



For whom will the boom pay?

Grant Belchamber, ACTU

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Here’s a tip: there will still be low paid workers in the New Workforce.

While ever we have shop assistants, and cleaners, and hotel and restaurant workers, agricultural labourers, stable hands, factory hands, truck drivers, and child care workers, we will have workers employed on minimum wages.

The current Australian growth phase has been underway more than a decade, but it won’t last forever. When it slows or goes into reverse for a stretch – as it surely will – low paid workers and their families will bear the brunt. As they always do.

A year out from the next federal election, in the mature phase of a long economic boom, there has been a small trickle for low paid workers from the first decision of the AFPC.

But it is London to a brick that when the economic wheel turns and growth slows, low paid workers will be hung out to dry when they most need protection and support. Howard’s labour market laws are no way to make the boom pay anything to those who need it most.

For the past decade in Australia, we *have* been making the boom pay – a little – for low paid workers, through regular, moderate, predictable increases in award minimum rates of pay.

Low paid workers have not done as well as those on middle incomes and at the top end, but they have received a trickle through annual increases in Australian minimum wages.

This trickle has not flowed by virtue of an invisible hand working distributional magic in an unfettered labour market.

It has flowed courtesy of a visible regulatory hand, adjusting minimum wages in Australia’s labour market.

For a hundred years this visible hand was that of the Industrial Relations Commission.



Last week, for the first time, it was the visible hand of Professor Harper and his colleagues who comprise the Australian Fair Pay Commission.

Last week's increase - \$27.36 on incomes up to \$700 a week, and \$22.04 for all minimum rates over \$700 a week – was a good result for low paid workers.

- In nominal terms, allowing for the time elapsed since the previous minimum wage increase, the Fair Pay Commission was precisely in line with those granted by the Industrial Relations Commission over the past decade.
- In real terms it fell short of what the AIRC awarded in the late 1990s when inflation was dormant.
- Nor does the decision come close to offsetting Workchoices' root and branch dismantling of Australia's labour market floor – the loss of penalties and allowances and its subversion of collective bargaining and all the rest.

But the size of the dollar increase awarded by the AFPC confounded the fundamentalist smart money predictions and will make a real difference for low paid workers, putting a line under the slide in their living standards that would otherwise have ensued.

John Howard said the decision was a piece of 'genius' because the smaller increase for higher minimum rates would promote bargaining. Well, the AIRC decisions of 1998 and 1999 were both similarly tapered – as to both threshold and amounts in real terms, and explicitly to promote bargaining – but the 'genius' went unremarked by the PM on those occasions.

What happened to the Fair Pay Commission on their road to Damascus?

As I see it, there are two possible explanations.

One is purely speculative, entailing subterranean political conspiracy. It is wholly without corroborating evidence, resting entirely on the conjunction of circumstantial events – the damage caused to the government's standing in opinion polls by its ideological imposition of WorkChoices.

The second explanation is firmly grounded in evidence, based on the Reasons for Decision issued by the AFPC itself. It asks, "What do fearless, independent rational people do when they apply their analytical faculties to the available evidence?"

The fact is the AFPC has found, on the evidence, in support of almost *every* proposition the ACTU has put in national wage cases over the past decade:



- Minimum wages form part of the safety net and help to sustain the living standards of the low paid [p 7, 61 – this and all page references below are to the October 2006 decision of the AFPC]
- Lower paid workers are relatively concentrated in lower income households – the majority of low paid workers live in the bottom three deciles of working households [p 8, 69] – *they are not all doctors wives and kids of professionals*
- Vulnerable groups are over-represented amongst the low paid – part-time workers, casuals or employed on short term contracts, females, singles, early school leavers, younger workers, employed in small firms, in rural areas, and *not union member*. [p15, 67] Of women in private sector employment, 31% rely on award minimum rates (ABS 2004)
- Most low paid workers face relatively low effective marginal tax rates (EMTRs) – that is, they keep most of the increase awarded and do not have it sucked away in withdrawal of government benefits and allowances [p 12] – *rejects editorials from The Australian and the Fin and ceaseless repetition of Peter Dawkins and his gang of five*. As the AFPC found, relying on NATSEM research, 90% of minimum wage workers keep more than half of the increase granted, and just 50,000 or 2.5% of all low paid workers face EMTRs of 70% or more [p78]
- Many - possibly most - low paid workers do not progress to higher paid work and a significant minority cycle between non-employment and low-paid work [p 9, 75] – *the “foot on the up-escalator” argument is a long way short of the actuality; for many the experience is on and off the hurdy-gurdy of low paid work and no paid work, or year after year on the low pay treadmill*
- Minimum wages are important in making work pay – relative to social security benefits available [p 55]
- Conditions in the Australian labour market remain positive with significant and sustained improvement since 1992 in employment growth, lower unemployment, increased labour force participation, and sound productivity growth [p 10, 82 - 86]. (*NB During this period and in the face of sustained opposition from the Howard government and employer lobbies, the ACTU secured regular, moderate increases in minimum wages through national wage cases, totalling \$159.00*)
- Solid wages growth over recent years has not been identified by the Reserve Bank as contributing to recent higher inflation [p 10, 83]
- An explicit discount to the minimum wage rise is not warranted by this year’s income tax cuts. [p 12, 93] In fact the \$7 - \$10 a week tax cut for low and middle income workers is dwarfed by the wage rise granted



- Regular moderate increases in minimum wages – presumably, increases of the order granted - do not cost jobs. *The AFPC found that “...increasing the minimum wage usually has a very small impact on average wages, and therefore, total employment.”* [p 71]

I really must interpose briefly here, on this theme of minimum wages and employment.

