RECENT TRENDS

IN

AUSTRALIA’S LABOUR MARKET

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Recent Trends in the Australian Labour Market
Structural Change in the Labour Market

The Australian labour market has undergone a significant level of structural change in the last 30 years because of the introduction of new Australian government policies, the changing nature of the labour force and the changing nature of work and the demands of employers.

Some of the main structural changes have been the following:

- The decentralisation of wage negotiations - individual and collective bargaining - and the decline in the level of trade union membership
- Changes in the composition of the labour force and employment with more women and young people employed in casual, part time and full time work
- Changes in the nature of work with the decline in manufacturing employment and the growing importance of service sector employment
- The impact of technology and globalisation on the labour market

Full Employment and the NAIRU

There is no readily agreed definition of full employment as an economic objective of government but the Non Accelerating Inflation Rate of Unemployment is a close approximation of the situation where there is full employment in the labour market.

The rate of unemployment that is consistent with the economy operating at or near its potential level of output will be associated with a stable rate of inflation. This level of unemployment is known as the Non Accelerating Inflation Rate of Unemployment (NAIRU). When the unemployment rate deviates from the NAIRU it suggests that the economy is producing a level of output that is above or below its potential. For example, if the economy is producing a level of output above its potential this will lead to a rise in inflation and wages growth and if it is producing below its potential it will lead to a fall in inflation and wages growth.

The Causes of Unemployment

There are three main causes of unemployment in the Australian labour market:

1. Frictional unemployment is caused by the regular movement of individuals in the labour market. This may be persons leaving one job to find a more suitable or higher paying job. It can also be caused by changes in personal circumstances such as migration to another region or state or changes in family location.

2. Structural unemployment results from a mismatch between jobs and workers’ skills. For example when the economy undergoes structural change, the structure of industry changes, the types of jobs change as technology changes and the location of jobs can also change. Workers with redundant skills may experience structural unemployment.

3. Cyclical unemployment is the result of changes in aggregate demand in the economy due to changes in the business cycle. A shortfall in aggregate demand in the economy will result in a lack of jobs relative to the number of people who want to work and can lead to cyclical unemployment.

*Recent Trends in the Australian Labour Market*
Research suggests that it is the rates of frictional and structural unemployment that form the basis of the NAIRU. While it is not possible to observe the NAIRU directly it can be inferred from the position of the Short Run Phillips Curve (SRPC) which shows the inverse relationship between inflation and the unemployment rate. Spare capacity in the economy leads to a rise in unemployment and places downward pressure on the inflation rate, whilst excess demand leads to lower unemployment but a rise in the inflation rate.

There is evidence that the NAIRU fell between 1998 and 2014. In 1998 average wage increases and inflation outcomes were between 4% and 5% but had fallen to between 2% and 3% in 2014. The unemployment rate in 1998 was around 8% but by 2015 had fallen to between 5.5% and 6%. This suggests that the short and long run Phillips Curves (SRPC and LRPC) have shifted to the left over time with lower inflation and unemployment outcomes. This could have been caused by positive labour market reforms, the achievement of the inflation target by the Reserve Bank and higher average rates of economic growth. Such a situation is shown in Figure 1.

In his recent article, “Estimating the NAIRU and the Unemployment Gap” (Reserve Bank, Bulletin, June Quarter 2017), Tom Cusbert, argued the following:

- The NAIRU is defined as the unemployment rate that is consistent with inflation converging to the long term inflation expectations in the economy.
- Full employment occurs when there is no cyclical unemployment and the only unemployment is either structural or frictional.
- The unemployment gap in the economy at any point in time is a measure of spare capacity in the labour market. It is the difference between the actual unemployment rate and the NAIRU. When the observed unemployment rate is above the NAIRU there is spare capacity in the labour market and downward pressure on wage growth and inflation.
- The NAIRU was estimated by the RBA at 5% in the March quarter of 2015.

Recent Trends in the Australian Labour Market
(a) Identify ONE type of unemployment that is present at full employment and ONE type of unemployment that is not.

Present at full employment: __________________________________________

Not present at full employment: ______________________________________

(b) Explain how unemployment affects economic growth in an economy.

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
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____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

(c) Contrast the use of fiscal policy for an economy at the non-accelerating inflation rate of unemployment (NAIRU) with its use when the economy is above the NAIRU.

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Recent Trends in the Australian Labour Market
Trends in Employment and Unemployment

The number of people employed in the Australian labour force grew by 992,800 persons or 8.6% between April 2014 and April 2018. This was nearly 2.2% annual growth in employment, consistent with a steady economic recovery as the economy transitioned to non mining sources of growth. As shown in Table 1 the labour force consisted of 13,294,700 persons in July 2018 with 12,581,600 persons employed (full time plus part time) and 713,000 persons classified as unemployed.

