QUEENSLAND GOVERNMENT SUBMISSION TO THE FAIR WORK COMMISSION

Annual Wage Review 2020–21

March 2021

Contents

Introduction

The following is a submission by the Queensland Government to the 2020–21 Annual Wage Review (AWR) conducted by the Expert Panel (the Panel) for the Fair Work Commission (FWC).

Queensland notes that, under the *Fair Work Act 2009* (FW Act), the purpose of the Annual Wage Review (AWR) is to review the National Minimum Wage (NMW) order and the minimum wages prescribed under national modern awards. As the Panel would be aware, Queensland referred its remaining private sector industrial relations jurisdiction to the Commonwealth for inclusion under the FW Act in the national workplace relations system on 1 January 2010.

As a consequence of the referral, all of Queensland's private sector workforce is subject to the national Fair Work jurisdiction, with Queensland's public sector and local government workers (public sector) remaining subject to the State's industrial relations jurisdiction.

The submission that follows provides Queensland's perspective on the current economic and social factors relevant to Queensland's private sector workforce for the Panel's consideration in its review of the NMW and national modern award minimum wages.

Queensland advocates for an increase, that at a minimum, keeps up with inflation and maintains the living standards for private sector workers reliant on the NMW or national modern award minimum wages; that protects the low paid; and that is economically responsible.

In determining the level of increase, a broad range of indicators relevant to private sector employment should be considered. These include inflation, employment, wage growth, business profits and conditions, productivity growth, relative living standards and the needs of the low paid.

Queensland notes there has been an increase in the proportion of private sector employees who rely on national modern awards for their actual rate of pay. In 2008, 16.5%[1] of non-managerial employees were national modern award reliant. By 2018, this had increased to 22.5%[2]. By extension, this places even greater emphasis on the Panel's consideration of minimum wage and national modern award increases that are fair in the context of improved living standards for all private sector workers.

[1] Based on ABS Employee Earnings and Hours, reference period May 2008.
[2] Based on ABS Employee Earnings and Hours, reference period May 2018.

Additionally, as noted in previous AWR decisions of the Expert Panel, including last year's[3] decision, women workers continue to be more likely than men to be reliant upon the NMW and national modern award rates of pay and those on these minimum rates are more likely to be low paid. On this basis it is argued that raising the NMW and national modern award minimum wages will promote gender pay equity.

Queensland submits an increase to NMW and national modern award minimum wages for private sector workers that maintains the real wage at a minimum, is economically sustainable and consistent with the objects of the FW Act. Consistent with the principles and considerations outlined in this submission and based on data available at the time of this submission, Queensland supports the maintenance of the NMW and minimum national modern award rates for private sector workers that are fair and reasonable and that are no less than headline consumer price index (CPI).

Legislative parameters

Queensland submits that the objects of the FW Act[4] and the objectives of national modern awards[5] and minimum wages[6] require the FWC to balance economic and social issues as well as to take account of the needs of low paid workers within the national fair work jurisdiction, amongst other factors to maintain a safety net of fair minimum wages. Queensland submits that this requirement signifies a focus on social factors being as important as economic factors in the creation of a fair safety net.

The abovementioned objectives taken together imply that when determining the safety net of fair minimum wages the Panel is bound to ensure a wage outcome consistent with strong economic performance while at the same time providing a fair and relevant minimum wage safety net that ensures a decent standard of living for full-time adult employees and that those with limited access to wage bargaining are not left behind. This is a particularly important consideration for low-paid workers who rely on the AWR for an annual wage increase.

In this context, Queensland notes that the minimum wages objective requires the FWC to consider relative living standards and the needs of the low paid within the national fair work jurisdiction, the principle of equal remuneration for equal work, the promotion of social inclusion through increased workforce participation, the provision of a comprehensive range of fair minimum wages for certain junior employees and those with a disability as well as the performance and competitiveness of the national economy.[7]

[3] FWC Decision Annual Wage Review 2018–19 (C2019/1) para 397.
[4] *Fair Work Act 2009* (Cth) s 3.
[5] *Fair Work Act 2009* (Cth) s 134.
[6] *Fair Work Act 2009* (Cth) s 284.
[7] *Fair Work Act 2009* (Cth) s 284(1).

Number of Queensland employees subject to the NMW and national modern award rates

The most recent figures of national modern award dependency are from May 2018[8]. At that time, of the 9,916,500 non-managerial employees in Australia, 2,232,900 or 22½% were national modern award reliant. Queensland had a similar proportion of private sector national modern award-reliant employees, i.e. of an estimated 1,905,000 non-managerial employees, 426,700 or 22.4% were national modern award reliant.

Significantly, Queensland's national modern award-reliant non-managerial employees were paid $724.60 per week on average compared to the national average at $787.70 per week.

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

Characteristics of Queensland employees subject to the NMW and national modern award rates

Of Queensland's national modern award-reliant employees, 147,400 are full-time (non-managerial) employees. This represents 13.0% of all full-time (non-managerial) employees in Queensland.[9] Queensland accepts the Panel's position 'that adult national modern 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.'[10]

Queensland also accepts the Panel's view that 'the information as a whole suggests that a sizeable proportion—probably a majority—of employees who are national modern award reliant are also low paid by reference to the two-thirds of median weekly earnings benchmark'.[11] Therefore the minimum wage and national 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.

