



**GOVERNMENT OF  
WESTERN AUSTRALIA**

*Industrial Relations Act 1979*

**IN THE WESTERN AUSTRALIAN  
INDUSTRIAL RELATIONS COMMISSION  
No. 1 of 2020  
ON THE COMMISSION'S OWN MOTION**

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**SUBMISSION IN REPLY OF THE MINISTER FOR  
INDUSTRIAL RELATIONS**

**Re: 2020 STATE WAGE ORDER**



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## 1. Introduction

1. In February 2020, the Western Australian Industrial Relations Commission (**WAIRC**) issued Application 1 of 2020 on its own motion. The application seeks to make a State Wage order pursuant to section 50A of the *Industrial Relations Act 1979 (IR Act)* to determine rates of pay for the purposes of the *Minimum Conditions of Employment Act 1993 (MCE Act)* and State awards.
2. On 12 May 2020, the Minister for Industrial Relations (the Minister) filed a submission on behalf of the Western Australian Government. Given the rapidly evolving situation concerning the COVID-19 pandemic and the degree of uncertainty about the state of the Western Australian economy, the Minister did not recommend a specific position for minimum and award wage adjustments at that point in time, but reserved the right to do so at a later stage of proceedings should it be deemed appropriate.
3. The Minister's initial submission canvassed a variety of economic and labour market data relevant to this year's proceedings, and addressed a variety of issues the WAIRC is required to consider when making a State Wage order.
4. This Submission in Reply responds to the submissions of the other parties participating in the 2020 State Wage Case proceedings. At the WAIRC's invitation, it also comments on the submission of the Centre for Future Work in this year's Annual Wage Review, including the relevance and utility of the submission in the Western Australian context.
5. Since initial submissions were due on 12 May, a significant amount of additional economic data has become available concerning the impact of the COVID-19 pandemic on the Western Australian economy and labour market. The Minister will seek to provide further information on this data, including information on the National Accounts for the March quarter 2020, in the Minister's closing submission due on 9 June 2020.

## 2. Consideration of other submissions

6. The Minister notes the following positions have been advocated by parties participating in this year's State Wage Case:
  - (a) **UnionsWA** is advocating for an increase of 4.0 per cent to the State Minimum Wage (**SMW**) and State award wages.
  - (b) the **Chamber of Commerce and Industry of WA (CCIWA)** proposes the SMW and award rates of pay be maintained at their current levels.
  - (c) the **Western Australian Council of Social Service (WACOSS)** is seeking a 4.0 per cent increase to the SMW. It does not advocate a specific position regarding State award wages.
  - (d) Professor **Alison Preston** prepared an overview of the WA Labour Market in 2019/20 for the benefit of the WAIRC's deliberations.

### UnionsWA

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7. The Minister notes UnionsWA's contention that there must be strong wages growth for Western Australian workers in order to boost spending and help lift the economy out of the COVID-19 crisis.
8. While the Minister acknowledges the important role that household spending plays in underpinning the domestic economy, in a subdued environment it is governments, rather than employers, who are generally best positioned to deliver stimulus measures.
9. Since March of this year, both the State and Federal Governments have implemented extensive initiatives to protect vulnerable workers and help cushion the impact of what is the largest shock to the economy in generations. While governments have the financial capacity to undertake such measures, the Minister is concerned that many small business employers in the State industrial relations system would not have the means to meet a 4.0 per cent wage increase in the present climate.
10. The Minister would not wish to see any substantial improvement in wages come at the expense of jobs and working hours for Western Australian employees, particularly when many people are understandably concerned about their employment prospects.
11. While in ordinary circumstances, modest increases in minimum and award wages may have little adverse impact on employment, current conditions in the Western Australian economy are precarious. This significantly increases the likelihood that a substantial real wage increase would adversely affect employment and underemployment.

12. Labour Force data released by the Australian Bureau of Statistics for April 2020 indicates that employment in Western Australia declined by 62,300 persons in just one month. Around half of the workers who lost their jobs were aged 15-24 years, indicating that youth are particularly vulnerable in an economic downturn.<sup>1</sup>
13. The April 2020 Labour Force data also reveals that 185,500 people in Western Australia were working fewer hours than usual in the month of April because there was no work, there was not enough work available or they had been stood down - an increase of more than 140,000 people who were working fewer hours than usual for the same reasons in February 2020.<sup>2</sup>
14. The Minister notes that for many industries trading activity will not return to something resembling 'normal' for some time, particularly those industries impacted by travel restrictions. Business viability and job retention are therefore important considerations in this year's State Wage Case.
15. The Minister also respectfully submits that the State Wage order does not directly affect a large enough proportion of the Western Australian labour force to have any significant stimulatory impact on aggregate spending.
16. While the State Wage order is important for those individual employers and employees who are subject to it, its macroeconomic impact is limited by the jurisdictional coverage of the State industrial relations system and the number of employees who are paid minimum or award wages.
17. The Minister submits that government stimulus measures, such as those introduced by the State and Federal Governments since March this year, are more likely to have a positive impact on the domestic economy without jeopardising employment.

