

Penalty rates become the Turnbull government's No.1 problem



Prime Minister Malcolm Turnbull has big problems on his hands with the penalty rate cuts. Alex Ellinghausen

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In the first two months of this year, about 1 million Australians took a pay cut.

These were the 300,000 or so part-pensioners who had their benefit "readjusted" on January 1 due to the 2015 budget savings deal between the Abbott government and the Greens; and the almost 700,000 retail, hospitality and fast-food workers who learnt their Sunday penalty rates would be trimmed by the Fair Work Commission.

While there are sound structural budgetary reasons for the pension cuts, and, arguably, broader economic benefits to the penalty rates decision, none of that is of comfort to those who face an income loss while the world around them grows ever more costly.

(Another 220,000 pensioners at the lower end received an increase on January 1 but that never seems to translate into gratitude).



Tony Abbott's wrecking ball strategy may be helping in keeping the government's poll numbers depressed. Andrew Mearns

Tony Abbott's wrecking ball strategy may be helping in keeping the government's poll numbers depressed but there are deeper structural reasons behind the voter discontent and, as ever, cost of living is foremost among them.

The government knows this. It readjusted its message at the start of the year and is preparing a May budget, with cost-of-living as its theme. There will be policies on energy prices, job creation and housing affordability while the billions in zombie cuts to welfare and higher education, which have lingered since the notorious 2014 budget, will be jettisoned.

The penalty rates decision was not of the government's making but it has become its new No.1 problem. Not only does it threaten to kill its cost-of-living crusade, but it has once more exposed its inability to think quickly in a crisis. It took a week for Malcolm Turnbull to offer a compromise – a phase-in of the cuts so they can be mitigated as much as possible by annual, inflation-linked pay increases.

Its pre-prepared strategy was to blame Bill Shorten and Labor because the former government established the commission and its four-yearly review of penalty rates. Moreover, Shorten had promised solemnly to abide by the outcome of that review. He made that promise believing the commission would never cut rates. He broke it when the commission did to the Coalition what Labor has been trying to do for the past decade – put it back in the WorkChoices frame.

For 10 years, WorkChoices has been to the Coalition what a carbon price has been to Labor – Typhoid Mary – and the government is now frozen with fear.

After blaming Shorten, which was of limited effectiveness, its next reaction was to ring the business groups that have spent years advocating penalty rate reforms, and seek their assistance to fight the Labour movement juggernaut.

Another triumph of hope over experience. Business is about making money, not news, and has traditionally been loath to get its hands dirty.

In the run-up to the 2007 election, after much cajoling by the Howard government, the Business Council of Australia, the Australian Chamber of Commerce and Industry and the Minerals Council of Australia clubbed together to fund ads backing WorkChoices.

The Australian Industry Group stayed out of it and when Labor won the election, the BCA and its mates were sent to Coventry while AiGroup was feted.

Some years later, Labor treasurer Wayne Swan tore up plans for a company tax cut because of the refusal of business to campaign for the mining tax, the proceeds from which were slated to fund the tax cut. And now the Turnbull government is learning the same lesson. AiGroup and ACCI have been vocal since the Fair Work Commission decision but most others have headed for the hills. It would hardly help for the BCA to start pushing the virtue of cutting penalty rates when its members, the banks among them, are lining up for a company tax cut. As if Shorten needs any more ammo.

But it's not just the BCA. People in government are asking what happened to other players, like Restaurant & Catering Australia, one of the most vocal and constant advocates for penalty rate reform. It issued a statement supporting the decision and chief executive John Hart will readily offer media comment when approached to back the decision. But Hart is also a pre-selection candidate for Mike Baird's seat of Manly and there is little expectation he wants to get in the middle of a punch-up about cutting rates of pay. His group, like other smaller players, doesn't really have the cash or resources anyway.

The Turnbull government did not help itself choosing to sit on the fence during the review and not make a submission. Its conundrum now is thus. It can keep standing in the middle of the road, a course of action which only ever guarantees you'll be run down.

Or it can take the easy way out and legislate to overturn the wage cuts. Or, if it is opposed to that, as it is, then it should defend the decision. Something like: "Yes, some people are being hurt. It's not our decision but we will seek to mitigate the hurt caused by arguing for a phased-in reduction," it could say. "And, in the longer run, a reduction in rates will encourage more businesses to open weekends and public holidays, generating more jobs, especially for young people, and greater economic activity."

Turnbull started going down this path Friday, only after Abbott told him to grow a pair and start making the economic case. Again, another epiphany from the former prime minister. Abbott was one of two ministers in Howard's cabinet who opposed WorkChoices, and during all his years as leader, in both opposition and government, he ran a million miles from serious IR reform, including penalty rates.

Even Abbott's co-pilot Eric Abetz, an IR hardliner, was mindful of the political dangers of going down this path when he offered a constructive, if not impractical idea, of grandfathering existing workers from the rate cuts. Abetz, like Turnbull and Abbott, were around in 2007 when Howard tried to make the case for penalty rate cuts.

It ended Howard and his government. And that was when the economy was going gangbusters. The government has allowed itself to be ambushed and shows no sign of being able to escape.

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