



Australian Government

Australian Government Submission

to the

Fair Work Commission Annual Wage Review 2020

3 April 2020

Australian Government Position

1. Under Part 2-6 of the *Fair Work Act 2009* ('the Act'), the Fair Work Commission ('the Commission') is required to conduct and complete an Annual Wage Review in each financial year. The Government notes the difficulty that this presents for the Commission in meeting this statutory timeframe as the coronavirus pandemic is continuing to unfold and impact the global and domestic economies in an unprecedented way.
2. The Act provides the Commission with the discretion to defer the commencement of any order if satisfied that exceptional circumstances justify a later date than 1 July.
3. In performing its functions under Part 2-6 of the Act, the Commission must apply the minimum wages objective and modern awards objective in establishing and maintaining a safety net of fair minimum wages. The Act requires that this be done by taking into account a range of considerations, in particular the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth. This provides the Commission with broad discretion to determine fair minimum wages by ordering an increase, decrease or no change to minimum wages.
4. In light of the rapidly evolving events, the Government has provided the most relevant data available at this time for the consideration of the Expert Panel for Annual Wage Reviews ('the Panel') where possible. However, the delay of the 2020-21 Budget reflects the significant challenges in making reliable, robust economic forecasts in the near future. The absence of such forecasts clearly impacts on the Panel's ability to assess the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth, as required by the Act.
5. In making its decision, the Government urges the Panel to take into account the wide-ranging potential impacts, which continue to emerge, of the coronavirus pandemic. In particular, the Panel should take a cautious approach, prioritising the need to keep Australians in jobs and to maintain the viability of the businesses, particularly small businesses, that provide those jobs.
6. While the Australian economy continued to show resilience in the latter part of 2019 in the face of weak momentum in the global economy and domestic challenges such as drought and bushfires, the international economic outlook has worsened since the beginning of the year as the coronavirus has spread. While the initial economic impact of the outbreak was most significantly felt in the Chinese economy, it has quickly evolved to other countries and regions.
7. The scaling up of measures to protect the health of our community will have negative effects on the Australian economy. Demand for goods and services will be lowered, and this will be concentrated in some industries such as tourism, hospitality and retail trade. Restrictions on large gatherings, or supply chain or labour challenges, will mean that some businesses will be unable to operate in the usual way.
8. In response to the coronavirus, the Australian Government has announced a consolidated package of \$320 billion across the forward estimates, representing 16.4 per cent of annual Gross Domestic Product (GDP). This support is designed to help businesses and households and to keep Australians in jobs through the period ahead.
9. There remains considerable uncertainty around the potential economic implications of the coronavirus for the June quarter and beyond, but the economic shock will be significant. At this stage, however, there is considerable uncertainty around the magnitude of the increase in the unemployment rate that will result. There are a wide range of potential paths for the spread and containment of the virus. In addition, there is uncertainty around the impact on confidence, people's ability to work and business cash flow.

10. The Panel's decision will have a far-reaching impact on the economy, directly affecting almost a quarter of all employees that are paid the national minimum wage rate and whose pay is set by a modern award, as well as the businesses which employ them.
- The Attorney-General's Department estimates that in May 2018 (latest data) around 180,200 workers (1.7 per cent of employees) were paid the national minimum wage rate.¹
 - In May 2018, up to 2.2 million workers (21.0 per cent of employees) were paid an award rate.
11. Research shows that the employment impacts of the minimum wage are most likely to be felt by vulnerable cohorts, such as youth and the low skilled, and that risks to employment from minimum wage increases are more pronounced during economic downturns. Significantly, the latest data from the Organisation for Economic Co-operation and Development (OECD) shows that Australia already has the highest real hourly minimum wages (in Purchasing Power Parity terms) in the OECD. This is a significant ranking when considering the importance of wage levels for business competitiveness and viability, as required by the Act.
12. Economic modelling shows that the interaction of minimum wage increases with the tax-transfer system means that only a fraction of minimum wage increases, if awarded, are retained by households. Many of the minimum wage-reliant households modelled retained less than 50 per cent of the 2019 national minimum wage increase.

