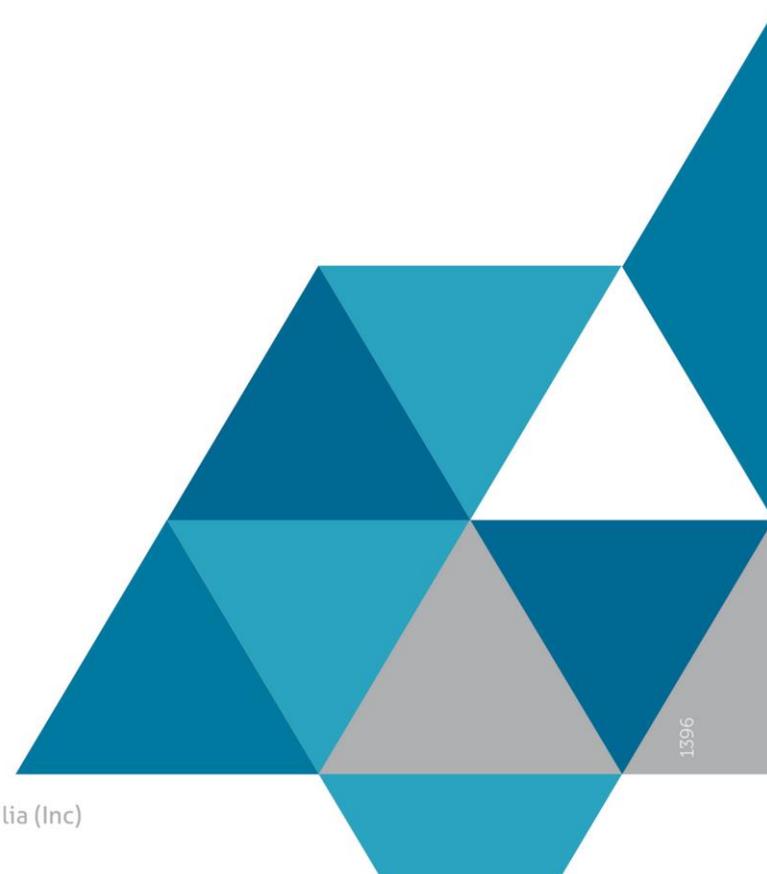




Submission to the Western Australian Industrial Relations Commission

2016 State Wage Case



Industrial Relations Act 1979

In the Western Australian Industrial Relations Commission

Application No. 1 of 2016

2016 STATE WAGE ORDER

On The Commissions Own Motion

SUBMISSION BY THE CHAMBER OF COMMERCE AND INDUSTRY OF WESTERN AUSTRALIA

Filed on behalf of the Chamber of Commerce and Industry of Western Australia by:

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Date of Filing: 10 May 2016

1. About CCI

- 1.1 The Chamber of Commerce and Industry WA (**CCI**) is the leading business association in Western Australia (**WA**) with approximately 9,000 members.
- 1.2 CCI members operate across most industries including: manufacturing; resources; agriculture; transport; communications; retail trade; hospitality; building and construction; local government; community services; and finance. CCI members are located throughout Western Australia.
- 1.3 Most of CCI's members are private businesses, although CCI also has a significant proportion of members in the not for-profit and the government sectors.
- 1.4 Approximately 80 per cent of CCI members are small businesses employing up to 19 employees, with over 15 per cent employing between 20 and 99 employees and over 3 per cent employing more than 100 employees.

2. Overview of CCI's Position

- 2.1 WA is currently facing a challenging business environment as a result of the sharp decline in the State's economic performance, which is characterised by:
 - a) high levels of unemployment accompanied by a decline in the number of full time jobs and falling job vacancies;
 - b) wage growth at historically low levels, with employees showing a preference for job security;
 - c) extremely low level of inflation;
 - d) slowing economic growth and a decline in state final demand; and
 - e) low levels of consumer and business confidence.
- 2.2 Therefore, we believe that in the current climate there needs to be a clear focus on protecting and enhancing employment opportunities for WA workers.
- 2.3 In our submission to the Fair Work Commission's (**FWC**) annual wage review CCI has advocated for a \$7.90 per week increase, which would result in the National Minimum Wage (**NMW**) increasing from \$656.90 per week to \$664.80 per week. An increase of this nature would result in the gap between the State Minimum Wage (**SMW**) and the NMW decreasing from \$24 per week to \$15.10 per week.
- 2.4 CCI believes that a NMW of \$664.80 per week strikes the right balance in establishing a fair minimum wage for low paid employees, minimises the potential for negative impacts on employment, and is sustainable for most employers.
- 2.5 We also believe that there is no longer any justification for maintaining a higher SMW given the substantial decline in the State's fortunes from leading the national economy, to now falling below the national average in key areas.

- 2.6 CCI is therefore advocating for a substantial reduction in the gap between the State and the Federal minimum wage.
- 2.7 We believe that this is best achieved through maintenance of the SMW and corresponding award rates of pay at their current levels. In the alternative, we would encourage the Commission in Court Session to grant a conservative increase that sits below both the current level of inflation and any increase granted by the FWC to the NMW.

3. Who is effected by the State Wage Case

- 3.1 The vast majority of WA employees are covered by the National industrial relations system, with a significantly smaller proportion covered by the State system.
- 3.2 Whilst there is significant disagreement as to the number of employees covered by the State system (ranging between 11% and 23.8%),¹ it is clear that the majority of WA's private sector employees are covered by the National system.
- 3.3 In previous submissions the Minister has identified that the main industries covered by the State system² are:
- a) rental, hiring and real estate services;
 - b) other services;
 - c) accommodation and food services;
 - d) administration and support services; and
 - e) retail trade.
- 3.4 CCI believes that it is employers within the retail industry and the accommodation and food services industry that are most likely to pay their staff award rates of pay.
- 3.5 It has also been commonly accepted by the parties that private sector employers in the WA system are likely to be small businesses.³

¹ 2012 State Wage Order [2012 WAIRC 00346] at paragraph 45.

² Submission of the Minister for Commerce RE: 2012 State Wage Order, Attachment B, page 7.

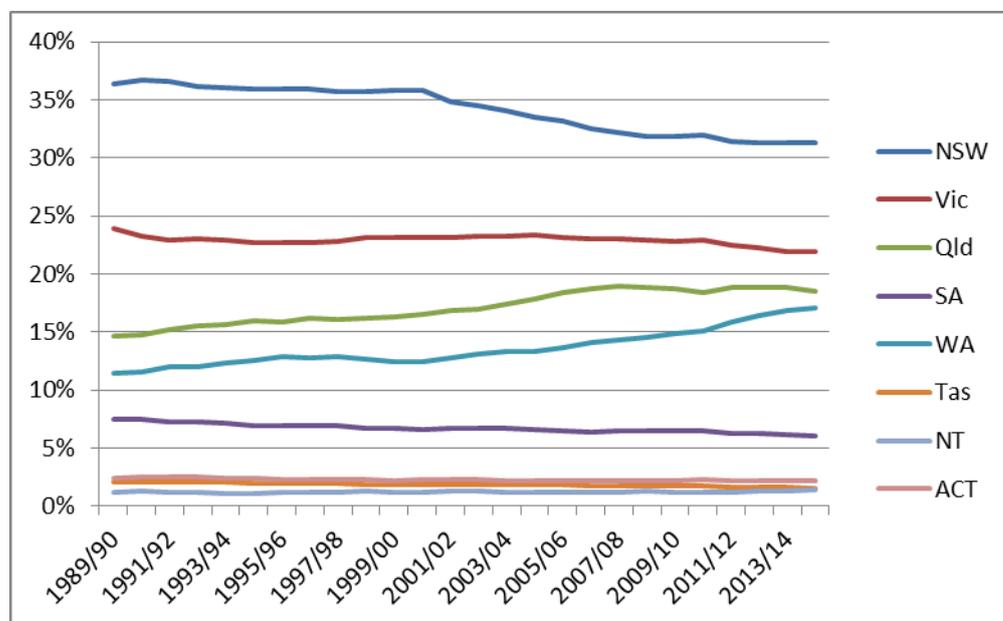
³ 2010 State Wage Order [2010 WAIRC 00337], at paragraph 29.

4. State of the Economy

The slowing economy

- 4.1 The recent resources boom, fuelled by high commodity prices and exceptional levels of mining investment, has allowed the WA economy to grow at accelerated levels and helped maintain Australia's economic performance at a time when other counties were facing the significant effects of the global financial crisis.
- 4.2 As shown on the graph below, WA's contribution to Australia's economic growth has increased from 12 per cent in 1992/93 to 17 per cent in 2014/15. Over the same period, New South Wales's (**NSW**) contribution has fallen from 36 per cent to 31 per cent and Victoria's (**Vic**) has fallen from 24 per cent to 22 per cent. Queensland (**Qld**) is the only other state that has increased its contribution to the national economy, with the resources sector being a key driver of growth.

Graph 1 - State Contribution to Australian Economic Growth⁴

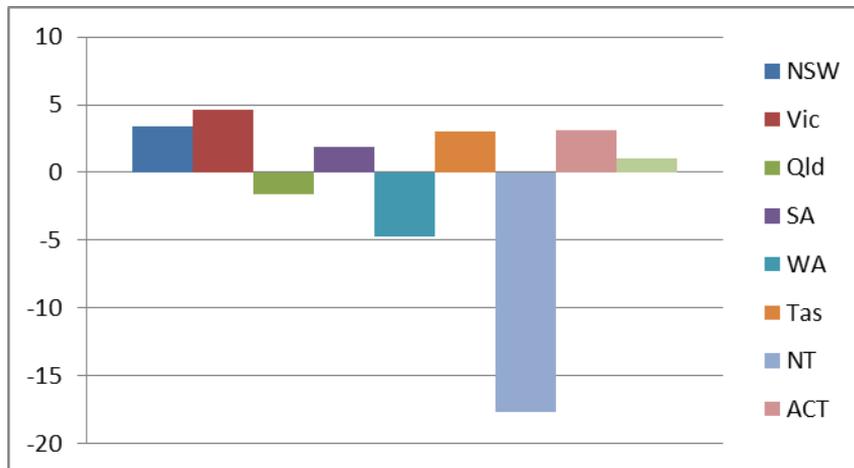


- 4.3 However, after years of rapid growth, the WA economy is now transitioning from business investment led growth to export driven growth, as major resource projects complete construction and move into the operational phase.
- 4.4 Over 2014-15 the value of business investment in WA decreased by 12.3 per cent, with CCI forecasting business investment to continue to decline by 10.9 per cent over 2015-16 and 7 per cent in 2016-17.
- 4.5 The slowing economic growth in WA and QLD has had a direct impact on the overall growth of the Australian economy, which has fallen from 3.63 per cent in the 2011/12 period to 2.26 per cent in 2014/15 period. This is despite growth in both the NSW and Vic economies.
- 4.6 At the national level this has been recognised as an issue of some concern. However, its effect is most acutely felt within the WA community.

