Australian Fair Pay Commission

Wage-Setting Decision and Reasons for Decision

July 2009
Contents

i  Acronyms 4

ii  Executive summary 8

iii  Wage-Setting Decision 18

Reasons for Decision

1. Promoting the economic prosperity of the people of Australia 22
   1.1. The economic and labour market outlook
   1.2. Monitoring the effects of Commission decisions
   1.3. Summary

2. Employment and competitiveness across the economy 25
   2.1. Employment and unemployment
   2.2. Wage growth, inflation and competitiveness
   2.3. Business conditions
   2.4. Economic and labour market outlook
   2.5. Minimum wages and labour demand
   2.6. Summary

3. The capacity for the unemployed and low paid to obtain and remain in employment 40
   3.1. Employment by industry and occupation
   3.2. Employment and unemployment of low-skilled people
   3.3. Summary

4. Providing a safety net for the low paid 50
   4.1. The complementary roles of wages and the tax/transfer system
   4.2. Recent changes in the tax/transfer system
   4.3. The effects of recent wage increases and tax/transfer changes on disposal income
   4.4. Living standards of low-wage households
   4.5. Summary

5. Employees with disability 65
   5.1. Adjustment to minimum weekly payment
   5.2. Wage assessment tools in the Australian Disability Enterprises Sector
   5.3. Disability wages monitoring and research
   5.4. Key research findings
6. Discrimination

6.1. Pay equity
6.2. Research on gender pay differentials
6.3. Anti-discrimination considerations

Appendices

Appendix A Submissions
Appendix B Consultations
Appendix C Research
Appendix D International comparisons
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009 Minimum Wage Review</td>
<td>The 2009 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 2009</td>
</tr>
<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
</tr>
<tr>
<td>ACCI</td>
<td>Australian Chamber of Commerce and Industry</td>
</tr>
<tr>
<td>ACOSS</td>
<td>Australian Council of Social Service</td>
</tr>
<tr>
<td>ACTU</td>
<td>Australian Council of Trade Unions</td>
</tr>
<tr>
<td>AFEI</td>
<td>Australian Federation of Employers and Industry</td>
</tr>
<tr>
<td>AFPC</td>
<td>Australian Fair Pay Commission</td>
</tr>
<tr>
<td>AFPCS</td>
<td>Australian Fair Pay Commission Secretariat</td>
</tr>
<tr>
<td>AHA</td>
<td>Australian Hotels Association</td>
</tr>
<tr>
<td>ANU</td>
<td>Australian National University</td>
</tr>
<tr>
<td>APCS</td>
<td>Australian Pay and Classification Scale</td>
</tr>
<tr>
<td>ARA</td>
<td>Australian Retailers Association</td>
</tr>
<tr>
<td>AYAC</td>
<td>Australian Youth Affairs Coalition</td>
</tr>
<tr>
<td>BSWAT</td>
<td>Business Services Wage Assessment Tool</td>
</tr>
<tr>
<td>CBA</td>
<td>Commonwealth Bank of Australia</td>
</tr>
<tr>
<td>CCIQ</td>
<td>Chamber of Commerce and Industry Queensland</td>
</tr>
<tr>
<td>CCIWA</td>
<td>Chamber of Commerce and Industry Western Australia</td>
</tr>
<tr>
<td>CIE</td>
<td>Centre for International Economics</td>
</tr>
<tr>
<td>Commission</td>
<td>Australian Fair Pay Commission</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>DEEWR</td>
<td>Department of Education, Employment and Workplace Relations</td>
</tr>
<tr>
<td>DI</td>
<td>Disposable Income</td>
</tr>
<tr>
<td>DSP</td>
<td>Disability Support Pension</td>
</tr>
<tr>
<td>DSTO</td>
<td>Dependent Spouse Tax Offset</td>
</tr>
<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>
</tr>
<tr>
<td>FaHCSIA</td>
<td>Department of Families, Housing, Community Services and Indigenous Affairs</td>
</tr>
<tr>
<td>FMW</td>
<td>Federal Minimum Wage</td>
</tr>
<tr>
<td>FTB-A</td>
<td>Family Tax Benefit Part A</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>HILDA</td>
<td>Household, Income and Labour Dynamics in Australia</td>
</tr>
<tr>
<td>HPL</td>
<td>Henderson Poverty Line</td>
</tr>
<tr>
<td>IDRS</td>
<td>Intellectual Disability Rights Service</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labor Organisation</td>
</tr>
</tbody>
</table>
Acronyms

LHMU NT  Liquor, Hospitality and Miscellaneous Union — Northern Territory Branch
LHMU Pay Scale  Pay Scale derived from the Liquor, Hospitality and Miscellaneous Union Supported Employment Services Award 2005
LITO  Low Income Tax Offset
Melbourne Institute  Melbourne Institute of Applied Economic and Social Research
MGA  Master Grocers Australia
MTAWE  Male Total Average Weekly Earnings
NAB  National Australia Bank
NILS  National Institute of Labour Studies
OECD  Organisation for Economic Co-operation and Development
Pay Scales  Australian Pay and Classification Scales
PL  Poverty Line
RBA  Reserve Bank of Australia
Special Business Services Pay Scale  Special Business Services (Employees with a disability) Australian Pay and Classification Scale, [2007] APCS 2
SWS  Supported Wage System
TNS Social Research  Taylor Nelson Sofres Social Research
WACOSS  Western Australian Council of Social Service
Wage-setting powers  Powers conferred by Division 2 of Part 7 of the WR Act
WAT  Wage Assessment Tool
WiSER  Women in Social and Economic Research
WPI  Wage Price Index
WR Act  Workplace Relations Act 1996
YACVic  Youth Affairs Council of Victoria
Australian Fair Pay Commission

Executive Summary

July 2009
Executive summary

The Australian Fair Pay Commission (Commission) is responsible for setting minimum rates of pay, with the overarching objective of promoting the economic prosperity of the people of Australia. In undertaking this task, the Commission is required by the Workplace Relations Act 1996 to have regard to:

• 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 reviews, the Commission invited submissions to its 2009 Minimum Wage Review to address some or all of these criteria. The criteria also informed the Commission’s consultations in each state and territory, and the ongoing research program.

With the economy in transition, these complementary processes and information sources have been particularly valuable, enabling the Commission to analyse the effects of minimum wages from a variety of perspectives.

In its 2008 general Wage-Setting Decision, the Commission was especially cognisant of the financial pressures on low-income households at that time of increasing consumer prices. The Commission therefore placed emphasis on the role minimum wages play in maintaining the safety net for low-paid workers. The Commission considered that the impact of the 2008 Decision on employment and unemployment would be minimal, given the strength of the labour market and employment growth at the time the decision was reached.

Since the 2008 Decision, the economic outlook has changed markedly. Employment growth is slowing, average working hours are falling, and the unemployment rate is expected to rise to 8.5 per cent. As in previous downturns, the impact of these changes in the labour market will be felt most acutely by low-paid, low-skilled workers.

These are challenging times for the Australian labour market, and caution is warranted in the setting of minimum wages. In the current environment, the ability of employers to offer sufficient work has been curtailed and there is a heightened risk that an increase in regulated minimum wages would reduce employment and working hours. One consequence of increased job losses and fewer hours of work would be significantly lower living standards for many Australians.

The Commission recognises that consumer prices continue to increase, putting some pressure on household disposable income. However, the Australian Government’s changes to the tax/transfer system and its recent fiscal stimulus packages have provided real increases to disposable income for most households and have thus enabled the safety net to be maintained without the risk of increasing unemployment.
For most people, an adequate living standard depends on having sufficient paid work. Unemployment is the chief cause of relative poverty and social exclusion in Australia. Economic downturns magnify the consequences of unemployment for low-paid, low-skilled workers, with many remaining jobless for extended periods of time and some leaving the labour market altogether. The social consequences of extended joblessness, especially for families, are considerable and well-known. The Commission considers that its decisions should not exacerbate the risk of unemployment for the most vulnerable groups of workers.

The Commission has therefore decided, following its 2009 Minimum Wage Review, that minimum wages will remain at their current levels and not be increased. In making this decision, the Commission has focused on protecting jobs and supporting a stronger recovery in employment as the economy improves.

The Commission notes that the next minimum wage review will be conducted by Fair Work Australia. The Commission considers that, by the next review, the outlook for the economy, and especially the labour market, will be more certain.

The economic and labour market outlook

The Commission has looked ahead to the period when its decision would come into effect. The economic and labour market environment in 2009–10 will be very different from the environment of the Commission’s previous decisions. After the unemployment rate reached a low of 3.9 per cent in early 2008, employment growth slowed rapidly in response to the sharp weakening of the global economy.

While opinions vary, most analysts expect employment to continue to fall through 2009–10, with unemployment rising towards 8.5 per cent of the labour force. In previous downturns, the increases in unemployment have taken many years to reverse, and the Australian Government now projects that unemployment will not return to current levels for approximately six years.

The scarring effects of unemployment magnify the costs associated with this downside risk. Unemployment tends to affect more severely those people who are already vulnerable — low-paid and low-skilled workers. Many people who become unemployed during a recession do not re-enter paid employment and instead become long-term unemployed or leave the labour force. Therefore, the Commission considers that its main priority in this decision is to protect jobs in the short term and help job seekers to be competitive in the labour market.
Employment and competitiveness across the economy

The 2008 general Wage-Setting Decision was made in the context of high price inflation and robust economic conditions. Employment was growing at moderate but slowing rates, with aggregate profits at record high levels. Wages were growing steadily overall but more strongly in some parts of the labour market.

The economic environment changed sharply in late 2008, following a shock to the global financial system. This has resulted in much slower employment growth and unemployment rising faster than expected, with the labour market forecast to weaken further in 2009–10.

The Commission reviewed the empirical evidence on the use of minimum wages to increase aggregate demand and thereby employment. Modelling commissioned for the 2009 Minimum Wage Review finds that an increase in household consumption in the short term, in response to higher minimum wages, would be offset by a fall in consumption as a result of lower employment, with other forms of demand such as business investment also decreasing.1

Looking further afield, an empirical study of the likelihood of a wage-led mechanism in several major economies comparable with Australia2 found that the evidence for wage-led or profit-led recovery is mixed. While possible, there is “little support for the existence of a wage-led employment regime, at least under existing conditions of substantially open economies.”3

Recent modelling undertaken for the Commission finds that the disemployment effect of increases in minimum wages becomes larger during a recession. This research finds that the minimum wage adjustments from 2005 to 2008 had only small short-term effects in the context of a strong labour market. However, during a downturn, as aggregate wage growth slows and new job opportunities diminish, minimum wage increases are estimated to have a magnified negative effect on employment.4

In previous economic cycles, while the recession itself may have been short, the recovery in employment has tended to be weak and it has taken a long time for unemployment to return to its initial low rate. A lesson from this previous experience is that decision-makers should act early to limit the increase in unemployment and to lend greater support to employment.

While the extent of weakness in the economic outlook remains uncertain, the Commission emphasises the need for caution at this time, when there is greater risk that a minimum wage increase may further reduce employment and competitiveness.

---

2 France, Germany, Japan, UK and USA.
The capacity for the unemployed and low paid to obtain and remain in employment

Economic downturns are associated with significant changes in the composition of employment and unemployment. These changes vary by age, gender, skill, education, location, household type, form of employment, industry and occupation. Extensive research on previous cycles in the Australian labour market demonstrates that unemployment has significant costs. This suggests that strategies are needed to minimise the emergence and duration of unemployment wherever possible.

The Australian labour market can expect to experience further compositional changes through 2009–10, with total employment forecast to decrease. The Commission is conscious that minimum wages affect some industries (for example, Accommodation and food services) and occupations (for example, Elementary clerical, sales and service workers) more than others. Changes in minimum wage rates are therefore likely to affect levels of continued employment and the potential for further jobs to be offered in these industries and occupations.

Lower-skilled workers also become less competitive in the labour market as higher-skilled workers who become unemployed accept lower-skilled jobs. This ‘crowding out’ effect is greater during downturns, when unemployment rates for higher-skilled people tend not to increase to the same degree as those for lower-skilled people. Low-skilled workers are less likely to regain employment and more likely to leave the labour force.

Australian evidence indicates that the burden of increased unemployment falls disproportionately on identifiable demographic groups, especially those attempting to gain a foothold in the labour market and to maintain that position. These groups include young people, low-skilled workers, and migrants from non-English speaking backgrounds. All these demographic groups have been identified as both more heavily reliant on minimum wages and at higher risk of unemployment.

Empirical evidence points to long-term consequences or scarring for individuals who experience prolonged joblessness. As lower levels of employment persist, many people who have become unemployed remain jobless and find it increasingly difficult to regain employment. Given diminished demand for their labour, some react to the adverse labour market conditions by withdrawing from active job search and possibly leaving the labour force altogether. This has been the experience of many older workers, for whom loss of employment is more likely to lead to long-term unemployment.
Executive summary

Periods of unemployment also restrict subsequent earnings in a number of ways, such as by reducing hourly wages or the number of hours worked. Minimising cyclical unemployment therefore helps to minimise ongoing underemployment and reduced earnings.

The Commission notes that the Australian Government has introduced a range of measures to assist job seekers back into employment, including greater access to employment services and training for vulnerable young job seekers, retrenched workers and apprentices. These measures are in addition to those which encourage greater demand for workers.

On balance, the economic downturn has reduced the capacity of the unemployed and low paid to obtain and remain in employment. The Commission considers that its decision will both protect jobs in the short term and better support a speedy recovery in employment in the medium term. As the effects of downturns tend to be concentrated on the most disadvantaged segments of the labour force and have longer-term implications, the Commission’s chief concern is that an increase in minimum wages may exacerbate the forecast increase in unemployment.

Providing a safety net for the low paid

The Australian Government submits that economic conditions are “extremely volatile and uncertain”, but maintains that its priorities are to both “support jobs so as to minimise job losses during the economic downturn and to maintain a fair minimum safety net”, and urges the Commission to “align its decision with these aims”.10

The Commission maintains its view that the income safety net is provided by the combination of minimum wages and the tax/transfer system, with the Australian Government responsible for the latter. This is consistent with Article 3 of the International Labour Organisation C131 Minimum Wage Fixing Convention, 1970 (ratified by Australia in 1973), which lists social security benefits among the range of factors to be considered in determining minimum wage levels.11

The Commission considers that information on recent trends in the disposable incomes of households reliant on minimum wages, either solely or in combination with income transfers, is relevant to its deliberations. This is especially so at a time when wage increases are more likely to have an adverse impact on employment.

Over the past year, weekly disposable incomes of a range of illustrative households with one or two earners on the standard Federal Minimum Wage (FMW) increased by more than the current rate of inflation. Taking a longer-term view, since July 2006, the Commission’s first three general Wage-Setting Decisions, in conjunction with tax/transfer changes, have increased the disposable incomes of all household types modelled, by around one and a half to two times the rate of inflation.
Wage-earning households, especially those with children, also received a considerable boost to their disposable income during the 2008–09 financial year as a result of the Australian Government's economic stimulus packages. These payments should have helped to mitigate financial pressures for many families. The additional support provided by them has enabled the Commission to make a cautious decision designed to protect employment in the short term, pending the next wage review in 2010.

These increases in real disposable income for low-paid employee households contrast with the situation of unemployed people, whose incomes are increased only for movements in the Consumer Price Index and who received no payments under the recent economic stimulus packages. As of July 2009, the maximum disposable income of an unemployed single person receiving Newstart Allowance is less than 57 per cent of the disposable income of a single person earning the standard FMW.

The Commission accepts that prices of different expenditure items have moved differently in recent times and that changes in overall living costs will vary for different households, according to the proportion of their overall expenditure they spend on particular items. However, on the basis of its analysis of ABS expenditure data, the Commission believes it is likely that, on average, changes in living costs of low-income employee households in recent months are similar to those of all employee households.

This conclusion is strengthened by analysis showing that low-paid employees, including those who live in low-income households, have a similar pattern of housing tenure to that of all employee households. They also have lower average housing costs. The housing situation of low-paid employees is much more favourable than that of unemployed people, who are more than twice as likely to pay rent and much less likely to be home-owners or purchasers.

The available evidence on the living standards of low-paid workers indicates that a small proportion (around one in five) has low living standards overall. The evidence also indicates that unemployed people have considerably lower levels of household income and are much more likely to experience financial stress.

The Commission expects that, while increases in living costs will vary widely across individual households, for many households containing low-wage earners, recent increases in disposable income have outpaced increases in living costs. This is not true for many households whose members are unemployed. By emphasising the protection of jobs when household disposable incomes have kept pace with inflation, the Commission regards its decision as reaching an appropriate balance between helping to maintain the safety net for low-paid workers and safeguarding employment during the economic downturn.

---

Employees with disability

The Commission has decided to adjust the minimum weekly amount payable to employees with disability under the Supported Wage System (SWS) to maintain its nexus with the income test free threshold for the Disability Support Pension increasing this from $69 to $71 per week.

In order to improve its understanding of the employment of people with disability, the Commission has undertaken a variety of monitoring and research projects to provide a profile of the Australian Disability Enterprises employment sector. Projects include a statistical study using published and unpublished administrative data, an audit of wage assessment tools (WATs), a survey of employers in the sector and qualitative research with employees.

Key findings from the research include:

- Disability Enterprise employees are engaged in a number of different industries and occupations;
- just over half (55 per cent) of Disability Enterprises source their rates of pay from the Pay Scale derived from the Liquor, Hospitality and Miscellaneous Union 2005 Award (LHMU Pay Scale) and the Special Business Services Pay Scale, with the remainder sourcing their classifications and wage rates from alternative wage instruments;
- the Pay Scale level used to calculate minimum rates of pay that is most frequently cited by employers is Grade 1 of the LHMU Pay Scale;
- there are a number of WATs approved for use in the sector, but the majority of organisations use only four — the Business Services WAT (BSWAT); SkillsMaster WAT; SWS WAT; and the Greenacres WAT. With the exception of the Greenacres WAT, all of these are designed to be adaptable for general use; and
- Disability Enterprise employees vary in their understanding of how their wages are determined.

