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# **UnionsWA submission in reply on the 2019 state wage order**

**Appl No. 1 of 2018  
ON THE COMMISSION'S OWN  
MOTION**

**Western Australian Industrial Relations  
Commission**

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## 1. Submission in reply

- 1.1. The Western Australian Industrial Relations Commission (**Commission**) issued an application to make a State Wage Order pursuant to section 50A of the *Industrial Relations Act 1979* (WA) (**IR Act**) to determine rates of pay for the purposes of the *Minimum Conditions of Employment Act 1993* (WA) (**MCE Act**) and State awards.
- 1.2. On 14 May 2019 UnionsWA filed a submission requesting the Commission issue a general order pursuant to Section 50A of the Act to increase Award wages and the statutory minimum wage by **\$43.61 per week** or by **6%**, whichever is greater.
- 1.3. 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

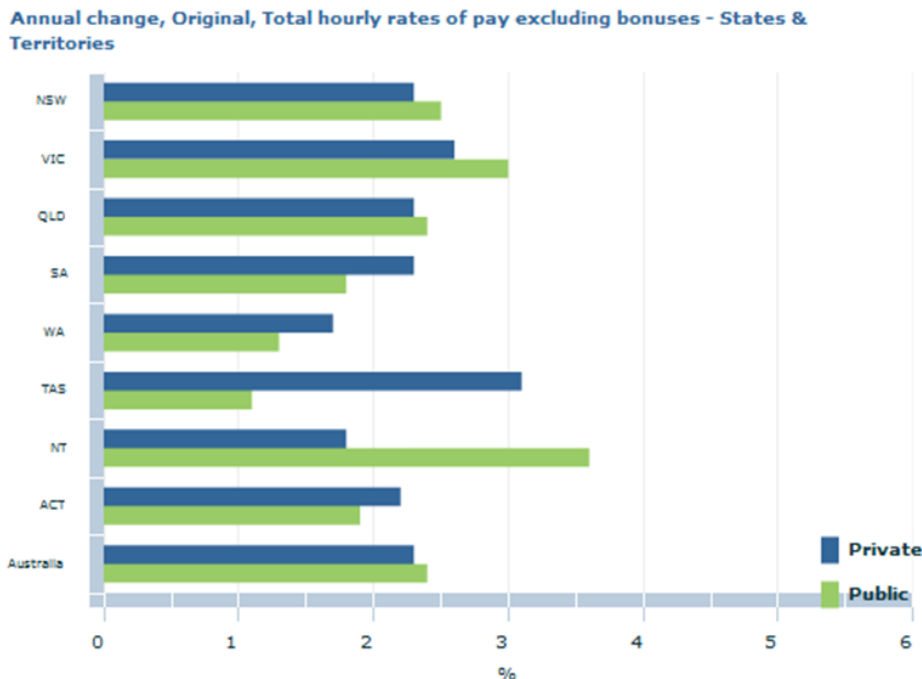
- 1.4. UnionsWA notes the following positions on quantum made by section 50 parties and other interested stakeholders:
- Western Australian Government (**the Minister**)
  - Chamber of Commerce and Industry of WA (**CCIWA**)
  - WA Council of Social Service Inc (**WACOSS**)
- 1.5. UnionsWA also noted the submission by the Community Legal Centres Association of WA Inc (**CLCWA**), giving formal notification of their intention to appear and make oral submissions.
- 1.6. The submission below is the UnionsWA response to issues raised in these submissions, as well as to relevant and significant developments since UnionsWA made its original submission.
- 1.7. In the 2018 State Wage Case UnionsWA also made a submission that the state minimum wage needed a real increase to meet the needs of the low paid, improve or maintain living standards

given increases in the basic costs of living, protect employees unable to reach an industrial agreement and address the gender pay gap. UnionsWA argued that the ongoing, and growing, disparity between minimum wage and Average Weekly Earnings also needed to be addressed in the Commission's decision. UnionsWA also urged consideration of the need to maintain the relativities of award rates of pay in the Commission's decision

- 1.8. UnionsWA again submits that the Commission must provide for an increase to the state minimum wage, it must be a real increase that improves living standards of employees, that addresses the growing disparity between minimum wage and Average Weekly Earnings in WA, and that addressed the relativities in award rates.

## 2. The most recent ABS Wage Price Index

- 2.1. On 15 May 2019 the Australian Bureau of Statistics (ABS) released the Wage Price Index (WPI) for March 2019. WPI measures changes in the price of labour services resulting from market pressures, and is unaffected by changes in the quality or quantity of work performed, by changes in the composition of the labour force, by hours worked, or by changes in characteristics of employees such as work performance. The ABS found that nationally the WPI rose 0.5 per cent in March quarter 2019 and 2.3 per cent through the year. For WA it found that, through the year, private sector wages have increased by 1.7 per cent, as opposed to 2.3 per cent nationally.<sup>1</sup>



- 2.2. On 14 May 2019 the Centre for Future Work released a Briefing Paper on the *Impact of Minimum Wages on Recent Wage Trends*.<sup>2</sup> It highlights some methodological issues related to the WPI, and considers recent data confirming the visible impact on the WPI of last year's strong increase in the national minimum wage. The paper points out that

*Because it holds the composition and quality of jobs constant from one period to the next, the WPI does not capture the wage impacts of changes in the composition of jobs over time. In Australia in recent years, employment has become more dependent on part-time work; average*

<sup>1</sup> ABS, 6345.0 - Wage Price Index, Australia, Mar 2019

<http://www.abs.gov.au/ausstats/abs@.nsf/latestProducts/6345.0Media%20Release1Mar%202019>

