

**Federal Opposition  
Submission to the  
Fair Work Commission Annual  
Wage Review 2018-19**

**15 March 2019**

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## Introduction

1. In the final decade of the 19th Century, the labour movement and the Labor Party rallied around the promise of 'a fair day's wage for a fair day's work'. As we enter the third decade of the 21st Century, too many Australians are being excluded from that promise: by years of wage stagnation, by the collapse of bargaining, by insecure work and exploitation and by a minimum wage that traps people in poverty instead of rewarding them for their hard work.
2. A fair wage system is fundamental to the treasured Australian ideal of the fair go. Fair wages ensure people can keep a roof over their head, put food on the table and aspire to a better standard of living and greater opportunity.
3. A fair wage system is fundamental to a stronger economy too. Because the incomes of working people are what drives confidence, demand and growth. The people most affected by this tribunal's decision spend every single dollar they earn. It's their wages and their purchasing power that helps keep small businesses afloat.
4. A fair wage system is fundamental to reward for effort. Decent pay, fair pay, helps build the sense we are in this together, that employers and employees are all involved in the creation of national wealth and therefore all deserve a share of that national wealth. In a time of greater economic dislocation, increased political fracturing and growing suspicion of institutions here and around the world, fair wages are essential, concrete proof that the system can still serve the interests of the people.
5. For the sake of working people and their living standards, for the sake of economic growth and confidence and for the sake of rebuilding a sense of shared prosperity, we need to prioritise a pay-rise for working people, beginning with a substantial increase in the minimum wage.
6. Australians counting on this decision are all around us. The people at the local pool who you trust to teach your child how to swim. The people holding your dog at the vet, comforting him when it's time for an injection. The people keeping your workplace clean, or picking up your glasses and wiping down your table at the pub. The person who assists in feeding and bathing and caring for your elderly parent.

7. Australians in every part of our economy and society, from looking after your toddler when you're at work to the diligent people who keep the local cemetery in pristine condition. Literally, from the cradle to the grave.
8. We rarely recognise it, we might not even notice it. But the country runs on their contribution as much as ours.
9. People who rely on the minimum wage are doing hard, unglamorous, unforgiving jobs. Their work often goes unseen and unnoticed by the rest of us. It's unacceptable that an adult Australian in 2019 could work full time and yet still live in poverty.

### **The Opposition's Submission**

10. The Federal Labor Opposition (the Opposition) is proposing that the Fair Work Commission's Expert Panel (the Panel) provide a fair and economically responsible real increase in the National Minimum Wage (NMW) that recognises:
  - no Australian working full-time should be living in poverty;
  - everything is going up but people's wages;
  - since 2013 real productivity has grown 4 times faster than real wages;
  - over the past year company profits have grown 5 times faster than wages;
  - international experience shows that significant increases in a minimum wage can be sustained without costing jobs; and
  - persistently low wages growth poses a real threat to consumer demand and the broader economy.
11. Whilst the Opposition is making this submission under the current laws, we have been arguing strongly for increases in the NMW since the Opposition made its first submission in 2015, and we no longer have confidence that the current legislative framework has the capacity to deliver the wages growth that the lowest paid workers, and our economy, require.

## Legislative parameters

12. The Fair Work Act 2009 (the Act) requires the Panel to review the NMW and modern award minimum wages and make a NMW Order.<sup>1</sup>
13. We note that in doing so the Panel is to be guided by the statutory objectives of “establish(ing) and maintain(ing) a safety net of fair minimum wages”<sup>2</sup> and ensuring that “modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net”.<sup>3</sup>
14. In determining the NMW Order the Panel is required to take into account:
- the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth;
  - promoting social inclusion through increased workforce participation;
  - relative living standards and the needs of the low paid;
  - the principle of equal remuneration for work of equal or comparable value;
  - providing a comprehensive range of fair minimum wages to junior employees to whom training arrangements apply and employees with a disability.<sup>4</sup>
15. Further, in reviewing modern award minimum wages, the Panel must take into account:
- relative living standards and the needs of the low paid;
  - the need to encourage collective bargaining;
  - the need to promote social inclusion through increased workforce participation;
  - the need to promote flexible modern work practices and the efficient productive performance of work;
  - the need to provide additional remuneration for employees working overtime, unsocial, irregular or unpredictable hours, weekends or public holidays;

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<sup>1</sup> *Fair Work Act (2009)* s 285.

<sup>2</sup> *Fair Work Act (2009)* s 284.

<sup>3</sup> *Fair Work Act (2009)* s 134.

<sup>4</sup> *Fair Work Act (2009)* s 284.

- the principle of equal remuneration for work of equal or comparable value;
- the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden;
- the need to ensure a simple, easy to understand, stable and sustainable modern award system for Australia that avoids unnecessary overlap of modern awards; 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.<sup>5</sup>

16. The Opposition has argued previously that the Panel should:

- prioritise the needs of the low paid in determining the NMW;
- take account of the decline in the minimum wage bite over time; and
- provide an increase that takes account of changes in living costs.

17. The Opposition has also argued that the Panel should have little regard for the view that the needs of the low paid should be addressed primarily through the tax and transfer system – particularly when those arguments come from the Abbott-Turnbull-Morrison Government which has been so intent on dismantling the social wage.

**18. The Opposition accepts that the Panel is constrained by the current legislative provisions, but no longer has confidence that these provisions have the capacity to deliver the wages growth that the lowest paid workers, and our economy, require.**

## Economic Considerations

19. The Australian economy is not delivering for working and middle-class Australians.

This largely reflects the major economic and social challenge of persistently low wages growth, coupled with rising cost of essentials and record high household debt levels.

20. Labor’s previous submission to the Panel on the NMW argued that persistently low wages growth was a key risk to household consumption and the broader Australian

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<sup>5</sup> *Fair Work Act (2009) s 134.*

economy. Over the past 12 months, this risk has not only become more acute, but has started to materialise.

21. Over the past six months, Australia's GDP growth has slowed sharply, largely driven by a slowdown in household consumption growth. This is widely viewed by economists and experts as a consequence of stagnant wages growth. Despite this, profits have continued to grow solidly, growing five times faster than wages over the past year.
22. Wages growth has continued to disappoint, including relative to Government forecasts, but most major forecasters view an improvement in wages growth as the key to lifting Australia's economic growth performance.