Discrimination

Recent research undertaken for the Commission into the role that minimum wages play in relation to pay equity finds that:

- gender pay differentials persist, even after controlling for a variety of employee and job characteristics;
- the pay gap between men and women is lowest for those employees most directly affected by the Commission’s decisions, with little or no gender pay differential among employees paid only an award rate of pay; and
- the minimum wage adjustments over the period from 1995–96 to 2005–06 are estimated to have decreased the overall gender pay gap in hourly wages by around 1.2 percentage points.

While the Commission is required to apply the principle that men and women should receive equal remuneration for work of equal value, no submissions to the Commission’s 2009 Minimum Wage Review raise a specific claim that a Pay Scale discriminates on the basis of gender.
Wage-Setting Decision 2/2009

On 12 June 2009 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, make the following decision to be known as Australian Fair Pay Commission Wage-Setting Decision 2/2009.

Interpretation

In this Wage-Setting Decision:

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

Commencement of this Wage-Setting Decision

This Wage-Setting Decision comes into operation on 12 June 2009.

A General Decision – Standard Federal Minimum Wage

A1 Adjustment to the standard Federal Minimum Wage

The standard Federal Minimum Wage is maintained at $14.31 per hour. This decision does not vary the standard Federal Minimum Wage.

B Special Federal Minimum Wages

B1 Adjustment to special Federal Minimum Wage No. 1 and No. 2

This decision does not vary 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.

This decision does not vary 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.

C General Decision – Wage adjustment to rates of pay contained in Pay Scales

C1 Adjustment to Pay Scale rates of pay

This decision does not vary Pay Scales.

D Reasons for this Wage-Setting Decision

D1 Reasons for this Wage-Setting Decision

Sections 1 to 6 of this publication provide the reasons for this decision.
On 12 June 2009 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 2/2009.

Ian R. Harper  
Chairman  

Hugh Armstrong  
Commissioner  

Patrick McClure, AO  
Commissioner  

Mike O’Hagan  
Commissioner  

Judith Sloan  
Commissioner
Australian Fair Pay Commission

Reasons for Decision

July 2009
Section 1  

1. Promoting the economic prosperity of the people of Australia

The Australian Fair Pay Commission (Commission) is responsible for setting minimum rates of pay, with the overarching objective of promoting the economic prosperity of the people of Australia. In undertaking this task, the Commission is required by the Workplace Relations Act 1996 to have regard to:

- 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 reviews, the Commission invited submissions to its 2009 Minimum Wage Review to address some or all of these criteria. The criteria also informed the Commission’s consultations in each state and territory, and the ongoing research program.

With the economy in transition, these complementary processes and information sources have been particularly valuable, enabling the Commission to analyse the effects of minimum wages from a variety of perspectives.

Many submissions to the Commission equate economic prosperity with maintaining the purchasing power of all minimum wage rates and/or the relative living standards of people who rely on minimum wages. Other submissions emphasise that increases in minimum wages, particularly at this time, would have adverse effects on employment and competitiveness, thus reducing living standards for many. The latter submissions argue that a suitable wage safety net is already in place and highlight the effects on household income of recent changes to the tax/transfer system and the Australian Government’s fiscal stimulus packages.

Some organisations that emphasised cost of living factors in previous wage reviews now ask the Commission to take greater account of the difficult economic circumstances and the likelihood of an increase in unemployment in the near future. For example, in its 2008 submission, the Australian Government indicated that “the most pressing of these economic challenges is the heightened inflationary environment”. With the changing economic conditions, it now indicates that “during this period of weaker labour demand, the Government’s primary focus is on supporting jobs”.

Similarly, in contrast to its 2008 submission, the Australian Council of Social Service (ACOSS) notes that “in these circumstances overall restraint in wage increases is needed to support employment growth”, although “the burden of wage restraint should not fall on low paid workers alone”.

---

1 For example, ACTU, Australian Council of Trade Unions Submission to the Australian Fair Pay Commission, March 2009, p. 7, para. 1.5.
5 ACOSS, Submission to the Fair Pay Commission on minimum wages, March 2008, p. 2.
Section 1

1.1. The economic and labour market outlook

In considering submissions to the 2009 Minimum Wage Review, the Commission has looked ahead to the period when its decision would come into effect. The economic and labour market environment in 2009–10 will be very different from that of the Commission’s previous decisions. After unemployment reached a low of 3.9 per cent in early 2008, employment growth has slowed rapidly in response to the sharp weakening of the global economy.

While opinions vary, most analysts expect employment to continue falling through 2009–10, with unemployment rising towards 8.5 per cent of the labour force. In previous recessions, increases in unemployment have taken many years to reverse, and the Australian Government projects that unemployment will not return to current levels for approximately six years.

The Commission has considered information from a broad range of sources best to gauge the effect of its decision. It is possible that the economy may recover more quickly than expected, due to supportive macroeconomic policy settings and a flexible labour market. However, there are also risks that the labour market may weaken further than anticipated and take longer to recover.

The scarring effects of unemployment magnify the costs associated with this downside risk. Unemployment tends to affect more severely those people who are already vulnerable, low-paid and low-skilled workers. Many people who become unemployed during a recession do not re-enter paid employment and instead become long-term unemployed or leave the labour force. Therefore, the Commission considers that its main priority in this decision is to protect jobs in the short term and help job seekers to be competitive in the labour market.

1.2. Monitoring the effects of Commission decisions

Since it was established in 2006, the Commission has sought to ensure that its decisions are based on the best available evidence at the time. The Commission receives feedback on the effects of its decisions through submissions, consultation processes, independent data analysis and research.

Most recent analyses of minimum wages have been conducted in a labour market with relatively low unemployment and steady wage growth. The findings from those analyses may not be readily applicable in a weaker labour market. Given the outlook for the labour market, the Commission has therefore revisited the effects of previous recessions and monitored the most recent business surveys.

Research and analysis are central to the evidence-based approach promoted by the Commission. Since its inception, the Commission has initiated a wide range of research on topics relevant to the setting of minimum wages. The Commission has also drawn on relevant academic expertise through the Minimum Wage Research Forum that it convened in October 2008.
The Commission monitors the effects of its decisions on an ongoing basis, with the main findings published in the six-monthly *Economic and Social Indicators – Monitoring Report*. Publication of this report ensures that those with an interest in minimum wages have access to information that influences the deliberations of the Commission.

Accurate monitoring relies on high quality, relevant data. In 2008–09, the Australian Bureau of Statistics (ABS) made significant changes to its survey program and some of these, especially the improved availability of micro-level data, have enhanced the capacity of the Commission to monitor the effects of its decisions.

However, further information on who are paid minimum wage rates would improve the value of a number of ongoing surveys conducted by the ABS and other organisations. The linking of existing surveys could also enhance the capacity of researchers to examine the behaviour of employers and employees at the micro level.

Minimum wage research in other countries relies to a large extent on data collected at the enterprise level. These data are often case-study in nature, though sufficient to evaluate policy changes.

Given the diversity of views offered to the Commission in its 2009 Minimum Wage Review and at the Minimum Wage Research Forum, further development of micro-level data sets and research methods would improve analysis of a range of minimum wage issues.

1.3. Summary

These are challenging times for the Australian labour market, with unemployment expected to increase significantly in 2009–10. Caution is therefore warranted in the setting of minimum wages.

Having sufficient paid work is the main determinant of living standards for most people, while unemployment is the main cause of relative poverty and social exclusion. In the current environment, the ability of employers to offer sufficient work has been curtailed and there is a heightened risk that an increase in regulated minimum wages would reduce employment and working hours. One consequence of increased job losses and fewer hours of work would be significantly lower living standards for many people.

At the same time, consumer prices continue to increase, putting some pressure on disposable income. The Australian Government’s changes to the tax/transfer system and its recent fiscal stimulus packages have, however, provided additional disposable income to cover the average increase in prices for most households, without the risk of increasing unemployment that is associated with higher minimum wages.

The Commission has decided, following its 2009 Minimum Wage Review, that minimum wages will remain at their current levels and not be increased. In making this decision, the Commission has focused on protecting jobs and supporting a stronger recovery in employment as the economy improves.

The Commission notes that the next minimum wage review will be conducted by Fair Work Australia. The Commission considers that, by the next review, the outlook for the economy, and especially the labour market, will be more certain.
Section 2

2. Employment and competitiveness across the economy

Australia experienced an extended period of growth in economic activity, employment and real wages from the early 1990s to 2008. The economy grew by 81 per cent in real terms between 1991 and 2008, with the number of people employed increasing by 3.1 million or 41 per cent. The unemployment rate decreased from a peak of 10.7 per cent in 1993 to a low of 3.9 per cent in February 2008, when labour force participation and employment rates were also at record highs.\(^6\)

The 2008 general Wage-Setting Decision was made in the context of high price inflation and robust economic conditions. Employment was growing at moderate but slowing rates, with aggregate profits at record high levels. Wages were growing steadily overall but more strongly in some parts of the labour market.

The economic environment changed sharply in late 2008, following a shock to the global financial system. This resulted in much slower employment growth and unemployment rising faster than expected, with the labour market forecast to weaken further in 2009–10.

Most submissions to the Commission highlight this significant change in circumstances, indicating that the 2009 Minimum Wage Review takes place in a very different climate to the previous review. Indeed, the Australian Government describes the climate as the “most severe faced by Australian policy makers for a considerable period of time”.\(^7\)

2.1. Employment and unemployment

From early 2008, employment growth began to slow in response to tighter monetary policy settings and, later in the year, the sharp fall in global confidence and activity (Figure 1). Initially, the lower demand for labour was reflected in fewer job vacancies, reduced overtime and, increasingly, a shift toward part-time employment (Figure 2). Business surveys indicate that increasing numbers of businesses have reduced, or are planning to reduce, their workforce over the next twelve months.\(^8\)

---


Section 2

Figure 1: Growth in employment and GDP, March 1989 to March 2009

Through-the-year percentage change

Note: The data are presented on a quarterly basis and seasonally adjusted.


Figure 2: Growth in part-time and full-time employment, April 2007 to April 2009

Through-the-year percentage change

Note: The data are presented on a monthly basis and seasonally adjusted.

Section 2

The total number of people employed began to decrease in early 2009. Between its peak in October 2008 and April 2009, the number of people employed decreased by 0.2 per cent, with full-time employment decreasing by 0.6 per cent and part-time employment increasing by 0.9 per cent. When measured in terms of total hours worked, employment peaked in January 2008 and has decreased by 7.9 per cent since then, indicating a substantially weaker labour market. While these different trends in numbers employed and total hours worked indicate a degree of labour market flexibility, this has also meant an increase in underemployment.

The Australian Chamber of Commerce and Industry (ACCI) submits that businesses prefer the flexibility of working arrangements associated with part-time employment and are less willing to take on full-time employees in an uncertain economy.

As the number of people employed has remained broadly unchanged over the past year, employment growth has been insufficient to meet continued growth in the labour force. As a result, the unemployment rate increased from a low of 3.9 per cent in February 2008 to 5.5 per cent in April 2009.

2.2. Wage growth, inflation and competitiveness

Wage growth and inflation

The Australian Council of Trade Unions (ACTU) notes that there has been “steady but moderate real growth in wages in the general economy” in recent years. Both the ACTU and the Australian Catholic Council for Employment Relations (ACCER) argue that the current economic climate has not been caused by high or rising wage levels, with ACCER indicating that “Australia is not threatened by a wage-inflation recession of the kind experienced at times in recent decades”.

The Wage Price Index (WPI) increased by 4.3 per cent in 2008 and there have been some early signs of slower wage growth in early 2009. Similarly, the average annualised wage increase in new federal collective agreements has changed little over most of the past five years, remaining at just over 4 per cent per annum. While there has been steady growth in nominal terms, real average wages have been generally declining since early 2008 due to higher inflation.
Consumer price inflation increased to 5.0 per cent in the year to the September quarter 2008, as measured using the All Groups Consumer Price Index (CPI).\(^{19}\) While the Reserve Bank of Australia (RBA) reported that this inflation was increasingly broadly-based across product categories, the dominant influences were housing- and fuel-related.\(^{20}\) Consumer price inflation has slowed sharply since late 2008, to 2.5 per cent over the year to the March quarter 2009. However, underlying inflation is yet to slow substantially, with the average of the RBA measures of underlying inflation at 4.2 per cent over the year to the March quarter 2009.

These trends, which suggest that wage growth has generally been less of a constraint to economic growth, may be due in part to the decentralisation of Australian wage determination. In 2008, an estimated 17.8 per cent of employees relied directly on awards or Pay Scales as their method of setting pay.\(^ {21}\) Recent research indicates that estimates of the reach of minimum wages into the wage structure are imprecise, since many employees on individual arrangements and collective agreements are also affected by changes in minimum wages.\(^ {22}\) On the other hand, modelling for the Commission finds that minimum wages have had a declining effect on aggregate wage outcomes in recent years.\(^ {23}\)

**Competitiveness**

Real unit labour costs have shown a declining trend over the last decade, to levels that are lower than those leading into the 1990s recession. Therefore, in contrast with previous recessions, the current economic downturn in Australia appears not to have been associated with rapid wage growth above the rate of price inflation plus the rate of productivity growth.\(^ {24}\)

There is an emerging consensus that productivity growth slowed in the last decade compared with the late 1990s. ABS data suggest that this trend has continued over the last year, with real Gross Domestic Product (GDP) per hour worked increasing by 1.5 per cent over the year to the March quarter 2009 and real GDP per hour worked in the market sector decreasing by 0.1 per cent.\(^ {25}\)
Looking ahead, ACCI is concerned that a decline in productivity, combined with lower inflation, may lead to an increase in real unit labour costs and thus reduce competitiveness:

Given nominal wages tend [to] exhibit little downward flexibility, there is a risk that falling productivity and easing prices will cause an increase in real unit labour costs that will...have a negative impact on employment growth. That risk is magnified with nominal wages running at presently high levels and inflation slowing rapidly.26

ACCI further warns that increases in labour costs that are not contingent upon additional productivity or customer demand may threaten the viability of businesses:

ACCI believes it is imperative that the Commission take into consideration falling productivity in its wage determination decision and continue to monitor the incoming data closely. Declining productivity reduces the capacity of Australian businesses to bear the cost of any increase in the award rates of pay.

Maintaining and encouraging productivity becomes more important in light of the economic adversity facing, in particular, minimum wage reliant businesses, and it is crucial to business survival, capacity to retain employment and capacity to take on new staff in the recovery from the current crisis.27

On the other hand, the ACTU emphasises that the profit share of total factor income has increased to record levels and is at a higher rate than that leading into the last two recessions, with real labour costs correspondingly lower than they were at similar points in the business cycle.28

Company gross operating profits increased by 19 per cent in the first half of 2008, but were largely unchanged during the second half of the year.29 These movements may be attributed in part to variations in mining industry profits. However, recent surveys indicate that profitability has been declining for a large proportion of businesses across a range of industries.30

The ACTU notes that any fall in corporate profits would occur from a record high base and suggests that profits would be cushioned in 2009 and 2010 as macroeconomic policy settings act to stimulate the economy.31 Indeed, the Australian Federation of Employers and Industry (AFEI) suggests that the relatively high share of profits to wages has helped to cushion employment from the recent downturn in economic activity:

In this downturn the share of profits to wages was still at 26 per cent of GDP in the last quarter of 2008. It was 21 per cent at the start of the 1991 recession, for example. This may in part explain the long time it took for employment to begin to fall as employers were able to hold onto labour as they were better placed than in the past. However, as profits are eroded this situation can quickly change.32

---

31 ACTU, March 2009, p. 105, para. 8.34.
32 AFEI, Submission to the Fair Pay Commission, March 2009, p. 17, para. 25.
Section 2

2.3. Business conditions

For many businesses, the decline in aggregate demand has led to significantly lower profitability and changes in business practices. This has been observed in consultations with individual employees, job seekers and businesses undertaken on behalf of the Commission. These consultations involved a series of focus groups and in-depth interviews in late 2008, followed in February to April 2009 by discussions with the same participants. This approach has enabled observation of changes in economic behaviour and/or attitudes over time.

In stage one of the consultations, most employees, job seekers and employers were uncertain that the weaker global environment would translate to Australia. However, by stage two, all groups were convinced that the downturn was evident. Nonetheless, participants reported varying attitudes and actions in response to the downturn, depending largely on their personal experience.

Many employers reported that they were seeking to balance the retention of experienced staff by accepting a reduction in profits, with protecting their profit levels by reducing their labour costs. Reported actions to reduce labour costs included reducing work hours among casual employees, freezing recruitment, seeking improvements in workplace productivity, and lowering staff numbers.

Measures to reduce the total wage bill were among the first to be implemented by employers in Accommodation and food services and Retail trade. Some businesses reported deferring scheduled wage increases, often only after other labour and non-labour related options had been pursued. Most employers considered price increases to be a less feasible option.

Looking ahead, employers had become more speculative about the outlook for their businesses, revising expectations and generally reducing the degree to which they planned ahead. While some had been adversely affected by the general economic downturn, others expressed confidence about future business prospects.

2.4. Economic and labour market outlook

Forecasts

As would be expected at this stage in the economic cycle, the economic outlook is uncertain as events continue to unfold at a fast pace. On balance, submissions to the Commission generally expect the economy to contract in 2009 and to recover weakly from early 2010. Employment is expected to decrease in 2009–10, with wage growth and price inflation forecast to slow to moderate or low rates.
The Australian Government’s forecasts are summarised in Table 1. These forecasts account for the effects of the measures that the Government and the RBA have taken to support the economy and labour market.

Strong and rapid policy action from the Australian Government and the Reserve Bank of Australia is helping to cushion the severe impact of the global recession on the Australian economy and employment. This action is one reason Australia is expected to experience a milder contraction than virtually all other advanced economies. Supported by policy, a recovery in the Australian economy is expected to gather pace over 2010.35

Table 1: Australian Government forecasts

<table>
<thead>
<tr>
<th></th>
<th>2008–09 (e)</th>
<th>2009–10 (f)</th>
<th>2010–11 (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>0</td>
<td>-½</td>
<td>2½</td>
</tr>
<tr>
<td>Employment growth</td>
<td>-¼</td>
<td>-1½</td>
<td>½</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>6</td>
<td>8½</td>
<td>8½</td>
</tr>
<tr>
<td>Growth in the Wage Price Index</td>
<td>4¼</td>
<td>3¼</td>
<td>3¼</td>
</tr>
<tr>
<td>Consumer price inflation</td>
<td>1¼</td>
<td>1¼</td>
<td>1½</td>
</tr>
</tbody>
</table>

Note: Data are reported as percentage changes over the year to the June quarter, except in the case of the unemployment rate, which is the estimate for the June quarter, and real GDP growth, which is the percentage change on the previous year. (e) represents estimate while (f) represents forecast.


