Australian Chamber of Commerce and Industry

Annual Wage Review — Reply Submission

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Introduction

1. As highlighted in ACCI's initial submission, in its deliberations for this year's Annual Wage Review the Expert Panel must be wary of the effects of its decision on an increasingly fragile economy, which faces strong headwinds from slowing domestic economic activity, sticky domestic inflationary pressure, very weak productivity growth and continuing labour and skills shortages.

2. It is important that the Panel recognises the cumulative impact of its previous decisions and not just look at the current period in isolation. Annual Wage Review (AWR) decisions over the past two years have delivered exceptional increases in minimum and modern award wages at a time when inflation was extremely high, but total wages growth was more moderate.

3. Following revisions to the wage price index data, the ABS has shown that the AWR decisions over the past two years greatly underestimated the minimum wage's contribution to total wages growth. The ABS has recently doubled its estimates of the effect of the 2021-22 wage decision on wages growth, from 0.29 per cent to 0.58 per cent. The 2022-23 decision with a modern award increase of 5.75 per cent and a minimum wage increase of 8.6 per cent was estimated to contribute to a 0.7 per cent increase in total wages growth in September quarter 2023[1]. These AWR decisions contributed more than half of total wages growth in the September quarters of 2022 and 2023.

4. Further, recent Treasury analysis indicates that wages growth made up almost two thirds of headline inflation in the past year, compared to one third in 2021-22. [2]

5. ACCI agrees that the Panel should set minimum and modern award wages at a level that appropriately rewards workers. However, it should not be used as a tool to drive wages growth across the economy, particularly at the risk of increasing inflationary pressure.

6. It is important the Panel determines an increase to minimum and modern award wages that is fair and reasonable for both employees and employers and is responsible in terms of the potential to contribute to inflation and risks to the overall economy.

7. ACCI reaffirms its initial position to **support an increase in minimum and modern award wages of up to 2 per cent** (plus the legislated 0.5 per cent Superannuation

[1] Australian Financial Review 16 August 2023, *Minimum wage effect on wages growth doubles after ABS revisions.* https://www.afr.com/work-and-careers/workplace/minimum-wage-effect-on-wage-growth-doubles-after-abs-revisions-20230815-p5dwr6

[2] Australian Financial Review , "Wages growth drives inflation , average pay tops $100k", https://www.afr.com/wage-growth-drives-inflation-average-pay-tops-100k-20240225-p5f7ku

Guarantee increase) in 2024. We consider this to be both fair and reasonable in the current economic circumstances.

8. Our position is focused on containing inflation and returning it to middle of Reserve Bank's target range of 2-3% as quickly as possible, as well as providing a reasonable allowance for workers to share the benefits of productivity growth.

9. This submission notes some recent changes in key economic indicators since our initial submission and responds to some of the key issues raised by other stakeholders in their submissions.

New Economic Data

IMF World Economic Outlook

10. The IMF World Economic Outlook, released on 16 April, forecasts global growth to slow from 3.4 per cent in 2020 to 3.2 per cent in 2024, then remain steady at 3.2 per cent in 2025.[3]. The decline in advanced economies is more pronounced, with real GDP growth expected to slow from 2.6 per cent in 2022 to 1.7 per cent in 2024 and 1.8 per cent in 2025[4].

11. With inflation falling faster than expected, the likelihood of a hard landing has receded and risks to global growth are broadly balanced. On the upside, a faster slowdown in inflation, could lead to further easing of financial conditions. However, a looser fiscal policy than assumed in the projections could imply temporarily higher growth, but at the risk of a more costly adjustment later on.

12. IMF notes that:

> *High interest rates aimed at fighting inflation and a withdrawal of fiscal support amid high debt are expected to weigh on growth in 2024. Policymakers' near-term challenge is to successfully manage the final descent of inflation to target, calibrating monetary policy in response to underlying inflation dynamics and—where wage and price pressures are clearly dissipating—adjusting to a less restrictive stance.*[5]

13. This has implications for Australia, with slowing global activity expected to weigh heavily on the domestic economy. The IMF is forecasting a sharp deceleration in Australia, but it expects economic growth to remain positive in 2023 and 2024, with real GDP to fall from 2.1 per cent in 2023 to 1.5 per cent in 2024.[6]

14. The recent increase in inflation in the United States suggests that governments can't be complacent that the inflation risks are behind them. Central banks are likely to be cautious in lowering interest rates given that inflationary pressures remain.

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[3] IMF 2024 World Economic Outlook, April 2024
[4] ibid
[5] IMF world economic outlook- Moderating inflation and steady growth open path to soft landing, January 2024
[6] IMF 2024 World Economic Outlook, April 2024

15. This is a lesson for the Expert Panel to take caution. With wages currently contributing the most to inflationary pressure, another exceptional increase in wages risks inflation again rising, or keeping it higher for longer, thereby delaying the easing in monetary policy (reduction in the cash rate) until 2025 or later.

Inflation

16. While on an annualised basis inflation moved down to 3.6 in the year to March 2024, down from 4.1 per cent in the year to December 2023, on a quarterly basis there was a notable increase in inflation from 0.6 per cent in December 2023 to 1 per cent in March 2024. The increase in prices was primarily driven by higher costs for services such as education, insurance premiums and healthcare. While goods inflation decelerated from 3.8 per cent to 3.1 per cent, service inflation continues to track above goods inflation at 4.3 per cent, albeit down from 4.6 per cent to December 2023.[7] Producer inflation is also a concern, having risen consecutively over the past three quarters, reaching 4.3 per cent in the year to March from 4.1 per cent in December[8].

17. The assumption by ACTU that wage increases won't impact inflation because it's currently subsiding overlooks the broader and longer-term effects of wage adjustments on inflation dynamics.

> *While services inflation remains high and is expected to moderate more slowly than goods price inflation as the economy slows down, the increase in wages of the size argued for in this submission should not be expected to change the moderation of inflation back to the RBA's target band, given the range of factors influencing services price inflation, most of which will unwind in due course[9].*

18. This assumption is clearly contradicted by the recent Treasury analysis that is showing wages growth contributed over two thirds of inflation growth over the past year. If wages growth remains above 4 per cent over the next year, it will be extremely difficult, near impossible, to return inflation to the target range of 2 to 3 per cent by the end of 2025, as currently projected by the Reserve Bank and Treasury. Wages are a major part of the cost of doing business, particularly for service sectors where wages can represent two third or more of the operating cost for business. If wages remain high and disconnected to productivity, it will continue to put upward pressure on inflation.

