australian council of trade unions

ACTU Reply Submission to the Annual Wage Review 2018-19

ACTU Reply Submission, 12 April, 2019

ACTU D. No 18/2019

CONTENTS

1. INTRODUCTION

1. Our initial submission demonstrates that our claim in this Review is appropriate and accords with all the factors that the Panel must take into account.

2. In this submission, we show that data released since 15 March 2019 indicate a further strengthening relative to the description of current economic conditions and the near-term economic outlook that we offered in our initial submission.

3. In this submission we also respond to a range of arguments and claims made in other parties' initial submissions. We do not respond to all the arguments with which we disagree. We rely on our previous submissions in respect of arguments that have been adequately addressed in earlier Reviews, particularly where the Panel has expressed firm views about such arguments.

4. This submission also includes our responses to the Questions on Notice published by the Panel.

5. We express our interest in participating in the consultations to occur in Melbourne on 14 May, at which the Panel members will be able to seek our responses to any matters not addressed in this reply submission.

2. DATA RELEASED SINCE 15 MARCH

Job Vacancies

6. The increase in job vacancies is further evidence of a relatively healthy labour market. The increase supports the idea of what is being referred to as a ‘per capita recession’, with slow growth in wages and below trend growth in real GDP per capita, actually negative over the last two quarters (Figure 3), but combined with a relatively strong labour market. Wages might be expected to rise in this situation, due to a tightening labour market. However, if this is happening at all, it is happening at a glacial pace, which is further evidence that these volume data relating to the state of the labour market are not reflected in the movement of wages.

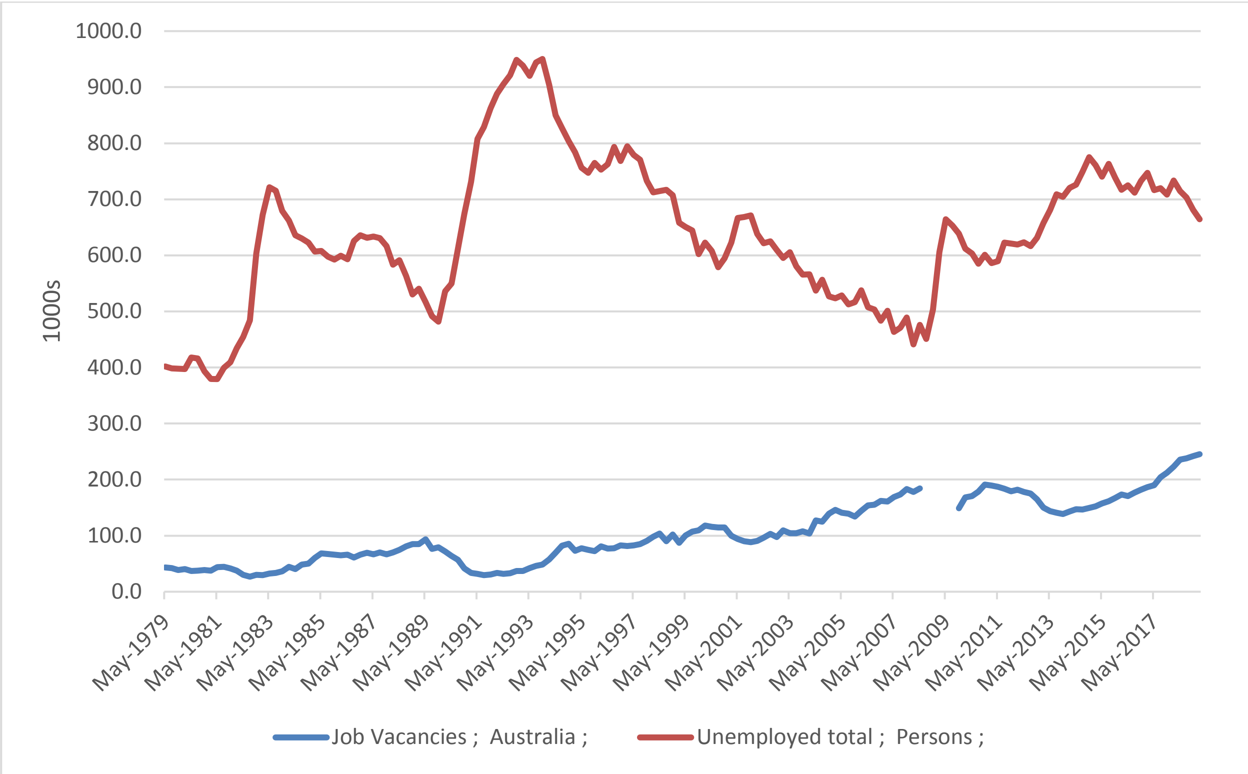
7. Vacancies are at 235,300 seasonally adjusted for the February quarter 2019.[1] This figure is an increase of 3,500 on the November quarter, and 22,100 on the year. Meanwhile unemployment fell 16,400 over the quarter and 69,400 over the year (Figure 1).

8. Vacancies have increased strongly on trend (by 106,500) since November 2013, more than five years ago. Unemployment has trended down (by 39,900) since November 2014, more than four years ago.

9. The result is that the number of unemployed people per vacancy has continued to fall, from 5.2 at November 2014 down to 2.7 at February 2019. This is the lowest number since the GFC and just above the lowest before the GFC hit, at February 2008 (after which vacancies weren’t reported by the ABS until November 2009) (Figure 2).

[1] Vacancies are reported by ABS quarterly from February

Figure 1 Unemployment and vacancies, 1000s, seasonally adjusted

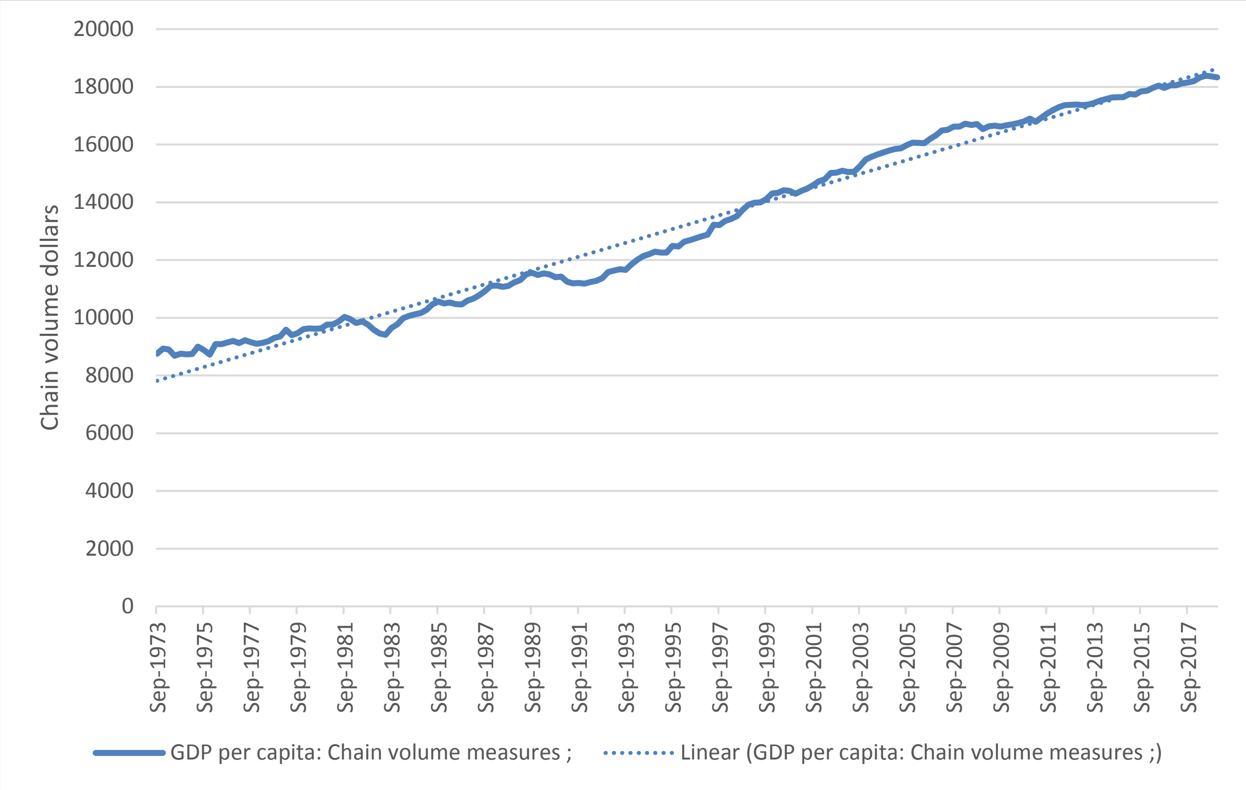


Sources: ABS 6354, 6202

Figure 2 Unemployed persons per vacancy, estimate

Sources: ABS 6354, 6202 and ACTU calculations

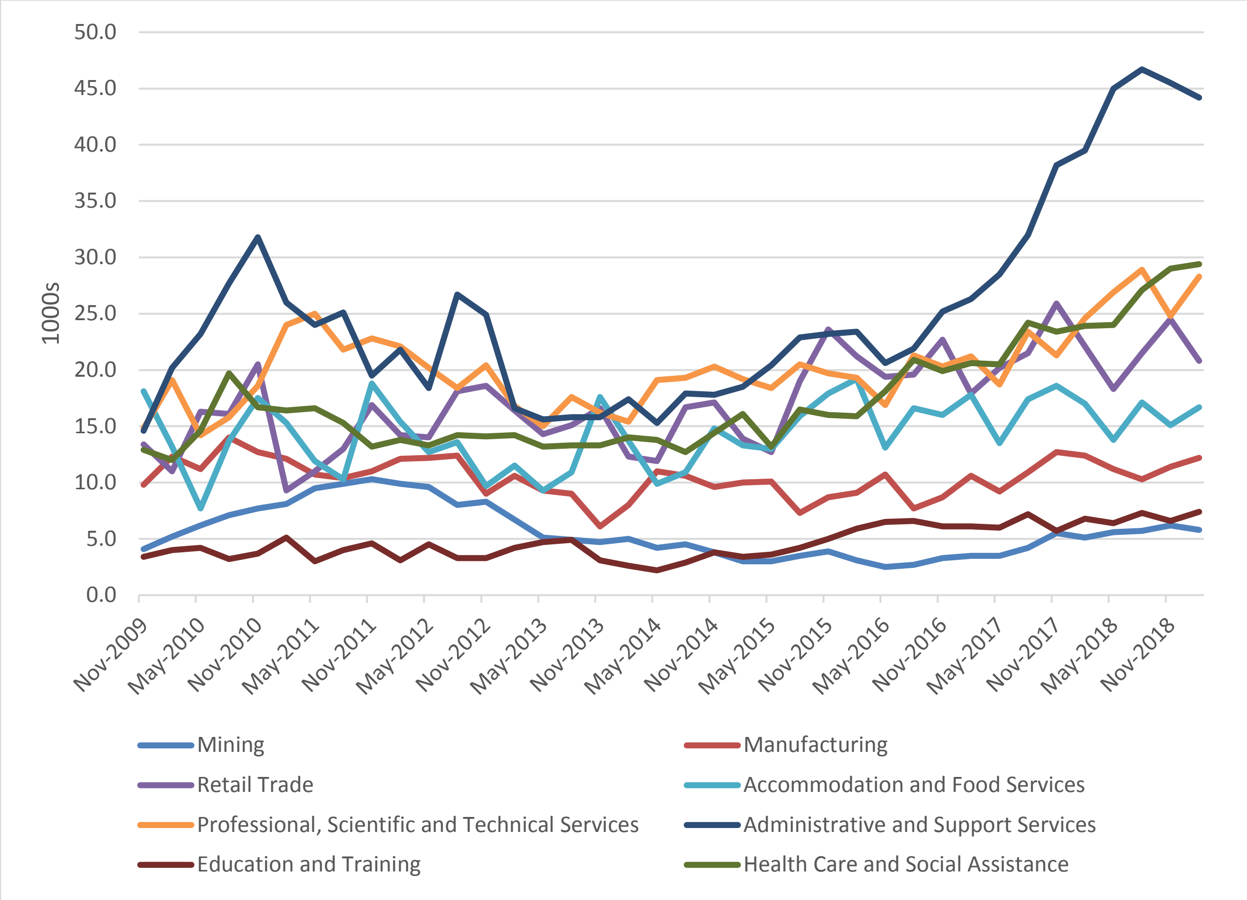
Figure 3 Real GDP per capita, chain volume, seasonally adjusted



Source: ABS 5206

10. Figure 4 shows that the number of vacancies in more award-reliant industries have either not fallen or have increased. This suggests that minimum wage and award increases have not deterred employment in those industries. Figure 4 includes vacancies in mining and manufacturing, neither of which indicate a declining trend in vacancies over the last two years.

Figure 4 Vacancies in various industries, 1000s



ABS 6354004

Labour Force

11. The ABS released its Labour Force figures for February 2019 on 21 March. The labour market apparently indicates increasing strength and yet market wages cannot be seen to be responding.

12. The unemployment rate fell to 4.9% and was at 664,300 persons seasonally adjusted in Feb 2019, down 0.1 percentage point and falling 11,700 from January 2019 and down a whole 0.6 percentage points from a year ago at February 2018.

13. Underemployment was also at 8.1%, still high, but 0.1 percentage points down from January 2019 and 0.4 percentage points down from a year ago at Feb 2018, seasonally adjusted.

14. Monthly hours worked in all jobs for the whole economy also increased, by 3.1% from January to February 2019 (seasonally adjusted).

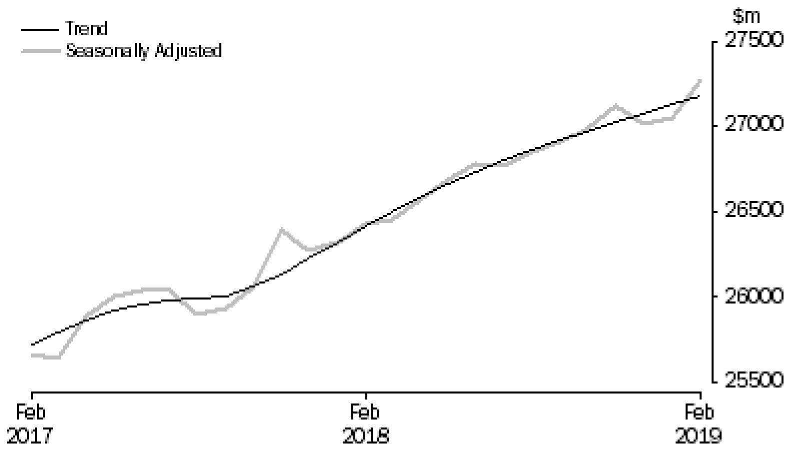
15. Since February 2018, full-time employment increased by 210,000 persons, while part-time employment increased by 74,000 persons, seasonally adjusted.

Retail Trade

16. Monthly retail sales grew 0.8% in seasonally adjusted terms in February 2019, "following a rise of 0.2% in January 2019, and a rise of 0.2% in December 2018."[2]

17. This growth sees an increase of 3.0% in retail sales for February 2019 over February 2018, which well exceeds inflation (seasonally adjusted, ACTU calculation).

