Australian Fair Pay Commission
Submission to Minimum Wage Review 2008
Produced by the Chamber of Commerce and Industry of Western Australia
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Introduction

This submission is made on behalf of the Chamber of Commerce & Industry of WA (Inc) (CCI). CCI is Western Australia’s largest business organisation with more than 5,000 employer members operating across all industries throughout the State.

Originally established in 1890 as the Employers Federation of Western Australia Inc., CCI as it is today was formed in 1992 by an amalgamation of the Western Australian Chamber of Commerce and Industry and the State’s then largest employer organisation, the Confederation of Western Australian Industry.

CCI is a non-profit organisation with membership open to businesses of any size.

CCI’s members operate in all industries including mining, building, health, hospitality, services, manufacturing, engineering, wholesale and retail.

CCI has extensive involvement on behalf of its members in workplace relations matters across all of these industries.

CCI is the direct employer of over 900 apprentices across the State as part of a Group Training Scheme operated by Apprenticeships Western Australia Pty Ltd, a wholly owned subsidiary of CCI. These apprentices range from traditional trade apprentices in the resource sector, building and construction, metal and engineering fabrication through to trainees operating in the aged care sector.

This Submission

CCI is a foundation member of the Australian Chamber of Commerce and Industry (ACCI) and has been involved in the development of the comprehensive submission to the Australian Fair Pay Commission (AFPC) made by ACCI which we endorse.

This submission is primarily focussed on the business environment in Western Australia necessarily set within the statutory context.

Wage increase

CCI supports a moderate minimum wage increase comparable to the 2007 Wage Setting Decision (increases of $10.26, and $5.30 per week).

Increases should operate from the commencement of a pay period commencing 3 months after the date the decision is delivered as occurred in the 2007 wage Setting Decision.¹

Effect of previous wage review decisions

The AFPC has delivered 2 minimum wage review decisions; the first was delivered on 26 October 2006 effective from 1 December 2006 and its second delivered on 5 July 2007 was effective from 1 October 2007. Submissions to the second review closed on 30 March 2007, just 4 months after the operative date of the first increase with no official economic statistics having been released by the ABS which could assess the impact of the first decision.

By the time of its second decision in July 2007 the AFPC was able to say that although it was too early for all effects to have worked through, there was useful indicative material about its first decision.

It found:

“While the Commission notes the impacts of its wage decisions may take some time to work their way through the economy, there are useful preliminary indicators available to assess the impact of Wage-Setting Decision 1/2006. These include:

- five months of labour force data;
- quarterly observations on inflation, labour costs, earnings, and vacancies;
- Reserve Bank of Australia (RBA) Statements on Monetary Policy; and
- the 2007-08 Australian Government Budget.”

The AFPC has since released its first Economic and Social Indicators Monitoring Report finding that:

“The real value of the Federal Minimum Wage and of disposable incomes for low-income households has been broadly steady over the past year……

In summary, the Australian economy has continued to demonstrate sound employment and income growth, with the safety net for low-paid workers being maintained in broad terms.”

The effects of the decisions need to be looked at in the context of the AFPCs legislated mandate discussed below.

Statutory context

The AFPC’s powers and wage setting parameters are set out in section 23 of the Workplace Relations Act 1996 (“the Act”):

23 (1) The objective of the AFPC in performing its wage setting function is to promote the economic prosperity of the people of Australia having regard to the following:
(a) the capacity for the unemployed and low paid to obtain and remain in employment;
(b) employment and competitiveness across the economy;
(c) providing a safety net for the low paid;

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(d) providing minimum wages for junior employees, employees to whom training arrangements apply and employees with disabilities that ensure those employees are competitive in the labour market.

1. **Objective – the economic prosperity of the people of Australia**

In the context of promoting economic prosperity, the AFPC in the 2007 Wage Setting Decision acknowledged its role as “balancing a desire for minimum wages to promote employment opportunities for unemployed and low-paid Australians with the need for minimum wages to play their part in maintaining a safety net.”

