



Australian Government

Post Budget Submission
to the
Australian Fair Pay
Commission
Minimum Wage Review
2007

22 May 2007

Introduction

1. This post-Budget submission builds upon the material presented in the Australian Government's submission to the Australian Fair Pay Commission's (the Commission's) 2007 Minimum Wage Review.
2. The Commission should consider this submission in conjunction with the arguments and information contained in the Government's earlier submission.
3. This submission provides information on the economic and labour market forecasts provided in the Australian Government Budget which was tabled on 8 May 2007. The latest Australian Bureau of Statistics (ABS) labour market data are also included. Analysis is also provided of unpublished ABS Employee Earnings and Hours data which provides information on the characteristics of Pay Scale-reliant employees.

Budget Economic and Labour Market Forecasts

4. The following update of macroeconomic conditions and labour market developments draws on the latest forecasts contained in the Australian Government Budget which was tabled on 8 May 2007.
5. The Australian economy is expected to grow strongly in 2007-08, after being affected by severe drought in 2006-07. The high level of business investment is expanding the capacity of the economy, and is expected to translate into accelerating export growth.
6. Strong income growth is anticipated to support solid household consumption growth and a modest pick up in dwelling investment. Employment growth is expected to ease in 2007-08, following a period of strength, and inflation is forecast to moderate.
7. The Australian economy is forecast to grow by 2½ per cent in 2006-07, reflecting the severe drought being experienced across large parts of Australia. Growth is forecast to accelerate to 3¾ per cent in 2007-08, reflecting an assumed return to average seasonal conditions and a partial recovery from the drought. The non-farm economy is expected to grow by 3 per cent in 2006-07 and 3½ per cent in 2007-08.

8. Household consumption is expected to grow by 3½ per cent in 2006-07 and 2007-08. Strong increases in household income and solid growth in wealth are expected to support consumption and allow households to further consolidate their balance sheets. Recent strong increases in household income reflect strong employment growth and continuing solid wage growth.
9. Employment growth is forecast to be 2½ per cent in 2006-07 before easing to 1½ per cent in 2007-08, consistent with around-trend non-farm GDP growth and a modest rise in real labour costs. The participation rate is expected to rise to 65 per cent, while the unemployment rate is expected to increase modestly to 5 per cent in 2007-08.
10. The forecast rise in the participation and unemployment rates partly reflects the new participation requirements for people with a disability and Parenting Payment recipients, which are expected to result in more people entering the labour force.
11. Wage growth is expected to remain solid at 4¼ per cent in 2006-07 and 2007-08. While there have been localised wage pressures in the Mining and Non-residential Construction industries, overall wage pressures remain contained.
12. Inflation is forecast to ease from 2¾ per cent in 2006-07 to 2½ per cent in 2007-08. Inflation is expected to temporarily fall below 2 per cent through the year to the June quarter 2007 as automotive fuel prices stabilise and fruit prices remain below the highs experienced in 2006. Underlying inflationary pressures are expected to moderate as nominal unit labour costs ease, reflecting improved productivity.
13. The risks confronting the Australian economy have become more evenly balanced in recent months. A long period of economic growth has absorbed much of the economy's spare capacity. In particular, the economy is as close to full employment as it has been for over 30 years.
14. There is evidence of capacity constraints in the construction sector, with some cost pressures and delays in obtaining labour and materials to complete projects. There is a risk that these factors will constrain output growth and place greater than anticipated upward pressure on prices and wages.

15. Alternatively, productivity may be stronger than anticipated once the adjustment of the economy to the reallocation of labour and capital is completed, leading to stronger growth without additional price pressures.
16. While the risks around consumption and dwelling investment have become more balanced, there remains uncertainty about the pace of household balance sheet consolidation. While household balance sheets are sound in aggregate, concerns remain about the vulnerability of a small proportion of highly-g geared households to unexpected changes in interest rates and incomes.
17. The drought is expected to have a significant adverse impact on the economy in 2006-07, with 2006 being the driest year on record across parts of southern Australia. The forecast strength in the economy in 2007-08 partly relies on the normal budget assumption of average seasonal conditions. The timing and distribution of rainfall has an important impact on the prospects for rural production and exports, and the economy more broadly.
18. The Commission can find more detailed information on the economic outlook in the *Budget Strategy and Outlook 2007-08, Statement 3: Economic Outlook*.

