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Submission of UnionsWA on the 2019 state wage order

**Appl No. 1 of 2019
ON THE COMMISSION'S OWN
MOTION**

**Western Australian Industrial Relations
Commission**



Contact Details

Phone: 08 9328 7877

Fax: 08 9328 8132

Street Address: *Level 4, 445 Hay St, Perth WA
6000*

Postal Address: *PO Box Z 5380 St Georges Tce,
PERTH WA 6831*

Email: Tim Dymond

TDymond@unionswa.com.au

1. Introduction

- 1.1. UnionsWA is the governing peak body of the trade union movement in Western Australia, and the Western Australian Branch of the Australian Council of Trade Unions (ACTU). It represents 30 affiliated unions, who in turn represent approximately 140,000 Western Australian workers.
- 1.2. Section 50A(3) of the Industrial Relations Act 1979 (WA) (IR Act) states that in making an annual State Wage order the Western Australian Industrial Relations Commission (Commission) shall take into consideration, amongst other things,
 - (a) *the need to:*
 - (i) *ensure that Western Australians have a system of fair wages and conditions of employment; and*
 - (ii) *meet the needs of the low paid; and*
 - (iii) *provide fair wage standards in the context of living standards generally prevailing in the community; and*
 - (iv) *contribute to improved living standards for employees; and*
 - (v) *protect employees who may be unable to reach an industrial agreement; and*
 - (vi) *encourage ongoing skills development; and*
 - (vii) *provide equal remuneration for men and women for work of equal or comparable value;*
 - (b) *the state of the economy of Western Australia and the likely effect of its decision on that economy and, in particular, on the level of employment, inflation and productivity in Western Australia;*
 - (c) *to the extent that it is relevant, the state of the national economy;*
 - (d) *to the extent that it is relevant, the capacity of employers as a whole to bear the costs of increased wages, salaries, allowances and other remuneration;*
 - (e) *for the purposes of subsection (1)(b) and (c), the need to ensure that the Western Australian award framework represents a system of fair wages and conditions of employment;*
 - (f) *relevant decisions of other industrial courts and tribunals; and*
 - (g) *any other matters the Commission considers relevant.*

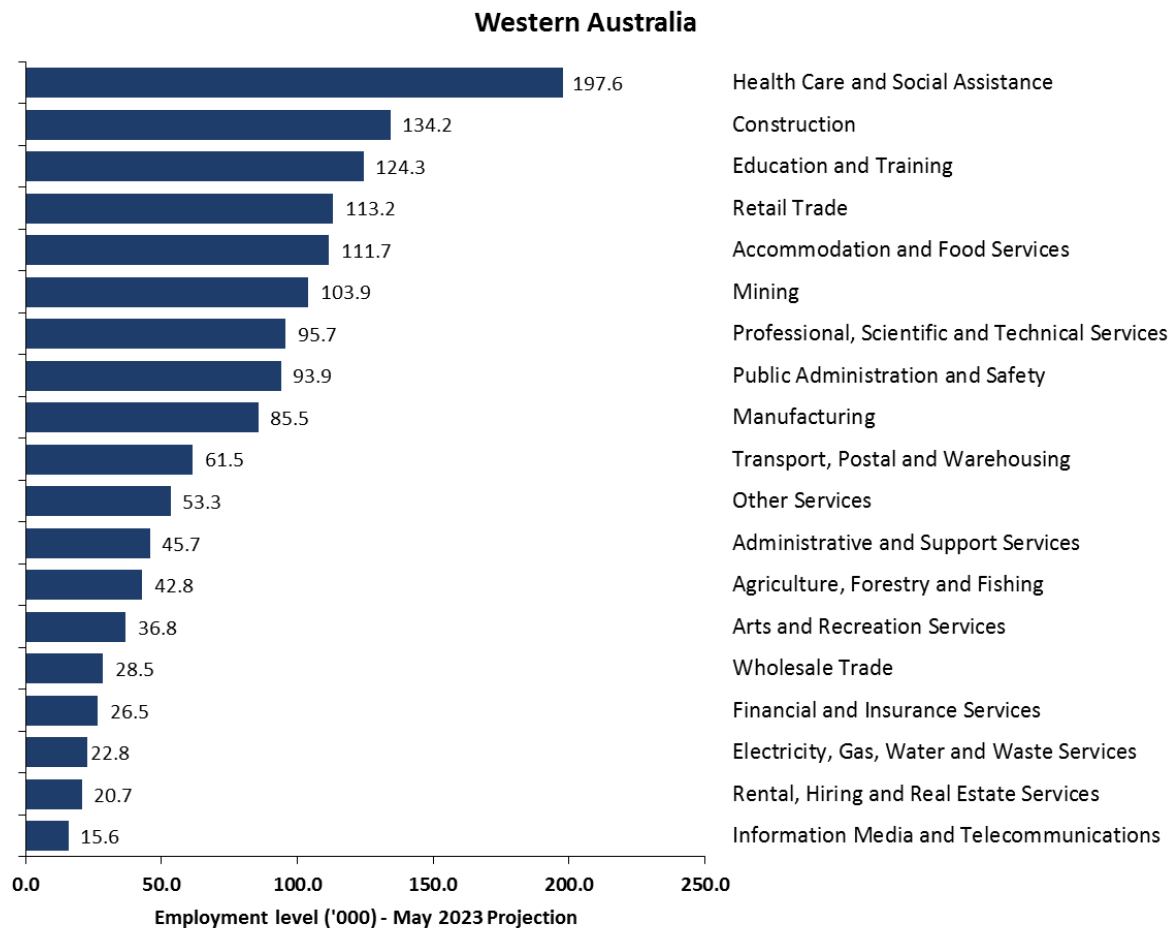
2. UnionsWA position on increasing Award and Minimum Wages

- 2.1. UnionsWA contends that the Commission should make a substantial real wage increase for award-reliant workers. This is essential to address the ever widening gap between low paid workers and the rest of the workforce in WA. Therefore UnionsWA is advocating that the Commission increase award wages and the statutory minimum wage by **\$43.61 per week** or by **6%**, whichever is greater. For our claim, this should mean that all award rates be increased by 6%.
- 2.2. UnionsWA argues that the General Order to increase the state minimum wage should take effect from the end of June 2019, so that low wage workers get the full benefit for the maximum period of time. There are no exceptional circumstances that would warrant a delay in the Order's implementation. The full increase within the Act should be applied to apprentices and juniors.
- 2.3. Our State Wage Claim would have the following effect on each award classification level - using the current rates of the *WA Metal Trades (General) Award*.

	Current		If proposed UnionsWA increase applied				
Classification	Weekly	Hourly	Weekly	Hourly	% Change	\$ Weekly change	\$ Hourly Change
C14	\$726.90	\$19.13	\$770.51	\$20.28	6.0%	\$43.61	\$1.15
C13	\$744.50	\$19.59	\$789.17	\$20.77	6.0%	\$44.67	\$1.18
C12	\$768.30	\$20.22	\$814.40	\$21.43	6.0%	\$46.10	\$1.21
C11	\$790.40	\$20.80	\$837.82	\$22.05	6.0%	\$47.42	\$1.25
C10	\$828.10	\$21.79	\$877.79	\$23.10	6.0%	\$49.69	\$1.31
C9	\$850.70	\$22.39	\$901.74	\$23.73	6.0%	\$51.04	\$1.34
C8	\$873.10	\$22.98	\$925.49	\$24.35	6.0%	\$52.39	\$1.37
C7	\$893.60	\$23.52	\$947.22	\$24.93	6.0%	\$53.62	\$1.41
C6	\$938.60	\$24.70	\$994.92	\$26.18	6.0%	\$56.32	\$1.48
C5	\$961.20	\$25.29	\$1,018.87	\$26.81	6.0%	\$57.67	\$1.52

- 2.4. The workers who are likely to be paid the lowest rate which they can be lawfully paid under the state system, are more likely to be in precarious employment arrangements. These are in turn more likely to be in service industry employment (such as retail, accommodation and food services) which are forecast to be significant for WA's future employment levels.¹

¹ Commonwealth Department of Employment, *Employment projections for the five years to May 2023*, <http://lmip.gov.au/default.aspx?LMIP/EmploymentProjections>



2.5. UnionsWA also notes that the WA government, in its response to the Final Report of the Ministerial Review of the State Industrial Relations System (tabled in State Parliament on 11 April 2019), stated that

... it is appropriate that local government be regulated by the State industrial relations system rather than the national system. The IR Act will accordingly be amended to enable a declaration to be made that Western Australian local government authorities are not “national system employers” for the purposes of the FW Act.²

While local government employees are more likely to be under collective agreements, this decision underscores the need for a strong set of basic conditions in the state industrial relations system, including a substantial increase to minimum and award rates.

2.6. UnionsWA argues that workers in the aforementioned industries and sectors did not get their fair share of WA’s previous strong economic growth, and are in danger of slipping further behind in the state’s current economic circumstances. This has been demonstrated by measures of inequality such as

- The gender pay gap
- The disparity between the minimum wage and median weekly earnings
- Household income inequality

² *Proposed Reforms in Response to the Ministerial Review Of The State Industrial Relations System*
https://www.commerce.wa.gov.au/sites/default/files/atoms/files/governments_proposed_reforms_in_response_to_the_ministerial_review_of_the_state_industrial_relations_system.pdf

- 2.7. UnionsWA directs the Commission's attention to a recent open letter from 124 labour policy experts calling for proactive measures to help accelerate the rate of wages growth in Australia's economy.³ It states that

'For the last several years, Australian wages have experienced an unprecedented slowdown. Nominal wages have been growing at only about 2% per year since 2015.'

...

The consequences of this unusually slow wage growth are many and varied, and include: weaker consumer spending, greater household indebtedness and financial stress, slower growth in government revenues, and widening inequality. In our judgment, the deceleration of wage growth is due in significant part to the impact of deep structural and institutional change, and cannot be explained as a normal outcome of market forces.

...

... reversing the stagnation of wages will require positive policy action to strengthen institutional supports for higher wages.

...

And while any individual employer may think it benefits from lower (not higher) wages, collectively even the business community has a stake in the stronger purchasing power and community cohesiveness that comes with rising wages.

- 2.8. The ACTU's Briefing Paper *'Inequality in Australia: An Economic, Social & Political Disaster'* points out that Australia has an 'income recession', as household incomes started falling behind rising living costs from late 2015 onwards. The clear driver for the fall in living standards has been low wages growth.⁴

Living costs outstripped household incomes by 2.9% over the past three years as weak wage growth delivered the biggest fall in living standards for more than 30 years.

- 2.9. This is affecting the whole economy. The ACTU points out in its submission to the national wage case that there are an estimated 2.23 million workers in Australia who are dependent on Award wages.⁵ These are workers who will spend their wages in the local community. Boosting their wages will result in more demand, greater economic activity and create jobs.

- 2.10. Dr Philip Lowe, Governor of the Reserve Bank of Australia (RBA), has told the House of Representatives' Standing Committee on Economics that⁶

If we're going to deliver average inflation of 2½ per cent we should probably have average wage increases over long periods of time at 3½ per cent, if we can get decent productivity growth. My concern was that we were getting used to — and we didn't like it — wage increases of two to 2½ per cent. I've spoken publicly about the benefits of a pick-up in wage

³ Centre for Future Work '124 Labour Policy Experts Call for Measures to Promote Stronger Wage Growth' (19 March 2019) https://www.futurework.org.au/wages_open_letter

⁴ ACTU Briefing Paper, *'Inequality in Australia: An Economic, Social & Political Disaster'*, https://assets.nationbuilder.com/actuonline/pages/814/attachments/original/1551737683/ACTU_Inequality_briefing.pdf?1551737683

⁵ ACTU Submission to the Annual Wage Review 2018-19 <https://www.actu.org.au/our-work/submissions/2019/actu-submission-to-the-annual-wage-review-2018-19>

⁶ Philip Lowe, Governor of the Reserve Bank of Australia, evidence to House of Representatives Standing Committee on Economics, Parliament of Australia, Sydney (16 February 2018) pp.14-15 https://parlinfo.aph.gov.au/parlInfo/download/committees/commrep/af4a01ce-cf3b-4e4e-a214-3522214a8e01/toc_pdf/Standing%20Committee%20on%20Economics_2018_02_16_5908_Official.pdf;fileType=application%2Fpdf#search=%22committees/commrep/af4a01ce-cf3b-4e4e-a214-3522214a8e01/0001%22

growth, to try to lift wage expectations and to reduce the probability of us getting stuck at this very low equilibrium.

This is no less the case for Western Australia. Decisive action is required to address wage stagnation at the bottom end of wage distribution. Workers are spending, but their capacity to do so is threatened by increases in living costs that disproportionately impact the low paid.

