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Queensland Council of Unions
Submission
State Wage Case 2020


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**Queensland
Council of Unions**

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Introduction

In the 2019 State Wage Case decision¹, the Commission granted an application to increase wages in state awards by the same amount as had been granted by the Fair Work Commission in the relevant Annual Wage Review (AWR). This application likewise seeks the same quantum as the most recent AWR² which is a very modest amount of 1.75 per cent.

In its 2019 decision, the Commission referred to the 2014 State Wage Case³ in providing the rationale for flowing on the AWR. This rationale was premised on the Commission historically attaching considerable weight to the AWR (and the predecessor National Wage Cases and Safety Net Adjustments), whilst having regard to the current economic conditions in Queensland. In addition, the Commission broadly agreed that unless there are cogent reasons as to why it should depart from the outcome of the AWR, it should not do so. This is also consistent with the 2014 State Wage Case decision, that unless there are reasons to depart from quantum of the AWR then the Commission will award that same quantum. On this basis, the Queensland Council of Unions (QCU) makes its submissions in support of a 1.75 per cent increase to award rates of pay within the Queensland jurisdiction.

The QCU will advance arguments in support of flowing on the AWR result. This includes consideration of the impact of COVID-19 and recent research on the significance of the AWR in the context of Australia's ongoing low wage growth crisis. The economic circumstances and key economic indicators of inflation, unemployment and wage movements are also discussed under their own headings. Finally, the submission includes a brief discussion about the workers to whom the application applies.

COVID-19

There is no escaping the dramatic impact that COVID-19 has had on all aspects of life, including employment and industrial relations. Cases of COVID-19 are measured per million people and in mid-July (when research was being undertaken for this submission), Queensland

¹ *Declaration of a General Ruling (State Wage Case 2019)* [2019] QIRC 169

² *Annual Wage Review 2019-20 C2020/1* [2020] FWCFB 3501

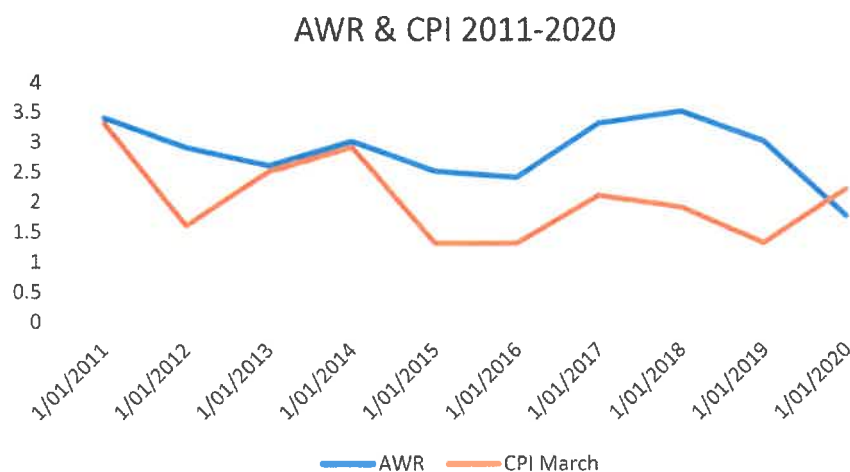
³ *Declaration of General Ruling (State Wage Case 2014)* [2014] QIRC 129 at [12] and [13].

had 207 cases per million residents (Department of Health 2020). To put this into perspective the figure for Australia was at that stage 409 and for the United States it was 10,571 (European Centre for Disease Prevention and Control 2020). The rate of infection in Australia in mid-July was twice that as for Queensland whereas the rate of infection for the United States fifty times that of Queensland. It is reasonable to suggest that Queensland is relatively well placed nationally and internationally in its management of COVID-19. It is therefore self-evident that on the basis of the rationale of the 2014 State Wage Case that there needs to be good reason to depart from the results of the AWR outcome, no such grounds can be made in relation to the impact of COVID-19 on Queensland by comparison to the rest of Australia.

Several key industries have been heavily impacted by COVID-19, including hospitality, the arts and higher education. Cairns (postcode 4870) is the second most affected region in Australia, with more people on JobKeeper than Brisbane (Maiden 2020). A further discussion concerning JobKeeper is contained in this submission, under the heading of Economic Circumstances.

The quantum of the AWR reflects the problems associated with COVID-19. The decision is the first decision for some time to be below the CPI and therefore providing for a real wage decrease (Workplace Express 2020). To graphically illustrate the relationship between the AWR and the CPI, the following chart compares the quantum of the AWR and the annual percentage increase to the CPI (original) to the March quarter of the corresponding year, for the past decade.

Figure 1 Annual Wage Review and CPI 2011



Source FWC Annual Wage Reviews and ABS Catalogue 6401.0 - Consumer Price Index, Australia

Previous decisions of the Fair Work Commission have either closely resembled the CPI (2011, 2013 and 2014) or exceeded the CPI. The later decisions of the Fair Work Commission have been heavily influenced by, and in some way addressed low wage growth, which in itself is a cause of inflation rates below the Reserve Bank's target (Stanford 2020B). This combination of the obvious need for institutions, such as the Fair Work Commission, to address low wage growth, and the flatlining inflation rate has led to AWR percentage increases to be as much as 1.7 percentage points above the CPI⁴. Recent research into the impact of AWR is addressed in the next part of the submission.

As we feel obliged to make comparison with national events in justifying the flowing on of the quantum of the AWR it is instructive to consider the comparative impact of COVID-19 on Queensland. In doing so we acknowledge that economic recovery will be best assisted by the containment and elimination of COVID-19 (Atkins 2020). As the Reserve Bank of Australia suggests:

Beyond the next few months, the speed and timing of the economic recovery is very uncertain. It therefore makes sense to think in terms of plausible scenarios. **The path of the recovery will depend crucially on how successful countries are in containing the spread of the virus**, and thus how long containment measures need to be in place. In a number of countries, including Australia, some restrictions are beginning to be lifted (emphasis added) (RBA 2020A:4).

