

ACTU Submission

Productivity Commission Inquiry into  
The Costs of Doing Business: Retail Trade

11 July 2014



# Introduction

The ACTU welcomes the opportunity to provide a submission in response to the interim report of the Productivity Commission's Costs of Doing Business: Retail Trade inquiry. The interim report canvasses a number of issues that relate to the cost of doing business in the retail industry. The ACTU's comments in this submission relate to labour costs.

In this brief submission, the ACTU shows that:

- Non-wage labour costs are high in many OECD countries;
- Compulsory superannuation is likely to be borne at least partly by labour;
- Hourly retail wages are lower than in many comparable countries ;
- Unit labour cost growth has been around average for OECD countries;
- The proportion of employees with pay set by awards has fallen;
- The minimum wage has fallen relative to average wages in Retail Trade;
- Australia's minimum wage is not an outlier in purchasing power terms;
- Australia's minimum wage has risen more slowly than those of most OECD countries;
- Labour productivity growth in the Retail Trade industry has been strong;
- Real wages have not kept pace with labour productivity in the industry;
- Gross operating profits have grown as a proportion of sales revenue; and
- Net profit margins have grown in the retail trade industry.

The ACTU would be happy to provide further information to the Commission in relation to these or other points.

## Non-wage labour costs are high in many OECD countries

Some employer submissions imply that Australia's system of compulsory superannuation means that we have higher non-wage labour costs than other countries. For example, the Frontline Hobbies submission is excerpted in the Issues Paper (p.56):

*Australia is the only country in the world with such a long history in employer paid compulsory superannuation... Australia is on a heading [sic] for 12% fully paid by employers, again, grossly uncompetitive with the rest of the world.*

The assertion that compulsory superannuation makes Australia "grossly uncompetitive with the rest of the world" fails to take into account the fact that most OECD countries have systems of compulsory social security contributions. These contributions are typically collected from both employers and employees. They can be very large, relative to wages. Australian compulsory superannuation contributions are lower, as a proportion of labour costs, than social security contributions in most OECD countries.

For a worker who earns 67% of the average wage<sup>1</sup>, Australia's non-wage labour costs are the third-lowest in the OECD, above only Denmark and New Zealand. 'Non-wage labour costs' in this comparison include payroll taxes and employee and employer social security contributions. Compulsory superannuation contributions are not included in this comparison by the OECD as they are not regarded as a tax.<sup>2</sup> If 9.5% superannuation is added as an additional 'employer social security contribution'<sup>3</sup>, Australia's non-wage labour costs remain among the very lowest in the OECD, lower than the US, UK or OECD average. This is shown in Figure 1.

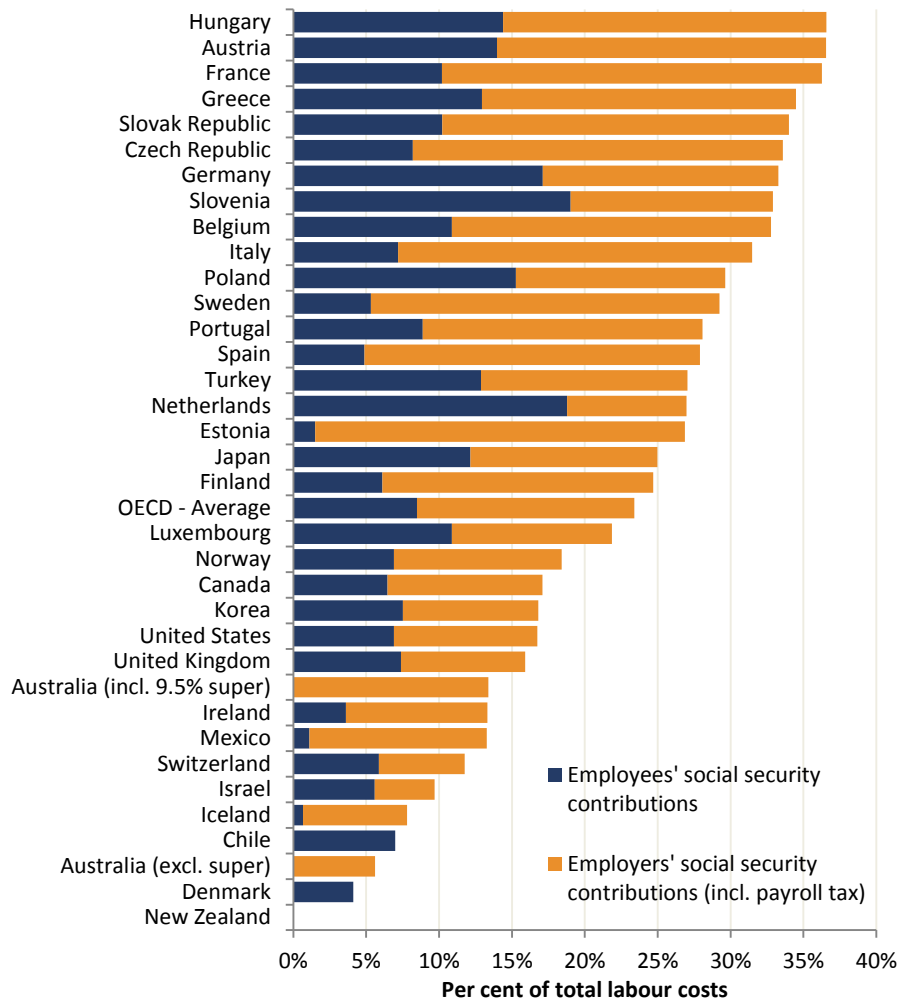
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<sup>1</sup> Average earnings for Australian full-time workers in the Retail Trade industry are around 72% of the all-industry average. This suggests the use of a worker on two-thirds average earnings is an appropriate basis for comparison. Australia's position as a country with among the lowest non-wage labour costs remains if 50% or 100% of earnings is instead used as the basis for comparison.

<sup>2</sup> See Box 2.2 of Australia's Future Tax System 2008, *Architecture of Australia's Tax and Transfer System*, Commonwealth of Australia.

<sup>3</sup> The designation of payments as 'employer' or 'employee' contributions reflects the payments' legal incidence, not their economic incidence.

