QUEENSLAND INDUSTRIAL RELATIONS COMMISSION

Industrial Relations Act 1999
s.287; s.288

(No. B2009/41and B2009/42)

APPLICATION FOR A DECLARATION OF GENERAL RULING AND STATEMENT OF POLICY

STATE WAGE CASE 2009

SUBMISSION OF THE QUEENSLAND GOVERNMENT
27 July 2009

TABLE OF CONTENTS

Introduction

1. The 2009 State Wage Case (SWC) is being conducted in circumstances which are characterised by increasing unemployment in Queensland after 12 straight years of outperforming the rest of Australia and a decline in productivity. Inflation is down by over 2 per cent on last year's predictions and the Wage Price Index has also dropped.

2. The submissions put by the Queensland Government this year take account of these circumstances.

The applicants' claims

3. The Queensland Council of Unions (QCU) and the Australian Workers' Union (AWU) have filed applications in this Commission seeking:
   - a general ruling to provide a $27.80 per week increase to all State award rates of pay and the Queensland Minimum Wage (QMW);
   - an adjustment to allowances according to the formula contained in the Statement of Policy – Wage Fixing Principles 5 (Adjustment of Allowances and Service Increments), which equals 4.3 per cent; and
   - an operative date of 1 September 2009.

Queensland Government position

4. In response to the applications the Queensland Government proposes the following:
   - a general ruling to provide an increase of 2.5 per cent to the QMW and award rates up to $645.80 - the equivalent of the C10 rate in the Engineering Award State – 2002 and a flat increase of $16.15 per week to all award rates greater than this amount.
   - an increase of 2.5 per cent to existing award allowances which relate to work or conditions which have not changed and to service increments
   - an operative date of 1 September 2009.

Outline of Submissions

5. The increase supported by the Queensland Government is significantly less than that sought in previous years because of the global economic crisis. It is submitted that at this point in history it is prudent to seek an amount based around the forecast CPI for the year in which the state wage case increase will have affect. The increase proposed will maintain real wages for the majority of award-reliant employees. It fulfils the legislative requirements for wage fixing in that it balances the needs of the low paid with economic caution.

6. It is estimated that the wage increase will directly affect between 108,000 and 172,000 employees – an increase on last year. These employees are concentrated in four industries which are considerably more reliant on awards than most. They are: retail; accommodation and food services; heath care and community services and property and business services. A high proportion of junior, casual and part-time employees are award-reliant.

7. The increase sought by the Queensland Government is consistent with the increase awarded by the Western Australian Industrial Relations Commission in its 2009 State Wage Case, which is bound by legislative parameters which are very similar to those in Queensland.

8. Award wages have not kept pace with average weekly ordinary time earnings in Queensland, and this gap is widening. A wage freeze was the 2009 decision of the Australian Fair Pay Commission and has been sought by employer organisations in this matter. The Queensland Government opposes a wage freeze on the basis that it would be unfair to award-reliant employees and contrary to the legislative requirements for award wages to be fair in relation to standards in the community generally.

9. It is the Queensland Government's view that the AFPC relied on a flawed interpretation of the evidence around the effect of minimum wage increases on employment. The Queensland Government rejects the notion that moderate increases to the minimum wage have a significant negative impact on employment and provides a comprehensive analysis of the available evidence herein.

10. A comprehensive analysis of the international, national and State economies is provided. This will provide the Commission with the most recent economic data available.

Context and Background

Number of Employees Affected

11. The increases flowing from the decision in this matter will directly affect QMW and award-reliant employees in the Queensland jurisdiction. While there is no data on exactly how many employees this is, an estimation can be made based on data from the Australian Bureau of Statistics (ABS).

12. There are approximately 2,140,000 non-farm employees in Queensland[1.] Approximately 19 per cent or 407,000 are award reliant[2.] Approximately 53 per cent or 216,000 of award-reliant employees work in unincorporated enterprises[3.] The assumption has been made that for this group of employees the proportion of State award coverage is somewhere between 50% and 80% of all award coverage. Therefore between 108,000 and 172,000 employees would benefit from an increase in the award rates of pay. These 2008 figures show an increase on the 2006 data, which showed that between approximately 87,200 and 139,500 employees would be directly affected.

[1] ABS Labour Force, Cat 6202
[2] ABS 2008 Employee Earnings and Hours, Cat 6306 Table 17, August, 2008
[3] ABS 2008 Employee Earnings and Hours, Cat 6306 unpublished data, August, 2008

Table 1: Award-only wage and salary earners in unincorporated businesses, Queensland

Total no. of non-farm employees	2,140,000
Employees paid by awards only (19%)	407,000
Award only employees engaged in unincorporated enterprises (53%)	216,000
High estimate (80%) award coverage in unincorporated businesses in State jurisdiction	172,000
Low estimate (50%) award coverage in unincorporated businesses in State jurisdiction	108,000

Economic Impact

13. An increase of 2.5 per cent to the QMW and the lowest award levels up to the C10 trade rate and an increase of $16.15 per week to all award rates above C10 would increase average weekly earnings growth for the State of Queensland by approximately 0.06 to 0.10 per cent. The average weekly ordinary time earnings growth for employees of private sector unincorporated businesses would be increases of approximately 0.23 to 0.37 per cent. This would not be a significant cost impost on the total wages bill. The overall economic context of the State Wage Case decision will be addressed in some detail later in this submission.

Characteristics of Employees Affected

14. Table 2 below, represents Award only employees for Queensland and Australia. Approximately half of award-reliant casual employees in Queensland work in unincorporated business and half in incorporated. For Australia as a whole, 46.5 per cent of casual award-reliant employees work for unincorporated businesses.

Table 2: Award only employees by employment status and type of legal organisation, Queensland and Australia, 2008[4]

2008	Incorporated	Unincorporated	Australian Government	State Government	State Government Corporation	Local Government	Total
	%	%	%	%	%	%	%
QUEENSLAND							
Permanent/fixed term contract full-time	46.2	53.6	0.1	np	—	np	100.0
Permanent/fixed term contract part-time	36.5	63.4	* 0.1	np	—	—	100.0
Casual	49.0	50.7	np	np	—	np	100.0
All Non-managerial employees	**46.7**	**53.1**	**0.1**	**np**	**—**	**np**	**100.0**
AUSTRALIA							
Permanent/fixed term contract full-time	51.7	47.6	—	* 0.6	np	np	100.0
Permanent/fixed term contract part-time	45.2	53.8	* —	** 0.8	** 0.1	—	100.0
Casual	53.2	46.5	* —	* 0.1	** —	** 0.1	100.0
All Non-managerial employees	**51.3**	**48.2**	**—**	*** 0.4**	**** —**	**** 0.1**	**100.0**

15. The most noteworthy aspect of the data in Table 2 is the significant difference in the employment patterns of award-reliant part-time workers in Queensland and

[4] Unpublished data, ABS Survey of Employee Earnings and Hours (Cat 6306 unpublished data May 2008.

Australia as a whole. Of award-reliant part-time employees in Queensland, 63.4 per cent work in unincorporated business and 36.5 per cent work in incorporated businesses. For Australia as a whole, 53.8 per cent work in unincorporated businesses and 45.2 per cent work in incorporated businesses.

16. The higher level of part-time employment in unincorporated business is related to the significance of the retail, hospitality and tourism industries in Queensland (Table 5). Therefore, significantly more part-time employees in Queensland will be directly affected by this SWC compared to SWCs in other State jurisdictions.

17. A greater proportion of full-time award-reliant employees in Queensland work for unincorporated businesses than incorporated, with proportions of 53.6 per cent and 46.2 per cent respectively. In contrast, a greater proportion of full-time, award-reliant employees work for incorporated businesses in Australia than in unincorporated (51.7 per cent and 47.6 per cent respectively).

18. Overall, Queensland has a significantly greater proportion of award-reliant, non-managerial employees working in unincorporated businesses than incorporated businesses, with 53.1 per cent versus 46.7 per cent. The main conclusions that can be drawn from this data then are: Queensland has a greater proportion of employees generally in unincorporated businesses than Australia as a whole and a significantly greater share of part-time employees in unincorporated businesses.

19. When this data is compared to that from the EEH Survey of Employee Earnings and Hours 2006, striking differences are apparent. Table 3 is the same data as that in Table 2 but from two years prior. It is particularly worth noting that there is a10.50 per cent decrease overall in incorporated business award reliance.

Table 3: Award only employees by employment status and type of legal organisation, Queensland and Australia, 2006[5]

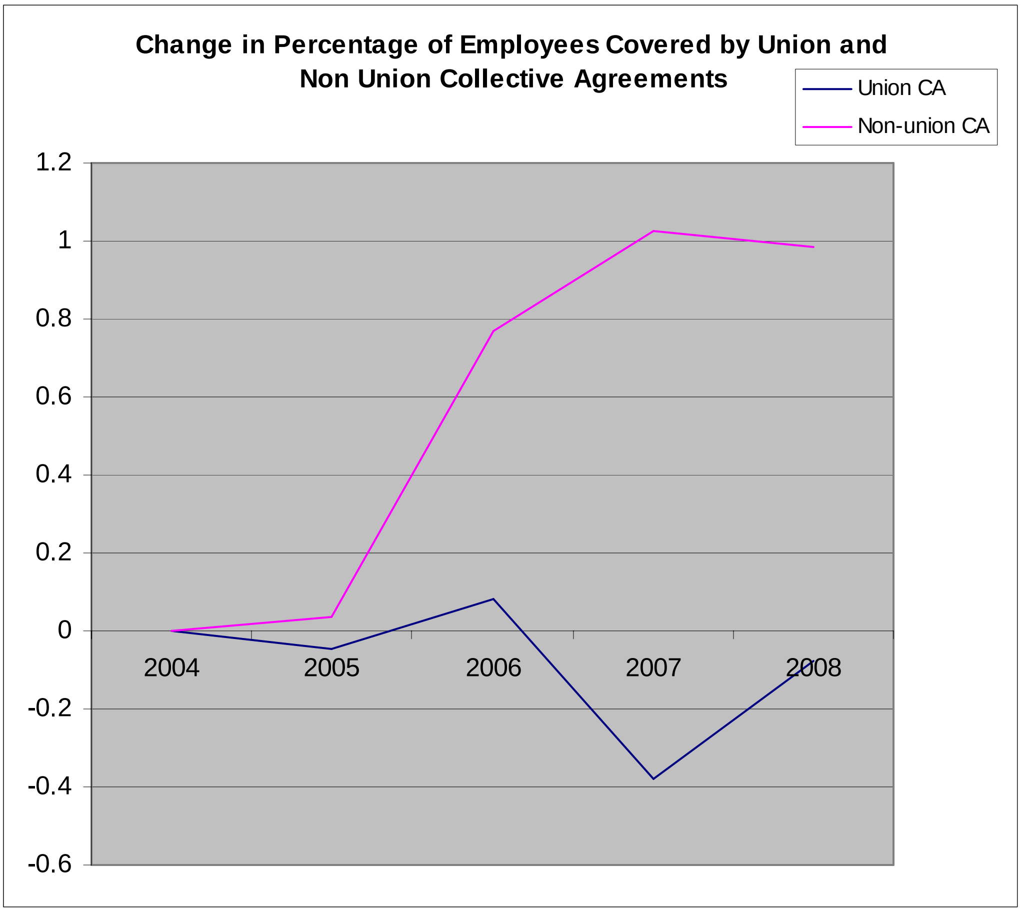
2006	Incorporated	Unincorporated	Australian Government	State Government	State Government Corporation	Local Government	Total
	%	%	%	%	%	%	%
QUEENSLAND							
Permanent/fixed term contract full-time	67.6	32.0	0.1	np	np	np	100.0
Permanent/fixed term contract part-time	* 49.9	* 49.9	np	**—	np	np	100.0
Casual	52.6	47.1	np	* 0.1	**0.1	np	100.0
All Non-managerial employees	57.1	42.6	—	* 0.1	**0.1	np	100.0
AUSTRALIA							
Permanent/fixed term contract full-time	61.0	35.9	—	**2.2	0.7	**0.1	100.0
Permanent/fixed term contract part-time	48.4	49.3	* —	**1.8	* 0.3	* 0.2	100.0
Casual	51.0	46.8	* —	**1.8	* 0.1	**0.2	100.0
All Non-managerial employees	54.1	43.4	* —	* 2.0	0.3	**0.2	100.0

Source: Unpublished data, ABS Survey of Employee Earnings and Hours (Cat. no. 6306.0) May 2006

[5] Unpublished data, ABS EEH Survey (Cat. No. 63060.0 August 2008)

20. It is suggested that the change in award reliance can be attributed to the Work Choices reforms of the federal legislation and the impact on agreement making for incorporated business.

