Australian Fair Pay Commission

Wage-Setting Decision
and Reasons for Decision

July 2008
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<td>The 2008 wage review undertaken by the Australian Fair Pay Commission, exercising its powers under s. 22(1)(a) of the WR Act, to inform general Wage-Setting Decision 2008</td>
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<tr>
<td>AAWI</td>
<td>Average Annualised Wage Increases</td>
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<tr>
<td>ABARE</td>
<td>Australian Bureau of Agricultural and Resource Economics</td>
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<td>ABI</td>
<td>Australian Business Industrial</td>
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<td>ABS</td>
<td>Australian Bureau of Statistics</td>
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<td>ACCER</td>
<td>Australian Catholic Council for Employment Relations</td>
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<td>ACCI</td>
<td>Australian Chamber of Commerce and Industry</td>
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<td>ACOSS</td>
<td>Australian Council of Social Service</td>
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<td>ACTU</td>
<td>Australian Council of Trade Unions</td>
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<td>AFEI</td>
<td>Australian Federation of Employers and Industry</td>
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<td>AFPC</td>
<td>Australian Fair Pay Commission</td>
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<td>AHA</td>
<td>Australian Hotels Association</td>
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<tr>
<td>AFEI</td>
<td>Australian Federation of Employers and Industry</td>
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<td>Ai Group</td>
<td>Australian Industry Group</td>
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<td>AIRC</td>
<td>Australian Industrial Relations Commission</td>
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<td>APCS</td>
<td>Australian Pay and Classification Scale</td>
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<td>ARA</td>
<td>Australian Retailers Association</td>
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<td>ASU NSW</td>
<td>Australian Services Union New South Wales</td>
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<td>AWE</td>
<td>Average Weekly Earnings</td>
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<td>AWOTE</td>
<td>Average Weekly Ordinary Time Earnings</td>
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<td>AWU</td>
<td>Australian Workers Union</td>
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<td>AYCW</td>
<td>Australian Young Christian Workers</td>
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<td>BSWAT</td>
<td>Business Services Wage Assessment Tool</td>
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<td>Business SA</td>
<td>South Australian Employers’ Chamber of Commerce and Industry</td>
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<tr>
<td>CALD</td>
<td>Culturally and linguistically diverse</td>
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<tr>
<td>CLDB</td>
<td>Culturally and linguistically diverse background</td>
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<tr>
<td>CLMR</td>
<td>Centre for Labour Market Research</td>
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<td>CoFEE</td>
<td>Centre of Full Employment and Equity</td>
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<td>Commission</td>
<td>Australian Fair Pay Commission</td>
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<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
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<tr>
<td>CSTDA</td>
<td>Commonwealth State Territory Disability Agreement</td>
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<td>DEEWR</td>
<td>Department of Education, Employment and Workplace Relations</td>
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<tr>
<td>DI</td>
<td>Disposable Income</td>
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<tr>
<td>DSP</td>
<td>Disability Support Pension</td>
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<tr>
<td>ECIRS</td>
<td>Exceptional Circumstances Interest Rate Subsidies</td>
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<tr>
<td>EEH</td>
<td>Employee Earnings and Hours</td>
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<tr>
<td>EMTR</td>
<td>Effective marginal tax rate. The EMTR at a particular income point refers to the proportion of an additional unit of income (typically $1) that is lost to income tax and reductions in cash transfers.</td>
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### Acronyms

<table>
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<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>FaHCSIA</td>
<td>Department of Families, Housing, Community Services and Indigenous Affairs</td>
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<td>FECCA</td>
<td>Federation of Ethnic Communities' Councils of Australia</td>
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<td>FMW</td>
<td>Federal Minimum Wage</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>General Wage-Setting Decision 2006</td>
<td>Wage-Setting Decision 1/2006</td>
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<td>General Wage-Setting Decision 2008</td>
<td>Wage-Setting Decision 2/2008</td>
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<tr>
<td>HILDA</td>
<td>Household, Income and Labour Dynamics in Australia</td>
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<td>HPL</td>
<td>Henderson Poverty Line</td>
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<td>HREOC</td>
<td>Human Rights and Equal Opportunity Commission</td>
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<tr>
<td>LGSA</td>
<td>Local Government Association and Shires Associations of New South Wales</td>
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<tr>
<td>LHMU</td>
<td>Liquor, Hospitality and Miscellaneous Union</td>
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<tr>
<td>LITO</td>
<td>Low Income Tax Offset</td>
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<tr>
<td>NAPSA</td>
<td>Notional Agreement Preserving a State Award</td>
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<tr>
<td>NATSEM</td>
<td>National Centre for Social and Economic Modelling</td>
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<tr>
<td>NDS</td>
<td>National Disability Services (Formerly ACROD)</td>
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<td>NFF</td>
<td>National Farmers' Federation</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>Pay Scales</td>
<td>Australian Pay and Classification Scales</td>
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<tr>
<td>PL</td>
<td>Poverty Line</td>
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<tr>
<td>QIRC</td>
<td>Queensland Industrial Relations Commission</td>
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<td>RAC</td>
<td>Research Advisory Committee</td>
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<td>RBA</td>
<td>Reserve Bank of Australia</td>
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<td>SACS Award</td>
<td>Social and Community Services Employees (State) Award 2006</td>
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<td>SAWIA</td>
<td>South Australian Wine Industry Association</td>
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<td>Secretariat</td>
<td>Australian Fair Pay Commission Secretariat</td>
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<td>Standard</td>
<td>The Australian Fair Pay and Conditions Standard</td>
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<td>SWS</td>
<td>Supported Wage System</td>
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<tr>
<td>TNS Social Research</td>
<td>Taylor Nelson Sofres Social Research</td>
</tr>
<tr>
<td>WiSER</td>
<td>Women in Social and Economic Research, Curtin University of Technology</td>
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<tr>
<td>Work Choices</td>
<td><em>Workplace Relations Amendment (Work Choices) Act 2005.</em> The majority of the Work Choices amendments were implemented on 27 March 2006.</td>
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<td>WPI</td>
<td>Wage Price Index</td>
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<td>WR Act</td>
<td><em>Workplace Relations Act 1996</em></td>
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Executive summary

The Workplace Relations Act 1996 (WR Act) assigns the Australian Fair Pay Commission (Commission) an overarching objective ‘to promote the economic prosperity of the people of Australia’. To achieve this objective, the Commission must have regard to the following criteria in performing its wage-setting function:

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

As in previous years, the Commission invited submissions to its 2008 Minimum Wage Review to address some or all of the criteria. In addition, the criteria guided the Commission’s consultations with stakeholders, and its internal and external research programs.

Views were sought directly through submissions and a range of consultations, including focus groups, online bulletin boards and meetings with key stakeholders in each state and territory. The Commission also drew on the available data and research literature in considering the impact of its previous decisions.

The Commission has implemented a robust and transparent process to monitor the effects of its decisions. Some of the main insights have been collated in the Commission’s first Economic and Social Indicators - Monitoring Report, published in February 2008.

This third general Wage-Setting Decision, like its predecessors, is informed by the research evidence available to the Commission at the time of writing. In addition, the Commission considers a range of information included in the Australian Government Budget, Reserve Bank of Australia (RBA) statements and recent business surveys.

The Commission has conducted a wage review and now exercises its wage-setting function as set out in s. 22(1) of the WR Act.

The Commission grants a general pay increase that will adjust the standard Federal Minimum Wage (FMW) and Australian Pay and Classification Scales (Pay Scales) as follows:

- an increase of $21.66 per week ($0.57 per hour) to the standard FMW, bringing the weekly rate to $543.78. The standard FMW increases from $13.74 to $14.31 per hour; and
- an increase of approximately $21.66 per week ($0.57 per hour) in adult1 Pay Scales.

The general Wage-Setting Decision 2008 takes effect from the first pay period on or after 1 October 2008.

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1 Where adult means a basic periodic rate of pay that does not explicitly apply to a class of employees with a disability or employees to whom a training arrangement applies or junior employees.
Executive summary

The general Wage-Setting Decision 2008 will flow on to junior employees, employees to whom training arrangements apply, employees with disabilities, casual employees, and basic piece rates of pay in ways that preserve existing relativities to the extent this is possible.

The general Wage-Setting Decision 2008 only adjusts minimum rates of pay in special FMW's, the standard FMW and Pay Scales. This increase may be offset against any equivalent amount in rates of pay received by employees whose actual wages are determined by above minimum Pay Scale arrangements.

In making this Decision, the Commission has sought to balance a range of key trends and developments in the economy, including inflation, employment conditions and factors affecting the safety net for low-paid workers.

The Commission has been especially cognisant of the financial pressures on low-income households at this time. Movements in consumer prices, in particular, have put many low-income households under considerable financial stress. While most submissions to the Commission raise this issue, there is no agreement on forecasts of inflation.

Submissions also raise the impact of changes to the tax and transfer systems, including those announced in the Australian Government’s 2008-09 Budget. Some argue that these changes should be taken into account in assessing household income for low-paid workers in a variety of family circumstances, while others maintain that they should not be taken into account.

The Commission agrees that low-income households have been adversely affected by recent movements in consumer prices. It considers that the quantum of the increase awarded reflects the Commission's focus on the circumstances of low-paid Australians.

The Commission considers that this increase of $21.66 per week, together with relevant tax and transfer changes, will provide low-income households with real increases in disposable income.

While the Commission has placed emphasis on the role that minimum wages play in maintaining a safety net for low-paid people, it has not ignored the potential for the increase awarded to add to inflationary pressures. However, the Commission believes the inflationary impact of its Decision will be relatively minor.

The Commission also believes the impact on employment and unemployment will be relatively minor in the context of current economic circumstances. The Commission will continue to monitor the impacts of its Decision closely.

Unlike previous decisions, the Commission’s general Wage-Setting Decision 2008 is not a differential decision and therefore applies to all minimum rates of pay in Pay Scales. The Commission is aware that continuing to award differential increases could overlap, duplicate or even conflict with parts of the award modernisation process currently being undertaken by the Australian Industrial Relations Commission.
Executive summary

The capacity for the unemployed and low paid to obtain and remain in employment

To date, strong growth in the economy has delivered solid employment outcomes to a broad cross section of the working-age population. Unemployment has continued to decline for most groups, including those identified as more disadvantaged in the labour market.

The Commission notes that the economic outlook is uncertain. Economic activity and employment growth are forecast to slow in the near term, while unemployment is expected to increase. These weaker conditions may place low-paid workers in a more vulnerable position.

In monitoring labour market outcomes for low-skilled people and the relevance of minimum wages, the Commission examines transitions into and out of low-paid employment. While there is evidence of upward earnings mobility for both unemployed people and low-paid employees, a sizeable proportion of low-paid employees is likely to ‘churn’ between low-paid jobs and unemployment, or out of the labour force, or remain in low-paid employment over time.

The Commission regards labour market transitions as an important dimension of the experiences of low-paid and unemployed people. Setting minimum wages too high could exacerbate churning between low-paid employment and unemployment, reducing the chances of people moving into better-paid jobs.

In considering the capacity of unemployed and low-paid people to obtain and remain in employment, the Commission notes the effect of minimum wages on labour supply. It is important that unemployed people have adequate incentives to take up low-paid work and that people in low-paid work are encouraged to maintain their employment.

The Commission’s monitoring indicates that on a range of measures the incentive for unemployed people to move into work has either been stable or improved in recent years. In addition, the most recent tax cuts will improve marginal incentives for many low-paid workers to increase their earnings.

Employment and competitiveness across the economy

The Australian economy performed strongly over the past year, recording solid growth in economic activity and employment. Wage pressures have generally been contained to date. However, inflation accelerated through 2007, prompting the Australian Government and the RBA to act to restrain aggregate demand.

Over the year to May 2008, unemployment fell in most states and territories, with the exception of Western Australia and Queensland, which already had comparatively low unemployment rates, and South Australia. Broader measures of labour underutilisation also point to an improvement in labour market performance.

Assessments of the underlying trends in labour costs vary in submissions to the 2008 Minimum Wage Review. Some consider that wage growth has been generally steady, while others are concerned by a gradual acceleration in wages since early 2007.
Most submissions regard the Wage Price Index (WPI) as the most accurate measure of underlying wage growth.\(^2\) The WPI increased by 4.1 per cent over the year to March 2008, similar to the annual rates recorded over the previous two years.\(^3\) Higher wage growth appears to have been contained to those segments of the economy with skill shortages or already low unemployment rates.\(^4\)

Wage growth in collective agreements reached in each quarter over the past three years has been steady. The most recent data indicate that the average annualised wage increase (AAWI) in all wage agreements current in the March quarter 2008 was 4.0 per cent, while the AAWI for new agreements was 3.7 per cent.\(^5\)

Consistent with a tight labour market, recent data indicate that wage growth has been firm across most industries. However, there are some variations around the aggregate trend, with some Pay Scale reliant industries experiencing high rates of wage growth, and others recording slower growth.

The Commission will continue to monitor the effects of minimum wages on particular industries. As part of this monitoring, the Commission will undertake a series of detailed industry profiles.

While most submissions acknowledge the recent solid performance of the economy, they vary on the outlook. The Australian Government updated its view of the economic outlook in May 2008. It forecasts that economic activity will slow to a moderate pace, with employment growth slowing quickly over the next year. The unemployment rate is expected to increase to 4¾ per cent by mid 2009.\(^6\)

The headline Consumer Price Index (CPI) demonstrated some volatility over the past eighteen months, ranging from a year-ended increase of 1.9 per cent in the September quarter 2007 to 4.2 per cent in the March quarter 2008. The RBA's measures of underlying consumer price inflation discount extreme changes in prices. Even so, this measure increased by an average of 4.3 per cent over the year to the March quarter 2008, which was well above the RBA's medium term inflation target band of 2 to 3 per cent per annum.

The RBA forecasts that the inflation rate will peak at 4½ per cent through the year to December 2008, before declining to 3¼ per cent by December 2009.\(^7\) By comparison, the Australian Government considers that inflation will have peaked in the March quarter 2008 before steadily declining.

Both the RBA and the Australian Government highlight the opposing influences on future growth and inflation, and the uncertainty that remains. On the one hand, slower global growth and tighter credit conditions are expected to reduce domestic activity, while on the other hand, large rises in Australia’s terms of trade will boost national income.\(^8\)

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\(^{2}\) For example, ACTU, Australian Council of Trade Unions Submission to the Australian Fair Pay Commission, March 2008, p. 37; and ACCI, 2008 Minimum Wage Review, ACCI Submission, March 2008, p. 58, para. 2.94.

\(^{3}\) ABS, Labour Price Index, Australia, Catalogue No. 6345.0, Canberra, March 2008.


The Commission notes that there is general agreement that inflation will decline over the period to October 2009. However, there is disagreement over when and at what level inflation will peak. The Commission has taken into account the range of estimates and the uncertainty surrounding the outlook for inflation in making its Decision.

The Commission acknowledges that minimum wage increases may affect wider wage growth in the economy and therefore inflation. However, it considers that the direct effect of a moderate increase in minimum wages on aggregate inflation is likely to be minor. Wages paid to employees who are directly reliant on the Commission’s decision comprise only a small percentage of the economy’s total wage bill.

There can also be indirect effects from minimum wage adjustments, as they flow on (in one form or another) from minimum wage decisions to wages set under other instruments. However, the available evidence on the size of these effects is limited.

Including both direct and indirect effects, and considering historical wage-price relationships, the Commission estimates that the 2008 minimum wage adjustment may increase prices by up to 0.4 per cent over the medium term.

On balance, the Commission believes that its general Wage-Setting Decision 2008 to increase minimum wages by $21.66 per week will have only a minor impact upon aggregate wage and inflation outcomes in the economy as a whole.

**Providing a safety net for the low paid**

The Commission considers that the Australian income safety net comprises minimum wages, tax benefits and income support payments. While the Commission is responsible for setting and adjusting the first of these components, the Australian Government is responsible for the remainder.

By definition, the safety net concept is primarily concerned with the living standards of people at the lower end of the income distribution. The Commission therefore focuses its attention mainly on those households that rely most heavily on minimum wages, either alone or in combination with income transfers.

The Commission does not favour a formulaic approach to balancing the respective contributions of tax/transfer changes and wage increases to disposable income. Nor does it believe that tax/transfer changes should be completely ignored, since their effect on disposable income can be significant.

Recently legislated changes to income tax for the 2008-09 financial year will benefit lower-income Australians. The combination of tax/transfer changes, and lower effective marginal tax rates (EMTRs), means that low-paid employees who benefit from the Commission’s general Wage-Setting Decision 2008 will retain, on average, more than three-quarters of their gross pay increase.

The Commission also considered a wide range of disposable income modelling. The modelled scenarios covered a range of family types, with one or two earners, employed at various points in the Pay Scale distribution. Two different inflation scenarios, corresponding with Australian Government and RBA forecasts, were also used to predict future values of income transfers.
The modelling shows that, whether eventual inflation is at the lower (Australian Government) estimate or at the higher (RBA) estimate, all household types modelled will experience a real increase in disposable income in October 2008, when the Commission's minimum wage increase comes into effect, relative to their income one year previously.

Many submissions express a concern that low-income employee households spend a higher percentage of their income on items experiencing higher inflation, than other households. The Australian Council of Trade Unions highlights increases in interest rates, rents, childcare and health care costs, among others, as contributing to financial stress.9

The CPI increased by 4.2 per cent in the year ended March quarter 2008. There is considerable diversity within the CPI. For example, prices for the food component increased by 5.7 per cent; housing by 5.7 per cent; and transportation by 6.8 per cent, with clothing and footwear prices decreasing by 0.5 per cent.

In any given period, the prices for some items will be increasing faster than those for other items. The CPI is able to take these variations into account by weighting the items according to household expenditure patterns. Preliminary analysis by the Commission indicates that there would be on average only minor differences between expenditure-weighted CPIs for low-income employee households and all households.

In considering the impact of movements in consumer prices on the living standards of low-income households, the Commission acknowledges that it is appropriate to use a variety of benchmarks.

The Commission's modelling finds that all households earning the standard FMW have disposable incomes well above the Henderson Poverty Line. Moreover, all households receive above 60 per cent of median equivalised household disposable income, except for single-earner couples with two children and not taking up Newstart Allowance.

The Commission will continue to monitor relevant Australian and international research, including that published by the Organisation for Economic Co-operation and Development.

The Commission is confident that the minimum wage increase of $21.66 per week, in combination with the 2008-09 tax cuts and regular indexation of transfer payments, will provide the great majority of workers earning Pay Scale wages with household disposable incomes in October 2008 that are higher in real terms than in October 2007.

**Employees with a disability**

The Commission has decided to adjust the minimum weekly amount payable to employees with a disability under the Supported Wage System to retain its nexus with the income-test free threshold of the Disability Support Pension – increasing this from $66 to $69 per week.

The Commission will also undertake monitoring and evaluation focusing on wage outcomes under different wage assessment tools.

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Executive summary

Impact of the drought on farm businesses in regional Australia

The Commission's general Wage-Setting Decision 2007 deferred the 2007 general wage increase for some employees in the drought-affected agricultural sector.

The Commission considers that the need for a continued deferral of wage increases for employees of employers in the agricultural industry receiving Exceptional Circumstances Interest Rate Subsidy (ECIRS) has declined to the extent that no further deferral is necessary.

In accordance with Wage-Setting Decision 4/2007, the deferral of the general Wage-Setting Decision 2007 for employees of employers in the agricultural industry receiving ECIRS will cease on 1 October 2008.

Casual loadings

The Commission notes that its general Wage-Setting Decision 2008 flows on to casual employees through adjustments to the basic periodic rates of pay (or as otherwise specified where Pay Scales provide for different methods of compensating casual employees).

The Commission notes that, as a result of the passage of the Workplace Relations Amendment (Transition to Forward with Fairness) Act 2008, it can no longer adjust the default casual loading percentage of 20 per cent for employees covered by the standard FMW, the special FMW for employees with a disability, or a workplace agreement.

The Commission will not adjust casual loadings expressed as a percentage contained in preserved Pay Scales.

Where preserved Pay Scales provide a flat dollar amount for casual employees, these rates will be increased to give effect to the general wage increase.

Piece rates

The Commission will flow on the general Wage-Setting Decision 2008 to basic piece rate Pay Scales by applying a 4.15 per cent increase to basic piece rates in preserved Pay Scales which are not otherwise increased as a result of the general Decision.

However, recognising the diversity within basic piece rate Pay Scales, an affected person or business may make a submission to the Commission on the grounds that such an adjustment would result in an anomalous outcome inconsistent with the Commission's intention to flow on the general increase to piece rate workers.

Preserved pay equity and work value wage increases under section 208(4)

Section 208(3) of the WR Act prohibits a preserved Pay Scale from including automatic pay increase mechanisms. However s. 208(4) provides an exception by preserving future pay increases in an instrument where these increases were ‘wholly or partly on the ground of work value change or pay equity’.

A number of submissions seek an exemption from the Commission's general Wage-Setting Decision 2008 for the preserved Pay Scale derived from the Social and Community Services (State) Award [NSW] (SACS Pay Scale). This exemption is sought on the ground that the SACS Pay Scale retains an increase of 3.5 per cent which will take effect on 1 July 2008 as a result of the operation of s. 208(4).
The Commission considers that, consistent with its view in 2007, it is not possible to identify the proportion of the relevant increase that is attributable to the separate elements of work value and safety net.

To give effect to this intention, the Commission grants a partial exemption from the general Wage-Setting Decision 2008 for the SACS Pay Scale.

Consistent with its Decision in 2007, the Commission intends that the higher wage increase of either this general Wage-Setting Decision 2008 or any increase already received on 1 July 2008 as a result of the operation of s. 208(4) will apply.

**Discrimination**

The Commission received a number of submissions addressing discrimination and pay equity issues in the Australian labour market.

Submissions generally argue that vulnerable groups are over-represented among low-paid employees. Several submissions address a wide variety of factors affecting vulnerable employees, including economic and social issues which lie beyond the Commission’s remit.

A number of submissions raise the issue of gender pay equity, focusing on the gap between male and female earnings. They argue that the Commission should more explicitly refer to pay equity when making its wage-setting decisions.

While data suggest there is less of a gender pay gap among the lowest-paid Australians, the Commission believes that further investigation is warranted.

**Future directions**

Section 24 of the WR Act provides that, in performing its wage-setting function, the Commission may inform itself in any way it thinks appropriate including by ‘monitoring and evaluating the impact of its wage-setting decisions’.

Drawing on recommendations received from two research reports commissioned in 2007,10 the Commission has put in place a monitoring framework that will inform its deliberations and its future decisions.

The Commission is committed to strengthening and refining its monitoring capability, and will seek out all available expertise and information sources in order to fill any gaps in the coverage and scope of its monitoring activity.

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In addition to research undertaken for monitoring purposes, the Commission conducts short-term and long-term research on a range of issues relating to the four criteria guiding minimum wage adjustments. Some of this research has informed this Decision. As it becomes available, additional research will inform the deliberations of the Commission regarding future minimum wage decisions. The Australian Fair Pay Commission Secretariat (Secretariat) will undertake further consultation with stakeholders and seek advice on priority areas of research to assist in informing the Commission’s decisions on research directions and priorities.

Proposals for further research put forward in submissions will be considered by the Commission’s Research Advisory Committee (RAC).

In particular, the Secretariat will continue to consult the RAC, through which stakeholders can provide advice on the future research agenda. For the first time in 2008, the Commission has benefited from representation on the Committee of all state and territory governments. This will ensure these jurisdictions’ research priorities are considered alongside those of other private, public and community sector organisations.

In order to enhance access to quality research and expertise on minimum wages, the Commission will convene its first annual Minimum Wage Research Forum in October 2008. Australian and overseas researchers will present and discuss papers commissioned on a range of topics. The Forum will be an opportunity for researchers and stakeholders to exchange ideas and compare findings.

The Commission will publish proceedings from the Minimum Wage Research Forum following the event. These proceedings will be disseminated widely to inform discussion and debate on aspects of minimum wage-setting in Australia.
Australian Fair Pay Commission

Wage-Setting Decision 2/2008

July 2008
Wage-Setting Decision 2/2008

On 16 June 2008 we, Ian Harper (Chairman), and Hugh Armstrong, Patrick McClure, Mike O’Hagan, and Judith Sloan (Commissioners), collectively comprising the Australian Fair Pay Commission, acting pursuant to the powers conferred on the Australian Fair Pay Commission by sections 196, 200, 216, and 864 of the Workplace Relations Act 1996 (WR Act) make the following decision to be known as Australian Fair Pay Commission Wage-Setting Decision 2/2008.

Interpretation

In this wage-setting decision:

“adult basic periodic rate of pay” means a basic periodic rate of pay that is not a basic periodic rate of pay expressly applying to:

(a) all junior employees or a class of junior employee; or

(b) all employees to whom training arrangements apply or a class of employee to whom training arrangements apply; or

(c) all employees with a disability or a class of employee with a disability;

“basic periodic rate of pay” means a basic periodic rate of pay contained in a Pay Scale;

“basic piece rate of pay” means a basic piece rate of pay contained in a Pay Scale;

“Pay Scale” means an Australian Pay and Classification Scale;

“SACS Pay Scale” means the preserved Australian Pay and Classification Scale derived from the Social and Community Services Employees (State) Award [NSW].