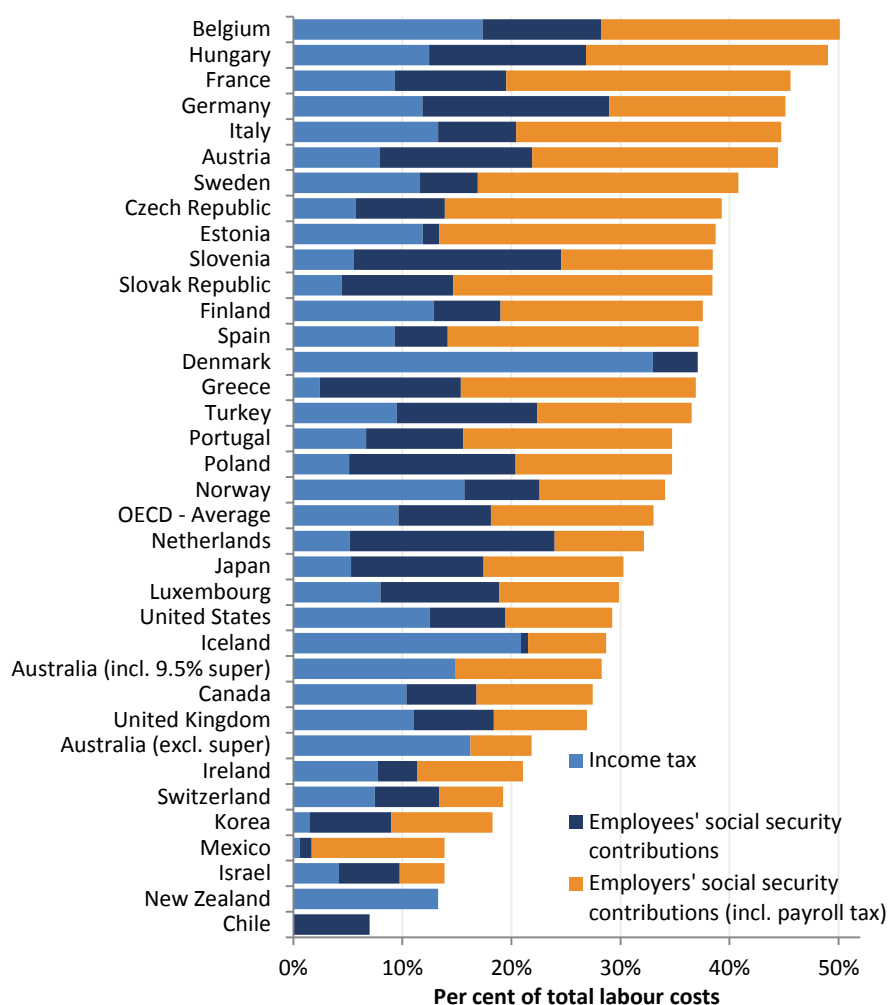
**Figure 1: Social security contributions and payroll tax in OECD countries**  
(Single adult worker at 67% of average wage)



Source: [OECD Taxing Wages](#). Total labour costs are [defined](#) as the sum of gross wage earnings, employers' social security contributions and payroll taxes. Gross wage earnings includes employees' social security contributions and income tax. "Australia incl. 9.5%" super is an ACTU calculation.

The distinction between social security contributions and income taxes can be somewhat arbitrary. For completeness, Figure 2 shows the same comparison as above, but including income taxes. It's clear that the wedge between the amount that employers pay as labour costs and the amount workers receive as net earnings in Australia is modest by OECD standards, whether superannuation is included or not.

**Figure 2: Social security contributions, income tax and payroll tax in OECD countries:**  
(Single adult worker at 67% of average wage)



Source: [OECD Taxing Wages](#). Total labour costs are [defined](#) as the sum of gross wage earnings, employers' social security contributions and payroll taxes. Gross wage earnings includes employees' social security contributions and income tax. "Australia incl. 9.5%" super is an ACTU calculation.

The suggestion that compulsory superannuation contributions, whether at 9.5% or 12% of earnings, makes Australia "grossly uncompetitive with the rest of the world" does not accord with the evidence. Almost all OECD countries levy social security contributions and payroll taxes on workers and their employers that far exceed the Superannuation Guarantee. Australia's non-wage labour costs are low by OECD standards.

### Compulsory superannuation is likely to borne at least partly by labour

The interim report (p.4) notes that non-wage labour costs are among the concerns raised by some submissions. The suggestion is that superannuation contributions are an additional cost that business must pay to employ labour.

The legal incidence of compulsory superannuation falls on employers. However, some of the economic incidence of superannuation is likely to fall on labour. In other words, wages are lower than they would be in the absence of compulsory superannuation contributions. Total labour costs may not be higher than they would be in the absence of compulsory superannuation.

Superannuation was included in awards in lieu of a wage increase as a result of the 1986 and 1987 National Wage Case decisions. The ACTU claim that triggered the inclusion of superannuation as a minimum award entitlement was for a 4% wage increase or alternatively a payment of an amount equal to 3% of wages into an appropriate superannuation account preserved and vested in the worker's name.

The Fair Work Commission, in its decision in the 2013-14 Annual Wage Review, stated that "we have decided to take the scheduled 0.25 [percentage point] increase in the SG rate into account in our determination of the level of any minimum wage increase."<sup>4</sup> The Commission made a similar statement in the previous review. The effect of the Commission's decision to take the increase in compulsory superannuation into account is that the increase in minimum wages it awarded was lower, both this year and last year, than it would have been if the Superannuation Guarantee rate had not been increased. At least part, and possibly all, of the cost of the increase in superannuation contributions was borne by workers.

The Australian Government has argued that this was also the case during the 1990s, when the Superannuation Guarantee was introduced and increased over the decade, stating that "the cost of the increases was absorbed into the overall wage cost, and was not borne by employers."<sup>5</sup> Accordingly, compulsory superannuation may have only a modest effect, if any, on total labour costs.