Importance of the Annual Wage Review

The previously mentioned research into the impact of the AWR is because of its increasing importance in addressing the wage growth crisis (Bishop 2018; Bishop and Cassidy 2019; Stanford 2020C). To explain the growing importance of the AWR, it is important to understand how the ABS categorises pay setting. The following table sets out those categories and the proportion of the workforce (excluding owner/managers⁵) within each category.

⁴ 2019 AWR = 3%; March CPI = 1.7%

⁵ ABS Catalogue 6306.0 at data cube 12 includes methods of setting pays "Award only"; "Collective agreement"; "Individual arrangement"; and "Owner manager of incorporated enterprise". It totals these methods to make "All methods of setting pay"; however, "Owner manager of incorporated enterprise" is not relevant to the application of the annual Wage Review and was therefore excluded for the purpose of Table 1.

Table 1 Method Pay Setting

Method of pay setting	% workforce (ex. owner /managers)
Award Only	21.8
Collective Agreement	39.3
Individual Arrangement	38.8

Source ABS Catalogue 6306.0 - Employee Earnings and Hours, Australia, May 2018

The categories that the ABS use for pay setting are potentially misleading, particularly concerning the application of the AWR. It would be erroneous and an understatement of its influence to consider that the impact of the AWR was limited to that 21.8 per cent of workers whose method of pay-setting is categorised as “award only” (Bishop and Cassidy 2019). Individual arrangement covers a multitude of arrangements that includes a spectrum of arrangements from highly paid managers and professionals to employees in receipt of small over-award payments (Bishop and Cassidy 2019; Wright and Buchanan 2013). Those workers in receipt of smaller over-award payments will conceivably receive some or all of the increase granted by the AWR to either maintain the level of over-award payment or ensure compliance with the award (Wright and Buchanan 2013). It has been estimated that pay-setting arrangements for as much as 1/3 of the workforce could be influenced by the AWR (Stanford 2020C:13). It is also estimated that the proportion of those workers whose method of pay-setting is categorised as “individual arrangement” and whose rate of pay is in some way influenced by the AWR has doubled since 2012 (Bishop and Cassidy 2019). It has also been noted that there is a growing trend for collective agreements to reflect the AWR (Pennington 2020).

In previous submissions to State Wage Cases, the QCU has highlighted a range of reasons for low wage growth (as will be done later in this submission). One of the reasons that has been attributed to low wage growth is the collapse of enterprise bargaining in the private sector (Forsyth 2020; Pennington 2020; Stanford 2020:5). This collapse in private sector collective bargaining results from an ongoing shift in bargaining power from labour to capital (Bishop and Rush 2017; Buchanan and Oliver 2016:791; Forsyth 2020; Jacobs and Rush 2015; Kinsella and Howe 2018:43; Kyloh 2018:230; Oliver and Yu 2018; Pennington 2018; Queensland Government 2019). Peetz (2019) provides evidence that the financialisation of the economy, being a shift from wages and profits from other sectors towards the finance sector, reflects this shift in power. With a mere 11 per cent of the private sector workforce now covered by collective agreements, the sharp decline in coverage has been the result of expired agreements

not being renewed; decline in new agreements being negotiated and a surge in termination of agreements⁶ (Allen and Landau 2018:405; Forsyth 2020; McCrystal 2018; Peetz 2018:105-6; Pennington 2018; Pennington 2020). The collapse of private sector bargaining leaves workers whose pay is set by “collective agreement” to be largely a public sector phenomenon. Governments, however, since around 2013 have entrenched wage policies limiting wage increases of between 2 and 2.5 per cent (Henderson and Stanford 2020; Stanford 2020C:5). Moreover, several large and high-profile public sector negotiations have been associated with protracted negotiations (Bishop and Cassidy 2019). These protracted negotiations have had the practical effect of a wage freeze for workers covered by collective agreements that have not had a wage increase during negotiation impasse (Henderson and Stanford 2020). Table 5 in the QCU 2019 State Wage Case submission compared, by use of a nominal index, increases under various collective agreements covering employees of the Queensland Government and the C10 trade equivalent that moved by the quantum of the State Wage Case for the period 2009 to 2019 (QCU 2019:21). That exercise demonstrated that some workers covered by collective agreements had fallen behind the increases granted by State Wage Cases and even those ahead of the State Wage Case were not ahead by much. This deliberate low wage growth strategy has been replicated by Governments across Australia (Bishop and Cassidy 2019; Henderson and Stanford 2020) which has resulted in the RBA Governor urging governments to reconsider their low wage growth policy (Birch and Preston 2020:342; Marin-Guzman 2019). Of self-imposed wages policy, Jim Stanford (2020B) of the Centre for Future Work had this to say:

The motivation for public sector wage austerity seems more ideological than fiscal or economic: pay freezes are justified with appeals to ‘shared sacrifice,’ and a symbolic desire to ‘tighten the purse strings’ at a moment when governments are about to incur their largest deficits in history.

However, our research shows these arbitrary pay freezes are both unfair and economically counterproductive. Government policy should be driven by economic reality, not political optics.

⁶ Discussed in the 2019 QCU submission to the State Wage Case Chart 4 on page 10 and Pennington 2018

Public sector wage austerity imposed after the Global Financial Crisis helped 'lock in' historically slow wage growth in the private sector in the years that followed. Since then, wages in Australia have grown at their slowest sustained rate in the post-war era.

Low public sector wage growth has several compounding effects for the entire workforce. Obviously, the public sector accounts for a significant proportion of the workforce and therefore will impact upon aggregate data. In addition, however the low wage growth in the public sector has a “demonstrator effect” whereby private sector employers take their lead from the low wage growth in the public sector (Henderson 2018:124; Henderson and Stanford 2020:10).

