



Australian Government

Australian Government Submission

to the

**Fair Work Commission
Annual Wage Review 2017**

29 March 2017

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Acronyms and abbreviations

ABS	Australian Bureau of Statistics
CPI	Consumer Price Index
EEH	Employee Earnings and Hours
FT	Full-time
GDP	Gross Domestic Product
HILDA	Household, Income and Labour Dynamics in Australia
PEFO	Pre-Election Fiscal and Economic Outlook
MYEFO	Mid-Year Economic and Fiscal Outlook
NMW	National Minimum Wage
NSA	Newstart Allowance
OECD	Organisation for Economic Co-operation and Development
PPP	Parenting Payment Partnered
PPS	Parenting Payment Single
PT	Part-time
RBA	Reserve Bank of Australia
SME	Small and/or medium enterprise
UK	United Kingdom
US	United States
YA	Youth Allowance

1 The Australian Government's Position

1. The Australian economy continues to transition from the investment phase to the production phase of the mining boom. Economic growth is expected to return to around trend rates over the coming year.
2. The 2017 Annual Wage Review occurs in the midst of this domestic transition. Wage flexibility is an important mechanism to support employment during this period of ongoing structural adjustment in the economy.
3. The unemployment rate of 5.9 per cent remains above the last decade's troughs. The youth (people aged 15 to 24) unemployment rate is 13.0 per cent as of February 2017, while long-term unemployment (people who have been unemployed for 12 months or longer) is at 23.5 per cent of the unemployed.
4. The Expert Panel for Annual Wage Reviews ('the Panel') should take into account the need to help long-term unemployed people and other disadvantaged groups enter the workforce, noting that low-paid employment is an important 'stepping stone' to sustained employment and higher paying jobs.
5. Employment growth is driven by a range of factors, including the cost of wages, the broad economic environment and specific business conditions. Indeed, moderate wage growth has been helping to support employment in recent years.
6. While wages continue to grow, both price (1.5 per cent over the year to December 2016) and wage inflation (1.9 per cent over the year to December 2016) have been subdued by historical standards.
7. Wage increases that are not supported by higher productivity or higher prices for customers and consumers will most likely cost jobs. Excessive increases in minimum wages are likely to reduce employment in award-reliant industries, particularly for youth, and especially when wages growth elsewhere in the economy remains moderate and inflation is low.
8. Economic research evidence on the impacts of minimum wages on employment generally supports the conclusion that there are risks to employment opportunities for youth, long-term unemployed people and those who are low-skilled – as well as other disadvantaged groups, such as Indigenous Australians.
9. The headline gender pay gap for full-time workers is 16.0 per cent in 2016, and the Government is committed to working to close this gap. However, the Government concurs with the Panel's 2014 finding that the annual wage review decision is not the most effective instrument for addressing the gender pay gap. The Government aims to address the gender pay gap through a range of initiatives, such as improving the gender balance in key industries, encouraging employers to understand and address gender pay inequity in their own organisation and enabling men and women to better balance the demands of work and family through more flexible, accessible and affordable childcare.
10. Similarly, increasing the national minimum wage is not an efficient way to address relative living standards or the needs of the low-paid. Low-paid employees are often found in high-income households. The tax-transfer system also provides considerable support to low-income households.

11. The Government submits that the Panel should take a cautious approach, taking into account the uncertain economic outlook and the need to boost employment and job creation, particularly for young people and the low-skilled. The minimum wage and award classification wages are only part of Australia's comprehensive safety net of workplace relations policies, public services and transfer payments.

1.1 Minimum and award classification wages and the low-paid

12. The Panel's decision impacts 122 modern awards, incorporating over 2,000 adult rates of pay, not just those on the national minimum wage. Around 2.3 million Australians are paid an award rate as of May 2016. Of these 2.3 million, the majority (70.3 per cent) are not low-paid and more than a quarter (26.5 per cent) are paid more than the median hourly wage (of \$29.00 per hour as at May 2016). The Panel should keep in mind the diversity of award classification wages which range from the current national minimum wage, approximately \$35,000 per year, up to around \$166,000 per year (*Air Pilots Award 2010*).
13. The Department of Employment estimates that in May 2016 (latest data) around 196,300 (or 1.9 per cent of all employees), were paid the national minimum wage rate, while 22.7 per cent of employees are on award classification rates.¹ In recent years, Annual Wage Review decisions have flowed through to all award classification wages at the same percentage as the increase in the national minimum wage.
14. Even among the low-paid, household financial situations are diverse. Minimum wage increases have a limited and uncertain effect on income inequality, particularly noting that a significant proportion of the low-paid are members of higher-income households - with 17.9 per cent of low-paid workers in the bottom two household income deciles, and 13.6 per cent in the top two household income deciles.

1.2 Economic environment

15. There are early signs of a more promising outlook for the global economy ahead, although risks and uncertainty remain.
16. Against this backdrop, the Australian economy continues to transition from the investment phase to the production phase of the mining boom (Chapter 3). The *2016-17 Mid-Year Economic and Financial Outlook* (MYEFO) forecasts real Gross Domestic Product (GDP) growth to strengthen to around trend rates in 2017-18, as the drag from the unwinding of the mining investment boom dissipates, and the economy transitions to broader-based growth, supported by historically low interest rates and a lower Australian dollar.
17. Labour market conditions in Australia have remained subdued over the past year (Chapter 4). Australia's unemployment rate has increased slightly over the last 12 months – the unemployment rate stood at 5.9 per cent in February 2017, up on the 5.7 per cent rate in February 2016.
18. The latest annual data show that over the past five years, average annual labour productivity growth in the market sector was higher than the five years prior (2.3 per cent and

¹ Some employees paid the national minimum wage rate are award-reliant.

1.3 per cent respectively) (Chapter 6). Recent data show an improvement in multifactor productivity growth since the terms of trade peaked in 2011. However, the Panel should note that productivity data can be volatile and subject to revision.

19. Award-reliant employees are more likely to work in small businesses (Chapter 5). While business conditions have shown encouraging signs of improvement, due to a long period of weak trading conditions, small businesses remain somewhat cautious in taking on additional labour. In making its decision, the Panel needs to carefully consider the impact on small businesses, in order to ensure their ongoing viability and growth, which will in turn support employment. Small businesses are significant employers, employing around 45 per cent of non-financial private sector employees and 34 per cent of employees on award classification wages.

1.3 Minimum and award classification wage impacts

1.3.1 Impacts on employment

20. Economists generally concur that beyond a certain level, excessive increases in minimum wages are likely to have deleterious effects on employment, particularly for young people and the low-skilled. Research on minimum wages and employment growth also tends to suggest that these effects are greater when labour market conditions are less robust (Chapter 7).
21. A range of research finds that there is a negative impact, particularly in periods of subdued labour market performance – and growth in hours worked has been weak recently. There is a risk to employment from excessive minimum wage increases, despite uncertainty as to the timing and magnitude of any impacts.
22. Many young and low-skilled people are already finding it difficult to get a job, and long-term unemployment remains higher than the level recorded prior to the global financial crisis. Excessive increases in the minimum wage and award classification wages are likely to impact on employment and/or inflation, and make it harder for long-term unemployed and young people to get into the labour market.
23. Low-paid and low-skilled employment often serves as an important entry point to the workforce and a stepping stone to higher paid employment. According to data from 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.
24. The Panel's decision should balance an appropriate concern for the needs of the low-paid and award-reliant employees against the need to support job opportunities for long-term unemployed people, the low-skilled and young people.

1.3.2 Impacts on inequality

25. According to the inequality researcher Peter Whiteford (2014), *"The most important source of inequality in Australia is whether you have a job or not."*
26. Inequality has risen across the developed world in recent decades, driven in large part by strong growth in wages for high skilled jobs, and slower growth in wages for low-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.

27. The rise in household income inequality in Australia has been less dramatic than in other English-speaking countries, particularly the United States (US) (Chapter 8).
28. In Australia, the current tax-transfer system is highly targeted towards low-income households, particularly families with children.
29. Since many low-paid workers are in households in the top half of the income distribution, there are better ways to address inequality than increases in the minimum wage and award classification wages.
30. Only part 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), since some low-paid people live in households with high effective marginal tax rates, and others live in households with relatively high disposable incomes. Similarly, the Panel's decision on the minimum wage and award classification wages is not well suited to addressing the complex factors underlying gender pay inequity, since the gender pay gap is greatest among high-income earners. Furthermore, since they are a larger proportion of the low-paid, women are likely to be particularly at risk from any impacts on employment.

2 Minimum wage and low-paid workers

Key Points

- Around 196,300 (or 1.9 per cent of employees in May 2016) are paid the national minimum wage rate of \$17.70 per hour.
- Most of the 2.3 million award-reliant workers are not low-paid (low-paid is defined as less than two-thirds of the median hourly wage).
- Low-paid workers have a diverse range of living standards and levels of household income. Nearly half of low-paid workers are in the top 50 per cent of household income.
- 60.9 per cent of low-paid workers are casuals who receive a higher hourly pay rate (25 per cent) in lieu of benefits such as sick or annual leave. This means that casual employees paid at the national minimum wage of \$17.70 per hour receive \$22.12 per hour once the casual loading is included.
- Increases in minimum and award wages are poorly targeted to improve low-paid workers' relative living standards and address the needs of the low-paid.

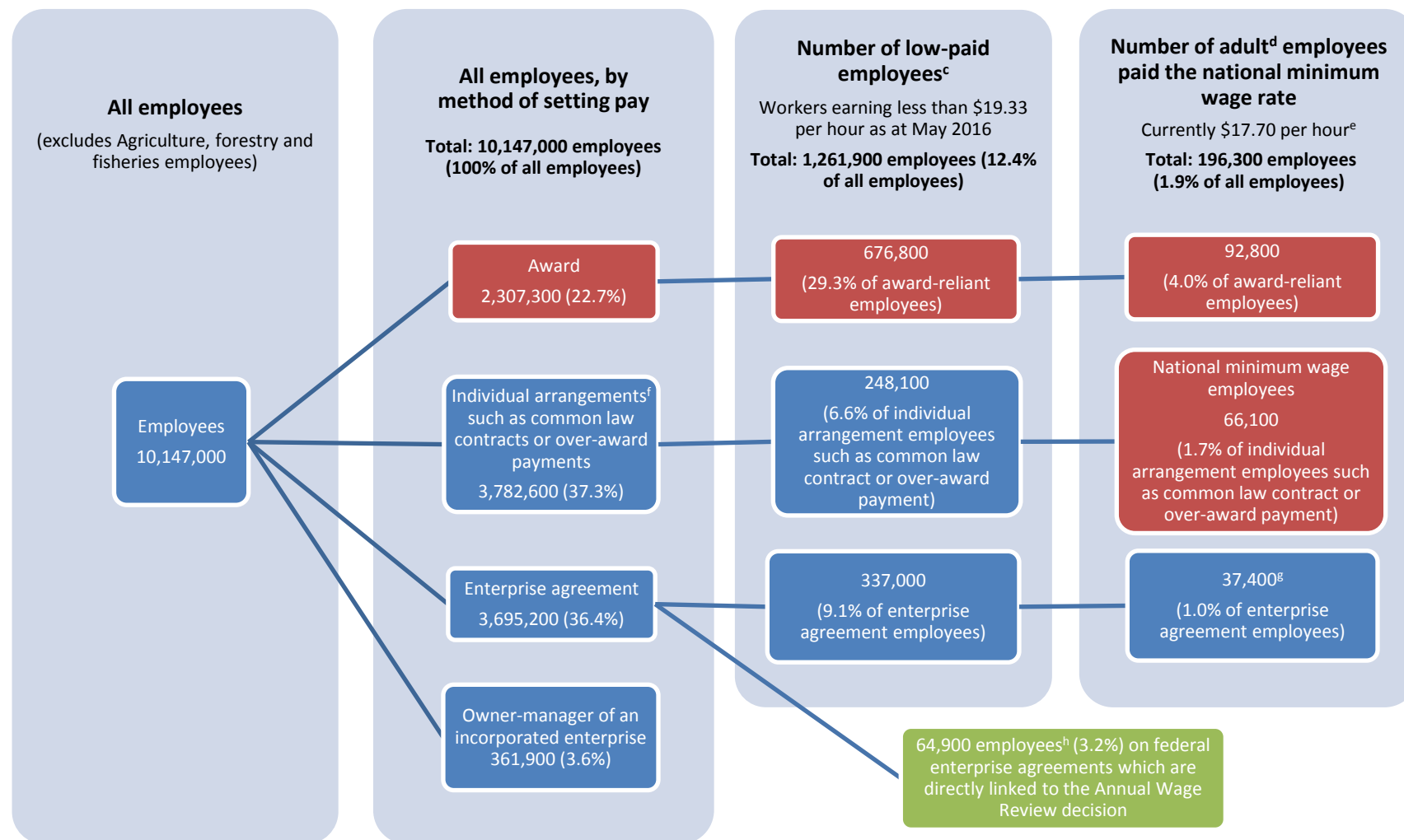
2.1 Coverage of the Panel's decision

31. 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 a range of minimum wages and conditions in certain occupations and industries. There are around 2,000 adult award rates of pay across the hundreds of classifications in the modern awards and these rates of pay vary widely.
32. The Panel's decision will be likely to directly affect employees paid the national minimum wage and employees whose pay is set by a modern award. In the past six Annual Wage Reviews, the Panel has increased modern award wages by the same percentage increase as 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 a collective agreement which is linked to the outcome of the Annual Wage Review.
33. 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.

2.1.1 National minimum wage employees

34. The national minimum wage is the lowest hourly rate of pay that can be paid to an adult employee. There are special national minimum wage rates for juniors, apprentices, trainees and workers with disability.
35. The adult national minimum wage is currently \$672.70 per week (\$17.70 per hour or \$34,980.40 per year). This is around 2.5 times the base rate of Newstart Allowance for singles (\$264.35 per week) and just above half of the Australian Bureau of Statistics (ABS) estimate of full-time median weekly earnings (\$1,200.00 per week, ABS *Characteristics of Employment*, August 2015).

Chart 2.1: Number of employees by method of setting pay and whether they are low-paid, May 2016(a)(b)



Source: ABS *Employee Earnings and Hours, May 2016*, Cat. No. 6306.0, published and unpublished data (including Department of Employment calculations); Department of Employment, Workplace Agreements Database, September 2016.

Note: (a) All numbers are for May 2016, except for the number of employees on agreements linked to the Annual Wage Review decision (in green), which is the September quarter 2016. (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 earning less than two-thirds of the median hourly wage. In May 2016, the median hourly wage was \$29.00 and employees earning below \$19.33 per hour were considered low-paid. (d) This excludes workers paid junior, apprentice and disability rates of pay. (e) The national minimum wage in May 2016 was \$17.29. Employees paid at or below \$17.50 per hour in May 2016 are considered to be paid the national minimum wage rate (this uses an upper error band of 21 cents). (f) The ABS classifies employees in the individual arrangement category if they have their pay set by an individual common law contract or arrangement, whether or not written, including where employees receive over-award payments. (g) These figures have a relative standard error of 25% to 50% and should be used with caution. (h) 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.

36. Using the 2016 *Employee Earnings and Hours* (EEH) survey, the Government estimates that around 196,300 Australian employees (or 1.9 per cent) are paid the national minimum wage rate (currently \$17.70 per hour).²

2.1.2 Award-reliant employees

37. In 2016, 22.7 per cent of Australian employees (or 2.3 million) had their pay set by an award. This has increased since 2014 where 18.8 per cent of all employees (or 1.9 million) had their pay set by an award. While part of this increase is a continuation of the trend since 2010, the ABS have noted that as part of the 2016 EEH cycle, they undertook a review of the application of the Method of Setting Pay conceptual framework. This resulted in the shift of a significant portion of employees in the NSW public sector to the Award only category between EEH 2014 and 2016. Improvements to ABS coding processes for Method of setting pay during this time also resulted in more recoding from Collective Agreements to Awards.
38. Award-reliant workers are diverse and work in a range of businesses. They are most likely:
- Working part-time;
 - Casually employed;
 - Working in small to medium sized businesses;
 - Working as Community and personal service workers, Labourers and Sales workers;
 - Working in the Accommodation and food services, Administrative and support services, Retail trade, Other services, Health care and social assistance, Rental, hiring and real estate services and Arts and recreation services industries.
39. There is a considerable spread in award wage rates. Award minimum wages range from the national minimum wage rate of \$672.70 per week up to \$3,189.27 per week (\$165,842.00 per year, *Air Pilots Award 2010*). The national minimum wage rate of \$672.70 per week features in just 45 of the 122 modern awards.³ In the remaining 77 modern awards, all wage rates are above the national minimum wage rate.
40. In previous submissions by the Government, an 'award wage bite' measure was developed to compare the median earnings of full-time award-reliant workers to the median earnings of all full-time workers. In May 2016, the median full-time award-reliant wage (\$1,139.00) was 82.8 per cent of the median full-time wage among all workers (\$1,376.00), reflecting that the vast majority of award-reliant workers are paid higher

² National minimum wage employees are classified as employees who are; (a) paid the adult rate, (b) non-managerial, (c) have their pay set through an unregistered individual arrangement, (d) with average ordinary time earnings of up to \$17.50 per hour. The earnings of casual employees are divided by 1.25 to adjust for the casual loading.

³ Of the 45 awards, 25 express the lowest adult wage rate as both the hourly national minimum wage of \$17.70 and the weekly national minimum wage of \$672.70, 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 commission 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.

wages than the national minimum wage (73.4 per cent higher on average).⁴ The results also showed that the award wage bite had risen since 2010.

41. For example, it is likely that the shift of employees in the NSW public sector to the Award only category between EEH 2014 and 2016 will have an impact on the award wage bite. Also, Department of Employment analysis using the EEH survey shows that from 2010 to 2016 there was large growth in the number of full-time award-reliant employees working in the Public administration and safety and Health care and social assistance industries.⁵ For both industries, this was accompanied by significant growth in median award wages relative to growth in median wages for all employees.

2.1.3 Other employees

42. 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 wage, but have their pay set through an individual arrangement or collective agreement;
 - The minimum wage adjustment may be passed on to higher wage earners in order to maintain wage relativities; and
 - Wage outcomes in many collective agreements are explicitly linked to Annual Wage Review outcomes. As of September 2016, there were 346,400 employees whose collective agreement was formally linked in some way to the Panel's decision.⁶ For 64,900 of these employees the link was direct and automatic.⁷

2.2 Who are the low-paid?

43. In reviewing and determining minimum award wages, the Panel must have regard to the relative living standards and needs of low-paid workers. In this submission, low-paid workers are defined as workers earning less than two-thirds of the median hourly wage. Using the May 2016 EEH data, workers earning below \$19.33 per hour are considered low-paid. This is similar to the \$19.05 per hour low-paid threshold set using the 2015 HILDA survey. Appendix A contains a detailed discussion of the methodology used by the Government to calculate the number of low-paid workers.
44. Government analysis using data from the EEH shows there were about 1.3 million low-paid employees in 2016, comprising 12.4 per cent of all employees. Around one-third of award-reliant workers were low-paid.
45. Analysis using the HILDA Survey shows that, in general, low-paid workers are more likely to be young, female, single or without children. They also have varied living standards and

⁴ ABS *Employee Earnings and Hours*. The full-time median wage for award-reliant workers only includes non-managerial employees paid at the adult rate.

⁵ Refers to full-time non-managerial employees paid at the adult rate.

⁶ This includes agreements in which a) there is a reference to the operation of the Fair Work Act 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.

⁷ This includes agreements in which the entirety of the Annual Wage Review decision is applied in full and automatically to wages.

levels of household income with nearly half of low-paid workers in the top 50 per cent of household income.

46. Given this, minimum wage increases are not well-targeted at lifting the relative incomes of low-paid households, as wage increases will also be directed to well-off households. Furthermore, as discussed in Chapter 7, low-paid work is temporary for a majority of low-paid workers (in both low- and high-income households) and often serves as a stepping stone to higher paid work.
47. As also discussed in Chapter 8, minimum wage increases have a limited and uncertain effect on income inequality, noting that a significant proportion of the low-paid are members of higher-income households.

2.2.1 Characteristics of low-paid workers

48. Low-paid workers have a diverse range of characteristics. Analysis from the HILDA Survey shows that in 2015:
 - Low-paid workers were more likely to be female. About 56.4 per cent of low-paid workers were female, while 43.6 per cent were male.
 - Low-paid work tended to be concentrated among younger workers.⁸ Over half (55.3 per cent) of low-paid workers were aged under-30, with 15.1 per cent aged between 15 and 19 years old, and slightly above a quarter (26.7 per cent) in the 20 to 24 year old age cohort. About 12.9 per cent of low-paid workers were aged over 55 years old.
 - Slightly below a quarter of low-paid workers were full-time students (22.9 per cent).
 - Low-paid workers lived in a broad range of household types. About 57.9 per cent of low-paid workers were single without children, 15.1 per cent were a member of a couple with children, 22.8 per cent were a member of a couple without children and 4.1 per cent were single parents.⁹
 - Low-paid workers were more likely to be casuals. About 60.9 per cent of low-paid workers were casuals, while 39.1 per cent were permanent employees. Casual employees are paid a loading of typically 25 per cent. This means that casual employees paid at the national minimum wage of \$17.70 per hour actually receive \$22.12 per hour once the casual loading is included.
49. Further detailed characteristics of low-paid workers, including occupation, industry and education are listed in Appendix A.