Changes to Tax and Child Care Arrangements

19. The Australian Government's 2007-08 Budget included a number of measures designed to provide further incentives, especially for lower income earners, to participate in the workforce. Foremost among these measures were cuts to personal income tax and reforms to child care assistance.
20. From 1 July 2007 the 30 per cent income tax threshold will increase from \$25,001 to \$30,001. The Australian Government also announced an increase in the Low Income Tax Offset (LITO). To assist low-income earners, from 1 July 2007 the LITO will increase from \$600 to \$750 per year. In addition, the income threshold at which the LITO begins to reduce will increase from \$25,000 to \$30,000. As a result, some offset can be claimed up to an income of \$48,750 compared to \$40,000 currently.

21. Taxpayers with annual incomes between \$25,000 and \$48,750 will benefit from both the increase in the 30 per cent threshold to \$30,001 and the increase in the low income tax offset. Those eligible for the full low income tax offset will not pay tax until their annual income exceeds \$11,000 (up from \$10,000 currently).
22. The personal income tax cuts announced in the 2007-08 Budget are worth \$31.5 billion over four years and are in addition to the \$36.7 billion worth of tax cuts announced in the 2006-07 Budget. The table below shows the changes in tax thresholds scheduled for 1 July 2007 and 1 July 2008.

Table 1: Changes in Income Tax Thresholds

Current tax thresholds income range (\$)	Tax rate	New tax thresholds from 1 July 2007 Income range (\$)	Tax rate	New tax thresholds from 1 July 2008 Income range (\$)	Tax rate
0 - 6,000	0	0 - 6,000	0	0 - 6,000	0
6,001 - 25,000	15	6,001 - 30,000	15	6,001 - 30,000	15
25,001 - 75,000	30	30,001 - 75,000	30	30,001 - 80,000	30
75,001 - 150,000	40	75,001 - 150,000	40	80,001 - 180,000	40
150,001 +	45	150,001 +	45	180,001 +	45

Source: Australian Government, Budget Paper No. 2, *Budget Measures 2007-08*, page 18.

23. These measures will allow low income earners, including part-time workers, to keep more of their earnings and provides further incentives for people to enter the workforce or work more hours.
24. The Government also announced changes to the Child Care Benefit (CCB) and Child Care Tax Rebate (CCTR) which will assist many families to participate more effectively in the workforce.
- From 1 July 2007, the rate of CCB will increase by 10 per cent, on top of annual indexation. This will provide additional assistance to over 700,000 families.
 - Also from 1 July 2007, families will receive the CCTR — which covers 30 per cent of out-of-pocket costs, up to a maximum of \$4,000, plus indexation — as a direct payment, soon after the financial year in which they incur child care costs. This change will mean that the CCTR will be received nearer to the time when costs are incurred by parents compared to current arrangements.

25. The Government also announced measures to increase child care access for families and communities with special needs, including additional funding of:
- \$44 million over four years for child care services in regional and remote communities;
 - \$62 million over four years for child care services that provide care for children with ongoing high support needs (such as children with disabilities); and
 - \$15 million over four years to support parents studying, looking for, or returning to work.

