Submission to the
Australian Fair Pay Commission’s
Review of the Federal Minimum Wage
2009

20 March 2009
1. Summary

- The South Australian Government supports a moderate increase in the Federal Minimum Wage (FMW) and related Pay Scales as part of the Australian Fair Pay Commission’s (AFPC) 2009 Minimum Wage Review.

- The South Australian Government proposes to lodge a supplementary submission with the AFPC shortly after the federal budget in May 2009, when consideration can be given to the industrial and economic circumstances evident at that time.

- The South Australian Government reserves the right to recommend a particular quantum increase to the FMW in this post-federal budget supplementary submission.

- The South Australian Government's decision to make a supplementary submission is based primarily on the view that economic conditions in Australia are changing rapidly and it is appropriate to also consider the circumstances later in 2009. A significant factor in considering this proposal is the traditional time lapse between submissions (March 2009), the AFPC decision (July 2009) and the operation of the decision (October 2009).

- The South Australian Government’s approach also takes into account the unique industrial context within which the AFPC will be making its 2009 determination. This includes the transitional arrangements arising out of the establishment of a national system of industrial relations for the private sector, the potential equalisation strategies arising out of the award modernisation process and other transitional issues relating to Fair Work Australia and the role of its Minimum Wages Panel.

- Since 2006-07 AFPC research shows that there has been no significant difference in output growth between those industries that are most sensitive to the Commission’s decisions and other industries. It also
indicates that, over the past few years, wages for the lowest-paid employees have been growing more slowly than wages for the labour force as a whole.\textsuperscript{1} The South Australian Government notes that this research has been undertaken in an environment of strong economic growth.

- The latest \textit{Economic and Social Indicators – Monitoring Report} (released by the AFPC on 24 February 2009) indicates a slowing in hours and an increase in part-time work as the global economic crisis begins to have an impact in Australia.

- The South Australian Government submits that the national safety net of entitlements must reflect community standards for decent work and should be adjusted appropriately to reflect the financial difficulties faced by those reliant on the Federal Minimum Wage (FMW) and Pay Scales (Award rates) whilst also taking into account the current national economic pressures. Whilst acknowledging other government interventions such as tax cuts, industrial regulation and economic stimulus packages it is essential that the real value of minimum wages is, at the very least, maintained over time.

- The South Australian Government is particularly concerned by the continued absence of an effective Federal safety net that encompasses junior employees and those not otherwise protected by Pay Scales.

- The South Australian Government recognises the important role minimum wage setting plays in the reduction of the gender pay gap. This is confirmed by recent research, which demonstrates that ‘female and male wages are more closely matched in sectors of the labour market where the AFPC has greatest influence over how and where actual wages are set’.\textsuperscript{2}


2. Coverage

In the years following the March 2006 amendments to the Federal Act, it was estimated that approximately 40% of South Australia’s workforce were covered by the State industrial relations system. These estimates were based on unpublished data from the Australian Bureau of Statistics (ABS) Employee Earnings and Hours Survey (Cat. no. 6306.0) May 2004.

These figures were derived by categorising South Australian employment numbers into ‘Type of Legal Organisation’ (TOLO) and then assessing which TOLO is likely to be considered a constitutional corporation or not.

This data has been treated with caution as it was recognised that it could provide an overestimation of the size of the State jurisdiction (at least in the short term) due to the fact that some employees in unincorporated business may have been covered by federal awards or agreements and would therefore continue to be in the federal jurisdiction because of the Federal Act’s transitional arrangements.

SafeWork SA commissioned the ABS to provide unpublished data from its Employee Earnings and Hours Survey (Cat no. 6306.0) May 2006, based on ‘Jurisdictional coverage of employees pay-setting arrangements’.

The ABS has reported that the May 2006 survey data was compiled based on the parameters of the workplace relations system that existed prior to March 2006. Nonetheless, using the available business structures, along with the prevailing pay-setting instruments, it is possible to produce indicative estimates of the proportion of employees in the federal and state workplace relations jurisdictions based on parameters of the post-March 2006 workplace relations system.
The ABS Data indicates that 74.1% of the South Australian workforce is currently in the federal industrial relations system with 18.4% in the state system and 7.5% unable to be determined. The 7.5% undetermined represents those employees employed by trusts, charitable institutions, social and sporting clubs, trade unions and other associations, local government and Government owned companies, (that may or may not be constitutional corporations based on their trading activities) and where uncertainty continues to prevail over jurisdictional coverage.

