

Fair Work Commission

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**Victorian Government Submission to the
Annual Wage Review 2017-18**

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Industrial Relations Victoria

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Victorian Government Submission to the Annual Wage Review 2017-18

Executive Summary

1. Over the last two decades, Australia has experienced an increase in income inequality, which is common across the states, together with rising numbers of low paid workers especially in certain industries.
2. The Victorian Government strongly believes in fostering inclusive economic growth that can deliver fair and equitable increases in the incomes of all workers. An appropriate minimum wage helps share the benefits of economic activity and growth throughout the whole community.
3. Vulnerable and disadvantaged groups of Victorians should have the same right as other Victorians to share in the fruits of our economic growth. The role of minimum wage policies in addressing inequality has particular significance for a range of these disadvantaged cohorts – including people with disability, migrants, Aboriginal people, women and older workers.
4. Some of these cohorts have incomes that are among the lowest in our community. It is important to understand the role that the National Minimum Wage and award minimum wages can play in helping to address this disadvantage. This is especially the case when those workers are also the ones significantly disadvantaged by last year's Fair Work Commission (**FWC**) decisions to reduce penalty rates.
5. Minimum wages are also significant for gender equality. Recent research shows that within the minimum wage system, there is still a wage 'penalty' for employment in jobs more commonly held by women. The Victorian Government submits that the FWC should take the opportunity to influence the wage outcomes of Victorian women, who are over-represented in low pay cohorts, are predominantly award reliant due to the industries and occupations they work in, and experience persistently higher levels of income and employment insecurity due to higher levels of casual engagement with the workforce.
6. The Victorian Government welcomed last year's FWC decision to award a 3.3 per cent increase in the National Minimum Wage and all award minimum wages for 2016-17. While that decision could not, of itself, lift many award reliant workers and their families out of poverty and unacceptably low pay circumstances, it was

a strong step in tackling income inequality for Australia's and Victoria's most vulnerable workers.

7. The 2016-17 increase of 3.3 per cent (compared to the previous 2015-16 year's increase of 2.4 per cent) was awarded in an economic context where there had been an increase in labour productivity over the last five years, the unemployment rate was relatively stable, the wages price index was lower in 2016 than in 2015, business conditions were positive and there was subdued inflation. In early 2018, economic conditions appear to be stronger than in the previous year affording a similar opportunity for a reasonable increase in 2017-18.
8. The Victorian economy is in its 25th year of uninterrupted growth and the strongest of all the Australian states. Household consumption, public demand and dwelling investment all made positive contributions to growth in 2016-17. Employment in Victoria rose by 3.9 per cent in 2016-17 which represented about 41 per cent of Australia's total employment growth.
9. Income inequality negatively affects economic growth by: reducing the chance that low income earner households invest in education, especially quality education; reducing labour market opportunities available to disadvantaged individuals; and contributing to skills reduction in low socioeconomic status individuals. This also reduced opportunities for social mobility.
10. Considering all this, the Victorian Government submits that when determining the National Minimum Wage and the award minimum wage rates for 2017-18, FWC should take into account:
 - The impact of minimum award wages on the gender pay gap and the wages outcomes for vulnerable workers.
 - Increasing wage inequity and the decreasing gap between the median and minimum wage, in the context of overall wage decline.
 - The fact that an increasing number of our lowest paid workers are on, or below, the poverty line.

11. The FWC should also take into account:
 - the increasing direct and indirect reliance on wages outcomes from the AWR process, with a concurrent decrease in wages outcomes from enterprise bargaining; and
 - that the most effective way to combat wage inequality is by reducing income disparities at the bottom of the income distribution.
12. The Victorian Government submits that in its AWR 2017-18, the FWC should act to address stagnating wage growth and rising inequality.
13. In the AWR 2017-18, the FWC should increase the National Minimum Wage to \$722.00 per week or \$19.00 per hour and give consideration to the National Minimum Wage being set as a proportion of the median wage, so that our lowest paid workers are afforded a real living wage. The FWC should also award a fair and reasonable increase to all award minimum wages in the AWR 2017-18.
14. Separately, the Victorian Government notes that this one lever – the Annual Wage Review process and minimum wage safety net – cannot be fully effective if those on low wages and with little bargaining power are also subject to wage exploitation by some unscrupulous employers. The Victorian Government stresses the need for the Fair Work Ombudsman to be properly resourced to enable it to deal with the significant levels of non-compliance with the Fair Work safety net that is occurring in certain sectors of the economy.

Introduction

15. The Victorian Government makes this submission to assist the Fair Work Commission (**FWC**) in the exercise of its functions in setting minimum wages for employees in the national workplace relations system.
16. The FWC must ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions.
17. In establishing and maintaining a safety net of fair minimum wages, the FWC is required to take into account:
 - the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth;
 - promoting social inclusion through increased workforce participation;
 - relative living standards and the needs of the low paid;
 - the principle of equal remuneration for work of equal or comparable value; and
 - providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.¹
18. These matters are dealt with throughout the submission.
19. The Victorian Government continues to vigorously support inclusive growth and pay equity. Employment and higher wage growth is critical to social and economic inclusion and this in turn is critical for community stability and positive engagement of all Victorians.
20. In its 2016-17 decision, the FWC highlighted that there was an opportunity to improve the wage outcomes of low paid, award reliant employees who are exposed to poverty, without causing adverse effects on the working hours and employment of vulnerable cohorts of workers in the Australian workforce. It said:

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. Over the last 5 years, the real value of the NMW and modern award rates has grown at 4.3 per cent which is less than half the rate of growth of labour productivity.
21. Further, the FWC noted that overstated concerns about the impact of minimum wage increases on employment may have led to it being “overly cautious” in past AWR decisions:

¹ Fair Work Act 2009, s.284(1).

As a result of this international research, particularly in the UK, 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. We are also of the view that minimum and award wage increases would likely lead to some positive, but probably small, effect on consumer demand and this needs to be taken into account.

Overview – Minimum wages and inclusive growth

Strong labour market but weak wages growth

22. Victoria's economy and labour market are strong. The Victorian economy is in its 25th year of uninterrupted growth and the strongest of all the Australian states. Household consumption, public demand and dwelling investment all made positive contributions to growth in 2016-17. Employment in Victoria rose by 3.9 per cent in 2016-17 which represented about 41 per cent of Australia's total employment growth.
23. However, despite positive employment growth and strong market conditions, Victorian wages growth is subdued. This lack of wages growth is consistent with trends observed in other national and international jurisdictions. Victorian wages grew only 2.0 per cent in 2016-17, in line with the national average but below the long-term national average growth rate of 3.25 per cent.

Inclusive growth and income inequality

24. Over the last two decades, the growth in Australia's minimum wage has declined when compared to the growth in the median wage and real wage growth is facing stagnation. In 1985, Australia had the highest minimum wage in the OECD relative to the median, whereas in 2011 it was the sixth highest. In the same period, this decline was coupled with rising numbers of low paid across certain industries. This has contributed to the growing inequality in earnings and growing income inequality across the states.
25. The enterprise bargaining wages premium over award rates appears to be diminishing, and further suggests that current award rates (along with other factors) may increasingly serve as a market signal to the parties when determining wage rates during the enterprise bargaining process.
26. Research suggests² that the most effective way to combat wage inequality is by reducing income disparities at the bottom of the income distribution. Increases to the National Minimum Wage and award minimum wages through the annual

² OECD (2015) *In It Together: Why Less Inequality Benefits All*, OECD Publishing, Paris. Accessed from: http://www.oecd-ilibrary.org/employment/in-it-together-why-less-inequality-benefits-all_9789264235120-en

wage review is a significant lever to address income inequalities at the lower income brackets. The Victorian Government therefore calls on the FWC in making its decision this year, to consider, prioritise and address the following matters:

- persistent earnings inequality particularly for women;
 - the impact of minimum wages on the gender pay gap, on young people and other cohorts of vulnerable workers; and
 - the need for adequate levels of pay to promote social and economic inclusion.
27. The FWC should also consider that the impact of its decision in the community has increasingly broadened, due to increased award reliance and reductions in wages outcomes for low paid cohorts of workers, particularly those affected by the reductions in penalty rates.
28. Considering all these matters, the Victorian Government submits that the FWC should award an increase from 1 July 2018 to the National Minimum Wage of \$722.00 per week or \$19.00 per hour, and a fair and reasonable increase in all award minimum wages in the AWR 2017-18.

Performance and competitiveness of the international, Australian and Victorian economies

International outlook

29. In the January 2018 World Economic Outlook Update, the International Monetary Fund (**IMF**) estimates that global output grew by 3.7 per cent in 2017. Global growth forecasts for 2018 and 2019 were revised upward by 0.2 percentage point to 3.9 per cent. The upward revision reflects increased global growth momentum and the expected impact of the recently approved US tax policy changes. The forecast for inflation in advanced economies was revised up 0.2 percentage points in 2018 to 1.9 per cent, although this remains subdued by historical standards.
30. The IMF notes that nominal wage growth in most advanced economies remains markedly lower than it was before the Great Recession of 2008–09. The IMF finds that the bulk of the wage slowdown can be explained by labour market slack (both headline unemployment and underutilisation of labour in the form of involuntary part-time employment), inflation expectations, and trend productivity growth.

Australian outlook

31. In the 2017-18 Mid-Year Economic and Fiscal Outlook, the Commonwealth Government forecast the Australian economy to grow at a solid pace in 2017-18. Non-mining business investment has been increasing, while the drag on growth from falling mining investment has been diminishing and has nearly run its course.
32. Labour market conditions have strengthened, with over 380,000 jobs created in the past year, but growth in household consumption has been modest and inflation and wage growth remain subdued. Wages are forecast to grow by 2.25 per cent through the year to the June quarter 2018 and 2.75 per cent through the year to the June quarter 2019. At the same time, the unemployment rate is expected to be lower than forecast at Budget because of recent strong labour market outcomes.

Victoria's current conditions and sources of growth

33. The Victorian Government is committed to prudent financial management and strategic infrastructure investments to facilitate a strong economy and boost job growth. The Government is taking advantage of a robust economy to improve jobs and services such as hospitals, schools, and transport.
34. In Victoria, the Real Gross State Product (GSP) expanded by 3.3 per cent in 2016-17, the strongest of all the states and the 25th year of uninterrupted growth. Household consumption, public demand and dwelling investment made the

largest contributions to GSP in 2016-17. GSP is expected to grow at an above trend rate of 3.0 per cent in 2017-18, supported by robust population and employment growth, low interest rates and an improving global economic environment.

35. The outlook for the Victorian economy remains strong and was generally upgraded in the 2017-18 Budget Update. The forecast for 2017-18 GSP growth was increased by 0.25 percentage points to 3.0 per cent, and the forecast for employment growth was increased across the forward estimates including by 1.0 percentage points to 3.0 per cent in 2017-18. The upgrades largely reflect stronger economic conditions, faster population growth and a higher labour force participation rate. The forecast for 2017-18 population growth was upgraded 0.4 percentage points to 2.3 per cent. The upgrade was mostly due to the significant upward revision to Victoria's estimated population growth because of the Australian Bureau of Statistics (ABS) 2016 Census. In the 2017-18 Budget Update, Victoria's wage price index was forecast to gradually increase, but at a more gradual pace than in the 2017-18 Budget. This partly reflects lower than expected wage outcomes and higher than expected labour force underutilisation.
36. Victoria's household consumption growth was the strongest of all the states in 2016-17. Household consumption is forecast to grow at trend, reflecting strong population and employment growth, rising household wealth, and the positive impact on purchasing power from subdued inflation.
37. Conditions in Victoria's housing market are solid and house price growth has been higher than the national average since the end of 2015. House prices are expected to continue to rise, but at a slower pace, mostly because of an increase in housing supply and rising borrowing costs.
38. Business investment is forecast to remain subdued, consistent with trends observed in other national and international jurisdictions. While the outlook for non-residential construction is robust, machinery and equipment investment remains weak.
39. Victoria's international trade is benefiting from supportive conditions in key trading partners, such as China, the US and Japan. Strong demand from Asia is supporting Victoria's merchandise exports, including food and fibre exports. Continued growth in international service exports, particularly in tourism, education, and professional services is expected to underpin strength in Victoria's exports.
40. Victoria's population grew 2.3 per cent over the previous year to 6.3 million in June 2017. This is the highest population growth since the early 1980s and well above the national average of 1.6 per cent. Population growth is forecast at 2.3 per cent in 2017-18, 0.4 percentage points higher than forecast in the 2017-18 Victorian Budget. The significant upward revision to Victoria's forecast

