ACTU
australian council of trade unions

Submission to the Annual Wage Review 2018-19

ACTU Submission, 15 March, 2019
ACTU D. No 11/2019

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1. INTRODUCTION AND OVERVIEW

1. The picture of the Australian labour market is overwhelmingly positive but for the one thing that this Review has a direct impact upon – wages.

2. The sustained period of wage stagnation that Australians are experiencing is remarkable and has coexisted with historically-high levels of inequality and declining living standards. If recent declines in economic growth and forecasts thereof are any indication, the strain felt by working Australia is spreading.

3. In its decision last year, the Panel took what in relative terms was a significant step to improve employees' wages, which has had some positive effect in lifting living standards. It does not appear to have had any negative effects. This year, we urge the Panel to take further meaningful action to benefit working people and their families.

4. In the next Chapter, we outline the claim we make on behalf of our affiliate unions and the workers they represent to raise the minimum wage and modern award minimum wages. The remainder of our submission seeks to address the elements of the modern awards objective and the minimum wage objective so as to satisfy the Panel that our claim is fair, relevant, necessary and appropriate. The observations from our review of the applicable social and economic criteria are as follows:

    a. There are 2.23 million Australian workers, 21.0% of all employed persons (including OMIEs), who are reliant on the National Minimum Wage or a modern award for their wages, according to the most recent data of May 2018. These data mean that more than one in five employed persons in Australia continue to be paid the lowest wage that they may legally be paid. A majority of those persons would have those wages determined in the Federal System, through the decisions of the Panel. Many of these employees lack bargaining power, and rely on the increases determined by the Panel to improve their living standards.

    b. Compared with other workers, these workers are also more likely to be women, more likely to be part-time, more likely to be casual and more likely to work in a small business. More than 60% of these workers were employed in four industries: Health

care & social assistance, accommodation & food services, retail trade and administrative & support services. However, significant numbers of workers affected by the Panel's decisions are found across a multitude of occupational classifications. We estimate that around 44% of them are paid at or below the rate set for a person with trade-level qualifications.

c. Estimates of the gender pay gap across all employees vary between less than 15% to over 30% depending on the measure used. However, there has been little movement within those measures compared to two decades ago, with small improvements that have been seen to likely be largely due to stagnant male earnings. Ultimately, a larger increase to minimum wages is likely to bite into the premium received by employees on individual arrangements above the award and some cases drive those workers at the margin back to the award only category. This would be expected to have an equalising effect on the hourly earnings between men and women and should be pursued.

d. The overall picture of the labour market is inconsistent with a view that the Panel's decision last year – to raise minimum wages and modern award minimum wages to a degree not seen in nearly a decade – inhibited employment through reducing the demand for labour. Indeed, recent research findings are consistent with the view that a negative effect on employment would not be expected to be seen at that, or indeed higher, rates of increase.

e. Continued strong employment growth has been observed since the last review, coupled with sustained and historically high participation rates and employment to population ratios including among those of working age. Notably, growth in employment and participation has also been seen in the youth labour market, which bears consideration when looking at unemployment among that cohort because it is often considered particularly sensitive to minimum wage rises.

f. There has been a continued, albeit slow, reduction in the unemployment rate since July 2017, which is particularly positive again given the prevailing participation rate and employment to population ratio. While underemployment remains high, it has improved a little over the course of the last 18 months or so. As discussed in Chapter

5, we suspect that some long-term trends in the composition of, and participation in, the youth cohort of the labour force may have contributed as a supply side factor in the high underemployment rate seen in recent years.

g. The small declines seen in hours worked in some industries need to be balanced against the gains seen overall and the general health of the labour market and the economy generally, which continues to manifest resilience, along with a renewal of mining activity.

h. The Australian economy grew by 2.3% over the year to December 2018. Although lower than Treasury and RBA forecasts, GDP growth continues to be healthy and certainly not unusual, when viewed in perspective. The current rate of growth is in line with previous years' results of 2.4% at December 2016, 2.7% at December 2015, 2.2% at December 2014 and 2.4% at December 2013. It is also just below the OECD average growth of 2.4% on year-to-December figures.

i. Growth in output was also broad-based, with all of the five most award-reliant industries in 2018 recording growth albeit not at uniform levels.

j. CPI has remained at very low levels, but real wage growth has been weak, notwithstanding. Lower-paid workers are disproportionately exposed to some CPI subgroups which align with essential expenditure, which have risen in price much faster than the headline CPI figure.

k. Wage growth continues to drag behind labour productivity growth according to a range of measures. Labour productivity annual measures grew a little faster at the most recent year than their 10-year average, and, in general, wage growth continues to fail to keep up.

l. Real unit labour costs fell 1.4% over the year 2018. The share of employee compensation remains the same at December 2018 as it was at December 2017 while the share of wages in income has fallen in most sectors in 2017-2018. Real unit labour costs are a striking 11 percentage points below 1998.

m. Whilst there are downside risks in the economy related to trade and political tensions, the more tangible and predictable risks are closer to home in the form of poor growth in wages. In real terms, in the year to December, households annual final consumption grew 2% and household's annual real disposable incomes rose 1.5%. The household savings ratio is below that seen for most of the decade and the household debt to income ratio continues to rise. The growth in average annual compensation per employee in real terms was -0.3% over the year to December 2018 and has been negative for three years. The data on consumption, savings and debt suggest that pressures have been building on households which, in the absence of meaningful real income gains, could lead to poorer consumption and a diminished ability to absorb economic shocks. The knock on effects of this may already be evident in recent retail turnover figures, although it is perhaps too soon to say definitively.

n. The relative living standards of workers reliant on minimum and award wages have declined for over thirty years, yielding a far more unequal society in which the top quintile now accrues nearly half of gross income. Wages disparity has widened across the distribution and compared with the minimum wage, over the last 22 years. Weak wage growth in the last three years has delivered the biggest fall in living standards for more than 30 years, with more than a million people now forced to work more than one job.

o. The median minimum wage bite remains close to its all time low having declined overall for thirty years. Regardless of sensitivity of the measured increases to the starting date for the calculation, the National Minimum Wage and median earnings have seriously lagged behind GDP and GDP per capita in terms of growth over decades, much more so in the case of the National Minimum Wage. A substantial proportion of workers on the National Minimum Wage and modern award rates of pay are in households at or below very conservative poverty lines.

p. Meanwhile, profits in mining and non-mining industries have continued to rise, particularly to the September quarter. Although profits slowed in non-mining industries in the year to December, the levels seen are still above those seen for most of the decade in December-December comparisons. Profit margins in small business continue to grow faster than for bigger business and yet small business has a much

bigger proportion of award-reliant workers who have seen above WPI wage increases in recent years.

q. Business bankruptcies were fewer in 2017-18 than any year since 1994-95. The number of businesses overall grew by 3.4% in 2017-18, with entry rates exceeding exit rates over the last three years.

r. Non-mining private business investment has stabilised at levels above the highs seen in 2011 immediately before the decline.

s. Whilst it is undoubtedly correct that there has been a decline in enterprise bargaining, it cannot be shown that this bears any relationship to the decisions of the Panel to increase the minimum wage or modern award minimum wages. More instructive is the relatively stable or increasing share of the workforce paid according to "individual arrangements" at above award rates. This suggests that maintaining a premium above the ever increasing minimum wage and modern award minimum wages has not been a burden for employers at the macro level.

t. Regulatory changes over the last decade and beyond have made measurement of enterprise bargaining and the share of workers covered by various methods of pay difficult. Whilst we concur with the view that changes in the bargaining power of workers as a result of such regulatory changes have contributed to the observed decline, it is likely that there is some overhang effect from transitional regulatory changes that has made the observed decline in enterprise bargaining seem more severe than was truly the case. This is because the preceding observed increase in bargaining was not representative of the various dynamics observed in bargaining in the ordinary course. Secondly, the measurement of award or collective agreement reliance has also been affected by regulatory change and the categorisation of particular instruments as "awards" or "collective agreements" has not necessarily been what might have been expected.

5. Low-paid workers deserve to share in the benefits of productivity growth and a growing economy. The expected wage increases that have often been forecast to be just around the

corner have failed to materialise, save where they have been mandated through the decisions of the Panel or collective bargaining outcomes.

6. The increase we seek is appropriate and reasonable in the economic circumstances. A substantial real increase in wages will not have adverse consequences, rather it is likely to contribute to improvement in the economy. Other workers will also likely benefit from a decent increase in the minimum wage.

2. OUR CLAIM

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

8. In this Review, we submit that the Panel should increase the National Minimum Wage for full-time adults and all modern award minimum wages by 6%. This equates to a $43.15 per week increase on the minimum wage. The minimum rates of pay we propose for each classification level in the Manufacturing and Associated Industries and Occupations Award 2010 are set out in Table 1.

Table 1: ACTU's proposed minimum rates of pay

Award classification	Current rates		Proposed rates				
	Weekly	Hourly	Weekly	Hourly	% increase	Weekly $ increase	Hourly $ increase
NMW/C14	719.2	18.93	762.35	20.06	6.0	43.15	1.13
C13	739.9	19.47	784.29	20.64	6.0	44.39	1.17
C12	768.3	20.22	814.40	21.43	6.0	46.10	1.21
C11	794.7	20.91	842.38	22.17	6.0	47.68	1.26
C10	837.4	22.04	887.64	23.36	6.0	50.24	1.32
C9	863.6	22.73	915.42	24.09	6.0	51.82	1.36
C8	889.9	23.42	943.29	24.82	6.0	53.39	1.40
C7	913.7	24.04	968.52	25.49	6.0	54.82	1.45
C6	960	25.26	1017.60	26.78	6.0	57.60	1.52
C5	979.6	25.78	1038.38	27.33	6.0	58.78	1.55
C4	1005.9	26.47	1066.25	28.06	6.0	60.35	1.59
C3	1058.6	27.86	1122.12	29.53	6.0	63.52	1.67
C2(a)	1085	28.55	1150.10	30.27	6.0	65.10	1.72
C2(b)	1132.4	29.8	1200.34	31.59	6.0	67.94	1.79

9. Moreover, we believe that a living wage of 60% of median full-time earnings should be achieved in two years. Allowing for a 1.5% increase in median earnings, if the current claim was granted we would intend to seek a further increase of 5.5% in next year's Review. We estimate that granting that subsequent claim would equate to approximately a $42 per week increase on the C14 rate shown in column 4 in Table 1 above.

2.1 The form of the increase in minimum wages

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

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

2.2 The timing of the increase in minimum wages

12. A national minimum wage order made in an Annual Wage Review comes into operation on 1 July in the next financial year, unless there are exceptional circumstances.[1] Similarly, a determination varying modern award minimum wages that is made in an annual wage review comes into operation on 1 July unless there are exceptional circumstances.[2]

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

2.3 The uniformity of the increase in minimum wages

14. We submit that modern award minimum wages and the minimum wage should be increased by 6%, with the increase flowed through in the usual way to special minimum wage recipients, as outlined in Chapter 9.

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1 Fair Work Act 2009 (Cth), s.287

2 Fair Work Act 2009 (Cth), s.286

15. We continue to agree with the Panel in its 2014-15 Review when it endorsed the observation that "the legislative framework reveals a preference for consistent variation determinations across all modern awards… [t]he notion of a fair safety net of minimum wages embodies the concepts of uniformity and consistency of treatment", and that "the award-by-award approach to minimum wage fixation, based on sectoral considerations, advocated by some parties in these proceedings is inimical to the safety net nature of modern award minimum wages."[3]

16. We are, however, mindful that the decision in the *Penalty Rates* case will reduce the Sunday rate of pay for workers dependent on the *Fast Food, Hospitality, General Retail* and *Pharmacy* Awards. The Panel noted in last year's decision that:

> "The Penalty Rates decision provides for the phased reduction of Sunday penalty rates in certain awards in the hospitality and retail sectors which will reduce the employment costs of some employers covered by the modern awards affected by the decision. We note that there have also been other changes to modern awards that have increased employment costs. It is not appropriate to take account all of these matters in some quantifiable or mechanistic way to support a particular outcome in the Review. But these matters form part of the broad context in which the Review is conducted and are relevant considerations."[4]

17. We would ask the Panel to again take the *Penalty Rates* decision into account in this Review. We regard it as the most significant and far reaching change to take home pay that has occurred in the four yearly review of modern awards. The impact of that decision on level 1 Sunday rates of pay in each of the effected awards, in nominal terms and real terms, is shown in Table 2 below.

[3] FWC 2015 Annual Wage Review 2014-15 [12],[13]
[4] [2018] FWCFB 3500 at [93]

Table 2: Sunday penalty rate reductions

	1 July 2016	1 July 2017	1 July 2018	% Real reduction, 2016 compared to 2018
Fast Food Industry Award, full-time and part-time employees	$29.16	$29.12	$28.06	-7.82
Fast Food Industry Award, casual employees	$34.02	$34.14	$33.26	-6.29
Hospitality Industry (General) Award, full-time and part-time employees	$31.87	$31.98	$31.15	-6.31
General Retail Industry Award, full-time and part-time employees	$38.88	$39.16	$37.42	-7.81
General Retail Industry Ward, casual employees	$38.88	$39.16	$38.46	-5.13
Pharmacy Award, full-time and part-time employees	$38.88	$39.16	$37.42	-7.81
Pharmacy Award, casual employees	$43.74	$44.19	$42.61	-6.64

Note: deflated by cpi (ABS 6401)

18. Sunday penalty rates in the above awards are set to further decrease in the period leading up to the next review, by 10% in the Fast Food Industry and Hospitality Industry (General) Award and for casual employees in the General Retail Industry Award. For full-time and part-time employees in the General Retail Industry Award and employees in the Pharmacy Industry Award, the reduction will be 15%. A higher increase in this Review is necessary to mitigate the impact on the affected employees, who the Commissions described in the *Penalty Rates* case as follows:

> " Many of these employees earn just enough to cover weekly living expenses, saving money is difficult and unexpected expenses produce considerable financial distress. We are conscious of the adverse impact the award variations we propose to make upon these employees."[5]

19. That description bears consideration particularly when considering the recent general trajectory of household savings ratio and debt to income ratio, as discussed in Chapter 4 of this submission and our discussion of relative living standards and the needs of the low paid in Chapter 6.

5 [2017] FWCFB 1001

3. THE EMPLOYEES AFFECTED BY THE DECISION

20. This chapter refers widely to the ABS Survey of Employee Earnings and Hours (EEH), which is conducted every two years, with the last one conducted in May 2018. Results from this survey were released in January 2019. The ACTU has relied on the indicative comparable estimates (hereafter, "2016 indicative estimates") released by the ABS for May 2016 EEH[6] at the same time as the 2018 data and taken into account the ABS' statements as to comparability of other releases with the May 2016 release of EEH. The ACTU has also acquired unpublished data at finer ANZSCO levels of occupation.[7].

21. In the EEH survey, employees are classified according to the 'main method' of setting their pay: 'award only', 'collective agreement', and 'individual arrangement'. They are 'award only' if they are "paid exactly at the rate specified in the award, and are not paid more than that rate of pay."[8] Workers paid above an award are classified to either the 'collective agreement' or 'individual arrangement' categories. There have been some changes in the classification process over the years the EEH has been conducted, which are discussed more fully in Chapter 7.

22. The ACTU understands that workers who are paid the National Minimum Wage (NMW) are classified as 'award only' in the EEH survey. 'Awards' are defined for the purposes of ABS surveys as "legally enforceable determinations made by Federal or State industrial tribunals or authorities that set the terms of employment (pay and/or conditions) usually in a particular industry or occupation."[9] In the federal system, this includes Modern Awards and the National Minimum Wage Order. A majority of award only employees would have their wages determined in the federal system, through the decisions of the Panel. A further discussion of ABS classification criteria for methods of setting pay is contained in Chapter 7.

23. In this submission, the ACTU uses the phrase 'award-reliant workers' to refer to employees who are classified as 'award only' in the EEH survey. 'Award-reliant', 'award only', 'minimum wage workers', and 'workers reliant on minimum wages' are used interchangeably in this submission to mean workers paid exactly at an award rate or the NMW. 'Low-paid workers' is

[6] "Appendix to Guide to Understanding Employee Earnings and Hours Statistics", ABS 2018.
[7] Finer ANZSIC division data was unavailable for 2016 and 2018.
[8] ABS 2017,*Employee Earnings and Hours*, Australia, May 2016, Catalogue number 6306.
[9] ABS 2013, *Labour Statistics: Concepts, Sources and Methods*, Catalogue number 6102.0.55.001.

also intended to have the same meaning, except where it is clear that 'low-paid' refers to workers with earnings below a particular threshold, regardless of their pay-setting method.

3.1 How many people rely on minimum wages in Australia?

24. There were 2,234,800 employed persons (including OMIEs, "Owner Managers of Incorporated Enterprises") paid exactly at a minimum wage order rate or modern award rate in May 2018, representing 21.0 per cent of all employed.[10] There were 37.9 per cent of employees paid according to a collective agreement and 37.3 per cent paid according to an individual arrangement. Another 404,600, or 3.8 per cent, were OMIEs.

25. The proportion of employees paid according to an award has been rising in recent years after falling during the previous decade, based on the EEH data. In 2000, around 23.2 per cent of employees were award-reliant, falling throughout the 2000s to a low of 15.2 per cent in 2010. It increased to 18.8 per cent in May 2014[11]. Award reliance rose to a share of 21.0 per cent in May 2018. On the 2016 indicative estimates, the proportion of employees on collective agreements increased 0.4 percentage points over the two years to May 2018.[12] It is safe to say that the direct impact of an increase in the minimum wage and modern award minimum wages (or, previously, award rates) has continued to increase over the long-term, both in terms of the numbers of employees and the share of employees affected. There are, however, some caveats and unknowns concerning the precise extent of this.

26. Comparison with the share of award-reliant employees in 2016 is problematic. The 2016 indicative estimates are presented by ABS due to changes in its survey criteria that were applied for the 2016 EEH and mostly reverted for the 2018 EEH[13]. The 2016 indicative estimate for award-only employees is 20.6 per cent of all employees rather than the 22.7 per

[10] ABS EEH Cat 6306, employees includes OMIEs (Managers of Incorporated Enterprises), at 63060DO009_201805
[11] The ABS says the estimates of 2012 and 2014 "should be considered broadly, rather than directly, comparable." ABS 6306 Employee Earnings and Hours, May 2018 "A Guide to Understanding Employee Earnings and Hours Statistics" Appendix 1
http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/6306.0Feature%20Article99May%202018?opendocument&tabname=Summary&prodno=6306.0&issue=May%202018&num=&view=#
[12] ABS 6306 Employee Earnings and Hours, May 2018 "A Guide to Understanding Employee Earnings and Hours Statistics" Appendix 1
http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/6306.0Feature%20Article99May%202018?opendocument&tabname=Summary&prodno=6306.0&issue=May%202018&num=&view=#
[13] Whilst it seems that most of the criteria affecting whether a method of pay was classified as an "award" have reverted to their pre-2016 state, it is possible that the 2018 figures are different to what they would have been had the 2016 criteria been strictly adopted. A more detailed account of the changes to, and influences on, the ABS measurement of award reliance is contained in Chapter 7.

cent which was published when the 2016 EEH was released. This would leave us with a small increase in the share of award-reliant employees from 20.6 per cent at 2016 to the 21 per cent measured in 2018. We estimate that this equates to 144,500 employees.

27. We note that the ABS usefully provides bootstrapped standard errors for their estimates for the population based on their sample survey. ABS gives the standard error for their 2016 figure for the number of award-reliant employees (including OMIEs) as 71,700[14], and for their 2018 figure as 75,000[15]. We make use of the standard errors in order to test whether we can be confident that the difference in award-reliant numbers between 2016 (figure estimated by the ACTU from the 2016 indicative estimates) and 2018 is statistically significant with a 95% level of confidence.[16] When the test is applied to the difference in numbers between 2016 and 2018, we find we cannot state with confidence that the 2016 indicative numbers and 2018 numbers of employees paid by award are statistically significantly different at a 95% level of confidence.[17] However, we can state that the total number of employees increased by 500,200 over the two years to 2018 and that this is statistically significant with a 95% level of confidence. While the increase in the number of award-reliant workers between indicative 2016 and 2018 is not statistically significant, the increase in number of total employees is and therefore we can reasonably infer that the share of award-reliant employees has increased.

28. From ACTU estimates based on the ABS indicative shares for 2016, a fall of 163,500 in the numbers paid by collective agreement, or 4.0% between 2014 and 2016 was followed by an increase of 127,000 or 3.3% between 2016 and 2018, however the latter is not statistically significant at the 95% level of confidence.

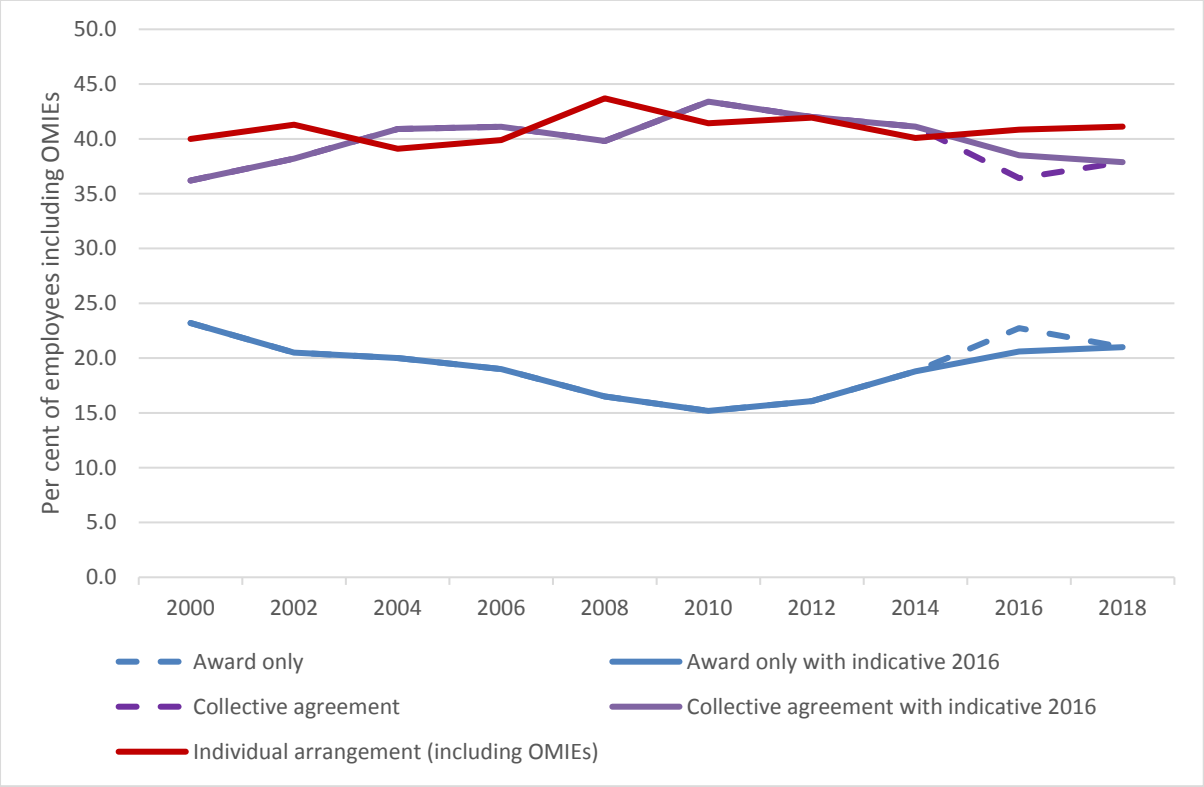
29. The share of those on individual arrangements and OMIEs is 41 per cent in May 2018 or 4,378,800 and the numbers have increased by 243,300 between 2016 and 2018.[18] The increase in those on individual arrangements and OMIEs contributes almost half, 46.8 per cent, of the increase of half a million (500,200) in total employees. In the case of all employees, including OMIEs, the number of those paid by individual arrangement increased

[14] ABS 6306 for May 2016, at 63060DO009_201605, Table 1
[15] ABS 6306 for May 2018, at 63060DO009_201805, Table 1
[16] ABS What is a Standard Error and Relative Standard Error, Reliability of estimates for Labour Force data http://www.abs.gov.au/websitedbs/d3310114.nsf/Home/What+is+a+Standard+Error+and+Relative+Standard+Error,+Reliability+of+estimates+for+Labour+Force+data accessed 25 January 2019
[17] The ABS communicated information on the appropriate test to apply to the data in ABS 6306. We can be confident the numbers represent that the relevant populations are different if the test statistic is greater than 1.96.
[18] The ACTU understands no adjustment was required to be made by ABS to these estimates.

191,600 between 2016 and 2018, leaving the share on individual arrangements out of total employees (including OMIEs) constant at 37.3 per cent. The difference between the numbers on individual arrangements at 2016 and 2018 is not statistically significant at the 95% level of confidence. During the two years up to May 2018, the total number of employees (including OMIEs) increased 500,200, growing 4.9% between 2016 and 2018 to 10,647,200.

30. The 2016 indicative estimates include a table of estimates of non-managerial employees by shares of each method of setting pay at industry level. This shows that the differences between the originally published 2016 data and the 2016 indicative estimates on shares of award-reliant employees and those on collective agreements are primarily in Transport postal and warehousing, Public safety and administration, Health care and assistance and especially Education and training.[19]

Figure 1 Proportion of total employees including OMIEs by method of setting pay, including indicative comparable estimate estimates for 2016, per cent



Source: ABS 6306 (various years) and ACTU calculations. Individual arrangements include OMIEs

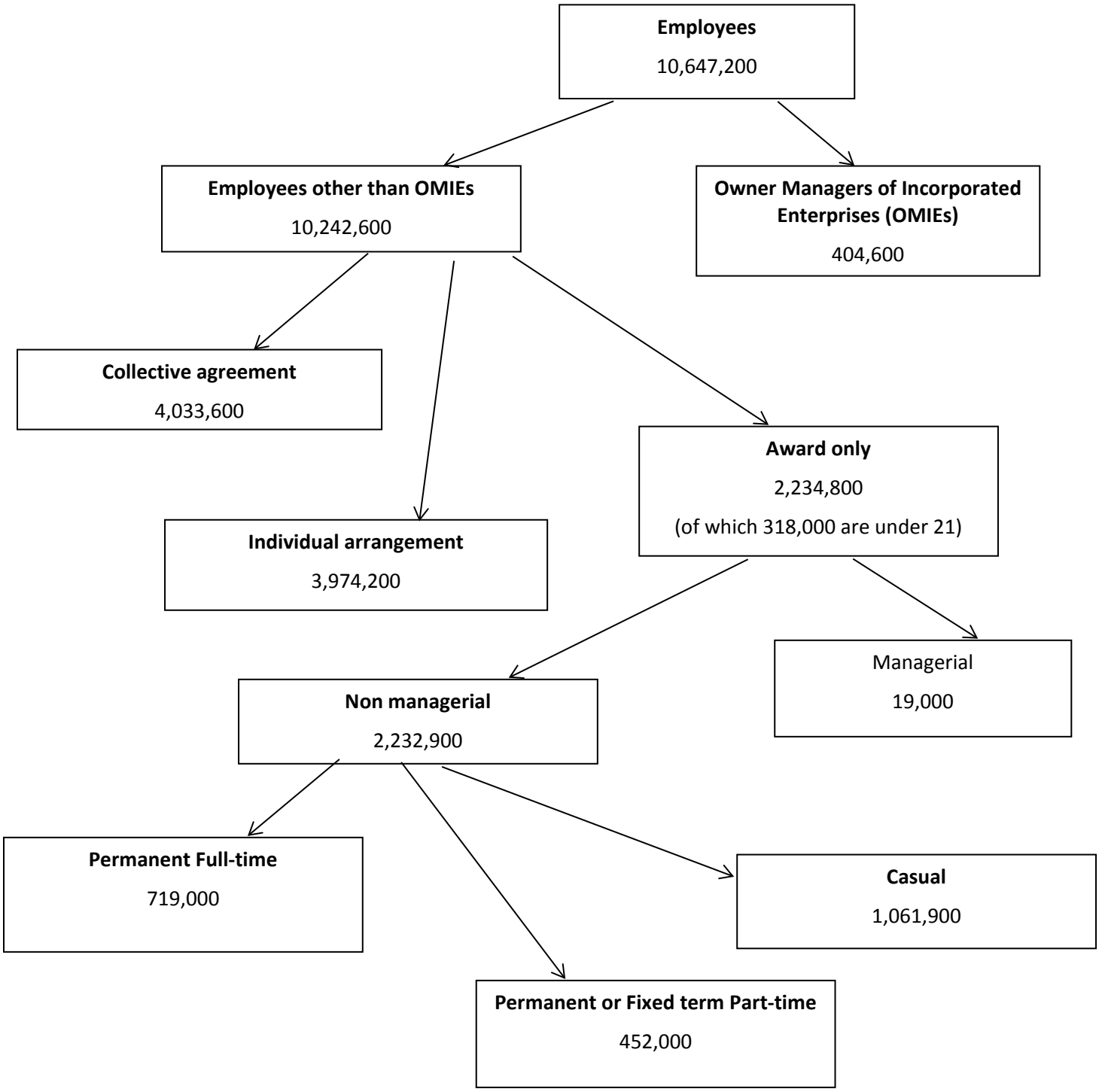
[19] ABS 6306 Employee Earnings and Hours, May 2018 "A Guide to Understanding Employee Earnings and Hours Statistics" Appendix 1
http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/6306.0Feature%20Article99May%202018?opendocument&tabname=Summary&prodno=6306.0&issue=May%202018&num=&view=#

31. All things considered, and as evident from Figure 1 above, it appears that, since the 2016 survey, the rate of decline in collective agreement coverage has decelerated, the share of individual arrangement coverage has increased modestly and the rate of growth in award-only coverage has declined, but there is reason to be cautious about the accuracy of some of the estimates. The current relative shares of method of pay are not dissimilar to those observed in the 2002 survey (shown in Chart 7.1 of the Statistical Report), taken during a period of regulatory stability and at a time when the minimum wage bite was 57.5% compared with 54.5% in 2018. In the ACTU's view, a shift toward employment by collective agreements, individual arrangements or both in aggregate terms may be taken to imply that employers can afford to pay higher wages and therefore can afford to pay minimum wage increases, a point we explore further Chapter 7. In our submission, the increases in the NMW and awards of the last two years have not left employers out of pocket in terms of their ability to pay higher wages.

3.1.1 Overview of the minimum wage workforce

32. Figure 2 shows the minimum wage and award dependent workforce by age and full-time/part-time status as at the most recent ABS data breakdown, May 2018.

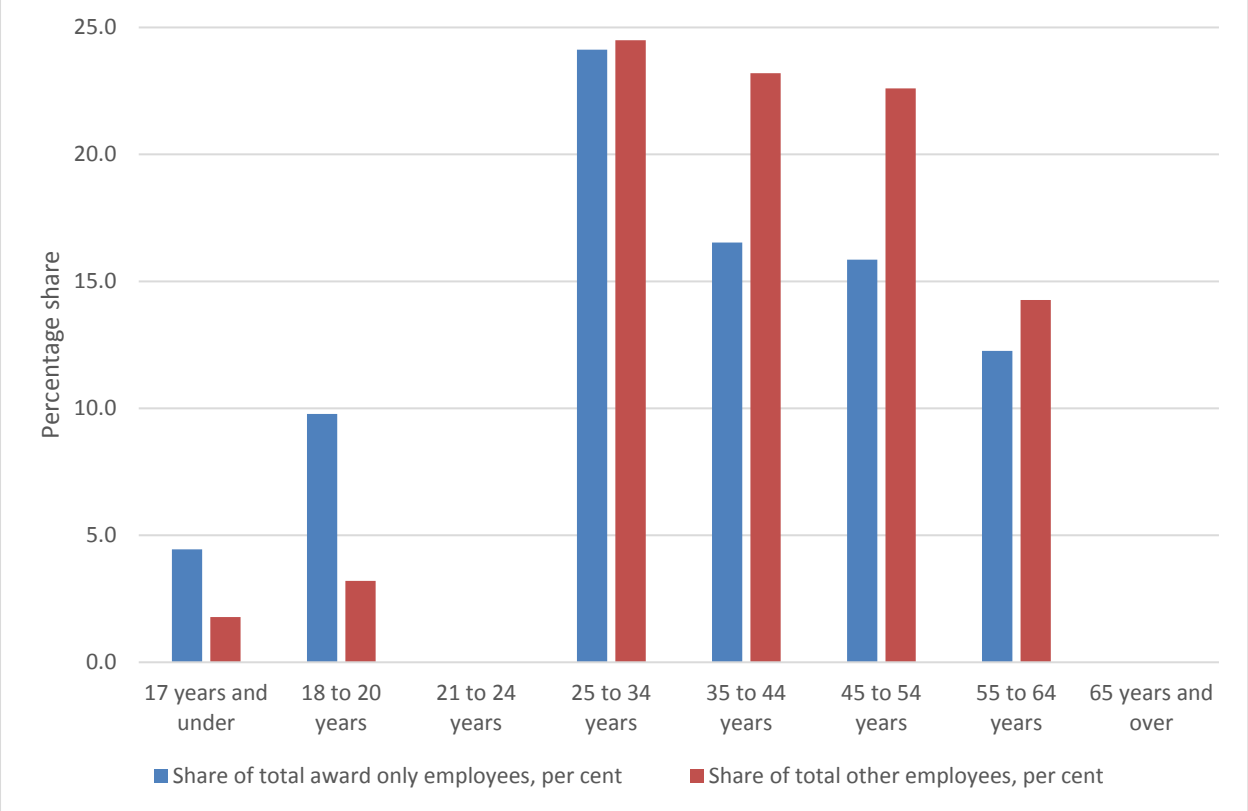
Figure 2: Employees by method of setting pay



Source: ABS 6306

33. Most award only workers are adults, with 85.8% of them aged 21 or above – the equivalent figure for all employees is 93.1%, both slightly higher adult shares than for 2016. Figure 3 compares the proportions of employees on award only in each age group with the proportions of all other employees in each group, except where data are not provided. Award-only employees are over represented in the lower age groups, with the position reversing at age 25 and over. The 'under representation' of award only in the 35 to 54 year-old range, in particular, is not only due to people rising into over award positions. It is also due to women with children being removed from employment, where women are disproportionately reliant on awards only.

Figure 3: Award only employees by age – May 2018



Source: ABS 6306 and ACTU calculations. Note where data missing, group data not published.

34. Compared to other workers, award-only workers are:

a) more likely to be female – 60.9 percent of workers paid by award only are female at May 2018, compared with 61.8 percent at May 2016 and 57.5 percent at May 2014.

49.0 percent of other workers are female at May 2018, compared with 49.3 percent at May 2016 and, 48.9 percent in May 2014; [20]

b) more likely to be part-time than other workers (62.1 percent vs 35.8 percent);

c) more likely to be casual rather than permanent or fixed term (47.6 percent vs 16.7 percent);

d) more likely to work in a small business (34.2 percent vs 18.8 percent), although almost one half (48.8 percent) of award-only workers are employed in businesses with 50 or more employees;[21] and

e) less likely to work in the public sector (12.3 percent of workers on award rates work in the public sector vs. 21.9 percent of other workers work in the public sector).

3.1.2 Industry

35. More than 60 percent of all award-only workers (61.7 percent) were employed in four industries at May 2018:

a) Health care and social assistance (employed 20.3 percent of all workers paid by award);

b) Accommodation and food services (15.5 percent);

c) Retail trade (14.3 percent); and

d) Administrative and support services (11.6 percent).

36. The number of industry divisions with more than 20 percent of employees who are award-reliant is eight out of eighteen at May 2018. This proportion is called the 'density' of award only employees. Seven of the industries which had an density of award only employees greater than 20 percent are the same industries as at May 2016 ABS indicative. The eighth industry with more than 20 per cent award-reliant employees at May 2018 is Manufacturing, where the award density has risen to 20.8 percent from 17.7 percent at May 2016. This could potentially relate to jobs lost in the collective agreement covered workforce involved in vehicle manufacturing, between the survey periods.

37. Education and training had an award density in May 2016 of 26.0 percent, as published, which became 8.5 percent in the in ABS indicative share, remaining low at 10.0 percent at May 2018.

[20] These figures are for non managerial employees.
[21] Small business here uses ABS measure for under 20 employees. 'Other employees' excludes OMIEs.

38. The industry with the highest share of award-reliant workers at May 2018 is Accommodation and food services, in which 44.9 percent of employees are paid at award-only, up from 42.7 percent at May 2016. The seven other industries in which the density of award-only employees exceeded 20 percent are Manufacturing, Retail trade, Rental hiring and real estate, Administrative and support services, Health care and social assistance, Arts and recreation, and Other services. This is shown in Table 3, sorted by density of award reliance.

Table 3: Award only employees, non managerial (NM), by industry – May 2018

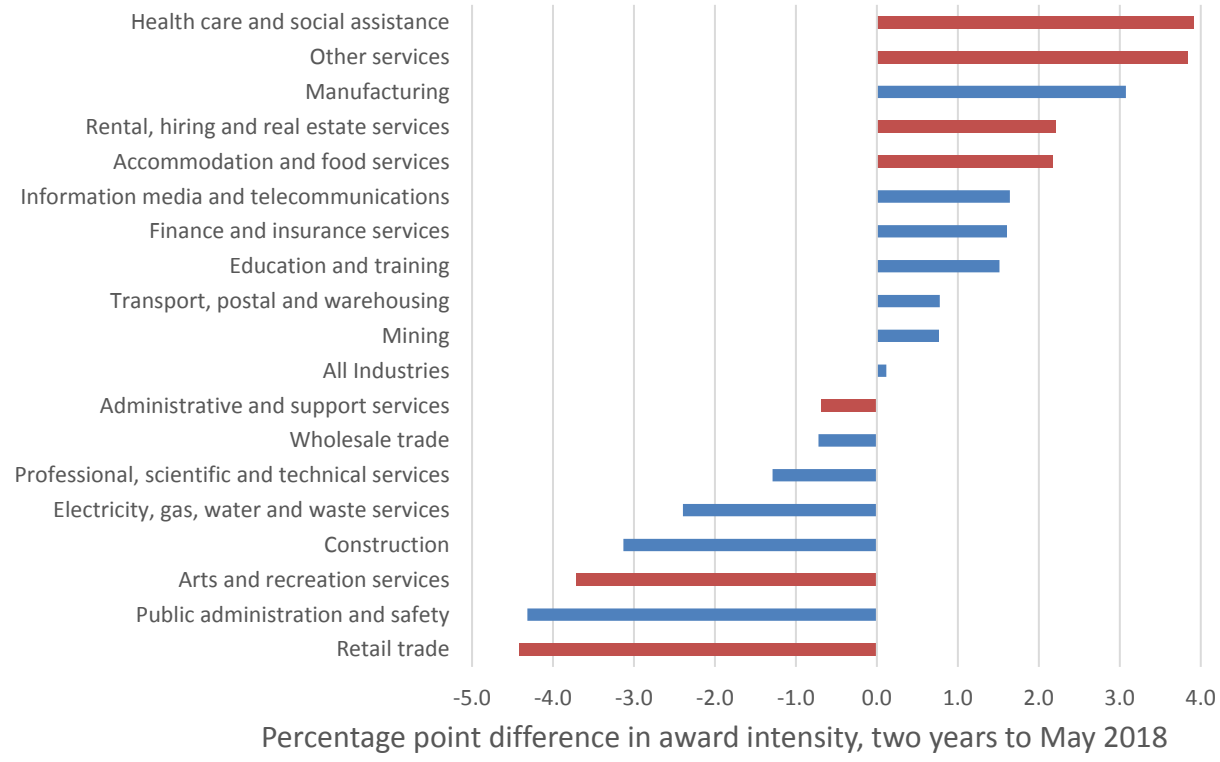
Industry	Award-only NM employees (Thousands)	Total NM employees (Thousands)	Density of award only employees in industry (Per cent)	Industry's share of all award only employees (Per cent)	Industry's share of total NM employment (Per cent)
Accommodation and food services	347.0	773.4	44.9	15.5	7.8
Administrative and support services	258.1	624.8	41.3	11.6	6.3
Other services	128.5	336.9	38.1	5.8	3.4
Health care and social assistance	452.5	1,426.9	31.7	20.3	14.4
Retail trade	320.2	1,064.2	30.1	14.3	10.7
Rental, hiring and real estate services	54.1	184.0	29.4	2.4	1.9
Manufacturing	137.3	660.9	20.8	6.1	6.7
Arts and recreation services	35.9	159.6	22.5	1.6	1.6
All Industries	**2,232.9**	**9,916.5**	**22.5**	**100.0**	**100.0**
Construction	110.5	666.9	16.6	4.9	6.7
Wholesale trade	68.0	422.9	16.1	3.0	4.3
Transport, postal and warehousing	50.1	395.2	12.7	2.2	4.0
Public administration and safety	78.7	723.1	10.9	3.5	7.3
Education and training	100.1	999.5	10.0	4.5	10.1
Professional, scientific and technical services	57.5	717.7	8.0	2.6	7.2
Information media and telecommunications	9.8	137.2	7.1	0.4	1.4
Finance and insurance services	19.1	366.8	5.2	0.9	3.7
Electricity, gas, water and waste services	3.9*	95.0	4.1	0.2	1.0
Mining	1.4*	161.4	0.9	0.1	1.6

Source: ABS 6306 and ACTU calculations. *Large standard errors.

39. The share of award-reliant employees in industries with award-only densities over 20 percent has increased to 77.6 per cent at 2018, up from 70.5 percent at 2016. Employees in industries with award concentration over 20 percent are 52.7 percent of total employees at 2018, whereas they were only 45.9 percent of total employees in May 2016, according to ABS indicative figures.

40. The change in award reliance by industry between May 2016 (based on ABS indicative figures) and May 2018 is shown in Figure 4, with the more award-reliant industries shown in red. It can be seen that the change in award reliance among the more award-reliant industries is not uniform.

Figure 4: Change in level of award reliance between May 2016 and May 2018 by industry, non-managerial employees



Source: ABS 6306 and ACTU calculations. Industries in which more than 20% of employees were award only in 2016 (ABS indicative) are shaded red.

41. The absence of a relationship between the level of award reliance in 2016 (ABS indicative) and the change in award reliance between 2016 and 2018 supports the conclusion that the Panel's decisions have not affected award-reliance. The more award-reliant industries have not experienced the largest increases in award reliance.

42. Up to and including 2014, the ACTU had been able to obtain unpublished data from the ABS from Cat 6306 Employee Earnings and Hours (EEH) released biennially for the breakdown of award-reliant employees by subdivision of the most award-reliant industries. Since then, the figures for award reliance at industry subdivision level have been unfortunately unavailable. These are shown for May 2014 in Table 4 below, from the ACTU's submission to the 2014-15 AWR.[22]

43. The May 2014 data showed that within the four industries that employ the largest proportions of award-only employees at that time, there was substantial variation in the extent of award reliance. For example, within the Health Care and Social Assistance industry, 50.9% of employees in the 'Social assistance services' subdivision were award only, but only 4.7% of employees in 'Residential care services' were award only. Within Administrative and support services, 'building cleaning, pest control and other support services' had a particularly high award reliance at 60.2%, or 95 000 employees.[23]

44. We cannot be sure how the distribution of award reliance across industry subdivisions has changed since May 2014, given the changes in award reliance across industry divisions over the four years since then. The distribution of award reliance across industry subdivisions may have changed considerably, but we have no further information in this area in which these data had been historically available.

[22] ABS 6306 unpublished data for May 2014, cited in ACTU 2015 *Submission to Annual Wage Review 2014-15*, 27 March, pp.16.
[23] ABS 6306, unpublished data for May 2014. Density and proportion are ACTU calculations.

Table 4: Award-reliant employees by subdivisions of the most award-reliant industries as at May 2014, most recent data available

	Award-reliant employees in industry (thousands)	Total employees in industry (thousands)	Density of award-reliant workers (per cent)	Proportion of all award-reliant workers in industry (per cent)
Retail trade	**320.3**	**1122.3**	**28.5%**	**17.2%**
Motor vehicle & motor vehicle parts retailing	25.9	99.7	-	-
Fuel retailing	np	*17.2	-	-
Food retailing	59.7	354.5	16.8%	3.2%
Other store-based retailing	224.9	635.1	35.4%	12.1%
Non-store retailing & retail commission-based buying &/or selling	np	**15.8	-	-
Accommodation & food services	**316.9**	**739.7**	**42.8%**	**17.0%**
Accommodation	*41	88.4	46.4%	4.8%
Food & beverage services	275.9	651.3	42.4%	14.8%
Administrative & support services	**227.9**	**611.8**	**37.3%**	**12.2%**
Administrative services	132.8	453.8	29.3%	7.1%
Building cleaning, pest control & other support services	95.1	158.0	60.2%	5.1%
Health care & social assistance	**281.4**	**1262.4**	**22.3%**	**15.1%**
Hospitals	103.4	506.1	20.4%	5.6%
Medical & other health care services	50.4	281.8	17.9%	2.7%
Residential care services	11.5	246.5	4.7%	0.6%
Social assistance services	116.1	228.0	50.9%	6.2%

Source: ABS 6306 unpublished data from May 2014, cited in ACTU 2015 *Submission to Annual Wage Review 2014-15*, 27 March, pp.16. Density and proportion columns are ACTU calculations. * indicates a relative error or between 25% and 50%; ** indicates a relative standard error greater than 50%. 'np' means the ABS has not published the information.

3.1.3 Occupation

45. Table 5 shows the number and proportion of award-only employees by broad occupational group, sorted by density in occupation. Community and personal service workers have the highest proportion of any broad occupational group paid at the award at 38.6 percent, followed by 34.6 percent of labourers and 30.4 percent of sales workers reliant on awards.

Table 5: Award only employees, non-managerial (NM), by broad occupational group – May 2018

Occupation	Award-only NM employees (Thousands)	Total NM employees (Thousands)	Density of award only NM employees in occupation (Per cent)	Occupation's share of all award only NM employees (Per cent)	Occupation's share of total NM employment (Per cent)
Community and personal service workers	533.30	1,383.30	38.6	23.9	13.9
Labourers	387	1118.8	34.6	17.3	11.3
Sales workers	374.00	1,232.00	30.4	16.7	12.4
All occupations	**2232.9***	**9916.5***	**22.5**	**100.0**	**100.0**
Technicians and trades workers	269.20	1,215.70	22.1	12.1	12.3
Machinery operators and drivers	139.3	679.3	20.5	6.2	6.9
Clerical and administrative workers	280.70	1,702.20	16.5	12.6	17.2
Professionals	221.20	2,235.70	9.9	9.9	22.5
Managers	28.2	349.7	8.1	1.3	3.5

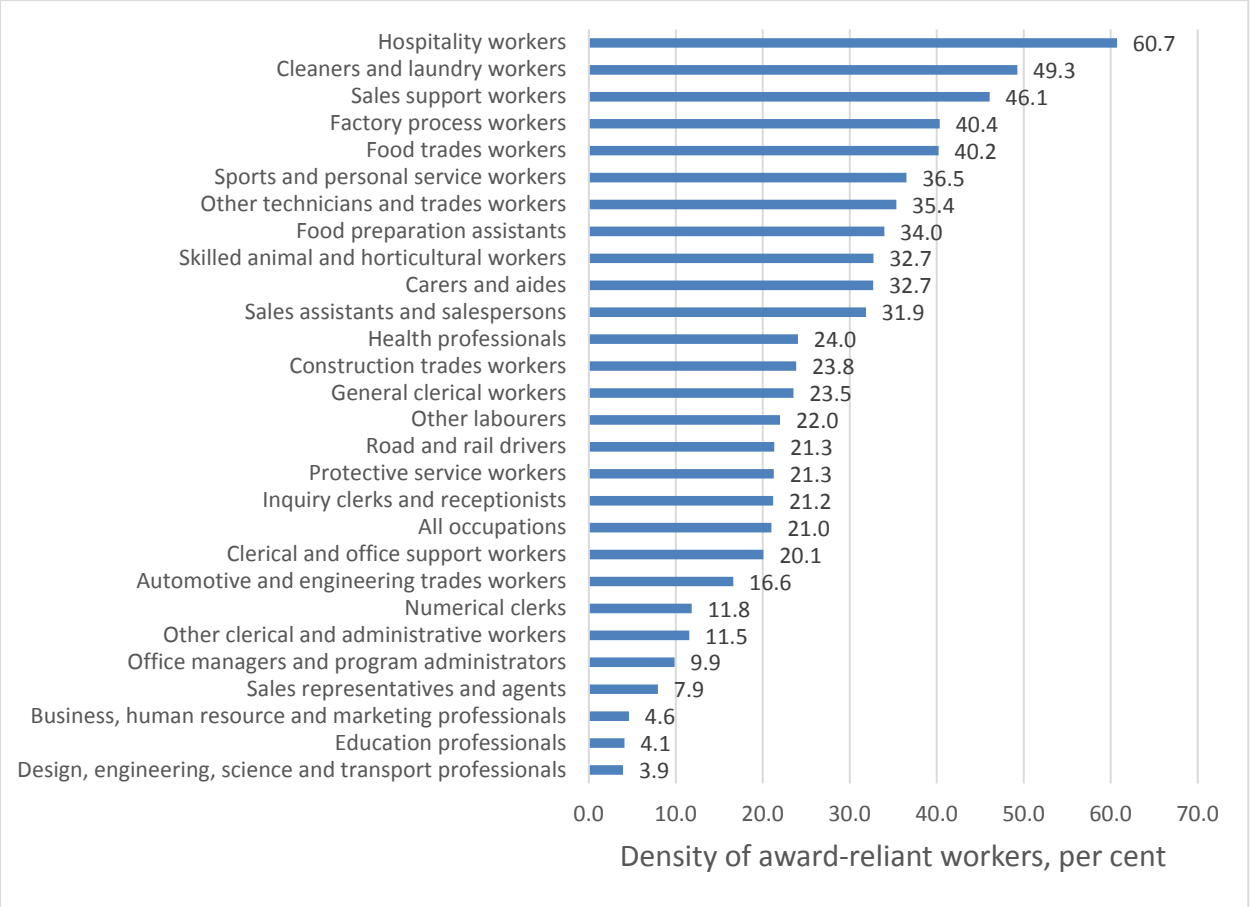
Source: ABS 6306 and ACTU calculations. *Non managerial employees.

46. 1.6 million employees or 70.5 percent of all award-reliant non-managerial employees are in four occupations. These are Community and personal service workers (533,300), Labourers (387,000), Sales workers (374,000), and Clerical and administrative workers (280,700).

47. In order to ascertain more information about the types of jobs that award-reliant employees are doing, the ACTU has again been able to acquire some unpublished data from the ABS's biennial EEH survey, the most recent being May 2018, released on 5 March 2019. The unpublished data shows the number of award-only workers by two-digit ANZSCO code, a much finer grained definition of occupation.

48. As shown in Figure 5, Hospitality workers have the highest density of award-reliant employees at over 60 percent (200,000 workers). They are followed by Cleaners and laundry workers (49.3%, 121,000) and Sales support workers (46.1%, 66,000) with nearly half in the latter two occupations being paid by award only.

Figure 5 Density of award-only employees in most award-reliant occupations



Source ABS 6306 May 2018 (unpublished data) and ACTU calculations.

49. Some of the occupations with lower award-reliant densities involve very large numbers of workers. Sales assistants and salespersons are only the eleventh most award-reliant occupation, with 31.9% of employees in the occupation being paid by award only, but that is 293,000 workers, more than any other occupation. The other occupations with large numbers of award-reliant employees in order are Carers and aides (199,000), tenth most award-reliant, Health professionals (113,800) in twelfth place, and Factory process workers (75,000), in fourth place with 40.4% award density.[24] The number of award-reliant employees by occupation is shown in Figure 6.

[24] ABS 6306 unpublished data, May 2016 and ACTU calculations

Figure 6: Number of award-reliant employees in the most award-reliant occupations

Source: ABS 6306 (unpublished data)

50. Table 6 shows the number and density of award-reliant employees for each 2-digit ANZSCO occupation in May 2018.

Table 6: Award-only employees by occupation (2-digit ANZSCO), May 2018 (most recent)

Occupation(c)	Award-only ('000)	All methods of setting pay ('000)	Density of award-reliant workers per cent	Occupation's share of all award-reliant workers per cent
Managers	**28.2**	**760.9**	**3.7**	**1.3**
Chief executives, general managers and legislators	np	92.0		
Farmers and farm managers	np	*3.4		
Specialist managers	*17.9	514.1	3.5	0.8
Hospitality, retail and service managers	*10.3	151.4	6.8	0.5
Professionals	**221.7**	**2,347.3**	**9.4**	**9.9**
Arts and media professionals	*2.3	39.7	5.8	0.1
Business, human resource and marketing professionals	26.7	578.7	4.6	1.2
Design, engineering, science and transport professionals	12.7	323.2	3.9	0.6
Education professionals	21.9	535.2	4.1	1.0
Health professionals	113.8	473.4	24.0	5.1
ICT professionals	*6.3	261.0	2.4	0.3
Legal, social and welfare professionals	*38	136.1	27.9	1.7
Technicians and Trades Workers	**269.8**	**1,296.3**	**20.8**	**12.1**
Engineering, ICT and science technicians	*19.1	259.0	7.4	0.9
Automotive and engineering trades workers	45.7	275.3	16.6	2.0
Construction trades workers	52.0	218.2	23.8	2.3
Electrotechnology and telecommunications trades workers	*30.6	208.6	14.7	1.4
Food trades workers	52.6	130.8	40.2	2.4
Skilled animal and horticultural workers	30.7	93.8	32.7	1.4
9 Other technicians and trades workers	39.1	110.6	35.4	1.7
Community and Personal Service Workers	**533.3**	**1,387.9**	**38.4**	**23.9**
Health and welfare support workers	*47.2	151.6	31.1	2.1
Carers and aides	199.1	609.0	32.7	8.9
Hospitality workers	200.2	329.7	60.7	9.0
Protective service workers	30.5	143.4	21.3	1.4
Sports and personal service workers	56.3	154.2	36.5	2.5
Clerical and Administrative Workers	**280.8**	**1,769.0**	**15.9**	**12.6**
Office managers and program administrators	34.4	348.9	9.9	1.5
Personal assistants and secretaries	*8.8	87.2	10.1	0.4
General clerical workers	93.2	396.1	23.5	4.2
Inquiry clerks and receptionists	66.0	311.6	21.2	3.0
Numerical clerks	36.5	308.6	11.8	1.6
Clerical and office support workers	12.6	62.8	20.1	0.6
Other clerical and administrative workers	29.3	253.8	11.5	1.3
Sales Workers	**374.0**	**1,246.5**	**30.0**	**16.7**
Sales representatives and agents	14.5	182.5	7.9	0.6
Sales assistants and salespersons	293.1	919.9	31.9	13.1
Sales support workers	66.4	144.1	46.1	3.0
Machinery Operators And Drivers	**139.4**	**702.1**	**19.9**	**6.2**
Machine and stationary plant operators	*15.5	178.1	8.7	0.7
Mobile plant operators	*15.3	87.4	17.5	0.7
Road and rail drivers	51.3	240.6	21.3	2.3
Storepersons	*57.3	196.0	29.2	2.6
Labourers	**387.1**	**1,137.0**	**34.0**	**17.3**
Cleaners and laundry workers	121.1	245.8	49.3	5.4
Construction and mining labourers	*24.2	147.9	16.4	1.1
Factory process workers	96.6	239.4	40.4	4.3
Farm, forestry and garden workers	*21.8	62.8	34.7	1.0
Food preparation assistants	74.9	220.5	34.0	3.4
Other labourers	48.5	220.6	22.0	2.2
All occupations	**2,234.8**	**10,647.2**	**21.0**	**100.0**

Source: ABS 6306, including unpublished data. The final two columns are ACTU calculations. * indicates a relative standard error between 25% and 50%.

3.1.4. Employer size

51. Small businesses, those with fewer than 20 employees, employ 764,400 771,500 award-only workers. This is 34.2% of the workers reliant on awards. This share has fallen from 37.9% at May 2014, having increased slightly from 2016 when it was 33.4%, according to the ABS data.

52. This does not suggest that an increase in award wages has been a particular imposition on small business, as the share of award-reliant employees in small business has increased from 2016, despite a trend downwards over time, which is clearly unrelated to minimum wage increases.

53. Although award-only employees are more likely (34.2%) than other employees (22.6%) to be employed in small businesses, a substantial proportion of them are employed in larger businesses. Almost half 48.8%, of award-reliant workers are employed in businesses with 50 or more employees at May 2018, up considerably from 42.4% at May 2014, having fallen slightly from 50.0% at May 2016. This compares with the share of other employees in employment in businesses with 50 or more employees, which is 66.9%.

Table 7: Award-only employees by size of business – May 2018

	Award-only	All methods of setting pay	Density of award only employees by business size	Business size share of all award only employees	Business size share of total employment
Employer size	**('000)**	**('000)**	**(Per cent)**	**(Per cent)**	**(Per cent)**
Under 20 employees	764.4	2,661.9	28.7	34.2	25.0
20 to 49 employees	379.9	957.5	39.7	17.0	9.0
50 to 99 employees	231.5	795.4	29.1	10.4	7.5
100 to 999 employees	459.9	2,800.9	16.4	20.6	26.3
1000 and over employees	399.1	3,122.8	12.8	17.9	29.3
All employers	**2,234.8**	**10,647.2**	21.0	100.0	100.0

Source: ABS 6306 May 2016 unpublished data and ACTU calculations.

3.1.5 Classification and earnings

54. In previous reviews we made use of unpublished ABS EEH data on the distribution of award only workers by hourly earnings to estimate the number of employees at each award classification level.

55. We estimate that 44.0% of award-only employees have hourly earnings at or below the C10 rate of pay at May 2018, an increase on 2016. In our analysis, we deflate casual employees'

hourly earnings by a fifth to remove an assumed casual loading of 25%, consistent with our practice in previous years.

56. Using unpublished data obtained from ABS 6306 for May 2018 we estimate the number and proportion of award only workers in each award classification range as at May 2018. These data are presented in Table 8.

Table 8: Estimate of the number of award-only employees by classification (May 2018)

	Number of employees in range (thousands)			Percentage of employees in range
Classification level	**Award only perm/fixed term, 1000s**	**Award only casual, 1000s**	**Total award only**	**Total award only, %**
Below NMW/C14	94.6	193.1	287.7	12.9
At or above NMW/C14, below C9	212.9	482.7	695.6	31.2
At or above C9, below C5	212.9	203.8	416.7	18.7
At or above C5, incl. C2(b)	224.7	107.3	332.0	14.9
Over C2(b)	425.8	75.1	500.9	22.4
Total award-reliant	1171.0	1061.9	2232.9	100

Source: ACTU calculations based on ABS 6306 (unpublished), May 2018. The figures include juniors, apprentices, trainees, and people with disability. The classification levels are based on adult minimum wages as at July 2017. The earnings of casual have been deflated by a fifth to remove an assumed 25% casual loading. They are based on summing to the percentile with the average 'below' the classification, or the percentile above it for 'at' or 'over' the classification.

57. Our estimate of the proportion of award-only employees whose earnings are at or below C10 at May 2018 was also slightly above estimates for 2012 and 2014. Previous estimates of the proportion of award-reliant workers employed at or below the C10 rate, by the ACTU and others, have ranged widely.[25]

58. With the difficulties identified regarding the numbers on awards at May 2016 we can compare May 2014 with May 2018. The increase in proportion which are award-reliant at or over C2(b) has increased to 24.4% at May 2018, up from 20.9% at May 2014, four years earlier. The number of Health professionals on award has risen from 66,800 at May 2014 four years earlier to 113,800 at May 2018, with a corresponding increase in award density from 15.4% at May 2014 to 24.0% at May 2018. In the absence of industry subdivision breakdowns which had

[25] See ACTU 2015 Submission to Annual Wage Review 2014-15, 27 March,p.22 Table 9

been available up to 2014 from ABS, we are unable to analyse the change in award-reliant structure in relation to industrial changes.

59. Award-only workers employed in small business have lower average hourly earnings. The average earnings of award-reliant workers rises with the size of the firm, from $24.90 per hour on average in firms with under 20 employees to $39.80 an hour on average in firm with over 1000 employees, lower than 2016, as shown in Table 9.

Table 9: Average hourly ordinary time cash earnings of non-managerial award-only employees by firm size

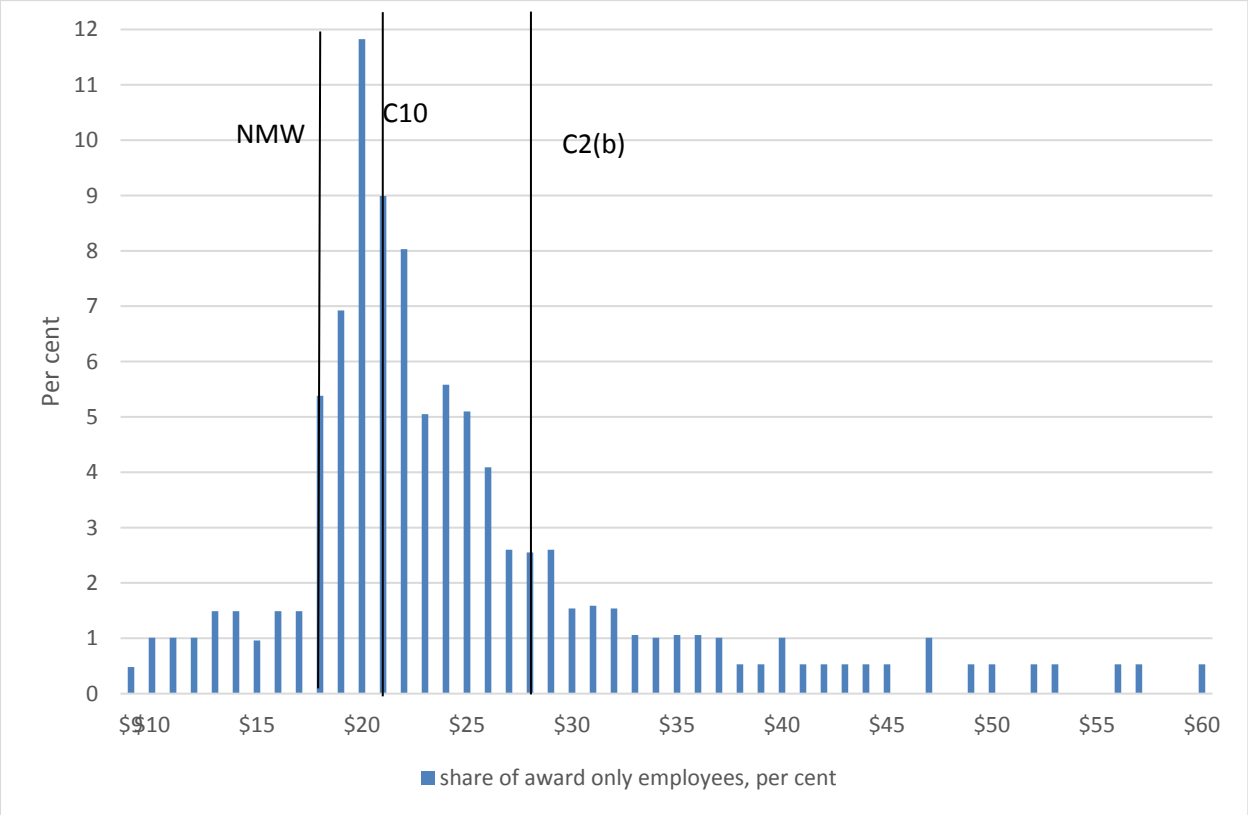
	Permanent/fixed term	Casual	Total
Under 20 employees	23.50	26.50	24.90
20 to 49 employees	25.30	26.20	25.70
50 to 99 employees	np	np	27.00
100 to 999 employees	np	np	28.50
1000 and over employees	np	np	39.80

Source: ABS 6306 (unpublished), May 2018. np not published.

60. Figure 7 shows the distribution of award-only employees by earnings. Figure 7 shows the percentage of award-only employees who are employed in each $1 earnings interval. The highest frequencies of award-only employees lie in the range from the NMW up to and including C10—about 30% of award only employees. Another 28% lie in the range between C10 and C2(b). The distribution of nominal hourly earnings appears to have shifted downwards since May 2014.[26]

[26] See ACTU 2015 Submission to Annual Wage Review 2014-15, 27 March,p.23 Figure 6

Figure 7: Distribution of hourly earnings of award-only employees at May 2018



Source: ACTU analysis of ABS 6306 (unpublished), May 2018. Casuals' earnings deflated by a fifth. NMW and award wages as at July 2017

3.2 Indirect "reliance" on the Panel's decisions

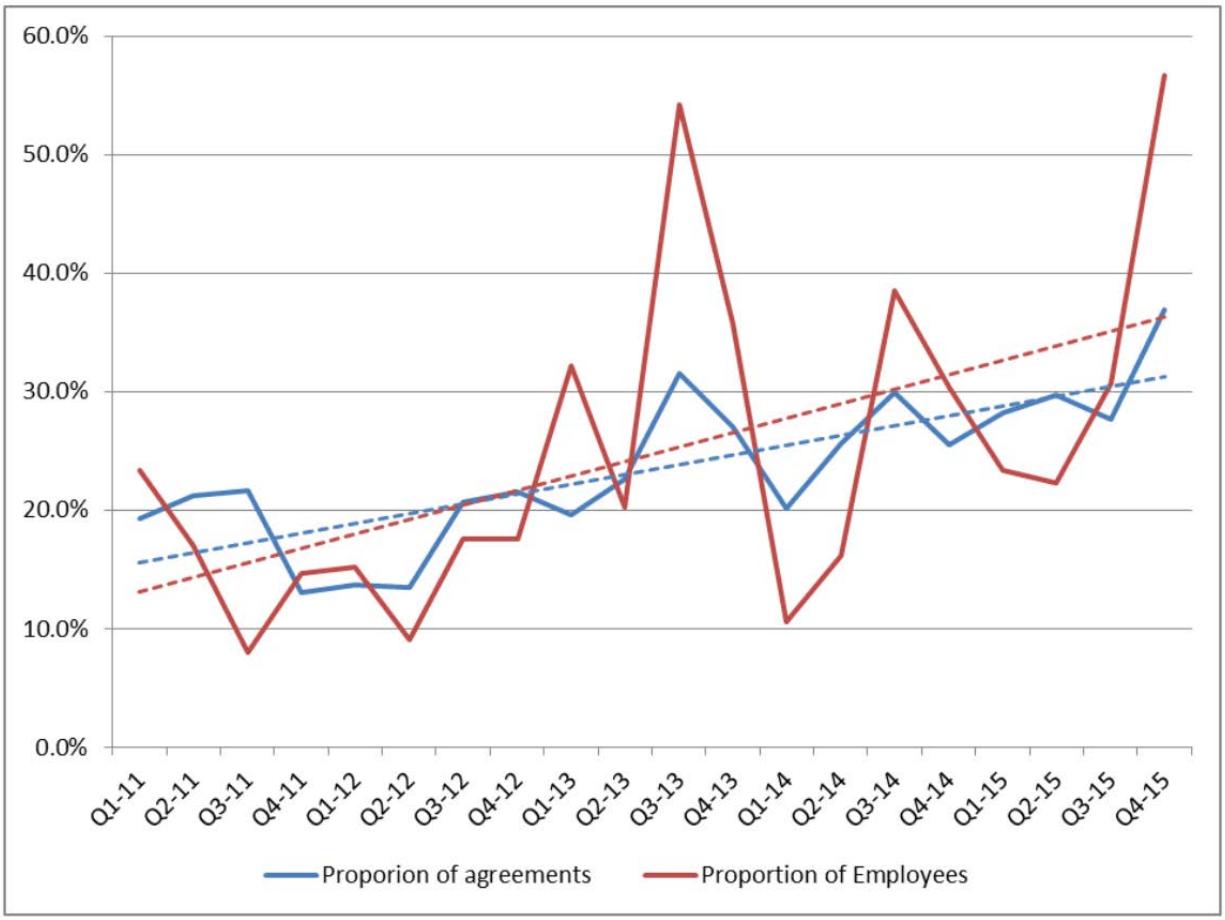
61. A small proportion of enterprise agreements provide for wages to be increased during their term by reference to movements in the minimum wage or modern award minimum wages. Such agreements are classified as "non-quantifiable" agreements by the Department of Jobs and Small Business it in its *Trends in Enterprise Bargaining* reports and *Workplace Agreements Database*.

62. A report released by the Department in October 2016[27] provides some insights into the cohort of non-quantifiable agreements, over the period 2011-2015. It seems, on trend lines, that the number of non-quantifiable agreements as a share of agreements lodged increased from approximately 15% to approximately 36%. Similarly, the number of employees covered by non-quantifiable agreements as a share of employees covered by agreements lodged rose,

[27] Non-quantifiable wage increases in federal enterprise agreements, Department of Jobs & Small Business, October 2016

on trend lines, from approximately 12% to approximately 31%. This is shown in Figure 8 below, reproduced from that report.

Figure 8: Non-quantifiable agreements as a proportion of all approved agreements by proportions of agreements and employees: Q1/2011 – Q4/2015



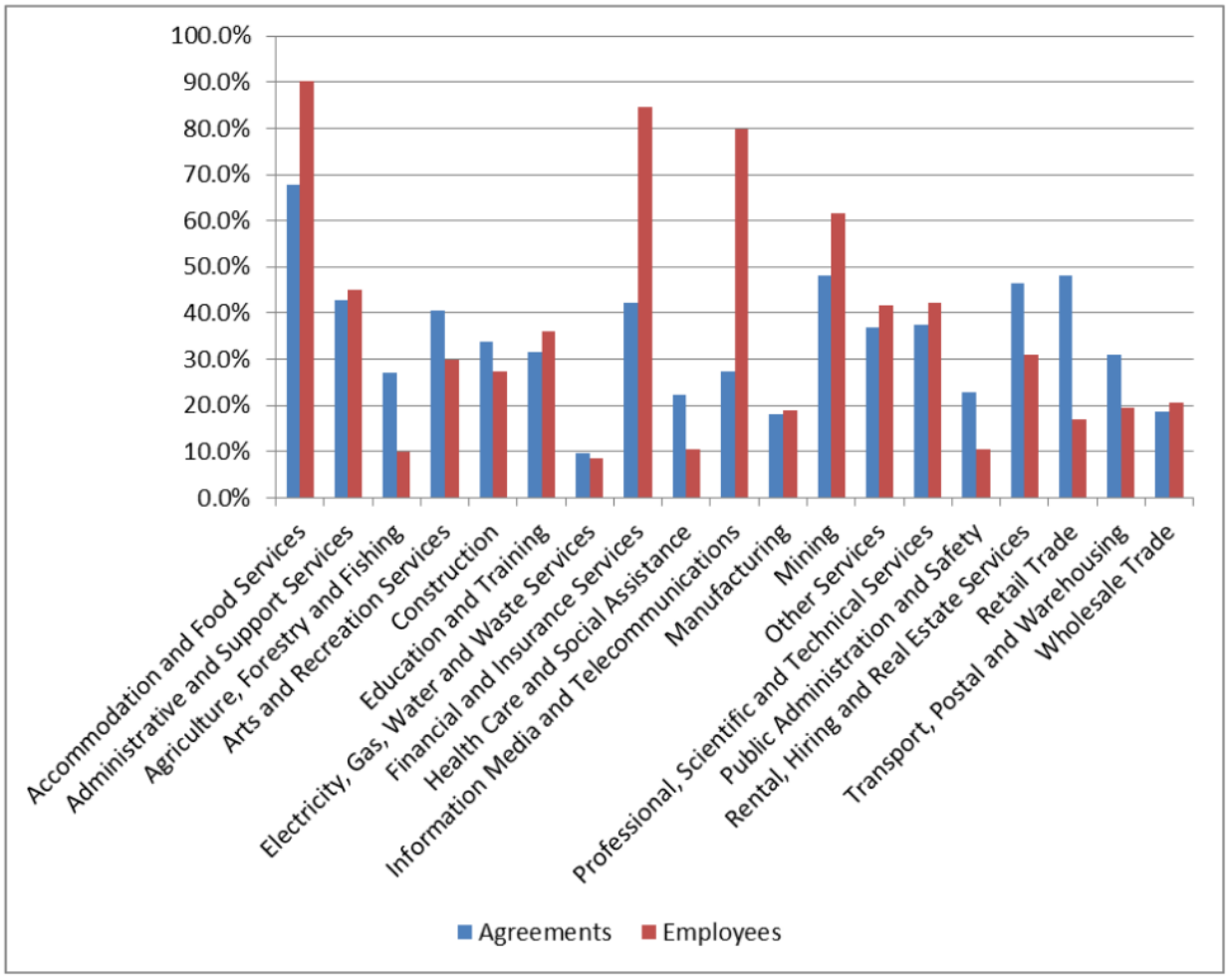
Source: Department of Jobs & Small Business

63. The report estimated that, as at 31 December 2015, the stock of current agreements included 30.6% non-quantifiable agreements. Similarly, 32.9% of employees covered by current agreements were covered by non-quantifiable agreements. The sub-category of non-quantifiable current agreements that had wages set by reference to movements in minimum wages or modern award minimum wages amounted to 26% of non-quantifiable agreements and 9% of employees covered by non-quantifiable agreements. In raw numbers, this constitutes 1,161 agreements, covering 69,259 employees – not an inconsiderable amount,

particularly taking into account that the definition of "current" *excludes* some agreements that are still operating.[28]

64. The report does present some industry level data, noting that "While a long time series industry analysis has not been conducted, over the last few quarters the industry distribution of non-quantifiable agreements seems relatively consistent".[29] A chart showing the industry distribution of current non-quantifiable agreements as at December 2015 is reproduced as Figure 9 below.

Figure 9: Proportion of current non-quantifiable agreements and employees by industry, as at December quarter 2015



Source: Department of Jobs & Small Business

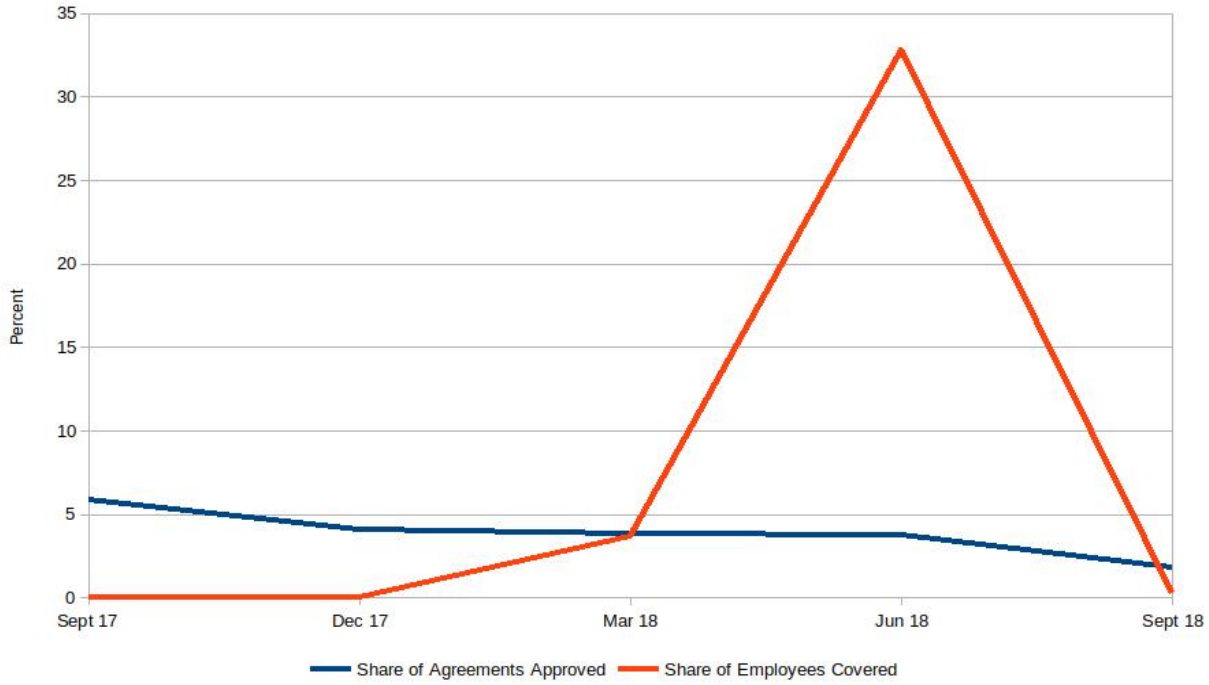
[28] An agreement is only regarded as current if it has not been terminated or replaced and is within its nominal expiry date
[29] Department of Jobs and Small Business *Op. Cit.*, at p7

65. An industry breakdown of the sub-category of non-quantifiable agreements that have wages linked to movements in minimum wages or modern award minimum wages is not provided. However, it is notable that Accommodation and Food Services, the industry with the highest proportion of agreements and employees covered by non-quantifiable agreements is also the one with the highest density of award coverage. Of that sector, the report says: "…90.3% of employees have non-quantifiable wage increases from 67.8% of agreements. The high proportion of non-quantifiable increases on [sic] this sector is accounted for by the fact that many agreements in this sector allow for increases based on Fair Work Commission wage reviews" (emphasis added).[30] We note, in this regard, that in the 2018 indicative estimates for the May 2016 *Survey of Employee Earnings and Hours*, the relative shares of Award and Agreement Coverage in that sector were 316,919 employees (42.7%) award, and 264,965 employees (35.7%) collective agreement. Whilst the *Survey of Employee Earnings and Hours* and *Trends in Enterprise Bargaining* series cannot form a valid comparison, only a very small share of the "many" non-quantifiable agreements which linked their wage increases to decision of the Panel would be required to lift that industry to having more than 50% density of employees being directly affected by the Panel's decision. Depending on the size of "many", the outer limit could be close to two thirds of employees in that sector.

66. Whilst we are unaware of any further detailed, publicly available modern data examining the share of enterprise agreements in any industry that have their wages set by reference to the Panel's decisions, the more recent *Trends in Enterprise Bargaining* reports do identify a significant event in the retail trade sector. Whilst the data in those reports do not separate non-quantifiable agreements (let alone the sub-categories thereof) by industry, they do show relatively low shares of non-quantifiable agreements linked to the Panel's decision and employees covered thereby in agreements approved between Q3/2017 and Q3/2018, save for a rise in Q2/2018. This is represented in Figure 10 below.

[30] Department of Jobs and Small Business *Op. Cit.*, at p6

Figure 10: Non-quantifiable agreements linked to AWR approved Q3/2017-Q3/2018



Source: Department of Jobs and Small Business *Trends in Enterprise Bargaining* Reports June and September 2018

67. Tables 12, 15 and the discussion in section 10 of the June 2018 *Trends in Enterprise Agreements* report reveal that in the June 2018 Quarter, the *Coles Supermarkets Enterprise Agreement 2017* was approved (on 23 April 2018[31]), which provided wage increases linked to the Panel's decision. The agreement covers 82,638 of the 88,100 employees who were covered by an agreement approved in that quarter which provided increases so linked. Again, with the appropriate provisos concerning comparability, 82,638 employees equates to around 7.7% of the number of retail trade industry employees measured in the May 2018 *Survey of Employee Earnings and Hours*. Further, subsequent to the approval of that agreement, an agreement for Woolworths Supermarkets was approved on 7 January 2019,[32] covering approximately 109,429 employees.[33] That agreement also provides for wage increases based on the Panel's decisions in 2019 and 2020 (for 2021 and 2022 it provides for an increase based on the Panel's decision plus 3 cents per hour and 5 cents per hour, respectively). The combined number of employees covered by these Coles and Woolworths agreements is 192,067, approximately 18% of the number of retail trade industry employees measured in

[31] [2018] FWCA 2283
[32] [2019] FWCA 7
[33] *Ibid.* at [163]

the May 2018 *Survey of Employee Earnings and Hours* (and 44.8% of those employees recorded as covered by a collective agreement in that survey).

68. The above discussion suggests that the degree of overall exposure to decisions of the Panel in some sectors is higher than we have assumed in previous submissions. A detailed examination of the Workplace Agreements Database is warranted, in order to estimate the effect in each sector. Where a relatively high proportion of a sector's agreement-covered workforce has their pay determined by reference to the Panel's decision (or is non-quantifiable for some other reason), the corresponding AAWI figure may not be as representative as it is in sectors where the reverse is the case (as non-quantifiable agreements are not included in the calculation of AAWI). Further, in sectors where there is a high degree of exposure to decision of the Panel, it would be expected that movements in other wage measures (such as the WPI) should more closely mimic the increases in wages awarded by the Panel.

4. THE NATIONAL ECONOMY

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

70. In our view, the most relevant observations from our review of the performance of the National Economy are as follows:

a) The Australian economy continues to manifest resilience, along with a renewal of mining activity.

b) The Australian economy grew by 2.3% over the year to December 2018; lower than Treasury and RBA forecasts, with drought affecting agricultural output;

c) Although there is no common trend to the average growth rates across the more award-reliant industries, output grew in all of the five most award-reliant industries in 2018. Health care and social assistance, the biggest employer in the economy, grew at 7.5% in 2018. Administrative and support services grew 4.3%, Other services 4.1%, Accommodation & food services 1.6% and Retail trade 1.5% in 2018.

d) Consumer spending increased more slowly at 2.0% for 2018 compared with the previous year, but still grew faster than household incomes, which grew at 1.5% in 2018. The savings ratio increased back to the level at March 2017.

e) According to retail trade data, slow wages growth may be starting to bite. Quarterly retail sales volume grew 1.6% in real terms from December quarter 2017 to December quarter 2018, down from 2.2% for the previous year. In terms of the annual increase in quarterly sales (seasonally adjusted), Clothing and footwear retailing grew most at 5.2%, followed by Other retailing at 2.5%, Department store retailing at 2.1%, and Household goods at 1.5%. Food retailing grew 0.9% and there was zero growth in Cafes, restaurants and takeaway.

f) Wage growth continues to drag behind labour productivity growth according to a range of measures. Labour productivity annual measures grew a little faster at the most recent year than their 10 year average, and in general wage growth continues not to keep up;

g) Labour productivity lies below the level of many comparable countries, and in 2017 (most recent comparable) grew at a rate of 1.2% per annum, well below the OECD average of 2.0%;

h) There were positive increases in labour and multifactor productivities for three award-reliant areas, the exception being Retail. This is an indication that the minimum wage increase of 2018 does not apparently hinder productivity growth, and may indeed assist it. As labour intensive areas, labour productivity growth is normally expected to be slower in these areas than for the total economy which includes capital intensive industry, and also does not reflect unmeasured output;

i) Real unit labour costs fell 1.4% over the year 2018. Real unit labour costs are 11 percentage points below 1998 as shown in Figure 47.

j) The share of employee compensation remains the same at December 2018 as it was at December 2017;

k) The share of wages in income in the ABS multifactor productivity estimates has fallen by one percentage point over the year 2017-2018;

l) The share of wages in income has fallen in most sectors in 2017-2018; Accommodation and food and Administration and support have not changed their wages share for 2017-18, and Retail trade wages share fell by a percentage point;

m) Profit margins in small business continue to grow faster than for bigger business; and yet small business has a much bigger proportion of award-reliant workers;

n) All the more award-reliant sectors have increased quarterly profits at a much faster rate than wages from September quarter 2017 to September quarter 2018, especially Administrative and support services and private profits in Health care and social assistance. Profits have grown 13.2% overall compared with an increase of 4.3% in wages in the year to September 2018;

o) Business bankruptcies were fewer in 2017-18 than any year since 1994-95;

p) The number of businesses overall grew by 3.4% in 2017-18, with entry rates exceeding exit rates over the last three years. The number of businesses grew in all the most award-reliant sectors, and the number of businesses in Administrative and

support services by grew by 5.5%, Health care and social assistance by 4.5% the highest of all. Business survival rates also increased;

q) Inflation is still very low, having increased from 1.9% the previous year to 1.8% for 2018; and

r) The Wage Price Index grew by 2.1% in the year to December 2018, still close to the lowest on record. Real average compensation per employee increased 1.8% at the September quarter 2018 compared with the September quarter 2017. Real average weekly ordinary time earnings increased 2.7% in the year to November 2018, assisted by the pick up in the mining sector.

