# ACTU Post Budget Submission

# Annual Wage Review 2016-17

12 May 2017

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## Contents

# Comment on Budget initiatives

1. The initiatives announced in the Federal Budget do not change our position in relation to the increases we seek to the National Minimum Wage or Modern Award Minimum Wages.

2. The Budget measures reveal the difficulty of assessing the impact of changes to taxes and transfers on the relative living standards and the needs of the low paid. An assessment of the impact of changes is no longer published in the Budget. A table not published after 2013-14 showed the impact of Budget changes in taxes and transfers on real disposable income and real net tax disposable income for a range of household types at various wage levels.[1] Nonetheless, the current Budget appears to offer little solace to those on lower and middle incomes, with a number of measures clearly making them worse off and reducing their relative living standards.

3. The Budget as it stands offers no reason for businesses to find that wage increases are less affordable. The tax cuts in particular provide the opportunity for wage increases, on the government's own argument.

4. Businesses with less than $10million in turnover will continue to be able to deduct asset purchases of up to $20,000 for an additional year up until 30 June 2018 and the turnover threshold to access to the reduced company tax rate will increase from $10million to $25million. Both of these factors provide additional headroom to accommodate wage increases in the coming financial year, although our position is that the increases we seek are reasonable and affordable even without these concessions. We also expect that any compliance cost savings associated with the compulsory move to single touch payroll on 1 July 2018 (for employers with 20 or more employees at April 2018) would begin to be realised in the present financial year, which may make some additional contribution. It is unclear to us whether the announced reforms to the Crowd Sourced Equity Framework will require legislation, however the intent is that from the 2017-18 financial year propriety limited companies will be able to access additional investment with reduced reporting requirements.

5. On the other side of the ledger, the Education Entry Payment will reduce for many. The Education Entry Payment is currently a flat annual payment of $208 available to Newstart

[1] http://www.budget.gov.au/2013-14/content/overview/html/overview_40.htm , Appendix C

recipients who undertake approved study (e.g. traineeship, VET, TAFE, University). Students who are both working and studying part time are likely to fall into this category. The payment will be reduced by up to 75% based on part time study load.

6. Beyond this, many of the budget initiatives that could make a tangible impact on wage costs or living standards are not scheduled to commence in the coming financial year (even leaving aside the question of whether those that might require legislation are passed by the Parliament). The impact of many other initiatives cannot be reliably assessed as being of any significance at this point. For example:

    (a) There is potential for the "Major Banks Levy" to raise the costs of both personal and business banking, but it is futile to speculate on whether or not this occurs and to what extent.

    (b) While increases to the Medicare levy are not scheduled to commence until 1 July 2019, it is proposed that increases to the Medicare levy low income thresholds be increased with effect from the 2016-17 income year. This will increase the threshold for singles by $320, for families by $540 and for each dependent by $50. However, this does not translate to an equal increase in disposable income because only 10% of the difference between the threshold amount and the phase in limit is payable. The revised phase in limit is not disclosed in Budget Paper No.2.

    (c) The changes to capital gains tax for properties held by foreign investors and the charge on foreign investors on underutilised properties are being phased in over the financial year and any impact on supply or affordability of homes for rent or purchase over that period cannot be estimated.

    (d) The higher capital gains tax discount on affordable housing investment is scheduled to become available from 1 January 2018. To the extent that the incentive is successful in increasing supply of lower rents, that benefit particularly for new developments will have a lead time that makes it impossible to take account of in the period covered by this Review.

    (e) The first home super saver scheme is a long tail scheme that cannot be expected to have any effects (positive or negative) on housing affordability in the period covered by this Review. It may however impact superannuation balances and

retirement age decisions if it results in superannuation trustees shifting funds into more liquid investments. Similar previous schemes have had very low take up rates.[2]

(f) Whilst the 50% cap on foreign ownership permitted under New Dwelling Exemption Certificates applies from budget day, there will be a lag in its impact. While intended to increase supply of new developments available to Australians for purchase, its introduction may at least delay supply of new developments due to the need to secure alternative financing. The extent of this cannot be predicted. In any case the proportion of new dwellings purchased by foreigners is quite small, so the impact on prices and supply is uncertain.[3]

(g) Whilst a 1.82% increase to student contributions to higher education fees will take effect from 1 January, the reduced threshold for repayments is not scheduled to take effect until 1 July 2018;

(h) Some families, particularly those who qualify for a health care card or who are in regional areas, will benefit from the re-indexation of bulk-billing incentives for General Practice, however greater reductions in living expenses associated with health needs are likely to be realised from the re-indexation of other MBS items (including GP and specialist consultations and diagnostic imaging) which will not take effect until after the financial year covered by the Review. The relative impacts on minimum wage and award wage earners of the various increases and decreases in prices of PBS items are not capable of estimation.

