18 May 2009

Professor Ian Harper  
Chairman  
Australian Fair Pay Commission  
Collins Street West  
MELBOURNE VIC 8007

Dear Professor Harper,

Re. Additional Submission to the 2009 Minimum Wage Review

Thank you for your letter of 5 May 2009 inviting Ai Group to make further comments in relation to the 2009 Minimum Wage Review.

In our Submission of March 2009 Ai Group recommended that the Commission award a minimum wage increase of no more than the equivalent of $8.00 per week. This recommendation reflected a number of considerations including:

- The very poor state of the economy including the weak outlook for orders, investment and employment;
- The impact of the changes to the taxation system due to take effect from 1 July 2009;
- The prospect of further changes to the taxation system that might be included in the 2009-10 Budget;
- The indexation of income support payments and thresholds including for Family Tax Benefit A and B and Rent Assistance; and,
- The impact of the cash payments to households in December 2008 and in the period since March 2009.

We are particularly concerned that the outlook for the economy has worsened since we made our Submission. This is reflected in a wide range of data and is summarised in the revelation in the Commonwealth Budget on Tuesday 12 May of expectations of substantially more serious impacts on the labour market than anticipated at the time of the Updated Economic and Fiscal Outlook (UEFO) in February this year.
The following table contrasts the expectations in UFEO with those in the 2009-10 Budget:

<table>
<thead>
<tr>
<th></th>
<th>UEFO 2009 February</th>
<th>2009-10 Budget May</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment (Labour Force Survey Basis) percentage change on previous year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008-09</td>
<td>-0.25</td>
<td>-0.25</td>
</tr>
<tr>
<td>2009-10</td>
<td>0</td>
<td>-1.5</td>
</tr>
<tr>
<td>2010-11</td>
<td>NA</td>
<td>0.5</td>
</tr>
<tr>
<td>Unemployment rate per cent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008-09</td>
<td>5.5</td>
<td>6.0</td>
</tr>
<tr>
<td>2009-10</td>
<td>7</td>
<td>8.25</td>
</tr>
<tr>
<td>2010-11</td>
<td>NA</td>
<td>8.5</td>
</tr>
</tbody>
</table>

Notwithstanding the fact that a portion of the higher unemployment rate relates to slightly higher expected participation outcomes, the weakness in employment and the strong increase in unemployment are particularly disturbing. They indicate an expectation of a weaker demand for labour in the face of more precarious business conditions.

We also note that the Government has not changed its commitments in relation to personal income taxation. This means that the changes scheduled for 1 July 2009 will go ahead and that the Government has not accepted Ai Group’s suggestion to bring forward the lower-income measures scheduled for 2010.

In light of these developments Ai Group does not propose to change its recommendation that the Commission should award an increase of no more than the equivalent of $8 per week.

We acknowledge that, because the 2010 tax changes were not brought forward, low income households will not receive as large an increase in disposable income as we hoped at the time of our Submission.

At the same time we are very concerned that for many households, the weakness in the labour market creates an extra exposure to a loss of income either because of unemployment or because of a reduction in hours worked.

On balance our concerns about the impacts of slightly less generous tax changes on disposable incomes is overshadowed by concerns about the extent to which the business outlook has worsened and with it the outlook for the labour market.

We would be happy to provide you with any further information that you may require.

Yours sincerely,

Heather Ridout
CHIEF EXECUTIVE