⁴ Australian Bureau of Statistics (2015) [Australian National Accounts: State Accounts, 2014-15. Cat # 5220.0](#)

- 4.7 Over the year to the December quarter 2015 the state final demand for WA fell by 4.75 per cent, with the other resource intensive economies QLD and the Northern Territory (NT) also experiencing a decline in final demand.

Graph 2 – State and Domestic Final Demand⁵



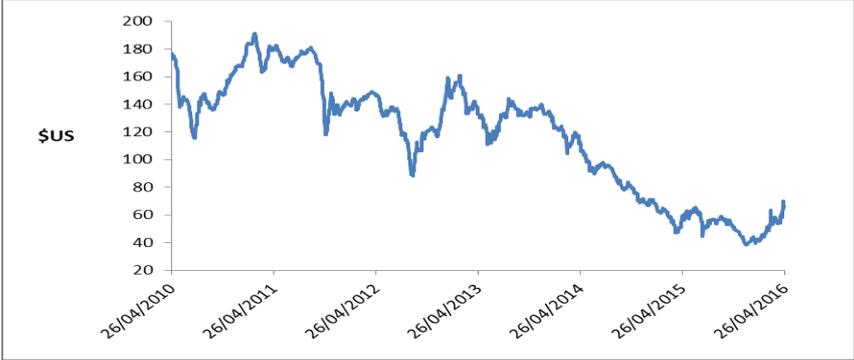
- 4.8 In comparison, national domestic final demand grew by 1.06 per cent, with state final demand for Vic growing by 4.59 per cent and NSW growing by 3.39 per cent.
- 4.9 This is in sharp contrast to the record high growth in WA's state final demand only a few years ago, which grew by 17.52 per cent in the year to June 2012 and helped national final demand grow by 5.61 per cent over the same period.
- 4.10 Growth in the WA economy is expected to remain below the national average. CCI forecasts that the WA economy will experience modest growth of 2.1 per cent in 2015/16, which is below the Bloomberg consensus forecast of 2.5 per cent growth for the national economy. For WA this is a significant decline in the level of economic growth experienced during the boom, whereby in 2011/12 the WA economy grew by 9.05 per cent.
- 4.11 The declining fortunes of the WA economy is highlighted by Comsec's *State of the States* report⁶ which has seen WA's ranking in comparison to the other states and territories slip to sixth spot, sitting just above South Australia and Tasmania, which both share seventh spot. The report claims that little separates the bottom three economies. By comparison, in October 2014 this report rated WA as the leading state economy.
- 4.12 The slowdown in the Chinese economy is a significant contributor to WA's changing economic fortunes, with trade to China making up 53.2 per cent of WA's total exports. Growth in China has slowed from 10.6 per cent in the year to December 2010 to 6.9 per cent in the year to December 2015, with the Bloomberg consensus forecast expecting it to further decline to 6.5 per cent in the year to December 2016.

⁵ Australian Bureau of Statistics (2015) [Australian National Accounts: National Income, Expenditure and Product, December 2015. Cat # 5206.0](#)

⁶ Comsec (April 2016) [State of the States; April 2016 State and Territory performance report.](#)

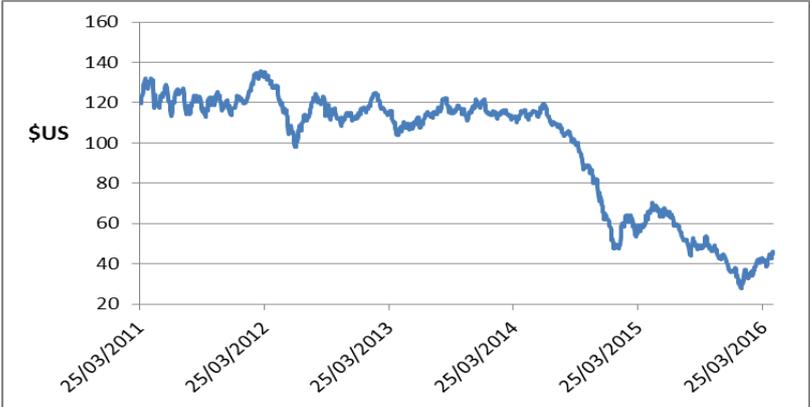
- 4.13 The WA economy has also been affected by the ongoing decline in key commodities prices.
- 4.14 As a result of a global increase in the production of iron ore and decreased demand for steel in China, the average monthly spot price of iron ore has fallen dramatically, as shown in the graph below.

Graph 3 - Iron Ore Spot Reference Price
Price Delivered to Qingdao, \$US per tonne



- 4.15 From highs of \$190 per tonne in February 2011⁷, prices fell as low as \$39 per tonne at the beginning of the year.⁸ The Bloomberg consensus forecast predicts that iron ore prices will average \$45 per tonne during 2016 and 2017, with BHP’s vice president of iron ore marketing, Alan Chirgwin, forecasting that prices will extend their decline for several years before finding a level well below \$US50 per tonne, which is the highest breakeven of a top miner.⁹
- 4.16 Oil prices have also seen a sharp decline, falling from the monthly average spot price of \$US116 per barrel in June 2014 to around \$US41 per barrel in March 2016. This decline is mainly due to increased shale production by the United States, who have doubled their production in crude oil over the last decade, whilst the Organisation of the Petroleum Exporting Countries (**OPEC**) have responded by increasing supply in an aim to retain market share. Global demand for oil has also waned, due to slower than expected economic growth in China.

Graph 4 - Asia-Pacific Tapis Crude Reference Price
Pegged to Brent Crude Oil, USD/barrel



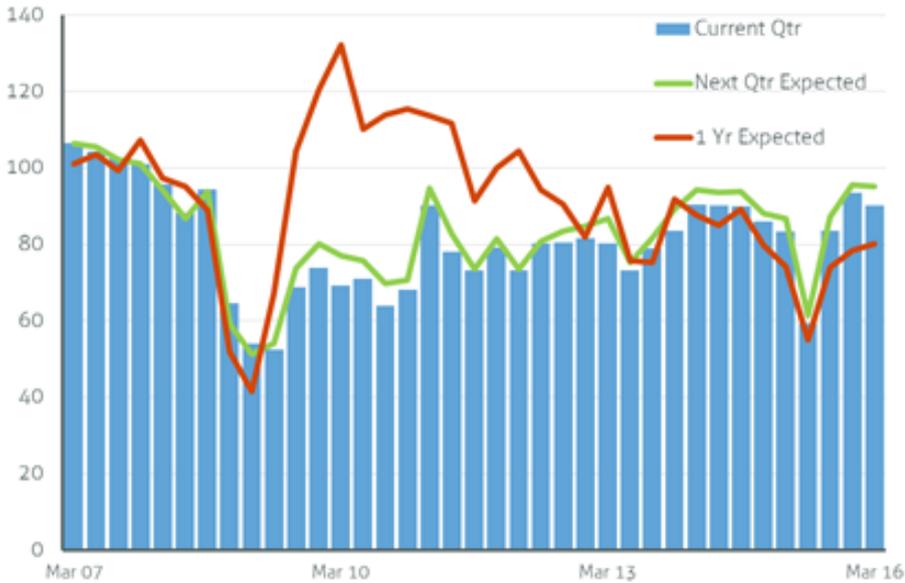
⁷ Iron Ore Spot Reference Price, 16 February 2011.
⁸ Iron Ore Spot Reference Price, 13 January 2016.
⁹ Chamber of Commerce and Industry of WA (2015) *Outlook – December 2015*, page 12.

4.17 Therefore, whilst the resources industry will continue to play a significant part in the WA economy, the current challenges facing the sector have had a significant impact across the whole of the WA economy, including those businesses and employees not directly connected to the resources industry.

Business Expectations

4.18 CCI’s Business Expectation survey has found that short-term business confidence has fallen slightly in the March quarter of 2016, following consecutive increases in the second half of 2015, as shown in the graph below:

Graph 5 – WA Economic Conditions¹⁰
Index 100 = Neutral



4.19 The survey also found that the percentage of WA businesses reporting that economic conditions worsened during the March quarter increased to 56 per cent, up from 47 per cent last quarter. Similarly, the percentage of businesses expecting conditions to soften next quarter was 52 per cent, up from 47 per cent last quarter.

4.20 About two thirds of businesses still expect the State’s economy to soften over the coming year, which is unchanged from last quarter. Despite being largely unchanged, some eight per cent of respondents expect conditions to improve in 2017, up from five per cent last quarter.

4.21 While more businesses seem to be optimistic about the State’s medium-term economic future, the survey results show operating conditions have remained steady in the March quarter, at just below neutral. Around 53 per cent of businesses indicated the environment was ‘poor’, up from 42 per cent last quarter. This is compared to seven per cent of respondents who thought the current trading environment was ‘good’, down from 15 per cent last quarter.

¹⁰ Chamber of Commerce and Industry of WA (May 2016) [Business Expectation Survey](#), page 2.

