australian council of trade unions

ACTU Submission to the Annual Wage Review 2018

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1. INTRODUCTION AND OVERVIEW

1. Federal minimum wages in Australia can be traced back to the *Harvester* decision of November 1907[1], in which the Conciliation and Arbitration Court was called to interpret and apply the expression "conditions as to the remuneration of labour which…are fair and reasonable"[2] .

2. In *Harvester,* The Court, constituted by Justice Higgins, expressed the following view about the expression "fair and reasonable":

> "The provision of fair and reasonable remuneration is obviously designed <u>for the benefit of employees</u> in the industry; and it must be meant to secure them <u>something which they cannot get</u> by the ordinary system of individual bargaining with employers. If Parliament meant that the conditions shall be such as they get by individual bargaining with employers – if it meant that those conditions are to be fair and reasonable, which employees will accept and employers will give, in contracts of service – there would have been no need for this position. The remuneration could safely have been left the usual, <u>but unequal</u>, contest, the "higgling of the market" for labour, with the pressure for bread on one side and the pressure for profits on the other. The standard of "fair and reasonable" must therefore be something else; and I cannot think of another standard appropriate than the normal needs of the average employee, regarded as a human being living in a civilised community"[3]. (emphasis added)

3. The Panel is variously directed by the relevant provisions of the Act to maintain "fair and relevant" minimum wages, as opposed to the "fair and reasonable" criteria that was central to the consideration in *Harvester*. However, there is a close connection between the two concepts insofar as they envisage doing more for employees than "the higgling of the market" might offer, as is evident by the Panel's acceptance last year[4] of our submission that:

> "..it cannot follow that 'relevant' centrally determined minimum wages – minimum wages that are suited to contemporary circumstances – must always follow, predict or seek to reproduce the trends observed in market wages. Rather, contemporary circumstances may demand that the intervention enabled by the legislation be exercised to a much fuller extent, including an extent that results in a major disparity between market wage movements and movements in minimum wages".

4. However, on numerous occasions (and most pointedly in last year's review[5]) the Panel has observed that the considerations that it is explicitly directed to take into account in reaching a judgement

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[1] (1907) 2 CAR 1
[2] *Excise Tariff Act 1906* s. 2
[3] *Ex parte H.V. Mckay* (1907) 2 CAR 1 at 3
[4] [2017] FWCFB 3500 at [145]
[5] [2017] FWCFB 3500 at [141]-[142]

about what is "fair and relevant" require it to balance *competing interests*. Indeed, the Panel explicitly gave the example that the requirement to take into take into account both "the performance and competitiveness of the national economy…" and "relative living standards and the needs of the low paid" involves striking a balance "between competing interests"[6]. The Panel's observation occurred in the context of considering a submission that the statutory framework for the setting of national minimum wage was beneficial legislation. Although the Panel did agree that the framework should be so characterised:

> "We accept that it is appropriate to characterise the statutory provisions relating to the variation of the NMW as remedial or beneficial provisions. They are intended to benefit national system employees."[7]

it stipulated that the extent to which those provisions are to be given a 'fair, large and liberal' interpretation in support of their beneficiaries "..is constrained by the fact that the relevant provisions seek to strike a balance between competing interests"[8].

1.1 Competing interests vs. unitary interest

5. In our submission, the structure of the minimum wages objective in section 284 of the Act and the modern awards objective in section 134 of the Act embeds assumptions intrinsic to the past orthodoxy of economic theory around minimum wages – essentially that a regulatory intervention to raise the wage of low paid workers necessarily carries with it economic risks to employers and others.

6. An embedded "balancing of interests" approach to minimum wage fixation, wherein particular conflicts and cause and effect relationships are assumed but not made explicit, is not a feature unique to Australia. Indeed, Article 3 of the 1970 ILO Convention 131 on Minimum Wage Fixation directs that when determining minimum wages, consideration be given to two factors:

> "(a) the needs of workers and their families, taking into account the general level of wages in the country, the costs of living, social security benefits and the relative living standards of other social groups;
>
> (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment"[9]

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[6] [2017] FWCFB 3500 at [141]
[7] [2017] FWCFB 3500 at [134]
[8] [2017] FWCFB 3500 at [142]
[9] International Labour Organisation, C131 - Minimum Wage Fixing Convention, 1970 (No. 131). The convention was ratified by Australia on 15 June 1973

7. This bifurcation of "social interests vs. economic interests" in wage fixation policy at the international level was a departure from the more laudable references in the ILO Constitution (settled in the aftermath of WWI) to the need for an "adequate living wage" as an improvement that was "urgently required" as part of package of measures to ensure "peace and harmony of the world". Indeed, the ILO Constitution described

> "policies in regard to wages and earnings, hours and other conditions of work calculated to ensure a just share of the fruits of progress to all, and a minimum living wage to all employed and in need of such protection"

as one of the programmes that the ILO would be obliged to promote, without qualification. In addition, the ILO Constitution expressly stipulates that "economic and financial policies" should be accepted only if they promote and do not hinder the achievement of social justice. The departure from the unitary objective of social justice since that time no doubt reflects the world order and dominant ideologies that ascended in the intervening period between when the ILO was formed and when Convention 131 was adopted.

8. We do not raise the above to suggest that the Panel can or should adopt some criteria other than that which it is directed to. But we do submit that the Panel should recognise that the criteria it is asked to apply embed certain assumptions which the Panel is free to question, challenge and reject. Indeed, it has taken some steps towards this approach already. For example, the Panel has recognised that its obligation to set "fair and relevant" minimum wages does not limit it to an exclusive consideration of the particular matters referred to in the paragraphs below subsections 134(1) and 284(1) of the Act, as its consideration of social inclusion and the gender pay gap demonstrates. In addition, it has been willing to accept some limits about the rigidity of the assumptions embedded in the criteria it is compelled to consider – most notably last year's statement that:

> "we have greater confidence in our view that modest and regular wage increases do not result in disemployment effects. Further, this research suggests that the Panel's past assessment of what constitutes a 'modest' increase may have been overly cautious, in terms of its assessed disemployment effects."[10]

[10] [2017] FWCFB 3500 at [523]

9. The growing body of empirical research studying the employment effects of minimum wages (discussed in Chapter 5), the new economic orthodoxy regarding the economic risks of inequality (discussed in Chapter 4) and other prominent schools of economic thought (such as dynamic monopsony and post-Keynesian economics) provide sound support for moving away from a position whereby deciding "fair and relevant" minimum wages necessarily involves a contest between "social" versus "economic" considerations, towards a position where the assessment is fundamentally about the common good.

1.2 A living wage?

10. In previous hearings before the Panel, we have supported the adoption of a medium term target for the minimum wage, of 60% of the median wage for full time employees. We believe that reaching such a target will deliver a "living wage" in the sense referred to in the ILO Constitution and respect the Australian tradition set by the *Harvester* decision of meeting "normal needs of the average employee, regarded as a human being living in a civilised community". We note that a target of 60% of the median has been explicitly adopted in United Kingdom and has been recommended or discussed among a number of EU institutions[11], having its origins in efforts to define the concept of a wage that will deliver a "decent standard of living" as referred to in the European Social Charter.

11. We recognise, and accept, that the Panel has determined that the framework under which it operates does not permit the adoption of such a target. That is not to say that it is impossible that it may in time choose to set a minimum wage at that level. It certainly is not at odds with the Panel's statement that "those in full-time employment can reasonably expect a standard of living that exceeds poverty levels"[12].

1.3 An increase is necessary

12. In our submission, a real and meaningful increase to the national minimum wage and modern award minimum wages is needed to ensure those wages are "fair and relevant". Discussed in depth in the subsequent chapters, the following observations and conclusions are of key significance in reaching this view:

[11] Fernández-Macías & Vacas-Soriano, "A Coordinated EU wage policy?", Eurofound, October 2013; Schulten, "Contours of a European Minimum Wage Policy", Friedrich-Ebert-Stiftung, October 2014.
[12] [2017] FWCFB 3500 at [98]

a) The Australian economy grew by 2.4% in real terms over the year 2017, just slightly less than the 2.5% growth achieved over the previous year- with its rate of growth predicted to increase. As noted recently by both Treasury and the RBA, one of the recognised handbrakes on greater growth is slow growth in wages. This handbrake could be released by a significant positive adjustment in this year's Review.

b) The industries most impacted by the decisions of the Panel have continued to see growth in output and sales, seemingly unaffected by decisions of the Panel or its predecessors.

c) Investment has continued to shift from mining to non-mining sectors, signalling a continuing supported transition to a broader based economy.

d) The labour share of income in almost all sectors has remained flat or fallen over 2017. Over the year to September 2017, profit growth has outstripped growth in wages in most sectors. As at September 2017, annualised profits even for non mining industries were more than 3 times their long run averages with particularly strong profits seen in the small business sector, where a greater proportion of lower paid award reliant workers are found. These profit figures, combined with a business bankruptcy rate almost identical to its pre GFC levels (and well below long run averages) and an accelerating net business entry rate over recent years are to be contrasted with measures of wage growth.

e) With one exception, all measures of wage growth during 2017 have been below their long run averages, including the Wage Price Index remaining at historically low levels and average annual compensation per employee drifting into the negative at -0.3%. The one exception is *nominal growth* in the national minimum wage, due to last year's increase. With relatively low wage increases locked into current and recently approved enterprise agreements for years to come, it is critically important to raise the standard against which new agreements will be measured against: in our view, the criteria which the Panel is asked to apply invite it to consider what can be done at the safety level to not only encourage bargaining *per se* but encourage bargaining that promotes national economic prosperity and social inclusion and achieves productivity and fairness. The spillover effects of the Panel's decision, whilst difficult to quantify precisely and admittedly likely small, are one area in which a positive outcome for the economy more generally might be stimulated.

f) Household spending grew by only 1.5% in real terms in the year to September 2017, a clear indication of the adverse consequences for the economy brought about by slow wages growth. Also over that period, household real incomes *fell* by 0.2%, resulting in a decline in the household savings ratio. The capacity of households to maintain spending at or about current levels should not be taken for granted or assumed to continue without some relief by way of a wage increase.

g) Inflation at a headline level remains subdued, suggesting ample headroom at the macro level to increase wages in this Review. However, a poor household saving ratio and a low wage environment presents a particular challenge for the low paid in circumstances where essential items of expenditure are rising in cost several times faster than both headline CPI and all measures of wage growth. Unsurprisingly, consumption volumes are biasing toward essential expenditure suggesting a looming demand problem for sectors that rely on discretionary expenditure, a problem that could mitigated by raising wages among the lower paid who have the greatest propensity to spend additional income.

h) The position on the profile of Award dependent workers from ABS statistics is that presented in our submission to last year's review, given the most recent release was in May of 2016. This showed that Award dependent workers were more likely to be women, more likely to part time, more likely to be casual and more likely to work in smaller businesses. It also showed that two thirds of Award dependent workers were employed in 5 industries; Retail trade, health care & social assistance, Accommodation & food services, Administrative & Support Services and Education and Training. Award density was highest among occupational groupings of labourers, sales workers and community & personal service workers. In addition, an increasing reliance on awards between 2010 and 2016 was demonstrated, from 15.2% to 22.7%, equating to around 2.3 million employees in 2016.

i) Whilst the recent small recovery in the minimum wage bite, still at a long term low at 55.1% , is in our view an artefact of declining earnings at the top, comparing the minimum wage bite in AWOTE versus the minimum wage bite in the median demonstrates a widening income distribution. Over the last 20 years, real GDP growth was almost 5 times the increase in the minimum wage in real terms and the gap in living standards between workers reliant on minimum wages and other workers close to as high it has been. Movements in the 90/10 ratio and the 50/10 ratio also show an increase in inequality over this period.

j) Whilst the Panel has tended to examine inequality from the perspective of earnings, inequality in wealth is equally pertinent in any examination of relative living standards, not the least because large wealth holdings generate greater incomes. In the 10 years between 2004 and 2014, the net wealth of the poorest 20% of the population grew by only 4%, versus 38% growth for the top 20% and the top 1% of Australians own more wealth than the bottom 70% combined.

k) There is an increasing body of work that shows that increases in the minimum wage would encourage economic growth through its role in stimulating demand and reducing inequality. If the minimum wage is not raised relative to other wages, higher inequality and more prevalent low pay will prevail, and the growth potential of the economy will not be realised. Inequality as a drag on growth can manifest both between the top and the bottom and between the middle and the bottom, suggesting Australia's award based minimum wages are a focussed lever to ameliorate these effects.

l) There is evidence that households' capacity to meet their expenses, and other measures of financial distress, including food insecurity, are at worrying levels. The ME Bank's most recent *Household Comfort* report saw a 3% drop in measures related to meeting monthly living expenses, putting the score at the lowest level for nearly four years. Further, two in five renters were spending more than 40% of their disposable income on rent.

m) Employment is growing well, with over 400,000 growth in employed numbers over the year to December 2017, with well over half going to highly award reliant industries. This is a 3.4% increase compared to the 0.9% increase observed in the 12 months prior and was accompanied by an improvement in the participation rate between January 2017-January 2018 of 1% for all persons 15 and over and 1.3% for adults aged 25-64 along with a fall in the number of unemployed persons per vacancy. Unemployment has fallen, albeit modestly, from 5.5% in January 2017 to 5.4% in January 2018 and is forecast to improve. Youth unemployment also saw a 0.1% improvement from 12.4% to 12.3% over this period.

n) Whilst the proportion of new full time work as compared to part time and part time casual work has increased in the recent figures, the composition of the workforce over the long term has increased from less than a quarter 25 years ago to almost a third today and is now

well established. The living standards of this growing proportion of workers who are on less than full time hours and potentially in insecure casual work can be improved by a significant adjustment to minimum wages and award wages.

o) The seemingly stubborn degree of underemployment is cause for concern. There a multitude of causes for this, and insecure work is undoubtedly one of them. On the one hand, it is true to say that the capacity of the labour market is not being tested by the proportion of the underemployed who do not actively seek additional hours. However, it is equally true to say that reasons why the additional hours are not being actively sought notwithstanding them being desired are complex, and should not be assumed to be entirely voluntary. A wage increase to those workers who need additional incomes but face barriers in increasing their hours in order to obtain those hours would directly benefit them.

p) The building international consensus of supporting little or no employment effects from minimum increases wages has held. New research suggests some correlation between mental health and well-being and incomes.

q) Although the gender pay gap has reduced slightly in recent years, the improvement has in part been due to flattening male earnings and it remains a persistent problem. Because the gender pay gap is related to award dependency at both lower and higher ends of the minimum rates spectrum, an increase to minimum wages that surpasses the increases available through collective agreements and other arrangements would assist to close that gap. However, the principle of equal remuneration for work of equal or comparable value as currently understood by the Commission is unable to be properly applied in the Review as the comparator groups it demands in order to be applied are unavailable.

r) Although productivity is growing slowly, it remains the case that real value of the National Minimum wage has not kept pace with the growth in labour productivity that has been observed and that real unit labour costs more generally have fallen again over 2017 from what was in any event a persistently low base over the past decade. The lower levels of productivity growth must however be considered in light of the Panel's acceptance that increases to minimum wages can stimulate the search for productivity improvements and the now orthodox view that widening income inequality (such as has been observed as a trend in Australia decades) can depress productivity growth.

2. OUR CLAIM

13. Australia needs a living wage. The wage earnings of employees dependent on minimum rates of pay have fallen below their long term level relative to market wages. This is not a marker of a fair society, particularly when workers and their families are forced to live in poverty.

14. As with last year's submission, we are seeking that the Panel lead the market rather than follow it, and make meaningful progress toward a living wage.

15. We submit that the Panel should increase the National Minimum Wage for full-time adults and all modern award minimum wages by 7.2%. This equates to a $50 per week increase on the minimum wage. The minimum rates of pay we propose for each classification level in the Manufacturing and Associated Industries and Occupations Award 2010 are set out in Table 1.

Table 1: ACTU's proposed minimum rates of pay

Award classification	Current rates		Proposed rates				
	Weekly	Hourly	Weekly	Hourly	% increase	Weekly $ increase	Hourly $ increase
NMW/C14	$694.90	$18.29	$744.90	$19.60	7.2	$50.00	1.31
C13	$714.90	$18.81	$766.34	$20.17	7.2	$55.14	1.36
C12	$742.30	$19.53	$795.71	$20.94	7.2	$57.25	1.41
C11	$767.80	$20.21	$823.05	$21.66	7.2	$59.22	1.45
C10	$809.10	$21.29	$867.32	$22.82	7.2	$62.41	1.53
C9	$834.40	$21.96	$894.44	$23.54	7.2	$64.36	1.58
C8	$859.80	$22.63	$921.67	$24.25	7.2	$66.32	1.62
C7	$882.80	$23.23	$946.32	$24.90	7.2	$68.09	1.67
C6	$927.50	$24.41	$994.24	$26.16	7.2	$71.54	1.75
C5	$946.50	$24.91	$1,014.60	$26.70	7.2	$73.00	1.79
C4	$971.90	$25.58	$1,041.83	$27.42	7.2	$74.96	1.84
C3	$1,022.80	$26.92	$1,096.39	$28.85	7.2	$78.89	1.93
C2(a)	$1,048.30	$27.59	$1,123.73	$29.57	7.2	$80.86	1.98
C2(b)	$1,094.10	$28.79	$1,172.82	$30.86	7.2	$84.39	2.07

2.1 The form of the increase in minimum wages

16. Since 2011, the Panel has awarded percentage increases in the NMW and award minimum wages at each Review. The considerations that have led the Panel to adopt percentage increases are important. Award relativities were compressed quite substantially in the 1990s and 2000s. Percentage increases have prevented further erosion in these relativities, by maintaining them at their July 2010 levels.

17. We believe that hybrid increases of the type we have contended for in the past balance the various considerations that the Panel must take into account by ensuring that the largest wage increases, in percentage terms, go to the lowest paid workers. However, we also consider that uniform percentage increases, if significant enough, are capable of ensuring meaningful wage rises at the lower end without the risk of any further erosion of the skill-based wage relativities above the C10 tradespersons' rate.

2.2 The timing of the increase in minimum wages

18. A national minimum wage order made in an Annual Wage Review comes into operation on 1 July in the next financial year, unless there are exceptional circumstances.[13] Similarly, a determination varying modern award minimum wages that is made in an annual wage review comes into operation on 1 July unless there are exceptional circumstances.[14]

19. There are no exceptional circumstances that would warrant a delay in the Panel's determination coming into operation. The NMW and modern award minimum wages should be increased with effect from 1 July.

2.3 The uniformity of the increase in minimum wages

20. We submit that all award rates of pay should be increased by 7.2%.

21. We continue agree with the Panel in its 2014-15 Review when it endorsed the observation that "the legislative framework reveals a preference for consistent variation determinations across

[13] Fair Work Act 2009 (Cth), s.287
[14] Fair Work Act 2009 (Cth), s.286

all modern awards…[t]he notion of a fair safety net of minimum wages embodies the concepts of uniformity and consistency of treatment", and that "the award-by-award approach to minimum wage fixation, based on sectoral considerations, advocated by some parties in these proceedings is inimical to the safety net nature of modern award minimum wages."[15]

22. We are however mindful that the decision in the *Penalty Rates* case will reduce the Sunday rate of pay for workers dependent on the *Fast Food, Hospitality, General Retail* and *Pharmacy* Awards. After discussing the *Penalty Decision* and the responses proposed to it, the Panel concluded last year that "It is not appropriate to take account of the decision in some quantifiable or mechanistic way to support a particular level of increase in the NMW or in modern award minimum wages."[16] The net impact of the Panel's decision last year, working in conjunction with first phased decrease of penalty rates, was in fact that the nominal Sunday rate for the affected workers did not reduce.

23. We would ask the Panel to again take the *Penalty Rates* decision into account in this Review, and in particular the more significant extent of the phased reductions that are to take place. A higher increase in this Review is necessary to mitigate the impact on the affected employees, who the Commissions described in the *Penalty Rates* case as follows:

> " Many of these employees earn just enough to cover weekly living expenses, saving money is difficult and unexpected expenses produce considerable financial distress. We are conscious of the adverse impact the award variations we propose to make upon these employees."[17]

24. The other thing we would ask the Panel to consider is that, although nominal rate for Sunday workers did not reduce as a consequence of the interplay with the Annual Wage Review, a relative cost impact was observed. Such an impact ought to be assumed to have been within the comprehension of the *Penalty Rates* Full Bench, including when it issued its decision to introduce transitional arrangements that in its view met the modern awards objective. In that *Transitional Issues* decision the Bench relevantly said:

> "However, it is relevant to note that the findings in the Penalty Rates decision in respect of the positive effect of a reduction in Sunday penalty rates were not limited to the

[15] FWC 2015 Annual Wage Review 2014-15 [12],[13]
[16] [2017] FWCFB 3500 at [29]
[17] [2017] FWCFB 1001

employment effects. In particular, we concluded that the evidence supported the proposition that a reduction in penalty rates is likely to lead to:

- increased trading hours on Sundays and public holidays;
- a reduction in the hours worked by some owner operators;
- an increase in the level and range of services offered on Sundays and public holidays; and
- an increase in overall hours worked."[18]

25. The only research that we know of that has attempted to study the impact of the *Penalty Rates* decision is a conference paper published by O'Brien *et al*[19]. O'Brien *et al* used a representative sample (tested against a variety of ABS datasets) of employees in the Retail and Hospitality Industries over June 2017 (before rates were reduced) and July 2017 (after rates were reduced). Comparing against the June 2017 findings, O'Brien et al found:
    - A statistically significant decrease in the proportion of award dependent Retail workers working on Sundays in July of 2017;
    - No statistically significant change in the proportion of award dependent hospitality workers working on Sundays in July of 2017;
    - A statistically significant decrease in the Sunday hours worked by award dependent retail workers in July of 2017;
    - No statistically significant change in Sunday hours worked by award dependent hospitality workers in July of 2017;
    - No statistically significant change in weekly hours worked by award dependent retail workers in July of 2017; and
    - No statistically significant change in weekly hours worked by award dependent hospitality workers in July of 2017.

    The research did not test whether there was a reduction in the hours worked by owner operators or increased trading hours on Sundays. It did however use control groups of employees in businesses that had elected not to pass on the penalty rate cuts and employees of

[18] [2017] FWCFB 3001 at [82]
[19] Obrien, M., Markey R, Pol, E, (2018), "The Short Run Employment Impact of the Fair Work Commission Penalty Rates Decision", Paper presented to the 14th Western Economic Association International Conference, Newcastle 11/11/2018.

business on collective agreements, to validate the above results from the impacts of a sectoral downturn in July.

26. Based on the above, we suggest that a range of the benefits for workers that the Full Bench expected from the *Penalty Rates* decision have not materialised and indeed some workers may have experienced a reduction in their weekly earnings notwithstanding the impacts of the increase to their base rates by the Panel's decision last year. We ask the Panel to take that into account, which, in conjunction with the Commission's earlier observation about those workers' financial position, suggests that their relative living standards may have stayed level or even deteriorated from an already low base.

3. THE NATIONAL ECONOMY

27. The panel is directed by sections 134(1)(h) and 284(1)(a) to take into account the performance and competitiveness of the national economy, including by reference to specific measures, in conducting this review and considering the impacts of adjustments to minimum wages. In this section, we offer our observations and commentary on the state of the economy by reference to the specified measures, forecasts and other relevant indicators. As the Panel has observed, there is some overlap between these matters and the separate requirement to consider promoting social inclusion through increased workforce participation. Much of our commentary on labour market specific indicators and the impacts of minimum wages on employment is contained in Chapter 5.

28. The Australian economy has proved more resilient than expected following the dissipation of the resources boom.

a) The Australian economy grew by 2.4% over the year to December 2017 close to Treasury and RBA forecasts;

b) Although there is no common trend to the average growth rates across the more award-reliant industries, output grew in all of thefive most award-reliant industries in 2017. Accommodation & food services grew a large 6.7% in 2017, and Health care and social assistance, the biggest employer in the economy, grew at 6.4%. Administration and support grew 3.8%, Retail trade at 2.5%. Education and training grew just below the rate of GDP at 2.1%;

c) Consumer spending grew faster than household incomes in 2017 (a falling savings ratio reflecting slow wages growth) although both grew more slowly than at any time since the early 2000s. This consumption should assist those industries that rely on it and aggregate demand and employment generally;

d) Theannual volume of retail sales grew 2.2% in real terms in 2017, slightly up from 2.1% in 2016. In terms of quarterly growth seasonally adjusted, Department store retailing grew most at 4.8%, followed by Clothing and footwear retailing at 4.6% and Household goods at 4.3%. Sales in all award reliant areas grew over the year to December 2017, including Restaurant and takeaway food at 1.9%. All sectors increased turnover in the December 2017 quarter except Food retailing which decreased 1.2% and Other retailing which decreased 0.6%;

e) Discretionary spending declined while essential appending remained fairly flat in annual terms in 2016 and 2017 according to the RBA;

f) The gap between labour productivity growth and wage growth continues to widen on trend according to a range of measures. Labour productivityannual measures grew more slowly at the most recent year than their 10 year average, and in general wage growth continues not to keep up;

g) Labour productivity lies below the level of many comparable countries, and in 2016 grew at a rate of 0.5% per annum, well below the OECD average of 1.2%;

h) Labour productivity in the award reliant labour intensive industries of Health care and social assistance and Retail trade grew at rates well above the all industry average of 0.9%, while labour productivity shrank in the other three. As labour intensive areas, labour productivity growth is normally expected to be slower than for the total economy which includes capital intensive industry, and also does not reflect unmeasured output;

i) Real unit labour costs fell 1.6% over the year 2017. Real unit labour costs are 9.3% below 1997 as shown in Figure 23, closest to the lowest they have been since the series began.

j) The share of employee compensation has increased 0.5 percentage points over 2017 but is still close to its level just post GFC;

k) The share of wages in income in the ABS multifactor productivity estimates has fallen by two percentage points over the year to 2016-2017;

l) The share of wages in income has increased more slowly in most sectors in 2016-2017; Accommodation and food has increased the wages share by one percentage point for 2016-17, and Retail trade wages share did not change, with Administration and support wage share falling;

m) Profit margins in small business have grown faster than for bigger business; and yet small business has a much bigger proportion of award reliant workers;

n) Profits have grown faster in award reliant industries, and have grown 18.7% overall compared with an increase of 2.5% in wages in the year to September 2017;

o) Business bankruptcies were fewer in 2016-17 than any year since 1994-95;

p) The number of businesses grew by 3.1% in 2016-17, with entry rates exceeding exit rates over the last three years. The number of new businesses grew fastest in the sectors where workers were award reliant, and business survival rates also increased;

q) Inflation is still very low, having increased from 1.8% the previous year to 1.9% for 2017; and

r) The Wage Price Index grew by 2.1% in the year to December 2017, still close to the lowest on record. Low inflation and the fall in mining related sectors meant that real average

compensation per employee fell 1.3% compared with the December quarter 2016 and 0.3% on an annual basis over 2017. Real average weekly ordinary time earnings increased only 0.6% in the year to November 2017.

29. Low-paid workers deserve to share in the benefits of productivity growth and a growing economy. The increase we seek is appropriate and reasonable in the economic circumstances. Whatever eventuates, low paid workers deserve this raise now and if it is granted it will not have adverse consequences, rather it is likely to contribute to improvement in the economy. Other workers will also likely benefit from a decent increase in the minimum wage.

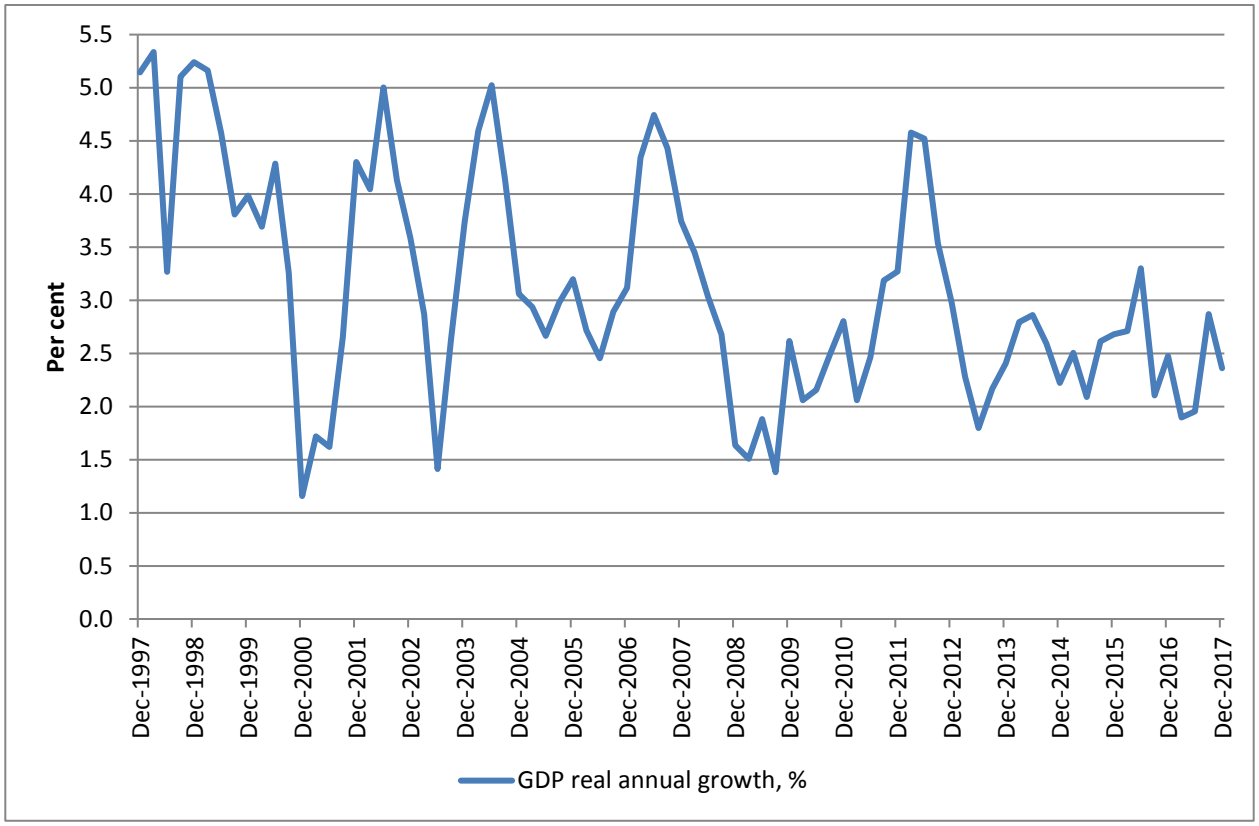
3.1 Economic growth

30. The Australian economy grew by 2.4% in real terms over the year 2017, slightly down from the 2.5% for 2016, seasonally adjusted. This remains healthy, and just under the RBA forecast of February 2018 of 2.5% for the year to December 2017. The RBA expects GDP growth of 3.25 % over the year 2018 and 3.25 for 2019.[20] Annual real GDP growth, original data, year on year, is presented in Figure 1.

31. The RBA in its *Statement on Monetary Policy* of February 2018 expects GDP growth to strengthen over 2018 due to the drag from mining investment coming to an end and NDIS and public infrastructure investment sustaining growth in public demand. "Although year-ended growth is forecast to be above postential by the end of the year, the economy is not expected to encounter broad-based capacity constraints for some time." [21]

[20] RBA 2017 *Statement on Monetary Policy* Feb., p.63, Table 6.1, first line
[21] RBA 2018 *Statement on Monetary Policy* February, p.63.

Figure 1: GDP growth, chain volume, seasonally adjusted, year on year, December 1997 to December 2017



Source: ABS 5206, seasonally adjusted data, and ACTU calculations

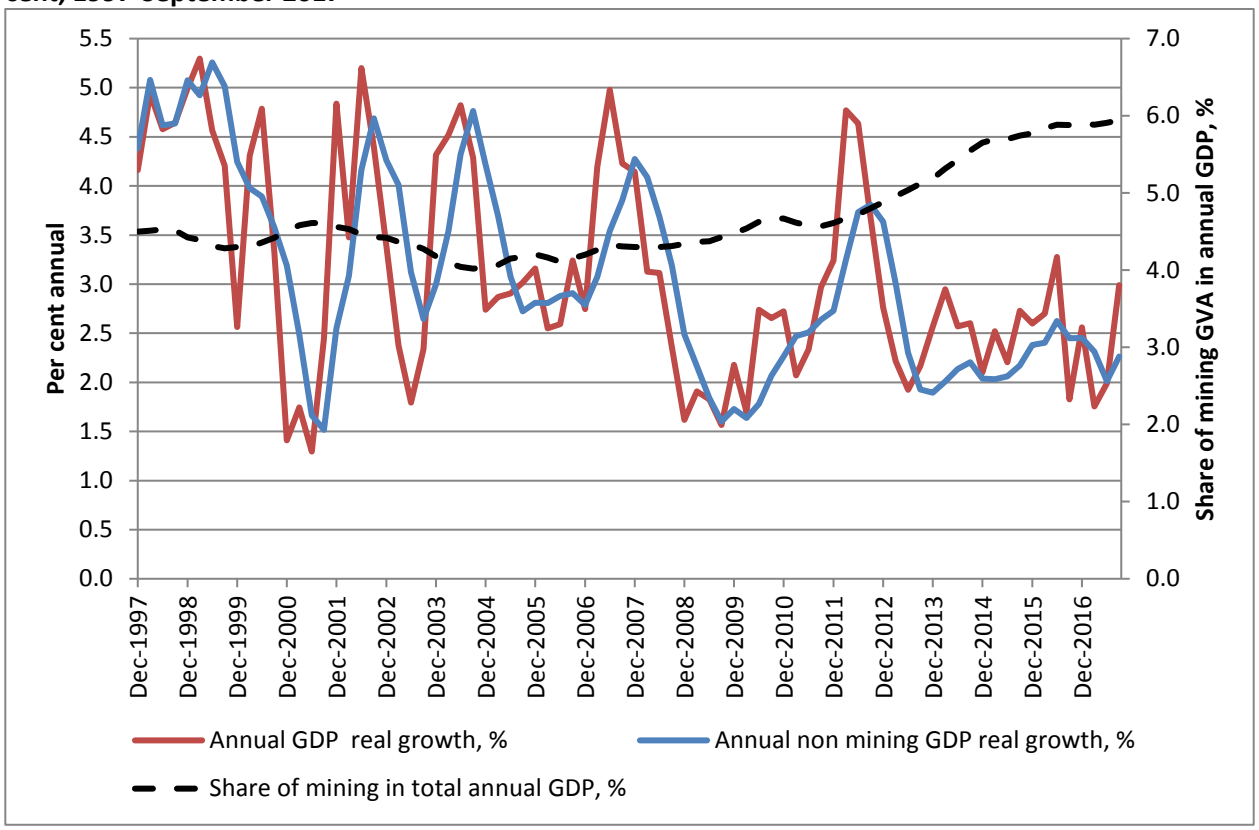
32. The average annual growth rate of GDP was 3.3% for the seven years up to the low point at the GFC at September 2009. GDP growth has not recovered to pre GFC level, with an average annual growth rate of 2.5% up to September 2017.The ACTU is in agreement with the increasingly recognised position, including that of the RBA[22] and the Treasury[23], that slow growth in wages is one reason that GDP growth has not recovered, as it has held back spending and the demand for labour.

33. We separate out non mining GDP from the total in order to better show the contribution of the mining boom to GDP growth. Figure 2 presents real annual growth in total GDP, non mining GDP and the share of mining GVA in annual GDP (on the RHS axis). Growth in the economy does not appear to be contingent on mining, which appears to lead cyclical movements, likely through international linkages. The increased share after September 2011 has not translated into increased growth.

22 RBA Governor Philip Lowe 2017 Speech The Labour Market and Monetary Policy Address to the Anika Foundation Luncheon Sydney – 26 July

23 Australian Treasury 2017 Analysis of wage growth, Treasury working paper, November,

Figure 2 Annual growth in GDP and non mining GDP, and the share of mining in annual GDP, real, per cent, 1997-September 2017



Source: ABS 5206, and ACTU calculations

34. The Panel stated in its Decision of 2016-17 that the RNNDI "remains a better measure of incomes available to Australians than GDP" and it "is interesting to note, however, that over the past 10 years, and despite the volatility of RNNDI, real GDP and RNNDI have each grown by 30 per cent."[24] The Panel also then regarded the sharp increase in RNNDI over the 12 months to December 2016 as a key change in the economic environment.[25] The *Statistical Report - Annual Wage Review 2017-18* presents indexes for RNNDI, GDP, terms of trade and RNNDI per capita. It shows that GDP and RND increases are very similar over 2017.[26]

35. The ABS defines RNNDI, Real net national disposable income, as a measure which adjusts the volume measure of GDP for the terms of trade effect, real net incomes from overseas, and

[24] FWC 2017 AWR 2016-17 [219]
[25] FWC 2017 AWR 2016-17 [89]
[26] FWC 2018 *Statistical Report – AWR 2017-18*, Chart 1.3 p.2

consumption of fixed capital.[27] The ACTU recognises that because the RNNDI makes this adjustments, it may give a better picture of general purchasing available to households.[28]

36. However differences between GDP per capita and RNNDI per capita are most evident in the fluctuations rather than the long term. Sometimes consumers are paying less for import intensive consumption and sometimes more, depending on movements in exchange rates and the terms of trade. Movements in the cpi also capture the impact of changing import prices on consumers' purchasing power.

37. Sometimes RNNDI increases faster than GDP, sometimes more slowly. However it is not known how the rapid changes in the RNNDI measure are signalled to households' purchasing power through relative price movements, inflation, changes in employment, job distribution, or unemployment. Nor is it known how changes in household real income due to RNNDI movements compare with household income changes arising from GDP movements, in the perceptions of households.

38. In the ACTU's respectful view it is not immediately obvious how the sometimes rapid changes in RNNDI relative to GDP should be related to a minimum wage increase, given the level of volatility in the RNNDI measure. For instance as shown in Chart 2.1 of the *Statistical Report – AWR 2017-18* when the RNNDI is above GDP, we cannot assume that this signals an increase in real income for households that is not captured in GDP, and *vice versa*.[29] However, noting that consumption of fixed capital is deducted in the calculation of RNNDI, it is conceivable that the recent downward movement and levelling off in RNNDI growth is at least in part attributable to the age of the fixed capital acquired during the mining boom rather than a sign of weakness in the productive capacity of the economy. The comparison of relative gross fixed capital formation between mining and non mining industries shown at Chart 1.5 of the statistical report is consistent with such an effect. There may also be some consumption of fixed capital effect related to the accelerated depreciation measures announced in the 2015/16 Budget and continued in the 2016/17 Budget.

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[27] ABS 5206, December 2015 http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5206.0Main+Features2Dec%202015?OpenDocument accessed 26 February 2018

[28] Note that incomes earnt overseas are likely to form a very small part of most households' income, particularly for the co-hort of persons most directly effected by the Panel's decisions.

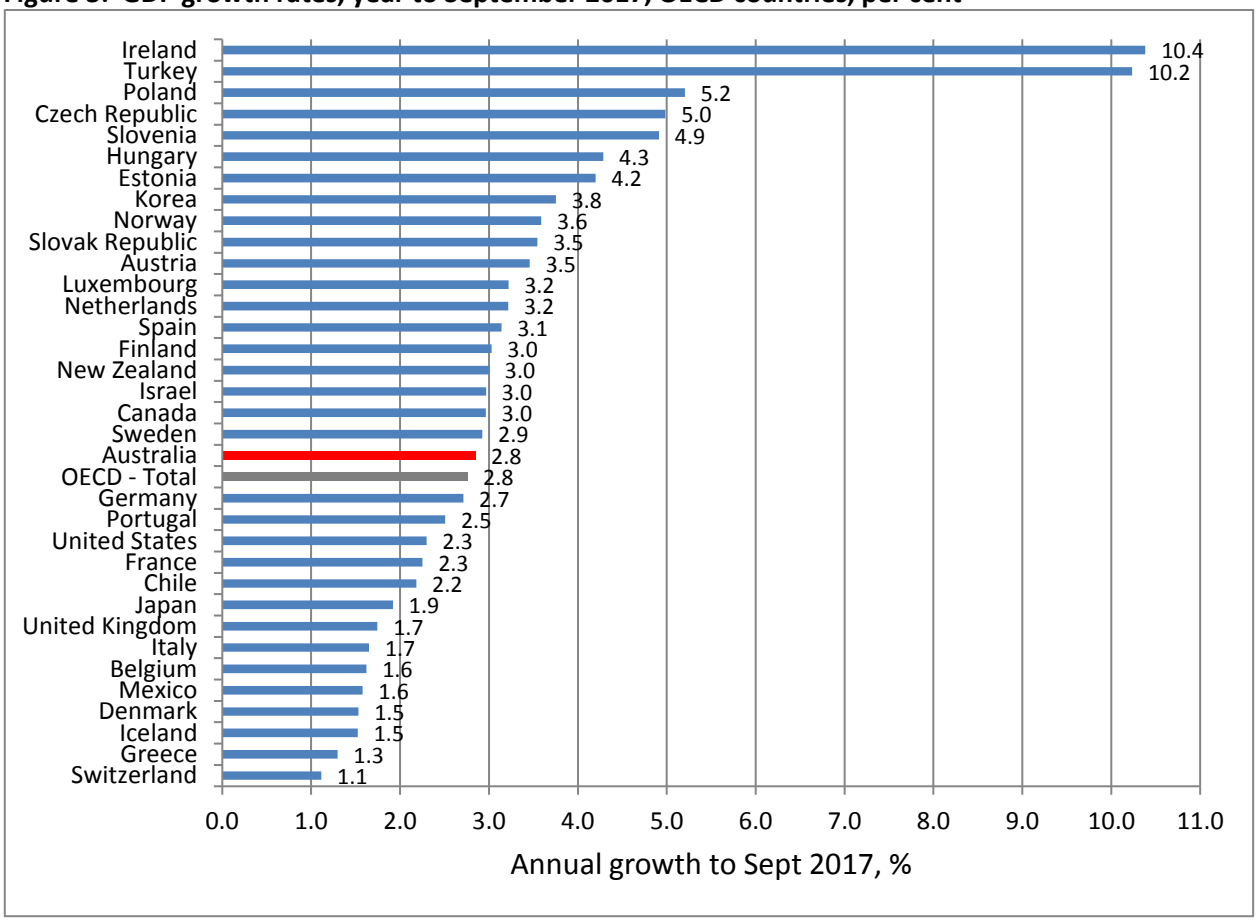
[29] FWC 2018 *Statistical Report – AWR 2017-18*, Chart 2.1 p.4

39. The recent decline in the terms of trade also must be taken to be factor in the most recent downward movement in RNNDI. To the extent that it is, which is difficult to isloate, it might be regarded as signalling an inflationary pressure that ought to be taken into account to ensure a real wage increase is delivered in this Review.

3.2 International comparisons of economic growth

40. Australia's real GDP growth of 2.8% over the year to September 2017[30] was just above the OECD average of 2.8% in the rounding and below the OECD median of 3.0%. The ranking gap between Australia's GDP growth and the OECD average has fallen from 12 above to the next one above the OECD average, due to faster growth in the OECD compared with Australia. However, only Canada out of the G7 countries had a faster growth rate over the year to September 2017.

Figure 3: GDP growth rates, year to September 2017, OECD countries, per cent

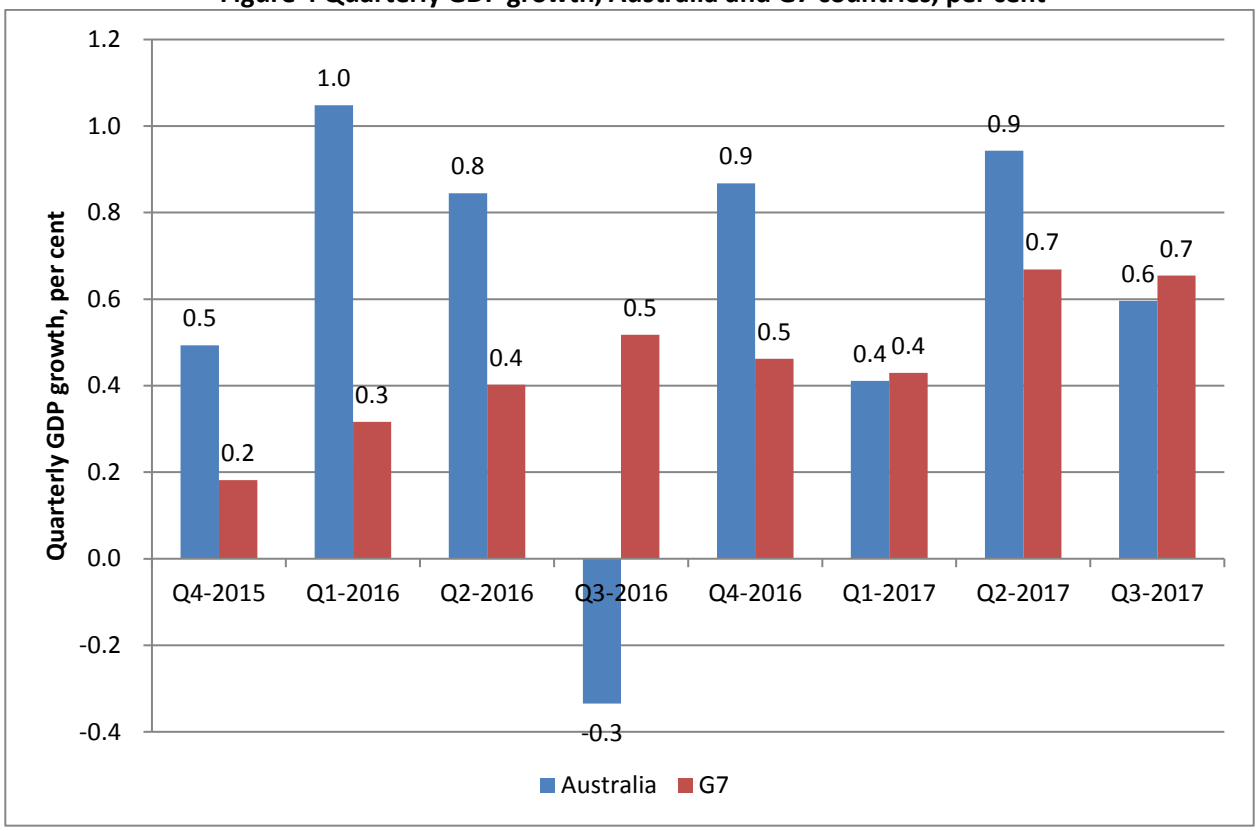


[30] Slower growth in the December quarter lowered the annual to 2.4% for the year 2017

Source: OECD Stat, https://stats.oecd.org/index.aspx?queryid=350 (quarterly national accounts). Chart shows growth in seasonally adjusted real GDP (expenditure approach) over the year to September 2017, or nearest.

41. Of the five quarters from September 2016 to September 2017, Australia had a slower growth rate than the G7 average in two, and an equal one in one, as shown in Figure 4.

Figure 4 Quarterly GDP growth, Australia and G7 countries, per cent

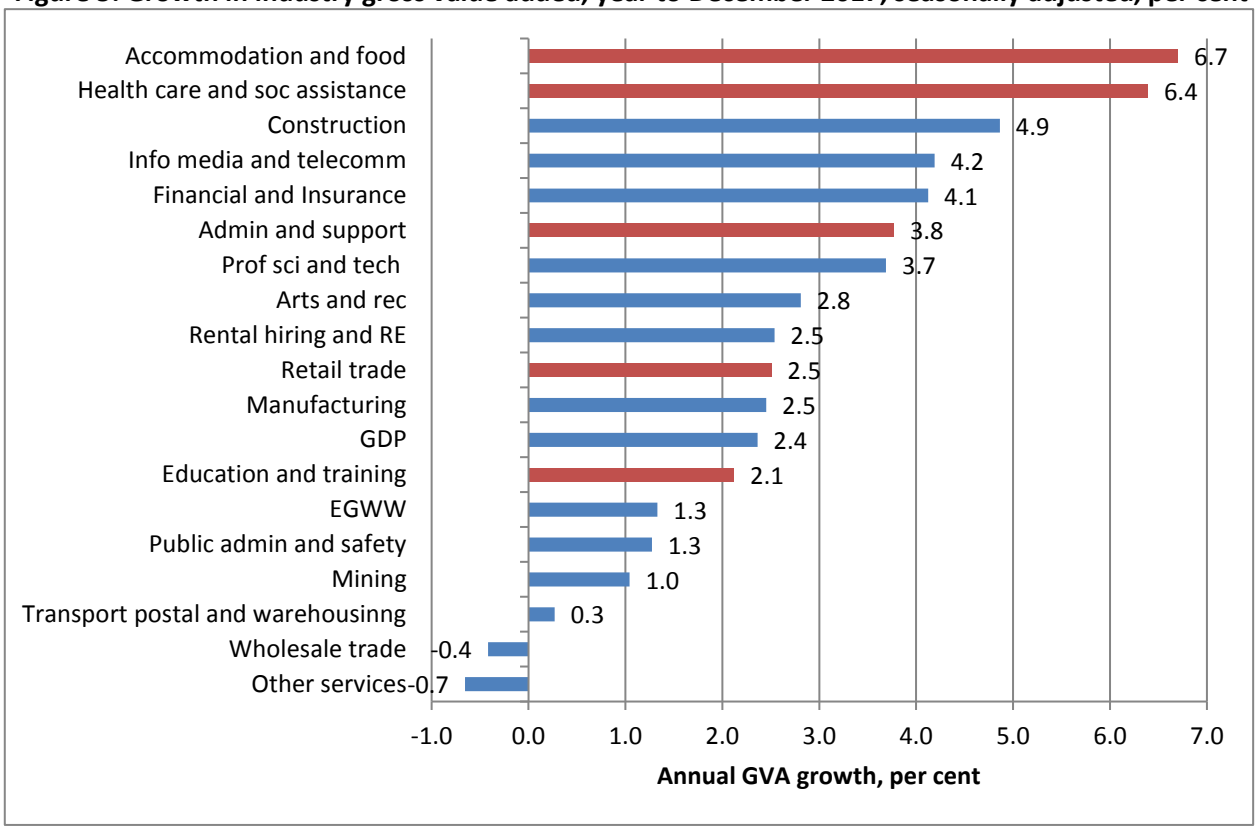


Source: https://stats.oecd.org/index.aspx?queryid=350 accessed 20 Feb 2018. G7 is Canada, France, Germany, Italy, Japan, UK and US

3.3 Growth by industry

42. Real economic output (gross value added) grew in the five most award-reliant industries in 2017. Accommodation and food services was the fastest growing industry at 6.7%. Growth was also particularly strong in Health care and social assistance also. Retail trade grew just faster than GDP and Education and training grew at a rate close to GDP of 2.1%. The social service provision areas are those where GVA does not necessarily reliably measure output and it is accordingly understated. The growth in gross value added, seasonally adjusted, in each industry over the year to September 2017 is shown in Figure 5.

Figure 5: Growth in industry gross value added, year to December 2017, seasonally adjusted, per cent



Source: ABS 520606 (seasonally adjusted) and ACTU calculations.

43. Two industries experienced a fall in real output over the year 2017, while the other 17 grew. The range of sectoral growth reflects trends in industry restructuring taking place rather than any relation with the degree of award intensivity. In particular, the public sector contributions to industry output including the NDIS and public infrastructure are driving sectoral growth.

44. There is no evidence that the growth rates of output across industries over time are related to the proportion of workers in the industry who are award reliant, or to the rate of increase in awards, as commented on in previous ACTU submissions.[31] That is, it cannot be seen that the more award reliant industries grow more slowly, or grow more slowly in years when higher rates are awarded. In the longer term, the international conditions facing exporting and importing industries, the state of technological advance and public sector contributions to services and infrastructure are the factors driving industry structure.

45. For instance, the four most award reliant industries have all grown at rates approaching or faster than the whole economy over the last twenty years. Accommodation and Food services, and Admin and Support Services have grown at rates approaching those of the whole economy.

[31] For instance ACTU submission to AWR 2015, [233]-[235]

Retail Trade has grown faster than the whole economy, while Health care and social assistance has grown nearly twice as fast as the total economy, with the rise in aged and other care. If award reliance and resultant exposure to this Panel and its predecessors decisions held up industry growth, then the shares of the more award reliant industries in the economy should grow more slowly, but this is not observed.

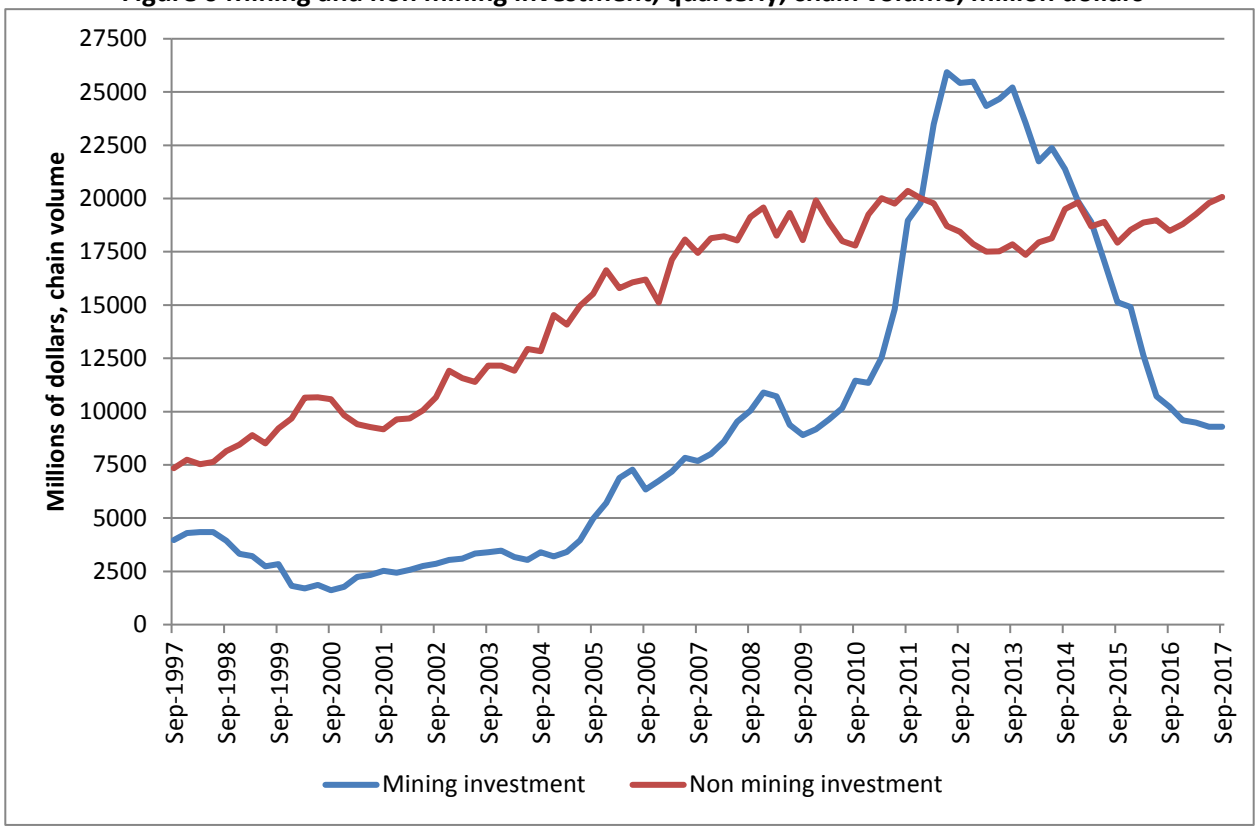
3.4 Investment

46. The RBA said "Over the past year, mining investment was not as weak as earlier expected, while resource exports increased further." … "Very few new projects are expected to commence in the period ahead" and that LNG construction projects are near to completion. "The level of mining investment is therefore expected to decline in the first half of 2018, before stabilizing as major mining firms undertake investment to maintain existing production capacity."[32]

47. Non mining investment appears to be on an upward trend currently. The shares of mining and non-mining investment in GDP are becoming more similar, as shown in Chart 1.5 of the *Statistical Report – AWR 2017-18*.[33] It appears that the end of the mining investment phase may engender a pick up in non mining investment.

[32] RBA 2018 *Statement on Monetary Policy* February, p.29
[33] FWC 2018 *Statistical Report – AWR 2017-18*, Chart 1.5 p.3

Figure 6 Mining and non mining investment, quarterly, chain volume, million dollars



Source: ABS 5625

3.5 Consumer spending and retail trade

48. Consumer spending is key to the state of aggregate demand in the economy, upon which the level of total employment depends. The size of the increase in the minimum wage is a contributor to increasing the level of aggregate demand and employment. Moreover, many of the more award reliant sectors of the economy, such as hospitality and retail, tend to rely on consumer spending to a more immediate degree than other industries.

49. The RBA said while domestic economic conditions improved during 2017, "Consumption grew only modestly, weighed down by slow income growth. Household income growth was weak despite rapid employment growth, and a decline in the unemployment rate, because growth in average wages has remained low."[34]

[34] RBA 2018 *Statement on Monetary Policy* February, p.27.

50. Households' annual final consumption expenditure rose by 3.7% in nominal terms and 1.8% in real terms over the year 2017 compared with 2.4% growth in GDP. Business and public investment grew over the year toDecember 2017 by 1.3% based on ABS National Accounts data.

51. Households' annual real disposable incomes actually fell 0.3% in real terms in the year 2017, the lowest growth since 2003.[35] This is shown in Figure 7. The RBA said "Looking forward, employment growth is expected to slow, which will limit the pick up in income growth unless there is stronger wage growth for incumbent workers."[36]

52. The low growth in household spending is also likely to be driven by the declines and withdrawals of transfer payments to households resulting from current government policy, including Family Tax Benefits, Disability Support Pensions and other welfare payments.

53. Because consumption outpaced income growth, the quarterly household savings ratio fell from 4.5% in December 2016 to 2.7% in December 2017, as shown in Figure 8[37]. This approached pre GFC levels.

54. The quarterly savings ratio reached a post-GFC peak at December 2008 and has trended down since then. This is another consequence of the slow growth in wages. This is because people spend more out of income when income is lower. Also households at the lower end of the income distribution spend a larger proportion out of income, and this may be a net consequence as income distribution widens over time.

55. This is further borne out by the small increase in total compensation of employees, which increased 1.0% in real terms (2.9% in nominal terms) in the year 2017.

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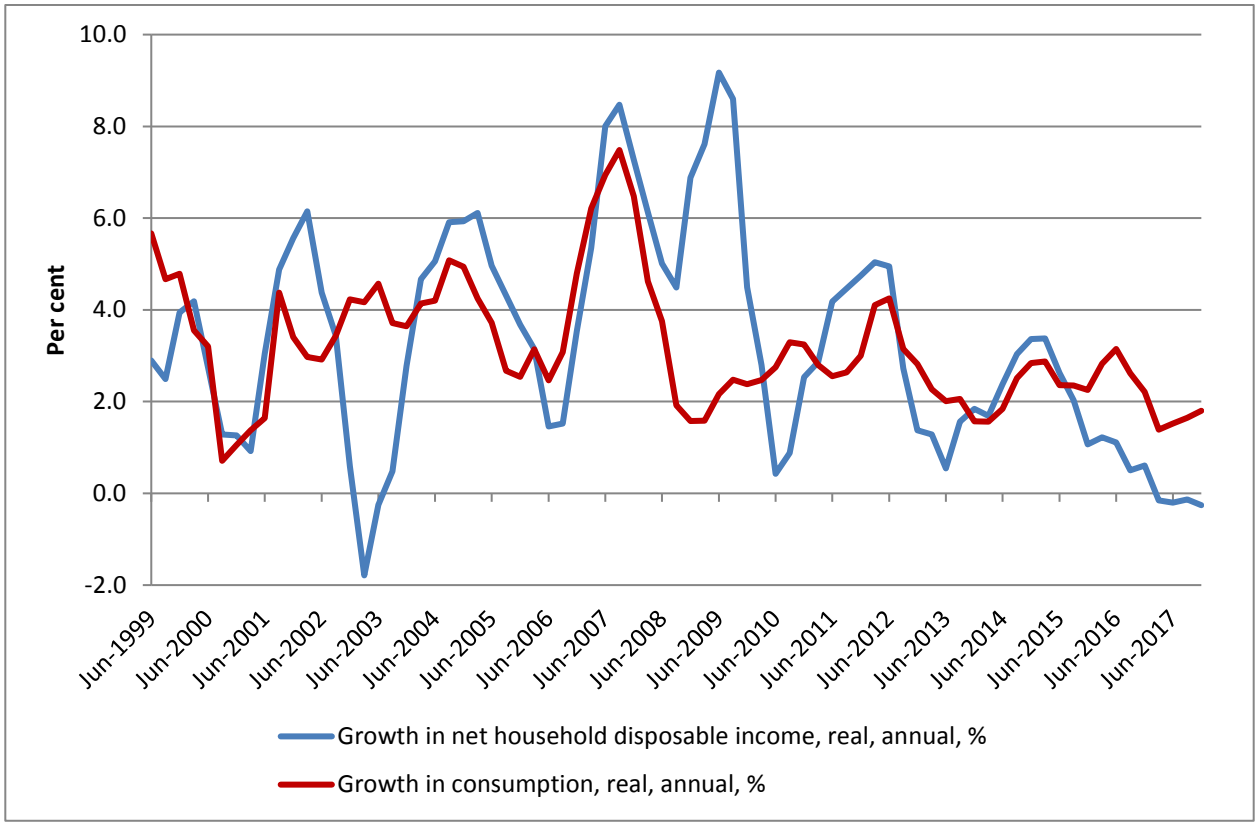
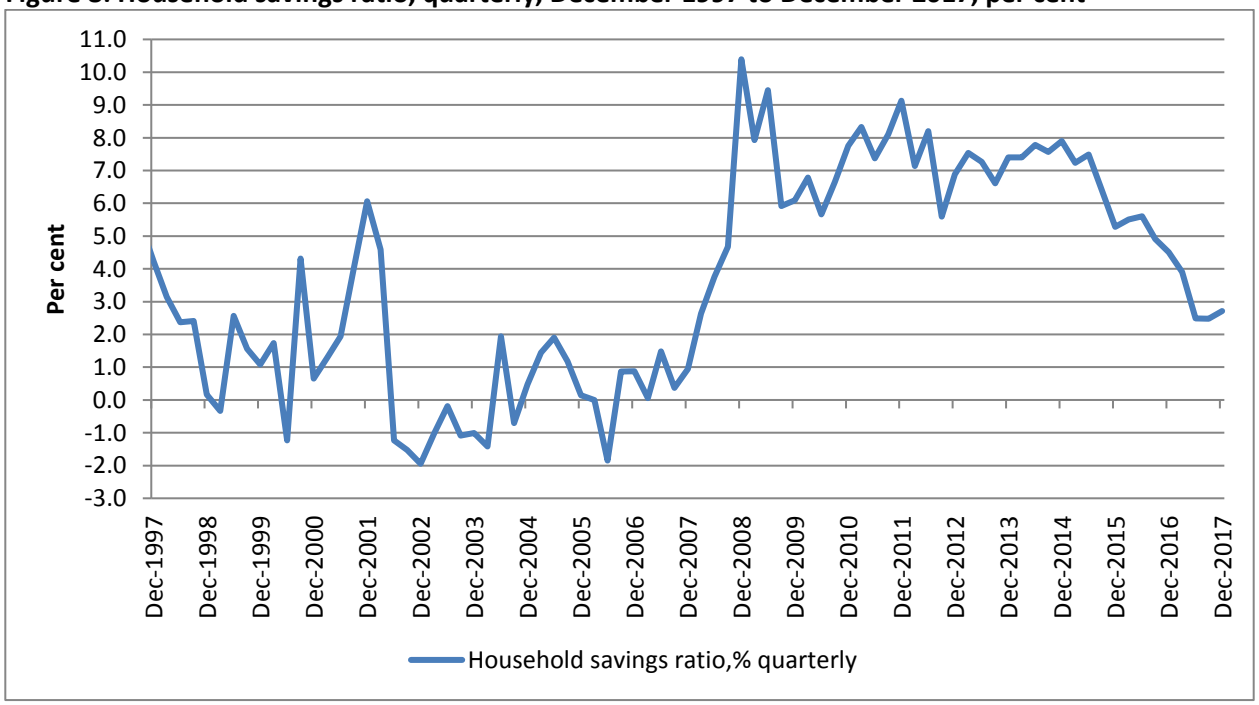
[35] The income measure referred to is household net disposable income, which is household gross disposable income less household consumption of fixed capital. This measure is used as this is what the ABS uses to calculate the household saving ratio. See ABS 2014, *Australian System of National Accounts, Concepts Sources and Methods*, Catalogue number 5216, p.669.
[36] RBA 2018 *Statement on Monetary Policy* February, p.31.
[37] ABS 5206 and ACTU calculations

Figure 7: Annual growth in household income and final consumption, real, year on year, December 1997 to December 2017



Source: ABS 5206 and ACTU calculations. Household net disposable income is calculated as household gross disposable income less consumption of fixed capital.

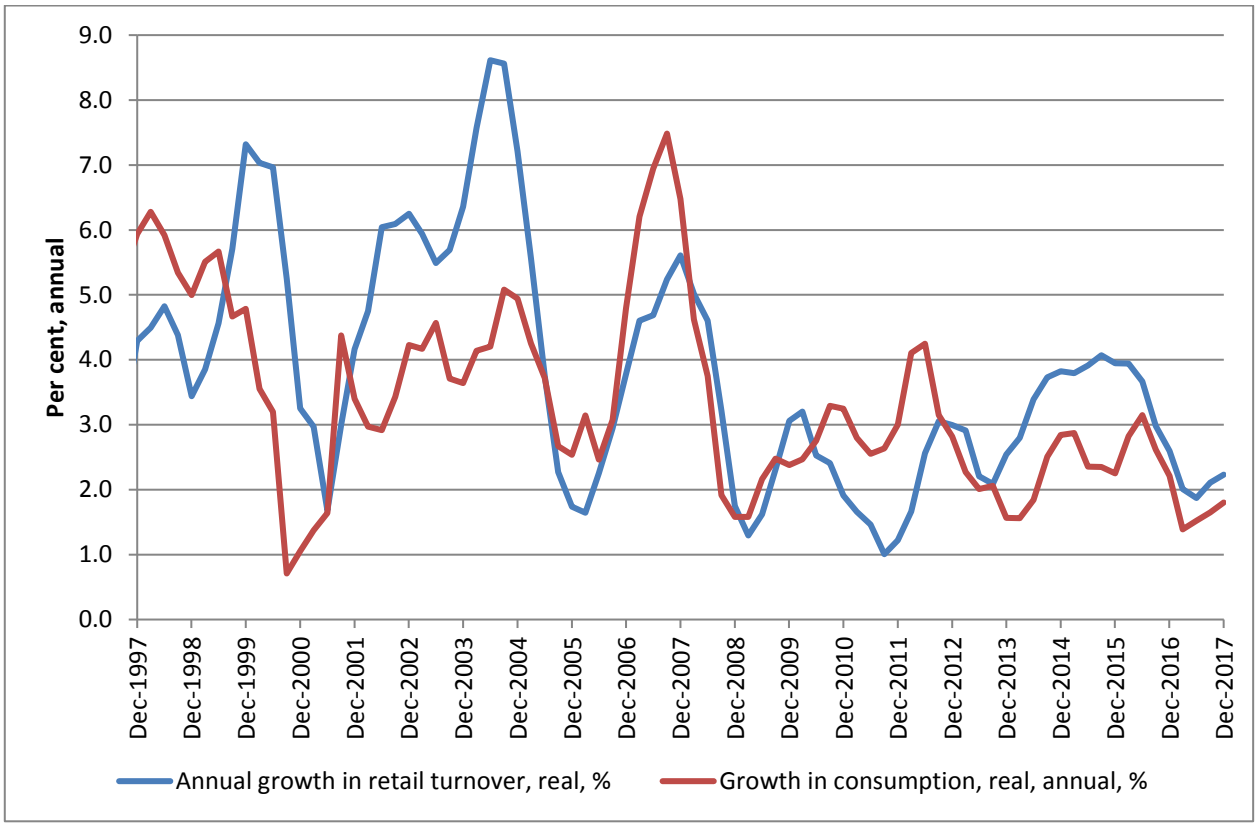
Figure 8: Household savings ratio, quarterly, December 1997 to December 2017, per cent



Source: ABS 5206 Table 20." The household saving ratio is the ratio of household net saving to household net disposable income." Household net saving isABS (household net disposable income less consumption). "Household net disposable income is calculated as household gross disposable income less household consumption of fixed capital." http://www.abs.gov.au/Ausstats/abs@.nsf/glossary/5206.0

56. Retail sales rose by 2.2% in real terms over the year 2017, growing faster than household consumption which grew 1.8% in real terms over the same period. This compares with an average annual growth of2.6% in 2016 in retail spending in real terms, 2.7% over the last five years, and 2.5% in consumption over the ten years to December 2017 including the GFC. This continues healthy growth in spending in the Australian economy, notwithstanding the slower real growth in employee compensation.

Figure 9: Growth in annual volume of retail sales and consumer spending, real, year on year, December %



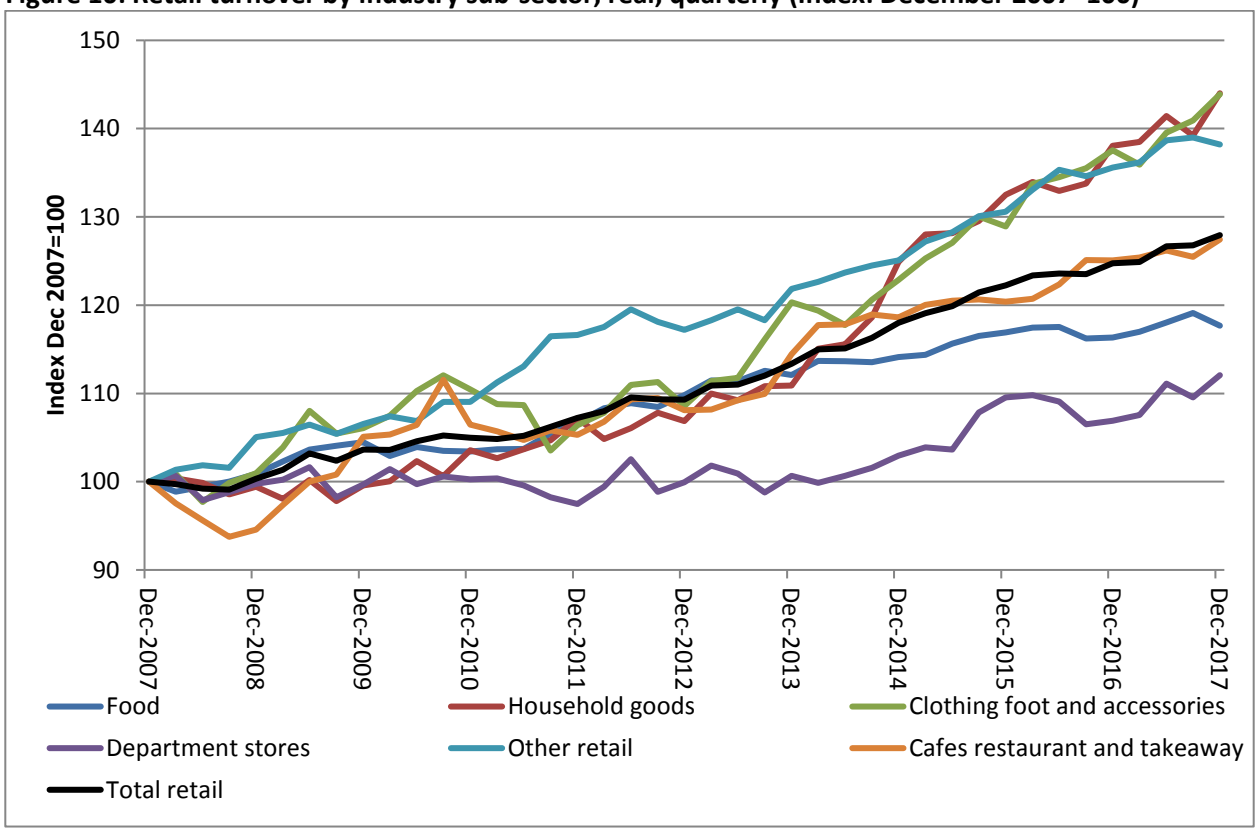
Source: ACTU calculations based on ABS 5206, 8501.

