Australian Government

Australian Government Submission

to the

Fair Work Commission Annual Wage Review 2015

27 March 2015

Contents

Tables and charts

List of tables

List of charts

PART I: INTRODUCTION

1 The Australian Government's Position

1. The 2015 Annual Wage Review occurs at a time of significant transformation in the Australian economy, moving away from growth led by investment in resources.

2. During this transition, the economy has generally been growing below its trend rate with a rising unemployment rate. The unemployment rate currently stands at 6.3 per cent. Youth unemployment has increased to 13.9 per cent as at February 2015. Aggregate wages growth remains below trend (2.5 per cent over the year to December 2014).

3. Subdued wages growth and low consumer price inflation indicate that businesses find it difficult to afford wage increases at the present time. Inflation is currently running at 1.7 per cent over the year to December 2014.

4. Wage flexibility is an important mechanism to support employment during this ongoing structural adjustment. Wage increases that are not supported by higher productivity or higher prices for customers and consumers will most likely cost jobs. Indeed, wage growth below trend will help support employment.

5. Increases in minimum wages can reduce employment, particularly for youth, and especially when the labour market is subdued. The Expert Panel for annual wage reviews ('the Panel') should carefully consider the long-term impacts of its successive decisions. Recent decisions on apprentice and youth wages have made it more costly for employers to hire young Australians in some industries.

6. While one wage decision may not have a large effect on employment, over the long-term, the cumulative impact of successive minimum wage increases on employment will be greater.

7. The minimum wage and award classification wages are a significant component in Australia's comprehensive safety net of workplace relations policies and transfer payments. However, raising the minimum wage and award classification wages is not the only way to address relative living standards or the needs of the low-paid (noting that many award classifications provide wage rates well above the level that is considered 'low-paid'[1]). For low income households and families, the tax-transfer system provides considerable redistribution of income.

8. Being in work has significant benefits for individuals and households, providing higher incomes, and higher levels of personal wellbeing, as well as significant flow-on benefits for the community in terms of lower spending on welfare, health and law and order.

[1] In this submission the Government defines low-paid workers as employees earning less than two-thirds of the median hourly wage. The Government uses two data sources to provide the Panel with information on low-paid workers. Due to differences in the variables available in these two data sets, the low-paid thresholds differ slightly. Using the *Employee Earnings and Hours* survey, low-paid workers are defined as those earning less than $18.67 per hour. The threshold is set at $18.22 per hour using the *Household, Income and Labour Dynamics in Australia* (HILDA) survey. Appendix A contains a detailed discussion of the methodology used to define low-paid workers.

9. Employers' decisions about whether to employ additional workers are impacted by a range of factors, including the cost of wages (across all award classifications, not just the low paid), the broad economic environment and specific business conditions.

10. In this challenging economic and labour market environment, the Panel should take a cautious approach, taking into account the need to boost employment and job creation, as well as maintaining wages for those on the minimum wage and those on award classification wages.

11. When considering the impact on small businesses it is important to recognise that small businesses are more award-reliant than large businesses. A range of business surveys also suggests that current business conditions are more challenging for small businesses than larger operations.

12. The 2015 Annual Wage Review decision should also take into account that the Australian Government has abolished the Carbon Tax. This will provide employees with genuine cost of living relief. On average, Australian household costs will be about $550 lower in 2014-15 than they would have been with a Carbon Tax.

1.1 Australia's minimum wage and award classification system

13. Australia's minimum wage system is unique (Chapter 2). Whilst there is a "national minimum wage", there are hundreds of award classification wages that have been referred to as 'minimum' wages. The Panel should keep in mind the diversity of award classification wages which range from the current national minimum wage, approximately $33,327 per year, up to $158,005 per year (*Air Pilots Award 2010*).

14. The Department of Employment estimates that in May 2014 (latest data) less than 2 per cent of all employees, or 157,100 employees,[2] were paid the national minimum wage rate.

15. The Panel's decision impacts on the 122 modern awards and approximately 2,000 adult rates of pay. This affects employees who are paid according to the rate for their classification in the relevant award (as at May 2014) which is approximately 19 per cent of all employees (around 1.9 million workers). Approximately 18.2 per cent of these 1.9 million employees are paid more than the median hourly wage (of $28.00 per hour as at May 2014), and a majority of all award classification workers (66.0 per cent) are not low-paid.

1.2 Economic environment

16. Against the backdrop of weaker global economic growth, the Australian economy has been growing slightly slower than its trend rate (Chapter 3). The outlook as presented in the *2014-15 Mid-Year Economic and Fiscal Outlook* is for an improvement in Australia's real Gross Domestic Product (GDP) growth in 2015-16.

[2] Including 74,000 award/agreement free employees estimated to be on the national minimum wage and 83,000 award/agreement employees on the same hourly rate.

17. Wage flexibility is an important adjustment mechanism that supports employment during periods of subdued economic growth and facilitates the significant transitions taking place in the economy. In making its decision, the Panel should have regard to the role of wage flexibility during this period of economic transition.

18. Labour market conditions in Australia remain subdued (Chapter 4). Australia's unemployment rate has edged higher over the last 12 months – the unemployment rate stood at 6.3 per cent in February 2015, up from 6.0 per cent in February 2014. Youth employment (persons aged 15-24 years) declined by 0.3 per cent over the year to February 2015, with the youth unemployment rate now standing at 13.9 per cent. The unemployment rate is currently forecast to peak at 6½ per cent.

19. While labour productivity has increased in recent years, this data needs to be interpreted carefully, taking into account the economic and labour market environment (Chapter 6).

20. Capital investment during the resource boom has been a drag on measured multifactor productivity growth, and this will start to reverse as resources investment declines while production continues to grow. More generally, productivity growth outside of the resources sector appears to have slowed over the past decade.

21. Recent subdued growth in wages and continuing low inflation may suggest that employers will find it difficult to afford wage increases, particularly if competition on prices makes it harder to pass on cost increases.

22. The Reserve Bank of Australia (2014) recently noted that firms in the retail sector are facing intense competition on prices, which will increase the likelihood that increases in the minimum wage and award classification wages will cost jobs in the sector.

23. Enterprise bargaining provides a direct avenue for firms and workers to negotiate productivity improvements to support sustainable real wage increases. The Reserve Bank of Australia (2015) has noted that some employees seem willing to trade off wage increases for job security in the current period of subdued economic performance.

24. Award-reliant employees are more likely to work in small businesses (Chapter 5). Small businesses also currently face challenging trading conditions.

25. In making its decision, the Panel needs to carefully consider the affordability of the changes for small businesses to ensure their ongoing viability and growth, which will in turn support employment.

1.3 Minimum and award classification wage impacts

1.3.1 Impacts on employment for young people and the low-skilled

26. Economists generally concur that beyond a certain level, increases in minimum wages can have deleterious effects on employment, particularly for young people and the low-skilled. Rigorous analytical research on minimum wages and employment growth also suggests these effects are greater in periods of subdued economic performance (Chapter 7).

27. In the current subdued labour market conditions, many young people and low-skilled Australians are already finding it difficult to get a job – and the recent Fair Work Commission decisions on apprentice and youth wages have made it more costly for employers to hire young Australians in some industries. It is estimated that over 300,000 award-reliant

employees (or around 20 per cent of award-reliant employees) are covered by youth, apprentice or trainee rates (ABS 2015d).

28. Further increases in the minimum wage and award classification wages which are not funded by higher productivity or ultimately higher prices for customers and consumers will cost jobs, particularly for young people and the low-skilled.

29. Low-paid and low-skilled employment often serves as an important entry point to the workforce and a stepping stone to higher paid employment. Using the *Household, Income and Labour Dynamics Australia* (HILDA) survey, more than half of those who are low-paid in one year move into a higher paying job the following year.

30. The Panel's decision should balance an appropriate concern for the needs of the low-paid and award-reliant employees against the need to preserve job opportunities for the low-skilled and young people.

1.3.2 Impacts on inequality

31. According to the inequality researcher Peter Whiteford (2014), "*The most important source of inequality in Australia is whether you have a job or not".*

32. Inequality has risen across the developed world in recent decades, driven in large part by strong growth in wages for high skilled jobs. But the minimum wage and award classification wage rates have not been a key factor driving higher inequality, either in Australia or internationally.

33. The rise in household income inequality in Australia has been less dramatic than in other English-speaking countries, particularly the United States (Chapter 10).

34. The financial situations of the low-paid are diverse. A significant proportion of the low-paid are members of higher income households, implying that some of the financial benefits of the Panel's decision goes to higher income households (Chapter 8). The Australian tax-transfer system is one of the most progressive systems amongst Organisation for Economic Cooperation and Development (OECD) countries, and is highly targeted towards low income households, particularly families with children.

35. In contrast, only a portion of an increase to the minimum wage and award classification wages flows through to employees when taxes and transfers are taken into account. The Government shares the view of the Panel's 2014 decision, which stated that "*increases in minimum wages are a blunt instrument for addressing the needs of the low-paid*" (Paragraph 360). (Chapter 9)

36. Since many low-paid workers (around 35 per cent) are in households in the top half of the income distribution, there are better ways to address inequality than increases to the minimum wage and award classification wages. In particular, the Government has abolished the Carbon Tax to provide genuine cost of living relief for employees.

37. While there is an hourly gender pay gap of 13.6 per cent,[3] the gap is largest among higher income earners (ABS 2015d). The Panel's decision on the minimum wage and award

[3] This figure covers all non-managerial employees with total cash earnings (includes bonuses, overtime etc.).

classification wages is not well suited to addressing the complex factors underlying gender pay inequity.

1.4 The Carbon Tax repeal

38. The Australian Government abolished the Carbon Tax effective from 1 July 2014, and this has now been legislated by the Parliament. All Australians, including the low-paid, will benefit from a lower cost of living. The Government submits that the Panel should take the Carbon Tax repeal into account (and the continuation of compensation for low and middle income households) in its 2015 decision.

39. As a result of the abolition of the Carbon Tax, household costs will be on average around $550 lower in 2014-15 than they would have been with a Carbon Tax. In particular, average retail electricity prices are expected to be about 9 per cent lower and average retail gas prices around 7 per cent lower than they otherwise would be in 2014-15.

40. The Panel noted in its 2014 decision that the abolition of the Carbon Tax had not been legislated, and as such they could not take into account the benefits to the low-paid from the policy at that time.

2 Australia's minimum wage and award classification wage system

Key Points

- There is significant misunderstanding about the minimum wage in the community, with many commentators stating or implying that all of the 1.9 million employees paid award classification wages are paid the national minimum wage of $16.87 per hour.
- Relatively few Australians (around 150,000 employees) are paid the national minimum wage rate of $16.87 per hour.
- There is a large spread in award classification wages, with some award rates of pay above the median wage.
- Most award-reliant workers are not low-paid (where low-paid is defined as less than two-thirds of the median hourly wage).
- Australia's award classification wages mean higher labour costs for Australian employers compared to minimum wages in other countries.

2.1 Introduction

41. Australia's minimum wage system is unique among developed countries. Australia not only has a national minimum wage but also 122 modern awards which set out wages and conditions in certain occupations and industries. These award classification wages are often bluntly referred to as minimum wages, not because they are low, but because employers are not allowed to pay below the wage specified in the award for the particular classification, but employers are able to pay above it. There are no maximum rates.

42. The national minimum wage of $16.87 per hour sets the wages of relatively few Australians. In May 2014, around 150,000 Australian adults were paid the national minimum wage rate. This includes around 60,000 award-reliant workers, 20,000 workers covered by an enterprise agreement and 70,000 award and agreement-free workers. While public debate often concentrates on the "national minimum wage", the biggest group of workers that the Panel sets wages for are the 1.9 million award-reliant workers. There are around 2,000 award rates of pay[4] across the hundreds of classifications and these vary widely. Some modern awards, such as the *Port Authorities Award 2010* and *Dredging Industry Award 2010* contain award classification wages above $100,000 per year.

43. This chapter outlines the coverage of minimum and award classification wages in Australia, international comparisons and changes in Australia's wages over time.

[4] These rates of pay include all adult rates, except casual rates, rates that only apply for a set period (e.g. one hour) and rates that apply for people working specific shifts. This does not include junior, apprentice, trainee and disability rates of pay. Where rates are repeated (for example the national minimum wage rate appears in multiple awards) each instance is counted.

2.2 The Panel's legislative requirements

44. Each year the Panel must review the minimum wage and award classification wages. In this review, the Panel is required to set the national minimum wage and can choose to vary wage rates across the various classifications in one or more modern awards.

45. The legislative parameters under the *Fair Work Act 2009* frame the Panel's decision on minimum and award classification wages, as the Panel must consider the *"minimum wages objective"* in s.284 and the *"modern awards objective"* in s.134.

46. The legislation does not define how this objective can be achieved. The Panel can award the same percentage increase or the same flat dollar increase across the national minimum wage and all award classification rates of pay. The Panel can also make different determinations for the national minimum wage compared to award rates of pay in the various classifications and can make different decisions across the modern award rates of pay.

47. In its past four reviews, the Panel has awarded a percentage increase to the national minimum wage and applied the same percentage increase to all modern award classification wage rates.

2.3 Coverage of the Panel's decision

48. The Panel's decision will directly affect employees whose wages are set by modern awards and employees paid the national minimum wage. The wages of some other workers will also be affected by the Panel's decision, including workers paid close to the minimum wage and workers whose pay is set by an enterprise agreement which is linked to the outcome of the Annual Wage Review.

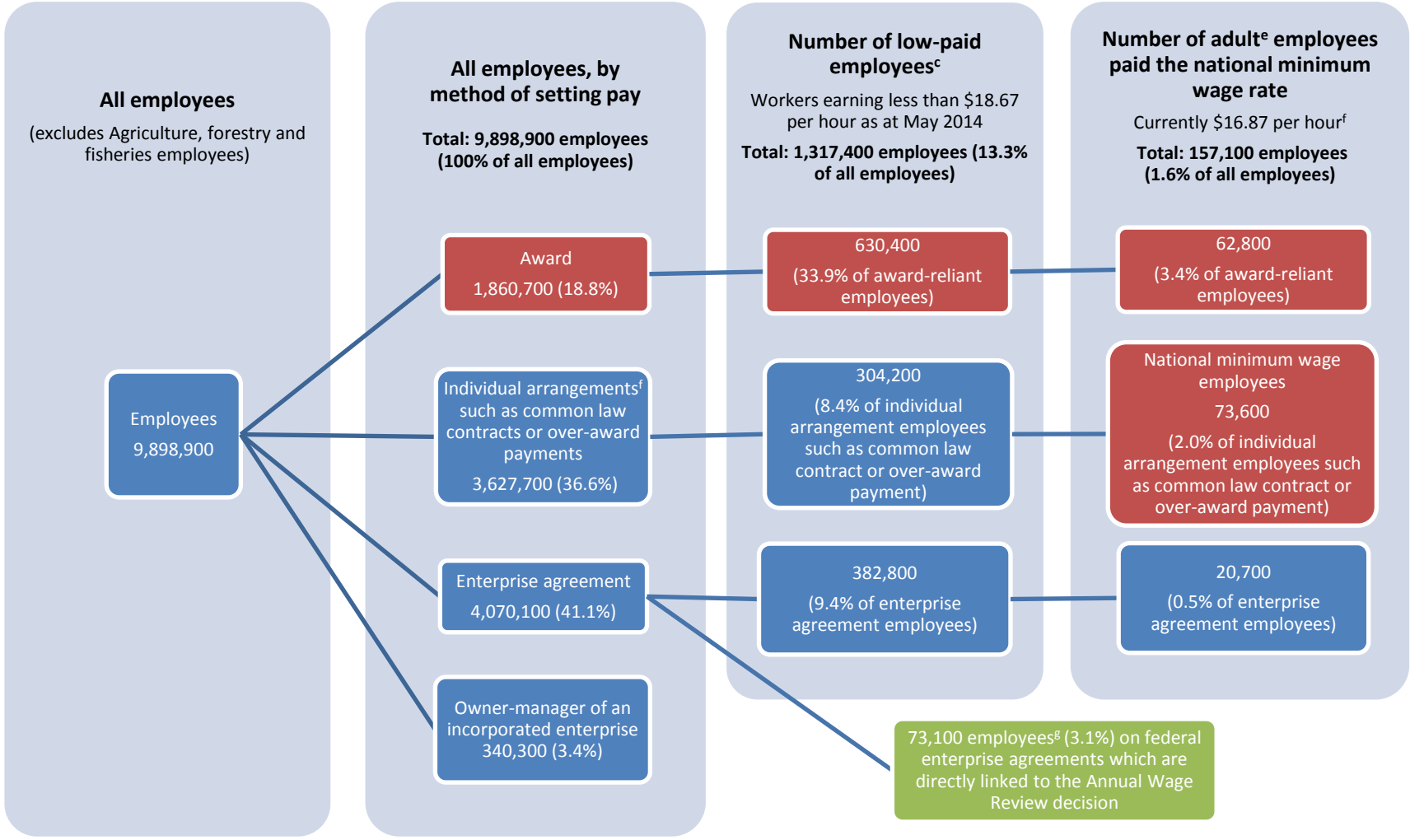
49. Chart 2.1 shows the number of Australian employees by how their pay is set. The Chart also shows how many of these employees are low-paid and how many are likely to be paid the national minimum wage rate.

2.3.1 National minimum wage employees

50. The national minimum wage is the lowest wage that can be paid to an adult employee who is not otherwise covered by a modern award classification wage or an enterprise agreement (that is, to award/agreement-free employees). There are special national minimum wage rates for juniors, apprentices, trainees and workers with disability.

51. The adult national minimum wage is currently $640.90 per week ($16.87 per hour or $33,326.80 per year). This is around 2.5 times the base rate of Newstart Allowance for singles ($259.60 per week) and just above half of full-time median weekly earnings ($1,152.00 per week) (ABS 2014c).

Chart 2.1: Number of employees by method of setting pay and whether they are low-paid, May 2014(a)(b)



Source: ABS 2015d, *Employee Earnings and Hours, May 2014, Cat. No. 6306.0*, published and unpublished data (including Department of Employment calculations); Department of Employment 2015, Workplace Agreements Database, September 2014.

Note: (a) All numbers are for May 2014, except for the number of employees on agreements linked to the Annual Wage Review decision (in green), which is for 30 September 2014. (b) The Fair Work Commission sets award classification wages and the national minimum wage, these workers are coloured red in the chart. (c) Low-paid employees are defined as employees earnings less than two-thirds of the median hourly wage. In May 2014, the median hourly wage was $28.00 and employees earning below $18.67 per hour were considered low-paid. (d) This data is derived from the Workplace Agreements Database. It includes the number of employees covered by an agreement with a clause which states that the entirety of the Annual Wage Review decision will be applied in full and automatically to wages. These workers may also be low-paid or earning the national minimum wage rate and thus also covered in the boxes above. (e) This excludes workers paid junior, apprentice and disability rates of pay. (f) The ABS classifies employees in the individual arrangement category if they have their pay set by an individual common law agreement, contract or arrangement, whether or not written, including where employees receive over-award payments. (g) The national minimum wage in May 2014 was $16.37. Employees paid at or below $16.50 per hour in May 2014 are considered to be paid the national minimum wage rate (this uses an upper error band of 13 cents).

52. Relatively few Australian award/agreement-free workers have their pay set at the national minimum wage. Using the *Employee Earnings and Hours* survey, the Government estimates that in May 2014 there were 73,600 award/agreement-free employees paid the national minimum wage (around 0.7 per cent of employees).[5] In addition, there were 62,900 award-reliant employees and 20,700 enterprise agreement employees paid the national minimum wage rate. This is widely misunderstood by the community.

53. In total around 150,000 Australian employees (1.6 per cent) are paid the national minimum wage rate of $16.87 per hour. This is in stark contrast to the often quoted inaccurate figure of 1.5 million employees (or more recently 1.9 million).

2.3.2 Award-reliant employees

54. The national minimum wage rate of $640.90 per week features as the lowest classification wage rate in 45 of the 122 modern awards.[6] In the remaining 77 modern awards, the lowest classification's wage rate is above the national minimum wage. In 2014, the average full-time adult award-reliant worker was paid around $1,143.00 per week or $59,436 per year (ABS 2015d).[7] This was around 84 per cent higher than the national minimum wage.

55. The *Fair Work Act 2009* requires the Panel to consider the needs of low-paid workers. Using two-thirds of the median wage threshold as the definition of low-pay, the Government estimates that in 2014 around one-third of award-reliant workers were paid below the low-paid threshold. Around one in five award-reliant workers earned more than the median wage for all workers.

56. As a result, as estimated in the Government's submission last year, around 80 per cent of the benefit from a percentage adjustment to all award classification wage rates goes to workers who are not low-paid. This means that business costs are impacted by paying higher wages to award-reliant workers who are above the low-paid threshold.

57. Award-reliant workers are diverse and work in a range of businesses. In 2014:

    - the industries which were most likely to have award-reliant employees were Accommodation and food services (42.8 per cent); Administrative and support services (37.3 per cent); Retail trade (28.5 per cent); Other services (25.1 per cent); Health care and social assistance (22.3 per cent); Rental, hiring and real estate services (22.1 per cent); Arts and recreation services (22.0 per cent) (see Table 2.1).

[5] National minimum wage employees are classified as employees who are; (a) adult rate, (b) non-managerial, (c) have their pay set through an unregistered individual common law arrangement, (d) with average ordinary time earnings of up to $16.50 per hour. The earnings of causal employees are divided by 1.25 to adjust for the casual loading.

[6] Of the 45 awards, 25 express the lowest adult wage rate as both the hourly national minimum wage of $16.87 and the weekly national minimum wage of $640.90, a further 19 refer only to the weekly rate and the remaining one states the lowest adult wage as an hourly amount. However, in one of these awards workers may receive commissions on top of the weekly national minimum wage, and in a further two awards, workers have shorter ordinary working hours resulting in a higher hourly wage than the national minimum wage. Also, in several of the 45 awards, the lowest rate is paid as an introductory rate or a trainee rate.

[7] For non-managerial employees.

The number of industries with award-reliance above 20 per cent has increased from four in 2012 to seven in 2014;

- employees of small businesses[8] (31.7 per cent) and medium businesses (27.7 per cent) were more likely to be award-reliant than employees of large businesses (11.4 per cent). In total, two-thirds (or 66.9 per cent) of award-reliant workers worked for a small or medium sized business;
- women (21.4 per cent) were more likely to be award-reliant than men (16.1 per cent), since they are more likely to work in the award-reliant industries;
- part-time employees (27.8 per cent) had higher rates of award-reliance than full-time employees (12.8 per cent);
- casual employees (38.9 per cent) were more likely to be award-reliant than permanent employees (13.3 per cent);
- Community and personal service workers (34.2 per cent), Labourers (31.4 per cent) and Sales workers (29.7 per cent) were the occupations with the highest rates of award-reliance.

2.3.3 Other employees

58. Other employees may also be affected by the Panel's decision. For example:

- there will be wage implications for workers who are paid at or around the minimum or award classification wage rates, but have their pay set through an individual common law contract, informal over-award payment arrangement or an enterprise agreement;
- the minimum wage adjustment may be passed on to higher wage earners by employers in order to maintain wage relativities within firms;
- wage outcomes in many enterprise agreements are explicitly linked to Annual Wage Review outcomes. As at September 2014, it is estimated there were 333,400 employees whose enterprise agreement was formally linked in some way to the Panel's decision.[9] For 73,100 of these employees the link was direct and automatic.[10]

[8] For this purpose, businesses employing less than 20 employees are defined as small, businesses employing between 20 and 99 employees are medium sized and businesses with 100 or more employees are considered large.

[9] This includes agreements in which a) there is a guarantee that employee wages will not fall below the minimum wage, or b) Annual Wage Review decisions will be passed on in part or full, or c) Annual Wage Review decisions will be taken into consideration during employee wage reviews.

[10] This includes agreements in which the entirety of the Annual Wage Review decision is applied in full and automatically to wages.

Table 2.1: Number (and proportion) of award-reliant, and national minimum wage and classification award wage employees, by industry, 2014

Industry [b]	Award-reliant employees			National minimum wage (NMW) employees[a]		
	(000s)	% of industry	% of award emps.	(000s)	% of industry	% of NMW emps.
Mining	1.3	0.8	0.1	np	np	np
Manufacturing	109.9	15.7	5.9	7.9	1.1	10.7
Electricity, gas, water and waste services	7.9	6.9	0.4	0.5	0.4	0.7
Construction	93.8	13.7	5.0	5.3	0.8	7.2
Wholesale trade	53.2	11.9	2.9	2.7	0.6	3.7
Retail trade	320.3	28.5	17.2	7.9	0.7	10.7
Accommodation and food services	316.9	42.8	17.0	22.9	3.1	31.1
Transport, postal and warehousing	48.0	10.9	2.6	2.7	0.6	3.7
Information media and telecommunications	8.3	5.2	0.4	np	np	np
Financial and insurance services	20.1	5.0	1.1	3.7	0.9	5.0
Rental, hiring and real estate services	39.2	22.1	2.1	1.7	1.0	2.3
Professional, scientific and technical services	76.9	9.9	4.1	5.6	0.7	7.6
Administrative and support services	227.9	37.3	12.2	1.2	0.2	1.6
Public administration and safety	79.7	12.8	4.3	np	np	np
Education and training	47.6	5.1	2.6	1.4	0.1	1.9
Health care and social assistance	281.4	22.3	15.1	1.9	0.2	2.6
Arts and recreation services	37.6	22.0	2.0	2.1	1.2	2.9
Other services	91.0	25.1	4.9	5.8	1.6	7.9
Total	**1860.7**	**18.8**	**100.0**	**73.6**	**0.7**	**100.0**

Source: ABS 2015d, *Employee Earnings and Hours*, *May 2014*, Cat. No. 6306.0, published and unpublished data.
Note: (a) Small figures should be treated with caution since they may have a large error margin. (b) The *Employee Earnings and Hours* survey does not collect data on workers in the Agriculture, forestry and fishing industry.

2.4 Changes in the minimum wage and award classification wages over time

59. In the 2014 Annual Wage Review, the Panel increased the national minimum wage and all classification award wage rates by 3.0 per cent. In comparison, at the time of the Panel's decision the average worker's wage increased by about 2.6 per cent per year. This

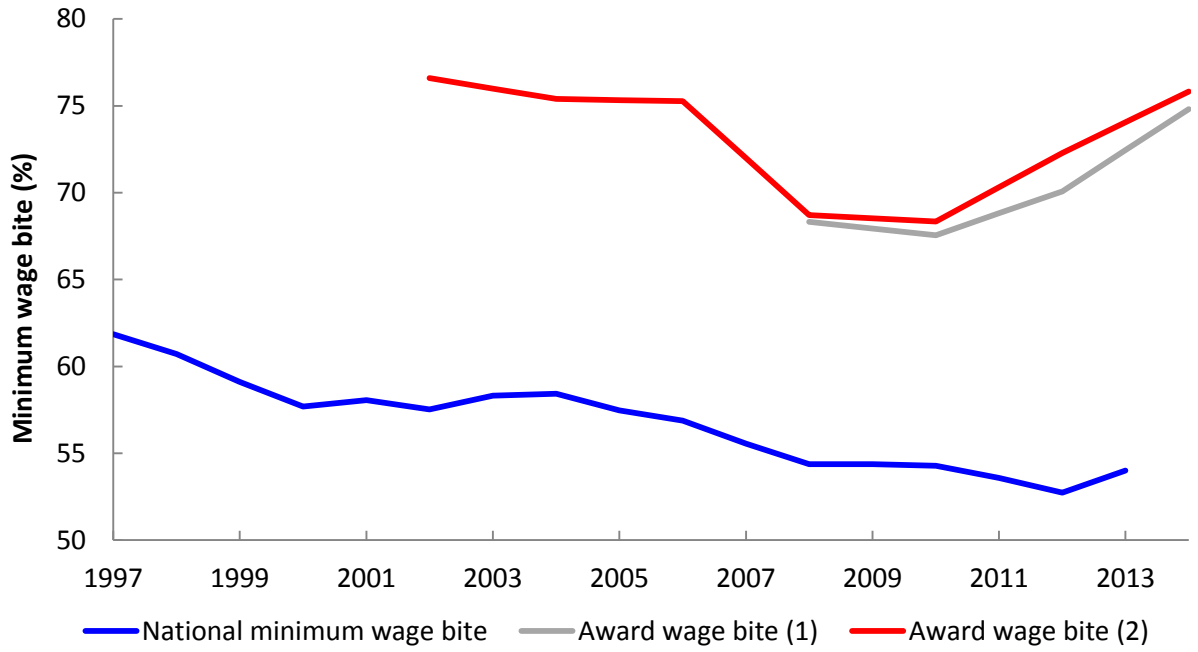
continued subdued wage growth at the broad level reflects subdued labour market conditions.