## CCIWA

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18. In its submission, the CCIWA advocates the State Minimum Wage and State award rates of pay be maintained at their current levels.
19. The Minister acknowledges that many Western Australian businesses are currently operating in very difficult circumstances, and are doing everything they can to stay afloat and remain viable. The Western Australian economy has been hit hard in recent months, and the impact of the COVID-19 pandemic and social restrictions to contain its spread have been trying for many employers and employees.
20. While the Minister does not dispute the very difficult conditions many businesses have faced in recent months, the Minister contends it would nonetheless be prudent for the WAIRC to continue assessing the latest economic and labour market data as it becomes available before determining whether a wages pause is warranted in this year's State Wage order.

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<sup>1</sup> Australian Bureau of Statistics (2020), *Labour Force, Australia, April 2020*, Cat. No. 6202.0, Table 8.

<sup>2</sup> Australian Bureau of Statistics (2020), *Labour Force, Australia, Detailed - Electronic Delivery, April 2020*, Cat. No. 6291.0.55.001, Data Cub EM2b.

21. The Minister contends the decision of the Fair Work Commission (**FWC**) in the Annual Wage Review will be a particularly relevant consideration in this year's State Wage Case. In the current environment, it would be desirable there be a certain degree of parity in minimum wage outcomes for employers operating in the State and national industrial relations systems, as businesses in both jurisdictions are faced with similar challenges.
22. The Minister notes that prior to the outbreak of COVID-19, the CCIWA and the Western Australian Department of Treasury (**WA Treasury**) both had similar projections for the State economy, albeit some of CCIWA's forecasts for the out years were moderately less buoyant than those released by WA Treasury in the 2019-20 Mid-year Financial Projections Statement.
23. While all such projections will have been severely disrupted by recent events, there are signs that Western Australia has weathered the storm better than many other parts of the country, which has enabled it to lift many of the containment measures and social distancing restrictions earlier than expected.
24. The Minister also notes the CCI's concerns about unemployment increasing significantly if government stimulus measures are withdrawn too quickly. There appears to be growing consensus amongst key stakeholders that this issue needs to be monitored carefully, with even the Reserve Bank acknowledging that fiscal stimulus measures may need to be maintained for a longer period if the economy has not recovered sufficiently in the next few months.<sup>3</sup>
25. The Commonwealth Treasury has commenced a review of the JobKeeper program, which is not expected to conclude until the end of June. The Minister is cautiously optimistic that appropriate government stimulus measures will remain in place for as long as is necessary to ensure that any economic recovery is not curtailed prematurely.

## **WACOSS**

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26. In its submission, WACOSS "submits that an increase to the State Minimum Wage rate of 4 per cent is consistent with the need to maintain a fair system of wages and conditions in the current Western Australian context." WACOSS further contends this "is a very reasonable increase which takes into account current economic conditions."
27. As the quantum proposed by WACOSS is the same as that of UnionsWA, the Minister's earlier comments regarding UnionsWA's submission are also relevant to the WACOSS submission. However, the Minister wishes to address a few of the points raised by WACOSS in its submission.
28. On page 4 of its submission, WACOSS states:

"Further, increasing the State Minimum Wage is fundamental in addressing income inequality, which otherwise has a statistically significant adverse effect on economic growth."

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<sup>3</sup> Philip Lowe, Chair of the Reserve Bank of Australia (RBA), evidence to the Senate Select Committee on COVID-19, 28 May 2020. Available at: [www.apf.gov.au/Parliamentary\\_Business/Committees/Senate/COVID-19/COVID19/Public\\_Hearings](http://www.apf.gov.au/Parliamentary_Business/Committees/Senate/COVID-19/COVID19/Public_Hearings)

