Australian Government

Australian Government Submission

to the

Fair Work Commission Annual Wage Review 2014

28 March 2014

Table of Contents

Tables and charts

List of tables

List of charts

Acronyms and abbreviations

ABS	Australian Bureau of Statistics
AFPC	Australian Fair Pay Commission
AIRC	Australian Industrial Relations Commission
AWR	Annual Wage Review
CPI	Consumer Price Index
EEH	Employee Earnings and Hours
FMW	Federal Minimum Wage
FT	Full-time
FW Act	*Fair Work Act 2009*
FWA	Fair Work Australia
FWC	Fair Work Commission
FY	Financial Year
GDP	Gross Domestic Product
GFC	Global Financial Crisis
HILDA	Household, Income and Labour Dynamics in Australia
LNG	Liquefied Natural Gas
NILF	Not in the Labour Force
NMW	National Minimum Wage
NSA	Newstart Allowance
OECD	Organisation for Economic Co-operation and Development
PPP	Parenting Payment Partnered
PPS	Parenting Payment Single
PT	Part-time
RBA	Reserve Bank of Australia
SG	Superannuation Guarantee
UK	United Kingdom
US	United States
WPI	Wage Price Index
YA	Youth Allowance

1 Introduction

1. The Australian Government's submission to the 2014 Annual Wage Review (AWR) provides up-to-date evidence for the Fair Work Commission's (the Commission) Expert Panel (the Panel) to consider.

2. When the Commission handed down its 2013 AWR decision, the unemployment rate was 5.5 per cent. Since then the unemployment rate has risen to 6.0 per cent in February 2014. A further increase in the unemployment rate has been forecast in the August 2013 Economic Statement and the 2013-14 MYEFO. MYEFO forecasts the unemployment rate to be 6 ¼ per cent in the June Quarter of 2015, in contrast to the 5 ¾ per cent forecast for the June 2015 quarter in the 2013-14 Budget Papers (the most up to date Budget papers at the time of the 2013 AWR).

3. This reflects the fact that growth in Australia's economy is not meeting forecast trends, as the economy transitions from resources to non-resources drivers of growth. To support our economy through this economic transition, a cautious approach is needed.

4. Any wage increases that are not supported by improvements in productivity and that are beyond the affordability of businesses will not be sustainable and will cost jobs.

5. Given this, the National Minimum Wage (NMW) and award wages should act as safety net wages. In this context, the Government notes that most wages set out in awards are higher than the NMW.

1.1 The nature of the Panel's decision

6. In undertaking an AWR, the *Fair Work Act 2009* (*FW Act*) requires that the Panel make a National Minimum Wage Order (which sets the NMW) (s 285(2)(c) FW Act). The Panel must also review modern award minimum wages and retains discretion whether to vary them (see s 285(2) FW Act). In exercising the power under the annual wage review, the Panel must take into account the rate of the NMW that it proposes to set in the review (s 285(3) of the *FW Act*). In practice, the Panel has varied award wages when it has varied the NMW.

7. The Panel's decision will set minimum wages in the national workplace relations system. This includes the NMW and the various wages specified in the 122 modern awards.

1.1.1 The National Minimum Wage Order

8. The National Minimum Wage Order sets the NMW, which applies to all award/agreement free adult employees (excluding apprentices, trainees and employees with a disability). At present the NMW is $622.20 per week or $16.37 per hour ($32 354.40 per year).

9. The current NMW is just above half of the full-time median Australian weekly earnings ($1150.00 per week or $59 800 per year, as at August 2012 - the latest available data[1]) and around 2.5 times the base rate of Newstart Allowance for singles ($255.25 per week or $13 273 per year, as at March 2014).

[1] ABS (2013d) *Employee Earnings, Benefits and Trade Union Membership, Australia, August 2012*, Cat. No. 6310.0.

10. The National Minimum Wage Order also sets minimum wages for award/agreement free employees who are juniors, apprentices, trainees and employees with a disability. Minimum wages for award/agreement free juniors and employees with a disability are currently set as a proportion of the NMW. Minimum wages for award/agreement free apprentices and trainees are currently set in accordance with the Miscellaneous Award 2010.

1.1.2 Award wages

11. The 122 modern awards specify the minimum wages and conditions for employees in particular industries or occupations. This system of award wages is unique in the world.

12. Across the modern awards, there is a substantial spread within the adult award wage rates. The lowest adult award rate is $16.37 per hour or $622.20 per week (i.e. the NMW) which features in 45 of the 122 modern awards.[2] In the remaining 77 awards, the lowest adult wage rate is higher than the NMW.[3] The highest award rates go up to $153 403 per year (Air Pilots Award 2010).

13. Even within individual awards there can be a substantial spread in award wages. For example, the highest weekly wage rate for adult employees in the Manufacturing Award[4] ($979.70 per week or $50 994 per year) is 57.5 per cent higher than the lowest wage rate ($622.20 per week i.e. the NMW).

14. Modern awards usually include wage rates for juniors, apprentices, trainees and employees with a disability, which are usually set as a proportion of the relevant adult award rate; as well as casual loadings and piece rates.

15. In June 2012, the Commission made an Equal Remuneration Order, granting a pay rise of between 23 and 45 per cent for 150 000 Social and Community Services Sector (SACS) workers covered by the SACS Modern Award. The wage increases are being phased in over eight years, commencing on 1 December 2012. For a Certificate III SACS worker this currently equates to an increase of around $30 per week. In addition to this, SACS workers receive any minimum wage increases awarded by the Commission as part of annual minimum wage reviews.

16. The Commission recently increased apprentice award wages as part of the two year review of modern awards, with the largest increase for junior apprentices totalling around $145 per week when the new wage rates are fully implemented on 1 January

[2] Of the 45 awards, 25 express the lowest adult wage rate as both the hourly NMW of $16.37 and the weekly NMW rate of $622.20, a further 19 refer only to the weekly NMW and the remaining one states the lowest adult wage as an hourly NMW amount. However, in one of these awards workers may receive commission on top of the weekly NMW, and in a further two awards, workers have shorter ordinary working hours resulting in a higher hourly wage than the NMW. Also, in several of the 45 awards, the NMW is paid as an introductory rate or a trainee rate.

[3] Of these 77 awards, the lowest wage rate in each award varies between $16.40 per hour (Marine Tourism and Charter Vessels Award 2010), 0.2 per cent above the NMW, and $21.70 per hour (Medical Practitioners Award 2010), 32.6 per cent higher than the NMW.

[4] In full: Manufacturing and Associated Industries and Occupations Award 2010.

2015.[5] The Commission also introduced adult apprentice rates into a number of modern awards which did not previously contain them.[6]

17. Also as part of the two year review, the Commission increased award wages for 20 year old employees under the General Retail Industry Award 2010. The increase will be phased in over 12 months. From 1 July 2015, adult wage rates will apply to 20 year old retail employees who have worked for their employer for six months – an increase of around $1.80 per hour or $68 per week based on current wage rates.

1.1.3 Coverage

18. The Panel's decision directly affects the 1.5 million employees on awards (May 2012 data). As Table 1.1 shows, 461 900 of these award-reliant employees are low paid.

19. The award-reliant and NMW employees, who are directly covered by the Panel's decision, are coloured red in Table 1.1.

20. The legislation requires the Panel to consider low paid workers. The Panel has previously used the definition that workers paid less than two-thirds of the median wage are low paid.[7,8] In May 2012, it is estimated that there were around 1 058 000 low paid employees[9]. This includes 292 600 employees on above award arrangements (including NMW employees), 461 900 award-reliant employees (less than one-third of all award-reliant employees) and 303 500 employees on collective agreements.

21. There are also 22 300 employees on collective agreements paid equivalent to the NMW rate. Relatedly, the Panel should also consider employees whose collective agreement is linked to the AWR decision (e.g. the wage rates increase in line with the AWR decision). In December 2013, there were approximately 116 200 employees covered by agreements that were directly linked to AWR decisions (the green cell in Table 1.1). This may or may not overlap with collective agreement employees who are low paid.

22. Detailed information about the coverage of the Panel's decision is provided in Chapter 2.

[5] This is the difference in wage rates for junior apprentices under the Hair and Beauty Industry Award 2010. It is calculated by comparing the wage rates as at 31 December 2013 for first year apprentices in the first three months of their apprenticeship with the new wage rates which will be fully implemented on 1 January 2015. Note that the new wage rates are being phased in from 1 January 2014.

[6] First year adult apprentices who commence their apprenticeship on or after 1 January 2014 receive 80 per cent of the full tradespersons rate (which is generally $579.60 per week for a first year adult apprentice) unless the award already provides for a higher rate.

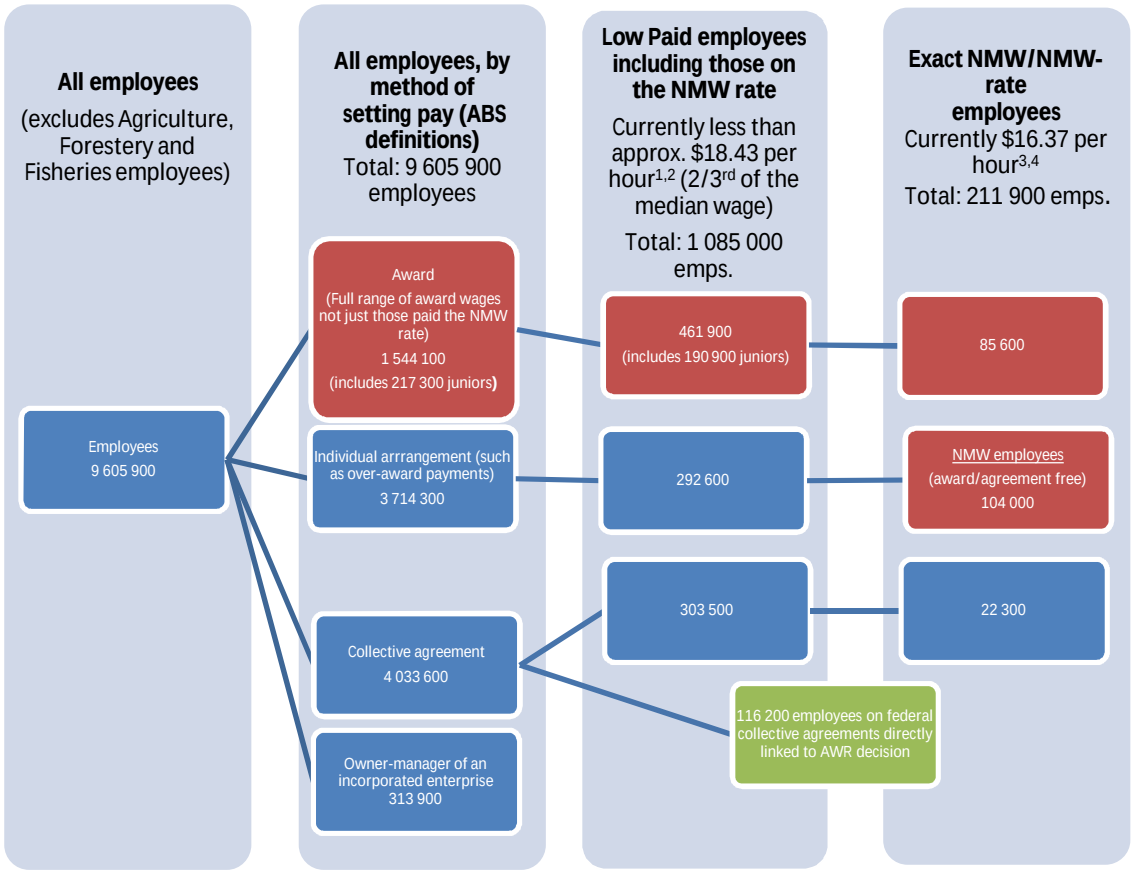
[7] 2013 Annual Wage Review Decision.

[8] In this submission the Government defines low paid workers as employees earning less than two-thirds of the median hourly wage. For ABS *Employee Earnings and Hours* 2012 data, low paid is defined as those workers paid less than $17.35 per hour.

[9] ABS (2013c), Employee *Earnings and Hours*, *May 2012,* Cat. No. 6306.0.

Table 1.1: Employees by method of pay setting and number of low paid employees (May 2012 data with current hourly rates)

The 1st column lists the total number of employees in Australia (excluding Agriculture, Forestry and Fisheries employees). The 2nd column then breaks those in column 1 down into how their wages are set. The 3rd column sets out how many of the employees in column 2 are low paid employees. Column 3 shows employees who earn any amount less than $18.43 per hour (and thus includes those in column 4). Column 4 sets out the number of employees in column 3 who earn exactly the national minimum wage. Column 4 shows, for example that 85 600 of employees ON AWARDS earn exactly the national minimum wage.



Source: ABS (2013c), Employee Earnings and Hours, May 2012, Cat. No. 6306.0; Department of Employment (2014) Workplace Agreements Database, December 2013. All numbers are for May 2012, except for the number of employees on agreements linked to AWR decision (in green). Note: (1) The low paid threshold for May 2012 was actually $17.35 per hour, which was used to estimate the number of low paid in 2012 – to get the "current" low paid threshold, the May 2012 threshold is uprated using Average Weekly Earnings November 2013. (2) If low paid employees work full-time they get $36 421.73 per year. (3) Employees paid at or below $15.70 per hour in May 2012 are considered to be paid the NMW rate (this is an upper error band of 19 cents). (4) If NMW-rate employees work full-time they earn $32 354.40 per year.

1.2 Legislative parameters for AWR decisions

23. When setting and varying minimum wages under the *FW Act*, the Panel must consider the legislative parameters known as the "*minimum wages objective*".[10]

24. Additionally, in reviewing modern award minimum wages, the Panel must have regard to the "*modern awards objective*".[11]

25. These legislative parameters provide the criteria that govern the Panel's decision and, as such, frame the Australian Government's submission.

1.3 The Australian Government's position

26. Under the *FW Act*, the legislative parameters referred to above need to be considered by the Panel. How the Panel weights these various parameters, and forms its decision, is a matter for the Panel, and should be based on the evidence.

27. The Government submits that the Panel's decision should support jobs growth. In particular, the Panel should consider the impact of employment costs on employers' decisions to hire workers, or adjust hours worked by existing workers, given:

    - the majority of award-reliant employees are not considered low paid (Chapter 2);
    - the softening in the economic (Chapter 3) and labour market outlooks (Chapter 4) since the last decision;
    - the need for wage flexibility to support employment during significant transitions taking place in the economy, noting economy wide wages are growing at annual rates below trend levels (Chapter 3); and
    - the evidence showing that higher minimum wages will further reduce employment opportunities, particularly for young job seekers (Chapter 5).

28. Related to this, low paid work is often a stepping stone to higher paid work, and therefore the Panel should consider the importance of ensuring sufficient entry level job opportunities, and should note the worrying trend of the past few years of increased rates of youth unemployment.

29. The Government believes that minimum wages play an important role in providing a safety net for Australian workers. When making its decision the Panel should take into account that minimum wage increases do not always go to those who most need help as less than one-third of award-reliant workers are low paid and low paid workers have a wide range of living circumstances (Chapter 6).

30. Alongside this, the Panel should take into account the substantial support already provided to the low paid by government, as well as any changes or proposed changes to government support to the low paid, such as the Government's commitment to abolish the carbon tax, while leaving in place the compensation which has already been provided through personal income tax cuts and fortnightly transfer payment increases. As the

[10] Section 284 of the *FW Act*.

[11] Section 134 of the *FW Act*.

Panel has previously observed "*both the minimum wage and the tax-transfer system are relevant to the maintenance of an effective safety net*" (FWC 2013).

31. The Panel's decision should note any increase in the Superannuation Guarantee rate. It should also be conscious of the complexities underlying gender pay inequities and take into account that AWR decisions are a blunt tool for addressing such issues.

32. Finally, the Panel should make a decision that takes into account the role of minimum wages in encouraging bargaining and hence promoting productivity. Between 2010 and 2012 there was a shift away from collective bargaining towards awards for the first time in the 12 years that the data have been collected regularly.

1.3.1 Minimum wages and the wage structure

33. The Government submits that the Panel should not limit its focus to the effect of an individual AWR decision but consider matters of broader context. For example, in 2012, nearly one-fifth (17.8 per cent) of award-reliant workers were paid more than the median hourly wage[12] for all non-managerial employees.[13]

34. The impacts flowing from a higher minimum wage rate will be discussed throughout the submission.

1.3.2 Performance of the national economy

35. The Panel is required to consider the performance of the national economy. As seen in the *2013-14 Mid-Year Economic and Fiscal Outlook*,[14] the economic environment (Chapter 3) remains subdued with Australia's economy expected to continue to grow below trend in 2013-14 and 2014-15 as it transitions from resources to non-resources drivers of growth. Real GDP is expected to grow by just 2½ per cent in both 2013-14 and 2014-15.

36. The current soft economic conditions should be carefully considered by the Panel in making its decision. Current growth is below trend, inflation is contained, productivity growth in award-reliant industries is weak and softness in the labour market. These are all reasons for caution when setting minimum wages.

1.3.2.1 Prices, wages and productivity

37. In the current soft economic environment, inflationary pressures remain contained. Headline and underlying inflation are forecast to be 2¾ per cent through the year to the June quarter 2014 and 2 per cent through to the June quarter of 2015.

38. Whilst noting that in some industries and sectors, there have been increases in wages considerably higher than the average across the economy as a whole, in the year to the December quarter 2013, wages grew 2.6 per cent – the same as the 2013 AWR decision. Averaged across all sectors and industries, wages are forecast to grow 2¾ per cent through the year to the June quarters of 2014 and 2015.

[12] Ordinary time earnings for non-managerial employees. Earnings for casuals have been deflated by 1.22 to adjust for casual loadings.

[13] ABS (2013c), *Employee Earnings and Hours, May 2012*, Cat. No. 6306.0.

[14] All forecasts in Section 1.3.2 are from the *2013-14 Mid-Year Economic and Fiscal Outlook*.

39. The current environment is one of adjustment as the economy transitions away from the resources investment boom. It is the flip side of the experience in the mid-2000s when wages grew strongly and capacity constraints emerged as the resources investment boom gathered steam. Therefore, the Panel should consider the need for wage restraint in making its decision.

40. The latest annual data indicates that over the 10 years to June 2013, labour productivity in the market sector has grown at an annual average rate of 1.6 per cent. Over this period, industries with the highest concentration of award-reliant employees generally had labour productivity growth well below the national average. For example, in Accommodation and food services and Administration and support services, labour productivity grew by 0.3 per cent between June 2003 and June 2013.

1.3.2.2 Labour market developments

41. In circumstances where growth is not at trend levels, labour market conditions in Australia remain soft (Chapter 4). Employment increased by 69 800 (or 0.6 per cent) over the year to February 2014 (11 530 800). The pace of employment growth is likely to remain below forecasted trend, namely, employment forecast to rise by ¾ per cent over the year to the June quarter 2014 and by 1½ per cent over the year to the June quarter 2015.

42. Australia's unemployment rate has edged higher over the last 12 months – the unemployment rate stood at 6.0 per cent in February 2014, up from 5.4 per cent in February 2013. The unemployment rate is presently forecast to be 6¼ per cent by mid-2015.

43. The impact across different groups has varied. For example, youth employment (persons aged 15-24 years) declined by 32 100 (or 1.8 per cent) over the year to February 2014.

1.3.3 Workforce participation

44. The minimum wages and modern awards objectives require the Panel to take increasing workforce participation into consideration when reaching its decision (Chapter 5).

45. Any increase in minimum wages increases labour costs for Australian businesses, particularly the 750 000 employing small businesses in Australia which are more likely than larger businesses to pay award wages.[15] Increases in labour costs impact on firms' decisions about hiring low paid workers.

46. The Government submits that, in the context of the AWR, improving workforce participation is about ensuring that there are sufficient incentives for businesses to create jobs, and adequate incentives for people to get a job, particularly for those who are currently unemployed.

47. For the range of households examined by the Government, people are better off financially after taking a minimum wage job, than when they were unemployed. In other

[15] ABS (2013b), *Counts of Australian Businesses, Including Entries and Exits, June 2008 to June 2012*, Cat. No. 8165.0

words, Australia's NMW provides participation incentives for people who are not employed, even after accounting for the tax-transfer system.

1.3.4 Relative living standards and needs of the low paid

48. The Government believes that minimum wages play a role in providing a safety net for workers. The Government submits that minimum wage increases are, however, an inefficient mechanism for addressing relative living standards and the needs of the low paid. This is because most beneficiaries of a minimum wage increase are not the low paid. Even amongst those who are low paid, these workers have diverse circumstances and are spread across the income distribution (Chapter 6).

49. The tax-transfer system is highly targeted towards helping the poorest households and is the primary means of redistributing income. Low paid workers living in low income households receive considerable and targeted support from government, provided through in-kind services and the tax-transfer system. The transfer system in particular provides support for low income households with children. Given the targeted support provided through the tax-transfer system, particularly to families, the Government contends that providing support to partners and children is not the role of the minimum wage.