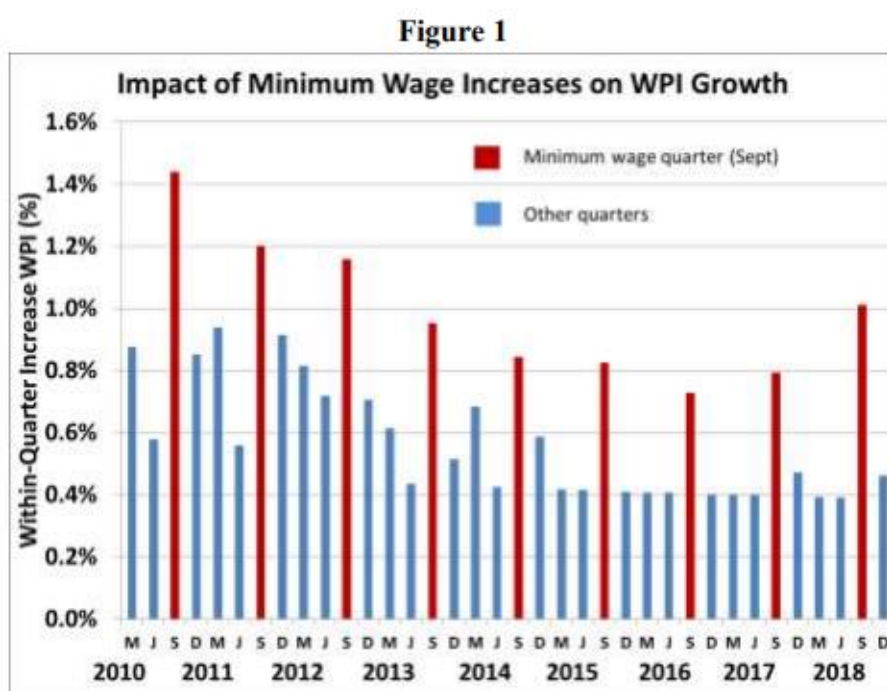
<sup>2</sup> Dr. Jim Stanford, *The Importance of Minimum Wages to Recent Australian Wage Trends* (14 May 2019) p.2  
<https://www.futurework.org.au/the-impact-of-minimum-wages-on-recent-wage-trends>

hours worked per employee have declined; and other forms of insecure or low-paid work have also become more common. These effects are excluded by definition from the WPI, and hence it has overstated the true growth of realised wage income.

2.3. The Briefing Paper goes onto point out that

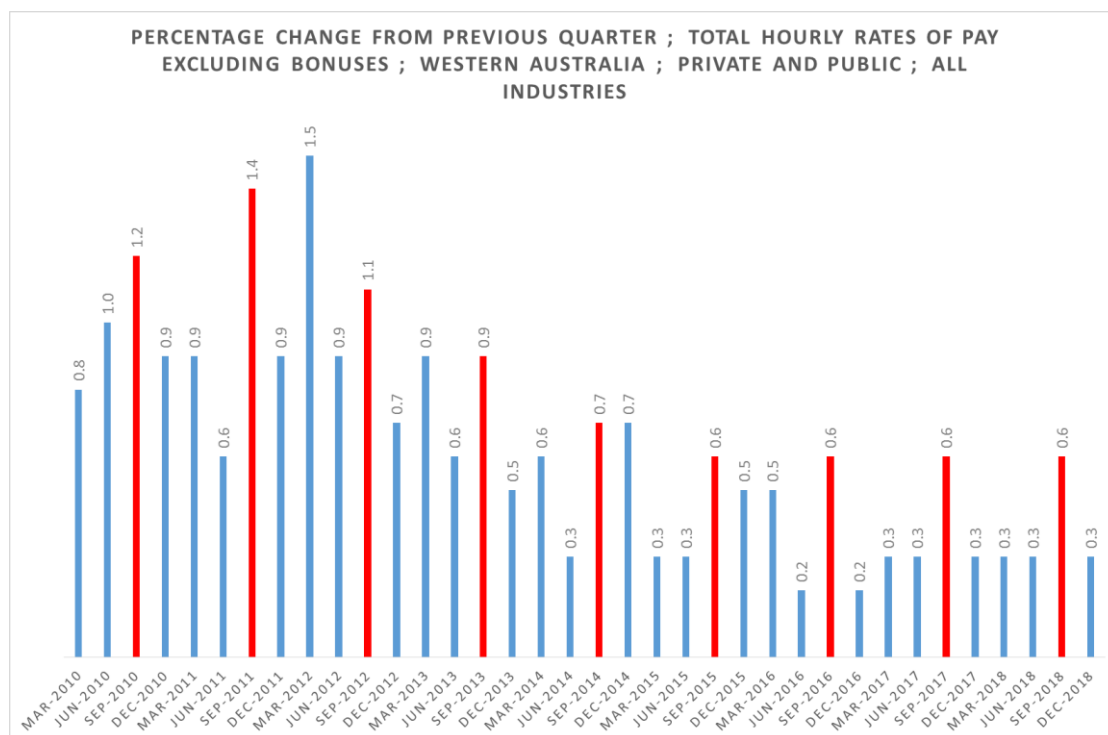
*There is a strong seasonal pattern in the WPI arising from the concentration of wage increases around 1 July (the beginning of the financial year). The original WPI series regularly shows a large jump in the September quarter (the first after July 1). Changes in the national minimum wage also come into effect on 1 July, and this further accentuates that seasonal spike.*

*Figure 1 illustrates this strong seasonal pattern in (unadjusted) WPI data, using the within quarter percentage change in the original WPI series:*

