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Annual Wage Review 2015-2016 Submission in Reply

Friday, April 15, 2016

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Chamber of Commerce
and Industry

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Australian Chamber of Commerce and Industry

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Australian Chamber of Commerce and Industry

1 Executive summary

1. This submission responds to points raised by the ACTU regarding:

   a. minimum wage research;
   b. the relationship between productivity and statutory wages;
   c. relative living standards; and
   d. economic conditions.

2 Minimum wage research

2. The ACTU argues that empirical research on the effects of changes to the minimum wage show its proposed increase in minimum and award wages, which amounts to a 3.9 per cent for those on some classifications, will have no impact on employment.[1]

3. The evidence does not support this claim.

4. The Productivity Commission's review of research on Australian minimum wages found:

> *These studies confirm that the level of real output is the main driver of employment over time. However, the studies also typically find that higher average wages are associated with reduced employment or higher unemployment, with an overall elasticity of employment with respect to average wages ranging from -0.2 to -0.9 in the shorter term, with larger impacts in the longer term. In the Productivity Commission's view, this provides some guidance as to the more likely effects on the employment of minimum wage workers of changes in minimum wages also, although there will of course be differences.*[2]

5. The Productivity Commission concludes that:

> *Taken together, the Productivity Commission's reading of the Australian empirical studies is that increases in Australia's minimum wages are likely to have caused some disemployment, but that the effects have not been major relative to other influences. Further, while the studies provide an indication of the likely direction of change, they provide neither definitive evidence nor clear guidance on the magnitude of any employment effects that would result from future changes in Australia's minimum wages.*[3]

6. This contrasts, with the ACTU's statement that:

[1] ACTU Submission: Annual Wage Review 2015-16, paras 22 to 56.
[2] Productivity Commission (2015), Workplace Relations Inquiry Vol.1, p194.
[3] Productivity Commission (2015), Workplace Relations Inquiry vol.1 p194 (2015).

> *The PC's review of the literature on minimum wages and its own empirical analysis finds little or no evidence of negative employment effects from raising the minimum wage.*[4]

7. The ACTU also appears to suggest that the Panel should give little weight to the Productivity Commission's own research using the Research and Evaluation Database (RED) from the Department of Employment.[5] The Productivity Commission acknowledges that its analysis has limitations. However, the findings are still significant given the limitations of other minimum wage research, particularly in Australia, and the problems associated with applying findings from international research to Australia.

8. The Productivity Commission's analysis of the RED was inconclusive regarding the relationship between the minimum wage and job losses, but found consistent results with respect to hours worked and entry into employment:

> *Throughout the period considered, minimum wage increases were overwhelmingly associated with adverse employment effects in these two dimensions: six–monthly changes in hours worked by minimum wage workers were significantly more likely to be negative after minimum wages went up; and the prevalence of minimum wage workers among new hires invariably fell when the minimum wage was raised.*[6]

9. The ACTU's analysis relies heavily on research from the United States, but the United States Congressional Budget Office, as reported by the Productivity Commission, concluded:

> *on a 'central estimate' that a 10 per cent increase in minimum wages reduces employment among affected workers by up to 1 per cent in the United States.*[7]

10. This effect is smaller than previous estimates, but it still implies that an increase in minimum and award wages would result in sizeable job losses.

11. Moreover, as noted in the Australian Chamber's initial submission, the Productivity Commission also reinforces the Australian Chamber's view that it is difficult to draw conclusions about the effect of wage changes in Australia from international research:

> *there are likely to be differences in the effects of changes in minimum wages from country to country, reflecting differences particularly in:*
>
> - *the starting level and coverage of the minimum wages;*
> - *whether one or more minimum wage applies. (In some countries there are regional variations in minimum wages, differences in wage rates by age and training status and,*

[4] ACTU Submission: Annual Wage Review 2015-16, para 48.
[5] ACTU Submission: Annual Wage Review 2015-16, paras 53-54.
[6] Productivity Commission (2015), Workplace Relations Inquiry Vol.1 p195.
[7] Productivity Commission (2015), Workplace Relations Inquiry Vol.1 p189.

as in Australia, hundreds of industry and occupational minimum wages in awards whose annual growth rates depend on the annual national wage case);

- *the tax/transfer system and job search requirements for the unemployed, which will affect people's reservation wages and motivations to get a job;*
- *other institutional arrangements, such as levels of unionisation and laws governing bargaining or wage setting, which may affect the extent to which minimum wage rises are passed on to other wages.*

For Australia, this implies some caution in drawing lessons from studies in countries with significantly different institutional wage setting arrangements and lower minimum wages (such as the United Kingdom and especially the United States) or different social security systems (as many countries have, given Australia's highly targeted transfer payments system and the high effective marginal tax rates it creates)

…That context matters so much provides grounds to place most emphasis on Australian studies when assessing the employment effects of changes in Australia's minimum wages.[8]