Of the 32.5% covered by federal awards and agreements, the ABS has separately indicated that up to one-third (10%-11% of the total figures) are not employed by constitutional corporations and only remain in the federal system under the transitional arrangements (5 years from March 2006).

The recent data indicates a figure somewhere between 30 and 35% are likely to be covered by the South Australian industrial relations system once current transitional arrangements elapse.

The South Australian Government has given in principle support for South Australia’s participation in a national system of industrial relations for the private sector based on a model of cooperative federalism.

Negotiations with other States, Territories and the Commonwealth are currently taking place with a view to progressing the governance and other arrangements that would enable this State to make an informed decision regarding its participation in a national system.

Should South Australia decide to participate in the national system, the likely date of entry will be 1 January 2010. Decisions made by the AFPC at this review are likely therefore to impact on all South Australian employers and employees in the private sector in the longer term, as those South Australian employees who will potentially enter a national system in January 2010 are predominantly award dependent.
Therefore, the South Australian Government submits that it is vital to take account of the economic and social circumstances applying in this state.
3. Economic Prosperity

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

The nature of the relationship that exists between the minimum wage and employment remains contentious. Some observers suggest that an increase in the minimum wage has a negative effect on employment, particularly among those with lower skills.³ Debate over the impact of minimum wages on employment growth has been a feature of many previous submissions to the AFPC.

In its Economic and Social Indicators – Monitoring Report January to June 2008, it was noted that research undertaken by the AFPC since 2006-07 demonstrates that there has been no significant difference in output growth between those industries that are the most sensitive to the Commission’s decisions and other industries⁴.

Although not a direct measure, output growth in certain sectors (such as service industries) is indicative of the economic capacity of businesses to retain and grow employment. The latest AFPC indicators suggest that responsible increases in the federal minimum wage do not themselves lead to a negative impact on employment participation for the low paid. This is one reason why the South Australian Government supports a moderate increase to the FMW and related pay scales resulting from the 2009 federal minimum wage review.

The South Australian Government acknowledges that there is a new element added to the debate in 2009 - how the FMW will impact on

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⁴ Note that Access Economics modelling showed that after controlling for economy-wide shocks, output in the more Pay Scale reliant industries appeared to be growing at a significantly lower rate than in other industries over 2006-07, but that since then there has been no significant difference in output growth between the two groups.
employment in a fluctuating and increasingly weakening economic climate. In particular, it is recognised that most of the empirical research into the effects of the minimum wage on employment has been undertaken in a period of relative economic stability and growth. Therefore, a critical question yet to be answered is how this research will apply in weaker economic conditions, or periods of recession.\(^5\)

In its 2008 general wage-setting decision the AFPC stated that:

\[
\text{Economic activity and employment growth are forecast to slow in the near term, while unemployment is expected to increase. These weaker conditions may place low-paid workers in a more vulnerable position.}
\]

This forecast has been confirmed in the AFPC’s most recent *Economic and Social Indicators – Monitoring Report July to December 2008* (Monitoring Report), released in February 2009, which indicates that ‘the slowing in economic growth has begun to flow though to the labour market’ with employment growth slowing to a four-year low of 1.3 per cent over the year to December 2008. The Monitoring Report also suggests that the current economic decline is beginning to impact on some of the more Pay Scale reliant industries and occupations. In particular, following the AFPC’s third wage-setting decision, there has been an increase in part-time employment and a decrease in full-time employment being experienced in sectors with a high concentration of low-skilled workers. This shift appears to be one of the strategies being employed by businesses in response to the economic downturn. This strategy allows businesses to retain staff in the hope that hours can be increased when the economy recovers and to simultaneously reduce wage costs. However, it should be recognised that this shift was also evident in the aggregate labour market, indicating that the downturn in employment is affecting both the low-paid and those employees in higher

skilled industries. In its Key Findings (July-Dec 2008) the AFPC comments that employment growth for the low-skilled occupations slowed quickly over the second half of 2008. It is acknowledged that the low skilled occupations would generally be more at risk during an economic downturn. However, South Australia suggests that any decision to segregate low paid workers by denying them an increase in wages at a time when all employees are likely to be under pressure financially should be considered with caution.