19. Service inflation has been elevated due to high labour and non-labour input costs. The impact of the Annual Wage Review decision is reflected in the rise of quarterly unit labour costs to 2.3 percent in the September quarter of 2023, up from 1.5 percent in June. An increase in minimum and modern award wages greater than 2

[7] ABS , Consumer Price Index , March Quarter 2024
[8] ABS , Producer Price Index , March Quarter 2024
[9] Australian Council of Tade Union, submission, pg 31

percent would add additional pressure to already elevated unit labour costs, leading to more persistent and sticky service inflation.[10]

Figure 1: Unit labour costs (quarterly)

Source: ABS, National Accounts, December 2023

20. As ACCI highlighted in our initial submission, the recent Treasury analysis (obtained by *The Australian Financial Review* under FOI) highlights the emerging wage pressures.

21. The Treasury report predicted:

> *Pay rises would become the main driver of CPI, and increased competition sparked by the slowing economy would force businesses to absorb higher wages into lower profit margins.*

22. The Treasury analysis was for June 2023, yet since then wages have continued to rise, with the wage price index increasing from 3.7 per cent to 4.2 per cent in December 2023, while the impact of supply chain disruptions (affecting imports) has lessened. Therefore, it can be expected that wages pressure on inflation would be greater in the first quarter 2024 than June 2023. It can be projected that wages growth of more than 4 per cent contributed more than two thirds of the 3.6 per cent inflation growth in the March quarter 2024.

23. In its February 2024 Statement of Monetary Policy, the Reserve Bank revised its forecasts, delaying the return of inflation to the top of the target range (i.e. 3 per cent) until 2025 and reaching the midpoint of the target range by 2026[11].

[10] ABS, National Accounts, December 2023
[11] RBA, Statement on Monetary Policy, February 2024

24. Governor of the Reserve Bank Michele Bullock noted through the Senate Economics Legislation Committee:

> *If our forecasts come true, we will have been outside the band for four years. That's quite a long time, and we think that if it stays outside of that much longer then it just increases the risk that inflation expectations will rise.*[12]

25. Following the release of the March quarter CPI data on 24 April 2024, most market economists have revised their inflation forecasts and expectations for an easing in monetary policy. Some, such as Warren Hogan the chief economist at Judo Bank, have raised concerns that the Reserve Bank may be forced to raise the benchmark interest rate up to three times this year to 5.1 per cent due to the resurgent domestic economy and sticky inflation.[13] Others, such as Lucy Ellis chief economist at Westpac, expect the Reserve Bank to push back its decision to lower the cash rate to much later than previously forecast due to the slower progress on disinflation, while Joseph Capurso head of international economics at Commonwealth Bank has ruled out any rate cut this year based on the recent CPI data.[14]

26. Therefore, in deliberations on any increase in the minimum and modern award wages in the 2023-24 AWR, it is important the Panel take into account the revisions to the ABS WPI data which indicate the AWR decisions over the past two years have overcompensated employees, and the contribution this has made to inflationary pressures.

Cost of doing business

27. The data from the soon to be released ACCI small business survey shows that 81.78 per cent of businesses reported increasing costs as the greatest pressure faced by small businesses in the last 12 months. This clearly shows that the Fair Work Commission last year's decision has started weighing heavily on the cost of doing the businesses.

28. The Small Business Retail Index released by Australian Retailers Association (ARA) in November 2023, shows a meagre 34 per cent of businesses reported that they feel confident in the year ahead. The rising cost of doing business is a recurring theme for small business, with key cost pressures coming from increases in labour costs, the cost of goods and services, energy costs and leasing costs[15].

29. According to the ARA Small Business Index, 91 percent of respondents reported cost increases, with a significant 32 percent facing increases exceeding 10 percent—well

[12] ParlInfo - Standing Committee on Economics : 09/02/2024 : Review of the Reserve Bank of Australia Annual Report 2023 (aph.gov.au)
[13] https://www.afr.com/policy/economy/rba-to-lift-cash-rate-to-5-1pc-says-top-forecaster-20240425-p5fmhg
[14] https://www.theaustralian.com.au/business/economics/inflation-in-australia-slows-to-35pc-in-march-quarter-to-2021-low/news-story/d4d0977c44217e0acc5e3c09a7b827e8
[15] Australian Retailers Association, submission Annual Wage Review , 2023-24

above the inflation rate. As a result, small businesses are absorbing these cost hikes by reducing their profit margins.[16]

30. The Q3 NSW Business Conditions Survey identifies that around 58 per cent of businesses are facing reduced customer demand for their products and services. This is exacerbating the high cost of doing business pressures they currently face. Businesses' margins are being squeezed and they have little capacity to absorb another sizable increase in labour costs through an increase in minimum and modern award wages. Further, businesses have reported the wage expectations to be the biggest barrier in attracting and retaining skilled workers.[17]

Business investment

31. In calling for a substantial rise in minimum and award wages of 5 per cent, ACTU claims that businesses can afford these high wage increases due to strong business investment which will improve the productivity.[18]

32. However, the ACTU has been selective in its analysis as they focus on Gross Fixed Capital Formation which is a comprehensive measure of total investment in fixed assets, whether new or old across all the sectors.

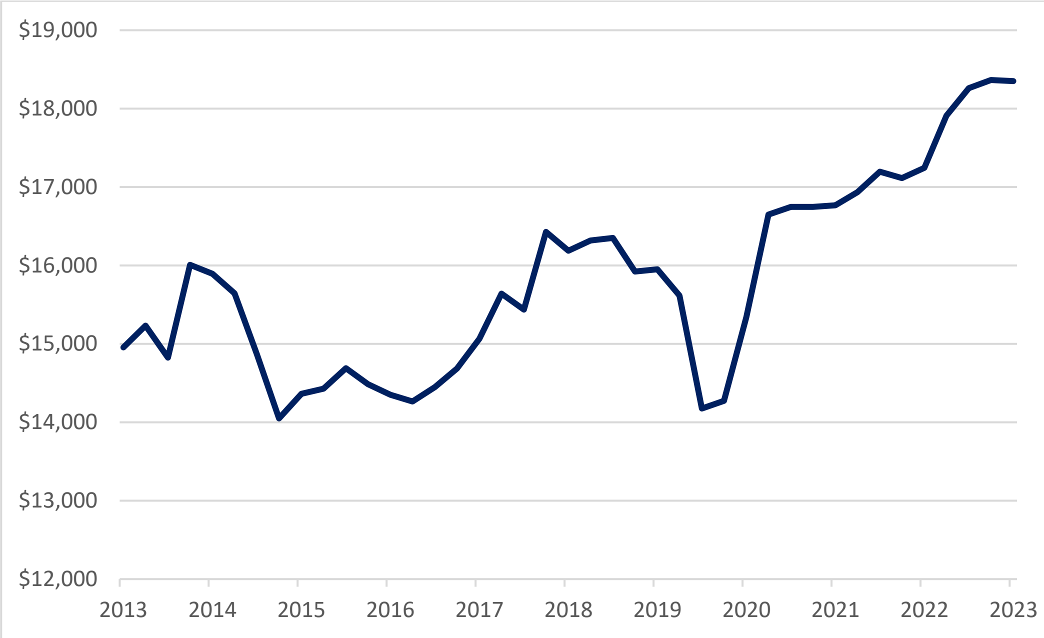
33. Private New Capital Expenditure (PNCE) provides a more appropriate measure of private sector investment. This specifically focuses on investment spending by private sector businesses on new capital assets.