12. More generally, studies that fail to find a relationship between the minimum wage and dis-employment should not be taken as evidence that there is no effect at all. There are several challenges associated with isolating the effect of minimum wage changes on employment outcomes. These include:

    a. Changes in the minimum wage are often one of many different changes taking place in labour markets and economies. As a consequence, it is difficult to disentangle these changes to provide a clear causal pathway even using current research data and methodologies.

    b. Studies assessing long term trends are particularly sensitive to the effect of economic, technological and international market forces that are hard to isolate, thus further complicating the interpretation of results.

    c. Income and related labour market data are "noisy" creating considerable difficulties in estimating even simple percentages, such as the proportion of people on the minimum wage. Current estimates vary substantially between 4-10 per cent of the working population.[9]

    d. Changes to minimum wages are generally incremental, and can therefore be anticipated by employers, making it difficult to isolate the response because employers may have factored the wage increase into their business decisions prior to the official announcement.

[8] Productivity Commission (2015), Workplace Relations Inquiry Vol.1 p190-191.

[9] J.R. Bray (2013) 'Reflections on the evolution of the minimum wage in Australia: Options for the future'.

e. Fixed costs and the time lags naturally associated with staffing changes mean responses to minimum wage changes may be substantially delayed.

f. The effect of changes in the minimum wage is likely to differ depending on economic circumstances, and the counterfactual market driven wage increase that would otherwise have occurred. It is this latter factor which means the submission by the United Voice seeking a medium term target for the minimum wage should be rejected on first principles.

13. The Productivity Commission makes very similar comments, identifying there are:

> *several empirical obstacles that together can bedevil attempts to gauge the effects of minimum wages on employment:*
>
> - *individual changes in minimum wages are often small and incremental, albeit with the potential to have more significant cumulative effects*
> - *there is often incomplete or 'noisy' data on the incidence of minimum wages and on job loss, take-up and changes in hours worked*
> - *the timing of business responses to a change in minimum wages can vary considerably, but some responses can potentially be quite lagged while others could even occur in advance of a foreshadowed increase*
> - *it is not straight-forward to disentangle the effects of changes in minimum wages from other factors, both in the labour market and the economy, that may affect employment*
> - *aggregate findings and trends may conceal offsetting effects, given that theory suggests that minimum wages can have positive or negative employment effects, depending in part on the market(s) to which they apply.*[10]

14. Conducting research on the effect of minimum wage increases in Australia is particularly difficult as minimum wages generally have application at the national level. Similar problems undermine the strength of the findings from analysis of the effects of the UK's minimum wage. Australian minimum research also suffers from limited data, with a portion of research concerned with merely estimating the size and composition of minimum wage employment and of its impact on household incomes, rather than the impact of the minimum wage on employment in Australia. In summarising the Australian research, the Productivity Commission states that:

> *Notwithstanding possible concerns with individual studies, when viewed collectively these employment elasticities suggest that:*

[10] Productivity Commission (2015), Workplace Relations Inquiry Vol.1 p188-189.

- *minimum wage changes in Australia, if anything, tend to have a small and negative effect on the total employment (that is, taking into account the impact on both minimum wage and above minimum wage workers)*
- *the impacts may be stronger for certain subsections of the labour market, particularly younger workers (Leigh found statistically significant effects for females aged 15 to 24 and males aged 15 to 34. Mangan and Johnston found statistically significant effects for young people in Queensland and in Australia, but of a smaller magnitude than those reported by Leigh)*
- *there is some evidence to suggest that minimum wage changes may indirectly impact on other subsections of the labour market — the statistical significance of Leigh's finding that minimum wage changes have a positive impact on female workers aged 45 to 54 suggests that they may be substitutes for minimum wage workers*
- *the impact tends to increase (to be higher in an absolute sense) when the estimation is undertaken over longer time periods, which is consistent with employers having greater scope and ability to expand or contract operations over time and for employees to move between employment opportunities and in and out of employment.*[11]

15. Given the empirical challenges, theory should carry some weight in the Panel's considerations. Here the Productivity Commission observes that:

> *Importantly, neither monopsonistic competition nor efficiency wage theories suggest that (higher) minimum wages must necessarily increase employment or hours worked. Under either theory, minimum wages that are too high will always harm employment. And even where the minimum wage is below the competitive market clearing level, increases in it can also potentially have net negative (rather than positive) employment effects, if it causes sufficient firms to become unprofitable and exit the market (Bhaskar, Manning and To 2002).*[12]

16. In addition to these overarching points, there are a number of specific issues with the ACTU's interpretation of research on the minimum wage.

17. The ACTU refers to a study by Card and Krueger that finds a percentage change in employment in response to a given percentage change in the minimum wage of the food industry is either positive, has no effect or is slightly negative.

[11] Productivity Commission (2015), Workplace Relations Inquiry Vol 2, p.1045.
[12] Productivity Commission (2015), Workplace Relations Inquiry Vol.1, p.187.

