



QUEENSLAND GOVERNMENT
SUBMISSION TO THE FAIR
WORK COMMISSION
Annual Wage Review 2016-17

March 2017

Contents

Introduction.....	2
Legislative parameters	3
Number of Queensland employees subject to the NMW and award rates	4
Characteristics of Queensland employees subject to the NMW and award rates.....	4
Economic factors.....	6
The Queensland economy.....	7
A benchmark for minimum wages	9
Social factors – The importance of fair wages.....	11
Equal remuneration.....	12
Conclusion.....	12

Introduction

The following is a submission by the Queensland Government to the Annual Wage Review (AWR) conducted by the Expert Panel (the Panel) for the Fair Work Commission (FWC). The Queensland Government notes that, in the conduct of the AWR, the FWC must ensure that all persons and bodies have a reasonable opportunity to make written submissions for consideration in the review¹ and have a reasonable opportunity to comment on published submissions.²

Queensland is a 'referring State' under Division 2B, Part 1-3 of Chapter 1 of the *Fair Work Act 2009* (FW Act). From 1 January 2010, Queensland's private sector has been regulated by the national Fair Work system. The Queensland Government is committed to an industrial relations system that is fair and provides for productive and harmonious workplace relations.

The Australian economy is characterised by a slow improvement in economic activity as the transition from resource investment led growth towards broader-based drivers of economic activity appears to be underway. Nationally, employment growth has strengthened recently as the Australian economy transitions to more labour intensive sectors such as services and has been supported by moderate wage growth. However, labour market conditions in Queensland, in particular in regional economies remain subdued. To support employment, the Queensland Government is undertaking significant short and long term policy initiatives such as the \$100 million Back to Work program, the \$200 million Jobs and Regional Growth Package, and \$200 Works for Queensland program.

This submission to the FWC AWR 2016-17 by the Queensland Government proposes a reasonable increase that rewards productivity gains and improves the value of real wages as well as the living standards for workers on the National Minimum Wage (NMW) and award wage reliant workers and is also economically responsible and protects the low paid.

In determining the increase, a broad range of indicators should be considered. These may include inflation, employment, wage growth, business profits and conditions and productivity growth.

The Queensland Government notes that there is a continued disparity in the wage outcomes of minimum wage workers and those able to benefit from bargaining. Therefore, it is incumbent on the Panel to set minimum wages that are fair in the context of living standards

¹ Fair Work Act 2009 (Cth) s 289(1).

² Fair Work Act 2009 (Cth) s 289(5).

generally. Further, raising the minimum and award wages will promote gender pay equity due to the greater reliance of women workers on minimum and award wage rates.

The Queensland Government submits that an increase that rewards productivity gains and improves living standards and the value of the NMW and award wages in real terms is economically sustainable and consistent with the objects of the FW Act. While important data will become available during the Panel's deliberation, based on data available at the time of this submission, it is anticipated that an increase of not less than 2.5% for NMW and award rates of pay would be reasonable and consistent with the principles and considerations outlined in this submission, and is consistent with the increase provided to the Queensland workforce under the Queensland Government Wages Policy.

This submission provides the Queensland perspective on the current economic and social factors relevant to the FWC's review of minimum wages.

Legislative parameters

The Queensland Government submits that the objects of the FW Act³ and the objectives of modern awards⁴ and minimum wages⁵ require the FWC to balance economic and social issues, as well as to take into account the needs of the low paid, amongst other factors, in making determinations on minimum wages. The Queensland Government submits that this requirement signifies a focus on social factors being equally as important as economic factors in the creation of a fair safety net.

The abovementioned objectives, taken together, imply that when determining minimum wages, the Panel is bound to ensure a wage outcome consistent with strong economic performance, while at the same time providing a minimum wage safety net that ensures those with limited access to wage bargaining are not left behind but where the incentive to bargain is maintained.

In this context, the Queensland Government notes that the minimum wages objective requires the FWC to take into account the performance and competitiveness of the national economy, promoting social inclusion through increased workforce participation, relative living standards and the needs of the low paid, the principle of equal remuneration for equal work, and

³ Fair Work Act 2009 (Cth) s 3.