34. Within PNCE, machinery and equipment serve a more precise indicators of business investment that drives productivity in the economy. Investment in machinery and equipment fell by 0.1 per cent in the December quarter of 2023.

35. Overall, investment in plant, machinery and equipment has been flat since the end of the Temporary Full Expensing (TFE) measure in June 2023. With the Government yet to legislate the replacement business investment support measure, the Instant Asset Write-off (IAW), it can be expected that business investment will steadily decline going forward. Even if the IAW is legislated, given it is much less generous then the TFE, being only available to small businesses (turnover less than $5 million) and for assets valued up to $20,000, the level of investment it will stimulate is expected to be relatively small.[19]

[16] ibid
[17] Australian Business Industrial and Business NSW submission, pg 2-3
[18] Australian Council of Tade Union, submission, pg 21, pg 26
[19] ABS, Private New Capital Expenditure and Expected Expenditure, Australia, December 2023

Figure 2: Investment in equipment and machinery



Source: ABS, Private New Capital Expenditure and Expected Expenditure, Australia, December 2023

36. The weak growth in the business investment was noted by Reserve Bank in hearings before the House of Representatives Standing Committee on Economics on 9 February 2024, with Governor Michele Bullock stating:

> *It is of concern if there isn't investment going on in the economy and capital deepening. Marion referred earlier to the fact that there has been capital shallowing in some sense and that's not good for productivity. It is very difficult, though, looking back over the past few years because of the pandemic*[20]*.*

37. Dr Marion Kohler, head of the Economic Analysis department at RBA noted:

> *.... the capital stock hasn't grown as it used to do, but it was particularly bad over the pandemic period where we've seen shallowing that is actually the labour growing faster than capital stock, so capital stock has a bit of catching up to do*[21]*.*

[20] ParlInfo - Standing Committee on Economics : 09/02/2024 : Review of the Reserve Bank of Australia Annual Report 2023 (aph.gov.au)
[21] ParlInfo - Standing Committee on Economics : 09/02/2024 : Review of the Reserve Bank of Australia Annual Report 2023 (aph.gov.au)

Productivity

38. Australian Council of Trade Union (ACTU) assert that hours worked is moving in line with the real output over the past two quarters [22].

39. Similarly, Australian Catholic Council for Employment Relations (ACCER) claims that there is no evidence that wage changes have an adverse effect on hours worked or the job destruction rate[23].

40. However, this is only a very narrow and selective view of hours worked and productivity. In the year to December quarter of 2023 the number of employed persons increased by 2.8 per cent and the number of hours worked by 1.2 per cent across all industries [24].In contrast, GDP per hour worked was shown to contract through the year to December 2023, down (negative) 0.4 per cent.

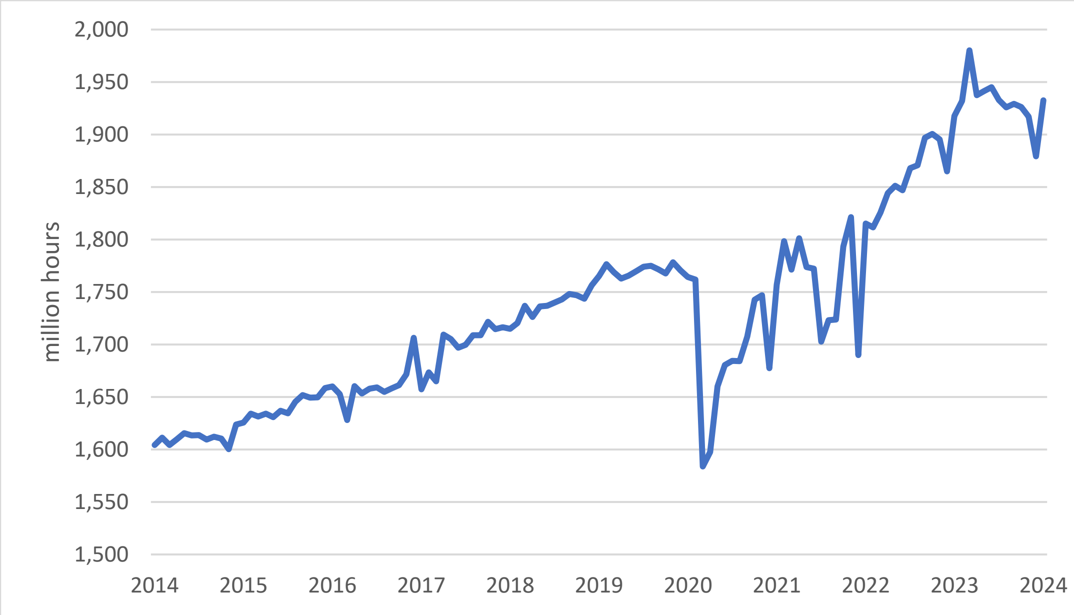
41. Interpreting labour market data in the first quarter of 2024 has been challenging due to seasonal volatility. ABS notes that there was a larger than usual number of people waiting to start or return to work in January to previous years, producing a lag which delayed some flow into employment from December/January into February. As such, we saw in February, the number of hours worked increase to 1,933 million from 1,871 million in January. Overall, the number of hours worked is 9.5 per cent higher than the 2020 level.

42. The exaggerated seasonal volatility in January/February 2024 suggests a degree of caution should be exercised in interpreting this monthly employment data. Future monthly and quarterly data, when available, is likely to provide a more reliable measure of whether the labour market easing seen in 2023 continues into 2024.

43. Hours worked continued to rise in March 2024, adding a further 17 million hours. This was despite a small decrease in employment (down 6,600), due to a shift from part-time work (down 34,500) to full time work (up 27,900).

[22] Australian Council of Tade Union, submission, pg 101
[23] Australian Catholic Council for Employment Relations, submission, pg17
[24] AI group submission, pg 20

Figure 3: Hours Worked



Source: Labour Force data, February 2024

44. The Productivity Commission, in its 5-year Productive Inquiry report, highlighted that the economy-wide shortage of labour is providing opportunities for new entrants to the labour market.[25] These new entrants are typically younger and have on average fewer skills than people with strong footholds in the labour market. The Productivity Commission notes empirical evidence suggests that there is a trade-off between productivity growth and labour participation.

45. While the labour market has been strong in recent years, this in part is a result of employers hoarding labour in expectation that the market will recover soon and the need to rapidly increase their labour force. If this does not materialise, which is increasingly likely, then we can expect employers to begin shedding staff. If this were to coincide with a further substantial increase in wages, the amount of labour that is likely to be shed will be substantially larger than that without a substantial wage increase.