Each of these and other important matters are discussed in the remainder of this Chapter.

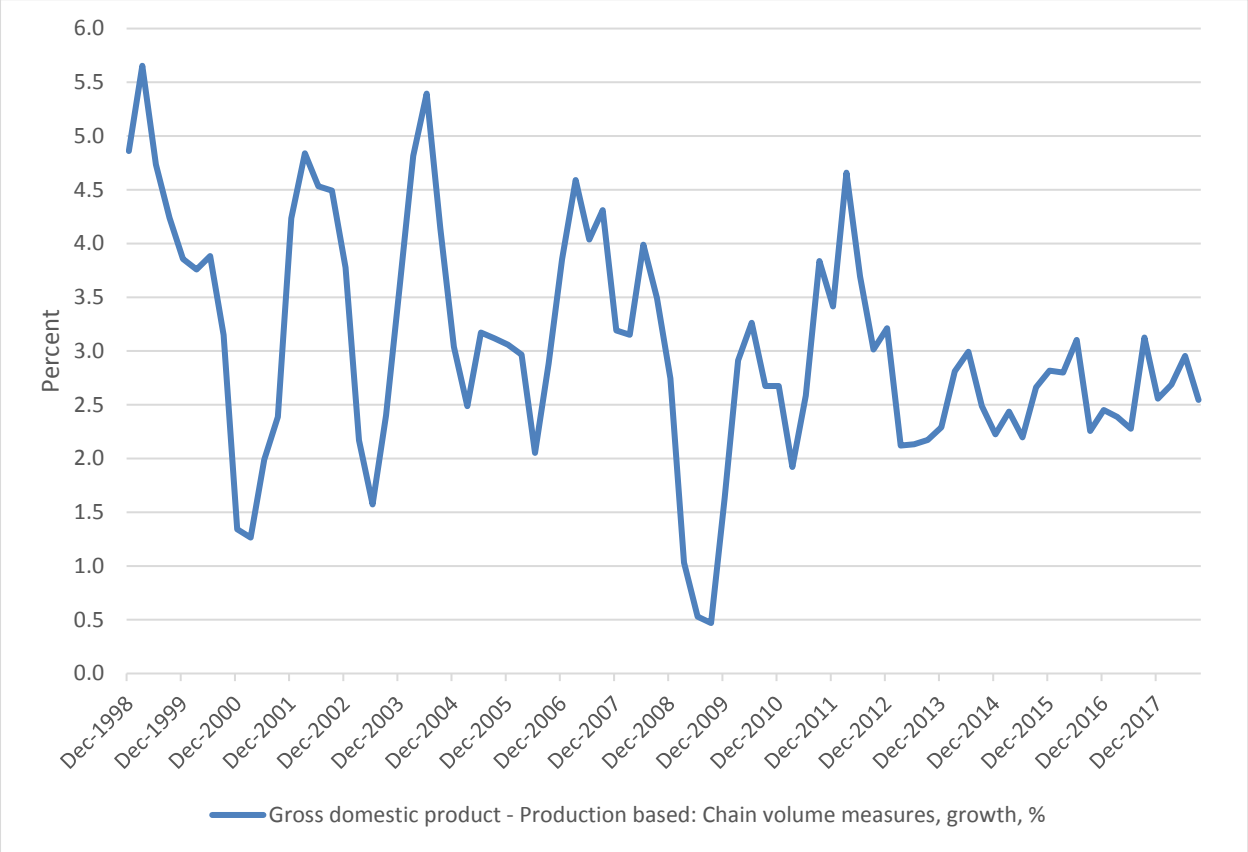
4.1 Economic growth

71. The Australian economy grew by 2.5% in real terms over the year to September 2018, down from the 3.1% for the year to September 2017, seasonally adjusted. This is moderately under the revised RBA forecast of February 2019 of 2¾% for the year to December 2018, the RBA having revised it down from 3.5%. The RBA has also revised its GDP growth forecast down to 2.5% for the year to June 2019, 3.0% for the year 2019 and 2¾% for 2020.[34] Annual real GDP growth, original data, year on year, is presented in Figure 11.

72. The RBA, in its *Statement on Monetary Policy* of February 2019, expects GDP growth "to slow by a bit more than was expected at the time of the November Statement, largely because growth in some of Australia's major trading partners slowed by a little more than expected in the second half of 2018."[35]

[34] RBA 2018 *Statement on Monetary Policy* Feb., p.66, Table 5.1, first line, previous in brackets underneath.
[35] RBA 2019 Statement on Monetary Policy February, p.65.

Figure 11: GDP growth, chain volume, seasonally adjusted, year on year, December 1998 to September 2018



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

73. In the ACTU's view, GDP growth continues to be healthy, and certainly not unusual, when viewed in perspective. The current rate of growth is in line with previous years' results of 2.3% at September 2016, 2.7% at September 2015 and 2.5% September 2014. Further, it should be recalled that the average annual growth rate of GDP was 3.3% for the seven years up to the low point at the GFC at September 2009. GDP growth has not recovered to pre GFC levels, with an average annual growth rate of 2.7% up to September 2018.

74. The Panel stated in its Decision of 2018 that "The Panel has, for several Reviews, given consideration to real net national disposable income (RNNDI) which is influenced by movements in the terms of trade and net flows of income overseas and is a better measure of incomes available to Australians than GDP. However, the Panel has noted that short-term movements in RNNDI have not formed part of its decision."[36]

[36] FWC 2018 AWR 2017-18 [118]

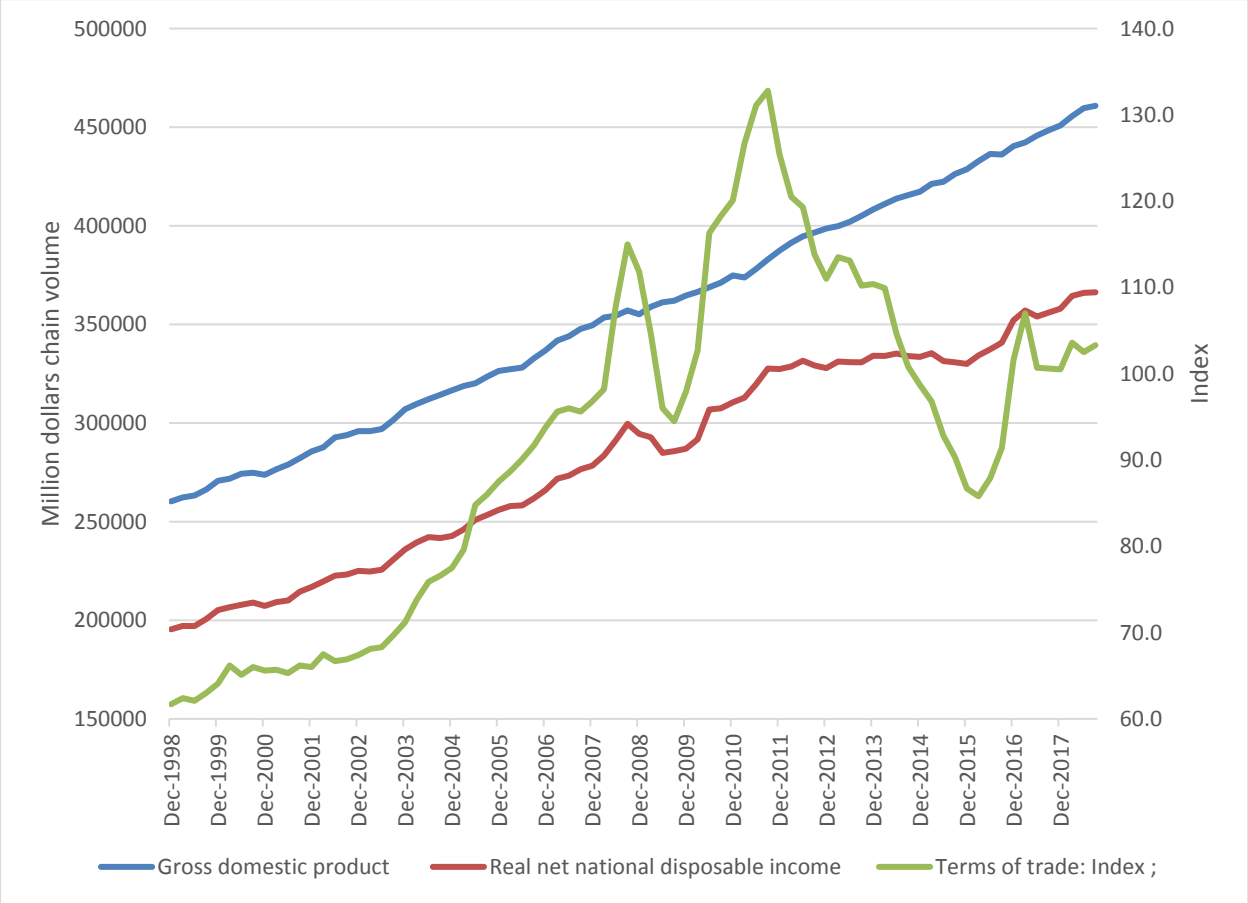
75. The ABS defines RNNDI, Real net national disposable income, as a measure which adjusts the volume measure of GDP for the terms of trade effect, real net incomes from overseas, and consumption of fixed capital.[37] The ACTU recognises that because the RNNDI makes these adjustments, it may give a better picture of general purchasing available to households.[38]

76. Chart 1.3 of the *Statistical Report – Annual Wage Review* 2018-19 shows how RNNDI and RNNDI per capita move with the terms of trade, and the flattening of those series over 2018 which corresponds also to the slight slowing of GDP growth. This is also shown in GDP and RNNDI chain volume measures which are shown together with the terms of trade index in Figure 12 below.

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

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

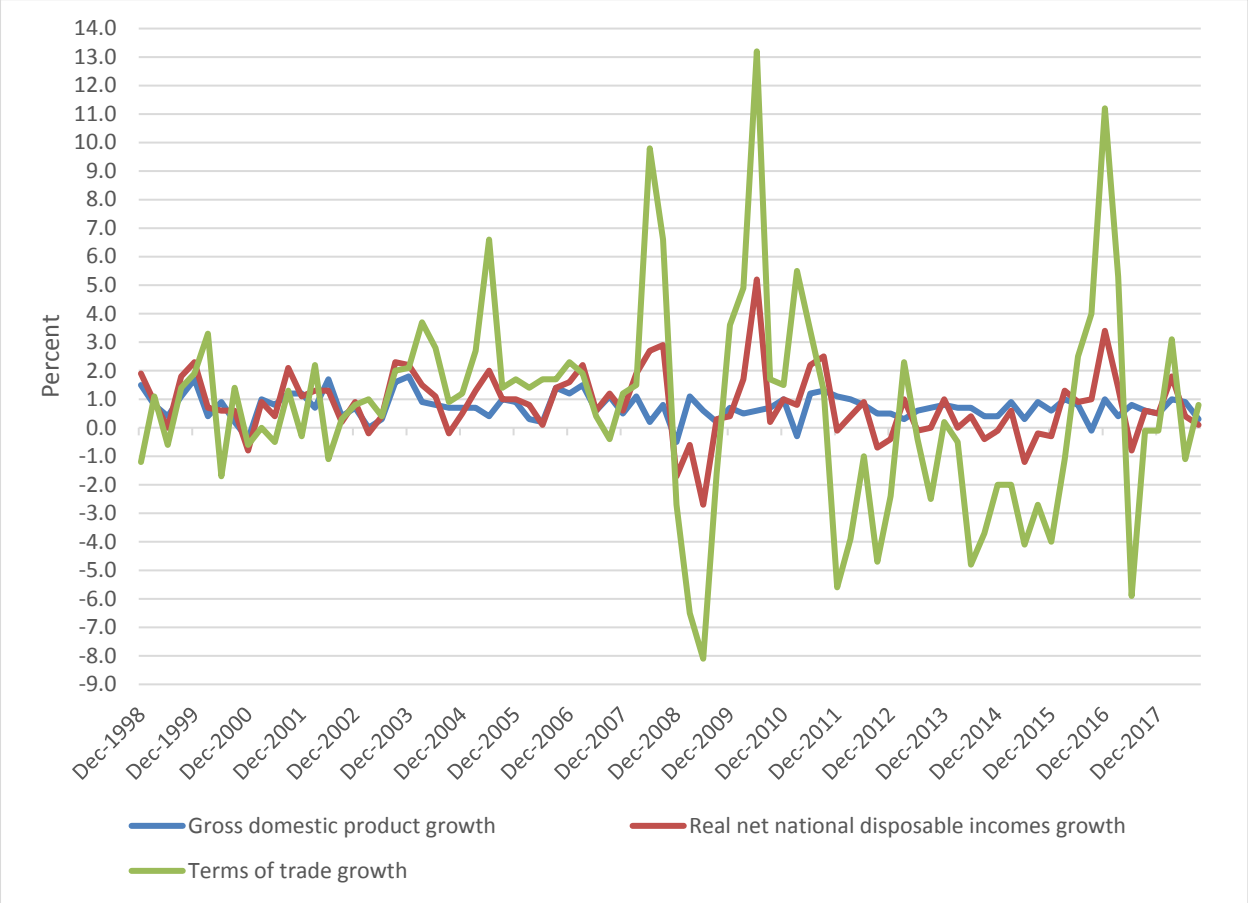
Figure 12 GDP, RNNDI , chain volume million dollars, and terms of trade index, quarterly (RHS), December 1998 to September 2018



Source: ABS 5206

77. Differences between GDP per capita and RNNDI per capita are most evident in the fluctuations rather than the long-term. This is shown in Figure 13 which plots the movement of RNNDI growth with the terms of trade. In an update to the December quarter, the terms of trade growth increased 3.1% while GDP grew 0.2% and RNNDI grew 1.2%. It remains to be seen what happens to the directions after that. If the terms of trade continue to improve, that could be reflected in the output measures.

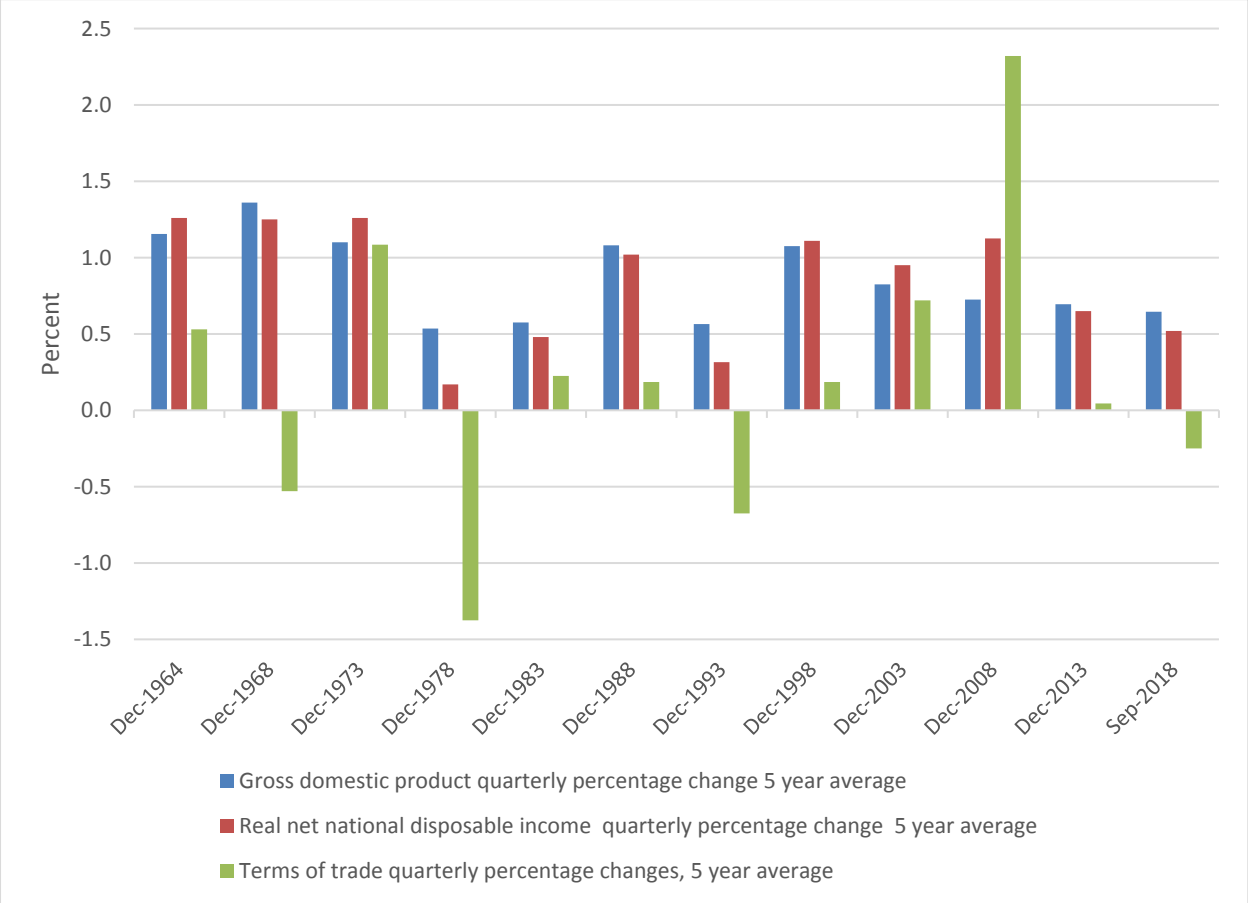
Figure 13 Growth rates of GDP, RNNDI , chain volume million dollars, and terms of trade, quarterly, December 1998 to September 2018



Source: ABS 5206

78. GDP and RNNDI (chain volume) and terms of trade quarterly percentage increases are averaged over five year periods and presented in Figure 14, which indicates lower growth averages when terms of trade growth is lower. However, lower terms of trade growth averages are not necessarily followed by downturn periods. It follows that the falling terms of trade average currently does not necessarily presage a downturn currently either.

Figure 14 GDP and RNNDI (chain volume) and terms of trade quarterly percentage increases five year averages to December of fifth year

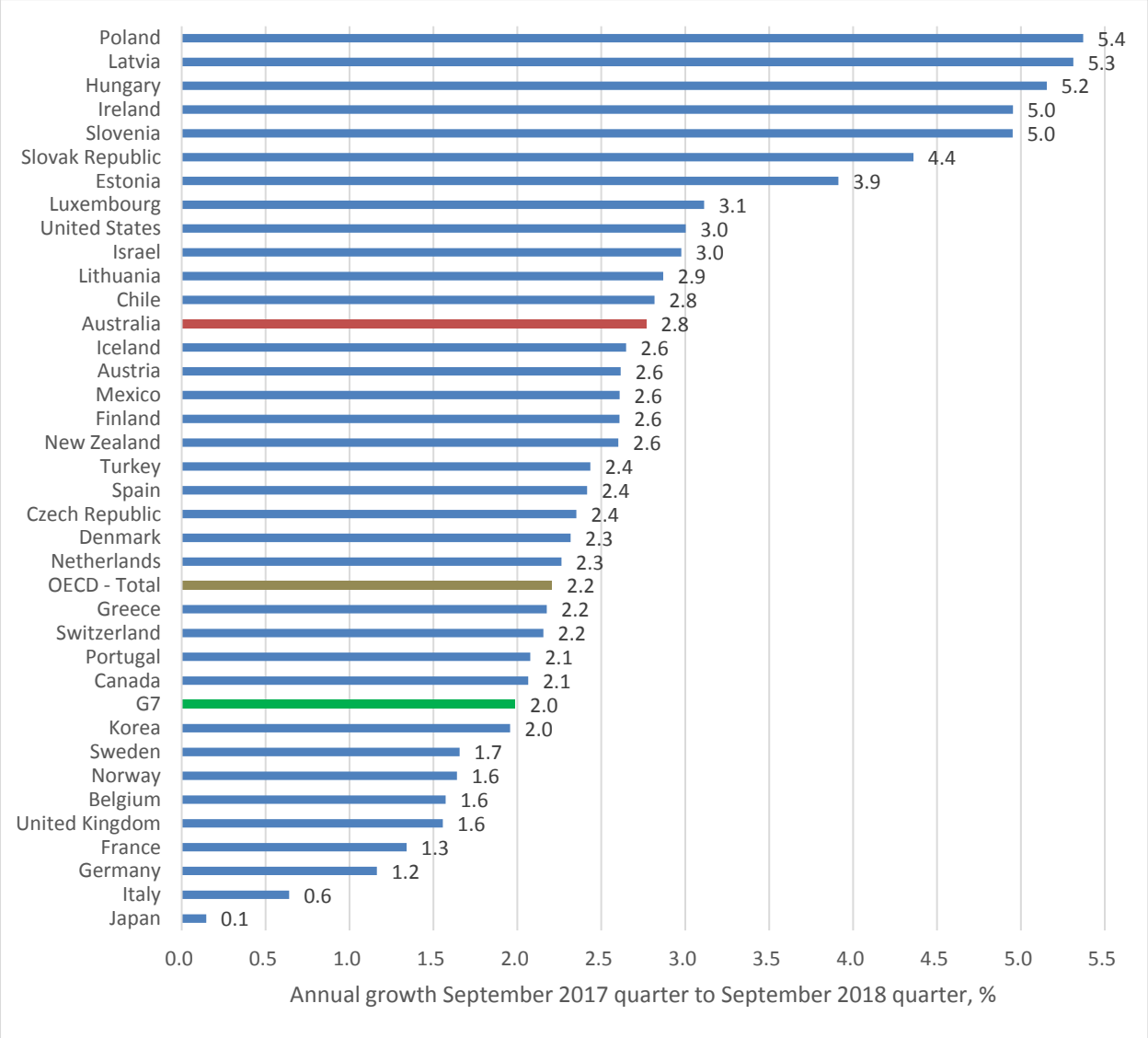


Source: ABS 5206 and ACTU calculations. Note first period is four years as data starts at 1959

4.1.1 International comparisons of economic growth

79. Australia's real GDP growth of 2.8% for the year to the September quarter 2018 over the September quarter 2017 was well above the total OECD average of 2.2% and median of 2.4%. Australia's GDP growth ranking has moved up to ten above the OECD average mainly because the latter's growth has fallen. The G7 average was further down at 2.0%, and only the US out of the G7 countries had a faster growth rate than Australia's.

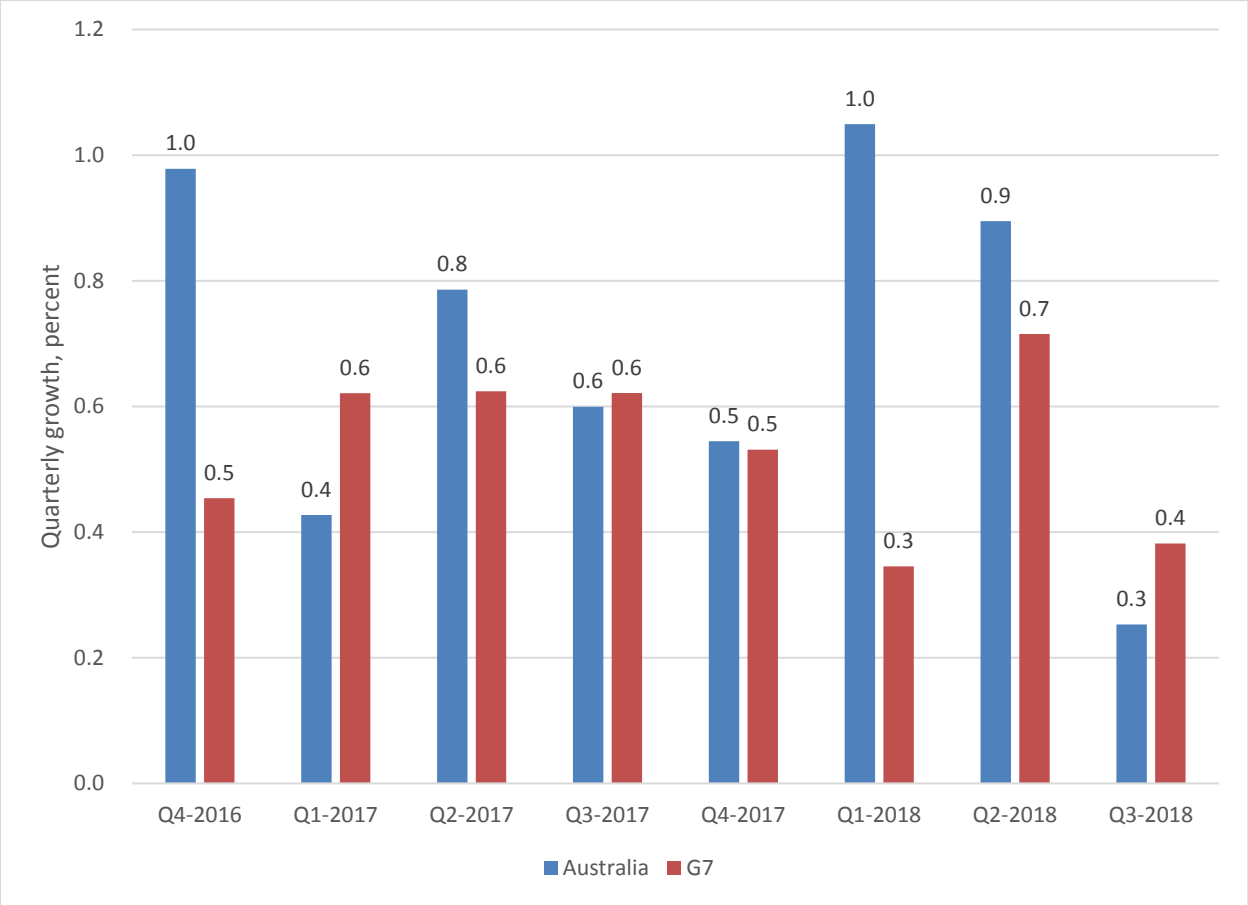
Figure 15: GDP growth rates, year September quarter 2017 to September quarter 2018, OECD countries, per cent



Source: OECD Stat, https://stats.oecd.org/ Quarterly National Accounts. *Quarterly Growth Rates of real GDP, change over same quarter, previous year* (expenditure approach)

80. Of the eight quarters from December 2016 to September 2018, Australia had a faster growth rate than the G7 average in four, close to equal in two, and less in two, as shown in Figure 16.

Figure 16 Quarterly GDP growth, Australia and G7 countries, per cent

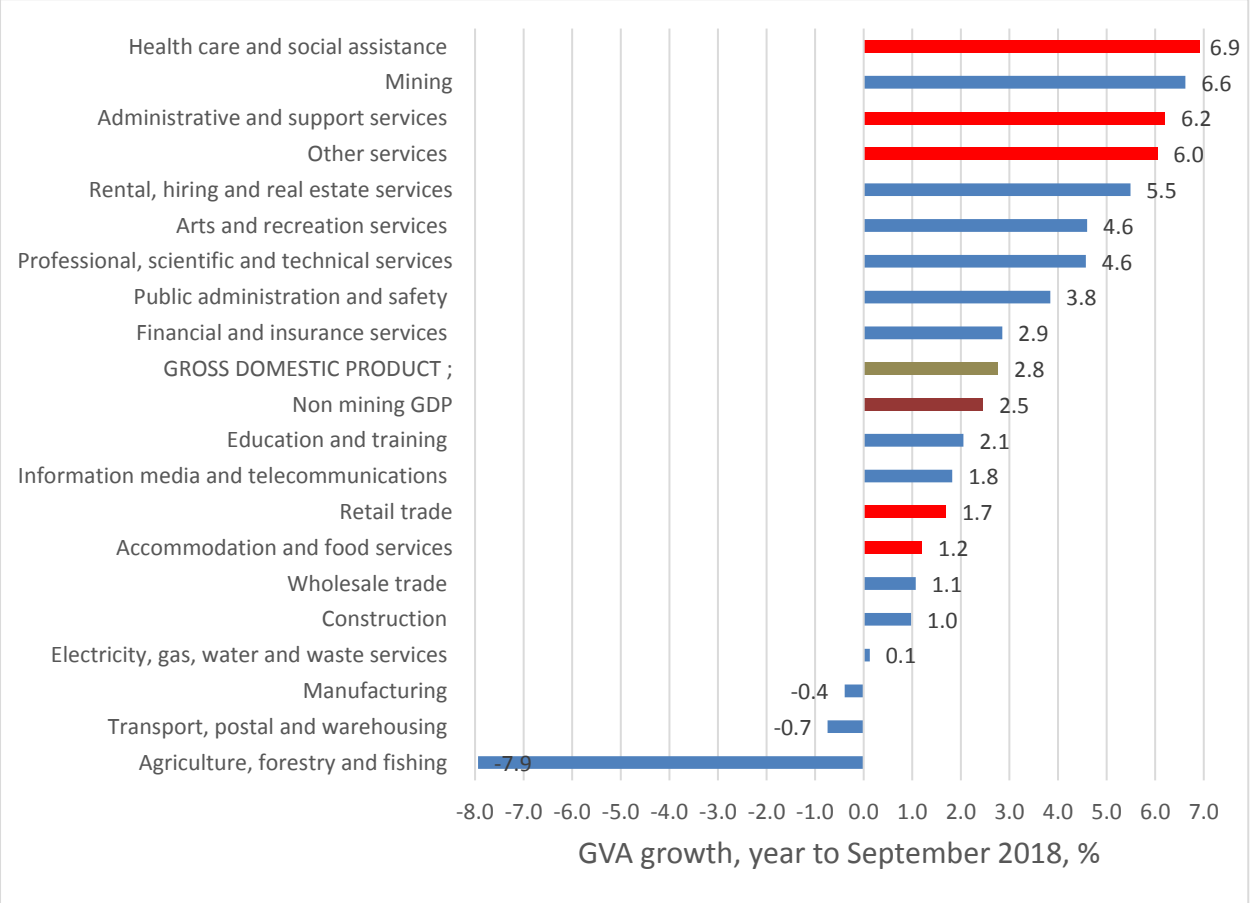


Source: https://stats.oecd.org/ accessed 19 Feb 2019. Quarterly Growth Rates of real GDP, change over previous quarter , expenditure approach, seasonally adjusted. G7 is Canada, France, Germany, Italy, Japan, UK and US.

4.2 Growth by industry

81. Real economic output (gross value added) grew in the five most award-reliant industries in the year to September 2018. Health care and social assistance was the fastest growing industry at 6.9%. Growth was also particularly strong in Administrative and support services and Other services also. Retail trade grew just 1.7% and Accommodation and food services grew 1.2%. The social service provision areas are those where GVA does not necessarily reliably measure output and it is accordingly understated. Growth in those areas can reflect monetisation rather than the value of services in terms of the addition to human welfare. The growth in gross value added, seasonally adjusted, in each industry over the year to September 2018 is shown in Figure 17.

Figure 17: Growth in industry gross value added, year to September 2018, seasonally adjusted, per cent



Source: ABS 520606 (seasonally adjusted) and ACTU calculations. The more award-reliant sectors are shown in red.

82. Three industries experienced a fall in real output over the year to September 2018, while the other 16 grew. The effects of drought and flood showed up in Agriculture, forestry and fishing. The cessation of vehicle production by Holden and Toyota also occurred in late 2017, so may have impacted the negative result seen in the manufacturing sector. The range of sectoral growth reflects trends in industry restructuring taking place rather than any relation with the degree of award intensivity. Mining is growing strongly. The public sector contributions to industry output including the NDIS and public infrastructure are contributing to sectoral growth.

83. Again, the ACTU finds there is no evidence that the growth rates of output across industries over time are related to the proportion of workers in the industry who are award-reliant, or to the rate of increase in modern award minimum wages, as commented on in previous ACTU

submissions.[39] That is, it cannot be seen that the more award-reliant industries grow more slowly, or grow more slowly in years when higher rates are awarded. In the longer term, the international conditions facing exporting and importing industries, industry policy settings, the state of technological advance and public sector contributions to services and infrastructure are the factors driving industry structure.

84. For instance, three of the most award-reliant industries have grown at rates approaching or faster than the whole economy over the last twenty years. Health care and social assistance, Administrative and support services, and Other services have all grown more than twice as fast as the total economy, and faster than mining. Retail Trade and Accommodation and food services have grown positively but more slowly than the whole economy. If award reliance and resultant exposure to the decisions of the Panel and its predecessors held up industry growth, then the shares of the more award-reliant industries in the economy should consistently grow more slowly, but this is not observed.

4.3 Investment

85. The IMF, in its country report for Australia 2019, said that apart from

"the housing market correction .. Domestic demand would also turn out weaker if wage growth remained subdued or investment spillovers were smaller. On the other hand, a stronger pickup in the non-mining business sector, larger spillovers from public infrastructure investment, and the Australian dollar depreciation over the past year could boost near-term growth more than projected."[40]

86. The Treasury is also optimistic, expecting mining investment to grow and saying:

"Rising growth in household incomes is expected to underpin an expansion in consumer spending. Non-mining business investment is also forecast to increase, supported by strong growth in machinery and equipment investment."[41]

87. The RBA sees the outlook for business investment (capital formation) as positive, both mining and non mining, and sees "solid growth in corporate profits" as "likely to support investment spending." However, the RBA did note that recent survey measures had turned down and if sustained would imply "a weaker outcome for both investment and employment growth." [42]

[39] For instance ACTU submission to AWR 2015, [233]-[235]
[40] IMF 2019 Australia Staff Report for the 2018 Article Iv Consultation, IMF Country Report 19/55 January 18, p.10
[41] The Treasury 2018 *MidYear Economic and Fiscal Outlook* December, p.13
[42] RBA 2019 Statement on Monetary Policy February, p.3

Despite this the RBA says: "Leading indicators point to continued growth in non-mining business investment over the next year or so."[43]

88. In regard to mining investment (capital formation), the RBA says:

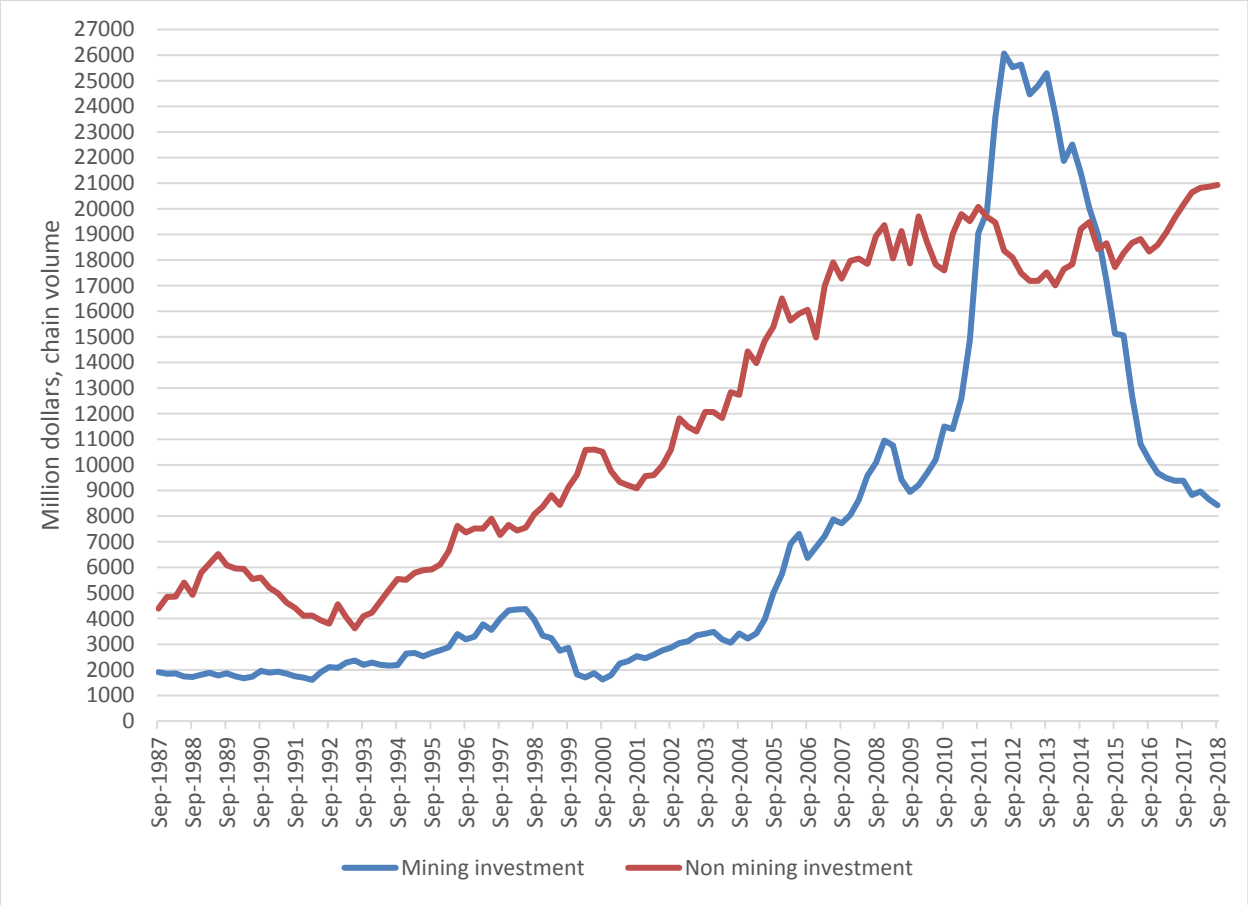
"The Capex survey, information from the Bank's liaison program and company announcements indicate that mining firms have been increasing spending on machinery & equipment over the past year and further growth is anticipated."[44]

89. The shares of mining and non-mining investment in GDP have flattened out, as shown in Chart 1.5 of the Statistical Report – AWR 2018-9.[45]

90. Although the non-mining investment increase in chain volume terms appears to have flattened out slightly over the last year, it is still higher than the previous height at December 2011, as shown in Figure 18. The fall in mining investment has slowed and is back to the levels of 2008 prior to the mining boom.

[43] RBA 2019 Statement on Monetary Policy February, p.30
[44] RBA 2019 Statement on Monetary Policy February, p.31
[45] FWC 2019 Statistical Report – AWR 2018-19, Chart 1.5 p.4

Figure 18 Mining and non-mining private investment, quarterly, chain volume, million dollars



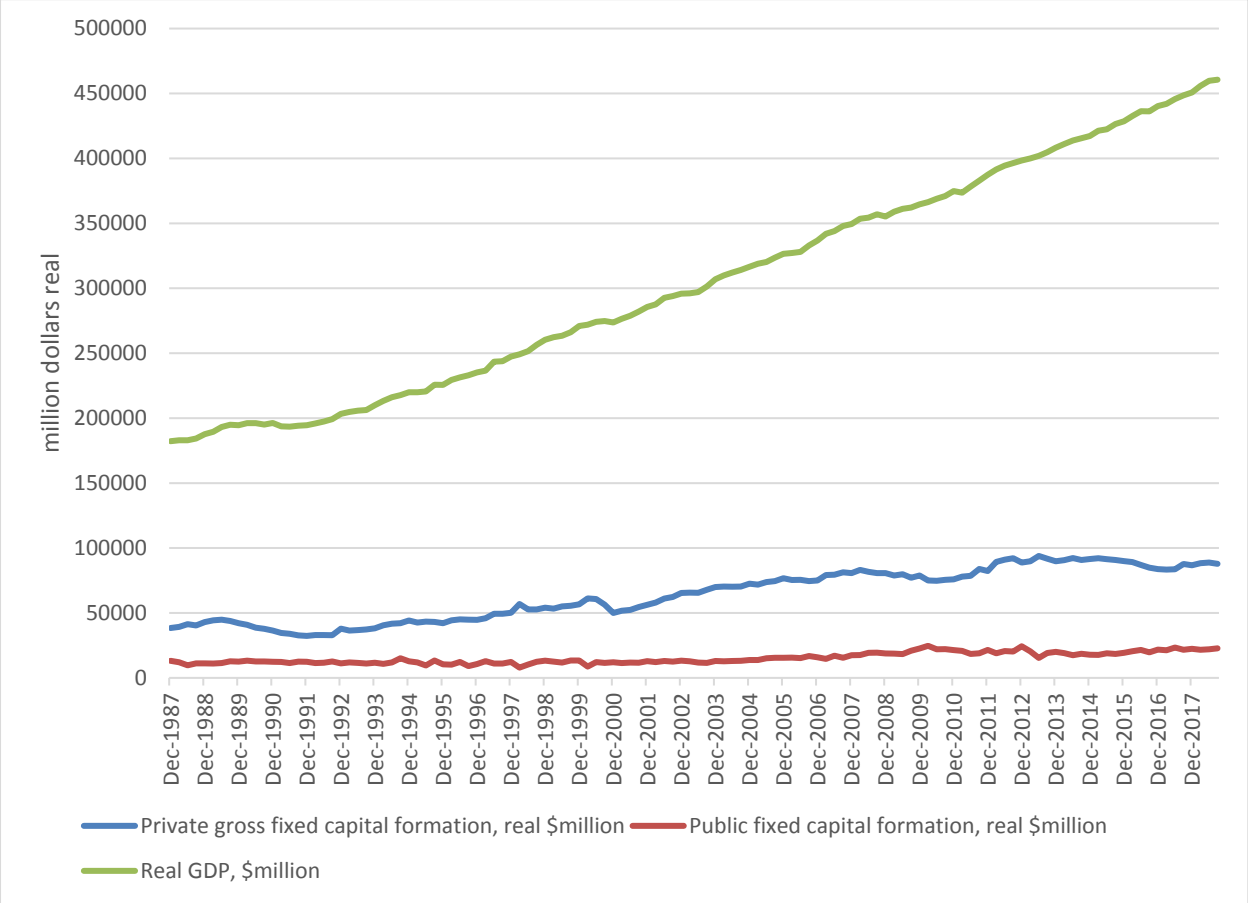
Source: ABS 5625003b

91. The IMF now sees public infrastructure spending as a driver of the economy and wage increases, saying "Growth slowed down in 2018Q3, as private consumption and non-mining business investment moderated, offsetting an increase in public investment."[46]

92. Figure 19 shows quarterly public and private gross fixed capital formation and GDP in real terms. While there is a slight uptick evident in private gross fixed capital formation over 2017 and 2018, public gross fixed capital formation is virtually flat. By contrast, GDP has grown steeply since 2016.

[46] IMF 2019 Australia Staff Report for the 2018 Article Iv Consultation, January 18, p.13, p.5

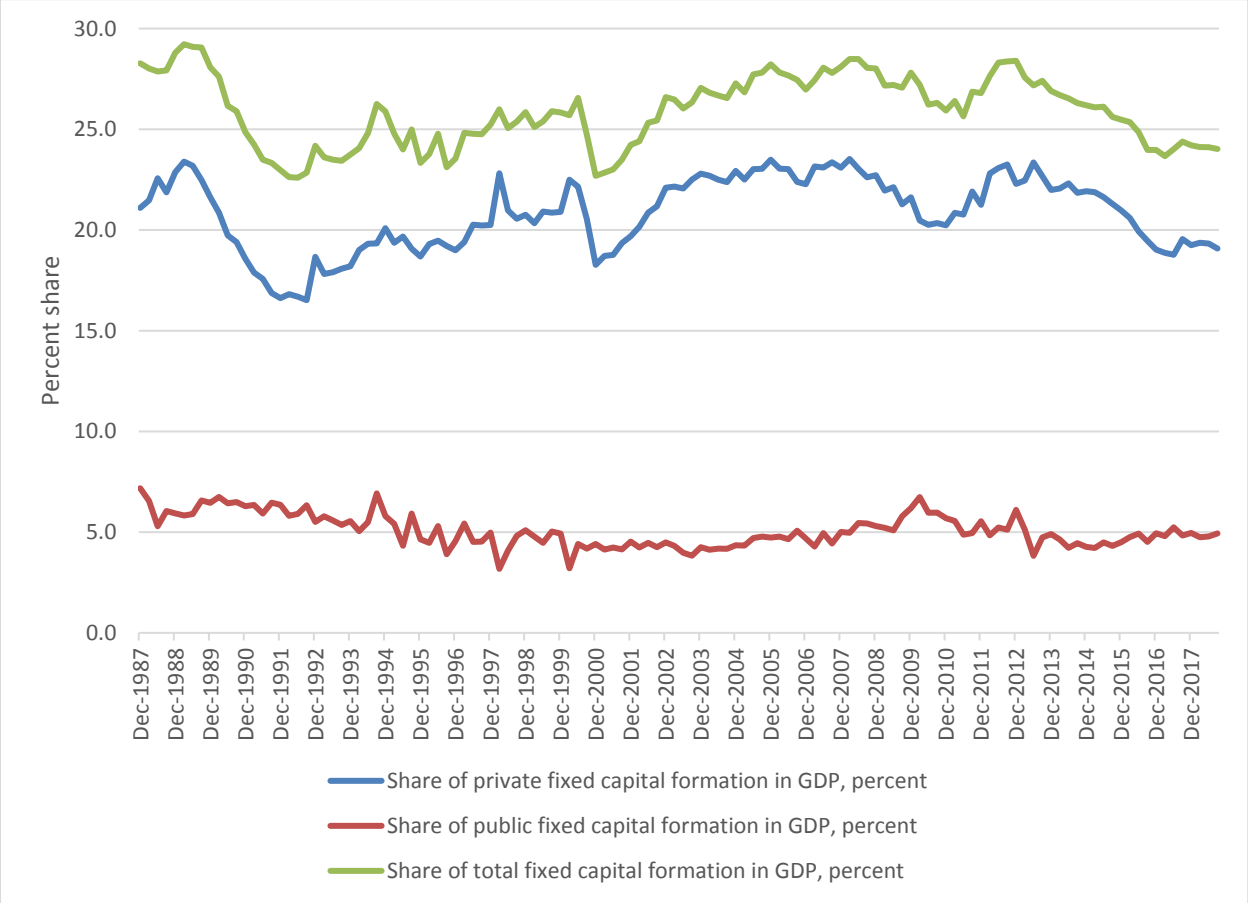
Figure 19 Private and public gross fixed capital formation and GDP, quarterly, seasonally adjusted, real $million



Sources: 5206001, 5206012, 5206005 and ACTU calculations, Real GDP is nominal GDP deflated by GDP deflator, March 2017=100, private GFCF is nominal private GFCF deflated by private GFCF deflator, public GFCF is nominal public GFCF deflated by public GFCF deflator.

93. This is confirmed in Figure 20 which shows the shares of public (general government and public corporations) and private gross fixed capital formation in GDP (quarterly data, seasonally adjusted at current prices). The share of public investment in GDP has been more or less flat since 2013. The falling share of private investment since 2013 has stabilised over 2017 and 2018.

Figure 20 Shares of public and private capital formation in GDP, quarterly, seasonally adjusted, current prices, per cent

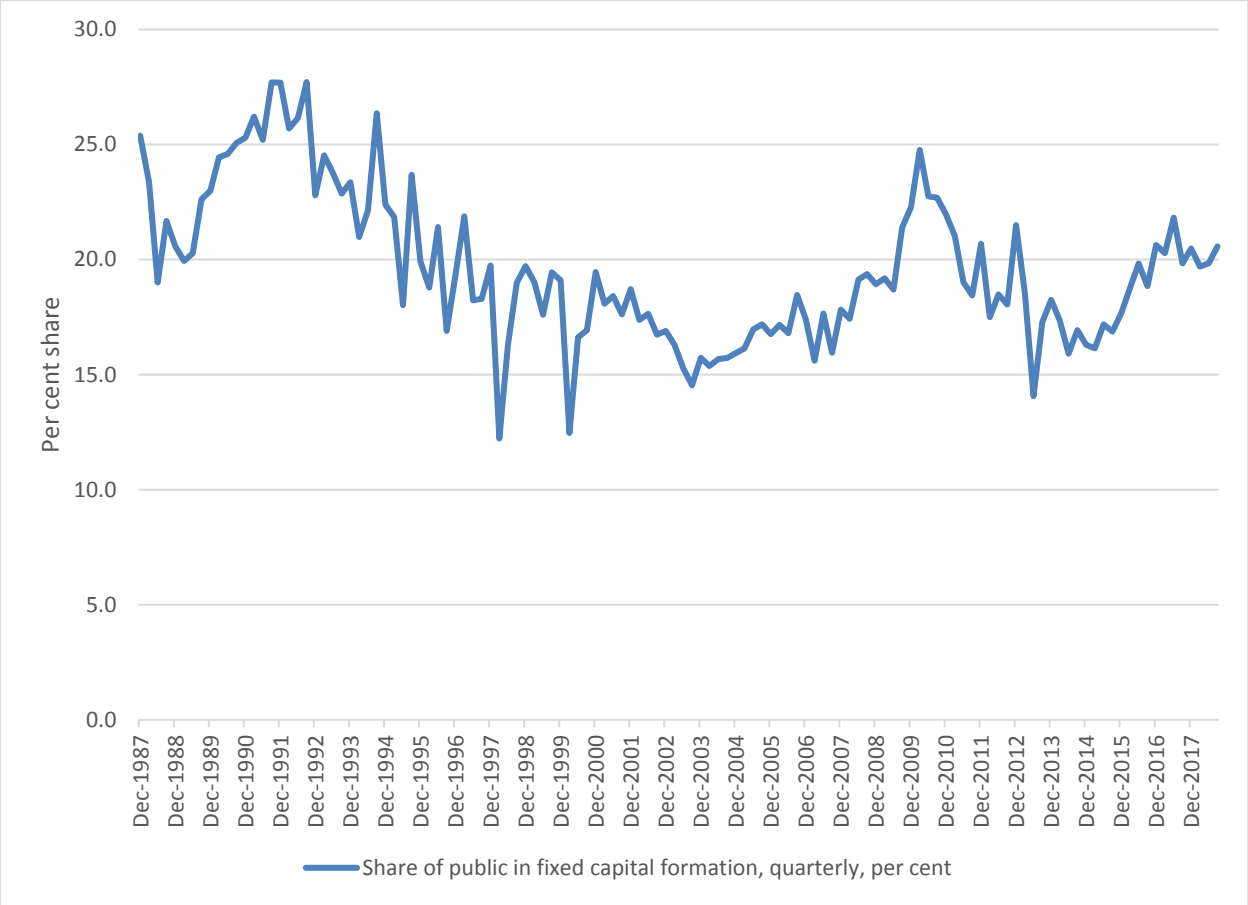


Sources: 5206001, 5206012 and ACTU calculations

94. The RBA has noted in its February Statement on Monetary Policy that public investment "..grew at a strong pace in the quarter and the large pipeline of projects is expected to continue to support public investment over coming years."[47] However, public investment as a share of quarterly total fixed capital formation has also flattened out over the last year, as shown in Figure 21.

[47] RBA 2019 Statement on Monetary Policy February, p.31

Figure 21 Share of public in fixed capital formation, quarterly, per cent



Source: 5206012 and ACTU calculations

95. In the ACTU's view, while investment (particularly non-mining investment) could be stronger, it is not poor by recent standards. Although the gradual "small" business tax changes have progressed since 2015 to the point where businesses with a turnover of up to $50 million are receiving a 2.5% tax cut, this does not appear to have driven any boom in private investment.

96. It is difficult to see the present levels of investment as able to engender wage increases particularly in the near term (especially given the medium term trend for productivity increases not to be passed into wages growth). Nor is public investment on the scale that might warrant the expectation of yielding a wage increase. Boosts to public infrastructure spending in the past such as the NBN and transport initiatives have not seen any noticeable wage increases forthcoming which could be connected to them. The NMW increase remains the main avenue to increase wages in the current circumstances.

4.4 Consumer spending and retail trade

97. The RBA has revised down its growth forecasts in the light of recent data, particularly for consumption, noting that "The outlook for consumption growth hinges on household income growth picking up, and by enough to offset households responding to falling housing prices by reining in their spending."[48] This view supports the need for an increase in the minimum wage as a mechanism to raise income and spending, which would be particularly effective for lower income households.

98. The Treasury expects strengthening in household consumption growth, "supported by a pick up in household income growth in 2017-18", due to an increase in employment with a "smaller contribution from a modest rise in average earnings."[49]

99. Households' annual final consumption expenditure rose by 3.9% in nominal terms and 2.0% in real terms over the year to December 2018 compared with 2.3% growth in real GDP. Business and public real investment grew over the year to December 2018 by 1.2% based on ABS National Accounts data.[50]

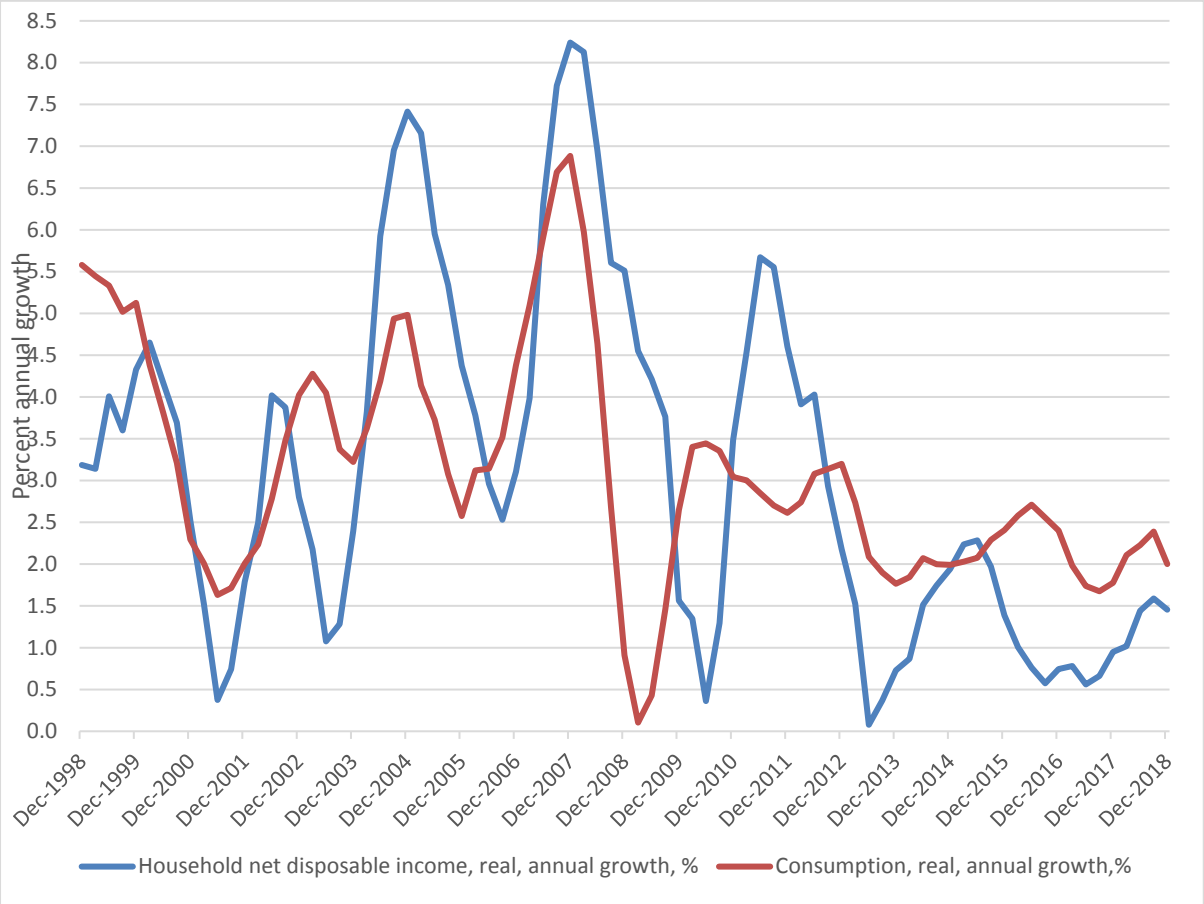
100. Households' annual real disposable incomes rose 1.5% in real terms in the year to December 2018.[51] This is shown in Figure 22. The RBA said "tighter labour market conditions are expected to provide ongoing support to growth in household income and consumption."[52] However in the ACTU's view however, recent falls in unemployment have not been associated with higher wage growth, leaving the need for the minimum wage increase to assist.

101. As consumption growth slowed relative to income growth, the quarterly household savings ratio rose by a percentage point from 4.1% in December 2017 to 5.2% in December 2018, as shown in Figure 23[53], a level of two years previously.

[48] RBA 2019 Statement on Monetary Policy February, p.1
[49] The Treasury 2018 *MidYear Economic and Fiscal Outlook* December, pp.18-19
[50] ABS Cat 5206003 and Cat 5206012
[51] The income measure referred to is household net disposable income, which is household gross disposable income less household consumption of fixed capital. This measure is used as this is what the ABS uses to calculate the household saving ratio. See ABS 2014, *Australian System of National Accounts, Concepts Sources and Methods*, Catalogue number 5216, p.669.
[52] RBA 2019 Statement on Monetary Policy February, p.65.
[53] ABS 5206 and ACTU calculations

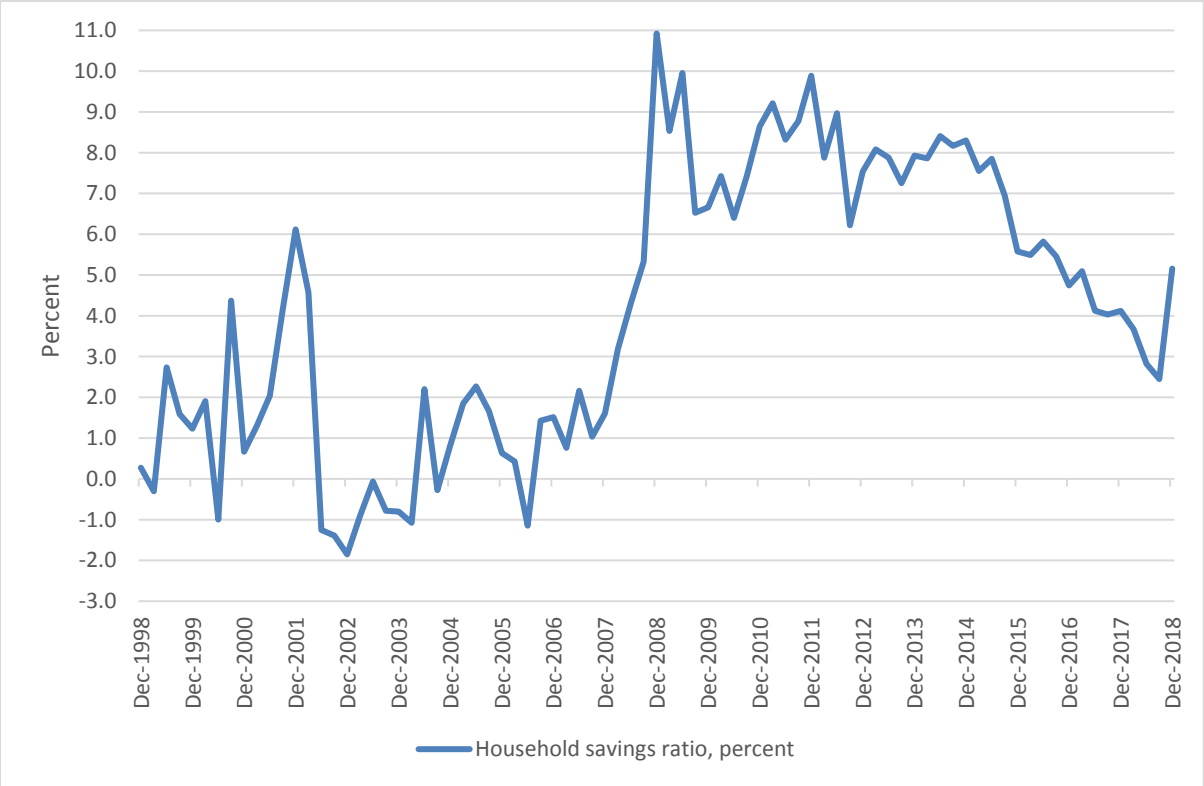
102. This is a small increase in the savings ratio, with households exercising more caution perhaps, rather than due to income having grown sufficiently as to increase savings, given that income is still growing very slowly.

Figure 22: Annualised growth in household income and final consumption, real, seasonally adjusted, December 1998 to December 2018



Source: ABS 5206020, 6401, and ACTU calculations. Household net disposable income is calculated as household gross disposable income less consumption of fixed capital.

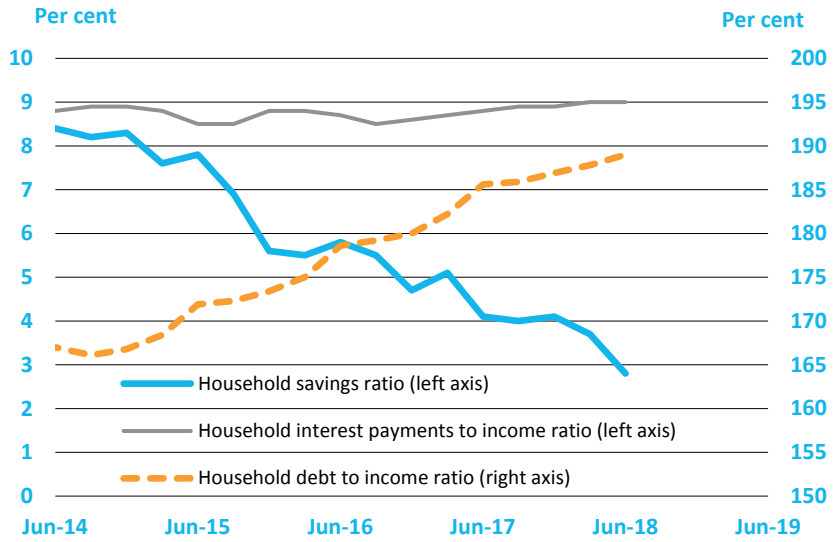
Figure 23: Household savings ratio, quarterly, seasonally adjusted, December 1998 to December 2018, per cent



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

103. The Parliamentary Library presents data for the household savings ratio, household interest payments to income and household debt to income, reproduced in Figure 24. The ACTU notes that household interest payments are around 10% of income currently, at low interest rates. If interest rates should rise, that would present hardship to many households. Since June 2014, the household debt to income ratio has risen from 167% to 189% at June 2018.

Figure 24 Household debt and savings ratios, Parliamentary Library



Source: https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/MSB accessed 26 February 2019. Household debt and savings ratios, includes their notes on sources.

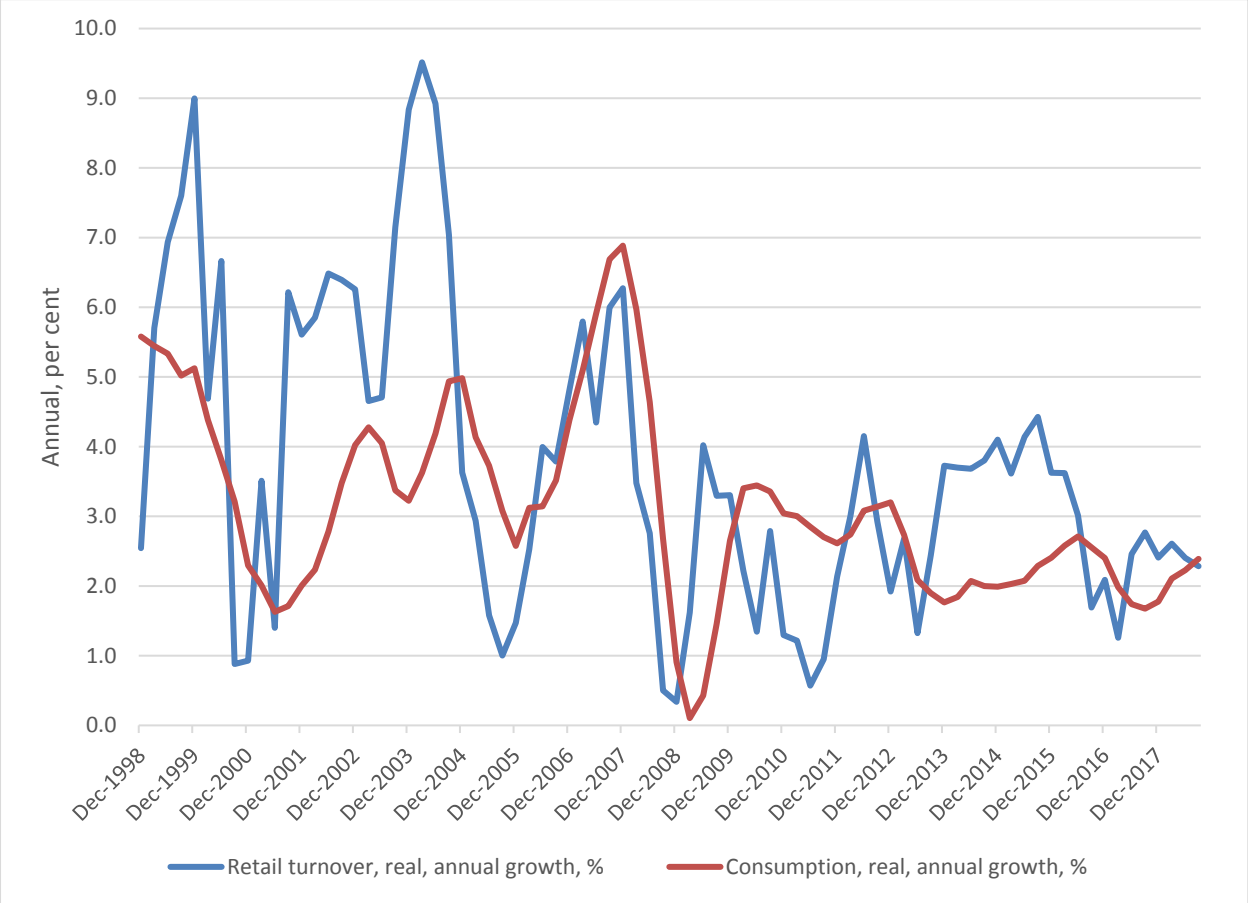
104. Total annual compensation of employees increased 4.6% in nominal terms and 2.7% in real terms over the year to December 2018. However, this needs to be put in the context of population growth. The growth in average annual compensation per employee in real terms was -0.3% over the year to December 2018 and has been negative for three years as shown in Figure 25. This may go a fair way to explaining the continuing low household savings ratios.

Figure 25 Average compensation per employee per annum, real, annual growth, per cent

Source: ABS 5206024, seasonally adjusted, ABS 6401 and ACTU calculations.

105. Retail sales rose by 2.2% in real terms over the year to September 2018, while household consumption grew 2.4% in real terms over the same period, as shown in Figure 26. Real annual growth in retail spending was down from 2.8% for the year to September 2017, and lower than the 5-year annual average growth in retail trade of 3.0%. Consumption growth increased to its 2.4% growth rate from 1.7% for the previous year to September 2017, and exceeded its five year annual average real growth of 2.1%. Consumption growth may be increasing while that of retail is falling due to the impost of spending on increasingly expensive essential items, energy in particular. The growth in retail sales and consumption spending have remained positive, albeit at the lower-mid range of the peaks and troughs observed over the decade, and have not recovered to pre GFC levels. These growth rates are in line with that of real growth in total employee compensation of 2.8%. They go to explaining why profits growth remains healthy, even though average compensation *per employee* growth is negative.

Figure 26: Growth in annual volume of retail sales and consumer spending, year on year, to September 2018 %



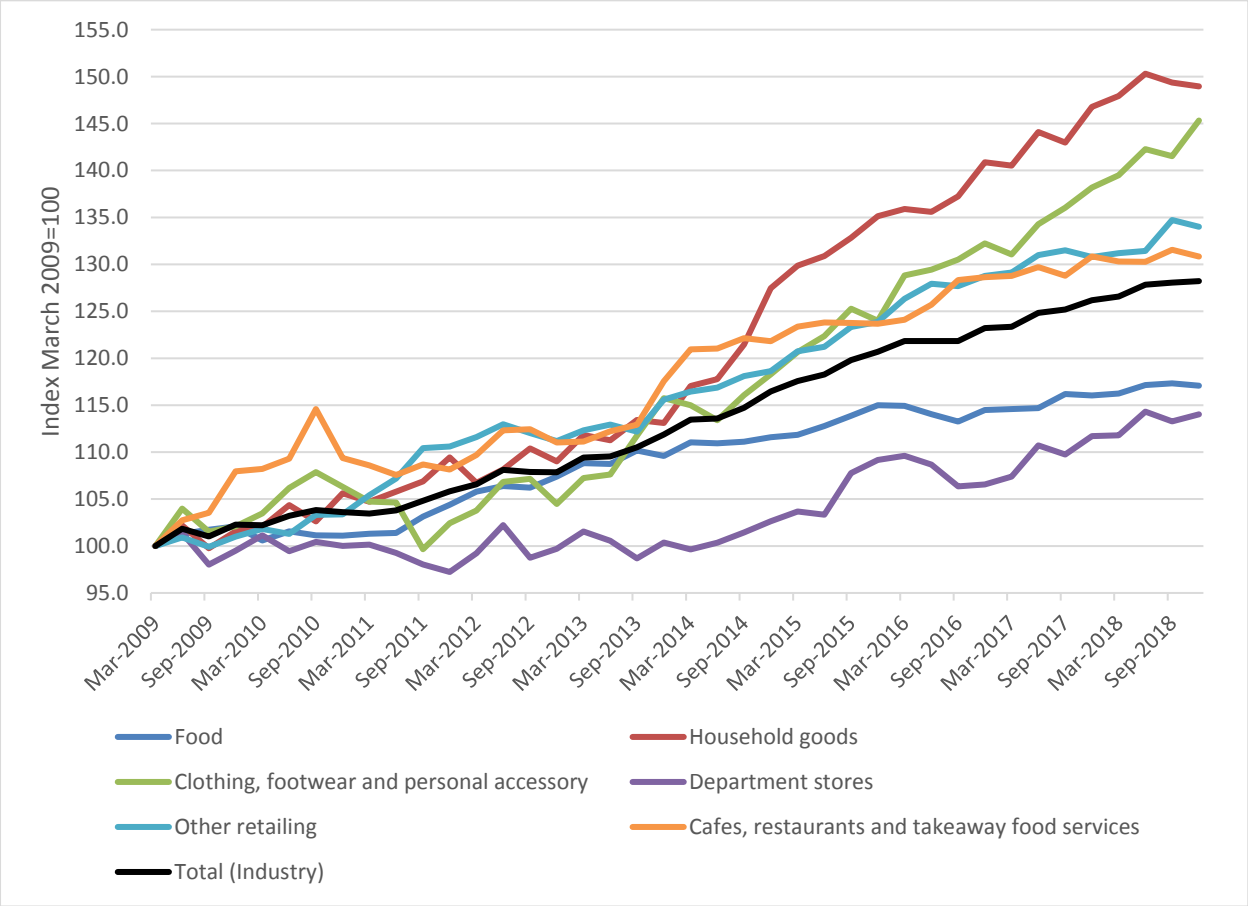
Source: ACTU calculations based on ABS 5206020, 850107, seasonally adjusted.

106. There is a great deal of variation in the pace of turnover growth among different sub-sectors and from year to year, as shown in Figure 27 which presents quarterly indexes. All sectors grew in annualised real terms over the year 2018. [54] In annualised terms, Clothing and footwear grew the most at 5.4%, followed by Household goods at 3.9% and Department stores at 3.1%. Cafés, restaurants and takeaway food sales growth fell to 0.9% (down from the previous year) and sensitive to exchange rates, and food retailing growth held up at 1.4%. However, in the last quarter of 2018 only two sectors, Clothing and footwear and Department stores had positive real growth, with barely positive real growth in the total retail sector. It remains to be seen what this implies for the economy. There have been other years with negative growth for the December quarter which did not necessarily herald a downturn. For instance 1986 (the stock market crash was not until 19 October 1987), 1990 (the recession

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

was already underway from July 1990), 1996 (the economy was picking up), 2004, and 2010 (recovering from GFC).

Figure 27: Retail turnover by industry sub-sector, real, quarterly (Index: March 2008=100)



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

107. The increase in the prices of essential items, energy in particular, impacts on other spending especially for lower income households and may go some way to explaining slower growth in retail sales and consumption.

108. The RBA noted in its February *Statement on Monetary Policy* that household debt was high but stable in recent months. It says:

"The prospect of continued low growth in household disposable income remains a key risk to the outlook for household consumption, especially given high levels of household debt and the recent declines in housing prices"[55]

[55] RBA 2019 *Statement on Monetary Policy* February, p.34

"The high level of household debt also remains a key consideration for household consumption. In general, more indebted households are likely to be more sensitive to changes in their expected income growth and household wealth; consumption growth may be weaker for a time if households become concerned about their debt levels and choose to pay down debt more quickly."[56]

109. The IMF, in its most recent Article IV Country Report for Australia, similarly observed:

"household debt levels and associated risks remain elevated."[57]

"Directors noted that although growth is expected to remain above trend in the near term, a weaker global economic environment, high household debt, and vulnerabilities in the housing sector could weigh on medium-term growth."[58]

110. The IMF presented data which indicates that household debt has barely increased from 187% of household income in 2017 to an estimated 188% in 2018, increasing from 167% in 2014.[59] It presents the impact of a one percentage point increase in interest rates on quarterly household and housing debt, reproduced in Table 10.

Table 10: Estimated Impact of Interest Rate Changes on Household and Housing Debt

	Household Debt		Housing Debt	
	Baseline Dec-17	Alternate 1/	Baseline Dec-17	Alternate 1/
Interest payment (quarterly, A$Bil)	28,034	33,941	22,823	27,253
Implicit interest rates (percent)	4.7	**5.7**	5.2	**6.2**
DSTI (interest payment only, quarterly, percent)	8.9	**10.7**	7.2	**8.6**

Sources: RBA, ABS, and IMF staff calculations.
1/ Alternate scenario assumes a 1 percentage point increase in interest rates.

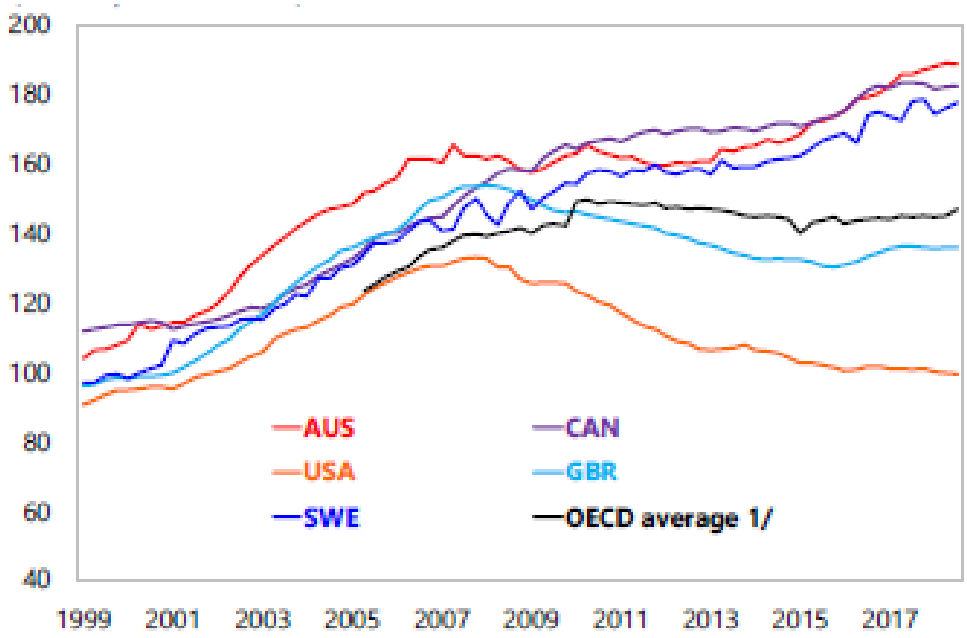
Source: IMF 2019 Australia Staff Report for the 2018 Article Iv Consultation, IMF Country Report 19/55 January 18, p.10

111. The IMF's table presents estimates that suggest that if interest rates were increased a percentage point, this implies the interest rate on households' debt would increase on average from 4.7% to 5.7% and result in a 21.1% increase their indebtedness. Similarly, if the interest rate on housing debt increases from 5.2% to 6.2% then their housing indebtedness would increase 19.4%.

[56] RBA 2019 Statement on Monetary Policy February, p.73
[57] IMF 2019 Australia Staff Report for the 2018 Article Iv Consultation, IMF Country Report 19/55 January 18, p.1
[58] IMF 2019 Australia Staff Report for the 2018 Article Iv Consultation, IMF Country Report 19/55 January 18, p.2
[59] IMF 2019 Australia Article Iv Consultation – Press Release; IMF Country Report 19/55 January 18, p.4

112. The IMF presents Australia's household debt as a percentage of household income compared with other countries, reproduced in Figure 28.[60] Australia's household debt has increased to a higher percentage of disposable income than for any of the countries shown. In the ACTU's view low wage growth must have contributed to this circumstance.

Figure 28 Household debt, per cent of disposable income, IMF



Source: IMF 2019 Australia Staff Report for the 2018 Article Iv Consultation, IMF Country Report 19/55 January 18, p.33, Figure 3, 1/ OECD average based on limited data

113. Taken together, the data on consumption, savings and debt suggest that pressures have been building on households which, in the absence of meaningful real income gains, could lead to poorer consumption and a diminished ability to absorb economic shocks.

[60] : IMF 2019 Australia Staff Report for the 2018 Article Iv Consultation, IMF Country Report 19/55 January 18, p.33, Figure 3

4.5 Productivity

114. The Panel's 2017-18 Decision said that it continues "to support the conclusion that 'increases in minimum wages are more likely to stimulate productivity measures by some employers directly affected by minimum wage increases, rather than inhibit productivity.'"[61] The ACTU is in agreement with this statement.

115. The ACTU recognises that employment increases are concentrated in some service sectors where measured productivity is low and / or poorly measured. The Panel said in its 2018 Decision that: " … recent employment growth was concentrated in household services, which typically has low measured productivity growth."[62] Philip Lowe, Governor of the RBA, similarly observed in a recent speech that "Almost 40 percent of the workforce currently works in household services, so the weak productivity growth here is weighing on the outcome for the economy as a whole. It is possible that part of the story is the difficulty of measuring output in some service industries."[63]

116. In the ACTU's view this makes the connection between wages and labour productivity particularly difficult to discern. It may appear that award reliance is predominant in areas where productivity is lagging, but this is a result of these being in labour intensive service sectors where productivity measurement is unreliable and tends to present as low.

117. Indeed, award reliance is more prevalent in service sectors where traditionally output has been measured by cost of inputs, for instance health care and social assistance, and in these labour intensive areas wages are a large proportion of costs. Productivity increases as measured in these areas can come from two sources. The first is not genuine and may be an artefact of outsourcing and privatisation where fees for service have been introduced and increased over time, and where those charges are not commensurate with quality improvements to output. The second source of productivity is genuine and arises from the effects of the digital revolution on these traditionally labour intensive service sectors. These two effects are not easily disentangled.

[61] FWC 2018 AWR 2018-19 [122], citing [2017] FWCFB 3500 at [227].
[62] FWC 2018 AWR 2018-19 [67]
[63] Philp Lowe 2018 "Productivity Wages and Prosperity" Speech to AiG, Melbourne, 13 June. https://www.rba.gov.au/speeches/2018/sp-gov-2018-06-13.html

118. To the extent that these award sectors are able to raise productivity digitally, minimum wage and award increases may encourage productivity improvements. But these are also areas where changes in the quality of outputs, in terms of service delivery, is particularly hard to measure and are not signalled through fees or pricing.

