the Government’s initial submission (the adjusted low pay thresholds for juniors are in Table 3), the Government estimates that there were about 2.0 million low paid employees in 2012, comprising 22.7 per cent of all employees. Based on these figures, the Government finds that 38.7 per cent of all low paid workers were aged under‑25.[[6]](#footnote-8) This is similar to the figure of 41.7 per cent obtained using the Government’s low paid adult threshold of $17.60.
5. That is, the Commonwealth submits that its use of the low pay definition is appropriate for the purposes of the AWR, considering availability and limitation of data sources used. Nevertheless, even where a higher threshold is used, the difference in the proportion of workers under the age of 25 that are under this threshold, is only marginally lower (38.7 per cent vs 41.7 per cent).

|  |
| --- |
| ***Table 3: Low pay thresholds for juniors adjusted from adult threshold of $19.00 per hour*** |
|   | **Percentage of NMW (%)\*** | **Low paid threshold ($) *FWC request*** |
| **Adult (21 years and over)** | 100.0 | 19.00 |
| **20 year old** | 97.7 | 18.56 |
| **19 year old** | 82.5 | 15.68 |
| **18 year old** | 68.3 | 12.98 |
| **17 year old** | 57.8 | 10.98 |
| **16 year old** | 47.3 | 8.99 |
| **15 year old** | 36.8 | 6.99 |

Note: \* The percentage figures were used in the Government’s initial submission (i.e.Table A.1, Appendix A) to derive low pay thresholds for juniors.

**Question 4.3**

**The Australian Government’s initial submission urges the Panel to *“…have regard to the role of wage flexibility during this period of economic transition”*. Could the Government inform the Panel if it has in mind any particular forms of wage flexibility, other than *“wages growth below trend”*?**

1. The Australian Government’s initial submission focussed on the role of wage flexibility rather than the method of wage flexibility. The ability of an employer, or industry more broadly, to adjust wage offerings (including relative to other employers and industries) over time commensurate with the economic conditions being experienced by that employer or industry is important for supporting employment and growth. This is particularly the case during periods of economic transition.

**Labour market transitions**

**Question 6.1**

**The Australian Government submission provides some recent data on the number of retrenchments across the Australian labour force. Is the Australian Government able to expand on this, to provide additional information about typical levels of retrenchment, variation by industry, trends over recent years, for example?**

1. Figure 4 below shows that the annual number of retrenchments declined over the years from 1994 to 2008. This trend was arrested by the Global Financial Crisis.

***Figure 4: Number of employees retrenched, 1994 to 2013***

Note: data in Feb 1994 and 1996 included retrenched employees only.

Source: ABS Labour Mobility, Australia (Cat. No. 6209.0)

1. The Department of Employment’s quarterly estimates of retrenchments, provided in the Australian Government initial submission, have been revised, based on the latest ABS population benchmarks from the 2011 Census.
2. The latest estimate is that there were 82 000 retrenchments in the March quarter 2014, a rise of 9.1 per cent over the year.
3. Retrenchments tend to spike upwards in economic recessions, but then fall more slowly when good economic and labour market conditions return. Recessions lead to substantial pressures on businesses to make staff redundant in order for the business to survive. Conversely, during periods where economic growth is above a satisfactory rate, there is a lesser influence on the retrenchment rate. This, in turn, is because there is a baseline retrenchment even in very good economic times as a result of technical change, industry restructuring and the normal processes of job creation and alteration. The ABS does not release information on retrenchments by industry in its Labour Mobility publication, nor does the Department of Employment have any estimate of retrenchments by industry.
4. However, the Department of Employment has Labour Force Survey data on unemployment by reason (with retrenchment being one of the reasons for unemployment), in original terms, from the ABS. The latest data, shown in the table below, are for adult civilians who have been retrenched within the last two years and are still unemployed as of February 2014.

***Table 4: Unemployed retrenchees by industry, February 2014 (% of total)***

|  |  |
| --- | --- |
| **Industry** | **Share of retrenched by industry (%)** |
| Retail Trade | 14.6 |
| Manufacturing | 13.0 |
| Construction | 12.8 |
| Accommodation and Food Services | 9.7 |
| Professional, Scientific and Technical Services | 7.7 |
| Transport, Postal and Warehousing | 4.5 |
| Administrative and Support Services | 4.3 |
| Mining | 4.1 |
| Health Care and Social Assistance | 4.0 |
| Public Administration and Safety | 3.9 |
| Other Services | 3.6 |
| Information Media and Telecommunications | 3.5 |
| Wholesale Trade | 3.3 |
| Financial and Insurance Services | 3.2 |
| Education and Training | 2.7 |
| Arts and Recreation Services | 1.9 |
| Agriculture, Forestry and Fishing | 1.6 |
| Electricity, Gas, Water and Waste Services | 1.0 |
| Rental, Hiring and Real Estate Services | 0.7 |
| Total | 100.0 |

Source: ABS Labour Mobility, unpublished data.