**23. Persistently low wages growth is posing a real threat to consumer demand and the broader economy.**

### **Persistently low wages growth**

24. Wages growth, as measured by the Wage Price Index, is sitting around record lows at 2.3 per cent over the year to December.<sup>6</sup>
25. According to the latest National Accounts, average compensation per employee is only 1.7 per cent higher over the year. On this measure, real wages are going backwards, since it is below inflation (1.8 per cent over the year to December 2018).<sup>7</sup>
26. Record low wages growth has now persisted for around five years. Over this period, wages growth has also continued to fall below the Government's own forecasts, which were recently downgraded in the mid-year economic and fiscal outlook (MYEFO).<sup>8</sup>
27. Wages growth has remained around record lows despite the 3.5 per cent increase in minimum and award wages that commenced on 1 July 2018 and directly affected more than 1 in 5 employees.
28. There is no single cause of wage stagnation. It reflects both cyclical and structural factors.

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<sup>6</sup> Australian Bureau of Statistics (ABS), *Wage Price Index Australia* (December 2018) cat. no. 6345.0.

<sup>7</sup> Australian Bureau of Statistics (ABS), *Consumer Price Index Australia* (December 2018) cat. no. 6401.0.

<sup>8</sup> Commonwealth of Australia, *Mid-Year Economic and Fiscal Outlook 2018-19* (December 2018), available at: [https://www.budget.gov.au/2018-19/myefo/myefo\\_2018-19.pdf](https://www.budget.gov.au/2018-19/myefo/myefo_2018-19.pdf).

- There is still spare capacity in the labour market. Around 1.1 million people are underemployed and more than 673,000 people are unemployed<sup>9</sup>, with high pockets of unemployment in many regional areas<sup>10</sup>.
- Labour market deregulation and declining industrial strength of workers have been linked to stagnant wages in Australia and internationally.<sup>11</sup>
- The number of casual workers in Australia has hovered at around 1 in 4, but since 2014 we have seen the number of employees with paid entitlements grow by 9.4 per cent, and their hours worked by 8.2 per cent, while over the same period the number of employees without paid entitlements has grown by 16.5 per cent, and their hours worked by 20.8 per cent.<sup>12</sup> The most recent data shows that casuals have average weekly total cash earnings less than half that of permanent or fixed-term employees (\$649.20 compared to \$1,469.20).<sup>13</sup>

### Impact of stagnant wages on economic growth

29. The latest National Accounts and other recent economic data highlight that weak consumption growth is already having a negative impact on the overall economy.

- GDP growth has fallen to a below trend rate of 2.3 per cent through the year to December 2018, with growth of only 0.2 per cent in the December quarter. This is down from 3.1 per cent only six months earlier (through the year to June 2018).<sup>14</sup>
- A key driver of this slowdown in GDP growth has been the weakness in consumption growth, which has moderated to a below trend rate of 2.0 per cent

<sup>9</sup> Australian Bureau of Statistics (ABS), *Labour Force, Australia* (Jan 2019) cat. No. 6202.0.

<sup>10</sup> Australian Government, Department of Jobs and Small Business, *Labour Market Information Portal*, available at: <http://lmip.gov.au>.

<sup>11</sup> See eg: Ciminelli, G. et al, *IMF Working Paper: Employment Protection Deregulation and Labor Shares in the Advanced Economies*, 16 August 2018; Haldane, A. 'Work Wages and Monetary Policy', Speech to the National Science and Media Museum, 20 June 2017.

<sup>12</sup> Australian Bureau of Statistics (ABS), *Labour Force Australia Detailed Quarterly* (Nov 2018) cat. no. 6291.0.55.003, Table 13.

<sup>13</sup> Australian Bureau of Statistics (ABS), *Employee Earnings and Hours Australia* (May 2018) cat. no. 6306.0, Data Cube 1, Table 3.

<sup>14</sup> Australian Bureau of Statistics (ABS), *Australian National Accounts: National Income, Expenditure and Product* (December 2018) cat. no. 5206.0.



through the year to December 2018, down from 2.9 per cent through the year to June 2018.<sup>15</sup>

- A major driver of the weakness in overall consumption is weakness in retail sales. Quarterly retail sale volumes rose by a very weak 0.1 per cent in the December quarter to be only 1.6 per cent higher over the year – which is well below the 10 year average annual growth rate of around 2.6 per cent.<sup>16</sup>
- In addition, the value of retail sales fell sharply by 0.4 per cent in December. This weakness in the value of retail sales has continued into January, having only increased by 0.1 per cent. This takes annual growth in retail sales to 2.7 per cent, over a full percentage point lower than it was six months ago, and below the 10-year annual average of around 3.3 per cent.<sup>17</sup>
- Weak consumption primarily reflects consumers cutting back on non-discretionary spending.<sup>18</sup>

30. The Reserve Bank Governor and many prominent economists have argued that persistently low wages and incomes growth is a key driver behind weaker household spending and slowing economic growth.

- According to the RBA Governor:

*As I have discussed on previous occasions, growth in household income has been quite weak for a while... as the period of weak income growth has persisted, it has become harder to ignore it. Expectations of future income growth have been revised down and it is likely that this is affecting spending.*<sup>19</sup>

- The RBA Governor has also said that:

*Household consumption accounts for almost 60 per cent of total spending, so what happens on this front is important... the*

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<sup>15</sup> Australian Bureau of Statistics (ABS), *Australian National Accounts: National Income, Expenditure and Product* (December 2018) cat. no. 5206.0.

<sup>16</sup> Australian Bureau of Statistics (ABS), *Retail trade Australia* (January 2019) cat. no. 8501.0.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> Lowe, P. 'The Housing Market and the Economy' Address to the AFR Business Summit (6 March 2019) available at: <https://www.rba.gov.au/speeches/2019/sp-gov-2019-03-06.html>.

*available data suggest that the underlying trend in consumption is softer than it earlier looked to be and this has affected the outlook for the economy.*<sup>20</sup>

- Westpac Chief Economist, Bill Evans said:

*The economy lost considerable momentum in 2018, slowing from around a 4% annualised pace in the first half of the year to around a 1% pace in the second. This was centred on housing and the consumer against the backdrop of a further tightening of lending standards and persistent weak wages growth.*<sup>21</sup>

- NAB Chief Economist, Alan Oster said:

*The Q4 national accounts confirmed that ... consumption growth has remained weak, alongside only modest growth in household income.*<sup>22</sup>

31. Sustained low wages growth continues to put acute pressure on households, which face rising cost of living pressures, particularly the cost of essentials, which have seen large cumulative increases in recent years. For example, over the past five years:

- Electricity prices have risen by around 15 per cent;<sup>23</sup>
- Cost of long day child care has risen by 24 per cent;<sup>24</sup> and
- Private health insurance premiums have risen by 30 per cent.<sup>25</sup>

32. At the same time, many households face high levels of debt, with household debt at around record highs as a share of disposable income.<sup>26</sup>

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<sup>20</sup> Lowe, P. 'Opening Statement to the House of Representatives Standing Committee on Economics', Sydney (22 February 2019), available at: <https://www.rba.gov.au/speeches/2019/sp-gov-2019-02-22.html>.