Figure 1 Percentage Change in Number of Employees Covered by Union and Non Union Collective Agreements since 2004



Source: DEEWR Trends in Enterprise Bargaining (04-07 & 06-09)

21. The number of employees covered by Employee Collective Agreements has increased annually from 67,300 in 2004 to 133,500 in 2008. Figure 1 shows that there was a 77 per cent increase in 2006, a 103 per cent in 2007 and a 98 per cent in 2008 in the number of employees covered by this type of agreement. The impact of the uptake of employee collective agreements under Work Choices on award-reliance is an issue for further research.

22. Table 4 highlights the large proportion of part-time casual employees in Queensland who are award reliant and therefore subject to the outcome of this matter - that is, 58.1 per cent per cent of adult casual part-time employees. This is similar to the proportion found by the 2006 EEH survey for casual full-timers at 58.7 per cent.

23. The 2006 survey also found that of adult casual full-time employees in the unincorporated sector 72.9 per cent were award reliant. However, as can be seen from Table 4, the 2008 survey found that 33.1 per cent of this group was award-reliant. (As this figure had a relative standard error of between 25 per cent and 50 per cent it should, however, be used with caution.

24. The proportion of junior employees in the unincorporated sector who are award reliant has remained fairly steady, with 72.5 per cent, compared to 79.2 per cent in the 2006 survey. Clearly there is a very high level of award-reliance for this group.

Table 4: Proportion of Non-managerial employees in Unincorporated organisations(a) by Employment status by Method of setting pay Methods of pay setting and employment status for non-managerial employees in the unincorporated sector, Qld 2008

	Award or pay scale only	Registered collective agreement	Unregistered collective agreement	Registered individual arrangement	Unregistered individual arrangement	Total
	%	%	%	%	%	%
QUEENSLAND						
Adult permanent/fixed term contract full-time	27.0	20.7	* 2.2	* 2.2	47.9	100
Adult casual full-time	* 33.1	**8.5	—	np	57.7	100
Adult permanent/fixed term contract part-time	24.8	36.8	6.5	np	30.9	100
Adult casual part-time	58.1	8.3	* 1.1	np	32.3	100
Junior	72.5	* 4.3	—	np	22.1	100
All Non-managerial employees in Unincorporated organisations(a)	**39.5**	**18.0**	**2.3**	*** 1.4**	**38.8**	**100**

Survey of Employee Earnings and Hours, ABS cat. no. 6306.0, August 2008

Table 5: Proportion of Full-time non-managerial adult employees paid by Award or pay scale by Industry and Size of Queensland Labour Force, 2008

INDUSTRY	%	%	No. employees (000s)
Mining	np	2%	37.4
Manufacturing	8.6	9%	173.6
Electricity, Gas and Water Services	**2.3	2%	28.5
Construction	*4.4	9%	175.9
Wholesale Trade	*19.8	4%	66
Retail Trade	27.0	13%	238
Accommodation and Food Services	30.6	8%	144.1
Transport, Postal and Warehousing	*5.5	6%	103.6
Information, Media and Telecommunications	**10.2	2%	38.3
Financial and Insurance Services	**1.4	3%	59.3
Rental, Hiring and Real Estate Services	17.9	3%	47
Professional, Scientific and Technical Services	*3.9	6%	105.7
Administrative and Support Services	*18.0	3%	52.2
Public Administration and Safety	np	7%	125
Education and Training	**14.0	9%	158
Health Care and Social Assistance	**13.1	11%	205.8
Arts and Recreation Services	np	2%	30.5
Other Services	22.9	3%	64.4
Total	10.9	100%	1853.3

Source: ECONDATA Labour Force Database and Survey of Employee Earnings and Hours, ABS cat. no. 6306.0, August 2008

Legislative parameters

The Industrial Relations Act 1999

25. The Queensland Government submits that the objects of the Industrial Relations Act 1999 and other relevant provisions of the Act require the QIRC to balance economic and social factors in making determinations on matters such as state wage cases. In economic terms, there is a need to ensure wage outcomes are consistent with strong economic performance. In social terms, there is a need to ensure that people are covered by fair and reasonable wages that allow them to participate in society and that those who do not benefit from bargaining are not left behind.

26. These economic and social objectives are encapsulated in the Principal Object of the Act which is to provide a framework for industrial relations that supports economic prosperity and social justice. In making its determination in this matter, the Queensland Government submits the following sub sections are particularly relevant for consideration:

> *3. Principal object of this Act*
> *The principal object of this Act is to provide a framework for industrial relations that supports economic prosperity and social justice by-*
> *(a)....*
> *(b) providing for an effective and efficient economy, with strong economic growth, high employment, employment security, improved living standards, low inflation and national and international competitiveness; and*
> *(c)*
> *(d) ensuring equal remuneration for men and women employees for work of equal or comparable value; and*
> *(g) ensuring wages and employment conditions provide fair standards in relation to living standards prevailing in the community.*

27. The Act has a strong focus on the importance of ensuring fair wages and conditions with reference to prevailing community standards. In addition to the reference in the Objects of the Act sections 126 (d) and (f), 273 (1) places obligations on the Commission to ensure fairness in wages.

> *126 Content of Awards*
> *The commission must ensure an award –*
> *(a)*
> *(d) provides for secure, relevant and consistent wages and employment conditions; and*
> *(e)*
> *(f) provides fair standards for employees in the context of living standards generally prevailing in the community;*
>
> and
>
> *273 Commission's functions*
> *(1 The Commission's functions including the following-*
> *(a) establishing and maintaining a system of non-discriminatory awards that provide fair wages and employment conditions;*

28. It should also be noted that pursuant to s126 the Commission is also obliged (at 126(e)) to ensure an award:

Provides for equal remuneration for men and women employees for work of equal or comparable value.

29. As has been pointed out in previous years, the then Minister for Industrial Relations, the Hon. Paul Braddy, made clear in his second reading speech for the Act, that the intent behind the legislation was that awards would no longer be a mere safety net of wages and conditions.6

30. In addition, section 273 (2) (a) provides that the Commission must perform its functions in a way that furthers the objects of this Act and section 320 (5) provides for the Commission to consider the objects of the Act as well as the likely effects of the Commission's decision on the community, local community, economy, industry generally, and the particular industry concerned.

31. There is also a specific statutory obligation under s 287 (2) for the full bench to ensure that a general ruling about a Queensland Minimum Wage is made each calendar year.

Other 2009 Wage Decisions

Western Australia

32. The Western Australian Industrial Relations Commission (WA) decision was released on 11 June 2009. The full bench ordered an increase in the minimum and award wages by $12.30 per week, or 2.2 per cent of the minimum wage, and to defer the increase from its usual operative date of 1 July to the first pay period on or after 1 October 2009. This compares to an increase of $29 per week (or a 5.5 per cent increase to the minimum wage) in July 2008.

33. The WA Government supported a $19.50 per week increase based on the forecast percentage increase in the Consumer Price Index (CPI) for 2009-2010 of 3.5 per cent on the minimum wage rate of $557.40. Unions WA sought an increase of 5.7 per cent of the minimum wage, or $31.00 and the Chamber of Commerce of WA (CCIWA) and the Australian Retailers Association sought a wage freeze.

34. In deciding against a wage freeze, as advocated by the main employer organisations, the commission said that it took into account the Commonwealth Government's fiscal stimulus packages. However, it observed that the payments were a once-off and "*not designed as a substitute for increases to wages which otherwise might be expected to occur*". And that

"*We consider it to be inconsistent with the Commonwealth's fiscal stimulus payments stimulating consumer spending to reduce the value of the minimum wage by awarding no increase at all.* [7]

[6] Hansard, 25 May 1999, p. 1831

[7] 2009 WAIRC 00375 para 47

35. The WA legislative requirements for setting minimum and award wages are similar to those in Queensland in that the commission is required to ensure that Western Australia has a fair system of wages which meets the needs of the low paid and provides fair wage standards in the context of living standards generally prevailing in the community. The WAIRC said that this requirement argued against no increase being ordered at all. [8]

36. It also considered that not to increase the minimum wage in 2009 may have a detrimental impact on women employees who rely on the minimum wage. [9]

37. In its submissions in support of a wages freeze the WACCI referred the commission to the last wages freeze in Australia in 1982. The full bench held that in 1982 a wages freeze was supported by Commonwealth and State Governments and the WA Parliament enacted the *Salaries and Wages Freeze Act, 1982*. The bench distinguished the current matter on the basis that the State government had advocated an increase based on movement in CPI. It also noted that the period of wage restraint was only six months and the minimum wage was subsequently increased by reference to the movement in the CPI. [10]

38. A comparison with the wage freezes of 1982-1983 to the current circumstances will be addressed in greater detail later in this submission.

39. However, the commission decided for a number of reasons to delay the increase for a three month period. These included:
    - some employers' cost structures made them vulnerable to wage increases;
    - the fiscal stimulus package and the large increase in minimum wages awarded in 2008 supported the present minimum wage continuing for a further three months until October; and
    - The three month period is appropriate given that it is broadly within the time frame during which the other States and the Commonwealth's wages increases will be operative.

40. The quantum of $12.30 per week was awarded on the basis of growth in CPI for Perth of 2.2 per cent for the year to the March quarter 2009, whereas the WA government had sought an increase of 3.5 per cent based on the forecast increase of 3.5 per cent in the 2009-2010 financial year. The commission said that it had consistently referred to the CPI, movement for the year to the March quarter preceding the hearing as its CPI reference and would therefore continue to do so this year.

41. In summing up the reasons for its decision to award an increase of $12.30 per week, the full bench said that it maintained the real value of wages for the low paid to the extent possible in the current adverse economic environment and was likely to be within the capacity of employers to pay.

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[8] Ibid para 49
[9] Ibid para 50
[10] Ibid para 51

Federal Wage Review

42. The Australian Fair Pay Commission's 2009 wage-setting decision was released on 7 July. It ordered that the Federal Minimum Wage (FMW) and minimum wages in the Australian Pay and Classification Scale remain at their current levels and not be increased. The weekly FMW remains at $543.78 ($14.31 per hour), until the next wage review in July 2010. The AFPC does not have the jurisdiction to fix award based allowances.

43. The decision said that the focus was "on protecting jobs and supporting a stronger recovery in employment as the economy improves". It took into account changes to the tax and transfer systems and the economic stimulus package and said that these provided part of the safety net for the low paid.

44. The Australian Council of Trade Unions sought an increase of $21.00 per week across the board. The Australian Chamber of Commerce and Industry (ACCI) supported a wages freeze. The Australian Government submitted that the real value of wages should not be cut in the review but stopped short of supporting a specific increase.

45. The federal government and the ACTU have been critical of the AFPC's decision not to increase minimum wages, but employer groups such as the ACCI have strongly supported the decision. The Australian Government's budget forecast is for the CPI to increase by 1.75 per cent for 2009-2010. On that basis, the outcome of the decision not to increase the minimum wage is a real wage decline for minimum wage workers of 1.75 per cent.

46. By its decision the AFPC has largely ignored the legislative requirement to provide a safety net for the low paid and focused on the issue of unemployment. It said that its *chief concern is that an increase in minimum wages may exacerbate the forecast increase in unemployment.*[11]

47. The AFPC has made an assumption that even small increases to the minimum wage have a negative effect on employment but the Queensland Government submits that there is no evidence to support that theory. It is submitted that the AFPC decision relies on evidence which is methodologically flawed and it selectively ignores other evidence in relation to the impact of minimum wage increases on employment. Secondly, it relies on evidence from previous recessions which are characterised by a completely different set of conditions to the present downturn. A full analysis of this evidence is provided later in this submission.

New South Wales

48. The NSW Government has sought an increase of 2.5 per cent in its SWC, which doesn't appear to be based on CPI, which is forecast at 3.0 per cent for 2000-10. This would equate to a $13.81 per week at the minimum wage, $16.07 at the C10 rate and $27.84 at the highest award rate. Unions NSW sought an increase of 3.8 per cent and the major employer organisations proposed a wage freeze. No decision has been made yet but one is expected shortly.

[11] *AFPC 2009 wage review decision p 12*

<u>South Australia</u>

49. The South Australian (SA) SWC has commenced in that the unions have filed their claim for an increase of $27.37 to minimum award wages and the Minimum Standard for Remuneration (MSR). This is equivalent to an increase of 3.9 per cent at the MSR. Several directions hearings have been held and the substantive hearing is set down for 4 August for two days.

50. The SA Government position is the same as they took in the 2009 federal wage review – that is, support for a moderate increase without specifying a quantum. The employer organisations are due to file their submissions on 24 July. It is expected that they will advocate a wage freeze.

<u>Tasmania</u>

51. The Tasmanian Government has advised that unions and peak employer organisations are negotiating towards achieving a consent position on a quantum to put to the commission. In 2008 consensus was reached and this was the amount of the increase subsequently ordered by the commission.

