

# **The Federal Budget and the labour market**

A culminating challenge

**Conrad Liveris**  
**conradliveris.com**  
**+61 430 449 116**

## **Executive summary - a cause for concern**

As households themselves feel the impact of low wage growth while inflation remains steady, this ricochets throughout the economy. With a labour market and economy in transition, there are a confluence of concerns on the horizon.

This report seeks to outline how reliant the Australian Budget is on income tax and how changes in the labour market could impact this.

Analysing ever Budget from 2008/09 to 2017/18, the most recent, being 10 different Budgets, it is paired with employment and earnings figures to paint what is a concerning picture.

Stability in revenue has allowed the Commonwealth to prepare and respond as needed, but this is becoming more complex.

***The Federal Budget thrives on stability.***

***There are tests on the horizon.***

You'll see that the Budget has become increasingly reliant on one source of taxation, individual income tax.

However, government regulation has not responded to or considered responding to the changing labour market itself or its relationship with the tax-system.

Though other sources of government revenue have remained stable in their dollar-value income over this medium-term assessment, individual income tax has grown significantly. While at the same time the labour market has become more casualised and work itself more precarious.

This confluence of narrow revenue streams, a labour market experiencing casualisation, precariousness and low wage growth along with limited regulatory adaptation undermines the stability and strength of the Budget.

There are teething issues for business and individuals in a changing economy, here I outline the challenge for government.

## Key outtakes

Over the past decade, the Federal Budget has become increasingly reliant on individual income tax.

Government revenue has seen individual income tax grow from 39.7 per cent in 2008/09 to 47.2 per cent in 2017/18.

In dollar figures, individual income tax grew from \$126.7 billion to \$209.6 billion - a 65.4 per cent increase.

The second largest revenue source government revenues, company and resource rent taxes, has remained relatively stable, contributing \$76.4 billion in 2008/09 and \$80.4 billion in 2017/18.

Other sources of revenue contributed 34.81 per cent across nine different sources in 2017/18, down from 38.21 per cent in 2008/09.

At the same time, the labour market is facing two distinct challenges.

The wage price index has risen by an average 0.81 per cent per quarter over the decade.

The increase in the average Australian's total earnings over the decade has been \$15.86 every six-months.

While overall employment has risen by 23.34 per cent over the period assessed, this has been driven by part-time work which has grown by 38.91 per cent while full-time work has grown by less than half of this at 17.39 per cent.

Current labour market trends lend itself to low wage growth and struggle with entry and re-entry for workers.

Additionally, structural issues limit the opportunity to combine part-time jobs together or with contracting. Part-time work can result in a high effective marginal tax rate.

As the Federal Budget becomes increasingly reliant on individual income tax the labour market shows a trend which undermines stability in incomes, and there for tax receipts.

Government must respond to this significant risk by broadening the tax base with other sources, encourage the combining of part-time jobs together and making contracting more accessible to ensure income security for households and stability for government revenues.

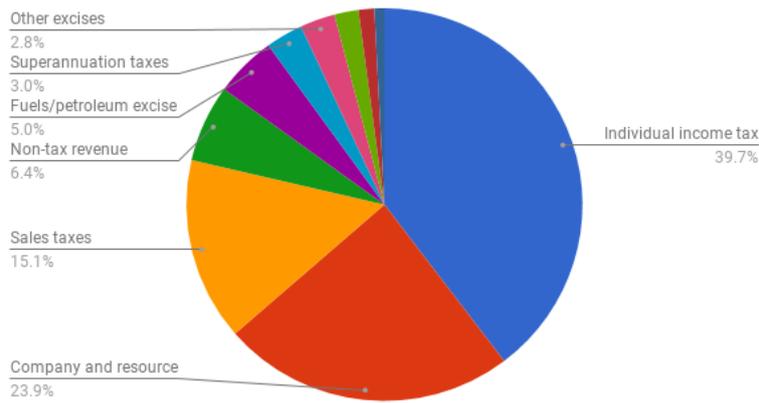
Failing to respond to the challenges outlined here, the governments will jeopardise their ability to serve the public.