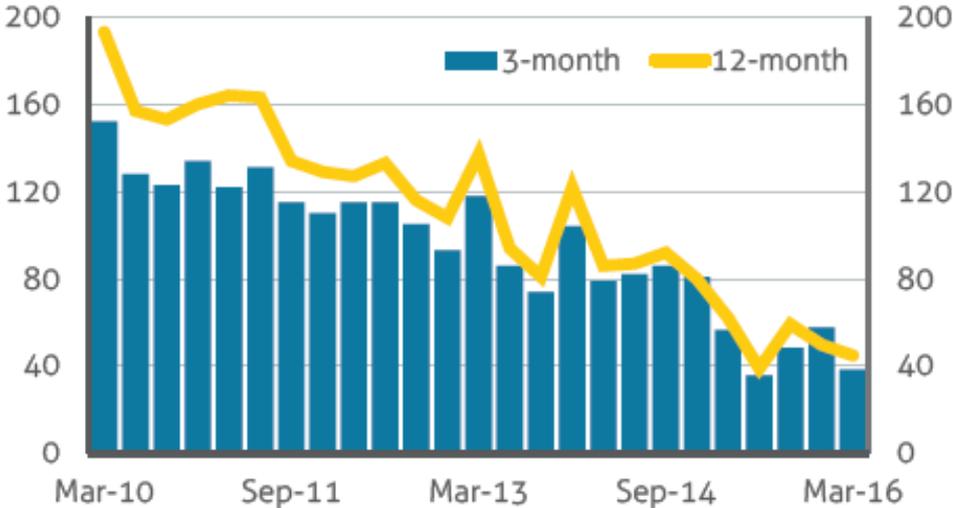
4.22 The survey also identified that:

- a) trading conditions remained steady in the first quarter of 2016. Large businesses (60 per cent) were more satisfied with their trading conditions than small (22 per cent) and medium businesses (52 per cent);
- b) export activities continued to increase in the March quarter, with the exports index reaching neutral in 2016, for the first time since June 2011. Some 13 per cent of large businesses reported an increase in export sales in the March quarter, compared with seven per cent for medium sized businesses and six per cent for small businesses;
- c) the turnover index decreased in the March quarter, with only seven per cent of businesses indicating that they made more sales than the previous quarter. The remainder of respondents recorded lower sales (55 per cent) or 'no change' (38 per cent). Around ten per cent of medium-sized businesses reported increased sales during the quarter, compared to only three per cent of small businesses. However, large businesses reported no increase in sales turnover;
- d) the profitability index decreased slightly in the March quarter, with 57 per cent of businesses reporting lower profit compared to the last quarter. This is compared to 14 per cent of businesses expecting an increase of profit in the next quarter.

4.23 The above highlights the increased challenges faced by small businesses.

4.24 Consumers are also concerned about the State’s economic outlook. As shown in the graph below, after improving for the two previous quarters, short-term confidence declined in the March quarter. Just under half of consumers expect the WA economy to remain relatively unchanged in the short-term, whilst only five per cent of respondents are optimistic about the short-term outlook.

Graph 6 – WA Economic Conditions¹¹
 3 month and 12 month expected
 Index, 100 = Neutral



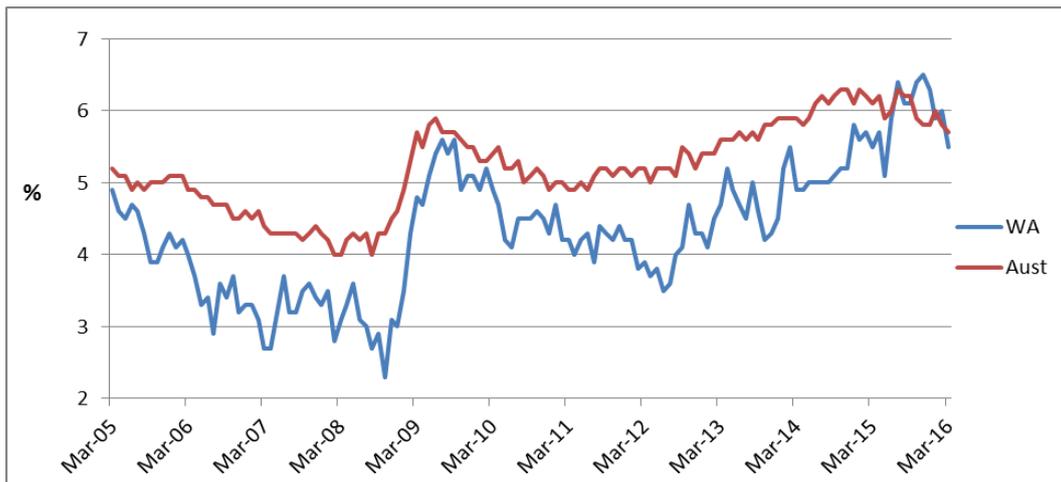
4.25 Over the next 12 months, just over 50 per cent of consumers expect the medium-term outlook to worsen and just under a third of respondents expect the medium-term outlook to remain stable.

¹¹ Chamber of Commerce and Industry of WA (March 2016) [WA Super - CCI Survey of Consumer Confidence](#), page 3.

Employment

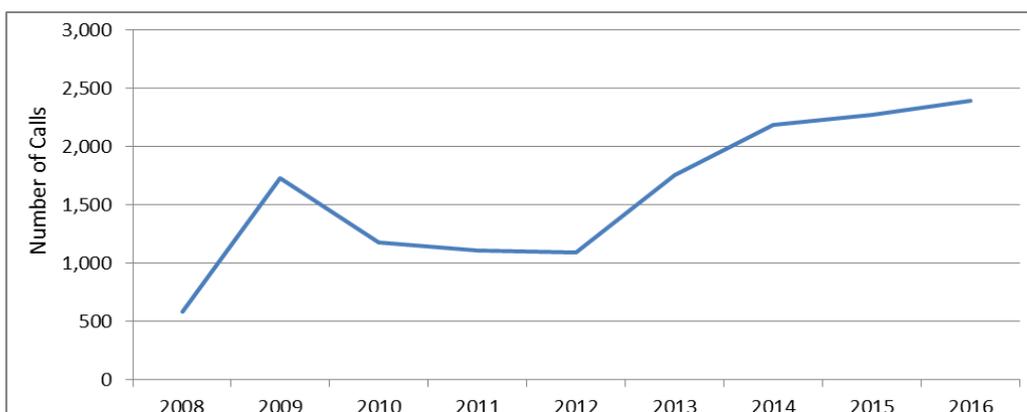
- 4.26 Unemployment in WA has continued to trend upwards, with seasonally adjusted unemployment currently standing at 5.5 per cent as at March 2016, having reached 6.5 per cent in November 2015.
- 4.27 For the majority of the last 12 months, WA's unemployment rate has been higher than the national average. As shown in the graph below.

Graph 7 – Unemployment¹²
Seasonally Adjusted



- 4.28 The increase in unemployment levels is reflective of the pressure placed on WA businesses to reduce the number of staff. Queries regarding redundancies to CCI's Employee Relations Advice Centre have continued to increase for the fourth consecutive year (as shown below). In the last 12 months CCI has received 2,395 calls from members regarding redundancies, representing 8.1 per cent of all calls to our Employee Relations Advice Centre.

Graph 8 – Total Annual Employee Relations Advice Centre Redundancy Enquiries¹³
Period 1 June 2007 to 10 May 2016



¹² Australian Bureau of Statistics.(March 2016) [Labour Force, Australia](#) Cat # 6202.0.

¹³ Statistics may include multiple calls from a single employer on the same issue.

- 4.29 The softness of the WA labour market is also reflected in the level of employment growth.
- 4.30 Nationally, employment grew by 2.03 per cent in the year to March 2016, which represented a 1.01 per cent increase in full time jobs and a 4.31 per cent increase in part time jobs. In WA, employment increased by only 0.3 per cent in the year to March 2016, with a 4.31 per cent increase in part time jobs occurring at the expense of a 2.7 per cent loss of full time jobs.¹⁴
- 4.31 WA is therefore experiencing a decline in the number of full time jobs, which are being replaced by part time and casual roles.
- 4.32 This is most noticeable for two key industries covered by the State's industrial relations system. In WA's retail industry the number of jobs increased by 11.57 per cent in the 12 months to March 2016. However, this increase was due to growth in part time jobs, with full time employment falling by 2.97 per cent. Within the accommodation and food services industries, the number of WA jobs increased by just 0.33 per cent with full time jobs falling by 11.79 per cent.¹⁵
- 4.33 These figures indicate emerging levels of underemployment.
- 4.34 Nationally the seasonally adjusted monthly hours worked in all jobs increased by a modest 0.67 per cent in the twelve month to March 2016. In the case of WA the total monthly hours worked fell by 1.61 per cent over the same period. WA workers are therefore working less hours than this time last year.¹⁶
- 4.35 Industry profile reports released by FWC show that nationally the average hours worked for part time employees in the retail industry is 16.7 hours per week and 16.1 hours within the accommodation and food services industry. These are below the average of 17.6 hours across all industries.¹⁷
- 4.36 These reports also identified that 53.7 per cent of award reliant employees in the accommodation and food services industry would prefer to work more hours per week, as do 41 per cent of award reliant retail employees.¹⁸
- 4.37 Consequently, the decline in full time jobs and growth in part time employment is reflective of the state of the economy, rather than a shift in employee preference for part time work.

¹⁴ Australian Bureau of Statistics.(March 2016) [Labour Force, Australia](#) Cat # 6202.0.

¹⁵ Australian Bureau of Statistics.(March 2016) [Labour Force, Australia](#) Cat # 6202.0.

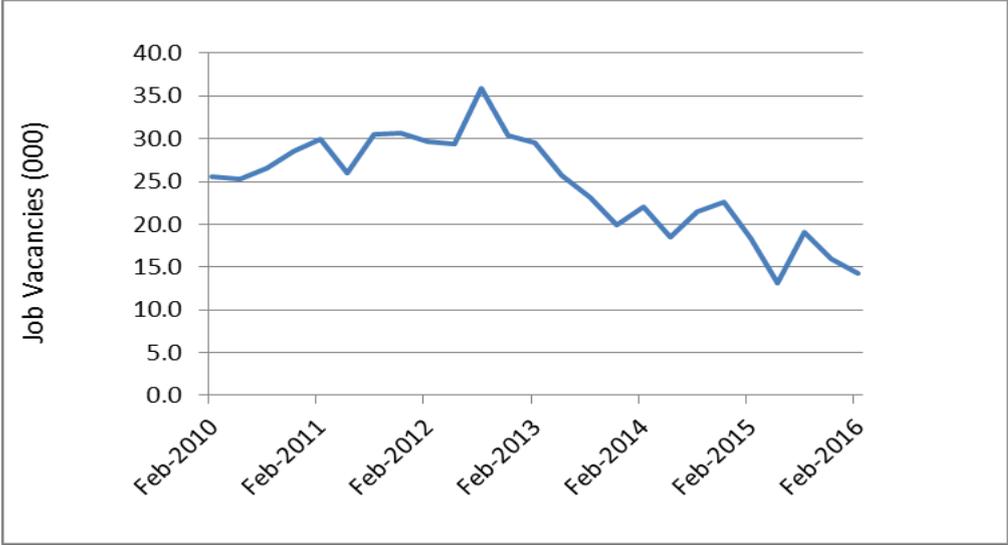
¹⁶ Australian Bureau of Statistics.(March 2016) [Labour Force, Australia](#) Cat # 6202.0.