Commencement of this wage-setting decision

This wage-setting decision comes into operation in relation to an employee at the commencement of the employee’s first pay period on or after 1 October 2008.

Note: The reference to ‘pay period’ in the commencement provision is a reference to the pay period according to which the employee was being paid immediately before 1 October 2008.

A General Decision – Standard Federal Minimum Wage

A1 Adjustment to the standard Federal Minimum Wage

The standard Federal Minimum Wage is increased by $0.57 per hour. The standard Federal Minimum Wage is increased from $13.74 per hour to $14.31 per hour.
B Special Federal Minimum Wage

B1 Adjustment to special Federal Minimum Wage No. 1

The New special Federal Minimum Wage No.1 - Employees with a disability who are able to earn full adult, junior or trainee wages as the effects of their disability do not impact on their productive capacity is increased from $13.74 per hour to $14.31 per hour.

C General Decision – Wage adjustment to basic periodic rates of pay

C1 Adjustment to basic periodic rates of pay

Basic periodic rates of pay, other than those rates specifically adjusted by Section D of this wage-setting decision, are increased by $0.57 per hour.

D Wage adjustment to basic periodic rates of pay and basic piece rates of pay

D1 Where a pre-reform wage instrument specified a rate of pay by a formula or method that refers to another rate of pay

Where a basic periodic rate of pay or a basic piece rate of pay was derived from a rate in a pre-reform wage instrument that, immediately before 27 March 2006, was determined in accordance with a formula or method which referred to another rate of pay, then the basic periodic rate of pay or the basic piece rate of pay is increased by applying that formula or method to the basic periodic rate of pay or basic piece rate of pay derived from that other rate of pay (as it was immediately before this wage-setting decision), after that derived rate of pay has been increased by Section C or Section D, as applicable, of this wage-setting decision.

D2 Where a pre-reform wage instrument specified a rate of pay as a flat monetary amount and how that monetary amount was to be increased

Where a basic periodic rate of pay or basic piece rate of pay was derived from a rate in a pre-reform wage instrument that, immediately before 27 March 2006, was expressed as a flat monetary amount and the pre-reform wage instrument specified how that flat monetary amount was to be increased, then:

(a) where the specification of how the flat monetary amount was to be increased included a reference to another rate of pay, the basic periodic rate of pay or basic piece rate of pay is increased in the manner specified, by reference to the basic periodic rate of pay or basic piece rate of pay derived from that other rate of pay (as it was immediately before this wage-setting decision), after that derived rate has been increased by Section C or Section D, as applicable, of this wage-setting decision; and

(b) where the specification of how the flat monetary amount was to be increased did not include a reference to another rate of pay, the basic periodic rate of pay or basic piece rate of pay is increased in the manner so specified to give effect to the increase provided for in Section C of this wage-setting decision.
D3  Junior rates of pay not otherwise adjusted by a formula

Where a basic periodic rate of pay that expressly applies to all junior employees or a class of junior employee was derived from a rate of pay in a pre-reform wage instrument that, immediately before 27 March 2006, was expressed only as a flat monetary amount and no formula or method for setting or increasing the rate was specified, then either:

(a) where there is a relevant adult basic periodic rate of pay in the relevant Pay Scale, the junior rate of pay is increased so as to maintain its proportion to the lowest relevant adult rate, as increased by Section C or Section D, as applicable, of this wage-setting decision; or

(b) where the relevant Pay Scale does not specify such a relevant adult rate, the junior rate of pay is increased so as to maintain its proportion to the lowest adult basic periodic rate of pay in the Pay Scale (after that adult rate has been increased by Section C or Section D, as applicable, of this wage-setting decision).

D4  Apprentice rates of pay not otherwise adjusted by a formula

Where:

(a) a basic periodic rate of pay expressly applies to all apprentices or a class of apprentice; and

(b) that rate was derived from a rate of pay in a pre-reform wage instrument that, immediately before 27 March 2006, was expressed only as a flat monetary amount; and

(c) no formula or method for setting or increasing the rate was specified;

that basic periodic rate of pay is increased so as to maintain its proportion to the base tradesperson's basic periodic rate of pay (after that tradesperson's rate has been increased by Section C or Section D, as applicable, of this wage-setting decision) for the trade to which the apprentice rate applies.

D5  Traineeships

National Training Wage Traineeships and related traineeships

(1) A basic periodic rate of pay that expressly applies to:

(a) National Training Wage Traineeships; or

(b) related traineeships, including related state training wage traineeships;

is replaced with the corresponding basic periodic rate specified in Schedule A to this wage-setting decision.

Other Traineeships

(2) A basic periodic rate of pay that expressly applies to all or a class of employees to whom training arrangements apply and that is not otherwise adjusted by Section D of this wage-setting decision:

(a) is adjusted in the manner set out in either subclause D5(3) or D5(4), as applicable; and

(b) is not increased by Section C of this wage-setting decision.
(3) A basic periodic rate of pay referred to in subclause D5(2) that:

(a) is contained in a Pay Scale that sets out rates that are expressly applicable to an employee who has obtained the qualification to which the training arrangement applies ('the relevant fully-qualified rate'); and

(b) after being increased by Section C or Section D, as applicable, of this wage-setting decision, is equal to, or greater than, the standard Federal Minimum Wage (as increased by Section A of this wage-setting decision);

is adjusted so that its proportion to the relevant fully-qualified rate as increased by Section C or Section D, as applicable, of this wage-setting decision is the same as its proportion was to the relevant fully-qualified rate immediately before Wage-Setting Decision 1/2006.

(4) A basic periodic rate of pay referred to in subclause D5(2) that is contained in a Pay Scale that:

(a) does not specify a relevant fully-qualified rate; or

(b) specifies a relevant fully-qualified rate, but that rate after being increased by Section C or Section D as applicable of this wage-setting decision, is lower than the standard Federal Minimum Wage (as increased by Section A of this wage-setting decision);

is adjusted so that its proportion to the standard Federal Minimum Wage (as increased by Section A of this wage-setting decision) is the same as the proportion the basic periodic rate of pay (as it was on 27 March 2006) had to the standard Federal Minimum Wage on 27 March 2006.

D6 Disability wages expressed as a flat dollar amount with no formula or method of adjustment

Where a basic periodic rate of pay expressly applies to all employees with a disability or a class of employee with a disability, and that rate was derived from a rate of pay in a pre-reform wage instrument that, immediately before 27 March 2006, was expressed only as a flat monetary amount and no formula or method for setting or increasing the rate was specified:

(a) where it is below the standard Federal Minimum Wage (as it was immediately before this wage-setting decision), it is increased so as to maintain its proportion to the standard Federal Minimum Wage (as increased by Section A of this wage-setting decision); and

(b) where it is equal to or greater than the standard Federal Minimum Wage (as it was immediately before this wage-setting decision), it is increased by $0.57 per hour.

D7 Basic piece rates of pay expressed as flat monetary amounts with no formula or method of adjustment

Where a basic piece rate of pay was derived from a rate of pay in a pre-reform wage instrument that, immediately before 27 March 2006, was expressed only as a flat monetary amount and no formula or method for setting or increasing the rate was specified, the rate is increased by 4.15 per cent.
D8  Section 864 employees in Victoria

Pursuant to section 864 of the WR Act, the Pay Scales for employees in Victoria are increased according to the methods set out in Sections C and D of this wage-setting decision. In accordance with section 865 of the WR Act, the adjustment has no effect unless the employees are within a work classification and, has no effect in relation to a particular employee while the employee is subject to an award or agreement under the WR Act.

E  Adjustment to the Special Business Services (Employees with a disability) Australian Pay and Classification Scale

E1  Adjustment to subsection 6.4

Subsection 6.4 of the Special Business Services (Employees with a disability) Australian Pay and Classification Scale, [2007] APCS 2 is deleted and is replaced by the following:

6.4 Hourly rates of pay

The following minimum hourly rates of pay apply for the purpose of calculating an employee’s wage rate:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Hourly rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade 1</td>
<td>$14.31</td>
</tr>
<tr>
<td>Grade 2</td>
<td>$14.75</td>
</tr>
<tr>
<td>Grade 3</td>
<td>$15.34</td>
</tr>
<tr>
<td>Grade 4</td>
<td>$15.89</td>
</tr>
<tr>
<td>Grade 5</td>
<td>$16.78</td>
</tr>
<tr>
<td>Grade 6</td>
<td>$18.37</td>
</tr>
<tr>
<td>Grade 7</td>
<td>$19.14</td>
</tr>
</tbody>
</table>

Note: The rates of pay set out in subsection 6.4 are minimum rates of pay only. This special Pay Scale does not limit the ability of employers to pay employees above minimum rates of pay.

E2  Section C of this wage-setting decision does not apply

The adjustments made by Section C of this wage-setting decision do not apply to the Special Business Services (Employees with a disability) Australian Pay and Classification Scale, [2007] APCS 2.
F Supported Wage System Minimum Weekly Payment

F1 Adjustment to subsections 5.1 and 7.2 of new special Federal Minimum Wage No. 2

The New special Federal Minimum Wage No. 2 – Employees with a disability who are unable to perform the range of duties to the competence level required because of the effects of a disability on their productive capacity – and are not currently covered by a Pay Scale is adjusted as follows:

(a) Subsection 5.1 is deleted and is replaced by the following:

5.1 The employee will be paid the amount worked out according to the following formula:

$69 \div x$

where x is the actual number of hours worked by the employee per week, or 38, whichever is the lesser.

(b) Subsection 7.2 is deleted and is replaced by the following:

7.2 The minimum hourly rate payable to the employee during the trial period shall be the greater of $1.82 per hour or

$69 \div x$

where x is the actual number of hours worked by the employee per week, or 38, whichever is the lesser.

F2 Special Supported Wage System (Employees with a disability) Australian Pay and Classification Scale

Adjustment to sections 8 and 10 of the Special Supported Wage System (Employees with a disability) Australian Pay and Classification Scale

(1) The Special Supported Wage System (Employees with a disability) Australian Pay and Classification Scale, [2007] APCS 1 is adjusted as follows:

(a) Section 8 is deleted and is replaced by the following:

8. Minimum Rate Method

The employee will be paid the amount worked out according to the following formula:

$69 \div x$

where x is the actual number of hours worked by the employee per week, or 38, whichever is the lesser.

(b) Section 10 is deleted and is replaced by the following:
10. Trial Period

In order for an adequate assessment of the employee's capacity to be made, an employer may employ a person for a trial period not exceeding an aggregate of 16 weeks in order to determine the appropriate percentage of assessed capacity.

The minimum hourly rate payable to the employee during the trial period shall be the greater of $1.82 per hour or

$69 ÷ x

where x is the actual number of hours worked by the employee per week, or 38, whichever is the lesser.

Work trials should include induction or training as appropriate to the job being trialled.

Section C of this wage-setting decision does not apply

(2) The adjustments made by Section C of this wage-setting decision do not apply to the Special Supported Wage System (Employees with a disability) Australian Pay and Classification Scale, [2007] APCS 1.

F3 Preserved Australian Pay and Classification Scales

Adjustment to preserved Pay Scales which specify a supported wage minimum weekly payment

(1) Where the Supported Wage System is provided for in a Pay Scale, and the minimum amount payable under the Supported Wage System is also provided, that minimum amount is increased to $69 ÷ x per hour, where x is the actual number of hours worked by the employee per week, or 38, whichever is the lesser.

Sections C and D of this wage-setting decision do not apply

(2) The adjustments made by Sections C and D of this wage-setting decision do not apply to basic periodic rates of pay that are increased pursuant to subclause F3(1) of this wage-setting decision.

G Adjustment to the SACS Pay Scale

G1 Adjustment to the SACS Pay Scale

(1) Basic periodic rates of pay in the SACS Pay Scale, other than those rates specifically adjusted by Section D of this wage-setting decision, are increased to the sum of the basic periodic rate of pay as it was immediately before 1 July 2008 and $0.57 per hour.
(2) If a basic periodic rate of pay in the SACS Pay Scale:

(a) is adjusted on the first full pay period on or after 1 July 2008 by rate provisions that are included in the Pay Scale as a result of the operation of subsection 208(4) of the WR Act; and

(b) those adjustments increase the basic periodic rate of pay to an amount higher than the amount that results from the operation of subclause G1(1) of this wage-setting decision;

then subclause G1(1) of this wage-setting decision does not apply to that basic periodic rate of pay.

Note: Where applicable, Section G1 ensures that employees receive the higher of either the wage increase provided in Section C of this wage-setting decision or any wage increases that are included in the SACS Pay Scale on the first full pay period on or after 1 July 2008 as a result of the operation of section 208(4) of the WR Act.

G2  Section C of this wage-setting decision does not apply

The adjustments made by Section C of this wage-setting decision do not apply to the SACS Pay Scale.

H  Calculation of adjustments

H1  Calculation of hourly adjustment

Hourly rates are adjusted to the nearest cent (with 0.5c and above being taken upwards).

I  Reasons for this wage-setting decision

I1  Reasons for this wage-setting decision

Sections 1 to 10 of this publication provide the reasons for this wage-setting decision.
On 16 June 2008 we, Ian Harper (Chairman), and Hugh Armstrong, Patrick McClure, Mike O'Hagan and Judith Sloan (Commissioners), collectively comprising the Australian Fair Pay Commission, make this decision to be known as Australian Fair Pay Commission Wage-Setting Decision 2/2008.

Ian R. Harper
Chairman

Hugh Armstrong
Commissioner

Patrick McClure, AO
Commissioner

Mike O'Hagan
Commissioner

Judith Sloan
Commissioner
Schedule A

NATIONAL TRAINING WAGE OR STATE TRAINING WAGE BASIC PERIODIC RATES OF PAY

FULL-TIME TRAINEES

These rates are derived from a 38 hour week. Where the ordinary full-time weekly hours prescribed in the industrial instrument which covers the trainee are not 38, the appropriate hourly rate is obtained by multiplying the rate in the following tables by 38 and then dividing by the ordinary full-time weekly hours that are prescribed in the industrial instrument which covers the trainee.

Wage/Skill Level A

Where the accredited training course and work performed are for the purpose of generating skills which have been defined for work at Wage/Skill Level A.

<table>
<thead>
<tr>
<th>Highest year of schooling completed</th>
<th>Year 10</th>
<th>Year 11</th>
<th>Year 12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$/hour</td>
<td>$/hour</td>
<td>$/hour</td>
</tr>
<tr>
<td>School leaver</td>
<td>5.05 (50%)</td>
<td>6.31 (33%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.90 (33%)</td>
<td>7.08 (25%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6.45</td>
<td>7.08</td>
<td>8.51</td>
</tr>
<tr>
<td>Plus 1 year out of school</td>
<td>7.08</td>
<td>8.51</td>
<td>9.88</td>
</tr>
<tr>
<td>Plus 2 years</td>
<td>8.51</td>
<td>9.88</td>
<td>11.51</td>
</tr>
<tr>
<td>Plus 3 years</td>
<td>9.88</td>
<td>11.51</td>
<td>13.18</td>
</tr>
<tr>
<td>Plus 4 years</td>
<td>11.51</td>
<td>13.18</td>
<td></td>
</tr>
<tr>
<td>Plus 5 or more years</td>
<td>13.18</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Wage/Skill Level B

Where the accredited training course and work performed are for the purpose of generating skills which have been defined for work at Wage/Skill Level B.

<table>
<thead>
<tr>
<th>Highest year of schooling completed</th>
<th>Year 10</th>
<th>Year 11</th>
<th>Year 12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$/hour</td>
<td>$/hour</td>
<td>$/hour</td>
</tr>
<tr>
<td>School leaver</td>
<td>5.05 (50%)</td>
<td>6.31 (33%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.90 (33%)</td>
<td>7.08 (25%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6.45</td>
<td>7.08</td>
<td>8.26</td>
</tr>
<tr>
<td>Plus 1 year out of school</td>
<td>7.08</td>
<td>8.26</td>
<td>9.48</td>
</tr>
<tr>
<td>Plus 2 years</td>
<td>8.26</td>
<td>9.48</td>
<td>11.15</td>
</tr>
<tr>
<td>Plus 3 years</td>
<td>9.48</td>
<td>11.15</td>
<td>12.71</td>
</tr>
<tr>
<td>Plus 4 years</td>
<td>11.15</td>
<td>12.71</td>
<td></td>
</tr>
<tr>
<td>Plus 5 or more years</td>
<td>12.71</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Wage/Skill Level C**

Where the accredited training course and work performed are for the purpose of generating skills which have been defined for work at Wage/Skill Level C.

<table>
<thead>
<tr>
<th>Highest year of schooling completed</th>
<th>Year 10</th>
<th>Year 11</th>
<th>Year 12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$/hour</td>
<td>$/hour</td>
<td>$/hour</td>
</tr>
<tr>
<td>School leaver</td>
<td>5.05 (50%)</td>
<td>6.31 (33%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.90 (33%)</td>
<td>7.08 (25%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6.45</td>
<td>7.08</td>
<td>8.20</td>
</tr>
<tr>
<td>Plus 1 year out of school</td>
<td>7.08</td>
<td>8.20</td>
<td>9.20</td>
</tr>
<tr>
<td>Plus 2 years</td>
<td>8.20</td>
<td>9.20</td>
<td>10.30</td>
</tr>
<tr>
<td>Plus 3 years</td>
<td>9.20</td>
<td>10.30</td>
<td>11.52</td>
</tr>
<tr>
<td>Plus 4 years</td>
<td>10.30</td>
<td>11.52</td>
<td></td>
</tr>
<tr>
<td>Plus 5 or more years</td>
<td>11.52</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Figures in brackets indicate the average proportion of time spent in approved training to which the associated basic periodic rate of pay is applicable. Where not specifically indicated the average proportion of time spent in structured training which has been taken into account in setting the rate is 20 per cent.

**School based traineeships**

<table>
<thead>
<tr>
<th>Year of schooling</th>
<th>Year 11</th>
<th>Year 12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$/hour</td>
<td>$/hour</td>
</tr>
<tr>
<td>School based traineeships in Wage/Skill Levels A, B and C</td>
<td>6.45</td>
<td>7.08</td>
</tr>
</tbody>
</table>

**Wage Rates for Certificate IV Traineeships**

A trainee who is undertaking an AQF IV traineeship will receive the relevant weekly wage rate for AQF III trainees at Wage Levels A, B or C as applicable with the addition of 3.8 per cent of that wage rate.

An adult trainee who is undertaking a traineeship for an AQF IV qualification shall receive the following basic periodic rates of pay as applicable based on the allocation of AQF III qualifications:

<table>
<thead>
<tr>
<th>First Year of Traineeship</th>
<th>Second Year of Traineeship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage/Skill Level A</td>
<td>13.68</td>
</tr>
<tr>
<td>Wage/Skill Level B</td>
<td>13.19</td>
</tr>
<tr>
<td>Wage/Skill Level C</td>
<td>11.96</td>
</tr>
</tbody>
</table>
PART-TIME TRAINEESHIPS

Wages

The tables set out below are the basic periodic rates of pay where the training is either fully off-the-job or where 20 per cent of time is spent in approved training. These rates are derived from a 38 hour week. Where the ordinary full-time weekly hours prescribed in the industrial instrument which covers the trainee are not 38, the appropriate hourly rate is obtained by multiplying the rate in the following tables by 38 and then dividing by the ordinary full-time weekly hours that are prescribed in the industrial instrument which covers the trainee.

Table 1 : Trainees who have left school

<table>
<thead>
<tr>
<th>Highest year of schooling completed</th>
<th>Year 10</th>
<th>Year 11</th>
<th>Year 12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wage/Skill Level A</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>School leaver</td>
<td>8.06</td>
<td>8.85</td>
<td>10.64</td>
</tr>
<tr>
<td>Plus 1 year out of school</td>
<td>8.85</td>
<td>10.64</td>
<td>12.35</td>
</tr>
<tr>
<td>Plus 2 years</td>
<td>10.64</td>
<td>12.35</td>
<td>14.39</td>
</tr>
<tr>
<td>Plus 3 years</td>
<td>12.35</td>
<td>14.39</td>
<td>16.48</td>
</tr>
<tr>
<td>Plus 4 years</td>
<td>14.39</td>
<td>16.48</td>
<td></td>
</tr>
<tr>
<td>Plus 5 years or more years</td>
<td>16.48</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Wage/Skill Level B**              |         |         |         |
| School leaver                      | 8.06    | 8.85    | 10.33   |
| Plus 1 year out of school          | 8.85    | 10.33   | 11.85   |
| Plus 2 years                       | 10.33   | 11.85   | 13.94   |
| Plus 3 years                       | 11.85   | 13.94   | 15.89   |
| Plus 4 years                       | 13.94   | 15.89   |         |
| Plus 5 years or more years         | 15.89   |         |         |

| **Wage/Skill Level C**              |         |         |         |
| School leaver                      | 8.06    | 8.85    | 10.25   |
| Plus 1 year out of school          | 8.85    | 10.25   | 11.50   |
| Plus 2 years                       | 10.25   | 11.50   | 12.88   |
| Plus 3 years                       | 11.50   | 12.88   | 14.40   |
| Plus 4 years                       | 12.88   | 14.40   |         |
| Plus 5 years or more years         | 14.40   |         |         |
Table 2: School based traineeships

<table>
<thead>
<tr>
<th>Wage/Skill Levels A, B and C</th>
<th>Year 11</th>
<th>Year 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>$/hour</td>
<td>8.06</td>
<td>8.85</td>
</tr>
<tr>
<td>20% Loading*</td>
<td>9.67</td>
<td>10.62</td>
</tr>
</tbody>
</table>

* The 20% loading basic periodic rates of pay for Years 11 and 12 are 20 per cent higher than the Year 11 and 12 rates for Wage/Skill Levels A, B and C. These rates apply where the trainee has agreed to be paid an additional 20% loading on all ordinary hours in lieu of annual leave, sick leave, personal leave and public holidays. Where a trainee is called to work on a public holiday the provisions of the relevant award still apply.

Table 3: Basic periodic rates of pay for part-time Certificate IV traineeships

An adult trainee who is undertaking a part-time traineeship for an AQF IV qualification shall receive the following basic periodic rates of pay as applicable based on the allocation of AQF III qualifications:

<table>
<thead>
<tr>
<th>Wage/Skill Level A</th>
<th>First Year of Traineeship</th>
<th>$/hour</th>
<th>Second Year of Traineeship</th>
<th>$/hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>17.11</td>
<td>17.76</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wage/Skill Level B</td>
<td>16.49</td>
<td></td>
<td>17.12</td>
<td></td>
</tr>
<tr>
<td>Wage/Skill Level C</td>
<td>14.95</td>
<td></td>
<td>15.52</td>
<td></td>
</tr>
</tbody>
</table>
Australian Fair Pay Commission

Reasons for Decision

July 2008
Section 1

1. Promoting the economic prosperity of the people of Australia

The *Workplace Relations Act 1996* (WR Act) assigns the Australian Fair Pay Commission (Commission) an overarching objective ‘to promote the economic prosperity of the people of Australia’. To achieve this objective, the Commission must have regard to the following criteria in performing its wage-setting function:

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

As in previous years, the Commission invited submissions to its 2008 Minimum Wage Review to address some or all of the criteria (see Appendix A). In addition, the criteria guided the Commission’s consultations with stakeholders, and its internal and external research programs.

Views were sought directly through submissions and a range of consultations, including focus groups, online bulletin boards and meetings with key stakeholders in each state and territory. The Commission also drew on the available data and research literature in considering the impact of its previous decisions.

The Commission restates its previously expressed view that promoting the economic prosperity of the people of Australia is a very broad objective, and this is reflected in the range of interpretations offered to the Commission through submissions and consultations. A number of submissions equate ‘economic prosperity’ with the provision of a safety net. For example:

‘The objective of the AFPC in performing its wage-setting function is to promote the economic prosperity of the people of Australia. This requirement must be interpreted to include ensuring that the lowest paid workers in Australia do not get left behind in terms of their ability to participate in Australia’s prosperity. This is supported by the specific requirement of the AFPC to have regard to “providing a safety net for the low paid”’.\(^1\)

‘Compared with the 2006 review, the 2007 process highlighted that the AFPC has broadened the scope when interpreting the primary objective of making economically responsible wage decisions that ‘promote the economic prosperity of the people of Australia’. Despite these moves, the interpretation of this objective still falls short of the crucial element, which is to ensure that a safety net of *fair minimum wages* and conditions of employment is established and maintained’.\(^2\)

The Commission recognises that minimum wages form part of the safety net for low-paid people and help to sustain their living standards. The Commission does not, however, accept the exclusive alignment implied in these submissions between the prosperity objective and the provision of an adequate safety net. Providing a safety net for the low paid is one of four criteria which the Commission must, by law, take into account when setting minimum wages to promote economic prosperity.

