

**Federal Opposition Post-Budget Submission
to the
Fair Work Commission Annual Wage Review
2015**

15 May 2015

Overview

1. This post-Budget submission builds on the arguments and evidence in the Federal Opposition's initial submission of 27 March 2015 to Fair Work Australia's Minimum Wage Panel's (the Panel) 2015 Annual Wage Review (AWR). The Panel should consider this submission in conjunction with the information in the Federal Opposition's initial submission.
2. This submission is based on the latest publicly available economic and labour market information and the latest economic and labour market forecasts as outlined by the Australian Government Budget, which was tabled on 12 May 2015. It also provides an outline of those measures announced in the 2014-15 Budget, 2014-15 Mid-Year Economic and Fiscal Outlook (MYEFO), and 2014-15 Budget which will impact on low-income workers and award-free and agreement-free juniors, trainees and apprentices.
3. The Federal Opposition reiterates, that with inequality at a 75-year high, and following the disproportionate impacts on low and middle income earners and their living standards arising from measures in the 2014-15, continued in the 2015-16 Budget, and new measures in 2015-16 Budget, the role of the National Minimum Wage (NMW) in providing a safety net in our industrial relations system is of heightened importance.
4. Against this background, the Federal Opposition again submits that the National Minimum Wage (NMW) is and should continue to be a fundamental part of a strong safety net for Australian workers, which enables low-income workers to share in the nation's economic prosperity; and that the Panel's decision should be one which firmly supports a fair and economically responsible increase in the NMW and all modern award wage rates.

Domestic economic conditions

5. The Federal Opposition notes Treasury forecasts for GDP growth of 2¾ per cent in 2015-16. While the 2015-16 result is below trend growth rate, we do not consider this to be an argument against an increasing the NMW.
6. We note that data following last year's Budget clearly demonstrates that the Government's economic and fiscal strategy has deeply undermined business and consumer confidence. This is evident, in the doubling of the deficit in the 2015-16 financial year from \$17.1 billion to \$35.1 billion.

Labour market

7. The Federal Opposition notes Treasury forecasts for the labour market: unemployment rate of 6¼ per cent in 2014-15, 6½ per cent in 2015-16 and 6¼ per cent in 2016-17; employment growth of 1½ per cent in 2014-15 and 2015-16, and 2 per cent in 2016-17; and labour force participation stable at 64¾ per cent across these three years.¹

¹ Budget Paper No.1, Statement 2, Table 1, page 2-5.

8. Whilst unemployment is expected to peak at 6.5 per cent and remain high, Treasury's labour market forecasts noted above do not support any argument that an increase in the NMW will be economically damaging.
9. In addition, suggestions that NMW increases will seriously undermine the competitiveness of Australian industry are unconvincing. The bulk of NMW employment is in the non-tradeables sector, especially personal and professional services and much of retail industry. In that sector, provided NMW changes are orderly and well-understood in advance, changes to the NMW merely result in a change in the relative price of non-tradeables, and therefore no output effect in the domestic economy. For those NMW jobs which are in the tradeables sector, any impact of variations in the NMW on the competitiveness of Australian industry has been more than offset by the substantial real and nominal depreciation of the Australian Dollar against both the USD and a trade-weighted index.²

Wages and Inflation

10. The Federal Opposition notes Treasury forecasts are for nominal wage inflation of 2½ per cent in 2014-15 and 2015-16, and 2¾ per cent in 2016-17. It is important to note that this constitutes the lowest rate of wages growth since 1998 when the ABS started publishing this information.
11. The Federal Opposition notes Treasury forecasts for inflation (as measured by the Consumer Price Index) of 1¾ per cent in 2014-15, and 2½ per cent in both 2015-16 and 2016-17. Taken together, these predictions imply a steady, if small, increase in the average and median real wage.
12. Should the Panel's Order entail no increase in the NMW, as the Government seems to suggest, that would inevitably result in even further growth in the already historically large disparity between the NMW and average and median wages, that is in growing inequality in the Australian distribution of income.
13. As noted in the Federal Opposition's previous submission growing inequality is likely to adversely affect economic growth.