- 2.11. In a recent collection of essays entitled *The Wages Crisis in Australia*, Stephen Kinsella and John Howe point out that there has been ‘a secular shift in labour’s share of output across a number of rich countries. Australian workers took home roughly 68% of total output in 1960. By 2017, that value was 52%’.⁷

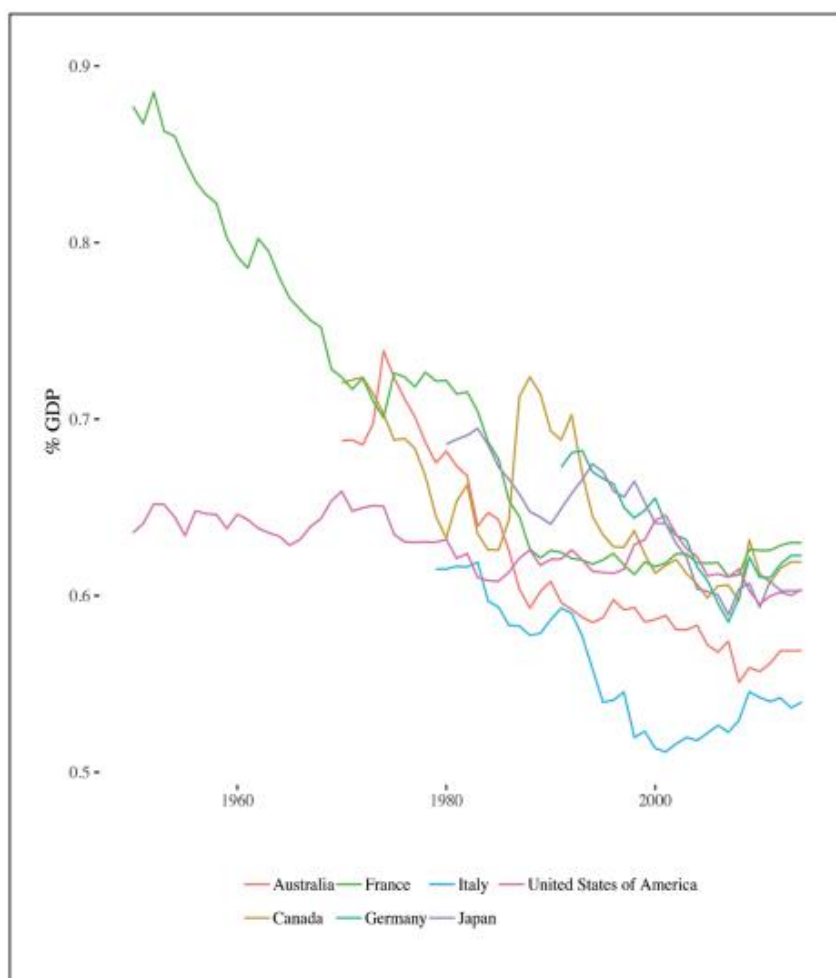


Figure 3.1: Share of labour income of nominal national output

Source: Penn World Tables (version 9.0), using the 'labsh' variable; denominator is % of GDP. Constant lines indicate little variation rather than no data, and are included for completeness.

- 2.12. Recent minimum wage decisions, both at the WA and national levels, have seen a decline of the minimum wage ‘bite’ compared to median weekly earnings.⁸ A more recent flattening of that decline is more to do with low wage growth generally rather than wage growth at the bottom.

⁷ Stephen Kinsella and John Howe ‘Global perspectives on wage stagnation’ in Andrew Stewart, Jim Stanford and Tess Hardy (eds) *The Wages Crisis in Australia*, University of Adelaide Press (2018) (p.43)

<https://www.adelaide.edu.au/press/titles/wages-crisis/wages-crisis-ebook.pdf>

⁸ ABS 6333.0 - *Characteristics of Employment, Australia, August 2018*,

<https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6333.0August%202018?OpenDocument>



2.13. In previous Annual Wage hearings the ACTU has supported the adoption of a medium term target for the minimum wage, of 60% of the median wage for full time employees. We believe that reaching such a target will deliver a “living wage” in respect of the Australian tradition set by the Harvester decision of meeting ‘normal needs of the average employee, regarded as a human being living in a civilised community’.⁹ The OECD has defined the level of relative poverty to be at 60% of full-time median earnings and the Living Wage policy proposed by unions adopted that benchmark.¹⁰ We note that a target of 60% of the median has been explicitly adopted in United Kingdom, where the Low Pay Commission (or LPC, the independent body that advises the government about the National Living Wage and the National Minimum Wage) recently found that, since the national minimum wage was introduced in 1999, ‘it has risen faster than average earnings and inflation without damaging jobs’.¹¹

2.14. The ACTU is arguing for a two stage process over two years to bring the minimum wage back to 60% of median earnings (full time), otherwise an increase of over 10% (or \$72.80 per week) would be necessary to close that gap. For the WA state minimum wage, an increase of around double would be needed to reach 60% of WA’s full time median weekly earnings. Therefore the UnionsWA claim of \$43.61 per week or by 6%, whichever is greater, is a modest claim that recognises the state’s economic circumstances, while keeping the WA minimum wage relatively higher than the national minimum wage.

2.15. UnionsWA contends that the Commission should not be allowing the WA industrial relations system to become a ‘low wage zone’ for workers on state awards. It can do so by granting an increase that maintains the WA minimum wage as higher than the national minimum wage. The Commission should not preside over minimum wage adjustments that result in either falling, or merely ‘treading water’ minimum wage bites. Just as the Commission has led the way in maintaining a higher state than national minimum wage that has taken into account, among other things, the relatively higher living costs in WA. It should also take the

⁹ *Ex parte H.V. McKay (Harvester Case)*, (1907) 2 CAR 1

<https://www.apf.gov.au/binaries/library/intguide/law/harvester.pdf>

¹⁰ OECD: ‘The incidence of low pay refers to the share of workers earning less than two-thirds of median earnings’ <https://data.oecd.org/earnwage/wage-levels.htm>

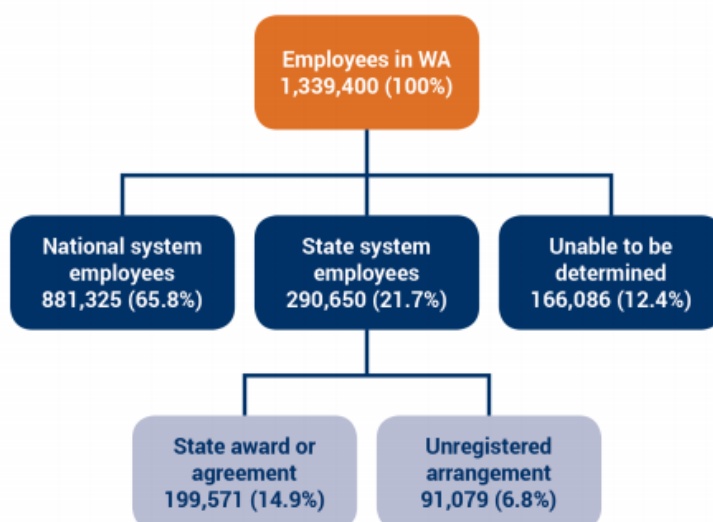
¹¹ LPC, ‘20 years of the National Minimum Wage A history of the UK minimum wage and its effects Low Pay Commission’ <https://www.gov.uk/government/publications/20-years-of-the-national-minimum-wage>

lead in reversing the erosion of relative living standards of low wage workers in order to maintain a fair system of wages and conditions. It should also act to inject a much needed increase in aggregate demand into the WA state economy, and limit the growth of income inequality as the state economy recovers.

3. Who is likely to be impacted by the state wage case?

- 3.1. UnionsWA is utilising the analysis of contained in the *Interim Report - Ministerial Review of the State Industrial Relations System*. This is alongside ABS labour force data, and information from the Department of Commerce website.
- 3.2. The Interim Report describes the numbers of employees who are covered by the State system as potentially between 21.7 per cent and 36.2 per cent of the employees in the State.¹²

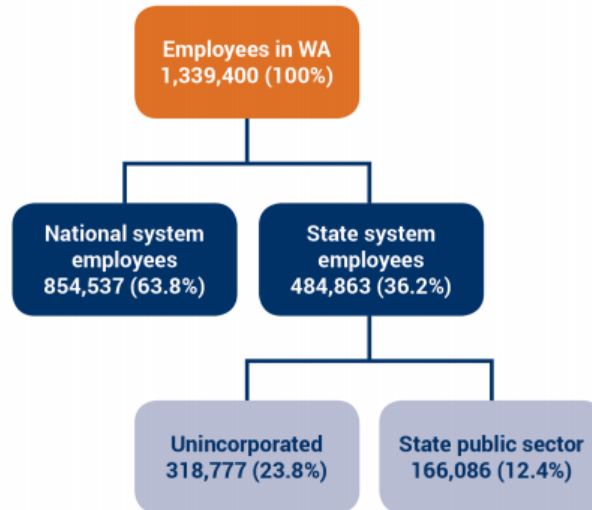
Figure 1A Number and Proportion of Employees by Pay Setting Methods, Western Australia³⁸



- 3.3. Businesses judged to be more likely to be in the state industrial relations system are those that are unincorporated. These workers are more likely to be impacted by the state minimum wage case. The Interim Report sets them out as follows:

¹² *Interim Report - Ministerial Review of the State Industrial Relations System* (20 April 2018), pp.60-1, 440, https://www.commerce.wa.gov.au/sites/default/files/atoms/files/ministerial_review_of_the_state_industrial_relations_system_interim_report.pdf

**Figure 1B Number and Proportion of Employees by Type of Legal Organisation (Entity),
Western Australia⁴⁰**



3.4. The Interim Report also includes data from the Wageline contact centre in the Private Sector Labour Relations Division (PSD) of the Department of Mines, Industry Regulation and Safety, which receives approximately 20,000 calls per annum. The internal analysis of Wageline data for 2016/17 shows that, of the calls that pertained to the State system:

- a) 20 per cent related to award free employees;
- b) 14 per cent concerned the Building Trades (Construction) Award;
- c) 11 per cent concerned the Restaurant, Tearoom and Catering Workers' Award;
- d) 9 per cent concerned the Hairdressers Award; and
- e) 8 per cent concerned the Shop and Warehouse (Wholesale and Retail Establishments) Award.

3.5. In its submission to the National Wage Case, the WA government pointed out that 'Employees in industries known to be award-reliant constitute a significant proportion of Western Australia's workforce, as shown in Table 1 below'.¹³

¹³ Fair Work Commission, 2018-19 Annual Wage Review, Submission of the Government of Western Australia
<https://www.fwc.gov.au/documents/wage-reviews/2018-19/submissions/wagov-sub-awr1819.docx>

Table 1: Employment and award reliance by industry - WA and Australia, November Quarter 2018

Industry	WA: Proportion of Workforce ¹⁴	Australia: Proportion of Workforce ¹⁶	Australia: Proportion of employees paid by award ¹⁵
Accommodation and Food Services	6.9%	7.1%	44.9%
Administrative and Support Services	2.7%	3.2%	41.3%
Other Services	3.8%	3.8%	38.1%
Health Care and Social Assistance	12.2%	13.2%	31.7%
Retail Trade	9.4%	10.2%	30.1%
Rental, Hiring and Real Estate Services	1.7%	1.7%	29.4%
Arts and Recreation Services	2.0%	1.9%	22.5%
Manufacturing	6.8%	7.1%	20.8%
Construction	9.1%	9.1%	16.6%
Wholesale Trade	3.0%	3.2%	16.1%
Transport, Postal and Warehousing	4.7%	5.2%	12.7%
Public Administration and Safety	6.4%	6.5%	10.9%
Education and Training	8.2%	8.3%	10.0%
Professional, Scientific and Technical Services	7.1%	8.4%	8.0%
Information, Media and Telecommunications	0.9%	1.7%	7.1%
Financial and Insurance Services	1.8%	3.5%	5.2%
Electricity, Gas, Water and Waste Services	1.6%	1.2%	4.1%
Mining	8.3%	2.0%	0.9%
Agriculture, Forestry and Fishing	3.3%	2.6%	N/A [†]
All industries	100.0%	100.0%	22.5%

[†] N/A: Enterprises primarily engaged in agriculture, forestry and fishing are outside the scope of the ABS *Employee, Earnings and Hours* survey from which this data is drawn.

- 3.6. The Interim Report provides a list of Award free employees in Western Australia. It notes that it includes those who work in industries or occupations that could be considered as traditionally award-type work and/or who would be covered by a modern award if employed in the national industrial relations system.¹⁶

¹⁴ ABS (2018), *Labour Force, Australia, Detailed Quarterly, November 2018*, catalogue 6291.0.55.003, Datacube EQ06 (original data). The share of the Western Australian workforce employed in most industries is lower than it is at the national level due to the significance of the Mining industry in the State.

¹⁵ ABS (2019), *Employee Earnings and Hours, Australia, May 2018*, catalogue 6306.0, Datacube 5, Table 4.

¹⁶ *Interim Report*, p.449.

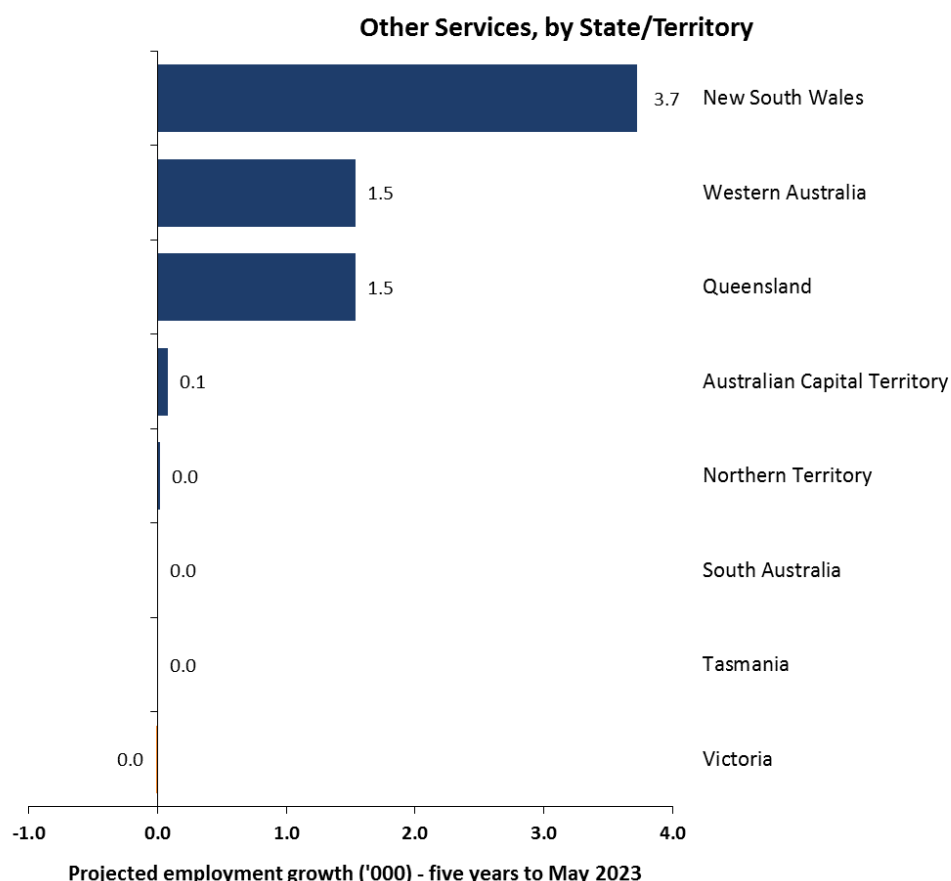
- Aged and disability support workers employed directly by individuals
- Auto wreckers (excluding sales persons)
- Beauty therapists
- Car salespersons
- Clerical/administrative/reception employees working for:
 - Car yards
 - Caravan parks
 - Child care centres
 - Contract cleaners
 - Fundraising consultant businesses
 - Gyms
 - Interior designers
 - Interpreting services
 - Legal firms (e.g. legal secretary)
 - Mechanical garages
 - Nightclubs
 - Occupational therapists
 - Optometrists
 - Physiotherapists
 - Plumbers
 - Podiatrists
 - Removalists
 - Settlement agencies
 - Swimming pool manufacturers/retailers
 - Telecommunications businesses
 - Tourist centres
 - Veterinary clinics
- Dairy farm workers
- Dance instructors
- Dog/pet groomers
- Enrolled nurses working for doctors' surgeries
- Flower pickers
- Horse and greyhound breeders and trainers
- Interior designers
- IT workers – IT support workers, software developers, website designers etc.
- Market garden workers (if not planting, picking or packing fruit)
- Meter readers
- Nannies
- Shop assistants/salespersons working for:
 - Mobile phone shops
 - Party hire businesses
 - Video/DVD stores
- Newspaper delivery workers employed by Newsagents
- Nightclub employees, including bar staff, glassies, front door staff
- Phlebotomists
- Property managers
- Real estate agents
- Reticulation installers/repairers
- Sign installers
- Swimming pool technicians
- Telemarketers
- Tow truck drivers
- Tree loppers
- Waste industry workers (excluding local government employees)
- Workers in the outer suburbs of Perth making or repairing:
 - Bags, sacks and textiles
 - Boots
 - Particle boards
 - Plywood and veneer products
 - Cases and boxes
 - Rope and twine