18. Serious criticisms against the quasi-experiment framework of Card and Kreuger's studies[13] have been raised including the flaws in the standard errors and associated test statistics as well as the fact that the focus of the study is too local to be robustly generalised.[14]

19. The study fails to capture the responses of individual small businesses, citing difficulties with data collection. This is problematic as a considerable proportion of small businesses pay minimum wages to their employees.[15]

20. Furthermore, the major chain restaurants that were surveyed are generally more mechanised than individual small businesses, therefore a change in relative prices of labour and capital have different effects in these two sectors.

21. A change in relative prices of labour and capital leads to a decline in the size of the labour intensive sector and an increase in the size of the capital intensive sector. This leads to a natural shift within the industry, from labour intensive models to capital intensive production methods. This is likely to lead to an overall decrease in employment as the capital intensive sector is more mechanised and relies less on labour than capital, even it does not result in a decrease in employment within the capital intensive sector.

22. The PC indicates that the magnitude of 'disemployment' effects, such as discussed above, will vary between firms and industries, and are most acute where:

    a. The share of production costs accounted for by low-skilled labour is higher

    b. The less difficult or costly it is to use other inputs as a substitute for low-skilled labour

    c. The more price responsive is demand for the product and the greater the level of competition.

23. To support this view further we draw the Panel's attention to a recent study[16] using a putty clay model[17] describes the effects of a minimum wage increase on the restaurant industry in the United States.[18] The study shows that following a minimum wage increase, industry-level adjustment occurs through the exit of labour-intensive businesses and entry of capital-intensive ones. Results indicate that jobs in the industry as a whole are lost and the adjustment occurs within two years of minimum wage policy implementation.

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[13] Card and Kruguer (1994) 'Minimum wages and employment: a case study of the fast-food industry in New Jersey and Pennsylvania'; Card and Kruguer (2000) 'Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Reply'.
[14] Belman and Wolfson (2014).
[15] J.R. Bray (2013) 'Reflections on the evolution of the minimum wage in Australia: Options for the future'.
[16] Aaronson (2015)'Industry dynamics and the minimum wage – a putty clay approach'.
[17] A putty-clay model describes an attribute of capital in financial models. Putty-clay capital can be transformed from flexible capital into durable goods but cannot be converted back. An example of this is the replacement of an employee (human capital) into a durable good such as a machine (physical capital).
[18] The restaurant industry is the largest employer of minimum wage workers in the US.

24. Time-lag adjustments as mentioned in the preceding paragraph were also considered by the PC in their latest inquiry.[19] Borland and Woolbridge attribute time lags to a variety of factors including:

    a. Time taken to recruit and train substitute labour for low-wage workers;

    b. Organisational costs in restructuring production processes;

    c. Identifying and installing new capital; and

    d. The cost of severance payments to low-wage workers who are made redundant.[20]

25. The ACTU refers to a survey of members of the American Economic Association. Reference is made to findings that economists are significantly less confident that a minimum wage increase adversely affects employment prospects for low skilled workers in the 2000s than was the case in the 1970s.[21]

26. The same survey shows that 62 per cent agreed that setting a minimum wage increases unemployment among the young and unskilled workers and a further 50 per cent preferred the minimum wage be eliminated[22]. A further survey shows that almost half of the economists of the American Economic Association either support or strongly support minimum wage laws in the United States at a time when the minimum wage was almost three times less than that in Australia on nominal USD terms.[23]

27. The ACTU quotes a paper by Belman and Wolfson as finding that there is a "negative and generally statistically insignificant employment effect which is between small and vanishingly small".[24] However, the main argument in this paper is about the need for better measurement techniques. The authors are not making an empirical statement about the lack of relationship between the minimum wage and employment.

28. The ACTU relies heavily of the findings of Dube et al,[25] but this research shows that even though teen and restaurant employment stocks are not substantially reduced in response to a minimum wage increase, employment flows fall substantially.[26] These results indicate that employers are more reluctant to hire and train new staff and are more likely to retain less productive workers. Lower turnover rates suggest that workers are less likely to be using low paid employment as a

[19] Productivity Commission (2015), Workplace Relations Inquiry Vol. 1, p.187.
[20] Borland and Woolbridge (1999) 'Wage Regulation, Low-wage Workers and Employment' in Richardson 'Reshaping the labour market: Regulation, efficiency and equality in Australia', p. 86-121.
[21] ACTU Submission: Annual Wage Review 2015-16, para 28.
[22] Whaples (2006) 'Do Economists agree on anything? Yes!'.
[23] OECD Minimum wages at current prices https://stats.oecd.org/Index.aspx?DataSetCode=RMW accessed 04/04/2016
[24] ACTU Submission: Annual Wage Review 2015-16, para 30 quoting Belman and Wolfson (2014) 'What does the minimum wage do?'.
[25] ACTU Submission: Annual Wage Review 2015-16, para 31.
[26] Dube et al. (2014) 'Minimum wage shocks, employment flows and labour market frictions' .

stepping stone better paid positions. More importantly, this work is the subject of ongoing methodological dispute.[27]

29. The ACTU argues that "sluggish multifactor productivity growth in Australia" has not left a dividend to flow across the skill distribution", rather than Australia's more pervasive and prescriptive employment regulations explain the low growth in employment shares at the bottom of the income distribution.[28] It is clear enough how low multifactor productivity growth, combined with high statutory wage growth, would increase demand for higher skilled employment at the expense of low skilled employment – but this is precisely the point Wilkins and Wooden are making. Beyond that, it is not clear what a dividend from higher multifactor productivity growth is, or how it would flow through to higher wages or increased employment for the low skilled.