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

Coverage of the Panel's Decision

13. Australia has a unique minimum wage system. It sets out not only a national minimum wage rate, but also a range of wages and conditions across 121 industry and occupation-based modern awards. These modern awards set around 2,000 adult award rates of pay across hundreds of classifications.

National minimum wage employees

14. The Attorney-General's Department estimates that around 180,200 Australian employees (or 1.7 per cent) are paid the national minimum wage rate (currently \$19.49 per hour) (ABS *Employee Earnings and Hours* (EEH), May 2018).²
15. The national minimum wage rate for adults is currently \$740.80 per week (\$19.49 per hour or \$38,521.60 per year). This is around 53.7 per cent of the Australian Bureau of Statistics' (ABS) estimate of full-time median weekly earnings (\$1,380.00 per week) (ABS *Characteristics of Employment*, August 2019). There are also separate special national minimum wage rates for juniors, apprentices, trainees and workers with disability.
16. Chart 1 in the Appendix shows the employees directly affected by the Panel's decision. They are employees paid the national minimum wage rate, those whose pay is set by a modern award, as well as those workers whose pay is set by collective agreements that are linked to the Annual Wage Review and designed to maintain wage relativities. It also shows the number of low-paid employees.

Award-reliant employees

17. In 2018, up to 21.0 per cent of Australian employees (or 2.2 million) had their pay set by an award. This is lower than the 2016 published figure of 22.7 per cent, but higher than the revised 2016 figure of 20.6 per cent.³
18. Award minimum wages range from the national minimum wage rate of \$740.80 per week (\$38,521.60 per year) up to \$3,512.12 per week (\$182,630 per year, Air Pilots Award 2010). The national minimum wage rate of \$740.80 per week features in 44 of the 121 modern awards, while the remaining 77 modern awards contain wage rates that are above the national minimum wage rate.
19. The majority of award-reliant workers are paid higher wages than the national minimum wage, with the latest data showing that the median full-time award-reliant wage (\$1,100.00) was 58.3 per cent higher than the national minimum wage rate as at May 2018 (\$694.90).⁴ This means that the median weekly full-time wage for award-reliant employees (\$1,100.00) was

² These include those employees on awards, covered by enterprise agreements and national minimum wage employees. National minimum wage employees are classified as employees who are: paid the adult rate, non-managerial, have their pay set through an individual arrangement, and with average ordinary time earnings of up to \$18.50 per hour. The earnings of casual employees are divided by 1.25 to adjust for the casual loading.

³ Since the 2016 release of EEH, the ABS has further refined its Method of Setting Pay framework, meaning that a sub-set of the employees who were considered to be paid on an Award only basis in 2016 would be considered to have been paid according to a Collective Agreement under the new treatment in 2018.

⁴ The full-time median wage for award-reliant workers only includes non-managerial employees paid at the adult rate.

75.3 per cent of the median weekly full-time wage for all employees (\$1,460.00) (ABS *Employee Earnings and Hours, May 2018*).⁵

20. The industries with the highest award reliance were Accommodation and food services (with 43.2 per cent of employees having their pay set by an award), Administrative and support services (39.5 per cent), Other services (34.1 per cent), Health care and social assistance (31.0 per cent) and Retail trade (29.3 per cent). Table 1 shows the level of award reliance by industry, as at May 2018.

Table 1: Award reliance across industries (proportion of award-reliant employees in each industry, all employees), May 2018

Industry	Award-reliance (%)	Award-reliance (no. of employees)
Accommodation and food services	43.2%	346,999
Administrative and support services	39.5%	258,085
Other services	34.1%	128,641
Health care and social assistance	31.0%	454,851
Retail trade	29.3%	320,261
Rental, hiring and real estate services	26.4%	54,109
Arts and recreation services	21.1%	35,901
Manufacturing	19.4%	137,225
Wholesale trade	14.6%	68,011
Construction	14.1%	111,787
Transport, postal and warehousing	11.3%	50,119
Public administration and safety	10.6%	78,778
Education and training	9.5%	99,692
Professional, scientific and technical services	6.8%	57,593
Information media and telecommunications	6.5%	9,791
Financial and insurance services	4.7%	19,126
Electricity, gas, water and waste services	3.9%	3,918
Mining	0.9%	1,435
Agriculture, forestry and fishing	N/A*	N/A*
All industries	21.0%	2,236,323

Source: ABS, *Employee Earnings and Hours, May 2018*, all employees.