The shares of total employment accounted for by full time (over 35 hours per week) and part time (less than 35 hours per week) employment are shown in Table 2. There was still a trend towards an increasing share of part time employment of total employment between June 2015 and June 2018 from 30.9% to 31.9% compared to the trend decline in full time employment’s share in this period from 69.1% to 68.1%.

Whilst the rate of economic growth has been positive in this period it has been below historical average of around 3.25%. With below trend growth of around 2.6% there has still been employment growth but not enough to reduce the unemployment rate to much below 5.4% in June 2018. With 719,000 persons classified as unemployed in June 2018, the number of unemployed would have to fall by a further 66,409 persons for the unemployment rate to have been 5% and reach the estimated NAIRU in June 2018.

It can be clearly seen in Figure 2 that the rate of economic growth in Australia has not been high enough to increase the demand for labour and lead to a significant fall in the unemployment to 5% or lower. The rates of economic growth have diverged between the states and territories after the peak was reached in the mining

### Table 1: Trends in Employment, Unemployment and the Labour force 2015-18

<table>
<thead>
<tr>
<th></th>
<th>Full Time</th>
<th>Part Time</th>
<th>Total</th>
<th>Unemployed</th>
<th>Labour Force</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2015</td>
<td>8,134,800</td>
<td>3,648,400</td>
<td>11,783,200</td>
<td>765,700</td>
<td>12,548,900</td>
</tr>
<tr>
<td>July 2016</td>
<td>8,178,200</td>
<td>3,815,000</td>
<td>11,993,200</td>
<td>719,700</td>
<td>12,712,900</td>
</tr>
<tr>
<td>July 2017</td>
<td>8,403,600</td>
<td>3,878,800</td>
<td>12,282,400</td>
<td>725,700</td>
<td>13,008,100</td>
</tr>
<tr>
<td>July 2018</td>
<td>8,581,200</td>
<td>4,000,500</td>
<td>12,581,700</td>
<td>713,000</td>
<td>13,294,700</td>
</tr>
</tbody>
</table>


### Table 2: Trends in Shares of Employment and the Unemployment Rate 2015-18

<table>
<thead>
<tr>
<th></th>
<th>Full Time</th>
<th>Part Time</th>
<th>Unemployment Rate</th>
<th>Long Term Unempl.</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2015</td>
<td>69.1%</td>
<td>30.9%</td>
<td>6.1%</td>
<td>24.2%</td>
</tr>
<tr>
<td>June 2016</td>
<td>68.3%</td>
<td>31.7%</td>
<td>5.7%</td>
<td>23.4%</td>
</tr>
<tr>
<td>June 2017</td>
<td>68.3%</td>
<td>31.7%</td>
<td>5.6%</td>
<td>22.5%</td>
</tr>
<tr>
<td>June 2018</td>
<td>68.1%</td>
<td>31.9%</td>
<td>5.4%</td>
<td>21.6%</td>
</tr>
</tbody>
</table>

investment boom in 2012. Resources such as labour and capital have flowed out of mining states such as Western Australia and Queensland which have recorded lower rates of economic growth and higher unemployment rates, whilst the large non-mining states of New South Wales and Victoria have recorded higher rates of economic and employment growth and lower unemployment rates.

This was still the case in May 2018 as shown in Table 3 with NSW and Victoria having unemployment rates (4.8% and 5.3% respectively) below the national average and Queensland (6.1%) and Western Australia (6.2%) above the national average of 5.4%. Underemployment rates (the percentage of the labour force wanting to work more hours) were also higher in Queensland and Western Australia compared to New South Wales and Victoria. This led to higher underutilisation rates (the underemployment rate plus the unemployment rate) in Queensland and Western Australia although SA and Tasmania also had high rates.

### Table 3: Labour Underutilisation - States and Territories - May 2018

<table>
<thead>
<tr>
<th></th>
<th>Unemployment Rate</th>
<th>Underemployment Rate</th>
<th>Underutilisation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>4.8%</td>
<td>8.0%</td>
<td>12.8%</td>
</tr>
<tr>
<td>Victoria</td>
<td>5.3%</td>
<td>7.9%</td>
<td>13.2%</td>
</tr>
<tr>
<td>Queensland</td>
<td>6.1%</td>
<td>9.2%</td>
<td>15.3%</td>
</tr>
<tr>
<td>South Australia</td>
<td>5.6%</td>
<td>9.6%</td>
<td>15.2%</td>
</tr>
<tr>
<td>Western Australia</td>
<td>6.2%</td>
<td>9.2%</td>
<td>15.4%</td>
</tr>
<tr>
<td>Tasmania</td>
<td>6.0%</td>
<td>10.1%</td>
<td>16.1%</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>4.1%</td>
<td>4.0%</td>
<td>8.1%</td>
</tr>
<tr>
<td>ACT</td>
<td>3.5%</td>
<td>5.4%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Australia</td>
<td>5.4%</td>
<td>8.5%</td>
<td>13.9%</td>
</tr>
</tbody>
</table>

Whilst the unemployment rate fell nationally from 5.9% in May 2014 to 5.5% in May 2018 the underemployment rate rose from 7.8% to 8.3% as shown in Table 4. This indicated a decline in the number of hours worked and is indicative of spare capacity in the labour market. A further measure of spare capacity in the labour market is the underutilisation rate which combines the unemployment rate with the underemployment rate and this has stayed relatively stable at 13.8% of the labour force in May 2018 compared to 13.7% in May 2014.

