
Australian Council of Trade Unions Submission to the Australian Fair Pay Commission

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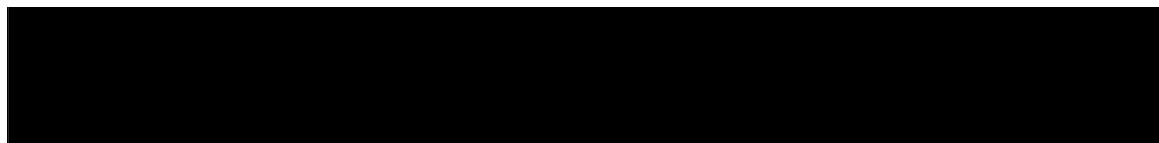


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1

Introduction

The Fair Pay Commission has a duty to ensure all low paid workers are adequately remunerated

The Fair Pay Commission has a duty to ensure low paid workers are adequately renumerated. In addition to meeting its statutory requirements the Fair Pay Commission has a unique opportunity to improve the lives of all workers who rely on statutory minimum wages.¹

At a time where the Australian economy has enjoyed 58 consecutive quarters of economic growth and unemployment is at generational historic lows, the Fair Pay Commission can in its first decision, improve the lives of workers who are not in a position to bargain and do so in an economically responsible manner.

There has been much comment on the potential attitude of the newly established Fair Pay Commission to the maintenance and improvement of statutory minimum wages in Australia. The Fair Pay Commission has the opportunity to show that it is a genuine independent body and, in its first determination, make a decision that it just and fair to Australian workers and their families.

Australia's award dependent workers have suffered a pay freeze following the legislative changes that have barred their access to the independent industrial

umpire. Australian workers look to the AFPC to undertake its statutory obligation in an even handed and open manner.

It is also hoped that the AFPC will, despite the lack of reference to fairness in the statute, weigh considerations of equity and fairness with other considerations required by its statutory charter.

The ACTU is urging the AFPC to consider a pay increase for all those award dependent workers who are not in a position to bargain for themselves.

Given the current state of the economy, including a 30 year low in unemployment and historically high participation rates, the AFPC can and should adjust statutory minimum rates in the manner proposed by the ACTU. The ACTU's claim is affordable and economically responsible whilst ensuring those that are not in a position to bargain do not fall further behind.

The ACTU argues that increasing minimum wages will not have a detrimental impact on employment – and the OECD agrees with us.

An exhaustive empirical study by the OECD has found that increasing minimum wages does not affect employment levels in any measurable way, that removing unfair dismissal protection does not create jobs and may result in job losses and that collective bargaining rather than individual contracts reduces unemployment.

The AFPC should be mindful that the claims by employers that the ACTU's claim is inflationary is not unexpected. There has not been a single wage setting occasion in Australia's long history of wage setting that employers or the government have not argued that workers' claims for wage increases are either inflationary or will depress the economy and cause unemployment or, in many cases, both at the same time!

The ACTU has costed its claim and estimated that the total impact on CPI will be a statistically insignificant 0.29 per cent. The AFPC should keep the history of employer histrionics' in mind when considering its position.

The ACTU also shows that minimum wage earners financially benefit from increases in minimum wages and that it is not taken by tax and reductions in benefits.

The ACTU is seeking a moderate increase of \$30 per week to statutory minimum rates of pay. This increase when annualised is approximately 4 per cent at the level of the Federal Minimum Wage. This equates to the current inflation rate. Anything less than a 4 per cent increase will result in a real pay cut for those at the bottom levels of pay. The ACTU also shows that a disproportionate percentage of low paid workers' income is spent on housing, transport and food costs. With significant increases in these costs, despite any statutory requirement to be fair, the AFPC should ensure it sets fair minimum wages.

The economic impact of the claim is statistically negligible with a Consumer Price Index impact of 0.29 and a small addition to Total Ordinary Time Earnings of only 0.54 per cent.

The ACTU's claim is moderate, economically responsible and affordable.

2

The Statutory Framework

There is a wide scope for the AFPC to raise the living standards of the low paid.

The ACTU laments the demise of the independent evidentiary based process undertaken by the Australian Industrial Relations Commission (AIRC) in the determination of the level of minimum wages through the Safety Net Review of Wages cases. We recognise that the statutory regime has changed and that the process of determination of statutory minimum wages has changed considerably.

Whilst the ACTU remains critical of the recent legislative changes and does not consider the process to be adequately open or one which provides a fair go all round, the ACTU will work constructively within the existing process to represent the interests of low paid workers.

AFPC can make a difference to the lives of low paid workers

There is a wide scope for the AFPC to raise the living standards of the low paid. In exercising its wage setting powers as provided by the Workplace Relations Act 1996 the AFPC should not read down its charter.

The ACTU does not agree with those commentators who suggest it is the role of the AFPC to reduce in real or nominal terms, the level of minimum wages in

Australia. Nor should the AFPC be influenced by some public statements that its role is limited by the statute.

We note that the AFPC in its call for public submissions has emphasised four major points:

"In setting the minimum wage, the Commission will consider:

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

Employment and competitiveness across the country;

Providing a safety net for the low paid; and

Providing minimum wages for junior employees, those in training, and employees with a disability to ensure those employees are competitive in the labour market."²

The above criteria reflect section 23 of the *Workplace Relations Act 1996* which outlines the AFPC's wage-setting parameters. This criteria is not prescriptive. Section 23 requires that the AFPC whilst performing its wage-setting function to have regard to the above criteria. The AFPC is not excluded from taking into account other considerations.

Despite the complete lack of reference in the Act to considerations of fairness including the fairness of any potential outcome, the AFPC is not prohibited from considerations of fairness and equity.

Section 21 outlines the functions of the AFPC, including its wage setting function which is detailed in s22. Section 22(a) requires that the AFPC conduct wage reviews and s22(b) requires that the AFPC exercise its wage-setting powers as necessary. This includes the establishment and maintenance of key minimum entitlements of employment or the Australian Fair Pay and Conditions Standard as set out in s171 of the Act.

The standard includes in s171 (a) basic rates of pay and casual loadings. In determining basic rates of pay and casual loadings s177 requires that the AFPC must have regard to the recommendations of the Award Review Taskforce.