Relevant Government Measures

14. The Federal Opposition understands that 'the prospect of legislative change'³ is something the Panel has previously not taken into account. However we would urge the Panel to scrutinise carefully any argument by the Government that the tax and transfer system can be solely relied upon to provide targeted support to the lowest-paid workers given their wholesale attempts to undermine the tax and transfer system.
15. Over two consecutive budgets the Government has announced measures that will have a serious negative impact on the cost of living of low-income households.

² Budget Paper No.1, Statement 2, pages 2-12 to 2-15 esp. Box 2 on page 2-13.

³ [2014] FWCFB 3500, [19]

Family Tax Benefits (FTB)

16. The Government has maintained cuts in the 2015-16 Budget to Family Tax Benefits proposed in the 2014-15 Budget:
- a. Limit FTB-B to families with a child under age six years (currently 16 years);
 - b. Freeze FTB payment rates for two years – they will not be indexed;
 - c. Reduce FTB end-of-year supplements to their original 2004 values of \$600 for an FTB-A child and \$300 for an FTB-B family; and
 - d. Freeze eligibility thresholds for Family Tax Benefit for three years.
17. As outlined in our initial submission, independent modelling by the National Centre for Social and Economic Modelling has shown that as a result of last year's Budget, a single income family on \$65,000 a year will be as much as \$6,000 a year worse off. This year's budget has added a number of further family payment cuts, including:
- a. Abolishing the Large Family Supplement – which means that families with 4 or more children receiving FTB-A will lose \$321.20 per annum as a result of the cuts to the Large Family Supplement;
 - b. Abolishing the Low Income Supplement – which is an annual \$300 payment to low income workers who earned less than \$30,000 (single) or \$45,000 (couple) or \$60,000 (single or couple with dependent children); and
 - c. Reducing the portability of Family Tax Benefit Part A.
18. These new measures will compound the impacts of the abovementioned family payment cuts from the 2014-15 Budget.

Paid Parental Leave

19. In the 2015-16 Budget, a measure was announced to leave around 80,000 mothers worse off, with tens of thousands pushed off the Government's Paid Parental Leave system entirely, leaving each of them up to \$11,500 worse off for every baby they have. This measure will also mean less time mothers will be able to spend with their newborn babies, meaning many will need to return to work earlier. This savings measure takes \$967.7 million from the pockets of low and middle income families.

Child Care

20. Low and middle income workers are particularly affected by the proposed \$235 million Child Care Benefit (CCB) cut. The measure is anticipated to impact more than 500,000 low and middle income families on as little as \$42,000 per year. A new report released by AMP-NATSEM shows child care costs are having the biggest impact on low and middle-income families. Some 80 per cent of families who receive child care assistance rely on CCB support.

Education expenses

21. In the 2014-15 MYEFO, the Government ended the Schoolkids Bonus payments worth \$422 for each child in primary school and \$842 for each child in secondary school. The Schoolkids Bonus will continue until the end of 2016. The last instalment will be paid in July 2016. An income test will also apply to the Schoolkids Bonus starting on 1 January 2015.
22. The Schoolkids Bonus aims to help eligible families and students with the education related costs of primary and secondary school studies, such as school fees, uniforms, books and sports, music or other lessons.

Jobseekers

23. The 2015-16 Budget seeks to cut young jobseekers (under 25) off from any income support payments for one month, while they are looking for work. The Government has also retained its planned changes to the eligibility age for the Newstart Allowance, pushing jobseekers who are between the ages of 22 and 24 onto the lower Youth Allowance. With unemployment peaking at 6.5 per cent and staying higher longer than estimated, these types of punitive measures will have a significant impact on the cost of living pressures of young jobseekers, taking away more than \$1,000 of modest income support.