[8] Based on ABS Employee Earnings and Hours, reference period May 2018.
[9] Ibid.
[10] FWC Decision Annual Wage Review 2015–16 (C2016/1) para 449.
[11] Ibid.

Some 279,300 part-time employees in Queensland are also national modern award-reliant.[12] Given current high levels of underemployment, Queensland submits that the needs of the low-paid are also important considerations for this group.

Table 1 below shows employment by industry and the proportion of employees who are female in each industry (as at August 2020) along with the proportion of national modern award-reliant non-managerial employees by industry (as at May 2018). The largest proportions of national modern award-reliant (non-managerial) workers are found in 'Accommodation and food services' (44.9%, 341,313 workers), 'Administrative and support services' (41.3%, 165,343 workers), 'Health care and social assistance' (31.7%, 562,019 workers) and 'Retail trade' (30.1%, 360,079 workers) industries. These industries are characterised by high levels of female participation: 55.1%, 47.8%, 77.6% and 54.7% respectively.[13]

These industries account for 33.0% of total employment. Given that these industries are disproportionately national modern award reliant, and therefore lower paid and highly feminised, an increase in minimum wages will assist in the promotion of gender pay equity.

Table 1: Employees by Industry (Australia)

Industry	Number of Employees[a] (000s)	Proportion of female Employees[a] (%)	Proportion of National modern award reliant Employees[b] (%)
Mining	240.5	16.4	0.9
Manufacturing	843.9	28.8	20.8
Electricity, gas, water and waste services	151.3	25.4	4.1
Construction	1,152.4	14.5	16.6
Wholesale trade	402.1	33.9	16.1
Retail trade	1,196.7	54.7	30.1
Accommodation and food services	760.7	55.1	44.9
Transport, postal and warehousing	612.5	24.1	12.7
Information media and telecommunications	194.2	39.2	7.1
Finance and insurance services	482.4	47.8	5.2
Rental, hiring and real estate services	215.4	48.4	29.4
Professional, scientific and technical services	1,118.5	41.7	8.0
Administrative and support services	400.2	47.8	41.3
Public administration and safety	862.0	51.2	10.9
Education and training	1,111.7	70.6	10.0
Health care and social assistance	1,772.4	77.6	31.7
Arts and recreation services	206.7	45.6	22.5
Other services	437.6	45.6	38.1
Total	12,521.1	47.3	22.5

Source: a. ABS Labour Force, Detailed, reference period Aug 2020
b. ABS Employee Earnings and Hours, reference period May 2018

[12] Based on ABS Employee Earnings and Hours, reference period May 2018.
[13] ABS Labour Force, Detailed, reference period Aug 2020.

Economic factors[14]

The Australian and Queensland economic forecasts outlined in this document are the latest available, current as of the Commonwealth Mid-Year Economic and Fiscal Outlook 2020–21 (MYEFO, released 17 December 2020) and Queensland State Budget (State Budget, released 1 December 2020). These forecasts were developed and published after the COVID-19 health pandemic caused the most severe global economic contraction in decades.

Health outcomes are a key element of the economic recovery, with those countries able to contain the spread of the virus quickly experiencing stronger recoveries in activity. With a significant number of countries, including several major Australian trading partners, unable to successfully contain the virus, the global economy is forecast to contract by 4% in 2020, before rebounding to growth of 4¾% and 3¾% growth in 2021 and 2022, respectively. Australia's major trading partner GDP is expected to fall by 2½% in 2020 before recovering by 5¾% and 4% over the subsequent two years. Although the global economic recovery is progressing, there remains a higher-than-usual degree of uncertainty with significant downside risks to the outlook, including the recurrence of virus outbreaks (which has already eventuated in the United States of America, Japan, the United Kingdom and many countries throughout Europe), withdrawals of policy stimulus, deteriorating financial conditions and trade, technology and other geopolitical frictions.

In Australia, GDP contracted 0.2% in 2019–20, officially ending 28 years of uninterrupted economic growth. Australia was severely impacted by the COVID-19 health pandemic during the first half of 2020, which weighed heavily on an economy already weakened by challenging global and domestic conditions. At the time of the Commonwealth 2020–21 Budget (released 6 October 2020) national real GDP was forecast to fall by 1½% in 2020–21 before growing by 4¾% in 2021–22. However, as virus restrictions have been unwound, and with an unprecedented level of fiscal support and accommodative monetary policy settings in place, activity has rebounded better than had been expected in the September quarter. As such, the Commonwealth MYEFO forecasts real GDP to grow by ¾% in 2020–21 and then strengthen by 3½% in 2021–22.

Continued easing of virus restrictions, together with a rebound in labour income and Government income support measures, led to household consumption rebounding 7.9% in the September quarter (after a record fall of 12.5% in the June quarter). Real-time data suggests the recovery has continued in the December quarter, supported by ongoing easing of restrictions, particularly in Victoria, continued Government income assistance and the

[14] Forecasts are taken from the Mid-Year Economic and Fiscal Outlook 2020-21 (MYEFO), Commonwealth of Australia (released 17 December 2020).

recovery in the labour market. Improvements in household disposable income saw the household savings ratio remain elevated at 18.9% in the September quarter. Robust household balance sheets are expected to support growth going forward, with the latest MYEFO forecasting household consumption to grow at ½% in 2020–21 and 5% in 2021–22.