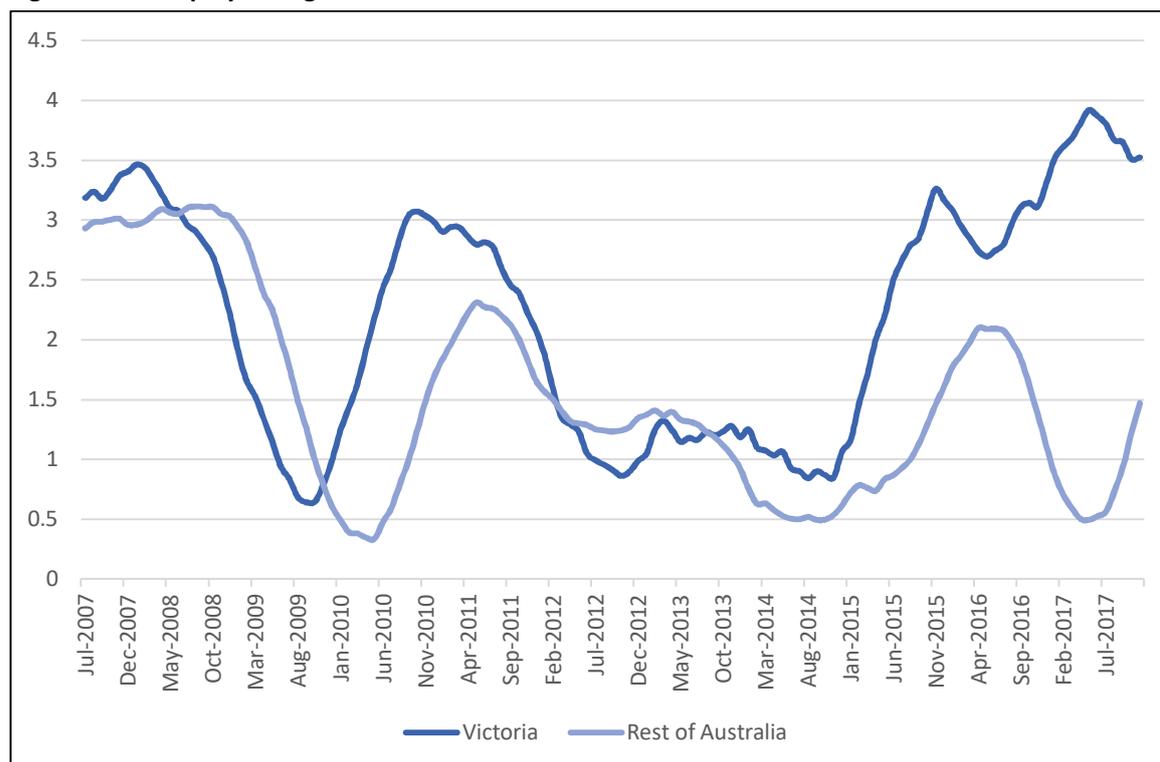
population growth mostly reflects the impacts from the Australian Bureau of Statistics 2016 Census revisions. Population growth is forecast to moderate to around 2.0 per cent by 2020-21 as economic activity and labour market conditions return to trend, and as economic conditions improve in the mining states.

41. Higher population growth has significant implications for the economy and labour market. It directly translates into more spending and an increase in the supply of labour, which supports the outlook for employment growth. Strong population growth also leads to increased demand for government services such as health, education and public transport.
42. Current and forecast conditions can support a fair and reasonable increase to the National Minimum Wage and award minimum wages.

Victoria's labour market and outlook

43. Conditions in Victoria's labour market are strong and the outlook has generally improved in the past year. Employment in Victoria rose by 3.9 per cent in 2016-17, representing about 41 per cent of total Australian employment growth. This was the highest growth in Victoria since 1989-90.
44. Employment growth was broad-based with Victorian regional employment growth the highest amongst regional Australia. The main contributors to growth in 2016-17 were the service sectors including, 'education and training', 'health care and social assistance', and 'professional services'.

Figure 1: Employment growth – Victoria and the Rest of Australia – 2007 to 2017

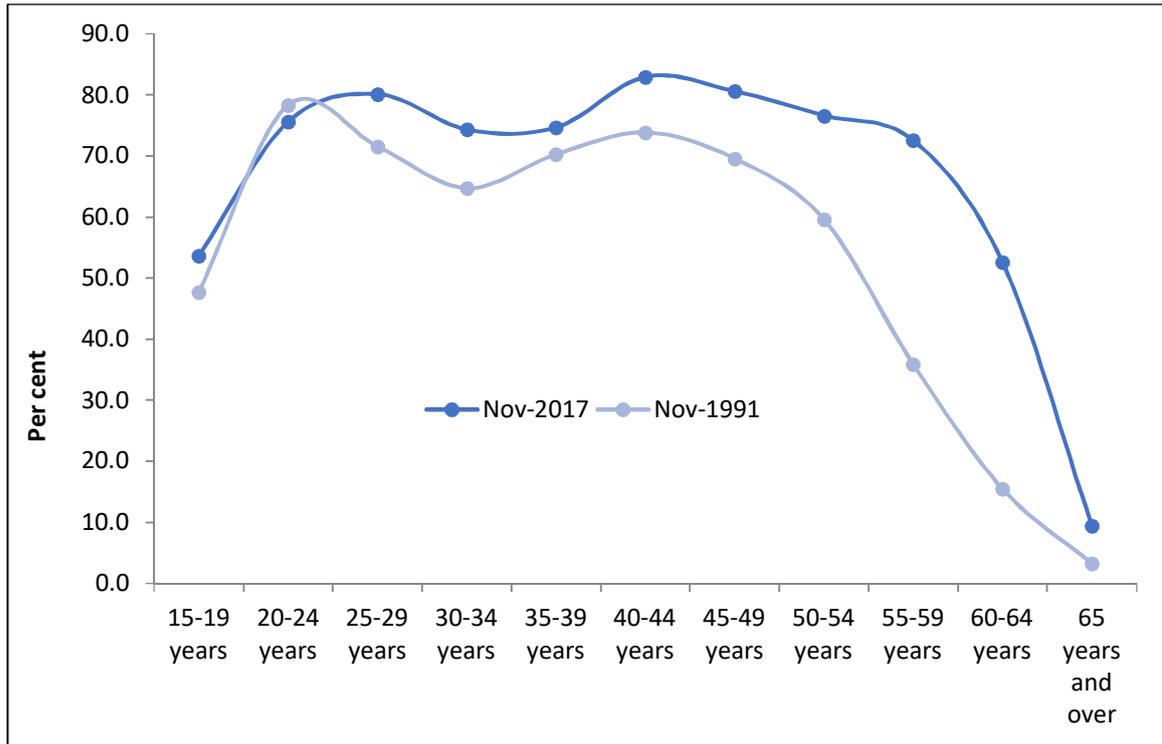


Source: ABS Cat. No. 6202

45. Employment growth in Victoria is forecast to be above trend from 2017-18 to 2018-19, reflecting strong economic conditions and population growth, and high labour force participation. A range of forward indicators point to continued strength in the near-term, including surveyed hiring intentions (above the long-term average) and ABS job vacancies (23 per cent higher over the year to the September quarter 2017). Employment growth is expected to return to trend over the medium-term.

46. Victoria's labour force participation rate increased 1.0 percentage points in 2016-17 to a record high of 65.7 per cent, mainly driven by the increase in female participation, including amongst those aged over 50 years (**Figure 2**). The broader strength in the economy and labour market is also drawing a larger number of job seekers into the workforce. Over the past 26 years, the female participation rate has increased across most age cohorts but especially in those cohorts over 50 years old.

Figure 2: Female participation rate by age cohort by date



Source: ABS Cat. No. 6202

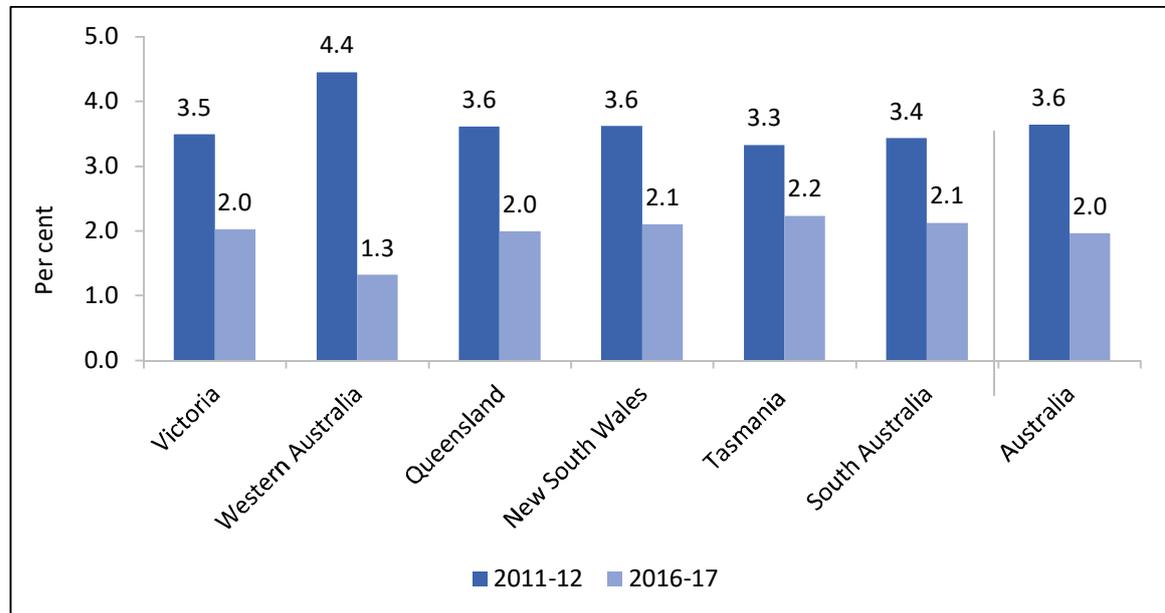
47. The participation rate is forecast to remain high but to moderate over the forecast period. The participation rate is being weighed down by Victoria’s ageing population, which is partly offset by the ‘encouraged worker effect’, which is drawing a larger number of job seekers into the workforce.
48. Victoria’s unemployment rate (6.1 per cent in December 2017) has remained broadly unchanged in 2016-17 as the strong employment growth was broadly matched by an increase in the number of unemployed persons. The unemployment rate is expected to decline to its natural rate of around 5.5 per cent in line with continued solid economic conditions and an anticipated moderation in the participation rate.
49. Current and forecast labour market conditions can support a fair and reasonable increase to the National Minimum Wage and award minimum wages.

Victoria’s wages growth and outlook

50. Victorian wages growth is subdued despite strong labour market conditions. This is consistent with trends observed in other national and international jurisdictions (**Figure 3**). Victorian wages grew 2.0 per cent in 2016-17, in line with the national average but below the long-term average growth rate of 3.25 per cent.

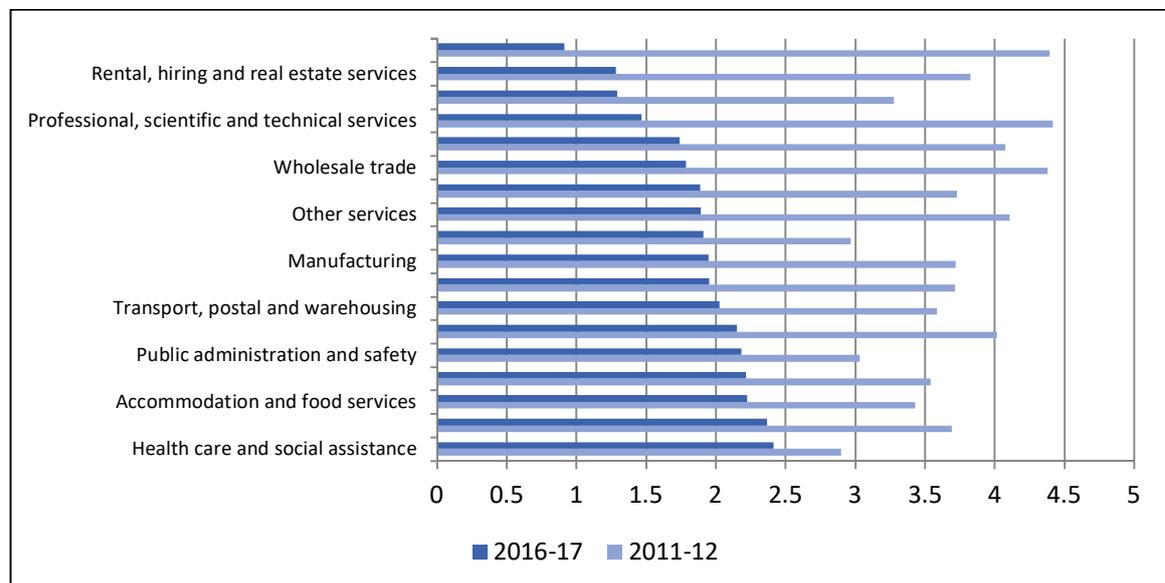
51. This weakness in wages growth has resulted from a combination of factors including, excess labour market capacity, weak inflation expectations, increased competition in the retail sector, and low productivity growth.