3.7. Bearing in mind the Interim Report's caveat that these workers may be on national awards, it remains the case that these award free workers still need a strong state minimum wage outcome, should they be working for an unincorporated employer. It should be noted that many of these employees might be captured by the Australia Bureau of Statistics' industry classification 'Other Services' – which the ABS describes as follows:¹⁷

The Other Services Division includes a broad range of personal services; religious, civic, professional and other interest group services; selected repair and maintenance activities; and private households employing staff. Units in this division are mainly engaged in providing a range of personal care services, such as hair, beauty, diet and weight management services; providing death care services; promoting or administering religious events or activities; or promoting and defending the interests of their members.

¹⁷ ABS, 1292.0 - Australian and New Zealand Standard Industrial Classification (ANZSIC), 2006 (Revision 2.0) <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/072559238F61C768CA257B9500133B6A?opendocument>

3.8. The Commonwealth Department of Employment projects that the WA will have the second largest employment growth in ‘Other Services’ of all the States and Territories in Australia.¹⁸



3.9. Research has been carried out for the Fair Work Commission, for the National Minimum Wage Case, to identify the characteristics of minimum wage workers. It seems likely that these characteristics are shared by WA minimum wage workers:¹⁹

- By gender NMW wage earners were more likely to be female (just under 60 per cent), with 2.3 per cent of all female employees classified as NMW earners compared with 1.8 per cent of all male employees. Data also showed that females made up a majority of all employees paid at adult rates at 52.5 per cent.
- By age, around one-quarter of NMW earners were aged 30 to 49 years, while nearly half of all employees were found to be in this age group. There was a relatively high proportion of NMW earners (22.3 per cent) aged between 15 and 20 years (and not earning junior rates), while this group comprised only 2.8 per cent of all employees. The data also showed that around 17 per cent of employees aged 15 to 20 years were NMW earners, representing the highest proportion of NMW earners compared with any other age group.
- By hours a majority were working part time (77.2 per cent), compared with all employees (38.9 per cent)
- By type of employment NMW earners were primarily engaged on a casual basis (79.6 per cent).

¹⁸ Commonwealth Department of Employment, *Employment projections for the five years to May 2023*, <http://lmip.gov.au/default.aspx?LMIP/EmploymentProjections>

¹⁹ Kelvin Yuen, Grant Ellis and Lucy Nelms, ‘Characteristics of workers earning the national minimum wage rate and of the low paid’ *FWC Research Report 3/2018* <https://www.fwc.gov.au/documents/sites/wagereview2018/research/rr32018.pdf>

- Nearly half of NMW earners (47.2 per cent) were award reliant—that is, paid at the award rate only—while fewer than one-quarter (23.2 per cent) of all employees were award reliant. NMW earners comprised only 4.2 per cent of all award-reliant employees, indicating that the majority of award-reliant employees are paid above the NMW rate.
- Almost all NMW earners were working in a business in the private sector (98.7 per cent) compared to 76.7 per cent of all employees.
- Around three-fifths of NMW earners worked for small employers (fewer than 20 employees)
- Accommodation and food services stands out as the industry with the highest proportion of NMW earners at 27.9 per cent. It also has the highest concentration of NMW earners, with one in ten employees within this industry considered a NMW earner.
- NMW earners feature most prominently among Sales workers and Labourers (both 28.3 per cent).
- Most NMW earners were concentrated in the lowest skill levels. Over half of NMW earners (56.7 per cent) worked in occupations with skill level 5, with 6.1 per cent of all employees at this skill level classified as a NMW earner (Skill levels are on a scale of 1 to 5, with 1 being the highest)

Given the increasing significance of the service economy to employment growth generally, it is important that these workers are provided with a strong minimum wage increase. The outcome of the state wage case is important for ensuring those workers get decent pay outcomes.

3.10. In the Annual Wage Review 2015–16 decision, the Expert Panel stated:

‘... we do not accept the proposition that most low-paid workers are not in low-income households. Around two-thirds of low-paid employees are found within the bottom half of the distribution of employee households and have lower living standards than other employees. Increases in the minimum wage and award classification wages do have a role to play as part of a package of measures to address the relative living standards and the needs of the low paid. So much is evident from the minimum wages objective and the modern awards objective in the Act.’

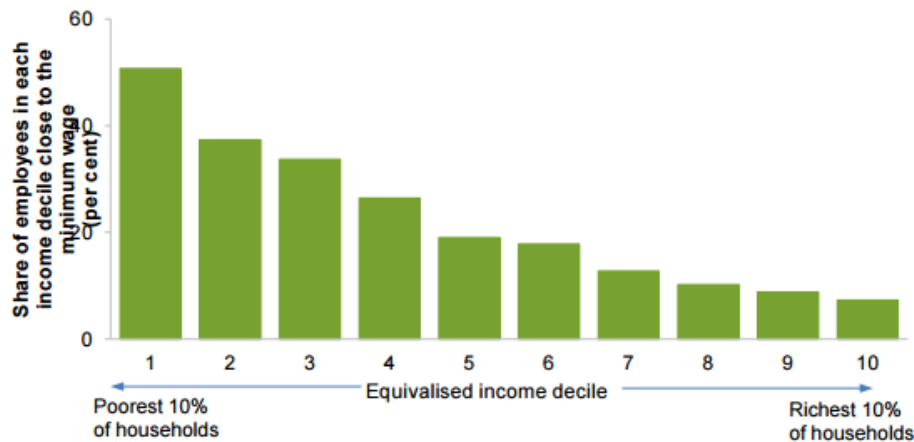
The Productivity Commission (PC) in its Inquiry into the Workplace Relations Framework released in December 2015 noted that

Employees in the lowest income groups are more likely to be on the minimum wage than those in higher income groups (and by more than a fivefold factor) (figure 4.8). So, while most people in the lowest quintile are not in work (and therefore do not receive any wages), almost half of those who are in work are paid at a minimum rate.’²⁰

²⁰ PC Inquiry into the Workplace Relations Framework (December 2015) pp.208-10
<https://www.pc.gov.au/inquiries/completed/workplace-relations/report>

Figure 4.8 An employee in a low-income group is much more likely to be paid around the minimum wage rate

Minimum wage reliance among employees according to household equivalised^a income deciles, 2013-14



^a Equivalised household income controls for household size by dividing total household income by a weighted sum of persons in the household. The first adult is allocated a weight of 1, while additional adults are weighted at 0.5 and children weighted at 0.3.

Source: Productivity Commission estimates based on HILDA release 13.

3.11. UnionsWA asks the WA Commission to reject all submissions which contend that minimum wage workers do not need a substantial pay increase because their living arrangements may be in a household with higher income earners – whether it be parents, spouses or friends. Low wage workers are entitled to the respect of being considered as individuals.

3.12. UnionsWA contends that an increase in the state minimum wage in WA is more likely to assist workers vulnerable groups of employees who are less likely to negotiate decent increases for themselves. An increase will also benefit lower income households in which people are working. The increase will also benefit households with mixture of lower and higher income earners, by providing more independence for the lower earners, and taking financial pressure off higher earners.

4. Broad impact of minimum wages on employment

4.1. The WA Commission has been warned year after year about the potentially dangerous impacts on employment of raising the state minimum wage by ‘too much’. These have never come to pass, and are based on seriously outdated economic theories.

4.2. On 16 May 2018 the Reserve Bank of Australia (RBA) released a Research Paper that used ‘some of the unique institutional features of wage setting in Australia as an identification strategy to estimate the effects of minimum wage rises on wages, hours worked and the job destruction rate’. This appears to be the first study of its kind in Australia.²¹

4.3. Not only did the Report find ‘strong evidence that award adjustments are passed on to wages’, it also found no evidence that award changes between 1998 and 2008 have an adverse effect on hours worked. Indeed it found evidence

... that jobs with larger award wage rises had larger increases in hours worked than jobs experiencing a smaller award wage rise. Based on the 95 per cent confidence interval, I am able to rule out adverse effects on hours worked that are larger (in absolute value) than – 0.46.13 I also find that award wage increases do not have a statistically significant effect on

²¹ RBA Research Discussion Paper – RDP 2018-06 ‘The Effect of Minimum Wage Increases on Wages, Hours Worked and Job Loss’ (May 2018) pp.9-10 <http://www.rba.gov.au/publications/rdp/2018/pdf/rdp2018-06.pdf>

the job destruction rate (Table 2). Again, if anything, the point estimates suggest that the job destruction rate actually declines when the award wage is increased.

Table 2: Effect of Award Wages on Wages, Hours Worked and the Job Destruction Rate

Effect of a 1 per cent increase in award wages			
	Wages (%)	Hours worked (%)	Job destruction rate (ppt)
1998–2008 sample	0.84*** (0.03)	0.26 (0.37)	–0.22 (0.44)
2002–08 sample	0.93*** (0.04)	0.13 (0.47)	–0.37 (0.55)

Notes: Standard errors (in parentheses) are clustered at the individual job level; ***, ** and * denote statistical significance at the 1, 5 and 10 per cent levels, respectively

- 4.4. In another essay in *The Wages Crisis in Australia*, Tim Lyons points out the most recent economic scholarship ‘has developed a better model of the labour market that is consistent with what we observe in the real world’.²²

Known as ‘dynamic monopsony’, it takes account of both the power of a firm to set wages as a buyer faced with multiple sellers in the form of workers, and the ‘frictions’ that workers face when considering changing jobs. Such frictions include factors like where the job is located, personal preference, the costs of changing jobs to the worker and the fact that workers may simply not know about the other job. All of which sounds very much like the labour markets we face when trying to get a job or considering a change in job. A firm with monopsony power is able to pay lower wages than it would be able to under the model of perfect competition.

- 4.5. Dynamic monopsony shows how a minimum wage can increase both earnings and employment. Arindrajit Dube, a leading scholar in the field explained the benefits this way:²³

[B]y reducing frictional wage inequality, an increased minimum wage reduces job-to-job transitions. Put simply, if McDonald’s pays a better wage, fewer of its workers will leave to take better paying jobs — say at the higher wage chain In-and-Out Burgers. A higher statutory minimum reduces vacancies at McDonald’s, and makes it more likely that the vacancy at the In-and-Out Burgers is filled from the ranks of the unemployed.

- 4.6. Professor Dube’s most recent research specifically addressed the question of the overall employment effect of the minimum wage ‘by tracking the changes in the number of jobs throughout the wage distribution following a minimum wage increase’.²⁴ Specifically addressing the issue of the relativity of the minimum wage to the median, he and his co-researchers found that:

... when the minimum wage is high relative to the median, the events have a bigger bite and a greater number of missing jobs below the new minimum, but also have a nearly equally sized number of excess jobs at or above the new minimum. As a consequence, the employment effect

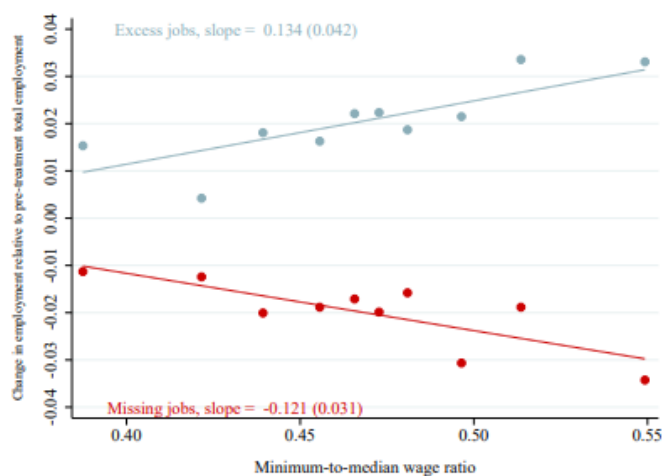
²² Tim Lyons, ‘Minimum Wages’, in Stewart, Stanford and Hardy (2018) p.79.