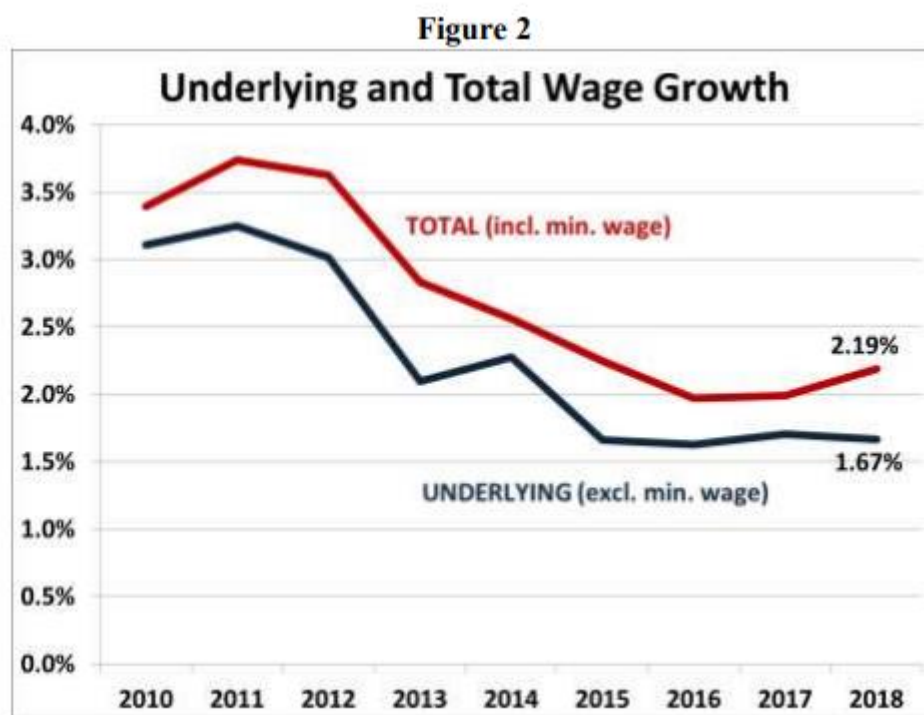


Source: Author's calculations from ABS Catalogue 6345.0; unadjusted data.

2.4. If a similar calculation is done for the WA, a comparable pattern emerges.



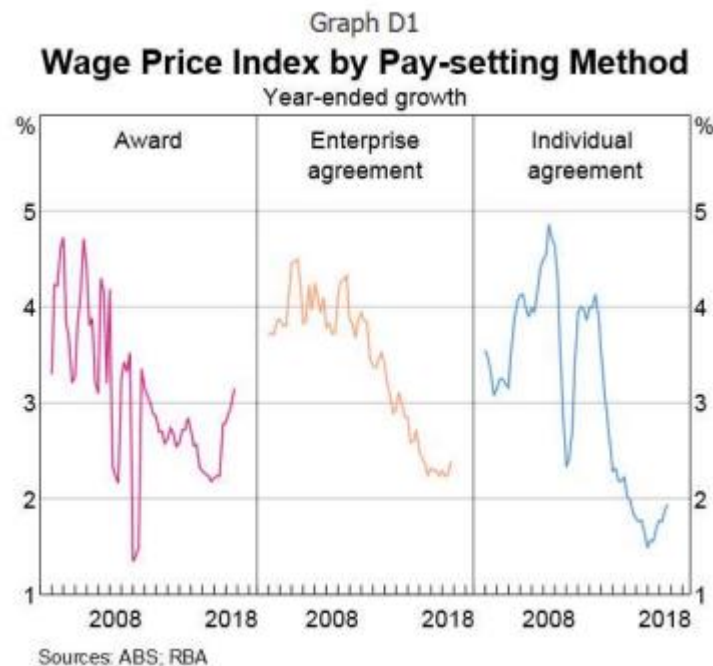
- 2.5. The Briefing Paper goes on to make the point that 2018's relatively large increase in the national minimum wage (3.5%) statistically accounts for essentially all of the modest rebound in the WPI last year.<sup>3</sup>



Source: Author's calculations from ABS Catalogue 6345.0, as explained in text.

<sup>3</sup> *ibid.*, p.4 'Figure 2 decomposes annual changes in the WPI into two groups: the total increase (averaged across all 4 quarters in a calendar year), and what is termed the "underlying" increase. The underlying increase is the average annualised increase experienced in the 3 other quarters of the year: that is, all quarters other than the quarter in which the annual increase in the minimum wage pushes up the annual average.'

- 2.6. The Paper also references the same data from the recent Reserve Bank Statement on Monetary Policy as was reference by UnionsWA in our initial submission (para 4.7), when we made the point that the award system is still doing the heavy lifting on wages growth in Australia.<sup>4</sup>



- 2.7. The Briefing Paper concludes that ‘active policy decisions, rather than so-called “market forces,” continue to exert a dominant influence on the direction of wages in Australia’s labour market’. Therefore what improvements there are seem to be

... overwhelmingly due to a large increase in the national minimum wage announced by the Fair Work Commission effective 1 July 2018. Underlying wage pressure, excluding that effect, has been as weak as ever.<sup>5</sup>

- 2.8. Both the Minister’s,<sup>6</sup> and the CCIWA’s<sup>7</sup> submissions are forecasting WPI growth to go from 2.25% in 2019-20, to 3.0% in 2021-22.

**Table 1: Economic forecasts – major economic aggregates, WA<sup>1</sup>**

Indicator	2017-18 Actual	2018-19 Estimated Actual	2019-20 Budget Forecast	2020-21 Forward Estimate	2021-22 Forward Estimate
Gross State Product	1.9%	2.0%	3.5%	3.0%	3.0%
State Final Demand	1.0%	-1.0%	3.0%	3.5%	3.5%
Employment Growth	2.2%	1.0%	1.75%	2.0%	2.0%
Unemployment Rate	6.1%	6.25%	6.0%	5.75%	5.5%
Wage Price Index	1.5%	1.75%	2.25%	2.75%	3.0%
Consumer Price Index	0.9%	1.25%	1.75%	2.25%	2.5%

<sup>4</sup> Submission by UnionsWA (2019), para 4.7.

<sup>5</sup> *ibid.*, p.6.

<sup>6</sup> Submission by the Hon. Minister for Commerce and Industrial Relations (Minister) (2019), para 14.

<sup>7</sup> Submission by the Chamber of Commerce and Industry of Western Australia Inc. (CCIWA), (2019), para 106.