Individual Arrangements have been described as “more responsive to the economic cycle” than other methods of pay setting (Bishop and Cassidy 2019:77). Another way of looking at this is that employers have the greatest capacity to unilaterally determine an outcome under individual arrangements. Collective agreements are usually set for a period of three years with built in increases and as we have seen, private sector employers are walking away from negotiating new agreements (Pennington 2018, 2020). Employers of award only workers are obviously required by law to pass on increases awarded by the AWR⁷. It is therefore logical that workers on individual arrangements are most able to be subject to a wage freeze which is precisely what has occurred (Bishop and Cassidy 2019:79). Moreover, as unemployment rises wage growth will decline sharply for workers on individual arrangements (Bishop and Cassidy 2019:78).

The net result has been an increasing importance of the AWR (Bishop 2018; Bishop and Cassidy 2019; Stanford 2020C). The AWR is perhaps the only vehicle left to address the current wage growth crisis. Collective bargaining has been abandoned in the private sector and suppressed or delayed in the public sector. Workers on individual arrangements, where the AWR has no influence, has been the subject of extensive wage freezes even before the current economic crisis brought on by COVID-19 and associated economic restrictions. Researchers (Bishop and Cassidy 2019; Stanford 2020) have been able to measure the significance of the AWR by an examination of wage growth in the September quarter of each year, being the quarter in which the AWR, would be passed on to workers for which it has some influence. By removing the impact of the AWR, we are able to consider what would be the “underlying” nominal wage growth that would occur without the AWR which would have been less than 2

⁷ Of course, level of compliance with awards is a concern and wage theft has been identified as a contributor to low wage growth and this has been the subject of previous QCU submissions.

per cent before the most recent economic crisis. This would amount to negative real wage growth in some quarters.

An entrenched wage growth crisis has resulted in declining living standards which has in turn created high levels of financial stress; undermined the RBA inflation target and diminishing consumer spending (Peetz 2019). This has the capacity to create a deflationary environment that is likely to turn the impending recession into a depression (Stanford 2020B):

Australia cannot tolerate a further deceleration of wage and price inflation. Inflation was already close to zero, chronically falling below the RBA's inflation target, even before the economy was hit by the double shock of bushfires and COVID-19.

Economy-wide deflation is associated with long-term depression. Australia cannot risk letting any COVID-19 recession turn into a depression. At this pivotal moment, governments' priority should be anchoring price expectations, supporting nominal incomes, and contributing to aggregate demand. Normal wage gains should be implemented in the public sector and encouraged in the private sector.

It is in this context that we implore the Commission to pass on the modest increase awarded by the Fair Work Commission in the 2020 AWR.

The following part of this submission deals with the prospects of economic indicators in a deflationary environment.

Economic Circumstances

Australia is now facing its first recession for decades (Janda 2020). As previously mentioned, the QCU application that is based on the Fair Work Commission's AWR, reflects these circumstances. We would urge the Commission however not to adopt an austerity agenda that was advocated by several employer organisations to the Fair Work Commission in the most recent AWR.

Examples of austerity, most notably the policy prescription after the Great Depression, have only prolonged the pain of the Depression. Australia failed to implement Keynesian policies that focus on aggregate demand but rather opted for the supply side policies associated with classical economic theory (Dawson and Lloyd Cape 2020). This included a reduction in the

minimum wage. The resultant unemployment caused an ongoing downward spiral of wages and prices meant that Australia fared worse than was necessary.

Before the most recent closures associated with COVID-19, Australia was already faced with the possibility of deflation (Henderson and Stanford 2020; Stanford 2020C). This deflationary environment is in the context of rising inequality, an erosion of the social safety-net, record-low wage growth, and insecure employment (Dawson and Lloyd Cape 2020; Stanford 2020C). It is noted that reducing wages will do nothing for creating employment as was evidenced by the cuts to penalty rates in the retail and hospitality industries (Henderson and Stanford 2020; McIvor and Markey 2017).

Workers in insecure employment have been disproportionately affected by shutdowns (Dawson and Lloyd Cape 2020). The industries that have been most severely impacted by COVID-19 also happen to be those with the highest incidence of casual employment (ACTU 2020). Of course, this means that women, employed in industries left out of the JobKeeper payment have been disproportionately impacted by the consequences of the virus (Denniss 2020). This is because women have been disproportionately overrepresented in insecure and undervalued employment and are more likely to be underemployed. Moreover, the bulk of unpaid work is more likely to be shouldered by women to support the male breadwinner (Williamson 2020). The impacts of COVID-19 therefore further contributed to growing inequities that pre-existed in our labour market.

The JobKeeper package was in some way beneficial in maintaining a level of economic activity and to those businesses and workers to which it applied (ACTU 2020). Unfortunately, the limitations placed on the JobKeeper package have highlighted its inadequacy as a policy response. The exclusion of a range of workers including many casual employees; the arts and entertainment; higher education; Australian employees of foreign state-owned companies (such as dnata in the aviation industry); and guest workers has brought about social and economic dislocation that is both undesirable and unnecessary. As previously mentioned, we know that women have been the hardest hit by the current crisis with so many left out of JobKeeper and occupying jobs in those industries and occupations in which COVID-19 has had the most dramatic impact (Dawson and Lloyd-Cape 2020; Dennis 2020).

The outlook for Queensland is not vastly different to the remainder of Australia in so far as economic growth is concerned.

Queensland's state final demand (SFD) fell 0.3% in March quarter 2020 but was 0.6% higher annually. In particular, COVID-19 has led to the largest seasonally adjusted fall in household consumption since the 1990's recession (Queensland Government 2020A)

The emerging recession does not provide justification for reducing entitlements or cutting wages. We know that cutting wages will not create employment and that wage stagnation will further weaken consumer sentiment (Stanford 2020C:19).

Inflation

In the 2019 QCU submission to the State Wage Case, it was noted that the current inflationary environment is a product of the wage growth crisis being faced by Australia and other OECD nations (Long 2019; Productivity Commission 2019:33). The QCU submission was summarised in Commission's 2019 State Wage Case decision as follows:

[85] The QCU noted that one of the concerns often stated against general wage movement is their inflationary impact. The QCU argues that the current inflationary statistics mean that there is no need for concern that any increase granted is likely to create an inflationary problem. It further argues that the next-to-zero inflationary environment is a product of the wage growth crisis faced by Australia and other OECD nations.