²³ Statement by Arindrajit Dube, Ph.D. Assistant Professor of Economics University of Massachusetts before the U.S. Senate Committee on Health, Education, Labor & Pensions Hearing on ‘Keeping up with a Changing Economy: Indexing the Minimum Wage,’ (14 March, 2013) p.16 <https://www.help.senate.gov/imo/media/doc/Dube.pdf>

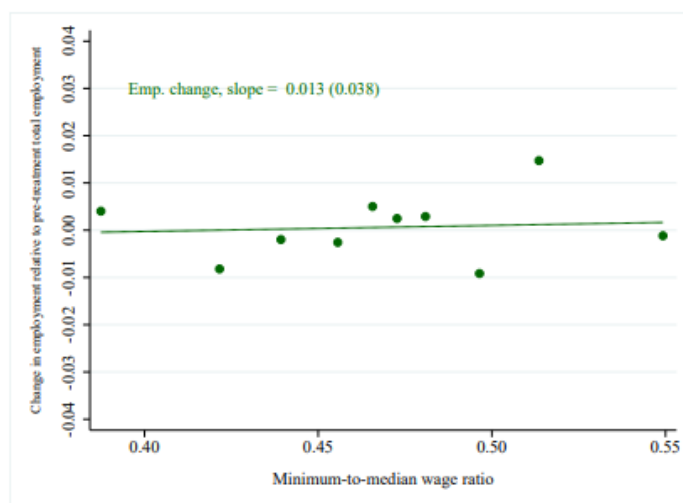
²⁴ Doruk Cengiz, Arindrajit Dube, Attila Lindner, and Ben Zipperer, ‘The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator’, *CEP Discussion Paper No 1531* (February 2018), pp. 35, 70 <http://cep.lse.ac.uk/pubs/download/dp1531.pdf>

is virtually unchanged as we consider minimum wages that range between 37% and 59% of the median wage, as shown in the bottom panel of Figure 8.

Figure A.8: Relationship between Excess Jobs, Missing jobs, Employment Change and the Minimum-to-Median Wage Ratio Across Events (Replicating Figure 8 in the Main Text without using Controls)



(a) Missing and excess jobs



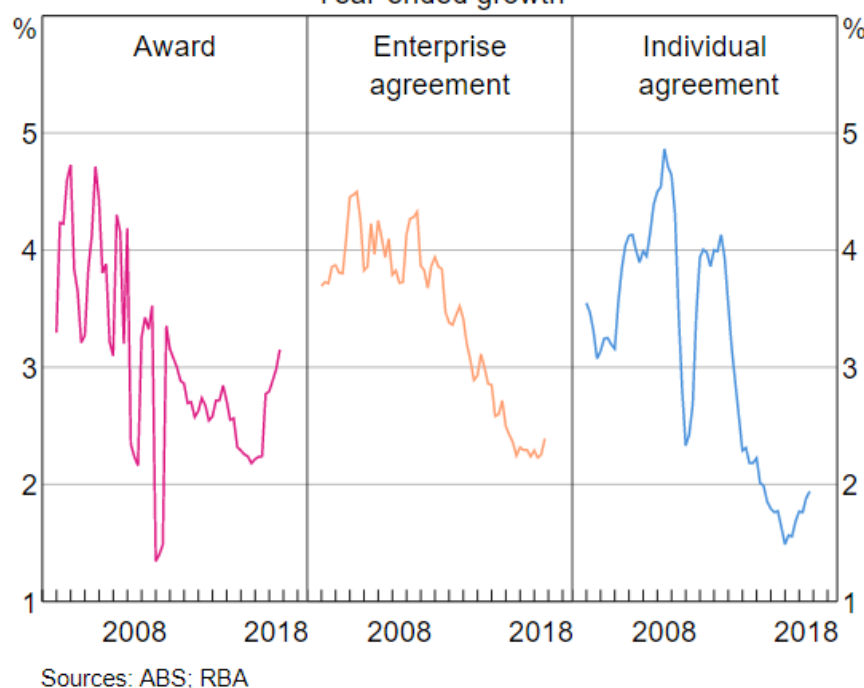
(b) Employment change

Notes: This figure replicates Figure 8 in the main text without using controls in the regression. The figure shows the binned scatter plots for missing jobs, excess jobs, and total employment changes by value of the minimum-to-median wage ratio (Kaitz index) for the 130 event-specific estimates. The minimum-to-median wage ratio is the new minimum wage *MW* divided by the median wage at the time of the minimum wage increase (Kaitz index). The 130 events exclude 8 minimum wage raising events in the District of Columbia, since those events are very noisily estimated in the CPS. The bin scatters and linear fits plot the relationship without any control variables. Estimates are weighted by the event-specific inverse variance of the employment change estimate that was calculated using the bootstrap procedure described in the text. The slope (and robust standard error in parentheses) is from the weighted linear fit of the outcome on the minimum-to-median wage ratio.

- 4.7. It has been noted by the RBA, in its most recent *Monetary Policy Statement* (May 2019), that in Australia, the award system is still doing the heavy lifting on what little wage growth there has been.²⁵

²⁵ RBA *Statement On Monetary Policy* (May 2019) p.67
<https://rba.gov.au/publications/smp/2019/may/pdf/statement-on-monetary-policy-2019-05.pdf>

Graph D1
Wage Price Index by Pay-setting Method
 Year-ended growth



- 4.8. In his article, ‘The Rigged Labor Market’ the late Professor Alan Krueger pointed out that if a government requires monopsonist employers to pay an increased wage through a minimum wage increase, the monopsonist’s marginal cost of labour (i.e. the change in total labour costs from employing one extra worker) falls, because

... without a minimum wage the monopsonist operates with vacancies, unwilling to raise the wage it offers to hire additional workers because it would have to pay that higher wage to existing workers as well. However, with a binding minimum wage — that is, a minimum wage above the rate the monopolist was already paying — a monopsonist can fill its vacancies without worrying about having to increase everybody else’s wages, because that was already required by the minimum wage.²⁶

- 4.9. The WA Commission has been warned year after year about the potentially dangerous impacts on employment of raising the state minimum wage. These have never come to pass and never will. They are based on outdated and unrealistic economic theory that do not account for how the economy actually works.

5. A fair system of wages and conditions in Western Australia

- 5.1. UnionsWA is advocating a by **\$43.61 per week or by 6%, whichever is greater**. UnionsWA submits that continuing disparity between the minimum wage and median weekly earnings at both the state and national level needs redress to ensure there is a fair system of Wages and Conditions in WA. An increase of \$6 per week is needed to help maintain that system.
- 5.2. UnionsWA contends that minimum wages have fallen as a proportion (or ‘bite’) of average full time weekly earnings in both WA and Australia. As demonstrated in the table below. The increases awarded by the WA Commission since 2005, despite recording improvements in 2011, 2013, 2015, have still not been sufficient to reverse the decline in relative living standards.

²⁶ Alan B. Krueger, ‘The Rigged Labor Market’, *Milken Institute Review* (28 April 2017) <http://www.milkenreview.org/articles/the-rigged-labor-market>

	WA Min Wage \$	WA full-time Median weekly earnings \$	% WA Min/Median	Aus Min Wage \$	Aus full-time Median weekly earnings \$	% Aus Min/Median
2005	484.4	850.0	57.0%	484.4	840.0	57.7%
2006	504.4	900.0	56.0%	511.86	900.0	56.9%
2007	528.4	1,000.0	52.8%	522.12	930.0	56.1%
2008	557.4	1,054.0	52.9%	543.78	995.6	54.6%
2009	569.7	1,100.0	51.8%	543.78	1,000.0	54.4%
2010	587.2	1,200.0	48.9%	569.9	1,050.0	54.3%
2011	607.1	1,200.0	50.6%	589.3	1,100.0	53.6%
2012	627.7	1,300.0	48.3%	606.4	1,150.0	52.7%
2013	645.9	1,300.0	49.7%	622.2	1,150.0	54.1%
2014	665.9	1,366.2	48.7%	640.9	1,200.0	53.4%
2015	679.9	1,313.1	51.8%	656.9	1,205.0	54.5%
2016	692.9	1,350.0	51.3%	672.7	1,246.0	54.0%
2017	708.9	1,400.0	50.6%	694.9	1,261.2	55.1%
2018	726.9	1,442.0	50.4%	719.2	1,320.0	54.5%

5.3. Minimum wages are substantially lower than what they would be if the minimum wage bite had been held constant, with the result that the living standards of minimum wage workers are too low compared to other workers. The Commission has the opportunity to redress this situation by awarding a strong minimum wage increase in 2018.

5.4. While the minimum wage 'bite' has been falling in WA, measures of inequality such as the Gini coefficient of Equivalised Disposable Household Income²⁷ and the Gender Pay Gap for Average Weekly Ordinary Time Earnings²⁸ have persistently shown WA as a highly unequal state.

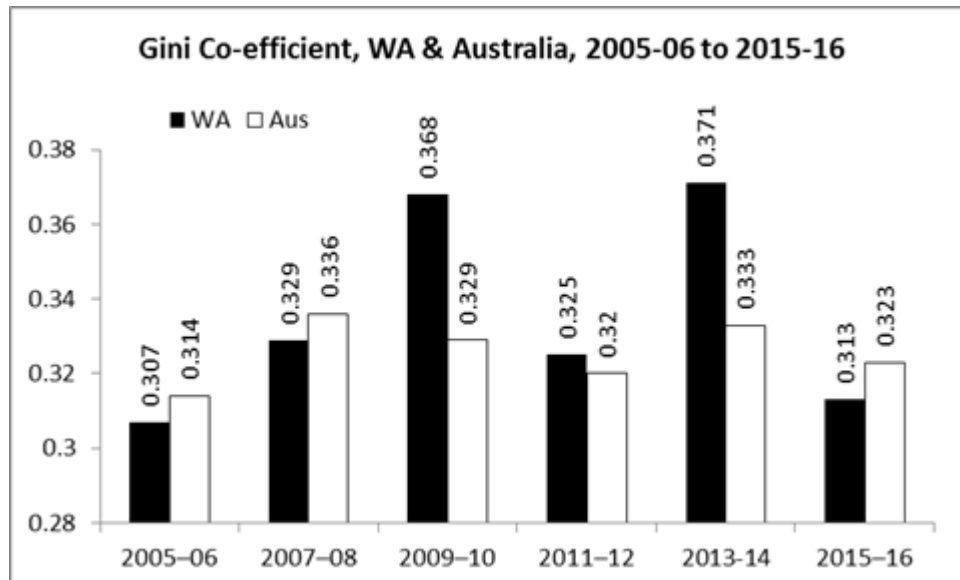
5.5. For the Gini measure, for over most the period of the last decade WA has been more unequal than Australia as a whole. The recent relative improvement is unfortunately in keeping with the 'post boom' patterns of WA, which becomes more equal generally when there's a 'bust'. Higher income earners don't move here, and/or move away.

²⁷; ABS 6523.0 - Household Income and Wealth, Australia, 2015-16

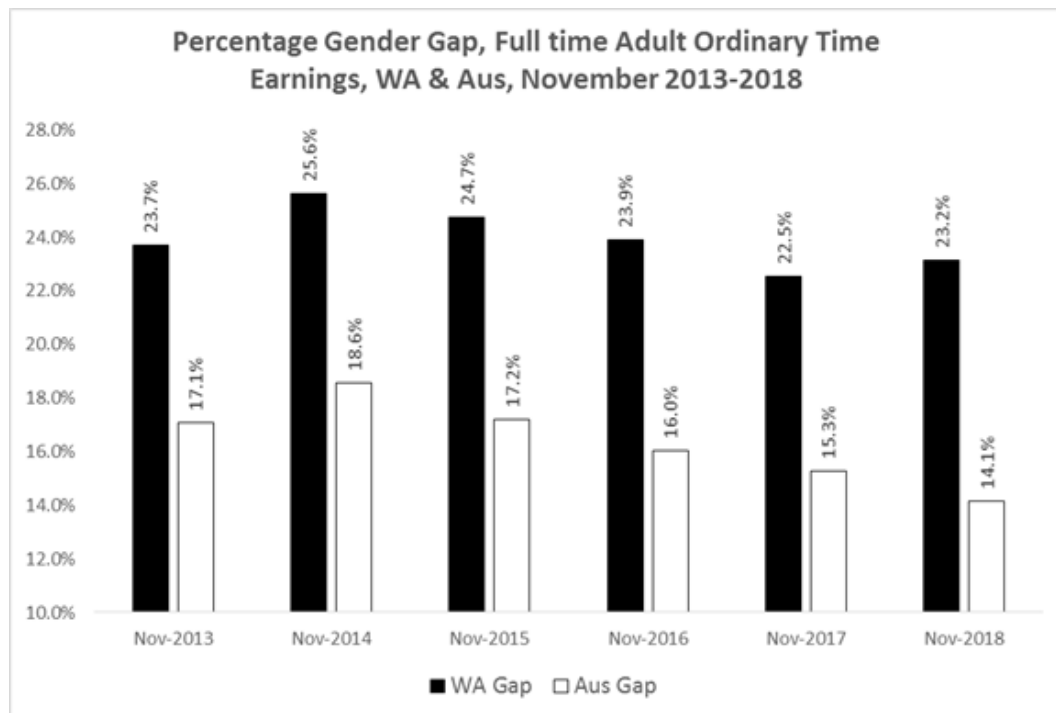
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/5F4BB49C975C64C9CA256D6B00827ADB?opendocument> the Gini Coefficient is a commonly agreed single statistic that summarises the distribution of income across the population. The ABS uses the Gini Coefficient in its Household Income and Income Distribution survey to indicate the degree of inequality between households across Australia. It lies between 0 and 1 with values closer to 0 representing a lesser degree of inequality, and values closer to 1 representing greater inequality.

²⁸ ABS 6302.0 - Average Weekly Earnings, Australia, Nov 2016,

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6302.0Nov%202016?OpenDocument>



- 5.6. A similar pattern can be seen with the WA Gender Pay Gap, which resumed growing in the 12 months to November 2018. This slight ‘improvement’ in the gender pay gap in recent years are likely due to more highly paid men not getting as much work, rather than an improvement to the position of women workers.