[2] http://thenewdaily.com.au/money/news-federal-budget/2017/05/10/budget-2017-super-saver-accounts/
[3] https://www.businessinsider.com.au/charts-the-strength-of-foreign-investment-in-the-australian-housing-market-2017-4 . April 7, 2017

# Comment on Budget forecasts

7. Table 1 shows the optimism of the Budget 2017-18 forecasts compared with the previous year's Budget forecasts for the corresponding years. These are compared with the RBA forecasts in its Statement on Monetary Policy for May 2017.

**Table 1: Various macroeconomic forecasts from Budgets and the Reserve Bank of Australia**

| | | Actual | Forecasts | | |
|---|---|---|---|---|---|
| | | **2015-16** | **2016-17** | **2017-18** | **2018-19** |
| **GDP growth, %** | Budget 2017-18 | 2.6 | 1.75 | 2.75 | 3.0 |
| | Budget 2016-17 | 2.5 forecast | 2.5 | 3.0 | - |
| | RBA SMP May 2017 | 2.5 | 1.5 -2.5 | 1.5 -2.5 | 2.0 - 3.0 |
| **unemployment, %** | Budget 2017-18 (June qtr seas adj) | 5.7 | 5.75 | 5.75 | 5.5 |
| | Budget 2016-17 (June qtr seas adj) | 5.75 forecast | 5.5 | 5.5 | - |
| | RBA SMP May 2017 , | 5.7* | 5.75 | 5-6 | 5-6 |
| **cpi, %** | Budget 2017-18 | 1.0 | 2.0 | 2.0 | 2.25 |
| | Budget 2016-17 | 2.25 forecast | 2.5 | 2.75 | - |
| | RBA SMP May 2017 | 1.5* | 2 | 1.5 - 2.5 | 2 -3 |
| **Wage rate growth, %** | Budget 2017-18 WPI | 2.1 | 2 | 2.5 | 3 |
| | Budget 2016-17 WPI | 2.3 forecast | 2.25 | 2.5 | - |
| | RBA SMP May 2017 WPI | 1.9, year 2016 | na | na | na |
| **Total wages growth, %** | Budget 2017-18 | 3.1 (ABS 5204006) | 4 | 3.5 | 4.25 |
| **Employment growth, %** | Budget 2017-18 | 1.9 | 1 | 1.5 | 1.5 |
| | Budget 2016-17 | 2 forecast | 1.75 | 1.75 | |
| **Non-mining investment growth,%** | | 1.4 | 1.5 | 2.25 | 2.5 |
| | | -2 forecast | 3.5 | 4.5 | |

Sources: Budget 2017-18 Paper 1, Statement 2, p2-6, Budget 2016-17 Paper 1, Statement 2, p2-6, RBA SMP May 2017 , p.55, pp37-38

8. The government has recognised the slow growth in wages to be a problem. Wage growth is currently the lowest on record, and wages face a fall in real terms, as the most recent Wage Price Index increase for the December quarter 2016 was 1.9%, compared with a cpi of 2.1% for March 2017 quarter. The Budget assumes wages growth of 2.5% in 2017-18 and 3.0% in 2018-19. There is no indication of where this increase in the wage rate might come from. The wage and CPI growth forecasts suggest that if inflation increases even slightly from its very

low level there would be no increase in real wages. Growth in the minimum wage has been below one per cent per year in real terms. A sufficient increase in the minimum wage and awards would contribute to a real increase in wages.

9. Total wage remuneration is also forecast to increase, at 3.5% in 2017-18 and 4.25% in 2018-19. This means that employment is expected to grow at one per cent in 2017-18 and 1.25% in 2018-19, akin to population increase, if real wages barely increase. This does not promise a cornucopia of wage and employment increases. Again an increase in the minimum wage would assist.

