

**Response to
Questions on Notice**

18 April 2019

**Prepared by the Treasury and
the Department of Jobs and
Small Business**

Preface – Caretaker Role

As of 11 April 2019, the Government is operating in a caretaker role, and as such there is a longstanding convention that outlines the role of the public service through this period. With regard to the Annual Wage Review, the public service is unable to comment or express an opinion on matters of policy under the convention but may be able to assist by explaining any factual elements of the Government's submission which may be relevant to the Expert Panel's decision.

As per the correspondence of 12 April 2019 between the Treasury and the Fair Work Commission, questions on notice for the Australian Government have been redirected to the Treasury and the Department of Jobs and Small Business.

1.3 Question to CCIQ and other parties

The CCIQ has sought a deferral of any increase in the NMW and modern award minimum wages on the basis of the January and February 2019 rainfall event in the Townsville region. The submission states that:

‘The proposed mechanism to determine which employers should receive the minimum wage deferral is to be guided by the Disaster Recovery Funding Arrangements 2018 (DFRA) and specifically the DFRA event – North and Far North Queensland Monsoon Trough, 25 January – 14 February 2019.’

The submission further identifies three forms of assistance, namely:

- Disaster Assistance (Essential Working Capital) Loans scheme for Small Business
- Disaster Assistance (Small Business Loans)
- Special Disaster Assistance Recovery Grants for Small Business (hereinafter referred to as the Special Recovery Grant)

CCIQ is requested to provide the following additional information:

- Is it proposed that an employer in receipt of any one of the three forms of assistance would be subject to the deferral? If not, what scope is proposed and how will the relevant employers be formally identified in the NMW order and any determination concerning the modern awards?
- What are the criteria by which businesses that receive the DRFA assistance are identified and assessed?
- Are any of the relevant forms of assistance directed to assisting businesses to pay employee wages and entitlements and/or support continuing employment?
- What forms of assistance are available to directly assist employees impacted by the relevant DFRA event?
- How would the proposed deferral impact upon the considerations in the modern awards objective (s. 134) and the minimum wages Objective (s. 289)?

Other parties are invited to comment on these matters.

Under the Disaster Recovery Funding Arrangements (DRFA), assistance measures are provided under a cost share arrangement between the Commonwealth and state or territory government. The state/territory government is responsible for the administration of DRFA assistance measures.

As a result, the Queensland Government is best placed to provide advice on eligibility criteria, identifying employers who have received DRFA assistance, and assistance received as a result of the North and Far North Queensland Monsoon Trough event on 25 January – 14 February 2019.

Information regarding the assistance provided under the DRFA for the North and Far North Queensland Monsoon Trough event is available on the following links:

- <https://www.disasterassist.gov.au/Pages/disasters/current-disasters/Queensland/qld-monsoon-trough-25-jan-2019.aspx>
- <https://www.qld.gov.au/community/disasters-emergencies/queensland-disasters/fnq-monsoonal-trough>.

The Fair Work Act allows the Fair Work Commission to take into account exceptional circumstances and defer the operation of a determination varying one or more modern award minimum wages or the national minimum wage order (ss 286(2), 287(4)). The Act does not clarify what constitutes exceptional circumstances, but if the Fair Work Commission is satisfied that exceptional circumstances exist, the determination must be limited to the particular situation to which the exceptional circumstances relate.

2.1 Question to all parties

The Reserve Bank of Australia recently published research on *The labour and capital shares of income in Australia* (included in the Research Reference List) which analysed the developments and causes of the declining labour share in Australia over the long term. The paper concluded that:

The aggregate labour share in Australia rose over the 1960s and early 1970s but has been on a gradual decline since then. In an accounting sense, the decline in the aggregate labour share over recent decades is largely because of a larger share of imputed income accruing to home owners, along with a lower labour share in the financial sector. The decline in the financial sector labour share, in turn, appears to be partly due to structural changes in the financial sector, such as financial deregulation, labour-saving technology adoption and high productivity growth. But it also may be affected by issues with measuring the output of the financial sector.

At the same time, the aggregate capital share has risen. This is largely explained by rising profits accruing to financial institutions and rising rents paid to land owners. In turn, higher housing rents over recent decades appear to reflect a combination of higher-quality owner-occupied housing, lower interest rates and rising housing prices. Across the rest of the economy, there have been varying trends in factor shares that are largely offsetting.

All parties are invited to provide comments on the findings and implications of this research.

The RBA's analysis of trends in the labour share of income is an important addition to the public understanding of trends. This complements the discussion contained in Treasury's analysis of wage growth: <https://treasury.gov.au/publication/p2017-t237966>.

2.3 Question to the Australian Government, ACCI, Ai Group and the ACTU

GDP per capita has risen, over the past year, by 0.7 per cent, whereas RNNDI per capita has risen by 2.1 per cent. The difference appears to have arisen principally from improvements in the terms of trade. Further, mining profits have risen by 26.3 per cent while non-mining profits have risen only by 2.5 per cent in the year to December 2018 ; and the wages share of total factor income has fallen by 11.3 percentage points in mining and by 0.5 percentage points in non-mining over the past two years.

How should variations in the terms of trade, and the very different experiences of the mining sector and the rest of the economy, be taken into account in setting the NMW and modern award minimum wages?