# Government revenue

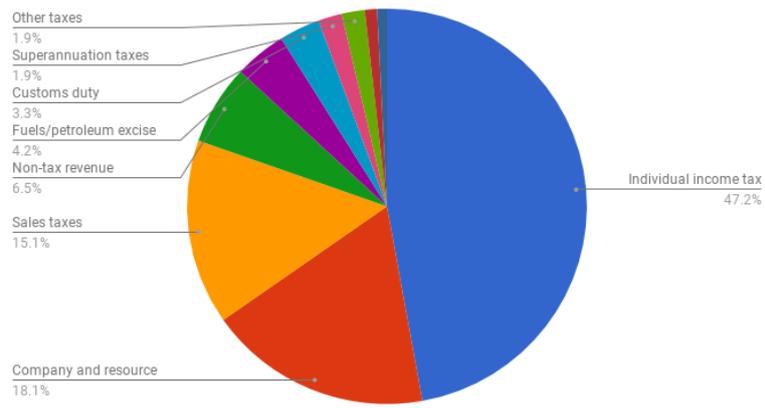
In a time where agility and disruption in the economy are encouraged, the impact on government revenue has received little attention.

The Federal Budget has grown in overall size from \$319.38 billion in 2008/09 to \$444.40 billion in 2017/18, an increase of 39.14 per cent. Social security/welfare and health have seen their burden on budgets grow most significantly.

Federal Budget revenue sources, 2008/09



Federal Budget revenue sources, 2017/18

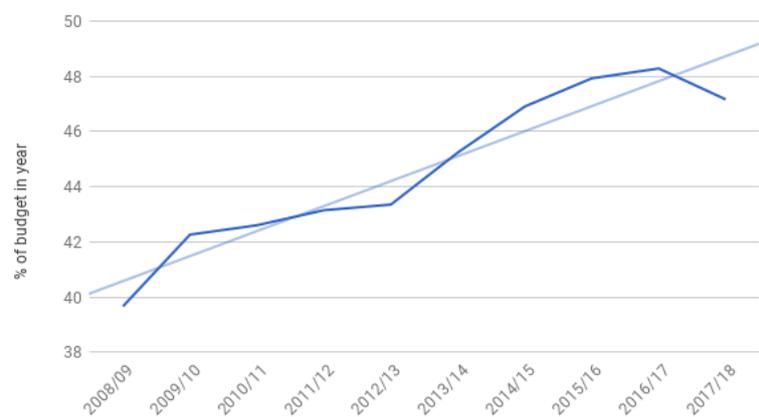


This medium-term view shows that the make-up of the Budget is changing and that sources of revenue have shifted.

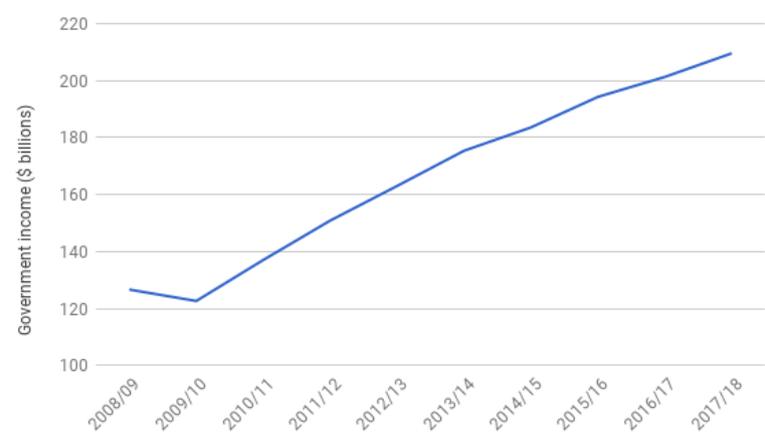
Looking over the medium term, the Federal Budget has become more reliant on individual income taxes.