About 1.9m 15-24 year olds were in the labour force in June 2018. However the continuing high unemployment rate for young persons aged 15-24 years is a major concern for the community and the Australian government. The youth unemployment rate of 11.6% in June 2018 as shown in Table 5 was 2.1 times the unemployment rate for the Australian labour force. This may reflect a number of factors:

- A lack of education, skills and training
- A lack of work experience and job search skills
- Difficulty in finding part time or full time work to complement education or training commitments
- A lack of job vacancies in some regions and suburbs of metropolitan areas

A much higher proportion of young people are in part time employment (55.6% in June 2018) compared to the labour force as a whole (31.9%). This means they may not receive high wages and conditions such as leave, superannuation and job security. They may also be exploited by some unscrupulous employers in terms of hours of work, underpayment of wages and a lack of job security.

### Table 4: Trends in Unemployment, Underemployment and Underutilisation Rates 2014-18

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment Rate</th>
<th>Underemployment Rate</th>
<th>Underutilisation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2014</td>
<td>5.9%</td>
<td>7.8%</td>
<td>13.7%</td>
</tr>
<tr>
<td>May 2015</td>
<td>6.1%</td>
<td>8.3%</td>
<td>14.4%</td>
</tr>
<tr>
<td>May 2016</td>
<td>5.7%</td>
<td>8.2%</td>
<td>13.9%</td>
</tr>
<tr>
<td>May 2017</td>
<td>5.7%</td>
<td>8.4%</td>
<td>14.1%</td>
</tr>
<tr>
<td>May 2018</td>
<td>5.5%</td>
<td>8.3%</td>
<td>13.8%</td>
</tr>
</tbody>
</table>


### Table 5: Labour Force Status - Youth 15-24 Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Full Time Employment</th>
<th>Part Time Employment</th>
<th>Total Employment</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2015</td>
<td>869,500 (47.5%)</td>
<td>961,900 (52.5%)</td>
<td>1,831,400</td>
<td>13.3%</td>
</tr>
<tr>
<td>June 2016</td>
<td>850,000 (45.9%)</td>
<td>1,001,900 (54.1%)</td>
<td>1,851,900</td>
<td>12.8%</td>
</tr>
<tr>
<td>June 2017</td>
<td>846,300 (45.6%)</td>
<td>1,009,700 (54.4%)</td>
<td>1,856,000</td>
<td>12.8%</td>
</tr>
<tr>
<td>June 2018</td>
<td>856,800 (44.4%)</td>
<td>1,070,800 (55.6%)</td>
<td>1,927,600</td>
<td>11.6%</td>
</tr>
</tbody>
</table>

The Participation Rate

The participation rate or the percentage of the population of working age in the labour force (shown in Table 6) has a major impact on the labour market:

- Changes in the participation rate influence the supply of labour to employers
- Changes in the participation rate can affect the growth of the labour force
- Changes in the participation rate reflect changes in economic conditions
- Changes in the participation rate can affect the measured unemployment rate

With positive yet below trend economic growth in the last five years, employment growth has averaged around 2% per annum and enough new jobs have been created to attract new entrants to the labour force such as young people, married women, mature aged persons and recently arrived migrants.

<table>
<thead>
<tr>
<th>Table 6: Participation Rates 2014-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour force</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>April 2014</td>
</tr>
<tr>
<td>April 2015</td>
</tr>
<tr>
<td>April 2016</td>
</tr>
<tr>
<td>April 2017</td>
</tr>
<tr>
<td>April 2018</td>
</tr>
</tbody>
</table>


Wages Growth

Wages growth has been low over recent years and has prompted much research and debate about the reasons for this trend. Low wages growth and falling real wages are a concern because it leads to low or zero growth in household incomes and in turn impacts on consumption expenditure which contributes up to 60% of GDP. Therefore low wages growth and consumption spending can lead to a permanent deficiency in aggregate demand and enduring levels of unemployment.

On a positive note low wages growth has contributed to low inflation outcomes in recent years because wages are the largest component of business costs. Low wages growth therefore helps to reduce cost inflation pressures and may provide an incentive for employers to hire more labour if economic conditions become more positive in terms of an increase in retail spending and aggregate demand.

