



Setting Australia's minimum wages

Speech by Professor Ian Harper
Chairman, AFPC



The Decision

\$27.36 per week for people earning up to \$700 per week

- covers just over one million Australian workers - about 10% of the workforce

\$22.04 per week for people earning \$700 per week and above

- represents another 220,000 workers or a further 2% of the workforce

Increases flow on to junior employees, employees to whom training arrangements apply and employees with a disability



Decision rationale - 1

- higher increase for pay-scale reliant workers earning up to \$700 per week reflects research findings and advice that lower-paid workers are more reliant on minimum wages
- research also shows that higher paid workers are generally more likely to negotiate wage increases directly with their employers by agreement-making



Decision rationale - 2

- decision balances sensitivity of low-paid employment to wage movements (“demand”) with incentives for people to seek and remain in paid employment (“supply”)
- decision also balances employment and competitiveness across the economy with provision of a safety net for the low-paid



Decision rationale - 3

Decision also takes into account:

- period of almost 18 months since the last adjustment to Australia's federal minimum wages
- continued strong (although not uniform) performance of the economy and labour market
- movements in consumer prices
- potential impact on unemployment and inflation



Workers with a disability

Pre-Work Choices coverage 'gaps'

- 'gaps' in statutory minimum rates of pay
- 'gaps' in access to *pro rata* wage arrangements

Decision fills these 'gaps'

- e.g., many business services ('sheltered workshops') had no applicable rates of pay for employees with a disability



Consultation - 1

STAKEHOLDER MEETINGS

The Commission met with 105 stakeholder organisations representing the views of employers, employees, community organisations and government.

| | |
|----------------|------------|
| Employers orgs | 46 |
| Employee orgs | 19 |
| Community orgs | 39 |
| Government | 1 |
| TOTAL | 105 |



Consultation - 2

PUBLIC CONSULTATIONS

The Commission held 22 public consultation sessions.

General consultation sessions

Albany (WA)

Bowen Hills (QLD)

Noarlunga (SA)

Traralgon (VIC)

Footscray (VIC)

Campbelltown (NSW)

Perth (WA)

Ipswich (QLD)

Rockhampton (QLD)

Elizabeth (SA)

Launceston (TAS)

Geelong (VIC)

Wollongong (NSW)