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Section 1

Instead, the Commission understands its role as balancing a desire for minimum wages to promote employment opportunities for unemployed and low-paid Australians with the need for minimum wages to play their part in maintaining a safety net. The Commission therefore interprets economic prosperity broadly rather than narrowly. An economically prosperous Australia is one where those seeking work have ample opportunity to participate in employment and where a safety net mitigates hardship.

In current circumstances, the Commission has taken care to ensure that minimum wage increases do not exacerbate inflation. Both potential consequences of the Commission's Decision – higher inflation and lower employment growth – are likely to impact disproportionately on unemployed and low-paid Australians.

The Commission acknowledges that minimum wages are only one of the factors that influence the prosperity of Australians, including those who are unemployed or low-paid, and that it is responsible only for adjusting minimum and classification wages for employees within the federal jurisdiction.

1.1. Monitoring the effects of Commission decisions

The Commission has implemented a robust and transparent process to monitor the effects of its decisions. This process, drawn from recommendations of two research reports commissioned in 2007, relies on detailed analyses of relevant microeconomic and macroeconomic data. Given that almost two years of data have accumulated since the Commission’s first minimum wage Decision, the range of insights provided by the monitoring is expanding rapidly.

Some of the main insights have been collated in the Commission’s Economic and Social Indicators - Monitoring Report. The first issue of that report was released on 25 February 2008. The report will be published twice yearly, with the next issue due in September 2008.

Publication of the monitoring report ensures that those with an interest in minimum wages have access to the same data and analysis which inform the deliberations of the Commission. Feedback from a range of stakeholders — including through the Commission’s Research Advisory Committee — indicates that the report has been useful in informing submissions to the 2008 Minimum Wage Review.

The Commission is committed to strengthening and refining its monitoring capability, and will seek out all available expertise and information sources in order to fill any gaps remaining in the coverage and scope of its monitoring report. It will do likewise in terms of its broader research activities, through continuing dialogue with the stakeholder community, and through the convening of a Minimum Wage Research Forum in October 2008.

The strength of the Commission’s research engagement is also demonstrated through the recent launch of a research report series. In May 2008, the Commission published the full range of commissioned research received since it began operations.

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In the interest of fostering broad discussion, the Commission will release research reports as soon as practicable after they are finalised. The latest report in the research series examines the economic and social circumstances of young Australians.\textsuperscript{5}

This third general Wage-Setting Decision, like its predecessors, is informed by the research evidence available to the Commission at the time of writing. In addition, the Commission considers a range of information sources to assist in determining the impact of its decisions, including the Australian Government Budget, Reserve Bank of Australia statements and recent business surveys.

\textsuperscript{5} P Flatau, M Dockery and T Stromback, \textit{The Economic and Social Circumstances of Australian Young People Aged 15-20 Years}, Centre for Labour Market Research, report commissioned by AFPC, 2007.
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2. The capacity for the unemployed and low paid to obtain and remain in employment

To date, strong growth in the economy has delivered solid employment outcomes to a broad cross section of the working-age population. Unemployment has continued to decline for most groups, including those identified as more disadvantaged in the labour market.

2.1. Minimum wages and labour demand

Submissions to the 2008 Minimum Wage Review indicate that the relationship between employment and minimum wages continues to be contentious.

As in previous minimum wage reviews, several submissions refer to the international literature review by economists David Neumark and William Wascher as providing evidence that minimum wage increases can have a negative effect on employment.\(^6\)

The Australian Chamber of Commerce and Industry (ACCI), the Australian Council of Trade Unions (ACTU), the Australian Council of Social Services (ACOSS) and the Queensland Government caution that this international evidence cannot be fully relied upon, owing to the unique structure of the Australian minimum wage system. However, they cite quite different reasons for reaching this conclusion.

ACCI stresses that Australia’s minimum wage is higher and affects a larger proportion of employees than in other countries.\(^7\) Furthermore, Australia’s minimum wage framework comprises not only the standard Federal Minimum Wage (FMW) but also minimum wages at higher levels in the wage distribution. In light of this, ACCI argues that:

When one stops to consider those [preceding] factors, then the only valid conclusion is that Australia potentially, if not in all probability, has a higher negative impact of wage increases on employment than the international literature and research would suggest.\(^8\)

In contrast, the ACTU, ACOSS and the Queensland Government argue that the international evidence is ambiguous and that there are no significant disemployment effects in Australia.\(^9\) The Queensland Government summarises this view by noting that ‘under conditions of strong [economic] growth, modest wage increases are compatible with continued employment growth.’\(^10\)

While this may be the case, this view downplays evidence that a slower rate of growth in real wages may result in even better employment outcomes. It also overlooks the possibility that, while aggregate employment may be affected only slightly by increases in minimum wages, employment of low-paid workers may be disproportionately harmed.

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\(^8\) ACCI, March 2008, p. 7, para. 1.29.

\(^9\) ACTU, Australian Council of Trade Unions Submission to the Australian Fair Pay Commission, March 2008, p. 71, para. 5.44; and ACOSS, Submission to the Fair Pay Commission on minimum wages, March 2008, p. 3.

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The Victorian Government presents the results of a modelling exercise in its submission. Its findings are that there would be a moderate boost to employment in the short-term in response to slower growth in minimum wages.\(^{11}\) The effects of the one-off change in minimum wages were estimated to be insignificant by the second year of the simulations. However, no results were reported for a cumulative adjustment to minimum wages and whether such adjustments might have a sustained effect.

Evidence for a sustained effect may be found in Australia’s experience during the 1980s. An objective of the Prices and Incomes Accords during that time was to restrain growth in real wages and real unit labour costs. The Accords were found to have boosted employment during that time to levels that would not otherwise have been achieved.\(^{12}\)

While the regulatory environment has changed since the 1980s, a further thread of empirical research has compared the expansion of the economy at that time with the period since the early 1990s. That research suggests that, in the latter period, the benefits of economic growth have accrued more through increased wages and incomes than through increased employment. For example, Professor Bob Gregory has observed that:

> The new labour market [since the early 1990s] is delivering the gains from a faster rate of technological change to those that are employed rather than creating new jobs for the unemployed.\(^{13}\)

ACOSS points to the relevance of the business cycle in considering the extent to which unemployment can be further reduced at this point in time. They argue that those people who remain unemployed at this advanced point in the current economic cycle are generally drawn from the most disadvantaged groups in society. This, they suggest, may reduce the potential for minimum wages to be adjusted in a way which provides further stimulus to employment.\(^{14}\)

However, the Australian Fair Pay Commission (Commission) notes that the economic outlook is uncertain. Economic activity and employment growth are forecast to slow in the near term, while unemployment is expected to increase.

2.2. Employment trends for low-skilled workers

While many submissions analyse the trends in employment of low-skilled workers over recent years, they reach a variety of conclusions. The ACTU observes that employment growth across industries with a high proportion of low-paid employment (such as Retail trade, Manufacturing and Health and community services) was strong over the year to the December 2007 quarter, stating that:

> Demand remains high for labour, including minimum wage occupations. There is no evidence that the level of minimum wages is having a negative impact on employment or participation rates.\(^{15}\)
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On the other hand, the Australian Federation of Employers and Industry (AFEI) indicates that, in the past two years, the rate of employment growth in low-skilled occupations (such as Elementary, clerical and sales service workers and Labourers and related workers) has slowed compared with that in higher-skilled occupations. Australian Bureau of Statistics (ABS) data indicate that the level of unskilled employment has been broadly steady over the past decade, with growth skewed towards skilled occupations.

Movements by industry and occupation are reflected in Table 2.1.

Table 2.1: Employment growth in Pay Scale reliant industries, to May 2008

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage of total Pay Scale reliant employees across all industries</th>
<th>1-year</th>
<th>3-year</th>
<th>5-year</th>
<th>10-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation, cafes and restaurants</td>
<td>14.0</td>
<td>-2.4</td>
<td>0.5</td>
<td>2.3</td>
<td>2.1</td>
</tr>
<tr>
<td>Low-skilled occupations*</td>
<td>0.0</td>
<td>0.0</td>
<td>4.1</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>Health and community services</td>
<td>12.1</td>
<td>2.4</td>
<td>3.9</td>
<td>3.9</td>
<td>3.2</td>
</tr>
<tr>
<td>Low-skilled occupations</td>
<td>-3.2</td>
<td>-1.7</td>
<td>-0.2</td>
<td>-0.2</td>
<td></td>
</tr>
<tr>
<td>Property and business services</td>
<td>21.1</td>
<td>0.1</td>
<td>2.8</td>
<td>2.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Low-skilled occupations</td>
<td>-1.8</td>
<td>0.1</td>
<td>0.2</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td>Retail trade</td>
<td>22.2</td>
<td>4.6</td>
<td>0.6</td>
<td>1.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Low-skilled occupations</td>
<td>6.3</td>
<td>-0.4</td>
<td>-0.3</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>All industries</td>
<td>100.0</td>
<td>2.2</td>
<td>2.4</td>
<td>2.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Low-skilled occupations</td>
<td>2.3</td>
<td>-0.1</td>
<td>0.6</td>
<td>0.7</td>
<td></td>
</tr>
</tbody>
</table>


In the medium-term, therefore, employment growth in low-skilled occupations has been weaker than that in all other occupations. However, ACOSS suggests that the labour market remains broadly favourable for low-skilled workers, despite growth in the overall number of low-skilled jobs levelling off over the last four years.

The ACOSS view is supported by the results of focus group research for the Commission, which confirms that the demand for unskilled labour remains high. Some low-paid occupations attract fewer workers and exacerbate labour shortages for employers. Potential employees consider the wage rates being offered in these parts of the labour market to be insufficient to outweigh the negative aspects of these jobs, particularly when employment prospects are abundant. As a result, employers describe feeling the pressure of an ‘employee’s market’, with job vacancies being hard to fill. The focus group research indicates that employers’ wage and employment strategies are being challenged by tighter labour market conditions, with diverse outcomes emerging.

16 AFEI, Submission to the Fair Pay Commission, March 2008, p. 20, para. 4.2.
17 AFPC, July to December 2007, p. 17.
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While growth in aggregate levels of unskilled labour appears to be steady, employment outcomes for a range of lower-skilled demographic groups have improved over the past few years. Unemployment rates have continued to decline for many of these demographic groups.21

However, as the Australian Government notes, ‘a number of groups, including teenagers, the long-term unemployed, lone parents and lower skilled workers continue to face significant labour market disadvantage’.22 It also notes that these groups are most likely to be reliant on minimum wages:

Members of these groups are more likely to be employed, or to seek employment in low skilled, low paid jobs and therefore be most affected by the Commission’s decisions. Any adverse labour market effects of the Commission’s decisions could therefore be expected to be more noticeable amongst these groups. However there is no indication that this has so far been the case.23

The ACTU shares the Australian Government’s assessment of improving labour market outcomes for low-skilled workers, pointing out that the unemployment rate for Labourers and related workers has declined over time.24 However, AFEI argues that unemployment rates should be compared across all occupational groups, rather than just focusing on changes affecting a single group. AFEI suggests that such an examination is needed to demonstrate how ‘difficult employment prospects [are] for the lower skilled’.25

The Australian Government reports that:

Notwithstanding the fall in unemployment and increase in participation rate for the low skilled, it remains the case that those groups most likely to be reliant on minimum wages have considerably higher unemployment rates than the rest of the labour force.26

The Commission will continue to monitor trends in employment of low-skilled workers and labour force participation rates of groups that are disproportionately represented in low-paid employment. These groups are at greater risk from adverse changes in the economy.

2.3. Transitions into and out of low-paid employment

In monitoring labour market outcomes for low skilled people and the relevance of minimum wages, the Commission examines transitions into and out of low paid employment.

The Australian Government provides further evidence on the nature of low paid employment drawing on the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The Government reports that the prevalence of low-paid employment declined by one percentage point over the period 2001 to 2005, to nine per cent. It also finds that, in relation to the labour market transitions of low-paid people:

21 AFPC, July to December 2007, p. 17.
24 ACTU, March 2008, p. 69, para. 5.40.
25 AFEI, March 2008, p. 21, para. 4.4.
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...around half of the low paid end up in higher paid jobs in both the short and long term. However, the remaining low paid employees do not make that transition.\(^{27}\)

and

Low paid employees have a much higher likelihood of exiting the labour force or becoming unemployed compared with medium and higher paid employees. However, those people who ‘churn’ between low paid jobs and unemployment or remain persistently low paid are considerably better off financially than they would be without a job at all.\(^{28}\)

The ACTU refers to research by Dr Ian Watson which examined changes in the median wage rate for employees in the bottom quintile of earnings, as well as the movement of job seekers from unemployment to the bottom quintile of earnings between 2001 and 2005. Based on Watson’s study, the ACTU submits that:

...while there is growth in rates of pay in the bottom quintile right through the period there is also strong growth in rates of entry into employment for the unemployed.\(^{29}\)

Watson also found evidence of upwards earning mobility for some of those unemployed who enter employment at the bottom quintile of earnings. However, he cautioned that there ‘are a large number of formerly unemployed people—nearly 160,000—who are in work, but still reliant on AFPC decisions’.\(^{30}\) Furthermore, Watson observed that, compared with their counterparts further up the wage distribution, employees earning at or below the standard FMW experience longer periods out of the labour force or unemployed.

Although the analysis submitted by the Victorian Government in 2008 is restricted to Victoria, the results are qualitatively similar to those obtained in Watson’s study of the whole Australian population. The Victorian Government notes:

This research supports the conclusion that low pay work acts as a stepping stone for workers, in particular those from unemployment. However, while it is true that a substantial proportion of unemployed and low paid workers progress to jobs with higher income levels over this period, a considerable proportion of workers remain at the bottom level of the income distribution.\(^{31}\)

ACOSS also finds that the evidence concerning the job mobility of low-paid employees is mixed, stating that:

Jobless people are more likely to be able to secure low paid jobs – especially casual jobs – than they are to move straight into higher paid, more secure jobs. There is also some evidence to suggest that these low paid or casual jobs can lead to better paid, or more secure employment, including for people who were previously jobless. But many return to joblessness, and many others remain in low paid work over the long term – especially if they were previously unemployed or have major work barriers such as a disability.\(^{32}\)

Expressing a similar concern for workers who enter the labour force through casual

\(^{27}\) Australian Government, 14 March 2008, p. 29, para. 3.36.
\(^{28}\) Australian Government, 14 March 2008, p. 29, para. 3.37.
\(^{29}\) ACTU, March 2008, p. 53, para. 5.11.
\(^{30}\) Watson, Low Paid Workers in Australia: insights from HILDA, a report for IR Victoria, March 2007, p. 31.
\(^{32}\) ACOSS, March 2008, p. 38.
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employment, the Victorian Government submits that:

Adult workers who enter ongoing work are far more likely to remain in that employment and improve their position; in contrast, workers who enter casual employment have a lower likelihood of remaining employed and a higher likelihood of leaving the labour market. It is for this group of workers that the AFPC should be concerned with raising incomes over time.33

In summary, while there is evidence of upward earnings mobility for both unemployed people and low-paid employees, a sizeable proportion of low-paid employees is likely to ‘churn’ between low-paid jobs and unemployment, or out of the labour force, or remain in low-paid employment over time. The Australian Government cautions that:

…these workers are also at risk that any increase in the minimum wage which is too large will be counterproductive if it leads to a reduction in hours of work (including the loss of jobs) for these workers…34

The Commission regards labour market transitions as an important dimension of the experiences of low-paid and unemployed people. Setting minimum wages too high could exacerbate churning between low-paid employment and unemployment, reducing the chances of people moving into better-paid jobs.

2.4. Unmet demand for and supply of low-skilled workers

Various business and job vacancy surveys indicate that unmet demand for labour remains high. For example, the total number of job vacancies recorded on the Australian JobSearch website was around 87,000 in mid May 2008,35 with around half of those vacancies appearing to be low skilled.

Estimating the level of unmet demand for labour with any accuracy is a difficult task. The number of unskilled vacancies may be overstated because of turnover and churning. For example, Restaurant and Catering Australia expresses concern that the hospitality industry experiences a high turnover of staff, as low-paid employees tend to move rapidly out of the industry to progress to higher pay:

While low skilled jobs traditionally have had the highest rates of staff turnover, reflecting individuals moving along the career path from lower skilled to higher skilled jobs, in the hospitality industry the change in occupation is often unrelated to the area of work. The industry is often used to provide casual income for students, who then go on to other careers on completion of their study…One of the immediate challenges for the industry is addressing the need for skilled staff in order to realise the full economic potential of the industry.36

Conversely, the level of demand for unskilled labour may also be underestimated by vacancy surveys, in part as vacancies are often ‘advertised’ informally or postponed due to a perception of labour shortages.

While estimates of unmet demand for labour are high, unmet supply may be far greater. One estimate is that 7.9 per cent of hours of work are lost due to unemployment, underemployment or discouragement from the labour force.37

34 Australian Government, 14 March 2008, p. 19, para. 3.4.
37 Centre of Full Employment and Equity, CoFEE Labour Market Indicators, Newcastle, February quarter 2008.
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In response to these statistics, the Australian Industry Group (Ai Group) urges the Commission to:

...fully integrate underemployment and marginal attachment to the labour force as well as unemployment in its considerations on the full impacts of changes in minimum wage levels on the labour market.38

A complementary indication of the underutilised pool of labour can be found in the number of working-age income support recipients. With the exception of those on the Disability Support Pension (DSP), the number of working-age income support recipients has declined over the past four years. However, there were still more than 1.5 million people receiving working-age income support in 2006-07.39

The labour market appears to have capacity to absorb some lower-skilled income support recipients into low-paid employment, given estimates of unmet demand. However, the level of unmet demand for low-skilled labour could be significantly lower than the level of potential supply in both the short and longer terms.

Analysing the job search experience of the unemployed using ABS data, AFEI observes that the reasons most cited for not finding employment were insufficient skills or lack of experience. AFEI concludes that:

Regulated wage increases have a direct, negative effect on the demand for low paid workers in industries with high relative labour costs. Employers will only offer jobs if wages, labour on costs and return on output make economic sense. Even in an economy operating at near full employment, at the current minimum wage employers are not creating or retaining enough jobs suited to low skill/low wage workers.40

This reflects concerns that the employment prospects of the unemployed, and those people who are marginally attached to the labour force, may be adversely affected by the Commission’s decision.

Focus group research indicates that many participants considered it easy to get a job if they wanted one. While they found it was easy to get ‘any job’, finding ‘the’ [preferred] job proved more time consuming. However, not all participants found that it was easy to get ‘any job’, particularly those people located in less buoyant labour markets or who encountered barriers to employment.41

In summary, the labour market remains tight with the unemployment rate remaining low. Vacancy rates indicate that there is a high level of unmet demand for unskilled labour. However, at the same time, a significant number of people are underemployed or disengaged from the labour force, and weaker economic conditions may place low-paid workers in a more vulnerable position.
Section 2

2.5. Work incentives

The issue of minimum wages and work incentives is addressed in a number of submissions to the 2008 Minimum Wage Review. Several submissions (for example, from the NSW Government, the ACTU, ACOSS and the Federation of Ethnic Communities' Councils of Australia) argue that higher minimum wages encourage workforce participation, by creating an incentive 'gap' between in-work and out-of-work disposable income which encourages jobless people to join the labour force.\(^{42}\)

However, employer groups advocate caution in focusing on the creation of work incentives through minimum wages. For example the Ai Group emphasises that, in general, employers themselves already have strong incentives to offer wages at a level that will encourage workforce participation:

> In light of the existence of adequate market-based incentives for employers to induce labour force supply, Ai Group does not think there is a strong reason for the minimum wage review decision to be complicated by the need to assess whether minimum wage levels will be sufficient to induce adequate labour market supply.\(^{43}\)

ACCI refers to the Commission’s *Economic and Social Indicators - Monitoring Report*, arguing that its analysis of work incentives highlights the central influence that tax and social security measures have on such work incentives:

> This underscores the need to be cautious in seeking to secure a particular policy outcome through the crude single lever of minimum wage increases.\(^{44}\)

In considering the capacity of unemployed and low-paid people to obtain and remain in employment, the Commission notes the effect of minimum wages on labour supply. It is important that unemployed people have adequate incentives to take up low-paid work and that people in low-paid work are encouraged to maintain their employment.

The Commission’s monitoring of a range of work incentive indicators shows that financial incentives for unemployed people to move into work have either remained stable or improved in recent years.\(^{45}\)

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\(^{42}\) ACOSS, March 2008, p. 9.


\(^{44}\) ACCI, March 2008, p. 142, para. 7.63.

\(^{45}\) AFPC, July to December 2007, pp. 29-32.
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3. Employment and competitiveness across the economy

The Australian economy performed strongly over the past year, recording solid growth in economic activity and employment. Wage pressures have generally been contained to date. However, inflation accelerated through 2007, prompting the Australian Government and the Reserve Bank of Australia (RBA) to act to restrain aggregate demand.

3.1. Employment

The labour market performed solidly over the year to May 2008 (see Table 3.1):

- total employment increased by 2.2 per cent, with full-time and part-time employment increasing by 1.6 per cent and 3.7 per cent, respectively;
- the participation rate increased slightly, to 65.2 per cent of the working-age population;
- the employment-to-population ratio increased by 0.3 percentage points; and
- the unemployment rate remained at 4.3 per cent.

Unemployment fell in most states and territories, with the exception of Queensland and Western Australia which already had comparatively low unemployment rates, and South Australia.

The improvement in labour market performance has been relatively uniform throughout Australia’s regions, with the majority of small area labour markets recording unemployment rates below 5 per cent.46

Table 3.1: Labour market developments by State/Territory, year to May 2008

<table>
<thead>
<tr>
<th>Employment growth</th>
<th>Unemployment Rate</th>
<th>Participation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage change</td>
<td>Unemployment Rate</td>
<td>Participation Rate</td>
</tr>
<tr>
<td>Per cent</td>
<td>Percentage point change</td>
<td>Per cent</td>
</tr>
<tr>
<td>NSW</td>
<td>2.0</td>
<td>4.7</td>
</tr>
<tr>
<td>Vic</td>
<td>1.9</td>
<td>4.3</td>
</tr>
<tr>
<td>Qld</td>
<td>2.4</td>
<td>3.8</td>
</tr>
<tr>
<td>SA</td>
<td>2.1</td>
<td>5.0</td>
</tr>
<tr>
<td>WA</td>
<td>2.3</td>
<td>3.7</td>
</tr>
<tr>
<td>Tas</td>
<td>3.9</td>
<td>4.4</td>
</tr>
<tr>
<td>NT</td>
<td>4.8</td>
<td>3.6</td>
</tr>
<tr>
<td>ACT</td>
<td>2.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Australia</td>
<td>2.2</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Note: Data are seasonally adjusted, except for NT and ACT, where trend estimates are shown.

Broader measures of labour underutilisation also point to an improvement in labour market performance. One such estimate declined from 9.9 per cent in late 2004 to 7.9 per cent in early 2008.47

47 Centre of Full Employment and Equity, CoFEE Labour Market Indicators, Newcastle, February quarter 2008.
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In the short-term, the level of demand for labour remains high, as reflected in job vacancy rates across a broad range of occupations and skill levels. Businesses have indicated that the availability of labour is one of the more significant constraints they face.

### 3.2. Wage growth

Assessments of the underlying trends in labour costs vary in submissions to the 2008 Minimum Wage Review. Some consider that wage growth has been generally steady, while others are concerned by a gradual acceleration in wages since early 2007.

Most submissions regard the Wage Price Index (WPI) as the most accurate measure of underlying wage growth. The WPI increased by 4.1 per cent over the year to March 2008, similar to the annual rates recorded over the previous two years. Higher wage growth appears to have been contained to those segments of the economy with skill shortages or already low unemployment rates.

Wage growth in collective agreements reached in each quarter over the past three years has been steady. The most recent data indicate that the average annualised wage increase (AAWI) in all wage agreements current in the December quarter 2007 was 4.0 per cent, while the AAWI for new agreements was 3.8 per cent.

Businesses expect labour costs to increase, and identify wage growth as a significant impediment to further employment. Employer groups and governments are also concerned about wage growth increasing if the labour market remains tight. Wage growth has generally been highest in Western Australia and Queensland, where unemployment rates are lowest. Therefore, there is an expectation that economy-wide wage growth may increase if unemployment rates in other states were to decline.

### 3.3. Competitiveness

Wages are one factor affecting the competitiveness of businesses and industries. Other relevant factors include productivity and business profitability. Higher productivity enables businesses to better confront competition and support increased wages, while a healthy level of profitability enables businesses to be more resilient to adverse economic conditions.

Many submissions highlight that productivity growth rates have slowed since the late 1990s. While the data can be volatile and there are wide variations between industries,
In year-average terms, real gross domestic product (GDP) per hour worked in the market sector increased by 2.0 per cent in the year to March 2008. Slow productivity growth may be consistent with the view, expressed by the Australian Chamber of Commerce and Industry (ACCI), that ‘capacity constraints are being reached’.57 However, an alternative view is that productivity growth in 2007 was held down by a fall in farm GDP, while productivity growth in the non-farm economy may have ‘picked up to a more normal pace’.58

Another set of indicators of competitiveness relates to business profitability. While there is considerable diversity among businesses, aggregate profit remained solid in recent years:

- the profit share of total factor income rose to a historic high of 27 per cent in March 2008;59
- company gross operating profit increased by 7 per cent over the year to March 2008;60 and
- gross profit margins on sales increased steadily over the five years to 2005-06, with average margins for all industries during this period between 8 and 11 per cent.61

Business surveys and submissions from employer groups suggest that business profitability has declined recently.62 On the available data, any such decline would be occurring from what appear to be relatively high rates of profitability in most industries on average.