According to the Reserve Bank (Statement on Monetary Policy, May 2018) there are a number of possible reasons for low wages growth in recent years:

- There is spare capacity in the labour market with unemployment and underemployment of labour. This means that the economy is below full employment, a situation where wage pressures start to rise because shortages of labour begin to emerge.

Recent Trends in the Australian Labour Market
• Inflation outcomes remain low and this limits the extent of wage bargaining and adjustments to wages because of increases in the cost of living.

• The economy is in transition from the end of the mining investment boom and terms of trade boom, with growth below trend and the demand for labour not as strong. Labour shortages are not widespread.

• The trend of low wages growth in Australia is consistent with the experience in some other OECD countries. This may reflect lower bargaining power of unions and workers in wage negotiations and the effects of technological change, the ‘gig economy’, digital disruption and globalisation in reducing wage costs. Underemployment is another possible cause of low wages growth which reflects the casualisation of the labour force.

The Wage Price Index (WPI) increased by 2.1% in the year to March 2018 as shown in Table 7, with wages growth higher (2.3%) in the public sector (where unionisation is higher and enterprise agreements more common) compared to the private sector.

**Labour Market Policies**

The Australian government and the state and territory governments play a key role in determining the industrial relations framework through specific legislation. The Turnbull government and the previous Abbott government have not changed the current legislation of the *Fair Work Act 2009* (from January 1st 2010) which underpins the national industrial relations system. The industrial relations powers of state governments in NSW, Queensland, South Australia and Tasmania were ceded to the Commonwealth government to create a national workplace relations system. Prior to 2010 under the *Workplace Relations Amendment Act* (WorkChoices) the governments of Victoria, the Northern Territory and the Australian Capital Territory ceded their industrial relations powers to the Commonwealth government.

The national workplace relations system applies to all employers and employees in the national system and has five main elements:

1. A set of ten National Employment Standards (the NES)
2. A system of Modern Awards that apply nationally to specific industries and occupations
3. A National Minimum Wage administered by the Fair Work Commission
4. Enterprise bargaining arrangements for employees and employers negotiating collective agreements
5. Protection of employees from unfair dismissal

<table>
<thead>
<tr>
<th>Table 7: Wage Price Index (WPI) - March Quarter 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>March Qtr 2018</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td><strong>Wage Price Index</strong></td>
</tr>
<tr>
<td>- <strong>Private Sector</strong></td>
</tr>
<tr>
<td>- <strong>Public Sector</strong></td>
</tr>
<tr>
<td><strong>Source:</strong> ABS (2018), <em>Wage Price Index, March Quarter</em>, Catalogue 6345.0</td>
</tr>
</tbody>
</table>

*Recent Trends in the Australian Labour Market*
The National Employment Standards

The NES, Modern Awards and the National Minimum Wage comprise the safety net of the national workplace relations system. The NES cover the basic minimum rights of employees at work in the national system as shown in Table 8. However these have been overridden or ignored in some cases by unscrupulous employers such as 7 Eleven, Caltex, and Domino’s Pizza in the pursuit of profits at the expense of minimum wages and benefits to mainly casual, migrant and shift workers. The Fair Work Ombudsman is charged with auditing workplaces and prosecuting those found guilty of breaches of the Fair Work Act 2009.

Table 8: The National Employment Standards

| 1. Maximum weekly hours of work | 6. Community service leave |
| 2. Request for flexible working arrangements | 7. Long service leave |
| 3. Parental leave and related entitlements | 8. Public holidays |
| 5. Personal/carer’s and compassionate leave | 10. A Fair Work Information Statement |

The System of Modern Awards

The Awards Modernisation process began in 2008 under the Transition to Fairness Act 2008. This led to a reduction in the number of federal awards from around 4,000 to 122 in 2010. Modern Awards contain around 20 terms, ten of which are covered in the NES. These terms include minimum wages, types of employment, overtime and penalty rates of pay, leave entitlements, allowances and superannuation. Modern Awards are a significant part of the safety net and protect around 22.7% of Australian employees.

Table 9: The Contents of Modern Awards

| 1. Minimum wages, minimum award classification rates of pay and casual loadings | 6. Community service leave |
| 2. Types of employment such as full time, part time, casual and shift time | 7. Long service leave |
| 3. Arrangements for when work is performed | 8. Public holidays |
| 4. Overtime rates of pay | 9. Notice of termination and redundancy pay |
| 5. Penalty rates of pay | 10. A Fair Work Information Statement |
| 6. Annual wage or salary arrangements | 11. A Fair Work Information Statement |
| 7. Allowances and leave related matters such as leave loadings and entitlements | 12. A Fair Work Information Statement |
| 8. Superannuation entitlements and conditions | 13. A Fair Work Information Statement |
| 10. Outworker terms, certain industry specific redundancy schemes, calculation of ordinary hours, pieceworker provisions and variations of allowances | 15. A Fair Work Information Statement |

Modern Awards have increased the flexibility of the labour market with the inclusion of flexibility clauses in many Modern Awards. This encourages employees and employers to negotiate changes in workplace arrangements to meet their individual needs and enterprise conditions. It is very important that employees know which Modern Award they are covered by and the wages and conditions they are entitled to. This information can be found by researching the Fair Work Commission’s website.

