

Fair Work Commission Expert Panel

Annual Wage Review 2019-20

Submission from the Government of South Australia

March 2020



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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) 2019-20.
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 moderate, 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 and local government workers later in 2020.

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

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.

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.

The Government of South Australia's Position

17. The Government of South Australia's submission to the AWR 2019-20 does not recommend a specific increase to national minimum wages, and submits that the Panel should take a moderate, 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. This position reflects the need for a healthy balance between income and jobs, whereas a larger increase to wage income may have an adverse impact on unemployment rates.
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.
 - The establishment of a South Australian Productivity Commission, which is 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 moderate, cautious approach to setting the NMW and modern award minimum wages for AWR 2019-20, 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.
22. The bushfires and coronavirus are likely to affect trading conditions in retail and tourism-related industries that employ a high proportion of workers on the national minimum wage.

Economic Factors

International economy

23. The global economy grew by an estimated 2.9 per cent in 2019, following growth of 3.6 per cent in 2018. In the January 2020 World Economic Outlook Update, the International Monetary Fund (IMF) forecast global output to rise by 3.3 per cent in 2020 and by 3.4 per cent in 2021.
24. While the IMF forecasts a rise in global economic growth in 2020, the growth forecasts were downwardly revised from the October release. Large advanced economies are forecast by the IMF to post growth of 1.6 per cent per annum in 2020 and 2021. Stronger growth is forecast for emerging market and developing economies — 4.4 per cent in 2020 strengthening to 4.6 per cent in 2021. The Chinese economy is forecast to grow at 6.0 per cent in 2020 and moderate to 5.8% in 2021.
25. The IMF comments that despite the downward revision to global growth forecasts, that “...market sentiment has been boosted by tentative signs that manufacturing activity and global trade are bottoming out, a broad-based shift toward accommodative monetary policy, intermittent favourable news on US-China trade negotiations, and diminished fears of a no-deal Brexit”. Although positive in themselves, the IMF comments that turning points are not as yet being reflected in macroeconomic data.
26. The IMF further comments that while risks to global activity are less tilted to the downside that downside risks “remain prominent”, including “rising geopolitical tensions, notably between the United States and Iran, intensifying social unrest, further worsening of relations between the United States and its trading partners, and deepening economic frictions between other countries. A materialization of these risks could lead to rapidly deteriorating sentiment, causing global growth to fall below the projected baseline”.⁵
27. It should be noted that while the IMF forecasts have incorporated a number of weather-related disasters across a number of nations, including Australia, the recent threat posed by the new coronavirus (COVID-19) has not been a consideration.

⁵ International Monetary Fund, World Economic Outlook Update, January 2020

Australian economy

28. Over the year to the September quarter 2019, Australia's gross domestic product (GDP) grew by 1.7 per cent (seasonally adjusted). Contributing to growth were private and public consumption and exports.
29. The Reserve Bank of Australia's (RBA's) latest outlook for the Australian economy (February 2020 *Statement on Monetary Policy*) is for year-average GDP growth of 2 per cent in 2019-20 (previously 2¼ per cent), picking up to 2¾ per cent in 2020-21 and rising further to 3 per cent in 2021-22.
30. Notwithstanding the growth pick-up forecast over the next two years, the RBA comments that forecasts for year-ended growth have been impacted by the lower than forecast GDP growth in the September quarter, and has also been revised lower in the near term *"to account for some effect from the recent bushfires and the coronavirus outbreak in China."* The RBA states that beyond the near term *"forecasts for growth are largely unchanged."*⁶
31. More specifically, the RBA comments that the current *"soft patch in growth"* is likely to extend into early 2020 because of the drought, the effects of the bushfires, and the effects on Australian exports of the recent COVID-19 outbreak in China. The recovery effort following the bushfires is expected *"to reverse the negative near-term economic effects of the fires on aggregate activity"*, but drought conditions are likely *"to continue to weigh on rural production and exports for a while yet"*.
32. The RBA says that GDP growth in Australia's major trading partners is expected to be lower due to the coronavirus outbreak. There will be near-term spillover effects to Australia, including through reduced numbers of tourists and a delayed arrival of students from China, along with lower commodity prices.
33. The trend unemployment rate was 5.2 per cent in January 2020, up from 5.0 per cent recorded a year earlier. On the other hand, the trend under-employment rate was 8.5 per cent in January 2020, bringing the rate of under-utilisation to 13.7 per cent. This suggests that the labour market has some capacity to absorb additional labour demand before anything more than gradual upward pressure is generated for wage and price inflation.
34. The RBA comments that wages growth has been *"low and steady for some time, in line with the spare capacity still in the labour market, as well as the constraints implied by the wages policies of various governments. As the unemployment rate declines and the labour market tightens, some limited upward pressure on wage outcomes can be expected."*⁷
35. The RBA expects the increase in the superannuation guarantee in 2021 to largely offset the boost to wages growth from the gradual decline in labour market spare capacity.
36. Wages rose by 2.2 per cent in the year to the December quarter 2019 (based on the ABS' hourly rate of pay index, excluding bonuses).
37. The consumer price index (CPI) in the year to the December quarter 2019 was 1.8 per cent, unchanged from the December quarter 2018.
38. The average of the RBA measures of underlying inflation increased by 0.4 per cent in the December quarter and by 1.5 per cent over the year.