The Australian Government forecasts that employment will not decline to the same extent as in the recession of the early 1990s and that the recovery will not be as slow. Employment is expected to decrease by 1½ per cent in the year to the June quarter 2010, returning to its previous level in 2012 (Figure 3).

Figure 3: The level of employment during recession and recovery

Note: The data are presented on a monthly basis and seasonally adjusted.

Section 2

The Australian Government forecasts the unemployment rate to increase from 6 per cent of the labour force in the June quarter 2009 to 8¼ per cent by the June quarter 2010 and to remain broadly unchanged the following year, partly due to a cyclical decrease in labour force participation. This pattern is broadly comparable with earlier economic history, with unemployment trending to increase sharply during recessionary periods and to decrease only slowly once it has developed, as shown in Figure 4.

Figure 4: The unemployment rate during recession and recovery

As illustrated in Figure 5, employment growth is expected to be insufficient to start reducing unemployment until 2011, with the unemployment rate projected to return to 5 per cent by around 2016 (Figure 4).

Figure 5: Employment and labour force growth, 1991 to 2011

Note:

The four major Australian banks broadly agree with the profile of the Government’s forecasts for economic growth and the labour market. However, each is cautious, pointing to risks that the recovery may be weaker than expected as a result of the global environment. The International Monetary Fund (IMF) indicates that “down side risks to the [global] outlook remain substantial”, while the Australian Government warns that, “if the global recession is deeper and more protracted than expected, this would inevitably cause a more severe slowdown in Australia”.

However, some of the banks also refer to the potential for a less pronounced downturn and a stronger recovery, encouraged in part by some recent leading indicators of activity. While the ACTU expects the Australian economy to be subdued over the next year, it cites the large policy stimulus to the economy as the source of a potential upside to the economic outlook. The ACTU also refers to the RBA’s assessment that “firms may have identified the slowing in demand at an earlier stage than in past cycles...if so, when demand returns, production will pick up more quickly than in past cycles.”

### Business surveys

Business surveys offer complementary perspectives on current and future economic conditions. Most major surveys point to a continued weakening in business conditions, profitability, investment, wage growth and employment in the year ahead. However, while some measures of conditions and confidence have continued to decrease, a number of surveys hint at possible stabilisation in confidence, although at low levels.

These surveys often reveal the diversity of individual business experience of the current economic environment. For example, the CBA–ACCI Business Expectations Survey finds that 13 per cent of businesses expect their level of employment to increase over the next quarter; while 52 per cent expect no change and 35 per cent expect a decrease in employment. The National Australia Bank’s March 2009 Quarterly Business Survey and Forecasts indicates that employment intentions for the next twelve months remain low.

### 2.5. Minimum wages and labour demand

While there appears to be broad consensus on labour market conditions over the next year or two, stakeholders continue to express widely varying views on the effect of minimum wages on employment outcomes.

Current labour market conditions are significantly less favourable than those around past wage-setting decisions, which were made against the backdrop of a strong labour market. The potential effects of minimum wage increases on employment in the near term may therefore be quite different from those observed in a more benign economic environment.
Section 2

Prospects for a wage-led recovery

The ACTU considers that excessive wages were not the cause of the recent increase in unemployment, as the profit share is very high and real wages are lower than they were leading into previous recessions.43 The ACTU, ACOSS, Australian Youth Affairs Coalition (AYAC) and various state governments also advise that there is no evidence to suggest that a moderate increase in minimum wages would lead to higher unemployment.44

The evidence provided by the ACTU to the AFPC over the past four years provides strong support for the proposition that moderate, predictable and regular increases in minimum wages do not cause a net contraction in employment growth or increases in unemployment. On the contrary such increases are often associated with improvements in the functioning of labour markets including through their positive effects on recruitment-retention. Such pay increases really make a difference to the well being of low paid workers, their families and communities.45

The ACTU argues that insufficient demand was the primary reason for the recent increase in unemployment46 and that increased minimum wages should be part of the defence against higher unemployment, as increased minimum wages raise household consumption expenditure.47

The Commission reviewed the empirical evidence on the use of minimum wages to increase aggregate demand and thereby employment. There has been little previous Australian research undertaken to demonstrate this effect. However, modelling commissioned for the 2009 Minimum Wage Review finds that an increase in household consumption in the short term, in response to higher minimum wages, would be offset by a fall in consumption as a result of lower employment, with other forms of demand such as business investment also decreasing.48

Looking further afield, an empirical study of the likelihood of a wage-led mechanism in several major economies comparable with Australia49 found that the evidence for wage-led or profit-led recovery is mixed. While possible, there is "little support for the existence of a wage-led employment regime, at least under existing conditions of substantially open economies".50 These researchers suggested that:

...it would be best to conclude not that particular nations’ aggregate demand structures are profit led or wage led, but rather that the effects on aggregate demand of an economy-wide change in the real wage are likely to be quite small.51

The Australian Government also concludes that discretionary fiscal stimulus and monetary policy are more effective in stimulating aggregate demand in the current economic climate than increases to minimum wages.52

45 ACTU, March 2009, p. 8, para. 1.7.
46 ACTU, March 2009, p. 105, para. 8.36.
47 ACTU, March 2009, p. 92, para. 2.51.
49 France, Germany, Japan, UK and USA.
52 Australian Government, March 2009, p. 30, para. 5.27.
Section 2

Other views on the setting of minimum wages

The ACTU, NSW Government and AYAC support the view that an increase in minimum wages would have only a modest effect on overall wage growth and employment.\(^{53}\)

Several of the submissions indicate that the research evidence on the effects of minimum wages on employment is inconclusive, particularly when there is a deficiency in aggregate demand. The Victorian Government argues that:

> The updated employment data presented...reinforces the conclusion...that the link between minimum and award wage increases and employment is difficult to determine and there is no conclusive evidence in the Australian case that minimum wage increases are affecting the level of employment.\(^ {54}\)

While the Victorian Government agrees that economic growth is expected to decline along with consumer and business confidence, it argues that the economy has the capacity to afford a sustainable increase in minimum wages:

> ...downside risks to the economy dominate the economic outlook, such as the instability in global credit markets, a deeper than expected slowing in global growth (particularly China) and poor consumer and business confidence. These downside risks have not yet flowed through to employment and unemployment levels at the moment. This indicates that a sustainable increase, taking into account current and future economic climate moderate and sustainable increase in minimum wages will be absorbed in the current economic climate.\(^ {55}\)

The NSW Government submits that the Commission should take account of confidence effects in the current economic climate:

> In the short term, low levels of business confidence and the softer outlook for economic growth pose a significant risk to the outlook for employment in NSW and Australia...

> The Commission should hand down a decision that goes towards maintaining the real value of all wage classifications contained within the Pay Scales taking into account the scope for employers to meet higher wage costs in the current economic climate and the need to minimise unemployment.\(^ {56}\)

While ACOSS suggests the need for overall wage restraint, it nevertheless supports an increase in Pay Scale wages:

> While in these circumstances overall restraint in wage increases is needed to support employment growth it would be unreasonable, and ineffective, to impose the burden of wage restraint on those employees who rely on Pay Scales. The Federal Minimum Wage and associated Pay Scales make only a very modest contribution to overall wages growth since only 20% of employees rely on the Pay Scales for their wage increases.\(^ {57}\)

---


\(^{56}\) NSW Government, March 2009, pp. 21–22, para. 54 and p. 5, para. 10.

\(^{57}\) ACOSS, March 2009, p. 2.
The Australian Government supports maintaining the real value of the minimum wage:

During this period of weaker labour demand, the Government's primary focus is on supporting jobs. At the same time, the Government has publicly supported a considered rise in the low-income safety net, mindful of significant challenges facing the domestic economy. The Government does not support a reduction in the real minimum wage. Given that weakness in aggregate demand is currently the primary constraint on demand for labour, a reduction in the real minimum wage is unlikely to be effective in stimulating employment as demand for labour is likely to remain subdued to macro-economic factors. Moreover, any decreases in the real minimum wage would tend to further dampen aggregate demand.58

However, the Australian Government also considers that:

The majority of empirical research, as previously recognised by the Commission suggests that there is a negative relationship between minimum wage increases and employment. While this relationship has been relatively weak in recent years given that rises in the minimum wage have co-existed with strong employment outcomes for the low paid, the Government cautions the Commission that expected negative impacts on employment of minimum wage increases could be stronger in a slowing economy.59

The Commission has examined the available evidence on the relationship between minimum wages and employment in its previous Minimum Wage Reviews60 and again for the 2009 review. Its assessment is that, on balance, most experts consider that excessive wage growth can harm employment growth. As research by the Organisation for Economic Co-operation and Development (OECD) and Card and Krueger has indicated, the potential for a negative employment effect is higher when the labour market has a relatively high basic minimum wage, as in Australia.61

The Commission considers that these risks to employment are accentuated during downturns, when there is less flexibility for businesses to absorb an increase in minimum wages. This is confirmed by consultation with small businesses undertaken on behalf of the Commission at different times as the economy weakened during 2008–09.62

Recent modelling undertaken for the Commission by the Centre for International Economics (CIE) finds that the disemployment effect of increases in minimum wages becomes larger during a recession. This research finds that minimum wage adjustments from 2005 to 2008 had only small effects on unemployment in the short term, in the context of a strong labour market. However, during a downturn, as aggregate wage growth slows and new job opportunities diminish, minimum wage increases are estimated to have a magnified effect on unemployment, as shown in Figure 6.63

Section 2

Figure 6: Effect of minimum wage changes at low and high rates of unemployment

The CIE estimates that if minimum wages were to continue increasing into the future at the rate that they did in 2008, the effects on employment and unemployment would be larger. Instead of the average increase of around 0.05 of a percentage point in unemployment during the period 2005 to 2008, the effects would be: around 0.1 of a percentage point increase if the unemployment rate were to rise to 7.5 per cent in 2009–10; and 0.12 of a percentage point increase if the unemployment rate were to rise to 8.5 per cent. The respective reductions in employment would be 17,000 and 20,000, compared with an average of 8,000 in the earlier period.\(^6^4\) That is, the effects on employment and unemployment of a minimum wage increase would be approximately two and a half times as high as in the 2005 to 2008 period.

It is useful to look back on the performance of the Australian labour market in the early 1990s. Despite consistently strong economic growth, the recovery in employment occurred at a relatively slow and inconsistent rate, leading to concerns about ‘jobless growth’. The Committee on Employment Opportunities concluded that both output growth and wage restraint are important for generating sufficient employment growth.\(^6^5\)
Section 2

This view is supported by recent modelling undertaken by Dixon and Rimmer, who find that only a small proportion of the increase in unemployment is likely to be recovered by increases in aggregate demand, with wage moderation also necessary to offset the increase in unemployment.66

**Business behaviour**

In its 2008 report, the UK Low Pay Commission notes that:

> Two things are clear from economic theory. The first is that, in the presence of a wage effect from a minimum wage, employers will need to adjust on some margin. Something has to give. Raising the wages of low-paid workers can affect a number of economic variables, principal among which are: employment, prices, productivity and profits. The second implication is that the level at which the minimum wage is set is crucial to the magnitude of those economic effects and to the scale of any negative impact.67

Economists emphasise that prices, such as wages, are often slow to adjust to imbalances in demand and supply, with changes in quantities occurring more readily in response to demand shocks.

> The sluggishness in the response of prices and wages to imbalances in supply and demand accentuates fluctuations in output and employment. Because prices do not carry the main burden of adjustments, quantities are obliged to carry the load.68

Behaviour of this kind was reported by employer participants in the public consultations undertaken on behalf of the Commission. Businesses tend to follow a broad sequence of adjustments to employment and wages in response to a fall in sales and profitability. Adjustment to hours worked tends to occur earlier in the process, followed by reduction in the number of employees, followed by reduction or deferral of planned wage increases. In some cases, where the viability of a business is threatened and other measures have been unsuccessful, reduction in wage rates may occur.69

In its post-Budget submission, the ACTU refers to the confidence effects of minimum wage adjustments, arguing that “It is precisely by ensuring moderate, regular and predictable minimum wages increases through the cycle that confidence is sustained.”70

However, increases in minimum wages would reduce the flexibility that some employers may have to adjust their business practices to respond to an unexpected change in their business fortunes. They would also reduce the capacity of businesses to support the higher rates of employment growth needed to quickly reduce unemployment when the Australian economy begins to recover. When that occurs, it will be important for the level of minimum wages to help accelerate the recovery in employment.

---

69 These stages of behaviour have also been reviewed by T Bewley, Why Don’t Wages Fall During a Recession?, Cambridge, Harvard University Press, 1999, p. 1.
70 ACTU, Australian Council of Trade Unions Submission to the Australian Fair Pay Commission, May 2009, p. 36, para. 5.4.
Section 2

2.6. Summary

The consensus among submissions is for a decline in employment and a significant increase in unemployment in 2009–10. In previous economic cycles, while the recession itself may have been short, the recovery in employment has tended to be weak and it has taken a long time for unemployment to return to its initial low rate. A lesson from this previous experience is that decision-makers should act early to limit the increase in unemployment and to lend greater support to employment.

While the extent of weakness in the economic outlook remains uncertain, the Commission emphasises the need for caution at this time, when there is greater risk that a minimum wage increase may further reduce employment and competitiveness across the economy.
Section 3

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

The Australian labour market changed significantly between the early 1990s and 2008. By 2008, the labour market was characterised by:

- labour force participation rates and employment-to-population ratios at historic highs;
- unemployment at rates not seen since the early 1970s, with long-term unemployment below one per cent of the labour force;
- high rates of job vacancies in both skilled and unskilled occupations;
- structural change occurring among industries; and
- very strong wage growth in some parts of the labour market, combined with steady growth in wages overall.\(^{71}\)

These labour market outcomes were reflected in the experience of many, but not all, low-skilled groups. At the same time, there was concern around continuing levels of underemployment, barriers to obtaining work, skill shortages and the adequacy of labour force participation rates in the context of an ageing population.\(^{72}\)

This section considers how the capacity for the unemployed and low paid to obtain and remain in work may be affected in 2009–10, since economic downturns are typically associated with significant changes in the composition of employment and unemployment. These changes vary by age, gender, skill, education, location, household type, form of employment, industry and occupation. Extensive research has also demonstrated that unemployment has significant costs. This suggests that strategies are needed to minimise the emergence and duration of unemployment wherever possible.

3.1. Employment by industry and occupation

Industry views

Employer organisations predict that increases to minimum wages in the current economic climate will have a disproportionate effect on certain industries, especially Accommodation and food services and Retail trade, with a resultant decrease in employment:

‘A particular consideration in 2009 is the disproportionate impact of the economic crisis on consumer demand for the retail sector, and on demand for restaurant meals, and other hospitality and tourism services…'

It is retail, tourism and hospitality businesses which have experienced the direct and early impact of Australians changing their purchasing decisions in the face of (a) crisis, but also (b) uncertainty about their jobs, their mortgages and their economic prospects. It is retail and hospitality employers who stand the direct prospect of going under in light of depressed demand and depressed operating conditions, and increased operating costs.\(^{73}\)

---


\(^{73}\) ACCI, March 2009, p. 30, paras. 112–113.
Section 3

A wage increase in the midst of the current crisis will send the wrong message to employers and employees who are doing all they can to work together to protect jobs until the economy recovers. A wage increase this year will impact the hospitality sector in a more profound way than in most other sectors, as it is heavily pay scale reliant.\(^{74}\)

Many employers are concerned about their capacity to maintain employment of staff during the current downturn. While some expect to increase recruitment, a larger proportion expects to maintain or reduce employment over the next twelve months. For example, the Australian Retailers Association (ARA) reports that around 50 per cent of respondents to its survey plan to reduce casual and part-time staff over the next six to twelve months, while around one-third expect to reduce permanent staff.\(^{75}\)

Master Grocers Australia (MGA) reports that around 70 per cent of independent supermarket store owners surveyed indicate they would reduce the number of employees in response to a minimum wage increase.\(^{76}\) This risk to employment from an increase in minimum wages also appears to be greater when the results from Chamber of Commerce and Industry Queensland (CCIQ) surveys are compared between 2008 and 2009.\(^{77}\)

However, some employer groups remain more confident about the medium-term prospects for the industries they represent. The ARA believes that the fundamentals of the economy are still strong and foresees some recovery in the Retail trade industry in late 2009.\(^{78}\)

Variations in employment by industry and occupation

In any given year, levels of economic activity and employment vary by industry, even in periods of strong economic growth. This reflects the nature of structural change. However, recessions can have a heightened effect on some industries and influence the patterns of recovery.

The number of people employed in each broad industry category decreased at some stage during the recession of the early 1990s. The largest decline occurred in Manufacturing (139 000 fewer jobs than at its peak) and Financial and insurance services (63 000 fewer people employed). Employment in Retail trade and Accommodation and food services, two of the more Pay Scale reliant industries, declined to a smaller extent and over a shorter period of time before recovering.\(^{79}\)

Employment in low-skilled and higher-skilled occupations declined to a similar degree during the 1990s recession. Again, this varied by industry, with some such as Accommodation and food services continuing to deliver moderate growth in low-skilled jobs. In the early phase of the recovery from that recession, the more Pay Scale reliant industries tended to deliver stronger growth in low-skilled employment, with higher-skilled employment growing at a slower rate.

\(^{74}\) AHA, 2009 Submission to the Australian Fair Pay Commission, Concerning Minimum Wages, 20 March 2009, p. 5.

\(^{75}\) ARA, Submission to the Australian Fair Pay Commission, 20 March 2009, Schedule 1, pp. 1–2.


Section 3

There are some similarities between the patterns of change in the year to February 2009 and the early part of the 1990s recession.