⁴ Fair Work Act 2009 (Cth) s 134.

⁵ Fair Work Act 2009 (Cth) s 284.

providing a comprehensive range of fair minimum wages for certain junior employees and those with a disability.⁶

Number of Queensland employees subject to the NMW and award rates

The most recent figures of award dependency are from May 2016⁷. At that time, of the 9,290,900 non-managerial employees in Australia, 2,276,100 or 24.5% were award reliant. Queensland had an above-average proportion of award-reliant employees – of an estimated 1,872,400 non-managerial employees, 479,700 or 25.6% were award reliant.

Queensland's award-reliant non-managerial employees also received below average pay at \$744.00 per week compared to the national average at \$802.80.

Given Queensland has an above-average proportion of award-reliant employees and that Queensland's award-reliant employees also have the lowest rate of pay in both absolute and relative terms of any state, the relationship between award reliance and low pay is particularly significant to Queensland employees with regard to the setting of fair minimum rates of pay.

Characteristics of Queensland employees subject to the NMW and award rates

Of Queensland's award-reliant employees, 139,700 were full-time (non-managerial) employees. This represents 14.1% of all full-time (non-managerial) employees in Queensland⁸. The Queensland Government accepts the Panel's position "that adult award-reliant employees who receive a rate of pay that (as a full-time equivalent) is below two-thirds of median (adult) ordinary time earnings prove a suitable and operational benchmark for identifying who is low paid."⁹ The Queensland Government also accepts the Panel's view that "the information as a whole suggests that a sizeable proportion—probably a majority—of employees who are award reliant are also low paid by reference to the two-thirds of median weekly earnings benchmark".¹⁰ Therefore, the minimum wage and modern award objectives pertaining to relative living standards and the needs of the low paid are particularly relevant to this group. It is important that such a significant group of full time employees are provided with a living wage.

⁶ Fair Work Act 2009 (Cth) s 284(1).

⁷ ABS, *Employee Earnings and Hours*, cat 6306.0, May, 2016

⁸ *ibid*

⁹ FWC Decision **Annual Wage Review 2015–16** (C2016/1) para 449.

¹⁰ *ibid*

Some 340,000 part-time employees in Queensland were also award-reliant⁸. It is not clear how many of these employees rely on their part-time wage to maintain reasonable living standards or how many have other household income as a safety net. However, given current high levels of underemployment, the Queensland Government submits that the needs of the low paid is also an important consideration for this group.

Table 1: Employees by Industry (Australia)

Industry	Number of Employees ^a (000s)	Proportion of female Employees ^a (%)	Proportion of Award reliant Employees ^b (%)
Mining	231.6	15.07	0.00
Manufacturing	957.0	27.50	17.66
Electricity, Gas and Water Services	137.8	22.79	6.48
Construction	1059.6	12.40	19.71
Wholesale Trade	356.5	33.55	16.82
Retail Trade	1254.7	54.79	34.49
Accommodation and Food Services	850.3	54.20	42.66
Transport, Postal and Warehousing	620.6	22.53	13.42
Information, Media and Telecommunications	212.1	36.96	5.51
Financial and Insurance Services	416.5	50.06	0.00
Rental, Hiring and Real Estate Services	212.8	53.52	27.18
Professional, Scientific and Technical Services	996.6	40.47	9.33
Administrative and Support Services	435.1	50.95	42.05
Public Administration and Safety	763.6	48.38	18.11
Education and Training	993.1	71.49	25.97
Health Care and Social Assistance	1540.9	78.34	28.79
Arts and Recreation Services	208.0	50.63	26.23
Other Services	461.0	45.47	34.34
Total	12003.7	46.54	24.50

Source: a. ABS, Cat.No. 6291 Labour Force, Detailed, Nov 2016
b. ABS, Cat.No. 6306 Employee Earnings and Hours, May 2016

Table 1 above shows employment by industry and the proportion of employees who are female in each industry (as at November 2016) along with the proportion of award reliant employees by industry (as at May 2016). The largest proportions of award dependent (non-managerial) workers are found in the Accommodation and food services (42.7%), Administrative and support services (42.1%) and Retail trade (34.5%) industries⁸. These industries are characterised by high levels of female participation (54.2%, 51% and 54.8% respectively)¹¹.