⁶ Reserve Bank of Australia, *Statement on Monetary Policy*, February 2020, page 71

⁷ *Ibid*, page 2

39. Measures of underlying inflation are forecast by the RBA to remain around 1¾ per cent in the year-ended June 2020 and June 2021, and pick up to 2 per cent at the end of 2021, remaining at 2 per cent through to the year-ended June 2022.
40. The RBA's latest forecasts for the Australian economy, published in its Statement on Monetary Policy on 7 February 2020, are shown below.

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

	Year-ended					
	Dec 2019	Jun 2020	Dec 2020	Jun 2021	Dec 2021	Jun 2022
GDP growth	2	2	2¾	3	3	3
(previous)	(2¼)	(2½)	(2¾)	(3)	(3)	(n/a)
Unemployment rate ^(b)	5.2	5¼	5	5	4¾	4¾
(previous)	(5¼)	(5¼)	(5¼)	(5)	(5)	(n/a)
CPI inflation	1.8	1¾	1¾	1¾	2	2
(previous)	(1¾)	(2)	(1¾)	(1¾)	(2)	(n/a)
Trimmed mean inflation	1.6	1¾	1¾	1¾	2	2
(previous)	(1½)	(1¾)	(1¾)	(1¾)	(2)	(n/a)
	Year-average					
	2019	2019/20	2020	2020/21	2021	2021/22
GDP growth	1¾	2	2¼	2¾	3	3
(previous)	(1¾)	(2¼)	(2¾)	(2¾)	(3)	(n/a)

(a) Technical assumptions include the cash rate moving in line with market pricing, TWI at 58, A\$ at US\$0.67 and Brent crude oil price at US\$54 per barrel; shaded regions are historical data; figures in parentheses show the corresponding forecasts in the November 2019 Statement on Monetary Policy