57. There is a great deal of variation in the pace of turnover growth among different sub-sectors and from year to year, as shown in Figure 10 which presents quarterly indexes. All sectors grew over the year 2017. [38] Department stores grew the most at 4.8% on the same quarter of the year before, followed by Clothing and footwear at 4.6%, and Household goods at 4.3%. All the award reliant areas experienced positive retail sales growth over the year to December 2017,

[38] 'Other retailing' includes newspaper and book retailing; sports, camping equipment, entertainment media, and toy and game retailing; pharmaceutical, cosmetic and toiletry goods retailing; stationery goods retailing; antique and used goods retailing; and flower retailing.

including restaurant and takeaway food at 1.9% (down from the previous year) and food retailing at 1.2%, up from the previous year. All sub sectors increased real turnover in the last quarter of 2017. These are not signs of a downturn imminent in the Australian economy, the slow growth of wages notwithstanding.

Figure 10: Retail turnover by industry sub-sector, real, quarterly (Index: December 2007=100)

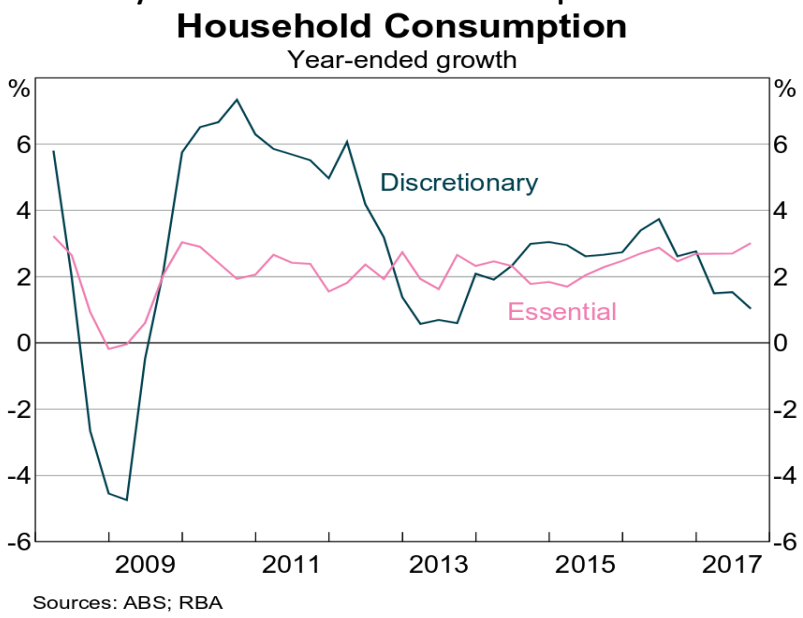


Source: ABS 8501, chain volume index, seasonally adjusted, and ACTU calculations.

58. Retail sales increases are of course related to population increase. It is the ACTU's view that the story of retail sales increases despite falling household income and very slow growth in wages is also the result of an increase in the proportion of households on lower incomes where less or no savings are possible. As the RBA says, "the decline in the growth in expenditure on discretionary categories … could indicate some increased pressure on household finances."[39] The RBA's Graph 3.11 which is reproduced in Figure 11 shows the sustained growth in household consumption of essential items compared with falling growth in consumption of discretionary items.[40] This also supports the distribution of income toward the lower end over time.

[39] RBA 2018 *Statement on Monetary Policy* February, p.31
[40] RBA 2018 *Statement on Monetary Policy* February, p.31, Graph 3.11

Figure 11 RBA Graph: Discretionary and Essential Household Consumption



Source: RBA 2018 *Statement on Monetary Policy* February, Graph 3.11, p.31

59. The RBA has pointed out that "Household indebtedness is high and, against a backdrop of low interest rates and weak income growth, debt levels relative to income have continued to edge higher."[41] The RBA Assistant Governor (Financial System) Michele Bullock said in a Speech on 20 February 2018 "there are clearly households in Australia at the moment that are experiencing financial stress" and "some of the most financially stressed households are those with lower incomes which typically rent rather than borrow to buy a home."[42] The capacity of households to maintain spending even at current levels should not be taken for granted or assumed to continue without some relief by way of a wage increase. The IMF in its Article IV Country Report presented data which indicates that household debt has increased from 171% of household income in 2013 to an estimated 195% in 2017 and that "the share of households facing debt to income ratios of three or higher rose further across income percentiles", based on the most recent survey of household income and wealth.[43]

[41] RBA *2017 Financial Stability Review*, October, p.1
[42] RBA 2018 Speech Household Indebtedness and Mortgage Stress Michele Bullock Assistant Governor (Financial System) Address to the Responsible Lending and Borrowing Summit Sydney – 20 February
[43] IMF 2018 *Australia*: 2017 Article IV consultation. IMF country report 18/44 February, p.42.

3.6 Productivity

60. The Panel's 2016-17 Decision said that "the Panel continues to support a conclusion that increases in minimum wages are more likely to stimulate productivity measures by some employers directly affected by minimum wage increases."[44] The ACTU is in agreement with this statement.

61. The ACTU understands that the Panel recognises that minimum wages have in addition served as a guide to negotiating wages. By implication increasing the minimum wage and awards can also influence productivity movements in industries that are less heavily award reliant.

62. In the ACTU's view an increase in the minimum wage indeed ought to be a driver of the wage increases that are needed to stimulate productivity and economic growth in the longer term. This would occur through the resulting increases in aggregate demand. Increased wages for the low paid raise aggregate demand disproportionately because low paid people spend most or all of any increase to their incomes. We attempt to estimate this effect in section 3.1.15.3 below.

63. In the ACTU's view wages would also be expected to rise if they reflect gains in real income arising from the contribution of labour to productivity improvements and output: It is a two way street. But we do not see wages rising at the same rate as labour productivity, although the latter is growing only slowly. Clearly there is something missing throughout the methods of setting pay which enables appropriate increases in wages. One reason is the increase in weakness that has occurred in the bargaining power of workers. The ACTU maintains that increases in the minimum wage are intended to address this and should do so.

64. Slow wage growth has also widened income distribution on trend, as examined in section 4.4 below. Worsening income distribution has been increasingly recognised to slow down productivity improvements and economic growth.[45] Raising wages at the lower end of the earnings distribution would also serve to address this aspect. It would seem that it is left to minimum wages to do the heavy lifting.

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[44] FWC 2017 AWR 2016-17 [227]

[45] For instance recently, Amendola M, Gaffard J L, and Patriarca F 2017 Inequality and growth: the perverse relation between the productive and the non-productive assets of the economy *Journal of Evolutionary Economics* V27, pp.531-554

65. The connection between labour productivity and wages is complex. Ultimately, labour productivity is an outcome of the particular combination of inputs and technology which produces the range of outputs of goods and services and the set of institutions which bring them together. Wages and working conditions are determined through an array of processes emanating from within those institutions.

66. Chart 2.1 of the *Statistical Report AWR Review 2017-18* shows the relative flatness of index measures of labour productivity over the last two years to September 2017, including GDP per capita, GDP per hour worked, and GVA per hour worked in the market sector.[46] RNNDI displays a distinct volatility and lack of clear relationship with other measures, reflecting terms of trade movements. While these have reflected the fortunes of the mining sector, it is not apparent from the data that productivity and wage movements throughout the economy are driven by the mining sector in what is a complex relationship.

67. Campbell and Withers (2017) in a Treasury Economic Roundup paper attributes productivity growth to the service sectors, saying that "Despite concerns about Australia's labour productivity and MFP growth in light of the lower terms of trade and an ageing population, recent labour productivity growth (driven by capital deepening) is in line with its longer-term averages. [par] In addition, there is little cause for alarm over the effect of structural change on productivity growth." The paper finds that "Indeed, it is labour productivity growth in the services sectors that has been underpinning aggregate productivity growth in Australia over recent decades, and will continue to do so, notwithstanding cyclical periods of weak and strong productivity growth in the Mining sector (which is largely associated with inflows and outflows of workers in the sector) or other sectors."[47]

[46] FWC 2018 *Statistical Report – AWR 2017-18*, Chart 2.1 p.4
[47] Simon Campbell and Harry Withers 2017 Australian productivity trends and the effect of structural change, Treasury Roundup, August

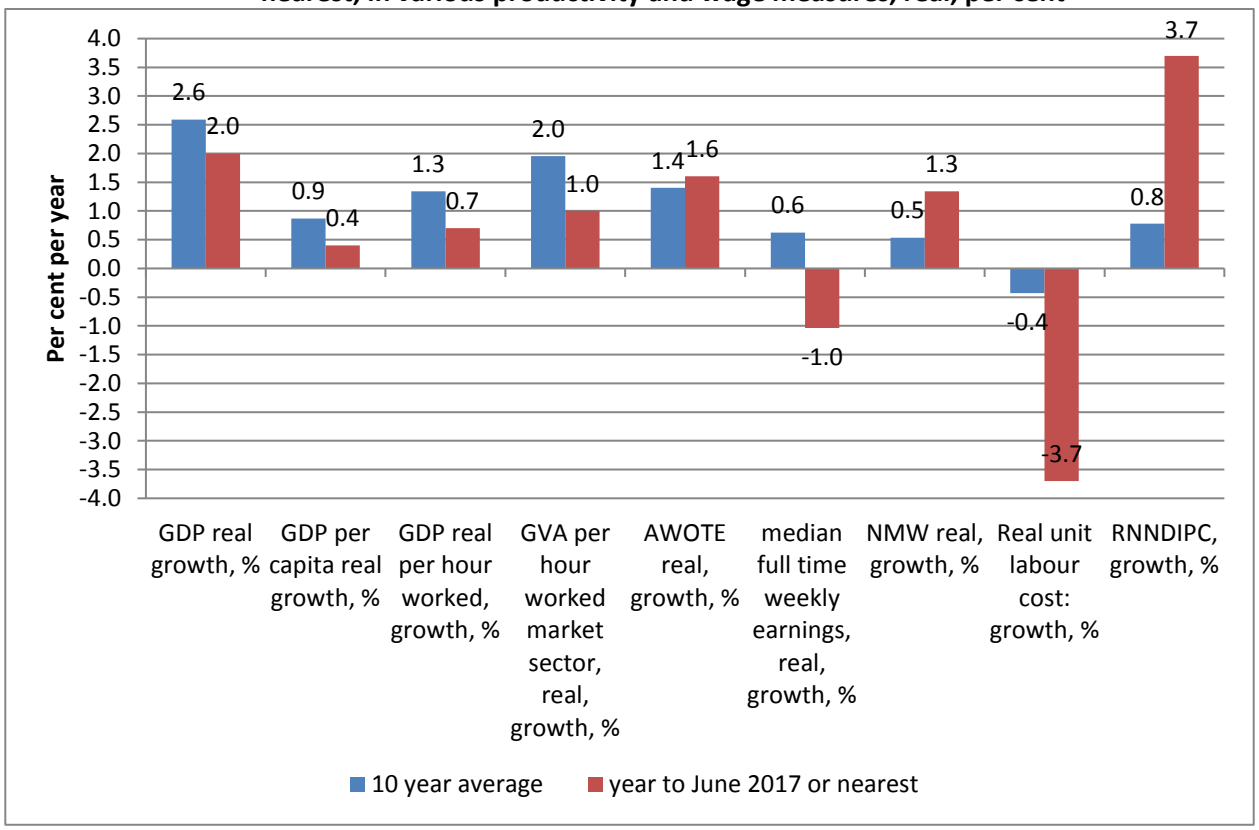
68. Table 2.1 the *Statistical Report AWR Review 2017-18* of shows the lack of increase in various labour productivity measures over the year to September 2017 (most recent) compared with many previous years to December.[48] Only GDP per capita showed a greater increase, at 1.3% over the year (12 months) to September 2017, compared with 0.9% over the year to December 2016. But GDP per hour worked increased a bare 0.1% compared with the earlier period at 1.6% growth, and GVA per hour worked in the market sector increased 1.1% in the year to September compared with the earlier period to December 2016 when it was 1.9%. RNNDI growth was also lower at 2.9% than the previous measure at 5.5%.

69. Hence increases in hours worked contributed more to increases in GDP and market sector GVA than did increases in productivity, and also more over the year to September 2017 than over the year to December 2016.[49]

70. Figure 12 shows that all productivity measures increased more slowly over the year to June 2017 than their 10 year averages. The picture was much more varied for the real wage measures, so that real AWOTE increased slightly faster over the year to June 2017 at 1.6% compared to its 10 year average of 1.4% whereas median earnings fell 1.0% for the year to August 2017 compared with the ten year annual average increase of 0.6%. The NMW increased by 1.3% in real terms from June 2017 compared with the 10 year average of 0.5%, also due to low inflation.

[48] FWC 2018 *Statistical Report – AWR 2017-18*, Table 2.1 p.4
[49] FWC 2018 *Statistical Report – AWR 2017-18*, Table 2.2 p.5

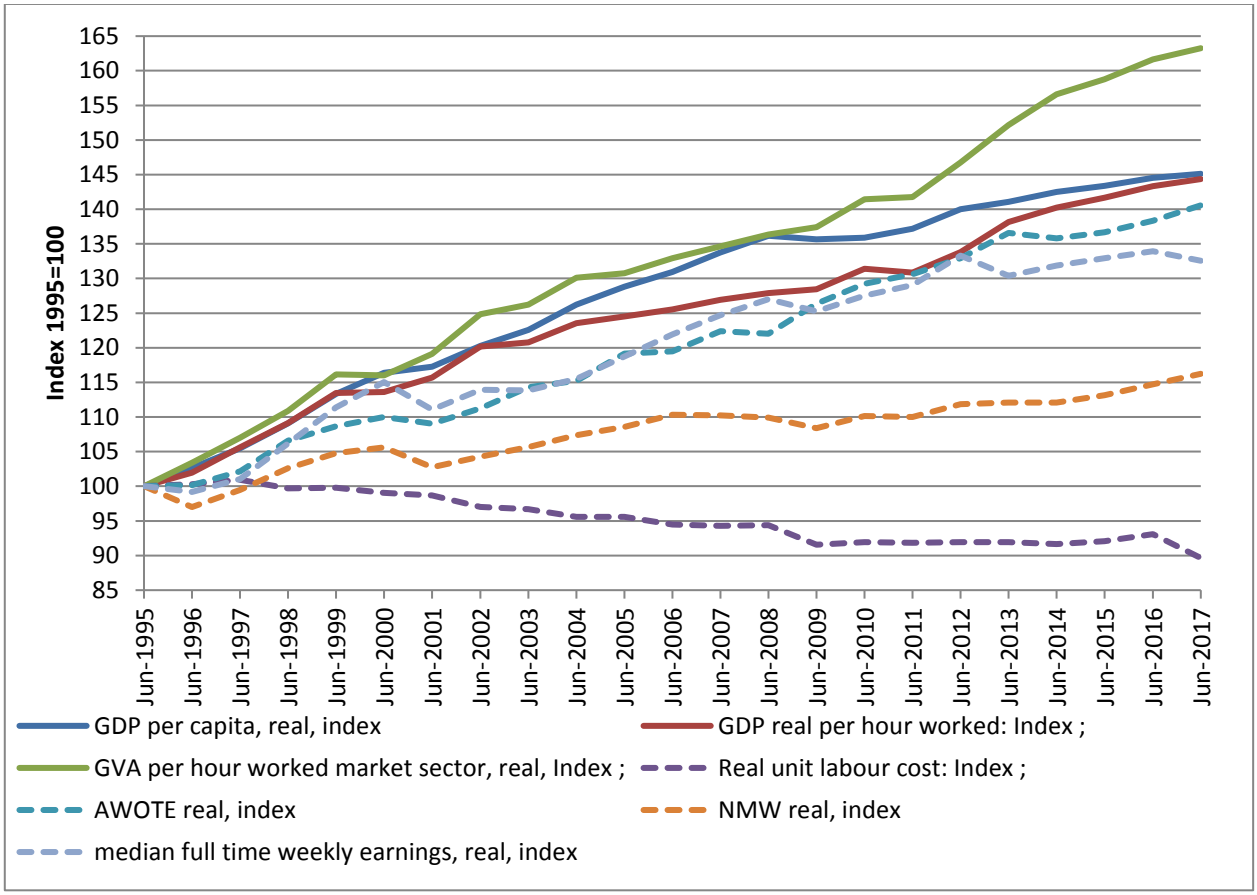
Figure 12 Ten year annual average growth, and annual growth for the year to June 2017 or nearest, in various productivity and wage measures, real, per cent



Sources: ABS 5204, 6302, 6401, 6333, NMW from Bray (2013), and ACTU calculations.

71. The current year's figures need to be seen in the context of longer term trends, especially for a measure like productivity which is basically determined through long term processes. The three solid lines in Figure 13 in order from the top show indexes based on 1995=100 in real terms for GVA per hour worked, GDP per capita, and GDP per hour worked. The four dotted lines below that are in downwards order, Average Weekly Ordinary Time Earnings (AWOTE), median full time earnings, NMW and real unit labour costs. As the measures are expressed as indexes they only show the movements, *not the levels relative to each other* where comparable, at any point in time.

Figure 13 Various measures of labour productivity and wages, annual, 1995 to 2017



Sources: ABS 5204, 6302, 6401, 6333, NMW from Bray (2013) and FWC, and ACTU calculations. Median earnings most recent.

72. In all cases, the labour productivity indexes grow faster than the wage measures. Even with a different starting date for the index, the results would be very similar. Average Weekly Ordinary Time earnings, AWOTE, as shown in Figure 13, is growing faster over recent years than median full time earnings, reflecting the widening income distribution as the bottom half of earners become less well paid compared with the average which is pulled up by earners at the top end. But AWOTE generally fails to match the growth in labour productivity throughout the entire period since 1995.

73. Real unit labour costs fell, reflecting terms of trade improvements and a shift of income towards capital in the year to June 2017. This is discussed further in section 3.10 below.

74. The influence of the terms of trade can be more clearly seen in Figure 14, where the terms of trade moves real unit labour costs and RNNDIPC in opposite directions. As the terms of trade improve (one unit of Australian exports purchases more imports), net export income increases while *unit* labour (and import) costs fall. Changes in international prices for Australian resource exports and in aggregate demand in its trading partners are major factors in Australia's terms of trade. Bulk commodity prices on the international markets have risen since late 2015, driving the terms of trade improvement since then, and also boosting earnings abroad.[50]

75. As discussed at earlier in section 3.1, the terms of trade improvement does not necessarily translate to increased real income for workers and others on wage incomes. In any case terms of trade improvements cannot be relied on to bring forth wage increases for lower paid people, otherwise these increases would have been observed for other wage measures from 2004 to at least 2010. The ACTU is in agreement with the Panel when it said "Nor do the benefits from [the terms of trade] flow in any direct way to labour."[51]

76. Even if the view of the Treasury working paper 'Analysis of wage growth' is accepted – essentially that the mining investment boom raised the growth in real wages faced by consumers (relative to what it would have been) before flattening out again - it is apparent that any such wage increases have not been sustained.[52]

77. Positive movements in RNNDIPC cannot be taken to signal grounds for smaller increases in the minimum wage, nor in wage negotiations, nor *vice versa*. In any event, the RBA anticipates that the current increase in the terms of trade will not be sustained.[53]

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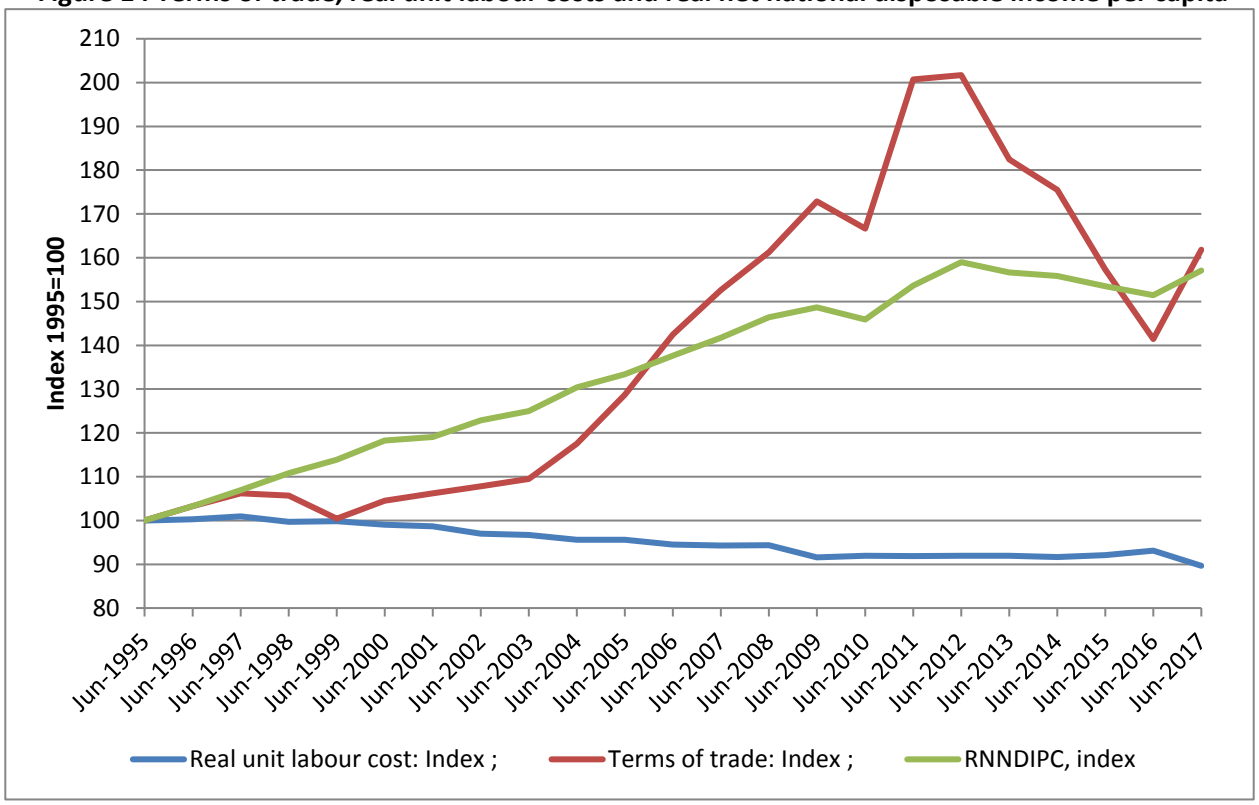
[50] RBA 2018 *Statement on Monetary Policy February 2018*, p.13, p.62, Graph 6.2
[51] FWC 2017 AWR 2016-17 [243]
[52] Australian Treasury 2017 Analysis of wage growth, Treasury working paper, November, pp.18-19
[53] RBA 2018 *Statement on Monetary Policy February 2018*, p.62

Figure 14 Terms of trade, real unit labour costs and real net national disposable income per capita



Source: ABS 5204, 6401, ACTU calculations

3.7 Multifactor productivity

78. The Panel said in its last Decision "The decline and then low growth in MFP that we see in the chart [4.7] is in significant part caused by the very large investment in mining."[54]

79. Multifactor productivity (MFP) is measure of the contribution to output not attributable to any measured input, in this case capital or labour, but is a result of their combination. It is dependent on many assumptions about how they combine to produce output. The assumptions for calculating multifactor productivity also yield labour and capital productivities.

80. The question is the extent to which the increased contribution of capital deepening to mining has fed through to total economic growth, leaving seemingly smaller contributions from labour and MFP.

[54] FWC 2017 AWR 2016-17 [234]

81. Figure 15 shows the ABS indexes of annual labour, capital and MFP for the "market sector" which excludes the industry sectors in service areas where outputs are less well measured. These include the award reliant areas of Public administration and safety, Education and training and Health care and social assistance. Labour productivity grows faster than the other productivities because the amount of labour added to produce each unit of output is growing more slowly than other inputs. Because labour is growing relatively more slowly compared with capital, each additional hour is relatively more productive than an additional quantum to capital. At the same time, labour productivity is increasing fairly slowly overall and its growth is slowing down.

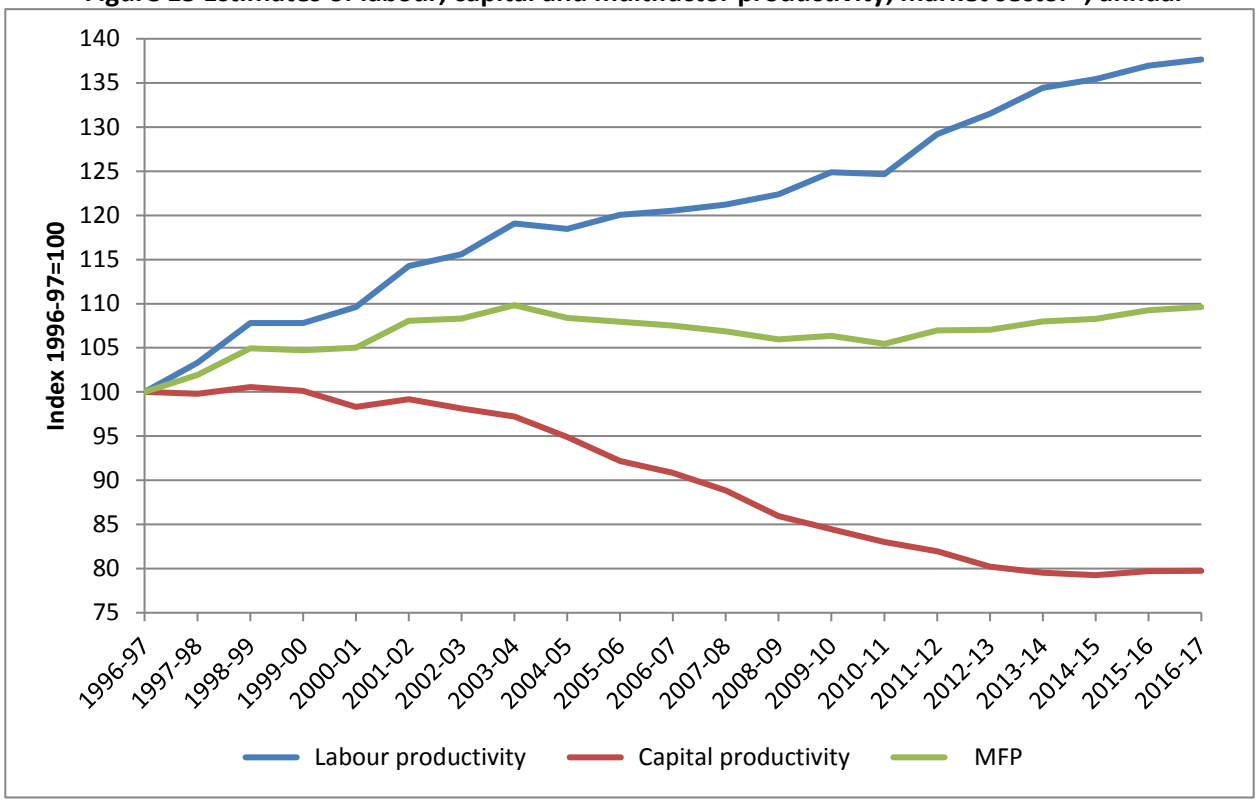
82. At the same time capital productivity has been shrinking, as the amount of capital added to produce each unit of input was growing faster than labour (capital deepening), making each hour relatively less productive. This capital addition appears not to embody much technological improvement.

83. MFP has increased little reflecting Australia's poor record in education, industry policy and the R&D and innovation which drive it, compared with other OECD countries.[55]

84. Figure 15 shows how the three indexes all appear to be flattening in the most recent years. All three measures have grown more slowly in 2016-17 than in 2015-16. Labour productivity growth fell from 1.1% in 2015-16 to 0.5% in 2016-17, capital from 0.6% to 0.1%, and multifactor from 0.9% to 0.3%. For the mining sector labour productivity growth fell from 4.3% in 2015-16 to 3.5% in 2016-17 and capital from 2.2% to -0.8%.

[55] https://industry.gov.au/Innovation-and-Science-Australia/Documents/ISA-system-review/index.html at pxi` http://www.smh.com.au/business/innovation/we-need-to-significantly-lift-our-game-australia-is-not-the-innovation-nation-we-like-to-think-it-is-20170201-gu2x5b.html accessed 16 Feb 2017

Figure 15 Estimates of labour, capital and multifactor productivity, market sector*, annual



Source: ABS Cat 5260.0.55.002, quality adjusted hours worked basis, and ACTU calculations. * The market sector excludes services where output is not well measured, that is excluding Public admin. and safety, Education and traiing, and Health Care and social assistance.

85. The Panel considered productivity movements based on average measures from productivity cycles published by ABS.[56] The ACTU wishes respectfully to indicate in addition that these cyclical measures are based on a methodology initially developed with the Productivity Commission[57] and it is unclear what other short or long term movements they relate to in the economy other than macroeconomic cycles. The magnitudes are very sensitive to the start and end point. It is unclear that the relative levels of these average measures can inform as to the long term underlying factors which determine productivities. [58] Accordingly it is hard to identify the implications for longer terms trends in the measures.

86. The ACTU is in agreement with the Panel that the impacts of mining on productivity need to be separated out from those of the other industries. However it is not clear that it is capital deepening and low multifactor productivity specific to the mining sector that has determined the low productivity results overall for Australia and that accordingly Australia is different from

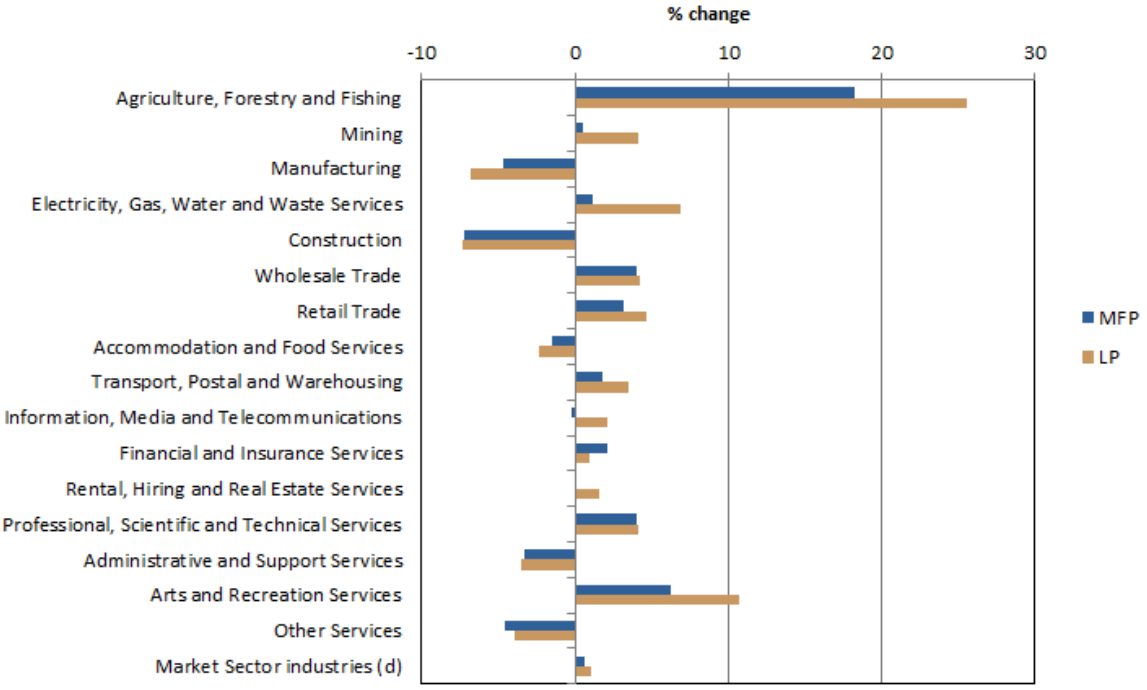
[56] ABS *Estimates of Industry Multifactor Productivity* 5260.0.55.002
[57] Productivity Commission 2005 Review of National Competition Policy, 14 April Section 3, pp.35-52 http://www.pc.gov.au/inquiries/completed/national-competition-policy/report/ncp.pdf
[58] Quiggin J 2006 Stories about Productivity *Australian Bulletin of Labour*, V32, 1 pp.18-26

other comparable countries with low productivity growth as to the cause. In any case this would not obviate the need for wage increases, and a minimum wage increase in particular.

3.8 Industry sector productivity

87. Chart 2 from ABS 2017 *5260.0.55.002 - Estimates of Industry Multifactor Productivity, 2016-17* is reproduced at Figure 16. It refers to the year 2016-2017 and enables comparison across industries of multifactor productivity increases for that year. It is clear that neither labour productivity nor multifactor productivity growth is exceptional for the mining sector.

Figure 16 ABS Chart 2 from *Estimates of Multifactor Productivity, 2016-17*

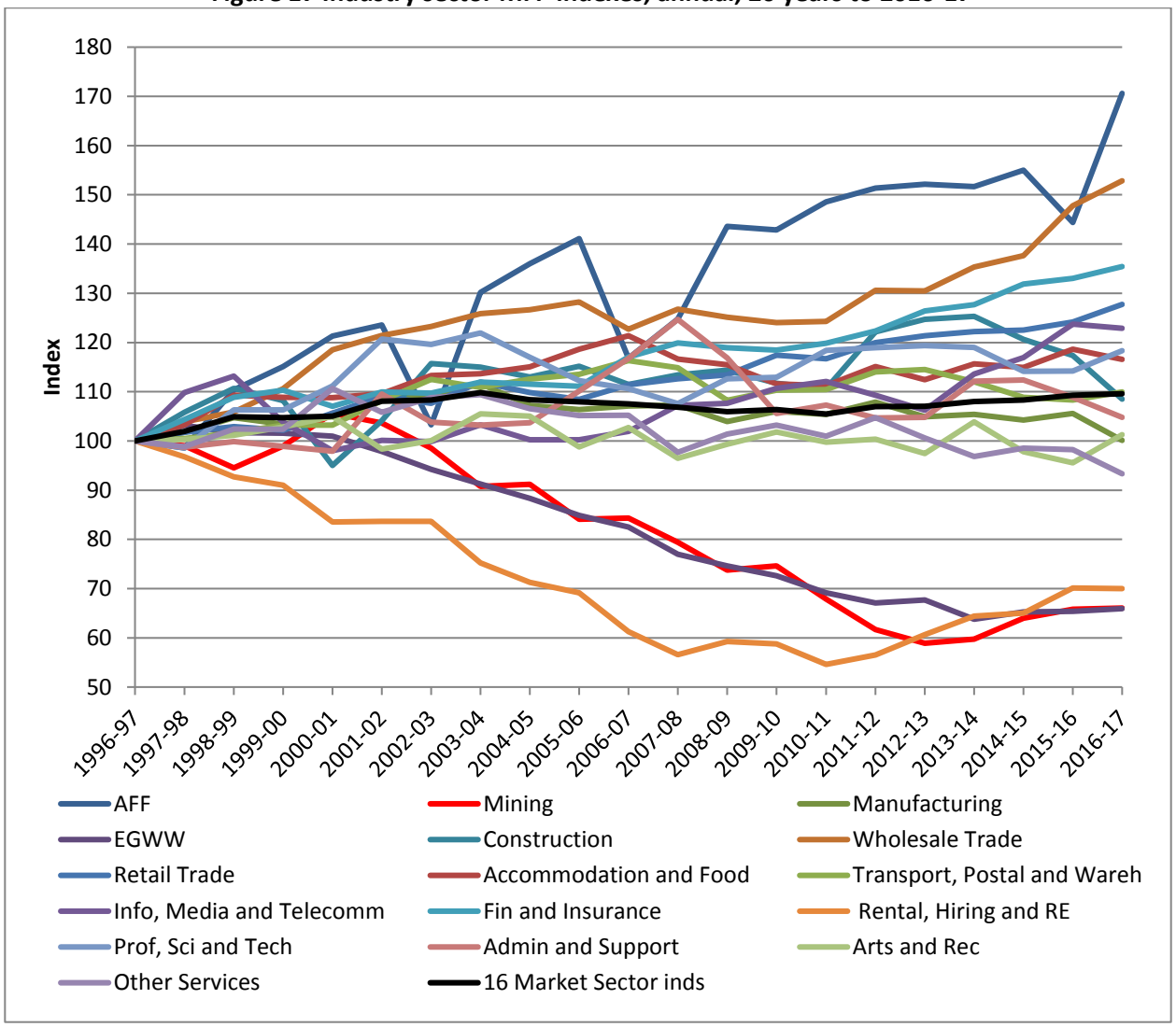


Source: reproduced from ABS *Estimates of Industry Multifactor Productivity* 2016-17, Cat. 5260.0.55.002, Chart 2 http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5260.0.55.002Main+Features12016-17?OpenDocument accessed 24 Feb 2018

88. Figure 17 shows industry sector MFP indexes. While Figure 17 is too densely packed to easily identify the individual industry sectors, it is intended to indicate the MFP spread across industries over time. The black line shows the market sector average, and the red line near the bottom shows MFP in mining. The slight dip in the market sector MFP during the mining investment boom indicates that the impact of the mining sector on the measure is minimal. The flat level of the market sector MFP index shows just how little innovation contributes to

economic growth in Australia relative to the measured contributions of labour and capital. The current boom in agriculture translates into elevated growth in its MFP.

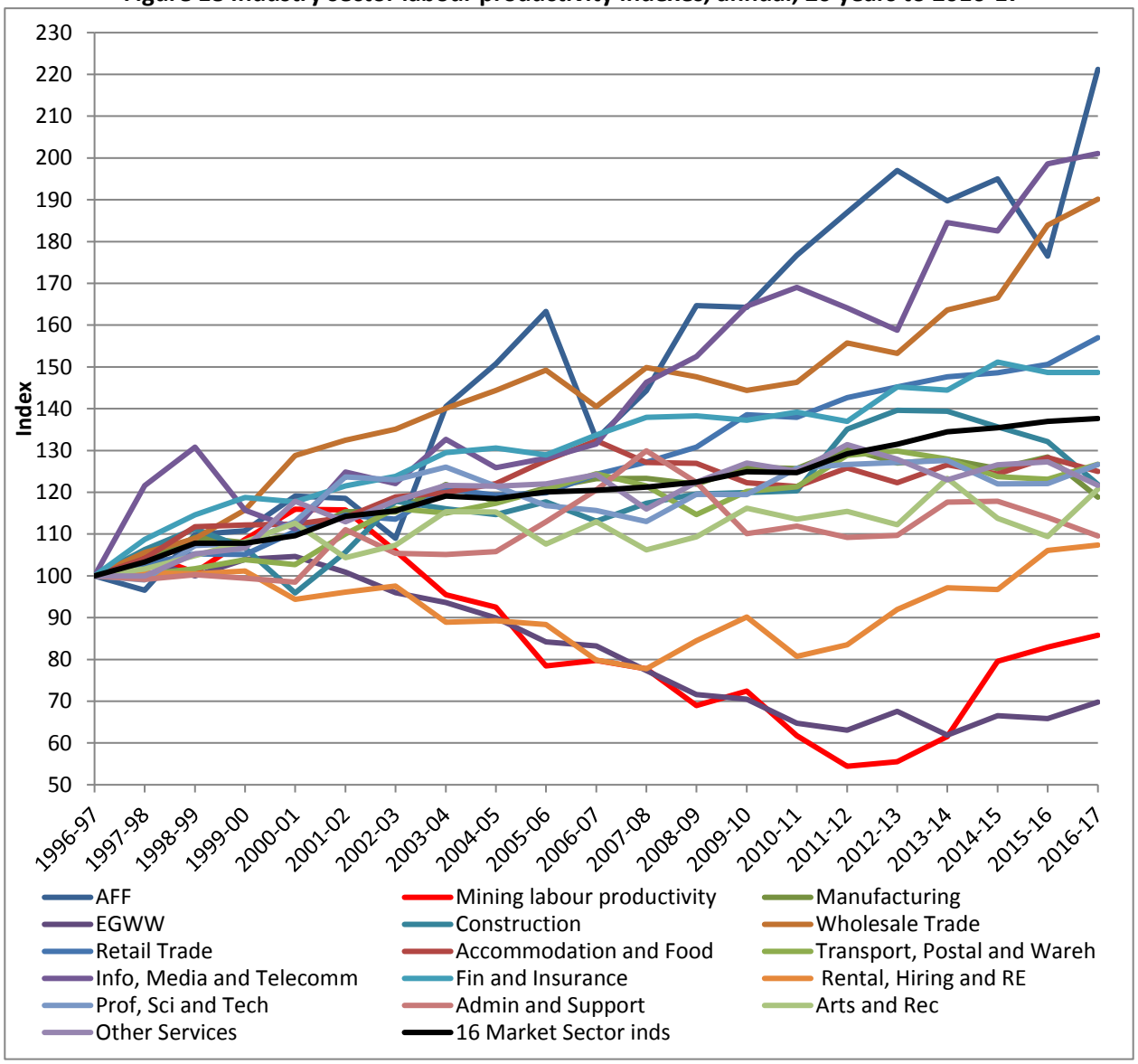
Figure 17 Industry sector MFP indexes, annual, 20 years to 2016-17



Source: ABS 5260.0.55.002 and ACTU calculations

89. Figure 18 similarly shows industry sector labour productivity indexes over the same period, with the black line showing market sector labour productivity and the red line mining sector labour productivity. Again it is clear that while labour productivity in the market sector has moved up with the mining sector pick up, it is clear from the spread that the mining sector movement is just one contribution. For instance the agricultural sector is another major source.

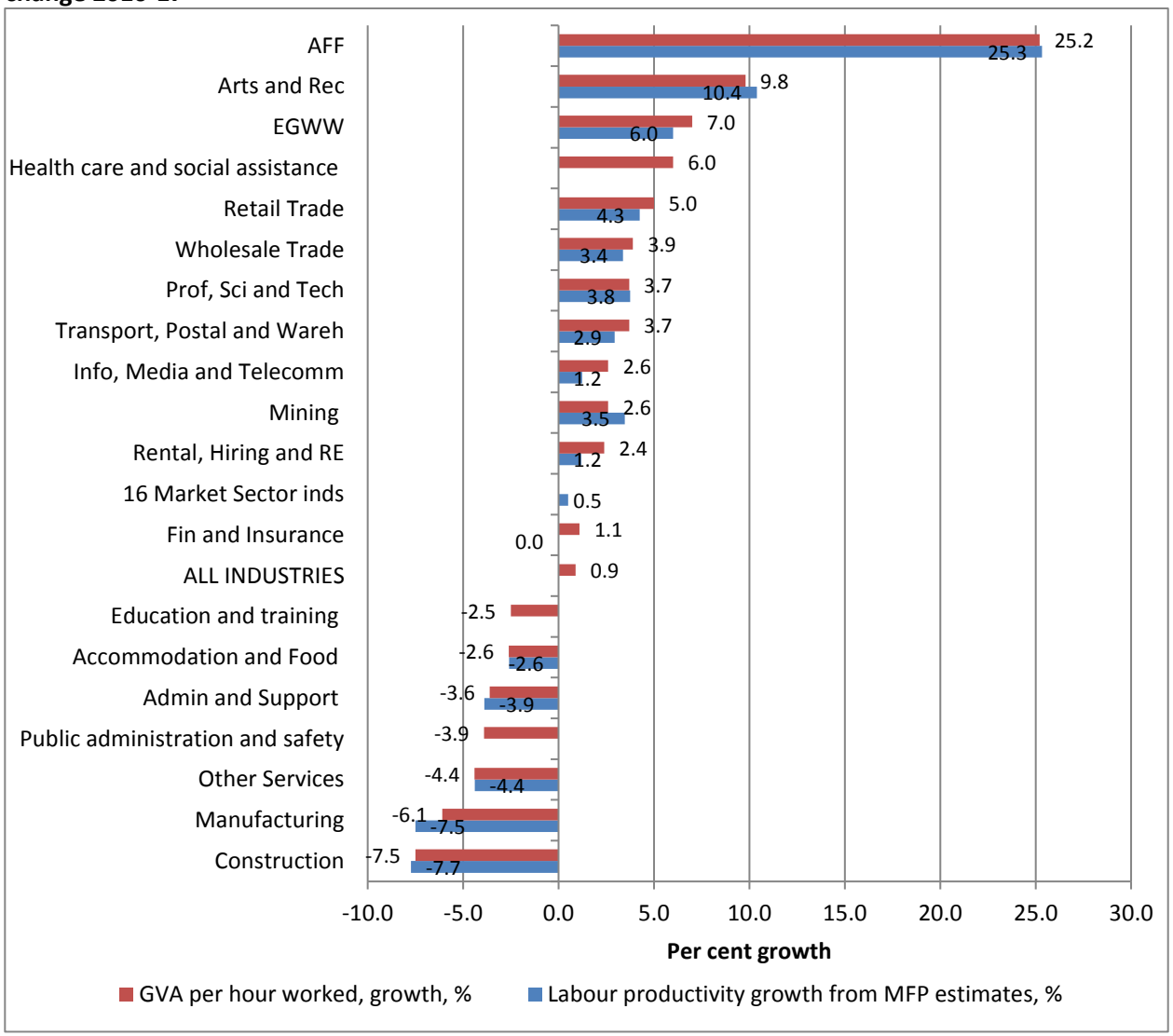
Figure 18 Industry sector labour productivity indexes, annual, 20 years to 2016-17



Source: ABS 5260.0.55.002 and ACTU calculations

90. For 2016-17, the industry sectors are ranked by labour productivity growth derived from MFP estimates which are compared with growth in GVA per hour, as shown in Figure 19. The two measures produce similar results. Labour productivity growth in two of the more award reliant industries, Health care and social assistance and retail trade are ranked towards the top in 2016—17. Growth is negative in Education and training and Accommodation and food services. In the ACTU's view, productivity in Accommodation and food services is highly sensitive to exchange rate movements, as tourism is a strong influence on its industry demand. Productivity is also poorly measured in Education and training, typically as a service, partly because of the non GDP content of its output, and partly because of the large public contribution to it.

Figure 19: Growth in labour productivity from MFP estimates and GVA per hour worked, per cent change 2016-17



Source: ABS Cat 5260.0.55.002 for market sector (excludes services where output is not well measured) labour productivity estimates based on MFP , ABS 5204 for sector GVA , and ACTU calculations.

91. The link between wages and productivity is clearly an imperfect one. For instance, enjoining workers to work harder would not improve that link, as workers have very limited influence on the pace of work. Rather, widening inequality has in turn limited increases in productivity and economic growth, as an increasing body of literature attests.[59] In this view, broadly a widening income distribution limits the growth in income and aggregate demand at the lower end of the distribution, slowing growth and reducing the rate of innovation which would have improved productivity. As is the case for wages generally, the real value of the NMW has not kept pace with what is lagging labour productivity growth. This is true both at the total-economy level as

[59] Most recently for Australia, Kennedy, Tom; Smyth, Russel; Valadkhani, Abbas; Chen, George **2017** Does Income Inequality Hinder Economic Growth? New Evidence Using Australian Taxation Statistics *Economic Modelling*, September, v. 65, pp. 119-28

shown in Figure 13, and in the more award-reliant industries, contributing to increases in poverty and inequality. This negates the purpose of productivity growth: to improve living standards. Increasing the minimum wage would assist with obtaining decent living standards.

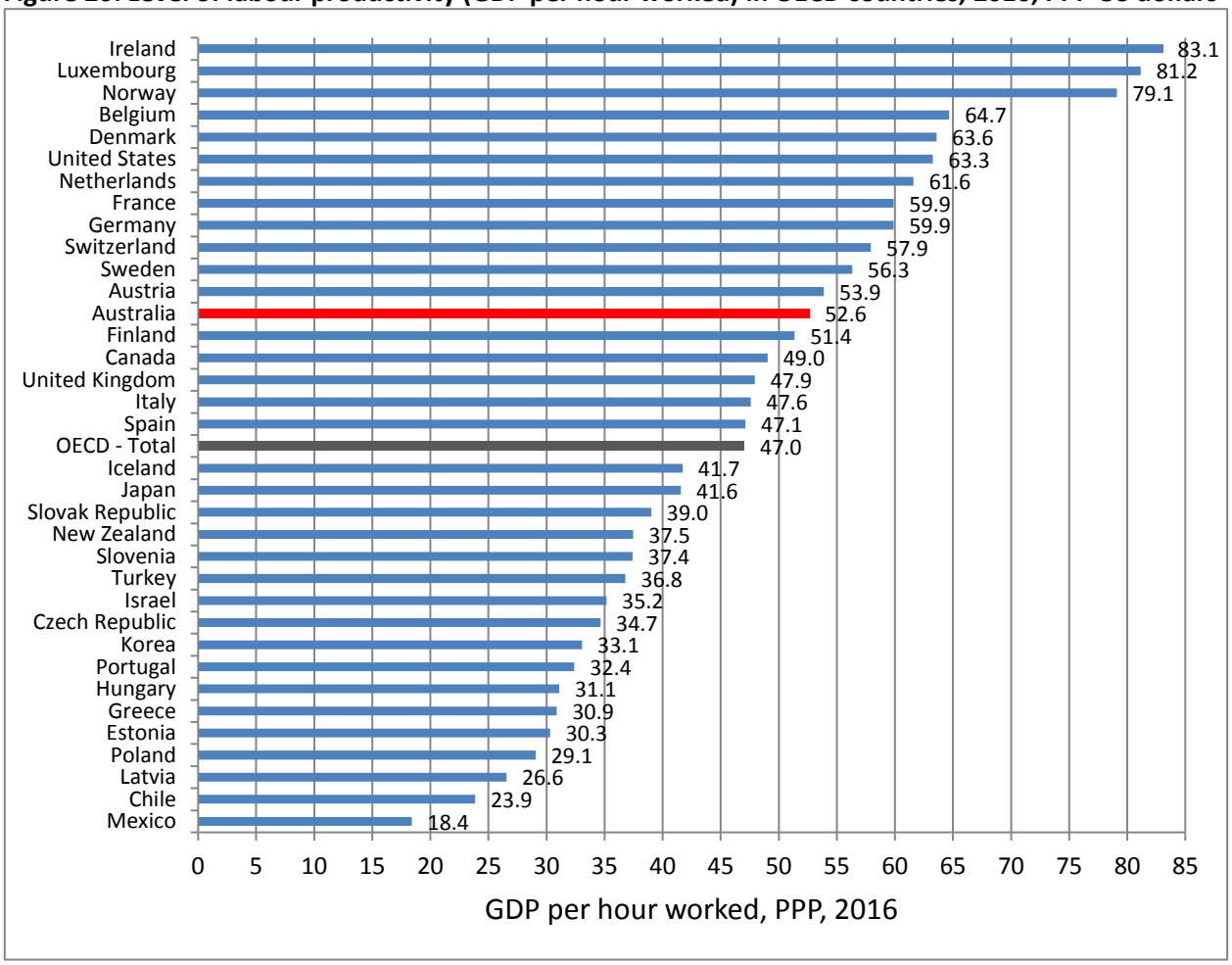
92. Raising the minimum wage would make a significant contribution to raising productivity growth and bringing its benefits to all people, as it should.

93. The increase we seek in this review would ensure on the one hand that workers reliant on the minimum wage and awards receive a fair share of additions to growth. More strongly, a decent increase in the minimum wage and awards would serve to improve productivity and economic growth.

3.9 International productivity comparisons

94. On average in 2016, Australian workers produced goods and services worth US$52.6 per hour worked in Purchasing Power Parity (PPP) terms. This compared to an OECD average of US$47 per hour worked, a slightly narrowed gap on 2015. Australia's level of labour productivity in 2016 was ranked in the bottom half of the high income OECD countries, as shown in Figure 20. This is a reflection of the capital and other inputs combined together with each hour of work.

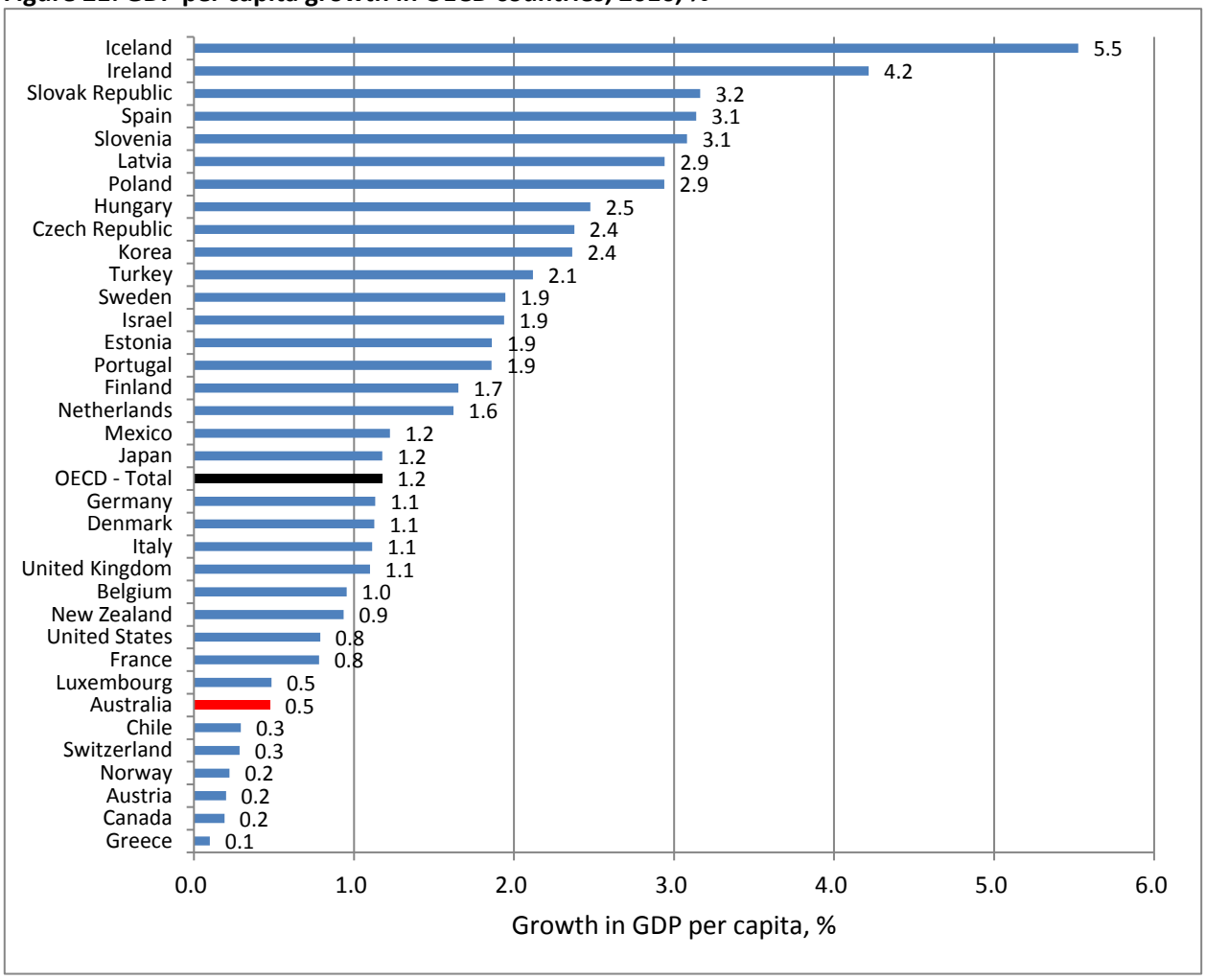
Figure 20: Level of labour productivity (GDP per hour worked) in OECD countries, 2016, PPP US dollars



Source: OECD Stat https://stats.oecd.org/Index.aspx?DataSetCode=PDB_LV

95. Figure 21 shows the growth rate in GDP per capita rates across OECD countries in 2016. Australia shows one of the slowest growth rates in GDP per capita at 0.5% increase, well below the OECD average of 1.2%. The G7 country average was 0.9% growth in GDP per capita in 2016.

Figure 21: GDP per capita growth in OECD countries, 2016, %



Source: OECD Stat (http://stats.oecd.org/Index.aspx?DataSetCode=PDB_GR)

96. An OECD Working Paper by Schellnus et al (2017) says that "In the long run, raising productivity is the only way to raise living standards, with real wages being the most direct mechanism through which the benefits of productivity growth are transferred to workers. Over the past two decades, however, aggregate labour productivity growth in most OECD countries has decoupled from real median compensation growth. Raising productivity no longer appears to be sufficient to raise real wages for the typical worker, suggesting that there is a role for public policies to support a broader sharing of the benefits of productivity gains in the economy."[60]

[60] Schwellnus, C., A. Kappeler and P. Pionnier (2017), "Decoupling of wages from productivity: Macro-level facts", OECD Economics Department Working Papers, No. 1373, OECD Publishing, Paris. http://dx.doi.org/10.1787/d4764493-en

3.10 Unit labour costs and the labour share of income

97. The Panel said in the 2016-17 Decision that gains in labour productivity were in general reflected in wages, with the exception of 2016, "where the boost to national income from the improved terms of trade has gone mostly to profits, especially (but not entirely) in the resources sector. … It is prudent at this stage to place little weight in our deliberations on the most recent rise in the profit share of total factor income, and associated fall in real unit labour costs. "[61] However, in the ACTU's view the movement towards an increase in the profit share is a much longer term, with shorter term fluctuations entailed. The real unit labour costs index is shown by the bottom line in Figure 13.

98. Real Unit Labour Costs (RULC) are defined by ABS as representing "a link between productivity and the cost of labour in producting output. Nominal ULC measures the average cost of labour per unit of output while a Real ULC adjusts the nominal ULC for general inflation. Positive growth in real ULC indicates that labour cost pressures exist."[62]

99. Figure 13 indicates that real unit labour costs are currently on a downward trend.

100. The ACTU notes the provisos that have been put forward regarding interpretation of RULC, particularly at macro level where a multitude of factors which influence RULC can change very rapidly through time. In particular, aggregate RULC is affected by changes in industrial structure. We are unable to provide labour cost breakdowns by industry, but based on Figure 25 and Figure 26 it is not apparent that the mining sector is dictating movements in the labour share of income in other industry sectors, no more than it drives productivity movements in other sectors as shown in Figure 17 and Figure 18.

101. Based on the data in Chart 2.3 of the *Statistical Report – AWR 2017-18*, it is very difficult to discern what the direction of real unit labour costs is likely to be in the short term. The two years 2014 and 2015 could equally be interpreted as an upward fluctuation before real unit labour costs proceed downwards, but with no certainty. [63]

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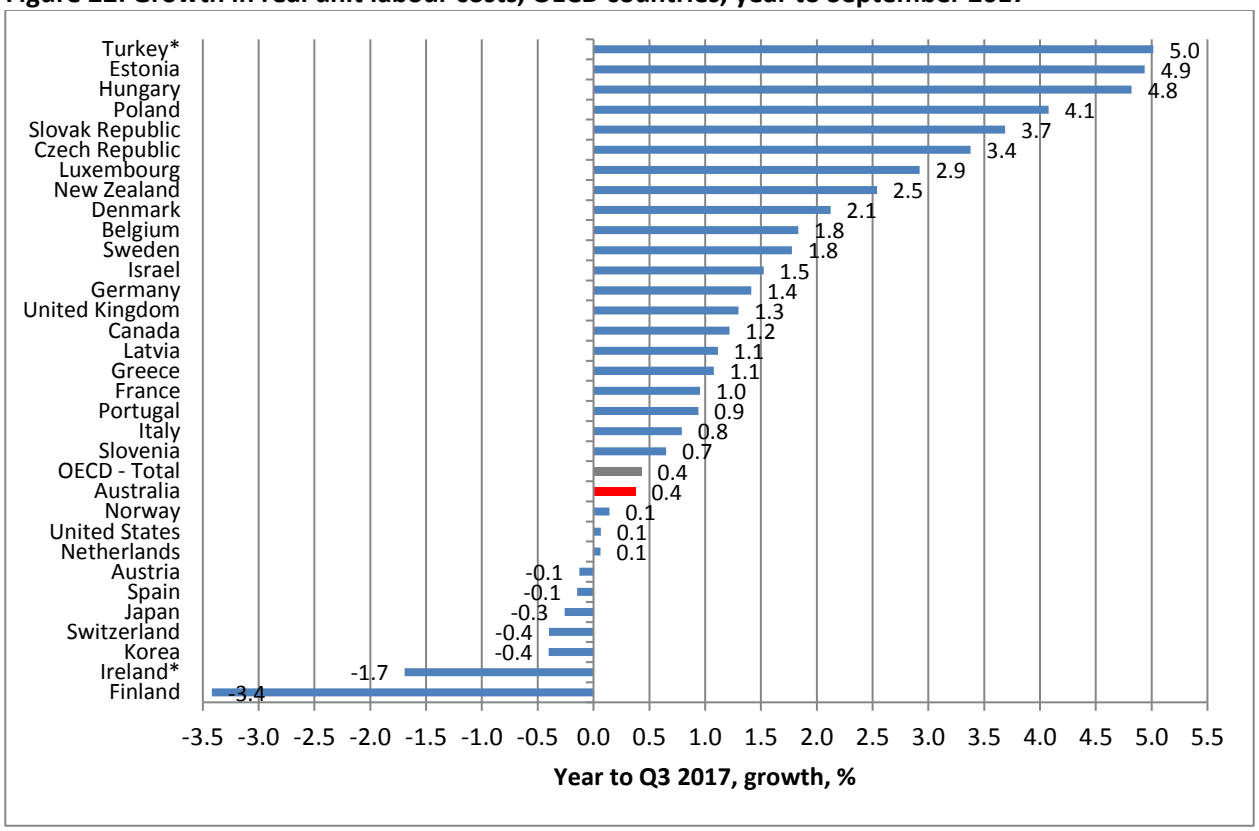
[61] FWC 2017 AWR 2016-17 [243]
[62] ABS 5206, December 2015 http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5206.0Main+Features2Dec%202015?OpenDocument accessed 26 February 2018
[63] FWC 2018 *Statistical Report – AWR 2017-18*, Chart 2.3 p.7

102. Real unit labour costs fell sharply between the end of the 1990s and 2009. Real unit labour costs then remained fairly static until 2015, rising slightly in 2016 before falling again in 2017.

103. Australia's real unit labour cost grew 0.4% over the year to September 2017, more slowly than most other OECD countries and slightly below the OECD average, as shown in Figure 22 below. Real unit labour cost growth fell from the previous year in 20 countries including Australia.

Figure 22: Growth in real unit labour costs, OECD countries, year to September 2017

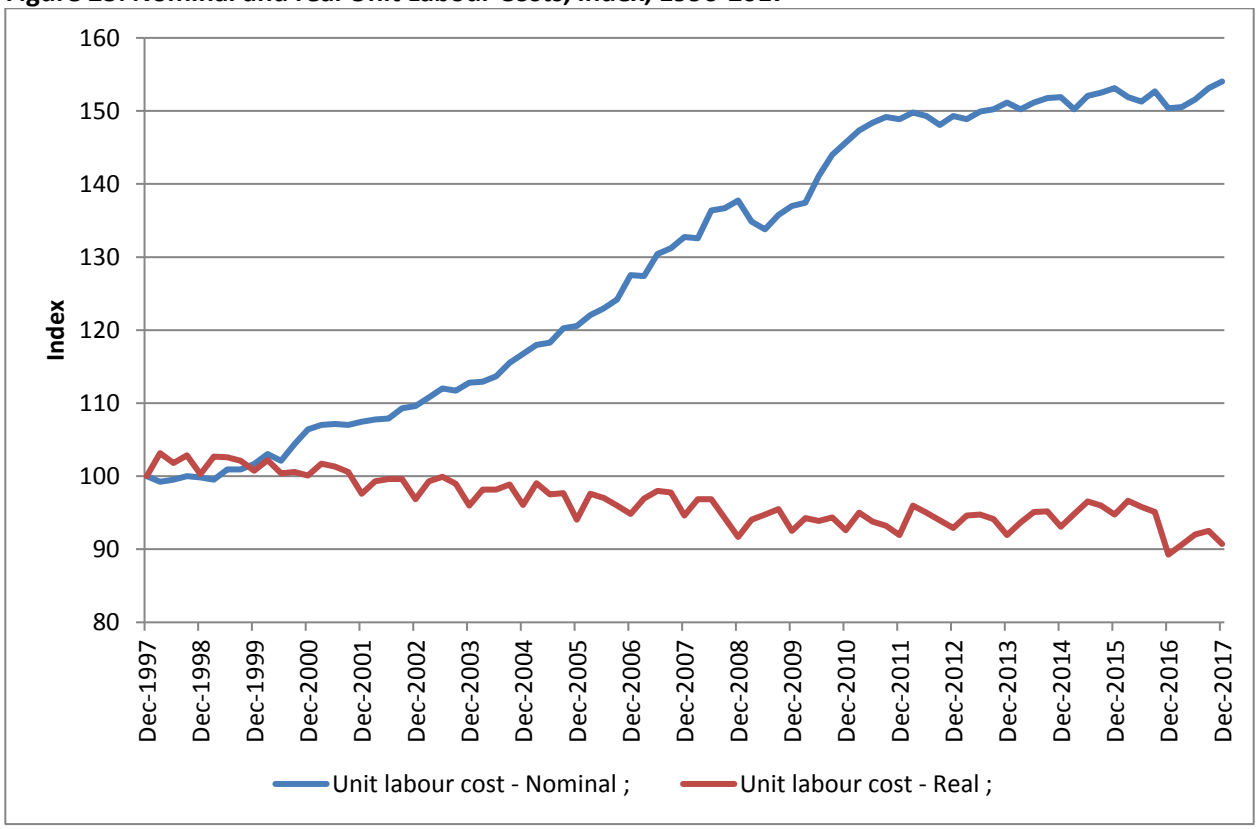


Source: OECD http://stats.oecd.org/index.aspx?DataSetCode=ULC_EEQ unit labour costs, growth, seasonally adjusted, and ACTU calculations.* year to June 2017

104. Figure 23 presents ABS index data, re based to December 1997, for nominal and real unit labour costs to December 2017. Real unit labour costs are the nominal unit labour costs adjusted for inflation. Over the year 2017 Australia's real unit labour costs fell 1.6% (seasonally adjusted, ABS Cat 5206042). This is likely the same data as in Chart 2.3 in the *Statistical Report – AWR 2017-18* but starting from 1996 in order to obtain a longer term picture. Real unit labour costs had been declining over the decade preceding the GFC when they reached record low levels, then rose throughout the mining boom reflecting the influence of faster growing labour costs in the mining sector relative to the rest of the economy. They reached pre GFC levels at

2015. Real unit labour costs are 9.3% below 1997 as shown in Figure 23, closest to the lowest they have ever been.

Figure 23: Nominal and real Unit Labour Costs, index, 1996-2017

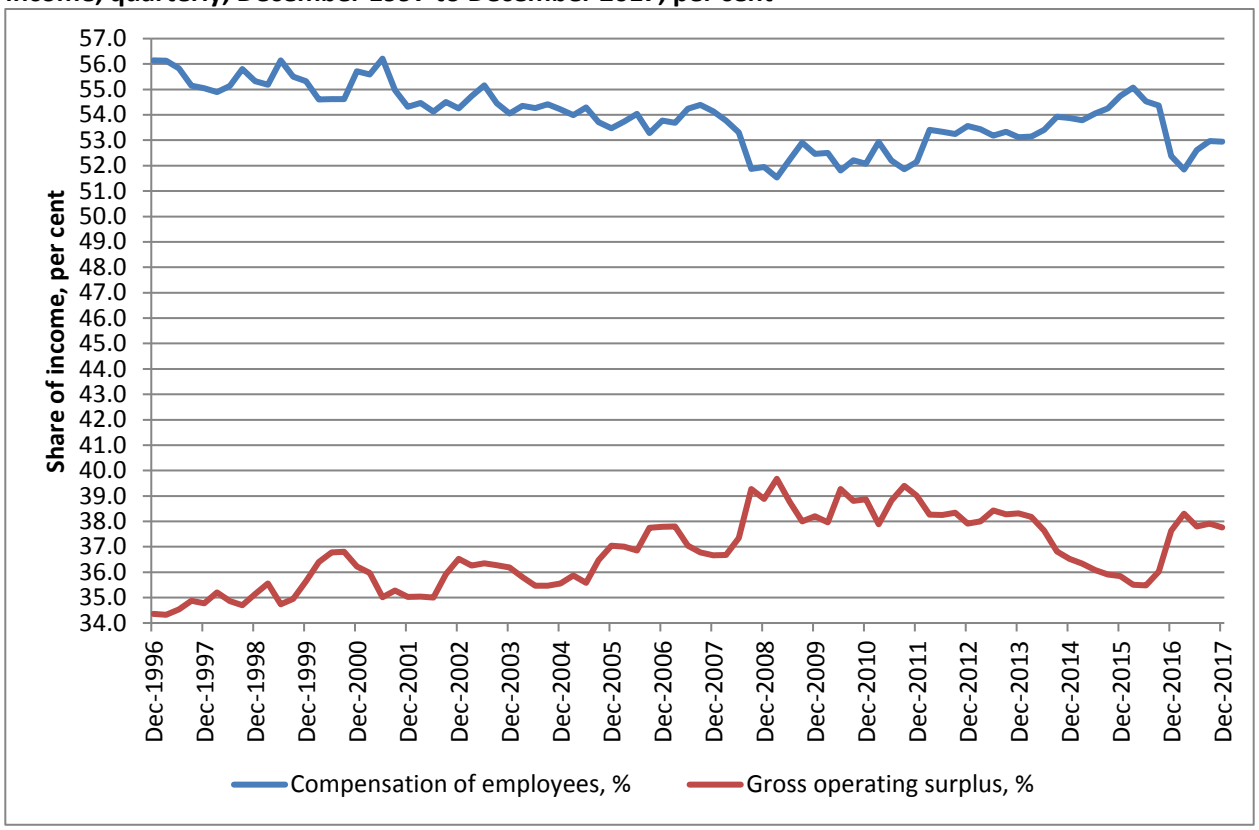


Source: ABS 5206042, seasonally adjusted, ACTU calculations

105. Changes in real unit labour costs are equivalent to changes in the wages share of total income in the economy. So the movements in labour's share of income closely reflect the changes in the real unit labour cost and the ground that labour has lost in wages over a long period.

106. Figure 24 shows that the share of compensation of employees in total factor income rose 0.5 percentage points in the year 2017 back to the level of six years ago. It cannot be assumed that this is the start of an upward trend. It is the same as the level at September 2009 just post GFC. The slow growth in wages is a contributor to the current low level of labour's share of income.

Figure 24: Share of compensation of employees and share of gross operating surplus in total factor income, quarterly, December 1997 to December 2017, per cent

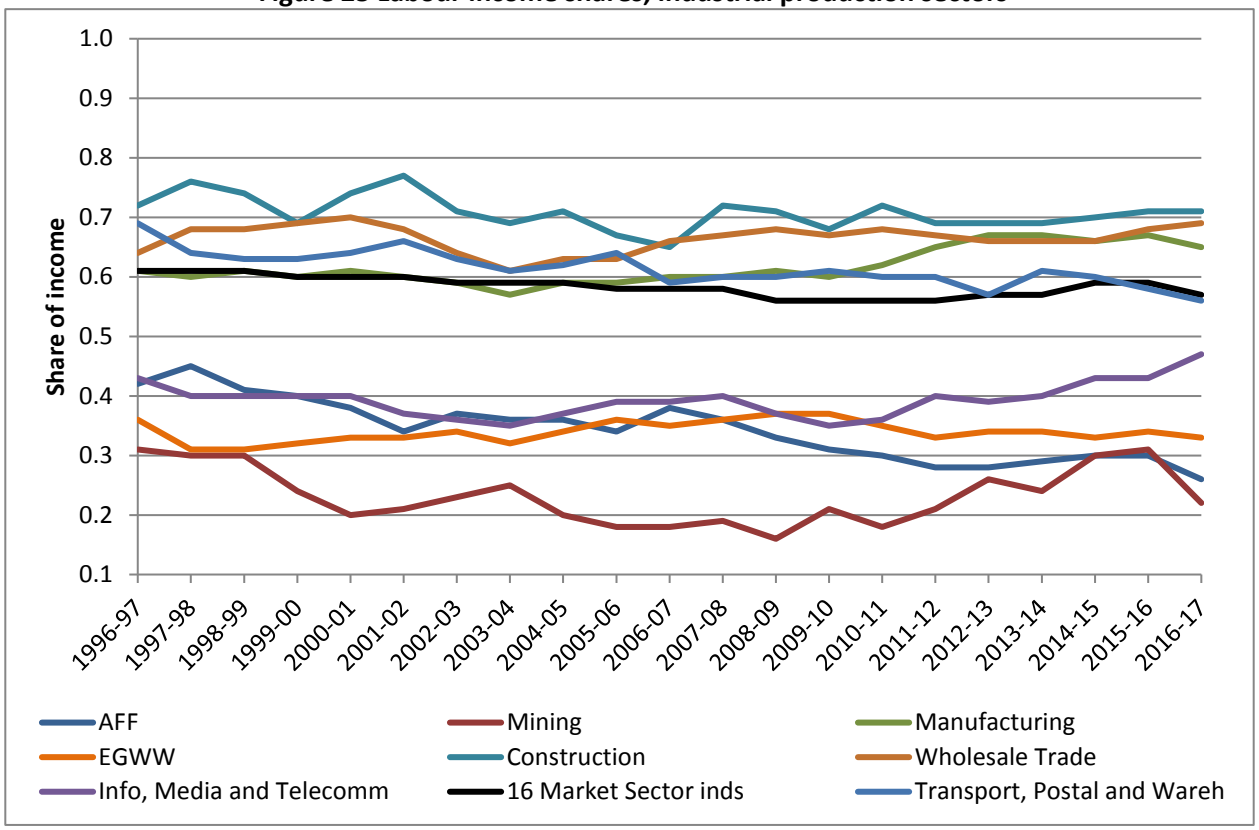


Source ABS 5206007, seasonally adjusted, and ACTU calculations. The remainder of total factor income is gross mixed income, the surplus over production of unincorporated enterprises (ABS 2015, *Australian System of National Accounts, Concepts Sources and Methods*, Catalogue number 5216, p.290.