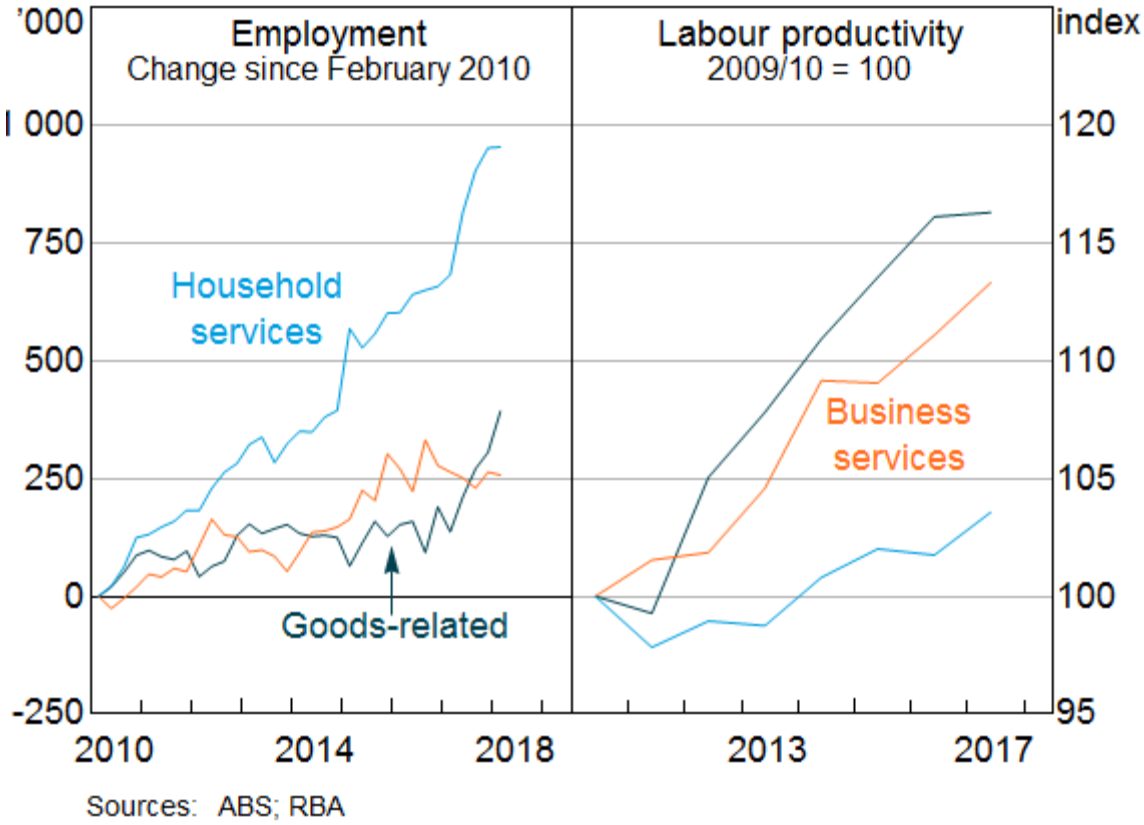
119. The Governor of the Reserve Bank has also pointed out that recent technological progress "has been heavily focused on software and information technology, rather than installing new and better machines – or on intangible capital rather than physical capital."[64] He went on to say that the dispersion of technology between firms has increased "perhaps because of the uneven ability of firms to innovate and use new technologies", as he said the OECD has documented. The highest and increased returns go to the firms best able to use the information technology, and are highly concentrated "in a few firms and only in certain segments of the labour market. At the same time, the firms that are not able to innovate and take advantage of new technologies as quickly are slipping behind and they feel under pressure. As a way of remaining competitive, many of these firms are responding by having a very strong focus on cost control. In many cases this translates into a focus on controlling labour costs. This cost-control mentality does not make for an environment where firms are willing to pay larger wage increases."[65]

120. In the ACTU's view, to the extent that the award-reliant service sectors are often likely to be those which are less able (or willing) to utilise digital technology advances, wages growth in these sectors will be slower. Firms in these sectors may also be unmotivated to innovate due to the rent-seeking strategies inherent in increasingly outsourced funding models. The minimum wage increase is the key, if not only, mechanism by which wage increases can be achieved.

121. The RBA Governor's speech showed the relative changes in employment and productivity in three sectors reproduced in Figure 29. Goods-related and business sectors have higher rates of productivity and lower employment growth since 2010, whereas household services have lower rates of productivity growth but higher rates of employment.

[64] Philp Lowe 2018 "Productivity Wages and Prosperity" Speech to AiG, Melbourne, 13 June. https://www.rba.gov.au/speeches/2018/sp-gov-2018-06-13.html
[65] Philp Lowe 2018 "Productivity Wages and Prosperity" Speech to AiG, Melbourne, 13 June. https://www.rba.gov.au/speeches/2018/sp-gov-2018-06-13.html

Figure 29 Employment and productivity in three sectors, indexes, RBA



122. In the ACTU's view, increases in the minimum wage and awards have also served in addition as a guide to negotiating wages in the less award-reliant sectors where measurable increases in actual productivity are more likely to be forthcoming.

123. Clearly, there is something missing throughout the methods of setting pay which enables appropriate increases in wages. One reason is the increase in weakness that has occurred in the bargaining power of workers. The ACTU maintains that increases in the minimum wage are intended to address this and should do so.

124. Chart 2.1 of the Statistical Report AWR 2018-19 shows a small recovery in 2018 of index measures of labour productivity, according to all measures shown - GDP per capita, GDP per hour worked, GVA per hour worked in the market sector, and RNNDI per capita.[66]

125. Table 2.1 of the Statistical Report AWR Review 2018-19 showed an increase in all the labour productivity growth measures shown over the year to September 2018 (most recent)

[66] FWC 2019 Statistical Report – AWR 2018-19, Chart 2.1 p.5

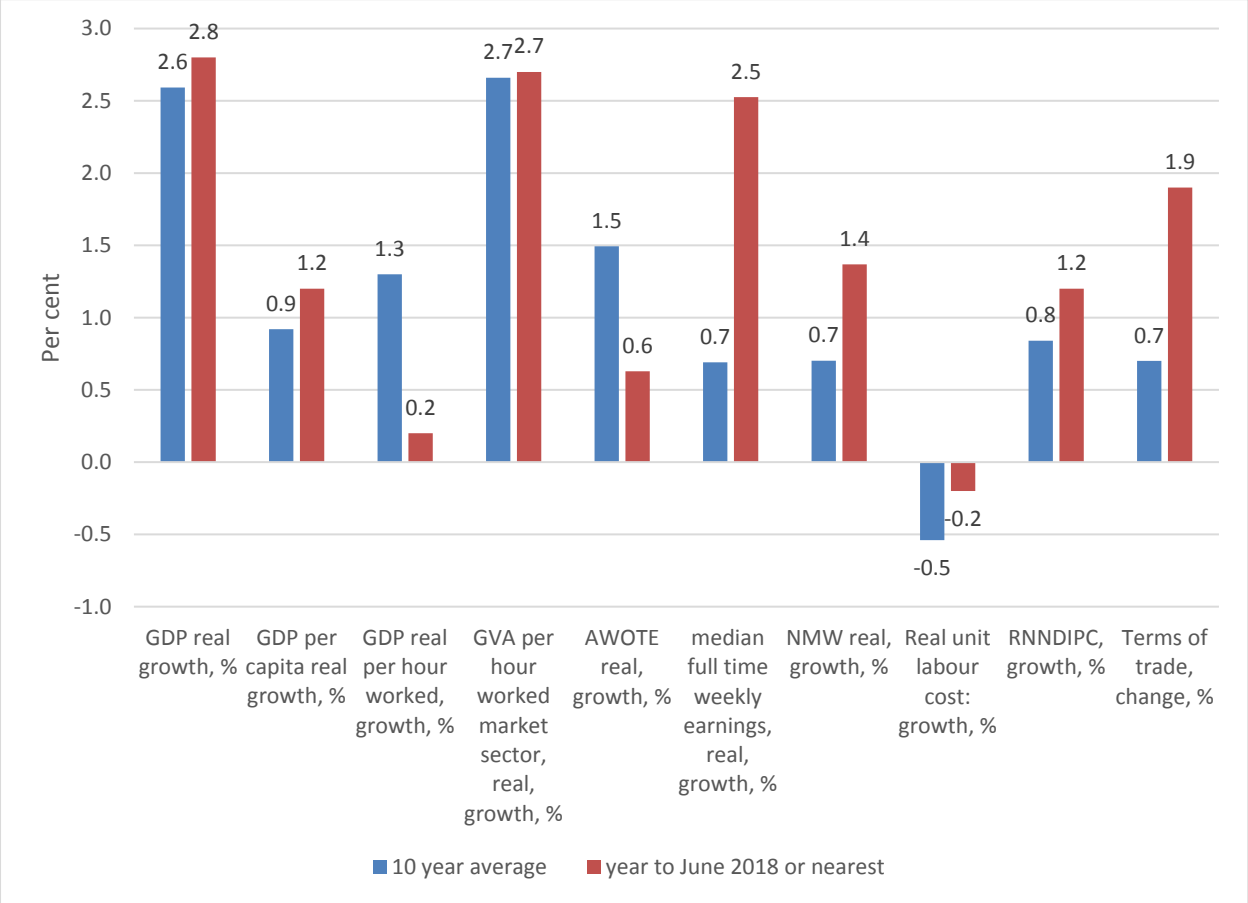
compared with the previous year.[67] GDP per capita grew 1.2% compared with the average for the previous ten years (2008-2017) of 1.1%. The increases in the other measures for the year to September 2018 were all below the average for the previous ten years. RNNDI, which is always very variable, increased 1.3% compared with 3.2% for the previous ten years. GDP per hour worked increased 0.6% compared with 1.9% over the previous ten years, and GVA per hour worked market sector increased 0.4% compared with 2.1% over the last ten years. Hence increases in hours worked contributed much more to increases in GDP and market sector GVA than did increases in productivity.[68]

126. Figure 30 shows that most productivity measures picked up over the year to June 2018 and just exceeded their 10 year averages. The exception was growth in GDP per hour worked which was lower than the 10 year average. Growth in GVA per hour in the market sector was higher than the previous year and exceeded the ten year average.

127. The real wage measures all grew more in the year to June 2018 than the ten year average, except real AWOTE which grew a full percentage point less at 0.6% than it had the previous year, and less than its ten year average of 1.5%. By contrast, real median earnings annual growth at 2.5% picked up a lot compared with the ten year annual average increase of 0.7%. Real unit labour costs fell less slowly at -0.2% than their ten year average of-0.4%. These data still indicate that wages are lagging behind those productivity increases that are observable. RNNDIPC growth reflected the influence of the terms of trade on the income included in it. The NMW increased by 1.4% in real terms from June 2018 compared with the 10 year average of 0.7%.

[67] FWC 2019 Statistical Report – AWR 2018-19, Table 2.1 p.5
[68] FWC 2019 Statistical Report – AWR 2018-19, Table 2.2 p.6

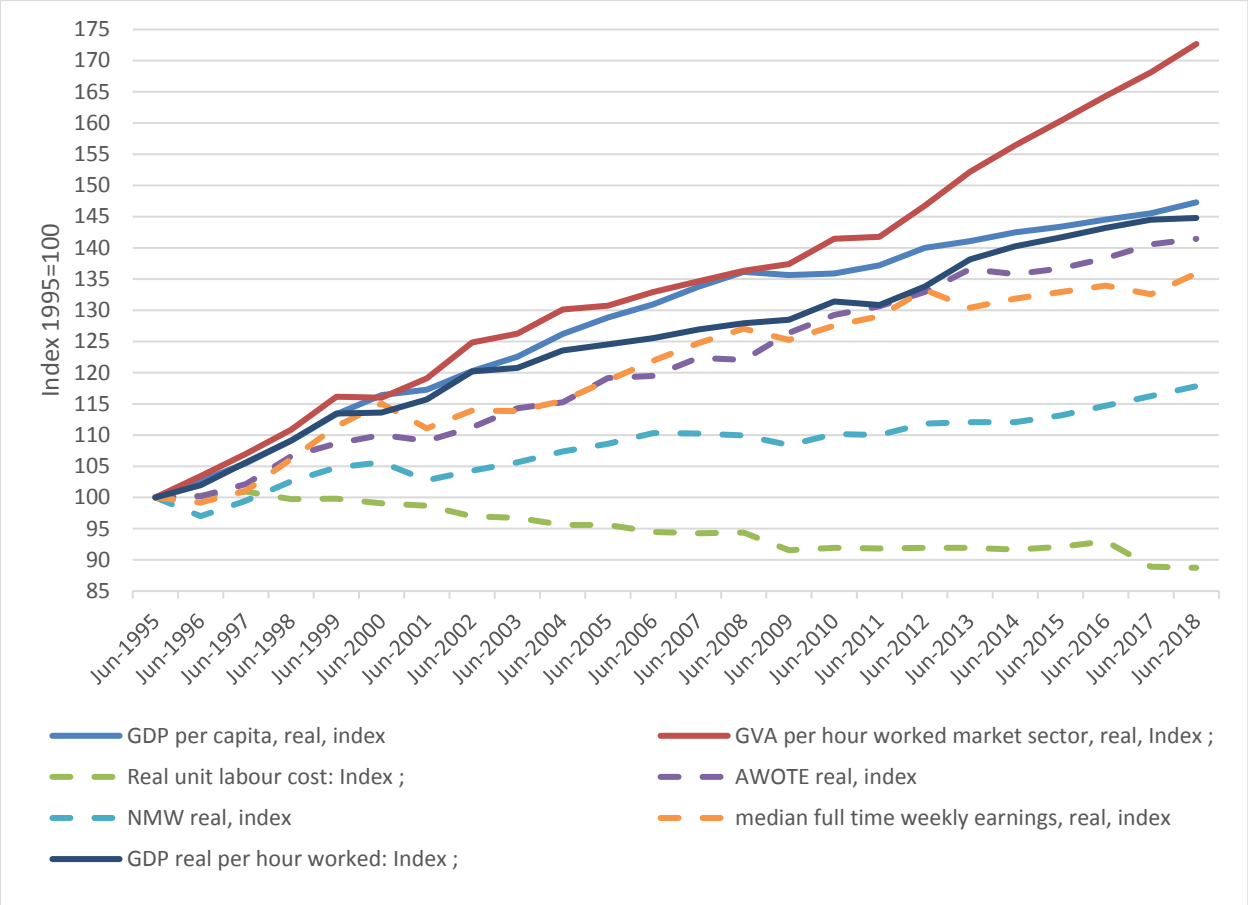
Figure 30 Ten year annual average growth, and annual growth for the year to June 2018 or nearest, in various productivity and wage measures, real, per cent



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

128. The three solid lines in Figure 31 in order from the top show indexes based on 1995=100 in real terms for GVA per hour worked, GDP per capita, and GDP per hour worked. The four dotted lines below that are in downwards order, real Average Weekly Ordinary Time Earnings (AWOTE); real median full-time earnings; real NMW; and real unit labour costs. As the measures are expressed as indexes, they only show the movements, not the levels relative to each other where comparable, at any point in time.

Figure 31 Various measures of labour productivity and wages, annual, 1995 to 2018

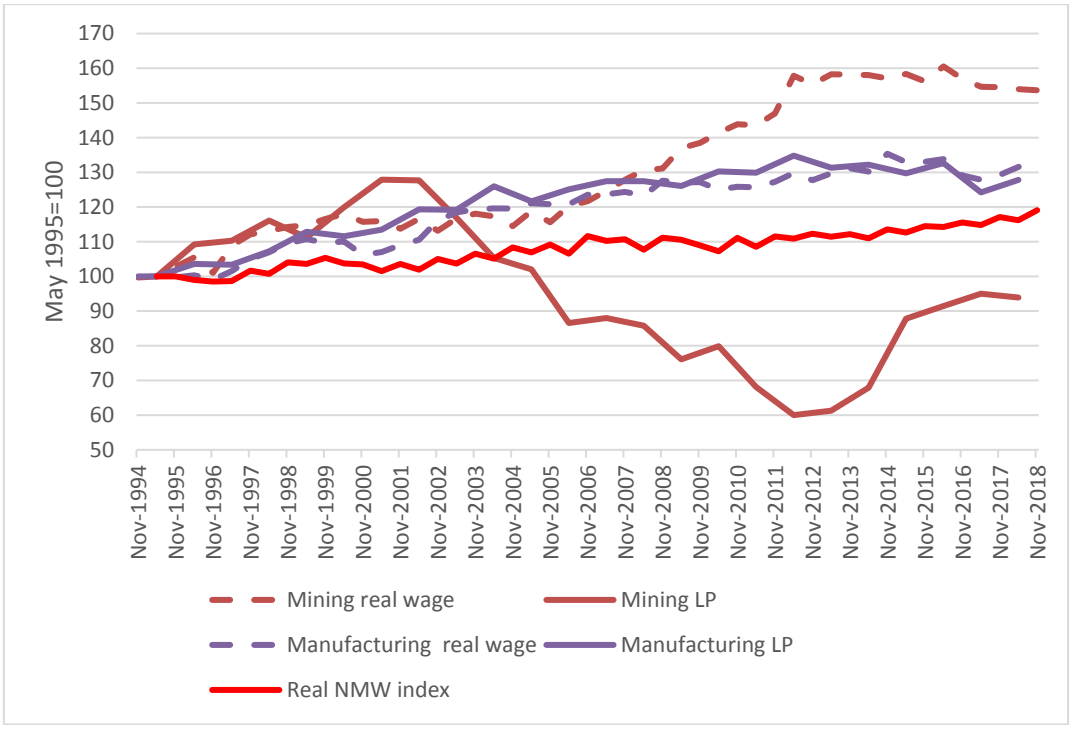


Sources: ABS 5204, 6302, 6401, 6333, NMW from Bray (2013) and FWC, and ACTU calculations.

129. In all cases shown in Figure 31, the labour productivity indexes grow faster overall than the wage measures. Even with a different starting date for the indexes, the results would be very similar. Average Weekly Ordinary Time earnings, AWOTE, generally fails to match the growth in labour productivity throughout the entire period since 1995. AWOTE grew more slowly last year than median full-time earnings, reflecting some reduction in incomes at the top slowing real AWOTE growth. This is combined with an impact of NMW increase of 2017 feeding through into median wage growth, and the effect of compositional changes.

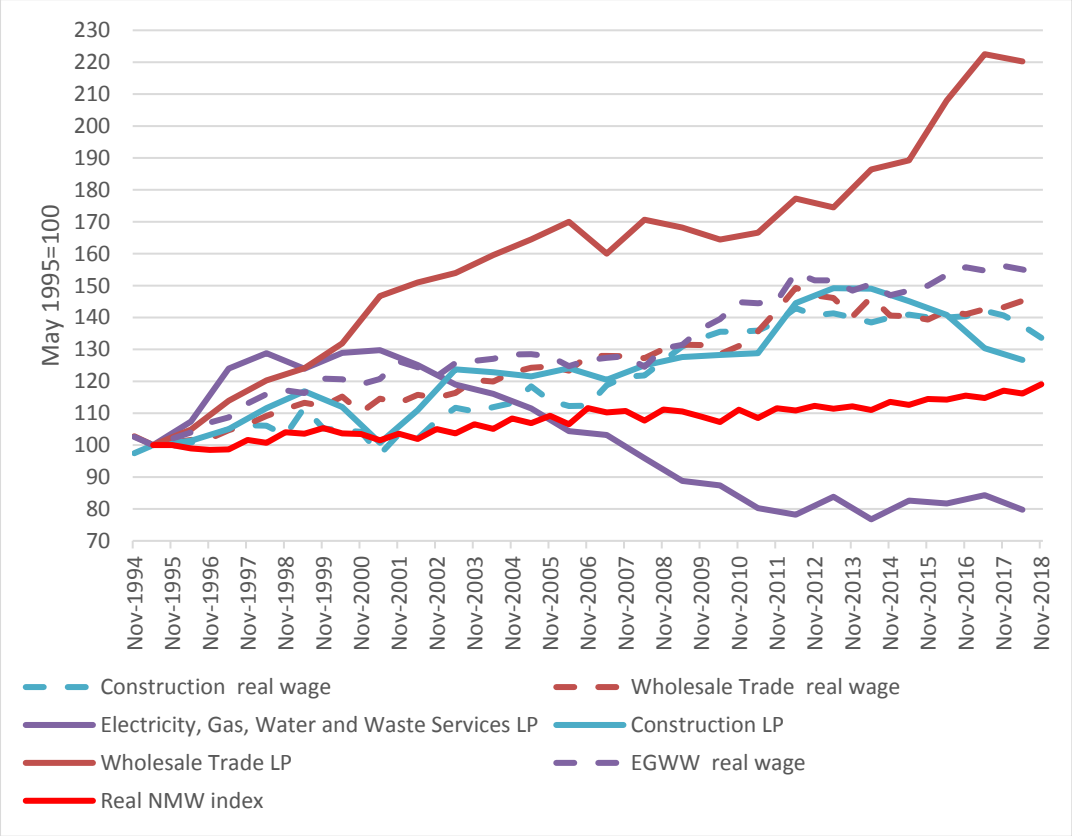
130. However, the relationship between labour productivity and wages across industry sectors is a lot more varied, particularly across the 'physical' sectors. Labour productivity is obtained from the ABS Multifactor productivity estimates, and wages are Average Weekly Ordinary Time Earnings deflated by cpi and indexed, in Figure 32, Figure 33, Figure 34 and Figure 35. Labour productivity is shown by dashed lines, and productivity by solid lines.

Figure 32 Average Weekly Ordinary Time Earnings and Labour Productivity, Mining and Manufacturing, indexes



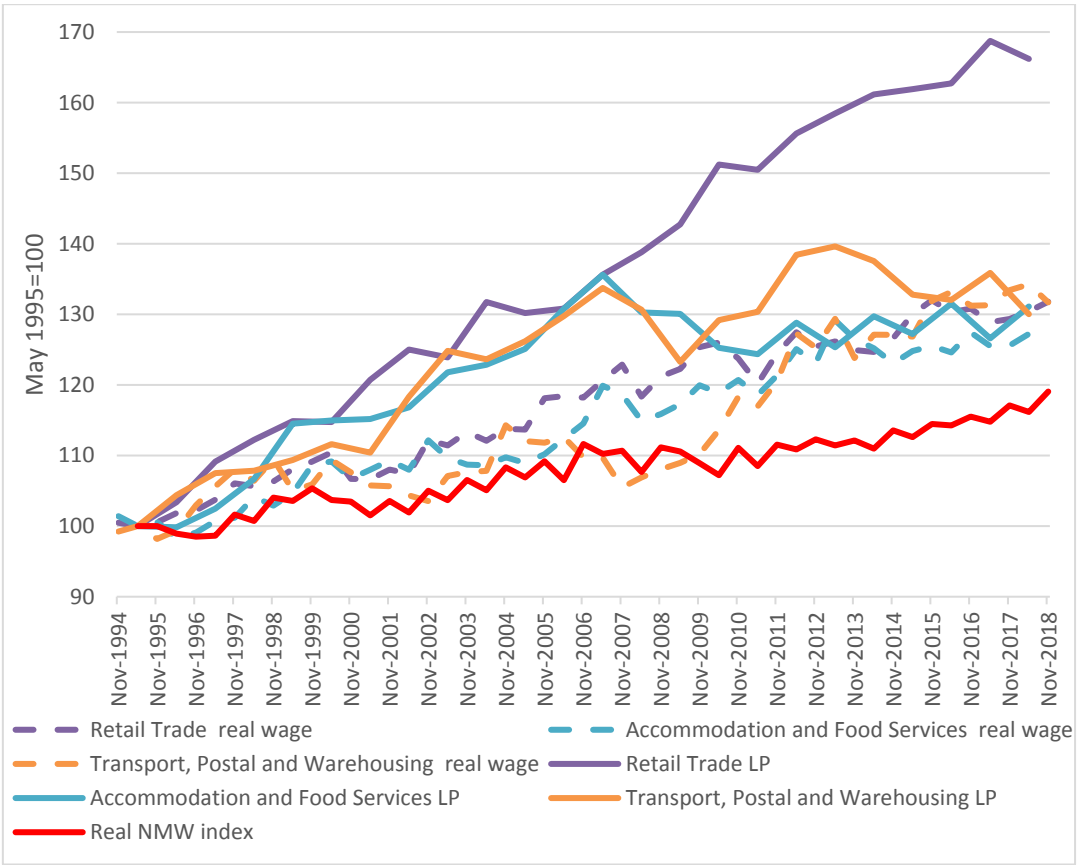
Sources: ABS 6302, 6401, 5260, NMW from FWC and Bray (2013)

Figure 33 Average Weekly Ordinary Time Earnings and Labour Productivity, Construction, Electricity Gas Water and Waste and Wholesale, indexes



Sources: ABS 6302, 6401, 5260, NMW from FWC and Bray (2013)

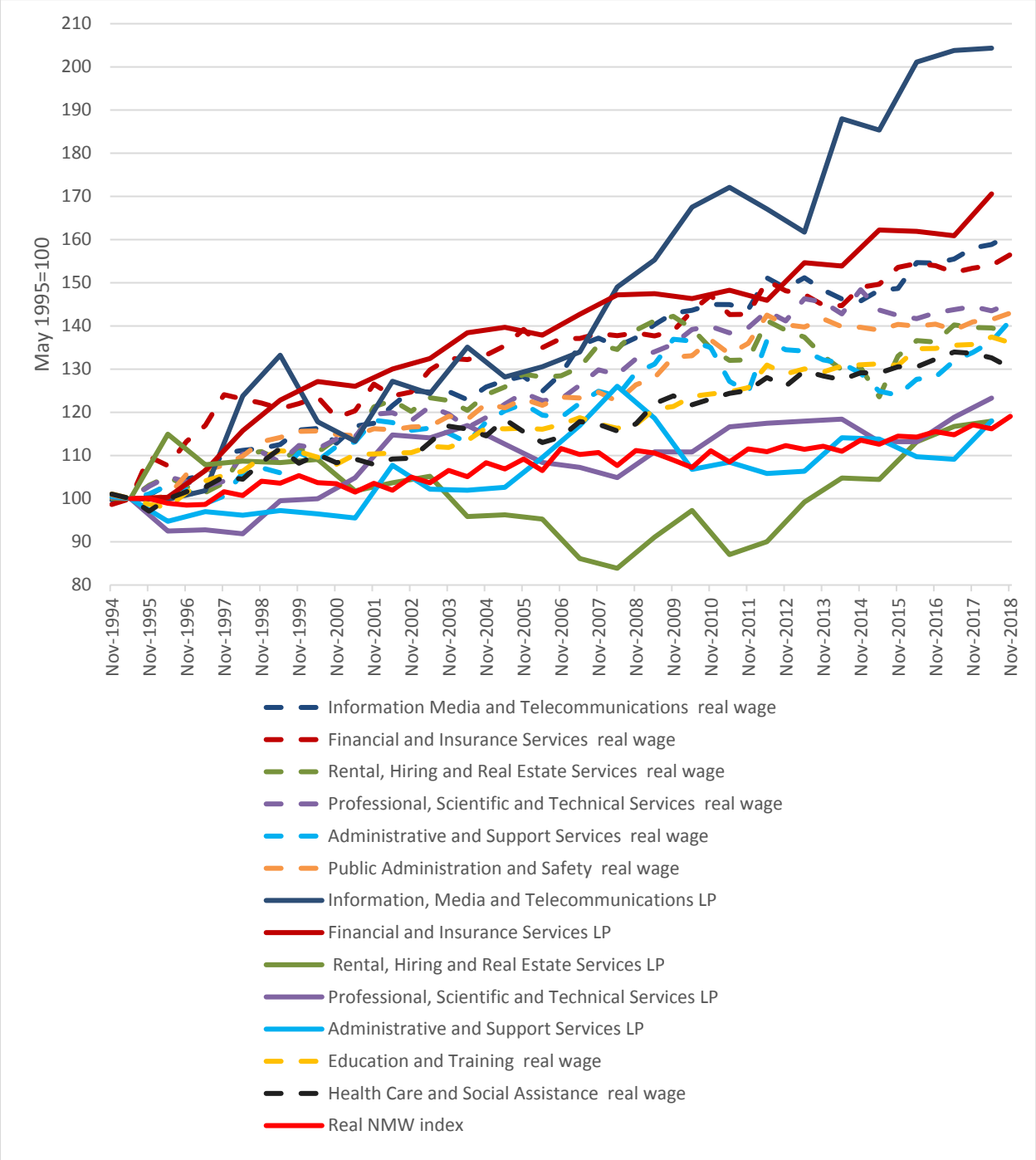
Figure 34 Average Weekly Ordinary Time Earnings and Labour Productivity, Retail, Accommodation and food services, and Transport postal and warehousing, indexes



Sources: ABS 6302, 6401, 5260, NMW from FWC and Bray (2013)

131. With the exception of mining, average wage increases are a lot more uniform across sectors and a lot more uniform than labour productivity increases. Clearly, there is a lot more at play than wage increases in determining the outcomes for productivity or the effect of wage growth on productivity. It appears that retail labour productivity has been pushed along by online sales, yet wages remain low and award reliance high in that sector. Accommodation and food services is similar but not as extreme. The apparent lack of relationship between labour productivity and wages is true for services too as shown in Figure 35. Even for Information media and telecommunications where there has been high labour productivity growth, wages have not grown much faster than for other sectors. Administrative and support services is an area where productivity is not well measured, and wages have been slow growing in this award-reliant area. Everywhere the minimum wage has not grown as fast as industry average wages over the period. A higher increase in the minimum wage would appear at least not to hinder productivity growth and may yet assist it.

Figure 35 Average Weekly Ordinary Time Earnings and Labour Productivity, various services, indexes



Sources: ABS 6302, 6401, 5260, NMW from FWC and Bray (2013)

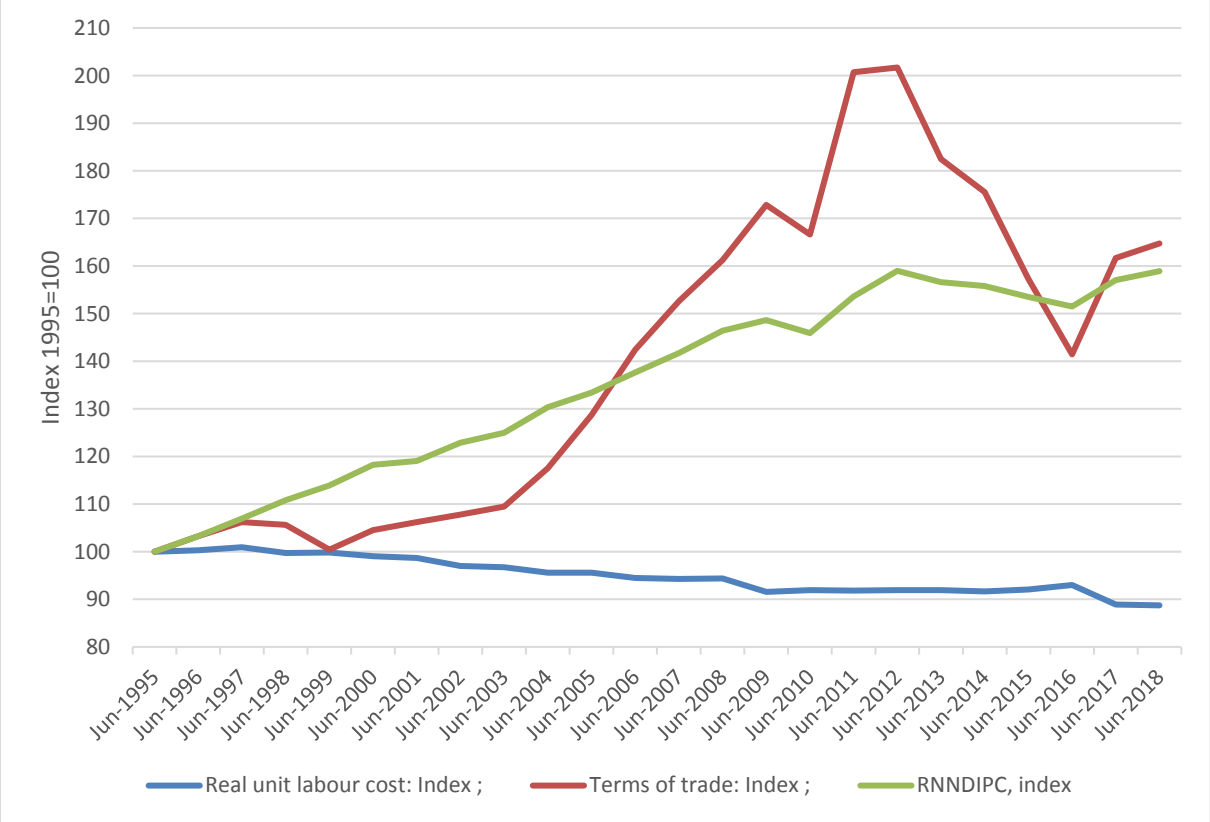
4.6 Terms of trade

132. The influence of the terms of trade can be seen in Figure 36, where the terms of trade moves real unit labour costs and RNNDIPC in opposite directions. As the terms of trade improve (one unit of Australian exports purchases more imports), net export income increases while unit

labour (and import) costs fall. Changes in international prices for Australian resource exports and in aggregate demand in its trading partners are major factors in Australia's terms of trade. Bulk commodity prices on the international markets have risen on trend since late 2015, driving the terms of trade improvement since then, and also boosting earnings abroad.[69]

133. In the ACTU's view, we cannot rely on improvement in the terms of trade to increase real income for workers and others on wage incomes. In any case, terms of trade improvements cannot be relied on to bring forth wage increases for lower paid people, otherwise these increases would have been observed for other wage measures from 2004 to at least 2010. Although it is difficult to predict the direction in the terms of trade at present, the RBA expects the terms of trade to moderate.[70]

Figure 36 Terms of trade, real unit labour costs and real net national disposable income per capita



Source: ABS 5204, 6401, ACTU calculations

[69] RBA 2019 *Statement on Monetary Policy* February, p.55 Graph 3.25
[70] RBA 2019 *Statement on Monetary Policy* February, p.68

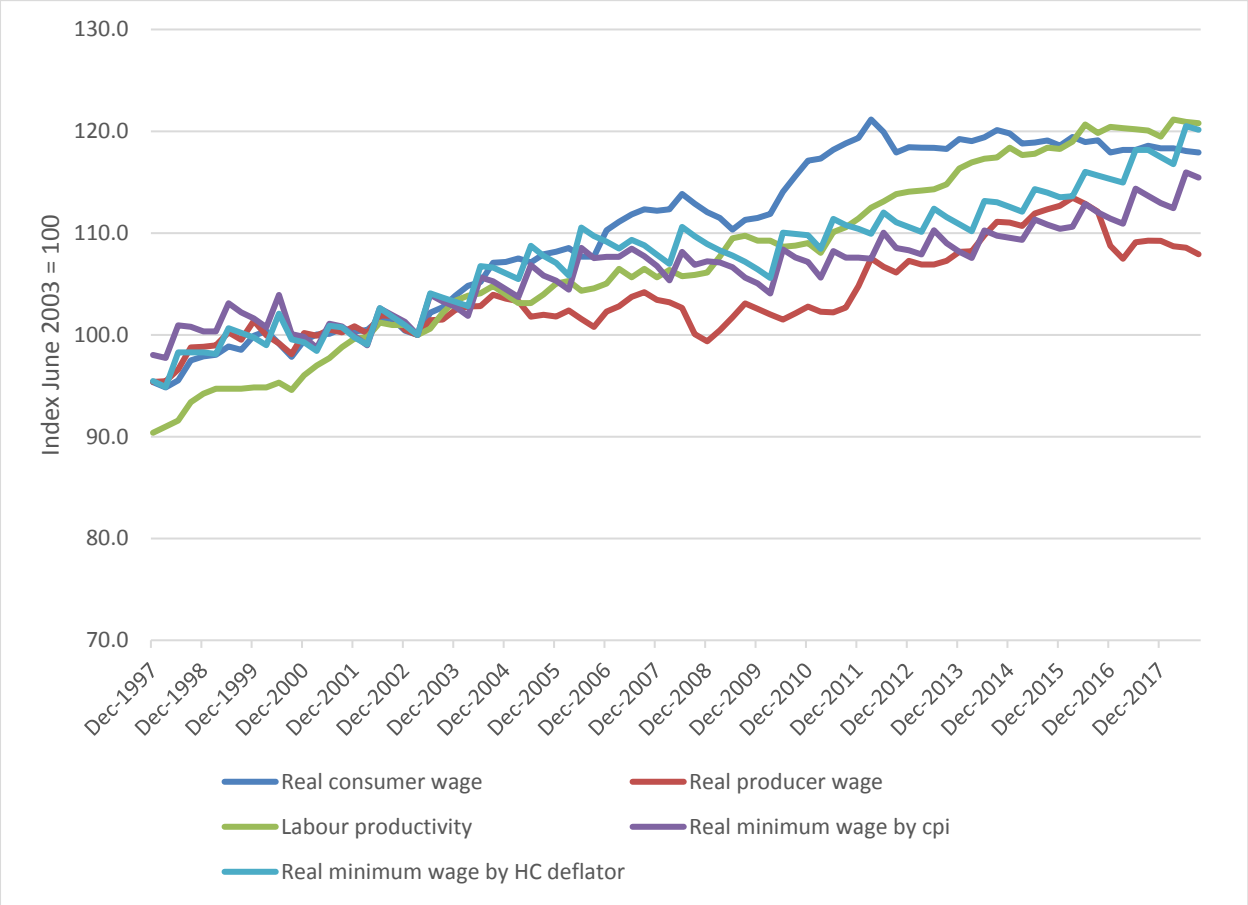
134. The Panel in its decision of 2017-18 refers to the increase in the terms of trade and the appreciation of the dollar as "driving a wedge between the growth in the prices facing consumers and the growth in the prices being received by producers." This was presented in a Chart produced by the Australian Government in response to a question on notice. [71] Based on this, during the resources boom, over 2002 to 2011, the real consumer wage rose 20%, while the real producer wage only increased by half that. However, from 2011 to 2017 it was noted that the real consumer wage had not increased at all while the producer wage and labour productivity rose until mid-2016 and then declined.

135. The ACTU sought to replicate as closely as possible and update the Australian Government's Chart in Figure 37. The exception is that Figure 37 shows the decline in real NMW growth over the quarters following the decision each year. Figure 37 shows that the "real consumer wage" is at the same level at September 2018 as it was seven years ago at September 2011. The "producer wage" index gap with the consumer wage index which had opened up with the mining boom and looked like it was narrowing has now widened again over the year to September 2018. The productivity growth index has also flattened out since mid 2016 as in the original chart but has increased slightly in 2018.

136. The increases of the last two years in the NMW show up in the real NMW indexes increasing faster than productivity and average wages (but of course from a much lower real dollar level). The household consumption deflator is re-weighted annually and includes more items (such as gambling and NG) that are not included in the cpi[72], and the NMW weighted by it shows an increasing gap with the NMW weighted by cpi. The NMW increases of the last two years are clearly impacting positively on the incomes of the award-reliant, but the increases are not sufficient to impact on overall wages and productivity measures.

[71] FWC 2018 AWR 2017-18 [158] – [159], Chart 2.14
[72] ABS 6461.0
http://www.abs.gov.au/AUSSTATS/abs@.Nsf/7d12b0f6763c78caca257061001cc588/6b3475f5c1b2e517ca25768e002c8376!OpenDocument

Figure 37 Real wages and labour productivity during the mining boom



Source: Real producer wage is average compensation per employee ABS 5206 deflated by GDP deflator; real consumer wage is average compensation per employee deflated by household consumption deflator; labour productivity is GDP per hour worked index, real NMW is NMW from FWC and Bray (2013) deflated by cpi and by household consumption deflator. All series indexed at March 2003=100

4.6 Multifactor productivity

137. The Panel concluded in its last Decision that the proposition that productivity growth has been exceedingly weak over the past decade … is not supported.[73] In our view, the position has not changed in this regard.

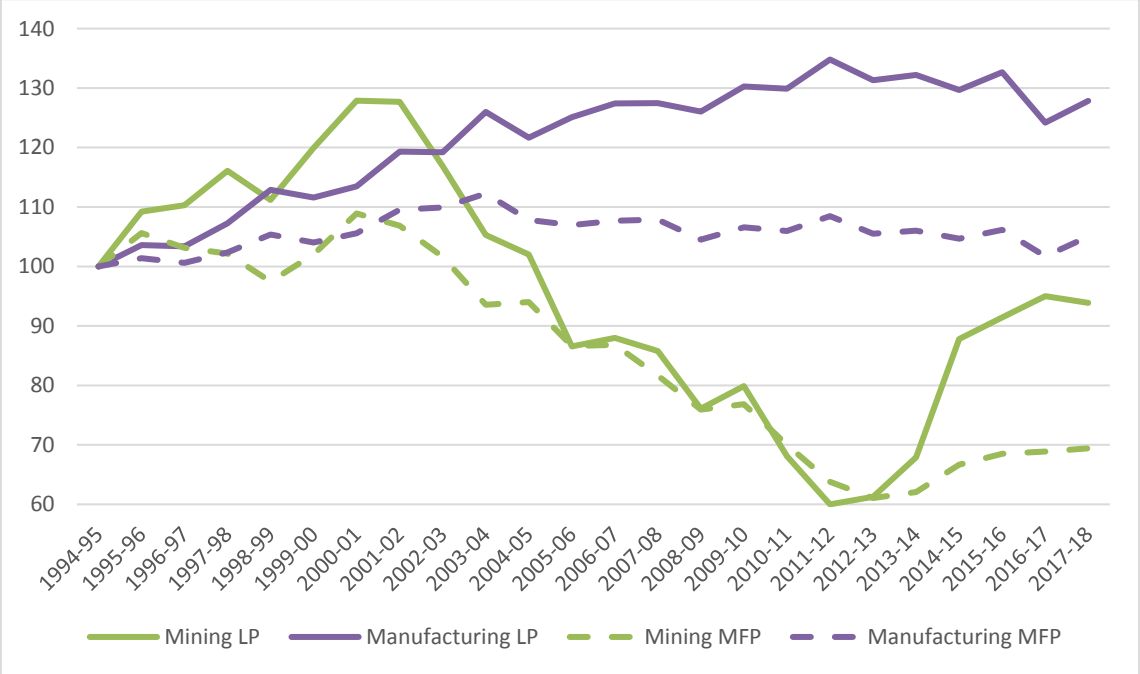
138. In three out of the four most award-reliant industry sectors where MFP is measured, both labour productivity and MFP have positive annual average increases over the ten years to 2017-18.[74] Those sectors are Retail trade, Accommodation and food services, and Other services, with an average of zero MFP growth in the latter. Administration and support

[73] FWC 2018 AWR 2017-18 [129]. Multifactor productivity (MFP) is an outcome of the combination of measured inputs, that is it is the contribution to productivity not attributable to measured inputs.
[74] FWC 2019 Statistical Report – AWR 2018-19 p.8, Table 2.3.

services had an average -0.2% labour productivity growth and 0.3% MFP growth for the ten years.

139. Annual average labour productivity growth and MFP growth indexes are compared for the physical industries in Figure 38 and award-reliant service industries in Figure 39 and Figure 40. Again, we note that the service sectors are those where productivity is low and or poorly measured.

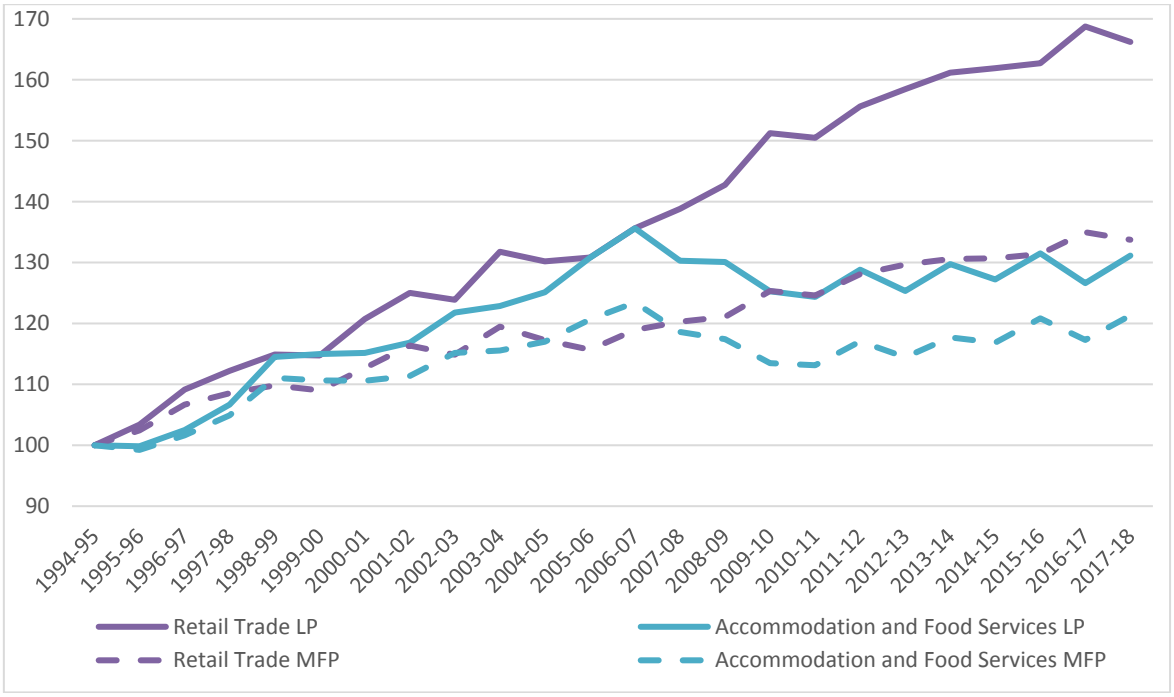
Figure 38 Labour productivity and MFP growth in mining and manufacturing, index



Source: ABS 5260.0.55.002 and ACTU calculations

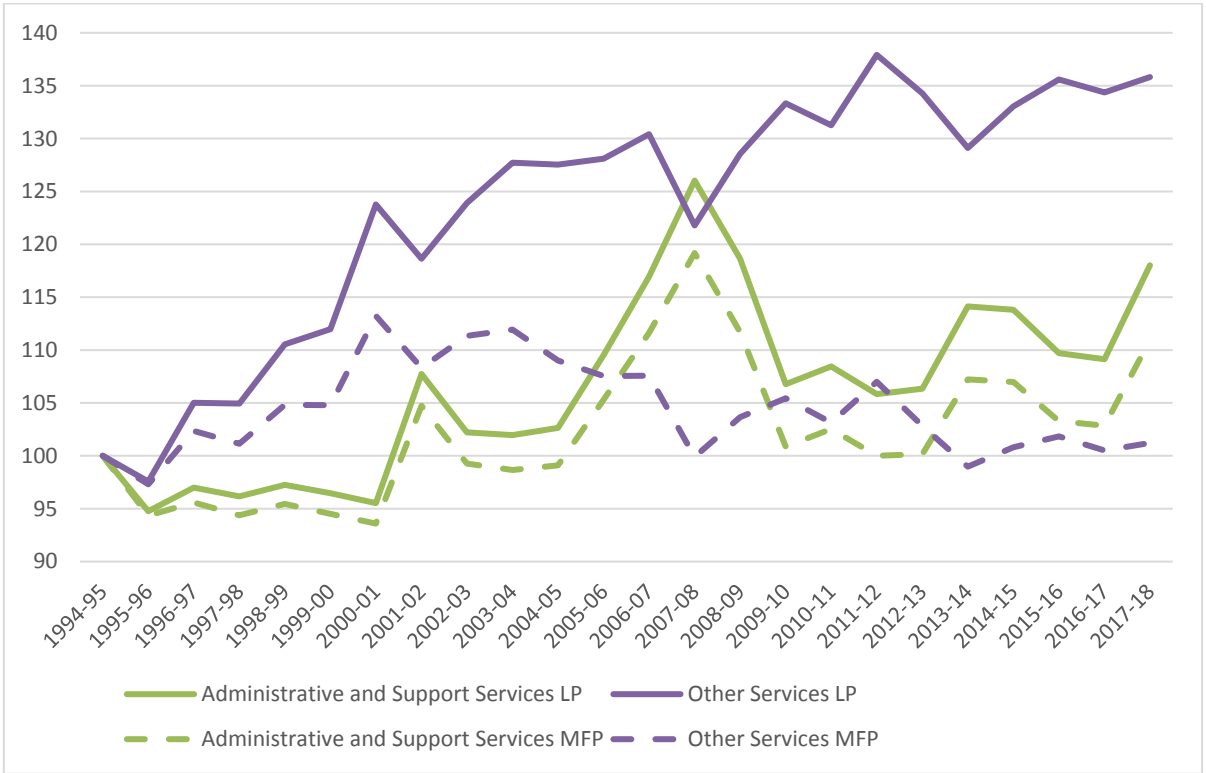
140. Figure 38 shows the impact of the end of the mining investment period on labour and multifactor productivities which have risen since 2012-13.

Figure 39 Labour productivity and MFP growth in Retail and Accommodation and food services , index



Source: ABS 5260.0.55.002 and ACTU calculations

Figure 40 Labour productivity and MFP growth in Administrative and support services and other services , index

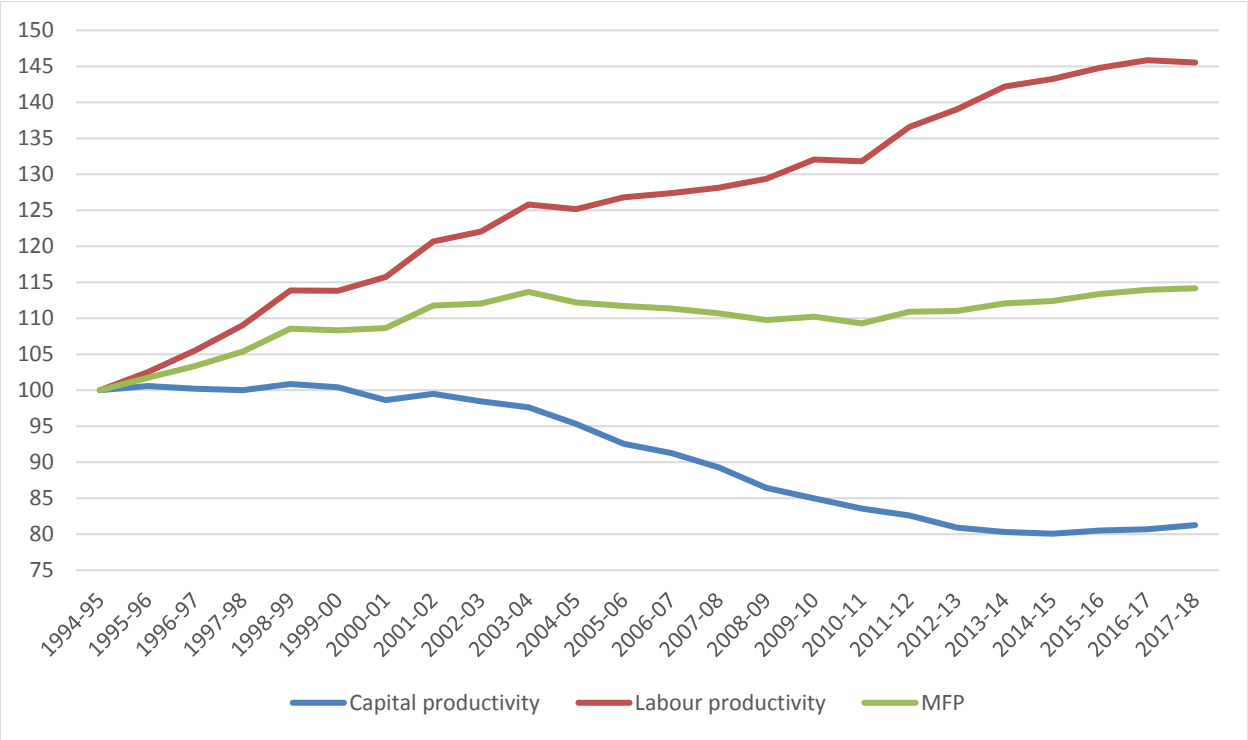


Source: ABS 5260.0.55.002 and ACTU calculations

141. All award-reliant industries shown in Figure 39 and Figure 40 show positive growth in both labour productivity and MFP in the last year, with the exception of Retail which had experienced a prolonged period of MFP growth. This is likely to be due to the increase in online purchasing.

142. Figure 41 shows capital productivity and MFP both growing slowly, MFP since 2010-11 (0.2% in the last year) and capital productivity since 2014-15 (picking up 0.7% in the last year). Labour productivity has declined slightly in the last year when it was -0.2%.

Figure 41 Estimates of labour, capital and multifactor productivity, market sector*, annual



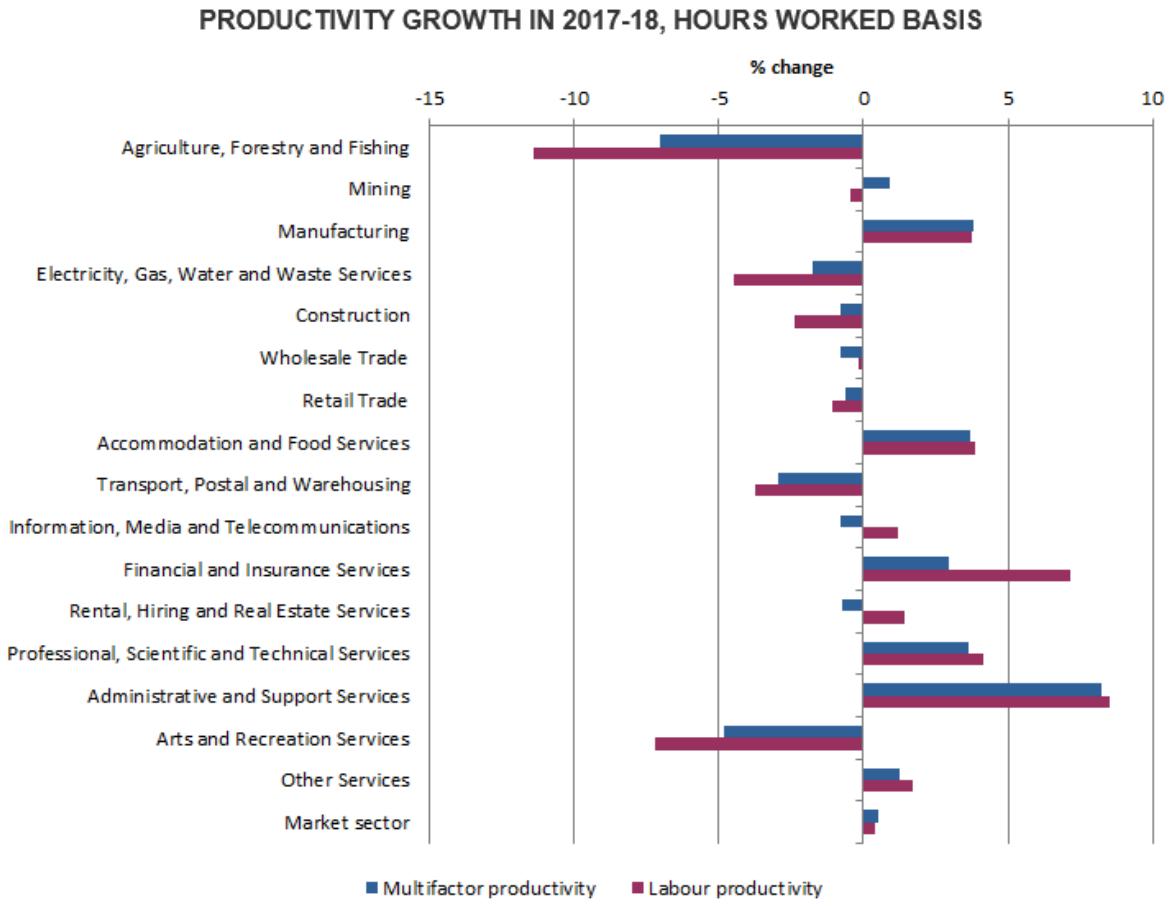
Source: ABS Cat 5260.0.55.002, quality adjusted hours worked basis, and ACTU calculations. * The market sector excludes services where output is particularly not well measured, that is excluding Public admin. and safety, Education and training, and Health Care and social assistance.

143. The productivity trends and outcomes do not suggest anything that obviates the need for wage increases, and a minimum wage increase in particular.

4.8 Industry sector productivity

144. Chart 2 from ABS 2017 *5260.0.55.002 - Estimates of Industry Multifactor Productivity, 2017-18* is reproduced at Figure 42. It refers to the year 2017-2018 and enables comparison across industries of multifactor productivity and labour productivity increases for that year. It is clear that neither labour productivity nor multifactor productivity growth is exceptional for the mining sector.

Figure 42 ABS Chart from *Estimates of Multifactor Productivity, 2017-18*



Source: reproduced from ABS *Estimates of Industry Multifactor Productivity* 2017-18, Cat. 5260.0.55.002, https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5260.0.55.002Main+Features12017-18?OpenDocument accessed 27 Feb 2019

145. As the Panel noted in its decision last year, "annual measures of productivity must be approached with caution."[75] Recognising this, the ACTU notes nonetheless the positive increases in productivities for three award-reliant areas, the exception being Retail. This is an

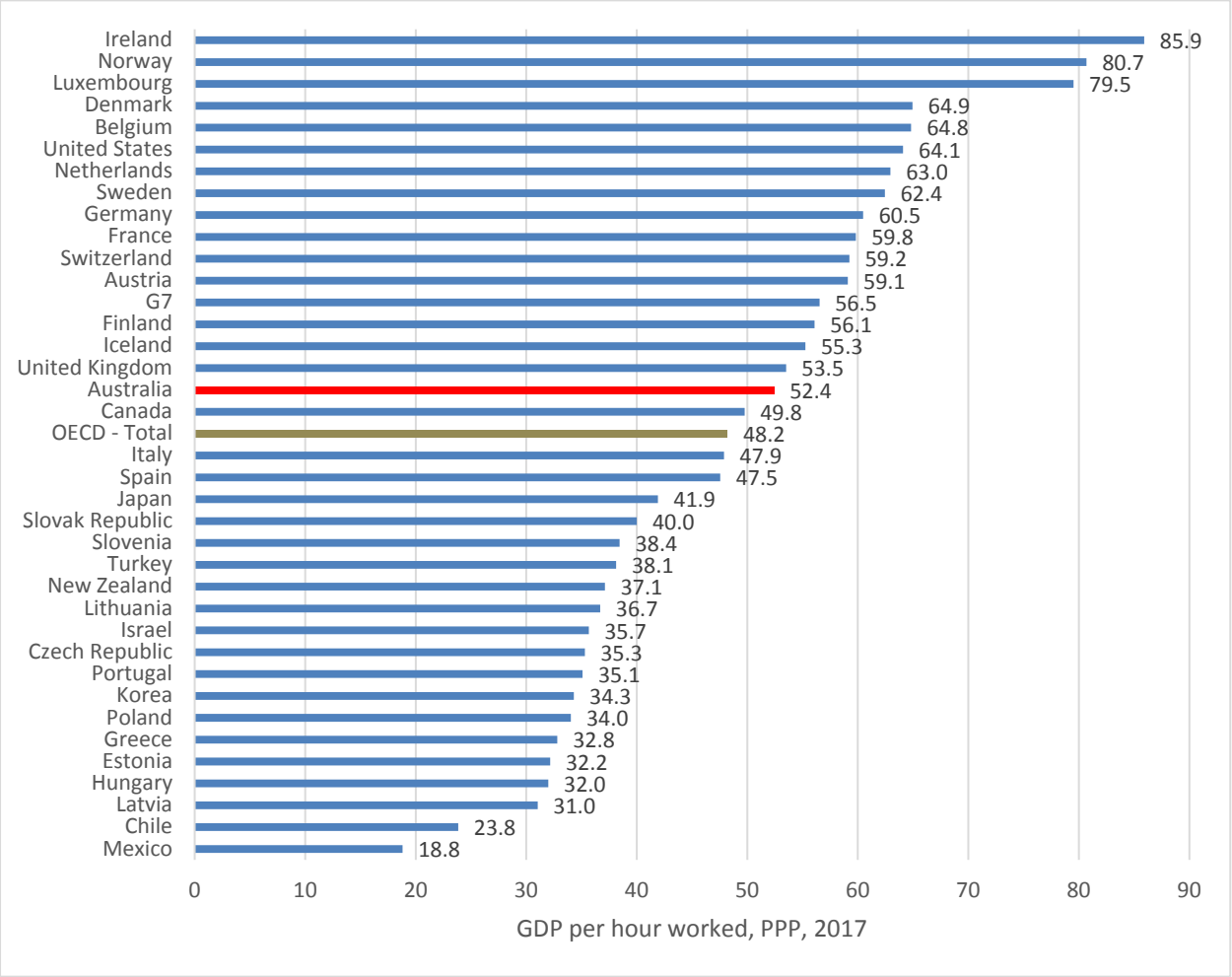
[75] FWC 2018 AWR 2017-18 [67].

indication that the minimum wage increase of 2017 has not apparently hindered productivity growth, and may indeed have assisted it.

4.8.1 International productivity comparisons

146. On average in 2017, Australian workers produced goods and services worth US$52.4 per hour worked in Purchasing Power Parity (PPP) terms. This compared to an OECD average of US$48.2 per hour worked, a narrowed gap on 2016. Australia's level of labour productivity in 2017 was ranked in the bottom half of the high income OECD countries, as shown in Figure 43. This is a reflection of the capital and other inputs combined together with each hour of work.

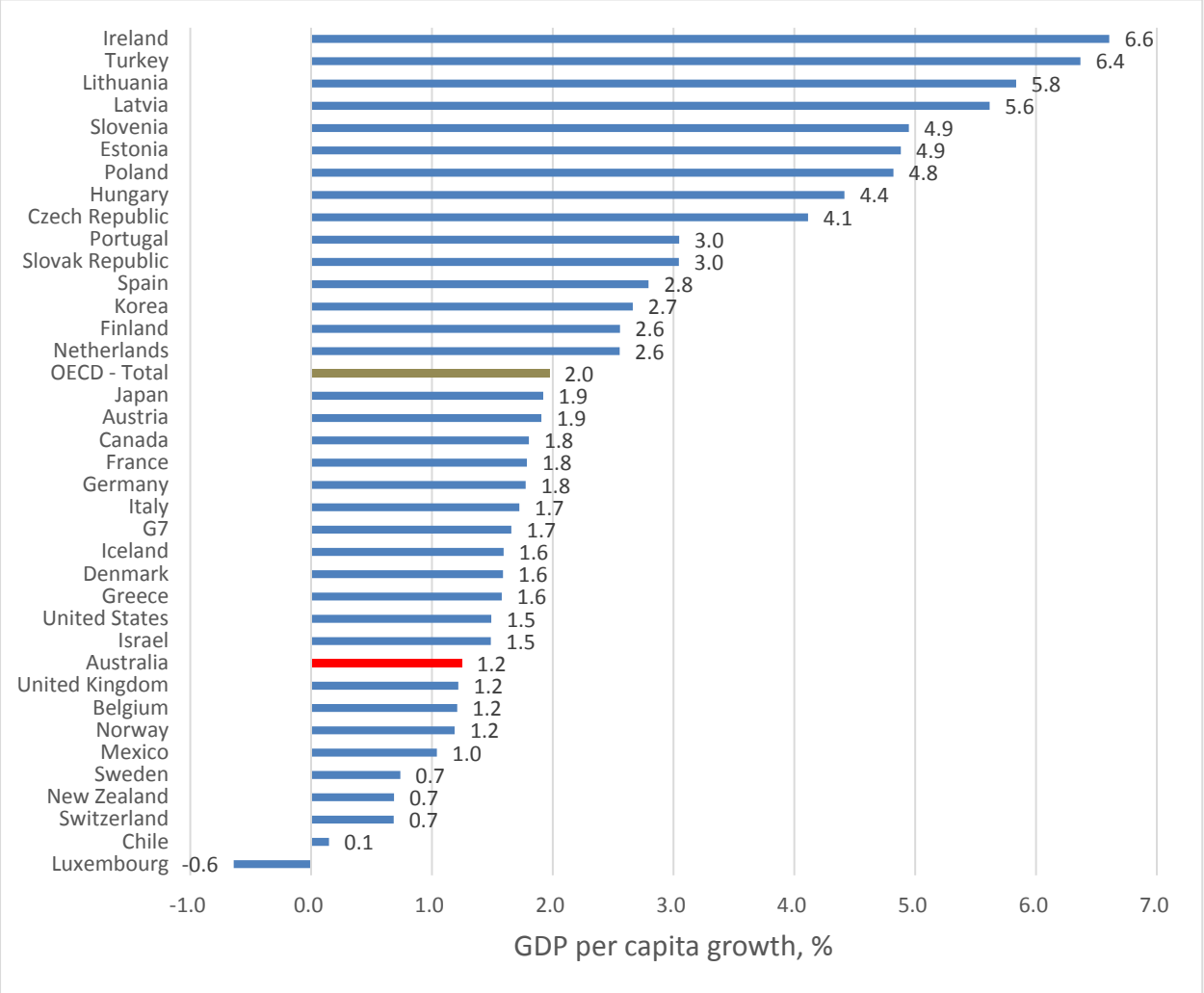
Figure 43: Level of labour productivity (GDP per hour worked) in OECD countries, 2017, PPP US dollars



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

147. Figure 44 shows the growth rate in GDP per capita rates across OECD countries in 2017. Australia shows one of the slowest growth rates in GDP per capita at 1.2% increase, below the OECD average which has picked up to 2.0%. The G7 country average was 1.7% growth in GDP per capita in 2017.

Figure 44: GDP per capita growth in OECD countries, constant prices, 2017, %



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

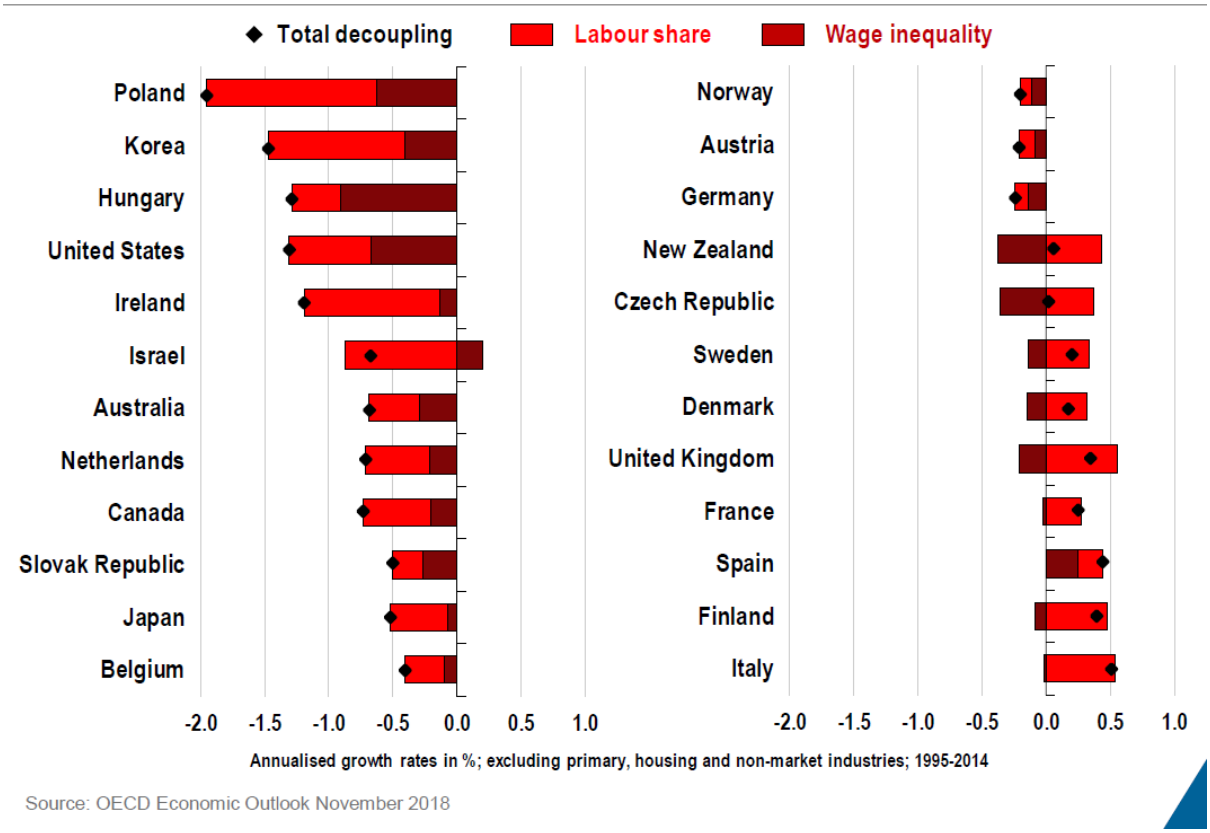
148. According to the OECD, Australia's wage growth has lagged behind productivity growth by an average of 0.7% per annum over at least twenty years.[76] The OECD reports that Australia is one of several countries which "have been grappling not only with slow productivity growth but have also experienced a slowdown in real average wage growth relative to productivity growth, which has been reflected in a falling share of wages in GDP. At the same time, growth

[76] OECD Economic Outlook for November 2018, ''*Decoupling of Wages from Productivity: What implications for Public Polices'*.

in low and median wages has been lagging behind average wage growth, contributing to rising wage inequality. Together, these developments have resulted in the decoupling of growth in low and median wages from growth in productivity."[77]

149. The OECD Economic Outlook of November 2018 presents cross country measures of the extent of decoupling between labour productivity and wages from 1995 to 2014 including Australia as shown in Figure 45.

Figure 45: OECD "Large Heterogeneity in decoupling across countries"



Source: OECD Economic Outlook November 2018

150. A decline in the share of output that workers receive as wages indicates a decline in wages relative to their contribution to output, that is, labour productivity. An increase in wage inequality, indicated by the gap between the median wage and the average wage, shows that lower paid workers are increasingly not being paid their contribution to output.

[77] OECD Economic Outlook for November 2018, ''*Decoupling of Wages from Productivity: What implications for Public Polices'*, p.2

151. The OECD shows this in Figure 45. Figure 45 shows the percentage change over twenty years to 2014 in labour's share (red) and adds to it the percentage change in wage inequality (brown). The black diamond adds the two together to show the overall decoupling effect. The more negative the value for decoupling, the greater the decoupling. (Note that Figure 45 does not reflect changes to productivity itself, rather, it looks only at changes in the gap between productivity and wages.)

152. Based on the OECD approach, Australia has had one of the highest rates of decoupling of wages from productivity over the twenty years, the seventh highest of 24 comparable OECD countries, with only the US and Ireland in the high income countries with greater decoupling.

153. The same measures for the gap between wages and productivity over the ten years from 2004 to 2014 show that the ranking of the decoupling measure has changed little, with still Australia eighth in rank. Four high income countries, Netherlands, Canada, Ireland and the US had greater decoupling of wages and productivity over the ten years. [78]

154. While there has been significant decoupling across the OECD since the 1990s, there have been differences amongst countries. The OECD notes the importance of collective bargaining institutions for transmitting productivity gains to wages.[79] In the ACTU's view this argument can be equally well applied to minimum wage increases.

[78] OECD Economic Outlook for November 2018, ''*Decoupling of Wages from Productivity: What implications for Public Polices',* p.56
[79] Economic Outlook for November 2018, ''*Decoupling of Wages from Productivity: What implications for Public Polices',* p.63

4.9 Unit labour costs and the labour share of income

155. The Panel said in the 2017-18 decision that "real unit labour costs remain at unusually low levels."[80] This continues to be the case. The real unit labour costs annual index is shown by the bottom line in Figure 31. Figure 31 indicates that real unit labour costs dropped further in 2017-18, on an annualised basis according to ABS 5204.

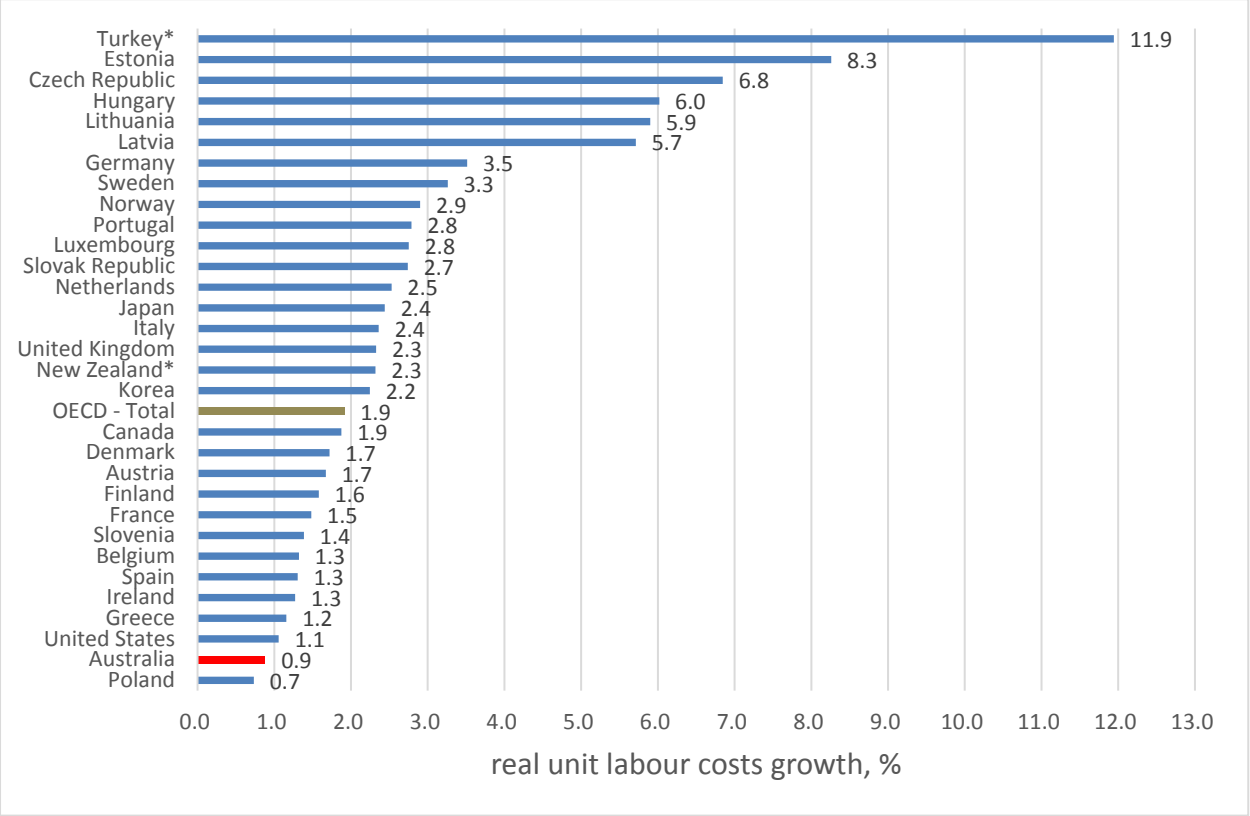
156. Real Unit Labour Costs (RULC) are defined by ABS as representing "a link between productivity and the cost of labour in producing output. Nominal ULC measures the average cost of labour per unit of output while a Real ULC adjusts the nominal ULC for general inflation. Positive growth in real ULC indicates that labour cost pressures exist."[81] This is not to be observed in the data in ABS 5204, 5206 or from the Fair Work Commission's *Statistical Report - AWC 2017-18*.

157. Based on the data in Chart 2.3 of the *Statistical Report – AWR 2018-19*, RULC appears so far to be on a downward trend from 2015.[82] Real unit labour costs fell sharply from the 1990s to 2009. Real unit labour costs then remained fairly static until 2015, rising slightly to the end of 2017 before falling in 2017 and flattening out in 2018.

158. Australia's quarterly real unit labour cost grew 0.9% from the September quarter 2017 to the September quarter 2018, the slowest in the OECD except for Poland. The OECD average was a full one percentage point higher, as shown in Figure 46 below. Real unit labour cost quarterly growth increased more than it did for the previous year in 24 OECD countries including Australia.

[80] FWC 2018 AWR 2017-18 [134]
[81] ABS 5206, December 2015
http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5206.0Main+Features2Dec%202015?OpenDocument accessed 26 February 2018
[82] FWC 2019 Statistical Report – AWR 2018-19, Chart 2.3 p.8

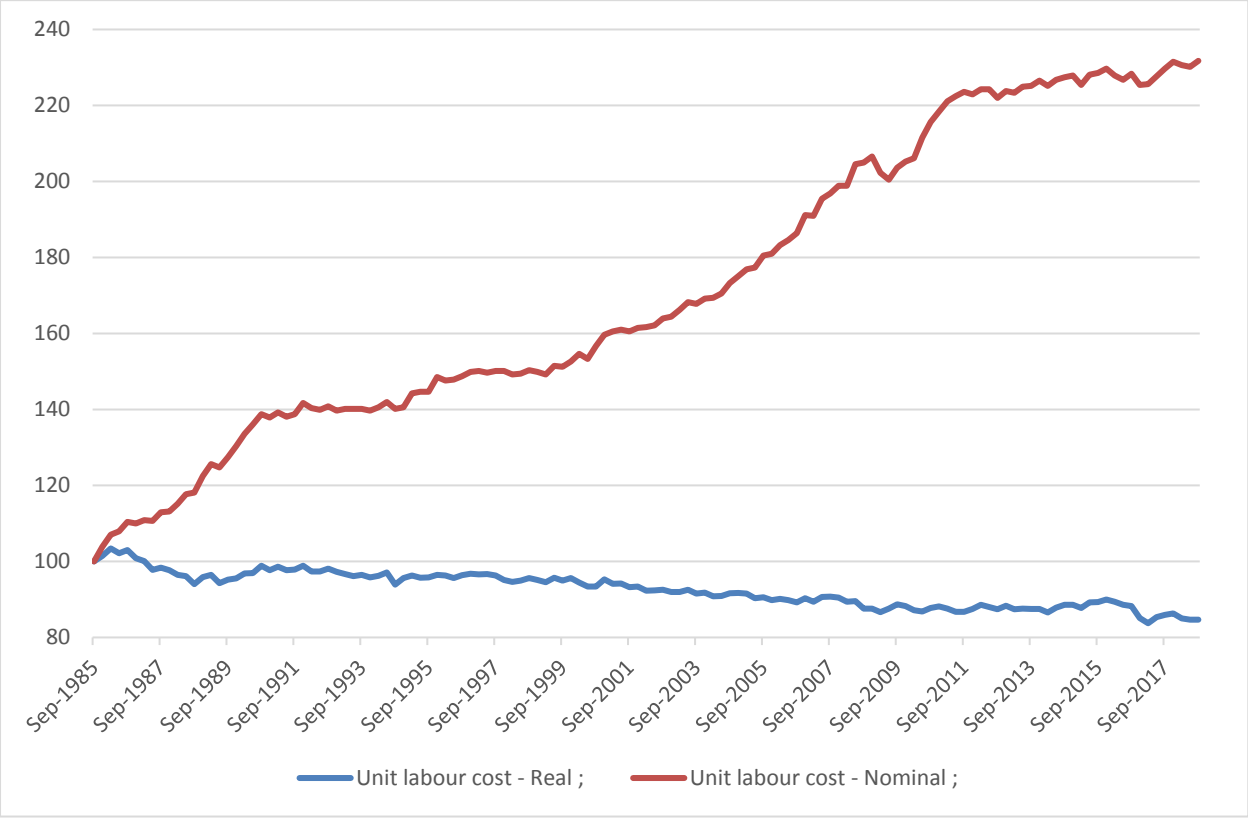
Figure 46: Growth in quarterly real unit labour costs, OECD countries, year to September 2018



Source: OECD https://stats.oecd.org/Index.aspx?DataSetCode=PDBI_I4 unit labour costs, growth of quarter over same quarter of previous year, seasonally adjusted. * year to June 2018

159. A long-term perspective sheds light on the recent movements of the RULC. Figure 47 presents ABS index data, re based to September 1985 (the start of the series published), for nominal and real unit labour costs, to September 2018. Real unit labour costs are the nominal unit labour costs adjusted for inflation. Over the year to September 2018 Australia's real unit labour costs fell 1.5% (seasonally adjusted, ABS Cat 5206042), less than the previous year to September. This is likely the same data as in Chart 2.3 in the *Statistical Report – AWR 2018-19* but starting from 1985 in order to obtain a longer term picture. Real unit labour costs have declined on trend over the whole period, with two dips evident in the late 1980s and then at the GFC. Based on that, an atypical movement mostly downward is evident over the last three years, leaving RULC close to the lowest they've ever been, as shown in Figure 47.

Figure 47: Nominal and real Unit Labour Costs, index, 1985-2018



Source: ABS 5206042, seasonally adjusted, ACTU calculations

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

161. Chart 3.1 in the Statistical Report – AWR 2018-19 presents the wages and profits shares in total factor income.[83] It shows an increase in the share of profits over the year to December 2018. The wages share has dipped slightly then flattened over the same period. This has followed a three percentage points jump in profits share over 2015 and a greater corresponding fall in wages share over a similar period. The apparent halt in the decline of the wages share cannot be regarded as a reason that a minimum wage increase is not required, as no more could the previous increase in wages share between 2013 and 2015. The share of wages is around the level of seven years ago. The recent increase in profits share does not suggest employers will be put into hardship by paying it.

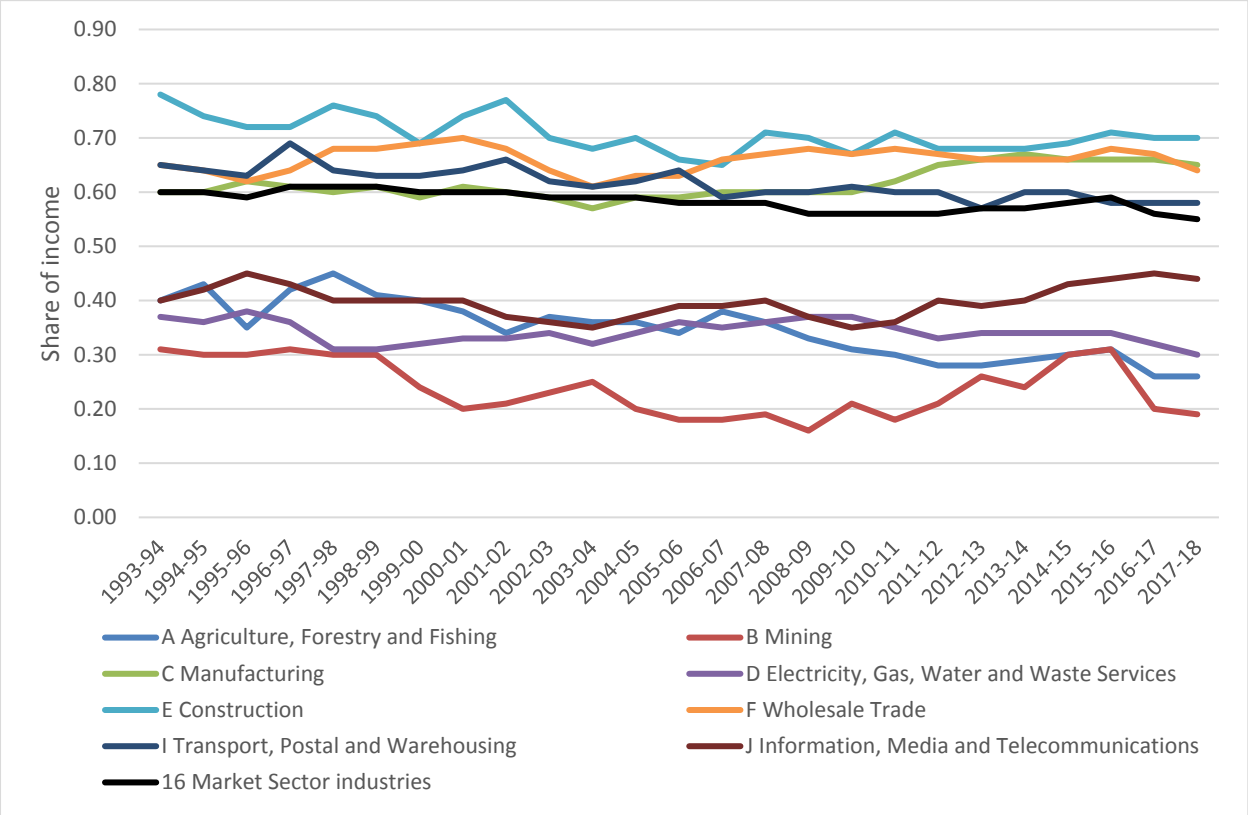
[83] FWC 2019 Statistical Report – AWR 2018-19, Chart 3.1 p.9

162. The increased share of profits is the more concerning given that the employment intensive services share of the economy has been growing at a faster rate than the more capital intensive share as indicated in Figure 17.