Do you remember the gang of five? The five economists?

I haven't seen Mike Keating here, and Peter Dawkins is a public servant these days, but Chris Richardson, Ross Garnaut, John Freebairn are here with bells on, as usual at these gigs.

Theirs is a familiar hymn – freeze minimum wages to price unskilled workers into jobs. When the famous five sang the original in 1997 and 98, it was freeze minimum wages for four years and get the unemployment rate down to 5% after a decade.

They sang it with gusto at the first of these Conferences in 2002, and it is the pervasive and dominant policy air in “Hard Heads, Soft Hearts” – the published wrap of that first conference

The tub-thumping proselytes, the true believers in the evils of minimum wages have all put their hands up over the years to affirm that it is as obvious as the earth is flat that the only cure to unemployment is cutting minimum wages. Fabulous Phil Lewis – who has largely spent his professional career overestimating the elasticities - has actually done it again in the piece commissioned from him by the AFPC.

Well, over the past decade in Australia, our experience shows that moderate increases in minimum wages have not cost jobs.

We have not cut minimum wages nor frozen them as the gang of five wanted.

But the national unemployment rate in Australia is under 5 nonetheless.

The Australian evidence is wholly consistent with the OECD story, spelled out in the latest Employment Outlook in a stock-take and review of the 1994 OECD Jobs Strategy.

What is clear from the debate is that the range of estimates of Australia's minimum wage-employment elasticity is subject to greater variance than estimates of the NAIRU ... and no one believes any of them these days

And the decision of the AFPC last week is evident acceptance that minimum wage increases of the magnitude determined are neutral with respect to employment.



But every time during this period that the IRC raised minimum wages, its decision was greeted by thunderous denunciation from market fundamentalist economists, a faith-based clique intent on giving the Commission some bovver, on kicking their heads.

Paying no regard to the reasons given for the decision reached, this rowdy lot got stuck in with their *ad hominem* attack. *The IRC is a club, looks after its own status and position, is captive to the unions, and is a bunch of economic nincompoops.* If you want to refresh your memory about this tripe, read anything Alan Wood has ever written about the minimum wage decisions of the AIRC.

But what has Alan Wood said about the AFPC decision? He excuses the AFPC on the grounds that social security benefits are too high! Ditto the fearless editorialists at the Fin. Almost alone amongst his flat earth friends, Ray Evans has stayed true and dumped on the AFPC decision.

When last week's decision was revealed, Mark Wooden rightly asked why we needed a whole new bureaucracy to come up with the same old result.

Professor Harper has pointed to public consultations and commissioned research and consideration of economic factors in reaching its decision as features that distinguish what his group did, relative to its predecessor.

Public consultations? The AFPC website identifies public consultation with 140 people but gives no indication how many of these were low paid workers actually employed on minimum wages. It identifies only two commissioners – Prof Harper and Csr O'Hagen – as having attended any public consultations, and no commissioner attended at least 5 of 13 consultation sessions.

Since 1996 the ACTU called scores of witnesses to give evidence under oath before *all seven* members of the AIRC Full Bench. All of the witnesses were employed on minimum award wages. They invariably submitted sworn detailed written submissions detailing their household living expenses, documenting the difficulty of making ends meet. None of this was contracted out to public relations firms.

Commissioned research? Over the past decade, the ACTU and employers and governments tendered and relied on academic work from most of the persons and research groups from whom the AFPC commissioned something this year – from Melbourne Institute, Nils, NATSEM, Phil Lewis – and a host of other national and international experts.

Economic considerations? The safety net decisions of the AIRC are *all about* economic considerations, including the pursuit of high employment and low inflation and productivity growth.



The AFPC process is not transparent and not value free, and it is expensive. On this occasion it has produced a worthwhile result for low paid workers and will help make the boom pay, for them.

Today the problem is not high unemployment rates but skills shortage, population aging, and the burdens of economic success. The faith-based prescription nonetheless is to deregulate, to cut minimum wages, to abandon public investment in education and training, for the government to leave our crumbling infrastructure to the vagaries of market investment, and to cut social security benefits for 'job snobs'.

In terms of workforce participation, despite our employment growth, underemployment and under-utilisation of labour remains unacceptably high. In 2005 1.8 million people wanted to work, or wanted to work extra hours.

Of these 627,000 people were seeking a job or extra working hours and could start work within four weeks. The most common difficulty these people had was that they 'lacked the necessary training, qualifications and experience' (17% said this was their main difficulty).

A further 348,500 people would have preferred to work or work more hours, but were not available to start within 4 weeks. The main barrier for men in this group was 'long-term sickness or disability', while the most common barrier for women was 'child care, pregnancy or home duties'.

To make the boom pay for all our citizens, rather than cutting take-home pay and basic entitlements and thus reducing work incentives, we should focus on better training, more access to affordable childcare, improved support for people with disabilities who are willing to work, and better pay.

In particular, we need to change our tack on training and skills development. A renewed effort in this area will help currently jobless people get back into the labour market, lift the skills of Australian workers currently in work and help boost national productivity.

It is a disgrace that public spending on education is actually falling in Australia.

In OECD countries public spending on education as a share of GDP *rose* 4.2% between 1995 and 2003, but in Australia it *fell* 4.4% - equivalent to around \$2 billion annually.

John Howard's only plan is to force TAFE and university staff onto AWAs and price our children out of a university education.

This is no way to make the boom pay.