At a global level, the Organisation for Economic Co-operation and Development (OECD) recently reported that ‘going forward, job losses are projected to become more widespread across the OECD area in 2009’. It also noted that ‘historical experience suggests that youth, immigrants, low skilled and older workers are more likely to bear the brunt of rising unemployment’.

While acknowledging that the value of international studies on minimum wage adjustments is affected by differences within specific local contexts, it seems that a discussion of the impact of minimum wage setting in the United Kingdom is appropriate, particularly given that the previous Commonwealth Government modelled the AFPC on the LPC.

However, UK research, commissioned by the Low Pay Commission (LPC), which sets minimum wages in the United Kingdom, specifically examining the operation of the National Minimum Wage (NMW) in an economic downturn and the likely effects on the employment of low-paid workers found that ‘employment in the lower-paying sectors remained relatively stable’ throughout a period of recession.

Given that the three previous decisions of the AFPC were all made in times of relative economic buoyancy, and to ensure that a decision on a

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6 Income Data Services, The impact of economic recession on pay increases and the low paid, a report prepared for the Low Pay Commission, United Kingdom, 2006.
specific quantum is made in the context of the best available economic data, the South Australian Government intends to lodge a supplementary submission to the AFPC after the federal budget in May 2009. At that point a specific quantum increase may be recommended after taking into account the relevant industrial and economic circumstances prevailing at that time.

3.2 Economic conditions in South Australia – March 2009

International factors

In its latest World Economic Outlook Update (19 March 2009), the International Monetary Fund (IMF) has projected world economic growth to contract for the first time in 60 years, with global activity now projected to fall by ½% to 1% in 2009 on an annual average basis – see Table 1.

Table 1 – IMF Forecasts (Real GDP, per cent change on year)

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<th>2009</th>
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<td>World Output</td>
<td>-1.0 to –0.5</td>
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<td>Advanced Economies</td>
<td>-3.5 to –3.0</td>
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<td>United States</td>
<td>-2.6</td>
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<td>Euro area</td>
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<td>Japan</td>
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Many countries are already showing signs of an economic slowdown. For example, China’s economic growth slowed to 6.8% in the final quarter of 2008 compared with the December quarter 2007 - the slowest growth rate since the December quarter of 2001. This takes the annual growth in China’s GDP to 9.0% for calendar 2008, down from 13% in the previous year. Euro-zone GDP contracted by 1.2% in the year to the December quarter 2008, while Japan’s GDP was 4.6% lower than a year

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7 Source: South Australian Department of Treasury and Finance.
earlier. In the US, GDP contracted by 1.6% in the December quarter 2008 and was 0.8% lower than a year earlier.

The United States National Bureau of Economic Research recently announced that the United States' (US) economy has been in recession since December 2007. The US government passed legislation for a new economic stimulus package worth in excess of US$789.5 billion (~AU$1.2 trillion) through Congress on February 12. Slowing economic growth across the globe has occurred despite co-ordinated efforts by central banks to stimulate demand through loosening monetary policy. A prime example of this is the US Federal Reserve, which has lowered its official lending rate from 4.75% in September 2007 to just 0-0.25% on 16 December, 2008.

National governments of many nations including Germany, China, the United Kingdom and the US have implemented various initiatives in an attempt to ease the economic pressure on households and businesses. Such initiatives include combinations of bank bailouts, industry rescue packages, deposit-guarantee schemes for savers, economic stimulus packages and even nationalising some financial institutions.

Notwithstanding these initiatives, prospects for global economic growth in 2009 are weak – growth of ½% (see table 1) would be the weakest since World War II. More recently, the World Bank has forecast even weaker growth, with world output expected to contract by between 1% and 2%.

