



Setting minimum wages in Australia

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Thank you, ladies and gentlemen, for the opportunity to speak to you about the work of the Australian Fair Pay Commission (AFPC) and, in particular, the Commission's inaugural determination of minimum wages in Australia announced just last Thursday, 26 October.

The decision handed down by the Commission last week has several important elements.

The Commission granted an increase of \$27.36 per week in the standard Federal Minimum Wage and in all Pay Scales up to \$700 per week. This covers just over one million Australian workers—or about 10% of the workforce—who are Pay-Scale reliant; that is, they rely on the Commission's decisions for adjustments in their wages.

The Commission also awarded an increase of \$22.04 per week to all Pay Scales paying \$700 per week and above, or more than \$36,000 per year. This represents another 220,000 workers or a further 2% of the workforce.

Both increases will flow on to junior employees, employees to whom training arrangements apply and employees with a disability.

The higher increase for pay-scale reliant workers earning up to \$700 per week reflects findings in the Commission's research and advice contained in submissions 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.

The Commission has also made changes to allow more workers with a disability to access the Supported Wage System and to fill gaps in the coverage of minimum wages for workers with a disability.

All parts of this decision take effect from 1 December 2006. This allows time for employers to implement the wage increases.

The Commission's decision takes into account the period of almost 18 months since the last adjustment to Australia's federal minimum wages.

It also takes into account:

- the sensitivity of low-paid employment to changes in wage levels as well as incentives for people to seek and remain in paid employment;
- the fact that the economy and labour market have continued to perform strongly;
- movements in consumer prices; as well as
- the potential impact on unemployment and inflation.

Lastly, this decision takes into account the requirement to provide a safety net for the low paid.

The Commission's wage setting powers

The Commission was given a very clear and specific remit in the form of wage-setting powers. These powers are:

- adjusting the standard Federal Minimum Wage (FMW):
- determining or adjusting special FMWs (such as those relating to workers with a disability);
- determining or adjusting basic periodic rates of pay in the Australian Pay and Classification Scales;
- determining or adjusting basic piece rates of pay; and
- determining or adjusting casual loadings.

In setting minimum wages, the Commission is also required to have regard to:

- a) the capacity for the unemployed and low paid to obtain and remain in employment;
- b) employment and competitiveness across the economy;
- c) providing a safety net for the low paid; and
- d) providing minimum wages for junior employees, employees to whom training arrangements apply and employees with a disability that ensure those employees are competitive in the labour market.

Importantly, the decision acknowledges the sensitivity of low-paid employment to changes in wage levels as well as the incentives for individuals to seek and remain in employment.

The Commission has an over-arching objective specified in its legislation to promote the economic prosperity of the people of Australia.

The Commission interprets ‘economic prosperity’ broadly rather than narrowly. An economically prosperous Australia is one where those seeking work have ample opportunity to find it and where a safety net mitigates hardship.

Many factors contribute to economic prosperity, including efficient industry, a skilled workforce, effective regulation, and sound macroeconomic policies.

The level of minimum wages also contributes to economic prosperity. Setting minimum wages ‘too high’ will have a detrimental effect on employment growth and could even cause unemployment to rise. On the other hand, minimum wages form part of the safety net and help to sustain the living standards of the low paid.

The Commission has responsibility only for setting and adjusting minimum wages for employees within its jurisdiction. The Commission is mindful that its determinations are only one factor likely to influence the economic prosperity of all Australians but that unemployed and low-paid Australians are among those most directly affected by its wage-setting decision.

The Commission believes that, as far as possible, its decision should not exacerbate unemployment or inflation. The international competitiveness of the Australian economy, ultimately reflecting its productivity, is also an important determinant of economic prosperity. Both unemployment and inflation are potentially affected by the Commission’s decision in relation to minimum wages.

The Commission has weighed a number of factors in determining how much to increase the standard Fair Minimum Wage on this occasion; how this increase should be expressed; and the extent to which it should apply to other workers on preserved Pay Scales.

In summary, this decision has been achieved by balancing the needs of the unemployed and lowest paid in our community against the need for Australia to remain economically prosperous and internationally competitive.

But who are the low paid that I refer to?

The Commission's research indicates that:

- low paid workers are evenly balanced between men and women;
- half are aged between 25 and 44 years;
- most are partnered (and about 40 per cent have dependent children);
- most are Australian born;
- most live in metropolitan areas;
- most work full time in permanent relatively low-skilled jobs; and
- just over half have no post-school qualifications.

Research also indicates a range of risk factors likely to be associated with low-paid employment. These include:

- working in relatively low-skilled service occupations;
- having low levels of formal education (educated to year 9 or less);
- being aged in the 21 - 30 year cohort or aged older than 60 years;

- being female (especially if a single parent or partnered secondary earner);
- working in a smaller firm (for example with fewer than 50 employees);
- being employed on a short-term contract;
- not being a member of a union;
- living in a rural or remote location; and
- being a migrant from a non-English speaking background.

Interestingly, while lower-paid workers as a group are relatively concentrated in lower-income households, around one-third of low-paid employees live in households in the top half of the income distribution of all employees. Indeed, 20 per cent of low-paid Australians live in households in the top three deciles of the income distribution. This suggests that many low-paid workers are either partnered to people on or above minimum wages or are single people living with other employed people (for example, young people living at home with their parents).

How did the Commission make its decision?

The Commission made its decision informed by more than 115 stakeholder and public consultation meetings, more than 180 submissions from organisations and individuals, and detailed research conducted both by the Australian Fair Pay Commission Secretariat and by expert, external organisations and academic institutions.