A counter argument to general wage movements in the past have generally revolved around inflationary impact (Stanford, Hardy and Stewart 2018). The level of inflation that can be seen in Australia has ranged between 1% to 2.1% in the four years to December 2019. This is often below the RBA's bandwidth target of 2-3% (ABS 2020A; RBA 2020B). The low level of inflation could be attributed to the wage growth crisis that Australia is facing right now (Andrews et al 2019; Gilfillan 2019; Long 2019). Long also contributes the low wage growth to weaker consumer spending, and greater household indebtedness and financial stress, which have been continual themes of recent QCU submissions in State Wage Cases.

The following table is taken directly from the Australian Bureau of Statistics (ABS) publication for the Consumer Price Index (CPI) and sets out the percentage change to the CPI in all capital cities and the weighted average.

Table 2 CPI March Quarter 2020**All Groups CPI, All groups index numbers and percentage changes**

	Index number(a) Mar Qtr 2020	Percentage change	
		Dec Qtr 2019 to Mar Qtr 2020	Mar Qtr 2019 to Mar Qtr 2020
Sydney	117.4	0.3	2.0
Melbourne	117.8	0.8	2.7
Brisbane	116.2	-0.1	1.8
Adelaide	115.8	0.3	2.4
Perth	113.5	0.4	2.1
Hobart	117.2	0.4	3.4
Darwin	111.8	0.3	1.5
Canberra	115.5	0.4	2.0
Weighted average of eight capital cities	116.6	0.3	2.2

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

Source 6401.0 - Consumer Price Index, Australia, March 2020 (emphasis added)

For the 12 months to the March quarter 2020, the percentage increase to the CPI has been slightly lower for Brisbane than the weighted average of the eight capital cities. Interestingly, this is the opposite to last year's June quarter in which Queensland was slightly higher than the weighted average. Not surprisingly, given the impact of COVID-19, some of the reductions in spending noted by the ABS are as follows:

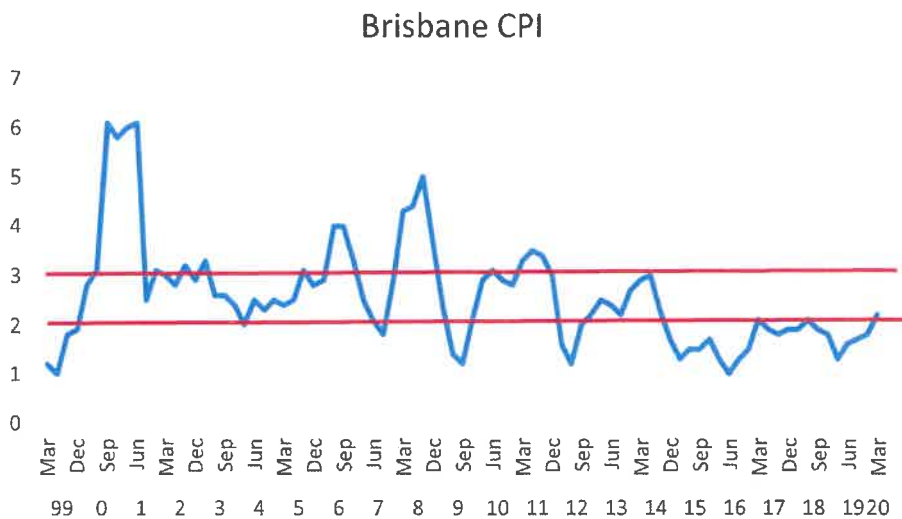
- Automotive fuel (-6.7%)
- Domestic holiday, travel and accommodation (-6.8%)
- International holiday, travel and accommodation (-3.6%)

By comparison to June 2019, automotive fuel was the largest increase over the preceding 12 months increasing by 10.7 per cent. The falls in spending were partially offset by:

- Vegetables (+10.4%)
- Tobacco (+2.4%)
- Pharmaceutical products (+5.6%).

Figure 2 sets out the Brisbane CPI over the past 20 years and superimposes the RBA inflation target in red. It is apparent that the Brisbane CPI has been below the RBA target for much of the past decade.

Figure 2 Brisbane CPI



As the Queensland Budget has been suspended in 2020 due to COVID-19 (Dick 2020), Queensland Treasury (2019:8) forecasts and projections for inflation that were contained in the 2019 submission have been replicated below:

Table 3 Treasury Inflation Projections

2019-20	2020-21	2021-22	2022-2023
2	2 ¼	2 ½	2 ½

Source Queensland Treasury Budget Strategy and Outlook 2019-20

The most recent CPI result for Brisbane contained in Table 2 (1.8%) is below the forecast for 2019-20 in Table 3 (2%).

Another measure of inflation is the Living Cost Index (LCI) which increased nationally by less than the CPI. Over the twelve months to the March quarter 2020 the LCI (for employee households) rose 1.1 per cent while the CPI rose 2.2 per cent. The current inflationary statistics, yet again mean that there is no need for concern that any increase granted is likely to create an inflationary problem.

Unemployment

Previous QCU submissions to State Wage Cases have been critical of orthodox economic theory that labour costs will become too expensive for the purchaser if it is set at a rate beyond market equilibrium (Bell and Keating 2019; Lyons 2018:79; McKenzie 2018:68; Stanford, Hardy and Stewart 2018:8). The 2019 State Wage Case summarises the QCU submissions as follows:

[88] The QCU submits that unemployment is an indicator that is traditionally taken into consideration for the purposes of awarding wage increases in various Tribunals. It notes that in previous submissions, the QCU has relied upon literature that would support the notion that moderate wage increases have no negative impact upon employment at an aggregate level. The QCU submits that there is some evidence to suggest that in some circumstances an increased minimum wage increases employment. Moreover, the QCU argues, this proposition had been adopted by the FWC in handing down the AWR.

