



Australian Government

---

**Submission**  
**to the**  
**Australian Fair Pay**  
**Commission**  
**Minimum Wage Review**  
**2009**

**20 March 2009**



# Table of Contents

Overview .....	1
Post-budget submission .....	2
Government position .....	2
Chapter 2: Economic environment .....	5
Introduction .....	5
Economy .....	5
Employment .....	9
Wages and inflation .....	10
Conclusion .....	12
Chapter 3: Labour market .....	13
Introduction .....	13
Employment .....	13
Unemployment .....	15
Participation rate .....	16
Key groups in the labour market .....	16
Teenagers .....	17
Discouraged jobseekers .....	17
The long-term unemployed .....	17
Lone parents .....	18
Less skilled groups .....	18
State labour market differences .....	19
Conclusion .....	20
Chapter 4: The Government’s response to the global financial crisis .....	21
Introduction .....	21
Recent fiscal policy measures .....	21
Forthcoming taxation initiatives .....	23
Conclusion .....	24
Chapter 5: Effect of minimum wage increases and employment, including the low-paid .....	25
Introduction .....	25
Minimum wages and employment .....	26
The coverage of the Commission’s decision .....	26
Small business .....	27
The real value of the Federal Minimum Wage .....	28
Characteristics of low paid employees .....	28
The ‘occasionally low paid and not always in work’ .....	28
The ‘persistently low paid’ .....	29
Conclusion .....	29



## Overview

- 1.1 The Australian Government is committed to a strong and fair Australia. Our over-riding objective of boosting national economic productivity and prosperity. The Australian Fair Pay Commission's minimum wage review makes an important contribution to these objectives.
- 1.2 The Australian Fair Pay Commission's (the Commission's) 2009 Minimum Wage Review occurs at a time of great uncertainty brought on by the global financial crisis. The review, which covers the period 1 October 2009 to 30 June 2010, is the Commission's last review prior to Fair Work Australia assuming responsibility for minimum wage setting. As indicated in the Transitional and Consequential Bill, the Commission will continue to operate until 31 July 2009.
- 1.3 As detailed in Chapter 2 of this submission, official forecasts of economic and employment growth have been revised downwards twice since the Budget as the extent of the crisis has been revealed.
- 1.4 The *Updated Economic and Fiscal Outlook 2008-09* (UEFO) released on February 2009 forecasts that employment will decline by  $\frac{1}{4}$  of a per cent over 2008-09 followed by zero growth over 2009-10. The unemployment rate is forecast to rise to  $5\frac{1}{2}$  per cent by June 2009, increasing to 7 per cent by June 2010. By February 2009 the unemployment rate was 5.2 per cent. Chapter 3 details the impact of the economic slowdown on the labour market
- 1.5 This is the most challenging environment to confront a minimum wage-setting authority in decades. The severity of the downturn is almost unprecedented.
- 1.6 The full impact of the global financial crisis on low-skilled employment over the next 12 months is difficult to determine. The forecast reduction in job opportunities is, however, likely to disproportionately affect the low paid.
- 1.7 Although wages grew strongly over 2008, the UEFO forecasts are for wage growth to ease to  $3\frac{1}{4}$  per cent over 2009-10. This would be its lowest level for eight years. Inflation is forecast to be 2 per cent over

2008-09 and 2009-2010 – at the bottom of the Reserve Bank’s target band.

- 1.8 As explained in Chapter 5, attempts to compare the impact of previous minimum wage increases in times of economic and employment growth with a time when employment is forecast to contract is problematic. The 2009 Minimum Wage Review wage setting decision has an increased potential, when compared with previous decisions in Australia, to negatively impact employment growth and exacerbate the forecast increase in unemployment.

### **Post-budget submission**

- 1.9 There will be a number of releases of key economic data and information over the coming months, including the Australian Government’s 2009-10 Budget on 12 May 2009.
- 1.10 To ensure the Commission has the most up-to-date economic information, the Government asks the Commission to accept and consider post-Budget submissions prior to handing down its 2009 Minimum Wage Review Decision, as it did in its 2007 and 2008 Minimum Wage Reviews.

### **Government position**

- 1.11 Australia's economic circumstances are extremely volatile and uncertain, with further deterioration anticipated over 2009.
- 1.12 During a period of relatively weak labour demand, an excessively large minimum wage increase could reduce the capacity of low-skilled workers to maintain and obtain employment.
- 1.13 The Government's key priorities are to support jobs so as to minimise job losses during the economic downturn and to maintain a fair minimum safety net for all Australians by addressing the needs of the low paid. It urges the Commission to align its decision with these aims.
- 1.14 As detailed in Chapter 4, the Government has provided timely fiscal stimulus through the \$42 billion Nation Building and Jobs Plan and the \$10.4 billion Economic Security Strategy as macroeconomic stimulus.

- 1.15 Under the Economic Security Strategy, around two million families received lump sum payments of \$1000 for each eligible child and immediate financial assistance was also provided to Australia's pensioners, seniors and carers. As part of the Nation Building and Jobs Plan, the Government is providing a household stimulus package totalling \$12.2 billion to assist households and support economic growth.
- 1.16 These measures are designed to strengthen the national economy, create jobs and provide widespread support to low and middle-income earners and households that are most affected by the slowdown.
- 1.17 Low paid workers will also benefit from the Government's tax cuts announced in the 2008-09 Budget which will amend marginal tax rate thresholds from 1 July 2009 and increase effective tax-free thresholds for those eligible for the full low income tax offset. Indexation of transfer payments will further boost incomes for many low-income households.
- 1.18 The Government urges the Commission to take these taxation changes into consideration when assessing the needs of those low-income households whose minimum wage reliance is persistent and who rely on the minimum wage safety net over the longer term.



## Chapter 2: Economic environment

### Introduction

- 2.1 This chapter provides the latest economic data and analysis on the economic outlook for Australia to assist the Commission in meeting its obligation to have regard to employment and competitiveness across the economy in setting minimum wages.
- 2.2 The current economic environment is the most severe faced by Australian policy makers for a considerable period of time.
- 2.3 The Government's number one aim is to limit the fallout for Australia from the global financial crisis and minimise the contagion of recession currently sweeping across advanced industrial economies.
- 2.4 Given the severity of the current economic situation, analysis of the impacts of previous minimum wage-setting decisions will provide limited guidance in assessing the likely impacts of the current decision.