<u>Relevance of other wage decisions for the Queensland SWC</u>

52. The decision in the federal wage review can be distinguished from the Queensland SWC for a number of reasons, not least of which are the different legislative provisions within which the AFPC and the QIRC must make minimum wage decisions.

53. In its minimum wage fixing function the AFPC is required to have regard to:
The capacity of the unemployed and the low paid to obtain and remain in employment;
Employment and competitiveness across the economy; and
Providing a safety net for the low paid. [12]

54. As mentioned elsewhere, the *Industrial Relations Act 1999* (the Act) contains a requirement that the QIRC must "*provide fair standards in relation to living standards prevailing in the community*" - not just a "safety net" as in the federal legislation. In the second reading speech for the Act, (then) Minister Braddy said that under the new legislation awards would no longer be mere safety nets because of the operation of this legislative provision.

55. The QIRC has reiterated its support for this interpretation in a number of its recent decisions. For example, in its 2006 decision, in supporting the Queensland Government's submission on this point, the full bench said:

> *"We accept that the legislative obligations placed on us mean that award rates should be adjusted with some reference to general movements across the community. One of the major indicators of general movements across the community are the wage increases that have been achieved through enterprise bargaining and in the community generally. …In that regard we are required to*

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[12] *Workplace Relations Act 1996*

address the disparity between real award rates and enterprise bargaining rates, as well as general wage movement across the community. [13]

56. The full bench made the point clearly in its 2007 SWC decision in response to submissions by some employer organisations:

The legislative parameters governing decisions of the Commission in matters such as that presently before it need to be contrasted with the legislation governing the deliberations of AFPC, whose July 2007 decision was relied upon, to differing degrees, by several employer respondents.

By contrast, QIRC proceedings are conducted in an open forum with every issue advanced by any particular party capable of being commented on by others. In addition, QIRC is required to consider a number of matters not taken into account by the AFPC in its deliberations - such as living standards in the community, fairness, the needs of the low paid and the public interest.

Importantly, as noted above, decisions which the Commission is now called upon to make are not in the context of setting rates which provide a safety net of wages and conditions but, rather, wages which represent fair standards for employees in the context of living standards generally prevailing in the community.[14]

57. Clearly, the decision of the AFPC should not and cannot be used as a reference for this wages decision of the QIRC.

58. On the other hand, the legislative parameters within which the WAIRC makes its annual wage decision are very similar to those of Queensland. The WA 2009 wages decision can, therefore, provide some guidance.

59. Award and minimum rates were increased by $12.30 per week in WA, bringing the minimum to $569.40 per week. This increase is linked to the inflation rate. An increase of 2.5 per cent to the QMW would result in a rate of $565.80. This increase is also based on the level of inflation. In these respects the WA decision supports the increases sought by the Queensland Government.

60. The WA increases have, however, been delayed by three months from the normal operative date of 1 July to 1 October. One of the reasons given by the full bench for the delay is that it would bring the increase broadly into line with the time frames of other jurisdiction's wage increases. The normal Queensland operative date of 1 September is in step with increases in other jurisdictions and in the Queensland Government's view should be retained.

<u>Referral of powers - The National system</u>

61. The Queensland Government has committed in principle, subject to satisfaction of a number of conditions, to refer its industrial relations powers with respect to the private sector to the federal government from 1 January 2010. If this referral

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[13] Queensland Council of Unions and the Crown and Others, B/2005/1197, (2006 SWC) QGIG 182,

[14] Queensland Council of Unions and the Crown and Others, B/2007/45, (2007 SWC) QGIG 85 422-450

proceeds the vast majority of Queensland based private sector employees will move to the federal jurisdiction and be covered by the *Fair Work Act 2009*. If they are award-reliant they will move on to the modern industry awards currently being made by the Australian Industrial Relations Commission (AIRC). Technically they will no longer be covered by the Queensland common rule awards which currently cover them. However, the *Fair Work (Transitional Provisions and Consequential Amendments) Act 2009* specifies up to a 5 year transition period to phase out State based differences in modern awards and the AIRC is currently taking submissions on transitional arrangements for specific awards. The wage rates which are made in this SWC decision will, therefore, likely apply in the federal system at least until the first decision of Fair Work Australia (FWA). FWA will be required to conduct minimum wage reviews annually and they are to operative by 1 July each year, unless there are exceptional circumstance which justify another date.[15] The first wage review is to be conducted between 1 January and 30 June 2010.[16]

The record of wage adjustments by the QIRC under the Industrial Relations Act 1999

62. The *Industrial Relations Act 1999* has been in operation since 1 July 1999. Under the provisions of this Act, the QIRC has determined ten annual adjustments to award rates of pay through the SWC. They are detailed below in Table 6 which records the nominal and real increases (after inflation is taken into account). It is noteworthy that last year's increase of $23.60 per week produced a 2.0 per cent real increase to the QMW, which was the largest real increase since 2004. It was a greater real increase than anticipated as inflation for the period June 2008 to June 2009 was 2.0 per cent, one and a half percentage point less than the forecast 3.5 per cent.

63. Over the period, these adjustments have provided award-reliant employees with total increases of $178.60 up to the C11 level of the Engineering Award and $180.60 per week at the C10 level and above.

[15] *Fair Work Act 2009* s285-287
[16] *Fair Work (Transitional Provisions and Consequential Amendments) Act 2009 Schedule 9 part 2 section2*

Table 6: Increases awarded by the QIRC in state wage cases 1999-2008

Year	Amount awarded by QIRC decision	C14 and QMW		C10	
		Nom %	Real %	Nom %	Real %
1999	$12 pw, for up to and including $510 pw $10pw, for over $510 pw	3.2	2.1	2.6	1.5
2000	$15 pw for all award rates	3.9	0.7	3.2	0.0
2001	$13 pw, for up to and including $490 pw $15 pw, for up to and including $590 pw $17 pw, above $590 pw	3.25	0.24	3.1	0.1
2002	$18 pw in all award rates	4.4	1.8	3.5	1.0
2003	$17 pw for up to and including $731.80 pw $15 pw for above $731.80	4.2	1.3	3.4	0.6
2004	$19 increase to all QMW and award rates	4.5	2.2	3.7	1.4
2005	$17 increase to QMW and all award rates	3.6	1.1	3.2	0.7
2006	$19.40 increase to QMW and award rates	3.9	1.2	3.4	0.6
2007	$24.60 increase to QMW and award rates	4.9	0.9	4.1	0.1
2008	$23.60 increase to QMW and award rates	4.5	2.5	3.8	1.8

64. As the full bench prepares to determine an application for the eleventh annual adjustment since the introduction of the Industrial Relations Act, it is instructive to note the economic and social impact of the previous state wage case adjustments.

The impact of state wage case increases since 1999

65. Consistent with the provisions of the Industrial Relations Act (s3(g)), it is necessary to assess how those wage increases have compared to wage movements generally.

66. Table 7 , below, demonstrates that SWC increases have provided the lowest paid workers in Queensland, who have not received increases through collective or individual bargaining, small real wage increases, with the C14 or QMW increasing by 6.00 per cent in real terms since September 1998. Award-reliant employees at the C10 level and above, however, have had their wages reduced in real terms over the period. By comparison, average weekly ordinary time earnings (AWOTE) have increased by 12.3 per cent in real terms.

Table 7: Real and nominal increases for award rates and AWOTE 1998 – 2008

	Rate Sep-1998 $	$ 1Sep2008	$ increase	nominal % increase	real % increase
AWOTE*	698.60*	1093.50	394.90	56.5	12.3
C14	373.40	552.00	178.60	47.8	6.0%
C13	390.10	568.70	178.60	45.7	4.6%
C12	412.60	591.20	178.60	43.3	2.86%
C11	433.50	612.10	178.60	41.2	1.3%
C10	465.20	645.80	180.60	38.9	-0.4%
C9	486.10	666.70	180.60	37.2	-1.6%
C8	506.90	687.50	180.60	35.6	-2.7%
C7	527.80	706.40	180.60	34.2	-4.0%
C6	567.50	748.10	180.60	31.8	-5.5%
C5	587.80	768.40	180.60	30.7	-6.2%

*AWOTE based on Aug1998 qtr and Aug2008 qtr
Source: AWOTE: ABS *Average Weekly Earnings* Cat. No. 6302.0; Award rates: Engineering Award – State - 2002

67. Another relevant comparison is to look at the level of the minimum wage as a percentage of average weekly ordinary time earnings over the period in question. Table 8 shows that, despite the quantum of award wage adjustments in Queensland, since 1998 minimum wage increases have not kept pace with the growth in average weekly earnings for full-time adults. The QMW dipped to 50.49 per cent of AWOTE following the 2008 SWC decision, after recording 51.14 per cent of AWOTE the previous year. Both figures are below the 53.45 per cent in 1998. In fact, the percentage that the QMW bears to AWOTE has not exceeded the 1998 figure for the whole period.

Table 8: Minimum wage movements compared with AWOTE movements 1998 – 2008

	C14 $	AWOTE **avge 4 qtrs** through **year after** incr $	C14 ys avge awote %
1-Sept-98	373.40	700.90	53.27%
1-Sept-99	385.40	725.13	53.15%
1-Sep-00	400.40	766.75	52.22%
1-Sep-01	413.40	801.95	51.55%
1-Sep-02	431.40	837.20	51.53%
1-Sep-03	448.40	888.70	50.46%
1-Sep-04	467.40	934.75	50.00%
1-Sep-05	484.40	972.25	49.82%
1-Sep-06	503.80	1002.35	50.26%
1-Sep-07	528.40	1033.30	51.14%
1 Sep 08	552.00	1093.50	50.49%

Source: ABS *Average Weekly Earnings* Cat. No. 6302.0; *Engineering Award – State 2002*

68. The C10 rate has also fallen behind AWOTE over the period. Whereas the trade rate was 65.8 per cent of AWOTE in 1999, it is now only 59.1per cent. Award rates have clearly fallen behind wages in the community generally. The reasonable increase to award wages supported by the Queensland Government will at least maintain the relativities during this financial crisis.

Current Economic Conditions and Outlook

The International Economy

69. The global economy may begin to pull out of a recession unprecedented in the post–World War II era, but stabilization is uneven and the recovery is expected to be sluggish. According to the International Monetary Fund (IMF), the global economy is expected to contract by 1.4 per cent, before returning to growth of 2.5 per cent in 2010. Financial conditions have improved more than expected, owing mainly to public intervention, and recent data suggest that the rate of decline in economic activity is moderating, although to varying degrees among regions.

70. After a number of years of strong growth, global economic growth began slowing in early 2008. This slowing was initially uneven, with the United States and Europe leading the downturn. However, a significant downturn in the US housing market and subsequent delinquencies in sub-prime mortgages eventually led to the failure and effective nationalisation of a number of important financial institutions in the United States and Europe. These events lead to a widespread deterioration in people's assessment of the outlook and an increase in investors' aversion to risk. Subsequently, share markets slumped, commodity prices declined and currencies have become volatile. The latter part of 2008 and the first half of 2009 have been characterised by the weakest international economic conditions for many years.

71. The world economy is expected to contract by 1.4 per cent in 2009, the lowest rate of growth in decades. Advanced economies are expected to collectively decline by 3.8 per cent in 2009 which is the sharpest collective decline in GDP in the post-war period (see Table 9). As might be expected, the decline in GDP will bring a reduction in inflation. In the advanced economies, inflation is expected to fall from 3.4 per cent in 2008 to 0.1 per cent in 2009, and in the emerging and developing economies inflation should fall from 9.3 per cent to 5.3 per cent.

Table 9: World Economic Outlook Update Projections

Selected countries/regions	2005	2006	2007	2008	Projected 2009	Projected 2010
World Output	4.4	5.0	5.2	3.2	-1.4	2.5
United States	3.1	2.9	2.0	1.1	-2.6	0.8
Euro area	1.5	2.8	2.7	0.9	-4.8	-0.3
Japan	1.9	2.4	2.4	-0.6	-6.0	1.7
Other advanced countries	3.2	3.7	4.7	1.6	-3.9	1.0
Africa	5.9	5.8	6.2	5.2	1.8	4.1
Developing Asia	9.0	9.6	10.6	7.7	5.5	7.0
China	10.4	11.1	13.0	9.0	7.5	8.5
Middle East	5.6	5.8	6.3	5.9	2.0	3.7

Source: IMF (2009)

72. Latest estimates suggest the US economy grew by 1.1 per cent in 2008 across the board. However, high-frequency indicators point to a diminishing rate of deterioration, including in the labour and housing markets. Industrial production may be close to bottoming out; the inventory cycle is turning; and business and consumer confidence has improved. These developments are consistent with stabilization of output during the second half of 2009 and with a gradual recovery

emerging in 2010. The headline consumer price index in the US increased at an annual rate of 4.8 per cent in June 2008 but fell by an annual rate of 1.2 per cent in June 2009.