29. The Minister acknowledges that elevated levels of income inequality are associated with a range of adverse outcomes, and has actually addressed this issue in previous State Wage Case proceedings. However, the Minister also notes that employment is a major factor influencing income inequality and poverty, and that in times of significant economic stress the ability to obtain or retain work is critically important.
30. Also on page 4, WACOSS further states:
- “At this stage we consider it too early to have certainty about the likely level of unemployment and the comparative strength of our economy. To this end we are advocating a meaningful, but comparatively conservative increase to the State Minimum Wage that seeks to position us well for economic recovery.”
31. The Minister acknowledges that at the time initial submissions were due there was only a limited amount of data measuring the impact of the COVID-19 pandemic on the Western Australian economy and labour market. However, in recent weeks a significant amount of data has been released, most of which highlights a profound deterioration in economic activity since March of this year.
32. Given the information that is now available, the Minister respectfully submits that a 4.0 per cent rise in the State Minimum Wage would not be a ‘comparatively conservative’ increase in the present environment.
33. Regarding economic growth and consumer spending, WACOSS suggests its position is designed to stimulate economic confidence and increased consumer spending:
- “In the context of the COVID-19 pandemic and the economic impacts resulting from the measures necessary to reduce the spread of the virus, a healthy increase to the state minimum wage is essential for rebuilding economic confidence and growth...”<sup>4</sup>
- ...“It is crucial that the state minimum wage is set at a sufficient level to enable an increase in consumer spending as those temporary supports are lifted, so ensuring the scale of economic activity needed for those businesses to continue to prosper.”<sup>5</sup>
34. As the Minister notes in relation to UnionsWA’s submission, the State Wage order does not directly affect a large enough proportion of the Western Australian labour force to have a significant stimulatory impact on aggregate spending.
35. As also noted in the Department of Treasury’s response to questions on notice from UnionsWA, heightened uncertainty and a decline in employment and/or hours of employment are likely to have a more significant impact on household sentiment and spending than changes in wages in the current circumstances.

### **Cost of Living Report**

36. The Minister acknowledges the detailed information provided in the 2019 Cost of Living Report produced by WACOSS. The report contains a range of pertinent data concerning the financial situation of different low-income household types in Western Australia, and is a valuable source of information for the annual State Wage Case proceedings.

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<sup>4</sup> WACOSS submission to the 2020 State Wage Case, p. 40.

<sup>5</sup> Ibid., p. 41.

### 3. Request for further information

37. The WAIRC recently wrote to key stakeholders in the State Wage Case to draw their attention to the submission of the Centre for Future Work (**CFW**) to this year's Annual Wage Review. That submission was made in the context of the Australian economy as a whole, and deals with wage growth and wage setting by reference to the National Minimum Wage, national modern awards and enterprise agreements made under the *Fair Work Act 2009* (Cwth).
38. The WAIRC has invited stakeholders to comment on the CFW submission and its relevance and utility in the Western Australian context.

#### **Minister's response**

39. The Minister notes the analysis done by the CFW regarding wages growth and wage setting in the national industrial relations system.
40. The main argument advanced by the CFW in its submission is that a strong minimum wage increase must be awarded in the Annual Wage Review, to lift aggregate wages growth and to avoid the economy slipping into a sustained period of deflation and low wage expectations.
41. Similar arguments regarding the stimulatory impact of a significant real wage increase on the domestic economy are also advanced by UnionsWA and WACOSS in this year's State Wage Case.
42. The Minister does not dispute most of the broad macroeconomic observations made by the CFW regarding the deceleration of wages growth in Australia since 2013 and the associated impact of subdued inflation and lower price and wage expectations.
43. The Minister also does not dispute that the relatively strong increases awarded by the FWC in the years 2017 to 2019 in the Annual Wage Review will have had some impact on aggregate nominal wages growth during those years.
44. However, the CFW's submission overlooks an important consideration that wage-setting tribunals are required to consider when determining minimum wage increases – the capacity of employers to pay.
45. For a significant real wage increase to be of any benefit to aggregate wages growth it needs to be passed through to employees, meaning employment levels and (more importantly) total hours worked need to remain reasonably consistent.
46. With many Western Australian businesses facing a considerable deterioration in trading conditions and significant cash flow pressures, the assumption that employment levels and working hours would be unaffected by a large real wage increase in the current environment is, with respect, highly questionable.
47. If employers react to an unsustainably large pay rise by reducing staff numbers and/or hours of work, the macroeconomic benefit of such an increase would be negated, and wages growth and domestic spending may in fact deteriorate further.