60. Since the national minimum wage was introduced in 1997, it has increased on average by 3.4 per cent a year in nominal terms and 0.8 per cent a year in real terms.

61. While the national minimum wage has increased, it has grown at a slower rate than median wages. Since 1997, median full-time earnings have grown on average by 4.4 per cent a year in nominal terms and 1.6 per cent a year in real terms (ABS 2014c).[11]

62. This means that the minimum wage bite, which measures the national minimum wage as a proportion of median full-time earnings, has declined over the longer term (see Chart 2.2). The minimum wage bite has increased in the latest data from 52.7 per cent in 2012 to 54.0 per cent in 2013.

Chart 2.2: Australian minimum wage bite[12], national minimum wage and median award classification wage compared to median full-time wage, 1997 to 2014



Source: The national minimum wage bite has been calculated using ABS 2014c, *Employee Earnings, Benefits and Trade Union Membership, Cat. No. 6310.0*. The award wage bite has been calculated using ABS 2015d, *Employee Earnings and Hours, Cat. No. 6306.0*.
Note: The national minimum wage bite compares the weekly national minimum wage for a full-time adult to the full-time median weekly earnings of workers in their main job. The award wage bite (1) compares the median full-time award classification wage for adult non-managerial employees to the median full-time wage for all workers. Data are only available from 2008. The award wage bite (2) compares the median full-time award classification wage for adult non-managerial employees to the median full-time adult non-managerial wage. When discussing changes in the minimum wage bite, it is important to keep in mind that most award-reliant workers in Australia earn more than the national minimum wage. To assist the Panel, the Government has developed an 'award wage bite' measure using the earnings of the median award-reliant worker in place of the national minimum wage.

[11] This data is to August 2013.
[12] The 'bite' considers the relevant wage rate as a proportion of median full-time earnings.

63. This shows that in 2014 the median full-time wage of award classification workers ($1,001 per week) was 74.8 per cent of the median full-time wage among all workers ($1,338 per week) (ABS 2015d).[13] This has been plotted as the 'award wage bite (1)' in Chart 2.2 below. An alternative calculation is plotted as 'award wage bite (2)'.

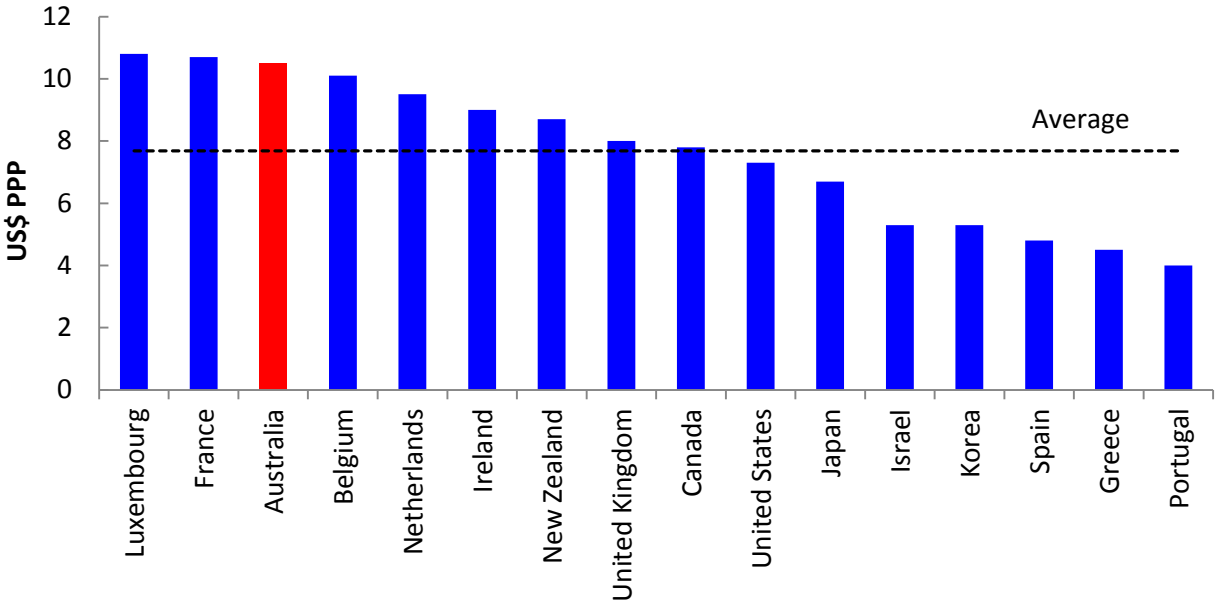
64. As seen in the Chart, the 'award wage bite' is considerably higher than the minimum wage bite and rose more sharply in recent years, reflecting the fact that the vast majority of award-classification-reliant workers are paid higher wages than the national minimum wage.

2.5 International minimum wage comparisons

65. Most developed countries set a single adult minimum wage, often with lower minimum wages for certain groups such as young people.

66. In 2013, Australia's national minimum wage was the third highest in the OECD in purchasing power parity terms (see Chart 2.3) and Australia's minimum wage bite was the fifth highest among comparable OECD countries[14] (see Chart 2.4).

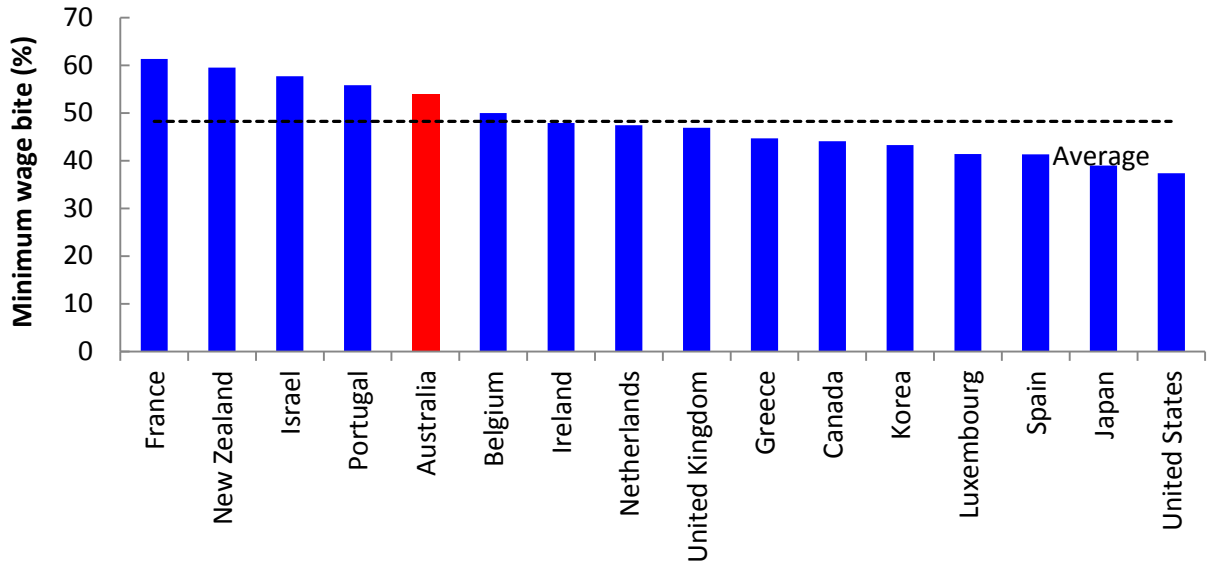
Chart 2.3: Minimum wages in comparable OECD countries, purchasing power parity basis, 2013



Source: *OECD Stat Extracts,* stats.oecd.org, extracted March 2015

[13] The full-time median wage for award-reliant workers only includes non-managerial adults.
[14] This excludes the former Soviet Bloc countries and emerging economies such as Chile and Turkey.

Chart 2.4: Minimum wage relative to full-time median earnings in comparable OECD



Source: *OECD Stat Extracts,* stats.oecd.org, extracted March 2015

67. Due to our system of modern awards, however, a simple international comparison of Australia's minimum wage with minimum wages in other countries underestimates the cost of doing business in Australia.

2.6 Conclusion

68. Australia's minimum and award classification wage system is unique among developed countries, as it has hundreds of separate minimum rates of pay by reference to the various classifications in each occupation and industry, in addition to a national minimum wage.

69. There is significant confusion about the number of workers paid the national minimum wage because some commentators often, incorrectly, include the number of employees being paid minimum award classification wages, which can be above the national minimum wage, and often, significantly so[15]. The Panel should clarify in its decision that many of the workers impacted by their decision are paid more than $16.87 per hour and a significant proportion are not considered 'low-paid'.

70. In making its decision, the Panel should consider the spread in award classification wages. Most award-reliant workers are paid above the national minimum wage and are often found closer to the middle of the wage distribution.

71. Australia's award-classification system provides a safety net for Australian workers of broad coverage. The breadth of coverage must be considered when looking at the impacts of increased labour costs on doing business in Australia relative to other developed countries.

[15] For example, in a doorstop interview with the Leader of the Opposition and the Shadow Minister for Employment and Workplace Relations in January 2015.

PART II: ECONOMIC ENVIRONMENT

3 Economic Environment

Key Points

- The Australian economy continues to transition away from resource led investment growth to broader based drivers of activity.
- Wage flexibility is important to help support employment during this transition period.
- Historically low interest rates, lower oil prices, a decline in the Australian dollar and new market opportunities are expected to result in the Australian economy strengthening.
- The global economy is expected to recover gradually.

3.1 Introduction

72. Against the backdrop of weaker global economic growth, growth in the Australian economy has been subdued compared to its trend rate. The outlook as presented in the *2014-15 Mid-Year Economic and Fiscal Outlook* is for a gradual improvement in Australia's real GDP growth.

73. Exports and dwelling investment have been growing strongly and there are tentative signs of recovery elsewhere. The reduction in oil prices and historic low interest rates should support growth. The depreciation of the Australian dollar and recently signed free trade agreements are improving the prospects for the trade exposed sectors of the economy.

74. Wage flexibility is an important adjustment mechanism that supports employment during periods of subdued economic growth and facilitates the significant transitions taking place in the economy. Wage growth below trend will help support employment as firms respond to moderate growth in real labour costs. In making its decision, the Panel should have regard to the role of wage flexibility during this period of economic transition.

3.2 International Economic Outlook

75. The global economy is expected to recover but at a slower rate than expected at the previous Budget. The United States is leading advanced economy recoveries, but there has been a loss of momentum in both the euro area and Japan.

76. China's economic transition towards more sustainable growth, and a slowdown in its property market, are weighing on iron ore and coal prices.

77. The majority of world growth is still expected to come from emerging market economies, predominantly those in our region, with world growth expected to pick up to 3¾ per cent in 2015 and 4 per cent in 2016.

78. Australia's major trading partner growth is expected to continue to exceed world growth, with forecasts of 4½ per cent in 2015 and 2016. This reflects the relative and increasing importance of fast growing east Asian economies within our export markets.

79. The most immediate risk to the global recovery remains the euro area, which faces the possibility of a long period of subdued growth and low inflation. The recent period of

relatively calm financial markets and rising asset prices could be reversed by a variety of triggers, including from the evolving situation in Greece and ongoing geopolitical tensions.

80. Finally, while China's transition to more moderate but sustainable growth will underpin increasing prosperity and a burgeoning middle class, this transition may not be smooth.

3.3 Domestic Outlook

81. The outlook for real GDP growth is unchanged since the *2014-15 Budget*. The economy is forecast to grow at 2½ per cent in 2014-15, before increasing to near trend growth of 3 per cent in 2015-16. The economy continues to transition from resources investment led growth towards broader based drivers of activity. Exports and housing construction are growing strongly. With interest rates at historic lows, lower oil prices, the decline in the Australian dollar and new market opportunities becoming available through the signing of new free trade agreements, the Australian economy is expected to strengthen.

3.3.1 Business Conditions

82. After a moderate decline in 2013-14, business investment is expected to continue to decline in 2014-15 as investment in the resources sector continues to fall from previous historic highs. While conditions outside the resources sector are positive, especially in the services sectors, most indicators point to relatively modest growth in non-mining business investment in 2014-15. The latest National Australia Bank business survey shows that business confidence remains flat this year, suggesting that firms are not yet confident that recent interest rate cuts will change their outlook materially. However, other factors such as cheaper fuel, the lower Australian dollar and rising capacity utilisation should gradually encourage investment in non-mining sectors, such as manufacturing and tourism.

83. Non-mining trade exposed sectors are coming out of a difficult period when the high exchange rate lowered their competitiveness. As part of the transition away from resources based growth, restrained wage growth will raise the employment outlook in these sectors.

84. Key commodity prices have fallen significantly over the past year driven by supply increases and slower demand growth. Iron ore prices are about 45 per cent lower than a year ago reflecting increases in Australian and other supply, and slower growth in China. Similar factors are contributing to a continued soft outlook for commodity prices in 2015.

85. Increases in global supply and lower demand have also resulted in significant falls in the international price of oil, which is around 45 per cent lower than a year ago. If sustained, lower oil prices are expected to have a knock-on effect on Australia’s Liquefied Natural Gas (LNG) sector, where export prices are contractually linked to the price of oil. While this may weigh on Australia’s export revenues and investment in the energy sector, lower oil prices are expected to be a positive development for the broader Australian economy, particularly for households and in fuel-intensive sectors such as tourism and transport.

3.3.2 Consumption

86. Looking through the recent volatility, household consumption has been growing a little below trend, in line with subdued wage growth and moderate employment growth. Measures of consumer sentiment have been fluctuating and now sit around long-run average levels. Lower petrol prices have added to the discretionary income of households, while the Reserve Bank of Australia's recent cash rate cut is also expected to support household income and consumption.

87. Forecast growth in consumer spending in 2014-15 was revised down to 2½ per cent in the *2014-15 Mid-Year Economic and Fiscal Outlook*, before picking up in 2015-16 supported by rising household wealth, which should support a further gradual fall in the household saving ratio.

3.3.3 Employment

88. Employment grew 1.3 per cent in the year to February 2015 (ABS 2015e). However, below trend real GDP growth continues to mean that employment growth has not been strong enough to keep up with growth in the labour force. This has led the unemployment rate to rise slightly, to be 6.3 per cent in February 2015 up from 5.9 per cent in February 2014.

89. Employment is forecast to rise 1 per cent through the year to the June quarter of 2015. Employment growth is then forecast to strengthen to 1¾ per cent through the year to the June quarter of 2016. The unemployment rate is expected to rise to 6½ per cent by June 2015 and stay elevated through 2015-16.

3.3.4 Wages

90. Wage growth has been subdued, reflecting the spare capacity in the labour market and a significant reduction in wage growth in the mining sector.

91. Wage growth as measured by the Wage Price Index, was 2.5 per cent over the year to the December quarter 2014 (ABS 2015h). There was an increase of 2.5 per cent in the private sector and 2.7 per cent in the public sector.

92. Wage Price Index growth was lower than at the Panel's 2014 decision (2.6 per cent).

93. The current rate of wage growth is part of the adjustment as the economy transitions away from resources investment led growth towards broader-based drivers of activity.

94. Of the four most award-reliant industries, the strongest wage growth was recorded in Accommodation and food services (up 2.6 per cent through the year), followed by Other services (up 2.2 per cent through the year).

95. Wage growth is expected to pick up as the economy strengthens, with the Wage Price Index expected to grow by 2½ per cent over 2014-15 and 3 per cent over 2015-16. Low wage growth should support job creation during this period of subdued economic activity. The forecast for sustained low wage growth should be factored into the Panel's decision – otherwise, the cost of low-skill labour and award-reliant workers will increase relative to other workers.

3.3.5 Inflation

96. Subdued wage growth, the removal of the Carbon Tax and the fall in petrol prices is helping to contain inflationary pressure, notwithstanding the inflationary effects of the fall in the Australian dollar.

97. Underlying inflation is in the lower half of the Reserve Bank of Australia's target band. The headline Consumer Price Index rose 1.7 per cent through the year to the December quarter 2014, following 2.3 per cent growth through the year to the September quarter (ABS 2015b).

98. In the Mid-Year Economic and Fiscal Outlook, headline and underlying inflation were forecast to be 2½ per cent through the year to both the June quarter of 2015 and the June quarter of 2016. However, more recent Reserve Bank of Australia forecasts are for lower headline inflation of just 1¼ per cent through the year to mid-2015, largely driven by lower oil prices. Domestic prices are expected to grow at below-average rates over 2014-15 and 2015-16, in line with weak wage growth, offset by higher prices for imports due to the depreciation of the exchange rate.

3.3.6 Productivity

99. According to the latest *National Accounts* data, seasonally-adjusted labour productivity for the 16-industry market sector fell by 0.2 per cent in the December quarter 2014, and rose by 0.3 per cent through the year. This followed growth of 1.7 per cent through the year to December 2013, 4.9 per cent to December 2012 and 2.4 per cent to December 2011 (ABS 2015a).[16]

100. The latest annual data indicate that over the 10 years to June 2014 industries with the highest concentration of award-reliant employees generally had labour productivity growth well below the national average.

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

3.4 Conclusion

102. Australia's economy is expected to gradually strengthen towards trend growth in the near future as it continues to transition from resources investment-led growth towards broader-based drivers of activity.

103. Consistent with this outlook, employment growth is forecast to gradually improve but continue to be subdued with the unemployment rate reaching 6 ½ per cent in 2015. Recent weakness in wage growth reflects the spare capacity in the labour market and wage flexibility will continue to be an important adjustment mechanism during the economy's transition.

[16] Data on year-to-year labour productivity movements are often volatile and subject to revision.

4 Labour market developments

Key Points

- The pace of employment growth is below its long-term trend, while the unemployment rate has continued to edge higher over the last year. The participation rate has been declining.
- Groups vulnerable to the economic cycle, such as youth, the long-term unemployed and the low-skilled continue to experience ongoing disadvantage in the labour market.
- The youth unemployment rate (at 13.9 per cent) is more than double the rate for all persons and young people are increasingly remaining unemployed for longer periods.
- The ranks of the long-term unemployed have continued to increase over the past year, with 23.5 per cent of the unemployed now unemployed for at least 12 months. Young people also comprise an increasing proportion of the long-term unemployment pool.
- A number of forward indicators of labour demand indicate that employment growth may remain subdued in the short term, with the likelihood of the unemployment rate drifting higher over the coming year.

4.1 Introduction

104. Underlying labour market conditions are one of the factors to which the Panel must have regard when making its decision about the national minimum wage and award classification wages. This chapter outlines the most recent developments.

105. Reflecting sub-par global growth and slightly below-trend economic activity domestically, the Australian labour market remains reasonably subdued, with the unemployment rate edging higher.

106. Since the onset of the global financial crisis in September 2008 employment has grown at an annual average of 1.2 per cent, below the long-term trend rate of 1.8 per cent over the past decade. This has been accompanied by a 1.9 percentage point increase in Australia's unemployment rate over this period, which rose to 6.3 per cent in February 2015.

107. A number of groups, including youth, the long-term unemployed, Indigenous, single parents, the low-skilled and those located in specific economically weak regions, are most vulnerable to rising unemployment.

108. Labour market conditions vary across Australian industries and regions, with some performing strongly, while others are subdued. For instance, resource related industries, which performed strongly over the past five years, have weakened due to lower commodity prices and the ongoing transition to the less labour-intensive production and export phases of the Mining cycle. The Manufacturing industry continued its long-term decline, against the backdrop of global weakness and ongoing competitive pressures. By contrast, employment has grown substantially in the Construction industry and the Professional, scientific and technical services industry, as lower interest rates influence housing demand and Australia's economy continues its structural change towards services.

109. Against the backdrop of below trend real GDP growth, the rate of employment growth has not been sufficiently strong enough to keep pace with growth in the labour force. As a consequence, the unemployment rate is currently a little higher than anticipated at the *2014-15 Budget* and is now expected to peak at 6½ per cent. Employment is expected to grow by 1 per cent in 2014-15 and 1¾ per cent in 2015-16.

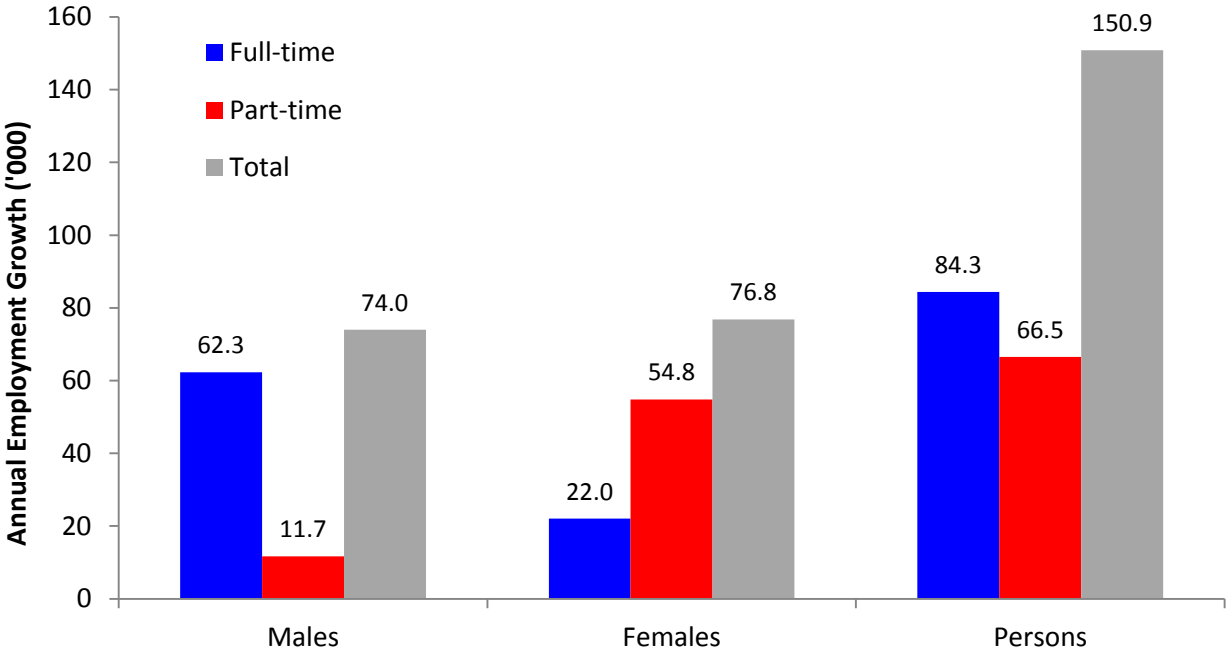
4.2 Employment

110. Against the backdrop of below-trend economic growth, labour market conditions in Australia remain relatively subdued, with the level of employment increasing by 150,900 (or 1.3 per cent) over the year to stand at a record high of 11,652,400 in February 2015, below its annual average growth rate of 1.8 per cent over the last decade (ABS 2015e).

111. Full-time employment rose by 84,300 (or 1.1 per cent) over the year to stand at 8,062,000 in February 2015, while part-time employment increased by 66,500 (or 1.9 per cent) to 3,590,400.

112. Both male employment (up by 74,000 or 1.2 per cent) and female employment (up by 76,800 or 1.5 per cent) increased over the year to February 2015.

Chart 4.1: Change in full-time, part-time and total employment ('000s) by sex, February 2014 to February 2015



Source: ABS 2015e, Labour Force, Australia, February 2015, Cat. No. 6202.0, seasonally adjusted data.

113. Employment (in *trend* terms) increased in 12 of 19 industries over the year to February 2015. The largest employment increases were recorded in Professional, scientific and technical services (up by 71,700 or 8.0 per cent), Accommodation and food services (up by 53,000 or 6.9 per cent) and Construction (up by 46,300 or 4.6 per cent).

114. By contrast, a number of industries have experienced declines in employment over the year to February 2015, most notably Mining (down by 50,700 or 18.9 per cent), Other Services[17] (down by 24,000 or 4.9 per cent), Administrative and support services (down by 18,700 or 4.7 per cent) and Manufacturing (down by 17,000 or 1.8 per cent).

4.2.1 Employment growth in award-reliant industries

115. Over the year to February 2015, employment growth increased in two of the four most award-reliant industries, with the largest rise recorded in Accommodation and food services, which recorded the second largest increase of all industries (up by 53,000 or 6.9 per cent). Employment increased marginally in Retail trade (up by 19,000 or 1.5 per cent), but fell in Other services (down by 24,000 or 4.9 per cent) and Administrative and support services (down by 18,700 or 4.7 per cent).

Table 4.1: Employment growth by industry, February 2005 to February 2015

Industry	Change in employment	
	('000)	(%)
Mining	111.8	105.3
Professional, scientific and technical services	315.3	48.1
Electricity, gas, water and waste services	45.0	47.3
Arts and recreation services	76.8	46.8
Health care and social assistance	422.4	43.4
Education and training	220.4	32.1
Construction	221.4	26.6
Public administration and safety	132.2	21.9
Rental, hiring and real estate services	37.0	21.7
Transport, postal and warehousing	106.7	21.6
Accommodation and food services	***142.2***	***20.9***
Financial and insurance services	53.1	14.7
Other services	***52.7***	***12.9***
Retail trade	***101.9***	***8.8***
Administrative and support services	***23.2***	***6.6***
Wholesale trade	5.0	1.3
Information media and telecommunications	-9.6	-4.2
Agriculture, forestry and fishing	-35.3	-9.9
Manufacturing	-114.9	-11.1
Total	**1,878.8**	**19.2**

Source: ABS 2015g, *Labour Force, Australia, Detailed, Quarterly, February 2015*, Cat. No. 6291.0.55.003, trend data.
Bold italics signify the four most award-reliant industries.

116. Of the most award-reliant industries, only Accommodation and food services has exceeded the average employment growth rate recorded across all industries over the past decade (up by 20.9 per cent or 142,200) (see Table 4.1). Other services recorded the

[17] The Other services industry includes a broad range of personal services; religious, civic, professional and other interest group services; selected repair and maintenance activities; and private households employing staff.