Other work incentive measures

26. The tax and child care measures announced in the Budget build on various initiatives which have been introduced by the Australian Government in recent years to encourage more people on income support to look for work. For example the Working Credit Scheme was introduced in late September 2003 which allows people on NewStart Allowance to keep more of the income they receive from part-time work while continuing to receive part income support.
27. Since 1 July 2006, changes to income tests for most allowances and payments have meant that people can keep more of their income support payment when they work. As part of the Welfare to Work reforms, the income tests have been made more generous by reducing the rate at which payments are withdrawn (called the ‘taper rate’).
28. These initiatives may have contributed to the proportion of job seekers receiving NewStart Allowance and Youth Allowance (Other) that earned income from work rising from 17.8 per cent in October 2003 to 24.2 per cent in March 2007.¹
29. The incidence of persons on Parenting Payment Single who received earnings from work has risen from 27.1 per cent to 36.2 per cent during the same interval, while the proportion of persons on Parenting Payment

¹ DEWR Administrative Data

Partnered receiving earnings from work rose from 10.2 per cent to 13.4 per cent.²

Latest labour market information

30. The performance of the Australian labour market has remained robust since the lodgement of Government submission to the Australian Fair Pay Commission in late March. In particular, over the year to April 2007, the level of employment has increased by 309,600 (or 3.1 per cent) to 10,416,600 - its highest level on record.
31. Full-time employment has accounted for a significant proportion (76.0 per cent) of total jobs growth over the period. For instance, the number of people working full-time increased by 235,200 (or 3.3 per cent) over the year to April 2007, compared with an increase of 74,400 (or 2.6 per cent) in part-time employment.
32. Against the backdrop of robust employment growth, the unemployment rate has declined considerably, from 5.1 per cent in April 2006 to 4.4 per cent in April 2007, its lowest level since November 1974. Not surprisingly, the level of unemployment has also fallen substantially over the period, down by 58,400 (or 10.8 per cent). The participation rate has also improved over the year, up by 0.4 percentage points to 64.9 per cent in April 2007, a near record high.
33. Long-term unemployment has fallen by 23,800 (or 23.3 per cent) in the past year and by 133,600 (or 63.0 per cent) in the past ten years to April 2007. There are currently 78,400 people who are long-term unemployed. Over the past ten years, long-term unemployment incidence (the proportion of unemployed persons that had been unemployed for over a year) has fallen by 11.4 percentage points to 16.3 per cent in April 2007.

Wage Price Index

34. The Wage Price Index increased by 1.0 per cent in the March quarter 2007 (seasonally adjusted), down from 1.1 per cent in the December quarter 2006 and was below market expectations for a 1.3 per cent

² DEWR Administrative Data

increase over the quarter. Over the year to the March quarter 2007, the Wage Price Index increased by 4.1 per cent (seasonally adjusted), up from the 4.0 per cent increase recorded over the year to the December quarter 2006.

35. The latest results show that since the Commission's first decision came into effect on 1 December 2006, several award-reliant industries have recorded significant wage increases. The Wage Price Index for Accommodation, cafes and restaurants increased by 1.4 per cent in the March quarter 2007, up from a 0.5 per cent increase in the March quarter 2006. Similarly, the Wage Price Index for Retail trade increased by 1.1 per cent in the March quarter 2007, up from an increase of 0.7 per cent in the March quarter 2006.
36. Several low-skilled occupations also recorded strong increases. Wages for Elementary clerical, sales and service workers increased by 1.3 per cent in the March quarter 2007, up from an increase of 0.6 per cent in the previous March quarter. The Wage Price Index for Labourers and related workers increased by 1.3 per cent in the March quarter 2007, up from an increase of 0.7 per cent in the previous March quarter.