10. Budget Paper 1 said"

> *"lower corporate tax rate promotes business investment by raising the return from investing in Australia. Increased business capital is expected to raise productivity and real wages and permanently expand the economy by just over one per cent in the long term."*[4]

The Budget wage projection appears to be premised on the assumption that lowering the business tax rate will raise investment and thereby employment and wages. Yet the evidence for the link between tax and investment is not there. And at least in the medium term, the government's expectations according to its forecasts are in fact very modest, and more so than for the previous Budget.

[4] Australian Treasury 2017 Budget Paper No.1, p.1-13.

# Comment on new data

## CPI

11. The ABS release of 26 April puts the CPI increase of 2.1% for the year to March 2017 (seasonally adjusted) ahead of the most recent wage price index of 1.9% increase in the year to December 2016.

12. There were big increases in the necessary expenditures which form a bigger and less discretionary part of lower income households' outlays, consistent with the observations we made previously on this issue.

13. The CPI increases include housing which rose 0.8% for the March quarter and 2.5% for the year to March 2017, health which rose 2.0% for the quarter and 3.8% for the year, transport which rose 1.5% for the quarter and 3.8% for the year, and education (mainly secondary) which rose 3.1% for the quarter and 3.3% for the year.

14. A bigger increase in the minimum wage would help improve relative living standards and meet the needs of the low paid given the CPI increase.

## Retail trade

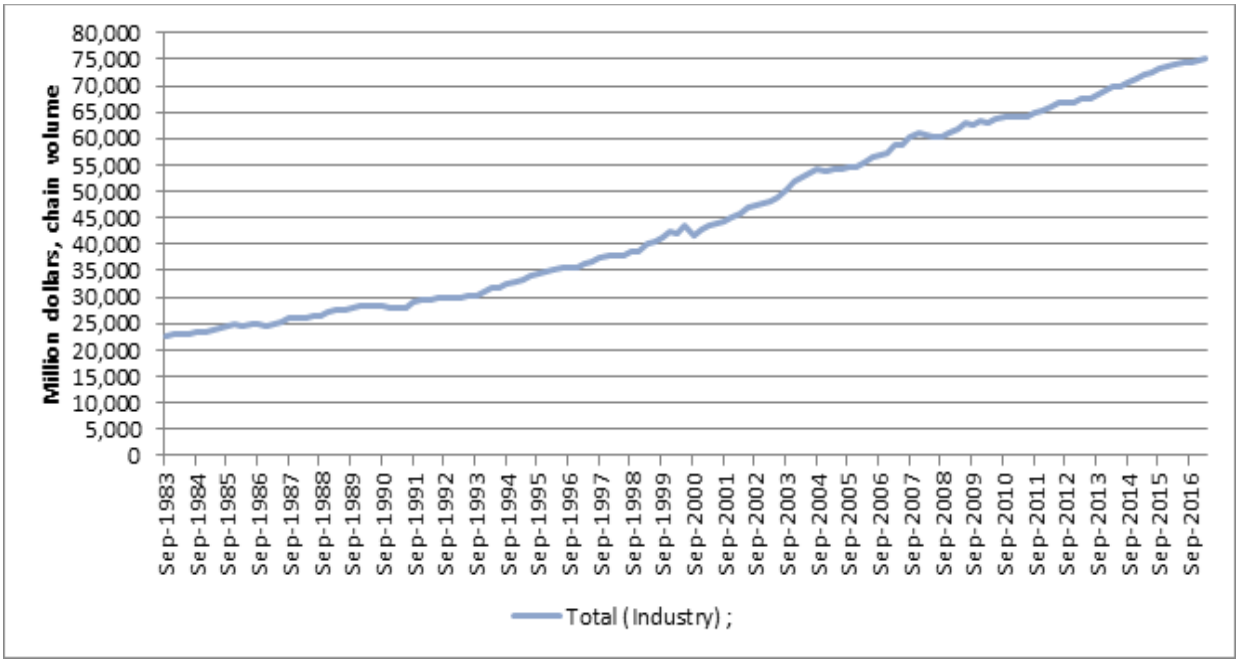
15. Slow wages growth may at last be observed to be impacting on retail sales which grew in volume terms at 0.1% in the March quarter, seasonally adjusted.[5] This is shown in Figure 1.