### Hourly retail wages are lower than in many comparable countries

The report of the Productivity Commission's 2011 inquiry into the retail industry included a comparison of the total hourly labour costs for retail trade in Australia, the US, and a number of European countries. Unfortunately, the data were for 2007-08; this remains the most recent data until Eurostat publishes the results of its 2012 collection. Nevertheless, the comparison is important and remains the most up-to-date possible using official statistics.

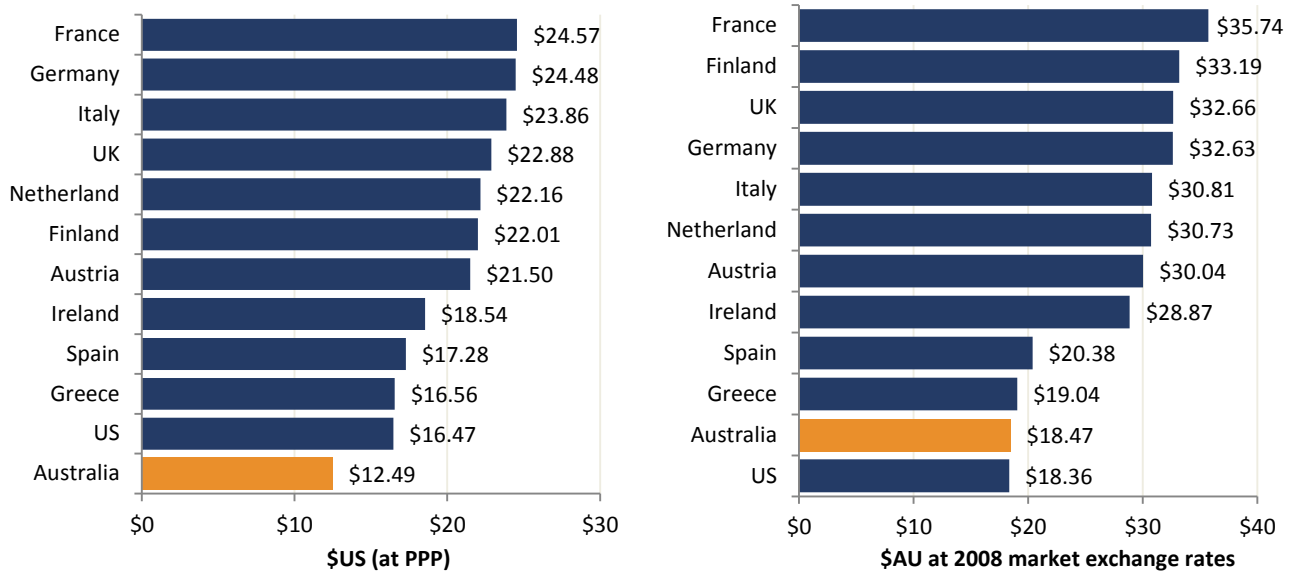
The Productivity Commission's table showed that total hourly labour costs in retail trade in Australia were lower than in the US or in a range of European countries, on a purchasing-power basis. When labour costs were converted at 2008 market exchange rates, Australian labour costs were the second lowest, above only the US.

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<sup>4</sup> Fair Work Commission Expert Panel, 'Decision', *2013-14 Annual Wage Review*, paragraph 285. Available from: <https://www.fwc.gov.au/documents/decisionsigned/html/2014FWCFB3500.htm>

<sup>5</sup> Australian Government 2013, *Submission to the 2012-13 Annual Wage Review*, paragraph 51. Available from: [https://www.fwc.gov.au/documents/sites/wagereview2013/submissions/AusGov\\_sub\\_awr1213.pdf](https://www.fwc.gov.au/documents/sites/wagereview2013/submissions/AusGov_sub_awr1213.pdf)

**Figure 3: Total hourly labour costs in retail trade in 2007-08**



Source: [Productivity Commission 2011](#), table C.4. Based on data from Eurostat, BLS, ABS.

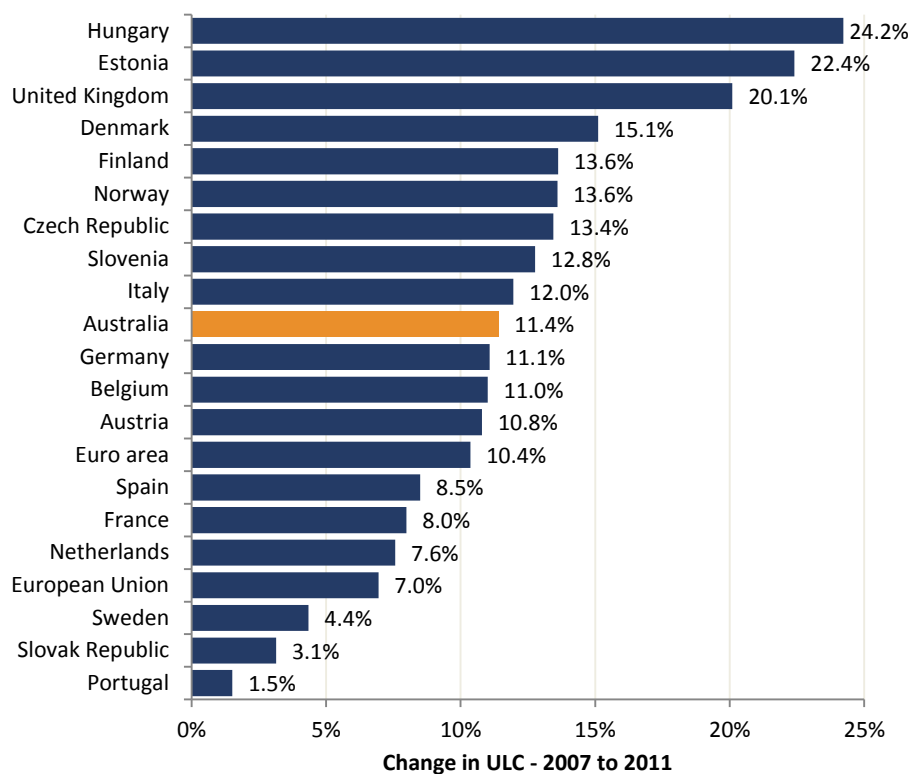
Australia's hourly labour costs in retail were low in 2007-08, relative to other advanced economies. This does not accord with claims by some employers regarding the relative cost of labour in the retail industry in Australia.