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8 OECD Quarterly National Accounts, OECD, Paris, 18 February 2009
9 http://www.bea.gov/national/xls/gdplev.xls March 16 2009

Australian Economy

The Australian economy has not been immune to the economic effects of the global financial crisis. The pace of economic growth has been slowing on an annual basis since December 2007, in line with deteriorating global growth in the wake of the financial crisis. Australia’s Gross Domestic Product (GDP) grew by just 0.3% (seasonally adjusted) in real terms in the year to the December quarter 2008, down from a growth rate of 4.2% at the end of 2007.

In the most recent quarter for which data is available (December 2008), GDP contracted by 0.5%, and after subtracting out the impact of growth in the agricultural sector, the rest of the economy contracted by 0.8% in the quarter.

Commodity prices have weakened considerably, with spot prices for bulk commodities trading well below the most recent contract price levels. Indicative of the broad range of commodities experiencing a decline in price, the Reserve Bank of Australia’s (RBA) index of commodity prices has fallen by 11.9% in SDR\textsuperscript{12} terms since its peak in September 2008. The commodities boom of the last 4-5 years is no longer a significant stimulus to income and spending growth in Australia amid cooling demand from industrialising nations, particularly China. The RBA’s index of base metals prices has fallen 64% since peaking in May 2007, or 55% over the 12 months to February 2009 in SDR terms.

There has been a slowing in the pace of Australian employment growth from 2.8% through the year to January 2008 to 0.8% through the year to February 2009 (in trend terms). The unemployment rate has risen from a low of 4.1% recorded in February 2008, to 4.9% currently. The ANZ Bank’s measure of the average weekly number of newspaper job

\textsuperscript{12} Special Drawing Rights (SDRs) are international reserve assets created by the IMF to supplement the reserves of IMF member countries. The value of SDRs is determined daily by the International Monetary Fund on the basis of a weighted currency basket. They are useful in this context as a composite unit of value for commodities and base metals, abstracting from movements in the Australian currency.
advertisements was down 51% in trend terms through the year to February 2009, and the Department of Education, Employment and Workplace Relations’ index of skilled vacancies was down 52% over the same period. These trends suggest that employment growth is likely to slow further in coming months.

The Commonwealth Updated Economic and Fiscal Outlook (UEFO) was released in February 2009. The UEFO notes that the world is facing a much deeper and more protracted slowdown than previously anticipated. The effects of the global financial crisis on the real economy have been faster and more pervasive than many previously expected.

The UEFO contains a $42 billion Nation Building and Jobs Plan, comprising a mix of bonus payments to taxpayers and other groups and a range of infrastructure investments. Taking into account lower revenue and the stimulus package, the Federal Budget underlying cash balance is now forecast to be a deficit of $22.5 billion in 2008-09 and $35.5 billion in 2009-10.

Notwithstanding the stimulus package, the Commonwealth is now forecasting the Australian economy to grow by just 1% in 2008-09 and ¾% in 2009-10. Employment in Australia is forecast to fall by ¾% in 2009-10, after growth of just 1% in 2008-09. The IMF has also released forecasts for Australia’s economic growth, forecasting a contraction in GDP of 0.2% in 2009. The UEFO forecasts assume there will be further cuts in official interest rates by the RBA.

South Australian Economy

Partial indicators of the performance of the non-farm economy in South Australia are also showing signs of a moderation in growth in line with a significant slowing in national and international economic conditions.

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State Final Demand grew by 3.6% through the year to the December quarter 2008. Household consumption expenditure was a significant contributor to demand growth over the year.

Looking forward, however, the underlying trend of dwelling approvals in South Australia has eased since July 2008 suggesting a moderation in dwelling construction activity is likely through the course of 2009. New motor vehicle sales are also down 10% through the year to January 2009 in South Australia, as the share of domestically produced vehicles in total Australian sales also continues to decline.

Production conditions in the rural sector have been very challenging in recent years with poor rainfall outcomes in the broadacre sector\textsuperscript{14}, as well as low water allocations for irrigated horticulture due to continuing low flows into the Murray-Darling Basin system. The Australian Bureau of Agricultural and Resource Economics (ABARE) estimates that South Australia’s winter crop production for 2008-09 will be 8.0% lower than in 2007-08.