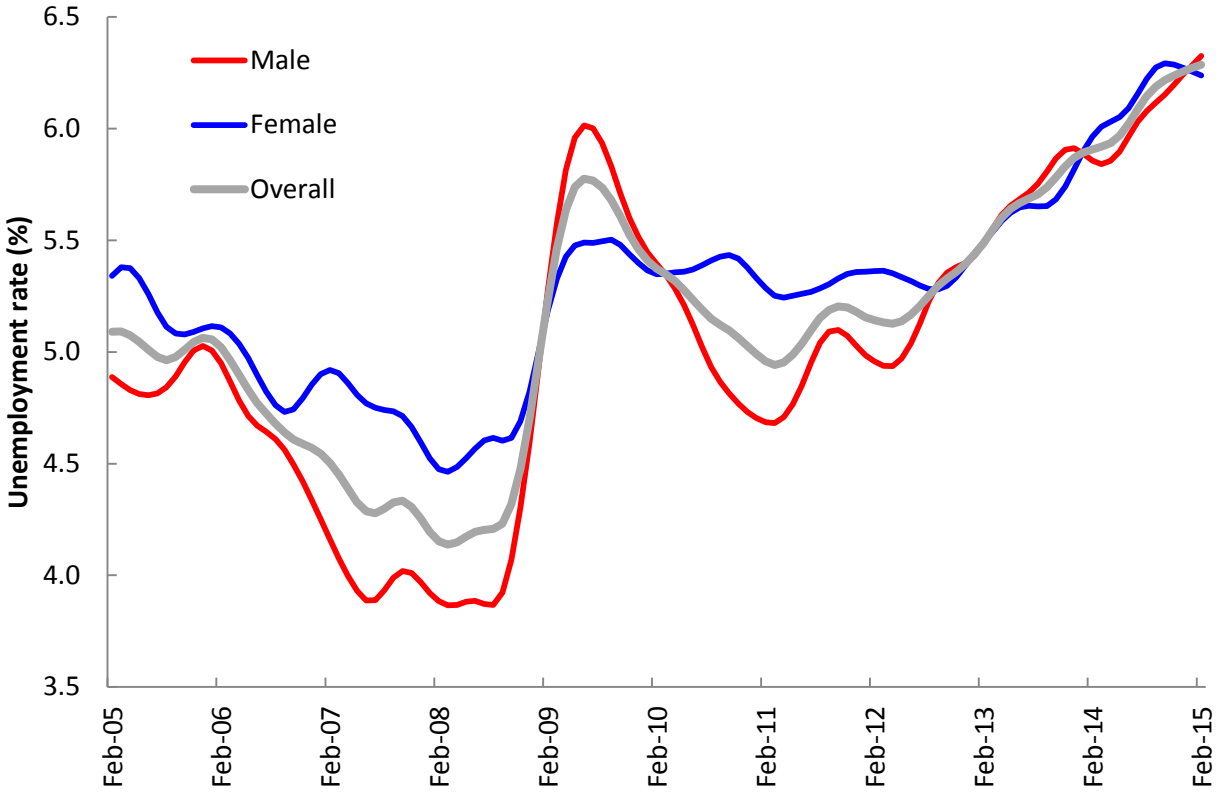
next strongest growth of the award-reliant industries (up by 12.9 per cent or 52,700), followed by Retail trade (up by 8.8 per cent or 101,900) and Administrative and support services (up by 6.6 per cent or 23,200).

4.3 Unemployment

117. The level of unemployment in Australia increased by 52,600 (or 7.3 per cent) over the year to stand at 777,300 in February 2015. Male unemployment increased by 37,000 (or 9.6 per cent) over the period, while female unemployment also rose, by 15,500 (or 4.6 per cent) (ABS 2015e).

118. The unemployment rate stood at 6.3 per cent in February 2015, well above the 5.9 per cent recorded in February 2014 (see Chart 4.2).

Chart 4.2: Unemployment rates by sex, February 2005 to February 2015

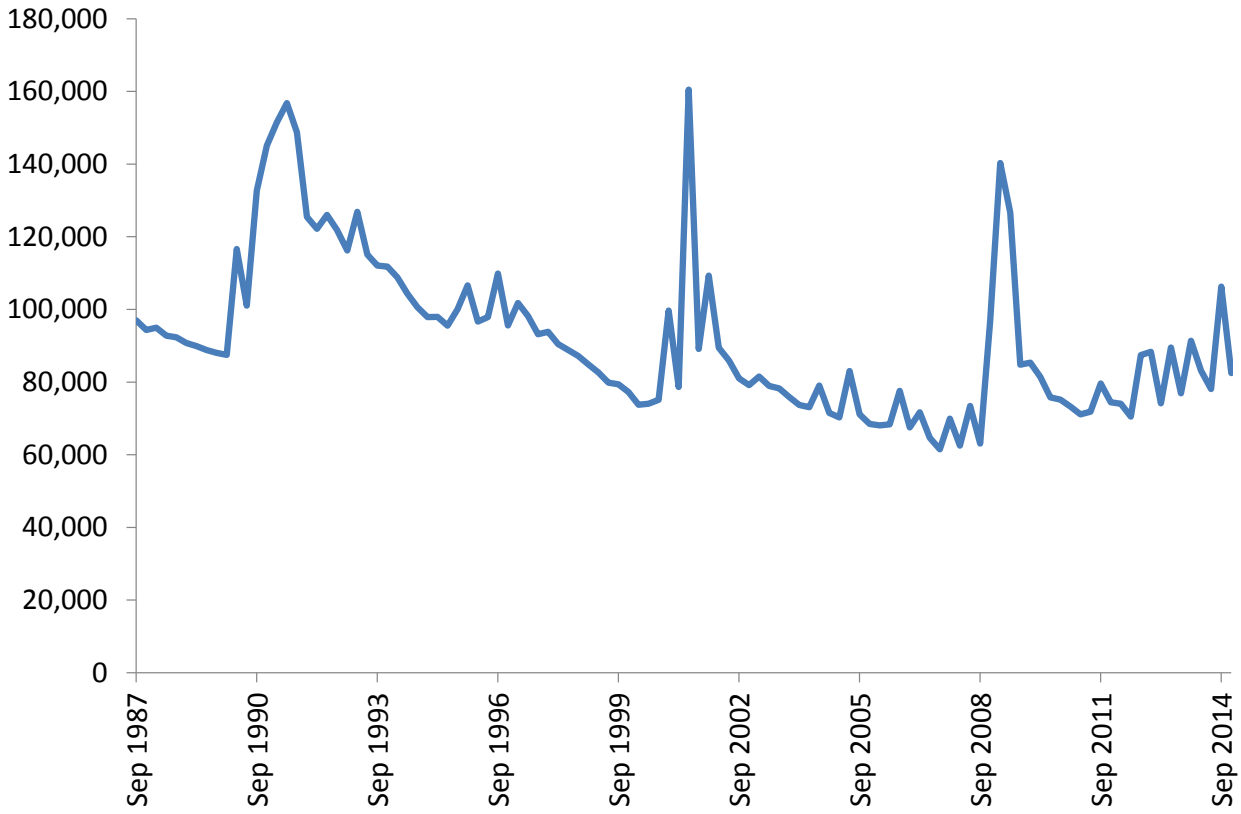


Source: ABS 2015e, *Labour Force, Australia, February 2015*, Cat. No. 6202.0, trend data.

4.3.1 Retrenchments

119. The Department of Employment estimates that there were approximately 82,000 retrenchments (seasonally adjusted) in the December quarter 2014, which is 22 per cent lower than in the previous quarter and 10 per cent lower than the same quarter last year. Despite a decline from their peak in 2009, retrenchments are still higher than before the onset of the Global Financial Crisis (see Chart 4.3).

Chart 4.3: Estimates of total quarterly retrenchments, September quarter 1987 to December quarter 2014



Sources: Quarterly retrenchments are estimated based on annual retrenchments from the ABS *Labour Mobility Survey* (Cat. No. 6209.0), the unemployment rate for all job losers (ABS *Labour Force Survey*, Cat. No. 6291.0.55.001) and real non-farm GDP per adult civilian (ABS *Labour Force Survey* and *National Accounts,* Cat. No. 5206.0). See Connolly (2012).

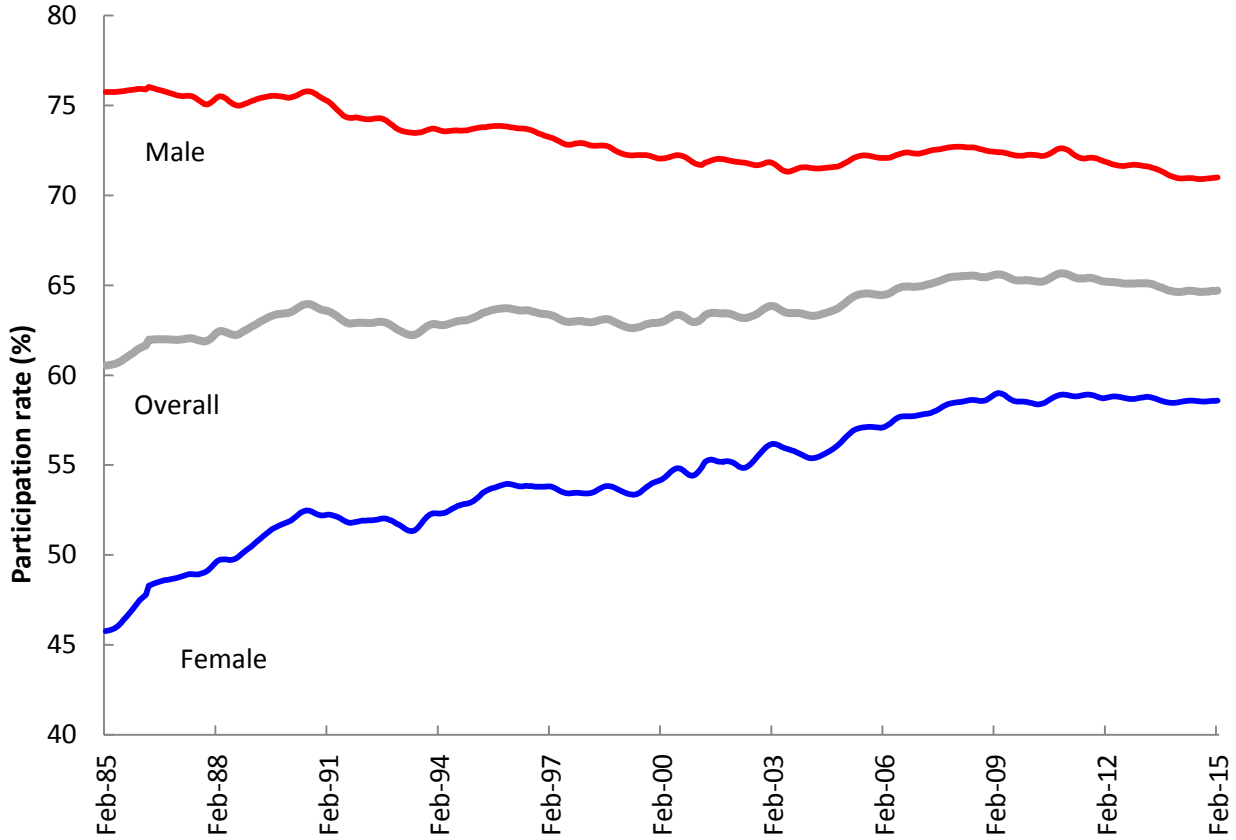
4.4 Participation rate

120. The participation rate has been broadly steady over the last year, at 64.6 per cent in February 2015, below its peak of 65.8 per cent recorded in November 2010.

121. A number of factors are likely to have influenced movements in the participation rate over recent years. First, the retirement of the first tranche of the baby boomer cohort, which began in 2011, placed downward pressure on the participation rate, as significant numbers started leaving the labour force. Second, at least part of the decline in the participation rate has been due to the 'discouraged worker' effect, as weaker labour market conditions have resulted in some people giving up searching for work or even choosing not to enter the labour market. These effects have been partially offset by higher participation rates in the 55-64 year old and 65 and over cohorts.

122. Both the male and female participation rates were broadly unchanged over the last year, at 70.9 per cent and 58.5 per cent respectively (ABS 2015e).

Chart 4.4: Participation rates by sex, February 1985 to February 2015



Source: ABS 2015e, *Labour Force, Australia, February 2015,* Cat. No. 6202.0, trend data.

123. In terms of an age breakdown, the participation rate for persons aged 45-54 fell by 0.2 percentage points over the year, to 82.4 per cent in February 2015, although this was offset by a 0.8 percentage point increase in the participation rate for persons aged 55-64 over the same period, to 64.0 per cent. The increase in the participation rate for persons aged 55-64 years will, to some extent, be affected by those who are ageing (and moving into the older age cohort) having a higher participation rate than those who are already in the cohort who are moving out of the labour force.

124. It is likely 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), dampening the participation rate.

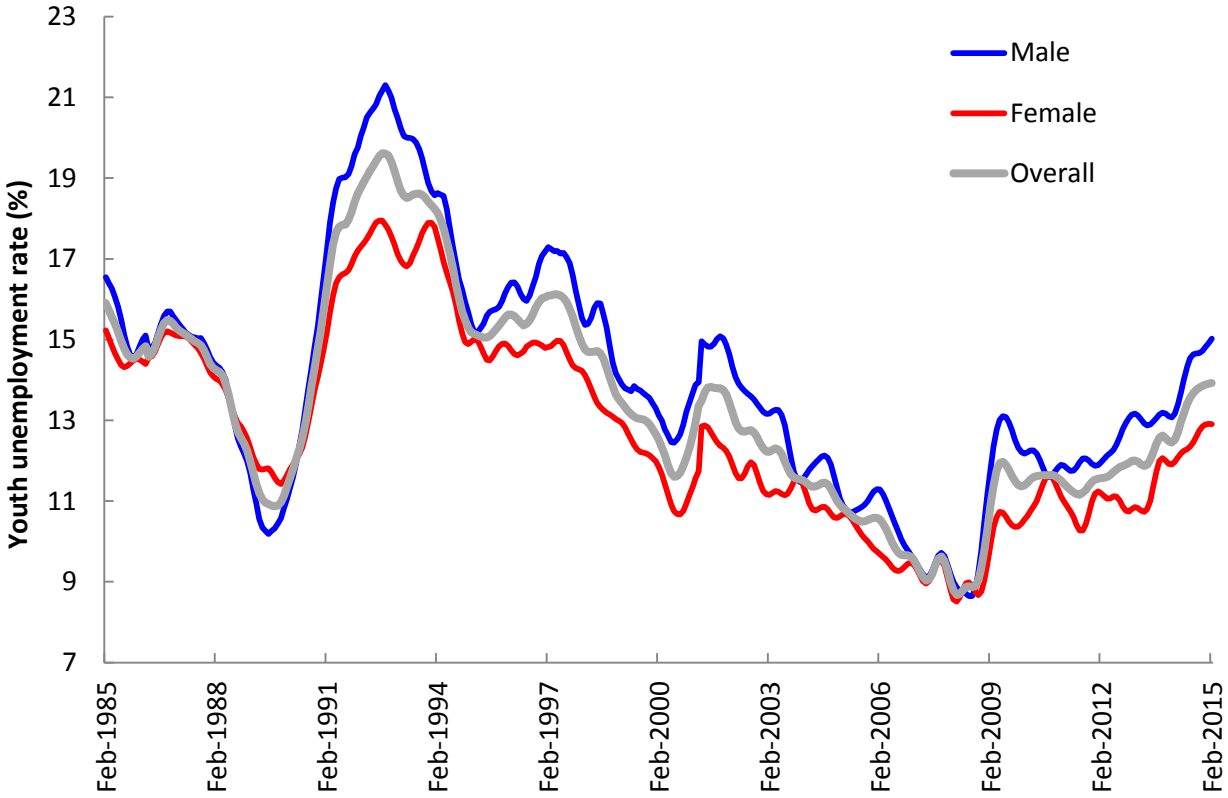
4.5 Key groups in the labour market

125. A number of groups (including youth and the long-term unemployed) continue to experience ongoing difficulties 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.

4.5.1 Youth (15-24 years)

126. Labour market conditions remain subdued for youth (persons aged 15-24 years) with employment for this cohort declining by 16,200 (or 0.9 per cent) over the year to February 2015. Against this backdrop, the youth unemployment rate increased by 1.5 percentage points over the period to stand at 13.9 per cent in February 2015, more than double the rate recorded for all persons (see Chart 4.5) (ABS 2015e).

Chart 4.5: Youth (15-24 years) unemployment rates by sex, February 1985 to February 2015



Source: ABS 2015e, *Labour Force, Australia, February 2015,* Cat. No. 6202.0, trend data.

127. The labour market conditions for youth are not entirely surprising, given young people are particularly vulnerable during periods of economic and labour market weakness, as they tend to have less education, skills and experience and are therefore often the first to be retrenched by employers in times of economic difficulty.

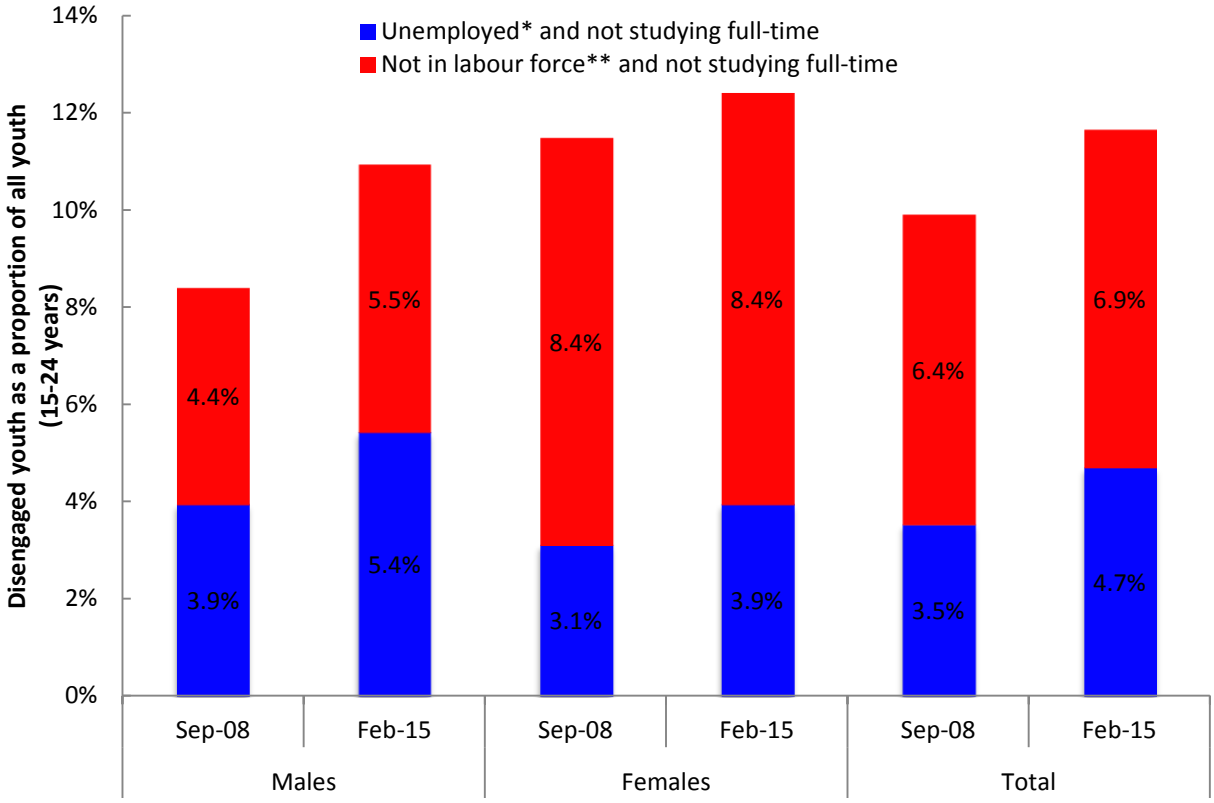
128. Reflecting the increased competition for jobs, young people are remaining unemployed for longer periods than they were at the onset of the global financial crisis, with the average duration of unemployment for 15-24 year olds increasing from 18 weeks in September 2008 to 30 weeks in January 2015, the equal highest level since March 2002 (earliest available data).

129. Long-term unemployment for young people has also increased significantly since September 2008, up by 34,700 (or 218.1 per cent) to stand at 50,600 in February 2015. While young people comprise 16.3 per cent of the civilian population in February 2015 (down from 17.3 per cent in September 2008), this cohort now accounts for 29.8 per cent of the total long-term unemployed pool, well above the 22.6 per cent recorded at the onset of the global financial crisis.

130. While most youth are either engaged in some form of work or full-time education, 11.6 per cent were not participating in either work or full-time education (and are commonly referred to as disengaged youth) in February 2015, up from 9.9 per cent in September 2008. While a small 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.

131. The increase in youth disengagement has been driven, entirely, by the 20-24 year old cohort, with the proportion of 20-24 year olds who are disengaged rising from 11.9 per cent in September 2008 to 15.6 per cent in February 2015. By contrast, the proportion of 15-19 year olds who are disengaged has declined from 7.8 per cent in September 2008 to 7.3 per cent in February 2015.

Chart 4.6: Disengaged youth by sex, September 2008 to February 2015



Source: ABS 2015f, *Labour Force, Australia, Detailed – Electronic Delivery*, February 2015, Cat No. 6291.0.55.001, data are 12-month averages of original estimates.

*Unemployed refers to persons who were not employed during the reference week, and:

- **had actively** looked for full time or part time **work** at any time in the four weeks up to the end of the reference week and were available for work in the reference week; or
- were waiting to start a new job within four weeks from the end of the reference week and could have started in the reference week if the job had been available then.

**Not in the Labour Force refers to people who are neither employed nor unemployed.

132. 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. On the other hand, disengaged young women

are primarily not in full-time education and are not in the labour force. Some of these women will be caring for children.

4.5.2 The long-term unemployed

133. The incidence of long-term unemployment (the proportion of the unemployed who are long-term unemployed) stood at 23.5 per cent in February 2015.

134. The subdued outlook for the long-term unemployed is of particular concern, as 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.

4.5.3 Indigenous employment rates

135. Significant disparity continues to exist between Indigenous and non-Indigenous labour market outcomes.[18] For instance, in 2011 (latest available Indigenous Census data), the unemployment rate for Indigenous persons stood at 17.2 per cent, more than three times the rate recorded for non-Indigenous persons (of 5.5 per cent). The disparity between labour market outcomes for Indigenous and non-Indigenous Australians is likely to be influenced by a number of characteristics such as low educational attainment levels and being located in more remote areas.

4.5.4 Single parents and jobless families

136. While there has been no update to Australian Bureau of Statistics (ABS) families data since June 2012, it can be assumed (given the subdued overall labour market conditions since 2012) that conditions for single parents and jobless families will have deteriorated since that time. Bearing this in mind, in June 2012 (latest available data) (ABS 2013b), there were 2,398,800 families with children[19] in total in Australia, of whom 276,400 (or 11.5 per cent) were jobless. The majority of jobless families (196,700 or 71.2 per cent) were headed by a single parent.

137. The number of children in jobless families was 528,900 in June 2012. 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.

138. 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. The unemployment rate for single parents stood at 10.5 per cent in June 2012, around three times higher than the 3.2 per cent recorded for couple families with children.

[18] Please note all data in this section refer to the working age population (persons aged 15-64 years).
[19] Please note that the term 'children' refers to dependent children aged 0-14 years.

4.6 Labour market conditions by skill level

139. 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.

140. Over the 10 years to February 2015, employment growth has been dominated by the higher skill levels, with skill levels 1, 2 and 3[20] accounting for 72.5 per cent of employment growth.

141. Consistent with these trends, the share of employment comprised by skill level 5 has decreased, from 20.0 per cent in February 2005 to 16.8 per cent in February 2015, whereas the employment share of skill level 1 occupations has grown from 27.0 per cent to 30.6 per cent over the same period. This structural change in demand for skills might have contributed to the increase in earnings inequality, as shown in Chapter 10.

Table 4.2: Change in employment by skill level, one and 10 years to February 2015

Skill Level Occupations	Current employment (Feb 15)	Change in employment year to February 2015		Change in employment 10 years to February 2015	
	(000s)	(000s)	(%)	(000s)	(%)
Skill Level 1 (highest)	3,567.3	130.4	3.8	924.4	35.0
Skill Level 2	1,332.3	8.4	0.6	241.5	22.1
Skill Level 3	1,762.7	52.5	3.1	196.6	12.6
Skill Level 4	3,033.6	10.5	0.3	511.7	20.3
Skill Level 5 (lowest)	1,958.1	-50.1	-2.5	4.6	0.2
All Occupations	11,654.0	151.6	1.3	1,878.8	19.2

Source: ABS 2015g, *Labour Force, Australia, Detailed, Quarterly, February 2015,* Cat. No. 6291.0.55.003, Department of Employment trend data.

142. Over the year to February 2015, the largest increases in employment were in skill level 1 occupations (growth of 130,400 workers or 3.8 per cent) and skill level 3 occupations (up by 52,500 or 3.1 per cent). The only decline was for skill level 5 occupations (down by 50,100 or 2.5 per cent) (see Table 4.2). This may have implications for some entry level jobs, and for the composition of the workforce.

4.7 Regional labour markets

143. The subdued labour market conditions prevailing across Australia over the last year have been particularly pronounced in the 'Rest of State' areas, with the latter recording a

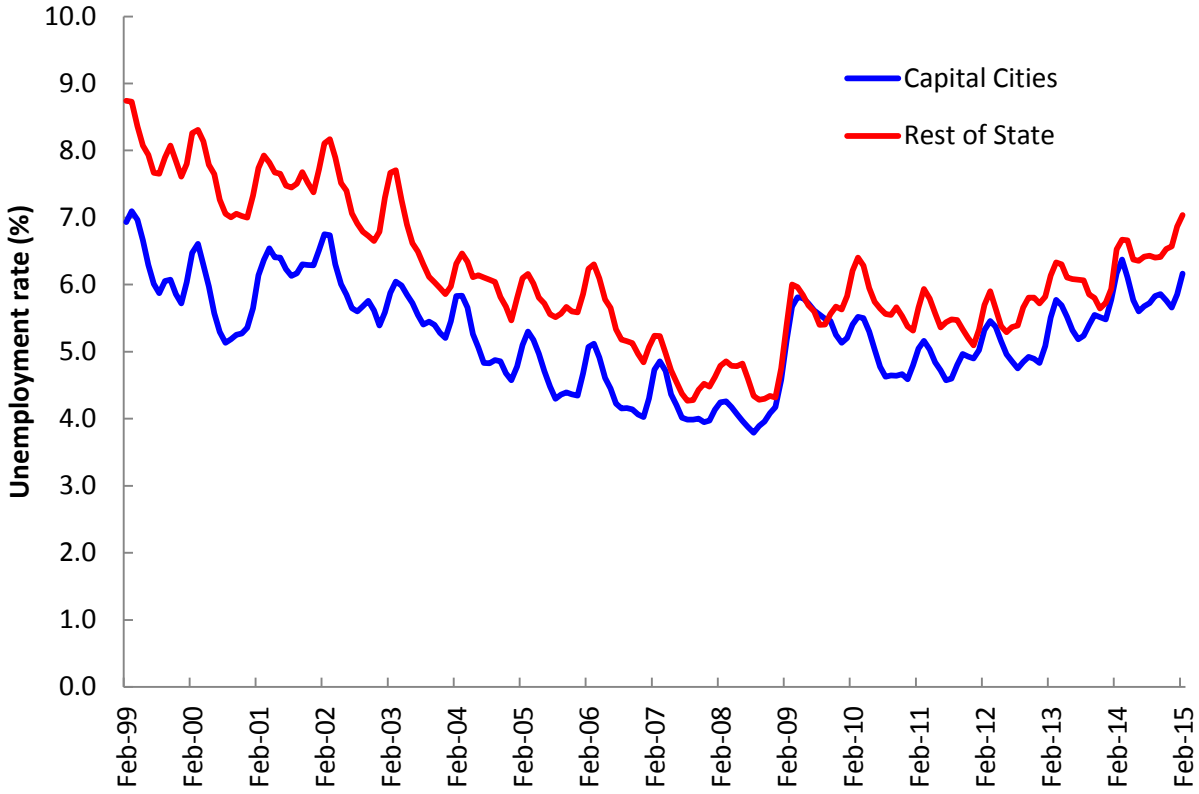
[20] The ABS classifies occupations according to five skill levels commensurate with a qualification(s) as follows: Skill level 1: Bachelor degree or higher qualification; Skill level 2: Advanced Diploma or Diploma; Skill level 3: Certificate IV or III (the Certificate III requirement for this skill 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.

slower pace of employment growth (1.0 per cent over the year to February 2015), compared with Capital Cities (2.3 per cent).[21] (ABS 2015f)

144. In addition, the unemployment rate in the Rest of State areas increased by 0.5 percentage points over the last 12 months, to 7.0 per cent in February 2015, well above the unemployment rate of 6.2 per cent recorded in Capital Cities, which was broadly unchanged over the period. Further, the participation rate in Rest of State areas stood at just 62.3 per cent in February 2015, well below the 66.3 per cent recorded in Capital Cities.