46. The Australian Council of Trade Union (ACTU), Australian Catholic Council for Employment Relations (ACCER), and Australian Council of Social Service (ACOSS) argue in their submissions that labour productivity is showing signs of improving, warranting a significant wage increase.[26]

47. However, this fails to recognise that although the annual rate of productivity decline bottomed out in March 2023, the annual rate of productivity growth is still contacting at negative 0.5 per cent. Productivity growth remains well below its long-term average of 1.5 per cent over the 30 years from 1990 to 2020.

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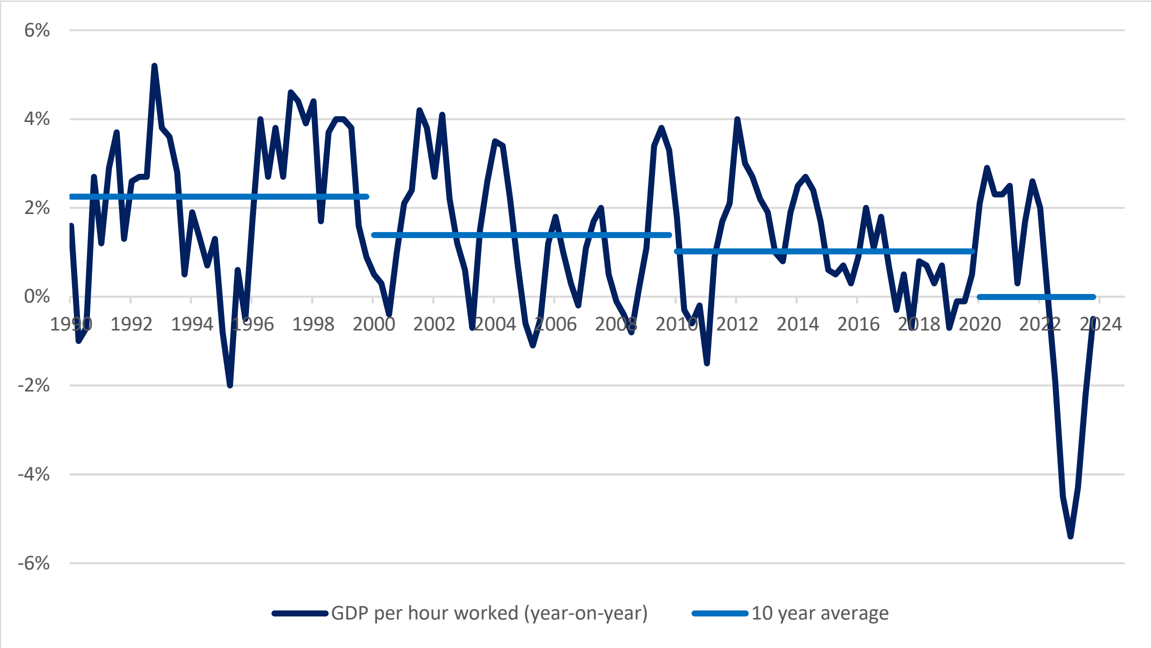
[25] Volume 7 – 5-year Productivity Inquiry: A more productive labour market inquiry report

[26] Australian Council of Tade Union, submission, pg 104, Australian Catholic Council for Employment Relations submission, pg 18, Australian Council of Social Services submission, pg 10

Figure 4: Productivity Growth and 10-year averages



Source: Australian Bureau of Statistics 2024 National Accounts: National Income, Expenditure and Product. December 2023

48. Dr Marion Kohler, Head of Economic Analysis Department at the RBA highlighted that productivity is a structural factor that needs to be assessed over longer period, as it is hard to measure over short period, noting:

> *... we've been through a period where the increase in hours worked outpaced the growth in the capital stock. That's known as 'capital shallowing'. So, you've had a lot more workers come online, and the capital stock hasn't caught up with that yet*[27]*.*

49. The Productivity Commission, Annual Productivity Bulletin for 2024 shows that over the 2022-23 financial year, labour productivity contracted across for the whole economy by (-3.7%) well below the long-term average growth rate of 1.5 per cent. This fall in productivity is largely attributed to output growth failing to keep in pace with the 6.9 per cent record increase in the hours worked. This has led to capital shallowing (down by 4.9 per cent), as workers have access to less capital, which is weighing on labour productivity.[28]

50. RBA Governor Michele Bullock highlighted the possible challenges that will follow if productivity doesn't pick up.

> *If productivity doesn't rise, what's going to happen is that the rate of increase in wages is going to have to slow as well. One of the ways and one of the things about productivity is that, if there's more productivity, you can pay your workers more because they're worth more; they're producing more. So, if productivity isn't rising*

[27] ParlInfo - Standing Committee on Economics : 09/02/2024 : Review of the Reserve Bank of Australia Annual Report 2023 (aph.gov.au)
[28] Productivity Commission, Annual Productivity Bulletin 2024

> *or if it's falling, that doesn't bode well for rises in wages. In terms of monetary policy, it just means that we have to make sure that we bring demand back down so that businesses, when they're facing these cost increases, are thinking twice about whether or not they can necessarily pass these cost increases on*[29].

51. RBA Governor Michele Bullock emphasized that given the Reserve Bank of Australia's goal to return inflation to the target range by 2026, it's reasonable to suggest that the lack of productivity growth, leading to downward pressure on wages, could potentially delay this goal. She further noted:

> *… if you want inflation at around about 2.5 per cent and you get productivity of about one per cent, then wages can rise by about 3½ per cent. But, if you don't get the productivity growth, then they're not necessarily consistent. So, yes, it could push it out, but—and this is where we go to the uncertainty of our forecast.*[30]

52. To summarise, it is imperative that wages growth remains closely linked to productivity growth to avoid inflationary pressures. Recognising that productivity is contracting, the Panel must refrain from implementing an oversized increase in minimum and modern award wages. Failure to align wages growth with genuine productivity growth (i.e. decoupling wages from productivity), risks further exacerbating economic challenges. Ultimately, increases in minimum wages and award wages are not sustainable without long-term gains in the productivity growth.

Profits

53. In calling for a substantial rise in minimum and award minimum wages of 5% or above, the Australian Council of Trade Unions (ACTU) and the Australian Catholic Council for Employment Relations (ACCER) claim that businesses can afford these high wage increases due to extraordinary profit growth[31].

54. ACCER has been selective in its analysis observing only the quarterly profit growth between 2021 and 2023, while observing the real unit labour costs for almost a decade.[32]

55. As ACCI highlighted in our initial submission, profit growth has been very weak over the past two years and remains below pre-COVID levels in many sectors, particularly in service industries that have a high share of award-reliant employees.