Figure 3: Annual average wage growth by state – 2011 to 2012 and 2016 to 2017



Source: ABS Cat. No. 6345

Figure 4: National wage growth by industry – 2011-12 and 2016-17



Source: ABS Cat. No. 6345

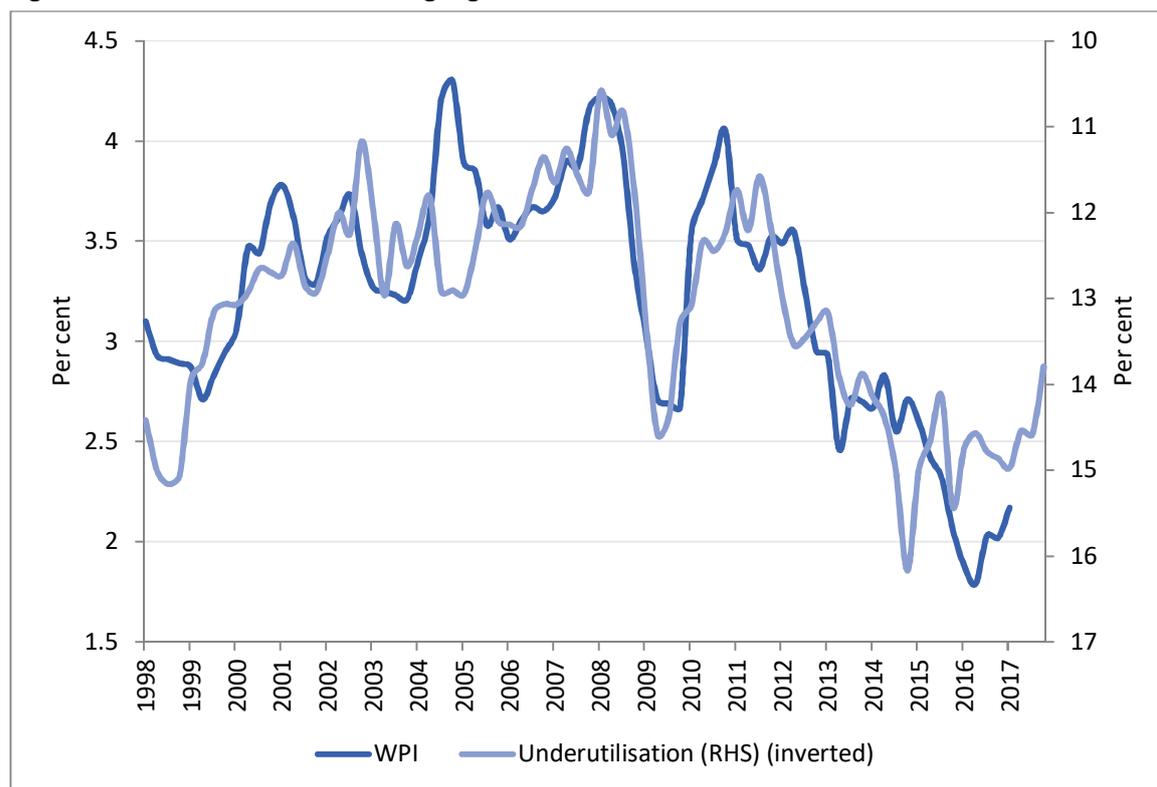
52. The weakness in wages growth was broad-based (across industries, and states and territories) in 2016-17 with no industry recording growth above 2.5 per cent. The mining industry had the slowest wages growth in 2016-17 (0.91 per cent) while the health care and social assistance industry had the highest wages growth (2.42 per cent) (Figure 4).

53. Inflation was below the Reserve Bank of Australia's (**RBA**) target band of 2-3 per cent in 2016-17. This reflects lower wages growth, the effect of increased competition in the retail sector on retail prices, and elevated spare capacity in the economy. Non-tradables inflation has been influenced by rises in the tobacco excises and utility bills that have partly offset subdued growth in housing rents. Tradables inflation has remained low reflecting the declining terms of trade and the effect of heightened competition from foreign retailers on goods prices.
54. Inflation is expected to gradually return to the mid-point of the RBA's 2-3 per cent target band as spare capacity in the economy is absorbed and wage growth normalises. Measured inflation is likely to be lower following the ABS' recent update to the weights in the consumer price index expenditure basket.
55. Looking forward, wages are expected to gradually strengthen over the next four years. This outlook is dependent on the anticipated pace and extent of the reduction in spare capacity in the labour market. In the 2017-18 Budget Update, Victoria's wage price index was forecast to increase at a more gradual pace than in the 2017-18 Budget. This partly reflects lower than expected wage outcomes and higher than expected labour force underutilisation.

Victoria's labour underutilisation

56. Victoria's headline unemployment rate does not fully reflect the extent of spare capacity in the labour market as it does not account for those workers who are employed but would like to work more hours. These workers are classified as employed but underemployed or underutilised.
57. Elevated levels of labour market underutilisation can signal a potential oversupply in the market for employment. In this environment, wage growth is likely to be lower as firms can increase the hours worked of current employees before 'going to market' for new workers, which can often require offering higher wages. In addition, employees may be more willing to accept lower wage growth given concerns about future employment and the desire to work additional hours.
58. Victoria's underutilisation rate, which is the sum of the unemployment and underemployment rates, provides a more comprehensive measure of spare capacity in the labour market than the unemployment rate. Victoria's underutilisation rate is higher than average but declined 0.8 percentage points to 13.8 per cent in the three months to November, and is down 1.1 percentage points over the year (**Figure 5**). Victoria's underutilisation rate is expected to gradually decline as strong growth in hours worked reduces spare capacity in the labour market.

Figure 5: Underutilisation and wages growth – Victoria – 1998 to 2017



Source: ABS Cat. No. 6202

59. While spare capacity in the labour market, may account for some of the recent slowdown in wages growth, they do not fully explain the decline. The slowdown may be due to other structural factors such as changes in competition in the labour market, the globalisation of services trade, casualisation of the workforce, and a reduction in workers’ bargaining power.³

Victoria’s labour productivity growth in a global context

60. The Victorian Government recognises the need to improve productivity by focusing on strategies that encourage innovation, investment and a supportive environment for jobs. Productivity growth is essential to increasing living standards over the long term as it grows the economic ‘pie’, which creates opportunities for everyone.

61. According to the IMF, over the past decade, there has been a trend slowdown in global productivity growth. In advanced economies, for example, productivity growth has dropped to 0.3 per cent, down from a pre-crisis average of about one per cent. This trend has also affected many emerging and developing countries, including China. The IMF estimates that, if total factor productivity growth had not slowed, overall GDP in advanced economies would be about 5 per cent

³ Bishop, J. and Cassidy, N. (2017) *Insights into Low Wage Growth in Australia*. Reserve Bank of Australia: Bulletin – March Quarter 2017.

higher today – the equivalent of adding more than another Japan to the global economy.^{4 5}

62. The IMF has identified three major global headwinds to recent productivity growth. Firstly, the population is aging in most advanced economies which tends to weigh on productivity growth through negative effects on innovation. Secondly, is the slowdown in global trade. Global trade encourages firms to invest in new technologies and more efficient business practices, and also encourages the sharing of new technologies across borders. Thirdly, is the unresolved legacy of the global financial crisis in some major economies. Unlike normal economic slowdowns, deep recessions leave permanent scars on total factor productivity. A major factor was the impact of the ‘credit crunch’ on firms that had entered the crisis with high levels of debt. These companies were often forced into fire sales of assets and deep cuts in physical and intangible investment—with lasting effects on productivity.

Multifactor and labour productivity in Australia and Victoria

63. Multifactor productivity (**MFP**) reflects the overall efficiency with which labour and capital inputs are used together in the production process. Growth in MFP is measured as a residual, that is, that part of GDP growth that cannot be explained by changes in labour and capital inputs. Labour productivity, on the other hand, measures how efficiently labour input is combined with other factors of production and used in the production process. Labour input is usually defined as total hours worked of all persons engaged in production.
64. Australia’s recent productivity performance has been poor. Australia’s MFP (market sector) growth has declined from an average of 1.2 per cent during the 1998-99 to 2003-04 productivity cycle to 0.8 per cent in the current incomplete cycle. In 2016-17, Australia’s MFP grew by 0.6 per cent, close to its long term average of 0.9 per cent. Australia’s labour productivity growth has declined from an average of 2.4 per cent during the 1998-99 to 2003-04 productivity cycle to 1.8 per cent in the current incomplete cycle. In 2016-17, Australia’s labour productivity grew by 1.1 per cent, significantly below its long term average of 2.2 per cent.
65. Similar to the national experience, Victoria’s MFP growth has been positive over the recent productivity cycle, but weaker than in the previous cycle. Victoria’s MFP growth has declined from an average of 1.2 per cent during the 1998-99 to 2003-04 productivity cycle to 0.8 per cent in the current incomplete cycle. In 2016-17, Victoria’s MFP grew by 0.9 per cent, close to its long term average of 0.8 per cent. Victoria’s labour productivity growth has declined from an average

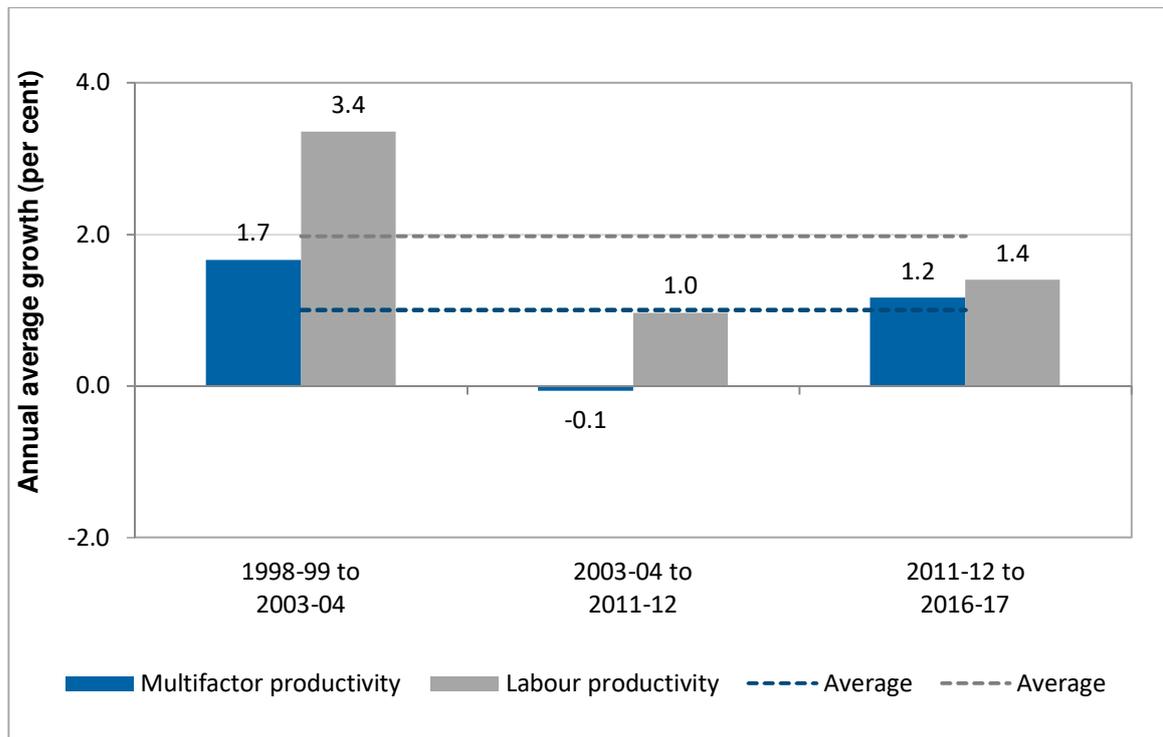
⁴ Adler and others (2017), *IMF Staff Discussion Note 17/04* (April 2017) “Gone with the Headwinds: Global Productivity.” Accessed from: <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2017/04/03/Gone-with-the-Headwinds-Global-Productivity-44758>

⁵ Lapgarde, C. (2017) *Reinvigorating Productivity Growth*. Accessed from: https://www.imf.org/en/News/Articles/2017/04/03/sp040317-reinvigorating-productivity-growth#_ftn2

of 2.9 per cent during the 1998-99 to 2003-04 productivity cycle to 1.1 per cent in the current incomplete cycle. In 2016-17, Victoria’s labour productivity grew by 0.9 per cent, significantly lower than the long term average of 1.9 per cent.

66. Looking forward, the 2017-18 Budget forecasts Victoria’s labour productivity growth to strengthen, but to remain subdued by historical standards. Victoria’s labour productivity growth has been impacted by the sizable increase in the labour force and the strength in employment growth. As the national economic transition from mining investment matures, employment growth in Victoria’s should begin to normalise towards trend, which will provide support for Victoria’s labour productivity growth.