Adjustment of Federal Minimum Wages

The Act provides for separate consideration of the Standard Federal Minimum Wage (Standard FMW) and the Special Federal Minimum Wage (Special FMW). Special Federal Minimum wages apply at the discretion of the AFPC to juniors, those with a disability or trainees. The Standard FMW applies to all other employees.

Section 195 establishes that the Standard FMW is \$12.75 per hour and s196 states that the power to adjust the Standard FMW is subject to sections 176, 177, 190, 191, 195(2) and 222.

Importantly section 222 of the Act requires the AFPC to take into account a number of anti-discrimination considerations when exercising its powers, these include equal pay considerations between men and women performing work of equal value; providing pro-rata disability pay methods for employees with disabilities; taking into account the Racial Discrimination Act 1975, the Disability Discrimination Act 1992, the Sex Discrimination Act 2004, the Age Discrimination Act and the Family Responsibilities Convention.

Section 222(1)(e) also requires that the AFPC ensure that its decisions not discriminate on a range of grounds. Section 222(2) also ensures that these anti-discrimination considerations apply when the AFPC establishes the Special FMW.

There are clearly a number of considerations that must be measured by the AFPC when dealing with minimum wage related issues.

Competition with whom?

Low paid workers in Australia are not competing with low paid workers overseas for employment. Nor should Australia aspire to become a low wage nation. The move of capital to low wage nations will not be stemmed through a reduction in wages and conditions in Australia. A race to the bottom does nothing to further Australia's competitive advantage.

The provision of public investment and the encouragement of private investment in human capital through skills development, training and education will provide greater returns to all Australians.

There is no evidence that low paid workers are at a competitive disadvantage due to the rate of pay they receive or will receive should the AFPC grant the ACTU's claim.

Are low paid workers pricing themselves out of a job?

The simple answer is no. There is no evidence that employers have deferred or decided against employing low paid workers following the granting of pay rises. In fact the evidence is that labour shortages continue in the previous award reliant areas of work.

The AFPC should not blindly accept the self serving mantra from employer organisations that increases in the minimum wage will result in job losses in minimum wage reliant industries. This is simply not true.

The evidence is that jobs continue to grow in industries with high rates of minimum wages dependency. In fact the Federal Government predicts that there will be continued jobs growth in the industries upon which the AFPC's determinations will have the greatest impact.

In the last five years to February 2006 there have been 169 800 additional jobs created in retail trade and 155 300 additional jobs in health and community services. The Department of Employment and Workplace Relations (DEWR) predicts that there will be a 9,000 additional jobs created each year to 2010 - 11 in the accommodation, cafes and restaurant sector; a massive 31,600 additional jobs created each year in the health and community services industry and a staggering 30,700 additional jobs each year in the retail trade industry.³

The DEWR predicts that more than half the new jobs created over the next five years are expected to be in four occupational groupings, three of which (retail workers, clerical and health) have a high level of minimum wages workers within them.⁴

Employer organisations and the current Federal Government have welcomed the scrapping of the industrial umpire's role in setting minimum wages and expressed hope that the AFPC will agree that increases in the minimum wage reduce employment or at the very least reduce the employment prospects of award dependent workers.

Such propositions fly in the face of the facts. Minimum wage levels have increased in real terms whilst employment has grown in award dependent industries and the predictions are that employment growth will continue.

The Treasurer Peter Costello recently summed up the situation stating that we were seeing:

“... an economy which has had continuous growth over a decade producing more jobs than ever before, with an unemployment rate which is lower than we have had in 30 years.”⁵

Not surprisingly the Prime Minister is also enthusiastic about the state of the economy and the labour market.

***"I am quite impressed, perhaps even more so, really enthused by the strength of the job market in this country."*⁶**

Impact on economy

Increasing rates of pay for minimum wage workers does not harm the economy. The economy has continued to grow with low to moderate inflation while real increases in award rates have occurred. A casual perusal of the economic conditions clearly indicates that it has and can continue to support real increases in minimum wage rates. The economic data found elsewhere in these submissions supports this view.

Impact on collective bargaining

Increases in the minimum wages have not adversely affected the rate of workplace bargaining. The level of workplace bargaining continues to increase. Recent changes to industrial laws, including the reduction in union involvement in the collective bargaining process, have caused some uncertainty and have encouraged those employers who are less inclined to bargain. Notwithstanding these changes, the rates of pay and the rates of increase obtained in collective agreements are well in advance of the minima.

Incentive to bargain

There is and will remain after the decision of the AFPC a significant gap between minimum wages and the outcomes from bargaining agreements and therefore considerable incentive for employees to seek collectively or individually arrangements in excess of the minimum.

There is no evidence that recent increases in minimum wage rates of pay have slowed the growth in bargaining. In fact, the contrary is the case, as the number of minimum wages reliant employees has reduced. ABS Employee Earnings and Hours (EEH) data shows the number of minimum wages reliant workers declined from 20.5 per cent of the workforce in 2002 to 20.0 per cent in 2004.

The considerable gap between minimum rates of pay and those obtained through collective bargaining is currently more than a sufficient incentive for minimum wages workers to agitate for enterprise agreements and for this to be resisted by employers.

In most cases the market rates are 30 to 50 per cent in excess of the statutory minimum rates of pay found in awards. It is not uncommon to find rates of pay in collective agreements that are more than double the statutory minima within the award. Should the AFPC grant the ACTU's reasonable claim, there will be no negative impact on the rate of collective or individual bargaining. The granting of the ACTU's claim will not create any disincentive for continued bargaining within the workforce.

The simple fact is that most workers relying on minimum wages are not in a position to bargain. This lack of bargaining power has been accentuated with the dramatic changes to industrial laws. The recent changes have stripped workers of basic protections.

The AFPC should not consider that it is encouraging bargaining by restraining minimum wages, such a strategy would only force workers without power to beg; there is nothing fair about such an outcome.

3

What is Fair Pay?

The AFPC should not limit its consideration of what is an appropriate or fair level of remuneration solely to the level of minimum wages.

The AFPC has a wide statutory obligation to establish and adjust pay levels and take into account a number of considerations, including anti-discrimination matters. In its consideration of what is fair pay the AFPC should bear in mind that many workers are not in a position to bargain for a wage that reflects the true value of their work.