73. It is also clear that emerging economies will be affected by the global financial crisis. In particular, the momentum provided to the world from China's rapid growth has dissipated in recent times with GDP growth falling from 13 per cent in 2007 to an estimated 9 per cent in 2008 and a forecast 7.5 per cent in 2009 (IMF, 2009). The key emerging economies of China and India were initially less impacted by the global financial crisis but are now increasingly affected by falls in global trade volumes. The decline in China's growth prospects have contributed to a weaker outlook for the world economy and to continuing falls in commodity prices. Despite this, recent indicators show expansionary policy in China is having an effect with higher than anticipated growth and an early recovery apparent.

74. While it can be argued that much of the intensity and speed of the effects of the global financial crisis on the real economy can be attributed to a crisis of confidence, there have also been significant constraints on credit available in the real economy. In the last quarter of 2008 there was a significant rise in borrowing costs with spreads rising sharply. To address these issues, central banks have taken unprecedented steps over the past few months to add liquidity to their respective financial systems. Further, in order to address solvency issues in financial institutions, many governments have taken equity stakes in key financial institutions, up to and including full nationalisation in some cases. To encourage confidence in financial institutions, a number of governments have introduced guarantees to secure retail deposits to alleviate concerns about riskiness of the institutions concerned.

75. Faced with the deteriorating outlook and subsiding inflation pressures described above, central banks in the advanced economies have taken strong actions to cut monetary policy rates substantially in recent months. Short-term market interest rates in 2009 are assumed to be about 0.75 percentage point lower in the United States, the euro area, and the United Kingdom. Central banks in emerging economies are also moving to ease their policy stance and improve market liquidity. To further ameliorate the downturn, many governments have announced fiscal packages to boost their economies. Fiscal stimulus in G-20 countries in 2009 is projected to be 1.5 percent of GDP. The rapid and aggressive action by governments in response to the downturn has been strongly supported by the IMF and the OECD. The IMF has concluded that as a result of this action, the global economy as a whole will return to growth in 2010.

The National Economy

76. Economic conditions in Australia have been affected by the global credit crisis and the subsequent global economic crisis. However, these effects in Australia are somewhat less than in other advanced economies due to a more robust prudential regulatory framework and strong monetary and fiscal positions at the beginning of the crisis. Australia's financial system remains in a strong condition and aggressive monetary and fiscal policy stances have been implemented to stimulate growth. Nonetheless, the combination of last year's financial turmoil, the subsequent global

downturn and falling commodity prices has caused a substantial decline in confidence, which implies poor prospects for growth in demand.

77. GDP (seasonally adjusted) increased by 4.2 per cent over the year to September 2007 but moderated to 2.2 per cent over the year to September 2008. With the global downtown, Australia's GDP is forecast to contract in 2009-10, a consequence of the global recession. A fall of ½ per cent in GDP is forecast for 2009-10. The main contributors to the slowdown are sharp falls in business investment (a fall of 18½ per cent) and exports (a fall of 4 per cent), as well as a small contraction in household consumption (a fall of ¼ per cent). Strong growth in public investment is providing a substantial buffer to weakness elsewhere in the economy, moderating the size of the slowdown. Inflation has been high reaching 5 per cent for the year to September 2008 but it has begun to moderate, declining to 2.5 per cent in the year to March 2009, and, given recent developments, it is likely to continue to decline. The labour market continued to be tight through 2008 though, given the deterioration in conditions, seasonally adjusted unemployment has begun to rise. Unemployment increased from 4.1 per cent in August 2008 to 5.8 per cent in June 2009 and is predicted to increase to 8¼ per cent by June quarter 2010.

78. **Household consumption** is expected to contract by ¼ of a per cent in 2009-10. This is a mild fall compared with many other advanced economies, despite the substantial negative shocks stemming from the global recession. The large falls in household wealth stemming from the collapse in global stock markets, combined with concern about rising unemployment, are expected to continue to weigh heavily on household confidence and consumption. Helping to moderate these negative effects is substantial assistance to the household sector from government stimulus packages, cuts to interest rates, and falls in oil prices. Recent retail sales data show that consumption is recovering with retail sales in May 2009 significantly above the level in September 2008.

79. **Dwelling investment** increased 1.6 per cent in 2007-08 but fell sharply towards the end of 2008 and is predicted to decrease by 2.5 per cent in 2008-09 due to high interest rates and low levels of confidence. However, significant interest rate cuts, strong underlying demand and the substantial increase in the First Home Owners Grant for new houses are expected to support a slow recovery in dwelling investment building in 2010-11 to an expected rise of 11.5 per cent.

80. **Business investment** is expected to contract sharply in 2009-10, falling by 18½ per cent. Strong investment activity in the mining sector has resulted in business investment recently reaching a four-decade high as a share of GDP. The collapse in global commodity prices, and weaker global and domestic demand, is expected to result in business investment returning rapidly to its pre-commodity boom share of GDP over the forecast period. Momentum from a number of large engineering projects is expected to provide some support to the sector.

81. **Exports** are forecast to fall in 2009-10, consistent with the contraction in world trade. An overall fall of 4 per cent is expected, reflecting large falls in exports of elaborately transformed manufactures, non-rural commodities and services, partially offset by a continued recovery in rural exports. Overall, exports are

forecast to recover in 2010-11 as global demand recovers. Imports are forecast to contract by 6½ per cent in 2009-10, in line with the slowing in domestic demand and the depreciation of the Australian dollar since its peak in mid-2008. The terms of trade are forecast to fall by 13¼ per cent in 2009-10, taking them back to around 2006-07 levels as commodity prices are expected to fall significantly in 2009-10.

82. **Employment** is expected to fall by 1½ per cent through the year to the June quarter 2010 as the global recession impacts on the domestic economy. Employment is expected to recover through 2010-11, rising by ½ per cent through the year to June quarter 2011. The unemployment rate is forecast to rise to 8¼ per cent by the June quarter 2010 with new entrants (youth) and mature age workers (45 to 54 years) the hardest hit. The participation rate is forecast to decline by 1¼ percentage points from its recent record high, reaching 64¼ per cent by the June quarter 2011.

83. **Wages** continued to grow strongly in 2008 as might be expected in a tight labour market. The Wage Price Index (WPI) is estimated to have grown by 4¼ per cent in 2008-09, which is comparable to WPI growth in recent years. Wages growth is expected to moderate given the anticipated easing in labour market conditions. This is forecast to slow to 3¼ per cent in 2009-10.

84. **Inflation** was 1.5 per cent for the year to June 2009 (RBA, 2009). Credit conditions are expected to ease further and interest rates are expected to fall a further 50 basis points to 2.5 per cent in the latter half of 2009. The slowdown should moderate inflation which is forecast to be 1¾ per cent for the year to June 2010. The outlook for inflation is mixed. Dampening demand and rising unemployment should moderate pressure on prices while the tight housing market and rental market will continue to apply upwards pressure.

Outlook for the Australian Economy

85. The global credit crisis and subsequent downturn in confidence and flat world economic growth have left commodity markets in turmoil. These developments will have impacts on the Australian economy. The recovery in China will result in a smaller than expected impact on demand for Australian coal and iron ore which will flow on to a recovery in the mining sector. This, combined with the Australian Government's fiscal policy stance and the RBA's easing of monetary policy has resulted in increasing confidence and demand more broadly. Business conditions in Australia jumped sharply in June, driven by stronger performances in the manufacturing, construction, wholesaling and finance industries. Trading, profitability, forward orders and employment have improved considerably while business confidence continues to gather pace. Slower growth in the Australian economy should moderate inflation.

86. Domestically, the main area of concern for the Australian economy is unemployment. With the economic slowdown, employment is expected to contract during 2009. The unemployment rate was 5.8 per cent in June 2009 and is forecast to increase to 8¼ per cent in June quarter 2010. While this rate is not particularly severe in terms of previous slowdowns, it does represent a significant increase in social dislocation and hardship. There is now evidence of economic stabilisation and the positive effects of the government's economic stimulus efforts and low borrowing costs. Whether the improvements can be sustained into the second half

of 2009 with lesser stimulus effect is yet to be seen. Also, while the equities market has recovered much of its losses from 2008, if the coming reporting season were to spark more turmoil in equities, there may be a resultant setback in confidence which could again flow to aggregate demand.

GENERAL ECONOMIC PERFORMANCE – QUEENSLAND

87. With both a cyclical downturn and the GFC impacting the Queensland economy, growth in Gross State Product (GSP) is estimated to have slowed sharply to ½ per cent in 2008-09 and is forecast to contract by ¼ per cent in 2009-10. Key drivers of the downturn include business investment which is forecast to fall 17%, as limited access to credit impacts non-residential construction, and the demand factors of the global recession cause delays or a scaling back in mining construction. In contrast, lower interest rates and the First Home Owners Boost should see a recovery in new house construction in 2009-10, but tight credit conditions are forecast to restrain medium-to-high density construction. An ongoing adjustment to lower wealth, along with a decline in employment, is also forecast to temper growth in consumption. Exports are anticipated to fall in 2009-10, given the global recession and the contraction in Queensland's major trading partner economies. However, improved rainfall will boost rural exports in 2009-10. Offsetting the fall in private investment and exports, public investment in Queensland is forecast to rise sharply in 2009-10. The State Government's capital works program and the Australian Government's infrastructure initiatives will contribute significantly to GSP.

Household consumption and retail turnover

88. A sharp decline in equity prices and a moderate fall in house prices have lowered household wealth and a fall in housing activity has reduced housing-related spending. These factors had already contributed to an easing in consumption in early 2008-09, with annual growth in the volume of retail trade (40 per cent of total spending) easing to 1.9 per cent in September quarter 2008 and motor vehicle sales declining by 15.5 per cent in annual terms in the four months to October 2008. However, with the implementation of expansionary monetary and fiscal policies household consumption growth is estimated to have been 1¼ per cent in 2008-09, following long run average growth of 4.6 per cent in 2007-08. Consumption growth is forecast to ease further in 2009-10, to ¾ per cent, its lowest growth rate in more than two decades. This partly reflects a continued adjustment to lower wealth, as well as the lagged impact of a decline in dwelling investment in recent years on housing related expenditure. An improvement in household finances and expected recovery in confidence are forecast to strengthen spending in 2010-11. However, at 2¼ per cent, growth is forecast to remain below trend, partly due to the lagged impact of ongoing dwelling sector weakness in 2009-10.

Dwelling investment

89. Housing investment is now estimated to have declined 7¾ per cent in 2008-09. Higher bank funding costs caused lending rates to rise in the early part of the year. Approvals for the construction of new houses fell at an annual rate of 36.1% in the first ten months of 2008-09, reflecting the lagged impact of restrictive interest rates in much of 2008 and weak consumer and investor confidence following the worsening in the credit crisis since September 2008. The extension of the First Home Owner Grant and reductions to stamp duty provided by the State Government combined with recent interest rate cuts should see construction benefit

in the near to medium term. However, limited access to funding, and a poor outlook for house prices, together with significant lags associated with larger developments, suggests investment in other dwellings, particularly high-rise complexes, will fall in 2009-10. As a result, total dwelling investment is forecast to decline by a further 3% in year-average terms.

Business investment

90. Business investment is expected to have remained near historic highs in 2008-09, but is unlikely to grow further. Despite deterioration in the outlook over the year, a large number of projects still to be completed in the commercial, resource and infrastructure sectors is expected to have supported estimated growth of 14¼ per cent in other buildings and structures investment in 2008-09. Machinery and equipment investment is estimated to have risen by 1¼ per cent, supported by work under construction and the Federal Government's tax incentives. Overall, the volume of business investment is estimated to rise 7 per cent in 2008-09. Investment is expected to peak in 2008-09, with a number of factors forecast to see businesses rein in expansion plans in 2009-10. A dramatic rise in risk aversion by both Australian and overseas lenders has limited access to funding for new projects, particularly in commercial property, while rising vacancy rates have also reduced the need for new office space. The global recession and decline in commodity prices has also led to the postponement or cancellation of a number of resource projects. As a result, business investment is forecast to decline 17 per cent in 2009-10 and to continue to unwind in 2010-11, declining a further 8¼ per cent.

91. Playing a crucial role in supporting economic activity, public final demand is estimated to have grown 5 per cent in 2008-09 and forecast to rise 5¾ per cent in 2009-10, helping to offset the decline in private demand anticipated in 2009-10. As a result, growth in public investment is forecast to contribute one percentage point to economic growth in 2009-10. This reflects the State's own significant capital program as well as infrastructure initiatives in partnership with the Australian Government.

