

Fair Work Commission Expert Panel

Annual Wage Review 2018-19

Submission from the Government of South Australia

March 2019



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Introduction

1. The Government of South Australia welcomes the opportunity to make this submission to the Expert Panel of the Fair Work Commission (the Panel) for its consideration as part of the Annual Wage Review (AWR) 2018-19.
2. Under the current national workplace relations framework, the Government of South Australia considers that minimum wages have been maintained at a level that provides a safety net for minimum wage and award-reliant workers, whilst continuing to act as a relevant benchmark to underpin enterprise bargaining.
3. The Government of South Australia does not recommend a specific increase to the national minimum wage, and submits that the Panel should take a conservative, cautious approach, which recognises the impact on business, employment growth, inflation and the sustainability, performance and competitiveness of the national economy, and the employment prospects for award-reliant employees.

The Statutory Context

South Australia's Referral of Industrial Relations Powers

4. The *Fair Work (Commonwealth Powers) Act 2009* (the Referral Act) referred certain South Australian industrial relations powers to the Commonwealth. As part of the referral arrangements, South Australia signed the Multilateral Intergovernmental Agreement for National Workplace Relations System for the Private Sector (IGA).
5. The South Australian public sector, including almost all Government Business Enterprises (with the exception of SA Water and the Rail Commission), and the local government sector, remains in South Australia's industrial relations system subject to the *Fair Work Act 1994* (SA).
6. Accordingly, any National Minimum Wage (NMW) Order and determination on modern award minimum wages made by the Panel affects the whole of South Australia's private sector. Such a determination will likely influence South Australia's State Wage Case determination for state government and local government workers later in 2019.

Fair Work Act 2009 (Cth)

7. In making a NMW Order, the Panel must take into account the following sections of the *Fair Work Act 2009* (Cth) (FW Act):

Section 3: Object of this Act

The object of this Act is to provide a balanced framework for co-operative and productive workplace relations that promotes national economic prosperity and social inclusion for all Australians by:

- (a) *providing workplace relations laws that are fair to working Australians, are flexible for businesses, promote productivity and economic growth for Australia's future economic prosperity and take into account Australia's international labour obligations; and*
- (b) *ensuring a guaranteed safety net of fair, relevant and enforceable minimum terms and conditions through the National Employment Standards, modern awards and national minimum wage orders;*

Section 284: The minimum wages objective

What is the minimum wages objective?

284 (1) The FWC must establish and maintain a safety net of fair minimum wages, taking into account:

- (a) *the performance and competitiveness of the national economy including productivity, business competitiveness and viability, inflation and employment growth; and*
- (b) *promoting social inclusion through increased workforce participation; and*
- (c) *relative living standards and the needs of the low paid; and*
- (d) *the principle of equal remuneration for work of equal or comparable value; and*
- (e) *providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.*

8. In reviewing modern award minimum wages the Panel must take these matters into account, as well as the modern awards objective in section 134 of the FW Act.
9. The Government of South Australia in particular recognises the following elements of the modern award objective in section 134 of the FW Act:
 - (f) *the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden; and*
 - (h) *the likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy.*

