



Chamber of Commerce
and Industry WA

Chamber of Commerce and Industry of Western Australia

Submission-in-Reply to the Western Australian Industrial Relations Commission

2018 State Wage Case

18 May 2018

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Industrial Relations Act 1979

In the Western Australian Industrial Relations Commission

Application No. 1 of 2018

2018 STATE WAGE ORDER

On the Commission's Own Motion

**SUBMISSION-IN-REPLY BY THE CHAMBER OF COMMERCE
AND INDUSTRY OF WESTERN AUSTRALIA**

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1. Introduction

1. The Chamber of Commerce and Industry of Western Australia (CCIWA) provides the following Submission-in-Reply to the submissions filed by the Minister for Commerce and Industrial Relations (**Minister**), UnionsWA (**UWA**), the WA Council of Social Service (**WACOSS**) and the Australian Hotels Association (WA) (**AHA**) in relation to Application No.1 of 2018, the 2018 State Wage Case.
2. Section 50A(3)(a)(i) requires the Commission to consider the need to “*ensure that Western Australians have a fair system of wages and conditions of employment*”.
3. This requirement clearly encompasses all Western Australians and does not distinguish one segment above another. This is a holistic position, that is by definition “*relating to the whole of something or the total system instead of just to its parts*”.
4. As CCIWA submitted at paragraph [204] of its submission of 15 May 2018, the “*notion of fairness must ultimately be from dual perspectives, from those who are the recipients of wages and salaries and from those who are required to fund the payment of wages and salaries*”.
5. Reflecting this requirement is section 50A(3)(d) by which the Commission shall take into consideration “*to the extent that it is relevant, the capacity of employers as a whole to bear the costs of increased wages, salaries and other remuneration*”.
6. CCIWA would submit that this, together with the other factors contained in section 50A(3) of the Act, require the consideration of the whole and not just the parts.
7. Importantly, that assessment of the whole is represented by section 50A(3)(b) requiring the consideration of 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*”.
8. Isolated consideration of one part to the exclusion of others is a contrary approach to what is required.
9. CCIWA supports responsible and sustainable wage growth through the State Minimum Wage (SMW) and award minimum wages.
10. CCIWA again emphasises the need that any increase awarded by the 2018 State Wage Order be sustainable, that is, by those who are required to fund wage increases within the economic conditions that prevail in Western Australia (WA).
11. The Commission must balance a range of considerations in the 2018 State Wage Case.
12. CCIWA would urge the Commission to bear weight on its considerations to the actual state of the economy in the short-term and the nature and capacity of employers who fall within the scope of the State system to bear the costs of increased wages when determining the increase in the State Minimum Wage (SMW).

2. Submission of the Minister

13. The Minister has submitted for the State Minimum Wage (SMW) to be increased by 2.7 per cent to \$728.10 per week or \$19.20 per week.
14. CCIWA agrees with the Minister in recognising the importance of maintaining a strong and sustainable safety net through the SMW and award minimum wages.
15. CCIWA also supports the Minister's view that the WAIRC should take a "*balanced and equitable approach to minimum and award wage setting, to protect the needs of the low paid while ensuring businesses remain competitive*".
16. The Minister acknowledges in that balanced approach the particular requirement to ensure that businesses remain competitive.
17. CCIWA notes that the Minister's proposed increase is a substantial one considering the current economic conditions, the low inflationary environment, high unemployment and significant spare capacity in the labour market, together with the general movement of wages that exist in WA.
18. The State's annual growth in the Wage Price Index (WPI) is 1.5 per cent, Perth CPI is at 0.9 per cent in the March 2018 quarter, Average Annual Wage Increases (AAWI) in national enterprise agreements in December 2017 in WA is 1.8 per cent, and Average Weekly Ordinary Time Earnings (AWOTE) in WA remains the highest in the country by some 11 per cent.
19. The Minister's submission of an increase of 2.7 per cent is some 1.8 per cent above CPI, 1.2 per cent above the WPI, and 0.9 per cent above the AAWI.
20. Additionally, the State Minimum Wage exceeds the National Minimum Wage by 2.0 per cent.
21. The 2018-19 State Budget released on 10 May 2018 confirms that recovery will not emerge until 2019-20.
22. The Budget shows that challenges remain in the WA economy as it transitions from the post-resources investment period.
23. Budget Paper 3 particularly notes on page 12 that State Final Demand, the measure of the State's domestic economy, is yet to trough and will grow again in 2019-20, that business investment is projected to return to growth in 2019-20, and that employment growth, as noted on page 17, is expected to strengthen by 2020-21 "*coinciding with a recovery in the domestic economy*".
24. Clearly, the economy is not expected to turn the corner significantly until at least 2019-20, with recovery not seen in the domestic economy until 2020-21.
25. The significance of current challenges remaining in the economy and those that continue for businesses should not be underestimated.
26. Businesses must particularly recover from over four years of poor business trading conditions.
27. Unemployment was at a 16 -year high in March 2018 at 6.9 per cent that has improved to 6.5 per cent in April. Youth unemployment reached a 22-year high in March 2018 at 17.1 per cent and has also improved to be 16.0 per cent in April 2018. Youth unemployment remains at significantly high levels with the last three months at or above 16.0 per cent.