* This survey does not cover enterprises primarily engaged in Agriculture, forestry and fishing.

Note: Other services includes a broad range of personal services, religious, civic, professional and other interest group services, selected repair and maintenance, and private households employing staff. Services provided include hair, beauty, diet and weight management, death care, religious events promotion and administration and repair and maintenance of equipment and machinery.

Small Business

21. Small businesses are a significant part of the Australian economy and make an important contribution to output and employment. They are diverse, operate in all sectors of the economy, have varying levels of employment, and conduct business under different legal structures.

⁵ The figures for median wages differ between the Characteristics of Employees publication (which is an annual household survey) and the Employee Earnings and Hours publication (a business survey published biennially). This results in slightly different median wages for paragraphs 15 and 19.

22. There were 2,314,647 actively trading small businesses in Australia as at June 2019, accounting for around 97 per cent of all businesses (ABS *Counts of Australian Businesses, June 2015 to June 2019*).⁶ Of these small businesses, 823,715 (or 36 per cent) were small businesses with employees.
23. Small businesses employed around 4.9 million Australians, or 44 per cent of private sector employment in Australia as at June 2018 (ABS, *Australian Industry, 2017-18*).⁷ Small businesses accounted for around 34 per cent of total award-reliant employees in May 2018 (ABS *Employee Earnings and Hours*).
24. Small businesses more commonly rely on awards rather than enterprise agreements to set pay and conditions, and therefore are more likely to be impacted by changes in minimum and award classification wages. Around 35 per cent of non-managerial employees in small businesses are paid award wages. This compares with 31 per cent for medium-sized businesses (those with 20-99 employees), and 15 per cent for larger businesses (those with 100 and more employees).
25. The proportion of non-managerial employees with their pay set by an award is higher in certain industries, including the Accommodation and food services industry (44.9 per cent), Administrative and support services (41.3 per cent), Other services (38.1 per cent), Health care and social assistance (31.7 per cent) and Retail trade (30.1 per cent). Together, these industries account for 67.5 per cent of all award-reliant non-managerial employees (ABS *Employee Earnings and Hours, May 2018*). Small businesses account for a large share of total employment in these industries: 46.4 per cent, 33.2 per cent, 67.9 per cent, 28.5 per cent and 31.4 per cent respectively (ABS *Australian Industry, 2017-18*).
26. Given the importance of small business, the Government has provided assistance that supports small business and the economy as a whole to overcome the challenges posed by the coronavirus pandemic. The Government is delivering an economic response package totalling \$320 billion to protect the economy. These measures include:
- the JobKeeper Payment of \$1,500 per fortnight designed to help businesses affected by the coronavirus pandemic to cover the costs of their employees' wages, so that more employees can retain their job and continue to earn an income. This payment will also be available to sole traders and the self-employed;
 - boosting cash flow for employers by providing up to \$100,000 to eligible small and medium sized businesses, and not-for-profits (including charities) that employ people, with a minimum payment of \$20,000. These payments will help businesses' and not-for-profits' cash flow so they can keep operating, pay their rent, electricity and other bills and retain staff;
 - helping businesses employ staff by providing a wage subsidy of 50 per cent of the apprentice or trainee's wage for up to 9 months from 1 January 2020 to 30 September 2020;
 - increasing the instant asset write-off threshold from \$30,000 to \$150,000 and making more businesses eligible to use it until 30 June 2020;
 - supporting business investment and economic growth by accelerating depreciation deductions through to 30 June 2021;

⁶ For the purpose of this submission, small businesses are defined as a business employing 0 to 19 employees. This is consistent with the definition used by the ABS and Sensis for the purpose of business surveys. We note that small businesses are defined as a business employing 0 to 14 employees for the purposes of the *Fair Work Act 2009*. The ABS definition can be found at ABS (2001) *Small Business in Australia*, cat no. 1321.0.

⁷ The private sector excludes General Government and the Financial and insurance services industry. Employment data refers to the number of persons working for businesses during the last pay period ending in June of the given year.