163. The estimates of the employee compensation share of income from ABS data are close to mirror images of the shares of gross operating surplus, depending on how the share of gross mixed income - the other part of income corresponding to that of unincorporated enterprises (not shown) - varies slightly over time.

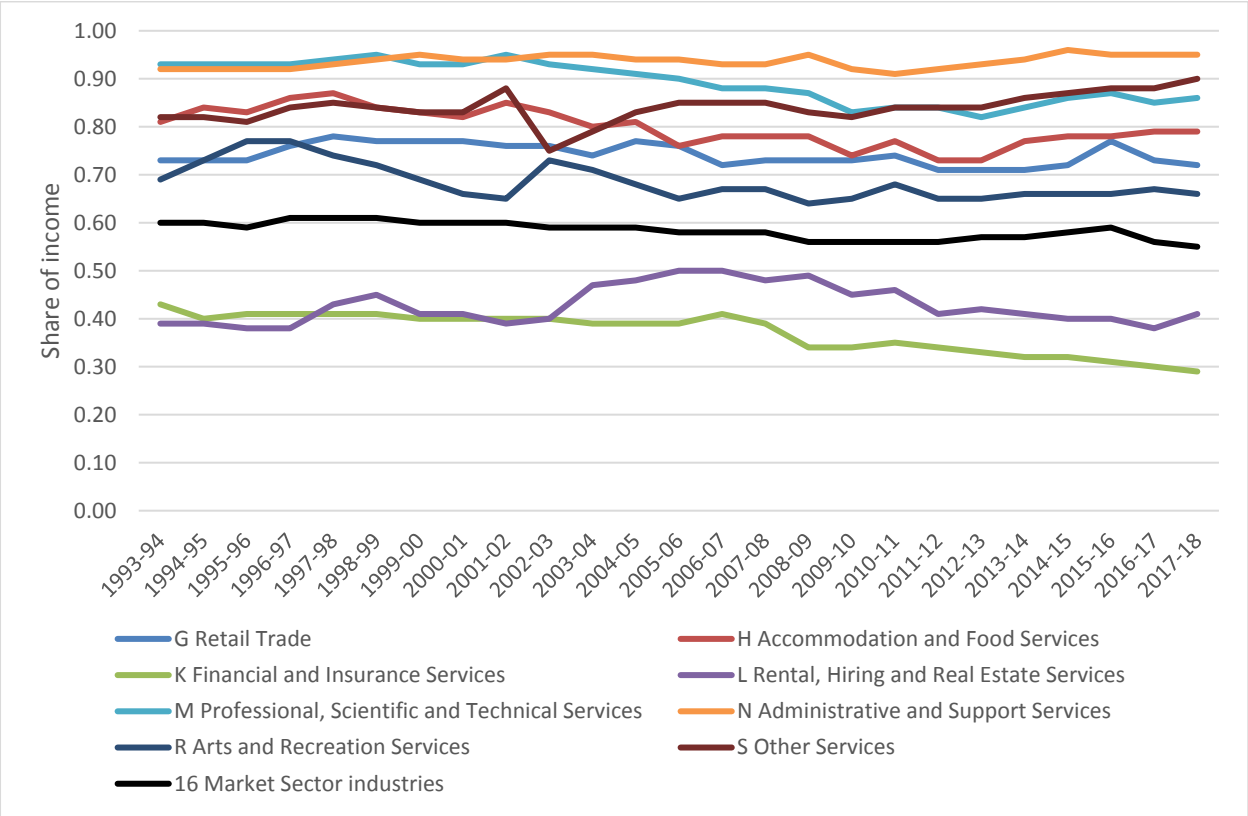
164. Figure 48 and Figure 49 present the labour shares of income from ABS for its MFP estimates in Cat 5260, Table 14, for industrial and services sectors respectively, both compared with market 16 sector labour share of income (black line). It is clear that the labour shares of income are generally larger for services, yet few have improved in the last two years. Both industrial and services sectors' shares show a tendency to move down, although this is not consistent across individual sectors. Nor does the tendency appear greater in either of the two. Also, the labour shares of some sectors have moved downwards prior to the GFC and started recovering afterwards. The labour shares in 11 sectors have fallen over the last year, two more than the previous year.

Figure 48 Labour income shares, industrial production sectors



Source: ABS 5260.0.55.002 Table 14

Figure 49 Labour income shares, services sectors



Source: ABS 5260.0.55.002 Table 14

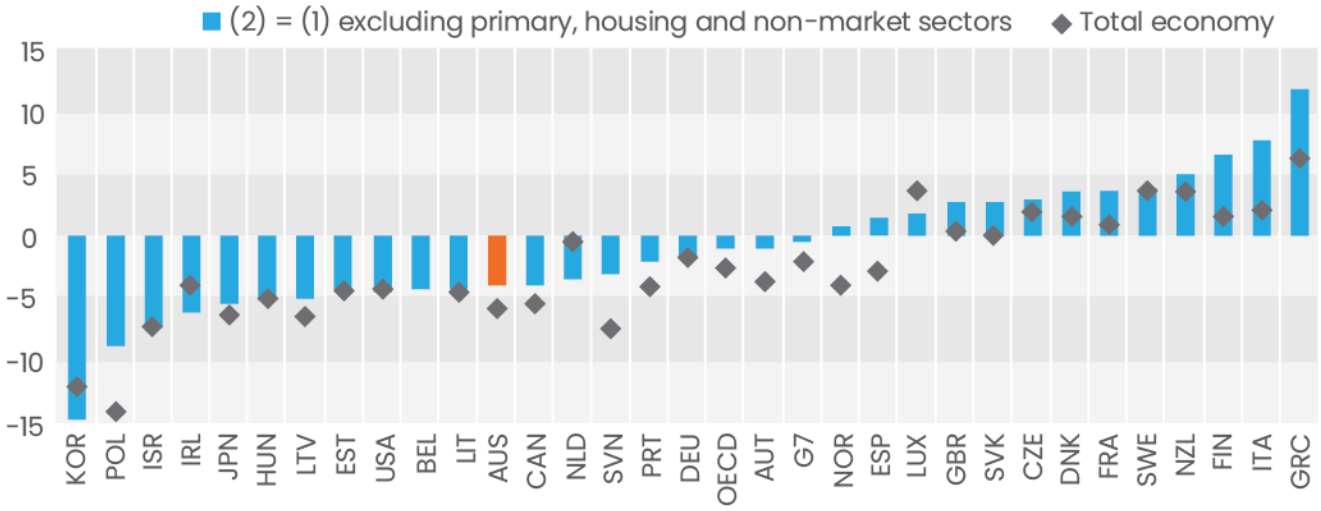
165. The same ABS data shows the labour share of income has fallen for the 16 market sector average over the year to June 2018 by one percentage point of income, compared with two percentage points the previous year. This was matched by a percentage point increase in the profit share.

166. The market share does not include some award-reliant sectors such as Healthcare and social assistance. The Retail trade labour share fell one percentage point in the year to June 2018, with Accommodation and food services and Administration and support labour shares of income remaining unchanged. Other services' labour share of income increased two percentage points, reflecting the high growth in this labour-intensive area.

167. It is important to view recent movements in the labour share of income in the context of a broader and more significant trends in the medium term. The decline in the labour share seen through the late 1990's and the early 2000s and, according to the ABS, was only

temporarily disrupted by the effect of the global financial crisis on company profits, with some volatility seen since[84]. Further, the ABS noted that the labour share has declined in many countries in the last two decades. However as can be seen from Figure 12 this is not the case in all OECD countries. It is also evident that decline in the wage share in Australia is much greater than the OECD average and on par with the decline in the USA. It is notable that over the last two decades that wage share in New Zealand increased by roughly 5 percentage points while it declined by about the same amount in Australia.

Figure 50: Labour share income evolutions OECD countries 1995-2014 % points



Source: OECD 'The Framework for Policy Action on Inclusive Growth'2018 page 47

4.10 Profits

168. The Treasury has said in MYEFO it has revised up its total tax receipts by $8.3 billion in 2018-19, due to, among other things, "higher growth in corporate profits in 2018-19, particularly mining company profits." It said that "Labour market conditions have remained strong, with business profits helping to sustain strong employment growth." The Treasury also expected that "improving business conditions and profits could contribute to a stronger than expected increase in non-mining business investment." [85] From this the ACTU infers that business can also afford to pay a decent minimum wage increase.

[84] ABS, "Trends in the labour share of income in Australia", January 2018
[85] The Treasury 2018 *Mid Year Economic and Fiscal Outlook* December, p.3, p.13, p.14

169. Similarly the RBA expects that "solid growth in corporate profits is also likely to support investment spending." [86] The IMF also expects "solid growth in corporate profits".[87] On that basis a good minimum wage increase can also be supported.

170. The *Statistical Report – AWR 2018-19* shows that non-mining company gross operating profits grew a healthy 6.8% over the year to September 2018. This is higher than the average of 4.9% per year over five years and of 3.2% per year over ten years.[88] This compares with the 27.1% increase for mining companies over the year to September 2018, and five year average of 8.3% and ten year average of 3.3% for mining companies. The latter, over the mining investment boom period, is on a par with non-mining companies. The most recent Business Indicators show growth in mining profits for the year to the December quarter 2018 as 26.3% and non-mining profits as 3.8%, seasonally adjusted.[89] The latter cannot be regarded as the signal of a downturn given the volatility and lumpiness of investment spending.

171. The *Statistical Report – AWR 2018-19,* Table 3.4, shows that profit margins, "operating profits before tax divided by sales and service income" for small business have been higher than for all business, 2016-17 being the most recent, and all very healthy.[90] Profit margins were 16.9% for small business compared with all sizes at 11.6% (excluding Financial and insurance services) in 2016-17. This compares with the five years to 2015-16 in which small business profit margins were 16.7% and all sizes were 11.1%. These figures suggest that business and small business, in particular, are not struggling and could certainly afford (and did afford) an increase in the minimum wage.

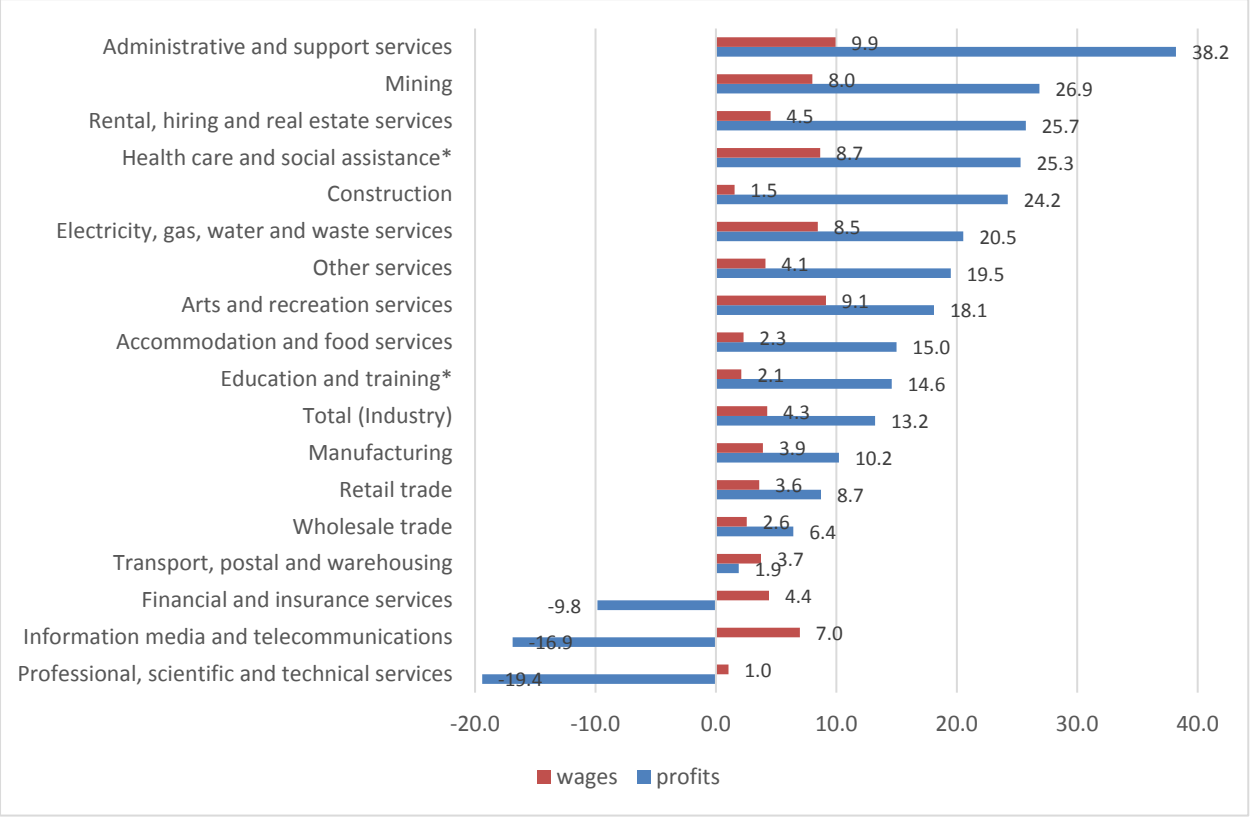
172. Moreover, the small business profit margins coincide with a much higher award reliance than for large business. According to ABS data from *Employee Earnings and Hours* for May 2018, 35.6% of small business (less than 20 employees) employees (763,100) rely on awards for their pay levels, compared with 19.1% of employees (1,470,000) in larger businesses with 20 or more employees. Further, the average hourly payment for award-reliant workers in small businesses was $25.10 per hour, actually 19.0% less than for award-reliant workers in

[86] RBA 2019*, Statement on Monetary Policy*: February 2019, p.3
[87] IMF 2019 IMF 2019 Australia Staff Report for the 2018 Article Iv Consultation, IMF Country Report 19/55 January 18, p.11
[88] FWC 2019 Statistical Report – AWR 2018-19, p.11, Table 3.3
[89] ABS 5676 seasonally adjusted
[90] [90] FWC 2019 *Statistical Report – AWR 2018-19*, p.12, Table 3.4, based on ABS 8155

large businesses, where it was $31 per hour. Overall hourly rates of pay were also much lower for small business at $31.10 per hour compared with large businesses at $41.24, a difference of 24.6%.[91]

173. The ACTU notes that the small business sector accordingly has had much higher exposure to the 3.3% and 3.5% minimum wage and award increases of 2017 and 2018 respectively than did large business. Yet this hasn't left small businesses facing a decline in profitability: Figure 51 shows how quarterly profits have grown compared with wages over the year to September 2018.

Figure 51 Growth rate in quarterly wages and profits, industry sectors, nominal, 12 months to September 2018



Source: ABS 5676, gross operating profits, except profits for Health care and social assistance and Education and training which are for private profits from ABS 8155 for 2016-17 from Table 3.4 final column, in *Statistical Report AWR 2018-19*, p.12.

174. All the more award-reliant sectors have increased quarterly profits at a much faster rate than wages from September quarter 2017 to September quarter 2018. Administrative and support

[91] ABS 2018 *Employee Earnings and Hours*, May 2018 63060DO005_201805, and ACTU calculations

services profits have grown particularly fast, followed by private profits in Health care and social assistance. Under these circumstances, it is hard to see how a decent increase in the minimum wage would be an impost, let alone for small business more than large business.

4.11 Business bankruptcy rates

175. The *Statistical Report - AWR 2018-19* shows that the business bankruptcy rate increased slightly from 3.6% for 2016-17, to 3.7% for 2017-18, while remaining fairly constant over the last three years and still not much above the lowest point of 0.34% at the GFC, based on Australian Financial Security Authority (ASFA) data. The bankruptcy rate is defined as the number of business-related bankruptcies divided by the number of owner managers of an unincorporated enterprise in the economy.[92]

176. There were fewer business-related bankruptcies in 2017-18 than any year since 1995-96. The series is very volatile. There were 16,811 business-related bankruptcies in the past financial year, 2017-18, 3.0% up from 16,320 recorded in 2016-17, and compared with a 5.1% fall the year before.[93] Bankruptcies rose in 2017-18 in all states except Victoria where they fell 5.4% and ACT where they fell 5.6%. The total number of bankruptcies for the other states fell 5.0% in 2016-17 and then rose 5.3% in 2017-18.

177. We cannot expect that any future increase in bankruptcy that might occur for small business would be an outcome of increased wages. It is to be recalled that when, in 2000, the Productivity Commission defined the bankruptcy rate that is now adopted in the statistical report, it also modelled the influences on business bankruptcy between 1928 and 1999.[94] Notwithstanding the high wage inflation periods that occurred during that period, wage pressures were not listed as a factor that was found to influence the bankruptcy rate over that period (even within a discussion about "Labour and demographic variables", which solely considered the cost of strikes and "entrepreneurial quality"). Rather, the model developed suggested that non-wage factors such as credit availability, interest rates, the unemployment rate and consumption rate were important. Reflecting this, the Productivity Commission suggested that wage costs were not much of a factor even for businesses at the margins:

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[92] See Chart 3.3 of the *Statistical Report – AWR 2018-19*, p.14.
[93] Australian Financial Security Authority 'Quarterly provisional personal insolvency time series December quarter 2018', Australian Government, Canberra https://www.afsa.gov.au/statistics/time-series [Accessed 28 Feb 2019].
[94] Bickerdyke, I., Lattimore, R., Madge, A. (2000), "Business Failure and Change: An Australian Perspective", Productivity Commission, at Appendix D.3

"The implication of the likely negative value of expected entrepreneurial returns for a near-bankrupt firm is that any shifts in employer wages, pensions or other returns outside of the firm are unlikely to have any additional impact on the decision to declare bankruptcy. Accordingly, while a variable such as the ratio of average entrepreneurial returns to wages and salaries may be useful in predicting the frequency of voluntary exits of reasonably solvent firms, it is unlikely to have much value in predicting the frequency of bankruptcies."[95]

4.12 Business entry and exit

178. The number of businesses overall grew by 3.4% in 2017-18, up from 3.1% the previous year and 2.4% the year before that, the result of higher entry than exit rates in the three years. Entries were a 15.8% increase on the number of businesses at the start of 2017-18, up from 15.1% in 2016-17. Exits were up to 12.5% in 2017-18 from 12.0% in 2016-17.[96] This is a sign of a continuing healthy business environment, especially where increasing firm concentration would be expected to reduce the number of businesses.[97]

179. The number of businesses in two of the award-reliant sectors grew amongst the fastest of any sector in 2017-18. The number of businesses in Administrative and support services by grew by 5.5%, Health care and social assistance by 4.5%, while Accommodation and food services grew 1.6% and Retail trade grew by a bare 0.1% as shown in Table 11 below, after shrinking by 0.6% the previous year. The number of businesses in Retail shrank 0.6% in 2016-17, by less than the previous year. Increasing concentration in the sector continues to be a likely factor in this.

180. The award-reliant industries made up over a third of non-mining industry employment, at 34.4%. The fall in the share of award-reliant industries in non-mining industry employment in the year to November 2018 was entirely due to the fall in share of retail trade in non-mining employment by 0.5 percentage points, over the year to November 2018. However, employment still grew by 0.5% in the award-reliant industries, and by 1.5% if retail is excluded. Accommodation and food services, Administrative and support services, and Health care and social assistance all increased their employment, while Education and training increased employment by 10.0%, and its hours also increased 4.8%, the second highest increase.

[95] *Ibid.* at p176.
[96] ABS 8165
[97] ABS 8165

Table 11: Growth in the number of businesses by industry, share of employment, growth in employees and in hours worked, 2017-18

Industry	Growth in number of businesses, % 2017-18	Share of employment, November 2018	Growth in number of employees, % Year to November 2018	Growth in hours worked, % Year to November 2018
Agriculture, Forestry and Fishing	-0.9	2.6	2.7	-0.2
Mining	-0.5	2.0	17.4	17.0
Manufacturing	0.6	7.2	3.1	1.0
Electricity, Gas, Water and Waste Services	4.7	1.2	9.7	11.0
Construction	3.1	9.2	-0.5	-1.7
Wholesale Trade	0.9	3.2	12.2	8.2
Retail Trade	0.1	10.0	-1.8	-4.7
Accommodation and Food Services	1.6	7.1	1.5	1.7
Transport, Postal and Warehousing	16.8	5.1	1.0	-2.0
Information Media and Telecommunications	3.3	1.8	4.5	6.8
Financial and Insurance Services	3.6	3.5	4.5	3.5
Rental, Hiring and Real Estate Services	1.9	1.7	-2.6	-2.1
Professional, Scientific and Technical Services	3.3	8.5	4.7	1.7
Administrative and Support Services	5.5	3.2	0.8	-2.6
Public Administration and Safety	3.4	6.6	12.8	11.6
Education and Training	4.0	8.2	1.8	3.2
Health Care and Social Assistance	4.5	13.3	1.7	0.9
Arts and Recreation Services	3.5	1.9	-2.6	-0.4
Other Services	3.4	3.8	-8.8	-7.2
All Industries	3.4	100.0	2.3	1.3

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

181. The business survival rate increased slightly from 62.1% for June 2012 to June 2016 to 64.1% for June 2013 to June 2017.[98] Health care and social assistance continued to have the highest business survival rates of any industry, that is continuously trading over the four years from June 2013 to June 2017.[99]

182. These data do not suggest business is facing increasing hardship. The hours worked increased by 1.7% in Accommodation and food services, and 0.9% in Health care and social assistance. The fall in hours worked in Retail may reflect both the impact of the reduction in penalty rates, and of online sales. The higher rates of increase of employment compared with hours worked reflects the increase in part-time work. These factors leave low paid workers all

[98] FWC Statistical Report – AWR 2018-19 p.15 Chart 3.5
[99] ABS 8165

the more dependent on increase in the minimum wage for supporting a decent standard of living.

4.13 Inflation

183. The Panel stated in its Decision for 2017-18 that "The level of increase we have decided upon will not lead to undue inflationary pressure and is highly unlikely to have any measurable negative impact on employment."[100] These conditions remain for this year, with inflation barely changing over the last two years. There is no evidence that the minimum wage increases of the last two years have fed through to inflation. The ACTU is of the view that the this presents an opportunity to raise the minimum wage and modern award minimum wages. Inflation was at 1.8% for the year 2018, after 1.9% for the previous year as measured by cpi.[101] According to the RBA "the labour market could still have some capacity to absorb additional labour demand before anything more than gradual upward pressure is generated for wage and price inflation."[102]

184. The RBA has revised down its inflation forecasts in the *Quarterly Statement on Monetary Policy* of February 2019. Inflation is now forecast to increase to 1¾% over the year 2019 and back up to 2¼% over the year 2020.[103] The RBA said "there continues to be uncertainty about how quickly the unemployment rate will decline and how quickly that will feed into wage pressures and so inflation."[104] The RBA said that if the recent sharp fall in oil prices becomes a sustained decline, "this will lower business input costs, which could flow through to lower underlying inflation over time" along with the prospect of lower administered prices.[105]

185. In the ACTU's view, there is no reason to think, based on recent experience, that capacity will necessarily tighten, nor that wage growth would be forthcoming as a result, or that the low paid would benefit from any wage growth that is produced by any tightening that is observed. Raising minimum wages may be the sole mechanism by which wage increases can occur.

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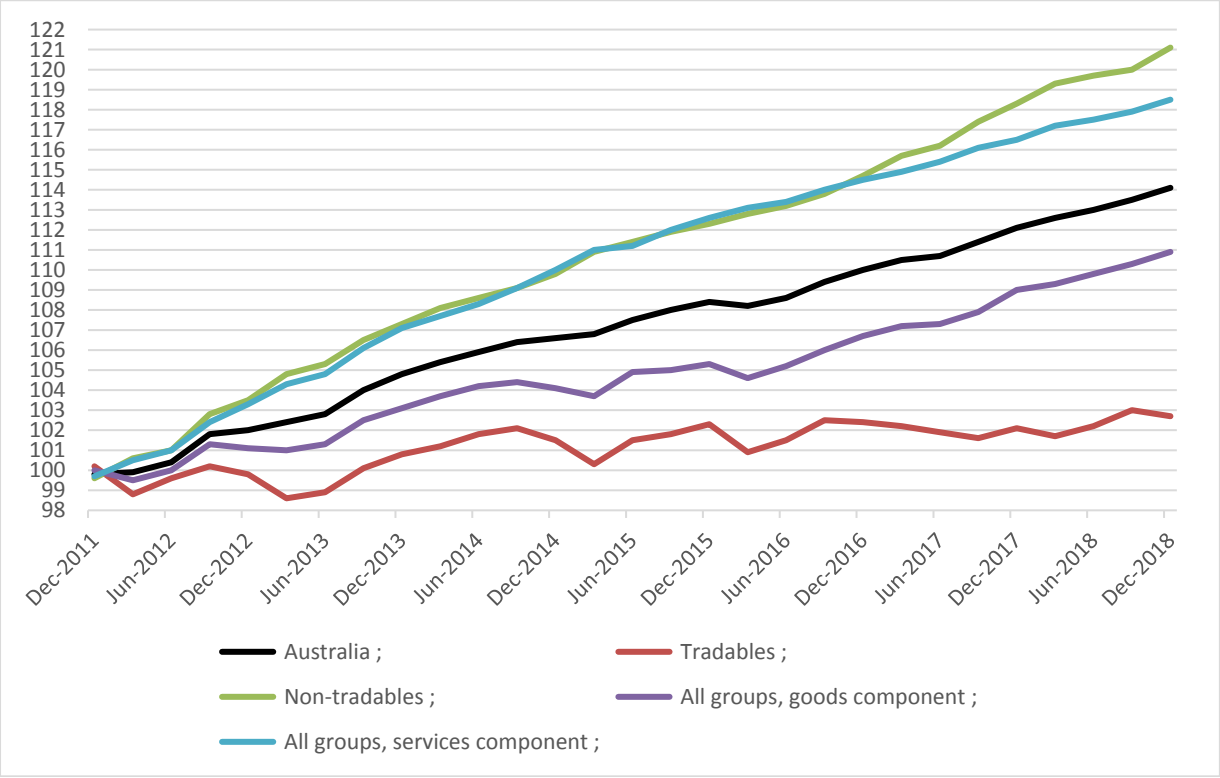
[100] FWC 2018 AWR 2017-18 [100]
[101] ABS 6401 and FWC *Statistical Report - AWR 2018-19* Chart 4.1, p.17
[102] RBA 2019, *Statement on Monetary Policy*: February 2019, p.38
[103] RBA 2019, *Statement on Monetary Policy*: February 2019, p.66
[104] RBA 2019, *Statement on Monetary Policy*: February 2019, p.71
[105] RBA 2019, *Statement on Monetary Policy*: February 2019, p.74

186. The ACTU also notes the differential impact on the cpi of 'essential items' compared with other items in the cpi. Essential items are those with a low or negative income elasticity, that is for a percentage fall in income, consumption does not decrease much or increases. For low income households, essential items are less avoidable or unavoidable expenses which take up a much larger fraction of their spending than for higher income households and of which when their income falls they cannot reduce consumption. The ABS, for its analytical price index series', categorizes spending into goods and services, and into tradeables (internationally) and non tradeables (internationally).[106] The items which are 'essential' spending for households are more likely to be services, and non tradeables, the prices of which have risen faster than goods and tradeables as shown in Figure 52 which presents these from December 2011.

Figure 52 CPI for goods and services, and tradeables and non tradeables, June 2012 to December 2018.



Source: ABS641006

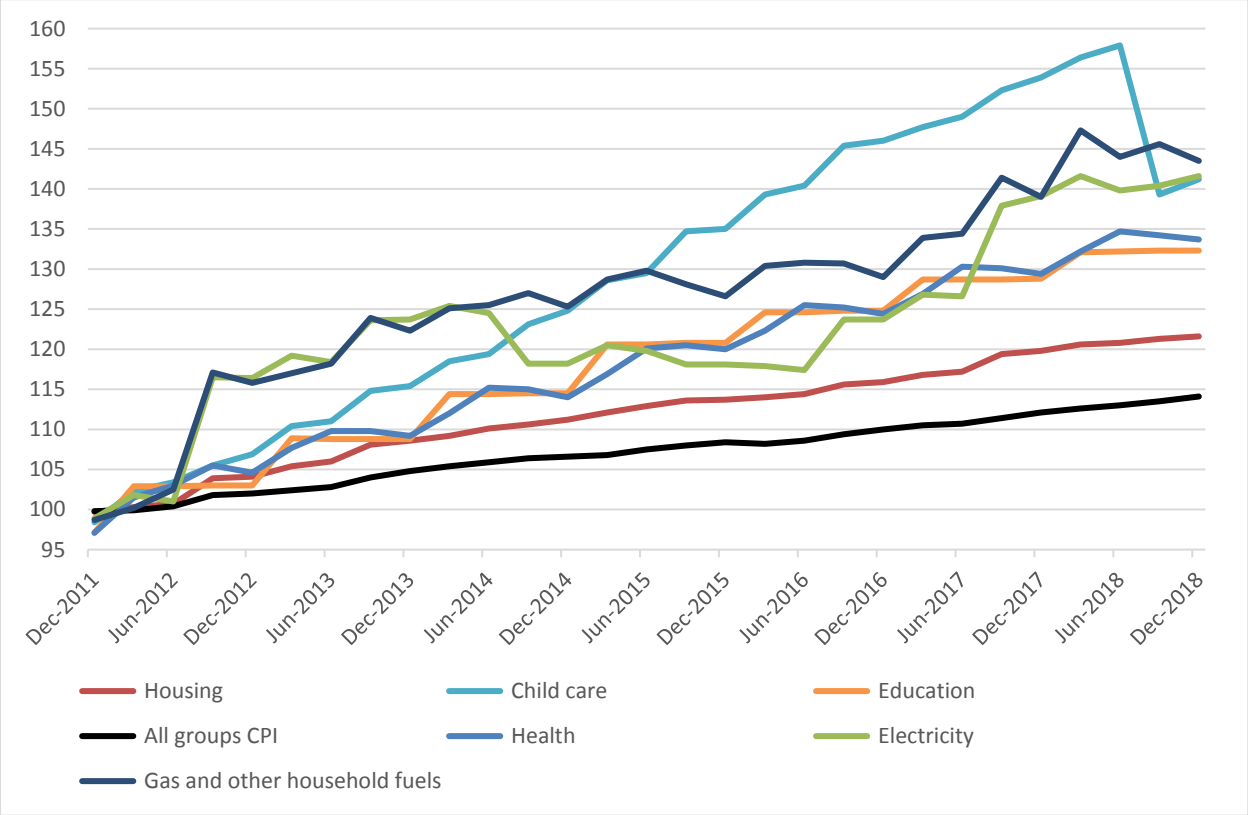
187. For instance the ABS lists bread, poultry, milk, eggs, rents and dwelling repairs, and childcare, medical and hospital services, car repair, public transport and education amongst non tradeables. Apart from the foods, these are all also listed as services. Non tradeables and

[106] ABS 6401 December 2017, Appendix https://www.abs.gov.au/AUSSTATS/abs@.nsf/Previousproducts/6401.0Appendix1Dec%202017?opendocument&tabname=Notes&prodno=6401.0&issue=Dec%202017&num=&view=# lists the items according to whether goods or services, and tradeable or non tradeable

services cpi have increased more rapidly than total cpi. Goods and in particular tradeables, have not increased as fast as total cpi as shown in Figure 52. Household essential items constitute a significant share of services and non tradeables.

188. A range of essential items CPI is presented in Figure 53. We note that CPI relates to an average household basket of goods. The essential items would constitute a larger share of expenditure for low paid households and those dependent on the minimum wage.

Figure 53 CPI, household essential items



Source: ABS 640105

189. CPI for housing increased 1.5% in 2018 after an increase of 3.1% the year before, on an average share of housing in total expenditure of 26% which would be much higher for low income and younger households. CPI for health grew 3.3% (contribution of 6.5% to expenditure) and education 2.7% (contribution of 4.9%), faster than total CPI of 1.8%.

190. The ACTU is of the view that it is the faster increases in the essential services included in non-tradeables and services and the extra burden that that places on low income households dependent on minimum wages that need to be taken into account.

191. In the Panel's last Decision, Table 3.6 presented microdata for expenditure of employees to support its contention that employee households in the bottom quintile spent little more out of income on essential items than the proportion out of income for all employee households.[107] The ACTU would respectfully like to point out that this compares quintile expenditure with the total and more insight would be gained from comparing the bottom quintile with the total for the other quintiles (excluding the bottom quintile). It does not indicate what income or expenditure is for the top of the bottom quintile. It is likely that the proportions of expenditure on essential items increase from the top to the bottom incomes across the bottom quintile.

192. An estimate based on data from ABS Employee Earnings and Hours indicates that there are 482,500 full-time adult workers paid award rates earning around or below the EHDI bottom quintile average for employee households. That is, they are paid under $1300 per week.[108] If we assume half of these are in households where others are earning income. then we are left with 240,000 households at below the average household income for the bottom quintile of employee households who are dependent on full-time work at award pay. We would expect that essential items would be a larger proportion of expenditure for these than for the quintile average.

193. There are 72,000 of these full-time adult workers who are paid under $800 by award and also another 266,200 who are paid under $800 on collective agreements or individual arrangements. These two latter groups must be on rates of pay which closely reflect award rates. Again, if we assume half are in households dependent on that employee's income, then there are a total of 170,000 households who are dependent on close to the minimum wage in the bottom EHDI employee quintile. These employee households would be spending a much larger proportion of their income on essential items than is captured by the quintile average proportions.

[107] FWC 2018 AWR 2017-18 [355] – [388]

[108] ABS 63060DO008_201805 Employee Earnings and Hours, Australia, May 2018 Table 3

4.14 Wages

194. Despite a range of national and international authorities anticipating a pick up in wage growth, there has been no significant increase in wage growth forthcoming. The IMF notes: "Growth has picked up strongly to well above 3 percent in 2018, driven by business investment and private consumption, while the recent rebound in the terms of trade has been sustained. The strong economic momentum has resulted in further improvements in labor market conditions. Nonetheless, wage growth has remained weak, suggesting some remaining labor market slack." The IMF says that "further growth in public investment is envisaged to offset a softening on dwelling investment," implying it would be a contributor to future growth and wage increases. The "output gap will close and market slack will erode, eventually leading to upward pressure on wages and prices." [109] No time period is specified, however the "eventually" implies a long time. It appears we are left to rely on the Annual Wage Review for any impetus to raise wages at all.

195. Moreover, the IMF recognises the importance of wage increases for domestic demand, stating that "Domestic demand may equally turn out weaker if wage growth remained subdued or investment spillovers were smaller."[110] In the ACTU's view, this indicates the importance of the role of the Annual Wage Review in performing some of the heavy lifting for the economy.

196. The RBA recognises the need for wage increases and sees what in the ACTU's view are meagre signs in the unemployment rate and WPI as signs of a gradual wages pick up, saying that in its discussions with business it is "hearing more reports of firms finding it difficult to find workers with the necessary skills." [111] In the ACTU's view relying on a long-term skills shortage for wage pick up is not an economic growth strategy. The Treasury also recognises that slow growth in wages is an issue saying that: "As has been the case in other advanced

[109] IMF 2018 Australia: Staff Concluding Statement of the 2018 Article IV Consultation Mission. Completing the Rebalancing after the End of the Mining Investment Boom, November 19 https://www.imf.org/en/News/Articles/2018/11/19/ms111918-australia-staff-concluding-statement-of-the-2018-article-iv-consultation-mission ,

[110] RBA 2019, *Statement on Monetary Policy*: February 2019, p.3

111 RBA Governor Philip Lowe 2019 Speech The Year Ahead Address to the National Press Club of Australia Sydney, 6 Feb

economies, wage growth in Australia has been slow to respond to improving labour market conditions." [112]

197. The RBA recognises that increases in the minimum wage have contributed to wages growth which has "increased a little in recent quarters." The RBA also expects that "wages growth should continue to pick up gradually" if the labour market continues to improve as they expect.[113] The RBA also says "However, the labour market could still have some capacity to absorb additional labour demand before anything more than gradual upward pressure is generated for wage and price inflation."[114]

198. The RBA also recognises the importance of minimum wages for wage increases in its statement that "Relatively large increases in minimum wages have been another source of upward wage pressures in some advanced economies."[115] The RBA highlights the importance of minimum wages in its presenting a 'Box on Minimum Wage Developments in Advanced Economies' in its *Quarterly Statement on Monetary Policy* of February 2019.[116]

199. In the ACTU's view, it is quite unclear from this where wages growth is expected to come from for Australia. It appears that an increase in the minimum wage is left to play an instrumental role, as indicated by the quarterly movements in WPI which generally decrease through the financial year.

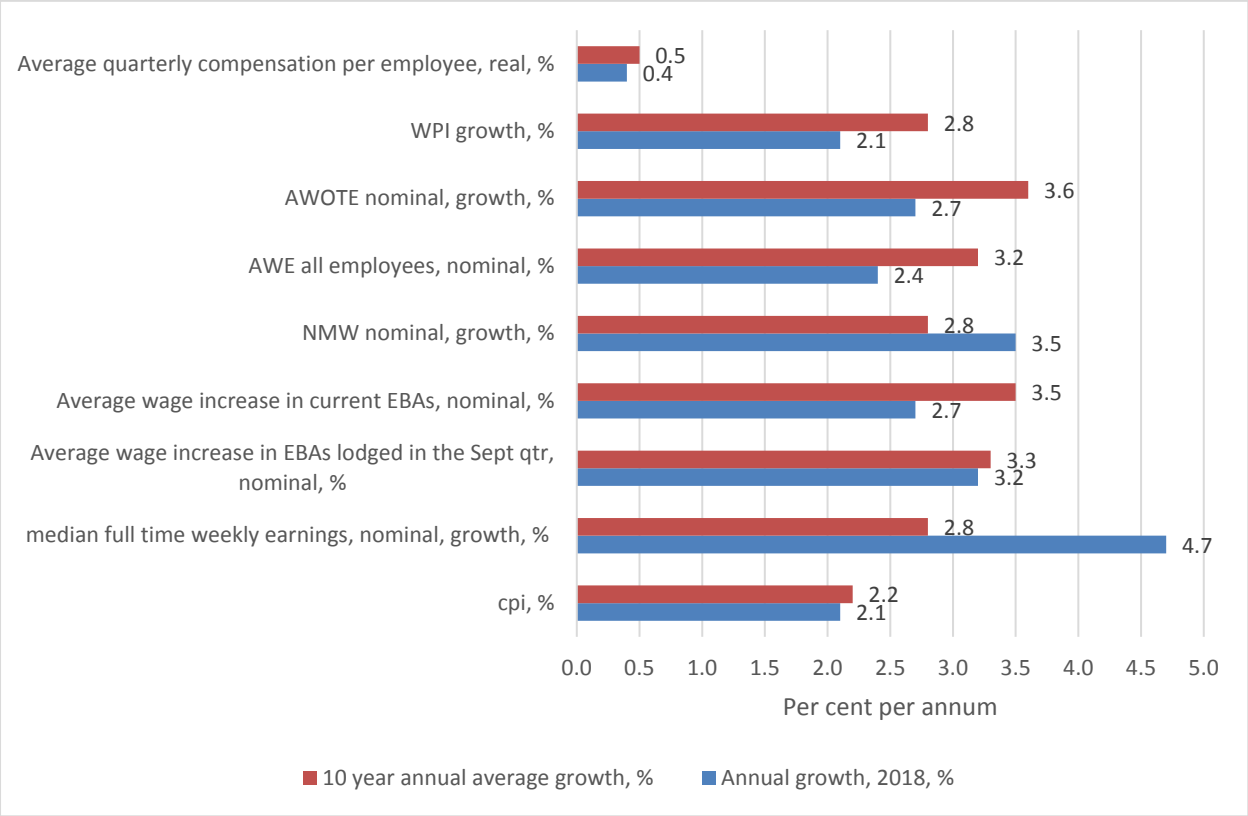
200. In its Mid Year Economic and Fiscal Outlook for 2018-19 the Treasury said that employment growth and the unemployment rate "would support a pick up in wage and price growth, albeit more gradually than forecast at Budget. As has been the case in other advanced economies, wage growth in Australia has been slow to respond to improving labour market conditions."[117]

[112] Australian Treasury 2018 *Mid Year Economic and Fiscal Outlook* 2018-19, December, p.14
[113] RBA 2019*, Statement on Monetary Policy*: February 2019, p.3
[114] RBA 2019*, Statement on Monetary Policy*: February 2019, p.38
[115] RBA 2019*, Statement on Monetary Policy*: February 2019, p.9
[116] RBA 2019*, Statement on Monetary Policy*: February 2019, Box A pp.22-23
[117] Australian Treasury 2018 *Mid Year Economic and Fiscal Outlook* 2018-19, December, p.14

201. The Treasury said "Weaker-than-expected wage growth and tightening credit conditions could cause consumer spending to be weaker than forecast." This is a recognition of the contribution of wage increases to economic growth."[118]

202. Almost all measures of wages have grown less over 2018 than their average pace over the last ten years, as shown in Figure 54. The exceptions are the median full-time weekly earnings nominal which increased by 4.7%, and the NMW which increased by 3.5%. The ACTU notes that the median full-time wage increase is the highest since 2010 when it was 5.0%, and it also reached 4.4% in 2014. In the ACTU's view the June 2018 figure for median full-time wage growth may be the result of low paid workers receiving the 3.4% NMW increase of 2017.

Figure 54: Various measures of wages growth, 2018, per cent



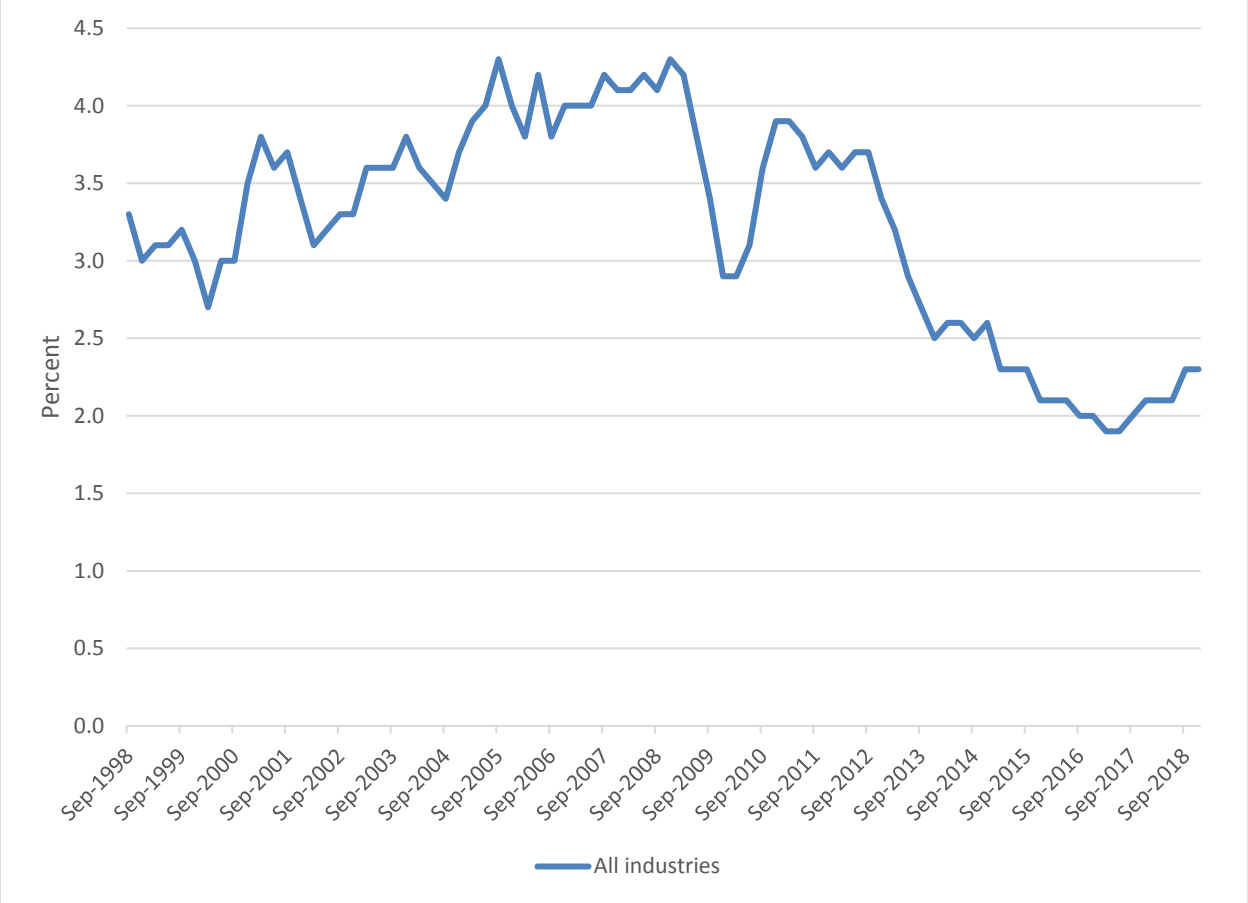
Source: Average compensation per employee is from ABS 5206, quarterly seasonally adjusted, and 6401. Wage Price Index from ABS 6345. AWOTE and AWE from ABS 6302. Median full-time earnings from 6310, 6333. Minimum wage from past FWC/AFPC/AIRC decisions and Bray (2013). Average annualised wage increases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

[118] Australian Treasury 2018 *Mid Year Economic and Fiscal Outlook* 2018-19, December, p.25

203. The wage price index (WPI) is a measure provided by ABS which also informs on wage movements. "The WPIs measure changes over time in the price of wages and salaries unaffected by changes in the quality or quantity of work performed."[119]

204. The Wage Price Index rose by 2.3% in the year to December, compared with 2.1% the year before, still very low, and the highest rate in over three years since September 2015. The WPI has increased 0.4 percentage points over the 18 months since June 2017. It is hard to say that this connotes a trend, and even if it does it is very slow. The growth rate of the WPI for total industry is shown in Figure 55.

Figure 55 Growth in the wage price index for total industry, original, year on year, September 1998 to December 2018, %



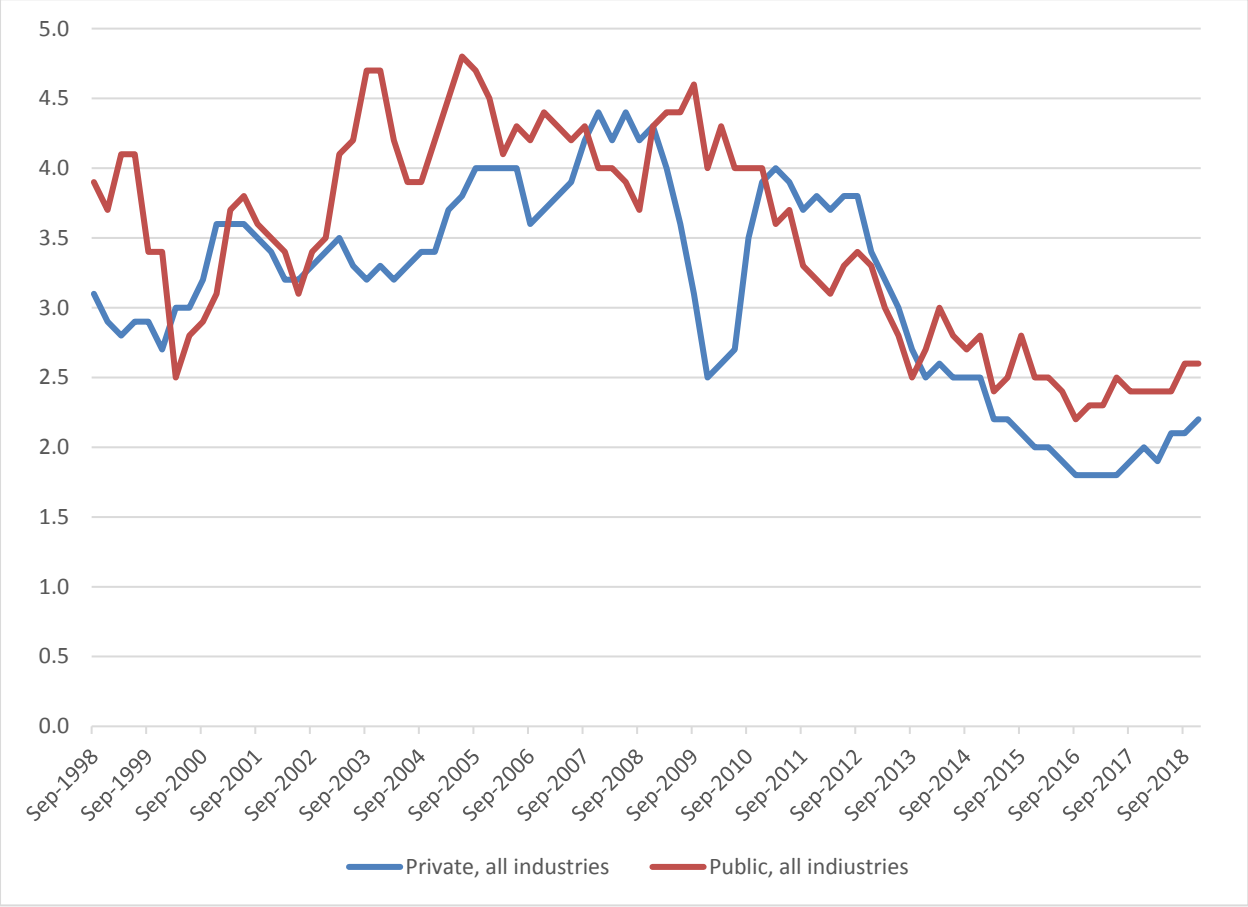
Source: ABS 634509b

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

205. The WPI also informs on long-term trends, with growth rates up to around 4 percent per annum, drifting down ever since with the exception of the GFC episode and the recent 18 month up tick.

206. The growth rates of WPI in the public and private sector are shown in Figure 56. Private and public sector WPIs have each grown 0.4 percentage points over the last two years, however public sector growth rates are higher by 0.4 percentage points. Private sector WPI has grown 2.2% over 2018 up from 2.0% the year before, and still below the low point at the GFC. Public sector WPI increase is 2.6%, up from 2.4% the year before. This is not much of an upward trend, and the figures do not suggest other than a very slow pick up if that eventuates. The institutional forces that constrain wages remain in place. This leaves the increase in the minimum wage to do the heavy lifting for wage increases.

Figure 56: Growth in public and private sector WPI, original, year on year, September 1998 to December 2018

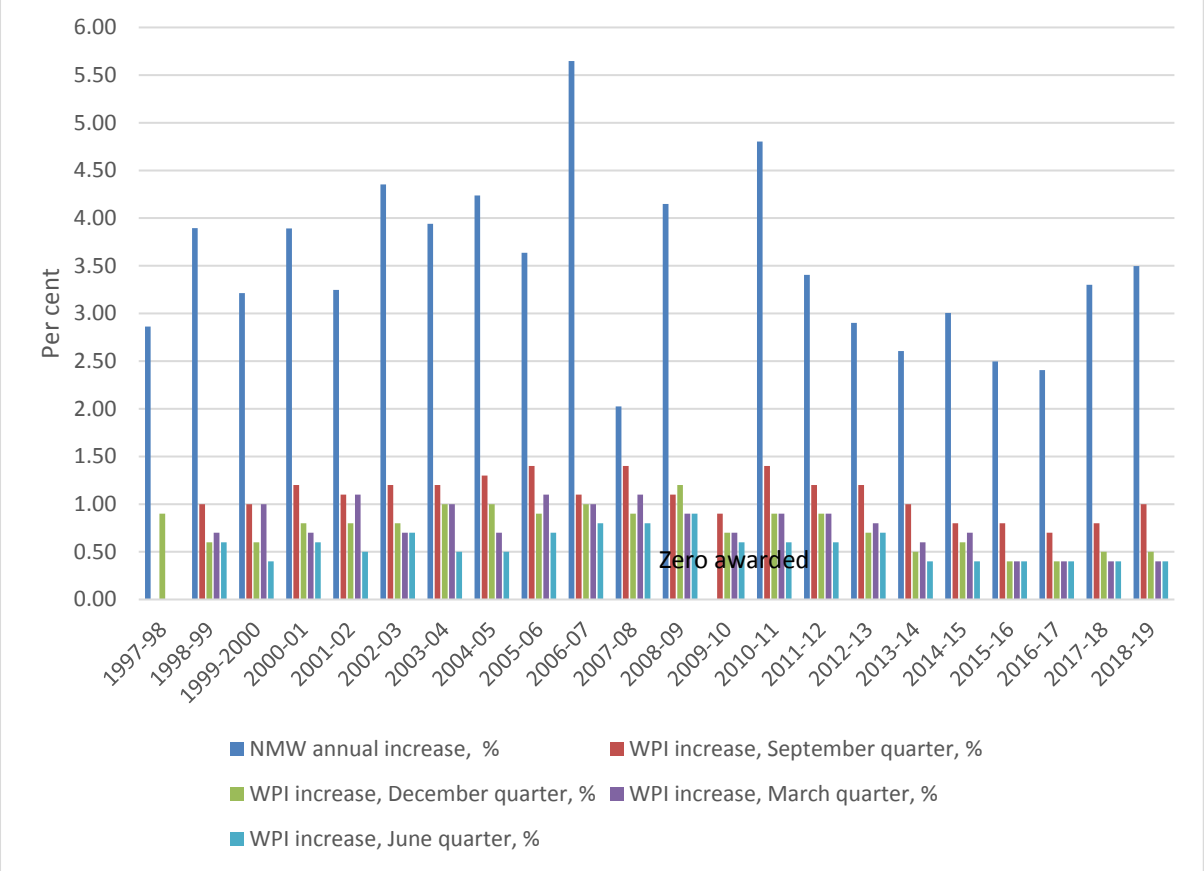


Source: ABS 634509b.

207. While Chart 5.2 of the *Statistical Report – AWR 2018-19,* lends support to the slow growth of wages, we note respectfully that an approach which deflates the WPI should be treated with caution.[120]

208. The ACTU notes that while the biggest effect of the NMW increase and awards on wages is clearly a direct one, there is some feed through into wage increases generally, based on the WPI quarterly measures. Figure 57 shows that the largest quarterly WPI increases are in the September quarter every year available, with two exceptions. Those exceptions are the strong recession years of 1999-2000 and 2008-09, the latter when there was no increase given.

Figure 57 NMW annual increase and following quarterly WPI increases



Sources: NMW from FWC and Bray (2013), WPI from ABS 634505b. Note that the date for the NMW varied before 2010

209. The average WPI September quarter increase was 1.1%, for December and March quarters each were 0.8%, and for the June quarter 0.5%.

[120] FWC 2019 *Statistical Report – AWR 2018-19*, Chart 5.2 p.21, http://www.abs.gov.au/AUSSTATS/abs@.nsf/Previousproducts/6302.0Main%20Features9May%202014?opendocument&tabname=Summary&prodno=6302.0&issue=May%202014&num=&view= par.5, and ACTU communication with ABS

210. However, we note also that there are relatively bigger increases for the December and March quarters following the dates 1 October 2008 and 1 October 2007 when the minimum wage was awarded, and also for the March quarter following 1 December 2006 when the minimum wage was awarded. For the years prior to that, from 1 May 2000, the larger increases were in the September quarter, following award dates in April or May.

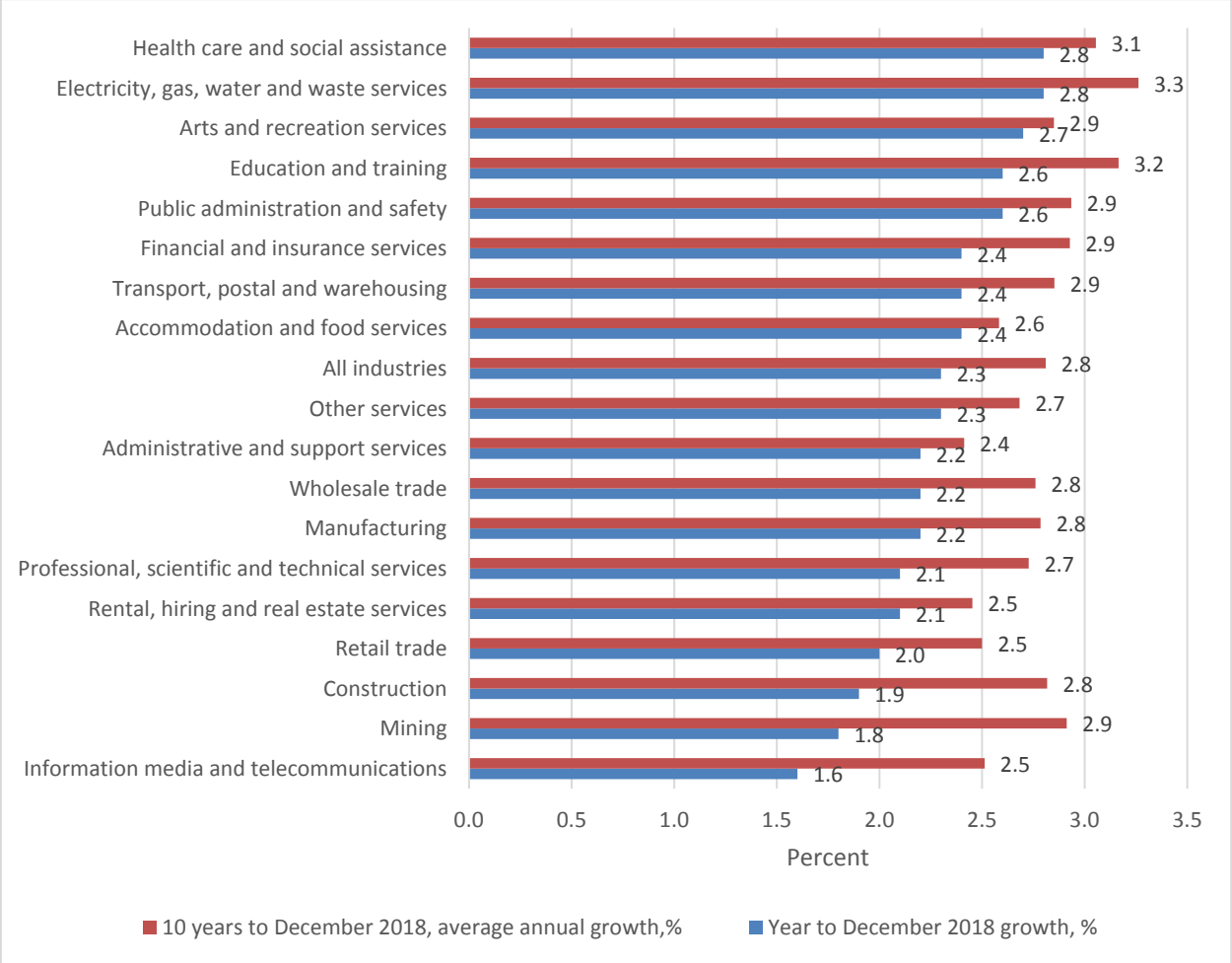
211. Most starkly, from 2015-16, while the September quarters showed higher wage increases, and to a much lesser extent the December quarters, the other following quarters wage increases were unchanged at around 0.4% over four years. The most recent, September quarter 2018 increase of one percentage point, was the highest quarterly wage increase since 2013-14.

212. In a simple bivariate analysis, the NMW annual growth rate was regressed on the quarterly WPI measures for the following September, December, March and June respectively over the years 1997 to 2018. The previous NMW increase was found to have small but statistically significant association with the September, December and March quarters' WPIs. The effect on the following June quarter increase was statistically insignificant.[121] The ACTU recognises all the provisos that apply to such a reductive analysis, especially that the earlier dates for setting the minimum wage varied. The results are likely to be biased upwards, due to the influence of previous periods' other wages on the later ones. However the analysis does not inform about the *relative levels of growth rates* of WPI by quarter, which are clearly higher on average in September and are able to be observed in Figure 57.

213. Wages growth in every industry given for the year 2018 was below the industry's ten year average, as shown in Figure 58, which ranks WPI growth by the current year. The WPI grew more slowly in 2018 relative to the last 10 years in the award-reliant industries of Health care and social assistance (2.8%), Accommodation and food services (2.6%), Other services (2.7%), Administrative and support services (2.4%) and Retail (2.0%).

[121] at the 5% level of the t-test

Figure 58: WPI growth 2018 and the 10 year annual average WPI, by industry, per cent per year.

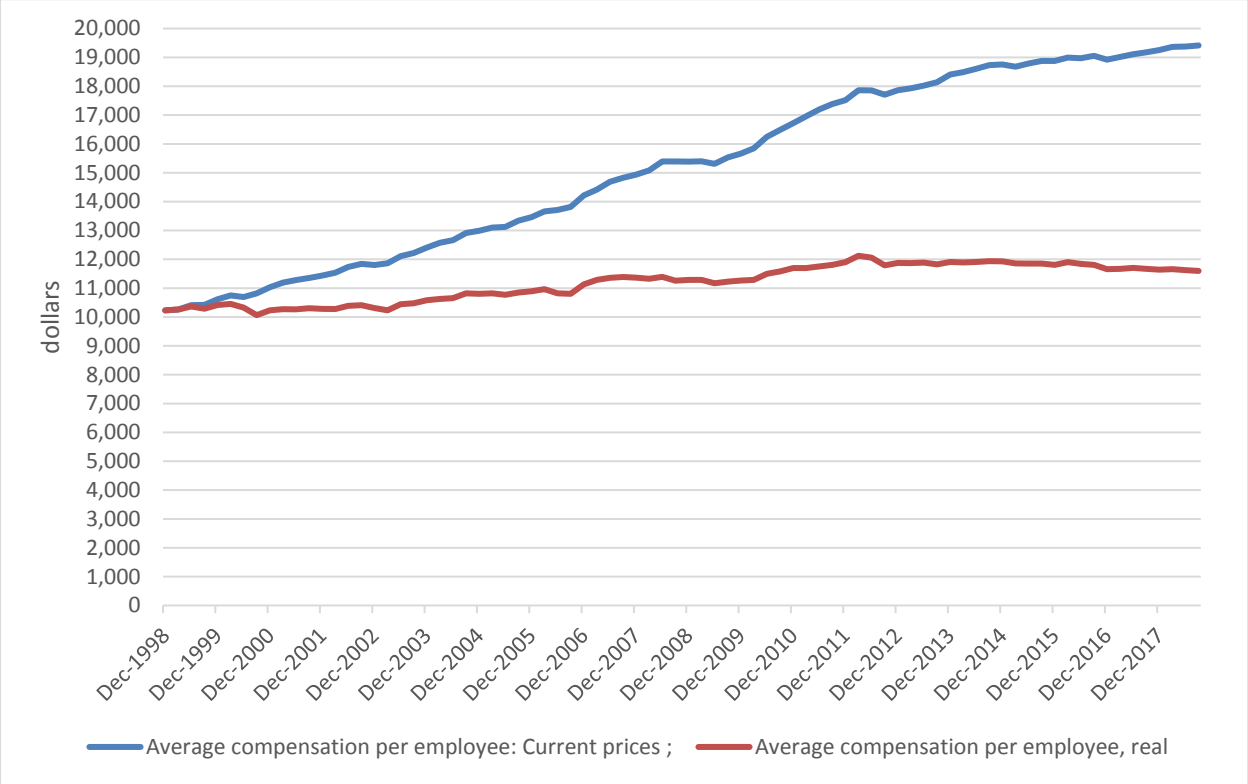


Source: ABS 634505b and ACTU calculations

214. Another indicator of wage growth is average compensation per employee given by ABS (AENA – Average Earnings National Accounts), referred to in real terms for comparison with other wage measures in Figure 54.[122] Figure 59 shows that quarterly real compensation per employee has declined on trend over nearly seven years, since March 2012. It is down to the level of eight years ago, at September 2010, soon after the GFC.

[122] ABS 5206024

Figure 59 Compensation per employee, seasonally adjusted, nominal and real, quarterly, December 1998 to September 2018



Source: ABS 5206024, 6401 and ACTU calculations

215. Greg Jericho, in The Guardian, presents in a chart WPI data compared with MYEFO forecasts.[123] This is reproduced in Figure 60 below. It shows the amount of recovery that wage growth would require to meet the Treasury forecasts.

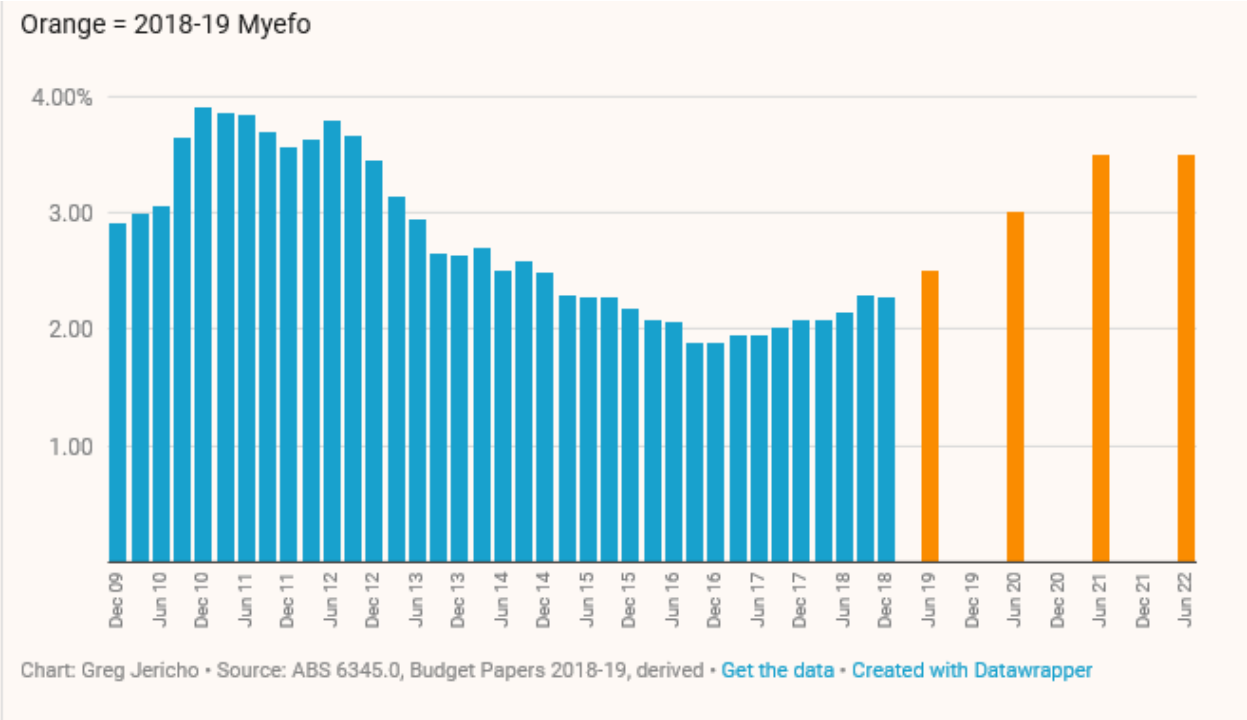
216. Jericho also points out that "even though growth is better than a year ago we appear to have completely shifted to a new scenario where the old wages growth of above 3% would require much better economic conditions than was the case in the past." Jericho says that from "1998 to 2009 wage growth and unemployment were nicely linked. If the unemployment rate fell one percentage point … then you would expect wages growth to increase by about 0.4 percentage points." Jericho argues that after the GFC both unemployment and wages growth fell but now the inverse relationship between unemployment and wages is restored, but "at every level of employment we now see wages growth about 1.5% lower. This suggests the

[123] Greg Jericho 2019 Wages are growing faster than inflation – but that's not saying much, *The Guardian* 21 Feb 2019 https://www.theguardian.com/business/grogonomics/2019/feb/21/wages-are-growing-faster-than-inflation-but-thats-not-saying-much

Phillips Curve has shifted, so that in the past an unemployment rate of 5% would see wages growing at 4.8% when they are now growing at 2.3%.[124]

217. Jericho argues the underemployment rate is more important for wage growth. In a scenario where the underemployment rate has increased significantly over time, and where its current level has been sustained since 2014, Jericho argues the current wage growth corresponds with it.[125]

Figure 60 Annual wages growth and government predictions, Greg Jericho



Source: Greg Jericho Greg Jericho 2019 Wages are growing faster than inflation – but that's not saying much, *The Guardian* 21 Feb 2019 https://www.theguardian.com/business/grogonomics/2019/feb/21/wages-are-growing-faster-than-inflation-but-thats-not-saying-much

218. In the ACTU's view, the data indicate little impetus for a wage increase emerging from anywhere else and it must rely on the decision of the Panel.

[124] Greg Jericho 2019 Wages are growing faster than inflation – but that's not saying much, *The Guardian* 21 Feb 2019 https://www.theguardian.com/business/grogonomics/2019/feb/21/wages-are-growing-faster-than-inflation-but-thats-not-saying-much . Phillips Curve is the relationship between unemployment and (wage) inflation, conventionally inverse.
[125] Greg Jericho 2019 Wages are growing faster than inflation – but that's not saying much, *The Guardian* 21 Feb 2019 https://www.theguardian.com/business/grogonomics/2019/feb/21/wages-are-growing-faster-than-inflation-but-thats-not-saying-much

4.15 The economic outlook

219. The Australian economy has grown 2.3% for the year 2018, below the RBA forecast of 2¾ % for 2018, and just under 2017.[126] This supports that slow wages growth continues to impede growth in the economy.

220. We anticipate that Australia's economy will pick up as mining sector growth has picked up again. There is no evidence that growth in the economy has improved as a result of the corporate tax cuts whereby business with turnovers up to $2 million, then $10 million and now $50 million have progressively been moved to a lower tax rate annually from July 1, 2015. Small business which is paying much less tax already than the corporate tax rate have not suddenly found improved demand for their output as a result.

221. Despite this, indicators of the labour market continue to suggest that it will improve. Forward-looking indicators of the state of the labour market, including job vacancies, have continued to improve. Forecasts from the IMF and OECD expect the unemployment rate to fall further. However, the slow growth of wages may not encourage the reduction of idle capacity.

222. Whatever circumstances arise, we maintain that the minimum wage increase we request is warranted in order to address fundamental issues in the economy including to raise household income and consumption and thereby encourage the growth in the economy that will reduce poverty and inequality.

4.15.1 The economic growth outlook

223. The 2.3% growth in GDP for the year to December 2018 released on 6 March 2019[127] was lower than the revised RBA forecast of 2¾% for the year. We would expect the growth in GDP to be similar in 2019 and 2020, and to be at the lower end of the RBA forecast range of 2¾% at June and December 2020.

[126] Table 5.1, p.66, RBA 2019 *Statement on Monetary Policy* February
[127] ABS Cat 5206.0

224. The RBA indicates can it only be 70% sure that GDP growth in 2019 will be somewhere between 1.5% and 4.2%, based on its previous forecasts compared with actuals.[128]

225. The GDP result of 2.8% for 2017-18 exceeded the Treasury forecast of 2.5% for 2017-18, and it expects 2¾% in 2018-19.[129]

226. The OECD forecast of November 2018 for world GDP in 2018 was 3.7% and for 2019 down to 3.5%. Australia's growth figure of 2.3% for 2018 was less than the OECD's projected GDP of 3.1%.[130] It appears that the impact of slow wage growth has been underestimated by the OECD which said in its country outlook for Australia of November 2018: "Robust economic growth is set to continue."[131] It expects 2.9% in 2019 and 2.6% in 2020. Australia would have to advance in the OECD's rankings of growth forecasts over time to achieve these growth rates, from 13th in 2018 to 11th in 2019 while its 2020 ranking is back to 15th.[132]

227. The IMF Article IV consultation Report for Australia of January 2019 estimated a 3.0% growth rate for Australia in 2018, above the actual of 2.3%, and has forecast 2.7% for 2019 and 2.6% for 2020.[133] The IMF has similarly not adequately factored in the impact of continuing slow wage growth for the Australian economy.

228. The *Sydney Morning Herald* (SMH) Business Scope Survey included a panel of 18 economists from a range of backgrounds and institutions. The edition of 2 February[134] provides the data for Figure 61, which summarises the forecasts of the panel for the year 2018. Figure 61 shows the lowest, highest, average (mean) and median forecasts by the panel. While the wide range within many forecasts is evident, many are not very different from 2018. The real GDP growth forecasts remain similar to 2018. Unemployment is forecast to be slightly lower than 2017.

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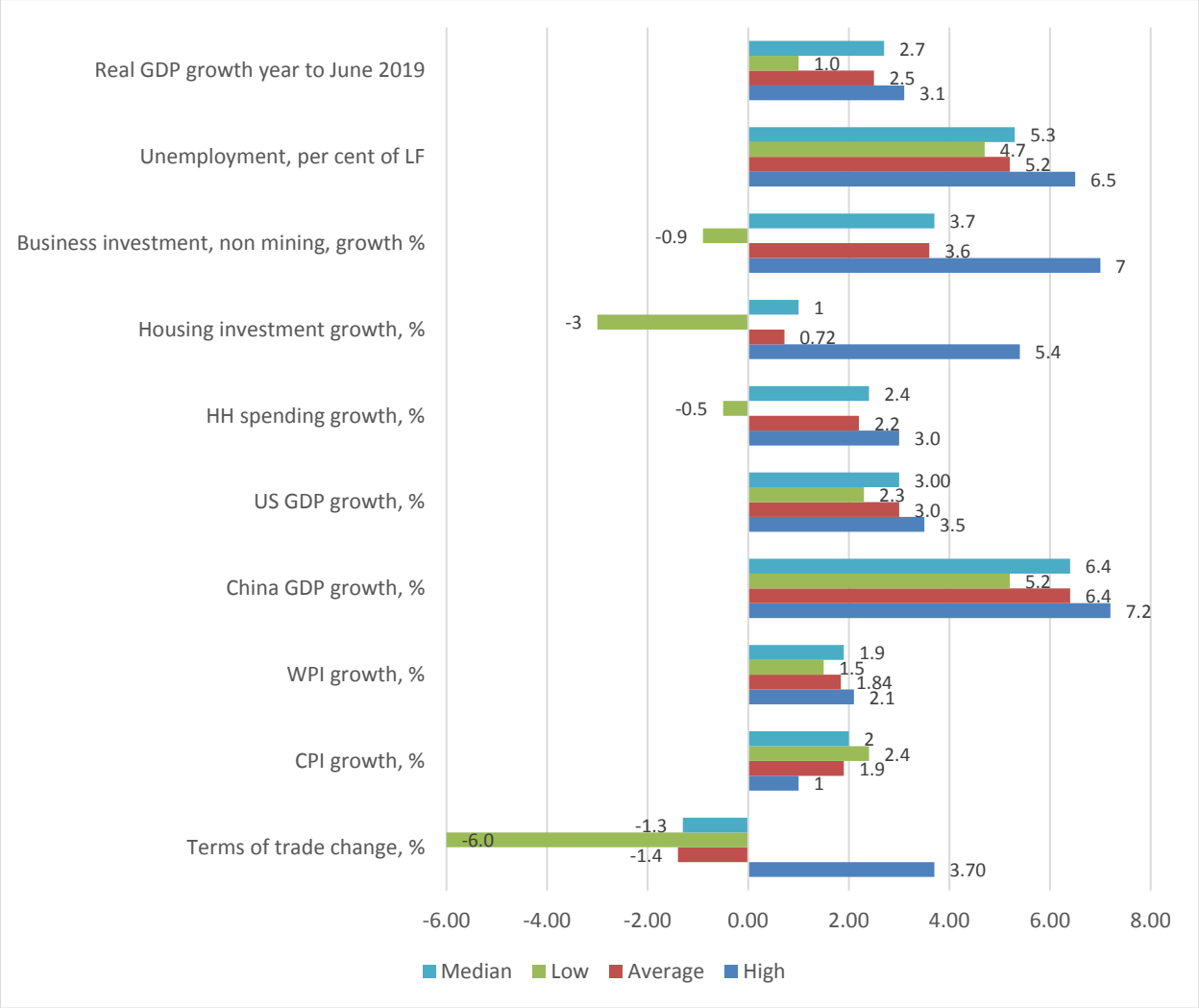
[128] Graph 5.1, p.66, RBA 2019 *Statement on Monetary Policy* February.
[129] The Treasury 2018 MidYear Economic and Fiscal Outlook December, p.4
[130] http://www.oecd.org/eco/outlook/economic-outlook/ 21 November 2018, accessed 1 March 2019.
[131] http://www.oecd.org/eco/outlook/economic-forecast-summary-australia-oecd-economic-outlook.pdf OECD Economic outlook Volume 2018 Issue 2, November, p.71
[132] https://stats.oecd.org/Index.aspx?QueryId=51654 accessed 1 March 2019
[133] IMF Article IV consultation, 2018 *Country Report* no.19/55 p.4, p.41 https://www.imf.org/en/Publications/CR/Issues/2018/02/20/Australia-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-45631
[134] https://www.smh.com.au/business/the-economy/2019-could-turn-out-to-be-a-bumpy-ride-for-everyone-say-economists-20190131-p50urt.html Eryk Bagshaw, 2 February 2019 accessed 1 March 2019. The panel were Stephen Anthony, Sally Auld, Paul Bloxham, Michael Blythe, Tim Devitt, Tony Kelly, Shane Oliver, Su-Lin Ong, Ben Udy, Janine Dixon, Steve Keen, Guay Lim, Jakob Madsen, Bill Mitchell, Neville Norman, Stephen Koukoulas, Sarah Hunter, and Julie Toth.

Figure 61: Forecasts of various indicators by the SMH Business Scope Economic Survey, January 2019

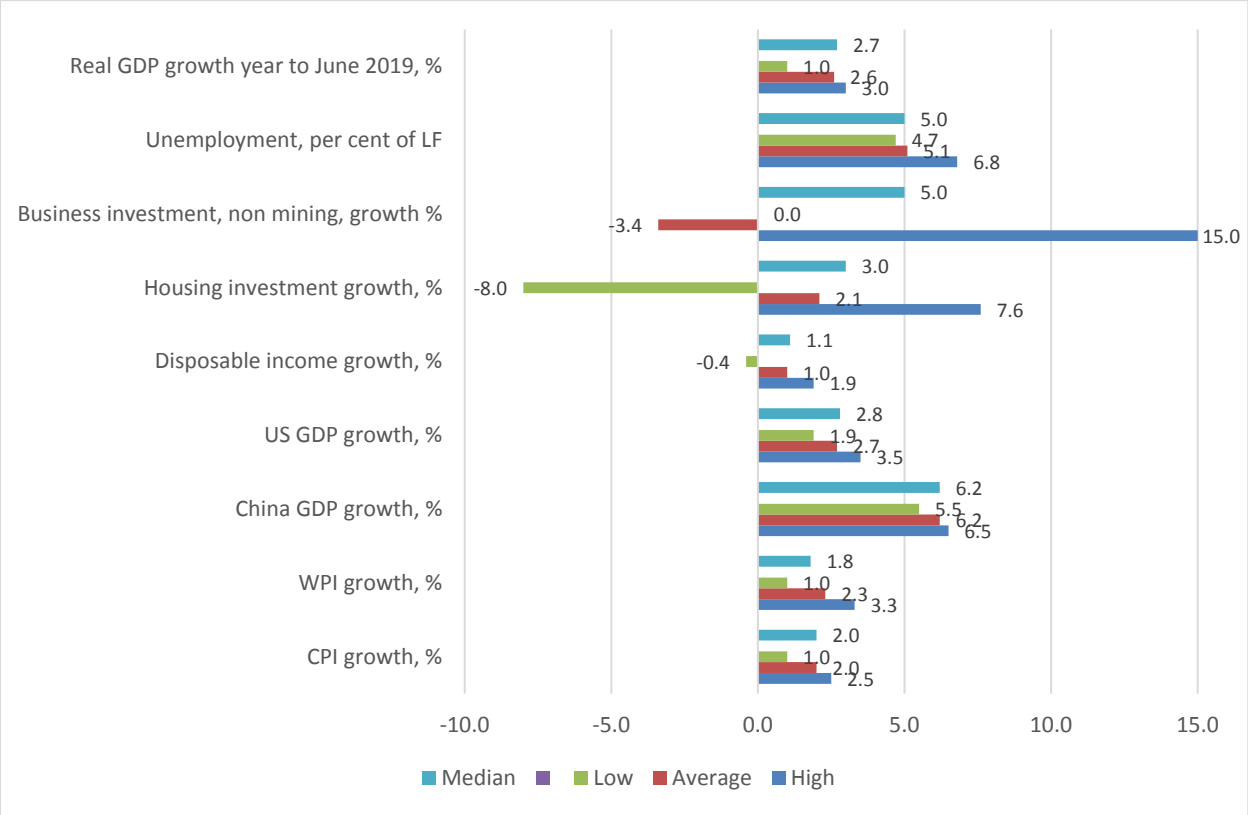


Source: SMH Business Scope survey, published 2 February 2019 https://www.smh.com.au/business/the-economy/2019-could-turn-out-to-be-a-bumpy-ride-for-everyone-say-economists-20190131-p50urt.html and ACTU calculations

229. At the website *The Conversation*, Peter Martin, Section Editor, Business and Economy, conducted a survey of "19 academic economists from 12 universities across six states", published on 29 January 2019. [135] Their expectations about wage growth and household income growth are low.