The pandemic and related restrictions negatively impacted activity in the housing market through income losses, lowered demand due to reduced migration inflows from interstate and international travel restrictions, and eroded household and investor confidence due to elevated uncertainty. However, after a significant fall in the June quarter 2020, dwelling investment rose by 0.6% in the September quarter, driven by a strong lift in renovation activity. The HomeBuilder scheme and other housing policies, combined with record low interest rates, has recently led to a substantial increase in approvals for detached houses and new lending to owner occupiers. In contrast, the outlook for apartments remains subdued and construction is expected to remain weak due to reduced demand for inner-city high-density dwellings (which has led to a higher vacancy rates and lower rents). On balance, the Commonwealth MYEFO forecast dwelling investment to contract 2% in 2020–21 and fall a further 2½% in 2021–22.

Business investment fell by 2.1% in 2019–20, with uncertainty surrounding the pandemic and global economic outlook weighing heavily on the investment decisions of Australian businesses. Business investment is expected to fall a further 8½% in 2020–21, as firms defer investment due to continued uncertainty around the pandemic, subdued domestic demand and weak export demand in some sectors. The unwinding of virus containment measures, recovering confidence as well as the Commonwealth and state and territory government policies announced in recent budgets are expected to support a 5% recovery in business investment in 2021–22. In the subcomponents, non-mining investment is forecast to fall by 11% in 2020–21 before recovering by 7½% in 2021–22. Mining investment is expected to remain flat in 2020–21 and then contract by 1% in 2021–22.

Exports are forecast to fall by 7% in 2020–21 with international travel restrictions severely impacting tourism and education exports. However, an anticipated lift in mining exports are expected to drive a 3% rebound in 2021–22.

Service exports are expected to fall by 32½% in 2020–21 and by a further 3% in 2021–22. Tourism drives most of the decrease in 2020–21, while international education exports drive the decrease in 2021–22 as the number of foreign student arrivals remains low and some existing students depart.

Mining exports are expected to fall by ½% in 2020–21 and grow by 5% in 2021–22. Furthermore, rural exports are expected to grow marginally over the forecast period. While coal and LNG exports have fallen recently due to lower demand arising from the pandemic, iron ore exports have been supported by robust demand from China. In the immediate term, coal export volumes are expected to continue to be subdued due to lower global demand.

The COVID-19 health pandemic resulted in an unprecedent deterioration in the Australian labour market between March and May 2020. However, conditions have improved significantly since restrictions have been eased, with employment recovering but remaining slightly below pre-COVID-19 levels. Employment is forecast to rise by 4% through the year to the June quarter 2021 and by 1¾% through the year to the June quarter 2022. The participation rate is expected to remain around 66% through to the June quarter 2022, as improving economic conditions encourage more people to return to the labour force. In the 2020–21 Budget, the unemployment rate was expected to peak at 8% in the December quarter 2020, however, with both subsequent employment and the participation rate data higher than expected, the unemployment rate is now forecast to peak at 7½% in the March quarter 2021. The unemployment rate is then forecast to fall to 6¼% by the June quarter 2022 and continue to fall, reaching 5¼% by the June quarter 2024. The latest labour force data show that employment rose 0.7% (90,000 persons) in November while the unemployment rate has moderated to 6.8%, down from the recent peak of 7.5% in July. Consistent with improved opportunities in the labour market, the headline participation rate (66.1% in November 2020) has returned to pre-COVID-19 levels.

Fewer end-of-financial-year wage reviews, delayed enterprise agreement increases, and the staggered implementation of national modern award increases due to the COVID-19 health pandemic resulted in the wage price index rising just 0.1% in the September quarter (to be 1.4% higher over the year). Reflecting the elevated spare capacity in the labour market, wage growth is expected to remain below average over the forecast period, with Commonwealth Treasury forecasting national wages to grow by 1¼% through the year to the June quarter 2021 and by 1¼% through the year to the June quarter 2022 (with private sector wages growth lagging behind public sector wages growth).

CPI rose 1.6% in September quarter 2020, after a record fall of 1.9% in the June quarter. The end of free childcare in July and a rebound in fuel prices were the largest contributors to the quarterly increase. Despite the sharp rise in the CPI in September quarter 2020, price pressures are forecast to remain weak due to excess spare capacity in the economy. The Commonwealth Treasury forecast consumer price inflation to increase to 2¼% through the year to June quarter 2021, supported by the unwinding of childcare policies and excise indexation. Consumer price inflation is then expected to be 1½% through the year to the June quarter 2022, with measures of underlying inflation forecast to remain near record lows over the first two year of the forecast period. Essentially, consumer price inflation is not expected to return to the lower end of the RBA's 2% to 3% inflation target until the end of the forward estimates.

The Queensland economy[15]

At the time of the 2020–21 Budget, economic growth in Queensland was forecast to rebound ¼% in 2020–21, before strengthening to 3½% in 2021–22. This follows the unprecedented impact on Queensland's economy in 2019–20 as a result of the global COVID-19 health pandemic, which included two consecutive declines in State Final Demand (a measure of domestic activity) in the March and June quarters, including a record 6.1%[16] decline in June quarter 2020.