Characteristics of Pay-scale reliant employees

Pay Scale coverage

37. In its submission to the Commission's 2006 Minimum Wage Review, the Australian Government presented unpublished data from the ABS *Employee Earnings and Hours* (EEH) survey, conducted in May 2004, to assist the Commission in determining the industries and occupations in which Pay Scale-reliant employees predominate.
38. Since the Government lodged its submission to the Commission's 2007 Minimum Wage Review on 30 March 2007, unpublished data from the more recent EEH survey, conducted in May 2006, has become available. Accordingly, this section presents data on Pay Scale or award-reliant³

³ The terminology used in the EEH survey is based on the workplace relations environment prior to the implementation of the recent reforms. In particular, the survey refers to awards, not Pay Scales. The publication does not differentiate between Pay Scales and state awards but instead refers only to 'awards' – which includes both federal and state awards. To avoid confusion, we

employees and the jurisdiction of these employees (the Commission's compared with other jurisdictions) by industry and occupation, updated for May 2006.⁴ Please note that these data are for non-managerial employees only and as such are not directly comparable with those estimates presented in last year's submission, which included managerial employees.

39. Overall, 21.0 per cent of non-farm, non-managerial employees were award-reliant in May 2006. Of these employees, nearly two-thirds (65.8 per cent) fell within the Commission's jurisdiction, while just over a third (34.2 per cent) were either employed by an unincorporated business or in government. These estimates are roughly consistent with those presented in last year's submission.
40. The data in Table 2 show that in the majority of industries for which reliable data could be obtained (11 out of 12) a higher proportion of award-reliant employees were in the Commission's jurisdiction compared with other jurisdictions.

will refer to these employees as 'award-reliant' employees even though those employees under the federal system are now employed under Pay Scales.

⁴ These data are for non-farm, non-managerial employees and do not include self-employed persons.

Table 2: Non-Managerial, award-reliant employees by industry, May 2006

Industry	Non-Managerial, award-reliant employees		Jurisdiction of non-managerial award-reliant employees ^(b)			
	Proportion of employees (%)	No. of employees (000s)	Australian Fair Pay Commission ^(c)		Other jurisdictions	
			(%)	(000s)	(%)	(000s)
Mining	2.6	2.5	np	np	np	np
Manufacturing	11.8	89.4	72.5	64.7	27.5	24.6
Electricity, gas and water supply	1.0	0.6	np	np	np	np
Construction	15.3	60.9	76.4	46.6	23.6	14.4
Wholesale trade	14.8	61.3	82.1	50.3	17.9	10.9
Retail trade	30.8	346.1	66.6	230.5	33.4	115.6
Accommodation, cafes and restaurants	62.5	220.1	65.6	144.4	34.4	75.6
Transport and storage	13.8	46.7	77.2	36.1	22.8	10.6
Communication services	1.1	1.0	np	np	np	np
Finance and insurance	6.3	17.8	83.2	14.8	16.8	3.0
Property and business services	27.2	280.3	78.4	219.7	21.6	60.6
Government administration and defence	0.7	2.9	np	np	np	np
Education	12.1	87.3	48.0	41.9	52.0	45.4
Health and community services	26.4	248.4	50.7	125.9	49.3	122.5
Cultural and recreational services	20.7	37.5	53.8	20.2	46.2	17.3
Personal and other services	25.3	75.0	52.7	39.5	47.3	35.5
All Industries^(a)	21.0	1577.7	65.8	1038.9	34.2	538.9

Source: ABS Employee Earnings and Hours (Cat. No. 6306.0), May 2006, (unpublished data)

Note: (a) As estimates have been rounded, discrepancies may occur between sums of the component items and totals.

(b) Due to the methodology used to calculate these estimates, standard errors are not available. It should be noted that high standard errors are likely to exist for the smaller estimates and as such are not provided (np).

(c) Those employees estimated to be in the Commission's jurisdiction include employees of incorporated enterprises and other employees in Victoria, the NT and the ACT.

41. The data in Table 3 shows that Retail trade accounts for almost one-quarter (22.2 per cent) of award-reliant employees in the Commission's jurisdiction, followed by Property and business services (21.1 per cent) and Accommodation, cafes and restaurants (13.9 per cent). These three industries combined account for over half (57.2 per cent) of award-reliant employees in the Commission's jurisdiction.

