



Australian Government

Submission
to the
Fair Work Australia
Annual Wage Review

2011

18 March 2011

[Section 22(1)(a)(ii) – material irrelevant to the request]

Acronyms and abbreviations

ABS	Australian Bureau of Statistics
AFPC	Australian Fair Pay Commission
AIRC	Australian Industrial Relations Commission
ANZSIC	Australian and New Zealand Standard Industrial Classification
AQF	Australian Quality Framework
AQTF	Australian Quality Training Framework
ASHE	Annual Survey of Hours and Earnings
AWA	Australian Workplace Awards
CA	Certified Agreement
CA	Collective Agreements
CAPEX	Capital Expenditure
COAG	Council of Australian Governments
DSP	Disability Support Pension
EEBTUM	Employee Earnings, Benefits and Trade Union Membership
EEH	Employee Earnings and Hours
ES	Enterprise Survey
FMW	Federal Minimum Wage
FTB	Family Tax Benefit
FWA	Fair Work Australia
GDP	Gross Domestic Product
GSP	Gross State Product
GVA	Gross Value Added
HILDA	Household, Income and Labour Dynamics in Australia
HPL	Henderson Poverty Line
IMP	International Monetary Fund
LFR	Labour Force Regions
MFP	Multi Factor Productivity
MYEFO	Mid-Year Economic and Fiscal Outlook
NCVER	National Centre for Vocational Education and Research
NILF	Not in the Labour Force
NMW	National Minimum Wage
NSA	NewStart Allowance
NTW	National Training Wage
OECD	Organisation for Economic Co-operation and Development
PC	Productivity Commission
PEA	Priority Employment Areas
PP	Parenting Payment
PPL	Paid Parental Leave
QIRC	Queensland Industrial Relations Commission
RBA	Reserve Bank of Australia
RPL	Relative Poverty Line
SA	South Australia
SAIRC	South Australian Industrial Relations Commission
UE	Unemployed

UK	United Kingdom
US	United States of America
VET	Vocational Education and Training
WAD	Workplace Agreements Database
WPI	Wage Price Index
YA	Youth Allowance (other)

[Section 22(1)(a)(ii) – material irrelevant to the request]

30. The Government's submission examines the extent to which low income wage earners are concentrated in low income households. Increases in the NMW can be an important opportunity for low paid award reliant employees to increase their incomes in the absence of other options for wage increases for these employees.

[Section 22(1)(a)(ii) – material irrelevant to the request]

31. Against this background, the Australian Government recommends any change to the National Minimum Wage and award wages in 2010-11 reflect changes in living costs and other changes in the economic environment since the last minimum wage rise in 2010.

[Section 22(1)(a)(ii) – material irrelevant to the request]

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Economic environment

2.1 Introduction

1. This chapter provides the latest information on the outlook for the Australian economy to assist the Panel in considering the impact of minimum wages on employment and the performance of the economy. The updated economic outlook and impact of 2011-12 Budget measures will be provided in the Government's post-Budget submission.
2. Prospects for the Australian economy remain positive, with an underlying profile over the next year of solid growth, low unemployment, moderate inflation, solid wages growth and a surge in investment. The 2010-11 Mid-Year Economic and Fiscal Outlook (MYEFO) forecasts imply that the economy will return to full capacity in 2011-12, with real Gross Domestic Product (GDP) growth of 3½ per cent in 2010-11 and 3¾ per cent in 2011-12. The level of planned investment in the resource industry is unprecedented in Australia's history, and will drive GDP growth over coming years.
3. The floods and cyclone Yasi will detract from quarterly real GDP growth in the short-term but do not change the outlook for the economy to grow at an above trend rate from 2011-12. The key risks to Australia's economic outlook relate to the timing of resources investment and the possibility that sovereign credit concerns in Europe could cause wide-spread disruptions to global credit markets.
4. Against this background, the Australian Government recommends any change to the National Minimum Wage and to award wages in 2010-11 reflect changes in living costs since the last Annual Wage Review and other changes in the economic environment since the 2010 minimum wage rise.
[Section 22(1)(a)(ii) – material irrelevant to the request]

2.7 Conclusion

The Government anticipates the Panel will take into account the performance of the Australian economy in its minimum wage-setting deliberations.