Figure 6: Victoria – Market sector industries, by growth cycle



Source: ABS Cat. No. 5260.0.55.002

Relative living standards and the needs of the low paid

Low pay, award reliance and earnings inequality

67. The Victorian Government maintains the view that the overriding objective of a fair and effective safety net is to provide fair minimum employment standards that reflect the general expectations of the Australian community. Central to this objective is a fair minimum wage that is adjusted to reflect those standards and protects workers who might be in a poor bargaining position to successfully individually negotiate improved wages outcomes. Equally important is the objective that a fair minimum wage operates to reduce income inequality and moderates against social and economic exclusion.
68. Income inequality undermines economic inclusion by restricting the access of some citizens to labour market and other opportunities. Income inequality erodes social cohesion, leads to political polarisation and lowers economic growth and has been rising over the past three decades in the clear majority of OECD countries, including Australia. Research has observed a clear negative correlation between income inequality and economic growth in OECD regions.^{6 7}
69. Income inequality negatively affects economic growth by:
- reducing the chance that low income earner households invest in education, especially quality education;
 - reducing labour market opportunities available to disadvantaged individuals; and
 - contributing to skills reduction in low socioeconomic status individuals.⁸
70. Research has shown that the most effective way to lower income inequality is by reducing income disparities at the bottom of the income distribution. This has a greater positive impact on economic performance than focussing on reducing top inequality. One study concluded that lowering bottom inequality in OECD countries by half of a standard deviation would increase average annual growth by nearly 0.3 percentage point over the subsequent 25-year period.⁹ The negative effect of inequality on growth is determined by the lower part of the income distribution, especially the poorest decile. However, the negative effect on growth is also observable at the second, third or fourth income decile.¹⁰
71. In its submissions to the Annual Wage Review 2016-17, the Victorian Government submitted that FWC should consider action that can address the

⁶ Royuela, V., Veneri, P. and Ramos, R. (2014) *Income Inequality, Urban Size and Economic Growth in OECD Regions*. OECD Regional Development Working Papers, Vol. 2014/10, OECD Publishing, Paris. Accessed from: http://www.oecd-ilibrary.org/urban-rural-and-regional-development/income-inequality-urban-size-and-economic-growth-in-oecd-regions_5jxrcmg88l8r-en

⁷ OECD (2015)

⁸ OECD (2015)

⁹ OECD (2015)

¹⁰ OECD (2015)

narrowing gap between the National Minimum Wage and the poverty line and calls on the FWC to do so again in the AWR 2017-18. In recent years, the gap between the poverty line and the National Minimum Wage has narrowed, highlighting the vulnerability of people on the minimum wage to poverty.¹¹ The ABS's measure of low income households is a weekly disposable income of between \$205 and \$511, which is "below one of the commonly used poverty lines, set at 60% of the median income for all households".¹² According to the ABS, in 2013-14,¹³ there were "just over four million people living (or approximately 17 per cent of the Australian population) in low income households", with half of these people between 16 and 64 years old, nearly one third aged 65 years and over, and approximately 40 per cent living in a household where at least one person was employed. This ABS data indicates that a significant number of working aged Australians (that is, between 16 and 64 years old) are living below the poverty lines.

72. A recent research report by the McKell Institute asserts that "access to wages in Australia has been facing a relative decline in the past few years which has led to growing income inequality across the states" and "real wage growth is facing stagnation and the opportunities for earnings are gradually diminishing".¹⁴ According to this research "Australia falls behind comparable nations like Germany, France, Netherlands etc. in terms of the degree of income equality"¹⁵ with a rise in income inequality (as measured by the Gini coefficient) from 0.27 in 1981-92 to 0.33 in 2013-14.
73. According to the ABS "since 2007-08, inequality has varied within a relatively narrow range, from 0.320 (2011-12) to 0.333 (2013-14). In 2015-16, income inequality remains within that range, at 0.323." As illustrated in **Figure 7** below, the Gini coefficient¹⁶ rose from 0.302 in 1994-95 to a peak of 0.336 in 2007-08 and has declined recently to 0.323 in 2015-16. However, there has been a notable increase in income inequality since the lows of 1995-96 and 1996-97 – that is, earnings inequality has increased over the past twenty years.

¹¹ Victorian Government Submission to the Annual Wage Review 2016-17, 29 March 2017, p. 12, Figure 2. Accessed from: <https://www.fwc.gov.au/documents/sites/wagereview2017/submissions/vicgovsub.pdf>

¹² ABS Catalogue No. 6523 *Household Income and Wealth, Australia, 2013-14: Wealth of Low Income Households*. Accessed from: [http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6523.0~2013-14~Feature%20Article~Wealth%20of%20Low%20Income%20Households%20\(Feature%20Article\)~30](http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6523.0~2013-14~Feature%20Article~Wealth%20of%20Low%20Income%20Households%20(Feature%20Article)~30)

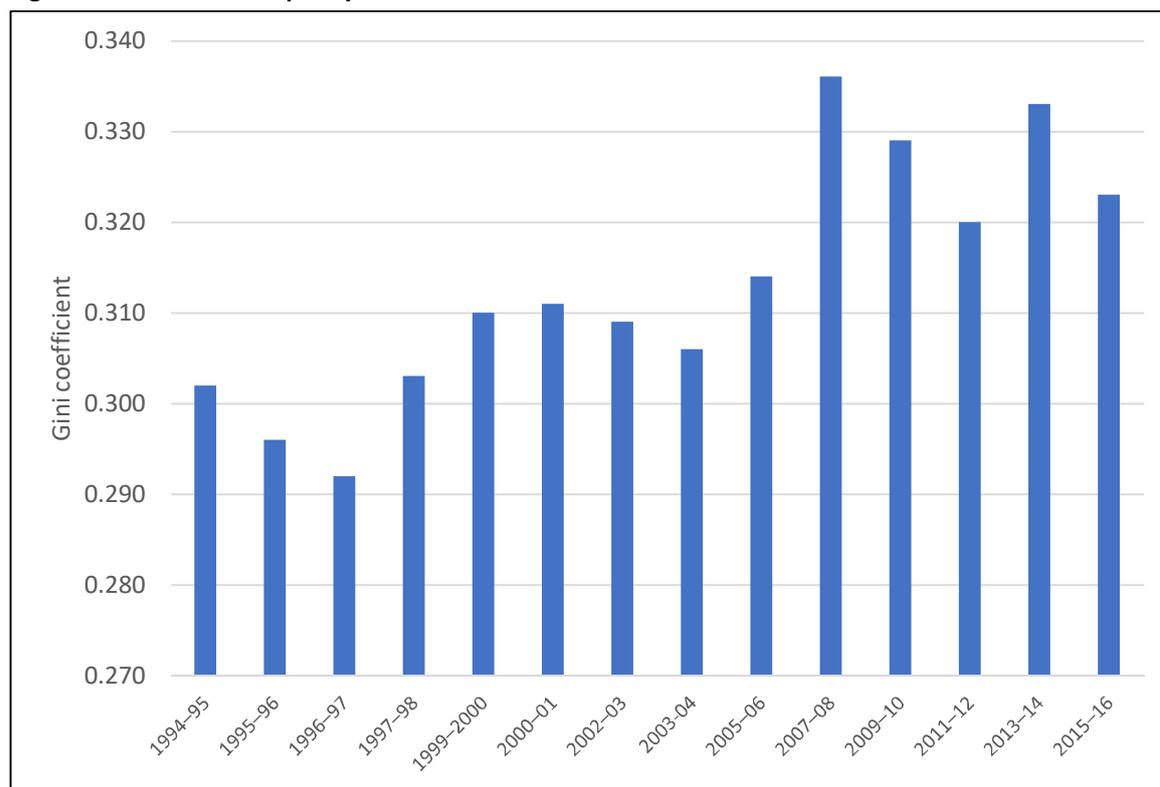
¹³ According to ABS Catalogue No. 3101 *Australian Demographics*, at the end of the September quarter 2014, Australia had a population of 23,581,000.

¹⁴ The McKell Institute (2018) *Mapping Opportunity: A National Index on Wages Income* (January 2018) p. 12. Accessed from: <https://mckellinstitute.org.au/app/uploads/Wages-UPDATED.pdf>

¹⁵ McKell Institute (2018) p. 19.

¹⁶ ABS Catalogue No. 6523.0 *Household Income and Wealth, Australia, 2015-16* (13 September 2017) "The Gini coefficient is the internationally accepted summary measure of inequality. Gini coefficient values range between 0 and 1. Values closer to 0 represent higher equality and values closer to 1 represent higher inequality."

Figure 7: Income inequality in Australia – 1994-95 to 2015-16



Source: ABS Cat. No. 6523.0

74. Addressing income inequality, especially at the poorest decile level, is an important part of efforts to strengthen economic inclusion. Economic and social policy levers that can be used by government to reduce income gaps include taxation, government benefits and minimum wage policies.

The role of minimum wages in reducing income inequality

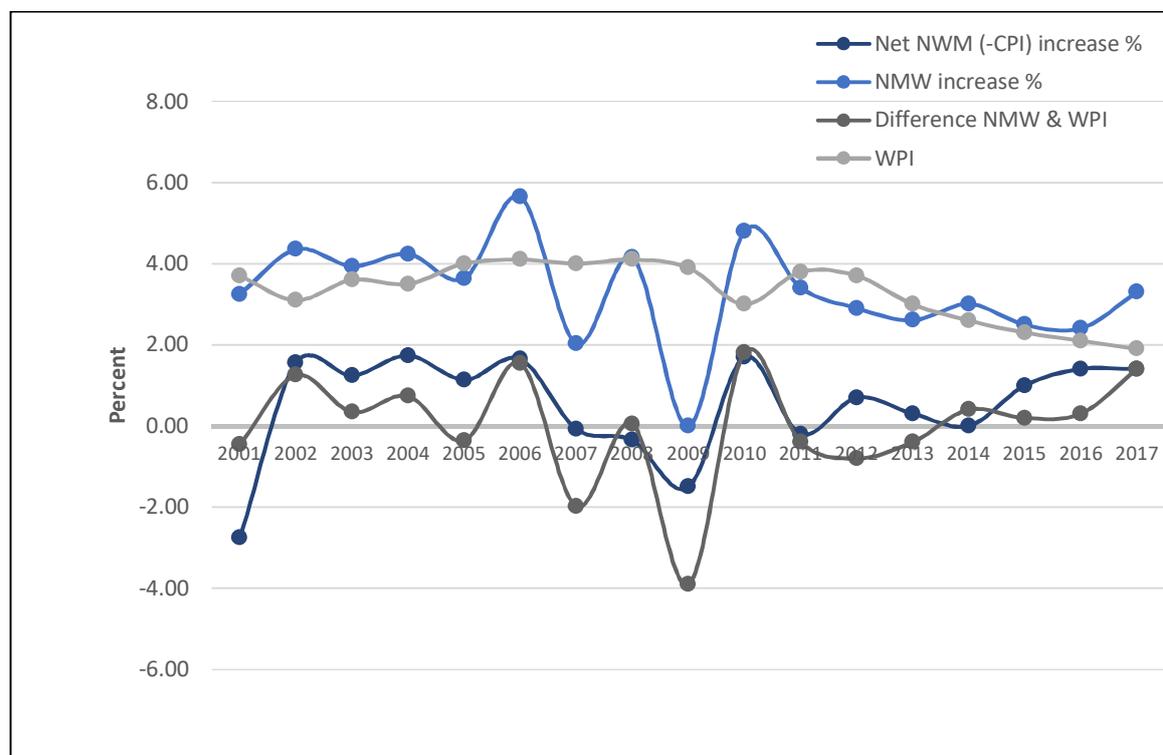
75. Over the last two decades, the growth in Australia’s minimum wage rate has declined when compared to the growth in median wage rate. According to research conducted by the Australian National University “since 1985 the minimum wage has fallen from 65 per cent to 54 per cent of the median wage. In 1985, Australia had the highest minimum wage in the OECD relative to the median, whereas in 2011 it was the sixth highest”.¹⁷ In the same period “real wage growth ... (was) much greater for those with higher incomes than middle and low income categories. This has contributed to the growing inequality in earnings”.¹⁸
76. As recent RBA research outlines “the share of wage rises between 2-3 per cent has increased to now account for almost half of all wage changes. This may

¹⁷ Whiteford, P. (2013) *Australia: Inequality and Prosperity and their Impacts in a Radical Welfare State*. Crawford School of Public Policy, The Australian National University, March 2013. Accessed from: <https://crawford.anu.edu.au/pdf/events/2013/8801/Whiteford-Australia-Inequality-and-Prosperity-final.pdf>

¹⁸ McKell Institute (2018) p. 18.

indicate some degree of anchoring to CPI outcomes ... Decisions by the Fair Work Commission ... are heavily influenced by the CPI". Further, and as illustrated in **Figure 8** below, the gap between the net National Minimum Wage increase (that is, after accounting for CPI) and the wages price index (**WPI**), has only recently narrowed. This is due to the slowdown in wages growth since 2012 and the recent increase in the National Minimum Wage in 2017. The RBA also notes that "little over 20 percent of employees have their pay determined directly by awards, and it is estimated pay outcomes for a further 10-15 per cent of employees ... are indirectly influenced by awards".¹⁹ This RBA analysis indicates that up to 35 per cent of Australian workers have their wage increases determined directly or indirectly by the Annual Wage Review decisions.