50. The Government shares the view of the Panel's 2013 decision that, *"increases in minimum wages are a blunt instrument for addressing the needs of the low paid".*

1.3.5 Abolishing the carbon tax

51. The previous government introduced the carbon tax. The Commission's 2012 and 2013 minimum wage decisions did not provide any additional assistance for the inflationary impacts of the carbon tax, due to the compensatory tax cuts and transfer payment increases introduced at that time.[16]

52. The Australian Government has committed to abolish the carbon tax effective from 1 July 2014. All Australians, including the low paid, will be the beneficiary of a lower cost of living. Under the Government's commitment to abolish the carbon tax from 1 July 2014, on average, Australian households will be around $550 better in 2014-15 than they would be with the carbon tax in place. In particular, average retail electricity prices are expected to be around 9 per cent lower and average retail gas prices around 7 per cent lower than they otherwise would be in 2014-15. In addition, the Government will leave in place the carbon tax compensation that is already in place. As a result, these tax cuts and fortnightly benefit increases will become genuine cost of living relief.[17]

[16] As the Panel stated in its 2012 decision: *"…this Review should not provide any additional assistance to compensate for the anticipated price effects associated with the introduction of a price on carbon. Compensation has already been provided through tax cuts and transfer payments and further compensation by minimum wage adjustments would amount to double dipping."*

[17] These include: the increase in the statutory tax-free threshold from $6,000 to $18,200 from 1 July 2012 and the associated changes to statutory rates and the low-income tax offset and the 'Clean Energy Supplement' which is $13.90 per fortnight for a single age pensioner, and $87.60 per fortnight for a child under 13 where the Family is receiving the maximum rate of FTB A.

53. Since the Government's decision to abolish the carbon tax will financially benefit households, including the low paid, the Panel should take account of the carbon tax repeal (and the continuation of compensation) in its 2014 decision.

1.3.6 Superannuation Guarantee

54. Under the *Superannuation Guarantee (Administration) Amendment Act 2012*, the Superannuation Guarantee (SG) rate is to increase from 9 per cent to 12 per cent. The first 0.25 percentage point increase occurred on 1 July 2013.

55. The Panel in the 2013 AWR decision took into account the fact of the increase in the SG rate indicating that: *"…the increase in modern award minimum wages and the NMW we have awarded in this Review is lower than it otherwise would have been in the absence of the SG rate increase."*

56. The second increase in the SG rate is scheduled to occur on 1 July 2014. The Panel, consistent with its 2013 decision, should take into account the impact of any change to the SG rate.

1.3.7 Equal remuneration

57. AWR decisions are a blunt tool for addressing the complex factors underlying pay inequities.

58. For example, in May 2012, the hourly gender pay gap was 10.1 per cent.[18] However, amongst those on awards, women were paid, on average, 10.1 per cent more than men likely reflecting that women are on higher award wage rates than men (ABS 2013c). This suggests that the measured gender pay gap is concentrated amongst employees on collective agreements and above award arrangements. Likewise, the pay gap varies widely by occupation and industry. This highlights the complexity to such issues – issues that cannot be adequately addressed through across-the-board minimum wage increases.

59. All else being equal, any increase in award wages will reduce the measured gender pay gap, as award wages form a larger part of total female wages (9.5 per cent) than total male wages (6.2 per cent).[19] The effect of AWR decisions on the overall gender pay gap is, however, marginal. For example, the 2013 AWR increase of 2.6 per cent to all award wages was estimated, all else being equal, to have reduced the hourly gender pay gap for permanent full-time employees by about 0.1 percentage points.[20] Further, award wage increases will not address any measured pay gap that arises from collective bargaining.

---

[18] The more widely reported 2012 pay gap of 17.5 per cent differs to the calculation in this submission of 10.1 per cent. 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.

[19] Permanent, full-time, non-managerial employees only.

[20] If award wages increase by 2.6 per cent, then average male wages will increase by 0.16 per cent. This represents award wages as a proportion of male wages (6.2 per cent) multiplied by the increase in award wages (2.6 per cent). Likewise the increase in average female wages would be 0.25 per cent. Roughly speaking, the change in the gender pay gap (0.09 per cent) is the difference between the increase in female earnings (0.25 per cent) and the increase in male earnings (0.16 per cent). Therefore, all else being equal, this is estimated

60. The *FW Act* provides a range of other mechanisms to address unequal remuneration in circumstances of work of equal or comparable value, such as varying modern awards minimum wages where justified by work value reasons and equal remuneration orders.

1.3.8 The need to encourage collective bargaining

61. The Australian Government is committed to promoting productivity. Research suggests that, compared to awards, more flexible and localised setting of wages and conditions can help enhance productivity. For example, bargaining allows for employment conditions to be tailored to the circumstances and needs of employees and employers, which can promote productivity and economic efficiency. Thus, laying the ground work for people to move out of the award system and into bargaining arrangements is one way to help promote productivity growth.

62. Productivity growth was strong in the 1990s, as pay and conditions setting in the Australian labour market moved away from the award system towards enterprise bargaining.

63. The Productivity Commission (1998a, 1998b, 1998c) finds that inefficient work practices across a range of industries reflect the perverse incentives built into awards. The Productivity Commission (1999, 2000) also finds that bargaining facilitated significant productivity improvements.

64. 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.

65. The Panel may wish to consider whether there is a correlation between an increase in award rates (beyond providing a safety net[21]) and a greater proportion of workers who are award-reliant and therefore are not bargaining.

66. The Government considers the level of minimum wages (including award relativities), and how they relate to the wage structure of the economy, have an effect on the incentive to bargain. The level of minimum wages has evolved over a period of time and is not the result of any individual AWR decision.

to have only reduced the hourly gender pay gap for permanent full-time employees by about 0.1 percentage points. While this calculation is based on 2012 data, it is unlikely to affect the result as the composition of male and female wages is unlikely to have changed substantially within a year.

[21] 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).

67. As former Prime Minister Paul Keating said in 1993, the workplace relations framework should place its:

> *"…primary emphasis on bargaining at the workplace level within a framework of minimum standards provided by arbitral tribunals. It is a model under which…awards and…(centralised) wage increases would be there only as a safety net."*

68. The Government considers that the level of Australia's award wages can have an adverse impact on further growth in enterprise level bargaining.

1.4 Conclusion

69. The Government has submitted that the Panel should place weight on the critical economic factors and the impact of its decision on the hiring of the low paid, especially considering the economic and labour market outlook.

70. The Government recommends that in making its decision, the Panel should consider the Government's repeal of the carbon tax, while leaving in place compensation provided through tax cuts, the resulting change to the cost of living and transfer payment increases, and should note any change in the Superannuation Guarantee rate. The Panel should also have regard to the need to encourage collective bargaining.

71. In the subsequent chapters the Government provides detailed evidence on the coverage of the Panel's decision (Chapter 2), the state of the economy (Chapter 3) and the labour market (Chapter 4). The submission discusses workforce participation (Chapter 5). Finally, Chapter 6 discusses relative living standards and the needs of the low paid.

2 Minimum wages and the wage structure

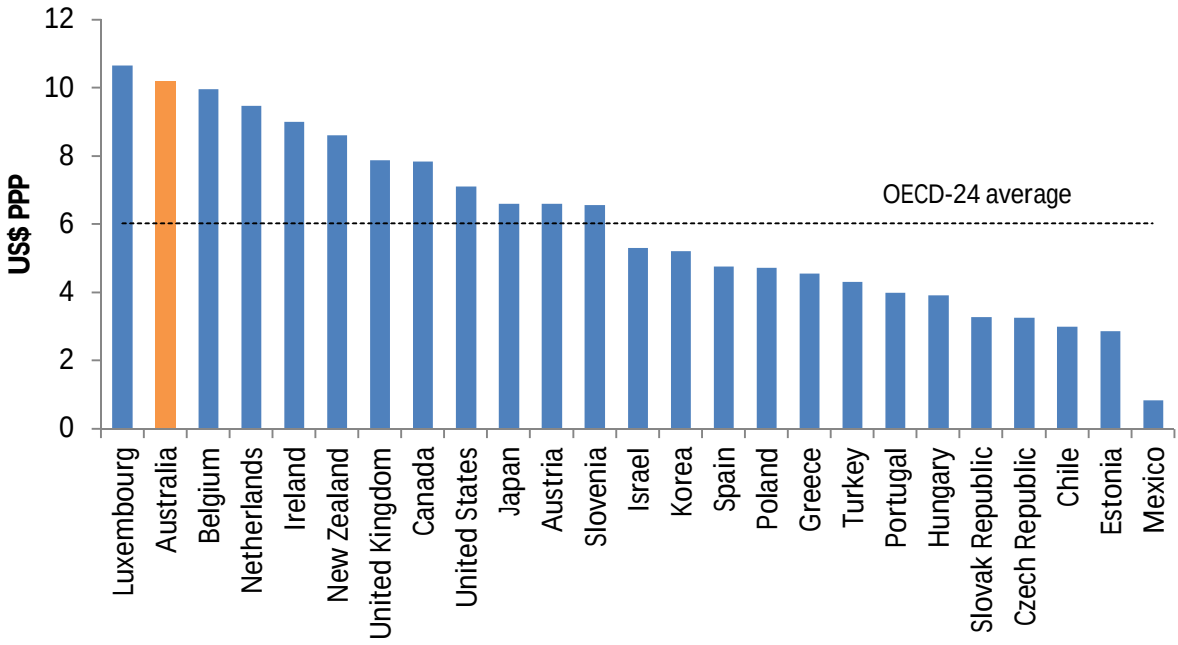
72. Australia's system of minimum wages is unique in the world. In this chapter, the Government will provide an international and historical snapshot of the National Minimum Wage (NMW) and award wages. The Government will also discuss the coverage of minimum wages in Australia and the scope of the Panel's decision. Finally, the Government will examine the relationship between minimum wages and the wage structure as a whole.

2.1 International comparisons

73. In considering the NMW, the Panel ought to be aware of the broader international economic context. To that end, Charts 2.1 and 2.2 illustrate international comparisons amongst other OECD nations.

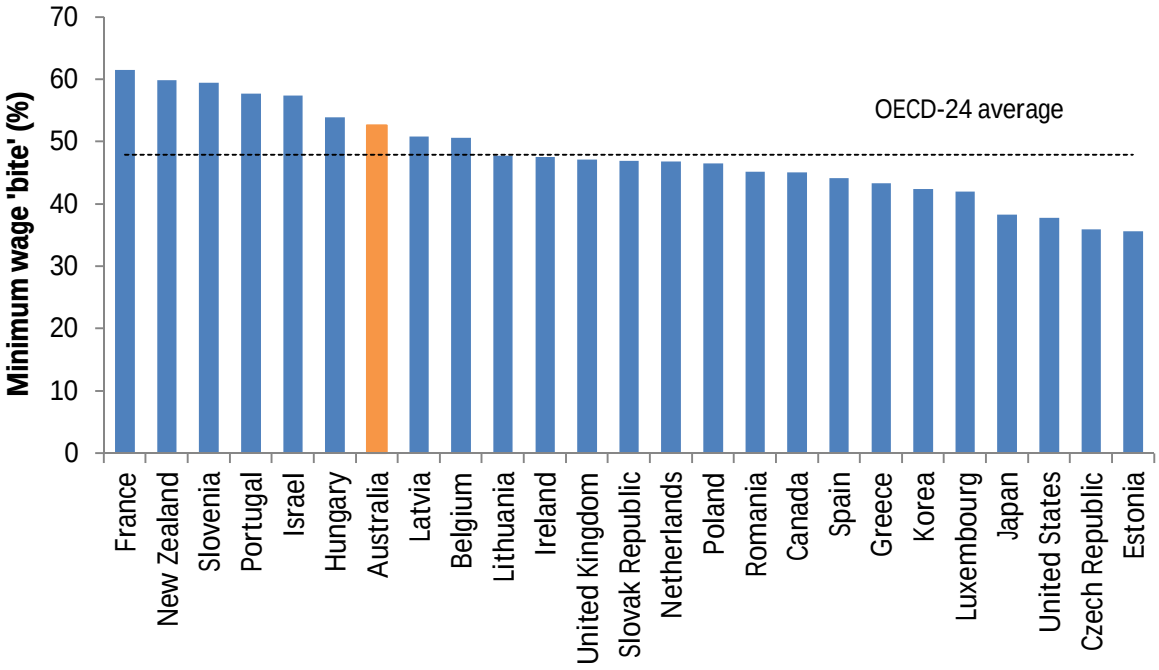
74. The Government recommends that the Panel, when considering the level of minimum wages in an international context, note also that award wages are often considerably higher than the NMW (discussed in Chapter 1).

Chart 2.1: Minimum wages in OECD nations, purchasing power parity basis, 2013



Source: *OECD Stat extracts*, stats.oecd.org, extracted March 2014
Note: Data for France is missing

Chart 2.2: Minimum wages in OECD nations, minimum wage 'bite' comparison, 2012



Source: *OECD Stat extracts*, stats.oecd.org, extracted January 2014
Note: Data for Mexico is missing.

2.2 Historical trends

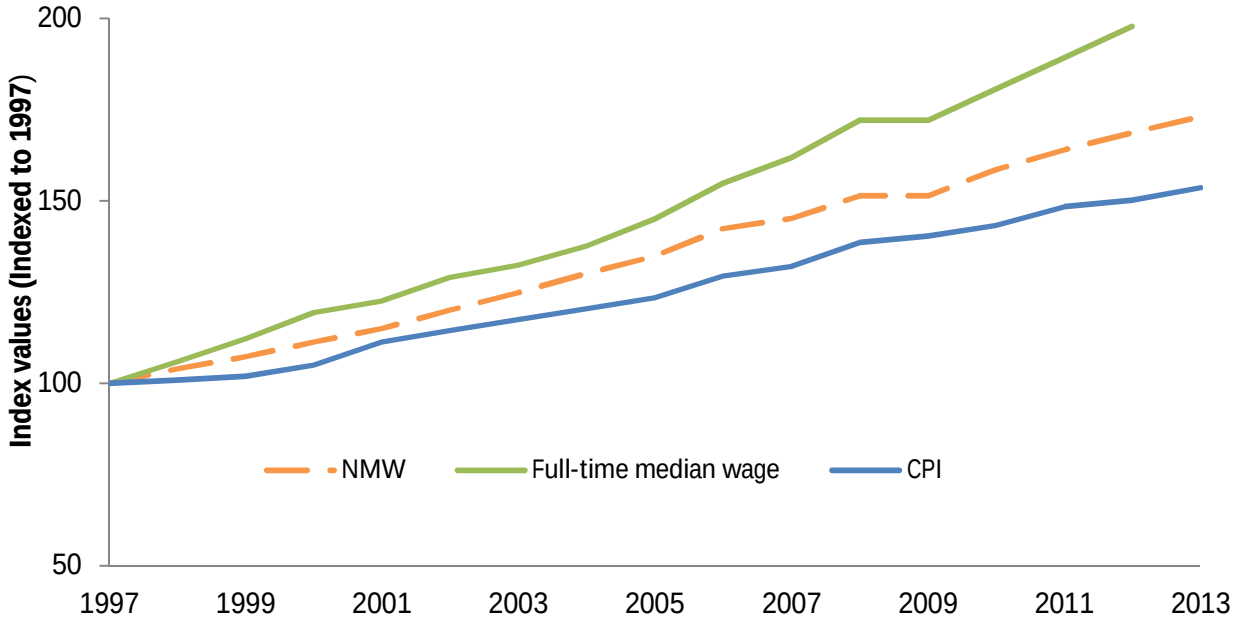
75. Since the NMW (formerly the Federal Minimum Wage) was established in 1997 it has increased by 73.1 per cent (or an average annual increase of 3.5 per cent) in nominal terms, shown in Chart 2.3.[22,23] Over the same period, consumer prices, measured by the Consumer Price Index (CPI), rose by 53.7 per cent. This means that in real terms, the minimum wage rose by 12.7 per cent (or an average annual rise of 0.7 per cent) between 1997 and 2013.[24]

[22] Measured from 1 July 1997 to 1 July 2013.

[23] This understates the total increase in compensation for minimum wage workers over this period as the Superannuation Guarantee rate increased from 6 per cent to 9.25 per cent. See further Chapter 6.

[24] For a detailed history of the NMW, see Bray (2013). Bray documents the evolution of the minimum wage from the original Harvester decision minimum wage in 1907 to the current NMW.

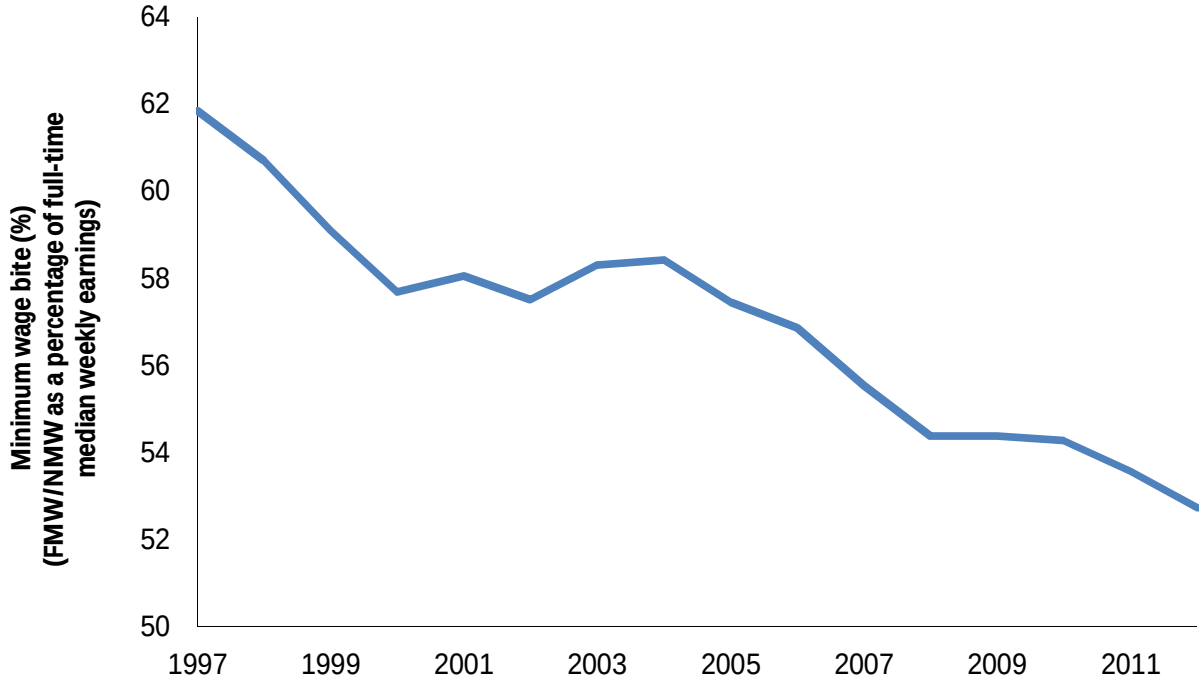
Chart 2.3: The National Minimum Wage, 1997 to 2013 (indexed to 1997)



Source: AIRC/AFPC/FWA/FWC data; ABS (2014d), *Consumer Price Index*, *Australia, December quarter 2013,* Cat. No. 6401.0; ABS (2013d), *Employee Earnings, Benefits and Trade Union Membership,* Cat. No. 6310.0, various years.

76. The NMW has grown more slowly than the full-time median wage (which grew by 97.9 per cent up to 2012 or an average of 4.7 per cent per year), shown in Chart 2.3. This has caused the minimum wage 'bite' to decline from 61.9 per cent to 52.7 per cent from 1997 to 2012 (Chart 2.4).

Chart 2.4: Australian minimum wage 'bite', 1997 to 2012



Source: Government calculation using minimum wage data and data from ABS (2013d), *Employee Earnings, Benefits and Trade Union Membership*, Cat. No. 6310.0, various years.

2.3 The coverage and scope of the Panel's decision

77. The Panel's decision will directly affect employees whose wages are set by modern awards, employees paid the NMW and parents accessing Paid Parental Leave under the current scheme. Employees whose pay is set by a collective agreement may also be affected.

2.3.1 Award-reliant employees

78. The latest data shows that in May 2012 there were approximately 1 544 100 award-reliant employees in Australia which equates to 16.1 per cent of all Australian employees (ABS 2013c).[25] The Panel's decision will affect the overwhelming majority of these employees if the Panel decides to increase all award wages.[26]

79. Table 2.1 shows the number and proportion of award-reliant employees (and NMW employees) by industry in 2012. The industries with the highest concentration of award-reliant employees were: Accommodation and food services (44.8 per cent); Administrative and support services (29.0 per cent); Retail trade (25.6 per cent); and Other services (24.6 per cent). Accordingly, the cost implications arising from the AWR decision particularly affects these industries.

[25] This excludes workers in the Agriculture, forestry and fishing industry for which the ABS does not collect data.

[26] A small number of award-reliant employees, identified from the ABS data, will continue to receive state-based minimum wage increases granted independently within state workplace relations jurisdictions (namely award-reliant employees in unincorporated enterprises in Western Australia, state and local government award-reliant employees in New South Wales, Queensland, South Australia and Western Australia and state government award-reliant employees in Tasmania).

