

Friday, 27 August 2021

Economics and Industry Standing Committee
Legislative Assembly
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WA'S PEAK UNION BODY

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Dear Madam/Sir

UnionsWA submission: Inquiry into intergenerational challenges and opportunities for the Western Australian economy

UnionsWA is the governing peak body of the trade union movement in Western Australia, and the Western Australian Branch of the Australian Council of Trade Unions (ACTU). As the peak council for unions in WA we are dedicated to strengthening unions through co-operation and co-ordination on campaigning and common industrial matters. We represent around 30 affiliate unions, who in turn represent approximately 140,000 Western Australian workers.

UnionsWA welcomes the opportunity provided by this inquiry into the intergenerational challenges and opportunities for the WA economy, out to 2041. While it is tempting to frame discussions in reference to dramatic recent events such as the global pandemic, it is worth remembering that WA's economy has and will face long term those challenges and opportunities that go beyond COVID-19. This submission will discuss:

- The impact of global efforts to cut carbon emissions
- The persistent inequalities generated through WA's economic 'model'
- The need to diversify our state's industry base – an issue often discussed, but rarely substantially tackled by governments

Our submission will address these issues through the inquiry terms of reference below.

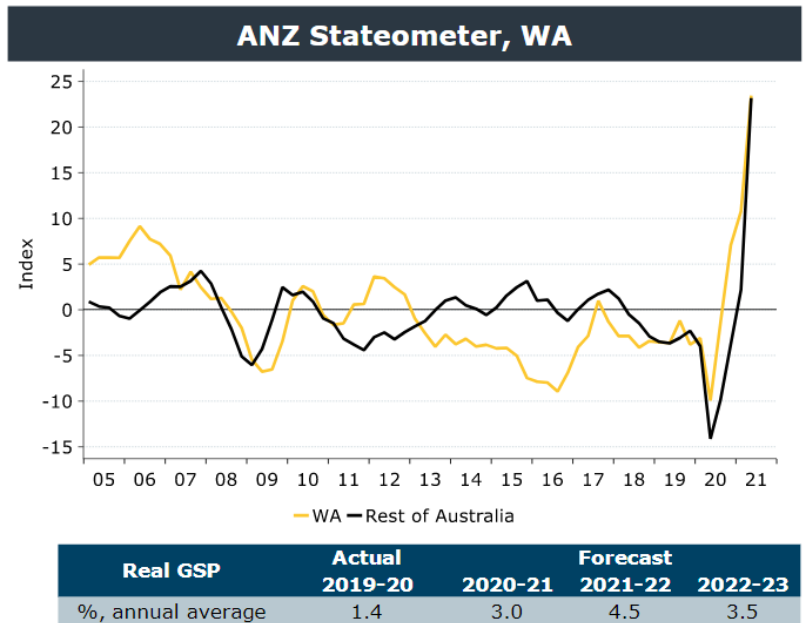
The current structure of the WA economy

WA is an open, export-orientated economy that, on paper at least, has been extremely successful. In 2017-18 WA's gross state product (GSP) was \$259.4 billion, or 14% of Australia's gross domestic product (GDP). The WA Government's State Budget forecasts at the time were for real GSP growth of 2.0% in 2018-19 and 3.5% in 2019-20.¹

In August 2021, even after the impact of COVID-19, the ANZ Bank's second quarter 2021 'Stateometer' still has WA in the 'above trend, accelerating' category, with consumer and labour demand strengthening, the employment-to-population ratio 64.8% at its highest rate since early 2015, and retail trade expanding by 1.1%. Business confidence and conditions and both rising, and GSP forecasts are looking favourable.²

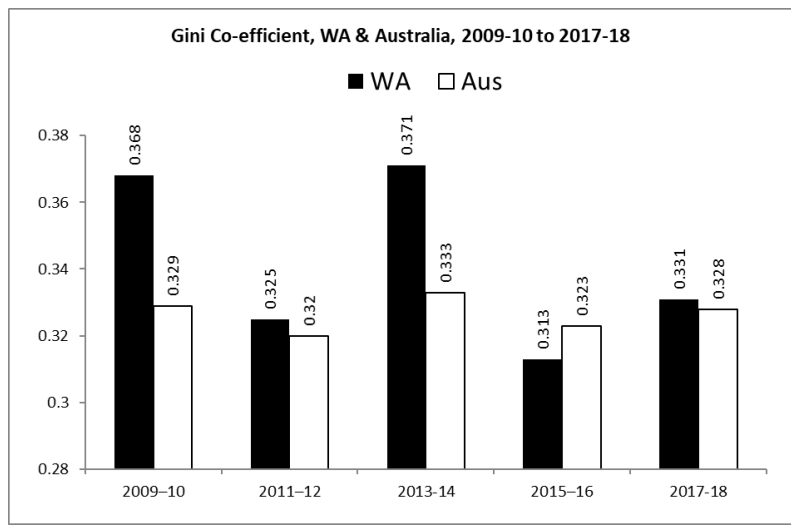
¹ WA Economic Profile (June 2019) <https://www.jtsi.wa.gov.au/docs/default-source/default-document-library/wa-economic-profile-0619.pdf>