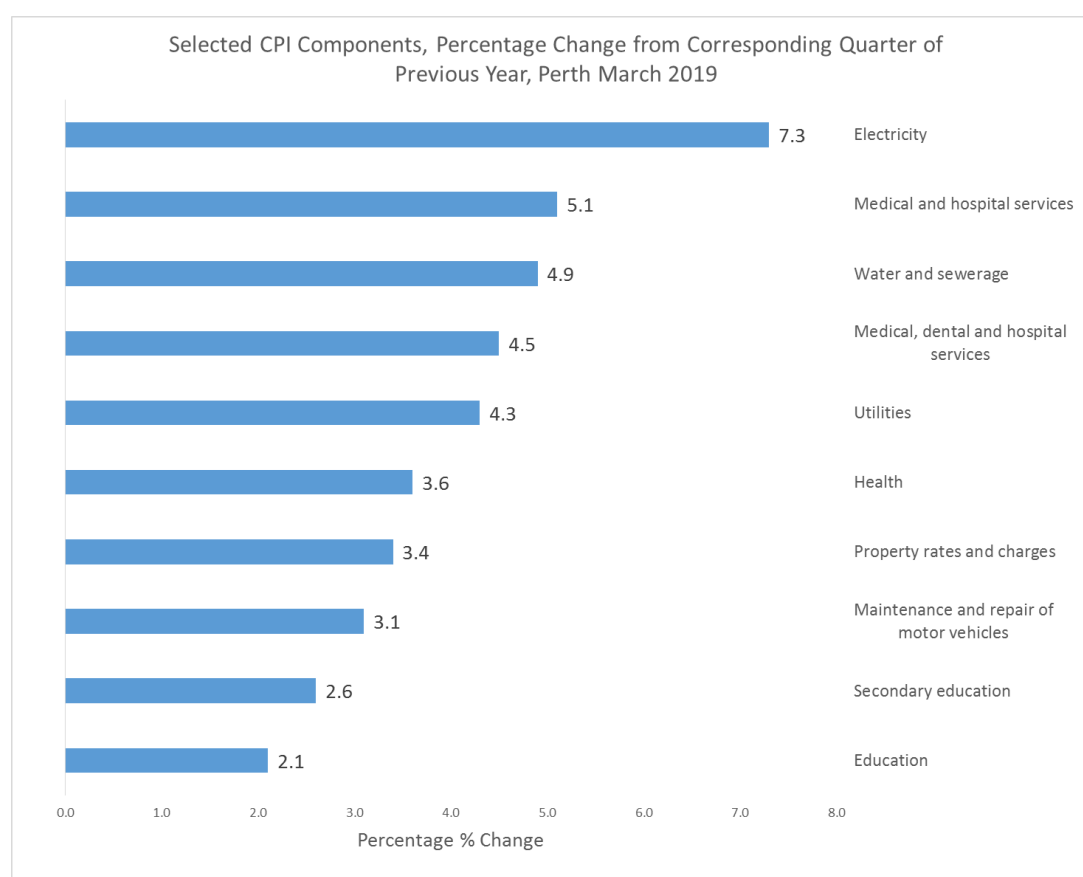
- 5.7. The UnionsWA claim is asking the Commission to take this opportunity to address the decline of the minimum wage ‘bite’, because this is vital for maintaining a fair system of wages and conditions in WA. The Commission should not rely on an economic downturn to address inequality through the wages system. Rather it should take this opportunity to positively improve the wages and conditions of WA workers.

6. The Needs of the Low Paid, Fair wage standards & Improved living standards for employees

- 6.1. UnionsWA submits that, given the increases in living costs that impact disproportionately on low wage workers, and the recent increases in living costs from the last WA state budget, an increase to the minimum wage above CPI inflation is required.²⁹

WA State Charges	2019-20 WA Budget
Electricity	+1.75%
Water, sewerage and drainage	+2.5%
Public Transport	+1.7%
Motor Vehicles	+2.6%
Total Expenditure: tariffs, fees and charges	+2.0%

- 6.2. While these increases in tariffs, fees, and charges are lower than previous years, looking at fee increases alone does not provide the full picture of living costs. When looking at the relevant components of the Perth CPI inflation over the past year, we can see that many increases go beyond 2%.³⁰



²⁹ 2019-20 WA Budget Papers, Budget Paper No. 3: *Economic and Fiscal Outlook*, p.278 <https://www.ourstatebudget.wa.gov.au/2019-20/budget-papers/bp3/2019-20-wa-state-budget-bp3.pdf>

³⁰ ABS, 6401.0 - Consumer Price Index, Australia, Mar 2019 Table 10 <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6401.0Mar%202019?OpenDocument>

- 6.3. Given that the state government is still adhering to its \$1,000 increase public sector pay policy, it seems that a moderate increase in state tariffs, fees, and charges is the principle means by which it proposes to relieve low wage growth. However recent research by the Centre for Future Work has demonstrated that changes to taxes and charges are no substitute for regular, ongoing wage increases. The analysis is from the national level, where taxes are more progressive, however the principles still apply:³¹

1. *Wage increases can and should occur every year, and exert a compounding impact on incomes (since wage increases in any given year build on previous years' increases). Tax rates cannot be cut year after year.*
2. *Wage increases deliver benefit to any employed person, even if their income was so low that they did not have to pay income tax. Non-refundable tax cuts offer no benefits to very low-income workers.*
3. *The distribution of savings from tax cuts is more concentrated among higher-income households (since they are the ones who currently pay tax at higher rates).*
4. *Tax cuts are not "free." Taxes are collected in order to pay for the whole range of public goods and services (from health care to education to safety to infrastructure). Reductions in taxes must inevitably lead to reductions in the provision and consumption of public goods and services – and that in turn will reduce the quality of life for most Australians by at least as much as the marginal tax savings they pocketed.*

Wage Increases are Better		
	Boost to Annual Disposable Income in 2021-22 From:	
Current Earnings	Coalition Tax Plan	Annual 3.5% Wage Increases
\$20,000	\$0	\$2,950
\$40,000	\$290	\$4,780
\$60,000	\$530	\$5,975
\$80,000	\$530	\$7,435
\$100,000	\$515	\$9,294
\$125,000	\$135	\$11,617
Source: Centre for Future Work calculations from Budget 2018 Chart 1 and Table 3 (pp. 1-13, 1-14).		
		

- 6.4. UnionsWA maintains that the needs of the low paid, and particularly the need to improve the standards of the low pay – require an increase to the WA minimum wage not just at CPI, but beyond it.

³¹ Jim Stanford and Troy Henderson, *Briefing Note: Wages, Taxes, and the Budget*, Centre for Future Work (8 May, 2018) pp.5-6 https://www.futurework.org.au/wage_increases_beat_tax_cuts_any_day

6.5. UnionsWA also asks the WA Commission to treat with the claim that the interests of the unemployed and the low paid are simply served by then getting a job – any job – regardless of how much they are paid, or how they treated when in employment. ‘The best form of welfare is work’ is an often repeated cliché, however recent research casts doubt upon whether that is always the case.

6.6. A study by Butterworth et.al. found that jobs with poor psychosocial attributes were no better, and may have worse effects on mental health, than unemployment. They argue that

an employment continuum which contrasted unemployment with different employment categories including optimal jobs, inadequate jobs, jobs with poor psychosocial conditions (low decision latitude, high job demands, low social support) and jobs with low pay or few benefits. While unemployment and inadequate jobs (salary below the poverty line) were associated with significantly greater levels of depression than optimal jobs, so too were poor quality jobs that combined adverse psychosocial conditions.

6.7. Their study found that moving from unemployment to a job with poor psychosocial quality was associated with a significant decline in mental health relative to remaining unemployed.³²

6.8. By contrast, a study by Du and Leigh found that raising minimum wages can have positive effects on the health of low-wage workers and their families. They found that

... increases in real minimum wages resulted in decreases in all absenteeism and absenteeism due to own illness, and that these health benefits can accrue to low-wage adults, not just teenagers. These effects are likely not due to changes in labor supply or job-related attributes. Instead, we find a possible mechanism: higher minimum wages improve self-reported health for lower educated workers.³³

6.9. A study by Dow, Godøy, Lowenstein, and Reich addressing the question ‘Can Economic Policies Reduce Deaths of Despair?’ found that higher minimum wages can ‘significantly’ reduce non-drug suicides.³⁴

Using state-of-the-art methods developed in the minimum wage-employment and EITC literatures, we find evidence that minimum wages and EITCs reduce non-drug suicides, especially among women. ... [G]roups that have higher exposure to these policies experience the largest reductions in suicides, suggesting that minimum wages reduce suicide rates by raising incomes at the low end of the income distribution.

6.10. The interests of the low paid, and of the unemployed moving into work, are not served by making workers as cheap as possible in the labour market. There is clear evidence to demonstrate that the quality of those jobs is important for the well-being of workers. Job quality is inseparable from having decent pay and conditions that actively improve living standards, not by paying workers just enough to cover immediate living costs.

7. Employees who may be unable to reach an industrial agreement

7.1. In previous submissions UnionsWA has referred to the report by the Workplace Research Centre *Minimum wages and their role in the process and incentive to bargain* which shows that minimum wage increases are more likely to encourage rather than discourage bargaining. Workers in the state system who will be most impacted by the minimum wage increase are

³² P Butterworth, L S Leach, L Strazdins, S C Olesen, B Rodgers, D H Broom, ‘The psychosocial quality of work determines whether employment has benefits for mental health: results from a longitudinal national household panel survey’, *Occup Environ Med* 2011;68, pp.806-812, <http://oem.bmj.com/content/68/11/806>

³³ Juan Du and J. Paul Leigh, ‘Effects of Minimum Wages on Absence from Work Due to Illness’ (November 13, 2017). Available at SSRN: <https://ssrn.com/abstract=3071132> or <http://dx.doi.org/10.2139/ssrn.3071132>

³⁴ William H. Dow, Anna Godøy, Christopher A. Lowenstein, Michael Reich, ‘Can Economic Policies Reduce Deaths of Despair?’ NBER Working Paper No. 25787 (April 2019) pp.24-5 <https://www.nber.org/papers/w25787> EITC stands for earned income tax credit. In the US it is a refundable tax credit for low to moderate-income working individuals and couples, particularly those with children.

also in those categories of worker that are less likely to be able to negotiate their own pay and conditions. UnionsWA seeks to rely on that report for this submission.

- 7.2. UnionsWA contends that the Commission should not succumb to the simplistic assumption that ‘increases to the minimum wage = no need to bargain’. There is no evidence that workers and employers are so lazy that they cannot bargain over other matters in workplaces. The Commission should put no weight on claims that a substantial minimum wage increase will act to discourage bargaining. Indeed it is more probable that a minimum wage increase will act as a spur to bargaining, particularly where employees are considered award-free and need a ‘signal’ of what constitutes an acceptable wage.
- 7.3. For this Report the Workplace Research Centre was asked by the FWC Minimum Wages Panel to look into the following question
- *How do minimum wage increases impact on the incentive to bargain?*
- 7.4. The report contains results from both quantitative and qualitative studies of bargaining and agreement outcomes at the national level. Examining unpublished data from the Workplace Agreements Database (WAD) of the Commonwealth Department of Employment, the Report found that, for sectors with Agreements contained lower average annualised wage increases (AAWIs) *‘there may be a positive association between wage increases in enterprise agreements and minimum wage increases.’*
- 7.5. The Report’s Qualitative and case study findings revealed that increases in the minimum wage were less significant for employers in their willingness to bargain than
- product and labour market shifts that impact on revenue and costs;
 - the operation of performance management systems;
 - workplace level restructuring or changes to job roles;
 - directives with immediate impacts for costs or pricing structures; and
 - cyclical or timetabled reviews to negotiate.
- 7.6. Employee’s incentives to bargain were largely determined by factors such as
- workplace level restructuring or changes to job roles;
 - perceptions of value to the employer;
 - culture of bargaining; and
 - desire/requirement to fit work in around other roles in life.
- 7.7. The results of this study suggest that Increases to the minimum wage are more likely to encourage bargaining in lower wage sectors, and at any rate do not constitute the principle ‘incentive’ to embark upon bargaining in individual workplaces. The report’s quantitative analysis of enterprise agreements in the national system found that
- ... there may be a positive association between wage increases in enterprise agreements and AWR [Annual Wage Review] increases. This was particularly the case for industries with higher proportions of enterprise agreements with AAWIs [Average Annualised Wage Increases] of less than 4.1 per cent and a large number of employees with wages set solely with reference to awards.*³⁵

³⁵ FWC Report 7/2013 *Minimum wages and their role in the process and incentives to bargain* (pp.vii-viii)
<https://www.fwc.gov.au/documents/sites/wagereview2014/research/report7.pdf>

- 7.8. The industries included in these finding include Retail Trade and Accommodation and Food Services – industries more likely to be in the private sector state industrial relations system in WA.
- 7.9. UnionsWA also refers to the testimony provided to the Commission in 2013 by Professor Rowena Barrett (then Head of School of the School of Management at Edith Cowan University) concerning the reaction of small firms to changes such as minimum wage increases. In her witness statement Professor Barrett stated that
- Small firms accommodate regulatory changes that affect the employment relationship through informality and an informal renegotiation of the employment contract.*
- 7.10. Such informal negotiations do constitute a form of agreement making even if it takes place ‘informally’. Changes such as reductions of hours should not be automatically assumed to be ‘bad’ for employees – as those employees may choose to take advantage of higher hourly in order to work fewer hours.
- 7.11. Professor Barrett also noted that
- For employees who the owner-manager considered were not covered by the award, pay was set through individual negotiations. Here the minimum wage had an important signalling impact about acceptable wages in such negotiations. Such a signal was important for ensuring that gender earnings differences were less likely to open up at an early stage, as female employees were likely to ask for less money in the first instance.³⁶*
- 7.12. The ‘signalling effect’ of the minimum wage is particularly important when considering the findings of our Fair Pay Survey, that a large number of respondents reported being paid at unlawfully low wages. Without necessarily attributing outright dishonesty to employers (who may not know the correct rate themselves), it is the case that workers who are desperate to find employment may well be taking ‘any port in a storm’ – without having a sense of the legal minimum of what needs to be paid.
- 7.13. UnionsWA contends that the Commission should not succumb to the simplistic assumption that ‘increases to the minimum wage = no need to bargain’. There is no evidence that workers and employers are so lazy that they cannot bargain over other matters in workplaces. The Commission should put no weight on claims that a substantial minimum wage increase will act to discourage bargaining. Indeed it is more probable that a minimum wage increase will act as a spur to bargaining, particularly where employees are considered award-free and need a ‘signal’ of what constitutes an acceptable wage.