Unequal bargaining

The AFPC is strongly urged not to assume that workers who have their pay and conditions established by individual contracts and Australian Workplace Agreements (AWAs) have entered into a genuine agreement which has been negotiated by two equal parties. The clear evidence is that this is not the case. A perusal of many AWAs demonstrates a high reliance on minimum standards and rates of pay. The AFPC will be aware that strict secrecy provisions prohibit the publication of details of AWAs.

The AFPC will also no doubt be aware that employers can now demand an employee sign an AWA as a precondition of employment. It is therefore not surprising that the incidence of AWAs is increasing.

With many rates of pay and conditions found within AWAs being directly linked to minimum pay and condition standards the AFPC should be aware that the implications of its decisions are wider than those employees who are award reliant.

The Fair Pay Commission should not abandon minimum wage workers at higher qualification levels who are unable to bargain.

Most workers relying on award wages are simply not in a position to bargain with their employer. This includes all employees who are forced to rely on minimum wage rates of pay. Later in these submissions we detail unpublished Australian Bureau of Statistics data that shows that approximately 60 per cent of workers who rely on award rates of pay earn rates at or above that equivalent to the metal industry trade rate C10 of \$578.20.

Despite strong labour market conditions many workers, including workers within higher skill levels, are not capable of reaching an agreement with their employer. If the AFPC acquiesces to the short-sighted interests of those employers and those in government once again calling for a small increase to apply to a limited number of award reliant workers, there will be a considerable impact on the level of skills attraction and retention in this country.

The AFPC should be mindful if it only provides increases to workers at lower levels within the award structure, or provide different levels of increases through the award structure, there will be substantial damage caused to the internal relativities within awards. These internal relativities are skill and qualification based and the AFPC could cause significant damage to the structures relied upon for the attraction and retention of skilled workers.

There is no policy or economic justification for not providing an increase to all award workers. It is the view of the ACTU that any decision to not equally flow a statutory minimum wage adjustment to all existing pay scales would be economically irresponsible and morally bankrupt.

Lack of bargaining power

Employees whose wages will be affected by the decision of the AFPC are workers who are not in a position to bargain. It should be recognised that a widening of the differential between bargaining outcomes and minimum wages will further encourage those employers who actively resist bargaining attempts by employees. There is evidence that the incidence of employees employed on minimum wages (under Awards/APCS) and certified agreements primarily reflects the preferences of employers.⁷ As participants at the AFPC Albany Consultation commented:

The minimum wage is important for people who've no bargaining power.⁸

This is true of all minimum wages, not just the Federal Minimum Wage.

4

Who are the low paid?

The AFPC should not limit its consideration of what is an appropriate or fair level of remuneration solely to the level of minimum wages.

The scope of the AFPC's wage determinations is undoubtedly wide. The actual numbers of employees that will have their terms and conditions determined in totality by the determinations of the AFPC is not precise.

There is some consensus that between 75 and 80 per cent of employees will now fall within the jurisdiction of the federal industrial relations system. The vast majority of employees who remain in or now find themselves within the federal industrial relations system will not be dependent on award rates and will not benefit from any decision of the AFPC.

There is considerable data on the Australian Labour Force. The most recent Employee Earnings and Hours survey undertaken by the Australian Bureau of Statistics in May 2004 indicates that 19.9 per cent of the workforce employed by incorporated businesses, only receive statutory minimum wages. The data shows that nearly 20 per cent of the Australian workforce is not in a position to bargain for a collective or individual agreement.

Table 4.1: Pay Setting Incorporated Businesses

Pay setting Incorporated Businesses	Proportion
Award Reliant	19.9
Collective Agreement	30.3
Individual Agreement	41.9
Working Proprietors	7.9
All Pay Settings	100

• Source: ABS EEH May 2004 (unpublished)

In unincorporated businesses the level of award dependency is higher again. The AFPC does not have jurisdiction over these employees.⁹

Table 4.2 Pay Setting Unincorporated Businesses

Pay setting Unincorporated Businesses	Proportion
Award Reliant	35.5
Collective Agreement	20.7
Individual Agreement	39.3
Working Proprietors	4.5
All Pay Settings	100

• Source: ABS EEH May 2004 (unpublished)

The majority of employees in unincorporated businesses will fall within the jurisdiction of a State Industrial Relations system or will be 'transitional employees' whose wages will continue to be set by the AIRC using its remaining arbitration powers.

Table 4.3 Pay Setting All Employees

Pay setting All Employees	Proportion
Award Reliant	20.0
Collective Agreement	40.9
Individual Agreement	33.7
Working Proprietors	5.4
All Pay Settings	100

- Source: ABS EEH May 2004 (unpublished)

There remain substantial numbers of award dependent workers within the State jurisdictions who are employed by the crown and small business of less than 20 employees. The AFPC's wage determinations will not impact upon most of these award only workers.

Table 4.4: Jurisdiction of the State and Federal Industrial Relations Systems

Federal Jurisdiction			State Jurisdiction			Range of Federal jurisdiction	
			Incorporated sector	Unincorporated sector	+State govt	High %	Low %
		%	No. non-farm emps 000's	%	No. non-farm emps 000's		
NSW	75.2		2078.7	24.8	685.5	78.2	72.2
VIC	100.0		2156.1	0.0	0.0	0.0	0.0
QLD	59.9		989.8	40.1	662.6	63.1	56.7
SA	59.2		364.4	40.8	251.1	65	53.4
WA	59.9		513.7	40.1	343.9	66.7	53.1
TAS	62.3		112.7	37.7	68.2	70.7	53.9
NT	100.0		85.0	0.0	0.0	0.0	0.0
ACT	100.0		164.9	0.0	0.0	0.0	0.0
AUST	76.3		6465.3	23.6	2011.4	78.3	74.3

- Source: Unpublished data, ABS Survey of Employee Earnings and Hours (Cat. no. 6306.0) May 2004, ABS Labour Force Survey (Cat. no. 6202.0)

The above estimates overstate the size of the state jurisdictions as transitional employees (who are employed in unincorporated businesses and subject to federal award instruments) and who continue to have their statutory minimum pay established by the AIRC are included in the data. This overestimation is partially offset as some incorporated bodies will not fit the definition of a constitutional corporation. It is estimated that the range of federal jurisdictional coverage is somewhere between a high of 78.3 to a low of 74.3 per cent of the Australian workforce.