It said it would interpret economic prosperity broadly finding that an economically prosperous Australia “is one where those seeking work have ample opportunity to participate in employment and where a safety net mitigates hardship.”

The AFPC referred to the 2006 Wage Setting Decision in which it had accepted that setting minimum wages too high would have a detrimental effect on employment growth and cause unemployment to rise.

Any increase in the minimum wage must be economically sustainable. This fundamental requirement is necessary to ensure that minimum wages contribute to, and do not detract from, the viability of businesses employing at minimum wage levels, ensure minimum wage change does not detract from economic performance at the micro or macro level, ensure minimum wages do not have an inflationary effect and ensure minimum wages do not discourage productivity improvement or substitute for productivity bargaining.

A key dimension to ensure minimum wages are sustainable is the impact of changes in minimum wages on employment, including the capacity of employers to both create new jobs and sustain minimum wage employment.

The AFPC’s monitoring report finds:

“The relationship between wages, prices and employment is complex, with labour productivity a key element in that relationship. Increased productivity can offset growth in total labour costs thereby helping to contain any inflationary pressures arising from a buoyant labour market.” The AFPC acknowledges the difficulty of relying on productivity trends.

The Reserve Bank of Australia (“the RBA”), in commenting on the strong growth in labour costs notes the impact such strong growth will have on inflation:

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“Overall these data suggest that there has been somewhat more pressure on wages and benefits than indicated by the growth of the wage price index, and that growth in labour costs has been running at a higher level than is consistent with inflation remaining near the centre of the target range.”7

The RBA notes the pick up in inflationary expectations in recent quarters to be “relatively high”.8

The RBA’s finding of an increase of 5.9 per cent over the year to September 2007 in the measure of average earnings in the national accounts including wage and non-wage labour costs, being the strongest since 1996, suggesting pressure on wages and benefits gives cause for concern about inflation.9

In Western Australia, CCI finds that underlying inflation remains at a relatively high level near the upper limit of the RBA’s target band and expects it will remain at the top of the band over the next two years.10

The AFPC needs to ensure the effect of its 2008 decision does not add further pressure to inflation in this environment.

CCI urges caution in adjusting non-productivity related minimum wage increases.

From the standpoint of an employer in an industry where sources of revenue are fixed by governments high minimum wages result in the removal of flexibility to enter into bargaining. The result is less opportunity to negotiate improved productivity.

In the Commonwealth Government funded aged care sector, for example, the Australian Government indexed payments by 2% to the residential care sector in 2007/08.11 Those services qualifying for potential additional payment under “Conditional Adjustment Payments”, received an extra 1.75% in the years 2005/06, 2006/07 and 2007/08. In the upcoming financial year of 2008/09 there is no further increase.12 In addition, there is a risk that the introduction of an Aged Care Funding Instrument may negatively impact certain aged care providers.

The majority of service providers do not have freedom to increase charges because clients are usually pensioners and the pension is typically indexed by the CPI only. This has been a difficult problem for aged care and community services employers in WA.

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10 Chamber of Commerce and Industry of WA, WA Economic Compass Outlook, December quarter 2007.
2. **The capacity of the unemployed and low paid to obtain and remain in employment**

The AFPC found in the 2007 Wage-Setting Decisions that

> “The relationship between the level of minimum wage increases and employment in Australia remains pivotal to the Commission. In conjunction with developing its monitoring strategy, the Commission will focus on promoting Australian research into the impact of minimum wage adjustments on labour demand.”13

The AFPC also found research indicated that the prospect of taking a low paid job to enhance skills towards a higher paid job can be an incentive to participate in the workforce as an investment.

Further, it found that fewer low paid jobs would be likely to result in higher unemployment.

The AFPC also accepted that financial incentives to participate arose from a combination of wage levels and the tax/transfer system. It examined 2007-08 Budget tax cuts and the interaction with the December 2006 increases to show a significant increase in work incentives for singles, singles with one or two children and couples with and without children, and somewhat reduced income support replacement rates. High effective marginal tax rates on increased wages affected only a proportion of families and did not constitute a reason for not making a wage increase.