30. The ACTU also relies heavily on research from the United Kingdom.[29] As previously mentioned, research on the minimum wage in the United Kingdom faces the same difficulty in disentangling the effects of other variables as minimum wage research in Australia, lacking the discontinuities provided by state based minimum wages in the United States.

3 Productivity and labour income share

31. The ACTU argues that substantial increases in the minimum wage and award wages are required to restore the historical relationship between wages and factor shares of income.[30]

32. The Australian Chamber addressed this argument in paragraphs 84 to 106 of its initial submission and it has little merit. In short,

    a. there is no fixed relationship between productivity and wages;

    b. capital deepening is the main driver of recent improvements in productivity, and investors must be remunerated for their additional contribution;

    c. growth in labour productivity reflects changes in occupational structure so it is a poor indicator of productivity changes within fixed award classifications;

    d. unit labour costs have begun to rise, with real unit labour costs rising 0.9 per cent and nominal unit labour costs rising 0.3 per cent in the year to December 2015; and

[27] Neumark, David, J. M. Ian Salas and William Wascher (2014) "More on Recent Evidence on the Effects of Minimum Wages in the United States." NBER Working Paper 20619.
[28] ACTU Submission: Annual wage review 2015-16, para 55 referring to Wilkins and Wooden (2014) 'Two decades of change: the Australian labour market, 1993-2013'.
[29] De Linde et al. (2014) 'Does the UK minimum wage reduce employment? A meta-regression analysis'; Riley and Bondibene (2015), 'The impact of the national minimum wage on UK businesses'; Bewley and Wilkinson(2015) 'The impact of the national minimum wage on employment and hours.'
[30] ACTU Annual Wage Review 2015-16 Initial Submission, paras 122-143.

e. regarding factor shares, relative to compensation of employees, over the last 20 years the factor share has fallen for non-financial companies, remained flat for unincorporated businesses and risen for financial corporations only.

33. The Panel itself has noted the complexities of the relationship between wages and productivity in its 2012-13 decision, given:

- *the divergence between producer prices and consumer prices associated with the significant recent escalation in Australia's terms of trade;*
- *the implications of capital deepening and changes in the ratio of capital and labour inputs (where profitability rather than profit shares may provide better guidance as to the returns to capital);*
- *the widespread incidence of declining labour shares of the national incomes in developed economies and the implications of capital widening and deepening over the recent decades; and*
- *productivity, factor share and unit labour costs series, both in aggregate or by sector, are measured across the workforce as a whole rather than simply for award-reliant employees.*[31]

4 Relative living standards

34. The ACTU and United Voice both argue that the Panel's requirement to consider relative living standards means it should use its determination to reverse the decline in Australia's minimum wage bite and improve the overall relativities between award wages and other methods of pay setting.[32]

35. This is not a compelling proposition. It certainly does not provide a foundation for the United Voice argument for the establishment of a medium term target for the minimum wage, a notion we reject as inappropriate to the statutory framework in any event.

36. There are good reasons for the decline in the minimum wage relative to average wages.

37. The minimum wage and wages for different award classifications relate to the pay of fixed positions, whereas the average wage is heavily affected by the composition of the workforce.

38. Put another way, the Panel should not give award reliant workers a larger pay rise because the number of doctors and lawyers in the workforce has increased – especially as some of those doctors and lawyers may be on awards themselves.

[31] [2013] FWCFB 4000 at para 163.
[32] United Voice 2015-16 Annual Wage Review Initial Submission; ACTU 2015-16 Annual Wage Review Initial Submission, para 212 to 306.

39. In fact, compositional effects combined with the generous pay increases provided by the Panel in recent years mean that:

- the average income of those on awards has increased relative to the average for those on all methods of pay setting over the last 10 years, and
- the average wage of those on awards has increased more quickly than the average wage of all methods of pay setting over the past six years.[33]

40. The wage price index (WPI) attempts to track the change in wages for those on fixed positions by controlling for compositional effects. This can only be done approximately so WPI is still likely to be biased upward due to compositional changes. Notwithstanding that qualification, Table 1 shows that growth in the C14 rate has actually exceeded growth in private sector wages since they were first measured in 1997. Wage growth over the last ten years is slightly slower, while growth over the last five years is slightly faster.

Table 1 Average Annual Change in C14 rate compared to WPI (private)

	One year	Five years	Ten years	Since 1997
C14 (%)	2.5	2.9	3.1	3.4
WPI Private (%)	2.0	2.8	3.3	3.3

Notes: The change in WPI Private is calculated in years to December 2015 based on seasonally adjusted figures. The change in the C14 rate is calculated in July 2015 from July 2014, July 2010, June 205 and April 1997 respectively. Source: ABS Cat 6345.0 - Wage Price Index, Australia, Dec 2015; Bray 2013; Australian Chamber calculations.