2.2.2 Low-paid workers and household income

50. 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 (discussed further in Chapter 8). Low-paid workers live in a

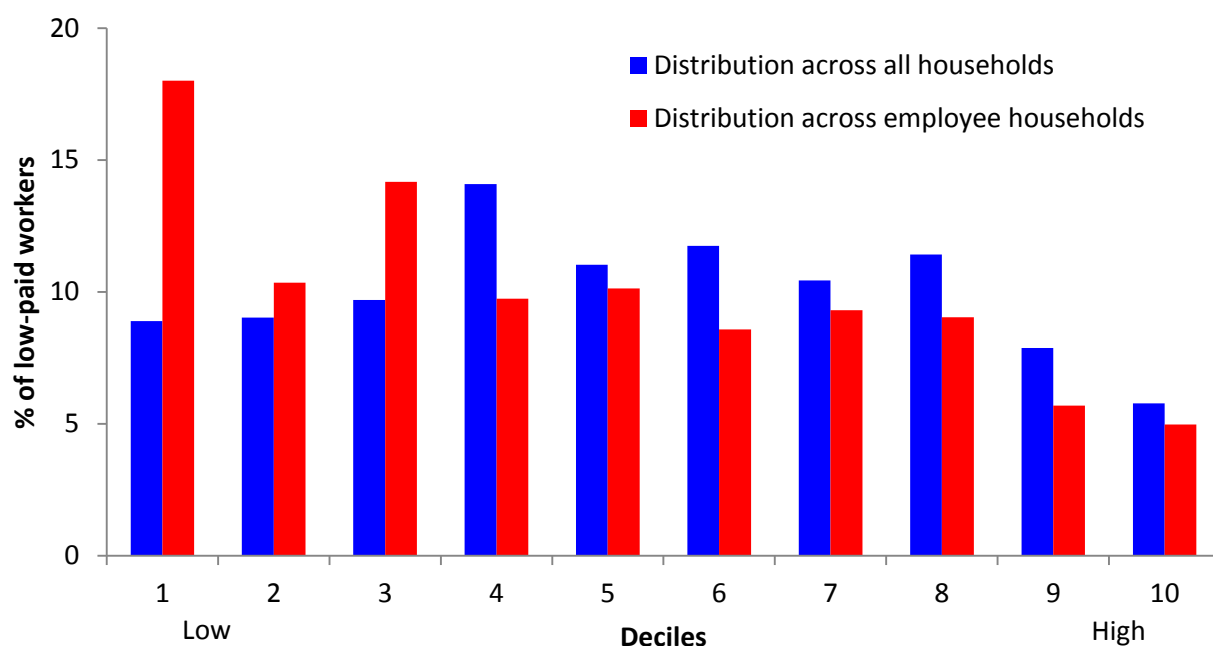
⁸ Low-paid thresholds for workers aged under-21 have been deflated by the relevant junior minimum wage rates. See Appendix A for further detail.

⁹ 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.

diverse range of household types and will thus have a diverse set of living standards. In general, household income is a better proxy of economic wellbeing than individual income.¹⁰

51. 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).
52. Under both methods, it is important to ensure that income is adjusted for household needs, due to differences in size and composition.¹¹ Chart 2.2 compares the distribution of low-paid employees across the disposable household income distribution using both of these methods.¹² Across *all* households, low-paid workers tend to be concentrated in the middle of the income distribution, with only 17.9 per cent of low-paid workers in the bottom two income deciles, and 13.6 per cent in the top two deciles.¹³

Chart 2.2: Distribution of low-paid employees, by equivalised household disposable income, comparing all households and employee households, 2015



Source: *HILDA* Survey, release 15 (December 2016), wave 15.

53. 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, 62.4 per cent of low-paid employees

¹⁰ However, the Government acknowledges that in some households, household income is not shared among household members, e. g. shared household arrangements.

¹¹ 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.

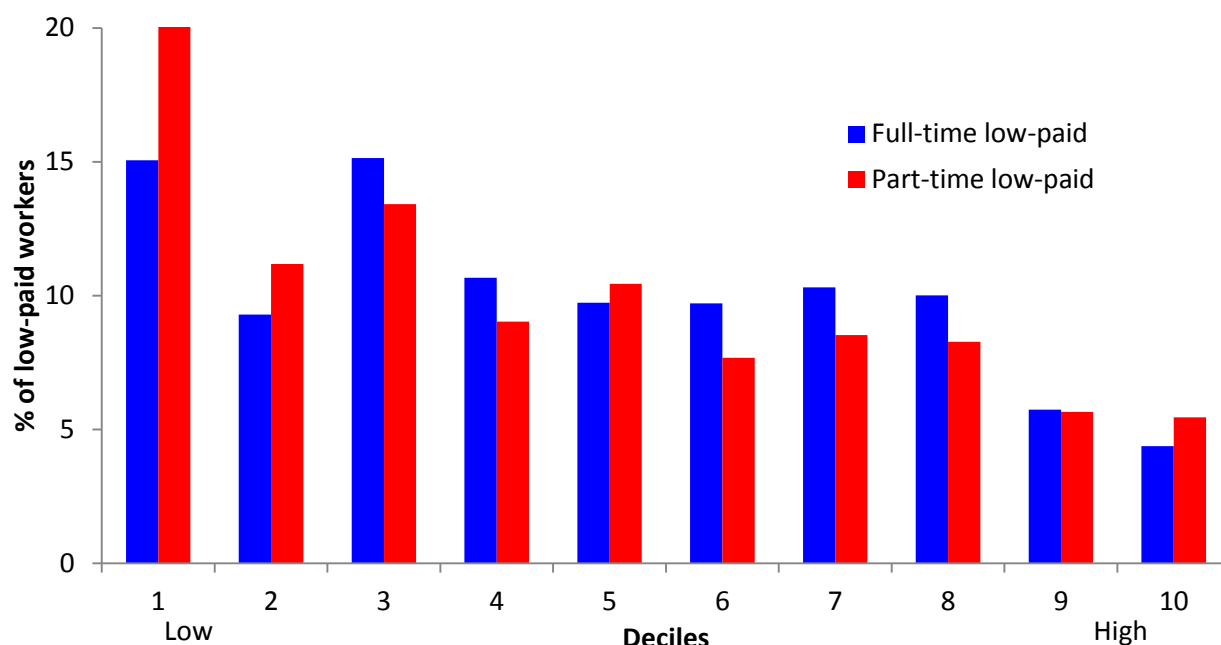
¹² Disposable household income refers to household private income plus government transfers, less taxes.

¹³ 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.

are in the bottom five income deciles, with 28.4 per cent in the bottom two deciles. This means that 37.6 per cent are in the top five deciles, with 10.7 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.

54. Chart 2.3 shows the distribution of low-paid workers across the household income distribution, broken down by full-time or part-time employment status. 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, 20.4 per cent of low-paid part-time employees live in households in the bottom income decile, compared to 15.1 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.

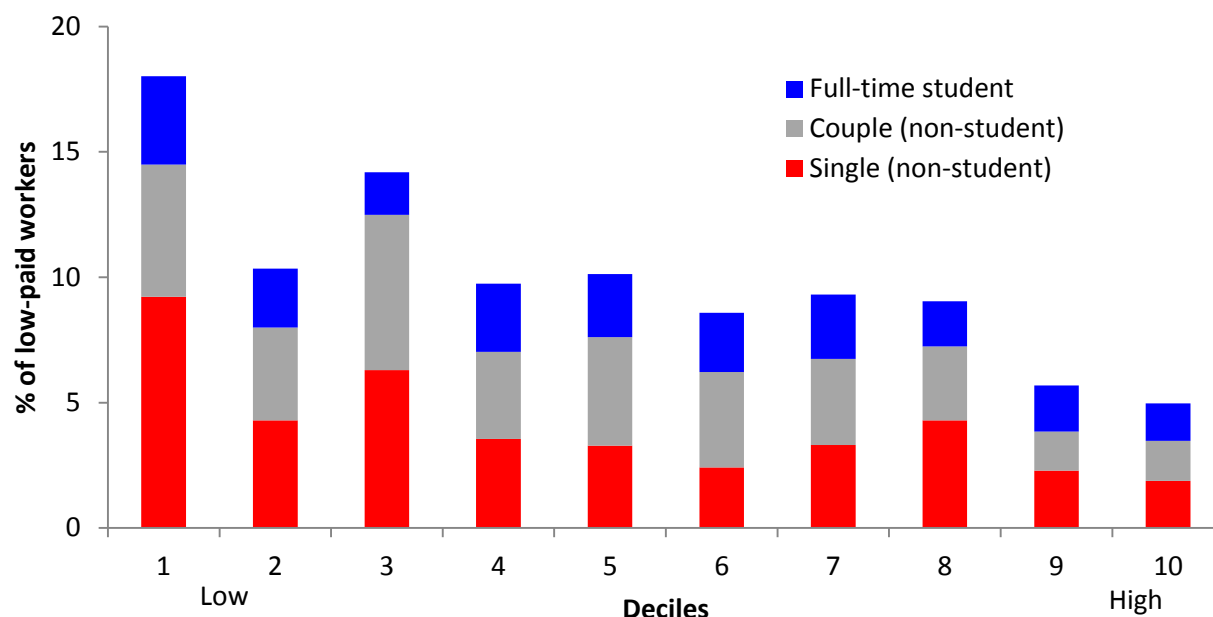
Chart 2.3: Distribution of low-paid employees, by equivalised household disposable income, employee households only, 2015



Source: *HILDA Survey*, release 15 (December 2016), wave 15.

55. Of the 22.9 per cent of low-paid workers who are full-time students, over two-thirds (67.9 per cent) are dependent students. Their household income and living standards are likely to be largely determined by their parents' earnings, rather than their own. Hence, as shown in Chart 2.4, they are spread rather evenly across the income distribution.

Chart 2.4: Distribution of low-paid employees, by equivalised household disposable income and partnered status, employee households only, 2015



Source: *HILDA Survey*, release 15 (December 2016), wave 15.

Note: Calculations for singles and partnered categories exclude full-time students in order to create mutually exclusive groupings.

56. There is also a substantial spread in household income across all coupled low-paid workers. As shown in Table 2.1, around 10.0 per cent were with a partner earning less than \$25,000 per year, compared with 20.6 per cent with partner's earnings between \$25,000 and \$50,000, 32.9 per cent with partner's earnings between \$50,000 and \$100,000 and 11.8 per cent with partner's earnings of more than \$100,000. Also, 24.7 per cent of coupled low-paid employees (around 136,000 persons) have a partner who is not employed.

Table 2.1: Earnings of low-paid workers' partners, 2015

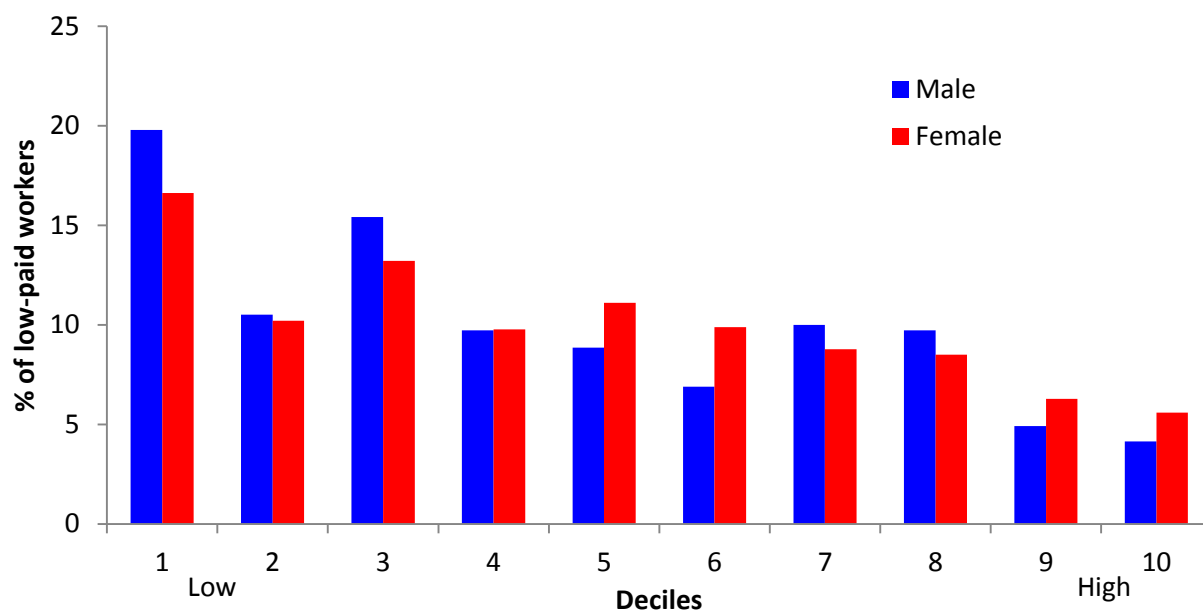
Partner 2	Partner 1 – Low-paid employee (%)		
	Full-time	Part-time	Total
Less than \$25,000	5.4	4.6	10.0
\$25,000 ~ \$50,000	11.9	8.7	20.6
\$50,000 ~ \$75,000	12.1	8.9	21.0
\$75,000 ~ \$100,000	5.0	6.8	11.9
More than \$100,000	3.9	8.0	11.8
Not employed	14.7	10.1	24.7
Total	53.0	47.0	100

Source: *HILDA Survey*, release 15 (December 2016), wave 15.

Notes: Numbers in table may not sum exactly due to rounding.

57. Low-paid women are slightly more evenly spread across the household income distribution than men. As shown in Chart 2.5, 26.7 per cent of low-paid women were in the bottom two income deciles, compared to 30.3 per cent of men. Around 11.9 per cent of women are in the top two income deciles compared to 9.1 per cent of men.

Chart 2.5: Distribution of low-paid employees, by equivalised household disposable income and gender, employee households only, 2015



Source: HILDA Survey, release 15 (December 2016), wave 15.

2.3 Conclusion

58. The vast majority of workers impacted by the Panel's decision (when the decision is applied across every pay rate in all awards) are paid more than the national minimum wage and are not defined as low-paid employees.
59. 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.
60. Given these factors, there are more effective mechanisms (such as the tax-transfer system, see Chapter 8) for addressing the relative living standards of low-paid workers than raising minimum and award classification wages.

3 Economic Environment

Key Points

- The Australian economy continues to transition from the investment phase to the production phase of the mining boom.
- Economic growth is expected to strengthen as the drag from the decline in mining investment dissipates and the economy transitions to broader-based growth, supported by historically low interest rates and a lower Australian dollar.
- Wage flexibility (the capacity for wages to respond to developments in the economy) continues to support employment during the transition period.
- While the outlook for global growth remains uncertain, there are signs that are encouraging. The global economy is expected to continue its recovery over coming years.

3.1 Introduction

61. The outlook presented in the 2016-17 MYEFO is for economic growth to strengthen as the detraction from mining investment eases. Exports and household consumption are expected to support growth, with dwelling investment higher in the near term. A modest recovery in non-mining business investment is expected.
62. Wage flexibility (or the extent to which wages are able to move in response to developments in the economy) is an important adjustment mechanism in the economy that supports employment and facilitates the significant transition taking place in the economy.
63. In making its decision, the Panel should have regard to the role of wage flexibility to support the economy during the continued transition to broader-based growth.

3.2 International outlook

64. There are growing signs of a more positive outlook for the global economy ahead, including in our region.
65. Global growth is forecast to be 3¼ per cent in 2017 and 3½ per cent in 2018, up from an estimated 3.1 per cent in 2016.
66. Australia's major trading partners are forecast to continue to grow at a stronger pace than the global economy, at a rate of 4 per cent in 2017 and 2018.
67. The outlook for China is particularly important for Australia. The Chinese economy grew at 6.7 per cent for 2016. This remains in line with the authorities' target of 6.5 to 7 per cent. Growth has been supported by policy stimulus and strong credit growth. The Chinese authorities continue to seek a balance between providing support to short-term demand, while also progressing longer-term structural reforms aimed at addressing industrial overcapacity and rising risks in the financial system.
68. In the United States economic momentum has improved recently and strong consumption growth and a robust labour market should continue to underpin activity. The economic impact of the new US Administration economic policies on Australia will

depend on how they affect the US economy directly and global growth momentum more broadly.

69. The recovery in the euro area is forecast to remain modest but economic sentiment appears to have strengthened recently. The outcome of the June 2016 'Brexit' referendum resulted in a period of heightened financial market volatility and uncertainty. This volatility has since receded.
70. There are significant uncertainties for the global outlook. An increase in populist and anti-globalisation sentiment in some countries and regions may make it difficult to advance or maintain economic reform momentum.

3.3 Domestic outlook

71. Australia's real GDP is forecast to grow by 2 per cent in 2016-17. This is weaker than forecast at the 2016-17 Budget, partly reflecting the decline in GDP in the September quarter 2016. The September quarter outcome was partly the result of one-off factors, including weather related falls in non-residential construction and dwelling investment, which recovered in the December quarter.
72. Economic growth is forecast to strengthen to 2¾ per cent in 2017-18 as the detraction from mining investment eases.
73. The transition underway in the economy from the investment phase to the production phase of the mining boom is expected to continue. Exports and household consumption are expected to support growth, with dwelling investment higher in the near term. A modest recovery in non-mining business investment is expected.

3.3.1 Business conditions

74. Business investment is forecast to fall by 6 per cent in 2016-17 and to be flat in 2017-18. This reflects further large forecast falls for mining investment of 21 per cent in 2016-17 and 12 per cent in 2017-18.
75. The impact of this decline in mining investment on the economy is expected to diminish over the forecast period. In line with the transition in the Australian economy, non-mining business investment is expected to rise moderately over coming years.
76. Business conditions in the non-mining sector remain above average and borrowing costs remain low. These factors provide a supportive backdrop for an improvement in non-mining investment.
77. To date, the transition has played out differently across the States and Territories. Economic conditions in the mining States have been subdued as mining investment has declined and increased resource exports have only partially offset subdued domestic demand. In the non-mining States, conditions have generally been stronger, with some evidence of a pick-up in non-mining business investment.
78. Commodity prices are volatile and remain a key uncertainty to the outlook for the terms of trade and nominal GDP. After falling in recent years, sharp rises in key commodity prices occurred late last year.
79. Expectations, based on extensive business liaison, are that these elevated prices are unlikely to be sustained but will support nominal GDP in the near-term.

80. In line with this, the terms of trade are forecast to rise strongly in 2016-17 and then fall in 2017-18 as commodity prices retrace their recent gains.

3.3.2 Consumption and dwelling investment

81. In MYEFO 2016-17, household consumption is forecast to grow by 2¾ per cent in 2016-17 and 3 per cent in 2017-18, supported by further employment growth and low interest rates. The household saving rate is expected to continue to decline over the forecast period as consumption growth outpaces modest growth in disposable incomes.
82. Dwelling investment has been robust in recent years, driven by investment in medium-to-high density dwellings. Dwelling investment is forecast to grow by 4½ per cent in 2016-17 before easing to ½ per cent in 2017-18, as the current pipeline of construction is completed.

3.3.3 Employment

83. Employment is forecast to grow at a more moderate pace of 1¼ per cent through the year to the June quarter 2017.
84. Employment growth is expected to increase to 1½ per cent through the year to the June quarter 2018 as economic growth strengthens.
85. The unemployment rate has declined since its recent peak of 6.3 per cent in July 2015.
86. While the unemployment rate has fallen, the underemployment rate suggests that spare capacity remains in the labour market.
87. The participation rate fell to 64.4 per cent in September 2016, with large decreases recorded in Western Australia and Queensland in particular. Despite retracing some of these falls in November and December 2016, the forecast for the participation rate has been revised down since the 2016 Pre-Election Fiscal and Economic Outlook (PEFO) and it is expected to be 64½ per cent in the June quarters of 2017 and 2018.

3.3.4 Wages

88. Adult Weekly Ordinary Time Earnings (AWOTE) increased by 2.2 per cent through the year to November 2016. There was an increase of 1.9 per cent in the private sector and 3.4 per cent in the public sector.
89. Average compensation per employee (on a national accounts basis) decreased by 0.9 per cent in the December quarter to be 0.1 per cent higher through the year.
90. Compositional changes in the employee population can affect the level of average earnings. For example, the increasing share of part-time employment or employment growth in lower paid industries such as health care and social assistance and education and training may have contributed to this weakness. However, growth in the Wage Price Index (which abstracts from compositional change) is also subdued.
91. Wage growth as measured by the Wage Price Index, was 1.9 per cent through the year to the December quarter 2016. There was an increase of 1.8 per cent in the private sector and 2.3 per cent in the public sector.

- 92. Wage Price Index growth was lower than at the time of the Panel's 2016 decision (2.4 per cent).
- 93. The current rate of wage growth is part of the adjustment as the economy transitions from the investment-phase to the production phase of the commodities boom.
- 94. Of the four most award-reliant industries, the strongest wage growth was recorded in accommodation and food services (up 2.2 per cent through the year to the December quarter 2016) followed by retail and other services (both up 1.8 per cent).
- 95. In line with consumer prices, wage growth is expected to increase gradually over the forecast period to be 2¼ per cent through the year to the June quarter 2017 and 2½ per cent through the year to the June quarter 2018.
- 96. The forecast for sustained low wage growth should be factored into the Panel's decision.

3.3.5 Inflation

- 97. Consumer price inflation is low reflecting subdued wage growth and other factors such as heightened competition in the retail sector, slower growth in rents and lower import and petrol prices. There is also a subdued inflationary environment globally.
- 98. Consumer prices are expected to grow by 1¾ per cent through the year to the June quarter 2017, before picking up to 2 per cent through the year to the June quarter 2018. This is lower than forecast at the 2016 PEFO.

3.3.6 Productivity

- 99. In the 5-year period to 2015-16, (labour) productivity in the whole economy grew by 1.8 per cent, while productivity in the (16-industry) market sector grew by 2.3 per cent. Over this period, productivity in the award-reliant, retail and accommodation and food services industries grew by 1.9 and 0.8 per cent respectively, below market sector growth.
- 100. In 2015-16, productivity in the whole economy grew by 0.9 per cent, while market sector productivity grew by 1.5 per cent. In the retail and accommodation and food services industries, productivity growth was also less than market sector growth at 0.8 and 0.2 per cent respectively. However, caution should be exercised in interpreting short-run productivity movements as the data are volatile and subject to revision. Average growth rates over a number of years can smooth out short-term volatility and provide a more meaningful measure of underlying trends.

4 Labour market developments

Key Points

- ABS data suggest that labour market conditions have remained subdued over the last year, with the pace of employment growth slowing over the period.
- Long-term unemployment (defined as those who have been continuously unemployed for 52 weeks or longer) as a proportion of the total unemployment pool stood at 23.5 per cent in February 2017.
- Young people comprised 29.2 per cent of total long-term unemployment in February 2017.
- The unemployment rate is currently forecast to be around 5½ per cent in the June quarter of 2017 and remain at that rate in the June quarter of 2018.