107. The estimates of the employee compensation share of income from ABS data is the mirror image of share of gross operating surplus, with minor differences as the share of gross mixed income, the other part of income corresponding to that of unincorporated enterprises (not shown), varies slightly over time.

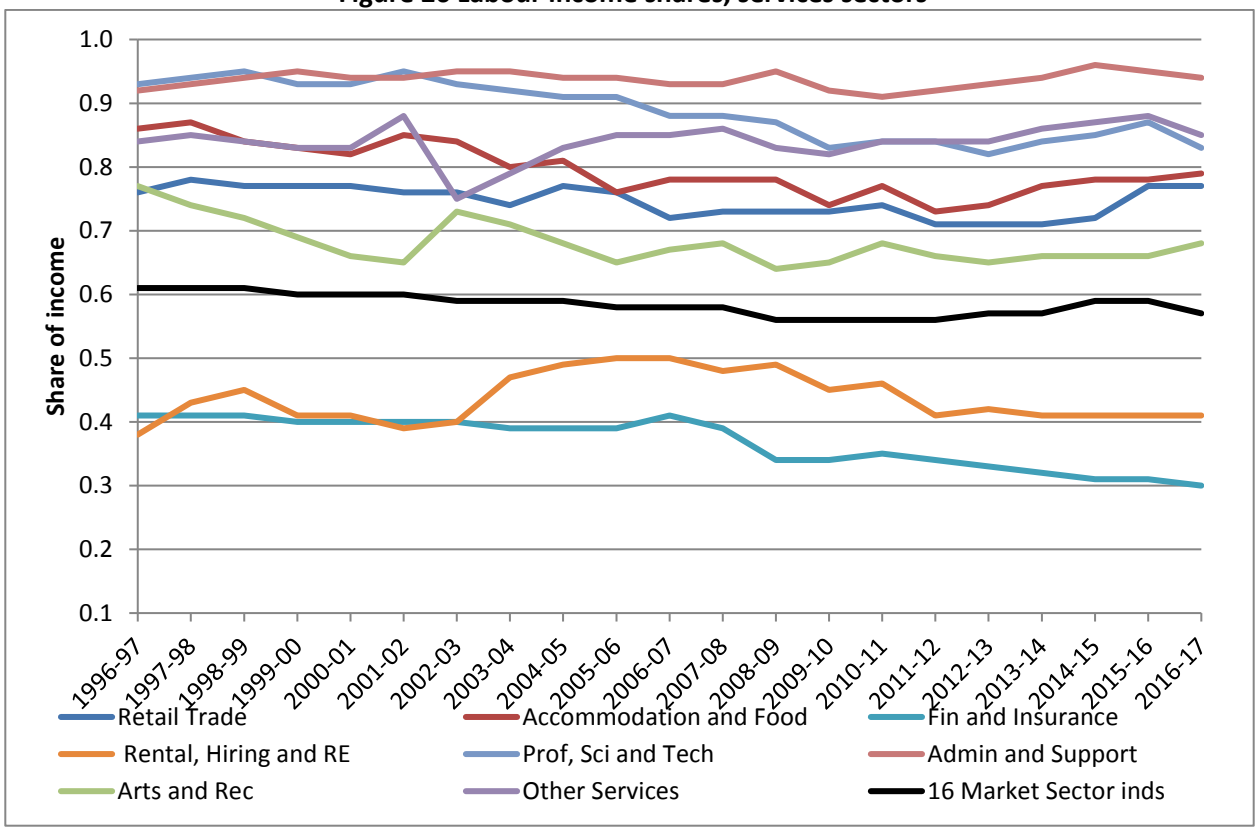
108. Figure 25 and Figure 26 present the labour shares of income from ABS for its MFP estimates in Cat 5260, Table 14, for industrial and services sectors respectively, both compared with market sector labour share of income (black line). It is clear that the labour shares of income are generally larger for services. Both industrial and services sectors show a tendency to move down, although this is not consistent across individual sectors. Nor does the tendency appear greater in either of the two. Also, the labour shares of some sectors have moved downwards prior to the GFC and started recovering afterwards. The labour shares in 9 sectors have fallen over the last year.

Figure 25 Labour income shares, industrial production sectors



Source: ABS 5260.0.55.002 Table 14

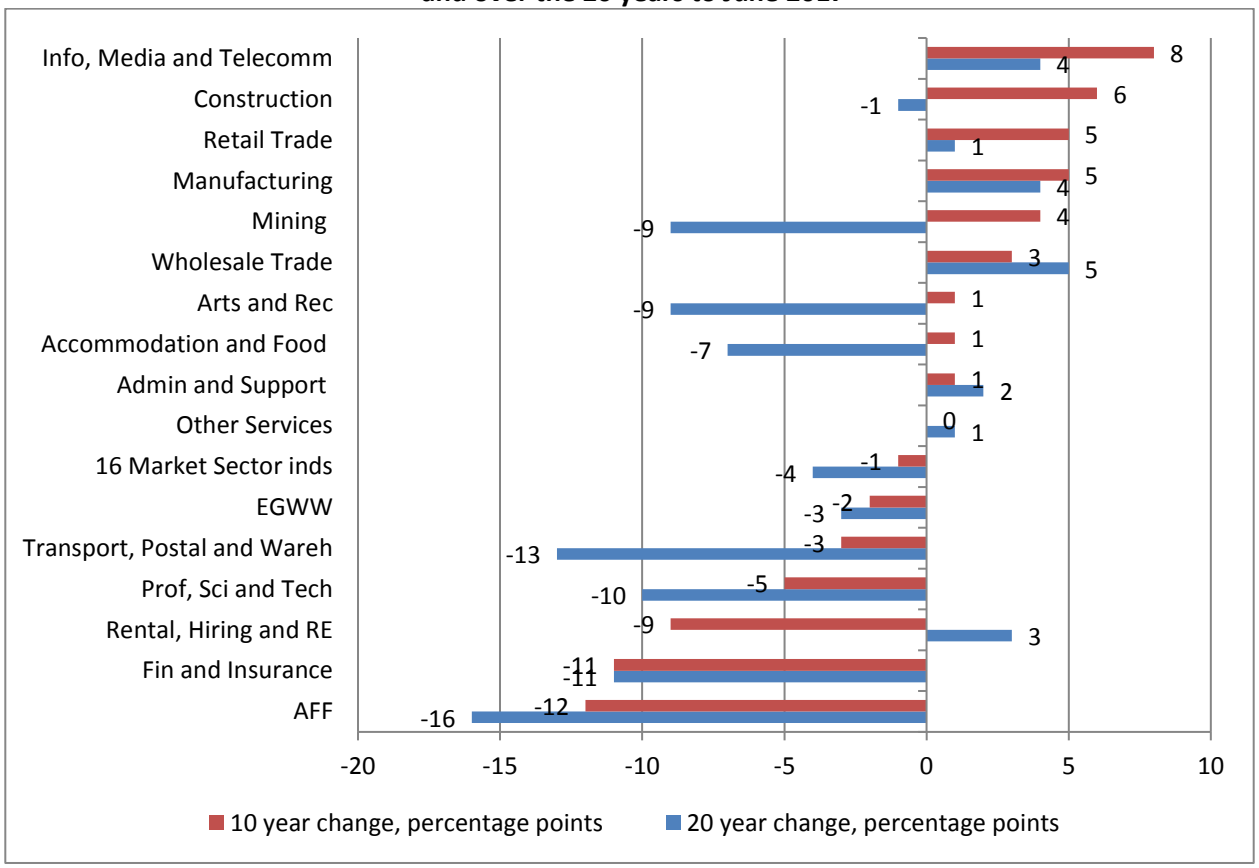
Figure 26 Labour income shares, services sectors



Source: ABS 5260.0.55.002 Table 14

109. Figure 27 shows the downward movements in labour income share based on the ABS MFP data were not as great in the last ten years, from the GFC, as over the last twenty years. This reflects recovery after the GFC. The market sector average labour share of income fell by one percentage point over the last ten years compared with a fall of four percentage points over the twenty years. On these data Retail trade labour share picked up five percentage points in the last ten years, while Accommodation and food and Admin and support both increases their share by one percentage point. For award reliant sectors these are very low rates per annum, and Acommodation and food reflects the influence of tourism demand due to exchange rate appreciation.

Figure 27 Percentage point changes in labour share of income over the ten years to June 2017 ranked, and over the 20 years to June 2017

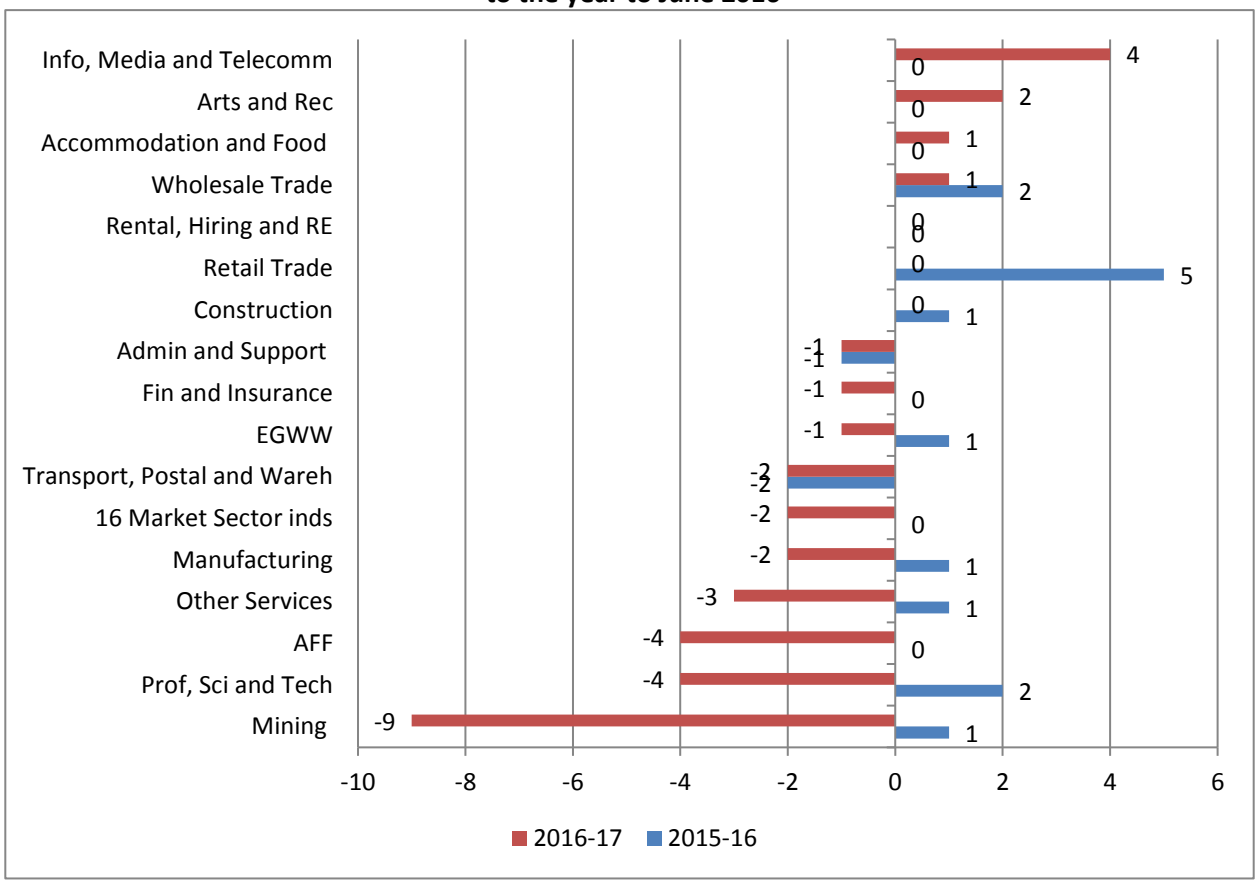


Source: ABS 5260.0.55.002 Table 14

110. Figure 28 shows that the labour share of income has fallen for the 16 market sector average over the year to June 2017, by two percentage points of income. This is substantial. The market share does not include some award reliant sectors such as Healthcare and social assistance, and Education and training. The retail trade labour share did not change in the year to June 2017,

after an increase of 5 percentage points the year before, and administration and support declined a percentage point in both years.

Figure 28 Percentage point changes in labour share of income over the year to June 2017 ranked, and to the year to June 2016

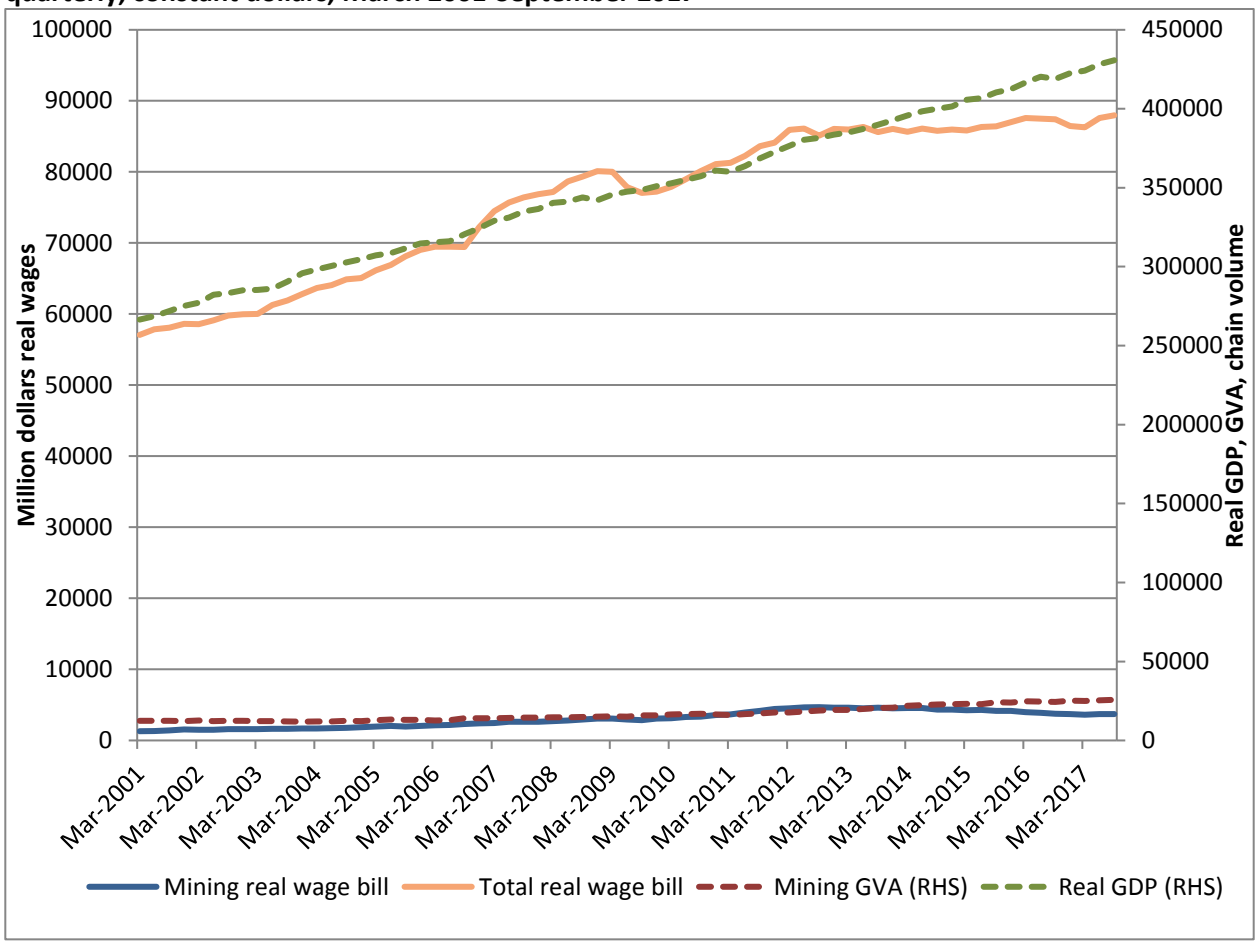


Source: ABS 5260.0.55.002 Table 14

111. The ABS *Business Indicators* survey also provides data for total wages which is available from 2001.[64] This was deflated into real terms using the cpi and is presented in Figure 29 below, and compared with the real total wage bill in the mining industry. After being flat over the three years from March 2012 to March 2015, total real wages fluctuates slightly. The increase in the total wage bill from December 2016 to September 2017 corresponds to the increase in employment observed over that period.

[64] ABS Cat 5676 Table 17.

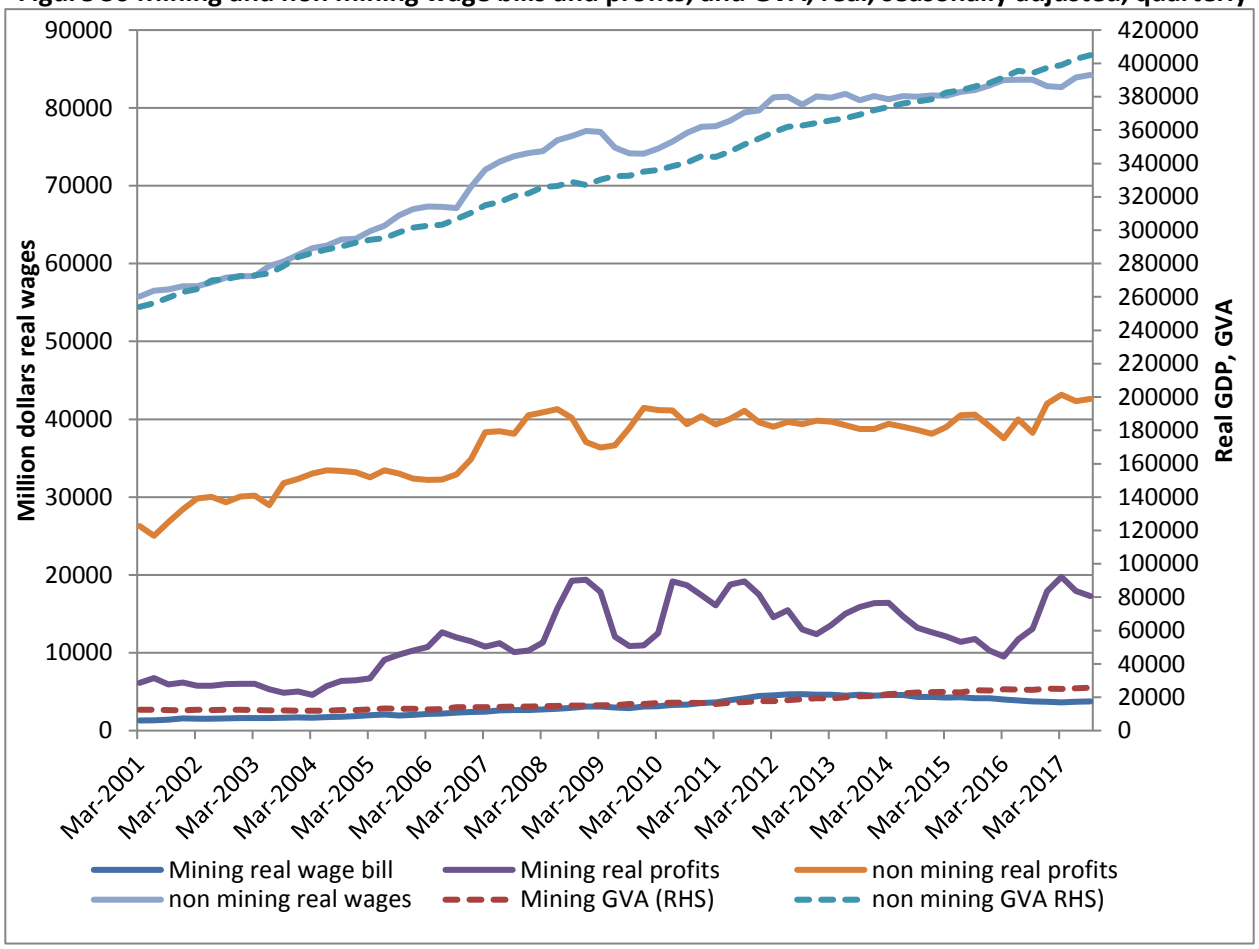
Figure 29 Total wages and GDP, and mining sector wages and mining GVA, real, seasonally adjusted, quarterly, constant dollars, March 2001-September 2017



Source: ABS Cat 5676 Table 17, 6401, and ACTU calculations.

112. The sharp flattening out of total wage growth at June 2012 is evident, after the post GFC recovery. This does not track real GDP increase which is greater. The stall on total wage growth is not apparently due to the mining investment project completions, as shown in Figure 30. If anything, non mining sectors appear to compensate mining declines.

Figure 30 Mining and non mining wage bills and profits, and GVA, real, seasonally adjusted, quarterly



Sources: ABS 5206, 5676, 6401, and ACTU calculations

113. Slow wage growth has not been due to mining sector movements. We cannot sit back and wait for wages to pick up, given that this has not been observed either. An increase in the minimum wage would go a long way to addressing the slow growth in wages that appears otherwise intractable.

3.11 Profits

114. Total industry profits growth was zero in the September quarter 2017, the fourth quarter of a year in which they increased by 18.7%, in nominal terms, seasonally adjusted, based on data from ABS Business Indicators.[65] This compares with 7.7% average per year for the five years to September 2017 and 8.0 for the 10 years.[66] For total industry without mining profits grew 1.3% in the September quarter, 13.4% for the year to September 2017, compared with 4.0% per

[65] ABS 5676 Table 15

[66] FWC 2018 *Statistical Report – AWR 2017-18*, Table 3.3 p.10

annum for 5 years and 3.7% for 10 years. Mining profits had grown 34.4% for the year to September 2017, and fell 3.1% in the September quarter, compared with 7.7% for 5 years and 8.0 for 10. These are healthy figures in a series subject to much volatility.

115. The *Statistical Report – AWR 2017-18,* Table 3.4, shows that growth in profit margins, "operating profits before tax divided by sales and service income" for small business have been higher than for all business, 2015-16 most recent, and all very healthy.[67] Profit margins grew 17.1% for small business compared with all sizes at 10.9% (excluding Financial and insurance services) in 2015-16. This compares with the five years to 2015-16 in which small business profit margins gew at 16.9% per annum and all sizes grew 11.4%. These figures suggest that business and small business in particular are not struggling and could certainly afford an increase in the minimum wage, and given that general wage increases have not been forthcoming.

116. Moreover, small business is much more award reliant than large business. According to ABS data from *Employee Earnings and Hours*, 35.4% of small business (less than 20 employees) employees (765,000) rely on awards for their pay levels, compared with 21.2% of employees(1,511,000) in larger businesses with 20 or more employees). Further, the average hourly payment for award reliant workers in small businesses was $23.30 per hour, actually 28.3% less than for award reliant workers in large businesses, where it was $32.49 per hour. Overall hourly rates of pay were also much lower for small business at $29.50 per hour compared with large businesses at $38.76, a difference of 23.9%.[68]

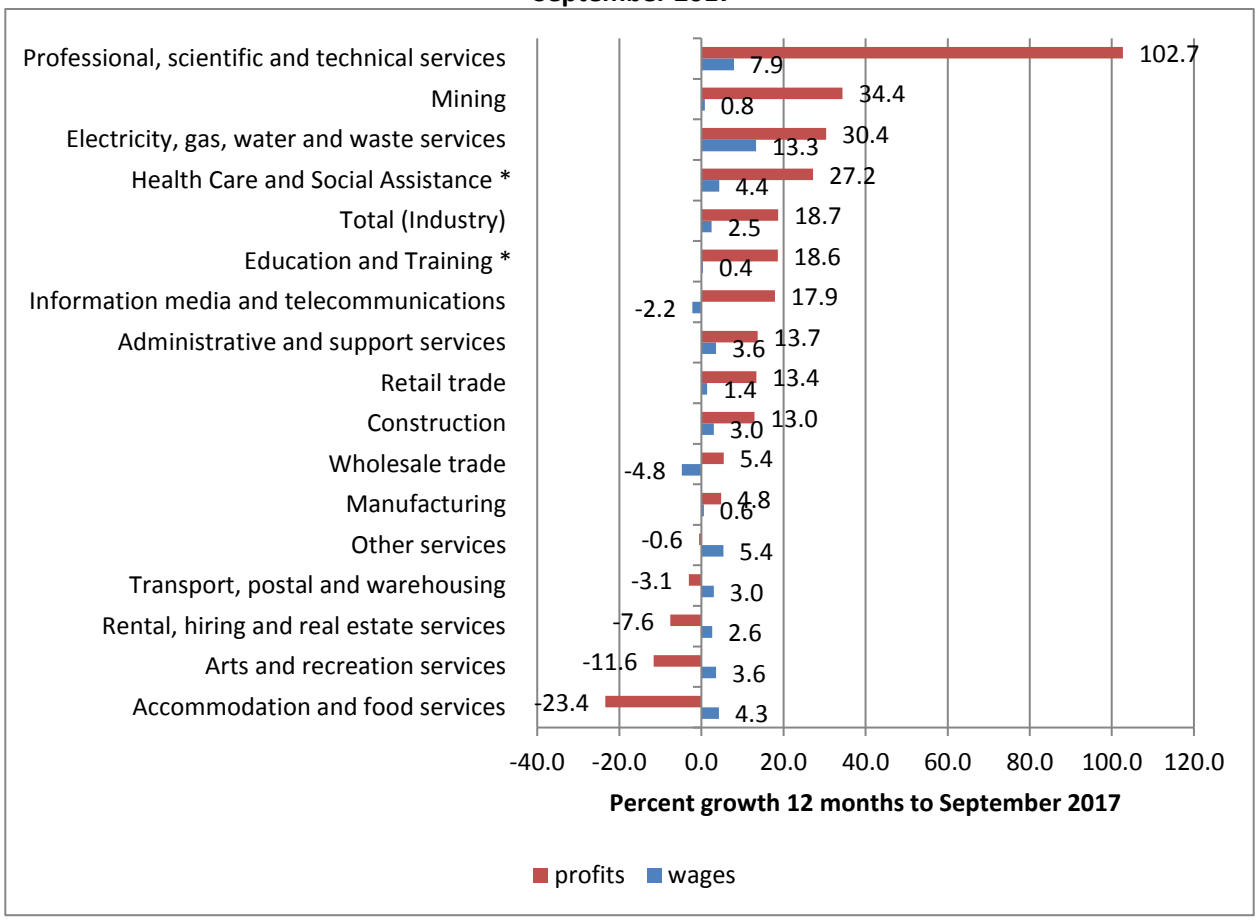
117. The ACTU notes that the small business sector accordingly had much higher exposure to the 3.3% minimum wage and award increases of 2017 than did large business, while increases in other wages were much smaller, for instance average wages increased 1.8%. Yet this hasn't left small businesses facing a decline in profitability.

118. Under these circumstances it is hard to see how a decent increase in the minimum wage would be more of an impost for small business than large.

119. Figure 31 shows how quarterly profits have grown compared with wages over the year to September 2017.

[67] FWC 2018 *Statistical Report – AWR 2017-18*, Table 3.4 p.11, based on ABS 8155
[68] ABS 2017 *Employee Earnings and Hours*, May 2016 customised data release, and ACTU calculations

Figure 31 Growth rates in quarterly wages and profits, industry sectors, annual, nominal, 12 months to September 2017



Source: ABS 5676, gross operating profits, except profits for Health care and social assistance and Education and training which are from ABS 8155 for 2015-16 from Table 3.4 final column for private, in *Statistical Report AWR*, p.11. Financial and insurance wages grew at zero while profits grew 259.9%.

120. Figure 31 also suggests that the mining sector has not held back the rest of the economy.

121. All the more award reliant sectors have increased quarterly profits at a much faster rate than wages from September 2016 to September 2017, except Accommodation and food services where the pick up in the terms of trade over the last year has reduced earnings from tourism.

3.12 Business bankruptcy rates

122. The *Statistical Report - AWR 2017-18* shows that the business bankruptcy rate stayed constant at 0.36% from 2015-16 to 2016-17, still not much above the lowest point of 0.34% at the GFC based on Australian Financial Security Authority (ASFA) data. The bankruptcy rate is defined as the number of business-related bankruptcies divided by the number of owner managers of an unincorporated enterprise in the economy.[69]

123. There were fewer business-related bankruptcies in 2016-17 than any year since 1994-95. The series is volatile. There were 16,320 business-related bankruptcies in the past financial year, 2016-17, 5.1% down from 17,202 recorded in 2015-16, and compared with a 0.2% increase the year before.[70] Bankruptcies fell in 2016-17 in all states except WA (12%, 185), NT (20.0%, 20) and ACT (18.7%, 30). The total number of bankruptcies for the other states fell 1.6% in 2015-16 and 7.3% in 2016-17. This shows the currently healthy state of business.

3.13 Business entry and exit

124. The number of businesses overall grew by 3.1% in 2016-17, up from 2.4% the previous year and 1.0% the year before that, the result of higher entry than exit rates in the three years. This is a sign of a continuing healthy business environment, especially where increasing firm concentration would be expected to reduce the number of businesses.

125. Entries were 15.1% of the number of businesses in at the start of 2016-17, up from 14.6% in 2015-16. Exits were down to 12.0% in 2016-17 compared 12.0% in 2015-16.[71]

126. The number of businesses in the award-reliant sectors grew amongst the fastest of any sector in 2016-17. The number of businesses in Education and training grew by 4.3%, Administrative and support services by 4.2%, Health care and social assistance by 4.0% and Accommodation and food services 2.8% as shown in Table 2 below. The number of businesses in Retail shrank 0.6% in 2016-17, by less than the previous year. Increasing concentration in the sector continues to be a likely factor in this.

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[69] See Chart 3.3 of the *Statistical Report* – AWR 2017-18, p.13.
[70] Australian Financial Security Authority 'Quarterly provisional personal insolvency time series December quarter 2017', Australian Government, Canberra https://www.afsa.gov.au/statistics/time-series [Accessed 28 Feb 2018].
[71] ABS 8165

127. The award reliant industries are a big and increasing share of industry employment. Health care and social assistance and Accommodation and food services both increased their employment, and Education and training increased employment by 10.0%, and its hours also increased 4.8%, the second highest increase.

Table 2: Growth in the number of businesses by industry, share of employment, growth in employees and in hours worked, 2016-17

Industry	Growth in number of businesses, % 2016-17	Share of employment, November 2017	Growth in number of employees, % Year to November 2017	Growth in hours worked, % Year to November 2017
Agriculture, Forestry and Fishing	-0.6	2.6	10.0	13.6
Mining	-1.2	1.8	-2.3	1.1
Manufacturing	0.1	7.1	-8.7	-7.3
Electricity, Gas, Water and Waste Services	4.1	1.1	3.5	0.6
Construction	3.6	9.4	9.5	10.3
Wholesale Trade	1.1	3.0	1.2	3.0
Retail Trade	-0.6	10.4	4.7	5.4
Accommodation and Food Services	2.8	7.2	4.3	4.1
Transport, Postal and Warehousing	12.1	5.2	4.8	8.7
Information Media and Telecommunications	4.5	1.7	-1.0	-0.7
Financial and Insurance Services	4.3	3.4	0.0	-2.7
Rental, Hiring and Real Estate Services	2.2	1.8	1.7	1.9
Professional, Scientific and Technical Services	3.0	8.3	1.1	2.8
Administrative and Support Services	4.2	3.3	-6.7	-6.6
Public Administration and Safety	2.1	6.0	-3.5	-3.6
Education and Training	4.3	8.3	4.0	4.0
Health Care and Social Assistance	4.0	13.3	6.8	6.7
Arts and Recreation Services	3.2	2.0	17.6	11.5
Other Services	2.8	4.3	15.1	15.6
All Industries	3.1	100.0	3.2	4.3

Source: ABS cats 8165, 6291.0.55.003 and ACTU calculations. First column shows the percentage change from businesses operating at the start of the 2016-17 financial year.

128. Business survival rate increased slightly from 61.9% for June 2011 to June 2015 to 62.1% for June 2012 to June 2016.[72] Health care and social assistance continued to have the highest business survival rates of any industry, that is continuously trading over the four years from June 2013 to June 2017.[73]

[72] FWC *Statistical Report – AWR 2017-18* p.9 Chart 3.5
[73] ABS 8165

129. These data do not suggest business is facing increasing hardship. The hours worked increased by 5.4% in Retail trade, 4.1% in Accommodation and food services, 4.0% in Education and training, and a large 6.7% in Health care and social assistance. This is an indication of the importance of increasing NMW and awards for award dependent employees.

3.14 Inflation

130. The Panel stated in its Decision for 2016-17 that "The subdued inflation means there is little risk to the macroeconomic inflationary environment from our decision."[74] These conditions remain for this year. Accordingly, the ACTU is of the view that the situation of ongoing low inflation and low wages presents an even greater opportunity to raise the minimum wage and modern award minimum wages. Inflation was at 1.9% for the year 2017, barely up from 1.8% for the previous year as measured by cpi.[75] According to the RBA "underlying inflationary pressures remain low, reflecting subdued labour cost growth and remaining spare capacity in the economy', with "a decline in the price of tradable items" over the year. [76] The RBA also points out some large increases in non tradable items including electricity.[77]

131. The RBA said "Utilities account for 4 percent of household expenditure in the cpi, half of which is electricity, and utilities inflation contributed 0.4 percentage points to headline inflation over 2017."[78] That means that utilities prices increases contributed 21% of the 1.9% increase in cpi. That measure uses an average household expenditure basket of goods and services. But utilities are a much bigger component of spending in the low income households which depend on the wages of low paid workers. Relative price increases and their impacts are discussed further in section 4.5.

132. The RBA forecasts inflation to increase up to 2 ¼ % over the years 2018 and 2019.[79] The RBA said one of the key areas of uncertainty for the inflation outlook is "how labour market conditions will translate into wage growth" and how much "any decline in spare capacity will

[74] FWC 2017 AWR 2016-17 [277]
[75] ABS 6401 and FWC *Statistical Report - AWR 2017-18* Chart 4.1, p.16
[76] RBA 2018, *Statement on Monetary Policy*: February 2018, p.55
[77] RBA 2018, *Statement on Monetary Policy*: February 2018, p.56
[78] RBA 2018, *Statement on Monetary Policy*: February 2018, p.57
[79] RBA 2017, *Statement on Monetary Policy*: February 2018, p.63

translate into building wage pressures."[80] In the ACTU's view there is no reason to think capacity will necessarily tighten, nor that wage growth would be forthcoming as a result, or that the low paid would benefit from it. Raising the minimum wage may be the sole mechanism by which wage increases can occur.

3.15 Wages

133. Wage growth in Australia has been extraordinarily slow as recognised by a range of national and international authorities. The IMF notes that "average annual growth in Australia declined from close to 6 percent in 2007 to about 1 percent in 2016, exceeding the median decline in advanced economies (AEs) by a substantial margin."[81]

134. The RBA expects wage growth to pick up "over the year ahead as spare capacity in the labour market declines and the adjustment following the mining boom ends. … Implicit in this forecast of a pick-up in wage growth is the assumption that any effects of structural factors that might be currently weighing on wage growth will gradually lessen. The rollover to new enterprise bargaining agreements with lower wage growth than current will exert downward pressure on overall wage growth for the next couple of years."[82] In the ACTU's view it is quite unclear from this where wages growth is expected to come from. It appears that an increase in the minimum wage is left to play an instrumental role.

135. The Treasury signalled concern regarding the slow growth of wages in Australia in its publication "Analysis of wage growth" of November 2017, which starts by stating that "On a variety of measures, wage growth is low."[83] A final possible reason for this amongst a range the Treasury paper considers is the fall of coverage of collective agreements.

136. All measures of wages have grown less over 2017 than their average pace over the last ten years, as shown in Figure 32. In fact the exception is the NMW, which was increased by 3.3% in

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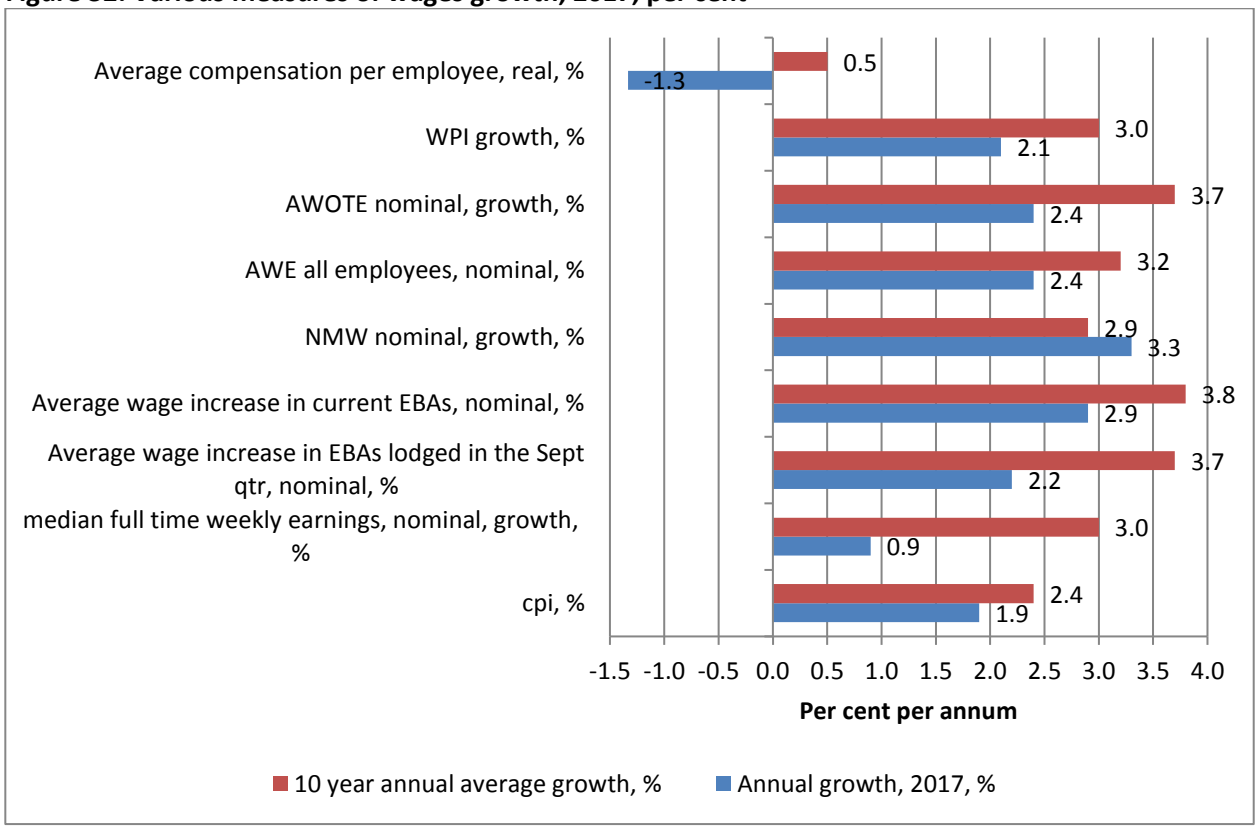
[80] RBA 2017*, Statement on Monetary Policy*: February 2018, pp.65-66
[81] IMF 2018 *Australia*: 2017 Article IV consultation. IMF country report 18/44 February, p.25, based on compensation per hour from national accounts data, from IMF 2017 Recent wage dynamics in advanced economies: drivers and implications, October *World Economic Outlook*, Ch.2.
[82] RBA 2018*, Statement on Monetary Policy*: February 2018, pp.64-65.
[83] Australian Treasury 2017 Analysis of wage growth, Treasury working paper, November, p.2

2017, compared with the 10 year average of 2.9%. In the ACTU's view the wages growth results may have been even poorer without the NMW increase that was granted in 2017.

Figure 32: Various measures of wages growth, 2017, per cent



Source: Average compensation per employee is from ABS 5206, quarterly, and 6401. Wage Price Index from ABS 6345. AWOTE and AWE from ABS 6302. Median earnings from 6310, 6333. Minimum wage from past FWC/AFPC/AIRC decisions and Bray (2013). Average annualised wage increases in federal enterprise agreements ('EBAs') from the Department of Employment Trends in Federal Enterprise Bargaining. Rates of change are ACTU calculations.

137. The wage price index (WPI) is a measure provided by ABS which also informs on wage movements. "The WPIs measure changes over time in the price of wages and salaries unaffected by changes in the quality or quantity of work performed."[84]

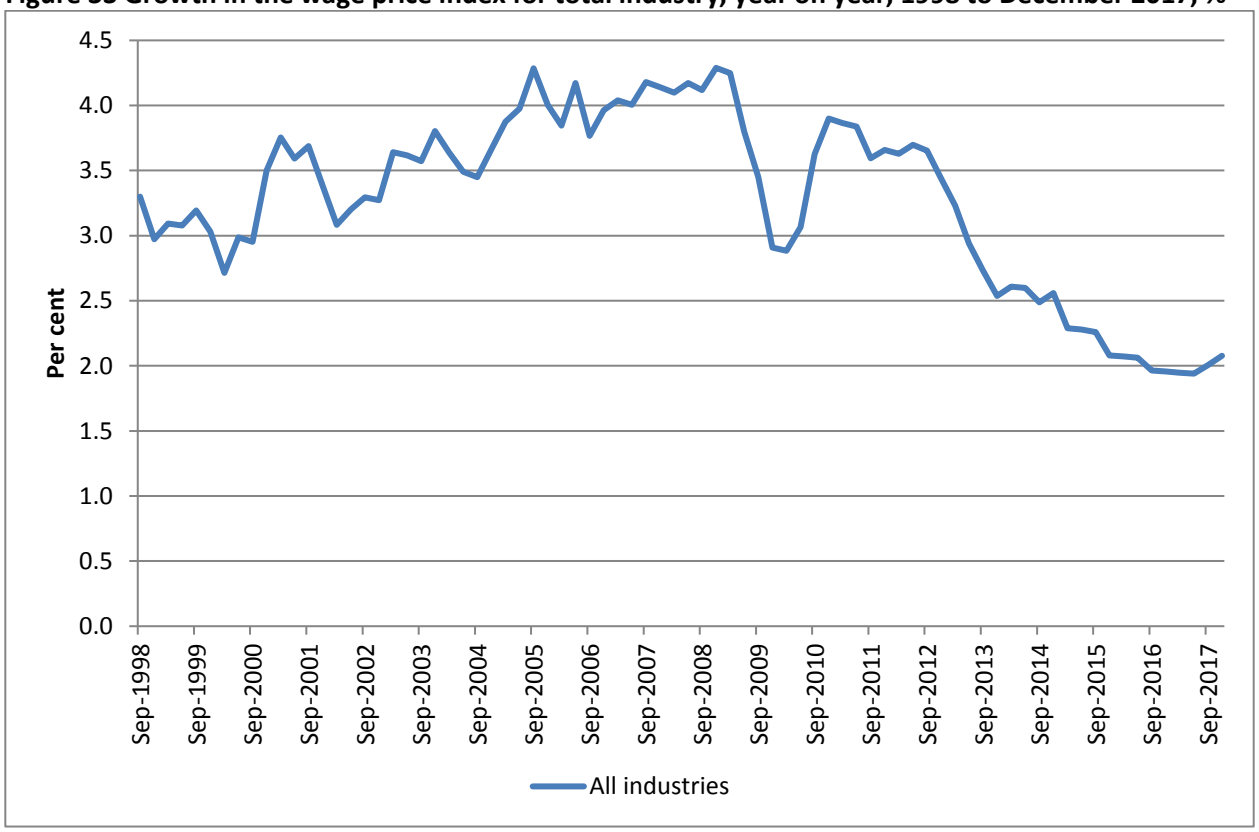
138. The Wage Price Index rose by only 2.1% in the year to December, compared with 1.9% the year before, still very low, and the highest rate in 18 months. The growth rate of the WPI for total industry is shown in Figure 33. The slow growth of 2.1% for 2017 was beleaguered by slow growth in both the public and the private sectors.

139. The growth rates of WPI in public and private sector are shown in Figure 34, with a private sector wpi growth rate of 2.0% over 2017 up from 1.8% the year before, and for the public

[84] http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6345.0Explanatory%20Notes1Dec%202016?OpenDocument

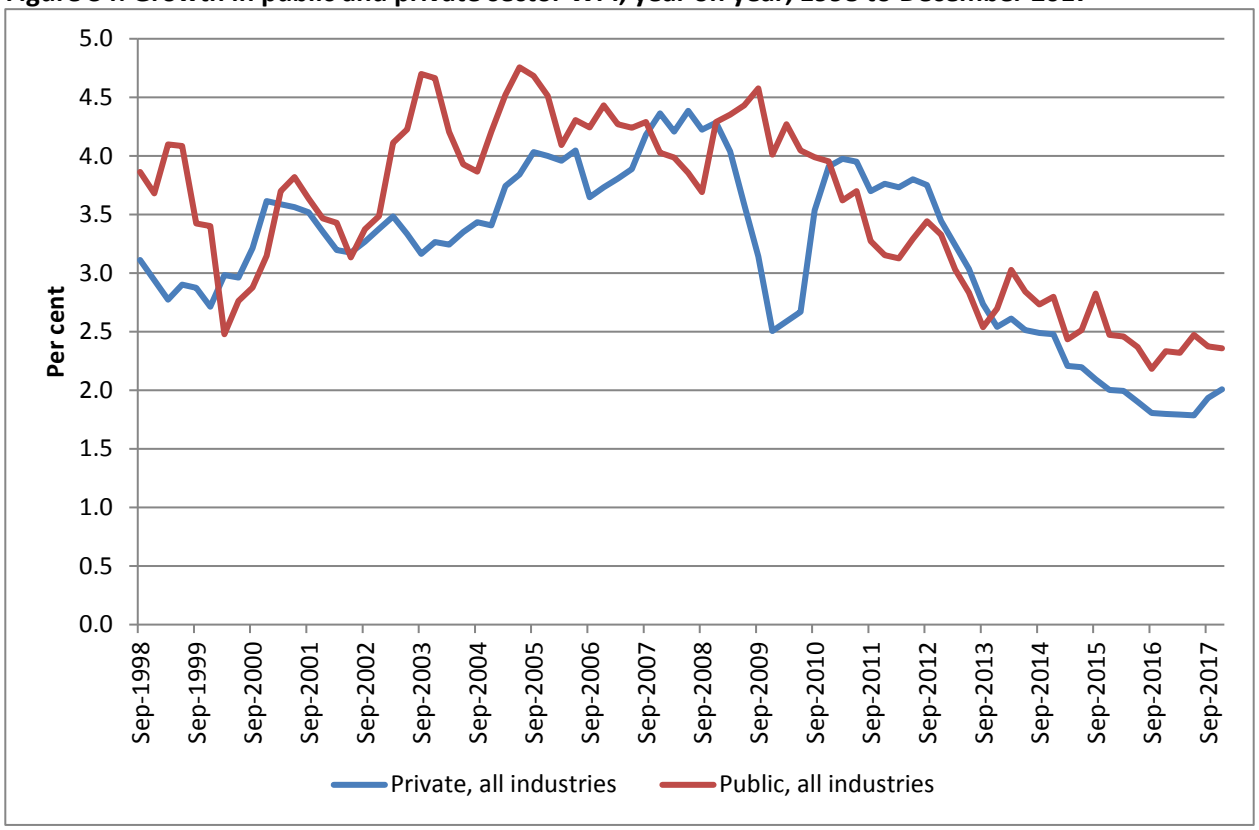
sector 2.4%, up from 2.3%. These results can in no way be viewed as portends of an upward trend. Even if they were to as the RBA is suggesting, then rates would still be very slow to pick up. This is particularly as institutional forces do not favour that. This leaves the increase in the minimum wage as the chief means to increase wages.

Figure 33 Growth in the wage price index for total industry, year on year, 1998 to December 2017, %



Source: ABS 634509b

Figure 34: Growth in public and private sector WPI, year on year, 1998 to December 2017



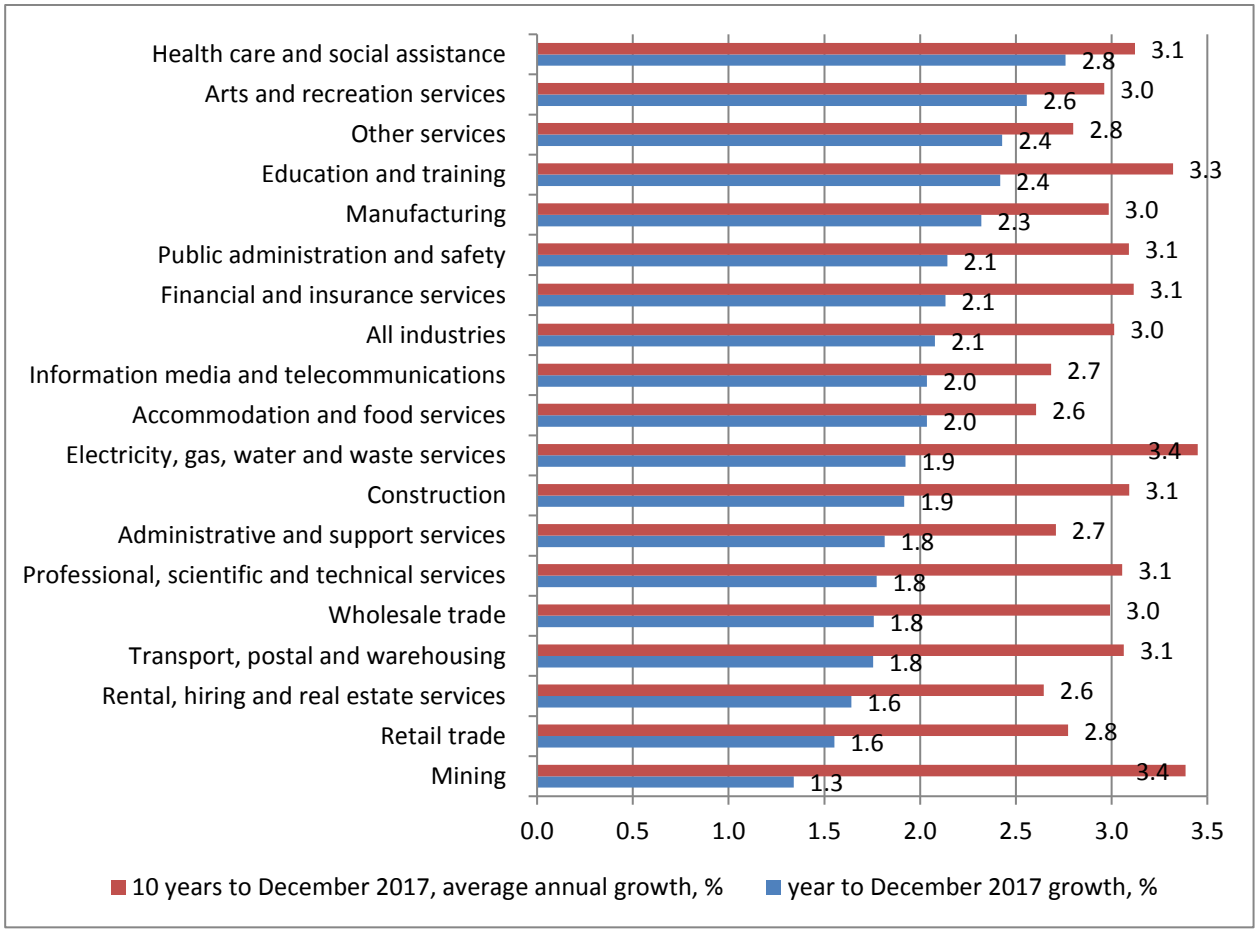
Source: ABS 634509b and ACTU calculations.

140. As shown in Chart 5.2 of the *Statistical Report – AWR 2017-18,* wages growth continues to slow down across the board according to the Wage Price Index.[85] Wages growth in each industry for the year 2017 was below the industry's long-run average, as shown in Figure 35, which ranks wpi growth by the current year.

141. The wpi grew particularly slowly in 2017 relative to the last 10 years in the award reliant industries, Accommodation and food services (2.0%), and Retail trade (1.6%) compared with the 10 annual averages.

[85] FWC 2018 *Statistical Report – AWR 2017-18*, Chart 5.2 p.21

Figure 35: WPI growth 2017 and the 10 year annual average WPI, by industry, per cent per year.

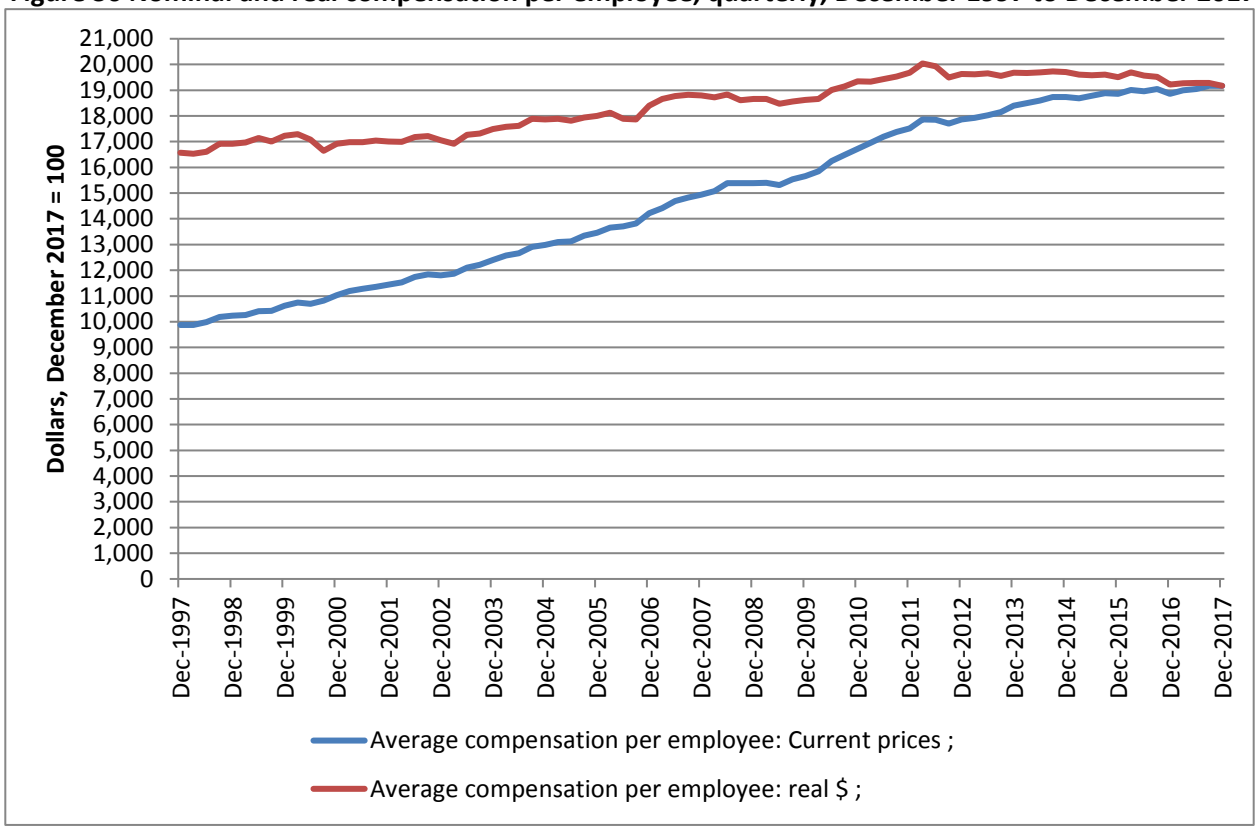


Source: ABS 634509b and ACTU calculations

142. Another indicator of wage growth is average compensation per employee given by ABS, referred to in real terms for comparison with other wage measures in Figure 32.[86] Figure 36 shows that quarterly real compensation per employee has declined on trend over nearly six years, since March 2012. It is down to what it was eight years ago, at December 2010, soon after the GFC.

[86] ABS 5206024

Figure 36 Nominal and real compensation per employee, quarterly, December 1997 to December 2017



Source: ABS 5206024, 6401 and ACTU calculations

143. It is the ACTU's view that the data which show both weak inflation and weak wage growth across a wide range of measures provide strong support for an increase in the minimum wage.

3.15 The economic outlook

144. The Australian economy has grown 2.4% for the year 2017, just under the RBA forecast of 2.5% for 2017.[87] This may be influenced by growth in wages being even slower than anticipated.

145. We anticipate that Australia's economy this year will grow at a rate similar to last year, as the non mining part of the economy is not doing badly.

146. However, growth in the economy is unlikely to improve as a result of corporate tax cuts. The ACTU notes that companies with turnovers up to $10 million are paying 27.5 per cent from July 1, 2017. We do not expect that small business which is paying much less tax already than the corporate tax rate will suddenly find improved demand for their output.

[87] Table 6.1, p.53, RBA 2018 *Statement on Monetary Policy* February

147. The approach of improving economic growth through tax cuts has debunked decades ago. Corporate tax cuts have not been found to bring forth additional investment or wage rises.

148. Nor have tax cuts been found to attract business internationally. We do not observe that higher taxing countries find it more difficult to attract foreign investment or engage in international business activities.

149. The indicators of the labour market suggest that it will continue to improve. Forward-looking indicators of the state of the labour market, including job vacancies have improved in recent months. Forecasts from the IMF and OECD expect the unemployment rate not to rise. However, the slow growth of wages may not encourage the reduction of idle capacity.

150. Whatever circumstances arise, we maintain that the minimum wage increase we request is warranted, and that a higher increase is likely to benefit the economy more through reducing inequality and raising aggregate demand.

3.15.1 The economic growth outlook

151. The 2.4% growth in GDP for the year to December 2017 released on 7 March 2018[88] was just under the RBA forecast of 2.5% for the year. We would expect the growth in GDP to be similar in 2018 and 2019, and to be at the lower end of the RBA forecast range of 2.75% at June 2018 to 3.5% for December 2019.

152. Forecasts are *ipso facto* subject to a multitude of factors that can affect the Australian economy, including international developments, domestic policy decisions and the ephemeral confidence of consumers and business. The Reserve Bank is displaying transparency about the reliability of its forecasts.[89] The RBA indicates can it only be 70% sure that GDP growth in 2018 will be somewhere between 2.0% and 4.6%, based on its previous forecasts compared with actuals.[90]

[88] ABS Cat 5206.0
[89] James Bishop and Natasha Cassidy 2017 Insights into low wage growth in Australia *RBA Bulletin* March Quarter, p.13, Graph 1
[90] Graph 6.3, p.62, RBA 2018 *Statement on Monetary Policy* February.

153. The GDP result was also within Treasury forecast of 2.0% for 2016-17 and 2.5% for 2017-18. The Budget forecast was downgraded in the MYEFO of December 2017, from 2 ¾% to 2 ½%.[91]

154. The OECD forecast of November 2017 for world GDP in 2017 is raised again, at 3.6% for 2017 and 3.7% in 2018.[92] Australia's growth figure of 2.4% for 2017 was just under the projected GDP of 2.6% in the *OECD Economic Survey of Australia 2017*.[93] The OECD country outlook for November 2017 said "the economy will continue to grow at robust pace."[94] It expects 2.8% in 2018 and 2.7% in 2019. Australia would have to advance in the OECD's rankings of growth forecasts ver time to achieve these growth rates, from 24th in 2017 to 15th in 2019, while moving further above the OECD average.

155. The IMF Article IV consultation with Australia of February 2018 estimated a 2.2% growth rate for Australia in 2017, slightly below the actual of 2.4%, and has forecast 2.9% for 2017 and 3.1% for 2018.[95]

156. *The Economist* conducts a regular poll of private forecasters, most of which are major international financial institutions. In the February 2018 poll, Australia's actual GDP growth of 2.4% for 2017 was slightly above the forecasters' average of 2.3% for that year, and within the range of 2.2% to 2.5%. These forecasters expect the Australian economy to grow by 2.8% in 2018, higher any other of 16 high income countries except the Netherlands and South Korea.[96] Based on GDP growth and other indicators for Australia in 2017 the ACTU view is that these forecasts are within the range and possibly optimistic due to the impact of low wage growth.

157. The *Sydney Morning Herald* (SMH) Business Day surveys a panel of 26 Economists from a range of backgrounds and institutions.[97] The edition of 24 January 2018[98] provides the data for Figure

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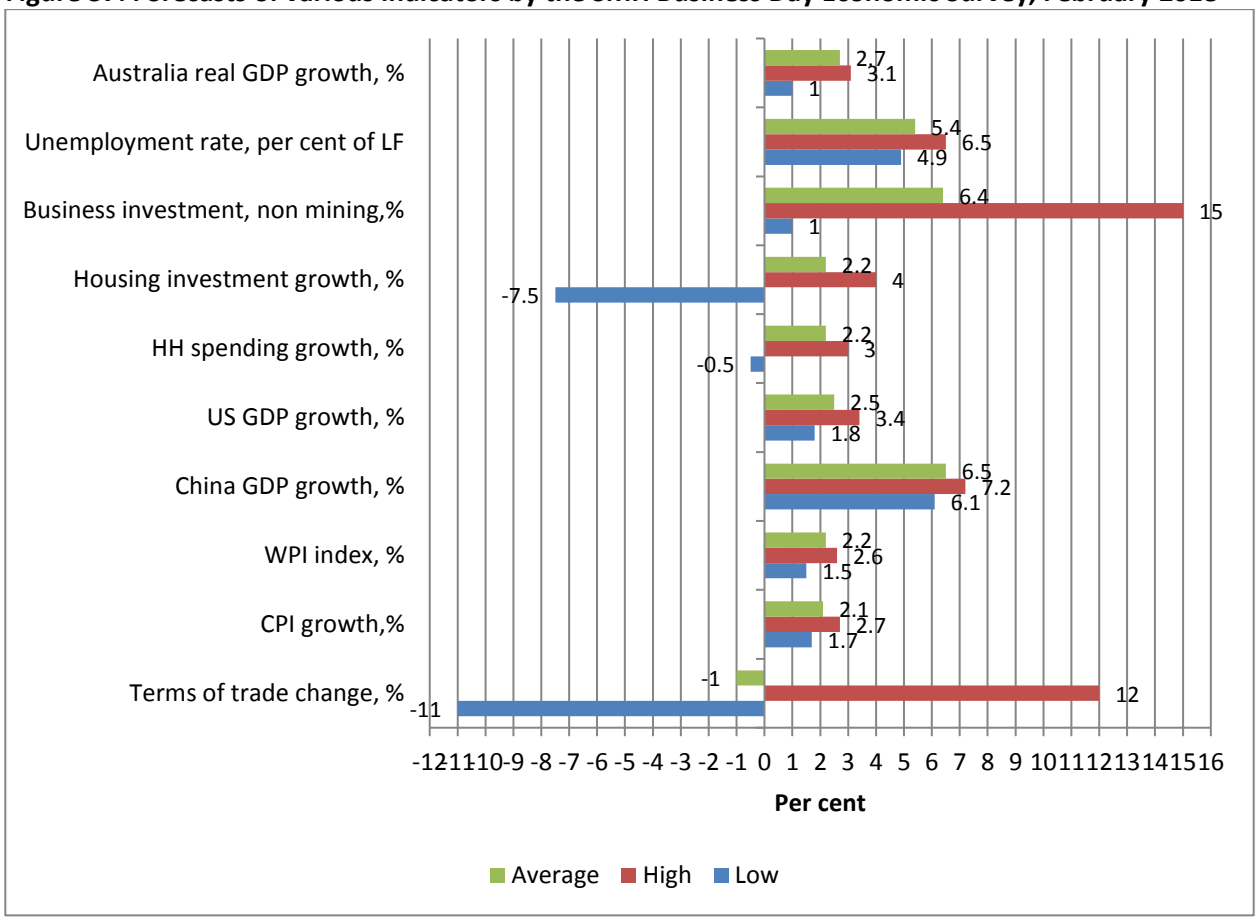
[91] The Treasury 2017 *MidYear Economic and Fiscal Outlook* December, p.3.
[92] http://www.oecd.org/eco/outlook/economic-outlook/ November 17, accessed 9 March 2018.
[93] http://www.oecd.org/australia/economic-survey-australia.htm 2017,p.12
[94] http://www.oecd.org/eco/outlook/economic-forecast-summary-australia-oecd-economic-outlook.pdf November 2017
[95] IMF Article IV consultation, *Country Report* no. 18/44 p.4, p.42 http://www.imf.org/en/Publications/CR/Issues/2018/02/20/Australia-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-45631
[96] Source: The Economist, 11 March 2017. Available from: https://www.economist.com/news/economic-and-financial-indicators/21736587-economist-poll-forecasters-february-averages The forecasters included in the poll are Bank of America, Barclays, BNP Paribas, Citigroup, Commerzbank, Credit Suisse, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, ING, Itau BBA, JPMorgan, Morgan Stanley, RBS, RB of Canada, Schroders, Scotiabank, Société Générale, Standard Chartered, and UBS.
[97] Margaret McKenzie, at the ACTU is one of the contacted economists.
98 https://www.smh.com.au/business/the-economy/dismal-but-no-disaster-how-the-businessday-economic-panel-sees-2018-20180202-p4yza6.html Peter Martin, 3 February 2017 accessed 9 March 2018. The panel are Stephen Anthony, Sally Auld, Paul

37, which summarises the forecasts of the panel for the year 2017. The Figure shows the lowest, highest and average (mean) forecasts by the panel. While the wide range within many forecasts is evident, many are not very different from 2017. The real GDP growth forecasts will not have taken into account the slightly slower than forecast growth in GDP of 2017, because they were made without the knowledge of the 2017 figures released by ABS on 7 March 2018. Unemployment is forecast to be slightly lower than 2017.

158. We maintain that the outlook for the economy remains sound, given the GDP growth around forecast for 2017, and the slightly improved rate of unemployment. Yet the very slow growth in wages is likely to act as a brake on the economy, as widely recognised.

Figure 37: Forecasts of various indicators by the SMH Business Day Economic Survey, February 2018



Source: SMH Business Day Scop survey, published 3 February 2017 https://www.smh.com.au/business/the-economy/dismal-but-no-disaster-how-the-businessday-economic-panel-sees-2018-20180202-p4yza6.html and ACTU calculations

Bloxham, Michael Blythe, Paul Dales, Besa Deda, Ric Deverall, Bill Evans, Shane Oliver, Su-Lin Ong, Alan Oster, Richard Yetsenga, Janine Dixon, Mardi Dungey, Saul Eslake, Renee Fry-McKibbin, Steve Keen, Guay Lim, Jakob Madsen, Bill Mitchell, Neville Norman, Stephen Koukoulas, Sarah Hunter, Margaret McKenzie, Tim Reardon, and Julie Toth.

3.1.15.2 The outlook for the labour market

159. The RBA in its *Quarterly Statement of Monetary Policy* for February 2018 says that "the profile for the unemployment rate is slightly lower than forecast in the November *Statement*, reflecting a lower starting point and the information provided by near-term leading indicators. However, the forecasts suggest that there will stil be some spare capacity in the labour market at the end of the forecast period.'[99] We posit that the level of GDP growth and the downward trend in unemployment over 2017 suggest that the unemployment rate may improve through 2018 and 2019. However, spare capacity may be sustained as reflected in other measures such as underemployment.

160. The Reserve Bank of Australia's projections indicate that the unemployment rate will be at 5 ¼% over 2018, ranging from about 4.8% to 5.8%, its 70% confidence interval [100]

161. The OECD's most recent forecast of unemployment, in its Economic Outlook of November 2017, was of 5.5% for 2017, and the actual rate was 5.5% at December 2017.[101]

162. The IMF estimated an average unemployment rate of 5.7% for 2017 prior to the actual result of 5.5% at December, and forecast 5.3% for 2018 in a revision downwards from 5.7% previously forecast.[102] The IMF said that "Despite declining labor market slack, annual nominal wage growth has remained weak, consistent with the experience of changes in this relationship in other [Advanced Economies]. A 3.3 percent increase in the statutory national minimum wage in mid-2017, which directly affects about 20 percent of the employed and could indirectly affect another 5 percent, has not yet had a discernible impact on aggregate wage statistics."[103]

163. Employment has grown 403,100 or 3.3%, in original terms, in the year to December 2017, an unanticipated increase, as indicated in Chapter 5.1.1. The RBA expects this "surprisingly strong " employment growth to moderate over the next few years. Employment growth was the

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[99] RBA 2018 *Statement on Monetary Policy*, Feb., p.64.
[100] RBA 2018 *Statement on Monetary Policy*, Feb., Chart 6.4 p.64.
[101] http://www.oecd.org/eco/outlook/economic-forecast-summary-australia-oecd-economic-outlook.pdf November 2017, p.102
[102] IMF Article IV consultation, *Country Report* no. 18/44 p.5, p.42 http://www.imf.org/en/Publications/CR/Issues/2018/02/20/Australia-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-45631 .
[103] IMF Article IV consultation, *Country Report* no. 18/44 p.5

strongest in household service industries with health care and social assistance alone accounting for one quarter of the increase.[104]

164. The ratio of unemployed persons per vacancy has fallen from 3.7 at November 2016 to 3.1 at November 2017 in original terms, from ABS data. The participation rate has increased from 64.8% at December 2016 to 65.7% at December 2017.

165. At the same time the ABS measure of job vacancies has increased by 16.3% over the year to November 2017, after 16.0% for the previous year (in original terms)[105]. The data is based on a survey of businesses.

166. The number of job advertisements (as measured by the ANZ series[106]), including internet and newspaper has grown by 11.4% over the year to December 2017, up from 4.6% over the previous year, seasonally adjusted. Based on previous experience, the growth in job advertisements, can be taken as an indication that employment will continue to grow.

167. As indicated in Chapter 5.1.2, the unemployment rate has fallen slightly and the expectation is that it is unlikely to worsen given the relative strength of other macroeconomic indicators.

168. There is no reason to think that the pace of economic growth and the state of the labour market will not continue over 2018. Even if this is not the case, the minimum wage increase we propose is warranted to improve the conditions of those with low pay, to reduce inequality and to increase aggregate demand.

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[104] RBA 2018 Statement on Monetary Policy, February, p.34.
[105] ABS Cat 6354
[106] ANZ Australian Job Ads http://www.media.anz.com/phoenix.zhtml?c=248677&p=irol-jobad&nyo=0 accessed 9 March 2018

4. RELATIVE LIVING STANDARDS AND THE NEEDS OF THE LOW PAID

169. In its decision of 2016-17 the Panel acknowledged "the need to periodically assess the medium and long-term consequences of successive Review decisions and recognised that these have both an immediate and a cumulative effect."[107]

170. The relative living standards of workers reliant on minimum wages are still declining. They have declined on trend for many years throughout the 1990s, 2000s and early 2010s. They have declined through periods of economic boom and slowdown, and declined under the AIRC and AFPC and FWA/FWC. Our proposed increase in minimum wages is intended to improve the minimum wage bite, and contribute to recovering and improving the relative living standards of low paid workers.

171. The Panel in its decision of 2016-17 said that "the minimum wage bite is an important indicator of relative living standards and wage inequality".[108] Later in this chapter, we examine the current and recent trends in inequality and discuss their impact.

172. The growth in the median nominal wage over the last two years has fallen so much it is lower than the increase in the minimum wage and hence the minimum wage bite based on the median has risen. It should not be the case that minimum wages adjustments result in either a falling, or roughly stable, minimum wage bite. In our view, the living standards of low paid workers are too low relative to other workers. Current minimum wage levels, in our view, provide neither a fair nor relevant safety net. The increase we propose would begin to reverse the erosion of relative living standards and restore fairness. This also has the advantage of arresting the drag on growth resulting from increased inequality.

173. The 7.2 % increase we seek to the national minimum wage and modern award minimum wages in this Review would stop any further decline in the relative living standards of low paid workers and would help to restore some lost ground through moving toward the relative poverty line of 60% of median income.

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[107] FWC 2017 *Annual Wage Review 2016-17* [35]
[108] FWC 2017 *Annual Wage Review 2016-17* [60]

174. If our claim were awarded in full, and the average weekly ordinary-time earnings of full-time adults (AWOTE) increases by 1.5% this year, the NMW would increase from 44.3% to 46.8% of average full-time earnings. This would still be less than it was 2008 at the GFC.

175. If our claim were awarded and AWOTE growth increased by 2.0%, then the minimum wage bite would increase to 46.5%. If AWOTE growth picks up to 3.0%, the minimum wage bite would increase to 46.1%. These figures are still well below the 60% median measure for the relative poverty line.