145. Historically, Capital Cities have recorded a lower unemployment rate (and a higher participation rate) than the Rest of State areas.

Chart 4.7: Unemployment rate by Capital Cities and Rest of State areas, February 1999 to February 2015



Source: ABS 2015f, *Labour Force, Australia, Detailed – Electronic Delivery*, February 2015, Cat No. 6291.0.55.001, data are three-month averages of original estimates.

146. Chart 4.8 below presents regional disparity (as measured by the standard deviation of regional unemployment rates)[22] and the trend unemployment rate, back to January 1999. The chart clearly shows the strong relationship between the unemployment rate and the

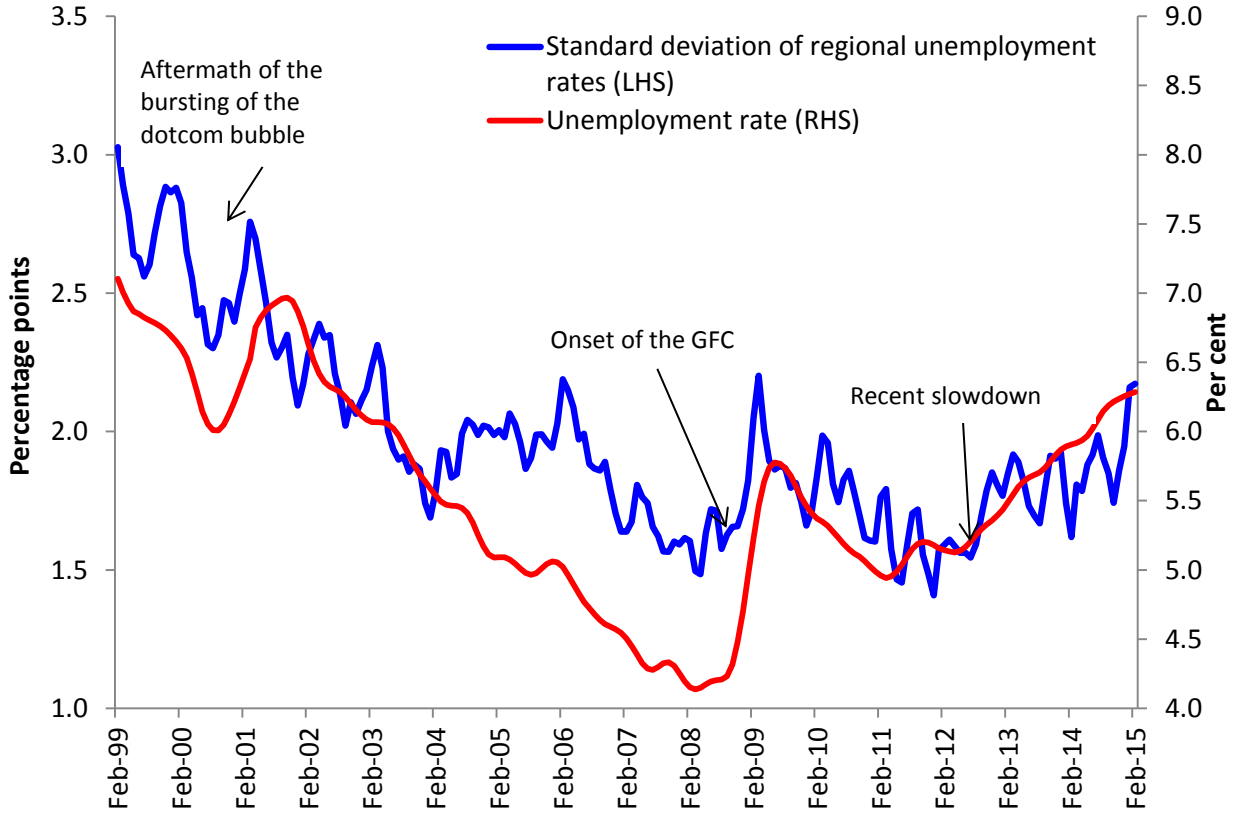
[21] Figures are three-month averages of *original* estimates.

[22] The standard deviation of regional unemployment rates is a measure that is used to quantify the amount of variation in SA4 unemployment rates. A standard deviation close to 0 indicates that the unemployment rates tend to be very close to the mean, while a high standard deviation indicates that the unemployment rates are spread out over a wider range of values (i.e. greater regional disparity).

level of regional disparity, with both trending down during the late 1990s and 2000s, other than during temporary periods of labour market softness, until 2008.

147. Following the global financial crisis, regional disparity increased steadily, with the standard deviation on regional unemployment rates rising from 1.63 percentage points in September 2008, to a high of 2.20 percentage points in March 2009. The level of regional disparity declined during the recovery in 2010-11, falling to a low of 1.41 percentage points in December 2011. Since then, however, regional disparity has trended upwards, to stand at 2.17 percentage points in February 2015.

Chart 4.8: Regional unemployment disparity, February 1999 to February 2015



Source: ABS 2015e, *Labour Force, Australia, February 2015,* Cat. No. 6202.0, trend data and ABS 2015f*, Labour Force, Australia, Detailed – Electronic Delivery*, January 2015, Cat No. 6291.0.55.001, three-month averages of original data.

4.7.1 Labour market conditions by State

148. There has been a convergence in labour market conditions at the State level over the last year, as the resource-rich jurisdictions transition from the construction phase of the mining boom to the less labour-intensive production phase. Indeed, over the year to February 2015, employment in the Northern Territory declined by 1,200 (or 0.9 per cent), while in Queensland employment increased by just 7,900 (or 0.3 per cent) (ABS2015e).

149. In addition, while employment in Western Australia increased by 38,400 (or 2.9 per cent) over the year to February 2015, this was not sufficient to prevent the unemployment rate in the State from increasing, to 5.8 per cent in February 2015, above the 5.5 per cent recorded a year earlier.

150. Despite some convergence over the past year, disparity still exists between the States and Territories. For instance, in February 2015, the unemployment rates in the Northern Territory (4.3 per cent), the Australian Capital Territory (4.5 per cent), Western Australia (5.8 per cent) and Victoria (6.0 per cent) remained below the rate for Australia (6.3 per cent). On the other hand, Tasmania (6.6 per cent), Queensland (6.7 per cent) and South Australia (6.9 per cent) all recorded unemployment rates well above the national average.

4.8 Conclusion

151. In considering its decision, the Panel should take into consideration that the Australian labour market has been subdued over the last year, due largely to the below-trend rate of global and domestic economic growth, the latter underpinned by the decline in Mining investment activity. Of particular concern is the subdued outlook for the youth and long term unemployed. Going forward, the pace of employment growth is likely to remain moderate, at least in the near term, reflecting uneven conditions across the economy. In this environment the Panel should make a decision that is likely to support the creation of new jobs.

5 Small business

Key Points

- The business environment for small business continues to be challenging, with falling business conditions and profits remaining weak. As a result small businesses remain very cautious in employing.
- Key business surveys show that smaller operators are finding conditions more difficult than their larger counterparts.
- Small businesses are significant employers, employing around 43 per cent of non-financial private sector employees and 38 per cent of employees on award classification wages.
- Small businesses are likely to be particularly impacted by changes in minimum and award classification wages. Small businesses more commonly rely on awards rather than negotiating enterprise or individual-level agreements.
- In making its decision, the Panel should carefully consider the affordability of the changes for small businesses to ensure their ongoing viability and growth, which will in turn support employment.

5.1 Introduction

152. Section 3(g) of the *Fair Work Act 2009* outlines that the objects of the Act are to be met through an acknowledgement of the special circumstances of small and medium-sized businesses. Accordingly, decisions on the national minimum wage and modern award classification pay rates need to take into account the circumstances of small and medium businesses.

153. The Panel in its 2014 Annual Wage Review decision noted that aside from the general object of the Act, consideration of the circumstances of small businesses is necessary given their significance to the Australian economy. Most employers are small businesses, and award reliance is relatively high in small businesses compared to businesses generally.

154. The Australian Government agrees with the Panel's assessment on the important role played by small businesses in the Australian economy, through its contribution to economic growth and employment. When making its decision, the Panel should carefully consider the unique features of small businesses and help provide a supportive environment to ensure their viability and growth.

155. The Panel noted in last year's decision that:

> *"little direct evidence was put to us in relation to the economic circumstances confronting small businesses and the extent and manner in which they are differentially affected by them. There is no evidence to suggest that the economic conditions for small businesses have diverged materially from those of businesses generally within the industries in which they operate, as reflected in aggregate and sectoral economic data"* (Fair Work Commission 2014, Paragraph 225).

156. This small business chapter has been included to provide additional information to help inform the Panel on small business developments.

5.2 Small businesses in Australia

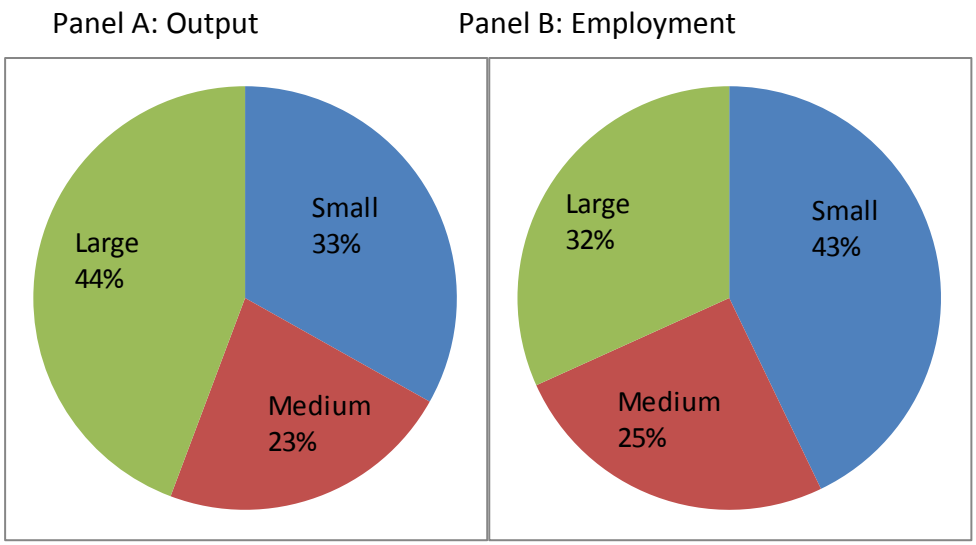
5.2.1 Importance of small businesses in Australia

157. Small businesses are a significant part of the Australian economy and make an important contribution to output and employment. They are diverse, operate in all sectors of the economy, have varying levels of employment, and conduct business under different legal structures.

158. Small businesses are defined here as a business employing 0-19 employees. According to the ABS (2015c) definition, there were 2,044,860 actively trading small businesses in Australia as at June 2014, accounting for 97 percent of all businesses.[23] Of these small businesses, 771,091 (or 37.7 per cent) were employing small businesses.

159. As at 30 June 2013, small businesses contributed around 33 per cent of non-financial private (i.e. excluding general government, the financial and insurance industries) sector value added and employed around 4.5 million Australians, or 43 per cent of non-financial private sector employment in Australia (Chart 5.1).

Chart 5.1: Small business share of non-financial private sector

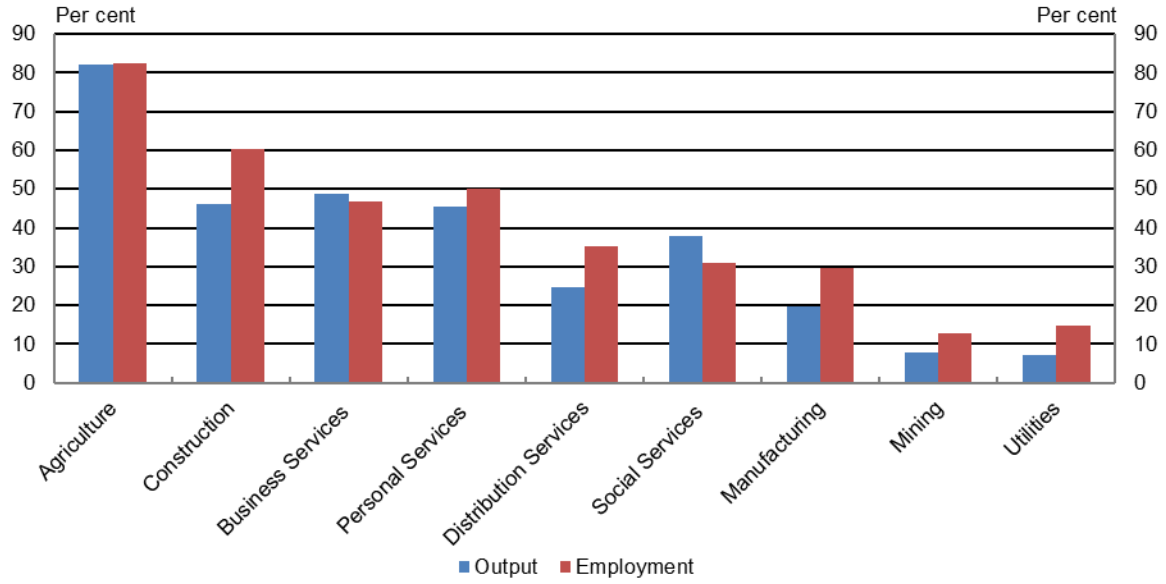


Source: ABS 2014a, *Australian Industry, 2012-13,* Cat. No. 8155.0.
Note: Measures non-financial private sector output (Industry Value Added) and employment (number of individuals employed). This data excludes general government, the financial and insurance industries.

160. Small businesses operate in every sector of the Australian economy, although their contribution to output and employment varies between sectors (see Chart 5.2 below). Small businesses are particular prevalent in the agriculture, construction and services industries. They are less prevalent in capital intensive industries such as mining, manufacturing and utilities.

[23] For the purpose of this submission, small businesses are defined as a business employing 0 to 19 employees. This is consistent with the definition used by the ABS, Sensis and the Australian Chamber of Commerce and Industry for the purpose of business surveys. We note that small businesses are defined as a business employing 0 to 14 employees for the purposes of the *Fair Work Act*.

Chart 5.2: Small business share of private sector output and employment within each industry



Source: ABS 2014a, *Australian Industry, 2012-13,* Cat. No. 8155.0.
Note: Distributions Services includes wholesale trade, retail trade, transport, postal and warehousing, and information, media and telecommunications. Business Services includes rental hiring and real estate services, professional, scientific and technical services, and administrative and support services. Social Services includes public administration and safety, education and training, and health care and social assistance. Personal Services includes accommodation and food services, arts and recreational services, and other services.

161. Small businesses also contribute a greater proportion to employment compared to output in almost every industry indicating that small businesses are more labour intensive (that is, on average have lower labour productivity) than larger businesses within the same industry.

5.2.2 Award coverage

162. Small businesses are more award-reliant than large businesses.

163. According to the latest *Employee Earnings and Hours* data, small businesses alone account for around 38 per cent of total employees on award classification wages. Further, around 32 per cent of employees in a small business are paid award classification wages compared to 11 per cent of employees in larger businesses (with 100 or more employees).

164. When considering award coverage by sector, the Accommodation and food services sector (17 per cent of total employees on awards), the Retail trade sector (17 per cent) and the Health care and social assistance sector (15 per cent) account for 49 per cent of all award employees. These three sectors are heavily comprised of small business, as a proportion of total businesses: 92 per cent, 95 per cent and 97 per cent respectively (ABS 2015c).

5.3 Characteristics of small businesses

165. There are certain characteristics of small businesses that make them particularly sensitive to the challenging economic conditions that Australia is experiencing – they are generally

less diversified in their product offerings and customers, less equipped to deal with soft demand and have less flexibility in terms of meeting workplace operational requirements.

166. Small businesses are more concentrated in their local area of operation. In 2013, 82 per cent of small businesses sold goods or services in their local area (this is similar to medium and large businesses). However, only 7 per cent of small businesses had an overseas market compared with 15 per cent for medium and 33 per cent for large businesses (ABS 2014d).

167. In National Australia Bank's (2015) latest quarterly small and medium enterprise (SME) survey, there has been a noticeable fall in business conditions for small businesses compared to larger operations. In explaining this, National Australia Bank noted that the smallest SMEs (micro-sized businesses) are typically less equipped in finances and systems to deal with periods of soft demand.

5.4 Developments in the small business sector

5.4.1 Overview

168. Small businesses have experienced a long period of weak trading conditions. Consistent with the difficult trading conditions that small business have sustained for a period of time, employers remain very cautious in taking on additional labour.

169. At an industry level, for SMEs, the latest survey results suggest conditions are particularly challenging in accommodation and food services and retail. These industries have a relatively high proportion of award-reliant organisations and employees compared to other non-public sector organisations (Wright and Buchannan 2013).

170. When combined with the difficulties for small businesses in passing on higher costs to consumers in the current economic environment, higher labour costs could present a major constraint for small businesses.

5.4.2 Use of survey data

171. In its previous 2013-14 decision, the Panel expressed reservations about the reliability of the data from survey measures for the purpose of providing a representative picture at either an industry or an economy-wide level (Fair Work Commission 2014, Paragraph 226).

172. While official data, such as those from the ABS are preferable, they are not always readily available. In these circumstances, survey measures provide a useful alternative source of information. These include survey responses published by the Australian Chamber of Commerce and Industry (ACCI), National Australia Bank and Sensis.

173. The Government submits that caution should be exercised on placing too much weight on a single survey measure. To avoid this, the Government examines a range of survey measures to draw a more robust inference.

174. The Reserve Bank of Australia (Park 2011; Alymer and Gill 2003) has concluded that while it is important to interpret the survey information with care, business surveys provide useful information about current and future economic activity, and also provide information on parts of the economy that is not readily available. The studies also note

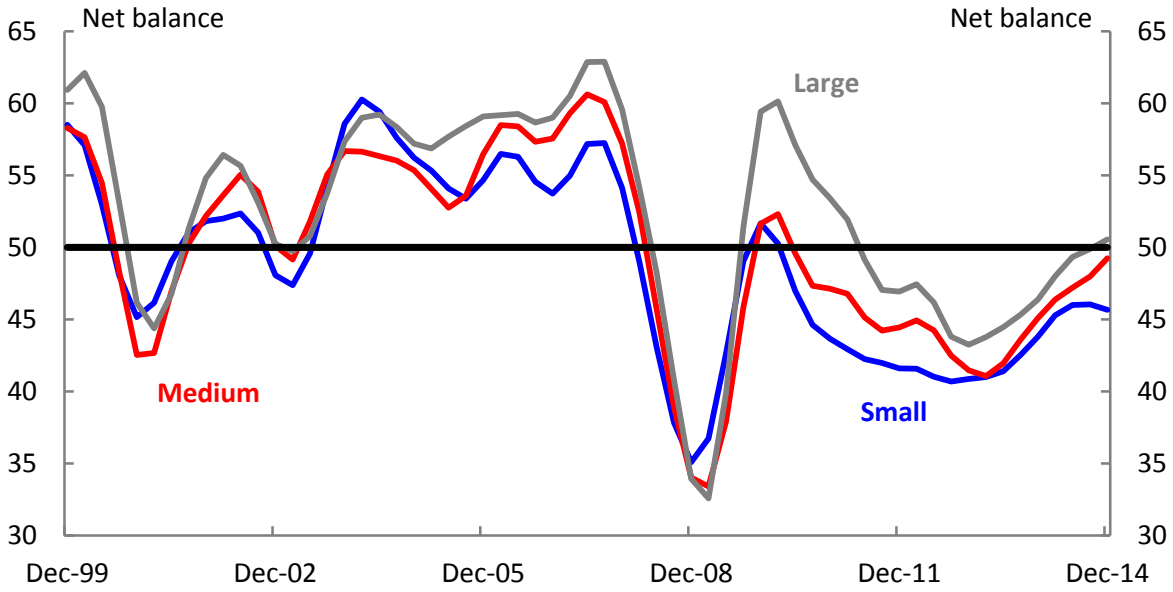
that in many instances, the survey data provide more timely information than official data.

175. A recent study by the Reserve Bank of Australia (Park 2011) reported a high correlation of 0.7 between survey measures of current business conditions (for either a multiple survey average or the National Australia Bank Quarterly Business Survey) and output growth (defined as the official measure of nominal domestic demand).

176. The same Reserve Bank of Australia study suggests that the information content for survey measures on employment were even more significant. There is a high correlation between surveyed hiring intentions and trend quarterly employment growth (generally around 0.7 based on survey average to 0.9 using the National Australia Bank Quarterly Business Survey). Furthermore, survey measures have also been found to be useful in informing forecasts of employment growth.

5.4.3 Business conditions for small businesses

Chart 5.3: ACCI Business Conditions Index[24]



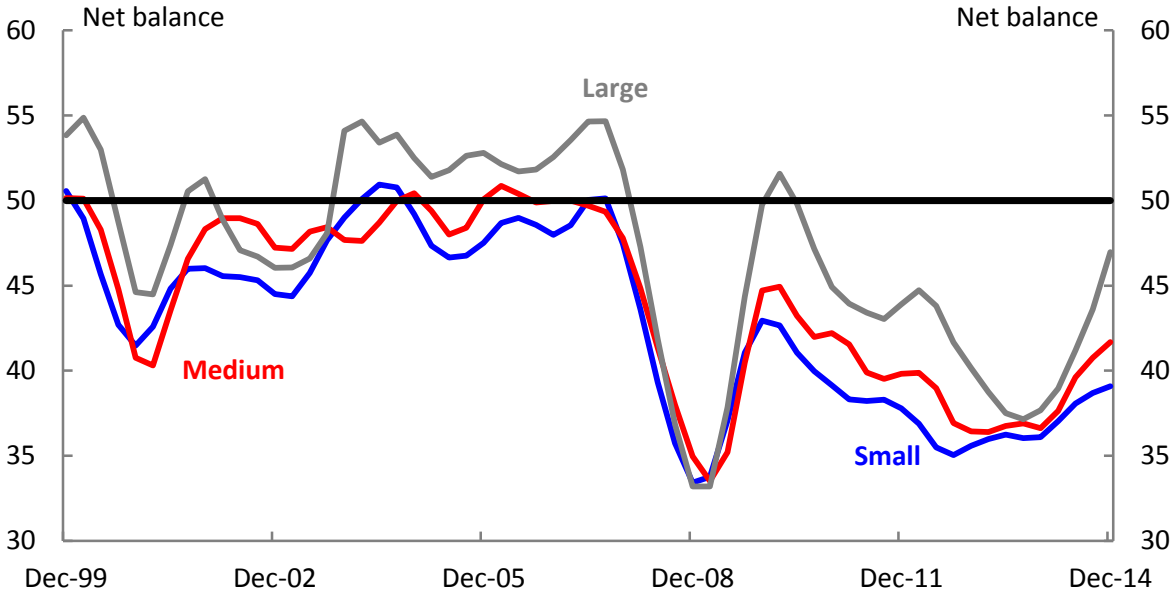
Source: ACCI Business Expectation Survey, December Quarter 2014, trend data series.

177. The ACCI survey indicates that business conditions remain challenging for small businesses. The survey had earlier pointed to a gradual improvement in economic conditions. However, in the latest quarter more small businesses reported falls in business conditions. Chart 5.3 also suggests that compared to medium and large businesses, business conditions have been more challenging for small businesses. In particular, large businesses are currently marginally above the neutral position of 50.

[24] The ACCI responses are reported in net balance terms, with statistics represented using an index. An index level of 50 indicates that there is an exact balance between those who responded that the variable is growing and those who replied that the variable had declined. Thus, any level below 50 can generally be interpreted as meaning that the variable is falling, and conversely, a reading above 50 indicates the variable is increasing. Similarly, the NAB survey responses are reported using a net balance index, with an index reading of zero indicating an exact balance.

178. Consistent with difficult business conditions, small business profits growth index remains weak, with a greater number of businesses seeing a fall in profits than those businesses returning higher profits.

Chart 5.4: ACCI Profit Growth Index

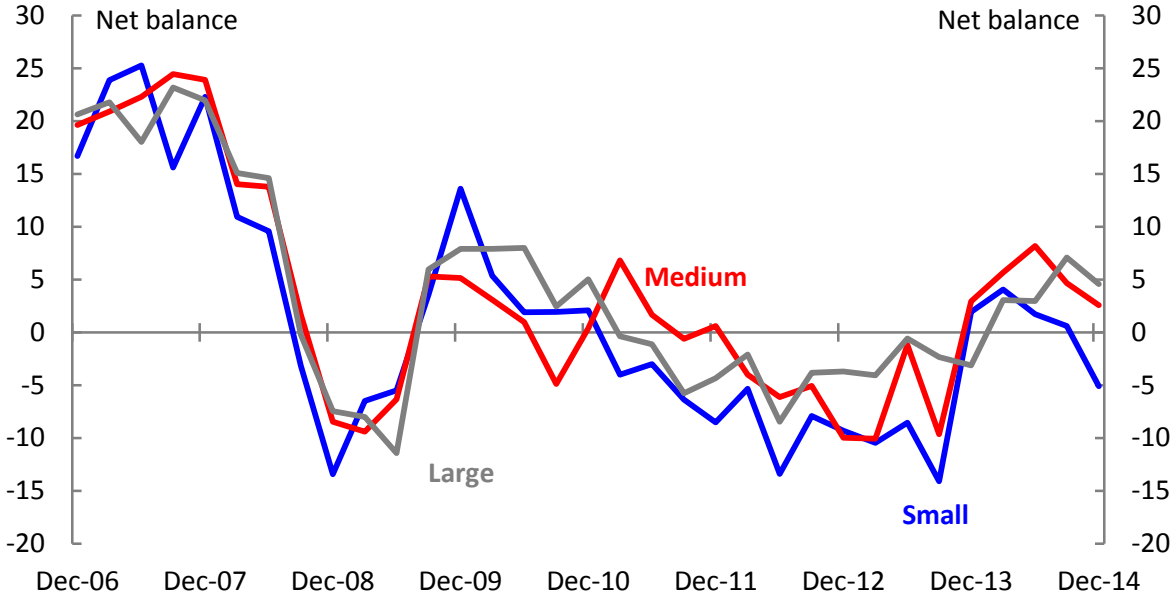


Source: ACCI Business Expectation Survey, December Quarter 2014, trend data series.

179. The Sensis Business Index December quarter 2014 survey is supportive of the results from the ACCI survey, with its indicators suggesting subdued conditions for SMEs with weak sales, low investment, weak profitability and flat employment growth.

180. The National Australia Bank Business Quarterly SME survey for December 2014 suggests conditions have deteriorated significantly for small SMEs. For the medium and large SMEs, while conditions on balance are still positive, they are trending down. Furthermore, the National Australia Bank Quarterly ASX 300 Business Survey (December 2014) also shows that business conditions remain positive for the ASX 300 companies. These survey results indicate that small businesses are facing more challenging conditions than larger operations.