² ANZ Stateometer: (Locked) down but not out (26 August 2021), p.19



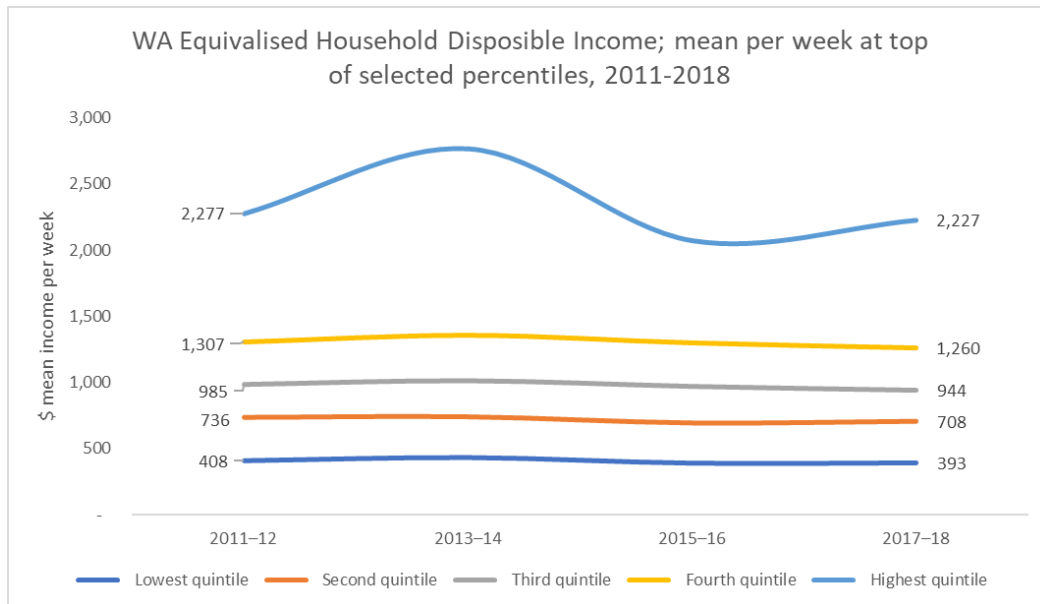
However, the headline successes of the WA economy mask persistent inequalities within WA society – which our economic success has failed to address. Our economy is ‘structured’ to produce inequality – which can be seen using various indicators.

Measures of inequality such as the Gini coefficient of Equivalised Disposable Household Income³ show that for most the period of the last decade WA has been more unequal than Australia as a whole. The recent relative improvement is unfortunately in keeping with the ‘post boom’ patterns of WA, which becomes more equal generally when there’s a ‘bust’. Higher income earners either don’t move here, and/or move away.

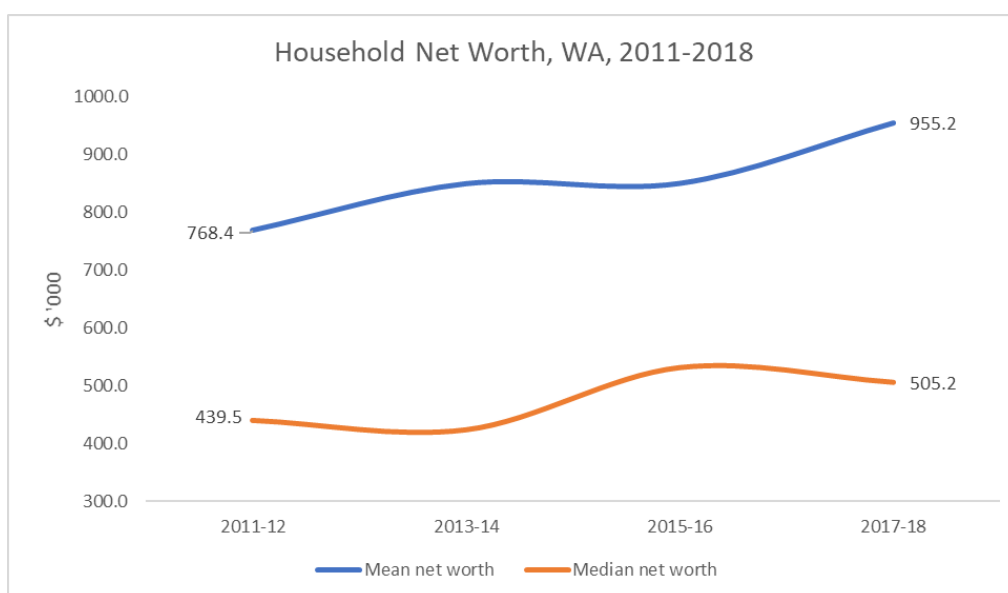


³; ABS 6523.0 - Household Income and Wealth, Australia, 2017-18 <http://www.abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/5F4BB49C975C64C9CA256D6B00827ADB?opendocument> the Gini Coefficient is a commonly agreed single statistic that summarises the distribution of income across the population. The ABS uses the Gini Coefficient in its Household Income and Income Distribution survey to indicate the degree of inequality between households across Australia. It lies between 0 and 1 with values closer to 0 representing less inequality, and values closer to 1 representing greater inequality.