176. Table 3 and Table 4 provide a more complete range of projections of what the minimum wage bite would be under different combinations of growth rates in the NMW and AWOTE, and the NMW and the median wage respectively in 2018.

Table 3 Minimum wage bite under different combinations of growth rates in NMW and AWOTE in 2018

		AWOTE growth in year to November, nominal, per cent							
$ NMW increase per week	% NMW increase	1.50	2.00	2.50	3.00	3.50	4.00	4.50	5.00
50.00	7.20	46.8	46.5	46.3	46.1	45.9	45.6	45.4	45.2

Table 4 Minimum wage bite under different combinations of growth in NMW and median in 2018

		Median growth in year to November, nominal, per cent							
$ NMW increase per week	% NMW increase	1.50	2.00	2.50	3.00	3.50	4.00	4.50	5.00
50.00	7.20	58.2	57.9	57.6	57.4	57.1	56.8	56.5	56.3

4.1 Who relies on minimum wages?

177. Our submission to the previous Review provided a snapshot of award reliance as measured by the ABS Employee Earnings and Hours (EEH) survey, which is conducted every two years and was last conducted in May 2016. As the data has not been updated, we do not reproduce our findings in the body of this submission. For reference purposes, we have included the relevant

segment of last year's submission as an annexure to this Submission, with some very minor alterations.

178. One issue that was not appreciated at the time we described those results was the significance of the re-coding that occurred between the surveys of 2014 to 2016, which the Government noted "..resulted in the shift of a significant proportion of employees in the NSW public sector to the Award only category…[and] also resulted in more recoding from collective agreements to awards". This highlights some issues with the extent to which the EEH is an accurate measure of reliance on safety net awards. The NSW public sector are covered by instruments described in NSW law as Awards, however in reality they are instruments that are collectively negotiated and set paid rates above those that might apply if safety net principles were applied.

179. Whilst we accept the Panel's benchmark of "low pay" is widely supported, we remain of the view that all workers dependent on the minimum wage and modern award minimum wages are low paid in the sense that they are paid the lowest wage that is legal to pay to them for the work they perform. All award classifications except the top two, C2(a) and C2(b) fall below two thirds of AWOTE, or $1035.94. This means the vast majority of award dependent fall below the low pay benchmark.

4.2 The decline in relative living standards

180. The ACTU welcomes the statement of the Panel that "The prevailing economic circumstances provide an opportunity to improve the relative living standards of the low paid and to enable them to better meet their needs. "[109]

181. Minimum wages have fallen sharply as a proportion of both average and median full-time earnings (the 'minimum wage bites') in the past few decades. The NMW was 61.9% of the median full time earnings at 1997. This has fallen overall to 55.1% at 2017. The fall in the minimum wage bite as a share of AWOTE is even starker, from 51.6% down to 44.3% at 2017. The average wage bite increased by 7.3 percentage points and median wage bite increased by 6.8 percentage points over the two decades from 1997 to 2017, as shown in Figure 38.

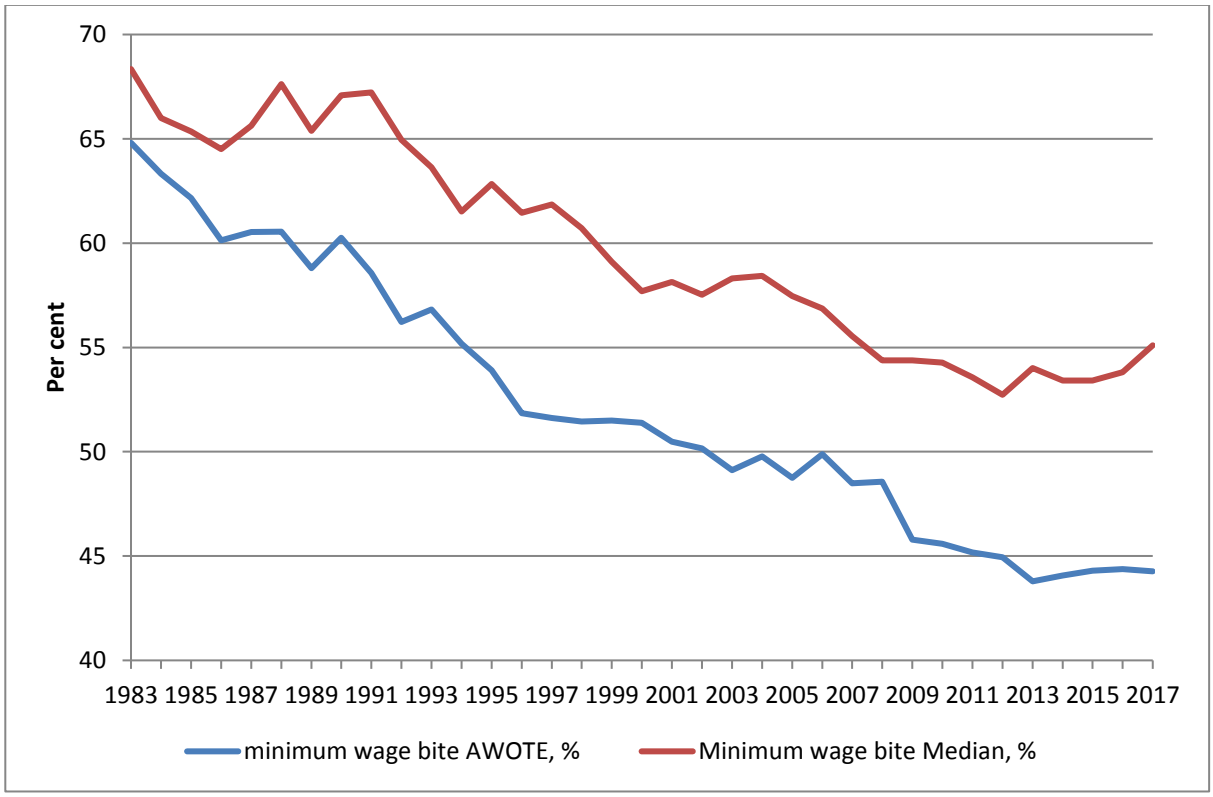
[109] FWC 2017 Annual Wage Review 2016-17 [91]

182. The average (mean) wage bite has flattened out in the four years to 2017 due to the reduction in mining related earnings at the top which affected average weekly earnings, not because the minimum wage itself has increased much, as shown in Figure 39.

183. The minimum wage bite out of median earnings has fallen to 2013 then increased slightly in the last two years. The median wage bite has moved up in the last two years because median earnings have grown even more slowly than the minimum wage, showing how the relative living standards of the bottom 50% have worsened relative to the top 50%.

184. The gap between the average (mean) wage bite and the median wage bite has opened up on trend over the last 30 years, also indicating widening income distribution. The recent widening difference in wage bite between the two measures is because the effect of the reduction of top earnings on AWOTE was still less than the reduction in earnings of the bottom 50 per cent of workers, not because of any increase in median earnings as shown in Figure 39.

Figure 38: Minimum wage bites, ratio of the NMW to AWOTE, ratio of NMW to median FT earnings, 1983 to 2017



Sources: Average full-time earnings is AWOTE from ABS 6302. Median from ABS 6333. NMW Bray 2013 and FWC. All series deflated by the CPI (ABS 6401). ACTU calculations.

185. Real Average Weekly Ordinary Time Earnings (AWOTE) for adults in Figure 39 have risen more slowly, by 34.8% between 1997 and 2017, than real GDP per annum which rose 86.5%. The real minimum wage (NMW) has risen by only 15.7% over the same twenty years. The real GDP increase of 86.5% over the last twenty years was more than twice as much as the increase in real AWOTE and almost five times that of the real NMW.[110]

186. Real GDP per capita rose 37.6% over the last twenty years, just faster than the increase in real AWOTE or the real median wage which increased 29.8%, and more than twice as fast as real NMW.

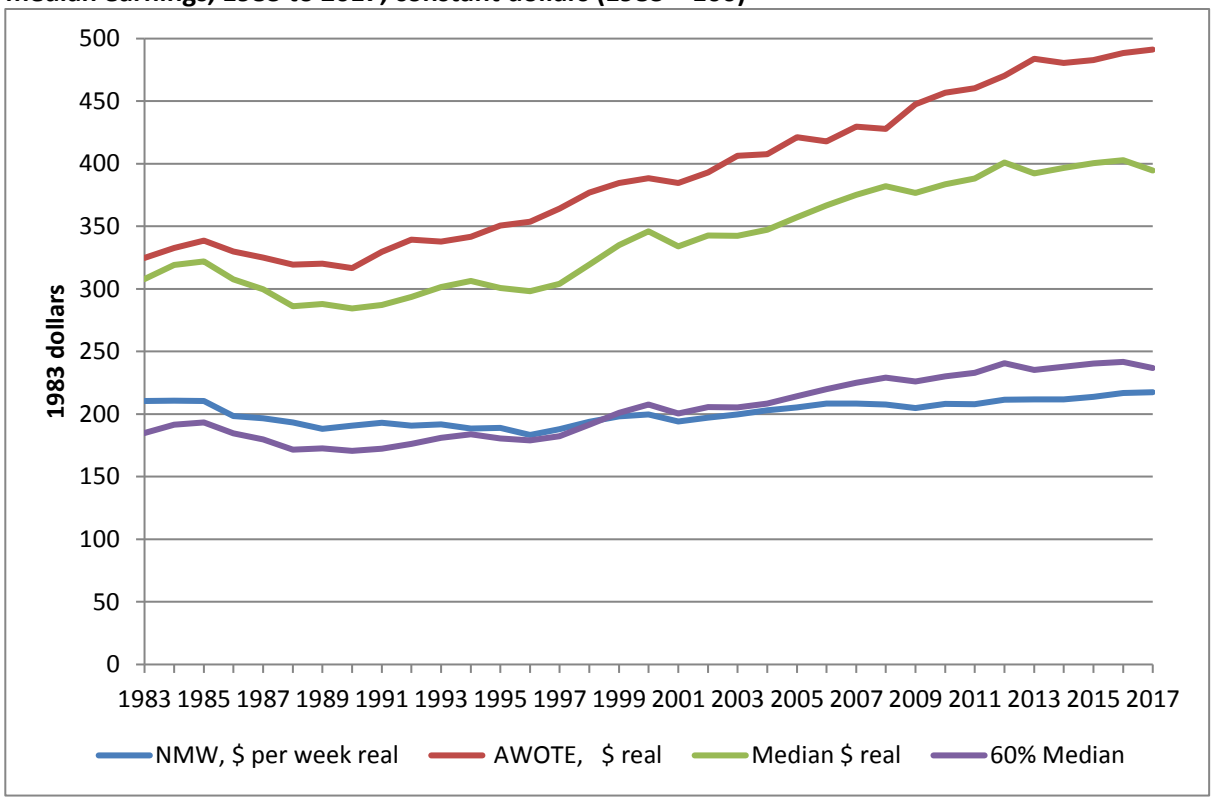
187. The NMW and median earnings have seriously lagged behind GDP and GDP per capita in terms of growth over decades, much more so in the case of the NMW. This indicates the widening of income distribution and the a substantial decline in the relative living standards of low paid workers over decades, assisted by the extremely low growth in the NMW compared with the average and median earnings measures.

188. After trending slowly upward over a long period, real AWOTE has flattened out in since 2013, increasing only a total of 1.5% in real terms by 2017. This is a strong indication of the effect of the end of the mining investment boom on earnings at the top. It is also perhaps due to the fall in employees paid by collective agreement. This is highlighted particularly because the rate of inflation has been low for some years now, 1.9% over the year 2017.

189. The real NMW has increased slightly more than half a per cent per year since 2013, but this has still left the minimum wage bite, when expressed as the NMW as a share of AWOTE, to increase barely at all, as shown in Figure 38.

[110] ABS 5606.

Figure 39: Average weekly ordinary time earnings, median full time earnings, the NMW and 60% of median earnings, 1983 to 2017, constant dollars (1983 = 100)



Source: Average full-time earnings - AWOTE from ABS 6302. Median ABS 6333. NMW from Bray (2013) and FWC. All series deflated by the CPI (ABS 6401). ACTU calculations.

190. Overall, the minimum wage bite out of AWOTE remains close to its lowest level on record, even with slow growth in the average wage which is keeping the bite up. The minimum wage bite out of AWOTE dropped particularly rapidly since the GFC and is nearly five percentage points lower than it was in 2008. It is still 1.5 percentage points lower than it was at the end of 2009, after the AFPC decided not to increase minimum wages. The median bite has picked up only 0.7 percentage points since 2009, mainly due to the low median wage. The gap in living standards between workers reliant on minimum wages and other workers is very close to as high as it has been. The Panel's decision is key to addressing that deficit for workers on low pay.

191. Without the Panel raising the NMW in each AWR to the extent that the minimum wage bite is increased, there is nothing to prevent earnings inequality, and prevalence of low pay, from continuing to increase into the longer term. We believe that in order to meet the objective or taking into account the relative living standards of the low paid, it is necessary for the Panel to take the lead in raising the minimum wage sufficiently in each AWR in order to do that.

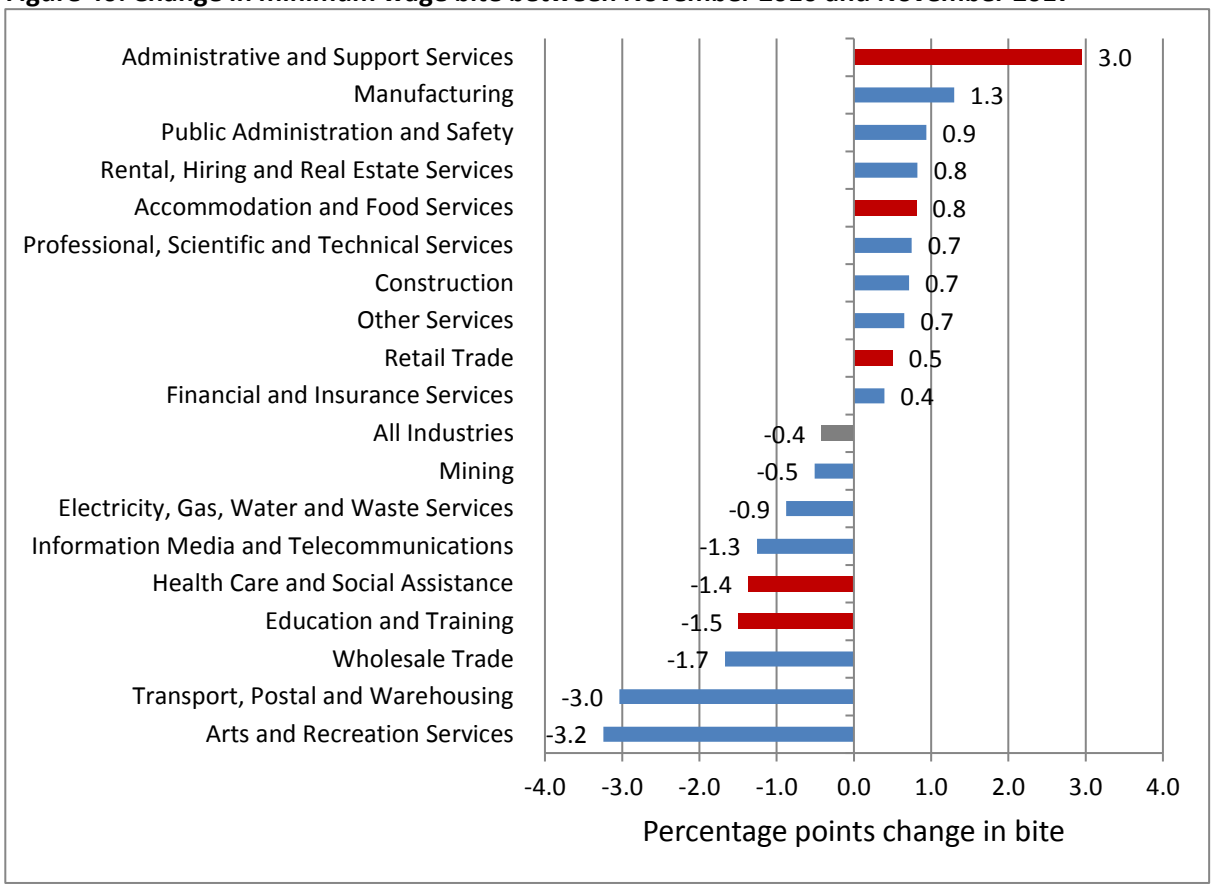
4.2.1 Relative earnings in the more award-reliant industries

192. Between 2010 and 2017 real AWOTE grew slowly for a total of 7.6%, but faster than real NMW which grew only 4.5%. Real median earnings grew only 2.9% which is why the median bite increased.

193. Figure 40 shows that the NMW fell relative to AWOTE in eleven industries out of the eighteen over the decade to November 2015. The seven industries where the minimum wage bite improved only showed improvements no better than around one percentage point, except for Administrative and support services where the minimum wage bite improved nearly five percentage points.

194. Minimum wages increased just faster than average earnings in the more award-reliant industries of Retail Trade and Accommodation and Food Services. Over the past seven years, the minimum wage share of AWOTE in Accommodation and Food Services increased by 0.8 percentage points, while in Retail Trade it increased 0.5 percentage points. The minimum wage bite fell by 1.4 percentage points in Health care and social assistance, and by 1.5 percentage points in the rapidly increasing and increasingly award dependent area of Education and training over seven years.

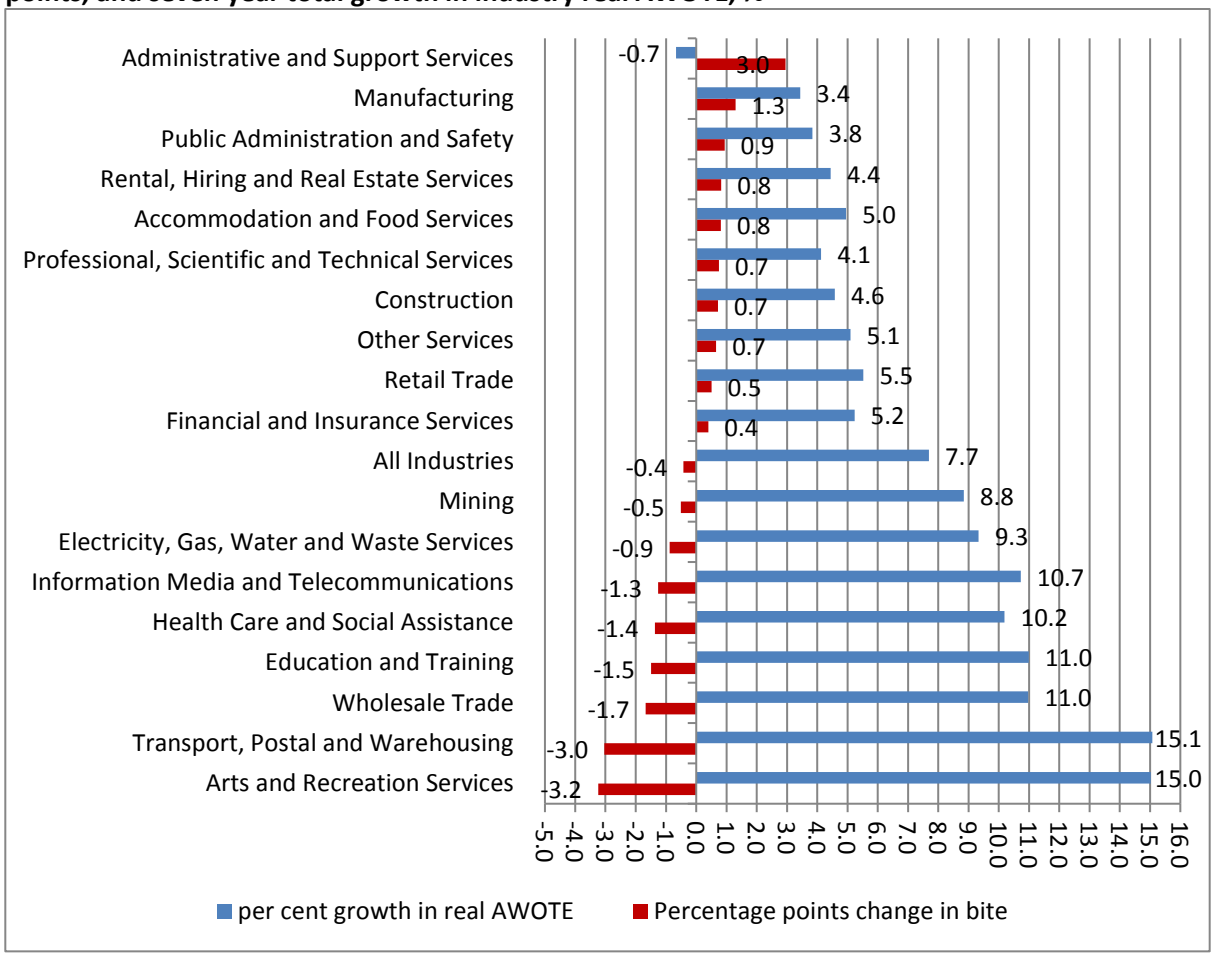
Figure 40: Change in minimum wage bite between November 2010 and November 2017



Sources: NMW from Bray (2013), FWC. AWOTE from ABS 6302, ACTU calculations

195. Where the NMW has been closer to keeping pace with average wages, it may be due to the slow growth in wages in the particular sector as shown in Figure 41. The industries with positive change in the minimum wage bite have low growth in real average wages over the seven years to November 2017, where in Administrative and support real AWOTE fell.

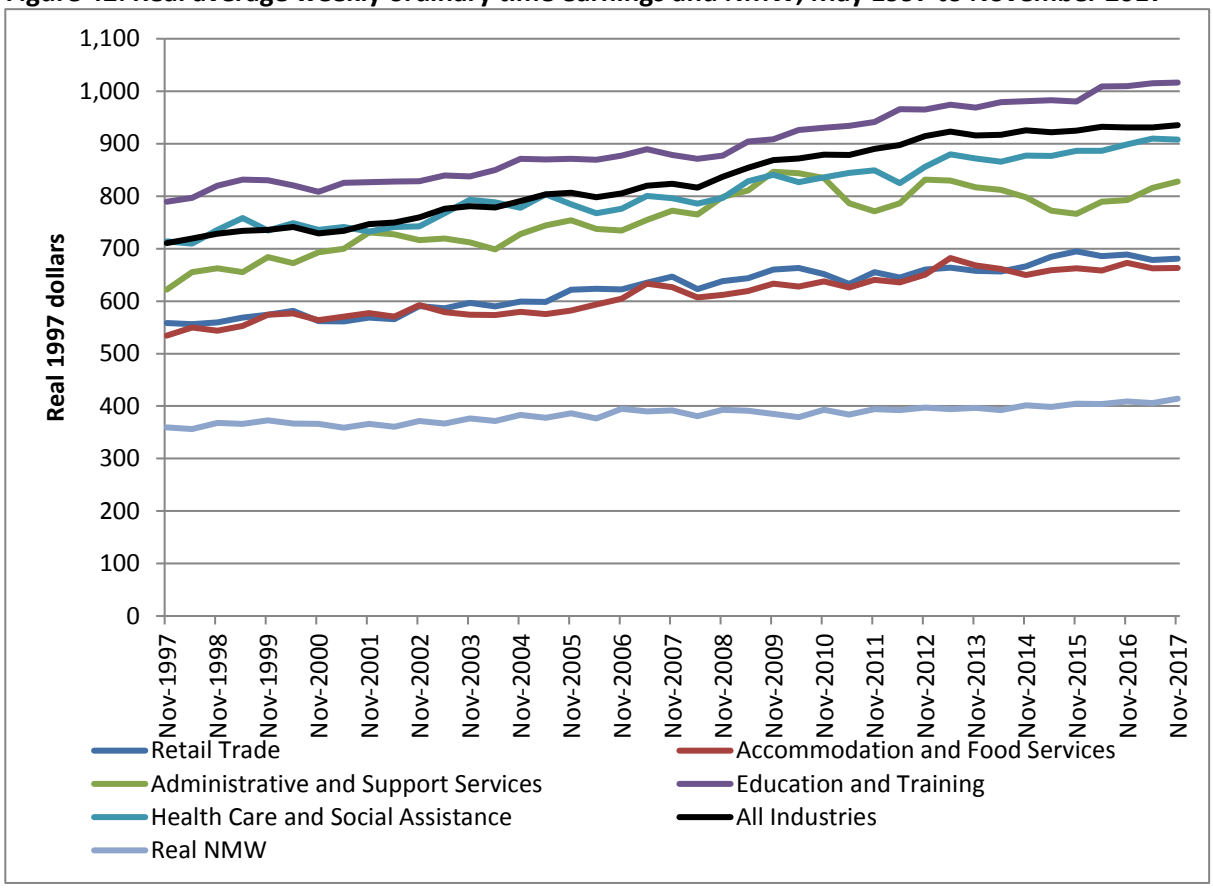
Figure 41: Change in minimum wage bite between November 2010 and November 2017, percentage points, and seven year total growth in industry real AWOTE, %



Sources: NMW from Bray (2013), FWC. AWOTE from ABS 6302, cpi from ABS 6401, ACTU calculations

196. It is also clear that in Retail Trade and Accommodation and Food Services industries, the two largest employers of workers reliant on minimum wages, while the bite has increased slightly over the seven years, the gap has still grown between minimum wage workers and other workers. This is the case even in industries in which the low-paid are typically employed.

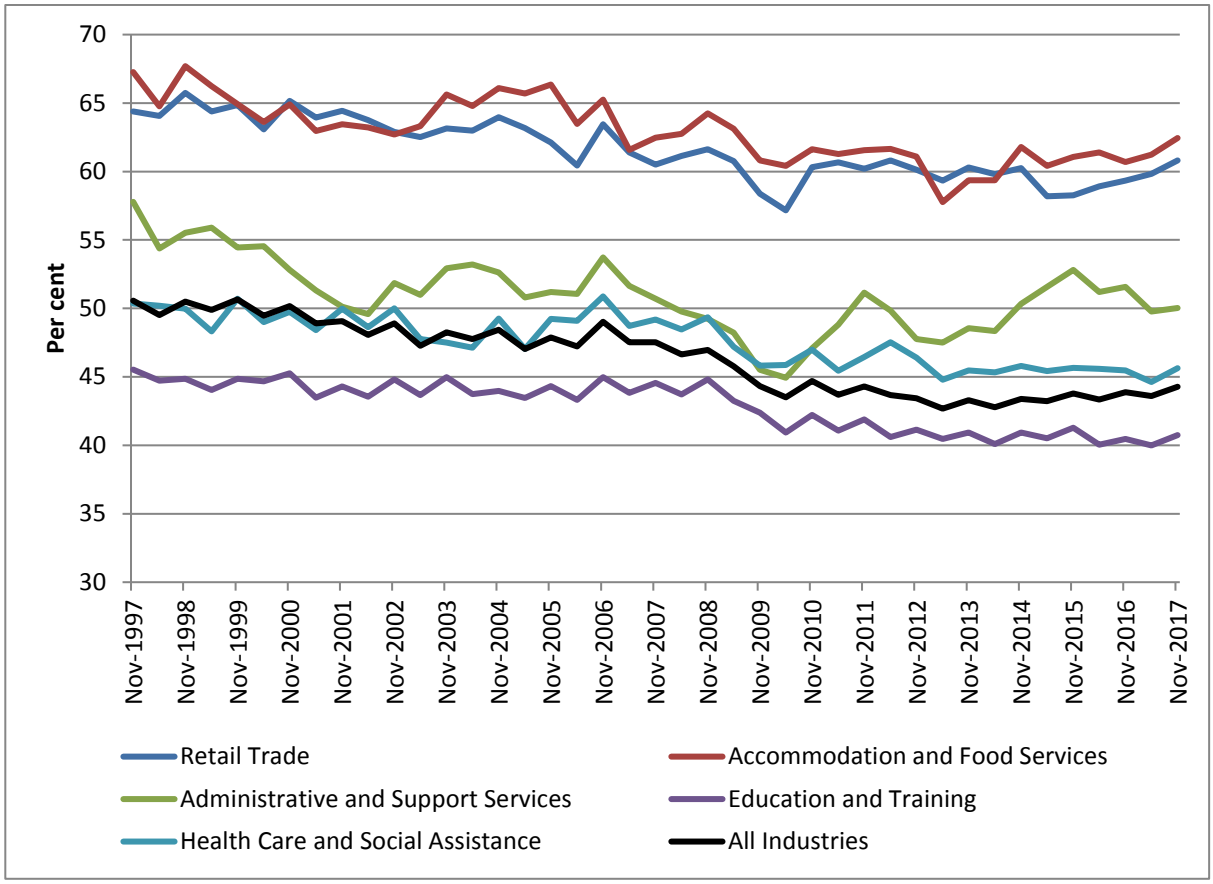
Figure 42: Real average weekly ordinary time earnings and NMW, May 1997 to November 2017



Sources: NMW from Bray (2013), FWC. AWOTE from ABS 6302, cpi from ABS 6401, ACTU calculations

197. It is clear from Figure 42 and Figure 43 that the fall in AWOTE is contributing to the increase in the bite in award reliant industries, particularly Retail trade and Accommodation and food services. This constitutes little or no improvement of overall living standards in the more award reliant industries in absolute terms, and a worsening relative to the rest.

Figure 43: NMW as a percentage of AWOTE, award reliant industries, November 1997 to November 2017



Sources: NMW from Bray (2013), FWC. AWOTE from ABS 6302, cpi from ABS 6401, ACTU calculations

198. Awarding our claim in this Review is vital in order to reverse the slow growth in minimum wages and the trend fall in the relative living standards of low paid workers, including other workers within their industries.

4.3 The Minimum Wage has fallen relative to relative poverty lines

199. The Panel said in its 2016-17 Decision that although poverty lines are not based on observed incapacity to meet needs, "We do, however, observe that contemporary poverty lines are in effect a measure of inequality at the lower end of the income distribution."[111]

200. Sixty per cent of median earnings is the measure of the relative poverty level used by the UK Low Pay Commission[112], and is accepted by other jurisdictions and international organisations.

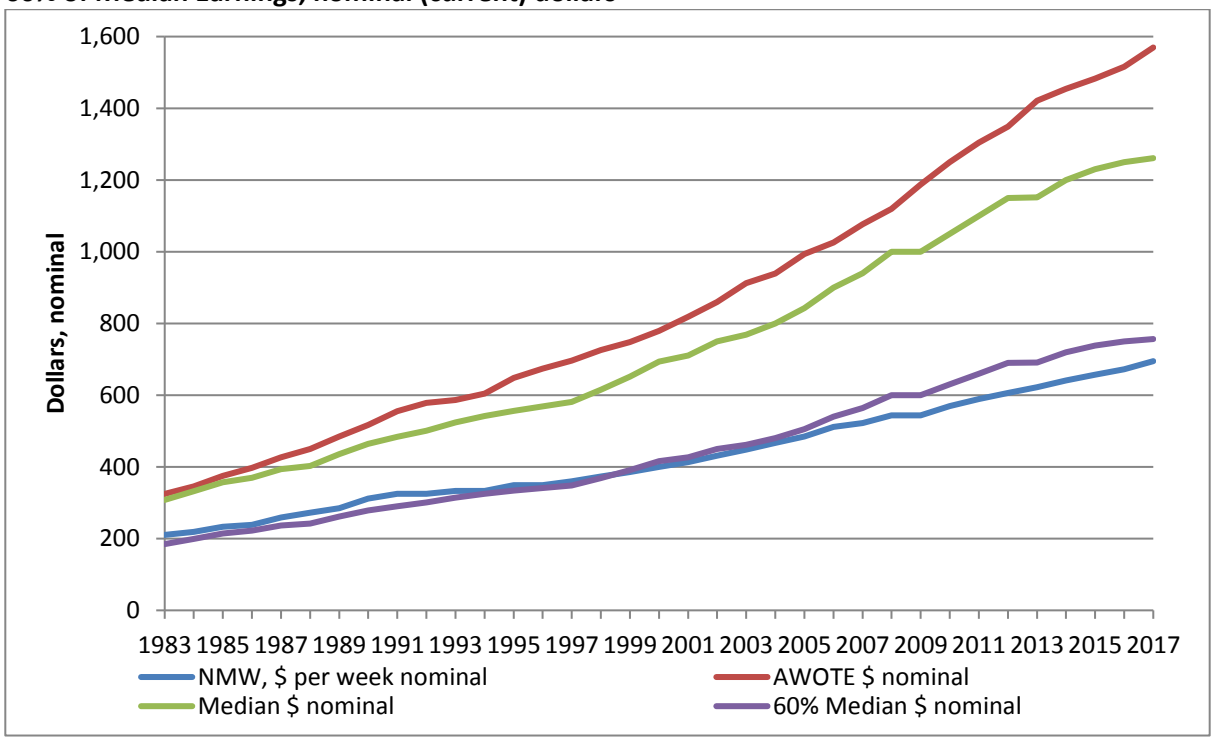
[111] FWC 2017 *Annual Wage Review 2016-17* [461]

[112] Marianne O'Neill and Feargal McGuiness 2016 National Minimum Wage Statistics UK House of Commons Library, Briefing Paper 7735, 13 October http://researchbriefings.files.parliament.uk/documents/CBP-7735/CBP-7735.pdf

The NMW has not kept pace with relative poverty thresholds such as 60% of the median, and has fallen below since 1999, nearly 20 years ago, as shown in Figure 39.

201. Figure 44 shows the NMW, AWOTE, median earnings and 60% of median earnings in nominal terms, and may be compared with the same data expressed in real terms in Figure 39. Thus both figures start at the same values in 1983 but the nominal data in Figure 44 increase much faster than the real data in Figure 39. The wide variation from year to year is apparent, including in the NMW. The variation from year to year is even greater in Figure 39 where the unforeseeable consequences of variations in the CPI become apparent.

Figure 44 National minimum wage, Average Weekly Ordinary Time Earnings, Median Earnings, and 60% of Median Earnings, nominal (current) dollars



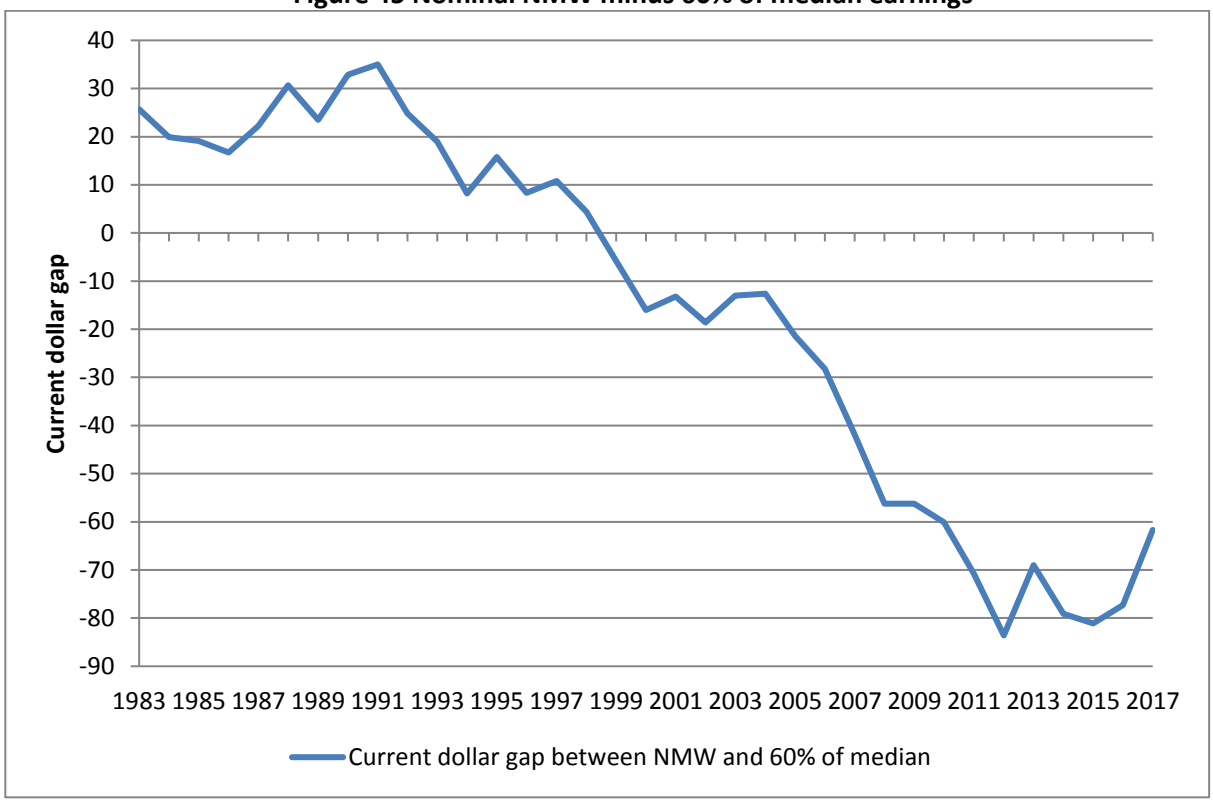
Sources: FWC and Bray (2013), ABS Cats 6302, 6310, 6333, and ACTU calculations

202. We also subtract 60% of nominal full time median earnings from the NMW for each year from 1983 to 2017, as shown in Figure 45, where 60% of median earnings is given by zero on the vertical axis. The gap at 2017was $61.70, the same as 7 years ago at 2010, having increased at 2017 due to a growth in the median which was even lower than the NMW increase.

203. It is estimated that the gap between NMW and 60% of nominal median earnings at 2017 would require an increase of around $62 per week or 9% in order for the current NMW to reach a level of 60% of the median equal to $756 per week in 2017. This amounts to around $1.62 per

hour. A practical proposal for an increase to the minimum wage by $50 per week (7.21%) would mark significant progress in moving toward that objective. This increase would amount to $1.32 an hour, to $19.60 per hour. This is within range of the minimum wage increases that other countries have put into place.

Figure 45 Nominal NMW minus 60% of median earnings



Sources: FWC and Bray (2013), ABS Cats 6302, 6310, 6333, 6401, and ACTU calculations

204. We can also examine whether the NMW and other award rates of pay result in employees' various types of households falling below the 60% of median level of disposable income, according to Table 8.6 in the FWC *AWR Statistical Report* 2017-18.[113] Table 8.6 of the Statistical Report shows that being in households with children, and being on higher award rates, is no guarantee of getting employees' households much over the relative poverty line. Sadly, the findings for 2016 continue to be similar to or worse than for 2011 and 2015.

205. According to Table 8.6, in 2016 across all awards from C14 to C4, all single earner couples, with and without children and with and without New Start Allowance (NSA), were either just above or below, 60% of median earnings for that household type. NSA got recipients just over the 60% line.

[113] FWC 2018 *Statistical Report – Annual Wage Review 2017-18*, p.46, Table 8.6.

206. Single parents working part time with two children were the most disadvantaged of all, being below the 60% of median threshold of $785.51 for all award rates of pay from C14 to C4. These were followed by single earner couples with no children and no NSA, who were below the 60% line at C14 and C10, and just on it at C4.

207. Single earner couples with two children without receiving the NSA were below the 60% line at C14 and C10, while if they had only one child without receiving an NSA they were below it at C14. Receiving an NSA put single earner couples with one or two children just above at all the awards shown.

208. The other household types, single adult, single parent with one or two children working full time, and dual earners working full time, with no, one or two children were all above the 60% for all awards shown.

209. However, only two types of households exceeded 1.5 times 60% of median earnings and only at C4. These were single adult (1.5), on $784.51, and dual earners with no children on $1231.68 (1.57).

210. No households of award only employees got near the AWOTE rates for their type of household. Moreover Table 8.6 shows that the circumstances have not shifted significantly between December 2011 and December 2016.[114] This give some context to the OECD's *Income Inequality Update* of November 2016 , which indicated that Australia has one of the smaller percentage reductions in market income inequality through taxes and transfers, thirteenth lowest out of 35 OECD countries.[115] The OECD publication *Bridging the Gap: Inclusive Growth 2017 Update Report* says that market inequality is likely to have been fuelled by "changing demands for work hours and skills yielding non-standard work and job polarisation" among other things.[116]

211. We note that there has, in past Reviews, been a significant contest regarding the appropriate "reference household" for the purpose of the Review. The contest appears to have been resolved on the basis that whilst a single adult provides the starting point for the assessment of

[114] FWC 2018 *Statistical Report – Annual Wage Review 2017-18*, p.46, Table 8.6
[115] https://www.oecd.org/social/OECD2016-Income-Inequality-Update.pdf Chart 5
[116] OECD 2017 *Bridging the Gap: Inclusive Growth 2017 Update Report* p.25

relative living standards and needs, the relative living standards and needs of other family types are also relevant and considered.[117] Further, the Panel has repeatedly recognised that if the low paid are forced to live in poverty, then their living standards are not being met. Accordingly, the Panel is not required (and does not) treat the needs of the low paid as being met merely because the reference household is not demonstrated in a particular Review to be living in poverty (under one or another measure of poverty). The extent to which the Panel addresses poverty is based on "The need to balance all statutory considerations"[118]:

> "An obvious example is found in the requirement to have regard to the performance and competitiveness of the national economy, including employment growth, when fixing the NMW and the likely impact on business, including employment costs and the likely impact on employment growth of varying modern award minimum rates. Additional increases in minimum wages directed to targeting poverty within single breadwinner families would extend to award-reliant employees without family responsibilities and those who were not sole wage earners within their household. This extended impact of the additional increase may raise potential employment effects, in circumstances where the risk of poverty among unemployed households is far higher than for any wage-earner household type. Other issues arise in respect of other statutory considerations."[119]

212. We submit that our Introduction to this submission, which invites the Panel to question, challenge and reject the assumptions embedded in the modern awards objective and minimum wages objective, are particularly relevant to the consideration of poverty and relative living standards.

4.4 Minimum wages and inequality

213. Last year's Annual Wage Review decision is clear that "a consideration of the relative living standards of the low paid is essentially a consideration about income distribution" It goes on to say that "The relevant living standards of the low paid will fall even if their absolute living standards remain constant but the living standards of other relevant groups rise." [120]. We show in this section that inequality has continued to increase on trend.

[117] See [2015] FWCFB 3500 at [323]-[344]
[118] [2015] FWCFB 3500 at [335]
[119] *Ibid*.
[120] FWC 2017 *Annual Wage Review 2016-17* [453].

4.4.1 Inequality of employee earnings

214. A key measure of earnings inequality relevant to Annual Wage Reviews is the 50:10 ratio – this measures the ratio of median earnings to earnings at the 10th percentile of the distribution. The higher this ratio, the more unequal is the bottom half of the earnings distribution. The 50:10 ratio among full-time non-managerial adult workers was 1.41 in 1990, then rose to 1.49 in 2000, then 1.57 in 2010, 1.58 in 2012 and 1.59 in 2016.[121]

215. Figure 46 and Figure 47 below show the earnings of full-time workers at the 90th, 50th (median), and 10th percentiles, as well as the ratios between these levels of earnings. The data are for the two yearly intervals available from ABS *Employee Earnings and Hours*, most recently at May 2016.

Figure 46: Real wages for full-time non managerial adults

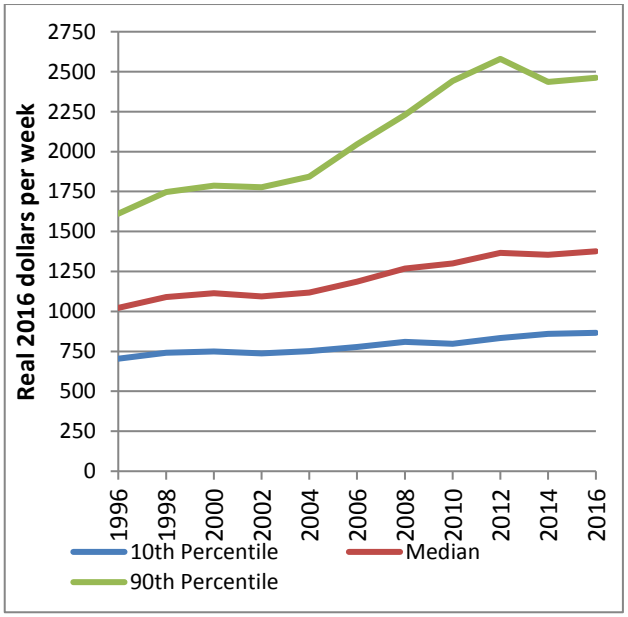
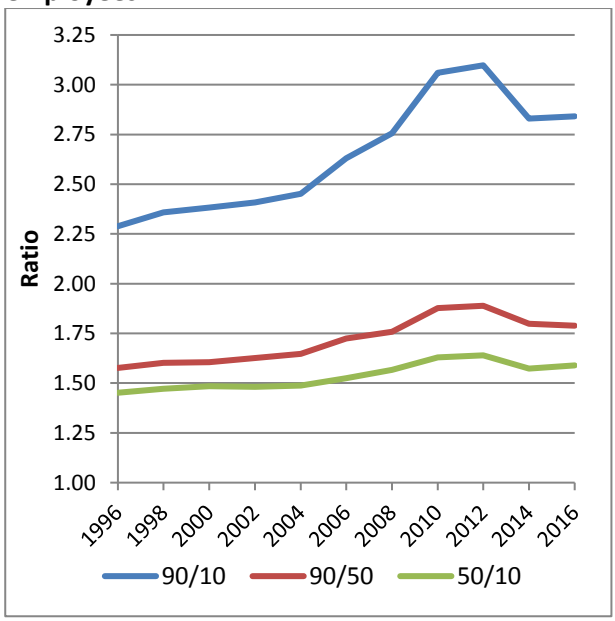


Figure 47: Measures of earnings inequality among full-time non-managerial adult employees



Source: ABS 6306 various years, 6401 and ACTU calculations. Earnings figures pertain to full-time non-managerial adult employees.

216. What is stark is the increase in real earnings in the 90th percentile relative to the median and 10th percentiles, with a bump in the 90th percentile through the mining investment boom, before appearing to move back to the trend increase and widening in distribution at 2014. Real earnings at the median rose slightly and then flattened out from 2012, and earnings at the 10th percentile rose very little from 2008. The ratios reflect that.

[121] ABS 6306 Cube 8, May 2016

217. We cannot expect taxes and transfers to perform the role of reducing inequality in Australia as indicated earlier[122], particularly as the policies of cutting taxes and transfers have proceeded apace. It is left to the minimum wage to improve relative living standards and conditions for the low paid.

218. The ACTU's submission to the AWR 2015-16 described the increase in income inequality over the past decade for lone person working-age households. It is the living standards of these households that the Panel has indicated are most relevant to Annual Wage Reviews.

219. Rising inequality is a crucial issue. A declining minimum wage bite exacerbates earnings inequality and is associated with higher incidence of low pay. It is clear that higher inequality of earnings among workers generally translates into higher inequality of incomes among households.

220. The maintenance of a fair safety net that takes into account relative living standards is not consistent with high and rising levels of inequality. Higher inequality is also undesirable for the potential effect it may have on health, social cohesion, and the economy. A higher minimum wage will assist in reducing inequality.

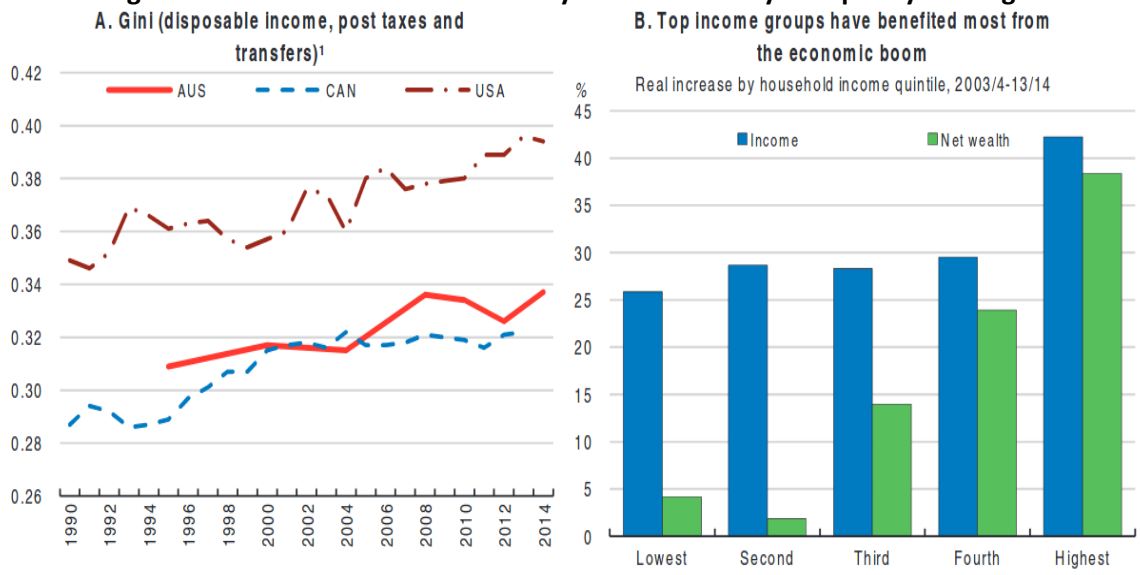
221. The most recent OECD *Economic Survey of Australia*, released in March 2017, had the following to say about income inequality in Australia:

> "Inclusiveness has been eroded. The Gini coefficient has been drifting up and households in upper income brackets have benefited disproportionally from Australia's long period of economic growth. Real incomes for the top quintile of households grew by more than 40% between 2004 and 2014 while those for the lowest quintile only grew by about 25%."[123]

222. The OECD also released the charts in Figure 48 that show inequality is rising and the top incomes have benefited disproportionately.

[122] https://www.oecd.org/social/OECD2016-Income-Inequality-Update.pdf Chart 5
[123] OECD (2017), "OECD Economic Surveys: Australia (Overview)", p7

Figure 48 OECD 2017 Economic Survey for Australia says inequality is rising



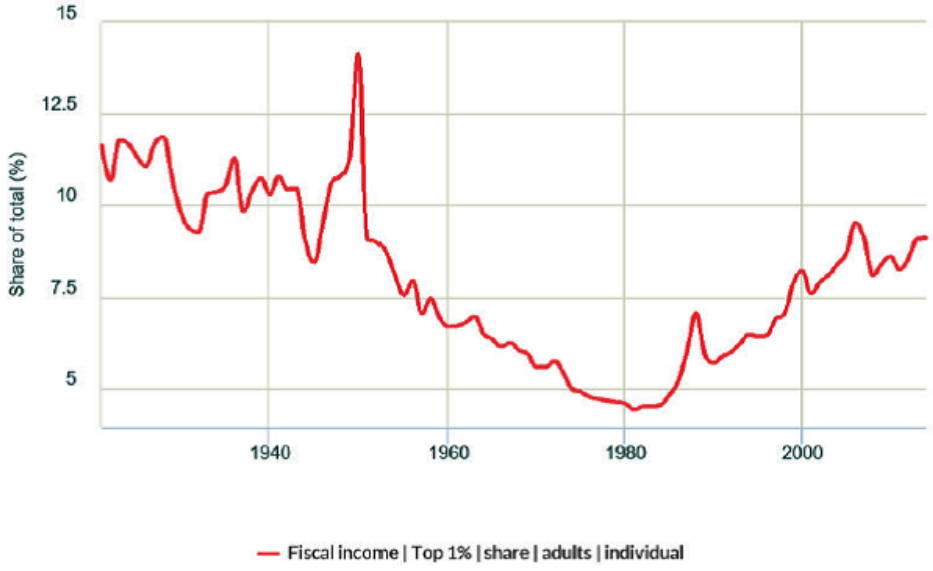
Source: OECD (2017) Op. Cit., p8

223. The charts in Figure 48 highlight that Australia has a lower level of inequality than the USA but has been rising over time. Last year's annual wage decision agreed that 'inequality remains relatively high in Australia, with a ranking of 12 out of 35 countries in terms of high inequality on this measure. Australia is substantially more unequal than a number of major European countries including France and Germany[124]'.

224. If we turn to the share of income held by the top 1% it is clear inequality is at historically very high levels as shown in Figure 49.

[124] [2017] FWCFB 3500 p119 Annual Wage Review Decision, 2016-17 at [148]

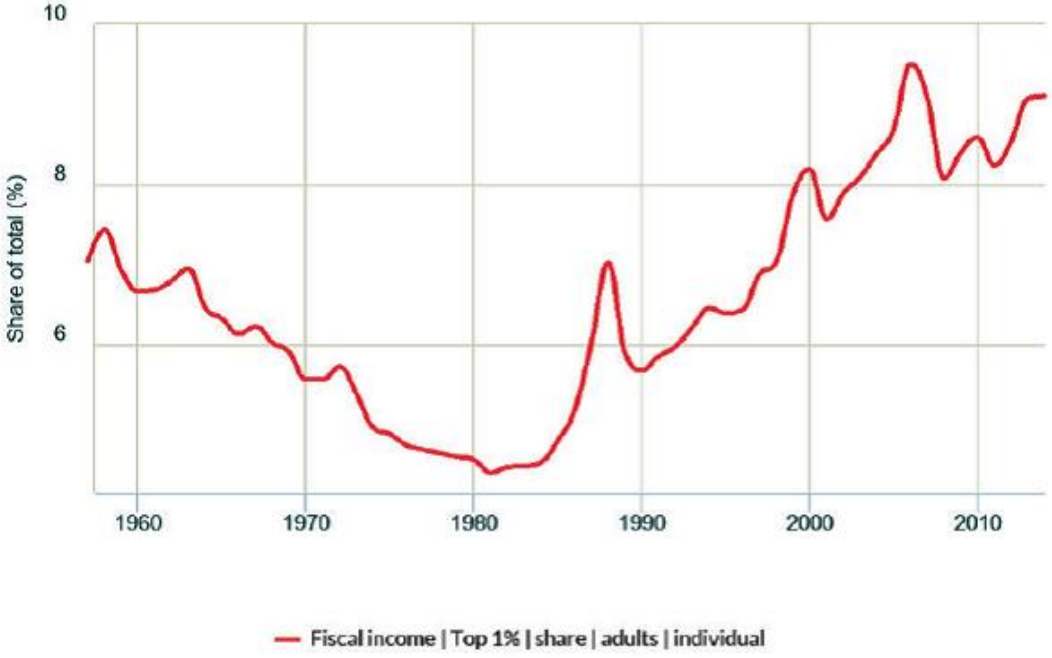
Figure 49: Top 1% fiscal income share, Australia 1921 - 2014



Source: World Wealth and Income Database

225. And the share of income held by the richest 1% of the population has been steadily rising since neoliberal approaches began to dominate economic policy in the 1980's as shown in Figure 50.

Figure 50: Top 1% fiscal income share, Australia, 1958-2014



Source: World Wealth and Income Database

226. Moreover, a comparison of minimum wage increases with ASX CEO pay increases over 20 years from 1996 shows a 121.3% increase in nominal minimum wages compared with 337.7% increase in ASX CEO reported pay including bonuses. Reported CEO pay increased from $1,180,000 for ASX50 (the available figure) to $5,164,722 for ASX 200 pay in 2016, whereas the minimum wage increased from $8.00 in 1996 to $17.70 in 2016.

227. For the year 2006 to 2016 the pay increases reported for ASX 200 were from $4,561,393 in 2006 to $5,164,722 in 2016, which is 'only' 13.4%, presumably reflecting the impact of the GFC, compared with an increase in the minimum wage from $13.47 to $17.70, or 31.4%.[125]

228. The Government has recently denied inequality is a problem.[126] However the facts are clear. The distribution of income throughout society is becoming more unequal. Figure 51 shows that since the mid-1990s income inequality in Australia has been getting worse on trend, based on

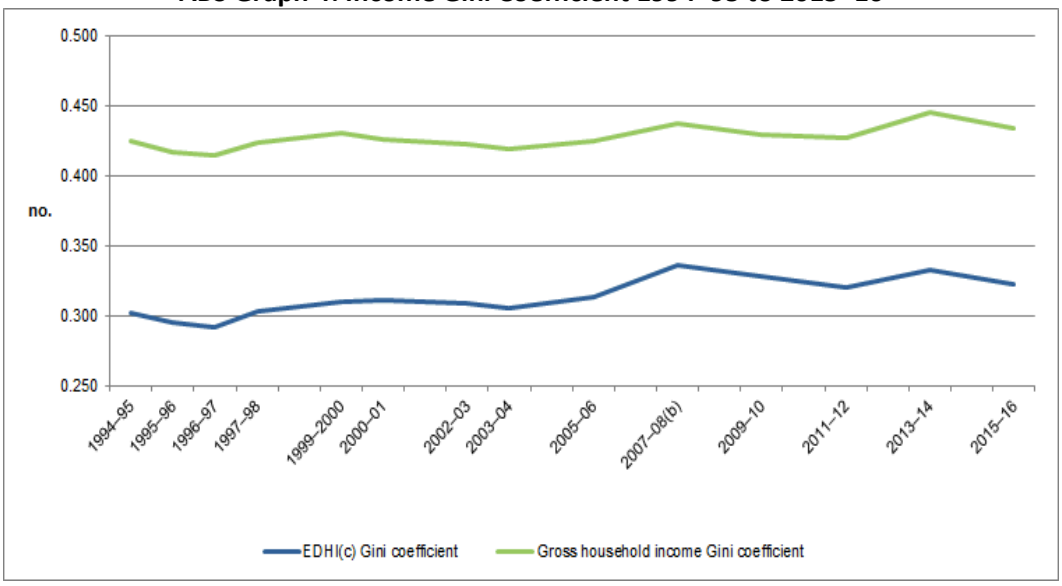
[125] Because only ASX 200 data was available for 1996, it is likely to be less than the corresponding figure for ASX 50 at that date, and therefore the pay increases for ASX 50 if they available would be more. Source: John Shields, Michael O'Donnell & John O'Brien 2017 The bucks stop here: private sector executive remuneration in Australia Report prepared for the Labor Council of New South Wales; The Australian Council of Superannuation Investors 2017 CEO Pay in ASX200 Companies ACSI Annual Survey of S&P/ASX200 Chief Executive Remuneration, August

126 Transcript of Interview with Treasurer Scott Morrison, 27/7/2017.

the Gini coefficient provided by ABS. Despite a blip just after the Global Financial Crisis, when share prices fell for a short period and those rich enough to make lots of income through their investments took a hit, and the fall in top incomes after the mining investment boom, it is the clear that the general trend has been towards widening income inequality.

229. The ACTU notes that Gini coefficient is a blunt instrument for measuring changes in income distribution at the top and the bottom which are relevant to the minimum wage. The calculation of the Gini coefficient puts a relatively high weight on the middle sector of the income distribution relative to either end of the income distribution. Moreover it does not capture differences in the spread of income within the lower and upper ends, nor changes in these. It tends to display cyclicality as income shifts around the income distribution over time.

Figure 51 Gini coefficient has been rising over time:
ABS Graph 4: Income Gini Coefficient 1994–95 to 2015–16



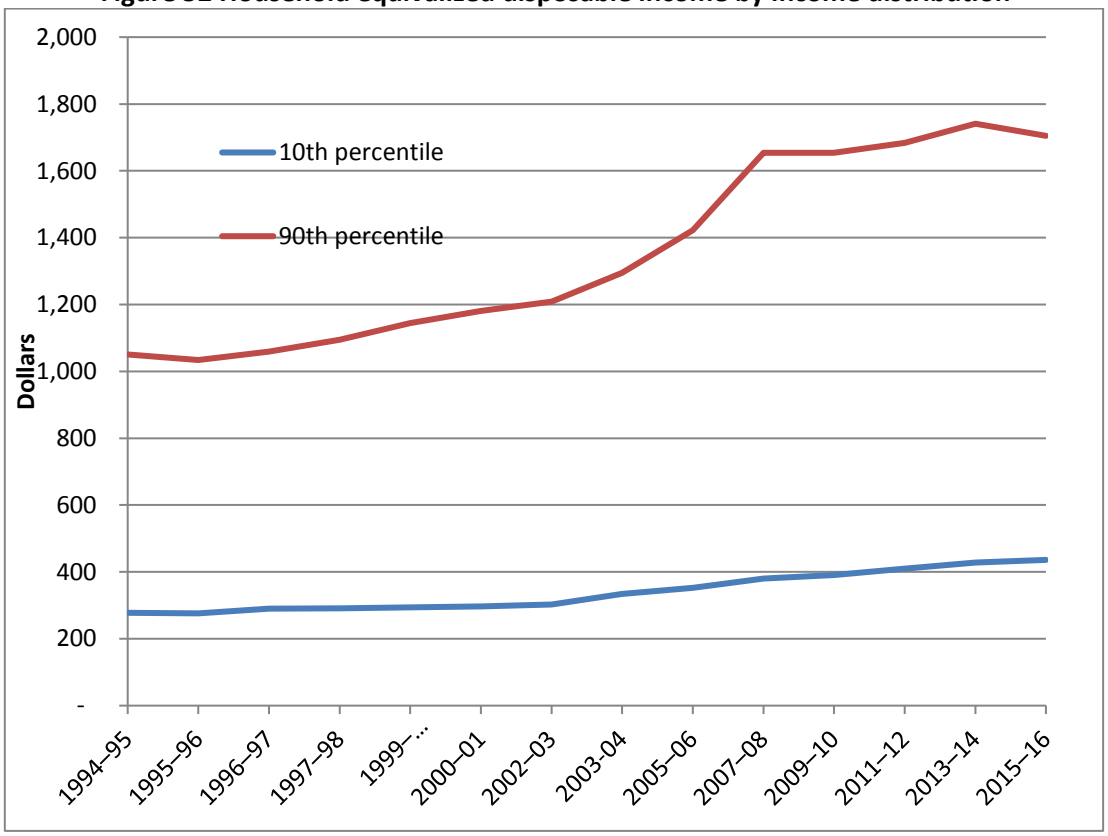
Source ABS 6523 Graph 4 http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6523.0~2015-16~Main%20Features~Household%20Income%20and%20Wealth%20Distribution~6 Equivalized disposable household income standardizes as if a household's after tax and transfers income were that of a single individual.
"ABS Footnote(s): (a) Survey of Income and Housing data was collected in labelled years (b) Estimates presented for 2007–08 onwards are not directly comparable with estimates for previous cycles due to the improvements made to measuring income introduced in the 2007–08 cycle. 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 for earlier cycles (c) Equivalised disposable household income.
Source(s):ABS Survey of Income and Housing, 2015-16"

4.4.2 Household disposable income

230. Disposable income is an important variable for measuring living standards. We can see in Figure 52 that those at the top of the income distribution have fared considerably better than those in the bottom deciles over the decade to 2015-16.

231. Inequality of disposable household income remains high by historical standards, high by the standards of other OECD countries, and has risen particularly among the groups most relevant to Annual Wage Reviews.

Figure 52 Household equivalized disposable income by income distribution



Source: ABS 6523.0, Household Income and Wealth, Australia 2015-16

232. The ABS produced the graph shown in Figure 53 on disposable household income, and states that 'after taking account of the number and age of people in the household, households in the highest income quintile received 40% of total income in 2015–16. By comparison, households in the lowest income quintile received just 8% of total income'.[127] It is apparent there is significant income inequality in Australia today.

[127] Source: ABS 6523.0, Household Income and Wealth, Australia 2015-16

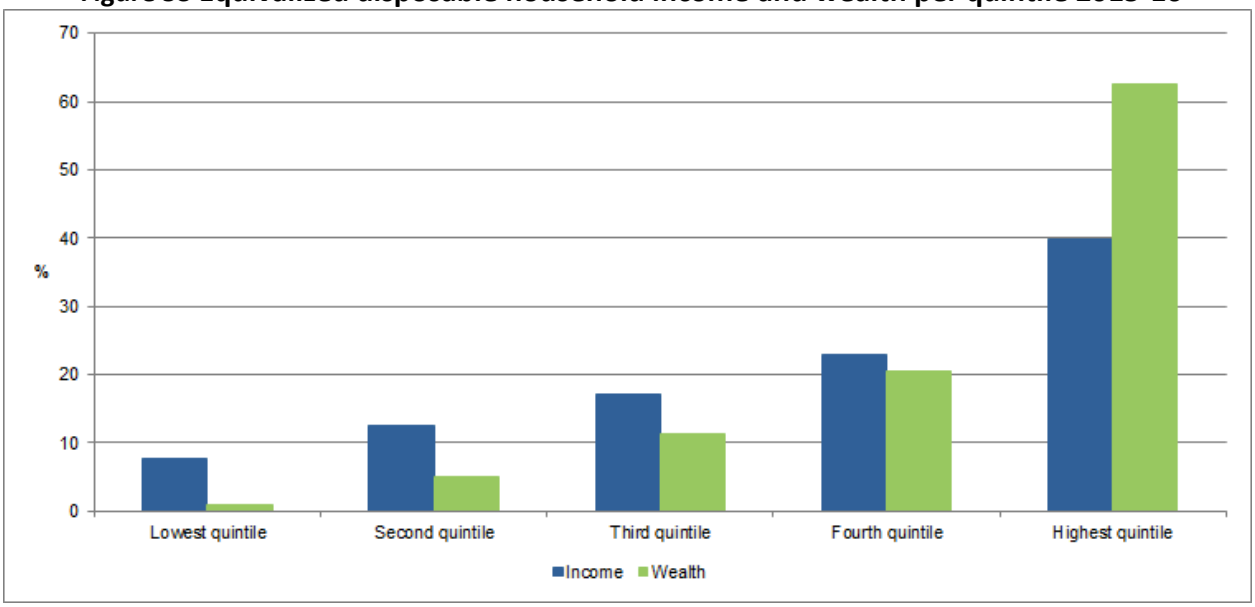
233. The ACTU's submission to the AWR 2015-16 described the increase in income inequality over the past decade for lone person working-age households. It is the living standards of these households that the Panel has indicated are most relevant to Annual Wage Reviews.

234. In the ABS 2015-16 survey of Household Income and Wealth, the median equivalized household income for a lone person aged 55 to 64 was $675, meaning that 50% of these people were living on the equivalent of less than the minimum wage and were certainly below the 60% relative poverty line. [128]

235. Forty percent of lone person aged 35 to 54 households were living on the equivalent of $725 or less, just above the minimum wage, and 30% of these households were living on the equivalent of $542 or less. 30% of lone persons aged under 35 households were living on $653 or less. 30% of other household structures aged under 65 were living on an equivalized income of less than or very close to the minimum wage.

236. In terms of equivalized disposable household income, 30% of employee households were living on or below the equivalent of $784, and 20% were living at or below $561.

Figure 53 Equivalized disposable household income and wealth per quintile 2015-16



Source(s): ABS Survey of Income and Housing, 2015–16

[128] ABS 2017 6523, December. http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6523.0Main+Features12015-16?OpenDocument

237. We scan see in Figure 53 that the distribution of wealth is more unequal than the distribution of income which we discuss further below.

4.4.2 Wealth inequality is rising

238. Due to very rapid increases in the value of homes, investment properties, shares and other assets held by the rich, wealth inequality has increased even more sharply than income inequality.

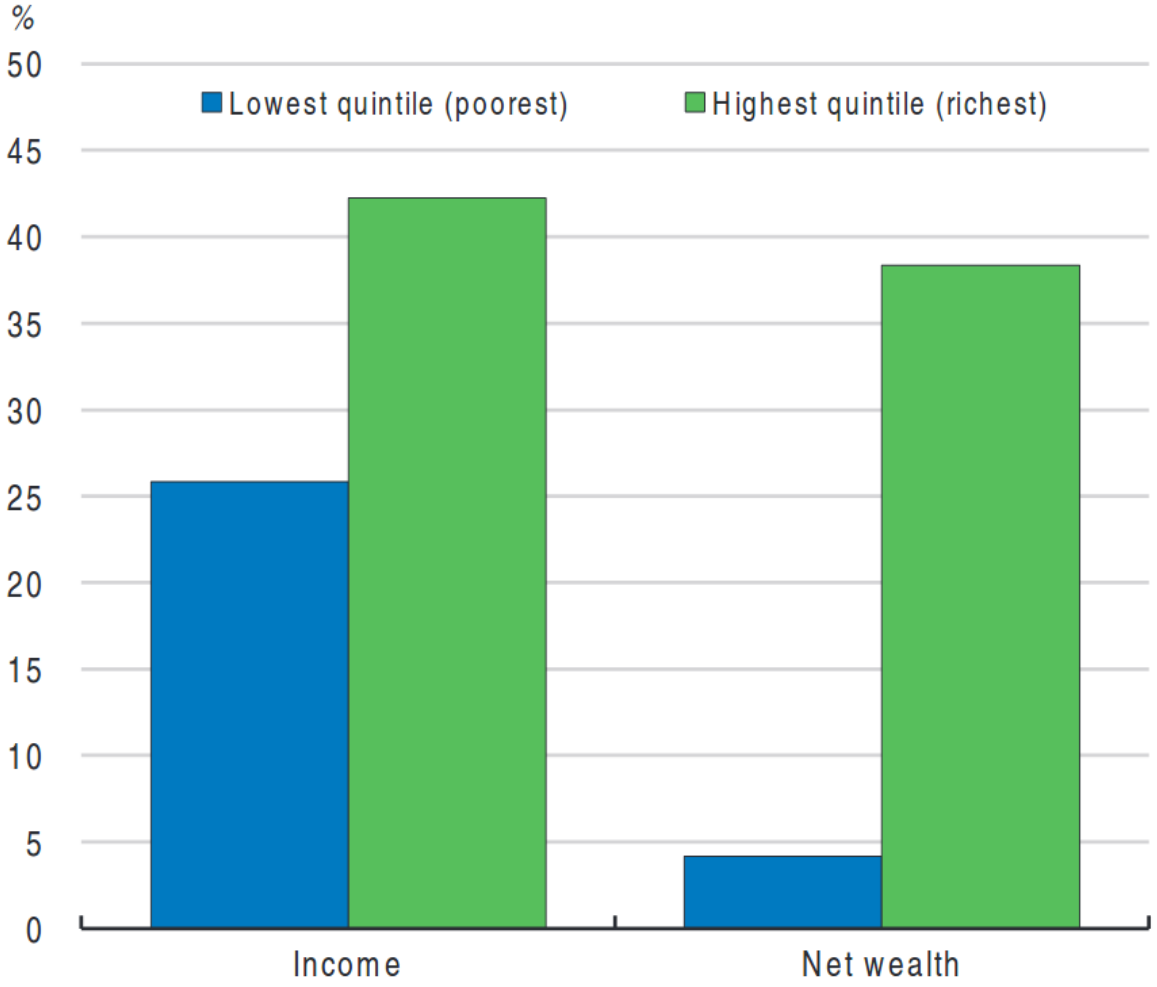
239. It is common among the wealthy elite in Australia to have a multi-million dollar home, several investment properties, and a large portfolio of shares, bonds and other assets. At the other end of the income spectrum many young Australian's are struggling to pay rent and many have been forced to move back in with their parents. They have very little chance of getting into the housing market.

240. Wealth and income inequality are related. The distribution of income has implications for the distribution of wealth and vice versa. High incomes enable the accumulation of large wealth holdings on the one hand, while large wealth holdings generate high incomes[129]. Figure 54 below shows how the inequality of wealth is much more dramatic.

241. For the richest and poorest 20 per cent of the population between 2004 and 2014, as shown in Figure 54 both groups had an increase in their real incomes during the decade, but the incomes of the rich group rose by almost double that of the poor group. The real net wealth of the rich group jumps by around 38% while that of the poor group increased by only around 4%. The gap between the "haves" and "have-nots" become a great chasm in this decade.

[129] Richardson, D., Denniss, R., "Income and Wealth Inequality in Australia", The Australia Institute, July 2014.

Figure 54 The real increase of household income and wealth for 2004-2014



Source: OECD (2017) Op. Cit, p2

242. The disparity in wealth is apparent when we see that the top ten richest Australians (according to the 2017 Financial Review Rich List) have over $77 billion dollars between them.[130]

243. The 2018 Oxfam Inequality Factsheet[131] further highlighted some indicative facts on wealth inequality;

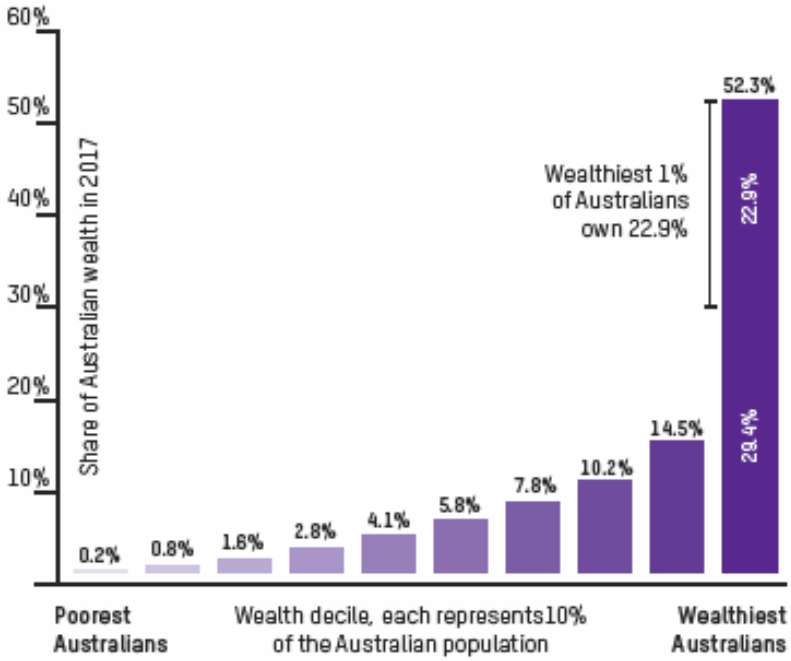
- The share of wealth concentrated in the hands of the top 1% of Australians in 2017 has grown to 23% – up from 22% in 2016.
- As was the case in 2016, the top 1% of Australians continue to own more wealth than the bottom 70% of Australians combined.