Figure 5 Retail turnover, Australia (reproduced from ABS 8501)



Source: ABS 8501

18. There was no increase in the discretionary spending areas of Other Retailing[3] and Cafes, restaurants and takeaway food for the month of February 2019, whereas Department

[2] ABS Cat 8501 http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/8501.0Main%20Features2Feb%202019?opendocument&tabname=Summary&prodno=8501.0&issue=Feb%202019&num=&view=

store trade increased 3.5%, Household goods increased 1.1% and Clothing footwear and personal accessories increased 1.6%, seasonally adjusted. These sectors would include some more award-reliant businesses.

Trends in enterprise bargaining

19. The *Trends in Enterprise Bargaining Report December Quarter 2018* showed that for agreements approved in the December 2018 quarter, the average annualised wage increases (AAWI) for all sectors were 2.8%, down from 3.2% for the September quarter. This reduction was driven by a public sector increase of 2.7% for December compared with 3.3% in September. Traditionally public sector wage increases have led, and with capped increases the concern is that this is no longer the case. AAWI for all current agreements remained at 2.7% across the September and December quarters, with only the public service current agreements showing a slight increase from 2.6% to 2.7%.

[3] Other retail includes newspapers and books), sports, entertainment goods and toys, pharmaceutical, cosmetics and toiletries, stationary, second hand and antiques and flowers, stalls and commission based trading.

3. REPLY TO THE NATIONAL RETAIL ASSOCIATION

20. The National Retail Association's ('NRA') submission overly focusses on performance in the last 12 months, to support its ultimate conclusions that:

> "..retail businesses need a measure of relief from the significant changes that they have seen through increases to minimum wages and changes to the modern awards in the last 18-24 months…it is imperative, in its consideration, that the Expert Panel not come to conclusion that is apt to result in the low paid becoming the unpaid and the underemployed becoming the unemployed. The NRA submits that an increase to minimum wages of the extent seen in recent years is likely to have such a result" [4]

21. There are obvious limits to an argument that the wage increases seen in recent years must necessarily result in poor outcomes for employers and employees in the retail industry.

22. Firstly, the minimum wage increase of 3.3% in July of 2017 was followed, on the data presented in section 2.2 of the NRA submission, by a period of high profits that was sustained for 6 months, with the reversal of fortunes occurring well before the further increase of 3.5% in July 2018. In its 2018 decision, the Panel had this to say about the fortunes of the retail sector in the face of the 3.3% increase it had awarded in the previous Review:

> "Three out of the four most award-reliant industries experienced positive growth in employment over the year. Total employment in Retail trade increased strongly at 5.5 per cent, above the all industries average"[5]
>
> "The employment growth in Retail trade is notable, given both the relatively rapid recent growth in multifactor productivity in that sector and the generally pessimistic views about the circumstances of the retail industry that was expressed in a number of submissions."[6]
>
> "Retail trade stands out as having both a significant improvement in profitability and a high growth in employment (but little growth in wages). The data on Retail trade do not support the somewhat negative picture that was provided in a number of submissions. ACCI noted the relatively strong productivity growth in Retail trade. This is consistent with the industry's relatively strong profit growth but not with its strong employment growth. The observation by the Australian Government that Retail trade 'might be

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[4] NRA submission to AWR 2019 at Section 5: pars (l) and (m)

[5] [2018] FWCFB 3500 at [170]

[6] *Ibid.*

passing on productivity increases through lower consumer prices rather than higher nominal wages' may provide a partial explanation for the low growth in wages in that sector. We accept that the retail industry is experiencing technological disruption and strong international competition, together with subdued demand from consumers. Further, there will be diversity of experience among different parts of the retail sector. Nonetheless, it appears that the sector has recently managed to increase output, profits and employment in the face of these challenges."[7]

23. Secondly, with the exception of the period November 2016 to February 2017, the general pattern in the retail trade underemployment data presented in section 2.5 of the NRA submission is that relatively low levels of underemployment are seen during educational holiday periods, which tends to support our observations about underemployment in paragraphs 264 and 265 of our initial submission.

24. Thirdly, the underemployment data for the retail sector that the NRA refers to evinces no discernible effect of the adjustments to minimum wages either in 2017 or 2018. The absence of such an effect on the macro economy is reflected in chart 6.1 of the statistical report.

25. In our submission, the major influence in the poorer performance of the retail industry has been the decline in turnover in the second part of last year. At a labour level, this is more obvious in the form of decreased employment, rather than unemployment. If the decline in retail sales has stabilised (as the observations in Chapter 2 above seem to suggest), we would not expect any further adverse employment effects to be provoked by raising the minimum wage and modern award minimum wages.

[7] [2018] FWCFB 3500 at [197]

4. REPLY TO THE HOUSING INDUSTRY ASSOCIATON

26. We continue to agree with the Housing Industry Association (HIA) that the overall conditions in the construction industry are determined by reference to cyclical factors. Ultimately, the pipeline of work is a far greater determinant of apprentice and general employment levels in the sector than changes in minimum wages.

27. As was the case in the previous Review, the tax cuts (to incorporated and unincorporated business) and the accelerated depreciation measures which remain in place should provide some level of cushioning against the levelling off of demand in the sector.

28. As indicated in Figure 51 of the ACTU's initial submission, profits in the construction industry grew 24.2% in the year to September 2018 in nominal terms while wages grew 1.5%. Employment in the construction industry has started to contract in response to the end of the construction boom, however the HIA submission seems to acknowledge that there is some work which originated during the peak that is still continuing to completion.

29. Moreover, it is yet to be seen how much the improvement in housing affordability will impact on demand for housing, particularly for first-time buyers. Such improvement would mitigate the effects of the housing price falls and other proposed tax measures affecting investor demand.

5. REPLY TO THE AUSTRALIAN GOVERNMENT

30. The Government submission cites measures of low paid employees, whom they identify as those who earn below $20.27 an hour based on EEH data of May 2018, and $19.53 in the 2017 HILDA survey.[8] The Government submission says that these figures are based on 66% of median hourly earnings. The HILDA measure of median hourly earnings for employees aged 21 and over is given by the Government's submission as $29.30 which would put the bite at 64.6%, almost at their relative low pay threshold. From EEH the measure of hourly earnings that the Government calculate is for non-managerial employees aged over 15 ordinary time earnings with earnings of casuals deflated by 1.25, and is given at $30.40, which would put the bite at 62.3%. The Government has apparently assumed the proportions of casual and permanent or contract workers in the population of full-timeworkers are the same as for all employees, that is, 25.0%.

31. In its Review decision of 2018, the Panel said that there:

> "…is a clear case for continuing to pay attention to the conventional measure of the minimum wage bite, i.e. the NMW as a percentage of weekly median earnings of full-time employees and owner managers of incorporated enterprises. This measure has a long history, and is used in standard international comparisons. We think it is also valuable to consider the wage bite expressed in hourly terms, because it includes the many employees who are paid at or near to the NMW who work part time."[9]

32. Accordingly, in calculating the median wage bite, we have used the median weekly earnings for full-time employees in main job from Table 1a.1 of EEH 6333, cell J121 which is $1320 per week. This measure includes youth, is not deflated for casual loading, where casuals (i.e. employees "without leave entitlements") are a much smaller proportion of full-time than of part-time employees. This method yields a figure very close to the hourly full-time median earnings in main job of $34.20, from Table 1a.2 cell J121. Using this method, $22.80 per hour is two thirds of the median, and puts the NMW as 55.35% of the median.

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[8] Australian Government Submission to the FWC AWR 2019 p.16 [31].

[9] FWC Annual Wage Review 2018 Decision p.82 [311]

33. The share of casual employees in full time-employees in main job is 10.9% whereas the share of casual workers in part time employees in main job is 47.1%, from EEH 6333 Table 2.3 cells H9 and H10. We make use of this to estimate an hourly wage for full time employees. If we weight the full-time permanent and casual (deflated by 1.25) median earnings in main job given in EEH 6333 Table 2.3 cells H9 and H10 by their respective shares of the full-time numbers then the median hourly earnings for full-time employees in main job are $33.68 per hour. For part-time workers in main job they are only $24.71. This calculation of full-time median earnings is still very close to the weekly figure, despite factoring in the casual discount, because the proportion of casual employees in full time work is so small. It still gives a higher figure than referred to in the Government submission.

34. The ACTU's calculations for part-time earnings in main job reveal the importance of minimum wage and award increases for those in part–time and casual work, as the Panel indicated in its 2018 decision[10]. These workers are at a significant pay disadvantage compared with full-time non-casual workers. Relative measures are of course subject to the usual provisos and cannot be considered in isolation from, for instance, whether persons can actually live on amounts below those measures.

35. The Government submission sets out the proportions of the low paid who have various characteristics.[11] This includes measures of living standards in all households, not only employee households. The reason the Government gives is that including measures of living standards in all household allows it to consider not only relative living standards and the needs of the low paid, but also the need to promote social inclusion through increased workforce participation.[12] The inference appears to be, although it is not stated, that for households where no one is working but include "those who are able to work but do not have a job", increasing the minimum wage may lower their chances of employment due to employers being deterred to employ.

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[10] [2018] FWCFB 3500 at [311]

[11] Australian Government Submission to the FWC AWR 2019 p.18 [42], and A4 Table A2.

[12] Australian Government Submission to the FWC AWR 2019 p.18 [42].

36. In its 2018 decision, the Panel stated that: "The labour market is currently supporting social inclusion through increased workforce participation and there is no evidence that this is being inhibited by the current level of minimum wages."[13] In the ACTU's view, the presumption that raising the minimum wage will reduce employment has been widely empirically examined. Minimal effects have been found, as set out at length in its submissions to recent Annual Wage Reviews, including this one.

37. If "all households" are considered, the population studied includes a significant proportion of households where no one is available for work, due to retirement or other reasons, and therefore would not be directly affected by minimum wage increase. These are not enumerated in the Government submission, nor is there an assessment of in which households the unemployed are located.

38. The Government finds that low paid employees are reasonably evenly scattered throughout all households, but are concentrated in the bottom half of employee households. It presents the two distributions in Chart 2.2.[14] The charts which compare deciles of employee households with deciles of all households do not present the dollar values corresponding to the deciles in the two sets respectively, which limits the usefulness of the presentation.

39. The Government submission views wage growth as arising from a tightening labour market, including labour shortages in "some sectors of the economy". It fails to identify the process by which labour market supply and demand signals get transmitted through to wages. The fact that business groups' submissions to this Review have indicated that the minimum wage increase should not meet likely inflation, does not bode well for a market response to wage increases.

[13] FWC Annual Wage Review 2018 Decision [65] and [256]

[14] Australian Government Submission to the FWC AWR 2019 p.19 [45].

40. The Government submission says that enterprise bargaining gives an incentive to workers to improve their productivity as they directly benefit from higher wages.[15] Yet, based on the data before the Panel in this Review, even labour productivity growth and wage growth appear largely unrelated across industries and through time. Moreover, it is unclear that employers are prepared to agree to higher wages based on productivity increases and there is no incentive for them to do so. The Government submission offers a number of reasons for the decline in enterprise agreement coverage, "including structural change to Western economies, the effects of globalization, and changing employer and employee attitudes."[16] It does not mention (for Australia at least) the change in industrial relations framework, which we regard as significant – as did Professor Isaac in the research referred to section 5.5.7 of our initial submission.

41. Relevant to promoting social inclusion through increased workforce participation, the Government submission addresses employment impacts. It refers to the 'stepping stone' argument whereby low paid jobs serve as an entry point for new workers. The Government says that wages "like all business costs, are likely to have an impact on employers' workforce decisions." [17] Again, the inference is that a minimum wage increase could act as a deterrent to employers offering low paid employment, thereby limiting access to the workforce by new entrants.

42. The Panel addressed this contention in its Decision of 2018 in observing that while

> "in the 2016-17 Review decision we agreed that employment in low-paid work is a stepping stone for many into higher-paid work, … there are many others for whom this is not true. We have also previously observed that '[we] cannot be indifferent to the standard of living of low-paid workers just because many do not stay in that situation for long periods.'"[18]

[15] Australian Government Submission to the FWC AWR 2019 p.59 [220].

[16] Australian Government Submission to the FWC AWR 2019 p.60 [224].

[17] Australian Government Submission to the FWC AWR 2019 p.61.

[18] FWC Annual Wage Review 2018 Decision [194]

43. The Government submission does not address, on its own admission[19] the total extent to which workers remain in low paid jobs for many years, nor the total proportion of workers in low paid jobs at any time, the standard of living of whom is most affected by the decisions of the Panel. These workers are not captured in the flows data provided in the Government submission. Nor does the Government submission indicate the extent of reverse flows, that is where people move from higher paid into lower paid work. The ACTU submits that the stock figures are more important metrics in assessing both relative living standards and the needs of the low paid, and social inclusion as reflected in class position.

44. The international empirical literature addressing the impacts of an increase in the minimum wage on youth employment, as referred to in ACTU submissions to this and previews Reviews, indicates either positive impacts, no impacts, or at the most small negative impacts on employment. That literature considers circumstances where only the minimum wage is increased, thereby initially reducing the gap with other wages. In Australia's situation, where many other workers also receive award increases, one would expect that the gap between the minimum wage increase and other wages would be less binding, thereby weakening any potential impact on entry level employment.

45. The standard neoclassical assumptions about the impact of a minimum wage increases also appear to pertain to the reporting of data in the Government submission that finds that low paid people are more satisfied than the unemployed. The inference appears to be that a minimum wage increase could reduce low paid employment thereby keeping people unemployed.[20]

46. The ACTU notes that the Government's submission's reporting of financial stress does not indicate the actual income levels, in relative or absolute terms, corresponding to unemployed, or lower paid and higher paid employees.[21]

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[19] Australian Government Submission to the FWC AWR 2019 pp.61-62 [230] note to table 7.1

[20] Australian Government Submission to the FWC AWR 2019 p.62 [231]

[21] Australian Government Submission to the FWC AWR 2019 p.62 [231] Table 7.4

47. Regarding income inequality, in its initial submission to the AWR of 2018 the ACTU expressed its reservations about the use of the Gini coefficient as a comprehensive measure of inequality. The ACTU noted the lack of sensitivity of the Gini coefficient to changes at the top and bottom of the distribution which are particularly relevant to the minimum wage.[22] The Gini coefficient does not give information about absolute dollar values of income at any point, nor about stretching or squeezing of the income distribution at either end.[23]

48. It is well recognised that the Gini coefficient, while convenient, has limitations for measuring income inequality. The Gini coefficient indicates the difference between an equal distribution of income across households or individuals and the actual distribution of income. If the Gini coefficient is equal to zero, income is equally distributed across households, and if it is equal to one, one household receives all the income and the rest none, so that a higher Gini value corresponds to greater inequality. The Gini does not indicate the absolute dollar incomes received by households or individuals across the distribution. These amounts can be very different for the same Gini value. Further, a higher (more unequal) Gini value can correspond to a higher average or median income, while a lower one corresponds to a lower average or median income. The Gini is an average income difference between households, measured as a ratio of two areas. The middle of the income distribution gets more weight than either end (the tails), which could be long or short and stretch or shrink over time for the same Gini coefficient. The stretching out or shrinking in the distribution at the lower and higher income ends is not well captured by the Gini. But it is the tails that are of concern for the Panel, particularly the lower end of the household income distribution.