Net exports

92. With the slowdown in the global economy, the volume of exports is estimated to have contracted by 2 per cent in 2008-09 and 2¼ per cent in 2009-10, largely reflecting recessions across Queensland's major trading partners. In particular, sharp reductions in steel production in Japan, Korea, Taiwan and India have lowered hard coking coal exports since late 2008, while a scaling back in global industrial production has caused base metal exports to fall in the second half of 2008-09. These trends are forecast to continue in 2009-10.

93. Queensland's total imports are expected to have fallen by 1 per cent in 2008-09 and forecast to fall by 3¼ per cent in 2009-10. Goods imports are expected to fall, as slower growth in consumer spending and a sharp decline in business investment in 2009-10 lowers demand for imported consumer and capital goods. Overseas tourism imports are also expected to fall, as Queenslanders substitute international with domestic tourism or postpone holiday plans. Overall, net exports are expected to have detracted ¼ of a percentage point from growth in 2008-09, with exports estimated to have fallen by a greater amount than imports. In 2009-10, imports are

expected to decline at a faster rate than exports, resulting in net exports contributing ¾ of a percentage point to growth.

Labour Market

94. Weak domestic growth and a decline in confidence has resulted in diminished demand for labour. Year average employment growth is estimated to be 2¼ per cent for 2008-09. In 2009-10, employment is forecast to decrease by ¾ per cent. Labour force participation is expected to be historically high at 67½ percent in 2008-09 and is forecast to fall marginally to 67¼ per cent in 2009-10. Poor job prospects are expected to discourage some unemployed persons and to deter some potential entrants. The high participation rate, continuing population growth and the fall in employment has seen the unemployment rate increase to 4.4 per cent in 2008-09 and it is forecast to increase to 6½ per cent in 2009-10.

95. Wages growth is expected to ease as a consequence of softening labour market conditions. The wage price index is estimated to grow by 4¼ per cent in 2008-09 but this is expected to moderate to 3½ per cent in 2009-10. Labour market conditions in both the construction and mining industries are expected to contribute to the moderation of wage pressures in 2009-10.

Prices

96. While the Brisbane Consumer Price Index (CPI) peaked at 5.6% (annual) in the September quarter 2008, the effects of slowing demand relaxing capacity constraints and falling oil prices has seen inflation ease to 2.0 per cent for the year to June 2009. Restrained economic activity, both domestically and internationally, should continue to moderate inflation with the CPI forecast to increase by 2½ per cent in 2009-10. This is likely to be driven by rental increases due to continuing housing stock shortages.

Assessment of potential risks to economic activity

97. The risks to economic growth in Queensland relate to global demand, confidence and to inflation. A key risk is business and consumer confidence. Corporate failures or poor performance in the coming reporting season may further disrupt the wellbeing of the financial system or further shock the equities market. This would result in an additional tightening in credit conditions, again impacting the real economy via declining confidence and prolonging the global downturn.

98. The extent of the downturn in emerging Asia will influence commodity prices. While world prices of copper, lead and zinc have experienced a sizeable recovery so far in 2009, coal prices remain depressed as demand wanes. Nevertheless, China significantly increased metallurgical coal imports from Queensland in the first four months of 2009, cushioning a fall in imports from traditional buyers such as Japan,

99. India, South Korea, Taiwan and the UK. Current economic forecasts are based on the expectation that some of this surge in Chinese demand proves short lived, which would leave Queensland exposed to the fall in demand. However, on the upside, if this trend were to continue for all of 2009, China could replace India as Queensland's second largest destination for metallurgical coal.

100. Internationally, governments have injected unprecedented amounts of liquidity into failing financial institutions, and have taken on a large amount of 'toxic' assets in an attempt to re-capitalise the financial system. The sharp rise in government debt issuance may heighten sovereign risk, driving global interest rates higher in the long term. This, combined with aggressive monetary easing may lead to a surge in inflation as the global economy recovers.

101. Economic growth prospects could also be further jeopardised by the spread of swine influenza. This could in turn affect Queensland's overseas tourism exports in 2009-10.

102. Reflecting the relatively less aggressive monetary easing in Australia assumed over the forecast period, some appreciation in the A$ has been factored into economic forecasts for 2009-10 and 2010-11. However, the current trend suggests that the A$ may rise faster than assumed. Indeed, the value of the A$ averaged 80.20USc in June 2009, compared with 66.40USc in March. A larger than expected A$ appreciation will further erode export earnings and domestic incomes in 2009-10.

103. Domestically, a key element of the outlook for the national and Queensland economy is the proposed infrastructure initiatives announced in the 2009-10 State and Australian Budgets, with their timely implementation crucial to supporting economic activity.

Overall economic assessment

104. There can be no doubt that the substantial and early easing of monetary policy and the substantial and early implementation of fiscal stimulus has had an impressive effect in staving off the worst of the global recession. This, along with the substantial and early recovery in China has left the Queensland economy in a relatively good position compared to the rest of Australia and, indeed, the rest of the industrialised world.

105. Queensland's GSP is forecast to fall by ¼ per cent in 2009-10 and to grow by 2¾ per cent in 2010-11 compared to a fall in national GDP of ½ per cent and a rise of 2¼ per cent in the two years respectively. The unemployment rate in Queensland is forecast to be 6½ per cent in 2009-10 and 7¼ per cent in 2010-11. However, recently there are some signs of stabilisation both internationally and domestically as well as signs that consumer confidence and business confidence are returning.

Fair Wages for minimum wage and award reliant employees

106. Since the commencement of the *Industrial Relations Act 1999* awards have not been intended to be mere safety nets of wages and conditions, and in line with the statutory obligations placed on the Commission, there should be a continuing effort to address the disparity between award rates and enterprise bargaining rates, as well as general wage movements across the community.

107. The full bench in the 2006 Queensland SWC decision acknowledged this statutory requirement, stating:

We accept that the legislative obligations placed on us mean that award rates should be adjusted with some reference to general movements in wages across the community. One of the major indicators of general movements across he community are the wage increases that have been achieved through enterprise bargaining and in the community generally. As we have said previously the legislation does not require us to establish a safety net of wages and conditions. In that regard we are required to address the disparity between real award rates and enterprise bargaining rates, as well as general wage movements across the community.[17]

108. In its 2007 SWC decision, the full bench of the QIRC acknowledged the differences between minimum award wages and community standards and its role in reducing the gap:

In any event, we have reached the conclusions that the economic environment is such that, on this occasion we can take the step of providing real wage increases to most award-reliant wage earners and, in doing so, taking a small step towards addressing the increasing difference between minimum wage movements compared with AWOTE…The increase we have granted should also impact positively on the gender pay gap. [18]

109. The following table shows the percentage nominal and real increases in the order of those submitted by the unions and that supported by the Queensland Government would bear to the QMW and award rates.

Table 10 Nominal and Real Increases from QCU and Queensland Government

Jun-09	150.0													
Jun-10	153.8	Estimate for June 2010 is based on forecast inflation of 2 .5 per cent Qld Treasury Budget Fiscal and Economic Update June 2009												
Nominal and real award wage increases from QCU position v. Qld Government position														
	c14	c13	c12	c11	c10	c9	c8	c7	c6	c5	c4	c3	c2(a)	c2(b)
per week														
Current	$552.00	$568.70	$591.20	$612.10	$645.80	$666.70	$687.50	$706.40	$748.10	$768.40	$789.80	$831.50	$852.40	$890.10
$27.80 QCU	$579.80	$596.50	$619.00	$639.90	$673.60	$694.50	$715.30	$734.20	$775.90	$796.20	$817.60	$859.30	$880.20	$917.90
Qld Govt	$565.80	$582.92	$605.98	$627.40	$661.95	$682.85	$703.65	$722.55	$764.25	$784.55	$805.95	$847.65	$868.55	$906.25
dollar increase														
QCU	$27.80	$27.80	$27.80	$27.80	$27.80	$27.80	$27.80	$27.80	$27.80	$27.80	$27.80	$27.80	$27.80	$27.80
Qld Gov't	$13.80	$14.22	$14.78	$15.30	$16.15	$16.15	$16.15	$16.15	$16.15	$16.15	$16.15	$16.15	$16.15	$16.15
nominal increase														
QCU	5.0%	4.9%	4.7%	4.5%	4.3%	4.2%	4.0%	3.9%	3.7%	3.6%	3.5%	3.3%	3.3%	3.1%
Qld Govt	2.5%	2.5%	2.5%	2.5%	2.5%	2.4%	2.3%	2.3%	2.2%	2.1%	2.0%	1.9%	1.9%	1.8%
real increase														
QCU	2.5%	2.3%	2.1%	2.0%	1.8%	1.6%	1.5%	1.4%	1.2%	1.1%	1.0%	0.8%	0.7%	0.6%
Qld Govt	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.2%	-0.3%	-0.4%	-0.4%	-0.5%	-0.6%	-0.7%
Note: Real increases are based onforecast inflation of 2 .5 per cent growth over the year to June 2010 (Qld Treasury Budget Fiscal and Economic Update June 2009)														

[17] Queensland Council of Unions and the Crown and Others, B/2005/1197, QGIG 182,16, para 274
[18] Queensland Council of Unions and the Crown and Others, B/2007/45, QGIG 185 422-450

110. There is a widening disparity between award-reliant employees and those who benefit from enterprise bargaining as the following tables demonstrate.

111. Tables 11 and 12, which show average weekly ordinary time earnings by pay setting method, demonstrate a surprising result in terms of award-reliant adult full-time permanent employees. That is, weekly earnings have reduced from $739.40 per week in 2006 to $698.30 per week in 2008. A reduction of $41.00 per week or 5.6 per cent. Average wages for all award-reliant employees has also dropped – from $529.80 to $450.60 per week - a reduction of $79.20 per week or 14.9 per cent. More research needs to be conducted into this data to determine why the average wages for award-reliant employees has dropped so dramatically. Initial speculation is that it is related to the fact that a number of the main awards which cover award-reliant Queenslanders do not extend far beyond the C10 level. The high level of part-time and casual employees in the award-reliant group would also contribute.

112. The data for 2008 also shows that the average weekly rate for adult full-time employees on registered certified agreements (CAs) is $1161.50. This is $463.20 per week, or 66.4 per cent greater than award-reliant employees in the same category. This is an extraordinary result compared to 2006 when the difference per week between full-time adult employees on awards and those on State Registered CAs was $317 per week or 30 per cent.

113. There is a difference in the presentation of the data in that in 2006 CAs were separated into federally and State registered instruments. In 2008 they are combined as registered agreements. As the weekly rate for federally registered CAs is lower than the State CAs, the average would have been lower than the State figure, thereby reducing the overall difference between award-reliant and collective agreement covered employees. This actually makes the 66 per cent difference in 2008 more stark.

Table11: Average weekly ordinary time earnings, non-managerial employees by pay setting method, Queensland 2006

	Award Only	Federal registered CA	Federal registered IA	Other	State registered CA	State registered IA	Total
Non-managerial employees							
adult permanent/fixed contract full-time	739.40	985.60	862.90	1023.70	1056.60	908.10	951.30
adult casual full-time	745.30	928.00	714.30	1153.20	826.20	831.60	855.60
adult permanent/fixed contract part-time	471.40	530.60	840.00	456.60	573.20	–	518.20
adult casual part-time	365.80	363.00	436.40	369.90	375.60	n.p.	367.80
Junior	222.00	219.10	377.70	271.30	303.60	n.p.	230.50
Total	529.80	762.40	809.70	859.10	902.10	767.00	736.00

Source: Unpublished data, ABS Survey of Employee Earnings and Hours (Cat. no. 6306.0), May 2006
Notes: np - Not available or not published

Table 12: Average weekly ordinary time cash earnings of Non-managerial employees by Employment status by Method of setting pay

	Award or pay scale only	Registered collective agreement	Unregistered collective agreement	Registered individual arrangement	Unregistered individual arrangement	Total
	$	**$**	**$**	**$**	**$**	**$**
Adult permanent/fixed contract full-time	698.30	1161.50	1225.20	987.50	1114.60	1092.30
Adult casual full-time	768.90	1133.30	—	660.90	1059.40	986.00
Adult permanent/fixed contract part-time	469.10	566.40	484.90	546.00	670.20	576.60
Adult casual part-time	340.50	401.30	464.30	438.90	424.70	378.60
Junior	250.80	256.90	—	157.10	339.00	266.20
All Non-managerial employees	450.60	928.60	796.70	855.50	959.50	838.30

Survey of Employee Earnings and Hours, ABS cat. no. 6306.0, August 2008

114. This widening gap should provide a significant incentive for employees to enter into individual or collective agreements. The fact that some employees remain award reliant, despite the fact their rate of pay falls well short of the pay of those on agreements, suggests that employees are not choosing to remain subject to award only rates. The reality is that, for a variety of reasons, not all employees are able to bargain with their employers for wage increases, a point which has been recognised by the QIRC.