[130] Financial Review Rich List 2017, Fairfax media 2017.
[131] Oxfam (2018), "Growing Gulf Between Work and Wealth", Australian Fact Sheet, January 2018

- Last year saw the largest annual increase in the number of Australian billionaires and billionaire wealth since the start of this century – with an extra eight Australian billionaires and an increase in total billionaire wealth in Australia of about $38 billion.
- The number of billionaires has also more than doubled over the past decade in Australia, from 14 in 2008 to 33 in 2017, with a corresponding increase in total wealth of almost 140% to $115.4 billion. In comparison award workers saw only a 5.8% increase in their wages over the past decade (in real terms terms) and some will have no holdings of wealth. Indeed the bottom 10% of the wealth distribution owns a mere 0.2% of Australia's wealth.

244. Oxfam also produced the graph in Figure 55 using Credit Suisse data for 2017 to highlight the Wealth distribution in Australia. We can see that wealth is heavily concentrated amongst the top 1%.

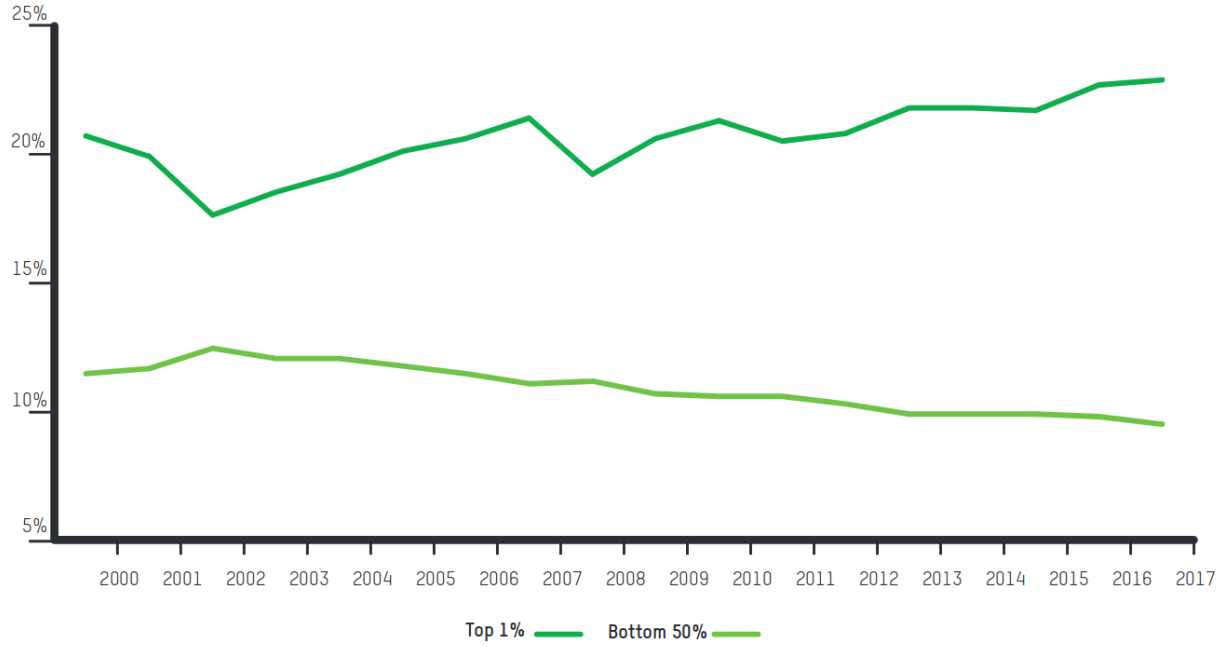
Figure 55 Australian Wealth distribution 2017



Source: Oxfam (2018) *Op. Cit.,* (uses Credit Suisse data from their Global Wealth Report)

245. The Oxfam report further explains that the wealth share has been falling for the bottom half of Australians almost continuously over the past two decades. While wealth inequality has been on the rise over the past two decades with the gap between the top 1% and the bottom 50% now at the greatest at any time over this period. Oxfam produced produced the graph shown in Figure 56:

Figure 56 Wealth share held by the top 1% v bottom 50% over time



Source: Oxfam (2018) *Op. Cit.,* (uses Credit Suisse data from their Global Wealth Report)

246. Table 5 details trends over time in various measures of wealth inequality. The P90 to P10 ratio compares the wealth of households at the 90th percentile with that of households at the tenth percentile. A larger ratio indicates greater levels of inequality.

247. In 2003-04, households at the 90th percentile held 45 times as much wealth as households at the tenth percentile. In 2015-16, households at the 90th percentile of the distribution held 59 times as much wealth as households at the tenth percentile. This indicates that wealth inequality increased in the last decade.

Table 5 Wealth inequality: Ratio of values at top of selected percentiles

Ratio of values at top of selected percentiles		2003–04	2005–06	2009–10	2011–12	2013–14	2015–16
P90/P10	ratio	45.06	47.34	49.16	53.84	52.25	59.17
P80/P20	ratio	10.44	10.62	10.93	11.61	12.07	12.32
P80/P50	ratio	2.23	2.20	2.23	2.36	2.42	2.44
P20/P50	ratio	0.21	0.21	0.20	0.20	0.20	0.20
P10/P50	ratio	0.07	0.07	0.07	0.07	0.07	0.06
Gini coefficient	no.	0.573	0.593	0.602	0.593	0.605	0.605

Source: ABS, Household Income and Wealth, Australia Summary of Results 2015-16

248. Even if we take broad brackets of wealth distribution as the ABS does[132] there have been growing disparities over time. The ABS reports the following as part of their Household Income and Wealth survey:

- "Middle and high wealth households have experienced a real increase in average net worth over the twelve years. Middle wealth households had an average net worth of $528,400 in 2015–16 compared to $401,000 in 2003–04 (adjusted for inflation). High wealth households increased in real terms from an average net worth of $1.9 million in 2003–04 to $3.0 million in 2015–16.
- "Low wealth households did not experience any real increase in net worth over this time period with the average net worth of $36,500 in 2015–16 similar to 2003-04 ($33,000)"[133.]

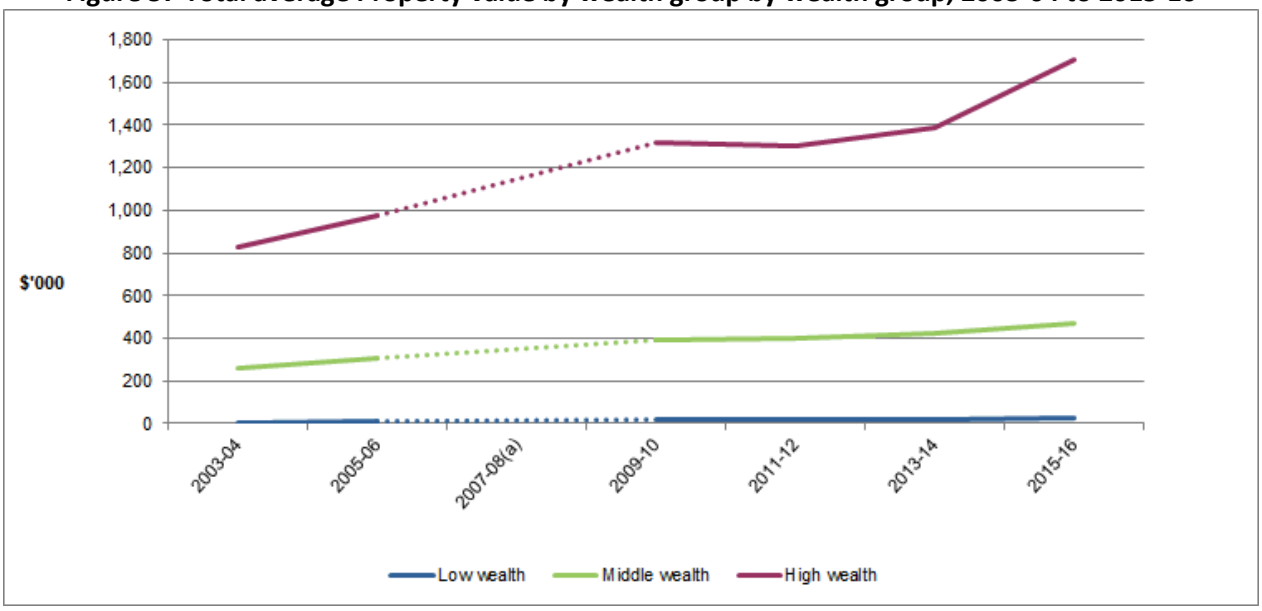
249. The ABS finds one factor driving the increase in net wealth of high income households is the value of owner-occupied and other property, see Figure 57. They find for high wealth households, average total property value increased by $878,000 between 2003-04 and 2015-16 from $829,200 to $1.7 million. For middle wealth households average property values increased by $211,200 (from $258,000 to $469,200). Low wealth households that owned property had much lower growth of $5,600 to $28,500 over the twelve years[134].

---

[132] High wealth households refers to the 20% of households in the highest net worth quintile; Middle wealth households refers to the 20% of households in the third net worth quintile; and Low wealth households refers to the 20% of households in the lowest net worth quintile.

[133] ABS 6523.0 – Household Income and Wealth, Australalia 2015-16 (Summary)
134 *Ibid.*

Figure 57 Total average Property value by wealth group by wealth group, 2003-04 to 2015-16



Source: ABS 6523.0, Household Income and Wealth, Australia 2015-16

250. Wealth inequality is rising in Australia and a wide range of organisations from the OECD to Oxfam have recognized as such. The most pertinent point from this analysis is that the accumulation of wealth clearly has a direct impact on living standards. Whether you receive additional wealth through the family home, an investment property or a share portfolio, if the value increases, there is a direct causal relationship with higher living standards. We discuss this more below.

4.4.3 Why wealth inequality has a direct relationship with relative living standards

251. Wealth can take many forms but some common examples are wealth that is held in the form of investment properties, the family home, shares, bonds and other financial investments. Households derive regular income flows from these assets in the form of rents and dividends. But as the value of these assets appreciate their wealth increases and this allows them to spend more on their income without needing to worry about possible future negative events. The accumulation of wealth can also be used as collateral to borrow. So wealth impacts on consumption and thus living standards.

252. As a recent study on the relationship between income and wealth inequality for OECD countries explains;

> 'A priori, it may be expected that income and wealth are positively correlated as higher wealth holdings, especially financial assets, generate higher income from capital and, conversely, higher income can be used to accumulate more wealth.'[135]

253. Similarly the ABS reports the following;

> 'For most Australians, income is the most important resource they have to meet their living costs. However, reserves of wealth can be drawn upon to maintain living standards in periods of reduced income or substantial unexpected expenses. Considering income and wealth together helps to better understand the economic well-being or vulnerability of households[136]'

254. A crude example may be illustrative: If I am wealthy I can live in a $10 million property on Sydney harbour. But I can also arrange my financial affairs so that my monthly income is the same as single mother living in a rented flat in Western Sydney. However, clearly these two people have very different standards of living.

255. The accumulation of wealth and the impact on living standards is well established. Therefore Australia's dramatic increase in wealth inequality must be of consideration when we consider the relative living standards of the low paid.

4.4.4 Economic growth and inequality

256. The minimum wages objective and the modern awards objective require the Panel to take into account the effect of its decision on national economic prosperity. Therefore it is appropriate that we assess the relationship between economic growth and rising inequality.

257. The IMF in its recent 'IMF fiscal Monitor Report: Tackling Inequality' from October 2017, acknowledges that while some inequality is inevitable in a market-based economic system, excessive inequality can erode social cohesion, lead to political polarization, and ultimately lower economic growth[137].

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[135] Durand, M., Murtin, F. (2015), "The Relationship Between Income and Wealth Inequality: Evidence from the new OECD Wealth Distribution Database" Paper prepared for the IARIW Sessions at the 2015 World Statistics Conference Sponsored by the International Statistical Institute, p6.

[136] http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6523.0~201516~Main%20Features~Household%20Income%20and%20Wealth~4

[137] International Monetary Fund (2017), "IMF fiscal Monitor Report: Tackling Inequality' October 2017", IMF October 2017

258. There has been a growing body of international evidence that suggests high levels of inequality have a harmful effect on economic growth. As Joseph Stiglitz recognized in his 2015 paper 'Inequality, Living Standards and Economic Growth'

> 'on average, a 10-percentile decrease in inequality increases the expected length of a growth spell by one half. The picture does not change if one focuses on medium-term average growth rates instead of growth duration. Recent empirical research, released by the OECD, shows that income inequality has a negative and statistically significant effect on medium-term growth.[138]'

259. The OECD reported in 2014 that that income inequality has a negative and statistically significant impact on medium-term growth. Rising inequality by 3 Gini points, that is the average increase recorded in the OECD over the past two decades, would drag down economic growth by 0.35 percentage point per year for 25 years: a cumulated loss in GDP at the end of the period of 8.5 per cent [139].

260. A 2015 IMF paper, 'Causes and Consequences of Income Inequality: A Global Perspective'[140], found an inverse relationship between the income share accruing to the rich (top 20 percent) and economic growth. The paper found if the income share of the top 20 percent increases by 1 percentage point, GDP growth is actually 0.08 percentage points lower in the following five years, suggesting that the benefits do not trickle down. The regression results are presented in Table 6.

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[138] Stiglitz, J.E. (2015), "Inequality, Living Standards and Economic Growth", Columbia Universtiy Institute for New Economic Thinking, p17

[139] OCED Directorate for Employment, Labour and Social Affairs (2014), "Focus on Inequality and Growth", OECD December 2014.

[140] Era Dabla-Norris, Kalpana Kochhar, Nujin Suphaphiphat, Frantisek Ricka, Evridiki Tsounta (2015), 'Causes and Consequences of Income Inequality: A Global Perspective', IMF 2015.

Table 6 Regression Results from IMF 2015 Paper '*Causes and Consequences of Income Inequality: A Global Perspective*'

Table 1. Regression Results of Growth and Income Distribution

	Dependent Variable: GDP Growth					
Variables	(1)	(2)	(3)	(4)	(5)	(6)
Lagged GDP Growth	0.145***	0.112***	0.118***	0.113***	0.097***	0.114***
	(0.033)	(0.030)	(0.031)	(0.031)	(0.030)	(0.031)
GDP Per Capita Level (in logs)	-1.440***	-2.198***	-2.247***	-2.223***	-2.122***	-2.222***
	(0.361)	(0.302)	(0.307)	(0.308)	(0.304)	(0.307)
Net Gini	-0.0666*					
	(0.034)					
1st Quintile		0.381**				
		(0.165)				
2nd Quintile			0.325**			
			(0.146)			
3rd Quintile				0.266*		
				(0.152)		
4th Quintile					0.0596	
					(0.180)	
5th Quintile						-0.0837*
						(0.044)
Constant	17.34***	18.82***	18.12***	17.45***	19.41***	25.32***
	(3.225)	(2.579)	(2.713)	(3.058)	(4.203)	(3.496)
Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Time Dummies	Yes	Yes	Yes	Yes	Yes	Yes
#. of Observations	733	455	455	455	455	455
#. of Countries	159	156	156	156	156	156

Source: Solt Database; World Bank; UNU-WIDER World Income Inequality Database; and IMF staff calculations.

Note: Standard errors in parentheses, *p < 0.1; **p < 0.05; ***p < 0.01. Estimated using system GMM, which instruments potentially endogenous right-hand-side variables using lagged values and first differences. The regressions include country and time dummies to respectively control for time-invariant omitted-variable bias and global shocks, which might affect aggregate growth but are not otherwise captured by the explanatory variables.

Source: Dabla-Norris *et al* (2015), *Op. Cit.*

261. Interestingly a similar increase in the income share of the bottom 20 percent (the poor) is associated with 0.38 percentage point higher growth. This positive relationship between disposable income shares and higher growth continues to hold for the second and third quintiles (the middle class)[141]. As the authors acknowledge this result survives a variety of robustness checks .

262. Evidence from the OECD concurs that it is not merely the gap between the poor and the rich that matters for growth but also the gap between the middle and the bottom. The OECD is clear the negative effect on growth concerns the relative incomes of all of those in the bottom four deciles of the income distribution. These findings imply that policy must not (just) be about tackling poverty, it also needs to be about addressing lower incomes more generally[142].

[141] *Ibid.*
[142] *Ibid.*

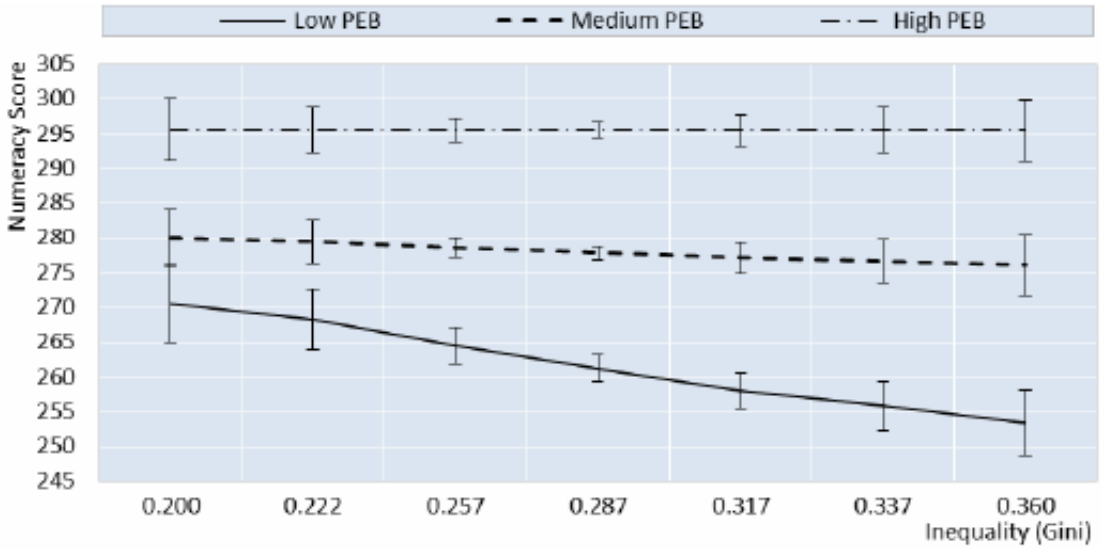
263. There are different channels through which inequality harms the economy. First, inequality leads to weak aggregate demand. Households at the bottom end of the income distribution have a higher marginal prosperity to consume i.e. those at the bottom spend a larger fraction of their income than those at the top143. The result of moving income from the bottom deciles to the top is that total demand in the economy will be less than what the economy is capable of supplying – leading to unemployment144. Because low income households have a higher marginal propensity to consume, when there is demand deficient unemployment, redistribution from the top to the bottom (or an increase in incomes at the bottom relative to the top) can bring unemployment down. Since the time of the great British economist John Maynard Keynes economists have understood that weak aggregate demand has harmful consequences on macroeconomic performance.

264. Second, inequality of outcomes is associated with inequality of opportunity, and that means that those unfortunate enough to be borne at the bottom of the income distribution are at great risk of not living up to their potential. We thus pay a price not only in terms of a weak economy today, but lower growth in the future.

265. The OECD puts a significant emphasizes on inequality hindering human capital accumulation. Income inequality undermines education opportunities for disadvantaged individuals, lowering social mobility and hampering skills development. [145]

OECD: Average numeracy score by parent educational background and inequality

[143] Stiglitz J.E. (2015) *Op. Cit.*
[144] Stiglitz, J.E, (2012) 'The Price of Inequality', W.W. Norton & Co 2012. n.b. until and unless something else happens, such as an increase in investment or exports, so - ceteris paribus
[145] OCED Directorate for Employment, Labour and Social Affairs (2014) *Op. Cit.*



Source: OCED Directorate for Employment, Labour and Social Affairs (2014) *Op. Cit.*

266. Whenever we diminish equality of opportunity, we as a country are not using one of our most valuable assets – our people – in the most productive way possible. This in turn has important consequences for the country's growth and efficiency. Lower-income households may choose to leave full-time education if they cannot afford the fees, even though the rate of return (to both the individual and society) is high. In turn, under-investment by the poor implies that aggregate output would be less than optimal.

267. Corak (2013) finds that countries with higher levels of income inequality tend to have lower levels of mobility between generations, with parent's earnings being a more important determinant of children's earnings.[146]

268. A third reason why inequality has harmful effects on the economy is the effect of disillusionment. Stiglitz puts this in terms of the 'corrosive effect of inequality on morale, especially when it cannot be well justified' and compares to the effects of corruption on moral and the harmful effects on the economy. [147]

269. Inequality also dampens investment, and hence growth, by fueling economic, financial, and political instability. The IMF lists financial crisis, global imbalances and conflicts - as reasons for inequality, having a negative effect on economic growth[148]. For financial crisis the IMF cite

[146] Miles Corak 2013 Income inequality, equlatiy of opportunity, and intergenerational mobility Journal of Economic Perspectives, V27,3, Summer, pp.79-102
[147] J E Stiglitz 2015 Inequality, living standardsand economic growth, Columbia University Institute for New Economic Thinking https://www8.gsb.columbia.edu/faculty/jstiglitz/sites/jstiglitz/files/2015%20Inequality,%20Living%20Standards.pdf
[148] Dabla-Norris *et* al (2015) *Op. Cit.*

studies that have argued that a prolonged period of higher inequality in advanced economies was associated with the global financial crisis by intensifying leverage, overextension of credit, and a relaxation in mortgage-underwriting standards. On conflicts the IMF is clear. Extreme inequality may damage trust and social cohesion and thus is also associated with conflicts, which discourage investment.

4.5 The needs of the low paid

270. Among other considerations, the Panel is required to take into account the needs of the low paid.

271. In 2017, the Panel awarded a 3.3% increase in the minimum wage. Over the year to December 2017, CPI inflation was 1.9%, while the employee Living Cost Index (LCI) for an employee household increased by 2.0%.[149]

272. The Reserve Bank of Australia (RBA) has forecast CPI inflation of 2¼ per cent over the year 2018.[150] Taking the midpoint of this range, nominal wages growth of at least 2.25% might prevent a fall in real wages, but would still not stop the earnings of the low paid from falling behind the rest of earners.

273. Moreover an increase that merely covers likely cpi increase would not take account of the costs of essential, non negotiable items which have increased disproportionately relative to the average. The ACTU would seek a minimum wage increase that takes account of the greater hardship caused to award reliant employees by disproportionate increases in the cost of non negotiable items.

274. The slight increase in the real minimum wage of 1.4% last year does not go far towards ensuring that low paid workers are able to live better. In particular the disproportionate increase in costs of a range of essential items such as health, education and the generally largest item, housing costs, means that discretionary spending is squeezed more at lower incomes.

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[149] LCI is 'concerned with measuring the impact of changes in prices on the out-of-pocket expenses incurred by households to gain access to consumer goods and services.' The biggest difference with cpi is that LCI accounts for housing costs in terms of actual cash outlays incurred, and may better reflect changes in purchasing power at lower income levels. http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6467.0Explanatory%20Notes1Dec%202016?OpenDocument

[150] Reserve Bank of Australia 2018, *Statement on Monetary Policy: February 2018,* RBA, Sydney, p.63.

275. Over the year 2017, housing cpi increased 79% faster than total cpi, utilities cpi increased 384% faster, electricity cpi increased 553% faster, gas 311% faster, child care cpi increased 184% faster, health cpi 111%, education cpi 68% faster, transport 74% faster and car fuel 484% fasteri.[151] This is shown in Table 7.

276. Table 7 also shows the contributions of spending in some essential categories by which the total cpi is weighted. The proportion of spending on these non negotiable items amounts to around 58% of the cpi basket which represents average expenditure.

277. The contributions shown in Table 7 represent proportions what average households spend, not what low income households spend. It would be expected that these items would be much larger proportions of lower income household spending and therefore price increases in those items would affect their disposable income much more. Low income households (in the bottom two quintiles) are paying a mortgage which is an average 28% of their income, or are paying rent which costs 32% of their income.[152]

278. For instance if housing expense share of total spending is larger than 25.3% for lower income households, then an increase of more than a quarter in that cost is a serious squeeze on disposable income. Even at that representative rate, it means housing costs increase to a share of one third of total expenditure. Childcare, an essential cost of employment for many, constitutes a much higher proportion than 1.5% of total expenditure for many of these households, even with the current subsidy arrangements which have been reduced for some.

[151] ABS 640105 and calculations.
[152] ABS 4230.0 2015-16 http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4130.0~2015-16~Main%20Features~Housing%20Affordability~10001

Table 7 Various essential spending categories, contribution to total cpi, %, and percent increase compared to cpi, 2017

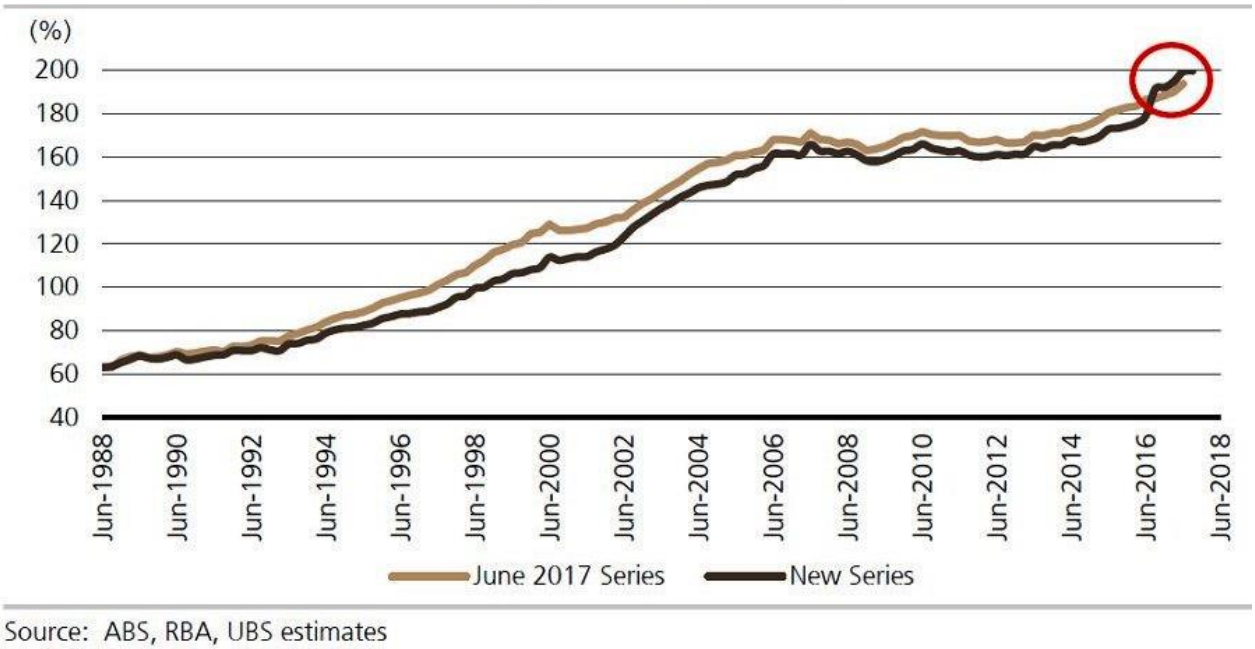
	Food	Housing	Utilities	Electricity	Gas	Childcare	Health	Education	Transport	total cpi
Contribution to cpi Dec 2017, %	18.1	25.3	4.5	2.4	1.0	1.5	6.0	4.1	11.8	100
cpi % increase above total cpi, year to Dec 2016	20	79	384	553	311	184	111	68	74	na

Source: ABS 6401 and ACTU calculations. Note that electricity and gas are utilities.

279. Another axis of need is that arising from a "record high" in the ratio of household indebtedness to income. This is shown in Figure 58 in which household debt has accelerated relative to household income, under revised figures provided by ABS. This will create additional hardship especially for lower income households having to address higher housing costs and other essential items. The ABS and RBA now estimate total Household Debt to Disposable Income at 199.7%, up 3% on previous estimates.[153]

[153] https://www.businessinsider.com.au/australias-household-debt-is-now-one-of-the-highest-in-the-world-2018-1 18 January 2018

Figure 58: Household Debt to Disposable Icome (%)



Source: https://www.businessinsider.com.au/australias-household-debt-is-now-one-of-the-highest-in-the-world-2018-1
18 January 2018

280. It is perhaps reasonable to predict that people's ability to spend is likely to be impacted by these developments in the house sector either directly (as owner occupiers) or indirectly (as renters). As people on low pay face even lower allocations of wealth out of total wealth than they do out of total income, which is most likely in the form of housing if any, their ability to withstand increase an increase in interest rates is even less than for others.

281. The ME Bank's *Household Financial Comfort Report* (2018) said 38% of households 'worried about their level of debt in the past month'.[154]

[154] https://1v1d1e1lmiki1lgcvx32p49h8fe-wpengine.netdna-ssl.com/wp-content/uploads/2018/02/ME-Household-Financial-Comfort-Report-February-2018.pdf p.1

4.5.1 Budget Standards

282. The Panel observed in its 2016-17 Decision that:

> "contemporary poverty lines are in effect a measure of inequality at the lower end of the income distribution. They are not based on observed incapacity to meet needs: this incapacity is better indicated, given available data, by measures of deprivation, and financial stress, such as not being able to raise $3000 in a week for something important, to pay utility bills on time, or to heat one's home."[155]

283. Absolute poverty measures are an alternative approach to evaluating the needs of the low paid. Absolute poverty contrasts to relative poverty which compares an income relative to an average or median income. The ACTU is in agreement with the Panel that contemporary (implicitly the relative) poverty lines do not refer to whether that measure actually enables low income people to live and in particular how that may change as the comparator changes.

284. Absolute poverty seeks to measure the level of income required for a standard of living that means that people are not living in poverty. The report for the Social Policy Research Centre at the University of New South Wales by Saunders and Bedford (2017) [the SPRC report] offers an approach to identifying a level of minimum income for low paid and unemployed Australians.[156]

285. The SPRC report defines a budget standard as indicating "how much money a family living in a particular place at a particular time needs to purchase the material good and participate in the activities required to achieve and sustain a particular standard of living."[157]

286. As expressed in our submission in regard to holding a Preliminary Hearing about the SPRC Report, it is the view of the ACTU that the budget standards research be given no special status in the array of material available for evaluating relative living standards and the needs of the low paid.

287. It is the ACTU's view that the budget standards developed in the SPRC report, whilst a commendable and valuable undertaking to attempt to reflect contemporary living standards,

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[155] [2017] FWCFB 3500 [461]

[156] Peter Saunders and Megan Bedford 2017 New minimum income for healthy living budget standards for low-paid and unemployed Australians SPRC (Social Policy Research Centre), University of New South Wales, August http://unsworks.unsw.edu.au/fapi/datastream/unsworks:46140/binc76de784-a739-416b-9361-6ebb285882ea?view=true

[157] Saunders and Bedford 2017 pviii

remain far too modest to in fact reflect the needs of a person or household today. However, the SPRC report remains useful when viewed in the context of other approaches to evaluating relative living standards and the needs of the low paid. It assists to demonstrate just how precarious are the lives of working people who are dependent upon the minimum wage.

288. The SPRC report reveals the challenges of methodology, assumptions and findings for evaluating the actual needs of low income people who are working, in particular the large number who are earning at or close to the minimum wage who are working part time or casually, including households where no one is working full time.

289. The SPRC report uses a focus group methodology which faced some design issues. On the cognizance of the SPRC report those living on pensions and the unemployed or out of the labour force were more likely to attend the meetings. Those casually employed found difficulty as many were in effect working on call and / or in shift work and the result was a lack of representation of workers at the focus group meetings. Because they were held at night parents with children who were working (or not) also found difficulty.[158]

290. While this served to reveal the woeful inadequacy of living standards on the existing level of welfare payments, it failed to enumerate or address the many costs of working that are not immediately apparent. For example:

a) The SPRC report does not count cars in the costs of transportation. A vehicle is essential to work, especially in most rural areas (and in any event an allowance for the use an employee's own motor vehicle is widespread in the award system and the tax system). But cars are also often essential for employment in an urban/greater metropolitan context where many low income people live in areas without or without adequate public transport and may also work in other areas without or without adequate public transport. Moreover, people who are on low incomes are obliged to buy cheaper second hand cars which are more likely to break down and incur higher maintenance costs than people on higher incomes with newer, more reliable cars would face. The transport and logistics costs of working escalate for the large numbers who are working part time, casual, shift or on call.

[158] Saunders and Bedford 2017 p.55

b) The amount allocated for clothes assumes that people can use hand me downs or second hand clothes. But these take time to get and many people would not have access or it is not appropriate for work or for the person.

c) The amount allocated for health seems to assume that people are healthy and have minimal health expenses and no health emergencies or ongoing expenses for chronic conditions either for themselves or people they may be caring for while they are at the same time working as many workers are. This is in a context where out of pocket Australian health expenses are high by OECD standards, and increasing[159], including for those on Medicare. Those entitled to a Health Care Card have reduced health costs, but working people are not eligible.

d) Childcare and education expenses are assumed to be very modest, again in Australia where out of pocket education expenses are amongst the highest in the OECD, and increasing, along with other infrastructure charges.

e) There is very little allowance for emergency outlays, such as for trauma events, funerals, or normal life events such as weddings, births and other celebrations, nor for savings.

f) People on low incomes are expected to be more virtuous than others, and spend nothing on leisure activities including alcohol and tobacco. It implies a moral judgement of the behaviour of people on low incomes that those on higher incomes are not subject to.

g) The assumptions about family expenditures are based on the little woman model – she can mind the children because she's not working or "able to arrange her working hours" and take leave in school holidays.[160]

291. The SPRC report relies on taxes and transfers to make up the difference for the standards of living of families. Yet all the households except the lone person fall below the poverty line. It

[159] OECD 2015 *Health at a glance How does Australia compare?* https://www.oecd.org/australia/Health-at-a-Glance-2015-Key-Findings-AUSTRALIA.pdf
[160] SPRC report p.50

does not address that the lone person may yet be employed not full time, but part time and / or casual, with intermittent earnings.

292. The view of the SPRC report is that the budget standards should capture incentive to work, and the need to maintain incentives to work. The SPRC report states that "The balance between social security payments for those unemployed and the minimum wage also reflects the financial attractiveness of being in and out of work and thus affects the financial incentive to move between these two key labour market states.[par] These factors highlight the importance of ensuring that safety net incomes are adequate but also that work incentives are maintained" [161] That is, it is assumed that employment decisions are margin based, dependent on obtaining higher income from substituting an additional hour of work rather than leisure. It ignores the underemployed and marginally attached. It is clear in this regard that people have little choice about whether they work and working hours, and that aggregate demand as is well recognised is the main factor determining availability of work. This leads it to exceeding modesty in the poverty line.

293. The ACTU notes that the low paid considered in the SPRC are subject to essential household expenses which were increasing faster than cpi or the increase in the NMW. The price of necessities increased disproportionately compared with the average increase in total cpi over the year to Sept 2017 of 1.8%. Housing increased 3.3%, utilities 8.9%, childcare 4.7%, health 3.9%, transport 2.7% and education 3.1%. But these are based on the expenditure of an average household.

294. People on lower incomes are disproportionately affected by price increases in necessities because they have to pay for these regardless of income. At lower incomes a bigger proportion of income is paid on these necessities. The ACTU has calculated how much worse off people paid at the minimum wage were between 2016 and 2017 based on what they have to spend on necessities.

295. The dollar amounts spent by people at median household income on necessities were calculated based on the ABS cpi and cpi contributions (ABS 620105), comparing 2016 with 2017.

[161] SPRC report p.9

296. The necessities (apart from food) were housing, utilities, childcare, health, transport and education. Table 8 shows the share of necessities in cpi comparing September 2016 with September 2017.

Table 8 The total share of necessities in cpi, September 2016 and September 2017, per cent of cpi basket

Date	Share of Necessities in cpi, %	Share of Necessities without housing in cpi, %
Sept 2016	49.4%	25.4%
Sept 2017	50.3%	26.0%

Source: ABS 6401 and ACTU calculations based on the contributions of necessities to cpi.

297. We assumed these shares represent the expenditures out of household income at the median after tax. Table 9 shows household median income and spending on necessities. Household median income is based on the census at 2016 and increased by 1.8% in line with the average wage increase over the period.

Table 9 Spending on necessities at the median household income after tax, September 2016 and September 2017, dollars

Date	Household median income after tax, $	Expenditure on necessities at household median income, $	Expenditure on necessities excluding housing at household median income, $
Sept 2016	$1105	$545.93	$280.90
Sept 2017	$1192	$599.82	$309.86

Source: ABS 6401, 6302, tax rates at https://www.icalculator.info/australia/tax_calculator/weekly.html , 2016 census and ACTU calculations

298. We take the minimum wage as a measure of a low income, after tax, ignoring transfer payments. We assume that expenditures on necessities fall 10% when incomes are lower, at the minimum wage. Table 10 shows this spending at the minimum wage after tax.

Table 10 Spending on necessities at the minimum wage after tax, September 2016 and September 2017, dollars

Date	minimum wage after tax, $	Expenditure on necessities at the minimum wage, $	Expenditure on necessities excluding housing at the minimum wage, $
Sept 2016	$607.11	$491.34	$252.81

Sept 2017	$624.65	$539.84	$278.88
Difference, $	$17.54	$48.53	$26.08
% change	2.9%	9.9%	10.3%

Source: ABS 6401, 6302, tax rates at https://www.icalculator.info/australia/tax_calculator/weekly.html , 2016 census and ACTU calculations

299. Even without housing, people were clearly worse off in September 2017 than they had been in September 2016, because the increase in spending exceeds the increase in the minimum wage. Even at the median household income people are worse off than before.

300. The above illustrates the care which must be taken in consideration of prioritising one measure over another for the purpose of taking account of relative living standards and the needs of the low paid.

4.5.2 Absolute Poverty, financial stress and deprivation

301. Obtaining an income in excess of relative poverty levels does not necessarily indicate that low-paid workers' needs are being met adequately or decently. People above the relative poverty line may still experience poverty as the line is relative to median income. When median income grows more slowly as it is currently, or falls, then those who are above the poverty line also fall behind.

302. The extent to which award reliant employees are able to meet their needs is difficult to measure directly, but can be inferred from information such as absolute poverty rates and measures of financial stress and deprivation.

303. Financial stress and deprivation measures are also imperfect measures of the degree to which needs are not being met. The absence of deprivation among workers (e.g. if workers do not have to go without meals due to lack of money) does not necessarily indicate that their incomes are sufficient to meet a socially acceptable standard. These measures are nevertheless useful, when viewed in conjunction with other information about low-paid workers' living standards.

304. The ME Bank's *Household Financial Comfort Report* of 2018 said "Households' 'comfort with paying their monthly living expenses' fell by 3% to 6.40 out of 10 during the six months to December 2017, the lowest it's been since mid-2014."[162] It further said that many households' financial situation is getting worse and again the culprit is living expenses, with 40% reporting this as a key reason their situation is worsening."

305. Furthermore, "over the past year, 16% of households were 'not always able to pay their utility bills on time', while 19% 'sought financial help from family or friends' and 13% 'pawned or sold something to buy necessities' – a clear illustration of bill stress, particularly for those on lower incomes."[163]

306. The ME Bank Report also said that "Nearly a third of households (31%) reported they are contributing over 40% of their disposable household income towards a rent or mortgage – a common indicator of financial stress – with two in five (40%) renters spending 40% or more of their disposable income on rent and 26% of homeowners putting 40% or more of their disposable income towards their mortgage."[164]

307. Seven per cent of households said they could not always pay their mortgage on time during the year and 7% said they could not pay their rent on time. The ME Bank said that "mortgage defaults may escalate particularly among vulnerable low income households who were already dealing with the cost of necessities." [165]

308. The report referred to the subdued growth in wages as a major factor in households' comfort. A quarter of households recorded their income decreased and 41% said it remained the same in the six months to December 2017.[166]

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[162] https://1v1d1e1lmiki1lgcvx32p49h8fe-wpengine.netdna-ssl.com/wp-content/uploads/2018/02/ME-Household-Financial-Comfort-Report-February-2018.pdf p.1
[163] https://1v1d1e1lmiki1lgcvx32p49h8fe-wpengine.netdna-ssl.com/wp-content/uploads/2018/02/ME-Household-Financial-Comfort-Report-February-2018.pdf p.1
[164] https://1v1d1e1lmiki1lgcvx32p49h8fe-wpengine.netdna-ssl.com/wp-content/uploads/2018/02/ME-Household-Financial-Comfort-Report-February-2018.pdf p.1
[165] https://1v1d1e1lmiki1lgcvx32p49h8fe-wpengine.netdna-ssl.com/wp-content/uploads/2018/02/ME-Household-Financial-Comfort-Report-February-2018.pdf p.1

[166] https://1v1d1e1lmiki1lgcvx32p49h8fe-wpengine.netdna-ssl.com/wp-content/uploads/2018/02/ME-Household-Financial-Comfort-Report-February-2018.pdf p.29

309. The *Food Bank Hunger Report 2017*[167] combines insights from charities and community groups across Australia providing food relief as well as individual Australians who experience food insecurity. Two surveys were used to collect these insights. The first was the Foodbank Welfare Agency Survey which explored the charities and community groups that provide front-line food relief, their food provision activities and the beneficiaries of their services. This survey captured responses from 1,123 agencies between December 2016 and July 2017. The second survey was aimed at understanding the Australians who have experienced food insecurity in the last 12 months.

310. The *Food Bank Hunger Report 2017* found that "almost half of food insecure Australians (48%) are employed in some way, whether full-time, part-time or casually." This almost half of 3.6 million people have experienced food insecurity in the last 12 months, or 1.7 million employed people. Renters and lone person households are more likely to experience food insecurity. In its survey 56% of people gave a top 4 reason of an unexpected expense or large bill, and 48% said there was just not enough money in the first place, 38% said it was hard to pay the rent or mortgage, and 35% said food was too expensive. These were the most frequent reasons given by far. Two in five food insecure Australians (41%) have not paid bills in order to have enough money to buy food.

4.6 The relevance of taxes and transfers

311. In its 2015-16 decision, the Panel said "The effect of taxes and transfers on disposable incomes of the low paid is relevant to the needs of the low paid and their relative living standards, both in terms of specific changes in the tax-transfer system at the time of a particular AWR and in assessing broader information in relation to measures of the relative income of the low paid, which is affected by tax and transfer payments."[168]

312. The ACTU recognises that the Panel has a statutory obligation to establish and maintain a fair safety net of minimum wages. It is appropriate for it to take taxes and transfers into account when doing so. However we would submit that the tax and transfer system cannot be relied upon to alleviate the impact of small increases in the minimum wage. This is the case in the

[167] McCrindle 2017 *The Food Bank Hunger Report 2017* https://www.foodbank.org.au/wp-content/uploads/2017/10/Foodbank-Hunger-Report-2017.pdf
[168] FWC 2015 Annual Wage Review 2015-16 [391]

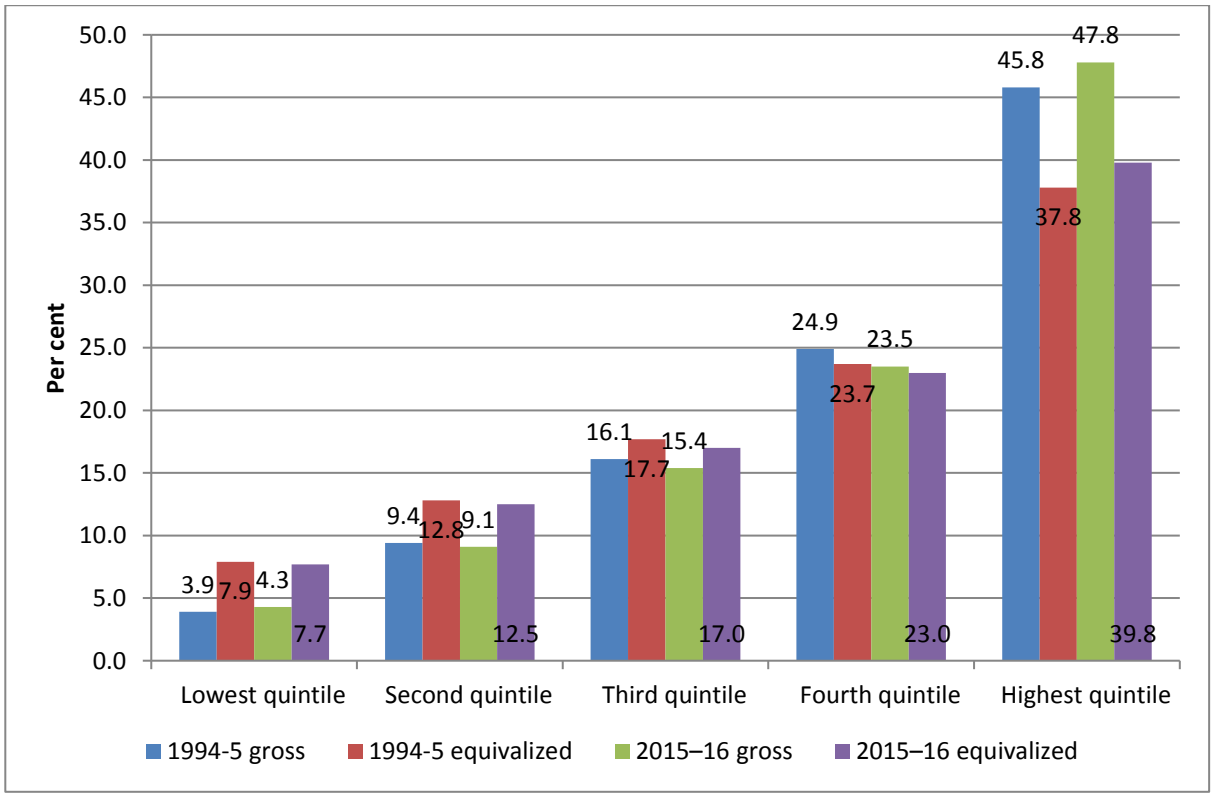
current policy environment where transfers are being reduced, in effect bringing more people into the low disposable income range.

313. As described earlier, according to an OECD study of 2017, while Australia displays relatively high levels of market income inequality, the redistributive effect of Australia's taxes and transfers is particularly low in the OECD and yet has still declined.[169]

314. The gross minimum wage in Australia has to do relatively more heavy lifting than in the average OECD country to bring up the wage bite after taxes and transfers. This is because Australia's tax and transfer system has not been as redistributive towards equity as other OECD countries and this has deteriorated.[170]

315. Figure 59 shows that not only has income distribution become more unequal over 22 years, taxes and transfers have done less to make the distribution fairer.

Figure 59 Gross and equivalized household incomes, share of total income, 1994-5 and 2015-16, per cent



Source: ABS 6523

[169] Causa, O. and M. Hermansen (2017), "Income redistribution through taxes and transfers across OECD countries", OECD Economics Department Working Papers, No. 1453, OECD Publishing, Paris. http://dx.doi.org/10.1787/bc7569c6-en , p.21, [40],[41]

[170] https://www.oecd.org/social/OECD2016-Income-Inequality-Update.pdf Chart 5

316. While the lowest quintile has received a bigger share of income in 2015-2016, it ends up with a lower share after tax and transfers than in 1994-5. This is the case for all the other quintiles except the top one, which gets a higher share and gets a higher share after taxes and transfers.

4.7 The effect of the cost of working on living standards

317. The costs of working are typically higher for low-paid workers, as a proportion of their weekly wage. The costs of childcare related to work are the biggest cost of working for both males and females, and these are bigger for award reliant males than females, and higher overall for award reliant employees.

318. The Productivity Commission Report on Government Services 2018 reports on ECEC costs (early childhood education costs). It says "Out-of-pocket costs for:

- long day care —were between 7.5 and 4.6 per cent for gross family incomes of $35 000 and $215 000, respectively (table 3A.24)
- family day care — were between 7.1 and 4.4 per cent for gross family incomes of $35 000 and $215 000, respectively (table 3A.24)." [171]

319. This means that a household income close to the minimum wage is paying more than 7% of its disposable after subsidies on childcare. However the cost of childcare is very sensitive to the level of subsidy. This is continually under threat. This adds to the precarity of income for households dependent on the minimum wage.

4.8 Australia's minimum wage in international context

320. In its 2017 decision, the Panel stated that "Consistent with our past approach, we maintain the position that data comparing the Australian minimum wage bite relative to other OECD countries is of limited significance in evaluating the relative living standards of the low paid." The Panel accepted the relevance of international comparisons for other questions, "including the diversity of outcomes that are possible or are being promoted in countries that have economies that are broadly similar to Australia." [172]

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[171] Chapter 3, *Early childhood education and care*, Productivity Commission Report on Government Services 2018 http://www.pc.gov.au/research/ongoing/report-on-government-services/2018/child-care-education-and-training/early-childhood-education-and-care/rogs-2018-partb-chapter3.pdf. p.3.17

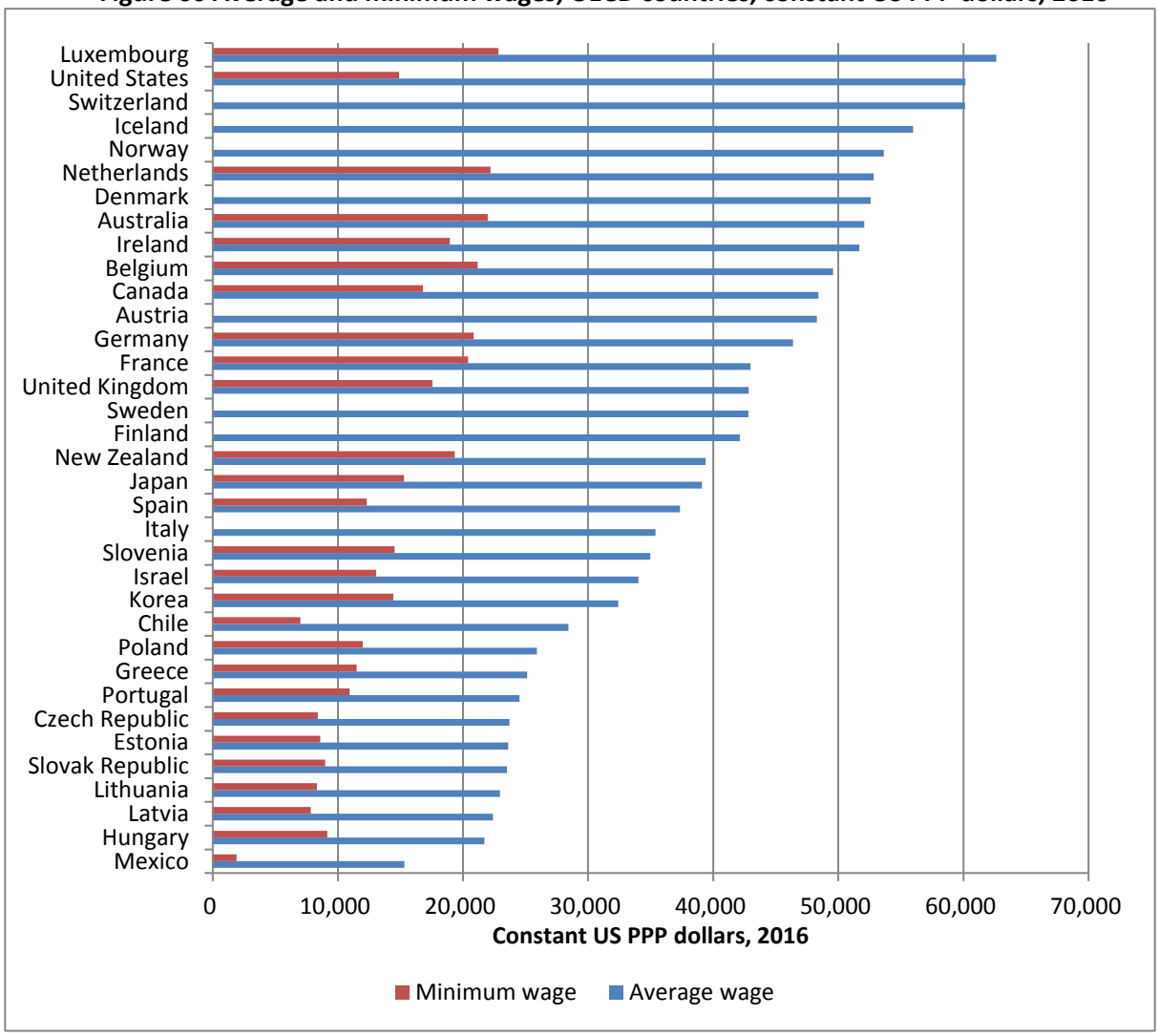
[172] [2017] FWCFB 3500, [401]

321. As the ACTU has indicated previously, there is an increasing body of work showing that an increase in the minimum wage would encourage economic growth through its role in stimulating demand and reducing inequality. A comparison of real minimum wages across the OECD in 2016 shows that while Australia has the third highest minimum wage at almost $22,000 in 2016 in constant PPP US dollars, there are two countries above it and another three above USPPP$20,000. The high income countries range up from the US minimum at $14,800, with the rest of the OECD countries below that.[173] But this needs to be viewed in the context of the general level of development of those economies.

322. In fact it appears that the minimum wage is related to the level of development of the economy, see Figure 60. That is, there is no reason that raising the minimum wage would threaten the standard of living. On the contrary, slower growth in the standard of living may result if the minimum wage is not increased. Rather, the minimum wage is a strategy for sharing it around and encouraging economic growth.[174] Historically Australia was a leader on the minimum wage; there is no reason not to attain that standing again.

[173] https://stats.oecd.org/Index.aspx?DataSetCode=RMW
[174] https://stats.oecd.org/Index.aspx?DataSetCode=AV_AN_WAGE

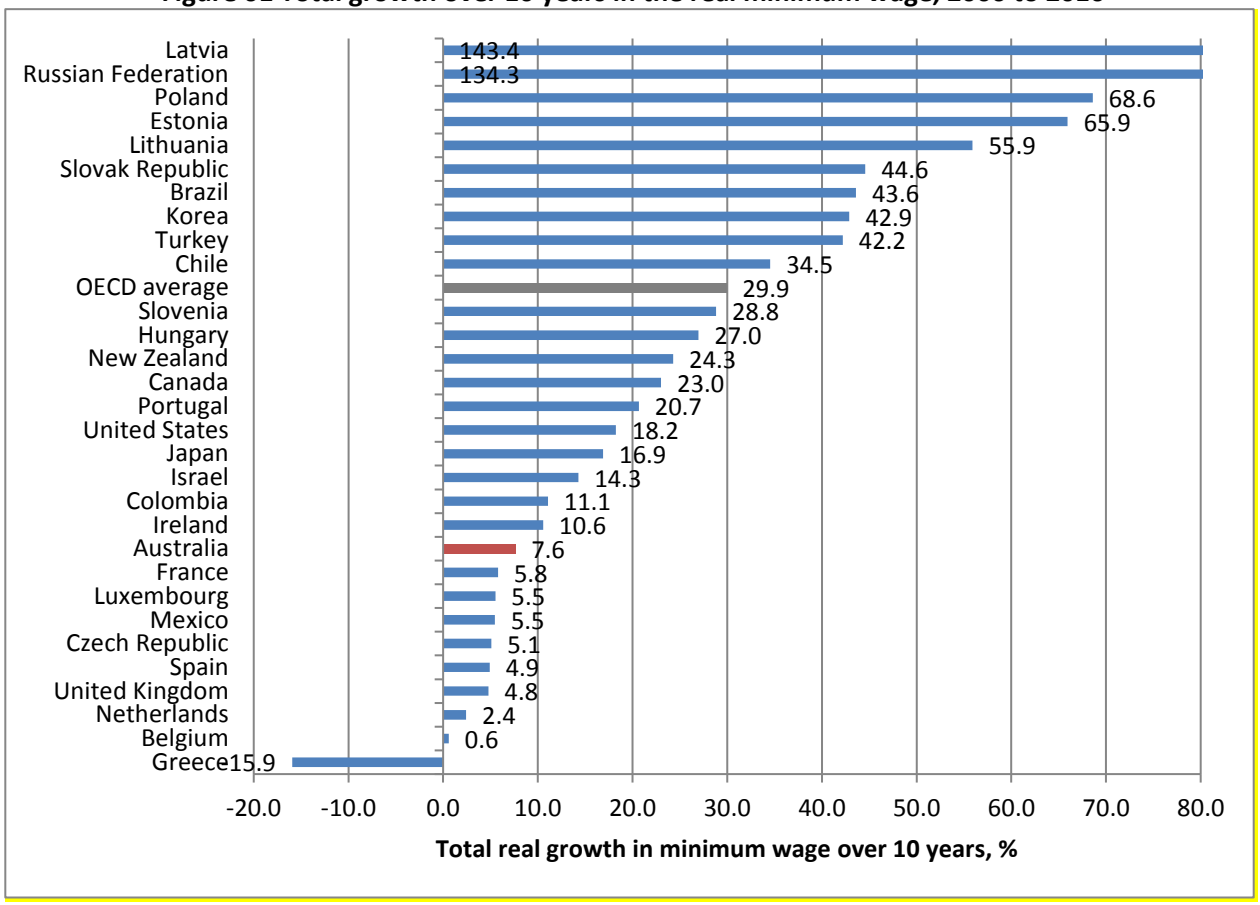
Figure 60 Average and minimum wages, OECD countries, constant US PPP dollars, 2016



Sources: https://stats.oecd.org/Index.aspx?DataSetCode=RMW, https://stats.oecd.org/Index.aspx?DataSetCode=AV_AN_WAGE accessed 6 March 2018

323. The total growth over ten years in the real minimum wage across OECD countries is shown in Figure 61 (no data update available since the previous year). The OECD total figure would be 22.4% if Latvia and Russia were excluded. Australia's real minimum wage increase over ten years is the tenth lowest, followed by some high income OECD countries, but also with some much higher increases in countries such as the US, Canada and New Zealand and Japan, and countries which were affected more by the GFC.

Figure 61 Total growth over 10 years in the real minimum wage, 2006 to 2016



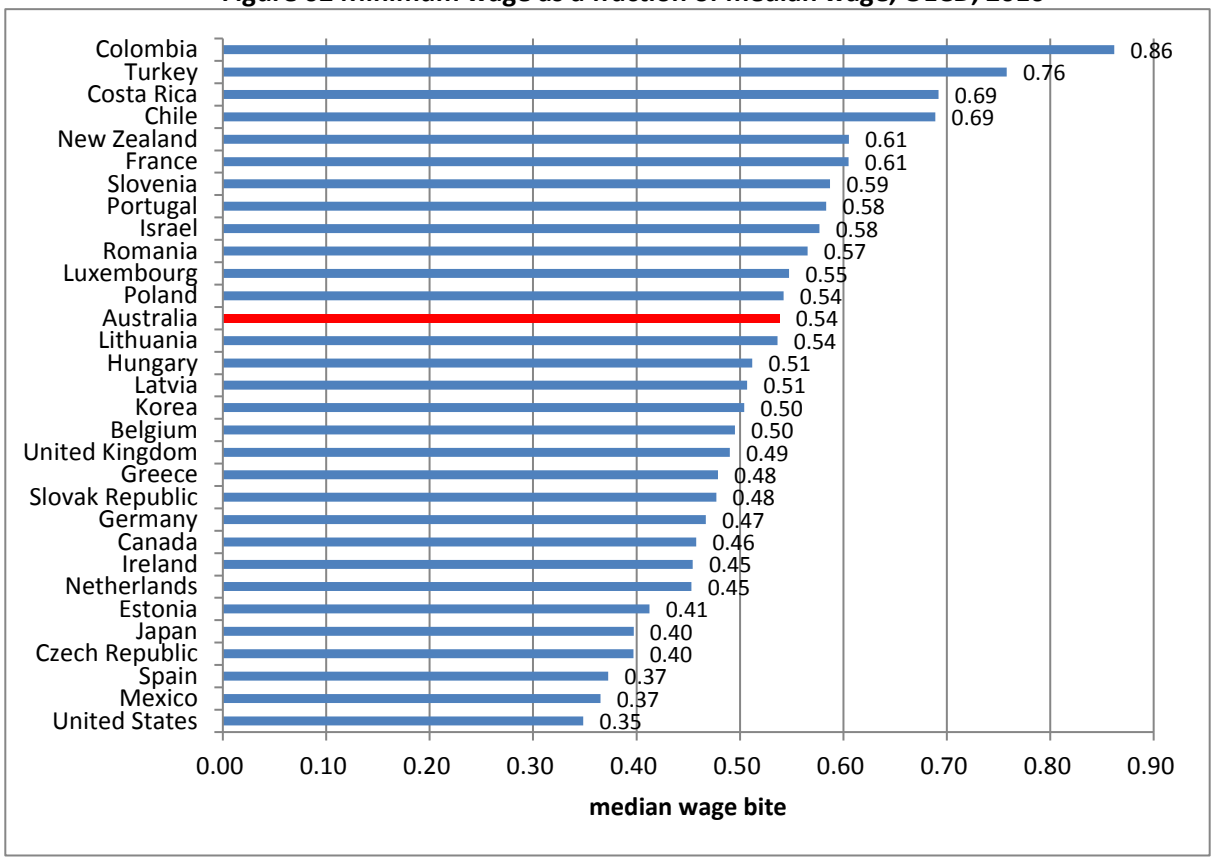
Source, OECD stats https://stats.oecd.org/Index.aspx?DataSetCode=RMW and ACTU calculations

324. A comparison of minimum wage bites across the OECD shows there is nothing inevitable about the size of the bite, as shown inFigure 62 and Figure 63. Australia's median wage bite (full time) at 0.55 is just above the OECD average at 0.53 in 2016, with 12 countries with higher median bites, slipped down one in rank since 2015. [175] Australia's average wage bite (full time) has slipped from 0.44 at 2015 to 0.41 in 2016, above the OECD average of 0.41.

325. Of course, many factors other than minimum wages can affect the level of inequality and the prevalence of low pay. Nevertheless, we submit that if Australia's minimum wage bite is not raised, then higher inequality and even more prevalent low pay will prevail.

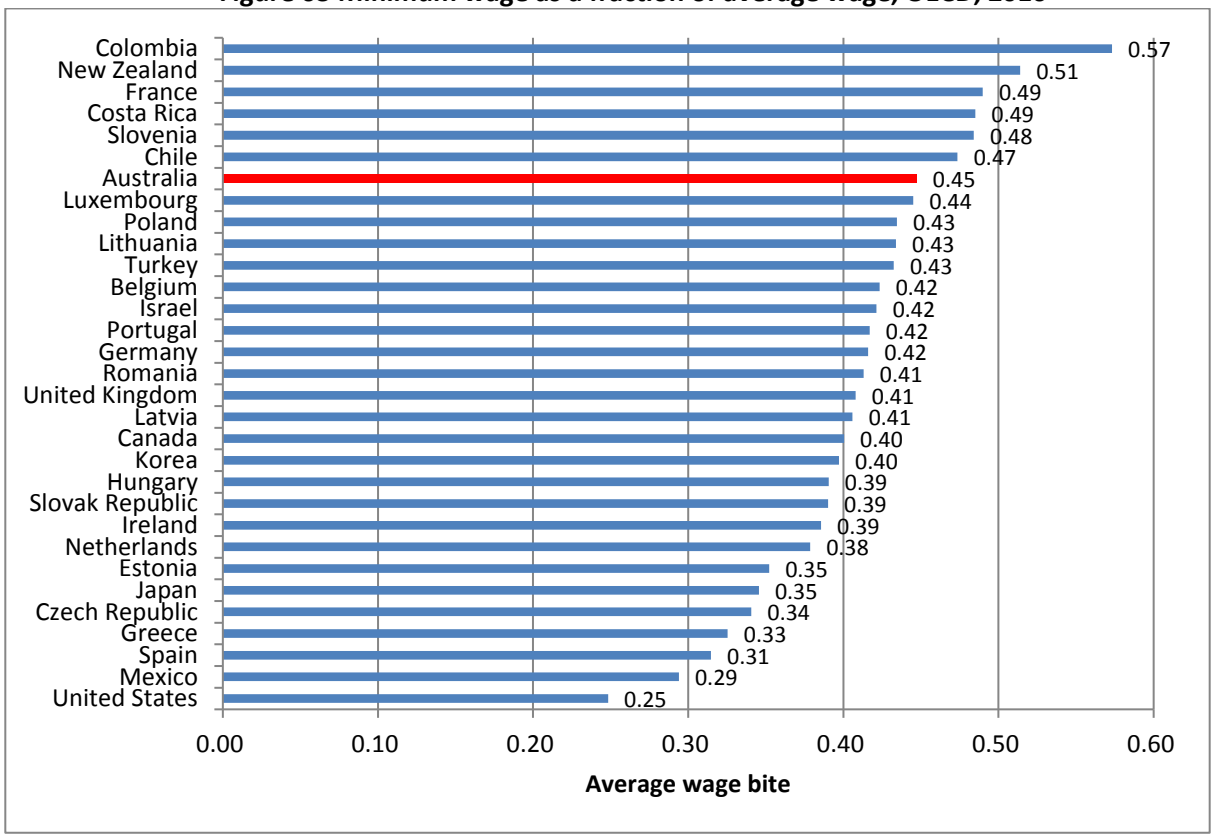
[175] In some years, the OECD figures differ slightly from those obtained by dividing the C14/NMW rate by AWOTE from ABS 6302. The difference is never greater than a percentage point. The ACTU has used the OECD figures for international comparisons to ensure comparability.

Figure 62 Minimum wage as a fraction of median wage, OECD, 2016



Source: https://stats.oecd.org/Index.aspx?DataSetCode=RMW accessed 7 March 2018

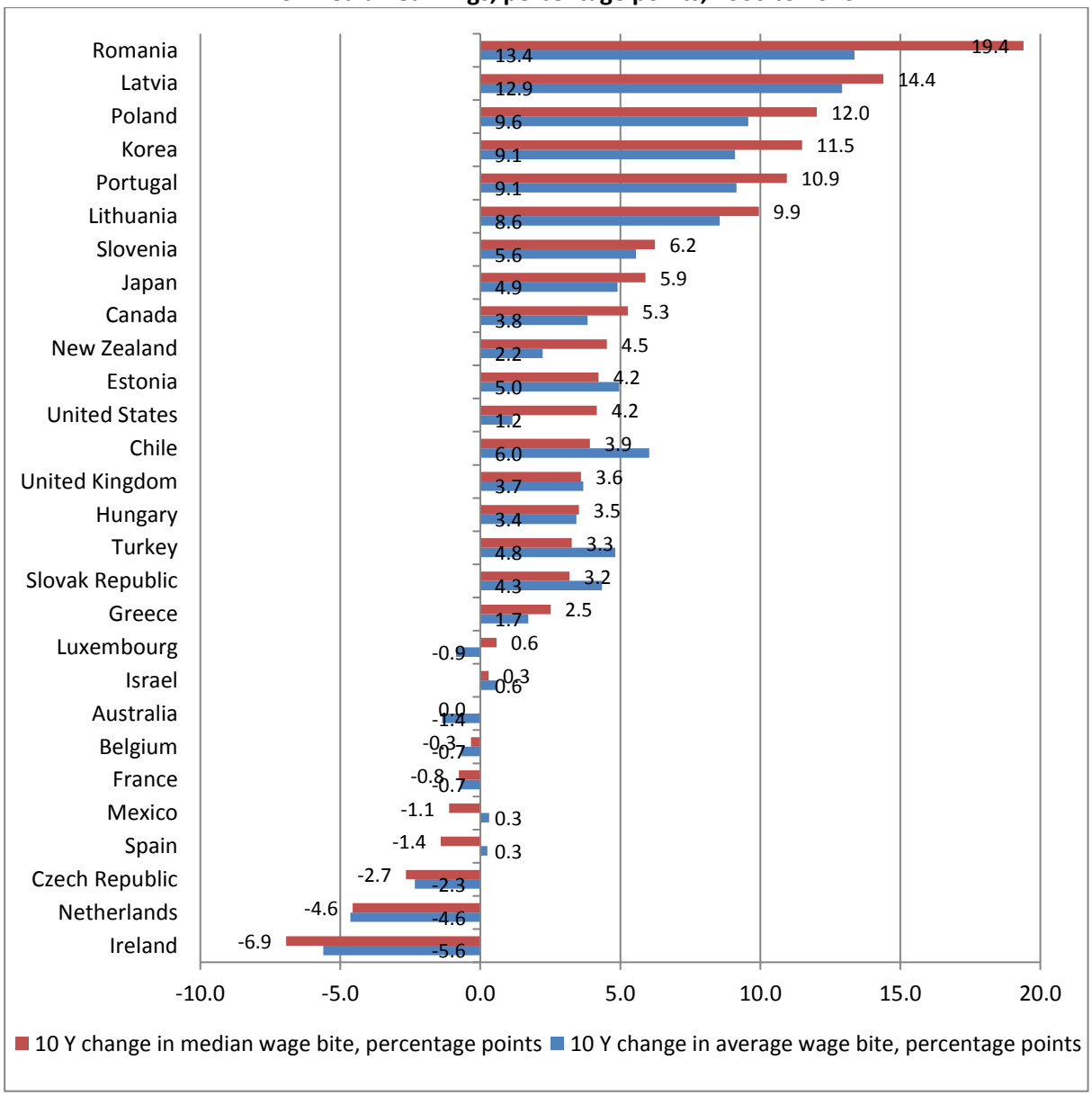
Figure 63 Minimum wage as a fraction of average wage, OECD, 2016



Source: https://stats.oecd.org/Index.aspx?DataSetCode=RMW accessed 7 March 2018

326. Eight OECD countries experienced a falling minimum wage bite as a share of their median wage over the ten years to 2016 as shown in Figure 64, with Australia's falling very slightly. Despite Australia being one of the least affected countries by the GFC, wages growth and minimum wage growth have dragged. Australia also had the fourth highest fall in its average wage bite over the 10 years, falling 1.4 percentage points.

Figure 64 Total change over 10 years in minimum wage share of full time mean earnings, and as share of median earnings, percentage points, 2006 to 2016



Source: OECD stats https://stats.oecd.org/Index.aspx?DataSetCode=RMW and ACTU calculations, accessed 7 March 2018

327. Australia's minimum wage bite was, for a long time, the highest in the OECD. It has been allowed to fall for several decades, at the same time that the minimum wage bites in most

OECD countries have risen. The result is that Australia is drifting towards the middle of the range of minimum wage bites for OECD countries. This is the case for both mean and median based wage bites.

328. Australia's minimum wage growth has lagged while other countries are instituting increases in their minimum wages. This is despite more rapid growth in average wages in the countries recovering from the GFC. Recently median wages in Australia have grown even more slowly than its minimum wage, lifting its wage bite, but its relativity with other OECD countries has still slipped.

329. There is no reason why Australia cannot take the lead again in minimum wages. The last thing we want is for the Australian labour market to come to resemble those of some other OECD countries which have higher levels of earnings inequality.

330. Moreover the OECD countries have shown an increasing interest in minimum wages. Thirty-one OECD countries out of 35 now have minimum wages, with a variety of institutional arrangements.[176]

331. Taking account of the impact of taxes and transfers on the minimum wage bite alters country ranking significantly. Australia's taxes and transfers left it with a net minimum wage bite of 47.7% which was five percentage points lower than its gross minimum wage bite in the OECD study for 2014, leaving it just above the OECD average net minimum wage bite of 44.9%.[177] Average difference between gross and net wage bite in the OECD study for 2014 was 2.1% whereas Australia's was 5.0%.

332. According to an OECD study of 2017, the redistributive effect of taxes and transfers has declined across the OECD over two decades except for the GFC stimuli period. While Australia displays relatively high levels of market income inequality, the redistributive effect of Australia's taxes and transfers is particularly low in the OECD and yet has still declined.[178]

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[176] https://www.oecd.org/eco/growth/Going-for-Growth-Chapter-3-Overview-2017.pdf

[177] OECD 2014, *Employment Outlook 2014,* p.68, update of estimates not available. The OECD's calculations of net bites are for single adults without dependents.