### Economy

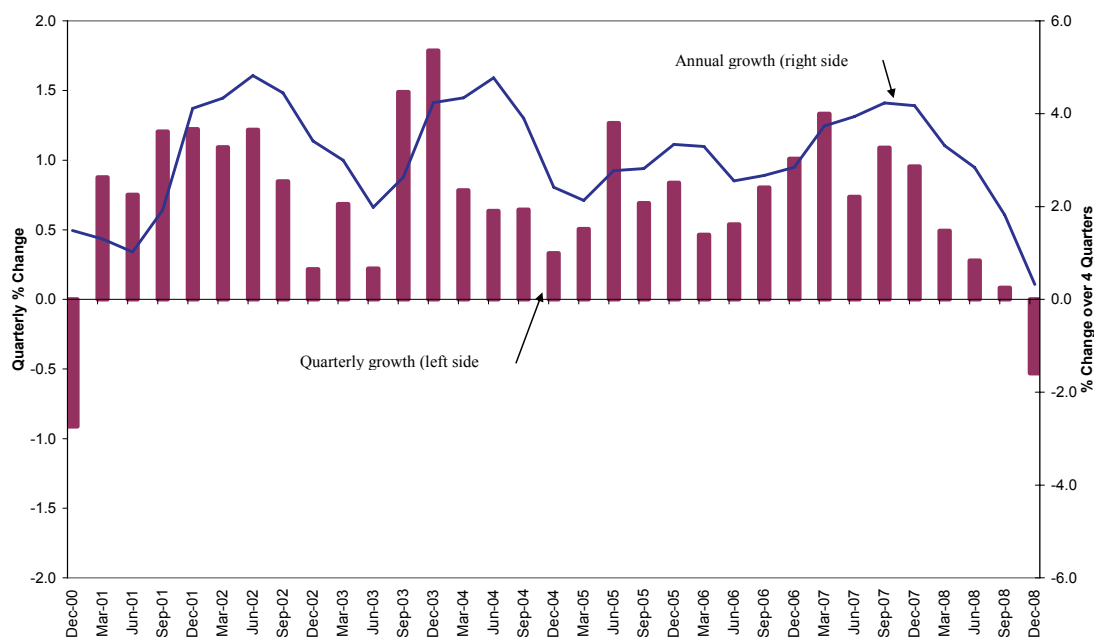
- 2.5 The downturn in the US economy, noted as a downside risk in the Government submission to last year's minimum wage review, has been far worse than anticipated. Not only has it crippled the US economy, but its fallout has plunged many other advanced economies into recession and dramatically slowed the growth of developing economies including China and India, which are vitally important for Australia's growth prospects.
- 2.6 For example, quarterly declines in Gross Domestic Product (GDP) over the December quarter 2008 included 1.6 per cent in the US, 3.2 per cent in Japan, 5.6 per cent in Korea and 6.1 per cent in Taiwan<sup>1</sup>.
- 2.7 A deep global recession is now expected in 2009, with the recovery in economic growth likely to be slow. Indeed, global economic forecasts have worsened considerably even over recent months, in line with the continuous flow of worsening economic data.

---

<sup>1</sup> Quarterly data are not available for China.

- 2.8 The economic outlook has weakened considerably over recent months. Both the IMF and the World Bank expect the global economy will contract in 2009 for the first time since World War Two. Already seven of our top ten trading partners are in recession, and the Reserve Bank expects that annual output of our major trading partners will fall by around  $\frac{3}{4}$  per cent in 2009. This follows annual growth of 5 per cent in 2006 and 5 and a half in 2007. According to the World Bank global trade is likely to record its biggest fall in 80 years and global industrial production could be as much as 15 per cent lower than levels in 2008 by the middle of this year.
- 2.9 As a result, the global commodity boom, which has provided significant stimulus to the Australian economy over recent years, is rapidly unwinding.
- 2.10 The December quarter 2008 National Accounts provide a sobering reflection of the extremely difficult global environment in which Australia's economy is operating. Although the Australian economy has held up better than most other economies, the inevitable impact of the global recession is evident in these data. Chart 2.1 shows the dramatic impact the global financial crisis has had on GDP growth over much of 2008.

**Chart 2.1: Quarterly and annual growth rates in GDP (chain volume measure) since December quarter 2000.**



Source: ABS Australian National Accounts: National Income, Expenditure and Product (Cat. No. 5206.0), December quarter 2008.

- 2.11 As shown in Chart 2.1, real GDP contracted by 0.5 per cent in the December quarter 2008 to be only 0.3 per cent higher over the year. These results compare with GDP growth of 1.0 per cent in the December quarter 2007 and 4.2 per cent over the year to the December quarter 2007.
- 2.12 Of the 22 OECD countries that have reported December quarter 2008 national accounts data, nineteen recorded a quarterly decrease in GDP. Norway, Slovakia and Greece were the only economies to grow in the December quarter. Quarterly decreases were as high as 6.1 per cent in both Thailand and Taiwan. This weakness continues to weigh heavily on household spending, investment and exports.
- 2.13 The National Accounts show household consumption grew by 0.1 per cent for the second consecutive quarter, to be only 0.6 per cent higher than a year ago, as the effects of the global financial crisis on wealth and confidence continued to weigh on households. These increases compare with household consumption growth of 1.3 per cent in the December quarter 2007 and 4.1 per cent over the year to the December quarter 2007.

- 2.14 Declining business profits were reflected in a 5.6 per cent reduction in gross operating surplus for private non-financial corporations in the December quarter 2008, compared with 3.8 per cent increase in the December quarter 2007.
- 2.15 Business investment has slowed and, based on the weaker profits outlook, is expected to soften further. New private business investment increased by only 0.7 per cent in the December quarter 2008, to be 11.9 per cent higher over the year. These compare with increases for the December quarter 2007 of 1.7 per cent in the quarter and 15.3 per cent over the year.
- 2.16 Exports have also slowed in line with weaker world growth, driven by non-rural commodity exports. The underlying weakness in exports was masked by a sharp contraction in imports, such that net exports made a 1.5 percentage point contribution to GDP growth in the December quarter. Offsetting this, inventories detracted 1.6 percentage points from GDP growth in the quarter reflecting the combined effects of weaker import demand, volatile commodity prices and exchange rate fluctuations. The respective quarterly contributions of both net exports and inventories were among the largest in the history of the National Accounts data series which commenced in September 1959.
- 2.17 Growth forecasts for the Australian economy, and for most sectors of the economy, have been significantly downgraded. Forecast growth over 2008-09 has been revised down from 2¾ per cent in the 2008-09 Budget to 2 per cent in the *Mid-Year Economic and Fiscal Outlook 2008-09* (MYEFO), then to 1 per cent in UEFO.
- 2.18 Household consumption is expected to slow to 1¾ per cent for 2008-09, downgraded from a forecast of 2¾ per cent in the 2008-09 Budget followed by 2 per cent in MYEFO, although lower borrowing costs (arising from lower interest rates) and the household stimulus package are working to avoid a sharper slowdown in consumption growth.
- 2.19 Despite the Government's financial market and fiscal measures to counteract the fallout from the global financial crisis, there still remain significant downside risks to economic growth. If the global recession is deeper and more protracted than expected, this would inevitably cause a more severe slowdown in Australia.