115. In establishing a fair standard for wage adjustment, the Queensland Government submits that the issues of wage disparity and poverty should be considered. The pattern of wages growth means that there is a continuing issue of wage disparity that needs to be addressed in the interests of ensuring fair wages in line with standards generally prevailing in the community e.g. the disparity between those workers who rely on pay scales to provide wage increases and those who benefit from collective and individual bargaining. The reality is that not all employees are able to bargain with employers for wage increases. The Commission is referred to the following comments of the Full Bench in *State Wage Case 2006*:

> "*The rate of increase in income levels generally is something that should be taken into account in deciding what adjustment is necessary to ensure that wages and employment conditions provide fair standards in relation to living standards prevailing in the community. There is no evidence that recent increases in award wage rates of pay have slowed the growth in bargaining..*

<u>Arguments Against a Wage Freeze</u>

116. The last time there was a wages freeze in Queensland was 1983. This was a time of huge wage increases by current standards and inflation was racing out of control. It cannot therefore be used as a precedent on which to base a wage freeze this year, as suggested by the QCCI.

117. The then Minister for Employment and Labour Relations applied for a statement of policy by the Commission that it would, during the next 12 months, observe a pause in the awarding of increased salaries, wages, allowances and improved award conditions from 30th June, 1983. In the event, the Commission decided to freeze wages for 6 months.

118. Significant differences exist in the current economic environment and the environment of the 1983 wage freeze. Queensland unemployment at the time of the wage freeze decision was at 10.4 per cent. Almost double the current unemployment rate of 5.4 per cent. Inflation in Brisbane is currently at relatively low levels and is forecast at 2½ per cent for 2009-10. At the time of the 1983 wage freeze decision the Brisbane CPI was at 11.0 per cent. The WPI for 2008-09 is estimated to have grown by 4¼ per cent, compared to average wages increasing by 17 per cent in 1982-83. Furthermore, the wages pause phenomenon was national, with the federal government and a number of State governments applying to their tribunals to withhold wage increases. Clearly this is not reflected in the current situation.

119. The AFPC used the fact that low paid workers were recipients of payments from the fiscal stimulus packages and changes to the tax and transfer system to supports its decision to freeze wages. As mentioned above, in rejecting a wages freeze the WAIRC said the stimulus package payments were a once-off and:

> *Not designed as a substitute for increase which otherwise might be expected to occur";* and
> *We consider it to be inconsistent with the Commonwealth's fiscal stimulus payments stimulating consumer spending to reduce the value of the minimum wage by awarding no increase at all.*[19]

120. The Queensland Government endorses these comments. Further, in 2008 the QIRC also rejected employer submissions that changes to the tax and transfer systems should be considered as increases to the income of the low paid which can substitute for wage increases.

> *We note the submission that in light of the income tax cuts provided this financial year, no increase or a lesser increase in the Queensland Minimum Wage and award wages should be granted. Rates of taxation are a matter of government policy and various adjustments have been made in recent years. These adjustments have not just benefited the low paid. In our view it would be unfair to deny wage rises to the most vulnerable employees on the basis that some taxation relief flowed to them when it has also flowed to the broader workforce.*
>
> *We also note the QCCI submission that recent changes to the Superannuation Guarantee legislation have added a cost impost on employers while providing a benefit to some employees. We consider that the cost impost to be a factor to be taken into account in balancing the needs of employers and those of employees. However, we repeat the comment made in respect of tax cuts, that one group of employees, in this case the low paid, should not be expected to bear the brunt of*

[19] WA State Wage Case op cit

the cost impost by being awarded a lesser increase to award wages and the Queensland Minimum Wage as a result.[20]

Low Paid Workers and the Working Poor

121. While Queensland has experienced significant economic growth over the past two decades, the benefits of this growth have not been evenly distributed across the labour force. The significant income inequality that resulted produced a situation in which low paid workers comprise a significant proportion of Queensland's workforce. With the recent economic downturn, Queensland's low paid workers find themselves in a situation in which employment can no longer guarantee immunity from poverty or social exclusion.

122. The Commission recognised this in its decision on the 2008 State Wage Case. Paragraph 164 of the decision states:-

 "We also recognise that there is a range of people who are vulnerable to poverty and that this includes an increasing number of 'working poor', where individuals or households fall below the poverty line, even where they are in paid employment." [21]

123. The growth in earnings inequality is illustrated in Figure 2, which shows the change in earnings inequality in Queensland for full-time non-managerial employees between 1983 and 2008 (the most recent year for which data are available). The figure shows a significant divergence between the real earnings growth of non-managerial employees in the top 10 percent compared to those in the bottom 10 per cent. The change between 2006 and 2008 is particularly marked, with real earnings growth for employees in the 50th and 90th percentiles trending downwards.

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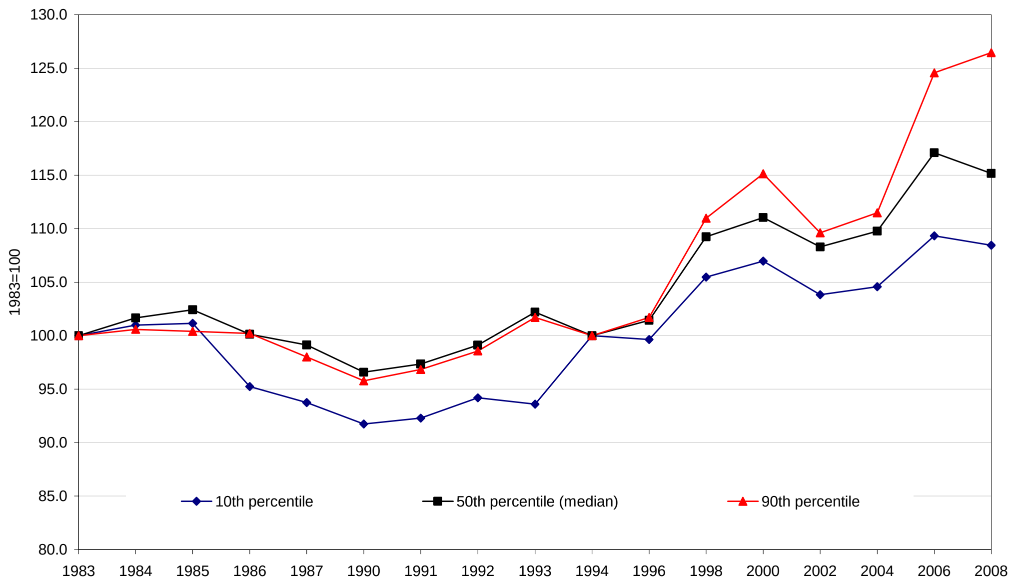
[20] 2008 Queensland SWC *decision paragraphs 184 - 185*)

[21] Ibid

Figure 2: Wage dispersion, 1983-2008, Queensland



Source: Unpublished data, ABS EEH Survey (Cat. No. 63060.0 August 2008)

124. It should be noted that these data relate to full-time employees only. There has been a significant increase in the proportion of employees working part-time, many of whom are employed on a casual basis. Given that part-time and casual employees tend to be concentrated in relatively low paid industries and occupations, the data in Figure 2 may underestimate the increase in inequality resulting from structural changes in the labour market.

125. The Queensland Government submits that a wage increase will help prevent a further increase in income inequality, and reduce the risk of growing the number of poor and socially excluded. This is relevant to the object of providing fair standards in relation to living standards prevailing in the community.

Characteristics of the Low Paid and their Employment

126. Data from the Household Income and Labour Dynamics in Australia (HILDA) survey show that low paid workers share certain common characteristics:[22]
    - Low paid employees are more likely to be employed in service industries such as Retail Trade, Accommodation, Cafes and Restaurants, Health and Community Services and Property and Business Services. Together these industries account for approximately 53.3 per cent of low paid workers;
    - Low paid workers are more likely to work in regional areas;
    - Low paid workers are more likely to be women who are working in part time jobs. Together this group accounts for 35.4 per cent of low paid workers; and
    - Low paid workers are more likely to work in small private sector firms.

127. The extent of award reliance by industry is shown in Table 5 of this submission. These industries are highlighted in Table 13, below, which shows the high incidence of low paid workers in the most award reliant industries.

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[22] Headley, B & Warren, D (2007) Families Incomes and Jobs, Volume 2: A Statistical Report on Waves 1 to 4 of the HILDA Survey.

Table13: Characteristics of Australian Low Paid Workers (Percentage)

Industry	Low Paid Employees (%)
Agriculture, Forestry and Fishing	7.0
Mining	0.1
Manufacturing	8.4
Electricity, Gas and Water Supply	0.4
Construction	3.7
Wholesale Trade	4.6
Retail Trade	17.8
Accommodation, Cafes and Restaurants	9.8
Transport and Storage	3.7
Communication Services	0.7
Finance and Insurance	1.5
Property and Business Service	9.9
Government Administration and Defence	2.3
Education	7.4
Health and Community Services	15.8
Cultural, Recreational Services, Personal and Other Services	7.1

Source: Household Income and Labour Dynamics in Australia Survey Release 5.0 February 2007

128. Awards are the primary source of determining pay for almost a third of all part time female employees.[23] Therefore women are more likely to be affected by minimum award standards by industry, employment status and occupation. Table 14shows that female employees dominate industries which are highly award reliant and often low paid. Although this data is from the 2005 Queensland Workplace Industrial Relations Survey (QWIRS) and is therefore several years old, there is no evidence to show that this situation has altered.

[23] Queensland Workplace Industrial Relations Survey 2005

Table 14: Employed females aged 15 years and over in Queensland (Percent)

Industry	Percentage of females in particular industry (%)
Agriculture, forestry and fishing	32.8
Mining	13.3
Manufacturing	24.1
Electricity, gas, water and waste services	20.8
Construction	14.4
Wholesale trade	33.3
Retail trade	58.1
Accommodation and food services	59.2
Transport, postal and warehousing	23.9
Information media and telecommunications	43.3
Financial and insurance services	58.8
Rental, hiring and real estate services	52.1
Professional, scientific and technical services	47.8
Administrative and support services	52.2
Public administration and safety	42.5
Education and Training	71
Health care and social assistance	78.8
Arts and recreation services	49.3
Other Services	44.7
Not stated/inadequately described	40.3
Total	46.1

Source: ABS Census 2006

129. 56 per cent of low paid employees work for businesses that employ less that 20 staff in the private sector. These businesses are overwhelmingly award reliant and are often found in non metropolitan areas. The concentration of certain types of workers in low paid industries and occupations is indicative of structural factors within the labour market.

The financial stress of Low Income households

130. Based on the ABS Household Expenditure Survey 2006, the mean gross household income per week for those in the lowest and second lowest quintiles is $724 and $995 respectively, compared to $1036 for all households.[24]

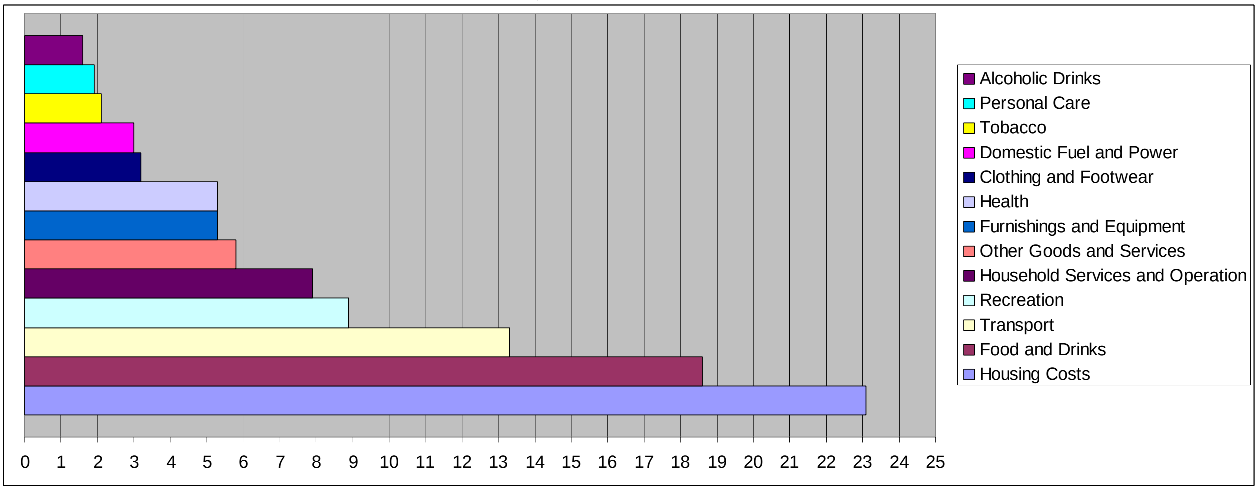
131. The average weekly expenditure of households in the lowest income quintile is $396.18 and $619.26 for households in the second lowest income quintile. In contrast, expenditure across all households is $830.13.[25]

132. For households included in the bottom 40 per cent of wage earners, meeting the costs of food and non-alcoholic beverages, housing and transport represents more than half of these households' total expenditure on all goods and services.