[135] https://theconversation.com/no-surplus-no-share-market-growth-no-lift-in-wage-growth-economic-survey-points-to-bleaker-times-post-election-110315 , 29 January 2019, accessed 1 March 2019. The economists are Rebecca Cassells, Warren Hogan, Guay Lim, Renee Fry-McKibbin, Solmaz Moslehi, Tony Makin, Warwick McKibbin, Richard Holden, Margaret McKenzie, Michael O'Neil, Janine Dixon, Chris Edmond, Ross Guest, Jeffrey Sheen, Julie Toth, Craig Emerson, Nigel Stapleton, Mark Crosby, Steve Keen.

Figure 62 : Forecasts of various indicators by The Conversation website, January 2019



Source: https://theconversation.com/no-surplus-no-share-market-growth-no-lift-in-wage-growth-economic-survey-points-to-bleaker-times-post-election-110315 , 29 January 2019

230. We maintain that the outlook for the economy remains sound, given the GDP growth around forecast for 2018, and the improved rate of unemployment. Yet the very slow growth in wages is likely to continue to act as a brake on the economy as is widely understood. The minimum wage increase we propose is warranted to improve the conditions of those with low pay, to reduce inequality and to increase aggregate demand.

4.15.2 The outlook for the labour market

231. Recent healthy economic growth has occurred alongside substantial profitability for business and a persistent level of underemployment and slow wage growth.

232. The RBA in its *Quarterly Statement of Monetary Policy* for February 2019 says: "Labour market conditions over the past year suggest that economic activity has been stronger than the GDP data have signalled. Relatedly, there continues to be uncertainty about how quickly

the unemployment rate will decline and how quickly that will feed into wage pressures and so inflation."[136]

233. We posit that the level of GDP growth and the continuing downward trend in unemployment over 2018 suggest that the unemployment rate may improve through 2019 and 2020. However, spare capacity may be sustained as reflected in other measures such as the continued high level of underemployment.

234. The Reserve Bank of Australia's projections indicate that the unemployment rate will be at 5 percent over 2019 and 2010, ranging from about 4.5 percent to 5.6 percent in 2019, its 70% confidence interval [137].

235. The OECD's most recent forecast of unemployment, in its Economic Outlook of November 2018, was of 5.4% for 2018, and the actual rate was 5.0% at December 2018 (seasonally adjusted).[138]

236. The IMF estimated an average unemployment rate of 5.3% for 2018 prior to the actual result of 5.0% at December, and forecast 4.8% for 2019 and further on.[139] The IMF said: "Remaining slack in the labor market would diminish steadily, with the unemployment rate expected to decline further. Nonetheless, the pickup in wage growth and inflation was expected to be gradual, given remaining labor market slack and continued increasing competition in the retail sector."[140]

237. Employment has grown 269,000 or 2.2%, seasonally adjusted, in the year to December 2018. The RBA expects employment growth to be above growth in the working age population over the next six months.[141] Employment growth was the strongest in household service industries with health care and social assistance growing strongly.[142]

[136] RBA 2019 Statement on Monetary Policy, Feb., p.71.
[137] RBA 2019 *Statement on Monetary Policy*, Feb., Chart 5.3 p.69
[138] http://www.oecd.org/eco/outlook/economic-forecast-summary-australia-oecd-economic-outlook.pdf , p.72, ABS 6202
[139] IMF Article IV consultation, *Country Report* no. 19/55, February 2019, p.41.
[140] IMF Article IV consultation, *Country Report* no. 19/55, February 2019, p.11.
[141] RBA 2019 Statement on Monetary Policy, Feb., p.69
[142] RBA 2019 *Statement on Monetary Policy*, February, p.38.

238. The ratio of unemployed persons per vacancy has fallen from 3.3 at November 2017 to 2.8 at November 2018 seasonally adjusted, from ABS data. The participation rate has fallen very slightly from 65.7% at December 2017 to 65.6%, seasonally adjusted, at December 2018, returning to 65.7% at January 2019.

239. At the same time the ABS measure of job vacancies has increased by 13.9% over the year to November 2018, after 16.5% for the previous year (seasonally adjusted)[143]. The data is based on a survey of businesses.

240. However, according to the ANZ Australian Job Advertisement Series, the number of job advertisements[144] (including internet and newspaper) has experienced a decline over the year 2018 of 4.3% after having grown by 11.4% in 2017, seasonally adjusted. This is "the largest [decline] since February 2014. Still, even with this decline the level of ANZ Job Ads is still consistent with ongoing employment growth. And other data, such as the ABS job vacancies series, are more positive."[145]

241. As indicated in Section 5.3, the unemployment rate has continued to fall and the expectation is that it is unlikely to worsen given the continuing strength of employment growth and other indicators in the labour market, including the growth of labour intensive industries.

[143] ABS Cat 6354
[144] ANZ Australian Job advertisement series https://media.anz.com/posts/2019/03/anz-jobs-ads--continue-to-trend-lower accessed 7 March 2019
[145] https://media.anz.com/posts/2019/03/anz-jobs-ads--continue-to-trend-lower accessed 7 March 2019

5. PROMOTING SOCIAL INCLUSION THROUGH INCREASED WORKFORCE PARTICIPATION

242. Continued strong employment growth has been observed since the last review, coupled with sustained and historically high participation rates and employment to population ratios including among those of working age. Notably, growth in employment and participation has also been seen in the youth labour market, which bears consideration when looking at unemployment among that cohort because it is often considered particularly sensitive to minimum wage rises.

243. There has been a continued albeit slow reduction in the unemployment rate since July 2017, which is particularly positive again given the prevailing participation rate and employment to population ratio. While underemployment remains high, it has improved a little over the course of the last 18 months or so. As discussed below, we suspect that some long-term trends in the composition of and participation in the youth cohort of the labour force may have contributed as a supply side factor in the high underemployment rate seen in recent years.

244. The small declines seen in hours worked in some industries need to be balanced against the gains seen overall. Furthermore, in terms of movements in average hours worked per week in each industry, the fall in hours worked for part-time workers over the year to November is barely over one hour per week in the worst case. All full-time average hours worked are well over full-time ordinary hours.

245. The overall picture of the labour market is inconsistent with a view that the Panel's decision last year - to raise minimum wages and modern award minimum wages to a degree not seen in nearly a decade - inhibited employment through reducing the demand for labour. Indeed, recent research findings are consistent with the view that a negative effect on employment would not be expected to be seen at that, or indeed higher, rates of increase.

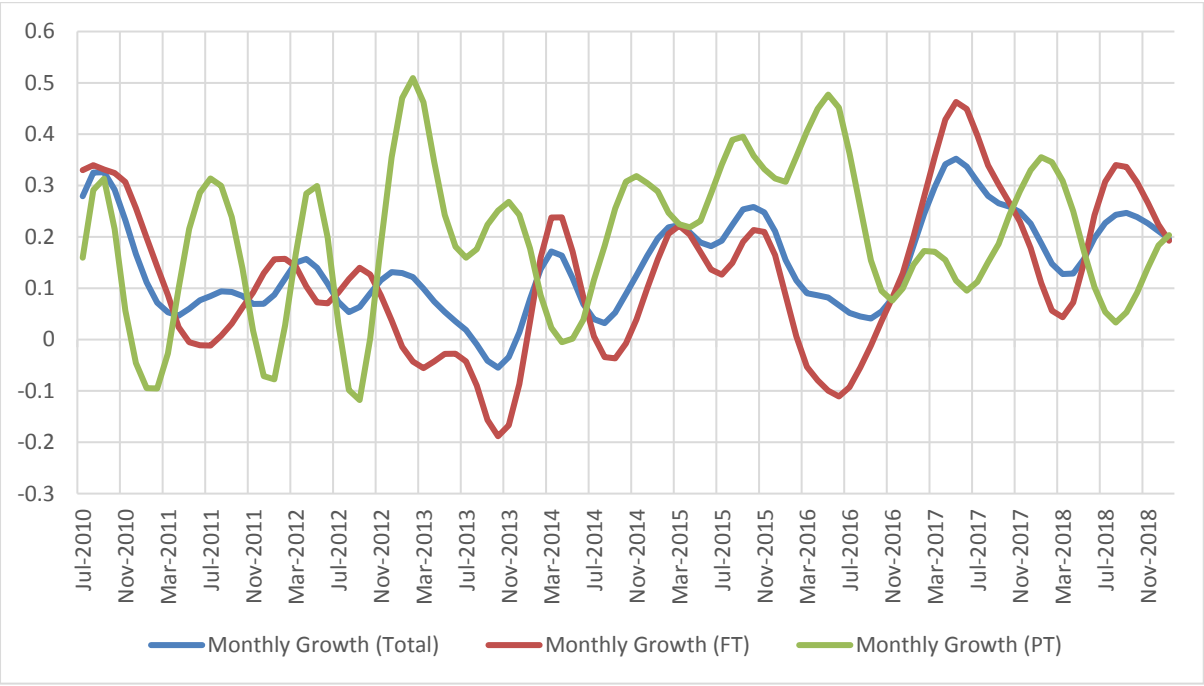
5.1 Employment

246. Year on year growth in monthly employment, hours worked and unemployment is shown in Table 6.1 and Chart 6.3 of the statistical report. , Employment showed strong growth in 2017 and 2018 relative to 10 year averages. At 2.1% for the year to November and 2.4% for the

years to December and January (on later figures), employment growth is trending well ahead of Treasury's MYEFO forecast of 1.75%.

247. We have examined the monthly figures for employment, to see if they shed any light on the impact of the Panel's decisions. Figure 63 below displays monthly growth in full-time, part-time and total employment growth since July 2010, based on trend data. It shows that growth in full-time and total employment has been unusually high since early 2017 compared with the earlier period since 2010, with no negative growth in any measure observed at all since mid 2016. Similarly, where declines in the monthly rate of growth have been observed from that period onward, they have been notably smaller than those observed during preceding periods. This suggests a stronger labour market has coexisted with the relatively more generous decisions of the Panel made during that period. Further, it does not seem that the commencement of the Panel's decision in July of any year has coincided with a reversal of the trend in growth (positive or negative) in any measure, save for a very small decline in full-time employment growth in July 2013 which in any event was in the negative immediately before then.

Figure 63: Monthly growth in employment July 2010 - January 2019



Source: ABS 6202.0 (Jan 2019)

248. The quarterly Labour Force Data presented in Table 6.3 of the statistical report reveals welcome broad based growth in employment across industries. Weaker growth is seen in the agriculture, forestry and fishing industry (perhaps in light of drought) and in some industries that are expected to be acutely and more directly sensitive to the domestic discretionary expenditure by wage earners, such as retail trade, construction, accommodation and food services and arts and recreation services. Domestic business to business and business to government trade sectors such as manufacturing, professional, scientific and technical services and public administration and safety were among the stronger performing sectors.

249. Whilst we are unable provide insights in relation to the negative growth seen scattered throughout all sectors and years, our affiliate in the retail trade industry, the SDA, has observed a decline in the scale of hiring of peak period staff (such as "Christmas casuals"). Large scale redundancies are not understood to have taken place between November 2017-November 2018 period.

250. The recent monthly data for January 2019 released in February[146] was seen as positive by government, with the Minister announcing:

"A record number of Australians are in work, with seasonally adjusted employment increasing by 39,100 in January 2019, to stand at a record high, of 12,751,800."

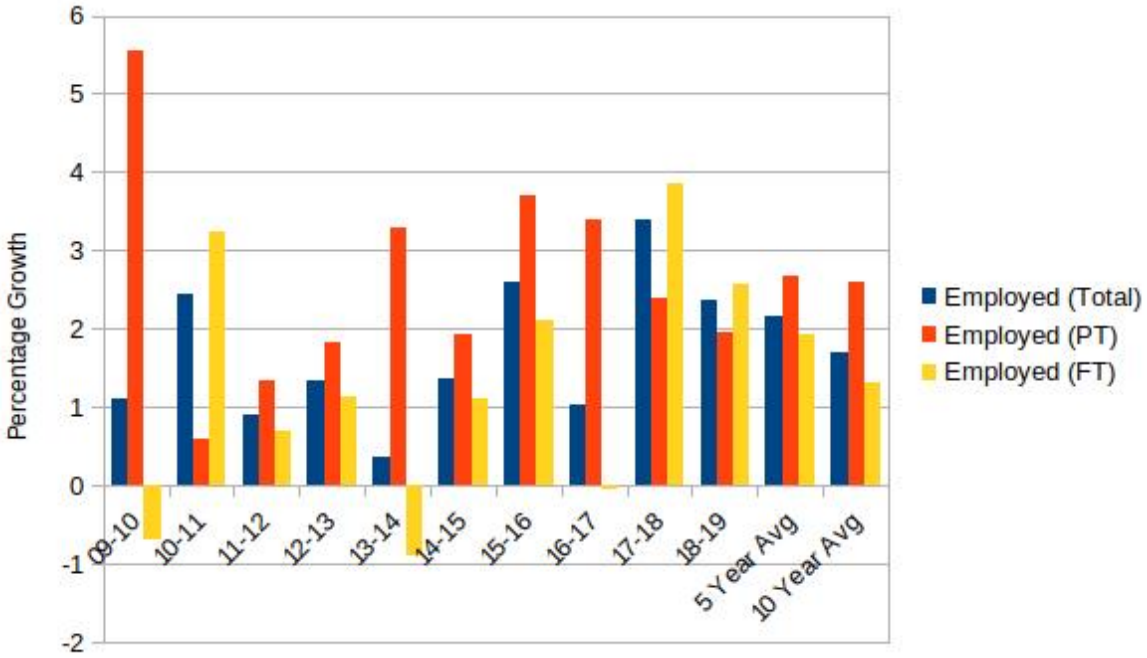
"Full-time employment is at a record high of 8,743,100, after growing by 65,400 in January 2019, and 236,100 over the year. Full-time employment growth has accounted for 87 per cent of the total increase in employment over the last 12 months."

"Encouragingly, female total employment, female full-time employment and the female participation rate have all reached new record highs. Male total employment and male full-time employment are also at record highs."[147]

251. Indeed, whilst industry level data is not presented in this monthly data, the headline trend figures show annual growth above 10 year and 5 year averages in the last two years, save in relation to part-time employment. This is represented in Figure 64 below.

[146] ABS 6202
[147] Media release 21/2/2019

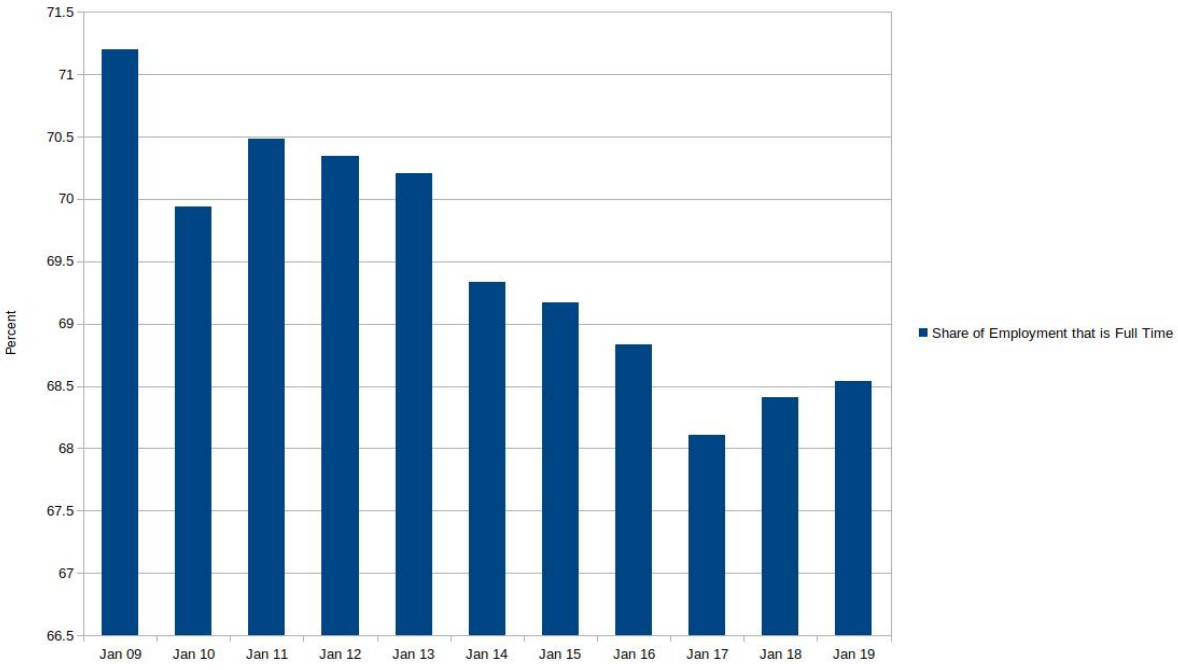
Figure 64: Annual Growth in employment (Jan-Jan) 2009-2019 against 5 and 10 year averages



Source: ABS 6202.0, trend data and ACTU calculations. The percentage changes are calculated by reference to the corresponding month in the previous year.

252. There has also been a welcome slight shift in share towards full-time employment in the recent two years, albeit still not at levels typical of the remainder of the decade.

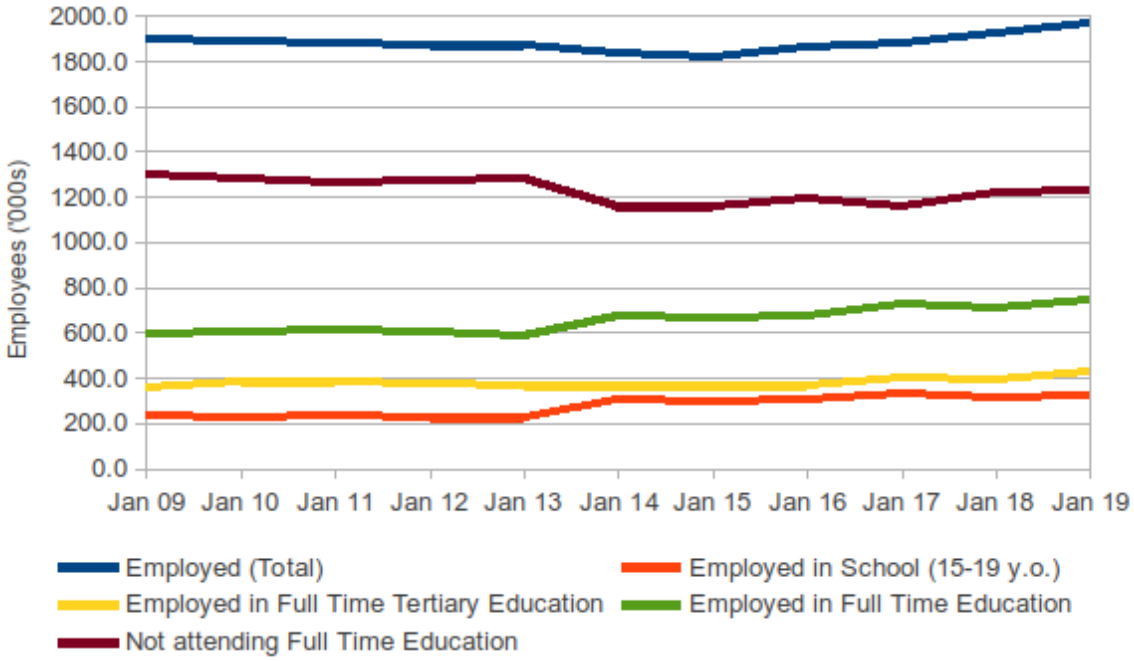
Figure 65: Share of full-time employment in total 2009-2019, percent



Source: ABS 6202.0

253. Youth employment has also grown faster over the last four years . Figure 4 below, based on the monthly (original) data, shows gains in raw numbers of total employment in the 15-24 year section of the labour force, that have been particularly strong over the last four years. Each of the subcategories of youth employment have also increased faster over the period to varying degrees, particularly in the last 12 months.

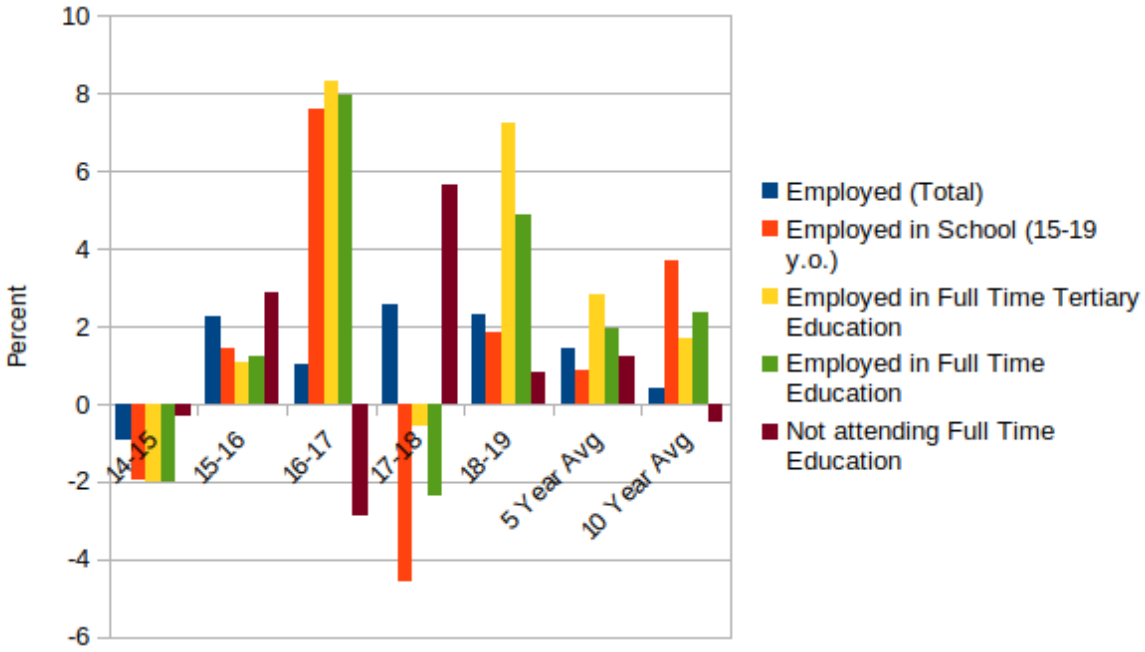
Figure 66: Youth employment (000's) 2009-2019



Source: ABS 6202.0

254. The growth rates in total youth employment January 2018-2019 are higher than last year's figures and are strong relative to five and ten year averages. This is true of the youth labour market overall and all measured subcategories save for school age employment, which is weaker relative to its ten year average but otherwise compares favourably. These growth rates are shown in Figure 67 below.

Figure 67: Growth rates in youth employment, 5 and 10 year averages, age groups



Source: ABS 6202

5.2 Hours Worked

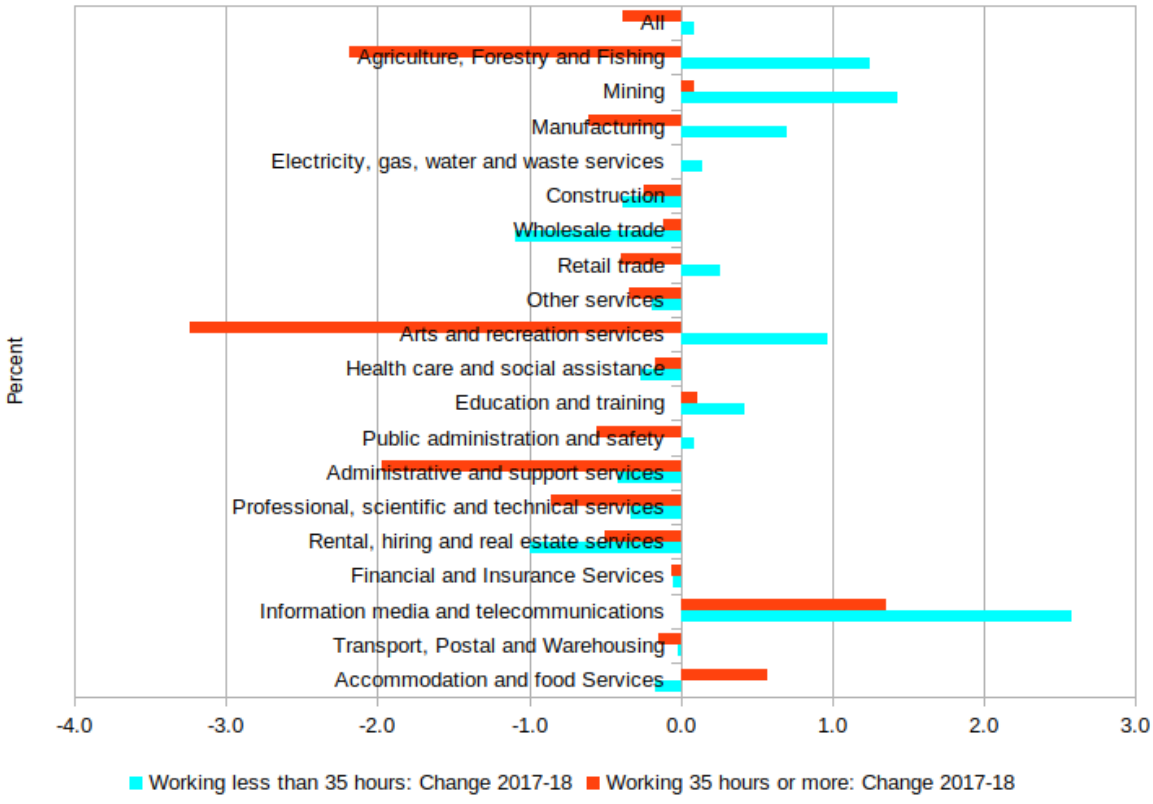
255. Data on hours worked can be presented as an aggregate, or as an average number of hours worked, that is hours per employee. Chart 6.4 of the Statistical Report for the AWR shows the annual growth in hours worked per industry, for the November to November quarter, comparing the year to November quarter 2018 with the 10 year average. It appears to be based on aggregate hours worked in each industry, thus is sensitive to changes in employment growth (or decline) per industry as well as the share of part-time or full-time work. The 10 year averages reflect the change in industrial structure in response to demand for output across industries, while the most recent data highlights the current changes in industry demand which are occurring for a multitude of reasons.

256. The award-reliant industries, health care and social assistance and administrative and support services show below 10 year average growth in hours over 2018, but this is coming off very high 10 year average growth rates in hours worked. Administrative and support services hours have fallen slightly in 2018, after strong 10 average growth. Retail hours could be being affected by online sales, and maybe that is also being captured in the strong growth in hours worked in wholesale trade. It is hard to relate these movements to minimum wage increases, in those industries which are particularly dependent on them.

257. Table 6.2 in the Statistical Report measures monthly growth in total hours worked based on average monthly hours worked over 2018, comparing full-time and part-time hours growth. It and shows stark contrast over 2018 between the increasing monthly growth rates in part-time hours worked and the decreasing growth in full-time monthly hours worked, in a context where hours worked are growing overall. We note that he average monthly hours worked by full-time workers are still substantially more than usual ordinary full-time hours.

258. This is confirmed in Figure 68, which shows the growth in average weekly hours worked per employee by industry, split by those who worked 35 hours or more and those who worked less than 35 hours. We adopt these as rough proxies for full-time versus part-time work.

Figure 68: Growth in average hours worked per worker by industry, November 2017 to November 2018



Source: ABS 6291.055.003 and ACTU calculations

259. Figure 68 shows that the growth in hours per worker working under 35 hours has increased across industries compared with the growth in hours per worker working 35 hours or more which is often negative. This reflects the shift to part-time and casual employment by employers across industries. It is however clear that changes in average hours worked per

month are small. It can be seen from Table 12 below that the hours of those working above 35 hours still average well above standard ordinary weekly hours notwithstanding the reductions experienced. Taken with the overall growth in employment and hours worked, these data are not indicative of weakness in the overall demand for labour.

Table 12: Change in hours worked per industry November 2017-18, average hours per worker measure

	Employees working less than 35 hours, November 2017	Employees working less than 35 hours, November 2018	Employees working more than 35 hours, November 2017	Employees working more than 35 hours, November 2018
Accommodation and food Services	17.3	17.2	45.6	46.2
Transport, Postal and Warehousing	21.6	21.6	46.4	46.3
Information media and telecommunications	20.7	23.3	42.9	44.2
Financial and Insurance Services	23.9	23.8	42.9	42.8
Rental, hiring and real estate services	21.8	20.8	46.1	45.6
Professional, scientific and technical services	21.5	21.2	45.2	44.3
Administrative and support services	19.8	19.4	45.2	43.3
Public administration and safety	23.8	23.9	42.5	42.0
Education and training	19.7	20.2	44.4	44.5
Health care and social assistance	22.5	22.2	42.4	42.2
Arts and recreation services	17.2	18.2	47.0	43.7
Other services	20.3	20.1	44.8	44.5
Retail trade	18.9	19.1	44.2	43.8
Wholesale trade	23.0	22.0	44.2	44.1
Construction	22.0	21.6	46.3	46.0
Electricity, gas, water and waste services	23.7	23.9	44.2	44.2
Manufacturing	21.6	22.3	44.6	43.9
Mining	21.2	22.6	53.5	53.5
Agriculture, Forestry and Fishing	18.2	19.5	56.4	54.2
All	20.5	20.6	45.1	44.7

Source: ABS 6291.055.003

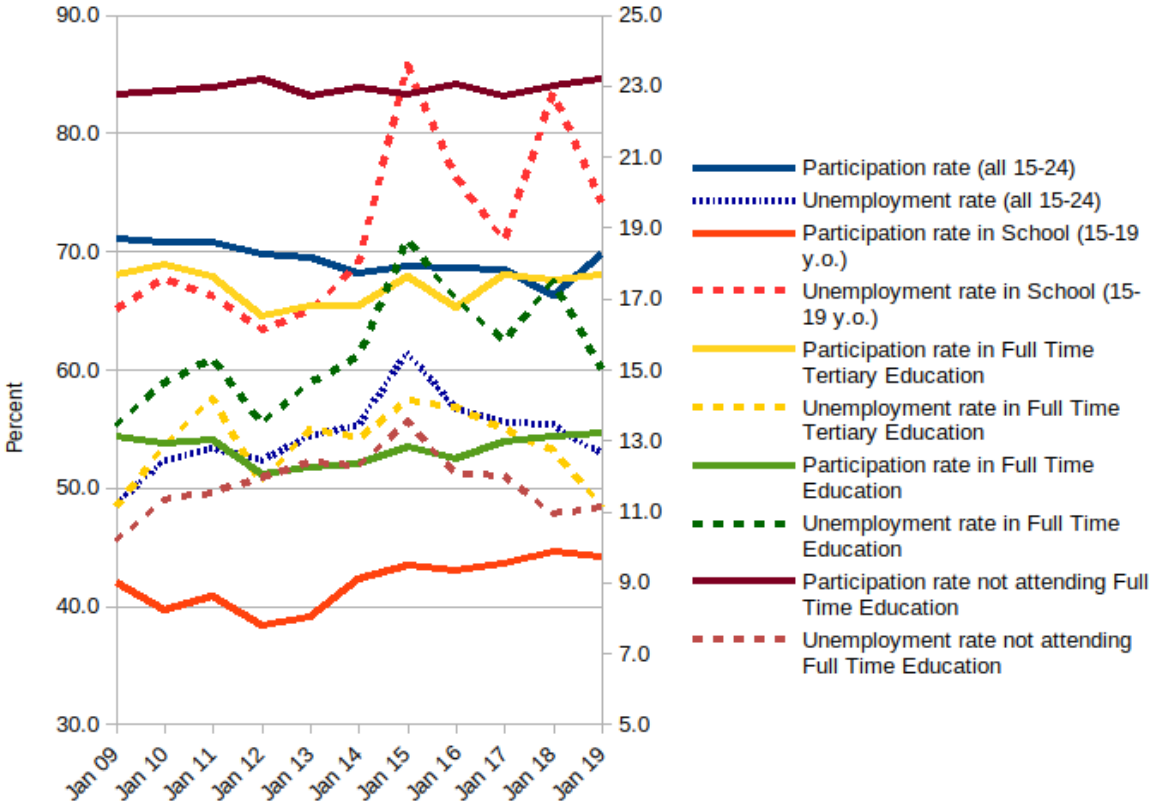
5.3 Unemployment

260. The unemployment rate stayed level at 5.5% for 10 months from July 2017 (down from 5.6% in June 2017) and has decreased since. Monthly labour force statistics record the

unemployment rate at 5.1% as at January 2019, where it has been since October 2018. The participation rate has also held its record level 65.7% for 3 months to January 2019, having reached 65% in May 2017 and consistently increasing since. The employment to population ratio reached 62% in December 2017 and has stayed level or risen since then, with 62.4% recorded in both December 2018 and January 2019. The trajectory of all measures, as shown in Charts 6.1 and 6.2 of the statistical report, is strong. Those measures, coupled with the number of long-term unemployed decreasing in nominal terms over the last two years yet making up a greater share of the population of unemployed workers, are convincing signs of a tightening labour market.

261. Reinforcing this are positive signs also evident in the youth labour market recently, shown in Figure 69 below. In order to disentangle the impact of educational participation on the youth labour market, Figure 69 shows participation rates and unemployment for those age groups participating in full-time education and those not in education. Overall, youth unemployment has continued to decrease over the past year notwithstanding strong increases in the youth participation rate. The results are not as strong for youth who are not in full-time education, however the slight increase in unemployment in that cohort needs to be viewed against the growing labour market participation rate also seen in that group.

Figure 69: Youth unemployment rate (RHS) and participation rate (LHS), 2009-2019



Source: ABS 6202.0 and ACTU calculations

5.4 Underemployment

262. The underemployment rate remains high by historical standards, as seen in Chart 6.1 of the statistical report. There have however been some small recent improvements. Labour force data for January 2019 shows the underemployment rate has slowly declined since April 2017 and has stayed firm at 8.3% for the last five months on trend figures, the lowest it has been since August of 2014. The underemployment ratio (the number of underemployed workers expressed as a percentage of total employed persons) has also declined slowly since August 2017, holding at 8.7% for the last four months on trend figures, the lowest seen since July 2014.

263. Yuen and Smith (2019)[148] provide a detailed and useful examination of trends in underemployment over the past 25 years. It shows that the single biggest contributor to underemployment over that period was the rise in the share of part-time employment. Much of such part-time employment is associated with service industries that have assumed greater

[148] Yuen, K. & Smith, O., Insights into Underemployment, Fair Work Commission, February 2019.

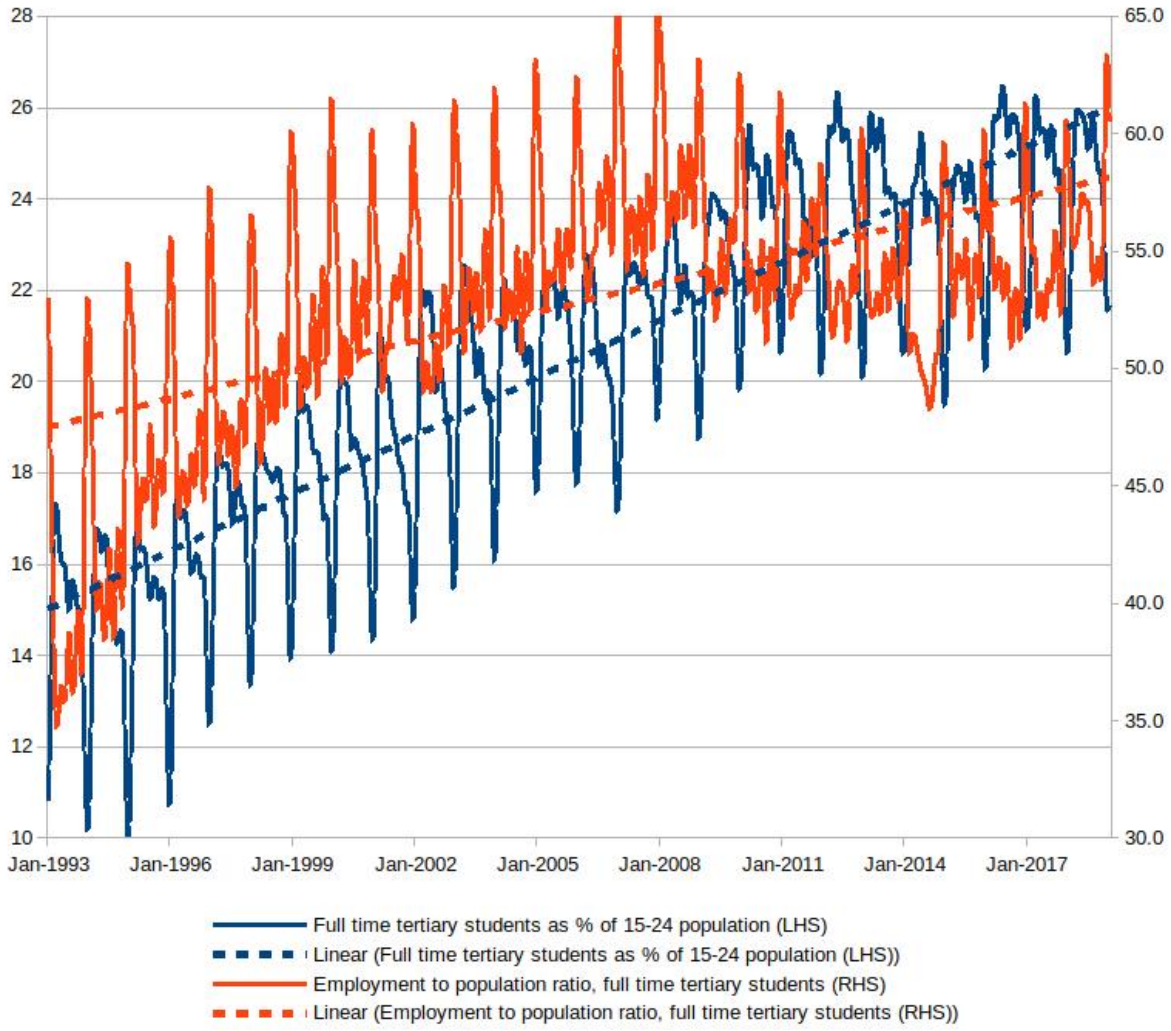
importance in the economy over the period. Their examination also revealed that the 15-24 year old segment of the workforce had the highest rate of underemployment through that period and that the rate of underemployment among that group increased strongly in the last decade. Underemployment with that age group was also seen to make the biggest impact of all age groups on changes to aggregate underemployment over the period, albeit to a lesser extent in the last decade thereof.

264. In our submission, the higher and accelerating underemployment rate among the 15 to 24 year age group over the period is likely to be related to changing educational participation. Educational participation may or may not limit the average 15-24 year old person's aggregate hours of work availability more now that in did in 1993. But it is certainly expected that a full-time student would have less availability to work that somebody who was not a student. Moreover, it is expected that the hours at which the student is available to work are largely determined externally. That is, the student may well want more hours, but the hours available to them through their current employer may not be the right fit for their availability. Where measured underemployment is a result of that type of firm-individual interaction, it is properly viewed as a labour supply restriction, rather than a weak demand for hours due to (for example) excessive labour costs. Such a difference between individual-firm interactions and the aggregate picture is presumably one reason why volume measure of underemployment shown in Chart 2.3 of Yuen and Smith (2019)[149] has barely moved over the 25 year period compared to the headcount measure shown in Chart 2.1 thereof.

265. In Figure 70 below, we show the percentage of the 15-24 year old population that are full-time tertiary students, as well as the employment to population ratio for full-time tertiary students in that age group, over the same period. Even ignoring the trend lines which we have added, it is clear that the "within group" characteristics of the 15-24 year old cohort, found to be so influential in the Yuen and Smith (2019)[150] study, have trended toward higher participation in education and higher participation in education and work. This is consistent with the possibility identified above that there is an increased incidence of mismatches of available work times at the individual-firm level.

[149] Yuen, K. & Smith, O., Insights into Underemployment, Fair Work Commission, February 2019.
[150] Yuen, K. & Smith, O., Insights into Underemployment, Fair Work Commission, February 2019.

Figure 70: Full-time tertiary students – proportion of 15-24 year olds and employment to population ratio 1993-2019



Source: ABS 6202.0 and ACTU calculations

266. A further factor which may impact the measured underemployment rate, albeit slightly, is the rise in the number of students who are studying in Australia on student visas. Such students are prohibited from working more than 20 hours per week. We are unaware of how well student visa holders are represented in ABS labour force data. However, the labour force survey methodology does not seem to exclude such persons from its scope.[151] In any event, there is a possibility that student visa holders might indicate that they *prefer* to work additional hours when asked "Would [you/name] prefer to work more hours than

[151] The labour force survey methodology is available online from the ABS: http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6102.0.55.001~Feb%202018~Main%20Features~Labour%20Force%20Survey~19. We have separately been advised by the ABS that overseas students on visa are included in the survey if they have resided in Australia for 12 out of 16 months (whether the 12 months is consecutive or not).

[you/he/she] usually [work/works] [in all [your/his/her] jobs]?"[152], even if they were not permitted to work those hours. Data from the Department of Home Affairs shows that the number of Higher Education Student Visa holders in Australia on 30 June rose 74% (from 125,622 to 218,222) between 2006 and 2018 and that student visas in vocational educational and training had risen 285% (from 32,025 to 123,228) in the same period.[153] Data from the Department of Education suggests, in relation to higher education, that Overseas Student enrolments made up 25% of enrolments in 2005, compared to 28% of enrolments in the first half of 2018.[154] We have been unable to ascertain comparable data in relation to the vocational education and training sector.

5.5 Research on the employment effects of minimum wage increases

267. The Decision of the Panel last year said "Given its significance, the Panel pays close attention to new research that might provide additional insight on the impact of minimum wages on employment, hours worked and unemployment."[155] In the remainder of this Chapter, we highlight some of the research findings which we encourage the Panel to consider in arriving at its determination in this Review.

5.5.1 The United States

268. Cengiz et al (2018) examined the effect of raising minimum wages on low wage jobs in Washington state and in the whole of the US, in an update publication of its 2017 paper for the Society of Labor Economists (the initial paper was referred to in the ACTU's submission to the AWR of 2017-2018).[156] The findings of the paper are in the ACTU's view compelling given the exhaustive detail and comprehensiveness of the study. It used a bunching methodology which obtains estimates for a disproportionate increase in the number of jobs paying at or

[152] Question 070, Labour Force Questionnaire, ABS, http://www.abs.gov.au/AUSSTATS/subscriber.nsf/log?openagent&labour force survey.pdf&6232.0&Publication&6B989AD863A987F0CA257DB2001A5477&&July 2014&19.12.2014&Latest

[153] Department of Home Affairs Data on Student Visas: https://www.homeaffairs.gov.au/research-and-statistics/statistics/visa-statistics/study . The particular statistics used for this calculation are found in section 6.04 of the Student Visa and Temporary Graduate Visa Program Report ending 30 June 2018 and section 4.01 of the Student visa program trends report 2003-04 to 2009-10.

[154] Department of Education, "2014 student enrolment summary charts", "2018 higher education first half year student enrolment summary time series and charts"

[155] [224] [2018] FWCB 3500

[156] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," ASSA Paper, CEP Discussion Papers dp1531, Centre for Economic Performance, LSE, also issued as NBER Working Paper No. 25434 January 2019

slightly above the new minimum wage compared to the jobs which disappear and would have paid below the new minimum. It sought to estimate the effect of the minimum wage increase - not only on teen jobs but overall - and jointly estimate both wage and employment effects using the bunching method. The study also examined the extent and effect of wage spillovers from minimum wage increases, for wages further up the income distribution.

269. Bunching refers to focussing on the wages paid at or near the minimum wage and the changes in employment in that range. Adoption of that methodology rests on the assumption that most workers at or slightly below the minimum wage prior to a minimum wage increase will end up on wages at or slightly above the minimum wage after the increase, rather than on wages at or near the higher end of the wage range. An increase on the numbers paid at or just above the minimum wage after the increase compared with numbers paid below the new minimum wage prior to the increase will be an indication of the extent to which raising the minimum wage has been compatible with increased low paid employment.

270. The bunching estimator of Cengiz et al (2018) required a comparison of the actual frequency distribution of wages to estimates of the counterfactual distribution i.e. the likely distribution of wages if the increase in minimum wage had not occurred. This requires construction of the counterfactual, and the paper says it presents an alternative to comparing the actual distribution with an *ad hoc* distribution or with the distribution prior to the wage increase. The paper exploits state level variation in the minimum wage and compares US states with minimum wage changes to states without, using differences in differences estimation in order obtain 'real time' distributions. The paper examines the effect on employment of one of the largest state-level minimum wage changes: the minimum wage increase in Washington State in 1999 from $7.54 to $9.18 per hour (2016 prices) or 21.8%. It does so by comparing a wage and employment distribution constructed for Washington after that date from the wages and employment in states with no minimum wage increase (employment adjusted for population)[157]. The paper found, according to this, a sharp reduction in the number of jobs paying below $9 per hour and an *equal* increase in jobs paying between $9 and $14, with stable employment above $14 per hour in both actual and counterfactual scenarios.

[157] Administrative data from Washington State, described as "high quality" by the authors, was used to count the employment numbers at each wage level paid, within the range of the nearest dollar. Using this, the shares of employment at each dollar hourly rate ("wage bins") are calculated, both before the minimum wage increase (1996-98) and after it (2000-04). For the counterfactual, an average of 39 other States' employment data is used to obtain shares of employment at each pay rate. A differences in differences methodology is used to compare employment in the two series before and after the minimum wage increase.

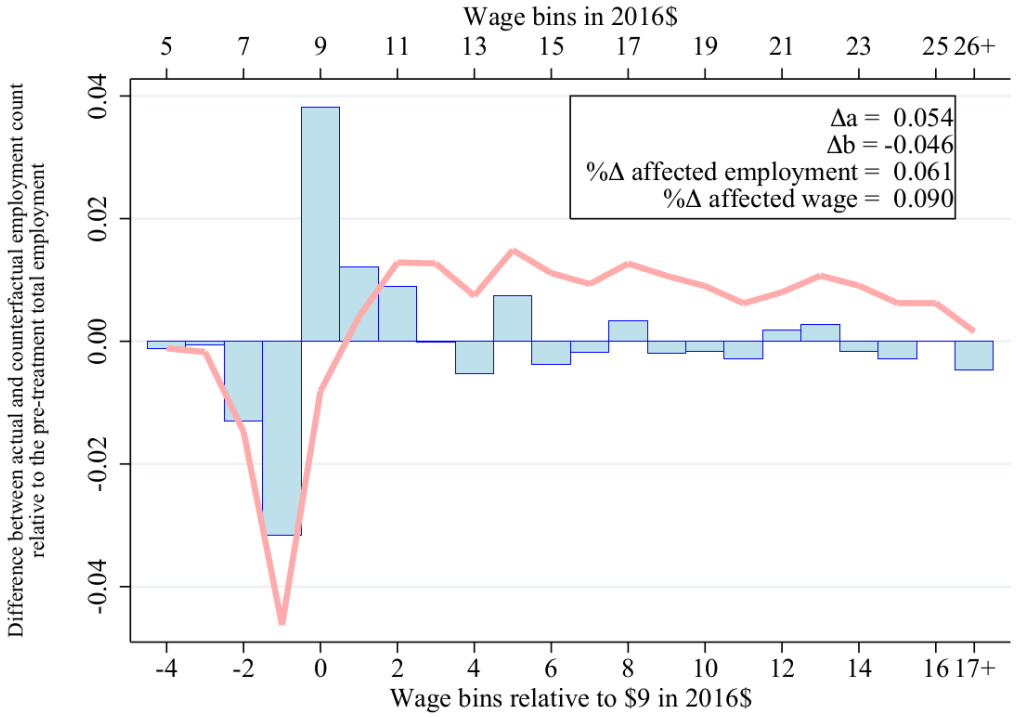
271. In order to address the problem of inferring from one particular instance (of regulated wage increase), the paper undertakes a much larger study by using data from the 1979-2016 Current Population Survey (CPS) (US census data) which yields "138 such policy changes."[158] It pools these data in order to implement an event study analysis covering three years prior to, and five years following, each change; that is, it lines up the data before and after each regulated wage increase regardless of when they took place in order to compare overall estimates of wages and employment before with overall estimates of wages and employment after. This was done using a counterfactual constructed in a similar manner as for Washington's 1999 minimum wage increase comparing each instance of a minimum wage increase with states that had no minimum wage increase at that date[159]. Similar results were also obtained in that the decrease in the number of jobs paying below the new minimum wage in the five years after was matched by the jobs added (excess) paying just above new minimum. This is observable in Figure 2(b) and Figure 3, produced in the paper, which are reproduced as Figure 9 and Figure 72 below.[160]

[158] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, LSE, p.3

[159] Pooled quarterly data for wages and employment are obtained from States across the US. The pooled event study compares effects before and after minimum wage increases applying differences in differences methodology.

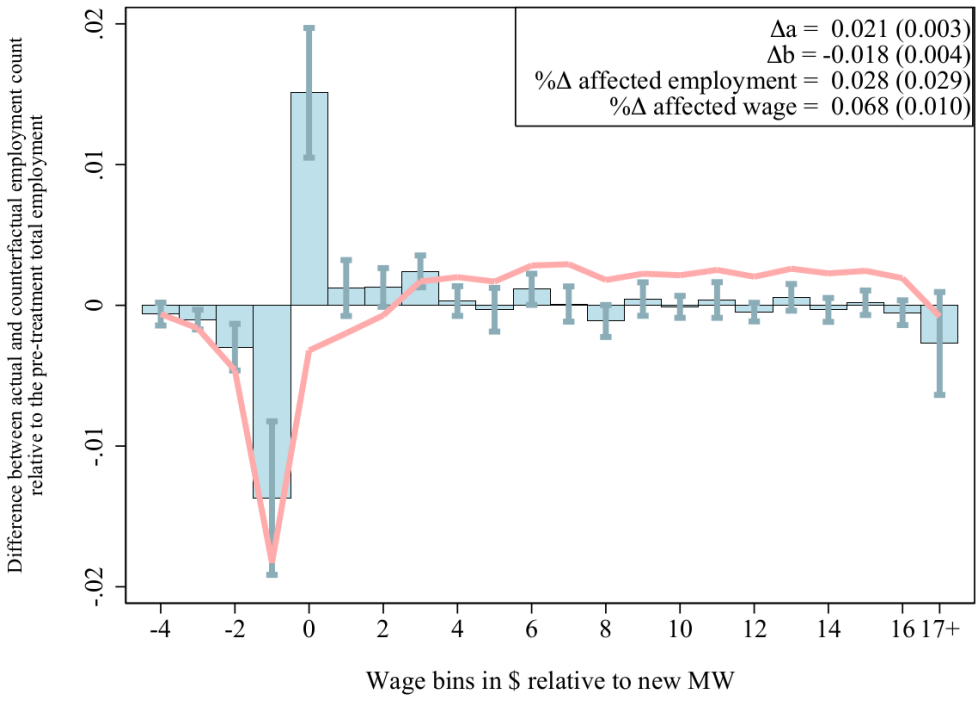
[160] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, , LSE, p.20, p.44-45

Figure 71: Difference between actual and counterfactual frequency distribution of wages (Washington State Study) Figure 2(b)



Source: Cengiz at al 2018, p.44

Figure 72: Impact of Minimum Wages on the Wage Distribution (Pooled event study), Figure 3



Source: Cengiz at al 2018

272. Cengiz et al.'s estimates using the bunching technique allow it to estimate the overall effect of the increases in the minimum wage on average wages as a 6.8% increase, statistically significant. The wage increase has a positive average effect on employment, but not statistically significant, and a one percent increase in the wage would reduce employment by no more than 0.45% at the 95% confidence level.[161]

273. Cengitz et al found the lack of employment response overall "implies an elasticity of substitution between different types of employment which is close to zero". That is, a small change in the ratio of wages say between a higher wage group and lower wage group did not change the proportions of employment between those groups: net employment was found to not be responsive to changes in the minimum wage. Own wage elasticity of employment (wage elasticity of demand) was also estimated to be inelastic. That is, an increase in the minimum wage was likely to have led to a much less than proportionate reduction in total employment at the most. The paper also finds that the lack of reduced employment after a minimum wage increase was not a result of other wages increasing after the minimum wage increase which would have thereby left the relativities unchanged.

274. Cengiz et al also found no substitution from low-skilled to high skilled labour, by partitioning workers into groups by education and age and estimating for changes in employment in response to a change in the minimum wage within each. The range of groups responded similarly which also "suggests that the benefit of minimum wage policies were shared broadly."[162]

275. The results of Cengiz et al (2018) are robust to a number of ways of controlling for time varying heterogeneity, for instance the effect that a minimum wage increase in one state might have on employment and / or wages in a nearby or bordering state thereby offering a misleading effect where the minimum wage increase was located.

276. Concerned that pooling the data for 139 case studies of minimum wage increases at different times and locations may mask heterogeneity, the paper also produces separate

[161] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, LSE p.3, p.21. Note footnote 30 (page 21) reveals that this is far from the Jardim et al 2017 estimate of -3 (an estimate that was cited in the previous ACTU submission).

[162] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, LSE, p.4

estimates for each event (each case study). The paper's "event-by event analysis finds that the estimated missing jobs [below the new minimum wage] rise substantially with the minimum to median Kaitz index", where the Kaitz index measures the wage bite or ratio of the minimum wage to the mean or median wage. The paper finds "no relationship between the employment estimate and the Kaitz index up to around 55 percent, confirming that minimum wage changes in the U.S. we study have yet to reach a level above which significant disemployment effects emerge."[163] However, even though the rate of missing jobs before the minimum wage increase was higher when the minimum wage was nearer the median (maximum 59%), so was the increase in jobs afterwards, still leaving no net employment effect. Changes in employment at the upper tail of wages appear to be unrelated to minimum wage increases and may explain why negative aggregate employment effects are misleading.[164]

277. Cengiz et al finds the only negative effects are likely to be in the tradeable areas, such as manufacturing, with an elasticity of -1.4, or a 1.4% fall in employment for every 1% increase in the minimum wage "although the estimates are "imprecise". It points out the vast majority of minimum wage jobs in the US are in non tradeable restaurant, retail and other sectors where the employment effect is "close to zero".

278. The paper finds no difference to the employment effects for new entrants versus workers who already had a job. However new entrants do not experience the spillover effects [on other wages] that those with existing jobs experience.

279. The paper also calculates the impacts of a minimum wage increase on workers with much higher wages than the minimum. It concludes that "specifications that indicate a large negative effect on aggregate employment seem to be driven by an unrealistically large drop in the number of jobs at the upper-tail of the wage distribution, which is unlikely to be causal effect of the minimum wage."[165]

[163] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, , LSE, p.4
[164] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, , LSE, p.34-37
[165] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, , LSE, p.5

280. Cengiz et al say they "show that the measured wage spillovers are not an artefact of disemployment which would truncate the wage distribution." That is, the spillovers observed are not mistaken for a result of low paid workers being laid off which in turn raises the average wage or pushes up the bottom of the wage distribution. The paper finds that spillovers "extend up to $3 above the minimum wage and represent around 40% of the overall wage increase from the minimum wage changes."[166] It argues that the spillovers show up in the administrative (census) data and so are not due to misreporting in surveys

281. The method of Cengiz et al (2018) still allows aggregate employment to be affected by the minimum wage. The aggregate is the net of the jobs which have disappeared which are now below the new minimum wage and the jobs which have been added due to it afterwards (the excess above the increase which would have occurred anyway). A net positive change of 0.8% is found in Washington's aggregate employment from before to after the minimum wage increase of US$9. This included a 6.1% increase in employment for workers who earned below the new minimum wage in 1998. Most of the increase is in the wage range near to the minimum wage, tailing off at higher wage rates. [167]

282. The paper presents further evidence that the minimum wage increase is binding (effective), that is the increase in employment estimated as a result of the minimum wage increase, are spillover increases observed to be effective at wage rates up to $4 above the minimum. The study undertakes a number of robustness checks which confirm its findings. When the states where the minimum wage is reduced by the amount of tips the worker receives are removed from the sample, the employment elasticity is still small and not statistically significant.[168] The effects are similar when federal wage increases are included and the absence of workers earning below that in control states is accounted for in the estimations. The effects are similar also for part-time workers, and without the population weights.[169]

283. A lack of heterogeneity in the results is shown by estimates obtained for various subgroups, including by education, female, black or Hispanic, and by age and education, in which the

[166] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, , LSE, p.6
167 Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, , LSE, p.13, and Figure 2 p.44.
[168] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, , LSE, pp.22-24
[169] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evience from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, , LSE, pp.25-26

minimum wage increases increase their average wages more, with still negligible effect on their employment, across all groups.[170]

284. The paper also considers tradable, non-tradable, construction, and other industries (with 88 percent of minimum wage workers working in non-tradeable and 'other'). The tradeable sector where the minimum wage is less binding (there are a smaller proportion of workers at lower wages), does show a smaller effect of a minimum wage increase on wages, with a larger and negative employment effect, but the latter is still not statistically significant. By contrast in the non-traded sector where a large proportion of workers are paid at or near the minimum wage, there is a bigger wage increase and the employment effect is positive (but still not statistically significant). Construction has few jobs paid at or near the minimum wage with smaller wage increases and zero employment effect. The restaurant sector was also considered separately, and show by far the biggest impact of a minimum wage increase in terms of missing jobs below the minimum wage after the new wage increase, matched by the excess jobs increase after.[171]

285. The data allow distinguishing between incumbents and new entrants (employed less than a year), and new minimum wages clearly are binding for both, with no effect on employment for either group but a higher wage increase effect for incumbents, due to spillovers.[172]

286. The paper assesses wage spillovers by moving all workers below the new minimum wage before the increase to exactly the new minimum wage and estimating the difference in wage increase observed after. 39.7% "of the total wage effect is caused by the ripple effect of the minimum wage." The spillovers are also estimated for the subgroups, with mostly similar results, statistically significant, except less and not statistically significant for Black or Hispanic and smaller for tradeable. New entrants appeared to be employed at or near the minimum wage.[173]

[170] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, , LSE, pp.27-28
[171] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, , LSE, p.29
[172] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, , LSE, p.30
[173] Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," CEP Discussion Papers dp1531, , LSE, p.31-33

287. Lavecchia (2019) evaluates the minimum wage impact on participation and employment of low-skilled workers in the context of search and matching theory. Its findings highlight the role of participation decisions at the minimum wage in the context of the tax and transfer system. It argues that a minimum wage can increase welfare if it reduces labour market tightness, that is lowers the number of vacancies per worker.[174] It estimates the causal effect of the minimum wage on low-skilled labour force participation and employment using US federal and state minimum wage variation. It seeks to take into account the impact of tax and transfers policy on calculated marginal welfare gains from raising the minimum wage.

288. In Lavecchia (2019), individuals vary according to ability or skill and their fixed labour force participation cost. This means individuals of the same skill will make different labour force participation decisions, in a labour market segmented by skill and with search frictions resulting in some involuntary unemployment, where not all those who want to work at the minimum wage can find work at that rate of pay. The government maximises a social welfare function of taxes and benefits (subject to budget constraint) in a second-best solution. However in doing this, the government can only observe earnings and not other labour market decisions and skills of individuals. Based on this, the study derives a formula for the marginal welfare gain (the sum of social welfare and net tax revenues) from introducing a minimum wage. It shows that the minimum wage can reduce labour market tightness, the ratio of vacancies to low-skill job seekers, and be welfare improving. That is, in a context of second best combinations of taxes and transfers which change as the wage increases, the minimum wage reduces search costs and improves employment. It shows that the minimum wage is a fiscally cheaper way of increasing employment than relying on the income tax system at lower wage levels, and also more efficient in terms of creating employment than a tax system which includes negative and progressive taxes over the low wage range. It shows the "welfare gain from this redistributive role [of the minimum wage] is proportional to the difference between macro employment and macro labor force participation elasticities with respect to the minimum wage."[175]

289. Lavecchia (2019) pools data cross sections from the US 1979-2014 monthly CPS (Current Population Survey) files and exploits state and federal minimum wage variation in an event

[174] Adam M. Lavecchia 2019 Minimum Wage Policy with Optimal Taxes and Unemployment, Dept of Economics McMaster University Working Paper 2019-03

[175] Adam M. Lavecchia 2019 Minimum Wage Policy with Optimal Taxes and Unemployment, Dept of Economics McMaster University Working Paper 2019-03, pp.3-4

methodology to estimate the percentage changes in macro labour force participation and in employment, each with respect to a one percent change in the minimum wage.

290. Using unmarried adults between 20 and 29 without a high school diploma as a proxy for low-skilled individuals,[176] Lavecchia (2019) estimates a very small negative elasticity of the job finding rate by low-skilled job seekers with respect to the minimum wage of -0.08, with two thirds of the employment decline due to lower labour force participation and the remainder due to a lower (equilibrium) job finding rate for remaining job seekers. It calculates that the welfare gains from the minimum wage range from -US$61 to $277, in the context of a sample average earnings of $US16,793 (2014 dollars). The welfare gains are more sensitive to different values for labour force participation elasticity than for macro employment elasticities. [177] It argues that the effect on well being of low-skilled workers from minimum wage increases is understated if the macro labour force participation response is not estimated (in the context of taxes and transfers). If only the macro employment effect is used to estimate the change in their wellbeing, it overstates the negative impact on low-skilled adults in the US by one third. The non pecuniary benefits also need to be estimated.[178]

291. Rinz and Voorheis (2018)[179] investigate how changes in the minimum wage in the United States affect earnings growth across the wage distribution over time. It compares the earnings growth over time for those workers exposed to higher minimum wages with those exposed to lower minimum wages across states, taking account of the probability of employment for those exposed to minimum wage increases.[180] Importantly, it overcomes previous binding data constraints by linking CPS (survey) data to administrative (census) data on earnings from the Social Security Administration's Detailed Earnings Record.

292. Based on the methodology of Dube (2017), which used the survey data to calculate the effect of minimum wage increases on income growth across the distribution (growth incidence curve),[181] the administrative (census) data yielded a finding that an increased

[176] Nearly one in five of these workers is paid at the minimum wage, more than for any other group.
[177] Adam M. Lavecchia 2019 Minimum Wage Policy with Optimal Taxes and Unemployment, Dept of Economics McMaster University Working Paper 2019-03, p.4
[178] Adam M. Lavecchia 2019 Minimum Wage Policy with Optimal Taxes and Unemployment, Dept of Economics McMaster University Working Paper 2019-03, pp.39-40
[179] Rinz, K. and J. Voorheis**,** 2018. *The Distributional Effects of Minimum Wages: Evidence from Linked Survey and Administrative Data*. Working Paper Series, May. Washington Centre for Equitable Growth, Washington DC
[180] Rinz, K. and J. Voorheis**,** 2018. *The Distributional Effects of Minimum Wages: Evidence from Linked Survey and Administrative Data*. Working Paper Series, May. Washington Centre for Equitable Growth, Washington DC
[181] Dube, A. (2017). Minimum wages and the distribution of family incomes. IZA Discussion Paper No. 10572

minimum wage leads to faster growth at lower percentiles of the income distribution. The effect declined to zero at the 15th percentile, whereas survey data yield noisy estimates that do not follow a discernible pattern.[182]

293. The growth incidence curve response to minimum wage changes does not tell how an individual's earnings trajectory will be affected. Rinz and Voorheis (2018) find, by linking the employment and earnings records for individuals (confidentially), that income at the bottom actually grows faster over five years after than over one year after a minimum wage increase.[183] This linking allows the dynamic path of individuals' wages after a minimum wage increase to be revealed, including the effect of employment transitions.

294. Using three different estimation techniques, Rinz and Voorheis (2018) analyse "how the minimum wage affects the distribution of income, growth in the dollar values associated with each percentile, and the earnings trajectories of individuals who begin at each percentile."[184] They undertook estimates which incorporated periods of non-employment and whether these were affected by a minimum wage increase and did not find results that were different from their base estimates. "The fact that our estimates become more positive over longer horizons rather than reverting to zero or becoming negative suggests that earnings gains at the bottom of the distribution are on average preserved and reinforced rather than mitigated by dynamic or more slowly developing effects of minimum wage increases." [185]

295. Rinz and Voorheis (2018) also find that minimum wages do not induce mobility across state borders for those on low pay. The wages of the low waged who do move across state borders within a year after a minimum wage increase are more likely to increase, however instrumental variables estimates indicated that the minimum wage increase was not causal.[186]

[182] Rinz, K. and J. Voorheis**,** 2018. *The Distributional Effects of Minimum Wages: Evidence from Linked Survey and Administrative Data*. Working Paper Series, May. Washington Centre for Equitable Growth, Washington DC, p.4
[183] Rinz, K. and J. Voorheis**,** 2018. *The Distributional Effects of Minimum Wages: Evidence from Linked Survey and Administrative Data*. Working Paper Series, May. Washington Centre for Equitable Growth, Washington DC, p.5
[184] Rinz, K. and J. Voorheis**,** 2018. *The Distributional Effects of Minimum Wages: Evidence from Linked Survey and Administrative Data*. Working Paper Series, May. Washington Centre for Equitable Growth, Washington DC, p.7
[185] Rinz, K. and J. Voorheis**,** 2018. *The Distributional Effects of Minimum Wages: Evidence from Linked Survey and Administrative Data*. Working Paper Series, May. Washington Centre for Equitable Growth, Washington DC, p.18
[186] Rinz, K. and J. Voorheis**,** 2018. *The Distributional Effects of Minimum Wages: Evidence from Linked Survey and Administrative Data*. Working Paper Series, May. Washington Centre for Equitable Growth, Washington DC, pp.19-20

296. Rinz and Voorheis (2018) estimate the implications of raising the minimum wage substantially - 37% - (comparable to Seattle which was from $9.47 to $13 per hour) on income growth in an expansion (1994-1999) and in the Great Recession (2005-2010). They found that the progressivity of growth was increased more in the expansion than in the Recession, when it mitigated but did not eliminate income losses.[187] In the ACTU's view this is relevant to Australia in view of the effects of the stimulus package of 2008.

297. Allegretto et al (2018)[188] investigates the impact of city-level minimum wages for six cities in the US.[189] It builds on the work of Reich et al 2017 for Seattle, described in the ACTU submission to the AWR 2018.[190] Using both event study and synthetic control methods in differences in differences it analyses the effects of minimum wage increases in "early movers": Chicago, District of Columbia, Oakland, San Francisco, San Jose and Seattle, comparing them against a group of highly populated counties in metro areas across the US. At the end of 2016, minimum wages reached US$10 in all these, and exceeded $13 in San Francisco and Seattle. They focus on the food services industry, estimating by using pooled data and individual city data. Their "various approaches yield broadly similar results. A 10 percent increase in the minimum wage increases earnings between 1.3 and 2.5 percent, depending on the model estimated. Moreover, [they] do not detect significant negative employment effects. These findings are similar to those in a recent state-of-the-art study of minimum wages up to $10 (Cengiz et al. 2018)."[191] The employment effects of a 10% increase in the minimum wage range from a 0.3 percent decrease to a 1.1 percent increase on average.

298. Allegretto et al (2018) is the first study to pick up minimum wage increases above $10. This is important because they are investigating the impact on employment at a higher range of

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[187] Rinz, K. and J. Voorheis**,** 2018. *The Distributional Effects of Minimum Wages: Evidence from Linked Survey and Administrative Data*. Working Paper Series, May. Washington Centre for Equitable Growth, Washington DC, p.21

[188] Sylvia Allegretto, Anna Godoey, Carl Nadler and Michael Reich 2018 The New Wave of Local Minimum Wage Policies: Evidence from Six Cities CWED [Center on Wage and Employment Dynamics] Policy Report, Institute for Research on Labor and Employment U of California, Berkeley, September 6.

[189] Sylvia Allegretto, Anna Godoey, Carl Nadler and Michael Reich 2018 The New Wave of Local Minimum Wage Policies: Evidence from Six Cities CWED [Center on Wage and Employment Dynamics] Policy Report, Institute for Research on Labor and Employment U of California, Berkeley, September 6

[190] Reich, M., S. Allegretto, and A. Godoey. 2017. Seattle's Minimum Wage Experience 2015–16. Center on Wage and Employment Dynamics Policy Brief. June, (Institute for Research on Labor and Employment, University of California, Berkeley.) reported on at [423] [2018] FWCB 3500

[191] Sylvia Allegretto, Anna Godoey, Carl Nadler and Michael Reich 2018 The New Wave of Local Minimum Wage Policies: Evidence from Six Cities CWED Policy Report, September 6, p.2; Doruk Cengiz & Arindrajit Dube & Attila Lindner & Ben Zipperer, 2018. "The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator," ASSA Paper, CEP Discussion Papers dp1531, , LSE, also issued as NBER Working Paper No. 25434 January 2019

minimum wages than previously investigated, although the *median wage bites* are within the range of previous studies. They use the US Bureau of Labor Statistics' Quarterly Census of Employment and Wages administrative data which covers 95% of US workers. The fact that the six treatment cities have higher private sector employment growth, possibly due to population growth, is accounted for in the study design. A range of robustness tests are applied to check whether their findings "are influenced by contemporaneous changes in the cities that are not related to minimum wages" and would result in different trends in the cities, including whether the comparison groups evolve in parallel to the cities before the minimum wage increases, differences between full and limited service restaurants, whether the results are just picking up effects in a high wage industry, professional services, or in comparison counties without a minimum wage increase.

299. The results of the event studies reported in Allegretto et al (2018) show that the local minimum wage policies raised food service earnings by four percent with no significant negative effects on employment, as long as the trend assumptions hold that the treated city trends would have followed the paths of the average outcomes in the untreated comparison counties - and the tests they undertake suggest this does hold.[192]

300. Allegretto et al (2018) also reports results of analysis using synthetic controls. In the control there is no minimum wage increase. In the treatment there is an increase in the minimum wage. A synthetic control is constructed whereby a weighted average of untreated counties (ones without a minimum wage increase) are put together in a comparison group that matches the treated city's relevant characteristics before it experienced the minimum wage increase. It is intended that both the synthetic control and the treated city should continue at the same trend for the period after the minimum wage increase, if the minimum wage increase had not occurred in the treated city. This allows for estimating the change in the treatment city which is due only to the minimum wage increase, using differences in differences methodology. Averaging across six cities, it was found that every 10% increase in the minimum wage caused a 2.5% increase in food service worker earnings, with a positive but very small effect on employment.[193]

[192] Sylvia Allegretto, Anna Godoey, Carl Nadler and Michael Reich 2018 The New Wave of Local Minimum Wage Policies: Evidence from Six Cities CWED Policy Report, September 6, p.25, p.33
[193] Sylvia Allegretto, Anna Godoey, Carl Nadler and Michael Reich 2018 The New Wave of Local Minimum Wage Policies: Evidence from Six Cities CWED Policy Report, September 6, p.30

301. Allegretto et al point out the limitations that their study does not look at low wage work in other industries, and it uses average weekly wage data which includes both high and low waged workers in the industry and whom could change their hours. The employment measure also aggregates high and low waged workers, citing Cengiz et al (2018) as finding no effect on hours or substitution of more educated for less educated workers after a minimum wage increase. [194]

302. Clemens et al (2018) examines US jobs advertisements in order to investigate whether there is substitution towards higher skilled workers on low wages when the minimum wage increases and whether employers are more likely to request higher levels of qualification after a minimum wage increase.[195] It argues that data from the annual American Community Survey of the US Census Bureau show that minimum wage changes have resulted in increases in the average age and education of the individuals employed in low wage jobs. That is, low wage individuals are on average a quarter of a year older and 4 to 5 percent less likely to be a young adult (age 16 to 21) or a high school drop out, following a minimum wage increase, with no effect on the employment shares of other groups, by race, gender or age. However, in the ACTU's view, apart from measurement issues in regard to the low wage criterion in the paper, as the minimum wage increases and its coverage increases, a progression in the mean by age and education would be expected as the minimum wage reaches groups with higher human capital. You would expect young age and education to show up more than other characteristics which are more spread across the range of wages. Moreover, it does not seek to measure changes in numbers or share.

303. Clemens et al (2018) also investigates US job advertisements and find that employers are more likely to require a high school diploma (a 3.2% increase) after a minimum wage increase. Adding firm, firm by state, and firm by year fixed effects brings the increase down to one percent.[196] However on its own recognition, this approach suffers from not knowing what the outcome of the advertisement was, that is whether any employment resulting was more educated than before and whether less educated people are left without work. Changes to the numbers of advertisements are not analysed.

[194] Sylvia Allegretto, Anna Godoey, Carl Nadler and Michael Reich 2018 The New Wave of Local Minimum Wage Policies: Evidence from Six Cities CWED Policy Report, September 6, pp.39-40
[195] Jeffrey Clemens, Lisa B. Kahn, and Jonathan Meer 2018 Dropouts Need Not Apply: The Minimum Wage and Skill Upgrading
[196] Jeffrey Clemens, Lisa B. Kahn, and Jonathan Meer 2018 Dropouts Need Not Apply: The Minimum Wage and Skill Upgrading, pp.22-23

304. Clemens and Strain (2018) analyses the effect on US employment of low paid workers of state minimum wage increases between January 2013 and January 2015 using annual ACS (American Community Survey) data and state house price indices to control for different macroeconomic conditions in each state, in a differences in differences analysis using states without a minimum age increase as control and with minimum wage increases (split between discrete (<$1 and ≥$1 and indexed) as a treatment.[197] The low paid are split by age, including aged 16-21, and aged 16-25 without high school diploma, and other characteristics. They find that from 2013 to 2015, their best estimate is that "minimum wage increases exceeding $1 resulted, on average, in an employment decline just over 1 percentage point among teenagers, among individuals ages 16–21, and among individuals ages 16–25 with less than a completed high school education. Smaller minimum wage increases and inflation indexed minimum wage increases had much smaller (and possibly positive) effects on these groups' employment."[198] However, among other issues, the study does not shed light on the destination of the low-skill young workers who leave the low paid employment, including substitution between work and education, and movements in total employment or total low-skilled employment.

305. Šauer (2018) presents one of the few macroeconomic studies of the minimum wage. Šauer estimates a DSGE model for the US that predicts that "the minimum wage has a negligible effect on the macroeconomy." However, with very relaxed monetary policy, the federal minimum wage could "even cause an expansion".[199] Indexing the minimum wage to wage inflation allows unskilled labour to resist adverse shocks more easily than indexation to price inflation. From Bayesian estimation it finds that standards of performance may be lifted after a minimum wage increase. This implies that raising the minimum wage may also act as a channel for productivity improvement.

[197] Jeffrey Clemens and Michael R. Strain 2018 the short-run employment effects of recent minimum wage changes: evidence from the American Community Survey *Contemporary Economic Policy* Vol. 36, No. 4, October 2018, 711–722

[198] Jeffrey Clemens and Michael R. Strain 2018 the short-run employment effects of recent minimum wage changes: evidence from the American Community Survey *Contemporary Economic Policy* Vol. 36, No. 4, October 2018, 721

[199] Radek Šauer 2018 The macroeconomics of the minimum wage Journal of Macroeconomics 56, pp.89-112. DGSE (dynamic stochastic general equilibrium) is a model where price adjustments bring about full employment across markets, but allows disturbances to technology and policy to result in cycles.

5.5.2 The United Kingdom

306. In its decision of 2018, the Panel said that recent "research in the UK continues to support" the conclusion that "modest and regular minimum wage increases do not result in disemployment effects or inhibit workforce participation." [200] In its Decision of 2018 the Panel said, referring to the UK Low Pay Commission (UKLPC) Report of November 2017[201]: "Of particular interest are studies on the effect of the introduction of the National Living Wage (NLW) and meta studies that seek to draw lessons from the full range of relevant literature. The NLW increased the minimum wage for those over the age of 24 years by 7.5 per cent in 2016 and led to a minimum wage bite of 56.4 per cent."[202]

307. In the face of tremendous economic uncertainty in the United Kingdom, the Low Pay Commission recently recommended that the minimum wage be raised by 4.9%, raising the minimum wage bite to a forecast 59.8%.[203]

308. The Panel in its decision for the AWR of 2018 noted the results of the unpublished interim report (Aitken et al 2017) by the UK National Institute of Economic and Social Research (NIESR) as summarised in the UKLPC 2017. The UKLPC said that the interim report found no robust impact on employment with mixed evidence on hours, based on one year of data since the introduction of the NLW [204] [in 2016]. Footnote 247 to the Panel's 2018 Decision says the interim report was not publicly available and the final report will include an additional year's data.[205]

309. The UKLPC (2018) summarises the NIESR final research report by Aitken et al (2018).[206] *Inter alia*, the final report seeks to address some data timing issues raised in regard to the interim report. On top of the introduction of the NLW which increased the minimum wage for workers aged 25 and over by 7.5%, the increase of April 2017 increased the NLW by another 4.2% to £7.50. The 2017 increase in the NLW was found to add 0.8 to 1.4 percentage points to annual

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[200] [80] [2018] FWCB 3500
[201] Low Pay Commission Report 2017 *National Minimum Wage*, Presented to Parliament by the Secretary of State for Business, Energy and Industrial Strategy by Command of Her Majesty, UK, November
[202] [226] [2018] FWCB 3500
[203] Low Pay Commission (UK), National Minimum Wage: Low Pay Commission Report 2018, November 2018, at 195
[204] [233] [2018] FWCB 3500
[205] Footnote 247, [2018] FWCB 3500. The interim report is Aitken, A., P. Dolton, M. Ebell and R. Riley, 2017. *Impact of the Introduction of the National Living Wage on Employment and Hours.* Interim Research Report for the LPC. November. (National Institute for Social and Economic Research [NIESR].)
[206] Low Pay Commission Report 2018 *National Minimum Wage*, UK, November, pp.204-206, p.217; Aitken, A., P. Dolton, and R. Riley, 2018. *The Impact of the Introduction of the National Living Wage on Employment, Hours and Wages.* Research Report for the LPC. November. (NIESR.)

wage growth, also in the low paying sectors, occupations and regions where samples were large enough.

310. The methodology of Aitken et al (2018) entailed identifying a control group in two ways. One way was to identify workers who were already paid just above the new NLW before its introduction as a control group, for comparison over the period with workers who initially had wages below the new NLW (the 'treatment' group), using ASHE (UK longitudinal Annual Survey of Hours and Earnings). The other was to identify workers aged 21 to 24 who were not affected by the NLW (control) for comparison with workers aged between 25 and 30. The control groups' wages and employment could then be compared with the 'treatment group', those who received the wage increase through the NLW,[207] in a differences in differences analysis.

311. The UKLPR (2018) said that taking the "caveats into account, Aitken, Dolton and Riley (2018) found that – using the ASHE – real hourly wages for the treated group increased by around 4-7 percentage points more than they otherwise would have done, at the time of the NLW's introduction. In addition, the NLW uprating in 2017 added a further 0.8-1.3 percentage points. These effects were evident across all regions, and all low-paying industries and occupations."[208] Additionally, "The method comparing those aged 25-26 with those aged 22-23 found no significant effects on employment retention. The results suggested that wages increased for both groups at the time of the introduction of the NLW, with little differential change in employment retention between these two age groups."[209]

312. The UKLPR reports that the final report by Aitken et al (2018) found "no conclusive evidence of any significant impact on employment retention or hours" using the ASHE database in looking for separate effects on males and females each split into working full-time and part-time, except for a fall in employment retention of 1.5% to 2.6% in part-time females. Using one quarter of Labour Force Survey (LFS) data, no employment effect was found for that group, but neither was a wage effect.[210]

[207] Low Pay Commission Report 2018 *National Minimum Wage*, UK, November, p.204. ASHE is, a longitudinal survey which tracks individuals through time. **Aitken, A., P. Dolton, and R. Riley,** 2018. *The Impact of the Introduction of the National Living Wage on Employment, Hours and Wages.* Research Report for the LPC. November. (NIESR), p.3
[208] Low Pay Commission Report 2018 *National Minimum Wage*, UK, November, p.205.
[209] Low Pay Commission Report 2018 *National Minimum Wage*, UK, November, p.205
[210] Low Pay Commission Report 2018 *National Minimum Wage*, UK, November, p.205

313. When the ASHE data was split up, where sample size was large enough to allow estimation, a fall in employment for part-time low paid females in a couple of regions and sectors (retail) were found. In the ACTU's view it is possible that total pay received by these workers is so low that it runs up against a reservation wage, that is the opportunity cost of work including the cost of childcare and loss of welfare payments, with the effect that when the wage increases, female low paid part-time labour supply decreases. This would not be viewed as an argument against raising the minimum wage.

314. Aitken et al (2018) explores occupations, industries and regions and some subgroups that have a high proportion of low paid workers. In comparing the treatment group of workers aged between 25 and 30 with the control group aged 21 to 24, the usual difference in outcomes for employment retention, hours and wages between the two groups is benchmarked in two ways. They are compared with outcomes for low paid workers in the same age groups in the past, and compared with outcomes for better paid workers at the same time. [211]

315. Aitken et al (2018) recognises that the difference in difference estimations by OLS may suffer from within group correlation of errors in which other unidentified characteristics that may be shared within a group may influence the outcome for wages, employment etc., that is, clustering. They may also suffer from serial correlation of errors where factors from previous periods affect the current period. If either of these is the case, OLS estimates could make estimates in the end of the impact of the minimum wage on wages, employment and hours look greater than they actually are and/or have the wrong sign (i.e. positive or negative). For the OLS difference in difference estimations they calculate standard errors by the generalized Moulton method which corrects OLS standard errors for serial correlation[212].

316. Aitken et al (2018) find their results are not replicated for different 'placebo' time periods than when the NLW was introduced. That is, they include a number of earlier periods taking the final year in each case as the treatment year and the four years prior as a control. [213]

[211] **Aitken, A., P. Dolton, and R. Riley,** 2018. *The Impact of the Introduction of the National Living Wage on Employment, Hours and Wages.* Research Report for the LPC. November. (NIESR), p.4
[212] **Aitken, A., P. Dolton, and R. Riley,** 2018. *The Impact of the Introduction of the National Living Wage on Employment, Hours and Wages.* Research Report for the LPC. November. (NIESR), p.11
[213] **Aitken, A., P. Dolton, and R. Riley,** 2018. *The Impact of the Introduction of the National Living Wage on Employment, Hours and Wages.* Research Report for the LPC. November. (NIESR), p.12

317. The comparison between those aged 21 to 24 and those aged 25 to 30 show both increased wages at the time the NLW came in, as employers increased wages even for younger workers. "The coefficient on being low paid suggests that at the time of the introduction of the NLW, wage growth increased by 3-5 percentage points more for those paid less than the incoming NLW than those already paid the NLW rate, or up to 10 per cent above it, regardless of age."[214]

318. Aitken et al (2018) concludes: "Overall we find that the introduction of the NLW has had little adverse effect on employment retention while raising the wages of the lowest paid."[215]

319. Aitken et al (2018) do find some evidence of adverse effects on the employment opportunities of part-time women. Their "..main results using the control group of workers paid up to 10% above the NLW suggest an own-wage elasticity of employment retention for low paid part-time women of between -0.3 and -0.7." This suggests that for a 1% increase in the female part-time wage occurring with the increase in the NLW would reduce female part-time employment by between 0.3% and 0.7%. Aitken et al (2018) also suggests that for an increase in the actual NLW of 1%, part-time female low paid employment fall is smaller and falls between 0.2% and 0.35%.[216] There is no effect on women paid 10% to 20% above the NLW. Employment falls for part-time low paid women in the retail sector and in North East England. As suggested above, in the ACTU's view this indicates that female part-time workers may adjust their hours to achieve a given net income level rather than employers reducing their employment or hours.