[178] Causa, O. and M. Hermansen (2017), "Income redistribution through taxes and transfers across OECD countries", OECD Economics Department Working Papers, No. 1453, OECD Publishing, Paris. http://dx.doi.org/10.1787/bc7569c6-en , p.21, [40],[41]

333. The gross minimum wage in Australia has to do relatively more heavy lifting than in the average OECD country to bring up the wage bite after taxes and transfers. This is because Australia's tax and transfer system has not been as redistributive towards equity as other OECD countries.[179] Australia has led in the past on minimum wage rates, and the current circumstances provide the opportunity to move towards restoring that leadership.

[179] https://www.oecd.org/social/OECD2016-Income-Inequality-Update.pdf Chart 5

5. PROMOTING SOCIAL INCLUSION THROUGH INCREASED WORKFROCE PARTICIPATION

334. This chapter of the ACTU's submission shows that:

a) The labour market looks strong from the perspective of the aggregate data, but hides some weaknesses which are revealed in more disaggregated analysis. These weaknesses relate to the trend rise in part time work, and the amount of casual employment, under-employment and unemployment.

b) Employment increased 409,000 or by 3.4%, in the year to December 2017 in original terms - record growth, in what is a volatile series. This compares with an increase of 0.9% the previous year, in an annual growth series for total employment which shows much volatility.

c) The participation rate has risen for all persons aged 15 and over and was 65.6% at January 2018, up from 64.6% (seasonally adjusted) in January 2017. The participation for adults aged 25 to 64 rose from 78.2% at January 2017 to 79.5% at January 2018.

d) Employment growth rates exceeded that of total employment (3.3%) in four most award reliant industries, with Health care and social assistance at 6.8%, Retail trade at 4.7%, Accommodation and food services at 4.3% and Education and training at 4.0% over the year to November 2017.

e) Employment increased disproportionately to the share of employment of four award reliant industries. 27.3% of total employment growth in the year to November 2017 was in Health care and social assistance compared to a share of employment of 13.3%, and 15.1% of growth in employment was in Retail trade with an employment share of 10.4%.

f) There was an increase of 331,100 in full time employed over the year to January 2018 in original terms. But the scale of variation is shown in that full time numbers fell in the month of January by 217,700 in original terms (by 49,900 seasonally adjusted).[180] While part time employment increased 77,900 for the year to January 2018, it also fell 46,800 in the month of January 2017, original terms.

g) Part time workers' share in employment has increased from 23.5% twenty-five years ago (January 1993) to 28.6% ten years ago to 32.1% at January 2018, seasonally adjusted. This is almost one third of the workforce, and now stands at 3.9 million people. Australia has now one of the highest part time rates of employment in the OECD.[181]

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[180] ABS Cat 6202,

[181] ABS Cat 6202, seasonally adjusted.

h) The unemployment rate has fallen slightly from 5.5% at January 2017 to 5.4% at January 2018, seasonally adjusted. The large variation in the unemployment rate over time is evidently mainly an outcome of cyclical factors affecting the level of aggregate demand in the economy rather than anything to do with the choices of workers. Unemployment is mostly therefore mostly involuntary and clearly not to do with the level of the NMW and awards.

i) The number of unemployed persons per vacancy has fallen from 3.7 to 3.1 in the year to November 2017.

j) Underutilization (including unemployment and underemployment) has decreased from 14.1% to 13.7% over the year to November 2017 but remains well above the low point of 10.0% at August 2008 prior to the GFC.

k) Underemployed numbers were 1,092,000 at November 2017, an increase of 23,300 from November 2016, and have exceeded unemployment since 2000.

l) While unemployment has trended down since a post GFC high of 6.3% at November 2014 to 5.4% at November 2017, underemployment has remained at around the level of 8.5% that it was at November 2014, being 8.3% at November 2017.

m) Youth unemployment fell from 12.4% in January 2017 to 12.3% in January 2018.

n) Labour market indicators are forecast as shown in section 8.2 below.

o) a literature review does not cause us to depart from the view we have previously expressed and supported by a large number of economists, that raising the minimum wage will not necessarily result in lower employment, or that a lower minimum wage would result in more employment.

p) raising the minimum wage is likely to have some positive effect on consumer demand, employment and the economy.

5.1 The state of the labour market

335. Employment is growing at record rates currently. Employment increased 409,000 over the year to January 2018, or 3.4%, in original terms. The share of part time workers in total employment now stands at 32.1% in January 2018.

336. The participation rate increased from 64.6% to 65.6% at January 2018, seasonally adjusted.

337. The employment to population ratio has similarly increased from 61.0% in January 2017 to 62.0% in January 2018.

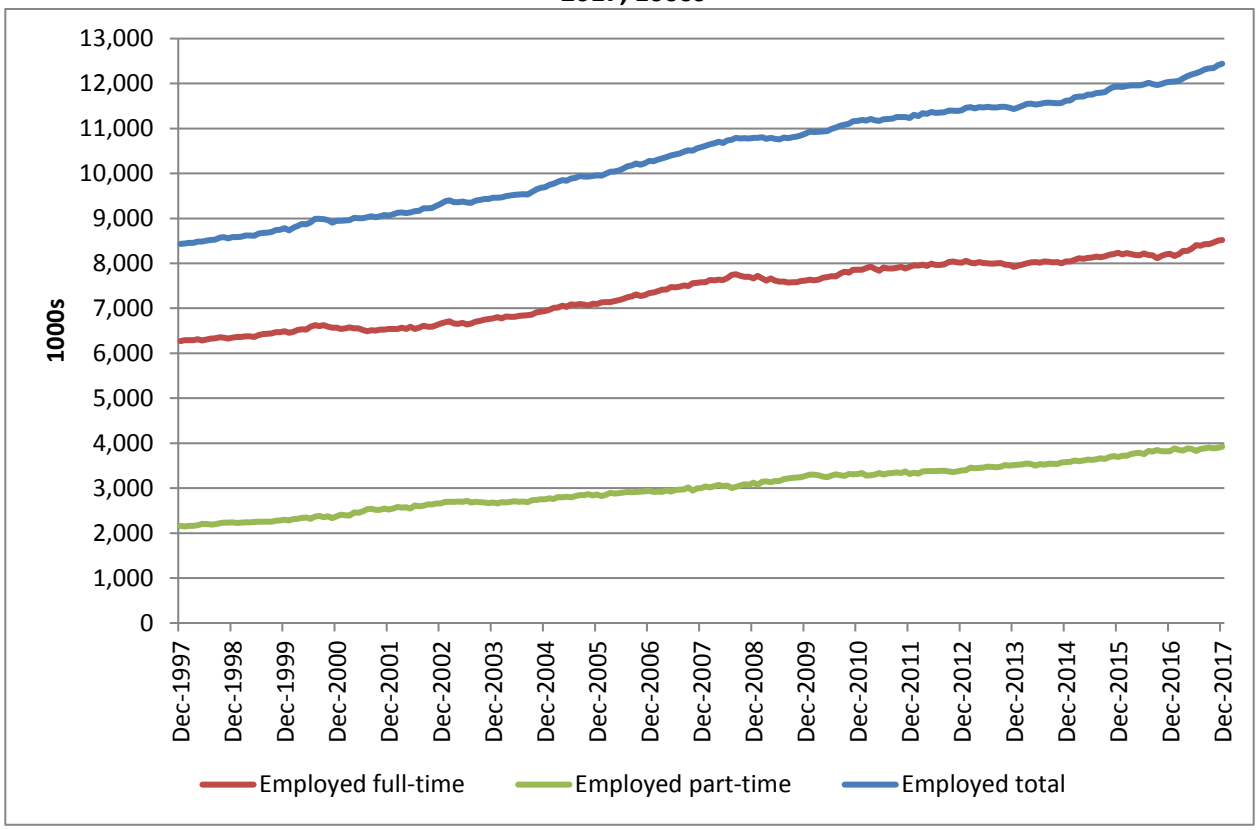
338. The unemployment rate fell from 5.7% at January 2017 (seasonally adjusted) to 5.5% at January 2018, still well above its pre GFC level.

5.1.1 Employment

339. Employment has grown 403,100, seasonally adjusted, 3.3%, in the year to December 2017. 303,400 of the increase was in full time workers and 99,700 were in part time work, and of the latter 82,800 were females. Figure 65 clearly shows the uptick in full time employed since December 2016.[182] The variability in the growth of full- and part-time employment numbers is shown in that the increase was much smaller in the year to December 2016 at 108,700, more than all of which was in part time workers. By contrast the year to 2015 experienced an increase of 309, 500, more than one third of which was made up of part time workers.

[182] ABS 6202 Table 1 and ACTU calculations. ABS Cat 6202 defines part-time employed persons as those who **usually** work less than 35 hours per week, **and actually** worked less than 35 hours in the survey reference week **in all of their jobs**. Full-time employed persons are defined as those who **usually** work 35 hours or more per week, regardless of how many hours they actually worked, or those who **actually** worked 35 hours or more in the reference week despite usually working less than 35 hours per week. This definition results in a bias towards people being categorised as employed full-time. It does not distinguish whether their employment status is 'casual' or 'permanent'.

Figure 65 Full time, part time and total employed, seasonally adjusted, December 1997 to December 2017, 1000s



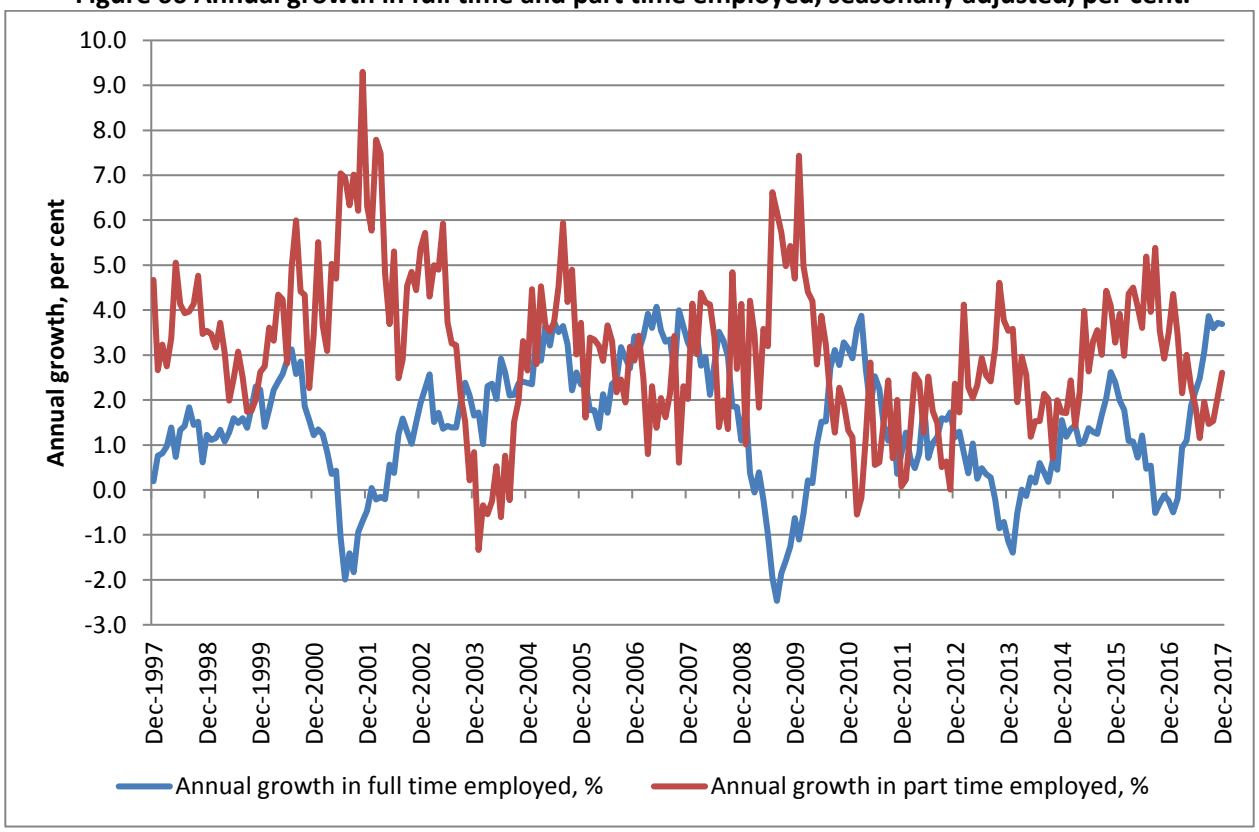
Source: ABS 6206 Table 1

340. Figure 66 shows that while the series' are volatile, annual growth rates in part time employed tend to be higher than full time growth rates. Part time growth rates have trended down somewhat, as an artefact simply of increased share of part time employed over time. Annual growth rates in full time employed have not trended down but tend to be lower. Employment has moved into part time work, now at 31.5% of the total up from 25.6% twenty years ago. The patterns of full and part time employed have been influenced cyclically as employers respond to downturns at 2000 and the GFC by increasing part time work relative to full time. This suggests cyclical factors have been more important in determining employment than are wage rates. However since 2012 the inverse movements in growth of full time and part time employed appear more frequent and not only related to cyclical factors.

341. In the ACTU's view the shift towards part time employment indicates a weakening in the position of employees vis a vis bargaining over wages and this is a reason for the slow growth in wages. This is the case whether or not they may also be considered to be underemployed. Around 51% of the workers captured as "part time" by the ABS are casual (without leave

entitlements).[183] These employees, who are disproportionately award reliant and low paid, are necessarily likely to be less engaged and engageable with regard to determining good work conditions including wages.[184] This makes the increase in the minimum wage all the more significant for the needs of the low paid and the wellbeing of workers.

Figure 66 Annual growth in full time and part time employed, seasonally adjusted, per cent.



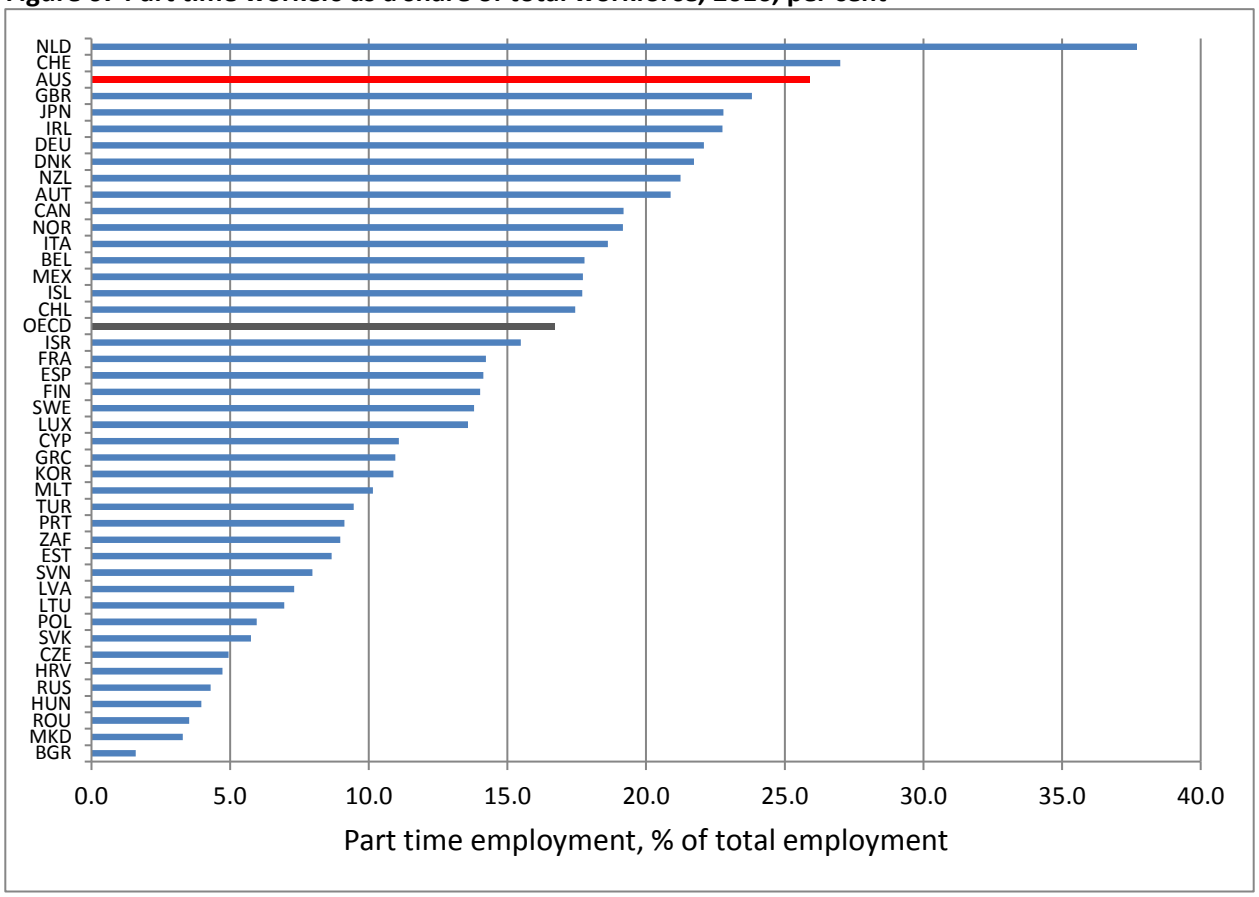
Source: ABS 6202 Table 1 and ACTU calculations.

342. Moreover, the share of part time employment in the workforce in Australia continues to be the third highest in the OECD after the Netherlands and Switzerland, as shown in Figure 67.

[183] ABS 6306

[184] See also [2017 FWCFB 3541 at [357]-[358]

Figure 67 Part time workers as a share of total workforce, 2016, per cent

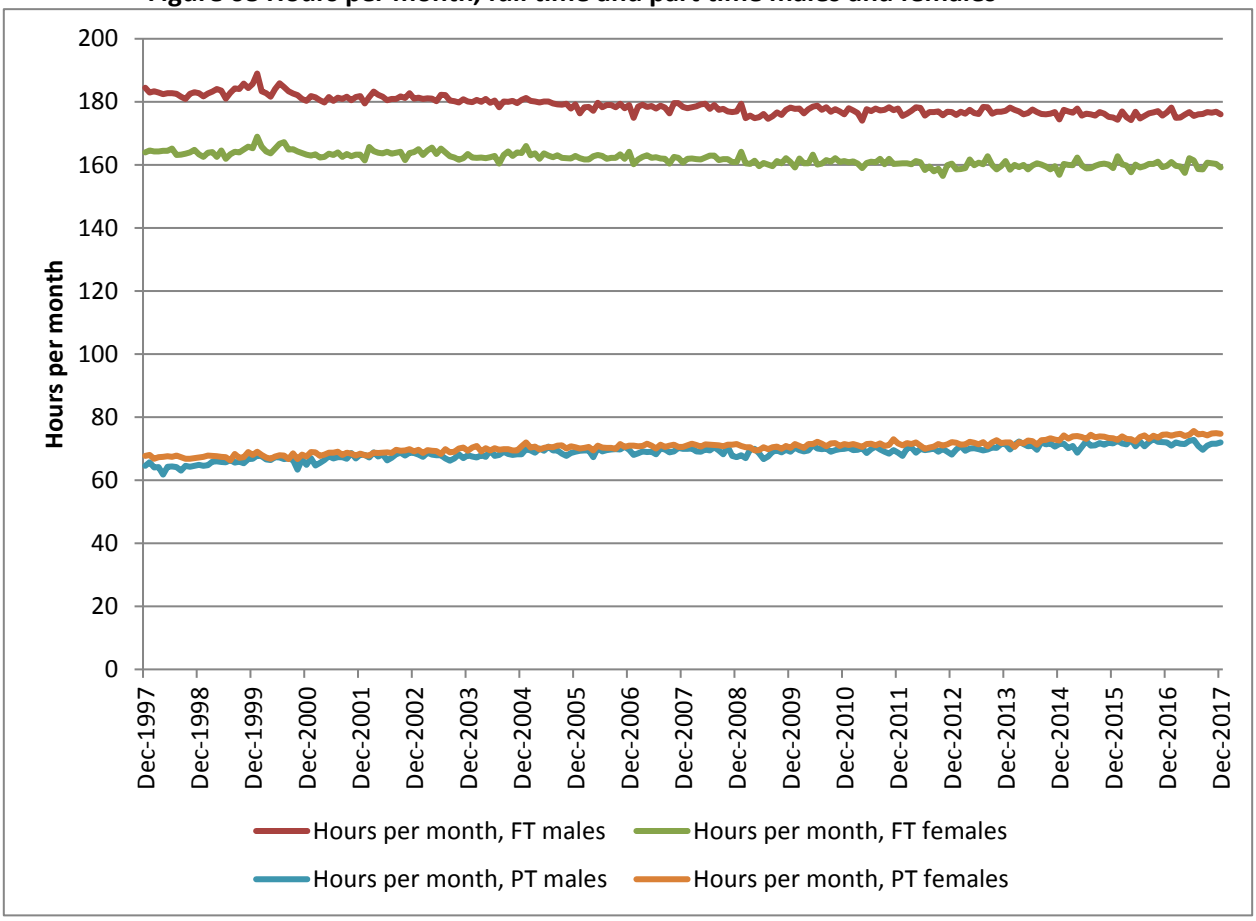


Source: *OECD Employment Outlook* 2017 https://data.oecd.org/emp/part-time-employment-rate.htm accessed 13 Feb 2018

343. Decisions about hours worked appear not to be related to wage rates. The average full time worker is working 169.8 hours per month at December 2017, 7.9 hours or 4.7% less time than 20 years ago, while the average part time worker is working 73.9 hours per month, 7.0 hours or 9.5% more than 20 years ago, as shown in Figure 68.[185]

[185] ABS 6202, Tables 1 and 19, ACTU calculations

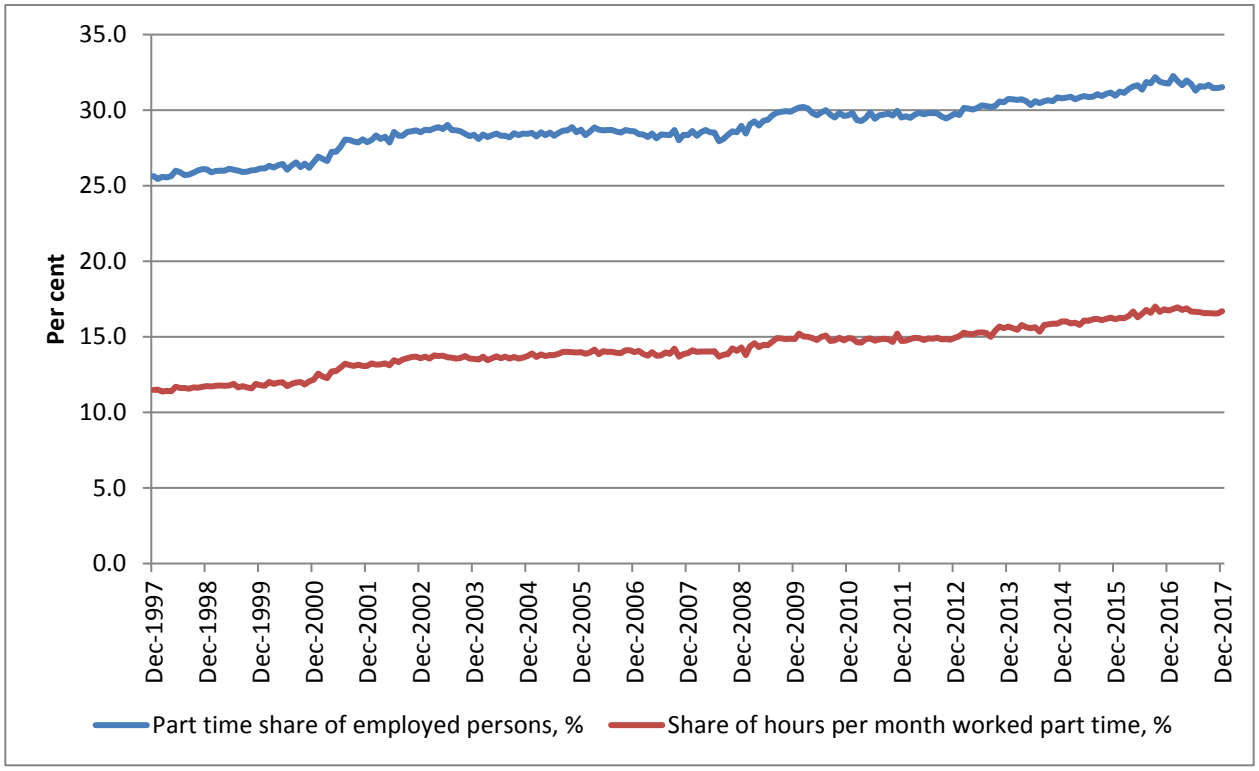
Figure 68 Hours per month, full time and part time males and females



ABS 6202, Tables 1 and 19, and ACTU calculations

344. The share of those working part time in the total number employed has risen from 25.3% at December 1997 to 31.1% at December 2017. Over the last twenty years the share of part time hours in the total has also risen from 11.5% at December 1997 to 16.7% at December 2017, seasonally adjusted, as shown in Figure 69. The shares of part time workers and part time hours respectively have fallen slightly over the last year.

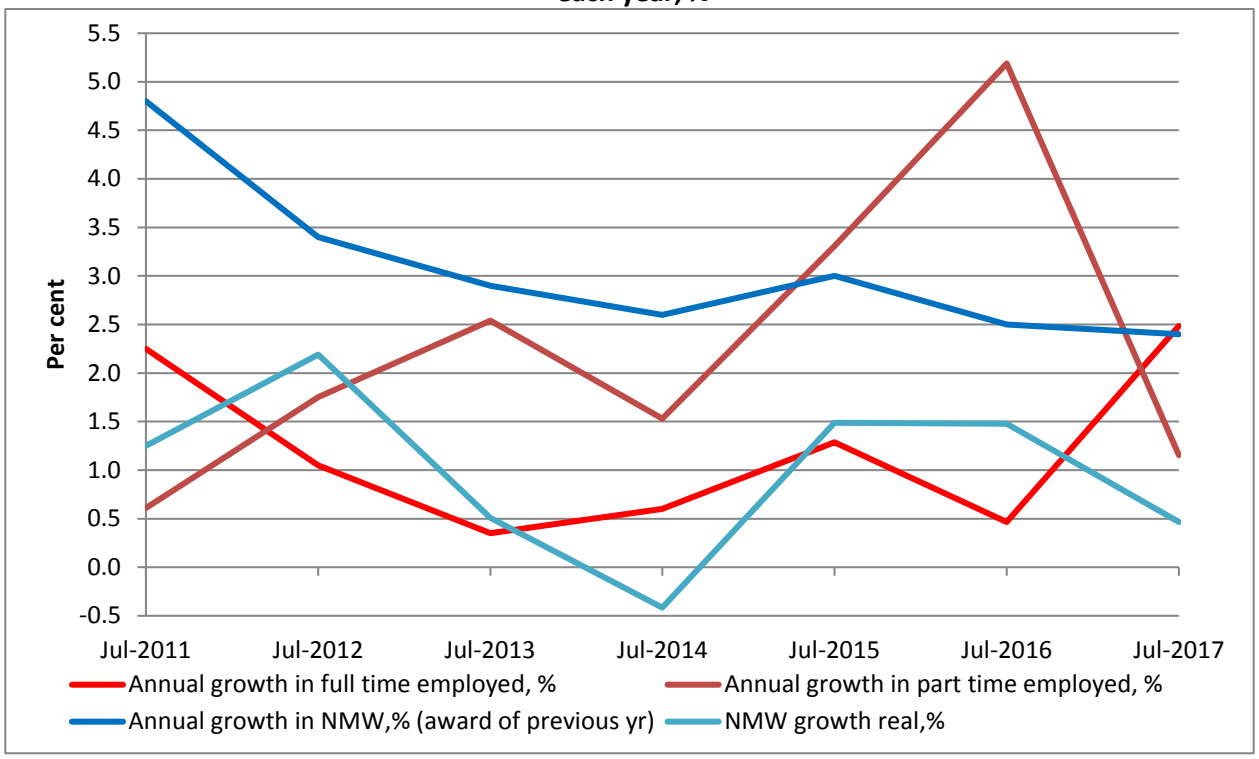
Figure 69 Part time employed per cent of workforce, and part time hours as a per cent of total hours worked



Source ABS 6202 and ACTU calculations

345. It is difficult to relate the increase in part time employment relative to full time to changes in the NMW and awards, as shown in Figure 70.

Figure 70 Annual growth in full time and part time employment, nominal and real NMW, to July of each year, %



Sources: ABS 6202, FWC, and ABS 6401

5.1.2 Unemployment and underemployment

346. Underemployment is part of the underutilization of labour resources in the economy, along with unemployment. The ACTU takes the definition of underemployment to be that of the ILO, which has two aspects, "time related underemployment" and "inadequate employment situations" (inability to replace their job for another, or to transform their work in their workplace). [186] Most importantly underemployment reflects the degree of satisfaction with work experienced by workers.

347. In Australia for ABS purposes underemployment refers primarily to time related underemployment and in particular part time workers who would prefer to work more hours, but also "full time workers who did not work full-time hours in the reference period for

[186] ILO Statistics and Databases *Current Guidelines* http://www.ilo.org/global/statistics-and-databases/statistics-overview-and-topics/underemployment/current-guidelines/lang--en/index.htm accessed 12 February 2018

economic reasons". [187] Economic reasons include being stood down or insufficient work available.[188]

348. In regard to the significance of underemployment, in the ACTU's view there are two aspects which are of relevance to determination of the increase in the minimum wage. One is the extent to which underemployment as measured reflects underutilization of resources in the economy and how raising the minimum wage would affect that. The other is the extent to which the measure of underemployment reflects lack of social inclusion and how a minimum wage increase would affect that.

Underemployment and capacity utilization

349. The ACTU notes that corresponding to labour underutilization is the underutilization of capital and other resources in the economy. The question is the extent to which underutilization measure and underemployment in particular can be interpreted as measuring idle capacity. The Panel stated in its Decision in the AWR 2016-17:

> "It is not clear what relationship there is, if any, between the level of underemployment and the recent history of increases in the NMW and award wages. There has been no real variation in underemployment rates for the past 2 years. The trend is likely to be driven largely by the decline in the proportion of full-time jobs and the increase in the proportion of part-time jobs over the last 30 years as a result of structural changes in the Australian economy. The unemployment rate remains the best indicator of spare capacity in the labour market, although the underemployment rate should continue to be monitored. "[189]

350. Slow growth in the minimum wage has not apparently encouraged employers to offer more hours of work thereby reducing underutilization. Nor on the other hand can we conventionally assume that larger increases in the minimum wage would increase underutilization, that is, that more people would ask for more hours if wages increased and not obtain them. On the contrary, the ACTU view is that insofar as people seek more hours because wages are too low as

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[187] ABS Directory of Statistical Sources by Topic *Underemployed Workers* *http://www.abs.gov.au/ausstats/abs@.nsf/products/036166B5C6D48AF2CA256BD00027A857?OpenDocument* accessed 12 February 2018.
[188] Vandenbroek P 2017 *Underemployment statistics: a quick guide* Research Paper Series, Parliamentary Library, Parliament of Australia, May, p.2
[189] FWC 3500 2016-17 [74]

is likely especially in low paid areas, raising the wages of the low paid will reduce underemployment and underutilization thereby.

351. The ACTU would also contend that the slow growth in wages has in fact held up the consumer spending which would encourage employment. The ACTU is of course not alone in this view, highlighted by the Treasurer[190] ,the Reserve Bank of Australia[191], and private sector such as the Commonwealth Bank,[192] as well as international institutions including the IMF[193] and the OECD[194].

352. While underutilization (including unemployment and underemployment) has decreased from 14.1% to 13.7% over the year to November 2017 it remains well above the low point of 10.0% at August 2008 prior to the GFC and still just above the post GFC figure of 13.6% at May 2009.[195]

353. Figure 71 shows that while unemployment has trended down since a post GFC high of 6.3% at November 2014 and was 5.4% at November 2017, underemployment has remained at around the level of 8.5% that it was at November 2014, being 8.3% at November 2017, just down from 8.4% at November 2016.

354. Underemployed numbers were 1,092,000 at November 2017, most recent figures, an increase of 23,300 from November 2016. This compares with unemployment of 710,100 at November 2017.

355. Unemployment has fallen from 5.8% at November 2016 to 5.5% at December 2017, most recent figures, seasonally adjusted.

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190 http://www.abc.net.au/news/2017-03-13/scott-morrison-low-wage-growth-biggest-challenge-economy/8350032

191 http://www.smh.com.au/business/the-economy/rba-governor-philip-lowe-wage-growth-too-low-rates-to-climb-but-not-for-some-time-20170810-gxtb2l.html , https://www.rba.gov.au/speeches/2017/sp-gov-2017-07-26.html , https://www.rba.gov.au/speeches/2017/pdf/sp-gov-2017-11-21.pdf , Bishop and Cassidy 2017

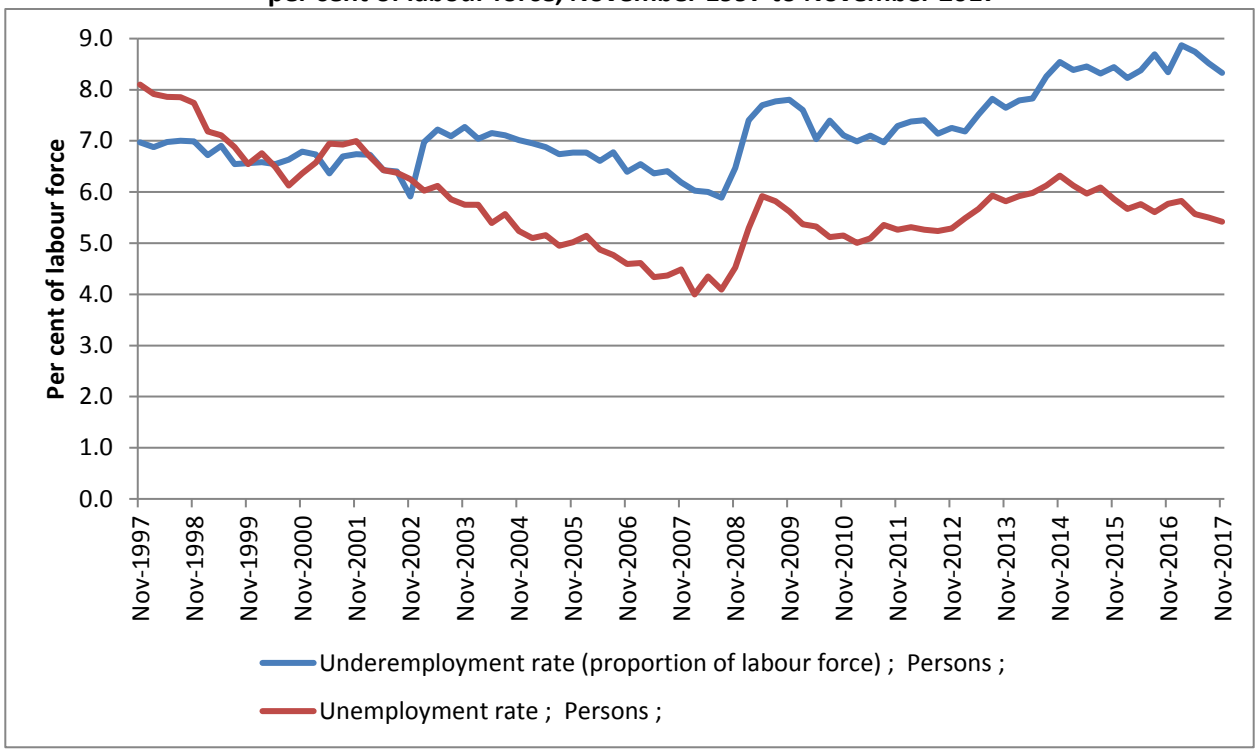
192 http://www.afr.com/news/economy/we-need-to-talk-about-wage-policy-says-cbas-chief-economist-20171018-gz35z2

193 https://www.imf.org/en/News/Articles/2017/11/20/ms112017-australia-staff-concluding-statement-of-2017-article-iv-mission

194 Cyrille Schwellnus, Andreas Kappeler and Pierre-Alain Pionnier 2017 Decoupling of wages from productivity: macro-level facts OECD ECONOMICS DEPARTMENT WORKING PAPERS No. 1373

195 ABS 6202 Table 22

Figure 71 Unemployment rate and underemployment rate, quarterly, persons, seasonally adjusted, per cent of labour force, November 1997 to November 2017



Source: ABS 6202 Table 22

356. The ACTU is in agreement with panel that ABS measure of underemployment is not a great measure of "spare capacity" because if underemployed workers are not actively looking (i.e. asking) then the capacity of the market is not actually being tested by them. The Panel cited the RBA which identified two categories of underemployed workers, indicating that the 8.6% underemployed at the time meant that around one quarter of part time workers were underemployed.[196] The Panel said that "three quarters of part-time workers are not looking to work longer hours" and that "a person does not have to be searching for more hours of work to be classified as underemployed … and only around half of all underemployed workers reported that they were actively searching for additional hours" meaning that an eighth of part time workers "want more part-time hours and are actively looking for them". The Decision also said that around half of those who want additional hours would prefer not to change their employer to find them. [197] The Panel cites the RBA figures which adjust underemployment to include only the additional hours actively sought and as a result the contribution of underemployment shrinks relative to unemployment in the measure of underutilization. The Decision cites the

[196] FWC 3500 2016-17 [554]
[197] FWC 3500 2016-17 [555]

RBA's conclusion that unemployment remains a 'broadly reliable' guide to spare capacity in the labour market. [198]

357. Further, the Panel identified that industries with high ratios of part time employment (i.e. hours of less than 35 per week, so also including casual employment) are necessarily likely to have greater levels of underemployment.[199] This is certainly borne out by Chart 6.6 of the Statistical Report. It is unclear whether measure of hours "sought" as described in the Note below that Chart includes only hours *actively sought*, as referred to in the RBA Statement.

Underemployment and social inclusion

358. The ACTU notes the Panel's statements in its AWR Decision of 2016-17 in regard to the implications of underemployment for social inclusion. One question is the extent to which the measure of underemployment reflects workers searching for more work due to the inadequacy of wages. On this basis, a decent increase in the minimum wage would serve to reduce underemployment.

359. The ACTU is not aware of evidence regarding the reasons workers seek more hours. There is only data regarding the" main difficulty" in finding work.[200] Based on underemployment as measured, it does not appear that increases in the minimum wage have served to reduce underemployment and thereby improve social inclusion.

360. The ACTU respectfully submits that excluding those who were "available and not looking" (that is did not request longer hours) underestimates the relative lack of power of the employee in the employment relationship particularly for women and other vulnerable groups, and also the risk and costs of changing jobs. Many employees do not find themselves in a position to request anything from employers. It is well understood that requesting more hours is unlikely to have the result that the worker seeks and may even be negatively interpreted by employers and have adverse consequences for the employee. In the absence of this information that cannot be discounted. It may be as formidable as asking for a pay rise, and as unlikely to succeed.

361. Accordingly, the fact that employees want more hours but have not asked suggests that they may need more income but perceive that they are unlikely to get the extra hours that would

[198] FWC 3500 2016-17 [556]
[199] FWCFB 3500 at [561]
[200] ABS 6226 Table 7

assist with that. The ACTU also recognises as above that people may want more hours because of inadequate wage rates, particularly in low paid jobs. However the ACTU is not aware of data which would shed light on the distribution of underemployment across earnings distributions or occupations.

362. More over given that the underemployed under consideration here are part time employees, a large proportion are likely to be casually employed and are likely to perceive themselves to have even weaker power in the labour market. Of the 22.6% of non managerial employees who were casual (without leave entitlements) at May 2016 (most recent), 19.6 percentage points were part time, and only 3 percentage points were full time. This means that a full 51% of total part time non managerial employees were casual, and it is likely they are disproportionately represented in the underemployed.[201] This is also confirmed by Rozenbes and Farmakis-Gamboni 2018.[202] Anecdotally we know that many casual employees unsuccessfully seek more hours, and accordingly learn quickly not to ask, just as they are unable to ask for higher wages or improved conditions.

363. Cassidy and Parsons 2017 refer to the increasing preference for youth to work part time due to the increase in participation in part and full time study, and for females to work part time due to caring for children, based on HILDA data.[203] However the growth in underemployment is also highest in the youth age group, and young non married women according to Borland 2017, and this is confirmed by Rozenbes and Farmakis-Gamboni 2018.[204] Borland says "Growth in part-time employment for younger workers cannot be regarded as entirely voluntary, since the rise in under-employment has also been largest for younger workers." Borland goes on to say that some component of the increase in part time work is involuntary, and with regard to the involuntary aspect "it is possible that the decrease in trade union density since the mid-1980s has allowed employers greater scope to impose the mix of employment types they prefer." In the ACTU's view the increase in underemployment reflects a concomitant deterioration in workers' ability to exercise a say in their working conditions. At the same time it has not been reflected in productivity improvements, but rather a trend redistribution of national income towards profits and away from wages.

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[201] ABS 6306,released Jan 2017, most recent, and ACTU calculations

[202] Rozenbes D & Farmakis-Gamboni S (2018), *The characteristics of the underemployed and unemployed*, Part I, Fair Work Commission Research Report 2/2018, February.

[203] Cassidy N & Parsons S (2017), The rising share of part-time employment, *Reserve Bank of Australia Bulletin*, September Quarter, pp. 19–26., p.20; Rozenbes and Farmakis-Gamboni (2018), p.11

[204] Borland J (2017), *Part-time work in Australia: a second look*, Labour market snapshot #38, June

364. In the ACTU's view if the employer grants more hours upon request of the worker, it must mean less hours for another employee, or less new employment, all else being held constant. It does not appear that most employers have a system with explicit criteria for prioritising requests for more hours. The employer will only add hours as long as it is perceived to be profitable, as they frequently remind us. As we know, employers are even less inclined to grant wage increases.

365. In the ACTU's view similarly the reasons employees seek to change jobs to gain more hours also relates to trying to improve their income. Employees are also likely to factor in the "opportunity cost" and risk involved in changing jobs when they face locational constraints such as transport, childcare, schools, housing etc in what remains a relatively high unemployment environment. These factors also limit employees' capacity and inclination to request changes in their current workplace conditions (notwithstanding their desire for higher incomes), which have often been achieved only through legislation, not least the minimum wage.

366. In the ACTU's view the finding that the state of underemployment changes to another state over time for the majority of workers as found by Lass and Wooden 2018[205] does not diminish the importance of underemployment in terms of prevalence in the workforce at any point in time. The hardship associated with underemployment may last a few years or less, but expecting that underemployment may not be a permanent state does not diminish the difficulty of the experience.

367. At August 2017 414.200 males were underemployed, or 6.3% of employed males. Nearly half of these or 3.1% of the total employed were" available and not looking". For females, 622,500 or 10.8% of employed females were underemployed, and of these 5.8 percentage points were "available and not looking." In the ACTU's view this amounts to a measure of "hidden underemployment".

368. Of those people who had looked "for work or more hours in the last 12 months", 19.1% said their main difficulty was "too many applicants looking for available jobs", and another 16.4% said there were "no vacancies" or "no vacancies in their line of work". Thus 35.5% of the

[205] Lass I & Wooden M (2018), *The characteristics of the underemployed and unemployed*, Part II, Fair Work Commission Research Report 2/2018, February.

unemployed who actively looked for work faced insufficient demand, and another 10.4% said they had insufficient work experience.[206] The proportions of hours sought and not obtained due to these main difficulties were very similar to the percent of employees with each main difficulty.

369. This means that 17.3% or more than one in six of those underemployed faced insufficient demand based on survey responses. Together with more than 700,000 unemployed, this scale may well be enough to deter the 51.5% of the 1,039,100 underemployed people who did not look for more hours.

370. The OECD said in June 2017 "Nearly 9% of employed people in 2015 were working part-time involuntarily, i.e. their hours had been reduced or they had been unable to find full-time work. This is one of the highest shares in the OECD (after Italy and Spain), representing an area where labour market performance could be improved. "[207]

371. Until we have evidence that those are not serious about wanting more hours, these people should be considered to be underemployed, as the ILO defines. If, as the Panel postulated, the recent levels of underemployment is a result of structural changes in the Australian economy[208], then this "new normal" ought to be taken into account when assessing relative living standards.

5.1.3 Vacancies

372. Comparison of measures of official unemployment with recorded vacancies provides an indication of the level of involuntary unemployment in the economy and its sensitivity to cyclical influences on the level of aggregate demand in the economy, as shown in Figure 72. The ratio of number unemployed to number of vacancies is countercyclical, increasing in downturns and falling in upturns. It has fallen on trend since February 2014 when it was 5.8, and from 3.7 unemployed persons per vacancy at November 2016 to 3.1 in November 2017. This is a reflection of the lower unemployment rate and indicates a tightening of the labour market coinciding with a large increase in employment, especially in full time jobs over the last year.

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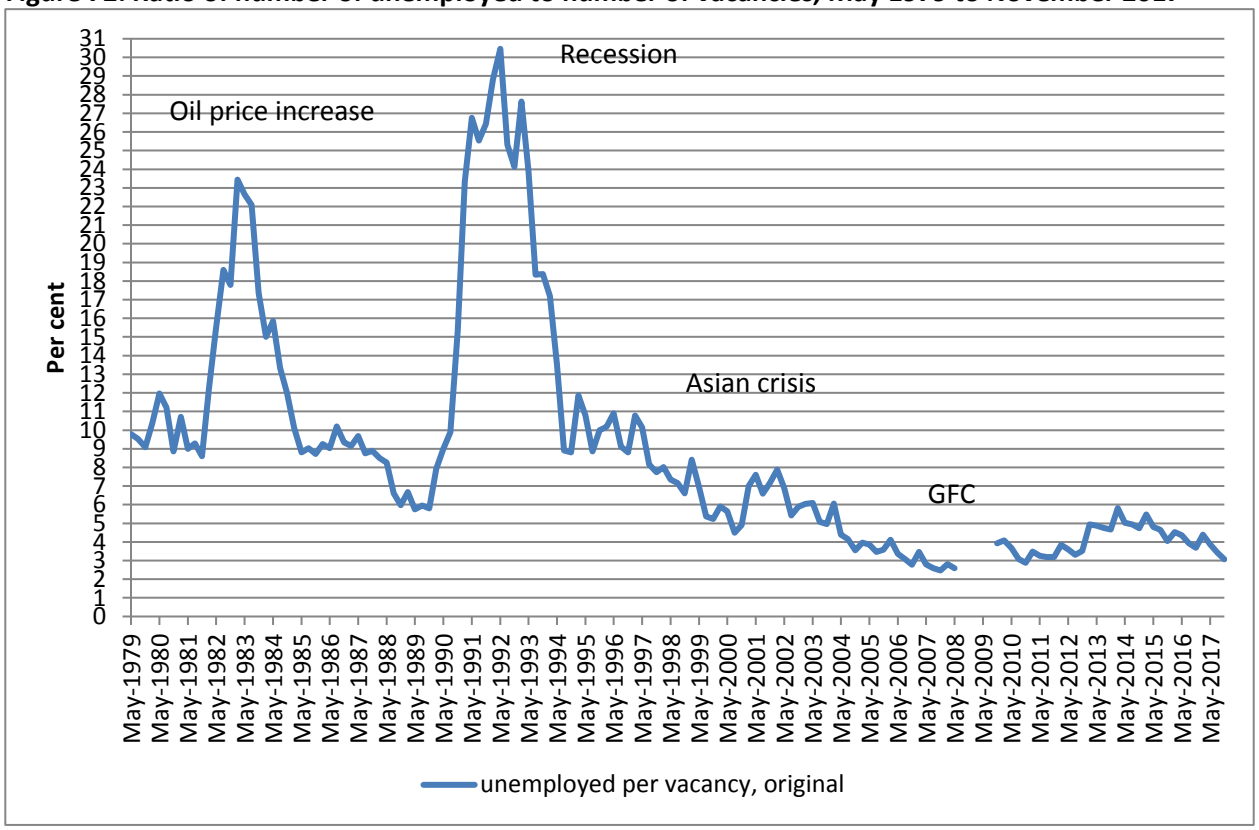
[206] ABS 6226 Table 7 and ACTU calculations.
[207] OECD *Employment Outlook 2017 How does Australia Compare?* https://www.oecd.org/australia/Employment-Outlook-Australia-EN.pdf , Rozenbes D & Farmakis-Gamboni S (2018), *The characteristics of the underemployed and unemployed*, Part I, Fair Work Commission Research Report 2/2018, February, p.11
[208] [2017] FWCFB 3500 at [563]

Figure 72: Ratio of number of unemployed to number of vacancies, May 1979 to November 2017



Sources: ABS 6202, 6354 (original) and ACTU calculations. Vacancies data is unavailable from Feb 2008 to Feb 2010

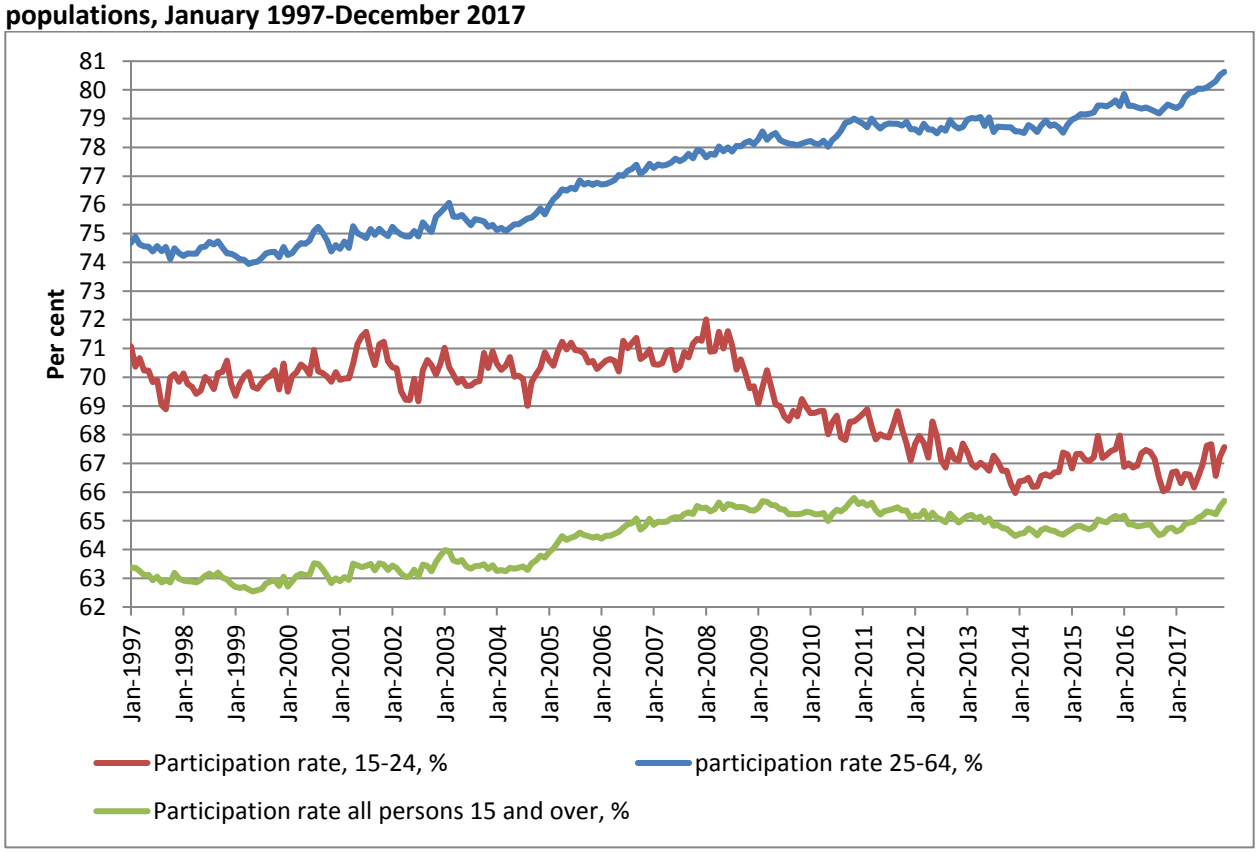
373. Changes in the unemployment rate summarise the cyclical state of the labour market, which is more evidently dependent on the level of aggregate demand than anything else. Most unemployment is seen to be involuntary, that is people would work or work more if it were available, regardless of the wage rates being offered. The behaviour of underemployment also suggest that a large part of labour market behaviour is not determined by the choices of workers.

5.1.4 Participation in the labour force

374. The labour force participation rate for those aged 15 and over has noticeably upticked since October 2016 when it was 64.5%, increasing from 64.8% to 65.7% (seasonally adjusted) in the year to December 2018 as shown in Figure 73. There was a large net increase in participation of 395,400 added to the labour force, exceeding the growth in population of 15 years and over of 322,500, and exceeded slightly by the increase in employment. This points to a healthy labour market and contrasts with the slow growth in wages. It cannot be inferred that participation rates have risen in response to increases in the minimum wage and awards, or to wage growth generally, when wage growth is the slowest on record.

375. Participation rates for the 25-64 age group also rose to 80.6% in December 2017 up from 79.4% a year earlier, seasonally adjusted, with an increase of 293,700 in the labour force aged from 25 to 64. Participation rates for 15 to 24 year olds also rose from 66.7% at December 2016 to 67.6% at December 2017.

Figure 73: Participation rates, age 15-24, 25-64, and total 15 and over, percentages of respective group populations, January 1997-December 2017



Source: ABS Cat 6202, ACTU calculations

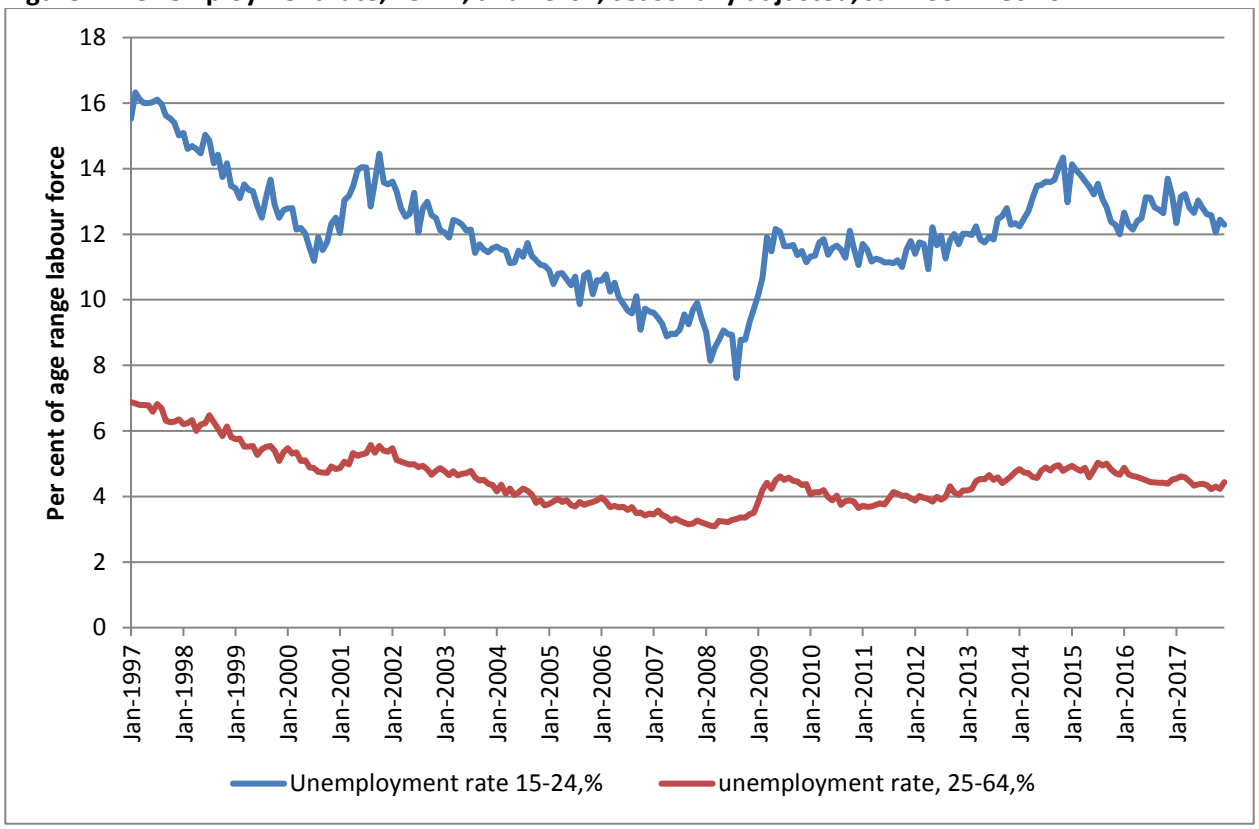
376. Participation rates across the age groups have risen in 2017 against the slowest wage growth rates on record. That does not suggest a 'discouraged worker effect' arising from the low wage growth rates. In the traditional model demand effects would be expected to increase wages. In the ACTU's view it is the development in the long term of weaknesses concealed within the aggregate labour market data which relate to the slow growth in wages.

5.1.6 The youth labour market

377. The youth participation rate declined five percentage points in six years post GFC down to 66.0% at December 2013, fluctuating since then and picking up to 67.6% at December 2017, as shown in Figure 73 above. The trend fall in youth participation rate since the GFC is the result of a complex of factors, including the interaction between changing labour market and education conditions.

378. The youth unemployment rate has fallen from 13.2% at December 2016 to 12.3% in January 2018, remaining close to the high of 12.2% at the GFC. The unemployment rates for age 15-24 are compared with those for adults, age 25-64 in Figure 74. While more volatile due to smaller numbers, the movement in the youth unemployment rate tends to track the adult unemployment rate, with the difference between youth and adult unemployment narrowing as unemployment falls and increasing as unemployment rises. Adult unemployment was 4.5% at December 2016 and was 4.4% at December 2017.

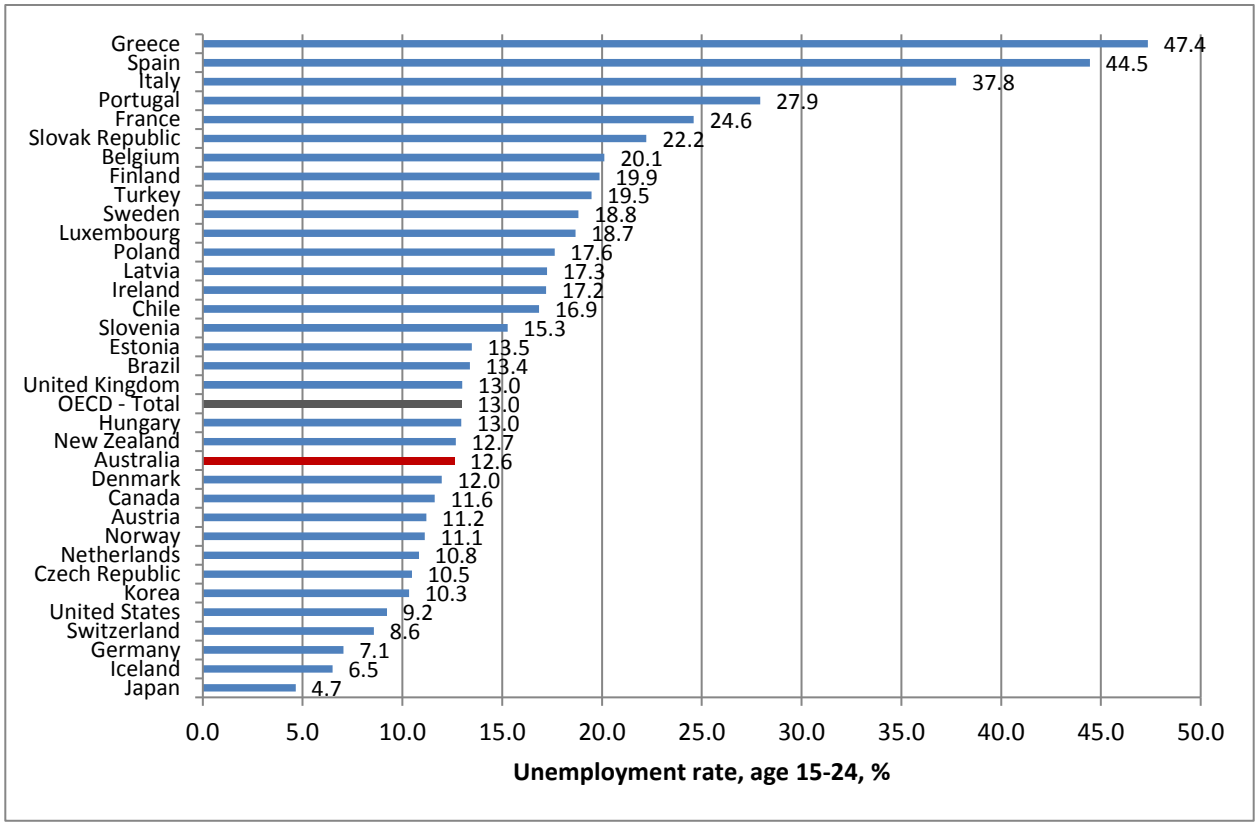
Figure 74: Unemployment rate, 15-24, and 25-64, seasonally adjusted, Jan 1997-Dec 2017.



Source: ABS Cat 6202, rate for 25 to 64 yo is ACTU calculation

379. Australia's youth unemployment rate has stayed high in the years following the GFC, whereas it has come down for other OECD countries, the same pattern as for total unemployment. Australia's youth unemployment rate is just below the OECD average for 2016, most recent, as shown in Figure 75.

Figure 75: Youth unemployment rate in OECD countries, % of youth labour force, 2017 or latest available



Source: *OECD Employment Outlook*, 2017 https://data.oecd.org/unemp/youth-unemployment-rate.htm accessed 13 February 2018,

380. The relationship between total unemployment and youth unemployment over time cannot be attributed to movements in wages or the minimum wage and awards. The evidence suggests that movements in unemployment in Australia have been cyclical in nature and are related to the state of aggregate demand and the pace of economic growth.

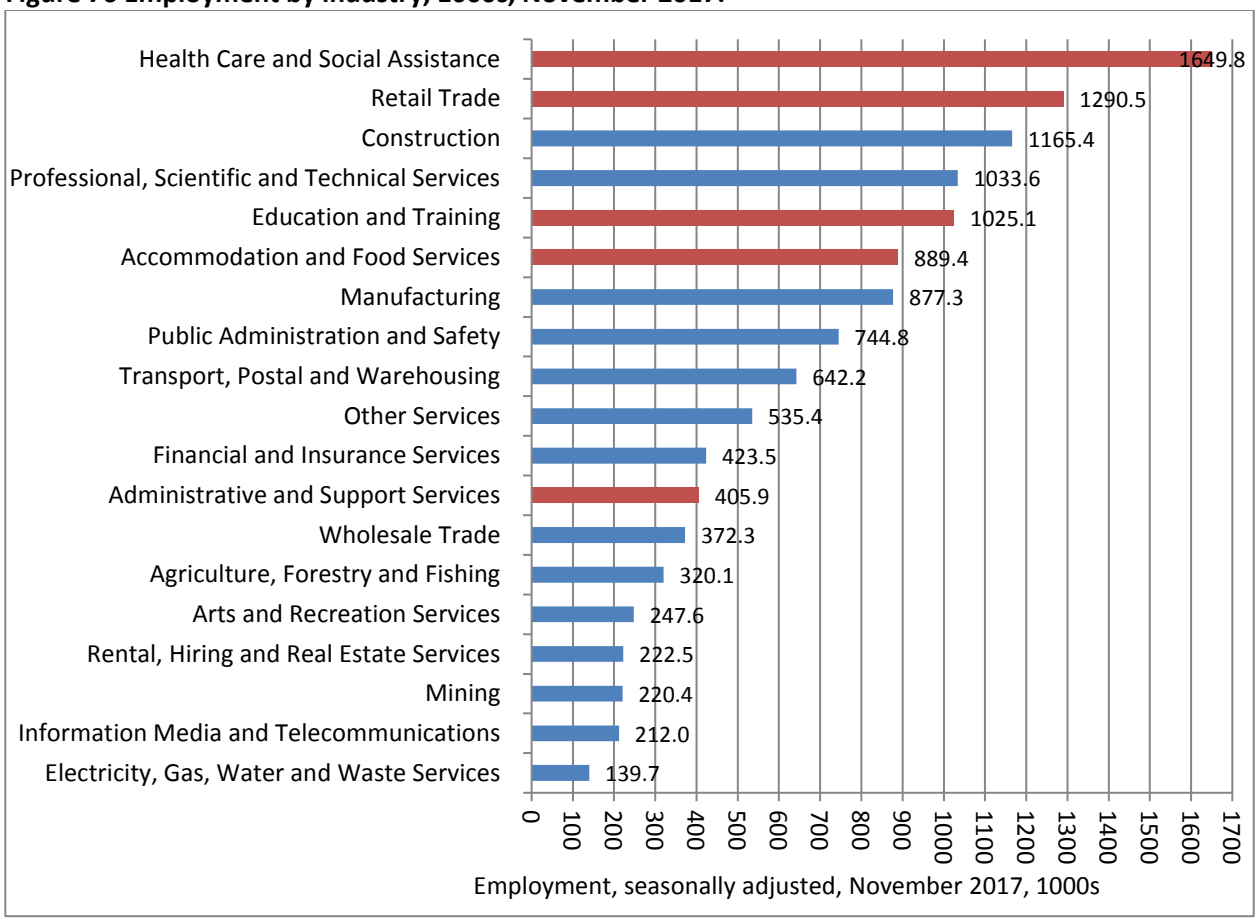
381. The movements in the unemployment rate are much bigger than wage changes over time and primarily reflect the state of aggregate demand for the economy. The advantage of Australia's system is that the youth labour market would benefit commensurately from an increase in the minimum wage that applies to youth.

5.1.7 Employment by industry

382. The significance of award reliant industries in the economy is indicated by the numbers employed in each as shown in Figure 76, with 5.3 million people employed in the five most award reliant industries at November 2017, an increase of 209,000 or 4.1% more than November 2016, seasonally adjusted. This compared with 2.5% growth in employment in the

less award reliant industry sectors. The share of the most award reliant sectors in total employment fell very slightly over the year, from 42.8% to 42.3% as total employment grew. The share of the five most award reliant industries in the employment increase was disproportionately large at 54.5%. Health care and social assistance and Retail trade were the two largest sectors in terms of employment. However award reliance had also increased and was more than twenty per cent in several other industries with big shares of employment, such as Education and training.

Figure 76 Employment by industry, 1000s, November 2017.



Source 6291.0.55.003 (seasonally adjusted) and ACTU calculations

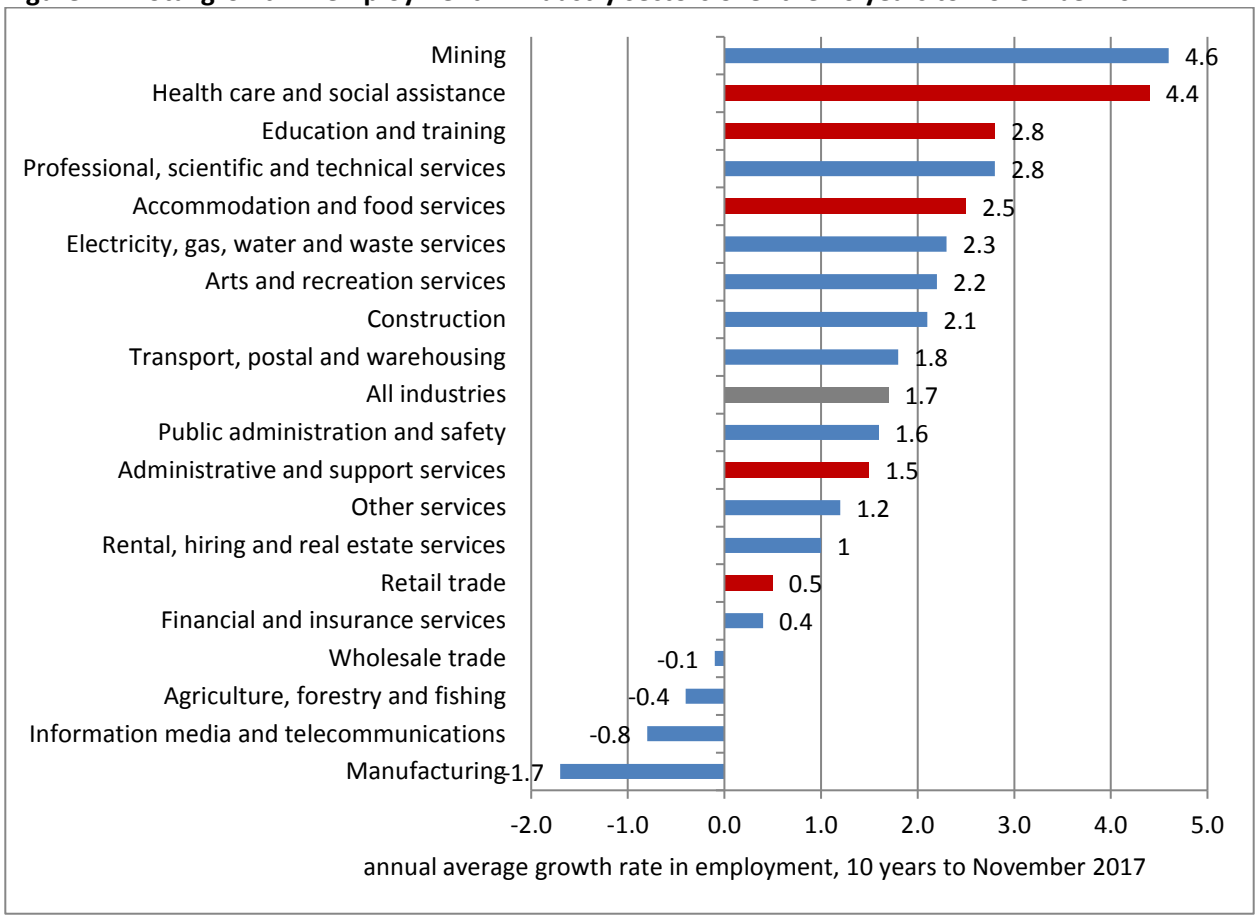
383. There was no particular pattern over recent years amongst industry employment growth in relation to award reliance, as shown in the FWC *Statistical Report – Annual Wage Review 2017-18*, p.27, Table 6.3.[209]

384. The wide range of growth in employment across industries is shown in Table 6.3, p.27 of the Statistical Report of the AWR 2017-18. Figure 77 depicts data from that Table which shows the

[209] FWC 2017 Statistical Report – Annual Wage Review 2017-18, p.27, Table 6.3.

big range of average annual growth rates in employment across industries over ten years to November 2017. Health and Social Assistance grew 4.4% per annum, Education and training grew 2.8%, Accommodation and food grew 2.5% Administrative and Support Services 1.5% and Retail trade 0.5% compared with employment growth of 1.7% per annum over the ten years to November 2017.

Figure 77: Total growth in employment in industry sectors over the 10 years to November 2017.