8. Encouraging Ongoing Skills Development

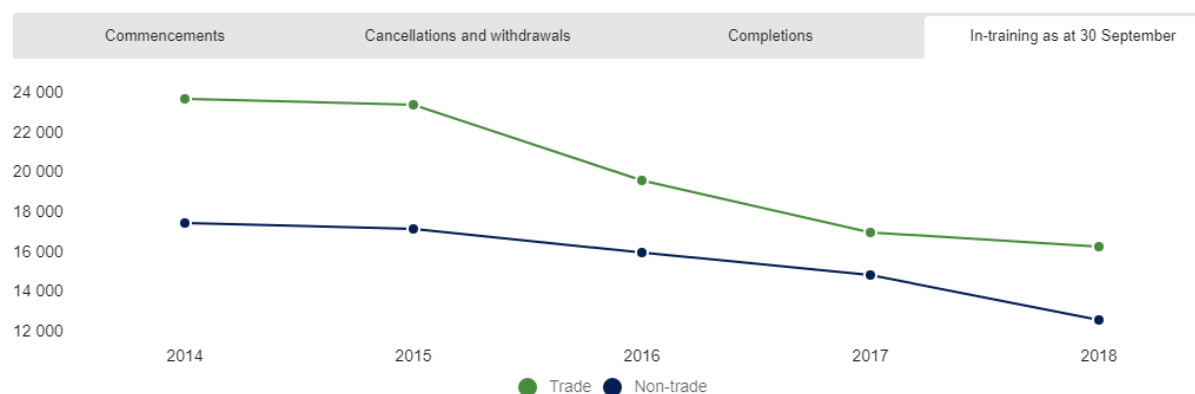
- 8.1. Recent figures released by the National Centre for Vocational Education Research (NCVER) continue to show that WA has experienced falling commencements in apprenticeships and traineeship (although there was some pick up in the trades. UnionsWA contends that this fall is a consequence of our failure to make undertaking training pay for the trainee.³⁷
- 8.2. It is the practice for increases to the state minimum wage to flow onto apprentice and trainee rates. UnionsWA argues that a substantial wage increase that seeks to address the disparity between minimum rates and weekly earnings will play its part in making apprenticeships more attractive thereby encouraging greater skills development. This has been recognised in the national system and should be recognised in the state system.

³⁶ Witness Statement Prof Rowena Barrett, para 5.3.

³⁷ NCVER 2019, *Apprentices and trainees 2018: September quarter - Western Australia*

<https://www.ncver.edu.au/research-and-statistics/publications/all-publications/apprentices-and-trainees-2018-september-quarter-australia/apprentices-and-trainees-2018-september-quarter-western-australia>

8.3. NCVER provides the following for 'In training' as at 30 September (for both trades and non-trades)



8.4. In the trades, the completion wage premium is still the significant factor. By contrast, in the non-trades it is the training wage wedge which matters. For both male and female trainees, completion rates decrease with increases in the difference between wages in alternative employment and training wages.³⁸

8.5. This is not arguing that qualified people do not benefit from training in the 'long run' of their working lives. However to get to the 'long run' they need to survive the 'short run'. And as it stands Australia has been poor at making undertaking training a viable option.

8.6. In 2011 the Federal government released a report on apprenticeships prepared by an Expert Panel entitled '*A shared responsibility - Apprenticeships for the 21st Century*'.

Researchers for the Report found a clear link between low wages and apprenticeship commencements – noting that:

... nearly half (49 per cent) [of apprentices] said they would not recommend an apprenticeship to friends or relatives because of the low level of pay. Nearly one in ten students reported that their key reason for not planning to pursue an apprenticeship was the inadequate pay.

The report's researchers also found that award rates for first year apprentices are often below the Henderson poverty line.³⁹

8.7. UnionsWA has in previous submissions cited a study by the NCVER on '*The Cost of Training Apprentices*' which found that the 'main cost to employers to be in the supervision of the apprentice' rather than the wage costs.

*When apprentice productivity is measured against the wage paid to the apprentice, the relationship is shown to be very close. This results in employers' costs for wages effectively being neutralised by apprentice productivity.*⁴⁰

8.8. For the apprentice however there is an opportunity cost involved in the time spent as an apprentice. Unless regular and generous increases in apprenticeship wages flow on from

³⁸ Tom Karmel, Peter Mlotkowski, '*The impact of wages and the likelihood of employment on the probability of completing an apprenticeship or traineeship*', NCVER Research Report (27 May 2011), p.34 https://www.ncver.edu.au/_data/assets/file/0024/2688/2364.pdf

³⁹ Final Report of the Expert Panel (Jan 2011) *A shared responsibility - Apprenticeships for the 21st Century* p.89 <https://www.australianapprenticeships.gov.au/publications/shared-responsibility-apprenticeships-21st-century>

⁴⁰ NCVER *The cost of training apprentices* (p.25) <http://www.ncver.edu.au/wps/wcm/connect/9df71864-bfd5-4480-9b91-76b2a6211550/cp05070.pdf?MOD=AJPERES&CACHEID=9df71864-bfd5-4480-9b91-76b2a6211550>

decisions such as those from the minimum wage, apprenticeships become increasingly unattractive.

- 8.9. UnionsWA notes that the recent state budget included an additional \$182.4 million expenditure over the forward estimates period on ‘a package of initiatives to stimulate growth in apprenticeships and traineeships. This is primarily the implementation of a new Employer Incentive Scheme, and the purchase of additional vocational education and training places’.

The Employer Incentive Scheme will extend training incentives to include small businesses, and will enable the Government to target assistance to meet the State’s workforce priorities.

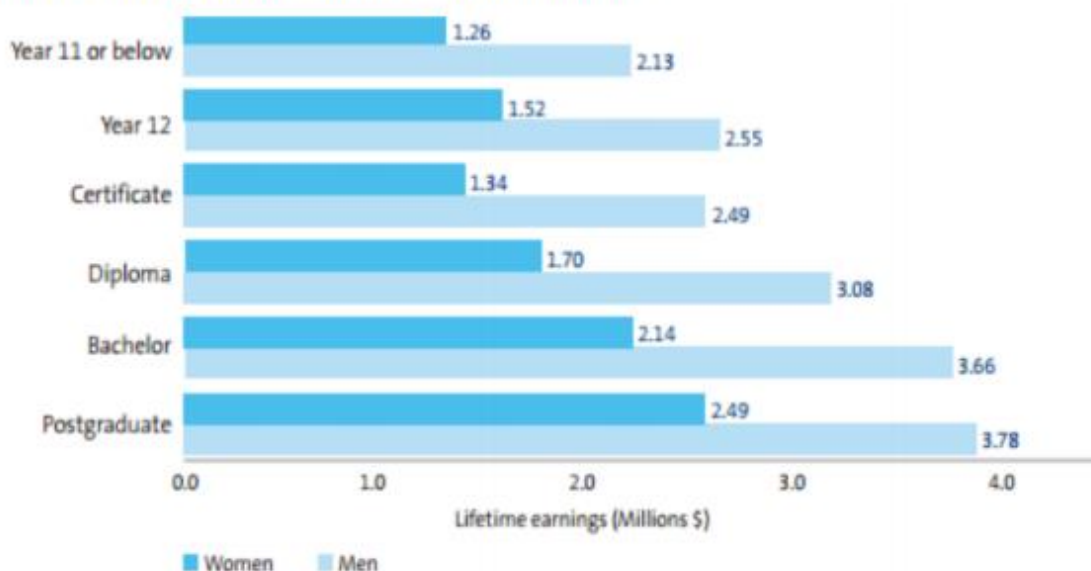
- 8.10. These incentives should provide additional scope for small business to accommodate any increase in apprentice and trainee pay rates.

- 8.11. It is the practice for increases to the state minimum wage to flow onto apprentice and trainee rates. UnionsWA argues that a substantial wage increase that seeks to address the disparity between minimum rates and average weekly earnings will play its part in making apprenticeships more attractive thereby encouraging greater skills development.

9. Providing Equal Remuneration for Men and Women for Work of Equal or Comparable Value

- 9.1. As previously mentioned, in our submission WA has the largest gender pay gap of any Australian state. An increase to the minimum wage at, or below, CPI inflation will make this situation worse rather than contribute to its improvement.
- 9.2. Given the continuing gender pay gaps in Western Australia, and nationally, the WA Commission needs to make a bold increase in the minimum wage to address them.
- 9.3. UnionsWA also contends that, when considering the impact of the gender pay gaps, the Commission should bear in mind that they also represent a career long penalty for women which is reflected in prospective lifetime earnings. This has been laid out in the 2016 Senate Economics References Committee Report ‘*A husband is not a retirement plan: Achieving economic security for women in retirement.*’
- 9.4. The chart below, provided to the Committee by the Bankwest Curtin Economics Centre shows the gender gap in prospective lifetime earnings across education groups.

Gender gap in lifetime earnings, million dollars¹⁵



Notes: Values are in 2011–12 dollars. Lifetime earnings estimates are derived from all employees, including those working part-time. Some fields of study have not been shown due to small sample sizes.

Source: Cassells et al. 2012

9.5. The Committee Report goes onto say that

It cannot be assumed that women will be able to rely on a male partner's savings for financial support in retirement, as one third of women are not in relationships by retirement age, and 40 per cent of couples will not have sufficient savings to cover the gap in women's superannuation. As one submission observed, 'a husband isn't a superannuation plan'.⁴¹

9.6. The Report also states that

... addressing gender pay equity is a necessary part of closing the pay gap. The historical undervaluing of 'women's work' in female dominated industries and sectors will not be rectified without intervention.

9.7. UnionsWA asks the WA Commission to reject all submissions which contend that female minimum wage workers do not need a substantial pay increase because their living arrangements may be in a household with higher income earners – whether it be parents, spouses or friends. Low wage workers are entitled to the respect of being considered as individuals.

10. The State of the Economy of Western Australia, and Australia

10.1. The most recent WA Budget papers have stated that

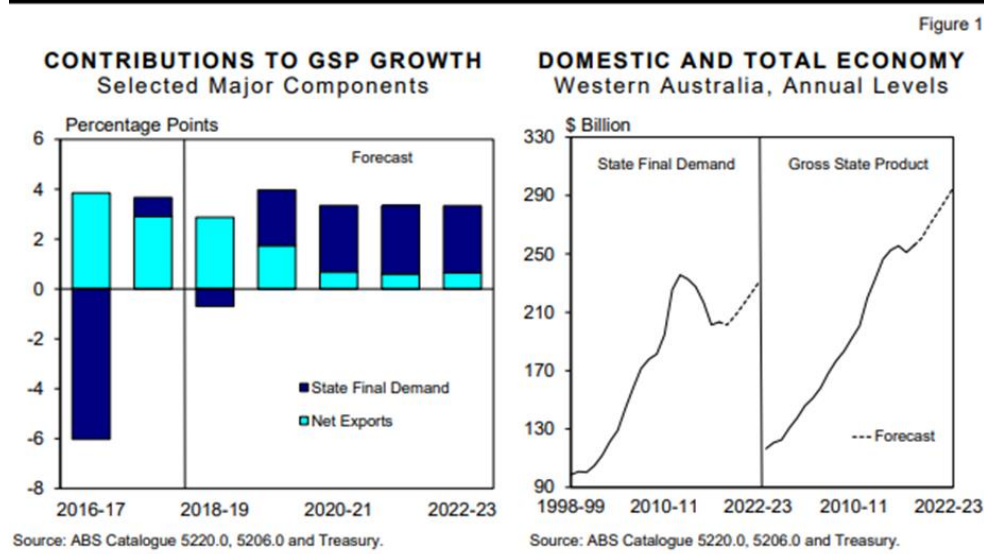
... growth in the State's economy (as measured by Gross State Product) is expected to accelerate from 2% in 2018-19 to 3.5% in 2019-20. This reflects an expectation of continuing solid growth in exports, combined with increasing business investment as spending on a new wave of resource sector projects (mostly iron ore and lithium) gathers pace.

...