The high level of employment in Western Australia, the decreases in unemployment and the difficulties being faced by pay scale reliant industries such as retail to recruit staff would probably also indicate that there is an increase in lower paid and lower skilled participation, particularly in WA.

3. **Employment and competitiveness across the economy**

The AFPC found that the labour market remained strong with a growth in employment of 1.1% in the year to May 2007, an annualised rate of 2.6%, and an increase in participation to 65%.14 It also found that the level of unemployment decreased by 6.8%, -15.5% annualised, and the unemployment rate for Australia declined by 0.2% to 4.2%.

It was pointed out that all states except Western Australia experienced a decrease in the level of unemployment, the participation rate increased in all states but Tasmania and the Northern Territory and the level of employment increased everywhere.

The AFPC found that in the 2 months to February 2007 average weekly earnings estimates also reflect the effects of the 2006 Wage Setting decision.

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14 Australian Bureau of Statistics; Cat 6202.0; figures based on seasonally adjusted figures.
The AFPC found that, to date, wage growth remained in the RBA target band. There was modest wage and CPI growth for the March quarter and the year ending March although underlying inflation was higher.\textsuperscript{15} Productivity (GDP/hr worked) increased 0.6% in the March quarter and by 0.9% in the year ending in the March quarter, after the June and September quarters 2006 had shown negative growth. The AFPC said that it would try to expand the measures used to monitor the impact of its decisions on competitiveness of the Australian economy.

Gross Domestic Product per hour worked increased 0.3% in the December quarter 2007 and by 0.5% in the year ending December 2007.\textsuperscript{16}

The Budget forecasts a 3.75% increase in GDP for 2007-08, but lower employment growth at 1.5%. Rule changes for the disability support pension and the parenting allowance could bring more relatively low skilled persons into the labour market and thereby give rise to an increase in the unemployment rate. The AFPC concluded that the message from the Budget forecasts is that there will be a slow down in employment growth and increased participation of the lower-skilled.

Overall pay-scale reliance was found to have decreased between 2004 and 2006 from 13.1% to 12.5%. Even in the high pay-scale reliance industries well over half the employees were under other pay-setting arrangements. Three of the four most reliant industries decreased pay-scale reliance between 2004 and 2006. The movements were retail 20.9% to 19.1%; accommodation, cafes and restaurants 43.2% to 37.6%; health and community services 12.9% to 12.8%; and property and business services 14.5% to 18.2%.

The AFPC looked at both employment growth and hours worked. Annual growth in both employee numbers and hours worked was significantly above average for accommodation, cafes and restaurants; below average for retail; property and business services; and health and community services. Quarterly growth in employee hours was very high in accommodation, cafes and restaurants, above average in retail and below average for property and business services and very sluggish in health and community services. Vacancies were at or near all time highs for all these industries. Accommodation, cafes and restaurants and health and community services had higher than average Wage Price Index (WPI) increases in the first quarter 2007, but the WPI increase was lower than the average in property and business services.

Over the year to February 2008, WA’s employment grew by 3.6 per cent or 39,900 employees with full-time employment up by 6.0 per cent and part-time employment down by 1.9 per cent during this period. WA’s unemployment rate decreased from 3.4 per cent to 2.8 per cent between January and February 2008.\textsuperscript{17} The participation rate was 68.8% in January 2008.\textsuperscript{18}

\textsuperscript{15} Annualised wage growth to March 2007 (WPI and AWE) was higher than the average since 3\textsuperscript{rd} quarter 1997 to 1\textsuperscript{st} quarter 2006, but AWOTE was lower.
\textsuperscript{16} Australian Bureau of Statistics, Cat. 5204.0
\textsuperscript{17} Chamber of Commerce & Industry WA, \textit{Economic Trends, CCI Economics}, updated on 13 March 2008
\textsuperscript{18} Australian Bureau of Statistics, Cat. 6202.0
The Western Australian labour market continues to be constrained with pronounced labour shortages evident throughout the economy. Relaxing of conditions from late 2006 and early 2007 is reflective of employers’ increased recognition of the inability to recruit staff rather than unwillingness to employ more workers.19