## Employment

- 2.20 The latest trend ABS labour force data, which overcome much of the inaccuracy in month on month changes due to the small sample size of the survey, show that employment growth has stalled. Overall employment growth was flat in February 2009 and full-time employment has been falling since August 2008. Both the number of unemployed people and the unemployment rate have been trending up since February 2008, with the trend rate increasing by 0.8 percentage points over this period to now stand at 4.9 per cent.
- 2.21 Some media reports suggest that a number of firms are negotiating reduced working hours or reductions in wages (encouraging staff to take accrued leave, for example, or cutting bonuses) rather than shedding labour. As the economic slowdown progresses, however, it is expected that employment will contract, translating into a significant rise in unemployment.
- 2.22 Consistent with the severe slowing in economic growth, the UEFO forecast is for employment to decline by  $\frac{1}{4}$  per cent over the year to June 2009, followed by no employment growth over 2009-10.
- 2.23 The unemployment rate for June 2009 is now forecast to be  $5\frac{1}{2}$  per cent (up from  $4\frac{3}{4}$  per cent in the Budget and 5 per cent in MYEFO), and the unemployment rate is expected to reach 7 per cent by June 2010.
- 2.24 The total number of ANZ Job Advertisements fell by 6.3 per cent in January 2009, with the series now 33.7 per cent lower than it was a year earlier. This decline points to future deterioration in the labour market, consistent with the UEFO forecasts.
- 2.25 There is further detailed discussion of labour market trends and the employment outlook in Chapter 3 of this submission.

## Wages and inflation

- 2.26 The latest ABS data show that in trend terms the Wage Price Index (WPI) increased by 1.0 per cent in the December quarter 2008 and by 4.2 per cent over the year to the December quarter 2008.<sup>2</sup>
- 2.27 Strong wage growth was recorded in the Mining, Property and business services and Electricity, gas and water supply industries. The Mining industry recorded wages growth of 6.1 per cent (original terms) over the year to the December quarter 2008, while Property and business services and Electricity, gas and water supply recorded wage growth of 5.3 per cent and 4.8 per cent respectively.<sup>3</sup> However, with the downturn in the Australian economy expected to intensify, wage growth in these sectors is expected to ease in the future.
- 2.28 Wage outcomes across the states (in original terms) differed considerably. Western Australia recorded the highest increase in wage growth over the year to the December quarter 2008 at 5.7 per cent. By contrast, wage outcomes in New South Wales and the Australian Capital Territory remained more subdued, at 4.0 per cent and 3.7 per cent respectively.<sup>4</sup>
- 2.29 Most recently, the UEFO forecast is for the WPI to moderate to 3¾ per cent over the year to the June quarter 2009, with a further moderation to 3¼ per cent over the year to the June quarter 2010.<sup>5</sup> These estimates are lower than those in the MYEFO, which forecast wages to grow by 4¼ per cent over the year to the June quarter 2009, slowing to 4.0 per cent over the year to the June quarter 2010.<sup>6</sup>
- 2.30 The RBA shares the view that wages growth will slow, stating in its latest *Statement on Monetary Policy* for February 2009 that “Wage growth is expected to slow in line with conditions in the labour market.”<sup>7</sup> This was supported by information obtained from the RBA’s business liaison.<sup>8</sup>

---

<sup>2</sup> ABS *Labour Price Index* (Cat 6345.0), December quarter 2008.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Updated Economic and Fiscal Outlook 2008-09, page 4.

<sup>6</sup> Mid-Year Economic and Fiscal Outlook 2008-09, pages 7-8.

<sup>7</sup> Reserve Bank of Australia, *Statement of Monetary Policy*, 6 February 2009, page 66.

<sup>8</sup> Ibid, page 61.

- 2.31 Access Economics also anticipates an easing in wages growth. In its latest *Business Outlook* report for December 2008, Access Economics forecast growth in the WPI to fall to 4.0 per cent towards the end of 2009, and then to fall to around 3.0 per cent (a record low for this measure) by mid-2011.<sup>9</sup>
- 2.32 Wage indicators in other private sector business surveys indicate a lowering of expectations and diminishing concerns about wages growth going forward.<sup>10</sup>
- 2.33 Union officials' wage growth expectations have fallen at both the aggregate and own-industry levels between November 2008 and February 2009. Expectations in February were for growth in economy-wide aggregate wages of 3.0 per cent in both 2009 and 2010. Expectations for economy-wide enterprise agreement wages growth were 3.5 per cent in both 2009 and 2010.<sup>11</sup>
- 2.34 This contrasts sharply with the economic situation in the lead up to last year's minimum wage decision, when wages growth pressures and their potential to impact on inflation were at the forefront of economic concerns.
- 2.35 Inflation expectations have also declined considerably over recent months. In December 2008 the headline CPI was 3.7 per cent, down from 5.0 per cent over the year to the September quarter 2008, and underlying inflation<sup>12</sup> was 4.3 per cent, down from 4.7 per cent. While these are both well outside the RBA's target band, according to UEFO the CPI will fall to 2 per cent over the year to June 2009, the bottom of the RBA's 2 – 3 per cent target band, and remain there over the year to June 2010.
- 2.36 This expected decline in inflation will ease cost of living pressures, adding to the already significant easing for borrowers resulting from the recent cuts totalling 4 percentage points in official interest rates. At 3.25

---

<sup>9</sup> Access Economics, *Business Outlook*, December quarter 2008, page 58.

<sup>10</sup> NAB Monthly Business Survey and Economic Outlook, January 2009, page 6; Dun and Bradstreet Business Expectations Survey, February 2009, page 14; CBA-ACCI Business Expectations Survey – February 2009, page 6; ACCI-Westpac Survey of Industrial Trends – December 2008, page 8; SAI Global-ACCI Survey of Investor Confidence – January 2009, page 15 and ACCI Small Business Survey – February 2008, page 5.

<sup>11</sup> Workplace Research Centre, Survey of union officials' wage expectations, February 2009.

<sup>12</sup> Average of the RBA's two underlying inflation measures.

per cent, the Official Cash Rate target is at its lowest level since cash target interest rates were first announced by the RBA in January 1990.

## **Conclusion**

- 2.37 The economic environment has changed dramatically since the Commission's last decision due to the global financial crisis. While Australia has performed better than most other developed economies, the future remains uncertain.
- 2.38 Based on the latest Government forecasts, it is likely that employment growth will follow economic growth into negative territory, unemployment will grow and wages growth and inflation will decline.
- 2.39 It is therefore important that the Commission takes the current uncertain and adverse economic climate into account in ensuring that its decision aligns with the Government's key objectives of limiting the impact of the global financial crisis on employment and also supporting Australia's lowest paid workers through a fair safety net at this point in time.