Table 3: Award-reliant, non-managerial employees^(b) in the Commission's jurisdiction^(c) by industry, May 2006

Industry	Proportion of non-managerial, award-reliant employees in AFPC jurisdiction (%)	No. of non-managerial, award-reliant employees in AFPC jurisdiction (000s)
Mining	np	np
Manufacturing	6.2	64.7
Electricity, gas and water supply	np	np
Construction	4.5	46.6
Wholesale trade	4.8	50.3
Retail trade	22.2	230.5
Accommodation, cafes and restaurants	13.9	144.4
Transport and storage	3.5	36.1
Communication services	np	np
Finance and insurance	1.4	14.8
Property and business services	21.1	219.7
Government administration and defence	np	np
Education	4.0	41.9
Health and community services	12.1	125.9
Cultural and recreational services	1.9	20.2
Personal and other services	3.8	39.5
All Industries^(a)	100.0	1038.9

Source: ABS Employee Earnings and Hours (Cat. No. 6306.0), May 2006, (unpublished data)

Note: (a) As estimates have been rounded, discrepancies may occur between sums of the component items and totals.

(b) Due to the methodology used to calculate these estimates, standard errors are not available. It should be noted that high standard errors are likely to exist for the smaller estimates and as such are not provided (np).

(c) Those employees estimated to be in the Commission's jurisdiction include employees of incorporated enterprises and other employees in Victoria, the NT and the ACT.

42. The data in Table 4 show that for each occupation a higher proportion of award-reliant employees were in the Commission's jurisdiction compared with other jurisdictions.
43. Data in Table 5 show that, in absolute terms, Community and personal service workers account for 21.0 per cent of award-reliant, non-managerial employees in the Commission's jurisdiction, followed by Sales workers (20.7 per cent) and Labourers (19.5 per cent). These three occupations combined account for almost two-thirds (61.2 per cent) of award-reliant, non-managerial employees in the Commission's jurisdiction.

Table 4: Award-reliant employees by occupation, May 2006

Industry	Non-Managerial, Award-reliant Employees		Jurisdiction of Non-Managerial Award-reliant Employees ^(b)			
	Proportion of non-managerial Employees (%)	No. of Award-reliant Employees (000s)	Australian Fair Pay Commission ^(c)		Other Jurisdictions	
			(%)	(000s)	(%)	(000s)
Managers	7.0	14.8	54.5	8.1	45.5	6.7
Professionals	7.1	104.5	55.4	57.9	44.6	46.6
Technicians and trades workers	20.1	189.3	70.1	132.8	29.9	56.5
Community and personal service workers	39.4	363.9	60.0	218.5	40.0	145.4
Clerical and administrative workers	14.0	208.5	65.3	136.2	34.7	72.3
Sales workers	33.1	317.8	67.8	215.4	32.2	102.4
Machinery operators and drivers	17.0	91.0	74.2	67.5	25.8	23.5
Labourers	30.1	288.0	70.2	202.2	29.8	85.8
All Occupations ^(a)	21.0	1577.7	65.8	1038.9	34.2	538.8

Source: ABS Employee Earnings and Hours (Cat. No. 6306.0), May 2006, (unpublished data)

Note: (a) As estimates have been rounded, discrepancies may occur between sums of the component items and totals.

(b) Due to the methodology used to calculate these estimates, standard errors are not available. It should be noted that high standard errors are likely to exist for the smaller estimates and as such are not provided (np).

(c) Those employees estimated to be in the Commission's jurisdiction include employees of incorporated enterprises and other employees in Victoria, the NT and the ACT.

Table 5: Award-reliant, non-managerial employees ^(b) in the Commission's jurisdiction ^(b) by occupation, May 2006

Occupation	Proportion of Award-reliant Employees in AFPC Jurisdiction (%)	No. of Award-reliant Employees in AFPC Jurisdiction (000s)
Managers	0.8	8.1
Professionals	5.6	57.9
Technicians and trades workers	12.8	132.8
Community and personal service workers	21.0	218.5
Clerical and administrative workers	13.1	136.2
Sales workers	20.7	215.4
Machinery operators and drivers	6.5	67.5
Labourers	19.5	202.2
All Occupations ^(a)	100.0	1038.9

Source: ABS Employee Earnings and Hours (Cat. No. 6306.0), May 2006, (unpublished data)

Note: (a) As estimates have been rounded, discrepancies may occur between sums of the component items and totals.