In Western Australia the health and community services industry showed the lowest annual increases in labour costs to December 2007 at 4.4 per cent followed by the retail industry at 5.3 per cent with the annual average at 5.9 per cent.20

The lowest quarterly Labour Price Index in labour costs in the year to December 2007 were also health and community services, at 0.6 per cent, followed by retail, at 0.9 per cent with all industries average at 1.3.21

Table 1 shows changes in numbers employed and hours worked in the pay-scale reliant industries identified by the AFPC. The year to December 2007 figures show the effect of both AFPC increases.

Table 1. Employees and Hours

<table>
<thead>
<tr>
<th>Employee Numbers</th>
<th>Accommodation etc</th>
<th>Health etc</th>
<th>Property etc</th>
<th>Retail</th>
<th>All industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb 2007 - % growth in e’ee numbers since last quarter (AFPC figures for Australia)</td>
<td>6.4</td>
<td>0.8</td>
<td>-0.7</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Dec 2007 - % growth in employment since Nov 2006 (WA only)22</td>
<td>-6.39</td>
<td>15.95</td>
<td>5.53</td>
<td>-4.91</td>
<td>2.7 (nationally) Jan 0823</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Hours worked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb 2007 - % growth in hours worked since last quarter (AFPC figures)</td>
</tr>
<tr>
<td>Nov 2007 - % growth in hours worked since Nov 2006 (full-time)24</td>
</tr>
</tbody>
</table>

In Western Australia only health and community services and property and business services have recorded employment growth greater than the national rate of 2.7 per cent to January 2008 over the last year. There have been significant downturns in employment in accommodation, cafes and restaurants and retail since the AFPC’s second minimum wage review decisions.25 Significant increases in transport and storage (31.67%), construction (9.46%), communication services (15.97%) and health and community services (15.95%) may have had an impact on industries struggling to attract employees such as retail.

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19 Chamber of Commerce and Industry of WA, *WA Economic Compass Outlook*, December quarter 2007
20 Australian Bureau of Statistics Cat. 6345.0. Note that data for the accommodation, cafes and restaurants industry was not available for WA.
21 Australian Bureau of Statistics, Cat. 6345.0
22 Australian Bureau of Statistics, Cat. 6203.0
23 The “All industries” figure over the year to January 2008 is from *Economic Trends, CCI Economics*, Chamber of Commerce and Industry of WA
24 Australian Bureau of Statistics, Cat. 6105.0
25 Australian Bureau of Statistics, Cat. 6203.0
However, the impact of minimum wage increases in these pay scale reliant industries appears to have had an impact. Increases must be provided at a minimum level to encourage productivity related pay bargaining.

This trend in Western Australia runs counter to the Reserve Bank of Australia’s finding across the country “Over the year to the December quarter, the largest increase in employment was in retail trade……”

CCI finds that despite WA’s exceptional growth record and strong population growth there is a surprisingly weak level of investment in the retail sector. It showed the value of projects in the pipeline represented just 5.9 per cent of total retail output in 2005-06 illustrated by Chart 13 below.

CCI notes that the level of investment does not compare favourably to other states. It is also considerably lower than other service industries of a similar size in WA.

4. **Providing a safety net for the low paid**

Low paid employees are not necessarily in low income households, indeed low paid full time employees are more likely to be in middle income households. Employers argued that adjusting the tax/transfer system was a more effective way of providing an income safety net than minimum wage adjustments. The AFPC seemed to accept ACCI’s view that a safety net is not a market rate, and it concluded that minimum wages are not an anti-poverty device, but that they have, together with the tax/transfer system, a significant role to play in providing a safety net for the low paid.

