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Workplace Relations Framework
Productivity Commission
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Dear Madam/Sir

UnionsWA submission to Inquiry into the workplace relations framework

UnionsWA is the governing peak body of the trade union movement in Western Australia, and the Western Australian Branch of the Australian Council of Trade Unions (ACTU). As a peak body we are dedicated to strengthening WA unions through co-operation and co-ordination on campaigning and common industrial matters. UnionsWA represents around 30 affiliate unions, who in turn represent approximately 140,000 Western Australian workers.

UnionsWA thanks the Productivity Commission for the opportunity to make a submission to this inquiry. We support the ACTU's positions on Australia's workplace relations framework and the operation of the Fair Work system.

The focus of an inquiry into workplace relations should be on opportunities to *improve* minimum and award wages, and to reduce poverty and inequality in Australia. The present Australian government, and WA state government, are more concerned with finding ways to cut living standards – as demonstrated by their present legislative proposals on 'workplace reform' which will in various ways reduce the power of working people to bargain for better wages and conditions.

This submission focusses on the issue of the minimum wage, specifically the discussion questions in the Commission's Issues Paper 2 (p.6)

Should there be a process to allow the minimum wage to vary by state and territory or region? If so, on what basis? What would be the effects of such variations at the borders between states or regions? What would be the overall impacts?

UnionsWA opposed the proposal floated by the National Commission of Audit last year to replace the national minimum wage with a 'Minimum Wage benchmark' of 44 per cent of Average Weekly Earnings, with states setting their own minimum wages.¹ This would amount to an erosion of the value of the minimum wage over time, to the detriment of low wage, award reliant workers.

¹ See Recommendation 28: <http://www.ncoa.gov.au/report/phase-one/recommendations.html>

However, WA is in an unusual situation among the states and territories in that it retains a minimum wage in its state industrial relations system, with that system embracing the unincorporated private and not for profit sectors, as well as the WA state public sector.

The WA Department of Commerce's most recent analysis of the proportion of workers in the state industrial relations (IR) system estimates that it could be between 21.7 per cent and 36.2 per cent of Western Australia employees.

According to the Department, in May 2010, unincorporated employers were more likely to be in the industries of:

- rental, hiring and real estate services (76.7 per cent unincorporated employers);
- other services² (55.1 per cent);
- accommodation and food services (54.6 per cent);
- administrative and support services (39.9 per cent); and
- retail trade (36.1 per cent)³

The current WA state minimum wage is \$665.90 per week or, calculated on the basis of a week of 38 ordinary hours, \$17.52 per hour. This makes it \$25 per week, or around 65c per hour, higher than the national minimum wage.

The Western Australian minimum wage began to diverge from the national minimum wage after 2005. UnionsWA argues that the WA state Industrial Relations Commission has correctly decided that a minimum wage set specifically for Western Australia should reflect the stronger economic conditions prevailing in WA, and provide for real wage increases to the low paid.

Varying the minimum wage by state and territory

However UnionsWA warns against using the existence of a WA state minimum wage as evidence that varying the minimum wage across Australia, such as proposed by the Audit Commission, should be considered a just or viable proposition for either Australian or WA workers.

In particular, what WA retains is not just a state minimum wage, but a state minimum wage *case*, initiated each year by the WA IR Commission according to section 50(A) of the WA *Industrial*

² According to the Australian Bureau of Statistics, 'The Other Services Division includes a broad range of personal services; religious, civic, professional and other interest group services; selected repair and maintenance activities; and private households employing staff.' 1292.0 - Australian and New Zealand Standard Industrial Classification (ANZSIC)
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/14074305CC4FA750CA25711F00146E4A?opendocument>

³ Department of Commerce, Labour Relations,
http://www.commerce.wa.gov.au/LabourRelations/Content/Employers/About_IR_in_WA/Western_Australian_industrial_.html

Relations Act 1979.⁴ The Commission holds a full bench hearing to consider its 'General Order' based on evidence from all parties: UnionsWA; the WA Chamber of Commerce and Industry, and the State Minister for Commerce.