Table 9: State Budget Projections, Annual Growth <sup>41</sup>

	2017-18 Actual	2018-19 Estimated Actual	2019-20 Budget Estimate	2020-21 Forward Estimate	2021-22 Forward Estimate	2022-23 Forward Estimate
<b>Labour Market</b>						
Employment growth (%)	2.2	1.0	1.75	2.0	2.0	2.25
Unemployment rate <sup>(a)</sup> (%)	6.1	6.25	6.0	5.75	5.5	5.25
Participation Rate <sup>(a)</sup> (%)	68.3	68.4	68.6	68.7	68.7	68.7
Wage Price Index growth (%)	1.5	1.75	2.25	2.75	3.0	3.25

- 2.9. However these forecasts represent downward revisions from last year – specifically when 2019-20 WPI growth was going to be 2.75%, and 2020-21 was going to be 3.0%.<sup>8</sup>

Table 1: Economic forecasts – major economic aggregates, WA<sup>1</sup>

Indicator	2016-17 Actual	2017-18 Estimated Actual	2018-19 Budget Forecast	2019-20 Forward Estimate	2020-21 Forward Estimate
Gross State Product	-2.7%	2.5%	3.25%	3.75%	3.0%
State Final Demand	-7.2%	-0.25%	-0.25%	3.75%	3.75%
Employment Growth	-0.9%	2.25%	1.5%	2.0%	2.25%
Unemployment Rate	6.2%	5.75%	5.75%	5.5%	5.25%
Wage Price Index	1.4%	1.5%	1.75%	2.75%	3.0%
Consumer Price Index	0.6%	1.0%	1.5%	2.0%	2.5%

- 2.10. The Minister's Attachment A – Economic outlook, lists among the Domestic risks to the WA economy that 'Household consumption has been weak'.<sup>9</sup> It goes on to observe that

*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.*

- 2.11. The CCIWA also says in its submission that<sup>10</sup>

*'Household financial concerns are affecting consumption spending and dwelling investment. While 'household consumption growth remains sluggish, the road to recovery for Western Australia will continue to be slow.'*

- 2.12. It goes on to point out that, the improvements in Gross State Product (GSP) growth (+1.9% in 2018-19) have been driven by household consumption (along with business investment and dwelling investment). Household consumption represented 46 per cent of the economy in the December 2018 quarter.<sup>11</sup>

- 2.13. However the CCIWA then tries to claim that, because the national household savings ratio has fallen (from 8.3% in 2014 to 2.4% in 2018), 'a future increase in wages growth or employment will not immediately result in an equivalent increase in consumption'.<sup>12</sup>

<sup>8</sup> Submission by the Hon. Minister for Commerce and Industrial Relations (Minister) (2018), para.13.

<sup>9</sup> Minister's Attachment A – Economic outlook (2019), p.18.

<sup>10</sup> Submission by the Chamber of Commerce and Industry of Western Australia Inc. (CCIWA) (2019), para 5.

<sup>11</sup> *ibid.*, paras 9,15.

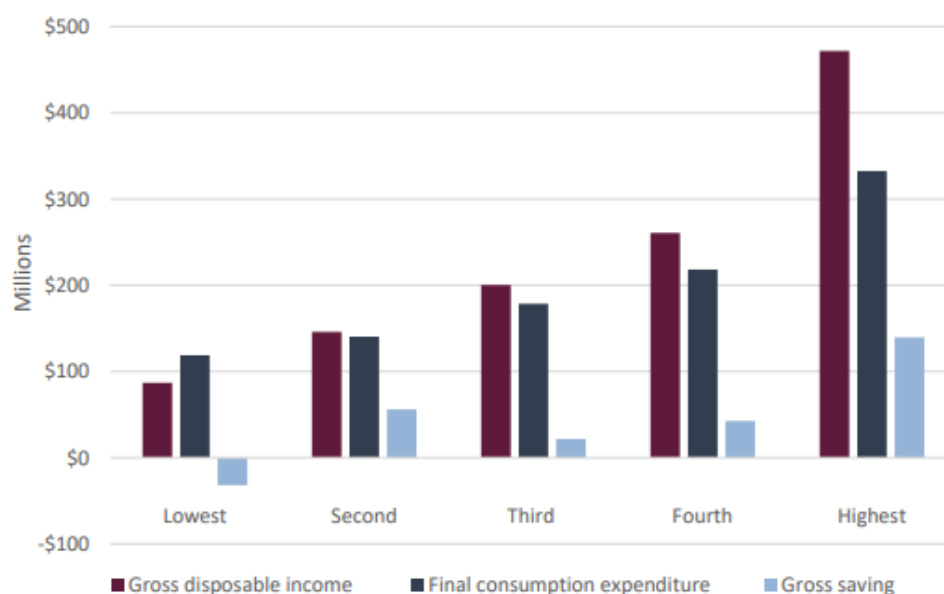
<sup>12</sup> *ibid.*, paras 77,78.



- 2.14. This is a highly debatable claim, not least because it does not account for the behaviour of lower wage workers who are more likely to be earning award and minimum wages. As WACOSS points out in its submission:<sup>13</sup>

*The relationship between income and (largely non-discretionary) expenditure means that every extra dollar a low-wage worker earns is more than likely to end up boosting demand for goods and services, with those on the lowest incomes spending a proportionally higher amount of their earnings.*

**Household Income, Consumption and Saving by equivalised household income quintile, 2017-18**



Source: ABS 5204.0.55.011 Table 1.8

*When those on the lowest incomes see a rise in their wages, they will spend it on much-needed essential goods and services, typically locally, providing an injection of activity into the economy of their community.*

- 2.15. The most recent WA Super-CCI Business Confidence Survey released by the CCIWA on 7 May 2019 reported that ‘Thirty-eight per cent (38%) of respondents identified weak demand as the largest barrier to growing their business over the coming year’. It went on to say that:<sup>14</sup>

*Weak consumer spending may have contributed to subdued demand levels, with the most recent CCI Consumer Confidence Survey (March 2019) reporting that two out of three (68%) WA consumers considered it unlikely that they would make any major household purchases next quarter.*

- 2.16. To conclude, both the WA government, and the CCIWA, have identified subdued household consumption, and consumer demand as problems for the WA economy, but they have no adequate responses to this situation. Their submissions to the state wage case (no more than a 1.4 per cent from the CCIWA; no more than \$19.20 per week from the Minister) are woefully inadequate.