<sup>21</sup> Scutt, D. 'Here's what economists are saying about Australia's weak GDP report', *Business Insider Australia* (6 March 2019), available at: <https://www.businessinsider.com.au/australia-q4-gdp-report-economists-rba-cash-rate-2019-3>.

<sup>22</sup> Oster, A. 'NAB now predicting two cash rate cuts in 2019: Alan Oster', *Property Observer*, (8 March 2019), available at: <https://www.propertyobserver.com.au/forward-planning/investment-strategy/property-news-and-insights/96351-nab-flips-now-predicting-two-rate-cuts-in-2019-alan-oster.html>.

<sup>23</sup> Australian Bureau of Statistics (ABS), *Consumer Price Index, Australia* (December 2018) cat. no. 6401.0.

<sup>24</sup> Australian Government, Department of Education and Training, *Early Childhood and Child Care in Summary* (March quarter 2018), available at: <https://docs.education.gov.au/documents/early-childhood-and-child-care-summary-report-march-quarter-2018>.

<sup>25</sup> Australian Government, Department of Health, 'Average premium increases by insurer this year (19 December 2018), available at: <http://www.health.gov.au/internet/main/publishing.nsf/Content/privatehealth-average-premium-round>.

33. The combination of weak wages growth, rising cost of essentials and high household debt has contributed to households drawing down on their savings to fund current consumption. This is reflected in the sharp decline in the household savings ratio, which has fallen to its lowest level in around a decade, at 2.5 per cent.<sup>27</sup>

34. The RBA, the Government and many major forecasters continue to warn that ongoing weakness in wages and household income will remain a key risk to consumption and Australia's overall economic performance:

- According to the RBA Governor:

*[People are] having more difficulty, they've got less free cash, so they can't spend... This is why I've put so much emphasis on the need for a pick-up in wage growth.*<sup>28</sup>

- RBA Statement on Monetary Policy:

*Domestically, the outlook for consumption remains a key source of uncertainty... As has been the case for some time, the ongoing uncertainty about the outlook for household income also has a direct bearing on forecasts for consumption.*<sup>29</sup>

- According to NAB Chief Economist, Alan Oster:

*It's about what high levels of debt in an environment of low wages growth, high utility prices and falling house prices will do to the consumer's willingness to spend.*<sup>30</sup>

35. The Reserve Bank Governor has also warned that:

*Flat real wages are diminishing our sense of shared prosperity...  
[and that] the lack of real wage growth is one of the reasons why*

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<sup>26</sup> Reserve Bank of Australia, 'Chart Pack – Household Sector' (6 March 2019), available at: <http://www.rba.gov.au/chart-pack/household-sector.html>.

<sup>27</sup> Australian Bureau of Statistics (ABS), *Australian National Accounts: National Income, Expenditure and Product* (December 2018) cat. no. 5206.0.

<sup>28</sup> House of Representatives Standing Committee on Economics, Parliament of Australia, *Reserve Bank of Australia annual report 2018*, Proof Committee Hansard, 22 February 2019, p. 9.

<sup>29</sup> Reserve Bank of Australia, Statement on Monetary Policy – February 2019.

<sup>30</sup> Poljak, V. 'Financial Review quarterly survey of economists: consumption growth at risk', *Australian Financial Review*, 2 January 2019 available at: <https://www.afr.com/markets/financial-review-quarterly-survey-of-economists-consumption-growth-at-risk-20190102-h19mcd>.

*some in our community question whether they are benefiting from our economic success.*<sup>31</sup>

### **Impact of the Annual Wage Review on stagnant wages**

36. The Opposition accepts that the Annual Wage Review is not a panacea for stagnant wages.
37. The ABS has estimated that in 2017 the average contribution to wage growth from Awards is 11 per cent (compared to 49 per cent for Enterprise Agreements and 40 per cent for Individual Arrangements).<sup>32</sup>
38. According to the Reserve Bank of Australia the 3.3 per cent increase in the NMW and award minimum wages in 2017 directly contributed around 0.5 percentage points to annual growth in the aggregate wage price index in the September Quarter of that year.<sup>33</sup>
39. The Opposition argues that it is, however, an important part of the overall wages picture.

### **Affordability of an increase in the minimum wage – productivity**

40. The Opposition believes that increases in labour productivity should support increases in real wages. While labour productivity has been weak over the past year, there is still a large gap between labour productivity and real wages over the long term. This has been exacerbated by persistently low wages growth, which has either been below or barely above inflation for several years.

**41. Since 2013 real productivity has grown nearly four times faster than real wages.**<sup>34</sup>

42. As Chart One shows, real labour productivity has outstripped growth in real wages over the past two decades. Whereas real labour income tracked (or even briefly exceeded) real productivity growth in the four decades from 1960, a decoupling has been marked since the early 2000's. Real labour income would be roughly 20

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<sup>31</sup> Lowe, P. 'Trust and Prosperity', *Address to CEDA Annual Dinner*, Melbourne, 20 November 2018.

<sup>32</sup> Page, D. (2018), *Wage-setting methods and wage growth in Australia*, Australian Bureau of Statistics Chief Economist Series.