28. WA still has some way to go before recovery appears and with confidence being demonstrated by both business and consumers in early 2018, CCIWA submits that the economy demands nurturing.
29. In the Minister's submission, CCIWA notes the Government's projections at paragraph [34] that the WPI is forecast to grow at an annual average rate of 1.5 per cent in 2017-18 and 1.75 per cent in 2018-19. Growth is forecast to gradually pick up by 2020-21. As the Minister's submission notes, the WPI is the preferred measure for wages growth.
30. The Minister also notes at paragraph [38] that AWOTE in WA rose by 2.3 per cent. AWOTE is the most relevant measure of weekly earnings as Average Weekly Total Earnings (AWTE) brings into account other payments made to employees (such as overtime, bonuses and penalties).
31. The cited modest rise in the AWTE noted at paragraph [39] of the Minister's submission, CCIWA would respond to say that this reflects the measures undertaken by businesses to reduce labour expense while maintaining employment, such as a reduction in available working hours and a reduction in hours and methods of business operation. Hence the 2.3 per cent rise in AWOTE and a relatively flat position in AWTE.
32. At paragraph [52] the Minister examines the operating conditions for Western Australian businesses noting that certain industries are facing a more challenging trading environment than others. This further confirms the need for the balance that is required in the 2018 State Wage Order.
33. At paragraph [52] of the Minister's submission comments that "*some industries recorded an improvement in GOS plus GMI in 2016-17, declines were recorded in a number of industries*". It is further summarised that GOS plus GMI increased by 8.2 per cent in 2016-17, led by a strong increase in the mining industry. We respectfully submit that this overlooks the actual substance of the data presented.
34. The detailed data provided in table 6 of the Minister's submission at page 15 shows that of the 19 cited industries, a positive result was only shown in 6 industries – that is, in only 31.5 per cent of industries.
35. When table 6 is examined, the summarised increase of 8.2 per cent is not reflective of the state of play for the majority of sectors. In fact, only two sectors showed double-digit positive results while 6 industries showed double-digit negative results. The picture painted is far from the generalised statement of an 8.2 per cent annual increase.
36. If the top two positive results are removed together with the bottom two negative, the overall result in that GMO plus GMI in 2017 declined by 5.82 per cent.
37. The Minister notes at paragraph [68] that the WAIRC should take a holistic approach to its statutory functions. As CCIWA submitted at paragraph [3] of this submission-in-reply, CCIWA endorses this approach by the WAIRC to its statutory functions.
38. The Minister addresses the role and existence of industrial agreements in in the State system at paragraphs [75] and [76].
39. As noted in paragraph [76], almost all agreements were in the sectors listed in the submission, none of which covers the large number of private sector small business employers in WA.
40. At paragraph [77] the Minister notes that smaller, unincorporated businesses, not just limited to the sectors the Minister specifically cites, "*are not utilising industrial agreements*" and "*that many of these businesses are guided by state awards when it comes to wage determination*".