### 3.4. Industry conditions

Industries with the largest proportion of Pay Scale reliant employees (Pay Scale reliant industries) performed generally well in 2007.63 Output and employment in these industries appear to have grown at a steady rate relative to other industries since 2003.64

There are, however, variations across and within industries. Over the past three years, for example, aggregate employment grew at a moderate but steady rate, while employment growth in Pay Scale reliant industries was more volatile.65 Estimates of job vacancies are at record levels for all industries.

Recent data indicate that wage growth has been firm across most industries. However, there are some variations around the aggregate trend, with some Pay Scale reliant industries experiencing high rates of wage growth and others recording slower growth.

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57 ACCI, March 2008, p. 61, para. 2.100.
60 ABS, Catalogue No. 5206.0, 2008.
63 The Commission estimates that around 70 per cent of Pay Scale reliant employees are employed in Retail trade, Property and business services, Accommodation, cafes and restaurants, or Health and community services. For a more detailed breakdown of Pay Scale reliance by industry, see Table 1.7 in AFPC, Wage-Setting Decisions and Reasons for Decisions, Commonwealth of Australia, July 2007, p. 62.
64 AFPC, July to December 2007, pp. 19 and 22.
65 AFPC, July to December 2007, p. 20.
For example, wage growth in Retail trade (as measured by the WPI) appears to have accelerated to 4.5 per cent over the year to the March quarter 2008. The increase in minimum wages which came into effect in the December quarter of 2007 is unlikely to have been a significant driver of this increase, as other Pay Scale reliant industries simultaneously recorded more modest and stable growth in wages.66

Econtech forecasts that conditions in industries most affected by the Commission’s decisions will be moderate in 2008-09.67 In particular, output growth is expected to slow markedly in 2008-09 for Manufacturing, Personal and other services, and Retail trade, and is predicted to remain weak in Accommodation, cafes and restaurants. Employment is expected to decline slightly in 2008-09 in Accommodation, cafes and restaurants, Health and community services and Manufacturing, while employment growth is expected to moderate in most other Pay Scale reliant industries.

The Commission will continue to monitor the effects of minimum wages on particular industries, since minimum wages are one factor of a number which can influence changes in employment in a given industry. As part of this monitoring, the Commission will undertake a series of detailed industry profiles. At this stage, research is underway into the Retail trade, Health and community services, and Accommodation, cafes and restaurants industries.

3.5. Economic outlook and macroeconomic policy

Most submissions acknowledge the solid performance of the economy. However, views expressed on the economic outlook vary across submissions.

The Australian Council of Trade Unions (ACTU) considers that the ‘Australian economy continues to be strong with employment continuing to grow with unemployment at historically low levels’.68

Both ACCI and Australian Industry Group (Ai Group) emphasise the uncertainty in the economic outlook. They argue that this supports a cautious approach to adjusting minimum wages in the near term. Ai Group identifies two main categories of uncertainty:

- The global economy is slowing to an, as yet, uncertain extent while at the same time inflation appears to be moving higher in most of the developed economies.69

and

- Domestically, inflation has accelerated and there is significant uncertainty around the extent to which the Reserve Bank will need to slow the economy in order to reel in rising inflationary expectations.70

The Australian Government updated its view on the economic outlook in May 2008 (see Table 3.2). The Government forecasts that economic activity will slow to a moderate pace, with employment growth slowing quickly over the next year. The unemployment rate is expected to increase to 4¾ per cent by mid 2009.71

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67 Econtech, Econtech’s Australian National, State and Industry Outlook, 18 April 2008.
70 Ai Group, March 2008, p. 12, paras. 35-36.
The headline Consumer Price Index (CPI) demonstrated some volatility over the past eighteen months, ranging from a year-ended increase of 1.9 per cent in the September quarter 2007 to 4.2 per cent in the March quarter 2008. The RBA's measures of underlying consumer price inflation discount extreme changes in prices. Even so, this measure increased by an average of 4.3 per cent over the year to the March quarter 2008, which was well above the RBA's medium-term inflation target band of 2 to 3 per cent per annum.

The RBA forecasts that the inflation rate will peak at 4½ per cent through the year to December 2008, before declining to 3¼ per cent by December 2009.72 By comparison, the Australian Government considers that inflation will have peaked in the March quarter 2008, before steadily declining.

The RBA has been acting to slow the rate of growth in aggregate demand. In its view:

…there is now evidence that demand growth has slowed, but it will take time for this to have a substantial impact on inflation.73

However, both the RBA and the Australian Government highlight the opposing influences on future growth and inflation, and the uncertainty that remains. On the one hand, slower global growth and tighter credit conditions are expected to reduce domestic activity, while on the other hand, large rises in Australia's terms of trade will boost national income.74 The RBA is also concerned that:

…the persistence of inflation at relatively high rates for some time could result in inflation expectations becoming entrenched at higher than acceptable levels, which could feed back into wage- and price-setting behaviour.75

The Australian Government warns that:

In the current tight labour market, employers are more likely to agree to wage rises in excess of the relative increase in minimum wages in order to attract labour. In other words, a higher minimum wage increase is likely to encourage higher wage outcomes in workplace bargaining negotiations.76

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75 RBA, May 2008, p. 68.
76 Australian Government, 14 March 2008, p. 9, para. 2.17.
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It suggests that this risk is particularly high at present, with almost half of all federally registered collective agreements due to expire in 2008.77

Submissions agree on the objective of lowering price inflation. For example, ACCI notes the adverse effects of high inflation:

Higher interest rates slowing demand growth and the economy in response to inflation would mean that unemployment may be higher than it otherwise would be…Higher inflation through the economy also means that interest rates will be higher than they otherwise may be and that economic growth will be slowed in turn…The fact that the economy has low unemployment relative to the recent past makes the inflationary dangers from wages even greater.78

Focus group research for the Commission has also found a greater awareness of the challenges facing the economy at present and the risk of wage push inflation.79

The Commission notes that there is general agreement that inflation will decline over the period to October 2009. However, there is disagreement over when and at what level inflation will peak. The Commission has taken into account the range of estimates and the uncertainty surrounding the outlook for inflation in making its Decision.

The Commission acknowledges that minimum wage increases may affect wider wage growth in the economy and therefore inflation. However, the extent to which this occurs is influenced by many factors and there is considerable uncertainty over this effect.

Increases in minimum wages add directly to the wages bill of the economy. They could also create a disincentive to agreement making, as well as providing a floor to outcomes negotiated through workplace agreements.

From an inflation and competitiveness perspective, it is desirable for agreement making to be closely based on productivity.

The direct effect of a moderate increase in minimum wages on aggregate inflation is likely to be minor. Wages paid to employees who are directly reliant on the Commission’s decision comprise only a small percentage of the economy’s total wage bill.

According to the Australian Bureau of Statistics (ABS) Employee Earnings and Hours survey, 19 per cent of (non-farm) employees earned the rate of pay specified in the relevant award or Pay Scale as of May 2006. However, their share of total labour costs is somewhat lower, since on average they earn less than other employees.80

The flow-through of growth in labour costs to price inflation will depend upon factors such as the cost structure of firms, employment effects and market competitiveness. The ACTU estimates that a one per cent increase in average earnings (with no productivity adjustments) raises the CPI by 0.54 per cent.81 Other estimates of this effect vary, but it is reasonable to assume that the effect on inflation is less than the wage growth figure and that it is spread over several years.82

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77 Australian Government, 14 March 2008, p. 9, para. 2.18.
78 ACCI, March 2008, pp. 91-92, paras. 4.9, 4.16 and 4.19.
79 TNS Social Research, 2008, p. 36.
81 ACTU, March 2008, p. 103.
There can also be indirect effects from minimum wage adjustments, as they flow on (in one form or another) from minimum wage decisions to wages set under other instruments. However, the available evidence on the size of these effects is limited.

The Australian Government provides data on the extent of a flow on of minimum wage adjustments to wage outcomes under collective agreements, drawing on its census database of federal certified collective agreements. These data suggest that the strict flow on is very limited, while the potential flow on is imprecise:

According to the Department of Education, Employment and Workplace Relations’ Workplace Agreements Database, 11 per cent of collective agreements, covering less than 4 per cent of employees in the federal workplace relations system, automatically flow on the Commission’s decision. An additional 22 per cent of current collective agreements, covering a further 11 per cent of federal system employees are linked in some form to the Commission’s minimum wage outcomes, however, conditions and/or qualifications of some type apply.83

ACCI provides an estimate of the flow-on effects to wages under other forms of agreements, based on assumptions regarding how many workers are earning close to the rate of pay specified in the relevant award or Pay Scale. ACCI estimates that there are indirect flow-on effects to a further 2.3 per cent of employed persons, although it notes that it is difficult to estimate these effects.84

The extent of further informal flow-ons from the Commission's decisions to wages determined under collective agreements, through the setting of claims and expectations, is also uncertain. Regarding these effects, the Australian Government cautions that:

In the current tight labour market, employers are more likely to agree to wage rises in excess of the relative increase in minimum wages in order to attract labour. In other words, a higher minimum wage increase is likely to encourage higher wage outcomes in workplace bargaining negotiations.85

Recent wage increases for employees covered by federal enterprise agreements have been broadly in line with increases in the standard Federal Minimum Wage.

Including both direct and indirect effects, and considering historical wage price relationships, the Commission estimates that the 2008 minimum wage adjustment may increase prices by up to 0.4 per cent over the medium-term.

The Australian Government indicates that addressing inflation is its most significant policy challenge.86 A broad range of strategies is being pursued to this end, including measures to moderate demand through the budget, foster greater competition in particular markets, and relieve capacity constraints.

Employment growth is expected to slow in the foreseeable future and the unemployment rate is expected to increase slightly. Aggregate wages have been growing at moderate rates to date. However, there are some risks to unit labour costs as a result of slower productivity growth. There is considerable uncertainty in the outlook for inflation and demand growth.

83 Australian Government, 14 March 2008, p. 8, para. 2.16.
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Given the increased flexibility of the labour market and the diversity of wage setting arrangements, the effect of changes in minimum wages on aggregate wages, prices and employment is somewhat less than it has been historically. However, the current economic environment highlights the importance of measured adjustments to policy settings, including minimum wages. A number of government submissions argue for an increase in minimum wages that is sustainable and predictable.87 Such an approach to the adjustment of minimum wages can help to anchor expectations and act as a stabilising influence, both in dampening overly large variations in the economy and addressing a period of increased uncertainty.

On balance, the Commission believes that its general Wage-Setting Decision 2008 to increase minimum wages by $21.66 per week will have only a minor impact upon aggregate wage and inflation outcomes in the economy as a whole. However, the Commission will continue to monitor the impacts of its Decision closely.

87 For example, NSW Government, Submission to the Australian Fair Pay Commission on behalf of the New South Wales Government, 18 March 2008, p. 28, para. 87; and Tasmania, Department of Justice, Industrial Relations (Private Sector), Australian Fair Pay Commission 2008 Minimum Wage Review, letter dated 4 March 2008.
4. Providing a safety net for the low paid

The Australian Fair Pay Commission (Commission) considers that the Australian income safety net comprises minimum wages, tax benefits and income support payments. While the Commission is responsible for setting and adjusting the first of these components, the Australian Government is responsible for the remainder.

Many of the submissions to the 2008 Minimum Wage Review accept this view of the safety net:

‘The living standards of low income households rest on three foundations: jobs, minimum wage levels, and income support payments. All three play a vital role in preventing poverty.’

‘A wages safety net provides incomes that are sufficient to meet the basic needs of workers and their dependants, having regard to general living standards in the community. A wages safety net has to take into account the tax paid by workers and government transfers paid to them and to their families.’

‘One [of] the key advances in Australian minimum wage setting...has been the recognition that real incomes and purchasing power for employees working on minimum wages are not delivered by minimum wages alone, but also by the interaction between minimum wages, taxation settings, and the social security/transfer payments system.’

‘Ai Group recognises the extent to which the Fair Pay Commission has incorporated a formal consideration of income tax and income support arrangements into its deliberations of the safety net role of minimum wages. Ai Group applauds this as an important advance and one that carries with it the potential for achieving better social and economic outcomes through closer coordination of the different elements of the broader social safety net.’

Because many Australian households rely on a combination of wages and income transfers for their income, the Commission monitors the effects of its decisions on household disposable income, taking account of other elements of the tax and transfer systems.

By definition, the safety net concept is primarily concerned with the living standards of people at the lower end of the income distribution. The Commission therefore focuses its attention mainly on those households that rely most heavily on minimum wages, either alone or in combination with income transfers.

The Commission’s modelling assumes that households choose to take up all available income transfers. The Australian Catholic Council for Employment Relations (ACCER) is concerned that this has the effect of overstating the disposable income of some low-wage households, namely those who choose for one parent to remain outside the workforce.

Under the rules applying to receipt of Parenting Payment (Single) and Newstart Allowance, a ‘primary caregiver’ generally does not qualify for payment after their youngest child turns six unless they agree to seek suitable work of at least 15 hours a week. There are some exceptions to this – for example, if the parent is caring for a child with significant disability or has four children under the age of 16, or undertakes home schooling.
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...the decision by the AFPC in 2007 to assume that the second parent family [sic] in this family is in receipt of the Newstart allowance...has had the effect of discriminating against families...this kind of reasoning would lock wage-setting into a position that would continually prejudice single income families, by assuming that they were receiving income to which they were not legally entitled.93

In response to ACCER's concerns, the Commission's modelling (for example, as presented in Table 4.2) includes disposable income estimates for a couple family which chooses not to claim income support, as well as for a single parent who is not entitled to receive Parenting Payment (Single).94

4.1. The complementary roles of wages and the tax/transfer system

While many submissions acknowledge that wages are not the only factor that determines disposable income, and that taxation and income transfers have an important role to play, they are divided on the relative importance that should be accorded to one factor over another. For example, the Australian Chamber of Commerce and Industry (ACCI) and the Australian Industry Group (Ai Group) argue that the Commission should explicitly take account of the effect of changes in the taxation and transfer systems when making its decisions:

'The combination of a minimum wage rise in the terms ACCI commends to you...plus tax cuts, will ensure that the lower paid working on minimum wages will see their real incomes maintained or marginally increased.'95

'AI Group urges that these changes in the broader social safety net be taken into account by the Commission in determining the extent of changes in minimum wage levels.'96

Ai Group further recommends that:

...improve[d]...coordination between different elements of the safety net...could be achieved if the Commission gave more explicit guidance of how it takes changes in income tax and income support arrangements into account when determining changes in minimum wages.97

On the other hand, the Australian Council of Trade Unions (ACTU) and ACCER reject the idea that the respective contributions of tax cuts and minimum wages should be considered together by the Commission:

'The ACTU presumes that the decision to provide tax cuts and welfare benefit changes have not been made in the knowledge that the Government can give with one hand while the AFPC will take with the other.'98

'ACCER submits that there is no basis for discounting the 2008 safety net wage increases on the basis of the Commonwealth's proposed tax changes.'99

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93 ACCER, 14 March 2008, pp. 2 and 13, para. 32.
94 Since July 2006, Parenting Payment (Single), a pension-level payment, has not been available to new income support claimants with a youngest child aged eight or over. Single parents with older children must therefore qualify for alternative income support, most commonly Newstart Allowance, which is usually payable at a lower maximum rate than Parenting Payment and subject to stricter means-testing.
96 Ai Group, March 2008, p. 27, para. 95.
97 Ai Group, March 2008, p. 27, para. 97.
In favouring a heavier emphasis on tax/transfer provisions to deliver increases in disposable income, employer submissions emphasise the trade-offs between income for workers, costs to employers and effects on the broader economy:

‘Ai Group estimates that, as a rule of thumb, when minimum wages are increased, employees receive a benefit in the form of extra disposable income that is roughly half of the additional costs faced by employers.’\textsuperscript{100}

‘ACCI believes that tax cuts are necessary for the long term performance of the Australian economy and obviate the need for large nominal wage increases.’\textsuperscript{101}

By contrast, ACCER does not accept that the Commission’s wage-setting criteria should be balanced against each other:

ACCER submits that the AFPC is under a statutory obligation to determine, as best it can, the requirements of a safety net. This determination must proceed as a separate step to the consideration of other statutory wage-setting criteria, such as economic factors, because the AFPC is bound to have regard to all of the criteria, including the safety net criterion.\textsuperscript{102}

Gross wages, tax liabilities and income transfers all contribute to the final disposable income of low wage-earners and their households. A recent study from the Organisation for Economic Co-operation and Development (OECD) found that in 2006, Australia ranked fourth among OECD countries for the value, in US dollar purchasing power parity, of its net (after-tax) minimum wage. The study also found that countries with higher minimum wages tended to levy higher taxes and vice versa.\textsuperscript{103} This means that the differences between countries in the level of minimum wages are smaller for net wages than for gross wages. (More information on international comparisons of gross and net minimum wages can be found in Appendix D.)

The Commission does not favour a formulaic approach to balancing the respective contributions of tax/transfer changes and wage increases to disposable income. Nor does it believe that tax/transfer changes should be completely ignored, since their effect on disposable income can be significant. The Commission will continue, therefore, to monitor the effects of tax/transfer changes on the disposable incomes of low wage-earning households as part of its decision-making processes.

## 4.2. 2008-09 income tax changes

Recently legislated changes to income tax for the 2008-09 financial year will benefit lower-income Australians in a number of ways. They include:

- an increase in the income threshold for the 30 per cent tax rate from $30 001 to $34 001 per annum;
- an increase in the Low Income Tax Offset (LITO) from $750 to $1200 per annum (this increases the effective tax-free threshold from $11 000 to $14 000 per annum); and
- the availability of half the LITO throughout the year as reduced income tax withholding.

\textsuperscript{100} Ai Group, March 2008, pp. 34-35, para. 114.
\textsuperscript{101} ACCI, March 2008, p. 128, para. 6.55.
\textsuperscript{102} ACCER, 14 March 2008, p. 6, para. 8.
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As a result of these changes, the majority of employees receiving wages at or around the standard Federal Minimum Wage (FMW) will receive a tax cut equivalent to $8.65 per week. Pensioner single parents on the standard FMW (those with a youngest child under the age of 8) will receive a larger tax cut of almost $15 per week because their taxable income is higher due to their eligibility for a part-rate pension. At the level of 150 per cent of the standard FMW, the tax reduction will be just over $20 per week.

The Australian Government emphasises that these changes in taxation will assist low-income earners, including part-time workers, by allowing them to retain a greater proportion of their earnings and maintain their disposable income, as well as providing further incentives for people to enter the workforce or increase their working hours. Submissions from both the ACTU and ACCI similarly point to the tax cuts as creating greater incentives for workforce participation.

This is in contrast to ACCER’s view that:

…first, the proposed taxation reductions are not specifically targeted at low paid workers, but are part of an overall realignment of income taxation rates; and, second, they were not put forward as a basis for the [sic] discounting safety net wage increases that may be awarded to low paid workers.

The Australian Government submission also highlights the continuing effect of current and future planned tax cuts on the disposable incomes of low wage earners. Over the three years from 2007-08 to 2010-11, the Low Income Tax Offset (LITO) will double from $750 to $1500. This change means that workers who earn less than $16 000 will pay no tax in 2010-11, compared with the current effective tax-free threshold of $11 000:

Compared with their income tax liability for 2007-08 and excluding the Medicare levy, a person on $20,000 will have an income tax reduction of around 56 per cent and a person on $50,000 will have an income tax reduction of around 18 per cent by 2010-11.

4.3. Effective marginal tax rates

Effective marginal tax rates (EMTRs) measure the proportion of extra labour earnings effectively lost to the joint effects of taxation paid and reductions in income transfers. High EMTRs create work disincentives and limit the income retained by workers following an increase in minimum wages.

A number of submissions, including from the ACTU, refer to the Commission’s internal and commissioned research on EMTRs, and support the conclusions reached:

Modelling undertaken for the Commission confirms that most low-income earners face relatively low effective marginal tax rates (EMTRs) and would therefore retain most of any pay rise.

Table 4.1 summarises the effect of tax and transfer changes on the EMTRs of various categories of household receiving 100, 120 or 150 per cent of the standard FMW. This analysis indicates that households with a taxable income below $30 000

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(that is, all households with one wage-earner on 100 per cent of the standard FMW, except for a pensioner single parent) will face very similar EMTRs in 2008-09 as they did in 2007-08.

Households with a taxable income between $30 000 and $34 000 (most of those households with one wage-earner on 120 per cent of the standard FMW, plus pensioner single parents on 100 per cent of the standard FMW) will experience a reduction in EMTRs of up to 15 percentage points. For households with one earner on 150 per cent of the FMW, EMTRs will be unchanged.

Table 4.1: Effective marginal tax rates (EMTRs) at 100, 120 and 150 per cent of the standard FMW for selected low-income households, 2007-08 and 2008-09

<table>
<thead>
<tr>
<th>Employee Household Type</th>
<th>EMTR @ 100% FMW</th>
<th>EMTR @ 120% FMW</th>
<th>EMTR @ 150% FMW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single, no children</td>
<td>16.5</td>
<td>16.5</td>
<td>35.5</td>
</tr>
<tr>
<td>Single-earner couple, no children</td>
<td>64.9</td>
<td>64.9</td>
<td>80.5</td>
</tr>
<tr>
<td>Single-earner couple, two children aged 6-12</td>
<td>63.0</td>
<td>63.0</td>
<td>98.9</td>
</tr>
<tr>
<td>Single parent, one child aged 7</td>
<td>73.9</td>
<td>64.9</td>
<td>73.9</td>
</tr>
<tr>
<td>Single parent, one child aged 8-12</td>
<td>15.0</td>
<td>15.0</td>
<td>44.0</td>
</tr>
</tbody>
</table>

Note: * These high EMTRs reflect the modelling assumption that all transfer entitlements are taken up. In these couples, the non-earning partner is entitled to only a small amount of income support, and that only if the couple qualifies for rent assistance. Couples not paying private rent or choosing not to take up this small entitlement would have the same EMTR as the other cases modelled.

Source: AFPC modelling
Assumptions: FMW= $522.12 per week; 120% FMW = $626.54; 150% FMW = $783.18. Tax/transfer parameters as at 1 July 2007 (2007-08 EMTRs) and 1 July 2008 (2008-09 EMTRs). Single parent with child under 8 years old receives Parenting Payment (Single). Households are paying sufficient private rent to receive maximum rent assistance, where applicable.

This analysis shows that low-paid workers will retain a proportion of the increase in minimum wages granted by the Commission in this Decision at least as high as, and in some cases higher than, last year's.

4.4. The effects of recent wage increases and tax/transfer changes on disposable income

Table 4.2 summarises the effects of the Commission's general Wage-Setting Decisions 2006 and 2007 and recent tax/transfer changes on the disposable incomes of households earning various proportions of the standard FMW. While the primary focus is on households with one earner on the standard FMW, the modelling also includes cases where a single parent or secondary earner works part-time for 50 per cent of the FMW.

Between July 2006 and July 2008, increases in nominal disposable income range from around 8 per cent for couples with one earner on the standard Federal Minimum Wage (FMW) to more than 11 per cent for a single parent on the standard FMW who is also eligible to receive Parenting Payment (Single). Relative to estimated consumer price inflation of between 6.2 and 6.5 per cent, these represent real increases in the value of the income safety net.
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It is worth noting also that these real increases in disposable income follow real increases in the year to July 2006, as detailed in the Commission’s previous decisions.\textsuperscript{108}

Table 4.2: Disposable incomes of illustrative low-paid households, July 2006 to July 2008

<table>
<thead>
<tr>
<th>Family type</th>
<th>Disposable income</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>July 06 $pw</td>
<td>July 07 $pw</td>
</tr>
<tr>
<td>Single person earning 100% FMW</td>
<td>432.69</td>
<td>459.13</td>
</tr>
<tr>
<td>Couple without children, one earning 100% FMW</td>
<td>592.02</td>
<td>617.60</td>
</tr>
<tr>
<td>Couple without children, one earning 100% FMW, one earning 50% FMW</td>
<td>708.45</td>
<td>735.83</td>
</tr>
<tr>
<td>Couple with two children aged 6-12, one earning 100% FMW</td>
<td>815.47</td>
<td>848.74</td>
</tr>
<tr>
<td>Couple with two children aged 6-12, one earning 100% FMW (no Newstart Allowance)</td>
<td>712.89</td>
<td>748.77</td>
</tr>
<tr>
<td>Couple with two children aged 6-12, one earning 100% FMW, one earning 50% FMW</td>
<td>910.83</td>
<td>956.12</td>
</tr>
<tr>
<td>Single parent with one child aged 7, earning 50% FMW</td>
<td>614.15</td>
<td>641.98</td>
</tr>
<tr>
<td>Single parent with one child aged 7, earning 100% FMW</td>
<td>702.37</td>
<td>748.18</td>
</tr>
<tr>
<td>Single parent with one child aged 12, earning 50% FMW</td>
<td>516.82</td>
<td>536.90</td>
</tr>
<tr>
<td>Single parent with one child aged 12, earning 100% FMW</td>
<td>630.08</td>
<td>663.23</td>
</tr>
</tbody>
</table>

Source: AFPC modelling.
Assumptions: FMW = $484.50 pw in July 06, $511.86 pw in July 07 and $522.12 in July 08. Tax/transfer parameters as at July in each year. Households paying sufficient private rent to receive maximum rent assistance, where applicable. Disposable income includes all available income transfers, unless otherwise specified.