Health cuts

24. The combined health cuts of the 2014-15 and 2015-16 Budgets amount to a cut to Australia's health system of around \$60 billion over the next decade. A number of these measures will also have direct cost of living impacts on low and middle income households. The main health measures that will drive up cost of living pressures for Australian households are retained from the 2014-15 Budget:
 - a. A four year freeze on Medicare Benefit Schedule rebates for General Practice, costing households around \$1.3 billion per year and according to independent expert analysis (Medical Journal of Australia), effectively entrenching a 'GP tax' by stealth, of \$8.43 per visit and driving down bulk-billing rates and forcing doctors to charge increased gap payments;
 - b. A \$1.3 billion increase to the price of medicines, by increasing PBS co-payments for both concessional and general patients by increasing the cost of each Pharmaceutical Benefits Scheme (PBS) prescription and increasing the rate at which general patients reach the Safety Net after which they can purchase medicines at the concessional rate; and
 - c. Changes to the Medicare Safety Net system that will see patients paying more for medical services.
25. These measures have been added to in the 2015-16 Budget, with a further \$2 billion being cut from the health system. Close to \$1 billion will be cut from programs that fund measures such as preventative health care, drug and alcohol rehabilitation, mental

health and other crucial health programs. These will affect a number of organisations in the community who provide vital health services to low income and vulnerable people, driving up their costing of living and negatively impacting on their health, leading to further downstream costs to them and to the system.

26. Other measures in the 2015-16 Budget that will indirectly impact on the cost of living for households include:
- a. \$125 million from the Child Dental Benefits Schedule
 - b. \$144.6 million cut from the MBS including halving the amount paid for child health assessments
 - c. \$69.6 million cut to Department of Veterans' Affairs dental and allied health payments

Pensions and seniors' concessions

27. Under proposals proposed in the 2014-15 Budget and retained in the 2015-16 Budget, the eligibility age of the Age Pension will be increased from 67 in 2023 to 70 by 2035. This measure will have the greatest impact on low income and blue collar workers, as well as workers in physically demanding employments including nurses, disability support workers, police and firefighters.
28. The 2015-16 Budget seeks to make a number of changes to the Pension assets test. As a result of these changes, some part pensioner couples will be up to \$13,500 worse off each year in lost pension payments. A number of these part pensioners may be employed in casual and other low income work and will need to supplement their lost pension income.
29. The Budget also maintains the Government's plan to take \$1.3 billion out of pensioners' pockets, in the form of concessions. As a consequence, independent analysis (by the Association of Superannuation Funds of Australia) suggests that pensioners could lose \$1,500 in concessions, including discounts on car registration, council rates, gas and electricity.

Reintroduction of fuel excise indexation

30. The Government reintroduced biannual indexation by the consumer price index of excise and excise-equivalent customs duty for all fuels except aviation fuels commencing from August 1 2014. It was estimated that in 2014-15 indexation would add about one cent per litre to the rate of 38.134 cents per litre – around 40-55 cents extra per week.

Students in Higher Education

31. The 2015-16 Budget re-commits the Government to their planned changes to higher education. This Budget confirms the Government's intention to cut funding for undergraduate student places by 20 per cent, costing universities around \$3 billion over the current forward estimates. These higher education reforms will significantly

disadvantage students from low income families, increasing the cost of tertiary education and creating significant barriers to social mobility.

Workers seeking to up-skill or re-skill

32. The 2015-16 Budget confirms a 20 per cent cut in skills funding, which reflects the devastating impact of the 2014-15 Budget which ripped out \$2 billion from the Industry portfolio to programs that supported apprentices, skills and vocational education. This Budget also cut \$1.6 million by abolishing Industry Skills Councils.
33. Typically, these were skills programs and training that low income families and individuals relied upon to improve their employability and incomes. The Government's cuts will undermine low income families capacity to improve their financial circumstances.

Conclusion

34. The Federal Opposition re-iterates its support of a decent living NMW as a central plank in ensuring that the distribution of income in Australia is not unsustainably unfair. We repeat our argument that changes in Government policy, announced in the Budget and elsewhere, are salient to the Panel's considerations.
35. The Federal Opposition accordingly supports an appropriate increase in the NMW in 2015.
36. We submit that the Panel's decision should be one that firmly supports a fair and economically responsible increase in the NMW and all modern award wage rates.
37. The Federal Opposition submits that the NMW is and continues to be a fundamental part of the strong safety net for Australian workers.