41. CCIWA's submission of 15 May 2018 at paragraphs [392] and [393], cited that award-reliant small businesses choose awards over agreements because award rates and conditions were adequate, appropriate and affordable.
42. That would certainly be the position as the coverage of the State system relates to small and micro-businesses that are predominantly award-reliant.
43. With respect to the Statement of Principles, as CCIWA submitted at paragraphs [338] to [344] of its submission on 15 May, it is most appropriate to await the outcomes of the current Ministerial Review of the State's Industrial Relations System (Review).
44. As the Review is proposing significant and fundamental change to the status quo, in the interests of efficiency for the Commission and affected parties, it is appropriate to retain the Principles in the current form at this time.
45. It is far more efficient to address all matters in a single process rather than to face a potential work and re-work scenario consuming time and resources of both the WAIRC and the relevant parties.
46. This is particularly the case with respect to equal remuneration. The Review has acknowledged that the current State Awards are outdated and has proposed a consolidation and modernisation of the existing awards into a streamlined set of 28 New Awards.
47. While CCIWA acknowledges the expressed view of the Minister in paragraph 94 that "*several of the Principles could benefit from amendment, to provide clearer information to employers and employees, and to better reflect the contemporary safety net that currently exists in the State jurisdiction*".
48. This reflects the broad intent expressed in the Terms of Reference for the Review.
49. The Review has, in addition to the proposed New Awards, recommended, among others, the establishment of a new State Employment Standards (reflecting the National Employment Standards), an equal remuneration principle, and significant legislative changes with respect to the operations and functions of the IR Act and the MCE Act.
50. The Review proposed a prioritisation order for the New Awards making process and CCIWA would submit that priority matters should be considered in that context.
51. CCIWA would therefore submit that the most appropriate and efficient process would be to address the range of matters identified once the outcome of the Review is known.
52. As such CCIWA submits no change to the current Statement of Principles.
53. At paragraph [128] the Minister refers to the view of the Reserve Bank of Australia (RBA) as follows: "*spare capacity in the labour market, a decline in inflationary expectations and lower business profitability have all contributed to lower wage growth. In particular, the fact there has been slack in the labour market may mean employees are more willing to accept lower wage growth given concerns about job stability*".
54. CCIWA's submission also refers to these prevailing issues underlying wage growth, particularly the high level of spare capacity, and in addition cites the views of the International Monetary Fund (IMF) in March 2018 "*that nominal wage growth remains markedly slower in most advanced economies than it was before the GFC. IMF research of a range of possible contributing factors identified the bulk of global wage deceleration was to be accounted for by ongoing spare capacity, lower inflation expectations and weak trends in productivity growth*". (CCIWA Submission, paragraph [114])

55. The RBA February 2018 Statement on Monetary Policy said that “*despite strong employment growth over the past year, spare capacity in the labour market continued to weigh on wage growth*”. (CCIWA Submission, paragraph [116])
56. As CCIWA also noted in its submission, a Commonwealth Treasury analysis showed that “*recent subdued wage growth has been experienced by the majority of employees, regardless of income or occupation*”. (CCIWA Submission, paragraph [129])
57. The Minister notes at paragraph [160] in relation to skills development that “*young first-time entrants into the workforce (as are many apprentices and trainees) are particularly vulnerable to indirect competition for jobs in two key ways (albeit indirect). Firstly, employers may instead choose to utilise other older and more experienced unemployed / retrenched persons*” and continuing at paragraph [160] “*younger workers may be ‘displaced’ in respect to the additional labour offered by those experienced underemployed workers seeking to increase their hours (which often negates the need for an employer to put on a new / inexperienced worker)*”.
58. Youth unemployment is a significant and continuing problem and the Minister has clearly recognised the vulnerability of young workers at paragraph [160]. Particularly the additional impacts arising from the spare capacity and underemployment in the labour market.
59. However, this appears at odds with the State Government’s recent decision to remove the Payroll Tax Exemption for existing employees to access traineeships - a significant incentive for employers to promote from within a business. Removing the incentive for existing trainees creates a perverse incentive for business to favour hiring new senior staff, as they receive an exemption, rather than promoting from within, which does not receive an exemption.

Summary

60. In summary, CCIWA would submit that there is not sufficient rationale to support an increase in the State Minimum Wage and award minimum wages of 2.7 per cent as a sustainable increase at this time.
61. The State Government, through the 2018-19 Budget, has shown that challenging times will remain in 2018-19 and that the much-anticipated recovery will not be delivered until at least 2019-20.
62. The confidence that currently exists must be nurtured as should the small and micro business cohort covered by the State system who have endured poor domestic conditions and need time and opportunity to recover.
63. Much needs to be done to create opportunities for businesses to employ in order to reduce the underlying spare capacity in the labour market.
64. CCIWA does not believe a large increase, as proposed by the Minister, will facilitate those opportunities.