As in previous years, the Commission has asked the National Centre for Social and Economic Modelling (NATSEM) to estimate the average effective tax rates experienced by Australian low-wage employees (defined as those earning less than $16.50 an hour, or about 120 per cent of the standard FMW), as at July 2008. NATSEM has also modelled the average effect on gross and disposable income for the same employees of a variety of possible wage rises, ranging from 26 cents an hour to 74 cents an hour.

\textsuperscript{108} See, for example, AFPC, Wage-Setting Decision and Reasons for Decision, Commonwealth of Australia, October 2006, Table 5.1, p. 93; and AFPC, Wage-Setting Decisions and Reasons for Decisions, Commonwealth of Australia, July 2007, Table 1.8, p. 65.
Figure 4.1: Average effect of various increases in hourly pay for Australian employees earning less than $16.50 an hour, July 2008

<table>
<thead>
<tr>
<th>Dollars per week</th>
<th>ETR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>24</td>
</tr>
<tr>
<td>$5</td>
<td>13</td>
</tr>
<tr>
<td>$10</td>
<td>10</td>
</tr>
<tr>
<td>$15</td>
<td>7</td>
</tr>
<tr>
<td>$20</td>
<td>10</td>
</tr>
<tr>
<td>$25</td>
<td>15</td>
</tr>
<tr>
<td>$30</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: NATSEM modelling.

Figure 4.1 shows that, on average, low-paid Australians face an effective tax rate of around 24 per cent on additional earnings (a decline of 2 percentage points relative to the situation in July 2007).\(^\text{109}\) This means that low-paid employees who benefit from the Commission’s general Wage-Setting Decision 2008 will retain, on average, more than three-quarters of their gross pay increase.

In reaching this year’s Decision, the Commission also considered a wide range of disposable income modelling. The modelled scenarios covered a range of family types, with one or two earners, earning wages at various points in the Pay Scale distribution. Two different inflation scenarios, corresponding with Australian Government and Reserve Bank of Australia (RBA) forecasts, were also used to predict future values of income transfers.

Whether eventual inflation is at the lower (Australian Government) estimate or at the higher (RBA) estimate, all household types modelled will experience a real increase in disposable income in October 2008 when the Commission’s minimum wage increase comes into effect, relative to their income one year previously (see Table 4.3).

At the higher inflation estimate a single-earner couple with two children earning the FMW will experience a 4.8 per cent increase in disposable income. A single-earner couple with two school-aged children, where one partner chooses not to look for work and the other works full-time at the FMW, will experience a 5.0 per cent increase in disposable income. A dual-earner couple with no children will experience an increase of 5.9 per cent over the same period.

\(^{109}\) AFPC, July 2007, Figure 1.2, p. 67.
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Table 4.3: Estimated impact of general Wage-Setting Decision 2008 and tax/transfer changes on disposable income between October 2007 and October 2008, various Pay Scale classifications and household types

<table>
<thead>
<tr>
<th>Household type</th>
<th>Lower CPI</th>
<th>Higher CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FMW</td>
<td>C10</td>
</tr>
<tr>
<td>Single, no children</td>
<td>5.7</td>
<td>5.9</td>
</tr>
<tr>
<td>Single, one child (non-pensioner)</td>
<td>5.1</td>
<td>5.3</td>
</tr>
<tr>
<td>Single, one child (pensioner)</td>
<td>5.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Single-earner couple, no children</td>
<td>5.0</td>
<td>5.6</td>
</tr>
<tr>
<td>Single-earner couple, two children</td>
<td>4.7</td>
<td>5.2</td>
</tr>
<tr>
<td>Single-earner couple, two children (no income support)</td>
<td>5.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Dual-earner couple, no children</td>
<td>5.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Dual-earner couple, two children</td>
<td>5.5</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Source: AFPC modelling.
Assumptions: October 2007 wage parameters: FMW = $522.12 pw, C10 wage = $615.98 pw, C4 wage = $749.74 pw. October 2008 wage parameters: FMW = $543.78 pw, C10 wage = $637.64 pw, C4 wage = $771.40 pw. Second earner in dual-earner household earns 50 per cent of the primary earner’s wage. Tax/transfer parameters as at October in each year, assuming either 2.3 per cent or 2.6 per cent CPI increase between December 2007 and June 2008. Children aged 6-12. Households paying sufficient private rent to receive maximum rent assistance, where applicable. Disposable income includes all available income transfers, unless otherwise specified.

The Commission is confident that the minimum wage increase of $21.66 per week, in combination with the 2008-09 tax cuts and regular indexation of transfer payments, will provide the great majority of workers earning Pay Scale wages with household disposable incomes in October 2008 that are higher in real terms than in October 2007.

4.5. Living standards of low-wage households

Several submissions express concern about increases in living costs for low-paid working households. They highlight the rising costs of mortgage repayments, rents and transportation (including petrol). Prices for other basic expenses, such as milk and bread, have also been rising strongly:

‘...low paid employees and their families have been disproportionately affected by sharp increase in rents over the past year (since they are more likely to rent) and higher fuel prices (since they are more likely to live in outer urban and rural areas). The average increase in rents across capital cities from December 2006 to December 2007 was 6.4% and the corresponding increase in petrol costs was 14.3%.’

‘Successive interest rate increases, rent increases, rising personal debt, and spiraling costs of petrol, childcare, health care and education mean that low paid working Australians are struggling to meet their day to day costs of living.’

‘Higher inflation impacts on low paid workers, including those who are Pay Scale-reliant. It is clear that some low paid workers continue to experience financial stress. These workers are least able to maintain their standard of living in the face of higher prices and mortgage repayments or rents.’

110 ACOSS, March 2008, p. 28.
Participants in the Commission’s focus groups also raised the effect of recent price increases on their standard of living:

Cost of living pressures were mentioned with greater strength and emphasis in the 2008 consultations. While participants commented on cost of living pressures in the 2007 consultation… moderators noticed both an increase in the frequency and intensity of such comments in 2008, as well as strong articulation of the perceived erosion of wages due to increases in the cost of living.  

**Consumer price inflation and living costs**

Each quarter, the Australian Bureau of Statistics (ABS) monitors the prices for a ‘basket’ of items that reflects the expenditure patterns of Australian households as a whole. In any given period, the prices for some items will be increasing faster than those for other items. The Consumer Price Index (CPI) is able to take these variations into account by weighting the items according to household expenditure patterns.

As an example, the price of milk has increased by 12 per cent over the past year to March 2008 and this is reflected in the CPI at a detailed level. However, that item has a weighting in the CPI of just 0.6 per cent, reflecting the fact that it does not form a large percentage of Australian household expenditure. As a result, its effect on the overall price of the total basket is very low. Equally, price changes for items that have higher weights, such as rent and fuel, are more likely to have a larger effect.

The CPI increased by 4.2 per cent in the year to March 2008. To illustrate the diversity within the CPI, prices for the food component increased by 5.7 per cent; housing by 5.7 per cent; and transportation by 6.8 per cent. Clothing and footwear prices decreased by 0.5 per cent.

As noted earlier, many submissions express a concern that low-income employee households spend a higher percentage of their income on items experiencing higher inflation, than other households. Preliminary analysis by the Commission indicates that there would be, on average, only minor differences between expenditure-weighted CPIs for low-income employee households and all households.

The ACTU’s submission to the 2006 Minimum Wage Review showed that in 2003-04 low-income employee households spent an estimated 52 per cent of their total goods and services expenditure on current housing costs, food and non-alcoholic beverages, and transport.\(^{114}\) The equivalent percentage for all households was 49 per cent.\(^{115}\) Therefore, rising costs for items such as rents and fuel are not likely to have a significantly greater effect on what might be termed a CPI for low-income employee households than on the All Groups CPI.

The Commission notes that the general CPI has increased over the past year at a rate above the RBA’s medium-term target. The actual increase in living costs experienced by different households may vary widely. Minimum wage adjustments have some capacity to address these individualised pressures but governments also act to help ease cost of living pressures through budgetary and other initiatives.

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\(^{114}\) ACTU, *Australian Council of Trade Unions Submission to the Australian Fair Pay Commission*, July 2006, p. 71. The reference group in this case is the bottom 20 per cent by gross household income of households in which the principal source of income is wages and salaries. This covers employee households with gross household income of up to $850 per week.

Section 4

Financial stress

Submissions from the ACTU, ACOSS and the Australian Government assert that one outcome of increased cost pressures on families is higher levels of financial stress:

In determining the level of minimum wages, the Government submits that the Commission should take into consideration the degree of financial stress reported by the low paid. At a time of rising prices and with recent increases in interest rates, it is important to consider the number of low paid households experiencing financial stress.116

The Australian Government cites recent research by the Australian Housing and Urban Research Institute, which finds significant levels of reported financial stress among low income earners who were paying more than 30 per cent of their income on rent (the common definition of ‘housing stress’).117 The ACTU draws attention to other research commissioned by the Government which ‘concludes that housing stress is a particularly serious problem for low and middle income earners - those in the bottom 40 per cent of all earners in Australia’.118

On the other hand, the Australian Government also cites research which shows that only six per cent of households containing low-paid adults consider themselves ‘poor or very poor’, despite the fact that around one third of all such households report one or more episodes of financial hardship during the previous year.119

In order to improve its understanding of the living standards and financial pressures facing low-paid workers, the Commission has contracted external research into the household incomes, assets and consumption patterns of low-paid employees. This research, which is due to be completed in the latter half of 2008, will also analyse longitudinal data to determine the extent to which low-paid households face persistently low living standards over time.

In this Decision, the Commission has been especially cognisant of the financial pressures on low-income households at this time. Movements in consumer prices, in particular, have put many low-income households under considerable financial stress. While most submissions to the Commission raise this issue, there is no agreement on forecasts of inflation nor on the quantum of increase in minimum wages the Commission should award.

4.6. Comparisons with low-income benchmarks

In its previous decisions and recent monitoring report, the Commission has used the Henderson Poverty Line (HPL) as its primary benchmark for measuring trends in the value of the disposable incomes of FMW-reliant households.120

ACCER is concerned about the Commission’s apparent endorsement of the HPL as an appropriate benchmark for the disposable incomes of low-wage households. It states that it prefers the household relativities embodied in the modified OECD equivalence

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scale to those of the HPL, which it argues are not credible (especially in relation to single-income couple and single parent families). ACCER argues further that the HPL does not allow adequately for the housing costs likely to be incurred by low-income households, or for childcare costs.

While preferring OECD-style relative poverty lines to the HPL, ACCER also suggests that more appropriate indications of minimum living standards could be obtained through a ‘budget standards’ approach. In support of this position, it cites a variety of benchmark disposable income figures derived by the Social Policy Research Centre, all of which are significantly higher than the comparable HPL:

ACCER has participated in wage review cases…for a number of years and has argued that the Federal Minimum Wage and the wage rates of other low paid classifications, together with transfer payments, are manifestly inadequate to support a family at a decent standard of living.

The Commission has two main reasons for comparing disposable incomes of the lowest wage-earning households against accepted poverty lines or other benchmarks for the population as a whole. First, it can assess how those incomes compare at a point in time to the set of indicators chosen. Second, it can assess how those relativities move over time, as was recently done in the Commission’s February 2008 Economic and Social Indicators – Monitoring Report.

A theoretically ideal low-income benchmark (or set of benchmarks) would have the following properties:

- it would be derived using a transparent methodology that was easily accessible to the general public, at least in concept;
- it would be regularly updated so that current (or at least recent) comparisons could be made with a degree of confidence;
- it would take account of important factors that affect the level of income that different households need to achieve similar standards of living – for example, the size and age composition of a household and factors that give rise to additional costs, such as presence of disability, workforce participation, location of housing, etc; and
- it would have a high degree of visibility and credibility within the general population.

Unfortunately, there are no such ideal benchmarks of low income. The different kinds of poverty line in existence all have advantages and disadvantages. All involve making arbitrary assumptions of one kind or another – for example, how much income a child needs relative to an adult, which items are necessary for a minimum acceptable level of consumption or how much incomes and/or costs have changed since relevant data were originally collected.

The Commission acknowledges that it is appropriate to use a variety of benchmarks when assessing the relative value of disposable incomes in low-wage households. Tables 4.4 and 4.5 compare the disposable incomes of a variety of low-wage households as at December 2007 against both the HPLs (Table 4.4) and a set of relative poverty lines that represent 60 per cent of median income (Table 4.5). The latter is the most generous definition of relative poverty commonly used by the OECD and academic researchers, the others being 50 per cent of median income and 50 per cent of mean income. The poverty lines in Table 4.5 have been derived

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Section 4

by applying the modified OECD equivalence scale to 60 per cent of the estimated median equivalised disposable household income as at December 2007.\textsuperscript{125}

From these tables, it is clear that poverty lines based on 60 per cent median income are higher than the HPLs, although the differences for dual-earner couples are smaller than for other household types.

Nevertheless, households with one earner on the standard FMW have income in excess of both Henderson and relative poverty lines, when available income support entitlements are included. Results for single people, with and without children, are comfortably above both measures, with couples faring less well by comparison, especially under the relative poverty lines. The only family type with income below the relative poverty line (when receiving the standard FMW) is a single-earner couple with two children that chooses to forgo access to Newstart Allowance.

The disposable incomes of households working part-time for 50 per cent of the FMW are generally above the HPL but below the relative poverty line, with the exception of the two single-parent households modelled.

**Table 4.4: Comparison of Henderson Poverty Lines (HPLs) with disposable income (DI) of households earning varying proportions of the FMW, December 2007**

<table>
<thead>
<tr>
<th>Household type</th>
<th>Henderson Poverty Line (HPL) Dec 07 ($pw)</th>
<th>Disposable income (DI) ($pw)</th>
<th>DI as proportion of HPL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>50% FMW</td>
<td>100% FMW</td>
</tr>
<tr>
<td>Single adult, no child</td>
<td>374.11</td>
<td>377.12</td>
<td>467.70</td>
</tr>
<tr>
<td>Single parent, one child</td>
<td>480.28</td>
<td>541.96</td>
<td>672.72</td>
</tr>
<tr>
<td>Single parent, two children</td>
<td>581.33</td>
<td>627.50</td>
<td>758.26</td>
</tr>
<tr>
<td>Single-earner couple, no children</td>
<td>500.45</td>
<td>552.71</td>
<td>624.90</td>
</tr>
<tr>
<td>Single-earner couple, one child</td>
<td>601.56</td>
<td>678.32</td>
<td>770.06</td>
</tr>
<tr>
<td>Single-earner couple, two children</td>
<td>702.68</td>
<td>763.86</td>
<td>857.22</td>
</tr>
<tr>
<td>Single-earner couple, two children (no Newstart Allowance)</td>
<td>702.68</td>
<td>591.84</td>
<td>758.26</td>
</tr>
<tr>
<td>Dual-earner couple, no children</td>
<td>571.21</td>
<td>nm</td>
<td>667.03</td>
</tr>
<tr>
<td>Dual-earner couple, one child</td>
<td>672.32</td>
<td>nm</td>
<td>767.12</td>
</tr>
<tr>
<td>Dual-earner couple, two children</td>
<td>773.44</td>
<td>nm</td>
<td>852.66</td>
</tr>
</tbody>
</table>

Notes: nm = not modelled.
Sources: AFPC modelling; Melbourne Institute of Applied Economic and Social Research, Poverty Lines: Australia December Quarter 2007, University of Melbourne, 11 April 2008
Assumptions: HPLs include housing costs and dual-earner figures include additional ‘cost of work’ component of $70.76 pw. FMW = $522.12 pw. Tax/transfer parameters as at 31 December 2007. Children aged 8-12. Households paying sufficient rent to receive maximum rent assistance, where applicable. Singles on 50% FMW and couples on 50% and 100% FMW eligible to receive Newstart Allowance, unless otherwise specified. Dual-earner examples assume income is split 2:1.

\textsuperscript{125} The modified OECD equivalence scale is used to adjust household income for household size, in order to enable more meaningful comparisons between households. Household income is divided by an equivalence factor which is derived by giving the first person aged 15 or over a value of 1.0, every other person aged 15 or over a value of 0.5 and each person under the age of 15 a value of 0.3.
### Table 4.5: Comparison of 60% median income poverty lines (PLs) with disposable income (DI) of households earning varying proportions of the FMW, December 2007

<table>
<thead>
<tr>
<th>Household type</th>
<th>60% Median Income Poverty Line (PL) Dec 07 ($pw)</th>
<th>50% FMW</th>
<th>100% FMW</th>
<th>150% FMW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single adult, no children</td>
<td>387.48</td>
<td>0.97</td>
<td>1.21</td>
<td>1.67</td>
</tr>
<tr>
<td>Single parent, one child</td>
<td>503.73</td>
<td>1.08</td>
<td>1.34</td>
<td>1.67</td>
</tr>
<tr>
<td>Single parent, two children</td>
<td>619.97</td>
<td>1.01</td>
<td>1.22</td>
<td>1.50</td>
</tr>
<tr>
<td>Single-earner couple, no children</td>
<td>581.22</td>
<td>0.95</td>
<td>1.08</td>
<td>1.18</td>
</tr>
<tr>
<td>Single-earner couple, one child</td>
<td>697.47</td>
<td>0.97</td>
<td>1.10</td>
<td>1.21</td>
</tr>
<tr>
<td>Single-earner couple, two children</td>
<td>813.71</td>
<td>0.94</td>
<td>1.05</td>
<td>1.14</td>
</tr>
<tr>
<td>Single-earner couple, two children (no Newstart Allowance)</td>
<td>813.71</td>
<td>0.73</td>
<td>0.93</td>
<td>1.14</td>
</tr>
<tr>
<td>Dual-earner couple, no children</td>
<td>581.22</td>
<td>nm</td>
<td>1.15</td>
<td>1.28</td>
</tr>
<tr>
<td>Dual-earner couple, one child</td>
<td>697.47</td>
<td>nm</td>
<td>1.10</td>
<td>1.27</td>
</tr>
<tr>
<td>Dual-earner couple, two children</td>
<td>813.71</td>
<td>nm</td>
<td>1.05</td>
<td>1.19</td>
</tr>
</tbody>
</table>

Notes: nm = not modelled.
Sources: AFPC modelling; ABS, Household Income and Income Distribution, Australia, 2005-06; Catalogue No. 6523.0; Melbourne Institute of Applied Economic and Social Research (MIAESR), Poverty Lines: Australia December Quarter 2007, University of Melbourne, 11 April 2008
Assumptions: PLs are based on estimates of median equivalised disposable household income for 2005-06, updated for movements in household disposable income per head as calculated by MIAESR, and adjusted for household composition using modified OECD equivalence scales. FMW = $522.12 pw.
Tax/transfer parameters as at 31 December 2007. Children aged 8-12. Households paying sufficient rent to receive maximum rent assistance, where applicable. Singles on 50% FMW and couples on 50% and 100% FMW eligible to receive Newstart Allowance, unless otherwise specified. Dual-earner examples assume income split 2:1.

The results of the Commission’s modelling are consistent with those of the OECD, which recently found that the disposable incomes of Australian households earning the full-time FMW in 2005 were above 60 per cent of median equivalised disposable household income. According to that study, only one country (Great Britain) consistently provided minimum wage-earners with a higher level of disposable income relative to the median.\(^{126}\) (For more detail on country rankings, see Table D.4 in Appendix D.)

Both ACCER and ACOSS repeat their previous calls for new research into minimum living costs of low-income households:

> ‘Relevant research on living costs is just as relevant to the AFPC’s work as research on macroeconomic issues. Knowing what it costs to live is vital to the proper exercise of the AFPC’s statutory obligation to have regard to the desirability of providing a safety net for the low paid.’\(^{127}\)

> ‘…ACOSS recommends that research be commissioned to assist the Commission to assess the minimum income needs of low paid employees. It is desirable that the Commission work with stakeholders towards a common understanding of how minimum wages should be benchmarked, not to set a ‘target’ for the minimum wage but to be clear about the ‘adequacy objective’ of minimum wage fixation in Australia. A good starting point would be a review of the available research in this area including budget standards, deprivation research and income poverty research.’\(^{128}\)

\(^{127}\) ACCER, 14 March 2008, p. 27 para. 77.
\(^{128}\) ACOSS, March 2008, p. 3
In the Commission’s opinion it is not possible to reach a single ‘right’ answer as to how much income a wage earning household needs to achieve a minimum acceptable standard of living. It will continue to monitor relevant Australian and international research, including that published by the OECD.

Of the household types whose disposable incomes the Commission has modelled, a single person without children is the only one whose disposable income does not depend on income transfers. These wage-earners have disposable income that is 25 per cent above the relevant HPL and 21 per cent above a poverty line based on 60 per cent of median equivalised disposable income. In the Commission’s view, this is a reasonable margin above poverty for a person earning the lowest adult full time wage in the regulated labour market.
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5. Junior employees, employees to whom training arrangements apply and employees with a disability

5.1. Junior employees

Most submissions support a continuation of the approach taken by the Australian Fair Pay Commission (Commission) in its general Wage-Setting Decision 2007 to proportionately flow on the general increase to junior employees:

‘...the current established practice for junior rates of pay strikes the correct balance when examining the level of productive work that a junior employee is able to undertake.’129

‘The ARA supports proportionate minimum wage structures for juniors130 ... [and that] ... any increase be proportionately applied to subsidiary or derived rates consistent with established practice and pre WorkChoices award formulae.131

‘...ACCI calls on the AFPC to again ... proportionally flow on the general adult decision for Australian Pay and Classification Scales ... to junior rates in preserved Pay Scales’132

‘Ai Group submits that on this occasion, it is appropriate to continue the approach followed in the 2006 and 2007 Fair Pay Commission decisions. That is, by flowing on the general wage increase to juniors, apprentices and trainees in the same manner as has been done in the previous decisions ... “in ways that preserve existing relativities to the extent this is possible.”’133

‘The ACTU believes that the AFPC should adjust junior, trainee and apprentice rates as they were adjusted in the AFPC Decision 3 of 2007.’ 134

‘Although employment levels for young people are generally more sensitive to wage levels than for adults, there is no convincing evidence to indicate that the present minimum wage levels for young people have reduced their employment prospects relative to workers in other age groups.’135

Australian Young Christian Workers submit that an increase to junior wages should be in line with the Consumer Price Index, because:

‘...a federal minimum wage that allows young people to obtain and retain good employment, and acknowledges their competency and a sustainable standard of living, must [also] ensure that young people remain competitive in the labour market.’136

Consistent with its previous approach, the Commission will flow on the general Wage-Setting Decision 2008 in relation to Australian Pay and Classification Scales (Pay Scales) to junior wages in Pay Scales. The general wage increase will be pro rated on the basis of formulas applying in the relevant pre-Work Choices wage instruments.

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129 ARA, Submission to the Australian Fair Pay Commission, 14 March 2008, p. 20, para. 68.
130 ARA, 2008, p. 20, para. 70.
135 ACOSS, Submission to the Fair Pay Commission on minimum wages, March 2008, p. 49.
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In circumstances where there is no formula in the pre-Work Choices wage instrument, the general increase will be pro rated so that the junior rate retains its relativity to the relevant adult rate in the preserved Pay Scale. If no relevant rate is identified, the junior rate will be adjusted to retain its relativity to the lowest adult rate in the Pay Scale.

Trends in labour force participation of 15-20 year olds

Research commissioned in 2007 by the Commission and conducted by the Centre for Labour Market Research (CLMR) examined the economic and social circumstances of young people aged 15–20 years. It found that the labour force participation rate of this age group is currently almost 60 per cent and has remained at around that level since the mid–1990s. Young women (61 per cent) have a higher labour force participation rate than young men (58 per cent), a reversal of the situation thirty years ago. The employment-to-population ratio of 15-20 year olds is now 52 per cent (May 2007).

With a 20 per cent rise in the proportion of young people in full-time education over this time, young people are less likely overall to hold full-time jobs. Currently, around a third of employed teenagers are employed full-time while two-thirds are employed part-time. The labour force participation rate for full-time students has increased to 44 per cent from 29 per cent in 1986.

In both April 1986 and April 2007, around three-quarters of non full-time students held jobs, although there has been a decline in full-time employment among this group. Household, Income and Labour Dynamics in Australia (HILDA) survey data indicate that young people not in full-time education are significantly more likely than older workers to work non-standard hours and to be employed on a part-time or casual basis or through a labour hire firm. They are also less likely to be a member of a trade union.