### Unit labour cost growth has been around average for OECD countries

The OECD Stat database of unit labour costs unfortunately does not include data for each industry separately. Rather than including data for the retail trade industry alone, the database includes unit labour cost information for an industry group that includes wholesale and retail trade, accommodation and food services, and transportation and storage.

Between 2007 and 2011 (the latest year for which Australian data are available), Australian unit labour costs in this industry group rose by 11.4%. This is middle of the pack for the OECD countries for which the OECD has data. It is a little higher than the Euro-area average (10.4%), around the level of Germany (11.1%) and below the UK (20.1%). This is shown in Figure 4

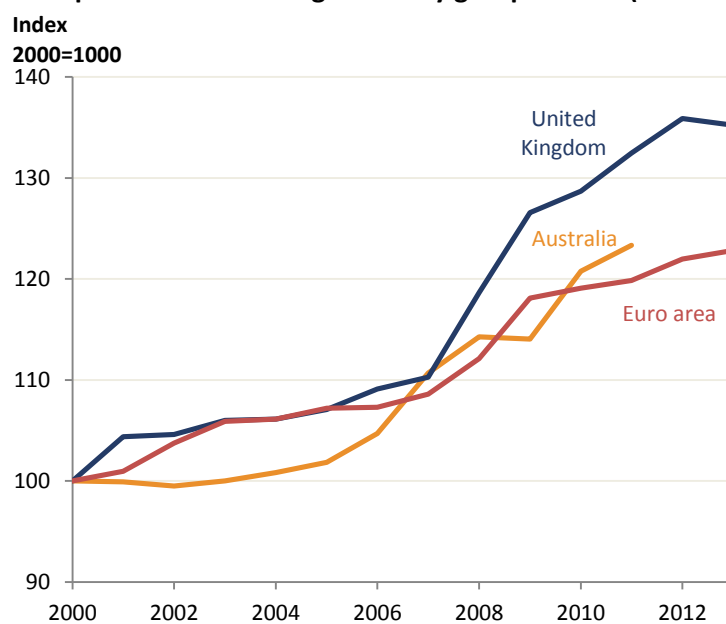
**Figure 4: Total growth in unit labour costs between 2007 and 2011 in the wholesale, retail trade, accommodation and food services, and transportation and storage industry group**



Source: [OECD Stat](#) and ACTU calculations.

Figure 5 shows the growth in unit labour costs in this industry group over a longer period in Australia, the UK and the Euro area. Note that data for the OECD Stat database only includes this series for Australia up to 2011.

**Figure 5: Unit labour costs in the wholesale, retail trade, accommodation and food services, and transportation and storage industry group – Index (2000=100)**



Source: [OECD Stat](#) and ACTU calculations.

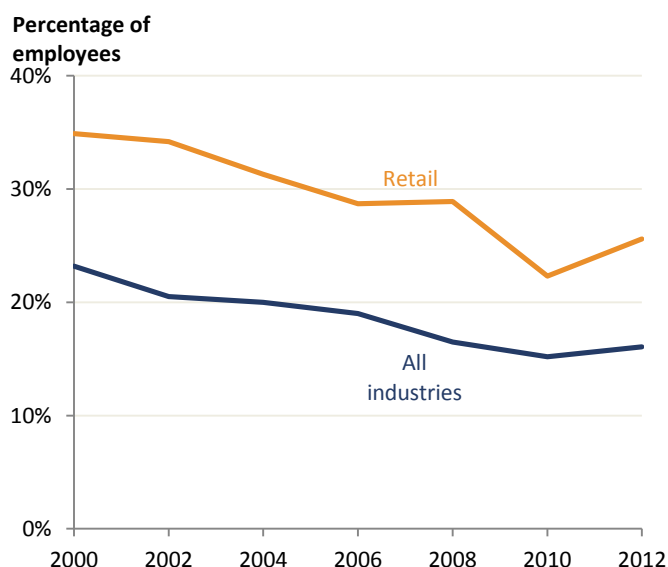


Unit labour costs growth in this industry group in Australia has been around average for the countries for which the OECD has data. This does not support the claims by some business groups that labour costs growth in Australia has exceeded growth elsewhere.

### The proportion of employees with pay set by awards has fallen

A little over a third (34.9%) of employees in the Retail Trade industry in 2000 had their pay set solely by an award. As at May 2012, this had fallen to around a quarter (25.6%). The proportion of employees whose pay is set by an award similarly fell across all industries, from 23.2% in 2000 to 16.1% in 2012. This is shown in Figure 6.

**Figure 6: Proportion of employees whose pay is set by an award**



Source: ABS *Employee Earnings and Hours*, cat. 6306, various years. 'Award only' employees are those who are paid exactly the minimum rate in an award or the NMW.

Around 75% of workers in the retail trade industry are paid according to a collective agreement or an individual arrangement. The proportion of workers paid above the award has risen over time. Wage rates negotiated between employers and employees (either collectively or through an individual arrangement) have acquired a greater prominence in the retail industry and the broader labour market, with rates set by the Commission playing a direct role in a smaller proportion of employment relationships.

### The minimum wage has fallen relative to average wages in Retail Trade

Average full-time wages in the retail trade industry have grown more slowly than the average for all industries over the past decade. This has occurred despite the fact that productivity growth in the industry "has been comparable or slightly better than for the market sector as a whole."<sup>6</sup> Average wages, including in the retail industry, have grown significantly faster than minimum wages.

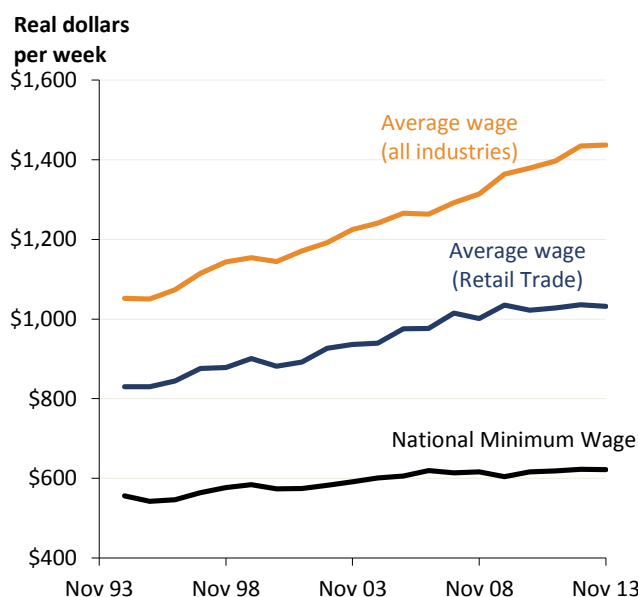
<sup>6</sup> Productivity Commission 2014, *Relative Costs of Doing Business in Australia: Retail Trade, Interim Report*, p.23.