¹¹ ABS, Cat.No. 6291 Labour Force, Detailed, Nov 2015

These industries account for some 21% of total employment. Given that these industries are disproportionately award reliant, and therefore lower paid, and highly feminised, it is likely that an increase in minimum wages will promote gender pay equity.

Economic factors¹²

The Australian economy continues to transition from the investment phase to the production phase of the mining boom. The Australian Treasury expect economic growth to increase over the forecast period as the drag from the decline in mining investment dissipates and the economy transitions to broader-based growth, supported by historically low interest rates and a lower Australian dollar. Wage growth and consumer price inflation remain weak. With spare capacity in the labour market expected to persist, growth in household incomes and domestic prices are forecast by Australian Treasury to remain subdued.

The global economy continues to pose risks for the domestic outlook, with uncertainty across both advanced and emerging market economies. In China, the main challenge will be around progressing structural reforms needed to sustain growth while managing the risks associated with debt accumulation and excess capacity in parts of the economy. In addition, there are uncertainties regarding the impact of monetary policy normalisation in the United States. Risks also remain in Europe, including banking sector fragility in the euro area and uncertainty around the impact of Brexit.

Australia's real GDP is forecast to grow by 2% in 2016-17, and then strengthen to 2¾% in 2017-18, as the detraction from mining investment eases. Exports are forecast to grow by 5½% in 2016-17 and 5% in 2017-18 supported by non-rural commodity exports — liquefied natural gas (LNG) and iron ore in particular — and services exports. Services export volumes, including tourism and education services, continue to be supported by a lower exchange rate and rising demand from Asia.

Business investment fell by 10.4% in 2015-16 as resource investment continued to decline. The outlook is for a further decline in business investment, with a fall of 6% forecast for 2016-17 followed by a flat result in 2017-18. In line with the transition in the Australian economy, non-mining business investment is expected to rise moderately over coming years.

Dwelling investment grew strongly in 2015-16, rising by 10.8%, driven by investment in medium-to-high density dwellings. As the current pipeline of unit construction is completed,

¹² Forecasts are taken from the Mid-year Economic and Fiscal Outlook (MYEFO), Commonwealth of Australia (released on 19 December 2016).

which is evident in the data on building approvals and commencements, dwelling investment is forecast to grow by 4½% in 2016-17 before easing to ½% in 2017-18.

Household consumption grew by 2.9% in 2015-16 and is expected to continue to grow at a moderate rate, supported by further employment growth and low interest rates. The household saving rate is expected to continue to decline over the forecast period as consumption growth outpaces the modest growth in disposable incomes.

Employment growth is expected to be supported by continued economic growth and subdued wage growth. Employment is forecast to grow at a slightly more moderate pace of 1¼% through the year to the June quarter 2017 and by 1½% through the year to the June quarter 2018. The unemployment rate is forecast to remain around 5½% in the June quarters of 2017 and 2018.

Headline CPI inflation is expected to grow by 1¾% through the year to the June quarter 2017, before picking up to 2% through the year to the June quarter 2018. Consumer price inflation is low reflecting subdued wage growth and other factors such as heightened competition in the retail sector, slower growth in rents, lower import and petrol prices as well as a subdued inflationary environment globally.

Wage growth has also softened, in line with weaker consumer price outcomes and other factors such as spare capacity in the labour market. As with consumer prices, wage growth is expected to increase gradually over the forecast period to be 2¼% through the year to the June quarter 2017 and 2½% through the year to the June quarter 2018. Based on the Commonwealth Mid-Year Economic and Fiscal Outlook (MYEFO) forecasts, and allowing for a lower inflation outcome in 2016-17, real wages growth will be around ½% in 2016-17 and 2017-18.