Figure 8: Net increases to national minimum wage accounting for wage price and consumer price index – 2001 to 2017



Sources: ABS Cat. No. 6345; ABS Cat. No. 6401; FWC.

77. There is evidence that minimum wage determination is an important policy lever for reducing income inequality. Examples include:
- Most findings from the United States (**US**) show that, if the target group for the study of distributional effects of the minimum wage is at the bottom end of the income wage distribution the minimum wage can help reduce inequality.
 - Both the US and Mexico have exhibited a declining minimum wage (both real and effective) and rising inequality and evidence shows that the declining

¹⁹ Bishop, J. and Cassidy, N. (2017) *Insights into Low Wage Growth in Australia*. Reserve Bank of Australia: Bulletin – March Quarter 2017.

minimum wage accounts for a substantial part of the growth in inequality in both countries over the past three decades.

- In China, research findings have indicated that the minimum wage has a positive impact on the employment and income distribution outcomes of rural migrants and that increasing the minimum wage can help reduce wage differentials in the lower tail of the wage distribution.²⁰
78. There are a range of policy levers to address income inequality. The efficacy of these measures in tackling other social disadvantage such as household poverty depends on their cumulative impact on the individual wage earner and his/her household. For families, what matters is the income that a minimum wage brings after accounting for the impact of the tax burden and government benefits.
 79. In addition to addressing income inequality, minimum wages contribute to other aspects of economic inclusion including increasing consumption and strengthening the workforce. Minimum wages can also contribute to productivity improvements by reducing turnover costs for businesses (employees who receive a minimum wage increase may be more motivated and committed) and workers spending their additional income in the local economy.
 80. The importance of award minimum wages has been argued by the Victorian Government in other recent submissions to the Annual Wage Reviews, through noting the continued, increased and significant reliance on awards as a pay setting mechanism. ABS biannual data on wages outcomes by method of setting pay shows that as of May 2016, there had been an increase in award reliant non-managerial employees across Australia to 23.9 per cent in 2016 from 15.2 per cent in 2010.²¹
 81. ABS data across Australia also demonstrates the disparities between award rates and wages determined by collective agreement and by individual arrangement. There is a level of income inequality between low paid workers, who are generally award reliant and those on average weekly earnings or above, usually set by agreement or individual arrangement. In May 2016, the widest ratio in average weekly total cash earnings is found when comparing award only wages (\$802.80) to wages outcomes under individual arrangements (\$1,311.60) at 61 per cent.²²
 82. However, more recent data from the Commonwealth Department of Jobs and Small Business indicates a convergence in the yearly wages outcomes from enterprise bargaining with the outcomes from Annual Wage Reviews. The September quarter 2017 data from the Trends in Federal Enterprise Bargaining

²⁰ *Artificial Intelligence, Automation and the Economy*, Executive Office of the President, December 2016

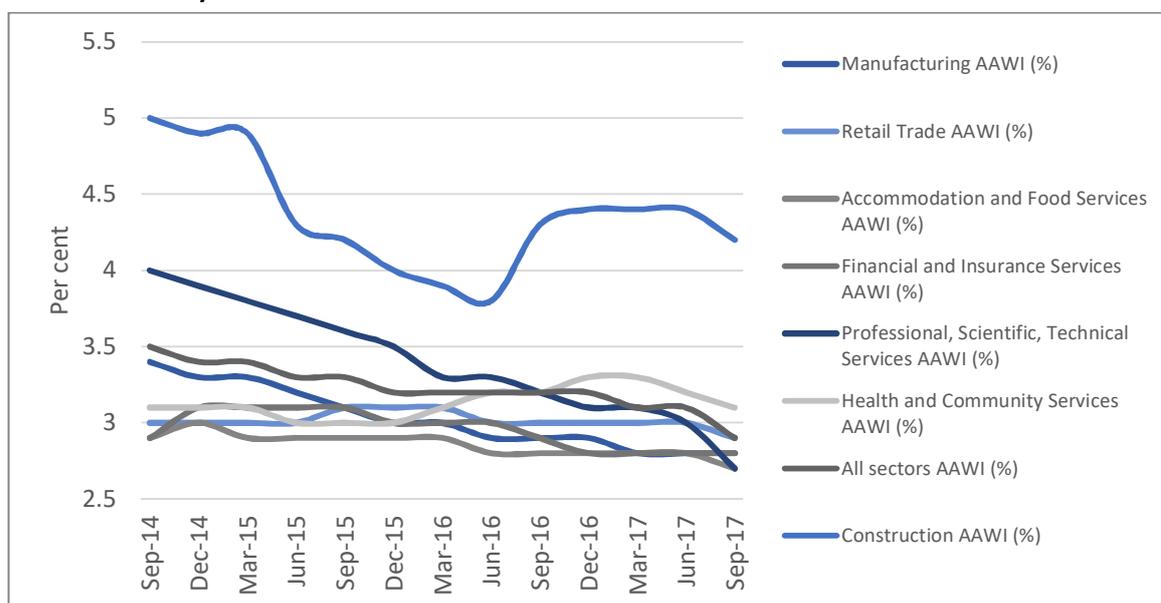
²¹ Department of Jobs and Small Business (2018) *Trends in Federal Enterprise Bargaining – September Quarter 2017*. Australian Government (10 January 2018) p. 10. Accessed from: https://docs.jobs.gov.au/system/files/doc/other/trends_s17_0.pdf

²² ABS Catalogue No. 6306 *Employee Earnings and Hours: Average weekly and hourly total cash earnings of non-managerial Employees by method of setting pay (May 2016)*

report published in January 2018, shows that the average annualised wage increases (AAWI) for agreements approved in the September quarter 2017 averaged 2.2 per cent in all sectors, a drop of 0.4 percentage points from the previous quarter.²³

83. As illustrated in **Figure 9** below, there has been a steady and significant decrease in the AAWI across all sectors in the past three years from the September quarter 2014. The AAWI for private sector agreements approved in the September quarter 2017 was 2.4 per cent, down from 2.6 percent in the June quarter 2017 and down from 3.4 per cent in the September quarter 2016.

Figure 9: Average annualised wage increases in selected sectors– Agreements current at the end of the year



Source: Department of Jobs and Small Business (2018)

84. This recent data shows that the enterprise bargaining wages premium over award rates in 2014 appears to be diminishing, and further suggests that current award rates (along with other factors) may serve as a market signal to the parties when determining wage rates during the enterprise bargaining process. Coupled with the national increase in award reliance that has occurred from 2010 to 2016 (as outlined in paragraph [80] above), the Victorian Government believes that there is an increasing importance placed on the Annual Wage Review process and the outcome of its decisions.

²³ Department of Jobs and Small Business (2018) *Trends in Federal Enterprise Bargaining – September Quarter 2017*. Australian Government (10 January 2018). Accessed from: https://docs.jobs.gov.au/system/files/doc/other/trends_s17_0.pdf

Low paid and award reliant employees – penalty rates in the retail and hospitality sectors

85. Since early 2015, the Victorian Government has made several submissions to national inquiries or reviews that address in part or in full the operation of penalty rates in the industrial relations system and the modern awards framework. In March 2016, the Victorian Government made a comprehensive submission to the review by the FWC of penalty rate arrangements in modern awards that opposed any reduction in penalty rates in the retail and hospitality industries, as to do so would treat workers in these industries, who are already low paid, less favourably than workers in other industries. Further, women are predominantly employed in these industries. Therefore, reductions in penalty rates will exacerbate the gender pay gap, which is of strong concern to the Victorian Government.
86. In its submission to the AWR 2016-17,²⁴ the Victorian Government called on the FWC to award at least a 2.5 per cent increase in its 2016-17 review of the National Minimum Wage and all award minimum wages. The Victorian Government submitted *inter alia* that reductions in penalty rates will cause significant hardship for low paid workers in the relevant sectors and the decision will affect award-reliant, low paid workers, including young workers and women who make up more than half the workforce in these sectors. The Victorian Government repeats these submissions.
87. The last AWR submission also noted that appropriate penalty rates help to share the benefits of economic growth throughout the community and support an inclusive society by safeguarding the relative incomes and living standards of more vulnerable workers with limited alternatives to award-based weekend work. Further, it was submitted that any increases to the minimum award wage arising from the Annual Wage Reviews should consider that many low paid award reliant workers in industries including hospitality, retail and fast food will have their rates and overall wages reduced and this was a factor that should also be considered. Again, we repeat these submissions.
88. The Victorian Government notes the FWC's acknowledgement in its AWR 2016-17 decision that, while:
- 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.*
- ...

²⁴ Victorian Government Submission to the Annual Wage Review 2016-17. Accessed from: <https://www.fwc.gov.au/documents/sites/wagereview2017/submissions/vicgovsub.pdf>

*The Penalty Rates decision does form part of the broad factual matrix against which the Review is conducted and, to that limited extent, we have taken it into account.*²⁵

89. In April 2017, the Victorian Department of Economic Development, Jobs, Transport and Resources commissioned a report on the impact of reductions in penalty rates on Victorian workers, containing a quantitative analysis of the impact of the Fair Work Commission's penalty rates decision of 23 February 2017. Professor David Peetz of Griffith University conducted the analysis, using primarily ABS data.²⁶
90. The quantitative analysis focussed on cohorts of award reliant Australian and Victorian workers in the retail trade and hospitality industries,²⁷ which were immediately affected by the FWC decision and in the longer term, on workers likely to be affected in other industry sectors and covered by awards and enterprise bargaining arrangements.
91. According to the Peetz research, in the awards where the penalty rates decision has had an impact, the reductions in Sunday hourly rates are significant. At an individual level, employees in the retail and hospitality industry were the lowest paid in the country and reducing earnings of this group would necessarily increase the inequality of the distribution of individual earnings. In the Retail Award, the reduction for permanent workers is equivalent to 25 per cent of hourly pay, and in the Hospitality Award, the reduction for permanent workers is equivalent to a 14 per cent reduction of hourly pay.
92. For low-classification employees working 5.5 hours per Sunday, annual earnings losses due to changes in penalty rates range from around \$750 to \$1,600 in hospitality and from \$900 to \$2800 in the retail industry. For higher classification employees working 5.5 hours per Sunday, lost earnings due to penalty rates changes range from \$900 to \$1600 in hospitality, from \$1,100 to \$3,400 in retail trade, and from \$1,400 to \$4,600 in pharmacies. If Sunday employees work an average of 5.5 hours on Sundays, the total direct earnings losses across the two industries are between \$220 million and \$370 million.
93. Professor Peetz's analysis concluded that overall, there will be significant income losses arising from reductions to penalty rates in the retail and hospitality industries. Even allowing for any possible employment gains, on average, employees working on Sunday would be working longer hours for less total pay, and so would be unambiguously worse off. In practice, some employees would

²⁵ Fair Work Commission (2017), Decision, Fair Work Act 2009, Annual Wage Review 2016–17 (C2017/1), paragraphs [29] and [30].

²⁶ Peetz, D. (2017) *The impact of the penalty rates decision on Australian and Victorian workers in retail and hospitality industries*. Department of Economic Development, Jobs, Transport and Resources – May 2017. Accessed from: <https://www.aph.gov.au/DocumentStore.ashx?id=35518764-8777-4a20-b8a3-055388114151&subId=514913>

²⁷ 'Hospitality' refers to the accommodation and food services industry as defined by the ANZSIC industry classification used by the ABS.

not be offered any additional hours (and face a larger reduction in Sunday pay), while some others would have a greater increase in hours (and so face a smaller reduction, or possibly an increase, in Sunday pay). A summary of Professor Peetz’s findings is presented in **Figure 10** below.