## Chapter 3: Labour market

### Introduction

- 3.1 The current state of the labour market and evident trends are important factors for the Commission's consideration in terms of its obligations to have regard to the capacity for the unemployed and the low paid to obtain and maintain employment and competitiveness across the economy.
- 3.2 This chapter outlines recent trends in the labour market, focusing on key groups most vulnerable to unemployment, such as teenagers, lone parents, the low skilled and specific regions.
- 3.3 Up until recently, labour market conditions in Australia had been historically strong, with the unemployment rate falling to a 33 year low of 3.9 per cent in February 2008. Labour market conditions have begun to ease since, however, and the fall-out from the global financial crisis and its associated effect on global growth and demand, is now beginning to impact much more significantly on the real domestic economy, including employment, which has been virtually flat over the past four months.
- 3.4 There has been a notable decline in the pace of economic growth over recent quarters, culminating in a 0.5 per cent contraction in GDP in the December quarter 2008, while a number of forward indicators of labour market activity have deteriorated. With economic growth expected to remain weak, this suggests that employment growth in Australia is likely to fall over the coming period. UEFO indicated that employment was expected to contract through 2009 and remain weak in 2010, resulting in an expected increase in the unemployment rate to 7 per cent by the June quarter 2010.

### Employment

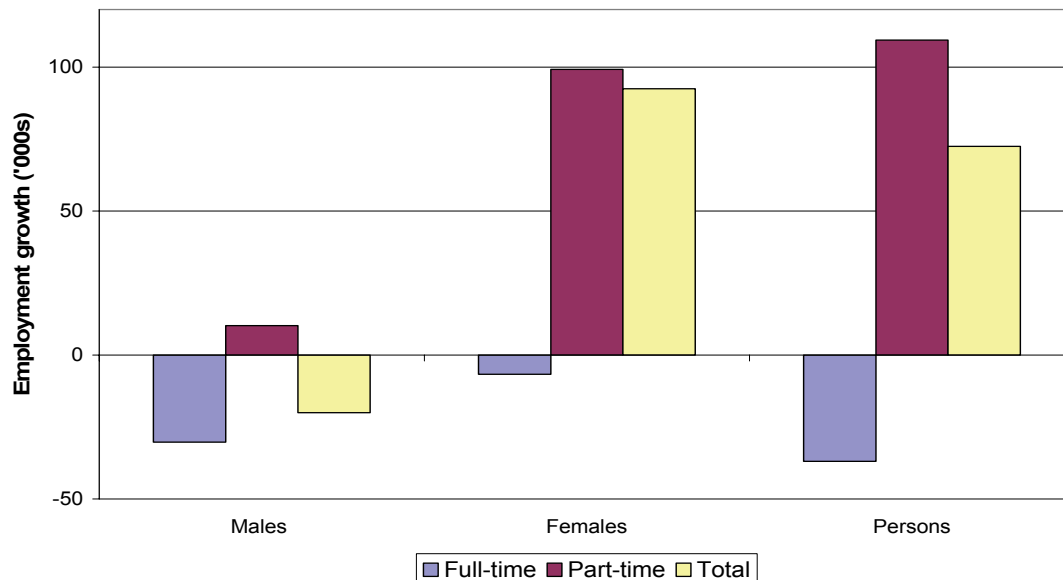
- 3.5 Over the four years to February 2008:
  - total employment increased by 1,173,000 or 12.3 per cent to 10,810,400;

- full-time employment increased by 849,900 or 12.4 per cent to 7,701,100 and part-time employment increased by 323,100 or 11.9 per cent to 3,036,800; and
- female employment grew by 603,600 or 14.2 per cent and male employment grew by 569,400 or 10.7 per cent.

3.6 The sizeable increase in full-time employment was, in part, attributed to the impact of the mining boom and its substantial flow-on effects to the construction and property and business services sectors, in particular, which are dominated by full-time workers.

3.7 Since February 2008, however, there has been a marked slowdown in the pace of employment growth attributable to the global financial crisis (up by a modest 72 500 or 0.7 per cent). Indeed, full-time employment fell over the period, by 36,900 (or 0.5 per cent), while part-time employment rose by 109,400 (or 3.6 per cent). The slowing has increased in recent months, with overall employment being virtually flat since October 2008.

**Chart 3.1: Change in full-time, part-time and total employment ('000s), February 2008 to February 2009**

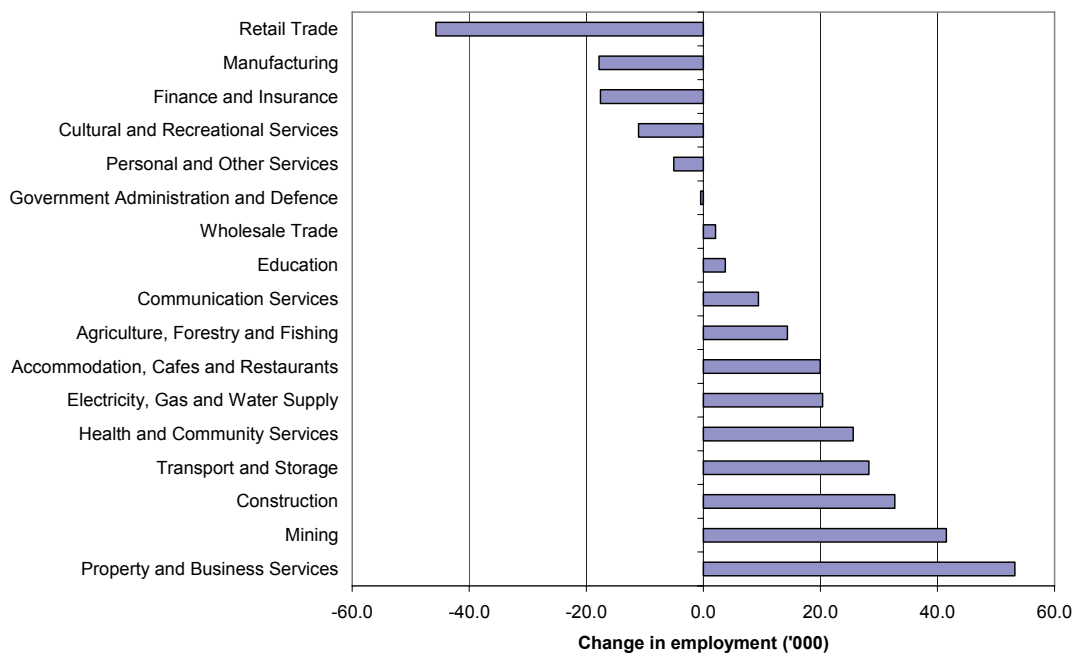


Source: ABS Labour Force, Australia, February 2009 (Cat No: 6202.0), seasonally adjusted data.