It is likely that the South Australian economy will also face a moderation in spending and employment growth through 2009 and 2010, in line with the national economic outlook, as a result of the global financial crisis.

The South Australian Mid Year Budget Review (MYBR) was published in December 2008 and contained downward revisions to the forecasts for growth in gross state product (GSP) and employment made at Budget time.

\textsuperscript{14} The word broadacre is an Australian term used to describe large tracts of land suitable for farms practicing large-scale crop (agriculture) farming as a single operation. Crops can include cereal and other coarse grains, oilseeds and pulses as well as livestock (usually sheep or beef cattle) and dairying. For more information see ABARE, Australian Farm Survey Results 2005-06 to 2007-08, page 21.
As highlighted in the Commonwealth UEFO however, the economic outlook has weakened further since the MYBR forecasts were published and the UEFO forecasts provide a more up-to-date assessment of the outlook. The national forecasts presented in the UEFO are a reasonable guide to the South Australian economic outlook for 2008-09 and 2009-10 as at time of writing.

Labour Market
The latest ABS Labour Force Survey data show that South Australian employment grew by 0.6% in trend terms through the year to February 2009, down from the recent peak growth rate of 3.1% in the year to April 2008. The unemployment rate has been rising since recording its generational low of 4.7% in March 2008, and was 5.7% in February 2009.

South Australian newspaper job advertisements have fallen 44% in trend terms through the year to February 2009, to their lowest level since May 1994, indicating a considerably weakened demand for labour.

Inflation
The Consumer Price Index (CPI) for Adelaide increased by 3.8% through the year to the December quarter 2008. This was in line with the national increase of 3.7% over the same period. The March 2009 quarter CPI is due to be released on April 22, 2009.

Because individual, highly volatile items can at times affect the level of headline CPI the RBA calculates smoothed measures of CPI, the average of which is referred to as ‘underlying’ inflation\(^\text{15}\). Underlying

\(^{15}\) The reasons for using an underlying measure of CPI were outlined by the RBA in an article entitled *The Implications of Recent Changes to the Consumer Price Index for Monetary Policy and the Inflation Target* in the RBA’s October 1998 Bulletin. Problems include “…volatility from quarter to quarter. A number of food items, for example, can be quite volatile because of temporary supply disturbances”, and “the CPI contains a number of prices which are set or influenced by administrative decisions of governments – such as public transport fares, petrol, products containing tobacco and alcohol…” For these reasons “…the Bank has preferred to
inflation was also high at between 4.2-4.5% through the year to the December quarter 2008, indicating that price inflation remains high among a broad range of goods and services, but has passed its September quarter peak and is starting to decline.

Most forecasts now predict that as demand growth slows, CPI inflation will slow simultaneously. In particular, forecasts from the RBA indicate that headline CPI growth could slow to below 2.0% by late 2009, with underlying inflation expected also to fall to around 2% by mid 2011. In the UEFO the Commonwealth Treasury forecast CPI growth to slow to 2% by the June quarter 2009 and be maintained at 2% through to June 2010.

Wages
Total hourly rates of pay (excluding bonuses) to employees in South Australia rose 4.1% during the year to the December quarter 2008. This was slightly lower than the 4.3% growth recorded nationally. Rates of pay for South Australian public sector employees rose by 4.0% and the private sector by 4.1% for the same period.

In the UEFO, the Commonwealth predicted moderating wages pressures, with the wage price index forecast to grow by 3.75% through the year to the June quarter 2009 and 3.25% through the year to the June quarter 2010.

3.3 The provision of a safety net for the low paid

The South Australian Government notes and supports the submissions of the Commonwealth and other State and Territory Governments to the

gauge inflation pressures in the economy using a range of measures of ‘core’ or ‘underlying’ inflation, most of which are derived as subsets of the CPI basket.”
extent that they endorse a moderate increase in the FMW and related Pay Scales.

A principal rationale for implementing a FMW ‘lies in social objectives related to wellbeing and equity; notably the desire to ensure that an acceptable ‘living wage’ is afforded to support low wage workers and their families.’