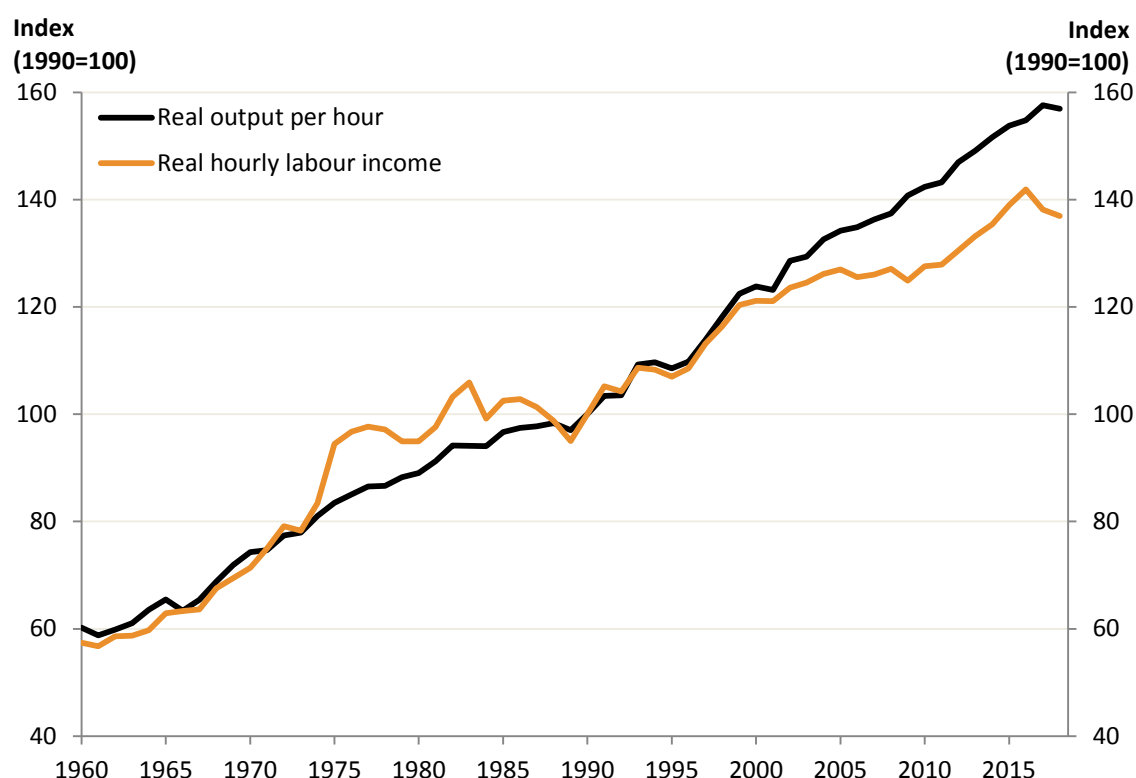
<sup>33</sup> Reserve Bank of Australia, *Statement on Monetary Policy – August 2017*, Box C Minimum Wage Decision

<sup>34</sup> Glover, P. and Lowis, A. (*Credit Suisse*) *Federal Election 2019*, 13 February 2019, p. 12.

percentage points higher (based on 1990 levels) had labour income growth tracked productivity growth.

43. As in other nations, this decoupling has led to a fall in the labour share of national income.<sup>35</sup> Although there are a variety of ways of measuring the share of national income that goes to labour versus capital, all the studies conclude that since the 1970s, the labour share has dropped, while the capital share has risen. Some estimates suggest that the drop in the labour share might have been as large as 15 percentage points.

**Chart 1: Real productivity versus real labour income<sup>36</sup>**



44. As ex Chief ANZ Economist and now University of Technology Sydney business school professor Warren Hogan has said:

<sup>35</sup> M Cowgill (2013) *A Shrinking Slice of the Pie*, ACTU, Melbourne; J Stanford (2017) *Labour Share of Australian GDP Hits All-Time Record Low*, Australia Institute, Canberra; Australian Bureau of Statistics (2018), 'Trends in the Labour Income Share in Australia', *Estimates of Industry Multifactor Productivity, 2016-17*, Cat No. 5260.0.55.002, Australian Bureau of Statistics, Canberra; Marta Guerriero (2012) 'The Labour Share of Income around the World: Evidence from a Panel Dataset', Paper prepared for the 4th Economic Development International Conference of GREThA/GRES 'Inequalities and Development: new challenges, new measurements?' University of Bordeaux, France, June 13-15, 2012.

<sup>36</sup> Updated, based on ACTU calculations (M Cowgill, 2013, *A Shrinking Slice of the Pie*) on ABS 5204, ABS 6291.0.55.001, Butlin 1977. Chart shows real total factor income per hour, compared to real labour income per hour, including employers' social contributions and the imputed labour income of the self-employed. Both series are deflated using the GDP implicit price deflator.

*The data, and the reality today, show that there is a much greater return to capital than there is to labour, and the wage/profit share is at quite an extreme level.*<sup>37</sup>

45. The Opposition notes Credit Suisse's observation that:

*labour's share of output in Australia has declined significantly, and more so than most developed OECD countries.*<sup>38</sup>

46. Chart Two shows that the real value of the NMW is far lower than it would have been had it grown at the rate of either Average Weekly Ordinary Time Earnings or Labour Productivity in the past two decades.<sup>39</sup> In 2018 dollar terms, if the NMW had grown at the same rate as average wages it would be \$818.13 (\$99.10 more than the NMW); and if it had grown at the same rate as labour productivity it would be \$930.41 (\$211.21 more than the NMW).

47. This makes the point that before we demand further productivity gains from the workforce, we should consider whether the lowest paid workers have appropriately benefited from the productivity gains already made.

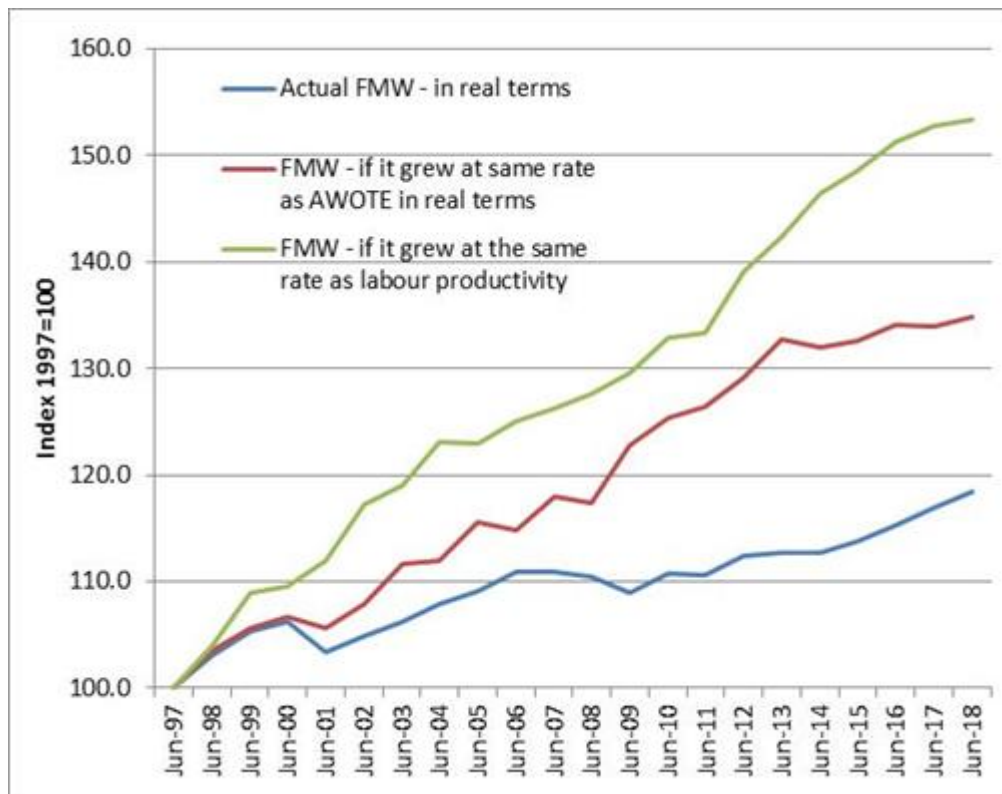
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<sup>37</sup> Taylor, D. 'Shareholders win out over workers from corporate revenue windfall' *ABC News* (13 March 2019), available at: <https://www.abc.net.au/news/2019-03-13/shareholders-win-out-over-workers-from-corporate-revenue/10893802>.