3. Submission of UnionsWA (UWA)

66. UWA have proposed an increase of \$50.00 per week to the State Minimum Wage (SMW) or the equivalent of 7.1 per cent to increase to the SMW from \$708.90 to \$758.90.
67. CCIWA rejects this proposed increase as not responsible nor sustainable in the conditions facing the WA economy or the state of the WA labour market in the current conditions or in the near term.
68. At paragraph [2.8], UWA notes that ‘social interests versus economic interests’ need not be at odds with one another, commenting that deciding fair and minimum wages should move towards what is fundamentally about the common good.
69. However, CCIWA submits that there is nothing contained in the UWA submission that aligns with the view of ‘the common good’.
70. As CCIWA submitted at paragraph [3] of this submission-in-reply, the considerations of the Commission in the determination of the State Minimum Wage (SMW) should be a holistic one and, further at paragraph [4], that the “*notion of fairness must ultimately be from dual perspectives, from those who are the recipients of wages and salaries and from those who are required to fund the payment of wages and salaries*”.
71. Fairness is explicitly expressed in sections 50A(a)(i), 50A(a)(iii), and 50A(e) of the Act. CCIWA would further submit that the notion of fairness is implied in section 50A(d).
72. However, in adjudging fairness UWA fails to adequately address the provisions of section 50A(3)(b) and 50A(3)(d). These are fundamental considerations that must be given considerable weight in determining any increase in the SMW and award wages.
73. UWA is dismissive of the relevance of the actual economic conditions existing in WA and the difficult challenges that have faced businesses over the last four years and the continuing challenges still being faced.
74. CCIWA would urge that attention focuses on the actual small and micro businesses covered by the State system that are predominantly sole traders, unincorporated partnerships and unincorporated trusts.
75. Small businesses have more substantial and personal ‘skin in the game’ than any other businesses.
76. Small business owners not only operate the business, they have much at risk. They have much more at stake from which failure can deliver a significant personal consequence. As well as ensuring the success of the business and the support of their employees, they must also earn an income for their own families.
77. On 15 May 2018, the latest bankruptcy data was released by the Australian Financial Security Authority (AFSA) for the March quarter 2018.
78. The March 2018 quarter business-related bankruptcies in WA represent 15.8 per cent of all business-related bankruptcies nationally. This has steadily risen from 7.7 per cent since the March 2012 quarter.
79. This continued increase in business-related bankruptcies is shown in table 1 below comparing the March quarter of each year since 2012.

80. Table 2 shows the level of WA business-related bankruptcies as a percentage of the business-related bankruptcies nationally on a full financial year basis. This continues to show the increased rate for WA.
81. For the 2016-17 financial year, WA business-related bankruptcies represented 15.2 per cent of all business-related bankruptcies nationally, up from 9.6 per cent in 2013-14.

**Table 1: Business Related Bankruptcy – Quarterly Comparison
March 2012 to March 2018**

Quarter	Number	WA % of National
March 2012	109	7.7
March 2013	102	9.4
March 2014	115	10.1
March 2015	107	11.9
March 2016	116	12.0
March 2017	164	15.6
March 2018	163	15.8

**Table 2: Business Related Bankruptcy – Annual Comparison
2013-14 to 2016-17**

Quarter	Number	WA % of National
2013-14	421	9.6
2014-15	414	10.8
2015-16	559	12.9
2016-17	642	15.2

82. The impacts on business are evident and CCIWA would again submit that at this stage of economic transition of the WA economy, and the challenges continuing to face small businesses, section 50A(3)(d) must bear considerable weight to facilitate viable and sustainable businesses capable of meeting the challenges ahead.
83. CCIWA submits that UWA fails to acknowledge the difficulties facing WA businesses covered by the State system and how such a proposed substantial increase can be funded by these businesses in the current environment.
84. Proposed substantial increases in the SMW that exceed the capability by businesses to fund any increase will only exacerbate the current difficulties, particularly in the labour market. Any increase must be responsible and sustainable considering all the factors required to be assessed under section 50A(3).
85. Otherwise it will reduce the speed of economic recovery.
86. UWA references at paragraph [2.7] the ACTU's submission to the Annual Wage Review citing Article 3 of ILO Convention 131 on Minimum Wage Fixation.
87. The provisions of the section 50A(3) of the IR Act 1979 clearly accommodates the reference made by UWA to ILO Convention 131.
88. The additional distinction being that the reference of paragraph (b) of Article 3 to the "*desirability of attaining and maintaining a high level of employment*".

