QCU Supplementary Submission
2018 State Wage Case

Queensland
Council of Unions

Contents

Introduction

The initial submission from the QCU in the 2018 State Wage Case was made before two important events, the 2018 Queensland Budget and National Wage Review. As was foreshadowed in the QCU application for the State Wage Case, that application was amended to reflect the outcome of the 2018 National Wage Case. A further directions order was issued on 30 May 2018 giving leave to the applicants to make further submissions. Accordingly, the QCU makes these further submissions in support of the amended application.

Queensland Budget 2018

The following table is replicated from the Budget Strategy and Outlook 2018-19 and sets out some projections of economic indicators for the state (Queensland Government 2018:5).

Overview Table 1 Queensland economic forecasts/projections[1]

	Actual	Est Act.	Forecasts		Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Gross State Product[2]	2.5	2¾	3	2¾	2¾	2¾
Nominal GSP	9.3	5½	4	3¾	4½	4¾
Employment[3]	1.8	2¾	1½	1¾	1¾	2
Unemployment rate[4]	6.2	6¼	6¼	6	6	5¾
Inflation[5]	1.7	1¾	2	2½	2½	2½
Wage Price Index[5]	1.9	2¼	2½	3	3	3
Population[5]	1.5	1¾	1¾	1¾	1¾	1¾

1. Unless otherwise stated, all figures are annual percentage change.
2. Chain volume measure (CVM), 2015-16 reference year.
3. Through-the-year growth rate to the June quarter (seasonally adjusted).
4. Seasonally adjusted rate for the June quarter.
5. Annual percentage change, year-average.

Sources: ABS 3101.0, 6202.0, 6345.0, 6401.0 and Queensland Treasury.

The cornerstone of the 2018 Queensland Budget was a substantial infrastructure investment intended to create employment, encourage private sector investment and improve productivity, efficiency and competitiveness. The economic outlook includes a rebound in business spending and 3 per cent increase in Gross State Product (GSP). Future projections of the GSP are in the order of 2 ¾ per cent per annum (Queensland Government 2018).

Employment is forecast to grow at 2 ¾ per cent per annum, however the unemployment rates is remaining at around 6 per cent. The persistently high unemployment rate is blamed on greater participation rates as previously discouraged workers re-enter the workforce. Employment will continue to grow due to the $45.8 Billion capital works program that was announced in the budget. Significantly, 65 per cent of the infrastructure spend is outside Brisbane so that the economic benefits of the infrastructure spend will be spread throughout the state (Queensland Government 2018).

In comments made in the 2017 State Wage Case, reference is made to levels of debt and ratings agencies. The earlier QCU submission addressed these issues in relation to the Mid-Year Fiscal and Economic Review (MYFER). The financial situation of the Queensland Government has improved since the MYFER mainly due to a surge in coal and LNG royalties (Ludlow 2018). The Queensland Government also introduced four revenue measures: a 0.5 per cent increase in land tax; increasing the Additional Foreign Acquirer Duty from 3 per cent to 7 per cent; increasing the duty on vehicles valued above $100,000 and a 15 per cent, point-of-consumption betting tax. Accordingly, the 2017-2018 State Budget has an expected net operating surplus of $1.512 Billion. This figure is $1.027 Billion than the estimate for MYFER. This stronger than anticipated surplus has enabled the repayment of significant debt. General Government sector debt is $2.4 Billion lower than the MYFER estimate (Queensland Government 2018).

The budget also includes borrowings to fund infrastructure. This debt has been incurred for the delivery of infrastructure that will improve the state's productivity. The level of debt is, in our submission, relevant to the extent that it can be serviced. The cost of servicing debt down from 4.7 per cent of state revenue in 2013-14 to around 3 per cent in the current budget. To put the capacity of Government to service this debt into perspective, the revenue earned by Queensland's fully funded superannuation exceed the interest payment on the Government's debt. Unlike some other jurisdictions, Queensland financial liabilities including superannuation and WorkCover continue to be fully funded. The government sector debt to revenue ratio has fallen to 54 per cent and has decreased in every budget since 2014/15. This figure reached a peak of 91 per cent in the 2012-13 budget (Trad 2018).