Consultation - 3

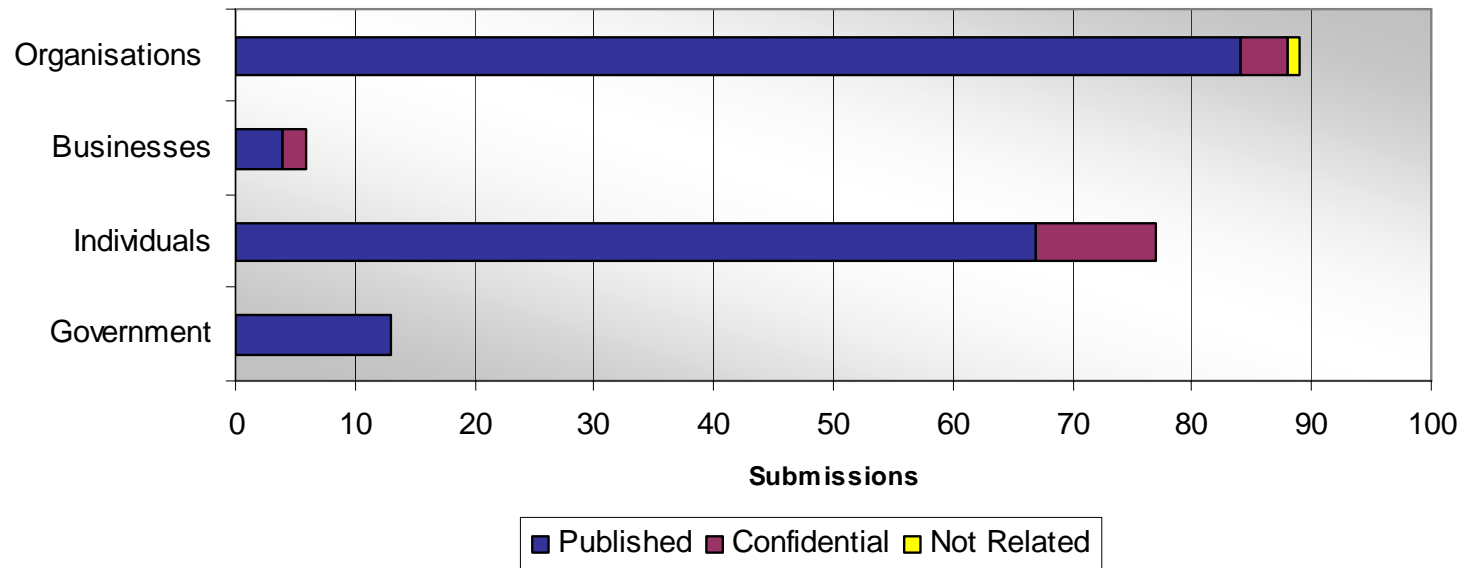
Targeted consultation sessions

| | | |
|--------------------------|----------|-----------|
| Indigenous community | 1 | Darwin |
| Unemployed people | 2 | Dubbo |
| People with a disability | 1 | Sydney |
| Apprentices and juniors | 1 | Penrith |
| Casual and piece workers | 1 | Renmark |
| Employers | 1 | Renmark |
| Mainstream youth | 1 | Melbourne |
| CALD youth | 1 | Melbourne |
| TOTAL | 9 | |



Submissions - 1

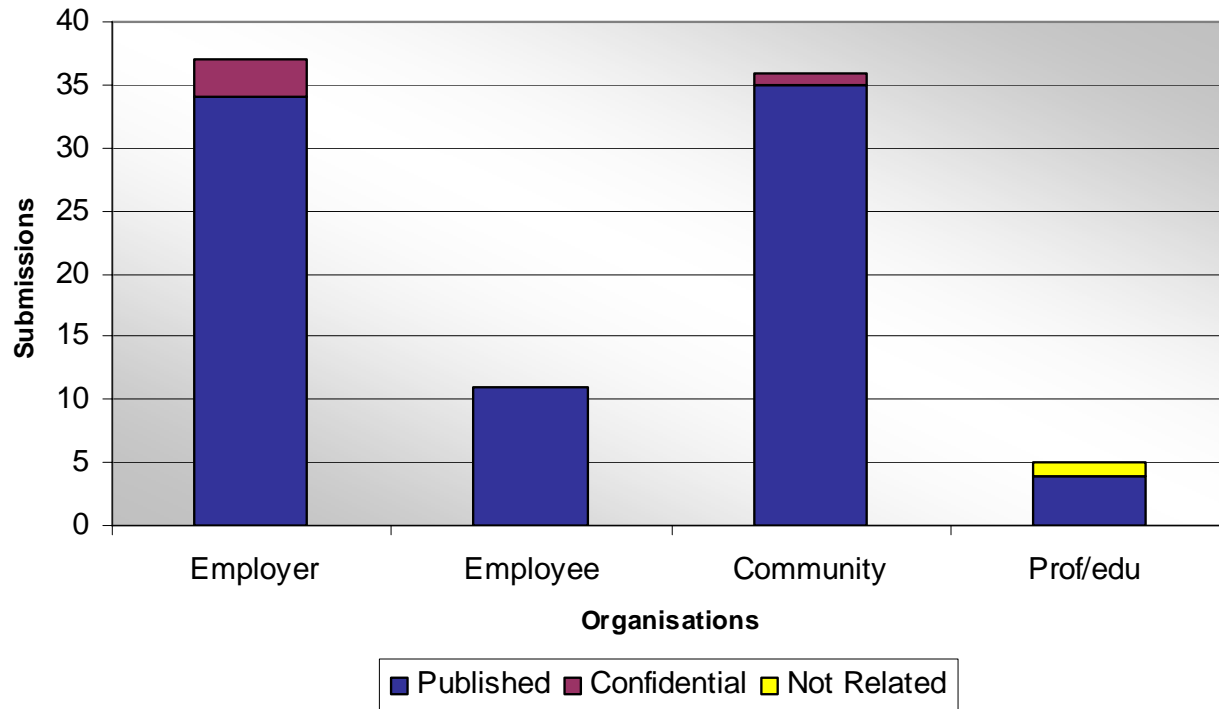
185 submissions received





Submissions - 2

89 representative organisations





Research topics

- Minimum wages and employment
- Characteristics of low-paid employees
- Characteristics of employers of the low paid
- Interactions between wages and the tax/transfer system



Characteristics of the low paid

Workers are more likely to be low paid if ...

