Ai GROUP SUBMISSION

Fair Work Commission

Annual Wage Review 2018-2019

Response to Further Question on Notice

10 May 2019

Response to Further Question on Notice

Relative living standards and the needs of the low paid

3.1 Question to all parties

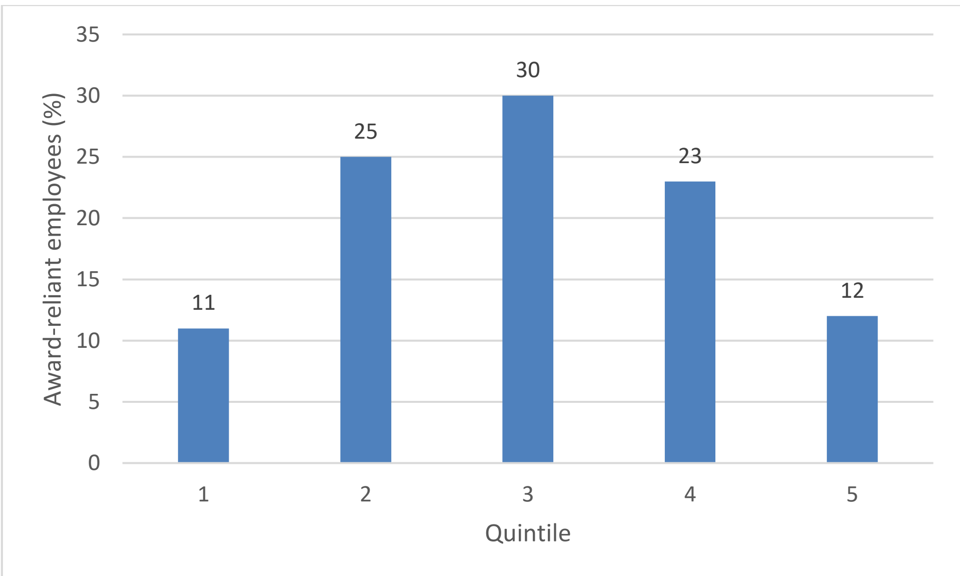
Parties are invited to comment on issues related to the distribution of award-reliant employees in the distribution of equivalised household income disposable income in Australia.

Response

Ai Group welcomes the focus on the distribution of award-reliant employees in the distribution of equivalised household income of all Australian households. This perspective on income distribution is broader and more relevant to relative living standards in Australia than one that focuses only on the distribution of employee households not least because it highlights the role of employment in enhancing the position of households in the distribution of national income.

For convenience Chart 1 below represents the data provided isolating the distribution of award-reliant employees in the distribution of household equivalised household income by income quintile.

Chart 1: Distribution of award-reliant employees across household income for all households (2015)



Source: FWC, Award Wage Review 2018-19: Questions for Consultations

General Comments

Award-reliant employees are remarkably symmetrically distributed across the distribution of household incomes. In broad terms, and other things being equal, a change in wage rates for award-reliant employees would not change relative living standards across the Australian income distribution: as much of an increase in wage rates would apply to households in the two most affluent income quintiles as would apply to the two least affluent income quintiles.

A fundamentally important factor to bear in mind in interpreting the household income distribution data is the variation in the number of people in employment in different households and, more generally, the variation in the number of hours worked by employee members of different households.

Thus, two cohabitating employees will, other things being equal, live in a higher-income household than would an employee who was the only employee in that household. Similarly, again other things being equal, employees working more hours would live in higher-income households compared with those in which employees working fewer hours resided. In relation to relative living standards, an increase in wage rates for award-reliant employees would advantage the higher-income household by more than would be the case for a lower-income household.

This data supports the view Ai Group has been making for many years that adjustments to wage rates for award-reliant employees is poorly-suited to reducing inequality in living standards in Australia.

As a final general comment, we note that the particular period highlighted in Question 3.1 covers the years from 2011-12 to 2015-16 which is prior to the very large increases in the National Minimum Wage awarded in the 2016-17 and 2017-18 decisions.

Proposition 1

Parties are invited to comment on the proposition that a substantial proportion of award-reliant employees paid above the level of the NMW live in households in the second and third quintiles of the distribution of equivalised household disposable income.

Comment

Compared with the 40 per cent of all households in the second and third quintiles, 55 per cent of award-reliant employees live in these households. In line with the observation above about the symmetry of distribution, a similarly substantial proportion (53 per cent) of employees live in households in the third and fourth quintiles of equivalised household disposable income.