[89] The QCU submits that the unemployment rate in Queensland has remained remarkably stable over the last decade and the current level of employment does not detract from the awarding of the increase sought.

The research that would indicate that there is no negative impact on employment includes that for the Low Pay Commission in the United Kingdom; a Productivity Commission inquiry in Australia⁸ and famous research in the fast food industry in New Jersey where a minimum wage increase improved employment (McKenzie 2018:68-69). Reserve Bank research has concluded that:

(t)here is no evidence that modest, incremental increases in award wages had an adverse effect on hours worked or the job destruction rate (Bishop 2018:1).

On this point, the Fair Work Commission has itself said that moderate wage increases do not have an adverse effect on employment⁹:

Of particular interest for this Review is the broad conclusion that the extensive and increasingly sophisticated recent research continues to find, first, that increases in

⁸ Margaret McKenzie (2018:68) notes that the Productivity Commission's 2015 Inquiry into the Workplace Relations Framework is all the more convincing "because its investigation began with the inherent expectation that raising the minimum wage would have a negative impact on employment"

⁹ Annual Wage Review 2018–19 (C2019/1) at [191]

minimum wages which have been the subject of examination do increase the earnings of the low paid and second, that they do not, for the most part, cause job losses or increase unemployment.

Possible exceptions to this second point are that inexperienced workers might find it harder to get a job and low-paid women who work part time might see some job loss; as might those who work in jobs that are more easily automated or produce internationally tradeable goods.

To date, the evidence for the last point is not strong.

Later in this submission, the limited application of the State Wage Case is addressed. This is consistent with previous QCU submissions around the vast majority of workers in this jurisdiction are covered by collective agreements. Whilst there have been some instances of award rates impacting upon collective agreement rates (by award rates catching up to collective agreement rates) the impact has been minimal. It follows that there is little likelihood of any decision of the Queensland Industrial Relations Commission adversely impacting upon unemployment rates.

Moreover, the QCU submission in 2019 went to some lengths to demonstrate that unemployment, whilst higher than the rest of Australia had remained stable by comparison to the past four decades¹⁰. This submission is noted in paragraph [89] of the 2019 State Wage Case decision that is cited above.

A previous QCU submission compared economic conditions in Queensland to Western Australia for a range of reasons (QCU 2017). To compare unemployment between the two jurisdictions the following submissions were made:

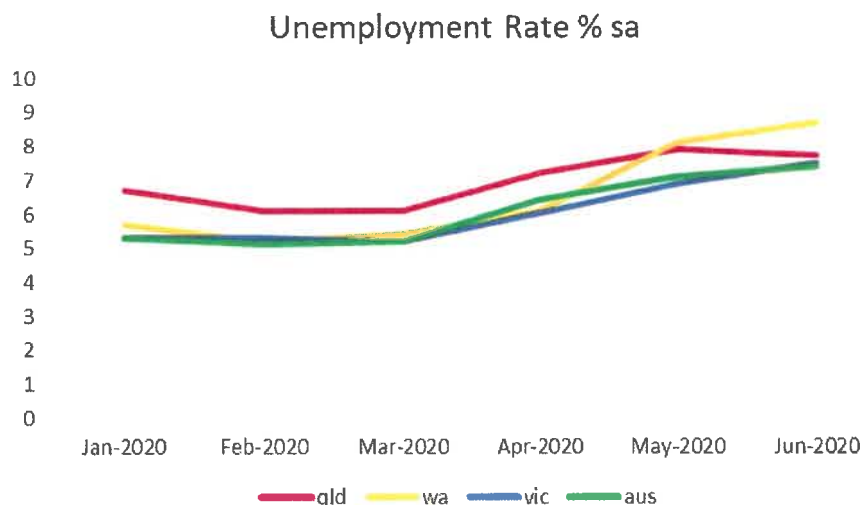
Western Australia has always had a lower unemployment rate than Queensland with very few exceptions, for example the recession in the early 1990s. The average for trend unemployment in Western Australia over the period 1978 to 2107 is 6.6% whereas it is 7.3% for Queensland. The most recent trend figures (June 2017) are 5.6% for Western Australia and 6.3% for Queensland which are coincidentally one percentage point below the long-term average for both states. There are potential structural issues that might explain the higher unemployment in Queensland in the long-term, such as higher populations in regional centres that have suffered the impacts of

¹⁰ See Chart 2 Queensland Trend Unemployment by decade 1979 to 2019 QCU Submission 2019

unemployment far more than urban centres. The decentralised nature of Queensland is illustrated by the ratio of people living in the respective capital cities with 1.671 million population of Perth representing 64 per cent of Western Australia's population. By contrast the 1.977 million population of Brisbane only represents 41 per cent of the Queensland population.

The most recent national unemployment figures are, as expected, unfortunate due to the impact of COVID-19 and associated restrictions on various economic activities. It is interesting however to compare this national unemployment rate (seasonally adjusted) in 2020 with the equivalent for Queensland, Victoria (which was added for further comparison), and Western Australia.

Figure 3 Unemployment Rates (Seasonally Adjusted) Queensland other Jurisdictions 2020



Source ABS Catalogue 6202.0 - Labour Force, Australia, Jun 2020

As can be seen from Figure 3 the existing unemployment levels in all the jurisdictions contained in the graphic have increased except for Queensland. The effect of the decrease in employment in Queensland and the increase in other jurisdictions has been for Queensland to return to the same level of unemployment as the national figure, albeit that it is an unfortunate way to improve in relative terms. More significantly the results for Western Australia are worse than for Queensland which as noted above has only ever previously occurred during a recession.

As has been previously discussed, the applications before the Commission are for a moderate increase of 1.75 per cent. The Fair Work Commission in arriving at this cautious figure has taken into account the rise in unemployment caused by the impact of COVID-19 on economic activity and employment. In Queensland, it must be said, those employment conditions are relatively more beneficial than is ordinarily the case. The rise in unemployment experienced throughout Australia is not grounds for the Commission to depart from the practice of flowing on the quantum of the AWR. In fact, the threat of deflation means that reducing wages and in turn prices will have a further detrimental impact on employment outcomes.