Chart 5.5: National Australia Bank Business Conditions Index

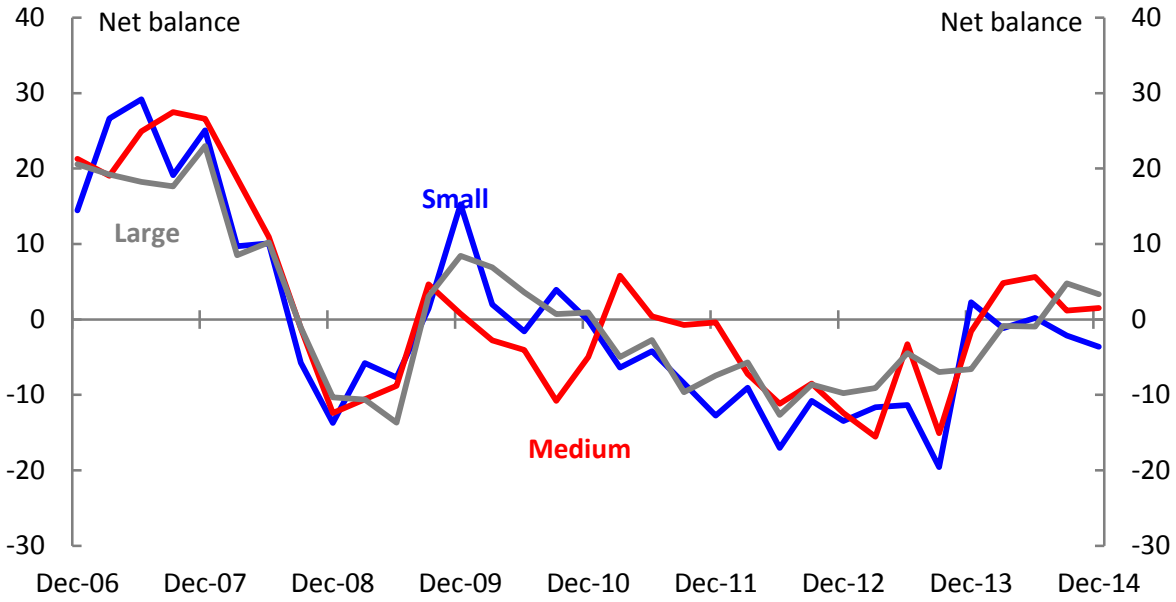


Source: NAB Quarterly SME Survey, December Quarter 2014, seasonally adjusted data series.

181. The National Australia Bank survey indicates that SME conditions were mixed across industries in the quarter. Seven industries reported a positive net balance for the quarter, while four industries reported a negative net balance. The largest negative net balances were recorded in manufacturing, retail, and accommodation and food services. The latter two industries are particularly award-reliant.

182. The National Australia Bank survey shows profits remain weak. This is particularly the case for the very small SMEs, which continues to be in negative territory.

Chart 5.6: National Australia Bank Profits Index



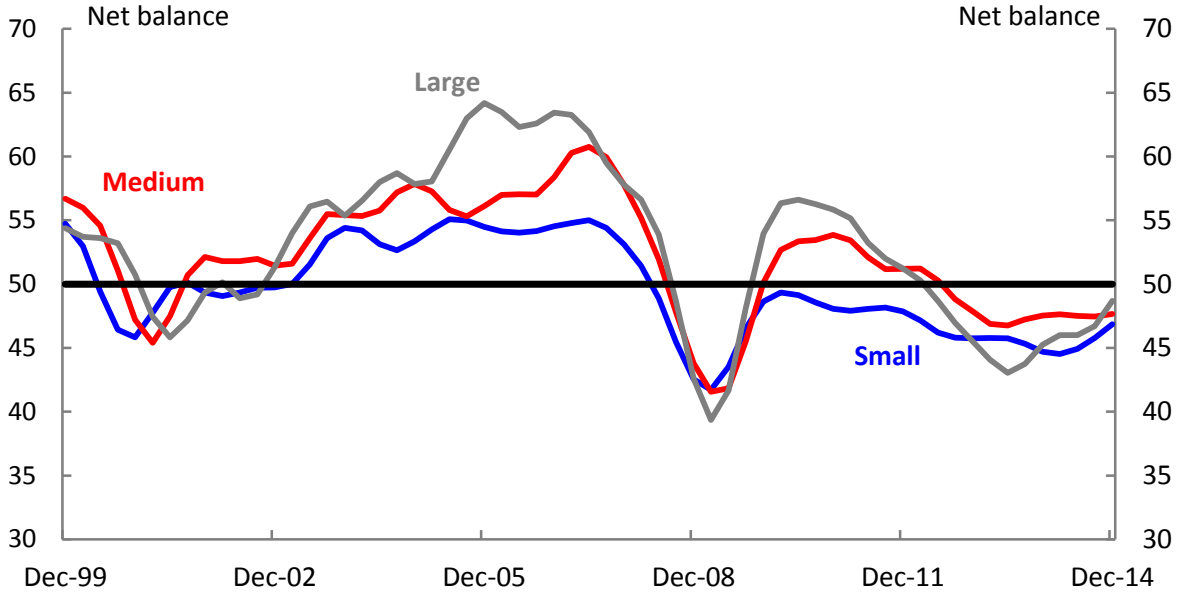
Source: NAB Quarterly SME Survey, December Quarter 2014, seasonally adjusted data series.

5.4.4 Labour market

183. Labour costs as a per cent of annual turnover can comprise a significant component of total expense for small businesses. According to ABS statistics as at June 2013, for small employing businesses across all industries, labour costs account for around 17 per cent of total expenses.[25] Across sectors, they can range from as high as 42 per cent in the private education and training sector to as low as 5.6 per cent in the utilities sector.

184. The ACCI Small Business Survey indicates that business conditions remain challenging for small businesses. Chart 5.7 also suggests that, compared with medium and large businesses, business conditions remain challenging for small businesses.

Chart 5.7: ACCI Employment Index by firm size



Source: ACCI Business Expectation Survey, December Quarter 2014

185. The Sensis December Quarter 2014 Business Index also indicates some softness in the labour market, with responses to its survey reporting that employment growth remains relatively flat, with small declines in previous quarters. However, future expectations are more positive indicating there is potential for moderate employment growth. The lack of work and sales were cited as the main barriers to taking on new employees (43 per cent of respondents), followed by increasing wages/cost of wages (11 per cent).

5.5 Conclusion

186. The business environment for small businesses continues to be challenging. As a result, small businesses remain very cautious in relation to employment.

[25] The ratio is slightly higher for medium and large businesses. This possibly reflects an under-bias for small businesses, where small business owners choose to take out returns in the form of equity and dividends rather than wages and salary.

187. Proportionately large changes in minimum and award classification wages will particularly affect small businesses compared to larger businesses as they are more likely to be award-reliant.

188. Any wage increases that are not supported by improvements in productivity and that are not passed on to consumers and customers are likely to cost jobs.

6 Productivity, labour costs and wage-setting

Key Points

- Recent productivity growth, while encouraging, should not be interpreted in isolation as a one-to-one signal of firms' current capacity to afford wage increases.
- Employers' current capacity to pay higher wages is limited due to relatively weak economic conditions.
- Measures of productivity growth over short time periods can be volatile, cyclical and subject to measurement error.
- Enterprise bargaining provides a direct avenue for firms and workers to negotiate productivity offsets for real wage increases.

6.1 Introduction

189. This chapter details Australia's productivity performance and suggests that the Panel should be cautious about interpreting recent productivity growth as a signal of award-reliant firms' capacity to afford wage increases.

190. In the current relatively weak economic environment, firms facing wage increases which are not offset with productivity gains may not be able to pass on increased costs to their customers and consumers through higher prices.

191. In making its decision, the Panel must consider the need to encourage enterprise bargaining, through which firms and workers can work together to ensure wage increases are affordable given the business environment at that particular enterprise.

6.2 Productivity growth and wages growth

192. Over the long run, real income growth and improved living standards are largely dependent on productivity growth, and real wages and productivity tend to move together. However, there are often short run deviations which reflect labour market and economic conditions. For example, when the economy slowed around 2001, there was a temporary divergence between productivity growth and real wages growth.

193. The high terms of trade arising during the resources boom resulted in rising real incomes, despite slower labour productivity growth.

194. The situation has now changed, with the terms of trade declining substantially. In this environment, the Reserve Bank of Australia has emphasised that amongst other measures *"high productivity growth and real wage restraint would also support Australia's competitiveness"* (Atkin, Caputo, Robinson and Wang 2014).

195. Reflecting current subdued labour market conditions and the transition away from the resources investment boom, Australia has experienced a fall in real wage growth, despite moderate labour productivity growth. It is anticipated that when labour market conditions improve, stronger economic conditions will result in higher wages growth.

6.3 Trends in labour productivity growth

6.3.1 National labour productivity

196. Productivity growth slowed in the late 2000s relative to the very strong productivity growth seen through the 1990s. This slowdown has been linked to a number of industry-specific factors, including significant investment in the mining and utilities industries and the impact of drought on the agriculture industry (Productivity Commission 2009).

197. For example, during the mining boom there was rapid investment in mining infrastructure, without an immediate rise in production, leading to lower measured productivity growth in the industry. The Productivity Commission estimated that between 2000-01 and 2006-07, lags in production accounted for around one-third of the decline in mining multifactor productivity growth (Topp, Soames, Parham and Bloch 2008). Capital investment during the mining boom is likely to have resulted in a short term drag on overall productivity growth, despite contributing positively to national income.

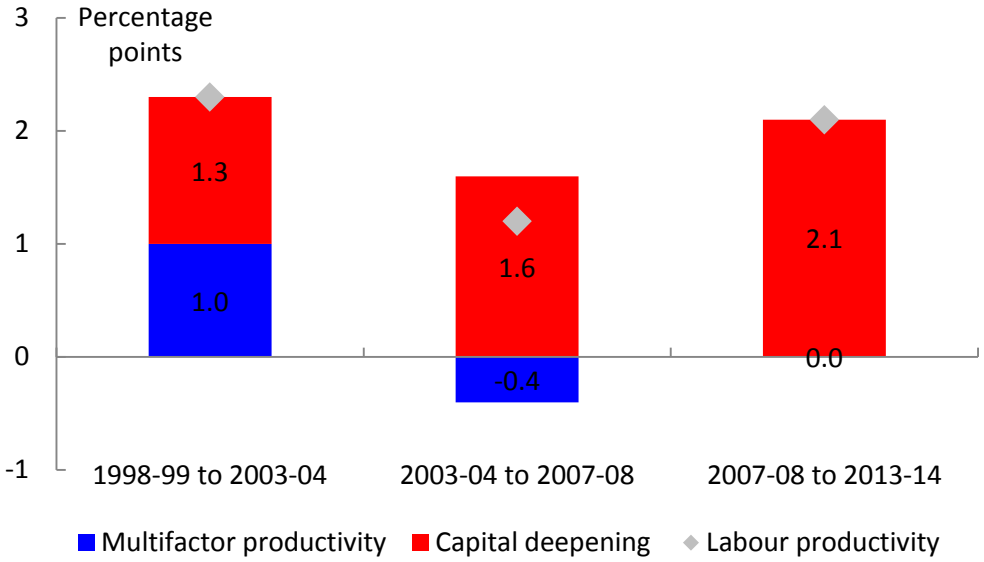
198. The latest annual data show that over the past five years labour productivity in the market sector has grown at an average annual rate of 2.4 per cent, higher than the 1.6 per cent over the five years prior (ABS 2014b). This is still below the record productivity growth rate seen through the late 1990s.

199. Labour productivity in the market sector rose by 0.3 per cent, in seasonally adjusted terms, through the year to the December quarter 2014. This followed growth of 1.7 per cent through the year to December 2013 and 4.9 per cent to December 2012 (ABS 2015a). This compares to the ten year average through to December 2014 of 1.8 per cent.

200. Chart 6.1 decomposes labour productivity over growth cycles into its two components:

- capital deepening, which is a measure of the change in the amount of capital per unit of labour; and
- multifactor productivity, which measures the efficiency of use of labour and capital inputs in producing output.

Chart 6.1: Contributions to labour productivity growth in the market sector



Source: ABS 2014b, *Australian System of National Accounts, 2013-14, Cat. No. 5204.0.* Department of Employment calculations.
Note: Data in original terms. 2007-08 to 2013-14 is not a complete productivity cycle according to the standard ABS definition and may be affected by rates of capacity utilisation.

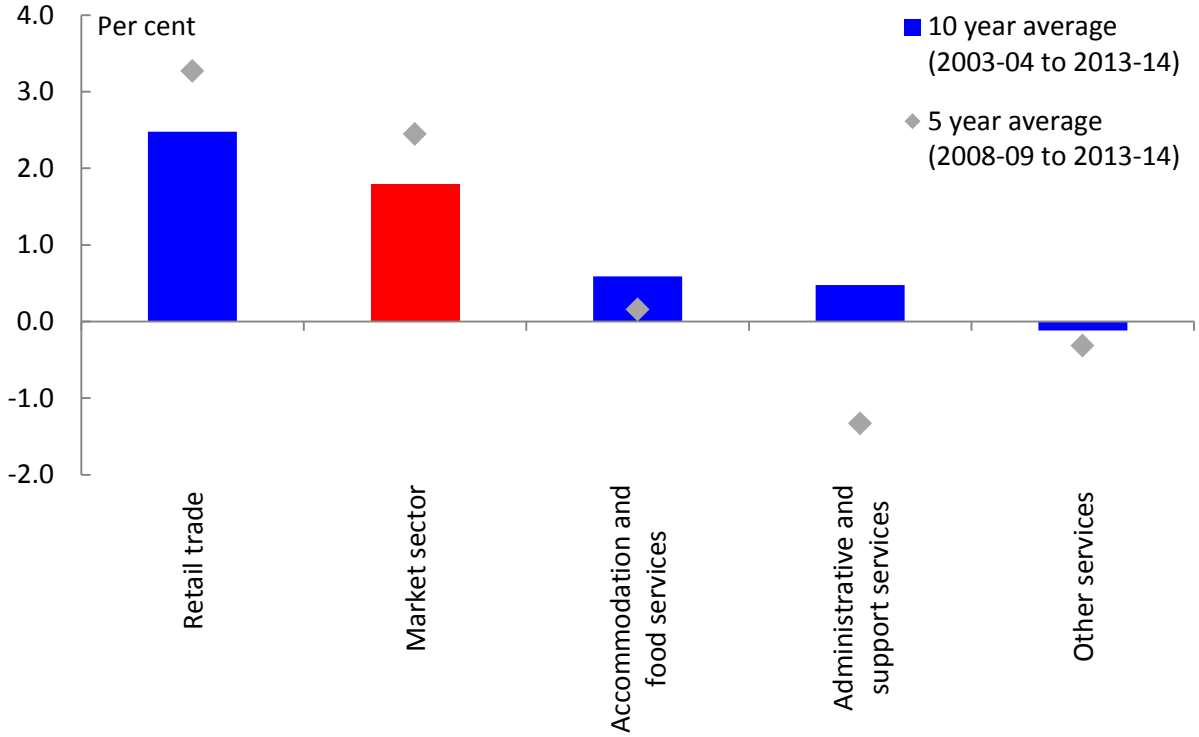
6.3.2 Industry labour productivity

201. Labour productivity growth at the industry level varies considerably. This is a reflection of specific conditions in each industry.

202. Over the past decade, labour productivity growth in three of the four most award-reliant industries has generally been below the national market sector average of 1.8 per cent per year through to 2013-14 (see Chart 6.2). For example, Accommodation and food services (0.6 per cent), Administrative and support services (0.5 per cent) and Other services (-0.1 per cent) had some of the lowest rates of labour productivity growth. Retail trade (2.5 per cent) recorded above average labour productivity growth over this period (ABS 2014b).

203. Furthermore, the average annual labour productivity growth in three of these industries over the last five years is even slower than the growth for the last decade.

Chart 6.2: Average annual labour productivity growth by industry, ten and five year averages



Source: ABS 2014b, *Australian System of National Accounts, 2013-14, Cat. No. 5204.0*
Note: Data in original terms.

6.3.3 Productivity growth and employment

204. Measured productivity growth over the short term can reflect a range of processes that do not necessarily provide an accurate indication of the affordability of wage increases.

205. While productivity growth reflects a range of causes, it can be useful to factor in how changes in the workforce impact on average productivity. Refer to Chapter 4 for further information on workforce changes.

206. Furthermore, shifts in the number of workers across industries impacts on overall productivity. For example, workers moving from a low productivity industry to a high productivity industry may increase productivity growth at the national level. This does not increase or decrease labour productivity within a particular firm or industry.

207. The Panel should consider productivity growth in the context of the economic environment and changes in other indicators.

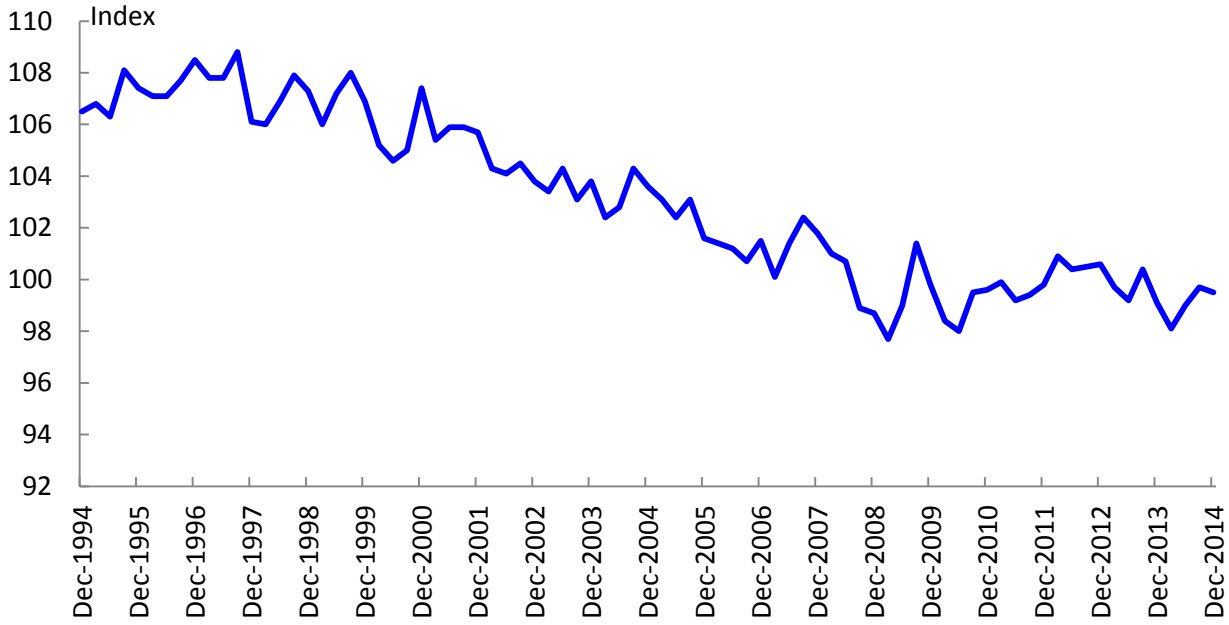
6.3.4 Real unit labour costs

208. Over the last twenty years Australia's real unit labour costs[26] have declined by 0.3 per cent per year on average. But they have stabilised in recent years. Since 2008 real unit labour costs have grown by 0.1 per cent each year on average (see Chart 6.3).

[26] Real unit labour costs are real labour costs per unit of output.

209. Increases in minimum and award classification wages that are greater than the growth in productivity and output prices in award-reliant industries would increase real unit labour costs in those industries, potentially putting pressure on prices and business profitability and potentially reducing employment growth.

Chart 6.3: Real unit labour costs, December 1994 to December 2014



Source: ABS 2015a, *Australian National Accounts, Dec 2014, Cat. No. 5206.0*
Note: Data are for the non-farm sector. Data in seasonally adjusted terms.

6.4 The relationship between productivity, wages and prices

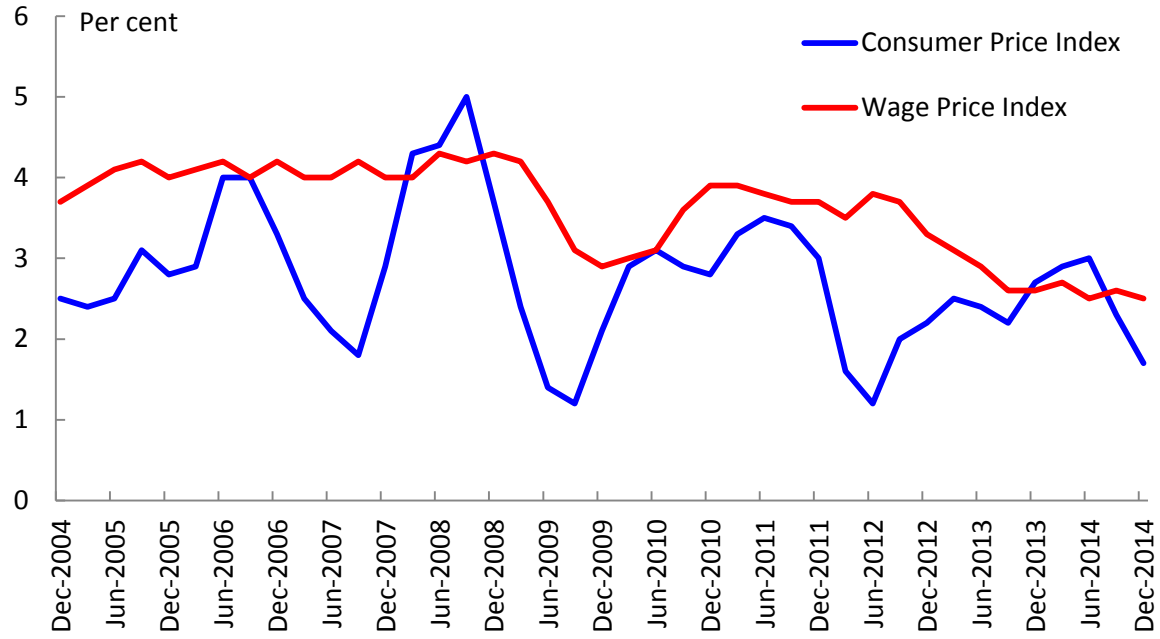
210. Productivity gains can be distributed through higher wages to workers, lower prices for consumers and/or higher profits for business owners. How these benefits of productivity growth are distributed depends on a range of firm specific and economy wide factors.

211. As detailed in Section 6.3.1, since the period of slower productivity growth through the 2000s, labour productivity growth has, in more recent times, increased by comparison. Just as there is often not a direct decline in wages growth when labour productivity growth is low, there has not been a direct correlation between the recent increase in labour productivity and real wages growth.

212. As discussed in Chapter 3, and illustrated in Chart 6.4, wages growth has been restrained.[27] Wages are currently growing at 2.5 per cent a year. This is one percentage point below the ten year annual average of 3.5 per cent.

[27] Please note that the Wage Price Index uses a different measure of wages than the wage measure used to calculate real unit labour costs on the previous page. Further, real unit labour costs are deflated using the GDP implicit price deflator.

Chart 6.4: Growth in consumer prices and wages, December 2004 to December 2014



Source: ABS 2015h, *Wage Price Index, Dec 2014, Cat. No. 6345.0*; ABS 2015b, *Consumer Price Index, Dec 2014, Cat. No. 6401.0*.
Note: Data for the Wage price Index is in seasonally adjusted terms. Data for the Consumer Price Index is in original terms.

213. The Reserve Bank of Australia (2014) has identified a number of factors that are likely to have contributed to the restrained growth in wages:

> *"First, there has been an increase in spare capacity in the labour market, as indicated by the increase in the unemployment rate. Second, consumer price inflation over the past year or so has been lower than the average of the preceding decade, and consumer and union inflation expectations have been relatively low ... Finally, firms have faced continuing pressures to contain costs. From the perspective of producers, subdued trading conditions have limited the ability of firms to raise output prices".*

214. This suggests that subdued labour market and economic conditions are weighing on firms' ability to pass on wage increases. A common way of passing on wage increases is through higher prices. However, it is harder for firms to pass on higher prices in tougher economic environments. Various studies find that on average consumer demand is more sensitive to price increases during economic downturns (Gordon *et al.* 2013, Heerde *et al.* 2013). This is particularly the case for goods that comprise a higher proportion of consumers' budgets (Gordon *et al.* 2013).

215. In this context, it is important to note there is not a one to one relationship between higher wages for workers and lower profits for business owners. The impact on businesses can often be, proportionally, much larger and in some cases may impact on businesses' viability and employment.

6.5 Promoting productivity growth through bargaining

216. Enterprise bargaining provides a direct avenue for firms and workers to negotiate productivity offsets for real wage increases. Data from the ABS (2015d) *Employee, Earnings and Hours* show that between 2010 and 2014, there was a decline in enterprise bargaining coverage, while award-reliance increased.

217. The Government considers that the minimum wage and award classification wages should act as a safety net for workers and that enterprise bargaining should be encouraged. Enterprise bargaining provides an opportunity for workers and businesses to agree on workplace measures that best suit their needs and reflect changes in firm level productivity.

218. In 1993, former Prime Minister Paul Keating said that 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".*

219. A number of studies have looked at a range of workplace level evidence on productivity and bargaining. These include case studies, firm-level data and survey data. These are broadly supportive of a link between productivity and bargaining.

220. The Fair Work Act Review Panel (2012) report, Towards more productive and equitable workplaces: an evaluation of the Fair Work legislation, concluded that:

> *"It is widely, though certainly not universally, agreed among analysts that these economic reforms…including the transition to enterprise bargaining…removed impediments to more efficient production. These reforms may account for a significant part of the upswing in productivity through the 1990s".*

221. In making its decision, the Panel should have regard to object 3(f) of the Act and consider how its consideration of the safety net of minimum and award classification wages can encourage enterprise bargaining, and consequently, additional productivity.

6.6 Conclusion

222. The Panel should be cautious in interpreting recent labour productivity growth as a signal of award-reliant firms' capacity to absorb wage increases.

223. The Panel should consider productivity in the context of broader economic and labour market conditions and also consider other indicators such as inflation, employment growth and business competitiveness, viability and confidence.

224. Wage increases that are not supported through productivity gains may have negative impacts on business profits and employment. This is particularly the case in a subdued economic environment in which it is more difficult for firms to increase prices.

225. The Panel's decision should encourage enterprise bargaining, which provides a way for firms and workers to negotiate productivity gains for real wage increases.

PART III: THE IMPACTS OF INCREASING MINIMUM AND AWARD CLASSIFICATION WAGES

7 Employment impacts

Key Points

- The Panel should have particular regard to supporting job creation through its decision. Young people, the low skilled, people with disability and Indigenous Australians are particularly at risk when employment growth is weaker.
- Work has significant benefits for individuals and households, including both higher incomes and substantially higher levels of subjective wellbeing – or happiness.
- Research on the impacts of minimum wages supports the conclusion that higher minimum wages reduce employment growth, and that the impacts of minimum wages on employment are greater when labour market conditions are subdued.

7.1 Introduction

226. Under the *Fair Work Act 2009*, the minimum wages and modern awards objectives both require the Panel to take factors such as business competitiveness and viability, the performance of the national economy and promoting social inclusion through workforce participation into account in reaching its decision.

227. The Annual Wage Review outcome can affect business costs and the availability of employment opportunities, with flow-on impacts for business viability, workforce participation and social inclusion.

228. The Panel should place a particular emphasis on protecting the job opportunities available to the low-skilled, young Australians, mature aged Australians and people with disability.

7.2 The benefits of work

229. There is strong and growing international evidence of the benefits of work. Paid employment has a range of benefits (beyond the obvious financial benefits), not just for the individuals who work, but also for their families and the communities in which these individuals work and reside. Work can provide people with an avenue for social interaction and engagement, developing skills and building self-worth. People who are working enjoy higher levels of self-esteem, have a greater capacity to participate in community life (both in terms of financial resources and social connections), and have better opportunities to obtain higher paying jobs – especially compared to the unemployed (see Chapter 8 on the 'stepping stone' role of low-paid work).