**Figure 7: Real weekly wages of full-time adult employees**

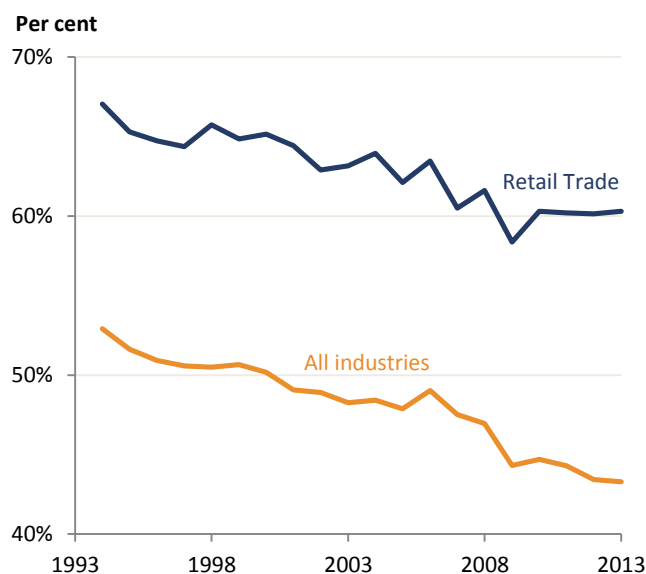
	National Minimum Wage	C10 award wage	Retail average wage	All industries average wage
2003	\$591.10	\$714.75	\$935.95	\$1,224.78
2013	\$622.20	\$724.50	\$1,031.80	\$1,437.00
CAGR 03-13	0.5%	0.1%	1.0%	1.6%

Source: Historical minimum wage rates from Fair Work Commission. Retail and all industries average wages are average weekly ordinary time earnings for full-time adult employees from ABS 6302. All series deflated by the CPI (ABS 6401).

**Figure 8: Real weekly wages for full-time adults**



**Figure 9: NMW as a percentage of average full-time wage in Retail Trade and all industries**



Source: Historical minimum wage rates from Fair Work Commission. Retail and all industries average wages are average weekly ordinary time earnings for full-time adult employees from ABS 6302. All series deflated by the CPI (ABS 6401).

The National Minimum Wage ('NMW') has increased only modestly in real terms, growing by an average of 0.5% per year in the decade to 2013. Growth in higher award rates has been slower, with the benchmark C10 tradespersons' rate increasing by an average of 0.1% in real terms over the decade. Over the same period, average wages for full-time adults in the Retail Trade industry rose by an average of 1% per year, and the average for all industries grew by 1.6% per year.

As a result of this, the NMW has fallen as a proportion of average full-time wages, both in the Retail Trade industry and across the economy as a whole. The NMW (or the equivalent C14 rate in awards) was 67% of the average full-time retail wage in 1994; 63.1% in 2003; and 60.3% in 2013. The relative decline of higher award rates has been steeper (due to decisions in 2010 and before to increase award wages by a flat dollar amount, rather than a percentage).

Minimum wages growth has been modest. This is at odds with the suggestions by some employer groups that minimum rates have grown at an unsustainable rate.

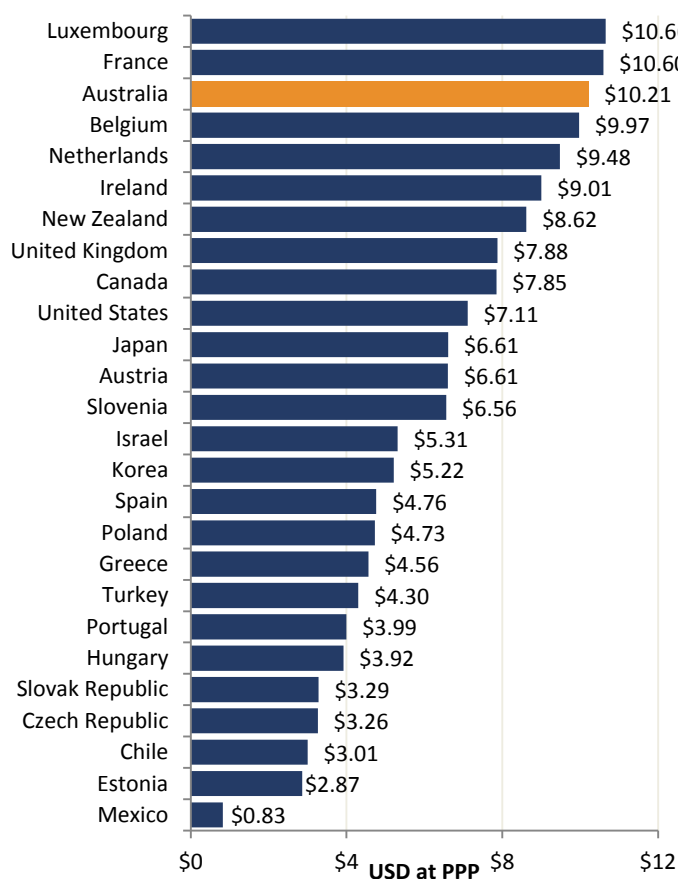
## Australia's minimum wage is not an outlier in purchasing power terms

The Interim Report includes several quotes from employers' submissions regarding international comparisons of the minimum wage (Box 3.3, p.56). For example, Frontline Hobbies states "the minimum wage in Australia is so far ahead of the rest of the world it is inconceivable to them, in most cases practically double." BIA claims the minimum wage is "over double that of the USA and approximately 50% greater than the UK".