- The largest decline in activity, profitability and employment has occurred in the Manufacturing industry, with 65,000 fewer people employed in Manufacturing and Financial and insurance services, combined, over the year to February 2009. The largest decline in activity, profitability and employment has occurred in the Manufacturing industry, with 65,000 fewer people employed in Manufacturing and Financial and insurance services, combined, over the year to February 2009.80
- Employment in Accommodation and food services has decreased, although the Sensis Business Index reports that the industry strengthened by early 2009, recording the highest net performance in sales, profitability and capital expenditure of all industries.81
- The number of people employed in Retail trade declined by 32,000 over the year to February 2009. The outlook for this industry remains mixed, with the Australian Retailers Index suggesting that weaker sales and profit growth are expected by mid-2009. However, the Australian Government suggests that there are grounds for optimism, with employment increasing in the industry in the early part of 2009.82
- The number of job vacancies has declined sharply over the last year, by around 50 per cent on some estimates, across a broad range of occupations and skill levels.83

The role for minimum wages

The Australian labour market can expect to experience further compositional changes through 2009–10, with total employment forecast to decrease. The nature of these changes will become more apparent as they unfold. However, the Commission is conscious that minimum wages affect some industries and occupations more than others. For example, around 55 per cent of employees in the Accommodation and food services industry rely on an award or Pay Scale only, with part-time employees and elementary clerical and sales workers the most highly reliant on minimum wages. Changes in minimum wage rates are therefore more likely to affect both levels of continued employment and the potential for further jobs to be offered within those industries and occupations.

One of the tasks of labour market policy is to encourage the matching of job seekers with vacancies. Borland and Kennedy have found that unemployment is disproportionately high for workers whose last job was as a labourer, tradesperson, clerical, sales or service worker and/or in the Manufacturing, Construction or Accommodation and food services industry.84

Studies of workers who regain employment after a period of unemployment have found that they often experience a change in the nature of their work, with many higher-skilled people moving to lower-skilled occupations and/or other industries. For example, some people retrenched from Manufacturing have subsequently found employment in service industries. On that basis, it is important that minimum wage rates be set at a level that encourages new employment opportunities for people who are displaced from their current jobs.

Lower-skilled people also become less competitive in the labour market as higher-skilled people who become unemployed accept lower-skilled jobs. This ‘crowding out’ effect is likely to be greater during downturns, when unemployment rates of higher-skilled people tend not to increase to the same degree as those of low-skilled people. Low-skilled people are less likely to regain employment and are more likely to leave the labour force.

As indicated previously, the retail and hospitality industries are most concerned by the increase in costs that would be associated with higher minimum wages at this time. Provided that minimum wages are set at a supportive level, the experience of the last recession suggests that some of the more Pay Scale reliant industries have the potential to offer higher levels of employment growth through the recovery, in part because of the greater flexibility of employment structures within those industries.

3.2. Employment and unemployment of low-skilled people

Labour market disadvantage

The patterns of unemployment that emerged in earlier periods of Australia’s economic history, and the associated effects on people who become unemployed, have been extensively reviewed in the past. In previous recessions, labour market disadvantage has tended to become concentrated in particular parts of the community and has proven difficult to reduce.

The Australian Government submits that the strength of the economy until 2008 has benefited all groups of workers. However, it expects that some groups will be more disadvantaged than others as the economy weakens.

While labour market conditions have strengthened for most cohorts over recent years, certain groups in the labour market, including teenagers, the long-term unemployed, lone parents, lower skilled workers and those with low levels of educational attainment, are likely to face significantly greater levels of labour market disadvantage as a result of the economic impact of the global financial crisis, compared with most other cohorts.

88 For example, in Committee on Employment Opportunities, 1993.
Section 3

Baum and Mitchell suggest that some individuals, families and communities can be expected to emerge from the current downturn only mildly scarred, while others may experience greater disadvantage. Australian evidence indicates that the burden of increased unemployment falls disproportionately on identifiable demographic groups, especially those attempting to find a foothold in the labour market and to maintain that position. These groups include young people, low-skilled people, and migrants from non-English speaking backgrounds, demographic groups identified as being both more heavily reliant on minimum wages and at higher-risk unemployment.

Employment effects of the 1990s recession

During the recession of the early 1990s, the employment rate of the Australian working-age population (aged 15 to 64 years) fell by almost four percentage points on an annualised basis. However, this effect varied across demographic groups, with some experiencing no reduction in aggregate employment.

Table 2 summarises population employment rates by gender and age for the working-age population in 1989 and 1993 (immediately before and after the recession) and most recently in 2008. This shows that the male employment rate fell by almost six percentage points between 1989 and 1993, compared with a fall of less than one percentage point among working-age women. Employment losses were greatest for young men and women under the age of 25 and for men aged 55 to 64, while the employment rate of prime-age women remained essentially unchanged and that of women aged 55 to 64 increased.

Table 2: Employment rates by gender and age, 1989, 1993 and 2008

<table>
<thead>
<tr>
<th>Gender/age group</th>
<th>1989</th>
<th>1993</th>
<th>Change 89-93</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men aged 15-24</td>
<td>67.5</td>
<td>58.0</td>
<td>-9.5</td>
<td>65.2</td>
</tr>
<tr>
<td>25-54</td>
<td>89.1</td>
<td>84.0</td>
<td>-5.1</td>
<td>88.3</td>
</tr>
<tr>
<td>55-64</td>
<td>58.9</td>
<td>52.7</td>
<td>-6.2</td>
<td>65.7</td>
</tr>
<tr>
<td>All men aged 15-64</td>
<td>79.9</td>
<td>74.0</td>
<td>-5.9</td>
<td>79.6</td>
</tr>
<tr>
<td>Women aged 15-24</td>
<td>60.9</td>
<td>54.5</td>
<td>-6.4</td>
<td>63.4</td>
</tr>
<tr>
<td>25-54</td>
<td>62.0</td>
<td>62.1</td>
<td>+0.1</td>
<td>72.5</td>
</tr>
<tr>
<td>55-64</td>
<td>22.9</td>
<td>25.2</td>
<td>+2.3</td>
<td>49.1</td>
</tr>
<tr>
<td>All women aged 15-64</td>
<td>56.6</td>
<td>55.7</td>
<td>-0.9</td>
<td>66.7</td>
</tr>
</tbody>
</table>

Note: All figures are averages of monthly data for the relevant calendar year.


---

90 S Baum and W Mitchell, Red Alert Suburbs: An Employment Vulnerability Index for Australia’s Major Urban Regions, University of Newcastle and Griffith University, March 2009.

Table 2 also shows that, while most groups had 2008 employment rates that were substantially higher than immediately before the last recession, those of young and prime-age men remained below their 1989 levels.

Borland and Kennedy find that cyclical phases where unemployment has increased have generally involved a decrease in the male full-time employment-to-population ratio, whereas phases that involve a decrease in unemployment generally involve increases in female full-time and part-time employment.92

Frijters and Gregory report that the male full-time employment-to-population ratio has decreased since the early 1980s, with the decrease concentrated among low-skilled and unskilled men.93 At the same time, the proportion of men who have become reliant on income support has increased. While the decline in male full-time employment rates was evident in most age categories, many older men had left the labour force via the Disability Support Pension, with each recession shifting the amount of job loss higher.94

Each economic downturn reduces the level of unskilled male employment which, when the economic upswing begins, does not return to previous levels and therefore the welfare population increases considerably.95

These cyclical trends began to re-emerge in the year to April 2009. Male full-time employment decreased from its peak in August 2008 by 97 000, while male part-time employment increased by 58 000 and female part-time employment increased by 37 000.96 The labour force participation rate of men did not change, so that the reduction in employment translated into higher unemployment. Among women, labour force participation increased over the period, also resulting in higher unemployment.

Table 3 further illustrates how the employment of groups with differing household relationship status changed during the last recession and the subsequent recovery. The two groups that saw the largest reduction in employment were non-dependent children living with their parents and people living with unrelated others. These groups are predominantly aged under 35 (85 per cent of the former and three-quarters of the latter). The employment rates of both of these groups are still well below their 1989 levels.

Single parents with dependent children also suffered a reduction in their employment rate of around five percentage points over the course of the 1990s recession, but since then their employment rate has improved substantially. Nevertheless, this group remains relatively low-skilled and may thus be vulnerable to future job losses and unemployment. Whiteford observes that long-term joblessness continues to be concentrated in a relatively small group of families at risk of severe disadvantage, with Australia having one of the highest levels of joblessness among (primarily single parent) families with children.97
Table 3: Employment rates by household relationship status, working-age population, 1989, 1993 and 2008

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Partnered person with dependent children</td>
<td>73.7</td>
<td>71.3</td>
<td>-2.4</td>
<td>79.6</td>
</tr>
<tr>
<td>Partnered person without dependent children</td>
<td>66.0</td>
<td>65.4</td>
<td>-0.6</td>
<td>76.0</td>
</tr>
<tr>
<td>Single parent with dependent children</td>
<td>50.3</td>
<td>45.4</td>
<td>-4.9</td>
<td>62.5</td>
</tr>
<tr>
<td>15-24 year old student living with parents</td>
<td>31.0</td>
<td>29.4</td>
<td>-1.6</td>
<td>45.7</td>
</tr>
<tr>
<td>Non-dependent child living with parents</td>
<td>87.2</td>
<td>78.3</td>
<td>-8.9</td>
<td>79.8</td>
</tr>
<tr>
<td>Person living with unrelated others</td>
<td>82.7</td>
<td>72.6</td>
<td>-10.1</td>
<td>78.2</td>
</tr>
<tr>
<td>Person living alone</td>
<td>68.7</td>
<td>65.0</td>
<td>-3.7</td>
<td>73.5</td>
</tr>
<tr>
<td>Total</td>
<td>69.1</td>
<td>65.4</td>
<td>-3.7</td>
<td>73.4</td>
</tr>
</tbody>
</table>

Note: Dependent children include all children under the age of 15 and full-time students aged 15 to 24. Figures are as at June in each year.


The data summarised in Tables 2 and 3 suggest that young people, especially those who are not full-time students, may be at particular risk of employment reductions over the course of the current downturn. While it is usual for young people to have a higher risk of unemployment than older age groups, this effect is magnified when young people seek to enter the labour market during a period of weakness.

The Australian Government notes that labour market conditions for young people have deteriorated over the last year and that they may have difficulty gaining full-time employment during an economic downturn.98 Figure 7 confirms that unemployment among young people has already increased in early 2009 to a greater degree than for the labour force as a whole.

Figure 7: Unemployment rates of selected age groups, 1987 to 2009

Section 3

Effects of unemployment on subsequent labour market experience

A number of submissions recognise that, in weak economic conditions, the lowest skilled and marginal workers are more at risk of not obtaining or remaining in employment.

‘…in a more difficult labour market environment those with lower educational attainment will find it more difficult to secure another job after retrenchment than their more highly skilled counterparts. Similarly, new labour market entrants without skills will encounter greater difficulty securing an initial foothold in the jobs market if the labour market weakens further, as predicted’99

‘While high skilled workers are now losing jobs in response to changed market conditions and the drop in demand for their skills, the unskilled are always most susceptible to increases in minimum rates…The employment impact of any increase will be sharpest for those who are intended to be the focus of the AFPC attention.’100

‘Those with lesser skills, shorter labour market attachment (or longer periods out of work), with disabilities, or indeed parents with restrictions on their working availability may well be amongst the first to feel the impacts of reduced labour demand.’101

Empirical evidence points to long-term consequences or scarring for individuals who experience joblessness.102 As the contraction in employment persists, many people who become unemployed in its early phases remain jobless and find it increasingly difficult to regain work, thus leading to a concentration of unemployment.103

Given diminished demand for labour and the position of low-skilled job seekers at the ‘back of the queue’, some react to the adverse labour market conditions by withdrawing from active job search and possibly leaving the labour force altogether. This has been the experience of many older workers, for whom loss of employment is more likely to lead to long-term unemployment.

Murtough and Waite104, in addition to other researchers105, have also found that low-skilled people are less likely to regain employment and have an increased likelihood of leaving the labour force.

A further deleterious effect is that periods of unemployment restrict subsequent earnings in a number of ways — by reducing hourly wages or the number of hours worked or by making people susceptible to persistent underemployment. Minimising the extent of cyclical unemployment would therefore help to minimise the ongoing extent of underemployment and lower earnings.

100 AFEI, March 2009, p. 25, para. 42.
101 ACCI, March 2009, p. 12, para. 54.
104 Murtough and Waite, 2000, pp. x–xi.
While recognising that wage restraint is needed to support employment growth, ACOSS considers that the extent to which minimum wage restraint can improve the job prospects of low-skilled workers is limited. It suggests that:

More investment in programs that improve their skills, work capacity, health and personal circumstances is likely to produce better outcomes. 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...106

As Baum and Mitchell indicate, "there is no shortage of research which illustrates that the early experiences of those entering or seeking to enter the labour market significantly influence their future social, economic and behavioural fortunes".107

Community groups, including some specifically concerned with youth affairs, agree that the problems that young people have in gaining employment will be exacerbated by the economic downturn. However, they remain more concerned about the effect of the downturn on young people's living standards if minimum wage rates are not maintained in real terms.108

Some submissions respond to the Commission's interest in labour market transitions, as expressed in the 2008 general Wage-Setting Decision.109 However, most of the research cited in submissions was conducted during stronger labour market conditions and this may limit the application of those findings to prospective conditions.

ACOSS reiterates that there is evidence that some low-paid workers move to more secure, better-paid jobs, while others return to joblessness.110 Buddelmeyer, Lee and Wooden find that, while low-paid workers are at greater risk of future unemployment than workers in more highly-paid jobs, an episode of employment, whether low-paid or high-paid, reduces the scarring effect of unemployment in terms of future employment and earnings.111

The Commission notes that the Australian Government has introduced a range of measures to assist job seekers back into employment, including greater access to employment services and training for vulnerable young job seekers, retrenched workers and apprentices. These measures are in addition to encouraging greater demand for workers.

---

109 For example, Victorian Government, March 2009, p. 36, para. 3.3.5.
Section 3

Public consultations on economic behaviour at the micro level

As reported previously, public consultations with individual employees, jobseekers and businesses were undertaken for the 2009 Minimum Wage Review on behalf of the Commission. Some participants described the labour market as being “more akin to an employers’ market”, with the supply of labour exceeding the demand for labour and hiring activity slowing.112

In later stages of the consultations, both employees and jobseekers reported placing greater importance on job security, particularly those who had maintained their job but had been directly exposed to the effects of the downturn in some way. In contrast with previous consultations, people were more likely both to report increasing their work effort to retain their employment and to express a desire for permanent work. Relative to other wage reviews, perceived prospects for upward labour mobility were weak. Stage two consultations also revealed that job seekers were more prepared to work in less desirable forms of employment, with lower pay and conditions, and fewer working hours, if it meant being able to keep a foothold in the workforce.113

3.3. Summary

Submissions to this wage review indicate widespread concern about the potential for unemployment among segments of the labour force. Many employer submissions argue that, in the current economic climate, an increase in minimum wages will raise the level of unemployment among low-skilled people.114 ACCI suggests that:

An increase in FMW may reduce the employment of low-skilled employees as employers substitute low-skilled workers with higher skilled workers and reduce opportunities for work experience accumulation directly via the disemployment effect. These adverse effects of minimum wages on skill formation development amongst low-skilled employees consequently imply that fewer low-skilled workers will attain higher wage jobs in the future — one of the most effective ways of attaining higher living standards.115

The number of people unemployed reached around 900 000 during the recession in the early 1990s, with a larger number of people also affected indirectly as a result of being fellow household members or via the social costs of unemployment. Research has indicated that the costs of unemployment tend not to be temporary and that it takes an extended period of time to reduce unemployment once it has occurred, particularly among the low skilled.116

On balance, the capacity of the unemployed and low paid to obtain and remain in employment has been reduced by the economic downturn. The Commission considers that its decision will both protect jobs in the short term and better support a speedy recovery in employment in the medium term. As the effects of downturns tend to be concentrated on the most disadvantaged segments of the labour force and have longer term implications, the Commission’s key concern is that an increase in minimum wages may exacerbate the forecast increase in unemployment.

114 AHA, March 2009, p. 5.
115 ACCI, March 2009, p. 149, para. 420.
116 For example, Chapman and Kapuscinski, 2000.
Section 4

4. Providing a safety net for the low paid

The Commission maintains its view that the income safety net is provided by the combination of minimum wages and the tax/transfer system, with the Australian Government responsible for the latter. This is consistent with Article 3 of the International Labour Organisation (ILO) C131 Minimum Wage Fixing Convention, 1970 (ratified by Australia in 1973), which lists social security benefits in the range of factors to be considered in determining minimum wage levels.117

Many submissions to the 2009 Minimum Wage Review concur with the view that the minimum wage is only one component of the safety net for the low paid. For example:

‘...the FMW represents only one component of the income safety net for Australians. Other government interventions including tax cuts, industrial regulation and economic stimulus packages are relevant to the overall well being of Australians.’118

‘Real disposable incomes are a function of nominal incomes and their interaction with the tax and transfer payments system.’119

Several employer groups point to the tension between the objective to provide a safety net and other objectives, especially in the current economic climate:

‘The greater the emphasis that is placed on the role of the minimum wage as an income safety net, the less likely it is that the AFPC will meet the objective of improving the capacity of the unemployed and low paid to get and keep jobs.’120

‘It is important a safety net for low paid workers does not come at the expense of jobs. Raising the minimum wage at a time when many businesses’ bottom lines have been affected by deteriorating economic conditions has the potential to lead to greater unemployment.’121

Other submissions suggest that, even in the present economic conditions, maintenance of the safety net remains a key objective. The Australian Government submits that economic conditions are “extremely volatile and uncertain”, but maintains that its priorities are to both “support jobs so as to minimise job losses during the economic downturn and to maintain a fair minimum safety net”, and urges the Commission to “align its decision with these aims.”122

---

120 AFEI, March 2009, p. 6, para. 8.
Section 4

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

Submissions express different views about whether the Commission should consider changes in the tax/transfer system, of either a one-off or enduring nature, in making its 2009 general Wage-Setting Decision. Some suggest that the upcoming changes to personal income tax, as well as the economic stimulus payments, are important in determining disposable incomes and overall living standards:

‘These [stimulus] packages, along with the Government’s personal income tax cuts announced in the 2008–09 Budget, have delivered, and will continue to deliver, a fiscal boost to groups most likely to be negatively affected by the flow-on effects of the global economic changes. These measures will help support the living standards and preserve the purchasing power of those reliant on minimum wages.’123

‘When determining the issue of providing a safety net for the low paid it is important the Commission have regard to factors beyond nominal incomes and take into consideration the impact of tax changes and increases in tax offsets, welfare payments, in-kind benefits and subsidies and any other measures that lift the after-tax incomes or living standards of the low paid.’124

Other submissions suggest that to account for tax/transfer adjustments in wage-setting decisions would be inconsistent with the objectives of these measures:

‘Consideration as part of this Wages Review of these scheduled tax cuts will compromise the achievement of the Commonwealth Government stated objectives for the tax cuts:

• Increase take home pay / disposable income
• Reward for effort
• Long awaited tax relief
• To really help take the financial pressure off working families.’125

‘To offset or discount the Commission’s 2009 wage increase for the impact of the Commonwealth Government’s stimulus packages is to only undo or diminish the policy intent of those packages.’126

123 Australian Government, March 2009, p. 21, para. 4.4.
125 ACTU, March 2009, p. 111, para. 9.16.
126 NSW Government, March 2009, p. 31, para. 91.
Some argue that taking tax/transfer changes into consideration will have an adverse effect on the long-term level of the Federal Minimum Wage (FMW):

‘…tax cuts, income transfers in the social security system, and stimulus packages, which operate to supplement the incomes of the low-paid, are shaped by social and economic policy considerations. These policy considerations also change from time to time and therefore may not be capable of continued reflection into minimum wage levels.’\(^{127}\)

‘Tax bonuses are one-off payments. To take them into account when determining wages for minimum wages workers when they are not an ongoing payment would dampen minimum wages workers wage rates into the future when those payments will have no effect on disposable income.’\(^{128}\)

The Australian Catholic Council for Employment Relations (ACCER) further argues that taking into account tax/transfer changes effectively discriminates against workers who rely on minimum wages relative to workers covered by collective or individual agreements, who have their wages set without reference to the tax/transfer system.\(^{129}\)

In its submission, the Australian Government anticipates that the Commission would take into account ongoing changes to taxes and transfers, but asks that the Commission “note the temporary nature of the support provided through the stimulus measures.”\(^{130}\)

As stated in its 2008 general Wage-Setting Decision,\(^{131}\) the Commission does not favour a formulaic approach to balancing the respective contributions of tax/transfer changes and wage increases to disposable income. Nevertheless it considers that information on recent trends in the disposable incomes of households reliant on minimum wages, either solely or in combination with income transfers, is relevant to its deliberations. This is especially so at a time when wage increases are more likely to have an adverse impact on employment.