Figure 10: Impact of penalty rate reductions – Retail and hospitality industries – Australia and Victoria

Issue	Finding
Numbers of award-reliant workers and workers in the industries	In 2016, 18.8 per cent of Victorian non-managerial employees were award-reliant, compared to the national estimate of 24.5 per cent. In Victoria, an estimated 80,000 retail workers are award-reliant and almost 70,000 hospitality workers are award-reliant.
Weekend work	Over 2014-16, an average of 280,000 Australian employees in retail worked Sundays. This represented 25 per cent of retail workers. An average of over 270,000 Australian employees in hospitality worked Sundays. This represented around 38 per cent of hospitality workers.
Gender and gender pay gap	In Australia, most employees are women in both the accommodation and food services subdivisions. A reduction of penalty rates in those industries will widen the overall gender pay gap and is estimated to add 0.1 percentage points to the gap in hourly average wage rates across the economy.
Profile of Saturday and Sunday workers	Changes in penalty rates in retail and hospitality affected not only tertiary students but also a considerable number of people who are likely to be dependent on hospitality employment as their sole source of income.
Regional aspects	Approximately 24 per cent of Victorian employment in both industries – 126,000 jobs across retail and hospitality – is located outside Melbourne. The highest proportion of regional employment in the retail trade was found in Ballarat (where it is 14.2 per cent of regional employment). Accommodation and food services has the highest proportion of regional employment in Warrnambool and the south west (8.2 per cent of regional employment).
Indirect impact on workers under collective agreements or individual arrangements	The FWC’s penalty rates decision directly affects those workers in retail and hospitality on awards, but it also is likely to affect the pay of workers in retail and hospitality on other instruments, that is, individual arrangements and collective agreements.

Issue	Finding
<p>Total numbers of employees directly and indirectly affected by penalty rate reductions</p>	<p>In total, it was estimated that 90,000 to 95,000 non-managerial Sunday employees in retail are directly affected by reductions in penalty rates. This represents about 34 per cent of non-managerial employees in retail trade.</p> <p>It is estimated 155,000 to 160,000 non-managerial Sunday employees in retail are indirectly affected by the reductions in penalty rates. This represents 58 per cent of non-managerial employees in retail trade.</p> <p>Similarly, 120,000 to 125,000 non-managerial Sunday employees in hospitality are directly affected by reductions in penalty rates (about 41 per cent of non-managerial employees in hospitality); and 145,000 to 150,000 non-managerial Sunday employees in hospitality are indirectly affected by the reductions in penalty rates (about 50 per cent of non-managerial employees in hospitality).</p>
<p>Impact on wages and annual earnings</p>	<p>In most awards where reductions have occurred, the reductions in Sunday rates are equivalent to a decrease of 13 to 17 per cent in hourly pay.</p> <p>In the Retail Award, the reduction for permanent workers is equivalent to 25 per cent of hourly pay. In the Hospitality Award, the reduction for permanent workers is equivalent to 14 per cent reduction of hourly pay.</p> <p>Reductions in public holiday penalty rates are consistently equivalent to a 9 to 10 per cent reduction on previous Sunday hourly pay rates. On public holidays, the losses for an affected employee in either industry working 5.5 hours would range between \$25 and \$33 per day.</p> <p>For low-classification employees working 5.5 hours per Sunday, annual earnings losses due to changes in penalty rates range from around \$750 to \$1,600 in hospitality and from \$900 to \$2800 in the retail industry.</p> <p>For higher classification employees working 5.5 hours per Sunday, lost earnings due to penalty rates changes range from \$900 to \$1600 in hospitality, from \$1,100 to \$3,400 in retail trade, and from \$1,400 to \$4,600 in pharmacies.</p> <p>Any Sunday workers also working public holidays would experience further annual reductions, due to changes in public holiday penalty rates.</p>
<p>Total impact on labour incomes and aggregated losses</p>	<p>If Sunday employees work an average of 5.5 hours on Sundays, the total direct earnings losses across the two industries are between \$220 million and \$370 million.</p>

Issue	Finding
Employment effects	<p>There is evidence that there would be no significant employment gains from reductions in penalty rates.</p> <p>An increase in the number of hours worked in the industry is a more plausible consequence of reduced penalty rates than an increase in the total number of jobs.</p> <p>With lower wages, some workers will cease to offer themselves for Sunday work, and another worker may take their place.</p> <p>Those who work on Sunday have worse work life interference than other workers. Underemployment is most pervasive in the retail and hospitality workers.</p> <p>Qualitative research indicated that many workers in retail and hospitality are under financial pressure, and many have little 'control' over their employment schedule, with penalty rates an essential element in accepting Sunday work.</p>
Impact on earnings equity	<p>At an individual level, employees in the retail and hospitality industry were the lowest paid in the country. Reducing earnings of this group would necessarily increase the inequality of the distribution of individual earnings.</p> <p>Households containing any adult retail employees are worse off than other households by a range of measures, including wage and salary income, gross income, expenditure on non-discretionary items, ability to access financial resources in an emergency and ability to pay bills on time.</p>

94. The Victorian Government regards the protection of penalty rates under the Fair Work safety net to be critical for ensuring fairness to vulnerable, low paid workers, including young and female workers, and rural and regional workers with flow-on effects for those local economies. The Victorian Government submits that the FWC should consider the impact of its penalty rates decision on low paid workers in the retail and hospitality, and other related sectors. Accordingly, a fair and reasonable increase in award minimum wages is justified to compensate in part the loss of earnings that are being experienced by some of the lowest paid and predominantly feminised and casualised award reliant workers in Victoria.

The principle of equal remuneration for work of equal or comparable value

Gender pay equity

95. On 5 December 2016, Victoria's first Gender Equality Strategy, *Safe and Strong* was released, initiating landmark reforms to deliver gender equality, and address sexism and violence against women.²⁸ The Victorian Government is leading the way towards gender equality with sustained, enduring and measurable action. The *Victorian Budget 2017-18* includes a range of initiatives demonstrating the Victorian Government's commitment to equality for all Victorians.
96. The Victorian Government is embedding gender equality in all its decisions and actions, as well as modelling gender equality in the workplace, and ensuring efforts to improve gender equality are sustained over time. In March 2017, the Victorian Government established the Equal Workplaces Advisory Council, a key Founding Reform of the Gender Equality Strategy, in recognition that gender equality is essential to economic prosperity and that gender inequality has a significant economic (as well as social) cost.
97. Reporting to the Minister for Industrial Relations, the Council is addressing gender equality at the workplace, in particular pay equity, by:
- identifying government action that will promote the achievement of gender equality, including addressing gendered occupational segregation;
 - identifying, promoting and publishing good practice examples of where initiatives are working to promote gender equality in the workplace, across the public and private sectors; and
 - considering issues and linkages relating to pay equity, equality and productivity, building human resources capacity and achieving equitable outcomes for women and men.²⁹
98. As noted elsewhere, a critical issue for women in work is their greater reliance on award earnings. Women are more likely to depend on minimum wage regulation in certain industries and occupations, with the application of award determined penalty rates a significant source of income for female workers (who are often relatively low paid). Further, women experience more employment and income insecurity than men do.
99. On 17 November 2017, the key findings from the Workplace Gender Equality Agency's (WGEA) 2016-17 reporting data – Australia's gender equality scorecard – was released. According to this Scorecard, women's average full-time total remuneration across all industries and occupations is 22.4 per cent less than

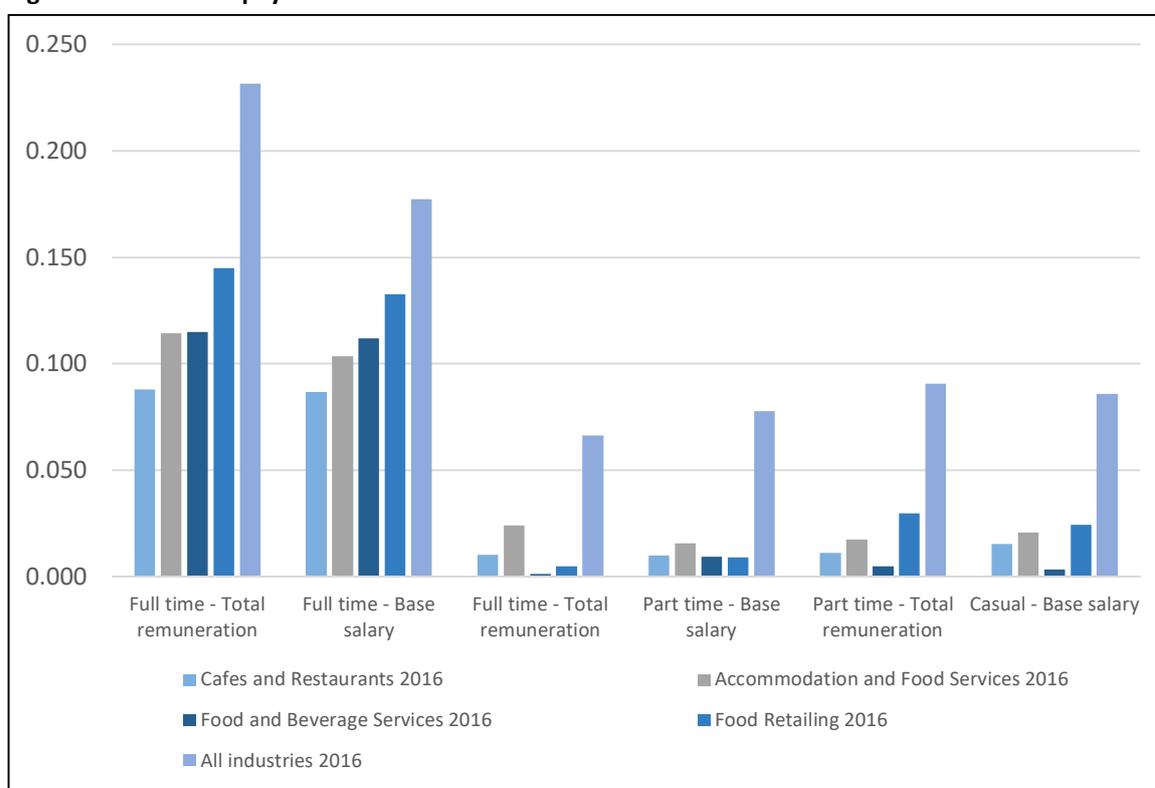
²⁸ For further information about the Victorian Gender Equality Strategy: <https://www.vic.gov.au/women/gender-equality/a-victorian-gender-equality-strategy.html>

²⁹ For further information about the Equal Workplaces Advisory Council: <https://economicdevelopment.vic.gov.au/about-us/overview/advisory-bodies/the-equal-workplaces-advisory-council>

men’s (or \$26,527 per annum). As at May 2016, Victorian women working full time in all industries earned only 84.92 cents in every dollar earned by Victorian men working full time – or \$240.10 per week less than men.

100. An analysis of the 2016-17 WGEA data by industry and subsector shows that the while the gender pay gap in the Accommodation and Food Services sector is narrower than across all industries, the gender pay gap was still 11.4 per cent (based on full time total remuneration) and 10.4 per cent (based on base salary). Similarly, the gender pay gap in Food Retailing was 14.5 per cent and 13.3 per cent (**Figure 11**). The Victorian Government notes that in award reliant, female dominated and low paid sectors, the gender pay gap is relatively wide and will be compounded by penalty rate reductions in the retail and hospitality sectors.

Figure 11: Gender pay ratio – Accommodation & food services and All industries – 2016



Source: WGEA Data Explorer

101. Minimum wages are significant for gender equality. Women make up 60-70 per cent of workers in lower paid occupations such as clerical and administration, community and personal services and sales.³⁰ Women also undertake 70 per cent of part-time work, and experience a higher level of underemployment than men (12 per cent compared to 7.4 per cent for men).³¹

³⁰ Australian Council of Trade Unions (2016) *The Gender Pay Gap Over the Life Cycle*. March 2016. Accessed from: <https://www.actu.org.au/media/886499/the-gender-pay-gap-over-the-life-cycle-h2.pdf>

³¹ ABS Catalogue No. 6202.0 Table 23. Underutilised persons by State, Territory and Sex

102. As the FWC has recognised:
- [656] ... the gender pay gap arises from a range of circumstances and is evident in a number of industry sectors. Age and the method of setting pay are also operative factors in the extent of the gender pay gap. There are a higher proportion of women reliant upon award wages at the lower end of the pay scale. At the higher award classifications, women are more likely to be paid the award rather than the bargained rate than are men. Further, the gender pay gap is highest at the higher end of the pay scale among non-award reliant employees.³²*
103. Recent research from the Melbourne Institute shows that “within the minimum wage system (in Australia), there is a wage penalty for employment in jobs more commonly held by women”.³³ That is, even **within** award wage rates, there is a gender pay gap. While recognising that with a regulated minimum wage fixing system (i.e. the Annual Wage Reviews), there can be a decrease in the gender pay gap; however, with many minimum wage levels contained in industry and sector specific awards, and men and women not distributed equally across industries and occupations “the minimum standard applicable to men can on average differ from the minimum standard applicable to women” and the female wage penalty under awards is not completely accounted for by payment of above minimum wages.³⁴
104. The Melbourne Institute’s research surmised that:
- We find that the gender wage gap among employees receiving a minimum wage is less than half the magnitude of the gap among other employees. Despite this, there is nonetheless evidence that, within the minimum-wage system, there is a wage penalty for employment in jobs more commonly held by women, although only for employees without university degrees. Our results suggest that, for university-educated women, the regulated setting of minimum wages helps to close the gender wage gap and counteracts the undervaluation of work typically undertaken by women. However, for less-educated women, who comprise approximately 82% of female minimum-wage employees, minimum wages could do more to close the gender wage gap if they were neutral with respect to the gender composition of jobs.³⁵*
105. The Victorian Government submits that the FWC should improve the wage outcomes of Victorian (and Australian) women, particularly for those working in award reliant sectors dominated by women, with an increase in the National

³² Fair Work Commission (2017) *Annual Wage Review 2016-17 Decision* (C2017/1), paragraph 656. PR0002017, Melbourne, 6 June 2017.