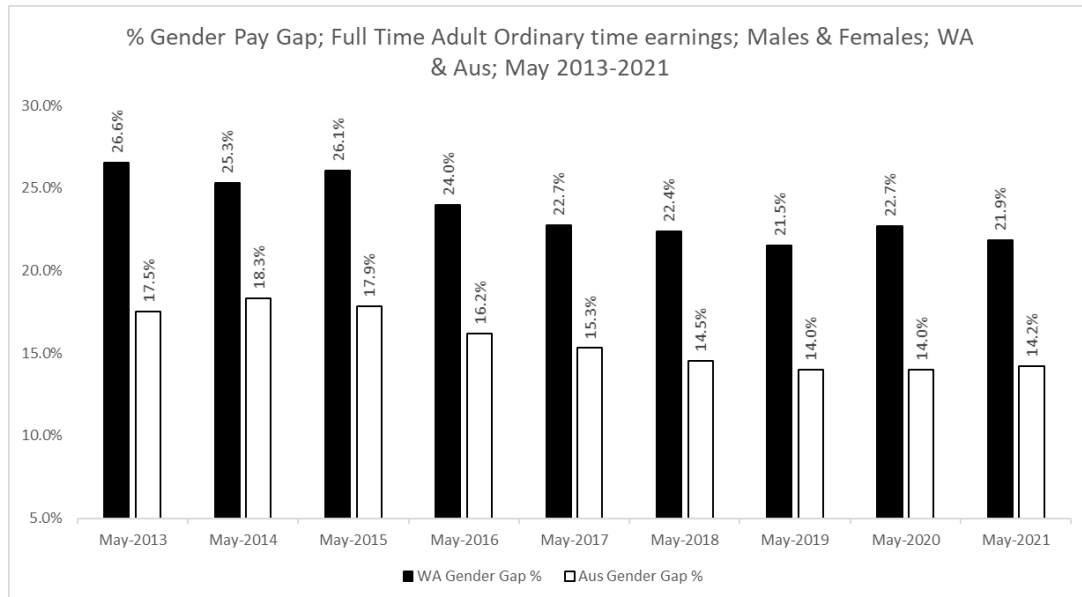
When WA Households are grouped into quintiles (five equal groups, each comprising 20% of the estimated population) for their disposable income, the main 'stability' has been that the lowest income households have stayed low for the last decade. The highest quintile has been more volatile, but the gap between it and the fourth quintile is and remains comfortably large (for the best-off households).



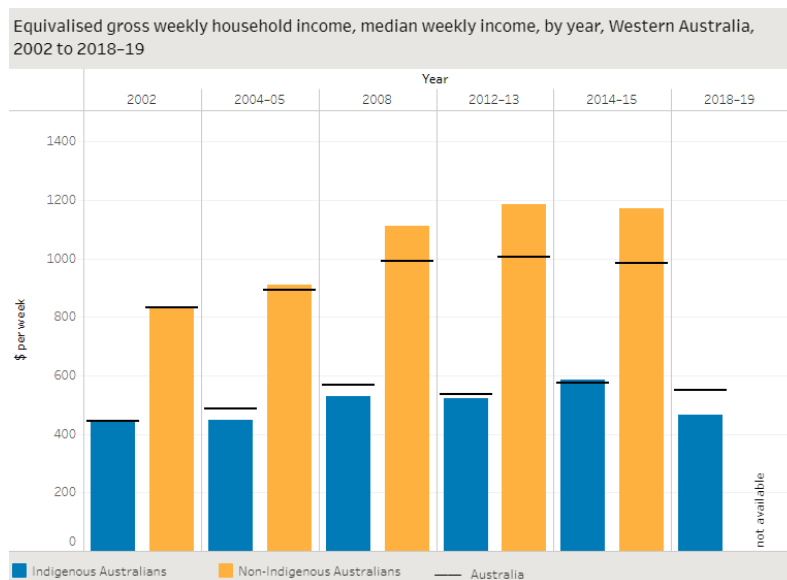
However, household income is not the whole story here. There is also the issue of household wealth, or as the ABS expresses it, household net worth (the value of a household's assets less the value of its liabilities). Over the last decade in WA, the mean net worth of households (averaged net worth) has been getting higher than the median net worth (where one half of all households have net worth above the median and the other half have net worth below). When mean net worth is greater than the median, this means that there is significant wealth increasingly concentrated in the highest net worth households.



These overall measures of inequality manifest themselves in particular indicators. One is the Gender Pay Gap for Average Weekly Ordinary Time Earnings⁴ which persistently shows WA as a highly unequal compared to the rest of Australia. Insofar as there appears to be a slight ‘improvement’ in the gap over recent years it is more to do with highly paid male jobs being increasingly subject to deliberate wage suppression and insecure work, and to a lesser degree increasing automation, rather than an improvement to the position and pay of women workers.



Another persistent indicator of inequality is that of Indigenous Households. Data from the Australian Institute for Health and Welfare shows that in WA for most of the last decade, non-Indigenous household incomes have been higher than the equivalent national figures, while Indigenous household incomes have been lower than their national equivalents.⁵