133. Figure 3, below, shows household expenditure for households in the bottom quintile. It demonstrates that these workers spend over 50 per cent of their income on housing, food and transport.

[24] Household Expenditure Survey, ABS Catalogue 6530.0
[25] Ibid

Figure 3: Household Expenditures on Goods and Services for the 20 Per Cent Lowest Gross Income Earners (Percent)



Source: ABS Household Expenditure Survey, 2003-2004, cat. 6530.0

134. The costs of other necessities such as fuel and power, and household services and operation also correspond to a significantly higher proportion of payments for households in the two lowest income quintiles that for all other households. When compared against income based on the minimum wage, currently $552.00, after expenditure on these essentials there is scant left over for those in the lowest income quintiles.

135. In Queensland the mean household net worth of the lowest quintile is $25,201 compare this to $151,167 for the second lowest quintile and $407,327 for all households.[26]

136. According to the ABS publication Australian Social Trends 2007, and as shown in table 15, more than half of all households in the lowest income quintile reported that in an emergency they could not raise $2,000 in a week. Significant proportions of these same households also reported they could not pay a utility bill on time.[27]

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[26] Australian Social Trends 2007: Low Income Low Wealth Households ABS Catalogue 4102.0 (2007)
[27] Ibid

Table15: Specific Indicators of Financial Stress

Household experience	Low Economic Resources households (%)	Other Households (%)
Unable to raise $2000 for something important in a week	52.1	8.6
Could not pay electricity, gas or telephone bills on time	37.8	11.5
Could not pay for car registration or insurance on time	13.5	4.6
Pawned or sold something	11.7	2.3
Went without meals	11.8	1.8
Unable to heat home	8.9	1.2
Sought assistance from welfare/community organisations	14.7	1.2
Sought financial assistance from friends or family	26.4	7.8

Source: ABS Australian Social Trends 2007, cat 4102.0

137. The most disadvantaged families are families in the bottom income quintile who do not possess a home and are forced to rent. Of those in the lowest quintiles, 89.7 per cent rent, compared to 30.8 per cent of all families.[28] This was also noted by the Commission in 2008, when it stated:

> *"We accept that, in recent years, housing affordability has decreased significantly for many Australians and that it is particularly marked for those employees reliant on minimum wages and pay scales. Housing affordability affects not only those living with mortgage stress after purchasing a home, but also those who are facing substantially increased rents."* [29]

138. Individuals who did not own a house comprised approximately 29 per cent of all Australian households. In Queensland this figure is 30.8 per cent, second only to the Northern Territory. These households represent approximately three quarters of households experiencing the difficulties found in table15.[30]

139. These financial pressures endanger household stability and arrangement, as well as the security of children. Raising the minimum wage can help to protect the conditions of low income earners when facing essential and emergency costs.

Recent Developments for the Costs of Living

140. The most recent data published by the Australian Bureau of Statistics, while relatively accurate at the time, do not take into account the basic costs of living such as food, fuel and housing, which have increased dramatically in the past few years.

141. In Queensland the price of basic commodities such as food, fuel, health and education has been rising sharply in recent years. According to statistics collected by the ABS, the cost of basic commodities has risen on average by 6.5 per cent over

[28] Census of Population and Housing 2006 ABS
[29] State Wage Case Decision, 2008
[30] ABS 4102.0 Op Cit 2007

the past 12 months in Brisbane.[31] As demonstrated above, low wage earners spend a high proportion of their income on these basic commodities.

142. Low income earners with children also spend a high proportion of their total incomes providing for their children. On average, one child will absorb one third of a low wage earner's gross income. This increases to approximately one half of gross income to support three children.[32]

143. The level of affordability of home purchase has also continued to decrease over the last decade. According to the 2008 Trends in Housing Affordability and Housing Stress 1995-1996 to 2005-2006, it takes approximately 7.2 times the Queensland average annual household disposable income ($48,189) to pay off the median house price of a typical property in Queensland. This has increased from a stable four times the annual wage rate prior to 1996.[33] For an employee or a household which is award reliant, or for an employee who is employed on a part-time or casual basis, this factor becomes even greater.

144. The cost of renting a property has also dramatically increased in Australia. According to the 2007 Housing Affordability Report, rent prices will increase by 28.5% before the decade's end. Further, the average cost of a three bedroom apartment has increased by 82 % since 1996.[34]

145. A report by AMP NATSEM (National Centre for Social and Economic Modelling) estimates that in 2005/06 there were some 439,200 people living in working poor household in Australia.[35] Without a reasonable increase in award and minimum rates, many low income earners will experience a decline in their standard of living as the cost of living increases.

146. The Commission stated in its 2008 State Wage Case decision that:

> *"If the Commission is to establish a fair standard for wage adjustments then there must be a recognition, not only of the issue of wage disparity, but also of those in paid employment who have found themselves vulnerable to poverty in recent years."*

147. The Queensland Government submits that a reasonable increase in minimum and award wages is consistent with this view. Such an increase can and should be awarded to assist to stem the financial stress of low income earners.

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[31] Average Retail Price of Selected Items, Eight Capital Cities, ABS Catalogue 6403.0
[32] ABS Catalogue 4102.0 (2007) op cit
[33] NATSEM op cit
[34] Urban Development Industry of Australia Report into Affordable Home Ownership in Australia 2007
[35] AMP NATSEM Income and Wealth Report (2008)

Minimum wages and employment

148. The principal object of the Act, at section 3(b) requires the Commission to have regard to providing for an effective and efficient economy, including high employment.

149. Submissions and evidence on the effect of minimum wage increases on employment have been a feature of wage cases over the past decade and even more so this year, with unemployment increasing. The Queensland Government submits that the empirical evidence supports the case that reasonable increases in minimum award rates of pay and the QMW will not have significant adverse impacts on employment of award-reliant workers.

<u>AFPC analysis of the effect of minimum wage increases on employment</u>

150. As mentioned above, the AFPC relied heavily on the empirical evidence that any increase to minimum wages would impact negatively on employment, in the absence of other economic responses in prices or productivity. The Queensland Government questions the AFPC's interpretation of the empirical evidence and places on record our response to the AFPC analysis:

151. In its decision the AFPC argued that, given current labour market conditions, a wage increase will negatively impact employment and that employment is a priority at this point in the economic cycle. Further, they have argued that tax and transfer payments changes have increased disposable income for the low paid and alleviated the need for a wage increase. While issues around productivity, profit versus wages share of GDP, inflation and projections for non-award wages growth are mentioned in the documentation, they are largely ignored in the decision.

152. Where the AFPC's argument can be questioned is embodied in the following paragraph:

> "*Most recent analyses of minimum wages have been conducted in a labour market with relatively low* unemployment *and* steady *wage growth. The findings from those analyses may not be readily applicable in a weaker labour market. Given the outlook for the labour market, the Commission has therefore revisited the effects of previous recessions and monitored the most recent business surveys.*"

153. The AFPC appears to largely ignore the research evidence in favour of a theoretical stance on the relationship between wages and employment. Where the Commission does attend to the empirical evidence, it appears to rely heavily on the recent Centre for International Economics (CIE) report *Modelling the macroeconomic impact of the Fair Pay Commission's minimum wage decisions*.

154. However, there appears to be a selective acceptance of the evidence even from this report. For example, the CIE report states that there is unlikely to be differences in elasticities for employment across the business cycle which would indicate that the effects of a minimum wage change would not be different in the current downturn than in the previous boom. While the CIE report is well executed, its modelling methodology is the subject of considerable debate in the literature with many economists (including the AFPC commissioned report from Access Economics

(2007)) arguing the methodology is not applicable to minimum wage effects modelling.

155. The report employs Computable General Equilibrium (CGE) modelling (AUS-M and Monash MMRF) to asses the impact of minimum wage increases as if they are a shock to aggregate wages. In other words, the report computed the effect of the wage increases on average weekly earnings from wage decisions from 2006 to 2009 (0.35 of a per cent). As the historical data already contain the effects of the Commission's decisions, the relevant wage variables were "shocked" by removing the effects of the decisions and the results are compared to the actual outcome data. This approach will always produce employment effects because of assumptions in the model. Real wage increases will only impact employment levels if unaccompanied by equivalent productivity improvements or if wage cost increases cannot be passed on in price increases. Indeed, the Federal Treasury's macroeconomic model (TRYM) suggests that wage rises not supported by improvements in productivity flow more into higher inflation (higher prices) than they do into lower employment.

156. Despite the methodological issue, the CIE report concludes that if the AFPC had not granted any increases from 2006 to 2009, unemployment would have been 0.05 or a percentage point lower and employment would have been 8,000 higher. Given the absence of productivity and pricing effects in the modelling, it is difficult to interpret these estimates as anything but infinitesimal.

157. Further, the CIE proceeded to model a 4.0 per cent increase from 2009 until 2015. This modelling predicted an impact on employment of up to 17,000 jobs. The choice of 4.0 per cent is difficult to defend as each of the AFPC's increases to minimum pay has approximated the inflation rate which is forecast nationally at 1.75 per cent for 2009-10. The highest CPI rise expected in Budget forecasts for the modelling period is 2.5% in 2012-2013. Thus, the CIE has modelled significant real wage increases which may well impact employment depending on the magnitude of productivity increases and flows to pricing, however, increases of this magnitude are not credible. Despite this, the AFPC appears to have relied on this report as evidence of the effects of minimum wage increases on employment.

158. Another problem with the AFPC approach is the focus on previous recessions as a source of data. Previous recessions may not be useful predictors of the course of the current downturn as the current situation is not characterised by the high inflation and high wages growth of previous recessions, nor have previous recessions been characterised by the level of stimulus pump priming present in the current downturn. The previous wage freeze in 1982 was set in the context of very high wages growth (16.6 percent compared to 4.1 per cent presently) and very high inflation (12.5 per cent compared to 2.5 per cent presently) and within a "fight inflation first" policy stance. Clearly the situation in 1982 is substantially different to the present.

159. The arguments outlined above demonstrate the flawed nature of the AFPC's decision. While the economic downturn provides a complex background to the minimum wage decision and there is little empirical evidence that is directly relevant to that background, it does appear that the decision and its assumptions are

based on a particular theoretical bias. The Australian Government's budget forecast is for the CPI to increase by 1.75 per cent for 2009-10. On that basis, the outcome of the decision not to increase the minimum wage is a real wage decline for minimum wage workers of 1.75 per cent.

Review of the Evidence

160. The Queensland Chamber of Commerce and Industry asserts in its submission in this matter that:

Any increase in wages will impact on the unemployed and low paid workers remaining in employment. Granting a wage increase in the current economic environment will result in further job loses (sic)…

161. This statement cannot be supported by the evidence, as outlined below:

162. There is no doubt that the level of aggregate real wages will impact on employment in any economy. The demand for labour depends on its relative costs and the relative value of its output. An employer's demand for labour is determined by the cost of labour (real wages plus on costs), the cost of substitute inputs (capital or other forms of labour) and the relative value of output produced by a unit of labour and substitute inputs. An increase in real wage that is not supported by an improvement in labour's productivity or a change in output prices causes the employer to substitute away from labour toward a substitute input. Empirical estimates of the elasticity of average real wages with respect to total employment vary from -0.2 to -0.8 for the Australian economy[36]. That is, a 10 per cent increase in total average real wages in Australia would result in a 2 to 8 per cent decrease in total employment.

163. While the economic effects of average real wages is relatively uncontroversial, the impact of minimum wage increases on employment remains the subject of debate. Competitive labour market models suggest that that an increase in the minimum wage above the market equilibrium wage decreases employment. In contrast, monopsony power models of labour markets suggest that the labour supply curve faced by an individual employer is upward sloping and that employers must increase wages to attract more workers. These models predict that employers hire fewer workers and pay lower wages than the competitive market does and that it is possible that an increase in the minimum wage might increase employment. Given the lack of theoretical agreement, it is necessary to examine the empirical evidence on the relationship between minimum wages and employment. It should be borne in mind that US and UK evidence, where minimum wages are only applicable to wage earners at the bottom of the scale, is not strictly applicable to Australia, where award wage apply to pay-scales from c14 to c2. Employees on the c2 award are earning close to average weekly earnings.