4.1 Broad labour market conditions

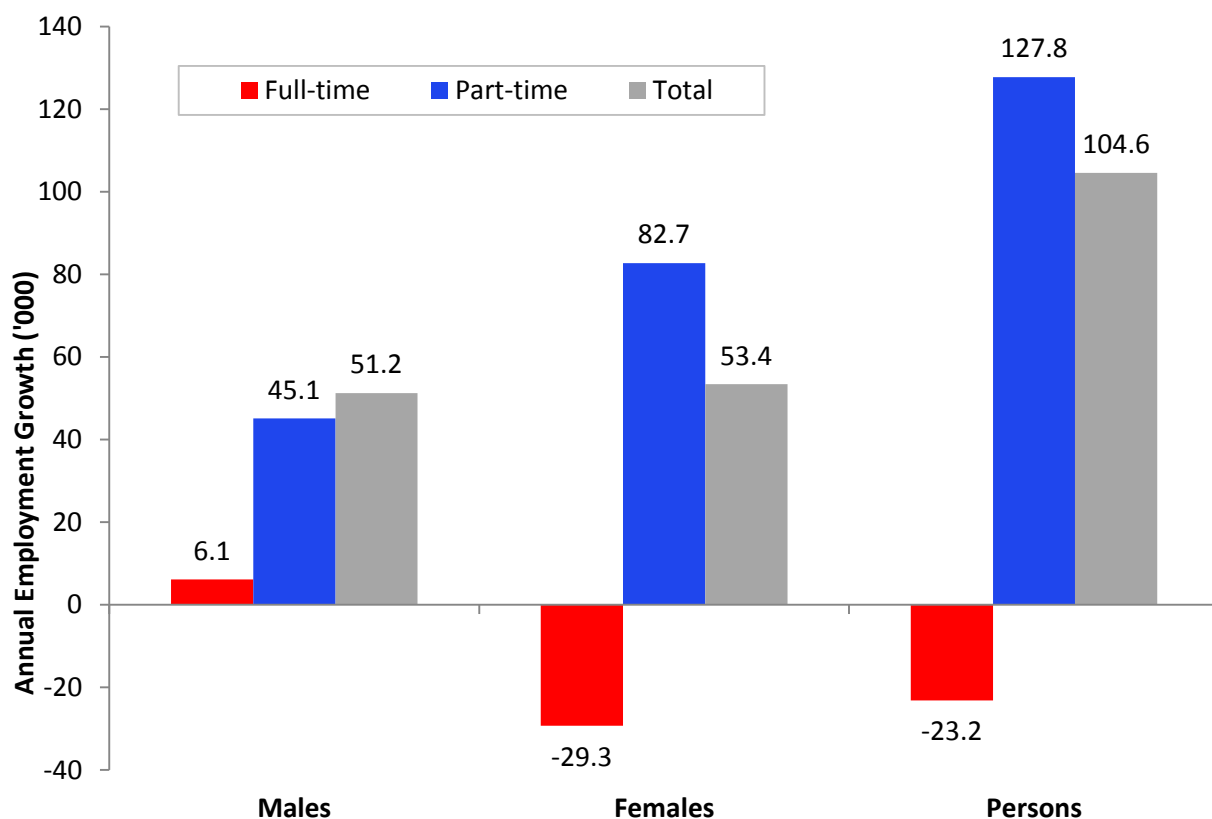
102. Underlying labour market conditions are one of the factors to which the Panel must have regard when making its decision about the national minimum wage and award classification wages, as the decision may impact on employers' plans to hire more staff. This chapter outlines the most recent developments.
103. ABS data suggest that labour market conditions in Australia have remained subdued over the last 12 months, with the level of employment increasing by 0.9 per cent over the year to February 2017, below the decade average rate of 1.5 per cent.
104. The unemployment rate has risen over the period, from 5.7 per cent in February 2016, to 5.9 per cent in February 2017, while the participation rate has also decreased by 0.3 percentage points over the last year, to 64.6 per cent in February 2017.
105. A number of groups, including youth, long-term unemployed people, Indigenous Australians, low-skilled people and those located in specific economically weak regions, continue to experience weaker outcomes in the labour market than the national average.
106. Labour market conditions vary across Australian industries and regions, with some performing strongly, while others have been more subdued. For example, employment grew strongly over the past year in the Public administration and safety industry, supported by increases in employment in state and central government administration, as did employment in the Education and training industry. On the other hand, the Health care and social assistance and Professional, scientific and technical services industries, which were the largest contributors to employment growth over the past 10 years, have grown at a slower rate over the past year.
107. The 2016-17 MYEFO forecasts are employment to grow by 1¼ per cent in 2016-17, before increasing slightly to 1½ per cent in 2017-18. The unemployment rate is expected to be 5½ per cent in the June quarter 2017 and remain at that rate in the June quarter 2018.

4.2 Employment

108. The level of employment has increased by 104,600 (or 0.9 per cent) over the year, to stand at 11,998,800 in February 2017, below the annual average growth rate of 1.5 per cent over the last decade.

109. Full-time employment has fallen by 23,200 (or 0.3 per cent) over the last 12 months, to 8,158,900 in February 2017, while part-time employment has increased by 127,800 (or 3.4 per cent), to 3,840,000 (ABS *Labour Force, February 2017*).
110. Female employment growth (up by 53,400 or 1.0 per cent) has outpaced male employment growth (up by 51,200 or 0.8 per cent) over the year to February 2017.

Chart 4.1: Change in full-time, part-time and total employment ('000s) by sex, February 2016 to February 2017



Source: ABS *Labour Force, Australia, February 2017*, Cat. No. 6202.0, seasonally adjusted data.

4.2.1 Employment growth in award-reliant industries

111. Over the year to February 2017, employment increased in three of the four most award-reliant industries. Accommodation and food services recorded the largest employment gain of the most award-reliant industries (up by 20,300 or 2.4 per cent), followed by Other services (up by 15,600 or 3.3 per cent) and Administrative and support services (up by 15,400 or 3.7 per cent). Retail trade recorded the largest decline in employment across all industries (down by 59,300 or 4.7 per cent).

Table 4.1: Employment growth by industry, February 2007 to February 2017

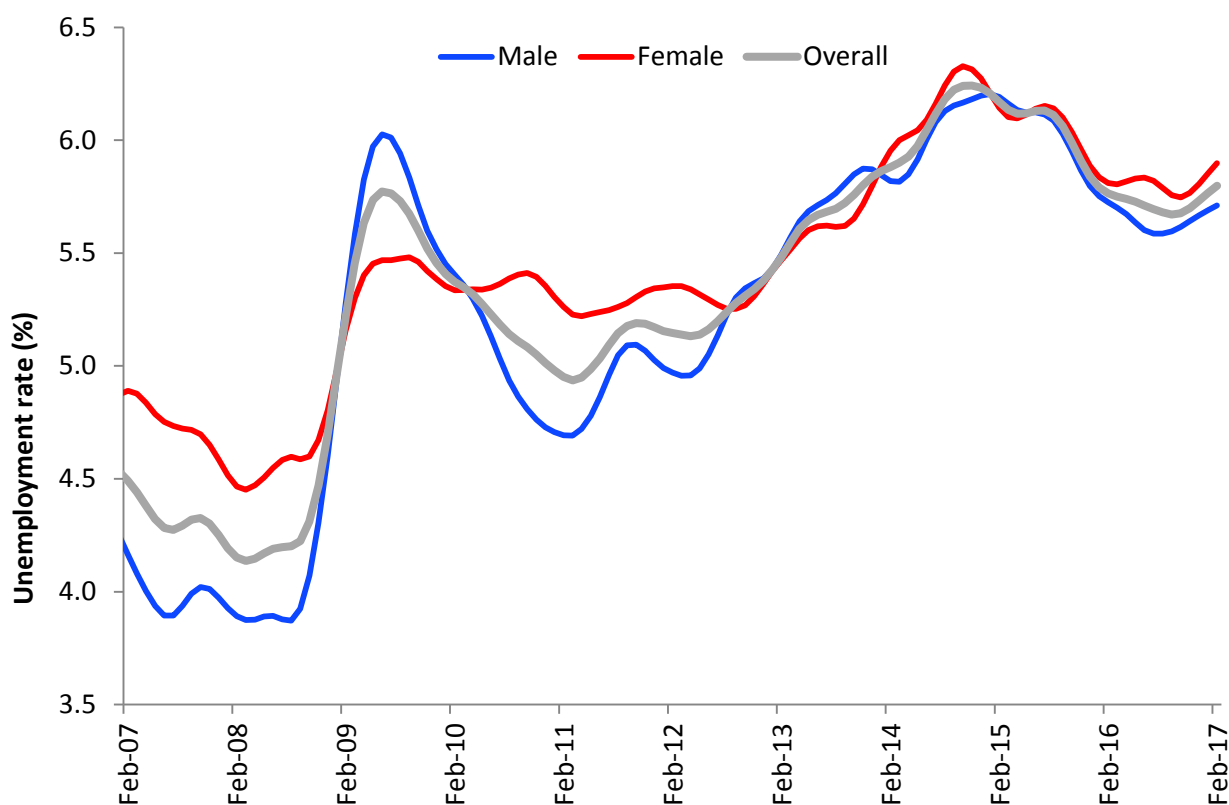
Industry	Change in employment over 10 years	
	('000)	(%)
Agriculture, forestry and fishing	-50.8	-14.8
Mining	104.0	76.0
Manufacturing	-100.2	-9.9
Electricity, gas, water and waste services	30.0	29.2
Construction	165.4	17.7
Wholesale trade	-21.5	-5.4
Retail trade	40.9	3.5
Accommodation and food services	151.1	21.6
Transport, postal and warehousing	80.9	15.7
Information media and telecommunications	-41.9	-16.9
Financial and insurance services	29.1	7.2
Rental, hiring and real estate services	14.6	7.3
Professional, scientific and technical services	287.2	39.1
Administrative and support services	83.1	23.6
Public administration and safety	185.6	28.9
Education and training	213.9	28.5
Health care and social assistance	441.7	41.8
Arts and recreation services	25.5	13.9
Other Services	75.2	18.3
Total	1755.1	17.1

Source: ABS *Labour Force, Australia, Detailed, Quarterly, February 2017*, Cat. No. 6291.0.55.003, trend data. Bold italics signify the four most award-reliant industries.

112. Over the past decade, three of the four most award-reliant industries exceeded the employment growth rate across all industries, namely, Administrative and support services (growth rate of 23.6 per cent, compared with 17.1 per cent across all industries), Accommodation and food services (21.6 per cent) and Other services (18.3 per cent). By contrast, Retail trade (3.5 per cent) recorded a growth rate below the all industries average (see Table 4.1).

4.3 Unemployment

113. The level of unemployment in Australia has increased by 26,900 (or 3.7 per cent) over the year, to stand at 748,100 in February 2017. Male unemployment rose by 13,700 (or 3.6 per cent) over the period, while female unemployment also increased, by 13,200 (or 3.9 per cent) (ABS *Labour Force*).
114. The unemployment rate stood at 5.9 per cent in February 2017, above the 5.7 per cent recorded in February 2016 (see Chart 4.2), and it remains above the troughs recorded in the last decade.

Chart 4.2: Unemployment rates by sex, February 2007 to February 2017

Source: ABS Labour Force, Australia, February 2017, Cat. No. 6202.0, trend data.

4.3.1 Underemployment

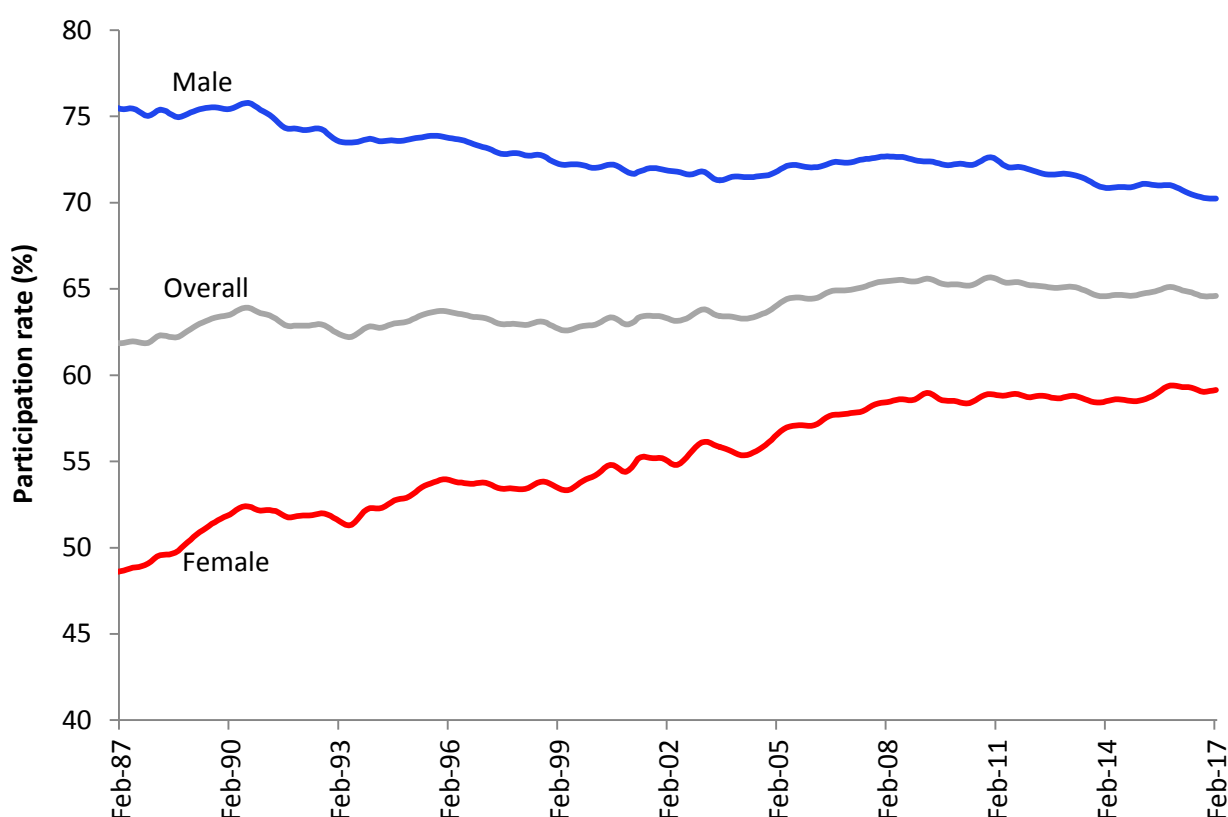
115. The ABS defines underemployed workers as those persons who are not fully employed and want, and are available for, more hours of work. The underemployment rate refers to the number of underemployed workers expressed as a percentage of the labour force.
116. The level of underemployment has increased by 62,600 (or 5.9 per cent) over the year, to stand at 1,114,600 in February 2017. Underemployed workers are composed mainly (just under 93 per cent) of part-time workers who preferred more hours and were available to start working those hours. The remainder were full-time workers who worked part-time hours in the ABS survey reference week for economic reasons (such as being stood down or insufficient work being available).
117. Female underemployment has increased over the year, up by 42,100 (or 7.0 per cent), to 645,700 in February 2017, while male underemployment has also risen over the period, up by 20,500 (or 4.6 per cent), to 468,900.
118. The overall underemployment rate has increased from 8.3 per cent in February 2016, to 8.7 per cent in February 2017. The female underemployment rate has risen by 0.5 percentage points over the year, to 10.8 per cent in February 2017, while the male underemployment rate has also increased over the period, from 6.6 per cent in February 2016 to 6.8 per cent in February 2017.
119. It is important to bear in mind, however, that a significant majority (72.5 per cent) of part-time workers preferred not to work more hours in February 2016 (latest available data). 7.5 per cent of all part-time workers were actively seeking and available to start full-time

work in February 2016, as many were undertaking activities which precluded them from working more hours, including caring responsibilities and participation in education, to cite two examples.

120. In addition, underemployed workers have a foothold in the jobs market and can potentially use this as a 'stepping stone' to achieving their desired hours of employment.
121. Research by Mitchell and Muysken (2008) and Connolly (2016) has found that underemployment is negatively associated with wages growth in Australia.

4.4 Participation rate

122. Australia's national participation rate has decreased by 0.3 percentage points over the year, to 64.6 per cent in February 2017, well below the record high of 65.8 per cent recorded in November 2010.
123. 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, continues to place downward pressure on the participation rate, with significant numbers 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 a higher participation rate of mature age workers (persons aged 55 years and above).
124. With respect to a gender breakdown, the male participation rate has decreased over the year, from 70.7 per cent in February 2016 to 70.3 per cent in February 2017. The female participation rate has also declined over the period, from 59.3 per cent in February 2016, to 59.0 per cent in February 2017 (ABS *Labour Force*).

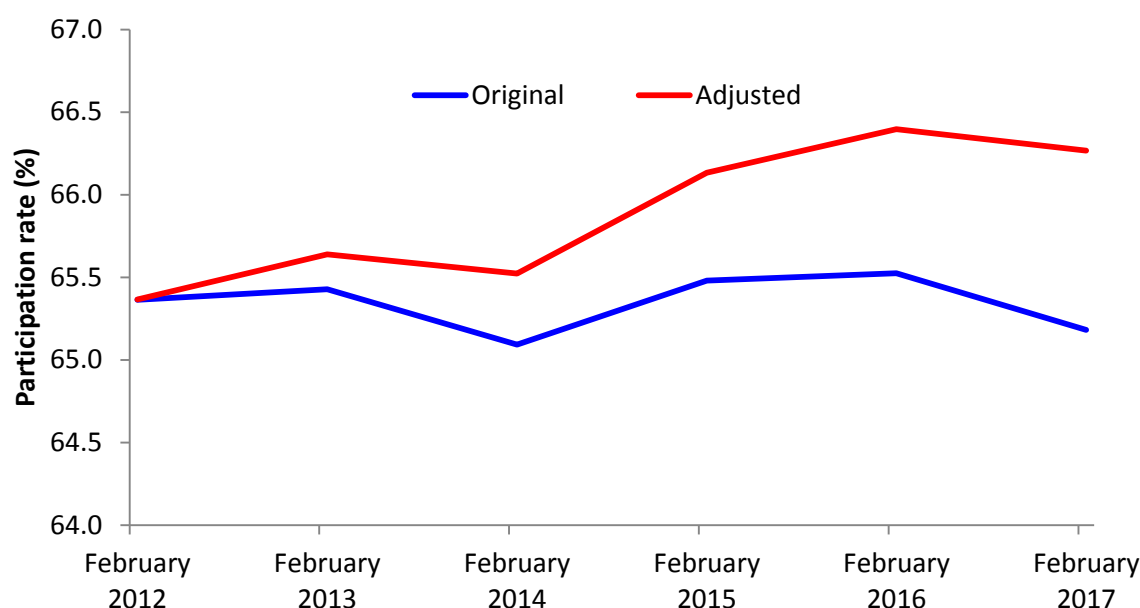
Chart 4.3: Participation rates by sex, February 1987 to February 2017

Source: ABS Labour Force, Australia, February 2017, Cat. No. 6202.0, trend data.

125. In terms of an age breakdown, persons aged 35-44 recorded an increase in participation, up from 83.7 per cent in February 2016, to 84.0 per cent in February 2017. By contrast, the participation rate for persons aged 15-24 has declined over the last year, from 67.3 per cent in February 2016, to 66.8 per cent in February 2017.
126. It is likely in the coming years that the effect of population ageing will outweigh the positive impact of increased mature age and female participation, putting downward pressure on the participation rate.
127. Indeed, analysis by the Department of Employment shows that while the overall participation rate (in original terms)¹⁴ has declined from 65.4 to 65.2 per cent over five years to February 2017, this process has been driven entirely by the ageing of the population, partially offset by increasing age-specific participation rates.
128. Analysis by the Department of Employment (Chart 4.4) shows that if there had been no change in the age distribution of the population since February 2012, then the participation rate in February 2017 would have been over one percentage point higher (66.3 as opposed to 65.2 per cent).

¹⁴ Data in paragraphs 125-126 and Chart 4.4 are in original terms and are not seasonally adjusted. This is because the ABS does not publish seasonally adjusted labour force participation rates by age group (for those aged 25 years and older).

Chart 4.4: Age-adjusted participation rates, February 2012 to February 2017



Source: Department of Employment calculations from ABS *Labour Force, Australia, Detailed-Electronic Delivery, Feb 2017*, Cat. No. 6291.0.55.001.

129. This analysis presented in Chart 4.4 broadly aligns with Treasury analysis over a three-year time horizon. This analysis indicates the ageing of the population has been offset by long-term increases in female participation, delayed retirement and short-term cyclical factors. Quarterly data indicates that over the three years to December quarter 2015, the effect of ageing subtracted 0.66 percentage points, reflecting the rising share of older age groups which exhibit lower participation rates. In contrast, the effect of rising participation rates within cohorts (particularly among females and the older age groups) contributed 0.43 percentage points to the participation rate over this time. Cyclical factors are estimated to have contributed around 0.33 percentage points to the participation rate due to the encouraged worker effect.

4.5 Key groups in the labour market

130. A number of groups (including long-term unemployed people and youth) continue to experience weak outcomes in the labour market. Members of these groups are more likely to seek employment in low-paid jobs and are therefore likely to be more adversely affected by any slowing in the economy or below-trend employment growth. 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 Long-term unemployed people

131. The level of long-term unemployment¹⁵ has increased over the year to February 2017, by 2,900 (or 1.7 per cent), to 175,600.
132. Over the year to February 2017, male long-term unemployment has fallen by 1,400 (or 1.4 per cent), while female long-term unemployment has increased by 4,300 (or 6.0 per cent) over the period.
133. The level of very long-term unemployment¹⁶ has also risen over the year to February 2017, by 9,300 (or 11.0 per cent), to 93,500.
134. Female very long-term unemployment has risen, by 5,000 (or 13.9 per cent) over the year to February 2017, while male very long-term unemployment has also increased over the period, by 4,300 (or 8.9 per cent).
135. The incidence of long-term unemployment (the proportion of the unemployed population who are long-term unemployed) stood at 23.5 per cent in February 2017, down from 23.9 per cent in February 2016.
136. Older job seekers are more likely to remain unemployed for a longer period of time than those in younger cohorts. For instance, in February 2017, 37.6 per cent of unemployed persons aged 55 and over were long-term unemployed, above the 23.5 per cent recorded for all persons.