¹⁷ Fair Work Commission, (2016) [Industry Profile – Retail trade](#), Table 5.3,p39 and Fair Work Commission (2016) [Industry Profile – Accommodation and food services](#), Table 5.3, page 28.

¹⁸ Fair Work Commission, (2016) [Industry Profile – Retail trade](#), Table 7.8, p50 and Fair Work Commission (2016) [Industry Profile – Accommodation and food services](#), Table 7.8, page 61.

4.38 For the full time workers whose jobs have been displaced, competition for new positions is high with WA private sector job vacancies in substantial decline since August 2012, as can be seen in the graph below. In the last 12 months, job vacancies have fallen by 21.8% from 18,300 job vacancies in February 2015 to 14,300 in February 2016.

Graph 9 –Job Vacancies (Western Australia)¹⁹
Private sector original data



4.39 In comparison, the number of job vacancies nationally has been steadily increasing, as shown below.

Graph 10 –Job Vacancies (Australia)²⁰
Private sector original data

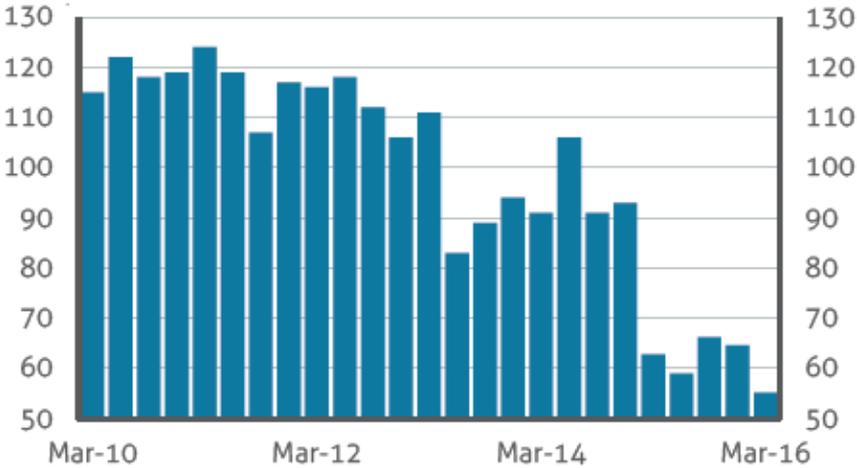


¹⁹ Australian Bureau of Statistics. (Feb 2016) [Job Vacancies, Australia](#) Cat # 6354.0.

²⁰ Australian Bureau of Statistics. (Feb 2016) [Job Vacancies, Australia](#) Cat # 6354.0.

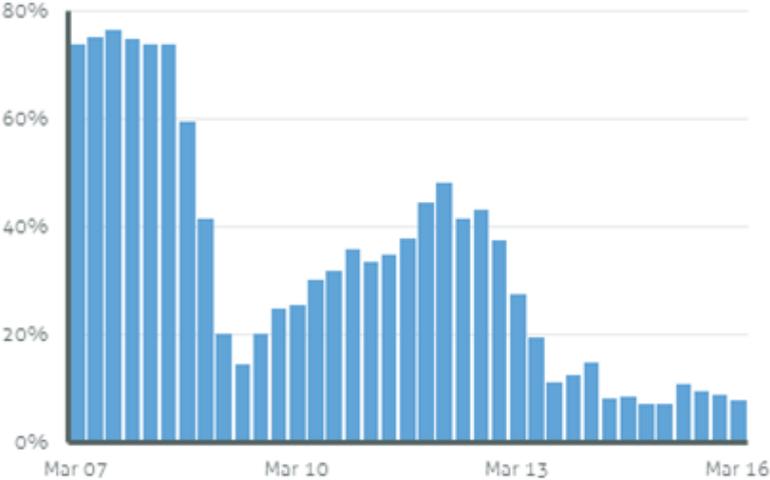
4.40 The nature of the labour market is reflected in the views of consumers. The *WA Super – CCIWA Survey of Consumer Confidence*²¹ shows that people are pessimistic about their job prospects, with 30 per cent of respondents indicating their job prospects were worse compared to a year ago and just over 50 per cent reporting they were unchanged. However as can be seen in the above graph, these views are operating from a low base indicating that overall consumers view their job prospects as poor.

Graph 11 – Job Prospects²²
Compared to a year earlier
Index, 100 = Neutral



4.41 CCI’s Business Expectations survey further reinforces the difficulty faced by job seekers in obtaining employment with less than eight per cent of businesses reporting labour to be scarce, as shown in the graph below.

Graph 12 – Labour Scarcity²³
Percentage of respondents indicating labour as scarce



4.42 The effect of this trend is more people applying for fewer jobs.

²¹ Chamber of Commerce and Industry of WA (March 2016) [WA Super - CCI Survey of Consumer Confidence](#).

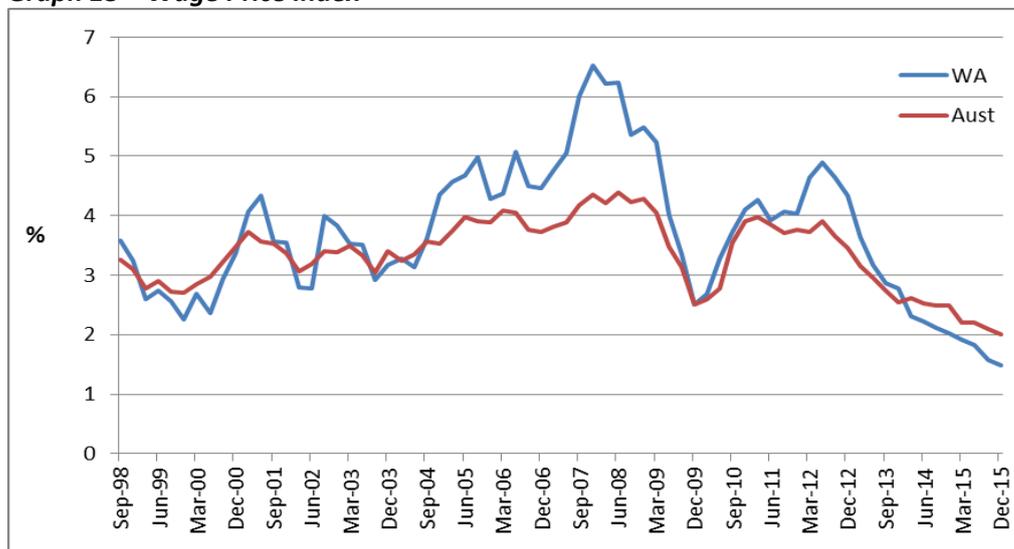
²² Chamber of Commerce and Industry of WA (March 2016) [WA Super - CCI Survey of Consumer Confidence](#), page 3.

²³ Chamber of Commerce and Industry of WA (May 2016) [Business Expectation Survey](#), page 2.

Wage Growth

- 4.43 The need to protect jobs has been recognised within the market through significantly lower levels of wage growth as both employees and employers adjust to the new economic realities.
- 4.44 Private sector wage growth, as measured by the wage price index, has continued a steady decline during 2015, with the national annual growth sitting at 2.0 per cent as at December 2015.
- 4.45 In the case of WA, wage growth has been on a much sharper decline, with annual private sector growth now sitting at an all-time low of 1.48 per cent as at December 2015. This is the lowest level of wage growth in WA since the wage price index commenced in 1998 and is a substantial drop from the peak of 6.52 per cent recorded in December 2007.
- 4.46 Private sector wage growth in WA has been consistently below the national average since December 2013, as seen in the following graph.

Graph 13 – Wage Price Index²⁴



- 4.47 The decline in the State's wage growth is reflective of the correction that is currently occurring within the WA economy.
- 4.48 The significant slowdown in wage growth is a response to the cost pressures applicable within large sections of the business community, with both employers and employees initiating strategies aimed at protecting jobs. Frequently these strategies involve freezing wages at current levels, reducing working hours, and in some circumstances negotiated reductions in overall benefits. It is the experience of CCI that the sharp decline in the state of the economy has resulted in an increase in the number of applications being made to the FWC to vary enterprise agreements to defer or reduce wage increases. This experience is reflected in the findings of the Productivity Commission, which stated *"as the mining boom has abated, so have wages in the mining and construction industries. Indeed, in the latter case, a key union in Western Australia has suggested that it may accept a new enterprise agreement that reduces some wages by around 20 per cent."*²⁵

²⁴ Australian Bureau of Statistics. (Dec 2015) [Wage Price Index, Australia](#) Cat # 6345.0

²⁵ Productivity Commission (2015) [Workplace Relations Framework - Inquiry report](#). Vol 1, page 130.

4.49 The increased unemployment rate has also meant that competition for job vacancies is also higher, and consequently wage expectations are now substantially lower than what they have been previously. This has resulted in a significant reduction in market rates with the incoming salary of many new employees below that received by their predecessors.

Inflation

4.50 As wage growth has declined, so too has inflation.

4.51 As measured by the Consumer Price Index (CPI), the national headline inflation rate fell from 1.7 per cent year on year in the December quarter to 1.3 per cent year on year in the March quarter of 2016.