<sup>13</sup> Submission by the Western Australian Council of Social Service (WACOSS) (2019) pp.40-1.

<sup>14</sup> WA Super-CCI Business Confidence Survey, March Quarter 2019, pp.3-4  
<https://cciwa.com/getmedia/6da5afe7-a48f-4e24-a844-9f9a1ee2d376/WA-Super-CCI-Business-Confidence-Survey-March-2019-Quarter>



- 2.17. By contrast, the claims from UnionsWA and WACOSS for \$43.61 per week or by 6% far more strongly reflect the needs of the WA economy. The Briefing Paper from the Centre for Future Work, backed up by similar analysis from UnionsWA, shows that the ‘seasonal’ impact of minimum wage increases, and the award system, are currently doing the ‘heavy lifting’ on wages. The stronger propensity to spend on the part of low wage earners shows that a substantial minimum wage increase will make the strongest contribution to lifting consumer spending in WA – therefore feeding into household consumption.
- 2.18. The need for the WA Commission to consider ‘*the state of the economy of Western Australia and the likely effect of its decision on that economy*’ (Section 50A(3)(b) requires the minimum wage increase to be closer to that of UnionsWA and WACOSS, rather than the Minister and the CCIWA.

### 3. ABS release: Labour Force, Australia, April 2019

- 3.1. On 16 May 2019, the Australian Bureau of Statistics (ABS) released its Labour Force data for April 2019. It found that, nationally, ‘*The unemployment rate remained at 5.1 per cent for a second month, 0.4 percentage points lower than the same time last year.*’<sup>15</sup> The WA trend unemployment rate was steady on 6.1%.

**TABLE 1. UNEMPLOYMENT RATE, STATES AND TERRITORIES**

	Trend		Seasonally Adjusted	
	March 2019	April 2019	March 2019	April 2019
	%	%	%	%
New South Wales	4.3	4.3	4.3	4.5
Victoria	4.7	4.8	4.6	4.9
Queensland	6.0	5.9	6.1	5.9
South Australia	6.0	6.0	5.9	6.1
<b>Western Australia</b>	<b>6.1</b>	<b>6.1</b>	<b>6.0</b>	<b>6.1</b>
Tasmania	6.6	6.7	6.7	6.8
Northern Territory	4.5	4.5	np	np
Australian Capital Territory	3.8	3.9	np	np
Australia	5.1	5.1	5.1	5.2

np not available for publication but included in totals where applicable, unless otherwise indicated.

- 3.2. It found increases in trend employment were observed in all states and territories except the Northern Territory, with WA increasing by 2,400 persons. In seasonally adjusted terms, WA had the second largest increase in employment (up 6,400 persons).
- 3.3. According to the Minister's Attachment A – Economic outlook:<sup>16</sup>
- Demographic data shows that unemployment in the State is mixed across age groups, being far more prevalent amongst younger cohorts. The unemployment rate in the year to March 2019 was 18.9% for 15-19 year olds and 11.4% for 20-24 year olds. This may reflect the nature of available jobs, or firms having a preference for skilled labour given the current spare capacity in the labour market.*

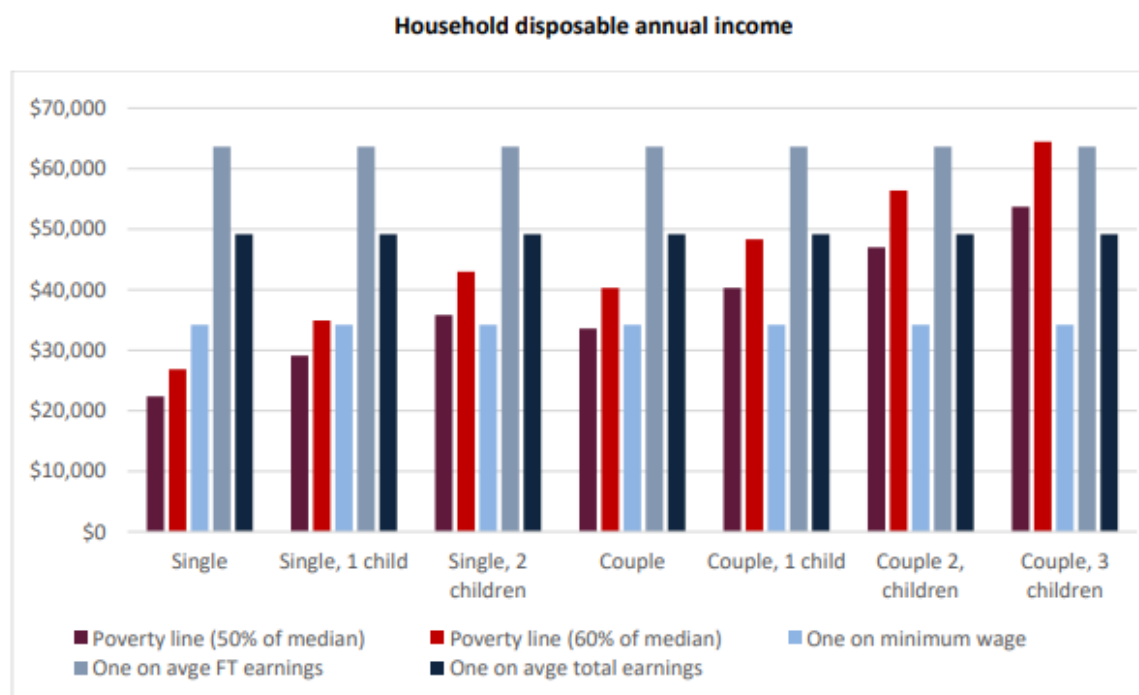
<sup>15</sup> ABS, 6202.0 - Labour Force, Australia, Apr 2019

<http://www.abs.gov.au/ausstats/abs@.nsf/latestProducts/6202.0Media%20Release1Apr%202019>

<sup>16</sup> Economic outlook (2019), p.12.