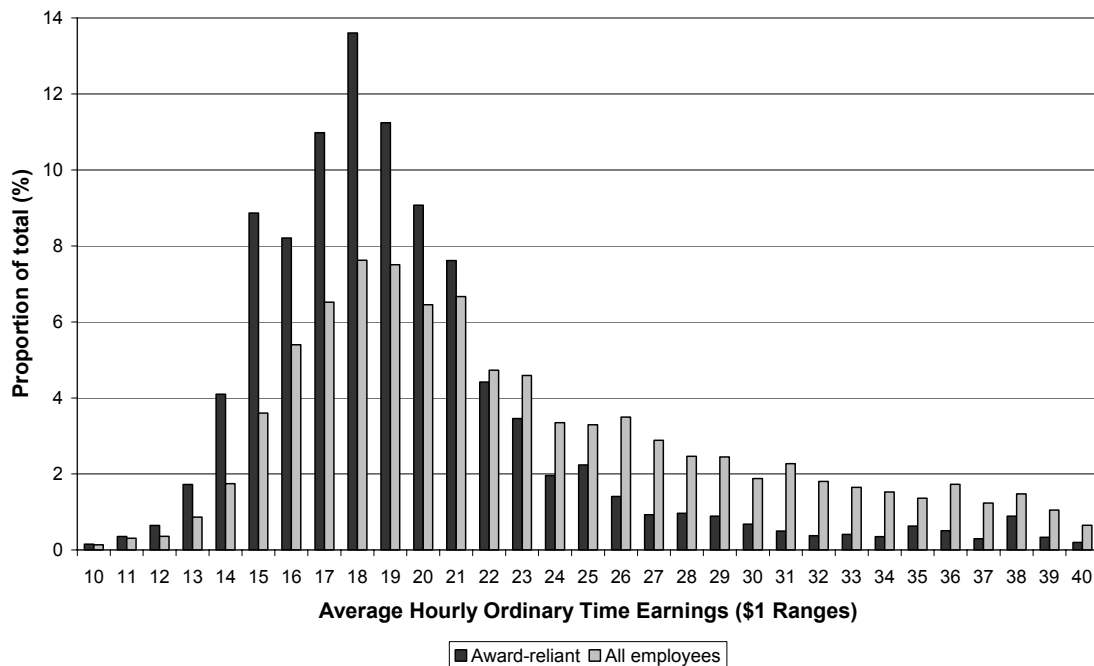
(b) Due to the methodology used to calculate these estimates, standard errors are not available. It should be noted that high standard errors are likely to exist for the smaller estimates and as such are not provided (np).

(c) Those employees estimated to be in the Commission's jurisdiction include employees of incorporated enterprises and other employees in Victoria, the NT and the ACT.

Earnings distribution of minimum wage employees

44. In announcing its 2006 Minimum Wage Review decision, the Commission stated that a larger increase in the wages for low-paid workers was based on recognition that this group are more reliant on minimum wages than higher-paid workers.
45. Using unpublished data from the most recent EEH survey, taken in May 2006, the Government has calculated the distribution of award-reliant, adult, non-managerial employees by average hourly ordinary time earnings and compared this with the distribution for all adult, non-managerial employees (Chart 1).
46. Chart 1 shows that in May 2006, award-reliant employees were concentrated at the lower end of the earnings distribution compared with all adult, non-managerial employees.