49. The Government's comments on income mobility as a proxy measure of equality of opportunity would greatly benefit from an analysis which compares the rate of movement down the income distribution with the movement up the income distribution. Movements between deciles or quintiles only have meaning to the individuals and

[22] ACTU initial submission to the Annual Wage Review 2018 [229]

[23] World Inequality Report 2018, https://wir2018.wid.world/ , p.27

households concerned insofar as they reflect *changes in real income* and then how that compares with changes in real income for others.[24]

50. In any event, it is not clear how higher mobility (if that is the case) relates to minimum wage increases. The implication may be intended that higher mobility means that low pay is only temporary and that the need for minimum wage increases is obviated. As has been indicated previously, we are concerned with the total low paid at any point in time, and there is a substantial proportion of the population which could remain in low pay ranges and low-income households all their lives.

51. The Government submission says that "the ABS data shows that low and medium-paid employees have seen gains in real earnings over the last decade, but at a slower pace than high-paid employees".[25] Footnote 37 of the submission further says that income growth appears to be higher than earnings growth generally, attributing this to household composition, higher labour force participation, more rapid growth in investment income, and changes to the tax-transfer system. The ACTU takes the view that the lower growth rate of earnings from employment would be due to investment income received in the higher income end of the distribution. At the same time, the tax transfer system impacts most on those who are in non-employee households, which is those at the bottom receiving net transfers, and those at the upper end gaining from more complex income management strategies for tax purposes. Accordingly, the minimum wage and awards are left to do the heavy lifting in terms of lifting rates of growth of earnings.

52. The ACTU notes that the real hourly minimum wage in Australia has to do more heavy lifting than the minimum wage in many comparable countries with a lower one, which have much more comprehensive welfare and public infrastructure, such as Germany, Belgium and the Netherlands which are ranked just below it.[26]

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[24] Australian Government Submission to the FWC AWR 2019 p.70 [270] – [272]

[25] Australian Government Submission to the FWC AWR 2019 p.70 [275]

[26] Australian Government Submission to the FWC AWR 2019 p.73 [281]

53. The inference at paragraphs [282] and [283] of the Government submission is that the influence of the increase in minimum wage and awards in increasing income across the distribution is a negative. An alternative interpretation is that the Annual Wage Review is the primary means by which the sought after mitigation of low growth in wages will be achieved.

54. The Government submission also appears to argue that the tax-transfer system is more effective as a redistribution of income mechanism than raising the minimum wage.[27] This is a different question than that of how income will actually be raised. Overall, income is increased through wage increases in the first instance, and these are not forthcoming by any other means than through minimum wage and awards increases. Moreover, as has been previously pointed out, the tax transfer system does less redistribution in Australia than most other comparable OECD countries. The targeting approach in Australia is very narrow and meagre, leaving many income traps and people remaining in need. Most of all, much uncertainty surrounds how the progressivity and targeting criteria will change.

[27] Australian Government Submission to the FWC AWR 2019 p.76 [288] ff

6. REPLY TO THE AUSTRALIAN COUNCIL OF SOCIAL SERVICES

55. The Australian Council of Social Services (ACOSS) submission says:

> "The minimum wage also impacts poverty indirectly through its relationship with the social security system.
>
> It is appropriate to maintain an appropriate gap between the base rate of working age social security payments and the minimum wage, in order to provide a financial reward for engaging in paid work. At present that gap is substantial, with a person receiving maximum rate Newstart Allowance doubling their disposable income if they take up a job at the minimum wage." [28]

The statement implies that if the gap between Newstart and the minimum wage diminishes, people have less incentive to find work, due to what it describes as "rewards for employment".[29]

56. In the ACTU's view, unemployment is mainly driven by demand for labour and aggregate demand for output in the economy. Most people prefer to work, but if the people wanting to work exceeds vacancies which it does, then some people will not find work at any wage level or gap between wages and unemployment benefit, and unemployment is essentially involuntary. The unemployment rate, in economies where unemployment benefits are much closer in level to earnings in employment, is not higher in any attributable way. In the ACTU's view the ACOSS submission assumes an outdated, neoclassical model of the labour market.

57. The ACTU acknowledges that Newstart needs to be a lot higher. But this is not in turn a reason to raise the minimum wage, in order to maintain the gap and promote social inclusion through increased workforce participation. Rather, both welfare payments, and minimum wages need to increase in order to improve relative living standards and better meet the needs of the low paid.

58. The ACTU agrees with ACOSS that "governments cannot be consistently relied upon to supplement low pay for families with children, leaving them vulnerable to poverty in the

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[28] ACOSS initial submission to the FWC AWR 2019, p.5

[29] ACOSS initial submission to the FWC AWR 2019, p.12. p.33, p.34 (par.1, par.3), p.35,

absence of substantial increases in the NMW."[30] However, in the ACTU's view the level of the minimum wage is not adequate for a single person household either, leaving them in poverty, and other household types are below or very close to what are conservative measures of poverty, including budget standards. This is set out in the ACTU's initial submission to the previous year's Annual Wage Review.[31]

[30] ACOSS initial submission to the FWC AWR 2019, p.12

[31] ACTU initial submission to the FWC AWR 2018, S4.5.1, pp.109-112, [282]- [293]

7. REPLY TO THE AUSTRALIAN INDUSTRY GROUP

59. Whilst we concur with Australian Industry Group (Ai Group) in its general observation that economic growth is slowing, we do not agree with its assessment that this requires the Panel to award an increase in this Review which is lower or "much more modest" than those awarded in the last two years. Further, to the extent that the AiGroup imply that recent reforms to personal income tax should result in a direct, algorithmic offset should to any increase that the Panel might otherwise be considering, we reject such implication. To adopt such an approach would fail to recognise the variety of working hours patterns which impact personal income tax assessments for award-reliant workers and would clearly be inconsistent with the Panel's view that such mechanical adjustments are inappropriate.

60. In addition to the matters addressed in our initial submission, there are a number of matters which we would urge the Panel to consider in assessing the persuasiveness of the Ai Group's principal arguments.

61. The components of the "slowing of economic activity" that Ai Group reports demand careful consideration. As we sought to demonstrate in our initial submission, economic growth has declined from a healthy base and is not, objectively, poor (and certainly not negative). The Ai Group recognises on page 7 of its submission that poor consumption growth is a risk to the economy and even estimates that per capita consumption growth is zero. Later in the Ai Group submission, they:
    a) observe that "..local discretionary spending remains extremely cautious, as household grapple with the effects of relatively flat incomes growth.."[32];
    b) contrast weakness in the sales of passenger vehicles to the growth in sales of commercial vehicles[33];
    c) suggests that most of the growth in turnover in the coming year will be sought by business from the domestic market rather than exports[34];

[32] At p 8.

[33] At p. 11

d) identifies from Ai Group's own survey research that "lack of customer demand" is the most significant inhibitor to business in the coming year[35]; and

e) attribute the pockets of weakness in the labour market to weakness in aggregate consumer spending[36]

62. Household consumption, as a key driver of real GPD, is something that the Panel can stimulate directly and meaningfully by explicitly not awarding a "much more modest" increase than it has in recent years. Further, insofar as the Ai Group observe that the level of business investment overall is biased in favour of productivity enhancing technologies - amid what we have shown to be generally healthy indicators of profits and profit growth and labour productivity growth above wages growth - it would be unfair to argue that a meaningful increase to wages would be inappropriate, even if market considerations and not the statutory criteria were the factors guiding the Panel in its determination.

63. Further examination should also be given to other economic indicators raised in the AiGroup submission. Broadly, what the confidence indicators are suggesting is that business (wage payers) confidence remains positive while consumer (wage earners) confidence is negative, which is hardly surprising. In addition, the NAB surveys referred to in AiGroup submission bear careful consideration in regards to what they say about wages and employment. The NAB 2018 3rd Quarter survey report included a detailed discussion of wage pressures and its drivers. Notwithstanding that the survey was conducted after the Panel's increase of 3.5% last year, which the Ai Group described as "exceptionally high and out of step with overall wage movements and economic settings",[37] labour supply issues are identified as far more significant factors than the minimum wage decision in driving up wage pressure in all industries bar one. Table 1 below is reproduced from the NAB 2018 3rd Quarter Survey Report.

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[34] At 17

[35] At 23.

[36] At p27

[37] At p 4.

Table 1: Factors driving up wage pressures by industry (% of firms)

	Finding suitable labour	Minimum Wage	Union Pressure	Organisational Growth	Incentives/Bonuses	Need More Skilled Staff	Productivity
Mining	67	17	17	39	17	56	39
Manufacturing	48	23	28	26	14	26	28
Construction	62	24	44	42	28	54	34
Retail	56	42	9	36	40	47	31
Wholesale	51	30	14	32	32	46	27
Transport/Storage	53	27	27	43	20	40	13
Finance, Business & Property	56	17	8	42	23	56	25
Recreational & Personal Services	47	50	20	39	7	33	25

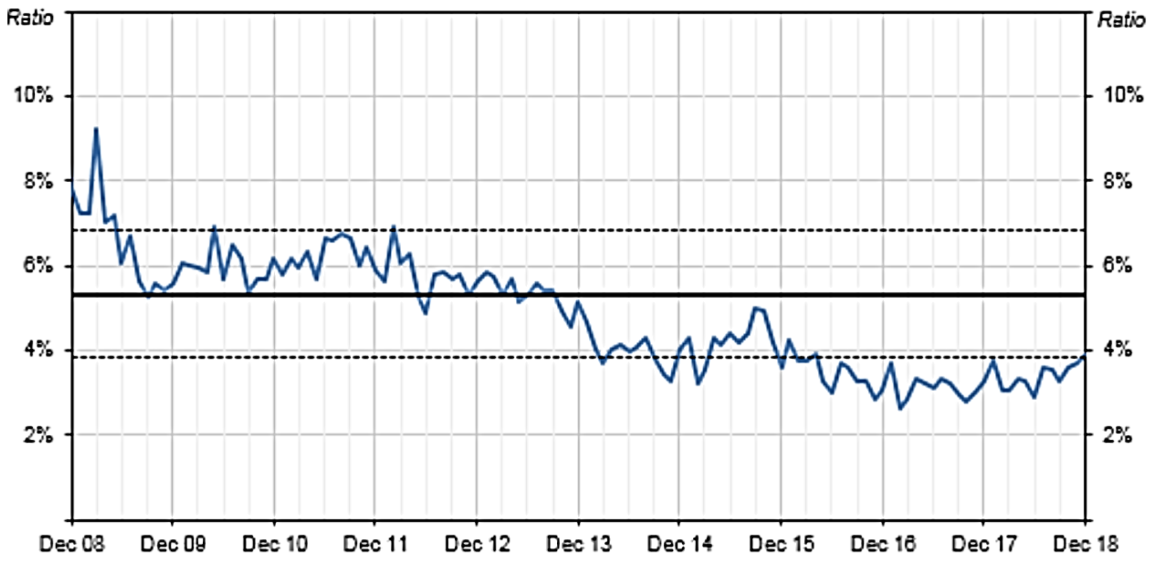
Source: NAB (https://business.nab.com.au/wp-content/uploads/2018/10/2018q3-NAB-Qtly-Business-Survey.pdf)

64. In relation to the above, the NAB concluded:

> "In aggregate, the most significant factors that firms report will drive wage growth revolve around competition for skilled workers and finding suitable labour. Over half of respondents see the difficulty in finding suitable labour as a factor driving increasing wage pressures. The need for more skilled staff also is reported as an important [sic] with around 40% of firms identifying this factor as driving expected wage pressure. The minimum wage decision and union pressures appear to be less important at present with the exception of a limited number of industries as does wage pressure around bonuses and incentives"

65. Ai Group make reference to ASIC insolvency statistics and the ABS Australian Industry series concerning operating profits in section 2.3 of their submission. We would encourage the Panel to be cautious in drawing conclusions about this data both as measures of individual business performance and more broadly. Firstly, the ASIC statistics relate to companies entering external administration for any reason and while external administrations are related to insolvency, insolvency can be the result of complex arrangements between related actors that are not necessarily solely driven by the health of the underlying trading business. Secondly, raw numbers of companies entering external administration are not a reliable a guide of overall conditions: a focus on these numbers is comparable to looking at the rate of business exits without turning one's mind to the rate of business entries. Fortunately, ASIC provides a summary analysis of its quarterly insolvency statistics which includes a time series chart of the ratio of external administrations to new business registrations. The most recent chart, from the December Quarter 2018, is reproduced as Figure 5 below.

Figure 6: Ratio of External Administrations to new business registrations



Source: ASIC (https://asic.gov.au/regulatory-resources/find-a-document/statistics/insolvency-statistics/summary-analysis-of-insolvency-statistics/)

66. It can be seen that the overall ratio is not appreciably different to, and is around the mid point of, the quarterly observations seen since approximately March 2013, and well below the decade average.

67. The ABS Australian Industry series relied on by Ai Group, which cover the years 2014-15 to 2016-17, are said to indicate that (around) 20% of business ran at an operating loss in each year and that "these companies are not insolvent, but are clearly not thriving".[38] The Australian Industry Series is based on the Economic Activity Survey which combines ABS collected data with data held by (i.e. reported by businesses to) the Australian Tax Office[39]. The interpretation of measurements of quoted operating profit or loss figures should accordingly be tempered by the reality that these indicators do not necessarily translate as accurate measures of overall business health or of the returns to the ultimate

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[38] At p 15.

[39] See ABS methodological descriptions: https://www.abs.gov.au/AUSSTATS/abs@.nsf/DSSbyCollectionid/F3614B9BB5A9F1DDCA256BD000287CA7?opendocument and https://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/8155.0Technical%20Note22016-17?opendocument&tabname=Notes&prodno=8155.0&issue=2016-17&num=&view=

proprietors of those businesses, particularly where arrangements exist between related entities. In addition, some periods of operating loss may be intentional and transitory for other reasons. The apparently exceedingly poor profitability of the mining industry on the figures quoted by the Ai Group – 57-59% of businesses in the mining industry have "made a loss" in the last 3 years - perhaps best exemplify these measurement issues when compared with other indicators of mining industry performance in recent years.