320. Regarding the reliability of the estimates, Aitken et al (2018) are conscious that identification in the differences in differences estimation relies on the fact that the treated and control groups may not share common trends. As before, unobservable individual characteristics that are correlated with other individuals in the group may bias the OLS standard errors downwards and so they make use of the Moulton adjustment in order to obtain reliable standard errors. [217] Aitken et al (2018) says that, while they cannot reject that recent NLW upratings have had no impact on employment retention based on point estimates, they

[214] **Aitken, A., P. Dolton, and R. Riley,** 2018. *The Impact of the Introduction of the National Living Wage on Employment, Hours and Wages.* Research Report for the LPC. November. (NIESR), pp.31-35, 51
[215] **Aitken, A., P. Dolton, and R. Riley,** 2018. *The Impact of the Introduction of the National Living Wage on Employment, Hours and Wages.* Research Report for the LPC. November. (NIESR), p.60
[216] **Aitken, A., P. Dolton, and R. Riley,** 2018. *The Impact of the Introduction of the National Living Wage on Employment, Hours and Wages.* Research Report for the LPC. November. (NIESR), p.60
[217] **Aitken, A., P. Dolton, and R. Riley,** 2018. *The Impact of the Introduction of the National Living Wage on Employment, Hours and Wages.* Research Report for the LPC. November. (NIESR), p.61

"cannot rule out the possibility of negative or positive results, given the generally wide confidence intervals." That is, they calculate that a NLW increase would have to increase or decrease the job retention rate by 2.8 to 3.9 percentage points to "have an 80% chance of being detected", and even wider for full-time men and women in their main results.[218] In other words, the range of possibilities for how the NLW affects job retention remains wide.

321. Notwithstanding these caveats, in the ACTU's view, the *aggregate* outcomes for employment and low unemployment in the UK over this period imply at least no negative employment impact overall, and the overall outcome is likely to be more positive than if the increases in minimum wage and NLW had not occurred. With respect to low paid part-time females, the substitutability between low paid part-time female and other workers would need to be investigated. Any negative outcome for part-time employment of females and other vulnerable workers of raising the minimum wage suggests interaction with the regulatory welfare architecture surrounding low paid part-time female work and workers, rather than purely being the direct result of the increase in the NLW.

322. Lordan (2018) extends the research in Lordan (2017), in a project commissioned by the UKLPC.[219] Lordan (2017) had used quarterly LFS data to "calculate the shares for automatable and offshorable jobs", and used individual level data to assess the effect of increases in the minimum wage on the likelihood of low-skilled individuals in automatable or offshorable employment losing their jobs in the next period.[220] Lordan (2017) had found that a one per cent increase in the minimum wage would reduce the share of automatable jobs by 0.06%, and of offshorable jobs by 0.03%. This was more for manufacturing, low-skilled males, older workers and black low-skilled workers. The ACTU noted in its previous submission to the AWR that this does not imply anything in regard to the rate of job creation, or in relation to the impact of the minimum wage increases on employment overall which cannot be discerned from the study.[221]

[218] **Aitken, A., P. Dolton, and R. Riley,** 2018. *The Impact of the Introduction of the National Living Wage on Employment, Hours and Wages.* Research Report for the LPC. November. (NIESR), p.61

[219] Lordan, G., 2017. Minimum Wage and the Propensity to Automate or Offshore. Research Report for the LPC, UK. October. (LSE); Lordan, G., 2018. Minimum Wage and the Propensity to Automate or Offshore. Research Report for the LPC, UK. November. (LSE)

[220] Low Pay Commission Report 2018 *National Minimum Wage*, UK, November, p.210; ACTU submission to the AWR 2017-18 pp.154-155.

[221] ACTU submission to the AWR 2017-18 p.155

323. Lordan (2018) updates the 2017 study and extends the work with use of additional data. This updated study makes use of the longitudinal ASHE dataset not available for the earlier work, which allowed more reliable definition of control and treatment groups, but not data on ethnicity and so focused on age and gender. The 2018 findings were similar to the previous study, in that "there was some evidence of significant negative employment effects" [in automatable industries] with the most substantive in manufacturing. However, the minimum wage effects on offshorable jobs were found to be nil. The oldest and youngest workers were most affected by the impact of the minimum wage increase on the fall in share of automatable jobs, with a greater effect on women. Offshorable jobs were not affected across the demographics. [222]

324. Lordan (2018) uses quarterly LFS data from 1994 to 2017. It recreates for the UK data accepted definitions from the US data for automatable and offshorable occupations at 3 digit level, and counts low-skilled workers as in automatable or non automatable, or offshorable or non offshorable jobs. Low-skilled workers are employed in an occupation on the bottom wage quintile and have GCSE or less education level (about age 16).

325. In order to distinguish between occupations that are high in automatable and offshorable tasks, Lordan (2018) uses the quarterly LFS data and recreates the "accepted US definitions provided in Autor, Dorn and Hanson (2015), Firpo, Fortin, and Lemieux (2011) and Autor and Dorn (2013)."[223] Firpo et al (2011), in order "to assess the impact of technological change and offshorability on changes in wages", computes five different measures of task content using the US list of occupations O*NET. These are "i) the information content of jobs, ii) the degree of automation of the job and whether it represents routine tasks, iii) the importance of face-to-face contact, iv) the need for on-site work, and v) the importance of decision making on the job."[224] Lordan (2018) uses definitions relating to "routine task intensity" which is reduced by the extent of "manual" and "abstract" task inputs.[225]

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[222] Low Pay Commission Report 2018 *National Minimum Wage,* UK, November, p.210

[223] Lordan, G., 2018. Minimum Wage and the Propensity to Automate or Offshore. Research Report for the LPC, UK. November. (LSE), p.13. Autor, David H., David Dorn. 2013; "The Growth of Low-Skill Service Jobs and the Polarization of the US Labor Market." *American Economic Review*, Vol. 103, No. 5, August, pp. 1553-97; Autor, David, David Dorn, and Gordon Hanson. 2015. "Untangling Trade and Technology: Evidence from Local Labor Markets." *Economic Journal*, Vol. 125, No. 584, May, pp 621-46; Firpo, Sergio, Nicole M. Fortin, Thomas Lemieux. 2011. "Occupational Tasks and Changes in the Wage Structure" IZA Discussion Paper, No. 5542, February

[224] Firpo, Sergio, Nicole M. Fortin, Thomas Lemieux. 2011. "Occupational Tasks and Changes in the Wage Structure" IZA Discussion Paper, No. 5542, February, p.13

[225] Lordan, G., 2018. Minimum Wage and the Propensity to Automate or Offshore. Research Report for the LPC, UK. November. (LSE), p.18

326. In the case of offshorability, adapting the US model to UK data Lordan et al (2018) use the level to which the occupation requires "'teaching people'; 'counselling advising or caring for customers or clients'; 'dealing with people'; 'knowledge of use or operation of tools'; and 'using the internet'."[226]

327. Lordan (2018) calculates for each industry, area and year an automatable and offshorable share, disaggregating further by industry, gender, ethnicity and age. This is explained as necessary to enable answer more detailed questions, for example: to what extent is the total automatable employment held by males changed by minimum wage increases? The share measures mean that the change in e.g. male employment is measured relative to the employment of other groups. A change in total employment that might result from minimum wages is not evaluated, nor are the direct changes in employment of each group.

328. Lordan (2018) regresses the employment shares and some conditioning variables including unemployment, on minimum wage increases. The minimum wage is its average over the current month plus the last eleven months, measured in 2015 prices, to allow for adjustment.[227]

329. Lordan (2018) also estimates regressions using individual-level data for low-skilled individuals to find out whether they are more likely to lose their jobs in the next period if they are in automatable or offshorable jobs than if they are not. "This directly captures whether a person in automatable and offshorable work is more vulnerable to job loss following a minimum wage increase, as compared with similar persons in non-automatable or offshorable work."[228] The data follows people for five quarters, allowing consideration of the effects of minimum wage increases one year after the event. Lordan (2018) also analyses whether a person in an automatable job is more likely to stay in their job after a minimum wage increase compared with those in non-automatable jobs, in order to evaluate the level of disruption from not staying in the same job between two periods.

[226] Lordan, G., 2018. Minimum Wage and the Propensity to Automate or Offshore. Research Report for the LPC, UK. November. (LSE), p.20.
[227] Lordan, G., 2018. Minimum Wage and the Propensity to Automate or Offshore. Research Report for the LPC, UK. November. (LSE), p.25
[228] Lordan, G., 2018. Minimum Wage and the Propensity to Automate or Offshore. Research Report for the LPC, UK. November. (LSE), p.3

330. Lordan (2018) considers the share of hours worked by low-skilled workers in either automatable or offshore employment by industry, area and year and relate that to the minimum wage. Using individual data, the study assesses the difference in reported hours worked this year and last year, one year after minimum wage increases.

331. Lordan (2018) also uses ASHE data from 1998 to 2015 to test the robustness of the findings against a second data source, focussing on low wage individuals rather than low-skill as it does not supply the latter data.

332. The findings of Lordan (2018) based on the changes in shares of automatable and offshorable employment arising from the minimum wage increase, yield very small negative elasticities. Calculating own wage elasticities from these, the percentage change in automatable employment for a percentage change in the minimum wage is -0.055 evaluated at a change in the minimum wage of one pound sterling, from £7.50 to £8.50. For offshorable jobs, the equivalent elasticity is -0.034.

333. The elasticities of employment evaluated at a change in the minimum wage from £7.50 to £8.50 are bigger for manufacturing, with equivalent elasticities at 0.13 for automatable jobs and -0.086 for offshorable jobs. They are also bigger for older low-skilled manufacturing workers in automatable employment, of -0.20.

334. Low-skilled workers in automatable or offshorable employment are relatively more like to shift into other jobs in the next period after a minimum wage increase, but on "aggregate, however, these effects are very modest."[229]

335. In the ACTU's view any such study relating employment to the minimum wage also needs to take account of and be viewed in the context of changes in wages near the minimum wage across sectors and also the average or median wage.

336. Further, the most immediate concern of the Panel vis a vis employment is the impact on aggregate employment, which is a separate question from that of whence the jobs have come, automatable or not. In any event, a comprehensive assessment of these broader

[229] Lordan, G., 2018. Minimum Wage and the Propensity to Automate or Offshore. Research Report for the LPC, UK. November. (LSE), pp.4-6

impacts on employment of an increase in the minimum wage and modern award minimum wages would need to consider also whether any reduction in the relative share of any group of workers is reflected in their representation in unemployment or underemployment figures, or changes in total employment. Additionally, in order to evaluate the impact on relative living standards and the needs of the low paid we would need to know whether low paid or low-skill workers increase their share of unemployment or underemployment following a minimum wage increase. The structure of award payments in Australia makes any impact of increases on employment across industries and occupations with regard to automatability and offshorability or any other such feature of employment more difficult to discern.

337. In the ACTU's view the speculation that Lordan (2018) makes about the future of automatable and offshorable jobs is less relevant to the question of the impact of the minimum wage from an Australian perspective, and for the purposes of the Annual Wage Review.

338. In the view of Lordan (2018), whereas the classification of offshorable jobs was unlikely to change in the short to medium term, automatable jobs were evolving. Those which required human interaction like childcare and hairdressing were unlikely to change. However, those where human interaction was preferred but not always required such as waiting and bar staff, and those where humans do not care whether they are delivered by a human or a robot, such as delivery driver or security guard, were more likely to change. In the past new jobs had always arisen with technological change, but Lordan thought this might not be the case in future.[230]

339. In the ACTU's view, the key problem with any definition of "automatable" or "offshorable" is that is that directions and impacts of technological change are highly nonlinear and unpredictable and arise from a multitude of causes. It is difficult to predict developments in and the direction and impact of automatability and offshorability of jobs that arise from such change. Furthermore, it is difficult to tell what technological change will mean for the attributes of jobs over time, and how they will be affected, even in the short run.

[230] Low Pay Commission Report 2018 *National Minimum Wage*, UK, November, p.211; Lordan, G., 2018. Minimum Wage and the Propensity to Automate or Offshore. Research Report for the LPC, UK. November. (LSE), pp.6-7

340. The impact of technological advance on jobs is also reflected in investment and the amount of capital brought to bear in each sector, and the change in its capital intensivity. In the ACTU's view, it is expected that the automation of jobs would be associated with an increase in investment in capital and an acceleration in capital accumulation. This will strongly affect the rate at which workers in automatable and offshorable jobs end up in new occupations compared with flows of those out of old occupations, and historical analysis would inform this.[231] How minimum wage increases - or any other wage increases, for that matter - relate to these flows is a complex matter.

341. It is difficult to see how changes in automatability and offshorability are affected by minimum wage or other regulatory frameworks in the longer term. The impacts occur in a longer time frame than the Annual Wage Review and it is not clear how the minimum wage decision would take them into account. All things considered, it would be imprudent to assume that lower increases in the minimum wage would impact technological change in a way that benefits workers.

342. The view of Lordan (2018) that a higher minimum wage leads to more disruption in the labour market[232], with low wage workers facing an increased likelihood due to a minimum wage increase of having to change jobs with the costs of job search, should be viewed with some caution in the Australian context. This is because the wages which are centrally fixed and adjusted (the minimum wage and modern award minimum wages) cover a much larger share of workers including those with higher skill levels.

343. Lordan et al (2018) finds that 32% of individuals in automatable jobs are in manufacturing and 47% of those in offshorable jobs are also in manufacturing, "so intuitively the conclusions drawn in the pooled analysis are driven predominantly by this industry."[233] In the ACTU's view the long-term shift in national output away from manufacturing and towards services across the globe is not one that can be attributed to an increase in the minimum wage.

[231] The fact that the US Dictionary of Occupations had to be updated to O*NET in the early 2000s speaks for itself.
[232]) Lordan, G., 2018. Minimum Wage and the Propensity to Automate or Offshore. Research Report for the LPC, UK. November. (LSE), p.4
[233] Lordan, G., 2018. Minimum Wage and the Propensity to Automate or Offshore. Research Report for the LPC, UK. November. (LSE), pp.13-14

344. In another examination of automation and the minimum wage in the UK, Cribb et al (2018) consider the impact of raising the minimum wage on the rate of jobs automation.[234] They find that for the UK those on the minimum wage are "more likely to be doing jobs that appear more readily doable by machines or computers" than those previously on the minimum wage.[235] They consider that, because the NLW has risen faster than other wages and is subject to a target of 60 percent of median wages in 2020, the fraction of employees aged 25 or more on the minimum wage will increase from 4% in 2015 to 12% in 2020. They say there is a case for a higher minimum wage as a tool for helping those on low wages, particularly as the rises in the minimum up to 2015 "do not seem to have had significant adverse affects."[236] In the view of Cribb et al however, there is an upper limit to the minimum wage above which low paid employment will be decreased, and they do not know where that is. They argue that, due to the increase in the minimum wage, in the future the rate of technological substitution for low paid jobs could accelerate. Cribb et al (2018) points out that a low wage is not necessarily associated with routine tasks, with some low paid jobs involving a lot of non-routine work while other higher paid jobs do involve a lot of routine work. On this basis, Cribb et al predicts that a lot of the low paid workers in non-routine work will be moved onto the higher minimum wage in the next five years, and this will increase the automatability of low paid occupations. Automatability increases up to jobs at the 25th percentile of wage distribution. Cribb et al says the employment affects depend on how many workers find another job quickly, how many jobs are created due to the new technology (e g servicing it) and how much upskilling takes place.

345. The comments ACTU made above in regard to technological advance and the minimum wage and the implications for the Annual Wage Review also apply to the Cribb et al (2018) study. Notably, the predictions of Cribb et al also depend on movements in the structure of wage distribution over time, that is, how the rest of the wage distribution moves as minimum wages increase.

[234] Cribb, J., R. Joyce and A. Norris Keiller, 2018. *Will the Rising Minimum Wage Lead to More Low-paid Jobs Being Automated?* IFS Observation. 4 January. (Institute for Fiscal Studies.) https://www.ifs.org.uk/publications/10287
[235] Cribb, J., R. Joyce and A. Norris Keiller, 2018. *Will the Rising Minimum Wage Lead to More Low-paid Jobs Being Automated?* IFS Observation. 4 January. (Institute for Fiscal Studies.)
[236] Cribb, J., R. Joyce and A. Norris Keiller, 2018. *Will the Rising Minimum Wage Lead to More Low-paid Jobs Being Automated?* IFS Observation. 4 January. (Institute for Fiscal Studies.)

346. Capuano, Crockett and Gray (2018) also examines the impact of the NLW in the UK on employment and hours in a preliminary report to the UK LPC.[237] Using an individual level analysis of five quarter longitudinal LFS data and ASHE data it estimates by differences in differences the effect of the NLW on employment and hours of workers aged 25 and over, workers aged less than 25 and if and how recent increases have had varied impacts on different types of workers or employers. The treatment groups are those who before the NMW/NLW increase earned above the old NMW/NLW but below the new one, and alternatively defined by a wage gap, equal to zero if the individual earns the incoming NMW/NLW, and 1 if the individual earns the current NMW/NLW. They also uses a differences in differences in differences analysis where those aged 25 and over received the new NLW while those aged less than 25 did not get an increase in the NMW until later. The "analysis controls for controls for a wide range of individual characteristics such as: gender, education (highest level of qualification achieved), ethnicity, number of children, health status (whether had health problems in the last year), occupation, region, industry and tenure (with current employer, or in the labour market)."[238]

347. Capuano et al (2018) report preliminary findings from the 5 quarter longitudinal LFS. They point out the results for estimates of employment retention are very sensitive to specification due to the small number of individuals in treatment and comparison groups that move from employment to non employment before and after a NMW/NLW increase.[239] The only two years at which the NMW/NLW "had any discernable effect" were 2014 where the increase in the NMW increased employment retention across all specifications, and 2016 where the introduction of the NLW as associated with a reduction in employment in two models with no or few controls. The paper says that this "suggests that the negative association between the introduction of the NLW and employment retention may be due to the difficulties of adequately controlling for employee characteristics when the vast majority of individuals in the LFS sample remain in employment from one year to the next, rather than because the NLW has reduced employment retention for those directly affected."[240] They intend further

[237] Capuano S., J. Cockett and H. Gray, 2018. *The Impact of the Minimum Wage on Employment and Hours: Interim report*. Research Report for the Low Pay Commission. November. (Institute for Employment Studies.), Low Pay Commission Report 2018 *National Minimum Wage*, UK, November, p.206
[238] Capuano S., J. Cockett and H. Gray, 2018. *The Impact of the Minimum Wage on Employment and Hours: Interim report*. Research Report for the LPC. November. (Institute for Employment Studies.), p.6
[239] Capuano S., J. Cockett and H. Gray, 2018. *The Impact of the Minimum Wage on Employment and Hours: Interim report*. Research Report for the LPC. November. (Institute for Employment Studies.), p.16-17
[240] Capuano S., J. Cockett and H. Gray, 2018. *The Impact of the Minimum Wage on Employment and Hours: Interim report*. Research Report for the LPC. November. (Institute for Employment Studies.), p.17

exploration of robustness to other changes in specification and the use of the larger database ASHE.

348. Capuano et al (2018) says their results suggest the introduction of the NLW and the increases in the NMW had little economic impact, with most individuals having a high probability of still being employed after an increase. The effect on working hours is not discernable either. Further work will investigate the effects on subgroups.

349. Avram and Harkness (2018) is an interim report on a project commissioned by the UK LPC.[241] The project investigates progression out of minimum wage jobs, including the effect of a minimum wage increase, using data from the UK Longitudinal Household Survey from 2009 to 2016, for those aged 25 and over, making use of differences in the minimum wage bite and employment transitions across geographical locations. The UK LPC Report (2018) says that whereas "the existing literature convincingly shows that the minimum wage has boosted wage growth at the bottom of the distribution, there is limited evidence on its impact on wage progression." [242]

350. Avram and Harkness (2018) estimate the probability of leaving a minimum wage job to a low pay job, a high pay job or non-employment across regions using a competing risks discrete time model which allows for the probability of transitions to a number of possible outcomes and a lag through time on the effect of a minimum wage increase which is measured as the median wage bite for each region. They find that "approximately one half of minimum wage jobs holders succeed in finding better paid employment within a year", with four-fifths of those moving to low paid employment and one fifth to higher paid employment (more likely with education, in large firms or in the public sector), with slightly higher transition rates over three years.[243] These probabilities are not affected by a minimum wage increase, measured by a change in the wage bite, that is they "do not … find that transition probabilities in low wage areas react differently to changes in the minimum wage 'bite' than those in high

[241] Avram S. and S. Harkness, 2018. *The NMW/NLW and Progression Out of Minimum Wage Jobs in the UK*. Interim Report. Research Report for the LPC. November. (University of Essex.)
[242] Low Pay Commission Report 2018 *National Minimum Wage*, UK, November, pp.206-207
[243] Avram S. and S. Harkness, 2018. *The NMW/NLW and Progression Out of Minimum Wage Jobs in the UK*. Interim Report. Research Report for the LPC. November. (University of Essex.), pp.3-4

wage areas", and conclude that there is no evidence to support the hypothesis that minimum wage hikes affected wage progression in the period they study.[244]

351. The UK LPC Report (2018) reports results of some in-house analysis by Dickens and Lind 2018, apparently unpublished, on the impact of the NLW on a range of labour market outcomes, using a differences in differences analysis across regions.[245] The study made use of geographic variation in wages to capture all employment changes, including both entry and exit. It constructed quarterly data from q1 2013 to q1 2018 for 218 areas in Great Britain, for employment, unemployment, self-employment, inactivity and hours of work, derived from the LFS and ASHE earnings. High and low wage areas were defined by the median minimum wages bite at £7.20 and by coverage in spring 2015, and then compared with the further increase to £7.50. It found strong and significant effects of the minimum wage increase on wages especially at the bottom, and more for women. While the effect on wages was smaller at 2017 than 2016, there was no effect on employment of the 2016 increase, and a small negative effect at 2017. The effect on employment was reflected in inactivity rather than unemployment, and there was no effect on the employment of young people but in less reliable results due to smaller sample sizes. Using 418 local authorities as a robustness check, they found some evidence of negative effects in 2017, not in the preferred specification. There were reservations about these interim findings.

352. Giupponi and Machin (2018) analysed the consequences of the introduction of the UK NLW in a low wage sector, the care homes industry and found little evidence of adverse employment effects or firm closure, but a deterioration in the quality of care services ,while younger employees' wages also rose as a spillover.[246] In this sector residents' fees are regulated and paid for by local authorities, and they were not increased.

5.5.3 Germany

353. A Eurofound Working Paper (2018) by Carlos Vacas-Soriano found that the German minimum wage reversed "previous trends in the labour market by causing a marked reduction in wage inequality as a result of lifting the wages of the lowest-paid employees. Germany

[244] Avram S. and S. Harkness, 2018. *The NMW/NLW and Progression Out of Minimum Wage Jobs in the UK*. Interim Report. Research Report for the LPC. November. (University of Essex.), p.25
[245] Low Pay Commission Report 2018 *National Minimum Wage*, UK, November, pp.206-207, p.220 regarding Dickens R. and K. Lind, 2018. *The Impact of the Recent Increases in the Minimum Wage on the UK Labour Market: An Area-based Analysis*. Research Report for the LPC. November. (University of Sussex.)
[246] Giupponi, G. and S. Machin, 2018. Changing the Structure of Minimum Wages: Firm Adjustment and Wage Spillovers. CEP Discussion Paper. 1533. April. (Centre for Economic Performance, London School of Economics).IZA Discussion Paper 11474, April

introduced a statutory minimum wage for the first time from January 2015, set at €8.50 per hour (€1,440 per month), to be revised every two years. In June 2017, it was decided to raise it to €8.84 per hour (by 4.0% or around €1,498 per month), effective from 2018. In 2019 it will increase to €9.19 an hour (by another 4.0%). The minimum wage increases tended to benefit relatively more lower-skilled, female, younger (and oldest) employees, in part-time employment and working in smaller companies in service activities."[247] Wage inequality in Germany "registered the largest relative drop among all EU-28 countries due to wage progress being strikingly larger among low-wage earners."[248] Employment expanded within the low wage groups of employees.

354. Caliendo et al (2018) assesses the employment effects of the introduction of a national minimum wage in Germany in 2015 in the short-term, between 2014 and 2015, exploiting the differences in wage bites and shares of employment on the minimum wage across regions. It found that overall employment decreased about 0.4% due to the increase in the minimum wage, mainly driven by the loss in marginal employment, some of which entered regular employment, and this was a smaller loss than predicted. [249]

355. Kim and Lim (2018) find that a 1% increase in the minimum wage across an unbalanced panel of 25 OECD countries from 2000 to 2014 (distinguishing skilled and unskilled labour, and estimating labour supply and demand functions) decreases employment by 0.07 and increases unemployment by 0.064%.[250]

356. Herzog-Stein et al (2018) found from econometric estimation of a macroeconomic model that the introduction of the minimum wage tended to stimulate Germany's economic growth. This is "mainly due to the higher wages of the minimum wage beneficiaries and a spill-over effect on adjacent wage groups. This benefited in particular those whose low savings rate led to a particularly strong increase in real private consumption." It found "the total number of hours work hardly changed." The authors state that the minimum wage has "helped Germany

[247] Carlos Vacas-Soriano 2018 Wage developments in the EU and the impact of Germany's minimum wage Eurofound Working Paper WPEF18051, p.1

[248] Carlos Vacas-Soriano 2018 Wage developments in the EU and the impact of Germany's minimum wage Eurofound Working Paper WPEF18051, p.4

249 Marco Caliendo, Alexandra Fedorets, Malte Preus , Carsten Schröder, Linda Wittbrodt 2018 *Labour Economics* 53 (2018) 46–62, p.59

[250] Chong-Uk Kim1 and Gieyoung Lim 2018 Minimum Wage and Unemployment: An Empirical Study on OECD Countries *Journal of Reviews on Global Economics*, 2018, 7, 1-9

to move towards a more stable growth path based not only on export success but also on stable growth in domestic demand due to a better wage development." [251]

357. Herzog-Stein et al (2018) used two different analyses, one based on a Keynesian type macroeconomic model yielding short, medium and long-term effects, and the other considering short-term effects using a small scale vector autoregressive model. It estimates a wages spillover effect from the minimum wage increases of 2015 and 2016 of up to €10 per hour gross hourly wages, and €5.4 billion or 0.4% increase on 2014 wages and salaries.[252] We note this is not out of the ball park of the estimates we developed for the macroeconomic impact of the minimum wage increase in Australia, reported in our Reply Submission to the Annual Wage Review of 2017-18.[253]

358. Herzog-Stein et al (2018) showed from a "detailed descriptive analysis of the sectors particularly affected by the minimum wage" significantly above-average wage development and "also a very good development in profit and capital income however without any notable impact on employment." But the authors say this analysis does not answer the question of what would have happened if the minimum wage had not been introduced.[254]

5.5.4 Other country studies

359. Ferraro et al (2018) finds that introducing a minimum wage in Estonia has contributed to lower wage inequality particularly showing up in wages up to the twentieth percentile. This is in the absence of collective bargaining, with a modest social safety net and with a flat income tax system.[255]

5.5.6 Cross country studies

360. Sturn (2018) finds little evidence of substantial disemployment effects of minimum wages on low-skilled, female low-skilled, and youth employment in a sample of 19 OECD countries

[251] Alexander Herzog-Stein, Camille Logeay, Patrick Nüß, Ulrike Stein and Rudolf Zwiener 2018 The positive economic impact of Germany's statutory minimum wage – an econometric analysis, Macroeconomic Policy Institute Report 141, of the Hans-Böckler-Stiftung

[252] Alexander Herzog-Stein, Camille Logeay, Patrick Nüß, Ulrike Stein and Rudolf Zwiener 2018 The positive economic impact of Germany's statutory minimum wage – an econometric analysis, Macroeconomic Policy Institute Report 141, of the Hans-Böckler-Stiftung, p.4

[253] ACTU Reply Submission to the AWR 2018, pp.21-26

[254] Alexander Herzog-Stein, Camille Logeay, Patrick Nüß, Ulrike Stein and Rudolf Zwiener 2018 The positive economic impact of Germany's statutory minimum wage – an econometric analysis, Macroeconomic Policy Institute Report 141, of the Hans-Böckler-Stiftung, p.16

[255] Simona Ferraro, Jaanika Meriküll & Karsten Staehr 2018 Minimum wages and the wage distribution in Estonia Applied Economics, Vol. 50, No. 49, 5253–5268

from 1997 to 2013, in six widely different static or dynamic estimations. Cross country direct studies of low-skilled employment had not been previously undertaken.[256] Earlier work by Neumark and Wascher (2004) for the impact of the minimum wage on youth employment was found to be sensitive to specification and small changes in specification could lead to minimum wage effects close to zero.[257] The lack of impact on youth employment of minimum wage increases is also confirmed for a wider sample of countries, and this is also the case when there is unemployment.[258] There is no cross-sectional variation in the minimum wage and a small population in few geographic regions. It instead exploits that industry and occupational mobility is relatively modest. It finds that the wage spillovers are larger for women and those over 45 years old.

5.5.7 Australia

361. Isaac (2018) examines the slow growth of wages in Australia and relates them to changes in industrial relations. Among other recommendations for addressing this, Isaac says:

"The correction of the slow growth of wages would have to proceed through wage adjustment. The size of pay and its relative dimensions are an important reflection of pay equity and would be more acceptable to employers and employees. Moreover, such an approach would complement and supplement the existence of the safety net on pay and conditions, and its annual adjustments."[259]

362. In the ACTU's view this implies that in the absence of other mechanisms for wage growth, the primary channel that exists for raising wages is the Annual Wage Review and the decision of the Panel.

363. Isaac (2018) concludes that slow wages growth has affected the distribution of income in favour of high income earners, arguing that an important explanation was to be found in the change in the balance of industrial power in the labour market in favour of employers and against workers and unions:

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[256] Simon Sturn 2018 Do minimum wages lead to job losses? Evidence from OECD countries on low-skilled and youth employment ILR Review, 71(3), May, pp. 647–675

[257] Simon Sturn 2018 Do minimum wages lead to job losses? Evidence from OECD countries on low-skilled and youth employment *ILR Review*, 71(3), May, pp. 647–675, citing Neumark, David, and William Wascher. 2004. Minimum wages, labor market institutions, and youth employment: A cross-national analysis. *Industrial and Labor Relations Review* 57(2): 223–48.

[258] Simon Sturn 2018 Do minimum wages lead to job losses? Evidence from OECD countries on low-skilled and youth employment *ILR Review*, 71(3), May, p.673

[259] Joe Isaac 2018 Why Are Australian Wages Lagging and What Can Be Done About It? *The Australian Economic Review*, vol. 51, no. 2, pp. 175–90, p.186

> "The institutional mechanism that in the past provided the necessary pressure for wages to take up its share of productivity growth has lost much of its power. This has resulted in good part from the progressive changes in our industrial relations laws. To improve the balance of power in favour of workers, some of these earlier laws need to be restored. Speeding up the rise in wages in line with productivity is not only justified on equity grounds but, in the present circumstances, also on macroeconomic grounds in so far as it could increase consumption expenditure." [260]

364. Isaac (2018) says in its concluding observations: "In addition, it needs to be remembered that the 1980s' promise of greater productivity growth following the transition to the 'deregulation' of the labour market has not eventuated. In fact, productivity growth has been lower than it has been in earlier years (Hancock 2016, p. 38)."[261] Isaac (2018) alludes to a reverse causality in that higher wages may offer a means by which productivity can be enhanced. He also suggests that "prevailing forces, such as global competition and structural changes" will continue to keep union power in check, with the implication that wages will continue to be restrained. In the ACTU's view this reinforces the importance of the Annual Wage Review as a channel for increasing the minimum wage and modern award minimum wages.

[260] Joe Isaac 2018 Why Are Australian Wages Lagging and What Can Be Done About It? *The Australian Economic Review*, vol. 51, no. 2, pp. 175–90, p.186
[261] *Ibid.*

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

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

366. Inequality in Australia is a persistent problem. Whilst policy makers might be tempted to direct attention to small improvements seen in recent years, the reality is that Australia is a far less equal society now than it strived to be, and managed to be, as recently as a decade or two ago. For example:

a) Living costs outstripped household incomes by 2.9% over the past three years as weak wage growth delivered the biggest fall in living standards for more than 30 years;

b) ABS data indicates that those in the highest quintile (top 20%) of the income distribution receive nearly half of total "market" or "gross" income in Australia. To be precise, this elite group accrued 47.5% of all pre-tax and transfer income in 2017/18;

c) The number of secondary jobs in Australia rose to more than one million in the December quarter of 2018, according to new labour market insights by the ABS. This represented more than 7 per cent of all jobs worked in the economy, the highest rate recorded since this series began in 2010. We would contend this is an indicator of financial stress;

d) The minimum wage bite remains well below the median full-time wage, at 54.4%, compared with 60.7% twenty years ago. The minimum wage bite has declined over the last ten years across most industries, with relatively slower declines in the more award-reliant industries;

e) Regardless of sensitivity of the measured increases to the starting date for the calculation, the NMW and median earnings have seriously lagged behind GDP and GDP per capita in terms of growth over decades, and much more so in the case of the NMW; and

f) Wages disparity has widened across the distribution and compared with the minimum wage, over the last 22 years.

367. Rising inequality has also presented in other economies, to varying degrees. But that phenomenon should not be treated as a reason to ignore its occurrence and effects in Australia.

368. Current minimum wage levels, in our view, provide neither a fair nor relevant safety net. The increase we propose would help to address the long-term erosion of relative living standards and restore fairness. This also has the advantage of arresting the drag on growth resulting from increased inequality.

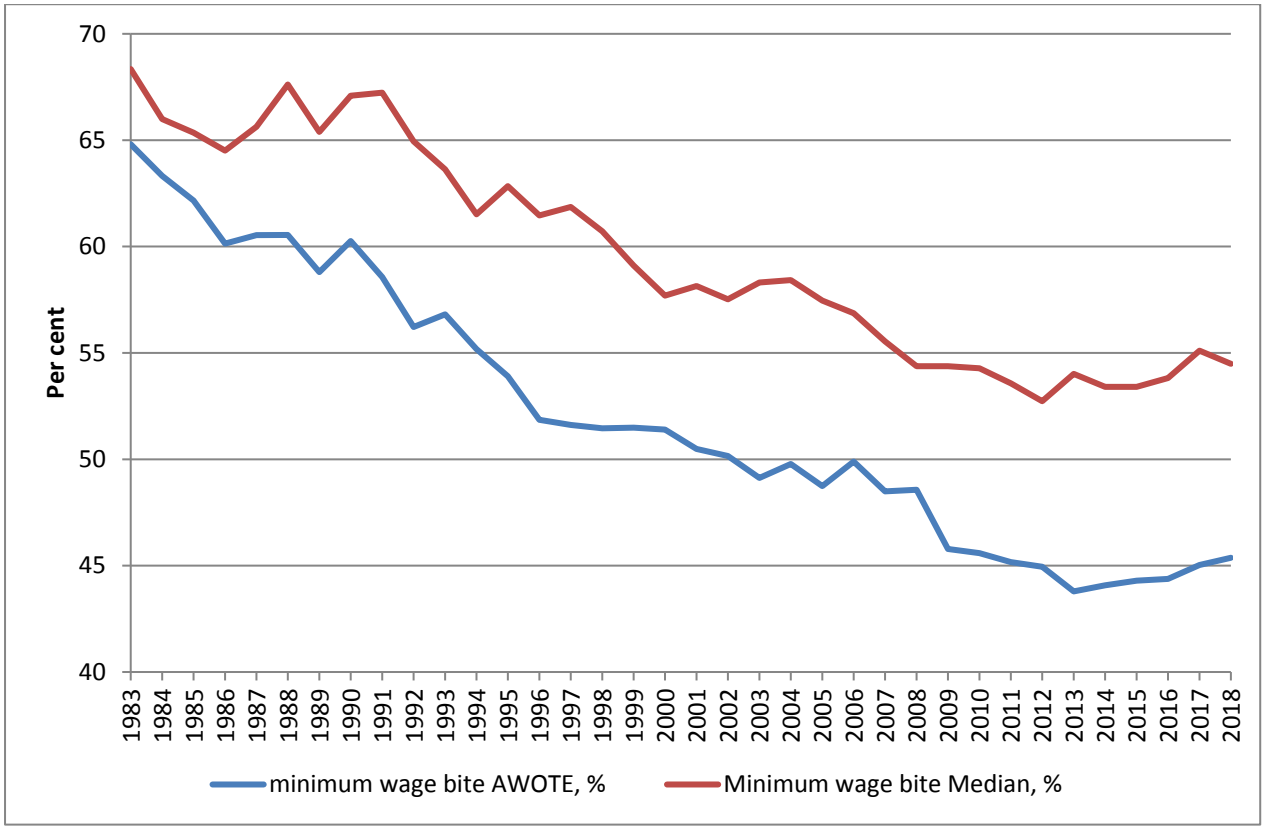
6.1 Relative earnings and income

6.1.2 Minimum wage bites

369. Minimum wages have fallen sharply as a proportion of both average and median full-time earnings (the 'minimum wage bites') in the past few decades. The NMW was 60.7% of the median full-time earnings as at 1998. This has fallen overall to 54.5% at 2018. The minimum wage bite as a share of AWOTE has fallen from 51.5% down to 45.4% as at 2018. These movements are shown in Figure 73.

370. The average (mean) wage bite has increased slightly, by 1.6 percentage points between 2012 and 2018. Mining-related earnings at the top came down and then picked up again which affected average weekly earnings. The recent increases in the NMW to 2017 also helped reduce the wage bite, as shown in Figure 73.

Figure 73: Minimum wage bites, ratio of the NMW to AWOTE, ratio of NMW to median FT earnings, 1983 to 2018



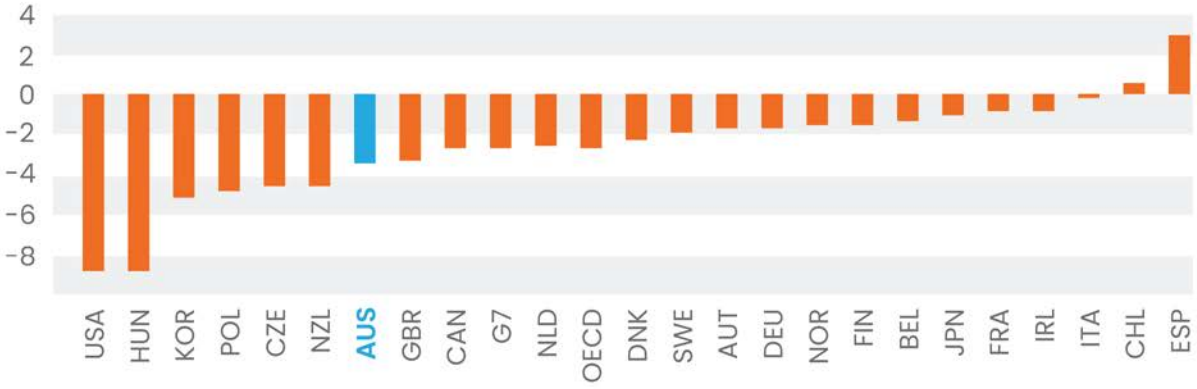
Sources: Average full-time earnings is AWOTE from ABS 6302. Median from ABS 6333. NMW Bray 2013 and FWC. All series deflated by the CPI (ABS 6401). ACTU calculations.

371. The minimum wage bite out of median earnings fell to 2012 then trended up slightly to 2018, by 1.8 percentage points. The median wage bite has come down slightly in the last year, 2018, over which median wages have increased faster (assisted by award increases) than the minimum wage.

372. The gap between the average (mean) wage bite and the median wage bite has opened up on trend over the last 30 years, also indicating widening income distribution. Indeed, whilst in recent years average real wage growth in Australia has stalled and most workers have not received the benefits they should have enjoyed from productivity improvements, this wage crisis has not been uniform across the labour market. In general, workers on high wages have enjoyed substantially greater percentage increases in their real wages compared to those in the middle and bottom of the wage spectrum. This is reflected in a decoupling between median wage growth; that is, the growth in wages applying to the person at the mid-point of

the wage spectrum and average wage growth. Consequently, wage inequality has expanded significantly. Over the period 1995 to 2012, the ratio of median to average wages declined by over 3 percentage points. As can be seen from Figure 2, this divergence in wage growth between low- and medium-paid workers, on the one hand, and highly-paid workers, on the other, has been particularly significant in Australia compared to other advanced economies. The decoupling effect in Australia significantly exceeds the OECD average and is much greater than that experienced in all west European countries for which the OECD has data.

Figure 74: The ratio of median to average wages has declined in OECD countries 1995-2013



Source: OECD 'The Framework for Policy Action on Inclusive Growth'2018

373. Although the median and average wage bites appear to be running in parallel since 2013 with a gap of between 9.1 and 10.2 percentage points as shown in Figure 73, this needs to be viewed in the context of the long-term trajectory, and the bases from which both measures have deteriorated.

374. Real Average Weekly Ordinary Time Earnings (AWOTE) for adults in Figure 75 have risen by 53.6% between 1998 and 2018, much more slowly than chain volume annual GDP, which rose by 149.7%.[262] The real minimum wage (NMW) has risen by only 15.1% over the same twenty years. Real GDP per capita rose 65.3% over the last twenty years, faster than the increase in real AWOTE or the real median wage which increased 42.9%, and more than four times as fast as real NMW.

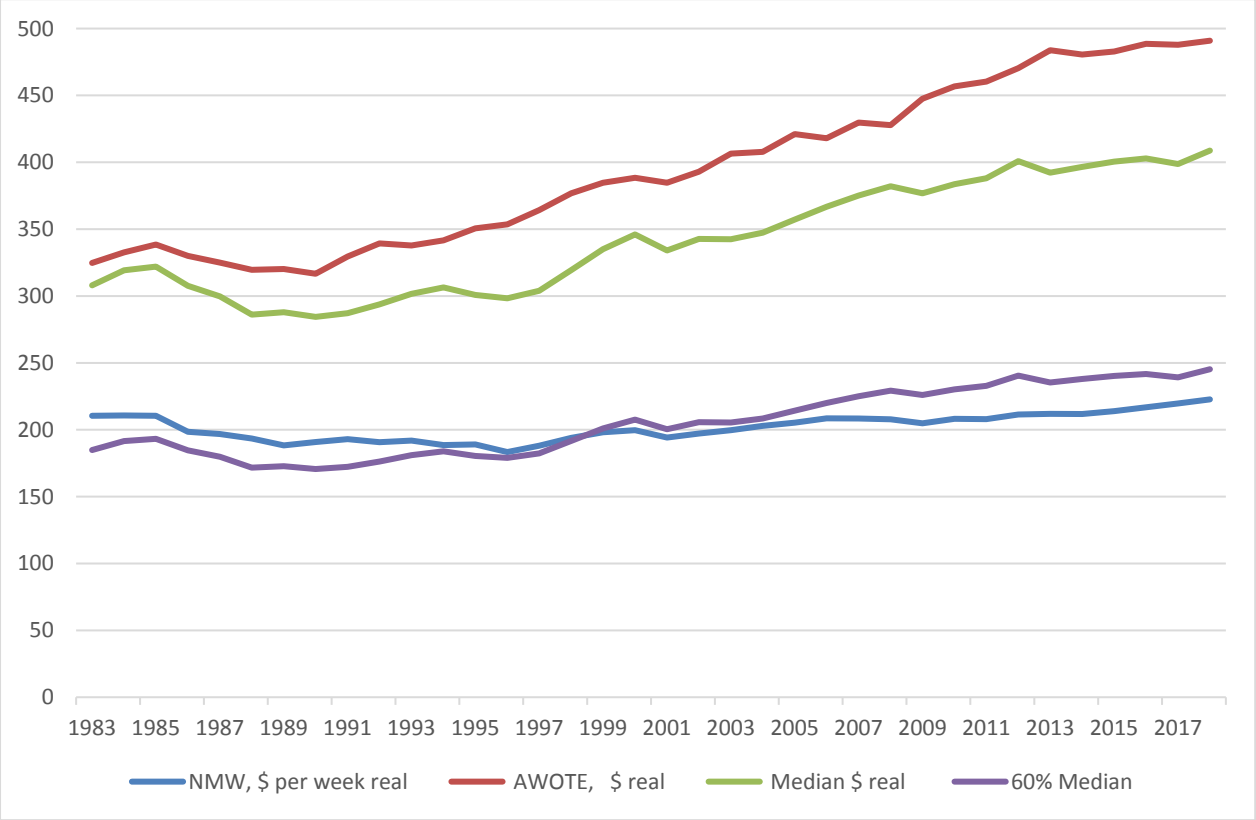
[262] GDP from ABS 5204

375. Regardless of sensitivity of the measured increases to the starting date for the calculation, the NMW and median earnings have seriously lagged behind GDP and GDP per capita in terms of growth over decades, much more so in the case of the NMW. This indicates a widening of income distribution and substantial decline in the relative living standards of low-paid workers over many decades. Notwithstanding recent stabilisation of the gap between the NMW and median and average earnings, it remains that the NMW has grown extremely slowly compared with the average and median earnings measures.

376. It is also helpful to examine the movements of the earnings benchmarks over time in real terms, as this gives a better indication of relative improvements or decline in living standards. These are shown in Figure 75. It can be seen that real AWOTE has flattened since 2013, increasing only a total of 1.5% in real terms over the whole five years from 2013 to 2018. This is particularly significant because the rate of inflation has been low, increasing by a total of only 9.9% between 2013 and 2018, and 2.1% over the year to June 2018. Thus, most of the total 6.6% increase in AWOTE between 2011 and 2018 occurred in the two years to 2013; real NMW having grown slightly faster at 7.1% between 2011 and 2018, capturing the 2017 increase in particular. Real median earnings grew only 5.3% over the same period contributing to the slight increase in the median bite.

377. The real NMW has increased by just under one percent per year from 2013 to 2018, assisted by the most recent increases to 2017, but this has still left the minimum wage bite, when expressed as the NMW as a share of AWOTE, to increase barely at all, as shown in Figure 73, above.

Figure 75: Average weekly ordinary time earnings, median full-time earnings, the NMW and 60% of median earnings, 1983 to 2018, constant dollars (1983 = 100)



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

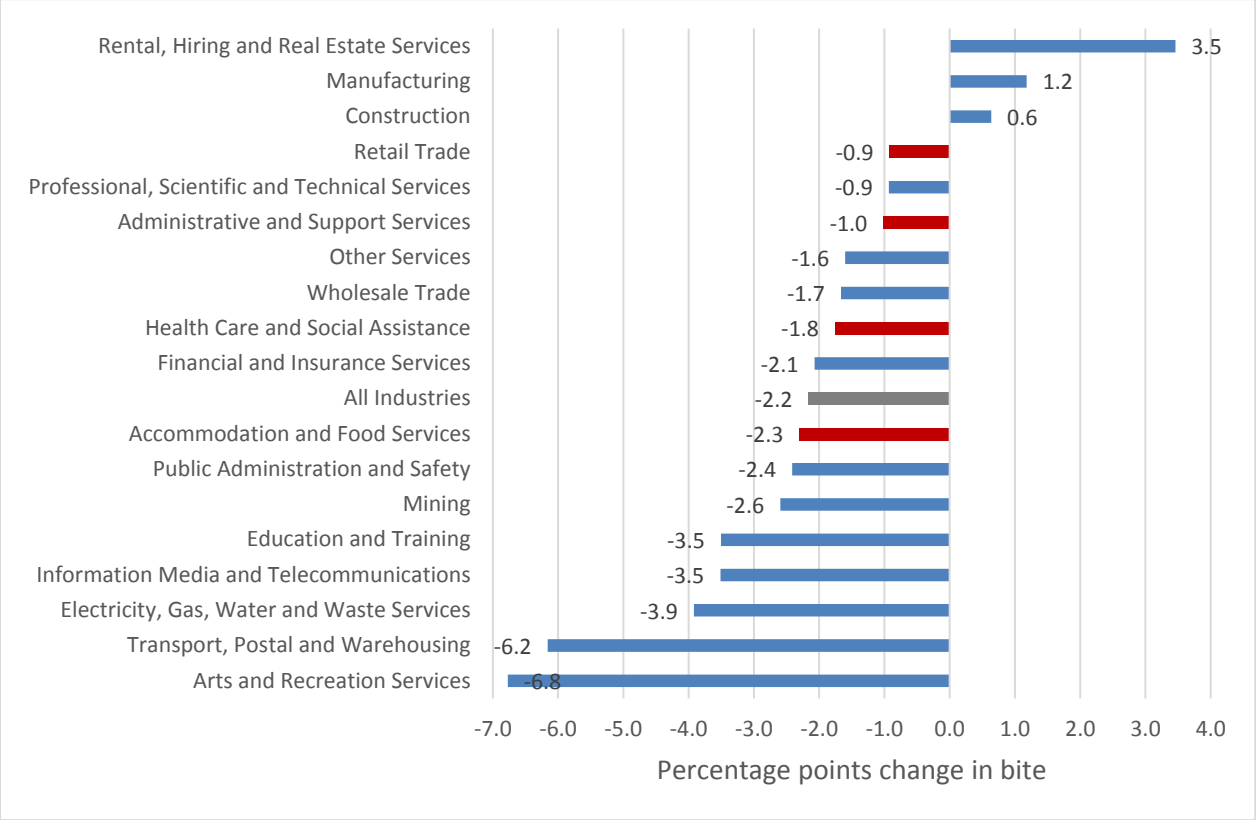
378. Overall, the minimum wage bite out of AWOTE remains below its level of a decade ago at 2008, prior to the GFC. The minimum wage bite out of AWOTE is still 3.2 percentage points lower than it was in 2008. It is still 0.4 percentage points lower than it was at 2009, after the AFPC decided not to increase minimum wages. The median bite has picked up only 0.1 percentage points since 2009. The gap in living standards between workers reliant on minimum wages and other workers is still close to as high as it has been, apparently moderated mainly by recent minimum wage increases to 2017, as the 2018 increase is too recent to be in the data. This shows how important is the Panel's decision to addressing the deficit for workers on low pay. Indeed, in the absence of the Panel raising the NMW sufficiently to improve the minimum wage bite, there is little or nothing to prevent earnings inequality, and prevalence of low pay, from continuing to increase into the longer term.

6.1.2 Relative earnings in the more award-reliant industries

379. Figure 76 shows that the NMW fell relative to AWOTE in fifteen out of the eighteen industries over the decade to November 2018, including the more award-reliant industries. The more award-reliant industries' bites fell less than the total industry average fall of 2.2 percentage points over the ten years, except for Accommodation and food services, which fell 2.3 percentage points. For the other more award-reliant industries, Retail trade bite fell 0.9 percentage points, Administrative and support services bite fell 1.0 percentage point, and Health care and social assistance bite by 1.8 percentage points. Therefore, in the more award-reliant industries, the gap has still grown between minimum wage workers and other workers. This is the case even in industries in which the low-paid are typically employed.

380. Whilst minimum wage increases were not sufficient to keep pace with average wages, minimum wage increases slowed the decline in relative living standards in the more award-reliant industries.

Figure 76: Change in the AWOTE minimum wage bite between November 2008 and November 2018

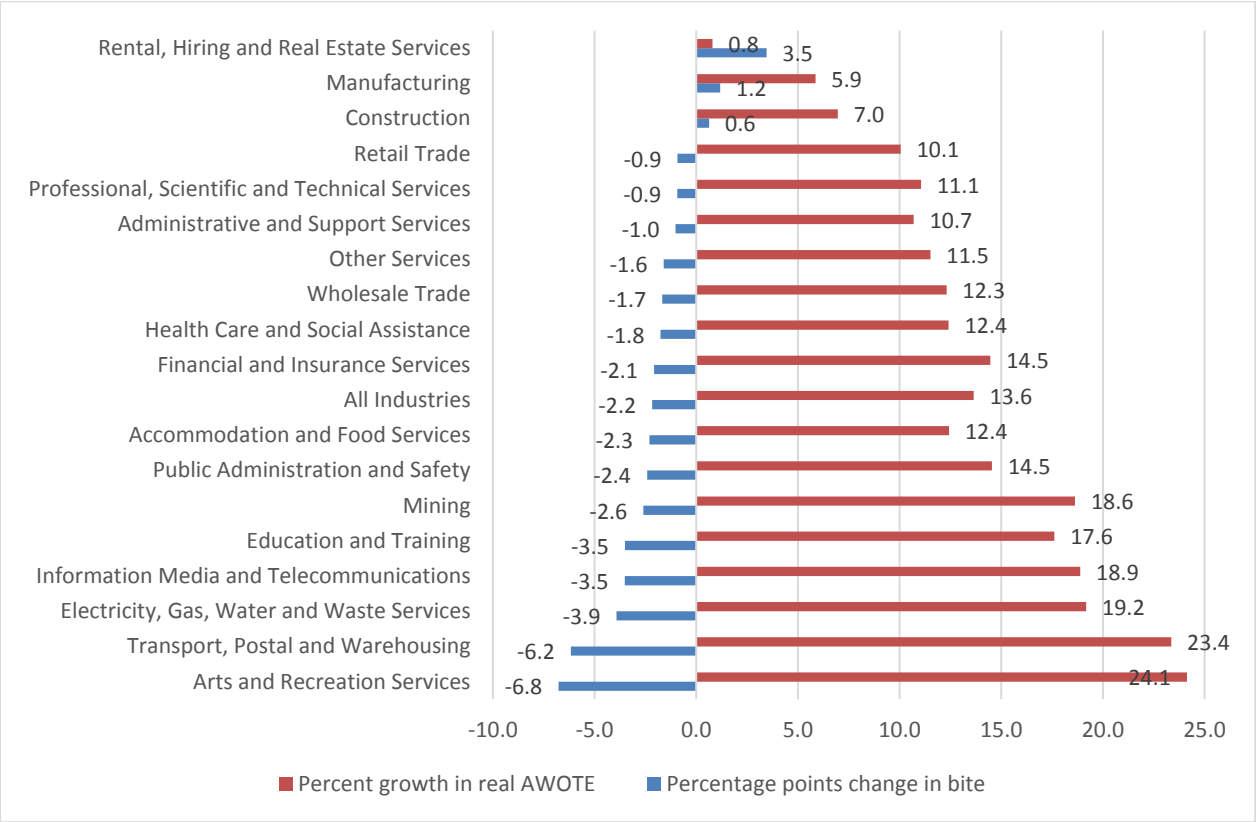


Sources: NMW from Bray (2013), FWC. AWOTE from ABS 6302, ACTU calculations

381. Where the NMW has been closer to keeping pace with average wages, it may be due to the slow growth in wages in the particular sector, as shown in Figure 77. For the three industries where the minimum wage bite has risen, growth in real average wages is particularly low over the ten years to November 2018.

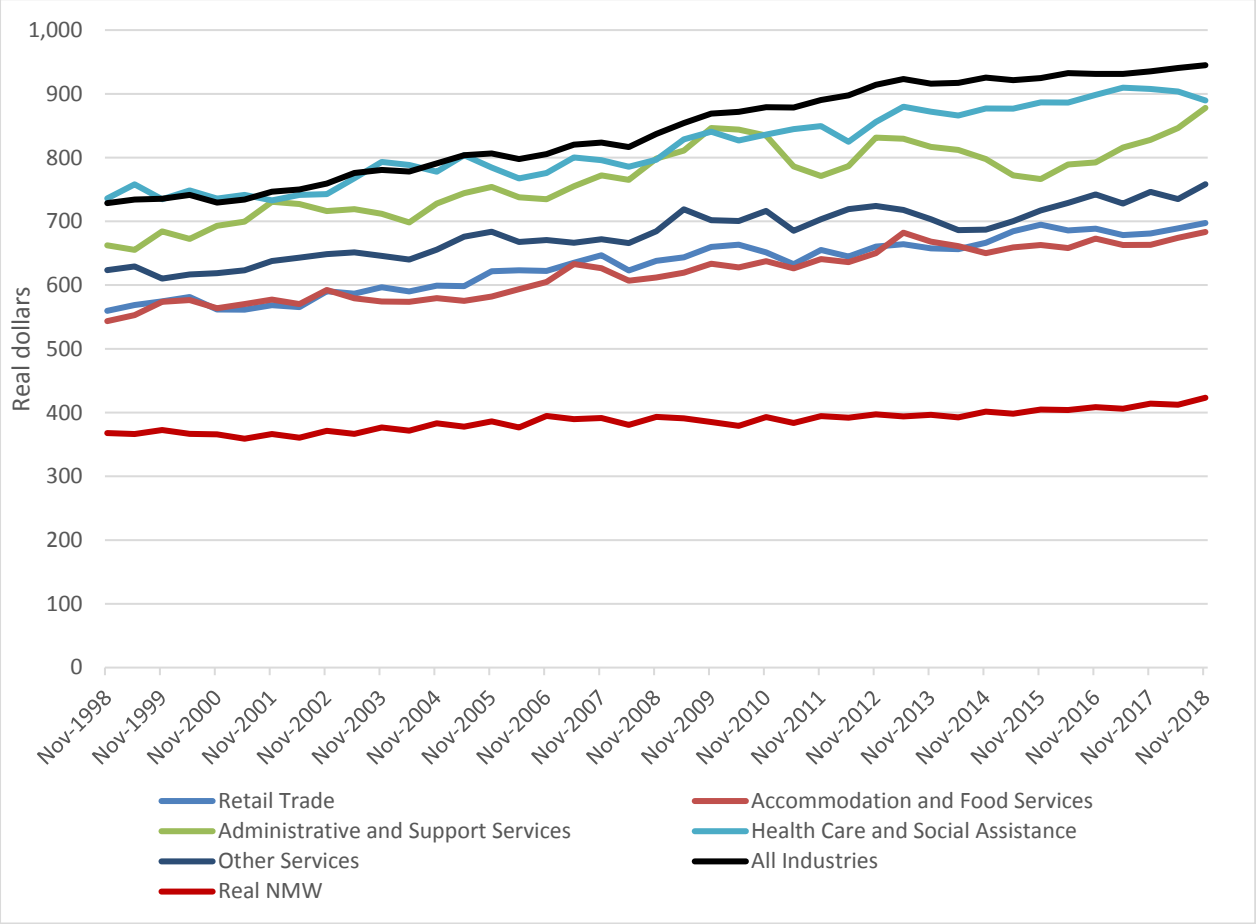
382. The bites of the more award-reliant industries were associated with lower AWOTE growth over the ten years than adjacent industries ranked by wage bite. This indicates just how dependent workers in those industries are on the minimum wage for wage increases. We can assume that wage growth for low-paid workers would be even slower in those industries without the minimum wage increases awarded.

Figure 77: Change in minimum wage bite between November 2008 and November 2018, percentage points, and ten year total growth in industry real AWOTE, %



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

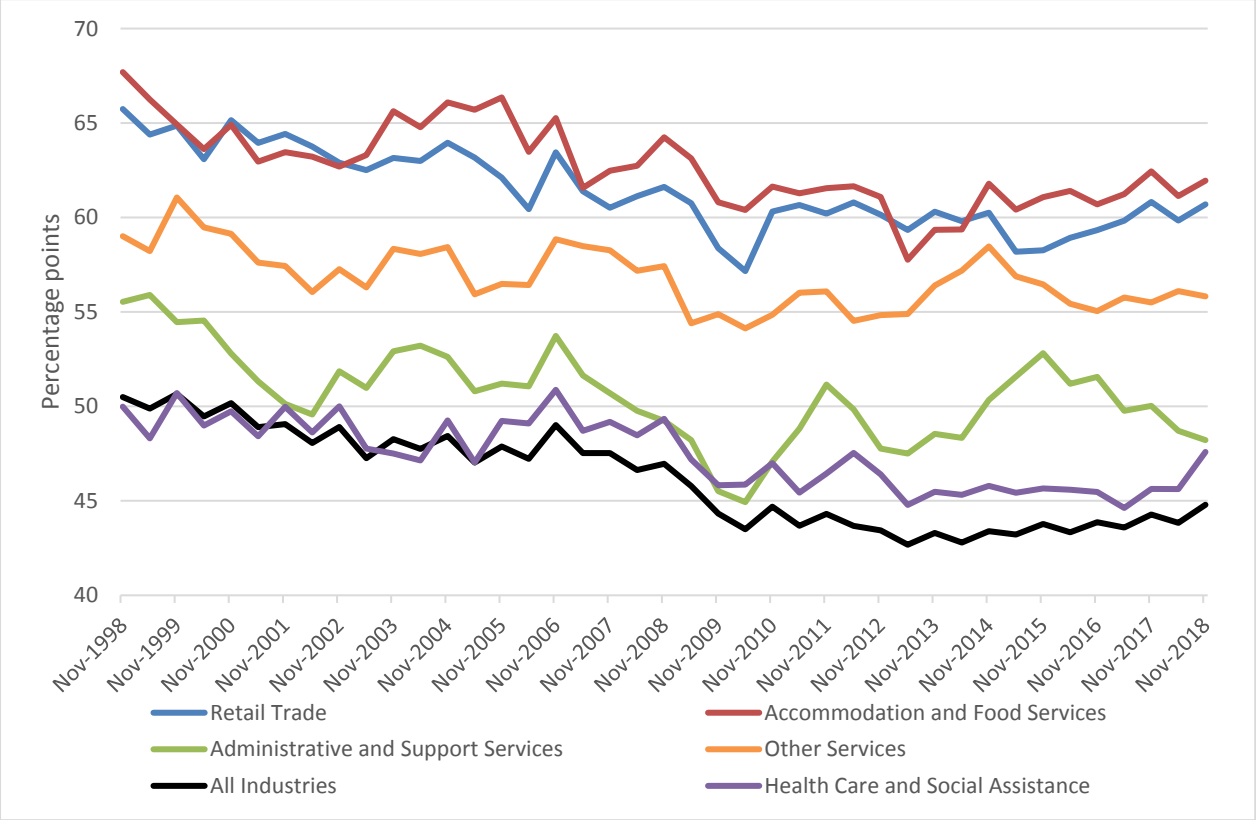
Figure 78: Real average weekly ordinary time earnings and NMW, November 1998 to November 2018



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

383. It is clear from Figure 78 and Figure 79 that, even with slow growth in AWOTE, real AWOTE in Retail is the same at November 2018 as it was three years ago at November 2015. Health care and social assistance real AWOTE has fallen in the year to November 2018 after growing very slowly. The only award-reliant industry where real AWOTE has increased is Administrative and support services, which has grown 15% in real terms over the three years to November 2018 in a fast growing industry. Most of the award-reliant industries show little or no improvement of overall living standards in absolute terms over the five years to November 2018, and a lack of improvement in wage bite overall. Where the bites in award-reliant industries have picked up, it is mostly due to the lack of increase in AWOTE.

Figure 79: NMW as a percentage of AWOTE, award-reliant industries, November 1998 to November 2018



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

384. Awarding our claim in this Review is vital in order to reverse the slow growth in minimum wages and to address the lack of improvement in the relative living standards of low-paid workers.

6.1.3 Earnings and income ratios

385. A key measure of earnings inequality relevant to Annual Wage Reviews is the 50:10 ratio. This measures the ratio of median earnings to earnings at the 10th percentile of the distribution. The higher this ratio, the more unequal is the bottom half of the earnings distribution. The 50:10 ratio among full-time non-managerial adult workers was 1.41 in 1990, then rose to 1.49 in 2000, then 1.57 in 2010, rising to 1.59 in 2016 and falling back slightly to 1.57 at 2018.[263] Despite an increase in the median, the coverage and increase of the NMW may have assisted those paid in the bottom decile in the last two years.

[263] ABS 6306 Cube 8, May 2018

386. Figure 80 and Figure 81 below show the real earnings of full-time workers at the 90th, 50th (median), and 10th percentiles, and the NMW, as well as the ratios between these levels of earnings and the 10/NMW ratio. The data are for the two-yearly intervals available from ABS *Employee Earnings and Hours*, most recently as at May 2018.

Figure 80: Real wages for full-time non-managerial adults, and real NMW

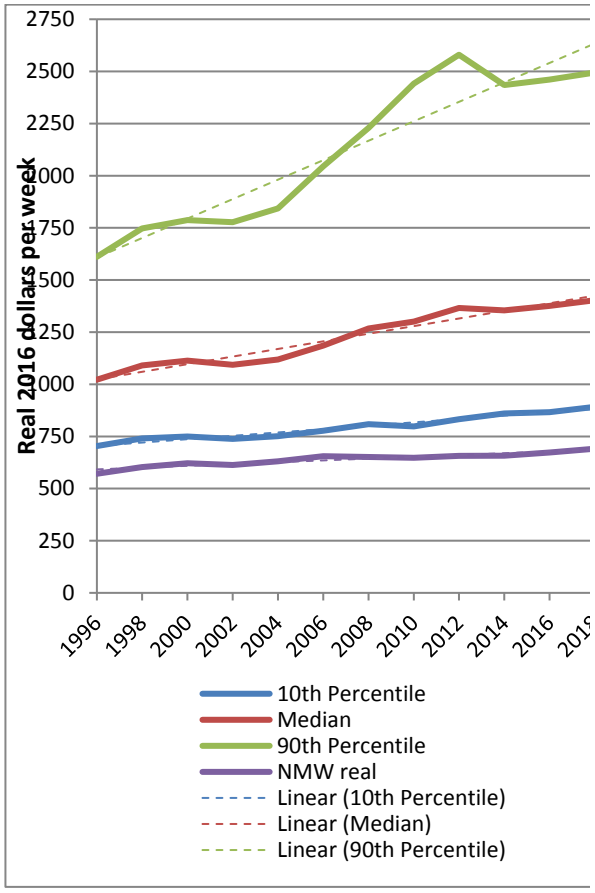
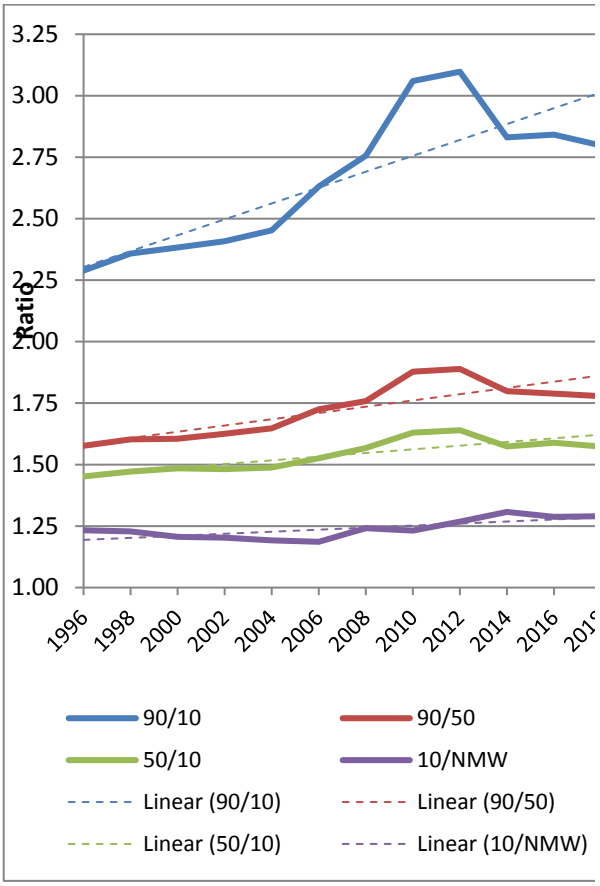


Figure 81: Measures of earnings inequality among full-time non-managerial adult employees



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

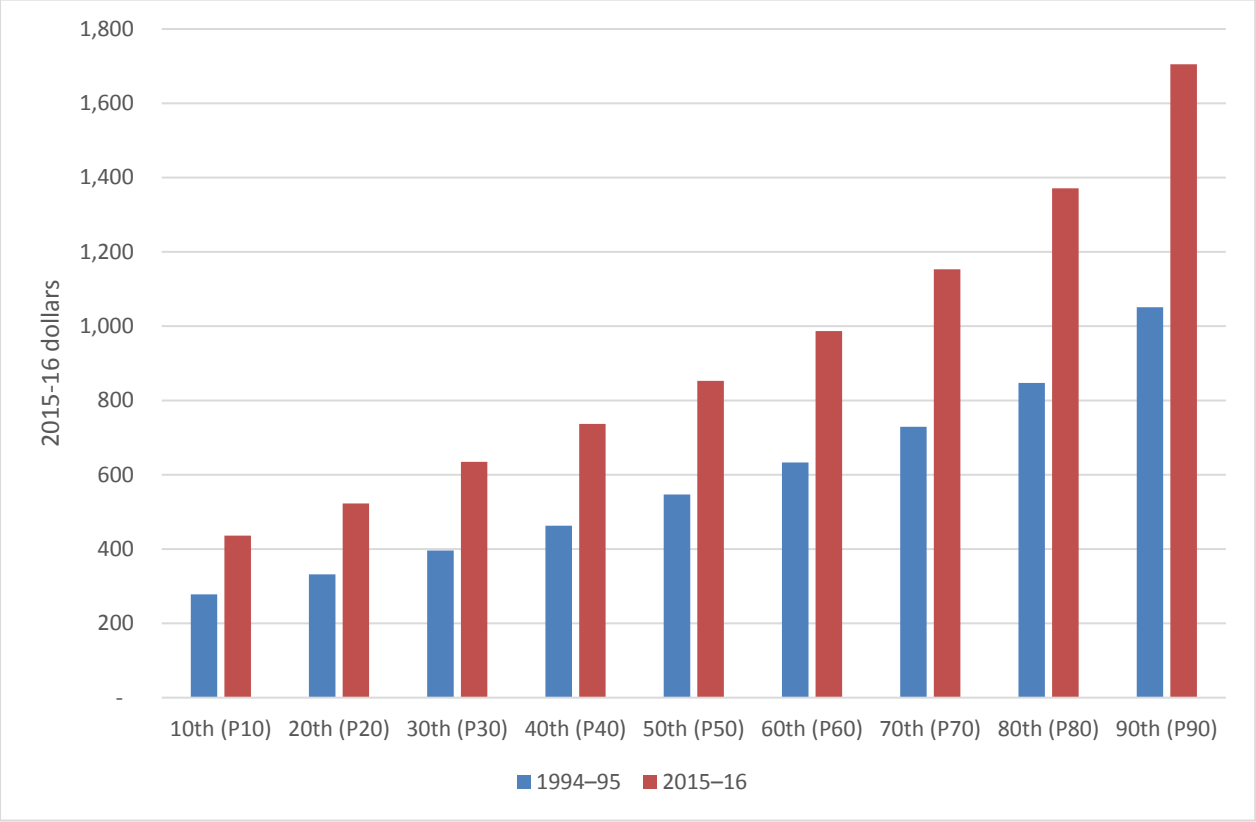
387. The effects of the mining investment boom from 2010 show clearly in the 90th percentile ratio to median and 10th percentiles. The falls in the 90/10 and the 90/50 ratios from 2014 are a result of the slow increase in real earnigs from 2014 at the median and 90th percentile. Real earnings at the median rose just fast enough from 2014 as to slightly reduce the 90/50 ratio, and they matched the slight increase in the 10th decile so that the 50/10 ratio has been stable over the last four years. The 10/NMW, after increasing from 2006 to 2014, was more or less constant from then onwards.

388. The recent increases in the NMW have played a role in not worsening inequality as much at the bottom. This would be an opportune time to continue addressing inequality which nonetheless persists at a high level in Australia, and in comparison with other comparable countries.

389. The ABS' most recent release of Household Income and Wealth is that of 2015-16.[264] Figure 82 shows that taxes and transfers have not prevented the widening of household equivalised income at the top of each decile over the period from 1994-95 to 2015-16.

390. Over the period 1994-95 to 2015-16, equivalised household income grew 56% in the bottom quintile average, 59.6% in the second quintile, 56.5% in the third quintile and 59.0% in the fourth quintile, jumping up to 72.0% in the top quintile average.

Figure 82: Equivalised household income distribution, 1994-95 and 2015-16



Source: ABS 6523

[264] ABS 2017

391. From the published ABS data, we know that 42.6% of all people live in households where one or two people are employed and in the bottom three quintiles of household equivalised income. This was less than an equivalised household income of $856 (as if for a single person household) at 2015-16 prices.

392. Chart 8.7 of the *Statistical Report AWR 2018-19* shows the distribution of low-paid employees (paid below two thirds of the median hourly earnings of full-time adult employees, including juniors), across equivalised income for employee households (with the principal source of income from wages and salaries), and for all households at 2015-16, being the most recent data available.[265] Nearly two thirds of low-paid employees are in employee households of below median income, and three quarters are in employee households with income at the sixth decile or less. For all households, low-paid employees are shown to be in higher income households in Chart 8.7, but this is because all households includes retirees and those not in the workforce for a variety of reasons who are living on lower household income relative to the total household distribution.

393. From the ACTU's calculations (which we assume to be based on the same data as used in Chart 8.7 of the *Statistical Report AWR 2018-19)*, 16.5 percent of people aged 15 or more are not in the workforce, with 10.9 percentage points of these aged 65 and over. 3.1 million out of those 3.8 million people not in the labour force are in the bottom two quintiles of household equivalised income, pushing low-paid employees into the higher quintiles for total households. It cannot be assumed therefore that lower-paid employees are most likely in higher income households.

6.1.4 Broader measures of income inequality

394. The Panel said in its previous decision that "As the Panel has previously noted, the relative living standards of low-paid workers are affected by the degree of dispersion in earnings. If the earnings of workers in the lowest deciles are growing more slowly than those in the higher deciles, then the relative earnings of the low-paid will fall."[266]. We show in this section that inequality has continued to increase on trend.

[265] FWC 2019 Statistical Report – Annual Wage Review 2018-19, p.48, Chart 8.7

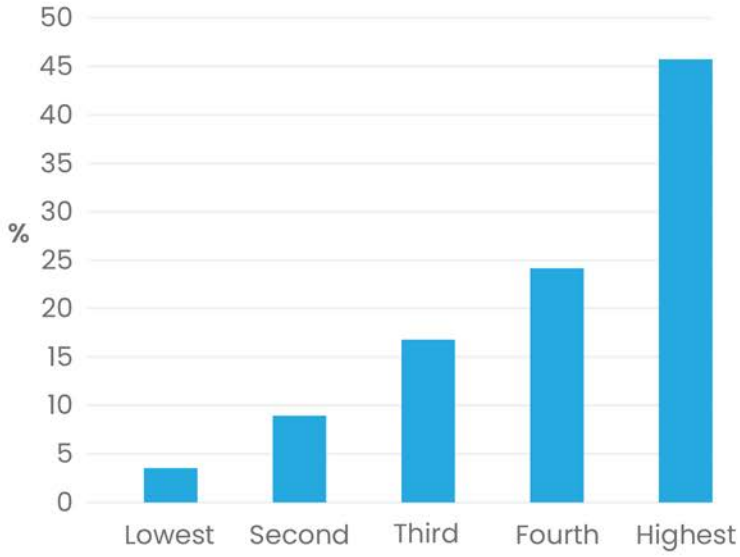
[266] FWC 2017 *Annual Wage Review 2016-17* [453]

395. There are a range of concepts and many statistical indicators that can be used to gauge inequality of income. Most of the literature and policy debates focus on inequality in: gross wages and salaries derived from employment; gross income regardless of source; net or disposable income which takes into account taxes and government cash transfers; net income adjusted to reflect the impact on household consumption of government services like education and health that are provided free or are subsidised; and, finally, the inequality between the share of national output going to labour in the form of wages and salaries and that going to capital through profits. To get an accurate and comprehensive picture of how a country is managing income inequality one needs to review this lengthy list of indicators and review long-term trends. We undertake that exercise below and, in relation to the labour share, in section 4.9 of Chapter 4.

396. In late November 2018, the ABS released National Accounts-based data that covers trends in the distribution of household income, consumption and wealth over the period 2003-04 to 2017-18.[267] Figure 11 presents data from this source concerning the proportion of total compensation paid to employees in 2017/18 across the income distribution. The bar at the far right of Figure 11 indicates that 46% of wages, salaries and employer contributions to superannuation went to the 20% of households who enjoy the highest incomes in Australia. At the other end of the spectrum (far left of Figure 11) the poorest 20% of households in the nation received just 3% of all wages, salaries and super contributions in the last financial year. The ratio of compensation received by the top 20% compared to the bottom 20% is 16 to 1.

[267] ABS Catalogue No 5204.0.55.011, 20 November 2018.

Figure 83: Compensation of Employees, share of total compensation received by households in each quintile of the income distribution, 2017-18.



Source: ABS, Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2003/04 to 2017/18, Chapter 2.

397. Virtually all families have some sources of market income beyond what they receive through work, albeit these amounts are usually very minor for those at the bottom end of the distribution. This additional pre-tax and transfer income might be derived from bank interest, dividends, rents, the profits of own account workers and a range of other sources. When we take into account income derived from all sources, including wages and salaries, the share of total income accruing to those at the top of the distribution increases. The new ABS data indicates that those in the highest quintile (top 20%) of the income distribution receive nearly half of total "market" or "gross" income in Australia. To be precise, this elite group accrued 47.5% of all pre-tax and transfer income in 2017/18.

398. This is only 1.6 percentage points higher than the proportion of employee compensation accruing to those in the top one-fifth of the distribution. This would tend to suggest that the labour market is critical to the debate about inequality and that income gaps resulting from what happens at the workplace are highly significant in determining if our society is fair or not. The latest OECD Economic Survey of Australia confirms this outcome noting that:

"Australia's income inequality has risen primarily due to higher earnings inequality."[268] The OECD have highlighted the expansion in part-time and other precarious forms of work as one factor contributing to the ongoing rise in wage inequality.

399. The tax and social security systems and public policies in areas like health and education also play a critical role in determining if we have an inclusive society but these mechanisms will only be able to achieve this objective if the wage gap between those at the top and bottom of the spectrum is reasonable. If we do not have a robust wage floor, and a wage-fixing mechanism that ensures real wages increase in line with productivity improvements, the burden on the tax and welfare system to deliver a fair society will be excessive.

400. The data released by the ABS in late 2018 also shows that the proportion of total gross income going to the top 20% of the distribution has remained fairly constant for the last three years. However, over a longer period it is evident that this top quintile has increased their share of the so-called "economic pie". Their share of all gross income is now 2.4 percentage points higher than it was in 2003/04, which is the earliest year for which data is available from this source.

401. By comparison, in 2017/18, those in the bottom quintile of the distribution accounted for a mere 3.6% of total income prior to taking into account taxes and government income transfers. This figure decreased from 4.1% in the previous year. On average, lower income households endured a deterioration in their relative income position in the last year. Over the eight years for which data is available from this source, the share of gross or market income going to the poorest 20% of Australian households has fluctuated between 3.3% and 4.1%. The ratio of gross income going to the richest 20% of households compared to the poorest 20% of households exceeds 13 to 1 throughout this period.

402. While the income gaps described above are shocking and help explain the pervasive sense of unfairness in our society, it is longer term trends in inequality and the gaps between those at the very top and bottom of the spectrum that are most important from both an economic and fairness perspective. Figure 12 below shows the share of total income held by those in

[268] OECD, Economic Surveys Australia, December 2018, p 74.

the top 1% of income distribution over the last 70 years. It is evident that between the 1950s and early 1980s the share of income accruing to this rich elite diminished, albeit with some short-term fluctuations. In the mid-1980s this broad trend was reversed and the share of national income going to the top 1% has been on a sharp upward long-term trend since that time.

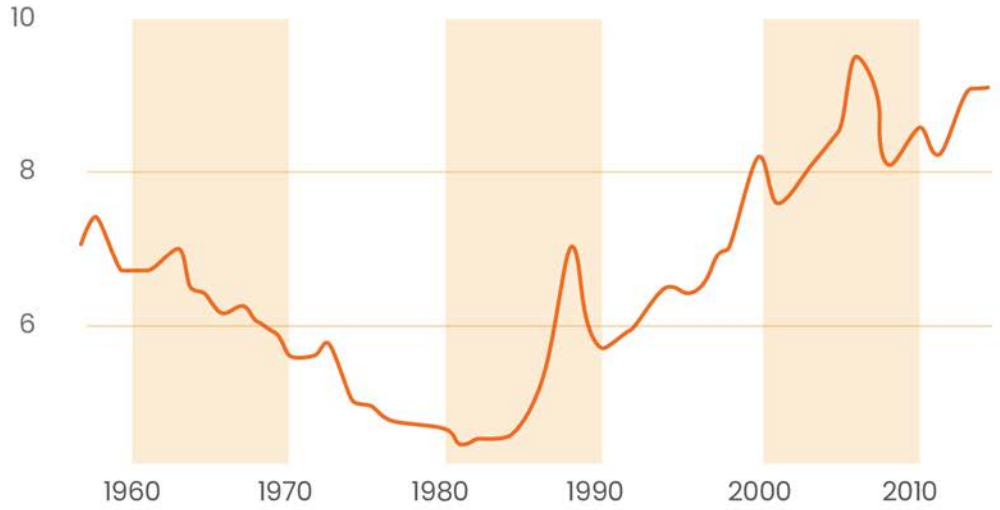
403. The data used in Figure 12 is from the World Wealth and Income Database. This source shows that the share of total income held by the "top 1%" of the income distribution diminished to just 4.4% in 1981. But over the next three decades the proportion of total Australian income held by this small elite group had more than doubled, reaching 9.1% by 2014 (which is the latest data available from this source). Similar trends are evident if one considers a larger section of high-income earners. The richest 10% of Australians managed to accrue 23.9% of all national income in 1978. By 2014 this group received 31.9% of national income. Based on the most recent data from this source, roughly one-third of all income is flowing to one-tenth of the population, whereas forty years ago this group controlled less than a quarter of total income.