Household consumption fell a cumulative 10.4% in the March and June quarters following government mandated social distancing measures implemented in response to the COVID-19 health pandemic. Despite the severe contraction in household spending activity, significant government assistance and income support and early access to superannuation supported household incomes throughout the lockdowns. These measures, in addition to a rebound in labour income and the progressive unwinding of virus restrictions, drove a significant rebound in household spending in the September quarter. Consumer spending patterns in Queensland are expected to normalise from the December quarter onward, contributing to an expected rebound in household consumption of 2¼% in 2020–21 and 2½% in 2021–22.

Dwelling investment in Queensland has declined in recent years, largely driven by the slowdown in construction of medium-to-high density dwellings, particularly in South East Queensland. However, more recently the COVID-19 health pandemic has also impacted the sector, contributing to a fall of 5.9% in June quarter 2020. While record low interest rates (and firm indications from the RBA that they will stay low for an extended period) and generous government incentives for new construction have supported recent improvement in some leading indicators (including dwelling prices, housing finance commitments, and consumer sentiment around the '*time to buy a dwelling*' index), the flow-on impacts from these improvements in the established housing market will take some time to translate into new dwelling construction activity. Therefore, dwelling investment is expected to record a further decline of 5% in 2020–21, before rebounding 4¾% in 2021–22.

The onset of the COVID-19 health pandemic also saw a marked deterioration in business confidence and conditions in the first half of 2020. This was especially the case during the March and April lockdown period and business conditions in the June quarter fell to levels last seen during the Global Financial Crisis and the early 1990s recession, resulting in a decline in

[15] Forecasts and data are obtained from the Queensland Government's 2020-21 Budget, December 2020.
[16] Based on September quarter 2020 ABS National Accounts.

business investment of 8.7% in the June quarter. Since that time, success in controlling the virus in Queensland, and the resulting easing of many social distancing restrictions, has led to an improvement in business confidence and overall economic activity, although both remain below their long-term averages. Given the general lag between changes in business confidence and investment decisions and actual investment spending (particularly for larger long-term building and construction projects) business investment is still expected to continue to fall in the near term. Reflecting this, business investment is expected to fall a further 9¾% in 2020–21, before rebounding 4¾% in 2021–22. Business investment in Queensland is expected to pick up in 2021–22 due to factors including increased demand as domestic and global economies recover, the expected reopening of international borders in late 2021 and ongoing low interest rates boosting business confidence to invest.

The COVID-19 global recession has had a significant impact on Queensland's overseas trade sector, contributing to the State's overseas goods and services exports falling 5.4% in 2019–20. The global recession has lowered demand for Queensland's key exports (particularly coal and LNG), while travel restrictions have severely impacted Queensland's international tourism exports and are expected to limit international student arrivals in 2021. The pandemic's impact on Queensland's overseas exports of goods and services is expected to continue in 2020–21, with a decline of 11% forecast for the financial year. Queensland's overseas exports of goods and services are then expected to rebound by 9¾% in 2021–22, in part reflecting increased rainfall in the summer of 2020–21 supporting the production and exports of crops.

Reflecting the impacts of COVID-19, between March and May 2020 seasonally adjusted employment in Queensland fell by 205,000 persons (or 8%), the largest decline on record. The decline would likely have been even larger if not for the JobKeeper program keeping people notionally employed. Overall, the number of hours worked in Queensland fell by 9.6% between March and May. At the same time, the participation rate dropped from 65.5% in March to 61.6% in May, equating to 157,900 persons leaving the labour force over this period. As a result, the increase in the unemployment rate was likely more subdued than it otherwise would have been, rising from 5.6% in March to 7.8% in May 2020.

However, since May 2020, there has been a rapid and strong recovery in the Queensland labour market. Employment increased by 185,100 persons between May and November 2020, to be only 19,900 persons below the pre-COVID-19 level in March. In addition, the monthly number of hours worked in Queensland rebounded between May and November 2020, to be 0.6% above pre-COVID-19 levels. Queensland and Western Australia are the only states where hours worked have rebounded to above their pre-COVID-19 levels, highlighting the extent of the recovery in the state's labour market following the easing of restrictions due to success in containing the virus. The participation rate has also recovered strongly to 66.0%

in November, 0.5 percentage point above its pre-COVID-19 rate in March 2020. This strong rebound in participation has limited the decline in the unemployment rate, which has fallen from a high of 8.8% in July to 7.7% in November 2020.

Looking forward, Queensland's labour market is forecast to continue to recover, in line with the ongoing strengthening of domestic economic activity. Employment is forecast to rise 1% in 2020–21, while from 2021–22 to 2023–24, employment is expected to continue to grow by a solid 2% to 2¼% per annum, as the economy continues to recover. The unemployment rate is expected to have peaked (in quarterly terms) at 7.9% in September quarter 2020, before improving steadily over the forecast period to be 6½% by 2023–24.