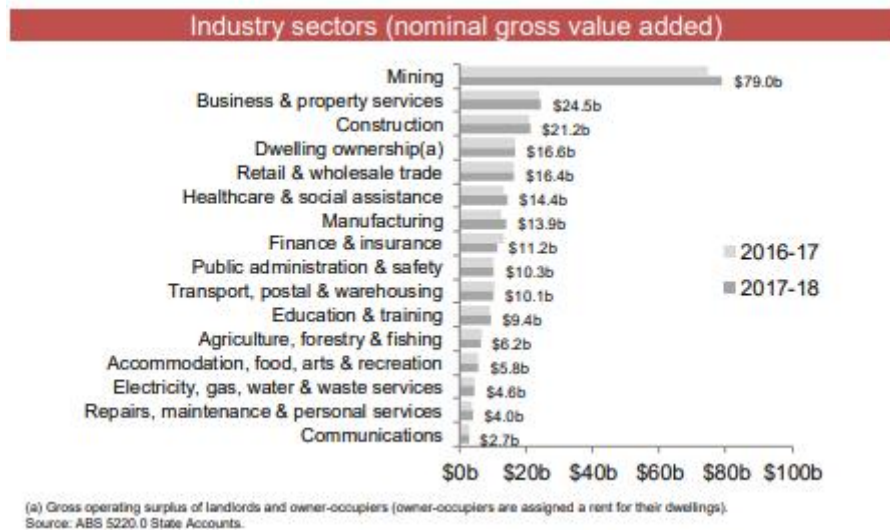


⁴ ABS 6302.0 - Average Weekly Earnings, Australia, May 2021, <https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/average-weekly-earnings-australia/latest-release>

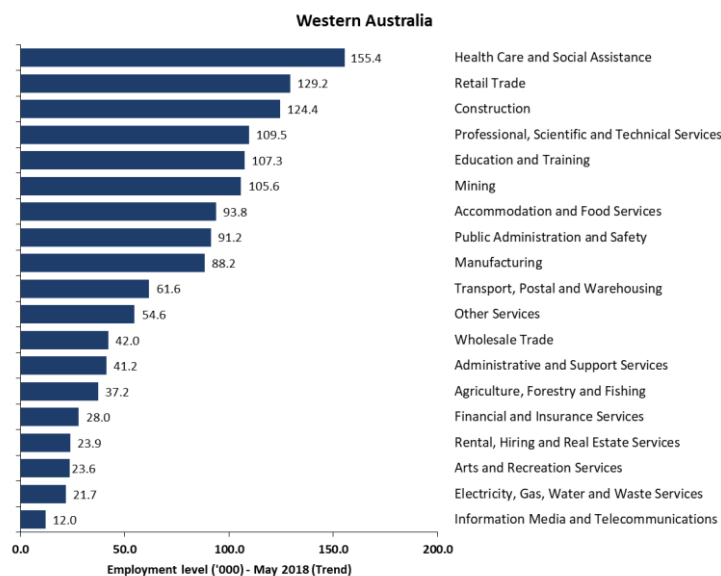
⁵ AIHW, Aboriginal and Torres Strait Islander Health Performance Framework - summary report 2020, <https://www.indigenoushpf.gov.au/>

These unequal outcomes are the product of many injustices that have perpetuated and compounded over the history of WA. When addressing the culpability of WA’s economic structures however, we can look to the perennial issue of the lack of industry diversity, and the persistent undervaluing of the types of services sectors where most people work.

The June 2019 WA Economic profile showed that Mining accounted for 30% of GSP in 2017-18.



However, while mining in WA certainly employs more people relative to the industry nationally, more people are employed in Health Care and Social Assistance, and in Retail trade.⁶



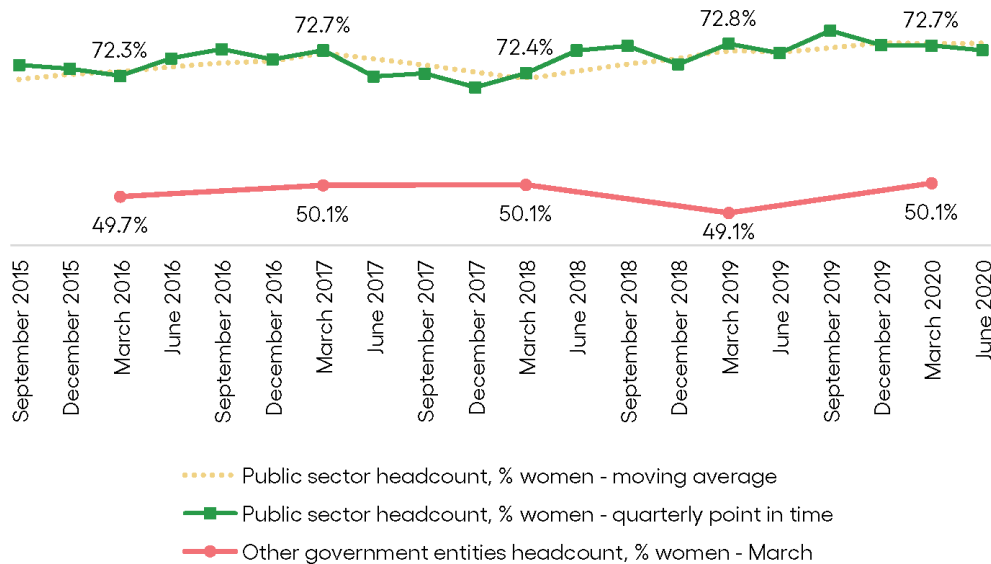
UnionsWA urges the Inquiry to consider that the difference in GSP contribution between mining and services is not due to the ‘superior’ value of mining, but because of the persistent undervaluing of services. The economist John Quiggin describes human services as being vital to achieving a fair society for the following reasons

⁶ Labour Market Information Portal, Employment Projections
<https://lmip.gov.au/default.aspx?LMIP/GainInsights/EmploymentProjections>

First ... the universal provision of these services is at least as important as direct income redistribution in ameliorating the risks and inequalities inherent in a capitalist society. Second, market provision of these services has repeatedly proved inadequate and unsatisfactory. Finally, public funding and provision of human services is an expression of social solidarity against the atomism and self-seeking that is at the core of economic liberalism.⁷

Valuing the social solidarity arising from the services sector is crucial consideration for addressing the inequalities of WA society. The historic undervaluing of predominantly female industries and occupations has long been recognised as a cause of the gender pay gap. That such work is often done in the public sector, and is thus subject to public sector wages caps, is another source of inequality in WA.