68. In relation to consumer spending, the AiGroup submission says:

> "The labour market weakness in these [low wage low skill services industries such as retail trade, food and accommodation services, arts and recreation and personal services] industries reflects the ongoing weakness in aggregate consumer spending, as well as structural changes arising from new service delivery preferences, technologies and new goods and services that are disrupting traditional 'bricks and mortar' businesses across these industries. Other industries with weak employment growth in 2018 included transport and administrative services. These industries also employ relatively higher numbers of low-skill and low-wage workers."[40]

69. It is the ACTU's position that any manifest ongoing weakness in aggregate consumer spending is due to persistent low growth in wages especially for the low paid, who spend all the income they get. Even in labour intensive service industries the share of labour costs in total costs is relatively small and wage increases need to be viewed in the context of changes in other costs. Arts and recreation is sensitive to government expenditure on the arts, and the exchange rate for tourism. Further, there are other service based industries which are award-reliant such as Health and social assistance where employment is increasing rapidly and has not been held up by recent minimum wage and award increases. The AiGroup also ignore the role of technological and industry structural change for redistributing labour around industries. These changes be shown to be related to the minimum wage and awards or increases in those. The fall in retail employment is likely to be linked to increases in wholesale employment, as online sales increase as a share of the total and employment moves into logistics. Overall we see signs of a tighter labour market but without any supposedly commensurate increase in wages. This is notwithstanding underemployment which remains significant and sustained.

[40] AiG initial submission to AWR 2019, p.27.

70. In section 2.7 of their submission, Ai Group seek to construct a narrative to suggest that the relatively low wage share of total factor income is explicable by matters that should render it unimportant in the Panel's considerations. We disagree that the Panel should be so unconcerned. Whilst it is correct that a portion of the rise in the capital share is explicable by reference to rents and the imputed rents of home owners, the lived experience of that is a decline in housing affordability where wages largely remain stagnant, particularly for the lower income workers who the Panel's decision will impact most. A recent *RBA Bulletin* which closely examined the issue said:

> "It is also possible to decompose the housing capital share into the relative 'price' and 'quantity' of housing consumed. About half of the long-run increase in the housing capital share is due to an increase in the relative price of housing. This has been especially important over recent decades. The remainder of the increase in the housing capital share is due to 'real' factors, such as in increase in the average size and quality of owned homes. These real factors were particularly important in the period between 1960 and 1990"[41]

71. Whilst we agree with Ai Group that mining profits have been an important influence on income shares, we would add that changes in the finance and insurance industry are also important and relevant to the allocation of income between profits and wages. The *RBA Bulletin* referred to above traces a rapid decline in the labour share of income in that sector, which it attributed to reductions in labour demand due to technological and structural changes in the industry as well as to high multifactor productivity (although the output measurements for the industry described in that Bulletin appear to essentially measure profit rather than output per se)[42]. Peetz (2018)[43] conducted an analysis of labour and capital income shares in financial versus non-financial industries, using two four year periods: 1990/91-93/94 versus 2013/14-2016/17. He found, relative to other industries, strong increases in the profit share in finance and strong decreases in the labour share, but also found a broader financialisation effect. This was described by Peetz as follows

> "..the share of labour income (wages, salaries and supplements) in national income fell and the share of profits and 'mixed income' accordingly rose. However, all of that increase in the profit/mixed income

[41] La Cava, G., The Labour and Capital Shares of Income in Australia, RBA Bulletin, March 2019.

[42] *Ibid.* at p 10-13.

[43] Peetz, D., "The Labour Share, Power and Financialisation", Journal of Australian Political Economy (No. 81), 33.

share (and a bit more) went to finance capital: profits in finance doubled as a share of the economy between 1990-94 and 2013-17.

The portion of national income, and for that matter of national employment, afforded to labour in the financial sector actually fell. In fact, the economy devotes proportionately no more labour time now to financial services than it did a quarter of a century ago, yet the rewards to finance have increased immensely. Indeed, the share of national income going to industrial sector profits and 'mixed income' actually declined. In short, the widely recognised shift in income from labour to capital is really a net shift in income from labour, and from capital (including unincorporated enterprise) in other industries, to finance capital. In other words, financialisation is not really about the growth of financial activity. It is about the growth of finance capital, and (as we have seen) the impact that this has on the behaviour of other actors."[44]

72. The relevance of the financialisation effect is that the Panel is in a position to set limits on the extent to which the gains to finance capital come at the expense of workers' wages at various points in supply chains. This should, indirectly, place limits on the extent to which non-finance sector industries are "squeezed" by financialisation (although admittedly not as effectively as a properly functioning sectoral bargaining regime would).

73. Section 2.8 of the Ai Group's submission ("Wage rates accelerating mildly in 2018-19") traverses the same issues addressed in 4.14 of our initial submission. Contrary to the implication that the modest (at best) wage gains seen in recent quarters are a result of market forces, we suggest that the biggest single influence on wage movements outside of collective bargaining has been the decisions of the Panel. AiGroup's data itself provides testimony to this, suggesting that without minimum wage and award increases wages would have been growing even more slowly.

74. Section 2.10 of the Ai Group submission briefly presents some measures of productivity, but fails to address the measurement and other issues raised in section 4.5 of our initial submission. We would add that in any event a granular and industry level analysis of productivity changes over an incomplete growth cycle is far from determinative in the Panel's considerations. The Panel's consideration of productivity arises somewhat differently in the setting of the minimum wage versus modern award minimum wages. In the former case, in addition to forming part of some generalised assessment of a "fair"

[44] At 46.

minimum wage, productivity is identified as one element of the "national economy" that is to be "taken into account" in maintaining minimum wages. In other words, the focus is on how the level of productivity informs the setting of the minimum wage. In the later case, the Panel is, aside from considering generally what is "fair and relevant", required to take into account the impact that its decision is likely to have on productivity. Even the "worst case" scenario, which Ai Group seek to present, does not rule out an adjustment to either the minimum wage or modern award minimum wages that exceeds gains in productivity or other market measures. In any case, low productivity growth is itself an indication of market failure in which the private sector is unable by itself to kickstart the productivity improvements that would apparently lead to wage increases, and the Government has not seen fit to provide the education and innovation policy needed to do so. Again, the Panel's decision about minimum wage and award increases remains a chief source of wage increases.

75. Regarding the Ai Group's international comparisons of real minimum wages in Section 2.11 of their submission, again the ACTU would point out that most of the countries in Charts 44 and 45 have much more substantial welfare and infrastructure which contribute to the social income of low paid people, compared with Australia.

76. Regarding Section 4, the ACTU in its previous submissions has referred to the large literature which finds little or no effect of minimum wage increases on employment, including youth.

77. Section 5 of the Ai group submission contains a discussion of inequality and relative living standards. Whist we do not disagree with the proposition that the tax and transfer system is an important tool for reducing inequality and improving living standards, Chapter 6.3 of our initial submission demonstrates that it has been less effective in recent years at achieving this goal. The ACTU hopes that the Ai Group would support policies that pursue those objectives through the necessary increase in progressivity of the tax system and spending on welfare provisions, especially given the deterioration in recent years. Further, as the Table 8.5 in the Statistical Report shows, each of the hypothetical household types usually modelled saw a direct benefit from minimum wage increases granted in the previous Review.

78. To bolster their position concerning the role of minimum wage increases in addressing inequality, Ai Group urge a "reconsideration of the utility" of placing greater weight on where low paid workers sit in the overall household distribution of incomes, rather than the distribution for employee households. However, we note that the Panel has canvassed this issue before, particularly in the 2016-17 Review[45]. Further, the only new information that has come to light, being the Australian Government's re-modelling (with new HILDA data) of the distribution across households on page 19 of the submission, does not assist the Ai Group's argument. The Governments re-modelling clearly shows a decline in the concentration of low paid workers in the all households category above the 6th decile. As has been raised by the Panel in the past, the Ai Group provides no suggestion as to how the relative living standards of low paid workers who constitute single adult households might be meaningfully improved other than by increasing their wages. The modelling provided in Table 11 of the Ai Group's submission rather tends to show a minimal impact even from direct income tax cuts.[46]

[45] [2016p FWCFB 3500 At [400] to [406] See also the Transcript of the Consultation held on 17/5/2017 at PN469-483 and page 2 of the Australian Government's written response to the question asked in that extract.

[46] Tax cuts at higher levels would also be predicted to deliver smaller gains than normal wage increases: Stanford, J. & Henderson, J. (2019), " Wages, taxes and the budget: How to genuinely improve living standards", Australian Institute Centre for Future Work, 1/14/2019.

8. REPLY TO THE AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

79. The Australian Chamber of Commerce and Industry (ACCI) ultimately advocate for real wage maintenance in their submission. For the reasons given in our initial submission, we do not concur that this would be an appropriate outcome.

80. ACCI's underlying logic, as explained in paragraph 29 of its submission, is one where the central consideration is a binary choice between whether minimum wages should increase more than prices (seemingly without consideration of whether other wages have risen faster than prices). Notably, this binary choice only arises if opposing a minimum wage increase has been ruled out in the initial limb of ACCI's decision tree. Further, it seems that this initial choice of whether or not to oppose a minimum wage increase is informed solely by "economic and labour market considerations" and not any of the social criteria that are found in sections 134 or section 284 of the Act. Notwithstanding this rather unconventional approach, ACCI go on to criticise the Panel's recent decisions and caution strongly against the Panel straying from a strict application of the statutory criteria which govern its functions.

81. ACCI seem to unduly elevate and mischaracterise the significance of the Panel's statement in paragraphs [80]-[81] of its decision last year. Firstly, the statement was in effect a summary of a fuller discussion which appeared at the end of the Chapter 2 of the decision ("Economic and Labour Market Considerations ") in paragraphs [254]-[262]. It is the usual course for the Panel to provide a summary of issues addressed in the decision in an early section of the decision. The comments, read in context, certainly do not amount to the *ratio* of the decision. Secondly, the comments, read in context, are clearly directed to the issue of considering whether the 3.3% increase awarded in the 2016-17 decision was too high *in the prevailing circumstances*. The Panel outlined some key economic observations that occurred in the aftermath of that increase, including some positive and some neutral, and noted an absence of any negatives. Thirdly, there is nothing controversial or improper about the Panel inquiring into, or looking for some evidence of, the impacts of its previous decisions in reaching a decision about what the minimum wage and modern award minimum wages should be in a particular Review.

Indeed, one could not reasonably expect the Panel to do otherwise given the express dictates in the modern awards objective to take into account "the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden" and "the likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy".

82. On the issue of the likely effects of the decision, ACCI's position seems to be that the that Panel should be concerned with the potential downside risks only. This position is ultimately expressed in paragraph 34 of ACCI's submission, which states:

> "With a weakening in the outlook for both the global and domestic economy in 2019, the FWC should move more cautiously in raising the minimum wage and award wage rates on this occasion than in 2018 and in recent years. Any increase in wages that is out-of-sync with the rest of the economy, and the domestic and global economic conditions impacting on the doing of business in Australia, is likely to weigh heavily on employment growth, lead to higher rates of underemployment, reduce productivity and constrain economic growth".

The mechanisms by any of these extreme consequences would operate is entirely unexplained.

83. For our part, we question how the global economic situation directly bears on the businesses most impacted by the decision, given that the industry sectors which are most densely populated by award-reliant workers do not appear to be those that are highly exposed to trading risks and given that smaller businesses (which disproportionately employ award dependent workers) tend to market locally rather than globally. The local risks highlighted by ACCI include consumption growth and a slow growth in household incomes. It is pertinent that the Panel's previous decisions (and the most recent Statistical Report) attempt to model the impact of minimum wage increases on the incomes of particular household types, and positive increases are shown. Further, the Panel has previously accepted that increases to minimum and modern award wages are likely to have some effect on consumer demand.[47] Such an effect is within the realm of "likely effects" that the Panel is obliged to consider.

[47] [2017] FWCFB 3500 at [528]

84. ACCI's discussion of productivity in section 3.4 of its submission lacks rigour. ACCI refer to the Panel's previous observation that "increasing minimum wages are more likely to stimulate productivity measures by some employers directly affected by minimum wage increases, rather than inhibit productivity"[48], while omitting the text "directly affected by minimum wage increases". It is clear that the Panel's statement is a qualified one. Paragraphs 130-131 and Figures 32-35 of our initial submission show the disparity between labour productivity indexes and the real minimum wage and average by industry sector including some more and some less award dependent industries. ACCI prefer the simplistic statement that "the relationship between minimum wage and productivity may longer be holding"[49], which they make by reference to macro figures only, including labour productivity movements over the incomplete business cycle. Perhaps more concerning is ACCI's assertion, at paragraph 45 of their submission, that the "only" way in which minimum wages can positively impact productivity is by employers being driven "..to substitute labour inputs with capital inputs". This is to completely misunderstand the nature of technological advance which *ipso facto* involves an increase in total output for any combination of inputs. Thus it may involve substitution of capital for labour but it will also involve an increase in output. This is why capital intensive technological advance increases employment and output overall over time as it has done since the Industrial Revolution or before. Moreover, this seems to entirely dismiss the other strategies which accompany increasing wages and push out the production possibility frontier, such as changed and improved work practices, multiskilling, complementary use of technology and enterprise level bargaining. These are the legitimate and efficient responses which enhance labour, capital and multifactor productivities over time, on long term trend.

85. The discussion of unit labour costs at section 3.3 of the ACCI submission is also concerning, insofar as it suggests that the Panel is unconcerned by this measure of costs pressures in the labour market. We disagree. The Panel, appropriately, does not place too much weight on short-term shifts in particular economic indicators if they are explicable by temporary effects that distort their significance. In the 2016-17 Annual

[48] [2017] FWCFB 3500 at [227]

[49] At paragraph 50

Wage Review, the Panel reasoned that the sharp fall in real unit labour costs in 2016 was referrable to improved terms of trade resulting in "increased revenue for a given level of volume exported by the mining sector"[50], a sector which in any event was not particularly labour intensive. This terms of trade effect was also evident in the extremely high profit growth figures for mining over 2016: 26% against 5 and 10 year averages of 3.2% and 5.1% respectively[51]. The Panel noted that much of those profits were ultimately distributed to foreign shareholders[52]. In the 2016-17 Annual Wage Review, the Panel made clear that it regarded this effect as temporary and exceptional:

> "While there have been some modest fluctuations, the gains in labour productivity over the past 8 years have matched those of all but one of the periods since 1973–74. These gains have by and large been reflected in wages (or, more precisely, in costs of employment). The exception is 2016, where the boost to national income from the improved terms of trade has gone mostly to profits, especially (but not entirely) in the resources sector. The terms of trade have been volatile in the past decade and the RBA is of the view that the current high levels are unlikely to be sustained. Nor do the benefits from them flow in any direct way to labour. It is prudent at this stage to place little weight in our deliberations on the most recent rise in the profit share of total factor income, and associated fall in real unit labour costs."[53]

86. In the following Review, the Panel observed a slight decline in the terms of trade but nonetheless observed that real unit labour costs remained low:

> "We conclude that, as anticipated in last year's Review, there was some reversal of the previous sizeable fall in real unit labour costs (and associated fall in labour's share of national income), due to some decline in the terms of trade during 2017. Despite this, real unit labour costs and labour's share of national income remain at unusually low levels."[54]

This reasoning suggests that the Panel has been receptive to the level of and changes in real unit labour costs and is attuned to circumstances affecting whether this measure should or should not be relied on as a true or broad indicator of labour costs pressures. In the current Review, where the terms of trade did improve somewhat over the year but not the extent seen in 2016 yet real unit labour costs fell then stabilised at historically low levels, the Panel should, in our submission, view real unit labour costs as less

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[50] [2017] FWCFB 3500 at [241].