These projects, coupled with Government investment in major road and METRONET rail infrastructure, are expected to see employment growth of 1.75% in 2019-20, up from an estimated

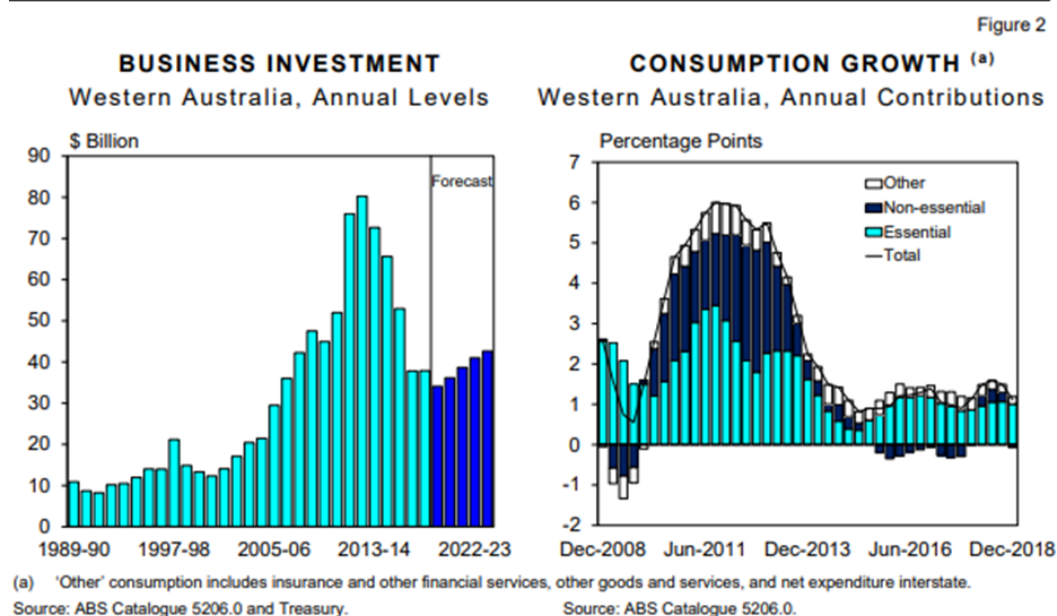
⁴¹ Senate Standing Committees on Economics 'A husband is not a retirement plan' Achieving economic security for women in retirement (April 2016) p.14
http://www.apf.gov.au/Parliamentary_Business/Committees/Senate/Economics/Economic_security_for_women_in_retirement/Report

1% in 2018-19. Across the forward estimates period, employment growth is expected to be further supported by an increase in residential construction activity from 2020-21 onwards⁴²



10.2. The Budget Papers go onto state that

Household consumption is expected to grow by just 0.75% in 2018-19, after growth of 1.6% in 2017-18. This moderation in growth reflects a softer outlook for wealth (proxied by house prices), modest growth in wages and a recent slow-down in employment growth. Recent improvements in consumer sentiment have not yet translated into higher spending, as households have maintained a high savings rate and continue to restrain spending on non-essential goods.⁴³



10.3. UnionsWA contends that spending on 'non-essential goods and services' is weak because of low wage growth, and the disparities in wage distribution in Western Australia. The Commission needs to take the opportunity presented by the state wage case to address

⁴² 2019-20 WA Budget Papers, Budget Paper No. 3: *Economic and Fiscal Outlook*, pp.9-10

<https://www.ourstatebudget.wa.gov.au/2019-20/budget-papers/bp3/2019-20-wa-state-budget-bp3.pdf>

⁴³ *ibid.*, pp.11-12.

consumption growth by playing its part to increase award wages. The need to do this is further underscored by the ‘risk’ factors identified in the Budget Papers, including that

*Household consumption has been weak as households have maintained high levels of saving in Western Australia since the Global Financial Crisis. Increased spending over the forecast period is dependent on progressive increases in income and wealth (proxied by house prices) providing households with confidence to spend. There is a risk that consumers may further delay spending decisions until **wages growth has been sustained and growth in disposable incomes is considered to be permanent.***⁴⁴(Highlight added)

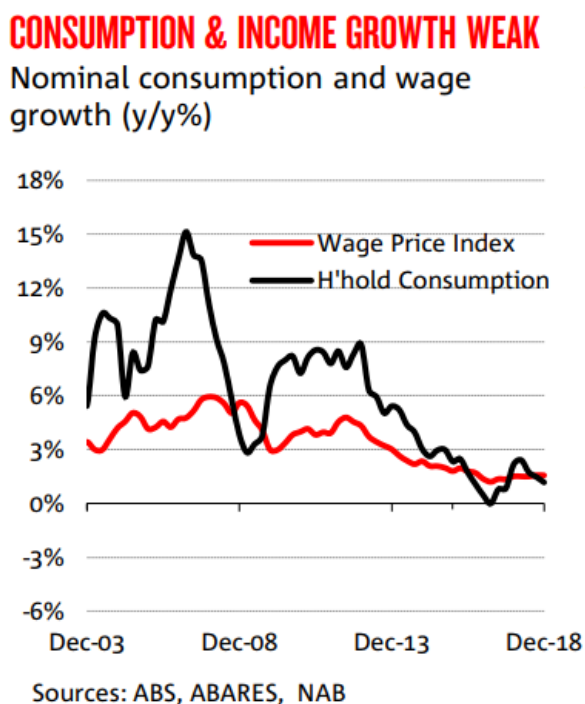
10.4. The Reserve Bank *Statement on Monetary Policy* for May 2019 also states that:

As has been the case for some time, the outlook for consumption is a key source of uncertainty for the forecasts. Household consumption accounts for close to three-fifths of GDP, so if consumption growth were to be materially higher or lower than currently forecast, there would be implications for the forecasts for overall GDP growth, employment growth and inflation.

*Uncertainty about expected household income growth continues to be important for the outlook for consumption. Should households conclude that low income growth will be more persistent than previously expected, households may adjust their spending by more than currently projected and consumption growth could remain weak for a longer period.*⁴⁵

10.5. The National Australia Bank’s *State Economic Handbook* for April 2019 says that:

*Household consumption growth softened in 2018, growing by just 0.6% y/y in Q4 2018, the second lowest growth rate recorded since the GFC. As with the rest of Australia, weak wage growth is a factor. Indeed W.A. has the lowest wage growth of any state or territory.*⁴⁶



⁴⁴ *ibid.*, p.17.

⁴⁵ RBA *Statement On Monetary Policy* (May 2019) p.76

<https://rba.gov.au/publications/smp/2019/may/pdf/statement-on-monetary-policy-2019-05.pdf>

⁴⁶ NAB, *State Economic Handbook* (April 2019) p.17 <https://business.nab.com.au/wp-content/uploads/2019/04/State-Overview-April-2019.pdf>

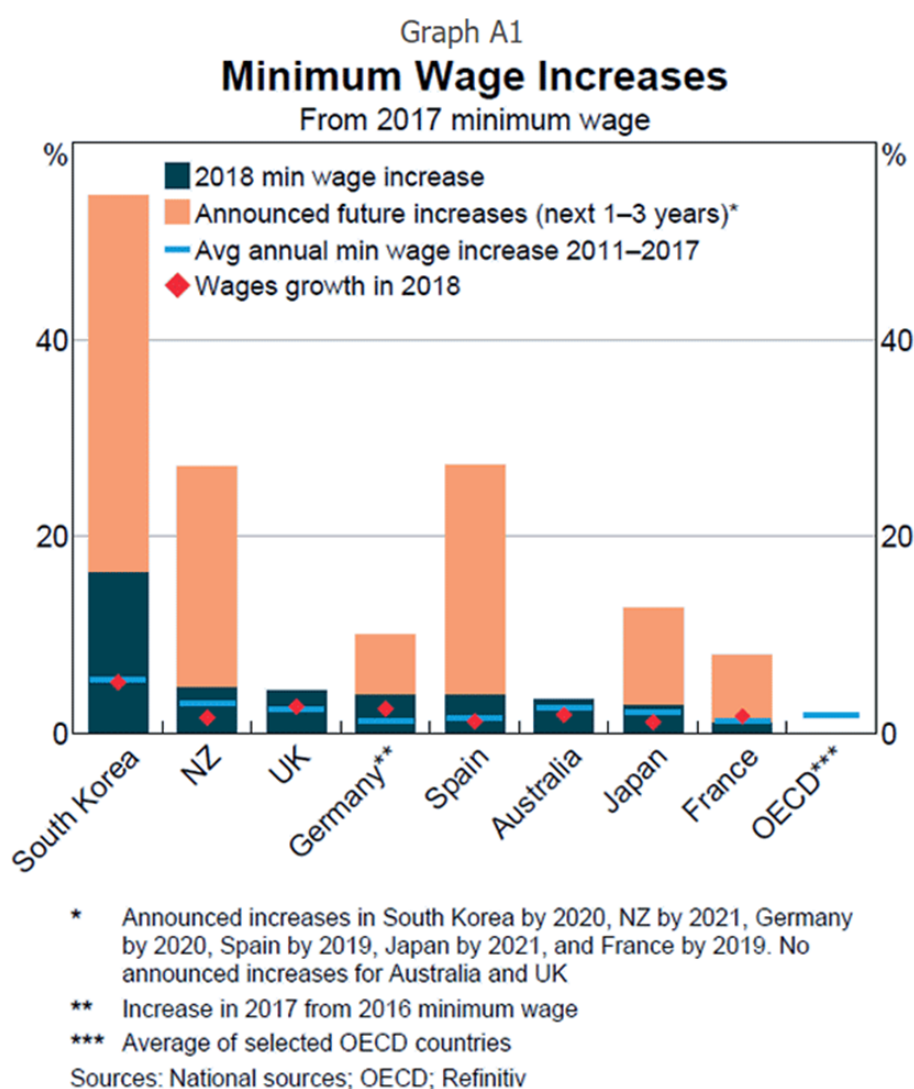
10.6. UnionsWA contends that a substantial increase to the WA minimum wage will be ‘pro-cyclical’ in present economic circumstances both in WA and Australia, in that it will assist the growth in household consumption by increasing aggregate demand.

10.7. In its February Monetary Policy Statement, the RBA noted that⁴⁷

Minimum wages were increased substantially in 2018 in several advanced economies, in many cases to fulfil election commitments to reduce inequality. These increases were larger than average minimum wage increases of recent years and aggregate wages growth in 2018

...

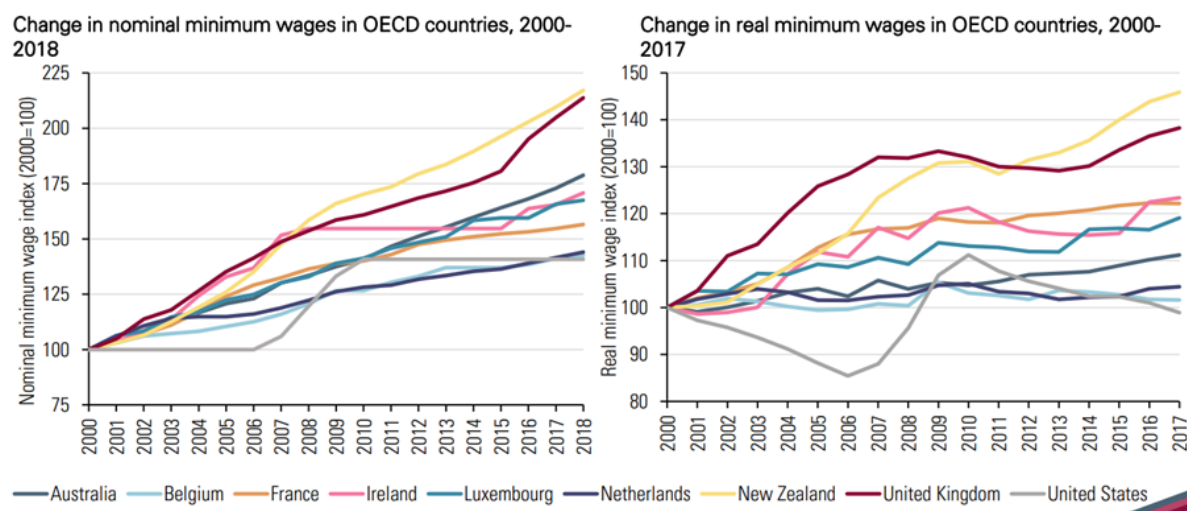
Minimum wage increases could push up aggregate wages growth and increase inflationary pressures, depending on how employment and hours worked are affected.



10.8. The UK Low Pay Commission’s recently published report on ‘20 years of the National Minimum Wage’ includes charts comparing nominal and real growth in minimum wages for

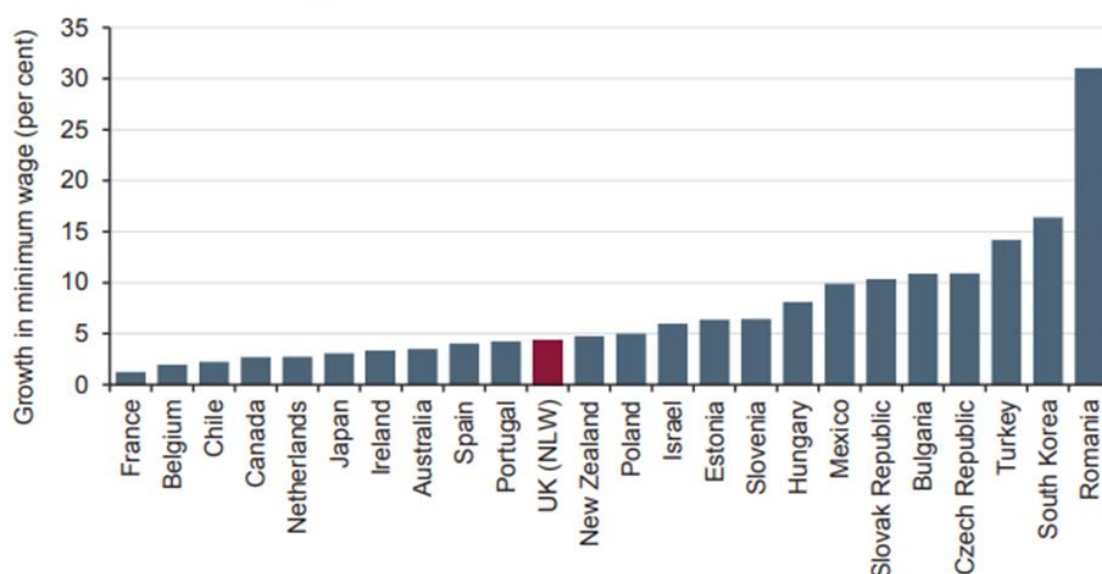
⁴⁷ Box A Minimum Wage Developments in Advanced Economies
<https://www.rba.gov.au/publications/smp/2019/feb/box-a-minimum-wage-developments-in-advanced-economies.html>

OECD countries. It shows that, while Australia has a reputation for high minimum wages, the last ten years have not been outstanding in terms of wage growth.⁴⁸



10.9. Indeed the LPC's 2018 Report shows that recent minimum wage growth in Australia has been lower than other comparable countries.⁴⁹

Figure A4.3: Annual change in minimum wage rates, 2017-2018



10.10. UnionsWA Argues that the Commission as ample scope for a substantial increase in the minimum wage. The economy needs the accompanying boost to household consumption and expenditure the will result from increased wages growth.