- 3.4. While the WA government is forecasting a reduction in the unemployment rate, from 6% in 2019-20; to 5.5% in 2021-22, it remains the case that many low wage earners will be needing to support others not in paid work. This point is well made in the WACOSS submission:<sup>17</sup>

*Analysis undertaken by Greg Jericho in the Guardian Australia using data from the ACOSS Poverty report, the Grattan Institute and the Australian Bureau of Statistics demonstrates how a minimum wage earners position in relation to the poverty line changes dramatically where they are needing to stretch that wage to support more than just themselves.*



Source: Greg Jericho – Grattan Inst, ABS, derived

*This is particularly pertinent, as research conducted for the Fair Work Commission determined that in 2016, 38 per cent of low paid adult workers who were partnered were either the sole or primary earners in the household.*

- 3.5. WACOSS further points out that

*Research by Bankwest Curtin Economics Centre has found that young people who have experienced poverty in the family home while growing up have much poorer employment outcomes than those that experienced a greater standard of living, and continue to experience poorer outcomes for many years after becoming independent. In particular, young people living in persistent poverty while in the family home had much poorer outcomes than all other groups, with a 36.5 per cent probability of employment at age 19 after leaving the home, compared to 70 per cent probability for those that did not experience any poverty. Seven years later, at the age of 26, they are still 19 per cent less likely to be unemployed than their counterparts.*

- 3.6. These facts should give pause to anyone suggesting that the path forward on youth unemployment is to keep wages as low as possible to worker cheap to hire. When the CCIWA argues that ‘Minimum wage setting is important to actively facilitate and support employment opportunities for young people and those seeking to gain or add skills and qualifications’ it

<sup>17</sup> WACOSS (2019) pp.36-8.

is getting the situation of young workers backwards.<sup>18</sup> The WA economy has combined low wage growth and high unemployment for some years now – to such an extent that the CCIWA’s own survey of businesses finds that 56% expect labour costs to hold steady.<sup>19</sup> However the research contained in the WACOSS submission demonstrates that low wage growth is a factor that increase the likelihood of young people remaining unemployed for longer periods of time over the course of their early working lives – because they will be in households closer to the poverty line while being dependent on minimum and award wages.

3.7. Just as the WA economy needs to raise the consumption in households in order restore economic growth to levels that will bring down unemployment, it also needs those households with young people to have incomes that lift them as far as possible from the poverty line. This will ensure that young people are not caught in a vicious cycle of low income households leading to longer periods of poverty and unemployment in later life.

3.8. The requirement for the WA Commission to consider in Section 50A(3)(a) the need to

(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*

requires the minimum wage increase to be closer to that of UnionsWA and WACOSS, rather than the Minister and the CCIWA.

#### **4. Submission by the WA Council of Social Service Inc (WACOSS)**

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4.1. UnionsWA is supportive of the WACOSS submission’s claim in its section 2.0 that

*WACOSS submits that an increase to the State Minimum Wage rate of 6 per cent or \$43.61 per week is consistent with the need to maintain a fair system of wages and conditions in the current Western Australian context; and (b) a very reasonable increase which takes into account current economic conditions.*

4.2. UnionsWA draws particular attention to the point WACOSS makes in their submission that<sup>20</sup>

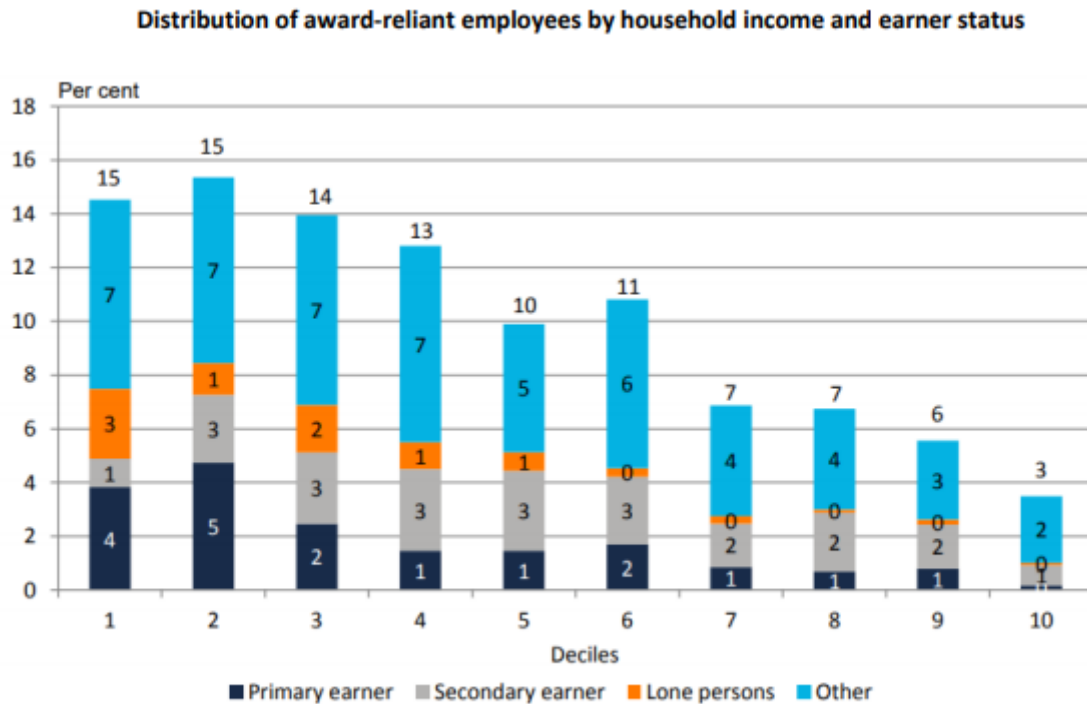
*Research undertaken by the Fair Work Commission found that 44 per cent of minimum wage earners were in the lowest three deciles of household income for households where at least one member was employed.*

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<sup>18</sup> CCIWA (2019), para 15.