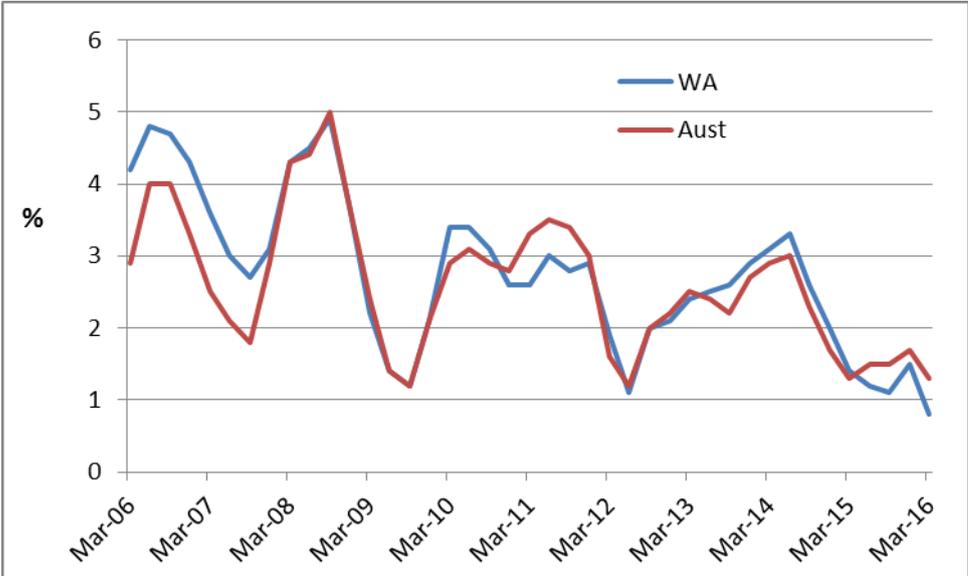
4.52 Prices growth in Perth fell to 0.8 per cent in March year on year, down from 1.5 per cent year on year during the December quarter. Perth’s CPI growth now stands at its lowest annual rate since June 1998, when it reached 0.6 per cent.

4.53 The main drivers of the low levels of inflation for Perth were as a result of:

- a) clothing and footwear, falling 2.7 per cent;
- b) transport, falling 0.6 per cent, largely due to a 6.7 per cent decline in automotive fuel;
- c) communication products, falling 6.5 per cent; and
- d) housing, declining 0.7 per cent driven by falling rents, down 4.4 per cent.

4.54 As can be seen in the graph below, Perth CPI has now been trending below the national average since June 2015.

Graph 14– Consumer Price Index²⁶



²⁶ Australian Bureau of Statistics. (Mar 2016) [Consumer Price Index, Australia](#), Cat # 6401.0.

4.55 As can be seen in the following table, in the quarter to March 2016 prices in Perth have overall fallen by 0.6 per cent, second only to Darwin in which prices fell by 0.9 per cent in the quarter.

Table 1 – Consumer Price Index

All Groups CPI, All groups index numbers and percentage changes

	<i>Index number(a)</i>	<i>Percentage change</i>	
	Mar Qtr 2016	Dec Qtr 2015 to Mar Qtr 2016	Mar Qtr 2015 to Mar Qtr 2016
Sydney	108.7	-0.2	1.3
Melbourne	108.2	-0.1	1.7
Brisbane	108.5	0.0	1.7
Adelaide	107.0	-0.3	0.7
Perth	107.9	-0.6	0.7
Hobart	106.4	-0.2	1.3
Darwin	108.0	-0.9	-0.3
Canberra	106.2	0.2	1.0
Weighted average of eight capital cities	108.2	-0.2	1.3

(a) Index reference period: 2011-12 = 100.0.

4.56 Notably, both the Perth and national levels of inflation sit uncomfortably below the Reserve Bank of Australia’s target range of 2-3 per cent. This has resulted in the Reserve Bank reducing the official interest rate by 25 basis points to 1.75 per cent, identifying that “inflation has been quite low for some time and recent data were unexpectedly low”.²⁷

5. Capacity of employers to increase wages

5.1 *“Faced with higher wages for lower skilled workers, businesses have an incentive to reduce employment of such workers, and/or to invest in labour displacing capital, hire (or make more intensive use of existing) higher skilled workers, and seek to pass on costs.”²⁸*

5.2 It is clear that the majority of these strategies negatively impact on the employment prospects of low paid workers, and whilst some will argue that passing on the increased costs to consumers should be the preferred option for businesses, the Productivity Commission warns that *“price rises prompt a shift in demand away from domestically produced labour intensive goods and services”²⁹*, further impacting upon employment.

5.3 The impact of increased employment costs on the demand for labour is reflected in research undertaken by the Fair Work Commission, which showed that in managing changes to labour costs, 72.7 per cent of award reliant retailers and 85.1 per cent of award reliant hospitality employers would implement strategies to manage or reduce the wage bill as a short term measure. The most commonly cited means for achieving this are:

²⁷ Reserve Bank of Australia (2016) [Statement by Glenn Stevens, Governor: Monetary Policy Decision](#). 3 May 2016.

²⁸ Productivity Commission (2015) [Workplace Relations Framework - Inquiry report](#). Vol 1, page 185.

²⁹ Productivity Commission (2015) [Workplace Relations Framework - Inquiry report](#). Vol 1, page 185.

- a. reducing the hours of casual staff in the case of 76.4 per cent of retailers and 84.7 per cent of hospitality employers;
- b. reducing the number or length of shifts in the case of 59.8 per cent of retailers and 71.9 per cent of hospitality employers;
- c. increasing the number of hours worked by the owners of the business in the case of 68.2 per cent of retailers and 77.5 per cent of hospitality employers;
- d. increasing the number of hours worked by family members or volunteers in the case of 38.2 per cent of retailers and 47.2 per cent of hospitality employers; and
- e. reducing the number of employees through natural attrition in the case of 67.4 per cent of retailers and 65.8 per cent of hospitality employers.³⁰

5.4 These strategies have a negative impact upon both businesses and employees.

5.5 The impact of wage increases on employment has also been recognised by the House of Representatives' Standing Committee on Education and Employment, which in its report into the barriers for small business employment identified that:

“the cost of labour in general can potentially inhibit small business employment. The higher the cost of the employee, the less likely a small business will be able to afford to employ.”³¹

5.6 The aforementioned Committee also identified that there is an “*overarching need for a business to successfully manage wage and other costs is critical to business success*” and recognised the views expressed by CCI that “*in the case of retail, hospitality and other service based industries, wages is one of the most significant costs.*”³²

5.7 The ability for a small employer to meet the cost of doing business is a key determinant in its survival. The RBA indicates a key reason for small business failure is inability to cope with costs and an increase in debt. A small business is twice as likely to default on their credit or loans compared to a medium or large enterprise. The RBA also indicates that small business makes up 90 per cent of businesses that go into administration.³³

5.8 This is reflected in the survival rate of businesses over a four year period. Of the businesses which were operating in June 2011, only 68 per cent of small businesses with between 1-4 employees were still in business in June 2015, which is substantially lower than the 77 per cent survival rate for businesses with 5-19 employees, approximately 82 per cent rate for businesses employing between 20 -199 employees and 83 per cent for those businesses with more than 200 employees³⁴.

³⁰ Fair Work Commission, (2016) [Industry Profile – Retail trade](#), pp58-59 and Fair Work Commission (2016) [Industry Profile – Accommodation and food services](#), pp 47-48.

³¹ The Parliament of the Commonwealth of Australia (2016) [Getting business booming: report on the inquiry into barriers for small business employment](#), page 79.

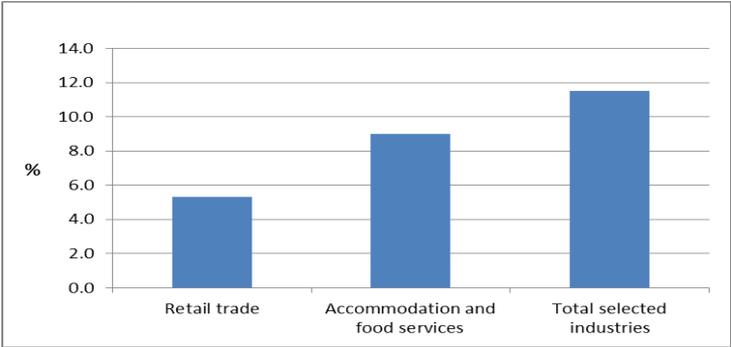
³² The Parliament of the Commonwealth of Australia (2016) [Getting business booming: report on the inquiry into barriers for small business employment](#), page 79.

³³ Reserve Bank of Australia. 2013. [Small Business Finance Roundtable](#). May 2012. page 29.

³⁴ Australian Bureau of Statistics (2016) [Counts of Australian Businesses, including Entries and Exits, Jun 2011 to Jun 2015](#) Cat # 81650.

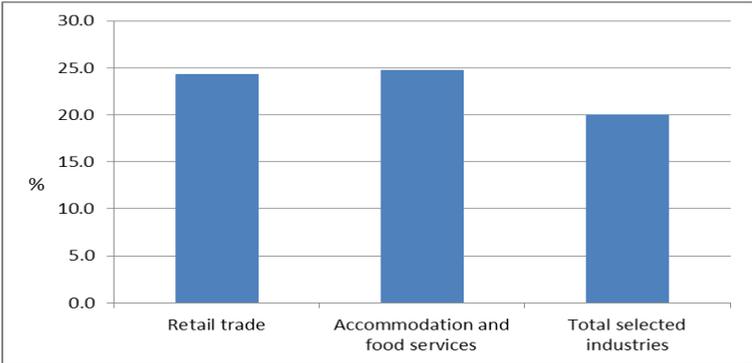
- 5.9 Clearly small businesses are in a more precarious position than their larger counterparts. When considering businesses survival over the same period, the higher exit rate was also reflected in the type of legal structure, with the survival rate of sole traders at 50.4 per cent.
- 5.10 These findings are reinforced by the FWC’s research that has found that across most of the retail and hospitality industry, business survival rates are significantly lower than the average for all industries.³⁵
- 5.11 Retail and hospitality employers are also faced with lower profit margins. For 2013-14 the average profit margin across total selected industries was 11.5 per cent, compared to 5.3 per cent for the retail industry and 9.0 per cent in accommodation and food services, as shown below.