Recent Trends in the Australian Labour Market
The National Minimum Wage

Annual adjustments to the National Minimum Wage (NMW) are made by the Minimum Wage Panel of the Fair Work Commission. Table 10 lists the adjustments to the National Minimum Wage between 2011 and 2018. Generally these annual wage adjustments have been in line with inflation to maintain the real wages of the lowest paid workers in the economy. In June 2017 a large increase of 3.3% was handed down by the Fair Work Commission, equivalent to $18.29 per hour or $22.20 per week. The National Minimum Wage was increased from $672.70 per week to $694 per week. This increase was based on increasing the wages of the lowest paid to protect their living standards and to reduce the incidence of poverty.

Table 10: Annual Wage Review Decisions by the Fair Work Commission 2011-17

<table>
<thead>
<tr>
<th>Date of Decision</th>
<th>Weekly Wage Increase</th>
<th>% Wage Increase</th>
<th>NMW</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2011</td>
<td>$19.40 per week</td>
<td>3.4%</td>
<td>$589.30</td>
</tr>
<tr>
<td>June 2012</td>
<td>$17.10 per week</td>
<td>2.9%</td>
<td>$606.40</td>
</tr>
<tr>
<td>June 2013</td>
<td>$15.80 per week</td>
<td>2.6%</td>
<td>$622.20</td>
</tr>
<tr>
<td>June 2014</td>
<td>$16.87 per week</td>
<td>3.0%</td>
<td>$640.90</td>
</tr>
<tr>
<td>June 2015</td>
<td>$16.00 per week</td>
<td>2.5%</td>
<td>$656.90</td>
</tr>
<tr>
<td>June 2016</td>
<td>$15.80 per week</td>
<td>2.4%</td>
<td>$672.70</td>
</tr>
<tr>
<td>June 2017</td>
<td>$22.20 per week</td>
<td>3.3%</td>
<td>$694.90</td>
</tr>
<tr>
<td>June 2018</td>
<td>$24.30 per week</td>
<td>3.5%</td>
<td>$719.20</td>
</tr>
</tbody>
</table>


Any increase in the National Minimum Wage tends to flow on to those workers on Modern Awards. Workers on Modern Awards (e.g. in retailing and some services) make up a large share of part time and casual employment and often work fewer hours and earn lower wages than other workers under enterprise agreements or individual contracts.

Large employer organisations such as the Australian Industry Group and the Business Council of Australia are critical of these adjustments in the National Minimum Wage because they argue that they increase business costs, reduce profitability, cause wage inflation and lead to higher unemployment especially youth unemployment. However the evidence gathered by the Fair Work Commission does not generally support the assertion that higher minimum wages cause youth unemployment. The Fair Work Commission has tended to put more weight on improving equity in the distribution of income amongst the low paid when handing down its annual National Minimum Wage decisions. The Reserve Bank estimated that the 2017 increase in the NMW would add 0.5% to the WPI.

In the 2018 National Minimum Wage hearing the Fair Work Commission increased the National Minimum Wage by 3.5% or $18.93 per hour to $719.20 per week. This large increase above inflation will lead to a rise in the real wages and living standards of the low paid and increase equality in the distribution of income.

This was the largest increase in the National Minimum Wage since 2011 and comes at a time when wages growth is low and employment is increasing. The Fair Work Commission argued that the increase was unlikely to create undue inflationary pressure and highly unlikely to have a negative impact on employment.

Recent Trends in the Australian Labour Market
Underpayment of Wages

Another important issue is the extent of underpayment of wages or so called ‘wage theft’ by employers across a range of industries such as catering and retailing. For example, restaurants, cafes and takeaway food outlets accounted for 29% of the Fair Work Ombudsman’s litigation for breaches of the FWA between 2015 and 2017.

For example two multimillion dollar wage theft group actions were to be filed in the Federal Court in June 2018 on behalf of young door to door and sales workers.

Penalty Rates

In February 2017 the Fair Work Commission handed down a controversial decision to phase in cuts to Sunday penalty rates paid in the retail, fast food, hospitality and pharmacy industries. The proposed cuts are listed in Table 11 and were to be phased in from July 2017 and completed by 2020.

In hospitality Sunday penalty rates will fall from 175% to 150%. In the fast food sector rates will be cut from 150% to 125% and in the retail sector, from 200% to 150% and for casuals to 175%. These cuts could affect over 650,000 employees who work part time or casually for businesses, with an average $77 per week estimated to be cut from their weekly wages.