The COVID-19 pandemic resulted in Brisbane's CPI falling a record 2.2% in June quarter 2020, seeing an annual CPI decline of 1.0%. This result marked the first annual fall in Brisbane's CPI since the inception of the series in the 1940s. While a rebound in automotive fuel prices and the unwinding of some government measures (including temporary free childcare) saw the Brisbane CPI rebound strongly in the September quarter, it was just 0.6% higher over the year.

Further, pre-COVID, Queensland's nominal wage growth had accelerated (albeit modestly) to 2.3% in 2018–19, up from the historically low growth of 1.9% recorded in 2016–17. However, the unprecedented impact to Queensland's labour market in June quarter 2020 saw wages growth slow to 1.9% in 2019–20, impacted by no wage growth in the June quarter (driven by a decline of 0.2% in private sector wages), the slowest quarterly growth since the inception of the series (in 1997). Further, Queensland's annual wage growth slowed to 1.5% in September quarter 2020, the slowest rate of annual wage growth in the series' history.

Looking ahead, with spare capacity in the Queensland labour market expected to remain for some time, there is likely to be little upward pressure on wages and prices over the medium term. These trends are expected to result in only modest prices and wages growth of 1¼% in 2020–21, with growth expected to then gradually increase over subsequent years as the economy continues to recover.

Risks to the outlook

The key risk to Queensland's economic outlook is the global evolution of the COVID-19 health pandemic. While Australia has been relatively successful to date in supressing the pandemic, the risk of further waves remains.

While economic activity has already started to recover in many areas of the economy, those firms focused upon international tourism and international education exports continue to be impacted substantially by international border closures. Any delay in the manufacture and distribution of a vaccine risks further impeding the re-opening of international borders and could cause additional damage to the economic prospects in those key sectors.

Internationally, several major economies including the USA, UK and Europe are experiencing an upsurge in COVID-19 incidence. A number of these countries have started to re-introduce full or partial lock downs. This risks a further downturn in the already severe global economic recession, further depressing demand for Queensland's exports and commodity prices, and ultimately flowing through to reduced economic activity and with flow on impacts to state revenues.

In addition to the pandemic, ongoing international trade tensions, including reported trade tensions between China and Australia, remain a substantial risk. Any further escalation of these tensions poses a risk to key exports.

Both domestically and internationally, governments have greatly expanded fiscal and monetary support measures. As the economy recovers, it is appropriate and necessary for all levels of government to wind back these measures and return to more sustainable fiscal settings and productivity-enhancing reforms to support ongoing economic recovery.

The pace and nature of this ongoing policy adjustment at all levels of government, particularly in terms of major income support and stimulus measures implemented by the Australian Government, pose ongoing risks to the economic outlook.

Asset prices (with flow on impacts on wealth and confidence) have also been supported by historically low interest rates and substantial fiscal policy measures, giving rise to a degree of fragility in financial markets. Therefore, any increased volatility in financial markets could impact the extent and pace of economic recovery, while the return to normal monetary policy settings over time will need to be carefully managed.

Economic implications of low wage growth

Australia has experienced a sustained period of subdued wage growth, particularly in the private sector. Seasonally adjusted wage growth was just 1.4% through the year to September quarter 2020, a decrease from the annual rate in June quarter 2020 (1.8%).[17]

A sustained period of low wage growth will have implications for the broader economy. Subdued wage growth constrains growth in household income, one of the key drivers of household consumption (which accounts for around 60% of total economic activity), with potential flow-on effects for businesses and government revenues. The Queensland

[17] ABS Wage Price Index, Australia, reference period Sept 2020

submission notes that the AWR decision in recent years supported this view, observing the negative economic and social consequences of current low wages growth. As further explored below, the RBA has also been increasingly vocal in its concerns about persistently low wages growth.

Additionally, the demand for government services (such as social housing) may rise if households' purchasing power is reduced by low wage growth conditions. Lower income households may seek to access a broader range of government services if wage growth falls behind the rate of increase in the cost of non-discretionary goods and services. This, combined with the flow-on effects for government revenues identified above, could adversely affect the government's fiscal position.

The RBA has suggested that the current low level of wages growth reflects a number of factors including spare capacity in the labour market and low inflation expectations. Other contributing factors to recent low wage growth include:

- the process of adjustment following the end of the mining boom;
- a decline in labour's relative bargaining power;
- the effects of technological change and globalisation;
- a low level of voluntary job turnover (where workers choose to leave their job for a better job);
- the use of bonuses, rather than wage rises, by businesses to incentivise employees (which doesn't permanently raise labour costs); and
- some firms attempting to retain staff by using non-wage incentives, such as flexible work arrangements, shares, additional annual leave, etc.

The employment impact of increases to minimum wages

A perennial point of contention 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 wage cases but, while it has been argued that moderate increases in real wages in the absence of offsetting productivity improvements may lead to a negative impact on employment, this has not been borne out by the evidence. Factors such as employer efforts to increase workers' productivity to justify the wages paid and incentive effects on employees and through the broader effects of a fairer system on social and economic cohesion in society as a whole are effective in mitigating any potential dis-employment effects.