<sup>19</sup> WA Super-CCI Business Confidence Survey, p.3.

<sup>20</sup> WACOSS (2019) pp.32-34.



Source: Fair Work Commission (2017)

- 4.3. WACOSS goes on to point out that the ‘*finding that minimum wages serve to raise wages relatively more at the lower end of the wage distribution*’ has also been documented by a number of different researchers’. Wage and income inequalities have also been found to depress economic growth, with WA’s persistently high gender pay gap offering a particularly egregious example. WACOSS cites a 2017 report by the Workplace Gender Equality Agency and Bankwest Curtin Economics Centre which states that

*At a macroeconomic level, gender pay gaps can depress economic growth and productivity. At an individual level, it slows down the rate of wealth accumulation by women relative to men. The ramifications reverberate across the life course, with women bearing greater exposure to poverty and disadvantage at every age. Within the context of an ageing population in which women are disproportionately represented, gender pay gaps and gender wealth gaps not only pose significant risks for the economic wellbeing of Australian women, they also have important implications for social equity and fiscal sustainability.*

- 4.4. In previous state wage case decisions, the Commission has said that it ‘*maintains the view*’ that the gender pay gap ‘*is not the same as, or a proxy for, equal remuneration for work of equal or comparable value*’ ([2016] WAIRC 00358 (2016) 96 WAIG 636 [203]). However the impact of the minimum wage on gender pay gaps also is also of concern for other matters that the Commission must consider under Section 50A(3) of the Industrial Relations Act, including the need to

- (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*

- 4.5. WACOSS concludes by pointing out that

*The International Labour Organisation has found that “given the over-representation of women in low-paying jobs, minimum wages can...make a significant contribution towards lower gender pay gaps.” In Australia, minimum wage increases from 1995 to 2005 were estimated to reduce the gender pay gap by 1.2 percentage points.*

## **5. Submission by Chamber of Commerce and Industry of WA (CCIWA)**

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- 5.1. The Chamber of Commerce and Industry of WA (CCIWA) has recommended that  
*... the Western Australian Industrial Relations Commission to carefully consider the circumstances of the Western Australian economy, in the short to longer term, and adopt a cautious approach as it deliberates to consider any adjustment to the State Minimum Wage. CCIWA recommends an increase to the State Minimum Wage of no more than 1.4 per cent*
- 5.2. The CCIWA claims in its submission that<sup>21</sup>  
*There has been substantial research on the effect of minimum wages in other jurisdictions. Most studies find that increases in minimum wages have a negative effect on employment, however there is some debate over the size of the effect (or elasticity) in different cases.*
- 5.3. This is at best misleading. The most recent research referred to by UnionsWA in our initial submission, (by Cengiz, Dube, Lindner, and Zipperer (2018)) showed that *‘the employment effect [of the minimum wage] is virtually unchanged’*. In previous submissions UnionsWA has also referred to the summary of the recent literature on minimum wage economics by Dale Belman and Paul Wolfson, who found *‘essentially no effect of minimum wage increases on employment’*. While some companies may respond to a higher minimum wage by reducing employment, this is offset by others who increase it — as would be expected if some firms have monopsony-like power.<sup>22</sup>
- 5.4. The CCIWA has often referred to the economic research by Dr Andrew Leigh, who examined the effect of increases in the minimum wage in WA. They state that  
*According to Dr Leigh, WA’s state-based industrial relations system provided conditions to conduct a ‘natural experiment’ that allowed him to identify the treatment effect of changes to minimum wages on employment in WA, relative to the rest of Australia.*
- 5.5. They report Leigh’s results as saying  
*... that a one per cent increase in the minimum wage causes a 0.29 per cent decrease in employment in WA. The results also suggest that increases in minimum wages have a particularly strong effect on young people. Dr Leigh’s research found that a one per cent increase in minimum wages causes a one per cent reduction in the employment of 15-24 year-old people.*
- 5.6. However, accepting for the sake of argument Leigh’s conclusions, the CCIWA is still putting a worse ‘spin’ on them than Leigh himself. In an article in the *Australian Financial Review* in 2004, Leigh explains his own findings thus:<sup>23</sup>  
*Though some may be disappointed to discover that the employment cost of raising the minimum wage is not zero, they should instead be heartened to learn that the cost is relatively low.*

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<sup>21</sup> CCIWA (2019), para 182.

<sup>22</sup> Belman, Dale, and Paul J. Wolfson. (2014) ‘The New Minimum Wage Research’, *Employment Research*.

21(2): 4-5. [https://doi.org/10.17848/1075-8445.21\(2\)-2](https://doi.org/10.17848/1075-8445.21(2)-2)

<sup>23</sup> See attachment to UnionsWA Submission in Reply.