Award Reliance

10. The Australian Bureau of Statistics' (ABS) Employee Earnings and Hours survey classifies employees by different methods of setting pay; these being 'award only', 'collective agreement', and 'individual arrangement'. Employees are classified as 'award only' (otherwise referred to as 'award-reliant') if they are paid at (and not above) the rate of pay specified in the award.
11. According to the 2018 survey, 22.5 per cent (2,232,900) of non-managerial employees in Australia are classified as 'award only'. This was higher than the corresponding figure of 20.4 per cent in 2014, but below the 24.5 per cent reported in 2016.¹
12. In South Australia, the number of non-managerial employees classified as 'award only' has risen consistently from 99,200 in 2014 to 137,900 in 2016, to 165,000 in 2018 – 25.3 per cent of all non-managerial employees (above the corresponding national share).
13. Over the same period in South Australia, the proportion of non-managerial employees covered by a collective agreement has declined from 50.3 per cent in 2014 to 41.2 per cent in 2018.
14. At the national level, industries with the highest proportion of non-managerial employees classified as 'award only' in May 2018, are:
 - Accommodation and food services (44.9 per cent)
 - Administrative and support services (41.3 per cent)
 - Other services (38.1 per cent)
 - Health care and social assistance (31.7 per cent)
 - Retail trade (30.1 per cent).²
15. Non-managerial employees in smaller businesses are more likely to be award-reliant than in larger businesses. At the national level in 2018, for businesses with under 20 employees, 34.6 per cent of employees were award-reliant, compared to the average of 22.5 per cent for all businesses.³
16. As of June 2017, the proportion of employees working in small businesses is similar in South Australia (43.5 per cent) to the national average (43.8 per cent).⁴ Small business is a significant contributor to total employment at the national level and in South Australia. The significant impact on small business, an important sector of the economy, will need to be taken into account by the Panel in making its determination.

¹ ABS Cat No 6306.0 – *Employee Earnings and Hours (EEH), Australia, May 2014, May 2016 and May 2018*, data cube 5, table 5.

² ABS Cat No 6306.0, data cube 5, table 4 (state-level breakdowns not published).

³ ABS Cat No 6306.0, data cube 5, table 7 (state-level breakdowns not published).

⁴ ABS Cat No 8155.0, customised report, quoted in Gilfillan, G. *Small business sector contribution to the Australian economy*, Parliamentary Library research paper, 15 October 2018.

The Government of South Australia's Position

17. The Government of South Australia's submission to the AWR 2018-19 does not recommend a specific increase to national minimum wages, and submits that the Panel should take a conservative, cautious approach in setting the minimum wage.
18. The rationale for the position taken in this year's submission seeks to support an outcome in relation to the national minimum wage, which can underpin improved economic and labour market performance in South Australia that will in turn support employment and incomes for those on minimum wages.
19. Sustainable employment and income growth, including for award-reliant workers, relies heavily on a range of broader factors including establishing an environment conducive to investment, productivity and ultimately jobs growth.
20. The Government of South Australia is implementing a range of initiatives to improve economic and labour market performance in the state, to raise productivity and improve the competitiveness of the state's industries, increase the demand for skilled labour and higher value jobs, and raise the standard of living. Some of the government's initiatives include:
 - Reducing the burden of payroll tax – the Government of South Australia has introduced legislation (now passed by Parliament) to exempt all businesses with annual payrolls of less than \$1.5 million from liability for payroll tax, effective from 1 January 2019. This exemption will remove a major disincentive to businesses, creating more jobs and employing more people, as well as making South Australia a much more attractive place in which to invest and grow business.
 - Improving the skills and experience of South Australians to meet the needs of the workforce, through the *Skilling South Australia* initiative, a \$203 million partnership with the federal government to create 20,815 new apprenticeships and traineeships, a new technical college to prepare students for work in the defence sector, and significant investments to upgrade infrastructure in schools.
 - Establishing a South Australian Productivity Commission to provide advice on issues such as improving the efficiency of government services, regulatory reform to cut red tape and economic reforms to lift private sector productivity, support employment and improve living standards.
 - Providing better interconnection with the National Electricity Market (NEM), to increase network stability and drive down prices, for businesses as well as households. Two key elements include strong support for another interconnector to improve connectivity with the NEM, and providing funding for household battery and grid-scale battery storage programs.
 - Reducing the costs to South Australian households of the Emergency Services Levy, to alleviate cost-of-living pressures for all South Australian households (including households without income from wages).
21. The Government of South Australia acknowledges the importance of the Fair Work Commission (FWC) setting a safety net for minimum wage and award-reliant workers. The Government submits that the adoption of a conservative, cautious approach to setting the NMW and modern award minimum wages for AWR 2018-19, and the use by governments of other available mechanisms to support growth in living standards and employment, is a sustainable, economically responsible course that will benefit these

workers and the businesses that employ them, and meet the minimum wages objective and the object of the FW Act.