4.2. Recent changes in the tax/transfer system

Legislated changes to the income tax system, effective from July 2009, will affect the disposable income of lower-income workers. These changes include:

- an increase in the income threshold for the 30 per cent tax rate from $34 001 to $35 001 per annum; and
- an increase in the Low Income Tax Offset (LITO) from $1200 to $1350 per annum, (this increases the effective tax-free threshold to $15 000 per annum).

These changes will increase the disposable income of a full-time FMW earner by around $3 per week and that of a worker earning the equivalent of the Metal Industry C4 Pay Scale by almost $6 per week.

---

\(^{127}\) Government of South Australia, March 2009, pp. 19–20, para. 3.3.


\(^{129}\) ACCER, March 2009, p. 15, para. 36.

\(^{130}\) Australian Government, March 2009, p. 24, para. 4.20.

Compared with those of recent years, these changes to income tax are relatively modest:

- effective marginal tax rates (EMTRs) will fall by 15 percentage points for people in two narrow income bands (between $14,001 and $15,000 and between $34,001 and $35,000 per annum); and
- EMTRs will rise by four percentage points for people earning between $60,001 and $63,750 per annum.

Changed indexation arrangements for Family Tax Benefit Part A (FTB-A) will also affect the disposable incomes of low-income families with children. From 1 July 2009, FTB-A will be indexed only to movements in the CPI. The 2009–10 rates are estimated to be lower than under the old indexation formula by some 35 cents per week for each child under 12 and 49 cents per week for each child aged 13–15.

Over the past year, households that rely on a combination of wages and income transfers have also benefited from the regular indexation of those transfers, and measures such as the dependent spouse tax offset (DSTO).

The Commonwealth Government has also implemented two economic stimulus packages, the Economic Security Package, effective 3 December 2008, and the Household Stimulus Package, announced 3 February 2009. These packages provided additional transfers and/or tax bonuses to many low- and middle-income households. More detail on the economic stimulus packages can be found in Section 4.3.

---

132 Until 2008–09, rates of FTB-A were benchmarked to the combined couple rate of (age) pension. This meant that they tended to increase according to movements in male total average weekly earnings (MTAWE), rather than the CPI.

133 Some payments are indexed by reference to the CPI, others to MTAWE or a combination of the two.
Section 4

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

Table 4 details the combined effects of the Commission’s general Wage-Setting Decisions from 2006 to 2009 and relevant tax/transfer changes on the weekly disposable income of a range of households earning various proportions of the standard FMW. While the primary focus remains on households with one earner on the standard FMW, the modelling continues to include cases where a single parent or secondary earner works part-time and earns 50 per cent of the standard FMW.

Table 4: Disposable incomes of illustrative low-paid households, July 2006 to July 2009

<table>
<thead>
<tr>
<th>Household 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 partner earning 100% FMW</td>
<td>592.02</td>
<td>617.60</td>
</tr>
<tr>
<td>Couple without children, one partner earning 100% FMW, other earning 50% FMW</td>
<td>708.45</td>
<td>735.83</td>
</tr>
<tr>
<td>Couple, two children, one partner earning 100% FMW</td>
<td>815.47</td>
<td>848.74</td>
</tr>
<tr>
<td>Couple, two children, one partner earning 100% FMW (not receiving Newstart Allowance)</td>
<td>712.89</td>
<td>748.77</td>
</tr>
<tr>
<td>Couple, two children, one partner earning 100% FMW, other earning 50% FMW</td>
<td>910.83</td>
<td>956.12</td>
</tr>
<tr>
<td>Pensioner single parent, one child, earning 50% FMW</td>
<td>614.15</td>
<td>641.98</td>
</tr>
<tr>
<td>Pensioner single parent, one child, earning 100% FMW</td>
<td>702.37</td>
<td>748.18</td>
</tr>
<tr>
<td>Non-pensioner single parent, one child, earning 50% FMW</td>
<td>516.82</td>
<td>536.90</td>
</tr>
<tr>
<td>Non-pensioner single parent, one child, earning 100% FMW</td>
<td>630.08</td>
<td>663.23</td>
</tr>
</tbody>
</table>

Note: FMW = $484.50 per week in July 2006, $511.86 per week in July 2007, $522.12 in July 2008 and $543.78 in July 2009. Tax/transfer parameters as at July in each year. Children aged 6–12. Households pay sufficient private rent to receive maximum rent assistance, where applicable. Disposable income includes all available income transfers, unless otherwise specified.

Source: AFPCS modelling.
Section 4

Over the period July 2008 to July 2009, all the household types modelled received an increase in their disposable income, ranging from 3.7 per cent for a dual-earner couple without children to 5.9 per cent for a single-earner couple without children. These increases compare favourably with the current rate of CPI inflation (1.0 per cent between the June quarter 2008 and the March quarter 2009).

Taking a longer-term view, since July 2006 the Commission's first three general Wage-Setting Decisions, in conjunction with tax/transfer changes, have substantially increased the real disposable incomes of all the household types modelled. A pensioner single parent working full-time has benefited the most, with an increase in disposable income of 16 per cent (over $110 per week), while other household types have received increases of between 12 and 15 per cent. These are well above the increase in the CPI from the June quarter 2006 to the March quarter 2009, which was 7.7 per cent.

It is also worth noting that disposable incomes of all these households are well above the income they would have if unemployed. As of July 2009, the maximum disposable income of an unemployed single person receiving Newstart Allowance is $282.25 per week – less than 57 per cent of that of a single person earning the FMW.

Comparisons with community income benchmarks

In addition to assessing changes in the real value of disposable incomes, the Commission compares those incomes with two main income benchmarks – a set of relative poverty lines representing 60 per cent of median equivalised household disposable income and the Henderson poverty lines (HPLs). These comparisons are shown in Table 5 (for the relative poverty lines) and Table 6 (for the HPLs).

As at December 2008, disposable incomes for all the household types with one earner on the standard FMW were above both sets of income benchmarks, when available income support entitlements (that is, Newstart allowance) are included.

Over the year to December 2008, disposable incomes relative to both sets of income benchmarks declined for most households with a full-time FMW earner, continuing the downward trend of the past few years. This indicates that disposable incomes for these illustrative households have increased by less than the inflation factor used to update the income benchmarks (household disposable income per head).

However, recent figures for household disposable income per head are likely to reflect the impact of payments made under the Australian Government's economic stimulus packages. By contrast, the Commission's modelling does not include the effect of these payments in its estimates of disposable income. Including the effect of these payments would increase the ratios shown in Tables 5 and 6.

---

134 The household comprising a single-earner couple without children experiences a greater increase than other households largely due to the abolition of the separate net income test for the dependent spouse tax offset (DSTO), effective from 1 July 2009. It has been replaced with an adjusted taxable income test that links to that used for Family Tax Benefit.


136 This type of poverty line is the most commonly used by researchers and in international comparisons. The OECD typically uses a poverty line representing 60 per cent of median equivalised household income when analysing the incomes of employed households and comparing these across countries.

137 For a further discussion of these trends, see AFPC, Economic and Social Indicators – Monitoring Report, Issue 03, Commonwealth of Australia, July to December 2008, pp. 34–35.

138 Household disposable income per head, as calculated by the Melbourne Institute, increased by 5.8 per cent in the December 2008 quarter, compared with an average increase over the previous three quarters of 1.9 per cent and a CPI decrease in the December 2008 quarter of 0.3 per cent.
### Table 5: Comparison of 60 per cent median income poverty lines (PLs) with disposable income (DI) of households earning varying proportions of the FMW, December 2008

<table>
<thead>
<tr>
<th>Household type</th>
<th>60% median income poverty line (PL) ($pw)</th>
<th>Disposable Income (DI) ($pw)</th>
<th>DI as a proportion of PL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>50% FMW</td>
<td>100% FMW</td>
</tr>
<tr>
<td>Single adult, no children</td>
<td>421.40</td>
<td>399.83</td>
<td>494.44</td>
</tr>
<tr>
<td>Single parent, one child</td>
<td>547.81</td>
<td>570.90</td>
<td>707.42</td>
</tr>
<tr>
<td>Single parent, two children</td>
<td>674.23</td>
<td>659.73</td>
<td>796.25</td>
</tr>
<tr>
<td>Single-earner couple, no children</td>
<td>632.09</td>
<td>583.52</td>
<td>657.43</td>
</tr>
<tr>
<td>Single-earner couple, one child</td>
<td>758.51</td>
<td>713.37</td>
<td>808.38</td>
</tr>
<tr>
<td>Single-earner couple, two children</td>
<td>884.93</td>
<td>802.20</td>
<td>899.37</td>
</tr>
<tr>
<td>Single-earner couple, two children (no NSA)</td>
<td>884.93</td>
<td>622.57</td>
<td>796.25</td>
</tr>
<tr>
<td>Dual-earner couple, no children</td>
<td>632.09</td>
<td>nm</td>
<td>706.44</td>
</tr>
<tr>
<td>Dual-earner couple, one child</td>
<td>758.51</td>
<td>nm</td>
<td>819.87</td>
</tr>
<tr>
<td>Dual-earner couple, two children</td>
<td>884.93</td>
<td>nm</td>
<td>909.36</td>
</tr>
</tbody>
</table>

Note: nm = not modelled


Assumptions: PLs are based on estimates of median equivalised household disposable income for 2005–06, updated for movements in household disposable income per head as calculated by Melbourne Institute, and adjusted for household composition using modified OECD equivalence scale. FMW = $543.78 per week. Tax/transfer parameters as at 31 December 2008. Children aged 8–12. Households paying sufficient rent to receive maximum rent assistance, where applicable. Singles on 50 per cent FMW and couples on 50 per cent and 100 per cent FMW eligible to receive Newstart Allowance, unless otherwise specified. Dual-earner examples assume income is split 2:1.
### Table 6: Comparison of Henderson poverty lines (HPLs) with disposable income (DI) of households earning varying proportions of the FMW, December 2008

<table>
<thead>
<tr>
<th>Household type</th>
<th>Henderson poverty line (HPL) ($pw)</th>
<th>DI as a proportion of HPL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>50% FMW</td>
</tr>
<tr>
<td>Single adult, no children</td>
<td>415.06</td>
<td>0.96</td>
</tr>
<tr>
<td>Single parent, one child</td>
<td>532.86</td>
<td>1.07</td>
</tr>
<tr>
<td>Single parent, two children</td>
<td>644.97</td>
<td>1.02</td>
</tr>
<tr>
<td>Single-earner couple, no children</td>
<td>555.24</td>
<td>1.05</td>
</tr>
<tr>
<td>Single-earner couple, one child</td>
<td>667.42</td>
<td>1.07</td>
</tr>
<tr>
<td>Single-earner couple, two children</td>
<td>779.61</td>
<td>1.03</td>
</tr>
<tr>
<td>Single-earner couple, two children (no NSA)</td>
<td>779.61</td>
<td>0.80</td>
</tr>
<tr>
<td>Dual-earner couple, no children</td>
<td>633.75</td>
<td>nm</td>
</tr>
<tr>
<td>Dual-earner couple, one child</td>
<td>745.93</td>
<td>nm</td>
</tr>
<tr>
<td>Dual-earner couple, two children</td>
<td>858.12</td>
<td>nm</td>
</tr>
</tbody>
</table>

Note: nm = not modelled


Assumptions: HPLs include housing costs and dual-earner figures include additional ‘cost of work’ component of $78.51 per week. FMW = $543.78 per week. Tax/transfer parameters as at 31 December 2008. Children aged 8–12. Households paying sufficient rent to receive maximum rent assistance, where applicable. Singles on 50 per cent FMW and couples on 50 per cent and 100 per cent FMW eligible to receive Newstart Allowance, unless otherwise specified. Dual-earner examples assume income is split 2:1.
Section 4

Economic stimulus packages

The Australian Government recently announced two packages aimed (among other things) at stimulating consumer spending:

- the Economic Security Package, announced on 14 October 2008, with an effective date of 3 December 2008; and
- the Household Stimulus Package, announced on 3 February 2009, with most payments occurring in March and April 2009.

Although the measures contained in these stimulus packages have no impact on permanent household income, they have boosted disposable income for low-paid households, in some cases quite considerably. Key features of the packages include:

- $1400 for single people and $2100 for couples receiving pension payments (except Parenting Payment (single));
- $1000 for each eligible child of families who receive FTB-A;
- a Tax Bonus for Working Australians of up to $900 for eligible taxpayers, depending on income thresholds, with individuals earning up to $80 000 receiving the maximum amount;
- a Single-Income Family Bonus of $900 to provide additional assistance for families that have one main income earner and may otherwise receive less assistance from the package than dual-income families with similar household income; and
- a Back to School Bonus of $950 per child to assist low- and middle-income families eligible for FTB-A with school-age children (those aged between 4 and 18).

The combined effect of the stimulus packages for a particular family depends on a number of factors, including the family's structure, taxable income, number and age of children, and income support status at the time of the announcement of each of the packages. For example:

- a single taxpayer\(^\text{139}\) without dependants would have received $900;
- a single- or dual-taxpayer household with two children of school age would have received $5700;
- a tax-paying household with one child under school age would have received $2800; and
- pensioners, full-time students and some other income support recipients received assistance under one or both of the packages, but unemployed people without dependants and receiving Newstart Allowance were not eligible for any payment.

These payments should have helped to mitigate financial pressures for many families. A key indicator of financial stress used by the ABS and other researchers is the ability to raise $2000 for something important within a week.\(^\text{140}\) Many households received stimulus payments well in excess of this amount.

---

\(^{139}\) In these examples, taxpayers are assumed to have taxable income of no more than $80 000 – the level at which the highest tax bonus was paid.

4.4. Living standards of low-wage households

Living standards and financial stress

During 2008, Hahn and Wilkins of the Melbourne Institute of Applied Economic and Social Research undertook research on behalf of the Commission into various dimensions of the living standards of low-paid workers.\textsuperscript{141} In response to this research, both ACOSS\textsuperscript{142} and the ACTU\textsuperscript{143} raise concerns about the percentage of low-paid workers with low living standards and/or experiencing financial stress.

ACCI draws a different conclusion:

> The findings from this research demonstrated that employment is an effective mechanism to avoid poverty, provided sufficient hours of employment can be secured.\textsuperscript{144}

The influence of employment on living standards was also raised in the Commission's public consultations:

> ...by the stage two consultations, some participants were revising their expectations about improved living standards, at least in the shorter term. As an increasing number of casual employees had experienced a reduction in working hours or knew of others who had, the immediate focus for many was simply on 'getting by'.\textsuperscript{145}

Hahn and Wilkins employ a range of multidimensional benchmarks of living standards, which draw on measures of household income, wealth, consumption expenditure and financial stress. Using data from the HILDA survey from 2001 to 2006, they find that relatively few low-paid workers have low living standards when a multidimensional approach is taken. For example, when low living standards are defined as less than 75 per cent of median household income and less than 75 per cent of median household wealth (a relatively generous definition), only around one in five low-paid workers can be considered to have low living standards.\textsuperscript{146} In addition, the HILDA data show clearly that for many low-paid employees, low living standards did not persist over this period.\textsuperscript{147}

Not surprisingly, Hahn and Wilkins find that low-paid employees are more likely to experience financial stress than other employees. However, the incidence of financial stress among both sets of employees declined considerably between 2001 and 2006.\textsuperscript{148}

\textsuperscript{142} ACOSS, March 2009, p. 28.
\textsuperscript{144} ACCI, March 2009, p. 148, para. 419.
\textsuperscript{145} Southwell et al, 2009, forthcoming.
\textsuperscript{146} Hahn and Wilkins, 2008, p. 66.
\textsuperscript{147} Hahn and Wilkins, 2008, pp. 57–8.
\textsuperscript{148} Hahn and Wilkins, 2008, p. 36.
Section 4

In a paper presented to the Commission’s Minimum Wage Research Forum, Dockery, Ong and Seymour of the Centre for Labour Market Research compared the circumstances of people paid near or below the FMW with those who were unemployed.\(^{149}\) The authors, who also used HILDA data, found that unemployed people have lower levels of household income, life satisfaction, and (self-assessed) general health than minimum wage workers, while also experiencing higher levels of financial stress.\(^{150}\) They concluded that the Commission:

\[
\text{...should be extremely wary of the potential impact of higher minimum wages on employment.}
\]

\[
\text{The evidence is that unemployment is associated with substantially worse outcomes – in terms of general wellbeing and financial prosperity – than those experienced by people working in minimum wage jobs.}\]

**Consumer price inflation and living costs**

Submissions continue to raise the issue of increased living costs for low-paid working households. ACOSS states that:

\[
\text{Consideration should...be given to the effect of changes in the cost of essentials that comprise a large proportion of the expenditures of low income households...rents have continued to rise well above the inflation rate...}\]

The ACTU also expresses concern about above-inflation increases in the costs of housing and food.\(^{153}\) Both submissions note that petrol prices fell in 2008, although the ACTU points to more recent increases.\(^{154}\)

As in previous years, increases in living costs were frequently mentioned by participants in the Commission’s consultation research. While some acknowledged reductions in petrol prices, these “were not considered to offset what were thought to be ever-increasing general living expenses”\(^{155}\). Furthermore, they had only a limited effect for participants who did not have their own transport. Similarly, participants downplayed the effect of recent decreases in interest rates, as many stated they were not homeowners.