3.8 The slowdown in employment growth has been recorded across a number of industries (see Chart 3.2). Over the year to November 2008

(latest available data), employment declines have been particularly pronounced in retail trade (down by 45,700 or 2.9 per cent), manufacturing (down by 17,800 or 1.6 per cent) and finance and insurance (down by 17,600 or 4.4 per cent). Retail trade has the largest number of award employees and is a comparatively low-paid industry.

**Chart 3.2: Change in employment ('000s) by industry, November 2007 to November 2008**



Source: ABS Labour Force, Australia, Detailed, Quarterly, November 2008 (Cat No: 6291.0.55.003), seasonally adjusted data.

## Unemployment

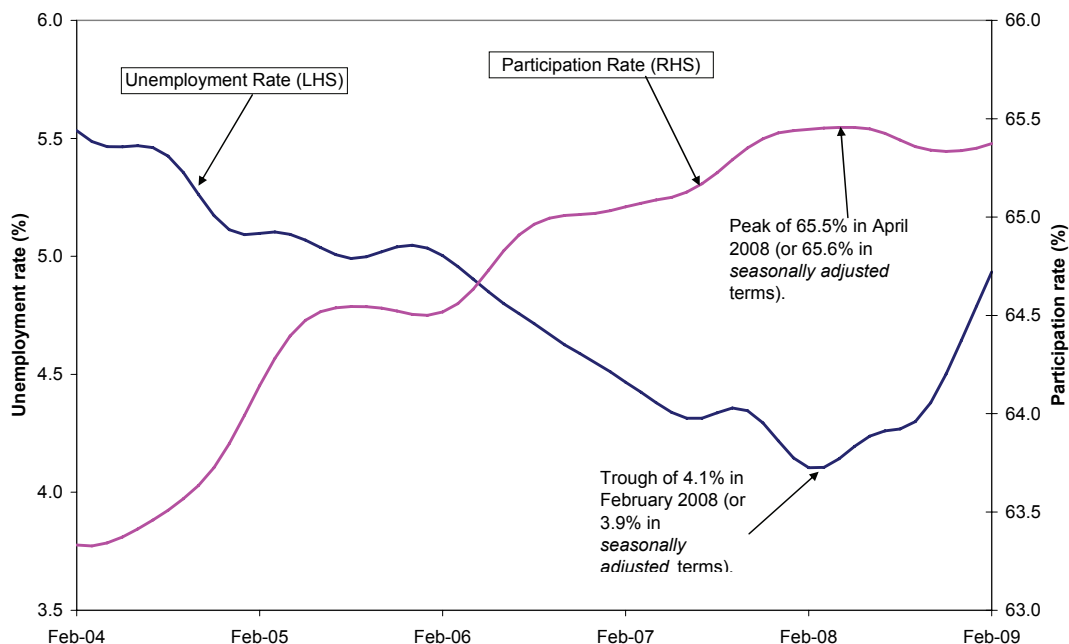
3.9 In line with the strong increase in total employment over the four years to February 2008, the level of unemployment fell by 139,300 (or 24.4 per cent) to 432,600 in February 2008. Over the year to February 2009, however, unemployment has increased by 157,900 (or 36.5 per cent). This rise reflects the fact that employment has not grown sufficiently to absorb new entrants into the labour force.

3.10 Similarly, the unemployment rate declined from 5.6 per cent in February 2004 to 3.9 per cent in February 2008, before rising by 1.3 percentage points to 5.2 per cent in February 2009 (see Chart 3.3).

## Participation rate

3.11 Between February 2004 and February 2008, the participation rate increased from 63.3 per cent to 65.3 per cent (see Chart 3.3) and has risen by a further 0.2 percentage points over the last year to stand at 65.5 per cent in February 2009. In previous economic downturns, the participation rate has tended to decline, as a weak labour market tends to discourage people from actively looking for work. However, this decline generally occurs some time after the unemployment rate begins to rise.

**Chart 3.3: Unemployment rate and participation rate, February 2004 to February 2009**



Source: ABS Labour Force, Australia, February 2009 (Cat No: 6202.0), trend data.

## Key groups in the labour market

3.12 While labour market conditions have strengthened for most cohorts over recent years, certain groups in the labour market, including teenagers, the long-term unemployed, lone parents, lower skilled workers and those with low levels of educational attainment, are likely to face significantly greater levels of labour market disadvantage as a result of the economic impact of the global financial crisis, compared with most other cohorts.

- 3.13 Those with multiple barriers to employment are more likely to experience unemployment and be unemployed for longer. They will also find it increasingly difficult to find work as they are faced with higher competition for the fewer jobs available. In addition, there is likely to be some overlap between members of the groups below.

## **Teenagers**

- 3.14 Teenagers benefited from the strengthening in labour market conditions over the four years to February 2008. Employment increased by 68,900 (or 9.9 per cent) over the period, to stand at 763,800, and the teenage full-time unemployment to population ratio fell from 4.5 per cent in February 2004 to 3.3 per cent in February 2008.
- 3.15 Over the last year, however, labour market conditions for teenagers have deteriorated. The teenage full-time unemployment to population ratio increased by 1.5 percentage points to 4.8 per cent, and teenage full-time employment contracted by 45,000 (or 16.5 per cent). More teenagers may begin to encounter difficulties securing full-time employment in the face of the global economic slowdown.
- 3.16 Therefore, the proportion of teenagers participating in full-time education is likely to continue to rise. Indeed, during the recession of the early 1990s, teenage participation in full-time education rose significantly, up from 55.4 per cent in December 1989 to stand at 63.0 per cent in December 1992.

## **Discouraged jobseekers**

- 3.17 In September 2007<sup>13</sup>, there were 76,600 discouraged jobseekers (people with marginal attachment to the labour force who wanted and were available to work but did not think they would find a job). This number is expected to rise during 2009-10 in line with the forecast decrease in the participation rate.

## **The long-term unemployed**

- 3.18 Over the four years to February 2008, the level of long-term unemployment declined considerably, by 46,700 (or 39.5 per cent). Since February 2008, however, the level of long-term unemployment

---

<sup>13</sup> ABS *Persons Not in the Labour Force*, September 2007 (Cat. No. 6220.0).

has risen only marginally (by 100) to stand at 71,400 in January 2009 (latest available data). This reflects the necessary 12 month lag between increasing unemployment and inflows into long-term unemployment, and the level of long-term unemployment is likely to rise in due course.