US Evidence

164. There are many US studies, most of which estimate the effects of a minimum wage change on teenage employment. These studies tend to find small effects on teenage employment with elasticity in the range of -0.1 to -0.3 with most studies tending

[36] Lewis, P., 2006, Minimum wages and employment, Report commissioned by the Australian Fair Pay Commission.

towards the bottom of the range. In a recent review and re-analysis, Adams and Neumark[37] suggest an elasticity of -0.14. They suggest that a 10 per cent increase in the minimum wage will result in a 1.4 per cent decrease in teenage employment. Interestingly, they also conclude that an increase in the minimum wage will also result in a reduction in urban poverty.

UK Evidence

165. Stewart[38] estimated the employment effects of the introduction of the UK National Minimum Wage in 1999 and subsequent increases in 2000 and 2001useing a difference-in-differences approach. No significant adverse employment effects were found for any of these events for any of the estimators for any demographic group. Similarly, in a review of the available evidence, Metcalf[39], who was a Commissioner on the Low Pay Commission from 2001 to 2007, concludes that there is little or no evidence of any employment effects from minimum wage increases.

Australian Evidence

166. There is a significant body of literature on the Australian labour market. However, this largely relates to aggregate real wage levels and total employment. Those studies generally show an inverse relationship between total employment and aggregate real wage levels. It can be argued that such a relationship may be stronger for unskilled, low paid workers as the costs of laying off these workers is much smaller than for more skilled, higher paid workers. However, there is limited empirical evidence for this argument. In response to this lack of empirical evidence on the impact of minimum wage increases, the Australian Fair Pay Commission commissioned reports from Access Economics and the National Institute of Labour Studies (NILS) on monitoring the impact of minimum wage decisions. The Access Economics report concluded:

> *The limitations of these Australian and international models of labour demand mean that it is not possible to draw directly from existing research to develop a strategy for isolating the effects of wage decisions on the demand for low paid workers, junior employees, employees to whom training arrangements apply, and workers with disabilities.*[40]

167. Further, of the methodologies employed in many of the existing studies, they concluded:

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[37] Adams, S. & Neumark, D (2005) Living Wage Effects: New and Improved Evidence, Economic Development Quarterly, Vol. 19 No. 1, 80-102

[38] Stewart, M. B., (2004) The Employment Effects of the National Minimum Wage, Economic Journal, Vol. 114, No. 494, pp. C110-C116

[39] Metcalf, D. (2007) *Why Has the British National Minimum Wage Had Little or No Impact on Employment?* CEP Discussion Paper The London School of Economics and Political Science

[40] Access Economics, (2007), Monitoring Strategy for Wage-Setting Decisions, Report commissioned by the Australian Fair Pay Commission p15

aggregate models of the Australian economy do not model the labour demand of low paid workers, while the partial equilibrium minimum wage models do not adequately take account of the interaction of prices and wages.[41]

168. Both reports conclude that the most appropriate methodology for examining the effects of minimum wage decisions is the use of simple linear regression with data which is highly specific to the industries, occupations and ages of low paid workers. To date, this recommendation has been largely ignored. Even the recent Centre for International Economics report mentioned elsewhere in this submission employs an aggregate model to assess the impact of the AFPC's decisions from 2006 to 2009. We could find only one study that has employed the general methodology suggested by Access Economics and NILS. Plowman[42] conducted regression analyses on the employment of 15-19 and 20-24 year olds in the retail, accommodation, cafes and restaurants and the personal and other services industries. Employment was regressed on minimum wage and State Final Demand for the period 1990 to 2005. The results indicate that it is aggregate demand rather than the level of the minimum wage which impacts on employment outcomes. Minimum wage levels were not significant predictors in the regression equations.

169. It seems that, to date, the empirical evidence has been unable to resolve the theoretical debate about the effects of minimum wage decisions on employment. In the 2008 State Wage Case decision, the Queensland Industrial Relations Commission expressed it as follows:

In many of its safety net decisions, the AIRC has considered the argument that increases in minimum wage standards creates unemployment and has been unable to find any credible link between reasonable minimum wage adjustments and employment. There is nothing in the material before this Full Bench which would cause us to conclude that such a link exists. After almost a decade of safety net adjustments, the analysis of employment data in Queensland shows that reasonable increases have not had adverse implications and have in fact been associated with strong macro-economic performance in the Queensland economy, including strong employment growth and lower unemployment.[43]

and further:

We have not been provided with any evidence that would support the proposition that a reasonable increase in the Queensland Minimum Wage and award rates of pay will adversely impact on employment in Queensland or award-reliant workers or any other persons out of work in Queensland.[44]

170. In the context of this lack of theoretical and empirical clarity about the effects of minimum wages on employment, the Queensland Industrial Relations Commission

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[41] ibid

[42] Plowman, D. H. (2006), Report Prepared for the Western Australian Industrial Relations Commission, State Minimum Wage Review, May 2006

[43] Queensland Industrial Relations Commission, SWC 2007

[44] ibid

is required to make decisions about the adequacy of minimum wage rates on an annual basis. In 2009, this decision has been further complicated by the global economic and employment downturn. After 17 years of economic growth, the Commission is now faced with a decision about the adequacy of minimum wages and their effects on employment in a period of contraction. In this context, the Commissions may wish to consider the impact of subdued (vs. robust) economic growth on the relationship between minimum wage increases and employment. While there is currently no published empirical evidence that directly addresses this question, the Centre for International Economics, in their 2009 report to the AFPC, specifically addressed the question as to “whether the elasticity of the employment response changes with the cycle – whether employers are more sensitive to wage changes in a downturn than during a boom?”[45] The report concludes that “we are not aware of any quantitative evidence to support that conjecture in the Australian context. That suggests that if such an effect is present, it is not large enough or widespread enough to be reflected in the aggregate or industry-level data.”[46]

171. Given the CPI is forecast to rise by 2½ per cent in 2009-10, the proposed increase of 2.5 per cent for the C14 to C10 award rates of pay and the $16.15 increase for the C9 to C1 rates of pay equates to a zero per cent real wage increase for the C14 to C10 rates and a real wage decline for the C9 to C1 rates. Long run average annual productivity growth for Queensland is at 1.6 per cent per annum over the business cycle[47]. However, productivity growth has fallen short of this long-run average since 2005-06 and is estimated to have fallen in 2008-09. The proposed increase in the Queensland award rates is historically moderate and reflects this expected slowdown in productivity growth.

Support for the Queensland Government Position

172. To reiterate, the Queensland Government supports an increase of 2.5 per cent to the QMW and award rates up to the C10 trade level (or equivalent) and an increase of $16.15 to all other award rates.

173. $16.15 is equivalent to 2.5 per cent of the C10 level in the *Engineering Award - State 2002*

174. The following tables show the effect the recommended increase would have on the Engineering Award and two awards from the heavily award- reliant retail and hospitality industries.

[45] The Centre for International Economics, (2009), Modelling of the macroeconomic impact of the Fair Pay Commission’s minimum wage decisions, Report prepared for the Australian Fair Pay Commission.
[46] ibid
[47] Queensland Government (2009) Budget Paper No 1, Statement 3: Fiscal Strategy and Outlook (2009)

Table 16*: Engineering Award- State 2002*

Classification Level	2008 Weekly Wage $	2009 Wage Case $	Weekly Increase $
C14	552.00	565.80	13.80
C13	568.70	582.92	14.22
C12	591.20	605.98	14.78
C11	612.10	627.40	15.30
C10	645.80	661.95	16.15
C9	666.70	682.85	16.15
C8	687.50	703.65	16.15
C7	706.40	722.55	16.15
C6	748.10	764.25	16.15
C5	768.40	784.55	16.15
C4	789.80	805.95	16.15
C3	831.50	847.65	16.15
C2 (a)	852.40	868.55	16.15
C2 (b)	890.10	906.25	16.15

Table 17: *Retail Industry Award – State 2004*

Classification Level	2008 Weekly Wage $	2009 Wage Case $	Weekly Increase $
Age 16	305.50	313.14	7.64
17	336.10	344.50	8.40
18	397.20	407.13	9.93
19	458.30	469.76	11.46
20	519.40	532.39	12.98
21	611.00	626.28	15.28
1st Lev	620.90	636.42	15.52
2nd Lev	645.80	661.95	16.15

Table 18*: Hospitality Industry – Restaurant, Catering and Allied Establishments Award – South-Eastern Division 2002*

Classification Level	2008 Weekly Wage $	2009 Wage Case $	Weekly Increase $
intro	552.00	565.80	13.80
Lev 1	568.70	582.92	14.22
Lev 2	593.80	608.65	14.84
Lev 3	612.10	627.40	15.30
Lev 4	645.80	661.95	16.15
Lev 5	687.50	703.65	16.15
Lev 6	706.40	722.55	16.15

175. It can be seen from these tables that in the most award-reliant industries most classification levels will receive a 2.5 per cent increase. While this is not a real

wage increase after accounting for forecast inflation for 2009-2010 of 2.5 per cent, it will maintain wages for the year.

176. A perusal of the wage rates in some of the most award-reliant industries shows that, as with the Hospitality and Retail awards, the wage rates don't extend far beyond the C10 rate, if at all. For example, the highest rate in the *Award for Accommodation and Care Services* Employees *for Aged Persons – South-Eastern Division 2004* is $644.70 – slightly less than the C10 rate; and the highest rate in the *Contract cleaning Industry Award – State 2003* is the C10 rate of $645.80. *The Security Industry (Contractors) Award – State 2004* extends to $703.60 for trainers and centre supervisors with the *Disability Support Workers Award – State 2003* reaching $702.00 for supervisors. That is, a real wage decrease after inflation of 0.2 per cent. The greatest decrease in real wages in this scenario in the Engineering Award will be 0.7 per cent.

177. It is submitted therefore, that the greatest majority of award-reliant employees would maintain their real wage under the Queensland Government's position. Further, the anecdotal evidence is that most employees who are classified at the C10 level and above are covered by certified agreements.

178. In the abnormal economic circumstances in which the commission must make this wage decision, the increase sought by the Queensland Government should be supported as it provides a good balance between the major legislative requirements of the Act – that is, to support employment and keep the wages of the low paid in touch with the community standard.

Estimated cost impact

179. The Queensland Government has provided estimates of the cost impact of increasing state award rates of pay and the QMW by 2.5 per cent and $16.15. The granting of such an increase would increase total average weekly earnings growth for the State by between 0.06 per cent and 0.10 per cent and average weekly ordinary time earnings growth of private sector unincorporated businesses by 0.23 per cent and 0.37 per cent. These costs are considered to be a reasonable and affordable addition to wages growth.

180. The Queensland Government submits that improvements to wages and conditions will always have some impact on labour costs. However, the small cost burden which would be associated with the minimum wage increase suggested should not constitute a reason for denying an improvement to current standards. The Queensland Government, having calculated the likely effect of this increase, submits that the small cost impact is acceptable given the other imperatives of the Commission in setting minimum wages.

181. The Queensland Government also notes that the Economic Incapacity Principle provides for any party to apply to, temporarily or otherwise, reduce, postpone and/or phase-in the application of any increase in labour costs on the ground of very serious or extreme economic adversity.

Operative Date

182. The claims seek an operative date of 1 September 2009. This Commission has granted 1 September as the operative date of SWCs since 1997. It is consistent with past practice that the date of the increase be not earlier than 12 months since the previous increase. The Queensland Government supports an operative date for increases emanating from the decision in these matters of 1 September 2009.

Adjustments to allowances

183. The QCU and AWU also seek increases in allowances which relate to work or conditions which have not changed and service increments by an amount of 4.3 per cent.

184. The Queensland Government supports a 2.5 per cent increase pursuant to the formula in the Wage Fixing Principles.

Statement of Policy - Wage-fixing principles

185. The Queensland Government supports a continuation of the current statement of principles through a statement of policy, with the necessary amendments to reflect the changes to the operative dates, the quantum of wage and allowance adjustments determined by the bench, and other consequential amendments.

Conclusion

186. This submission has examined the background and context for the 2009 state wage case, and the key economic and social factors that are relevant to the determination of the bench in this matter, consistent with the provisions of the *Industrial Relations Act 1999*.

187. The key findings include:
    - An increase of 2.5 per cent to the QMW and award wages up to the C10 level and $16.15 per week beyond that level is consistent with the minimum wage increase in WA;
    - The decision of the AFPC in its 2009 wage review should be distinguished from this matter before the Commission. A wage freeze in this matter would be inappropriate;
    - The increase to the State wages bill can be absorbed, given the relatively small numbers of employees who would be directly affected and the moderate increase being sought.
    - The evidence shows that where they are of a reasonable quantum, there is only a very small detrimental affect on employment or unemployment;
    - There is a continuing wage disparity between employees who rely on the award and the minimum wage and those who benefit from enterprise bargaining and the gap is increasing. It is incumbent on the Commission to set minimum award rates which are fair in the context of living standards generally;
    - Low paid employees are suffering financial stress with the rapid increase in the price of some essential goods and services. A reasonable wage increase would help them cover household expenses.

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