[51] [2017] FWCFB 3500 at Table 4.2. Note the current statistical report shows mining profit grown over 2016 at 76%.

[52] [2017] FWCFB 3500 at [241].

[53] at [243]

[54] [2016] FWCFB 35090 at [134]

distorted by mining than was the case in 2016. This is particularly the case if the profit figures in Table 3.3 of the Statistical Report are considered: whilst the mining sector still saw higher profits than other industries in 2018, its profit levels were far closer to the total industry figure in 2018 than was the case in 2016.

87. Section 3.5 of ACCI's submission paints a picture of deteriorating profits over the year. It is not entirely clear what is to be made of this given ACCI's stated awareness of volatility. For comparison purposes, it should be noted that, on trend figures in the Business Indicators[55] series, the all industries profit growth over the September and December Quarters of 2018-19 was higher (at 2.5%) than it was for the 2017-18 September and December Quarters (at 2.2%), with negative growth in the September quarter of 2017. Moreover, the profit figures coincide with falling inventories (seasonally adjusted) which suggests a short term increase in sales, and no change in trend inventories which suggests levels are on target, rather than increasing unexpectedly. In addition, wages are growing at the same rate as profits in the December quarter 2018 which indicates output is growing. This is not an indication of shrinking activity. ACCI ultimately asserts that "A further sizeable, broad-based increase in minimum wages cannot be sustained in 2019 and may further exacerbate the weakening economic conditions"[56], yet provides no explanation of the mechanism by which it theorises this will occur. Given the highly variable pattern of profitability between industries, as shown in our initial submission, a statement as broad as that which ACCI makes would be difficult to accept even if the mechanism were disclosed.

88. Section 4 of the ACCI submission, on the issue of wages, seems dedicated to dissuading the Panel of adopting an approach which ACCI ultimately concedes, in the 3rd final paragraph of its Chapter, the Panel has already rejected. Neither the ACTU, nor the Panel (nor any other party to our knowledge) have adopted the view that the Panel should approach its task on the basis that the purpose of the Annual Wage Review is to lift the wages of persons who are not dependent on a national or modern award minimum wage. However, as we have pointed out earlier in our response to ACCI, the

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[55] ABS Cat 5676

[56] At paragraph 85

Panel is required to, and should, consider the impact that its decisions may have on the groups not directly bound to minimum wages (both employees and employers) and the economy more generally. In doing that, the Panel may reach conclusions about likely positive and/or likely negative effects on some groups. ACCI's submission generally raises a number of potential negative effects. Our initial submission suggests some potential positive effects. Neither should be disqualified from the Panel's consideration as part of its decision making process.

89. In terms of the actual wages figures quoted by ACCI, it should be noted that the trend quarterly WPI figures have varied between 0.5% and 0.6% since at least December 2016,[57] suggesting recent levels are not a break from the long term low wage growth. In addition, AAWI has fallen from 3.2%-2.8% in new agreements between the September and December Quarters, and stayed level at 2.7% for "current" agreements over the same period. Also, notwithstanding nine paragraphs discussing what reserve bank Governor Dr Lowe had to say about wage growth, ACCI neglect to mention his comments the House of Representatives Standing Committee on Economics on 22 February 2019:

> "..I've been quite comfortable with the minimum wage adjustments over the last few years. Last year it was 3½ per cent. The year before it was 3.3. In these other countries that have had very large increases in their minimum wages, it's partly because the level of their minimum wage was quite low and they've had to lift them up. The benefit of regular adjustments in our minimum wage is they haven't got too low relative to the median wage in the economy, so we haven't had to have big-step jump-ups. But I think minimum wage increases starting with a '3', even though average wage increases are 2½ to three, make a lot of sense."[58]

90. Section 8 of ACCI's submission seeks to argue that ongoing effect of the Penalty Rates decision is irrelevant, even as a contextual factor. We disagree. Our view is that the change in relative living standards of weekend workers in highly award-reliant industries should not be ignored by the Panel. In addition, ongoing monitoring of the impacts of the decision might inform the Panel's views on the relationship between minimum wage changes and employment levels. In our initial submission to last year's review, we

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[57] ABS 6345, December 2018 (PDF)

[58] House Hansard, Standing Committee on Economics, 22 February 2019.

referred to research by O'Brien et al (2018)[1] which suggested no statistically significant benefit accrued to retail and hospitality employees, in terms of Sunday or weekly hours worked or the proportion of workers working on a Sunday, from the first round of Sunday penalty rate cuts. In conjunction with our affiliates, United Voice and the SDA, we contributed to the University of Wollongong conducting a follow up study looking at the longer term impacts of the first two Sunday penalty rate cuts (from July 2018), in addition to public holiday penaty rate cuts, using a similar employee sampling methodology plus an additional employer sample. The results of that study have not yet been published, but we have been provided with some preliminary information about the findings.

91. The survey data is analysed three ways in the follow up research. Firstly, descriptive statistics are provided for employees working at least one Sunday, the percentage of Sundays worked as well as average hours worked on Sundays before the cuts, after the first round of cuts and after the second round of cuts. Relevantly, this shows no noticeable increase in the percentage of Sundays worked, nor average hours worked on Sundays for retail or hospitality employees paid by award. Secondly, matched pairs testing was undertaken of the hypotheses that (a) there would be an increase in the percentage of Sundays worked and (b) that there would be an increase an average Sundays worked, following the penalty rate cuts. This showed no statistically significant increase in either for employees who received the cuts, and in fact a small but not statistically significant decrease following the second round of cuts. Finally, a differences in differences regression using a number of models was performed, which showed no positive effect on the prevalence for Sunday employment or average Sunday hours worked for award dependent employees. These methods were also applied to the public holiday penalty rate cuts, and again showed no increase to public holiday employment for employees paid according to the award. Interestingly, the differences in differences approach also showed no improvement in average weekly hours worked by award dependent retail or hospitality employees. Many of the results indicated that retail and hospitality award employees experienced diminished employment opportunities and outcomes following the penalty rate cuts. We provide this description of these research

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

findings merely to demonstrate how the penalty rates decision and its effects are worthy of consideration by the Panel. We are expecting a pre-publication statement of findings of the research to be provided shortly, and we will invite the Panel to consider it should we receive it prior to the consultations next month.

9. THE AUSTRALIAN INDUSTRY GROUP AND THE AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY: COMMENTS ON INEQUALITY

92. Ai Group and ACCI have put a strong emphasis on the Productivity Commission latest research paper 'Rising inequality? A Stocktake of the evidence. But this research paper has not been without criticism.

93. Ross Gittens has concerns that the Productivity Commission report has downplayed the significant increases in the incomes of the top one per cent:

> 'the report downplays the issue of the huge increase in the incomes of the top 1 per cent of households. Their extreme gains are averaged with the more modest gains of the next 9 per cent to give a rise in the incomes of the top decile that's high compared with the rest of us, but not greatly so.[59]'

94. This criticism is important because it is the increase of the incomes at the very top of the distribution that have been most the most extreme. The World Wealth and Incomes Database shows that in Australia, the income share of the richest one per cent of the population has doubled from about 4.5% of all income in 1982 to 9.1% in 2013[60].

9.1 Income and wealth inequality should be jointly considered when assessing relative living standards

95. Ai Group and ACCI have failed to mention the importance of rising wealth inequality. Nor have they discussed the relationship between income and wealth inequality in any meaningful way.

96. Whilst we do not agree with all aspects of the Productivity Commission Report, they at least note that a more complete picture of economic well-being is obtained by jointly considering income and wealth inequality.

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[59] https://www.smh.com.au/business/the-economy/inequality-nothing-to-see-here-is-not-the-true-picture-20180831-p500ww.html

[60] https://wid.world/

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

98. The ABS reports the following:

> 'For most Australians, income is the most important resource they have to meet their living costs. However, reserves of wealth can be drawn upon to maintain living standards in periods of reduced income or substantial unexpected expenses. Considering income and wealth together helps to better understand the economic well-being or vulnerability of households[61]'

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

99. The Productivity Commission Report has also notes that a more complete picture of economic well-being is obtained by jointly considering income and wealth inequality together:

> 'A more complete picture of people's economic wellbeing is obtained by jointly considering trends in the distribution of wealth, income, consumption and savings.[62]'

100. The Australia Institute has described the mechanisms of these linkages succinctly:

> 'The distribution of income has implications for the distribution of wealth and vice versa. High incomes enable the accumulation of large wealth holdings on the one hand, while large wealth holdings generate high incomes[63]'

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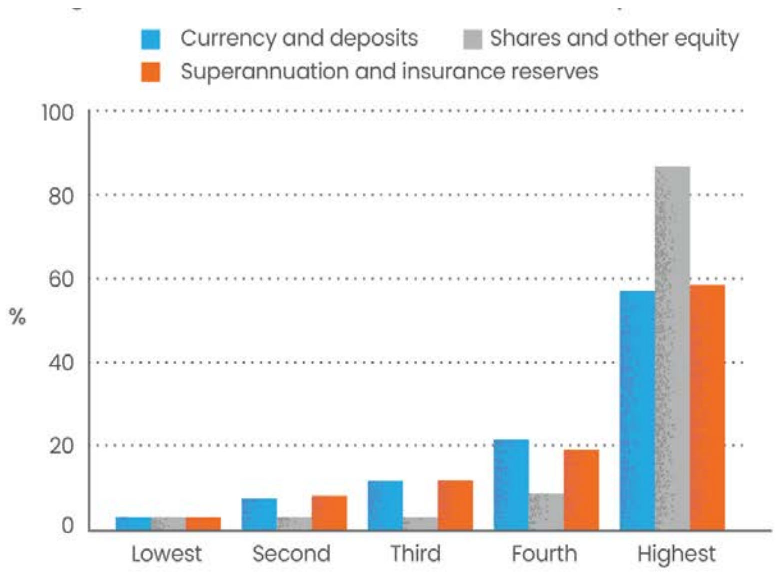
[61] http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6523.0~201516~Main%20Features~Household%20Income%20and%20Wealth~4

[62] '*Rising inequality? A Stocktake of the evidence' Productivity commission Research Paper, August 2018*

[63] **'***Income and wealth inequality in Australia***'** Policy Brief No. 64 July 2014**,** ISSN 1836-9014, David Richardson and Richard Denniss, The Australia Institute

101. There is a range of empirical evidence which finds that income and wealth are positively related at the household level across all OECD countries (which the Productivity Commission Report also highlighted).[64] Some wealth is highly liquid such as shares, bonds, and other financial assets. Some households can earn income directly from these assets and can easily be sold and translated into income quickly. Financial assets are very unevenly distributed:



Source: ABS Cat 5204.0.55.011 - Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2003-04 to 2017-18

102. It is evident that the top quintile control well over 80% of all shares and other equities held by households in Australia and that they all own around 60% of all currency, bank deposits, superannuation and insurance reserves. It is evident from the Figure above that the remaining 80% of Australian households have limited financial assets.

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

[64] See, e.g., *Murtin, F. and d'Ercole, M.M. 2015, Household Wealth Inequality Across OECD Countries: New OECD Evidence, OECD Statistics Brief No. 21, https://www.oecd.org/sdd/householdwealth- inequality-across-OECD-countries-OECDSB21.pdf (accessed 14 June 2018* at p 5.

10. REPLY TO THE CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND

104. The Chamber of Commerce and Industry Queensland (CCIQ) demonstrate on pages 3 and 4 of their submission that that the Queensland Economy is growing, in the year to June 2018, at 3.37% and higher than 5 and 10 year averages. Notably, the Queensland Government reports growth at 3.5% in the September Quarter, at page 8 of its submission. Although the CCIQ submission provides details on current regional variations in employment and unemployment, is entirely unclear what is to be deduced from this snapshot absent any analysis of medium-term movements and how they might interact with the Panel's decisions. The closest the submission gets to any analysis of wage impacts is to cite research (in the form of a blog post – footnote 10 on page 14) which simply says this:

> "Many industry sectors saw average hours worked fall, particularly Retail where average hourly incomes rose sharply. The inference that increases in hourly rates (awards and penalty rates) led to sharp cuts in hours being worked is inevitable." [65]

105. Whilst CCIQ support a 1.8% increase in minimum and modern award minimum wages in this Review, it seems that the greater purpose of the CCIQ submission is to seek a deferral of any increase in and around Townsville. This claim is said to be in response to both the flood event earlier this year as well as to prolonged poor labour market and general economic performance. There are a number of difficulties with this claim for a deferral.

106. Firstly, to the extent that it is responsive to labour market performance, the data presented by CCIQ on numbers of employed persons show considerable variation over the last 10 years with recent observations being far from unusual. Further, when the chart on page 12 of the CCIQ submission is compared to estimated resident population data maintained by the Queensland Government[66] it is evident that the small estimated

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[65] Faulker, P., "Labour Account is a treasure trove of labour data", 12/3/2009, http://www.conus.com.au/blog/

[66] Queensland Treasury Data, accessible online: https://data.qld.gov.au/dataset/erp-ucl-qld/resource/149de93b-0231-4d54-b73b-780b58fa75b3

gain in resident population between 2016 and 2018 of 2,275[67] should combine with the aggregate changes in employment over that period to produce an improved employment to population ratio. In terms of the chart on page 13 of the CCIQ submission, it is entirely unclear what can be drawn from it save that the differentials in unemployment rates currently observed are less than most observations over the last five years.

107. Secondly, the broader economic statistics presented by CCIQ are not specific to Townsville, either absolutely or as a comparison point. The Suncorp / CCIQ Pulse Survey of December 2018 that the CCIQ relies on, which is publicly available[68], does not express specific conclusions about the Townsville area, but rather compares (for some measures) responses it has received from business in "South East Queensland" with those it has received from "Regional Queensland". The extent to which it is representative of Townsville businesses is questionable as only 496 businesses provided responses to the survey, 6% of which (30) are based in Townsville.[69] This equates to 0.25% of business trading in Townsville, based on the figures presented on page 10 of the CCIQ submission. It also equates to around 15%, a clear minority, of the total number of regional business included in the survey.[70] In any event, the survey is equivocal about the divide between regional and south east Queensland businesses, noting some areas where regional businesses performed better, for example:

> "The responses regarding overall profitability are concerning with both regions reporting decreased profitability over the quarter, which was greater for SEQ businesses than those in Regional Queensland. Both regions reported increased labour and operating costs. Responses regarding capital expenditures over the quarter indicated that SEQ businesses reported no change on average whilst responses across Regional Queensland showed a marginal decrease. Importantly, the forecast values for the March quarter suggest that there is little difference between general expectations for business performance across the regions in the coming quarter."[71]

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[67] 173,028 (2016), 175,302 (2018)

[68] http://info.cciq.com.au/rs/449-JDY-728/images/PulseReport-Dec2018-Final.pdf

[69] See page 18 of the Pulse survey report.

[70] *Ibid.*

[71] Pulse survey report at page 1.