The South Australian Government supports these objectives and submits that the national safety net of entitlements must reflect community standards for fair remuneration. It should be adjusted appropriately to reflect the financial difficulties faced by those reliant on the FMW and Pay Scales (Award rates), whilst taking into account the current national economic pressures.

It is the South Australian Government’s general position that consideration should be given to maintaining the real value of the FMW over time. In its post budget supplementary submission it will consider whether to recommend a modest and responsible increase having regard to the economic and industrial context at that time.

The AFPC’s third Monitoring Report indicates that the real value of the FMW has remained generally unchanged over the two years to December 2008, with a relative decline in the FMW as compared to a number of measures of earnings. In addition, it identified that the increase in the standard FMW on 1 October 2008 was 4.1 per cent, marginally below the change in the CPI over the period since the Commission’s 2007 general wage-setting decision. In real terms, this has meant ‘financial incentives for most household types appear to have strengthened, albeit only slightly’ but ‘for the most part, these changes


have been driven by tax cuts and, to a lesser extent, annual increases in the FMW.\textsuperscript{18}

The increase in the FMW is in line with the 4.1\% growth in the WPI and the erosion of the FMW has been because of the high CPI growth since the AFPC’s 2007 decision. It is acknowledged that erosion of real wages has occurred across all industries and professions due to the high CPI growth. It is arguable however, that the relative impact has been greater on low income households.

In considering the role that the FMW plays in providing a safety net for the low-paid, the South Australian Government notes that 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.

However, any decision to over emphasise other elements of the ‘safety net’ could lead to a decrease in the real value of minimum wages over the longer term. Such decisions could also lead to negative outcomes in terms of the fundamental question of whether a person considers it worthwhile to seek low paid employment.

As a general principle, the South Australian Government acknowledges that consideration needs to be given to initiatives that are specifically targeted at improving living standards for the low-paid at times when economic circumstances may mitigate against an increase in the FMW.

However, it should also be noted that 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

\textsuperscript{18} Ibid.
economic policy considerations, which, whilst valid in their own sphere
diverge from the key industrial concerns of wage equity and an equitable
wage safety net. These policy considerations also change from time to
time and therefore may not be capable of continued reflection into
minimum wage levels.

Therefore the South Australian Government suggests that while it is
appropriate to have regard to factors such as stimulus packages and
industrial regulation when considering increase to minimum wages, such
financial incentives are available to broad sectors of the community, and
therefore should not be regarded as dominant factors, unless directly
targeted to the purpose of compensating the low paid as a trade off
against FMW adjustments.

In terms of the minimum wage providing a safety net, another important
consideration is that workers reliant on the minimum wage are generally
more limited in their ability to improve their labour market position
through individual bargaining. As a consequence, low-paid workers are
more likely to rely on minimum wage increases to maintain their standard
of living.

While the question of whether the FMW is effective in reducing poverty
remains debatable, (with a number of studies finding that it is an
ineffective device)\textsuperscript{19}, it should be noted that in the ‘current Australian
context… employment is an effective mechanism for avoiding poverty,
provided sufficient hours of employment are secured’.\textsuperscript{20}


3.4 Work Incentives

In the AFPC’s 2008 decision the importance of providing the unemployed with adequate incentives to take up low-paid work and encouraging the low-paid to maintain their employment was acknowledged.

In particular, it should be noted that ‘if minimum wage workers’ incomes are largely similar in the employed and non-employed states, then leaving a low paid job does not leave them much worse off in financial terms.’

Recent research commissioned by the AFPC proposes that ‘minimum wage workers are cushioned to a considerable extent by the welfare system if they were to lose their jobs. This is particularly so for part-time workers. However, this also means that many displaced workers would end up in employment traps, with very low incentives to regain employment.’

There is also research available which demonstrates the negative impacts of unemployment on health and other wellbeing factors, which translate into community costs. For example, empirical research into life on the minimum wage showed that ‘the unemployed have far lower life satisfaction than minimum wage workers’ in terms of general wellbeing and financial prosperity.