1. A noticeable feature of the statistics in the table above is that two of the most award‑reliant industries together account for almost a quarter of the total number of people who have been retrenched within the last two years and are still unemployed (Retail Trade with the highest share of 14.6 per cent and Accommodation and Food Services with almost 10 per cent of the total).
2. Note further that there is high sampling variability in these estimates, particularly for industries with a small employment base such as Electricity, Gas, Water and Waste Services.

**Question 6.2**

**The Australian Government submission concludes, on the basis of Table 5.1, that *“…many of those who enter employment for the first time or are re-entering the workforce are more likely to earn low pay”*. The Australian Government is asked to expand on how it comes to this conclusion.**

1. The Australian Government relies on the HILDA data to support its conclusion that many people entering employment for the first time or re-entering employment are more likely to earn low pay than those already in employment. Table 5 below (Table 5.1, page 49 of the Government’s initial submission, copied below) indicates that 35.7 per cent[[7]](#footnote-9) of people who entered employment did so through taking a low paid job.[[8]](#footnote-10) However, 14.0 per cent[[9]](#footnote-11) of people who were in ongoing employment were low paid. This suggests that low paid entry level jobs are an important step into employment for many people.

Table 5: Year-on-year transitions of employment/low pay status (a)(row percentage)

|  |  |  |
| --- | --- | --- |
|  | **Employment status, year t+1 (%)** | **Sample size (n)** |
| *Not employed* | Low paid | Higher paid | *Total employed* |
| **Employment status, year t** | NILF | *84.7* | 5.5 | 9.8 | *15.3* | *24 066* |
| Unemployed | *53.9* | 16.2 | 29.9 | *46.1* | *4236* |
| *Total not emp.* | *80.1* | **7.1** | 12.8 | ***19.9*** | *28 302* |
| Low paid | *13.5* | 42.0 | 44.5 | *86.5* | *10 327* |
| Higher paid | *6.4* | 7.4 | 86.2 | *93.6* | *54 856* |
| *Total employed* | *7.6* | ***12.9*** | *79.6* | ***92.4*** | *65 183* |

Source: *HILDA* Survey, Release 12 (December 2013), pooled waves 1 to 12.

Notes: (a) Limited to the working age population of 15 to 64 years.

‘Year t’ refers to the reference year (this can be any year from 2001 to 2011) and ‘Year t+1’ refers to the subsequent year (this can be any year from 2002 to 2012).

**Collective bargaining**

**Question 7.1**

**The Australian Government submission refers to data from the Survey of Employee Earnings and Hours (EEH) and states that:**

***“Between 2010 and 2012 there was a shift away from collective bargaining towards awards – as measured by the proportion of employees who had their pay set by collective agreements and awards respectively (ABS 2013c). This was the first increase in the proportion of employees who were award-reliant during the 12 years that the ABS Employee Earnings and Hours data has been regularly collected. This recent increase in award-reliance has coincided with the period where the Commission increased all award wages by a percentage of the NMW, rather than a dollar amount.***

***The Panel may wish to consider whether there is a correlation between an increase in award rates (beyond providing a safety net [The Government estimates that 17.8 per cent of award-reliant employees are in fact paid above the median wage (ABS 2013c - Non-managerial employees only)] and a greater proportion of workers who are award-reliant and therefore are not bargaining.”***

**Does the Australian Government have any evidence that minimum wage adjustments were the causal factor for this shift in the data?**

**What are the views of parties on the Australian Government’s proposition? Are there other factors which may have caused this shift?**

1. The Australian Government does not have statistical evidence of a causal relationship between the Panel’s recent decisions and the increased levels of award reliance.