Table 2.1: Number (and proportion) of award-reliant, and NMW employees, by industry, 2012

Industry	Award-reliant employees			NMW employees[(a)]		
	(000s)	% of industry	% of award emps.	(000s)	% of industry	% of NMW emps.
Mining	0.9	0.6	0.1	0.0	0.0	0.0
Manufacturing	91.2	11.3	5.9	12.4	1.5	11.9
Electricity, gas, water and waste services	4.7	4.3	0.3	0.1	0.1	0.1
Construction	61.2	10.6	4.0	8.5	1.5	8.2
Wholesale trade	35.6	8.1	2.3	4.8	1.1	4.7
Retail trade	278.5	25.6	18.0	9.3	0.9	8.9
Accommodation and food services	307.9	44.8	19.9	12.9	1.9	12.4
Transport, postal and warehousing	33.9	7.3	2.2	1.3	0.3	1.3
Information media and telecommunications	9.7	5.7	0.6	1.8	1.1	1.8
Financial and insurance services	16.9	4.7	1.1	2.9	0.8	2.8
Rental, hiring and real estate services	33.2	20.9	2.2	4.2	2.6	4.0
Professional, scientific and technical services	44.9	6.0	2.9	9.1	1.2	8.7
Administrative and support services	170.4	29.0	11.0	8.1	1.4	7.8
Public administration and safety	43.4	6.9	2.8	0.2	0.0	0.1
Education and training	60.8	6.8	3.9	4.0	0.4	3.9
Health care and social assistance	231.6	19.0	15.0	1.6	0.1	1.6
Arts and recreation services	30.2	19.7	2.0	1.0	0.6	1.0
Other services	89.0	24.6	5.8	21.6	6.0	20.8
Total	**1544.1**	**16.1**	**100.0**	**104.0**	**1.1**	**100.0**

Source: ABS (2013c), *Employee Earnings and Hours*, *May 2012*, Cat. No. 6306.0, published and unit record data from the ABS Remote Access Data Laboratory. (a) Small figures should be treated with caution since they may have a large error margin.

80. In addition, small businesses employees (employing less than 20 employees) were more likely to be award-reliant than employees of larger businesses (27.3 per cent and 13.4 per cent respectively).

81. Collectively, the Retail industry, the Accommodation and food services industry, and small businesses in the other industries, accounted for 60.0 per cent of award-reliant workers.

82. Both part-time employees (26.5 per cent) and casual employees (36.0 per cent) were also more likely to be award-reliant (in contrast, 10.0 per cent of full-time employees and 10.8 per cent of non-casuals were award-reliant).

83. Women were more likely to be award-reliant than men (18.5 per cent of women compared with 13.6 per cent of men).

84. In relation to occupation, Labourers (29.0 per cent), Community and personal service workers (28.8 per cent) and Sales workers (25.8 per cent) had the highest concentrations of award-reliant employees.

2.3.2 National Minimum Wage employees

85. The Panel's decision will set the NMW, which applies to award/agreement free employees. However, there are no official statistics on the number or proportion of employees on the NMW.[27]

86. The Government estimates that there were 104 000 award/agreement free employees (1.1 per cent of all employees) who were paid the NMW in May 2012.[28,29]

87. The number of employees on the NMW is significantly less than the number of employees on awards, because:

- award coverage is fairly comprehensive, especially in low paying industries; and
- award wages include a broad spread of wages, so awards cover people deeper into the wage structure, while the NMW only captures people at the bottom of the wage structure.

88. The industries with the highest proportion of NMW employees were: Other services (6.0 per cent) and Rental, hiring and real estate services (2.6 per cent).[30] See Table 2.1 for full results.

89. Workers in small businesses were much more likely to be on the NMW compared to people working for larger employers (2.7 per cent and 0.5 per cent respectively).

90. The most NMW-reliant occupations were Labourers (2.3 per cent), followed by Community and personal service workers (1.7 per cent).

91. Part-time workers were more likely to be paid the NMW than full-time employees (1.9 per cent and 0.6 per cent respectively). Likewise, casual workers were more likely to be paid the NMW than non-casuals (2.8 per cent and 0.7 per cent respectively).

[27] Estimates of NMW coverage from survey data vary depending on assumptions made.

[28] To calculate the number of NMW employees, the following employees are considered: (a) paid adult rates; (b) non-managerial; (c) on an unregistered above award arrangements; and (d) with average ordinary time earnings of up to $15.70 per hour (just above the 2011-12 hourly NMW of $15.51). Where the employee is a casual, earnings are divided by 1.22 to adjust for the casual loading. Source: ABS (2013c) *Employee Earnings and Hours, May 2012,* Cat. No. 6306.0., unit record data, accessed through the ABS Remote Access Data Laboratory. The estimate may include a small number of employees outside the national workplace relations system.

[29] It was also estimated that there were a further 22 300 adult employees on collective agreements who were paid at the NMW rate.

[30] It should be noted that some of the breakdowns of NMW workers may be unreliable due to the small number of people involved.

2.3.3 Collective agreements

92. In addition to acting as a general wage floor, including a floor for enterprise bargaining, AWR decisions can affect wage outcomes where federal collective agreements are formally linked to AWR decisions.[31]

93. Data from the Department of Employment shows that as at December 2013, there were 116 200 employees who were on collective agreements where wage increases flowed on directly and automatically from AWR decisions (out of 2 621 600 employees on federal collective agreements).

94. Agreements where wage increases flowed on directly and automatically from AWR decisions were more common for agreements covering fewer than 15 employees – with 11.8 per cent of agreements covering fewer than 15 employees including the clause, compared to 9.4 per cent for all other agreements. It was also more common in the following industries: Retail trade; Accommodation and food services; Agriculture, forestry and fishing; and Arts and recreation services.

95. Including the 116 200 employees mentioned above, there were a total of 439 400 employees who were covered by collective agreements that were in some way linked to AWR decisions.[32]

2.3.4 Paid parental leave

96. Minimum wage decisions also impact on the rate paid to parents under the existing paid parental leave schemes ('Parental Leave Pay' and 'Dad and Partner Pay').

97. The existing Parental Leave Pay provides 18 weeks of payments at the level of the NMW to new parents who are the eligible primary carers. Dad and Partner Pay provides eligible working fathers and partners with access to two weeks of leave paid at the NMW rate.

98. Over 2012-13, 131 307 parents received Parental Leave Pay and 27 240 received Dad and Partner Pay.

99. From 1 July 2015, the Government will introduce a paid parental leave scheme that provides eligible working mothers with up to 26 weeks parental leave pay at their actual wage (capped at $150 000) or the NMW, whichever is greater, plus superannuation. Working fathers and partners can access two weeks of the 26 weeks available under the scheme at their actual wage (capped at $150 000) or the NMW, whichever is greater, plus superannuation.

[31] According to ABS (2013c) *Employees Earnings and Hours*, 42.0 per cent of employees are on collective agreements.

[32] For example, in the Teen Challenge Care (QLD) Ltd and Teen Challenge International (QLD) Inc Enterprise Agreement 2013 – 2015, clause 12.1 states that *"Salaries and wages applicable under this agreement shall be increased each year in accordance with the Modern Award (MA000100) - Social, Community, Home Care and Disability Services Industry Award 2010."*

2.4 Minimum wages and the wage structure

100. So far, this chapter has discussed the formal coverage of the Panel's decisions and linkages from the Panel's decision. This section offers observations on the broader, more difficult to quantify, impacts of minimum wages on the wage structure and the wage bill.

101. This includes looking at the distributional impacts of minimum wages, the "spillover" impacts of minimum wages onto other wages and labour's share of income, as well as industry level impacts.

2.4.1 Distributional impacts

102. As mentioned earlier in this chapter, there is a significant spread in adult award rates of pay.[33]

103. In 2012, nearly one-fifth (17.8 per cent) of award-reliant workers were paid more than the median hourly wage[34] for all non-managerial employees.[35] Accordingly, an increase to all award wages will raise the earnings of the low paid and increase earnings for 273 000 award-reliant workers who earn more than the median wage.

104. In fact, the majority of the benefit from an increase to all award wages goes to those who are not low paid. Less than one-third (30.0 per cent) of award-reliant workers were low paid.[36] An increase to all award wages is therefore not well-targeted to assisting the low paid in terms of earnings.

105. Further, when the Panel increases award wages by the same percentage, it is the higher award rates that add most to the costs of Australian businesses. Approximately 18.3 per cent of the total award wages cost is attributable to low paid workers. Accordingly, an increase to all award wages (that is, including to those that are not low paid) applies to the remaining 81.7 per cent of the total award wages cost.[37]

106. Even if only the lowest minimum wages (those given to the low paid) are increased, this is still not particularly well-targeted to addressing the needs of the low paid, in large part due to their diverse living circumstances as discussed in Chapter 6.

2.4.2 Wage spillovers

107. Another way minimum wages affect the wage structure is through "spillovers".[38] This is where minimum wage increases given to low paid workers are passed through to higher

[33] Noting that most Australian minimum wage workers are on award wages that are above the NMW.

[34] Ordinary time earnings only. Deflated by 1.22 for casual loading where applicable.

[35] ABS (2013c), *Employee Earnings and Hours, May 2012*, Cat. No. 6306.0.

[36] Low paid is defined as less than two-thirds of median hourly earnings (including those on junior rates). For ABS *Employee Earnings and Hours* 2012 data, the low paid threshold is $17.35 per hour. This is 11.9 per cent above the hourly minimum wage at the time ($15.51).

[37] Non-managerial employees only. Calculations include employees on junior rates.

[38] One specific source of spillovers is the collective agreement clauses discussed in Section 2.3.3.

wage earners in order to maintain relativities between rates of pay. This reduces the redistributional effectiveness of minimum wages.

108. Assuming that employees paid up to 20 per cent above the minimum wage are affected by wage spillovers, then in Australia this would account for about 5 per cent of all employees (481 200 employees[39] in May 2012).[40]

109. However, it should be noted that the effect of spillovers may actually be larger in Australia than overseas, given the number of people employed on award who earn at or above the median wage, resulting in spillovers deeper into the wage structure. Furthermore, since Australian minimum wages are reviewed annually, firms and workers may be more likely to use minimum wage changes as a benchmark for setting other wages.[41]

2.4.3 The labour share of income

110. During the 2013 AWR, there was substantial discussion of the labour share of income[42] and its implications for wage fixing. The Panel invited further comment in the 2014 AWR (FWC 2013).

111. Labour share of income was 61 per cent in 1997-98 and was 58 per cent in 2012-13. The recent trend indicates an increase in labour share.[43]

112. For the following reasons, the Government does not consider that the economy-wide labour share of income should be a significant consideration for the Panel's decision.

113. Firstly, the labour share of income relates to the earnings of all workers, not just the low paid, and it is also influenced by the number of people in work and the capital intensity of the economy. As such it does not go to the issue of the living standards of the low paid.

114. Secondly, for the reasons given by the Panel's 2013 decision, the labour share of income cannot be easily linked to the productivity of the workforce as a whole, let alone the low paid.

[39] This figure is based on the number of adult award-free employees who are paid up to 20 per cent above the NMW in hourly terms (585 200) less any NMW employees (104 000). This calculation is based on ordinary time earnings and adjusted for casual loadings (consistent with the NMW estimate). Source: ABS (2013c), *Employee Earnings and Hours, May 2012*, Cat. No. 6306.0.

[40] This is similar to the results of the *Award and Agreement Coverage Survey, 1999*. Discussed in Department of Employment, Workplace Relations and Small Business (2000) the survey showed that around 4 per cent of employees experienced spillover wage increases.

[41] In arguing that there are spillovers from AWR decisions, the Government does not submit that these are necessarily large or pervasive.

[42] The labour share of income is an estimate of the share of total factor income, either at an industry or economy wide level, which can be attributed to the remuneration for hours worked. The ABS calculates labour and capital income shares from the ABS *National Accounts* and publishes them annually in the ABS *Estimates of Industry Multifactor Productivity*.

[43] ABS (2013e) *Estimates of Industry Multifactor Productivity, 2012-13*, Cat No. 5260.0.55.002.

115. Finally, individual AWR decisions are unlikely to have any substantial impact on the economy-wide labour share of income, when considering the following:

- the total weekly cash earnings of award-reliant employees was $978.7m, representing 9.1 per cent of the total weekly wage bill in May 2012 ($10 783.6m);[44]
- using the example of the 2013 AWR increase of 2.6 per cent to all award wages (for simplicity ignoring NMW employees and wage spillovers), this increase will have increased the total wage bill by about 0.2 per cent;
- then, since the labour share of income was around 58 per cent,[45] the 2013 AWR increase would have increased the labour share by 0.1 per cent.[46,47]

2.4.4 Industry wage impacts

116. The Panel should consider the impact of AWR determinations on those industries most affected by the decision – that is, the Panel should have particular regard to the more award-reliant industries. While the impact of a single, modest AWR decision on economy-wide wages may be limited, it can be significant for the individuals, firms and industries who are award-reliant. For example, the Government estimates that:

- in the Accommodation and food services industry in 2012, 39.5 per cent of the wage bill comprised award wages;
- in Retail trade, 18.9 per cent of the wage bill was made up of award wages;[48] and
- for small businesses, 17.6 per cent of the wage bill is made up of award wages.

117. Furthermore, in both Accommodation and food services, and Retail trade, labour costs are already a very substantial part of the income share (0.78 and 0.74 respectively[49]).

2.5 Conclusion

118. In this chapter, the Government has discussed the nature of Australian minimum wages and the coverage of the Panel's decision, as well as the relationship of minimum wages to the wage structure as a whole.

119. The Government submits that the Panel should not consider itself limited, nor should it limit its considerations, to individual AWR decisions during this AWR. Instead, the Government recommends the Panel take a broader approach and consider issues of

[44] This 9.1 per cent is smaller than the percentage of employees who are award-reliant because award-reliant employees earned less on average (due to both working hours and rates of pay) than other employees.

[45] ABS (2013e) *Estimates of Industry Multifactor Productivity*, *2012-13*, Cat. No. 5260.0.55.002.

[46] The effect of the Panel's decision on the wage share of income may be somewhat larger than this estimate due to factors such as NMW employees, collective agreements clauses, and general wage spillovers. These effects are difficult to quantify, however, they are likely to be small, given the evidence earlier in this chapter.

[47] The 0.1 percentage point labour share is calculated as 0.2 per cent (the increase in the wage bill) multiplied by the labour share of income (58 per cent).

[48] These data are prior to the Commission's decision 21 March 2014 to increase pay for 20 year olds cover by the General Retail Industry Award 2010 to the adult rate of pay (AM2012/196).

[49] ABS (2013e) *Estimates of Industry Multifactor Productivity*, *2012-13*, Cat No. 5260.0.55.002.

wider context, including that the majority of the benefit from an increase to all award wages goes to those who are not low paid.

120. The Government also recommends that the Panel consider the effect of minimum wages (particularly award wages at or above the median wage) on the broader wage structure. This includes the effect of minimum wages on the wage costs of award-reliant industries and the fact that award wages are not always focused on the lowest paid.

3 Economic environment

3.1 Introduction

121. The minimum wages objective in the *FW Act* requires the Commission to consider the performance of the national economy in setting minimum wages (*FW Act*, ss 284 (1)(a)).

122. This chapter describes the performance of and outlook for the Australian economy. Forecasts are from the *2013-14 Mid-Year Economic and Fiscal Outlook* unless stated otherwise.

3.2 Overview

123. Although global growth remains subdued and below trend, it is expected to gradually strengthen over 2014 and 2015. There has been a pickup in activity in some advanced economies and solid growth is forecast for China, while growth in a number of other emerging market economies has slowed.

124. Against this global backdrop, Australia's economy is expected to continue to grow, although not at trend, in 2013-14 and 2014-15 as it transitions from resources to non-resources drivers of growth. Resources investment is forecast to decline sharply, detracting from growth in 2014-15, as the resources boom transitions from the investment to the production phase. While resources exports are expected to grow strongly over the forecast period, stronger export growth will only partly offset the fall in investment and the fall in the terms of trade.

125. A rebalancing of economic and employment growth towards non-resources sectors is needed to fill the gap left by falling resources investment. Recovering global economic growth, low interest rates and a somewhat lower exchange rate will support an increase in activity in the non-resources sectors. This expected increase in activity will see growth in employment but not at the forecast trend.

126. Wage flexibility is an important adjustment mechanism that supports employment during periods of slower economic growth and facilitates the significant transitions taking place in the economy. Wages growth below trend will help support employment as firms respond to moderate growth in real labour costs. This growth will also help to contain inflationary pressures – domestic prices are expected to grow at below-average rates in 2013-14 and 2014-15. In making its decision, the Panel should have regard to the role of wage flexibility during this period of economic transition.

3.3 International Outlook

127. Global growth remains subdued but is expected to strengthen over the next two years. There has been a pickup in activity in some advanced economies, from an increasingly robust recovery in the United States, to an at least short-term boost for Japan and the relatively weak and uneven recovery underway in the euro area. Continued solid growth is expected for China over the forecast horizon, but China's growth prospects will be increasingly dependent on whether authorities can successfully implement necessary structural reforms, including those related to the financial system. A number of other emerging market economies have slowed, including India and Indonesia, reflecting tighter

financial conditions and structural impediments to growth and investment. Global GDP growth is forecast to be 2¾ per cent in 2013, improving to growth of 3½ per cent in 2014 and 3¾ per cent in 2015.

3.4 Domestic Outlook

128. The Australian economy is growing. It is growing below trend, and is expected to continue to do so through to the end of 2014-15. Real GDP is expected to grow by 2½ per cent in both 2013-14 and 2014-15. Sustained growth in the economy of more than 3 per cent a year would particularly assist reducing unemployment. The composition of growth is expected to change markedly over this period. Resources investment is expected to detract sharply from growth in 2014-15 while growth in resources exports and the non-resources sectors is forecast to increase.

129. Activity outside the economy's resources sector has been subdued, and the transition to non-resources drivers of growth remains slow. This is weighing on the labour market, with employment growth expected to remain subdued, and the unemployment rate forecast to rise to 6¼ per cent by mid-2015.

130. Sustained low interest rates should support a broader economic recovery. Further falls in the exchange rate would assist such a recovery. However, if the economy's non-resources sectors take longer than expected to bounce back, economic activity and employment growth will be weaker than currently forecast.

3.4.1 Business conditions

131. Resources investment has been the key driver of economic growth in recent years. It is now at or near its peak. New private business investment fell 3.4 per cent in the December quarter 2013, to be 7.2 per cent lower through the year. New machinery and equipment investment drove the decline in the December quarter, falling for the fifth consecutive quarter by 8.2 per cent. New engineering construction and new building activity also eased (down 1.5 per cent and 2.3 per cent respectively) (ABS 2014a).

132. Resources investment is expected to remain at elevated levels over 2013-14, supported by investment in Liquefied Natural Gas (LNG) projects, however it is expected to sharply detract from growth in 2014-15. While there are tentative signs that investment in some service sectors will lift in 2014-15, near-term investment intentions outside the mining sector remain relatively subdued, consistent with business survey measures.

133. With the resources boom continuing its transition to the production phase, resources exports will begin to make up a greater share of real GDP growth. Already, resource exports have been growing strongly. Export volumes grew 6.5 per cent through the year to the December quarter 2013, driven mainly by exports of non-rural commodity goods (ABS 2014b). Total exports are forecast to rise 5 per cent in 2013-14 and 6½ per cent in 2014-15, driven mainly by exports of non-rural commodity goods. Import volumes fell 4.6 per cent through the year to the December quarter 2013 (ABS 2014b).

134. The terms of trade declined 1.2 per cent through the year to the December quarter 2013 (ABS 2014b) and is forecast to fall 5 per cent in 2013-14 and 2014-15. The decline in the terms of trade reflects the transition underway in the resources sector, from a phase of high prices driving a rapid increase in investment, to one of strong growth in supply, using

the capacity built over the investment phase, leading to lower prices. Notwithstanding these expected falls, Australia's terms of trade is projected to remain above its long-term average in the medium term, consistent with the projected resources needs of the large emerging market economies in the Asian region.

135. After growing at an average of 0.4 per cent per quarter over the last three years, company gross operating profits have strengthened in the second half of 2013. Profits increased by 4.3 per cent in September 2013 and 1.7 per cent in December 2013 to be 10.7 per cent higher through the year to the December quarter 2013. Profits rose in ten of fifteen industries, led by the mining sector (up 36.4 per cent) and the construction industry (up 21.9 per cent).

136. The mining industry accounts for over 90 per cent of growth in company gross operating profits over the year to the December quarter 2013, in line with recent upward movements in non-rural commodity prices. Outside of the mining industry, profit growth is more subdued – increasing 0.9 per cent through the year to December 2013, with the persistent high value of the Australian dollar continuing to place pressure on the profit margins of import-competing firms.

137. Of the four most award-reliant industries, gross operating profits rose in Administrative and support services (19 per cent through the year to December 2013) and Other services (18.6 per cent). Profit growth was flat in Retail trade through the year to December 2013, while profits fell in Accommodation and food services (down 13.7 per cent through the year to December 2013) (ABS 2014c).

3.4.2 Consumption

138. Household consumption growth improved towards the end of 2013. Household consumption is expected to grow below trend in both 2013-14 (at 2 per cent) and 2014-15 (at 2¾ per cent). The household saving ratio is expected to remain elevated over this period.

3.4.3 Employment

139. Employment grew 0.6 per cent in the year to February 2014. The unemployment rate was 6.0 per cent in February, having risen from 5.4 per cent since February 2013.

140. Subdued activity outside the economy's resources sector is weighing on employment. Going forward, the resources boom will support fewer jobs as it moves away from construction and into its production and export phase.

141. Employment is forecast to rise ¾ per cent through the year to the June quarter of 2014. Employment growth is then forecast to strengthen to 1½ per cent through the year to the June quarter of 2015. The unemployment rate is forecast to be 6¼ per cent by the June quarter of 2015.

142. Chapter 4 of this submission provides a detailed discussion of labour market trends and the employment outlook.

3.4.4 Wages

3.4.4.1 Wage Price Index

143. Wages growth, considered as an average and on a whole of economy basis, as measured by the Wage Price Index (WPI), was 2.6 per cent over the year to the December quarter 2013 (ABS 2014h). Whilst in some industry sectors increases were above average growth, the WPI includes an average increase of 2.5 per cent in the private sector and 2.7 percent in the public sector (ABS 2014h).