- supporting the flow of credit to small businesses through the Coronavirus Small and Medium Enterprises (SME) Guarantee where the Government will provide a guarantee of 50 per cent to SME lenders for new unsecured loans of up to \$250,000 to be used for working capital;
- allowing individuals in financial stress as a result of coronavirus to access up to \$10,000 of their superannuation in 2019-20 and a further \$10,000 in 2020-21; and
- increased and accelerated income support for individuals, including by expanding access to sole traders and the self-employed to assist them during the next six months.

27. However, there remains uncertainty regarding how small businesses will fare during these economic challenges. Even before the advent of the coronavirus pandemic, the survival rate of firms in the small business sector was lower than that for larger businesses. 69.4 per cent of micro-sized businesses (1-4 employees) that were operating in June 2015 were still operating as at June 2019. For businesses employing 5-19 employees, this figure is 77.6 per cent. In contrast, the survival rate for medium and large businesses is above 80 per cent (*ABS Counts of Australian Businesses, June 2015 to June 2019*).

28. Small businesses may be disproportionately affected by the coronavirus pandemic. They tend to be more labour intensive, are generally less diversified in their product offerings and customers, are less equipped to deal with soft demand and have less flexibility in terms of meeting workplace operational requirements.

Economic Outlook at the 2019-20 MYEFO

29. At the time of the 2019-20 Mid-Year Economic and Fiscal Outlook (MYEFO), the weakening in global growth that was occurring in 2019, including among Australia's major trading partners in Asia, was considered close to bottoming out. A gradual pick-up in global growth was expected in late 2019 and into 2020.

30. Growth in the Australian economy was expected to pick up supported by personal income tax relief and the Government's investment in productivity enhancing infrastructure, as well as lower interest rates.

31. The labour market continued to outperform expectations in 2019 with employment growth remaining around 2 per cent and the participation rate reaching record highs (*ABS, Labour Force, February 2020*).

32. Adult Weekly Ordinary Time Earnings (AWOTE) for full-time adults increased by 3.3 per cent through the year to November 2019 (*ABS, Average Weekly Earnings, November 2019*). Average compensation per employee (on a National Accounts basis) rose by 0.5 per cent in the December quarter 2019 to be 3.0 per cent higher through the year (*ABS, Australian National Accounts: National Income, Expenditure and Product, December 2019*).

33. Wage growth, as measured by the Wage Price Index, has been materially lower than the Panel's 2019 decision, growing by 2.2 per cent through the year to the December quarter 2019 (*ABS, Wage Price Index, December 2019*). Among the five most award-reliant industries, through-the-year wage growth in the December quarter 2019 was 2.2 per cent in Accommodation and food services, 1.9 per cent Administrative and support services, 2.0 per cent in Other services, 3.1 per cent in Health care and social assistance, and 1.8 per cent in Retail trade.

Bushfires

34. The recent devastating bushfires have also had significant negative environmental, social and economic impacts.

35. Treasury estimates that the the bushfires will detract around 0.2 percentage points from GDP growth across the December 2019 and March 2020 quarters. Most of this impact will fall in the March quarter, before reconstruction and recovery activity picks up and other spending supports growth from the June quarter 2020 onwards.
36. The negative economic impacts as a result of the bushfires are expected to primarily be felt through lower household consumption and tourism in combination with other effects on the agriculture and forestry sectors. Household consumption is expected to be lower both as a result of the direct impact on affected regions, as well as from the impact of widespread smoke haze across major east coast cities.