Industries employing minimum wage workers

Prior to the introduction of the work choices amendments to the Workplace Relations Act 1996 there were approximately 1.6 million minimum wage workers covered by State and Federal awards, these employees were:

- Concentrated in three industry sectors: Accommodation, cafes and restaurants; Retail trade, and Health and community services;
- Generally paid less than other workers;
- More likely to be casual;
- More likely to be women;
- Primarily employed in the private sector; and
- Overwhelmingly employed in non-managerial occupations and most heavily concentrated in lower skilled occupations.

Table 4.5 below demonstrates that the highest concentration of minimum wages employees is found in the Retail industry, closely followed by the Accommodation, cafes and restaurants industry. These industries also have the highest density of minimum wages earners.

There is a clear correlation between the number of minimum wages earners within an industry and the average weekly earnings of employees. The preliminary data from the May 2004 EEH informs us that average weekly total

earnings for all employees was highest in the Mining industry (\$1,533.00) and the lowest in Retail trade (\$448.40) and Accommodation, Cafes and Restaurants (\$462.80).

Table 4.5: Minimum Wage Workers by Industry

Industry	Density %	Concentration %
Mining	*1.8	0.1
Manufacturing	15.5	8.5
Electricity, Gas and Water Supply	*1.7	0.1
Construction	15.8	4.2
Retail Trade	31.5	22.6
Accommodation, Cafes and Restaurants	60.2	17.0
Transport and Storage	14.4	2.7
Communication Services	*2.1	0.1
Finance and Insurance	4.7	1.0
Property and Business Services	18.9	13.7
Government Administration and Defence	*0.7	0.2
Education	8.5	4.1
Health and Community Services	27.2	15.5
Cultural and Recreational Services	16.4	2.0
Personal and other services	23.6	4.5
Total	19.9	100.0

*Estimate has a relative standard error of between 25% and 50% and should be used with caution

- Source: ABS Cat No. 6305.0 Employee Earnings and Hours Unpublished

By way of explanation; the above Table shows that: 60% of all workers in the accommodation, cafes and restaurants industry are paid the minimum award rate ie: not paid under an agreement or other contract, this 60% make up 17% of all workers who are paid solely under an award.

Table 4.5 indicates that minimum wage earners are most heavily concentrated in the following industry sectors:

- Retail trade (22.6 per cent);
- Accommodation, cafes and restaurants (17.0 per cent);
- Health and community services (15.5 per cent);
- Property and business services (13.7 per cent); and
- Manufacturing (8.5 per cent).

Occupations of minimum wage workers

There appears to be little difference between the occupational and demographic composition of award only employees within the jurisdiction of the state systems and those who will rely on determinations of the AFPC for their wage adjustments.

The vast majority (99.7 per cent) of minimum wage employees are employed in non-managerial occupations. Elementary (24.5 per cent) and Intermediate (27.8 per cent) clerical, sales and service workers comprise over half of all award only employees. Labourers and related workers comprise 18.1 per cent with 10.8 per cent being Tradespersons and related workers.

Table 4.6 shows that minimum wages employees are concentrated in lower skilled occupations with more than 75 per cent found in classifications considered to have skill levels below trade level.

Table 4.6: Minimum Wages Workers by Occupation

Industry	Density %	Concentration %
Managers and Administrators	0.9	0.3
Professionals	6.7	6.1
Associate Professionals	8.0	4.8
Tradespersons and Related Workers	22.0	10.8
Advanced Clerical and Service Workers	7.7	1.1
Intermediate Clerical, Sales and Service Workers	26.5	27.8
Intermediate Production and Transport Workers	16.7	6.5
Elementary Clerical, Sales and Service Workers	39.7	24.5
Labourers and Related Workers	37.0	18.1
Total	19.9	100

- Source: ABS Cat No. 6305.0 Unpublished

The mix of employees by occupation and by type of legal organisation does not significantly change the occupational picture painted by the EEH data.

**Table 4.7: Occupation of employees by type of legal organisation
Australia**

	Incorporated	Unincorporated	Aust Govt	State Govt	State Govt Co	Local Govt	Total
Managers and Administrators	61.3	15.7	7.3	9.2	5.4	1.0	100
Professionals	35.0	22.8	2.7	20.3	17.3	1.9	100
Associate professionals	49.8	20.6	5.0	13.3	8.5	2.9	100
Tradespersons and related workers	63.6	27.7	1.4	2.3*	2.9	2.1	100
Advanced clerical and service workers	55.9	29.1	1.9*	6.0**	4.6	2.5*	100
Intermediate clerical, sales and service workers	52.0	26.5	4.6	9.2	4.8	3.0	100
Intermediate production and transport workers	77.9	15.2	0.5*	0.5*	2.3	3.6	100
Elementary clerical, sales and service workers	64.2	28.2	3.8	1.8	1.3	0.7*	100
Labourers and related workers	64.0	27.4	0.2*	3.3	2.3	2.8	100
All occupations	55.2	24.0	3.2	8.8	6.5	2.3	100

• Source: ABS Survey of Employee Earnings and Hours Cat No. 6306.0 May 2004 (Unpublished)

What sized businesses are the low paid employed in?

The Table below shows award employment by business size. The May 2004 EEH survey data includes state award dependent employees employed in unincorporated businesses and state crown employees who remain within the jurisdiction of State industrial instruments. The level of minimum wages dependency in unincorporated businesses is at 35 per cent compared to 20 percent in incorporated businesses.

It is suggested that the proportion of award only employees in small businesses who will be impacted by a decision of the AFPC is less than the 39.4 per cent shown below.

The data indicates that the ability of employees to bargain either collectively or individually above award conditions is greatest in medium and large workplaces.

Table 4.8: Award employment by Business Size

	All employees	Award only
	Proportions %	Proportions %
Under 20 employees	28.7	39.4
20 to 49 employees	10.4	16.0
50 to 99 employees	8.6	13.5
100 to 499 employees	18.1	18.7
500 to 999 employees	7.2	6.2
1000 and over employees	27.1	6.1
Total	100.0	100.0
Small	28.7	39.4
Medium	19.0	29.5
Large	52.4	31.0

- Source: ABS EEH Cat No. 6305.0 Unpublished

Characteristics of minimum wage workers

Table 4.9 demonstrates that minimum wage workers are more likely to be women and working part-time and more than twice as likely to be employed on a casual or casual part-time basis.