144. The increase in the WPI was the same as at the 2013 AWR decision (2.6 per cent).

145. The current rate of wage growth is an important part of the adjustment as the economy transitions away from the resources investment boom.

146. The strongest wage growth over the year to the December quarter 2013 was recorded in Electricity, gas, water and waste services (3.3 per cent), and Mining (3.1 per cent). By contrast, wage growth in Professional, scientific and technical services was 1.6 per cent over this period.

147. Of the four most award-reliant industries, the strongest wage growth was recorded in Retail trade (2.7 per cent), followed by Administrative and support services (2.4 per cent) whereas Accommodation and food services and Other services wages both grew at 2.2 per cent (ABS 2014h).

148. WPI is forecast to grow at 2¾ per cent through the year to the June quarters of 2014 and 2015. This below forecast trend growth will weigh on household income but should also support job creation during this period of softer economic activity and help contain inflationary pressures. This should be factored into the AWR decision – otherwise, the cost of low skill labour will increase relative to other workers.

3.4.4.2 Collective agreement wages

149. The most recent data on wage outcomes in collective agreements, including those made under the *FW Act*, show that agreements current at 31 December 2013 provided for an average 3.7 per cent per annum pay increase. Private sector wage agreements provided an average pay increase of 3.8 per cent, (noting that some industry sectors increases were considerably above this average) compared with 3.4 per cent in the public sector (Department of Employment 2014).

150. Of the most award-reliant industries, average pay increases were recorded in each of Other services (4.0 per cent), Administrative and support services (4.2 per cent), Accommodation and food services (3.4 per cent) and Retail trade (3.3 per cent) (Department of Employment 2014).

3.4.5 Inflation

151. Notwithstanding the stronger than expected pace of inflation in the December quarter, inflationary pressures remain contained, in part aided by soft activity in the non-resources sectors of the economy and wages growth not at forecast levels. This should help contain growth in living costs for low-income families.

152. Both headline and underlying inflation are in the upper half of the RBA's target band. The Consumer Price Index (CPI) rose 2.7 per cent through the year to the December quarter 2013, following growth of 2.2 per cent through the year to the September quarter. Underlying inflation was 2.6 per cent through the year to the December quarter 2013, following 2.3 per cent growth through the year to the September quarter (ABS 2014d).

153. Both headline and underlying inflation are forecast to be 2¾ per cent through the year to the June quarter 2014 and 2 per cent through to the June quarter of 2015. Domestic prices are expected to grow at below-average rates over 2013-14 and 2014-15, in line with weak wage growth and ongoing competitive pressure, particularly in the traded sectors of the economy.

154. The removal of the carbon tax is expected to lower headline and underlying inflation by less than ¼ of a percentage point in 2014-15 relative to the *2013 Pre-Election Economic and Fiscal Outlook*, which had factored in the previous Government's policy of moving to a carbon trading system.

3.4.6 Labour productivity

155. According to the latest ABS *National Accounts* data, seasonally-adjusted labour productivity for the market sector rose by 1.0 per cent in the December quarter 2013, and rose by 1.8 per cent through the year. This followed growth of 3.5 per cent through the year to December 2012, and 2.2 per cent to December 2011 (ABS 2014a).

156. However, data on year-to-year labour productivity movements are often volatile and subject to revision.

157. The lower rates of productivity growth in award-reliant industries affect the affordability of award wage increases in these industries. As demonstrated in Chapter 2, award wages can represent a substantial proportion of labour costs in these industries.

3.5 Conclusion

158. Australia's economy is expected to continue to grow in 2013-14 and 2014-15 at below trend levels as the economy transitions from resources to non-resources drivers of growth. The global economy is expected to strengthen during this period.

159. Slower activity in the non-resources sectors of the economy is weighing on employment, while the resources boom will support fewer jobs as it moves into its production and exports phase. Employment growth is forecast to remain relatively subdued, and the unemployment rate is expected to approach 6¼ per cent by mid-2015. Wage flexibility will be an important mechanism to support employment growth, as the economy transitions away from the resources investment boom.

160. The soft economic conditions should be carefully considered by the Panel in making its decision. A cautious approach is needed to support the economy through this transition.

4 Labour market developments

4.1 Introduction

161. The strength of underlying labour market conditions is one of the issues about which the Panel must pay regard when making its decision about the NMW and award wages (s 284(1)(a) FW Act). This chapter outlines the most recent developments.

162. Labour market conditions in Australia deteriorated at the onset of the Global Financial Crisis (GFC) in September 2008, although Australia fared better than most other advanced economies. That said, while the labour market rebounded strongly over 2010 (compared to 2009), conditions in Australia have nonetheless softened since and are expected to remain reasonably below forecast trend over the coming year. Against this background, Australia's unemployment rate has edged higher over the last 12 months.

163. A number of groups, including youth, the long-term unemployed, Indigenous, single parents, the low-skilled and those located in specific disadvantaged Australian regions, remain vulnerable to rising unemployment.

4.2 Overview

164. Reflecting below-trend global and domestic economic activity, the Australian labour market remains soft, with the unemployment rate edging higher.

165. Labour market conditions remain uneven across Australian industries and regions, with some performing strongly, while others remain subdued. Ongoing global weakness and the still high Australian dollar (despite some recent moderation) have weighed on labour market conditions in some sectors and, in particular, the Manufacturing industry. Resources related industries, while remaining relatively strong, have nonetheless been affected by the scaling back of mining investment, as a result of uncertainty in relation to taxation arrangements that apply to the industry, increased world supply, high unit labour costs and some moderation in commodity prices, although the latter remain at high levels by historical standards. Moreover, the resources sector has begun to transition from the construction phase, to the less labour-intensive production phase, dampening the pace of labour market activity in the Mining and related sectors. By contrast, there has been relatively strong employment growth in a number of service sectors, including health and education.

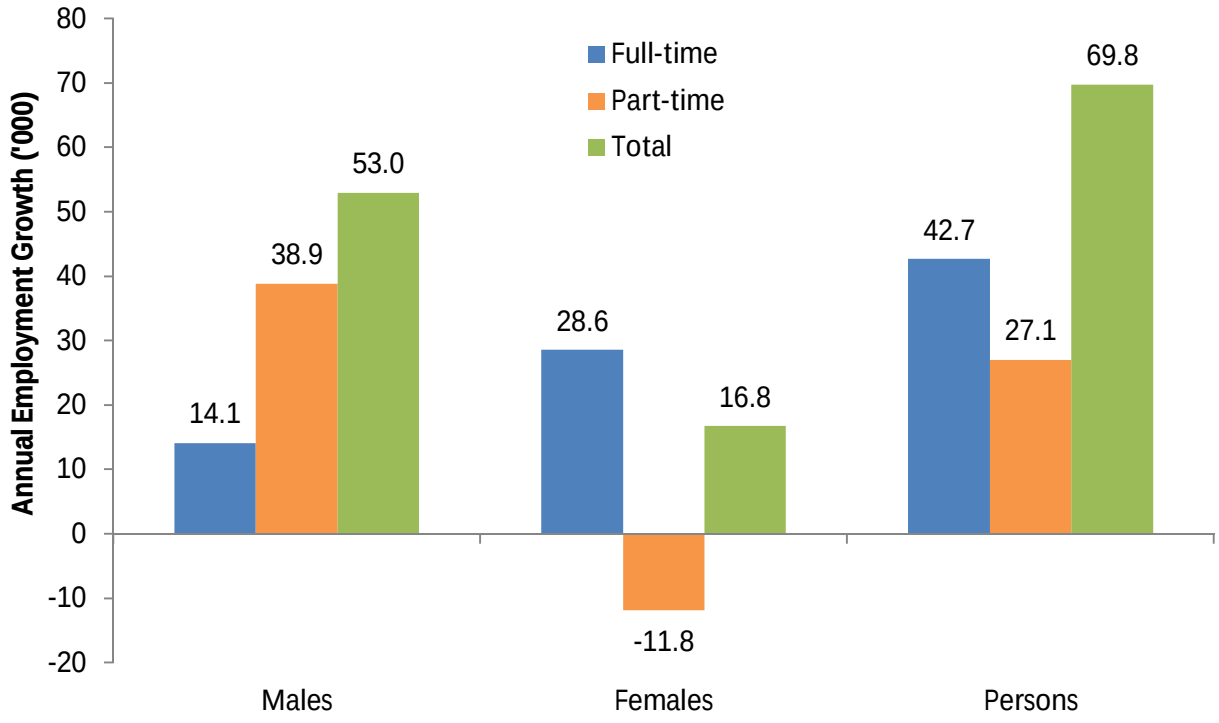
166. Going forward, and in line with a number of leading indicators of labour market activity, the pace of employment growth is likely to remain below forecast trend, rising by ¾ per cent over the year to the June quarter 2014 and by 1½ per cent over the year to the June quarter 2015. Against this backdrop, the unemployment rate is forecast to rise to 6¼ per cent by mid-2015.

4.3 Employment

167. The level of employment increased by 69 800 (or 0.6 per cent) over the year to stand at 11 530 800 in February 2014. Full-time employment rose by 42 700 (or 0.5 per cent) over the year to stand at 8 049 900 in February 2014, while part-time employment increased by 27 100 (or 0.8 per cent) to 3 480 900.

168. In terms of gender breakdown, both male employment (up by 53 000 or 0.9 per cent) and female employment (up by 16 800 or 0.3 per cent) increased over the year to February 2014. Male *full-time* employment rose by just 14 100 (or 0.3 per cent) over the period (see Chart 4.1), reflecting the continuing transition from the labour-intensive construction phase of the mining boom (which resulted in robust full-time jobs growth for men, in particular), to the less labour-intensive production phase of the cycle.

Chart 4.1: Change in full-time, part-time and total employment ('000s), February 2013 to February 2014

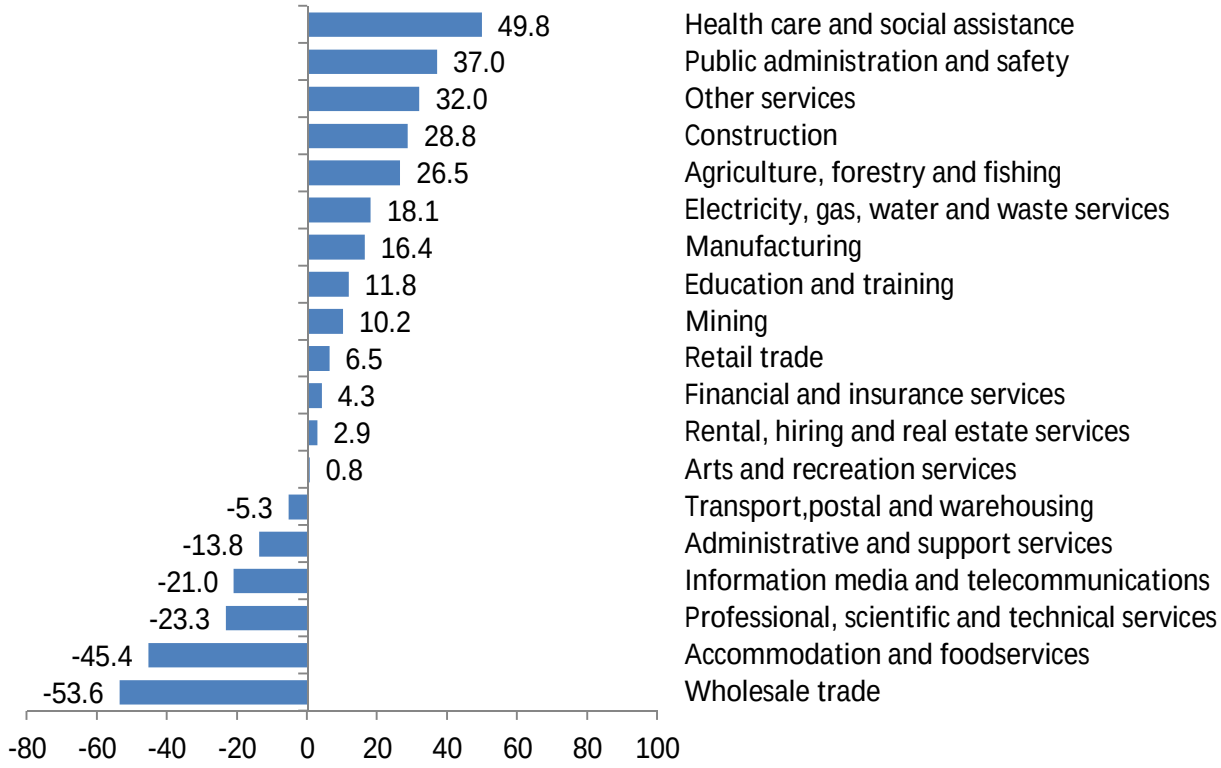


Source: ABS (2014e), *Labour Force, Australia*, February 2014, Cat. No. 6202.0, seasonally adjusted data.

169. Employment (in *trend* terms) increased in 13 of the 19 Australian and New Zealand Standard Industrial Classification industries over the year to February 2014 (see Chart 4.2). The largest employment increases were recorded in Health care and social assistance (up by 49 800 or 3.6 per cent), Public administration and safety (up by 37 000 or 5.2 per cent) and Other services (up by 32 000 or 7.1 per cent).

170. By contrast, a number of industries have experienced declines in employment over the year to February 2014, most notably, Wholesale trade (down by 53 600 or 12.3 per cent), Accommodation and food services (down by 45 400 or 5.8 per cent) and Professional, scientific and technical services (down by 23 300 or 2.6 per cent).

Chart 4.2: Change in employment ('000s) by industry, February 2013 to February 2014



Source: ABS (2014g), *Labour Force, Australia, Detailed, Quarterly, February 2014*, Cat. No. 6291.0.55.003, trend data.

4.3.1 Employment growth in award-reliant industries

171. Over the year to February 2014, employment in the two most award-reliant industries declined: Accommodation and food services (by 45 400 or 5.8 per cent) and Administrative and support services (by 13 800 or 3.5 per cent) (ABS 2014e).

4.4 Unemployment

172. The level of unemployment in Australia increased by 86 500 (or 13.2 per cent) over the year to stand at 742 200 in February 2014. Male unemployment increased by 32 000 (or 9.0 per cent) over the period, while female unemployment also rose, by 54 400 (or 18.1 per cent) (ABS 2014e).

173. The unemployment rate stood at 6.0 per cent in February 2014.

4.4.1 Retrenchments

174. The Department of Employment estimates total quarterly retrenchments, based on ABS *Labour Mobility Survey* statistics (ABS 2013h). There were 103 000 retrenchments (seasonally adjusted) in the December quarter 2013. The number of retrenchments had risen 15.1 per cent over the year to the December quarter 2013.

4.5 Participation rate

175. The participation rate has decreased by 0.3 percentage points over the past year to stand at 64.8 per cent in February 2014.

176. The fall in the participation rate has been driven largely by a decline in the male participation rate (down by 0.4 percentage point over the year to 71.2 per cent in February 2014). Men may have been more likely to have given up their search for work (or have chosen not to enter the labour market) as a result of the difficult labour market conditions apparent in many of the male-dominated sectors of the economy, such as Manufacturing, which continues to shed staff. The female participation rate has declined, by 0.3 percentage points over the same period, to stand at 58.6 per cent in February 2014 (ABS 2014e).

177. Gender issues aside, the decline in the participation rate over recent years reflects a number of factors, including the impact of population ageing, with a growing proportion of the population reaching retirement age, and the discouraged worker effect.[50] Going forward, the trends and developments that have influenced the participation rate over recent years are expected to continue, particularly as a significant proportion of the first tranche of baby boomer cohort (born between 1946 and 1965) begins to reach retirement age over the next couple of years.

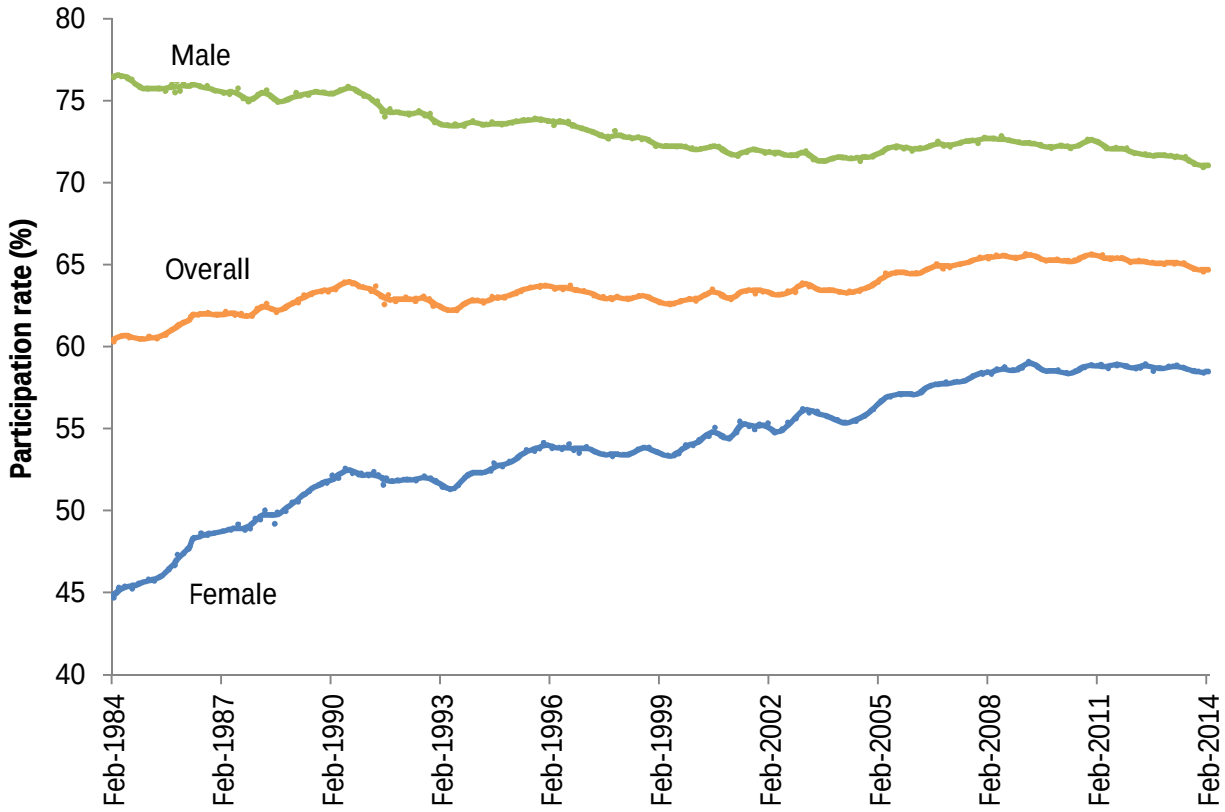
178. Notwithstanding recent shorter term variations , the participation rate has increased over the last 30 years, from 60.3 per cent in February 1984 to 64.8 per cent in February 2014. The rise in the participation rate, however, does not explain divergent trends between the participation rate for males and females. While the male participation rate has been reducing (down by 5.2 percentage points over the last 30 years) reflecting a structural shift away from some of the male dominated industries,[51] the decline has occurred in conjunction with a dramatic increase in the female participation rate, which has risen by 13.9 percentage points over the same period (see Chart 4.3).

179. The substantial increase in female participation over the 30 year period was due to a range of factors, including changed social attitudes to women working and perceived gender roles, greater access to childcare, an increasing acceptance of women with children remaining in the labour force and the emergence of more part-time employment opportunities. The latter has also been assisted by the strong growth over recent decades in many industries (particularly those which are service-based) that have traditionally employed a high proportion of women, such as Health care and social assistance, and education and training, as well as an increase in female participation in further education.

[50] The discouraged worker effect refers to job seekers giving up their search for work (upon becoming discouraged) due to poor job prospects, particularly when labour market conditions are soft.

[51] For example, while Manufacturing (an industry where around three-quarters of employees are male) is now the fourth largest employing industry, its share of total employment has declined significantly compared with 30 years ago when it was the largest employing industry.

Chart 4.3: Participation rate by gender, February 1984 to February 2014



Source: ABS (2014e), *Labour Force, Australia, February 2014,* Cat. No. 6202.0, seasonally adjusted and trend data.

