

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2017 - 2018

Division/Agency: Macroeconomic Conditions Division

Question No: 241

Topic: Wages growth

Reference: Written

Senator: Whish-Wilson, Peter

Question:

The OECD's March 2017 Economic Survey of Australia stated:

Wage growth has been at record lows partly because of ongoing slack in the labour market, including in part-time employment where many employees wish to work longer hours."

1. Is this analysis by the OECD correct?
2. Is this part of a longer term trend?
3. What impact is underemployment having on Australia's economic performance?
4. What measures in this budget address underemployment?
5. What will be the impact on the budget if, as has been the case in prior years, wages growth is 2%?

Answer:

1. Yes, spare capacity in the labour market has contributed to subdued wage growth.
2. The Wage Price Index was 1.9 per cent through the year in March quarter 2017. The average annual growth in this series over its history is 3.3 per cent through the year.
3. Unemployment and other measures of spare capacity in the labour market during the second half of 2016 are consistent with slower GDP growth.
4. The Budget contains a number of measures to grow the economy, create jobs and support Australians to work. As part of this, there are also a number of measures aimed at participation which is broader than, but encompasses, underemployment. Measures in the Budget to support participation include:
 - Strengthening participation requirements for working-age welfare recipients;
 - Expanding ParentsNext to help vulnerable parents increase their participation in and attachment to the workforce;
 - Establishing the Skilling Australians Fund to prepare Australians to participate in the jobs of the future.
5. This specific scenario has not been modelled by Treasury; however wages are subject to a progressive income tax scale, which magnifies the impact of a change in wages growth on growth in the associated tax. Wage income also influences consumption and superannuation contributions, which are also subject to taxation.