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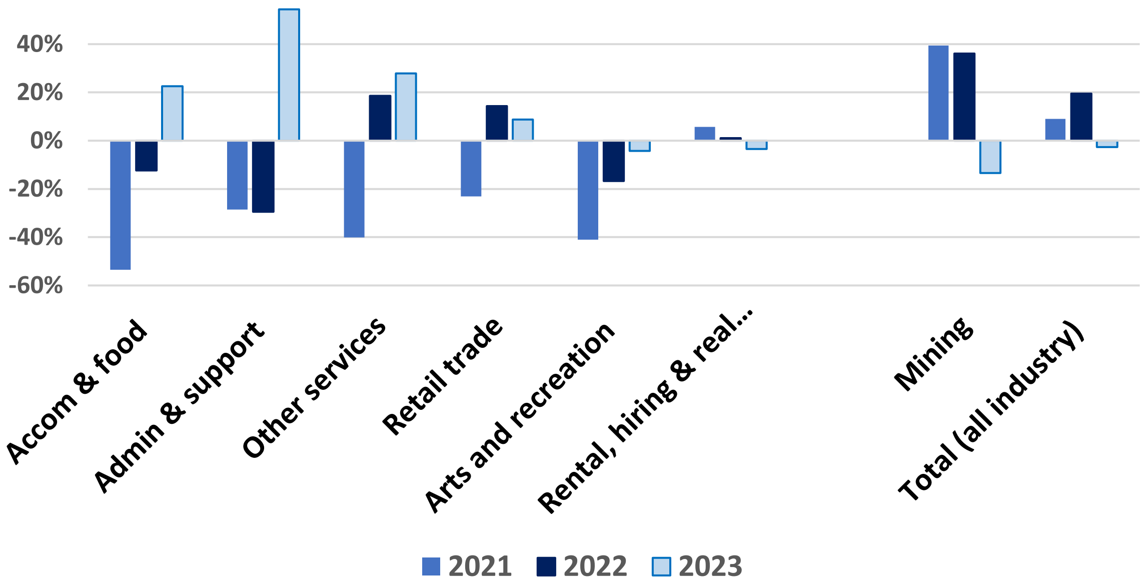
[29] ParlInfo - Standing Committee on Economics : 09/02/2024 : Review of the Reserve Bank of Australia Annual Report 2023 (aph.gov.au)

[30] ibid

[31] Australian Council of Tade Union, submission, pg 26, Australian Catholic Council for employment relation, submission, pg9

[32] Australian Catholic Council for employment relation, submission, pg 9, pg 23

Figure 5: Gross operating Profit of sectors with the highest share of award-reliant employees



Source: ABS , Business Indicators , December 2023

56. Profits in the retail sector have shown notable improvement over the past two years, however they remain over 13 per cent below their December 2020 level[33].

57. The arts and recreation sector has seen profits fall consistently over the past three years. In the year to December 2023 gross operating profit was 17 per cent below its December 2021 level, and less than half the December 2020 level.[34]

58. Similarly in the accommodation and food services sector, although experiencing modest increase in profit in 2023, it has previously endured consecutive years of negative profits, with gross operating profit in the year to December 2023 at 48 per cent below its level in December 2020 level[35].

Disemployment Effects

59. ACTU argues in their submission that there has been no disemployment effects due to increase in minimum wages on employment or unemployment.[36]

[33] ABS 2023, Business Indicators, Australia, December 2023
[34] ABS 2023, Business Indicators, Australia, December 2023
[35] ibid
[36] Australian Council of Trade Union, Submission p. 227.

60. To support this claim, the ACTU reference research from the IZA Institute of Labour Economics Research[37] observing the impact of minimum wage increase on the childcare sector in California. While this research does show that childcare providers do not reduce teacher numbers in response to an increase in the minimum wage, instead they respond by making cost saving adjustments in other area that are likely to have implications for quality of service. The research shows that in response to an increase in the minimum wage childcare providers increased prices, served fewer subsidized children and/or increased child-to-teacher ratios.

61. As this research shows, businesses will reduce their workforce, letting go workers only as a last resort, after they have exhausted all other means. When businesses respond to an increase in minimum wages by increasing their prices, they are not doing it to lift their profit margins, instead they are passing on the cost increase to protect the jobs of their employees.

62. As noted earlier, high inflation over the past year has squeezed the profit margins of Australian businesses, as businesses have been reluctant or unable to pass on the full amount of the increase in their input and labour costs. However, as their profit margins narrow, many businesses are being forced to raise their prices.

63. In Australia, recent experience has shown that at times of high input costs and rising wages, businesses try to hold onto their employees, particularly when the labour market is tight, as it is very difficult to replace experienced staff when conditions improve. They are more likely to cut costs in other areas to remain viable when conditions are tough. Therefore, in the current environment, businesses are more likely to be raising prices to retain employees than to increase their profit margins.

64. Reserve Bank Governor, Michele Bullock noted the impact of supply side pressures on inflation for businesses.

> *Tighter interest rates in a sense have an indirect impact on some of these things, because slowing demand puts pressure on businesses to not be able to increase their prices as much as they otherwise would. It's bound up in a broader context, rather than just looking at an individual business and saying: 'Their costs have gone up. They put their prices up.' They can only do that if demand is such that they can sustain that, and they can't necessarily do that all the time. We've observed cyclically, historically, that in periods where demand is slowing, and it is very soggy that it is very difficult for businesses to put up their prices.*[38]

[37] Brochu P, Green D A, Lemieux T and Townsend J (2023), "The Minimum Wage, Turnover, and the Shape of the Wage Distribution," IZA Discussion Paper No. 16514, October.

[38] ParlInfo - Standing Committee on Economics : 09/02/2024 : Review of the Reserve Bank of Australia Annual Report 2023 (aph.gov.au)

The living wage and poverty

65. ACCER claims that the poverty gap for minimum wage employees continues to widen.[39]

66. ACTU exaggerates the potential for all minimum wages and most employees on modern award to be low paid and living in poverty.[40]

67. However, the FWC decision to provide a 5.75 per cent increase for all modern awards has led to minimum wage "bite" increase from a low of 51.7 per cent in 2021 to 55.2 per cent in 2023.[41]

68. As repeatedly shown over the past decade, Australia maintains a place in the top four real minimum wages of all OECD countries (in US$PPP terms).[42] This should also consider the very small share of employees (0.8%) receiving the minimum wage relative to other countries.

69. It's important to note that Australia has over 12.5 million employees, with the wage increase awarded by the Panel affecting 23.2 per cent of the workforce, equivalent to over 2.9 million employees on awards and a further 0.8 per cent (around 96,400 individuals) on the minimum wage. This represents a 47 per cent decrease compared to the number of employees paid the national minimum wage rate since May 2022.[43]

70. Due to substantial increases in minimum wages in recent years, there has been a decline in the number of enterprise agreements being negotiated, currently at 34 per cent compared to 35.1 per cent in 2021. Employers previously bargained these agreements above the award rate, however, with high award rates, they have lost bargaining power. The sharp growth in minimum and modern award wages relative to average wages has narrowed the wage scale, making it difficult for employers to reward higher skilled, more productive employees with better wages. Many employees previously covered under enterprise bargaining agreements now receive the modern award minimum wage as employers have no room to negotiate higher wages for higher performance.