The AFPC looked at a number of aspects of wage movement and tax/transfer changes between July 2005 and July 2007, representing the 2 AFPC review periods. It concluded low paid employees benefiting from the 2007 decision would retain about ¾ of the gross increase, and also that the combination of minimum wages and transfers will provide families with at least one full-time earner on the FMW with income well above the Henderson Poverty Line.

The AFPC finds in its Monitoring Report that:

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27 Chamber of Commerce and Industry WA, *Retail Trading Hours in Western Australia - A Case for Reform*, September 2007
“The real value of the FMW has increased over the period since the final Safety Net Review decision by the Australian Industrial Relations Commission. Moreover, there has been a sustained increase in the real value of the overall income safety net for minimum wage workers since mid-2006, due in part to improvements in the tax/transfer system, but also to the Commission’s first two minimum wage decisions.”

Impact on bargaining

Safety net decisions providing minimum wage adjustments encourage bargaining whereas increases providing more substantial amounts have a disincentive for bargaining as employees have a reduced need to enter into bargaining and employers cannot afford to pay overaward payments on top of more substantial wage increases. They can exchange flexibility and productivity for increases in minimum wage levels.

Discouraging bargaining is contrary to the primary objectives of the Act to:

“3 ... (d) ensuring that, as far as possible, the primary responsibility for determining matters affecting the employment relationship rests with the employer and employees at the workplace or enterprise level; and...”

In assessing the capacity of industry to absorb another increase in the minimum wage, it is important that such an assessment is made with reference to official economic statistics.

Further to comments made earlier in this submission in relation to agreement making, some CCI members in the not-for-profit sector on fixed income levels have commented that minimum wage increases have an impact on closing negotiations on agreement making. The first decision providing an increase of an average of $27 per week acted as a significant disincentive for closing bargaining negotiations whereas the second moderate increase did not have such an impact.

In addition, higher increases may impact on productivity and performance based reward in agreements and the willingness of employers to grant increases beyond the safety net.

The AFPC said that with the implementation of the 2007 increase the minimum wage will have increased by 7.8% from July 2005 which was broadly in line with wages growth over the period. Tax changes mean that disposable incomes of employees on the FMW have not deteriorated relative to disposable incomes in the community more generally.

Table 2 shows labour costs. The currently available WPI figures are to the September quarter 2007 and do not reflect the AFPC’s second decision. The Labour Price Index (LPI) shown includes the on-costs of annual leave, public holidays, superannuation, workers compensation and pay-roll tax.

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28 Chamber of Commerce and Industry of WA, WA Economic Compass Outlook, December quarter 2007.
Table 2. Labour Price Index (LPI) and Wage Price Index for WA (WPI)

<table>
<thead>
<tr>
<th>Wages</th>
<th>Health etc</th>
<th>Property etc</th>
<th>Retail</th>
<th>All industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>LPI March quarter 2007 - % growth since previous quarter</td>
<td>1.0</td>
<td>0.4</td>
<td>1.3</td>
<td>1.1</td>
</tr>
<tr>
<td>LPI June quarter 2007 - % growth since previous quarter</td>
<td>1.3</td>
<td>2.9</td>
<td>0.4</td>
<td>1.7</td>
</tr>
<tr>
<td>LPI September quarter 2007 - % growth since previous quarter</td>
<td>1.4</td>
<td>0.9</td>
<td>2.6</td>
<td>1.8</td>
</tr>
<tr>
<td>LPI December quarter 2007 - % growth since previous quarter</td>
<td>0.6</td>
<td>1.9</td>
<td>0.9</td>
<td>1.3</td>
</tr>
<tr>
<td>LPI 2006-2007 - % growth since previous financial year</td>
<td>4.4</td>
<td>6.3</td>
<td>5.3</td>
<td>5.9</td>
</tr>
<tr>
<td>WPİ – annual % change to September 2007</td>
<td>4.3</td>
<td>5.7</td>
<td>5.0</td>
<td>5.7</td>
</tr>
</tbody>
</table>

Source:
Wage Price Index: WA Economic Compass Outlook, Chamber of Commerce and Industry of WA, December quarter 2007;  
Labour Price Index: Australian Bureau of Statistics, Cat. 6345.0

Health and community services have in each quarter continued to experience lower than average wage cost increases. Retail has also generally experienced lower than average wage cost increases. Property and business services costs have increased more strongly.