<sup>38</sup> Glover, P. and Lowis, A. (*Credit Suisse*) *Federal Election 2019*, 13 February 2019, p. 12.

<sup>39</sup> Australian Bureau of Statistics (ABS), *Characteristics of Employment, Australia* (August 2017) cat. no. 6333.0; *Average Weekly Earnings* (November 2017) cat. no. 6302.0 ; *Australian National Accounts: National Income, Expenditure and Product* (December 2017) cat. no. 5602.0 ; *Consumer Price Index* (December 2017) cat. no. 6401.0.

**Chart 2: Real Minimum Wage value – actual and comparable growth scenarios**



48. Further, there is evidence that higher minimum wages will improve productivity. According to the International Labour Organization, higher minimum wages are associated with greater labour productivity, lower turnover in staff, an increase in productivity-enhancing training, and firm and macro-level efficiency gains.<sup>40</sup>

### **Affordability of an increase in the minimum wage – business profitability and viability**

49. Stagnant wages have occurred alongside stronger growth in company profits, which have grown at 10 per cent over the past year – around five times the rate of wages growth.

**50. Over the past year company profits have grown 5 times faster than wages, and since 2016 profits have grown 7 times faster than wages.**

51. The most award reliant industries have also experienced faster growth in profits than wages over the same period:

<sup>40</sup> International Labor Organisation, 'Minimum Wages and Labour Productivity' (2015), available at: [http://www.ilo.org/wcmsp5/groups/public/---ed\\_protect/---protrav/---travail/documents/genericdocument/wcms\\_476157.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/genericdocument/wcms_476157.pdf).

Award	Growth in profits <sup>41</sup> (2016-2018)	Growth in wages <sup>42</sup> (2016-2018)	Ratio of profit growth to wages growth
Accommodation and Food Services	20.8 per cent	6.5 per cent	3
Other Services	68.0 per cent	5.9 per cent	11
Administration and Support Services	29.7 per cent	5.0 per cent	6
Retail Trade	17.6 per cent	5.0 per cent	3

52. The Panel in its 2017-18 determination noted that:

*the business bankruptcy rate remained stable at a comparatively low level... business survival rates are the highest in at least a decade and business entry rates exceeded business exit rates by a larger than usual margin.*<sup>43</sup>

There appears to be a continuation of this trend, notwithstanding last year's 3.5 per cent increase to minimum and award wages.<sup>44</sup>

53. Wages are a component of the "real unit labour cost" for businesses. Real unit labour costs are around 6 per cent below their December 2007 levels.<sup>45</sup>

54. According to the December 2018 Sensis Business Survey, a lack of sales remains overwhelmingly the most cited barrier to taking on new employees for small and medium sized businesses (at 37%).<sup>46</sup> In contrast, the survey found the number of small and medium businesses citing labour costs as a barrier to taking on new employees remains much lower (7%, unchanged from December 2017).<sup>47</sup>

<sup>41</sup> Australian Bureau of Statistics (ABS), *Business Indicators Australia* (December 2018), cat. no. 5676.0, Table 11.

<sup>42</sup> Australian Bureau of Statistics (ABS), *Wage Price Index, Australia* (December 2018), cat. no. 6345.0, Table 5b.

<sup>43</sup> [2018] FWCFB 3500, [255].

<sup>44</sup> Fair Work Commission (FWC), Statistical report—Annual Wage Review 2018-19 (8 March 2019), p.14-16, available at: <https://www.fwc.gov.au/documents/wage-reviews/2018-19/statistical-reporting/statisticalreport1.pdf>.

<sup>45</sup> Australian Bureau of Statistics (ABS), *Australian National Accounts: National Income, Expenditure and Product* (December 2018) cat. no. 5206.0.

<sup>46</sup> Sensis, *Sensis Business Index December Quarter 2018*, p. 19.

<sup>47</sup> Ibid.



## Affordability of an increase in the minimum wage – Labor’s plan for small business

55. Labor has a comprehensive plan to support Australia’s small businesses. Labor’s plan will support these businesses to grow, invest and pay their staff appropriate wage increases.
56. Labor will deliver tax cuts for small and medium businesses with a turnover of up to \$50 million a year. Under Labor, 99 per cent of businesses will receive a tax cut. This will be complemented by the Australian Investment Guarantee which will allow businesses to immediately deduct 20 per cent of any new eligible asset worth more than \$20,000. Labor will also ensure that small businesses are able to receive a fair hearing with the Australian Tax Office by establishing a Second Commissioner (Appeals).
57. To complement these tax measures, Labor will introduce competition policies to level the playing field with big business. This includes the legislation that we recently passed to provide access-to-justice for small businesses taking competition cases to court. Labor will also make unfair contract terms illegal.
58. These broader economy wide competition proposals will be complemented by sector-specific measures where there has been evidence of particular competition issues. Specifically, in the auto sector Labor will introduce requirements that will establish an industry-specific code for car dealers and require all car manufacturers to provide technical repair information to independent mechanics. In the hospitality industry, Labor will ensure that hotels are able to offer competitive prices to customers regardless of rates displayed by aggregator websites.
59. Ensuring small businesses are properly paid for work they have performed will be a key priority for Labor. Labor will crack down on directors who engage in ‘phoenix activity’, where they deliberately burn companies in an attempt to avoid their obligations to employees, government and honest businesses. Labor will establish the ‘tradie-pay guarantee’ which will assist in ensuring that subcontractors are not taken advantage of on major construction projects.

