Australian Government

Response to

Questions for Final Consultations

11 May 2018

1.2 Question to all parties

Since the Annual Wage Review 2016–17, there has been one substantial new piece of research for Australia on the impact of increases in minimum wages on employment: Bishop J (2017), The effect of minimum wage increases on wages, hours worked and job loss. The paper is available in the Research reference list for this Review.[1]

In the synopsis, Bishop writes 'I find that a one per cent rise in award wages leads to a 0.85–0.95 per cent rise in wages for award-reliant jobs. I find no evidence that increases in award wages have an adverse effect on hours worked or the job destruction rate.'

We would appreciate receiving any further comments on the significance of this paper.

As indicated in the Australian Government's submission of 13 March 2018, "The effect of minimum wages on employment is difficult to measure, and hence the available evidence is mixed and remains under debate."

The Australian Government notes that the paper commissioned by the Fair Work Commission as part of the research programme for the Annual Wage Review 2017-18 by Professor Jeff Borland[1] presents a review of methodologies and limitations of research undertaken on the employment effects of the minimum wage, including the paper by Mr Bishop (2017). Professor Borland noted some limitations of Mr Bishop's paper, such as not identifying the effects of changes in the minimum wage on job creation.

[1] Bishop J (2017), *The effect of minimum wage increases on wages, hours worked and job loss*, paper presented at the Asian and Australasian Society of Labour Economics Inaugural Conference, December

1.3 Question to all parties

The three industries with the highest proportion of employees paid at the award rate in 2017 are (in order of award reliance) Accommodation and food services (43 per cent), Administrative and support services (42 per cent), and Retail trade (35 per cent). Chart 5.2 in the Statistical Report for this Review shows the growth in the WPI, by industry, over the year to the December quarter 2017. We note that on 1 July 2017, the NMW and all award rates of pay rose by 3.3 per cent.

The WPI grew by 2.0 per cent for Accommodation and food services; 1.8 per cent for Administrative and support services; and 1.6 per cent for Retail trade. Are any parties able to explain why the WPI for the most award-reliant industries rose by an amount that is substantially less than the growth in award rates?

A number of factors form part of the Wage Price Index (WPI) produced by the Australia Bureau of Statistics (ABS), including the sample population of jobs, hours worked, hourly rate of pay and the share of wage expenditure.

The ABS has advised that quantifying the impact of the relevant factors on the WPI is difficult. The extent to which the WPI will increase as a result of the annual wage review decision is, for example, affected by:

1. The number of award-reliant jobs from each industry sampled in the WPI. While the *Employee Earnings and Hours* data provides an indication of the number of award-reliant jobs sampled in the WPI, the two data sources do not necessarily exactly align.

2. The wages expenditure of award-reliant jobs relative to total wages expenditure in that industry. For example, while award-reliant jobs may account for approximately 40 per cent of the Administrative and support services industry, their contribution to total wages expenditure in this industry will likely be less than 40 per cent.

1.4 Question to all parties

In past Reviews, the Expert Panel has taken into account changes to the tax-transfer system. How and to what extent, if any, should regard be had to the corporate tax rate reductions for 'small business entities' that took effect progressively from 1 July 2015 and for 'base rate entities' which took effect from 1 July 2017, and for the further future progressive reductions in corporate tax rates that have been legislated for?

The Government has released Treasury's modelling of the long-term impact of the 2016-17 Budget including the Enterprise Tax Plan company tax cuts. The modelling presents two scenarios that make differing assumptions about how budget neutrality is achieved. Assuming budget neutrality is achieved through changes in government spending implies that the long-term impact of the changes is an after-tax increase in real wages of 1.2 per cent, while assuming budget neutrality is reached through changes in personal taxation implies an after-tax increase in real wages of 0.8 per cent. While the question is specifically about the tax reductions that have been legislated, it remains the case that the tax cuts are being implemented in line with the Government's original policy schedule, because none of the thus far un-legislated cuts were scheduled to commence before 2019-20.

With respect to the timing of the impact, the modelling does not describe the transition path to the long-term. However, given that the increase in wages is driven by higher productivity, the wage transition should be closely linked to the rise in the capital stock. For investments in long-lived assets, firms can start responding to the cuts as soon as there is a credible expectation of a lower future tax rate. Because some firms are eligible for lower tax rates before others, and the possibility that firms will respond before their tax rate changes, it will be difficult to identify when business investment is responding to the tax cut.

Treasury's modelling found that the improvement in wages is being driven by higher productivity. To the extent that the Expert Panel takes trends in productivity into account in its deliberations, the economic impacts of the tax cuts will in turn be taken into account, noting that the influence of the tax cut may not be separately identifiable from other factors that influence productivity.

Additional response to Questions on Notice (published 29 March 2018)

3.1 Question to the Australian Government

In reference to Table 8.2 of its submissions, which is based on the Survey of Employee Earnings and Hours, the Australian Government submits that 'low and medium-paid employees have seen gains in real earnings over the last decade, but at a slower pace than high paid employees'. The Australia Government also submits that, according to the HILDA survey, 'average annual growth in total wage income was slightly higher in the lower deciles from 2005 to 2015' and that '[a]fter controlling for hours worked, wage growth has been broadly uniform across the employee income distribution from 2005 to 2015'.

Can the Australian Government reconcile the two findings given that the former refers to weekly full-time non-managerial wages and the latter refers to annual total wage income?

Can the Australian Government replicate the data in Table 8.2 to include managerial employees?

Table 8.2 in the Australian Government submission has been updated to include managerial employees using unpublished data provided by the ABS for weekly total cash earnings for full-time adult employees.

The updated table is provided below.

Growth in full-time real weekly earnings, all employees, per cent, 1996 to 2016

	1996 to 2006	2006 to 2016
10th percentile (low)	6.6%	13.4%
50th percentile (median)	11.1%	17.6%
90th percentile (high)	16.5%	21.0%

Source: ABS *Employee Earnings and Hours, May 2016,* Cat. No. 6306.0, published and unpublished data.
Note: 1996 to 2006 growth is for total cash earnings (excluding salary sacrifice) and 2006 to 2016 is for total cash earnings (including salary sacrifice).

In undertaking this update, a methodological error was identified in the original table, resulting in an underestimation of inflation by two years for some of the calculations. An updated table is below.

Growth in full-time real weekly earnings, non-managerial employees, per cent, 1996 to 2016

	1996 to 2006	2006 to 2016
10th percentile (low)	6.5%	12.8%
50th percentile (median)	12.8%	17.5%
90th percentile (high)	21.1%	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 total cash earnings (excluding salary sacrifice) and 2006 to 2016 is for total cash earnings (including salary sacrifice).