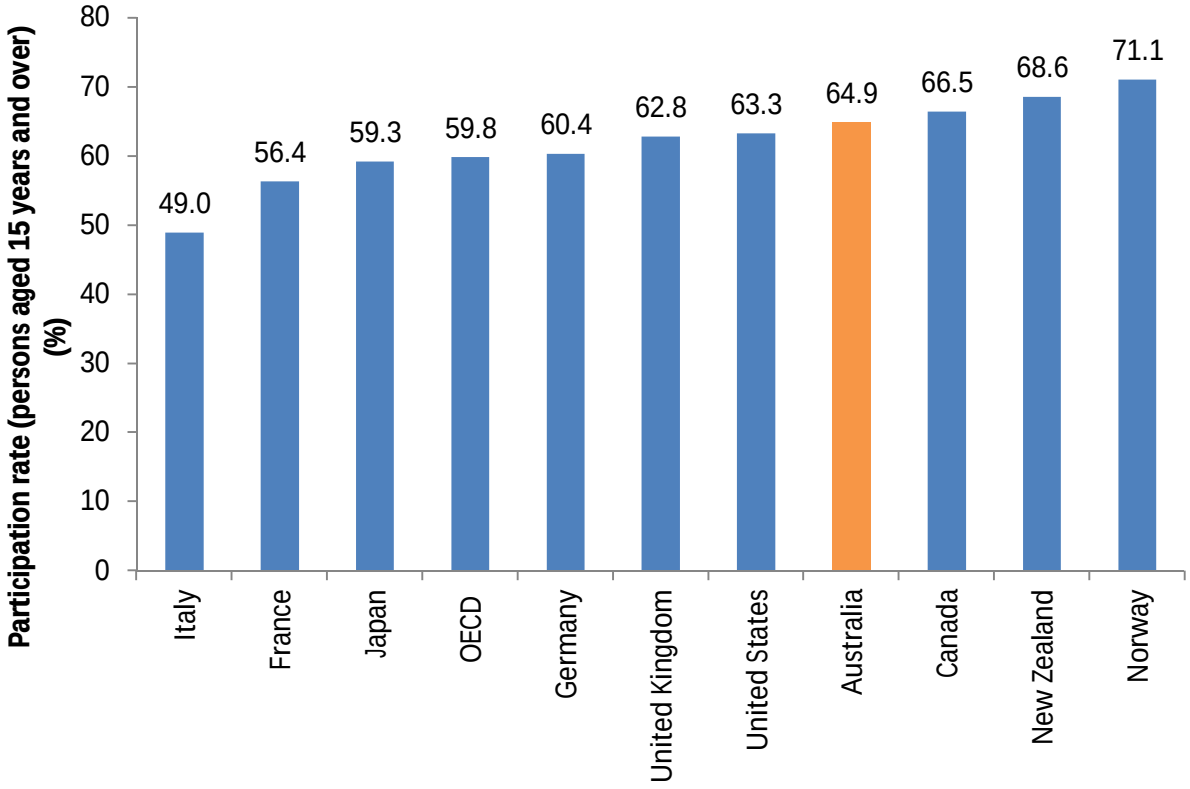
180. It is also worth noting that the participation rate for mature age (55-64)[52] workers has risen strongly over the last 30 years, from 41.3 per cent in February 1984 to 63.2 per cent in February 2014 (ABS 2014f). This is due to a range of factors. First, people who are ageing (and moving into older age cohorts) have higher participation rates than those moving out of the cohort, i.e. they take their jobs with them as they age and move into the older cohorts. Second, and more recently, the fall in asset values during the GFC has also contributed to an increase in the participation rate of older workers, as declining returns on superannuation funds have resulted in some workers delaying retirement. In this context, since the onset of the GFC, the participation rate for mature age (55-64) workers has increased by 3.7 percentage points, from 59.5 per cent in September 2008 to 63.2 per cent in February 2014.

181. It is likely, however, that the impact of the ageing of the baby boomer cohort on the participation rate will begin to outweigh the factors that have delayed retirement for the older cohorts, in the coming years (i.e. the ageing of the workforce will outweigh increased mature age participation).

[52] Please note that when calculating the mature age participation rate, persons aged 55-64 years are used to avoid the distorting affect those aged 65 years and over (who tend to not be in the labour force) may have on these figures.

182. With respect to international comparisons (using OECD data), the participation rate for Australia stood at 64.9 per cent in the third quarter of 2013 (latest available data).[53] While this was above the OECD average of 59.8 per cent, the Australian participation rate remains lower than the 68.6 per cent recorded in New Zealand and 66.5 per cent recorded for Canada (see Chart 4.4) (OECD 2014).

Chart 4.4: Participation rates (all persons aged 15 years and over), selected OECD countries, third quarter 2013



Source: *OECD*, quarter three 2013.

4.6 Key groups in the labour market

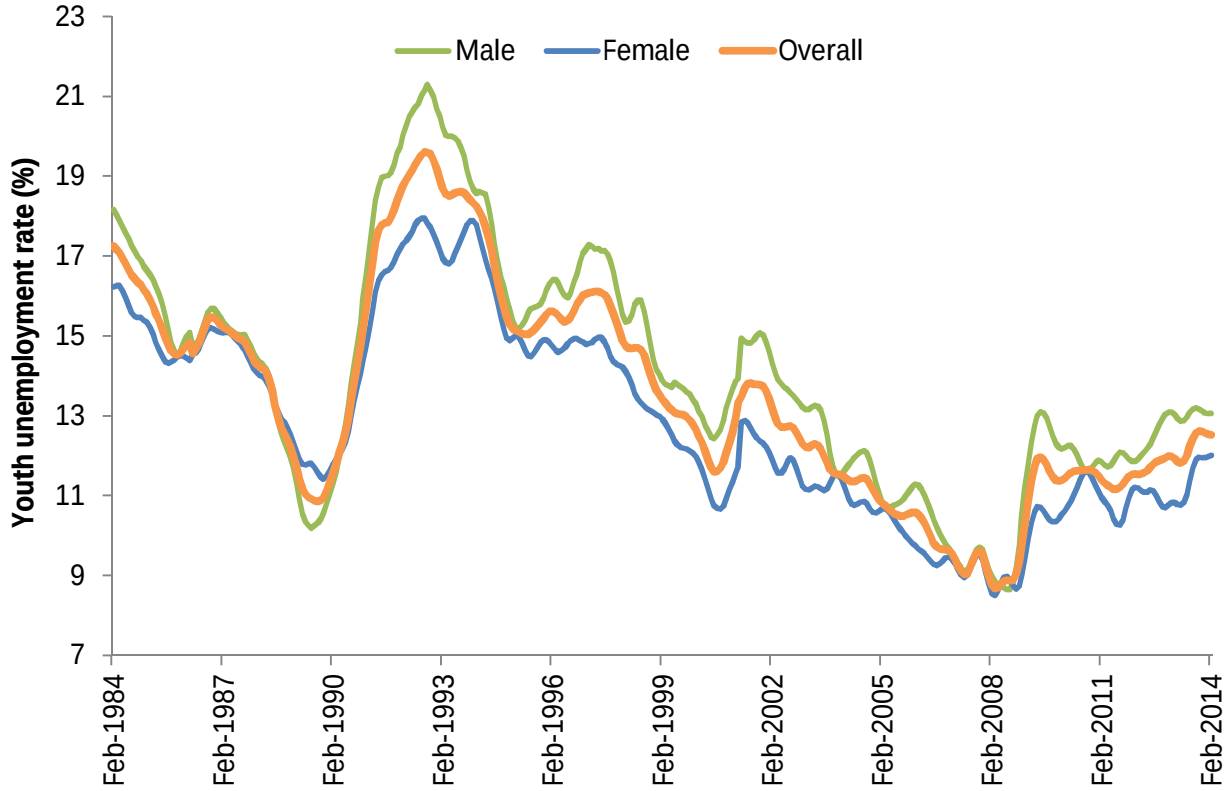
183. A number of groups (including youth, the long-term unemployed and single parents) continue to experience ongoing disadvantage in the labour market. Members of these groups are more likely to be unemployed, or to seek employment in low-paid jobs and are therefore likely to be more adversely affected by any slowing in the economy or labour market. They also tend to possess characteristics (for example, less experience, greater time out of the labour market, lower skill levels) that may predispose them to labour market disadvantage.

[53] Please note that the Australian participation rate (of 64.9 per cent) in paragraph 182 and in Chart 4.4 is sourced from the third quarter of 2013 OECD data to enable valid international comparisons be made. As such, this figure will differ from the ABS seasonally adjusted participation rate (of 64.8 per cent) in February 2014.

4.6.1 Youth (15-24 years)

184. Reflecting the clear softening in youth (persons aged 15-24 years) labour market conditions over the year, employment for this group declined by 32 100 (or 1.8 per cent) over the year to February 2014. Against this backdrop, the youth unemployment rate increased by 1.0 percentage point over the period to stand at 12.9 per cent in February 2014, more than double the rate recorded for all persons (see Chart 4.5) (ABS 2014e).

Chart 4.5: Youth (15-24 years) unemployment rate by gender, February 1984 to February 2014

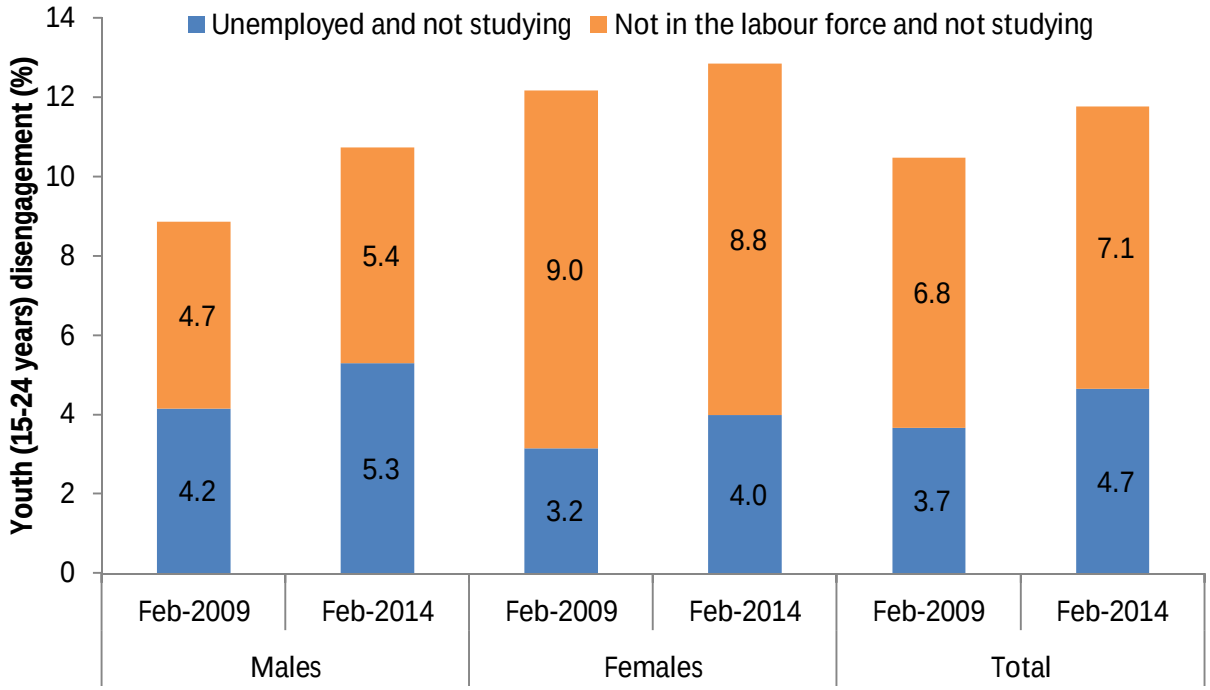


Source: ABS (2014e), *Labour Force, Australia, February 2014,* Cat. No. 6202.0, trend data.

185. It is also worth noting that because young people tend to have less education, skills and experience than their prime age counterparts they are therefore often the first to be retrenched by employers in times of economic difficulty.

186. While most youth are either engaged in some form of work or education, around 12 per cent are not participating in either work or education (and are commonly referred to as disengaged youth). While a proportion of this group may, for various reasons, be voluntarily outside the labour market (for instance, taking a gap year) and are not of concern, the majority are 'at risk' of ultimately failing to make a successful transition to employment.

Chart 4.6: Disengaged youth by gender, February 2009 and February 2014



Source: ABS (2014f), *Labour Force, Australia, Detailed – Electronic Delivery*, *February 2014*, Cat No. 6291.0.55.001, data are 12-month averages of original data

187. As illustrated in Chart 4.6, disengaged males are fairly evenly split between those who are not in full-time education and are unemployed, and those who are not in full-time education and are not in the labour force (NILF). On the other hand, disengaged young women are primarily not in full-time education and are NILF. Some of these women, however, will be caring for children.

4.6.2 The long-term unemployed

188. The level of long-term unemployment (those unemployed for 52 weeks or more) increased by 37 600 (or 32.4 per cent) over the year, to stand at 153 700 in February 2014 (ABS 2014f). In addition, 20.7 per cent of unemployed people had been unemployed for 12 months or more in February 2014.

189. It is worth noting, however, that the incidence of long-term unemployment is more pronounced in many other advanced economies where the economic downturn has been deeper and more protracted. For example, in 2012 (latest available OECD data) the proportion of unemployed persons who had been unemployed for 12 months or more stood at 34.3 per cent in the OECD, while in the United States it stood at 29.3 per cent (or, around one in three job seekers).

190. In Australia, the number of very long-term unemployed (those unemployed for 104 weeks or more) increased over the year to February 2014, by 13 900 (or 25.6 per cent), to stand at 68 400.

191. Trend short-term unemployment (those unemployed for less than 12 months) has increased by 37 400 (or 6.9 per cent) over the year to February 2014, which has the potential to put further upward pressure on long-term unemployment in the absence of stronger employment growth, if the short-term unemployed (unable to secure

employment in a weaker jobs market) reach the 12 month 'gate' and become long-term unemployed.

192. People who have been unemployed for a significant length of time, on average, face greater difficulty finding subsequent work due to skill depreciation, the discouraged worker effect and marginalisation from the labour market.

4.6.3 Single parents and jobless families

193. In June 2012 (latest available data) (ABS 2013g), there were 2 398 800 families with children[54] in Australia, 276 400 (or 11.5 per cent) of whom were jobless. The majority of jobless families (196 700 or 71.2 per cent) were headed by a single parent.

194. The number of children in jobless families where no parent is employed increased by 3000 (or 0.6 per cent) over the year to June 2012, to stand at 528 900. Children who grow up in jobless families are at a significantly greater risk (than children in families where a parent is employed) of being unemployed later in life and are more likely to experience disadvantage and poverty as a consequence. Accordingly, it is essential that parents in these families are encouraged to find employment, thereby reducing the risk of intergenerational unemployment.

195. Given the vast majority of jobless families are headed by a single parent (71.2 per cent), the labour market experience of this group is of particular importance. While the unemployment rate for this cohort fell by 1.9 percentage points to stand at 10.5 per cent in June 2012, it remains around three times higher than the 3.2 per cent recorded for couple families with children.

4.7 Labour market conditions by skill level

196. Low skilled workers are more likely to be on the minimum wage or award-reliant than higher skilled workers, making an examination of labour market developments by skill level important and relevant.

197. In a continuation of the structural shift toward a more highly skilled and service based economy, employment growth has been driven by more highly skilled occupations, demonstrating the increasing importance of attaining educational qualifications. This structural change in demand for skills might have contributed to the increase in earnings inequality, as shown in Chapter 6.

198. Indeed, over the 10 years to February 2014, employment growth has been dominated by the higher skill levels, with skill levels 1, 2 and 3[55] accounting for 68.0 per cent of employment growth. By contrast, skill level 5, consisting of the lowest skill occupations, has made the smallest contribution to growth over the past decade, accounting for just

[54] Please note that the term 'children' refers to dependent children aged 0-14 years.

[55] The ABS classifies occupations according to five skill levels commensurate with a qualification(s) as follows: Skill level 1: Bachelor degree or higher qualification; Skill level 2: Advanced Diploma or Diploma; Skill level 3: Certificate IV or III (the Certificate III requirement for this skill level includes at least two years on-the-job training); Skill level 4: Certificate II or III; and Skill level 5: Certificate I or secondary education. In some cases relevant work experience may be a substitute for formal qualifications, or relevant work experience and/or on-the-job training may be required in addition to formal qualifications.

6.7 per cent of total employment growth. While skill level 4 occupations have made a solid contribution to employment growth,[56] the rate of employment growth recorded by this skill level remained well below that for the highest two skill levels (see Table 4.1) (ABS 2014g).

199. Consistent with these trends, over the last decade, the share of employment comprised by skill level 5 has decreased, from 19.8 per cent to 17.5 per cent, whereas the employment share of skill level 1 occupations has grown from 27.1 percent to 30.1 per cent over the same period.

200. Over the year to February 2014, the largest increase in employment was in skill level 1 occupations (growth of 65 800 workers or 1.9 per cent), whereas employment growth in skill level 5 occupations was much lower (up by 9200 or 0.5 per cent) and employment actually declined for skill level 4 occupations (down by 64 900 or 2.1 per cent) (see Table 4.1). This may have implications for some entry level jobs.

Table 4.1: Change in employment by skill level, one and 10 years to February 2014

Skill Level Occupations	Current employment (Feb14)	Change in employment year to February 2014		Change in employment 10 years to February 2014	
	(000s)	(000s)	(%)	(000s)	(%)
Skill Level 1 (highest)	3463.8	65.8	1.9	892.9	34.7
Skill Level 2	1343.7	57.9	4.5	356.9	36.2
Skill Level 3	1697.4	-9.5	-0.6	127.9	8.2
Skill Level 4	2989.9	-64.9	-2.1	512.7	20.7
Skill Level 5 (lowest)	2007.3	9.2	0.5	135.1	7.2
All Occupations	11502.2	58.5	0.5	2025.5	21.4

Source: ABS (2014g), *Labour Force, Australia, Detailed, Quarterly*, *February 2014*, Cat. No. 6291.0.55.003, Department of Employment trend data.

4.8 Labour market conditions by state

201. Some states (and territories) are performing better than others. For instance, over the year to February 2014, employment in the highly LNG-geared Northern Territory increased by a robust 7.0 per cent, while in South Australia employment fell by 1.4 per cent (ABS 2014e).

202. There are also marked differences between state and territory unemployment rates (see Chart 4.7), with the Australian Capital Territory recording an unemployment rate of 3.4 per cent in February 2014, compared with a rate of 7.3 per cent in Tasmania.

203. Economic growth in the resource-rich states (such as Western Australia) is expected to remain relatively strong which, in the context of softer mining investment, makes it likely that the industry's outperformance will be less pronounced that it has been.

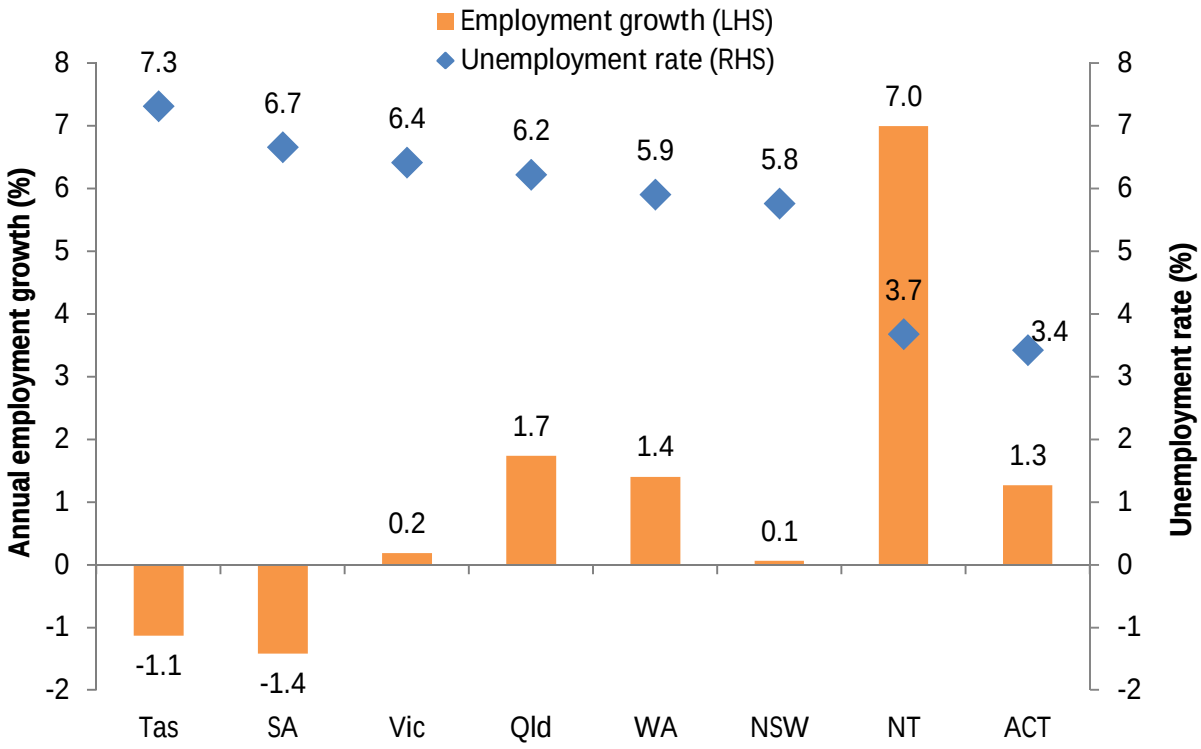
[56] Employment growth amongst skill level 4 occupations was driven in part by strong growth for Aged and disabled carers, Child carers and Education aides.

204. An engineering construction surge in the Northern Territory, underpinned by several LNG projects, including the Ichthys project, and the potential for further LNG-related activity, is likely to support strong economic growth in the Territory going forward. Lower interest rates, the recent moderation of the Australian dollar and some improvement in consumer and business confidence have together resulted in a strengthening in labour market conditions in states such as New South Wales, where the housing industry, in particular, is beginning to provide some support to growth.

205. On the other hand, the outlook in some of the other states is less favourable, with subdued conditions evident in Manufacturing, and in the automotive manufacturing sector, in particular, which is impacting adversely on labour market activity in Victoria and South Australia.

206. Economic growth in Tasmania is likely to remain subdued against the backdrop of slow population growth, as well as a relatively soft housing and Manufacturing sector, although the current macroeconomic environment of lower interest rates and some depreciation of the Australian dollar should provide some support to growth, going forward.

Chart 4.7: Change in employment, and the unemployment rate, by state and territory, over the year to February 2014



Source: ABS (2014e), *Labour Force, Australia, February 2014,* Cat. No. 6202.0, data for the states are seasonally adjusted, while data for the territories are only available in trend terms.