The Queensland economy¹³

Economic growth in Queensland is expected to be 4% in 2016-17 reflecting the ramp-up in LNG exports, before moderating to be more broad-based in the following three years. Economic growth in 2016-17 is expected to be largely driven by growth in overseas exports and a return to positive growth in state final demand (SFD, a key measure of economic activity). As the State continues the transition from resources-led to broader-based growth, SFD is forecast to strengthen in 2017-18. With the construction of the LNG projects completing in late 2016, the fall in business investment significantly detracted from growth in

¹³ Forecasts and data are obtained from the Queensland 2016–17 Mid-Year Fiscal and Economic Review (MYFER).

2015–16. Combined with soft global trends, this resulted in economic growth in Queensland of 2.0%, below the national average of 2.7%.

Higher coal prices are expected to boost export earnings. Importantly, the significant change in China's coal procurement practices in response to the Chinese Government's effort to reduce inefficient coal production capacity means that coal prices may be maintained at elevated levels relative to 2015-16, at least in the coming one to two years. If the current expectation of higher coal prices is realised, it will support growth in household income through higher terms of trade. This in turn is forecast to drive slightly stronger growth in household consumption. While growth in household consumption in 2016-17 may be stronger than previously thought, it is still expected to remain below average, which will limit incentives for businesses in the non-resources sector to expand capacity.

Low interest rates and smaller increases in residential property prices than other mainland states continue to attract investor interest in Queensland real estate, with dwelling investment growing by 14.2% in 2015-16. The large amount of work still in the pipeline should see dwelling investment continue to grow in 2016-17. However, the high number of apartments being completed in South East Queensland, as well as tightening in lending practices, may constrain dwelling investment in 2017-18 and beyond.

Business investment declined by 26.1% in 2015-16, largely reflecting the staged completion of the three LNG projects, as well as a lack of significant new mining investment due to low commodity prices experienced in recent years. With these projects now completed, business investment in Queensland is expected to return to a more sustainable longer term growth path.

Improved rainfall conditions during the winter and spring months of 2016 have seen a recovery in expected crop production in 2016-17. This is particularly the case for cotton and chickpeas. In contrast, this improved rainfall in mid-2016 means current cattle herd rebuilding in Queensland may intensify, further reducing beef production and exports in 2016-17, but providing benefits in the years beyond that.

The sustained lower A\$ and expanding middle class in Asia are expected to drive further solid growth in Queensland's overseas tourism and education services exports over the next few years. The Commonwealth Games, to be held on the Gold Coast in April 2018, is expected to provide a further boost to tourism exports in 2017-18.

Employment conditions in Queensland in 2015-16 were boosted by gains associated with robust dwelling construction activity and the delivery of health and education services by the

public and private sectors. This trend appears to have moderated since late 2015-16 and broader private sector employment growth has also been subdued. While employment is expected to pick up over the remainder of 2016-17, employment growth for the year is now expected to average $\frac{3}{4}\%$, before strengthening to $1\frac{3}{4}\%$ in 2017-18. The unemployment rate has remained relatively stable, reflecting a lower participation rate. While employment growth is expected to strengthen over the forecast period, this is expected to be matched by an increase in the participation rate, holding the unemployment rate to around recent levels.

Reflecting the combination of subdued labour market conditions and contained inflation, wages growth in Queensland is expected to remain modest, at $2\frac{1}{4}\%$ in 2016-17 and $2\frac{3}{4}\%$ in 2016-17. Inflation is expected to be $1\frac{3}{4}\%$ in 2016-17 and $2\frac{1}{4}\%$ in 2017-18.

A benchmark for minimum wages

As at May 2016, approximately 479,700 (25.6%) of Queensland non-managerial employees relied on the award system to determine their rate of pay.

Minimum and award wage increases serve an important social function by directly targeting and benefiting those employees who are not able to negotiate wage increases with their employer through enterprise bargaining. This helps to ensure that those workers with little or no bargaining power are not left behind.