## Relative living standards and the needs of the low paid

60. The Opposition notes the Panel’s distinction between relative living standards and the needs of the low paid. The former comparing

*living standards of workers reliant on the NMW and modern award minimum rates with relevant groups.*<sup>48</sup>

The latter requiring

*an examination of the extent to which low-paid workers are able to purchase the essentials for a ‘decent standard of living’ and to engage in community life, assessed in the context of contemporary norms.*<sup>49</sup>

61. The Opposition would argue that both are component parts of what might constitute a “living wage”.

## Relative living standards

62. The Opposition notes that the Panel accepts that the minimum wage bite is “an important indicator of relative living standards and wage inequality”.<sup>50</sup>

63. As the Opposition indicated in our previous submission,

*... twenty years ago the minimum wage was 63 per cent of the median wage. Now it is 54 per cent. The decline is even starker relative to AWOTE: 52 per cent to 45 per cent over twenty years.*<sup>51</sup>

64. We note that despite record low wages growth and a record increase in minimum and award wages the minimum wage bite relative to median full time wages is 54.5 per cent and relative to AWOTE is 44.8 per cent.<sup>52</sup>

65. There has been little impact on the wage bite – in the last five years the NMW averaged 54.3 per cent of median wages, compared to an average of 54.1 per cent of

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<sup>48</sup> [2018] FWCFB 3500, [31]

<sup>49</sup> [2018] FWCFB 3500, [32].

<sup>50</sup> [2017] FWCFB 3500, [69].

<sup>51</sup> Federal Opposition, Submission to the *Fair Work Commission Annual Wage Review 2017*, 29 March 2017, [45].

<sup>52</sup> Australian Bureau of Statistics (ABS) *Characteristics of Employment, Australia* (August 2018) cat. no. 6333.0 and Australian Bureau of Statistics (ABS) *Average Weekly Earnings, Australia* (November 2018) cat. no. 6302.0.

median wages over the last ten years. The same is true relative to AWOTE – 44.6 per cent over the last five years and 44.8 per cent over the last decade.

66. The Opposition notes that in the Panel’s Annual Wage Review in 2016-17 the Panel concluded that under the current law it was neither possible to set a target to be reached over time, nor to determine an increase which could be phased in over time. That to do so would effectively prioritise relative living standards and the needs of the low paid over other considerations.
67. The Panel did, however, accept “the need to periodically assess the medium and long term consequences of successive Review decisions and have recognised that these decisions have both an immediate and cumulative impact”<sup>53</sup>
68. The Opposition submits that the Panel’s periodic assessment of medium and long term consequences has not resulted in any real change to the minimum wage bite.

### Needs of the low paid

69. More Australians than ever are taking on second jobs. The latest ABS Labour Account figures show that the number of secondary jobs in Australia rose to a record of more than 1 million in Australia in the December 2018 quarter. This tends to suggest that under the Abbott-Turnbull-Morrison government Australians aren’t earning enough money so they are resorting to taking up a second job to get by.
70. Noting the challenges with the equivalised household disposable income which mean it is likely to understate actual poverty levels experienced by different family types, particularly single person households, it is of concern to the Opposition that even on this basis there are significant groups of families who cannot work on the NMW and have a decent standard of living.

<b>71. No Australian working full-time should be living in poverty.</b>
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72. In the 2018 review the panel accepted:

*... the proposition that it is reasonable for full time employees to expect a standard of living in excess of poverty [but that] the Act requires the Panel to take into account all of the relevant statutory*

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<sup>53</sup> [2017] FWCFB 1931, [73].

*considerations, and the relative living standards and needs of the low paid are but 'one of a number of considerations that [the Panel] must taken into account'.<sup>54</sup>*

73. A range of families earning the NMW remain in poverty after last year's annual wage review:<sup>55</sup>

- A single parent working part time on the minimum wage, with one child earns only 87 per cent of the poverty line;
- A single parent working part time on the minimum wage, with two children earns only 84 per cent of the poverty line;
- A single-(FT)earner couple earns only 81 per cent of the poverty line;
- A single-(FT)earner couple with one child earns only 94 per cent of the poverty line; and
- A single-(FT)earner couple with two children earns only 90 per cent of the poverty line.

74. In 2018 the Panel observed that

*... relative poverty lines are essentially a measure of inequality at the lower end of the income distribution. They are not based on an observed incapacity to meet needs.<sup>56</sup>*

75. We note also the Panel's analysis of budget estimates based on the Minimum Income for Healthy Living and the criticisms of those estimates, and urge the Commission to continue how to obtain relevant information about actual realistic costs of living in Australia today.

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<sup>54</sup> [2018] FWCFB 3500, [26]

<sup>55</sup> Fair Work Commission (FWC), Statistical report—Annual Wage Review 2018-19 (8 March 2019), p. 46, available at: <https://www.fwc.gov.au/documents/sites/wagereview2018/statistical-reporting/statisticalreport.pdf>.

<sup>56</sup> [2018] FWCFB 3500, [88]

## Tax and transfer system

76. The Abbott-Turnbull-Morrison Government has consistently argued that the best way to address the needs of the low-paid is through the tax and transfer system.
77. The Opposition agrees that the tax and transfer system has a significant role to play in alleviating the impact of earnings inequality and supporting the living standards of low paid workers.
78. The Opposition therefore welcomes the Panel's conclusion that "the changes to the tax-transfer system in the past two budgets have reduced the financial assistance that is provided for low-income families with children."<sup>57</sup>
79. In particular the Panel has taken into account:
- abolition of the Schoolkids Bonus in July 2016 (worth \$430 per annum for each primary school student and \$856 per annum for each secondary school student)
  - freezes to the base and maximum rate of Family Tax Benefit (Part A) and the maximum rate of Family Tax Benefit (Part B)
  - maintaining the nominal value of income areas for working age and parent payments at their current levels for 3 years
  - cessation of the Income Support Bonus in 2016
80. The Opposition shares the concerns of the Panel in relation to the impact of these changes on low income individuals and families.
81. Recent changes to child care subsidies have left an estimated 279,000 families worse off, including thousands of families on low incomes.
82. Additionally, low paid workers face material increases to their out-of-pocket healthcare costs including:
- an average increase of 25% over five years in out-of-pocket costs for GP services to \$36.47;<sup>58</sup>

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<sup>57</sup> [2017] FWCFB 3500, [65].