4.9 Conclusion

207. In considering its AWR decision, the Panel should take into consideration that the Australian labour market has softened further over the last year. Whilst there has been grown in the domestic (and world) economy, the rate of growth has been below forecast trends. The pace of employment growth is likely to remain modest, at least in the near

term, reflecting uneven conditions across the economy. In this environment the Panel should make a decision that supports the creation of new jobs.

5 Workforce participation

5.1 Introduction

208. The Government places strong emphasis on the need to address unemployment, particularly long term, youth and mature age unemployment. To assist in meeting this commitment, it will be important to remove impediments to employers hiring new employees.

209. The Panel has its role to play – the minimum wages and modern awards objectives require the Panel to take increasing workforce participation into consideration when reaching its decision.

210. The benefits of paid work go beyond a reduction in the number of unemployed and reduced pressure on the welfare system. They also include improvements to quality of life for the individual, for their family and their ability to participate in community life. Low paid jobs, including minimum wage jobs, are an important entry point into the workforce and can provide a stepping stone to higher paid employment.

211. The level at which minimum wages are set has a role to play in promoting employment and workforce participation as they affect both the decisions by employers to hire low wage workers, or adjust hours worked by existing workers, and the decision of workers to participate in the labour market.

212. Academic literature indicates that minimum wage increases reduce employment, especially for teenagers.[57]

213. Australia's NMW provides a significant incentive to work, even after taking into account the tax-transfer system.

5.2 The important role of low paid work

5.2.1 The benefits of work

214. The benefits of work are realised by the individuals who work and their families, as well as more broadly by the communities in which these individuals work and reside.

215. Most types of paid work provide people with an avenue for social interaction and engagement, developing skills and building self-worth.

216. Naturally, there are also very substantial financial benefits from work, with those in work being significantly financially better off than those who are unemployed (discussed in Section 5.4).

217. At a more aggregate level, the benefits of increased workforce participation flow through to whole communities. The more families that are able to earn an income, the greater

[57] For example, the conclusion of the US researchers, Neumark and Wascher (2007) is expressed as follows: *"In sum, we view the literature – when read broadly and critically – as largely solidifying the conventional view that minimum wages reduce employment..."*

their purchasing power and this can stimulate consumer demand and assist small business and local economies, particularly in poorly performing regions.

218. By contrast, unemployment can place significant financial and social burdens on individuals and their families and can lead to or compound other forms of disadvantage. It can also lead to significant financial stress (see Chapter 6).

219. Unemployment can also have intergenerational impacts. Increased opportunities for paid work help to reduce the likelihood of entrenched and intergenerational disadvantage.

5.2.2 Entry level jobs

220. Low paid employment[58] serves as an important entry point into the workforce.

221. Table 5.1 below shows the wage outcomes of people between one year and the next. People were first classified as employed or not employed. Those who were employed were further split into the low paid and the higher paid, while those who were not employed were split into those who were not in the labour force (NILF) and unemployed.

Table 5.1: 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).

222. Table 5.1 shows that many of those who enter employment for the first time or are re-entering the workforce are more likely to earn low pay. More than one-third (35.7 per cent)[59] of people who entered employment did so by taking a low paid job. Entering employment through low paid work is more common for people younger than 25 (42.4 per cent) and people with Year 12 qualifications or below (41.9 per cent).

5.2.3 Stepping stone effects

223. The benefits of low paid work go beyond the job itself. Low paid work can lead to higher paid work for many workers. Within one year, nearly half (44.5 per cent) of the low paid

[58] Broadly speaking, low paid is defined as those with hourly wages less than two-thirds of the median hourly wage. For a full definition of low paid work/low paid employment, see Appendix A.

[59] This 35.7 per cent is the proportion of those who were not in employment at period t 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).

moved into higher paid employment (see Table 5.1). By contrast, less than one-third (29.9 per cent) of the unemployed moved into higher paid employment.

224. Furthermore, people who were in low paid employment were mostly still employed in the following year (86.5 per cent), while only 46.1 per cent of the unemployed had found work by the following year. This means low paid work not only helps to ensure people are employed now, accruing the many benefits of employment discussed above, but it also helps to ensure that people are more likely to be employed in the future.

225. These results suggest that minimum wages could be set in such a way as to ensure there are entry level job opportunities available for people to enter into employment and to thus provide opportunity to progress to higher pay. This will allow people to enjoy the benefits of employment, not only now, but also in the future, given the high likelihood of the low paid remaining in employment.

5.3 Minimum wages and employment

226. Minimum wages can affect employment through their impacts on labour demand and supply. Higher minimum wages impose costs on employers resulting in adjustment by employers regarding the number and type of workers they employ (labour demand). On the other hand, higher minimum wages can affect decisions employees make about whether to join or remain in the workforce (labour supply) by changing their income and financial incentives to work.

227. Conventional theory is that setting a minimum wage floor reduces employment by reducing labour demand. However, in certain circumstances (e.g. where the labour market is uncompetitive), the theoretical effect of minimum wages on employment can be shown to be potentially ambiguous.

5.4 Minimum wages and the incentive to work

228. The Commonwealth submits the Panel should carefully consider the impact of minimum wages on employers' decisions to hire low paid workers, i.e. its impact on labour demand. However, the Panel should also be aware of the impact of minimum wages increases on labour supply.

229. As such, minimum wages should be set at a level that takes into account the need to maintain incentives for people to move into work, including income support recipients (particularly those receiving unemployment benefits), and become more self-reliant.

230. The Government has modelled the interaction between the tax-transfer system, and minimum wages, for a broad range of hypothetical single and second earner households including single adults, couples and single parents.[60]

231. The results reinforce the Government's view that the NMW provides a significant incentive to work, either full-time or part-time, across a broad range of households

[60] More specifically, the analysis considered the potential impact of earnings from a minimum wage and low paid job on combined household income, after income support (Newstart Allowance or Parenting Payment), other transfer payments (such as Family Tax Benefits and Rent Assistance), other earnings (if other members of the household were already receiving earned income from employment) and taxation

compared to the alternative of unemployment. In other words, the Panel should focus its decision on the creation of jobs and less so on the provision of work incentives.

5.4.1 Incentives to work (households without children)

232. The Australian Government modelled a number of household types to show the effect of taking up a job on household disposable income (i.e. the incentive to work). The modelling shows that all household types were substantially better off (as at 1 January 2014) when an unemployed member of a household took a minimum wage job, compared with being jobless. However, the degree to which households were better off varied significantly between household types.[61]

233. Single adult households, without children, were $310.89 per week, or 120.1 per cent, better off in terms of disposable income after taking on a full-time job paying the NMW of $622.20 per week, than living on income support.

234. The financial benefit of taking up a minimum wage job for single earner couple households is smaller, although still substantial, than that for many of the other household types modelled. For example, a couple without children on Newstart was $221.48 per week, or 47.4 per cent, better off if one member found a full-time NMW job.

235. A second earner moving into a minimum wage job can increase household disposable income substantially. For example, a couple household with no children was $451.15 per week, or 65.5 per cent, better when the second person took a full-time NMW job (relative to only one person working a full-time NMW job).

236. There were also strong incentives to take on a part-time NMW job. For example, a single unemployed adult who took a 15 hour per week NMW job was $126.22 per week, or 48.8 per cent, better off. Likewise, a student who lived with their parents would be $226.52 per week or 158.7 per cent better off after taking a part-time NMW job.

237. This shows that the current NMW already provides substantial financial incentives to work for households without children (compared to unemployment).

5.4.2 Incentives to work (households with children)

238. Our modelling shows that all families with children are financially better off after taking on a job at the NMW.

239. For example, a single parent with a child aged nine who takes a full-time NMW job would increase their disposable income by $336.00 per week or 74.1 per cent.

240. Likewise, for a couple with a child aged nine, if the second person takes a full-time NMW job (the first person is already working full-time on the NMW), their disposable income would increase by $329.04 per week or 38.2 per cent.

[61] These results would vary by more with a greater range of examples. For example, where a person is in public housing, this may affect the incentive to work (according to the HILDA Survey, 2.7 per cent of low paid workers live in public housing).

5.5 Conclusion

241. The Government notes that minimum wages play an important role in workforce participation. Minimum wages affect employers' decisions to employ low paid workers. For the low paid, minimum wages provide incentives for individuals to enter the workforce and enjoy the benefits of work.

242. Low paid jobs are an important entry point in to the workforce for many workers and can be a stepping stone to higher paid jobs. Therefore, the Commonwealth suggests the Panel have regard to the availability of low paid employment opportunities, which could be affected by the Panel's decision on minimum wages.

243. The Panel should also be aware of the need to create and maintain financial incentives for unemployed people to take up and remain in employment. The Government's modelling has shown that Australia's minimum wage already provides a significant incentive for the unemployed to take up minimum wage work (compared to the alternative), even after taking into account the tax-transfer system.

244. There are negative employment impacts that suggest that, particularly in the current labour market, the Panel should place greater weight on the creation of jobs, not the provision of work incentives, when setting minimum wages.

245. Therefore, the Government submits that the Panel should consider the effect of its determination on the decision by employers to hire low paid workers.

6 Low paid workers

6.1 Introduction

246. In reviewing and determining minimum wages, the Panel must have regard to the relative living standards and needs of low paid workers (*FW Act*, ss 134(1)(a) and 284(1)(c)).

247. Low paid workers have a diverse range of living standards as a result of varied living circumstances and levels of household income. For example, Government analysis shows that low paid employees are spread across the entire range of household income with one in ten low paid workers living in the top two deciles. This means that any increase to minimum wages is not well targeted to only the low paid and may flow to relatively well-off households (as well as low income households).

248. The varied living circumstances of low paid workers means that low paid workers also have varied experiences. This includes variations in the extent to which those amongst the low paid that experience financial stress are affected by it. Government analysis shows that in general, while low paid employees have a higher incidence of financial stress than higher paid employees, both groups of workers have a considerably lower level of financial stress than the unemployed. This suggests that, employment, even if low paid, is a far better aid to meeting financial needs and avoiding financial hardships than the alternative.

249. Low paid workers in low income households receive targeted support through the tax-transfer system. The tax-transfer system supplements earnings and provides a comparable standard of living across a range of low paid household types. The tax-transfer system, however, interacts with earnings such that any minimum wage increase is not passed through in full to disposable household incomes.

250. The Government notes there has been an increase in earnings inequality over the longer term, but income inequality has remained steady over recent years, with the strongest growth in incomes accruing to low income households.

251. The Government shares the view of the Commission that "*increases in minimum wages are a blunt instrument for addressing the needs of the low paid*" (FWC 2013). The Government submits that minimum wage increases are poorly targeted and inefficient at improving outcomes for low paid households. The tax-transfer system provides targeted assistance and is the primary means of redistributing income to low income families.

6.2 Who are low paid workers?

252. The Government notes that measuring the relative living standards and needs of low paid workers is difficult and therefore it is important to have a broad understanding of who low paid workers are, including; their characteristics, length of time in low paid employment and access to other income.

6.2.1 Measuring the relative living standards and needs of low paid workers

253. The Government agrees with the Commission that *"there is no single contemporary measure available to assess either the needs of the low paid or the extent to which those needs are being met"* (FWC 2013).

254. The Government notes that common benchmark measures used to assess living standards and the needs of low paid workers have limitations and do not reflect individual's circumstances well.

255. The living standards of low paid workers are determined not just by personal earnings from work, but also through the earnings of other household members and the impacts of the tax-transfer system. Low paid workers live in a diverse range of household types and will thus have a diverse set of living standards, regardless of the measure chosen to assess them.

6.2.2 Characteristics of low paid workers

256. Government analysis using wave 12 of the HILDA Survey shows there were about 1.5 million low paid employees[62,63] in 2012, comprising 16.7 per cent of all employees. In general, low paid workers tend to be young, single or without children.

257. Demographic characteristics, including age and gender are associated with low paid work. In 2012, the majority of low paid employees were female (55.3 per cent). Women had a higher rate of low paid work, with 18.7 per cent of female employees being low paid compared to 14.8 per cent of male employees.

258. While low paid workers were spread across the entire age range distribution, low paid work tended to be concentrated amongst younger workers.[64] Over half (53.9 per cent) of low paid workers were aged under-30, with 17.4 per cent aged between 15 and 19 years old, close to a quarter (24.4 per cent) in the 20 to 24 year old age group and 12.2 per cent aged between 25 to 29 years old.

259. Furthermore, younger workers had higher rates of low paid work, with 41.4 per cent of 15 to 19 year old employees and 37.2 per cent of 20 to 24 year old employees being low paid compared to a rate of about 10-12 per cent for older employees. As discussed in Chapter 5, low paid entry level work can act as a stepping stone to higher paid work for some workers, particularly those who are young and with limited work experience. It is thus important to ensure that there are adequate low paid entry level jobs.

[62] Appendix A contains the Government's definition and methodology for calculating the number of low paid employees.

[63] The low paid data presented in Section 6.2 includes all low paid employees unless otherwise specified. Employees aged under-21 have been included.

[64] Low paid thresholds for workers aged under-21 have been deflated by the relevant junior minimum wage rates. See Appendix A for further detail.

260. Low paid workers live in a broad range of household types. As seen in Table 6.1, in 2012, 57.3 per cent of low paid workers were single without children,[65] 39.0 per cent were a member of a couple and 3.8 per cent were single parents. Of these living arrangements, singles without children had the highest rates of low paid work with 25.6 per cent of these employees being low paid. In comparison, workers in couple households with children had the lowest rates at 9.5 per cent.

261. The high rates of low paid work amongst singles are in part due to the high proportion of employed full-time students who work in low paid jobs. About one in five low paid workers were full-time students (21.9 per cent), with the majority of these students (90.6 per cent) being single. Full-time students had high rates of low paid work with 40.1 per cent of employed full-time students working in a low paid job.

Table 6.1: Family position of low paid workers, 2012 (a) (b)

	Member of couple		Single		Total	*Full-time student*
	With children	No children	With children	No children		
	Proportion (%)					
Distribution of low paid workers	13.8	25.2	3.8	57.3	**100.0**	*21.9*
Distribution of all workers	24.2	34.9	3.5	37.4	**100.0**	*9.1*
Proportion of workers who are low paid	9.5	12.1	18.1	25.6	**16.7**	*40.1*
Proportion of low paid workers who work part-time	44.8	44.1	63.8	58.6	**53.2**	*87.6*

Source: *HILDA Survey*, release 12 (December 2013), wave 12.
Note: (a) People are classified in the 'children' household types if they have a resident child aged under-15.
(b) Full-time students have also been included in the couple and single household classifications.

262. Low paid workers tend to work fewer hours than higher paid workers. In 2012, 53.2 per cent of low paid employees worked part-time, compared to 28.3 per cent of higher paid employees.[66] From Table 6.1 it is evident that some groups of low paid workers are more likely to participate in part-time work. For example, 63.8 per cent of single people without children work part-time compared to 44.1 per cent of low paid workers in couple households without children.

263. As seen in Table 6.1, in 2012, 39.0 per cent of low paid workers were living as a member of a couple. For these low paid workers in particular, the earnings of their partner contribute to overall standards of living. Table 6.2 details the employment arrangements amongst couples with at least one low paid employee. This shows that in 61.2 per cent[67]

[65] In this analysis the 'children' households refer to households with a resident child aged under-15. Households with either non-resident children or resident children aged 15 and over are classified in the 'no children' households.

[66] Low paid employees worked on average 29 hours per week in their main job compared to 36 hours worked by higher paid employees.

[67] This is the sum of the proportion of partnered low paid employees with a higher paid full-time employee partner (49.9 per cent) and a higher paid part-time employee partner (11.3 per cent).

of couples, the earnings of the low paid worker are supplemented by their partner's higher wage.

Table 6.2: Employment arrangements among couples with at least one low paid employee, 2012

Partner 2	Partner 1 – Low paid employee		
	Full-time	**Part-time**	**Total**
	Proportion (%)		
Low paid full-time employee	2.2	#	**2.2**
Low paid part-time employee	2.8*	1.3	**4.1**
Higher paid full-time employee	28.4	21.6	**49.9**
Higher paid part-time employee	6.5	4.8	**11.3**
Other employed	4.7	6.6	**11.3**
Not employed	12.2	8.9	**21.0**
Total	**56.8**	**43.2**	**100.0**

Source: *HILDA Survey*, release 12 (December 2013), wave 12.
Note: # Data for this scenario has been included with the partner 1 full-time and partner 2 low paid part-time employee category (marked with an asterisk). This is to avoid duplicating data.

264. Across all couples with a low paid worker, the most common employment arrangements were for one partner to be working in a full-time (28.4 per cent) or part-time (21.6 per cent) low paid job whilst their partner worked full-time in a higher paid job. These arrangements suggest that in a majority of couples, higher paid work supplements the earnings of a partner working in a lower paid job. Few couples are solely reliant on the earnings of one low paid employee (only 21.0 per cent).

265. In general, Government analysis shows that low paid workers tend to be young, single or without children (with 43.9 per cent aged under-30 and single and with no children). Further characteristics of low paid workers including; occupation, industry, education, and work experience are detailed in Appendix A.

6.2.3 Duration in low paid employment

266. As detailed in Chapter 5, low paid employment serves as an important entry point into the workforce and can be a stepping stone towards higher paid work. Accordingly, most employees who enter low paid employment remain in low paid jobs for a relatively short period of time.

267. Table 6.3 uses recent HILDA Survey data to provide an indication of the length of time a person remains in low paid employment. Of those people who entered low paid work, 61.4 per cent left within a year and a further 25.3 per cent left in the subsequent year. This means that for a majority of low paid workers, who enter low paid work at a point in time, low paid work is temporary.[68]

[68] Please refer to Chapter 5 for a discussion of people's employment status after leaving low paid work.

Table 6.3: Duration in low paid employment

Duration	Less than 1 year	1-2 years	2-5 years	5-9 years
Proportion	61.4%	25.3%	12.5%	0.7%

Source: *HILDA Survey*, release 12 (December 2013), pooled waves 1 to 12.
Note: Data is based on flows into low paid work – not the number of people in low paid work at a point in time. Numbers are not mutually exclusive.

6.2.4 Low paid employees and household income

268. Given the varied living circumstances of low paid workers, it is not surprising to find that low paid workers are spread across the entire distribution of household income.[69]

269. The spread of low paid workers across the household income distribution can be examined in two ways. The first is to examine the distribution of low paid workers across households with at least one employee (referred to as employee households). The second is to examine the distribution of low paid workers across all households (including jobless households and retiree households).

270. When examining the spread of workers across household income it is important to ensure that income is adjusted to reflect household needs. Large households will need higher levels of income compared to small households if the households are to maintain an equivalent standard of living.[70]

271. Chart 6.1 compares the distribution of low paid employees across equivalised disposable household income[71] using both of these methods. When considering the distribution of low paid employees across *all* households, it is evident that only 16.1 per cent of low paid workers live in the bottom two income deciles,[72] with 13.2 per cent living in the top two deciles. Across *all* households, low paid workers tend to be concentrated in the middle of the income distribution.

272. When considering *employee* households, low paid workers remain scattered across the income distribution although there are a higher proportion of low paid employees in the lower deciles than the top deciles. For example, 63.7 per cent of low paid employees live in the bottom five income deciles, with 29.5 per cent living in the bottom two deciles. This means that 36.4 per cent live in the top five deciles, with 10.0 per cent living in the top two deciles. The following detailed analysis of the income distribution is limited to households with at least one adult employee.

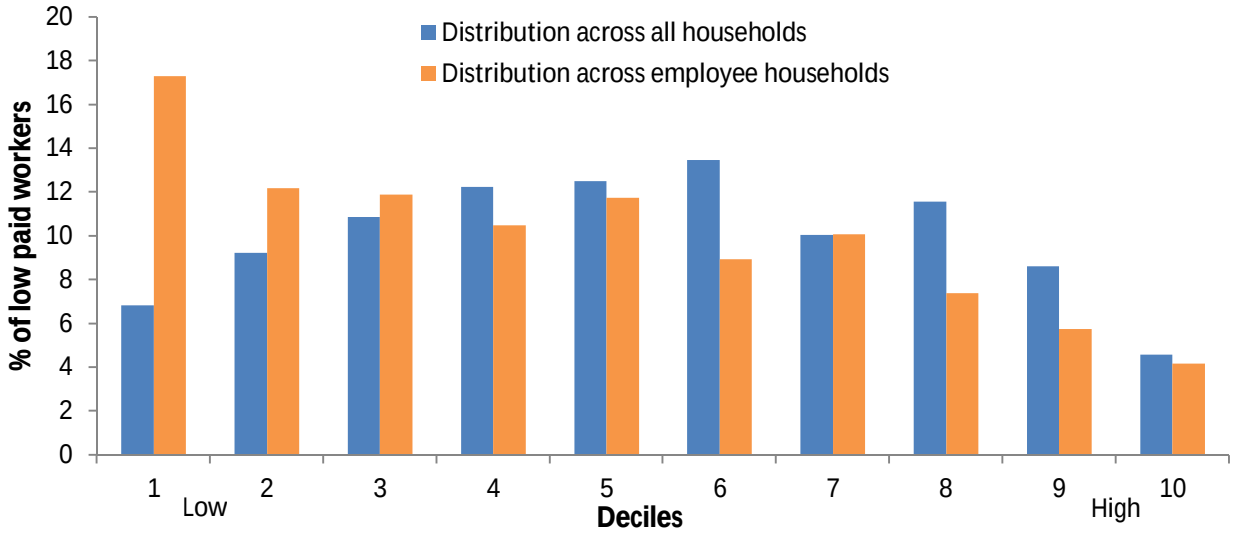
[69] Generally household income is a better proxy of economic wellbeing than individual income, as income can be shared among household members. However, the Government acknowledges that in some households, household income is not shared among household members e.g. shared household arrangements.