Table 4.9: Characteristics of Minimum Wage Workers and All Employees

Characteristics	Award Only	All Employees
Female	60.3	48.9
Junior	15.6	6.2
Part-time	59.0	34.2
Casual	46.5	20.9
Casual and Part-time	42.4	17.8

• Source: ABS Cat No. 6305.0 Unpublished

Table 4.9 clearly indicates that the nature of employment of award only employees combined with low rates of pay, which is discussed below, provide a clear picture of disadvantage within the labour market.

Earnings of award employees

The May 2004 EEH survey demonstrates minimum wages workers earn significantly less than other employees. Using data from the May 2004 survey Table 4.10 below demonstrates that minimum wages workers earn 58 per cent of average weekly earnings or \$304.48 per week less than AWOTE.

Employees reliant on the statutory minimum award rates earn on average \$335 per week less than those on collective agreements and \$428 per week less than employees who are paid under the terms of an individual contract.

Table 4.10: Average Weekly Earnings by Pay Setting (\$)

Award Only	Collective Agreements	Individual Agreements [#]	Total
425.64	761.31	853.76	730.12

[#]Does not include working proprietors

- Source: EEH May 2004 - Unpublished

A closer examination of the most recent EEH data shows that when managerial employees are removed from the data, significant discrepancies between the earnings of award dependant employees and employees who have their pay set by collective or individual agreements remain.

The average weekly ordinary time earnings of award only non-managerial employees are 58 per cent of AWOTE for all employees and only 63 per cent of all non-managerial employees.

Statutory minimum or award-only non-managerial employees earn on average 58 per cent of non-managerial employees paid under a collective agreement and 56 per cent of average weekly ordinary time earnings of non-managerial employees who have their pay set by an individual agreement.

Table 4.11: Average Weekly Earnings by Pay Setting and Managerial Status (\$)

Pay Settings	Managerial Status	AWOTE
All pay settings	All	\$730.12
All pay settings	Non-managerial	\$671.90
Award-only	Non-managerial	\$423.88
Collective agreement	Non-managerial	\$730.99
Individual agreement	Non-managerial	\$759.75

- Source: ABS Cat No. 6305.0 Unpublished

Award only employees are more likely to work part-time than employees who have their pay established by other forms. This is in part responsible for the significantly lower average weekly ordinary time earnings of award-only employees.

However, when we examine full-time wage earnings, award only employees still earn significantly less than other employees. Table 4.12 shows that an award only adult full-time employee earns a meager 68 per cent of the average weekly ordinary adult full-time earnings. Award only employees earn 67 per cent of those under collective agreements and 63 per cent of employees employed under individual arrangements.

Table 4.12: Average Weekly Earnings Full-Time, Adult, Permanent/Fixed Term Employees (\$)

Award-only	Collective agreement	Registered or unregistered individual arrangements	Working proprietors of incorporated business
\$636.30	\$947.60	\$1,013.60	\$937.70

- Source: ABS Cat No. 6305.0 Unpublished

A similar discrepancy in hourly earnings is reflected in the average hourly ordinary time earnings (AHOTE) data in Table 4.13. Full-time workers who have their pay set by award only earn 72 per cent of AHOTE and only earn 69 per cent per of the hourly rate paid to those renumerated under a collective agreement.

Table 4.13: Average Hourly Ordinary Time Earnings by Pay-Setting Method (\$ per hour). Non-managerial employees

	Award only	Collective Agreements	Individual Agreements	All Persons
Full-time adults				
Permanent/fixed term				
Permanent/fixed term	\$16.60	\$24.20	\$23.50	\$23.00
Casual	\$18.00	\$20.00	\$24.00	\$20.80
Part-time adults				
Permanent/fixed term				
Permanent/fixed term	\$17.10	\$21.10	\$22.20	\$20.50
Casual	\$17.70	\$23.30	\$20.60	\$19.90
Juniors	\$10.10	\$11.00	\$11.00	\$10.60

• Source: ABS Cat No. 6305.0 Unpublished

Minimum wages workers are overwhelmingly concentrated in the bottom half of the wages distribution with over 75 per cent on an hourly rate below the median hourly rate.

The above data clearly demonstrates that by any measure award-only employees earn significantly less than those employees who have their pay set by other means. With 82 per cent earning less than the median hourly ordinary time earnings and 82 per cent earning less than average weekly earnings.¹⁰

Earnings of Minimum Wage Earners in incorporated businesses

The May 2004 EEH data shows that there is a considerable discrepancy between male and female Average Weekly Ordinary Time Earnings (AWOTE) for non-managerial workers employed in private sector incorporated businesses.

Table 4.14: Average Weekly Ordinary Time Earnings, Minimum Wage Workers employed within Private Sector Incorporated Businesses. May 2004

All Employees	
Male	\$486.82
Female	\$395.50
All Employee Total	\$437.03
Adult Employees	
Male	\$531.26
Female	\$439.77
All Adult Employees	\$482.46
Adult Full-Time Employees	
Male	\$636.65
Female	\$614.71
All Adult Full-Time Employees	\$627.78

- Source: ABS Cat No. 6305.0 Unpublished

Minimum wage workers earn considerably less than those workers in a position to bargain either collectively or individually. Minimum wage earners are found across a broad spectrum of wage levels, industries and occupations; with a concentration in low paying jobs. There is a high concentration of females and part time employment.

We make the point in section 7 of these submissions that those who argue that minimum wage earners would benefit more from government transfer payments than increases in the minimum wage fail to comprehend the importance of superannuation to the income levels of retirees. This is a particular difficulty for women who are more likely to work part-time, be paid a minimum wage rate and have significant breaks in employment due to maternity leave.

Hours of work

The ABS's Australian Social Trends Survey 2006 ¹¹ was released on 20 July 2006 found that full-time employees are working longer hours, but with the growth in part –time work for both males and females, fewer hours are being worked than in the past.

The decline in full-time work was dominated by young people aged 15-24 who were continuing their education or combining part-time work with study.