48. The Minister stresses these observations relate very much to the current environment. As noted in the Minister's response to the questions on notice from the WAIRC, in normal economic circumstances, modest increases in wages are likely to have little adverse impact on employment, and indeed may have a number of social and economic benefits. However, these are not normal economic circumstances.
49. In the current environment where business balance sheets have taken a hit and there is great uncertainty about the pace of recovery in demand, an unsustainable wage increase would have the potential to adversely impact employment and moderate the pace at which firms are capable and willing to re-invest and re-hire.
50. A number of employers likely to be covered by the State Wage order are also concentrated in the industries hardest hit by the COVID-19 pandemic, meaning many of them would be less able to pass on a significant wage increase. This is why the Minister contends it is governments, rather than employers, who are generally best placed to provide stimulus during times of economic crisis.
51. The Minister also notes the observation of WA Treasury in its response to questions on notice that household consumption in the current challenging circumstances is more likely to be influenced by employment prospects and job-security rather than the size of any annual wage increase.
52. Another observation the Minister makes with regard to the CFW's analysis is that it is very much focussed on the national industrial relations system and the coverage of that system.
53. The FWC's decision in the Annual Wage Review directly and indirectly affects several million Australian employees, including those covered by national modern awards, the National Minimum Wage and, increasingly, those working under enterprise agreements. Many common law contracts of employment will also be affected or influenced by the outcome of the Annual Wage Review.
54. As noted earlier in this submission, the State Wage Case affects a much smaller cohort of employees, and any macroeconomic effect of a strong real wage increase (even if passed through in full to employees) would therefore be significantly less.
55. The Minister notes that the State Minimum Wage has increased by a higher percentage than the Western Australian Wage Price Index for the last seven years, meaning low paid employees in the State jurisdiction have benefited from sustained real wages growth for a considerable period.

## 4. Economic and Fiscal Update – Treasurer Ben Wyatt

56. On 28 May 2020, the Western Australian Treasurer, Hon Ben Wyatt MLA, tabled an Economic and Fiscal Update (**the Update**) in the State Parliament.
57. The Update includes preliminary Treasury modelling, which indicates the economic shock from COVID-19 will be significant on the Western Australian economy.
58. Treasury baseline modelling projects that Western Australia's Gross State Product will contract by 5.1 per cent in the June quarter 2020. This will reduce forecast growth to 0.7 per cent in 2019-20, with a 3.1 per cent contraction expected in 2020-21, before returning to growth in 2021-22.
59. While royalty collections have remained relatively stable during the pandemic, significant downturns are forecast for other revenue sources including GST grants, payroll tax, transfer duty, land tax and vehicle licence duty.
60. Total general Government revenue over 2019-20 to 2020-21 is expected to be about \$1.8 billion lower than outlined in the 2019-20 Mid-year Review.
61. The increase in expenditure to respond to COVID-19 combined with the reduction in revenues in the June quarter is expected to considerably reduce the forecast \$2.6 billion operating surplus for 2019-20.
62. A full copy of the Economic and Fiscal Update is available online from the Parliamentary website at:  
[www.parliament.wa.gov.au/Test/Tables.nsf/ScreenLATabledPapersByTabledPaperDate](http://www.parliament.wa.gov.au/Test/Tables.nsf/ScreenLATabledPapersByTabledPaperDate)

## 5. Update on other related matters

63. In preliminary discussions regarding this year's State Wage Case, the WAIRC indicated it is interested in hearing from parties about any rates of pay in awards that are below the award or statutory minimum, and other associated award wage issues.
64. The Minister's written submission identified several issues that may warrant further consideration by the WAIRC, either as part of the State Wage order, or as a separate matter to be dealt with after the State Wage Case has concluded. These issues are:
- adult wages in State awards that are below the Minimum Adult Award Wage (and by extension, below the statutory minimum rate of pay for employees 21 years or older under s 12 of the MCE Act);
  - junior rates of pay in State awards that are below the statutory minimum rate of pay for employees aged under 21 years determined pursuant to s 13 of the MCE Act; and
  - one particular award where wages and allowances have not been varied since 2005.
65. The Minister can advise that discussions have taken place between the Minister's representative, UnionsWA and the CCIWA concerning the award matters above. While all parties appeared to be supportive of addressing the anomalies identified in the Minister's submission, the general consensus was that it would be preferable for these matters to be pursued as a separate application outside of the State Wage Case proceedings, which would allow UnionsWA and the CCIWA to consult with relevant parties to those awards.
66. The Minister notes that a similar process was successfully implemented following the 2018 State Wage Case, whereby a series of awards containing 40-hour weeks were successfully updated to ensure that the awards did not contain rates of pay below the Minimum Adult Award Wage and/or the statutory minimum rate of pay, or would not do so in future years.