³³ Broadway, B. and Wilkins, R. (2017) *Probing the Effects of the Australian System of Minimum Wages on the Gender Wage Gap*. Melbourne Institute – Applied Economic & Social Research, Working Papers Paper No. 31/17, December 2018. Accessed from: http://melbourneinstitute.unimelb.edu.au/data/assets/pdf_file/0011/2586359/wp2017no31.pdf?platform=hootsuite

³⁴ Broadway and Wilkins (2017), p. 25.

³⁵ Broadway and Wilkins (2017), p. 2.

Minimum Wage to \$722.00 per week or \$19.00 per hour and a fair and reasonable increase to all award minima.

Providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability

106. Victorians aged 15 to 24 years may be vulnerable to exploitation, reflecting their limited workplace skills and experience. Other at-risk individuals may be recent arrivals in Australia, indigenous Australians, or people with disabilities or low socio-economic backgrounds. As recent research has also indicated, there is the growing phenomena of what has come to be known as ‘wage theft’ – that is, deliberate underpayment of wages and entitlements affecting particular cohorts of workers, such as overseas students and workers on temporary residency visas, who are not in a position or do not have the capacity or resources to challenge the underpayments.³⁶

Victorian youth employment and unemployment

107. Victoria’s youth labour force participation rate averaged 65.4 per cent in the year to October 2017. The participation rate was highest (86.4 per cent) among those not studying full time and lowest (49.7 per cent) for those attending full time education. In the year ending October 2017, 57.1 per cent of Victoria’s youth were in full-time education.
108. A minimum wage may increase youth labour force participation, as the benefits of work relative to study and welfare become greater. In the year to October 2017, 10.0 per cent of young Victorians were not in full-time education and were either unemployed or not in the labour force. This proportion was lower than the national average of 11.2 per cent.
109. The number of young Victorians in employment increased by 3,900 persons (+0.8 per cent) over the year to October 2017, led by part-time employment (+3.3 per cent). Rises in youth employment in Victoria was the third highest in absolute terms of all Australian states.
110. The Victorian youth unemployment rate rose marginally to average 13.1 per cent over the year to October 2017, from 12.9 per cent a year ago and is higher than the national average of 12.8 per cent.

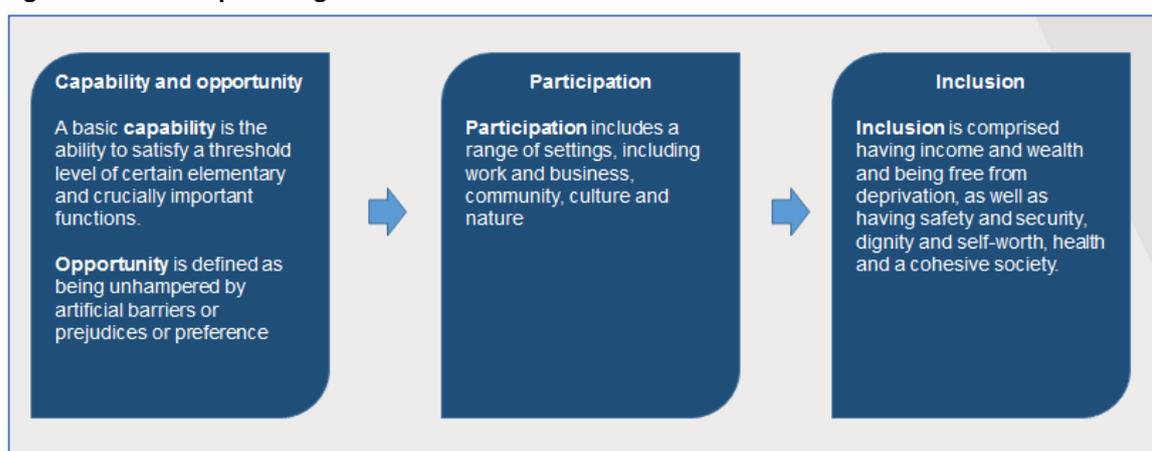
³⁶ Berg, L. and Farbenblum, B. (2017) *Wage Theft in Australia: Findings of the National Temporary Migrant Work Survey*. University of Technology Sydney (November 2017). Accessed from: <http://apo.org.au/system/files/120406/apo-nid120406-483146.pdf>

Promoting social inclusion through increased workforce participation

The role of minimum wages in promoting economic inclusion

111. Economic inclusion requires that all members of society to have equitable access to opportunities and resources to facilitate their participation in the economy. People participate in the economy in many ways, including as workers, employers, entrepreneurs, investors and consumers.
112. The focus of economic inclusion goes beyond simply helping unemployed people to get a job. Economic inclusion involves supporting people to:
 - overcome personal barriers, and develop skills and capabilities for the modern economy
 - access quality and sustainable employment
 - acquire wealth and capital.
113. Economic inclusion is the result of a broad range of potentially inter-generational factors (capability, opportunity, participation). By developing capabilities (e.g. education) and providing opportunity (e.g. reasonable adjustments for people with disability), we can promote participation (e.g. employment) which increases inclusion (e.g. income and wealth).

Figure 12: Conceptualising economic inclusion



Source: Department of Economic Development, Jobs, Transport and Resources

114. An economically inclusive society not only benefits individuals but can also promote long-term economic growth and increase social cohesion. The OECD has found that increased inequality has been harmful to economic growth. Across its member countries, the OECD has estimated that the increasing gap between the lowest 40 per cent and the rest of the population has reduced economic growth by 4.7 percentage points between 1990 and 2010.³⁷ Over recent years,

³⁷ Scarpetta, S. (2016) *Turning the Tide towards Inclusiveness*. Organisation for Economic Cooperation and Development (January 2016). Accessed from: <http://oecdinsights.org/2016/01/19/turning-the-tide-towards-inclusiveness/>

addressing disadvantage and increasing economic inclusion has shifted from a social policy issue to a mainstream economic issue.

Reducing income inequality among vulnerable cohorts

115. The Victorian Government also notes recent research that young people, low skilled workers, Aboriginal and Torres Strait Islander people and people with a long term health condition disability or impairment are overrepresented in the low paid adult employee group, derived from the analysis of ABS and Wave 16 HILDA data.³⁸
116. The FWC has recently published a research report to provide current information on characteristics of employees earning around the National Minimum Wage rate as well as information on the characteristics of low-paid employees.^{39 40} Low paid employees were defined as an adult employee paid below two-thirds of median hourly earnings or \$19.57 per hour and in 2016. In 2016, 14.6 per cent of all Australian adult employees were low paid.
117. This research used the ABS 2016 Survey of Employee Earnings and Hours to explore characteristics of employees earning the adult National Minimum Wage rates (compared to all employees) and Wave 16 of the Household, Income and Labour Dynamics in Australia (**HILDA**) Survey to analyse characteristics of the low paid (compared with higher-paid adult employees).⁴¹
118. This recent research has identified particular cohorts of employees who are more likely to be paid at the National Minimum Wage and who are low paid. From this data, the FWC has concluded that its findings are consistent with previous studies, and that higher proportions of National Minimum Wage and low-paid employees were found in the cohorts of: women, casual employees, award reliant employees, the small business, accommodation and food services and retail trade sectors; and the sales worker and labourer occupations.
119. The Victorian Government believes that the role of minimum wage policies in addressing inequality has particular significance for a range of these disadvantaged cohorts – including people with disability, migrants, Aboriginal people and older workers – some of whose incomes are among the lowest in our community. Each of these cohorts face challenges relating to their economic participation and it is important to understand the role that the National

³⁸ Yuen, K., Ellis, G. and Nelms, L. (2018) *Characteristics of workers earning the national minimum wage rate and of the low paid*. Fair Work Commission – Research Report 3/2018, January 2018. Table 3.1, p. 19. EMBARGOED.

³⁹ Yuen, K., Ellis, G. and Nelms, L. (2018) EMBARGOED.

⁴⁰ Fair Work Commission: Research published for the 2017–18 Review, *Characteristics of workers earning the national minimum wage*. This project will be a descriptive analysis that examines the labour market and personal characteristics of those earning around the national minimum wage using the Survey of Employee Earnings and Hours and the Household, Income and Labour Dynamics in Australia Survey. Accessed from: <https://www.fwc.gov.au/awards-agreements/minimum-wages-conditions/annual-wage-reviews/annual-wage-review-2017-18/research>

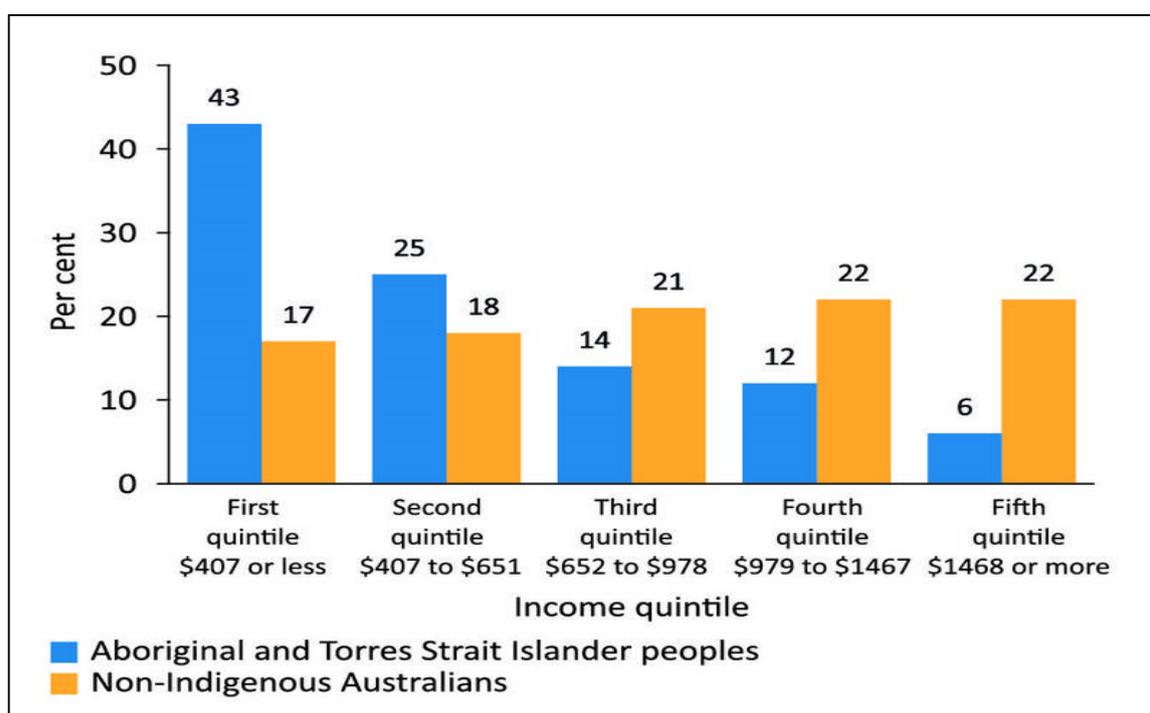
⁴¹ Yuen, K., Ellis, G. and Nelms, L. (2018) p. 2. EMBARGOED.

Minimum Wage and minimum wages can play in helping to address this disadvantage.

Aboriginal Victorians

120. Households with members earning the National Minimum Wage or below are located near the bottom of the income distribution. In 2012–13, an estimated 43 per cent of Aboriginal adults had incomes in the bottom 20 per cent of equivalised gross weekly household Australian incomes. This compares with 17 per cent of non-Aboriginal adults.⁴²

Figure 13: Income quintile – Aboriginal and Torres Strait Islander people versus non-Indigenous Australians – 2012-13



Source: ABS and AIHW analysis of 2012–13 Australian Aboriginal and Torres Strait Islander Health Survey

121. Aboriginal Victorians have less non-wage private income (i.e. rent, interest payments, dividends, royalties etc.) than non-Aboriginal Victorians and are therefore more reliant on wages income. This highlights the significant role of the National Minimum Wage in meeting the income needs of Aboriginal Victorians.

122. A further consideration is that the total income from wages earned during a year depends – not only on the wage rate received – but on the number of hours worked per week and the number of weeks worked per year.