Australia's minimum wage is high, when converted at market exchange rates, partly because the nominal exchange rate is so elevated. The ACTU submits that it is more appropriate to compare minimum wages across countries in terms of purchasing power (ie. at PPP exchange rates) or as a proportion of the country's median or average wage.

The purchasing power of the Australian minimum wage was worth around US\$10.21 in 2013. This was among the highest in the OECD, but slightly below France and Luxembourg.

**Figure 10: Minimum wage in 2013 in USD, converted at purchasing power parity**



Source: [OECD Stat](#).

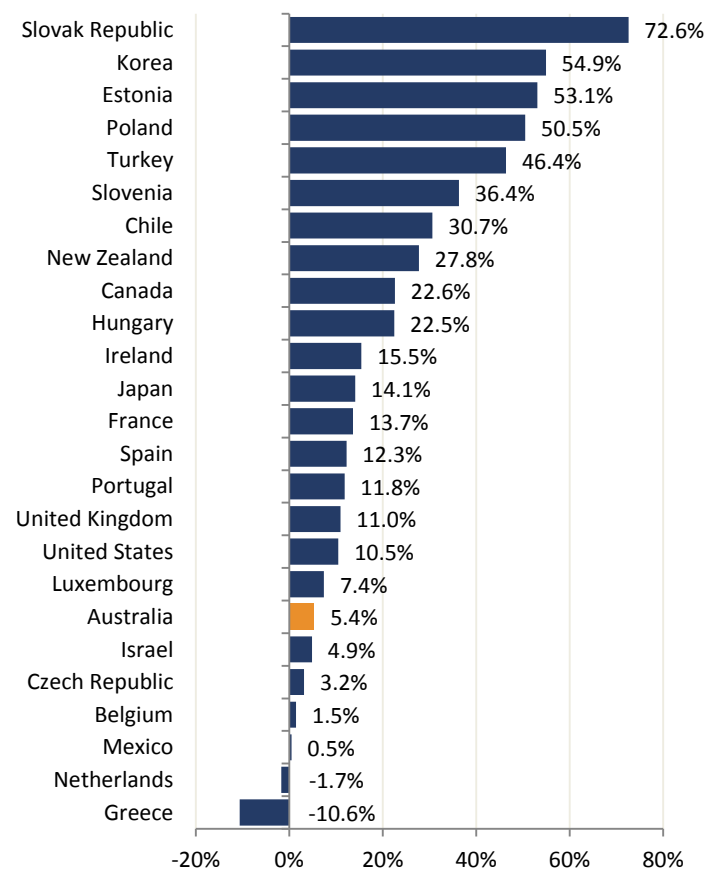
The ACTU is proud that Australia has one of the highest minimum wages in the world. However, the distinctiveness of our minimum rate is sometimes exaggerated. The difference between Australia's minimum wage and those of other countries is less marked than some employers have claimed, when

adjusted for purchasing power. Note as well that this comparison is only of the minimum wage itself; it does not take account of the large employer social security contributions in most OECD countries (see Figure 1).

### Australia's minimum wage has risen more slowly than those of most OECD countries

Australia's minimum wage rose by 5.3% in real terms between 2003 and 2013. This was one of the lowest rates of growth in the real minimum wage of any OECD country, as shown in Figure 11. Higher award rates rose by less than this.

**Figure 11: Increase in real minimum wage: 2003 to 2013**



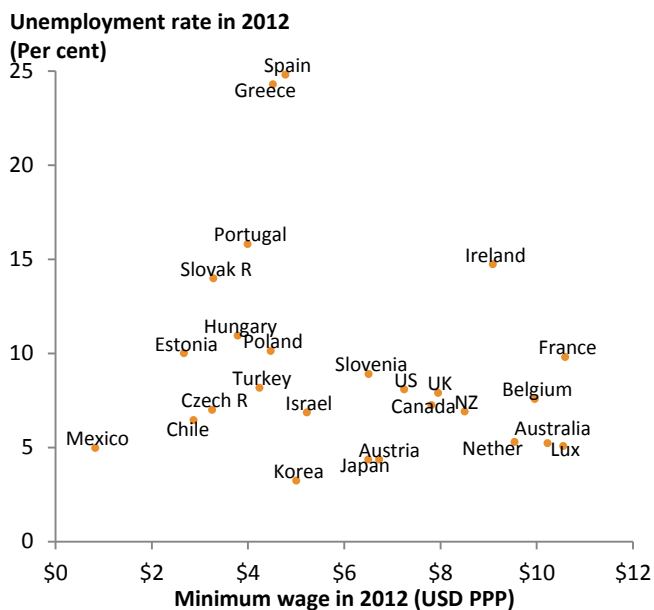
Source: ACTU calculations based on [OECD Stat](#).

The modest growth in Australia's minimum wage is at odds with the claims by some employer organisations regarding excessive wages growth in Australia.

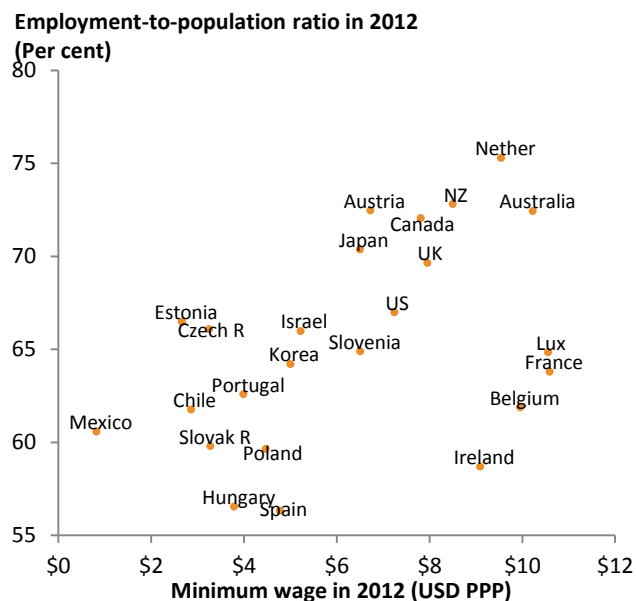
### Australia's labour market performance has been strong

Although Australia's minimum wage is somewhat high compared to those of most economies, our labour market performance has been strong. We have a lower rate of unemployment, and higher employment-to-population ratio, than many other advanced economies.