Economic Factors

International economy

22. The global economy grew by an estimated 3.7 per cent in 2018, following growth of 3.8 per cent in 2017. In the January 2019 World Economic Outlook Update, the International Monetary Fund (IMF) forecast global output to rise by 3.5 per cent in 2019 and by 3.6 per cent in 2020.
23. The IMF states that global growth has weakened, with their forecasts revised downward from the October release. Large advanced economies are forecast by the IMF to post growth of 2.0 per cent in 2019, followed by 1.7 per cent growth in 2020. Stronger growth is forecast for emerging and developing economies — 4.5 per cent in 2019 strengthening to 4.9 per cent in 2020. The Chinese economy is forecast to grow at 6.2 per cent in both 2019 and 2020.
24. The IMF comments “*Risks to global growth tilt to the downside. An escalation of trade tensions beyond those already incorporated in the forecast remains a key source of risk to the outlook. Financial conditions have already tightened since the fall. A range of triggers beyond escalating trade tensions could spark a further deterioration in risk sentiment with adverse growth implications, especially given the high levels of public and private debt. These potential triggers include a “no-deal” withdrawal of the United Kingdom from the European Union and a greater-than-envisaged slowdown in China*”.⁵

Australian economy

25. Over the year to the September quarter 2018, Australia’s gross domestic product (GDP) grew by 2.8 per cent (seasonally adjusted). Private and public consumption, along with private business investment and exports, contributed to the growth.
26. There are signs that domestic economic conditions have softened over the second half of 2018.
27. The Reserve Bank of Australia’s (RBA’s) latest outlook for the Australian economy (February *Statement on Monetary Policy*) is for GDP growth of 2½ per cent in 2018-19, picking up to 2¾ per cent in 2019-20 and remaining at that rate through to 2020-21. The RBA says “*Domestic economic conditions have been a bit softer than were expected at the time of the November Statement. As a result, the forecast for GDP growth has been revised lower*”.⁶
28. The RBA says that GDP growth in Australia’s major trading partners is expected to moderate from the strong growth seen in 2017 and early 2018. The ongoing trade tensions between the United States and some of its key trading partners (which had already lowered the outlook for global growth in the August and November 2018 Statements) remain a downside risk.
29. The trend unemployment rate was 5.1 per cent in January 2019, down from 5.5 per cent recorded a year earlier. Over recent years, the unemployment rate has moved closer to conventional estimates of full employment. On the other hand, the trend under-employment rate was 8.3 per cent in January 2019, bringing the rate of under-utilisation to 13.3 per cent. This suggests that the labour market could still have some capacity to

⁵ International Monetary Fund, World Economic Outlook, January 2019

⁶ Reserve Bank of Australia, *Statement on Monetary Policy*, February 2019, page 65

absorb additional labour demand before anything more than gradual upward pressure is generated for wage and price inflation.

30. The RBA comments that wages growth in the September quarter was boosted by the 3.5 per cent increase in the award in minimum wages that became effective on 1 July 2018. Furthermore, the RBA observes that:

“Analysis of the micro-level WPI data from the Australian Bureau of Statistics suggests that the small pick-up in wages growth since 2016 stems from a higher share of jobs experiencing a change in wages in any given quarter, rather than an increase in the average size of the changes... This is largely because wage ‘freezes’ have become less common”.⁷

31. Wages rose by 2.3 per cent in the year to the December quarter 2018 (based on the ABS’ hourly rate of pay index, excluding bonuses).
32. The consumer price index (CPI) in the year to the December quarter 2018 was 1.8 per cent, 0.1 of a percentage point lower than in the December quarter 2017.
33. The average of the RBA measures of underlying inflation increased by 0.4 per cent in the December quarter and by 1.8 per cent over the year.
34. Measures of underlying inflation are forecast by the RBA to pick up gradually from around 1¾ per cent at the end of 2018 to 2¼ per cent by 2019-20, the end of the forecast period. A key question mark over the trajectory of inflation is the pace at which wages rise and spare capacity in the economy lessens.
35. The RBA’s latest forecasts for the Australian economy, published in its Statement on Monetary Policy on 8 February 2019, are presented below.