41. Growth in private sector wages is the appropriate comparator because it is determined by the ability of businesses to pay rather than the ability of government to tax.

42. The ACTU argues that the minimum wage bite has declined within award-reliant industries, but the picture is different when wages are considered.

43. In most award-reliant industries, the national minimum wage has grown more slowly than private sector wages, over a one-year and a five-year interval (see Table 2). This means that workers on awards who remained in the same position have received a larger pay increase than their non-award-reliant colleagues.

[33] ABS Cat, 6306.0 - Employee Earnings and Hours, Australia, May 2014, May 2008 and May 2004. Australian Chamber calculations based on total and hourly earnings for non-managerial employees.

Table 2 Private sector wage growth by industry relative to growth in the C14 rate

	1 year growth	1 year gap	5 year growth	5 year gap
Administrative and support services	2.0	-0.5	2.4	-0.5
Retail trade	2.2	-0.3	2.6	-0.3
Accommodation and food services	2.6	0.1	2.6	-0.3
Professional, scientific and technical services	1.9	-0.6	2.7	-0.2
Rental, hiring and real estate services	2.5	0.0	2.7	-0.2
Public administration and safety	2.5	0.0	2.8	-0.1
Information media and telecommunications	2.5	0.0	2.8	-0.1
Transport, postal and warehousing	2.4	-0.1	2.9	0.0
Other services	2.2	-0.3	2.9	0.0
Construction	2.5	0.0	2.9	0.0
Health care and social assistance	2.7	0.2	2.9	0.0
Manufacturing	2.8	0.3	3.0	0.1
Wholesale trade	2.5	0.0	3.0	0.1
Education and training	3.3	0.8	3.1	0.2
Financial and insurance services	2.8	0.3	3.1	0.2
Arts and recreation services	3.9	1.4	3.1	0.2
Mining	2.4	-0.1	3.1	0.2
Electricity, gas, water and waste services	3.3	0.8	3.5	0.6

Notes: The change in WPI Private is calculated in years to December 2015 based on seasonally adjusted figures. The change in the C14 rate is calculated in July 2015 from July 2014 and July 2010. Source: ABS Cat 6345.0 - Wage Price Index, Australia, Dec 2015; Bray 2013; Australian Chamber calculations.

44. Wage growth is a more relevant benchmark for award-reliant employees than average earnings of full-time employees, but this does not mean that the wages of award-reliant employees should be fixed at the same rate as average wage growth.

45. By definition, average wage growth reflects a spread of outcomes, with some workers experiencing lower wage growth due to decreased demand for their skills while other workers experience stronger growth because of increased demand or higher productivity.

46. It is not clear that workers on awards should receive greater wage growth than half the non-award workforce. Being paid above award is typically a reward for greater skill, or in exchange for trading-off some award conditions.

47. Put another way those who earn above awards do so because they are being rewarded for being more productive or for trading-off conditions in exchange for higher pay. However, every time someone moves onto a higher pay level, the average wage increases and the relative value of award wages falls. This means that, across the economy, the only way to maintain the relative

wages of those on awards is to give them the same pay increase as the average worker, regardless of whether they have earned it.

48. Bray examines changes in Australia's minimum wage from the Harvester decision in 1907 to July 2012.[34] He shows that the minimum wage has consistently fallen relative to male average weekly earnings since the Harvester decision, when the basic wage was set at more than 80 per cent of the average (see figure 1). While the real value of the minimum wage improved significantly, this was outstripped by even stronger growth in average wages. Growth in the minimum wage is stronger when changes in hours and benefits are considered.

Figure 1 Minimum wage relative to average employee earnings, selected years 1914 to 2010[35]

Source: Minimum wage – as per Figure 1, Earnings: 1914 & 1929: Derived from Weekly Wage Rates Adult Males 'All Groups' adjusted by average ratio of this series to Average Weekly Earnings per Male Employee for 1948-53, as per following series: (ABS Cat No 6101.0 1957 p 40); 1950: Average Weekly Earnings per Employed Male Unit using 1950/51 annual figure (ABS 1968 Cat No 6101.0 p 305). 1970, 1990: Average Weekly Earnings Private Sector Full-time Employees, Adult Male, Non Managerial (Foster 1996 Table 4.19); 2010: Employee Earnings and Hours, May 2010 Average Weekly Cash Earnings Male Full-time Non Managerial Adult Employees (ABS 2011 Cat No 6306.0).