404. As can be seen from Figure 12, these trends are not constant over time and the share of income accruing to the richest 1% of the population has declined on occasions. For example, this happened following the global financial crisis in 2008 when asset prices fell dramatically for a short period before recovering and then moving to much higher peaks. Despite these short-run fluctuations the overall trend is clear: the very wealthy are enjoying a share of the "economic pie" that is at least equal to the biggest slice they have had in the last 70 years.

405. Some commentators focus attention on short-run changes in income shares or carefully selecting points in time to make comparisons. For example, they will focus on changes in the share of income belonging to the elite in 2008 and compare that with the latest data and claim there has been no change in inequality. Or, as mentioned above, they will assert that income inequality is not increasing any further because there have not been dramatic increases in the last few years. But, as explained, it is the medium-to-longer-term changes in income distribution that are important and are associated with major structural changes in the economy that retard economic growth. Over the last forty years, the top decile of the distribution has increased its share of total income from less than a quarter to around one-

third. This has become a fixed feature in the economic landscape of Australia. These changes have exacerbated instability and led to slower average economic growth rates by encouraging investment in financial assets rather than the real economy.

Figure 84: Increasing income inequality since the rise of neoliberal economic policies – Top 1% fiscal income share, Australia, 1958-2014



Source: World Wealth and Income Database

6.2 Living standards and the tax and transfer system

406. The ACTU welcomes the statement of the Panel in last year's Decision that: "The prevailing economic circumstances provide an opportunity to improve the relative living standards of the low paid, and to enable them to better meet their needs".[269] In our view, the circumstances which present in this Review should also move the Panel to take further steps to address the decline in living standards that have been observed in the medium-to-long-term.

407. In its 2017-18 decision, the Panel said "The effect of taxes and transfers on the disposable incomes of the low-paid is relevant to the needs of the low-paid and their relative living

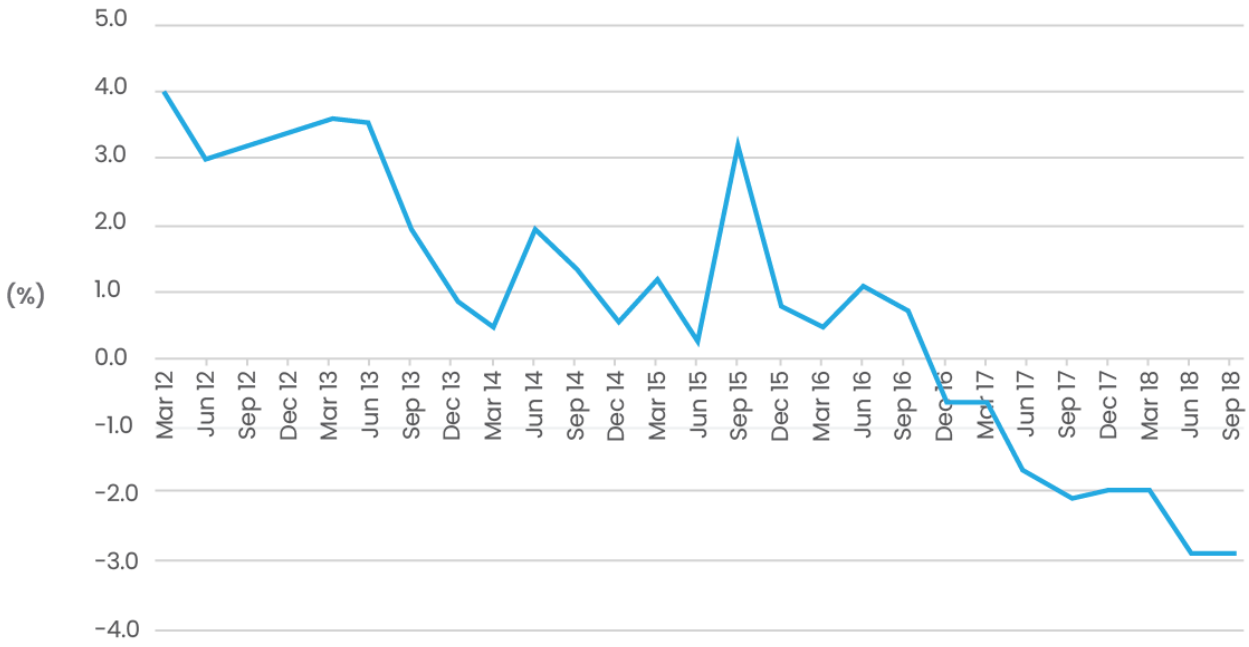
[269] [2018] FWCFB 3500 at [83]

standards, both in terms of specific changes to the tax-transfer system and in assessing broader information in relation to measures of relative income of the low-paid."[270]

408. The ACTU recognises that the Panel has a statutory obligation to establish and maintain a fair safety net of minimum wages. It is appropriate for it to take taxes and transfers into account when doing so. However, we would submit that the tax and transfer system cannot be relied upon to alleviate the impact of small increases in the minimum wage. This is the case in the current policy environment where transfers have been reduced, in effect bringing more people into the low disposable income range.

409. As well as seeing a rise in different forms of inequality, Australians have experienced a fall in their living standards. Living costs outstripped household incomes by 2.9% over the past three years as weak wage growth delivered the biggest fall in living standards for more than 30 years.

Figure 85: Falling living standards

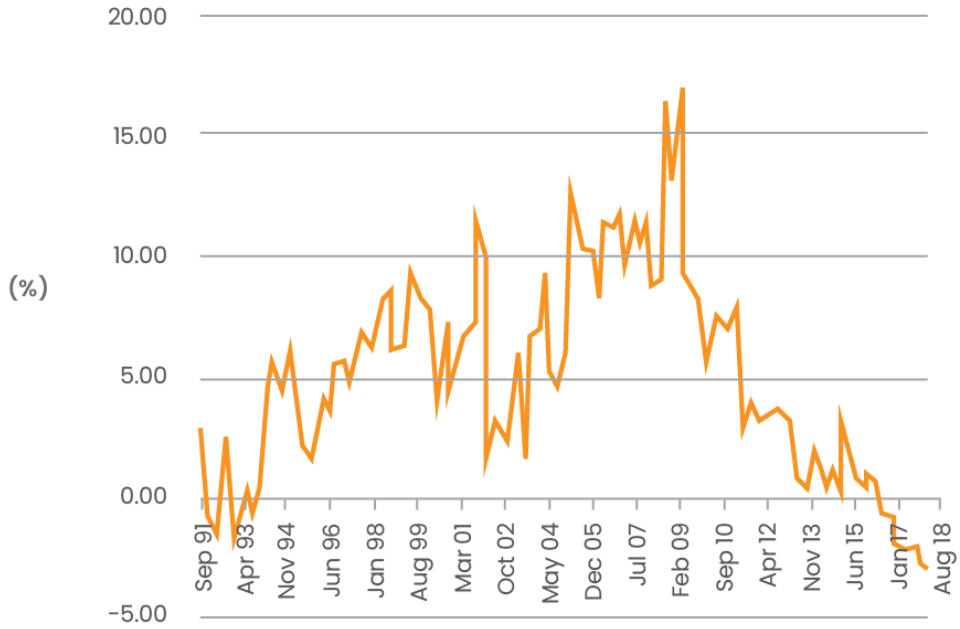


Source: Ben Phillips, Australian National University, using ABS Disposable Household income data from the National Accounts, CPI and population growth. Change over 3-year intervals

[270] FWC 2018 Annual Wage Review 2017-18 [85]

410. Associate Professor Ben Phillips' estimates are based on household incomes, including wages, welfare payments and investment incomes. After allowing for taxes and interest payments and the effect of population growth and rising costs, he shows falling living standards from December 2016 onwards. The fall in living standards in the past three years was greater than during the last recession in 1991-92 and might aptly be described as an incomes recession.

Figure 86: The largest fall in living standards in 30 years

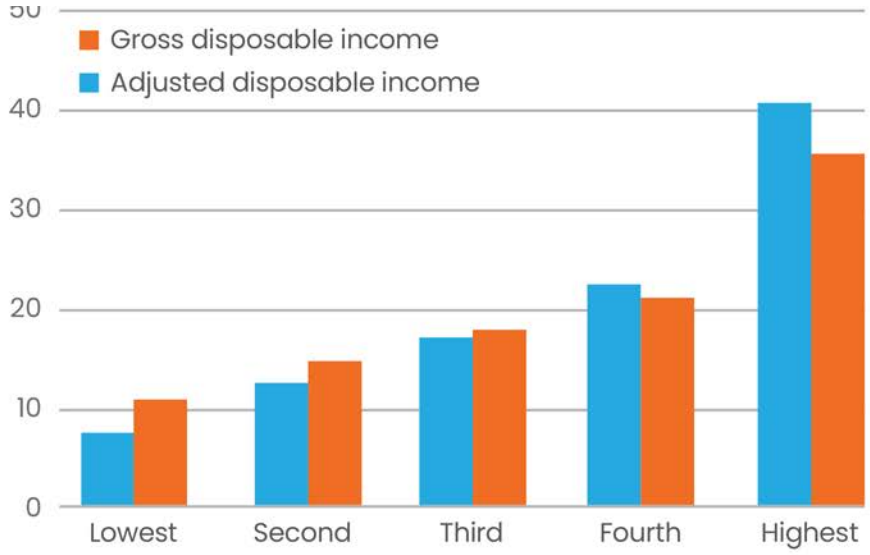


Source: Ben Phillips, Australian National University, using ABS Disposable Household income data from the National Accounts, CPI and population growth. Change over 3-year intervals

411. Our tax and social security systems should help redistribute income and make Australia a fairer country. There is evidence that our public policies are helping to promote this objective but only up to a point, and by international standards our policies are not particularly progressive. The gross minimum wage in Australia has to do relatively more heavy lifting than in many other OECD countries.

412. Figure 15 presents data from the ABS that shows the distribution of total income between quintiles after taking into account the impact of taxes and cash transfers like the aged pension, Newstart and the family tax benefit (the blue bars). Figure 15 also adjusts the resulting disposable income data to take into account the impact of "in kind" public services like health and education on the welfare of households at different points in the distribution (the blue bars).

Figure 87: Gross and Adjusted Disposable Income – Share of total, income quintiles 2017-18



Source: ABS Cat 5204.0.55.011 - Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2003-04 to 2017-18

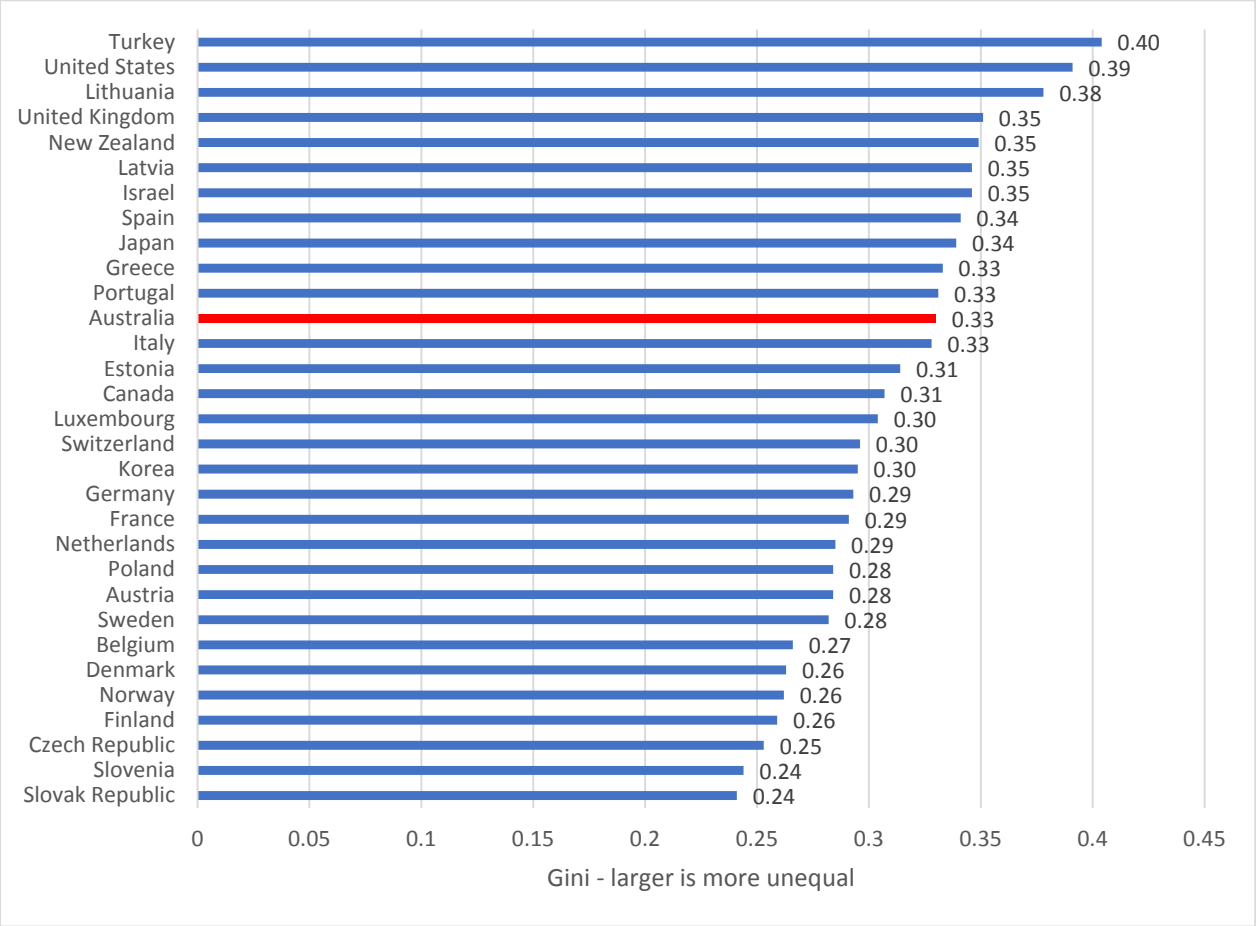
413. After taking into account taxes and cash transfers, the proportion of total gross disposable income accruing to those in the top 20% of the distribution declines to 41% (down from 47.5% of gross national income) and the share going to those in the lowest quintile increases to 8% (up from 3.6% of gross national income).

414. When the data on disposable incomes is then adjusted to take into account the expenditure that households at different points along the income distribution would need to spend on public services like education and health if these items were not provided by governments, one gets another important indicator of inequality that the ABS has termed "adjusted

disposable income" (the blue bars in Figure 15). This brings the share of total income accruing to those in the top quintile down to 35% and boosts the share going to those in the lowest quintile up to 11%.

415. Rather than just looking at what proportion of total income goes to the top 20% or 1% of the population, there are other statistical indicators that attempt to measure the dispersion of incomes across the entire population. The so-called Gini coefficient is one such indicator, with higher values indicating greater income inequality. The *Statistical Report – AWR 2018-19* presents the Gini coefficient in Chart 8.5.[271] It shows that, although the Gini coefficient has fallen since 2013-14, it is still at a level similar to 2006-7. Figure 88 shows that Australia is in the more unequal half of OECD countries.

Figure 88 Gini coefficient OECD countries

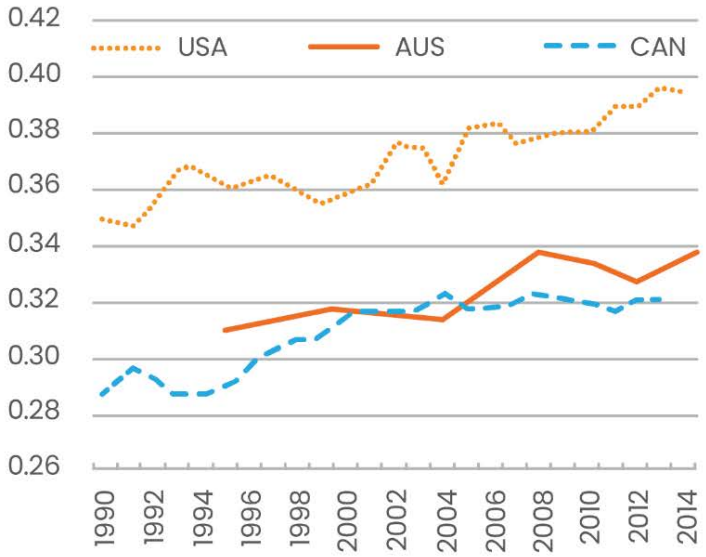


Source: OECD Stats https://stats.oecd.org/Index.aspx?DataSetCode=IDD 2016 or nearest previous.

[271] FWC 2019 Statistical Report – Annual Wage Review 2018-19, p.47, Chart 8.5

416. Figure 17 depicts trends in the Gini indicator for disposable incomes in Australia, Canada and the USA over the last quarter of a century. This indicator takes into account both the so-called market incomes that people receive from wages, salaries and other sources plus the impact of taxes and transfers they might receive from their governments, but not the "in kind" impact of government services. In all three countries, it is evident that short-term fluctuations occur in the Gini coefficient but the medium-to-longer-term trends are towards widening inequality. It is also evident that income inequality is significantly greater in the USA than in either Australia or Canada. It is clear that Canada and Australia had comparable levels of income inequality in the early-to-mid-2000s, but more recently Canada has done a far better job in preventing income inequality from increasing.

Figure 89: Gini coefficient (disposable income, post taxes and transfers)

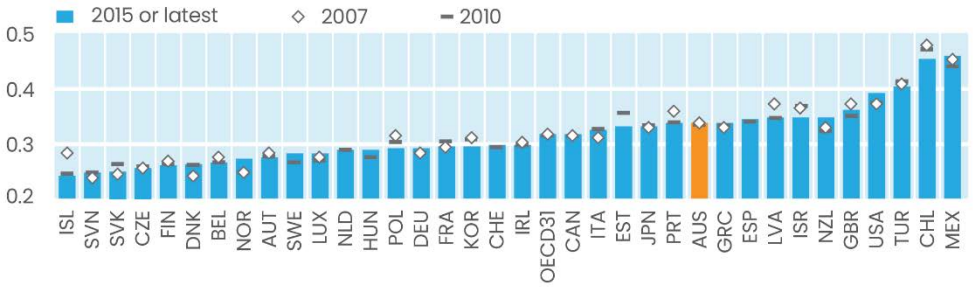


Source: OECD Economic Survey of Australia, March 2017

417. By OECD standards, Canada does not have a particularly progressive income tax system or generous social security system. It should be disconcerting that Australia has failed to match the achievements of Canada since the early to mid-2000s. If we compare the income redistribution system in Australia with most west European countries it becomes apparent that our tax and social security systems are failing to provide the degree of support to low income groups that is required to generate an inclusive and fair society. Figure 18 shows the Gini coefficient of disposable income for a large number of OECD countries. The coefficient

for Australia is significantly above the OECD average and also well above that applying in the vast majority of European countries. Canada is in line with the OECD average. In drawing comparisons between Australia and Canada we are not setting "the bar" terribly high.

Figure 90: Gini coefficient of disposable income – Total population, OECD countries, 2016 or latest, 2010 and 2007



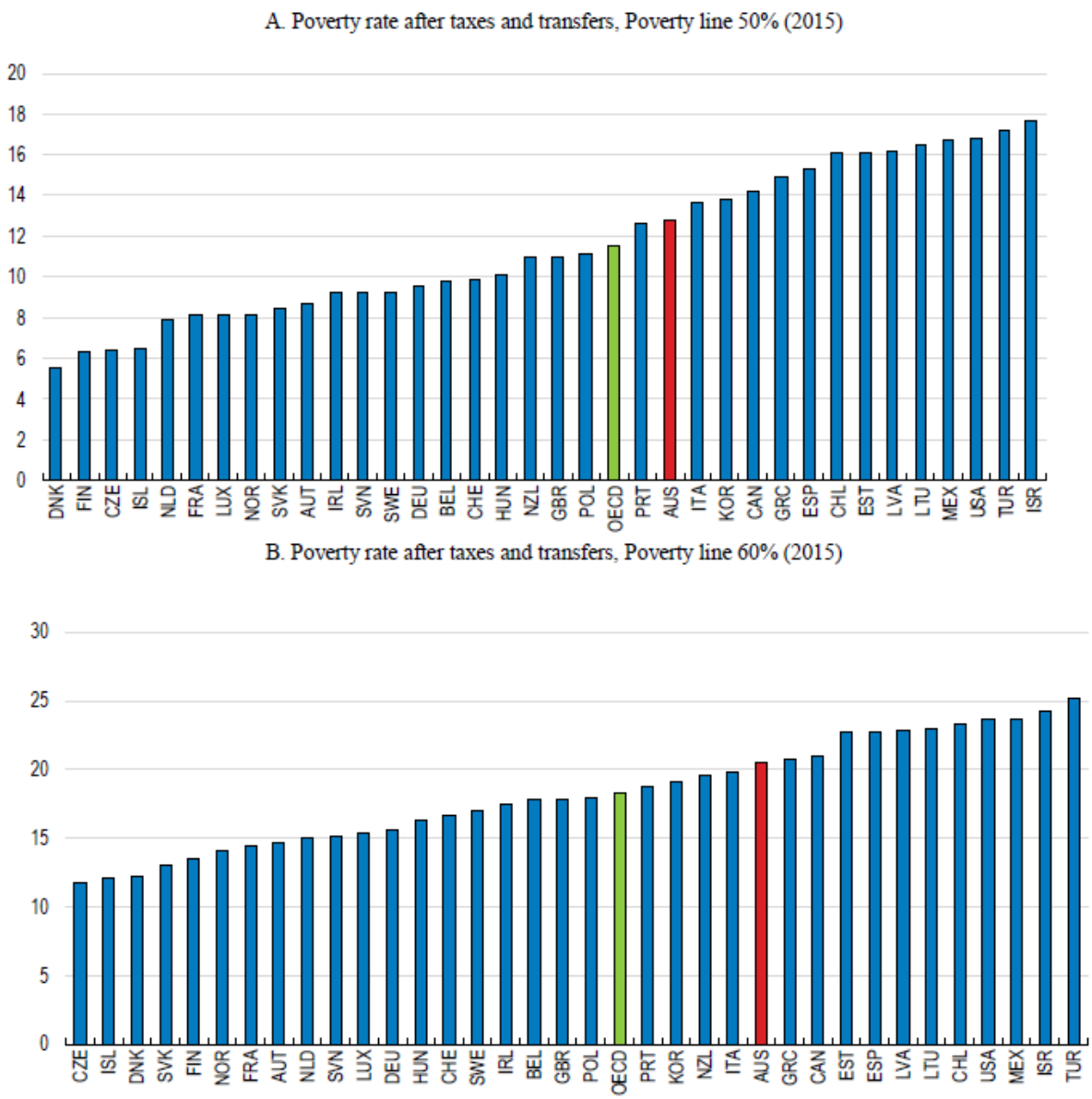
Source: OECD, "The Framework for policy action on inclusive growth", May 2018, p 51

418. There are other reasons to believe that Australia's tax and transfer system has not been as redistributive towards equity as other OECD countries and that its performance continues to deteriorate.[272] The OECD reports that the poverty rate after taxes and transfers is higher than the OECD average, from the OECD Income distribution and Poverty Database. About 13% live in poverty, based on the 50% of median and 20% live in poverty based on 60% of median.[273] Australia has a higher rate of poverty than the OECD average according to both the 50% and 60% thresholds, as shown in Figure 91. Its ranking deteriorates further at the 60% level, indicating that inequality is also greater in Australia than average.

[272] https://www.oecd.org/social/OECD2016-Income-Inequality-Update.pdf Chart 5; Causa, O. and M. Hermansen (2017), "Income redistribution through taxes and transfers across OECD countries", OECD Economics Department Working Papers, No. 1453, OECD Publishing, Paris. http://dx.doi.org/10.1787/bc7569c6-en , p.21, [40],[41]

[273] Sila, U. and V. Dugain (2019), "Income poverty in Australia: Evidence from the HILDA survey", *OECD Economics Department Working Papers*, No. 1539, OECD Publishing, Paris. http://dx.doi.org/10.1787/322390bf-en , p.9

Figure 91 OECD poverty rates after taxes and transfers, 50% and 60% relative poverty lines

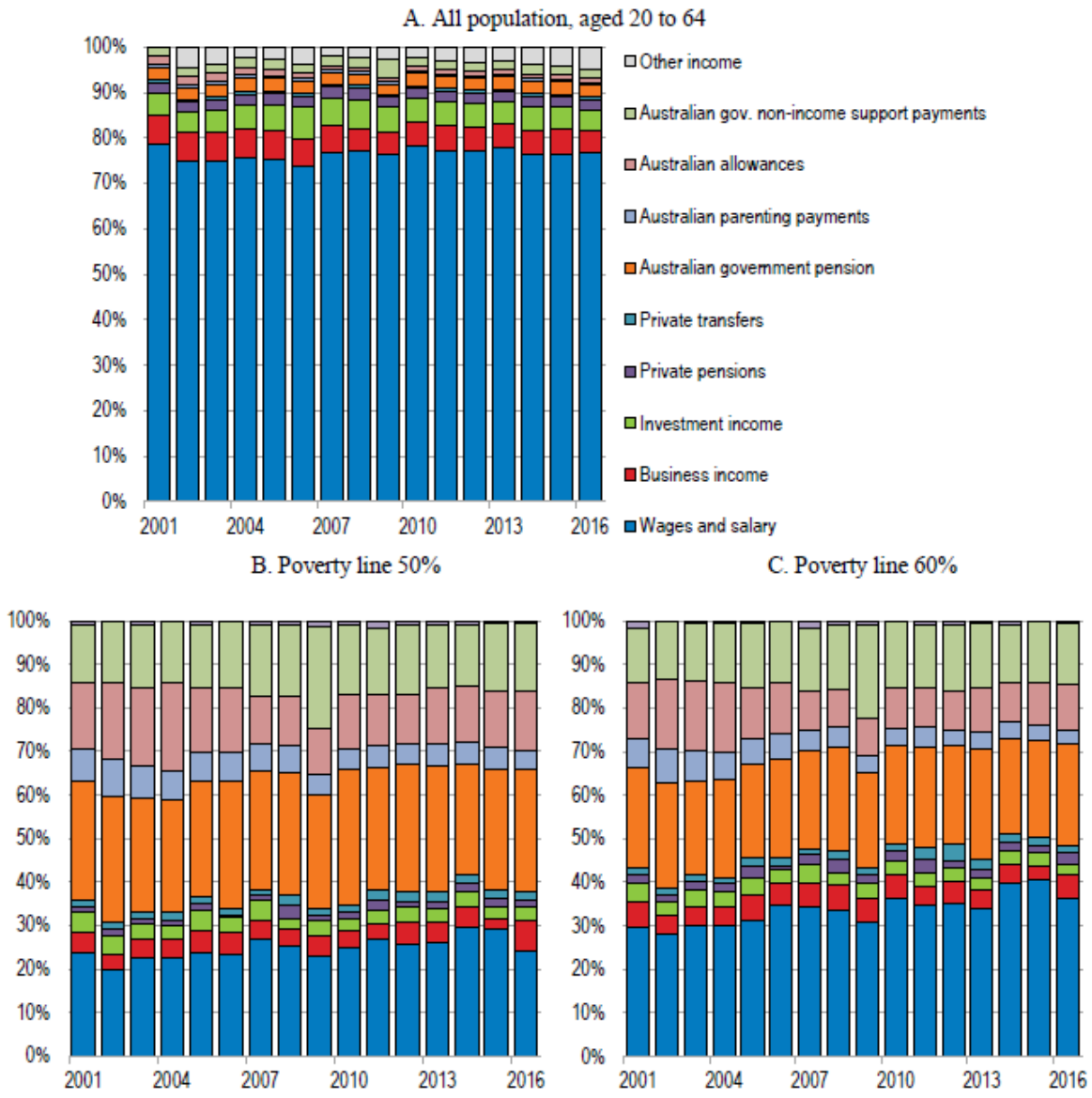


Note: The OECD value is the unweighted average of the displayed countries. 2014 data for Australia, Denmark, Germany, Hungary, Iceland, Ireland, Luxembourg, Mexico, New Zealand and Switzerland. 2016 data for Israel.
Source: OECD, Income Distribution and Poverty database.

Source: Sila, U. and V. Dugain (2019), "Income poverty in Australia: Evidence from the HILDA survey", *OECD Economics Department Working Papers*, No. 1539, OECD Publishing, Paris. http://dx.doi.org/10.1787/322390bf-en , p.9

419. For households below the 50% poverty line, 28% of their income was received from wages and salaries. For households below the 60% poverty line, 39% of their income was received from wages and salaries. The lack of assistance from taxes and transfers is shown in that wages and salaries have trended up as a share of income for poor households (below 50% and 60% of median) as shown in B and C of Figure 92 reproduced from the OECD paper.

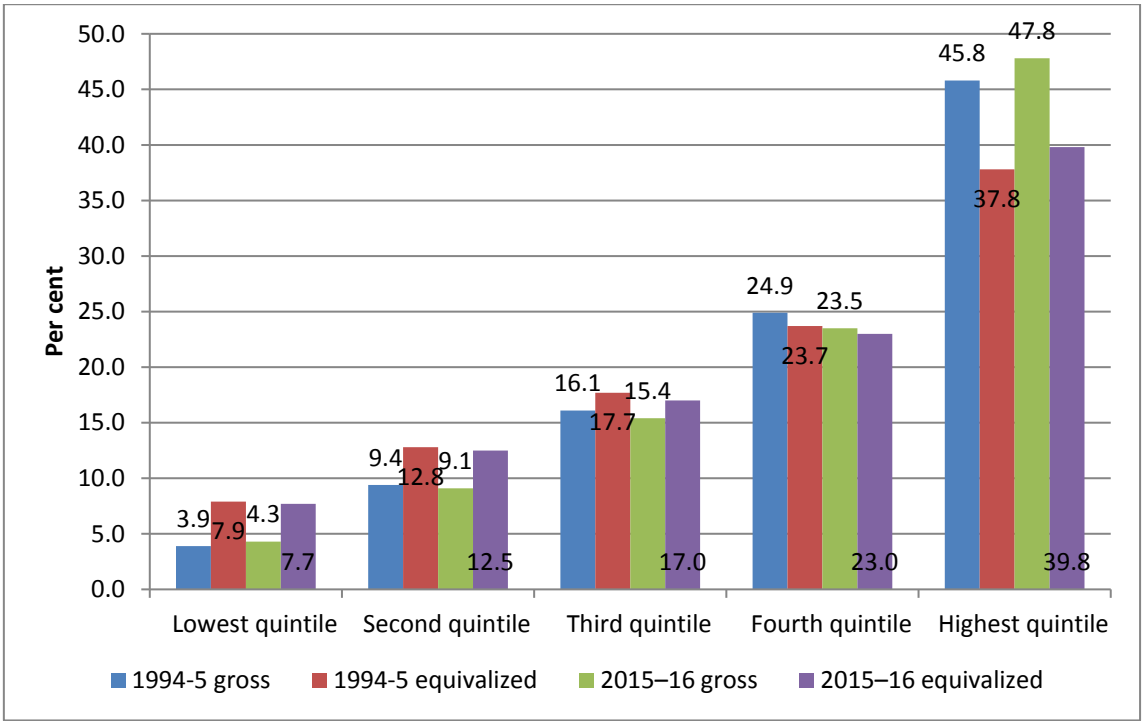
Figure 92 Sources of income amongst working age poor households, OECD paper



Source: Source: Sila, U. and V. Dugain (2019), "Income poverty in Australia: Evidence from the HILDA survey", *OECD Economics Department Working Papers*, No. 1539, OECD Publishing, Paris. http://dx.doi.org/10.1787/322390bf-en , p.9

420. Figure 82 above and Figure 93 also show that, not only has income distribution become more unequal over 22 years to 2015-16, taxes and transfers have done less to make the distribution fairer.

Figure 93 Gross and equivalized household incomes, share of total income, 1994-5 and 2015-16, per cent

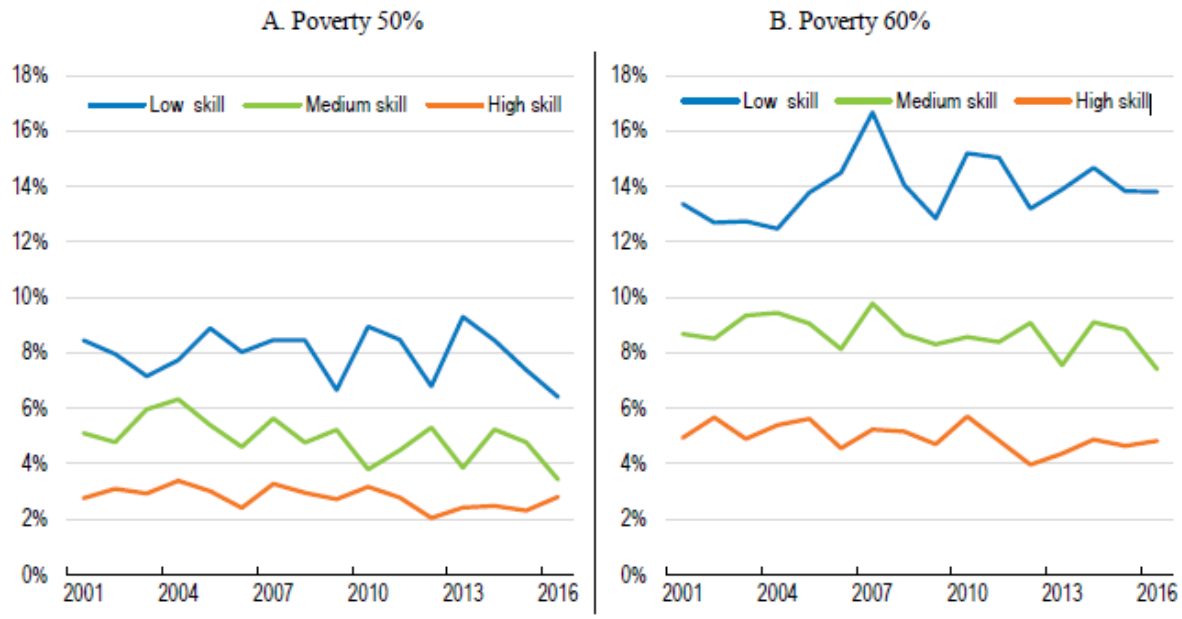


Source: ABS 6523

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

422. The importance of the minimum wage increases for working people is shown according to the rates of poverty (after taxes and transfers) amongst working people which are dependent on their skill level. It is likely that if people are employed on the minimum wage they are likely to be in less-skilled jobs than other workers. The poverty rates for working people are much greater for those with low-skill and also have increased on trend since 2001 at 60% of the median as shown in Figure 94.

Figure 94 Poverty rates for skill levels for working people.



Note: Occupations are ranked by wage level following Autor and Dorn (2013) and Goos et al. (2014). High-skill occupations include jobs classified under the ISCO-88 major groups 1, 2, and 3. That is, legislators, senior officials, and managers (group 1), professionals (group 2), and technicians and associate professionals (group 3). Middle-skill occupations include jobs classified under the ISCO-88 major groups 4, 7, and 8. That is, clerks (group 4), craft and related trades workers (group 7), and plant and machine operators and assemblers (group 8). Low-skill occupations include jobs classified under the ISCO-88 major groups 5 and 9. That is, service workers and shop and market sales workers (group 5), and elementary occupations (group 9).

Source: Source: Sila, U. and V. Dugain (2019), "Income poverty in Australia: Evidence from the HILDA survey", *OECD Economics Department Working Papers*, No. 1539, OECD Publishing, Paris. http://dx.doi.org/10.1787/322390bf-en , p.9

423. NATSEM (National Centre for Social and Economic Modelling) has analysed the impact of Federal budget changes on various types of household groups in terms of income levels, including unemployed, minimum waged, half of the average income, the average income and double the average income. It used STINMOD+, a tax and transfer estimation model developed by NATSEM with consistent parameters back to 2001, which allows new benefits and policies to be included.[274] The summary says that single workers' income on the minimum wage combined with taxes has increased 1.5 to 2.5 percentage points a year, slower than the wage increase due to taxation. The disposable income of single parents on the minimum wage has grown by zero to four percentage points throughout the period, including parenting payments, childcare subsidy, FTB, child support and other benefits received. Couples with children on two minimum wages may now receive about $22,000 in childcare benefits a year.

[274] NATSEM 2019 A typical Australian household income and tax transfer profile (2012-2018). https://www.ausbudget.org/budget-2/budget-2017/the-future-of-the-australian-economy/a-typical-australian-household-income-and-tax-transfer-profile-2012-2018/

6.3 The needs of the low-paid

424. Among other considerations, the Panel is required to take into account the needs of the low-paid. In successive decisions, the Panel has accepted that two-thirds of median (adult) full-time ordinary earnings provides a suitable and operational benchmark for identifying who is low-paid. Whilst we accept that the Panel's benchmark of "low pay" is widely supported, we remain of the view that all workers dependent on the minimum wage and modern award minimum wages are low-paid in the sense that they are paid the lowest wage that is legal to pay to them for the work they perform. All award classifications below C3 are below two thirds of AWOTE, or $1056.87, with C3 just above that threshold at $1058.60. This means the vast majority of award-dependent employees fall below the low pay benchmark.

425. In the Panel's decision of 2017-18, it said: "The assessment of the needs of the low paid requires an examination of the extent to which low-paid workers are able to purchase the essentials for a 'decent standard of living' and to engage in community life, assessed in the context of contemporary norms."[275] This directs attention to the relationship between wages and prices.

426. In 2018, the Panel awarded a 3.5% increase in the minimum wage. Over the year to December 2018, CPI inflation was 1.8%, while the employee Living Cost Index (LCI) for an employee household increased by 1.9%.[276] The Reserve Bank of Australia (RBA) has forecast CPI inflation of 1¾% over the year 2019, (adjusted down from 2¼%), and 2% over the year to June 2010.[277] Nominal wages growth of at least 2% might prevent a fall in real wages, but would still not stop the earnings of the low-paid from falling behind the rest of earners.

427. Moreover, an increase that merely covers likely cpi increase would not take account of the costs of essential, non-negotiable items which have increased disproportionately relative to

[275] 2018 FWCFB 3500 at [32]
[276] ABS 6401, ABS 6467. LCI is 'concerned with measuring the impact of changes in prices on the out-of-pocket expenses incurred by households to gain access to consumer goods and services.' The biggest difference with cpi is that LCI accounts for housing costs in terms of actual cash outlays incurred, and may better reflect changes in purchasing power at lower income levels.
http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6467.0Explanatory%20Notes1Dec%202016?OpenDocument
[277] Reserve Bank of Australia 2019, *Statement on Monetary Policy: February 2019,* RBA, Sydney, p.66.

the average. The ACTU would seek a minimum wage increase that takes account of the greater hardship caused to award-reliant employees by disproportionate increases in the cost of non-negotiable items. Section 4.13 in Chapter 4 illustrates the disproportionate increases in services and non-tradeables, and household essential items, increases in the prices of which disproportionately impacts upon lower-paid households. The slight increase in the real minimum wage of 1.6% last year does not go far towards ensuring that low-paid workers are able to live better. In particular, the disproportionate increase in costs of a range of essential items, such as health, education and the generally largest item, housing costs, means that discretionary spending is squeezed proportionately more at lower incomes.

6.3.1 Relative poverty

428. The Panel said in its 2017-18 Decision that: "The Panel has generally relied on poverty lines that are based on median income, using a 60 per cent threshold on the basis that those in full-time employment can reasonably expect some margin above a harsher measure of poverty."[278] However, obtaining an income in excess of relative poverty levels does not necessarily indicate that low-paid workers' needs are being met adequately or decently. People above the relative poverty line may still experience poverty, as the line is relative to median income.

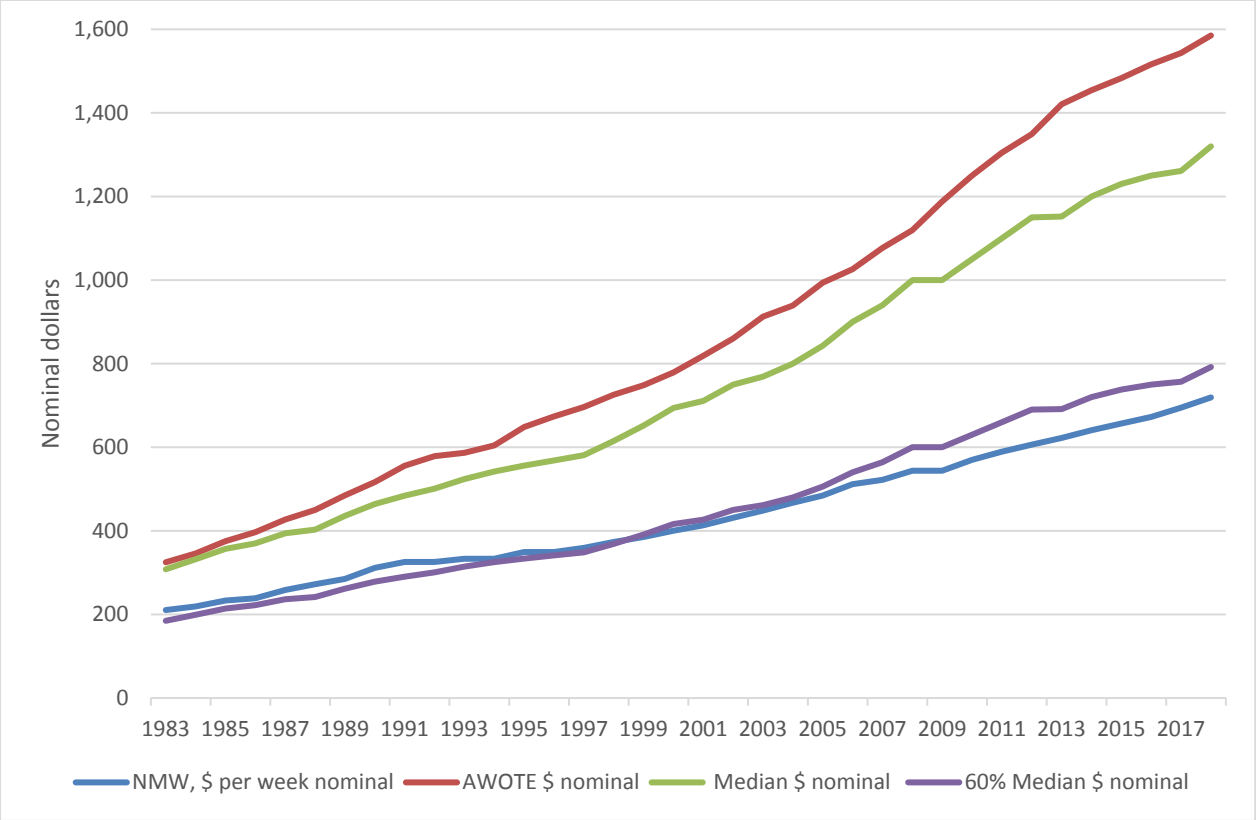
429. Sixty per cent of median earnings is the measure of the relative poverty level used by the UK Low Pay Commission as directed by the UK government[279], and is accepted by other jurisdictions and international organisations.

430. The NMW has not kept pace with relative poverty thresholds such as 60% of the median, and has fallen below that level since 1999, nearly 20 years ago, as shown in Figure 75. A recent slight narrowing of the gap between the NMW and 60% of the median is due both to the flattening out over time of the median wage due to its particularly slow growth since 2012, and recent increases granted in the NMW.

[278] FWC 2018 Annual Wage Review 2017-18 [333]
[279] UK Low Pay Commission Report 2018 *National Minimum Wage,* p.xii

431. Figure 95 shows the NMW, AWOTE, median earnings and 60% of median earnings in nominal terms, and may be compared with the same data expressed in real terms in Figure 75. Thus both figures start at the same values in 1983 but the nominal data in Figure 95 increase much faster than the real data in Figure 75. The wide variation from year to year is apparent, including in the NMW. The variation from year to year is even greater in Figure 75 where the unforeseeable consequences of variations in the CPI become apparent.

Figure 95 National minimum wage, Average Weekly Ordinary Time Earnings, Median Earnings, and 60% of Median Earnings, nominal (current) dollars

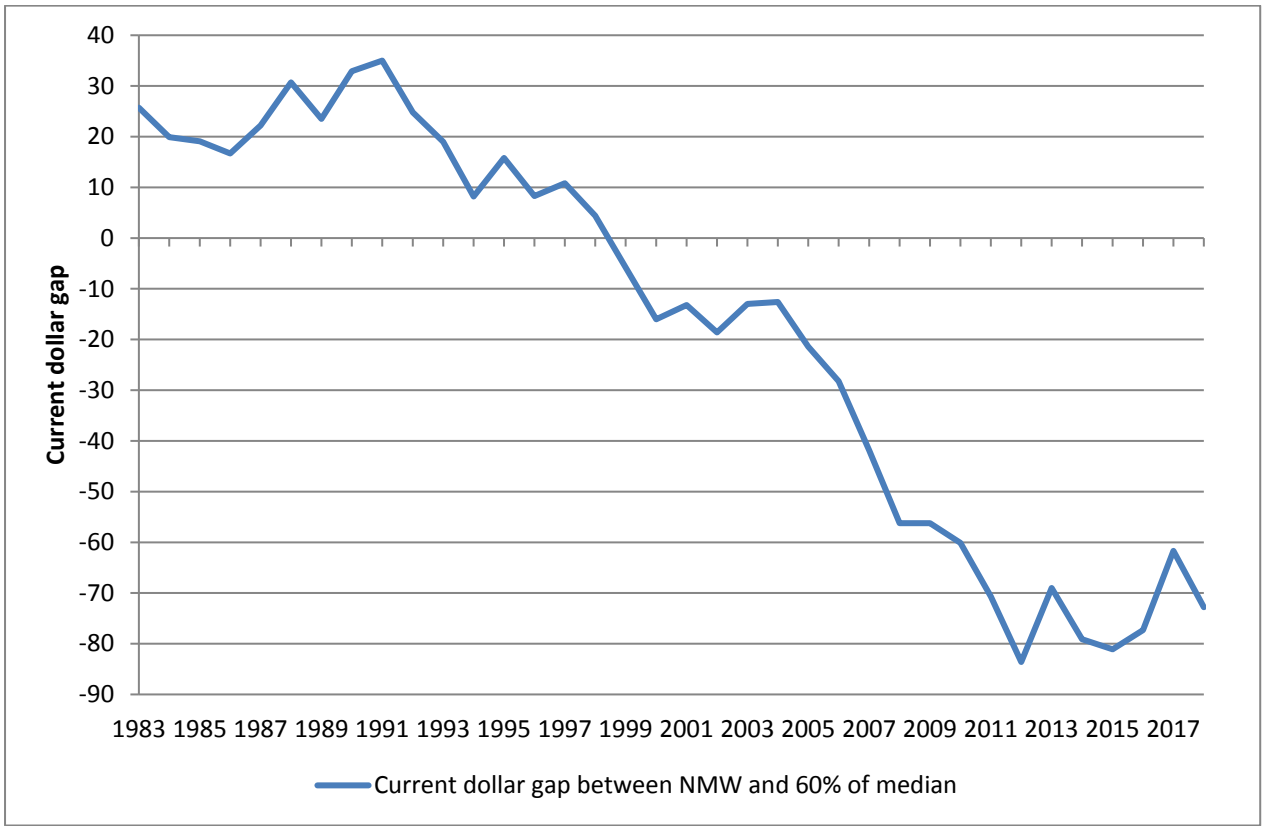


Sources: FWC and Bray (2013), ABS Cats 6302, 6310, 6333, and ACTU calculations

432. We also subtract 60% of nominal full-time median earnings from the NMW for each year from 1983 to 2018, as shown in Figure 96, where 60% of median earnings is given by zero on the vertical axis. The gap appears to have stabilised at 2012 after roughly trending down over two decades. The gap at 2018 was $72.80, having widened since 2017. The gap was the same as at 2011, seven years ago. In our submission, the modest and more granular improvements in relatively recent times must be seen against the background of the long-term trend and trajectory seen in Figure 96.

433. It is estimated that the gap between NMW and 60% of nominal median earnings at 2018 would require an increase of around $73 per week or 10% in order for the current NMW to reach a level of 60% of the median equal to $792 per week at 2018. This amounts to around $1.92 per hour. A practical proposal for an increase to the minimum wage by 6% or $43.15 would mark significant progress in moving toward that objective. This increase would amount to $1.13 an hour, to $20.06 per hour. This is within range of the minimum wage increases that other countries have put into place.

Figure 96 Nominal NMW minus 60% of median earnings



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

434. Another measure of relative earnings is 60% of median equivalised household disposable income, which is shown in Table 8.6 in the FWC *AWR Statistical Report* 2018-19[280] for various household types. Whilst a single adult provides the starting point for the assessment of relative living standards and needs, the relative living standards and needs of other family types are also relevant and should considered.[281] Further, the Panel has repeatedly recognised that if the low-paid are forced to live in poverty, then their living standards are not

[280] FWC 2019 Statistical Report – Annual Wage Review 2018-19, p.45, Table 8.6.
[281] See [2015] FWCFB 3500 at [323]-[344]

being met. Accordingly, the Panel is not required (and does not) treat the needs of the low paid as being met merely because the reference household is not demonstrated in a particular Review to be living in poverty (under one or another measure of poverty).

435. Equivalised disposable household income (EDHI) measures have limitations as a method of assessing where an individual household stands in relation to the relative poverty line because inevitably they are assessed for given types of household rather than individual circumstances. They do not translate directly into an equivalent value for actual wages, for a one person or any other composition of household with a big range of interactions with the labour market and domestic circumstances, caring responsibilities et cetera. They cannot adequately reflect the impact of increasing the minimum wage for a wide variety of workers in low-paid low income households. This is manifest in that the EDHI calculations result in low dollar amounts of income that correspond to the 50% and 60% relative poverty lines and they are very sensitive to changes in the tax and transfers thresholds and eligibility. However, EHDI measures do provide information as to the movements of hypothetical types of households' wellbeing over time in relation to a given relative poverty line; that is, whether or not they are relatively better off compared with the median or average benchmark. It also can show where those household types stand in relation to each other (better or worse off) over time. In this context, we do not describe the household types as "hypothetical" pejoratively, but merely to highlight that the equivalence scales upon which they are based are modelling parameters that do not necessarily represent the lived experience of all households which meet the category description such of "Single parent", "Dual earner couple" and so on.

436. Table 8.6 in the statistical report shows that the reference household remains above the 60% median disposable income threshold and that all household types at the minimum wage, C10 and C4 have improved, somewhat, on their position compared to previous years, with the largest improvements usually seen at the C4 level. It also shows that some single parent households with children and some single earner couples, being paid at NMW or at C10, remain below the relative poverty line. The slightly improved ratios for 2018 are the outcome of competing forces; the slightly higher median wage raising the 60% threshold, which should diminish the relative position of households, and the increase in the NMW and awards which should improve them.

437. Single parents working part-time with one or two children were among the most disadvantaged of all, notwithstanding the model in Table 8.5 of the statistical report indicating that they were the only groups which retained 100% of the NMW increase. Single parents with one child working part-time were below the 60% of median threshold of $675.23 at C14 and C10. Single parents working part-time with two children were in a similar position, below their 60% of median threshold of $831.05 at C14 and C10 and just on it at C4. These were followed by single earner couples with no children and no NSA, who were below the 60% line of $779.11 at C14 and C10.

438. Single earner couples with one or two children without receiving the NSA were below the 60% line at C14. Receiving an NSA put single earner couples with one or two children just above at all rates shown. The other household types, single adult, single parent with one or two children working full-time, and dual earners working full-time, with no, one or two children were all above the 60% for all awards shown.

439. However, only three types of households exceeded 1.5 times 60% of median earnings and only at C4. These were single adult (1.61), on $835.25, single parent working full-time with one child (1.60) on $1080.37 and dual earners with no children (1.69) on $1316.70.

440. No households of award only employees got near the AWOTE rates for their type of household. Moreover, Table 8.6 shows that the circumstances have not shifted significantly between December 2013 and December 2018.[282] This give some context to the OECD's *Income Inequality Update* of November 2016 , which indicated that Australia has one of the smaller percentage reductions in market income inequality through taxes and transfers, thirteenth lowest out of 35 OECD countries.[283] The OECD publication *Bridging the Gap: Inclusive Growth 2017 Update Report* says that market inequality is likely to have been fuelled by "changing demands for work hours and skills yielding non-standard work and job polarisation" among other things.[284]

[282] FWC 2019 Statistical Report – Annual Wage Review 2018-19, p.45, Table 8.6
[283] https://www.oecd.org/social/OECD2016-Income-Inequality-Update.pdf Chart 5
[284] OECD 2017 Bridging the Gap: Inclusive Growth 2017 Update Report p.25

441. The report by ACOSS and UNSW *Poverty in Australia 2018*[285] drew on the ABS Survey of Income and Housing and the OECD equivalence scale to study the position of various household types against poverty lines[286], including wage earning families. The report noted that:

"While the full-time minimum wage sits above the poverty line for a single adult without children, this does not prevent wage-earning families with children, those with only part-time earnings, and those with high housing costs, from falling into poverty. Among people in households whose main income is wages, 7% are in poverty. Since most people live in wage-earning households, this group forms a substantial proportion (38%) of all people in poverty."[287]

"People in poverty have an income well below that which people living in Australia would ordinarily expect to receive. Further, the number of people living below poverty lines can be reduced to zero by lifting minimum incomes (including social security payments, paid working hours and minimum wages) relative to the median, in a country with significant levels of overall inequality."[288]

442. *Poverty in Australia* 2018 reports that of people with a main income that is wages and salaries, 6.9% are below 50% of the median and 11.5% are below 60% of the median for 2015-16 data.[289]

443. The ACTU notes that the poverty lines *Poverty in Australia* uses are extremely conservative, for instance for a lone person at 50% of the median at 2015-16, before housing costs, $432.73 and at 60% of the median also before housing costs, $519.28,[290] as reproduced in Table 13 below. Accordingly, the rates of poverty it provides would be much higher than reported, if housing is accounted for, and at more realistic levels of expenditure.

[285] Davidson, P., Saunders, P., Bradbury, B. and Wong, M. (2018), Poverty in Australia, 2018. ACOSS/UNSW Poverty and Inequality Partnership Report No. 2, Sydney: ACOSS.
[286] There were some exclusions from the sample, including persons with zero income and the self-employed, according to the separately published methodology paper
[287] Davidson, P., Saunders, P., Bradbury, B. and Wong, M. (2018), Poverty in Australia, 2018. ACOSS/UNSW Poverty and Inequality Partnership Report No. 2, Sydney: ACOSS. p.13 https://www.sprc.unsw.edu.au/research/projects/poverty-and-inequality-in-australia/
[288] Davidson et al., 2018 Poverty in Australia, p.18
and Inequality Partnership Report No. 2, Sydney: ACOSS. p.13
[289] Davidson et al., 2018 Poverty in Australia, p.24
[290] Davidson et al., 2018 Poverty in Australia, p.21

Table 13: Poverty Lines (before housing costs) by family type, 2015-16 ($ per week after tax, including social security payments)

	50% of median income *Before housing costs*	60% of median income *Before housing costs*
Lone person	$432.73	$519.28
Couple only	$649.10	$778.92
Sole parent, 2 children	$692.37	$830.85
Couple, 2 children	$908.74	$1,090.48

Note: These are the poverty lines before housing costs are taken into account, and after households with zero or negative incomes and self-employment income are excluded from the sample used to estimate median income.

Source: Davidson et al., 2018 Poverty in Australia, p.21

6.3.2 Absolute poverty, financial stress and deprivation

444. Absolute poverty may be assessed by reference to the capacity to meet basic needs. The *Food Bank Hunger Report* 2018[291] combines insights from charities and community groups across Australia providing food relief as well as individual Australians who experience food insecurity. Food insecurity is identified where a person runs out of food and does not have the money to purchase more.[292] Two surveys were used to collect these insights. The first was the Charity Partner Survey conducted from December 2017 to April 2018 by Foodbank Australia with agencies registered with all state and territory Foodbanks to receive food and groceries about their current operating performance, clientele and needs. This survey received 1710 responses which represented 71% of registered agencies across Australia that had received Foodbank food in the last 12 months. Measures were applied to ensure robustness of results. "The total number of people receiving assistance from Foodbank's agencies was calculated by finding the average number of people assisted by agencies for each state and multiplying this by the number of agencies in each state that had received food from Foodbank in the last 12 months." The second survey was conducted online by McCrindle in order to inform about the Australians who have experienced food insecurity in the last 12 months.[293]

[291] McCrindle 2018 The Food Bank Hunger Report 2018 *https://www.foodbank.org.au/wp-content/uploads/2018/10/2018-Foodbank-Hunger-Report.pdf*
[292] *Ibid.* at p.13
[293] McCrindle 2018 The Food Bank Hunger Report 2018 p.26

445. The *Food Bank Hunger Report* found that 18% of Australians (more than four million people) had experienced food insecurity in the last 12 months, with 14% (more than three million people) with very low food security, eating less food than they need over the last 12 months due to lack of resources. Food insecure people at least once a week cut the size of meals (56%), skip meals (54%) or go a whole day without eating (26%).

446. According to the *Food Bank Hunger Report,* twenty per cent of those employed part-time or casually experienced food insecurity, and 39% of single parent households and 23% of lone person households. "The most common reason Australians living in cities experience food insecurity is due to an unexpected expense or large bill (47%)", whereas in the country the most common reason is low income (53% compared with 37% in the city). It said that "three in five (60%) [in the country] are living on a gross household income of less than $700 per week (compared to just two in five (43%) living in our cities)."[294] Some 43% said they were living on a low income or pension (p.19). Some 58% of those living with food insecurity spend more than 20% of their household income on food, more than double that of the average Australian household (9.8%).

447. In relation to shelter, the ABS released an update in March 2018 of homelessness estimates based on Census (2016) data. It found that more than one in three (35.4%) homeless people aged 15 and over were employed. In raw numbers this is 61,500 out of the 173,800 total either homeless or in marginal housing (more than severely crowded, improvised or marginal in caravan parks). Further, one in six homeless people (16.4%, 28,600) were working full-time (35 hours per week or more). It found 45.6% or 79,300, of homeless people were in the labour force; that is, working or looking for work. Almost half (48.8%, 85,000) of homeless people had a Year 12 education or higher, while more than one in eight, or 12.9%, of homeless people had one degree or more.

448. More than one in five (21.9%, 38,100) homeless people had incomes above $650 per week and 15% had more than $800. This is an indication of the inadequacy of the minimum wage

[294] McCrindle 2018 The Food Bank Hunger Report 2018 p.16

in relation to affording housing, [295] and should be borne in mind when considering the impact of the non-measurement of housing expenses in the *Poverty in Australia 2018* report referred to above.

449. The Panel said in its last decision: "The Panel considers that changes in the levels of financial stress and deprivation reported by low-paid households over time, both in absolute terms and relative to other households, assists with its assessment of the extent to which the needs of the low paid are being met, and that minimum wages are fair."[296] The extent to which award-reliant employees are able to meet their needs is difficult to measure directly, but can be inferred from information such as absolute poverty rates and measures of financial stress and deprivation.

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

451. The Statistical Report AWR 2018-19 reports indicators of financial stress in Table 12.1, based on HILDA data. It reports that, for all employee households, four indicators worsened very slightly in 2017 compared with 2016. These were "could not pay utility bills on time" (7.2% to 7.3%), "went without meals" (1.5% to 1.7%), "could not afford to heat home" (1.2% to 1.5%) and "sought assistance from a welfare organisation" (0.9% to 1.0%).[297] Even these small increases would amount to a significant addition to difficulty, given they represent a significant increase in actual numbers of employees over the year, and would be concentrated amongst the low-paid. Moreover, it is concerning that those measures did not improve, given the prevailing economic conditions over 2016 and 2017.

[295] ABS 2018 2049 Census of Population and Housing: Estimating homelessness, 2016, 14 March http://www.abs.gov.au/ausstats/abs@.nsf/lookup/2049.0Media%20Release12016 ACTU calculations from ABS 20490DO001_2016 Table 1.10
[296] 2018 FWCFB 3500 at [359]
[297] FWC 2019 Statistical Report – Annual Wage Review 2018-19, p.52, Table 12.1

452. The ME Bank's *Household Financial Comfort Report* (2019) report found that, as at December 2018, 36% of respondents[298] reported they could easily raise $3,000 in a week for an emergency, compared to 38% six months ago. Amongst workers, "the lowest financial comfort across employed people continued to be reported by casual workers (up 4% to 5.07) and, to a lesser extent, part-time workers (up 2% to 5.31)."[299] The report said that : "The 'cost of necessities' (e.g. fuel, utilities and groceries) continues to be the 'biggest negative' of households, although the proportion nominating this as their biggest worry has fallen seven points to 46% during the six months to December 2018."[300] More broadly, it observed that "..comfort among the lowest income households continue to lag behind comfort in average/middle income households, and to a greater extent, high-income households."[301]

453. Consistent with what was shown in Chapter 4.4, the *Household Financial Comfort Report* said that "consumption growth remains constrained by subdued income gains and high levels of household debt."[302] It found that, while on average households are coping well with debt servicing burdens due to still relatively low borrowing costs as well as income gains, "job losses, underemployment and falling [housing] prices do present current challenges to some households – especially recent dwelling buyers with newer mortgages and lower incomes." Some households were said to have debt levels which make sense in good times but that bad times can arise unexpectedly, and some are close to their maximum risk position.[303]

454. Notably, the *Household Financial Comfort Report* found that "very high levels of household payment stress continue to be reported by households with incomes less than $40,000 p.a. (about 75% are experiencing mortgage stress)."[304] This is a level of household income very close to the minimum wage. "Roughly the same number of households (42% in December 2018 compared to 43% in June 2018) expected that they 'will not be able to meet their required minimum payments on their debt' and 'can just manage to make minimum

[298] Appendix B of the report indicates that there are around 1500 respondents and the sample is weighted based on ABS statistics om employment status, age and household composition.
[299] ME Bank Household financial comfort report February 2019 p.32
[300] ME Bank Household financial comfort report February 2019 p.21
[301] ME Bank Household financial comfort report February 2019 p.25. Comfort is based on an index compiled from a list of questions about the financial situation of the household, p.6.
[302] ME Bank Household financial comfort report February 2019 https://www.mebank.com.au/news/household-financial-comfort-report/, p.4
[303] ME Bank Household financial comfort report February 2019 p.5
[304] ME Bank Household financial comfort report February 2019 p.18

payments on their debt'."[305] Relatedly, Section 4.4 in Chapter 4 sets out the increased impost of household debt since 2014 and also demonstrates that Australia has the highest level of household debt (and increasing) of a number of similar countries.

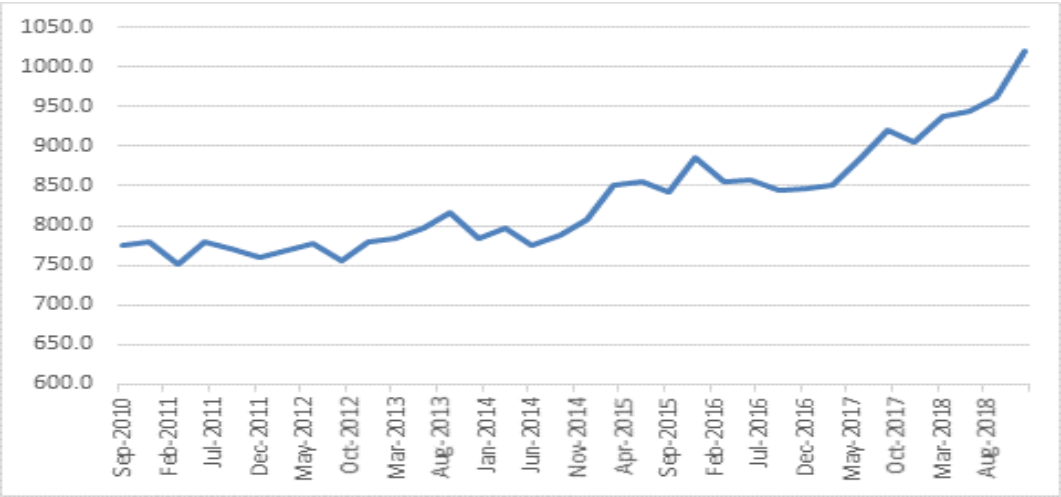
455. The Victorian Working Energy Market report 2017-18[306] shows some indicators of financial stress among energy customers in Victoria. Some of the key findings of the report include:

a) more people were signed up to hardship programs (up 25 per cent)
b) residential disconnections increased substantially (up 20 per cent) from 46,083 to 55,474
c) average residential electricity and gas prices increased up to 16 per cent
d) average debt for new participants was $1,377 - up 11 per cent on 2016-17

In particular the number of gas customers on hardship programs has increased from 12,159 in 2014-15 to 18,251 in 2017-18: an increase of 50.1% over the period.

456. We would submit that a further indicator of financial stress is the number of secondary jobs and multiple job holdings workers need for a sufficient income. The number of secondary jobs in Australia rose to more than one million in the December quarter of 2018, according to new labour market insights by the Australian Bureau of Statistics (ABS).

Figure 14: Number of secondary jobs is increasing over the period 2010 - 2018

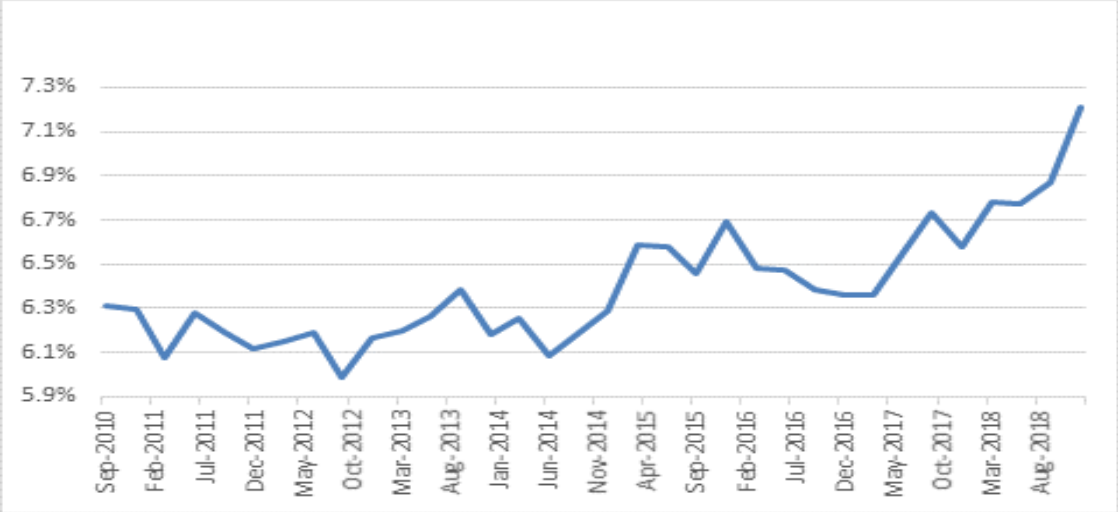


ABS Cat 6150.0.55.003 - Labour Account Australia, Quarterly Experimental Estimates, December 2018

[305] ME Bank Household financial comfort report February 2019 p.19
[306] Essential Services Commission 2019, Victorian Energy Market Report 2017-18, 26 February

457. This represented more than 7 per cent of all jobs worked in the economy, the highest rate recorded since this series began in 2010. Australians are feeling the effects of the wages crisis, so they are resorting to taking up a second job to get by.

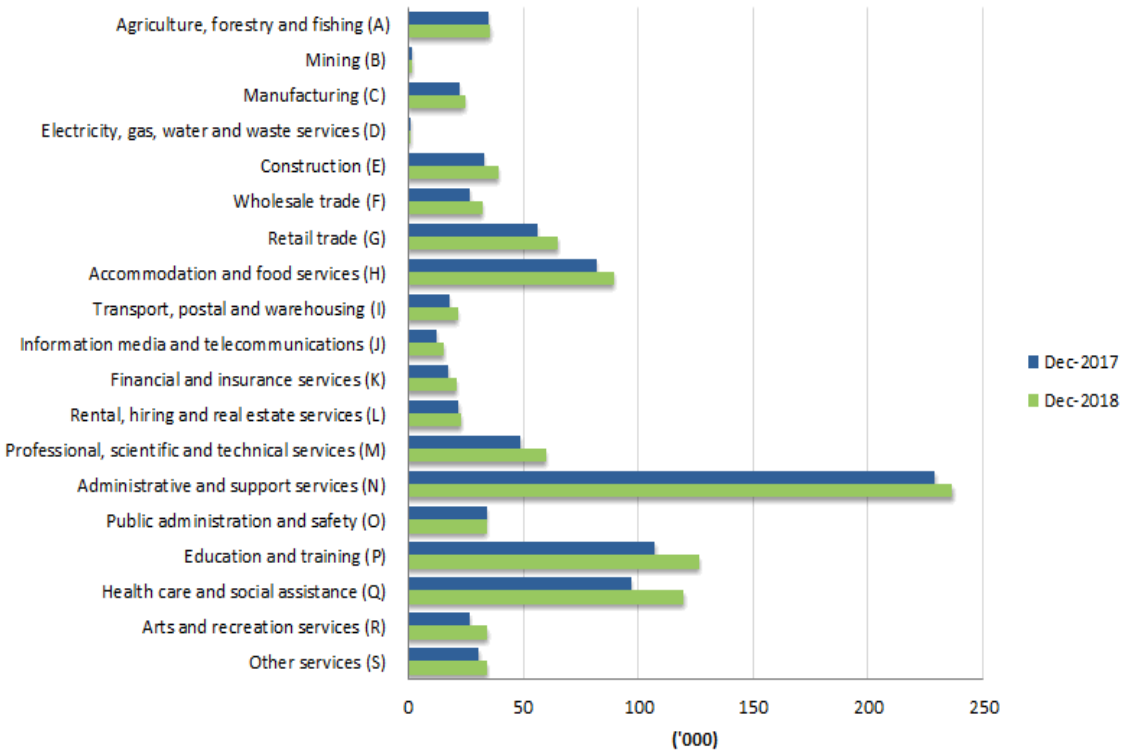
Figure 15: Number of secondary jobs as a proportion of total jobs 2010 - 2018



ABS Cat 6150.0.55.003 - Labour Account Australia, Quarterly Experimental Estimates, December 2018

458. Many of the secondary jobs are in sectors are in low-paid sectors. The administrative and support services industry has the most secondary jobs (23.2 per cent). But, interestingly, the education industry saw the largest increase in the number of secondary jobs during the quarter with growth of 8.2 per cent. The top three industries who have the highest number of secondary jobs in the December quarter 2018 were Administrative and support services, Education and training and Health care and social assistance.

Figure 97: Secondary jobs, by industry, Dec Qtr 2017 and Dec Qtr 2018

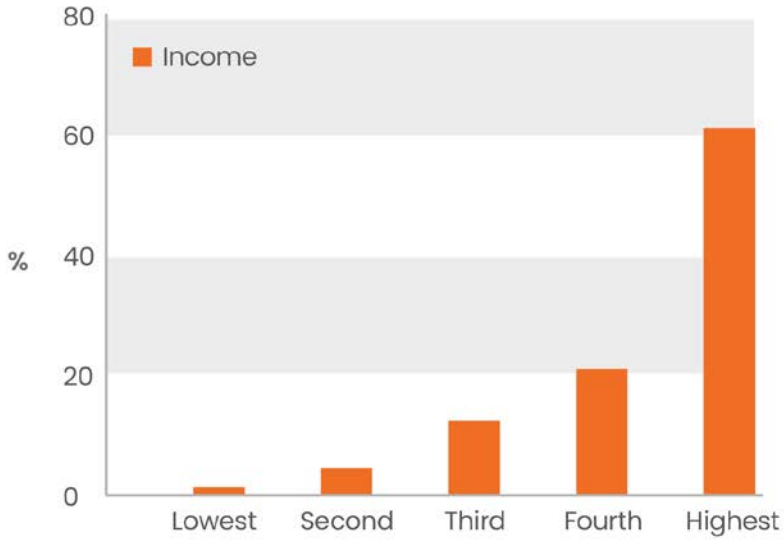


ABS Cat 6150.0.55.003 - Labour Account Australia, Quarterly Experimental Estimates, December 2018

6.4 Wealth inequality

459. Due to very rapid increases in the value of homes, investment properties, shares and other assets held by the rich, wealth inequality is significantly greater than income inequality. It is common among the wealthy elite in Australia to have a multi-million dollar home, several investment properties, and a large portfolio of shares, bonds and other assets. The extremely wealthy may also store their assets in precious metals, antiques, paintings and similar forms that appreciate over time. Some of these assets may generate a regular flow of income which is reflected in data on income inequality, others do not. Over time all these assets tend to increase in value (capital gains) which contributes to wealth inequality. At the other end of the income spectrum many young Australian's are struggling to pay rent and many have been forced to move back in with their parents, while older persons without adequate superannuation and those relying on social benefits to survive are highly unlikely to have assets that appreciate in value. This is reflected in Figure 26 below which indicates that just over 60% of all net worth in Australia is held by those in the highest wealth quintile while those in the bottom quintile hold just 1% of net wealth.

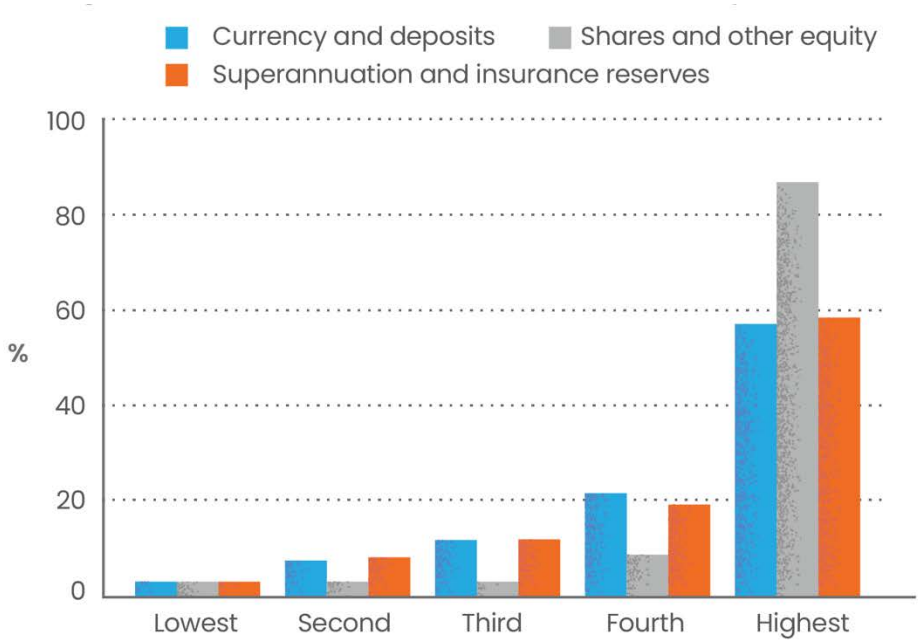
Figure 98: Share of net worth held by households in different quintiles of the distribution



Source: ABS Cat 5204.0.55.011 - Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2003-04 to 2017-18

460. Figure 27 shows the distribution of some key assets that contribution to wealth inequality. It is evident that the top quintile control well over 80% of all shares and other equities held by households in Australia and they all own around 60% of all currency, bank deposits, superannuation and insurance reserves. It is evident from Figure 27 that the remaining 80% of Australian households have limited financial assets. While it comes as no surprise to find that those in the bottom quintile of the distribution have limited financial assets it is more surprising to see the relatively low share of financial assets held by “middle Australia”, which are those in the second, third and fourth quintiles of the distribution.

Figure 99: Financial assets – share of total, net worth quintiles 2017-18



Source: ABS Cat 5204.0.55.011 - Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2003-04 to 2017-18

461. Table 14 contains information that allows us to examine more closely wealth inequality trends in Australia compared to the USA and Canada since the mid-2000s. The figures in Table 14 were compiled by the OECD and indicate that between 2005 and 2016 people in the bottom quintile (the bottom 20%) of the distribution in Canada had a 4.4% annual average increase in their net wealth. This is a very substantial improvement for the poorest segment of society. Over roughly the same period (2006 to 2014) the OECD data show that the bottom quintile in Australia suffered a 2.5% annual average decline in their net wealth. The comparable group in the USA suffered a massive 9.9% annual average decline in their net wealth. The poorest section of the population in Canada had a substantial improvement in their economic welfare and living standards in the last decade while the same group in Australia went backwards, and those in the USA were reversing at top speed.

Table 14: Changes of net wealth at different points of distribution: Selected OECD countries, between 2006 and 2016 or latest, annual percentage change.

	Mean	Median	Bottom quintile	Middle three quinties	Top quintiles	Top 10%	Top 5%
Australia	0.9	0.2	-2.5	-0.1	1.1	1.1	0.8
Canada	3.2	3.5	4.4	3.4	3.1	2.9	2.6
US	0.7	-3.3	-9.9	-3.2	1.3	1.6	1.6

Source: OECD, "The Framework for policy action on inclusive growth", May 2018, Table 1.1 page 53a

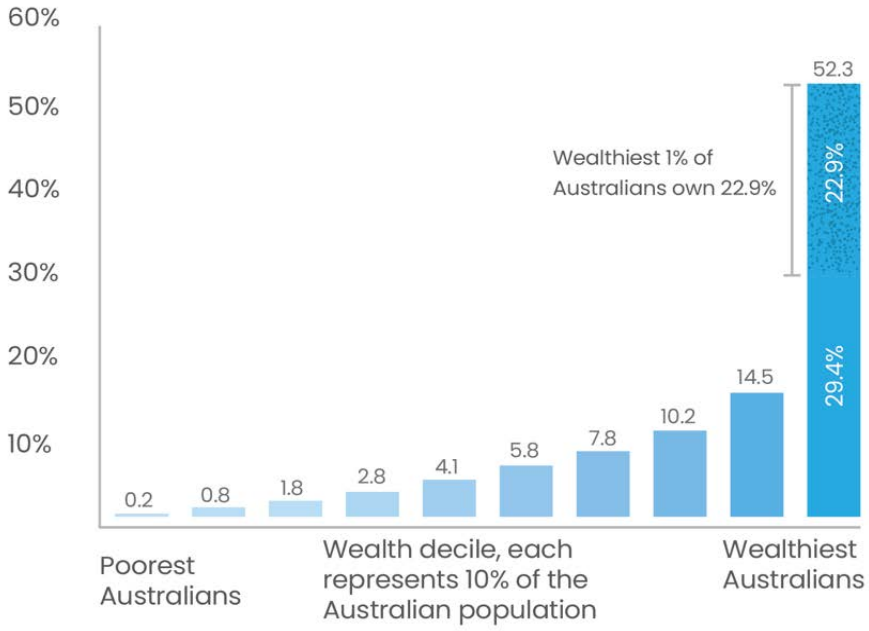
462. Table 14 also shows that in Australia the middle three quintiles (the middle 60%) of the distribution suffered a small annual decline in their net wealth while there was roughly a 1% annual increase in the net wealth of those in the top 20% or 10% of the distribution. In aggregate there was a significant increase in wealth inequality over this decade in Australia. Interestingly the opposite occurred in Canada. In Canada people at all points along the distribution had greater increases in their wealth than the comparable group in Australia but the increases were highest for the poorest segments of Canadian society and the rate of increase gradually decelerated as one moved up the wealth ladder. The OECD have suggested that the narrowing of the gap between rich and poor in Canada was in part the result of the strong performance by young people who improved their relative position whereas in Australia growing disparities between young and older people (partly related to ownership of real estate that was appreciating rapidly) led to the widening in inequality.[307]

463. The measurement of income and particularly wealth inequality is extremely difficult and a number of independent organisations have devoted considerable resources to developing accurate estimates.[308] The data derived from different sources is not completely consistent but the general picture that emerges is very similar. Attention has rightly focused on inequality between the very elite, such as the top 1% of the distribution and the remainder of the population. For example, Oxfam produced the information in Figure 100 using Credit Suisse data for 2017 to highlight the wealth distribution in Australia.

[307] OECD, "The Framework for policy action on inclusive growth", May 201, p 53.

[308] OECD, Box 1.1 "OECD and national initiatives for improving the measurement of the income distribution", The Framework for Policy Action on Inclusive Growth", May 2018.