89. CCIWA would reinforce its Submission on 15 May, that with WA's high levels of unemployment and youth unemployment, that the creation of jobs should be a primary objective.
90. While proposing an equality of approach for the common good, UWA seeks to limit this only to existing employees and to their singular benefit. It fails to consider the requirement provided by section 50A(3)(b) where the likely effect on employment must be considered.
91. The proposed increase by UWA operates counter to the state of the economy, the prevailing conditions facing small businesses, the continuing low levels of inflation, the high levels of unemployment and particularly youth unemployment, and high levels of spare capacity in the labour market.
92. Additionally, it would constrain those existing employees who seek additional working hours. The underemployed would remain exactly that, as any additional available hours would be priced out.
93. This pricing out effect would be particularly impactful on entry level opportunities, especially important for youth and other new entrants to the labour market.
94. The UWA submission fails to recognise the essential need to bring unemployed into paid work.
95. At paragraph [3.1] of the UWA submission it is suggested that the proposed increase in the SMW and award minimum wages "*will raise household spending and demand for goods and services in the WA economy*".
96. This proposition that there will be some resultant 'herd' effect to immediately spend what they receive is presumptuous. Individuals will use their income according to their individual needs and circumstances. Individuals may choose to save (for house purchase, for a holiday, for a 'rainy day'), pay down personal debt (extra payments to the mortgage, credit card payments, car or personal loan payments), as well as the option to consume.
97. CCIWA's March quarter survey of Consumer Confidence shows that over two-thirds of WA consumers were unlikely to make any major household purchases of more than \$2,000 over the coming quarter, with only one in five consumers (19%) saying they are likely to increase spending.
98. Individuals will act individually not on mass.
99. The additional claim that this will lead to an increase in sales revenue that will in turn lead to an increase in employment and profits is not supported by the facts.
100. For example, the 2017 SMW was increased by 2.3 per cent effective on 1 July 2017, at a level greater than the CPI. This was an effective real increase in disposable income.
101. However, monthly growth in retail sales from November 2017 to March 2017 was flat (0.0%) and annual growth in retail sales from March 2017 to March 2018, in both trend and seasonally adjusted terms, was a negative growth of 0.5 per cent. Quarterly CPI through this period was less than 1.0 per cent.
102. No effect was had on retail sales over the period where the SMW increase applied suggesting clearly that increases in income are being used for other purposes.
103. The assumption that increases will immediately convert to spending does not hold true.
104. Increased household spending will come from more consumers in the marketplace generated by more people in employment and people working more hours.

105. As UWA submitted at paragraph [5.14], citing the RBA Deputy Governor Guy Debelle in May 2018 discussing rates of wage growth, “*There is a risk that it may take a lower unemployment rate than we currently expect to generate a sustained move higher than the 2 per cent focal point evident in many wage outcomes today*”.
106. This aligns with the consistently stated position of the RBA through speeches by the Governor, Assistant Governors and contained in the quarterly Statements on Monetary Policy – removing spare capacity will increase pressure on wages. Reducing unemployment will reduce spare capacity leading to higher wage outcomes.
107. CCIWA has also submitted this position in its submission of 15 May 2018 citing this RBA imperative. It is by creating the environment and conditions through which spare capacity in the labour market can be reduced that there will be an impact on wage growth.
108. At paragraph [7.9], UWA contends that the objective of securing paid work for the unemployed should not be considered. The SMW and award wages provide the appropriate rates, as determined by the Commission, and there has never been any proposition proffered that securing employment should be “*regardless of how much they are paid*” as claimed by UWA. Wages are legislatively set.
109. Further, UWA claims that this includes “*how they are treated when in employment*”. This is an emotive and generalised line of argument and is not a matter for the Commission in the matter at hand. There are processes under the Act available to individuals should any alleged workplace ‘treatment’ require attention.
110. Rather, UWA would suggest that it would be better to remain unemployed than employed, and that those who are unemployed should only enter the workforce where there is an appropriate ‘quality’ of work.
111. CCIWA finds this line of argument disappointing, and most certainly those who are unemployed and actively seeking work would find equally so.
112. At paragraph [247] through to paragraph [253] of the CCIWA submission of 15 May 2018, low-paid jobs provide a valuable pathway into the workforce. At paragraph [250], CCIWA cites a 2013 Productivity Commission report found that “*compared to unemployed people, people in employment have a higher level of wellbeing and lower levels of financial stress*”.
113. Further, the 2017 HILDA survey results showed that low-paid employment is often temporary with over two-thirds of individuals leaving low-paid work within a year with the majority moving to higher paid work with a median increase in hourly wages of 59 per cent.
114. At paragraph [5.1] and others, UWA states that impacts on employment arising from increasing the state minimum wage by too much, “*have never come to pass, and are based on seriously outdated economic theories*”.
115. CCIWA would firmly state that this is not simply economic theory but a practical reality. This is evidenced by record unemployment and youth unemployment, declining working hours, and the level of business-related bankruptcies in WA as CCIWA has outlined in paragraphs [78] to [81] and tables 1 and 2.
116. However, UWA then proceeds to refer to monopsony, itself an economic theory first put forward in 1933.
117. As UWA states, in a monopsony, one or two firms will dominate the markets for goods and services, and for labour. Further this makes those firms price setters for employment.