The rate of CPI inflation has slowed in recent months. The CPI, compiled by the ABS, “provides a general measure of changes in prices of consumer goods and services purchased by Australian households”.\(^{156}\) As such, it takes into account many of the price changes that were raised in submissions and by focus group participants. In the period from the September quarter 2008 (closest to the date when the most recent adjustment to Pay Scales came into effect) to the March quarter 2009, the CPI actually fell by 0.2 per cent.\(^{157}\)

---


152 ACOSS, March 2009, p. 3.


155 Southwell et al, forthcoming.


Section 4

Over that period, food prices increased by 4.3 per cent and rents by 3.6 per cent. However changes in other prices, especially the 25 per cent fall in automotive fuel prices, meant that the overall change in the price index was negative. The RBA and the Australian Government predict that consumer price inflation will be higher over the subsequent six months, but expect it to remain low over the twelve-month period as a whole.

The CPI does not take into account changes in mortgage interest charges. With the easing in monetary policy, interest rates have fallen markedly since September 2008, which in turn would have helped to further ease living cost pressures. Changes in interest charges are reflected in the ABS’ analytical cost-of-living indexes, which are made available in August of each year. In 2007–08, during which the RBA’s target for the cash rate increased by just one percentage point, the increase in the cost-of-living index for employees was over one percentage point greater than the increase in the CPI. Therefore, given that the RBA’s target for the cash rate has decreased by 4.25 percentage points since September 2008, changes in the cost-of-living index for employees are likely to be well below those of the CPI in the current period.

Submissions and consultation focus groups recognise that changes in living costs vary for different groups of households according to the proportion of their overall expenditure they spend on particular items. However, ABS data indicate that there are only minor differences in the average expenditure patterns of low-income employee households and those of all employee households. (Further details were given in the Economic and Social Indicators – Monitoring Report, January to June 2008.) Therefore, it is likely that, on average, changes to living costs of low-income employee households in recent months have also been well below changes in the CPI.

Housing situation of low-paid employees

Submissions from ACCER and ACOSS reiterate concerns about the level of housing costs facing low-paid households, particularly in relation to rents. ACCER also repeats its contention that the Commission underestimates the level of housing costs faced by low-paid households.

On the other hand, the Australian Government submission notes that recent decreases in interest rates have eased costs for households with home mortgages:

This expected decline in inflation will ease cost of living pressures, adding to the already significant easing for borrowers resulting from the recent cuts totalling 4 percentage points in official interest rates.
The extent to which lower interest rates or rising rents affect households containing low-paid employees depends upon the housing tenure of such households, as well as the actual housing costs they face. Table 7 shows that there are only minor differences in housing tenure between households containing low-paid employees and all employed households. While households that contain low-paid employees and are also low-income are somewhat more likely than other employed households to be paying rent, they also have high levels of home ownership.

### Table 7: Housing tenure of low-paid employee households, employed households and all households, 2005–06

<table>
<thead>
<tr>
<th>Household tenure type</th>
<th>Low-paid employee households (%)</th>
<th>Low-paid, low-income households (%)</th>
<th>Employed households (%)</th>
<th>All households (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner without a mortgage</td>
<td>26.7</td>
<td>27.2</td>
<td>24.6</td>
<td>34.0</td>
</tr>
<tr>
<td>Owner with a mortgage</td>
<td>45.2</td>
<td>35.3</td>
<td>45.8</td>
<td>35.3</td>
</tr>
<tr>
<td>Renter</td>
<td>25.8</td>
<td>34.3</td>
<td>27.8</td>
<td>28.6</td>
</tr>
<tr>
<td>Other</td>
<td>2.3</td>
<td>3.2</td>
<td>1.8</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Note: Low-paid is defined as earning less than 110 per cent of the RMW; low-income household is defined as having total household employee income of less than 70 per cent of the median.


These data indicate that it is not possible to generalise about the effects on low-paid employees of changes in either interest rates or rents. While around one-third of low-paid employees with low household income may currently be vulnerable to rising rents, a similar proportion has recently benefited from the substantial lowering of mortgage interest rates.

While the housing tenure of low-paid employees is not markedly different from that of employees in general, it is much more favourable than for unemployed people, of whom nearly three-quarters pay rent, 11 per cent are home-owners and 13 per cent are home-purchasers.\(^{163}\)
Table 8 presents data on the rents paid by employed; low-paid; and low-paid, low-income households, as well as the mortgage amounts owing by these household groups. Unsurprisingly, households that are both low-paid and low-income have lower median and average rents than employed households in general. They also have lower median and average mortgage amounts owing than all employed households.

### Table 8: Median and average rents of low-paid employee households, low-paid and low-income and all employed households, 2005–06

<table>
<thead>
<tr>
<th></th>
<th>Low-paid employee households</th>
<th>Low-paid, low-income households</th>
<th>Employed households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median rent ($pw)</td>
<td>190</td>
<td>175</td>
<td>200</td>
</tr>
<tr>
<td>Average rent ($pw)</td>
<td>203</td>
<td>182</td>
<td>217</td>
</tr>
<tr>
<td>Median mortgage owing ($)</td>
<td>115 400</td>
<td>95 000</td>
<td>124 600</td>
</tr>
<tr>
<td>Average mortgage owing ($)</td>
<td>139 800</td>
<td>120 200</td>
<td>145 800</td>
</tr>
</tbody>
</table>

Note: Low-paid is defined as earning less than 110 per cent of the RMW; low-income household is defined as having total household employee income of less than 70 per cent of the median.

Section 4

4.5. Summary

In fulfilling its wage-setting function, the Commission must have regard to providing a safety net for the low paid. In the current economic climate, the tensions between this objective and the Commission’s other objectives are particularly acute.

Recent changes to the tax/transfer system have delivered substantial increases in disposable income to a range of low-paid households. Over the life of the Commission, these increases, combined with increases from the Commission’s general Wage-Setting Decisions, have been well in excess of consumer price inflation. Disposable incomes for the households that are most heavily reliant on the wages and tax/transfer safety net are also well above the income that can be received when unemployed.

In addition, the Australian Government’s economic stimulus packages have boosted the disposable income of low-paid households in the short term. These payments, which in some cases are quite substantial, should have helped to mitigate financial pressures for many families.

Recent evidence suggests that about one in five low-paid workers experience low living standards overall. The evidence also indicates that unemployed people have considerably lower levels of household income than people in low-paid jobs and are more likely to experience financial stress.

The Commission expects that, while increases in living costs will vary widely across individual households, for many households containing low-wage earners, recent increases in disposable income have outpaced increases in living costs. This is not true for many households whose members are unemployed. By emphasising the protection of jobs when household disposable incomes have kept pace with inflation, the Commission regards its decision as reaching an appropriate balance between helping to maintain the safety net for low-paid workers and safeguarding employment during the economic downturn.
Section 5  

5. Employees with disability

5.1. Adjustment to minimum weekly payment

The ACTU and ACCI submit that the minimum wage rate under the Supported Wage System (SWS) should be adjusted to maintain its nexus with the income test free threshold for the Disability Support Pension (DSP):

‘The ACTU seeks adjustment of the Supported Wage System minimum rate to an amount equal to the per week equivalent of the income test free area of earnings for the Disability Support Pension to apply from 1 July 2009.’164

‘ACCI and the ACTU have for some years agreed to apply the income free threshold level for the Disability Support Pension as the minimum pay level for the operation of the Supported Wage System (SWS).

ACCI maintains this position, and does so notwithstanding of the primary outcome in this matter and the issue of whether there should be a general increase during 2009.’165

The Commission is aware that the weekly income test free threshold for a single person receiving DSP will increase from $69 to $71 from 1 July 2009. Accordingly, in Wage-Setting Decision 3/2009 the Commission adjusts to $71 per week the minimum weekly amount payable to employees with disability covered by the following instruments:

• Special Supported Wage System (Employees with a disability) transitional Australian Pay and Classification Scale, [2007] APCS 1;
• transitional 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
• transitional Pay Scales which provide for the SWS and which also provide a minimum amount payable under the SWS.

5.2. Wage assessment tools in the Australian Disability Enterprises sector

The Special Business Services (Employees with a disability) Australian Pay and Classification Scale (Special Business Services Pay Scale) provides pro rata minimum wages to employees with disability employed in the Australian Disability Enterprises sector (Disability Enterprises).166
Section 5

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 (WAT) 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 Pay Scale). Coverage can also be provided by the preserved Pay Scales derived from the Cooma Challenge Limited Business Services (State) Award. Together, these instruments form the minimum wage framework for employees with disability in Disability Enterprises.

ACOSS and the Intellectual Disability Rights Service (IDRS) both raise concerns about the variety of wage assessment tools currently in use:

‘Not all wage assessment tools are properly tailored to the specific job requirements of employees with intellectual disability…and, as a consequence some employees with intellectual disability are being assessed by tests with large parts that have no relevance to their actual job. The use of some wage assessment tools…may produce different wage outcomes for people performing the same work or different wage outcomes for the same person performing the same work. These outcomes are inequitable and unfair.’

‘The keys to a fair and effective system of sub-minimum wages for workers with disabilities are a transparent and consistent system of productivity assessment that incorporates a requirement to change the workplace and work practices to improve productivity as far as possible prior to the assessment of individual worker productivity. This was part of the Commission’s decision last year when it extended the Supported Wage System to more employees with disabilities in different industries. The extension of the Supported Wage System makes careful monitoring of the reliability and equity of the various instruments used to assess productivity essential. On equity grounds, it would be desirable to standardise the instruments to a greater degree than at present.’

168 ACOSS, March 2009, p. 11.
IDRS suggests that research be conducted into the Business Services Wage Assessment Tool (BSWAT), in particular, to determine whether use of this tool results in reduced wage outcomes for workers and whether it links training with assessment. It further suggests that the Commission review the process for the approval of new WATs for inclusion in the Special Business Services Pay Scale.169

The Commission has recently undertaken detailed research and monitoring of wage processes in Disability Enterprises, including an audit of 28 WATs attached to the Special Business Services Pay Scale.

5.3. Disability wages monitoring and research

The WR Act requires the Commission to promote the economic prosperity of the people of Australia, having regard to a number of factors including the provision of minimum wages for employees with disability to ensure that these employees are competitive in the labour market. The Commission’s wage-setting decisions generally affect employees with disability in two types of employment — Open Employment and Disability Enterprises.

Open Employment organisations employ people with disability who are engaged in the mainstream workforce alongside fully productive employees in a commercial setting. In Open Employment, if the employee’s disability does not affect their productive capacity, they earn full adult wages. If, as a result of their disability, employees are unable to perform the range of duties to the productivity level normally required, they may be paid reduced wages under the SWS.170

Disability Enterprises (formerly known as Sheltered Workshops, Business Services or Supported Employment), are businesses (all currently non-profit171) that provide employment for people with disability who generally require support to remain in paid employment. Employees are paid a wage based on their competency and/or productive output172, and receive support from the Disability Enterprise organisation which may include vocational training, personal development and social skill development.

---

170 The Supported Wage System (SWS) was introduced in 1994 to improve employment opportunities for people with disabilities in open employment. Under the SWS eligible people with a disability can access productivity based wage assessment and related workplace specific assistance in order to access appropriate jobs.
171 ‘A non-profit organisation is one which is not operating for the profit or gain of its individual members, whether these gains would have been direct or indirect. This applies both while the organisation is operating and when it winds up. Any profit made by the organisation goes back into the operation of the organisation to carry out its purposes and is not distributed to any of its members...

Non-profit clause
The assets and income of the organisation shall be applied solely in furtherance of its above mentioned objects and no portion and no portion shall be distributed directly or indirectly to the members of the organisation except as bona fide compensation for services rendered or expenses incurred on behalf of the organisation.’ Australian Taxation Office, Is your organisation non-profit? Tax basics for non-profit organisations, 2007, ATO <http://www.ato.gov.au/nonprofit/content.asp?doc=/content/33732.htm> at 8 May 2009.
The Commission has convened the Disability Roundtable, an expert body representing key stakeholders, to provide advice on issues relating to the employment of people with disability. Further details of the Disability Roundtable are provided in Appendix B.

There are over 350 Disability Enterprise outlets in Australia run by over 200 organisations providing supported employment assistance to approximately 20,000 people with moderate to severe disability, who need substantial ongoing support to maintain their employment. These Disability Enterprises operate in a wide range of industries including design, printing, packaging, manufacturing, laundry and landscaping.

Gaps in understanding the Disability Enterprises sector

In recent years there has been substantial change to the regulation of employment within Disability Enterprises. Major changes include:

• transforming sheltered workshops, unregulated by a formal industrial relations system, into the Disability Enterprises sector where formal employment relationships exist;
• requiring employers in Disability Enterprises to meet quality assurance standards in order to be eligible for Australian Government funding, in particular the payment of award-based wages determined by the application of WATs;
• requiring Disability Enterprises to phase in payment of pro rata award wages by 11 May 2008;
• removing wage rates from awards previously used by Disability Enterprises and inserting these rates into Pay Scales; and
• creation by the Commission of a Special Pay Scale for employees with disability.

From its previous research, and through consultation with the Disability Roundtable, the Commission found that there are significant gaps in information about employment in Disability Enterprises, particularly in relation to wage-setting. Specifically, there was no qualitative or quantitative data available on the wage-setting practices of Disability Enterprises.

Historically, the majority of data and information about the sector has been held by Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA). These data have primarily been collected for accreditation and funding purposes, with little information directly available on the views and wage-setting experiences of employers and employees in the sector.

The WR Act provides that the Commission may inform itself by monitoring the impact of its wage-setting decisions. As part of this monitoring process, the Commission identified the need to create a sector profile of Disability Enterprises to assist in filling this knowledge gap in relation to wage-setting.

---

174 FaHCSIA, 2009.
Section 5

Disability Enterprises sector research

In consultation with the Disability Roundtable, the Commission scoped and developed an integrated research strategy to provide a profile of wage-setting practices within the Disability Enterprises sector. This strategy consisted of four projects – a statistical study, an audit of WATs, a survey of employers and focus groups with employees of Disability Enterprises.

Statistical study

The statistical study provides an up-to-date ‘snapshot’ of the Disability Enterprises sector as at 2009, using published and unpublished FaHCSIA data from 2007 and 2009. The two data sources are the FaHCSIA Disability Services Census 2007 and internal reporting data derived from the FaHCSIA Online Funding Management System.

Wage assessment tool audit

The audit provides an overview and analysis of WATs approved by the Commission for use in the Special Business Services Pay Scale and the LHMU Pay Scale. This project analyses 28 WATs of the 30 attached to the Special Business Services Pay Scale. The WATs are assessed against 29 questions developed in consultation with the Disability Roundtable to gather further information about the operation of tools, and to determine similarities and differences across the different WATs.

Employer survey

The employer survey provides insight into the practical application of WATs in the Disability Enterprises sector, as well as further information on the wage instruments, classifications and base rates of pay used by employers and their sources of information on changes to minimum wages. Of the 203 organisations invited to participate, 71 per cent (144 organisations) responded.

Employee focus groups

This research explores the employment experience and work-related circumstances of people with disability working in Disability Enterprises, including employees’ levels of understanding as to how their wages are calculated. It was conducted by the University of New South Wales Disability Studies Research Centre in partnership with People with Disability Australia Incorporated and consisted of five focus groups, each containing six to eight participants, and three in-depth interviews with employees working in various Disability Enterprises.
Section 5

5.4 Key research findings

The following is an integrated analysis of key findings from the four projects, outlining where possible any similarities or trends that were evident across the projects to create an overview of the sector in 2009.

Wage instruments

Pay Scale coverage and use of Pay Scale rates

While there are three Pay Scales covering employees in Disability Enterprises, one of these Pay Scales is limited to a single organisation. Most minimum wage coverage in the sector is provided therefore by the LHMU Pay Scale and the Special Business Services Pay Scale. The employer survey reveals that over half (61 per cent) of survey respondents indicate that they are covered by the LHMU Pay Scale, with the remaining 38 per cent covered by the Special Business Services Pay Scale.

However, the research finds that just over half (55 per cent) of Disability Enterprises derive their rates of pay directly from the LHMU and the Special Business Services Pay Scales. The remainder of organisations source their classifications and wage rates from alternative wage instruments. These include Pay Scales derived from: the Clothing Trades (State) Award (NSW); the Furnishing Industry National Award; the Miscellaneous Gardeners &c. (State) Award (NSW) and the General Store Workers, Packers, Wholesale Sellers and Distributors (State) Award (SA).

Minimum rates of pay

The employer survey finds that 90 per cent of Disability Enterprises report using an amount equal to or greater than the Grade 1 classification rate in the LHMU and Special Business Services Pay Scales of $14.31 per hour as the base rate of pay for their employees.

In relation to final rates of pay (that is, after application of an employee’s wage assessment), the audit indicates that over two-thirds of WATs (20 of 28) include capped minimum rates of pay regardless of an employee’s assessment. However, the WATs reported in the employer survey as having the greatest coverage (the BSWAT and the SkillsMaster WAT) do not contain clearly specified minimum rates of pay, either as a percentage or as a set hourly/weekly rate.