108. Thirdly, the basis upon which a deferral can be sought are confined and CCIQ have not properly addressed the strict criteria provided in sections 286 and 287 of the Act, which have been considered at length in previous decisions.[72] Their deficiencies in this regard are multiple:

a) Their claim is seemingly for a deferral of increases to all minimum wages and all modern award minimum wages. This claim assumes that all business are equally effected by flood, but the data they present suggests this is not the case. Quite apart from the fact that, according to the data on page 10 of their submission, 57% of the business in the area have no employees, it asserts that just over 31% of business in the area operate in the construction and rental, hiring and real estate sectors. One would expect that those sectors would be in demand in flood recovery efforts. The figures on page 11 of CCIQ's submission also reveal that over 40% of employees in the area work in health care and social assistance, public administration, construction or rental, hiring and real estate services - again areas which would be expected to be in high demand.

b) Scant information of the actual impact of the flooding is provided and that which has been provided does not extend beyond estimates of stock losses and public statements from politicians.

c) Even if some detail on the total impact had been provided, the relative impact of the floods on businesses versus employees is impossible to estimate on the information provided. CCIQ does however acknowledge that only 10% of insurance claims in the area represent claims made by businesses.

d) There is no explanation as to why a period of six months is the appropriate period for a deferral.

e) The above deficiencies make it impossible for the panel to craft a deferral that is "limited to just the extent necessary because of the particular situation to which the exceptional circumstances relate" as required by sections 286(2) and 287(2)(b), 287(3)(b) and 287(4)(b) of the Act.

109. Even putting all that aside, insofar as CCIQ have attempted to identify a group who is to benefit from the deferral it seeks, there are real difficulties in accommodating their

[72] Most recently in [2017] FWCFB 3500 at [181]

request. The range of businesses that CCIQ propose should receive the deferral are those that “qualify” for the Special Disaster Assistance Recovery Grant, which is one of three types of government assistance available to businesses listed in its submission. A decision as to whether an application for assistance “qualifies” for a grant is made by the Queensland Rural and Industry Development Authority. It is unclear how long those decisions will take. Presumably some will be made before the Panel’s decision and some after – particularly given that the scheme contemplates not only immediate assistance of up to $10,000 pending an insurance assessment but also later grants of up to $40,000 “supported by evidence of damage, invoices, proof of payment and insurances finalised”[73] (emphasis added). This uncertainty creates the potential for substantial difficulties in implementation of any deferral. Moreover, the Special Disaster Recover Grant is specifically addressed to “cleaning and reinstatement costs”, which is far from an appropriate measure of whether a business in fact needs a deferral of the type the Panel can provide and is entirely disconnected from the modern awards objective and minimum wages objective which apply to the Panel in its deliberations.

[73] “Special Disaster Assistance Recovery Grants – Small Business”, Queensland Rural and Industry Development Authority: http://www.qrida.qld.gov.au/current-programs/Disaster-recovery/special-disaster-assistance/special-disaster-assistance-small-business

11. REPLY TO MASTER GROCERS AUSTRALIA

110. Master Grocers Australia (MGA) focus their submission on the dynamics and alleged differential position between large and small businesses in the retail sector. The submission fails to acknowledge that both Coles and Woolworths pay wages which are directly affected by the decisions of the Panel, as discussed in Chapter 7 of our initial submission.

111. Whilst we accept that there is likely some merit in the basic point that larger retailers are more likely to be in a better position to absorb difficult circumstances than smaller ones, this is not universally true, as the collapse of the Masters Hardware chain and recently announced contraction of Woolworths' Big W stores[74] demonstrates. Moreover, we would suggest that the fortunes of the retail sector are more closely relate to sales (that is, demand fuelled by having money spend) than minimum wage movements. Clearly, the state of concentration in the retail sector is not in any recognisable way determined by the amount of increase in minimum wages and awards. We do not observe setbacks in sales, profitability or level of employment that can be related to the quantum of minimum wage and award increases.

112. The relative cost impacts of the various award changes referred to in MGA's submission have not been quantified and we find it surprising that a complaint is made about the costs of the introduction of casual conversion provisions, given that the MGA made no submission in the proceedings that determined those provisions.

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[74] https://www.smh.com.au/business/companies/woolworths-to-close-30-big-w-stores-20190401-p519jv.html

12. REPLY TO THE AUSTRALIAN CATHOLIC BISHOPS CONFERENCE

113. The Australian Catholic Bishops Conference (ACBC) makes a compelling case for a substantial rise in the wages of the lowest paid workers. However, we have some concerns about the pathway that it has articulated for achieving that goal. Of less significance (from our perspective) are the differences between us regarding whether the Panel (and before it, Fair Work Australia) acted within jurisdiction in discharging the functions set out in the Act.

114. We disagree with ACBC's assertion that the minimum wage is set at a level that provides a reasonable wage for a single worker without family responsibilities.[75] We do not regard the current level of the minimum wage to be reasonable for that purpose. Nor do we agree that either the statutory criteria or the Panel's application of them compels that result.

115. In our view, what the Act requires, as the Panel has made clear on numerous occasions, is a balancing of numerous considerations in which no single consideration assumes priority.[76] To adopt two crude examples:

   a) In one year, the Panel might decide in one year that the potential disemployment effects of raising wages to a level that would ensure that most workers in common household types lived above a given poverty line, were too great a risk to allow that course to be adopted.
   b) In another year, the Panel might decide that the relative living standards of minimum and award wage dependent workers had deteriorated so far that a significant increase, which the Panel was positively convinced would result in some disemployment effects, should nonetheless be granted.

Putting aside for a moment the fact that we might have a different view to the Panel regarding the employment effects of minimum wage increases at particular levels, in our

[75] At [5-].

[76] Most recently at [16]-[25] of [2018] FWCFB 3500

submission both of those outcomes could legitimately arise from the Panel properly discharging its statutory functions and acting wholly within jurisdiction.

116. ACBC have gone to considerable effort to demonstrate the prevalence of poverty in single breadwinner families of different sizes. It is not clear what is to be made of this given the views expressed by the Panel at paragraphs [466]-[470] of the 2017 Review decision[77]. Clearly the information is provided is relevant to the discharge of the Panel's functions, as the living standards of all household types bear consideration. However, as the Panel has made clear, the interaction of the wages system and the tax and transfer system is important in its deliberations and the current legislative criteria are incompatible, in the prevailing circumstances, of ensuring that all family types benefit from incomes that places them above a given poverty line. That there are some limits to how far the Panel can go in providing for families is implicitly accepted by ACBC in that, at paragraph 45 of their submission, they seem only to advocate for a wage exceeding poverty for families with a maximum of two children. In any event, we suggest that it might be incorrect to assume that all households covered in Appendix B of ACBC's submission which are described as having one partner of a couple "not in the labour force" or "unemployed" are ordinarily single breadwinner households. We suggest this because the relevant parts of the census questionnaire only enquired into labour force activities in the four weeks prior to census night.[78]

117. As to ACBC's broader contentions about reform of the minimum wage and modern award minimum wages, we are unsure how they could be accommodated in the Annual Wage Review process and we see some contradictory elements in the submission put. On the one hand it is said that the Panel adheres to a relativities policy that is contrary to law[79], yet at the same time ACBC seeks to construct a new relativities policy and bind the

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[77] [2017] FWCFB 3500

[78] See https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/2901.0Main%20Features802016/$FILE/2016%20Census%20Sample%20Household%20Form.pdf, particularly at questions 34 and 46.

[79] At Chapter 6C

Panel to it.[80] In addition, it is not at all clear that award wage relativities could be systemically re-set in a comprehensively meaningful way merely by abolishing the C14 and C13 rates, resetting the C10 and Professional Employee Graduate rates and then filling in the gaps on the basis of existing relativities which ACBC accepts have been compressed. Resetting relativities is a major undertaking and not one which is readily capable of being of undertaken in Annual Wage Review. The suggestion in section 2(E)(3) of the ACBC submission that an investigation and report under section 290 could be completed inside of 15 months is fanciful given what is contemplated would necessarily involve inquiring into the work of all types of work performed in all types of industries at or around the corresponding pay levels and all types of work in all types of industries requiring trade or bachelor level qualifications. Further, even if such a task was capable of being undertaken under section 290, the power to issue a direction under section 290 is discretionary. It is difficult to imagine that discretion being exercised in a context where the whole of the award system in its fifth year of comprehensive review and few work value reassessments have been sought throughout that process.[81] As far as we are aware, ACBC has not sought a work value re-assessment through that process, notwithstanding the breadth of industries in which Catholic organisations operate as employers.

118. Nonetheless, the broader issue of correcting anomalies in work value across the award system has arisen for broader consideration as a result of observations made by the Full Bench in relation to the *Pharmacy Industry Award* in [2018] FWCFB 7621 at [194]-[198]. That broader issue clearly encompasses the work value relativity between trade and more senior and professional qualifications across different awards. We understand that the Commission is reserved on the submissions received in response to that decision. In those circumstances we do not offer a view to the Panel about whether a work value re-assessment of the type sought by ACBC, which has an overlapping if not identical scope, should be pursued.

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[80] At Chapter 2E and particularly paragraph [211].

[81] Work value re-assessments have been sought with respect to classifications in the *Pharmacy Industry Award,* the *Educational Services (Teachers) Award,* and the *Real Estate Industry Award.*

13. REPLY TO RESTAURANT & CATERING INDUSTRIAL

119. Restaurant & Catering Industrial (RCI) submit that the Panel award no increase in this Review.

120. RCI's submission shows broad-based growth in turnover in Cafes, restaurants, takeaway food and catering services. Since their submission was provided, ABS Retail Trade Figures also show continued growth in turnover for February 2019 on trend estimates at 0.7%.

121. Café's, restaurants, takeaway food and catering services are subgroups of the accommodation and food services ANZIC group,[82] which has the highest density of award dependent employees.[83] This group has seen six consecutive quarters of profit growth since September 2017, being the quarter in which the 3.3% increase awarded in the 2016-17 Review took effect. Its profits have been growing particularly strongly since the 3.5% increase awarded in the 2017-18 Review took effect in the September Quarter of 2018:

	Company Gross Operating Profits: Percentage Change from previous quarter.
September 2017	5.4%
December 2017	3.8%
March 2018	1.9%
June 2018	4.2%
September 2018	7.1%
December 2018	7.6%

[82] See ABS 1292.0

[83] See Table 3 of our initial submission

122. Figure 51 of our initial submission shows how profits grew six and half times faster than wages in the sector over the year to September 2018. Chart 6.4 of the Statistical Report shows that the sector has experienced above average improvements in hours worked. Chart 6.3 of the statistical report shows it has had above average gains in employed persons. Notwithstanding this, labour productivity in the sector, as shown in Table 2.3 of the statistical report, continues to grow over the current cycle.

123. The above observations about the actual performance of the sector, combined with the healthy employment projections cited in RCI's submission, are inconsistent with the claim at paragraph 29 of that submission that "..another significant increase in the minimum wage will adversely affect the ability of businesses within the café, restaurant and catering sector to operate profitably and therefore employ more staff".

124. Finally, in response to RCI's complaints about the impact of penalty rates in the sector, we once again remind the Panel that RCI has gone on record agreeing to the proposition that the penalty rate provisions in the Restaurant Award meet the modern awards objective.[84]

[84] [2017] FWCFB 6034 at [13].

14. ISSUES ARISING FROM THE FEDERAL BUDGET

125. The following legislation passed after the budget of 2 April 2019may be of relevance in terms of the likely effect on income of workers and employee households after taxes and transfers.

126. The *Social Services Legislation Amendment (Energy Assistance Payment) Act 2019*, provides for a one-off energy assistance payment to recipients of various social security payments who were residing in Australia as at 2 April 2019 (specifically, recipients of the age pension, disability support pension, carer payment, farm household allowance, parenting payment, AUSTUDY, ABSTUDY Living allowance, double orphan pension, Newstart allowance, partner allowance, sickness allowance, special benefit, widow allowance, widow pension B, wife pension and youth allowance, together with recipients of various veteran's payments). The payment applies to current recipients and those who made a claim on or before 2 April 2019 and subsequently have the claim granted. The rate of payment is $75 for singles and $62.50 for each eligible member of a couple. It is anticipated it will be paid to the majority of recipients by 30 June 2019 The one-off energy payment will affect employees in receipt of the above payments, most often parenting payment and carer payment.

127. The *Treasury Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Act 2019* increased various Medicare levy low-income thresholds and Medicare levy surcharges in line with CPI at a cost of $100 million in 2018-19 and $50 million thereafter. For example, in relation to the individual Medicare low-income threshold, it raises it from $21,980 to $22,398 for the income year 2018-19 (hence only individuals whose total income exceeds that amount will now be liable to pay the Medicare levy).

128. The above increase in income levels before having to pay various Medicare related charges may make some workers better off. Presumably this is intended to address bracket creep. But it is very small, as indicated by the small increase in the low income threshold of $418, and the small impost to the budget of $100 million in the first year and $50 million thereafter.

129. These measures are marginal at best in our submission and not significant enough to affect the Panel's decision in any tangible way.

130. We would ask that the Panel take note of changes to the instant asset write off scheme, which increased from $20,000 to $25,000 in January 2019 and to $30,000 on budget night. Moreover, the scheme has been extended from the previous threshold of "small" businesses with a turnover of up to $10 million to "medium" business with a turnover of up to $50 million. This should assist businesses implementing productivity improvements and, in the Government's own prediction, "will improve cash flow for small and medium sized businesses, providing a boost to business activity and investment"[85].

131. More broadly, aside from those matters which have been legislated or implemented to date, the initiatives in the Budget need to be understood as highly speculative given the impending election. This caution applies not only to matters that require legislation, but also non-legislative matters the implementation of which may not be consistent with caretaker conventions.

[85] Budget Paper No. 2 at page 14.

12. RESPONSES TO QUESTIONS ON NOTICE

Response to Question 1.1

"ACBC proposed an inquiry to determine the appropriate margins for skills and responsibilities (or work value) of the C10 rate in the Manufacturing and Associated Industries and Occupations Award 2010 and the Level 1 graduate employee rate under the Professional Employees Award 2010.

Does any other party support such an inquiry?

Response:

132. This issue was dealt with in our response to the ACBC submission.

Response to Question 1.3

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 (DRFA) and specifically the DRFA 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 relevant 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 DRFA event?
- How would the proposed deferral impact upon the considerations in the modern awards objective (s.134) and the minimum wages Objective (s.289)?

Response:

133. Some of the issues raised by the Panel in this question are dealt with in our reply to CCIQ in Section 10 of this submission. Our additional comments are as follows:

134. Assistance to employers for the payment of wages is available as part of the *Special Recovery Grant*. Wages assistance to business under this Grant is limited:

> "If the business was forced to close as a result of the flood damage and the premises needed to be cleaned up and / or relocated to new premises, the wages of permanent employees used for that immediate clean-up or relocation work are eligible.
>
> You can also use the assistance to help cover the cost of additional employees required for immediate clean-up and reinstatement activities.
>
> The payment of wages to employees beyond the initial clean-up or relocation work is not eligible under the scheme."[86]

135. Further assistance for the "payment of salary or wages" is available under the *Disaster Assistance (Essential Working Capital) Loans* in the form of concessional loans (1.37% interest, up to $100,000, maximum term of 10 years)[87].