Graph 15 – 2013-14 Australian Industry³⁶
Profit Margin by Industry



- 5.12 The impact of low profit margins are also compounded by the significantly higher proportion of businesses which make a loss, with 24.3 per cent of retailers and 24.7 per cent of accommodation and food services employers making a loss, compared to the total selected industry average of 20 per cent.

Graph 16 – 2013-14 Australian Industry³⁷
Percentage of businesses which made a loss



³⁵ Fair Work Commission, (2016) [Industry Profile – Retail trade](#), page 19 and Fair Work Commission (2016) [Industry Profile – Accommodation and food services](#), page 24.

³⁶ Australian Bureau of Statistics (2015) [Australian Industry, 2013-14](#) Cat #8155.0.

³⁷ Australian Bureau of Statistics (2015) [Australian Industry, 2013-14](#) Cat #8155.0.

- 5.13 These statistics highlight the increased vulnerability of small business when compared against already challenging economic circumstances facing the WA business community.
- 5.14 For the mainly small businesses covered by the State industrial relations system, their capacity to afford an increase to wages is compounded by the higher award rates of pay they are generally required to pay, compared to the often larger national system counterparts. This raises a significant issue regarding the fairness of the system, both in terms of employers who are faced with an uneven playing field and employees whose job opportunities are constrained by higher employment costs.

6. Equal Remuneration

- 6.1 CCI recognises the need for positive action to address the high gender pay gap and we have played an active role in attempting to address this issue, as have the other parties to these proceedings.
- 6.2 For its part, the Department of Commerce has identified a number of key factors contributing to the gender pay gap in Western Australia including: lack of supportive working arrangements; sex segregation of the labour market; and an over-representation of women in casual or non-career part time employment.³⁸
- 6.3 CCI agrees with the Department of Commerce's approach of tackling the issue of gender equity by addressing the practical challenges.
- 6.4 We believe that the correlation between an increase in the minimum wage and a decrease in the gender pay gap is arbitrary at best, with no connection between a minimum wage increase and a positive impact on the gender pay gap.
- 6.5 The Productivity Commission has identified that *"some economists have further suggested that, contrary to popular perceptions, increases in the minimum wage in fact have the potential to detract from equity."*³⁹ This can be best explained through the flow on effect of award increases.
- 6.6 When surveyed, 49.4 per cent of large businesses, 46.9 per cent of medium sized businesses and 27.6 per cent of small businesses identified that they passed on the minimum wage increase to employees on above award conditions. When asked, businesses responded that the predominant reason (in 38.8 per cent of cases) was to maintain the difference between award-reliant employee wages and those employees who earned above award wages.⁴⁰
- 6.7 In the situation described above, a dollar increase results in no improvement to the gap in pay between minimum wage employees and those on above-award remuneration. However, when a minimum wage increase is set as a percentage increase and applied in the above context, the impact is compounded and has the potential to increase the gender pay gap.

³⁸ Government of Western Australia, Department of Commerce. "Key facts about pay equity", available from: <https://www.commerce.wa.gov.au/labour-relations/key-facts-about-pay-equity>.

³⁹ Productivity Commission (2015) *Workplace Relations Framework - Inquiry report*. Vol 1, p223

⁴⁰ Fair Work Commission (2015) *Research Report 1/2015: Award reliance and business size: a data profile using the Australian Workplace Relations Study* p.38

- 6.8 As stated above, a key causal factor of the gender pay gap is the lack of meaningful progression and career development.
- 6.9 The OECD has concluded that the use of training and education helps decrease income inequality more effectively than raising the minimum wage.⁴¹
- 6.10 Consequently, to the extent that the minimum wage has an impact upon this issue, we believe that the objective of providing equal remuneration is best achieved by ensuring that the minimum wage structure limits the barriers to employers providing apprenticeship and traineeship options.

7. Encouraging skill development

- 7.1 Minimum wages, while acting as a safety net, also have the negative impact of *“suppressing employer-provided training opportunities for low paid workers when such training could be provided by the employee receiving wages below the value of their marginal productivity.”*⁴²
- 7.2 In the current economic climate many employers are hesitant to invest in training and development of staff, which is reflective of the increased cost associated with providing skill development beyond simply the employee’s wages. This is further compounded by the oversupply of experienced workers within the labour market as demonstrated in paragraphs 4.26 to 4.42.
- 7.3 However, skill development is essential in allowing employees to progress into higher paying and more meaningful employment. The cost of employing an apprentice and trainee is one of the barriers to employers offering these opportunities and as such we submit that careful consideration needs to be given in ensuring that apprentice and trainee wages remain competitive.

⁴¹ Hoeller, P, Joumard, I, & Koske, I, (2014), *‘Reducing income inequality while boosting economic growth: can it be done? evidence from OECD countries’*. The Singapore Economic Review, 59(1).

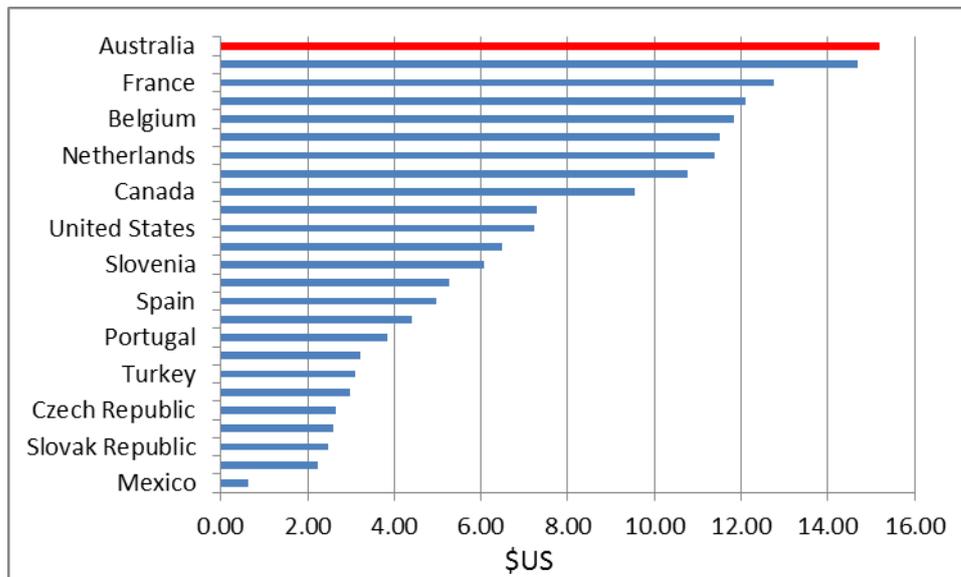
⁴² Dockery, A, Seymour, R and Ong, R. (2010). *“Life on the Minimum Wage in Australia: An Empirical Investigation”*, Australian Journal of Labour Economics, 13(1), page 3.

8. Meeting the needs of the low paid

Fair system of Wages

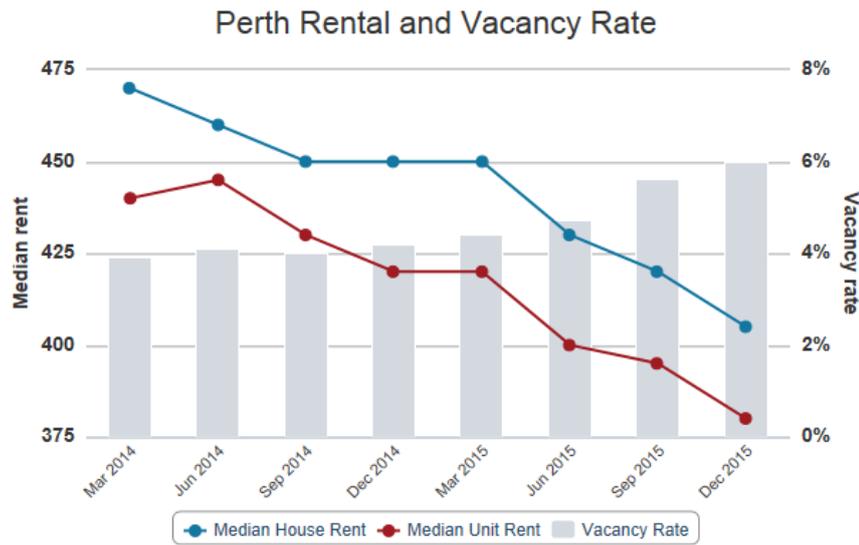
8.1 As shown in the graph below, Australia has the highest minimum wage compared to any other Organisation for Economic Co-operation and Development (OECD) member country.

Graph 17 - Comparison of minimum hourly rates of pay for 2015 (\$US)



- 8.2 For employees covered by the state industrial relations system, their position relative to employees in other OECD countries is further improved through the higher SMW.
- 8.3 From this perspective there is little question that both the NMW and SMW provide a comparatively fair minimum. This position is further improved upon by the underpinning systems of awards, which establish higher rates of pay for base level classifications, along with additional penalties and allowances that further increases employees' take home pay.
- 8.4 The effect of a high minimum wage also needs to be considered in light of the current record low levels of inflation. As identified at paragraph 4.53, Perth inflation fell to 0.8 per cent in year to March 2016, largely as a result of a decline in rental prices and automotive fuel.
- 8.5 The cost of housing in Perth has previously featured significantly in the argument for a higher minimum wage.
- 8.6 However, over the last 12 months the cost of rental properties has declined significantly. As shown in the graph following, the:
- median rental price for a house has fallen from \$450 per week in December 2014 to \$405 per week in December 2015.
 - medium rental price for a unit has slipped from \$420 per week to \$380 per week over the same period; and
 - vacancy rate has increased from 4.2 per cent to 6.0 per cent, meaning that it is easier for people to find a property.