<sup>58</sup> Department of Health, Quarterly Medicare Statistics (12 February 2018), available at: <http://www.health.gov.au/internet/main/publishing.nsf/Content/Quarterly-Medicare-Statistics>.

- an average increase of 38% over five years in out-of-pocket costs for specialist attendances, rising to an average of \$80.18 per attendance;<sup>59</sup>
- these increases have occurred at a time when the patient rebates for these services have largely been frozen;
- average private health insurance premiums have increased by 30% since 2014;<sup>[3]</sup>
- health costs have increased at more than 3% year on year, partly driven by rising medical costs;<sup>[4]</sup> and
- while the rebate for MBS items has been frozen, the MBS and PBS safety net thresholds and PBS co-payments have continued to be indexed, leading to greater out-of-pocket health costs for many low paid and vulnerable Australians.

## Encouraging Collective Bargaining

83. The Panel notes that it is required by the modern awards objective, and the objects of the Act to take account of the impact of any decision on collective bargaining. The Panel has observed that higher minimum wages discourages bargaining by workers, but lower minimum wages can discourage bargaining by employers.<sup>60</sup>

84. The 2018 September quarter saw only 873 enterprise agreements approved – adding onto some of the lowest levels of agreements made since 1995.<sup>61</sup> This is part of a longer term trend observed in previous Panel decisions.

85. In May 2008 (the year before the commencement of the Act), 16.5 per cent of the workforce was covered by awards and 39.8 per cent by collective agreements (both state and federal).<sup>62</sup>

86. Collective agreement coverage peaked in May 2010, at 43.4 per cent of employees.<sup>63</sup>

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<sup>59</sup> Ibid.

<sup>[3]</sup> Department of Health, Average premium increases by insurer by year, available at: <http://www.health.gov.au/internet/main/publishing.nsf/content/privatehealth-average-premium-round>.

<sup>[4]</sup> Australian Bureau of Statistics (ABS), *Consumer Price Index, Australia* (Sept 2016), cat. no. 6401.0.

<sup>60</sup> [2017] FWCFB 3500 [83].

<sup>61</sup> Department of Jobs and Small Business, *Trends in Federal Enterprise Bargaining* (September 2018).

<sup>62</sup> Since 2002, the collective agreement coverage had remained around 40 per cent.

<sup>63</sup> Forsyth, A. and Stewart, A. Submission to the *2012 Fair Work Act Review*, p 11, available at: [https://submissions.employment.gov.au/empforms/archive/fair-work-act-review-2012/Documents/Forsyth\\_Anthonystewart\\_Andrew.pdf](https://submissions.employment.gov.au/empforms/archive/fair-work-act-review-2012/Documents/Forsyth_Anthonystewart_Andrew.pdf).

87. The decline in the percentage of employees covered by agreements accelerated in 2014, falling to 36.4 per cent of all employees (with 30.2 per cent of employees covered by federal agreements) by May 2016.<sup>64</sup> During this period the number of employees covered by collective agreements also declined for the first time.<sup>65</sup>
88. Between 2010 and 2014, the decline in collective agreement coverage was mostly attributable to a decline in non-union agreements. However, since then, union agreement coverage has declined, while non-union coverage has remained relatively stable.<sup>66</sup>
89. Data from the Department of Jobs and Small Business Workplace Agreement Database records that employee coverage by current federal agreements rose from 23 per cent in 2009 to over 27 per cent in 2010 (most likely as the result of the establishment of a single federal system). Coverage peaked at 28.8 per cent of all employees in 2011, before declining steadily to 21.9 per cent in 2016. There has also been a decline in the number of employees covered by current federal CAs, from a peak of 2.65 million in 2011 and 2012, to 2.2 million in June quarter 2016.<sup>67</sup>
90. By September 2018, the number of employees covered by federal enterprise agreements had fallen to 1.89 million.<sup>68</sup>
91. Further, in the industrial environment more broadly, we have seen a record high number of agreement terminations in 2017-18 (508), more than twice the long-term average.
92. In the September 2018 quarter, private sector agreements wage rises are near a 25 year low of 3.0 per cent and public sector agreements also remained low, at 3.4 per cent.<sup>69</sup>
93. Taken together, this evidence continues to point to a decline in bargaining that suggests that the gap between agreement rates and award rates is large enough so as

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<sup>64</sup> Department of Jobs and Small Business, *Trends in Federal Enterprise Bargaining* (September 2018), p. 5.

<sup>65</sup> David Peetz and Serena Yu, (2017) 'Explaining recent trends in collective bargaining' (Research Report 4/2017, Fair Work Commission, February 2017), p. 6.

<sup>66</sup> Peetz, D and Yu, S (2017) *Explaining recent trends in collective bargaining*. Fair Work Commission Research Report 4/2017 (commissioned by the Fair Work Commission for the Annual Wage Review 2016–17), p. 6.

<sup>67</sup> For an explanation as to why EEH estimates of CA coverage are higher than WAD estimates, see David Peetz and Serena Yu, p. 5.

<sup>68</sup> Department of Jobs and Small Business, *Trends in Federal Enterprise Bargaining* (September 2018), Chart 6.

<sup>69</sup> *Ibid*, Table 1.

to discourage bargaining by employers. It therefore warrants that this consideration fall on the side of an increase to the minimum wage.

94. Again, the Opposition is starting to lose confidence in the ability of the current system of minimum and award wages to underpin collective bargaining.

## **Promoting Social Inclusion through Increased Workforce Participation**

95. The Panel's interpretation of the requirement to consider the need to promote social inclusion through increased workforce participation is that it generally relates to maintaining employment opportunities for low-paid workers.

96. The Opposition agrees with the considered view of the Panel

*that modest and regular minimum wage increases do not result in disemployment effects or inhibit workforce participation.<sup>70</sup>*

97. The latest Liberal Prime Minister has stuck to the unsubstantiated ideological position that increasing wages is a threat to employment:

*[a living wage is] going to force small and family businesses all around the country to sack people, in order to possibly give some others a few more dollars.*

98. These claims, like those of his recent predecessor, rely on the overly simplistic constructions of labour 'supply and demand'; a formulation which economists note is based on the assumption of 'perfect competition' in labour markets.<sup>71</sup>

99. We do not accept the Government's view expressed by Senator Mathias Cormann that stagnant wages are a policy objective.