**Question 7.2**

**The Australian Government’s initial submission draws attention to spillovers, *“…where minimum wage increases given to low paid workers are passed through to higher wage earners in order to maintain relativities between rates of pay”*. It states that *“[t]his reduces the redistributional effectiveness of minimum wages.”***

**In drawing this conclusion, could the Australian Government advise the Panel on what assumptions it made about the movements in *“higher wages”* that would have occurred in the absence of a rise in minimum wages?**

1. The Australian Government made no assumptions about movement in “higher wages” in respect of the above extract of its initial submission. That submission made a general observation that where the benefits of minimum wage rises are spilling over from lower paid workers to higher paid workers, the relative position in the earnings distribution of the intended beneficiaries of the Panel’s decision (that is, the low paid) improves less than in a situation where there is no spillover at all.
2. It is trite to observe that there are relativities within modern awards or that when an increase is awarded to the minimum rate for all classifications in an award there is an associated increase to award rates for employees who are not considered the low paid.[[10]](#footnote-12) This effect compounds where an increase is expressed as a percentage.
3. In any event, the point of the Australian Government’s submission was to observe that increases in the minimum wages are an inelegant and inefficient tool to increase the living standards of the low paid and that the tax-transfer system not only provides more targeted support, but that it is the more efficient means of redistributing income to low income households.

**Principle of equal remuneration**

**Question 9.1**

**In its initial submission, the Australian Government submitted that it calculated the hourly gender pay gap to be 10.1 per cent as at May 2012. The measure, it submitted, was different to the ‘more widely reported 2012 pay gap of 17.5 per cent’ and had arisen because of the different measure used for this calculation:**

***“The calculation used in this submission is based on hourly earnings rather than weekly earnings and only includes permanent, full-time, non-managerial employees. Furthermore, this calculation is based on ABS Employee Earnings and Hours data as opposed to ABS Average Weekly Earnings data.”***

**In February 2012, the Commission published Research Report 3/2012 Award reliance and differences in earnings by gender. This research investigated the composition of the award-reliant sector and the potential impact of an increase in award wages on the gap between female and male wages. The report also discussed different measures of the gender pay gap and their limitations in measuring the gap as it relates to award-reliant women: …**

**Why has the Australian Government adopted the hourly measurement derived from the EEH for its submission to the Panel over other measures?**

**Further, what are the views of parties on the Australian Government’s measure for deriving the percentage of the gender pay gap? Is this the most accurate or relevant measure the Panel should have regard to?**

1. In its initial submission the Australian Government used EEH data to calculate the gender pay gap. This data set was preferred because it contains a ‘method of setting pay’ variable which was needed to calculate the effect of minimum wage adjustments on the size of the gender pay gap.
2. The reason the Government adopted an hourly wages measure was to control for the different average weekly ordinary time hours of men and women in the EEH data set (full‑time male adult employees at 38.3 hours and full‑time female adult employees at 37.5 hours).
3. This methodology results in the exclusion of managerial employees. Many of the Government’s EEH data calculations, particularly with regard to low paid workers, exclude managerial employees due to the lack of data on hours of work. This is an appropriate position to take in the context of an annual review of the national minimum wage and award wages.
1. Capital deepening is the change in the capital to labour ratio, usually driven by capital investment. [↑](#footnote-ref-2)
2. The ABS methodology assumes that capital investment is fully productive at the time of investment. [↑](#footnote-ref-3)
3. The 12 industry market sector is used due to some data measurement issues with the additional service industries included in the 16 industry market sector. It is noteworthy however, that using the 16 industry market sector, the story is unchanged. [↑](#footnote-ref-4)
4. August 2008 and August 2013 mark cyclical (and historical) highs in employment levels in Construction. [↑](#footnote-ref-6)
5. ABS, Cat. No. 5302.0, Balance of Payments and International Investment Position, December 2013, Table 34. [↑](#footnote-ref-7)
6. If a low paid threshold of $19 per hour is applied to all workers (i.e. the thresholds for juniors are not adjusted downwards), the Government finds that 2.2 million employees were low paid in 2012, accounting for 25.3 per cent of all employees. Of these low paid employees, 1.0 million (45.1 per cent) were aged under-25. [↑](#footnote-ref-8)
7. This 35.7 per cent is the proportion of those who were not in employment at period t and who entered low paid work at period t+1 (7.1 percentage points) divided by the proportion of non-employed who entered any type of work at period t+1 (19.9 percentage points). [↑](#footnote-ref-9)
8. Low paid employment refers to those with hourly earnings less than two-thirds of the median hourly wage. Refer to Appendix A of the Government’s initial submission for a full definition of low paid employment. [↑](#footnote-ref-10)
9. This 14.0 per cent is the proportion of those who were employed at period t and who were low paid at period t+1 (12.9 percentage points) divided by the proportion of people who were employed at both period t and period t+1 (92.4 percentage points) [↑](#footnote-ref-11)
10. For example, the highest rate of pay in the Air Pilots Award 2010 is $77.63 per hour (or $153,403 per year) and the highest rate of pay in the Medical Practitioners Award 2010 is $54.59 per hour (or $107,870 per year). [↑](#footnote-ref-12)