Table 1: Output Growth and Inflation Forecasts (per cent)

	Year-ended					
	Dec 2018	June 2019	Dec 2019	June 2020	Dec 2020	June 2021
GDP growth	2¾	2½	3	2¾	2¾	2¾
(previous)	(3½)	(3¼)	(3¼)	(3¼)	(3)	(n/a)
Unemployment rate ^(b)	5.0	5	5	5	4¾	4¾
(previous)	(5)	(5)	(5)	(4¾)	(4¾)	(n/a)
CPI inflation	1.8	1¼	1¾	2	2¼	2¼
(previous)	(2)	(2)	(2¼)	(2¼)	(2¼)	(n/a)
Trimmed mean inflation	1.8	1¾	2	2	2¼	2¼
(previous)	(1¾)	(2)	(2¼)	(2¼)	(2¼)	(n/a)
	Year-average					
	2018	2018/19	2019	2019/20	2020	2020/21
GDP growth	3	2½	2¾	2¾	2¾	2¾
(previous)	(3½)	(3¼)	(3¼)	(3¼)	(3¼)	(n/a)

(a) Technical assumptions include TWI at 62, A\$ at US\$0.72 and Brent crude oil price at US\$63 per barrel; shaded regions are historical data; figures in parentheses show the corresponding forecasts in the November 2018 *Statement*

(b) Average rate in the quarter

Sources: ABS; RBA

⁷ Ibid., p. 62

South Australian economy

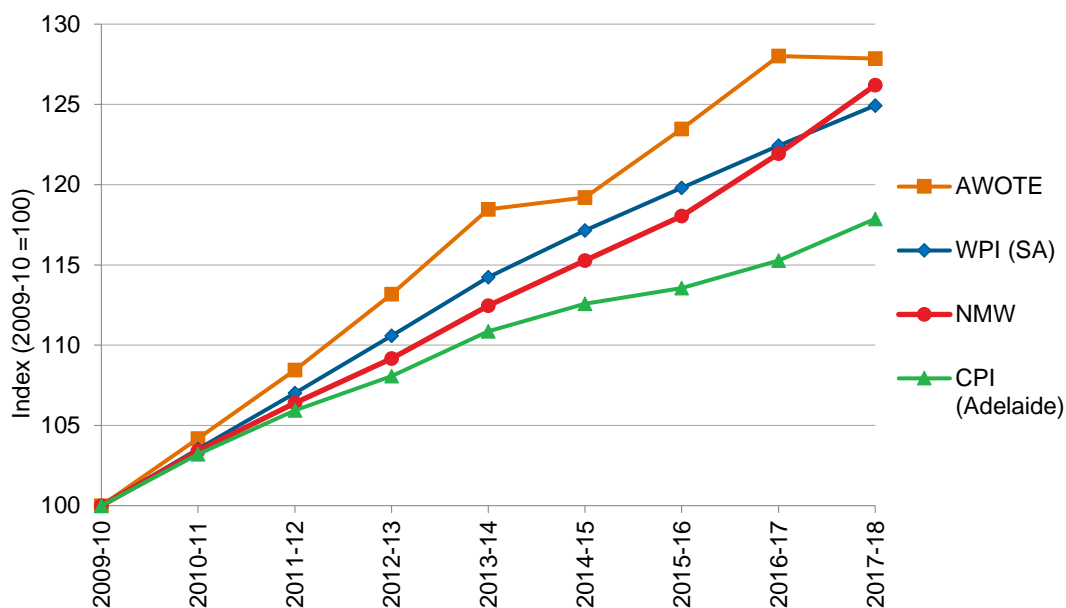
36. Gross State Product (GSP) increased by 2.0 per cent in 2017-18 compared with GDP growth of 2.8 per cent.
37. The South Australian economy has seen mixed results across its industry sectors. Industry sectors contributing most to GSP growth in 2017-18 were healthcare and social assistance, professional, scientific and technical services, construction, electricity, gas, water and waste services, retail trade, and accommodation and food services. Industry sectors detracting most from GSP growth were agriculture, forestry and fishing, public administration and safety and wholesale trade.
38. Over the year to November 2018, employment in South Australia increased in the following industries:
- Accommodation and food services (up 9,000 or 17.3 per cent)
 - Health care and social assistance (up 1,800 or 1.4 per cent)
 - Other services (up 400 or 1.3 per cent).
39. Over the same period, employment in South Australia decreased in the following industries:
- Administrative and support services (down 4,800 or 13.9 per cent)
 - Retail trade (down 3,700 or 4.1 per cent).
40. As noted in point 14 above, these industries have a higher proportion of award-reliant employees. In South Australia, these industries accounted for 34 per cent of total employment in the year to November 2018.⁸
41. In January 2019, the trend unemployment rate was 6.0 per cent, 0.9 of a percentage point higher than the Australian rate, and up from 5.9 per cent a year earlier. There remains spare capacity in the labour market. The South Australian underemployment rate was 9.1 per cent — bringing the state's under-utilisation rate to 15.1 per cent.
42. According to the Wage Price Index, wages growth in South Australia in the year to the December quarter 2018 was 2.3 per cent, equal to the national growth rate. In South Australia, private sector hourly rates of pay increased by 2.3 per cent through the year to the December quarter 2018 while public sector hourly rates of pay increased by 2.5 per cent.
43. In the eight years since 2009-10, the National Minimum Wage (NMW) has increased by 26.2 per cent, the adult full-time average weekly ordinary time earnings (AWOTE)⁹ by 27.9 per cent, the wage price index (WPI)¹⁰ by 24.9 per cent and the CPI by 17.9 per cent. There is considered to be real growth in wages where the growth in wages exceeds the growth in consumer prices — see Chart 1.
44. In November 2018, AWOTE in South Australia was 0.9 per cent higher than in May 2018 and 1.4 per cent higher than a year earlier.