Coronavirus

37. Over recent months, the international economic outlook has worsened as the coronavirus has spread. While the initial economic impact of the outbreak was most significantly felt in the Chinese economy, it has quickly evolved to other countries and regions. Major economies including Italy and Spain have announced they are in “lockdown” to contain the coronavirus, which is expected to hinder economic activity over the coming months. The global nature of the shock is evident in financial markets.
38. Australian governments continue to act quickly and decisively to adjust our health measures to the scale of the threat. This scaling up of measures to protect the health of our community will have negative economic effects. Demand for goods and services will be lowered, and this will be concentrated in some industries such as tourism, hospitality and retail trade. Restrictions on large gatherings, or supply chain or labour challenges, will mean that some businesses will be unable to operate in the usual way
39. In response to the virus, the Government has announced \$320 billion of support for the economy. This represents fiscal and balance sheet support across the forward estimates of 16.4 per cent of annual GDP. It is designed to support businesses in managing short-term cash flow challenges, provide support to individuals, to ensure the continued flow of credit in the economy, and to help keep Australians in jobs. It includes the JobKeeper Payment designed to help businesses affected by the virus cover the costs of wages.
40. Additional information on the Government’s response can be found at <https://treasury.gov.au/coronavirus>.
41. There are also automatic mechanisms in the economy that will help support activity. The flexible exchange rate will help to mitigate the effect of shocks to global demand. Australia has a sound and well-capitalised banking sector.
42. The economic shock from the coronavirus will be significant, but there remain considerable uncertainties. There are a wide range of potential paths for the spread and containment of the virus globally and in Australia. In addition, there is uncertainty around the impact on confidence, people’s ability to work and business cash flow. The global spread of the coronavirus and its economic impact will also flow through to demand for Australia’s exports and the availability of inputs for domestic production and imported consumption goods.
43. Treasury will continue to review the coronavirus economic impacts on an ongoing basis, including by consulting widely across government, state Treasuries, financial institutions, and with businesses.

Labour Market Outlook

44. The latest available ABS *Labour Force* data suggests that the Australian labour market, up until coronavirus took hold, had been resilient.

45. The coronavirus will clearly have a substantial, negative impact on global and domestic economic growth and labour market activity in Australia going forward. At this stage, however, there is considerable uncertainty around the economic implications of the virus and the magnitude of the increase in the unemployment rate that will result.
46. Young people and the low-skilled are overrepresented in industries that are being heavily affected by coronavirus (such as Accommodation and food services, Retail trade and Arts and recreation services). In light of the vulnerability that this cohort generally faces during a downturn (given they often have less education, skills and experience than their prime-age counterparts), it is likely that the youth unemployment rate will also increase significantly in the period ahead, as well as job opportunities for the low-skilled and the long-term unemployed.

Labour market to February 2020

47. Labour market conditions in Australia were reasonably strong over the year to February 2020, with employment increasing by 256,300 (or 2.0 per cent) over the period, above its decade average annual growth rate of 1.8 per cent, to stand at a record high of 13,015,100 in February 2020 (ABS, *Labour Force, February 2020*).
48. Full-time employment accounted for around 56 per cent of the increase in employment over the year to February 2020, rising by 144,300 (or 1.7 per cent), while part-time employment increased by 111,900 (or 2.8 per cent) over the period.
49. Despite the increase in full-time employment over the past year, spare capacity remains evident in the labour market, with the *level* of underemployment (persons who are not fully employed and want, and are available for, more hours of work) increasing by 102,500 (or 9.5 per cent) over the year, to stand at a record high of 1,183,100 in February 2020. The underemployment *rate* was steady over the year, at 8.6 per cent in February 2020.
50. The unemployment rate in Australia stood at 5.1 per cent in February 2020 (up from 5.0 per cent in February 2019) while the participation rate has increased by 0.4 percentage points over the period, to stand at 66.0 per cent in February 2020.
51. Despite a solid and resilient labour market over the past year, a number of groups, including youth, long-term unemployed people, and those who are low skilled, continue to experience poorer outcomes in the labour market compared with the national average.
52. For instance, while employment for youth (persons aged 15 to 24 years) increased by 5,000 (or 0.3 per cent) over the year to February 2020, this is below the decade average rate, of 0.6 per cent. Moreover, the youth unemployment rate has increased, from 11.1 per cent in February 2019, to 12.2 per cent in February 2020, and is more than double the 5.1 per cent recorded for all persons.
53. Despite a period of strong and sustained employment growth over recent years, the number of people who are long-term unemployed has also remained high. Indeed, over the past year, the *trend* level of long-term unemployment has increased by 14,300 (or 8.9 per cent), to stand at 175,600 in February 2020.

The importance of keeping Australians in work

54. As Australia faces the grave economic challenges of the coronavirus pandemic, it is of paramount importance that the Panel's decision is focused on keeping Australians in work and enabling the businesses which employ them to remain viable.
55. Jobs provide benefits to individuals, their families and communities. A job boosts incomes, skills and self-confidence, and provides an opportunity for social engagement. Conversely, people

who are unemployed tend to have poorer health, and lower levels of community engagement and wellbeing compared to those in work, which is why the JobKeeper payment of \$1,500 per fortnight has been introduced.