230. In 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 and lower wellbeing (discussed further in Chapter 8).

231. Unemployment can also have intergenerational impacts, affecting employability and access to job opportunities for children growing up in jobless households. Increased opportunities for paid work help to reduce the likelihood of intergenerational disadvantage.

232. At a more aggregate level, the benefits of increased workforce participation flow through to whole communities. Unemployment requires the community to pay more, not just in terms of additional transfer payments, but in additional expenditure on health and law and order.

233. Ensuring that the dignity of work is available to those who can participate in paid employment is essential to maintaining wellbeing and mental health.

234. Accordingly, the Government submits that the Panel should be conscious of the significant costs to individuals, families and communities of unemployment, and be cautious about the potential risks to job opportunities and workforce participation.

7.3 Minimum and award classification wages and employment

7.3.1 The economics of minimum wages

235. Minimum wages can affect employment through their impacts on labour demand and supply. Higher minimum wages impose costs on employers, reducing their profitability. Employers are likely to respond to this either by raising prices (which may result in losses in output and employment) or reducing employment (either through substituting higher skilled labour and/or capital, or simply reducing output to lower variable costs).

236. On the other hand, changes in wages can affect decisions people make about whether to join or remain in the workforce (labour supply) by changing their financial incentives to work.

237. Conventional theory is that setting a minimum wage floor reduces employment by reducing labour demand. In certain circumstances, the theoretical effect of minimum wages on employment is less clear. However, the coverage and level of wages in the award system suggest that the conventional theory is more likely to apply in the Australian context.

7.3.2 The empirical evidence on minimum wages and employment

238. There are a wide range of factors which impact on employment, including economic growth, technological change, demography and microeconomic policies (including minimum and award classification wages).

239. As such, careful statistical analysis is required to control for the range of relevant factors and isolate the effect of changes in minimum wages on employment, both in terms of numbers of jobs and hours worked.

240. There has been a range of peer-reviewed empirical research undertaken into the impact of minimum wages on employment, primarily in the United States, where the current Federal minimum wage is $US7.25 per hour. These research papers have used a variety of techniques to control for the impact of various factors on employment growth (such as changes in economic growth and underlying structural trends), allowing the impact of changes in the minimum wage to be estimated.

241. The majority of the research finds a negative impact on employment. A meta-study by Neumark and Wascher looked at over 100 peer reviewed studies, mostly using US panel data, but also some non-US research. Of the studies they examined, two-thirds found negative employment impacts of minimum wages.

242. The negative impact was statistically insignificant in some studies. This may result from a range of factors, including the low minimum wage in the United States, data limitations, uncertainty over the timeframe of the impacts and the range of factors which affect employment.

243. However, studies which focus primarily on youth employment suggest greater negative impacts from higher minimum wages (Boockmann 2010; Neumark and Wascher 2007).

244. Neumark and Wascher conclude that "*when read broadly and critically*", the literature tends to support "*the conventional view that minimum wages reduce employment among low-skilled workers*".[28] This is particularly so when looking at studies which analysed the impacts over a longer period, giving the labour market time to adjust fully to the increase in minimum wages. Some studies also suggest higher minimum wages reduce aggregate employment growth, which will disproportionately affect low-skilled workers.[29]

245. Research from the United Kingdom, where the introduction of the national minimum wage in 1999 has formed the basis for a number of studies, is divided. Fidrmuc and Tena Horrillo (2011) concluded that *"…increases in the NMW rate translate into employment losses, while also encouraging labour market entry".* Some meta-analyses undertaken in recent years (Doucouliagos and Stanley 2009; Belman and Wolfson 2014) have not found evidence of a negative association between minimum wages and employment.

246. However, even among those who question the strength of Neumark and Wascher's conclusions, there is a broad consensus that a sufficiently high minimum wage must have disemployment effects for the low-skilled.

247. For example, although Card and Krueger (1995) have argued that low minimum wages have small or non-existent effects on employment, they acknowledge that "*at sufficiently high levels of the minimum wage, the predicted employment losses of the standard model will be borne out*".

7.3.3 The Australian context

248. Australia's workplace relations system is unique in the developed world because of the comprehensive award classification system and the flow-on effect of increases to the national minimum wage to the hundreds of award classification wage rates.

[28] Methodological debate continues as to the best approach to modelling employment impacts, and the validity of Neumark and Wascher's conclusions. For example, Dube *et al.* (2010) and Allegretto *et al.* (2013) questioned their results on methodological grounds, but Neumark, Salas and Wascher (2014, 2014) found that after addressing these criticisms, the data still showed that minimum wages reduced employment.

[29] This may indicate that the impact is greater on new jobs rather than existing jobs. Consistent with this, Meer and West (2013) find that the clearest impact of minimum wages is the reduced creation of new jobs, rather than the destruction of existing jobs. However, more research needs to be done to confirm this finding.

249. Accordingly, applying research conducted primarily in the US and other countries to the Australian context may underestimate the effects on employment of the minimum wage and award classification wages.

250. However, a range of economic research over recent years has tended to find that minimum wages have larger impacts on employment when the economy is in recession, or a prolonged economic slowdown.[30]

251. The Australian economy is not currently in recession nor is it at risk of recession, but it is possible that moderate economic growth and prolonged weakness in the labour market may still magnify the impacts on employment arising from minimum wage increases.

252. These arguments imply that increasing the minimum wage and the higher award classification wages in Australia is likely to have a larger impact on employment than increasing the minimum wage in the United States.

7.4 Conclusion

253. Participation in employment has significant benefits for employees, their families and the community at large.

254. Involuntary unemployment has substantial negative effects, resulting in exclusion from social and economic life, financial disadvantage, and often severe costs in terms of physical and psychological health for those who wish to work but cannot find a job.

255. Noting the broad consensus among economists that minimum wages above a certain level will have greater impacts on employment, the Government submits that the Panel should take into consideration the risk that excessive increases in minimum rates of pay would reduce employment opportunities, particularly for the low-skilled, young people, people with a disability and Indigenous Australians.

256. In the current labour market, the Panel should place greater weight on the creation of jobs than on addressing inequality or poverty – since raising award classification wages is a poorly targeted instrument for addressing these issues, and job creation can itself contribute to poverty reduction (see Chapters 8 to 10).

257. Therefore, a cautious approach to minimum and award classification wage setting is needed. It is particularly important to ensure the ongoing availability of employment opportunities for the low-skilled and young people.

[30] The research includes Addison *et al.* (2013), Fidrmuc and Tena Horrillo (2011), Dickens *et al.* (2012), and Dolton and Bondibene (2012). However Bryan *et al.* (2012) found that this was not the case in the United Kingdom.

8 Who are the low-paid?

Key Points

- Low-paid workers have a diverse range of living standards and levels of household income.
- Low-paid employment often serves as a stepping stone to higher paid employment and the majority of low-paid workers leave low-paid work quickly.
- Low-paid workers experience slightly greater financial stress levels and similar life satisfaction compared with higher paid workers, but they experience much better outcomes than the unemployed.
- Increases in minimum and award classification wages are poorly targeted to improve low-paid workers' relative living standards and address the needs of the low-paid.

8.1 Introduction

258. In reviewing and determining minimum and award classification wages, the Panel must have regard to the relative living standards and needs of low-paid workers (*Fair Work Act 2009*, ss 134(1)(a) and 284(1)(c)).

259. Measuring the relative living standards and needs of low-paid workers is difficult. 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. Therefore, it is necessary to have a broad understanding of who are the low-paid and what types of households they belong to.

8.1.1 Characteristics of low-paid workers

260. Government analysis using the *Employee Earnings and Hours* survey shows there were about 1.3 million low-paid employees in 2014, comprising 13.3 per cent of all employees. According to wave 13 of the HILDA survey, there were about 1.6 million low-paid employees in 2013. In general, low-paid workers tend to be young, single or without children, with comparatively less work experience.[31] Further detailed characteristics of low-paid workers, including occupation, industry, education, and so on are listed in Appendix A.

261. Low-paid work tends to be concentrated among younger workers.[32] Over half (53.4 per cent) of low-paid workers were aged under 30, with 18.0 per cent aged between 15 and 19 years old, and close to a quarter (23.5 per cent) in the 20 to 24 year old age cohort.

[31] Appendix A contains the Government's definition and methodology for calculating the number of low-paid employees using wave 13 of the HILDA survey. The low-paid data presented in this chapter includes all low-paid employees unless otherwise specified. Employees aged under 21 have been included.

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

262. Low-paid employment often serves as a stepping-stone in one's career, so low-paid workers usually have less work experience than the higher paid. According to HILDA, low-paid workers' average work experience at the time of the survey is 12.5 years, compared to 19.4 years for higher paid workers.

263. Low-paid workers live in a broad range of household types. In 2013, 56.2 per cent of low-paid workers were single without children, 40.4 per cent were a member of a couple (with and without children) and 3.4 per cent were single parents.[33] Of the partnered low-paid workers, 33.1 per cent had a resident child aged under 15 years old.

264. The high rates of low-paid work amongst singles are partly 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 (21.4 per cent), with the majority of these students (92.1 per cent) being single. Of the low-paid who work part-time, 35.1 per cent are full-time students.

265. Low-paid workers are more likely to be female than male. In 2013, about 54.7 per cent of low-paid workers were female, while 45.3 per cent were male (see Table 8.1).

Table 8.1: Low-paid workers by gender and employment type, 2013

	Full-time low-paid	Part-time low-paid	All low-paid workers	All employees
		Proportion (%)		
Male	57.5	35.4	45.3	50.6
Female	42.5	64.6	54.7	49.4

Source: *HILDA Survey*, release 13 (December 2014), wave 13.

266. As shown in Table 8.2, less than one in five (16.8 per cent) low-paid workers had children aged under 15 in the household in 2013. Among the low-paid with children, there are nearly twice as many women (10.3 per cent) as men (6.5 per cent). In particular, part-time female low-paid workers (12.4 per cent) are much more likely to have children than part-time male low-paid workers (3.2 per cent).

Table 8.2: Low-paid workers by household and employment type, 2013

	Full-time low-paid	Part-time low-paid	All low-paid workers
Male, no children	47.0	32.2	38.8
Female, no children	34.7	52.2	44.4
Male, with children<15	10.5	3.2	6.5
Female, with children<15	7.8	12.4	10.3
Proportion of low-paid	44.7	55.3	100

Source: *HILDA Survey*, release 13 (December 2014), wave 13.

[33] 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.

8.1.2 Gender pay gap

267. In May 2014, there was an hourly gender pay gap[34] of 13.6 per cent (ABS 2015d). This figure covers all non-managerial employees (both full-time and part-time) using total cash earnings (including bonuses, overtime etc.). It is more accurate to use an hourly figure as, on average, males work more hours than females in a full-time working week.

268. While the latest available data show that, in the past five years, the Australian gender pay gap has been around the OECD average, the OECD Family database shows Australia had, in 2010, a smaller pay gap (9 per cent) at the 20th percentile earnings distribution and a larger pay gap (20 per cent) at the 80th percentile.

269. The gender pay gap in Australia is largest among higher earnings groups (16.3 per cent),[35] according to analysis based on HILDA Wave 13. Among low-paid workers, females earn 4.5 per cent more than males in hourly wage terms.

270. In general, the Panel's decision is a blunt tool for addressing the complex factors underlying pay inequities, as noted in the 2014 Annual Wage Review decision (Fair Work Commission 2014, Paragraph 360).

8.2 Characteristics of low-paid households

271. Generally, household income is a better proxy of economic wellbeing than individual income, as income can be shared among household members.[36]

272. 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.

273. As shown in Table 8.3, across all coupled low-paid workers, about 14.7 per cent were with a partner earning less than $25,000 per year, compared with 23.7 per cent with partner's earnings between $25,000 and $50,000, 28.2 per cent with partner's earnings between $50,000 and $100,000 and 9.8 per cent more than $100,000. Also, 23.6 per cent of coupled low-paid employees have a partner who is not employed.

[34] Gender pay gap is defined as the difference between male and female earnings, as a percentage of male earnings.

[35] Miller (2005) has a similar finding which concurs with our findings from HILDA 2013. Higher earnings groups refer to employees who are earning an hourly wage higher than the low-paid threshold ($18.22 per hour in HILDA 2013).

[36] However, the Government acknowledges that in some households, household income is not shared among household members, e.g. shared household arrangements.

Table 8.3: Earnings of low-paid workers' partners, 2013

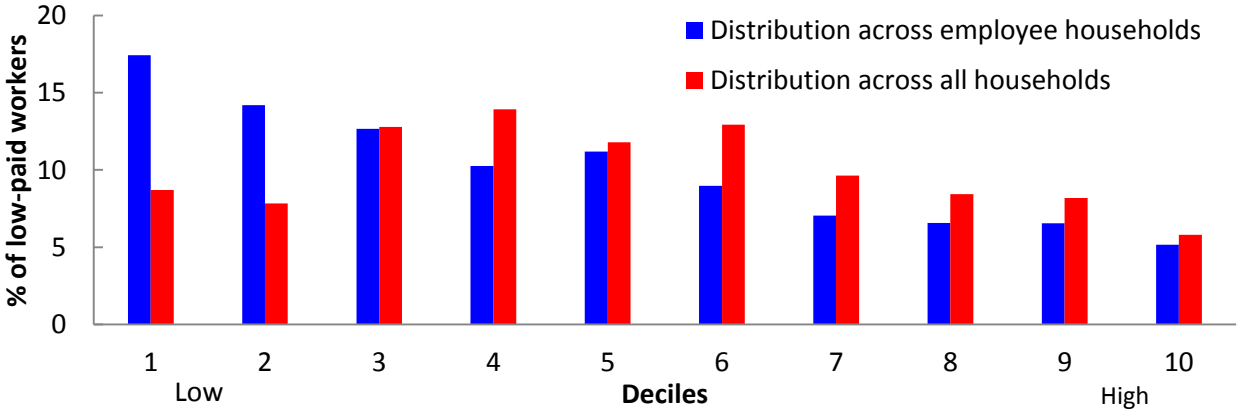
Partner 2	Partner 1 – Low-paid employee (%)		
	Full-time	Part-time	Total
Less than $25,000	7.4	7.3	**14.7**
$25,000 ~ $50,000	16.2	7.5	**23.7**
$50,000 ~ $75,000	8.7	10.2	**18.9**
$75,000 ~ $100,000	3.9	5.4	**9.3**
$100,000 ~ $150,000	3.1	3.4	**6.5**
More than $150,000	1.5	1.8	**3.3**
Not employed	13.1	10.5	**23.6**
Total	**53.9**	**46.1**	**100**

Source: *HILDA Survey*, release 13 (December 2014), wave 13.

274. 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 across all households (including jobless households and retiree households).

275. Under both methods, it is important to ensure that income is adjusted for household needs, due to differences in size and composition.[37] Chart 8.1 compares the distribution of low-paid employees across the disposable household income distribution using both of these methods.[38] Across *all* households, low-paid workers tend to be concentrated in the middle of the income distribution, with only 16.5 per cent of low-paid workers in the bottom two income deciles, and 14.0 per cent in the top two deciles.[39]

Chart 8.1: Distribution of low-paid employees, by equivalised household disposable income, comparing all households and employee households, 2013



Source: *HILDA* Survey, release 13 (December 2014), wave 13.

[37] 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.

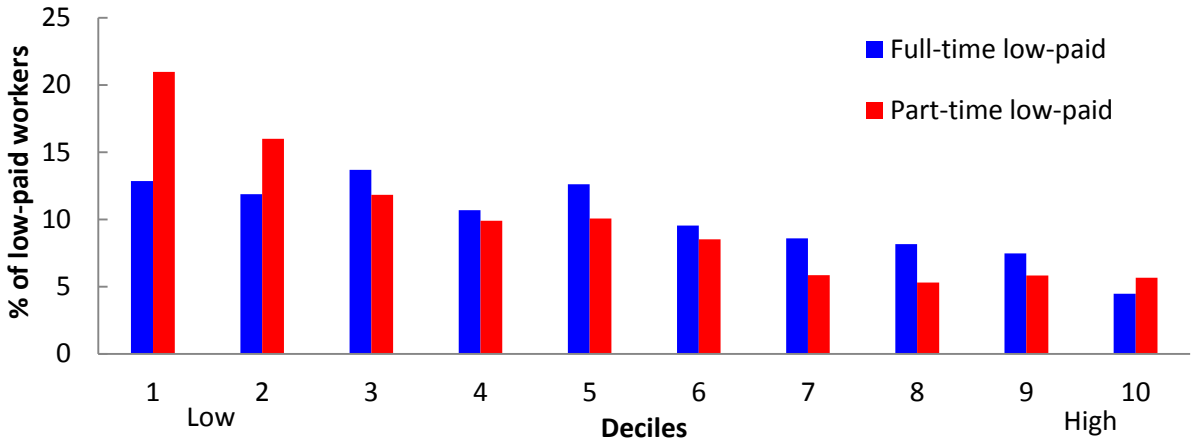
[38] Disposable household income refers to household private income plus government transfers, less taxes.

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

276. When considering *employee* households only, 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, 65.7 per cent of low-paid employees are in the bottom five income deciles, with 31.6 per cent in the bottom two deciles. This means that 34.3 per cent are in the top five deciles, with 11.7 per cent in the top two deciles. The following detailed analysis of the income distribution is likewise limited to households with at least one employee.

277. Chart 8.2 shows the distribution of low-paid workers across the household income distribution, broken down by full-time or part-time. This shows that low-paid part-time workers are more likely to be in the lower household income deciles than low-paid full-time workers. For example, 21.0 per cent of low-paid part-time employees live in the bottom income decile, compared to 12.9 per cent of full-time low-paid employees. This suggests that the low income of some households is not just due to low hourly wages but also a result of lower working hours.

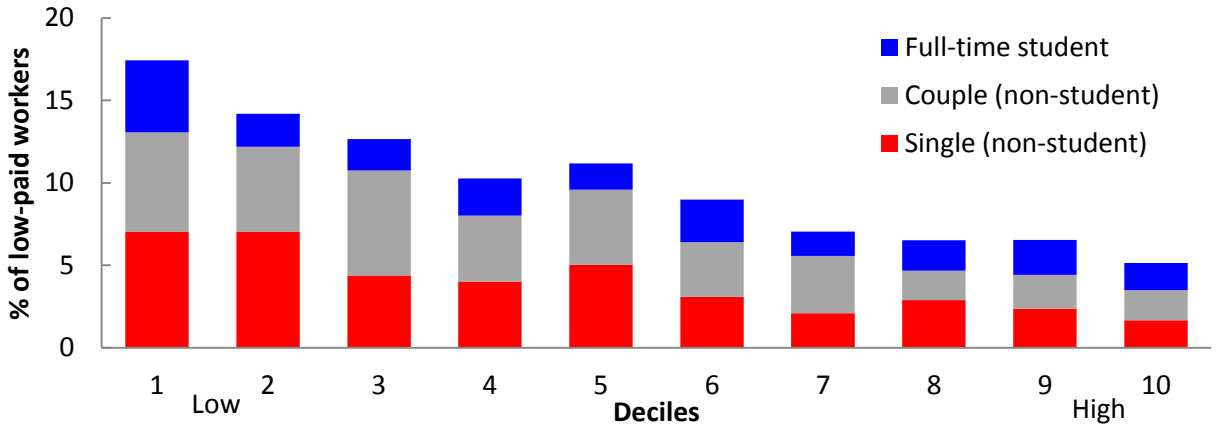
Chart 8.2: Distribution of low-paid employees, by equivalised household disposable income, employee households only, 2013



Source: *HILDA Survey*, release 13 (December 2014), wave 13.

278. For the 21.4 per cent of low-paid workers who are full-time students, over two-thirds of them are dependent students. Their household income and living standards are likely to be largely determined by their parent's earnings, rather than their own. Hence, as shown in Chart 8.3, they are spread rather evenly across the income distribution.

Chart 8.3: Distribution of low-paid employees, by equivalised household disposable income and partnered status, employee households only, 2013



Source: *HILDA Survey*, release 13 (December 2014), wave 13.
Note: Calculations for singles and partnered categories exclude full-time students in order to create mutually exclusive groupings.

279. Given the diverse living circumstances and broad range of household incomes of low-paid workers, minimum wage increases are not well-targeted for lifting the relative incomes of low-paid households, as wage increases will also be directed to well-off households.

8.3 Dynamics of low-paid work

8.3.1 Entry point of employment

280. Government analysis of the latest HILDA data shows low-paid employment provides an opportunity for people to enter the workforce. More than one-third (36.0 per cent)[40] of people who entered the workforce did so by taking a low-paid job, especially for people younger than 25 (44.2 per cent) and those with only Year 12 qualifications or below (42.6 per cent).

281. Furthermore, Table 8.4 shows that low-paid work helps to ensure people are employed in the future. People who were in low-paid employment were mostly still employed in the following year (86.4 per cent), while only 45.3 per cent of the unemployed had found work by the following year.

[40] This 36.0 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 (19.8 percentage points).

Table 8.4: Year-on-year transitions of employment/low pay status (a)(row percentage)

		Employment status, year t+1 (%)				Sample size (no.)
		Not employed	**Low-paid**	**Higher paid**	***Total employed***	
Employment status, year t	NILF	84.8	5.5	9.7	15.2	26,914
	Unemployed	54.7	16.1	29.2	45.3	4,837
	Total not emp.	80.2	7.1	12.7	19.8	31,751
	Low-paid	13.6	42.5	43.9	86.4	11,578
	Higher paid	6.5	7.5	86.0	93.5	61,446
	Total employed	7.6	13.1	79.3	92.4	73,024

Source: *HILDA* Survey, Release 13 (December 2014), pooled waves 1 to 13.
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 2012) and 'Year t+1' refers to the subsequent year (this can be any year from 2002 to 2013).

8.3.2 Stepping stone effects

282. Moreover, low-paid employment often serves as a stepping stone towards higher paid work. Table 8.5 shows that 61.5 per cent of people who entered low-paid work left within a year and a further 25.5 per cent left in the subsequent year. Given that low-paid work is temporary for a majority of low-paid workers, increasing the minimum wage and award classification wages is not an efficient way to raise the living standards of low-paid workers.

283. Workers leaving low-paid jobs were generally moving into higher paid jobs. Of those workers leaving low-paid work within one year, 75.9 per cent left for higher pay, 16.6 per cent left the labour force and 7.5 per cent became unemployed. The results are similar for workers leaving low-paid work after 1 to 2 years. For this group, 75.8 per cent left for a higher paid job, 17.5 per cent left the labour force and 6.7 per cent became unemployed. Of those workers leaving a low-paid job after 2 to 5 years, 98.0 per cent left for a higher paid job, 1.3 per cent left the labour force and 0.8 per cent became unemployed.

Table 8.5: Duration in low-paid employment

Duration	**Less than 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
Proportion	61.5%	25.5%	12.0%	1.0%

Source: *HILDA Survey*, release 13 (December 2014), pooled waves 1 to 13.
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.

8.4 Benefits of low-paid work

284. Measuring needs and relative living standards into a specific monetary amount can be problematic and often does not reflect individual's circumstances well. The following discussion, which considers financial stress and life satisfaction, provides a couple of supplementary measures the Panel may wish to consider.

8.4.1 Financial stress

285. Financial stress measures provide an insight into the financial hardship faced by individuals and their families.

286. While employees across the entire income distribution can experience financial stress, compared to higher paid employees, as expected, the incidence of financial stress is greater for the low-paid. Both groups of workers have a lower incidence of financial stress than the unemployed. Analysis using the latest HILDA survey shows that in 2013, 41.1 per cent of the unemployed had at least one type of financial stress[41] compared to 26.6 per cent of low-paid employees and 16.5 per cent of employees who were higher paid (see Table 8.6).

287. Further, Table 8.6 also shows that the incidence of experiencing multiple financial stress indicators was much higher among the unemployed than among employees. For example, 11.2 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.

Table 8.6: Percentage of people who reported financial stress, 2013

Number of financial stress indicators	Unemployed (%)	P/T low-paid employees (%)	F/T low-paid employees (%)	Higher paid employees (%)
None	58.9	75.5	70.8	83.4
One	12.9	12.1	11.8	9.3
Two or three	17.1	9.6	13.4	5.9
Four or more	11.2	2.8	4.0	1.4

Source: *HILDA Survey,* release 13 (December 2014), wave 13.

288. This evidence suggests that on average, people with a job, even if low-paid, have lower levels of financial stress than the unemployed.

289. Consistent with the analysis in the previous sections, total household income and wealth is another main driver of financial stress (Table 8.7). Hence, being a low-paid worker is not necessarily a suitable proxy for financial hardship. As a result, the Government agrees with the Panel's position in the 2014 Annual Wage Review decision that minimum and award classification wages are a blunt instrument for addressing the financial needs of the low-paid.

Table 8.7: Percentage of people experiencing financial stress, by equivalised household disposable income (a), 2013

Household income quintiles	1	2	3	4	5
% of low-paid employees	41.8	31.7	24.7	22.0	9.8
% of higher paid employees	36.6	30.1	21.7	13.6	7.5
% of unemployed	52.0	49.0	34.7	37.2	10.1

Source: *HILDA Survey,* release 13 (December 2014), wave 13.
Note: (a) Household income quintiles include all households (i.e. not limited to employee households).

[41] 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.

8.4.2 Satisfaction of low-paid workers

290. The HILDA survey measures people's satisfaction, including overall job satisfaction, employment opportunity satisfaction, financial situation and general life satisfaction.

291. Respondents ranked their satisfaction from 0 (totally dissatisfied) to 10 (totally satisfied). The survey results show that low-paid workers had only a slightly lower estimation of overall job satisfaction than higher paid workers (see Table 8.8).[42]

292. In 2013, low-paid employees were on average less satisfied (6.26) with their financial situation than employees who were higher paid (6.81), but significantly more satisfied than the unemployed (4.25).[43]

293. In terms of general life satisfaction, low-paid employees (7.85) were on average more satisfied than the unemployed (7.67), and had similar satisfaction as employees who were higher paid (7.87).

294. Low-paid employees (7.06) had a slightly lower employment opportunity satisfaction than higher paid employees (7.35). The unemployed had a very low employment opportunity satisfaction (4.43).

Table 8.8: Average satisfaction of low-paid workers (Score 0-10)

	Unemployed	P/T low-paid employees	F/T low-paid employees	Higher paid employees
Overall job	N/A	7.58	7.39	7.62
Financial situation	4.25	6.34	6.17	6.81
General life	7.67	7.94	7.74	7.87
Employment opportunity	4.43	7.07	7.06	7.35

Source: *HILDA* Survey, release 13 (December 2014), wave 13.

8.5 Conclusion

295. Low-paid workers are scattered across the entire household income distribution. Nearly half of low-paid workers are in the top 50 per cent of household income. In addition, less than half of award-reliant employees are low-paid workers. Given these factors, raising the minimum wage and award classification wages to improve the relative living standards of low-paid workers is not a well-directed approach.

296. At the same time, low-paid employment often serves as an entry point to employment and a stepping stone in the labour market and the majority of low-paid workers leave low-paid work relatively quickly. Also, measures, such as financial stress and life satisfaction, show that the low-paid have similar outcomes to the higher paid, but much better outcomes than the unemployed. Therefore, the Government submits that the Panel should fully consider the role of low-paid work and the importance of creating job opportunities for the low-paid.

[42] Using mean values of financial satisfaction.
[43] Financial satisfaction includes satisfaction with individual earnings, household income, wealth, access to savings and expenditure requirements.