The South Australian Government supports a moderate increase in the FMW because at a time of increasing financial pressures for all

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23 Ibid.
Australians, such an increase will continue to provide an incentive to pursue paid work.

3.5 The Changing Industrial Context

The South Australian Government acknowledges that the 2009 review of federal minimum wages is taking place at a time when major changes are contemplated for industrial relations regulation in the federal arena.

The *Fair Work Bill 2008* (FW Bill) is currently making its way through the Houses of Parliament and the Australian Industrial Relations Commission (AIRC) has made significant progress towards the modernisation of awards. The latter will take effect from 1 January 2010.

The FW Bill also includes provisions for future minimum wage setting through a Minimum Wages Panel operating within Fair Work Australia (the new ‘one stop shop that will provide compliance, education and enforcement services in the new national system).

A *Transitional and Consequential Bill* is expected to be tabled in the Commonwealth Parliament before Easter to deal with the transition to the regime contemplated by the *Fair Work Bill* and to potentially deal with transitional arrangements for those states that decide to participate in the national system.

In her request that the AIRC undertake the award modernisation process, the Deputy Prime Minister, the Hon Julia Gillard MP, emphasised that the creation of modern awards is not intended to ‘disadvantage employees’ or ‘increase costs for employers’\(^{24}\).

The publication of the final drafts of the first modern awards demonstrates the potential complexity of achieving these dual goals.

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\(^{24}\) *Workplace Relations Act 1996*, Request under section 576(C)(1) – Award Modernisation, section 2(c) and (d).
Any equalisation processes will be crucial to how any changes (either increases or decreases) to current pay scale and allowance rates will impact on employees, particularly those in low paid industries and occupations.

In general, the AIRC has concluded that it is desirable that transitional provisions, including supersession provisions take account of the legislative scheme in which they will operate. For that reason, it is the AIRC’s intention to deal with transitional provisions after the final form of the substantive legislation and the associated transitional legislation is known.

The South Australian Government considers that any changes to wages that arise out of the award modernisation process are a relevant consideration but should not be a dominant factor in assessments regarding potential increases to the federal minimum wage. A supplementary submission prepared in May of this year will be able to assess in more detail the proposed new regulatory regime and how it might impact on low paid workers.

If the States decide to participate in the national system, transitional equalisation processes will also have to be considered given that there is currently considerable diversity between state minimum wages and the federal minimum wage.

3.6 The provision of minimum wages for junior employee, employees to whom training arrangements apply and employees with disabilities that ensure those employees are competitive in the labour market.

After the election of the current Commonwealth Government, the AFPC discontinued its review of junior and training wages in the Australian labour market. This decision was taken in the context of the new Commonwealth Government’s policy including the award modernisation process. There is still no Federal Minimum Wage applicable to junior employees or employees with disabilities.
The following comments provide an overview of the position within the South Australian jurisdiction and should not be taken as direct recommendations relevant to the determination of the 2009 Minimum Wage Review. It is acknowledged that the AFPC has discontinued its considerations of these matters.

In 2005 the South Australian Government introduced (via amendments to South Australia’s *Fair Work Act 1994*) a comprehensive minimum wage safety net. It did so under the umbrella of the Minimum Standard for Remuneration (the Standard), that encompasses an adult minimum wage as well as junior rates (including apprentice rates), adult apprentice rates, trainee rates and supported wage rates for persons with disabilities.

The Minimum Standard for Remuneration applies to all employers and employees covered by the South Australian Industrial Relations system and prevails over contracts of employment and existing State Award wages and conditions to the extent that the terms of the Standard are more favourable to an employee.

There have been a small number of exemptions granted by the Industrial Relations Commission of South Australian to address participants in sporting activities and the transitional implementation of higher adult apprenticeship rates required by the Standard.

The Standard applies to employees within the State’s industrial jurisdiction that are not covered by any South Australian award.