Real net national disposable income is a measure of the real income available to Australian residents adjusted by the trading gain from terms of trade income and depreciation. It is a measure of living standards. It does not distribute the income into sectors, so it is the income available to purchase goods and services by both the household and the public sector and for investment by all sectors. A discussion of recent trends in the labour share of income, including the effect of the terms of trade on the labour share of income, can be found in <https://treasury.gov.au/publication/p2017-t237966>. Commodity prices, through the terms of trade, have a cyclical effect on the labour share of income. Recent increases in commodity prices are widely expected to be temporary and this should be taken into account when considering the implications for wage settings.

2.4 Question to the Australian Government

We request the assistance of the Australian Government to clarify some of the data that they have provided in their initial submission:

Chart 2.1, column 4 shows that 1.7 per cent of all adult employees, i.e., those paid the ordinary adult rate, are paid up to the current NMW rate of \$18.93 per hour. Can the Commonwealth provide the equivalent number for adults who are paid the NMW rate—i.e., what percentage of all adult employees are paid \$18.93 per hour or less?

The Department of Jobs and Small Business estimates that around 180,200 adult Australian employees (or 1.7 per cent) were paid the national minimum wage rate as at May 2018.

This estimate is based on the latest available Australian Bureau of Statistics Employee Earnings and Hours publication for May 2018, and includes adult employees paid at or less than \$18.50 per hour.

The threshold of \$18.50 per hour is chosen to allow for a 21 cent margin of error above the National Minimum Wage rate of \$18.29 in May 2018.

At para. 29, the Australian Government states that ‘[u]sing a consistent methodology with that adopted by the UK, the NMW in Australia (currently at \$18.93 per hour) would be around 61 per cent of the median wage of both full-time and part-time employees (\$31.30 per hour) in 2018’. Does this estimate refer only to those aged 25 years or older, as it is in the UK estimate?

This estimate refers to full-time and part-time employees aged 15 years and over, excluding owner-managers of incorporated enterprises.

At para. 76, the Australian Government states that ‘[i]n Australia, the slower recovery in wage growth might reflect adjustments associated with the unwinding of high commodity prices following the terms of trade boom.’ Can the Australian Government provide an explanation of the mechanisms by which the ‘adjustments’ referred to would lead to lower wage growth?

The mechanism through which this operates is outlined in Treasury’s analysis of wage growth: <https://treasury.gov.au/publication/p2017-t237966>.

Another conceptual way to think about it is in the following speech by Nigel Ray, former Deputy Secretary, Macroeconomic Group of Treasury: <https://treasury.gov.au/speech/some-international-trends-and-australias-emergence-from-the-mining-boom-address-to-the-australia-japan-and-international-economic-outlook-seminar>.

3.1 Question to the Australian Government

The Australian Government submitted that changes to the methods used by the ABS for data between 1995–96 to 2015–16, showing that growth in equivalised real household disposable income for the (high income) 90th percentile was higher than that of the (low income) 10th percentile and median households, ‘are likely to have exaggerated high-income growth between 2003–04 and 2007–08’ and thus that ‘comparison of change over time should be interpreted with caution’.

The Australian Government is asked to expand on its contention that the change of methods by the ABS is likely to exaggerate high-income growth between 2003–04 and 2007–08 and discuss whether any impact is likely to be substantial.

In 2007–08, the Australian Bureau of Statistics revised its standards for household income statistics. At the time, the Australian Bureau of Statistics commented that¹, “*The changes improve coverage of income by:*

- *incorporating non-cash benefits provided to employees, which adds \$43 per week to average gross household income in 2007-08 (\$18 and \$15 respectively to the 2005-06 and 2003-04 average weekly household incomes)*
- *incorporating termination payments and lump sum workers compensation payments, which adds \$5 per week to average gross household income in 2007-08*
- *incorporating irregular overtime payments, which adds \$9 per week in 2007-08*
- *measuring all bonuses rather than just the bonuses captured in previous surveys indistinguishably as part of the standard response to the question on regular wages and salaries, which contributes to higher average household income from this source in 2007-08 (up from \$19 per week in 2005-06 to \$32 per week in 2007-08) and*
- *incorporating a broader range of inter-household transfers, which contributes to higher average household income from this source in 2007-08 (up from \$4 per week in 2005-06 to \$15 per week in 2007-08.”*

The Australian Bureau of Statistics also noted with regard to the change in methodology, “*In 2007–08, the Gini coefficient on the new basis was 0.331, which is higher than that compiled on the former basis (0.317). This reflects that most of the changes have been to the scope of employment income and at the higher end of the income distribution i.e. fourth and highest quintiles.”*²

As such, the Australian Bureau of Statistics further commented in 2017 that, “*the income estimates from 2007–08 onwards apply the new income standards, and are not directly comparable with estimates for previous cycles.”*³

Further information on the Australian Bureau of Statistics’ change of methods can be found here:

[http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/32F9145C3C78ABD3CA257617001939E1/\\$File/65230_2007-08.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/32F9145C3C78ABD3CA257617001939E1/$File/65230_2007-08.pdf)

¹ ABS, Household Income and Income Distribution, 2007-08, Summary of findings

² ABS, Household Income and Income Distribution, 2007-08, Appendix 4: Improvements to income statistics

³ ABS, Household Income and Wealth, Australia, 2015-16, Explanatory Notes, Paragraph 19

3.7 Question to all parties

Fair Work Commission staff has published as additional material an information note on legislated changes to the tax-transfer system that have taken effect, including the Low and Middle Income Tax Offset and changes to child care assistance.

All parties are invited to comment on this material.

Treasury notes the information note does not take account of changes to the tax-transfer system announced as part of the 2019-20 Budget.