The employment impact of safety net adjustments to national modern award wages has been similarly well canvassed by the FWC and its predecessors. In previous wage case decisions, the Panel has noted that a general assessment of employment data, including in more heavily national modern 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'.[18] This sentiment was reiterated in the Panel's 2017 decision along with the statement that 'the Panel's past assessment of what constitutes a 'modest' increase may have been overly cautious, in terms of its assessed dis-employment effects'.[19] This view was confirmed by a landmark study published by the RBA in 2018 which found that there is no evidence that modest, incremental increases in national modern award wages have an adverse effect on hours worked or the job destruction rate.[20] Queensland submits there is no reason to depart from this consistent set of conclusions.

Queensland further 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 and national modern award wages.

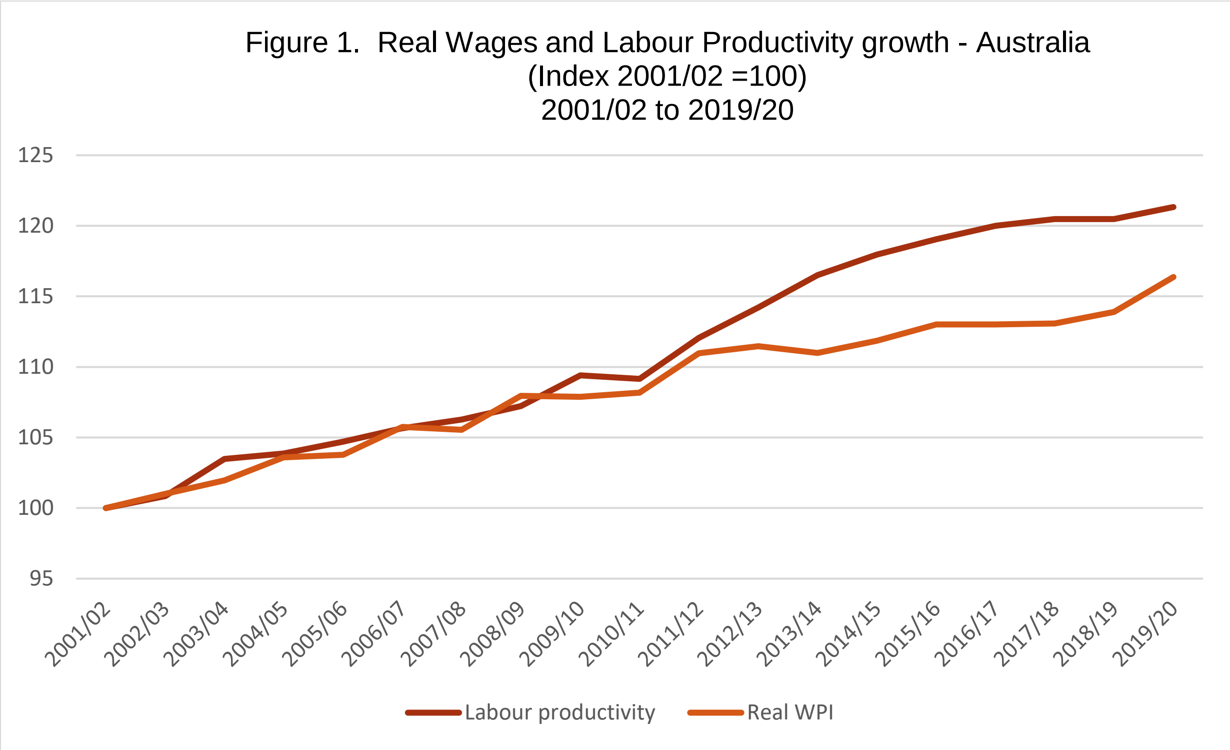
Social factors – The importance of fair wages

As mentioned previously, as at May 2018, approximately 426,700 (22.40%) of Queensland non-managerial employees relied on the national modern award system to determine their rate of pay.

Minimum and national modern 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 and that these workers can share in the benefits of economic prosperity, productivity growth and rising living standards through improvement to their real wages.

Figure 1 shows real wage growth and productivity growth in the years since the 2001 downturn. As can be seen from the chart, real wage growth mirrored labour productivity growth until 2011–12 but has subsequently diverged, resulting in low wage growth and rising inequality.

[18] FWC Decision Annual Wage Review 2015–16 (C2015/1) para 492.
[19] FWC Statement Annual Wage Review 2016-17 (C2017/1) para 9.
[20] Bishop J (2018), The Effect of Minimum Wage Increases on Wages, Hours Worked and Job Loss, Reserve Bank of Australia, Bulletin, September 2018