[70] Household income is adjusted for household needs, including household size and composition, using the OECD equivalence scale. This gives a weight of 1 to the first household member, 0.5 to each subsequent adult and 0.3 to each child aged under-15.

[71] Disposable household income refers to household private income plus government transfers, less taxes.

[72] The first decile includes the bottom 10 per cent of adult employees as ranked by household disposable income; similarly the second decile includes the next 10 per cent of adult employees, and so on.

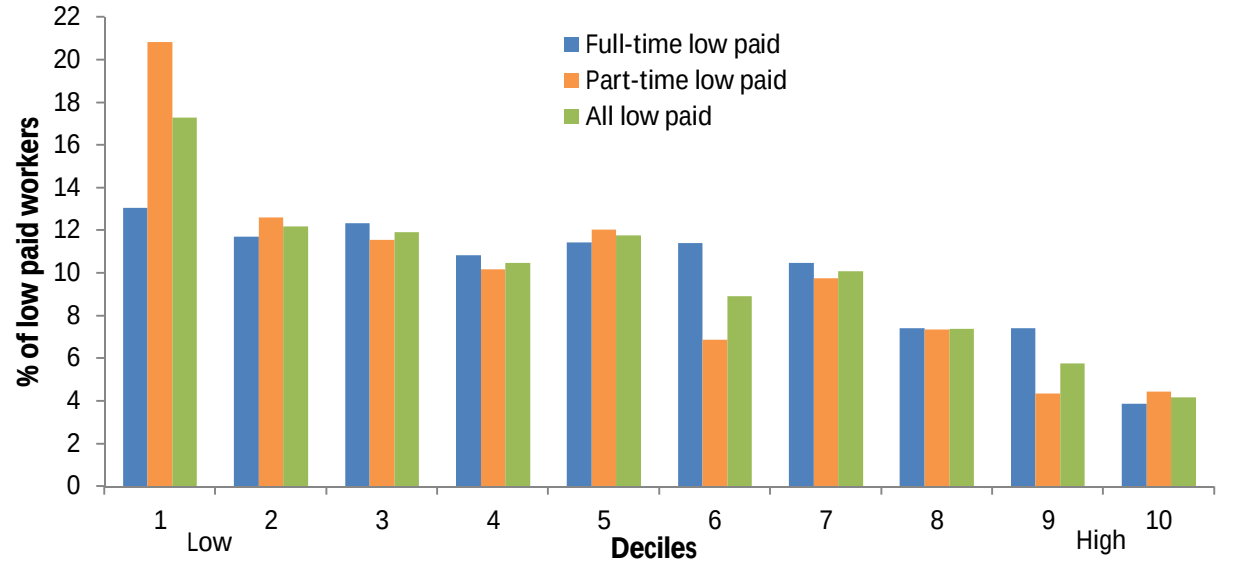
Chart 6.1: Distribution of low paid employees, by equivalised household disposable income, comparing all households and employee households, 2012



Source: *HILDA Survey*, release 12 (December 2013), wave 12.

273. Chart 6.2 shows the distribution of low paid workers across the income distribution, by hours worked. This shows that while both part-time and full-time low paid workers are scattered across the income distribution, part-time low paid workers tend to be more heavily concentrated in the lower household income deciles than full-time low paid workers. For example, 20.9 per cent of part-time low paid employees live in the bottom income decile, compared to 13.1 per cent of full-time low paid employees. This suggests that the low income of some households is not just due to low wages but also a result of low working hours.

Chart 6.2: Distribution of low paid employees, by equivalised household disposable income, employee households only, by hours worked, 2012

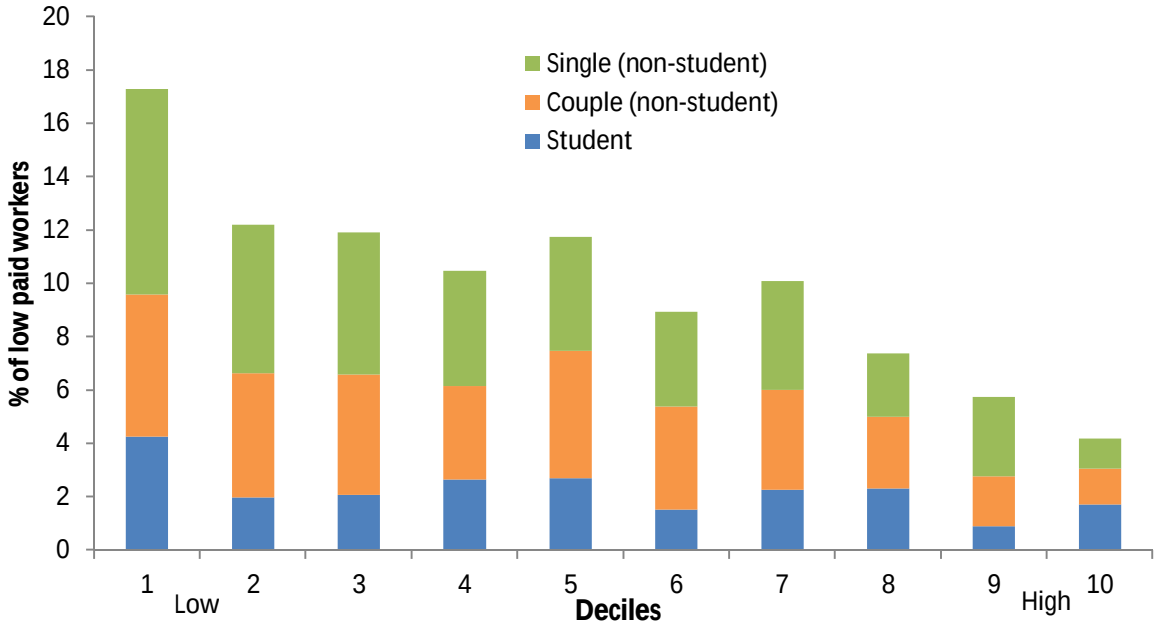


Source: *HILDA Survey*, release 12 (December 2013), wave 12.

274. It is also worth noting that as shown in Chart 6.3, low paid full-time students are spread rather evenly across the income distribution. Close to two-thirds (62.8 per cent) of low paid full-time students are dependent students. This means they are aged 15-24 years,

studying full-time, not working full-time and live in a household with their parent. For these students, household income and living standards are likely to be largely determined by their parent's earnings, rather than their own.

Chart 6.3: Distribution of low paid employees, by equivalised household disposable income and partnered status, employee households only (a), 2012



Source: *HILDA Survey*, release 12 (December 2013), wave 12.
Note: (a) Calculations for singles and partnered categories exclude full-time students in order to create mutually exclusive groupings.

275. The diverse living circumstances and broad range of household incomes of low paid workers means that minimum wage increases are not a well-targeted tool for lifting incomes of low paid households, as wage increases will also be directed to well-off households.

6.3 Financial stress in Australia

276. The diverse living circumstances of low paid workers means that they also have diverse experiences of financial stress.[73] Financial stress measures are increasingly being used to provide an insight into the financial hardship faced by individuals and their families.

277. Using financial stress indicators, it is apparent that both low paid and higher paid employees experience financial stress and that financial stress is experienced across the entire income distribution. These measures show that low pay is not a precursor to experiencing financial stress.

6.3.1 Low paid employees and financial stress

278. As would be expected, the incidence of financial stress is higher for low paid employees compared to employees who are higher paid. However, both groups of workers have a

[73] Financial stress is defined as an inability to meet basic financial needs due to a shortage of money

lower incidence of financial stress compared to the unemployed. This suggests that employment, even if low paid, is a better aid to help people meet their financial needs and avoid financial hardship than the alternative.

279. Analysis using the latest HILDA survey shows that in 2012, 38.0 per cent of the unemployed had at least one type of financial stress[74] compared to 27.1 per cent of low paid employees and 18.1 per cent of employees who were higher paid (see Table 6.4).

Table 6.4: Percentage of people who reported financial stress, 2012

Number of financial stress indicators	Unemployed (%)	Low paid employees (%)	Higher paid employees (%)	All employees (%)
None	62.0	72.9	81.9	80.5
One	13.7	13.1	9.2	9.8
Two or three	14.4	10.6	7.5	8.0
Four or more	9.9	3.3	1.4	1.7

Source: *HILDA Survey,* release 12 (December 2013), wave 12.

280. Table 6.4 also shows that the incidence of experiencing multiple financial stress indicators is much higher among the unemployed than among employees. For example, 9.9 per cent of the unemployed experienced four or more financial stress indicators compared to 3.3 per cent of low paid employees and 1.4 per cent of employees who were higher paid.

281. The HILDA survey also measures people's satisfaction[75] with their financial situation. A person may judge their financial situation based on a number of personal criteria including individual earnings, household income, wealth, access to savings and expenditure requirements. In 2012, low paid employees were on average slightly less satisfied (6.3) with their financial situation than employees who were higher paid (6.8), but significantly more satisfied than the unemployed (4.6).

282. The HILDA survey also measures people's general life satisfaction. By these measures, low paid employees (7.9) were on average significantly more satisfied than the unemployed (7.4), and had the same satisfaction as employees who were higher paid (7.9).

6.3.2 Low income households and financial stress

283. Personal earnings are not the only factor likely to contribute to experiences of financial stress. Experience of financial hardship is also influenced by personal factors such as health problems, poor financial management as well as total household income and wealth. People in low income households tend to experience a higher incidence of financial stress compared with people in higher income households.

[74] Employees are considered to have experienced some financial stress if they answered yes to at least one of seven financial stress indicators. The list of the seven financial stress indicators are: Could not pay electricity, gas or telephone bills on time; Could not pay the mortgage or rent on time; Pawned or sold something; Went without meals; Was unable to heat home; Asked for financial help from friends or family; Asked for help from welfare/community organisation.

[75] Respondents ranked their satisfaction from 0 (totally dissatisfied) to 10 (totally satisfied).

284. Table 6.5 shows the percentage of people experiencing some financial stress by equivalised household disposable income. This shows that the percentage of people experiencing financial stress tends to decline as household income rises. However, a sizable proportion of people in higher household income deciles still experience some financial stress.

Table 6.5: Percentage of employees and unemployed people experiencing some financial stress, by equivalised household disposable income (a), 2012

Household income deciles	% of low paid employees	% of higher paid employees	% of unemployed
1	44.5	44.7	53.1
2	45.5	35.1	55.2
3	31.5	26.7	51.9
4	33.8	31.8	37.0
5	31.4	27.1	35.1
6	24.3	22.3	34.5
7	16.6	17.3	25.3
8	13.8	14.4	13.9
9	18.1	11.3	7.7
10	12.2	6.3	24.5

Source: *HILDA Survey,* release 12 (December 2013) wave 12.
Note: (a) Household income deciles include all households (i.e. not limited to employee households)

285. In general, analysis of financial stress reveals that on average, people with a job, even if low paid, have lower levels of financial stress and are more satisfied with their financial situation than the unemployed. Low paid employees are spread across the income distribution and this will strongly influence individual experiences of financial hardship. As a result, the Government agrees with the Panel's 2013 decision that minimum wages are a blunt tool for addressing the financial needs of the low paid.

6.4 The tax-transfer system

286. The tax-transfer system is flexible and allows for targeted provision of transfer payments to those most in need. Accordingly, the Government submits that any assessment of the relative living standards and needs of low paid workers must have regard to the impact of the tax-transfer system.

287. Government analysis shows that transfer payments and government provided in-kind benefits boost low paid households' incomes, and that there have been real increases to these incomes over time.

288. Due to the interaction of the tax-transfer system and wages, minimum wage increases are not passed through in full to household disposable income. This means that minimum wage increases are not particularly effective at boosting the incomes of families.

6.4.1 Benefits of the tax-transfer system

289. Household living standards depend on total disposable income, including both wage earnings and where applicable, transfer payments. The Australian tax-transfer system provides substantial financial support to low income families. Modelling by the

Government shows that in many cases, transfer payments remain a significant proportion of household income for households taking a minimum wage job.

6.4.1.1 Level of transfers

290. When a single parent with two dependent children on Parenting Payment undertakes a full-time NMW job, transfer payments comprise 44.1 per cent (or $449.80) of their weekly disposable income of $1018.87.

291. For a single parent with one child on Parenting Payment, transfer payments comprise 37.0 per cent of their household disposable income when employed full-time at the NMW.

292. When a single parent with one child on Newstart Allowance, undertakes full-time NMW employment, transfer payments constitute 27.5 per cent of their household disposable income.

293. Couples with two dependent children also receive a considerable amount of their household disposable income from transfer payments (41.2 per cent) when one parent undertakes a NMW job.

294. A couple with a young child still retains some transfer payments ($42.21 per week or 3.6 per cent of their disposable income), when both parents take on full-time minimum wage employment.

295. A single person or a dual income couple without children do not retain any transfer payments when working full-time at the NMW. It is important to note from the analysis of low paid worker characteristics (discussed in Section 6.2.2) that a majority of minimum wage workers are likely to be single or a member of a couple without children and hence will not receive any transfer payments if they are working full-time. [76]

296. Nevertheless, transfer payments provide targeted support for low income working families to help with the cost of raising children and provide additional support to singles and couples who are not working full-time.

6.4.1.2 Support for families

297. The tax-transfer system supports low income families with children through targeted payments such as the Family Tax Benefit. These payments help to provide for the additional expense of raising children and hence provide a comparable standard of living across a range of low income household types.

298. These family payments mean that most low income families with a minimum wage earner have a standard of living that is higher than that of a single person, without children, on the minimum wage. Further, this is in the context that Australia has a highly redistributive tax-transfer system which should already help provide a sufficiently high standard of living for low paid households.

[76] Noting from Table 6.1 that 57.3 per cent of low paid workers are single without children and 25.2 per cent are partnered without children. However, it is also important to note that low paid workers have a high rate of part-time work. Over half (58.6 per cent) of low paid singles without children work part-time hours while just under half (44.1 per cent) of low paid partnered people without children work on a part-time basis.

299. To illustrate this, the Government has modelled the equivalised earnings and equivalised disposable household income for a number of hypothetical households where parents work in full-time minimum wage employment. These equivalised earnings and disposable incomes have then been compared to that of a single person without children to provide a comparator of living standards across households (see Table 6.6).

Table 6.6: Weekly earnings and income of selected household types, 2013

Household type	***Earned income***			***Disposable household income***		
	Earnings ($pw)	**Equivalised earnings ($pw)**	**Additional earnings compared to a single person (%)**	**Income ($pw)**	**Equivalised income ($pw)**	**Additional income compared to a single person (%)**
Single person – working full-time at the NMW						
No children	622.20	622.20	Reference	569.71	569.71	Reference
Single parent – working full-time at the NMW						
Child aged 3	622.20	478.62	-23.1	906.64	697.42	22.4
Child aged 9	622.20	478.62	-23.1	789.31	607.16	6.6
Children aged 3 & 9	622.20	388.88	-37.5	1018.87	636.79	11.8
Dual income couples – both partners working full-time at the NMW						
Child aged 3	1244.40	691.33	11.1	1181.62	656.46	15.2
Child aged 9	1244.40	691.33	11.1	1189.51	660.84	16.0
Children aged 3 & 9	1244.40	592.57	-4.8	1289.84	614.21	7.8
Single income couples – P1 working full-time at the NMW, P2 on Newstart Allowance						
Child aged 3	622.20	345.67	-44.4	875.05	486.14	-14.7
Child aged 9	622.20	345.67	-44.4	860.47	478.04	-16.1
Children aged 3 & 9	622.20	296.29	-52.4	984.65	468.88	-17.7

Source: Government modelling.

300. Of the household types examined, it is evident that most households with children have lower equivalised earnings compared to that of a single person without children. The weekly equivalised earnings range from a high of $691.33 for a dual income couple with one child to a low of $296.29 for a single earner couple with multiple children. This represents equivalised earnings ranging from 11.1 per cent higher than a single person without children to 52.4 per cent lower.

301. The tax-transfer system, through the provision of income support payments and the Family Tax Benefit, restores a comparable standard of living across these families. For example, after taxes and transfers, weekly equivalised disposable incomes range from $697.42 for a single parent with a three year old child to $468.88 for a single earner couple with multiple children. This represents equivalised disposable incomes ranging from 22.4 per cent higher than a single person to 17.7 per cent lower.

302. Single parents in particular receive considerable assistance from the tax-transfer system. For example, a single parent with a three year old who works full-time has equivalised earnings at 23.1 per cent less than a single person. However, after taxes and transfers the parent has an equivalised disposable income of 22.4 per cent higher than a single person.

Even when factoring in the cost of full-time long day care, the parent's disposable income remains higher than a single person.

303. This analysis shows that the tax-transfer system operates to assist low income households with the costs of raising children and restores a comparable standard of living across a range of household types.

6.4.2 In-kind benefits

304. Transfer payments are just one avenue through which the Government helps to support and maintain living standards for low income households. The government also assists households, particularly low income households, through the provision of in-kind benefits which include access to education, basic healthcare, public housing and concession cards.

305. In-kind benefits contribute substantially to the final incomes[77] and living standards of low income households. In 2009-10, households in the lowest equivalised private income quintile received, on average, 45.6 per cent of their final income from in-kind benefits and 47.7 per cent from transfer payments (ABS 2012b).

306. Government provided in-kind benefits, in addition to the tax-transfer system, redistribute income and substantially reduce inequality. Researchers at the Productivity Commission, Greenville *et al.* (2013), note that the tax-transfer system and in-kind benefits have a *"significant equalising impact on the distribution of household income"*. See Section 6.5.2.1 for a discussion of these effects.

6.4.3 Benefits of the tax-transfer system over time

307. The Government has modelled the percentage change in real disposable income for a number of hypothetical households over the period 1 January 2009 to 1 January 2014 (see Table 6.7). The middle column shows the percentage change in real disposable income given the actual changes in the NMW and tax-transfer system, while the last column shows the change in real disposable income for the selected households if the NMW had not increased in real terms over this period and the only increases to disposable incomes were through changes to the tax-transfer system.

[77] Final household income accounts for private income, direct taxes and transfers, indirect taxes (for example the goods and services tax) and government provided in-kind benefits. In short, final income is calculated as household disposable income less indirect taxes, plus in-kind benefits.

Table 6.7: Changes in real disposable household income by selected household types, 1 January 2009 to 1 January 2014, selected household types

Household type	Change with real NMW increases (%)	Change without real NMW increases (%)
Single, no children		
Full-time NMW	1.6	0.8
Part-time NMW	3.1	2.8
Student on part-time NMW	15.9	15.6
Single parent		
Full-time NMW, child age 3	5.3	5.1
Part-time NMW, child age 3	6.3	6.1
Full-time NMW, child age 9	8.3	7.9
Part-time NMW, child age 9	9.7	9.5
Single income couples		
Full-time NMW, no children (a)	-2.1	-2.3
Full-time NMW, child aged 3	0.9	0.7
Full-time, children aged 3 and 9	1.6	1.4
Dual income couples		
Both full-time NMW, no children	1.6	0.8
One full-time and one part-time NMW, no children	0.5	0.4
One full-time and one part-time NMW, child aged 3	0.7	0.1
One full-time and one part-time NMW, children aged 3 and 9	1.5	1.0

Source: Government modelling.
Note: (a) Assumes couple is born after 1952 and therefore affected by the removal of the Dependent Spouse Tax Offset. This is the main reason single earner couples without children have experienced a real decline in disposable income over the past five years.

308. Of the selected households examined, students working part-time on the NMW have received an increase in real disposable income of 15.9 per cent over the past five years. Single parents also experienced relatively large real increase in their real disposable incomes.

309. As seen in Table 6.7, even without the real increases to the NMW, most minimum wage households' disposable incomes would have improved in real terms due to changes in the tax-transfer system. Further, the real increase in the NMW only increased household incomes by a small amount, as measured by the difference between the two columns. One of the reasons for this is pass through effects which are discussed in Section 6.4.4.[78]

[78] The real increase in the NMW over this period was relatively modest, in part due to the GFC. Also during this period, the Commission's NMW increases were lower than they would have otherwise have been due to the introduction of the carbon tax and the increase in the Superannuation Guarantee (FWC 2013).

6.4.4 Effects of a minimum wage adjustment on household income

310. As a result of the interaction of wages with the tax-transfer system, minimum wage adjustments do not flow through in full to disposable incomes. Table 6.8 shows the increase in disposable household incomes following the 2013 minimum wage adjustment.

311. As seen in Table 6.8 in some instances only 16.1 per cent (or $2.55) of the $15.80 increase to wages was retained as part of household disposable income. For these families, the 2013 minimum wage increase was a relatively ineffective method of increasing incomes, given the cost incurred by the employing business.

312. Full-time singles and dual income couples, without children, were the main beneficiaries of the 2013 minimum wage increase. For example, a single person, without children, working full-time at the NMW retained 79.5 per cent (or $12.56) of the $15.80 increase.

313. Minimum wage increases are thus relatively ineffective at raising incomes for many low income households. In its decision, the Commission should balance the cost that a minimum wage increase imposes on businesses with the fact that only part of the benefit is passed through to low paid households.