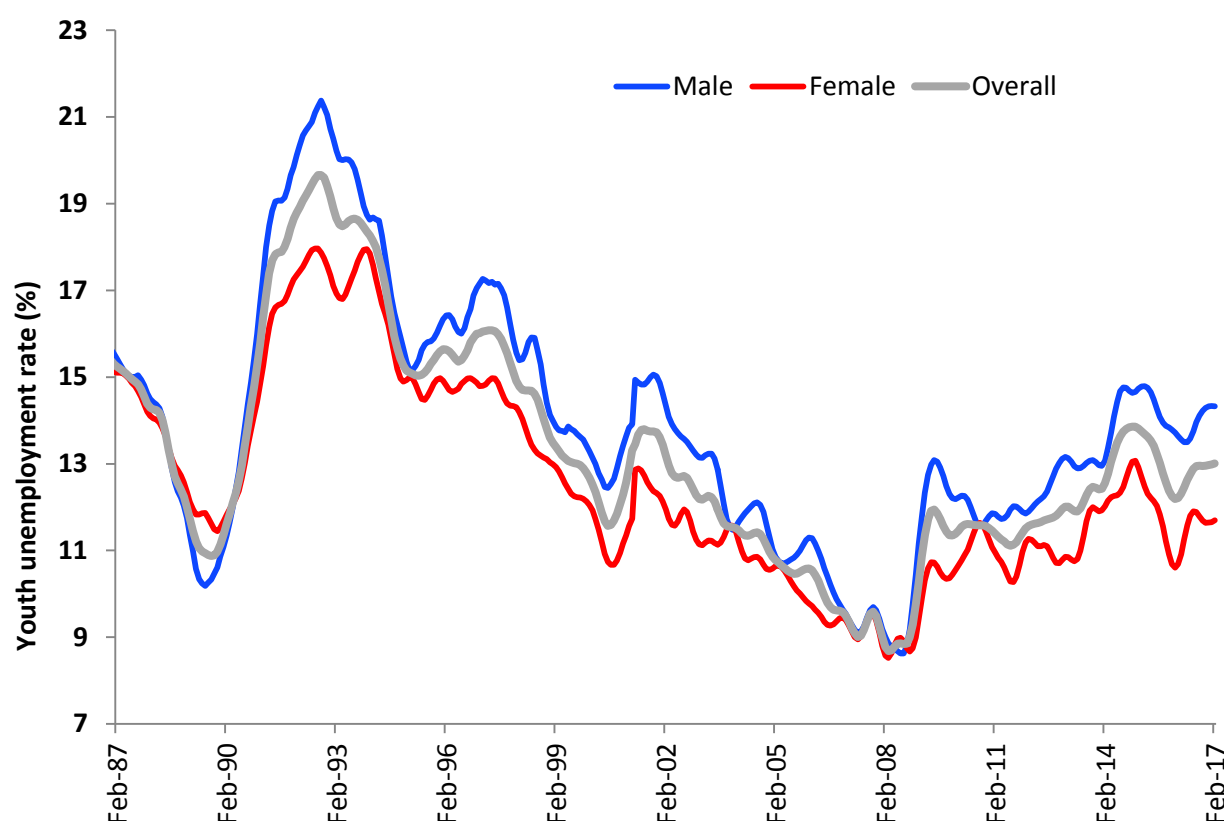
4.5.2 Youth

137. Labour market conditions for youth (persons aged 15-24 years) have weakened over the last year, with employment decreasing by 29,500 (or 1.6 per cent) over the year to February 2017. Against this backdrop, the youth unemployment rate has increased, from 12.1 per cent in February 2016, to 13.3 per cent in February 2017.

¹⁵ The level of long-term unemployment refers to the number of people who have been continuously unemployed for 52 weeks or longer.

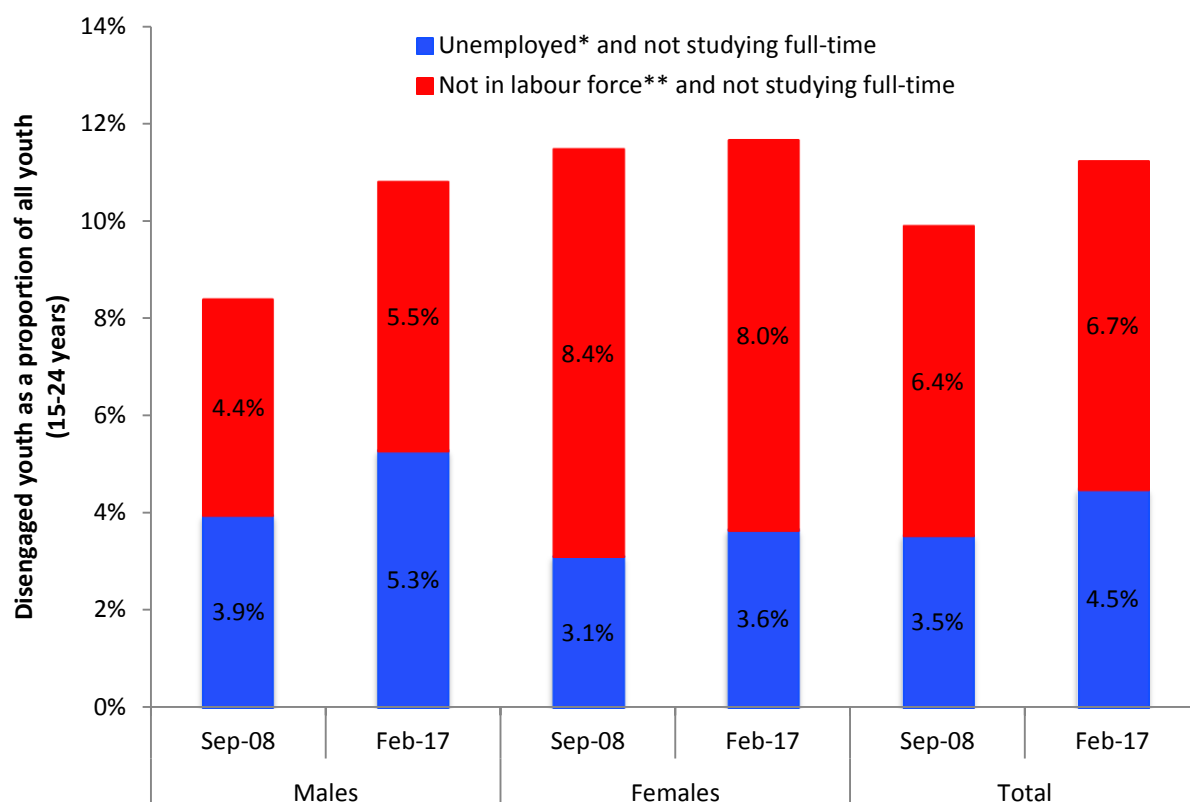
¹⁶ The level of very long-term unemployment refers to the number of people who have been continuously unemployed for 104 weeks or longer.

Chart 4.5: Youth (15-24 years) unemployment rates by sex, February 1987 to February 2017



Source: ABS Labour Force, Australia, February 2017, Cat. No. 6202.0, trend data.

138. While most youth are either engaged in some form of work or full-time education, 11.2 per cent were not in work and not attending full-time education (and are commonly referred to as disengaged youth) in February 2017, up from 9.9 per cent in September 2008. While a proportion of this group may, for various reasons, be voluntarily outside the labour market, many are at risk of ultimately failing to make a successful transition to employment.
139. 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 15.3 per cent in February 2017. By contrast, the proportion of 15-19 year olds who are disengaged has declined, from 7.8 per cent in September 2008, to 6.6 per cent in February 2017, reflecting the considerable policy changes enacted in various States surrounding compulsory school-leaving ages.

Chart 4.6: Disengaged youth (15-24 years) by sex, September 2008 to February 2017

Source: ABS *Labour Force, Australia, Detailed – Electronic Delivery, February 2017*, 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.

140. As illustrated in Chart 4.6, disengaged young 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 young women will be caring for children.

4.5.3 Indigenous unemployment rates

141. Significant disparity continues to exist between Indigenous and non-Indigenous labour market outcomes.¹⁷ For instance, in 2014-15 (latest available Indigenous data from the *National Aboriginal and Torres Strait Islander Social Survey, 2014-15*, ABS Cat. No. 4714.0), the unemployment rate for Indigenous persons stood at 20.8 per cent, almost five times the rate recorded for non-Indigenous persons (of 5.8 per cent). The disparity between labour market outcomes for Indigenous and non-Indigenous Australians is likely

¹⁷ Please note all data in this section refer to the working age population (persons aged 15-64 years).

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

142. In June 2016 (latest available data), there were 2,545,300 families with children¹⁸ in total in Australia, of whom 305,900 (or 12.0 per cent) were jobless. The majority of jobless families with children (193,600 or 63.3 per cent) were headed by a single parent. Most (84.2 per cent) one parent families with children were headed by females.
143. The number of children in jobless families stood at 580,300 in June 2016. 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 and helped to find employment, thereby reducing the risk of intergenerational unemployment.
144. The unemployment rate for one parent families with children stood at 14.2 per cent in June 2016, well above the 3.2 per cent recorded for couple families with children.

4.6 Labour market conditions by skill level

145. 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.
146. Over the 10 years to February 2017, employment growth has been dominated by the higher two skill levels, with employment growth in Skill Level 1 (commensurate with a Bachelor degree or higher) and Skill Level 2 (commensurate with an Advanced Diploma or Diploma) occupations accounting for 63.6 per cent of total employment growth. Employment growth in Skill Level 4 (commensurate with a Certificate II or III) occupations accounted for 28.7 per cent of total employment growth, reflecting strong employment growth in health and education related occupations.
147. Employment in Skill level 5 (commensurate with a Certificate I or secondary education) and Skill level 3 occupations (commensurate with a Certificate IV or III) grew at a slower rate than all occupations. Employment growth in Skill level 5 occupations accounted for 7.4 per cent of total employment growth over the 10 years to February 2017. Employment growth in Skill level 3 occupations made the smallest contribution to employment growth over the period, accounting for 0.3 per cent of employment growth, reflecting the mixed fortunes of occupations within the Skill level. For example employment of Electricians grew by 36,500 (or 31.5 per cent) and Real Estate Sales Agents grew by 26,500 (38.2 per cent), while employment of Secretaries fell by 66,800 (62.8 per cent) and Electronics Trades Workers fell by 11,500 (28.3 per cent).
148. Consistent with the shift to higher-skilled employment, the share of employment in Skill Level 5 occupations fell from 18.8 per cent in February 2007, to 17.2 per cent in February

¹⁸ Please note that the term 'children' refers to dependent children aged 0-14 years.

2017, whereas the employment share accounted for by Skill Level 1 occupations has grown from 28.1 per cent, to 31.8 per cent over the same period.

149. Over the year to February 2017, Skill Level 1 occupations (up by 100,700 or 2.7 per cent) made the largest contribution to employment growth and recorded the highest rate of growth. Employment in Skill Level 4 and Skill Level 5 occupations grew by 2.2 per cent and 0.9 per cent, respectively, compared with falls of 2.4 per cent for Skill Level 2 and 3.9 per cent for Skill Level 3 (see Table 4.2).

Table 4.2: Change in employment by Skill level, one and 10 years to February 2017

Skill Level Occupations	Current employment (February 2017)	Change in employment year to February 2017		Change in employment 10 years to February 2017	
	(000s)	(000s)	(%)	(000s)	(%)
Skill Level 1 (highest)	3817.5	100.7	2.7	922.0	31.8
Skill Level 2	1343.3	-33.6	-2.4	170.7	14.6
Skill Level 3	1645.7	-67.1	-3.9	5.2	0.3
Skill Level 4	3145.7	68.2	2.2	493.0	18.6
Skill Level 5 (lowest)	2066.2	18.7	0.9	127.4	6.6
All Occupations	12,048.1	146.9	1.2	1755.1	17.1

Source: ABS Labour Force, Australia, Detailed, Quarterly, February 2017, Cat. No. 6291.0.55.003, Department of Employment trend data.

4.7 Regional labour markets

150. Historically, Capital Cities have recorded a lower unemployment rate (and a higher participation rate) than the Rest of State areas.¹⁹
151. Significant disparity in labour market performance exists between regions within Australia, with some regions recording a deterioration in labour market conditions over the last year, while other regions have performed more strongly.
152. The level of employment has risen in both Capital Cities and Rest of State areas over the year to February 2017. In the Capital Cities, employment has increased by 132,900 (or 1.6 per cent), while in the Rest of State areas, employment has risen by 28,100 (or 0.8 per cent) over the period²⁰ (ABS Labour Force, Australia, Detailed – Electronic Delivery, February 2017).
153. The unemployment rate in the Capital Cities remains below the rate for the Rest of State areas. In Capital Cities, the unemployment rate has declined over the year, from 5.8 per cent in February 2016, to 5.6 per cent in February 2017, while the unemployment rate has also decreased in the Rest of State areas, from 6.5 per cent in February 2016, to 5.9 per cent in February 2017. Further, the participation rate in Capital Cities stood at

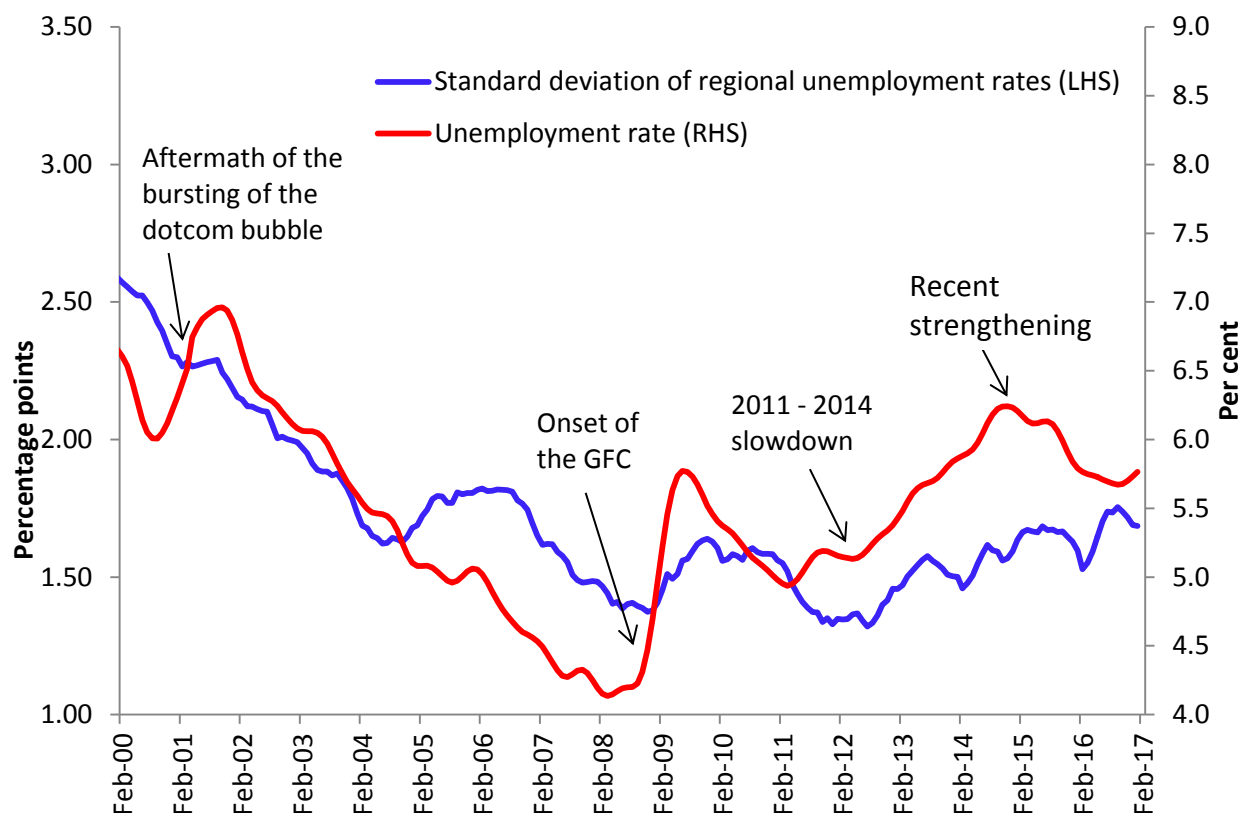
¹⁹ Capital City areas include Greater Sydney, Greater Melbourne, Greater Brisbane, Greater Adelaide, Greater Perth, Greater Hobart, Darwin and the Australian Capital Territory. Within each State and Territory, the area not defined as being part of the greater capital city is represented by 'Rest of State' regions.

²⁰ Figures are 12-month averages of *original* estimates.

66.3 per cent in February 2017, above the rate recorded in the Rest of State areas (of 61.5 per cent).

154. More broadly, differences in regional labour market performance can be ascribed to a number of factors, such as a region's access to higher education, its industry base, transport networks and infrastructure, its degree of natural amenity, population size and growth, its accessibility to more dynamic labour markets and the skill level of its labour force.
155. Chart 4.7 presents regional disparity (as measured by the standard deviation of regional unemployment rates) and the trend unemployment rate. The chart clearly shows the strong relationship between the unemployment rate and the level of regional disparity, with regional disparity tending to widen during periods of subdued labour market conditions and narrow with strengthening conditions.

Chart 4.7: The unemployment rate and standard deviation in the regional unemployment rate, February 2000 to February 2017



Source: ABS *Labour Force, Australia, Detailed – Electronic Delivery*, February 2017, Cat No. 6291.0.55.001, data are 12-month averages of original estimates. The national unemployment rate is sourced from ABS *Labour Force, Australia, February 2017*, Cat. No. 6202.0, trend data.

4.7.1 Labour market conditions by State

156. Labour market conditions have varied across the States and Territories over the year to February 2017. For instance, strong employment growth was recorded in the Northern Territory (up by 6.8 per cent) and Victoria (3.2 per cent). By contrast, the level of

employment has declined in Queensland (down by 1.6 per cent) over the year and has remained subdued in Western Australia (up by 0.3 per cent).

157. The Victorian labour market has continued to improve, on the back of strong population growth, a lower Australian dollar and low interest rates, which together have boosted strong growth in the housing market and the international education and tourism sectors.
158. By contrast, labour market conditions in Western Australia have weakened over the 12 months to February 2017, with employment growth in the State expected to remain subdued, as the downturn in the Mining industry continues to impact negatively on a number of sectors in the State.

4.8 Conclusion

159. In considering its decision, the Panel should take into account that, reflecting the subdued conditions in the Australian labour market over the last year, conditions remain uneven as the economy continues to slowly transition from mining investment-led growth, to more broadly-based domestic growth. Of particular concern is that certain groups, including youth and the long-term unemployed, continue to experience weaker outcomes in the labour market, as do some regions. Going forward, the unemployment rate is currently forecast to be around 5½ per cent, as outlined in MYEFO.

5 Small Business

Key Points

- The economic environment for small business has shown encouraging signs of improvement and conditions are now above long-term average levels. However, small business owners continue to demonstrate caution in their employment decisions.
- Small businesses are significant employers, employing around 45 per cent of non-financial private sector employees and 34 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.

5.1 Introduction

160. Section 3(g) of the *Fair Work Act 2009* states 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.
161. The Panel in its 2016 Annual Wage Review decision noted that: *“small businesses are more award reliant than larger businesses and will be particularly affected by changes in award rates of pay; have less capacity to adjust to adverse changes in business conditions; and have found it harder to bounce back from the GFC than larger businesses.”*
162. The Australian Government agrees with the Panel’s assessment, and would also highlight the important role played by small businesses in the Australian economy, through their 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.
163. This small business chapter has been included to provide additional information to help inform the Panel on small business developments.

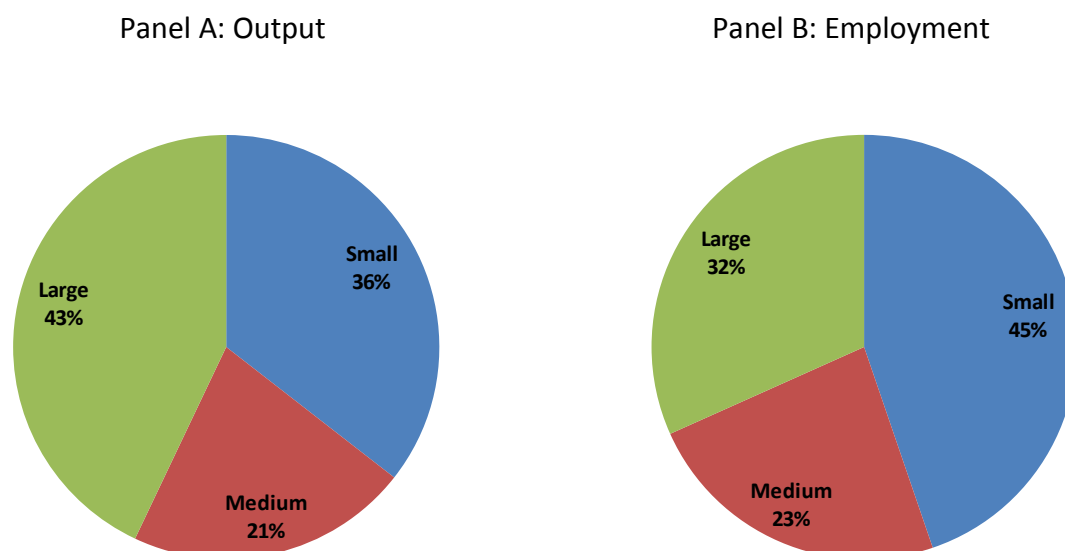
5.2 Small businesses in Australia

5.2.1 Importance of small businesses in Australia

164. 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.

165. There were 2,166,708 actively trading small businesses in Australia as at June 2016, accounting for 97 per cent of all businesses (ABS *Counts of Australian Businesses*).²¹ Of these small businesses, 798,129 (or 38 per cent) were 'employing' small businesses.
166. As at 30 June 2015, small businesses contributed around 36 per cent of non-financial private (i.e. excluding general government, the financial and insurance industries) sector value added and employed around 4.8 million Australians, or 45 per cent of non-financial private sector employment in Australia (Chart 5.1).

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



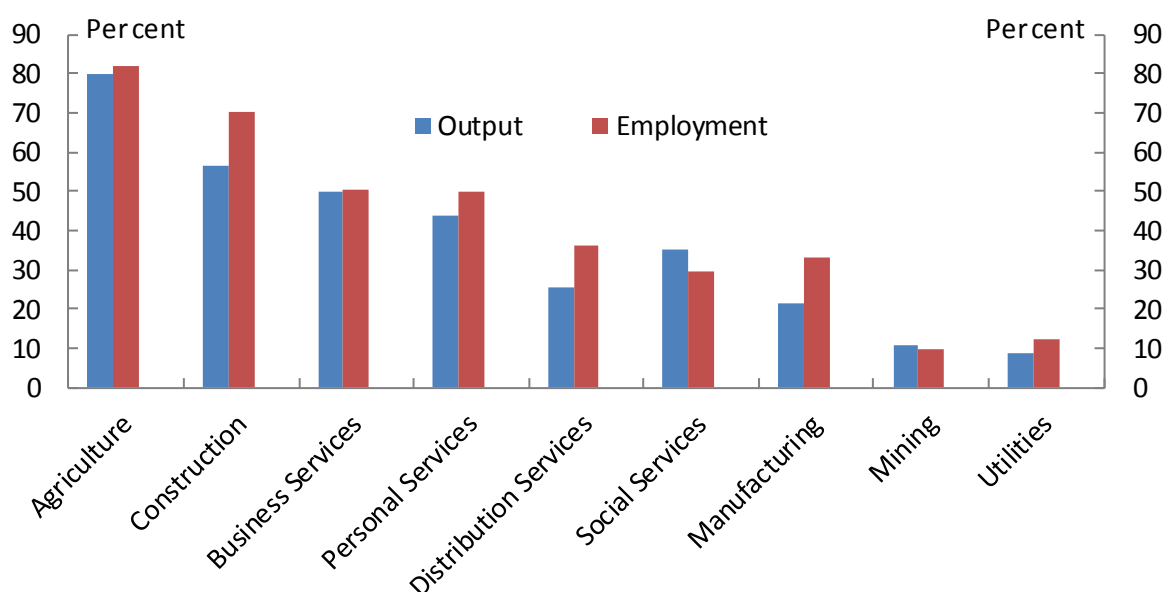
Source: ABS, *Australian Industry*, 2014-15, Cat. No. 8155.0.