118. This economic theory, itself outdated, bears no relevance at any level of consideration to the employers covered by the State system.
119. It would be fanciful to consider that the sole trader operating in Wangara could wield such market power so as to set the price for employment, as would the two business partners who own the general mechanical service business in Canning Vale or the family, operating as a trust, running a local suburban coffee shop.
120. The proposition that any employer under the State system could exercise the power as the only 'buyer' in the market to have the dominant influence over all labour prices is illogical.
121. Again, CCIWA would submit that it should remain at the forefront of consideration as to actual businesses covered by the State system and their award reliance upon which the State Wage Case is being determined.
122. CCIWA would submit that section 8 of the UWA submission again loses sight of the nature of the businesses covered by the State system. As previously submitted by CCIWA, agreement making is not practical or relevant for the cohort of small and micro award reliant businesses in WA.
123. At paragraph [9.1], UWA effectively proposes to make apprentices and trainees more expensive, an outcome of which would be to clearly close employment opportunities particularly for youth.
124. The UWA submission further hypothesises that a substantial increase in the wages of apprenticeships and traineeships would make them more attractive is on one level correct, but only for those who are currently apprentices and trainees. However, with sustained and significant decreases in the commencement rates for apprentices and trainees, the increased expense coupled with continued removal of employer incentives would accelerate this decline.
125. Apprentices and trainees are individuals in training, learning a craft or skill and gaining real experience. They are not fully productive, independent employees and require the supervision of qualified or experienced work colleagues.
126. With respect to paragraph [10.1] of the UWA submission, the SMW and award classifications are gender neutral and to suggest an increase at or below the CPI would exacerbate the gender gap is unsound. An increase of any size does not alter the fundamental position. Award classifications are gender neutral and, as has been acknowledged by the Commission, adjustments to the minimum wage have little effect on the gender pay gap.
127. UWA is proposing in paragraph [11.1] that, while acknowledging that WA has gone through recent difficult times, that the emerging signs of recovery are sufficient to justify a substantial increase – signs that "*the WA minimum wage can capitalise upon*".
128. UWA is proposing to capitalise upon something that has not yet eventuated.
129. It is widely acknowledged that there are signs of recovery, reflected most recently in the WA State Budget. Though recovery is not forecast to materialise until at least 2019-20.
130. There is emerging confidence in WA by both consumers and businesses. Again, that confidence is yet to materialise into real and practical results.
131. UWA contends at numerous points in section 12 that "*employers cannot credibly contend that they are currently operating in a high labour cost environment*".
132. This is ill informed.

133. Simply, in the first instance, consider that WA operates with a SMW that is 2.0 per cent above the national minimum wage effectively making it the highest legislated minimum wage globally. This places WA small businesses, at a minimum wage level, at a cost disadvantage to their national system counterparts.