Progressively, since the 2008/09 Budget, Federal budget revenue has seen individual income tax grow from being 39.7 per cent to 47.2 per cent in 2017/18, with a high of 48.2 per cent in 2016/17. The actual revenue, too, have grown in the same period from being \$126.7 billion to \$209.6 billion - a 65.4 per cent increase.

Individual income tax as a percentage of the Federal Budget, 2008/09 - date



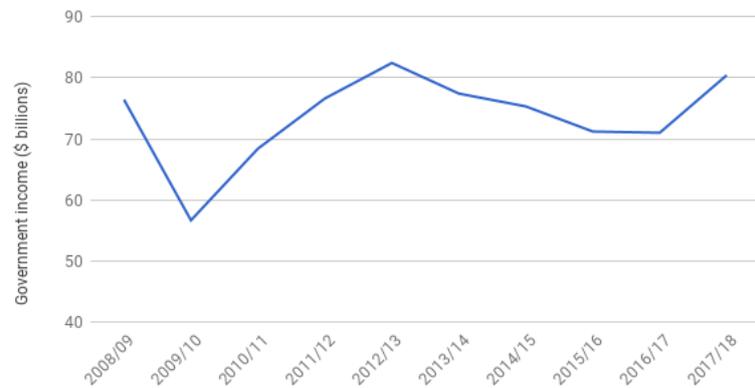
Individual income tax collected as government revenue, 2008/09 Budget - date



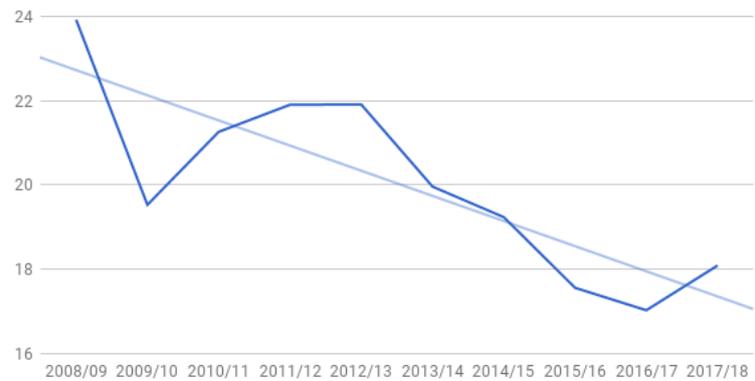
Compared this to the next largest revenue source, company and resource rent taxes, have slid from being 23.9 per cent in 2008/09 to 18.1 per cent in 2017/18. Actual revenue has remained

relatively stable for company and resource rent taxes being \$76.4 billion in 2008/09 and \$80.4 billion in 2017/18.

Company and resource rent taxes collected as government revenue, 2008/09 Budget - date



Company and resource rent taxes as a percentage of the Federal Budget, 2008/09 - date



Other revenue streams are comparative minor, contributing 34.81 per cent across nine different sources in 2017/18. For note, they have been relatively stable as their percentage share of the budget and as a dollar-value.

Over this decade, government revenues have become limited and narrow. A narrow tax base is, fundamentally, a risk to the security of the Budget and government revenues. You'll read later on that pinning the Budget on individual income taxes, too, is concerning given the trends at play.

## Understanding the challenges

With the Federal Budget seeing a clear increase in reliance on individual income taxes, a confluence of challenges arise.

### 1. Flexible labour market

Over the long term, and especially since the global financial crisis, the labour market has become more flexible and less stable. Full-time job growth is low or declining, part-time work has grown dramatically with casual and contract work also filling in gaps.

Alongside this the shift to contract workers has increased, aided in part by labour-hire firms, has added to a greater precariousness in employment.