For full-time workers average weekly hours in the two decades from 1985 have increased from 40.2 to 41.9. Men's hours increased 1.9 hours a week over the period to 43.2 hours, while women's increased 1.7 hours to 39.3 hours.

Of those employees in full-time work, average weekly hours increased from 40.2 to 41.9 in the 20 years to 2005.

After accounting for employers and the self employed the ABS found that only 37% of men and 51% of female full-time workers doing a standard 38 hour week.

5

Minimum Wages are too low

There is a discrepancy between minimum wages and wages of rest of the workforce and this gap is growing

There is a discrepancy between minimum wages and wages of rest of the workforce and this gap is growing. This differential in income is not market driven or determined by individual work value or worth. It is institutional and/or collective power, or in the case of the low paid award reliant worker, the lack of power, that determines whether the worker is low paid or not.

There are not 100's of thousands of rates of pay!

It is commonly claimed that there are thousands of awards and up to 100,000 separate rates of pay. This is simply not the case. There may well be thousands of awards of the AIRC and thousands of separate rates of pay, but these are more often than not separated by a matter of cents. The actual fact is that since the rationalisation of the awards in the early 1990's there has been a consolidation and simplification of awards and an alignment of relativities in for wages. Importantly this involved the development of a 14 level skill based career structure which was replicated in all State and Federal Awards. It can be properly argued that in Australia there is a 14 level classification structure.

The AFPC should not accept the claims by the Federal Minister for Workplace Relations Mr Kevin Andrews and similar claims by employers that there are thousands of award classifications. These are deliberately misleading claims made to justify the collapse of a well established career based classification structure.

The Full Bench of the AIRC considered the views of the Minister on this matter in the 2005 Safety Net Review of Wages and in its decision agreed that almost all award rates fit within the 14 level structure.

"In relation to what the Commonwealth referred to as a series of minimum award wage rates, almost all award rates are arranged in a consistent hierarchy of 14 skill levels. This structure is a consequence of the rationalisation of award classifications which commenced in the late 1980s and the implementation of the award simplification process in the Transitional Provisions of the Workplace Relations and Other Legislation Amendment Act 1996 (WROLA Act)."¹²

Table 5.1: The 14 level skill based classification structure

Classification	Weekly Rate	
C14	484.40	Engineering/Production Employee Level I Entry rate. Usually involves automatic progression after a short period of time
C13	501.10	Engineering/Production Employee Level II
C12	523.60	Engineering/Production Employee Level III
C11	544.50	Engineering/Production Employee Level IV
C10	578.20	Engineering Tradesperson Level I Production Systems Employee
C9	599.10	Engineering Technician Level I Engineering Tradesperson Level II
C8	619.90	Engineering Technician Level II Engineering Tradesperson Special Class Level I
C7	638.80	Engineering Technician Level III Engineering Tradesperson Special Class Level II
C6	680.50	Engineering Technician Level IV Advanced Engineering Tradesperson Level I
C5	701.40	Engineering Technician Level V
C4	722.20	Engineering Associate 3 rd year of - Level I
C3	763.90	Engineering Associate Level II
C2a	784.80	Leading Technical Officer Principal / Trainer / Supervisor / Co-ordinator
C2b	822.50	Principal Technical Officer
C1a	906.00	Professional Engineer / Professional Scientist
C1b	1031.10	Professional Engineer / Professional Scientist

• Source: Metal, Engineering And Associated Industries Award 1998

The entry level at C14 is typically described as the Federal Minimum Wage. Only between 7.5 per cent of Adult award workers actually receive \$12.75 per hour. Sixty per cent of workers who rely on minimum award rates of pay earn more than the trade rate of pay at C10.¹³

A real pay increase for minimum wage workers is economically responsible and socially desirable.

The ACTU is seeking a \$30 per week pay increase for minimum wage workers.

We consider such an increase is affordable and economically responsible.

Minimum wage workers have not received a pay increase since 7 June 2005. This was 13 months after the previous wage increase in May 2004. Awards which affect most minimum wages reliant employees are quickly varied after the date of decision.

The Government and others have been critical of the process of claims and counter claims to the AIRC's Safety Net Review of Wages process.

The ACTU's claim for a \$30 per week increase is not an ambit claim. The increase is moderate, affordable and economically responsible.

To encourage uniformity in minimum wages across jurisdictions the ACTU believes that a \$20 per week increase, whilst moderate is reasonable for a 12 month period.

The AFPC has previously indicated that the delay in the awarding of an increase in minimum wages due to the legislative changes will be taken into account. To this end we have made a claim for \$30 to account for the considerable delay faced by low paid workers. In the alternative \$20 backdated to 7 June 2006.

Table 5.2: The ACTU Claim

Classification	Weekly Rate	Hourly Rate	New Weekly Rate Sought	New Hourly Rate Sought
C14	484.40	12.75	514.4	13.54
C13	501.10	13.19	531.10	13.98
C12	523.60	13.78	553.60	14.57
C11	544.50	14.33	574.50	15.12
C10	578.20	15.22	608.20	16.00
C9	599.10	15.77	629.10	16.55
C8	619.90	16.31	649.90	17.10
C7	638.80	16.81	668.80	17.60
C6	680.50	17.91	710.50	18.70
C5	701.40	18.46	731.40	19.25
C4	722.20	19.01	752.20	19.80
C3	763.90	20.10	793.90	20.89
C2a	784.80	20.65	814.80	21.44
C2b	822.50	21.64	852.50	22.43

The above classifications are derived from the Metal industry award and are used for demonstrative purposes only.

Who should the \$30 apply to?

The ACTU seeks a \$30 claim for all award dependant workers. We ask you to apply the increase to all existing and future pay scales in place, including existing pay scales and those adopted by the AFPC in the future.

Cost of the claim

The claim is affordable and economically responsible. The ACTU has estimated the addition to total ordinary time earnings is only 0.54 per cent. With a negligible impact on the Consumer Price Index of 0.29 per cent.

These costs are negligible, especially when compared to the real and tangible benefit gained by minimum wages earners. The ACTU has only estimated the cost of a \$30 increase. There has not been any attempt to estimate the direct and indirect benefit to individuals and the economy. In section 10 we deal with recent findings from the OECD that there are real benefits derived from increasing minimum wages.