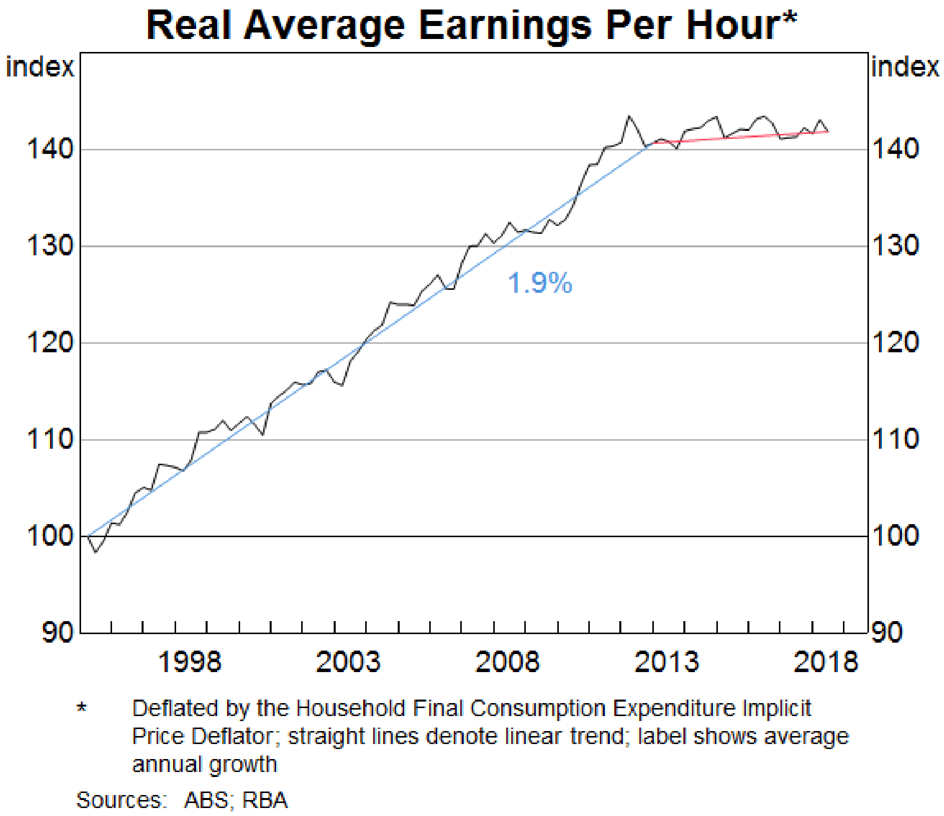


Source: ABS Wage Price Index, Australia and ABS Consumer Price Index, Australia - Australian National Accounts: National Income, Expenditure and Product

Queensland recognises that stagnant wage growth has been widely identified as a significant problem in recent years and that rising income inequality has become an issue of significant social concern. The Governor of the RBA, Phillip Lowe, has argued this is a major problem, suggesting that flat real wages are diminishing our sense of shared prosperity and the lack of real wage growth is one of the reasons why some in our community question whether they are benefiting from our economic success.[21] Governor Lowe used Figure 2 below to show that from 1995 to 2012, on average, real wages increased by almost 2% per year. This occurred while inflation averaged around the mid-point of the 2% to 3% target range. However, since 2012, there has been little change in average real hourly earnings. Wage increases have been broadly matched by inflation. On 21 April 2020, Governor Lowe, in an economic and financial update observed that many businesses had deferred or cancelled wage increases in response to the pandemic; as such, year-ended wage growth is expected to decline below 2% in 2020 before gradually picking up again. Governor Lowe also noted that in underlying terms, inflation is expected to remain below 2% over the next couple of years.[22]

[21] Lowe, P. (2018). Trust and Prosperity, Address to CEDA Annual Dinner, Melbourne, 20 November 2018.
[22] Lowe, P. (2020). An Economic and Financial Update, Reserve Bank, Sydney, 21 April 2020.

Figure 2.



Source: Lowe, P. (2018). Trust and Prosperity, Address to CEDA Annual Dinner, Melbourne, 20 November

While Figure 1 above shows the divergence between productivity growth and real wages overall, national modern award-reliant workers are even worse off. There is a marked disparity between the wage outcomes for those on national modern awards compared to employees covered by collective agreements. In Queensland, in May 2018, average weekly earnings for full-time non-managerial employees paid at the adult rate covered by industrial national modern awards were $1139.90 per week, compared to $1759.30 for those covered by collective agreements and $1616.60 for those covered by individual agreements[23]. The ratio of national modern award-reliant wages to the average of all wages was marginally lower (69.95%) in Queensland than the national average of 76.37%.

As national modern award reliance increases and bargaining coverage has started to fall off, the AWR continues to perform a vital role in responding to this marked disparity between the wage outcomes for those workers on the NMW and national modern award-reliant employees compared to those workers who receive higher rates of pay under collectively bargained agreements.

[23] Based on ABS Employee Earnings and Hours, reference period May 2018.

Table 2: Real and nominal increases for national modern award rates and AWOTE, 2010–2020

Wage group	Weekly rate of pay		$ increase	Nominal % increase	Real % increase
	2010	2020			
C14	$569.90	$753.80	$183.90	32.27%	9.84%
C13	$586.50	$775.40	$188.90	32.21%	9.79%
C12	$609.00	$805.10	$196.10	32.20%	9.79%
C11	$629.90	$832.80	$202.90	32.21%	9.80%
C10	$663.60	$877.60	$214.00	32.25%	9.83%
C9	$684.50	$905.10	$220.60	32.23%	9.81%
C8	$705.30	$932.60	$227.30	32.23%	9.81%
C7	$724.20	$957.60	$233.40	32.23%	9.81%
C6	$760.90	$1006.10	$245.20	32.22%	9.81%
C5	$776.40	$1026.70	$250.30	32.24%	9.82%
C4	$797.20	$1054.20	$257.00	32.24%	9.82%
C3	$838.90	$1109.50	$270.60	32.26%	9.83%
C2(a)	$859.80	$1137.20	$277.40	32.26%	9.84%
C2(b)	$897.50	$1186.80	$289.30	32.23%	9.82%
AWOTE*	**$1,252.00**	**$1,713.90**	**$461.90**	**36.89%**	**13.68%**
WPI:**					
Australia	**105.7**	**134.7**		**27.44%**	**5.83%**
Queensland	**106.1**	**134.7**		**26.96%**	**5.87%**