At the same time, entry and re-entry to the labour market has become more difficult for people with long working lives and distinct earning capacity. There remains a preference for full-time work, but these opportunities are being dwarfed by part-time opportunities.

Among this lies low wage growth, which struggled following the global financial crisis and the end of the mining boom.

### 2. Tax base reliance on stable income

Historically Australia's tax base has been reliant on stable income, of individuals and business. However, the economic changes afoot jeopardise this.

Individual income tax has become more prominent as a form of government revenue, while other sources have remained stable.

The Federal Budget has expanded, primarily, on the back of individual income tax; however the casualisation of the labour market and low wage growth suggest that the Commonwealth cannot rely on this going forward.

### 3. Regulatory environment has not responded to an economy in change

The regulatory and taxation arrangements have not adapted to the changing economy.

There has been little change in the regulation of the labour market or the tax system to adapt to the changes afoot.

Workplace regulation does not currently support part-time and casual work in the way it does for full-time work. Through complex interactions with the tax and labour systems, individuals working part-time can experience high and very high effective marginal tax rates.

A failure to adapt labour and tax regulation to a changing economy is likely to weaken the strength of individual income tax on the budget and overall sustainability of government services.

This confluence of issues may leave the government revenues susceptible to weaknesses.

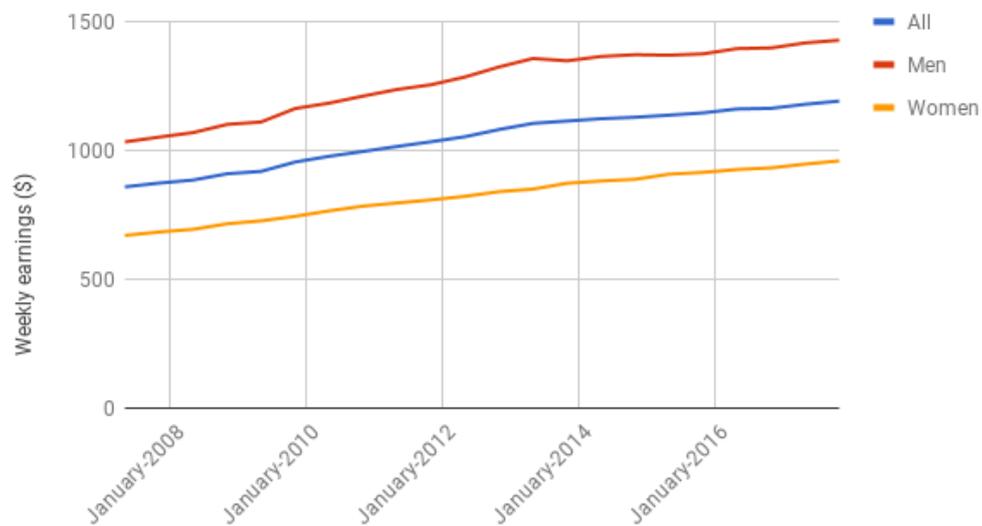
## Wages

Wage growth currently sits at some of the lowest levels on record and measures attempted to alter this have not been successful, which is a cause for concern for households, business and government.