Wage Movements

Low wage growth has been a central feature of recent QCU submissions to State Wage Cases and other forums. As discussed previously, this low wage growth has been influential in the Fair Work Commission awarding increases beyond the CPI for the second half of the past decade (see figure 1 of this submission). Before the most recent economic shocks of bushfires and COVID-19 hit Australia, weak wage growth had undermined consumer spending (Stanford 2020C:7). Accordingly, low wage growth was the cause of major concern not only for the union movement but for a range of economic commentators, including the Reserve Bank Governor (Australian Institute 2019:2; Birch and Preston 2020; Kyloh 2018:229). The concern now is that the record low wage growth has become the norm making movement away from the existing milieu increasingly difficult (Stanford 2020C:7).

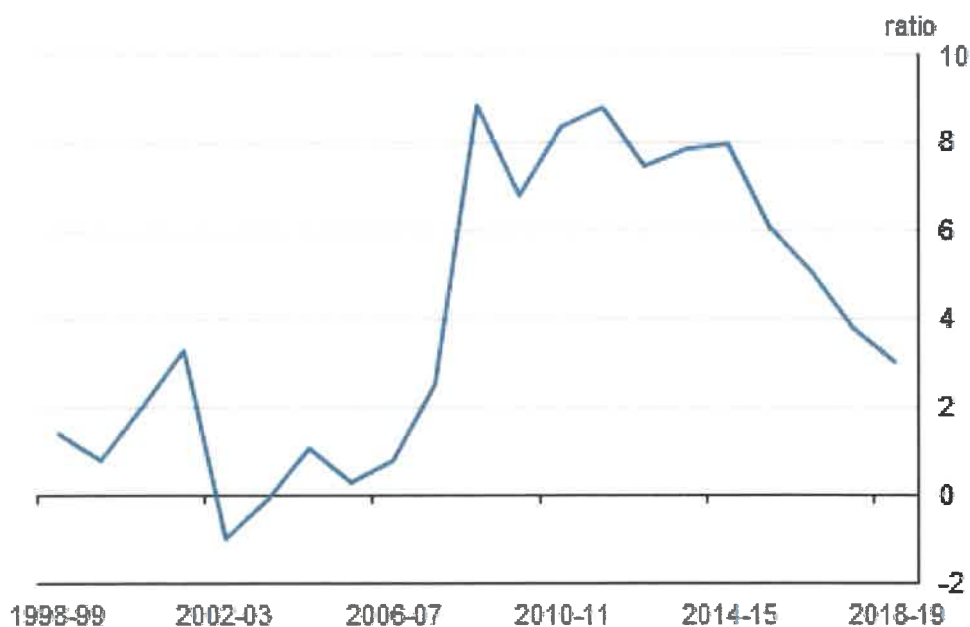
Australia has had a prolonged period in which there has been a decline in living standards, low nominal and real wage growth, and increasing inequality in incomes and wealth (Bell and Keating 2019; Peetz 2018). Weaker consumer spending, household indebtedness and financial stress, and slowing government revenue, are symptomatic of low wage growth (Lyons 2018:76; Long 2019; Stanford, Hardy and Stewart 2018:8; Watson 2016). Given the ongoing decoupling of wages from labour productivity growth (Andrews et al 2019; Bell and Keating 2019; Kyloh 2018:230; Productivity Commission 2019:27; Stanford 2018:33), these outcomes are inevitable (McKenzie 2018). Previous QCU submissions to the State Wage Case and ACTU submissions to the AWR have been largely based on the causes and manifestations of low wage growth. Unfortunately, we are now faced with the real danger of that low wage growth tipping

Australia from certain recession to possible depression if an austerity agenda is continued (Stanford 2020B).

In the 2019 QCU submission to the State Wage Case¹¹, the relationship between award rates using the C10 trade equivalent was matched to average weekly ordinary time earnings (AWOTE) and 60 per cent of AWOTE¹². This exercise demonstrated that the award rate for a skilled tradesperson has gone from being above what would be considered low pay to well below that threshold in the period from 1991 to 2019. This is despite what might be described as more beneficial increases in award rates over the past several years. The 2019 QCU submission demonstrated the decline in what has been described as the minimum wage bite, being the proportion of the minimum wage to average income (McKenzie 2018).

In 2018-19, household saving ratio fell to its lowest rate in eleven years. While this may seem as though consumers are feeling confident about the economy and willing to spend, the reality is that Australian's budgets are under pressure. Figure 4 represents the trend in household savings ratio.

Figure 4: Household Saving in Australia



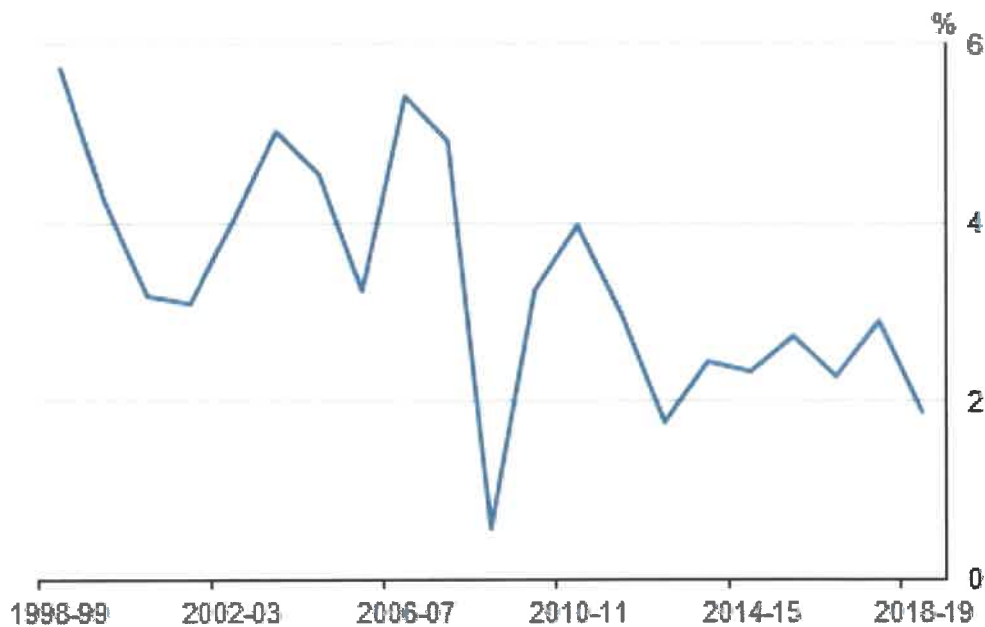
¹¹ See Chart 5 and Table 4 page 12 QCU (2019)