16. It is to be expected that retail sales would slow down with slow wage growth and a sagging labour market. This is especially the case for the 2.3 million on the minimum wage and award wages which have grown slowest of all, and who basically spend all they get. However the movement is not exceptional when the longer term is observed.

17. Figure 2 shows real retail spending movements across retail industries, with the scale intervals the same as Figure 1. In particular the main source of flattening in the total is in department store spending, with household goods spending in particular increasing.

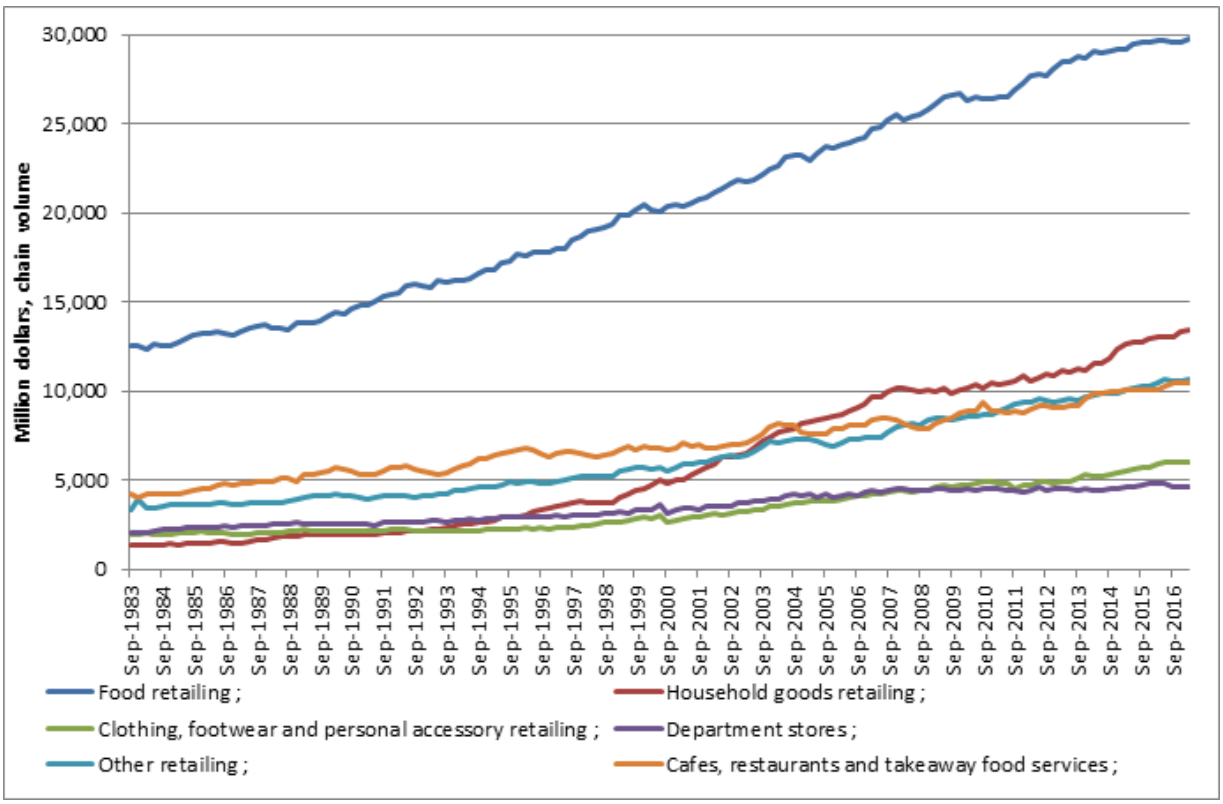
[5] ABS 8501

**Figure 1: Total retail turnover, real (chain volume), millions of dollars, to March 2017**




Source: ABS 8501

**Figure 2: Retail turnover by industry, real (chain volume), millions of dollars, to March 2017**




Source: ABS 8501

18. The demand generating impacts of raising the minimum wage and award wages may assist in stimulating retail turnover over the next financial year.

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