*AWOTE based on June 2010 and June 2020
** Wage-Price Index refers to Ordinary time hourly rates of pay excluding bonuses; September 2010 and September 2020.
Sources: ABS, *Average Weekly Earnings*; ABS, *Wage Price Index*; National modern award rates: Manufacturing and Associated Industries and Occupations National modern award 2010(Effective 1/11/2020)

Moreover, the growth in the NMW and national modern 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 2010 to June 2020, the Average Weekly Ordinary Time Earnings (AWOTE) increased by 36.89.%, or 13.68.% in real terms compared with an increase of only 32.25%, or 9.83% in real terms, to the benchmark C10 tradesperson rate in the manufacturing national modern award[24]. Maintaining the real value of wages in line with inflation should be a threshold benchmark.

Given the recent trend towards increased reliance on national modern award minimum wage rates, it is incumbent upon the Panel to set rates of pay through the AWR that are ‘fair and relevant’ in the context of living standards and the needs of the low paid.

[24] Manufacturing and Associated Industries and Occupations Award 2010.

Equal remuneration

In previous FWC AWR decisions, the Panel noted that a 'relatively high' proportion of women earn the NMW[25], that there continues to be more national modern award reliant women than men and it is more likely that national modern award reliant employees will be low paid than other employees.[26]

Queensland notes the assessment in the 2018 FWC AWR decision that, in the context of an AWR, the application of the principle of equal remuneration for work of equal or comparable value has 'limited relevance' and that to address 'systematic gender undervaluation of work' it would be more appropriate to make an application to vary a national modern award for 'work value reasons'.[27]

However Queensland agrees that 'the broader issue of gender pay equity, and in particular the gender pay gap, is relevant' to the AWR[28] and that as '[w]omen are disproportionately represented among the low paid…an increase in minimum wages is likely to promote gender pay equity'.[29]

On this basis Queensland reiterates the position it put forward in previous submissions to the AWR that '[g]iven the relationship between national modern 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 position is that this remains a worthwhile pursuit.'[30]

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.

Queensland is committed to economically responsible pay increases and the protection of low-paid private sector workers within the national fair work jurisdiction. Queensland submits that a fair and reasonable pay increase that maintains the value of the NMW and minimum national modern award rates of pay at a rate no less than CPI would meet these criteria.

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[25] FWC Decision Annual Wage Review 2017–18 (C2018/1) para 267.
[26] FWC Decision Annual Wage Review 2017–18 (C2018/1) para 435.
[27] FWC Decision Annual Wage Review 2017–18 (C2018/1) para 417.
[28] Ibid.
[29] FWC Decision Annual Wage Review 2017–18 (C2018/1) para 436.
[30] Queensland Government submission to AWR 2017–18.

Queensland submits:

a) at the time of the 2020–21 MYEFO (released in December), the Commonwealth Government's outlook for the national economy had strengthened significantly since the October Budget. The economic growth forecast for 2020–21 was upgraded from -1½% at Budget to ¾% in MYEFO. Real GDP is expected to strengthen to 3½% in 2021–22 and remain solid over the remainder of the forward estimates horizon (2½% in 2022–23 and 2¾% in 2023–24) as both the domestic and international recoveries continue. Despite these improved forecasts, risks to the outlook are firmly pointed to the downside, particularly further domestic and international outbreaks of COVID-19, uncertainty around the timing and distribution of vaccines and escalating trade tensions. National employment is forecast to grow by 4% through the year to June quarter 2021 and 1¾% through the year to June quarter 2022. The national unemployment rate is now expected to peak at 7½% in March quarter 2021, below the peak of 8% forecast at Budget. The unemployment rate is still forecast to reach 7¼% in June quarter 2021 but is now expected to fall to 6¼% by June quarter 2022;

b) an increase that is economically sustainable and at least maintains the value of real wages as well as the living standards for workers receiving the NMW or national modern award-reliant workers;

c) in determining the level of increase, a broad range of indicators relevant to private sector employment should be considered. These include inflation, employment, wage growth, business profits and conditions, productivity growth, relative living standards and the needs of the low paid within the national fair work jurisdiction;

d) there is little or no evidence to suggest that moderate increases in the NMW and national modern award wages have any significant dis-employment effects;

e) due to increased reliance upon the NMW and national modern award rates of pay it is incumbent on the Panel to set minimum wages that are fair in the context of living standards generally;

f) raising the NMW and national modern award wages will promote gender pay equity due to the greater reliance of women workers on minimum and national modern award wage rates; and

g) consistent with the principles and considerations outlined in this submission and based on data available at the time of this submission, Queensland supports the maintenance of the NMW and minimum national modern award rates that are fair and reasonable and that are no less than CPI.