Moody's Investors Services has maintained its rating of AA1 for the Queensland Government and Standards and Poor's Has maintained its AA+ rating. Debt is under control and there is no immediate likelihood of a downgrading of credit ratings by ether of the agencies (Ludlow 2018; Trad 2018). Of significance to the trade union movement, this has been achieved without the sale of income generating assets.

National Wage Review 2018

The Fair Work Commission handed down a decision to increase minimum wages by 3.5 per cent from 1 July 2018. The QCU amended its application in the State Wage Case to be consistent with the amount awarded in the National Wage Review. It has been the practice of the Queensland Industrial Relations Commission to follow the quantum awarded by the Fair Work Commission or its predecessor the Australian Industrial Relations Commission on every occasion, aside from when the Australian Fair Pay Commission briefly had the charter of setting minimum rates following the introduction of the WorkChoices legislation.

Several decisions and submissions have been devoted to the differences between the Queensland and Australian jurisdictions, with the former covering State and Local Government employees as well as employees of parents sand citizens associations. The high incidence of bargaining within the Queensland jurisdiction means that the State Wage Case forms the base for bargaining for the vast majority of employees rather than providing the actual wage increase as is the case for the growing number of award reliant workers covered by federal awards. In particular, the retail and hospitality industries has a high and growing proportion of award reliant employees (Oliver and Yu 2018). By contrast the Queensland jurisdiction has a relatively small number of smaller councils and the parents and citizens associations where employees are directly affected by the State Wage Case decision (QIRC 2014 at [19]).

The State Wage Case does also have the capacity to impact upon workers who are covered by agreements that provide for the application of the award rate of pay where it exceeds the rate contained in the collective agreement covering the employee. This has occurred recently in the

Queensland public sector. The QCU's earlier submission replied to a series of questions raised by the State Wage Bench in the 2017 State Wage Case decision.

The extent to which the National Wage Review would impact upon aggregate economic indicators is limited, given the limited application of the decision. In the case of the State Wage Case it is improbable that any decision made by the Commission would have any impact on economic indicators at all, given its extremely limited application. Nonetheless a range of economic indicators have always been taken into consideration when such decisions have been made. They do provide some guidance as to the capacity of the economy to be able to sustain a wage increase. In that regard the Fair Work Commission most recently stated the following in relation to the increase granted in 2017:

> A number of parties submitted that the increase of 3.3 per cent awarded in last year's Review was too high in the prevailing circumstances. No party was able to identify any economic indicator which demonstrated any discernible detriment arising from last year's decision. (FWC 2018 at [81]).

Our previous submission discussed the current state of the Queensland and Australian economies, which have considerable similarities. Continued low inflation is coupled with wage growth that has previously been described as a crisis. In the National Wage Review decision, it was even suggested that the only the National Wage Review would be likely to impact upon the Wage Price Index (FWC 2018 at [78]).

Unemployment remains persistently at around five or six per cent despite continued growth in employment. As discussed above, that persistent unemployment has been attributed to discouraged workers re-entering the workforce. The impact of minimum wages on unemployment has been the subject of considerable debate both within academic circles and various tribunals. Most recently the Fair Work Commission made the following observations:

> The labour market is currently supporting social inclusion through increased workforce participation and there is no evidence that this is being inhibited by the current level of minimum wages. Over the year to April 2018, the youth unemployment rate fell by 0.3 percentage points to 12.6 per cent, which is just below its average over the past five years. The persistence of long-term unemployment and the rise in disengagement among 20–24 year old adults are principally the result of rapid structural change in the economy that is causing a relatively high mismatch between the skills of the non-

employed and those sought by employers. There is no evidence that it was caused by excessive levels of minimum wages. (FWC 2018 at [66]).