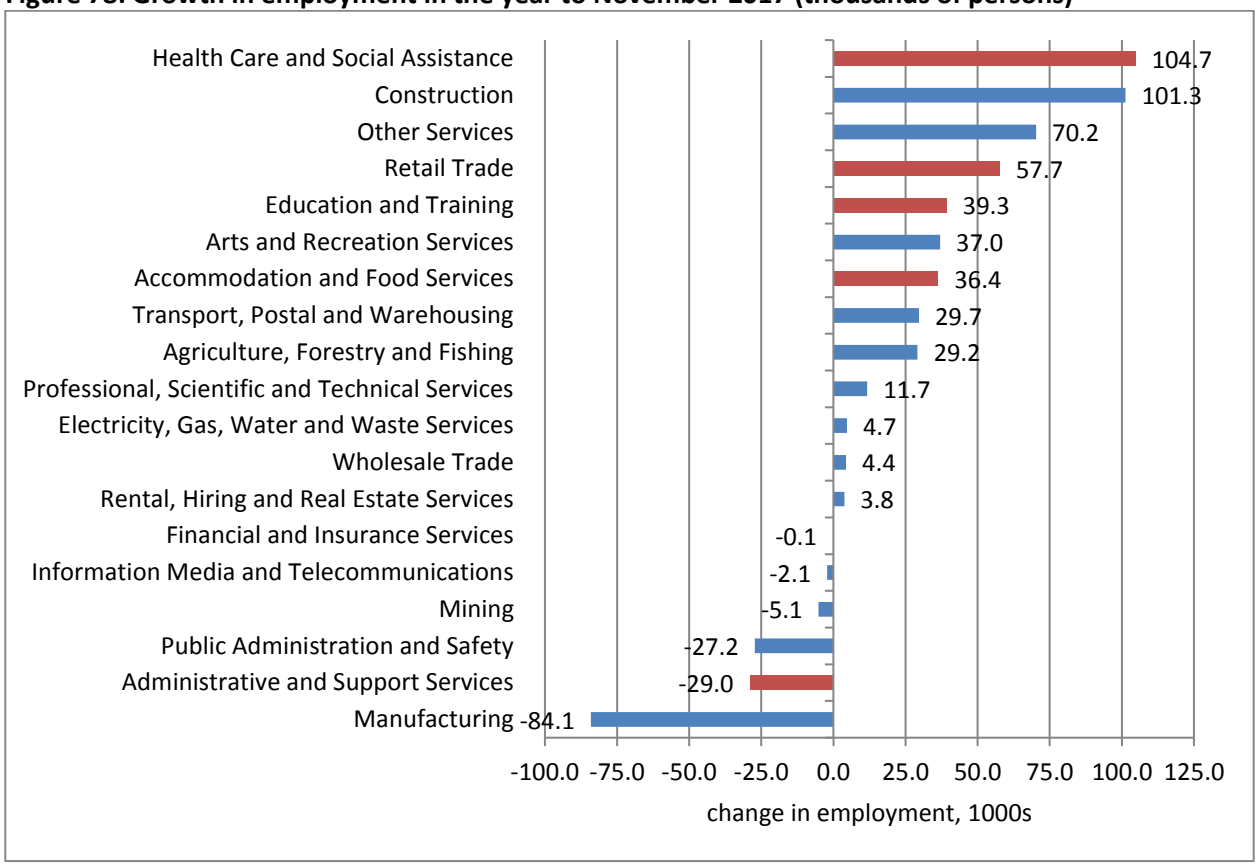
Source: FWC *Statistical Report – Annual Wage Review 2017-18,* Table 6.3, p.27.

385. As previously, employment growth in the most award-reliant industries as in others is likely to be strongly influenced by industry specific factors. Retail service and sales includes online sales which are less labour intensive. Accommodation and food services is likely to be sensitive to movements in the Australian dollar and preferences related to cooking. Health and social support is related the ageing population and the implementation of the NDIS.

386. In the year to November 2017 employment grew in four of the five most award reliant industries, by more than the total industry average of 3.2%. Employment in Accommodation and food services, that most award reliant sector, grew by 36.400, or 4.3% over the year to November 2017, seasonally adjusted, and by 57,700 or 4.7% in Retail trade. But it was the

growth in employment in Health and social assistance of 104,700 or 6.8% which contributed more than a quarter to the total employment increase, with the NDIS as a factor, shown in Figure 78 and Figure 79. Administrative and Support Services fell by 29,000 workers, 6.7%, over the year to November 2017.

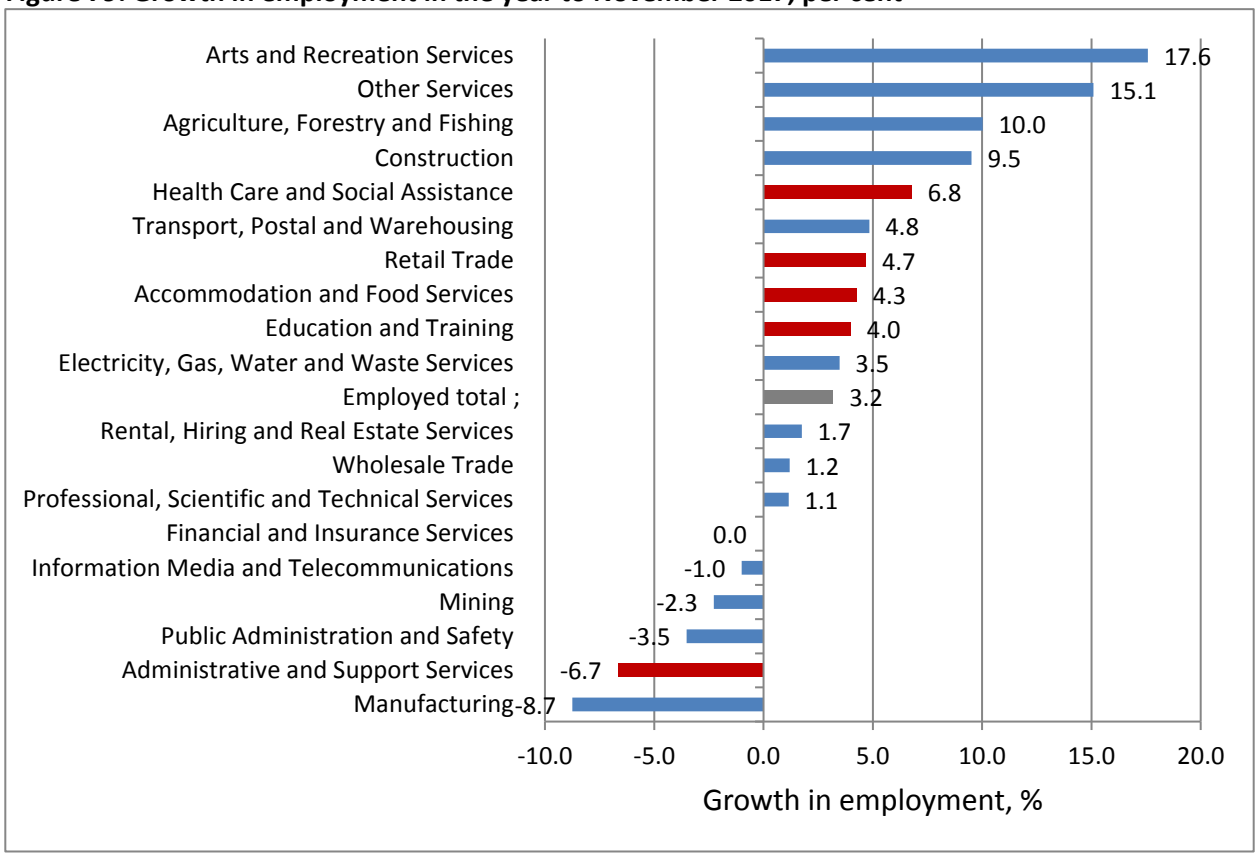
Figure 78: Growth in employment in the year to November 2017 (thousands of persons)



Source: ABS 6291.0.55.003 (seasonally adjusted) and ACTU calculations.

387. Employment growth exceeded that of total employment (3.3%) in four most award reliant industries, with Health care and social assistance at 6.8%, Retail trade at 4.7%, Accommodation and food services at 4.3% and Education and training at 4.0% over the year to November 2017, as shown in Figure 79.

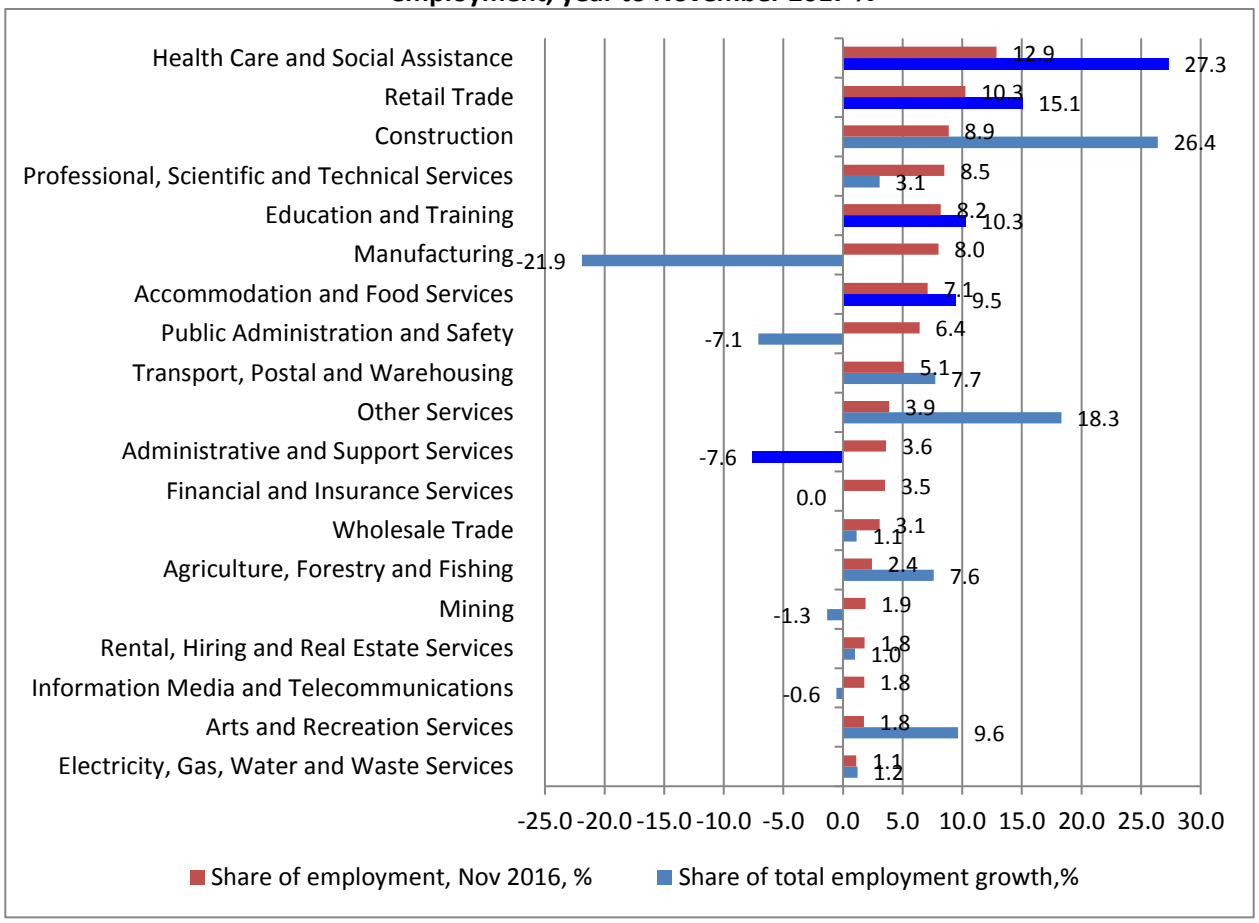
Figure 79: Growth in employment in the year to November 2017, per cent



Source: ABS 6291.0.55.003 (seasonally adjusted) and ACTU calculations.

388. Figure 80 shows that four most award reliant industries contributed a greater share of employment growth than warranted by their share of total employment, over the year to November 2017. This was particularly the case in Health care and social assistance. An increase in the NMW would be of particular benefit to employees in those industries.

Figure 80 Industry share of total employment, November 2016, and industry share of total growth in employment, year to November 2017 %



Source: ABS 6291004, ACTU calculations, total employment is the year start figure, at November 2016, most award reliant in bright blue

389. Growth in consumption service industries may be related to expenditure arising from albeit slow wage growth. Along with the increase in award reliance that is taking place and lower rates of enterprise bargaining, slow growth in minimum and award wages may be limiting expenditure and growth.

5.2 What do minimum wages do?

390. This section examines developments since the AWR 2017 in the findings from research on the effects of minimum wages. There are recent developments regarding the impacts of a minimum wage in several areas.

391. A review of the literature does not cause us to depart from the views we have previously expressed, and we in particular adhere to the view expressed by our own staff economists and

76 other professionals (including a former reserve bank governor) in the open letter that was widely circulated in April of last year, namely:

> "The traditional assumption that higher minimum wages necessarily result in less employment has been disproven by exhaustive peer-reviewed research; it is equally illegitimate to conclude that lower minimum wages will result in more employment."[210]

392. In addition, we remain of the view, accepted by the Panel, that increases to the National Minimum Wage and award wages are likely to have some effect on consumer demand.[211] Further, we believe that such demand effects are a positive for the economy and a stimulus for employment growth.

5.2.1 International evidence

393. The Panel indicated in its Decision in the last Annual Wage Review that:

> "… in the current Review our consideration of the international research on the impact of increases in minimum wages on employment, particularly the United Kingdom (UK) research, has fortified our view that modest and regular wage increases do not result in disemployment effects. Further, that research suggests that the Panel's past assessment of what constitutes a 'modest' increase may have been overly cautious, in terms of its assessed disemployment effects."[212]

394. We observe the continuing lack of international evidence of a negative relationship between minimum wage increases and employment, which have been investigated for much larger percentage wage increases than those awarded in Australia. We also note the wide range of estimates of that impact, from negative to positive which are found in the literature.

395. The international literature continues to add to the evidence which supports little or no negative effect on employment of the introduction of or actual increases in minimum wages, including for low waged workers and youth. We view this evidence as relevant for the minimum wage in Australia, notwithstanding its unique system.

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[210] See http://ppesydney.net/penalty-rate-cuts-will-boost-inequality-not-employment/

[211] [2017] FWCFB 3500 at [528].

[212] Fair Work Commission *Annual Wage Review 2016-17* [2.168], Appendix 2 [14],

The UK

396. The UK Government accepted the Low Pay Commission's recommendation for a 4.4% increase in the National Living Wage (NLW) which takes the rate for workers aged 25 and over from £7.50 to £7.83 an hour, effective from 1 April 2018.[213] Other minimum pay rates were also increased, from 3.7% for 16-17 year olds, 5.4% for 18 to 20 year olds, 4.7% for 20-24 year olds, and 5.7% for apprentices. All of these increases are larger than the annual increases in the NMW and awards.

397. The United Kingdom Low Pay Commission Report 2017 "The National Minimum Wage" of November 2017[LPCR 2017] includes preliminary findings on an investigation into the impact of increases in the NLW on employment and hours. [214]

398. LPCR 2017 reports on a survey of the impact of increases in the NLW and NMW in April 2017 on "120 mostly medium-sized and large firms across the low-paying sectors". The survey found that "In general, as many businesses, in the low-paying sectors covered, were expanding as were reducing their workforces, although this pattern varied by sector. While hospitality was expanding, headcount reductions were most common among retailers and in the public/not-for-profit sector. Overall, over a third had reduced staffing (38 per cent) with over 40 per cent of them citing the NLW as a factor in that decision."[215]

399. The ACTU calculates from the above that 15% of the sample of 120, or 18 firms, said they had reduced their staffing due to increases in the NLW or NMW, 23% said they had reduced their staffing for other reasons, and 62% of the sample said they had not reduced their staffing or had increased it. Thus a vast majority of surveyed firms had not reduced staff as a result of the increased NLW or NMW.

400. The LPC commissioned the UK National Institute of Economic and Social Research (NIESR) to undertake an econometric analysis of the impact of the introduction of the NLW in April 2017 on employment and hours, due to report finally in late 2018 (the NIESR project). The LPCR 2017

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[213] Incomes Data Research http://www.incomesdataresearch.co.uk/national-living-wage-to-rise-by-4-4-in-april/#more-2216 downloaded 16 Jan 2018

[214] The United Kingdom Low Pay Commission Report 2017 "The National Minimum Wage" Presented to Parliament by the Secretary of State for Business, Energy and Industrial Strategy by the Command of Her Majesty, November [LPCR 2017]

[215] LPCR 2017 Appendix 2 p.200 [7], p.201 [13], p.213 Heffernan K, Mulkearn K, Welfare S, Withers L & Young G (2017), *The National Living Wage: employers' response to the 2017 increase*, a report for the Low Pay Commission, Incomes Data Research, October.

reported the findings of the interim report (Aitken et al 2017) from the NIESR project, stating that "Overall, their preliminary findings point to no robust impact on employment from the introduction of the NLW. The evidence on hours is mixed. We again emphasise the preliminary nature of this research, as it is based on a limited time frame including only one year of data after the introduction of the NLW."[216]

401. The LPCR 2017 said that Aitken et al 2017 used UK Office for National Statistics data to find that the impact on real wages of the increases in the NMW and NLW was greater the closer the previous wage was to the NMW or NLW, with the effect diminishing for workers further up the earnings distribution.[217] From this it is inferred by the ACTU that the greater increases in wages closer to the NMW and NLW serve to narrow the earnings distribution through raising earnings at the bottom, which ought to contribute to improved relative living standards.

402. The LPCR 2017 said Aitken et al 2017 "used two methods to investigate the impact of the NLW: differences-in-differences (DiD), which compares a treatment group (those directly affected by the NLW) with a control group (those earning just a little more than those directly affected); and differences-in-differences-in-differences (DDD), which additionally makes comparisons with the younger age group (those aged 21-24) who were not entitled to the NLW. They investigated the impact by gender and hours of work (full-time or part-time) ... At this stage, they found no conclusive evidence of a negative impact on employment retention", having subjected their econometric estimations to standard testing for reliability of results. [218] The impact on hours of retained workers was mixed. [219]

403. The LPCR 2017 also reported on an econometric study by McGuinness et al (2017) of the impact of the introduction of the NLW (in April 2016) on employment and hours in Northern Ireland. [220] Northern Ireland has "wages that are generally lower than in much of the rest of the United Kingdom", and a land border with the Republic of Ireland which allows free movement of workers. Ireland's own minimum wage increased 5.8% in January 2016 and 1.0% in January

[216] LPCR 2017 pp.98-99 [2.169] and Appendix 2 pp.202-3 [19] – [24], citing Aitken, A., P. Dolton, M. Ebell and R.Riley, 2017 Impact of the Introduction of the National Living Wage on Employment and Hours. Research Report for the Low Pay Commission. November. (National Institute of Economic and Social Research.)
[217] LPCR 2017 p.202 [19]
[218] LPCR 2017 p.202-203 [20]-[22]
[219] LPCR 2017 p.203 [23]
[220] LPCR 2017 p.203 [25]-[29], McGuinness, S., D. McVicar and A. Park**,** 2017. *Employment and Hours Impacts of the National Minimum Wage and National Living Wage in Northern Ireland.* Research Report for the Low Pay Commission. November. (Economic and Social Research Institute, Dublin; Queen's University Belfast; and University of Ulster Economic Policy Centre.)

2017, by contrast with the increase in the NLW which increased the UK's minimum wage by 10.8% over the year to April 2016.[221]

404. Using difference in difference methods whereby workers in the Republic of Ireland are the control group and those of Northern Ireland are the treatment group to whom the NLW is applied, McGuinness et al (2017) found a "small but significant decrease in employment of up to 2 percentage points for working age people aged 22 and over in Northern Ireland in the year following the introduction of the National Minimum wage" [at 2000]. This is equivalent to the fall in retention of part time female workers for the whole of the UK when the NMW was introduced, estimated in Dickens et al (2012, 2015), or about about 20,000 out of 825,000 people in Northern Ireland. "However, this analysis did not fully take account of the appreciation of sterling against the Irish pound in 1999 and 2000 or the faster economic growth in the Republic compared with Northern Ireland at that time. The authors concede that these factors could explain the finding."[222] And "In contrast, they found no evidence of any impact of the introduction of the NLW on employment in Northern Ireland. However, the depreciation of sterling amid concerns about Brexit and the increase in the Irish minimum wage of nearly 6 per cent may have offset the employment impacts of the large increase in the NLW"[223]. Nor did they find robust findings of an impact of the introduction of the NMW or the NLW on weekly hours worked in Northern Ireland, where magnitudes were small and statistically insignificant.[224]

405. The LPCR 2017 also reports on Lordan (2017) which investigated the impact of minimum wage increases in the UK on "automatable" and "offshorable occupations, based on similar studies fro the US.[225] Lordan (2017) finds that minimum wage increases "very modestly" increase the rate of workers' leaving UK jobs or working less hours in automatable and offshorable occupations in the next period, very slightly reducing the shares of automatable and offshorable jobs. That is, a one per cent increase in the minimum wage would reduce the share of automatable jobs by 0.06%, and of offshorable jobs by 0.03%. This was more for manufacturing, low-skilled males,

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[221] LPCR 2017, p.203 [25]

[222] LPCR 2017 p.203 [26], citing Dickens, R., R. Riley and D. Wilkinson, 2012. Re-Examining the Impact of the National Minimum Wage on Earnings, Employment and Hours: The Importance of Recession and Firm Size. Research Report for the Low Pay Commission. January (University of Sussex and National Institute of Economic and Social Research.), Dickens, R., R. Riley and D. Wilkinson, 2015. A Re-examination of the Impact of the UK National Minimum Wage on Employment. Economica. 82 (328): 841-864. October.

[223] LPCR 2017 p.203 [27]

[224] LPCR 2017 p.203 [27]

[225] LPCR 2017 p.99 [2.171]pp.204-205 [33]-[38] citing Grace Lordan 2017 Minimum wage and the propensity to automate or offshore (London School of Economics) For the Low Pay Commission, November.

older workers and Black low skilled workers. [226] The ACTU notes that this does not imply anything in regard to the rate of job creation, or in relation to the impact of the minimum wage increases on employment overall which cannot be discerned from the study.

406. Lordan (2017) also notes that the findings for the UK are much smaller than those found previously for the US.[227]

407. The UK LPCR considers the impact of austerity measures in the UK on the families of minimum wage recipients. It cites Brewer and Agostini (2017) which finds that any additional reductions in benefits in the UK should be "more than" offset by increases in the minimum wage.[228]

408. The LPCR 2017 also reports the findings of a study it commissioned by Frontier Economics of the impact on apprenticeship numbers of increasing the pay rates for apprentices.[229] In October 2015 the Apprentice Rate was increased from the low £2.73 an hour to £3.30, or 21%, a 'much larger increase than the Commission had recommended', of 2.6%. The Frontier study investigated the impact of that increase on apprentice hours and characteristics in England. The study used a differences in differences methodology which exploited the variation in apprentice pay across England to compare outcomes of increased Apprentice Rates in low paying areas with those in high paying areas. "The main econometric specifications found no statistically significant evidence of a negative impact on apprentice numbers, starts or completions."[230] However it could not rule out that increases in apprentice numbers in low paying areas were caused by other policy changes including changes in the NLW.

409. Moore et al 2017 in a report for the LPC investigates through the use of case studies the relationship between the minimum wage and non standard work arrangements including zero hours contracts, minimum hours contracts, agency work and 'dependent self employment' in which effectively employees are forced to define themselves as self employed. [231] While there

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[226] Lordan (2017), p.51

[227] LPCR 2017 p.205 [39], Lordan G and Neumark D (2017), People versus machines: the impact of minimum wages on automatable jobs, National Bureau of Economic Research, Working Paper No. w23667, August, see Section 'The USA'

[228] LPCR 2017 p.157 5.27],citing Brewer, M. and P. De Agostini, 2017 *The National Minimum Wage, the National Living Wage and the Tax and Benefit System*. Research Report for the Low Pay Commission. October. (Institute for Social and Economic Research, University of Essex.)

[229] LPCR 2017 p.210 [68]-[71], Piano S, Popov D & Cilauro F (2017), Estimating the impact of the October 2015 increase in the apprentice rate, Frontier Economics, a report for the Low Pay Commission, November.

[230] LPCR 2017 p.210 [69]

[231] Moore S, Antunes B, White G, Tailby S & Newsome K (2017), Non-standard contracts and the National Living Wage, a report for the Low Pay Commission, October.

are institutional differences between the UK and Australia, in the ACTU's view some of the findings are relevant to the AWR. The ACTU is not aware of comparable surveys for Australia, yet such a survey would inform the minimum wage and awards objectives.

410. For instance the survey conducted of workers by Moore et al 2017 found that in workers' views the introduction of the NLW "was appreciated …but pay rates remain insufficient." Workers in 'self employment' did not consider the NLW as relevant.[232] In the ACTU's view such studies for Australia would shed light on the extent to which the minimum wage and awards objectives are being met for Australian workers.

411. Cai et al 2017 find that being in low pay persists for some and offers a stepping stone to higher pay for others.[233] It used British Households Panel Survey (BHPS) data to estimate a dynamic random effects multinomial logit model separately for males and females. "That is, other things being equal, those employees who are on low pay are more likely to be found on low pay in the future, compared with those who are NILF [not in the labour force], unemployed or on higher pay. However, it is also the case that, other things being equal, those who are on low pay are more likely to move into higher pay in the future than those who are either NILF or unemployed."[234] It also says that "those who are on low pay do not appear to be more likely to move out of employment than those who are on higher pay."[235]

412. A study for the UK which took a different approach is that of Reeves et al (2017) which exploits the connection between financial strain and mental health. It found that the introduction of the NMW in 1999 "reduced depressive symptoms in low wage workers".[236] It used British Household Panel Survey (BHPS) longitudinal data which allowed examination of data relating to mental health for individuals in the years before and after the NMW introduction at 1999. It tested the hypothesis that "increasing wages leads to significant improvements in mental health, or psychiatric 'caseness', by reducing financial strain by comparing the effects of the wage increase on those who receive it (intervention group) with those persons who did not

[232] Moore et al 2017 p.6
[233] Cai L, Mavromaras K & Sloane P (2017), 'Low paid employment in Britain: estimating state-dependence and stepping stone effects', *Oxford Bulletin of Economics and Statistics*, doi: 10.1111/obes.12197
[234] Cai et al 2017 p.27
[235] Cai et al 2017 p.28
[236] Aaron Reeves, Martin Mckee, Johan Mackenbach, Margaret Whitehead and David Stuckler 2017 introduction of a national minimum wage reduced depressive symptoms in low-wage workers: a quasi-natural experiment in the UK *Health Economics* 26, pp.639–655

receive a wage boost (control group)."[237] It "compared health changes in people who received a wage increase (intervention group, n = 63) to those who did not because either (1) they were ineligible as their hourly wage was between 100 and 110% of the minimum wage, at £3.60 to £4.00 per hour (control group 1, n = 107), and (2) they were eligible but their firms did not comply, that is, their wages remained below the national minimum (control group 2, n = 109)."[238] It used a differences in differences technique with some control variables for age, sex and social class. It states that consistent "with prior research, we found no effect of the introduction of the minimum wage on the likelihood of employment for either intervention or control groups between 1998 and 1999".[239] Through robustness tests it was able to confirm the result that the NLW improved mental health, rather than those who did not receive an increase being more susceptible to mental illness or other possible reasons. The results were of a scale comparable to the effect of anti depressants on depression.[240] The results were sustained for at least 18 to 22 months. This research, although in its infancy, ought to be taken into account when considering social inclusion, particularly in the wider sense (see also the discussion of Lenhart and Bentley, at pargraphs 447 and 462 below).

413. The RAND Report for the UK LPC by Hafner et al (2017)[241], most recent version, reports on the meta analysis undertaken of the impact of the NMW on employment in the UK, both in aggregate and for subgroups of employees and uses a bigger sample than previously. Findings from an earlier version of the RAND report had been cited in the UK NMW Report of 2016 and referred to in the ACTU submission to the AWR of 2017, cited in the Panel's Decision.[242]

414. The 2017 publication provides detail regarding the meta analysis method used which involved the extraction of 22 papers (from an initial several hundred), which had included the regression coefficient, its standard error, and the number of observations. From the 1451 useable estimates provided in the 22 studies, 241 elasticities could be obtained for the meta analysis, that is the percentage change in employment for a one percent change in the minimum wage. Where employment retention effects are estimated in studies, these are analysed separately because they are conditional on the person being in work.[243]

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[237] Reeves et al 2017 p.641
[238] Reeves et al 2017 p.642
[239] Reeves et al 2017 p.650
[240] Reeves et al 2017 p.651
[241] Marco Hafner, Jirka Taylor, Paulina Pankowska, Martin Stepanek, Shanthi Nataraj and Chris van Stolk 2017 The impact of the National Minimum Wage on employment A meta-analysis *RAND Report* for the UK LPC
[242] ACTU submission to the AWR 2016-17 [109]-[110], FWC AWR 2016-2017 [501].
[243] Hafner et al (2017), pp.10-11

415. In order to obtain comparability of estimates partial correlations were calculated. "The partial correlation coefficient is a statistical measure of the strength and direction of the association between two variables (e.g. a measure of employment and the NMW), ceteris paribus, that is, holding all other factors constant (Stanley and Doucouliagos, 2012)."[244]

416. Hafner et al (2017) analyse the estimation results for biasses whereby researchers, reviewers and editors favour findings that are significantly different from zero, researchers favour conventionally expected results for model selection, and reviewers and editors of academic journals tend to accept articles aligned with the conventionally accepted view in the area of research.[245] That is, studies which find that raising the minimum wage reduces employment are more likely to be written (employment effect), and then published in academic journals (publication selection bias).

417. Hafner et al 2017 found a lack of "significant employment effect and lack of a publication selection bias." Significant employment effects were not found for numbers, hours or retention. It said that one "potential explanation for the lack of publication bias in contrast to the US minimum wage literature could be the LPC, which aims to publish and put into the public domain all their commissioned reports." [246]

418. Hafner et al 2017 states :

> "In summary, while the aggregated analysis on the employment effects of the NMW suggests no adverse effect, the sub-group analysis suggests that part-time employees may have endured some relatively larger adverse negative employment effects, compared to other labour market groups. Interestingly, young employees seem generally not to have been adversely affected by NMW increases, only the findings during the recession suggest a decrease in their employment retention probabilities."[247]

Retention of part time workers appears to have been particularly affected, except at the GFC.[248] The ACTU suggests that the UK finding regarding part time employees would not necessarily apply in the Australian context where increases are awarded across a much wider range of awards in occupations and levels.

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[244] Hafner et al (2017), p.11, citing Stanley, T.D. & Doucouliagos, H. 2012. *Meta-Regression Analysis in Economics and Business.* Routledge Avdances in Research Methods. New York: Routledge, Taylor & Francis.
[245] Hafner et al (2017), p.13
[246] Hafner et al (2017), p.18
[247] Hafner et al (2017), p.27
[248] [248] Hafner et al (2017), p.31

419. Chief Economist at the Bank of England, Andy Haldane, in a speech on 20 June 2017 titled 'Work, Wages and Monetary Policy' argues that 'persistently' disappointing wage growth cannot be fully attributed to 'persistently' disappointing productivity growth, or the degree of slack in the labour market. "Employment has increased by around 2.5 million people since 2011. Unemployment in the UK has fallen from its peak of 8.5% in 2011 to almost 4.5% currently." [249] The Phillips Curve, which shows the negative relationship between wages growth and the rate of unemployment over long periods, has recently flattened out, both in the UK and other countries such as the US.[250] Other explanations include "the impact of low actual and expected inflation globally", the GFC, technological change and globalization. The Speech then refers to "the changing nature of work and the shifting relationship between employers and employees" at length.[251] Factors include "the decreasing incidence of unionisation and collective bargaining in the workforce. Other, more recent, shifts include the increasing incidence of self-employment, flexible and part-time working and zero-hours contracts."[252] The Speech goes on to say the "fall in unionisation has made workers more divisible at the level of the profession, sector or firm. Wage bargaining is less likely to be collective, and more likely to be idiosyncratic, these days."[253] The rise of self employment and part time work has made work more divisible at the level of the individual worker, paid by the task or the hour. " The Speech asks:

> "Why, in principle, might these changes affect wage behaviour? One story here is "divide and conquer". There is power in numbers. A workforce that is more easily divided than in the past may find itself more easily conquered. In other words, a world of divisible work may reduce workers' wage-bargaining power."[254]

420. The ACTU notes that this is in a context where in the UK trade union membership remains much higher than it is in Australia. Haldane's Speech says the UK trade union membership rate was 23% in 2016. The ACTU notes that this compares with 15% in Australia where the decline in union membership has been much greater. [255]

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[249] Andy Haldane 2017 speech 'Work, Wages and Monetary Policy', Bank of England, 20 June https://www.bankofengland.co.uk/-/media/boe/files/speech/2017/work-wages-and-monetary-policy.pdf?la=en&hash=08C85332E6B0C5D0DD5A5ECBFE9B8E247EBE19F9 , p.3
[250] Haldane 2017, pp.3-4
[251] Haldane 2017, pp.4-7
[252] Haldane 2017, p.4
[253] Haldane 2017, pp.4-5
[254] Haldane 2017, p.5
[255] Haldane 2017 p.6

421. Haldane's Speech says the rate of "self employment" in the UK has increased to around 15% of employment in 2016.[256] The ACTU notes that in Australia "independent contractors" increased by May 2016 to nearly 12% of employed persons.[257]

422. Haldane's Speech says that since the GFC the share of part time workers in the UK has increased to 26%.[258] The ACTU notes that in Australia the rate of part time work is now much higher than that at 31% at December 2017.[259]

423. Haldane's Speech says that if "we took together self-employment, part-time and temporary working and zero-hours contracts, their share of the workforce has probably risen to around 43%, or around 13 ½ million workers", while a footnote refers to caution needed due to probable overlap or double counting."[260] The ACTU recognises that institutional and measurement differences pertain between the UK and Australia. The ACTU has calculated that employees without leave entitlements and independent contractors without employees now make up 31.7% of employed persons.[261] If we add to these 9% of employed persons who are part time underemployed employees, we obtain about 41% of employed persons. Similarly to the UK, the ACTU recognises the need for caution due to probable overlap or double counting.

424. Nonetheless, the ACTU submits that the argument put by the Chief Economist of the Bank of England regarding the UK applies in the case of Australia:

> "Whether these trends in employment are voluntary or involuntary, good news or bad, an opportunity or a threat, they may still carry implications for wage-setting. That is true even if it is only a (rising) minority of workers being affected by these changes. The marginal worker is much more likely than in the past to be self-employed, to work flexibly and to not be part of a union. And, economics and employers tell us, it is the marginal worker whose pay matters most when determining wage pressures in the economy at large."[262]

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[256] Haldane 2017 p.6
[257] ABS 6333, OMIEs without employees plus OMUEs without employees as per cent of employed persons (minus OMIEs with employees and OMUEs with employees)
[258] Haldane 2017 p.6.
[259] ABS 6202
[260] Haldane 2017 p.6
[261] Employed persons includes OMIEs and OMUEs. ABS 6202, 6333.
[262] Haldane2017 p.7

425. The Haldane Speech goes on to enumerate the factors in slow wage growth. The estimated 10-15% wage premium associated with trade union membership in the UK has conservatively reduced workers' wages there by one per cent since 2000, and by more if spillover effects are allowed for.[263] The ACTU calculates the mean union wage premium to be 15% for Australia, similar to that of the UK.[264] While no comparable estimate of the contribution to wage growth is available, similarly, shrinking union membership in Australia suggests a drag on overall wages.

426. The Haldane Speech indicates that wages for temporary contracts are 5-6% lower, agency workers 2.5% lower, and zero hours contracts 7% lower, and these removed 0.6% from wage growth since 2000.[265] The ACTU notes that median full time earnings for casual employees (those without leave entitlements) are 18.3% less than those for permanent or fixed term contract employees. This is despite the 25% loading that casual employees are meant to be paid.[266] While again no specific estimate is available of the contribution to wage growth of this wage gap, the ACTU would expect it to be a factor in slower wage growth.

427. The ACTU respectfully submits that the contributions to the slow growth of wages in Australia are similar to those identified for the UK by the Chief Economist of the Bank of England and that they be taken into account in the Panel's determination of the minimum wage increase.

The USA

The Seattle Studies

428. The 2016 report[267] by the Seattle Minimum Wage Study Team (SMWST) was followed by another study by the SMWST, released in an NBER Working Paper by Jardim et al (2017). [268] The SMWST 2016 had found that the MW increase for Seattle from US$9.47 to $11.00 in 2013 improved low wage employment in a boom period in Seattle less than in nearby regions where there was no MW increase. Jardim et al 2017 found a greater fall in employment of 9.4% in "low skill jobs" (under US$19 per hour) and an increase of 3.1% in wages of workers paid less than

[263] Haldane 2017 p.7
[264] ABS 6333, ACTU calculation
[265] Haldane 2017 p.
[266] ABS 6306, ACTU calculation
[267] The Seattle Minimum Wage Study Team. 2016. *Report on the Impact of Seattle's Minimum Wage Ordinance on Wages, Workers, Jobs, and Establishments Through 2015.* Seattle. University of Washington.
[268] Ekaterina Jardim, Mark C. Long, Robert Plotnick, Emma van Inwegen, Jacob Vigdor, Hilary Wething 2017 Minimum wage increases, wages, and low-wage employment: Evidence from Seattle NBER Working Paper 23532 http://www.nber.org/papers/w23532

$19 per hour resulted from Seattle's 2013 minimum wage increase and a further increase from US$11 to $13 per hour in 2016. These results imply an elasticity of -3.0, outside most other estimates in the literature, as pointed out in Zipperer and Schmidt 2017.[269]

429. Jardim et al 2017 used administrative data from Washington State's Employment Security Department for payroll earnings and hours worked for those covered by Unemployment Insurance, identifying those that would appear to be affected by an increase in the minimum wage (below a fixed real threshold).[270] The study included only single site businesses on the basis that multiple site businesses could manage labour demands across sites in and outside the minimum wage jurisdiction, however this excludes about 40% of workers.[271] The study compared employment changes between regions for wage changes over the six quarters from 2016 quarter 2 using differences in differences and synthetic control methods. The latter is meant to account for a different impact of the macroeconomic recovery on different regions.

430. Jardim et al 2017 argued that because its estimates were not based on imputing the wage increase to low wage workers as previous findings had been, its estimates were superior. It also argued that it did not depend on comparisons between adjacent locations because an increase in the minimum wage in one region could influence wages in an adjacent location.

431. The second study by the SMWST, Jardim et al 2017, was extensively criticized in the academic literature and in the press, including by Arindrajit Dube in the New York Times.[272] Zipperer and Schmitt criticizes it for employment responses "well outside the bounds of most published research", employment changes in high wage parts of the labour market which ignores the boom taking place in Seattle, and excludes 40% of workers working for multiple site businesses.[273]

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[269] Zipperer Ben and John Schmitt 2017 The "high road" Seattle labor market and the effects of the minimum wage increase Economic Policy Institute Washington DC, June http://www.epi.org/publication/the-high-road-seattle-labor-market-and-the-effects-of-the-minimum-wage-increase-data-limitations-and-methodological-problems-bias-new-analysis-of-seattles-minimum-wage-incr/

[270] Jardim et al 2017 p.13, p.16.

[271] Zipperer Schmitt 2017

[272] Arindrajit Dube 2017, Minimum wage and job loss: One alarming Seattle study is not the last work, New York Times, July 20 https://www.nytimes.com/2017/07/20/upshot/minimum-wage-and-job-loss-one-alarming-seattle-study-is-not-the-last-word.html

[273] Zipperer and Schmitt 2017,

432. The SMWST results are challenged in Reich et al 2017 which also investigated Seattle's minimum wage.[274] It finds that minimum wage increases up to $13 raised wages without causing disemployment. Each 10 per cent minimum wage increase in Seattle raised pay by nearly one per cent overall and 2.3% in limited-service restaurants, more in limited-services and less in full-service. Reich et al 2017 indicated that the minimum wage increases from 2010 as foreshadowed to 2022 were complex, wide in range and depended on the size of employer (measured nationally). [275] Wait staff and bar tenders receive a lower minimum but uniquely are allowed to receive part of the wage bill as passed on tips. The study uses data from the Quarterly Census on Employment and Wages from the US Bureau of Labor Statistics to construct an average weekly pay variable which will be lower if hours or wages are lower. It constructs a 'synthetic' Seattle from a weighted average of donor counties from states which index their minimum wages yearly but have no other wage increases, for periods before and after the Seattle minimum wage increase from 2009q4 to 2016q1. Seattle and synthetic Seattle showed a remarkable similarity in wages and employment before the minimum wage increase. Wages increased in Seattle relative to synthetic Seattle in food services, particularly 'limited-service', after the minimum wage increase. Employment increased faster in Seattle after the minimum wage increase in food services, but slightly more slowly in limited-service restaurants. Wage increases after the minimum wage increase are statistically significant at the 5% level in food services except for full service restaurants. Employment elasticities are positive except for limited-service but all are statistically insignificant. The study also gives each of the donor counties in the control a placebo treatment, which is the introduction of the minimum wage at the same time as Seattle's. The results indicate that the minimum wage impact on wages is not random, but the effect on wages is not statistically significant.

433. Otten et al 2017 investigates the impact of Seattle's minimum wage on supermarket food prices in the county in order to ascertain public health implications.[276] It found no evidence of a change in supermarket food prices by basket or by food group due to the implementation of Seattle's minimum wage ordinance.

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[274] Michael Reich, Sylvia Allegretto and Anna Godoey 2017 Seattle's Minimum Wage Experience 2015-16 Centre for Wage and Employment Dynamics, Inst for Res on Labor and Employment, U of California , June

[275] Michael Reich, Sylvia Allegretto and Anna Godoey 2017 Seattle's Minimum Wage Experience 2015-16 Centre for Wage and Employment Dynamics, Inst for Res on Labor and Employment, U of California , June, p.4

[276] Otten JJ, Buszkiewicz J, Tang W, Aggarwal A, Long M, Vigdor J & Drewnowski A (2017), 'The impact of a city-level minimum-wage policy on supermarket food prices in Seattle-King County', *International Journal of Environmental Research and Public Health*, Vol. 14, Issue 9, 1039, September.

Other US Studies

434. Allegretto et al 2017 argues that the negative estimates for employment of an increase in the minimum wage for teens found in Neumark et al (2013, 2014) disappear when time varying heterogeneity which is evident in pre existing trends is accounted for.[277]

435. Cengiz et al (2017) uses a "bunching methodology" based on variation of state minimum wages across the US and the impact of minimum wage changes on earnings distributions. It finds following an increase in the minimum wage, the missing jobs at wages just below the minimum wage compares with the excess number of jobs at or just above the new minimum wage.[278] This is obtained by estimating the effect of the minimum wage change on the frequency distribution of earnings. From this is inferred the amount of jobs created or destroyed at the bottom of the distribution. The data is from the 1979-2016 Current Population Survey for the US. In the five years after a minimum wage increase, the average wage of affected workers rose by 7.0% while employment rose a statistically insignificant 3.0%, yielding a statistically significant low positive elasticity. It finds that the overall employment effect is likely to be close to zero, and the disemployment effects in previous findings were likely driven by changes in the upper tail of the income distribution. They also find evidence of wage spillovers above the minimum wage, and these are not due to disemployment.

436. Aaronson and Phelan 2016 finds that minimum wage increases "lead to relative employment declines at cognitively routine occupations but not manually-routine or non-routine low-wage occupations. .. While the short-run employment consequence of this reshuffling on individual workers is economically small, due to concurrent employment growth in other low-wage jobs, workers previously employed in cognitively routine jobs experience relative wage losses." [279]

437. Aaronson et al 2018 makes use of a putty clay model in which after entry, technology and input mix are fixed for the life of the restaurant.[280] When the minimum wage increases, some

[277] Allegretto et al 2017 p.590

[278] Doruk Cengiz, Arindrajit Dube, Attila Lindner, and Ben Zipperer, 2017 The effect of minimum wages on the total number of jobs: Evidence from the United States using a bunching estimator, April, Society of Labor Economists http://www.sole-jole.org/17722.pdf

[279] Daniel Aaronson and Brian J. Phelan 2016 Wage Shocks and the Technological Substitution of Low-Wage Jobs, Upjohn Institute Working Paper 17-266, Dec.

[280] Aaronson D, French E, Sorkin I & To T (2018), 'Industry dynamics and the minimum wage: a putty-clay approach', *International Economic Review*, Vol. 59, No. 1, February

firms exit and others come in, arranging their inputs and technology in response. Very small net changes in employment which are empirically found hide much higher churn rates.

438. Lordan and Neumark 2017 finds that the minimum wage significantly increases the substitution of low skilled labour for machines in the US, especially for older workers in manufacturing, but improves the job opportunities for high skilled workers.[281] The study by Lordan 2017 for the UK drew on the methodology of Lordan and Neumark 2017, but found much weaker effects for the UK.

439. Horn et al 2017 considers the impact of minimum wage increases on worker health in the US.[282] Based on self reported health of a sample of lesser skilled workers "who are likely to have their wages impacted by minimum wage increases", it finds that minimum wage increases "appear to improve some aspects of health and reduce other aspects." In particular men's number of bad mental health days post minimum wage increase as reported are increased, while women's are reduced. [283] It notes that the minimum wage increases in the period in question are very small.

Germany

440. Bachman and Frings (2017) examines monopsonistic competition, low wage labour markets and the minimum wage in Germany, using a unique employer linked dataset. [284] That is, increased wages in monopsonistic firms can increase employment over a range of wage levels, and this study provides an *ex ante* (prior to the introduction of the minimum wage) analysis of the likely impact of introducing the minimum wage of €8.50 in Germany from 1 January 2015.It finds different degrees of monopsony across East and West German industries based on estimating labour supply elasticities which are found to be smaller than for perfectly competitive supply. This "suggests that the employment effects of the minimum wage introduction may be less severe than expected in a perfectly competitive labour market." However it is admitted that the results are based on a partial equilibrium analysis and "are silent on general welfare effects." [285]

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281 Lordan G and Neumark D (2017), People versus machines: the impact of minimum wages on automatable jobs, National Bureau of Economic Research, Working Paper No. w23667, August.

[282] Brady P. Horn, Johanna Catherine Maclean and Michael R. Strain 2017 Do Minimum Wage Increases Influence Worker Health? *Economic Inquiry* Vol. 55, No. 4, October 2017, 1986–2007

[283] Horn et al 2017 p.1987, p.2004

[284] Ronald Bachmann & Hanna Frings 2017 Monopsonistic competition, low wage labour markets, and minimum wages – An empirical analysis, *Applied Economics*, 49:51,pp.5268-5286

[285] Bachmann & Frings 2017, p.5284

441. Another ex ante study of Germany evaluates the employment expectations of employers who would be affected by the minimum wage compared with those who would not be affected, using differences in differences analysis.[286] The effect on expectations was evaluated at the point in time that the minimum wage was announced, a few months before implementation. Expectations of employment fell by 0.8% for those employers who would be affected, and those expectations were found to be matched by adjustments prior to the implementation. However the study recognises that the ex ante treatment effect would be matched by ex post changes.[287]

442. Bursian 2017 also considers the role of expectations in the effects of the German minimum wage.[288] In a simple model of wage setting in Germany both social partners minimize a joint loss function in which volatility in negotiated wages and corporate profits is detrimental. It found that introducing discontinuities via Germany's biennial change in the minimum wage reduced the benefit. The study argues that national adjustments to the minimum wage may be beneficial.

443. Burauel et al 2017 reports on the effects of the introduction of the minimum wage of €8.50 per hour in Germany in January 2015.[289] It says that while it is a short period since the MW was introduced, the "official employment figures available to date and causal analyses for the period from 2015 to 2017 indicate neither major job losses nor a sharp increase in the number of unemployed."[290] It also recognises that many German workers are still earning less than the minimum wage.

Other Studies

444. Lenhart 2017 addressed the impact of minimum wages on population health across 24 OECD countries.[291] Minimum wages can affect "health outcomes through changes in health related behaviour", such as medical care, lifestyle, exercise, diet, and housing.[292] Minimum wages can

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[286] Mario Bossler 2017 Employment expectations and uncertainties ahead of the new German minimum wage *Scottish Journal of Political Economy*, Vol. 64, No. 4, September 2017, pp327-48
[287] Bossler 2017 p.346
[288] Dirk Bursian 2017 Solving RE models with discontinuous policy rules – an application to minimum wage setting in Germany *Applied Economics Letters*, 24:15, pp.1121-1126
289 Patrick Burauel, Marco Caliendo, Alexandra Fedorets, Markus M. Grabka, Carsten Schröder, Jürgen Schupp, and Linda Wittbrodt 2017 Minimum wage not yet for everyone: on the compensation of eligible workers before and after the minimum wage reform from the perspective of employees *DIW* (Deutsches Institut für Wirtschaftsforschung) *Bulletin*, December
[290] Burauel et al 2017 p.522
[291] Lenhart, Otto 2017 The impact of minimum wages on population health: evidence from 24 OECD countries, *European Journal of Health Economics* 18, pp1031-1039
[292] Lenhart 2017, pp.1032-33

influence health by affecting financial stress, income security, job satisfaction and reducing mental illness. Minimum wages can also improve food security and nutrition. The study uses the Kaitz index, the ratio between the minimum wage and the mean wage of full time workers as its measure of the minimum wage. It estimates by regression the effect of the Kaitz index on a range of population health outcomes including total death rates and death rates by a number of causes related to socioeconomic status. It includes controls including real GDP per capita and the share of government total health expenditures in GDP.[293]

445. Lenhart 2017 finds that higher "minimum wage rates are associated with significant reductions in overall mortality rates" and a number of causes of death associated with lower socioeconomic status. The study "provides evidence that minimum wages affect population heatlh outcomes through a number of potential channels such as poverty, medical needs, doctor consultations, smoking behaviour, and calorie intake."[294]

446. Peng et al 2017 in a panel study of 9 European countries finds that a minimum wage and union density impacts positively on the wage share of skilled older workers, "while coordination of wage setting, extension of collective agreements, a social pact on pensions and centralisation of wage bargaining can alleviate the adverse effects of skill-biased demand on the wage shares of older unskilled workers.[295]

447. Christl et al 2017 finds for 12 European countries from 1980 to 2011 that at low minimum wage levels, minimum wage increases might have a positive effect on employment as they stimulate job acceptance rates.[296] However "high minimum wages decrease the demand for labor and destroy employment possibilities." This is conditional upon "other labor market characteristics" and especially, low productivity and strict regulations worsen the employment rates. The impact of raising the minimum wage accordingly differs among countries, and in countries with either relatively deregulated labor markets and/or highly productive workers, higher minimum wages should not have a detrimental effect on employment." [297] In the ACTU's view Australia falls within the category of countries with both what has become a relatively

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[293] [293] Lenhart 2017, pp.1033-34

[294] Lenhart 2017, pp.1038

295 Fei Peng, Sajid Anwar, Lili Kang 2017 New technology and old institutions: An empirical analysis of the skillbiased demand for older workers in Europe *Economic Modelling* 64 (2017) 1–19

296 Christl M, Koppl-Turyna M & Kucsera (2017) 'Revisiting the employment effects of minimum wages in Europe', *German Economic Review*, doi: 10.1111/geer.12135.

[297] Christl et al 2017 p23

deregulated labour market and highly productive workers, in which higher minimum wages would not have a detrimental effect on employment.

448. The ILO working paper by O'Higgins and Moscariello 2017 conducts a meta analysis of the youth employment effects of minimum wage legislation.[298] The meta analysis included 45 studies. The ILO study confirms that "for the most part, the disemployment effects of minimum wages are either small or nil." With a high degree of heterogeneity found in the estimates, it "finds that any dis-employment effects that do exist are moderated in countries that have more protective employment legislation, and also – in High Income Countries (HICs) – where collective bargaining is both more coordinated and less centralized." [299] In the ACTU's view these findings indicate that Australia is a country with institutions whereby the raising the minimum wage is particularly relatively favourable for youth.

449. The conclusions and policy recommendations of the ILO study include that "raising minimum wages may even increase the employment of young people", and the results suggest that "lowering minimum wages for young people is unlikely to be an effective tool for improving the employment prospects of the young."[300]

450. An EU study by Mascherini et al 2017 on long term unemployed youth finds the relationship between the share of minimum wage in total wages across countries and the rate of long term unemployment to be weak and generally statistically insignificant.[301]

451. A study by Rybczynski and Sen (2017) for 185 minimum wage changes across 10 Canadian provinces over 31 years yielding 310 observations, finds that a 10% increase reduces youth employment 1-4% and also reduces employment amongst immigrants, while acknowledging that these are small samples. The employment effects for adult men and women (a larger proportion of whom work for minimum wages) across age groups are small and statistically insignificant.[302]

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[298] O'Higgins N & Moscariello (2017), Labour market institutions and youth labour markets: minimum wages and youth employment revisited, International Labour Organization, Employment Working Paper No. 223, September.
[299] O'Higgins N & Moscariello (2017), p.v.
[300] O'Higgins N & Moscariello (2017), p.17
[301] Massimiliano Mascherini, Stefanie Ledermaier, Carlos Vacas-Soriano and Lena Jacobs 2017 *Long-term unemployed youth: Characteristics and policy responses*, Eurofound, (European Foundation for the Improvement of Living and Working Conditions) Publications Office of the European Union, Luxembourg, p.27
[302] Rybczynski K & Sen A (2017), 'Employment effects of the minimum wage: panel data evidence from the Canadian provinces', Contemporary Economic Policy, Vol. 36, No. 1, pp. 116–135, and p.124

452. Also reported in LPCR 2017, de Vries 2017 surveys SME owners across sectors (food, hospitality and clothing) in New Zealand to find out how they are administering the minimum wage legislation including compliance and the reasons why many owners believe they cannot afford to support a NLW in New Zealand.[303] The study recognises that the disemployment effects predicted by the competitive model were not borne out by the facts in New Zealand, with higher unemployment rate shown to be associated with lower minimum wage increases and a mixed story for labour productivity.[304]

453. Brecher and Gross 2018 uses a simple theoretical analysis applying international trade theory to show that even in perfect competition a minimum wage can raise aggregate employment.[305] If industries have different ratios of labour to capital and households have different consumption preferences, introducing a minimum wage can raise employment in net. Raising the minimum wage will move firms towards capital intensive techniques which raises the price of labour intensive goods. Households move consumption towards capital intensive goods. Income gets redistributed between households with different marginal propensities to consume, possibly increasing the relative demand for labour intensive goods. If the income redistribution effect outweighs the other effects, employment will increase to supply the extra labour needed.[306]

454. The IMF *World Economic Outlook* 2017 (WEO) Chapter 2 on "Recent Wage Dynamics in Advanced Economies: Drivers and Implications" points to "a persistent shift in the nature of work and employment" and recognises that the minimum wage addresses the vulnerabilities faced by part time workers. It says "Examples of possible initiatives in that regard include strengthening secondary and tertiary education to upgrade skills over the longer term; *broadening minimum wage coverage where it does not currently include part-time workers;* offering prorated paid annual, family, and sick leave to secure parity with full-time workers; and providing subsidized training for part-time workers for reskilling and retooling"[307]. [ACTU added

303 LPCR 2017 [48], p.218, and de Vries H (2017), The minimum wage and the National Living Wage in New Zealand: case study evidence from small owner-operators and employees in the food, clothing and hospitality sectors, research undertaken for the Low Pay Commission, September.

304 de Vries 2017 p.4

305 Brecher, Richard A and Till Gross 2018 Employment gains from minimum-wage hikes under perfect competition: A simple general-equilibrium analysis, *Review of International Economic*,. 26, pp.165–170.

306 Brecher and Gross 2018, p.165, p.169.

307 International Monetary Fund (2017), Seeking sustainable growth: short-term recovery, long-term challenges, *World Economic Outlook*, October, p.90

italics] The ACTU of course is aware that the NMW applies to all workers in Australia, but understands that the IMF is making an implicit acknowledgement of the significance of minimum wage in general.

455. The ILO *World Employment Social Outlook Trends 2018* says that the minimum wage is key policy response in order to "address the root causes of gender segregation and diversify employment opportunities for women and men, loosening the restraints on gendered roles in the workplace, and especially for care workers." It says:

> "Minimum wage policies, for instance, will have long-term effects in reducing old-age poverty and inequality by tackling issues of poverty and gender discrimination today. Higher wages will be an important factor in shaping better employment outcomes and reducing future inequalities in income. Given that old-age poverty is inherently tied to existing labour market inequalities, targeting workers with inferior working conditions and incomes will be a vital element in ensuring inclusivity and adequacy in pension coverage."[308]

Relational contracts

456. Garicano and Rayo 2017 demonstrates how imposing a minimum wage for apprentices can improve the training of apprentices.[309] The problem is that while the 'expert' needs to train the apprentice in order to contribute the human capital necessary to the firm, the apprentice can walk away with the knowledge. However slowing up training in order to keep the apprentice also reduces output over time. Imposing a minimum wage increases the incentive to train the apprentice faster.[310] This analysis applies to any occupation where on the job training is called for.

457. In the same literature Fahn 2017 links minimum wages to incentives in the labour market.[311] It argues that a minimum wage increases the incentive of the worker to perform their job well and this explains why productivity and service quality went up after the introduction of the British NMW. The efficiency of the labour market increases as the minimum wage serves as an

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[308] The ILO *World Employment Social Outlook Trends 2018,* pp.49-50 http://www.ilo.org/global/research/global-reports/weso/2018/WCMS_615594/lang--en/index.htm
[309] Luis Garicano and Luis Rayo 2017 Relational Knowledge Transfers, *American Economic Review*, 107 (9) pp2695-2730
[310] Garicano and Rayo 2017, p.2698 and fn3.
[311] Matthias Fahn 2017 Minimum Wages and Relational Contracts *The Journal of Law, Economics, and Organization*, Vol.33, No.2, pp.301-31

efficiency wage whereby higher wages induce increased effort. If workers' bargaining power has been initially low, a minimum wage can increase profits and employment.[312] Even if this appears to assist output in the service sector where performance is hard to measure, it also applies in other sectors.

5.2.2 Australian evidence

458. It is worth drawing the Panel's attention to two studies cited by Reeves et al 2017 because they highlight the impact of changes in financial circumstances on mental health in Australia. In the ACTU's view they can be taken to illustrate the likely benefits of an increase in the minimum wage for mental health in Australia.[313] The two studies investigate the consequences of housing affordability for mental health in Australia (Bentley et al 2011) and comparing Australia and the UK (Bentley et al 2015) respectively.[314] The two studies find that mental health is affected by housing affordability in low income households.

459. Bentley et al 2011 uses longitudinal HILDA data to show that poor mental health is associated with lower housing affordability in Australia particularly in the bottom 40% of the income distribution. The study recognizes the potential longitudinal sample biases in the data arising from falling representativeness over time [at the time of the study], and from missing data points.[315] The ACTU notes that the lower range of the household income distribution is where the majority of those on the minimum wage are found. It is reasonable to think that an increase in the minimum wage would correspondingly improve mental health.

460. Bentley et al 2016 finds that for households below the median of the lowest 40% of the income distribution, 28% in Australia and 29% of households in the UK are in unaffordable housing (paying more than 30% of gross income), compared to 19% in Australia and 4% in the UK above the median of the bottom 40% of households. It found that for Australia, "private tenants whose housing became unaffordable experienced a small but significant decline in mental health that was not observed for home purchasers whose housing became unaffordable." [316] This was not found to be the case for the UK where the safety net for renters

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[312] Fahn 2017 p.225
[313] Reeves et al 2017 p.640
[314] Bentley R, Baker E, Mason K, Subramanian SV, Kavanagh AM. 2011. Association between housing affordability and mental health: a longitudinal analysis of a nationally representative household survey in australia. *American Journal of Epidemiology* 174(7): 753–760; Bentley R, Pevalin D, Baker E, Mason K, Reeves A, Beer A. 2015. Housing affordability, tenure and mental health in australia and the united kingdom: a comparative panel analysis. *Housing Studies*, V31, 2, pp208-222.
[315] Bentley et al 2011 p.758
[316] Bentley et al 2016 p.213

was much more comprehensive compared with Australia where there is far less social housing, rental assistance and tenant protections, and private rents had escalated.[317] The ACTU maintains it is not drawing a long bow to posit that based on these findings an increase in the minimum wage would be of benefit to the mental health of affected individuals and households and accordingly is relevant to their social inclusion.

[317] Bentley et al 2016 pp.218-19

6. ENCOURAGING COLLECTIVE BARGAINING

461. Much of the Panel's past consideration of Collective Bargaining has focussed on the factors that might influence the incidence of Collective Bargaining. The Panel has not been satisfied, empirically, that the levels of the minimum wage and modern award minimum wages set by it have had a particular impact on the incentive to bargain.

462. At the theoretical level, the Panel has endorsed and often re-stated the proposition that the gap between minimum wages and bargained wages is likely to increase employee's incentive to bargain, but a large gap may be a disincentive to bargain among employers. Correspondingly, we have repeatedly suggested that increasing the minimum wage and modern award minimum wages so as to narrow the gap may encourage employers to bargain for productivity reasons.

463. 36.4% of non-managerial employees were paid according to a collective agreement in May 2016, a fall from the 41.1% share at May 2014. Moreover the share on individual arrangements has fallen also, from 40.1% at May 2014 to 36.6% at May 2016. With low real minimum wage increases, it is hard to say the increase in award reliance is due to the relative unattractiveness of collective bargaining outcomes for workers. Rather, it is likely that employers have a diminished incentive to bargain given that minimum rates have fallen so far relative to average or median wages.

464. The General Manager's report 2015 concerning Developments in Enterprise Bargaining[318] presented some AWRS Data on incentives to bargain. Tables 2.1 and 2.2 of that report provide some insights to incentives to bargain from the employer perspective: 20.9% of Enterprises reported "Award terms and conditions not suitable or flexible enough (e.g. allowances, penalty rates, hours of work, overtime rates, etc)" as the reason for them using an Enterprise Agreement (the third most popular response). We would suggest that wage rates in awards would be among the considerations that would elicit such a response, and that higher minimum rates could increase that effect.

[318] https://www.fwc.gov.au/documents/sites/admingmreporting/gm-amr-2015.pdf

465. Conversely, among employers who did not have an enterprise agreement, the most popular response- 31.8% - was one that seems squarely to relate to award wages: "Award rates and conditions are adequate". However, it should be noted that employers were also able to respond "Concern about the financial cost of meeting employee demands/expectations" – and only 1.1% did. If one assumes that the survey question was approached rationally and logically and answered honestly, this later question is in our submission a better proxy for the measuring anticipated wage cost disincentive in associated with bargaining than inviting a normative judgement of "adequacy" of the Award rate. Taken together, the two responses suggest that many employers who do not bargain have little incentive to do so at the contemporary level of the "gap", notwithstanding that they do have the financial capacity to accommodate higher wages.

466. We accept, as the Panel has often stated, that numerous factors are at play in the incentive to bargain. The Peetz and Yu papers[319], taken together, confirm that union density is a strong factor increasing the likelihood of collective agreement coverage, which is consistent with the 2015 General Manager's report finding that the most popular reason given by employers for making an enterprise agreement (22.9%) was "Employee organisation/employee association demands/log of claims". Peetz and Yu also found that industry and occupation (even controlling for union density) were associated with collective agreement coverage. These observations do provide some insight into the patterns and predictability of collective agreement coverage, but do not inform the inquiry as to what may be done to encourage or incentivise the making of collective agreements through changes in minimum wage movements.

467. The Panel has identified two sources of its obligation to consider *encouraging collective bargaining* in the course of an Annual Wage Review. The first is the obligation in section 134 of the Act to "…ensure that modern awards, together with the National Employment standards, provide a fair and relevant safety net of terms and conditions, taking into account…the need to encourage collective bargaining". The second is a reference in the object of the Act to "…provide a balanced framework for cooperative and productive workplace relations that promotes national economic prosperity and social inclusion for all Australians by…achieving productivity and fairness through an emphasis on enterprise level collective bargaining…". In our view, these provisions permit consideration not only of the incentives to collectively bargain at all, but also direct attention to the type collective bargaining that should be promoted.

[319] Peetz D and Yu S (2017), Explaining recent trends in collective bargaining, Fair Work Commission, Research Report 4/2017; Peetz D and Yu S (2018), Employee and employer characteristics and collective agreement coverage, Fair Work Commission, Research Report 1/2018

468. There a numerous forms of collective bargaining that the Act in its present form has proven to permit. These include (for example) "baseline" agreements contrived for the purposes of competitive tender processes that guarantee nothing in wages other than 50cents above the Award rate and are voted on by (but not negotiated with) small temporary workforces who will never be required to perform the work which those agreements are intended to apply to. However, the collective bargaining that we would submit the Act explicitly seeks to promote or encourage is that which *promotes national economic prosperity and social inclusion* and *achieves productivity and fairness*. Such collective bargaining is *the* "collective bargaining" that a fair and relevant safety net "needs" to "encourage". Collective bargaining that does not deliver fair wage increases limits social inclusion, does not lift disposable incomes enough to grow demand that promotes national economic prosperity and does not engender productivity, particularly if the low wages are seen as such by the workforce concerned.

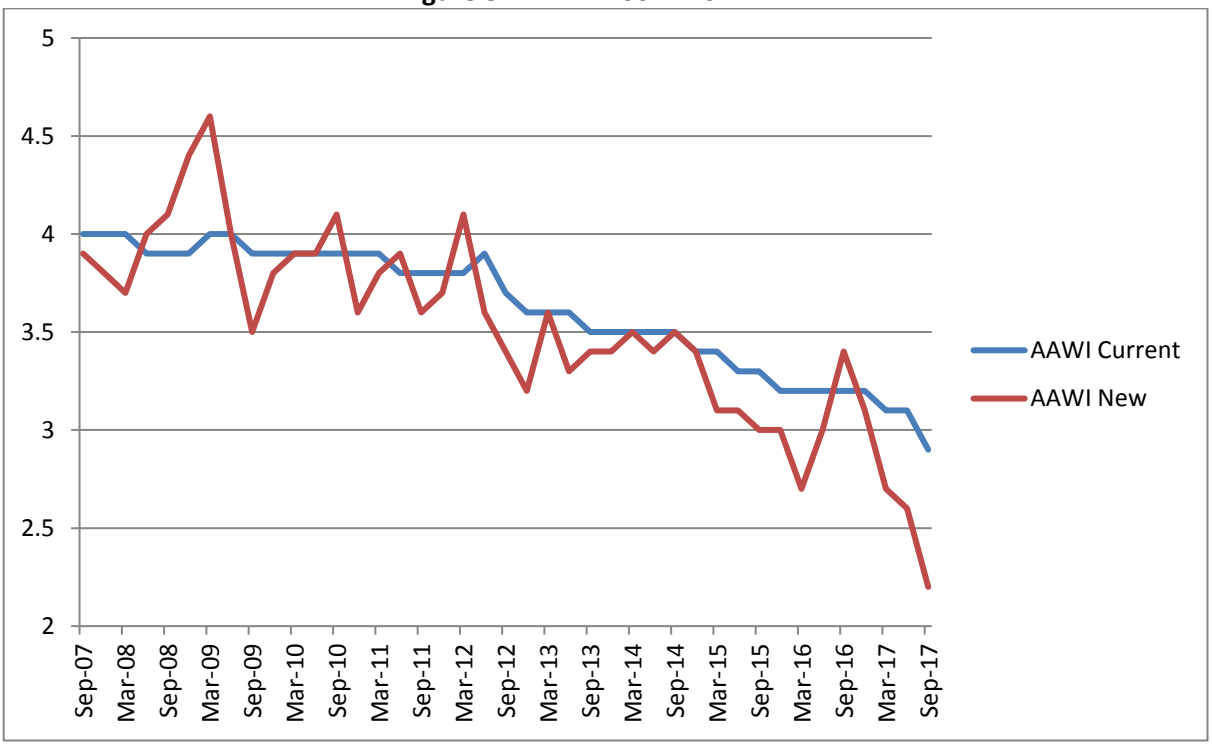
469. The contents of the preceding chapters of our submission point to an undeniable fact that employees are getting an unusually small share of the wealth being generated in the economy, which in turn is threatening their social inclusion. This is true of the award dependent workforce but it is also true of low paid wage earners generally. Wages are simply not growing as quickly as would have been expected (and had been forecast) given the broader economic context, and we are beginning to see consumption bias away from non-discretionary (and presumably higher margin) products and services. A larger increase to the minimum wage and modern award minimum wages in these circumstances would help to encourage the type of collective bargaining that the Act seeks to promote, in several interacting ways.

470. Firstly, as above, we would anticipate a greater incentive toward bargaining to achieve productivity increases as the gap between bargained rates and minimum rates reduces.

471. Secondly, the situation cannot be expected to improve by itself. The Department of Employment's *Trends in Enterprise Bargaining* series contains two measures of Average Annualised Wage Increases in federal enterprise agreements. One is based on the Average Annualised Increase in agreements that are current in a given quarter, which necessarily includes agreements that may have been negotiated up to 4 years earlier. The other is based on Average Annualised Wage Increases in agreements approved in a given quarter. The latter is a better measure of contemporary wage negotiations, and should serve as something of a leading indicator

to what lies ahead if sufficient numbers of new agreements over successive quarters exhibit the same trends[320]. In Figure 81 below, these measures are indicated as "Current" and "New" respectively.

Figure 81- AAWI 2007 - 2017



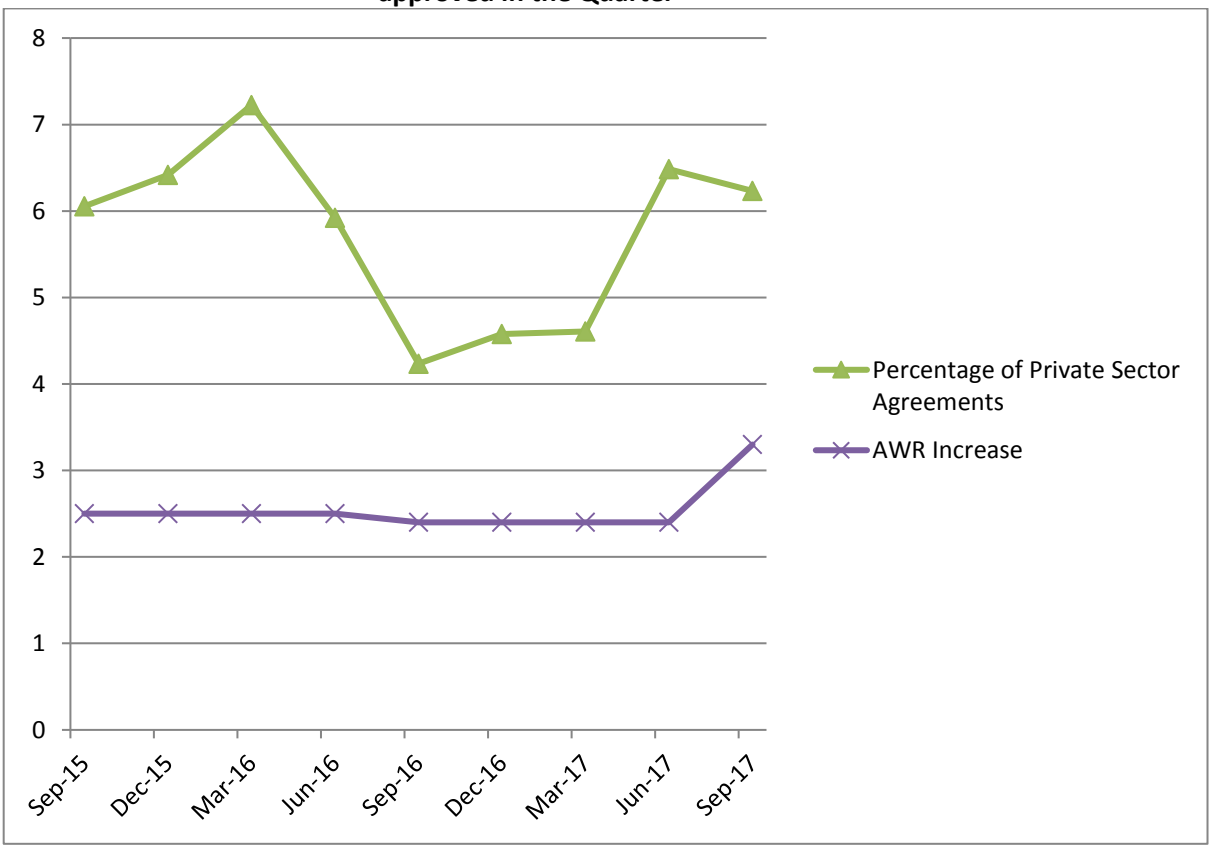
Source: Department of Jobs and Small Business

472. Figure 81 demonstrates some evidence of AAWI New acting as predictor of movements in AAWI current, from around September 2010 onwards. It also shows a sustained decrease in AAWI New since September 2014, which we predict to continue to act as a downward influence on AAWI current for some years to come. Reducing the gap between minimum wages and bargained wages could, as a consequence of the "Better Off Overall Test", place some upward pressure on agreements negotiated in successive quarters. We suggest the spike in AAWI New in September 2016 in Figure 81 above is an outlier related to bargaining practices in the Construction industry ahead of anticipated regulatory changes: there were 825 agreements with an AAWI of 6% approved in the construction sector in the quarter, against an average number of agreements per quarter over the period in that sector of 569, and constructor sector agreements accounted for 49% of the Agreements lodged in that quarter.

[320] See also RBA 2018, *Statement on Monetary Policy*: February 2018, pp.64-65.

473. Thirdly, not all agreements that are approved or current during a particular quarter are reflected in AAWI, as some are classified as "non quantifiable"[321]. As at September 2017, 33% of agreements that were current[322] and 22.5% of agreements that were approved in that quarter had non-quantifiable wage increases. Just over 26% of the agreements with non-quantifiable wage increases approved in that quarter has wage increases linked to the decisions of the Panel. In a technical paper published in October 2016, the Department explains that the agreements with wage increases that are linked to the Annual Wage Review are "almost all for private sector employers"[323]. The number of agreements approved in the quarter with a non-quantifiable wage increases equates to 6.23% of private sector agreements approved in that quarter. Over the last two years (the limit of the continuous data publicly available), movements in this ratio have borne no relationship to changes in minimum wage rates, as shown in Figure 82 below.