9 Impact on household income

Key Points

- Household living standards depend on total disposable income, derived from both wage earnings and, where applicable, taxes and transfer payments.
- The tax-transfer system provides considerable redistribution of income to families and low income households.
- After taxes have been paid, minimum wage increases are not passed through in full to household disposable income and are not particularly effective at boosting the incomes of families at the lower end.
- Australia's national minimum wage provides a significant incentive to work for most households, even after taking into account the tax-transfer system.

9.1 Introduction

297. Low-paid workers in low income households receive targeted support through the tax-transfer system. The tax-transfer system, however, also interacts with wage earnings such that any minimum wage increase is not passed through in full to disposable household incomes.

298. The Government submits that the tax-transfer system provides better targeted assistance than increases in the minimum wage and award classification wages to improve outcomes for low-paid households, and it is the primary means of redistributing income in Australia.

9.1.1 Effects of a minimum wage adjustment on household income

299. 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 9.1 shows the increase in disposable household incomes following the 2014 minimum wage adjustment.

300. Among those on the national minimum wage, full-time singles and dual income couples, without children, were the main beneficiaries of the 2014 minimum wage increase. For example, a single person, without children, working full-time at the national minimum wage retained 79.0 per cent (or $14.77) of the $18.70 increase.

301. For single income couples, without children, and with one partner working full-time on the national minimum wage, only 15.8 per cent (or $2.96) of the $18.70 increase in the national minimum wage was retained.

302. In its decision, the Panel should carefully weigh up the cost that a minimum wage increase imposes on businesses against the moderate increase in family disposable income, in particular for some low income households.

Table 9.1: Proportion of the $18.70 per week increase in the national minimum wage retained by different household types

Household type	Wage increase ($pw)	Increase in household disposable income ($pw)	Percentage of wage increase retained (%)
Single, no children			
Full-time NMW	18.70	14.77	79.0
Part-time NMW	7.50	3.00	40.0
Student on part-time NMW	7.50	3.35	44.7
Single parent			
Full-time NMW, child aged 3	18.70	6.01	32.1
Part-time NMW, child aged 3	7.50	4.50	60.0
Full-time NMW, child aged 9	18.70	9.09	48.6
Part-time NMW, child aged 9	7.50	4.50	60.0
Single income couples			
Full-time NMW, no children	18.70	2.96	15.8
Full-time NMW, child aged 3	18.70	5.20	27.8
Full-time NMW, children aged 3 and 9	18.70	6.16	32.9
Dual income couples			
Both full-time NMW, no children	37.40	29.55	79.0
One full-time and one part-time NMW, no children	26.20	6.56	25.0
One full-time and one part-time NMW, child aged 3	26.20	7.29	27.8
One full-time and one part-time NMW, children aged 3 and 9	26.20	7.29	27.8

Source: Government modelling.
Note: Figures are based on payment rates applicable from 1 July 2014. Part-time hours equate to 15 hours per week.

9.2 Direct benefits of the tax-transfer system

9.2.1 Targeted support for low income households

303. The Government submits that the tax-transfer system provides substantial financial support to low income families and is a more efficient means of alleviating the impact of inequality than adjustments to the minimum wage and award classification wages.

304. Research shows that Australia has the most targeted tax-transfer system of any OECD country (Whiteford 2013), 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, including social services, such as access to education, healthcare, public housing and concession cards.

305. Table 9.2 shows that the tax-transfer system, in addition to social services, plays a significant role in equalising the income distribution among Australian households.

Table 9.2: Distribution of income, social expenditures and taxes by equivalised disposable income quintile, 2009-10

	Lowest (%)	Second (%)	Third (%)	Fourth (%)	Highest (%)	Ratio Q5/Q1
Private income	3.3	9.1	16.5	25.0	45.0	13.71
Social transfers	36.5	34.7	18.9	7.8	2.5	0.07
Gross income	6.6	11.6	16.7	23.3	40.8	6.21
Direct Taxes	1.2	5.2	12.4	23.3	56.2	48.73
Disposable income	7.5	12.7	17.5	23.3	38.2	5.10
Health benefits	21.0	25.0	20.0	18.0	16.1	0.77
Education benefits	24.1	22.1	22.4	17.8	13.8	0.57
Disposable income plus social transfers in kind	10.8	15.0	18.0	22.1	33.5	3.12
Indirect taxes	12.5	15.1	19.0	23.2	30.1	2.41
Final income[44]	11.3	15.1	17.6	21.3	34.7	3.08

Source: ABS 2012, *Government Benefits, Taxes and Household Income, 2009-10*, Cat. No. 6537.0

306. For example, the lowest quintile of equivalised disposable income receives only 3.3 per cent of all private income[45] but they are paid more than 36 per cent of all transfer payments, so that their share of gross income doubles to 6.6 per cent. They also pay only 1.2 per cent of all direct taxes (while the richest quintile pay 56 per cent of direct taxes), increasing their share of disposable income to 7.5 per cent.

307. Health benefits are approximately equal across the distribution, but education benefits are of more value to lower income groups. Together with all other non-cash benefits they raise the share of disposable income plus benefits in kind for the lowest quintile to 10.8 per cent.

308. Overall the share of final income of the lowest quintile increases to 11.3 per cent.

309. Therefore 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 10.3.2.3 for a discussion of these effects).

310. When considering private income only, the highest income quintile of households received 13.7 times the disposable income of the poorest quintile. After taking into account the tax-transfer system and in-kind benefits, however, the ratio of the highest quintile's income to the lowest quintile's income declined to 3.1.

[44] 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.

[45] Private income includes imputed income from owner-occupied housing.

9.2.2 Transfer payments as a proportion of household income

311. 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 (see Table 9.3).

312. In particular, those 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.

313. The ABS data also show that 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 2012).

9.2.2.1 Level of transfers

314. When a single parent on Parenting Payment with two dependent children undertakes a full-time national minimum wage job, transfer payments comprise 44.4 per cent (or $460.68) of their weekly disposable income of $1,038.11.

315. Couples with two dependent children also receive a considerable amount of their household disposable income from transfer payments (41.7 per cent) when one parent undertakes a national minimum wage job.

316. A single person or a dual income couple without children do not retain any transfer payments when working full-time at the national minimum wage. It is important to note from the analysis of low-paid worker characteristics (discussed in Section 8.1.1) 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.[46]

[46] Noting from Section 8.1.1 that 56.2 per cent of low-paid workers are single without children and 27.0 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 (62.1 per cent) of low-paid singles without children work part-time hours while just under half (43.8 per cent) of low-paid partnered people without children work on a part-time basis.

Table 9.3: Contribution of transfer payments to selected household disposable incomes, as a percentage and $ per week as of 1 January 2015

Household type	Transfer payments as a proportion of disposable income (%)	($pw)
Single		
Full-time NMW, child aged 3 - PPS	37.2	343.55
Full-time NMW, child aged 9 - NSA	28.1	229.20
Full-time NMW, child aged 3 and 9 - PPS	44.4	460.68
Full-time NMW, no children - NSA	0	0
Single income couples		
Full-time NMW, child aged 3 and 9 - PPP	41.7	425.54
Dual income couples		
Both full-time NMW, child aged 3 - PPP	3.6	42.98
Both full-time NMW, no children - NSA	0	0

Source: Government modelling.

9.2.2.2 Support for families

317. 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.

318. These family payments mean that many low income families with a minimum wage earner have an equivalised disposable income that is higher than that of a single person, without children, on the minimum wage.

319. 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 figures have then been compared to that of a single person without children to provide a comparison of living standards across households (see Table 9.4).

320. 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 tax-transfer system, through the provision of income support payments and the Family Tax Benefit, meets the gap, delivering comparable household incomes across these families.

321. For example, a single parent with a three year old who works full-time has equivalised earnings 23.1 per cent lower than a single person. After taxes and transfers the parent has an equivalised disposable income 10.6 per cent higher than a single person.

322. 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.

323. The Government submits that the tax-transfer system is an important mechanism in equalising the income distribution and reducing inequality, while recognising that the tax-transfer system can have implications for economic efficiency, in particular through distorting economic behaviour (for example, by reducing incentives to work).

Table 9.4: Weekly earnings and income of selected household types, as of 1 January 2015

Household type	*Earned income*			*Disposable household income*[47]		
	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	640.90	640.90	N/A	581.37	581.37	N/A
Single parent – working full-time at the NMW						
Child aged 3	640.90	493.00	-23.1	835.77	642.90	10.6
Child aged 9	640.90	493.00	-23.1	795.31	611.78	5.2
Children aged 3 & 9	640.90	400.56	-37.5	936.39	585.25	0.7
Dual income couples – both partners working full-time at the NMW						
Child aged 3	1281.80	712.11	11.1	1095.47	608.59	4.7
Child aged 9	1281.80	712.11	11.1	1188.05	660.03	13.5
Children aged 3 & 9	1281.80	610.38	-4.8	1192.61	567.91	-2.3
Single income couples – P1 working full-time at the NMW, P2 on Newstart Allowance						
Child aged 3	640.90	356.06	-44.4	905.80	503.22	-13.4
Child aged 9	640.90	356.06	-44.4	890.82	494.90	-14.9
Children aged 3 & 9	640.90	305.19	-52.4	1019.73	485.59	-16.5

Source: Government modelling.

9.2.3 Benefits of the tax-transfer system over time

324. The Government has modelled the percentage change in real disposable income for a number of hypothetical households over the period 1 January 2010 to 1 January 2015 (see Table 9.5). The first column shows the percentage change in real disposable income given the actual changes in the national minimum wage and tax-transfer system. The second column shows the change in real disposable income for the selected households if the national minimum wage had not increased in real terms over this period (that is, had grown in line with CPI).

325. Of the selected households examined, students working part-time on the national minimum wage have received the largest increase in real disposable income over the past five years (15.9 per cent). Single parents with school-age children also experienced a relatively large increase in their real disposable incomes.

326. As seen in Table 9.5, even if the national minimum wage had remained constant in real terms, most minimum wage households' disposable incomes would have improved in real terms due to changes in the tax-transfer system (second column). Further, the real increase in the national minimum wage only increased household incomes by a marginal amount, as measured by the difference between the first two columns (shown in the third column).

[47] Includes child care costs

Table 9.5: Changes in real disposable household income by selected household types, 1 January 2010 to 1 January 2015, selected household types

Household type	Change with actual NMW increases (%)	Change if NMW had remained constant in real terms (%)	Net impact of real NMW increases (%)
Single, no children			
Full-time NMW	3.4	-0.3	3.7
Part-time NMW	6.7	5.7	1.0
Student on part-time NMW	15.9	14.7	1.2
Single parent			
Full-time NMW, child aged 3	4.2	3.2	1.0
Part-time NMW, child aged 3	7.3	6.4	0.9
Full-time NMW, child aged 9	10.8	9.1	1.7
Part-time NMW, child aged 9	11.8	10.7	1.1
Single income couples			
Full-time NMW, no children (a)	0.4	-0.2	0.6
Full-time NMW, child aged 3	2.8	1.9	0.9
Full-time, children aged 3 and 9	3.5	2.6	0.9
Dual income couples			
Both full-time NMW, no children	3.4	-0.3	3.7
One full-time and one part-time NMW, no children	3.8	2.6	1.2
One full-time and one part-time NMW, child aged 3	3.1	2.1	1.0
One full-time and one part-time NMW, children aged 3 and 9	3.5	2.6	0.9

Source: Government modelling.

9.3 The minimum wage and incentives to work

327. Receiving welfare payments is not a substitute for paid employment. Low-paid jobs, including minimum wage jobs, are an important entry point into the workforce and act as a stepping stone to higher paid employment.

328. As such, the minimum wage and award classification 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.

329. The Government has modelled the interaction between the tax-transfer system and the minimum wage for a broad range of hypothetical single and second earner households, including single adults, couples and single parents.[48]

330. The results reinforce the Government's view that, compared to the alternative of staying on welfare, the national minimum wage is sufficient to provide a significant financial incentive to work, either full-time or part-time, across a broad range of households.

331. The Panel should carefully consider the impact of the minimum wage and award classification wages on employers' decisions to hire low-paid workers, and on labour supply.

9.3.1 Incentives to work (households without children)

332. 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 2015) 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 (see Table 9.6).[49]

333. Single adult households, without children, were $314.98 per week, or 118.2 per cent, better off in terms of disposable income after taking on a full-time job paying the national minimum wage of $640.90 per week, than living on income support.

334. There were also strong incentives to take on a part-time national minimum wage job. For example, a single unemployed adult who took a 15 hour per week national minimum wage job was $138.57 per week, or 52.0 per cent, better off. Likewise, a student who lived with their parents would be $233.27 per week or 158.7 per cent better off after taking a part-time national minimum wage job.

335. This shows that the current national minimum wage already provides substantial financial incentives to work for households without children (compared to unemployment).

9.3.2 Incentives to work (households with children)

336. Our modelling shows that all families with children are financially better off after taking on a job at the national minimum wage.

337. For example, unemployed couples with a child aged nine and with one partner who takes a full-time national minimum wage job would increase their disposable income by $263.94 per week or 42.1 per cent.

[48] 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

[49] 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).

Table 9.6: Improvement in financial position after taking up a NMW job as a percentage and $ per week as of 1 January 2015

Household type	Improvement in financial position[50] (%)	($pw)
Single without children		
Full-time NMW	118.2	314.98
Part-time NMW	52.0	138.57
Part-time NMW, student aged 21 – lives with parents	158.7	233.27
Single parent		
Full-time NMW, child aged 3	48.5	272.78
Full-time NMW, child aged 9	70.8	329.75
Full-time NMW, child aged 3 and 9	38.7	261.19
Part-time NMW, child aged 3	29.4	165.58
Part-time NMW, child aged 9	35.2	163.83
Part-time NMW, child aged 3 and 9	24.4	164.49
Single income couples		
Full-time NMW, no children	49.1	235.87
Full-time NMW, child aged 9	42.1	263.94
Dual income couples		
Both full-time NMW, no children	62.3	446.49
Both full-time NMW, child aged 9	33.4	297.23

Source: Government modelling.

9.4 Conclusion

338. The Government has presented evidence to demonstrate that minimum wage increases are a relatively ineffective tool for increasing the living standards of low-paid workers, compared with the assistance low income households receive through the tax-transfer system. The interaction of the tax-transfer system with wages means that not all of a minimum wage increase will flow through to disposable household income.

339. While the Panel should 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 national minimum wage already provides a significant financial incentive for the unemployed to take up work (compared to the alternative), even after taking into account the tax-transfer system.

[50] Includes child care costs

10 Impact on inequality

Key Points

- The earnings of minimum wage workers have been growing in real terms, but at a slower pace than for higher wage earners. This has increased earnings inequality over time.
- Income inequality is a more useful measure for assessing differences in living standards than earnings inequality due to the role of employment and transfer payments in determining household income.
- Whilst household income inequality has gradually increased over the past two decades, the rise in household income inequality in Australia has been much smaller than in some other comparable countries, particularly in the United States. Australia has one of the most targeted tax-transfer systems in the OECD which, along with increases in employment rates, has helped to limit the rise in inequality over recent decades.

10.1 Introduction

340. This chapter considers both earnings and income inequality.

341. Earnings comprise the remuneration individuals receive from paid employment or self-employment. Earnings inequality measures the distribution of earnings across individuals.

342. Income is a broader measure. It not only includes earnings, but also income from investments (such as property or shares), private transfers (such as income from outside Australia), social transfers (such as unemployment benefits) and the effect of taxes. Income inequality measures the distribution of income across households. In contrast to earnings inequality which looks at individuals, income inequality takes into account the earnings of partners and other family members. As transfer payments often supplement earnings in low-paid households, income inequality is a more useful measure of relative living standards.

343. 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.

10.2 Earnings inequality

10.2.1 Earnings inequality over time

344. To illustrate changes in earnings inequality over time, Table 10.1 presents the real weekly earnings of full-time adult employees between 1994 and 2014, across selected percentile groups.

345. Table 10.1 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 2004 and 2014, earnings in the 10th and 25th percentile grew by 12.9 per cent and 15.2 per cent respectively, compared to growth rates of 21.9 per cent and

27.1 per cent for the 75th and 90th percentiles. These changes have resulted in an increase in earnings inequality over time.

Table 10.1: Growth in real weekly earnings, excluding tax-transfers (full-time adult non-managerial employees) by selected percentiles, 1994 to 2014

	1994 ($)	2004 ($)	2014 ($)	1994 to 2004 (%)	2004 to 2014 (%)
10th percentile	689	742	838	6.3	12.9
25th percentile	793	878	1011	9.2	15.2
50th percentile (median)	980	1109	1320	11.1	19.0
75th percentile	1250	1456	1774	13.3	21.9
90th percentile	1522	1864	2370	17.9	27.1
Mean earnings	1065	1233	1509	13.0	22.4

Source: ABS 2015d, *Employee Earnings and Hours*, Cat. No. 6306.0, published and unpublished data, various years.
Note: Due to availability of data, the 1994 figure is based on ordinary time earnings while the 2004 and 2014 figures are based on total cash earnings. For consistent comparisons, the 1994 to 2004 growth figures are based on ordinary time earnings for 2004, which are not displayed in this table. Data presented in May 2014 prices.

346. When analysing earnings inequality it is important to keep in mind that low-paid work often acts as a stepping stone into higher paid work and therefore people are expected to move across the earnings distribution over time. However, the above analysis does not track earnings of individuals over time.

10.2.2 Causes of changes in earnings inequality

347. A working paper by the Productivity Commission looked at the various components of income and how changes in these have affected the level of earnings and income inequality (Greenville *et al.* 2013).

348. Looking at the 1998-99 to 2009-10 period, Greenville *et al*. (2013) find that observed increases in earnings inequality for full-time workers were mainly caused by increased dispersion in hourly wages, not working hours.

349. Greenville *et al*. (2013) concludes that trends in the hourly wages of full-time workers are the major contributor to the overall increase in measured earnings inequality.

350. One of the main drivers behind the increased dispersion of hourly wages has been changes in the composition of employed people, such as changes to the skill mix of employees. 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. This trend prevails internationally and has pushed up earnings inequality across the OECD.

10.2.3 Earnings inequality compared internationally

351. According to the OECD (2011), earnings inequality has been increasing for workers in most OECD countries between the mid-1980s and mid-2000s. The increase in earnings inequality observed in Australia is consistent with the international trend.

352. Increases in the dispersion of hourly wages had the greatest impact on overall earnings inequality (OECD 2011). From the mid-1980s to the mid-2000s, the distribution of individual hourly wages became more unequal for most OECD countries.

353. Wages for the highest paid 10 per cent grew faster than for the lowest paid 10 per cent for 16 out of 23 OECD countries including Australia, five countries had no significant difference in wage growth for these groups and only France and Spain experienced a decline in wage dispersion (OECD 2011).

10.2.4 Relationship between minimum wages and earnings inequality

354. Determining the relationship between minimum wages and inequality is difficult. There are a wide range of factors which impact on inequality including economic growth, demographics, technological change and government policies.

355. As such, careful statistical analysis is required to control for the range of relevant factors and isolate the effect of changes in minimum wages on inequality.

356. There has been a large body of research, predominantly from the US, that has analysed the minimum wage effects on the distribution of earnings. The bulk of the literature finds that increases in the minimum wage reduce earnings inequality.

357. Neumark and Wascher (2008) present a comprehensive body of research mostly from the US that has emerged since the 1990s on the earnings and income distribution effects of minimum wages.

358. They acknowledge that increasing the minimum wage can lower wage inequality as it creates a spike at the lower tail of the wage distribution. They also agree that it can lead to modest spillover effects for wages somewhat higher up in the wage distribution.

359. Autor, Manning and Smith (2014) acknowledge that from the period of 1979-2012, the decline in the real value of the minimum wage was a contributing factor to widening 'lower tail' inequality. However, they also note that it was not the primary factor in the increase in earnings inequality. Changes in the relative demand for skilled workers were at least as important if not more so.

10.3 Income inequality

360. Total household income is a measure of all the resources available to household members including transfer payments and income from paid employment. Therefore, assessing the relative standards of low-paid workers by focusing on equivalised[51] household disposable income is important and an arguably more useful measure of inequality.

10.3.1 Income inequality over time

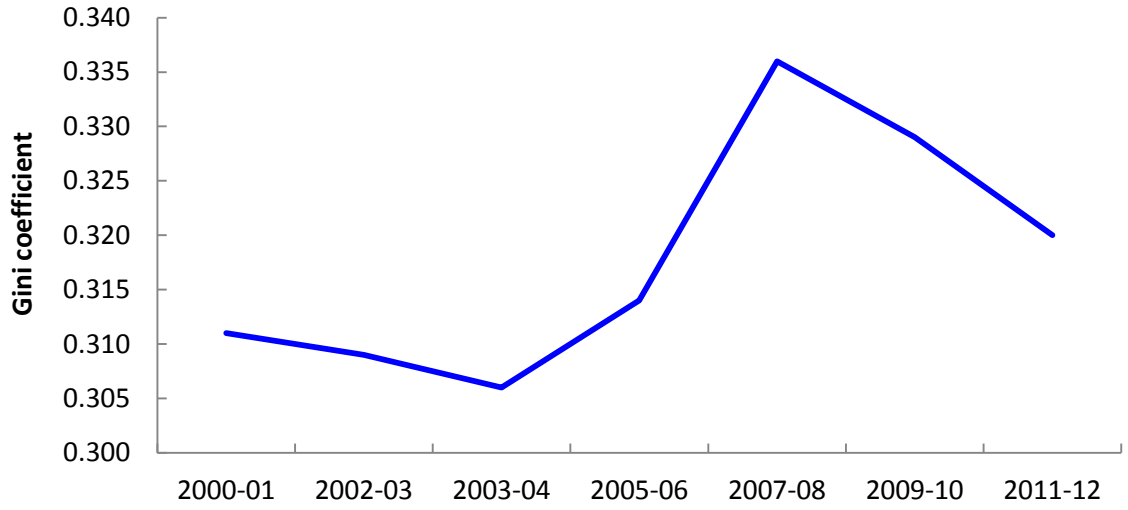
361. Whilst there has been a gradual increase in income inequality over the past two decades, over the past decade it has been relatively stable.

362. A number of different indicators are used to measure changes in income inequality. One main measure is the Gini coefficient. Chart 10.1 shows that there have been fluctuations

[51] The household income data are "equivalised" taking into account actual resources available to household members and the size and composition of the household.

and only a slight increase in the Gini coefficient over the period from 2000-01 to 2011-12.[52]

Chart 10.1: Trends in inequality of real equivalised weekly disposable household income over the period 2000-01 to 2011-12



Source: ABS 2013a, *Household Income and Income Distribution, Australia, 2011-12*, Cat. No. 6523.0.
Notes: Estimates presented from 2007-08 onwards are not directly comparable with estimates for previous cycles due to the improvements made to measuring income introduced in the 2007-08 cycle.

363. Table 10.2 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 10th percentile grew by 5.0 per cent, but the increase at the 90th percentile was not statistically significant.

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

Table 10.2: Trends in growth in real equivalised weekly disposable household income over the period 2000-01 to 2011-12 (a)(b)

Income per week at top of selected percentiles	2000-01	2007–08	2009–10	2011-12	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	2.3**	41.3
90th (P90)	1090	1528	1527	1555	1.8**	42.7

Source: ABS 2013a, *Household Income and Income Distribution, Australia, 2011-12*, Cat. No. 6523.0.
Notes: **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.

364. Table 10.3 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.

Table 10.3: Trends in quintile income shares over the period 2000-01 to 2011-12 (a)(b)

Income share	2000-01	2007–08	2009–10	2011-12	Change 2009-10 to 2011-12 Percentage point	Change 2009-10 to 2011-12 Percentage point
	(%)	(%)	(%)	(%)		
Lowest quintile	7.7	7.3	7.4	7.5	0.1**	-0.2**
Second quintile	12.6	12.3	12.4	12.6	0.2**	0.0**
Third quintile	17.6	16.9	17.0	17.3	0.3**	-0.3**
Fourth quintile	23.6	22.6	23.0	23.0	0.0**	-0.6**
Highest quintile	38.5	41.0	40.2	39.5	-0.7**	1.0**
Low income earners*	10.5	10.0	10.1	10.4	0.3	-0.1**

Source: ABS 2013a, *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.

10.3.2 Causes of changes in income inequality

10.3.2.1 Household labour earnings

365. In Australia, unlike individual labour earnings, inequality in household labour earnings has reduced and not contributed to the increase in measured disposable household income inequality over the past two decades. Greenville *et al*. (2013) explains that the difference arises because individual labour earnings only includes people that are working and does not capture the distributional consequences of the marked increase in employment rates since the mid-1990s. The increase in employment has more than offset the increased dispersion of average hourly wages.

10.3.2.2 Capital and other income

366. Apart from labour earnings, households also receive income from other market sources. These include income from funds held in interest bearing deposits and securities as well as returns on other investments (such as equities, property etc.).

367. Greenville *et al*. (2013) finds that capital income has increasingly gone to households at the top-end of the distribution and was responsible for much of the increase in measured disposable income inequality particularly from 2003-04 to 2009-10. This has more than offset the reduction in inequality from household labour earnings.

368. However, the global financial crisis caused a subsequent fall in asset prices, particularly on the stock market, which caused growth in incomes at the top to plateau up to 2011-12.

10.3.2.3 Tax-transfer system

369. The tax-transfer system acts to redistribute income to low income households and in doing so helps to reduce inequality. Australia has a relatively progressive personal income tax system and highly targeted distribution of benefits (Whiteford, 2013).

370. The ABS (2013a) demonstrates that inequality, as measured by the Gini coefficient,[53] declines after considering the effects of the tax-transfer system and government provided in-kind benefits.

371. 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.[54]

372. However, the measured redistributive impact of the transfer system has lessened over time. The difference in the Gini coefficient between the distribution of private income

[53] The Gini coefficient published in Chart 10.1 does not include imputed rent and therefore differs to the figure published in Section 10.3.2.3.

[54] 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.

and that of gross income has fallen from 0.122 in 1993-94 to 0.096 in 2009-10 (Greenville *et al.* 2013).

373. Greenville *et al.* (2013) noted, however, that:[55]

> *"This result, however, is likely to have been due to a fall in benefit recipient rates with higher rates of employment rather than anything related to the effectiveness or targeting of benefit payments".*

374. Similarly the equalising impact of direct taxes on the distribution of gross household incomes has reduced over time. The difference in the Gini coefficient between gross and disposable income has fallen since 1998-99 from 0.047 to 0.037 in 2009-10 (Greenville *et al.* 2013).

10.3.3 Income inequality compared internationally

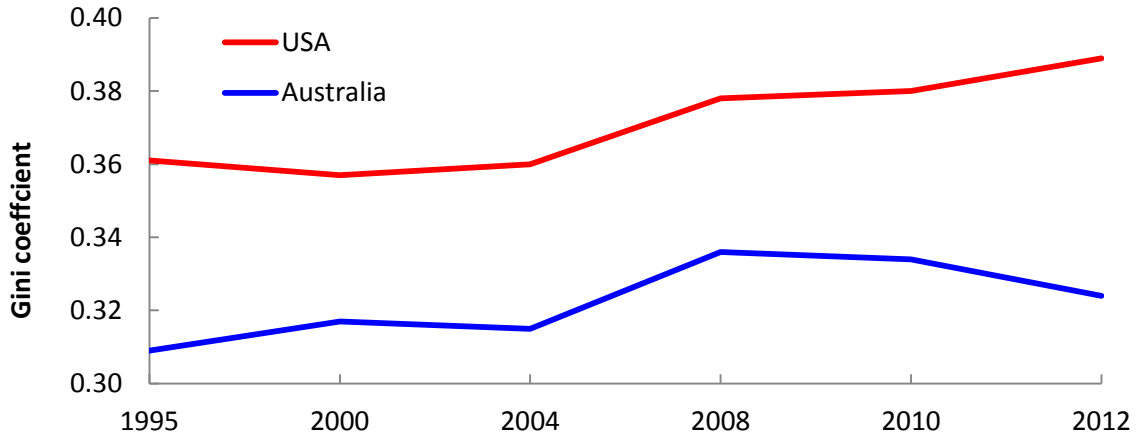
10.3.3.1 Australia's current position

375. The Government recommends that the Panel note that income inequality in Australia is much lower than in comparable countries such as the US, and has not increased as rapidly. As Thomas Piketty noted in his book *Capital in the Twenty-First Century* (Piketty, 2014):

> *"To a first approximation, we can say that the upper centile's share in the United States increased…about three times as much as in Australia".*

376. Furthermore, in contrast to the US, over the past decade income inequality in Australia has stabilised.

Chart 10.2: Trends in income inequality in the US and Australia, 1995 to 2012, OECD estimates



Source: *OECD Stat Extracts,* stats.oecd.org, extracted March 2015
Notes: For Australia, estimates presented from 2007-08 onwards are not directly comparable with estimates for previous cycles due to the improvements made to measuring income introduced in the 2007-08 cycle.