Note: Measures non-financial private sector output (Industry Value Added) and employment (number of individuals employed). Please note that *Australian Industry* excludes data for the general government, financial and insurance industries. The ABS publishes an experimental series for output and employment in all businesses in the financial sector which can be found at <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/8155.0Appendix12014-15>

167. 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 particularly prevalent in the agriculture, construction and services industries. They are less prevalent in industries such as mining, manufacturing and utilities.

²¹ 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, *Australian Industry*, 2014-15, 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 include 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.

168. It should be noted that charts 5.1 and 5.2 include non-employing small businesses, as the ABS *Australian Industry 8155.0* data does not distinguish between employing and non-employing small businesses. Nonetheless, the data referred to in these charts are the appropriate basis for highlighting effects on the small business sector, as labour costs have a direct and immediate bearing on the propensity of non-employing small businesses to take on workers.

169. Small businesses contribute to a greater proportion of employment compared to output in almost every industry which suggests that small businesses may be more labour intensive (that is, on average have lower labour productivity) than larger businesses within the same industry.

170. As a share of annual turnover, labour costs also comprise a significant component of total expense for small businesses. As at June 2015, for small employing businesses across all industries, labour costs account for around 16 per cent of total expenses (*Australian Industry*).²² Across sectors, they can range from as high as 40 per cent in Education and training to as low as 7 per cent in the Mining and Wholesale trade sectors. Labour costs refer to 'wages and salaries' and does not include gross mixed income, which represents earnings that are difficult to classify between salaries and profits as the business is run by an owner-manager.

²² 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.

171. Small businesses also contribute through their role in providing goods and services to regional areas, where it may be less feasible for large businesses to do so because of the low potential for economies of scale. Across each state in Australia, small businesses tend to be more likely to be located in regional areas compared with larger businesses (Nicholls and Osmond 2015). Economic measures such as unemployment and business confidence indicate that regional areas are not performing as well as metropolitan counterparts.²³

5.2.2 Award coverage

172. Small businesses are more award-reliant than large businesses.
173. According to the latest EEH data,²⁴ small businesses alone account for around 34 per cent of total employees on award classification wages. Further, around 35 per cent of employees in a small business are paid award classification wages. This compares with 33 per cent for businesses with 20-49 employees and 17 per cent for larger businesses (with 100 -999 employees).
174. When considering award coverage by sector, the Accommodation and food services sector (43 per cent of total employees across all methods of setting pay), the Administrative and support services sector (42 per cent), the Retail trade sector (34 per cent) and the Rental, hiring and real estate services sector (27 per cent) account for 43 per cent of all award employees. Small businesses in these sectors account for a large share of employment: 45 per cent, 35 per cent, 36 per cent and 77 per cent respectively (ABS *Australian Industry, 2014-15*).

5.3 Characteristics of small businesses

175. 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 subdued demand and have less flexibility in terms of meeting workplace operational requirements.
176. This sensitivity is reflected in the survival rate of firms in the small business sector, which is lower than that for larger businesses. According to *Counts of Australian Businesses*, only 68 per cent of micro-sized businesses (1-4 employees) that were operating in June 2012 were still operating as at June 2016 (for businesses employing 5-19 this figure is 77 per cent). In contrast, the survival rate for medium and large businesses is above 80 per cent.
177. Small businesses sell mainly in their local area of operation. In 2015, 81 per cent of small businesses sold goods or services in their local area. In addition, only 6 per cent of small businesses had an overseas market compared with 30 per cent for large businesses (ABS *Selected Characteristics of Australian Businesses 2014-15*).

²³ For example, the Sensis business confidence index provides information on regional versus metropolitan business confidence. While the Department of Employment produces unemployment statistics, which when a comparison is made between regional and metropolitan areas, shows that regional unemployment is higher.

²⁴ Australian Bureau of Statistics (2016), *Employee and Earnings and Hours, Australia, May 2016*, (Data Cube 5, Table 4 and Table 7) released 21 January 2016.

5.4 Developments in the small business sector

5.4.1 Overview

178. Business conditions have shown encouraging signs of improvement, and are now above long-term average levels. However, due to a long period of weak trading conditions, small businesses remain somewhat cautious in taking on additional labour.
179. When combined with the difficulties faced by small businesses in passing on higher costs to consumers in the current economic environment, higher labour costs could present a major constraint.

5.4.2 Use of Survey Data

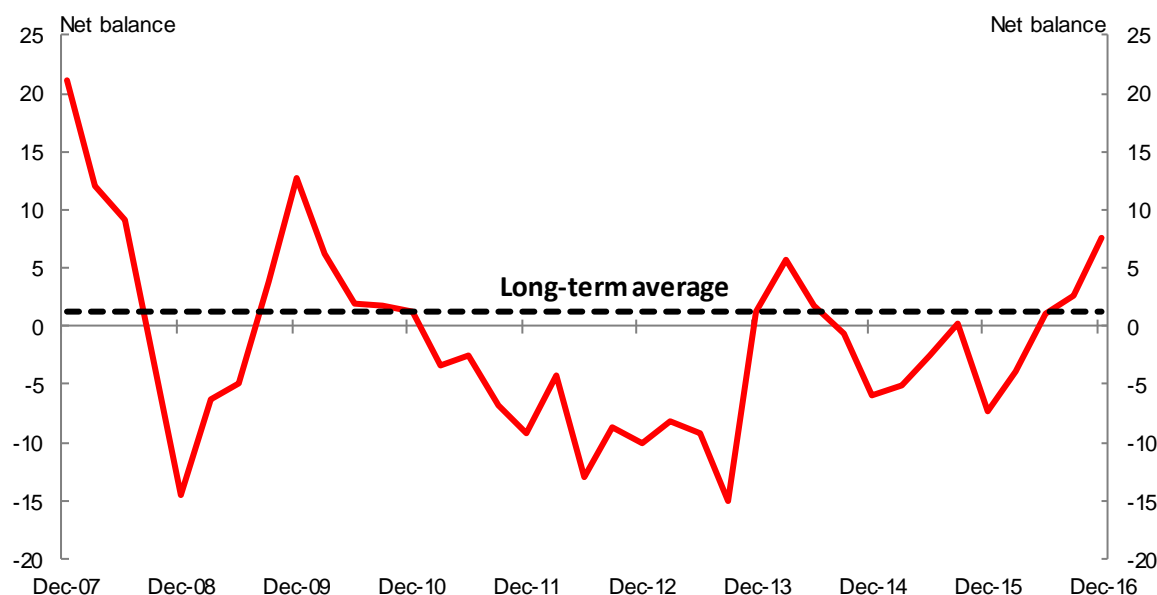
180. In its previous 2013-14 decision, the Panel expressed reservations about the reliability of data from survey measures for the purpose of providing a representative picture at either an industry or an economy-wide level (Fair Work Commission 2014, Paragraph 226).
181. While official data from the ABS are preferable, small business data are often released with a significant time lag, limiting their usefulness for this assessment. In these circumstances, survey measures provide a valuable source of information. The surveys commonly used and available include those published by the National Australia Bank, Sensis and until recently the Australian Chamber of Commerce and Industry. These three large-scale surveys have samples ranging from around 600 to over 2600 respondents.
182. To obtain a robust inference; the Government examines a range of survey measures rather than one single measure.
183. 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.
184. The Reserve Bank of Australia (Park 2011) found that the information provided by the main business surveys closely track official data. The study reported a high correlation 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 ABS measure of nominal domestic demand).
185. 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 official measures of trend quarterly employment growth. Furthermore, survey measures have also been found to be useful in informing forecasts of employment growth.

5.4.3 Business Conditions for Small Businesses

186. Business conditions have shown a steady improvement with both NAB and Sensis surveys showing that business conditions are above long-term average levels.

187. The National Australian Bank SME survey (December quarter 2016) shows that the proportion of small businesses that experienced an improvement in business conditions over the December quarter outweighed the proportion of those that experienced a deterioration. Business conditions are currently above their long-term average.

Chart 5.3: NAB Business Conditions – Small Business

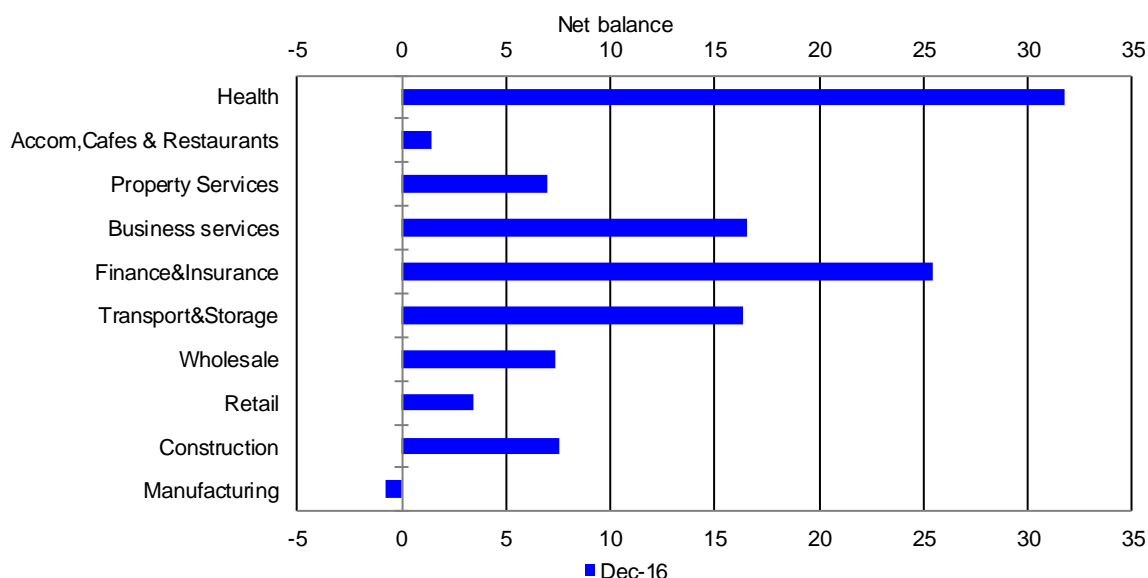


Note: Small business is defined here as the small tier SMEs (annual turnover of \$2-3 million) in the NAB survey. This is at the upper end of the general definition of small business for taxation purposes (\$2 million turnover). The long-term average is the average value since June 2006.

Source: NAB Quarterly SME Survey, December Quarter 2016, seasonally adjusted data series.

188. At an industry level, for small and medium enterprises (SMEs) - NAB includes firms with a turnover of between \$2 million to \$10 million - the latest survey results suggest conditions are positive across all industries except manufacturing.

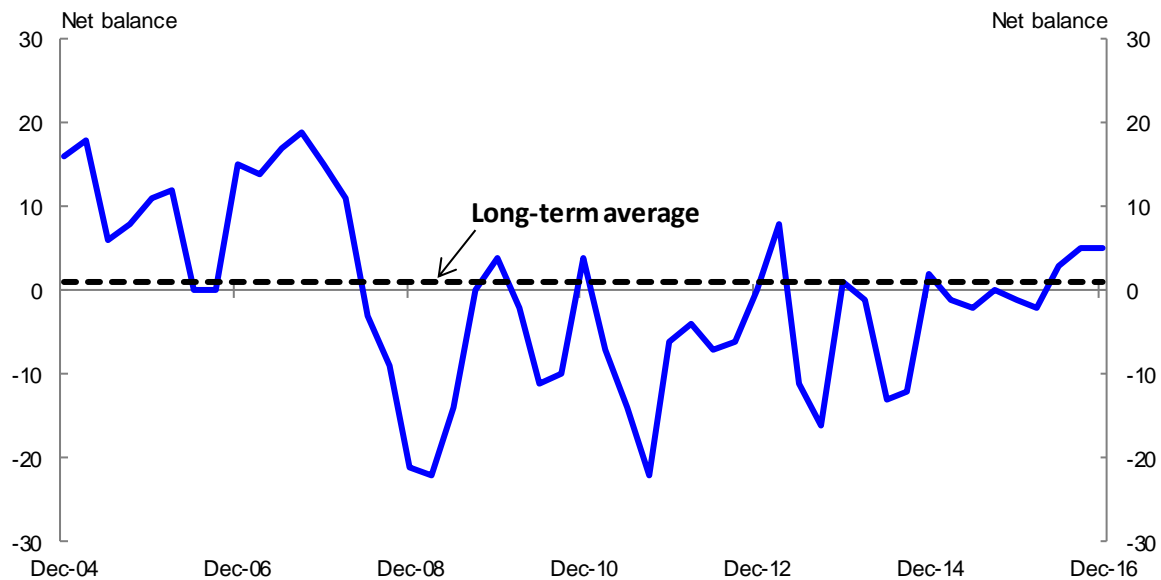
Chart 5.4: NAB Business Conditions at the Industry Level - SMEs



Source: NAB Quarterly SME Survey, December Quarter 2016, seasonally adjusted data series.

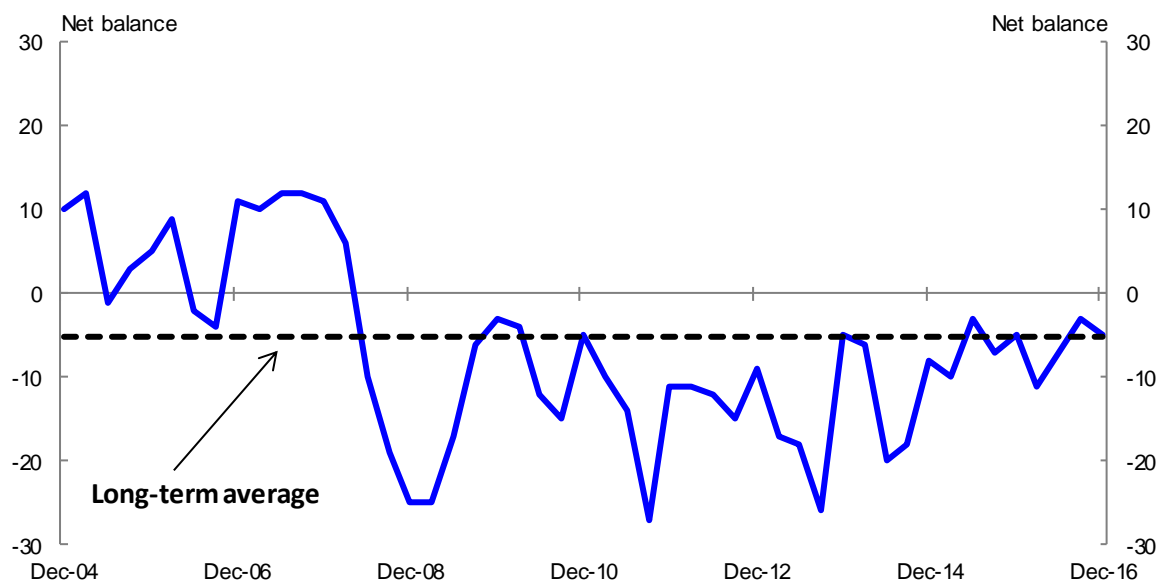
189. The Sensis Business Index does not have a single business condition measure; however the survey results on sales, profitability and employment in the December quarter 2016 survey provides a useful indication of business conditions for firms surveyed in the Sensis Business Index. Consistent with the NAB SME survey, the Sensis results suggests that small business conditions continue to improve. The net balance of small businesses reporting an increase in sales compared to those reporting a decline is currently above long-term average levels. Profitability has shown an encouraging upward trajectory.

Chart 5.5: Sensis Small Business Conditions for Sales



Source: Sensis Business Index, December Quarter 2016.

Chart 5.6: Sensis Small Business Conditions for Profitability

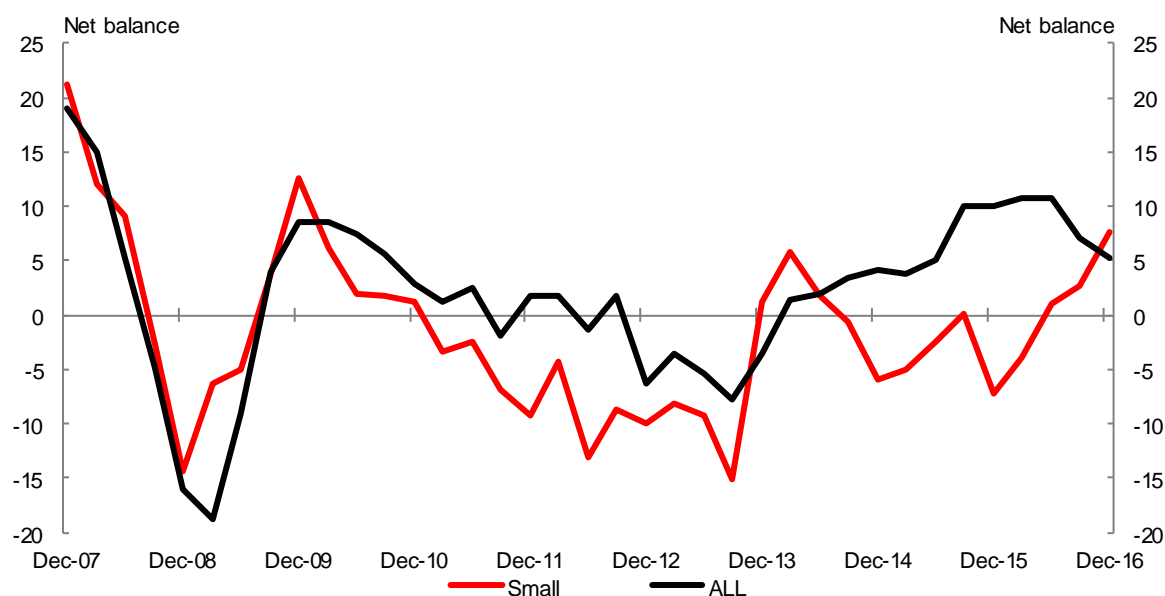


Source: Sensis Business Index, December Quarter 2016.

Comparison of small and large businesses

190. The NAB surveys show that the divergence between the economic conditions of small and larger sized businesses has narrowed to such an extent that small businesses are now reporting better conditions than all businesses in general. This reflects a sustained improvement in small business conditions and a moderation in business conditions for larger sized businesses.

Chart 5.7: Business Conditions Quarterly Business Survey and SME

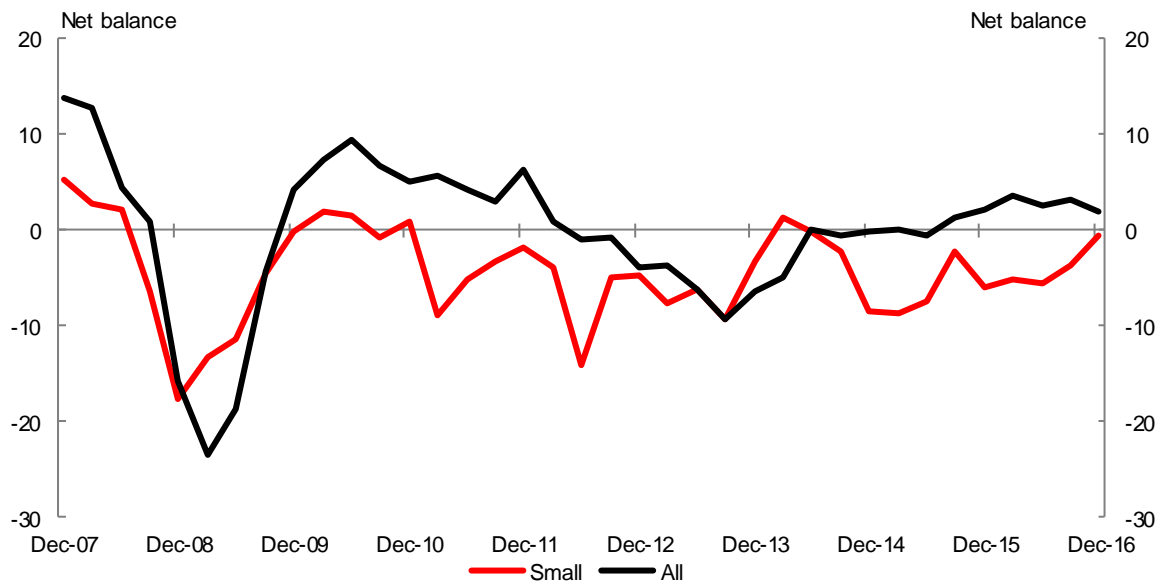


Source: NAB Quarterly Business Survey and NAB Quarterly SME Survey, December quarter 2016, seasonally adjusted data series. Larger sized businesses are by ALL which includes all businesses in the NAB Quarterly Business Survey.

5.4.4 Labour market

191. There is evidence that employment conditions remain subdued for small businesses, with more encouraging results for larger businesses.
192. The NAB Business surveys indicate that small businesses remain cautious in their employment decisions, with more small businesses reducing the size of their workforce compared to those that have reported an increase. However, encouragingly the employment indicator continues to improve. For larger businesses, the employment situation is better than for small businesses.

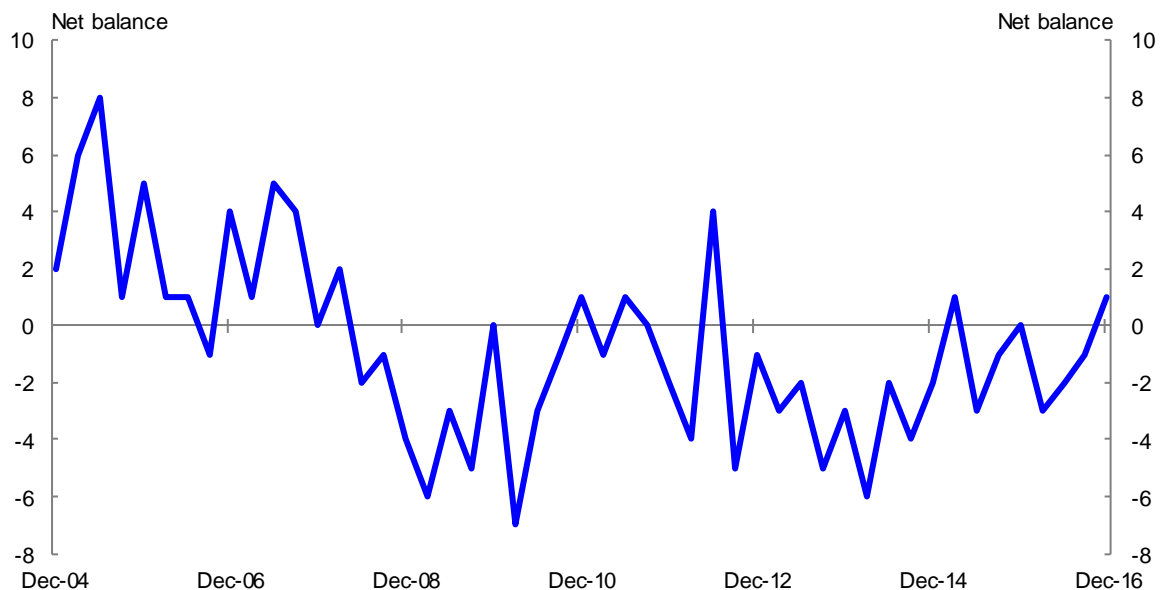
Chart 5.8: NAB Employment Index by firm size



Source: NAB Quarterly Business Survey and NAB Quarterly SME Survey, September Quarter 2016, seasonally adjusted data series.