¹² 60 per cent of ordinary earning being considered low pay

Source: ABS Catalogue 5206.0 – Australian National Accounts: National income, Expenditure and product, March 2020

Even before the impact of COVID-19, household consumption was the weakest it has been in 6 years, growing only 1.9% with spending on essential items growing modestly and discretionary spending slowing (ABS, 2020B).

Figure 5: Household Consumption in Australia



Source: ABS Catalogue 5206.0 – Australian National Accounts: National income, Expenditure and product, March 2020

Income growth has a positive correlation with spending, especially discretionary spending. Changes in the saving ratio should point to a positive relationship between wealth and consumption, and when household wealth grows, consumption typically grows faster than household income and the saving ratio tends to decline (May, Nodari and Rees, 2019). However, with consumer demand and household saving ratio declining, there should be cause for concern. Marginal propensity to consume (MPC) is the proportion in aggregate increase in pay that a consumer will spend on the consumption of goods and services, as opposed to saving their money. The wage stagnation that is apparent, particularly in Queensland, as per figure 3, will have a negative impact on consumers MPC and a positive impact on their marginal propensity to save (MPS) if there is little confidence that conditions will improve.

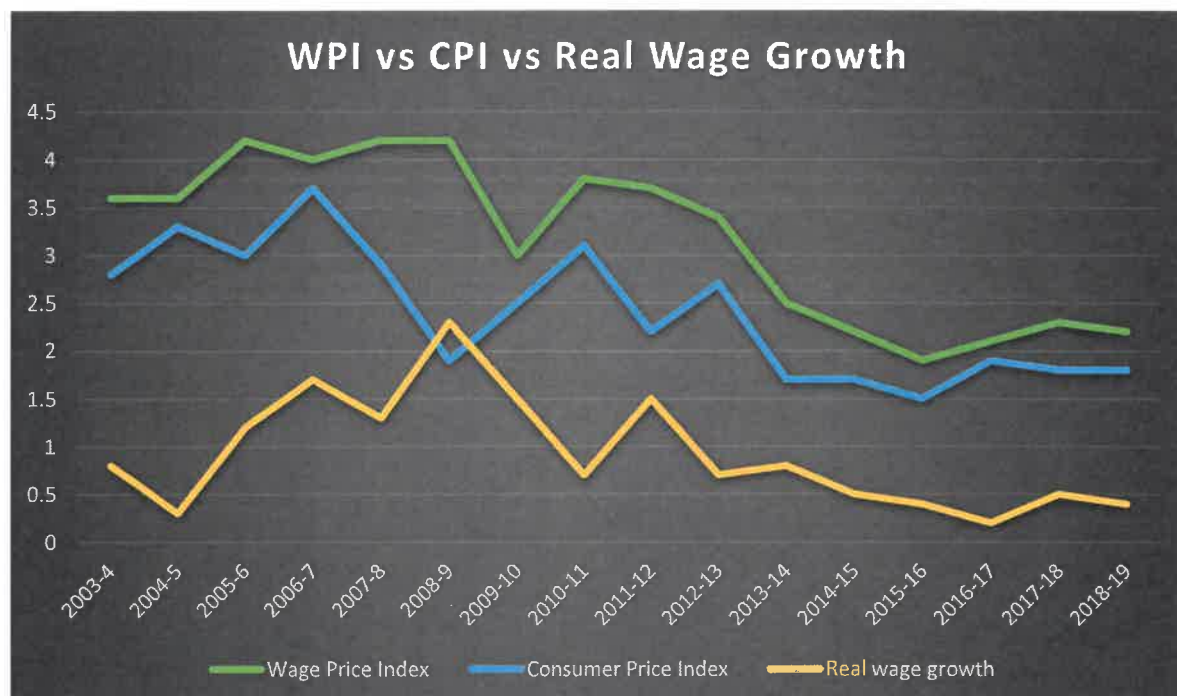
Figure 6: Wage Price Index by State



Source: Australian Bureau of Statistics, 2020C

The Reserve Bank of Australia has confirmed that income growth had been weaker than expected and that growth in spending by younger households has been subdued, consistent with their weak income growth (Cokis and McLoughlin 2020:69; RBA 2020C). Figure 7 illustrates the wage crisis in Australia by comparing WPI, CPI and Real Wage Growth.

Figure 7: Wage Price Index, Consumer Price Index and Real Wage Growth in Australia



Source: Calculations from ABS data

It is apparent that there has been a real wage decline and stagnation since the 2008 GFC with a spike in 2011-12. As has been argued in the previous submission, the low-level inflationary environment is a product of the wage growth crisis being faced by Australia and other OECD nations (QCU, 2019). This positive relationship between WPI and CPI, therefore, concludes that a greater increase in wages will assist in achieving the target inflationary objective.