The AFPC can make significant difference to the lives of minimum wage earners in the knowledge that the robust Australian economy can absorb the cost.

Table 5.3: Economy wide costing of a \$30 per week increase to all Minimum Wage Earners (Incorporated Private Sector)

Weighted increase for Australian Minimum Wage Employees

	Adults				Juniors	Total		
	Full-time		Part-time					
	Permanent /Fixed Term	Casual*	Permanent /Fixed Term	Casual				
Percentage of Award Only Employees	36.03	4.50	11.90	29.40	16.80	100*		
Weighting	1.0	1.2	0.5	0.6	0.4			
Weighted Increase	\$30.00	\$36.00	\$15.00	\$18.00	\$12.00	\$21.52		

*number is rounded to 100 from 98.6

Calculating the Addition to Total Ordinary Time Earnings

Percentage of Total Australian Workforce	Weighted Increase	AWOTE May 2004	Total Estimated AWOTE Australia May 2005	Total Estimated AWOTE Australia May 2006	Addition to Total Ordinary Time Earnings (%)	CPI Effect %
19.90	\$21.52	\$727.69	\$768.44	\$799.18	0.54	0.29

To assist the AFPC, using the same methodology, the ACTU has prepared a table outlining the estimate of the economy wide impact of a \$30 increase to minimum wages.

Table 5.4: Impact of various increases Calculating the Addition to Total Ordinary Time Earnings

Wage Increase \$	Estimated Addition to Economy Wide Earnings
10	0.18
11	0.20
12	0.21
13	0.23
14	0.25
15	0.27
16	0.29
17	0.30
18	0.32
19	0.34
20	0.36
21	0.38
22	0.39
23	0.41
24	0.43
25	0.45
26	0.46
27	0.48
28	0.50
29	0.52
30	0.54

Methodology of ACTU cost estimates

The methodology used to estimate the cost impact of a \$30 increase in minimum wages is found at the end of this section. Similar methodology has been used by the ACTU and Government alike in submissions to previous National and State Wage Cases.

The cost estimates are not intended to be precise, they are an estimate. We believe they are the best estimate the AFPC will receive.

Criticism of costing methodology

Employers and the Federal Government have been critical of the methodology used by the ACTU in the past. In particular the methodology is said to be flawed as it makes no allowance for overtime; business on-costs; flow-on to employees who are not minimum wages earners and any allocation for casual rates beyond 20 per cent. We now deal with each of these criticisms in turn.

No allowance for overtime

As there is no data whatsoever that allows any estimate of actual hours worked and paid per minimum wage employee in private sector incorporated businesses. To make such an estimate is highly problematic. It is conceded that the actual figure would be higher if overtime was calculable.

No allocation for business on-costs

Once again there is no data available to calculate the level of business on-costs applicable to the area we are looking at. Nor is there any data to estimate the increase in subsidies where they are based on or increase with increases in wage costs.

It is conceded that there will be a small increase in business on-costs.

No allowance for flow on to employees who are not minimum wage earners

It is not conceded that there would be any measurable flow on to non-minimum wage employees. This is because the gap between award wages

and those on agreements is significant and growing. The level of the claim is also such that workers on agreements who seek to emulate the minimum wage rates would be seeking a negative wage outcome.

The AIRC has recognised that attempting to quantify flow on effects is difficult due to the lack of reliable data. Previous attempts to establish a level of flow on have been shown to be seriously flawed.

No allocation for any casual loading beyond 20%

It is conceded that some workers, employed in incorporated businesses receive a loading greater than 20 per cent and that some workers receive less. It is however, assumed at all casual workers, full and part-time receive a casual loading. The former assumption creating an underestimate and the later an overestimate. We believe the figure is reasonably accurate and can be relied upon. In any event, no data is available on this matter.

Methodology errs on side of overestimation

It should also be recognized that the cost estimate has built in overestimates of the cost impact. In particular, the methodology does not deduct any amount for non-compliance with statutory minimum rates of pay; a practice previously undertaken and accepted by the AIRC. This consequently provides for a significant overestimate of costs. It is also assumed that there is an immediate and full granting of any increase, this is also unrealistic and results in an overestimation of the addition to total earnings.

All in all the estimate of costs is believed to be an overestimate.

Reference of Award Review Process

It is entirely possible that the AFPC could apply a \$30 per week increase and subsequently dramatically change the outcome through the adoption of dramatically different classification pay scales.

The ACTU does not seek to address these issues in this submission. We take the opportunity to reiterate our previously stated position on these matters.

We seek a \$30 increase in rates of pay to whatever the applicable minimum rates of pay be.

The dollar adjustment in percentage terms

The table below shows by decile the Average Ordinary Time Earnings of Award dependent, adult, non-managerial workers in the private sector. The private sector is used as less than 1 per cent of the public sector is award dependent.

The May 2004 data is adjusted to account for the \$19 per week increase awarded by the AIRC in 2004 and the \$17 increase in 2005. The hourly rate is shown as a weekly rate by multiplying the hourly rate by 38. The ACTU's claim for a \$30 increase is shown with the percentage increase applying to each decile.

Table 5.5: Adjusted Pay Deciles Ordinary Time Earnings Australian Adult, Minimum Wage Dependent, Non-Managerial, Private Sector Workers

Decile	AHOTE	incl 2004 decision	incl 2005 decision	Weekly	increase with \$30	% Increase	12 month Equivalent percentage increase
10	12.2	12.7	13.15	\$499.70	\$529.70	6.00	4.00
20	13.1	13.6	14.05	\$533.90	\$563.90	5.62	3.75
25	13.4	13.9	14.35	\$545.30	\$575.30	5.50	3.67
30	13.6	14.1	14.55	\$552.90	\$582.90	5.43	3.62
40	14.2	14.7	15.15	\$575.70	\$605.70	5.21	3.47
50	14.8	15.3	15.75	\$598.50	\$628.50	5.01	3.34
60	15.6	16.1	16.55	\$628.90	\$658.90	4.77	3.18
70	16.5	17.0	17.45	\$663.10	\$693.10	4.52	3.02
75	17.0	17.5	17.95	\$682.10	\$712.10	4.40	2.93
80	17.8	18.3	18.75	\$712.50	\$742.50	4.21	2.81
90	20.7	21.2	21.65	\$822.70	\$852.70	3.65	2.43

• Source: ABS EEH May 2004

Percentile data is shown in the following pages.