Among 15–20 year olds, the unemployment rate is now around 12 per cent compared with 18 per cent in 1986.

Young people are disproportionately employed in a small number of industries. Retail trade and Accommodation, cafes and restaurants are the major industries employing young people, although a significant minority of young male workers are employed in Construction and Manufacturing.

5.2. Employees to whom training arrangements apply

In its general Wage-Setting Decision 2007, the Commission flowed on its general increase to employees to whom training arrangements apply. Most submissions support a continuation of the approach taken in that decision to proportionately flow on the general increase:

...ACCI calls on the AFPC to again include a proportionate flow on paragraph in its 2008 decision...
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Although the Australian Council of Trade Unions (ACTU) believes that the Commission should adjust training rates in the manner employed in its general Wage-Setting Decision 2007, it argues that current apprentice rates are unsatisfactory:

Minimum rates of pay for first year apprentices are below the poverty line and barely above the living standard of the unemployed.

Restaurant and Catering Australia submits that the Commission should examine other ways in which additional incentives can be applied to the employment of apprentices and trainees instead of increasing the minimum wage:

The hospitality industry can not afford to have any form of disincentive attached to the employment of trainees and apprentices. The greatest disincentive to the engagement of trainees and apprentices would be to increase the minimum wage for these positions...the Fair Pay Commission should examine other ways in which additional incentives can be applied to the employment of apprentices and trainees. Approaches such as increasing employer incentives and/or setting reduced tax rates for apprentices/trainees could be ways in which an incentive could be offered to the trainees and the employer to further develop on the job training.

The restaurant, café and catering industry urges the AFPC to retain junior, trainee and apprentice rates at their current levels in order to ensure the retention of commitment to employment of these employee groups. Any reduction in the number of Trainees and Apprentices would have a significant impact on the industry’s ability to overcome the chronic skills shortage it currently faces.

A number of the issues raised such as additional incentives are outside the Commission’s remit and are best raised with the Australian government and/or the Australian Industrial Relations Commission in award modernisation.

Consistent with its previous approach, the Commission will flow on general Wage-Setting Decision 2008 to employees to whom training arrangements apply.

The general wage increase will be pro rated on the basis of formulas applying in the relevant pre-Work Choices wage instruments, to maintain the relativity of the basic periodic rates of pay for apprentices with the relevant tradesperson rate.

Formulas, where available, will be used to adjust basic periodic rates of pay for full-time, part-time and school-based apprentices (noting that the Pay Scale derived from repealed s. 552 of the Workplace Relations Amendment (Work Choices) Act 2005 retains a formula suitable to flow on the general minimum wage increase).

Where apprentice rates are derived from a specific rate in another Pay Scale, they will be adjusted to reflect the parent rate on which they are based, where the parent rates are adjusted to give effect to the general Wage-Setting Decision 2008.

Trainee basic periodic rates of pay in preserved Pay Scales will be adjusted to flow on the general Wage-Setting Decision 2008, using the method described in the transcript of the application to vary the National Training Wage Award 2000 for the 2003 Safety Net Review. This method is also adopted to flow on the general increase to related traineeships. Related traineeships include those with rates that were originally drawn from the National Training Wage Award prior to 27 March 2006.

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5.3. Reviews of junior wage arrangements and wage arrangements for employees to whom training arrangements apply

In its general Wage-Setting Decision 2007, the Commission undertook to review wage arrangements for juniors and employees to whom training arrangements apply, in the context of a wider review of Pay Scales in the Australian labour market.

On 26 September 2007, the Commission announced its review of junior and trainee wages and sought submissions from interested parties. The Commission discontinued these reviews on 18 December 2007, at the request of the Australian Government, to avoid overlap and/or duplication with the award modernisation process.

The Commission also notes that, as a result of changes to its wage-setting functions arising from the Workplace Relations Amendment (Transition to Forward with Fairness) Act 2008, it is no longer able to carry out wage reviews to examine gaps in statutory minimum wages for juniors and employees to whom training arrangements apply.

Nevertheless, some submissions discuss the role of junior wages:

‘The rates of pay for junior employees reflect a careful balance between the rate of pay and the level of productive work that a junior employee is able to undertake. For some businesses in the restaurant and catering industries the decision to engage a junior to undertake specific tasks is the only option for that operation for cost reasons.’149

‘The minimum wage for all employees, junior or adult, should be the same. This would assist in limiting the selective employment of staff based upon their age. Many juniors complete the same tasks at works [sic] as those who are paid higher wages as adults.’150

5.4. Employees with a disability

The Commission will flow on the general Wage-Setting Decision 2008 to disability wages in Pay Scales.

Gaps in coverage

In its general Wage-Setting Decision 2006, the Commission addressed gaps in the coverage of minimum rates of pay and access to pro rata arrangements for employees with a disability. The decision included the introduction of:

• a special Federal Minimum Wage (FMW) equal to the standard FMW for employees with a disability (as defined by the Workplace Relations Act 2006) who are in open employment and able to earn full adult wages, as the effects of their disability do not impair their productive capacity;
• a special Pay Scale that extended coverage of the Supported Wage System (SWS) pro rata wages to preserved Pay Scales that did not previously provide for pro rata wage arrangements;

150 B Richards, Submission to the Australian Fair Pay Commission, March 2008.
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- a special FMW that extended coverage of the SWS pro rata wages to previously award free employees with a disability; and
- a special Pay Scale that provided pro rata wages to employees with a disability employed in the business services sector and who were not otherwise covered by preserved Pay Scales.

The instruments comprising the new special Pay Scales were consolidated in Wage-Setting Decision 8/2007, which determined the Special Business Services (Employees with a Disability) Australian Pay and Classification Scale, [2007] APCS 2 (Special Business Service Pay Scale) and the Special Supported Wage System (Employees with a Disability) Australian Pay and Classification Scale, [2007] APCS 1.

Submissions to the 2008 Minimum Wage Review were broadly supportive of the Commission’s role in filling gaps in coverage of minimum wages for employees with a disability and its approach to flow on the general wage increase to pro rata wages for employees with a disability.

‘Ai Group has not detected any difficulties with the wage structures established by the Fair Pay Commission for employees with a disability…Ai Group supports the minimum wage rates in the Preserved Pay Scales, in the two Special Pay Scales and in the two Special FMWs, being increased in proportion to any general increase awarded in the 2008 Minimum Wage Review.’151

‘With regard to the 2007 Minimum Wage Decision, HREOC welcomed the decision by the AFPC to increase the Special Federal Minimum Wage (Special FMW) by the same amount as the standard Federal Minimum Wage (standard FMW) so that the two wages are equivalent. This decision acknowledges that people with disability are entitled to receive a wage commensurate with their experience, skills, training and qualifications and the equal contribution made by employees with disability to the Australian workforce.’152

However, the Human Rights and Equal Opportunities Commission (HREOC) expresses concerns about both the unemployment rate for employees with a disability and earnings levels when they are employed:

Currently, Australians without disability are enjoying a record low unemployment rate of 4.3%… There is no evidence however that the current decrease in unemployment has flowed to people with disability…while people with disability represent a significant proportion of Australia’s working age population, they participate in the workforce at lower rates, they are less likely to be employed when they do attempt to participate, and they will earn less if they do get a job…Women with disability are less likely to be in the workforce than men with disability.153

Adjustment to minimum weekly payment

The Commission has decided to adjust the minimum weekly amount payable to employees with a disability working under the SWS to retain its nexus with the income-test free threshold of the Disability Support Pension (DSP).

The Commission will adjust the minimum weekly amount payable to $69 per week for employees with a disability covered by the following instruments:

151 Ai Group, 2008, p. 50, paras. 164-5.
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- Special Supported Wage System (Employees with a disability) Australian Pay and Classification Scale, [2007] APCS 1;
- Special Federal Minimum Wage No 2 – Employees with a disability who are unable to perform the range of duties to the competence level required because of the effects of a disability on their productive capacity – and are not currently covered by a Pay Scale; and
- preserved Pay Scales which provide for the SWS and which also provide a minimum amount payable under the SWS.

Wage assessment tools in the business services sector

The Special Business Services Pay Scale provides pro rata minimum wages to employees with a disability employed in the business services sector who are not otherwise covered by a preserved Pay Scale.154

The Special Business Services Pay Scale sets out a process for calculating pro rata minimum wages based on an employee’s productive capacity, applying the following steps:

1. Upon appointment, the employer grades the employee at one of seven different grades, having regard to the employee’s skills, experience and qualifications. The grading descriptions are set out in Schedule 4 of the Special Business Services Pay Scale.

2. The employee’s capacity is assessed using a recognised wage assessment tool to determine the employee’s capacity percentage.

3. The capacity percentage figure is applied to the rate of pay for the relevant grading (from step 1) in clause 6.4 of the Special Business Services Pay Scale.

This mechanism mirrors the minimum wage framework set out in the preserved Pay Scale derived from the Liquor, Hospitality and Miscellaneous Union Supported Employment Services Award 2005 (LHMU Award). Together, these instruments form a minimum wage framework for the majority of employees with a disability in business services.

Some employees with a disability employed in business services continue to be covered by preserved Pay Scales derived from Special Wage Permits issued by state industrial registrars prior to 26 March 2006. These preserved Pay Scales continue in effect after 27 March 2008. Employees who are covered by such instruments cannot be covered by the Special Business Services Pay Scale.155

Prior to Wage-Setting Decision 1/2008, there were 22 wage assessment tools approved for use at step 2 of the process outlined above. Of these, five were limited to the employers who were using those tools on or before 27 June 2005.

The Commission exempted certain business services that were not using a recognised wage tool from the Special Business Services Pay Scale until 11 May 2008.156

From 11 May 2008 these business services are required to ensure that they comply with the minimum rates of pay set out in the Special Business Services Pay Scale.

The Department of Families, Housing, Community Services and Indigenous Affairs has

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155 Workplace Relations Act 1996 (Cth), s. 219A.
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also advised the Commission that business services operating without a recognised wage assessment tool after 11 May 2008 will cease to qualify for Commonwealth Government funding.

In its general Wage-Setting Decision 2007, the Commission established a process for the approval of new wage assessment tools for inclusion in the Special Business Services Pay Scale. The Commission received proposals for ten new wage assessment tools and conducted a review of each of these tools.

During the course of consultations with the Commission and in submissions, some stakeholders expressed concern regarding the number of wage assessment tools available for use by business services and the potential for differing wage outcomes under different wage assessment tools.

HREOC is concerned that some wage assessment tools available to business services to assess productivity and determine wages may produce different wage outcomes for people performing the same work. 157

The National Council for Intellectual Disability has a strong view that the only appropriate wage assessment tools are the SWS or the Business Services Wage Assessment Tool (BSWAT):

It must be remembered that hundreds of companies (including some business services) pay their employees using the SWS which provides the highest wage outcome of all the assessment tools. These are ‘real’ businesses in the sense that they have to make a profit to survive, and yet they do not claim to be inviable [sic] as businesses due to the payment of wages using the SWS. The question must be asked…what is the difference between these businesses and those that are called business services?158

In Wage-Setting Decision 1/2008, the Commission adjusted the Special Business Services Pay Scale to include nine new wage assessment tools. One of the wage assessment tools was limited for use to that business service only and approved for a 12 month period.

The preserved Pay Scale derived from the LHMU Award was also adjusted by Wage-Setting Decision 1/2008 to include the additional eight wage assessment tools which are available for general use.

Having established a comprehensive minimum wage framework, the Commission now has the opportunity to focus on monitoring and evaluating the process of gap filling in the business services sector. Some members of the Disability Roundtable (see Appendix B) have identified the:

…need for research into the consistency of pay scale classifications and wage assessments for workers with disability across the business services sector. Anecdotal evidence suggests that workers doing the same job, at the same level of productivity, are being classified differently, with the result that they are receiving quite varying wages.159

Monitoring and evaluation of the introduction of the Special Business Services Pay Scale will be an area for research during 2008-09. The research will focus on wage outcomes under different wage assessment tools.

157 HREOC, March 2008, p. 10, para. 44.
158 M Pattison, National Council on Intellectual Disability, E-mail to the Disability Round Table, 28 April 2008.
159 C. O’Neill, Australian Federation of Disability Organisations, E-mail to the Disability Round Table, 2 August 2007.
6. Impact of the drought on farm businesses in regional Australia

In its general Wage-Setting Decision 2007, the Australian Fair Pay Commission (Commission) deferred the 2007 general wage increase for some employees in the drought affected agricultural sector.

In making that decision, the Commission assessed a wide range of information including:

- data relating to the economic impact of the drought on farm businesses;
- the potential impact of granting a deferral of any wage increase on the agricultural sector;
- information obtained from site visits to farms in Wagga Wagga and Roma; and
- submissions to the Commission’s 2007 Minimum Wage Review.

The Commission accepted that the drought had a significant detrimental effect on farm businesses in declared Exceptional Circumstances areas, in particular primary producers receiving the Exceptional Circumstances Interest Rate Subsidy (ECIRS). Accordingly, the Commission deferred its 2007 general wage increase for employees of agricultural sector employers receiving ECIRS.

To ensure that employees affected by this decision were not unreasonably disadvantaged, the Commission limited the duration of the deferral to 12 months. The Commission emphasised that:

…its decision only defers the increase granted in Wage Setting Decision 3/2007 and that within 12 months all eligible businesses will be required to pay the 2007 increase in addition to any further increases subsequently awarded by the Commission.\(^{160}\)

6.1. Stakeholder views

In submissions to its 2008 Minimum Wage Review, the Commission received a wide range of views about the impact of its deferral of the general Wage-Setting Decision 2007. The Australian Workers Union (AWU) considers that the deferral was ‘disappointing and backward looking’,\(^ {161}\) and proposes the Commission:

…review its decision to place a freeze on the flow on of its wage decision - affecting thousands of agricultural workers - with a view to removing this condition forthwith in line with the general improvement in the economic prospects in the farm sector.\(^ {162}\)

In their submissions, the Australian Council of Trade Unions (ACTU) and the South Australian Government agree that the deferral should not continue beyond 1 October 2008:

‘Given the public position of the NFF regarding the chronic national labour shortage for agricultural employment the ACTU believes that any AFPC decision in 2008 should not be deferred for these workers. The employers received and retain the benefit of deferral of the 2007 wage increase…There is no justification for a continuing freeze on the minimum wages of agricultural workers.’\(^ {163}\)


\(^{162}\) AWU, 2008, p. 2.

\(^{163}\) ACTU, Australian Council of Trade Unions Submission to the Australian Fair Pay Commission, March 2008, p. 132, paras. 11.13-11.16.
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‘If the 2008 decision results in a further deferral, the effect would be that one group of low paid workers’ disadvantage is being compounded over the years. It would also have the effect of leaving certain businesses with a significant increase to pay when the deferral is ultimately removed.'164

Submissions from the National Farmers’ Federation (NFF), the Australian Chamber of Commerce and Industry (ACCI) and the South Australian Employers’ Chamber of Commerce and Industry Inc (Business SA) are positive about the deferral.

The NFF provides evidence that the deferral has been taken up by a number of its constituents:

‘The NFF released a survey through its member organisations in December 2007, and now reports on the responses received to 14 March 2008. 176 responses were received by the NFF after widespread distribution to the memberships of its State member organisations as they stood in October 2007. Approximately 30 per cent of all respondents were in receipt of ECIRS payments, and 21 per cent of all respondents stated they had adopted to pay employees at the deferred rate, or would do so if eligible. Some respondents who were ineligible indicated that they would pay at deferred rates if eligible, although of these respondents a number stated that they were unsure about what eligibility entailed, and of all respondents, many were unfamiliar with what the deferred rate is. This class of respondent represented a small class of respondents. Looking specifically at those who were eligible and actually adopted to defer the increase, the survey results show that approximately 38 per cent of those eligible adopted to defer the increase. Although the sample size is notably small, extrapolating from the total estimated to be eligible of 13,000, this suggests that up to 4,940 (with margin for error both ways) adopted to defer the increase. Those who were expressed the noteworthy view that whilst they would utilise the deferred rates if they were eligible, they would pay well above minimum rates upon entering drought recovery…The NFF strongly believes that the continued decrease in unemployment has largely stemmed from the moderate approach adopted by the AFPC in its 2007 wage decision…The NFF also believes that the deferral has contributed to the preservation of employment levels, and arguably even resulted in a mild increase in employment levels, within the sector.’165

Business SA submits that:

[The deferral] was an important measure for those enterprises [who used it], and remains a relevant tool available to the AFPC to what is clearly an ongoing drought challenge.166

ACCI agrees with these views and states that:

If any party seeks drought based relief of the type granted in 2007, ACCI calls on the AFPC to again seriously consider such relief, and to defer, qualify or adjust wage increases as requested/merited.167

6.2. Economic data from the farm sector

Farm activity

Australian Bureau of Statistics data indicate that real gross domestic product in the Agriculture, forestry and fishing (farm) industry increased by 5.7 per cent over the four quarters to March 2008. After extended periods of negative growth due to the drought,
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there was a 18.0 per cent increase in the sector's GDP in the September quarter of 2007. Increases in the production of certain crops, such as wheat and legumes, were major contributors to this recovery. However, the strength of the recovery in the farm sector remains uncertain.

Recent forecasts from the Australian Bureau of Agricultural and Resource Economics (ABARE) point to a recovery in crop production from the significantly low levels recorded in 2006-07 and 2007-08. Total crop production is forecast to increase by 28 per cent in 2008-09, led by an expected 98 per cent increase in wheat production.168 Similarly, gross value of farm crop production is expected to increase by 27.4 per cent in 2008-09.169

The Australian Government forecasts farm production ‘to increase by 20 per cent in 2008-09 following two consecutive drought years’.170 However, the Government describes the expected recovery in farm GDP as weak by historical standards, with low water storage levels persisting in some areas and the forecasts subject to considerable downside risk.171

An expansion of the Exceptional Circumstances declared areas since the Commission’s 2007 Minimum Wage Review is consistent with the weak conditions continuing in 2007-08. Parts of Tasmania and the Northern Territory became Exceptional Circumstance declared areas in late 2007, while Victoria, South Australia and Queensland also experienced increased coverage.172 However, if a general increase in production in 2008 and beyond occurs as forecast, this may result in the Exceptional Circumstance declared areas contracting.

Employment and earnings

Employees make up just over half of the total workforce in the farm sector, compared with about 90 per cent in the non-farm economy. Own account workers (i.e. workers who operate their own unincorporated enterprises) comprise one third of farm employment, followed by employers and contributing family workers.173

Farm employment has fallen sharply, from 216 300 to 175 500 employees between February 2002 and February 2008. Most of this decline occurred between February 2002 and November 2002, when employment fell by almost 20 per cent.174

Since 2004, growth in full-time earnings for employees in the farm sector has exceeded that in all industries. However, full-time earnings in the industry remain around 22 per cent below full-time earnings of employees in all industries.175

The Australian Government expects farm profits to be strong in 2008-09, in line with the recovery in farm production and high world prices for rural commodities.176

168 ABARE, Australian commodities March quarter 2008, Canberra, Commonwealth of Australia, 2008, p. 306. Total crop production is defined as the sum of grains, oilseeds and industrial crops.
169 ABARE, 2008, p. 309. Gross value of farm crop production is defined as the sum of grains, oilseeds, industrial crops and horticulture.
174 ABS, Employee Earnings, Benefits and Trade Union Membership, August 2006, Catalogue No. 6310.0.
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Labour costs make up around 11 per cent of total farm costs. Reflecting this fact, the NFF suggests that the 2007 decision to defer the minimum wage increase for Exceptional Circumstance declared areas had a minimal but positive effect on employment in the industry.

Furthermore, the NFF argues that the practice of paying above minimum wages prevents adjustment of statutory minimum wages from having any great impact on employment in the agricultural industry, with factors other than minimum wages being the primary determinants of employment in the sector.

The South Australian Government indicates that, while drought conditions continue to prevail in some areas, there is serious doubt that deferral of wage increases assist in the retention of employment within regional communities affected by drought. It considers that a further deferral would compound the disadvantage of one group of low-paid workers and leave certain businesses with a significant expense when the deferral is ultimately removed.

6.3. Termination of deferral

While the Commission accepts that deferral for drought affected farm businesses provided a positive impact, it considers a continued deferral unnecessary.

In accordance with Wage-Setting Decision 4/2007, the deferral of general Wage-Setting Decision 2007 for employees of employers in the agricultural industry receiving ECIRS will cease on 1 October 2008.

178 NFF, 2008, p. 8, para. 3.2.
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7. Casual loadings and piece work rates

7.1. Casual loadings

A number of submissions outline the prevalence of casual employment among low-paid workers, but few discuss possible adjustments to casual rates in Australian Pay and Classification Scales (Pay Scales).

Of the submissions that address casual rates, most support the Australian Fair Pay Commission’s (Commission) past approach to casual rates:

‘ACCI supports the AFPC maintaining the approach of 2006 and 2007 in regard to casual loadings...The AFPC is no longer going to review pay scale rationalisation. Casual loadings in modern awards are now an issue for the award modernisation process during 2008 and 2009... On this basis the AFPC should not consider any changes to the default casual loading in the current Workplace Relations Act 1996.’ 181

‘The ACTU supports an approach that does not disadvantage casual employees.’ 182

Restaurant and Catering Australia submit that there should be a reduction in the casual default loading percentage:

In the terms of the Australian Fair Pay and Conditions Standard (and the proposed National Employment Standards) the leave for which the casual rate is compensating is annual leave, personal/carers leave and compassionate leave. Taken at their maximum this leave accounts for just on 13% of the hours worked in a year. Restaurant & Catering Australia asks the Australian Fair Pay Commission to consider revising the casual loading down to this figure and to make clear the basis on which the casual loading is set, noting the non-discretionary nature of the loading. 183

The Commission notes that the increase provided for in its general Wage-Setting Decision 2008 flows on to casual employees through adjustments to the basic periodic rates of pay (or as otherwise specified where Pay Scales provide for different methods of compensating casual employees).

As a result of the passage of the Workplace Relations Amendment (Transition to Forward with Fairness) Act 2008, the Commission can no longer adjust the default casual loading percentage of 20 per cent for employees covered by the standard Federal Minimum Wage (FMW), or special FMWs, or workplace agreements.

The Commission can adjust casual loadings in Pay Scales. However, it considers that approach would overlap with the award modernisation process to be carried out by the Australian Industrial Relations Commission. Therefore, the Commission will not adjust casual loadings expressed as a percentage contained in preserved Pay Scales.

Where preserved Pay Scales provide a flat dollar amount for casual employees, these rates will be increased to give effect to the 2008 general wage increase.

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7.2. Piece rates

The Commission has power under the *Workplace Relations Act 1996* to adjust basic piece rates of pay. In its general Wage-Setting Decision 2006, the Commission recognised the difficulty that flowing on increases for piece rates raises in particular industries.

In its previous general Wage-Setting Decisions, the Commission decided that, due to the diversity within piece rate Pay Scales, an affected person or business could make a submission on the grounds that such an adjustment would result in an anomalous outcome, inconsistent with the intention to flow on the general increase to piece rate workers.

The Australian Council of Trade Unions (ACTU):

…continues to advocate a cautious approach to the adjustment of piece work rates. The ACTU view is that piece rates should be adjusted as they would have been adjusted had the 26 March 2006 reforms not commenced.184

The Australian Chamber of Commerce and Industry (ACCI) submits that notwithstanding the December 2007 announcement that new Pay Scales will not be made, in respect of piece rate workers the Commission should maintain the capacity for:

…an affected person or business [to] make a submission to the Commission on the grounds that such an adjustment would result in an anomalous outcome inconsistent with the Commission’s intention to flow on the general increase to piece rate workers… Further, where appropriate, such submissions should be acted upon, and rates duly adjusted.185

The Commission will flow on its general Wage-Setting Decision 2008 to basic piece rate Pay Scales through applying a 4.15 per cent increase to basic piece rates in preserved Pay Scales which are not otherwise increased as a result of the general decision.

An affected person or business may make a submission to the Commission on the grounds that such an adjustment would result in an anomalous outcome.

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8. Preserved pay equity and work value wage increases under section 208(4)

Section 208(3) of the Workplace Relations Act 1996 (WR Act) prohibits a preserved Australian Pay and Classification Scale (Pay Scale) from including automatic pay increase mechanisms. However s. 208(4) provides an exception by preserving future pay increases in an instrument where these increases were ‘wholly or partly on the ground of work value change or pay equity’.

Section 208(4) provides that if a Pay Scale contains work value change or pay equity increases determined by an industrial body that are to operate after 27 March 2006, then the preserved Pay Scale is taken to include these provisions that will operate at the specified future times.

A number of submissions seek an exemption from the Commission’s general Wage-Setting Decision 2008 for the preserved Pay Scale derived from the Social and Community Services (State) Award [NSW] (SACS Pay Scale). This exemption is sought on the ground that the SACS Pay Scale retains an increase of 3.5 per cent which took effect on the first full pay period on or after 1 July 2008 as a result of the operation of s. 208(4).