The statistical study finds that in 2007 the majority of employees (77 per cent) in the Disability Enterprises sector earned a gross wage of $100 or less each working week. However, it is important to note that, in both 2007 and 2009, the majority of employees in Disability Enterprises are employed on a part-time basis.

175 These minimum rates of pay could also include training or probationary rates of pay.
Section 5  

Wage assessment process

Use of wage assessment tools

Surveyed employers report that most organisations are using one of four WATs — the BSWAT, SkillsMaster WAT, SWS WAT and Greenacres WAT. Further, the majority of WATs (19 of 30) currently approved under the Special Business Services Pay Scale are each used by one organisation only.

Application of wage assessment tools to industries

The WAT audit finds that most tools cover the assessment of specific tasks and occupations in a particular industry, such as gardening, paper manufacturing, timber, assembly, packing, clothing and laundry.

Only four tools covered by the audit can be applied generally across industries, although these are the most commonly used. According to the statistical study, the BSWAT was used for assessment purposes for around 10,700 employees as at February 2009. Almost half of the respondents to the employer survey indicate their organisations are using the BSWAT, while 11 per cent are using the SkillsMaster WAT.

Method of assessment

The audit finds that the majority of WATs assess employees using hybrid tools (that is, tools that measure both productivity and competency). Few WATs in use assess employees on productivity or competency only. This finding is consistent with the statistical study which finds that 77 per cent of WATs applied against employees in the 2007 Census were hybrid tools.

Assessors

Wage assessments can be conducted internally within a Disability Enterprise (for example, by an employee of the organisation) or externally (for example, by independent third-party assessors such as CRS Australia).

The audit highlights that five WATs use external assessors only. Of these five, two are the BSWAT and the SWS WAT, which are the WATs with the highest levels of usage among surveyed organisations.

A significant majority of WATs included in the audit use internal assessors to conduct the wage assessment process (22 of 28). However, only about one-third (38 per cent) of respondents to the employer survey report wage assessments conducted by internal assessors. This survey finds that many of the organisations performing wage assessments in-house, use their own, or the SkillsMaster or Greenacres WATs.
Section 5

Of the 28 tools audited, 20 use assessors with Certificate IV qualification in Workplace Training and Assessment, and all but one of the respondents to the employer survey report that a staff member conducting the assessments had undertaken relevant training to perform assessments. Other survey respondents report that assessors had undertaken training specifically related to the WAT being used by the organisation.

Provision of information to employees

The research indicates that information about wage assessments and wages is predominantly provided to employees by the employing organisation. The majority of respondents to the employer survey (97 per cent) report that there is opportunity for a support person to be present when such information is provided.

Participants in the employee focus groups most commonly identified a member of staff as providing information regarding their rates of pay. This research suggests that many employees are aware that they could seek information from designated officers within the organisation, while some participants also have families that actively support them in obtaining work-related information.

The focus group research suggests that participants vary in their level of understanding of how their wages are assessed. Although the majority of participants displayed some understanding of their hourly rate or the amount of their weekly or fortnightly pay, a small number were unable to demonstrate this knowledge.

Training

The research finds only a small amount of specific information about training and supervision in the sector. The WAT audit finds that more than half of the WATs incorporate ongoing training and supervision into the assessment process.

Focus group participants reported that they had been trained in a variety of jobs and had developed skills sets across the organisation’s machinery and job tasks. A few indicated that training took the form of formal or structured skills development tailored to increase employee competencies and diversify skills.

Dispute resolution procedures

The research suggests that there are dispute resolution procedures in place for most WATs but that it may not be clear to employees that these procedures are available.

Most WATs (24 of 28) have a clearly defined appeals and dispute resolution process, and a majority (19 WATs) provide for an advocate to represent an employee in the event of an appeals process.

However, participants in the employee focus groups demonstrated varying levels of knowledge in relation to opportunities to appeal or question the wage assessment process. This research finds that participants who have the skills and opportunity to speak up in their workplace are often those who understand the wage assessment process at the most detailed level.
Section 5

Conclusion

The research finds that:

• Disability Enterprise employees are engaged in a number of different industries and occupations;
• just over half (55 per cent) of Disability Enterprises source their rates of pay from the LHMU and the Special Business Services Pay Scales, with the remainder sourcing their classifications and wage rates from alternative wage instruments;
• the Pay Scale level used to calculate minimum rates of pay that is most frequently cited by employers is Grade 1 of the LHMU Pay Scale;
• there are a number of WATs approved for use in the sector but the majority of organisations use only four – the BSWAT; SkillsMaster WAT; SWS WAT; and the Greenacres WAT. With the exception of the Greenacres WAT, all of these are designed to be adaptable for general use; and
• Disability Enterprise employees vary in their understanding of how their wages are determined.

This research is published in full and available on the Commission’s website www.fairpay.gov.au.
Section 6  

6. Discrimination

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

- women;
- employees with disability;
- Indigenous Australians;
- employees from culturally and linguistically diverse backgrounds;
- young workers; and
- single parents.

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

‘Low pay is generally found in jobs of low social status and/or performed by workers with low labour market standing and bargaining power. The types of workers who are more likely to rely on minimum wages include women, indigenous, migrant, young, non-unionised workers, and workers with a disability.’176

‘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 of low paid employees (52%) are women, who are overrepresented among low paid employees. Most low paid employees fall within the bottom half (by disposable income) of households of workforce age.’177

‘Minimum award wages couple with the relatively high cost of living in the Northern Territory, especially within the remote regions, have been identified by the LHMU NT Branch as one of the key elements that contribute to supply deficiency in the Northern Territory. These two elements in particular negatively impact on Indigenous Territorians.’178

‘Research by the Melbourne Institute funded by the Commission examined the incidence of poverty and financial stress among low paid employees using a range of measures. This research found that when a 60% of median income poverty line was used, 15% of workers on wages around or below the Federal Minimum Wage lived in poor households, rising to 28% when the line was increased to 75% of median income. Low paid employees in poor households were more likely than other low paid employees to be younger, male, to have a disability or long term illness, to be engaged in manual occupations, and to live in single person or share households.’179

‘As a group lone parents constitute one of the most disadvantaged segments of the Australian labour market. While largely unheard and unseen from the perspective of mainstream services, lone parents have increasingly manifested themselves to The Smith Family among the 16,000 families with whom we work in our 95 communities nationwide.’180

‘The incidence of low pay is generally greater for young people and women, and for those with low educational qualifications.’181

---

176 NSW Government, March 2009, p. 8, para. 16.
177 ACOSS, March 2009, p. 5.
Section 6

Some submissions claim that pro rata wages for junior employees are discriminatory:

AYAC asserts that a wage system based on age rather than capacity is discriminatory and in breach of a number of International Human Rights Standards and Laws. In particular, AYAC would like to highlight to the Commission the following standards and laws:

- Article 23 of the Universal Declaration of Human Rights, declares that ‘Everyone, without discrimination, has the right to equal pay for equal work.’

- Article 32 of the United Nations’ Convention on the Rights of the Child (CROC), to which Australia is a signatory, protects young workers from economic exploitation and requires that States take legislative and administrative measures to ensure that this protection is implemented.

- The International Labour Organisation Minimum Age Recommendation, 1973 (No. 146) stipulates that special attention should be given to the provision of fair remuneration to young people, bearing in mind the principle of equal pay for equal work. (Part IV, paragraph 13(1)(a)\(^{182}\)

‘It is YACVic’s policy position that junior wages are discriminatory. YACVic understands that the Commission’s focus in this review is on the level of the junior wage, rather than its inherent ‘fairness’ or in-principle ‘rightness.’ YACVic has a responsibility however, to highlight to the Commission our view that a system of wage rates based on age specifically are in breach of the Universal Declaration of Human Rights, to which Australia is a signatory. Article 23 of the Universal Declaration of Human Rights, declares that ‘Everyone, without discrimination, has the right to equal pay for equal work.’\(^{183}\)

‘We believe that it is not reasonable to subject Australia’s youth to discrimination. Not only is our youth being discriminated against but also the older population as they are often passed over for the cheaper labour offered by junior employees.’\(^{184}\)

‘While being a strong advocate for programs that are able to assist those without any experience to gain entry to the workforce, Melbourne Citymission also believes in the notion of ‘equal pay for equal work.’ Junior wages that are based solely on the basis of age do not take into consideration the diverse work, social, financial and familial experiences of young people.’\(^{185}\)

Several submissions address a wide variety of factors affecting vulnerable employees, including economic and social issues which are beyond the Commission’s wage-setting parameters. These include:

- matters which are properly dealt with within the scope of state or federal anti-discrimination legislation or other statutory bodies;
- levels of education and skills attainment of vulnerable workers;
- Government funding for community services; and
- general financial considerations, such as access to credit in the face of an economic downturn.

\(^{182}\) AYAC, March 2009, p. 11.


\(^{184}\) NSW Young Labor Action, 19 March 2009.

\(^{185}\) Melbourne Citymission, Submission to Australian Fair Pay Commission’s 2009 Minimum Wage Review, March 2009, p. 3.
Section 6

6.1. Pay equity

Several submissions discuss the issue of gender pay equity, focusing on the gap between male and female earnings:

‘Earnings 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.’\(^{186}\)

‘Australia’s pay gap has persistently remained around 16% for over 20 years, and in WA the gap has actually widened in the same period to 27.4%.’\(^{187}\)

‘Because women comprise the majority (60.1 per cent) of workers who are dependent on minimum wages, upward adjustment of minimum wages will have an impact on male – female wage inequality.’\(^{188}\)

Several submissions also refer to recent research undertaken on behalf of the Commission into the role minimum wages play in relation to pay equity:

‘…the recent AFPC-commissioned study on this subject found that minimum wage adjustments contributed significantly to the reductions in earnings inequality between men and women from 1995 to 2005.’\(^{189}\)

‘While research suggests that pay inequity is generally less in low-paid industries as compared to the differences estimated for higher paying industries, it is important to note that ‘much of the growth in women’s employment has been in the four ‘low pay’ industries of principal interest to the Commission: retail, accommodation, property and health services.’ Further, research has demonstrated that ‘female and male wages are more closely matched in sectors of the labour market where the AFPC has the greatest influence over how and where actual wages are set.’ This confirms that minimum wage setting plays a significant role in the reduction of the gender pay gap and suggests that the FMW is an important source of wage growth for many women.’\(^{190}\)

‘The Commission’s own requested research looking at gender pay differentials in low paid employment concludes that “minimum wages may have long-lasting effects on gender based pay equality in the Australian labour market” and that the data shows “minimum wage decisions play a dual role: increasing wage equity and encouraging labour force participation, particularly among low wage employees.”’\(^{191}\)

---

\(^{186}\) ACOSS, March 2009, p. 5.


\(^{188}\) ACTU, March 2009, p. 152, para. 14.3.

\(^{189}\) ACOSS, March 2009, p. 5.


Some submissions highlighted the prevalence of women in Pay Scale reliant industries, in particular the community services sector:

‘As the peak organisation in the non government community services sector, ACOSS has a special interest in employment issues in community services. The community sector’s capacity to provide quality services depends on the availability of suitably skilled employees, many of whom rely on the Pay Scales for their wages. With approximately 12% of Pay Scale reliant employees working in health and community services, the industry ranks as the fourth largest employer of these workers…The vast majority of employees in the community services sector (82%) are women.’\textsuperscript{192}

‘Research undertaken in 2008 by the WA Network of Alcohol and other Drug Agencies (WANADA), the WA Association of Mental Health (WAAMH), the Peak of Women’s Health and the Women’s Council for Domestic and Family Violence Services, for example, shows that 85% of employees in the drug and alcohol, domestic violence and women’s health fields have post-school qualifications. Of these, only 4% earn more than the average weekly wage. This undervaluing of the sector is also a gender pay equity issue, since 81% of workers in this underpaid sector are female.’\textsuperscript{193}

6.2. Research on gender pay differentials

The National Institute of Labour Studies (NILS)\textsuperscript{194} and Women in Social and Economic Research (WiSER)\textsuperscript{195} undertook two separate research studies into gender pay differentials on behalf of the Commission, with a particular focus on those occupations and industries most affected by the Commission’s Wage-Setting decisions.

While these reports differ in their data sources and methodologies, both confirm that gender pay differentials persist, even after controlling for a variety of employee characteristics.

The WiSER research finds, using data from the 2006 ABS Employee Earnings and Hours Survey, that women earn 90 per cent of the hourly ordinary-time earnings of men on average.\textsuperscript{196} The NILS research distinguishes between different forms of employment, and shows that the gender gap in hourly ordinary-time earnings is 11 per cent for permanent and contract employees and 7.1 per cent for casual employees.\textsuperscript{197}

Both reports find that part of the difference in earnings between men and women can be explained by their different characteristics, such as differences in human capital (for example, education and labour market experience) and forms of employment. After accounting for such characteristics, Healy et al estimate the gender gap in hourly ordinary-time earnings at 11.7 per cent, while Austen et al estimate it at 8.5 per cent.\textsuperscript{198}
Section 6

The reports confirm that the pay gap between men and women is lowest for those employees most affected by the Commission’s decisions. Healy et al report that, in 2006, there was little or no gender pay differential among employees paid only an award rate of pay. This research also finds that, for employees in industries with a relatively high reliance on Pay Scales, gender pay differentials are smaller in low-skilled occupations (more likely to be paid at award rates of pay) than in higher-skilled occupations.199

Austen et al find low gender pay differentials between males and females in some industries and occupations in which low-paid workers are concentrated (for example, in the Accommodation and food services industry). However, they find considerable differences in the size and apparent determinants of gender pay differentials across industries and occupations.200

Both reports show that when industry controls are added to occupation controls, a larger proportion of the occupational gender pay gap is explained than with occupation controls only.201

...even after controlling for the human capital that men and women bring to the labour market, industry structure remains a significant determinant of wages...This suggests that the industries in which women are employed tend to be lower paid.202

Finally, Austen et al estimate the effect of adjustments to the minimum wage between 1995–96 and 2005–06 on the gender pay differential. They find that, employing a relatively conservative assumption about the wage rises that would otherwise have applied, the minimum wage adjustments over that period reduced the gender gap in hourly wages by approximately 1.2 percentage points.204

In summary, the reports find consistent evidence that the earnings of men and women are closer in value within those sectors of the labour market in which the Commission has the greatest influence on how wages are set. Nevertheless, both reports also conclude that a significant proportion of pay differentials between men and women in the industries and occupations in which low-paid employees are concentrated is not explained by their different characteristics.

203 The researchers assume that wage rises between 1995–96 and 2005–06 would have been limited to the amounts advocated by ACCI to the relevant wage inquiries. A more generous assumption (for example, that wages would have risen by as much as prices) would have delivered a different result.
Section 6

6.3. Anti-discrimination considerations

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

In making its decision, the Commission has taken into account the principles of federal anti-discrimination legislation embodied in the Racial Discrimination Act 1975; the Sex Discrimination Act 1984; the Disability Discrimination Act 1992; the Age Discrimination Act 2004 and the principles embodied in the Family Responsibilities Convention, in particular those relating to:

- preventing discrimination against workers who have family responsibilities; and
- helping workers reconcile employment and family responsibilities.

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.

The Commission is required under 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. No submissions to the Commission's 2009 Minimum Wage Review raise a specific claim that a Pay Scale discriminates on the basis of gender.

The Commission's wage-setting powers are capable of affecting minimum wages only. It is beyond the scope of the Commission's wage-setting powers to consider equal remuneration beyond the level of minimum wages.
Australian Fair Pay Commission

Appendices

July 2009
Appendix A  Submissions

The 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 4 December 2008 the Commission invited written submissions to the 2009 Minimum Wage Review through advertisements in the national press.

Submissions closed on 20 March 2009 and a total of 69 were received from:

- government and government agencies (8);
- employer organisations (24);
- employee organisations (3);
- community organisations (10);
- professional and education organisations (1); and
- individuals and private businesses (23).

Sixty-one of the submissions were lodged as non-confidential and were posted to the Commission’s website. These are listed below.

Submissions to the 2009 Minimum Wage Review

Government
Australian Government
NSW Government
Northern Territory Government
Office of the Employee Ombudsman (SA)
SA Government
Tasmanian Government
Victorian Government
WA Government

Employer
Apple, Pear and Cherry Industries (joint submission)
Australian Business Industrial (ABI)
Australian Chamber of Commerce and Industry (ACCI)
Australian Childcare Alliance
Australian Federation of Employers and Industries (AFEI)
Australian Hotels Association (AHA)
Australian Industry Group (Ai Group)
Australian Retailers Association (ARA)
Business SA
Appendix A

Chamber of Commerce and Industry Qld (formerly Commerce Queensland)
Chamber of Commerce and Industry WA (CCIWA)
Chamber of Commerce NT (CCNT)
Group Training Australia
Growcom
Hotel, Motel and Accommodation Association (HMAA)
Master Grocers Australia (MGA)
National Farmers Federation (NFF)
National Retail Association (NRA)
Restaurant and Catering Australia (RCA)
South Australian Wine Industry Association (SAWIA)
Tasmanian Chamber of Commerce and Industry (TCCI)
The Pharmacy Guild of Australia
The Retailers Association
Victorian Automobile Chamber of Commerce (VACC)

Employee
Australian Council of Trade Unions (ACTU)
LHMU NT
Unions WA

Community
Australian Catholic Council for Employment Relations (ACCER)
Australian Council of Social Service (ACOSS)
Australian Youth Affairs Coalition (AYAC)
Employment Law Centre of WA (Inc)
Intellectual Disability Rights Service (IDRS)
Melbourne Citymission
NSW Young Labor Action
The Smith Family
WA Council of Social Service (WACOSS)
Youth Affairs Council of Victoria Inc (YACVic)

Professional / Education
RMIT Youth Work Team
Appendix A

Business and Individual
Anonymous (x6)
D Blackwood
H Crawford
G Krahe
D Moon
S Rock
H Soliman
J White
J Whitehead
J Wishart

Post-budget submissions to the 2009 Minimum Wage Review
An additional nine post-budget supplementary submissions were received by the Commission. These are listed below:

Organisation

Government
Australian Government
ACT Government
SA Government

Employer
Australian Chamber of Commerce and Industry (ACCI)
Australian Industry Group (Ai Group)
Chamber of Commerce and Industry QLD (formerly Commerce Queensland)

Employee
Australian Council of Trade Unions (ACTU)

Community
Australian Catholic Council for Employment Relations (ACCER)

Individual
J Wu
Appendix B  Consultations

The Australian Fair Pay Commission (Commission) conducts an annual minimum wage review, informing itself through consultations with stakeholders, submissions and research. Since its first decision in 2006, the Commission has continued to refine and evolve these processes based on feedback from key stakeholders.