⁴² Department of the Prime Minister and Cabinet (2014) *Aboriginal and Torres Strait Islander – Health Performance Framework Report “2.08 Income”*. Australian Government: Canberra. Accessed from: <https://www.pmc.gov.au/sites/default/files/publications/indigenous/Health-Performance-Framework-2014/tier-2-determinants-health/208-income.html>

123. When working, Aboriginal people work around the same number of hours per week as non-Aboriginal people, however there are significant differences in the number of weeks worked. In 2014, on average, Aboriginal men worked 24 weeks compared with 33 weeks for non-Aboriginal men. The comparative figures for women were 17 weeks and 28 weeks respectively.⁴³
124. Given the income disadvantage that already arises from the fewer weeks worked by Aboriginal people on average when compared with non-Aboriginal people, the National Minimum Wage and minimum wages has a role to play in preventing a widening of this income gap.

Older workers

125. Our population is ageing, as the large baby-boom population matures and lives longer and the share of younger workers declines due to the drop in fertility rates. Thus, older workers constitute a larger portion of the workforce and this will continue to grow in the future.
126. Older workers exhibit different patterns and pathways in their labour force participation. Older workers often phase into retirement utilising ‘bridge’ jobs that pay lower wages than their former main job or they may return to the labour force from retirement, often in-service jobs and non-standard employment, such as part-time work and limited-term contracts. Thus, older workers are more likely to be working at jobs where pay is low and therefore more likely to be subject to minimum wages.⁴⁴
127. International evidence suggests that there are more workers aged 55 or over on the minimum wage than young people. Recent figures from the United States showed that 16.1 percent of those on the minimum wage are aged 55 or older, as compared to 9.8 percent of teenagers.⁴⁵
128. Thus, at a time when earning power may be reduced, and elevated health and other living costs may be experienced, minimum wages have an important role to play in protecting older worker’s income security. This income security, together with the extended labour force involvement, also helps older workers to be more financially secure in retirement and reduces costs to government such as pensions or benefits.

⁴³ Howlett, M., Gray M. and Hunter B. (2015) *Unpacking the income of Indigenous and non-Indigenous Australians: Wages, government payments and other income*, CAEPR Working Paper No. 99/2015. Australian National University, Centre for Aboriginal Economic Policy Research. Accessed from:

http://melbourneinstitute.unimelb.edu.au/assets/documents/hilda-bibliography/working-discussion-research-papers/2015/Howlett_etal_Unpacking_the_income_Indigenous_non-Indigenous_WorkingPaper99_Gray_Hunter.pdf

⁴⁴ Fang, T. and Gunderson, M. (2009) “Minimum Wage Impacts on Older Workers: Longitudinal Estimates from Canada” *British Journal of Industrial Relations*, 47:2, June 2009, pp. 371-387. Accessed from: <http://onlinelibrary.wiley.com/doi/10.1111/j.1467-8543.2009.00724.x/epdf>

⁴⁵ *What Would Boosting the Minimum Wage Mean for Seniors?* National Committee to Preserve Social Security and Medicare; 2017. Accessed from: <http://www.ncpssm.org/PublicPolicy/SocialSecurity/Documents/ArticleID/1240/What-Would-Boosting-the-Minimum-Wage-Mean-for-Seniors>

129. There is also international evidence that minimum wages have a positive effect on the employment of older workers. In a Canadian longitudinal study, older workers whose wage was affected by a minimum wage increase were more likely to be employed the next year compared with older workers in other areas whose wages were not affected by a minimum wage increase. Explanations for this finding included that employees who receive a minimum wage increase may be more motivated and committed to the company. Further that, in decisions about staffing outlays in the face of increased costs, employers favoured the considerable experience and superior productivity of older workers.⁴⁶
130. Therefore, for older workers, it appears that minimum wages can play a role in supporting both their income security needs and their position in the labour market.

People with disability

131. Approximately 20 per cent of the Australian population have a disability. People with disability differ in the degree to which their disability impairs their ability to work. There are broadly two categories:
- persons with long term health conditions who have either mild or no core activity limitations
 - persons with moderate, severe or profound core activity limitations.⁴⁷
132. In 2015, only 27 per cent of people with disability were employed full time compared with 53.8 per cent of those without disability. The proportion of people with disability working part-time increased from 19 per cent in 2012 to 21.1 per cent in 2015. Fifty-three per cent of working age people with disability were in the labour force which compared to 83 per cent of people with no disability. The unemployment rate for people with disability was 10 per cent; double that for people without disability at 5 per cent.⁴⁸
133. In most cases, people with disability have the capacity to earn the same as other Australians. However, in some cases, people with disability may be assessed as having lower productivity than others and so may be paid under the Supported Wage System (**SWS**) or other productivity wage assessment.
134. Where an award or agreement has SWS provisions, an eligible employee is entitled to a percentage of the minimum pay rate for their classification, depending on their assessed work capacity. If there are no SWS provisions in the award or registered agreement, an employee with disability must be paid the full pay rate for their classification.

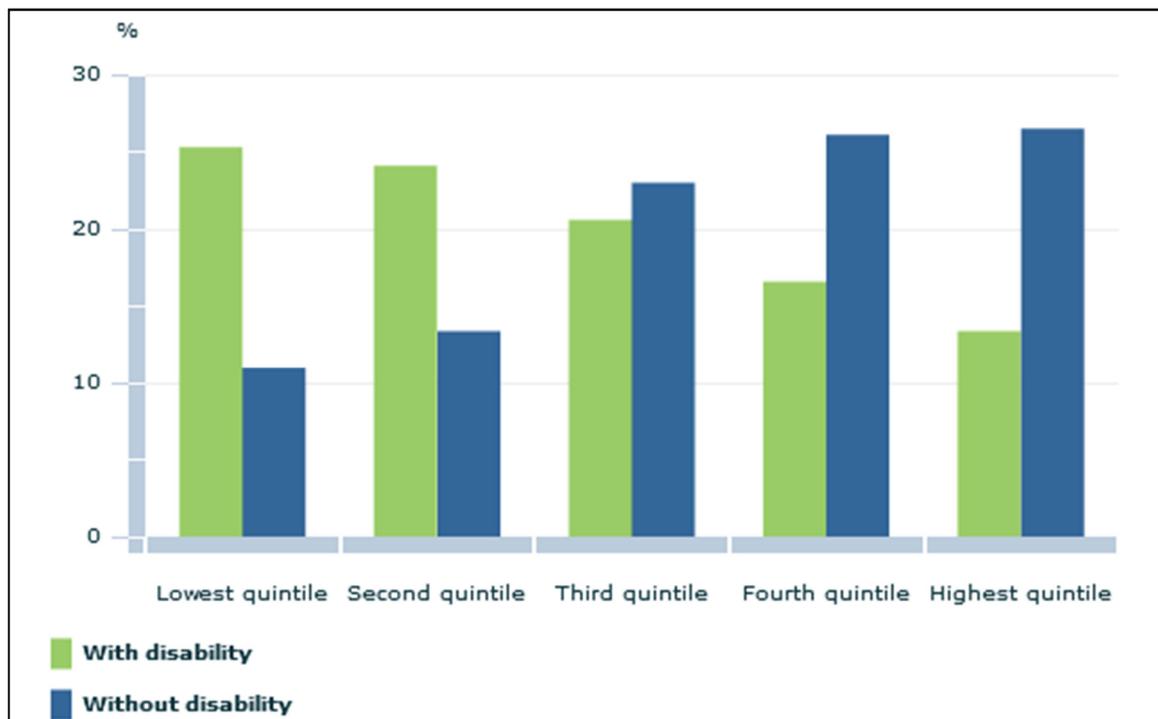
⁴⁶ Fang, T. and Gunderson, M. (2009) "Minimum Wage Impacts on Older Workers: Longitudinal Estimates from Canada" *British Journal of Industrial Relations*, 47:2, June 2009, pp. 371-387. Accessed from: <http://onlinelibrary.wiley.com/doi/10.1111/j.1467-8543.2009.00724.x/epdf>

⁴⁷ Healy, J. (2010) *The Minimum Wage Workforce in Australia: Extending the Evidence*. Flinders University.

⁴⁸ Australian Bureau of Statistics (2015) *Survey of Disability Ageing and Carers*.

135. The degree of disability (outlined above) influences a person’s source of income. In 2015, around two in five (41.9 per cent) people of working age with disability reported a government pension or allowance as their main source of income, followed by wages or salary (36.5 per cent). Those with a profound limitation were more than twice as likely to report a government pension or allowance as their main source of income (82.8 per cent) than those with a mild limitation (37.2 per cent).⁴⁹
136. It follows that people with disability are more likely to have lower levels of income than those without disability. In 2015, the median gross income for a person with disability aged 15 to 64 years was \$465 per week, which was less than half the \$950 per week income of a person without disability. As **Figure 14** shows, approximately half (49.4 per cent) of people with disability lived in households in the lowest two quintiles for equivalised gross household income, compared with 24.3 per cent of those without disability.⁵⁰

Figure 14: Household income of people with disability versus people without disability – 2015



Source: ABS Cat. No. 4430.0

137. Given the significant discrepancy between the median gross income of people with disability and those without disabilities, it seems clear that the National Minimum Wage plays a key role in mitigating against further income disadvantage for people with disability and reducing their risk of poverty.

⁴⁹ ABS Catalogue No. 4430.0 *Disability, Ageing and Carers, Australia: Summary of Findings, 2015*, Accessed from: <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4430.0main+features202015>

⁵⁰ ABS Catalogue No. 4430.0

'Wage theft'

138. The Victorian Government welcomes Fair Work Ombudsman's program to deal with systemic underpayment of wages and entitlements by employers who exploit workers who are often international students or temporary migrants.⁵¹ The Victorian Government has called on the Commonwealth Government to properly resource the Fair Work Ombudsman to enable it to deal with the significant levels of non-compliance with the Fair Work safety net – or 'wage theft' – that is occurring in certain sectors of the economy.
139. As outlined in its 2016-17 submission to the Annual Wage Review, in September 2015, the Victorian Minister for Industrial Relations announced an inquiry into the labour hire industry and insecure work in Victoria, to investigate the practices of labour hire companies, insecure work, sham contracting and the abuse of visas to avoid workplace laws and undermine minimum employment standards.⁵²
140. On 12 December 2017, the Victorian Government introduced the Labour Hire Licensing Bill 2017 seeks to protect labour hire workers from being underpaid and exploited by labour hire businesses and hosts who use labour hire workers. The introduction of the Bill follows the findings of the *Victorian Inquiry into the Labour Hire Industry and Insecure Work* in 2016.
141. The Bill establishes a licensing scheme for Victorian labour hire service providers. It is expected to improve the transparency and integrity of the labour hire industry by creating a 'level playing field' in which legitimate businesses can supply labour without having to cut conditions to compete with 'dodgy' operators. The proposed legislation is also expected to improve compliance with occupational health and safety, taxation and workplace laws and the regulation of accommodation standards.
142. In addition, the Victorian 2017-18 Budget contained \$0.8 million in funding over two years for initiatives to support the provision of employment rights information and case work services for temporary visa workers, corresponding to Recommendation 27 of the Labour Hire Final Report. This follows Victorian Government financial support to the Study Melbourne Student Centre to provide advice and education on workplace rights for international students, including free legal support to address exploitation and an integrated campaign to improve students' understanding of their workplace rights.

⁵¹ FWO (2018) *\$200,000 penalty for sushi store's unlawful internship rip-off of young foreign workers*. Media release (24 January 2018). Accessed from: <https://www.fairwork.gov.au/about-us/news-and-media-releases/2018-media-releases/january-2018/20180124-kjoo-mr>

⁵² *Victorian Inquiry into Labour Hire and Insecure Work – Terms of Reference*: <http://economicdevelopment.vic.gov.au/inquiry-into-the-labour-hire-industry>

143. The Victorian Government submits that the value of the safety net is diminished if other enforcement and compliance mechanisms are not fully supported and funded.

Conclusion

144. Up to 2.3 million Australian workers are directly reliant on minimum rates of pay. Therefore, the level of the National Minimum Wage and award minimum wages, and the frequency of its adjustment, are matters affecting the livelihoods of a large proportion of working Australians at any point in time.⁵³
145. In addition, several vulnerable cohorts in our society rely on the National Minimum Wage, including people with disability, older workers and Aboriginal Victorians. These cohorts face challenges relating to their economic participation and income security including significant income equality gaps, a heavier reliance on income from wages, underemployment and a marginalised position in the labour force.
146. As outlined above, the National Minimum Wage and award minimum wages can play a significant role in helping to address the disadvantages faced by these cohorts. By appropriate and regular increases in minimum wages, the FWC confers upon the low paid a benefit that many would be unable to obtain through bargaining, because of their low (paid) value to employers.
147. The FWC should also note that the impact of its decision in the community has increasing significance, due to increased award reliance and reductions in wages outcomes for low paid cohorts of workers (particularly those affected by the reductions in penalty rates). Further, and even with increases to the National Minimum Wage, many workers are suffering 'wage theft'.

⁵³ Healy, J. (2010)