Employers and businesses generally supported the proposed cuts in penalty rates arguing that they will reduce wage costs for operating on weekends and may lead to more job creation. However opponents of the cuts in penalty rates such as the ACTU argue that they will cause economic hardship for casual and part time workers who are affected by a cut in their take home pay, with less money for living expenses and less certainty over future pay rates.

Table 11: Proposed Changes to Sunday Penalty Rates

<table>
<thead>
<tr>
<th>Hospitality Award</th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time and part-time employees:</td>
<td>175%</td>
<td>150%</td>
</tr>
<tr>
<td>(no change for casuals)</td>
<td>175%</td>
<td>175%</td>
</tr>
<tr>
<td>Fast Food Award</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Level 1 employees only)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full-time and part-time employees:</td>
<td>150%</td>
<td>125%</td>
</tr>
<tr>
<td>Casual employees:</td>
<td>175%</td>
<td>150%</td>
</tr>
<tr>
<td>Retail Award</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full-time and part-time employees:</td>
<td>200%</td>
<td>150%</td>
</tr>
<tr>
<td>Casual employees:</td>
<td>200%</td>
<td>175%</td>
</tr>
<tr>
<td>Pharmacy Award</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7.00 am - 9.00 pm only)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full-time and part-time employees:</td>
<td>200%</td>
<td>150%</td>
</tr>
<tr>
<td>Casual employees:</td>
<td>225%</td>
<td>175%</td>
</tr>
</tbody>
</table>

Enterprise Agreements

Under the *Fair Work Act 2009* the Fair Work Commission has the role of regulating and approving enterprise agreements. Enterprise agreements are made between one or more employers and two or more employees or one or more trade unions representing a group of employees. Enterprise agreements are made to suit the specific needs of particular enterprises and can offer employees above the minimum rates of pay and employment conditions covered in Modern Awards. Enterprise agreements can include a broad range of permitted matters such as the following:

- Rates of pay for employees;
- Employment conditions such as hours of work, timing of meal breaks and overtime;
- Consultative mechanisms in terms of how the agreement will operate;
- Dispute resolution procedures between employees and employers; and
- Deductions from wages for any purpose authorised by the employee (such as superannuation).

They cannot include ‘unlawful content’ such as discriminatory or objectionable terms. Enterprise agreements must provide a flexibility term that allows for the inclusion of flexibility arrangements so that variations in the provisions of the enterprise agreement can be made. The main types of agreements are single enterprise, multi-enterprise and greenfields agreements.

**Single Enterprise Agreements**

Single enterprise agreements involve a group of employees and a single employer, or two or more employers (e.g. a joint venture) co-operating in a single enterprise. Single interest employers can make a single enterprise agreement with the employees employed at the time the agreement is made, or with a trade union if the agreement relates to a genuine new enterprise that the employer or employers are establishing. The single enterprise agreement is made when a majority of the employees of the employer or each employer, vote to endorse the agreement. The agreement may run for up to four years. The agreement must be submitted to the Fair Work Commission for assessment, approval & pass the Better Off Overall Test.

**Multi-Enterprise Agreements**

Two or more employers that are not all single interest employers may make an enterprise agreement known as a multi-enterprise agreement with a group of employees or a trade union representing a group of employees. The multi-enterprise agreement is made when a majority of the employees of at least one of the employers votes to endorse the agreement. The agreement may run for no longer than four years. The agreement must be submitted to the Fair Work Commission for approval and if the agreement passes the Better Off Overall Test it will be approved by the Fair Work Commission.

**Greenfields Agreements**

A greenfields agreement involves a genuinely new enterprise that one or more employers are establishing or propose to establish and who have not yet employed persons necessary for the normal conduct of the enterprise. Such agreements may be either a single enterprise agreement or a multi-enterprise agreement.

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The greenfields agreement is made when it has been signed by each employer and each relevant employee organisation or trade union that the agreement covers. The agreement may run for up to four years. The agreement must be submitted to the Fair Work Commission for approval and the agreement must pass the Better Off Overall Test applied by the Fair Work Commission.

Those involved in the bargaining process for enterprise agreements are required to bargain in ‘good faith’. This means that employees and employers must attempt to reach an agreement. **Good faith bargaining requirements** include a bargaining representative attending and participating in meetings; responding to proposals made by others; giving genuine consideration to proposals made by the other party; refraining from unfair conduct; and recognising and bargaining with other bargaining representatives over the enterprise agreement.

**The Better Off Overall Test**

Under the *Fair Work Act 2009* enterprise agreements made on or after January 1st 2010 are subject to a ‘Better Off Overall Test’ (BOOT) by the Fair Work Commission. This involves a comparison between the agreement and a relevant Modern Award to determine whether the employees would be ‘better off’ under the agreement. This test is more stringent than the No Disadvantage Test since it requires employees to be ‘better off’ than under the equivalent new Modern Award.