(b) Average rate in the quarter

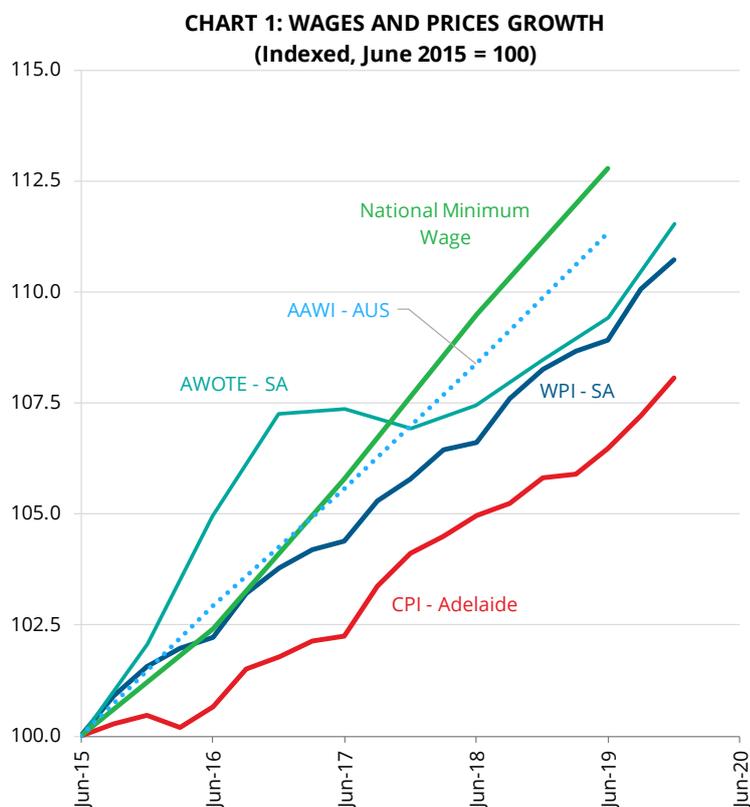
Sources: ABS; RBA

South Australian economy

41. Gross State Product (GSP) increased by 1.4 per cent in 2018-19 compared with GDP growth of 2.0 per cent.
42. The South Australian economy has seen mixed results across its industry sectors. Industry sectors contributing most to GSP growth in 2018-19 were: healthcare and social assistance; construction; public administration and safety; other services; information media and telecommunications; education and training; professional, scientific and technical services; and rental, hiring and real estate services. Industry sectors detracting most from GSP growth were: manufacturing; agriculture, forestry and fishing; wholesale trade; and accommodation and food services.
43. South Australian industries that recorded growth in employment over the year to November 2019, included:
- Education and training (up 14,200 or 22.5 per cent)
 - Professional, scientific and technical services (up 7,800 or 15.4 per cent)
 - Construction (up 5,300 or 7.7 per cent)
 - Administrative and Support Services (up 3,200 or 10.7 per cent).
44. Over the same period, South Australian industries that recorded a fall in employment included:
- Public Administration and Safety (down 7,700 or 12.8 per cent)
 - Agriculture, forestry and fishing (down 7,400 or 18.4 per cent)
 - Financial and insurance services (down 3,800 or 16.1 per cent)
 - Arts and recreation services (down 2,800 or 18.7 per cent).

45. In January 2020, the trend unemployment rate was 5.9 per cent, 0.7 of a percentage point higher than the Australian rate, and unchanged from a year earlier. There remains spare capacity in the labour market. The South Australian underemployment rate was 9.8 per cent — bringing the state’s under-utilisation rate to 15.7 per cent.
46. According to the Wage Price Index, wages growth in South Australia in the year to the December quarter 2019 was 2.3 per cent, slightly higher, but in line with, the national growth rate. In South Australia, private sector total hourly rates of pay increased by 2.4 per cent through the year to the December quarter 2019 while public sector total hourly rates of pay increased by 1.7 per cent.
47. In the nine years since 2009-10, the National Minimum Wage (NMW) has increased by 30.0 per cent, the adult full-time average weekly ordinary time earnings (AWOTE)⁸ by 29.9 per cent, the wage price index (WPI)⁹ by 27.7 per cent and the CPI by 19.8 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.
48. In November 2019, AWOTE for full-time adults in South Australia was 2.8 per cent higher than a year earlier.

Chart 1: Wages and CPI growth¹⁰



⁸ 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.)

⁹ 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.

¹⁰ 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).

49. This suggests that the increases in the NMW determined by the FWC of 3.5 per cent in 2018 and 3.0 per cent in 2019 have been effective in closing the gap between growth in minimum wages, and other measures of wages growth.

Conclusion

50. The Government of South Australia recognises that a key objective of establishing national minimum wages is that they provide a safety net.
51. 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.
52. The Government of South Australia submits that the adoption of a moderate, cautious approach to setting the NMW and modern award minimum wages for AWR 2019-20, 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.