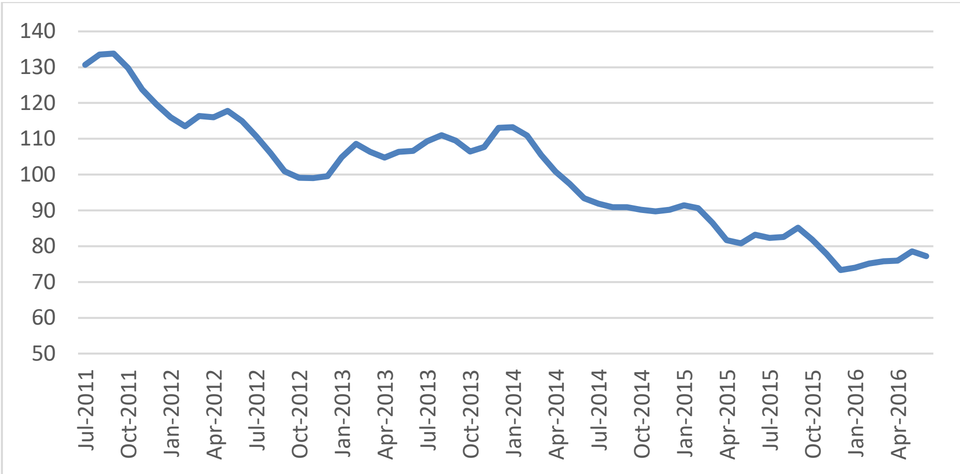
Proposition 2

Parties are invited to comment on the proposition that these award-reliant employees (i.e. those in the second and third quintiles of the distribution of equivalised household disposable income) received little growth in their real equivalised household disposable income in the period 2011-12 to 2015-16.

Comments

For a wide variety of reasons, the period 2011-12 to 2015-16 was period of relatively slow growth in real incomes in Australia. One of these was the decline in the terms of trade - see Chart 2 below and another was the sluggish labour market in these years – see Chart 3 below.

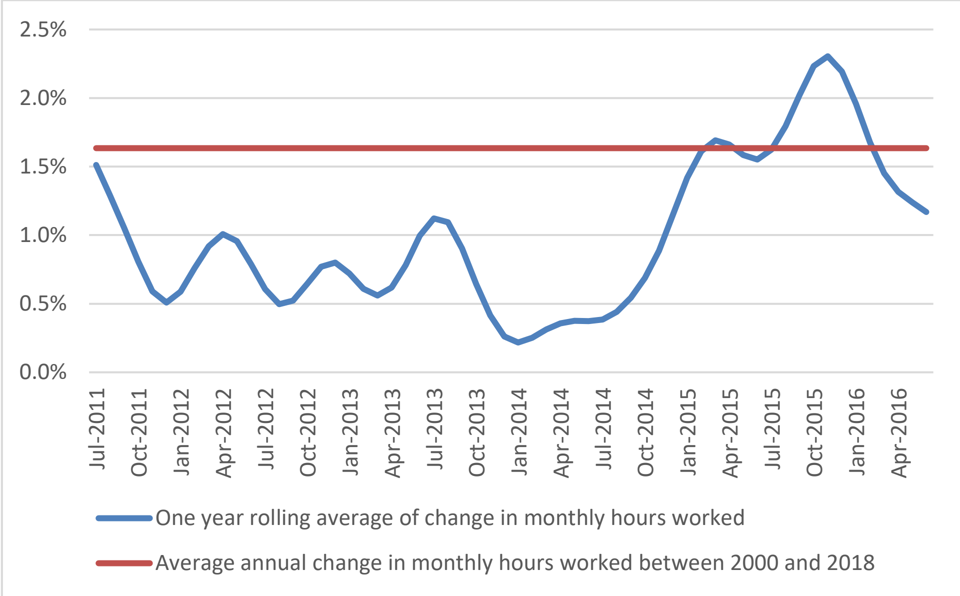
Chart 2: Index of Commodity Prices



Source: RBA.

An important consideration in interpreting the slow growth of real incomes among employees living in households in the second and third quintiles of the household income distribution is the slow growth in employment in these years. This is summarised in Chart 3 below which records the rate of growth in hours worked between July 2011 and June 2016 and compares this with the average pace of change in monthly hours worked between 2000 and 2018. Other things being equal, when hours worked grows slowly so do real incomes for employees.

Chart 3: Rate of Growth in Monthly Hours Worked: July 2011 to June 2016



Source: ABS 6202.0, Labour Force Australia.

In this sense, the fact that award-reliant employees in the second and third quintiles of the equivalised household income distribution received little growth in real disposable incomes in a period of generally low real income growth is not surprising.

As a hypothesis, a factor that could be expected to bear on a period of *relatively* slower growth of real incomes of employees in the second and third quintiles of the household income distribution could be a higher incidence of unemployment and underemployment among employees in these households than across the income distribution as a whole.

It would follow from the points made above, that were this hypothesis to reflect actual experience, a rise in wage rates for award-reliant employees in general would result in slower real income growth for employees in households in the second and third household income quintiles given the greater incidence of labour underutilisation in these quintiles.

Related to this, a further factor that could bear on relatively slow growth of incomes in households in these quintiles would be any compositional change of households in these quintiles. For instance, a household with two members in employment and in the fourth income decile at the start of the period could be expected to fall into the third (or perhaps the second) income quintile if one of these employees was unemployed at the end of the period. This would be reflected in lower income growth among employees in the lower-income household quintile.

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