There is a marked disparity between the wage outcomes for those on awards compared to employees covered by collective agreements. In Queensland, in May 2016, average weekly earnings for full-time employees paid at the adult rate covered by industrial awards were \$1246.70 per week, compared to \$1,624.50 for those covered by collective agreements and \$1,553.70 for those covered by individual agreements¹⁴. The ratio of award-reliant wages to the average of all wages was marginally lower (81.0%) in Queensland than the national average of 81.8%.

¹⁴ ABS, *Employee Earnings and Hours*, cat 6306.0, May, 2016

Table 2: Real and nominal increases for award rates and AWOTE, 2006-2016

Wage group	Weekly rate of pay		\$ increase	Nominal % increase	Real % increase
	2006	2016			
C14	\$511.90	\$672.70	\$160.80	31.41%	3.94%
C13	\$528.50	\$692.10	\$163.60	30.96%	3.58%
C12	\$551.00	\$718.60	\$167.60	30.42%	3.16%
C11	\$571.90	\$743.30	\$171.40	29.97%	2.80%
C10	\$605.60	\$783.30	\$177.70	29.34%	2.31%
C9	\$626.50	\$807.70	\$181.20	28.92%	1.97%
C8	\$647.30	\$832.30	\$185.00	28.58%	1.70%
C7	\$666.20	\$854.60	\$188.40	28.28%	1.47%
C6	\$707.90	\$897.90	\$190.00	26.84%	0.33%
C5	\$723.40	\$916.30	\$192.90	26.67%	0.19%
C4	\$744.20	\$940.90	\$196.70	26.43%	0.00%
C3	\$785.90	\$990.10	\$204.20	25.98%	-0.35%
C2(a)	\$806.80	\$1014.80	\$208.00	25.78%	-0.51%
C2(b)	\$844.50	\$1059.10	\$214.60	25.41%	-0.80%
AWOTE*	\$1,027.40	\$1,516.00	\$488.60	47.56%	16.71%
WPI**:					
Australia				37.6%	10.07%
Queensland				38.0%	9.18%

*AWOTE based on June 2006 and June 2016

** Wage-Price Index refers to Ordinary time hourly rates of pay excluding bonuses; June 2006 and June 2016.

Sources: ABS, *Average Weekly Earnings*, cat. 6302.0; ABS, *Wage Price Index*, cat. 6345.0; Award rates: Metal, Engineering and Associated Industries Award, 1998 (increase operative December 2006) and Manufacturing and Associated Industries and Occupations Award 2010

Moreover, the growth in the minimum wage and award rates of pay has not kept pace with the growth in earnings across the workforce generally. As Table 2 above shows, over the 10 year period June 2006 to June 2016, the Average Weekly Ordinary Time Earnings (AWOTE) increased by 47.6%, or 16.7% in real terms, compared with an increase of only 29.3%, or 2.3% in real terms, to the benchmark C10 tradesperson rate in the manufacturing award¹⁵. AWOTE may be influenced by compositional changes – the Australian Bureau of Statistics (ABS) wage-price index may provide a better measure of overall wage movements, abstracting from compositional changes. While this comparison is less dramatic, it is still evident that the C10 benchmark real increase of 2.3% over the period is below the real increase in the ordinary-time wage-price index of 10.1%. Maintenance of the real value of

¹⁵ Manufacturing and Associated Industries and Occupations Award 2010

wages should be a threshold benchmark. In addition, it is reasonable that that workers share in the benefits of measurable improvements in productivity.

A particular concern is with the impact of minimum wage movements on the employment of low-skilled workers. Arguments around the empirical evidence regarding the impact of wage adjustments on employment have been a constant feature of national and state wage cases. The economic evidence suggests that moderate increases in real wages, in the absence of offsetting productivity improvements, would have a small negative impact on employment. This impact may be less than expected because there are productivity benefits – such as through employer efforts to increase workers' productivity to justify the wages paid, incentive effects on employees, and through the broader effects of a fairer system on social and economic cohesion in society as a whole.