Conclusion

In our submission the 2018 Queensland Budget provides ample justification for the increase of 3.5 per cent being sought by the QCU. Several issues were raised in the 2017 State Wage Case as being relevant to the deliberations of the State Wage Bench. A number of those matters pertained to the Queensland budgetary position as follows (QIRC 2017 at [51]):

- the current budgetary position of the Queensland Government, including whether it is in surplus or deficit;
- projected budget forecasts;
- rating agencies' (e.g. Moody's, Standard and Poors) comments about the state of the Queensland Government's budgetary position and any concerns they might have about its credit rating;

As evidenced by this submission the budgetary position of the Queensland Government does not provide any reason as to why the Commission should depart from the long-standing practice of flowing on the outcome of the National Wage Review. The budgetary position of the Queensland Government is arguably in a better position than it was in 2017 when the Commission awarded an increase of 3.3 per cent, equivalent to that awarded by the Fair Work Commission in the National Wage Review.

As has been previously stated, almost every (if not every) employee of the Queensland Government will be covered by a collective agreement and in that regard, any decision of the Commission will only be relevant to the floor upon which bargaining takes place. There is the potential for the rates of pay of some employees to be impacted in the event that award rates surpass those contained in the agreement. In our respectful submission, in these cases it is a matter for the parties to determine how those rates of pay are treated for the purpose of future bargaining. In any case the immediate impact of the State Wage Case will be minimal in terms of the Government's budgetary position.

The 2018 National Wage Review provides ample justification for the awarding of a 3.5 per cent increase. Continued low wage growth and wages lagging behind labour productivity growth have been recognised by the Fair Work Commission as grounds for increasing minimum wages (FWC 2018 at [164]). Against a back drop of economic indicators that demonstrate the capacity of the economy to withstand a reasonable wage increase, the Fair Work Commission has been persuaded to provide a moderate stimulus towards wage growth. There has been no evidence provided to the Fair Work Commission that the increase awarded in 2017 had any adverse impact upon unemployment. In fact, as has been previously submitted, the impact of a wage increase on aggregate demand may well be beneficial to employment outcomes.

In addition, the granting of a reasonable increase has been able to reduce the gap between minimum wages and that which is prevailing in the community (Whiteford 2018). In National Wage Reviews this is described as a social consideration[1] but as discussed above, it is also relevant to economic considerations in times of a wage growth crisis. The relationship between the Queensland Minimum Wage and Average Weekly Ordinary Time Earnings has previously been submitted as a reasonable estimate of how minimum rates relate to earnings in the community generally. In recent years the slowing of earnings generally and the awarding of reasonable wage increases, that easily are affordable in economic terms, has lead to this gap becoming narrower. In our submission such a reduction in the gap between minimum rates and average earnings is a positive step towards reducing inequality and alleviating poverty no matter how limited its application.

Another consideration that the Fair Work Commission takes into account is whether or not the decision to increase wages will have an impact on collective bargaining[2]. In the most recent decision the Fair Work Commission has concluded that the increase granted would not in aggregate discourage bargaining (FWC 2018 at [409]). In previous submissions, the QCU has relied upon credible research that indicates that the decision whether or not to bargain are largely made by employers and that years of supressing minimum wages did not bring about a surge of bargaining as had been anticipated (Healy 2011; Peetz 1998). It has also been previously submitted in State Wage Cases that this consideration is somewhat different in Queensland given the preponderance of bargaining within this jurisdiction.

[1]Section 134 (1) (a) requires the FWC to take into account the "relative living standards and the needs of the low paid".

[2] Section 134 (1) (b) of the Fair Work Act includes "the need to encourage collective bargaining" as a modern award objective.

In our submission there is ample justification for the increase granted by the Fair Work Commission in the National Wage Review. The limited application of the Queensland State Wage Case means that there is little risk associated with the granting of a similar application in this State Wage Case. To the extent that they are relevant, prevailing economic indicators enable the making of this decision. In particular, the Queensland Budget provides an economic and fiscal backdrop that makes the limited application of a 3.5 per cent wage increase easily sustainable.

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