**Methods of Wage Determination**

**Figure 3** shows the main methods of setting pay or employment contracts in 2016 from ABS Catalogue 6306.0. The most common methods of setting pay for all employees were unregistered individual arrangements or common law contracts (37.3%) and registered collective agreements (36.4%). The least common methods of setting pay were an award or pay pay scale (22.7%) and working business proprietors (3.6%). Award or pay scale increased in coverage from 18.8% in 2014 to 22.7% in 2016 with the growth in part time and casual work.
1. The average weekly total cash earnings for males under an award or pay scale was $849 and $609 for females. Award coverage was highest in community and personal services (34.2%).

2. The average weekly total cash earnings for males under a collective agreement was $1,471 and $1,003 for females, with coverage of collective agreements highest in the public sector (85.9%) where unionisation is high.

3. The average weekly total cash earnings for employees under an unregistered individual arrangement (such as a common law contract or an over award payment) was $1,619 for males and $1,064 for females. Coverage of individual arrangements was highest for managers and other professionals (58.7%) in the private sector.

**Government Expenditure on Education, Training and Employment**

In the **2018-19 budget** the Australian government forecast spending of $9,756m on higher education, a decrease of 1.4% in real terms because of the government’s policy change measure of Higher Education Reforms - revised implementation.

In vocational education and other education, expenditure of $1,810m was announced, a decrease of 1.4% in real terms reflecting the revised profile of the National Agreement on Skills and Workforce Development and policy changes in the Managing the Skilling Australians Fund.

However expenditure on schools is forecast to increase by 4% in real terms to $19,468m with the implementation of the Gonski 2.0 reforms and increased school enrolments. Total expenditure in the education portfolio is forecast at $34,736m or 7.1% of total budget outlays.

Total labour and employment affairs is forecast to receive funding of $3,782m in 2018-19 consisting of the following:

- Vocational and industry training $1,214m
- Labour market assistance to job seekers and industry $1,899m
- Industrial relations $669m

Assistance to the unemployed and sick comes under the Social Security and Welfare portfolio with $10,165m forecast to be spent in 2018-19. This represents a 10.8% decrease in real terms as the unemployment rate has fallen and there is increased enforcement of compliance activities including the 2018-19 budget measure of Social Welfare Debt Recovery.

Other government labour market policies include the following:

- The Youth Employment Package in the **2016-17 budget**, including a Youth Jobs PaTH programme ($752m) with pre-employment skills training; internship placement; and wage subsidies to employers.

- The controversial Job Seeker Compliance Framework to impose greater financial penalties on non compliant job seekers.

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Youth Employment

The Australian government has particularly targeted the most disadvantaged Australians to receive the support they require to prepare and look for work. For example Indigenous and new parents can receive support through the Parents Next programme to get back into the workforce. This includes the provision of childcare, pre-employment training, financial management training and education in literacy and numeracy.

These initiatives build on the Youth Jobs PaTH programme which targets young Australians (15-24) with work experience and training and wage subsidies to employers who employ eligible jobseekers.

However the Australian government has also strengthened the participation requirements for welfare recipients with a Job Seeker Compliance framework that applies strong financial penalties to persistently non compliant job seekers. This includes participation in the Work for the Dole programme to help disadvantaged job seekers to gain skills and experience needed in the workforce. For employers the Australian government provides them with incentives to hire young people:

- They are encouraged to trial a young person to find out if they are suitable for the employer’s business.
- Employers may receive $1,000 to help cover the costs of the trial.
- During the trial, employers do not pay the young person as the Australian government gives them $200 a fortnight on top of their income support and covers their insurance.
- If an employer decides to hire a young person they may be eligible to receive up to $10,000 as a wage subsidy.

Both employers and jobseekers can register online to participate in the Youth Jobs PaTH programme which helps to match jobseekers looking for specific types of work with employers who need employees with particular skills and attributes.

Job Active

Specific labour market and employment policies are administered by the Department of Jobs and Small Business. Job Active replaced Job Services Australia and is a network of Jobactive providers across Australia who can tailor their services to jobseekers’ needs to help them find and keep a job. This includes the following:

- Writing resumes
- Looking for work
- Preparing for interviews
- Getting skills that local employers need
- Finding and keeping a job

Jobactive services are generally available to anyone in receipt of an income support payment or who has mutual obligation requirements. A Jobactive provider can help a jobseeker to develop a job plan and find work.

Recent Trends in the Australian Labour Market
Explain how labour market policies can be used to achieve Australia’s economic objectives.

The Australian labour market is a factor market consisting of employers who demand labour services to carry out production and the supply of labour or employees willing to work for wages in various occupations and industries. A key economic objective of the Australian government is to achieve full employment in the labour market. This means that all people of working age 15-64 years who are willing and able to work and looking for work can find jobs. The point of full employment in the labour market is where the unemployment rate is estimated at 5% which is the Non Accelerating Inflation Rate of Unemployment (NAIRU) where cyclical unemployment has been eliminated but frictional and structural unemployment remain.