CCI finds that to September 2007 in every industry selected (mining, manufacturing, construction, retail trade, transport and storage, property and business services, Govt, administration and defence, education, health and community services, personal and other services and all industries) the WA annual increase exceeded the national average. The only exception was for health and community services.29

Average weekly ordinary time earnings grew 4.7 per cent nationally in the year to November 2007 (7.3% in WA in the same period, representing the highest of all states), and, nationally, by 4.5% in health and community services, 5.6% in accommodation, cafes and restaurants.30 There was significant above average growth in property and business services at 8.7% and retail at 7.1%.31

However, this is not reflected in WA particularly in the retail sector as discussed above. In retail, earnings growth has been consistently lower.

In summary, in spite of a strong economy there are industry sectors within WA, such as health and community services and retail, which are not seeing the same benefits from the boom. The fact that these sectors are facing difficulties is cause for extra caution over the level of sustainable minimum wages to ensure productivity based wage increases across the economy without fuelling inflation.

29 Chamber of Commerce and Industry of WA, WA Economic Compass Outlook, December quarter 2007.  
31 Australian Bureau of Statistics, Cat. 6302.0
The AFPC should provide only moderate increases in keeping with its statutory obligation to encourage productivity based bargaining.

Absorption of wage increases by small business

ACCI’s results of its small business survey completed in February 2008 finds wage and non-wage labour costs rose significantly over the December quarter with wage costs growing at record levels since the survey began in 1996. It found that medium and large businesses had more favourable business conditions than did small business possibly continuing to reflect the fact that larger firms are more direct beneficiaries of the commodities boom.32

Expectations are found by ACCI to suggest growth will continue, maintaining pressure on business profitability.

Differential increase

CCI welcomed the AFPC’s decision to award a differential increase to employees based on earnings above or below $700.00 per week and acknowledges that low paid employees are more likely to be reliant on minimum wages than employees earning higher wages.

CCI also welcomed the decision to both separate the date of implementation from the date of decision with ongoing application and to provide for the increase to apply from the commencement of a pay period. The effect of the decision in these two areas has provided considerable assistance to CCI members in planning for the new rates to be built into normal payroll functions and hence avoid additional costs involved with the working of overtime to achieve the necessary changes to payroll and of double handling of pay calculations when pay periods are split.

Any additional unplanned labour costs reduces a small business’s ability to plan for incentive and reward based payments that would enhance employee satisfaction and result in improved performance and productivity. Such extra costs often results in a small business substituting their owner labour for employment.

Disability wages assessment tools

The 2007 decision established a process for the approval of non-recognised wage assessment tools for use in the business services sector.

Business services that had been previously exempted and were not using a recognised wage tool at the time of Wage Setting Decision 1/2006 were required to lodge a submission seeking approval of their wage tools with the AFPC by 31 August 2007.

CCI members operating in the sector have developed wage assessment tools both for this purpose and also for purposes of Commonwealth funding and accreditation.

The AFPC’s established process for approving the wage assessment tools required that submissions be lodged with the AFPC by 31 August 2007 and an independent third party consultant was to be engaged by the Department for Families, Community Services and

Indigenous Affairs (FACSIA) to conduct an independent assessment of the tool, measuring it against the requirements of the “Guide to Good Wage Practice Determination”.

The AFPC, as part of the agreed process, was to consult with the specially established Disability Roundtable on the proposed tools.

CCI understands that the process has been followed and was completed towards the end of last year when the Roundtable endorsed the wage assessment tools following approval by the independent consultant.

CCI therefore urges the AFPC to finalise the wage assessment tools approval of previously non-recognised tools to provide certainty for business services providing supported employment.