### **Lone parents**

- 3.19 In December 2008 (latest available data), there were 2,271,700 families<sup>14</sup> with dependent children aged under 15 in Australia, 288,200 (or 12.7 per cent) of whom were jobless families. The vast majority of these (209,000 or 72.5 per cent) are headed by a lone parent.
- 3.20 Over the year to December 2008, the number of employed lone parents with dependent children fell by 23,400 (or 8.5 per cent) to 252,300. This is only partly explained by a decline of 12,700 or 2.7 per cent in the number of lone parents over the year. In comparison, employment for parents in a couple family with dependent children increased over the period, by 2.7 per cent (74 700) to 2,867,400.
- 3.21 The number of dependent children in jobless families also increased over the year to December 2008 (up by 14,100 or 2.8 per cent to 521,700). Of this group, almost 70 per cent live in lone parent families.
- 3.22 Lone parents are more likely to possess characteristics that predispose them to labour market disadvantage, such as lower educational attainment<sup>15</sup>. This is reflected in their high unemployment rate of 10.0 per cent in December 2008, compared with an unemployment rate of 2.7 per cent for parents in a couple family with dependent children.
- 3.23 As with other disadvantaged groups, lone parents are significantly more likely to experience labour market disadvantage in an economic downturn than couple families. It is likely that the number of jobless families (and children affected by joblessness) will rise further.

### **Less skilled groups**

- 3.24 The strength of the economy over recent years has benefited both those with, and those without, post-school qualifications. The unemployment rate for people aged 15 to 64 years fell from 8.0 per cent in May 2004 to

---

<sup>14</sup> Excluding those families with a parent whose labour force status was 'Not determined, other'.

<sup>15</sup> ABS *Education and work*, May 2008 (Cat. No. 6227.0), unpublished data.

6.5 per cent in May 2008 for those without a post-school qualification<sup>16</sup> compared with a fall from 3.8 per cent to 2.9 per cent for those with post-school qualifications.

- 3.25 As yet there are no data to indicate the impact of the global financial crisis on people with lower levels of education. Nevertheless, in a more difficult labour market environment those with lower educational attainment will find it more difficult to secure another job after retrenchment than their more highly skilled counterparts. Similarly, new labour market entrants without skills will encounter greater difficulty securing an initial foothold in the jobs market if the labour market weakens further, as predicted.

### **State labour market differences**

- 3.26 Labour market conditions improved in all states and territories over the four years to February 2008, consistent with the strengthening in conditions that has occurred at the national level. States with above average employment growth over the period (in percentage terms) included the resource rich states of Western Australia (up by 17.8 per cent), Queensland (up by 17.7 per cent) as well as the Northern Territory (up by 13.3 per cent).
- 3.27 Likewise, the unemployment rate decreased in all states and territories over the four years to February 2008 (with the exception of the Northern Territory where it rose by 0.1 percentage points to 4.5 per cent). The largest falls were recorded in Western Australia (down by 2.8 percentage points to 2.8 per cent), followed by Queensland (down by 2.5 percentage points to 3.6 per cent) and South Australia (down by 1.9 percentage points to 4.5 per cent).
- 3.28 The unemployment rate increased in all states over the year to February 2009, with the exception of Tasmania. The largest increases were in New South Wales (up by 1.7 percentage points to 5.8 per cent), Victoria (up by 1.5 percentage points to 5.6 per cent) and Western Australia (up by 1.4 percentage points to 4.2 per cent). On the other hand, the unemployment rate fell in both of the territories over the period.

---

<sup>16</sup> ABS *Education and work*, May 2008 (Cat. No. 6227.0).

- 3.29 Labour markets in the two largest states have weakened much more than in the rest of Australia. Employment fell over the year to February 2009 in New South Wales (down by 28,000 or 0.8 per cent) and Victoria (down by 12,300 or 0.5 per cent). Employment growth has remained solid in the resource-rich states of Queensland and Western Australia, although this has not prevented unemployment rates from rising, as these states have also had relatively strong labour force growth.
- 3.30 All states and territories are likely to continue to be affected by the easing of monetary policy and the impact of the global financial crisis, although the Government's fiscal stimulus packages should help moderate the negative impacts on employment.
- 3.31 There have been a number of mine closures in the resource-rich States of Queensland and Western Australia and employment growth in these states is likely to ease as current projects are completed. The decline in demand for manufactures, and the resulting job losses, is, likely to be disproportionately felt in New South Wales and Victoria. This will have flow-on effects on consumer spending, dwelling investment and growth.

## **Conclusion**

- 3.32 The labour market clearly reached a peak in early 2008 and now faces a period of considerable weakness. There is already evidence that the downturn is having a disproportionate impact on employment for some regions, industries and demographic groups. There are likely to be lagged affects on groups such as the long-term unemployed and flow-on effects to some industries.
- 3.33 The Commission's decision has the potential to have a disproportionate impact on these groups
- 3.34 The Government submits that the Commission should have particular regard to both the employment prospects of the most vulnerable and the particular need for a fair minimum safety net for these groups in the current economic climate.

# Chapter 4: The Government's response to the global financial crisis

## Introduction

- 4.1 The Government provides the following information on assistance measures which aim to improve the financial circumstances of low paid Australians – an important consideration for the Commission.
- 4.2 The Government is acutely aware that the global financial crisis has had, and will continue to have, adverse economic impacts on the low paid. As such, the Government has sought to provide targeted stimuli for low and middle income households as it is committed to cushioning households from the impact of this crisis.
- 4.3 The Economic Security Strategy and the Nation Building and Jobs Plan were designed to provide a demand-side boost to the economy and, at the same time, support jobs in industries known to be responsive during periods of economic downturn.
- 4.4 These packages, along with the Government's personal income tax cuts announced in the 2008-09 Budget, have delivered, and will continue to deliver, a fiscal boost to groups most likely to be negatively affected by the flow-on effects of the global economic changes. These measures will help support the living standards and preserve the purchasing power of those reliant on minimum wages
- 4.5 This chapter provides an overview of the Government's recent economic stimulus packages and personal income tax cuts announced in the 2008-09 Budget, focusing on the impact of these reforms on the low paid.

## Recent fiscal policy measures

- 4.6 The Government has sought to alleviate the impact of the global financial crisis on working families through fiscal measures. These measures include the \$10.4 billion Economic Security Strategy

delivered in December 2008, and the \$42 billion Nation Building and Jobs Plan.