Summary

134. In conclusion, CCIWA would submit that the UWA submission, provides no substantive basis to warrant an increase in the SMW by 7.1 per cent, narrowly serving only those who are currently employed.
135. No substantive case has been put forward to demonstrate that such an increase is sustainable.
136. UWA has failed to adequately consider that WA has:
- (a) A low cost of living, the lowest in the country;
 - (b) The highest AWOTE by some 11 per cent;
 - (c) A higher SMW compared to the national minimum wage;
 - (d) Declining productivity for both labour and multifactor productivity;
 - (e) Declining working hours;
 - (f) Record unemployment and record youth unemployment; and
 - (g) Significant spare capacity in the labour market
137. Further, UWA also fails to acknowledge that there has been real wage growth in WA, increases in real disposable income since 2011-12 because of awarded increases in the SMW and award minimum wages. The WPI reflects that wages have increased beyond inflation since 2014.
138. The proposed increase of 7.1 per cent, if granted, would reduce employment opportunities by pricing them from the market, thereby sustaining high unemployment and maintaining spare capacity in the labour market, effectively ensuring no future wage growth.
139. Importantly, critical entry level roles would be at risk that are essential for youth and other labour market entrants as well as adding to the decline in apprentice and trainee opportunities.
140. The proposed increase will certainly assist existing employees but it does nothing for job creation and the unemployed.
141. As noted in CCIWA's submission at paragraph [457], the Productivity Commission stated in its 2015 inquiry into the workplace relations framework, the wage regulator "*should systematically consider the risks of variations in economic circumstances on employment and on the living standards of the low-paid*" and "*to safeguard and expand job opportunities, it should moderate the growth in minimum wages whenever the employment outlook is weakening*".
142. A responsible and sustainable increase is required that assists all workforce participants. This includes the employed, the underemployed and the unemployed.
143. The UWA proposed increase certainly would not, in the view of CCIWA, deliver the common good.
144. CCIWA would submit that the outcome may very well create a greater divide in our community.
145. CCIWA submits that the societal benefits arise from having more individuals participating in the activities of the economy than less.

4. Submission of WACOSS

146. WACOSS submits for a wage increase consistent with that proposed by UWA, \$50.00 per week or the equivalent of 7.1 per cent.
147. WACOSS notes that its submission relies only on the provisions of section 50A(3)(a)(i) to 50A(3)(a)(iv) of the Act for the Commission to consider and does not therefore acknowledge or address in its submission any other statutory requirements of the Commission as outlined in the other provisions of section 50A(3) in making the State Wage Order.
148. In particular, WACOSS does not address section 50A(3)(d) to demonstrate how the proposed increase could be funded by employers or the capacity of employers to bear the proposed increase.
149. As CCIWA has submitted, *“at this stage of economic transition of the WA economy, and the challenges continuing to face small businesses, section 50A(3)(d) must bear considerable weight to facilitate viable and sustainable businesses capable of meeting the challenges ahead”*. (CCIWA Submission, paragraph [12])
150. The State Minimum Wage (SMW) and award minimum wages apply predominantly to small and micro private sector businesses, comprising sole traders, unincorporated partnerships and unincorporated trusts.
151. CCIWA acknowledges the significant and detailed data provided by the WACOSS submission.
152. As provided in paragraph [136] of this submission-in-reply, the WACOSS submission also does not adequately consider that WA has:
- (a) A low cost of living, the lowest in the country;
 - (b) The highest AWOTE by some 11 per cent;
 - (c) A higher SMW compared to the national minimum wage;
 - (d) Declining productivity for both labour and multifactor productivity;
 - (e) Declining working hours;
 - (f) Record unemployment and record youth unemployment; and
 - (g) Significant spare capacity in the labour market
153. Again, CCIWA submits that there has been real wage growth in WA, increases in real disposable income since 2011-12 because of the awarded increases in the SMW and award minimum wages. The WPI reflects that wages have increased beyond inflation since 2014.
154. CCIWA would submit that the proposition forwarded by the submission of WACOSS does not consider the key underlying conditions that are being experienced by the economy currently or the impacts to the WA economy or employment.
155. The proposed increase by WACOSS would impose significant additional cost upon small and micro businesses, those least able to afford a substantial increase in operating costs.
156. It would impose significant additional costs on a small business sector that has experienced challenging business trading conditions over the last four years and will continue to face over the short-term.