193. The Sensis December Quarter 2016 Business Index which includes small and medium sized businesses shows encouraging signs of improvement in the labour market, with more firms for the first time since March quarter 2015 increasing the size of their workforce compared to those reducing the size of their workforce.
194. Lack of work and sales was by far the most cited as the main barrier to taking on new employees (39 per cent of respondents) followed by the cost of employing (9 per cent of respondents). Expectations for the year ahead are steady with a positive net balance of +11 in the December quarter 2016, unchanged from last year and halting a noticeable downward shift from previous years (+13 in December 2014 and +19 in December 2013).

Chart 5.9: Sensis Actual Employment Index



Source: Sensis Business Index, December Quarter 2016.

5.5 Conclusion

195. The business environment for small businesses is improving and is above long-term average levels. Employment conditions are showing encouraging signs; however, small businesses remain cautious about hiring compared to larger-sized businesses.
196. 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.

6 Productivity, labour costs and wage-setting

Key Points

- Productivity growth in recent years, while encouraging, should not be interpreted as a direct signal of the affordability of wage increases for award-reliant employees over the short term.
- The scope for higher wages without impacts on employment or inflation is limited at present due to relatively weak economic conditions.
- Measures of productivity growth over short time periods can be volatile, cyclical and subject to measurement errors.
- Enterprise bargaining provides a direct avenue for firms and workers to negotiate wage increases which are consistent with their particular circumstances and the state of the economy, and to encourage productivity growth at the enterprise level.

6.1 Productivity growth and wages growth

197. This chapter provides evidence on recent productivity and wage outcomes, and discusses the links between productivity and wages growth, and the role of enterprise bargaining.
198. Over the long run, real income growth and improved living standards are largely dependent on productivity growth, and real wages growth and productivity growth tend to move together. However, there are often short-run deviations which reflect labour market and economic conditions.
199. In the last few years, Australia has experienced slower income and wages growth despite improving labour productivity growth, reflecting subdued labour market conditions and the declining terms of trade. Prior to this, the large increase in the purchasing power of Australian employees between 2003 and 2011 was driven by the high prices of resource exports, despite slower labour productivity growth.
200. The situation has now changed (recent strength in commodity prices notwithstanding), with the terms of trade declining substantially since the peak in 2011, and subdued labour market conditions. In this environment, researchers at the Reserve Bank of Australia have emphasised that amongst other measures *“high productivity growth and real wage restraint would also support Australia’s competitiveness”* (Atkin, Caputo, Robinson and Wang 2014). As economic growth improves, stronger labour market conditions should result in higher wages growth.

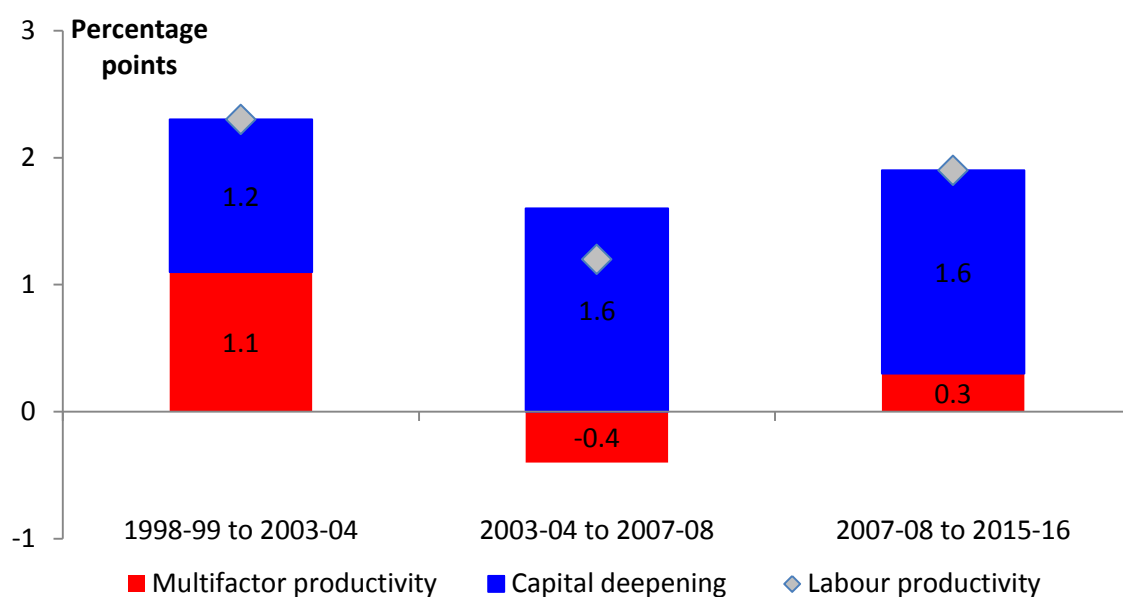
6.2 Trends in labour productivity growth

6.2.1 National labour productivity

201. Productivity growth slowed in the mid-to-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).

202. Productivity measures over short time periods can be volatile, cyclical and are subject to revisions. Labour productivity in the market sector rose by 1.9 per cent, in trend terms, through the year to the December quarter 2016. This followed growth of 1.0 per cent through the year to the December quarter 2015 and 1.3 per cent to the December quarter 2014 (ABS *National Accounts, Dec 2016*). This compares to the ten year annual average through to the December quarter 2016 of 1.8 per cent.
203. 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 2.3 per cent, higher than the 1.3 per cent over the five years prior (ABS *System of National Accounts, 2015-16*). This is still below the record productivity growth rate seen through the late 1990s (3.8 per cent).
204. 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.
 - Multifactor productivity, which measures the efficiency of use of labour and capital inputs in producing output.
205. Over the current incomplete cycle (from 2007-08 to 2015-16), labour productivity in the market sector has grown at an average annual rate of 1.9 per cent, higher than the annual average growth of 1.2 per cent from 2003-04 to 2007-08 and lower than the 2.3 per cent growth rate from 1998-99 to 2003-04 (ABS *System of National Accounts*).

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



Source: ABS *Australian System of National Accounts, 2015-16*, Cat. No. 5204.0. Department of Employment calculations.

Note: Data in original terms. 2007-08 to 2015-16 is not a complete productivity cycle according to the standard ABS definition and may be affected by rates of capacity utilisation.

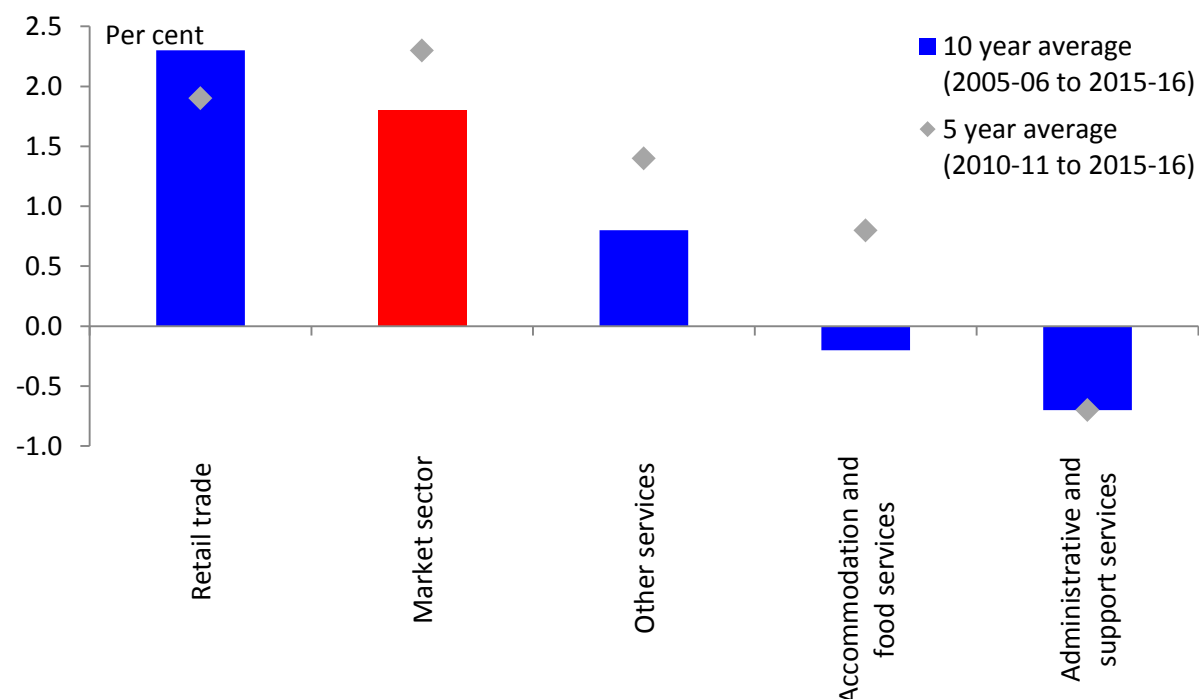
6.2.2 Industry labour productivity

206. 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 2015-16 (see Chart 6.2). In particular, Other services (0.8 per cent), Accommodation and food services (-0.2 per cent), and Administrative and support services (-0.7 per cent) had some of the lowest rates of labour productivity growth. Retail trade (2.3 per cent) recorded above average labour productivity growth over this period (ABS *System of National Accounts*). Other relatively award-reliant industries such as Arts and recreation and Health care and social assistance have also recorded below average productivity growth over the last 10 years. In contrast, the Rental, hiring and real estate services industry, in which 27.2 per cent of non-managerial employees are award-reliant, recorded above average productivity growth rates (2.3 per cent) over the last 10 years and (6.0 per cent) 5 years.

207. Considerable variation in labour productivity growth at the industry level is a reflection of specific conditions in each industry, as well as a range of data measurement issues. For example, misclassification of Construction employees as Mining employees during the mining boom would lower measured productivity in the Mining industry.
208. Not only should industry level productivity data be used with caution, but in general, industry productivity growth rates are more highly correlated with prices growth than with wages growth (Lowe 1995). That is to say, industries with higher productivity growth tend to have lower rates of consumer price inflation, and vice versa. Wages growth at the industry level is likely to respond to the supply and demand for labour in that industry, which will be influenced both by productivity growth within that industry and productivity growth in other industries, as well as changing consumer tastes and preferences and a range of other factors such as broad economic conditions.

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



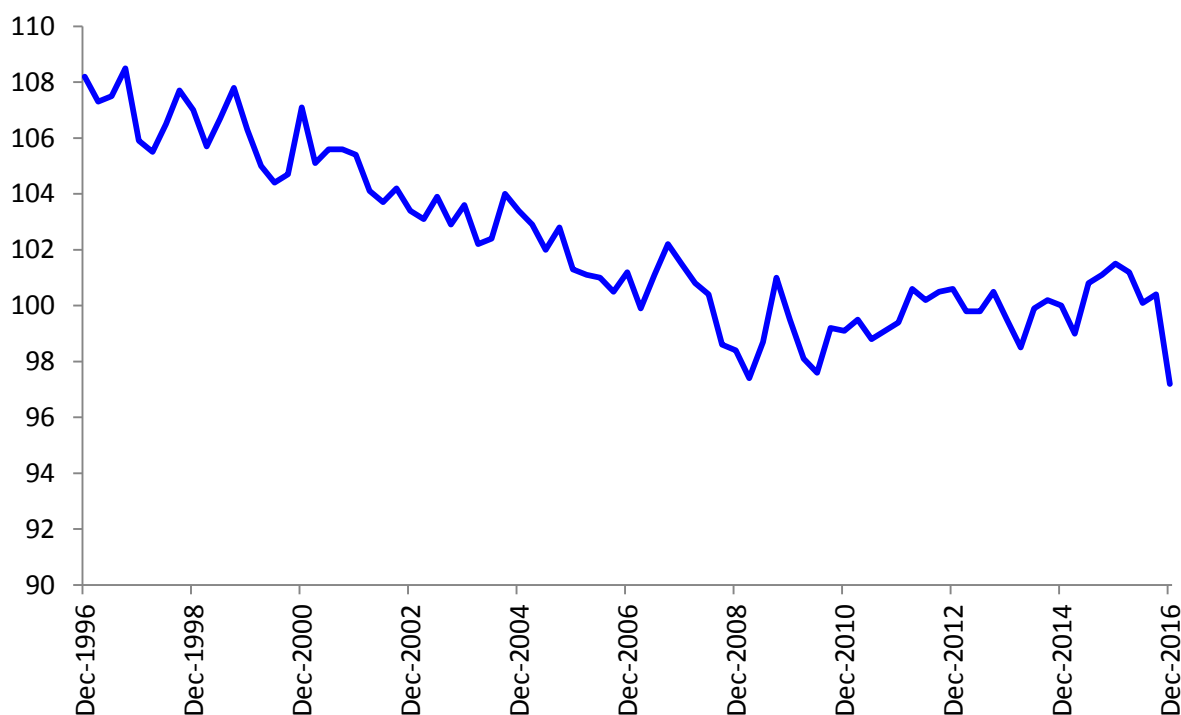
Source: ABS *Australian System of National Accounts*, 2015-16, Cat. No. 5204.0.

Note: Industry data in original terms.

6.2.3 Real unit labour costs

209. Over the last twenty years Australia's real unit labour costs²⁵ in the non-farm sector have declined by 0.5 per cent per year on average. The largest decline (3.4 per cent) occurred around the time of the global financial crisis in 2008-09. Since then, real unit labour costs have fluctuated within a narrow band (see Chart 6.3).
210. Relatively stable real unit labour costs in recent years has provided some support to employment growth and prevented the unemployment rate from rising to *"the extent that might otherwise have been expected"* (Davis *et al.* 2016).
211. 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 employment growth.

Chart 6.3: Real unit labour costs, December quarter 1996 to December quarter 2016



Source: ABS *Australian National Accounts, December 2016, Cat. No. 5206.0*

Note: Data are for the non-farm sector. Data in seasonally adjusted terms.

6.3 The relationship between productivity, wages and prices

212. Increases in productivity will result in some combination of higher wages for workers, lower prices for consumers, and higher profits for business. Over the long-term, higher incomes from productivity growth tend to flow through proportionately to real wage growth. This can occur either through higher nominal wage growth, or falling prices due

²⁵ Real unit labour costs are real labour costs per unit of output.

to higher productivity, which will also result in higher real wages (since workers are also consumers).

213. Short-term deviations from this relationship can occur. Just as there is not necessarily an immediate decline in real wages growth when labour productivity growth is low, there has not been an acceleration of real wages growth in line with the recent increase in labour productivity growth (see Section 6.2).
214. The Reserve Bank of Australia (2016b) has identified a number of factors that are likely to have contributed to the restrained growth in wages.

“The weakness in wage growth over recent years reflects a number of factors, some specific to Australia and others also evident in other countries. First, there has been some spare capacity in the labour market putting downward pressure on wage growth... A second influence on wage setting has been low outcomes for headline inflation over the past couple of years and the associated decline in inflation expectations (at least over the short to medium term). Workers may have agreed to smaller wage increases given low actual and expected inflation. A third factor weighing on wages growth has been increased efforts by firms to contain growth in labour costs. Over recent years, the sharp fall in the terms of trade, heightened competition (such as in the retail market) and spare productive capacity in product markets has weighed on firms' output prices.”

215. Moreover, the RBA's liaison suggests that many employees have been willing to trade lower growth in earnings for greater job security (Davis *et al.* 2016). Data from the 2016 EEH and research by Connolly (2016) also identified a shift towards award reliance. All of this suggests that subdued labour market and economic conditions are weighing on wage growth.
216. Moderate wages growth, together with a rise in labour productivity growth has *“encouraged firms to employ more workers than would otherwise have been the case”* (Davis *et al.* 2016). Accordingly, the Reserve Bank of Australia (2016a) has stated that *“Employment appears to have been supported by much lower wage growth than would have been implied by historical relationships with the unemployment rate”*.

6.4 Promoting productivity growth through bargaining

217. According to the modern award objective, the Panel should take into account the need to encourage collective bargaining when making annual wage review decisions. Furthermore, the minimum wages objective requires the Panel to take into account productivity.
218. The flexibility of the labour market has been greatly improved due to a range of industrial relations reforms over time. This has supported the transition from strong resource investment-led growth to broader-based drivers of economic activity. In particular, enterprise bargaining provides a direct avenue for firms and workers to negotiate productivity offsets for wage increases.
219. Data from the ABS EEH show that between 2010 and 2016, there was a decline in enterprise bargaining coverage, while award-reliance increased.
220. A range of studies are broadly supportive of a link between productivity growth and enterprise bargaining. For example, Connolly, Trott and Li (2012) find that the workplace

agreement coverage has a significantly positive effect on labour productivity, noting that the effect is likely to take longer before fully materialising. The Fair Work Act Review Panel (2012) report, *Towards more productive and equitable workplaces: an evaluation of the Fair Work legislation*, also supported this conclusion.

“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. Former Prime Minister Paul Keating (1993) 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”.

222. 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 a minimum wage and the comprehensive system of award classification wages can encourage higher productivity through enterprise bargaining.

6.5 Conclusion

223. Wage increases that are not supported through productivity gains may have flow-on impacts on employment and inflation. This is particularly the case in a subdued economic environment.
224. 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 wages growth.
225. Measures of productivity growth over short time periods can be very volatile and subject to revision.
226. The Panel’s decision should encourage enterprise bargaining, which provides a way for firms and workers to negotiate for wage increases consistent with the conditions facing the enterprise, and can support productivity growth across the economy.

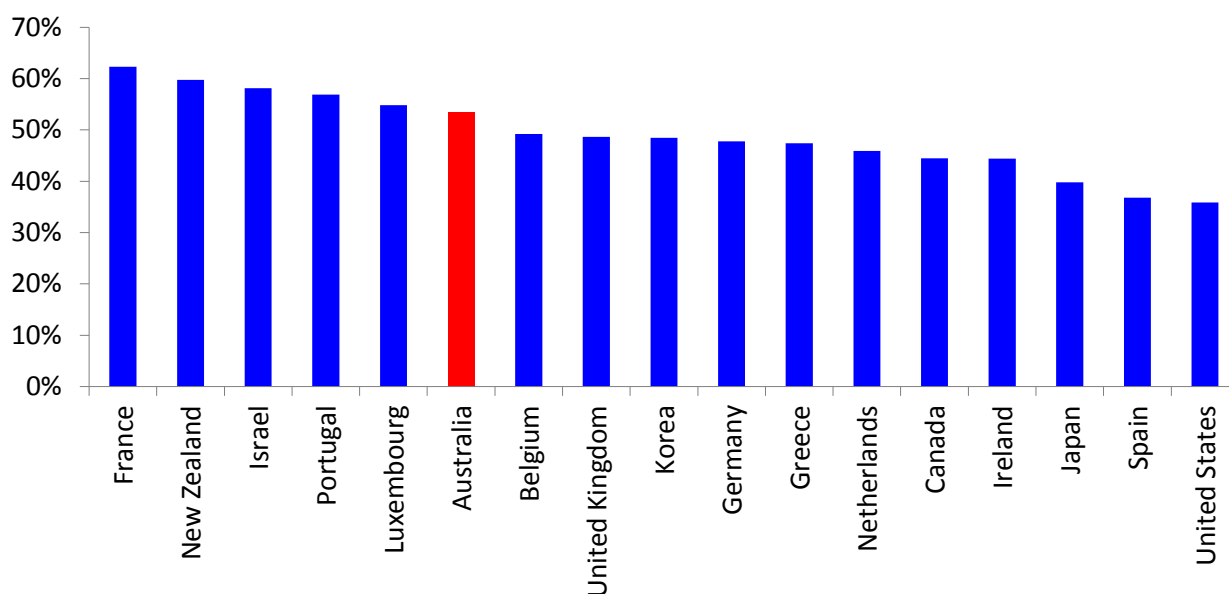
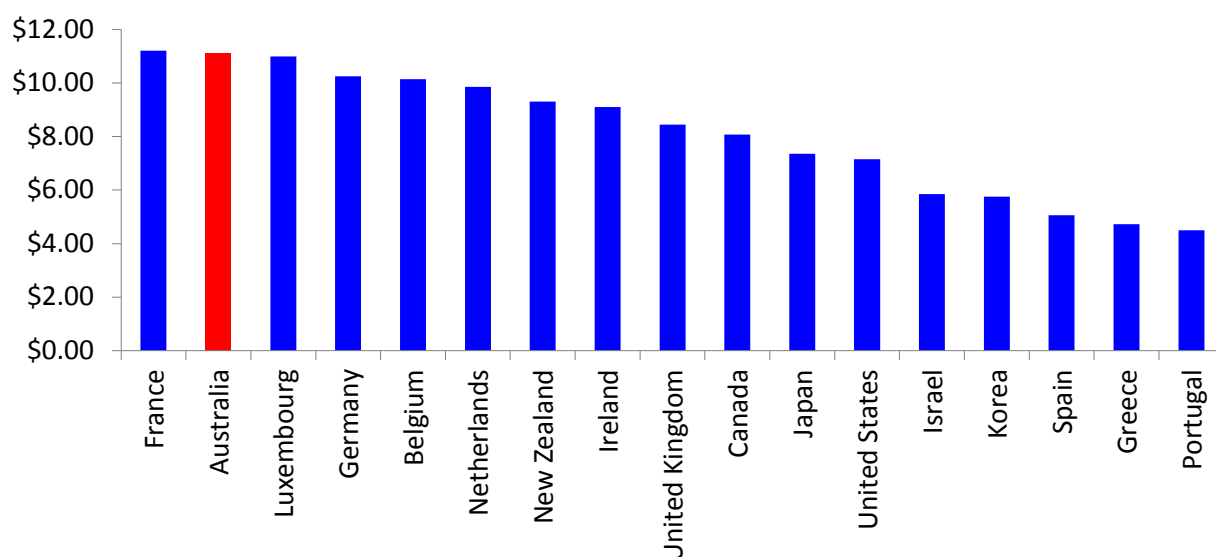
7 Employment Impacts

Key Points

- There is broad agreement that increases in the minimum wage above some level will cost jobs. While some studies of the effect of minimum wages on employment find no or insignificant effects, many others show negative employment effects.
- Australia's minimum wage bite is greater than many comparable OECD countries, which makes the risk of negative impacts greater.
- Minimum and award wages currently provide sufficient financial incentives to work, across a range of household types.
- Low-paid jobs are a common entry point to the workforce, and often act as stepping stones to higher paid work, particularly for at risk groups such as young people and the low-skilled.
- On most measures of satisfaction and financial stress, low-paid workers are much better off than those who are unemployed.