[55] Relatedly, Whiteford (2013) finds that due to improved labour market conditions, the percentage of people of working age receiving benefits fell from 26 per cent in 1996 to 16 per cent in 2008. Similarly the proportion of households whose main source of income is government benefits fell from around 21 per cent in 1996 to 12 per cent in 2008.

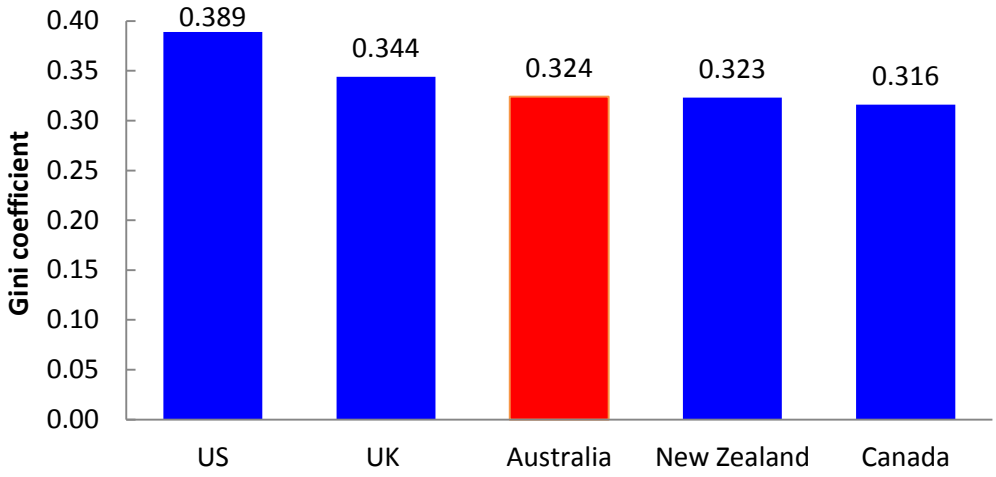
377. Chart 10.2 shows estimates of income inequality trends in the US and Australia, from 1995 to 2012. While the Gini coefficient has increased from 0.361 to 0.389 in the US – a rise of 0.028 – it has only increased from 0.309 to 0.324 in Australia – a rise of 0.015 – which is about half the increase compared to the US.

378. In particular, since 2008, over the period for which the Australian data is comparable and consistent, the difference in the level of income inequality between the US and Australia has progressively widened.

379. As shown in Chart 10.3, compared to other English speaking countries Australia's Gini coefficient was below that of the UK, and slightly above New Zealand and Canada.

380. Based on OECD estimates, in 2012 Australia's distribution of household disposable income was slightly more unequal than the OECD average of 0.320.

Chart 10.3: Gini coefficients of some English-speaking countries



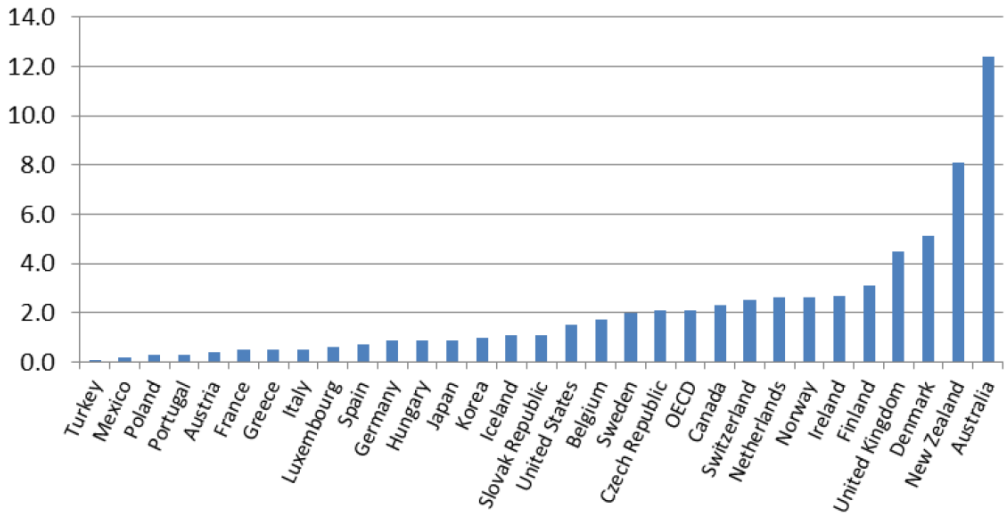
Source: *OECD Stat Extracts,* stats.oecd.org, extracted March 2015
Notes: The latest available data for the UK, New Zealand and Canada is 2011 while for the US and Australia it is 2012.

10.3.3.2 Tax-transfer system

381. OECD estimates show that Australia achieves a relatively modest reduction in private income inequality from tax and cash transfers compared to most other OECD countries. This is due to Australia's relatively small tax-transfer system compared to the OECD average. Furthermore, like many other OECD countries, the redistributive impact has decreased since the mid-1990s (OECD 2011).

382. Despite this, as shown in Chart 10.4, research by Whiteford (2013) finds that the poorest 20 per cent receives twelve times as much in cash benefits as the richest 20 per cent, the highest ratio in the OECD and about 50 per cent more than the next most targeted country, New Zealand. Therefore, Australia has one of the most progressive tax-transfer systems in the OECD, delivering highly efficient redistribution of income compared with most developed countries (Whiteford 2013).

Chart 10.4: Ratio of cash benefits received by the poorest 20 per cent of households to the richest 20 per cent, 2005



Source: Whiteford, 2013.

10.3.3.3 Income growth

383. In Australia, like most OECD countries, over the past two decades the rise in inequality is the result of households in the top deciles experiencing faster growth in income than the bottom deciles. For example, average growth in real household disposable income for the top decile earners was 1.9 per cent in OECD countries, while the bottom decile experienced lower income growth of around 1.3 per cent (OECD 2011). The key difference with regard to Australia is its considerably stronger record of growth across the distribution – real equivalised disposable household income for the top decile grew by 4.5 per cent over the last 20 years, while the bottom decile grew by 3 per cent (OECD 2011).

384. The increased concentration of capital income is an international trend and is not unique to Australia. As a share of household disposable income, capital income saw a greater average increase in inequality (from a very small base) than earnings in more than two-thirds of OECD countries over the last 30 years including Australia (OECD 2011).

10.3.4 Relationship between minimum wages and income inequality

385. The effect of minimum wages on income inequality has been a matter of some debate, particularly in the US. Research into the relationship between minimum wages and income inequality has used a variety of techniques to control for the impact of various factors on inequality, yielding different results.

386. Despite this, the literature finds at most a small effect of minimum wage increases on inequality.

387. Neumark and Wascher (2008) find no empirical evidence indicating that minimum wages have beneficial distributional effects. Instead they find that an increase in the minimum wage largely results in a redistribution of income among low-income households. Some households gain as a result of the higher minimum wage, and others lose as a result of

diminished employment opportunities or reduced hours, with some likelihood that poor or low income families are made worse off in net terms.

388. Dube (2013) suggests in a US study that minimum wages can reduce the proportion of families living in poverty or near poverty. Using 12 published studies for which minimum wage elasticities could be obtained or constructed, Dube (2013) finds that the research points towards a modest poverty reduction from minimum wage increases. When taking an "average of averages" of the poverty rate elasticities across 12 studies, an elasticity of -0.15 is obtained.

389. It must be noted that the situation in Australia is very different and findings from international studies should be approached with caution when considering the impact of minimum wages on relative standards of living.

390. As discussed in Chapter 2, Australia's minimum wage and award classification wages are higher than the US and award-reliant employees are spread across the earnings distribution. Therefore the Government places a greater emphasis on the need to support employment and job creation. As Whiteford (2014) pointed out *"The most important source of inequality in Australia is whether you have a job or not".*

391. As discussed in Chapter 8, the minimum wage and award classification wages are not particularly effective in helping low income households as low-paid workers have varied living standards and levels of household income.

392. Furthermore, only part of a minimum and award classification wage increase is passed through to low-paid households (discussed in Chapter 9).

393. In its decision, the Panel should have regard to the availability of low-paid employment opportunities, which could be affected by the Panel's decision and could offset any positive effect from raising the minimum wage and award classification wages.

10.4 Conclusion

394. Low-paid workers have experienced growth in real earnings over the past two decades. Despite this, growth rates were stronger amongst the higher paid causing earnings inequality to increase. This is consistent with the international trend.

395. Furthermore, there has been relatively strong growth across the income distribution compared to the OECD average.

396. Income inequality is a better measure of economic wellbeing than earnings inequality, as it reflects the actual financial resources available to households and individuals after accounting for employment levels, household structure and taxes and transfers. Income inequality in Australia has not risen nearly as much as in some other comparable countries such as the US.

397. The available evidence in the literature also shows that there is little or no evidence that minimum wages have large effects on income inequality.

398. The Government notes that Australia has one of the most progressive tax-transfer systems in the world. This has helped to limit the rise in inequality and, along with increasing employment opportunities, should be the primary means of addressing inequality.

References

Australian Chamber of Commerce and Industry 2015, *ACCI business expectation survey*, December quarter 2014.

Addison, J, Blackburn, M and Cotti, C 2013 'Minimum wage increases in a recessionary environment', *Labour Economics*, 22.

Allegretto, S, Dube, A and Reich, M 2011 "Do Minimum Wages Really Reduce Teen Employment? Accounting for Heterogeneity and Selectivity in State Panel Data", *Industrial Relations*, 50(2).

Alymer, C & Gill, T 2003, 'Business surveys and economic activity', *Reserve Bank of Australia Research Discussion Paper 2003-01*.

Atkin, T, Caputo, M, Robinson, T & Wang, H 2014, 'Australia after the terms of trade boom', *Reserve Bank of Australia Bulletin*, March.

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

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

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

Australian Bureau of Statistics 2014a, *Australian Industry, 2012-13,* Cat. No. 8155.0, ABS, Canberra.

Australian Bureau of Statistics 2014b, *Australian System of National Accounts, 2013-14,* Cat. No. 5204.0, ABS, Canberra.

Australian Bureau of Statistics 2014c, *Employee Earnings, Benefits and Trade Union Membership, Australia*, *August 2013,* Cat. No. 6310.0, ABS, Perth. Various years.

Australian Bureau of Statistics 2014d, *Selected Characteristics of Australian Business, 2012-13,* Cat. No. 8167.0, ABS, Canberra. Various years.

Australian Bureau of Statistics 2015a, *Australian National Accounts: National Income, Expenditure and Product, December 2014,* Cat. No. 5206.0, ABS, Canberra.

Australian Bureau of Statistics 2015b, *Consumer Price Index, Australia, December 2014,* Cat. No. 8165.0, ABS, Canberra.

Australian Bureau of Statistics 2015c, *Counts of Australian Businesses, including entries and exits, December 2014,* Cat. No. 6401.0, ABS, Canberra.

Australian Bureau of Statistics 2015d, *Employee Earnings and Hours, May 2014,* Cat. No. 6306.0, ABS, Perth. Published data and unpublished data, various years.

Australian Bureau of Statistics 2015e, *Labour Force, Australia, February 2015*, Cat. No. 6202.0, ABS, Canberra.

Australian Bureau of Statistics 2015f, *Labour Force, Australia, Detailed – Electronic Delivery, February 2015,* Cat. No. 6291.0.55.001, ABS, Canberra.

Australian Bureau of Statistics 2015g, *Labour Force, Australia, Detailed, Quarterly, February 2015,* Cat. No. 6291.0.55.003, ABS, Canberra. Department of Employment trend.

Australian Bureau of Statistics 2015h, *Wage Price Index, Australia, December 2014,* Cat. No. 6345.0, ABS, Canberra.

Australian Government 2014, *Mid-Year Economic and Fiscal Outlook 2014-15*, Canberra.

Autor, D, Manning, A & Smith, C 2014, *The contribution of the minimum wage to US wage inequality over three decades: a reassessment*, NBER working paper.

Belman, D, & Wolfson, P 2014, *What Does the Minimum Wage Do?* W.E. Upjohn Institute Press.

Boockmann, B 2010, 'The Combined Employment Effects of Minimum Wages and Labour Market Regulation – A Meta-Analysis', *Applied Economics Quarterly*, 61.

Bryan, M, Salvatori, A, Taylor, M 2012, *The Impact of the National Minimum Wage on Earnings, Employment and Hours through the Recession,* Low Pay Commission, United Kingdom.

Card, D and Krueger, A 1994, 'Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania', *American Economic Review*, 84(5).

Department of Employment 2015, *Workplace Agreements Database,* Canberra.

Dickens R, Riley, R, and Wilkinson, D 2012 *A Re-examination of the Impact of the UK National Minimum Wage on Employment*, Working Paper Series, Economics Department, University of Sussex.

Dolton, P and Bondibene, C 2012, 'The international experience of minimum wages in an economic downturn', *Economic Policy*, 27(69).

Dube, A 2013, *Minimum wages and the distribution of family incomes*, Discussion paper.

Dube, A, Lester T, and Reich, M 2010, 'Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties', *Review of Economics and Statistics*, 92(4).

Fair Work Act 2009

Fair Work Act Review Panel 2012, *Towards more productive and equitable workplaces: an evaluation of the Fair Work legislation.*

Fair Work Commission 2014, *Decision – Annual Wage Review 2013-14.*

Fidrmuc and Tena Horrillo 2011, *The impact of the national minimum wage on the labour market outcomes of young workers*, Research report prepared for the UK Low Pay Commission.

Gordon, B, Goldfarb, A & Li, Y 2013, 'Does price elasticity vary with economic growth? a cross-category analysis', *Journal of Marketing Research*, vol. 50, no. 1, pp. 4-23.

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

Heerde, H, Gijsenberg, M, Dekimpe, M, & Steenkamp, J 2013, 'Price and advertising effectiveness over the business cycle', *Journal of Marketing Research*, vol. 50, no. 2, pp. 177-193.

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

Leonard, M.L., T.D. Stanley and H. Doucouliagos , 2014, *Does the UK minimum wage reduce employment? A meta-regression analysis*, British Journal of Industrial Relations, 52, 499.

Meer, J and West, J 2013, *Effects of the Minimum Wage on Employment Dynamics*, Texas A&M University Working Papers.

Melbourne Institute 2014, *Household, Income and Labour Dynamics in Australia Survey, Release 13,* Melbourne.

Miller P 2005*,* 'The role of gender among low-paid workers'*, The Australian Economic Review,* vol. 38, no. 4, pp. 405-17.

National Australia Bank 2015, *NAB Quarterly SME Survey*, December Quarter 2014.

Neumark D, Ian Salas JM and Wascher W 2014, 'Revisiting the minimum-wage employment debate: Throwing out the baby with the bathwater?', *ILR Review*, vol. 67, Supplement, Article 7.

Neumark D, Ian Salas JM and Wascher W 2014, More on recent evidence on the effects of minimum wages in the United States, National Bureau of Economic Research, Working Paper 20619, October 2014.

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

Neumark, D & Wascher, W 2008, *Minimum wages*, The MIT Press, Cambridge.

Organisation for Economic Co-operation and Development 2011, *Divided we stand: why inequality keeps rising*, Paris.

Organisation for Economic Co-operation and Development 2013, OECD Family database: Gender pay gaps for full-time workers and earnings differentials by educational attainment. Available from <www.oecd.org/social/family/database>.

Organisation for Economic Co-operation and Development 2015, OECD.Stat Extracts, Paris. Available from <stats.oecd.org> [accessed: March 2015].

Park, A 2011, 'Business surveys and economic activity', *Reserve Bank of Australia Bulletin,* December.

Piketty, T 2014, *Capital in the twenty-first century*, Harvard University Press, Cambridge.

Productivity Commission 2009, *Submission to the House of Representatives Standing Committee on Economics: inquiry into raising the level of productivity growth in Australia,* September.

Reserve Bank of Australia 2014, Statement on monetary policy – May 2014.

Reserve Bank of Australia 2015, Statement on monetary policy – February 2015.

Sensis 2015, *Sensis Business Index,* December quarter 2014.

Topp, V, Soames, L, Parham, D & Bloch, H 2008, *Productivity in the mining industry: measurement and interpretation*, Productivity Commission Staff Working Paper, December.

Whiteford, P 2013, *Australia: inequality and prosperity and their impacts in a radical welfare state*, Australian National University.

Whiteford, P 2014, 'Income and wealth inequality: how is Australia faring?', *The Conversation* 5 March. Available from <http://theconversation.com/au>.

Wright, S & Buchannan, J 2013, *Award Reliance*, Fair Work Commission Research Report 6/2013, December.

APPENDICES

Appendix A: Low-paid workers – definitions & data

A.1 Defining low-paid workers in HILDA

399. 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 $18.22 in HILDA 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.[56,57]

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

- limiting the population to employees aged 15 years and over with positive hours of work and earnings;
- calculating hourly earnings for employees in their main job;
- deflating the earnings of casuals by 1.25 to reflect the casual loading;
- calculating the median earnings of adult employees (i.e. aged 21 years and over) at ($27.33) and set the threshold for low pay at two thirds of this amount ($18.22);
- adult employees with an hourly wage below $18.22 are 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 national minimum wage.[58] 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	18.22
20 year old	97.7	17.80
19 year old	82.5	15.03
18 year old	68.3	12.44
17 year old	57.8	10.53
16 year old	47.3	8.62
15 year old	36.8	6.70

Note: Junior minimum wage rates refer to the National Minimum Wage Order. Example: The low-paid threshold for 15 year olds was set at $6.70 which is the adult threshold of $18.22 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 $6.70 per hour have been classified as low-paid.

[56] 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 Annual Wage Review decisions.

[57] 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.

[58] 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	45.3	51.9	50.6	16.9
Female	54.7	48.2	49.4	20.9
Age				
Age 15-24	41.5	13.1	18.4	42.6
Age 25-34	21.6	25.1	24.5	16.6
Age 35-44	12.5	24.5	22.2	10.6
Age 45-54	12.5	21.5	19.8	11.9
Age 55-64	10.1	13.6	12.9	14.8
Age 65+	1.8	2.3	2.2	15.4
Marital status				
Single	59.6	35.8	40.3	27.9
Partnered	40.4	64.2	59.7	12.8
Age of youngest resident child				
0-5 years	8.9	15.8	14.5	11.6
6-11 years	5.5	10.2	9.3	11.2
12-17 years	5.7	10.4	9.5	11.3
No child<18 years	80.7	63.5	66.7	22.8
Location				
Major city	71.1	72.6	72.4	18.5
Inner regional Australia	20.3	18.4	18.7	20.2
Outer regional Australia	8.0	7.6	7.7	19.6
Remote/very remote Australia	0.8	1.3	1.2	12.3
Long term health condition				
Present	18.9	16.0	16.6	21.5
Not present	81.1	84.0	83.4	18.3
Government income support payments [(a)]				
In receipt	20.8	6.5	9.2	42.7
Not in receipt	79.2	93.5	90.8	16.5
Government public transfers [(b)]				
In receipt	35.0	25.5	27.3	24.2
Not in receipt	65.0	74.5	72.7	16.9
Highest education attainment				
Degree or post Graduate	18.5	37.3	33.7	10.4
Certificate 3-4/Diploma	24.5	32.2	30.7	15.1
Year 12	30.2	14.9	17.8	32.0
Year 11 or below[(c)]	26.9	15.7	17.7	28.7
Years of work experience				
0-2 years	25.0	7.5	10.7	42.4
2-5 years	20.3	8.9	11.0	33.6
More than 5 years	54.7	83.6	78.3	12.6

Hours				
Full-time	44.7	72.7	67.4	12.5
Part-time	55.3	27.3	32.6	32.0
Contract type				
Casual	61.6	15.8	24.4	47.6
Permanent	38.4	84.2	75.6	9.6
Business size				
Small (1-19 employees)	54.0	28.3	33.1	30.8
Medium (20-199 employees)	38.1	44.3	42.9	16.8
Large (200 plus employees)	7.9	27.2	23.6	6.3
Occupation				
Managers	3.0	12.9	11.0	5.1
Professionals	7.6	29.3	25.2	5.7
Technicians & trades workers	11.4	11.0	11.1	19.4
Community & personal service	20.2	10.3	12.2	31.2
Clerical & administrative	10.5	16.3	15.2	13.0
Sales workers	17.8	7.4	9.4	35.7
Machinery operators & drivers	8.1	5.8	6.2	24.6
Labourers	21.4	7.0	9.7	41.6
Industry				
Agriculture, forestry & fishing	2.6	0.6	0.9	52.4
Mining	0.4	2.9	2.5	3.2
Manufacturing	7.4	8.0	7.8	17.8
Electricity, gas, water & waste	0.4	1.1	1.0	7.3
Construction	5.6	5.8	5.7	18.5
Wholesale trade	2.3	3.9	3.6	12.0
Retail trade	17.8	8.7	10.4	32.2
Accommodation & food	21.3	4.4	7.6	52.8
Transport, postal &	5.0	4.8	4.8	19.6
Information, media &	0.8	2.2	1.9	7.3
Financial & insurance services	1.0	4.9	4.2	4.5
Rental, hiring & real estate	0.9	1.2	1.2	14.4
Professional, scientific &	3.5	8.5	7.5	8.7
Administrative & support	3.8	2.1	2.4	30.2
Public administration & safety	1.7	8.0	6.8	4.7
Education & training	5.8	11.8	10.7	10.2
Health care & social assistance	12.2	15.9	15.2	15.1
Arts & recreation services	2.7	1.6	1.8	28.5
Other services	4.7	2.7	3.0	28.8

Source: *HILDA Survey*, release 13 (December 2014), wave 13

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 45.3 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, 16.9 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.

Appendix B: Modelling[59]

Table B.1: Financial benefits of taking a national minimum wage job

Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income
	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)	(%)
Single without children –FT job at $640.90 p/week						
Adult - NSA	$266.39	$0.00	$59.53	$581.37	118.2% $314.98	0.0%
Adult renter - NSA	$330.19	$0.00	$59.33	$581.37	76.1% $251.18	0.0%
Single without children –PT job at $253.05 p/week						
Adult - NSA	$266.39	$152.06	$0.15	$404.96	52.0% $138.57	37.5%
Adult renter – NSA	$330.19	$215.86	$0.15	$468.76	42.0% $138.57	46.0%
Student – YA – away from home	$221.09	$201.31	$5.16	$449.20	103.2% $228.11	44.8%
Student – YA – lives with parents	$146.99	$127.21	$0.00	$380.26	158.7% $233.27	33.5%

(continued over page)

NSA – Newstart Allowance
YA – Youth Allowance

[59] As of 1 January 2015.

Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income
	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)	(%)
Couple – both unemployed, one finds a FT job at $640.90 p/week						
No children - NSA	$480.38	$129.85	$54.51	$716.25	49.1% $235.87	18.1%
With 1 child aged 3 years - PPP	$641.86	$313.34	$48.44	$905.80	41.1% $263.94	34.6%
With 1 child aged 9 years – NSA	$626.88	$298.35	$48.44	$890.82	42.1% $263.94	33.5%
With 2 children aged 3 and 9 years – PPP	$754.07	$425.54	$46.71	$1019.73	35.2% $265.66	41.7%
Couple – both unemployed, one finds a PT job at $253.05 p/week						
No children - NSA	$480.38	$366.05	$0.00	$619.10	28.9% $138.72	59.1%
With 1 child aged 3 years - PPP	$641.86	$527.53	$0.00	$780.58	21.6% $138.72	67.6%
With 1 child aged 9 years – NSA	$626.88	$512.55	$0.00	$765.60	22.1% $138.72	66.9%
With 2 children aged 3 and 9 years – PPP	$754.07	$639.74	$0.00	$892.79	18.4% $138.72	71.7%

PPP – Parenting Payment Partnered

Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	No Child Care			With Child Care		
				Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income	Net child care costs	Disposable income after finding job	Improvement in financial position
	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)	(%)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)
Single parent –FT job at $640.90 p/week									
With 1 child aged 3 years –PPS	$562.99	$343.55	$61.18	$923.27	64.0% $360.28	37.2%	$87.50	$835.77	48.5% $272.78
With 1 child aged 9 years – NSA	$465.56	$229.20	$54.81	$815.29	75.1% $349.73	28.1%	$19.99	$795.31	70.8% $329.75
With 2 children aged 3 and 9 years – PPS	$675.20	$460.68	$63.47	$1038.11	53.7% $362.91	44.4%	$101.72	$936.39	38.7% $261.19
Single parent –PT job at $253.05 p/week									
With 1 child aged 3 years – PPS	$562.99	$498.69	$0.00	$751.74	33.5% $188.75	66.3%	$23.18	$728.57	29.4% $165.58
With 1 child aged 9 years – NSA	$465.56	$384.34	$0.00	$637.39	36.9% $171.83	60.3%	$8.00	$629.39	35.2% $163.83
With 2 children aged 3 and 9 years – PPS	$675.20	$615.82	$0.00	$868.87	28.7% $193.67	70.9%	$29.18	$839.69	24.4% $164.49

(continued over page)

PPS – Parenting Payment Single

Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	No Child Care			With Child Care		
				Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income	Net child care costs	Disposable income after finding job	Improvement in financial position
	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)	(%)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)
Couple – one employed FT on the NMW, the other finds a FT job at $640.90 p/week									
No children - NSA	$716.25	$0.00	$119.06	$1162.74	62.3% $446.49	0.0%	Not applicable		
With 1 child aged 3 years - PPP	$905.80	$42.98	$119.06	$1205.72	33.1% $299.92	3.6%	$110.25	$1095.47	20.9% $189.67
With 1 child aged 9 years – NSA	$890.82	$51.10	$119.06	$1213.83	36.3% $323.01	4.2%	$25.79	$1188.05	33.4% $297.23
With 2 children aged 3 and 9 years – PPP	$1019.73	$153.00	$119.06	$1315.74	29.0% $296.01	11.6%	$123.13	$1192.61	17.0% $172.88
Couple – one employed FT on the NMW, the other finds a PT job at $253.05 p/week									
No children - NSA	$716.25	$15.52	$59.53	$849.94	18.7% $133.69	1.8%	Not applicable		
With 1 child aged 3 years - PPP	$905.80	$171.34	$59.53	$1005.76	11.0% $99.96	17.0%	$24.42	$981.34	8.3% $75.54
With 1 child aged 9 years – NSA	$890.82	$156.35	$59.53	$990.77	11.2% $99.95	15.8%	$8.38	$982.39	10.3% $91.57
With 2 children aged 3 and 9 years – PPP	$1019.73	$283.54	$53.46	$1124.03	10.2% $104.30	25.2%	$30.40	$1093.63	7.2% $73.90