Broad and inclusive consultation has been a hallmark of the Commission's endeavours thus far, and this will continue to be the case.

For the first time ever, no Australian was excluded from having a say about what ought or ought not to be taken into consideration when determining the Fair Minimum Wage. All Australians were given the opportunity to send written submissions for consideration by the Commission, and all submissions were subsequently posted on the Commission's website for everyone to peruse (excepting a few cases where submitters requested confidentiality).

In addition, eighteen public **consultation sessions** were held around the country during July and August. Thirteen of these were general consultations and five were targeted to address specific issues including the needs of Indigenous Australians, the unemployed, workers with a disability, apprentices and juniors, and casual and piece workers.

The general public consultations were open to all and were held across metropolitan and regional Australia and in all states and mainland territories. The commission travelled from Ipswich in Queensland to Launceston in Tasmania, from Campbelltown in New South Wales to Elizabeth in South Australia, and from Footscray in Victoria to Albany in Western Australia.

The consultations provided an opportunity for Commissioners and key members of the Secretariat to hear directly from a wide cross-section of the Australian community – in particular – low paid workers and their employers. They talked and we listened.

More than 180 **submissions** were received from unions, government, business, employer groups, community groups, as well as many

individuals. Together they made a substantial contribution to the deliberations of the Commissioners.

Research conducted by the Commission and/or other agencies was also used to provide background to the decision.

For example, our research found that minimum wage workers are over-represented in service-based occupations and industries like:

- child care;
- aged care;
- labouring;
- clerical services;
- accommodation, cafes & restaurants;
- retail trade; and
- agriculture

Wage increases are not the only source of increases in disposable income for many lower paid workers.

The Australian social security system supports low-income workers and their families through a variety of programs such as income support and family assistance and benefits. These payments are means-tested and, consequently, some recipients can face high ‘effective marginal tax rates’ when their payments decline as a result of income received through employment. However, modelling provided to the Commission showed that on average, low paid Australians retain 70 per cent of any wage increase.

People's workforce decisions reflect a complex interplay of factors, some financial and others non-financial. While one of the primary reasons for working is to earn sufficient money to support a household and standard of living, submissions to the Commission and research carried out on behalf of the Commission confirm that people engage in paid work for a wide variety of reasons, including identity, self-esteem, job satisfaction and the desire to be self-reliant.

The Commission's decision was reached after analysis and consideration of the best available evidence gathered through research, submissions and consultation.

All documents are available on the Commission's website.

This commitment to broad-reaching and open consultation and to targeted research represents possibly the greatest point of difference between the approach taken by the Australian Fair Pay Commission and its predecessor, the Australian Industrial Relations Commission.

The Fair Pay Commission has proactively sought to engage the Australian community in the wage-setting process.

If I might remind you, the Australian Fair Pay Commission was established by the Federal Parliament on 15 December 2005, and the Commission subsequently received its wage-setting powers on 27 March 2006.

In undertaking its wage review for the October 2006 wage-setting decision, the Commission became aware of the need for closer investigation of particular issues owing to their complexity.

The Commission has announced it will deliver its second general wage-setting decision in mid-2007, and will commence a wage review focusing on minimum wages for junior employees and employees to whom training arrangements apply in early 2007.

The Commission is also responding to issues identified by the Award Review Taskforce established by the Australian Government to examine and report on approaches to the rationalisation of the Australian Pay and Classification Scales (Pay Scales) drawn from pre-reform wage instruments.

In Australia there are currently more than 105,000 identified classifications drawn from 3,286 awards, and the Commission has addressed some issues relating to employees with a disability and adjustment of preserved Pay Scales. The Commission intends to undertake further research and consultations regarding the recommendations of the Taskforce and will commence this in 2007.

As I have stated, the Commission undertakes and commissions research as part of its wage reviews. During the coming year, the Commission will monitor the impact of its wage-setting decisions, and consult further with stakeholders and seek advice on priority areas of research to assist the Commission in future wage-setting decisions.

I trust that you now have a more informed understanding of the Australian Fair Pay Commission, and a greater appreciation of both the importance and the complexity of the Commission's work on behalf of all Australians.

The Commission was given a very clear and specific remit in the form of wage setting powers, and I believe its first decision delivers on that charge.

I would like to share with you a story from the public consultation process that I think demonstrates the journey the Commission has taken since its creation less than 12 months ago.

A member of the public said to me at the start of one public consultation session that he was suspicious of the Commission, didn't think that it was going to look after the low paid, but had an agenda to reduce real wages. Having said that he also said he had decided to attend the session to hear first hand what the Commission had planned to do and to learn what the Commission was all about.

By the end of the session, he said he better understood the complexity of the Commission's brief and had a new-found respect for the Commission's commitment to the consultative approach.

I think this story reflects many people's perception of - and much of the press written about the Commission - prior to last week's decision. There was definitely a great deal of cynicism about the Commission initially.

Our commitment to consultation and openness and to rigorous research has resulted in a decision that is both fair and affordable.

I conclude this presentation by stressing that all five Commissioners, as well as those who work within the Secretariat, are aware that they are not working merely on an exercise in theoretical economics.

The Australian Fair Pay Commission is making a contribution to the quality and character of the lives of all Australians.

We understand that our work is primarily about the people of Australia, and most especially about the unemployed and low paid.

We will continue to undertake our work with a profound sense of responsibility.

Thank you for your attention.