**Figure 12: Unemployment rate and minimum wage level**



**Figure 13: Employment-to-population ratio (aged 15-64)**



Source: OECD Stat.

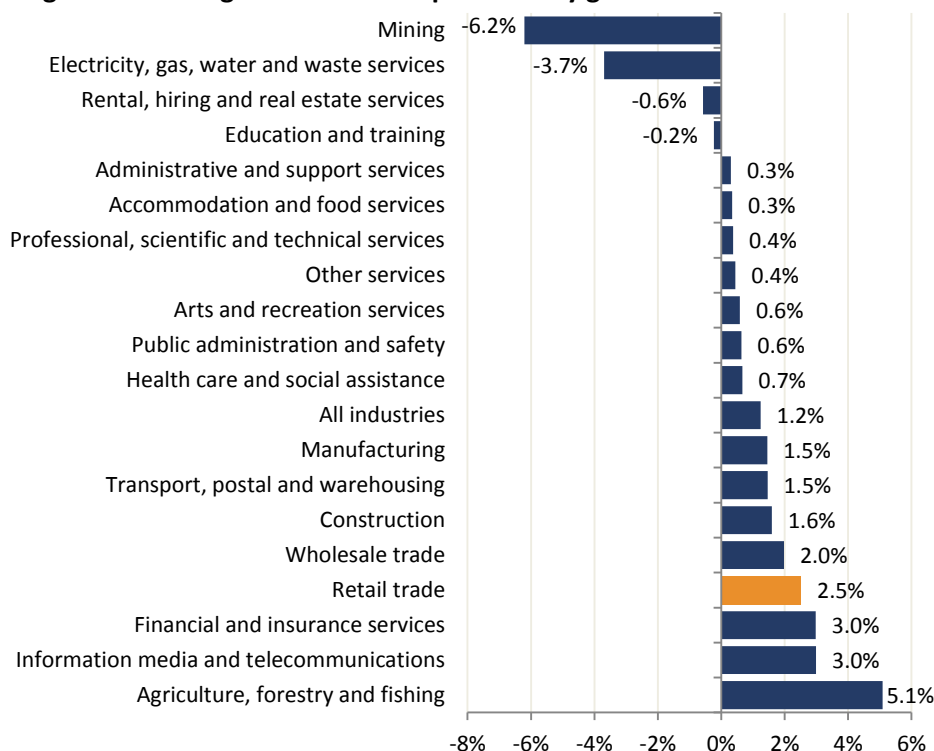
There are, of course, many factors that affect the level of employment and unemployment in a country, including monetary and fiscal policy. Minimum wages are far from the only factor. Nevertheless, it's important to note that many countries (including Australia) that have relatively high minimum wages also have relatively strong labour market performance. This fact is often omitted from public debate about minimum wages.

The relationship (or more aptly the lack of a significant relationship) between minimum wages and employment or unemployment depicted in Figure 12 and Figure 13 remains much the same if the minimum wage bite is used rather than the minimum wage in purchasing power terms. Similarly, when the change in the minimum wage (in either PPP or bite terms) is compared to the change in the employment or unemployment rates, the relationship is weak and runs in the opposite direction to the one that is typically assumed in public commentary. High minimum wages are not incompatible with high levels of employment and low levels of unemployment.

### Labour productivity growth in the Retail Trade industry has been strong

As noted in the Interim Report (p.34) productivity in the retail industry has grown more rapidly than productivity in the market sector as a whole. This is true for both labour and multi-factor productivity. In fact, labour productivity growth in the Retail Trade industry was the fourth fastest of any industry over the decade to 2012-13, as shown in Figure 14.

**Figure 14: Average annual labour productivity growth: 2002-03 to 2012-13**



Source: ABS *Australian System of National Accounts, 2012-13*, Cat. no. 5204 and ACTU calculations.

At the same time as the industry has experienced rapid productivity growth, the industry's average wages growth has been modest and well below the all-industry average (Figure 7).

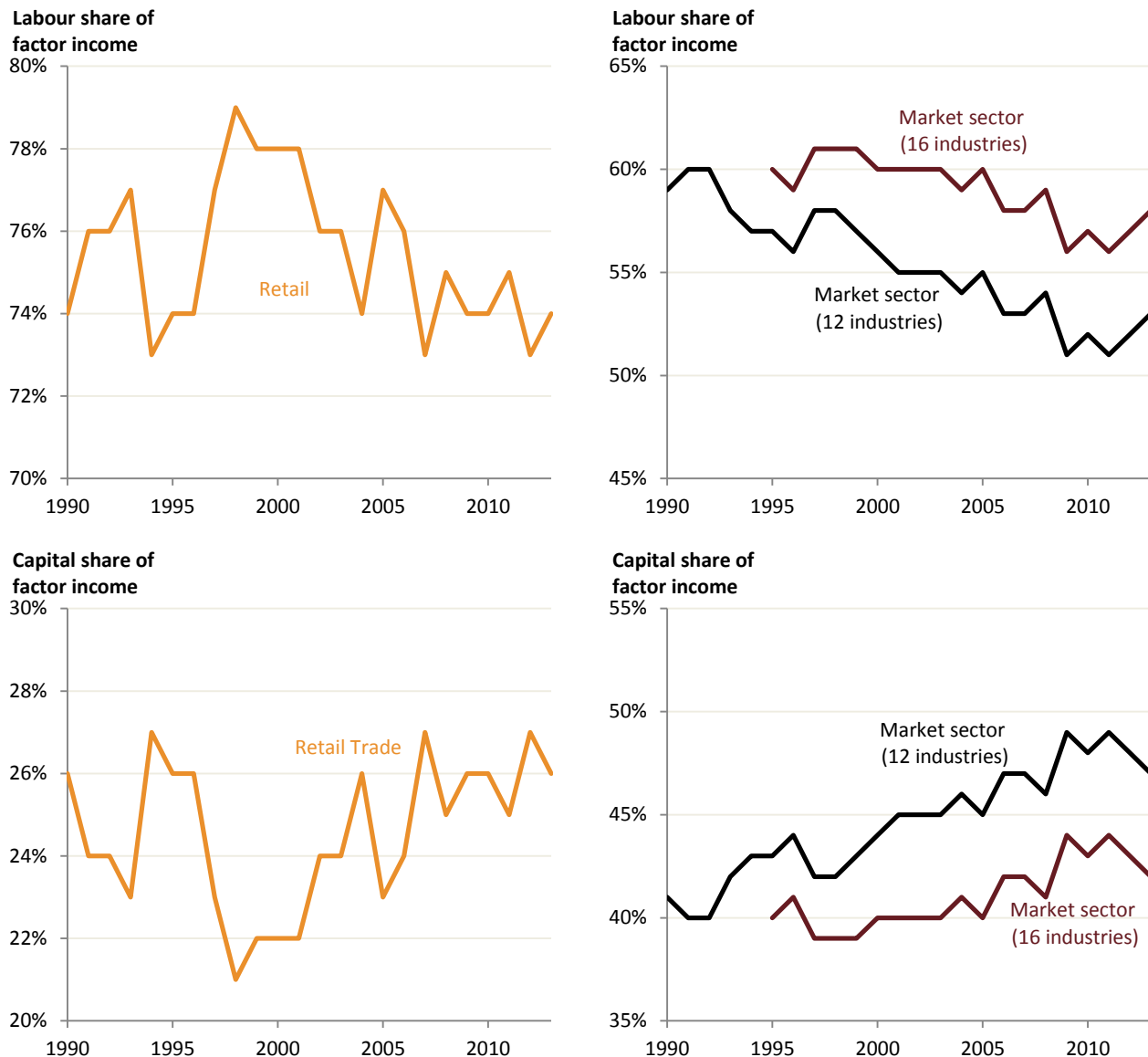
### Real wages have not kept pace with labour productivity in the industry