Prospects for the Australian economy remain positive, with the level of planned investment in the resource industry expected to return to around 40-year highs as a proportion of GDP, which will drive GDP growth over coming years.

The economy is now operating at close to full capacity, with wage pressures expected to re-emerge over the next 12 to 18 months. The unemployment rate is expected to fall from its current level of 5.0 per cent, down to 4½ per cent in 2011-12, around the level consistent with full employment. Inflation is expected to remain around 2¾ per cent through 2010-11 and 3 per cent through 2011-12.

Wages growth returned to trend in recent quarters following the economic downturn. In this regard, a change to the NMW and award wages in 2011-12 that reflects changes in living costs would be consistent with the recent wages growth outcomes.

[Section 22(1)(a)(ii) – material irrelevant to the request]

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[Section 22(1)(a)(ii) – material irrelevant to the request]

[Section 22(1)(a)(ii) – material irrelevant to the request]

3.13 Recent employment growth in award-reliant industries

2. The Government's 2010 Submission argued that it is possible to be both economically responsible and fair and that considered rises in minimum wages can exist alongside employment growth, when economic circumstances permit.
3. In the Australian context, comparisons of employment growth in award reliant industries to broader national employment growth indicate there has been significant employment growth in most award reliant industries in the past decade, although overall national employment growth has slightly exceeded that in award reliant industries.
4. Between November 2000 and November 2010, employment rose by 8.1 per cent in Wholesale trade, 22.8 per cent in Retail trade, 18.9 per cent in Accommodation and food services and 23.8 per cent in Administrative and support services. By comparison, overall national employment rose by 26.6 per cent over this period (see Table 3.3 below).

Table 3.3: Employment growth by industry, November 2000 to November 2010, seasonally adjusted

Industry	Change in employment November 2000 to November 2010	
	('000)	(%)
Agriculture, forestry and fishing	-67.2	-15.4
Mining	119.8	148.5
Manufacturing	-65.5	-6.2
Electricity, gas, water and waste services	68.6	82.6
Construction	390.9	58.5
Wholesale trade	30.3	8.1
Retail trade	230.0	22.8
Accommodation and food services	121.5	18.9
Transport, postal and warehousing	114.5	24.3
Information media and telecommunications	-15.5	-6.8
Financial and insurance services	59.2	18.0
Rental, hiring and real estate services	70.7	50.5
Professional, scientific and technical services	238.2	39.2
Administrative and support services	82.8	23.8
Public administration and safety	184.9	36.9
Education and training	234.2	36.6
Health care and social assistance	466.1	56.0
Arts and recreation services	52.3	37.6
Other services	89.1	23.3
All industries (from ABS Cat. No. 6202.0)	2401.1	26.6

Source: ABS *Labour Force, Australia, Detailed, Quarterly* (Cat. No. 6291.0.55.003), November 2010 seasonally adjusted, and ABS *Labour Force* (Cat. No. 6202.0), seasonally adjusted.

5. The latest quarterly labour force data for November 2010 (covering the three month period since August 2010) is the first full set of quarterly data since FWA's 2010 Annual Wage Review decision took effect in July 2010.
6. It shows that, over the short term, out of the top five industries that recorded employment growth in the three months to November 2010, four have significant proportions of employees on awards – Administrative and support services (47 100 jobs), Accommodation and food services (28 300 jobs), Health care and social assistance (20 100 jobs) and Retail trade (16 500 jobs) (see Table 3.4).

Table 3.4: Employment growth by industry, three months to November 2010, seasonally adjusted

Industry	Change in employment August 2010 to November 2010	
	('000)	%
Administrative and support services	47.1	12.3
Construction	44.0	4.3
Accommodation and food services	28.3	3.9
Health care and social assistance	20.1	1.6
Retail trade	16.5	1.4
Transport, postal and warehousing	14.5	2.5
Other services	13.2	2.9
Rental, hiring and real estate services	5.9	2.9
Arts and recreation services	3.3	1.7
Mining	2.4	1.2
Education and training	1.9	0.2
Electricity, gas, water and waste services	-0.2	-0.1
Information media and telecommunications	-1.9	-0.9
Manufacturing	-4.9	-0.5
Agriculture, forestry and fishing	-7.5	-2.0
Professional, scientific and technical services	-9.2	-1.1
Financial and insurance services	-10.3	-2.6
Public administration and safety	-14.4	-2.1
Wholesale trade	-14.9	-3.6
All industries (from ABS Cat. No. 6202.0)	136.7	1.2