157. The State Budget reflects that recovery is not expected until at least 2019-20.
158. While such a substantial increase would no doubt benefit those currently employed it would not facilitate the creation of jobs and would significantly affect entry level job opportunities.
159. This would, as a result, not seek to remedy the current record levels of unemployment and youth unemployment. It would continue the plight of unemployed persons in our community, particularly youth.
160. WACOSS has provided additional material to accompany its submission in the form of a paper written by James Bishop¹.
161. Firstly, it is important to note that the paper clearly states that “*the views in this paper are those of the author and do not reflect the views of the Reserve Bank of Australia*”. Therefore, this paper is not endorsed by the RBA or representative of the views of the RBA.
162. Secondly, it is critical to note that the detailed data set used in paper is for the period 1998 to 2008. Therefore, it examines a period where wage fixation was undertaken in a significantly different statutory context. The workplace relations framework that existed over the period under examination does not bear any resemblance to that which has existed since 2009 with the enactment of the Fair Work Act 2009 (Cth).
163. Thirdly, the period under examination was pre-GFC and the national and domestic economic environments were affected by the dramatic dislocations that occurred internationally. Economies have been substantially altered since the GFC, again there is no comparison to that which existed prior to the GFC.
164. Fourthly, the analysis only focuses upon the system of national wage fixation which was more complex and varied through the period under examination. Again, there is no comparison to the wage fixation processes since 2009.
165. Finally, the period under examination was a period where each individual State maintained their own industrial relations systems, state awards and state wage cases and the referral of industrial relations powers to the Commonwealth had yet to occur. The coverage of the Federal statutory framework was not as extensive as exists today.
166. Section 9 of the Bishop paper are worth noting in full:
“There are several things to keep in mind when interpreting these findings. Firstly, as discussed earlier, my results are for adult employees only and do not include juniors. Secondly, the results may not necessarily generalise to large, unanticipated changes in award wages. There will always be some point at which a minimum wage adjustment will begin to reduce employment. Thirdly, my paper studies fairly tight windows around FWC decisions, and thus gives valid estimates of the effect of the minimum wage on hours worked and job loss only if employers take less than six months to adjust to changes in the award wage (Borland 2018). Finally, although I find no statistically significant evidence of an effect of award adjustments on job destruction, this does not rule out an adverse effect on employment. For instance, the adverse consequences of higher wage floors may be borne by job seekers, rather than job holders. Evidence from the Productivity Commission (2015a, p 67) tentatively supports this possibility”.

¹ Research Discussion Paper (RDP 2018-06), The Effect of Minimum Wage Increases on Wages, Hours Worked and Job Loss, Reserve Bank of Australia

167. Bishop cites that the results may not generalise to large, unanticipated changes in award wages. CCIWA would submit that the 7.1 per cent increase proposed by WACOSS, and the same amount proposed by UWA, would clearly be regarded as a large increase. As a wage increase of that quantum has not been awarded in recent memory it could reasonably therefore be viewed as unanticipated. It would also be unanticipated in the context of the WA economy, the low inflationary environment, and the WA labour market.
168. Importantly Bishop clearly states that *“there will always be a point at which minimum wage adjustment will begin to reduce employment”*. Bishop goes on to say that although no significant statistical evidence was found on job destruction, *“this does not rule out an adverse effect on employment”*.

Summary

169. CCIWA would submit that WACOSS has not fully considered the relevance of the actual economic conditions existing in WA and the difficult challenges facing businesses, the cohort who would be required to fund the proposed increase.
170. WACOSS does not provide the necessary rationale to support such a significant increase considering the total requirements of section 50A(3) of the Act.
171. Equally, no case has been put forward to demonstrate that such an increase is sustainable.
172. As with the submission of UWA, the proposed increase of \$50.00 per week or 7.1 per cent contained in the WACOSS submission, if granted, would reduce employment opportunities that would be priced from the market, thereby sustaining high unemployment and maintaining spare capacity in the labour market, effectively ensuring no wage growth.
173. Importantly, critical entry level roles would be at risk that are essential for youth and other labour market entrants as well as adding to the decline in apprentice and trainee opportunities.
174. The proposed increase will certainly assist existing employees but it does nothing for the unemployed or the underemployed.
175. CCIWA notes again paragraph [457] of CCIWA’s submission where the Productivity Commission stated in its 2015 inquiry into the workplace relations framework, the wage regulator *“should systematically consider the risks of variations in economic circumstances on employment and on the living standards of the low-paid”* and *“to safeguard and expand job opportunities, it should moderate the growth in minimum wages whenever the employment outlook is weakening”*
176. A responsible and sustainable increase is required that assists all workforce participants, this includes the employed, the underemployed and the unemployed.

5. Submission of the Australian Hotels Association (AHA)

177. CCIWA endorses the views and supports the concerns provided in the submission of the Australian Hotels Association (AHA).
178. Representing over 85 per cent of the hospitality industry in WA, the AHA has 10 per cent of its members falling within the scope of the State system who are small and family-owned businesses located in regional WA.
179. The AHA submission calls for restraint in wage fixation at this time, particularly in light of the significant decline in tourism spending in regional WA, to an increase of 1.0 per cent in the State Minimum Wage.
180. CCIWA support the submission of the AHA.