The Commission’s approach places importance on its understanding of the economic and social circumstances of low-paid Australians.

The formal consultations for the 2009 Minimum Wage Review included:

• state and territory visits;
• meetings with national peak bodies and industry sector groups;
• site visits to places of employment;
• meetings of the Commission’s Business Consultative Group, Disability Roundtable and Research Advisory Committee;
• focus groups involving low-paid and unemployed people, juniors and employers in capital cities and regional areas;
• interactive online discussion forums;
• in-depth interviews with employers; and
• follow-up interviews with low-paid employees, unemployed (job seekers) and employers who participated in previous stages of the consultation program.

1. Stakeholder consultation and site visits

Consultations with stakeholders is central to the Commission’s wage-setting process. During the past year the Commission met with the Australian Government and key national employee, employer and community stakeholder organisations.

In addition, the Commission visited each state and territory to inform itself of relevant regional issues and the impact of its decisions on employers, employees and unemployed people. Meetings were held with state and territory governments, employee and employer organisations and community organisations.

As part of its program of state and territory visits, the Commission also visited work places employing low paid workers and employment services providers. 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.
### Appendix B

The schedule below provides details of the Commission's program of consultations with stakeholder organisations and site visits for the 2009 Minimum Wage Review:

<table>
<thead>
<tr>
<th>Location</th>
<th>Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2008</strong></td>
<td></td>
</tr>
</tbody>
</table>
| Brisbane | • Chamber of Commerce and Industry Qld (formerly Commerce Queensland)  
          • Queensland Government  
          • Queensland Council of Unions  
          • Queensland Council of Social Service |
| Shepparton | • Goulburn Valley Trades and Labour Council  
           • Shepparton Chamber of Commerce and Industry  
           • Farmers Roundtable  
           • J. Furphy & Sons |
| Perth | • WA Council of Social Service  
      • West Australian Government  
      • Chamber of Commerce and Industry WA  
      • Unions WA |
| **2009** |              |
| Hobart | • Tasmanian Government  
        • Tasmanian Chamber of Commerce and Industry  
        • Youth Network of Tasmania  
        • Job Futures Tasmania |
| Adelaide | • Business SA  
          • South Australian Government  
          • SA Unions  
          • SA Council of Social Service  
          • Youth Affairs Council of South Australia  
          • Restaurant and Catering Association of South Australia |
| Darwin | • NT Government  
       • Chamber of Commerce NT  
       • NT Council of Social Services  
       • NT Working Women’s Centre  
       • Unions NT  
       • Myriad Group Training |
| Sydney | • NSW Business Chamber  
       • Unions NSW  
       • NSW Government  
       • Restaurant and Catering Australia  
       • David Jones Ltd  
       • Council of Social Service of NSW  
       • Youth Affairs and Policy Association NSW |
| Canberra | • ACT Government  
         • ACT Council of Social Service  
         • Youth Affairs and Policy Association  
         • ACT and Region Chamber of Commerce and Industry  
         • The Pharmacy Guild of Australia |
2. 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 third meeting of the BCG to discuss the impacts of its previous decisions and to gain further knowledge about local labour market conditions.

3. Disability Roundtable

In the past year the Commission has convened four 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 disability.

The Roundtable provides the Commission with advice on:

- issues regarding minimum wages for employees with disability including in relation to wage assessment tools in the Australian Disability Enterprises sector;
- practical information on the disability sector;
- research on employment of employees with disability; and
- advice on monitoring of minimum wage decisions on the employment of employees with disability.
Appendix B

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

- 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
- Australian Human Rights Commission (AHRC).

4. Research Advisory Committee

The Research Advisory Committee has met twice in the last year in accordance with its terms of reference. The Committee provides advice on research priorities, commissioned and internally conducted research and dissemination of published research.

Membership of the Committee comprises the Australian Fair Pay Commission Secretariat (Chair) and representatives nominated by:

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

5. Targeted public consultation

Overview

Targeted public consultation for the 2009 Minimum Wage Review focused on building on existing knowledge gathered through previous consultation programs, as well as exploring new perspectives on minimum wage issues.

In order to monitor changes in the experiences of participants as economic conditions evolved, the targeted consultations were commenced in November 2008, following implementation of the Commission’s 2008 general Wage-Setting Decision, and continued for a six-month period.

Targeted public consultation was conducted in three stages:

- Stage one: November – December 2008
- Stage two: February – March 2009
- Stage three: April 2009
Appendix B

The staged approach also allowed for analysis of shorter-term effects of minimum wage adjustments and the lagged effects of the adjustment, and provided the Commission with insights into labour market conditions early in the wage-setting cycle and closer to the wage-setting decision.

During the six-month period, 16 focus groups, nine interactive online discussion forums, six Indigenous mini-groups, 23 face-to-face in-depth interviews and 36 follow-up telephone interviews were conducted 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 2009 Minimum Wage Review.

The Commission has used this research to inform the 2009 Minimum Wage Review.

Target group methodologies

Focus groups

The consultations included 16 face-to-face focus groups, 10 with low-paid employees and six with unemployed job seekers. The focus groups were conducted in metropolitan and regional areas in five states.

The groups were approximately one and a half hours in duration and consisted of small group discussions of up to eight participants with structured facilitation.

Locations were selected to complement other consultation activities for the 2009 Minimum Wage Review and on the basis of local economic performance and employment levels. The criteria for selection of locations also took into account a range of industry and environmental factors and previous regional visits by the Commission for the 2007 and 2008 Minimum Wage Reviews.
Appendix B

The following table shows the location and characteristics of the 16 focus groups:

<table>
<thead>
<tr>
<th>Location</th>
<th>Target group</th>
<th>Age group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mackay (regional Qld)</td>
<td>Low-paid</td>
<td>21–29</td>
</tr>
<tr>
<td>Mackay (regional Qld)</td>
<td>Low-paid</td>
<td>30–44</td>
</tr>
<tr>
<td>Brisbane</td>
<td>Unemployed</td>
<td>21–34</td>
</tr>
<tr>
<td>Brisbane</td>
<td>Low-paid</td>
<td>45+</td>
</tr>
<tr>
<td>Melbourne</td>
<td>Unemployed</td>
<td>35+</td>
</tr>
<tr>
<td>Traralgon (regional Vic)</td>
<td>Unemployed</td>
<td>35+</td>
</tr>
<tr>
<td>Melbourne</td>
<td>Low-paid</td>
<td>21–29</td>
</tr>
<tr>
<td>Melbourne</td>
<td>Low-paid</td>
<td>45+</td>
</tr>
<tr>
<td>Berri (regional SA)</td>
<td>Low-paid</td>
<td>45+</td>
</tr>
<tr>
<td>Berri (regional SA)</td>
<td>Low-paid</td>
<td>21–34</td>
</tr>
<tr>
<td>Berri (regional SA)</td>
<td>Unemployed</td>
<td>21–34</td>
</tr>
<tr>
<td>Sydney</td>
<td>Unemployed</td>
<td>21–34</td>
</tr>
<tr>
<td>Sydney</td>
<td>Low-paid</td>
<td>30–44</td>
</tr>
<tr>
<td>Perth</td>
<td>Unemployed</td>
<td>35+</td>
</tr>
<tr>
<td>Perth</td>
<td>Low-paid</td>
<td>21–29</td>
</tr>
<tr>
<td>Perth</td>
<td>Low-paid</td>
<td>30–44</td>
</tr>
</tbody>
</table>

Indigenous mini-group consultations

Experienced facilitators conducted six discussions of up to five Indigenous participants in Sydney and regional Queensland. These consultations took place in a central location and were of between one and a half and two hours duration. The group structure was as follows:

• three with female low-paid employees; and
• three with male low-paid employees.

Online discussion forums (Bulletin boards)

In previous consultation programs, the Commission used online methodologies as an additional mechanism to capture the opinions of a diverse range of Australians.

Online forums allow participants to share their views with the freedom that anonymity brings and without the barrier of location.

The 2009 consultation program included nine interactive online discussion forums targeting low-paid employees, unemployed job seekers and employer groups.

Each online forum consisted of up to 16 participants and was conducted over a period of five days. Activity questions were set for each day, similar to the structured facilitation of focus group discussions. Participants were located across all states and territories.
Appendix B

The online forums consisted of:

- four with employers of low-paid workers — these focused on the Business services, Manufacturing, Retail, Health care and social assistance and Accommodation and food services industries;
- two with low-paid employees — using the same demographic characteristics for recruitment as the focus groups;
- two with junior, trainee and apprentice employees — participants were recruited based on age (15–17, 18–20), and whether they are working full-time or studying full-time; and
- one with job seekers marginally attached to the workforce — participants were recently (within the last three months) unemployed or underemployed and willing to take on low-paid work.

In-depth interviews

Additional targeted consultations were conducted in the form of in-depth face-to-face interviews with employers of low-paid workers.

A total of 23 in-depth interviews were conducted in metropolitan and regional areas across three states and two territories in November/December 2008 and in February/March 2009.

Participants were chosen from the Manufacturing; Retail; Accommodation and food services; Administration and support services; and Professional, scientific and technical services industries.

The in-depth interviews were conducted in the employer’s workplace or a suitable venue, and were between 45 minutes and one hour in duration.

Follow-up interviews

In addition, 36 follow-up interviews were conducted with low-paid employees, unemployed job seekers and employers of low-paid workers who participated in previous stages of the consultation program. Interviews were conducted by telephone and were between 30 and 40 minutes in duration.
Appendix C Research

The Australian Fair Pay Commission published a number of research and analytical reports to inform its 2009 Minimum Wage Review. These are listed in Tables C1 and C2, with copies available on the Commission’s website www.fairpay.gov.au

Table C1: List of reports, July 2008 to June 2009

<table>
<thead>
<tr>
<th>Publication</th>
<th>Author</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research reports</td>
<td></td>
</tr>
<tr>
<td>A Multidimensional Approach to Investigation of Living Standards of the Low-Paid: Income, Wealth, Financial Stress and Consumption</td>
<td>M Hahn and R Wilkins (Melbourne Institute of Applied Economic and Social Research, University of Melbourne)</td>
</tr>
<tr>
<td>Changes in the Australian Labour Market over the Business Cycle</td>
<td>N Mowbray, D Rozenbes, T Wheatley and K Yuen (Australian Fair Pay Commission Secretariat)</td>
</tr>
<tr>
<td>Labour Mobility and Low-Paid Workers</td>
<td>W Mitchell (Centre of Full Employment and Equity, University of Newcastle)</td>
</tr>
<tr>
<td>Modelling of the macroeconomic impact of the Fair Pay Commission’s minimum wage decisions</td>
<td>Centre for International Economics</td>
</tr>
<tr>
<td>Industry profiles</td>
<td></td>
</tr>
<tr>
<td>Accommodation, cafes and restaurants industry profile</td>
<td>A compilation of reports by ACIL Tasman and Colmar Brunton Social Research, respectively</td>
</tr>
<tr>
<td>Australian Disability Enterprises sector profile</td>
<td>M Pointon, J Leggett, S K Archer, K Maltrman, A Pung and E Leung (Australian Fair Pay Commission Secretariat) and the Disability Studies and Research Centre, University of New South Wales in partnership with People with Disability Australia Incorporated</td>
</tr>
<tr>
<td>Health and community services industry profile</td>
<td>A compilation of reports by ACIL Tasman and Colmar Brunton Social Research, respectively</td>
</tr>
<tr>
<td>Manufacturing industry profile</td>
<td>T Wheatley (Australian Fair Pay Commission Secretariat)</td>
</tr>
<tr>
<td>Retail trade industry profile</td>
<td>J Pech, L Nelms, K Yuen and T Bolton (Australian Fair Pay Commission Secretariat)</td>
</tr>
<tr>
<td>Other reports</td>
<td></td>
</tr>
<tr>
<td>Economic and Social Indicators – Monitoring Report 02 (January to June 2008)</td>
<td>Australian Fair Pay Commission</td>
</tr>
<tr>
<td>Economic and Social Indicators – Monitoring Report 03 (July to December 2008)</td>
<td>Australian Fair Pay Commission</td>
</tr>
</tbody>
</table>
## Table C2: List of papers delivered at the 2008 Minimum Wage Research Forum

<table>
<thead>
<tr>
<th>Research report</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>A macroeconomic perspective on the setting of minimum wages</td>
<td>I McDonald (University of Melbourne)</td>
</tr>
<tr>
<td>Do minimum wage increases reduce poverty? An American perspective</td>
<td>R Burkhauser (Cornell University) and J Sabia (American University)</td>
</tr>
<tr>
<td>Employer responses to minimum wage adjustments</td>
<td>N Weare, A Southwell and B Selwyn (TNS Social Research)</td>
</tr>
<tr>
<td>Gender pay differentials in the low-paid labour market</td>
<td>J Healy, M Kidd and S Richardson (National Institute of Labour Studies, Flinders University of South Australia)</td>
</tr>
<tr>
<td>Heterogeneous firm responses to rising teenage wages in New Zealand</td>
<td>D Hyslop, D Marté, S Stillman and J Timmins (Statistics NZ, Motu and NZ Department of Labour)</td>
</tr>
<tr>
<td>Life on the minimum wage: an empirical investigation</td>
<td>M Dockery, R Ong and R Seymour (Curtin University of Technology)</td>
</tr>
<tr>
<td>Migration and labour market outcomes by skill in Australia</td>
<td>W Mitchell (Centre of Full Employment and Equity, University of Newcastle)</td>
</tr>
<tr>
<td>Setting minimum wages in the UK: an example of evidence-based policy</td>
<td>S Machin (UK Low Pay Commission and London School of Economics)</td>
</tr>
<tr>
<td>The effect of minimum wage changes on labour supply and income distribution</td>
<td>H Buddelmeyer and G Kalb (Melbourne Institute of Applied Economic and Social Research, University of Melbourne)</td>
</tr>
<tr>
<td>The low-paid labour force and labour market transitions: assessing the impact of unemployment on earnings at the bottom of the labour market</td>
<td>I Watson (Macquarie University)</td>
</tr>
<tr>
<td>The significance of minimum wages for the broader wage-setting environment: understanding the role and reach of Australian Awards</td>
<td>J Buchanan and G Considine (Workplace Research Centre, University of Sydney)</td>
</tr>
<tr>
<td>Youth wages, training wages and productivity: the economic anatomy of traineeships</td>
<td>M Cully (National Centre for Vocational Education Research)</td>
</tr>
</tbody>
</table>
Appendix D  International comparisons

One way of comparing minimum wages across countries is to convert their values to a common currency using nominal exchange rates (ERs) or purchasing power parity (PPP) exchange rates. The latter calculation attempts to compensate for differences in the cost of living across countries. Table D1 compares the hourly value of minimum wages across thirteen OECD countries using these methods.

Using the PPP method as the basis for comparison, Australia’s basic minimum wage rate is the highest among the countries shown. Using the alternative ER conversion, Australia is ranked as having the sixth highest minimum wage among the countries shown.

Table D1: Value of gross hourly minimum wage, various countries, April 2009

<table>
<thead>
<tr>
<th>Rank (based on PPP method)</th>
<th>Country</th>
<th>National currency</th>
<th>Hourly rate AUD (ER)</th>
<th>Hourly rate AUD (PPP)</th>
<th>Date of last change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Australia</td>
<td>AUD 14.31</td>
<td>14.31</td>
<td>14.31</td>
<td>Oct-2008</td>
</tr>
<tr>
<td>2</td>
<td>Luxembourg</td>
<td>EUR 9.47</td>
<td>17.79</td>
<td>14.12</td>
<td>Jan-2009</td>
</tr>
<tr>
<td>3</td>
<td>France</td>
<td>EUR 8.71</td>
<td>16.37</td>
<td>13.75</td>
<td>Jul-2008</td>
</tr>
<tr>
<td>4</td>
<td>Netherlands</td>
<td>EUR 8.39</td>
<td>15.76</td>
<td>13.59</td>
<td>Jan-2009</td>
</tr>
<tr>
<td>5</td>
<td>Belgium</td>
<td>EUR 8.00</td>
<td>15.04</td>
<td>12.53</td>
<td>Oct-2008</td>
</tr>
<tr>
<td>6</td>
<td>UK</td>
<td>GBP 5.73</td>
<td>11.87</td>
<td>12.37</td>
<td>Oct-2008</td>
</tr>
<tr>
<td>7</td>
<td>New Zealand</td>
<td>NZD 12.50</td>
<td>10.11</td>
<td>11.76</td>
<td>Apr-2009</td>
</tr>
<tr>
<td>8</td>
<td>Ireland</td>
<td>EUR 8.65</td>
<td>16.25</td>
<td>11.53</td>
<td>Jul-2007</td>
</tr>
<tr>
<td>9</td>
<td>Canada</td>
<td>CAD 8.80</td>
<td>10.09</td>
<td>9.99</td>
<td>-</td>
</tr>
<tr>
<td>11</td>
<td>Spain</td>
<td>EUR 4.20</td>
<td>7.89</td>
<td>7.59</td>
<td>Jan-2009</td>
</tr>
<tr>
<td>12</td>
<td>Greece</td>
<td>EUR 4.05</td>
<td>7.60</td>
<td>7.53</td>
<td>Sep-2008</td>
</tr>
<tr>
<td>13</td>
<td>Portugal</td>
<td>EUR 2.60</td>
<td>4.88</td>
<td>5.13</td>
<td>Jan-2009</td>
</tr>
</tbody>
</table>

Note: AFPC calculations based on nominal exchange rates (ER) and purchasing power parity (PPP) exchange rates. 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 22 April 2009. PPPs are derived from the OECD Comparative Price Levels for February 2009. The hourly rate for Canada is the weighted average of the provincial/territorial rates. Date of last change varies between areas. The hourly rate for Spain, Greece and Portugal does not include annual supplementary pay of two additional months of salary for full-time workers.

Notes