This process is in stark contrast to the Audit Commission's proposal for a 44 per cent 'benchmark', which would essentially do away with an evidence based hearings. If this was adopted the 'variation' of the minimum wage between states and territories could only ever be a variation *against* the interests of low paid and award reliant workers, as they would have no opportunity to improve their real wage position.

UnionsWA therefore warns the Productivity Commission against embracing the Audit Commission's recommendations for a 'process' to '*allow the minimum wage to vary by state and territory or region*'. In particular, the existence of state minimum wage in WA does not provide evidence in support of such variation, because what we have is a state wage case, not a 'benchmark' that removes the role of evidence in the setting of the minimum wage.

Overall impact of the WA state minimum wage on the WA economy

The *Industrial Relations Act* sets out the considerations for the WA Commission when issuing an order on the minimum wage. In particular 50A(3)(b) says it must consider

...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

Since the mid-2000s the WA minimum wage has been higher than the national minimum wage by between \$13 and \$25 per week. There is no evidence that such a difference has been detrimental to WA's economy.

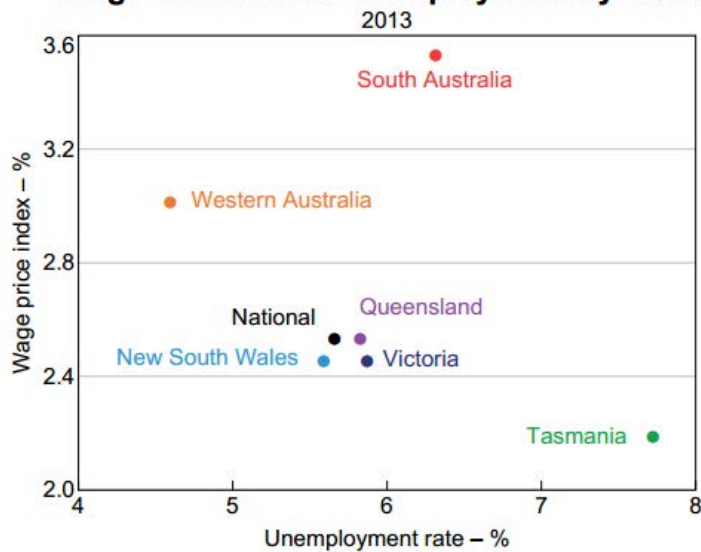
Over that period of time the WA has had a consistently lower unemployment rate than Australia as a whole, and the lowest rate of all the states. As of writing, even in a period of relatively higher unemployment levels, WA still has the lowest rate among states (5.8% in February 2015, compared to 6.3% nationally). This does not indicate that the WA economy has been suffering from having a state minimum wage that is higher than the national minimum wage.

The Reserve Bank of Australia's *Statement on Monetary Policy* in May 2014 noted that while wage growth was 'relatively strong' in WA, this situation had not prevented WA from having 'the lowest unemployment rate in the country', as can be seen from the chart below.⁵

⁴ Industrial Relations Act 1979 http://www.austlii.edu.au/au/legis/wa/consol_act/ira1979242/s50a.html

⁵ RBA *Statement on Monetary Policy* May 2014 (p.57)
<http://www.rba.gov.au/publications/smp/2014/may/pdf/0514.pdf>

Graph 5.11
Wage Growth and Unemployment by State*



* Wage price index growth (year to December quarter 2013) and unemployment rate (2013 year-average)

Sources: ABS; RBA

Nor does it appear (based on available evidence) that WA’s productivity has suffered from having a higher minimum wage. Measures of productivity are difficult to find for the state level, however the PwC ‘Productivity Snapshot’ for December 2013 found that, in the year to September 2013, WA’s labour productivity (the ratio of output to hours worked) increased by 2.9% - more than the national result of 1.7%. PwC noted that WA’s growth was

driven by significant growth in the mining sector and the rental, hiring and real estate sector.⁶

The second industry mentioned is significant because, as noted in the Department of Commerce data in this submission, WA’s unincorporated employers were more likely to be in rental, hiring and real estate services (76.7%), and therefore more likely to be in the state industrial relations system.