Chart 1: Distribution of award-reliant and all adult, non-managerial employees by hourly earnings (\$10 to \$40), May 2006



Source: ABS Employee Earnings and Hours (Cat. No. 6306.0), May 2006, (unpublished data)

47. Table 6 presents the distribution of award-reliant, adult, non-managerial employees compared with that for all adult, non-managerial employees at May 2006, divided into four pay bands:⁵

- less than the Federal Minimum Wage (FMW) of \$12.75 per hour (\$484.50 per week).⁶
- at or slightly above the FMW, that is between \$12.75 and \$15.22 per hour (\$484.50 to \$578.20 per week).
- slightly above the FMW but below the threshold used by the Commission in its 2006 decision, that is between \$15.22 and \$18.42 per hour (\$578.20 to \$700.00 per week).
- above the 2006 Minimum Wage Review threshold of \$18.42 per hour (\$700 per week).

48. The data show that in May 2006, 53.3 per cent of award-reliant, adult, non-managerial employees were earning less than \$18.42 per hour (\$700 per week) compared with 29.7 per cent of all adult, non-managerial employees.

Table 6: Distribution of award-reliant and all adult, non-managerial employees by earnings^(a), May 2006

Hourly earnings	Award-reliant, adult, non-managerial employees		All adult, non-managerial employees	
	(000s)	%	(000s)	%
< \$12.75	32.6	2.4	101.5	1.5
\$12.75 - \$15.22	202.5	15.2	471.4	6.7
\$15.22 - \$18.42	475.6	35.7	1502.3	21.5
> \$18.42	617.7	46.4	4878.8	69.8
Total^(b)	1331.7	100.0	6985.3	100.0

Source: ABS Employee Earnings and Hours (Cat. No. 6306.0), May 2006, (unpublished data)

Note: (a) Due to the methodology used to calculate these estimates, standard errors are not available. It should be noted, that high standard errors are likely to exist for the smaller estimates.

(b) As estimates have been rounded, discrepancies may occur between sums of the component items and totals.

49. In Table 7 data are presented on the distribution of non-managerial, adult employees earning over \$18.42 per hour (\$700 per week). The data

⁵ Hourly rates are calculated based on a standard 38 hour week.

⁶ By law, all employers are required to pay adult employees at least the minimum wage. The small proportion of employees paid less than the minimum wage can be attributed to several factors including non-compliance by employers and small measurement errors.

show that of the award-reliant, adult, non-managerial employees earning over \$18.42 per hour, the majority (62.8 per cent) were earning less than the average weekly total earnings of \$852.30 or \$22.43 per hour, whereas the majority of all adult non-managerial employees (65.4 per cent) were earning above this amount.

Table 7: Distribution of award-reliant and all adult, non-managerial employees earning more than \$700/week (18.42/hour)^(a), May 2006

Hourly earnings	Award-reliant, adult, non-managerial employees		All adult, non-managerial employees	
	(000s)	%	(000s)	%
\$18.42 - \$19.87	192.0	31.1	696.4	14.3
\$19.87 - \$22.43	195.8	31.7	992.5	20.3
\$22.43 - \$26.00	101.0	16.3	891.3	18.3
>\$26.00	128.9	20.9	2298.6	47.1
Total^(b)	617.7	100.0	4878.8	100.0

Source: ABS Employee Earnings and Hours (Cat. No. 6306.0), May 2006, (unpublished data)

Note: (a) Due to the methodology used to calculate these estimates, standard errors are not available. It should be noted, that high standard errors are likely to exist for the smaller estimates.

(b) As estimates have been rounded, discrepancies may occur between sums of the component items and totals.

Conclusion

50. The Australian economy and labour market remain strong. Economic growth is expected to pick up, particularly if average seasonal conditions return, but jobs growth is expected to moderate slightly.
51. The unemployment rate may increase slightly due to the impact of the Government's Welfare to Work reforms. The raising of the 30 per cent income tax threshold and increase in the Low Income Tax Offset announced in the Budget should particularly assist low wage earners.
52. The Government, as noted in our submission of 30 March, is of the view that low paid workers should receive an appropriate increase in minimum wages.