- employed in relatively low-skilled service occupations
- have low levels of formal education (year 9 or less)
- relatively young (21 or less) or relatively old (60 plus)
- female (especially if a single parent or partnered secondary earner)
- work in smaller firms (<50 employees)
- employed on short-term contracts
- not members of a union
- live in a rural or remote location
- migrants from a non-English speaking background



Low-paid household characteristics

Lower paid workers as a group (both FT and PT) are relatively concentrated in lower-income households.

But 20 per cent of low-paid employees live in households in the top three deciles of the income distribution.

Many low-paid workers are either:

- partnered to people on or above minimum wages
- or single people living with other employed people (e.g., young people living at home with their parents)



Pay-scale reliant industries

- Accommodation, cafes & restaurants (43.2%)
- Retail Trade (20.9%)
- Property and Business Services (14.5%)
- Health and Community Services (12.9%)



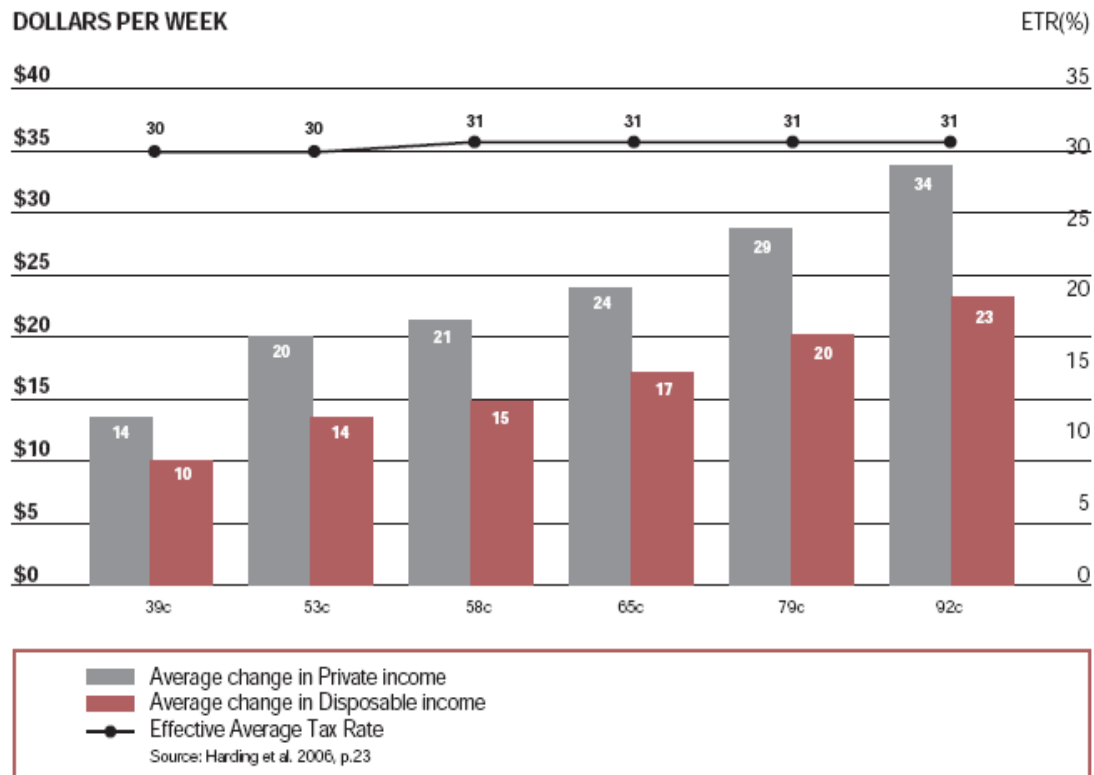
Tax transfer findings

The average Effective Marginal Tax Rate experienced by low-paid employees is around 30 per cent.

A increase in hourly pay of between 39 cents and 92 cents per hour will increase the disposable incomes of low-paid employees by 70 cents in the dollar on average.



Tax transfer findings





Future agenda

During the coming year, the Commission will:

- monitor the impact of its first & second wage-setting decisions
- consult further with stakeholders regarding the review of wage-setting for juniors
- commence a review of the rationalisation of pay & classification scales in light of the Award Review Taskforce recommendations
- seek advice on priority areas of research to assist the Commission in future wage-setting decisions

Next general wage-setting decision due mid-2007.