Figure 82 - Agreements with Wages linked to AWR increase as a share of Private Sector Agreements approved in the Quarter



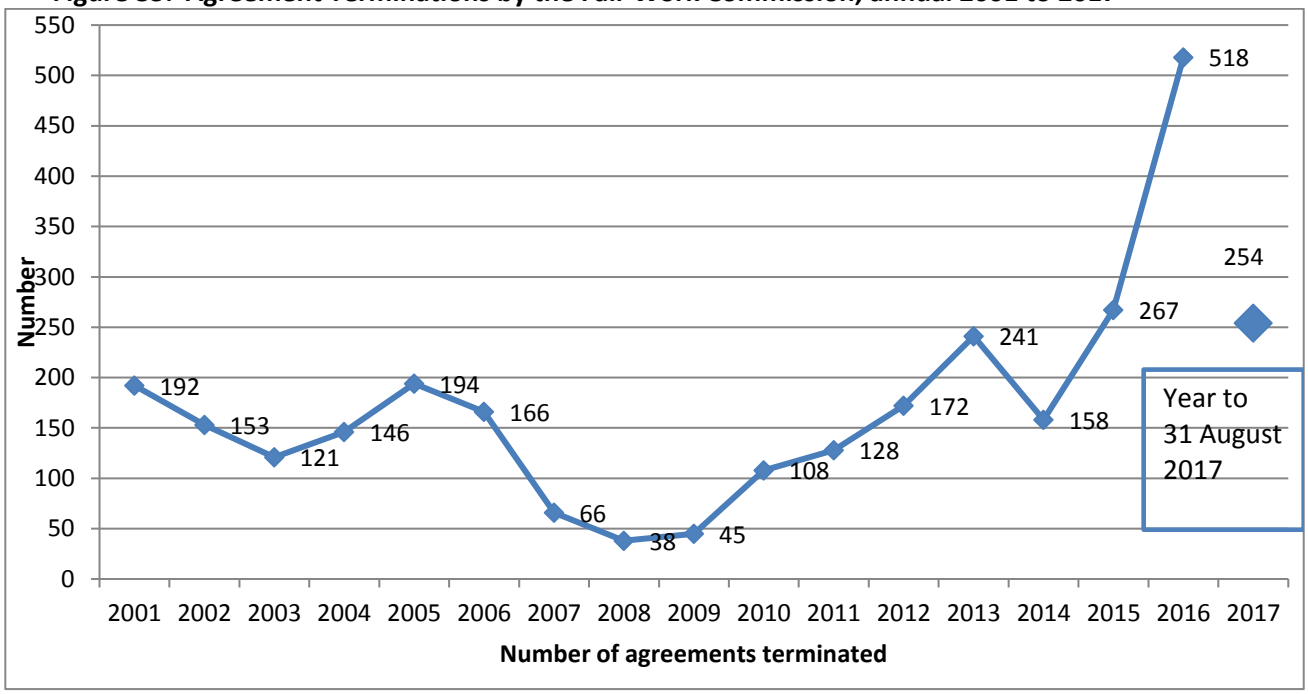
[321] See further: https://docs.jobs.gov.au/system/files/doc/other/non-quants_paper.pdf
[322] The Department's definition of "current" agreements excludes agreements that have been terminated, replaced or passed their nominal expiry date. It underestimates the number of agreements that remain operative, as agreements remain binding beyond their nominal expiry date until they are terminated or replaced.
[323] Department of Employment, "Non-quantifiable wage increases in federal enterprise agreements" at p. 10 (https://docs.jobs.gov.au/system/files/doc/other/non-quants_paper.pdf)

Source: Department of Jobs and Small Business and ACTU calculations

474. A sizeable increase to minimum wages would have a direct positive impact on that proportion of agreements which continue to be linked to the decisions of the Panel.

475. Finally, and as referred to in our prior submission, there has been an increase observed over time in the rate of terminations of enterprise agreements. This impacts on the incentives to bargain, or more pointedly the incentives that are at play in bargaining, in important ways. Figure 83 shows the trend increase in the annual number of agreement terminations from 2001 to 2017 (year to August 2017):

Figure 83: Agreement Terminations by the Fair Work Commission, annual 2001 to 2017



Source: https://www.fwc.gov.au/awards-and-agreements/agreements accessed 18 February 2018. spreadsheet, 2017 is year to August only.

476. An agreement termination has the effect that an employee's wage entitlement under the Act is to a minimum wage as set in the minimum wage order or to modern award minimum wage. The practical effect may be different, but it cannot be assumed that none of the employees whose agreements were terminated are now among the "award only" category defined in the EEH. Statistics produced by the Department of Employment indicate that 115,479 employees were impacted by the terminations from Q1 2014 to Q3 2016. At least 775 of the 847 agreements terminated were those where the legislative framework at the relevant time required the agreement to have been tested against a no disadvantage or better off overall test as part of their certification or approval (the majority in the latter category). Some of the more well known cases

involve termination applications made while bargaining for a new agreement was underway. The data does not prove that the gap between award and agreement wages is an incentive to terminate the types of agreements that the modern award objective seeks to "encourage", but it is an indication to that effect.

477. Where existing agreements are terminated and workers' entitlements fall back to minimum wages, economic pressure is exerted for them to accept an outcome that delivers less benefits that those they previously enjoyed. In our view, this is not consistent with the type of bargaining that the Act explicitly seeks to encourage. Lifting the floor of minimum wages would reduce extent of this effect and the incentive among employers to utilise this tactic.

7. EQUAL REMUNERATION

478. In its decision last year, the Panel pointed out that equal remuneration is relevant to the discharge of its functions in a multitude of ways, rather than being confined to a discrete consideration of the "Principle of Equal Remuneration for work of equal or comparable value" as referenced in sections 134(1)(e) and 284(1)(d) of the Act and defined at section 302(2) thereof.

479. In so far as the Principle as defined in the Act applies to the Review, it seems there is precious little of the underlying causes of the gender pay gap that the Panel *can* "take into account", as directed by sections 134(1)(e) and 284(1)(d).

480. The Panel has determined that "the requirement to take into account the equal remuneration principle compels consideration of whether the NMW and the modern award rates fixed by us equally remunerate men and women doing work of equal or comparable value"[324]. Further, the Commission has recently departed from earlier conceptions of the application of that principle[325] in other matters and has determined that the Principle as defined can only be applied between comparator groups performing work of equal (or comparable) value, one of which is exclusively female and the other which is exclusively male[326]. Neither the National Minimum Wage nor any award classification (to our knowledge) provides the basis for such a comparison. Hence the Panel's observation last year that:

> "Modern award minimum rates are structured to provide equal remuneration for work of equal or comparable value both within and across awards. No interested party submitted otherwise, nor was it contended that the NMW did not bear a proper work value relationship to award rates of pay. That being the case, if the approach taken in a Review is to increase the NMW and award rates by a uniform percentage, then the equal remuneration principle could not be offended because all rates would retain the same relativity to each other."[327]

481. There is an inherent problem with a requirement to identify a male comparator group to value women's work, because it relies on an assumption that that the 'male' rates of pay were objectively set by reference to work value alone, and did not incorporate discriminatory notions of

[324] [2017] FWCFB 3500 at [639]
[325] In *Re Equal Remuneration Case* (2011) 208 IR 345 at pp 233-234, the Commission held that it is not necessary to demonstrate that the wages in question have been established on a discriminatory basis or to identify a male comparator.
[326] [2017] FWCFB 177, [2015] FWCFB 8200
[327] [2017] FWCFB 3500 at [642]

the value of men's work. This interpretation further curtails the Panel's ability to consider the gender-based undervaluation of modern award minimum rates.

482. The difficulty seems to be that whereas a party seeking an equal remuneration order under section 302(3) can compose the comparator groups in a manner of its choosing[328] in order to apply the principle (provided the requirements of the principle are met) for the women workers its seeks to benefit, the Annual Wage Review provides pre-determined fixed comparators that do not permit the Principle as defined to be applied. More broadly, there is an inherent problem with a requirement to identify a male comparator group to value women's work, because it relies on an assumption that the 'male' rates of pay were objectively set by reference to work value alone and did not incorporate discriminatory notions of the value of men's work. This interpretation further curtails the Panel's ability to consider the gender-based undervaluation of modern award minimum rates. We submit serious flaws exist in the architecture of the wage fixation framework if the prevailing view is correct, as it does not permit the Panel to meaningfully consider gender-based undervaluation of modern award minimum rates.

483. In our view, the equal remuneration principle as defined is accordingly not a useful tool in the context of an Annual Wage Review for addressing systemic undervaluing of female *dominated* occupations or industries. Addressing such undervaluation in a comprehensive way would require the work value of the particular classifications in each award that correlate to those occupations and industries to be re-examined and the rates of pay adjusted accordingly where gender-based undervaluation was identified.

7.1 The gender pay gap

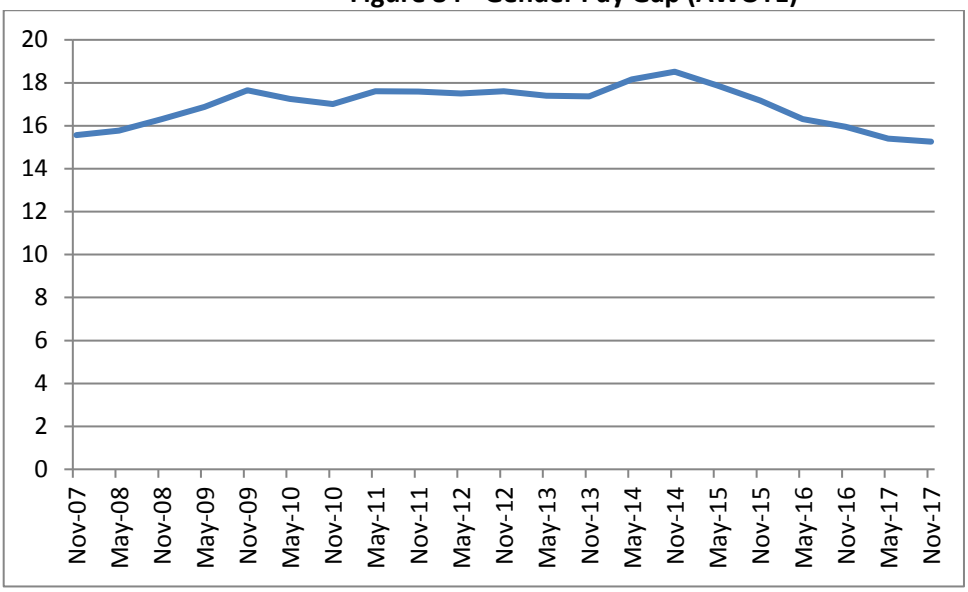
484. Whilst the Panel has identified that measures of the gender pay gap are irrelevant to its consideration of the equal remuneration principle as defined, it likewise recognises that gender pay gap is relevant to its broader consideration of the fairness and relevance of the safety net and the requirement at s. 284(1)(b) to consider promoting social inclusion through increased workforce participation. We continue to adopt the conventional analysis, consistent with the

[328] This is not intended to suggest that defining comparator groups for the purpose of such an application is without difficulty – see [2017] FWCFB 177

Panel's view, that the existence of a gender pay gap is a factor which supports an increase to minimum wage and modern award minimum award wages.

485. There has been a welcome but modest improvement in the ordinary time earnings based measure of the Gender Pay Gap compared to last year, however the longer term view as seen in Figure 84 shows a rather persistent problem albeit with a small downward trend in recent years.

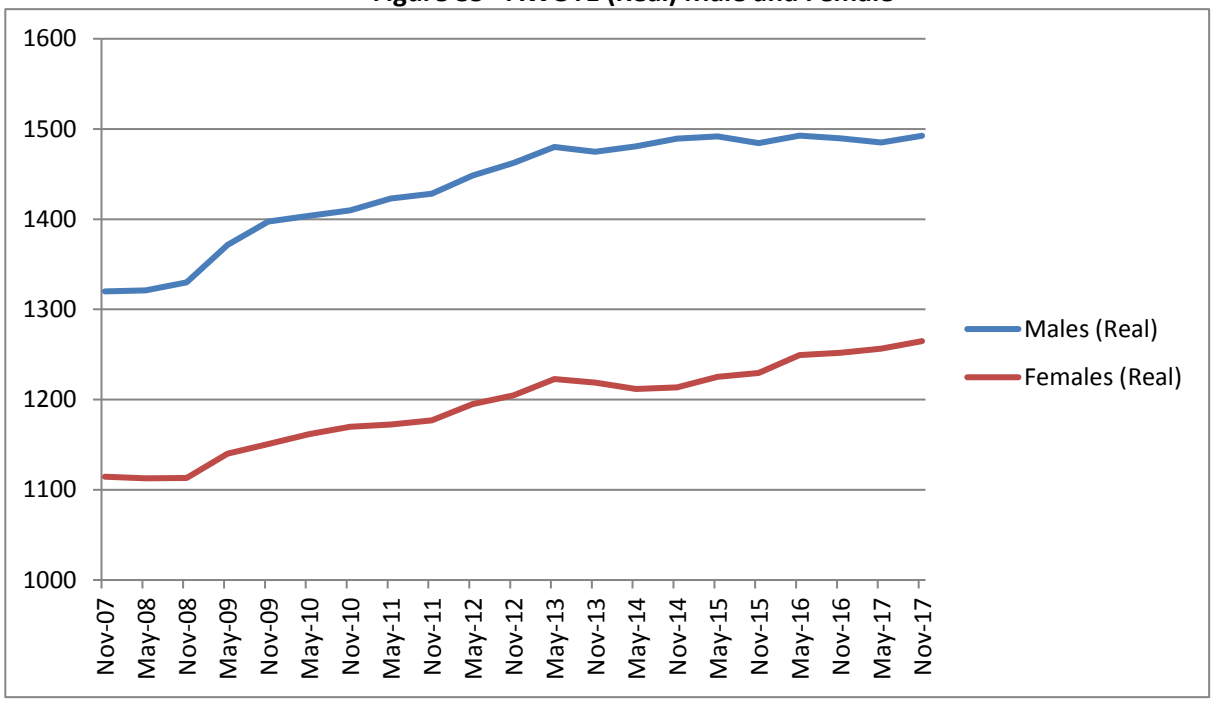
Figure 84 - Gender Pay Gap (AWOTE)



Source: ABS 6302.0 and ACTU Calculations

486. In last year's Review we suggested that the recent decline in the gender pay gap may have in part been attributable to a levelling off of male earnings at the top, as well as an increase in female earnings. Figure 85 below, using real earnings, demonstrates that both factors are indeed at play.

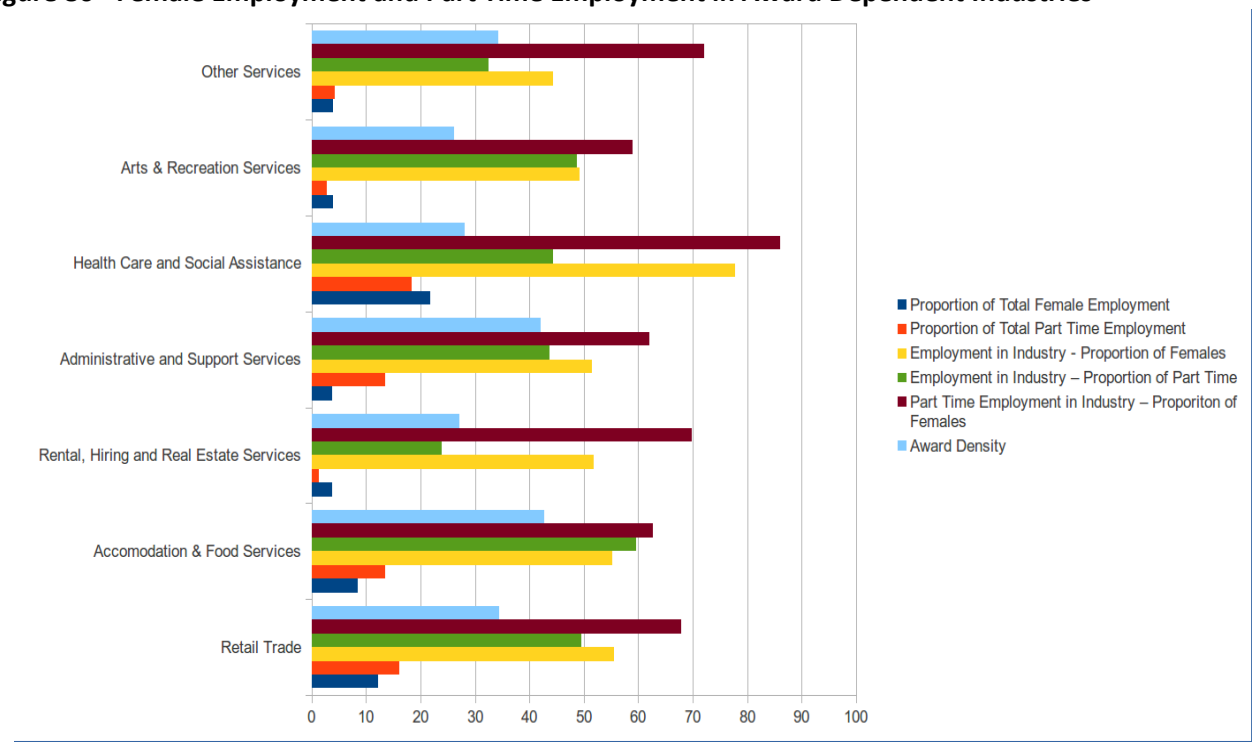
Figure 85 - AWOTE (Real) Male and Female



Source: ABS 6302.0, 6401.0 & ACTU calculations

487. In Chapter 5 we demonstrated that much of the recent growth in employment has been biased toward part time employment and that employment growth in award dependent industries had in general been strong. We surmise that, as a result, the decision of the Panel this year might have a greater impact on the gender pay gap. Taking an average of employment numbers for the most recent 5 quarters, it can be seen from Figure 86 below that traditionally highly award dependent industries account for just under 58% of female employment and just under 70% of total part time employment. The part time workforce in each of those industries is also highly female dominated.

Figure 86 - Female Employment and Part Time Employment in Award Dependent Industries



Source: ABS 6306, 6291.0.55.003 and ACTU Calculations

488. The gender pay gap is, as we have pointed out in the past, a factor of low pay and award dependency both at higher and lower ends of the minimum rates spectrum. An increase to the minimum wage and modern award minimum wages assists both populations to the extent that it surpasses the "market" increases available through collective agreements and other arrangements.

489. Although we have not urged Panel to adopt a hybrid increase in this Review, we are not convinced that a hybrid increase of the type we have sought in the past is necessarily a less effective means of addressing the gender pay gap than a uniform percentage increase across all awards, as the Panel has suggested[329]. To the extent that a flat dollar amount constitutes a higher percentage increase at levels below C10, it certainly does lift the rates of pay of the lower paid cohort proportionally more than those paid at higher award rates. However, as women are over-represented in that cohort, we would expect a positive effect on the gender pay gap overall. Provided the increase sought at the higher award rates remains above increases available through other means, a positive effect ought still be observed at that level. A detailed

[329] See [2017] FWCFB 3500 at [677]

study of the distribution of award dependency and pay levels by gender is required to model such effects.

8. OTHER MATTERS

490. This chapter addresses some other matters, including such as minimum wages for juniors, apprentices, trainees, the casual loading and wages for people with disability.

8.1 Juniors, apprentices and trainees

491. The Panel is required, inter alia, to establish and maintain fair minimum wages for junior employees and for employees to whom training arrangements apply, namely apprentices and trainees.

492. Minimum wages for juniors, trainees and apprentices in modern awards are generally tied to a percentage of an adult award rate of pay, or some other formula in the case of some traineeship rates under the National Training Wage Schedule (NTWS). The practical effect of these wage arrangements is that these workers are generally on rates of pay that fall well below the national minimum wage that applies to an entry-level adult employee. Incontrovertibly then, juniors, apprentices, and trainees are by definition some of the lowest paid workers in the country.

493. As we have already outlined, the ACTU seeks an increase to the National Minimum Wage and modern award minimum wages of 7.2%. We submit that this increase to award rates, or any other increase to minimum wages in modern awards that the panel decides on, should flow through to juniors, apprentices and trainees in the usual manner.

494. This means that minimum wages for both juniors and apprentices should be adjusted automatically in line with increases to the NMW and other award rates (by virtue of the fact that apprentice and junior rates are typically expressed as a percentage of the relevant adult classification).

495. In the case of trainees, consistent with our submissions in previous years, the ACTU supports a percentage increase to the rates in the National Training Wage Schedule that is equivalent in

percentage terms to the increase awarded to the NMW. Taking the usual approach, that schedule will be the reference point for the calculation of Special National Minimum Wage 5 in the National Minimum Wage Order. A percentage increase is important to prevent further compression of relativities within the NTWS and in relation to the NMW. We understand that as part of the four yearly review of modern awards, the National Training Wage Schedule in the Miscellaneous Award was updated and that, in due course, the majority of modern awards will refer to the National Training Wage Schedule in that Award for determination of trainee wages. That schedule remains appropriate for adjustment in the manner we propose. We understand that 9 modern awards are to retain their own National Training Wage Schedule, however we are uncertain at this point how the wages in them will be expressed. As the existing schedules in those awards has not as yet been removed, the wages in them should be varied in the manner in which we propose and taken into account in the process to finalise the new schedules in those awards.

496. In the case of modern awards that contain separate trainee rates outside the NTWS, we support a% increase to trainee rates.

8.2 Employees with disability

497. Special National Minimum Wage 1 should continue to be set at the same level as the National Minnimum Wage as varied in this review. Special National Minimum Wage 2 should continue to be set by reference to the National Minimum Wage on the basis of the existing discounting methodology subject to any changes to the Supported Wage System Schedule.

8.3 Casual loading

498. We submit that the casual loading in modern awards and for award/agreement free employees should, in this Review, be maintained at 25 per cent.

499. In line with the common approach in previous Reviews, the phasing of the casual loading in the *Business Equipment Award* should continue, and be adjusted to 23%.

8.4 Piece rates

500. Piece rates in modern awards are fixed by reference to minimum weekly or hourly wages in those awards. Any adjustment in modern award minimum wages will and should automatically flow through to employees engaged on piece work. [330]

8.5 Copied State Awards

501. The ACTU supported the CPSU's application to correct last year's decision of the Panel to ensure a copied state award which applied to the CSPU's members would receive the full benefit of the wage increase that other Federal system employees received on 1 July of that year.

502. At the conclusion of its decision on the CPSU's application (which was granted), the Panel expressed a provisional view:

> "AWR adjustments should generally apply to copied State awards, subject to a different outcome being determined in respect of particular copied State awards. In other words, rather than seeking to apply a tiered approach as a decision rule to mitigate 'double dipping' we propose to address any 'double dipping' on a case by case basis. We invite submissions on our provisional view in the context of the 2017–18 Review proceedings."[331]

503. We submit that the Commission's provisional view is consistent with the function of distinct Reviews in each year and is a more orderly approach, notwithstanding that it does rely on parties to come forward should they contend for a different outcome.

504. The difficulty from our perspective is the lack of certainty regarding how a future Panel might deal with an application that a different increase, or no increase, apply to employees to whom a particular copied state award applies. If the Panel were inclined to confirm its provisional view, it would in our view be usefully supplemented by an expression of support for the merits of the approach adopted in the 2012-13 decision - and re-applied to the 2016-17 decision by the correction order issued this year - when dealing with requests for an exemption.

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[330] [2011] FWAFB 3400, [376].
[331] [2018] FWCFB 2 at [43]

ANNEXURE - WHO RELIES ON MINIMUM WAGES?

1. Award reliance continued to in crease between 2014 and 2016. According to the most recent data of May 2016 2.3 million Australian workers, 22.7% of all employees, are on the National Minimum Wage or reliant on awards for their wages, up from 1.86 million, 18.8%, at May 2014. Most of those workers are women (61.8%), and most of them are adults (21 and over) (85.6%) at May 2016, both also increased from May 2014.
2. These data mean that more than one in five employees in Australia are paid the lowest wage that they may legally be paid. It should be noted that a significant number of employees are on award rates very close to the minimum wage. The low growth in wages is indicative both of the lack of power of most workers to bargain higher wages and the reluctance of employers to grant them. This is also shown in slower rate of EBAs. It is shown in the unprecedented forcing by employers of workers off existing EBAs and onto awards. It is manifest that more and more workers are relying solely on increases granted as part of the Annual Wage Review to avoid hardship.

Sources and definitions

3. This annexure refers widely to the ABS Employee Earnings and Hours (EEH) survey, which is conducted every two years, last conducted in May 2016. Results from this survey were released in January 2017. The ACTU has also acquired unpublished data at finer ANZIC industry subdivisions and ANZSCO levels of occupation, although industry data which had been regularly provided previously by ABS was unavailable for this survey.
4. In the EEH survey, employees are classified according to the 'main method' of setting their pay, 'award only', 'collective agreement', and 'individual arrangement'. They are 'award only' if they are "paid exactly at the rate specified in the award, and are not paid more than that rate of pay."[332] Workers paid above an award are classified to either the 'collective agreement' or 'individual arrangement' categories.
5. The ACTU understands that workers who are paid the National Minimum Wage (NMW) are classified as 'award only' in the EEH survey. 'Awards' are defined for the purposes of ABS surveys as "legally enforceable determinations made by Federal or State industrial tribunals or authorities that set the terms of employment (pay and/or conditions) usually in a particular

[332] ABS 2017,*Employee Earnings and Hours*, Australia, May 2016, Catalogue number 6306.

industry or occupation."[333] This includes Modern Awards and the National Minimum Wage Order. The EEH survey appears to classify both groups as 'award only'.

6. In this submission, the ACTU uses the phrase 'award-reliant workers' to refer to employees who are classified as 'award only' in the EEH survey. 'Award-reliant', 'award only', 'minimum wage workers', and 'workers reliant on minimum wages' are used interchangeably in this submission to mean workers paid exactly at an award rate or the NMW. 'Low paid workers' is also intended to have the same meaning, except where it is clear that 'low paid' refers to workers with earnings below a particular threshold, regardless of their pay-setting method.

How many people rely on minimum wages in Australia?

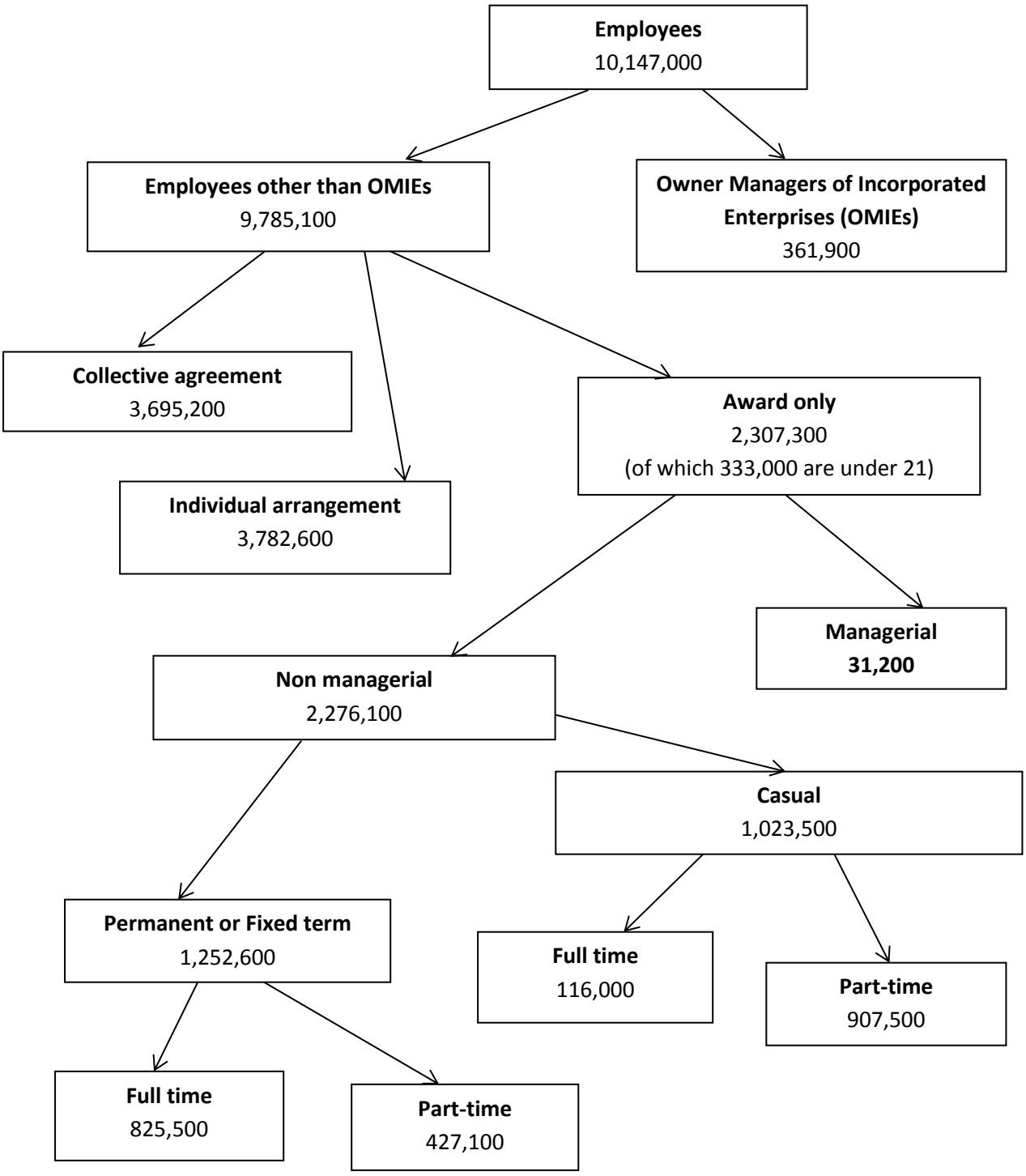
7. There were 2,307,300 employees paid exactly at an award rate in May 2016, representing 22.7% of all employees[334]. There were 36.4% of employees paid according to a collective agreement and 37.3% paid according to an individual arrangement. Another 361,900, or 3.6%, were "Owner Managers of Incorporated Enterprises". Considering the length of time that has elapsed since the introduction of EBAs, the share of employees on EBAs remains small, and is now shrinking.
8. The proportion of employees paid according to an award has been rising in recent years after falling during the previous decade, based on the EEH data. In 2000, around 23.2% of employees were award-reliant, falling throughout the 2000s to a low of 15.2% in 2010. Award reliance rose to 18.8% of employees in May 2014 to a share of 22.7% in May 2016, an increase of 3.9 percentage points in the share over the two year period. The proportion on collective agreements fell 4.7 percentage points in its share over the same period.
9. This is an extra 446,600 workers depending on the NMW and award only at May 2016 compared with May 2014, and a fall of 375,000 in the number of workers on collective agreements over that period. During the two years up to May 2016, the total number of employees increased 248,100, so these are disproportionately large movements in employment composition by method of setting pay.
10. It would appear that the slow growth in the minimum wage and awards has not encouraged an increase in the numbers on collective agreements.

[333] ABS 2013, Labour Statistics: Concepts, Sources and Methods, 2013, Catalogue number 6102.0.55.001.
[334] ABS EEH Cat 6306, employees includes OMIEs (Managers of Incorporated Enterprises at 63060DO005_201605

Overview of the minimum wage workforce

11. Figure 87 shows the minimum wage and award dependent workforce by age and full-time/part-time status as at the most recent ABS data breakdown, May 2016.

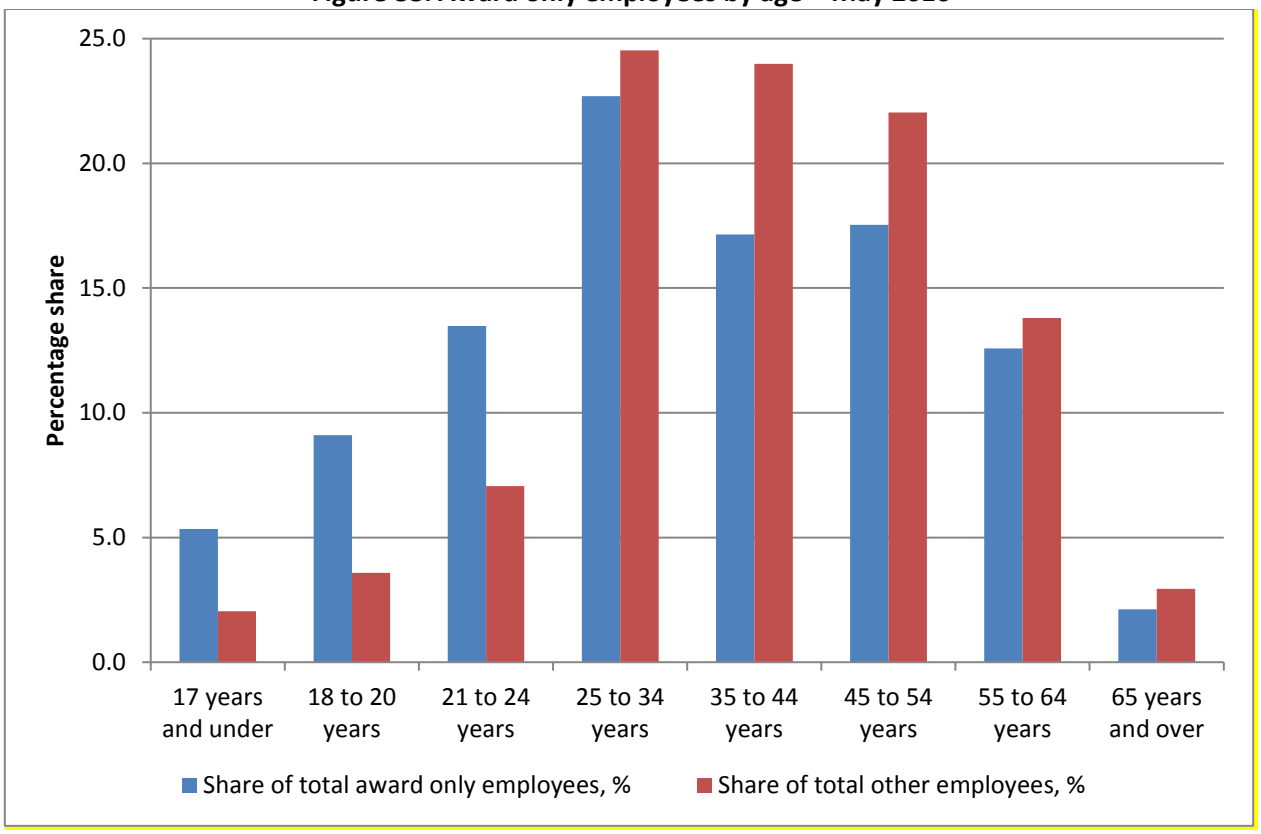
Figure 87: Employees by method of setting pay



Source: ABS 6306

12. Most award only workers are adults, with 85.6% of them aged 21 or above – the equivalent figure for all employees is 92.4%. Figure 88 compares the proportions of employees on award only in each age group with the proportions of all other employees in each group. Award only employees are over represented in the age group under 25, after which the position is reversed. The 'under representation' of award only in the 35 to 54 in particular is not only due to people rising into over award positions. It is also due to women with children being removed from employment, where women are disproportionately reliant on award only.

Figure 88: Award only employees by age – May 2016



Source: ABS 6306 and ACTU calculations.

13. Compared to other workers, award only workers are:

a. more likely to be female – 61.8% of award only workers are female, up from 57.5% at May 2014. 49.3% of other workers are female, up from 48.9% in May 2014; [335]

b. more likely to be part time than other workers (58.6% vs 36.7%)

c. more likely to be casual rather than permanent or fixed term (45.0% vs 18.0%);

[335] These figures are for non managerial employees.

d. more likely to work in a small business (33.6% vs 19.9%), although one half (50.0%) of award only workers are employed in businesses with more than 50 employees;

e. now more likely to work in the public sector (20.8% vs 19.6%), a big shift from May 2014 when 9.5% of those on awards were working in the public sector; and for

f. for full time non managerial workers paid at the adult rate, 36.8% of award only are earning less than $1000 per week, compared with 18.0% of other workers

Industry

14. Two-thirds of all award only workers (66.5%) were employed in five industries at May 2016,
    a. Retail trade (employed 16.2% of award only workers),
    b. Health care and social assistance (15.5%),
    c. Accommodation and food services (13.9%),
    d. Administrative and support services (10.6%), and
    e. Education and training (10.3%).

15. The number of industry divisions with more than 20% of employees who are award reliant has increased from seven to eight out of eighteen over the two years to May 2016. The industry with the highest level of award reliance at May 2016 is Accommodation and food services, in which 42.7% of employees are award only. This proportion is called the 'density' of award only employees. There are seven other industries in which the density of award only employees exceeded 20%. These are Retail trade, Rental hiring and real estate, Administrative and support services, Health care and social assistance, Other services, Arts and recreation, and Education and Training. This is shown in Table 11.

Table 11: Award only employees, non managerial (NM), by industry – May 2016

Industry	Award only NM employees (Thousands)	Total NM employees (Thousands)	Density of award only employees in industry (Per cent)	Industry's share of all award only employees (Per cent)	Industry's share of total NM employment (Per cent)
Mining	ns	163.1	ns	0.0	1.8
Manufacturing	118.5	671.0	17.7	5.2	7.2
Electricity, gas, water and waste services	6.4	98.7	6.5	0.3	1.1
Construction	117.3	595.1	19.7	5.2	6.4
Wholesale trade	69.7	414.4	16.8	3.1	4.5
Retail trade	367.6	1,065.8	34.5	16.2	11.5
Accommodation and food services	316.6	742.2	42.7	13.9	8.0
Transport, postal and warehousing	50.6	377.1	13.4	2.2	4.1
Information media and telecommunications	7.9	143.5	5.5	0.3	1.5
Finance and insurance services		368.3	0.0	0.0	4.0
Rental, hiring and real estate services	45.6	167.8	27.2	2.0	1.8
Professional, scientific and technical services	58.9	631.5	9.3	2.6	6.8
Administrative and support services	240.7	572.4	42.1	10.6	6.2
Public administration and safety	118.9	656.5	18.1	5.2	7.1
Education and training	235.4	906.6	26.0	10.3	9.8
Health care and social assistance	353.9	1,229.1	28.8	15.5	13.2
Arts and recreation services	39.9	152.1	26.2	1.8	1.6
Other services	115.0	334.9	34.3	5.1	3.6
All Industries	**2,276.1***	**9,290.1***	**24.5**	**100.0%**	**100.0%**

Source: ABS 6306 and ACTU calculations. ns=not significant. *Non managerial employees.

16. The share of award reliant employees in industries with award only densities over 20% has increased to 75.3%, or 1.7 million workers at May 2016. These industries employ 55.7% of total employees.

17. In the past, the ACTU has been able to obtain unpublished data from the ABS from Cat 6306 Employee Earnings and Hours (EEH) released biennially for the breakdown of award reliant employees by subdivision of the most award reliant industries. These are shown for May 2014 in Table 12 below, from the ACTU's submission to the 2014-15 AWR.[336]

18. However the ACTU was informed that due to changes in the confidentiality arrangements for release of ABS data, the same breakdown regularly supplied previously was unable to be supplied at all for the release of the EEH data for May 2016. This is unfortunate.

[336] ABS 6306 unpublished data fro May 2014, cited in ACTU 2015 *Submission to Annual Wage Review 2014-15*, 27 March, pp.16.

19. The May 2014 data showed that within the four industries that employ the largest proportions of award only employees at that time, there was substantial variation in the extent of award reliance. For example, within the Health Care and Social Assistance industry, 50.9% of employees in the 'Social assistance services' subdivision were award only, but only 4.7% of employees in 'Residential care services' were award only. Within Administrative and support services, 'building cleaning, pest control and other support services' had a particularly high award reliance at 60.2%, or 95 000 employees.[337]

20. We cannot be sure how the distribution of award reliance across industry subdivisions has changed since May 2014, given the changes in award reliance across industry divisions over the two years since then, including the strongly increased award reliance in Education and training. The distribution of award reliance across industry subdivisions may have changed considerably, but we have no further information in this area in which these data had been historically available.

Table 12: Award-reliant employees by subdivisions of the most award-reliant industries as at May 2014, most recent data available

	Award-reliant employees in industry (thousands)	Total employees in industry (thousands)	Density of award-reliant workers (per cent)	Proportion of all award-reliant workers in industry (per cent)
Retail trade	**320.3**	**1122.3**	**28.5%**	**17.2%**
Motor vehicle & motor vehicle parts retailing	25.9	99.7	-	-
Fuel retailing	np	*17.2	-	-
Food retailing	59.7	354.5	16.8%	3.2%
Other store-based retailing	224.9	635.1	35.4%	12.1%
Non-store retailing & retail commission-based buying &/or selling	np	**15.8	-	-
Accommodation & food services	**316.9**	**739.7**	**42.8%**	**17.0%**
Accommodation	*41	88.4	46.4%	4.8%
Food & beverage services	275.9	651.3	42.4%	14.8%
Administrative & support services	**227.9**	**611.8**	**37.3%**	**12.2%**
Administrative services	132.8	453.8	29.3%	7.1%
Building cleaning, pest control & other support services	95.1	158.0	60.2%	5.1%
Health care & social assistance	**281.4**	**1262.4**	**22.3%**	**15.1%**
Hospitals	103.4	506.1	20.4%	5.6%
Medical & other health care services	50.4	281.8	17.9%	2.7%
Residential care services	11.5	246.5	4.7%	0.6%
Social assistance services	116.1	228.0	50.9%	6.2%

Source: ABS 6306 unpublished data from May 2014, cited in ACTU 2015 *Submission to Annual Wage Review 2014-15*, 27 March, pp.16. Density and proportion columns are ACTU calculations. * indicates a relative error or between 25% and 50%; ** indicates a relative standard error greater than 50%. 'np' means the ABS has not published the information.

[337] ABS 6306, unpublished data for May 2014. Density and proportion are ACTU calculations.

Occupation

21. Table 13 shows the number and proportion of award only employees by broad occupational group at May 2016. Almost 40% of community and personal service workers (39.2%) and 37.0% of labourers are award only, with 31.0% of sales workers reliant on awards.

Table 13: Award only employees, non managerial (NM), by broad occupational group – May 2016

Occupation	Award only NM employees (Thousands)	Total NM employees (Thousands)	Density of award only NM employees in occupation (Per cent)	Occupation's share of all award only NM employees (Per cent)	Occupation's share of total NM employment (Per cent)
Managers	35.2	358.4	9.8	1.5	3.9
Professionals	325.6	2,055.5	15.8	14.3	22.1
Technicians and trades workers	275.2	1,175.9	23.4	12.1	12.7
Community and personal service workers	496.2	1,265.0	39.2	21.8	13.6
Clerical and administrative workers	263.9	1,551.8	17.0	11.6	16.7
Sales workers	406.7	1,311.0	31.0	17.9	14.1
Machinery operators and drivers	131.3	648.7	20.2	5.8	7.0
Labourers	342.1	923.7	37.0	15.0	9.9
All occupations	**2,276.1***	**9,290.1***	24.5	100.0%	100.0%

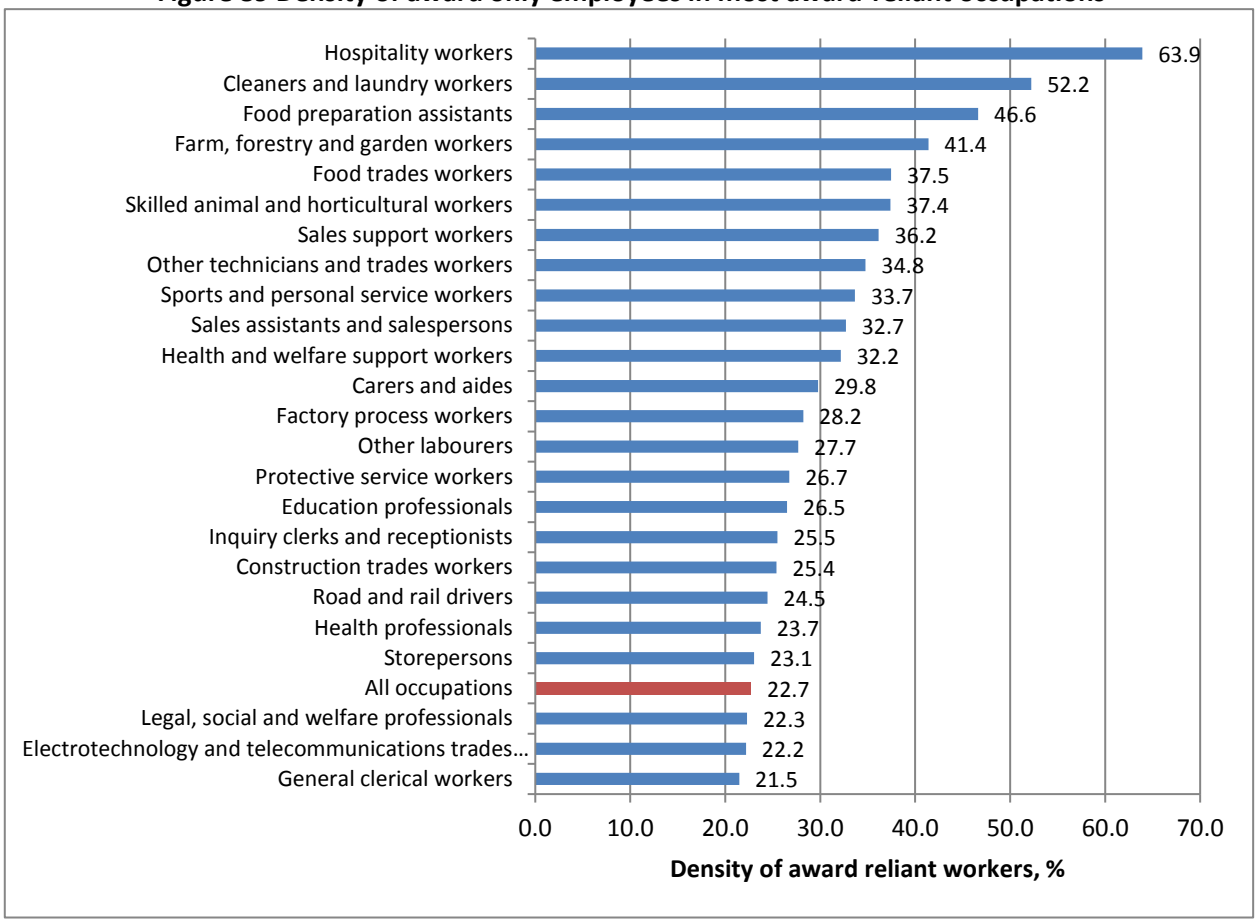
Source: ABS 6306 and ACTU calculations. *Non managerial employees.

22. 1.6 million employees or 69% of all award reliant non managerial employees, are in four occupations, one of them having joined the more award reliant occupations in the last two years. These are Community and personal service workers (496,200), Sales workers (406,700) Labourers (342,100), and Professionals (325,600). The number of award reliant Professionals has increased from 143,400 at May 2014 to 325,600 at May 2016, an increase of 182,200 over the two years to May 2016. These five award reliant occupations are the occupations of 59.8% of total employees.

23. In order to ascertain more information about the types of jobs that award reliant employees are doing, the ACTU has again been able to acquire some unpublished data from the ABS's biennial EEH survey, the most recent being May 2016, released on 19 January 2017. The unpublished data shows the number of award only workers by two-digit ANZSCO code, a much finer grained definition of occupation.

24. As shown in Figure 89, Hospitality workers and Cleaners and laundry workers have the highest density of award-reliant employees, with over half of the employees in each of those occupations being paid by an award only.

Figure 89 Density of award only employees in most award-reliant occupations

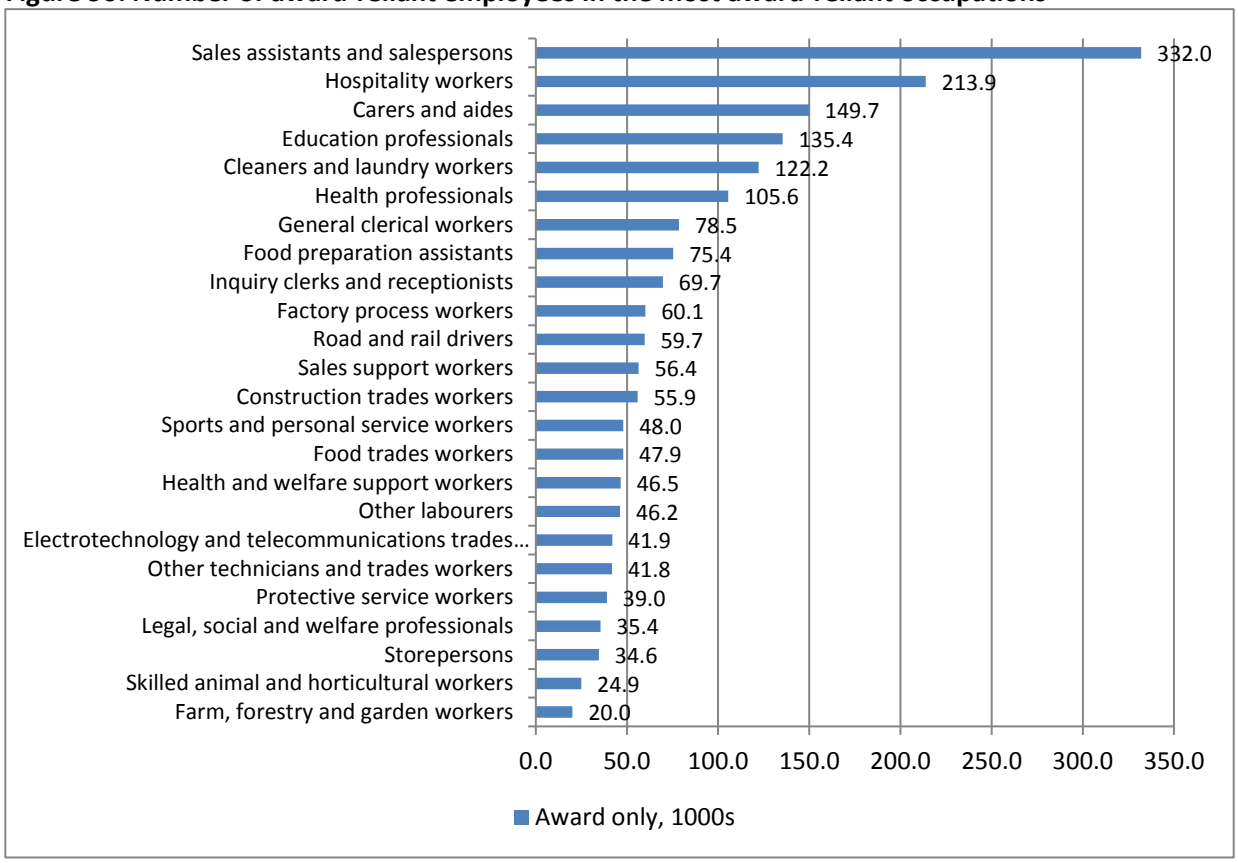


Source ABS 6306 May 2016 (unpublished data) and ACTU calculations.

25. Sales assistants and salespersons are only the tenth most award-reliant occupation, with 32.7% of employees in the occupation being paid by award only. However, the occupation is very large, with over one million, 1,015,500 total employees. As a result, it employs more award-reliant employees (332,000) than any other occupation by some margin. The other occupations which have largest numbers of award reliant employees in order are Hospitality (213,900) with the highest proportion of award reliance, Carers and aides (149,700), twelfth most award reliant, and Education professionals, (135,400), sixteenth most award reliant, moving Cleaners and laundry workers (122,000), second most award reliant, into fifth place .[338] The number of award-reliant employees by occupation is shown in Figure 90.

[338] ABS 6306 unpublished data, May 2016 and ACTU calculations.

Figure 90: Number of award-reliant employees in the most award-reliant occupations



Source: ABS 6306 (unpublished data)

26. Table 14 shows the number and density of award-reliant employees for each 2-digit ANZSCO occupation in May 2016.

Table 14: Award only employees by occupation (2-digit ANZSCO), May 2016 (most recent)

Occupation	Award reliant employees ('000)	Total employees ('000)	Density of award-reliant workers per cent	Occupation's share of all award-reliant workers per cent
Managers	**63.6**	**908.9**	**7.0**	**2.8**
Chief executives, general managers and legislators	2.6	132.6	2.0	0.1
Farmers and farm managers		1.7	0.0	0.0
Specialist managers	50.3	588.2	8.6	2.2
Hospitality, retail and service managers	10.7	186.4	5.7	0.5
Professionals	**326.4**	**2,178.3**	**15.0**	**14.1**
Arts and media professionals	2.5	35.2	7.1	0.1
Business, human resource and marketing professionals	25.3	560.7	4.5	1.1
Design, engineering, science and transport professionals	19.8	268.0	7.4	0.9
Education professionals	135.4	510.5	26.5	5.9
Health professionals	105.6	444.9	23.7	4.6
ICT professionals	2.4	200.2	1.2	0.1
Legal, social and welfare professionals	35.4	158.8	22.3	1.5
Technicians and Trades Workers	**275.2**	**1,239.6**	**22.2**	**11.9**
Engineering, ICT and science technicians	21.5	238.0	9.0	0.9
Automotive and engineering trades workers	41.3	278.0	14.9	1.8
Construction trades workers	55.9	220.0	25.4	2.4
Electrotechnology and telecommunications trades workers	41.9	188.9	22.2	1.8
Food trades workers	47.9	127.9	37.5	2.1
Skilled animal and horticultural workers	24.9	66.6	37.4	1.1
Other technicians and trades workers	41.8	120.2	34.8	1.8
Community and Personal Service Workers	**497.1**	**1,270.4**	**39.1**	**21.5**
Health and welfare support workers	46.5	144.6	32.2	2.0
Carers and aides	149.7	502.7	29.8	6.5
Hospitality workers	213.9	334.7	63.9	9.3
Protective service workers	39.0	145.8	26.7	1.7
Sports and personal service workers	48.0	142.6	33.7	2.1
Clerical and Administrative Workers	**264.7**	**1,622.3**	**16.3**	**11.5**
Office managers and program administrators	39.9	310.1	12.9	1.7
Personal assistants and secretaries	16.4	93.2	17.6	0.7
General clerical workers	78.5	365.5	21.5	3.4
Inquiry clerks and receptionists	69.7	273.3	25.5	3.0
Numerical clerks	24.6	285.1	8.6	1.1
Clerical and office support workers	9.9	58.4	17.0	0.4
Other clerical and administrative workers	25.7	236.7	10.9	1.1
Sales Workers	**406.7**	**1,324.3**	**30.7**	**17.6**
Sales representatives and agents	18.3	152.8	12.0	0.8
Sales assistants and salespersons	332.0	1,015.5	32.7	14.4
Sales support workers	56.4	156.0	36.2	2.4
Machinery Operators And Drivers	**131.3**	**668.3**	**19.6**	**5.7**
Machine and stationary plant operators	21.3	180.0	11.8	0.9
Mobile plant operators	15.7	94.1	16.7	0.7
Road and rail drivers	59.7	244.1	24.5	2.6
Storepersons	34.6	150.1	23.1	1.5
Labourers	**342.1**	**935.1**	**36.6**	**14.8**
Cleaners and laundry workers	122.2	234.0	52.2	5.3
Construction and mining labourers	18.2	111.2	16.4	0.8
Factory process workers	60.1	213.0	28.2	2.6
Farm, forestry and garden workers	20.0	48.3	41.4	0.9
Food preparation assistants	75.4	161.7	46.6	3.3
Other labourers	46.2	166.9	27.7	2.0
All occupations	**2,307.3**	**10,147.0**	**22.7**	**100.0**

Source: ABS 6306, including unpublished data. The final two columns are ACTU calculations. * indicates a relative standard error between 25% and 50%; ** indicates a relative standard error greater than 50%.

Employer size

27. There is a shift in concentration of award-only workers from working for small businesses towards working for big businesses.

28. Small businesses, those with fewer than 20 employees, employed 771,500 award only workers at May 2016. This was 33.4% of all the workers who are reliant on awards. However the share of award workers who work for small businesses fell from 37.9% at May 2014, while the number increased by 65,900, up from 705,900 at May 2014. This is dwarfed by the increase in the number of award only employees in larger businesses which is 365,200 over the same period. We speculate that there is some relationship between that number and the fall of 375,000 in the number of workers covered by collective agreements, associated with the re-coding of some NSW Public Sector employees as award only.

29. Award only employees are more likely (33.4%) than other employees (23.7%) to be employed in small businesses. However half, just 50.0%, of award-reliant workers are employed in businesses with 50 or more employees at May 2016, up considerably from 42.4% at May 2014. By contrast 65% of other employees are employed in businesses with 50 or more employees.

30. The shift in the share of award reliant workers towards employment in larger businesses does not suggest that award increases would be a relative imposition on smaller businesses as their share of workers on awards is declining anyway. This decline in award only share of employment in small businesses is occurring notwithstanding the trend of an increasing gap between award wage increases and the growth in other wages.

Table 15: Award only employees by size of business – May 2016

Business size	Award only employees (Thousands)	Total employees (Thousands)	Density of award only employees by business size (Per cent)	Business size share of all award only employees (Per cent)	Business size share of total employment (Per cent)
Under 20 employees	771.5	2,629.6	29.3	33.4	25.9
20 - 49 employees	382.0	1,269.6	30.1	16.6	12.5
50 - 99 employees	184.2	693.6	26.6	8.0	6.8
100 - 999 employees	545.4	2,545.9	16.2	18.4	25.8
1 000 and over employees	263.3	2,940.4	18.5	23.6	29.0
Total	2,307.3	10,147.0	19.5%	100.0%	100.0%

Source: ABS 6306 May 2016 unpublished data and ACTU calculations.

Classification and earnings

31. In previous reviews we made use of unpublished ABS EEH data on the distribution of award only workers by hourly earnings to estimate the number of employees at each award classification level.

32. We estimate that 41.9% of award only employees had hourly earnings at or below the C10 rate of pay at May 2016. In our analysis, we deflate casual employees' hourly earnings by a fifth to remove an assumed casual loading of 25%, consistent with our practice in previous years.

33. Using unpublished data obtained from ABS 6306 for May 2016 we estimate of the number and proportion of award only workers in each award classification range as at May 2016. These data are presented in Table 16.

Table 16: Estimate of the number of award only employees by classification (May 2016)

	Number of employees in range (thousands)			Percentage of employees in range
Classification level	**Award only perm/fixed term, 1000s**	**Award only casual, 1000s**	**Total award only**	**Share of total award only in each range, %**
Below NMW/C14	89.9	214.9	304.8	13.2
At or above NMW/C14, below C9	205.4	460.6	666.0	28.9
At or above C9, below C5	179.7	153.5	333.3	14.4
At or above C5, incl. C2(b)	218.2	92.1	310.4	13.5
Over C2(b)	590.5	102.4	692.9	30.0
Total award reliant	1283.8	1023.5	2307.3	100

Source: ACTU calculations based on ABS 6306 (unpublished), May 2016. The figures include juniors, apprentices, trainees, and people with disability. The classification levels are based on adult minimum wages. The earnings of casual have been deflated by a fifth to remove an assumed 25% casual loading. The 'At or above C5, incl. C2(b)' earnings range includes workers with hourly earnings up to $1 above the C2(b) range. 'Over C2(b)' is all those with hourly earnings more than a dollar higher than C2(b).

34. Our estimate of the proportion of award only employees whose earnings are at or below C10 at May 2016, at 41.9% was a little lower than estimates for 2012 and 2014. Previous estimates of the proportion of award-reliant workers employed at or below the C10 rate, by the ACTU and others, have ranged widely.[339]

[339] See ACTU 2015 Submission to Annual Wage Review 2014-15, 27 March,p.22 Table 9

35. The increase in proportion which are award reliant at or over C2(b) to 30.0% at May 2016 up from 20.9% at May 2014 is likely to be related to the massive increase in Education professionals reliant on awards from 21,400 at May 2014 to 135,400 at May 2016, with a jump in award density from 4.3% to 26.5%. The number of Health professionals on award has also risen from 66,800 at May 2014 to 105,600 at May 2016 with a corresponding increase in award density from 15.4% at May 2014 to 23.7% at May 2016. In the absence of industry subdivision breakdowns previously available from ABS, we are unable to analyse the change in award reliant structure in relation to industrial changes. This further highlights the increased dependence on award increases across the spectrum of workers.

36. Award only workers employed in small business have lower average hourly earnings. The average earnings of award-reliant workers rises with the size of the firm, from $23.30 per hour on average in firms with under 20 employees to $41.60 an hour on average in firm with over 1000 employees as shown in Table 17.

Table 17: Average hourly ordinary time cash earnings of non-managerial award-only employees by firm size

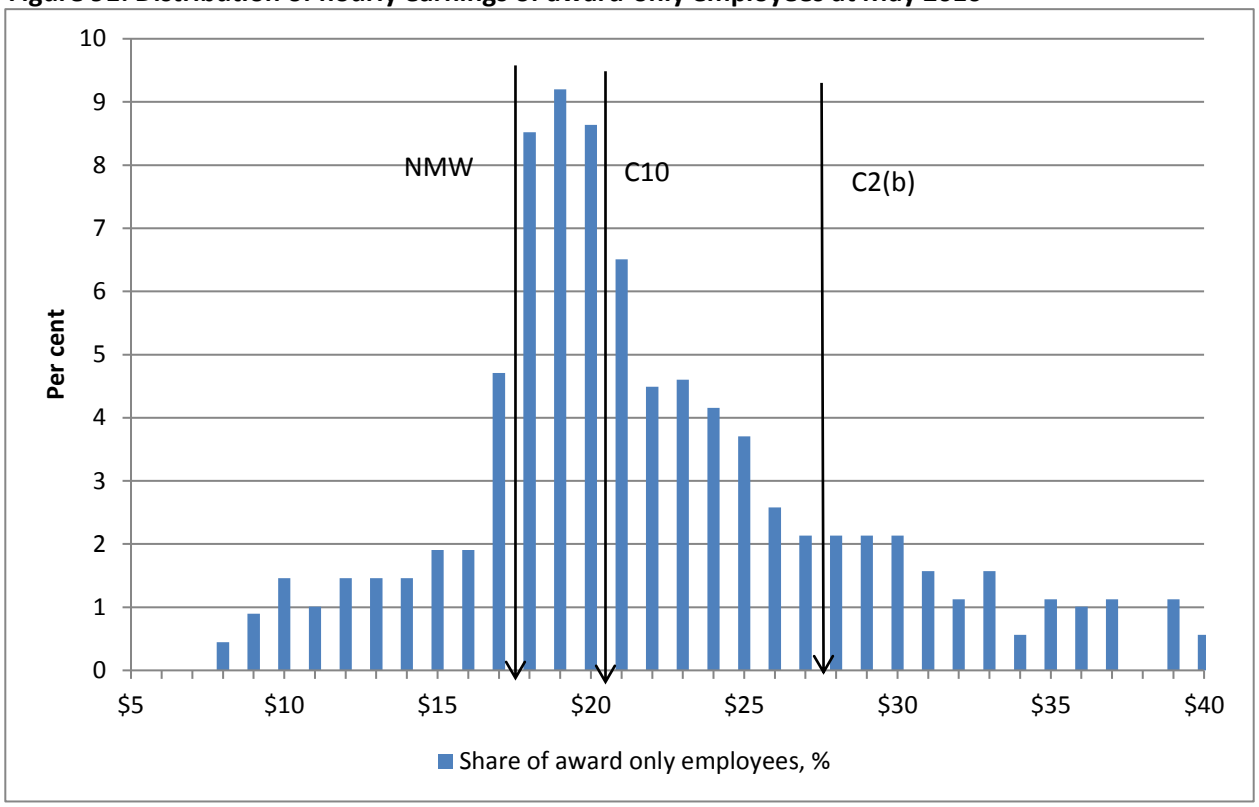
	Permanent/fixed term, $ per hour	Casual. $ per hour	Total, $ per hour
Under 20 employees	22.50	24.30	23.30
20 to 49 employees	24.10	25.70	24.80
50 to 99 employees	25.10	26.30	25.50
100 to 999 employees	28.30	27.50	28.00
1000 and over employees	42.70	33.50	41.60

Source: ABS 6306 (unpublished), May 2016

37. Figure 91 shows the distribution of award-only employees by earnings. The chart shows the percentage of award-only employees who are employed in each $1 earnings interval at May 2016. The highest frequencies of award only employees lie in the range from NMW up to an including C10. That is about 30% of award only employees were earning between $17.29 and about $20.50 an hour.[340] Another 28% lie in the range between C10 and C2(b). The distribution of nominal hourly earnings appears to have shifted downwards since May 2014.[341]

[340] Equivalized for casual workers by deflating by 25% loading.
[341] See ACTU 2015 Submission to Annual Wage Review 2014-15, 27 March,p.23 Figure 6

Figure 91: Distribution of hourly earnings of award-only employees at May 2016



Source: ACTU analysis of ABS 6306 (unpublished), May 2017. Casuals' earnings deflated by a fifth.

Why does award reliance continue to rise?

38. The reliance on the awards rose from 18.1% of employees in the 2014 EEH survey to 22.4% of employees in the 2016 survey, most recent data. The Panel is required to take into account "the need to encourage collective bargaining."[342] The Panel said in its Decision in the AWR 2016-17:

> "Given the complexity of the factors which may contribute to decision making about whether or not to bargain, we are unable to predict the precise impact of our decision on collective bargaining with any confidence. It is likely that the increase we have determined in this Review will impact upon the incentive to bargain in various sectors in different ways, but will not, in aggregate, discourage collective bargaining. However, we are not satisfied that the increase we have determined in this Review will *encourage* collective bargaining and this is a factor we have taken into account, and balanced against the other matters we are required to consider, in determining the outcome of this Review. "

and

> "In reaching this conclusion, we accept that minimum wage increases may influence bargained outcomes, depending upon the circumstances in each industry sector,

[342] *Fair Work Act 2009* (C'th), s.134(1)(b)

including the degree to which the existing bargained or over-award rates exceed the minimum award rates."[343]

39. The Panel indicated in its previous Decision the decline in collective agreement coverage and the increase in reported award reliance and said that "We need to consider these developments in a broader context and to assess the implications for the level and adjustment of the NMW and modern award minimum wages." [344]

40. The ACTU agrees with Panel regarding the need to consider these developments in a broader context. This is discussed in Chapter 6 of our submission.

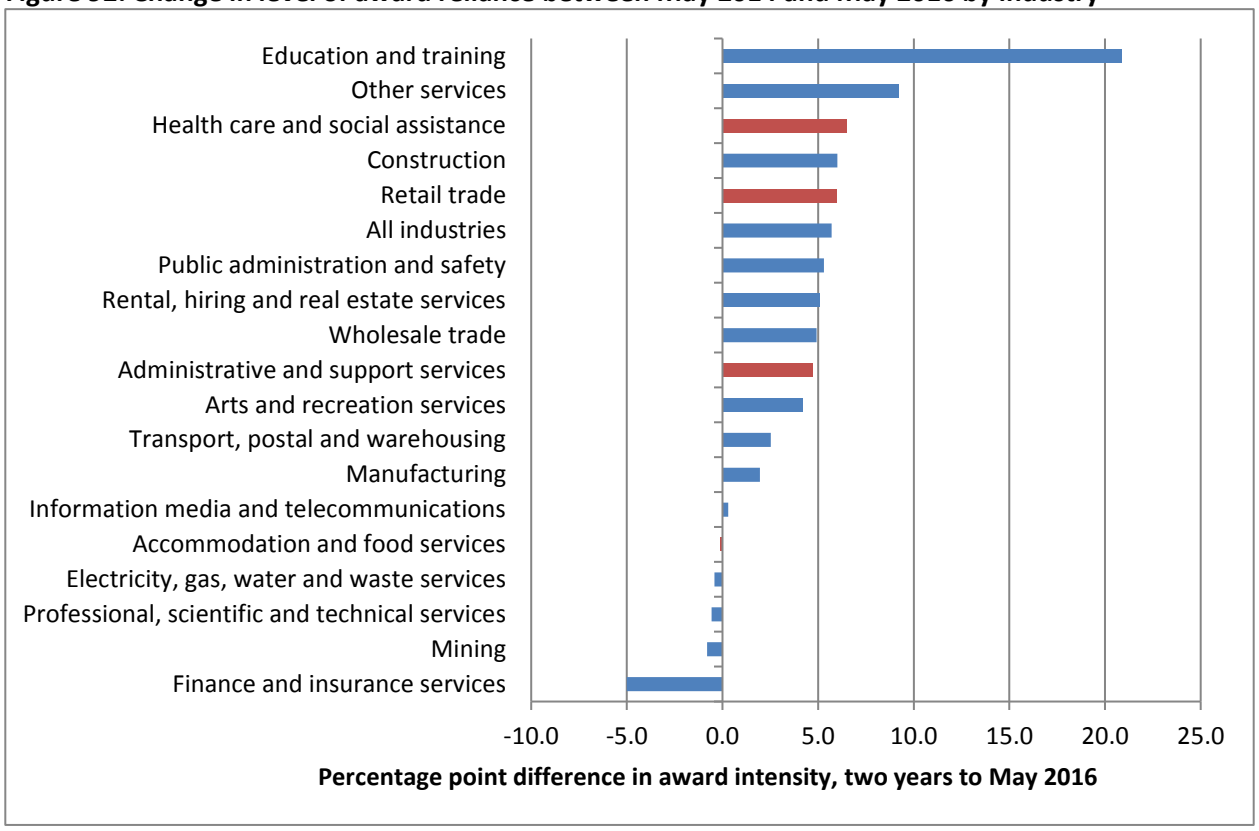
41. Award reliance continues to rise disproportionately in the public sector so that at May 2016 the share of public employees in award reliant employees, 20.1%, exceeds the share of public employees in total employees, 19.9%. While public sector employees are represented in collective agreements in a much higher proportion, 36.9%, the data may reflect the shrinking proportion of public sector employees in total employment, but may also be an artefact of the re-coding of many NSW public sector workers as award only.

42. The increase in award reliance was far from uniform across industries, including across the more award reliant industries. Comparing the 2016 and 2014 EEH data shows the following three trends. For non managerial employees, the density of award-reliant employees in the private sector rose from 23.0% to 24.2%. The density of non managerial award-reliant employees in the public sector rose extraordinarily, from 9.8% to 25.6%, despite the relative concentration of collective bargaining in the public sector. The private sector's share of total non managerial employment fell from 80.6% to 80.1%.

43. The change in award reliance by industry between May 2014 and May 2016 is shown in Figure 92, with the more award-reliant industries shown in blue. It can be seen that the change in award reliance among the more award-reliant industries is not uniform.

[343] FWC 2017 *Annual Wage Review 2016-17* [85],[86]
[344] FWC 2017 *Annual Wage Review 2016-17* [593]

Figure 92: Change in level of award reliance between May 2014 and May 2016 by industry



Source: ABS 6306 and ACTU calculations. Industries in which more than 20% of employees were award only in 2014 are shaded blue.

44. The absence of a relationship between the level of award reliance in 2014 and the change in award reliance between 2014 and 2016 supports that the Panel's decisions have not increased award reliance. The more award-reliant industries have not experienced the largest increases in award reliance.

Indirect "reliance" on modern award wages

45. The 2014 Australian Workplace Relations Study "First Findings Report" made some observations about the extent to which the pay setting practices of enterprises are influenced by modern award rates of pay[345]. It included three relevant categories to this end:
    a. *Award Reliant* was defined as setting a pay rate exactly at the applicable award rate.
    b. *Over Award* was defined as a method of pay where is set with reference to an award rate but not at exactly the applicable award.

[345] https://www.fwc.gov.au/resources/research/australian-workplace-relations-study/first-findings-report/5-wage-setting-and-outcomes/incidence-different-methods-setting-pay, accessed 18 February 2018

46. The “First Findings Report” indicated that 24.6% of enterprises classified *Award Reliant* as their main method of setting pay. A further 24.8% of enterprises classified *Over Award* as their main method of setting pay: This was particularly prevalent among smaller enterprises (27% for enterprises with between 5-19 employees). This data was used to make estimates of the method of setting pay for employees. Those estimates were that 14.8% of the employee population were *Award Reliant* and that 5.1% were *Over* Award.

47. One expects that, based on the change in levels of award reliance as measured by the EEH from 2014 to 2016, there would be some differences were the same AWRS measures taken and estimated today. However, there is no reason to doubt the general point that a small proportion of the workforce, varying greatly as between their employers, receives pay rates that are determined having some regard to movements in modern award wages. This is explored further in Chapter 6.

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