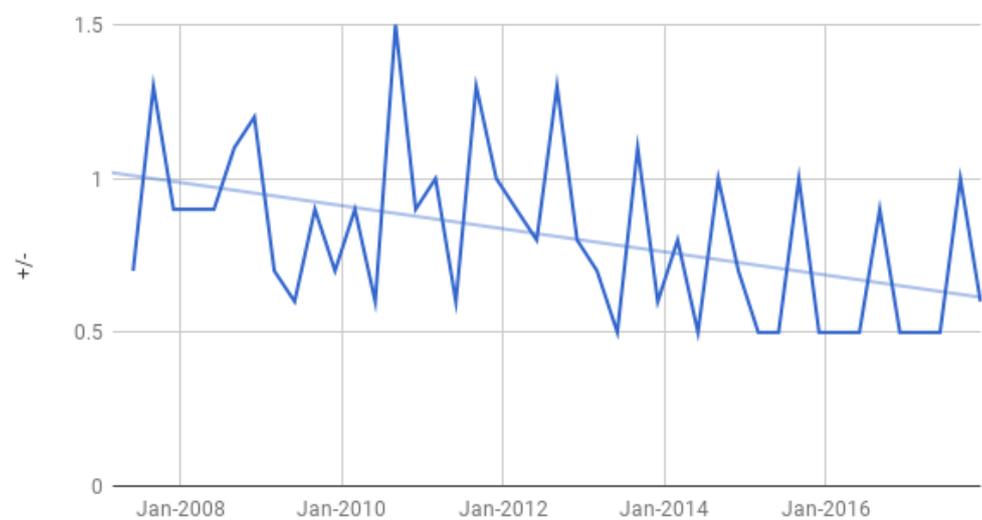
Households are concerned about meeting their bills, mortgages or rent and incidental costs, which means they are less likely to spend their income on other goods and services, in retail or recreational items, which has a wide effect on business-at-large, which can further limit government revenue.

Low wage growth has been a concern raised widely throughout the economy, including by the Governor of the Reserve Bank.

Average total weekly earnings, May 2007 - date

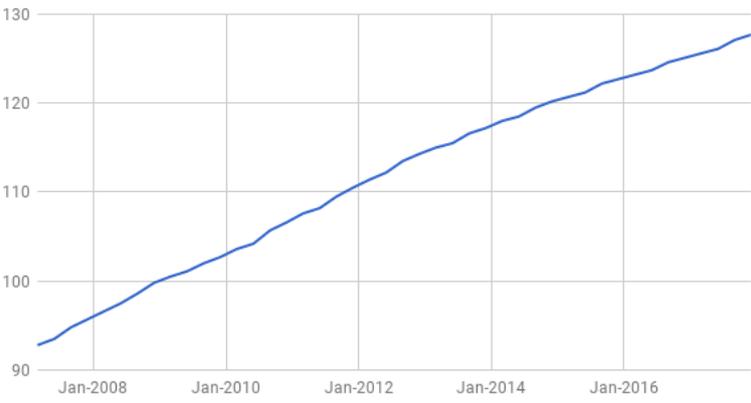


Quarterly +/- change in Wage Price Index, Q1 2007 - date



The average quarterly increase in the wage price index, in the 2007-date period, is 0.81 per cent. The average six-monthly increase in wages, for the average Australia's total earnings, is \$15.86, over this period.

Wage Price Index Australia-wide, Q1 2007 - date

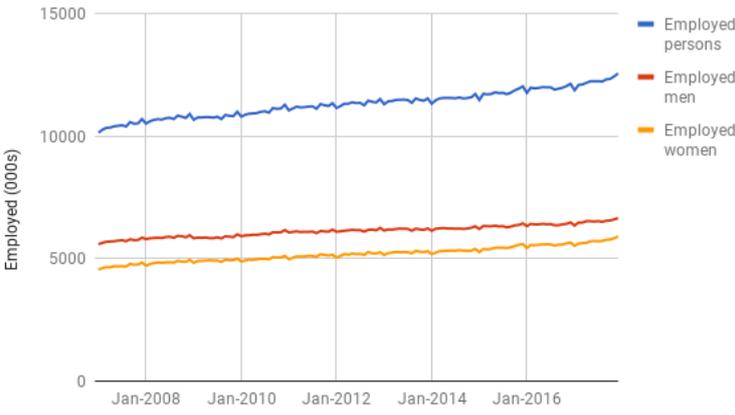


Part of this low wage growth can be attributed to the changing labour market. The increased casualisation in the workforce is correlated to more precarious and less stable income, often resulting in a lower weekly income for households.