⁸ ABS Cat No 6291.0.55.003

⁹ The average weekly ordinary time earnings (AWOTE) refer to one week's earnings of adult full-time employees for the reference period attributable to award, standard or agreed hours of work (ie excludes overtime, bonuses). The AWOTE measures the average earnings at a *point in time*, not the earnings of the average person. Changes in the averages reflect not only changes in the level of earnings of employees, but also the overall *composition* of the wage and salary earner segment of the labour force. (For example, there could be variations over time in the proportions of full-time, part-time, casual and junior employees; variations in the occupational distribution within and across industries; and variations in the distribution of employment between industries.)

¹⁰ The WPI measures changes in the wages and salaries paid by employers for a unit (i.e. hour) of labour where the quality and quantity of labour are held constant.

Chart 1: Wages and CPI growth¹¹



45. This suggests that the increases in the NMW determined by the FWC of 3.3 per cent in 2017 and 3.5 per cent in 2018 have been effective in closing the gap between growth in minimum wages, and other measures of wages growth.

Conclusion

46. The Government of South Australia recognises that a key objective of establishing national minimum wages is that they provide a safety net.

47. Consistent with the objectives of the FW Act, the Government also believes that the maintenance of a safety net of fair minimum wages must reflect general economic conditions (including inflation) and the needs of business.

48. The Government of South Australia submits that the adoption of a conservative, cautious approach to setting the NMW and modern award minimum wages for AWR 2018-19, and the use by governments of other available mechanisms to support growth in living standards and employment, is a sustainable, economically responsible course that will benefit these workers and the businesses that employ them, and meet the minimum wages objective and the object of the FW Act.

¹¹ Sources: ABS Cat No 6401.0, *Consumer Price Index*; Cat No 6302.0, *Average Weekly Earnings*; table 13D; Cat No 6345.0, *Wage Price Index*; National Minimum Wage data from Fair Work Commission determinations (compiled by SafeWork SA).