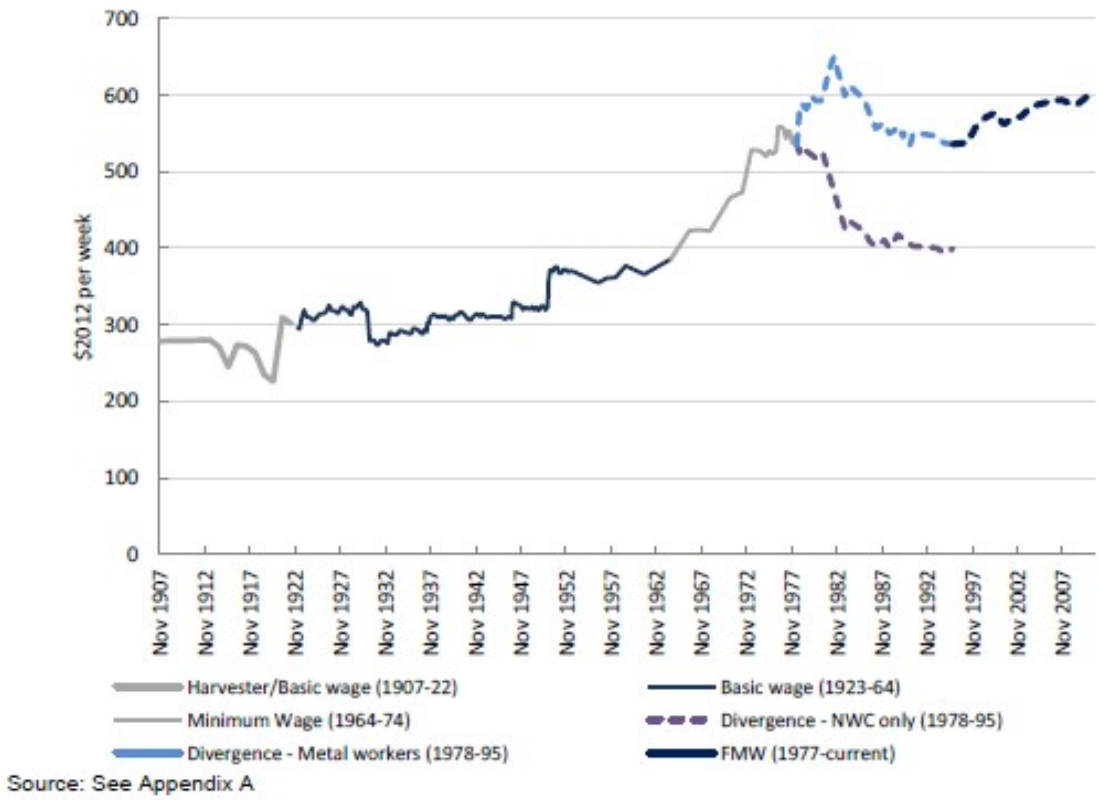
Source: Reproduced from Bray 2013, Figure 3

49. Minimum wages have been falling relative to the average wage for more than 100 years. This is appropriate. Assessing living standards in relative terms does not imply that the minimum acceptable standard must always remain as the same proportion of the average. It makes sense for the minimum standard to be close to the average when the average is only slightly above subsistence levels. However, as the average improves the minimum acceptable relativity should fall.

[34] J.R. Bray (2013) 'Reflections on the evolution of the minimum wage in Australia: Options for the future' .
[35] Reproduced from Bray (2013), Figure 3.

50. The minimum wage has also fallen in real terms during periods when it was unreasonably high. Bray's analysis shows that the real value of the minimum wage remains well below the peak it achieved in 1982 before falling all the through to 1992 (see figure 2). The data presented by United Voice includes this period of adjustment. [36] This period also reflects the Price and Income Accords between the ACTU and the federal Labour Government, which traded off wage increases against social benefits like childcare subsidies and family payments.

Figure 2 Estimated value in $2012 of the basic/minimum wage 1907 to 2012[37]



Source: Reproduced from Bray (2013), Figure 1.

51. The Accords were at least partially driven by the recognition that the minimum wage is ineffective as tool for poverty alleviation because most minimum wage workers are not in low income households.

52. Relative living standards are determined at the household level, and relate to overall incomes not wages. Table 3 shows that less than 30 per cent of income from increasing the minimum wage goes to working households in the bottom 20 per cent of the income distribution. Similarly, minimum wage income represents only 12.9 per cent of income for low-income households.[38] As

[36] United Voice 2015-16 Annual Wage Review Initial Submission, figure 2, p. 10.
[37] Reproduced from Bray (2013), Figure 1.
[38] Bray (2013), Table 11.

such, minimum wage growth has little to do with changes in relative incomes at the household level.

Income from minimum wage employment by income quintile, households with earned income, HILDA 2011[39]

	All households with wage and salary income, Equivalised disposable income quintile(a)					No previous year earnings(b)	Total
	1 Bottom	2	3	4	5 Top		
	- % -						
	Distribution of earnings of adult minimum wage employees						
Min wage income as share of household earned income	12.9	5.4	3.6	1.8	0.7	0.7	3.0
Distribution of minimum wage income	29.9	23.1	21.9	15.2	8.4	1.5	100.0
	Distribution of earnings of all minimum wage employees						
Min wage income as share of household earned income	14.3	6.3	4.5	2.2	1.0	4.4	3.6
Distribution of minimum wage income	28.7	22.7	22.2	15.1	10.1	1.2	100.0

(a) Previous financial year household disposable (after tax) income, equivalised using revised OECD scale (1.0 for first adult, 0.5 for subsequent adults and 0.3 for children aged under 15 years).