71. ACCI does not disagree that those in full-time employment should reasonably expect a standard of living that exceeds poverty levels. However, by any reasonable assessment, the minimum wage in Australia already affords those in full-time employment a decent standard of living in excess of poverty.

[39] Australian Catholic Council for employment relation, submission . p. 5
[40] Australian Council of Trade Union Submission p. 141.
[41] Australian Government submission, pg 26
[42] OECD stats, https://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE
[43] Australian Government submission, pg 23

72. If 60 per cent of median income is to be used in determining the adequacy of the minimum wage, then it should be compared only with disposable income single adults. This is the largest share of minimum wage earners and those least likely to receive support through the welfare system. This view is shared by the ACOSS submission (p19) which recommends:

> *the minimum wage should be designed to at least provide a decent living standard, well above poverty levels, for a single adult;* and that *the tax-transfer system should meet the basic costs of raising children in a low-income family*.

73. However, based on the Table 8.6 of the Statistical Report, only single parents working part-time and single earner couples not receiving the jobseeker payment are shown to be below the notional 60 per cent of median income threshold. For all other household types, household disposable income for workers earning the minimum wage is sufficient to maintain an acceptable standard of living.

74. Also, it is important to note that despite sharply increasing inflation in 2023 and rising interest rates for mortgage holders, household disposable income for all household types listed in Table 8.6 were considerably higher than the previous year (10 index points or more).

75. As we have argued for some years, it cannot be assumed that lower paid employees necessarily reside in lower income households.

76. ACCI has highlighted in our initial submission that: -

    a. Minimum wage earners are found throughout the distribution of household income and over half were not the primary earner in the household, with a large share of minimum wages workers dependent students (17 per cent), non-dependent children living with their parents (17 per cent) or were secondary earners in couple households (21 per cent).[44]

    b. A large proportion of minimum wage earners work part-time (77.2 per cent) or casually (79.6 per cent).[45]

    c. While there is a higher proportion of minimum wage earners among low-income households (44 per cent in the bottom 3 deciles), when compared with the wider population, lower income groups are dominated by the unemployed and those outside the labour force.[46] This limits the effectiveness of wage setting in the context of the needs of the low paid, and renders the increases in the minimum wage through the AWR a very poor mechanism to attempt to address the needs of the lower paid.

[44] Yuen K., Ellis G. and Nelms L. 2018, *Characteristics of workers earning the national minimum wage rate and of the low paid*, Fair Work Commission, Research Report 3/20, 18 Feb 2018, pp. 4-5
[45] Yuen K., Ellis G. and Nelms L. 2018, *Characteristics of workers earning the national minimum wage rate and of the low paid*, Fair Work Commission, Research Report 3/20, 18 Feb 2018, p. 8.
[46] Yuen K., Ellis G. and Nelms L. 2018, *Characteristics of workers earning the national minimum wage rate and of the low paid*, Fair Work Commission, Research Report 3/20, 18 Feb 2018, p.6

77. We acknowledge the pressures that are currently bearing on low paid workers in lower income households. As part of the Government's cost-of-living relief from 20 September 2023 eligibility for the Parenting Payment (Single) has been expanded to support single parents and principal carers with a youngest child under 14 years of age.[47] This will raise the ratio of household disposable income of single parents shown in Table 8.6 in the statistical report of the Fair Work Commission. It is noted that data in Table 8.6 is for September 2023, does not take into account the increase in the single parent payment.

78. Also, ACCI has highlighted in its initial submission the greatest gains from revised stage 3 tax cuts are expected to accrue to lower and middle and upper middle-income households, with minimum wage employees to gain by $826 per year and middle-income earners (receiving $60,000 per annum) to benefit by $1,180 per year[48]. Further, the Ai Group finds that for an award employee, on average the implementation of stage 3 tax cuts will result in an annual tax saving equivalent to a 2.6 per cent increase in pre-tax earnings.[49]

The minimum wage as a stepping-stone to higher paid work

79. The ACCI submission reiterated the important role of the minimum wage as a stepping-stone to higher paid employment, enabling young and inexperienced workers to access the workforce and gain the experience necessary to build a career, observing the research of Wilkins and Zilio.

80. This research identified that 39.1 per cent of workers joining the workforce on the minimum wage move to higher paid employment within one year, 56.8 per cent move after 2 years and 80 per cent moved by 5 years.[50]

81. Therefore, in setting the minimum wage, the Panel must be cognisant of the important role of lower paid employment as an entry point for workers to transition to higher paid employment, and its critical role for longer-term living standards and individual life course trajectories. Therefore, the uprating of minimum wages in these reviews should not have effect of making these transitions more difficult or discouraging employers from taking on new workers or offering higher paying work.

82. On this basis, we question the decision of the Expert Panel to rebase the minimum wage from its previous alignment to the C14 (transitional rate for entry level employees) rate to the C13 rate. As most employees rely on the minimum wage as an entry point to the workforce and stepping stone to higher paid employment, the minimum wage is better aligned to the C14 rate.

[47] Australian Government 2024, Annual Wage Review 2023-24 - Initial Submission, p.33
[48]The Tax Institute 2024, *Taxable income before and after the Stage 3 tax cuts:* https://www.taxinstitute.com.au/stage-3-tax-cuts
[49] Australian Industry Group submission, pg 41
[50] Wilkins R. and Zillio F. (2020), Prevalence and Persistence of Low-Paid Award-Reliant Employment Fair Work Commission Research Report 1/2020, February. p.35

83. By rebasing the minimum wage to the C13 rate, it is likely that employees will remain on the minimum wage for longer, with a much lower proportion of employees than 39 per cent moving on to higher paid work within one year.

Secure Work

84. Under section 134 of the Fair Work Act 2009, the Panel is required to take into account considerations under the modern awards objective. Relevantly, paragraph (aa) of the modern awards objective provides that the Commission must ensure that "modern awards, together with the National Employment Standards (**NES**), provide a fair and relevant minimum safety net of terms and conditions, taking into account":[51]

> the need to improve access to secure work across the economy ...

85. ACCI reiterates its position at [171] of its initial submission, namely that the need to improve access to secure work in the context of the AWR should be considered by reference to:

    (1) whether the employee has a choice to enter into work which promotes regularity and predictability; and

    (2) the effect of general economic circumstances upon the capacity of employers to employ, or continue to employ, workers, especially on a full time or part time basis.

86. This argument finds suitable predicate on the previous AWR decision wherein the Panel stated that "[t]he Review outcome will only affect the capacity of employees to have access to secure work across the economy to the extent that it promotes or diminishes the capacity of employers to offer permanent employment."[52]

87. It follows that the ability for work to be offered is entirely contingent on the vitality of businesses, which itself is directly and unequivocally impacted by wage increases, no matter their source.