136. The assistance available to employees is as follows:

a) A Federal Government Disaster Recovery Payment is available as a one-off payment of $1,000 per adult and $400 per child under 16. The payment is available only if a

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[86] "Frequently asked questions – DFRA Grants – Small Business", Queensland Rural and Industry Development Authority: http://www.qrida.qld.gov.au/faqs-natural-disaster-recovery-grants-small-business

[87] "Disaster Assistance (Essential Working Capital) Loans - Small Business", Queensland Rural and Industry Development Authority: http://www.qrida.qld.gov.au/current-programs/Disaster-recovery/disaster-assistance-essential-working-capital/essential-working-capital-small-business

person has been adversely affected by the flood. Examples given of such effects by the Department of Human Services are:

- o Serious injury;
- o Death of an immediate family member;
- o Flood water has covered the interior floor of a principal place of residence;
- o Principal place of residence declared structurally unsound;
- o Principal place of residence contaminated by sewerage;
- o A dependent child has experienced any of the above.[88]

b) A Federal Government Disaster Recovery Allowance is available for up to 13 weeks, on account of loss of income as a direct result of the floods. The maximum payment for adults is equal to the Newstart allowance that would be available based on the circumstances of the person concerned. No assistance is available unless the loss of income results in an income below a threshold amount, which for single adults is$1,055.17[89]

c) A Queensland Government Emergency Hardship Assistance payment of $180 per person (up to $900 for a family of 5) is available to persons who are unable to meet their immediate essential needs for food, clothing, medical supplies or temporary accommodation, provided that they have suffered hardship as a result of the flood and live in or are stranded in the flood area.[90]

d) Additional assistance is available from the Queensland Government in respect of uninsured damage to essential household contents or essential services.

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[88] "Far North Queensland Floods, February 2019 - Australian Government Disaster Recovery Payment", Department of Human Services: https://www.humanservices.gov.au/individuals/services/centrelink/far-north-queensland-floods-february-2019-australian-government-disaster-recovery-payment

[89] "Far North Queensland Floods, February 2019 - Disaster Recovery Allowance", Department of Human Services: https://www.humanservices.gov.au/individuals/services/centrelink/far-north-queensland-floods-february-2019-disaster-recovery-allowance

[90] "Emergency Hardship Assistance", Queensland Government: https://www.qld.gov.au/community/disasters-emergencies/financial-assistance/immediate-hardship-assistance

Response to Question 2.1

"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."

<u>Response:</u>

137. We refer to our reply to the Ai Group Submission in Section 7. In addition to those comments, we submit that a falling labour income share during a period of slow wages growth is a signal of lack of wage repair. Even if it is argued that labour income shares are constant or increasing, if real wage growth is very slow or negative then that is not a reason why low real wage growth would be acceptable. Moreover, connecting raising the real minimum wage to affecting labour productivity and thereby in turn labour's share of income in an injurious manner, is a long bow to draw, particularly when the processes and causalities are not well understood.

138. That the changes in labour share are attributable to one sector or another does not alter the issues that arise from slow (real) wage growth which affect the majority of workers and for which minimum wage and award increases are the only relief.

139. Table 14 of the ACTU's initial submission presents data from ABS *Estimates of Multifactor Productivity*. These are annual estimates by ABS of the industry shares of income paid to labour and capital that include splitting Gross Mixed Income and

attributing it to labour or capital income. The split is based on the share of proprietor's capital income in GMI, with labour income in GMI as a residual.[91]

140. The ACTU has fitted simple trendlines with R^2s to the data available, from 1993-4 to 2017-8. The industries are listed in approximate order of labour share of income throughout the following:

(a) Of the eight non-service market sector industries, five (Construction, Transport postal and warehousing, Electricity gas water and waste (very poor fit), Agriculture, and mining (poor fit)) had labour income shares which fell on trend, while three (Wholesale trade, Manufacturing, and Information media and telecommunications) had constant shares of labour income with very poor fits.

(b) Of the eight relatively service-based market sector industries, five (Professional services, Retail, Accommodation and food services, Arts and recreation, and Financial and insurance services) had falling industry shares of labour income on trend, with reasonable fits. Three (Administrative and support, Other services, and Rental hire and real estate (poor fit)) of the eight had constant shares.

(c) The share of labour income was falling on trend in the award-reliant industries of Retail trade and Accommodation and food services, while it was constant in Administrative and support services, and Other services. The ABS market sector does not include other growing award reliant areas such as Health care and social assistance.

141. The ACTU would suggest that the institutional arrangements by which revenue is distributed constitute part of the technology underlying the production relationship. Accordingly changes over time in the share of labour income are also influenced by changes in those institutional arrangements. The OECD has found that the fall in the labour share for "26 OECD countries and 20 industries in the private sector is by and large due to within-industry decline of this share[92]. OECD (2015) refers to studies exploring the decline in union density and the weakening of workers' bargaining power as a reason,

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[91] ABS 2007 5260.0.55.001 - Information paper: Experimental Estimates of Industry Multifactor Productivity, https://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/F2DA9E3CE0BD14AACA25734E0019CC10?opendocument

[92] OECD 2015 *The Labour Share in G20 Economies* p.9 https://www.oecd.org/g20/topics/employment-and-social-policy/The-Labour-Share-in-G20-Economies.pdf

and says that “more empirical studies are needed to determine how labour market institutions affect the evolution of the labour share, particularly through influencing the bargaining power of workers.”[93] This remains the case, notwithstanding the recent contribution of Bishop and Chan (2019) which suggests that for Australia persistent externalities from earlier union-determined institutions may be influencing a wage growth gap for union bargained-enterprise agreements.[94] By our inference this may be a factor in wage shares not having declined more over time.

142. The ACTU observes that the increase in the share of financialization is commensurate with the shrinking share of public sector activity through privatisation and outsourcing, which also impact on wage growth.

143. As to the effect of the mining sector, Borland (2019) has argued that an increase in the ratio of output prices to consumer prices during the mining boom pushed the labour share up over that period.[95] Since 2010-2011 growth “in real average compensation has been slower than labour productivity. But that has not translated into a lower labour share because it has been almost exactly offset by a decrease in the ratio of output [prices] to consumer prices.”

144. If the effect on labour share of the output price to consumer price ratio is accounted for, “a decrease in the labour share of about 5” percentage points has happened since 1996-97, mainly in the 2010s. That is, the increase in various labour share measures during the mining construction boom is largely a result of an increase in output prices relative to consumer prices over that period. Were it not for that influence, the decline in labour share would have continued throughout.

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[93] OECD 2015 *The Labour Share in G20 Economies* p.10

[94] James Bishop and Iris Chan 2019 Is Declining Union Membership Contributing to Low Wages Growth? Research Discussion Paper RDP 2019-02

[95] Jeff Borland (2019) ‘How did the mining boom affect the labour share of income in Australia?’Labour market snapshot #47, March, University of Melbourne

Response to Question 2.2

"ACCI submitted that previous Review decisions 'have placed very little weight on the rise and fall of unit labour costs, as it has followed changes in the terms of trade' and suggested that the Panel again place little weight on unit labour costs in the current Review.

In the 2017–18Review, the Panel placed 'little weight' on the fall in real unit labour costs due to the RBA's view that the high levels of the terms of trade were unlikely to be sustained. However, the terms of trade have remained at these elevated levels for two years.

ACCI are invited to expand on its submission that the Panel should disregard the fall in real unit labour costs. All other interested parties are invited to comment on this issue."

Response:

145. We refer to our reply to the ACCI Submission in Section 8. The ACTU would anticipate that the Panel will scrutinise unit labour costs and attribute the weight to it that it deems appropriate for the analysis.

Response to Question 2.3

"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?"

Response:

146. In the ACTU's view the direction of growth in both GDP per capita and RNNDI per capita shed light on the direction of the economy and its ability to sustain an increase to the minimum wage. The RNNDI per capita informs as to the potential strength of the traded sector and its role in contributing to wage increases. Figure 12 in the ACTU's initial submission shows the correlation between the terms of trade and RNNDI. In particular it shows the recovery of RNNDI as the terms of trade recover from 2015-16 onwards. This recovery is due to the production phase in the mining industry picking up in particular. This underpins the growth of GDP and is one reason to be optimistic currently as to the direction of the economy.

Response to Question 3.2

"The ACTU is asked to provide the data behind the charts in paragraphs 104, 409 and 410 of its submission"

Response:

147. The data will be provided as an electronic attachment to the e-mail by which we lodge this submission. The file named 104 relates the chart at paragraph 104, the file named 409-410 relates to the charts at paragraphs 409 and 410.

Response to Question 3.4

"The ACBC submission referred to the research report, 'New Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians'.

Chapter 4.D.(5) is titled 'Errors in the application of the budget standards research' and states that 'Table 5.17 contains significant errors in relation to the calculation of safety net income' and comment that the research 'gave a very misleading summary of the living standards of low income families with children.'

All parties are invited to provide comments on the observations of the ACBC"

Response:

148. ACBC identify several issues in their submission.

149. Firstly, ACBC identify that the Panel, at [345] of the 2018 decision, found that couple households with one child with the female not in the labour force had disposable incomes above the corresponding MIHL budget standard. In making that statement, the Panel has forgiven the error in column 4, row 3 of Table 5.17 of the MIHL report wherein "-8.84" was shown rather than 8.84.

150. Secondly, ACBC identify that the Panel, at [346] of the 2018 decision, found that "several NWW-reliant family types with children had disposable incomes that exceeded the MIHL". Table 3.1 of the MIHL study shows the family types that were investigated. Only three of the family types were family types with children. Table 5.17 of the MIHL study showed that two out of three family types with children had safety net incomes

above the MIHL standard. Two out of three is not the usual usage of the word "several", but it is not clear what turns on this.

151. More significant are what appear to be errors that ACBC has correctly identified in what MIHL describes as the "Safety Net Income" of the low paid group in the MIHL study. The MIHL report attributes the Safety Net Income figures to advice from the Department of Social Services. The figures for "Safety Net Income" are said to equate to the minimum wage, the Newstart base rate, parenting payment single and "any additional benefits for which they are eligible", net of income tax liabilities[96].

152. As ACBC correctly point out - and given the discussion above Table 3.1 of the MIHL report - where the family types are couples with children, it is assumed that the female partner is not in the labour force. On that basis, the female partner would not qualify for Newstart, so there is no reason to apply Newstart to those low paid family types with children. Some other forms of income support may have been available to couples with children. However, even allowing for some level of support, the Safety Net Income for couples with children appear high.

153. Also, as identified by ACBC, it seems incomprehensible that a full-time minimum wage worker in a single person household in June 2016 would have a disposable income after taxes and transfers that exceeded the gross minimum wage of $656.90 provided in the national minimum wage order current at that time.

154. We are not able to reconcile the figure provided as the Safety Net Income for the sole parent with one child with the different estimate provided in the corresponding Statistical Report. Table 3.1 of the MIHL report does indicate that the worker in this instance is expected to be working part time, 20 hours a week.

155. The ACBC raises a real issue about whether the Panel misled about whether or not particular household types exceeded the MIHL. The appropriate course to definitively

[96] See for example page 102 of the report.

determine this would be to seek information from the Department of Social Services about how the estimates of Safety Net Income provided to the authors were calculated.

Response to Question 3.5

"The ACTU submits that the record rate of Australians working a secondary job recorded by the ABS in December 2018 is an indicator of financial stress. They cite the fact that many of the secondary jobs are in low-paid sectors as evidence that this increase is a result of financial stress.

Does the ACTU have any further evidence that this trend is being caused by financial stress or deprivation? What is the response of the other parties to this submission?"

Response:

156. In the absence of further data matching the earnings and hours in the main job and the earnings and hours in secondary jobs, the ACTU was inferring that an increase in secondary jobs was related to

   a) A trend increase over time to a high level of underemployment now, in which people have expressed a need to find more hours for economic reasons.
   b) trend increases in part time and casual work which relates to the kinds of jobs on offer, obliging people to search for a second job
   c) the lack of likelihood that people are working in second jobs, particularly poorly paid ones, as a luxury; rather, given low or even falling real wages, they are increasingly working to make ends meet.

157. The new release by the ABS Cat 6160 *Jobs in Australia* 2011-12 to 2015-16 provides data on the income of people holding multiple jobs. The median incomes for people who held more than one job concurrently, and for those who held more than one job within a year, are lower than those for people who worked in only one job.

158. ABS Cat 6160 *Jobs in Australia* brings together ABS survey data for the labour market with administrative tax data which allows us to see the extent of multiple job holders in Australia's labour market. The ABS reports that approximately 15% of employed persons

were multiple job holders in 2015-16. [97] This amounted to over 1.9 million employees who were multiple job holders in 2015-16. In 2015-16, the median employment income of a multiple job holder was $39,813 in all jobs held within the period of the year.

159. The ABS explains that Jobs in Australia describes all job relationships accumulated over the course of a year. This means that job counts in this publication are higher than the estimates of filled jobs published in the quarterly Australian Labour Account, which provides a point-in-time, or stock measure.

160. ABS says "The median total employment income for those with only one job was $48,344, compared to $44,531 for people who held two jobs during the year."[98] The lower income for those with more than one job does not suggest they have any pay advantage over those with just one job.

161. "The median total employment income of all concurrent multiple job holders was $39,813. Those with a maximum of two concurrent jobs recorded a median employment income of $40,570, while people with 3 jobs and 4 or more jobs had lower median employment incomes ($36,791 and $37,706 respectively)." [99] The median income of those with only two jobs was actually higher for those with more than two jobs. This also does not suggest that multiple job holders are doing it for the luxury of it. Figure 1 shows the number of multiple jobs holders and their employment income for all jobs in 2015-16.