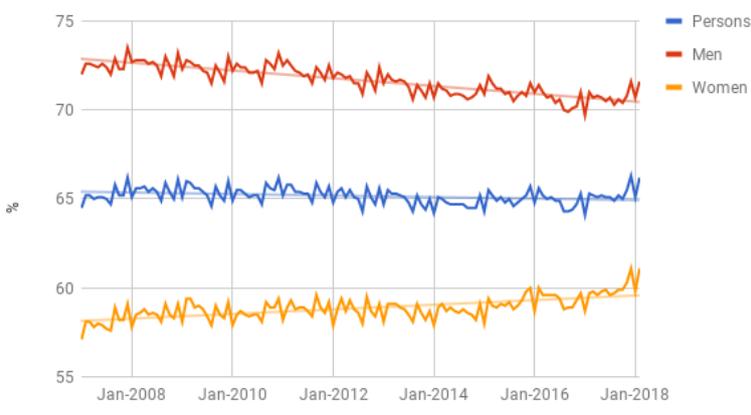
Currently, Government records expect wage growth to increase in coming years; however, recent projections have not been met.

The relationship between wages and employment, suggests that income levels will continue to rise at this low level for the foreseeable future.

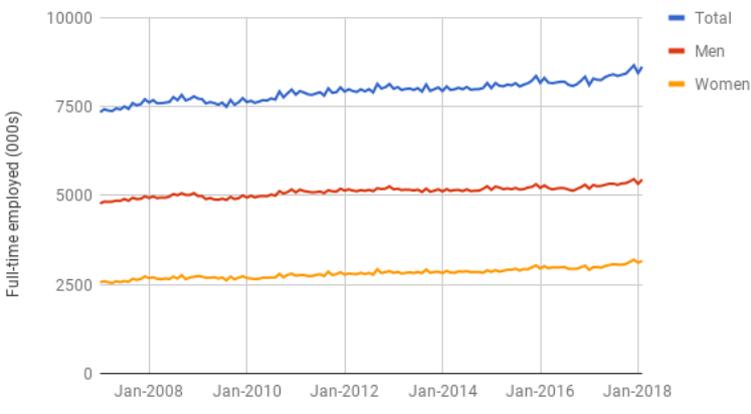
Total employed, January 2007 - date



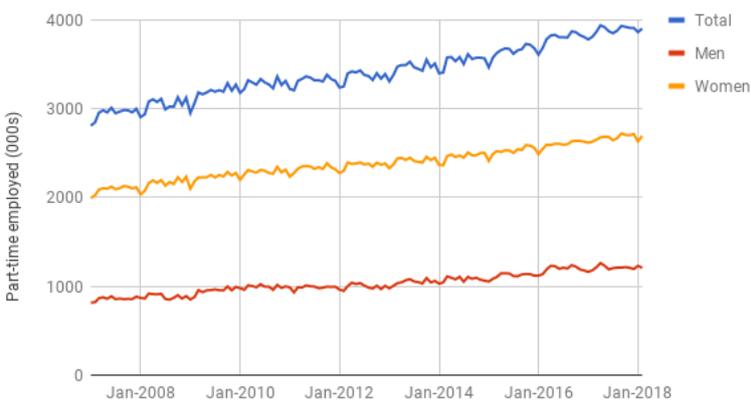
Participation rate, January 2007 - date



Full-time employed, January 2007 - date



Part-time employed, January 2007 - date



## Employment

There are variety of complex situations happening in unison in the labour market, which tend to be driving or are driven-by casualisation.

The past decade has seen part-time jobs grow at twice the rate of full-time jobs, this casualisation as, in part, resulted in lower wage growth.

Overall employment growth has grown by 23.34 per cent over the 10 year period, however it has largely been driven by part-time work. Full-time employed have grown by 17.39 per cent while part-time employed has grown by 38.91 per cent, over the 10 year period.