The following minimum wages are set by the Standard:

- Three adult (21 years and over) wage rates (full-time, part-time, and casual) currently based on the same full-time adult wage as the FMW;
- five junior wage rates ranging from 50 to 90 percent of the adult rate (with specified full-time, part-time, and casual rates);

- four junior apprentice wage rates (for each year of a standard apprenticeship) ranging from 42 to 88 percent of the adult rate;

- one adult apprentice rate set at the adult wage rate (currently the same amount as the South Australian minimum adult wage rate and the FMW);

- trainee wage rates specified in Appendix A of Schedule B of the Standard (reflecting similar scales to those applicable within the National Training Wage Award); and

- supported wage rates based on the appropriate minimum wage rate for persons with a disability set according to their assessed capacity against a normally able employee.

The South Australian Government is particularly concerned by the current absence of an effective Federal safety net that encompasses junior employees and those not otherwise protected by Pay Scales and has pursued this through seeking amendments to the *Fair Work Bill 2008*. 


4. Minimum Wages and the Gender Pay Gap

While the AFPC is not legislatively obliged to consider pay equity issues as part of its wage setting parameters, in its 2008 decision the Commission indicated that it felt further investigation into pay equity issues and the minimum wage was warranted.

The South Australian Government discussed the importance of minimum wage setting in its submission to the House Standing Committee on Employment and Workplace Relations’ Inquiry into Pay Equity and Associated Issues Related to Increasing Female Participation in the Workforce.

Gender pay differentials exist across all professions and at all levels. 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.

25 See section 23 (a-d) of the Workplace Relations Act 1996 (Cth) which sets out the AFPC’s wage setting parameters.


It has been estimated that in the absence of minimum wage adjustments, it is ‘likely that the gender pay gap would have been up to 2.7 per cent greater’ than it currently sits. In addition, research indicates that ‘women’s over-representation in low-paid jobs implies that the current gender pay gap would be greater in the absence of minimum wage adjustments.’ It is for this reason that the South Australian Government submits that the AFPC should consider pay equity issues when determining the outcome of the 2009 review of federal minimum wages.

In terms of the role that the FMW plays in reducing the gender pay gap, studies of women’s labour supply suggest that increases in the minimum wage ‘have links with women’s willingness to participate in the labour force.’ In this respect, the minimum wage acts as a determinant of women’s involvement in paid work. As such, it should be recognised that minimum wage decisions perform a dual role: increasing wage equity and promoting labour force participation, especially among low paid employees.

Importantly, research recently commissioned by the AFPC into gender pay differentials points to the fact that ‘earnings structures which entrench relatively low earnings among women act to reinforce existing divisions of labour in which women become secondary earners in their families and, in many cases, forgo formal labour market participation.’ Therefore, labour market structures that lessen existing gender pay gaps, including the minimum wage, ‘play a potentially important role in reducing traditional gendered divisions of labour within households.’

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31 Ibid.
32 Ibid.
33 Ibid.
34 Ibid.
This role is likely to have a positive impact on gender wage equality in the long-term.

The long-term effects of the gender remuneration gap are significant, both in terms of undervaluing the role that women play in the labour market and in potentially reducing the number of women willing to enter into paid work. It is for these reasons that the South Australian Government submits that the AFPC should consider pay equity issues in its general wage-setting determinations. The South Australian notes that the Minimum Wages Objective in the FW Bill requires Fair Work Australia, when establishing and maintaining minimum wages, to take into account ‘the principle of equal remuneration for work of equal or comparable value’.\(^\text{35}\)

\(^{35}\) Clause 284.
5. **Community Sector Funding**

In recent consultations, the issue of State Government community sector funding and its impact on wages was raised by the AFPC.

The South Australian Government has committed to the provision of an additional 1% over and above the indexation of grants, to be allocated specifically for wages for the period 2007-2010. A written agreement from the grantee is required to confirm that the additional 1% is spent on wages. This initiative was developed in consultation with the *Strong Community Healthy State Campaign* driven by the Australian Services Union (ASU), South Australian Council of Social Services (SACOSS), the Liquor, Hospitality and Miscellaneous Workers Union (LHMU) and with other community sector stakeholders.
6. Conclusion

The South Australian Government supports a moderate increase in the Federal Minimum wage and related pay scales.

The South Australian Government will submit a supplementary submission to the AFPC after the federal budget in May 2008, which may recommend a specific quantum increase taking into consideration the economic and industrial circumstances at that time.