88. Significant increases to the NMW or modern award minimum wages therefore have the ability to affect the economic circumstances of employers to the degree that they cease to be able to offer work of a kind that an employee chooses.

89. ACCI seeks to address the claims of the Australian Council of Trade Unions (**ACTU**) in their submissions as it relates to the need to improve access to secure work across the economy. With respect, it is ACCI's view that the ACTU do not articulate how their proposed 5 per cent increase to the NMW, or modern award minimum wages will lead to an improvement in access to secure work, but ACCI will nonetheless address some of the arguments advanced.

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[51] Fair Work Act 2009, section 134(1)(aa).
[52] [2023] FWCFB 3500 at [142].

90. The ACTU at paragraph [460] cites the significant number of casuals who make up the majority of National Minimum Wage (**NMW**) employees and the 48.3 per cent of award-reliant employees who are casual. It is clear from these figures that substantial increases would in fact have disproportionate disemployment impacts on casuals.

91. It is well canvassed in submissions to the Review at hand, and in previous Reviews, that significant increases in labour costs, such as those incurred via significantly bolstering the NMW or modern award minimum wages, create disemployment outcomes.

92. As ACCI submitted at paragraph [174] of its initial submission, the Panel should avoid an increase to the NMW and modern award minimum wages which may deprive employees of a choice to enter into non-permanent forms of work (casual employment) or to continue their employment or to enter the workforce at all.

93. Given the consecutive, substantial increases to the NMW and the modern award minimum wages that previous Reviews have ordered, there is potential that ordering a further significant boost to the wage rates in question may heighten the potential for disemployment outcomes on this occasion due to a natural compounding effect.

94. Further substantive increases to the NMW and modern award wages may impede the ability of enterprise to continue to offer work of the same kind in the future. On the latest figures, the price of labour has risen 4.2% over the year.[53] As the ACTU point out, the majority of NMW workers are casuals. An additional large increase may therefore lead businesses to automate tasks, reduce casual positions or find other efficiencies to operate with fewer staff.

95. Substantially increasing the wage burden associated with particular employees may also result in their being offered less work. This would cause the underemployment rate to increase among certain employees, which is an adverse outcome that should be avoided.

96. Hence, given the stated intention of the ACTU's desired increase to the NMW is to allow workers to better address cost-of-living issues, it is extremely difficult to understand what benefit such an increase to wages can allow for when it would simply serve to reduce the overall hours which a business is capable of offering them. In this sense, ACCI submits that the ACTU has put forward a specious argument, substantive increases to the NMW or modern award wages and therefore an individual worker's pay could be completely offset by the loss of hours employees on these rates may suffer.

97. The ACTU goes on to argue at [467] of its initial submission that women are far more likely to remain in casual employment or exit the labour force compared to men. Although the ACTU, again, do not articulate how this warrants their proposed increase to the NMW or modern award minimum wages, ACCI would address this.

[53] Wage Price Index, ABS, December 2023

98. Women are more likely to be in casual employment relationships due to the irrefutable fact that more women choose to take on caring responsibilities. Casual employment provides significant flexibility to those who undertake caring responsibilities. It does so by, for example, providing the ability to turn down shifts at little notice, which may suit those caring for someone with a chronic or ongoing illness.

99. Increasing NMW and modern award minimum wages substantially may result in women being unable to take up the flexible forms of work they desire due to disemployment outcomes, and may therefore also inhibit their ability to undertake caring responsibilities if they can no longer access the form of work that suited their needs.

Social Inclusion Through Workforce Participation

100. The Panel is required to take into account "the need to promote social inclusion through increased workforce participation" in the setting of minimum and modern award wages.[54]

101. As the Commission has held previously, the use of the conjunctive "through" clarifies that social inclusion is a concept to be promoted exclusively "through increased workforce participation".[55]

102. At [453] of their initial submission, the ACTU submit that increases to the NMW and award minimum wages at the rate they request in their submission may provide an incentive for workers to enter the workforce to fill vacancies. This would, in their view, leader to higher social inclusion through workforce participation.

103. These submissions ignore the well canvassed disemployment outcomes which significant labour costs incur. Substantial increases to the NMW and the modern award minimum wage rates, as the ACTU has called for, would result in those vacancies no longer being available due to those disemployment affects. Many employers may not be able to take on that additional worker if it would require higher labour costs due to a decision flowing from this Review. In essence, that would mean that such increases cannot increase social inclusion through workforce participation.

104. ACCI would also point out that social inclusion through workforce participation should not be interpreted to be a binary measurement (employed or unemployed). Certainly, social inclusion can be fluidly increased or decreased in line with fluctuations to rosters or hours worked in a particular week, fortnight, or month. In that sense, when hours worked reduce so too does social inclusion through workforce participation.

105. To that end, substantial increases to the NMW and modern award minimum wages, as the ACTU has called for, may create a reduction in hours for employees, who rely

[54] Fair Work Act 2009, section 134(1)(c).
[55] [2018] FWCFB 5753 at [72].

on their employers having the capacity to offer them additional work outside of their rostered hours, or for casuals – any work at all.

106. Substantially increasing the wage burden associated with particular employees may result in their being offered less work by creating a cost disincentive to providing them that additional work. This would cause the underemployment rate to increase among certain employees, which is an adverse outcome that should be avoided as it would only serve to decrease social inclusion through workforce participation.

Gender Equality

107. The ACTU, in their initial submission to the Annual Wage Review (AWR) 2023-24, made some commentary around the C10 Metals Framework Alignment Approach and the notion that undergraduate qualifications are not considered in the setting of modern award minimum wages. This itself extends to some brief observations which the Panel made in their decision with respect to the AWR 2022-23, namely regarding the potential gender-based undervaluation arising from the fixation of rates of pay in modern awards relative to the classifications in the former Metal Industry Award and the failure to properly recognise undergraduate qualifications in modern award rates of pay.[56] ACCI will ventilate its views on these matters in the following sections.

108. However, ACCI would seek to make some broader remarks at the outset. The ACTU, from paragraph [410] to [413], submits that the most recent decline in the gender pay gap as reported in November 2023 reflect the substantial increases in last year's AWR and the July 2023 decision to increase the wages of aged care workers by 15%. The gender pay gap, however, has repeatedly been measured to be in steady decline since May 2014, only having risen on one measurement from May 2020 to November 2020 likely due to the pandemic.[57]

109. Given the steady nature of the decline, it is less likely to be a reflection of the substantial NMW and modern award minimum wage increases that have occurred in recent AWRs and more likely to be as a result of the significant policy levers which Federal, State and Territory government have pulled to reduce the gender pay gap over many years.

110. This is due to, as ACCI submitted in its initial submission, the notion that uniform increases to the NMW and modern award minimum wages cannot narrow the gender pay gap.[58] Naturally, uniform increases maintain any existing gap across awards.