Australian Business Industrial cites the conclusions of the NSW Industrial Relations Tribunal in the State Wage Case 2007 to support their view that the SACS Pay Scale should be exempt:

…the increases attributable to work value increases were based on work value changes which had taken place and demonstrated by evidence produced during proceedings. That is, the work value component of the phased increases is not attributable to future work value changes. Over the period of the phase-in the relative contribution of the safety net component could be expected to increase, or at its lowest, could not be expected to decrease over the period.186

National Disability Services restates its views put forward in its 2007 submission:

…the effect of the AFPC decision on the SACS preserved APCS is likely to lead to reduced employment in the sector, and a reduction in social and/or welfare programs in the community… We submit that the AFPC should adjust the SACS preserved APCS so that the AFPC decision does not apply in a way which goes beyond the contemplation of the parties and the Commission with respect to the SACS award.187

ACCER and the Aged Care Association also support this view.

ACCER supports the outcome proposed by National Disability Services and Australian Business Industrial.188

Jobs Australia submits that ‘[t]he reasons provided by the AFPC for the exemption of SACS (State) Award in decision 3/2007 remain relevant’.189

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Jobs Australia further submits that the objective should be to ensure that the intent of clause 22.3 of the SACS award be given effect. This can be achieved by excluding the SACS NAPSA pay scale from any further increases awarded by the AFPC until after July 2008, and that SACS Pay Scale rates be set at either the current rate including the December 2006 increase, or the rate arising from the relevant 3.5% increase in July 2007 or 2008, whichever is the greater.190

However, the Australian Services Union of New South Wales does not support the exemption:

We note that there are a number of other Notional Agreements Preserving State Awards which contain work value increases. All had increases in rates of pay applied to them as a result of your Decision No 3 of 2007; the only exception being the NSW Social and Community Services (State) Award (NAPSA)…Any decision to continue to exclude the NSW SACS Award (NAPSA) from future decisions will further entrench and compound the disadvantage caused as a result of your last decision.191

The Commission considers that, consistent with its view in 2007, it is not possible to identify the proportion of the relevant increase that is attributable to the separate elements of work value and safety net.

However, the Commission considers that there is scope to exempt the sector from the general Wage-Setting Decision 2008 without diminishing the effects of work value increases.

In coming to this view, the Commission notes that its general Wage-Setting Decision 2006 of $27.36192 applied to the SACS Pay Scale in full in addition to any preserved s. 208(4) increase. It also notes the prior agreement that the parties to the SACS Award seek no further increases other than those specified in the award193 (3.5 per cent in 2006, 2007 and 2008).

To give effect to this intention, the Commission grants a partial exemption from the general Wage-Setting Decision 2008 for the SACS Pay Scale.

As the increase awarded by general Wage-Setting Decision 2008 will be greater than 3.5 per cent for some employees, some employees would be unfairly disadvantaged were the Commission to grant a full exemption.

Consistent with its decision in 2007, the Commission intends that the higher wage increase of either this general Wage-Setting Decision 2008, or any increase already received on 1 July 2008 as a result of the operation of s. 208(4), will apply.

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190 Jobs Australia, Preserved Pay Scale derived from the Social and Community Services Employees (State) Award, letter dated 15 May 2007, p. 2, para. 11.
191 Australian Services Union of New South Wales, 2008 Minimum Wage Review and its effect on the preserved Pay Scale from the Social and Community Services Employees (State) Award (NAPSA)…Any decision to continue to exclude the NSW SACS Award (NAPSA) from future decisions will further entrench and compound the disadvantage caused as a result of your last decision.
192 The general Wage-Setting Decision 2006 provided an hourly increase of $0.72 to Pay Scales providing rates of pay up to and including $18.42 per hour and an hourly increase of $0.58 to Pay Scales providing weekly rates of pay above $18.42 per hour.
193 ‘It is a term of this Award that the Union will not pursue any improvements in wages or conditions of employment, including any increases arising from the general increases given by the federal or state industrial tribunals, or the proposed Fair Pay Commission that arise during the term of this Award’. Social and Community Services Employees (State) Award (NSW), s. 22.3.
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9. Discrimination

A number of submissions address discrimination and pay equity issues in the Australian labour market. These submissions focus primarily on the following groups:

- female employees;
- employees with a disability;
- employees from culturally and linguistically diverse (CALD) backgrounds;
- Indigenous Australians;
- young workers; and
- working families.

Submissions generally argue that vulnerable groups are over-represented among low-paid employees:

‘The incidence of low pay is relatively high among young people, women, low skilled workers in service industries, and in rural and regional areas. A majority (52%) were women, who are overrepresented among low paid employees.’194

‘Low pay is generally found in jobs of low social status and/or performed by workers with low labour market standing and bargaining power. Minimum wage reliant workers, include women, indigenous, migrant, young, non-unionised workers, and workers with a disability.’195

‘…low paid workers are more likely to be from vulnerable groups (for instance young workers, those with little working experience, casual, part-time and female and from a non-English speaking background). In addition, working patterns of the low paid indicated that they were more likely to work non-standard or irregular hours and that the irregular pattern of work directly affects their financial position.’196

‘…while people with disability represent a significant proportion of Australia’s working age population, they participate in the workforce at lower rates, they are less likely to be employed when they do attempt to participate, and they will earn less if they do get a job.’197

‘Only 43% of people with disabilities are employed compared with 72% of the population of workforce age.’198

‘…the AFPC should consider the broad relationships between low paid employment, the barriers to participation in the workforce and the consequences of these especially in relation to the CALD community, given that they are over represented in the low paid sector of the Australian labour force, and also that they have the lowest participation rates.’199

194 ACOSS, Submission to the Fair Pay Commission on minimum wages, March 2008, p. 4.
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‘Women are disproportionately represented amongst the ranks of minimum wage workers.’

‘As a group lone parents constitute one of the most disadvantaged segments of the Australian labour market’

‘…those employees more likely to be associated with ‘occasionally low paid and not always in work’ in the HILDA survey were females (63.8 per cent compared with their average of 55.7 per cent), those born in other countries (23.0 per cent, average 20.3 per cent), lone parents (9.9 per cent, average 7.7 per cent) and those with children aged 0-4 years (24.2 per cent, average 19.5 per cent)…Those employees more likely to be ‘persistently low paid’ were people aged 21-30 or aged 45 and over, females and lone parents.’

Submissions highlight the disproportionate reliance of vulnerable groups on the Australian Fair Pay Commission’s (Commission) general Wage-Setting Decisions:

‘Given that migrant workers are among the groups of people over represented in the low paid work category, they are greatly disadvantaged by lower wages.’

‘Women are far more reliant on pay scales than males. Given the significant numbers of female workers reliant on minimum wage adjustments, any adjustment will have a disproportionate effect upon women as a group.’

Submissions also highlight the reluctance of employers to engage people from vulnerable groups and urge the Commission to conduct further research and provide education to employers about the capabilities of vulnerable groups:

‘…many employers are reluctant to engage people with disabilities, mature age workers or Indigenous people regardless of their actual level of productivity…Better education of employers about the actual capabilities of groups they are currently reluctant to employ - especially people with disabilities, mature age workers and indigenous people - could also make a difference, especially as growth in the supply of labour falls in the coming years due to population ageing.’

‘To avoid the continued exclusion of the CALD communities from participating fully in economic and development activities, FECCA calls for the AFPC to investigate further the presence of indirect discrimination and its relationship to the low participation rates of the CALD communities.’

Several submissions address a wide variety of factors affecting vulnerable employees, including economic and social issues which lie beyond the Commission’s remit, such as:

• the level of educational attainment and skills of vulnerable groups of employees;
• matters which are properly within the scope of state or federal anti-discrimination legislation or other statutory bodies to redress; and
• general financial considerations, such as superannuation.
9.1. Pay equity

Submissions raise the issue of gender pay equity, focusing on the gap between male and female earnings.

‘In 2006, women earned 84% of the average weekly earnings of male employees, compared with 87% in 2004. International research suggests that adequate minimum wages are a key factor in reducing the gender pay gap, since most women are usually located near the bottom of the wage distribution.’

‘…as at August 2007 the female to male ratios were 83.7 per cent for full-time Average Weekly Ordinary Time Earnings and 80.5 per cent for full-time Average Weekly Earnings.’

‘Australian women who work full-time still earn an average of 17% less than men who work full-time. According to figures from the Australian Bureau of Statistics’ most recent Average Weekly Earnings Survey, in November 2007 women working full-time earned an average of about 84% of average full-time male earnings, or $991 compared to $1176.’

‘In May 2006 the average weekly total cash earnings for males was $1020.30 and $677.80 for female employees. A staggering $342.50 per week or $17810 per year difference. Females earn nearly 35 per cent less than males. Females are more likely to be employed on a casual and part-time basis. Full-time female workers earn on average 10 per cent or in excess of $100 per week less than male workers.’

‘Women are concentrated in low-paid, low-skilled sectors of the labour market, often under part-time and casual working arrangements. Women are also disproportionately represented among minimum wage earners and those on awards, which make women’s pay and conditions in employment more likely to be affected by Work Choices.’

Several submissions highlight recent increases in the gap between male and female earnings.

‘Earning inequality between men and women, as measured by gender pay equity ratios, dramatically declined in the 1970s and continued to decline more slowly between 1981 and 2002, but has increased since 2004.’

‘The gender pay ratio in Australia widened across all industries by 2.1 per cent between May 2004 and May 2006 from 87.1 per cent to 85.0 per cent based on ordinary time average weekly earnings. If overtime is accounted for, the gender pay ratio across all industries in Australia increased by 1.9 per cent between May 2004 and May 2006 from 82 per cent to 80.1 per cent.’

A number of submissions argue that the Commission should more explicitly refer to pay equity when making its wage-setting decisions.
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…it is incumbent upon the AFPC to explicitly give consideration to pay equity both in the determination of the FMW and other rates within its control.214

…it is important for the AFPC to consider the principle of pay equity when setting wage rates, and take account of the impact of minimum wage increases on low paid women.217

9.2. Recent data on gender pay differentials

The then Commonwealth Conciliation and Arbitration Commission began implementing the principle of equal pay for equal work in its award decisions in 1969. Generally, Australian women still earn less than Australian men regardless of how rates of pay are measured at aggregate level. For example:

• in November 2007, the female to male earnings ratios were 84.3 per cent for full-time average weekly ordinary time earnings and 81.2 per cent for full-time average weekly earnings; and
• in May 2006, adult women in full-time non-managerial positions earned 88.4 per cent of male ordinary-time average weekly earnings and this gender pay gap had not narrowed over the previous ten years (Table 9.1).

Table 9.1: Average weekly earnings of adult full-time employees, by award reliance, managerial status and gender, 1996 and 2006

<table>
<thead>
<tr>
<th></th>
<th>Men</th>
<th>Women</th>
<th>Gender pay ratio</th>
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<tr>
<td>Pay set by award only</td>
<td>$731.50</td>
<td>$705.30</td>
<td>96.4%</td>
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<tr>
<td><strong>Non-managerial employees</strong></td>
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<td></td>
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<tr>
<td>Ordinary-time earnings</td>
<td>$660.50</td>
<td>$1035.90</td>
<td>$591.00</td>
</tr>
<tr>
<td>Total weekly cash earnings</td>
<td>$729.70</td>
<td>$1116.50</td>
<td>$605.70</td>
</tr>
<tr>
<td><strong>Managerial employees</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary-time earnings</td>
<td>$976.00</td>
<td>$1522.40</td>
<td>$728.00</td>
</tr>
<tr>
<td>Total weekly cash earnings</td>
<td>$979.90</td>
<td>$1523.30</td>
<td>$729.20</td>
</tr>
</tbody>
</table>

Sources: ABS, Employee Earnings and Hours, Catalogue Number 6306.0; customised ABS data on managerial status.

Note: Due to tendency of managerial employees not to be paid overtime, the difference between the ordinary time earnings of managers and their total weekly earnings tends to be negligible and may be zero.

Since the standard Federal Minimum Wage and rates of pay in Australian Pay and Classification Scales (Pay Scales) are identical for men and women, differences in the average rates of pay of men and women in low paid employment, who are Pay Scale reliant, should be relatively small. The data presented in Table 9.1 indicate that this was the case for those employed under awards in May 2006.

214 WiSER, Curtin Business School, Curtin University of Technology, Submission to the Australian Fair Pay Commission, March 2008, p. 22.
Section 9

Figure 9.1 shows the analysis to the ordinary time earnings of full-time adult non-managerial employees and how the female to male earnings ratio varies across the earnings distribution and by employment sector.

Figure 9.1: Ratio of female to male ordinary-time earnings, by decile and employment sector, full-time adult non-managerial employees, May 2006

While these data show there is less of a gender pay gap among the lowest-paid Australians, the Commission believes that further research into gender pay differentials is warranted. This research, to be completed in the latter half of 2008, will focus particularly on gender pay differentials among people in low-paid employment and will seek to determine:

• trends in gender pay differentials over time; and
• variations in gender pay differentials across industries and occupations.

9.3. Anti-discrimination considerations

The Commission is required by s. 222 of the *Workplace Relations Act 1996* to apply the principle that men and women should receive equal remuneration for work of equal value.

The Commission’s wage-setting powers are only capable of affecting minimum wages which underpin actual earnings. It is beyond the remit of the Commission to consider equal remuneration beyond the level of minimum wages.

The Commission will consider submissions which raise a specific instance where Pay Scales discriminate on the basis of gender. No submissions to the Commission’s 2008 Minimum Wage Review raise a specific circumstance where a Pay Scale has included discriminatory elements.
Section 9

The Commission has applied the principle that men and women should receive equal remuneration for work of equal value in exercising its wage-setting powers.

The Commission has taken account of the composition of low-paid employees in Australia and acknowledges that vulnerable groups are over-represented.

In making its general Wage-Setting Decision 2008, the Commission had regard to the requirements of relevant federal anti-discrimination legislation including the Racial Discrimination Act 1975; the Sex Discrimination Act 1984; the Disability Discrimination Act 1992; the Age Discrimination Act 2004 and the ratified Family Responsibilities Convention.

The Commission has ensured that this Decision does not contain any provisions that discriminate because of, or for reasons including, race, colour, sex, sexual preference, age, physical or mental disability, marital status, family responsibilities, pregnancy, religion, political opinion, national extraction or social origin.
10. Future directions

10.1. Monitoring the effects of Commission decisions

Section 24 of the Workplace Relations Act 1996 provides that, in performing its wage-setting function, the Australian Fair Pay Commission (Commission) may inform itself in any way it thinks appropriate including by ‘monitoring and evaluating the impact of its wage-setting decisions’.

Based on recommendations received from two research reports commissioned in 2007, the Commission now has put in place a monitoring framework that will inform its deliberations and future decisions (see Section 1).

Some of the main insights drawn from the monitoring framework have been collated in the Commission’s Economic and Social Indicators – Monitoring Report. The first issue of that report was released on 25 February 2008. The report will be published twice yearly, with the next issue due in September 2008.

The Commission is committed to strengthening and refining its monitoring capability, and will seek out all available expertise and information sources in order to fill any gaps in the coverage and scope of its monitoring activity.

The Commission draws on a wide range of sources to enhance its monitoring activity, including:

- focus group research;
- published research and analysis;
- consultations; and
- submissions.

Recent focus group research and the processes for consultations and submissions are summarised in Appendices A & B.

The Commission established a Research Advisory Committee (RAC) to provide advice on research priorities, research gaps and the timing of ongoing and proposed research (see Appendix C). At its April 2008 meeting, the RAC recommended the following refinements to the Commission’s monitoring strategy:

- the inclusion of further comparative data on minimum wage reliant employees;
- further identification of those people in the community who are genuinely reliant on minimum wages as a safety net; and
- extended analysis involving minimum wages other than the standard Federal Minimum Wage.

The Commission will consider feedback from members of the RAC and other submissions in preparing future issues of the Economic and Social Indicators – Monitoring Report.


219 AFPC, Economic and Social Indicators – Monitoring Report, Issue 01, Commonwealth of Australia, July to December.
Section 10

10.2. Other research

In addition to research undertaken for monitoring purposes, the Commission undertakes research on a range of issues to help inform its wage-setting decisions.

Current research projects include:

• the employment effects of recent minimum wage adjustment patterns;
• the effects of minimum wage changes on broader wage and inflation outcomes;
• modelling the labour supply response to increases in minimum wages;
• detailed profiles of Pay Scale reliant industries;
• qualitative research on industry attitudes to employing young workers;
• the mobility of low-paid workers;
• an analysis of youth who are not fully engaged in education or employment;
• gender pay differentials;
• dimensions of the safety net; and
• the living costs faced by low-income working households.

The RAC also suggested the following research topics as suitable for investigation by the Commission:

• the comparative economic efficiency of providing a safety net through minimum wages or through tax/transfer arrangements; and
• tax, transfers and other support mechanisms (for example, housing subsidies and concessions) underpinning the safety net.

10.3. Minimum wage research forum

The Commission will convene its first annual Minimum Wage Research Forum in October 2008 to enhance access to quality research and expertise on minimum wages. Australian and overseas researchers will present and discuss papers commissioned on a range of topics. The Forum will be an opportunity for researchers and stakeholders to exchange ideas and compare findings.

The Commission will publish proceedings from the Minimum Wage Research Forum following the event. These proceedings will be disseminated widely to inform discussion and debate on aspects of minimum wage setting in Australia.

10.4. Differential increase

Unlike previous decisions, the Commission’s general Wage-Setting Decision 2008 is not a differential decision, and therefore applies to all minimum rates of pay in Australian Pay and Classification Scales (Pay Scales).

The Commission recognises that continuing to award differential increases could overlap, duplicate or even conflict with the award modernisation process being conducted by the Australian Industrial Relation Commission (AIRC). In 2007, the Commission commenced a review of Pay Scales. The Commission discontinued this review in December 2007 following a request from the Australian Government which highlighted the new remit given to the AIRC to undertake award modernisation.

The Commission considers that issues raised in submissions regarding a differential increase are therefore best considered by the AIRC through the award modernisation process.
Australian Fair Pay Commission

Appendices

July 2008
Appendix A  Submissions

The Australian Fair Pay Commission (Commission) encourages interested parties to make written submissions to its wage reviews. Obtaining written submissions from a broad cross-section of Australians ensures the Commission is informed about the impact of its decisions, current wage issues and areas for future research.

On 15 December 2007 the Commission invited written submissions to the 2008 Minimum Wage Review through advertisements in the national press.

The Commission received a total of 96 submissions from:

• government and government agencies (12);
• employer organisations (21);
• employee organisations (7);
• community organisations (18);
• professional and education organisations (2); and
• individuals and private businesses (36).

Submissions lodged as non-confidential are posted on the Commission’s website. These are listed below:

Submissions to the 2008 Minimum Wage Review

Government
Australian Government
Human Rights and Equal Opportunity Commission (HREOC)
Local Government NSW and Shires Association of NSW (joint submission)
NSW Government
Northern Territory Government
Queensland Government
SA Government
Tasmanian Government
Victorian Government
WA Government

Employer
Australian Business Industrial (ABI)
Australian Chamber of Commerce and Industry (ACCI)
Australian Federation of Employers and Industries (formerly Employers First)
Australian Hotels Association (AHA)
Australian Industry Group (Ai Group)
Australian National Retailers Association (ANRA)
Australian Retailers Association
Business SA
Chamber of Commerce and Industry WA
Appendix A

Childcare Queensland Inc, Child Care Centres Association of Victoria, Child Care New South Wales (joint submission)
Jobs Australia
Master Grocers Australia
Mushroom Growers’ Association
National Baking Industry Association
National Farmers Federation (NFF)
Restaurant and Catering Australia
South Australian Wine Industry Association
Tasmanian Chamber of Commerce & Industry
Waste Contractors and Recyclers Association of NSW

Employee
Australian Council of Trade Unions (ACTU)
Australian Services Union (ASU)
Australian Workers Union (AWU)
LHMU on behalf of members of LHMU employed by Helping Hand SA
LHMU on behalf of members of LHMU employed by Elderly Citizens Homes of SA
Unions WA

Community
Australian Catholic Council for Employment Relations (ACCER)
Australian Council of Social Services (ACOSS)
Australian Young Christian Workers
Federation of Ethnic Communities Councils of Australia (FECCA)
Lutwyche Catholic Parish
Melbourne Citymission
Multicultural Council of SA
National Disability Services
The Smith Family
Village Community Services
Western Australian Council of Social Services
Women’s Electoral Lobby and National Pay Equity Coalition
Young Christian Workers’ Past Members’ Association
Youth Affairs Council ACT
Youth Affairs Council SA
Youth Network of Tasmania

Professional / Education
Women in Social and Economic Research (WiSER), Curtin Business School
Women and Work Research Group, University of Sydney
Appendix A

**Business and Individual**

Anonymous

Ms Kate Barrington
Ms Sharyn Brocket
Mr & Mrs Broderick
Mr Kevin Corcoran
Mr Phillip Crouch
Ms Kathleen Dunlea
Dr Louise Floyd
Ms Michelle Grainger
Ms Vera A Halton
Mr Bruce Harkness
Mr Edward Heffernan
Ms Ellen Hill
Mr Amphyai Intharacks
Mr Raja Junankar
Mr Noel Lowe
Ms Roxanne McCardle
Ms Chris Meadows
Mr Sean Meaney
Mr Shaun Newman
Mr Nick Pastalatzis
Ms Barbara Pink
Mr Alex Portnoy
Mr Jakob Raschle
Ms Bronwyn Richards
Ms Angela Ring
Ms Hazel Tai
Mr Geoff Taylor
Ms Patricia Theoret
Ms Margaret A Titterington
Mr Anthony Troiani
Mr Wal Webster
Mr Damien Woodards
Worksight Pty Ltd
Appendix A

Post-budget submissions to the 2008 Minimum Wage Review

An additional six post-budget supplementary submissions were received by the Commission. These are listed below:

**Government**
- Australian Government
- South Australian Government

**Employer**
- Australian Chamber of Commerce and Industry (ACCI)
- Australian Industry Group (Ai Group)

**Employee**
- Australian Council of Trade Unions (ACTU)

**Community**
- Australian Catholic Council for Employment Relations (ACCER)
Appendix B  Consultations

The Australian Fair Pay Commission’s (Commission) approach to wage-setting places importance on understanding the economic and social circumstances of low-paid Australians. The Commission informs itself through consultations with stakeholders, submissions and research.

For the 2008 Minimum Wage Review, the Commission undertook a consultation program which included:

• national and state and territory stakeholders;
• individual businesses and organisations;
• consultative groups;
• roundtables;
• targeted focus groups; and
• interactive online discussion forums.

1. Stakeholder consultation

An important component of the Commission’s wage-setting process is consultation with key stakeholder organisations. During the past year the Commission held more than 70 stakeholder consultations across Australia.

The Commission met with the Australian Government and key national employee, employer and community stakeholder organisations. In addition, the Commission visited every state and territory and met with employee, employer and community organisations, and governments.