56. The past experience of economic downturns shows that involuntary unemployment can have a ‘scarring impact’ on individuals’ labour market outcomes as well as negative social, mental and health effects, which underscores the importance of keeping Australians in work (Gray et al. 2009, Kelleberg and von Wachter 2017).

Employment impacts of minimum wage increases

57. Although the economic circumstances we face as a result of the coronavirus pandemic are unprecedented and likely to be more far-reaching than previous shocks, the existing employment impacts literature highlights the need for caution in the Panel’s decision. Studies show that greater impacts on employment are likely when the economy is in a recession or a prolonged slowdown (see Addison et al. 2013; Dickens et al. 2015; Clemens and Wither 2019).
58. In the United States, Clemens and Wither (2019) show that the employment and incomes of low-skilled workers were negatively impacted by the minimum wage increases that occurred during the Great Recession, a period of depressed labour demand and slow productivity growth. Dickens *et al.* (2015) points out that studies in the United Kingdom may have shown little evidence of employment impacts from the introduction of the National Minimum Wage in 1999 because they were conducted during a period of economic buoyancy, with any employment effects masked by a strongly growing economy.
59. Even under typical economic circumstances, the employment impacts literature points to significant differences in terms of the effects on specific groups, demographics, or the extent to which different types of labour and capital are substitutes or complements. Employment impacts are more pronounced for vulnerable cohorts in the labour market, such as youth and the low skilled (groups that possess relatively low levels of human capital).
60. Research shows that increases to minimum wages have greater impacts on employment opportunities for youth and may hinder their transition to higher paying jobs (see Boockmann 2010; Neumark and Wascher 2008; Neumark and Nizalova 2007). Leigh (2003, 2004) found that the negative employment impact of minimum wage rises in Western Australia was more pronounced for youth aged 15 to 24 years. In its recent study of youth minimum wages, the United Kingdom’s (UK) Low Pay Commission concluded that:
- “the international evidence suggests that the younger the worker the more at risk they are from minimum wage increases and minimum wages being set too high, which is why the strongest adverse effects are generally found for those aged under 20, especially those aged under 18”* (Low Pay Commission 2019a, p. 36)
61. Jardim *et al.* (2018) found that an increase of Seattle’s minimum wage to US\$13.00 per hour in 2016 had a greater impact on less experienced workers, who faced larger decreases in hours worked. The impact of minimum wage increases may also be more pronounced for workers in routine jobs that are more at risk of automation (see Aaronson and Phelan 2017; Lordan and Neumark 2018). There is also evidence in the UK that minimum wage increases negatively impact employment for women working part-time (Dube 2019; Low Pay Commission 2019b).
62. While there have been some studies that focus on how employers can respond to minimum wage increases without reducing jobs or hours – such as through increasing productivity, raising prices and reducing profits (see Farmakis-Gamboni and Yuen 2011, Metcalf 2008, Wadsworth 2010, Riley and Bondibene 2015, Harasztosi and Lindner 2019, Allegretto and Reich 2018, Romich et al. 2018) – it is important to note that the scope of employers to respond in such ways