The most recent State of the WA Government Sector Workforce 2019-20 found that over the past five years, the proportion of women in the public sector has been very stable, increasing slightly from 72.3% in March 2016 to 72.7% in March 2020.⁸



And while it is the case that the gender pay gap *within* the public has narrowed from 12.5% in 2018, to 10.7% in 2020, that reflects the sector specific impact of the \$1,000 wage policy. The state government sector employs around one in five female workers in WA. A wages policy that imposes severe limits to year-on-year increases cannot help but maintain WA's persistently high gender pay gap over time.⁹

⁷ Quiggin, John, 'An agenda for social democracy' *Risk and Sustainable Management Group, School of Economics, University of Queensland* p.24, http://www.uq.edu.au/rsmg/WP/Australian_Public_Policy/WPP09_3.pdf

⁸ *State of the WA Government Sector Workforce 2019-20*, <https://www.wa.gov.au/government/publications/state-of-the-wa-government-sector-workforce-2019-20>

⁹ According to the state of the Sector Report, in March 2020, 137,787 government sector staff (66.3%) identified as women. This included 106,451 women in the public sector (72.7% of the workforce) and 31,336 women in other government entities (50.1%). The ABS records that in the same month total female employment in WA was 632,400.

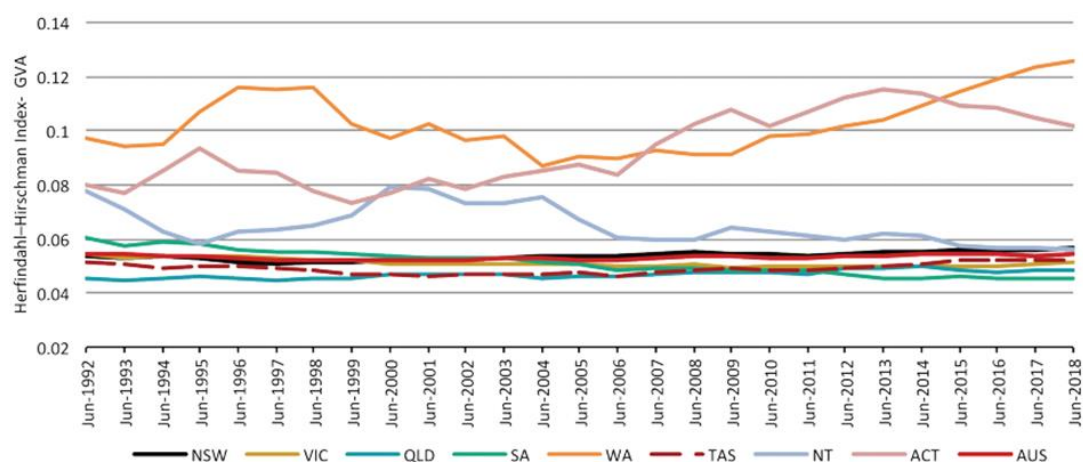
It should also be pointed out that the Reserve Bank of Australia has persistently pointed out that government wages policies have been hampering wage growth overall in the Australian economy. The RBA's *Statement on Monetary Policy* for February 2021 pointed out that¹⁰

Government wage policies announced in recent months have softened the outlook for public sector wages. The Australian Government has announced a wages policy that ties wage adjustments in future EBAs for Commonwealth public servants to private sector WPI outcomes. Some state governments have also announced measures to delay wage increases or cap wages growth at lower rates than had applied in recent years.

Public Sector Unions have long pointed out the low wage caps in the public sector make it difficult to attract and retain skilled staff. It is also the case that what might be passing for a 'staff retention' plan by the WA public sector is the lack of industry diversity, and therefore opportunities within our economy.

In 2019 the Bankwest Curtin Economics Centre (BCEC) released a report entitled *Future-Proofing the WA Economy*,¹¹ which found that, while the WA economy has shown impressive growth over recent decades, it is also now more concentrated (less diversified) than at any other time over the past 25 years. Measured by Gross Value Added (GVA), in 2018 WA was the most concentrated (least diversified) economy across the nation. The only other economy nationally to display similar concentration levels to WA was that of the ACT (due to its large public sector presence).

Figure 7 Industry concentration, WA and Australia, 1992 to 2018, GVA-based Herfindahl-Hirschman Index



Note: Higher values of the index represent less industry diversification. Ownership of dwellings is excluded.
Source: Bankwest Curtin Economics Centre | Authors calculations based on ABS 5220, Tables 2 to 10.

Industry concentration points towards another axis of inequality, that between WA's regions and Perth. The BCEC found that industry is more concentrated in regions relative to the state overall, and this has increased over time. In 2016, the top five employing industries in regional WA accounted for 49.8% of employment compared to 47.0% across the State.