Graph 18 – Perth Rental and Vacancy Rates⁴³

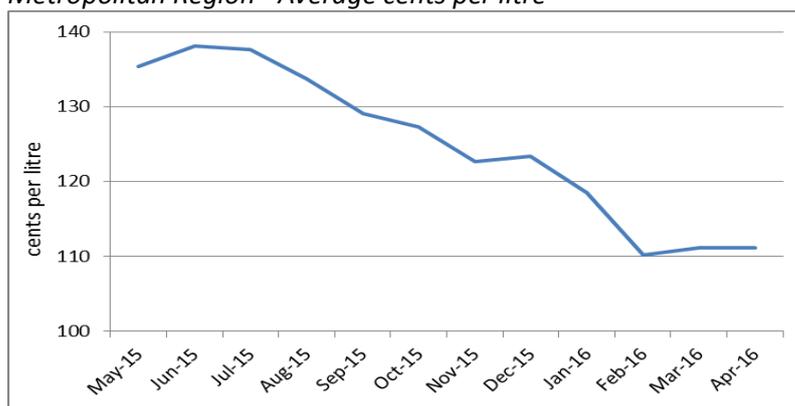


8.7 This places the rental prices for Perth houses significantly below the average rental price of \$500 per week for all dwellings in Greater Sydney during the December 2015 quarter.⁴⁴

8.8 The cost of petrol is also often cited as a cause of concern for low paid workers. Whilst falling oil prices are impacting upon the state of the WA economy, they have directly benefitted consumers through significantly lower fuel prices. This drop can be clearly seen when considering the change in the average monthly price of unleaded fuel in the metropolitan area, as measured by FuelWatch.

8.9 As shown in the graph below, the average price of petrol has fallen from 135.4 cents per litre in May 2014 to 111.1 cents per litre in April 2015.

Graph 19 – FuelWatch Historical Prices⁴⁵
Metropolitan Region - Average cents per litre



⁴³ Real Estate Institute of WA (3 May 2016) [Perth Market Snapshot](#).

⁴⁴ NSW Government (2015) [Rent and Sales Report](#). Issue 114, page 2.

⁴⁵ Department of Commerce (2016) FuelWatch
<http://www.fuelwatch.wa.gov.au/fuelwatch/pages/public/historicalPriceSearch.jsp>

- 8.10 The above figures also fail to take into account the substantial variation in the price of petrol during the weekly price cycle, which means that motorists are currently paying less than 104 cents per litre when purchased on the cheapest day.⁴⁶
- 8.11 These figures show that WA's low paid employees are benefiting from a significant decline in the cost of key household expenses, particularly in the context of last year's 2.1% increase to the award rates of pay.

The benefit of Employment

- 8.12 Paid employment is the tool most commonly utilised by people to improve their standard of living.
- 8.13 An analysis of HILDA survey indicates that low-paid employment often serves as a stepping stone towards higher paid work. The data shows that 61.5 per cent of people who entered low-paid work left within a year, a further 25.5 per cent left in the subsequent year, and 12.0 per cent had left between 2 and 5 years. Consequently only one per cent of workers remained in low paid employment for more than 5 years.⁴⁷
- 8.14 Of those workers leaving low-paid work within one year, 75.9 per cent left for higher pay, 16.6 per cent left the labour force and 7.5 per cent became unemployed. The results are similar for workers leaving low-paid work after 1 to 2 years. For this group, 75.8 per cent left for a higher paid job, 17.5 per cent left the labour force and 6.7 per cent became unemployed. For those workers leaving a low-paid job after 2 to 5 years, 98.0 per cent left for a higher paid job, 1.3 per cent left the labour force and 0.8 per cent became unemployed.⁴⁸
- 8.15 For the vast majority of employees, low paid work is temporary in nature whilst they acquire the skills, training and experience that allows them to progress to higher paying roles. Consequently CCI submits that the adequacy of the SMW should be perceived through the prism of a transitional rather than permanent wage for the overwhelming majority of low paid workers.
- 8.16 Consequently consideration needs to be given as to what impact minimum wages have on acting as a barrier to employment.
- 8.17 The Productivity Commission has identified that *"adverse employment effects from the minimum wage increases were felt more by 'would be employees' (that is, the unemployed and those outside the labour force)"* and for those already in jobs *"the main consequence appears to have been a reduction in hours worked rather than job loss."*⁴⁹
- 8.18 As identified earlier in paragraph 4.34 the number of hours worked in WA is declining, as is the number of full time jobs. Consequently loss of hours is currently a significant issue of concern for WA workers, as is loss of employment.

⁴⁶ Department of Commerce. [FuelWatch – Price Trend Graph](#) (as at 9 May 2016)

⁴⁷ Australian Government (2015) [Submission to the Fair Work Commission Annual Wage Review 2015](#), page 61.

⁴⁸ Australian Government (2015) Submission to the Fair Work Commission Annual Wage Review 2015, page 61.

⁴⁹ Productivity Commission (2015) [Workplace Relations Framework - Inquiry report](#). Vol 1, page 194.

- 8.19 For the unemployed, paid employment at the minimum wage provides greater financial benefit than social security payments. A study into living on the minimum wage concluded that:

“It is also clear that the unemployed face significantly worse financial circumstances than those in minimum wage employment. In terms of equivalised household income (see section 3), the HILDA data show that unemployed persons live in households with, on average, almost \$5000 per annum less in ‘equivalised’ income. This evidence of lower income in dollar terms is reinforced by self-assessments of prosperity relative to ‘current needs and financial responsibilities’, in which the average unemployed person is found on a point on the scale close to ‘just getting along’ and the average minimum wage worker closer to ‘reasonably comfortable’. Again, the differences in means for these measures of financial wellbeing are highly significant in the statistical sense.”⁵⁰

- 8.20 This is shown in the table below:

Table 2
Means for Selected Indicators of Well-being, Persons aged 21-64 by Workforce Status, 2006

	<i>Minimum Wage Workers</i>	<i>NILF</i>	<i>Unemployed</i>	<i>Medium Wage Workers</i>	<i>High Wage Workers</i>
Self-assessed General Health [1-5] ^{a,b}	3.44	2.95***	3.11***	3.55***	3.63***
SF-36 Mental Health[0-100] ^b	73.49	68.82***	64.03***	75.03**	77.96***
Life Satisfaction [0-10] ^{a,b}	7.74	7.68	7.17***	7.76	7.87**
Satisfaction with [0-10]:					
Your job, all things considered ^{a,b}	7.61	N/A	N/A	7.56	7.71
The work itself ^b	7.62	N/A	N/A	7.52	7.72
Your total pay ^b	6.20	N/A	N/A	6.87***	7.75***
Hours you work ^b	7.20	N/A	N/A	7.29	7.04*
Flexibility to balance work/nonwork commitments ^b	7.52	N/A	N/A	7.35	7.17***
Your job security ^b	7.78	N/A	N/A	8.03***	8.20***
Equivalised household income	\$30,983	\$28,572*	\$25,637***	\$42,379***	\$66,926***
Self-Assessed Financial Stress Level [1-6] ^{a,c}	3.39	3.40	3.79***	3.24***	2.86***
Home Owner (No=0/Yes=1)	0.55	0.64***	0.40***	0.66***	0.78***
Renting Public (No=0/Yes=1)	0.05	0.10***	0.09**	0.02***	0.01***
(Observations) ^d	(640)	(1819)	(260)	(3862)	(1297)

Source: Authors’ own calculations from confidentialised unit record files of the HILDA Survey Wave 6. *Notes:* ***, **, and * denote significance at the one per cent, five per cent and ten per cent levels, respectively, according to the standard t-test for the difference in means between the reported figure and the corresponding figure for minimum wage workers. ^a The statistical significance of the differences in responses across categories is confirmed using the Mantel-Haenszel chi-square test. ^b The underlying variable is coded such that a higher number on the scale represents a more positive outcome; ^c Response options are from a scale ranging from 1=‘prosperous’ to 6=‘very poor’; ^d Not all observations are included in each calculation due to missing values on some of the variables.

⁵⁰ Dockery, A. Seymour, R. and Ong, R (2010) *Life on the Minimum Wage in Australia: An Empirical Investigation*. Australian Journal Of Labour Economics 13(1) pp 17-18.

8.21 Noticeably, the table shows that unemployed persons and people not in the labour force (**NILF**) have a significantly lower self-assessed level of wellbeing than persons working in a minimum wage job. Furthermore the level of life satisfaction between a minimum wage earner (7.74) and medium wage earner (7.76) is considerably closer together than that scored by the unemployed (7.17).⁵¹

Who are the Low Paid

8.22 There is now a significant body of research that suggests that the low paid frequently do not work in low income households.

8.23 The Productivity Commission has identified that:

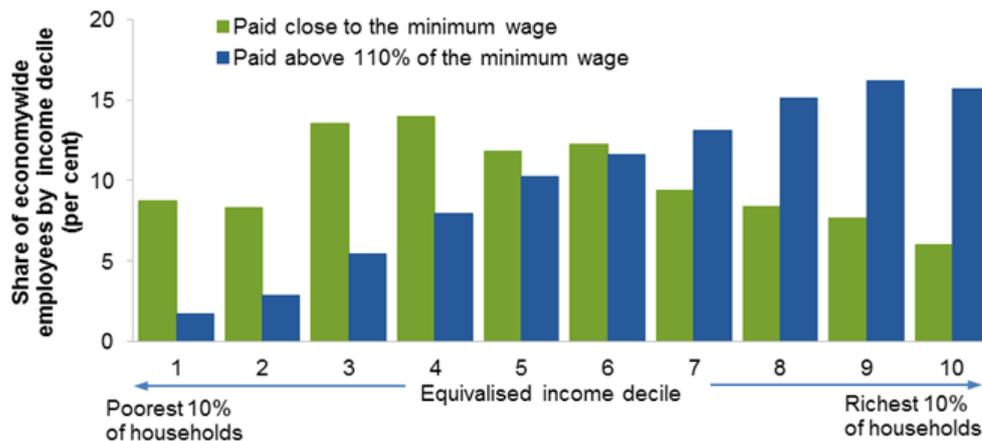
“Minimum wage earners reside most frequently in middle income groups (Bray 2013a; Leigh 2007 and figure 8.7). This reflects several factors, including that minimum wage earners sometimes live with other, better-remunerated household members and that two minimum wage earners with full-time jobs and no children earn close to the median equivalised household income. Notably, minimum wage earners in higher income households tend to work longer hours than those in low-income households (figure 4.9), who often face high effective marginal tax rates as a result of welfare withdrawal rates. Another factor is that many people in the lowest income quintile are welfare dependent and not in work.”⁵²

8.24 The distribution of minimum wage earners is shown in the following graph:

Graph 20⁵³

Many minimum wage workers live in middle-income households

Distribution of minimum wage earners according to household equivalised income deciles, 2013 14



Source: Productivity Commission estimates based on HILDA Release 13.