- 4.7 The Economic Security Strategy injected \$3.9 billion into Australian low income families. Two million families, with 3.9 million children, who received either Family Tax Benefit A or families with dependent children who received Youth Allowance, Abstudy or a benefit from the Veterans' Children's Education Scheme or the Military Rehabilitation and Compensation Act Education and Training Scheme were provided with lump sum payments of \$1000 per eligible child from December 2008. In addition, the Economic Security Strategy provided \$4.9 billion for Australia's pensioners, seniors and carers. A lump-sum payment of \$1,400 was provided to single pensioners, \$2,100 was provided to pensioner couples and \$1000 was provided to carers for each person in their care.
- 4.8 Household consumption in the December quarter 2008 rose by 0.1 per cent while retail sales, according to the ABS, increased by 3.8 per cent in the December quarter 2008. The ABS data indicate that the Economic Security Strategy package has already had a statistically significant impact in increasing retail expenditure, based on the monthly Retail trade series in the December quarter 2008. Without the payments, household consumption expenditure is likely to have contracted in the quarter, as it did in other developed economies.
- 4.9 As part of the Government's \$42 billion Nation Building and Jobs Plan, the Government is providing a household stimulus package totalling \$12.2 billion to assist households and support economic activity in 2008-09. The measures will strengthen the national economy and provide financial assistance to Australian households.
- 4.10 The household stimulus package is designed to stimulate consumption and also to provide a temporary boost to low and middle-income earners and households that are most affected by the slowdown. The package is a significant economic measure to deal with these extraordinary times.
- 4.11 The package of measures includes:

- a Tax Bonus for Working Australians of up to \$900 for eligible taxpayers, depending on income thresholds, benefiting around 8.7 million taxpayers;
  - a Single-Income Family Bonus of \$900 to provide additional assistance to around 1.5 million families with one main income earner;
  - a Farmer's Hardship Bonus of \$950 which will be paid to around 21,500 farmers and others receiving particular drought assistance payments;
  - a Training and Learning Bonus of \$950 to assist students, those returning to study or training, and some income support recipients; and
  - a Back to School Bonus of \$950 per child to around 2.8 million children to assist low and middle-income families eligible for Family Tax Benefit A with school-age children.
- 4.12 Overall, around 94 per cent of non-dependant adult Australians with incomes under \$100,000 will be eligible to benefit from the Economic Security Strategy or the household stimulus package.
- 4.13 The Government expects the Nation Building and Jobs Plan to support and sustain up to 90,000 jobs over the next two years and boost economic growth by around 0.5 per cent of GDP in 2008-09 and between 0.75-1 per cent of GDP in 2009-10.

## **Forthcoming taxation initiatives**

- 4.14 This section examines forthcoming taxation initiatives that will assist low income earners by supporting their living standards and preserving the purchasing power of those reliant on minimum wages.
- 4.15 From 1 July 2009, as part of personal income tax cuts announced in the 2008-09 Budget, the threshold at which the marginal tax rate increases from 15 cents in the dollar to 30 cents in the dollar will rise from \$34,001 to \$35,001. The Low Income Tax Offset (LITO) will also increase from \$1,200 to \$1,350 but will continue to be reduced by

4 cents for every dollar of annual income over \$30,000.<sup>17</sup> As a result of these changes taxpayers will not pay income tax in 2009-10 until their annual income exceeds \$15,000. It will increase the net pay of a worker on the FMW by almost \$3.00 a week in annual terms.

- 4.16 From 1 July 2010, the threshold at which the marginal tax rate increases from 15 cents in the dollar to 30 cents in the dollar will rise again from \$35,001 to \$37,001 and the LITO will increase from \$1,350 to \$1,500. As a result, taxpayers will not pay income tax in 2010-11 until their annual income exceeds \$16,000.
- 4.17 These measures will allow low income earners, including part-time workers, to keep more of their earnings and maintain their disposable incomes.

## **Conclusion**

- 4.18 The Government expects the recent and forthcoming tax/transfer measures to further improve real household disposable income for those households most reliant on minimum wages.
- 4.19 The Government anticipates that the Commission will take into account the on-going tax and transfer policy measures by Government which are aimed at supporting the incomes of low paid workers.
- 4.20 The Commission should note the temporary nature of the support provided through the stimulus measures detailed in paragraph 4.11.

---

<sup>17</sup> The current annualised FMW based on a 38-hour week is \$28,352.69.

# Chapter 5: Effect of minimum wage increases and employment, including the low-paid

## Introduction

- 5.1 In determining the quantum of increase in minimum wages, the Australian Government notes the importance of the Commission having particular regard to the capacity of the unemployed and low paid to obtain and remain in employment.
- 5.2 As outlined in this submission, the global financial crisis has increasingly impacted on the Australian labour market over the last year. According to the latest Government forecasts, employment will decline by  $\frac{1}{4}$  per cent over 2008-09 and the unemployment rate will increase to  $5\frac{1}{2}$  per cent by June 2009 and 7 per cent by June 2010.
- 5.3 The Government is acting to support jobs, limit employment losses as far as possible and insulate Australians and their families from the effects of the global recession. The 2009 Minimum Wage Review decision should avoid putting upward pressure on unemployment in the current economic climate.
- 5.4 Past minimum wage increases provided by the Commission have occurred in a growing economy and have co-existed with strong low-skilled employment growth suggesting that the relationship between minimum wage rises and reductions in employment growth have been relatively muted. However, it is more likely that excessively large minimum wage rises will result in a negative impact on employment when labour demand conditions are already weakening.
- 5.5 This chapter provides a review of the literature regarding minimum wage increases and employment previously submitted by the Government. These are particularly relevant to the Commission's deliberations this year. The chapter discusses the potential impacts of the Commission's decision on both the demand for and supply of labour, especially during the global financial crisis.

## Minimum wages and employment

- 5.6 The Commission has previously concluded that based on the available evidence there is a negative relationship between minimum wage increases and employment in Australia.<sup>18</sup>
- 5.7 Conventional labour market theory indicates that when the price of labour increases (due, for example, to an increase in minimum wages), there is likely to be a decline in the demand for the labour of those employees affected and a substitution of other labour and/or capital.
- 5.8 In November 2006, Neumark and Wascher published a broad literature review,<sup>19</sup> in which they analysed the effects of minimum wages on employment in the United States and other countries, including Australia. Of the 86 international studies they investigated, the majority found that minimum wages had a negative effect on employment. In general, Neumark and Wascher described the results from their literature review as follows:

*...about two-thirds give a relatively consistent (although by no means always statistically significant) indication of negative employment effects of minimum wages - where we sometimes focus on results for the low skilled - and fewer than 10 give a relatively consistent indication of positive employment effects.*

## The coverage of the Commission's decision

- 5.9 The Commission's decision affects wages directly, through its impact on the 12 per cent of all employees under the Australian Fair Pay and Conditions Standard who automatically receive the minimum wage increase. Around 7 per cent of employees receive minimum wage increases granted independently within state workplace relations jurisdictions<sup>20</sup>.
- 5.10 The Commission's decision also affects wages indirectly through a flow-on to other employees and by acting as a floor for other wage increases.

---

<sup>18</sup> Australian Fair Pay Commission, *Wage-Setting Decision and Reasons for Decision*, 2006, page 8.