Source: ABS *Labour Force, Australia, Detailed, Quarterly* (Cat. No. 6291.0.55.003), November 2010 seasonally adjusted, and ABS *Labour Force* (Cat. No. 6202.0), seasonally adjusted.

7. [Section 22(1)(a)(ii) – material irrelevant to the request]

8. Against this background, the Australian Government recommends any change to the National Minimum Wage and award wages in 2010-11 reflect changes in living costs and other changes in the economic environment since the last minimum wage rise in 2010.
9. The Government also requests that the Panel give consideration to the impact that its decision may have on employment given the importance of employment growth to economic prosperity, while at the same time ensuring that incentives to seek and accept employment (as outlined in Chapter 6) are maximised.

3.1 Conclusion

10. The underlying strength and resilience of the Australian economy and labour market over the last year has been encouraging. A number of forward indicators suggest that employment will continue to expand in the period ahead, although a number of regions and demographic groups, such as youth and the long-term unemployed, are likely to continue to face labour market difficulties. That said, only a gradual downward trend in

the unemployment rate is expected, particularly if it continues to be tempered by labour force growth over the coming year.

11. *[Section 22(1)(a)(ii) – material irrelevant to the request]*

12. The Australian Government recommends any changes to the National Minimum Wage and to award wages in 2011 reflect changes in living costs since the last Annual Wage Review and other changes in the economic environment since the 2010 minimum wage rise.
13. The Government also submits that any change to the national minimum wage needs to have regard for the demand for labour, while at the same time balancing that demand with the need for a fair minimum safety net for employees.

[Section 22(1)(a)(ii) – material irrelevant to the request]

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4.2 The benefits of strong productivity growth

8. Productivity growth is important because, as a key driver of real GDP growth, it improves the prosperity and living standards of Australians. The benefits of productivity growth can be distributed in three non-exclusive ways - higher wages to workers, higher profits to employers and lower prices to consumers.
9. *[Section 22(1)(a)(ii) – material irrelevant to the request]*

10. The transfer of productivity gains in the form of lower prices is of importance to the Panel's considerations on needs of the low paid, as it helps to contain increases in the cost of living.
11. The negative relationship between labour productivity growth and prices in the period since 1990 is displayed in Chart 4.1.
12. There does, however, appear to be a degree of dispersion in the data shown in Chart 4.1. For example, Chart 4.1 shows that while the average annual change in prices recorded in Finance and insurance services and Accommodation and food services were identical (both 3.6 per cent) between 1990 to 2010, the corresponding average annual change in labour productivity differed considerably between these two industries (4.0 per cent and 0.8 per cent respectively).

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6. Needs of the low paid

6.1 Introduction

1. In reviewing and determining minimum wages, the Australian Government notes that the Panel must have regard to the relative living standards and needs of the low paid.
2. However, the Government is aware that there are problems with attempting to measure the needs of the low paid and the impact of changes in the cost of living on these employees. Common income benchmarks such as the Henderson Poverty Line, budget standards and relative living standards are subjective and do not reflect individuals' circumstances well. Financial stress indicators, however, can provide some insights into the needs of the low paid.
3. Analysis by the Government into financial stress using the HILDA¹ data set reveals that low paid employees do experience greater financial stress levels, however, it must be noted that low paid workers are scattered across the household income distribution.
4. Finally, the Government notes that the interaction of the tax-transfer and wages systems provides incentives for those who are not working to find employment.

[Section 22(1)(a)(ii) – material irrelevant to the request]

¹ The Household Income Labour Dynamics in Australia (HILDA) survey is a household-based panel study which began in 2001. The survey collects information about economic and subjective well-being, labour market dynamics and family dynamics. The HILDA project is funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs and is managed by the Melbourne Institute of Applied Economic and Social Research.

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