The participation rate of has declined in this period, as it has in the long-term too, driven primarily by a decline in men's labour market engagement. Though women's participation has been rising, female workers tend to hold part-time and casual jobs and are less likely to be household breadwinners.

Additionally, people who are unemployed are more likely to seek full-time work than part-time work as their preference. They are unlikely to be successful in this attempt.

When segmented by age, it is younger people who have the least access to full-time work. Young people, tend to have greater ability, capacity and ability to work longer hours. Due to the nature of the labour market, this is jeopardised.

Overall, the labour market is seeing greater casualisation and a shift away from full-time work. This may not be the preference for workers, and there are challenges for employers, but this does enable a more flexible workforce which greater adapts to needs as they arise.

People who work full-time are typically in more secure work with higher incomes. Those in casual, contract and part-time work do not experience the stability of work or income and tend to have lower incomes. This limits their disposable income.

## Time to adapt

The evidence presented in this report outlines that the Federal Budget is increasingly reliant on individual income tax at a time when the labour market is less stable and more casual.

As both of these trends are likely to continue, these are causes of concern.

The underlying issue here is the adaptability for the Commonwealth grow revenues as required and maintain the perception of different segments of the economy paying their fair-share.

The major concern here is that as the labour market becomes more flexible then it cannot be the source for, almost, the majority of public revenue. This is unsustainable.

Responding to this, Government should consider the following:

1. Encouraging part-time workers to become contractors outside their work;  
Allowing multiple forms of income for workers gives them greater security of income and make more stable contributions to the tax base.
2. Reduce the complexity of starting a small business and the tax arrangements; and,  
The processes to start contracting and align tax obligations for individuals can be complex. Individuals can struggle to understand their duties on their own and, accidentally, not pay their fair-share of tax.
3. Developing revenue sources in other areas.  
Reliance on one income stream is a risk to the stability of government revenues. The current tax base is too narrow for a 21st Century economy, and is built on individual income tax.

Government must substantially respond to the confluence of challenges outlined in this report.

Relying on one source of revenue will always be a risk to the stability of government revenue, but especially on individual income tax at a time of casualisation, subdued full-time job creation and with low wage growth.

Government should seek pathways to adapt the labour market and tax systems to encourage greater security in household income through adjustments to part-time work regulation.

Australia needs 21st Century regulation of the labour market and tax system, especially when the Budget relies on individuals paying their income tax.

The confluence of issues outlined here undermine the strength of the Budget and the ability of Government to serve the public.

## References

ABS 6202 Labour Force, Australia.

ABS 6345 Wage Price Index, Australia.

Ingles D, Plunkett D, August 2016, Effective marginal tax rates paper no: 1/2016.

2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18  
Australian Federal Budgets.

2017 Post Budget Public Forum, commentator - Catherine McGrath, panellists - Sharon Bessell, John Hewson, Warwick McKibbin, Miranda Stewart - 16 May 2017.

Balancing the books? Post-budget policy analysis, Sir Roland Wilson Foundation public annual budget forum, 19 May 2016, speakers include John Hewson and Miranda Stewart.

Disclosure:

To cite this document for future reports and academic work, please do as: Liveris, C, "The Federal Budget and the labour market: a culminating challenge", April 2018.

This is part of a periodical analysis of various workplace and economic issues of contemporary national and industry interest. All efforts are made to present the evidence as impartial, independent, fair and not misleading. These contributions are verifiable and are reviewed by experts prior to release.

The author, Conrad Liveris, is a corporate adviser on workplaces and risk. Lauded as one of Australia's leading employment and workplace experts, he is actively sought by decision-makers in business and government on matters of restructuring, general management, human resources and stakeholder relations. He is US State Department alumni, and is an Associate Fellow of the Royal Commonwealth Society, London. He completed his Bachelor of Arts at the University of Notre Dame Australia, a Master of Commerce at Curtin University and has received scholarships for management education at the Governance Institute of Australia and the University of California, Los Angeles.