When real hourly wages<sup>7</sup> grow at the same pace as labour productivity, the labour share of income is constant. When real wages growth falls short of labour productivity, the labour income share falls.<sup>8</sup> This has occurred in the Retail Trade industry in Australia. The fall in the labour share indicates that the real producer wage has lagged labour productivity – the average value of the output that is generated by an hour of work has grown faster than the cost of purchasing an hour of labour. The fall in the labour share necessarily implies a rise in the capital share (as they together sum to 100%).

<sup>7</sup> 'Real' here means deflated using output prices. 'Wages' includes non-wage labour compensation such as superannuation payments. The 'real wage' referred to here is therefore the 'real product wage.'

<sup>8</sup> See Parham, D. 2013, *Labour's Share of Growth in Income and Prosperity*, Visiting Researcher Paper, Productivity Commission, p.10.

**Figure 15: Labour and capital shares of income in the Retail Trade industry and the market sector**



Source: ABS Estimates of Industry Multifactor Productivity, 2012-13, Cat. no. 5260.0.55.002.

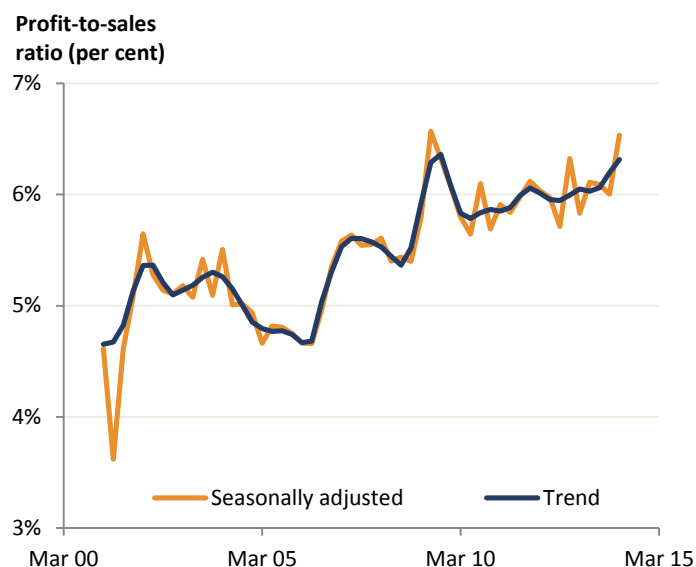
As Parham notes, “the labour income share is mathematically equivalent to the real unit cost of labour”.<sup>9</sup> Real unit labour costs have declined in the Retail Trade industry. The value of workers’ output has grown faster than the real wage. Employers’ assertions regarding labour costs do not accord with this fact.

### Gross operating profits have grown as a proportion of sales revenue

Business’ gross operating profits in the Retail Trade industry have grown from an average of 5% of sales income between March 2001 and March 2006 to an average of 6% of sales income between March 2009 and March 2014.

<sup>9</sup> Op. cit., p.60.

**Figure 16: Business gross operating profit as a percentage of income from sales of goods and services in Retail Trade**



Source: ABS Business Indicators, Australia, March 2014, Cat. No. 5676.0 and ACTU calculations.

In the March quarter of 2014, business gross operating profits represented 6.5% of income from sales in the Retail Trade industry. That is the second highest of any quarter since the ABS time series began in 2001, behind only June 2009 (when retail spending was boosted by the economic stimulus packages). The rise in gross operating profits, relative to sales income, suggests that the cost of doing business in the retail trade industry has not dampened the profitability of the sector.

## Conclusion

Productivity in the retail trade industry has grown strongly. Profits have risen, as a share of revenue, and capital income has risen as a share of factor income. Real producer wages have lagged behind labour productivity and as a result the labour income share/real unit labour cost has fallen. Minimum wages have risen even less rapidly than average wages, and a falling share of retail workers are paid award rates. Australia's minimum wage has risen less rapidly, in real terms, than the minimum wages of most OECD countries. A previous comparison by the Productivity Commission suggests that average hourly labour costs in retail are relatively modest in Australia, and more up-to-date information suggests that unit labour costs in the industry group that includes retail have grown at around an average pace in Australia. Most OECD countries mandate social security contributions by employers and employees that are larger than Australia's compulsory superannuation and payroll taxes.

None of the facts above are consistent with the assertions of some employers that labour costs in retail in Australia are too high, or have risen at an unsustainable rate.





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