⁵¹ Dockery, A. Seymour, R. and Ong, R (2010) *Life on the Minimum Wage in Australia: An Empirical Investigation*. Australian Journal Of Labour Economics 13(1) p18. Note – The authors note that although the numerical difference in mean life satisfaction between the minimum wage workers and the unemployed seems small (0.57 on an 11 point scale), this is in fact a sizeable difference in the context of other empirical findings in happiness research, due to the tendency of responses to be tightly clustered around scores of seven or eight on such scales. In statistical terms, the difference is highly significant.

⁵² Productivity Commission (2015) [Workplace Relations Framework - Inquiry report](#). Vol 1, page 208.

⁵³ Productivity Commission (2015) [Workplace Relations Framework - Inquiry report](#). Vol 1.

- 8.25 This reflects the function that minimum wage jobs plays within many households, where the income is ancillary to the primary income source(s) or relates to dependent children who are living at home.
- 8.26 In the case of the retail and hospitality industry, employees are generally younger, with 15-24 year olds making up 46.2 per cent of employees in the accommodation and food services industry and 32.8 per cent of employees in the retail trade industry, compared to the 'all industry' average of 15.7 per cent.⁵⁴ Younger workers are also more likely to live at home, with 88 per cent of 15-19 year olds and 51 per cent of 20-24 year olds living as a child in a one parent or couple family.⁵⁵ Consequently they are less likely to be solely reliant on the income generated through their employment to support their household expenses.
- 8.27 Consequently, in middle and high income households, increases to the minimum wage are unlikely to have a significant impact upon the employee's standard of living.
- 8.28 Increases will naturally have a greater impact on the standard of living of minimum wage earners living in low income households, but so too will any negative employment effects.

The role of Tax Transfers

- 8.29 For minimum wage earners in low income households, the tax transfer system provides a far more targeted means of improving their standard of living.
- 8.30 The Productivity Commission has highlighted the role that earned income tax transfers, wage subsidies, social security payments, and other measures can have in targeting the needs of the low paid, without the risk to employment.⁵⁶
- 8.31 This is clearly demonstrated in a report by the Australian National University which examined the interaction between the NMW and the tax transfer system, finding that:
- "The interactions between minimum wage employment and the tax and transfer system can result in people working on the minimum wage having quite disparate disposable incomes. For example, the disposable income of a single person, under the age of 60 years, who works full-time and earns the minimum wage was, in January 2012, \$537.72. This represented the gross wage of \$589.30, less \$42.74 income tax and \$8.84 Medicare levy. If, in contrast, this person was a sole breadwinner in a couple family with two dependent children and was renting privately, their total household disposable income would be \$995.88, that is 85.2 per cent higher than the single person. An even higher net income, \$1,106.45 per week, would be received by an Age Pension couple if each worked half-time for the minimum wage."⁵⁷*
- 8.32 The above demonstrates the significant impact that the tax transfer system can have upon maintaining an appropriate living standard for low income families. The report further elaborates the impact that the tax transfer system has on a variety of household structures, shown in the following graph.

⁵⁴ Fair Work Commission, (2016) [Industry Profile – Retail trade](#), Figure 5.2,p38 and Fair Work Commission (2016) [Industry Profile – Accommodation and food services](#), Figure 5.2, page 27.

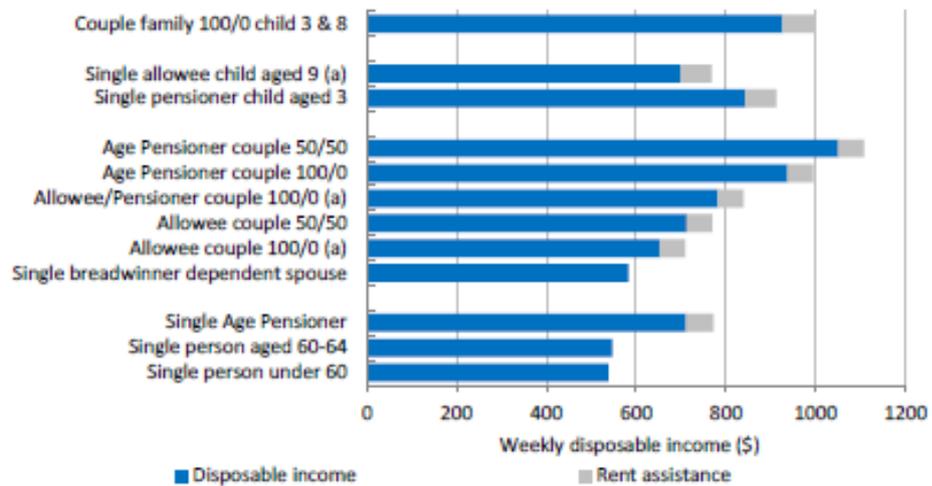
⁵⁵ Australian Bureau of Statistics (2015) [Household and Family Projections, Australia, 2011 to 2036](#). Cat # 3236.0.

⁵⁶ Productivity Commission (2015) [Workplace Relations Framework - Inquiry report](#). Vol 1, page 281.

⁵⁷ Bray, RJ (2013) [Reflections on the Evolution of the Minimum Wage in Australia: options for the future](#). The Australian National University, pp 56-57.

Graph 21 – Disposable income⁵⁸

Figure 16. Disposable income of households earning the FMW, January 2012



Notes: 100/0 & 50/50 refer to the split of earnings between partners in couple income units.

(a) In some cases this type of earning pattern may impact on the eligibility of people for receipt of a basic income support payment receipt.

Source: Generated using the "Policy Alternatives Model" (PAM) maintained by David Plunkett.

8.33 The report also identifies that the tax transfer system has an even more marked impact on those households in receipt of support with children:

"While again the real value of the minimum wage has only increased by 1.3 per cent over the period, the disposable income for this family type has grown by 70.1 per cent. In December 2011 dollar terms it has increased by \$410.55 from \$585.33 to \$995.88. Although these households have also benefitted from a fall in the income tax levied on their income, the major gains have occurred in the provision of support for their family. Total transfers have increased from \$94.55 per week to \$449.32 per week. This increase has been driven by three main areas of growth. The first are income tested per child benefits provided under FTB(A) and its predecessors; the second is the extension of rent assistance to low income working families in 1987 with the introduction of the Family Allowance Supplement; and third the introduction of direct support for a non (or minimal) working partner in a couple who is caring for young children. This support was initially provided by the Home Child Care Allowance which was then replaced with the introduction of Parenting Allowance in 1995, and subsequently Parenting Payment."⁵⁹

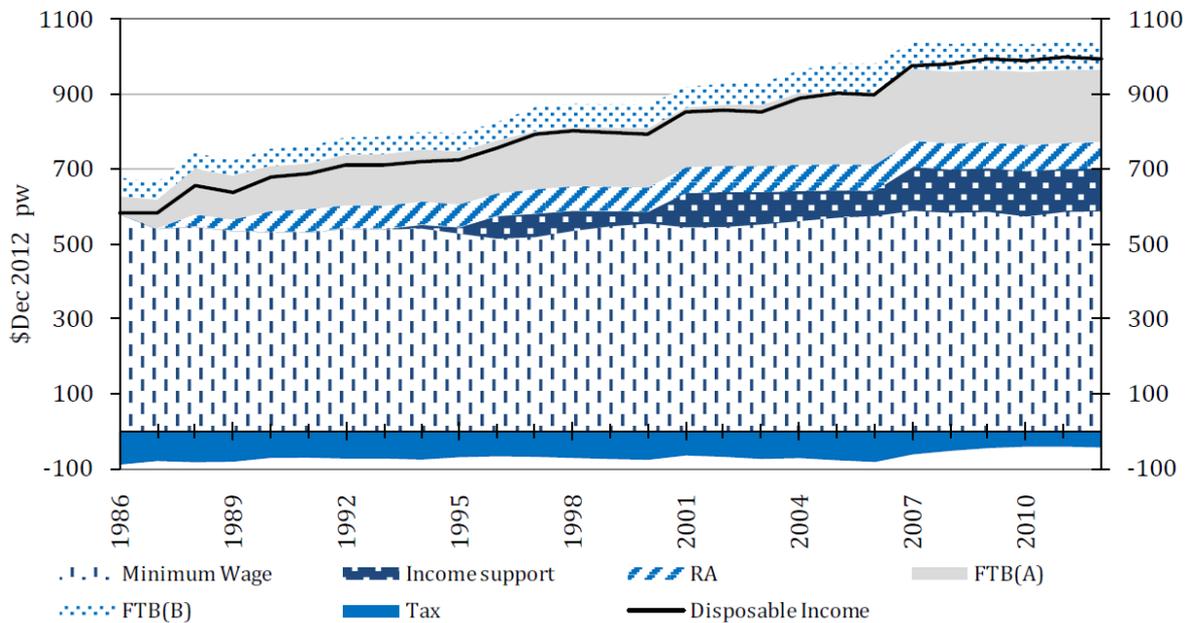
⁵⁸ Bray, page 57.

⁵⁹ Bray, p 59.

8.34 The following diagram demonstrates the growing impact that the tax transfer system has had on the disposable income of low income families.⁶⁰

Graph 22 – Real Disposable Income

Figure 19. Real disposable income of a single FMW breadwinner couple family with two children aged 3 and 8 years, 1986 to 2012



8.35 Unlike increases to the SMW, tax-transfers allow for the living standards of the low paid to be improved without the incumbent risk to employment levels, working hours, or business viability. In an environment in which there is reduced business confidence and high levels of unemployment we believe that significant consideration needs to be given to the role the tax transfer system plays.

8.36 CCI submits that the real wage increases awarded in previous State Wage Case decisions, in conjunction with the tax transfer system, provide low paid employees with a decent standard of living. We believe that in the current economic environment there should be a strong focus on promoting greater job opportunities for the low paid, which is best achieved by maintaining the SMW at its current rate.

⁶⁰ Bray, p 60.

ATTACHMENTS

Survey of Business Expectations: March Quarter 2016

Survey of Consumer Confidence: March Quarter 2016