The table below shows that for each of those industries identified by Commerce, labour productivity growth over the past five years has been to varying degrees positive in comparison their national counterparts. The five year period is important as it substantially covers a period of time in which the WA state minimum wage has been higher than the national wage. There is no evidence that the state minimum wage has been a burden for these industries.

⁶ PwC Productivity Snapshot December 2013

<http://www.pwc.com.au/consulting/assets/publications/Productivity-Scorecard-Dec13.pdf>

Labour Productivity growth - Five years to June 2013⁷

Industry	WA	Australia
<i>rental, hiring and real estate services</i>	53.9%	16.8%
<i>other services</i>	4.1%	7.2%
<i>accommodation and food services</i>	0.4%	-3.7%
<i>administrative and support services</i>	0.3%	-15.7%
<i>retail trade</i>	13.1%	14.3 %
<i>Selected industry average</i>	14.4%	3.78%

A similar conclusion can be drawn from looking at the Australian Bureau of Statistics 'Counts of Australian businesses' survey for those industries more likely to be unincorporated, between the financial years 2007-08 and 2010-11 - the period time during which the state minimum wage diverged from the national minimum wage. Looking at the number of businesses operating at the end of each financial year, a 3.4% increase in business numbers occurred.⁸

Operating at end of each financial year (total)

	2007-08	2011-12	% Change
Rental, Hiring and Real Estate Services	21,275	22,375	5.2%
Other Services	9,168	9,511	3.7%
Accommodation and Food Services	7,189	7,504	4.4%
Administrative and Support Services	7,408	8,029	8.4%
Retail Trade	14,168	13,812	-2.5%
Total	59,208	61,231	3.4%

If the figures are narrowed down to those businesses that only employ between 1 and 19 employees, an increase is still shown:

⁷ Ibid.

⁸ ABS, 8165.0 - *Counts of Australian Businesses, including Entries and Exits, Jun 2008 to Jun 2012* (Businesses by Main State by Industry Class by Employment Size Ranges, June 2012)
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8165.0Jun%202008%20to%20Jun%202012?OpenDocument>

Operating at end of financial year (with 1-19 employees)

	2007-08	2011-12	% Change
Rental, Hiring and Real Estate Services	2,946	2,999	1.8%
Other Services	4,560	4,642	1.8%
Accommodation and Food Services	3,704	3,823	3.2%
Administrative and Support Services	2,729	2,874	5.3%
Retail Trade	7,162	6,783	-5.3%
Total	21,101	21,121	0.1%

The only industry with business numbers that went backwards during this period was Retail Trade. However the figures for retail turnover between 2008 and 2014 show that the industry continued to expand in WA during this time.⁹



The above data demonstrates that neither the WA economy as a whole, nor those industries most likely to be impacted by the state minimum wage have been adversely effected by having a higher state minimum wage than that of the national minimum wage.

⁹ ABS 8501.0 - Retail Trade, Australia, Mar 2014
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8501.0Mar%202014?OpenDocument>

Conclusion

UnionsWA argues that an excessive amount of attention is paid to the minimum wage by policymakers when trying to determine appropriate economic policies for prosperity and productivity. Employer groups often highlight that Australia has a relatively high minimum wage compared to other countries, with the implication that this 'bad' for our economic performance. If this was the case, you would expect Western Australia, with its even higher state minimum wage, to be doing worse economically than other states. However that is clearly not the case, even when we narrow the focus as best we can to those industries more likely to be specifically impacted by increases to the state minimum wage.

Therefore the Productivity Commission should leave the minimum wage alone when determining how to increase productivity through the workplace relations system. In particular it should

- Reject the Recommendation of the National Commission of Audit minimum wages should be varied by a process of 'benchmarking' in each state and territory across Australia
- Set aside any notion that minimum wages are somehow detrimental to economic performance –as there is no evidence that either Australia or WA have suffered for having higher minimum wages

UnionsWA and its affiliates appreciate the opportunity to make a submission to this inquiry. Please contact me if you would like to discuss matters further.

Yours sincerely

Meredith Hammat
Secretary