Table 6.8: Weekly income effects of the 2013 minimum wage adjustment, selected households

Household type	Wage increase ($pw)	Disposable income on 1 Jul 2013 (old NMW) ($pw)	Disposable income on 1 Jul 2013 (new NMW) ($pw)	Increase in household disposable income ($pw)	Percentage of wage increase retained (%)
Single, no children					
Full-time NMW	15.80	557.15	569.71	12.56	79.5
Part-time NMW	6.15	380.50	382.96	2.46	40.0
Student on part-time NMW	6.15	361.75	364.57	2.82	45.9
Single parent					
Full-time NMW, child aged 3	15.80	897.04	902.11	5.07	32.1
Part-time NMW, child aged 3	6.15	719.47	723.16	3.69	60.0
Full-time NMW, child aged 9	15.80	779.74	787.42	7.68	48.6
Part-time NMW, child aged 9	6.15	607.06	610.75	3.69	60.0
Single income couples					
Full-time NMW, no children	15.80	682.35	684.90	2.55	16.1
Full-time NMW, child aged 3	15.80	866.89	872.10	5.21	33.0
Full-time NMW, children aged 3 and 9	15.80	976.48	981.69	5.21	33.0
Dual income couples					
Both full-time NMW, no children	31.69	1114.29	1139.41	25.12	79.5
One full-time and one part-time NMW, no children	21.95	801.18	815.26	14.08	64.1
One full-time and one part-time NMW, child aged 3	21.95	956.63	969.21	12.58	57.3
One full-time and one part-time NMW, children aged 3 and 9	21.95	1072.29	1083.28	10.99	50.1

Source: Government modelling.

6.5 Trends in earnings and income inequality

314. As a result of increases to the NMW and changes to the tax-transfer system, there have been real increases to the incomes and living standards of low paid households over time. Despite these real increases to the NMW, over time there has been a decline in Australia's minimum wage 'bite' (discussed in Chapter 2) and an increase in earnings inequality. Even with these changes, income inequality has been relatively stable in recent years.

6.5.1 Earnings inequality

315. To illustrate changes in earnings inequality over time, Table 6.9 presents the real weekly earnings of full-time adult employees between 1992 and 2012, across selected percentile groups.

Table 6.9: Growth in real weekly earnings, excluding tax-transfers (full-time adult non-managerial employees) by selected percentiles, 1992 to 2012

	1992 ($)	2002 ($)	2012 ($)	1992 to 2002 (%)	2002 to 2012 (%)
10th percentile	644	683	769	5.6	12.6
25th percentile	732	813	933	10.2	14.8
50th percentile (median)	888	1020	1212	13.5	18.9
75th percentile	1139	1337	1635	15.2	22.3
90th percentile	1384	1689	2162	18.3	28.0
Mean earnings	972	1127	1374	13.9	22.0

Source: ABS, *Employee Earnings and Hours* (Cat. No. 6306.0), published and unpublished data, various years.
Note: Due to availability of data, the 1992 figure is based on ordinary time earnings while the 2002 and 2012 figures are based on total cash earnings. For consistent comparisons, the 1992 to 2002 growth figures are based on ordinary time earnings for 2002, which are not displayed in this table. Data presented in May 2012 prices.

316. Table 6.9 shows that real earnings grew across all percentile groups during the last two decades, however, growth rates were highest amongst the higher paid. For example, between 2002 and 2012, earnings in the 10th and 25th percentile grew by 12.6 per cent and 14.8 per cent respectively, compared to growth rates of 22.3 per cent and 28.0 per cent for the 75th and 90th percentiles. These changes have resulted in an increase in earnings inequality over time.

317. However, growing inequality is not just about minimum wages. Changes in earnings over time can be affected by both changes in wages as well as changes in the composition of employed people, such as changes to employee's skill mix. As discussed in Chapter 4, there has been a significant shift towards higher skilled occupations and rising skill levels in the workforce over recent decades, reflecting stronger demand for higher skilled workers

318. When analysing earnings inequality it is important to keep in mind that low paid work can act as a stepping stone into higher paid and therefore many people can be expected to move across the earnings distribution over time.

319. As highlighted in Section 6.4.1, transfer payments often supplement earnings in low paid households and can comprise a large portion of total household income. Therefore, it is important to consider household disposable income when assessing the relative living standards of low paid workers.

6.5.2 Income inequality

320. Inequality as measured by equivalised disposable household income is an arguably more useful measure of assessing differences in living standards than an assessment of earnings. Measures of income inequality have been relatively stable over the past five years.

6.5.2.1 The tax-transfer system reduces inequality

321. The tax-transfer system acts to redistribute income to low income households and in doing so helps to reduce inequality. The ABS (2013f) demonstrates that inequality, as

measured by the Gini coefficient,[79] declines after considering the effects of the tax-transfer system and government provided in-kind benefits.

In 2011-12, the Gini coefficient, when considering equivalised household *private* income, was 0.433. The Gini coefficient reduced to 0.303 when factoring in taxes and transfers to examine equivalised household *disposable* income and dropped further to 0.226 when considering government provided *in-kind benefits* as a component of equivalised household disposable income.[80] See Section 6.4.2 for a discussion of in-kind benefits.

6.5.2.2 Income inequality over time

322. Table 6.10 shows a number of different indicators that are used to measure changes in real equivalised household disposable income over time. These indicators show that in general, income inequality has remained fairly constant over the past decade and that in recent times incomes at the bottom of the distribution have been growing faster than those at the top.

323. The first section of Table 6.10 shows that there has been no significant change in the Gini coefficient over the past decade.[81]

324. The second section of Table 6.10 presents data on the growth in equivalised disposable household income at different points in the income distribution. This shows that over time the strongest growth in real incomes has occurred in some of the lower percentile groups. For example, the average weekly income of households at the top of the 30th and 40th percentiles have increased by 46.3 per cent and 44.4 per cent respectively between 2000-01 and 2011-12, compared to an increase of 42.7 per cent in the 90th percentile. More recently, stronger growth in household incomes has been accruing to low income households. For example, from 2009-10 to 2011-12 household incomes at the top of the 10th percentile grew by 5.0 per cent, while incomes in the 90th percentile grew, the increase was not statistically significant.

[79] The Gini coefficient is a summary statistic measuring the degree of inequality. Values closer to one represent more inequality and values closer to zero represent less inequality.

[80] All three income measures include net imputed rent. By calculating imputed rent, owner-occupiers are treated as if they were renting their home from themselves, thus incurring rental expenditure and earning rental income. The addition of imputed rent has a partial equalising effect on the household income distribution.

[81] The Gini coefficient published in Table 6.10 does not include imputed rent and therefore differs to the figure published in Section 6.5.2.1.

Table 6.10: Change in real equivalised weekly disposable household income over the period 2000-01 to 2011-12 (a)(b)

	2000-01	2007–08	2009–10	2011-12	Change 2009-10 to 2011-12 Point change	Change 2000-01 to 2011-12 Point change
Gini coefficient	0.311	0.336	0.329	0.320	**	**
Income per week at top of selected percentiles	**($)**	**($)**	**($)**	**($)**	**Percentage change 2009-10 to 2011-12 (%)**	**Percentage change 2000-01 to 2011-12 (%)**
10th (P10)	274	351	361	379	5.0	38.3
20th (P20)	333	455	447	473	5.8	42.0
30th (P30)	397	558	553	581	5.1	46.3
40th (P40)	477	659	653	689	5.5	44.4
50th (P50)	562	766	754	790	4.8	40.6
60th (P60)	654	878	877	904	3.1	38.2
70th (P70)	748	1019	1024	1048	2.3	40.1
80th (P80)	875	1208	1208	1236	**	41.3
90th (P90)	1090	1528	1527	1555	**	42.7
Income share	**(%)**	**(%)**	**(%)**	**(%)**	**Change 2009-10 to 2011-12 Percentage point**	**Change 2000-01 to 2011-12 Percentage point**
Lowest quintile	7.7	7.3	7.4	7.5	**	**
Second quintile	12.6	12.3	12.4	12.6	**	**
Third quintile	17.6	16.9	17.0	17.3	**	**
Fourth quintile	23.6	22.6	23.0	23.0	**	**
Highest quintile	38.5	41.0	40.2	39.5	**	**
All persons	100.0	100.0	100.0	100.0	**	**
Low income earners*	**10.5**	**10.0**	**10.1**	**10.4**	**0.3**	**

Source: ABS (2013f), *Household Income and Income Distribution, Australia, 2011-12*, Cat. No. 6523.0.
Notes: *Low income earners are assumed to be those in the second and third deciles. The lowest decile is not included in this group as a large proportion of income earners in the lowest decile are likely to be unemployed.
**Change between years is not statistically significant.

(a) Income as defined in this table represents real equivalised disposable household income.
(b) Estimates presented from 2007-08 onwards are not directly comparable with estimates from 2000-01 due to a break in the series in 2007-08.

325. The third section of Table 6.10 shows that the changes in quintile income shares over both the long and short term have not been statistically significant. Low income earners have experienced a statistically significant although small increase in the income share between 2009-10 and 2011-12.

326. In general, while the Government notes that the earnings of minimum wage workers have been growing slower than higher earners, the evidence shows that minimum wages do not significantly contribute to inequality. Further, the Government submits that the

tax-transfer system operates to reduce inequality and notes that measures of income inequality have been relatively stable over time.

6.6 Conclusion

327. The Government has presented evidence to demonstrate that minimum wage increases are an inefficient and ineffective tool for increasing the living standards of low paid workers, including:

- low paid workers are spread across the entire distribution of household income meaning that minimum wage increases will be directed toward relatively well-off households as well as low income households;
- a minimum wage increase may reduce work hours and overall earnings for some employees;
- not all of a minimum wage increase will flow through to disposable household income; and
- less than one-third of award-reliant workers are low paid (discussed in Chapter 1).

328. The Government believes that minimum wages play a role in providing a safety net for Australian workers and reiterates the Panel's comments that "*increases in minimum wages are a blunt instrument for addressing the needs of the low paid*" (FWC 2013).

329. The Government submits that the tax-transfer system provides targeted assistance to support low paid workers in low income households and is a more efficient means of alleviating the impact of earnings inequality than adjustments to minimum wages. The tax-transfer system is the primary means of redistributing income to low income households.

Appendix A: Low paid workers: definitions & data

A.1 Defining low paid employees

330. Low paid adult employees have been defined as employees aged 21 or older earning less than two-thirds of the median employee hourly earnings. Accordingly, adult employees with hourly earnings below $17.60 have been classified as low paid. To identify low paid junior employees, the low pay threshold derived from adult employees has been adjusted as detailed below.[82,83]

331. In order to calculate the number of low paid employees using the HILDA Survey the following approach has been taken:

- limited the population to employees aged 15 years and over with positive hours of work and earnings;
- calculated hourly earnings for employees in their main job;
- deflated the earnings of causals by 1.22 to reflect the casual loading;
- calculated the median earnings of adult employees (i.e. aged 21 years and over) at ($26.40) and set the threshold for low pay at two thirds of this amount ($17.60);
- adult employees with an hourly wage below $17.60 have been classified as low paid; and
- low pay thresholds for employees aged under-21 have been adjusted by the relevant junior minimum wage rate (from the National Minimum Wage Order) which is a percentage of the adult NMW.[84]Table A.1 contains all low pay thresholds used for juniors.

Table A.1: Low pay thresholds, by age

	Percentage of NMW (%)	Low paid threshold ($)
Adult (21 years and over)	100.0	17.60
20 year old	97.7	17.20
19 year old	82.5	14.52
18 year old	68.3	12.02
17 year old	57.8	10.17
16 year old	47.3	8.32
15 year old	36.8	6.48

Note: Junior minimum wage rates refer to the National Minimum Wage Order.
Example: The low paid threshold for 15 year olds was set at $6.48 which is the adult threshold of $17.60 multiplied by 36.8 per cent (the special national minimum wage for 15 year olds is 36.8 per cent of the NMW). Fifteen year olds paid less than $6.48 per hour have been classified as low paid.

[82] The Government's analysis is not limited to adult low paid employees, but also includes low paid workers aged under-21 years. This is because younger employees are one of the main groups affected by AWR decisions.

[83] The Government has adjusted the low paid threshold for juniors because junior minimum wages are lower than adult minimum wages. This type of approach is not unique and has been taken in various academic reviews. .

[84] Junior minimum wage rates (as a proportion of adult minimum wage rates) vary considerably across awards. The junior-adult minimum wage relativities in the National Minimum Wage Order are based on the Miscellaneous Award 2010.

A.2 Characteristics of low paid workers

Table A.2: Detailed characteristics of low paid workers

	% of low paid employees	% of higher paid employees	% of all employees	% of employees who are low paid
Gender				
Male	44.7	51.8	50.6	14.8
Female	55.3	48.2	49.4	18.7
Age				
Age 15-24	41.7	13.2	18.0	38.8
Age 25-34	20.4	25.3	24.5	13.9
Age 35-44	13.7	24.0	22.3	10.3
Age 45-54	13.2	21.7	20.3	10.9
Age 55-64	8.2	13.8	12.8	10.7
Age 65+	2.8	2.1	2.2	20.9
Marital status				
Single	61.0	36.8	40.8	25.0
Partnered	39.0	63.2	59.1	11.0
Age of youngest resident child				
0-5 years	7.6	14.7	13.6	9.4
6-11 years	6.3	9.6	9.1	11.7
12-17 years	6.7	10.3	9.7	11.5
No child<18 years	79.4	65.3	67.7	19.6
Location				
Major city	65.5	70.6	69.7	15.7
Inner regional Australia	22.9	19.6	20.1	19.0
Outer regional Australia	10.7	8.5	8.9	20.2
Remote/very remote Australia	0.8	1.4	1.3	11.0
Long term health condition				
Present	16.3	13.4	13.9	19.7
Not present	83.7	86.6	86.1	16.2
Government income support payments [(a)]				
In receipt	20.4	6.5	8.8	38.8
Not in receipt	79.6	93.5	91.2	14.6
Government public transfers [(b)]				
In receipt	36.8	29.7	30.9	19.9
Not in receipt	63.2	70.3	69.1	15.3
Highest education attainment				
Degree or post Graduate	12.7	28.2	25.6	8.3
Certificate 3-4/Diploma	27.2	38.8	36.9	12.3
Year 12	27.5	16.3	18.2	25.3
Year 11 or below[(c)]	32.2	16.7	19.2	32.2
Years of work experience				
0-2 years	27.4	7.3	10.4	41.3
2-5 years	16.7	8.9	10.1	25.9
More than 5 years	55.9	83.9	79.5	11.1
Hours				
Full-time	46.8	71.7	67.6	11.6
Part-time	53.2	28.3	32.4	27.4

	% of low paid employees	% of higher paid employees	% of all employees	% of employees who are low paid
Contract type				
Casual	59.8	17.1	24.3	41.2
Permanent	40.2	82.9	75.8	8.9
Business size				
Small (1-19 employees)	59.0	30.3	35.1	28.0
Medium (20-199 employees)	34.0	43.4	41.8	13.5
Large (200 plus employees)	7.0	26.4	23.2	5.0
Occupation				
Managers	4.2	12.0	10.7	6.6
Professionals	6.7	28.1	24.5	4.6
Technicians & trades workers	12.2	11.4	11.6	17.6
Community & personal service workers	19.6	10.5	12.1	27.2
Clerical & administrative workers	9.1	16.7	15.4	9.9
Sales workers	19.9	7.8	9.8	33.7
Machinery operators & drivers	5.9	6.6	6.5	15.2
Labourers	22.3	6.8	9.4	39.7
Industry				
Agriculture, forestry & fishing	3.4	0.5	1.0	57.2
Mining	0.6	2.8	2.5	3.9
Manufacturing	7.6	8.3	8.2	15.6
Electricity, gas, water & waste services	0.5	1.3	1.2	6.5
Construction	5.2	5.7	5.6	15.3
Wholesale trade	2.5	3.5	3.4	12.3
Retail trade	19.5	8.8	10.6	30.8
Accommodation & food services	19.5	4.4	6.9	47.3
Transport, postal & warehousing	3.2	5.4	5.0	10.8
Information, media & telecommunications	1.2	2.2	2.0	9.5
Financial & insurance services	1.2	4.8	4.2	4.7
Rental, hiring & real estate services	2.0	0.8	1.0	33.4
Professional, scientific & technical services	3.2	8.4	7.6	7.1
Administrative & support services	3.9	2.8	2.9	21.9
Public administration & safety	2.3	8.3	7.3	5.4
Education & training	5.4	11.6	10.5	8.5
Health care & social assistance	11.5	16.1	15.3	12.5
Arts & recreation services	2.3	1.4	1.6	24.4
Other services	5.4	2.9	3.3	27.4

How to read: The first column of data shows the percentage of low paid people with each characteristic. For example, using the gender data, the table shows that 44.7 per cent of low paid workers are male. The last column shows the percentage of workers of a particular characteristic that are low paid. For example, 14.8 per cent of male workers are low paid.

Note: (a) Income support payments include Government Pensions, Parenting Payments and Allowances (b) Total public transfers include income support payments, non-income support payments (including Family Tax Benefit A and Family Tax Benefit B) and payments not elsewhere classified. (c) Includes certificate 1-2.

Source: HILDA Survey, release 12 (December 2013), wave 12

References

Australian Bureau of Statistics 2012b, *Government Benefits, Taxes and Household Income, Australia, 2009-10,* Cat. No. 6537.0, ABS, Canberra.

Australian Bureau of Statistics 2012c, *Persons Not in the Labour Force, Australia, September 2012*, Cat. No. 6220.0, ABS, Canberra.

Australian Bureau of Statistics 2013a, *Australian System of National Accounts, 2012-13,* Cat. No. 5204.0, ABS, Canberra.

Australian Bureau of Statistics 2013b, *Counts of Australian Businesses, Including Entries and Exits, June 2008 to June 2012*, Cat. No. 8165.0, ABS, Perth.

Australian Bureau of Statistics 2013c, *Employee Earnings and Hours, May 2012,* Cat. No. 6306.0, ABS, Perth. Published data and unpublished unit record data from the ABS Remote Access Data Laboratory, various years.

Australian Bureau of Statistics 2013d, *Employee Earnings, Benefits and Trade Union Membership, Australia*, *August 2012,* Cat. No. 6310.0, ABS, Perth. Various years.

Australian Bureau of Statistics 2013e, *Estimates of Industry Multifactor Productivity, 2012-13*, Cat. No. 5260.0.55.002, ABS, Canberra.

Australian Bureau of Statistics 2013f, *Household Income and Income Distribution, Australia, 2011-12,* Cat. No. 6523.0, ABS, Canberra.

Australian Bureau of Statistics 2013g, *Labour Force, Australia: Labour Force Status and Other Characteristics of Families*, *June 2012*, Cat. No. 6224.0.55.001, ABS, Canberra.

Australian Bureau of Statistics 2013h, *Labour Mobility, Australia, February 2013*, Cat. No. 6209.0, ABS, Canberra.

Australian Bureau of Statistics 2014a, *Australian National Accounts: National Income, Expenditure and Product, December quarter 2013,* Cat. No. 5206.0, ABS, Canberra.

Australian Bureau of Statistics 2014b, *Balance of Payments and International Investment Position, Australia, December 2013*, Cat. No. 5302.0, ABS, Canberra.

Australian Bureau of Statistics 2014c, *Business Indicators, Australia, December quarter 2013,* Cat. No. 5676.0, ABS, Sydney.

Australian Bureau of Statistics 2014d, *Consumer Price Index, Australia, December quarter 2013,* Cat. No. 6401.0, ABS, Canberra.

Australian Bureau of Statistics 2014e, *Labour Force, Australia, February 2014*, Cat. No. 6202.0, ABS, Canberra.

Australian Bureau of Statistics 2014f, *Labour Force, Australia, Detailed – Electronic Delivery, February 2014,* Cat. No. 6291.0.55.001, ABS, Canberra.

Australian Bureau of Statistics 2014g, *Labour Force, Australia, Detailed, Quarterly, February 2014,* Cat. No. 6291.0.55.003, ABS, Canberra. Department of Employment trend.

Australian Bureau of Statistics 2014h, *Wage Price Index, Australia, December quarter 2013,* Cat. No. 6345.0, ABS, Perth.

Australian Government 2013, *Mid-Year Economic and Fiscal Outlook 2013-14*, Canberra.

Bray, R 2013, *Reflections on the evolution of the minimum wage in Australia: Options for the future*, Australian National University.

Department of Employment 2014, *Workplace Agreements Database,* Canberra.

Department of Employment, Workplace Relations and Small Business 2000, *Joint Governments' Submission to Safety Net Review – Wages, 1999-2000,* AusInfo, Canberra.

Fair Work Act 2009

Fair Work Commission 2013, *Decision – Annual Wage Review 2012-13*

Greenville, J, Pobke, C & Rogers, N 2013, *Trends in the distribution of income in Australia*, Productivity Commission staff working paper, Canberra.

Keating, P 1993, 'Speech to the Institute of Directors luncheon', Melbourne, 21 April.

Melbourne Institute 2013, *Household, Income and Labour Dynamics in Australia Survey, Release 12,* Melbourne.

Neumark, D & Wascher, W 2007, *Minimum wages and employment*, NBER working papers.

Organisation for Economic Co-operation and Development 2014, *OECD.Stat Extracts,* Paris, stats.oecd.org [accessed: January 2014]

Productivity Commission 1998a, *Work arrangements in container stevedoring*, Productivity Commission research paper, AusInfo, Canberra.

Productivity Commission 1998b, *The Australian black coal industry*, Productivity Commission inquiry report, AusInfo, Canberra.

Productivity Commission 1998c, *Work arrangements in Australian meat processing industry,* Productivity Commission research paper, AusInfo, Canberra.

Productivity Commission 1999, *Microeconomic reforms and Australian productivity: Exploring the links*, Productivity Commission research paper, AusInfo, Canberra.

Productivity Commission 2000, *Productivity in Australia's wholesale and retail trade*, Productivity Commission staff research paper, AusInfo, Canberra.