Economic Impacts of Reductions In Penalty Rates for Sunday & Holiday Work

Testimony of Jim Stanford, Ph.D., Economist and Director
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Education and Employment References Committee
Inquiry Into Penalty Rates
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Thank you for the invitation to meet with your Committee today.

The Centre for Future Work is a research institute based in Sydney and associated with the Australia Institute, conducting and publishing research into a range of labour market, employment, and related issues. We are independent and non-partisan. Our research is publicly available at http://www.futurework.org.au/.

Our Centre has conducted considerable research into the impacts of the Fair Work Commission's decision to substantially reduce penalty rates for Sunday and holiday for workers under the terms of the Modern Awards covering four sectors of the economy: fast food, retail, hospitality, and pharmacy. Penalties for Sunday work will be reduced by up to half; penalties will also be reduced for working on public holidays.

The workforce employed in these predominantly low-wage service sectors already experiences several dimensions of precarious and insecure work arrangements, including a heavy incidence of part-time work, casual work, and irregular hours. The income derived from penalty rates makes an important contribution to the incomes of these workers – who already struggle with balancing their personal and household budgets given these generally irregular work arrangements. Reductions in weekend income will make matters worse for a group which is already struggling. This workforce includes a disproportionate share of relatively disadvantaged populations, including women, young workers, and immigrant workers.

Our Centre's original research into the impacts of the penalty rate cuts has focused on four major themes:

1. We have investigated the [uneven gender impacts of lower penalty rates]. Women account for 55 percent of all employment in the retail sector, and 53 percent of all employment in food and beverage services. Indeed, these two sectors are the largest employers of women in the whole private sector of the economy. 70 percent of women working in food and beverage services work part-time (versus 52 percent of men). And 60 percent of women working in retail are in part-time jobs (versus just 35 percent of men). For both reasons (more women working in those sectors, and a greater concentration in part-time positions), most of those who work regularly on Sundays are women. Women's employment incomes, of course, are already significantly lower than male earnings: one-third lower, when their greater incidence of part-time work is included in the comparison. So the loss of penalty rate income will be felt especially acutely by women.

2. We have investigated the likelihood that the demand for lower penalty rates will spread to other sectors of the economy, and other days of the week – and we have [estimated the likely effects on workers' incomes if that occurs]. We commissioned custom data from the ABS regarding the incidence of weekend work in 108 distinct sectors. Across all those sectors, an average of 27.6 percent of workers (or 2.75 million workers) work at last one day on a typical weekend. Penalty rates for Sunday work add an estimated $8.5 billion per year to workers' incomes across the economy, while the lower penalties paid for Saturday work add another $5.5 billion. The income from weekend penalties, therefore, plays an important macroeconomic role – all the more so, given the unprecedented stagnation that is already being experienced in labour incomes in Australia. Employer groups in other sectors of the economy (including clubs, cafes, and others) are already advancing demands for reduced weekend penalties, on grounds that they now face an "uneven playing field" relative to the hospitality and retail sectors. It seems very likely, without changes in legislation governing the FWC's approach to these issues, that these demands will ultimately be successful; it seems clear to me that the rationale invoked by the FWC in deciding to cut Sunday and holiday penalty rates would also apply to those other sectors. Moreover, as lower penalty rates spread through other sectors, it is my judgment that the negative impact on incomes will be experienced not only by those employed directly under the terms of a Modern Award, but will also be experienced by those working under enterprise agreements or individual contracts. After all, the terms of Modern Awards define a benchmark against which those other forms of contracts must increase overall compensation (according to the better-off-overall methodology); by reducing that benchmark, lower penalty rates will make it more difficult for workers in those other contract settings to negotiate better conditions (either regarding weekend pay,

or other contract features). In this context, all workers will ultimately be affected by the rollback of the penalty rate system.

3. We have considered the likely impacts of lower penalty rates on total employment in the affected industries. In our judgment, the empirical evidence does not support employer claims that employment will significantly expand thanks to lower weekend rates. At most we could see a reallocation of hours of work from weekdays to weekends, as some businesses stay open longer hours on weekends in response to the lower cost penalty for doing so. The overall market demand facing employers in these domestic service sectors will not grow because of reduced wage penalties (to the contrary, it will incrementally fall – because the workers experiencing wage cuts are also consumers themselves). Indeed, if overall sales do not increase but firms are open more hours on weekends, then overall capacity utilisation (and potentially profitability) in these sectors could fall. We consulted with other economists on this issue, and were pleased to participate in the preparation of an open letter regarding the negligible employment effects of lower penalty rates that was signed by 78 Australian economists. This view is consistent with the strong finding in the extensive and international empirical literature on the effects of changes in statutory minimum wages on employment levels; the vast majority of this research confirms that the employment effects of such changes is generally not significantly different from zero (and in some cases, higher minimum wages lead to more employment, not less). Employment in these industries is driven primarily by macroeconomic factors (growth in overall GDP and personal incomes), and by structural forces – such as the shift toward "big box" business models which has virtually eliminated net job creation in Australia's retail industry in recent years.

4. We also simulated the effects of different potential approaches to "phasing in" lower penalty rates for workers in these four sectors, evaluating the claim made by some observers that a gradual reduction in penalties could somehow protect affected workers from substantial losses in income. This claim is not legitimate. Firstly, nominal wages are growing very slowly in Australia, and at this pace would take several years to recoup the ground lost as a result of penalty cuts: as much as 17 years by our analysis. Secondly, during any transition period, the real value of wages will fall due to the ongoing effect of consumer price inflation. So the loss of real purchasing power experienced by workers at the end of a transition period, is virtually identical to the effect if the new rates were phased in immediately. For example, consider the case of a Sunday worker under the retail award. At the end of the FWC's 3-year phase-in period, we estimate their real wage will have declined by 24.9 percent (on the basis of current inflation trends and assumed annual minimum wage increases); that is virtually identical to the 25 percent reduction which they would experience if the lower penalty rate were implemented immediately. In short, deferring a negative policy, does not avoid the harm which it causes.

In summary, in my judgment the reduction in penalty rates for Sunday and holiday work in these four sectors will cause significant losses in incomes for a group of workers who already experience low incomes and precarious work arrangements. The practice is likely to spread to other sectors in coming years, and the potential economy-wide effects if this occurs would be very large. I do not expect there to be any significant boost in total employment in these sectors as a result of lower wages; employment in these non-traded service industries will continue to be dominated by macroeconomic and structural forces.

I respectfully submit this evidence to your deliberations and thank you again for the opportunity to participate in this important discussion.

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