111. Not only can uniform increases to the NMW or modern award minimum wages not narrow the gender pay gap, large increases to labour costs, such as wages, may in

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[56] [2023] FWCFB 3500 at pages 52-53.
[57] Gender Indicators, ABS, Gender pay gap indicator notes, accessible at: https://www.abs.gov.au/statistics/people/people-and-communities/gender-indicators#gender-pay-gap-measures
[58] ACCI Initial Submission to the Annual Wage Review 2023-24 at [190].

fact have disemployment effects and therefore could also potentially undermine the consideration of facilitating "women's full economic participation" as outlined in section 134(1)(ab) of the Fair Work Act.

112. Naturally then, considering the fact that women are disproportionately award-reliant, as the research clearly demonstrates, significant increases to the minimum wage and modern award wage rates, as the ACTU have called for, will have disproportionate disemployment impacts on women and should be avoided.

113. The consideration therefore weighs in favour of a cautious approach to increasing the minimum wage due to the Commission's previous observation that minimum wage increase may only be found to have a "relatively small, but nonetheless beneficial, effect on the gender pay gap".[59]

C10 Metals Framework Alignment Approach

114. In its submission, the ACTU resubmitted the view of the FWC in [2022] FWCFB 200.[60] Namely, that the existing alignment of pay under the C10 approach, either subsisted the undervaluation of feminised work, or failed to properly recognise the skills required in many feminised industries.

115. The ACTU goes on to state at paragraph [386] of its submission that:

> *"A convenient approach therefore would be to use the current Review process to identify, where possible, a non-masculinised benchmark to which some or all other awards affected by gender-based undervaluation may be aligned."*

116. ACCI would here submit that the C10 Metals Framework Alignment Approach has been an essential, stable foundation in the Australian workplace relations system. However, to the extent that the Expert Panel in its Stage 3 Decision have decided that the C10 Metals Framework Alignment Approach is not fit for purpose and resulted in previous gender biases migrating to the modern award system,[61] then the Commission is at liberty to reexamine its function.

117. It is important to note that, as the ACTU states at paragraph [384] of their submission, it cannot be demonstrated with certainty that the C10 Metals Framework Alignment Approach has embedded gender-based undervaluation of work in the award system. This is due to the lack of available data and resources. ACCI concurs with this notion.

118. Although ACCI is not opposed to a reconsideration of the general application of the C10 approach given the Commission's general proposition that feminised industries have been historically undervalued, it is appropriate that caution is observed and that the Panel accounts for the potential of a two-tiered system to arise.

[59] [2022] FWCFB 3500 at [87].
[60] ACTU Initial Submission to the Annual Wage Review 2023-24 at [383].
[61] [2024] FWCFB 150 at [95]

119. The above is especially true given that such a proposition cannot be certainly sustained due to the lack of available data and resources, as the ACTU also submit. It is only natural that differences with respect to skills will occur, this to an extent is unavoidable. However, there must be some form of consistent benchmark against which comparisons and, thereby, adjustments can be made.

120. ACCI submits that it would be desirable to conduct a review into the C10 Metals Framework Alignment Approach separate to the AWR. That would allow for a thorough examination of its impacts on feminised industries, whether revision to the approach is necessary and, if so, what changes should be made.

Gender Pay Equity Research

121. ACCI notes the *Stage 1 report: Gender-based Occupational Segregation: A National Data Profile* (Stage 1 Report) conducted by researchers from the University of New South Wales (UNSW) and the *Stage 2 report: Gender pay equity research* (Stage 2 Report) conducted by the FWC.

122. Furthermore, ACCI also notes the Statement by the President of the Fair Work Commission with respect to the Stage 2 Report wherein the President canvassed the view of the Expert Panel in the previous Annual Wage Review, expressing "any issues of unequal remuneration for work of equal or comparable value or gender undervaluation relating to modern award minimum wage rates could no longer be left to be dealt with on an application-by-application basis."

123. ACCI would here submit two matters, one that ACCI reasserts the view on this matter held by the former President of the FWC and, two, that no departure from an application-based approach is necessary.

124. The former President expressed the following view:

> *"It is apparent from the Aged Care Decision, that the assistance of parties in making applications, gathering and testing evidence and making submissions is the most effective way of informing the Commission."*

125. The former President went on to state that:

> *"it is apparent from the Aged Care case that cases of this type require significant evidence from those with experience in relevant industries, supported by appropriate experts."*

126. As this suggests, Annual Wage Review is not the right process to address the pay gap. It is better dealt with through the current application-by-application based approach. As the former President stated, these cases require tremendous amounts of evidence that cannot be properly dealt with within the scope of the Annual Wage Review.

127. Further, the changes which the Government has only recently made to the Fair Work Act were intended allow work value issues to be addressed more efficiently and effectively.

128. The Government, through the Secure Jobs Better Pay Act 2022, inserted the equal remuneration principle into the Fair Work Act and enabled the Commission to make Equal Remuneration Orders (ERO) by application or on its own initiative. Such processes are more preferable given ACCI's view that such cases incontrovertibly require tremendous evidence. As stated, this was canvassed by the former President.

129. In light of these new powers, ACCI submits that it is not appropriate to use the Annual Wage Review as the avenue through which gender-based undervaluation should be addressed on an industry-by-industry basis. If that were the intention of the Government, it is confounding as to why the new powers to make EROs were needed in the first instance.

130. The Annual Wage Review is a very blunt instrument, as any increase in wages awarded through the Annual Wage Review is applied across the board to the minimum and all classifications of modern award wages.

131. Also relevant, it is critical that employers in female-dominated industries can afford a pay a substantial increase in wages to their workers. The recent FWC decision to increase the modern award wages of aged care works is a case in point. This pay increase could only be achieved through direct Commonwealth funding to cover the cost of the wage increase. This is a dangerous precedent if it is to be applied to the wide range of other sectors that are female dominated. Will the government cover the cost of the increase for all female-dominated industry sectors?

132. As noted above, the inflation risk of any substantial increase in minimum and award wages is great. An increase in modern award wages of 9 per cent for all female-dominated sectors, as proposed by the ACTU, would have a considerable inflationary impact. This would delay any easing in cost-of-living pressure on households and may exacerbate it by forcing the Reserve Bank to raise the cash rate further to address rising inflationary pressure.

133. To that end, ACCI resubmits its view that the Panel order an increase of no more than 2 per cent (plus the legislated 0.5 per cent increase in the Superannuation Guarantee) to the minimum and modern award wages without discrepancy. A different approach may cause significant confusion, convolution, and uncertainty, and is unwarranted in light of the new ERO powers which the Commission has been bestowed.

About ACCI

The Australian Chamber of Commerce and Industry represents hundreds of thousands of businesses in every state and territory and across all industries. Ranging from small and medium enterprises to the largest companies, our network employs millions of people.

ACCI strives to make Australia the best place in the world to do business – so that Australians have the jobs, living standards and opportunities to which they aspire.

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 represent Australian business in international forums.

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