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Senate Education, Employment and Workplace Relations Committees  
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Dear Committee,

Thank you for the opportunity to provide a submission to the inquiry into the *Fair Work Amendment (Small Business—Penalty Rates Exemption) Bill 2012* and to appear before the committee on 7 December. On that occasion, Senator Xenophon asked us to clarify a figure that we had provided to the committee, and to attempt to reconcile it with figures provided by other organisations, including United Voice and the Restaurant and Catering Industry Association. Our response on notice to this request is below.

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**Senator XENOPHON:** *Thank you, Mr Lyons, for your submission and your opening statement. Let me just clarify something in terms of wages as a percentage of expenses. I think that you referred to a figure of 67.6 per cent from the recently released National Accounts. There have been some figures flying around and I just wanted to try to get your assistance on that. The United Voice submission suggests that wages as a percentage of expenses based on 2010-11 ABS figures are 25.7 per cent. The Restaurant and Catering Industry Association gives a figure of 45 per cent, and they say that the difference is that if you include accommodation that skews it because the accommodation sector is quite different. On notice, so that we can see if there is an appropriate benchmark, could you say what you think is a fair figure based on your research that relates to the restaurant and catering sector, disaggregating that from, say, accommodation. Again, that is not a criticism. Again, I am just trying to work out where we at—if you could take that on notice because it is quite different.*

**Response:** In my opening statement to the committee I referred to the wages share of income in the accommodation and food services industry and the retail industry. The figures in my opening statement to the committee are correct.

The 'wages share' is equal to the total compensation of employees as a proportion of total factor income in each industry. It is calculated using figures in the annual National Accounts, released by the ABS. Total compensation of employees is a broad measure that includes all wages and salaries, plus employers' social contributions such as superannuation payments and workers' compensation premiums. Total factor income in each industry is equal to the total compensation of employees, plus the gross operating surplus of companies (a measure of pre-tax profit), plus gross mixed income (the income of unincorporated enterprises).

The wages share of income in the accommodation and food services industry has fallen in recent years. In 2011-12, the total compensation of employees in the industry amounted to \$22.37 billion, while total factor income was equal to \$33.115 billion; the wages share was therefore 67.6%. This was down from 68.3% the prior year, and well below the peak of 78.6% in 1996-97. The wages share for the industry in 2011-12 is the lowest recorded in the national accounts, which includes figures back to 1989-1990. In the retail trade industry, the wages share was 66.9% in 2011-12. As I indicated in my statement to the committee, this is the lowest wages share in that industry in five years.

The table below shows the wages share of income in each of the two relevant industries since 1989-90. These figures are calculated using table 46 of the annual national accounts.

**Table 1: Wages share of income in two industries**

	<b>Retail trade</b>	<b>Accommodation and food services</b>
1989-90	63.7%	71.3%
1990-91	64.4%	72.3%
1991-92	65.0%	76.2%
1992-93	64.0%	76.3%
1993-94	65.1%	70.5%
1994-95	63.3%	74.5%
1995-96	63.6%	74.2%
1996-97	67.1%	78.6%
1997-98	67.4%	77.7%
1998-99	67.5%	73.3%
1999-00	70.5%	73.2%
2000-01	70.4%	73.9%
2001-02	67.7%	75.5%
2002-03	68.8%	74.9%
2003-04	67.6%	71.8%
2004-05	69.3%	73.1%
2005-06	69.1%	68.2%
2006-07	66.1%	70.6%
2007-08	68.1%	71.1%
2008-09	68.9%	69.8%
2009-10	68.6%	68.0%
2010-11	69.0%	68.3%
2011-12	66.9%	67.6%

If average hourly wages in an industry keep pace with productivity growth plus changes in prices<sup>1</sup>, then the wages share will remain stable. The fact that the wages share has fallen indicates that real wages<sup>2</sup> have lagged behind productivity growth. An increasing share of the gains from productivity growth in these industries has gone to the owners of capital.

Unfortunately, these figures are not disaggregated in the national accounts to the industry sub-division level. This means that we are not able to separate out the 'accommodation' industry sub-division to provide a wages share figure for the rest of the industry (food and beverage services). However, I note that the 'accommodation' sub-division is a relatively small part of the overall industry – it employs around 106 000 people, out of an industry total of 783 400. This means that trends in the wages share for the industry as a whole are likely to be dominated by changes in the wages share in the food and beverage services sub-division, which is the sub-division of interest to the committee.

While the national accounts are the primary source for information on the distribution of income among factors of production, other sources of information can give a sense of the change in the 'wages bill' industry sub-divisions. United Voice informed the committee that wages and salaries in the food and beverage services sub-division account for 25% of expenses. This is correct; it measures something different than the 'wages share', which is wages and salaries plus social contributions as a share of total factor income.

Using the same source that United Voice used (the ABS publication *Australian Industry*), it can be seen that wages and salaries in the food and beverage services sub-division account for 60% of gross value added; this is similar (though not identical) to the wages share of factor income. This measure has fallen in recent years, from 62.4% in 2006-07 to 60% in 2010-11 (the most recent year available). This affirms our suggestion that the falling wages share in the accommodation and food services industry is likely to reflect a falling wages share in the food and beverage services sub-division. I have been unable to ascertain the origins of the RCIA figure to which Senator Xenophon referred.

Whichever measure is used, it is clear that wages and salaries have not kept pace with overall income in the relevant industries. This fundamentally undermines the argument that there has been an unsustainable increase in labour costs, and should be fatal to the proposition that workers' entitlements should be reduced.

Yours sincerely,

Tim Lyons  
Assistant Secretary

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<sup>1</sup> The correct measure of price changes for this purpose is the change in the price received by producers for their goods and services.

<sup>2</sup> Deflated by producer prices.