*These findings indicate that modest increases are not likely to cause significant employment losses.*

- 5.7. Leigh wrote at a time when the ACTU was asking for a 6% increase to the national minimum wage, while the then Howard government was expected to ask for a 2-3% increase. Leigh proposed that

*My findings suggest that the ACTU's claim would result in a 0.8 percentage point fall in employment, while the government's would cause a 0.3 percentage point drop.*

*Only half a percentage point separates the employment effect of the two claims a relatively small amount, given that the employment rate often moves by this amount from one month to the next due to seasonal variation.*

*The employment costs of raising the minimum wage appear relatively small, while the chance to provide a boost to the incomes of the working poor are real.*

- 5.8. In 2004 much of the 'New Minimum Wage Research' was still ongoing. By 2013, in testimony before the U.S. Senate's Committee on Health, Education, Labor & Pensions, Professor Arindrajit Dube concluded that *'the belief that minimum wages necessarily cause job loss no longer appears to be a majority position within the [economics] profession'*.<sup>24</sup>

## **6. Submission by the Western Australian Government (the Minister)**

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- 6.1. The Minister for Commerce has submitted in its paras 10-11 that

*... in this year's State Wage Order it is appropriate that the State Minimum Wage and adult award rates of pay be increased by \$19.20 per week.*

*A \$19.20 per week adjustment would increase the State Minimum Wage by approximately 2.6 per cent, lifting it to \$746.10 per week. It represents a fair and sustainable quantum that would provide a welcome increase to minimum and award wage earners, assisting them in meeting their everyday living costs.*

- 6.2. Paras 70-71 of the Minister's submission refer to

*An analysis of current industrial agreements registered by the Western Australian Industrial Relations Commission that have yet to reach their nominal expiry date reveals that almost all agreements are concentrated in the following sectors:*

- *WA public sector;*
- *independent schools;*
- *community, health and disability support organisations;*
- *regional local government authorities;*
- *registered political parties; and*

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<sup>24</sup> 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.15  
<https://www.help.senate.gov/imo/media/doc/Dube.pdf>

- union / labour organisations.

*It is noted that the sectors outlined above exclude several industries known to have high levels of award reliance - in particular Accommodation and food services and Retail trade. This suggests that smaller, unincorporated businesses in the hospitality and retail sectors are not utilising industrial agreements at present. Many of these businesses are likely to be guided by State awards (either directly or indirectly) in regard to wage determination for their employees.*

- 6.3. UnionsWA agrees with this assessment of the likelihood that businesses in these sectors are unlikely to be utilising industrial agreements at present. However by remaining award reliant their staff are more reliant on institutional decisions to lift award rates. As the economist Saul Eslake points out (referred to in our initial submission para 11.3)

*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).*

- 6.4. UnionsWA contends that the Commission should award a real and substantial increase in minimum and award rates to ensure the employees of such businesses are not left further behind as wages increase more broadly across the workforce.

## **7. Conclusion**

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- 7.1. UnionsWA is advocating that the Commission increase Award wages an increase by \$43.61 per week or by 6%, whichever is greater.
- 7.2. 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.

## FINANCIAL REVIEW


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### Count the cost of higher minimum wage

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**Andrew Leigh** - Andrew Leigh is a PhD student at the John F. Kennedy School of Government, Harvard University. His paper *Employment Effects of Minimum Wages: Evidence from a Quasi-Experiment* appeared in *The Australian Economic Review*, December 2003

There's no simple solution to widening inequality in earnings, writes economics editor Alan Mitchell, while Andrew Leigh says a case can be made for moderate increases in minimum wages.

Setting the federal minimum wage is a balancing act. On the one hand, a higher minimum wage improves the living standards of thousands of working Australians. At the same time, raising the minimum wage may cost jobs.

To get the balance right, we need to know whether a higher minimum wage causes employment losses that are large, small or non-existent.

Much of the Australian debate over minimum wages has centred on findings from a controversial US study.

Comparing employment rates in New Jersey and Pennsylvania after a 1992 rise in the New Jersey minimum wage, economists David Card and Alan Krueger found that there the minimum wage rise had zero impact on low-wage workers.

Even those who criticise this study tend to agree that the employment cost of boosting the US minimum wage is fairly small.

Most US labour economists believe that a 1 per cent rise in the minimum wage would decrease employment by between zero and 0.25 per cent.

Given that Australian minimum wages are higher (compared with median earnings) than US minimum wages, translating this research into the Australian context is not straightforward.

In recent years, the Australian Industrial Relations Commission has borne witness in its annual minimum wage case to polarised arguments from both sides.

While the Australian Council of Trade Unions contends that raising the minimum wage has zero effect on unemployment, employer groups and the federal government argue that the cost could be much higher, citing a 1998 Productivity Commission study that

found that a 1 per cent rise in the minimum wage causes youth employment to fall by up to 5 percentage points (a figure so high as to be scarcely believable).

In an effort to more precisely estimate the employment effect of Australian minimum wages, I adopted an approach similar to Card and Krueger, exploiting what is known as a "natural experiment".

While minimum wages in most states move in concert, Western Australia under the Liberal government of Richard Court was unique in setting its own statutory minimum wage, meaning that increases in the WA statutory minimum wage did not coincide with increases in the rest of Australia. In experimental terms, WA was the "treatment" group, while the rest of the nation served as the "control".

This allowed the question: do we see a difference in employment rates between WA and the rest of Australia when WA raises its minimum wage? Aggregating the results from six increases in the minimum wage, it appeared that a 1 per cent rise in the WA statutory minimum wage was associated with a 0.13 percentage point fall in employment.

This suggests that the employment effects of Australian minimum wages are around the midpoint of estimates for the US.

Though some may be disappointed to discover that the employment cost of raising the minimum wage is not zero, they should instead be heartened to learn that the cost is relatively low.

These findings indicate that modest increases are not likely to cause significant employment losses.

What does this mean for both sides' claims in the 2004 minimum wage case? While the ACTU is calling for a 6 per cent increase in the federal wage floor, the federal government is likely (based on its submissions in recent years) to call for about a 2 to 3 per cent rise.

My findings suggest the ACTU's claim would result in a 0.8 percentage point fall in employment, while the government's would cause a 0.3 percentage point drop.

Only half a percentage point separates the employment effect of the two claims a relatively small amount, given that the employment rate often moves by this amount from one month to the next due to seasonal variation.

The employment costs of raising the minimum wage appear relatively small, while the chance to provide a boost to the incomes of the working poor is real.

The evidence from the West Australian minimum wage experiment appears to provide support for regular, moderate increases in the federal minimum wage.

The Australian Financial Review