Of the 231,000 businesses located in WA in 2018, 75 per cent were based in Perth, with the remaining 25 per cent spread across the nine regions. In the table below, the proportion of businesses (count)

¹⁰ RBA Statement on Monetary Policy, <https://rba.gov.au/publications/smp/2021/feb/pdf/statement-on-monetary-policy-2021-02.pdf>

¹¹ BCEC Report, *Future-Proofing the WA Economy: A roadmap to industrial diversification and regional growth* (August 2019) <https://bcec.edu.au/assets/2019/08/BCEC-Future-Proofing-the-WA-Economy-report.pdf>

by region are displayed, with the top three industries, in share terms, highlighted in gold, silver and bronze for each region.

Table 5 Industry composition of regional businesses, WA regions, 2018

All businesses	Gascoyne	Goldfields - Esperance	Great Southern	Kimberley	Mid West	Peel	Perth	Pilbara	South West	Wheatbelt	Total
Agriculture, forestry and fishing	27.9	18.8	35.3	9.3	27.2	7.8	1.8	3.7	18.6	46.5	7.1
Mining	1.0	4.2	0.3	0.3	0.7	0.6	1.3	1.6	0.3	0.6	1.3
Manufacturing	2.8	3.8	3.8	3.2	3.1	3.8	3.9	2.8	4.4	3.0	3.8
Electricity, gas, water and waste services	0.7	0.4	0.2	0.3	0.5	0.4	0.3	0.7	0.4	0.3	0.3
Construction	15.4	14.7	13.1	20.3	14.4	25.3	17.9	19.6	19.6	10.6	17.7
Wholesale trade	1.3	1.9	1.9	2.3	1.7	2.2	3.2	1.5	2.3	2.0	3.0
Retail trade	6.9	5.7	5.3	8.7	5.7	6.3	5.2	6.0	6.2	4.9	5.4
Accommodation and food services	6.7	4.2	3.9	5.8	4.1	3.7	3.8	5.1	4.6	2.5	3.8
Transport, postal and warehousing	9.2	6.9	3.9	6.3	6.1	8.4	8.7	8.4	3.7	5.6	7.9
Information media and tele-Communications	0.3	0.2	0.6	0.8	0.2	0.3	0.8	0.1	0.4	0.1	0.7
Financial and insurance services	4.0	6.6	5.1	6.0	8.3	7.7	10.3	6.3	7.6	4.3	9.4
Rental, hiring and real estate services	7.7	10.8	9.6	11.2	9.1	8.9	11.1	12.0	9.7	7.3	10.7
Professional, scientific and technical services	3.7	5.8	5.7	7.0	4.9	7.9	13.6	7.5	7.4	3.6	11.8
Administrative and support services	3.5	2.9	2.0	5.8	2.3	3.3	3.9	6.7	3.2	1.7	3.7
Public administration and safety	0.3	0.2	0.1	0.4	0.3	0.4	0.3	0.6	0.2	0.1	0.3
Education and training	0.5	1.0	0.6	0.9	0.7	0.9	1.3	1.2	0.8	0.3	1.1
Health care and social assistance	1.9	3.6	3.4	3.4	3.7	4.7	6.1	4.5	4.4	1.5	5.5
Arts and recreation services	0.6	0.7	0.5	1.1	0.5	1.4	1.1	0.6	1.0	0.4	1.1
Other services	4.8	7.0	3.9	5.9	5.1	5.3	4.3	9.2	4.5	3.9	4.4
Currently unknown	0.9	0.6	0.8	1.0	1.4	0.6	1.0	1.9	0.7	0.8	1.0
Total	100	100	100	100	100	100	100	100	100	100	100

Note: Percentage share.

Source: Bankwest Curtin Economics Centre | Authors calculations based on ABS Cat 8165.

The BCEC report shows the risks of allowing regional areas to become increasingly reliant on a smaller number of industries. In WA ‘boom times’ in the resources sector can easily conceal economic vulnerabilities at the local level, which are starkly revealed when the boom is over.

Overall, the goods-based export orientated structure of the WA economy is very successful at generating strong headline outcomes during boom times, which has made us a wealthy state overall. However, the nature of those ‘booms’ is that they generate inequalities which come back to bite us during the ‘busts’. That the incomes of around half the population are in a services sector that is negatively impacted by low wage growth, leading to persistent inequalities, show that we undervalue those services in that labour market – often by deliberate policy design.

The lack of industry diversity in WA, exacerbated by our reliance on mining, reduces the opportunities for highly skilled, decent work, particularly in regional WA. When considering the intergenerational challenges and opportunities for the Western Australian economy, we must consider who loses, as well as who gains from the current structure.

Key factors driving current demand for WA exports

For the last few decades, WA exports have benefitted from the extraordinary and historically significant economic growth of the People’s Republic of China. The most recent figures show that mainland China accounts for over half of WA’s export goods by value of trade.¹²

Exports

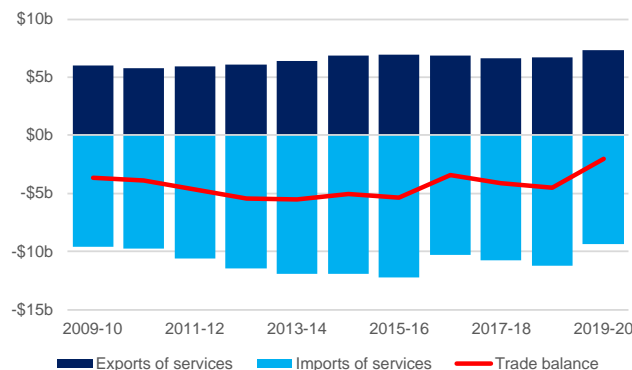
The table below shows Western Australia's top 10 markets for exports of goods by value of trade in the 2020 calendar year.