These consultations provide opportunities for the Commission to learn more about regional labour market conditions and the impact of its decisions on employers, employees and unemployed people.
Appendix B

The schedule below provides details of the Commission's program of consultations for the 2008 Minimum Wage Review:

<table>
<thead>
<tr>
<th>Location</th>
<th>Organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2007</strong></td>
<td></td>
</tr>
</tbody>
</table>
| Canberra | • National Farmers' Federation  
            • Australian Council of Trade Unions  
            • Australian National Retailers Association |
| Adelaide | • Business SA  
            • South Australian Government (Department of Further Education, Employment, Science and Training) |
| Perth    | • Chamber of Commerce and Industry WA  
            • Ethnic Communities Council WA  
            • Youth Affairs Council WA  
            • WA Council of Social Services  
            • Unions WA  
            • West Australian Government (Department of Consumer and Employment Protection) |
| Canberra | • Youth Coalition of ACT  
            • Australian Chamber of Commerce and Industry |
| Sydney   | • Australian Council of Social Services |
| **2008** |               |
| Hobart   | • Tasmanian Government  
            • Tasmanian Chamber of Commerce and Industry  
            • Unions Tasmania  
            • Youth Network of Tasmania  
            • Multicultural Council of Tasmania |
| Melbourne| • Youth Affairs Council of Victoria  
            • Ethnic Communities Council of Victoria  
            • Australian Retailers Association |
| Perth    | • West Australian Government (Department of Consumer and Employment Protection)  
            • WA Chamber of Commerce and Industry  
            • Employment Law Centre of WA  
            • Youth Affairs Council of WA  
            • Unions WA  
            • Ethnic Communities Council of WA |
| Adelaide | • South Australian Government  
            • Business SA  
            • Youth Affairs Council of SA  
            • Multicultural Communities Council of SA  
            • SA Council of Social Services  
            • Equal Opportunity Commission SA  
            • Unions SA  
            • South Australian Farmers Federation  
            • SA Wine Industry Association  
            • Australian Hotels Association of SA |
## Appendix B

### Location Organisations

**2008 continued**

<table>
<thead>
<tr>
<th>Location</th>
<th>Organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canberra</td>
<td></td>
</tr>
<tr>
<td>• ACT Chamber of Commerce and Industry</td>
<td></td>
</tr>
<tr>
<td>• ACT Council of Social Services</td>
<td></td>
</tr>
<tr>
<td>• Youth Affairs Coalition of ACT</td>
<td></td>
</tr>
<tr>
<td>• ACT Multicultural Council Inc</td>
<td></td>
</tr>
<tr>
<td>• ACT Government</td>
<td></td>
</tr>
<tr>
<td>Sydney</td>
<td></td>
</tr>
<tr>
<td>• Youth Action and Policy Association of NSW</td>
<td></td>
</tr>
<tr>
<td>• NSW Government</td>
<td></td>
</tr>
<tr>
<td>• NSW Business Chamber</td>
<td></td>
</tr>
<tr>
<td>• Ethnic Communities Council of NSW</td>
<td></td>
</tr>
<tr>
<td>• Unions NSW</td>
<td></td>
</tr>
<tr>
<td>Darwin</td>
<td></td>
</tr>
<tr>
<td>• Unions NT</td>
<td></td>
</tr>
<tr>
<td>• NT Government</td>
<td></td>
</tr>
<tr>
<td>• NT Commissioner for Public Employment</td>
<td></td>
</tr>
<tr>
<td>• NT Chamber of Commerce and Industry</td>
<td></td>
</tr>
<tr>
<td>• Youth Affairs Council of NT</td>
<td></td>
</tr>
<tr>
<td>• NT Council of Social Services</td>
<td></td>
</tr>
<tr>
<td>• Working Women’s Centre</td>
<td></td>
</tr>
<tr>
<td>Brisbane</td>
<td></td>
</tr>
<tr>
<td>• Queensland Council of Unions</td>
<td></td>
</tr>
<tr>
<td>• Commerce Queensland</td>
<td></td>
</tr>
<tr>
<td>• Youth Affairs Network of Queensland</td>
<td></td>
</tr>
<tr>
<td>• Queensland Government</td>
<td></td>
</tr>
<tr>
<td>Melbourne</td>
<td></td>
</tr>
<tr>
<td>• Australian Industry Group</td>
<td></td>
</tr>
<tr>
<td>• Australian Chamber of Commerce and Industry</td>
<td></td>
</tr>
<tr>
<td>• Australian Council of Trade Unions</td>
<td></td>
</tr>
<tr>
<td>• National Farmers’ Federation</td>
<td></td>
</tr>
<tr>
<td>• Australian Council of Social Services</td>
<td></td>
</tr>
<tr>
<td>Canberra</td>
<td></td>
</tr>
<tr>
<td>• Australian Hotels Association</td>
<td></td>
</tr>
<tr>
<td>• Australian National Retailers Association</td>
<td></td>
</tr>
<tr>
<td>• Australian Government</td>
<td></td>
</tr>
<tr>
<td>• Australian Catholic Commission for Employment Relations</td>
<td></td>
</tr>
<tr>
<td>Townsville</td>
<td></td>
</tr>
<tr>
<td>• Townsville Provincial Council (Division of Queensland Council of Unions)</td>
<td></td>
</tr>
<tr>
<td>Mildura</td>
<td></td>
</tr>
<tr>
<td>• Farmers Roundtable</td>
<td></td>
</tr>
<tr>
<td>• Mildura Chamber of Commerce</td>
<td></td>
</tr>
</tbody>
</table>
2. Site visits

As part of its program of state and territory visits, the Commission conducts site visits to businesses, employment services providers, and training providers in metropolitan and regional areas.

Site visits provide the Commission with opportunities to gain insights into the personal experiences of those most affected by its decisions, including employers, employees, juniors, trainees and unemployed people.

For its 2008 Minimum Wage Review, the Commission visited a mix of businesses operating across several sectors of the economy.

Details of the organisations, sectors and locations of site visits are provided below:

<table>
<thead>
<tr>
<th>Location</th>
<th>Organisation</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adelaide</td>
<td>Phoenix Society Inc.</td>
<td>Disability employment services</td>
</tr>
<tr>
<td>Perth</td>
<td>SMYL Community Services</td>
<td>Community services</td>
</tr>
<tr>
<td>Perth</td>
<td>Shoe Show</td>
<td>Retail</td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hobart</td>
<td>Blue Skies Dining</td>
<td>Accommodation, cafes and restaurants</td>
</tr>
<tr>
<td>Melbourne</td>
<td>Pacific Brands</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>Perth</td>
<td>Hospitality Group Training</td>
<td>Group training</td>
</tr>
<tr>
<td>Canberra</td>
<td>Campbell Page</td>
<td>Employment services</td>
</tr>
<tr>
<td>Sydney</td>
<td>Sunlite Hardware</td>
<td>Retail</td>
</tr>
<tr>
<td>Sydney</td>
<td>MTC Work Solutions</td>
<td>Employment services</td>
</tr>
<tr>
<td>Sydney</td>
<td>Woolworths</td>
<td>Retail</td>
</tr>
<tr>
<td>Brisbane</td>
<td>Centacare Brisbane and Boys Town</td>
<td>Employment services</td>
</tr>
<tr>
<td>Brisbane</td>
<td>Brisbane Wholesale Foods</td>
<td>Wholesale and distribution</td>
</tr>
<tr>
<td>Townsville</td>
<td>The Nectar Bar</td>
<td>Accommodation, cafes and restaurants</td>
</tr>
<tr>
<td>Townsville</td>
<td>MAX Employment</td>
<td>Employment services</td>
</tr>
<tr>
<td>Mildura</td>
<td>Sunray Institute of TAFE Delice Restaurant</td>
<td>Hospitality training</td>
</tr>
<tr>
<td>Mildura</td>
<td>SunTAFE Employment Solutions</td>
<td>Employment services</td>
</tr>
</tbody>
</table>

3. Business Consultative Group

Another component of the Commission’s consultation process is its Victorian Business Consultative Group (BCG). Members of the BCG represent metropolitan and regional businesses in the recruitment, training, aged care and accommodation sectors.

The Commission held its second meeting of the BCG to discuss the impacts of its previous decisions and to gain further knowledge about local labour market conditions. The Commission intends expanding its business consultative process to other states in the coming year.
Appendix B

4. Disability Roundtable

In the past year the Commission has convened three meetings of its Disability Roundtable. The Roundtable is an expert body of key stakeholders providing advice to the Commission on issues relating to the employment of people with a disability.

Specifically, the Roundtable provides the Commission with:

- advice on issues regarding implementation of minimum wages for employees with a disability;
- advice on pro rata wage arrangements for employees with a disability whose productive capacity is impaired;
- practical information on the disability sector;
- information and research on employees with a disability;
- advice on disability wage instruments;
- advice on monitoring of minimum wage decisions on the employment of employees with a disability; and
- suggestions on future priorities for minimum wage arrangements for employees with a disability.

Membership of the Roundtable includes the Australian Fair Pay Commission (Chair) and Australian Fair Pay Commission Secretariat as well as representatives nominated by the:

- Department of Education, Employment and Workplace Relations (DEEWR);
- Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA);
- Australian Chamber of Commerce and Industry (ACCI);
- Australian Council of Trade Unions (ACTU);
- Liquor, Hospitality and Miscellaneous Union (LHMU);
- Australian Federation of Disability Organisations (AFDO);
- National Disability Services (NDS); and

On 8 May 2008, the Commission announced Wage-Setting Decision 1/2008 which approved the use of nine new wage assessment tools for the Special Business Services Sector.

This decision completed the process of closing gaps in minimum wage coverage for the Business Services Sector which the Commission had commenced in 2006 and was developed in consultation with stakeholders participating in the Disability Roundtable.

As part of its 2008 Minimum Wage Review, the Commission also sought feedback from Roundtable participants on the impact of its previous wage-setting decisions on workers with a disability.
Appendix B  5. Targeted consultation

Overview

Building on the consultation program established for the previous Minimum Wage Review, 24 targeted focus groups and eight interactive online discussion forums were conducted during February and March 2008 to explore the views of a broad cross-section of the Australian community in relation to minimum wages. The findings are published in the Report on Public Consultations for the Australian Fair Pay Commission’s 2008 Minimum Wage Review.

The Commission has used this research to inform the 2008 Minimum Wage Review.

Participant target groups

Focus Groups

The 24 targeted focus groups, each contained five to eight participants and were approximately one and a half hours in duration. The groups were conducted in all states, including a mix of metropolitan and regional areas and a range of locations experiencing high and comparatively low levels of economic prosperity.

The group structure was as follows:

• six groups with low-paid individuals;
• four groups with individuals employed on junior rates;
• six groups with unemployed individuals (including two with juniors);
• six groups with employers of low-paid workers; and
• two groups with employers of juniors.

These five broad groups were identified as priorities for consultation as each is directly affected by the Commission’s minimum wage decisions.
### Appendix B

The following table shows the location and characteristics of the 24 focus groups:

<table>
<thead>
<tr>
<th>Location</th>
<th>Participant characteristics</th>
<th>Circumstances</th>
<th>Age group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melbourne</td>
<td>Working full-time/part-time – finished education (no intention to study)</td>
<td>Not living at home</td>
<td>18–20 years</td>
</tr>
<tr>
<td>Melbourne</td>
<td>Unemployed – not studying</td>
<td>Living at home</td>
<td>18–20 years</td>
</tr>
<tr>
<td>Melbourne</td>
<td>Employed on minimum rate of pay</td>
<td>Has dependants</td>
<td>21–34 years</td>
</tr>
<tr>
<td>Melbourne</td>
<td>Employer of low-paid workers</td>
<td>Community services industry</td>
<td></td>
</tr>
<tr>
<td>Perth</td>
<td>Unemployed</td>
<td>On benefits</td>
<td>21+ years</td>
</tr>
<tr>
<td>Perth</td>
<td>Employed on low rate of pay</td>
<td>No dependants</td>
<td>21–34 years</td>
</tr>
<tr>
<td>Perth</td>
<td>Working part-time/casual basis</td>
<td>Full-time secondary school student</td>
<td>16–17 years</td>
</tr>
<tr>
<td>Perth</td>
<td>Employer of low-paid workers</td>
<td>Trade industry</td>
<td></td>
</tr>
<tr>
<td>Adelaide</td>
<td>Employed on junior/apprentice/trainee rate of pay</td>
<td>Not living at home</td>
<td>18–20 years</td>
</tr>
<tr>
<td>Adelaide</td>
<td>Employer of low-paid workers</td>
<td>Retail industry</td>
<td></td>
</tr>
<tr>
<td>Albury-Wodonga</td>
<td>Employed on minimum rate of pay</td>
<td>No dependants</td>
<td>21–34 years</td>
</tr>
<tr>
<td>Launceston</td>
<td>Unemployed</td>
<td>On benefits</td>
<td>21+ years</td>
</tr>
<tr>
<td>Launceston</td>
<td>Employed on low rate of pay</td>
<td>Has dependants</td>
<td>35+ years</td>
</tr>
<tr>
<td>Hobart</td>
<td>Employer of low-paid workers</td>
<td>Retail trade industry</td>
<td></td>
</tr>
<tr>
<td>Brisbane</td>
<td>Working full-time/part-time – finished education (no intention to study)</td>
<td>Living at home</td>
<td>18–20 years</td>
</tr>
<tr>
<td>Brisbane</td>
<td>Employer of low-paid workers</td>
<td>Hospitality industry</td>
<td></td>
</tr>
<tr>
<td>Townsville</td>
<td>Employed on low rate of pay</td>
<td>No dependants</td>
<td>35+ years</td>
</tr>
<tr>
<td>Townsville</td>
<td>Employer of staff aged under 21 years (min 20% of staff)</td>
<td>Retail &amp; Hospitality industries</td>
<td></td>
</tr>
<tr>
<td>Wagga Wagga</td>
<td>Unemployed – not studying</td>
<td>Not living at home</td>
<td>18–20 years</td>
</tr>
<tr>
<td>Wagga Wagga</td>
<td>Employed on minimum rate of pay</td>
<td>Has dependants</td>
<td>35+ years</td>
</tr>
<tr>
<td>Sydney</td>
<td>Unemployed</td>
<td>On benefits</td>
<td>21+ years</td>
</tr>
<tr>
<td>Sydney</td>
<td>Employer of low-paid workers</td>
<td>Trade &amp; Manufacturing industries</td>
<td></td>
</tr>
<tr>
<td>Newcastle</td>
<td>Unemployed</td>
<td>Return to work</td>
<td>21+ years</td>
</tr>
<tr>
<td>Newcastle</td>
<td>Employer of low-paid workers</td>
<td>Manufacturing industry</td>
<td></td>
</tr>
</tbody>
</table>
Appendix B  

Culturally and linguistically diverse background consultations

As part of the 2008 consultations, four mini-groups were held with people from culturally and linguistically diverse backgrounds (CLDB). The mini-groups were conducted “in language” with Mandarin speakers in Melbourne and Arabic speakers in Sydney as these groups tend to be over-represented among the low-paid workforce.

Interactive online discussion forums

Online forums provide a further mechanism to capture the opinions of a diverse range of Australians. They allow participants to share their views benefited by the freedom that anonymity brings and without the barrier of location.

A variety of age groups, income levels, occupations, family structures and geographic locations were included in the 2008 online forums. Each of the eight online forums involved up to 15 participants, and was conducted over five days across the following target groups:

- adult employees (aged 21 years and older, mix of occupations, industries and locations);
- junior employees (aged 15–20 years of age, mix of occupations, industries and locations);
- employers of low-paid workers (mix of industries and locations); and
- employers of juniors (mix of industries and locations).
Appendix C  

Research Advisory Committee

Extract from the terms of reference

Context

The Research Advisory Committee was established to assist the AFPC Secretariat in advising the AFPC on:

- research priorities;
- research gaps; and
- the timing of ongoing and proposed research.

Membership

AFPC Secretariat (Chair)

Representatives nominated by:

- Australian Chamber of Commerce and Industry (ACCI);
- Australian Industry Group (Ai Group);
- Australian Council of Social Services (ACOSS);
- Australian Council of Trade Unions (ACTU);
- Australian Department of Education, Employment and Workplace Relations (DEEWR);
- Australian Treasury; and
- State and Territory Governments.

Purpose

- Discuss ongoing and proposed AFPC research;
- Suggest priorities for future research;
- Suggest areas, methods and sources of information for monitoring the effects of AFPC decisions;
- Share information on economic, social and methodological developments relevant to AFPC research; and
- Advise on methods for disseminating research.
Appendix D  International comparisons

International comparisons of gross and net minimum wages

Gross minimum wages

One way of comparing minimum wages across countries is to convert their values to a common currency using either nominal exchange rates (ERs) or purchasing power parity (PPP) exchange rates. The latter attempt to compensate for differences in the cost of living across countries. Table D.1 presents data comparing the hourly value of minimum wages on both these bases, across fourteen OECD countries with statutory minimum wages.

Table D.1: Value of gross hourly minimum wage, various countries, May 2008

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Value of gross hourly minimum wage</th>
<th>National currency</th>
<th>AUD (ER)</th>
<th>AUD (PPP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Luxembourg</td>
<td>EUR 9.29</td>
<td>15.68</td>
<td>16.00</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>France</td>
<td>EUR 8.63</td>
<td>14.58</td>
<td>14.58</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Netherlands</td>
<td>EUR 8.33</td>
<td>14.06</td>
<td>14.49</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Australia</td>
<td>AUD 13.74</td>
<td>13.74</td>
<td>13.74</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Belgium</td>
<td>EUR 7.41</td>
<td>12.51</td>
<td>12.38</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>United Kingdom</td>
<td>GBP 5.52</td>
<td>11.71</td>
<td>12.33</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Ireland</td>
<td>EUR 8.65</td>
<td>14.60</td>
<td>11.78</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>New Zealand</td>
<td>NZD 12.00</td>
<td>10.15</td>
<td>10.68</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Canada</td>
<td>CAD 8.48</td>
<td>8.98</td>
<td>9.87</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>United States</td>
<td>USD 5.85</td>
<td>6.27</td>
<td>8.36</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Greece</td>
<td>EUR 3.93</td>
<td>6.63</td>
<td>7.80</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Japan</td>
<td>JPY 687</td>
<td>7.16</td>
<td>7.70</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Spain</td>
<td>EUR 3.46</td>
<td>5.84</td>
<td>6.57</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Portugal</td>
<td>EUR 2.46</td>
<td>4.15</td>
<td>5.12</td>
<td></td>
</tr>
</tbody>
</table>

Notes: AFPC calculations based on nominal exchange rates (ER) and purchasing power parity (PPP) exchange rates. Rank based on PPP value. For countries that do not have an hourly rate, the minimum rate has been converted to an hourly basis assuming a working time of 8 hours per day, 40 hours per week. Average exchange rate over the month to 2 May 2008. The hourly rate for Canada and Japan is the weighted average of the provincial/territorial/prefectural rates. The hourly rate for Spain, Greece and Portugal does not include annual supplementary pay of two additional months of salary for full-time workers.


Using PPP values as the basis for comparison, Australia’s minimum wage is the highest after Luxembourg, France and the Netherlands. Using the alternative ER conversion gives a slightly different ranking, with Ireland also moving ahead of Australia.
Appendix D

Another common indicator used to compare minimum wages across countries is the ratio of the gross minimum wage to median earnings. These data are presented in Table D.2, along with the ratio of the minimum wage to average (or mean) earnings. According to the median earnings indicator, France and New Zealand are well clear of the next group of countries, which includes Australia, Greece, Belgium and the Netherlands.

For some countries (e.g. New Zealand, Greece, United Kingdom), rankings based on median wage ratios vary significantly from rankings based on PPP-adjusted value. It is likely that this reflects, in part, differences in earnings distributions (i.e. for a given level of minimum wage, a country with a more unequal earnings distribution will tend to record a lower ratio of minimum to median earnings).

Table D.2: Adult full-time minimum wages relative to full-time median and mean earnings, various countries, 2006

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Minimum wage as proportion (%) of</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Median earnings</td>
<td>Average (mean)</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>France</td>
<td>61</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>New Zealand</td>
<td>57</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Australia</td>
<td>54 (LFS)</td>
<td>47</td>
<td>52 (EEH)</td>
</tr>
<tr>
<td>4</td>
<td>Greece</td>
<td>53</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Belgium</td>
<td>52</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Netherlands</td>
<td>52</td>
<td>43</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Ireland</td>
<td>48</td>
<td>52*</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>United Kingdom</td>
<td>45</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Portugal</td>
<td>45</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Canada</td>
<td>41</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Spain</td>
<td>39</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Japan</td>
<td>33</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>United States</td>
<td>31</td>
<td>33*</td>
<td></td>
</tr>
</tbody>
</table>

Notes: Rank based on proportion of median earnings.
Higher median earnings ratio for Australia is from household-based Labour Force Survey (August each year); lower ratio is from employer-based Employee Earnings and Hours Survey (May every second year).
*Figure for Ireland based on Average Production Worker. Figure for US based on data that exclude supervisory and managerial employees. The OECD notes that “the ratio shown for the US would be considerably lower if US average wages were available on the same basis as in other countries”.


Appendix D  

Net minimum wages

Gross earnings are, however, only part of the story. Disposable income of minimum wage-earners is also affected by the level of tax they pay. Table D.3 summarises 2006 OECD data on the average tax rates faced by full-time minimum-wage earners and their net (after-tax) minimum wage. These data show that tax payable on the minimum wage tends to have an equalising effect across countries. This is because, with few exceptions, countries with higher minimum wages tend to have higher rates of tax on those wages and vice versa.

Even so, some disparities between countries remain. Australia belongs to a group of countries with net minimum hourly wages with purchasing power between USD 7.00 and USD 7.80 (also comprising Luxembourg, France, the UK, Ireland, the Netherlands and Belgium). Of the remaining countries, only New Zealand, Canada and Greece had hourly net minimum wages in excess of USD 5 in 2006.

Table D.3: Average tax rate and net hourly wage of full-time workers on the minimum wage, various countries, 2006

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Tax rate</th>
<th>Net hourly wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Luxembourg</td>
<td>15.9</td>
<td>7.78</td>
</tr>
<tr>
<td>2</td>
<td>France</td>
<td>16.7</td>
<td>7.68</td>
</tr>
<tr>
<td>3</td>
<td>United Kingdom</td>
<td>12.7</td>
<td>7.66</td>
</tr>
<tr>
<td>4</td>
<td>Australia</td>
<td>14.7</td>
<td>7.46</td>
</tr>
<tr>
<td>5</td>
<td>Ireland</td>
<td>2.7</td>
<td>7.39</td>
</tr>
<tr>
<td>6</td>
<td>Belgium</td>
<td>17.2</td>
<td>7.22</td>
</tr>
<tr>
<td>7</td>
<td>Netherlands</td>
<td>22.6</td>
<td>7.05</td>
</tr>
<tr>
<td>8</td>
<td>New Zealand</td>
<td>18.3</td>
<td>5.69</td>
</tr>
<tr>
<td>9</td>
<td>Canada</td>
<td>13.8</td>
<td>5.33</td>
</tr>
<tr>
<td>10</td>
<td>Greece</td>
<td>16.0</td>
<td>5.19</td>
</tr>
<tr>
<td>11</td>
<td>Japan</td>
<td>14.5</td>
<td>4.58</td>
</tr>
<tr>
<td>12</td>
<td>Spain</td>
<td>6.7</td>
<td>4.45</td>
</tr>
<tr>
<td>13</td>
<td>United States</td>
<td>14.5</td>
<td>4.40</td>
</tr>
<tr>
<td>14</td>
<td>Portugal</td>
<td>11.0</td>
<td>3.32</td>
</tr>
</tbody>
</table>

Note: Rank based on value of net hourly wage.

Appendix D

Disposable incomes of minimum wage-earning households

Aside from minimum wages, income transfer payments can also form an important part of the overall income safety net. Table D.4 summarises OECD data on the disposable incomes of various households with only one earner, who is on the statutory minimum wage, relative to median household disposable income within the country in question. These figures take account of all available income transfers (including housing benefits) and have been equivalised to adjust for varying household size.

On these measures, the four highest ranking countries in 2005 were English-speaking (the UK, Australia, New Zealand and Ireland). The majority of continental European countries, including those with high hourly minimum wages such as Luxembourg and France, occupy only middle rankings. The countries with the lowest minimum wages in Tables D.1 to D.3 also tend to be the lowest ranked in table D.4.

Table D.4: Relative disposable incomes of selected households with one full-time employee on the statutory minimum wage, 2005

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Single person</th>
<th>Couple, no children</th>
<th>Single parent, 2 children</th>
<th>Couple, 2 children</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United Kingdom</td>
<td>95.1</td>
<td>77.1</td>
<td>93.0</td>
<td>81.9</td>
</tr>
<tr>
<td>2</td>
<td>Australia</td>
<td>79.2</td>
<td>61.3</td>
<td>88.0</td>
<td>74.8</td>
</tr>
<tr>
<td>3</td>
<td>Ireland</td>
<td>73.6</td>
<td>52.8</td>
<td>76.7</td>
<td>60.0</td>
</tr>
<tr>
<td>4</td>
<td>New Zealand</td>
<td>82.1</td>
<td>59.6</td>
<td>63.8</td>
<td>54.5</td>
</tr>
<tr>
<td>5</td>
<td>Netherlands</td>
<td>68.4</td>
<td>57.2</td>
<td>55.6</td>
<td>47.2</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>71.5</td>
<td>50.9</td>
<td>52.2</td>
<td>45.4</td>
</tr>
<tr>
<td>7</td>
<td>Japan</td>
<td>53.6</td>
<td>51.5</td>
<td>58.0</td>
<td>53.3</td>
</tr>
<tr>
<td>8</td>
<td>Belgium</td>
<td>64.0</td>
<td>52.9</td>
<td>49.7</td>
<td>47.1</td>
</tr>
<tr>
<td>9</td>
<td>Luxembourg</td>
<td>50.2</td>
<td>54.6</td>
<td>45.5</td>
<td>52.5</td>
</tr>
<tr>
<td>10</td>
<td>Greece</td>
<td>69.1</td>
<td>48.9</td>
<td>42.1</td>
<td>36.4</td>
</tr>
<tr>
<td>11</td>
<td>Portugal</td>
<td>55.6</td>
<td>41.1</td>
<td>38.9</td>
<td>45.5</td>
</tr>
<tr>
<td>12</td>
<td>Canada</td>
<td>46.9</td>
<td>37.6</td>
<td>47.7</td>
<td>42.7</td>
</tr>
<tr>
<td>13</td>
<td>Spain</td>
<td>48.8</td>
<td>34.5</td>
<td>30.7</td>
<td>26.6</td>
</tr>
<tr>
<td>14</td>
<td>United States</td>
<td>34.8</td>
<td>29.3</td>
<td>36.0</td>
<td>34.5</td>
</tr>
</tbody>
</table>

Notes: Rank based on average relativities across all four household types. Household disposable income is measured after all relevant taxes and transfers (including housing benefits where applicable). Incomes of minimum-wage households and all others in the population have been equivalised by dividing by the square root of household size.


The disparities in rankings between those based on minimum wages, and those based on disposable income relativities, suggest varying emphases on the various elements of the safety net. The four English-speaking countries identified previously appear to rely more than other countries on income transfers to maintain an adequate level of household disposable income for low-income working households.