11. The Capacity of Employers as a Whole to Bear Costs of Increased Wages

11.1. UnionsWA contends that employers cannot credibly argue that they are currently operating in a high labour cost environment. If anything their monopsony position in the labour market has provided them with substantial powers to hold labour costs down. There is no reason in such an environment for the WA Commission to restrain the minimum wage.

⁴⁸ 20 years of the National Minimum Wage A history of the UK minimum wage and its effects Low Pay Commission <https://www.gov.uk/government/publications/20-years-of-the-national-minimum-wage>

⁴⁹ National Minimum Wage: Low Pay Commission 2018 Report <https://www.gov.uk/government/publications/national-minimum-wage-low-pay-commission-2018-report>

11.2. In his contribution to *The Wages Crisis in Australia*, Saul Eslake argues in ‘A business perspective’ that ‘Australian wages growth has diverged significantly from (measured) growth in labour productivity — in contrast to what conventional economic theory predicts, but similar to what has occurred in other ‘advanced’ economies over the past two decades.’⁵⁰

Figure 15.2 shows movements in labour productivity and two alternative measures of real wages — one from the perspective of workers (the wage cost index deflated by the CPI) and the other from the perspective of employers (the wage cost index deflated by the non-farm GDP price deflator).

The divergence between labour productivity growth and the real consumer wage shown in Figure 15.2 indicates that most of the rewards of improvements in productivity have accrued to employers, rather than to employees. The greater divergence between labour productivity growth and the real producer wage reveals that most of the income gains arising from the net improvement in Australia’s terms of trade since the early 2000s (which accounts for most of the difference between movements in the CPI and in the GDP deflator) have also accrued, at least in the first instance, to employers (or to governments, in the form of taxes).



Figure 15.2: Labour productivity and real wages in Australia, 2000-18

Source: Calculations based on ABS, Wage Price Index, Cat no 6345; Consumer Price Index, Cat no 6401; ABS, Australian National Accounts: National Income, Expenditure and Product, Cat no 5206. Real consumer wage is wage cost index deflated by the CPI; real producer wage is wage cost index deflated by the implicit price deflator of non-farm GDP.

11.3. Eslake also points out that

Wages paid by small businesses are on average 44% lower than those paid by medium-sized businesses (those with between 20 and 199 employees) and 53% lower than those paid by large businesses (those with 200 or more employees).¹⁸ That stems partly from the fact that labour productivity (industry value added per employee) is lower, on average, in small businesses than

⁵⁰ Saul Eslake, ‘A business perspective’, Stewart, Stanford and Hardy (2018) pp.218-9.

in larger ones. But it also suggests that increasing small businesses' share of total employment — which would appear to be one intention of taxing small business income at a lower rate than the income of larger businesses — would do nothing to increase average wages.

...

The decline in the share of national income accruing to labour in Australia and other industrial economies over the past two decades — and the corresponding increase in the share accruing to 'capital' — has not resulted in faster growth in business incomes, or in economic activity more broadly.⁵¹

- 11.4. Left to themselves businesses are not going to make the decisions the economy needs to increase wages. In a paper for the RBA entitled 'Firm-level Insights into Skills Shortages and Wages Growth', Hannah Neal observed that, even during periods of 'labour tightness', increasing wages 'was only one method of trying to attract and retain staff, and was commonly not the first or favoured response.'

Firms actively tried to constrain wages growth by using a raft of non-wage measures to address skills shortages. Because only some of these measures involved payments directly to staff, this lowered the direct effect of skills shortages on wages growth.⁵²

⁵¹ *ibid.*, pp.226-7.

⁵² Hannah Leal, 'Firm-level Insights into Skills Shortages and Wages Growth' *RBA Bulletin* (March 2019) <https://www.rba.gov.au/publications/bulletin/2019/mar/firm-level-insights-into-skills-shortages-and-wages-growth.html>

Table 1: Strategies to Address Skills Shortages

Increasing labour supply	Constraining labour growth, or increasing productivity	Increasing labour costs to retain staff
<ul style="list-style-type: none"> • hiring from interstate or offshore • hiring from outside the labour force • hiring contract labour • hiring less-qualified staff • taking on more trainees • boosting training efforts • lengthening the normal term of employment contracts • engaging in poaching • shortening the recruitment process • offering flexible and temporary work arrangements • offering more holidays • reducing overtime where it was weighing on morale • hoarding labour in between projects • improving workplace culture and branding 	<ul style="list-style-type: none"> • leaving positions vacant • increasing hours for existing staff • reducing labour requirements by increasing the level of automation of operations • relocating work offshore 	<ul style="list-style-type: none"> • increasing temporary and performance-based forms of remuneration (e.g. bonuses, equity sharing schemes and spotter's fees) • paying retention bonuses • offering targeted wage increases to high-performing staff • shortening salary review periods • paying higher wages to all staff

Source: RBA

11.5. UnionsWA contends that an across the board institutional decision to lift wages is needed – one that ensures a general increase, rather waiting for so-called ‘market forces’ to deliver the increase. A general, substantial increase to minimum wage rates will ensure that firm can compete on factors other than wage costs.

12. the need to ensure that the Western Australian award framework represents a system of fair wages and conditions of employment

12.1. UnionsWA is advocating that the Commission increase Award wages and the statutory minimum wage by \$43.61 per week or by 6%, whichever is greater. Such an increase would ensure relativities of the award classifications are maintained is consistent with subsections (1)(b) and (c) of the Act.

12.2. In its Reasons for Decision in 2016, the Commission, while choosing to award a flat increase, noted that *‘[w]e are cognisant that a flat increase will have a slight impact on the compression of relativities.’* UnionsWA revisited this calculation and examined the shifts in relativities in the *Metal Trades (General) Award* pay rates between 2015 and 2016

<i>Metal Trades (General) Award</i>	<i>2015</i>	<i>% of C14</i>	<i>2016</i>	<i>% of C14</i>	<i>Change in relativity 2015-16</i>
C14	\$679.90	100.0%	\$692.90	100.0%	0.0%
C13	\$697.50	97.5%	\$710.50	97.5%	0.0%
C12	\$721.30	94.3%	\$734.30	94.4%	0.1%
C11	\$743.40	91.5%	\$756.40	91.6%	0.1%
C10	\$778.90	87.3%	\$791.90	87.5%	0.2%
C9	\$801.00	84.9%	\$814.00	85.1%	0.2%
C8	\$822.90	82.6%	\$835.90	82.9%	0.3%
C7	\$842.90	80.7%	\$855.90	81.0%	0.3%
C6	\$886.90	76.7%	\$899.90	77.0%	0.3%
C5	\$909.00	74.8%	\$922.00	75.2%	0.4%

12.3. In 2017, the Commission awarded an increase of \$16 per week, taking the WA minimum wage to \$708.90. The same increase applies to award rates below the C10 classification level, with a percentage increase of 2.3% to C10 and above. In its Reasons for Decision the Commission wrote that

The structure of the increases focusses mostly on the low paid but also recognises the need to prevent the further but slight compression of relativities and will recognise and encourage skills development.

12.4. UnionsWA revisited this calculation and examined the shifts in relativities in the *Metal Trades (General) Award* pay rates between 2016 and 2017.

<i>Metal Trades (General) Award</i>	<i>2016</i>	<i>% of C14</i>	<i>2017</i>	<i>% of C14</i>	<i>Change in relativity 2016-17</i>
C14	\$692.90	100.0%	\$708.90	100.0%	0.0%
C13	\$710.50	97.5%	\$726.50	97.6%	0.1%
C12	\$734.30	94.4%	\$750.30	94.5%	0.1%
C11	\$756.40	91.6%	\$772.40	91.8%	0.2%
C10	\$791.90	87.5%	\$810.10	87.5%	0.0%
C9	\$814.00	85.1%	\$832.70	85.1%	0.0%
C8	\$835.90	82.9%	\$855.10	82.9%	0.0%
C7	\$855.90	81.0%	\$875.60	81.0%	0.0%
C6	\$899.90	77.0%	\$920.60	77.0%	0.0%
C5	\$922.00	75.2%	\$943.20	75.2%	0.0%

12.3. In 2018, the Commission awarded a flat increase of \$18 per week, taking the WA minimum wage to \$726.90. UnionsWA revisited this calculation and examined the shifts in relativities in the Award pay rates between 2017 and 2018.

<i>Metal Trades (General) Award</i>	<i>2017</i>	<i>% of C14</i>	<i>2018</i>	<i>% of C14</i>	<i>Change in relativity 2017-18</i>
C14	\$708.90	100.0%	\$726.90	100.0%	0.0%
C13	\$726.50	97.6%	\$744.50	97.6%	0.1%
C12	\$750.30	94.5%	\$768.30	94.6%	0.1%
C11	\$772.40	91.8%	\$790.40	92.0%	0.2%
C10	\$810.10	87.5%	\$828.10	87.8%	0.3%
C9	\$832.70	85.1%	\$850.70	85.4%	0.3%
C8	\$855.10	82.9%	\$873.10	83.3%	0.4%
C7	\$875.60	81.0%	\$893.60	81.3%	0.4%
C6	\$920.60	77.0%	\$938.60	77.4%	0.4%
C5	\$943.20	75.2%	\$961.20	75.6%	0.5%

12.5. We would ask the Commission to consider these results, as the data shows that the relativities C14 to C5 have begun to compress again.

12.6. An increase by \$43.61 per week or by 6%, whichever is greater, best balances the range of factors that the Commission must take into account. It delivers a substantial increase to the lowest paid, while preserving the existing skill-based relativities for award classifications.

13. Conclusion

13.1. UnionsWA is advocating that the Commission increase Award wages an increase by \$43.61 per week or by 6%, whichever is greater.

13.2. Below is summary of our positions under the statutory considerations in section 50A of Industrial Relations Act.

(3) In making an order under this section, the Commission shall take into consideration —

(a) the need to —

(i) ensure that Western Australians have a system of fair wages and conditions of employment;

UnionsWA is asking the WA Commission to address the ever widening gap between low paid workers and the rest of the workforce in WA.

(ii) meet the needs of the low paid;

UnionsWA maintains that the needs of the low paid, and particularly the need to improve the standards of the low pay – require an increase to the WA minimum wage not just at CPI, but beyond it. The interests of the low paid, and of the unemployed moving into work, are not served by making worker as cheap as possible in the labour market. Job quality is inseparable from having decent pay and conditions that actively improve living standards, not by paying workers just enough to cover immediate living costs.

(iii) provide fair wage standards in the context of living standards generally prevailing in the community

UnionsWA contends that an increase in the state minimum wage in WA is more likely to assist workers vulnerable groups of employees who are less likely to negotiate decent increases for themselves.

(iv) contribute to improved living standards for employees;

UnionsWA submits that, given the increases in living costs that impact disproportionately on low wage workers, changes to taxes and charges are no substitute for regular, ongoing wage increases.

(v) protect employees who may be unable to reach an industrial agreement;

The Commission should put no weight on claims that a substantial minimum wage increase will act to discourage bargaining. Indeed it is more probable that a minimum wage increase will act as a spur to bargaining, particularly where employees are considered award-free and need a ‘signal’ of what constitutes an acceptable wage.

(vi) encourage ongoing skills development; and

UnionsWA argues that a substantial wage increase that seeks to address the disparity between minimum rates and median weekly earnings will play its part in making apprenticeships more attractive thereby encouraging greater skills development.

(vii) provide equal remuneration for men and women for work of equal or comparable value;

UnionsWA asks the WA Commission to reject all submissions which contend that female minimum wage workers do not need a substantial pay increase because their living arrangements may be in a household with higher income earners – whether it be parents, spouses or friends. Low wage workers are entitled to the respect of being considered as individuals.

- (a) the state of the economy of Western Australia and the likely effect of its decision on that economy and, in particular, on the level of employment, inflation and productivity in Western Australia;*
- (b) to the extent that it is relevant, the state of the national economy;*

UnionsWA contends that a substantial increase to the WA minimum wage will be ‘pro-cyclical’ in present economic circumstances both in WA and Australia, in that it will assist the growth in household consumption by increasing aggregate demand.

(d) to the extent that it is relevant, the capacity of employers as a whole to bear the costs of increased wages, salaries, allowances and other remuneration;

UnionsWA contends that employers cannot credibly argue that they are currently operating in a high labour cost environment. If anything their monopsony position in the labour market has provided them with substantial powers to hold cost down. There is no reason in such an environment for the WA Commission to restrain growth in the minimum wage. An across the board institutional decision to lift wages is needed – one that ensures a general increase, rather waiting for so-called ‘market forces’ to deliver the increase.

(e) for the purposes of subsection (1)(b) and (c), the need to ensure that the Western Australian award framework represents a system of fair wages and conditions of employment;

An increase of \$43.61 per week or by 6%, whichever is greater, balances the range of factors that the Commission must take into account. It delivers the largest proportionate increase to the lowest paid, while preserving the existing skill-based relativities for award classifications.

(f) relevant decisions of other industrial courts and tribunals; and

(g) any other matters the Commission considers relevant.

UnionsWA points out that WA Commission has been warned year after year about the potentially dangerous impacts on employment of raising the state minimum wage by ‘too much’. These have never come to pass, and are based on outdated economic theories.

14. Equal Remuneration Principle

14.1. UnionsWA notes that the WA government has included in its response to the Final Report of the Ministerial Review of the State Industrial Relations System that

A legislative equal remuneration framework will be provided for the WAIRC to deal with applications for equal remuneration orders and requiring it to develop an equal remuneration principle. These provisions will be based on those in the Queensland Industrial Relations Act 2016.

14.2. UnionsWA understands that the WAIRC will gain a new power to make any order it considers appropriate to ensure employees receive equal remuneration for work of equal or comparable value.

14.3. This will require an equal remuneration principle to be included in each annual State Wage Case statement of principles.