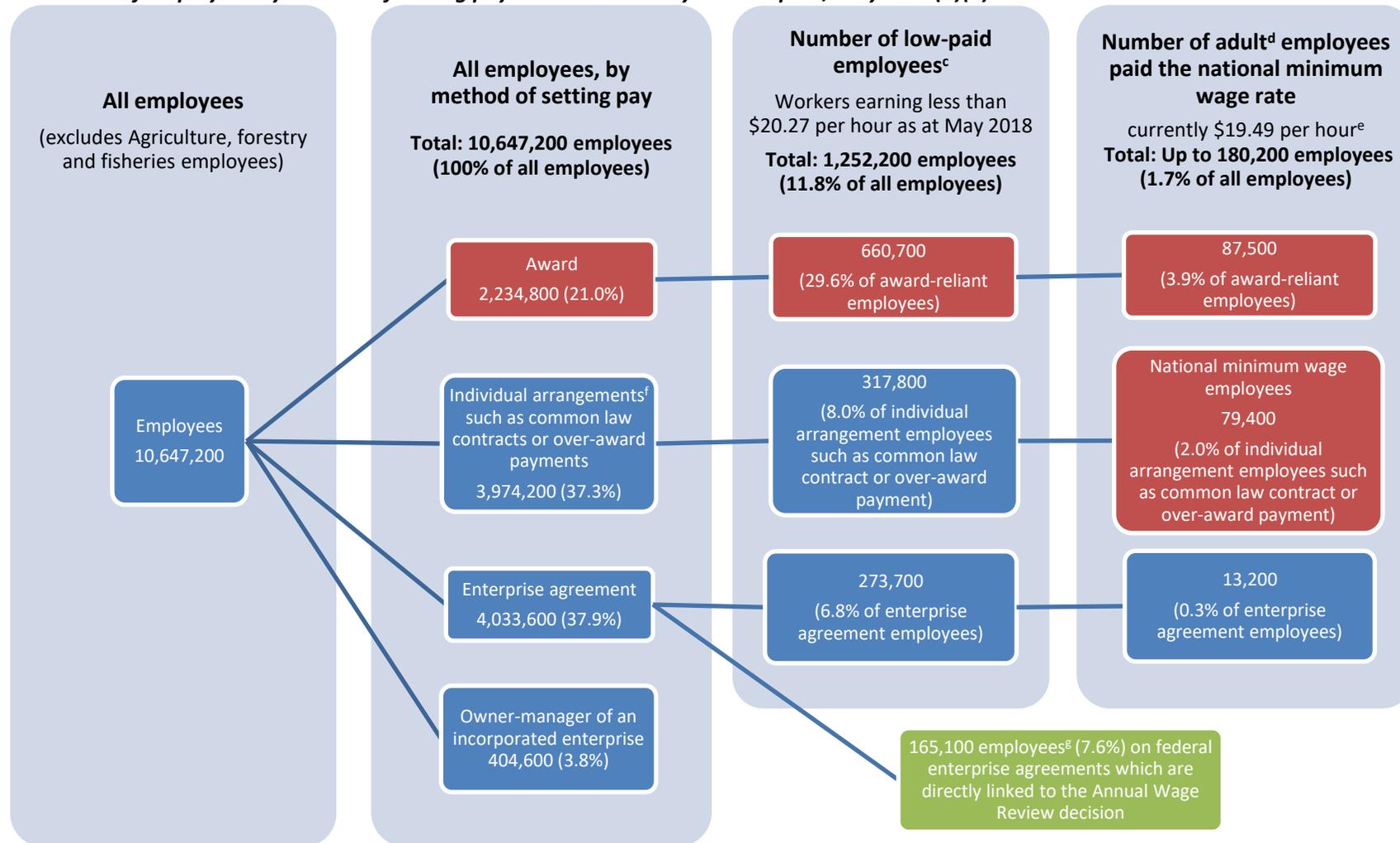
depends on a range of factors such as the strength of the labour market and economy, the competitiveness of their industry, and the elasticity of demand for their goods and services.

Interaction with tax-transfer system

63. The Australian tax-transfer system is the primary means of redistributing income among Australian households, through a targeted system of payments (including income support and family payments), in-kind support (such as subsidised health care and education) and a progressive income tax system.
64. The Government is temporarily expanding eligibility to certain income support payments and establishing a new, time-limited coronavirus supplement to be paid at a rate of \$550 per fortnight. This will be paid to both existing and new recipients of certain income support payments such as the JobSeeker Payment, Youth Allowance, Parenting Payment, Austudy, ABSTUDY (Living Allowance), Farm Household Allowance and Special Benefit. The coronavirus supplement will be paid for the next 6 months. Eligible income support recipients will receive the full amount of the \$550 coronavirus supplement on top of their payment each fortnight.
65. The Government has introduced the JobKeeper Payment of \$1,500 per fortnight designed to help businesses affected by the coronavirus to cover the costs of their employees' wages, so that more employees can retain their job and continue to earn an income.
66. Due to interactions with taxes and transfers, minimum wage increases do not fully flow into disposable income. The breakdown by household type in Table 2 in the Appendix shows the immediate impact of the 2019 national minimum wage rate increase on disposable income for various household types. Many of the minimum wage-reliant households modelled retained less than 50 per cent of the 2019 national minimum wage increase. The lowest percentage was retained by single-income couples where one partner receives Newstart Allowance (now named JobSeeker Payment) or Parenting Payment (between 8.3 and 16.8 per cent).