Rank in 2020	Market	Value A\$ billion	Share of WA total (%)
1	China (Mainland)	103.6	55.6
2	Japan	18.0	9.7
3	United Kingdom	12.1	6.5
4	South Korea	10.1	5.4
5	Singapore	7.9	4.2
6	United States	6.7	3.6
7	Hong Kong (SAR of China)	4.4	2.4
8	Taiwan	3.0	1.6
9	Malaysia	2.2	1.2
10	Germany	2.1	1.1

Source: ABS

However, the WA services sector also makes its contribution to our exports. These are mainly in terms of expenditure by international visitors and students in the State, as well as transport and business services.

Western Australia’s trade in services: Financial years



¹² Western Australia's economy and international trade, <https://www.wa.gov.au/government/publications/western-australias-economy-and-international-trade#western-australias-top-10-trading-partners>

In 2019-20, Western Australia’s exports of services rose 10% to \$7.4 billion, and imports of services fell 16% to \$9.4 billion. China was WA’s largest market for international visitors by total spend in 2020, and 2nd largest market for international students.

That WA has developed such a reliance on China is understandable. With such an enormous market opening to our north, the export opportunities are far too great to ignore. However, in keeping with the unfortunate historical tendency of WA policymakers to coast on the good times and ignore the long term, WA is now reliant on a national that is a large carbon emitter, and an emerging geopolitical rival.

Key factors that will affect demand for WA exports into the future

Research by the ANZ Bank has recently shown that China has been demonstrating the ‘downside risk of relying on it’s high growth levels, as it’s levels of industrial production are slowing.

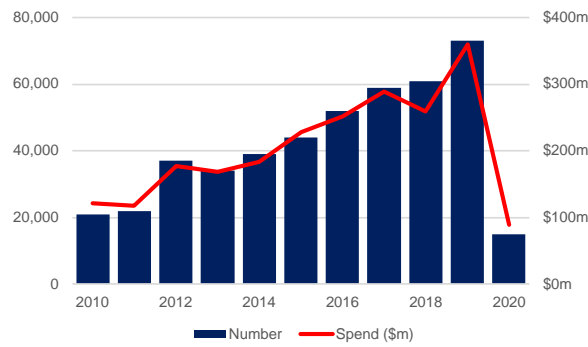
Figure 2. China’s industrial production growth slows, signaling downside risks in GDP



Source: NBS, GAC, Bloomberg, Macrobond, ANZ Research

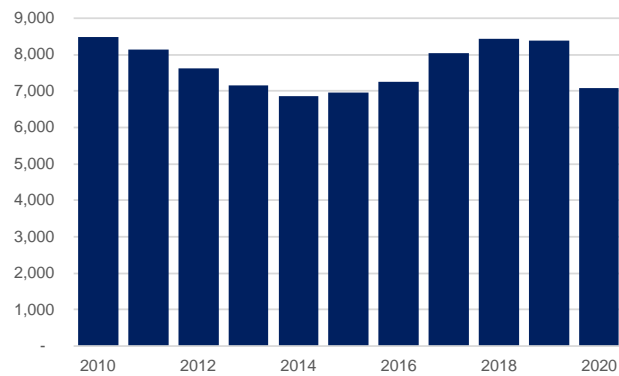
The state government has also identified that WA’s international services trade (exports and imports) is likely to fall significantly in 2020-21 because of much less international travel due to the COVID-19 pandemic. This can be shown in the falls from the falls in both international visitors, and students, from China.

Western Australia's visitors from China: Calendar years



Note – COVID-19 travel restrictions negatively affected international visitors in 2020.
Source: Tourism Research Australia, International Visitor Survey (Quarterly).

Western Australia's student enrolments from China: Calendar years



Note – COVID-19 travel restrictions negatively affected international student enrolments in 2020.
Source: Australian Department of Education and Training, International students data (Monthly).

In addition to these looming problems with our both our goods and services exports, WA's lack of industry diversity means we will be at disadvantage in the future development of green industries. This will be a critical concern as the world moves towards stronger action to reduce carbon emissions.

In July this year, the European Union announced policies put the EU on track to meet its emission reduction targets of 55% in 2030 compared to 1990 levels. Among these was a proposal for a Carbon Border Adjustment Mechanism (CBAM), to create a level playing field for EU producers subject to EU carbon pricing.¹³ While the EU itself is not a major export market for WA, that a major global player should endorse such a measure should be considered a warning sign that WA must be prepared for future impacts our carbon heavy industries, and those who work in them.

To sum up, WA is deeply reliant on decisions that will be made at a global level that impact the demand for our exports. Without prudent forward planning, and the promotion of industry diversity, we will remain subject to booms and busts that exacerbate inequality and threaten employment.

¹³ The Carbon Border Adjustment Mechanism explained, <https://economics.rabobank.com/publications/2021/july/cbam-carbon-border-adjustment-mechanism-eu-explained/>

Actions being undertaken by relevant stakeholders to plan for identified trends in demand for WA exports

The affiliates of UnionsWA are currently involved in campaigns and policy initiatives that address and respond to the concerns we have outlined over WA's export orientated economic model.