7.1 Minimum wages and employment

227. Recent meta-analyses of the US and international literature include Doucouliagos and Stanley (2009), Boockmann (2010), Belman and Wolfson (2014), and Gitios and Chletsos (2015). These typically find a mix of negative and insignificant effects. The Australian empirical literature, although much smaller, reaches similar conclusions, as described in Bray (2013, pp. 75-76) and Productivity Commission (2015b, pp. 191-95).
228. Studies also generally show that changes to minimum wages have larger impacts on employment opportunities for youth (see Boockmann 2010, Neumark and Wascher 2008), and larger impacts when the economy is in a recession or a prolonged slowdown (see Addison *et al.* 2013, Dickens *et al.* 2012).
229. Overall, the research indicates that there are potential risks to jobs from higher minimum wages.
230. Australia's minimum wage is greater than in many comparable Organisation for Economic Co-operation and Development (OECD) countries, whether measured as a percentage of median earnings or 'bite' (Chart 7.1, 6th of 17 countries) or in terms of purchasing power (Chart 7.2, 2nd of 17 countries). This increases the risk that excessive minimum wage increases will cost jobs.
231. Many studies (including from the US, which has historically had a lower minimum wage bite than most comparable OECD countries) have found negative effects on employment.

Chart 7.1: Minimum wage bite (% of median earnings) in comparable OECD economies, 2015**Chart 7.2: Hourly minimum wages (\$US purchasing power parity), 2016**

Source: *OECD Stat Extracts*, stats.oecd.org, extracted March 2017.

Note: 'Comparable OECD economies' excludes emerging and former Communist countries.

232. One recent study found that a rise in the Seattle city-level minimum wage from US\$9.47 to \$US11 per hour resulted in a small reduction in employment and hours worked, of unknown statistical significance (Seattle Minimum Wage Study Team 2016). A range of US states and localities are raising their minimum wages over the next few years, which will provide new evidence on this issue.
233. From a theoretical perspective, in the standard model of the labour market, a minimum wage increase will reduce employment among affected workers. Under certain

theoretical assumptions, in some circumstances the minimum wage may have a negligible or even positive effect on employment²⁶. It is generally agreed, however that even in these models, excessive minimum wage increases will reduce employment.

234. The Panel should also be mindful that excessive minimum wage increases could reduce hours worked, even for employees who keep their jobs. This is especially important in the current environment of weak growth in average hours worked.

7.2 Minimum wages and incentives to work

235. The level of the minimum wage can influence people's decisions to look for and accept work. It is important that the minimum wage is set at a level that encourages people who are out of work to enter work in order to enjoy the benefits that work can provide to individuals and communities.
236. The Government has modelled the interaction between the tax-transfer system and the national minimum wage for a broad range of hypothetical single and second earner households.²⁷ The modelling shows that all of the household types modelled were better off when an unemployed member of the household gained a job at the national minimum wage. Some examples are provided below, with detailed tables in Appendix C.
237. A single adult household, without children, would increase their disposable income by \$338 per week (126 per cent) by moving from unemployment and into a full-time job paying the national minimum wage. Even by taking a part-time job²⁸ at the national minimum wage, disposable income would increase by \$145 per week (54 per cent).
238. An unemployed couple without children would be \$248 per week (51 per cent) better off if one unemployed member of the household found a full-time job at the national minimum wage. A couple without children with one adult already in full-time employment at the national minimum wage would be \$480 per week (65 per cent) better off if the second member of the household moved from unemployment into full-time minimum wage work.
239. Households with children are also better off when an unemployed adult gains a job at the national minimum wage, even after paying for any necessary childcare costs. For example, a couple with a three year old child, with one member of the couple in a full-time job at the national minimum wage would be \$173 per week (19 per cent) better off if the second member of the couple also found a full-time national minimum wage job. If the second member of the household took a part-time job at the national minimum wage the household would increase their disposable income by \$56 per week (6 per cent).

²⁶ See e. g. Bray (2013, pp. 63-74) or Productivity Commission (2015b, pp. 183-87).

²⁷ The analysis considered the potential impact of earnings from a job at the national minimum wage 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), childcare costs and taxation. The assumptions used in the analysis are detailed in Appendix B.

²⁸ Working 15 hours per week at the national minimum wage.

240. These examples show that the level of the national minimum wage currently provides sufficient financial incentives to work across a wide range of household types.

7.3 The importance of low-paid work

241. Jobs provide benefits to individuals, their families and communities. Even a low-paid job can boost incomes, skills, and self-confidence and provide an opportunity for social engagement. People out of work tend to have poorer health and lower levels of wellbeing compared to those in work.
242. Low-paid jobs are important. They often act as an entry point into the workforce, through which people can build skills and experience to gain higher paid work in the future. Compared to people looking for work, people in low-paid jobs have a higher level of wellbeing and lower levels of financial stress. The Government is committed to job growth, to ensure that everyone with the capacity to work has the opportunity to do so.
243. The Fair Work Act requires that the National Minimum Wage and modern award wages be set to promote the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth. It is particularly important that job opportunities are available for at risk groups, including low-skilled people, long-term unemployed people and young Australians.

7.4 Stepping stones, satisfaction and financial stress

244. Low-paid jobs offer an important entry point to the workforce. 35 per cent of people who enter the workforce do so by taking a low-paid job.²⁹ Low-paid jobs are a particularly important pathway for younger and less educated workers. 45 per cent of workers aged under-25, and 43 per cent of those with Year 12 qualifications or below, enter the workforce through low-paid work.
245. Low-paid employment is often temporary. As shown in Tables 7.1 and 7.2, over two-thirds of low-paid workers leave low-paid work within one year. Most of these move into higher-paid work, and this is more likely the longer the worker has been in low-paid work. Furthermore, these workers gain significant increases in wages. The median increase in hourly wages for those moving from low-paid to higher-paid jobs was 58 per cent.³⁰

Table 7.1: Duration in low-paid employment, per cent

Duration	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Proportion	67.8	17.4	12.7.1	2.0

Source: *HILDA Survey*, release 15 (December 2016), pooled waves 1 to 15.

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 mutually exclusive.

²⁹ Low-paid is defined as earning less than two-thirds of the median hourly wage, as in Chapter 2 and Appendix A.

³⁰ *HILDA Survey*, release 15 (December 2016), pooled waves 1 to 15.

Table 7.2: Destination on leaving low-paid employment, per cent

Duration in low-paid employment	Higher paid work	Left the labour force	Unemployment
Less than 1 year	76.6	16.4	7.0
1 to 2 years	76.0	17.2	6.7
2 to 5 years	80.3	13.2	6.5

Source: *HILDA Survey*, release 15 (December 2016), pooled waves 1 to 15.

Note: Those remaining in low pay for 5 years or more are not shown due to a small sample size.

246. Even for those who do not move from low- to higher paid work, it is still preferable to unemployment. As shown in Table 7.3, low-paid workers are considerably more satisfied than unemployed people with their financial situation, and more satisfied with life overall. In general life and job satisfaction they are nearly as satisfied as higher-paid workers. Low-paid workers also experienced lower levels of financial stress than unemployed people, as shown in Table 7.4.

Table 7.3: Self-reported satisfaction of the unemployed and employees (Score 0-10)

Satisfaction with:	Unemployed people	Low-paid employees	Higher paid employees
General life	7.43	7.84	7.91
Overall job	N/A	7.38	7.66
Financial situation	4.58	6.22	6.75

Source: *HILDA Survey*, release 15 (December 2016), wave 15.

Note: Respondents ranked their satisfaction from 0 (totally dissatisfied) to 10 (totally satisfied).

Table 7.4: Percentage of people who reported financial stress, 2014

Number of financial stress indicators	Unemployed people (%)	Low-paid employees (%)	Higher-paid employees (%)
None	60.6	74.6	82.4
One	13.7	10.7	8.9
Two or three	15.4	10.5	7.1
Four or more	10.3	4.2	1.6

Source: *HILDA Survey*, release 15 (December 2016), wave 15.

Note: 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.

7.5 Conclusion

247. Economists generally agree that excessive minimum wage increases will reduce employment, including hours worked. The Panel should be mindful that Australia's minimum wage bite is greater than the level in many comparable OECD countries. This suggests that there may be a higher risk to employment in Australia.
248. A range of economic research finds that any negative impacts will be larger for young people and during times of weaker economic performance. The Panel should be aware of the risk that their decision may reduce employment growth. Their decision should support jobs growth and protect job opportunities for all Australians, and particularly for young Australians and the low-skilled and those who are long-term unemployed.

- 249. Low-paid jobs provide a critical entry point into the workforce, particularly for at risk groups such as young people and the low-skilled.
- 250. Given that low-paid work is temporary for a majority of low-paid workers and often serves as a stepping stone to higher paid work, increasing the national minimum wage and award classification wages may not be effective in raising the living standards of currently low-paid workers.
- 251. It is important that the minimum wage is set at a level that encourages people who are out of work to enter work in order to enjoy the benefits that work can provide to individuals and communities. A range of households are better off when an unemployed household member gains a job at the national minimum wage. This shows that the level of the national minimum wage currently provides sufficient financial incentives to work.

8 Household Incomes and Inequality

Key Points

- The minimum wage and the earnings of the low-paid have grown in real terms, although not as quickly as average or higher earnings.
- Household income inequality is a more useful measure than individual earnings inequality for assessing differences in living standards. In Australia, it has risen modestly, but remains well below the levels seen in the US and UK.
- The labour share of income is fairly stable over the long run – the latest evidence suggests employees as a group have not fallen behind productivity growth.
- Minimum wage increases have a limited and uncertain effect on income inequality.
- The minimum wage is not the best instrument to address the gender pay gap.
- The current tax-transfer system provides substantial redistribution to low-income households and families with children, including minimum wage earners.

8.1 Earnings inequality and income inequality

252. 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 0.7 per cent a year in real terms. This is less than growth in median full-time earnings, which averaged 4.3 per cent a year in nominal terms and 1.5 per cent a year in real terms to 2015 (ABS *Characteristics of Employment*).
253. Therefore, the minimum wage bite (the ratio between the minimum wage and median full-time earnings) has declined from 62 per cent in 1997 to 53 per cent in 2015. This is still above the average for comparable OECD countries (see Chart 7.1). Most of the decline occurred in the late 1990s and the mid-2000s, with the early 2000s and the period since 2008 exhibiting relative stability.
254. Table 8.1 below presents the growth in real weekly earnings of full-time adult non-managerial employees between 1996 and 2016 for various points in the earnings distribution. It shows that real earnings have grown at all levels. Further, while growth rates were highest amongst the higher paid, real earnings growth among low and medium paid employees was higher over the decade from 2006 to 2016 than over the decade from 1996 to 2006.

Table 8.1: Growth in full-time real weekly earnings, 1996 to 2016

% growth:	1996 to 2006	2006 to 2016
10th percentile	9.3	12.8
50th percentile (median)	15.6	17.5
90th percentile	24.2	21.9

Source: ABS *Employee Earnings and Hours*, May 2016, Cat. No. 6306.0, published and unpublished data.

Note: 1996 to 2006 growth is for ordinary time earnings and 2006 to 2016 is for total cash earnings.

255. Household disposable income is a more comprehensive measure of living standards. It is measured at the household rather than the individual level, to take account of sharing between family members. In addition to taking into account the earnings of those in jobs within a household, it also adjusts for household size ('equivalised') and takes into account investment income, direct taxes, and transfer payments.

256. Gains in household disposable income have been more evenly spread than gains in individual earnings (see Table 8.2). For the decade from 1994-95 to 2003-04, growth for the median household slightly exceeded growth for the (high-income) 90th percentile, while over the decade from 2003-04 to 2013-14, growth for the (low-income) 10th percentile was almost equal to growth at the median. Changes in ABS methods may have exaggerated the acceleration in high-income growth during the second decade.³¹

Table 8.2: Growth in equivalised real household disposable income, 1994-95 to 2013-14

% growth:	1994-95 to 2003-04	2003-04 to 2013-14
10th percentile	20.0	28.1
50th percentile (median)	24.0	28.5
90th percentile	23.2	34.5

Source: ABS *Household Income and Wealth, Australia, 2013-14*, Cat. No. 6523.0.

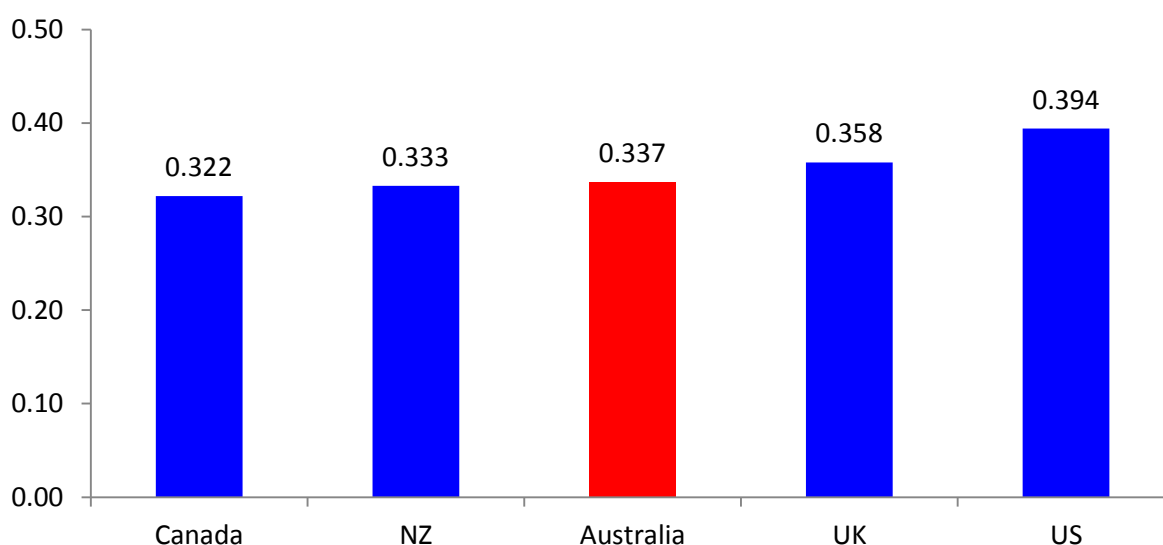
Note: Estimates for 2007-08 onwards are not directly comparable with previous estimates due to improvements in income measurement. Estimates for 2003-04 and 2005-06 have been recompiled to reflect the new measures of income, however not all components introduced in 2007-08 are available earlier.

257. The Gini coefficient, a commonly used measure of income inequality, has remained fairly stable from 2007-08 to 2013-14 (*ABS Household Income and Wealth*) and the overall trend within this period is uneven. It is worthwhile noting that the rise between 2003-04 and 2007-08 has probably been exaggerated due to the aforementioned ABS methodology changes.
258. While inequality has risen across the OECD since the 1980s, the increase in Australia has been more subdued. Some researchers, using data on shares of gross incomes (i.e. before taxes and transfers) have found that there was a significant jump in these measures of income inequality in Australia in the mid to late 1980s, and that inequality peaked in around 2006.³² The latest available OECD data shows Australia's level of income inequality (as measured by the Gini coefficient), after taxes and transfers, remains well below levels in the United Kingdom (UK) and US (see Chart 8.1).

³¹ Improvements in the Survey of Income and Housing, including a new definition of income, had a greater impact at the top of the income distribution (ABS 2013a, Fact Sheet 5). Income growth also appears to be higher than earnings growth generally, because of more rapid growth in employment and investment income, and changes to the tax-transfer system.

³² Leigh and Atkinson (2007). Updated data (to 2010) can be found in Figure A at <http://andrewleigh.org/pdf/TopIncomesAustralia.xls>

Chart 8.1: Gini coefficients, international comparison, 2014



Source: *OECD Stat Extracts*, stats.oecd.org, extracted in October 2016.

Notes: New Zealand data for 2012, and Canadian and UK data for 2013.

259. The causes of rising inequality are the subject of debate, and will likely vary from country to country. However, the research suggests that technological change, globalisation, and institutional change are all factors that have contributed to the rise in inequality.³³
260. For Australia, Borland and Coelli (2015) present evidence around the impact of new information technologies on the skill composition of employment. According to their methodology, between 1966 and 2011, the share of high skill jobs increased by around 10 percentage points, with corresponding falls in the shares of middle and low skill jobs. Since higher skill categories are associated with higher average earnings, this may have contributed to changes in the distribution of earnings.

8.2 Wage and profit shares

261. The shares of income going to wages and profits, or labour and capital, are also important measures of income distribution. Recently, concerns have been raised that the profit share has increased at the expense of the wage share, or equivalently, that employees have been left out of the benefits of productivity growth, both in Australia and overseas (e.g. Cowgill 2013, OECD 2015).
262. Rognlie (2015), however, argues for a different interpretation of the evidence. Increases in the housing and depreciation shares of the economy, as have occurred in many countries, tend to reduce the usual measures of the wage share and increase the profit share.
263. Depreciation is not counted as income at the individual or corporate level, while the housing sector has no employees and is substantially owner-occupied. For example, most housing 'income' in the Australian National Accounts is actually imputed or hypothetical rent. Therefore, it may be reasonable to exclude both when considering the division of

³³ See e. g. OECD (2011).

income between employers and employees, or, more broadly, the distribution of personal income. Rognlie (2015) finds that, net of depreciation, the profit share in the non-housing private and corporate sectors of the G7 economies was no higher in the 2000s than it was in the 1950s or 1960s.

264. In Australia, the influence of the mining boom in lowering the wage share is widely acknowledged³⁴, although there is some disagreement about the size of the effect. It may be of some benefit to replicate Rognlie's study for Australia, noting that an exact replication might not be possible due to data limitations.

8.3 The minimum wage and inequality

265. Rises in the minimum wage probably reduce earnings inequality, to some extent. However, the effect on income inequality is more ambiguous, given that minimum wage workers are found across the household income distribution (Chapter 2), and that minimum wage increases may reduce employment (Chapter 7). The more minimum wage workers are in higher-income households, and the greater the disemployment effect of a minimum wage rise, the less effective the minimum wage will be in reducing household income inequality.
266. Findings from international studies suggest there is limited evidence that minimum wages are an effective tool for reducing income equality. Simulations by Müller and Steiner (2013) show that, assuming no disemployment effects, wage changes induced by the minimum wage in Germany would have little impact on the overall distribution of net household incomes and the reduction of inequality. Similarly, Maloney and Pacheco (2012) estimate that a 10 per cent increase in minimum wages in New Zealand, assuming no falls in employment or hours of work, would lower the relative poverty rate by less than one-tenth of a percentage point.
267. Key findings from these studies highlight that the tax-transfer system and where minimum wage workers are found in the household distribution are important factors that affect the extent to which minimum wage increases can reduce income inequality.
268. While there has been a large body of evidence from the US on this issue, findings from US studies should be approached with caution. Not only is the Australian national minimum wage higher than the US, and our welfare system different, but the national minimum wage is a part of Australia's comprehensive system of modern awards and the 2,000 plus minimum award classification wages within it. Since only a small proportion of award-reliant employees receive the national minimum (with the remainder often paid on higher award classification wages), the Panel's decision also impacts workers who are higher in the income distribution.
269. Government modelling finds that, even assuming no change in hours worked, minimum wage increases are not fully reflected in disposable income. This is a result of Australian's current highly progressive and targeted tax-transfer system. Table 8.3 shows the change in disposable income for various household types following the 2016 minimum wage increase. Full-time workers without children retained the greatest fraction of the

³⁴ See e. g. McKissack *et al.* (2008), Cowgill (2013), Parham (2013), and FWC (2016, pp. 41-42).

minimum wage increase after taxes and transfers, since they receive no transfer payments and therefore face no means tests. Part-time workers and workers with children kept less, since they are affected by the means tests on payments such as Newstart and Family Tax Benefit. Dual income families with one full-time worker and a part-time worker on the national minimum wage with children are the worst off of the modelled households.

270. The modelling presented in Tables 8.3 and 8.6 takes appropriate account of indexation arrangements for transfer payments.
271. When considering the relative living standards of the low-paid, the key information for the Panel's decision is the direct impact of increases in minimum and award wages on household incomes for low-paid employees – which are independent of indexation arrangements. Hence, Table 8.3 excludes the effects of indexation arrangements, which are a separate process in the tax-transfer system, and are not affected by the Panel's decision.
272. When looking at income growth over the long-term, the Government appropriately includes indexation in its calculations, and shows the role of the tax-transfer system clearly as a separate factor from the effects of minimum wage decisions (see Table 8.6).

Table 8.3: Effect of 2016 minimum wage increase on household disposable incomes

Household type	Wage increase (\$pw)	Increase in household disposable income (\$pw)	Percentage of wage increase retained (%)
Single, no children			
Full-time NMW	15.80	12.48	79.0
Part-time NMW	6.15	2.46	40.0
Student on part-time NMW	6.15	2.48	40.3
Single parent			
Full-time NMW, child aged 3	15.80	5.07	32.1
Full-time NMW, child aged 9	15.80	7.68	48.6
Part-time NMW, child aged 3	6.15	3.69	60.0
Part-time NMW, child aged 9	6.15	3.00	48.8
Single-income couples (partner on Newstart Allowance)			
Full-time NMW, no children	15.80	2.49	15.8
Full-time NMW, child aged 3	15.80	4.39	27.8
Full-time NMW, children aged 3 and 9	15.80	5.20	32.9
Dual income couples			
Both full-time NMW, no children	31.60	24.96	79.0
One full-time and one part-time NMW, no children	21.95	2.86	13.0
One full-time and one part-time NMW, child aged 3	21.95	2.19	10.0
One full-time and one part-time NMW, children aged 3 and 9	21.95	2.18	9.9

Source: Government modelling.

Note: Figures are based on tax and benefit rates applicable on 1 July 2016. Part-time hours are assumed to be 15 hours per week. This modelling does not include indexation of benefits as it has been designed specifically to

show the Panel the direct impact of the 2017 minimum wage increase on household disposable incomes. Indexation of benefits is a separate process in the tax-transfer system and is not affected by the Panel's decision.