100. The weight of evidence does not support the Morrison Government's view:

- The Centre for Economic and Policy Research found the

*weight of that evidence points to little or no employment response to modest increases in the minimum wage.<sup>72</sup>*

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<sup>70</sup> [2018] FWCFB 3500, [80].

<sup>71</sup> Dale Belman & Paul J. Wolfson, 'What Does the Minimum Wage Do?' (2014) *Upjohn Institute for Employment Research*; Alison L. Booth & Pamela Katic, 'Estimating the Wage Elasticity of Labour Supply to a Firm: What Evidence Is There for Monopsony?' (September 2010) *IZA DP No. 5167*.



- Meta-analyses have found no statistically significant negative employment effects of the minimum wage. For example, Doucouliagos and Stanley’s meta-analysis concluded that their findings

*...corroborate [Card and Krueger's] overall finding of an insignificant employment effect (both practically and statistically) from minimum-wage raises.<sup>73</sup>*

- Dickens et al found that “if anything, the relationship between minimum wages and employment is estimated to be positive”.<sup>74</sup>

101. Since the last review we note the research by Reserve Bank of Australia Research Economist James Bishop that confirmed the Panel’s view that:

*there is no evidence that modest, incremental increases in award wages had an adverse effect on hours worked or the job destruction rate.<sup>75</sup>*

102. We note that Bishop qualified his findings that they “do not necessarily generalise to large, unanticipated changes in minimum wages”.<sup>76</sup>

**103. The Opposition submits that international experience shows that increases larger than those of recent years may be able to be sustained without costing jobs.**

104. The Panel observed in the 2016-17 Annual Wage Review that recent research, particularly in the United Kingdom:

*... suggests that the Panel’s past assessment of what constitutes a ‘modest’ increase may have been overly cautious, in terms of its assessed disemployment effects.<sup>77</sup>*

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<sup>72</sup> John Schmitt, ‘Why Does the Minimum Wage Have No Discernible Effect on Employment?’ (2013) *Centre for Economic and Policy Research (CEPR)*, 1.

<sup>73</sup> Ibid, p. 4.

<sup>74</sup> Richard Dickens, Stephen Machin & Alan Manning, ‘The Effects on Minimum Wages on Employment: Theory and Evidence from the UK’ (1994) *NBER Working Paper #4742* (NBER).

<sup>75</sup> Bishop J (2018), The effect of minimum wage increases in wages, hours worked and job loss, RBA Bulletin, September.

<sup>76</sup> Bishop J (2018), The effect of minimum wage increases in wages, hours worked and job loss, RBA Bulletin, September.

<sup>77</sup> [2017] FWCFB 3500 [14].

105. We note that this remains true, after the Panel's 3.5 per cent increase (up from 3.3 per cent the previous year).
106. The Opposition submits that further experience in the UK adds weight to this view.
107. Since the last Annual Wage Review, the UK Low Pay Commission (LPC) has published further data on the Conservative Government's progress in their plan to increase the minimum wage (called the National Living Wage) from 55 per cent to 60 per cent of median wages by 2020.
108. The introduction of the NLW resulted in an increase from £6.50 to £7.20 in April 2016 (10.8 per cent)<sup>78</sup>, to £7.50 in April 2017 (4.2 per cent)<sup>79</sup>, to £7.83 (4.4 per cent) in April 2018.<sup>80</sup> The most recent increase to £8.21 in April 2019 (4.9 per cent) will benefit 2.4 million workers.<sup>81</sup> Despite these significant increases in the living wage – 26.3 per cent over four years – the UK unemployment rate

*is at its lowest for over 40 years, there are over 3.3 million more people in work since 2010 and the [Office for Budget Responsibility] forecasts 800,000 more jobs by 2022.*<sup>82</sup>

109. At the time the policy was announced by the Conservative Government, their Office for Budget Responsibility estimated that the NLW could mean jobs growth of around 1 million jobs by 2021, instead of 1.1 million jobs.<sup>83</sup> However, there have already been 1.5 million jobs created between 2015 and 2018.

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<sup>78</sup> Low Pay Commission, 'The National Living Wage: A summary of the LPC's findings on the £7.20 introductory rate', Autumn 2016, available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/579747/The\\_NLW\\_-\\_summary\\_of\\_LPC\\_findings\\_on\\_introduutory\\_rate.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/579747/The_NLW_-_summary_of_LPC_findings_on_introduutory_rate.pdf).

<sup>79</sup> Low Pay Commission, Letter to the Secretary of State from the Chair of the Low Pay Commission, 31 October 2016, available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/571777/Letter\\_from\\_LPC\\_Chair\\_2017\\_NLW\\_NMW\\_rates.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/571777/Letter_from_LPC_Chair_2017_NLW_NMW_rates.pdf).

<sup>80</sup> Low Pay Commission, 'National Minimum Wage Low Pay Commission analysis', December 2017, p. 1.

<sup>81</sup> Hammond, P. Budget 2018: 24 things you need to know, 29 October 2018, available at: <https://www.gov.uk/government/news/budget-2018-24-things-you-need-to-know>.

<sup>82</sup> Hammond, P. Budget 2018: 24 things you need to know, 29 October 2018, available at: <https://www.gov.uk/government/news/budget-2018-24-things-you-need-to-know>.

<sup>83</sup> The OBR estimated 1.1 million jobs would be created between 2015 and 2021 and that the NLW could result in 20,000 – 110,000 fewer jobs than there otherwise would have been. Low Pay Commission, 'National Minimum Wage Low Pay Commission analysis', December 2017, p. 1.

110. Research conducted for the Low Pay Commission in November 2018 found that that the increases in April 2016 and April 2017 have “increased wages for the low paid with generally little adverse effect on employment retention”.<sup>84</sup>
111. While employers told the LPC that their response to the NLW increases was most commonly to reduce profits, the LPC found that in fact “corporate profitability does not seem to have declined, and insolvencies are low in low-paying sectors”.<sup>85</sup>

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<sup>84</sup> Aitken, A. et al, “The Impact of the Introduction of the National Living Wage on Employment, Hours and Wages”, (November 2018), available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/775197/The\\_impact\\_of\\_the\\_introduction\\_of\\_the\\_NLW\\_on\\_employment\\_hours\\_and\\_wages\\_NIESR.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/775197/The_impact_of_the_introduction_of_the_NLW_on_employment_hours_and_wages_NIESR.pdf).

<sup>85</sup> Ibid p. 10.