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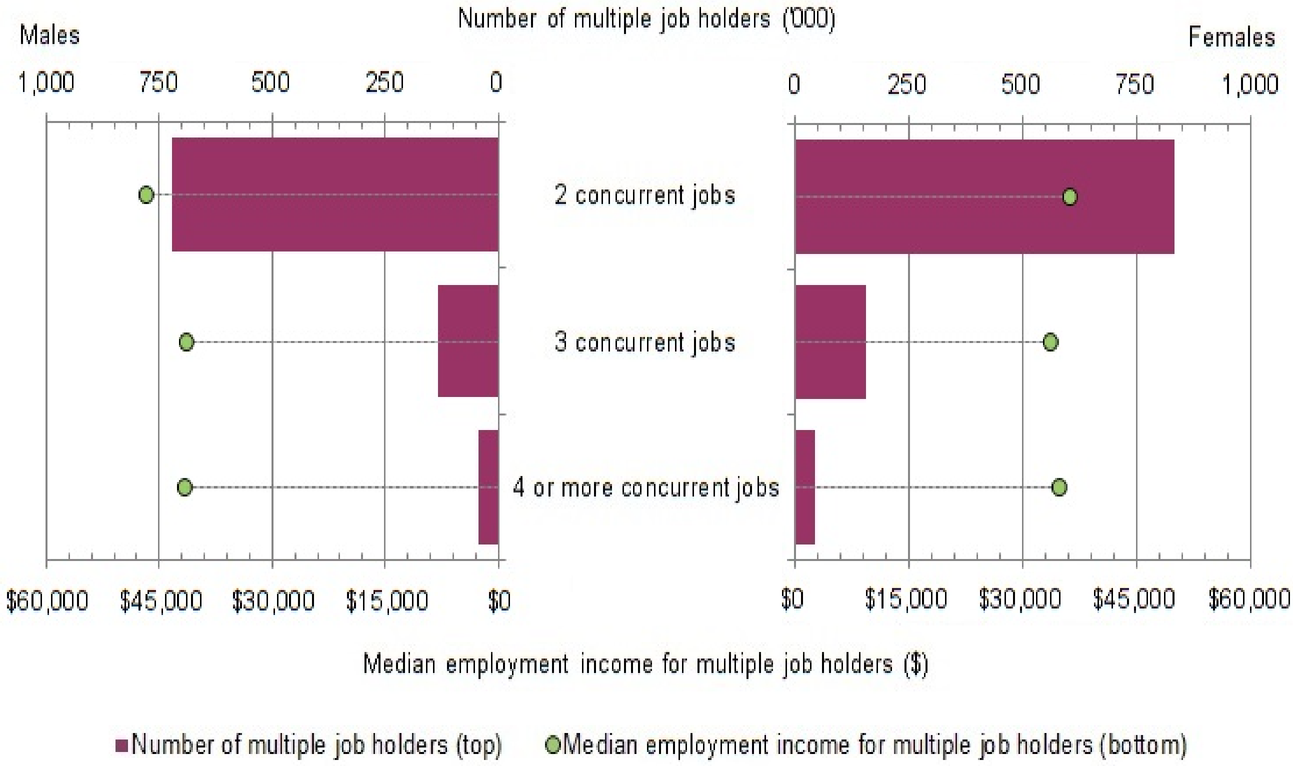
[97] ABS Cat 6160 *Jobs in Australia, 2011-12 to 2015-16* https://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/6160.0Main%20Features22011-12%20to%202015-16?opendocument&tabname=Summary&prodno=6160.0&issue=2011-12%20to%202015-16&num=&view=

[98] ABS Cat 6160 *Jobs in Australia, 2011-12 to 2015-16* , Jobs in Australia analysis

[99] ABS Cat 6160 *Jobs in Australia, 2011-12 to 2015-16* , Jobs in Australia analysis

Figure 7 Number of multiple job holders and employment income in all jobs, by sex, 2015-16



Source: ABS Cat 6160 Jobs in Australia 2011-12 to 2015-16

162. ABS also says "The highest proportion of multiple job holders worked their first concurrent job in the Health care and social assistance industry (14%), and almost four out of every five of these workers were female. The Administrative and support services industry contributed the largest share of second concurrent jobs (14%), with these being shared by male and female multiple job holders more evenly (57% males and 43% females)."[100] These are award-reliant industries.

163. Another award-reliant industry, Accommodation and food services, had the lowest median income for first concurrent job, $13,360, and the lowest for a second concurrent job, $30820.

[100] ABS Cat 6160 *Jobs in Australia, 2011-12 to 2015-16* , Jobs in Australia analysis

164. The following presents the median incomes in the year for first jobs in all industries, combined with the median incomes for the year for second concurrent jobs. These are expressed in terms of income for the year.

Second job in Administrative and support services

165. For employees with a second concurrent job in Administrative and support services the yearly median income from the second job is $4,812 and median yearly total income (income from first and second job combined) is $30,228.

Table 2 Incomes of those employees with a second concurrent job in Administrative and support services 2015-16

Second concurrent job in Administrative and support services				
	Number of multiple job holders ('000)	Employee income in first job ($)	Employee income in second job ($)	Total income*
All Persons	265.2	25,416	4,812	30,228
Agriculture, forestry and fishing	5.8	11,323	2,733	14,056
Mining	2.8	55,331	10,240	65,571
Manufacturing	16.1	30,582	5,634	36,216
Electricity, gas, water and waste services	1.9	38,924	7,665	46,589
Construction	19.7	32,831	6,063	38,894
Wholesale trade	9.5	28,036	4,595	32,631
Retail trade	18.1	18,970	3,427	22,397
Accommodation and food services	18.6	14,142	2,835	16,977
Transport, postal and warehousing	9.4	32,370	5,695	38,065
Information media and telecommunications	2.7	30,791	5,739	36,530
Finance and insurance services	7.3	32,990	6,825	39,814
Rental, hiring and real estate services	4.7	25,085	4,511	29,596
Professional, scientific and technical services	16.2	31,370	6,405	37,775
Administrative and support services	67.8	21,570	5,360	26,930
Public administration and safety	10.5	36,231	5,850	42,081
Education and training	11.7	25,756	3,758	29,514
Health care and social assistance	30.5	35,994	4,387	40,380
Arts and recreation services	3.8	17,267	2,819	20,085
Other services	5.9	23,559	4,748	28,307

Source: ABS 6160 Table 4.4, * Final column sums the median incomes of first and second concurrent jobs.

Second job in Retail Trade

166. For employees with a second concurrent job in Retail Trade the yearly median income from the second job is $4,653 and median yearly total income is $25,600.

Table 3 **Incomes of those employees with a second concurrent job in Retail Trade 2015-16**

Second concurrent job in Retail trade				
	Number of multiple job holders ('000)	Employee income in first job ($)	Employee income in second job ($)	Total income*
	173.9	20,947	4,653	25,600
Agriculture, forestry and fishing	2.4	14,451	3,756	18,207
Mining	0.6	41,505	5,747	47,251
Manufacturing	8.0	24,818	5,003	29,821
Electricity, gas, water and waste services	0.6	38,204	5,563	43,766
Construction	6.9	23,518	4,863	28,381
Wholesale trade	8.0	26,831	5,730	32,561
Retail trade	51.9	19,380	4,654	24,034
Accommodation and food services	19.3	11,790	3,039	14,829
Transport, postal and warehousing	4.0	27,680	5,609	33,288
Information media and telecommunications	2.1	24,143	4,748	28,891
Finance and insurance services	5.4	27,979	5,710	33,689
Rental, hiring and real estate services	3.4	21,828	4,703	26,531
Professional, scientific and technical services	9.7	25,008	5,227	30,235
Administrative and support services	12.6	20,415	5,111	25,526
Public administration and safety	5.2	38,549	5,700	44,249
Education and training	10.7	26,244	5,030	31,273
Health care and social assistance	13.4	26,521	5,012	31,533
Arts and recreation services	3.4	14,297	3,615	17,912
Other services	5.0	20,056	4,719	24,775

Source: ABS 6160 Table 4.4. * Final column sums the median incomes of first and second concurrent jobs.

Second Job in Accommodation and food services

167. For employees with a second concurrent job in Accommodation and food services the yearly median income from the second job is $3,258 and median yearly total income is $19,228.

Table 4 **Incomes of those employees with a second concurrent job in Accommodation and food services 2015-16**

	Second concurrent job in Accommodation and food services			
	Number of multiple job holders ('000)	Employee income in first job ($)	Employee income in second job ($)	Total income
	220.8	15,970	3,258	19,228
Agriculture, forestry and fishing	3.9	11,044	2,739	13,783
Mining	0.6	40,082	3,760	43,842
Manufacturing	9.1	19,021	3,272	22,293
Electricity, gas, water and waste services	0.6	34,183	3,204	37,387
Construction	7.3	19,389	3,050	22,439
Wholesale trade	5.8	20,209	3,463	23,672
Retail trade	28.5	13,899	2,705	16,603
Accommodation and food services	81.5	13,590	3,332	16,922
Transport, postal and warehousing	4.2	21,188	3,579	24,766
Information media and telecommunications	1.8	18,088	3,009	21,097
Finance and insurance services	4.7	23,601	3,816	27,416
Rental, hiring and real estate services	5.0	18,950	3,859	22,809
Professional, scientific and technical services	9.9	19,207	3,522	22,729
Administrative and support services	17.8	15,716	3,353	19,069
Public administration and safety	5.0	32,756	3,767	36,523
Education and training	9.2	20,413	3,302	23,715
Health care and social assistance	12.8	23,879	3,677	27,556
Arts and recreation services	5.9	14,004	2,892	16,896
Other services	5.3	15,875	3,151	19,026

Source: ABS 6160 Table 4.4. *Final column sums the median incomes of first and second concurrent jobs.

Second Job in Health care and social assistance

168. For employees with a second concurrent job in Accommodation and food services the yearly median income from the second job is $8,065 and median yearly total income is $44,435.

Table 5 Incomes of those employees with a second concurrent job in Health care and social assistance 2015-16

	Second concurrent job in Health care and social assistance			
	Number of multiple job holders ('000)	Employee income in first job ($)	Employee income in second job ($)	Total income
	220.6	36,370	8,065	44,435
Agriculture, forestry and fishing	1.0	16,140	3,921	20,061
Mining	0.3	61,704	7,239	68,943
Manufacturing	2.7	29,035	6,285	35,320
Electricity, gas, water and waste services	0.2	46,566	6,941	53,507
Construction	2.6	29,535	7,482	37,017
Wholesale trade	2.3	30,000	6,273	36,273
Retail trade	10.4	17,996	4,412	22,407
Accommodation and food services	7.4	14,864	3,787	18,651
Transport, postal and warehousing	1.7	29,891	6,621	36,512
Information media and telecommunications	0.7	29,730	6,194	35,924
Finance and insurance services	4.5	30,105	7,172	37,277
Rental, hiring and real estate services	1.9	28,138	5,722	33,860
Professional, scientific and technical services	5.9	33,049	7,975	41,024
Administrative and support services	12.1	24,295	6,777	31,072
Public administration and safety	8.2	47,939	8,352	56,290
Education and training	18.0	31,254	6,142	37,396
Health care and social assistance	132.2	44,020	9,974	53,994
Arts and recreation services	2.0	16,456	4,030	20,486
Other services	5.4	28,331	6,495	34,826

Source: ABS 6160 Table 4.4. *Final column sums the median incomes of first and second concurrent jobs.

169. It is clear from this analysis that workers with multiple jobs in the award dependent industries are amongst the low paid.

Response to Question 3.6

"At pp. 56–58 of its submission, Ai Group sets out what it submits are the impacts of the Low and Middle Income Tax Offset announced in the 2018–19 Budget. All parties are invited to comment on Ai Group's analysis"

Response:

170. Regarding the Ai Group's interpretation of the relatively lower, indeed tiny, tax reduction for those on the minimum wage as grounds for having a smaller increase in the minimum wage, this change amounts to on its own calculation 0.83% of pre tax income, the princely sum of $5.97 before tax! This in fact demonstrates the precise reason why the Panel's decision regarding the minimum wage increase is so crucial. New tax regimes are likely to be measly especially at the bottom, and reversible or more.[101] The impact will be even less for those in households that are eligible for highly means tested deductions and payments, and in fact may entail a fall in income after taxes and transfers amounting to income traps. It betrays the uncertainty in relying on taxes and transfers to rescue low paid employees, which are at the mercy of political gaming. The Panel's can decision avert this circumstance.

171. In reference to relative living standards, the vast bulk of tax cuts will accrue to higher income earners, men in particular.[102] That leaves relative living standards for those on awards in further deficit and again would require a greater increase in the minimum wage to address that deficit. Moreover, if tax cuts have the concomitant that the provision of services and infrastructure to the low paid is reduced, then the minimum wage will not stretch as far as previously, and may be less able to meet the needs of the low paid. The Grattan Institute has said that: "The budget numbers point to a decade of surpluses, exceeding 1% of GDP by 2026-27, even with the tax cuts. But the surpluses rely on payments as a share of gross domestic product falling steadily over the decade, from

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[101] FWC 2019 Information note – changes to the tax-transfer system, 3 April https://www.fwc.gov.au/documents/wage-reviews/2018-19/taxtransfer.pdf

[102] Danielle Wood, Kate Griffiths and Matt Cowgill 2019 "Potentially unaffordable, and it still won't fix bracket creep. The Coalition's $300 billion tax plan assessed" https://grattan.edu.au/news/potentially-unaffordable-and-it-still-wont-fix-bracket-creep-the-coalitions-300-billion-tax-plan-assessed/ , 9 April

24.9% of GDP today to 23.6% by 2029-30. [par] Achieving such a reduction would require significant cuts in spending growth across almost every major spending area".[103]

Response to Question 3.7

"Fair Work Commission staff have 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."

Response:

172. The ACTU has referenced the Fair Work Commission's staff Information note in its reply to the previous question (3.6).

173. Changes in the Medicare levy threshold will do little for those working at minimum wage rates, although it is possible the small proportion who are working hours that yield an income at the current threshold may benefit. The childcare subsidy changes appear not to be specifically targeted at the low paid and as such are likely to amount to little change for those paid at minimum wages.

Response to Question 5.1

"In its submission to this Review, the AWU draws the attention of the Panel to minimum wage rates for junior employees covered by the Vehicle Manufacturing, Repair, Services and Retail Award 2010 which appear (in most cases) to be lower than the wage rates for award-free junior employees covered by the NMW order because:

(a)the adult rate for entry-level employees in the Vehicle Manufacturing, Repair, Services and Retail Award 2010 is equal to the adult NMW; and

(b)the relevant junior rate percentages in the Vehicle Manufacturing, Repair, Services and Retail Award 2010 are lower than those in the NMWOrder.

We also note that at paragraph 23 of its submission the Australian Government states:

'Award minimum wages range from the national minimum wage rate of $719.20 per week ($37,398 per year) up to $3,409.83 per week ($177,311 per year, Air Pilots Award 2010). The national minimum wage

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[103] Danielle Wood, Kate Griffiths and Matt Cowgill 2019 "Potentially unaffordable, and it still won't fix bracket creep. The Coalition's $300 billion tax plan assessed"

rate of $719.20 per week features in 45 of the 122 modern awards. In the remaining 77 modern awards, all wage rates are above the national minimum wage rate.

Of the 45 awards, 26 express the lowest adult wage rate as both the hourly national minimum wage of $18.93 and the weekly national minimum wage of $719.20, a further 16 refer only to the weekly rate, two refer to the weekly and annual rate, and the remaining one states the lowest adult wage as an hourly amount. However, in one of these awards, workers may receive commission on top of the weekly national minimum wage, and in a further two awards, workers have shorter ordinary working hours resulting in a higher hourly wage than the hourly national minimum wage. Also, in several of the 45 awards, the lowest rate is paid as an introductory rate or a trainee rate.'

Do other parties agree with the submission of the AWU to the effect that the Panel should vary the junior rates in the Vehicle Manufacturing, Repair, Services and Retail Award 2010 (and any other modern award where the same may issue arise)"

<u>Response:</u>

174. We agree that the junior rates in the *Vehicle Manufacturing, Repair, Services and Retail Award* should be varied as proposed. Whilst we have not mapped all of the junior rates in all awards against those in the National Minimum Wage Order, we aim to have done so by the commencement of consultations next month.

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