<sup>19</sup> D Neumark and W Wascher, 'Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research,' National Bureau of Economic Research, Working Paper 12663, November 2006.

<sup>20</sup> DEEWR estimates based on ABS *Employee Hours and Earnings Survey 2006*, unpublished data.

- 5.11 According to the Department of Education, Employment and Workplace Relations' Workplace Agreements Database, around 20 per cent of employees on current federally registered collective agreements have their pay linked in some way to the Commission's decisions. Only 3 per cent, however, receive an automatic flow-on of Commission decisions. For the remaining 17 per cent, conditions and/or qualifications of some type apply.
- 5.12 Minimum wage increases can also act as a floor for workplace bargaining. A higher minimum wage increase is likely to encourage higher wage claims and outcomes in workplace bargaining negotiations, and hence flow-on to a greater number of employees.
- 5.13 There are 154 large certified agreements<sup>21</sup> with nominal expiry dates in 2009. These agreements operate in the building and construction industries, vehicle manufacturing (Ford, Bosch, Holden and Toyota) and retail (Safeway, Woolworths, Big W, Kmart, Just Jeans, Target, KFC and David Jones).

## **Small business**

- 5.14 A significant proportion of low paid workers are employed by small businesses, as evidenced by the higher proportion of small business employees on awards, and their much lower average weekly full-time earnings. Compared with medium and large businesses, small businesses can find it harder to absorb increased labour costs associated with increases in minimum wages.
- 5.15 In response to increased labour costs, small businesses may reduce labour through combinations of shedding staff, reducing hours, and reducing hiring intentions. All of these actions would have negative impacts on the economy in aggregate terms.
- 5.16 Significant minimum wage increases at this time could have the potential to exacerbate the impact of the current economic crisis on small businesses.

---

<sup>21</sup> 'Large' is defined as covering 500 or more employees.

## The real value of the Federal Minimum Wage

5.17 Following real increases in the FMW up to 2006, the real value has not changed over the past two years. Nevertheless, as shown in the Commission's recent modelling, after including the changes in the tax-transfer system the disposable incomes of many household types with a low paid worker increased in real terms over the period from August 2005 to November 2008. The real increases in household disposable income ranged from 4 per cent for a single-parent on the FMW with a child aged 8-12 years to 12 per cent for a couple without children.<sup>22</sup>

## Characteristics of low paid employees<sup>23</sup>

5.18 This section reviews the characteristics of employees by pattern of employment, based on an analysis of HILDA data.<sup>24</sup> In particular, this section considers characteristics of employees who are 'occasionally low paid, not always in work'<sup>25</sup> and 'persistently low paid'<sup>26</sup>. These employees are the most likely to be impacted by the Commission's decision.

### The 'occasionally low paid and not always in work'

5.19 The employees most likely to be associated with 'occasionally low paid, not always in work' category in the Household, Income and Labour Dynamics in Australia (HILDA) Survey were females (63.8 per cent compared with the average of 55.7 per cent),<sup>27</sup> individuals born in other countries (23.0 per cent, average 20.3 per cent), lone parents (9.9 per cent, average 7.7 per cent) and those with children aged 0-4 years (24.2 per cent, average 19.5 per cent). In relation to their level of education, these employees were less likely to have a degree and were more likely to have a certificate or 'below year 12' education.

5.20 In terms of working hours, employees in this category worked the lowest average weekly hours and were more likely to be employed on a

<sup>22</sup> Ibid, page 33.

<sup>23</sup> Low paid workers are defined as employees earning up to two-thirds of median hourly earnings. This is a commonly used definition in Australian and international studies.

<sup>24</sup> This is based on analysis presented in the Government's submission to the Commission's 2008 Minimum Wage Review

<sup>25</sup> Respondents who were low paid once or twice over the five year period, and were not employed in every wave.

<sup>26</sup> Respondents who were low paid in at least three years out of the five waves.

<sup>27</sup> The average percentage for each characteristic is in the 'Total' column.

part-time and/or casual basis than employees in other categories. They were also far more likely to work in small firms and less likely to be employed by large businesses (firms with 100 or more employees).

**The ‘persistently low paid’**

- 5.21 Those employees more likely to be ‘persistently low paid’ were people aged 21-30 or aged 45 and over, females and lone parents. They were considerably less likely to be aged 31-44, born in other countries, married or have children aged 0-4.
- 5.22 ‘Persistently low paid’ employees were less likely to have a degree or certificate and were more likely to have year 12 or ‘below year 12’ educational qualification.
- 5.23 Table 5.1 provides a summary of characteristics of individuals most likely to be dependent on the minimum wage outcome.

**Table 5.1: Summary Characteristics**

Characteristics	Pattern of Employment	
	occasionally low paid, not always in work	persistently low paid
<b>Demographic</b>		
Gender	predominantly female	predominantly female
Born overseas	more likely to be born overseas	less likely to be born overseas
Single parent	more likely to be married	more likely to be single
Children	more likely to be a single parent	more likely to be a single parent
Young children (0-4 yr)	more likely to have young children	less likely to have young children
<b>Employment Conditions</b>		
Average hours per work	below average	Average
Other household income	above average	below average
Education	more likely to have year 12 or below	more likely to have year 12 or below
Type of employment	most likely employed on a part-time and/or casual basis	more likely to be employed on a part-time and casual basis
Firm size	concentrated in smaller firms	concentrated in smaller firms

Source: Australian Government Submission to the Australian Fair Pay Commission 2008, Chapter 3.

**Conclusion**

- 5.24 There is a risk that an excessive minimum wage increase at this time could have an adverse impact on labour market outcomes, particularly for the low skilled and the low paid. The Commission’s decision should align with the Government’s core priorities of minimising job losses

during the economic downturn and providing support for the needs of the low paid.

- 5.25 The majority of empirical research, as previously recognised by the Commission suggests that there is a negative relationship between minimum wage increases and employment. While this relationship has been relatively weak in recent years given that rises in the minimum wage have co-existed with strong employment outcomes for the low paid, the Government cautions the Commission that expected negative impacts on employment of minimum wage increases could be stronger in a slowing economy.
- 5.26 Increases in the minimum wage boost wages for some workers, which may flow through to increased household spending and thereby support jobs. However, higher wages also raise labour costs for employers, which may result in a reduction in demand for the low paid and could put upward pressure on consumer prices. As such, minimum wage increases are best targeted as an important means of protecting the low paid rather than as macroeconomic stimulus.
- 5.27 Discretionary fiscal stimulus and monetary policy are more effective at stimulating aggregate demand in an economic downturn than increases to minimum wages. Timely and targeted direct stimulus payments to individuals and families, or changes to the tax and transfer system have no risk of reducing employment for the low-paid which can, depending on the elasticity of demand for labour, reduce the stimulus effect of minimum wage increases to a proportionate degree.