The Australian government has a broad strategy of achieving “Jobs and Growth” in the Australian economy and between 2013 and 2018 over one million new jobs have been created. Two of its main compatible objectives are to achieve economic growth and full employment. Other important objectives include price stability (low inflation), external stability and a more equitable distribution of income.

Labour market policies include establishing the legal framework for determining minimum employment standards, minimum wages, Modern Awards, enterprise agreements and employment contracts. In the the current Australian labour market the Fair Work Act 2009 is the legislation that sets out the rules for the national workplace relations system. There are also various state industrial relations systems mainly covering state and local government employees. The main elements of the unified national industrial relations system are the following:

- A set of ten National Employment Standards covering matters such as hours of work and leave entitlements which provide a safety net for workers in the national system. This helps to make the distribution of income more equitable as workers have minimum entitlements.

- The National Minimum Wage is adjusted annually by the Fair Work Commission and is currently $694.90 per week. The National Minimum Wage is paid to the lowest paid workers and any increase in the NMW tends to flow on to workers under Modern Awards. Adjustments to the NMW by the Fair Work Commission are made on the basis of increases in the cost of living, the state of the economy and equity in the distribution of income.

The Fair Work Commission has tended to grant annual increases in the NMW of between 2.4% and 3.3% in line with inflation to maintain real wages. This tends to reduce the impact of wage inflation and helps the Australian government to achieve price stability.

- Modern Awards provide a set of minimum wages and conditions for employees specific to their industry, job classification and level of skill. They contain a flexibility clause where wages and conditions can be negotiated between employees and employers to meet enterprise specific conditions. Modern Awards provide an incentive for employees to improve their skills and productivity to receive higher wages and better working conditions.
• Enterprise agreements are agreements negotiated between employers and employees (who may be represented by a trade union) which contain matters such as rates of pay, hours of work and dispute resolution procedures which may be more favourable than under the NMW or Modern Awards and therefore provide employees with an incentive to raise productivity.

• Common law contracts or individual arrangements are largely outside the formal regulated system of the Fair Work Act 2009 but provide for more flexibility to suit both the employee and employer and may be used for professionals who earn high incomes such as managers.

The system of industrial relations in Australia has become more decentralised and deregulated with common law contracts (37.3%) and collective enterprise agreements (36.4%) the most common types of methods of setting pay in 2016. These methods of setting pay provide more flexibility for both employees and employers in setting wages and conditions and are more likely to lead to higher productivity and hence economic and employment growth.

Other labour market policies used by the Australian government include expenditure in the budget on education, training and employment programmes to increase the productivity and skills of workers such as young people and those unemployed but actively looking for work. An example was the Youth Jobs PaTH programme in the 2016-17 budget ($752m) which included pre-employment skills training, internship placement and wage subsidies to employers.

The main economic objectives of the Australian government include economic growth, internal balance (price stability and full employment) and external stability. Other objectives include a more equitable distribution of income and environmental sustainability. In terms of economic growth, labour market policies help to raise the productivity of labour through the various microeconomic reforms that have been implemented in the labour market such as enterprise bargaining. A diagram showing a shift in aggregate supply could be used to illustrate this.

In terms of price stability labour market policies such as adjustments to the National Minimum Wage help to contain wage costs and wage inflation and hence the contribution of wages growth to the inflation target of 2% to 3% set by the Reserve Bank for conducting monetary policy. The spread and importance of enterprise bargaining in the economy has led to wage adjustments being linked more closely to improvements in productivity, helping to contain cost inflation pressures.

Containment of wage costs through the use of labour market policies also helps to achieve external stability through improvements in international competitiveness. If Australia’s Real Unit Labour Costs (RULC) grow more slowly than those of its major trading partners, this will assist export and import competing firms in business. This in turn could lead to an increase in exports and a decrease in imports, helping to improve the trade balance and current account balance.

The distribution of income is made fairer by the use of the safety net as part of the Australian government’s labour market policies through the NES, the system of Modern Awards and annual adjustments to the National Minimum Wage. In terms of environmental sustainability, labour market policies can help to strengthen Work Health and Safety compliance to achieve healthy, safe and productive workplaces as well as minimising hazardous wastes and greenhouse gas emissions.
Recent Trends in the Australian Labour Market

Graph 4
Revisions to NAIRO Estimates*
Per cent of labour force

Unemployment rate

* Each series shows the estimates using data up to the period when the series ends
Sources: ABS; RBA

Source: Reserve Bank (2017), Bulletin, June.

Graph 2.21
Employment
Contribution to year-ended growth

Part-time
Total
Full-time

Source: ABS

Source: Reserve Bank (2018), Statement on Monetary Policy, May.
Recent Trends in the Australian Labour Market