The impact of safety net adjustments to the minimum wage is less contentious. In previous wage case decisions, the Panel has noted that a general assessment of employment data, including in more heavily award reliant sectors, has not disclosed any basis to suggest that past safety net adjustments have had any significant adverse employment effects. In its 2016 Decision, the Panel reaffirmed its view that “modest and regular increases in minimum wages have a small or even zero impact on employment”.¹⁶

The Queensland Government submits that these findings regarding the employment effects of wage increases should be considered in tandem with the social and individual benefits of an increase in the minimum wage.

Social factors – The importance of fair wages

The Queensland Government submits that, in line with the statutory obligation on the FWC to ensure a fair and relevant minimum safety net, there should be a continuing effort to address the disparity between award rates and wage outcomes achieved through bargaining, as well as general wage movements across the community.

The Queensland Government submits that taking into account the significant difference between wage outcomes of those on minimum wage instruments and those able to bargain, improving the real value of award wages and the living standards of the low paid will not lead

¹⁶ FWC Decision **Annual Wage Review 2015–16** (C2015/1) para 492.

to bargaining being less attractive to wage earners. This approach is consistent with the objective of modern awards to encourage enterprise bargaining.

The current gap would provide a significant incentive for employees to seek to bargain for wage increases. The fact that a significant proportion of employees have remained award reliant, despite the fact their rate of pay falls well short of the pay of those on agreements, suggests that it is not a matter of choice that employees remain subject to award only rates. The reality is that, for a variety of reasons, not all employees are able to bargain with their employers for wage increases.

Equal remuneration

In last year's FWC AWR decision the Panel noted that, "[W]omen continue to be overrepresented among the award reliant and low paid. It follows, and we accept, that increases in the NMW and modern award wages can provide some assistance in addressing the gender pay gap."¹⁷ The Queensland Government supports this position.

In accordance with the requirement of the FWC to take into account the principle of equal remuneration in the minimum wages and modern awards objectives, the Queensland Government's position is that an increase to the NMW and modern award rates will impact positively upon pay equity.

With regard to modern award increases, as mentioned a significant portion of Queensland's award reliant employees are women. Given the relationship between award reliance and low pay, an increase in minimum wages is likely to positively impact on pay equity. While such an increase may only have a minimal impact on the gender pay gap, the Queensland Government position is that this remains a worthwhile pursuit.

Conclusion

This submission has examined the background and context for the FWC AWR and the key economic and social factors that are relevant to the determination of the Panel.

The Queensland Government is committed to economically responsible pay increases and the protection of the low paid. The Queensland Government asserts that a pay increase that

¹⁷ FWC Decision **Annual Wage Review 2015–16** (C2016/1) para 576.

rewards productivity gains and improves the value of real wages as well as the living standards for workers subject to the NMW order and award wage reliant workers would meet these criteria.

The Queensland Government submits:

- a) on balance, the Australian economy is characterised by a slow improvement in economic activity as the transition from resource investment led growth towards broader-based drivers of economic activity appears to be underway. Employment growth has strengthened recently as the economy transitions to more labour intensive sectors such as services and has been supported by moderate wage growth;
- b) however, labour market conditions in Queensland, in particular in regional economies remain subdued. To support employment, the Queensland Government is undertaking significant short and long term policy initiatives such as the \$100 million Back to Work program, the \$200 million Jobs and Regional Growth Package, and \$200 Works for Queensland program;
- c) an increase that rewards productivity gains and improves the value of real wages as well as the living standards for workers receiving the NMW or award wage reliant workers is economically responsible and protects the low paid;
- d) in determining the increase, a broad range of indicators should be considered. These may include inflation, employment, wage growth, business profits and conditions, and productivity growth;
- e) there is a continued disparity in the wage outcomes of minimum wage workers and those able to benefit from bargaining. It is incumbent on the Panel to set minimum wages that are fair in the context of living standards generally;
- f) raising the minimum and award wages will promote gender pay equity due to the greater reliance of women workers on minimum and award wage rates; and
- g) while important data will become available during the Panel's deliberations, based on data available at the time of this submission, it is anticipated that an increase of no less than 2.5% for the National Minimum Wage and award rates of pay would be consistent with the principles and considerations outlined above, and is consistent with the increase provided to its workforce under the Queensland Government Wages Policy.