Application of State Wage Case

The 2014 State Wage Case discussed the extent of the State Wage Case in a contemporary setting.¹³ Following the use of the Corporations power¹⁴ by the Commonwealth to cover the regulation of industrial relations (Craven 2006; Lyons and Khoshaba 2009; Stewart and Williams 2007; Williams 2006) and a subsequent and the referral of the unincorporated employers by the Queensland Government (Sutherland and Riley 2010:276); the Queensland

¹³ *Application for Declaration of General Ruling (State Wage Case 2014)* [2014] QIRC 129 [16] to [18]

¹⁴ Section 51 (xx) of the *Commonwealth of Australia Constitution Act*

jurisdiction is primarily limited to employees of state and local governments. As has been noted in the previous submission of various parties and in Commission decisions in the State Wage Case, the vast majority of workers in the Queensland jurisdiction are covered by collective agreements.

In the 2014 State Wage Case decision it was estimated that approximately 2,000 of the 41,250 employees of local governments were award reliant. The 15 totally award reliant councils are listed in the 2019 QCU (2019:18) submission and it is understood that this list of councils not covered by collective agreements has remained reasonably static since the 2014 decision. The LGAQ has previously submitted that a number of other councils have also opted to pass on the quantum awarded in State Wage Cases.

As is noted in the 2014 decision parents and citizens associations employ between 3000 and 4000 employees and are award reliant. The only group of State Government employees that we are aware of that have become covered by an award and not a collective agreement since the 2014 is Auxiliary Firefighters and it is understood that there are in the order of 2,000 such employees.

More recently, the State Wage Case has, to some extent, had application to some employees of the State Government who are covered by collective agreements. In the State of Queensland (2019:14) State Wage Case submission¹⁵ it was estimated that the 2018 State Wage Case impacted 32,500 full time equivalent positions covered by seven collective agreements.

Thus, whilst the State Wage Case has limited application in a contemporary context, it still has a vital role to play particularly for those workers who remain award reliant. The maintenance of rates of pay is, in our submission necessary for the Commission to comply with a range of statutory obligations placed on it by the *Industrial Relations Act 2016*. Those obligations¹⁶ include the maintenance of fair, equitable and just conditions to maintain living standards. Living standards are declining and inequality is growing because of a range of reasons, including Australia's stunted wage growth which includes workers covered by collective agreements.

It is therefore important in our submission that rates of pay be maintained through mechanisms such as the State Wage Case. This submission includes reference to the growing importance

¹⁵ See paragraph 65 State of Queensland (2019)

¹⁶ Sections 4 (f); 4 (g); 141 (1) (a); 141 (1) (a); 141 (1) (b); 141 (2) (a) and 142 (1) of the *Industrial Relations Act 2016*

of AWR having regard to the low and sometimes non-existent wage growth for workers covered by collective agreements and individual arrangements. The same logic applies to the State Wage Case. The relatively minor increase sought, in our submission, will not impose any great difficulty for the employers impacted by the State Wage Case but it will be of importance in maintaining living standards of those workers to which it applies. It will also play a small part towards the maintenance of consumer spending that will be essential to mitigate against deflationary prospects that the Queensland and Australian economies are facing.

The application seeks an operative date of 1 September 2020. In so doing it is noted that the AWR had staggered operative dates for various industries based on the impact of COVID-19. Schedules in the AWR decision set out awards and their respective operative dates. The *State Government Agencies Award 2020* was contained in schedule 1 of the AWR and therefore has an operative date of 1 July 2020. It would follow that the usual operative date of 1 September 2020 would apply to awards covering the Queensland Government and its employees.

Whilst the *Local Government Industry Award 2020* is contained in Schedule 2 of the AWR decision, and therefore the subject of a 1 November 2020 operative date, the QCU application has not sought to delay the 1 September 2020 operative date for awards applying to employees of local government. The AWR decision does not include the specific reason as to why local government awards were placed in schedule 2. It appears that local government awards, and other awards, have been listed in schedule 2 on the basis of them being in neither the “upper cluster” (meaning a higher percentage of businesses anticipated decreased demand) or “lower cluster” (meaning a lower percentage of businesses anticipated decreased demand).

The impact on employment for various industry groups, however, is discussed in Chart 1.5, paragraph [46] of the AWR decision. Chart 1.5 uses the Australian and New Zealand Standard Industrial Classification (ANZSIC) to gauge the impact on employment. The two industry classifications most relevant to local government would be Public Administration and Safety and Electricity, Gas, Water and Waste Services (ABS 2006). Local government administration (ANZSIC 7530) is a subset of Public Administration and Safety. The aggregate data used in Chart 1.5 treats local government administration (7530) and state government administration (7520) the same way, which appears inconsistent with the awards covering these industries being in different schedules. The other industry group relevant to local government operations

is Electricity, Gas, Water and Waste Services, which according to Chart 1.5 in the AWR decision, was one of two industry categories that experienced an increase in employment.

The State Wage Case is already delayed by comparison to the AWR and it does not appear necessary to differentiate for the small number of award reliant councils in Queensland. As has been noted earlier in this submission, the unemployment caused by COVID-19 in Queensland is less severe than in other jurisdictions. Consistent with Chart 1.5 of the AWR, we are unaware of any job losses in local government in Queensland and the recent easing of restrictions means that local governments in Queensland have returned to near-normal operations.

Conclusion

Even before the economic impact of COVID-19 was felt, wage growth was at dangerously low levels. Recent research has demonstrated that without AWR increases to award wages and for workers whose individual arrangements are in some way influenced by it, there would be a real danger of negative wage growth. Collective agreements are not providing wage growth due to a collapse of bargaining in the private sector and the public sector bargaining processes being associated with self-imposed restrictions and sometimes long delays in bargaining outcomes. Workers on individual arrangements, other than those impacted by the AWR, are subject to wage freeze.

The increasing importance of the AWR to wage growth provides ample justification for the modest increase being sought. The various statutory obligations placed on the Commission either generally or specifically in relation to award rates are, in our submission, best served by granting the applications to increase wages by 1.75 per cent.

There is no reason in our submission for the Commission to depart from its recent practice of granting the same increase has been awarded in the National Wage Review. To the contrary the importance of maintaining award rates of pay in a potentially deflationary environment, in our submission, provides the justification for the very modest increase of 1.75 per cent.

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