8.4 Gender pay inequality

273. The headline gender pay gap, defined as the difference between women's and men's average weekly full-time ordinary earnings and expressed as a proportion of men's earnings, was 16.0 per cent³⁵ in November 2016 (*ABS Average Weekly Earnings*). Between 2004 and 2014, this figure was trending upwards (from 14.9 per cent in 2004 to 18.5 per cent in 2014) but since then has decreased to the current level.
274. To the extent that more women are employed on awards than men³⁶, and all else being equal, minimum wage increases could reduce the measured gender pay gap. However, as highlighted in the Government's 2014 submission, the impact on the gender pay gap is marginal.
275. Further, as highlighted in the Government's 2016 Annual Wage Review submission, research for the Fair Work Commission (Rozenbes and Farmakis-Gamboni 2015, Broadway and Wilkins 2015) shows little evidence of an hourly gender pay gap for workers on awards. The gender pay gap, therefore, appears to be mostly driven by higher paid workers. The latest available ABS data shows that, among non-managerial employees, women earn roughly the same per hour as men on awards. This suggests the gender pay gap is concentrated among employees on collective agreements and individual arrangements.
276. The concern of gender pay gap also needs to be considered in the context of encouraging workforce participation. The gender pay gap is smallest among lower paid and award-reliant workers, whose employment opportunities are most likely to be affected by the Panel's decision (Chapter 7).
277. In general, the Panel's decision on the national minimum wage is a blunt tool for addressing the complex factors underlying gender pay inequality, as it is for other aspects of inequality. Rather, a multifaceted approach is needed. Some of the Government's initiatives aimed at addressing the gender pay gap include improving the gender balance in key industries, encouraging employers to understand and address gender pay inequity in their own organisation and encouraging men and women to better balance the demands of work and family through more flexible, accessible and affordable childcare.
278. The Government is also committed to the G20 goal of reducing the gap between male and female labour force participation rates (for people aged 15-64 years) by 25 per cent by 2025. This can be achieved by lifting the female labour force participation rate by three percentage points, assuming that there are limited changes in the male participation rate.
279. Boosting female labour force participation requires a range of strategies including accessible, affordable and flexible child care, supporting women out of the workplace to become job-ready, and supporting small business to generate more jobs.

³⁵ The gender pay gap in hourly terms was 11.3 per cent in May 2016 using EEH. This figure covers non-managerial employees, both full-time and part-time.

³⁶ In May 2016, female non-managerial employees accounted for the majority (61.8 per cent) of all non-managerial employees who were employed through an award.

280. Recent research by the Department of Employment found that female low-paid workers between the ages of 25 and 44 years are much more likely than their male counterparts to have entered low-paid work from outside the labour force. This may reflect that women are more likely to leave the labour force (for example, due to the birth of their children and child caring responsibilities) for a period of time and then return to the workforce. The 'stepping stone' benefits of low-paid work may therefore be particularly important for this group. As discussed in Chapter 7, since low-paid work is often temporary (most low-paid workers move into higher paid employment within one year), this is an additional reason to be cautious about any measures which may jeopardise female employment.

8.5 Taxes and transfers

281. The current Australian tax-transfer system plays a large role in equalising the distribution of income among Australian households. The top fifth of households receive 14.5 times as much income as the bottom fifth. After direct (mainly income) taxes and transfer payments, however, this ratio drops to 5.6. When in-kind transfers (mainly Education and Health services) are added, it drops again to 3.5.
282. Minimum wage workers, including some full-time workers, benefit from the current system. Transfer payments are roughly a third of disposable income for full-time minimum wage workers in single-income households with children (see Table 8.4).

Table 8.4: Transfer payments to full-time NMW households with children, 1 January 2017

Household type	(\$pw)	(% of disposable income)
Single		
Child aged 3	342.22	36.4
Child aged 9	216.88	26.1
Children aged 3 & 9	454.24	43.3
Single-income couple (partner on Newstart)		
Child aged 3	311.26	33.5
Child aged 9	287.39	31.7
Children aged 3 & 9	418.36	40.3
Dual income couples (both on NMW)		
Child aged 3	43.96	3.5
Child aged 9	43.96	3.5
Children aged 3 & 9	144.94	10.7

Source: Government modelling.

283. The system helps compensate for the costs of raising children. Table 8.5 shows that while equivalised (adjusted for household size) earnings are much lower in households with children, equivalised disposable income is actually higher in some minimum wage households with children than in households with equal earnings but without children. This is true even when childcare costs are taken into account.

Table 8.5: Equivalised income for full-time NMW workers with children, 1 January 2017

Household type	<u>Earned income</u>			<u>Disposable income, adjusted for childcare costs</u>		
	Earnings (\$pw)	Equivalised earnings (\$pw)	(% of single, no children)	Income (\$pw)	Equivalised income (\$pw)	(% of single, no children)
Single person – working full-time at the NMW						
No children	672.70	672.70	100.0	606.49	606.49	100.0
Child aged 3	672.70	517.46	76.9	815.76	627.51	103.5
Child aged 9	672.70	517.46	76.9	804.05	618.50	102.0
Children aged 3 & 9	672.70	420.44	62.5	905.85	566.16	93.3
Dual income couples – both partners working full-time at the NMW						
Child aged 3	1345.40	747.44	111.1	1103.13	612.85	101.0
Child aged 9	1345.40	747.44	111.1	1225.07	680.59	112.2
Children aged 3 & 9	1345.40	640.67	95.2	1190.68	566.99	93.5
Single-income couples – P1 working full-time at the NMW, P2 on Parenting Payment/Newstart						
Child aged 3	672.70	373.72	55.6	930.20	516.78	85.2
Child aged 9	672.70	373.72	55.6	906.33	503.52	83.0
Children aged 3 & 9	672.70	320.33	47.6	1038.30	494.43	81.5

Source: Government modelling.

Note: It is assumed that the single-income couples incur no childcare costs, since the non-working partner will look after the children. Equivalised earnings have been derived by calculating an equivalence factor according to the 'modified OECD' equivalence scale, and then dividing by the factor. In determining the factor, the first adult in the household is allocated 1 point, an additional adult is allocated 0.5 points and each child under 15 years is allocated 0.3 points.

284. The current Australian tax-transfer system has also assisted real income growth in minimum wage households. The Government has modelled the percentage change in real disposable income for a number of hypothetical households over the five years from 2012 to 2017. As shown in Table 8.6, 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. 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).

Table 8.6: Changes in real disposable household income, 2012 to 2017

Household type	Total change (%)	Tax-transfer contribution (%)	Net impact of real NMW increases (%)
Single, no children			
Full-time NMW	2.9	-0.7	3.6
Part-time NMW	5.3	4.3	1.1
Student on part-time NMW	17.8	16.4	1.5
Single parent			
Full-time NMW, child aged 3	1.6	0.6	0.9
Part-time NMW, child aged 3	4.4	3.6	0.9
Full-time NMW, child aged 9	8.4	6.7	1.7
Part-time NMW, child aged 9	9.9	8.9	1.0
Single- income couples			
Full-time NMW, no children	2.4	1.8	0.6
Full-time NMW, child aged 3	2.5	1.7	0.9
Full-time, children aged 3 and 9	2.3	1.4	0.9
Dual income couples			
Both full-time NMW, no children	2.9	-0.7	3.6
One full-time and one part-time NMW, no children	2.9	1.8	1.1
One full-time and one part-time NMW, child aged 3	2.8	1.8	0.9
One full-time and one part-time NMW, children aged 3 and 9	3.0	2.1	0.8

Source: Government modelling.

Notes: Based on NMW and tax-transfer system of 1 January each year. 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 contribution of the tax-transfer system, by assuming that the minimum wage had grown in line with the Consumer Price Index (CPI), while the third shows the contribution of real NMW increases (the difference between the first two). They may not sum exactly due to rounding. This modelling includes indexation of benefits as it examines disposable household income over the long term. The effect is shown as part of the 'tax-transfer contribution', as it occurs independently of the Panel's decision on the NMW.

8.6 Conclusion

285. Household income inequality in Australia has only risen modestly, and remains well below US levels.
286. The tax-transfer system is the primary means of redistributing income in Australia. It can provide better targeted and more effective assistance to maintain living standards, including the living standards of low-paid workers in low income households, than increases in the national minimum wage and award classification wages.
287. The Panel's decision on the minimum wage and award classification wages is a blunt tool for addressing the complex factors underlying income and gender inequality. Not only are minimum wage workers in Australia found across the household distribution, but broader factors such as the changing skill composition of employment in Australia may also affect

the distribution of earnings. In addition, the gender pay gap is much larger among workers whose pay are set by instruments other than the national minimum wage and award classification wages, while the stepping stone benefits of low-paid jobs are particularly important for women who enter/re-enter the labour force.

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Appendices

Appendix A: Low-paid and national minimum wage workers – definitions and data

288. In defining low-paid employees, data was used from the ABS's survey of *Employee Earnings and Hours* (EEH) as well as the *Household Income and Labour Dynamics in Australia* (HILDA) Survey.
289. Different variables are available in these data sets. Also slightly different low-paid thresholds are used due to differences in the median wage and timing of the surveys. However, the low-paid definition is consistently two thirds of median earnings.

A.1 Defining low-paid employees using HILDA

290. 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 \$19.05 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.^{37,38}
291. In order to calculate the number of low-paid employees using the HILDA Survey the following approach has been taken:
- limited the population to employees aged 15 years and over with positive hours of work and earnings
 - calculated hourly earnings for employees in their main job
 - deflated the earnings of casuals by 1.25 to reflect the casual loading
 - calculated the median earnings of adult employees (i.e. aged 21 years and over) at (\$28.57) and set the threshold for low-pay at two thirds of this amount (\$19.05)
 - adult employees with an hourly wage below \$19.05 have been classified as low-paid
 - 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.³⁹ Table A.1 contains all low-pay thresholds used for juniors.

³⁷ 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.

³⁸ 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.

³⁹ 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.

Table A.1: Low-pay thresholds, by age

	Percentage of NMW (%)	Low-paid threshold (\$)
Adult (21 years and over)	100.0	19.05
20 year old	97.7	18.61
19 year old	82.5	15.72
18 year old	68.3	13.01
17 year old	57.8	11.01
16 year old	47.3	9.01
15 year old	36.8	7.01

Note: Junior minimum wage rates refer to the National Minimum Wage Order.

Example: The low-paid threshold for 15 year olds was set at \$7.01 which is the adult threshold of \$19.05 multiplied by 36.8 per cent (the special national minimum wage for 15 year olds is 36.8 per cent of the national minimum wage). Fifteen year olds paid less than \$7.01 per hour have been classified as low-paid.

A.2 Defining low-paid employees using EEH

292. Low-paid employees have been defined as employees earning less than two-thirds of the median employee hourly earnings. Accordingly, employees with hourly earnings below \$19.33 have been classified as low-paid.

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

- limited the population to employees aged 15 years and over with positive hours of work and earnings
- limited the population to non-managerial employees as managers have not normally reported on hours worked
- calculated hourly ordinary time cash earnings for all non-managerial employees
- deflated the earnings of casuals by 1.25 to reflect the casual loading
- calculated the median hourly wage (\$29.00 per hour) and two thirds of this amount (\$19.33 per hour)
- employees with an hourly wage below \$19.33 are classified as low-paid
- no adjustment has been made to the low-pay thresholds for juniors because the EEH Survey has not traditionally reported on the age of respondents.

A.3 Defining national minimum wage employees using EEH

294. National minimum employees have been defined as adult employees who are paid less than \$17.50 per hour. This excludes workers paid junior, apprentice and disability rates of pay.

295. In order to calculate the number of national minimum wage adult employees using the EEH Survey the following approach has been taken:

- limiting the population to non-managerial employees as managers have not normally reported on hours worked
- calculating hourly ordinary time cash earnings for all non-managerial employees
- deflating the earnings of casuals by 1.25 to reflect the casual loading

- the national minimum wage at May 2016 was \$17.29. Employees paid at or below \$17.50 per hour in May 2016 are considered to be paid the national minimum wage rate (this uses an upper error band of 21 cents).

A.4 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	43.7	51.3	50.0	15.5
Female	56.4	48.7	50.0	20.0
Age				
Age 15-24	42.0	12.1	17.4	42.9
Age 25-34	20.8	25.7	24.8	14.8
Age 35-44	11.7	23.8	21.7	9.6
Age 45-54	12.6	21.7	20.1	11.1
Age 55-64	10.3	14.4	13.7	13.3
Age 65+	2.6	2.3	2.4	19.3
Marital status				
Single	62.1	37.2	41.6	26.4
Partnered	37.9	62.8	58.4	11.5
Age of youngest resident child				
No child	71.1	52.0	55.4	22.8
0-5 years	9.1	17.3	15.8	10.1
6-11 years	7.1	10.0	9.5	13.4
12-17 years	6.1	9.2	8.7	12.4
18 years or more	6.6	11.5	10.7	11.0
Location				
Major city	67.4	71.1	70.5	17.0
Inner regional Australia	22.0	20.3	20.6	19.0
Outer regional Australia	9.8	7.4	7.8	22.2
Remote/very remote Australia	0.8	1.2	1.2	11.8
Long term health condition				
Present	17.6	14.2	14.8	21.1
Not present	82.4	85.8	85.2	17.1
Highest education attainment				
Degree or post Graduate	16.6	37.3	33.6	8.8
Certificate 3-4/Diploma	30.0	33.3	32.7	16.2
Year 12	27.9	15.0	17.3	28.6
Year 11 or below(c)	25.5	14.5	16.4	27.5
Years of work experience				
Less than 2 years	23.2	5.8	8.8	46.2
2-5 years	21.6	8.5	10.8	35.3
More than 5 years	55.2	85.8	80.4	12.1
Hours				
Full-time	44.2	71.6	66.8	11.7
Part-time	55.8	28.4	33.2	29.8
Contract type				
Casual	60.9	17.3	25.0	43.2
Permanent	39.1	82.8	75.0	9.2

	% of low-paid employees	% of higher-paid employees	% of all employees	% of employees who are low-paid
Business size				
Small (1-19 employees)	54.8	28.7	33.3	29.1
Medium (20-199 employees)	37.7	44.8	43.5	15.4
Large (200 plus employees)	7.6	26.5	23.1	5.8
Occupation				
Managers	4.2	12.6	11.1	6.7
Professionals	7.1	28.3	24.5	5.1
Technicians & trades workers	11.8	10.8	11.0	19.0
Community & personal service	20.3	12.3	13.7	26.1
Clerical & administrative workers	10.1	15.3	14.4	12.4
Sales workers	20.4	7.5	9.7	37.0
Machinery operators & drivers	6.7	6.6	6.6	18.1
Labourers	19.5	6.7	9.0	38.5
Industry				
Agriculture, forestry & fishing	3.7	0.6	1.2	56.2
Mining	0.3	2.3	1.9	3.2
Manufacturing	8.4	7.6	7.7	19.4
Electricity, gas, water & waste services	0.5	1.2	1.1	8.5
Construction	6.0	5.9	5.9	18.0
Wholesale trade	2.7	3.4	3.3	14.4
Retail trade	18.7	8.6	10.4	31.9
Accommodation & food services	18.0	4.5	6.9	46.2
Transport, postal & warehousing	3.7	5.1	4.9	13.5
Information media & telecommunications	1.2	2.2	2.0	10.9
Financial & insurance services	0.9	5.0	4.2	3.6
Rental, hiring & real estate services	2.3	1.3	1.5	28.3
Professional, scientific & technical services	3.2	7.1	6.5	8.9
Administrative & support services	4.1	2.6	2.8	25.7
Public administration & safety	1.3	7.9	6.7	3.3
Education & training	6.1	12.1	11.1	9.8
Health care & social assistance	11.6	17.9	16.7	12.3
Arts & recreation services	2.5	1.8	1.9	23.5
Other services	4.9	3.0	3.4	25.7

Source: *HILDA Survey*, release 15 (December 2016), wave 15.

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 43.7 per cent of low-paid workers are male. The last column shows the percentage of workers of a particular characteristic that are low-paid. For example, 15.5 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 assumptions

B.1 Tax-transfer assumptions

- (i) All tax rates and transfers are as at 1 January 2017.
- (ii) Families are assumed to have no private health insurance.
- (iii) Modelling includes Telephone Allowance where relevant.
- (iv) Modelling assumes the maximum rate of Rent Assistance where it is stated that the household is renting.
- (v) Families are assumed to not live in public housing or face shared care arrangements.
- (vi) People are assumed to be born after 1952 and hence partnered couples are assumed to not receive the Dependent Spouse Tax Offset.
- (vii) Any lump sum payments are spread evenly over the period.

B.2 Childcare assumptions

- (i) Hours of usage assumptions are listed in Table B. 1. These are based on the hours of work of the second earner in a couple household.⁴⁰ Where only one member of a couple household works, it is assumed that the household does not require child care.
- (ii) Families are in receipt of the Child Care Benefit and Child Care Rebate only.⁴¹
- (iii) Long day care costs \$9.22 per hour and outside school care costs \$7.02 per hour. This is based on average child care fees for the March quarter 2016, indexed to the CPI for childcare up to the December quarter 2016.⁴²

Table B.1: Child care usage assumptions

Child age	Care type	Hours required per week	
		Full-time	Part-time
0-4 years	Long Day Care	50	20
5-12 years	Outside School Hours Care (a)	15	6

Note: (a) Usage for school aged children is based on care requirements during the school term. It is expected that care requirements will differ over the school holiday period. Children aged 5-12 years are presumed to only attend the after school session of Outside School Hours Care.

⁴⁰ Basing child care usage on hours of work is a method also used elsewhere in the literature (e. g. Immervoll and Barber 2006).

⁴¹ Some families may also receive Jobs Education Training and Child Care Fee Assistance when they transition from unemployment to minimum wage work. However, this is only available for a constrained time period and has been excluded from our analysis as it does not provide an indication of the 'typical' assistance available to minimum wage earners.

⁴² This was the latest available data when the modelling was done. Increases in the December quarter are generally small. Child care fees vary between providers and this will affect individual experiences.

Appendix C: Modelling results

Table C.1: One unemployed member of the household accepts a job paying the NMW (\$17.70 per hour)

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 \$672.70 per week						
Adult - NSA	\$268.75	\$0.00	\$66.21	\$606.49	125.7% \$337.74	0.0%
Adult renter - NSA	\$334.05	\$0.00	\$66.21	\$606.49	81.6% \$272.44	0.0%
Single without children – PT job at \$265.50 per week						
Adult - NSA	\$268.75	\$148.15	\$0.00	\$413.65	53.9% \$144.90	35.8%
Adult renter – NSA	\$334.05	\$213.45	\$0.00	\$478.95	43.4% \$144.90	44.6%
Student – YA – away from home	\$222.25	\$198.40	\$5.49	\$458.41	106.3% \$236.16	43.3%
Student – YA – lives with parents	\$146.35	\$122.50	\$0.00	\$388.00	165.1% \$241.65	31.6%

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NSA – Newstart Allowance

YA – Youth Allowance

PPP – Parenting Payment Partnered

PPS – Parenting Payment Single

FT – Full-time

PT – Part-time

NMW – National Minimum Wage

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)	(%)
<i>Couple – both unemployed, one finds a FT job at \$672.70 per week</i>						
No children - NSA	\$485.30	\$120.43	\$60.11	\$733.02	51.0% \$247.72	16.4%
With 1 child aged 3 years - PPP	\$651.75	\$311.26	\$53.75	\$930.20	42.7% \$278.45	33.5%
With 1 child aged 9 years – NSA	\$627.88	\$287.39	\$53.75	\$906.33	44.3% \$278.45	31.7%
With 2 children aged 3 and 9 years – PPP	\$758.85	\$418.36	\$52.76	\$1038.30	36.8% \$279.45	40.3%
<i>Couple – both unemployed, one finds a PT job at \$265.50 per week</i>						
No children - NSA	\$485.30	\$364.70	\$0.00	\$630.20	29.9% \$144.90	57.9%
With 1 child aged 3 years - PPP	\$651.75	\$531.15	\$0.00	\$796.65	22.2% \$144.90	66.7%
With 1 child aged 9 years – NSA	\$627.88	\$507.28	\$0.00	\$772.78	23.1% \$144.90	65.6%
With 2 children aged 3 and 9 years – PPP	\$758.85	\$638.25	\$0.00	\$903.75	19.1% \$144.90	70.6%

(continued over page)

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)
Lone parent – FT job at \$672.70 per week									
With 1 child aged 3 years – PPS	\$573.58	\$342.22	\$74.66	\$940.26	63.9% \$366.68	36.4%	\$124.50	\$815.76	42.2% \$242.18
With 1 child aged 9 years – NSA	\$465.16	\$216.88	\$59.91	\$829.67	78.4% \$364.51	26.1%	\$25.62	\$804.05	72.9% \$338.89
With 2 children aged 3 and 9 years – PPS	\$680.68	\$454.24	\$76.95	\$1049.99	54.3% \$369.31	43.3%	\$144.14	\$905.85	33.1% \$225.17
Lone parent – PT job at \$265.50 per week									
With 1 child aged 3 years – PPS	\$573.58	\$505.10	\$0.00	\$770.60	34.3% \$197.02	65.5%	\$45.56	\$725.04	26.4% \$151.46
With 1 child aged 9 years – NSA	\$465.16	\$379.76	\$0.70	\$644.56	38.6% \$179.40	58.9%	\$10.25	\$634.31	36.4% \$169.15
With 2 children aged 3 and 9 years – PPS	\$680.68	\$617.12	\$0.00	\$882.62	29.7% \$201.94	69.9%	\$53.23	\$829.39	21.8% \$148.71

(continued over page)

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)
<i>Couple – one employed FT on the NMW, the other finds a FT job at \$672.70 per week</i>									
No children - NSA	\$733.02	\$0.00	\$132.42	\$1212.98	65.5% \$479.96	0.0%	Not applicable		
With 1 child aged 3 years - PPP	\$930.20	\$43.96	\$132.42	\$1256.94	35.1% \$326.74	3.5%	\$153.81	\$1103.13	18.6% \$172.93
With 1 child aged 9 years – NSA	\$906.33	\$43.96	\$132.42	\$1256.94	38.7% \$350.61	3.5%	\$31.87	\$1225.07	35.2% \$318.74
With 2 children aged 3 and 9 years – PPP	\$1038.30	\$144.94	\$132.42	\$1357.92	30.8% \$319.62	10.7%	\$167.24	\$1190.68	14.7% \$152.38
<i>Couple – one employed FT on the NMW, the other finds a PT job at \$265.50 per week</i>									
No children - NSA	\$733.02	\$0.00	\$66.21	\$871.99	19.0% \$138.97	0.0%	Not applicable		
With 1 child aged 3 years - PPP	\$930.20	\$161.11	\$65.67	\$1033.63	11.1% \$103.43	15.6%	\$47.39	\$986.24	6.0% \$56.04
With 1 child aged 9 years – NSA	\$906.33	\$137.24	\$65.67	\$1009.76	11.4% \$103.43	13.6%	\$10.67	\$999.09	10.2% \$92.76
With 2 children aged 3 and 9 years – PPP	\$1038.30	\$268.21	\$59.32	\$1147.09	10.5% \$108.79	23.4%	\$54.92	\$1092.17	5.2% \$53.87