Appendix

Chart 1: Number of employees by method of setting pay and whether they are low paid, May 2018(a)(b)



Source: ABS 2019, *Employee Earnings and Hours, May 2018*, cat. no. 6306.0, published and unpublished data (including the Attorney-General's Department calculations); Workplace Agreements Database, September 2019. Note: Chart 2.1 includes state system employees who will not be directly impacted by the Panel's decision. These employees include most state and local government employees as well as most private sector employees in Western Australia who are not employed by constitutional corporations. Due to data availability, not all state system employees can be easily identified, hence the analysis in this submission includes these employees. (a) All numbers are for May 2018, except for the number of employees on agreements linked to the Annual Wage Review decision (in green), which is for the September quarter 2019. (b) The Fair Work Commission sets award classification wages and the national minimum wage, these workers are coloured red in the chart. (c) Low-paid employees are defined as employees earning less than two-thirds of the median hourly wage. In May 2018, the median hourly wage was \$30.40 and employees earning below \$20.27 per hour were considered low paid. (d) This excludes workers paid junior, apprentice and disability rates of pay. (e) The national minimum wage rate in May 2018 was \$18.29 per hour. Employees paid at or below \$18.50 per hour in May 2018 are considered to be paid the national minimum wage rate (this uses an upper error band of 21 cents). (f) The ABS classifies employees in the individual arrangement category if they have their pay set by an individual common law contract or arrangement, whether or not written, including where employees receive over-award payments. (g) These data are derived from the Workplace Agreements Database. It includes the number of employees covered by agreements current as at 30 September 2019 with a clause which states that the entirety of the Annual Wage Review decision will be applied in full and automatically to wages. These workers may also be low paid or earning the national minimum wage rate and thus also covered in the boxes above

Table 2: Effect of 2019 NMW rate increase on household disposable incomes

Household type	Wage increase (\$pw)	Increase in household disposable income (\$pw)	Percentage of wage increase retained (%)
Single person, no children			
Full-time NMW	21.6	15	71.5
Part-time NMW	8.4	3	36.7
Student on part-time NMW	8.4	3	40.0
Single parent			
Full-time NMW, child aged 3	21.6	8	36.6
Full-time NMW, child aged 9	21.6	10	44.1
Part-time NMW, child aged 3	8.4	5	60.0
Part-time NMW, child aged 9	8.4	4	47.4
Single-income couple (partner two on Parenting Payment/Newstart Allowance)			
Full-time NMW, no children	21.6	2	8.3
Full-time NMW, child aged 3	21.6	3	11.6
Full-time NMW, children aged 3 and 9	21.6	4	16.8
Dual-income couple			
Both full-time NMW, no children	43.2	31	71.5
One full-time and one part-time NMW, no children	30.0	24	79.5
One full-time and one part-time NMW, child aged 3	30.0	22	73.9
One full-time and one part-time NMW, children aged 3 and 9	30.0	20	65.9

Source: Government modelling.

Notes: (1) Figures are based on tax and benefit rates applicable on 1 July 2019. Part-time hours are assumed to be 15 hours per week. This modelling does not include indexation of benefits as it has been designed specifically to show the Panel the direct impact of the 2019 minimum wage increase on household disposable incomes. Indexation of benefits is a separate process in the tax-transfer system and is not affected by the Panel's decision. (2) Figures for the increase in income have been rounded to the nearest dollar. Percentages may differ slightly due to rounding.

Acronyms and Abbreviations

ABS	Australian Bureau of Statistics
AWOTE	Average Weekly Earnings
EEH	Employee Earnings and Hours
GFC	Global Financial Crisis
GDP	Gross Domestic Product
MYEFO	Mid-Year Economic and Fiscal Outlook
NMW	National Minimum Wage
OECD	Organisation for Economic Co-operation and Development
SME	Small and Medium Enterprise
UK	United Kingdom

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