Figure 100: Australian wealth distribution 2017, equivalised household quintile



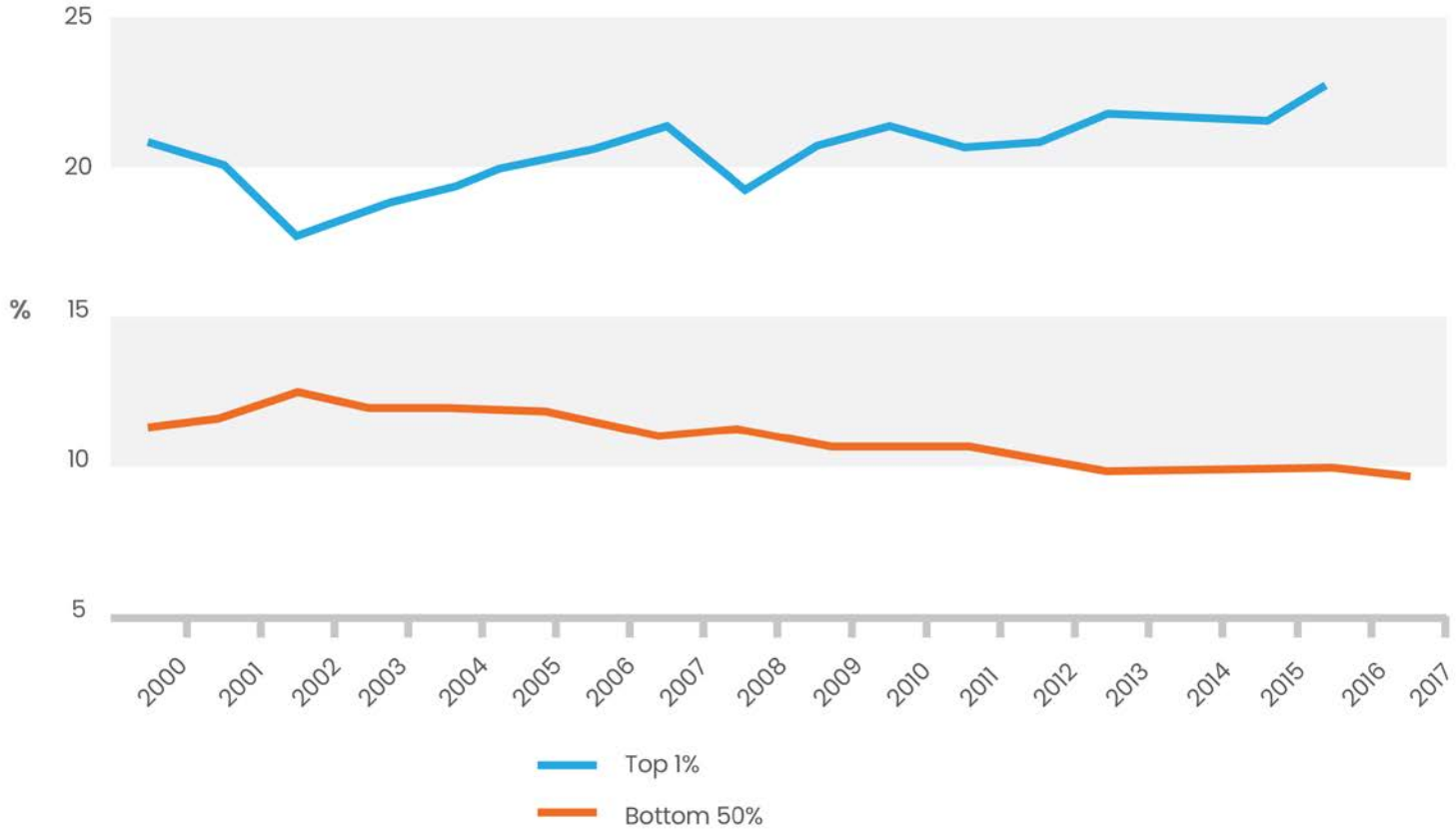
Source: Oxfam Australian, Inequality Factsheet, 2018, compiled using Credit Suisse data from their Global Wealth Report

464. Figure 100 suggests that over 52% of all wealth is controlled by those in the top 10% of the distribution and those in the top 1% of the distribution account for a massive 23% of all wealth in Australia[309]. According to this source, nearly a quarter of all wealth in the nation is in the hands of just 1% of our population. Oxfam[310] also showed that the wealth share for those in the bottom half of the distribution has been declining almost continuously over the past two decades, while the share of wealth held by the top 1% has grown steadily over the same period with some slight dips followed by a rapid recovery. As can be seen from Figure 29 the wealth gap between the top 1% and the bottom 50% of the distribution was greater in 2017 than at any time over this 20 year period.

[309] Oxfam Australian, Inequality Factsheet, 2018, compiled using Credit Suisse data from their Global Wealth Report.

[310] *Ibid.*

Figure 101: Wealth share held by the top 1% vs. bottom 50% over time



Source: Oxfam Australian, Inequality Factsheet, 2018, compiled using Credit Suisse data from their Global Wealth Report.

6.5 Economic growth and inequality

465. The IMF, the World Bank and OECD have all advocated reducing inequality in order to promote faster and sustainable economic growth. There is a consensus among these institutions that a stronger focus on redistribution will enhance growth, not diminish it. For example the IMF have stated that:

"While some inequality is inevitable in a market based economic system, excessive inequality can erode social cohesion, lead to political polarization, and ultimately lower economic growth"[311]

466. The OECD met at Ministerial Level at the end of May 2018. The "*Framework For Policy Action On Inclusive Growth"* states:

[311] IMF "Fiscal Monitor', October 2017.

"Contrary to those at the top, households at the bottom of the income distribution have experienced stagnant wages and low income growth…..OECD work on inequalities and growth show that the accumulation of disadvantages for certain income groups can have detrimental effects on the prosperity and well-being of all. Large degrees of inequality weigh on the potential for future economic and productivity growth."[312]

467. The OECD has undertaken some important quantitative analysis and demonstrated that increases in inequality have a significant negative impact on economic growth after a time lag. The OECD estimated that the rise in inequality over the 20 year period 1985-2005 in 19 countries knocked 4.7 percentage points off cumulative growth in these same countries between 1990 and 2010.[313]

468. It is not just the key international economic institutions that believe there is a positive relationship between reduced inequality and growth. Even some of the most famous and wealthy global business leaders have recently conceded that income inequality has reached levels that are undesirable and need to be reversed. For example, Jamie Diamond, the Chairman and CEO of JPMorgan Chase recently wrote that:

"People are disconnected and not benefiting from economic growth. Inequality has grown. Wages are not rising enough……..Business, government and community leaders have a responsibility to help those left behind."[314]

469. Joseph Stiglitz was in Australia late last year to receive the Sydney Peace Prize. Professor Stiglitz won the Nobel Prize for economics and is a former Chief Economist of the World Bank. He had a simple message for Australia: do not follow the American model. He has argued that:

[312] OECD, Meeting of the Council at Ministerial Level, 30-31 May 2018, "The Framework For Policy Action On Inclusive Growth", C/MIN (2018) 5, p7. (https://www.oecd.org/mcm/documents/C-MIN-2018-5-EN.pdf).

See also the Statement of the Chair of the OECD Ministerial Council 2018 which notes that the Ministerial Council "welcomed the OECD new Framework for Policy Action on Inclusive Growth and its application through relevant cross-disciplinary analysis and specific studies in interested countries". (https://www.oecd.org/mcm/documents/Statement-French-Chair-OECD-MCM-2018.pdf).

[313] OECD, "In it together: Why less inequality benefits all", 2015.

[314] Jamie Dimon, "Business must do more to help those who have been left behind", Financial Times, 5 November 2018.

'….far from being either necessary or good for economic growth, excessive inequality tends to lead to weaker economic performance"[315]

470. As the IMF concluded:

"…..if the income share of the top 20 percent (the rich) increases, then GDP growth actually declines over the medium term, suggesting that the benefits do not trickle down. In contrast, an increase in the income share of the bottom 20 percent (the poor) is associated with higher GDP growth. The poor and the middle class matter the most for growth via a number of interrelated economic, social, and political channels" [316]

471. Rising inequality will depress, not strengthen, economic growth. There are several channels through which this relationship works, some operating in the short-term and others that may take decades to be fully felt. First, in the short-term, poorer families need to spend all their income to survive and much of their expenditure goes towards buying locally produced services and goods, like rent, utilities and food. This boosts demand and creates income for other people in the community who in turn spend their incomes. By comparison those at the top end of the income spectrum use a much bigger proportion of their incomes to either buy expensive foreign made luxury goods or they invest in properties, shares and other assets.

472. Second, rising inequality has had a profound impact on the financial decisions of households. At the bottom of the income distribution low wage growth has been associated with a significant rise in debt-to-assets ratios. Rising mortgages and consumer loans which have not been sufficiently secured mean that the probability of default has increased and the risk of financial market instability is heightened. Meanwhile among wealthy households there was a time when savings were recycled through the financial system to provide capital for entrepreneurs wishing to build factories, open new ventures, create innovative technologies and generate jobs. This is far less evident in the economy today.

473. A much higher proportion of wealth now goes into unproductive financial transactions rather than the real economy. For example, in 1998 over 48% of business investment in the

[315] Stiglitz J "Standard Economics Is Wrong. Inequality and Unearned Income Kills the Economy: The rules of the game can be changed to reverse inequality" http://evonomics.com/joseph-stiglitz-inequality-unearned-income/

[316] IMF Discussion Note 'Causes and Consequences of Income Inequality: A Global Perspective' 2015.

USA went into new structures like factories and retail outlets plus industrial equipment. In 2018 the comparable figure was below 29%.[317] Similar trends are evident in other advanced economies like Australia. In recent year wealth was increasingly invested in property and shares that merely inflate housing and asset prices without generating new production or good jobs. Increasingly investments by the wealthy fund share-buy-back schemes that push up equity prices but do nothing to increase private infrastructure, build factories or expand the number of retail outlets. Five multinational companies: Apple, Alphabet, Cisco, Microsoft and Oracle devoted a massive 115 billion dollars to buying back their own stock in the last year[318]. While the business investment that still goes towards tangible assets is increasingly directed into labour saving intellectual property and technology. Thus rising wealth among the elite increasingly fails to expand the productive base of the economy and encourages "bubbles" in the markets for shares, property and other equities. This enhances the risk of a financial crisis.

474. These developments explain why rising inequality over the medium to longer term has been closely associated with greater economic instability and shorter growth spells. Increased inequality, and its associated focus on inefficient financial transactions, tend to create economic cycles that have a more intense "boom-bust" character. The end result of these gyrations has been lower growth over the medium to longer term in most OECD countries.

475. Third, there are other longer-term channels through which inequality weakens growth. For example, low wages and rising poverty reduce the scope parents have to invest in the education and development of their children. Over time this has a negative impact on our human capital resources and productivity performance, which in turn means slower economic growth. Rising inequality also undermines trust in governments and other institutions and has led to the backlash against globalization and open international trade.

476. There are multiple sound economic reasons why we should be adopting policies to reduce inequality in addition to the very obvious social and political reasons for fostering cohesion rather than division.

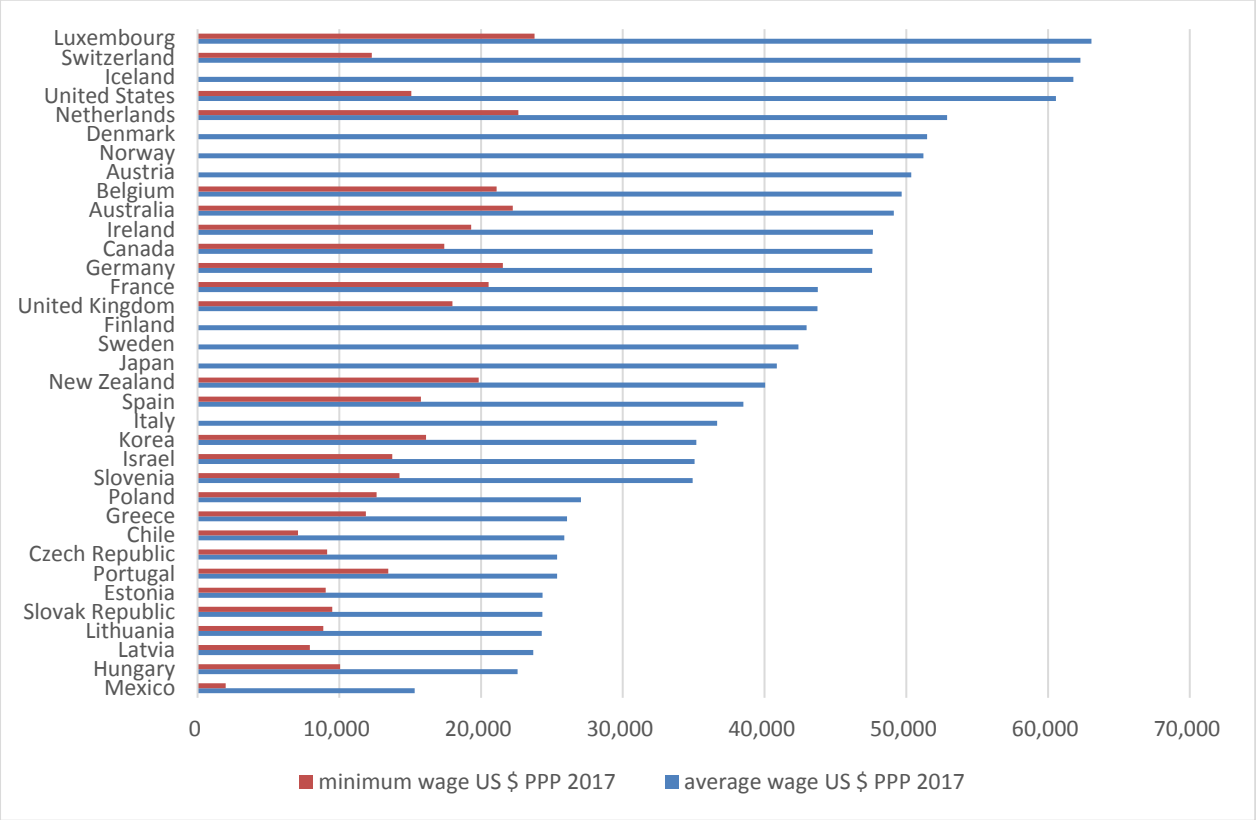
[317] Rana Foroohar "Capital expenditure boom falls short", Financial times, 26 November 2018.

[318] Ibid.

6.6 Australia's minimum wage in international context

477. A comparison of real minimum wages across the OECD in 2017 shows that while Australia has the third highest minimum wage at $22,200 in 2017 in constant PPP US dollars, there are two countries above it, another three above USPPP$20,000, and two above $19,000 including New Zealand.

Figure 102 Average and minimum wages, OECD countries, constant US PPP dollars, 2017



Sources: https://stats.oecd.org/Index.aspx?DataSetCode=RMW, https://stats.oecd.org/Index.aspx?DataSetCode=AV_AN_WAGE accessed 6 March 2019

478. The high income countries range up from the US minimum at $15,080, with the rest of the OECD countries below that, see Figure 102.[319] But this needs to be viewed in the context of the general level of development of those economies. The standard of living is clearly related to the minimum wage, and raising it can improve it. Historically Australia was a leader on the minimum wage; there is no reason not to attain that standing again.

479. We would add that the increase that we seek to minimum wages in this Review is by no means unusual in the international context. A nominal increase of 6% would place Australia 20th out the thirty seven countries below.

[319] https://stats.oecd.org/Index.aspx?DataSetCode=RMW

Table 3: International comparison of Nominal and real changes in statutory minimum wages, 2019 – year on year change, as at 1 January 2019, in per cent

	Nominal	Real*	Most recent adjustment
Lithuania	38.4	34.9	01.01.2019
Turkey	26.0	8.3	01.01.2019
Spain	22.3	20.2	01.01.2019
Argentina	18.9	-11.4	01.01.2019
Russia	18.9	15.5	01.01.2019
Canada	12.6	10.1	01.01.2019
Ukraine	12.1	1.0	01.01.2019
Korea	10.9	8.0	01.01.2019
Bulgaria	9.8	7.0	01.01.2019
Moldova	9.7	5.9	01.05.2018
Serbia	9.5	7.2	01.01.2019
Romania	9.5	5.2	01.01.2019
Croatia	9.0	7.4	01.01.2019
Czech Republic	9.0	6.9	01.01.2019
Albania	8.3	5.9	01.01.2019
Slovakia	8.3	5.6	01.01.2019
Estonia	8.1	4.5	01.01.2019
Hungary	7.9	4.9	01.01.2019
Poland	7.1	5.9	01.01.2019
Slovenia	5.2	3.2	01.01.2019
New Zealand	4.8	1.9	01.04.2018
Brazil	4.6	0.9	01.01.2019
United Kingdom	4.4	1.9	01.04.2018
Germany	4.0	2.1	01.01.2019
Luxembourg	3.6	1.6	01.01.2019
Australia	3.5	1.5	01.07.2018
Portugal	3.4	2.2	01.01.2019
Japan	3.1	2.1	01.01.2019
Ireland	2.6	1.9	01.01.2019
Belgium	2.0	-0.3	01.09.2018
Malta	1.9	0.2	01.01.2019
France	1.5	-0.6	01.01.2019
Macedonia	1.5	-0.3	01.07.2018
Netherlands	1.4	-0.2	01.01.2019
Latvia	0.0	-2.5	01.01.2018
Greece	0.0	-0.8	01.03.2012
USA	0.0	-2.4	24.07.2009

Note:
* adjusted by changes in national consumer prices
(in some cases provisional figures)

Source 'WSI minimum wage report 2019', Institute of Economic and Social Research, No 46e, March 2019

7. ENCOURAGING COLLECTIVE BARGAINING

480. The Panel has identified two sources of its obligation to consider encouraging collective bargaining in the course of an Annual Wage Review. The first is the obligation in section 134 of the Act to "…ensure that modern awards, together with the National Employment standards, provide a fair and relevant safety net of terms and conditions, taking into account… the need to encourage collective bargaining". The second is a reference in the object of the Act to "…provide a balanced framework for cooperative and productive workplace relations that promotes national economic prosperity and social inclusion for all Australians by…achieving productivity and fairness through an emphasis on enterprise level collective bargaining…".

481. Through consideration of various research papers (including research initiated by the Commission), statistical series and submissions made to it, the Panel been able to observe movements in the number of enterprise agreements approved, the number of employees covered by them and identify the variables that may influence this. However, a precise and proven hypothesis on the relationship between wages the Panel adjusts and the incidence and prevalence of enterprise agreements remains elusive. This is, we suggest (and as the Panel has intimated[320]) is likely because the "complexity of factors which may contribute to decision making about whether or not to bargain"[321] are not homogeneous between (or even within) industries. It follows that, in its most recent decision, the Panel looked to aggregates and effectively discharged its obligation to take potential effects on bargaining into account by concluding that it could not be satisfied that the increase it was disposed to determine would either discourage or encourage bargaining.

482. There is little we can do to advance the matter in the present submission. However, we do wish to highlight several matters consistent with the hypothesis that factors other than the increases awarded by the Panel have impacted, and continue to impact bargaining, methods of setting pay and the measurement of both.

320 [2018] FWCFB 3500 at [405]-[410]
321 [2018] FWCFB 3500 at [409].

7.1 Measurement and the impacts of regulatory change

483. The Federal Industrial Relations system has seen significant reform in recent decades. This has included the following important developments:

a. The capacity to make statutory individual agreements between 1996 and 2009, and their existence thereafter in a transitional state;

b. From 2003, as a result of the decision in *AIG v. AMWU*[322], incentives were created to ensure enterprise agreements were comprehensive and operated consecutively rather than concurrently:

c. From 2006, statutory individual agreements applied to the exclusion of collective agreements;

d. Rates of pay were removed from federal awards and placed into "Australian Pay and Classification Scales" from 2006 until 2010. Those pay scales did not apply to employers outside of those specified in the Award from which they were derived at the point in time they were derived;

e. 2006 marked the end of the period where awards and newly made agreements could apply simultaneously to the same employee, however existing "pre-reform" a agreements continued to operate concurrently with awards (and, later, modern awards)[323].

f. From 2006, only one new federal agreement could apply to a given employee at a time[324];

g. A change of Government in 2007, which promised an overhaul of industrial relations laws;

h. The "signalling effect" of the *Forward with Fairness* amendments in 2008, including the foreshadowing of a new award system;

i. From 2008, it was possible to extend the expiry date of "pre reform certified agreements"[325] rather than make "workplace agreements" (thus avoiding the "prohibited content" restrictions that applied to the latter[326]);

j. The reduced number of terms permitted to be included in awards from 2006-2010 and the very limited capacity expand to the coverage of awards (and inability to make new awards) during that period;

322 [2003] FCAFC 183

323 Item 5 of Schedule 7 of the Workplace Relations Act 1996, Item 28 of Schedule 3 of the Fair Work (Transitional Provisions and Consequential Amendments) Act 2009.

324 Workplace Relations Act 1996, s. 348

325 Item 1 of Schedule 5 of the Workplace Relations Amendment (Transition to Forward with Fairness) Act 2008.

326 Workplace Relations Act 1996, s. 356.

k. The introduction of new agreement content and bargaining rules in 2006 and again 2009;

l. The commencement of modern awards and the National Employment Standards in 2010;

m. The commencement of the equal remuneration order in July of 2012; and

n. The cessation of many enterprise awards on 31 December 2013[327].

484. The multiple impacts of these changes on the behaviour and incentives of employers, employees and unions is difficult to ascertain. To complicate matters, the veritable standard of comparing the relative proportion of the workforce paid according to collective agreements or awards, the ABS Survey of Employee Earnings and Hours has undergone subtle revisions in the manner in which employees are allocated to the methods of setting pay which it measures. Table 15 below highlights these changes.

Table 15: Definitions of Method of Setting Pay over time

EEH release year	"Award Only" classification	"Collective Agreement" Classification	"Individual Arrangement" Classification
2000[328]	Covered by an Award and not paid more than the award rate of pay in the reference period. Awards are legally enforceable determinations made by an industrial tribunal.	*All or any part* of wages or salaries paid during the reference period are set by collective agreements *or enterprise awards*. Includes employees who had their pay set both by collective agreements and awards.	All *or any* of the wages or salaries paid in the reference period are set by an individual arrangement. Includes employees who had their pay set by individual arrangements in conjunction with awards and/or collective agreements.
2002[329]	Employees who had *the main part* of their wages and salaries set by awards and who were not paid more than the award rate of pay.	Employees who had *the main part* of their wages or salaries set by collective agreements *or enterprise awards*.	Employees who had *the main part* of their wages or salaries set by individual agreement. Includes employees receiving over award payments by individual agreement.
2004[330]	Unchanged from 2002	Unchanged from 2002	Unchanged from 2002

327 Item 9 of Schedule 6 of the Fair Work (Transitional provisions and consequential amendments) Act 2009.

328 http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/89ECABCEB337529FCA256A1C0002A76E/$File/63060_may%202000.pdf at p62 and 69.

329 http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/C3B4F3F10D170C61CA256CF4007FBC16/$File/63060_may%202002.pdf at p. 6, 61, 67.

330 http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/8E4BD3FCFF3FB769CA256FCC0073A69D/$File/63060_may%202004.pdf at p. 44, 50

EEH release year	"Award Only" classification	"Collective Agreement" Classification	"Individual Arrangement" Classification
2006[331]	Unchanged from 2002 & 2004 save that "Estimates of employees covered by the various pay setting methods, their associated pay outcomes, and the jurisdiction with which their individual or collective agreements have been certified, approved or registered have been compiled based on the workplace relations environment prior to the introduction of the *Workplace Relations Amendment (Work Choices) Act 2005*, which came into effect in March 2006"	Unchanged from 2002 & 2004 save that "Estimates of employees covered by the various pay setting methods, their associated pay outcomes, and the jurisdiction with which their individual or collective agreements have been certified, approved or registered have been compiled based on the workplace relations environment prior to the introduction of the *Workplace Relations Amendment (Work Choices) Act 2005*, which came into effect in March 2006"	Unchanged from 2002 & 2004 save that "Estimates of employees covered by the various pay setting methods, their associated pay outcomes, and the jurisdiction with which their individual or collective agreements have been certified, approved or registered have been compiled based on the workplace relations environment prior to the introduction of the *Workplace Relations Amendment (Work Choices) Act 2005*, which came into effect in March 2006"
2008[332]	Category re-defined as "Award or pay scale only". Employees are classified to the Award or pay scale only category if they are paid at the rate of pay specified in the award or the pay scale, and are not paid more than that rate of pay. "Estimates of employees covered by the various pay setting methods, and their associated pay outcomes, have been compiled based on the workplace relations environment following the introduction of the *Workplace Relations Amendment (Work Choices) Act 2005*."	Unchanged from 2006, save that "Estimates of employees covered by the various pay setting methods, and their associated pay outcomes, have been compiled based on the workplace relations environment following the introduction of the *Workplace Relations Amendment (Work Choices) Act 2005*."	Unchanged from 2006, save that "Estimates of employees covered by the various pay setting methods, and their associated pay outcomes, have been compiled based on the workplace relations environment following the introduction of the *Workplace Relations Amendment (Work Choices) Act 2005*."
2010[333]	Category reverted to "Award only". Employees are classified to the Award only category if they are paid at the rate of pay specified in the award, and are not paid more than that rate of pay. "Estimates of employees covered by the various pay setting methods, and their associated pay outcomes, have been compiled based on the workplace relations environment following the introduction of the *Fair Work Act 2009* and the subsequent introduction of the *Fair Work (State Referral and Consequential and Other Amendments) Act*, which allowed for the extension of the *Fair Work Act* to states that refer workplace relations related matters to the Commonwealth."	Unchanged from 2008, save that "Estimates of employees covered by the various pay setting methods, and their associated pay outcomes, have been compiled based on the workplace relations environment following the introduction of the *Fair Work Act 2009* and the subsequent introduction of the *Fair Work (State Referral and Consequential and Other Amendments) Act*, which allowed for the extension of the *Fair Work Act* to states that refer workplace relations related matters to the Commonwealth."	Unchanged from 2008, save that "Estimates of employees covered by the various pay setting methods, and their associated pay outcomes, have been compiled based on the workplace relations environment following the introduction of the *Fair Work Act 2009* and the subsequent introduction of the *Fair Work (State Referral and Consequential and Other Amendments) Act*, which allowed for the extension of the *Fair Work Act* to states that refer workplace relations related matters to the Commonwealth."
2012[334]	Unchanged from 2010.	Unchanged from 2010.	Unchanged from 2010.
2014[335]	Unchanged from 2012.	Unchanged from2012.	Unchanged from 2012.

331 http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/284EA51F2E7BD8F9CA25728F000D10AC/$File/63060_May%202006.pdf at p 2, 51-52.
332 http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/1E07D323FDE698C2CA2575D700188C43/$File/63060_aug%202008.pdf p.51-52
333 http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/B3494FC716887B12CA257823001546DC/$File/63060_may%202010.pdf at p. 34
334 http://www.abs.gov.au/AUSSTATS/abs@.nsf/Previousproducts/6306.0Glossary1May%202012?opendocument&tabname=Notes&prodno=6306.0&issue=May%202012&num=&view=

335 http://www.abs.gov.au/AUSSTATS/abs@.nsf/Previousproducts/6306.0Glossary1May%202014?opendocument&tabname=Notes&prodno=6306.0&issue=May%202014&num=&view=

EEH release year	"Award Only" classification	"Collective Agreement" Classification	"Individual Arrangement" Classification
2016[336]	Formally unchanged from 2014. However, the practical application of the criteria did change, with the result that a share of workers previously categorised as "collective agreement" moved to "award only".[337]	Formally unchanged from 2014. However, the practical application of the criteria did change, with the result that a share of workers previously categorised as "collective agreement" moved to "award only".[338]	Unchanged from 2014
2018	Formally unchanged from 2016, however the practical application of the criteria did change, with the result that a share of the workers previously categorised as "award only" moved to "collective agreement".[339]	Formally unchanged from 2016, however the practical application of the criteria did change, with the result that a share of the workers previously categorised as "award only" moved to "collective agreement".[340]	Unchanged from 2016.

485. Federal Award coverage is no longer "respondency based" and is broader under the post 2010 regulatory framework that had previously been the case, even allowing for the operation of some federal and state awards as common rules (in some States) under earlier frameworks. That Modern Awards, inclusive of the Miscellaneous Award, are intended to and do *cover* (as opposed to apply to) the majority of non-managerial employees at least is evident from clauses 1, 4 ,4A, 4B and 25 of the Award Modernisation Request[341], sections 163, 164, 168C, 168D and 168K of the FW Act, clauses 4 and 13 of the *Miscellaneous Award* and the estimate by the Department in the last review that only 1.9% of employees are paid at the adult NMW rate (an estimate which was evidently accepted by the Panel[342]). Accordingly, from 2010 there likely is a category of the workforce who became conditionally *entitled* to a skills based pay and classification structure for the first time, which entailed a wage higher than the minimum wage. The size of this broadened award coverage is likely to have increased over time, due to the differential effect of business entry and exit under the FW Act as compared to its predecessor respondency based award system.

486. The broader base of Award coverage, in and of itself, would not be expected to impact on the share of employees classified as "Award only", as payment according to an entitlement to a

336 http://www.abs.gov.au/AUSSTATS/abs@.nsf/Previousproducts/6306.0Glossary2May%202016?opendocument&tabname=Notes&prodno=6306.0&issue=May%202016&num=&view=

337 This predominantly impacted NSW and QLD, with a small effect also in Victoria. The industries most effected were Education and training, Public administration and safety, Transport, postal and warehousing and Health care and social assistance industries. See further, "Appendix to Guide to Understanding Employee Earnings and Hours Statistics", ABS 2018.

338 Ibid.

339 See note 14 above.

340 Ibid.

341 http://www.airc.gov.au/awardmod/download/request_cons_121109.pdf

342 [2018] FWCFB 3500 at [265]. Note that estimate would also include those employees who are paid at the NMW rate because that rate is replicated in the relevant modern award.

minimum wage order from a federal or state tribunal or a pay scale (in lieu of coverage by an actual award) would also be classified as "Award only" in the *Survey of Employee Earnings and Hours*. However, this group is of significance in *interpreting* the share of the workforce classified as paid by "individual arrangements".

487. As was seen in Figure 1 in Chapter 3, the share of employees on individual arrangements has been relatively stable from 2010, as has been the definition of the category according to Table 15 above. However, an employee paid more than the applicable minimum means something quite different if the applicable minimum itself has transitioned from a bare minimum wage (be it the Federal Minimum Wage under *WorkChoices* or a Transitional Minimum Wage Instrument of the type referred to in the Transitional Provisions of Modern Awards and Schedule 9 of the *Fair Work (Transitional Provisions and Consequential Amendments) Act* 2009) to a minimum wage fixed by reference to skills and work value, such as that contained in a modern award (including the *Miscellaneous Award)*. Since the commencement of Modern Awards in 2010, employees in that circumstance have required successive increases in pay beyond that bare minimum – first as a result of the "phasing" transitional provisions of modern awards until July 2014, then most immediately as a result of decisions of the Panel. Yet, notwithstanding this requirement to increase pay, the proportion of the workforce on "individual arrangements" not only remained more stable than other methods of pay but in fact slightly *increased* after the full phase in of modern award rates. Given that "individual arrangements" must necessarily pay more than the award that covers the relevant workers, maintaining a premium above the ever increasing minimum does not appear to have been a burden for employers at the macro level.

488. This observation is significant because, in previous reviews, employers have submitted that increases in award rates *reduce* the incentive of employers to bargain. Effectively, the argument goes that the higher award wage, the lesser incentive to bargain for rates above that minimum, given the requirements for employees to be "better off overall" under an agreement. However, the relative stability in recent years of the "individual arrangements" category suggests that employers are content to pay above the award (even after one of the highest minimum wage increases seen in recent years). The implication is that it is other factors associated with bargaining that are leading to a decline in bargaining. And, given that the only impact the Panel's decisions have is on minimum rates of pay, those other factors associated with bargaining are factors beyond the Panel's control.

489. In the last review, the Panel used the example of the Retail Industry to illustrate the complexities that can impact on collective agreement making and the measurement of it[343]. To that analysis, we would add the observation that the automatic termination of enterprise awards at the end of 2013 also likely had *some* impact on the relative measurement of award versus agreement coverage in that and other sectors. Contrary to what one might have expected, this would be reflected by some drop in the share of employers covered by "collective agreements" in the May 2014 *Survey of employee earnings and hours,* because as indicated in Table 15 above, enterprise awards are classified as "collective agreements" for the purposes of that survey.

490. Another matter that is likely to have impacted on the measurement of methods of setting pay in that survey (and is likely to continue to impact it) is the commencement of the Equal Remuneration Order[344]. The Order provides for a phasing in of increased rates of pay for employees covered by the *Social, Community, Home Care and Disability Services Industry Modern Award* calculated by reference to (but in excess of) the modern award rates on 1 December of every year from 2012 until the final increment is reached on 1 December 2020. The Order applies to the exclusion of less beneficial terms in a modern award or enterprise agreement[345].

491. As explained in Table 15 above, because the Equal Remuneration Order is as an order of an industrial tribunal that fixes wages, employees paid pursuant to it are classified as "Award only" in the *Survey of Employee Earnings and Hours*. This is so notwithstanding that an Equal Remuneration Order is a stand-alone instrument of a different character, the making of which is not strictly determined by the minimum wages objective or the modern awards objective[346]. Although the Full Bench which issued the Equal Remuneration Order expressed some reservations about the prospect of the order raising wages by comparison to market rates rather than minimum wages, it ultimately made an order which:

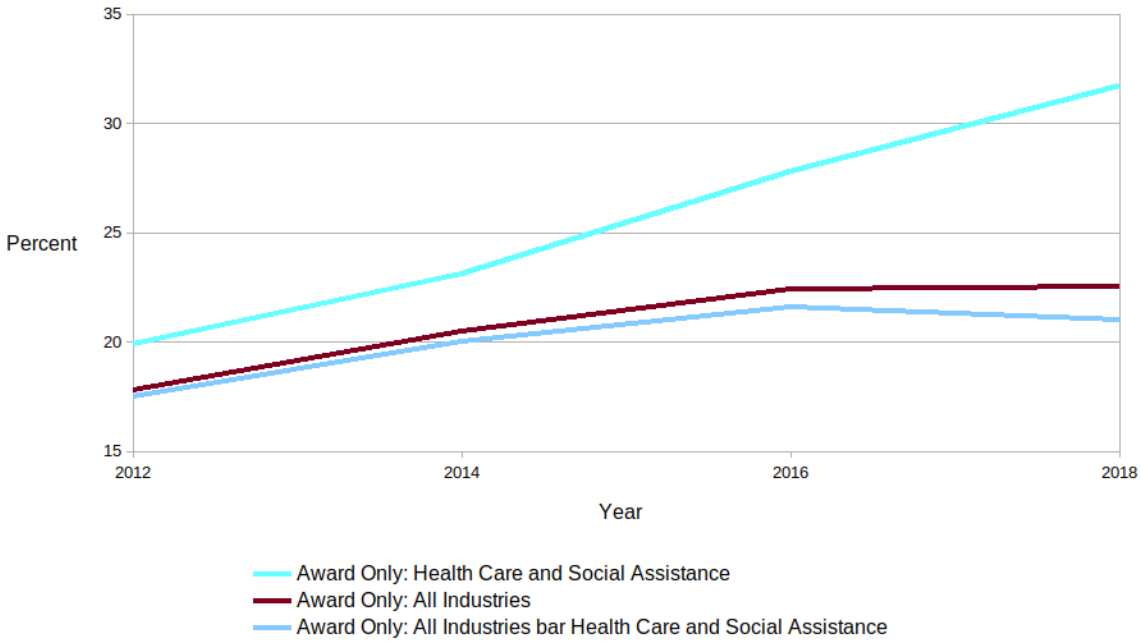
a) was largely based on a comparison between the rates in the modern award on the hand and a *combination* of safety net rates and paid/market rates in the comparator sector; and
b) *additionally* built in a component "to recognise impediments to bargaining in the industry". [347]

343 At [386]-[394]
344 PR525485, 22/6/2012
345 FW Act s. 303, 306
346 [2011] FWAFB 2700 at [229].
347 [2012] FWAFB 100 at [58]-[73] and Appendix A, [2012] FWAFB 5184, PR525485

In light of that, even if the Equal Remuneration Order could be characterised as a minimum rates instrument of some species, it clearly is not a safety net instrument of the same character as a modern award.

492. Figure 1 below is an effort to quantify the influence of the Equal Remuneration Order on the measurement of the "Award only" method of setting pay. It can be seen that the Award Only category in the *Health Care and Social Assistance* category has grown very strongly since the order took effect, some months after the 2012 EEH Survey data was taken. It further demonstrates that, as at 2018, the impact of this rise has shifted the "all industries" level of the measured "award only" method of setting pay by approximately 1.54%, which represents a little over 152,000 employees. Importantly, it suggests that were it not for the measurement of method of setting pay in the *Health Care and Social Assistance* Industry, the measured rate of "award only pay" would have decreased slightly between 2016 and 2018.

Figure 103: Influence of the Equal Remuneration Order on the "Award only" category

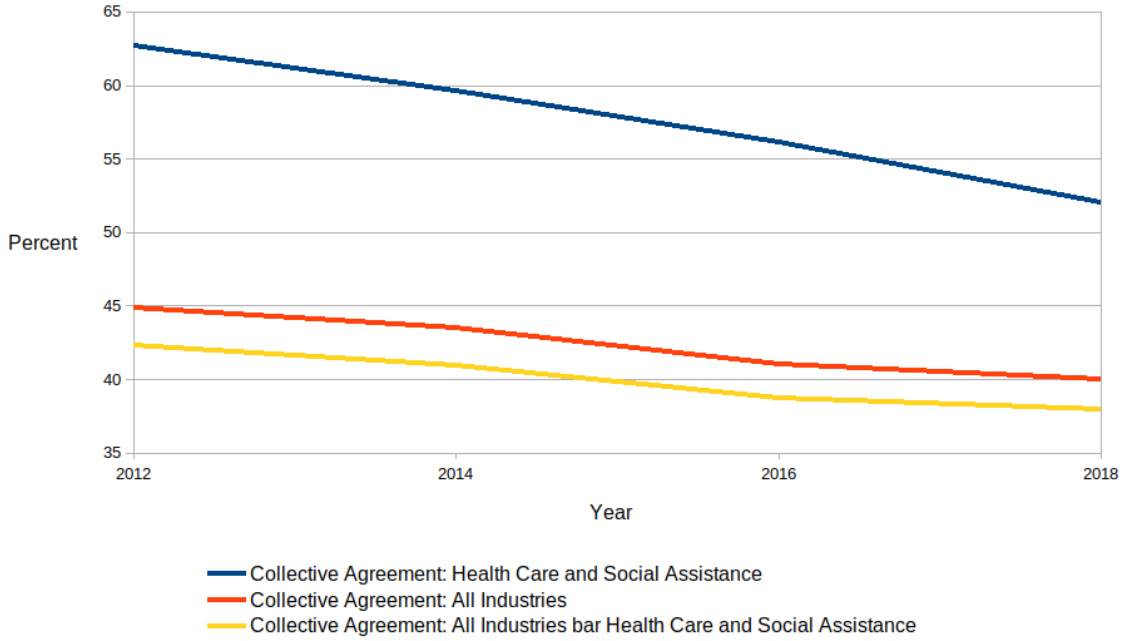


Source: ABS 6306 and ACTU calculations. Revised 2016 estimates, as published in Appendix 1 of the ABS 2018 "Guide to understanding employee earnings and hours statistics" are used.

493. It might be intuitive to assume that the observed decline in coverage of collective agreements across all industries is similarly attributable to the shifts seen in the *Health Care and Social Assistance* industry. However, Figure 2 below suggests this is not the case: the angle of movement

of collective agreement coverage in all industries is not appreciably different to that observed once the declines in *Health Care and Social Assistance* are controlled for.

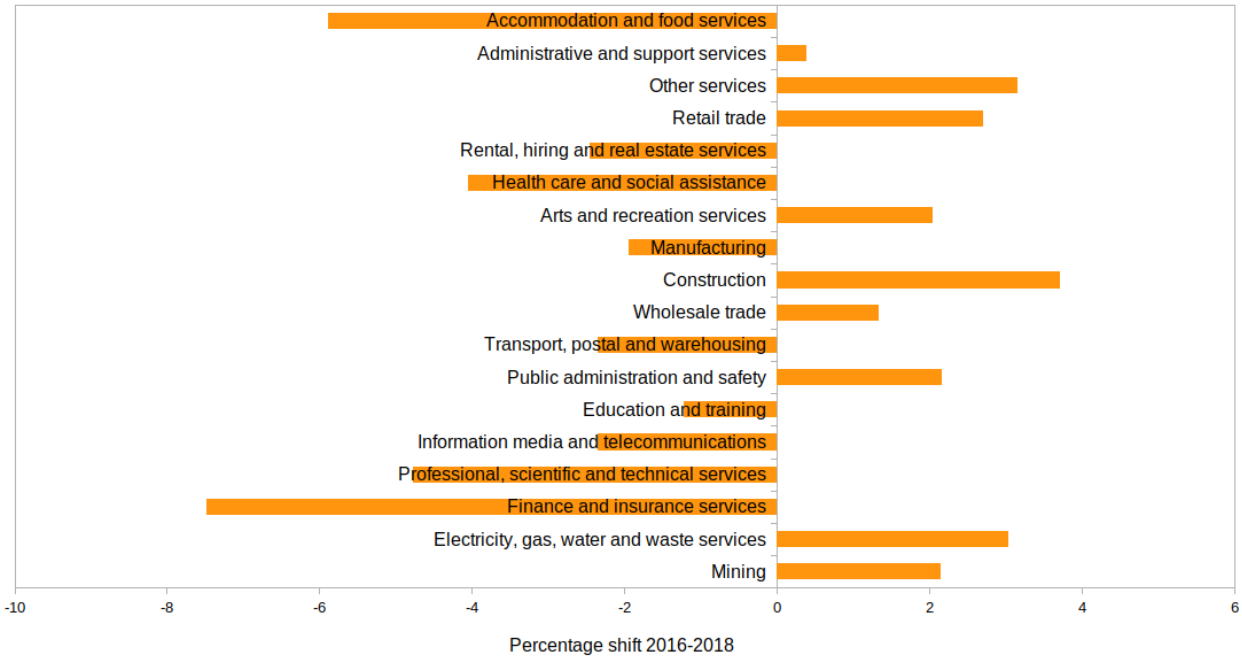
Figure 104: Influence of the Equal Remuneration Order on the "Collective Agreement" category



Source: ABS 6306 and ACTU calculations. Revised 2016 estimates, as published in Appendix 1 of the ABS 2018 "Guide to understanding employee earnings and hours statistics" are used

494. The interplay of multiple sectors on aggregate collective agreement coverage is far more complex. In the result, once the ABS' revised 2016 estimates are compared to the 2018 data, there has only been a 1% drop in the overall coverage of collective agreements. In aggregate, there were just as many industries that saw an increase in collective agreement coverage (even if it was a small one) as those that experienced a decline. Figure 3 below ranks industries in terms of their overall incidence of award-reliant workers 2012-2016 (more award-reliant industries are at the top), and indicates whether they have seen an increase or decrease in collective agreement coverage between the 2016 and 2018 measurement periods. There does not appear to be a pattern to the decline in collective agreement coverage between those two periods related to award dependency (which for the purpose of the exercise, is relevant as a proxy measure of the extent of exposure to the Panel's decisions). It is to be noted that two increases were awarded by the Panel in that measurement period, both of which exceeded both WPI and AWOTE at the relevant time. We suspect that the closure of the automotive manufacturing sector which took place between the measurement periods has had an effect on these numbers.

Figure 105: Change in collective agreement coverage per industry 2016-2018



Source: ABS 6306 and ACTU calculations. Revised 2016 estimates, as published in Appendix 1 of the ABS 2018 "Guide to understanding employee earnings and hours statistics" are used.

7.2 Trends in Enterprise Bargaining

495. The decline in the number of new agreements being made and the number of employees covered by them is discernible from the *Trends in Enterprise Bargaining Reports* produced by the Department of Jobs and Small Business and its predecessors, which are based on the Commonwealth's *Workplace Agreements Database.* It is a better measure of the velocity and timing of (successful) bargaining than the ABS *Survey of Employee Earnings and Hours.*

496. A large measure of the decline in bargaining has been attributed to matters outside of the immediate control of the Panel. As Professor Isaac put it recently, "The bargaining power of organised labour has been weakened in a large section of the labour market. This has resulted, in good part, from changes in industrial relations laws that have progressively contributed to the imbalance of power".[348]

348 Isaac, J., "Why Are Australian Wages Lagging and What Can be Done About It?", Australian Economic Review, 51(2), pp 175-90.

497. A recent report by Pennington postulated that the decline in private sector enterprise bargaining was the product of multiple factors, including:

> "- Approval times for EAs submitted to the FWC have become much longer. In large part this reflects higher levels of scrutiny required to calculate offsets and obtain employer undertakings for EAs which 'dance at the margins' of Award minimums.
>
> - Non-union EAs made during the WorkChoices era delivered below-Award pay and conditions, and many remained in operation under the FW Act – 'polluting' the inventory of EAs. While the FW Act reinstated the 'no disadvantage' principle, the Coles BOOT case was the first occasion that an EA was overturned on grounds that the BOOT must apply to all individual employees. Many employers are now moving to terminate old below-Award EAs.
>
> - Unions are crucial institutions in any collective bargaining system, but deliberate and sustained attacks on the rights and legitimacy of unions through restrictions on workplace entry and organising, huge administrative burdens, intrusive measures to scrutinise and police union activity, and prohibitions of traditional membership preferences have cumulatively eroded unions' capacity to undertake effective collective bargaining.
>
> - Declining union membership has been exacerbated by full legal protection for free-riding, which allows all employees to benefit from the benefits attained through collective bargaining by unions – with no requirement to contribute to the costs of representation, bargaining, and enforcement of EAs"[349]

498. The decline in enterprise bargaining is charted in Pennington's report, using data obtained from the *Workplace Agreements Database* and the *Trends in Federal Enterprise Bargaining* reports. These charts, which track the number of "current agreements" and the numbers of employees covered by them are reproduced below as Figure 4 and Figure 5 respectively. The Panel will note that the determination of whether an agreement is "current" is based on whether it has been terminated, and if not, if it is still within its nominal expiry date.[350]

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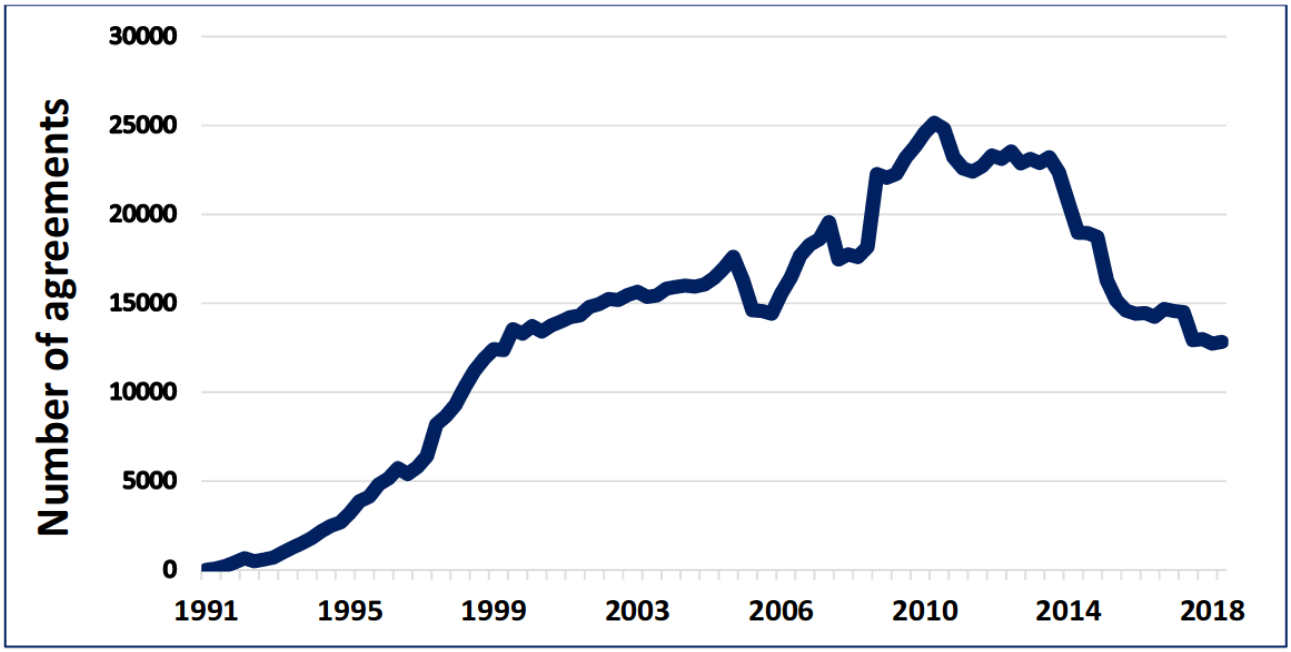
349 Pennington, A., "On the Brink: The Erosion of Enterprise Agreement Coverage in Australia's Private Sector", Australia Institute Centre for Future Work, December 2019, at p7-8.

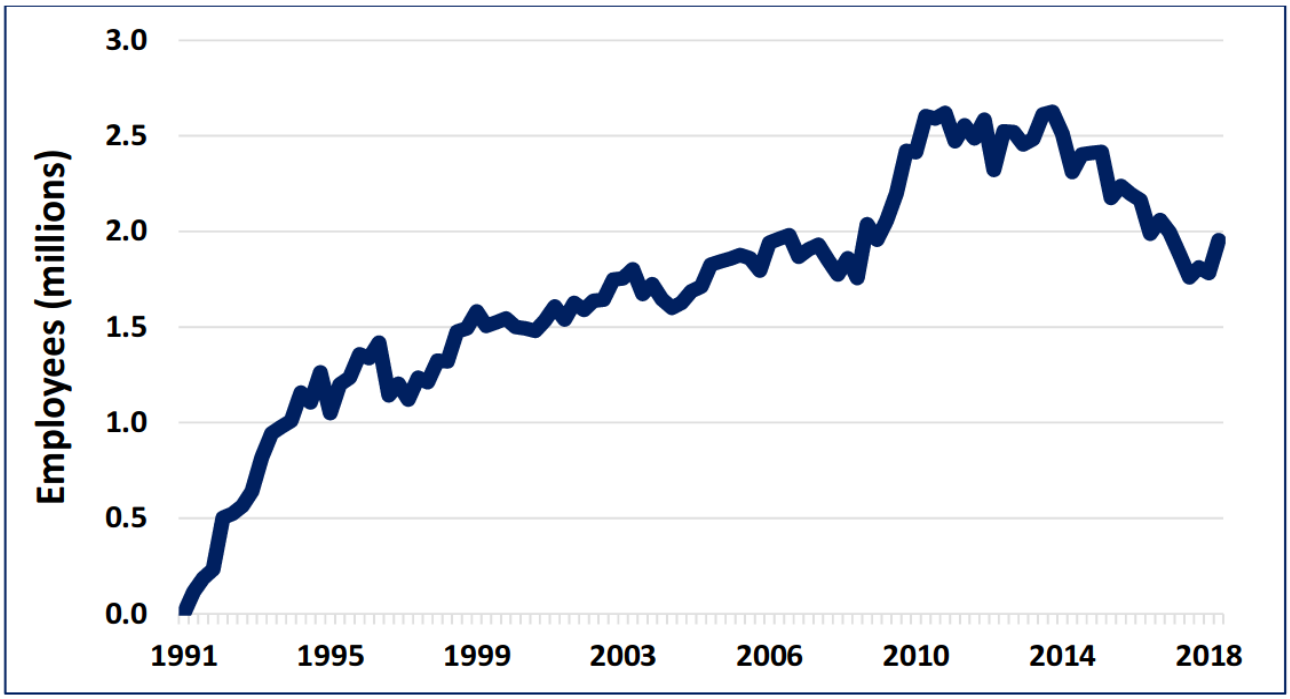
350 Trends in Federal Enterprise Bargaining Report, September 2018, p5.

Figure 106: Number of current agreements over time



Source: Pennington (Note 30)

Figure 107: Number of employees covered by current agreements over time



Source: Pennington (Note 30)

499. Pennington's charts demonstrate a dramatic increase in the number of current agreements and employees covered between approximately 2008 and 2014 when, as observed above, regulatory arrangements were in flux. Of these changed arrangements, Pennington makes the following observation:

> The marked decline in the number of EAs has naturally resulted in a decline in the number of employees covered by EAs... . As more agreements were made throughout the 1990s, employee coverage under EAs rose consistently to 2009; coverage then spiked with the introduction of the FW Act in 2009, when around 800,000 more employees entered EA coverage. Total employee coverage plateaued at around 2.6 million from around 2010 to early 2014, and then began to steeply decline. Total employee EA coverage is now lower than it was when the FW Act was introduced, at around 2 million covered workers.
>
> The rapid increase in coverage during the early years of the FW Act took place alongside the transferral of the majority of industrial relations powers by the States to the Commonwealth in 2009 (with the exception of Western Australia), and the creation of a single national industrial relations system. At this point, many State-based EAs were recorded in the WAD for the first time. However, it is not only a change in definition of what constitutes a 'federal' EA that explains the increasing number of employees covered by EAs at that time: new statutory mechanisms introduced in the FW Act also clearly improved unions' ability to access bargaining, convince resistant employers to participate in bargaining, and hence increase EA coverage. However, any momentum built in those early years was short lived-; total employee EA coverage plateaued by 2010, and then declined substantially beginning in 2014."[351]

500. To those observations, and those of the Panel referred to above relating to bargaining behaviour in the 2008-2014 period, we would add one comment around potential measurement error. This relates to a reform we referred to above, effective from 28 March 2008, which permitted agreements made under section 170LJ or 170LK of the former *Workplace Relations Act* to be varied to extend their nominal expiry dates (whether the agreements had already expired or not) for up to three years from the date on which the extending order was made[352]. If an agreement had not reached its nominal expiry date at the time such an order was made, it could operate for an outer limit of up to 6 years, rather than the outer limit of 3 years which applied at the time it was certified. If an agreement had already expired when such an order was made, the outer limit is not predictable because the starting point is unknown. The discussion that follows has implications for properly understanding the timing and extent of the apparent surge in bargaining

351 *Ibid.* at p19-20.

352 See s. and Item 1 of Schedule 5 to the Workplace Relations (Transition to Forward with Fairness) Act 2008.

observed from 2008-2010 and, correspondingly, the timing and extent of the decline in enterprise bargaining seen from 2014 onward.

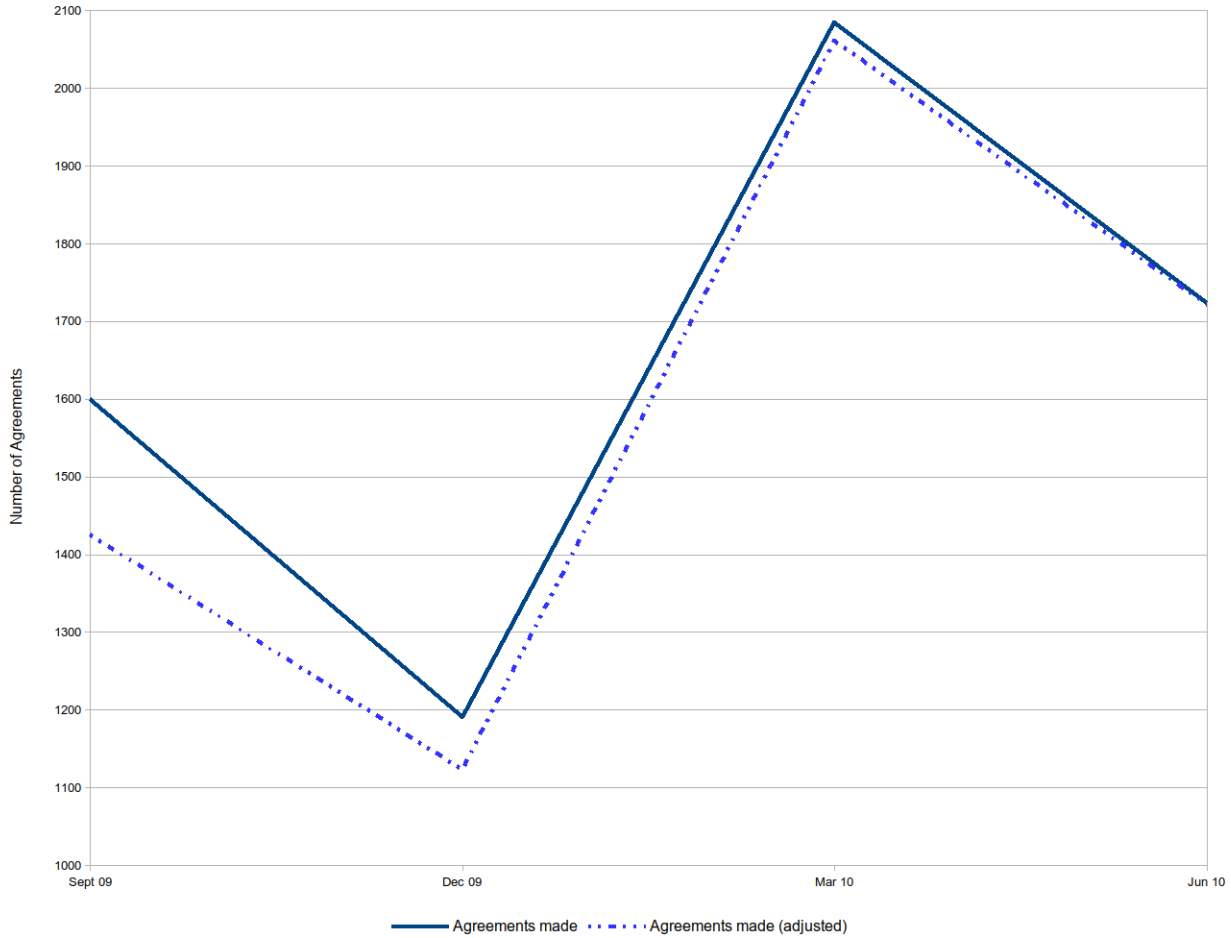
501. Our analysis suggests that agreements varied under this provision were counted as "current" agreements in the Workplace Agreements Database, after the relevant orders were made by the Commission. This could manifest as the same agreement (and the employees covered by it) being counted as "current" for a single continuous period, or for two non-continuous periods – that is, the burst of activity driven by transitional legislative factors could have a more prolonged effect on the data.

502. The *Trends in Enterprise Bargaining* reports, based on the *Workplace Agreements Database*, treated orders to vary and extend certified agreements under the *Forward with Fairness* provisions in a particular quarter as agreements which were *made* in that quarter. We regard this as unhelpful where the *Trends in Enterprise Bargaining* data are sought to be used to help investigate bargaining incentives or disincentives at various times. A critical difference between bargaining under the *WorkChoices* or *Fair Work* provisions on the one hand and the *Forward with Fairness* "extension of agreement" provisions on the other, is that the latter applied exclusively to parties who had demonstrated success in bargaining in the past. Further, access to the provisions was conditioned on their being no industrial action (protected or unprotected) over a particular period. In a sense, the *Forward with Fairness* extension procedure took the "easy cases" out of the mainstream system and encouraged and enabled those parties to re-negotiate sooner than would otherwise be the case.

503. Our conclusion regarding the counting of extended agreements was reached by comparing data from historical *Trends In Enterprise Bargaining* reports with the data in Table 5.1 of the November 2012 General Manager's report into enterprise agreement-making in Australia Under the *Fair Work Act*. For reasons unknown, the total number of agreements recorded as being made (and the employee covered by them) in the respective quarters in the *Trends in Enterprise Bargaining* reports appears to include varied and extended agreements which were initially made under section 170LJ of the *Workplace Relations* Act 1996, but not section 170LK thereof (we cannot be certain that this distinction holds true for the agreements "current" measure and associated employee count, but we suspect it does).

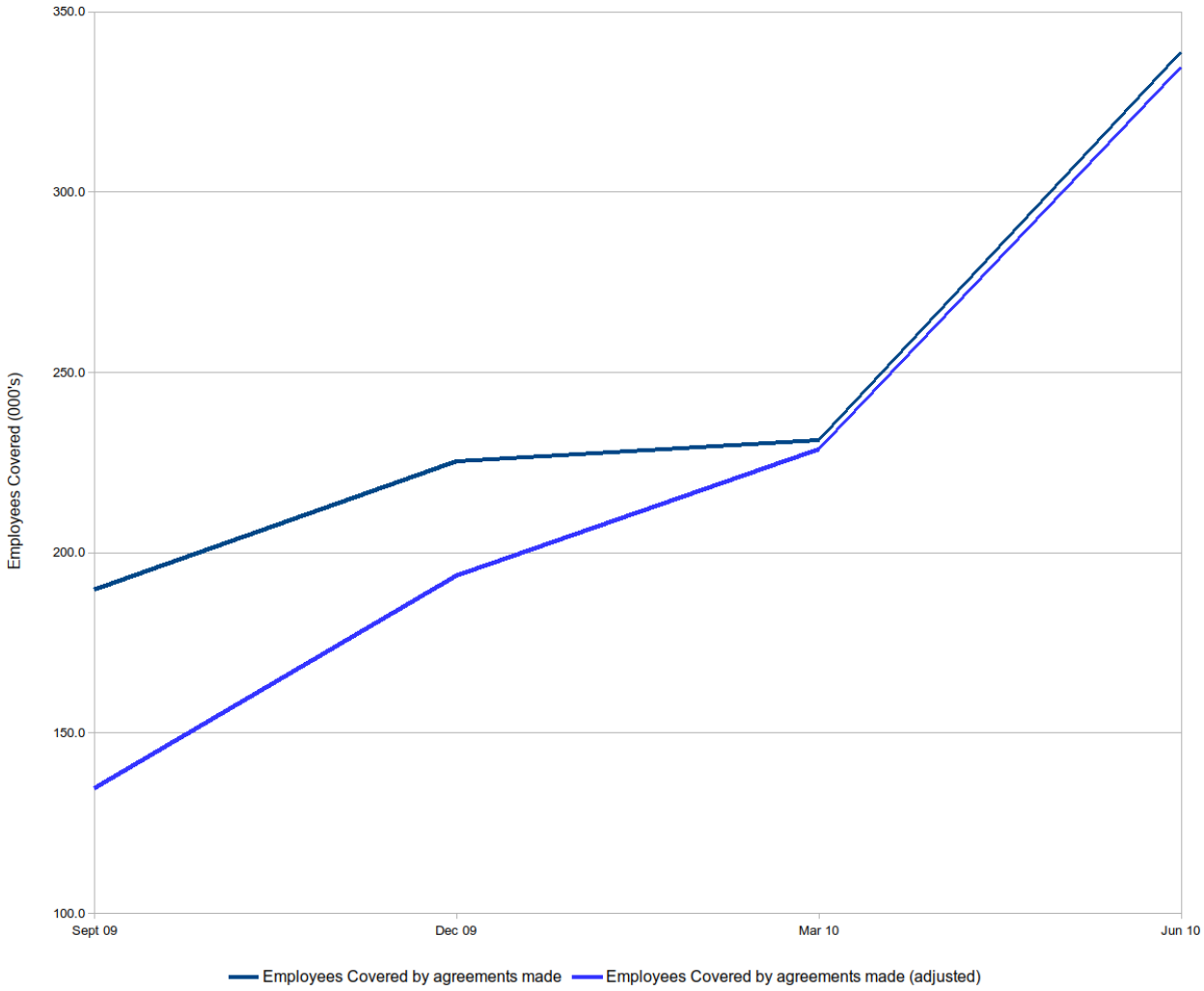
504. In our submission, a portion (and we stress, far from all) of the increase observed in "agreements *made*" in 2008-2010 (and the employees covered by them) relates to the then extant "current" and non current agreements that had their expiry dates extended under the *Forward with Fairness* provisions. In turn, those extended agreements would have influenced the numbers of agreements that were regarded as "current" in the Workplace Agreements Database as well as the number of employees who were covered by them. Given that the last order to vary and extend a certified agreement appears to have been in the June 2010 quarter, this effect ought to have dissipated by June 2013. Using the data provided in Table 5.1 of the November 2012 General Manager's report into enterprise agreement-making in Australia Under the *Fair Work Act*, we have sought to measure the size of the effect observed during the period measured in that table in Figure 6 and Figure 7 below. However, we suspect that the magnitude of the effect is much greater.

Figure 108: Agreements made Q3 2009-Q2 2010, adjusted for extended agreements



Source: Trends in Enterprise Bargaining (DJSB), 2012 General Managers Report (FWC)

Figure 109: Employees covered by agreements made, Q3 2009-Q2 2010, adjusted for extended agreements



Source: Trends in Enterprise Bargaining (DJSB), 2012 General Managers Report (FWC)

505. The reason we believe there is a greater effect is based on Table D2 in Appendix D of the 2008-2009 Annual Report of the Australian Industrial Relations Commission and Australian Industrial Registry. That table deals with lodgement of matters rather than finalisation and provides a time series from 2005-06 to 2008-2009. Under the category "Application regarding pre-reform certified agreement" there are 93 matters recorded for 2007-2008 and 920 matters recorded for 2008-2009 (and 0 matters recorded for previous years). The fact that other line items exist for the variation, resolution of disputes under, termination etc of certified agreements identified by the relevant section numbers of the "pre-WorkChoices" *Workplace Relations Act* indicates that "Application regarding pre-reform certified agreement" does not include those other applications. All indications are that "Application regarding pre-reform certified agreement"

refers to applications to extend and vary those agreements under the *Forward with Fairness* amendments.

506. We are unaware of how many of those applications were granted, or how many employees were covered by them. However, the 1013 applications made during that period surely resulted in many more agreements being extended (and many more employees being covered by "current" agreements) than was the case in relation to the 268 170LJ Agreements and 93,379 employees effected in the period covered in Figure 6 and Figure 7 above.

8. EQUAL REMUNERATION

507. In our submissions to the previous Review, we suggested that the principle of "equal remuneration for work of equal or comparable value", as defined in the FW Act and applied by the Commission, was ill-suited to examining and addressing gender-based undervaluation in the course of an Annual Wage Review. We also indicated that the apparent rigidity of the equal remuneration principal was a serious flaw in the wage fixation framework.

508. The Panel considered the issue and ultimately concluded (at [285]):

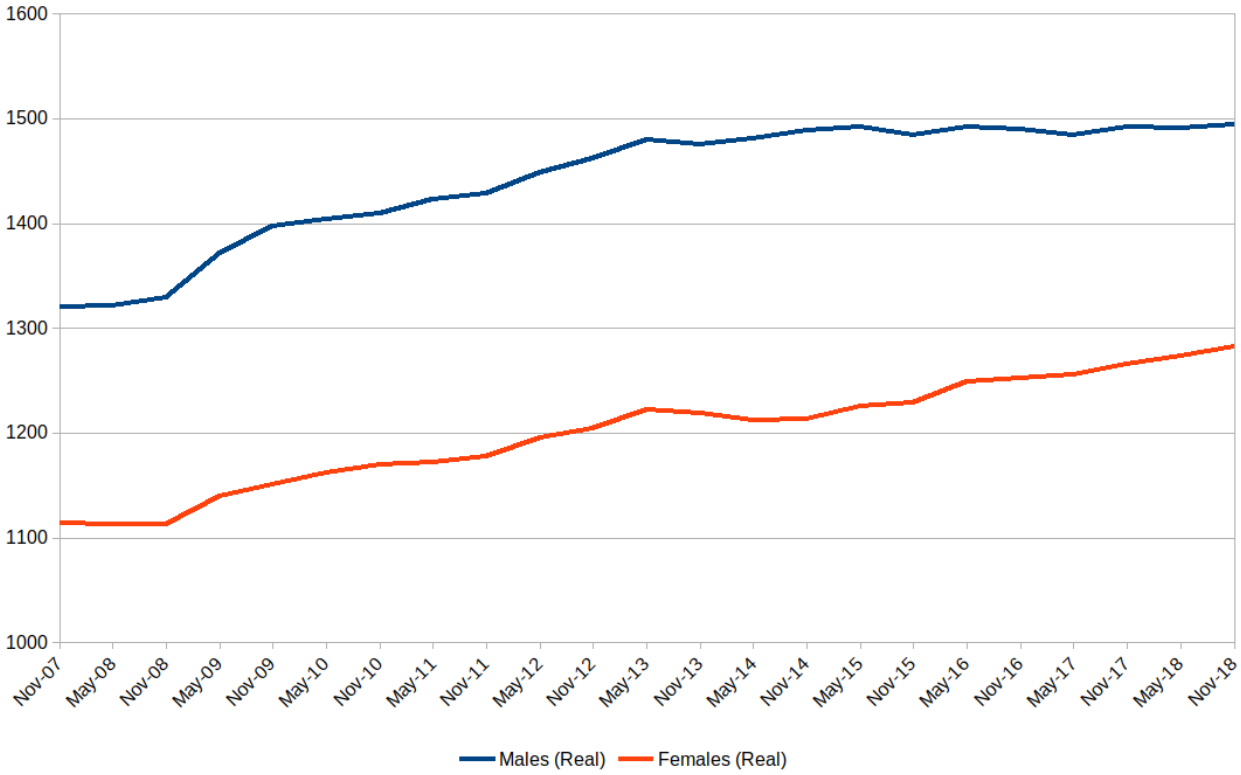
> The application of the principle of equal remuneration for work of equal or comparable value is such that it is likely to be of only limited relevance in the context of a Review. Indeed it would only be likely to arise if it was contended that particular modern award minimum wages were inconsistent with the principle of equal remuneration for work of equal or comparable value; or if the form of a proposed increase enlivened the principle. We agree with the observations of a number of parties that Review proceedings are of limited utility in addressing any systemic gender undervaluation of work. It seems to us that proceedings under Part 2-7 and applications to vary modern award minimum wages for 'work value reasons' pursuant to ss 156(3) and 157(2) provide more appropriate mechanisms for addressing such issues. But the broader issue of gender pay equity, and in particular the gender pay gap, is relevant to the Review.

509. We do not contend in this Review that any particular minimum wage or modern award minimum wage is inconsistent with the principle of equal remuneration for work of equal or comparable value. We do however note that other proceedings are currently underway to address the award-based undervaluation of work of Teachers, particularly in the Early Childhood Education and Care Sector, which is highly female-dominated.

8.1 Gender Pay Gaps

510. A gender pay gap is normally calculated as the difference between male and female earnings according to a particular measure of earnings, expressed as a percentage of male earnings for that measure. Movements in a gender pay gap from year to year can therefore reflect changes in earnings of either men or women or both and might not actually represent any improvement in women's real earnings. However, the trend we showed in our submission last year has persisted: whilst male adult AWOTE remains well ahead of female adult AWOTE, the former has continued to be almost stagnant in real terms against a visible improvement in the latter. This is shown in Figure 110 below.

Figure 110: AWOTE (Real) Male and Female

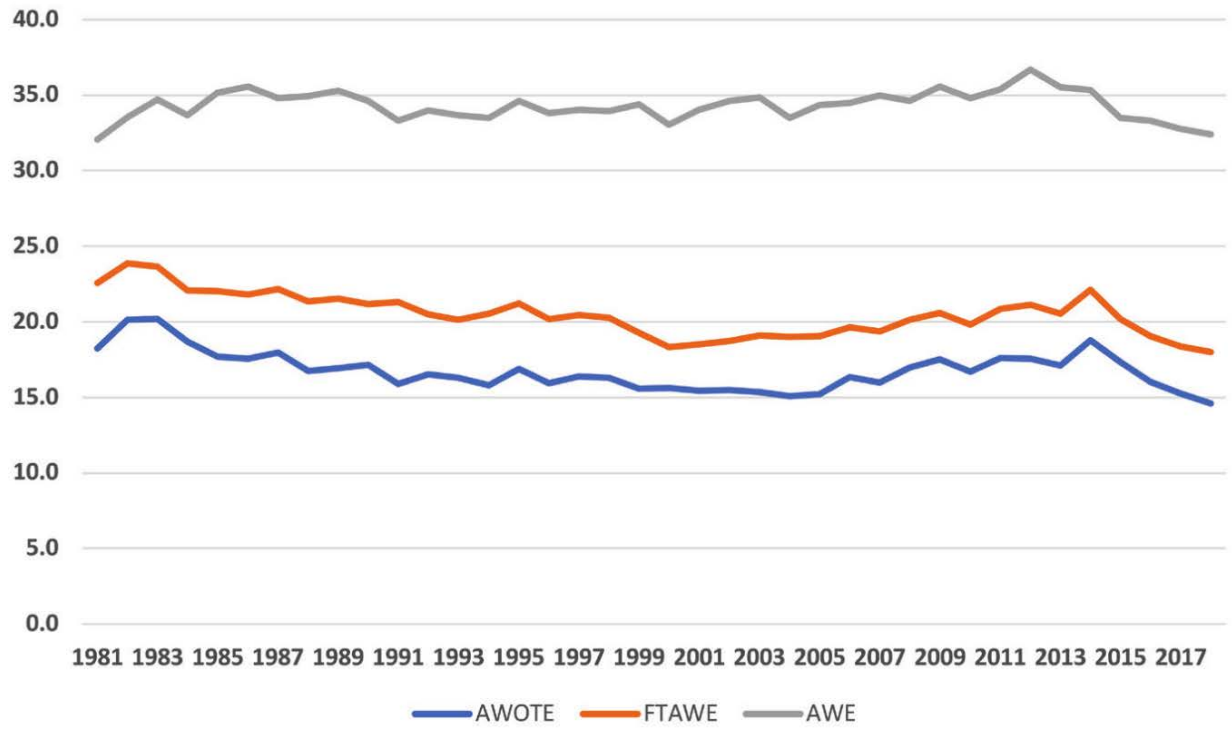


Source: ABS 6302 and ACTU calculations

511. Charlesworth and Smith (2018)[353] demonstrate the variance of the gender pay gap in three measures between 1981 and 2018. Although their analysis shows little variation in measures of the gap *within* measures over the time period, the estimates of the gap vary between less than 15% to over 30%, depending on the measure used. Figure 111 below, reproduces Figure 6.1 from Charlesworth and Smith (2018).

[353] Charlesworth, S. & Smith., M., "Gender Pay Equity", in Stewart, A., Stanford, J. & Hardy, T. (eds), The Wages Crisis in Australia: What it is and what to do about it, University of Adelaide Press 2018, at pp85-101.

Figure 111: Gender pay gap, weekly earnings, 1981-2018, (%)



512. As the authors observe:

> "Gender pay gap data based on AWOTE are the most commonly used metrics in Australia to measure progress towards gender pay equity, which is when women and men receive equal pay for work of equal or comparable value. However, this measure of the pay gap compares the *ordinary time* weekly earnings of men and women in *full-time* jobs only. It hides the gendered access to wage and benefit top-ups on ordinary time weekly earnings reflected in total full-time earnings. In 2018, Figure 6.1 shows that the *total* gender pay gap in women's and men's total full-time average weekly earnings (FTAWE) was 18%. The full-time data also shed little light on the gender pay gap for almost half of Australia's working women, who work part-time and are not included in this metric. When we include average weekly earnings (AWE) for all workers, both full-time and part-time, the gender pay gap in 2017 rises to 32.4%. This high figure underscores women's significantly lower earnings relative to men's in Australia, which have ramifications for lifetime earnings, superannuation earnings and security in retirement."

513. Measures of the gender pay gap make it difficult to isolate the various contributors to the aggregate pay disparity. In addition to part-time work and availability of bonuses or top ups, these include discrimination and bias in hiring and pay decisions and gender segregation in occupations and industries, where female dominated occupations and industries attract

lower rates of pay due to gender-based undervaluation.[354] Each of these compositional effects are themselves influenced by gendered factors, for example, women's disproportionate share of domestic work. Because of the limitations in applying the equal remuneration principal in a Review, when looking at the gender pay gap, the Panel is essentially reduced to addressing the symptom rather than the cause of the gender-based undervaluation – it varies minimum hourly rates of pay in the hope that there will be some positive effect on the gender pay gap.

514. Charlesworth and Smith (2017) additionally construct a gender pay gap measure based on hourly earnings of non-managerial employees. The benefit of such an index for present purposes is that it measures the very thing that the Panel has some direct influence over. It also is likely to exclude any measurements of bonuses or other top ups, which the Panel does not set. The exclusion arises both because such payments are highly unlikely to be paid hourly and because they are more a feature of managerial jobs.[355] Whilst the measure adopted by Charlesworth and Smith looks at all methods of setting pay, Figure 112 below additionally and separately displays the hourly measure for the Award-Only and Individual Arrangement methods of setting pay measured in the *Survey of Employee Earnings and Hours*.

[354] Charlesworth & Smith (2018), at p87.
[355] The authors do however make the point that hourly earnings data are likely to underestimate the size of the hourly earnings gender pay gap because men are much more likely than women to be in managerial jobs.

Figure 112: Pay Gaps in Average Hourly Earnings (LHS) and Gender Proportions (RHS) by Method of Setting Pay, 2004 to 2018

515. It can be seen that the award-only method of setting pay has, through most of the measurement period, had a negative gender pay gap. This serves to underscore the importance of compositional factors: the award-only method of pay is heavily female-dominated, and the shape of the gender pay gap in that method of setting pay has some sensitivity to changes in direction in the male/female share of the award only population. If women make up a larger proportion of the measured population but have proportionally the same incidence and distribution of earnings as their male counterparts, no gender pay gap will be observed. However, if the distribution changes such that proportionally more women are in higher paid jobs in that population than men (but the overall gender proportions, say 60/40, remain constant) this will trend toward a reverse gender pay gap. That gap will be more pronounced if the overall density of the female population increases rather than remaining constant (and will decline if males outnumber females in the population). Given that the proportion of males and females in the award-only population during the measurement period has not shifted anywhere near as much as the gender pay gap has in that population, it is reasonable to assume that changes in the distribution of earnings between men and women over that period have been more influential in the gender pay gap changes within that population at the average hourly pay level.

516. The negative gender pay gap, albeit small at award-only levels of pay, reflects the concentration of women in some occupations where higher award rates of pay apply, and for many of which pay is still relatively low, only a within a few dollars of the NMW; for instance, in Health care and social assistance.

517. A positive gender pay gap in the award-only population at this level needs to be viewed in context. Importantly, as we observed in Chapter 7, the Individual Arrangements category includes employees who are covered by an award but are paid more than it. As was noted in last year's decision, a study by Broadway & Wilkins (2017)[356] using HILDA data, showed that there is higher likelihood that women are paid at the minimum award rate for higher-skilled work, whereas men are more likely to be paid more than that rate (which suggests the women have disproportionately been disadvantaged by the compression of relativities at the upper end brought about by the legacy of flat dollar increases to minimum rates). Broadway and Wilkins (2017) observed that:

> Women might be 'pushed' onto award wages whereas comparable men are more likely to receive an individually or collectively negotiated (and higher) wage[357]

Those observations are consistent with Figure 112 above, which shows that the individual arrangements method of setting pay does have a gender pay gap and is a male-dominated cohort. Notably, the gender pay gap for that method of pay has consistently been more than that across all methods throughout the measurement period.

518. A larger increase to minimum wages is likely to bite into the premium received by employees on individual arrangements and, in some cases, drive those workers at the margin back to the award-only category. This would be expected to have an equalising effect on the hourly earnings between men and women – indeed the most recent annual statistics from the Workforce Gender Equality Agency show gender pay gaps on a total remuneration basis as below average in the most award-reliant industries.[358] Such an equalising effect would, however, appear as an increased gender pay gap in the individual arrangements category, to the extent that it reflects men with marginal premiums falling back onto the award at the new (higher) rate of pay, while leaving high paid men within that category. The effect on the

[356] Broadway, B. and Wilkins., R., "Probing the Effects of the Australian System of Minimum Wages on the Gender Wage Gap", Melbourne Institute, December 2017
[357] *Ibid.* at p.13
[358] Australia's gender equality scorecard: Key findings from the Workplace Gender Equality Agency's 2017-18 reporting data, Workforce Gender Equality Agency, November 2018 at Table 1. The more most award-reliant industries were also shown in Table 3 of that report to have high shares of women in management positions

gender pay gap within the award-only category would depend on where in the award pay distribution the most effected men were located.

519. An equalising effect on the hourly earnings between men and women is positive in itself and something for which the Panel should strive. It should also be noted that any associated increase in female participation would also be positive. A recent staff research paper from the IMF[359] suggests a complementarity between men and women workers exists in the production process which boosts multifactor productivity. The IMF paper produces a range of estimates for the elasticity of substitution between male and female workers in order to predict the effects, which are admittedly less where the starting point rate of female labour force participation is higher. Notably, one of the methodologies adopted to estimate these effects was a nonlinear least squares estimation which was said to be free of the assumption that firms pay their workers their marginal productivity.

[359] Ostry, J.D., Alvarez, J., Espinoza, R.A., Papageorgiou C., "Economic gains from gender inclusion: New mechanisms, new evidence", International Monetary Fund, October 2018

9. OTHER MATTERS

520. The National Minimum Wage Order made as a consequence of each Review must set the National Minimum Wage as well as special national minimum wages for award/agreement-free employees who are junior employees, employees to whom a training arrangement applies, and employees with a disability. It must also set the casual loading for award/agreement free employees. Further, the review of modern award minimum wages must encompass modern award minimum wages for junior employees, employees to whom a training arrangement applies and employees with a disability. Casual loadings and piece rates in modern awards also form part of the modern award minimum wages to be reviewed.

9.1 Juniors, apprentices and trainees

521. Minimum wages for juniors and apprentices are usually expressed as a percentage of an adult rate of pay in awards. Adjusting modern award minimum wages in the usual way, via a uniform percentage increase, will ensure those relativities are preserved. We accordingly support the Panel continuing to flow any increase it decides on in this Review to awards in the usual way and in the same terms as the 2018 National Minimum Wage Order for employees who are award/agreement free. We would also support the flowing through of any increase to trainee wages in the usual way, including for award/agreement free trainees via linking to the National Training Wage Schedule of the Miscellaneous Award. Whilst the Commission is currently finalising 9 award-specific training wage schedules as part of the 4 yearly review of modern awards, we do not understand the levels of wage rates within them to be in contest.

522. September quarter data from the National Centre for Vocation Education Research[360] indicates that apprenticeship and trainee commencements and completions have continued to decline to September 2018. Numbers of commencements for trade-based qualifications have picked up 3.1% overall, with strong growth particularly in automotive & engineering (9.9%) and electrotechnology & telecommunications (9.9%). Despite the overall decline observed, the share of cancellations or withdrawals as a percentage of numbers in training has varied little between 2014 to 2018, standing at 34.25%, which is only slightly above the

[360] https://www.ncver.edu.au/research-and-statistics/publications/all-publications/apprentices-and-trainees-2018-september-quarter-australia

33.77% observed in the previous year and below the 34.7% high point seen in 2015. The decline in commencements over the year of -1.6% is well below the -5% decline observed between 2016 and 2017 and the lowest decline over the period shown (which commences 2014).

523. Regrettably, we do anticipate some further decline in commencements and completions and possibly a rise in withdrawals, associated with fewer building approvals and declining house prices. Such a decline is not able to be addressed through some different treatment of apprentice or trainee wages.

9.2 Employees with a disability

524. Special National Minimum Wage 1 should continue to be set at the same level as the National Minimum Wage, as varied in this Review. Special National Minimum Wage 2 should continue to be set by reference to the National Minimum Wage on the basis of discounting methodology adopted from the Supported Wage System schedule. The minimum payment should continue to be fixed at the level of the income-free threshold for the disability support pension.

9.3 Casual loading

525. The casual loading in modern awards and the National Minimum Wage Order should be maintained at 25%. We would also encourage the Panel to continue the agreed phasing up of the casual loading in the *Business Equipment Award* toward that level by raising it in this Review to 24%.

9.4 Piece rates

526. Piece rates in modern awards are presently fixed by reference to minimum rates expressed on an hourly or weekly basis, so they do not require separate adjustment. We do not seek that the method of their calculation be altered in this Review.

9.5 Other instruments

527. The Panel should, for consistency, adopt the approach confirmed in last year's decision in relation to copied State Awards. We are unaware of any party seeking an exemption at this stage.

528. The remaining operating transitional instruments should have any increase determined in this Review applied to them in the usual way.

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