(b) Income quintiles are only constructed for those households with some income from earnings in the previous year.

Source: Derived from HILDA Wave 11 „In Confidence" data set.

Source: Reproduced from Bray (2013), Table 11.

53. The working households with the lowest income are those who have limited access to work.[40] Low paid work is also a stepping-stone to higher paid work.[41]

54. There is no comprehensive information on the household circumstances of award-reliant employees compared with other employees, but the data that is available suggests that they are relatively similar, as noted in our initial submission.[42] Accordingly, their relative living standards will be heavily affected by household factors other than the salary of the award-reliant worker.

55. The ACTU also argues that Australia's minimum wage is falling behind other countries.[43] However, OECD data shows that Australia continues to have one of the highest minimum wages in the world, currently ranking third on a purchasing power parity basis. Australia also continues to have a very high minimum wage bite. Taking into account the fact that most award-reliant employees are paid above the minimum rate, Australia system of wage regulation is even more generous.

[39] Reproduced from Bray (2013), Table 11.
[40] Australian Government 2015-16 Annual Wage Review Initial Submission, para 58.
[41] Productivity Commission (2015), Workplace Relations Inquiry, Vol. 1, p. 206.
[42] Australian Chamber 2015-16 Annual Wage Review Initial Submission.
[43] Paras 234 to 249.

5 Performance of the Australian economy

56. The ACTU states that the Australian economy grew by 3 per cent over the year to December 2015.[44] However, as noted in the Australian Chamber's initial submission, national income growth is generally more important than output growth when assessing the capacity of employers to fund wage increases.

57. The ACTU states that the gap between labour productivity and wages continued to widen, but real unit labour costs have risen 0.9 per cent.[45]

58. The ACTU states that Australia's labour productivity is among the highest in the world, but this substantially reflects the capital-intensive nature of the Australian economy.

59. The ACTU states that the wages share of income has not risen, but in-fact it has. The ACTU's own chart at figure 22 shows that the labour share of income in the overall economy is at around 54 per cent, which is higher than it was 10 years ago. Additionally, as noted earlier in this submission and in the Australian Chamber's initial submission,[46] relative to compensation of employees, over the last 20 years the factor share has fallen for non-financial companies, remained flat for unincorporated businesses and risen for financial corporations only.

60. Increases in the profit share in award-reliant industries also reflect a change in industry structure rather than improvements in company performance. Table 4 shows that the level of capital has grown much more quickly than the level of labour in the award-reliant industries where data is available.

61. The ACTU highlights growth in business numbers, but neglects the fact that there were still around 20,000 fewer businesses operating in June 2015 than there were in June 2012.[47]

[44] ACTU 2015-16 Annual Wage Review Initial Submission, para108.
[45] National Accounts.
[46] Australian Chamber of Commerce and Industry Initial Submission, para 104.
[47] ABS Cat 81650 Counts of Australian Businesses, including Entries and Exits, Jun 2011 to Jun 2015.

Table 4 Growth in labour vs Capital Services in Award Reliant Industries (Index, 2004-05=100)

	Accommodation and Food Services			Administrative and Support Services			Other Services			Retail Trade		
	Capital	Labour	**Gap**	Capital	Labour	**Gap**	Capital	Labour	**Gap**	Capital	Labour	**Gap**
2004-05	100	100	**0**	100	100	**0**	100	100	**0**	100	100	**0**
2005-06	105	101	**5**	107	99	**8**	110	99	**10**	108	99	**8**
2006-07	110	103	**8**	117	96	**21**	123	99	**23**	114	107	**7**
2007-08	116	106	**9**	127	95	**32**	141	109	**32**	123	103	**20**
2008-09	119	104	**15**	135	94	**41**	154	107	**48**	126	105	**21**
2009-10	120	99	**21**	143	102	**41**	169	103	**66**	130	110	**20**
2010-11	122	101	**20**	151	107	**44**	182	106	**77**	134	107	**26**
2011-12	122	101	**21**	153	109	**44**	199	105	**94**	136	106	**30**
2012-13	123	100	**22**	157	106	**51**	223	103	**120**	139	110	**29**
2013-14	123	100	**23**	159	103	**55**	242	111	**130**	143	101	**42**
2014-15	124	102	**22**	161	106	**55**	256	110	**145**	151	102	**48**

Source: ABS Cat. 5260.0.55.002 - Estimates of Industry Multifactor Productivity, 2014-15

Australian Chamber of Commerce and Industry

6 About the Australian Chamber

The Australian Chamber of Commerce and Industry speaks on behalf of Australian business at home and abroad.

Our membership comprises all state and territory chambers of commerce and dozens of national industry associations. Individual businesses also get involved through our Business Leaders Council.

We represent more than 300,000 businesses of all sizes, across all industries and all parts of the country, making us Australia's most representative business organisation.

The Australian Chamber strives to make Australia a great place to do business in order to improve everyone's standard of living.

We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth and jobs.