WA public sector unions have recently formed a new alliance comprising public school teachers and support staff, health workers, prison officers, firefighters, engineers, community service workers and those in our rail system. The Public Sector Alliance is campaigning to change the WA government's Wages Policy which has limited, and even sent backwards, the pay of workers who deliver essential health, education, community safety and other services. To put it simply, working people spend their pay to meet costs of living, and pay increases are an important driver of our local economy. WA needs to lift the domestic spending power of its resident population, so that there is a local market for goods and services – making us less reliant on the boom and bust of exports.

The National Tertiary Education Union (NTEU) has for many years expressed deep concern about the over-reliance of Australian universities on income generated from international student fees. Australian universities have treated international students as cash cows and used their fees to cross-subsidise their other activities. However, universities and other international education provider have also displayed little to no concern about the personal welfare of these students – who are often subject to discrimination, harassment, and exploitation in the labour market.

The weaknesses of this income model are now on full display under the impact of the COVID-19 pandemic. A multi-billion-dollar export industry has collapsed, and the senior leaders of the sector such as University Vice-Chancellors, have revealed themselves unable to chart a way forward. They have instead responded by gutting their own organisations. A recent example is the decision by the University of Western Australia to make deep cuts in departments such as anthropology, sociology, and molecular sciences. By campaigning against cuts such as these, the NTEU is acting to maintain reputation of WA education, which will be key to both restoring this export market and providing our state with a highly educated workforce.

The Australian Manufacturing Workers Union (AMWU) WA Branch, the Australian Services Union, and the Electrical Trades Union, have been deeply involved with the Collie community's efforts achieve a just transition to new industries, in the wake of the closing Muja coal generator. The people of Collie are keenly aware of the need to diversify into other industries to support the local (and WA) economy, and unions such as the ASU, ETU and AMWU are key to a well-managed industry transition plan and process.

In December 2020 the Collie Just Transition Plan was released. It was developed by the Just Transition Working Group, established to bring together unions, employers, community leaders, governments, and others. The plan is focussed on

- Maximising opportunities for workers;
- Diversification of the local economy;
- Celebrating Collie's history and promoting its future
- Ensuring ongoing commitment for the Just Transition.

Our affiliates approach is a lesson in building a more diverse industry base for WA and preparing us for a world in which inescapably needs to reduce carbon emissions.

Our affiliate, the CFMEU (Construction and General) has over the last number of years been campaigning for a strong state government procurement policy which ensures that only companies with the best occupational health and safety (OHS) and industrial relations records should be able to tender for and win government contracts.

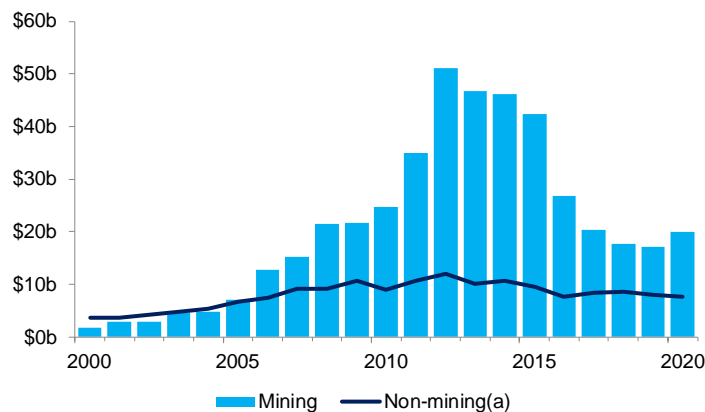
This is not just issue for workers employed by these companies, Procurement policy deployed in this way is also about creating a positive competitive environment in which local companies are rewarding for being good corporate citizens, as opposed to being incentivised to cut corners and cheapen their tenders to gain government work. A ‘race to the top’ for work quality among suppliers, as opposed to a ‘race to the bottom’ on price, will assist the general approach recommended in this submission – namely to ensure WA has a diverse economic base that can demonstrate to the world we have high quality, highly productive companies that attract investment, and maximise the full potential of our workforce.

Key factors affecting inbound investment in major sectors of the WA economy.

To attract inbound investment, WA should be offering the world a mixture of both mining and non-mining investment opportunities.

In 2020, the mining industry accounted for 72% of our state’s private new capital expenditure.

Western Australia’s private new capital expenditure¹: Calendar years



¹ Nominal or not adjusted for price changes. Original series. (a) All industries other than mining; agriculture, forestry, and fishing; public administration and safety; and superannuation funds. Source: ABS 5625.0 Private New Capital Expenditure and Expected Expenditure, Australia (Quarterly).

As outlined throughout this submission. WA has become extremely ‘path dependent’ on mining. It is what we know how to do, so we do it. While the good times roll, it appears to be all we need to do. However, the points we have made about headline successes masking deep inequalities will remain pertinent even if we receive the benefits of a new mining boom.

Rather than just group other industries under the label ‘non-mining’, WA should look at actively promote investments in services, manufacturing, and other industries that can act to diversify our economy. If we only care about mining, then mining – with its vulnerabilities – is all we will get.

Thank you for the opportunity to contribute to the Standing Committee's inquiry. Please contact me directly on 08 9328 7877 or owhittle@unionswa.com.au if you wish to discuss matters further.

Yours sincerely

A handwritten signature in blue ink, consisting of a stylized 'O' followed by a long horizontal line.

Owen Whittle

Secretary