We focus on issues that impact on business, including economics, trade, workplace relations, work health and safety, and employment, education and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, other members of parliament, ministerial policy advisors, public servants, regulators and other national agencies. We also represent Australian business in international forums.

We represent the broad interests of the private sector rather than individual clients or a narrow sectional interest.

Australian Chamber of Commerce and Industry

AUSTRALIAN CHAMBER MEMBERS

AUSTRALIAN CHAMBER MEMBERS: **BUSINESS SA** CANBERRA BUSINESS CHAMBER CHAMBER OF COMMERCE NORTHERN TERRITORY CHAMBER OF COMMERCE & INDUSTRY QUEENSLAND CHAMBER OF COMMERCE & INDUSTRY WESTERN AUSTRALIA NEW SOUTH WALES BUSINESS CHAMBER TASMANIAN CHAMBER OF COMMERCE & INDUSTRY VICTORIAN' CHAMBER OF COMMERCE & INDUSTRY **MEMBER NATIONAL INDUSTRY ASSOCIATIONS:** ACCORD – HYGIENE, COSMETIC & SPECIALTY PRODUCTS INDUSTRY **AGED AND COMMUNITY SERVICES AUSTRALIA** AIR CONDITIONING & MECHANICAL CONTRACTORS' ASSOCIATION **ASSOCIATION OF FINANCIAL ADVISERS** ASSOCIATION OF INDEPENDENT SCHOOLS OF NSW **AUSTRALIAN SUBSCRIPTION TELEVISION AND RADIO ASSOCIATION** AUSTRALIAN BEVERAGES COUNCIL LIMITED AUSTRALIAN DENTAL ASSOCIATION AUSTRALIAN DENTAL INDUSTRY ASSOCIATION AUSTRALIAN FEDERATION OF EMPLOYERS & INDUSTRIES AUSTRALIAN FEDERATION OF TRAVEL AGENTS **AUSTRALIAN FOOD & GROCERY COUNCIL** AUSTRALIAN HOTELS ASSOCIATION **AUSTRALIAN INTERNATIONAL AIRLINES OPERATIONS GROUP** AUSTRALIAN MADE CAMPAIGN LIMITED **AUSTRALIAN MINES & METALS ASSOCIATION** AUSTRALIAN PAINT MANUFACTURERS' FEDERATION **AUSTRALIAN RECORDING INDUSTRY ASSOCIATION** AUSTRALIAN RETAILERS' ASSOCIATION AUSTRALIAN SELF MEDICATION INDUSTRY AUSTRALIAN STEEL INSTITUTE **AUSTRALIAN TOURISM AWARDS INC** AUSTRALIAN TOURISM EXPORT COUNCIL **AUSTRALIAN VETERINARY ASSOCIATION** BUS INDUSTRY CONFEDERATION **BUSINESS COUNCIL OF CO-OPERATIVES AND MUTUALS** CARAVAN INDUSTRY ASSOCIATION OF AUSTRALIA **CEMENT CONCRETE AND AGGREGATES AUSTRALIA** COMMERCIAL RADIO AUSTRALIA **CONSULT AUSTRALIA** CUSTOMER OWNED BANKING ASSOCIATION **CRUISE LINES INTERNATIONAL ASSOCIATION** DIRECT SELLING ASSOCIATION OF AUSTRALIA **ECOTOURSIM AUSTRALIA** EXHIBITION AND EVENT ASSOCIATION OF AUSTRALASIA **FITNESS AUSTRALIA** HOUSING INDUSTRY ASSOCIATION **HIRE AND RENTAL INDUSTRY ASSOCIATION LTD** LARGE FORMAT RETAIL ASSOCIATION **LIVE PERFORMANCE AUSTRALIA** MASTER BUILDERS AUSTRALIA **MASTER PLUMBERS' & MECHANICAL SERVICES ASSOCIATION OF AUSTRALIA** MEDICAL TECHNOLOGY ASSOCIATION OF AUSTRALIA **NATIONAL DISABILITY SERVICES NATIONAL** ELECTRICAL & COMMUNICATIONS ASSOCIATION **NATIONAL EMPLOYMENT SERVICES ASSOCIATION** NATIONAL FIRE INDUSTRY ASSOCIATION **NATIONAL RETAIL ASSOCIATION** NATIONAL ROAD AND MOTORISTS' ASSOCIATION **NSW TAXI COUNCIL** NATIONAL ONLINE RETAIL ASSOCIATION **OIL INDUSTRY INDUSTRIAL ASSOCIATION** OUTDOOR MEDIA ASSOCIATION **PHARMACY GUILD OF AUSTRALIA** PHONOGRAPHIC PERFORMANCE COMPANY OF AUSTRALIA **PLASTICS & CHEMICALS INDUSTRIES ASSOCIATION** PRINTING INDUSTRIES ASSOCIATION OF AUSTRALIA **RESTAURANT & CATERING AUSTRALIA** SCREEN PRODUCERS AUSTRALIA **VICTORIAN AUTOMOBILE CHAMBER OF COMMERCE**