This unpublished data from the ABS clearly demonstrates that there are a great variety of workers who look to the AFPC for assistance to ensure their real rates of pay are not reduced. The medium hourly rate of pay for award reliant workers is \$15.75.

Table 5.6: Adjusted Pay Deciles Ordinary Time Earnings Australian Adult, Minimum Wage Dependent, Non-Managerial, Private Sector Workers

Percentile	Adj AHOTE	incl 2004 decision	incl 2005 decision	Weekly	increase with \$30	% Increase	12 month Equivalent percentage increase
01	7.8	\$8.30	\$8.75	\$332.50	\$362.50	9.02	6.02
02	9.4	\$9.90	\$10.35	\$393.30	\$423.30	7.63	5.09
03	10.3	\$10.80	\$11.25	\$427.50	\$457.50	7.02	4.68
04	10.8	\$11.30	\$11.75	\$446.50	\$476.50	6.72	4.48
05	11.1	\$11.60	\$12.05	\$457.90	\$487.90	6.55	4.37
06	11.4	\$11.90	\$12.35	\$469.30	\$499.30	6.39	4.26
07	11.7	\$12.20	\$12.65	\$480.70	\$510.70	6.24	4.16
08	11.9	\$12.40	\$12.85	\$488.30	\$518.30	6.14	4.10
09	12.1	\$12.60	\$13.05	\$495.90	\$525.90	6.05	4.03
10	12.2	\$12.70	\$13.15	\$499.70	\$529.70	6.00	4.00
11	12.3	\$12.80	\$13.25	\$503.50	\$533.50	5.96	3.97
12	12.5	\$13.00	\$13.45	\$511.10	\$541.10	5.87	3.91
13	12.5	\$13.00	\$13.45	\$511.10	\$541.10	5.87	3.91
14	12.6	\$13.10	\$13.55	\$514.90	\$544.90	5.83	3.88
15	12.7	\$13.20	\$13.65	\$518.70	\$548.70	5.78	3.86
16	12.8	\$13.30	\$13.75	\$522.50	\$552.50	5.74	3.83
17	12.8	\$13.30	\$13.75	\$522.50	\$552.50	5.74	3.83
18	12.9	\$13.40	\$13.85	\$526.30	\$556.30	5.70	3.80
19	13.0	\$13.50	\$13.95	\$530.10	\$560.10	5.66	3.77
20	13.1	\$13.60	\$14.05	\$533.90	\$563.90	5.62	3.75
21	13.2	\$13.70	\$14.15	\$537.70	\$567.70	5.58	3.72
22	13.3	\$13.80	\$14.25	\$541.50	\$571.50	5.54	3.69
23	13.3	\$13.80	\$14.25	\$541.50	\$571.50	5.54	3.69
24	13.3	\$13.80	\$14.25	\$541.50	\$571.50	5.54	3.69
25	13.4	\$13.90	\$14.35	\$545.30	\$575.30	5.50	3.67
26	13.4	\$13.90	\$14.35	\$545.30	\$575.30	5.50	3.67

Percentile	Adj AHOTE	incl 2004 decision	incl 2005 decision	Weekly	increase with \$30	% Increase	12 month Equivalent percentage increase
27	13.5	\$14.00	\$14.45	\$549.10	\$579.10	5.46	3.64
28	13.5	\$14.00	\$14.45	\$549.10	\$579.10	5.46	3.64
29	13.6	\$14.10	\$14.55	\$552.90	\$582.90	5.43	3.62
30	13.6	\$14.10	\$14.55	\$552.90	\$582.90	5.43	3.62
31	13.7	\$14.20	\$14.65	\$556.70	\$586.70	5.39	3.59
32	13.8	\$14.30	\$14.75	\$560.50	\$590.50	5.35	3.57
33	13.8	\$14.30	\$14.75	\$560.50	\$590.50	5.35	3.57
34	13.8	\$14.30	\$14.75	\$560.50	\$590.50	5.35	3.57
35	13.9	\$14.40	\$14.85	\$564.30	\$594.30	5.32	3.54
36	13.9	\$14.40	\$14.85	\$564.30	\$594.30	5.32	3.54
37	14.0	\$14.50	\$14.95	\$568.10	\$598.10	5.28	3.52
38	14.0	\$14.50	\$14.95	\$568.10	\$598.10	5.28	3.52
39	14.1	\$14.60	\$15.05	\$571.90	\$601.90	5.25	3.50
40	14.2	\$14.70	\$15.15	\$575.70	\$605.70	5.21	3.47
41	14.3	\$14.80	\$15.25	\$579.50	\$609.50	5.18	3.45
42	14.3	\$14.80	\$15.25	\$579.50	\$609.50	5.18	3.45
43	14.3	\$14.80	\$15.25	\$579.50	\$609.50	5.18	3.45
44	14.4	\$14.90	\$15.35	\$583.30	\$613.30	5.14	3.43
45	14.5	\$15.00	\$15.45	\$587.10	\$617.10	5.11	3.41
46	14.5	\$15.00	\$15.45	\$587.10	\$617.10	5.11	3.41
47	14.6	\$15.10	\$15.55	\$590.90	\$620.90	5.08	3.38
48	14.7	\$15.20	\$15.65	\$594.70	\$624.70	5.04	3.36
49	14.8	\$15.30	\$15.75	\$598.50	\$628.50	5.01	3.34
50	14.8	\$15.30	\$15.75	\$598.50	\$628.50	5.01	3.34
51	14.9	\$15.40	\$15.85	\$602.30	\$632.30	4.98	3.32
52	15.0	\$15.50	\$15.95	\$606.10	\$636.10	4.95	3.30
53	15.0	\$15.50	\$15.95	\$606.10	\$636.10	4.95	3.30

Percentile	Adj AHOTE	incl 2004 decision	incl 2005 decision	Weekly	increase with \$30	% Increase	12 month Equivalent percentage increase
54	15.1	\$15.60	\$16.05	\$609.90	\$639.90	4.92	3.28
55	15.2	\$15.70	\$16.15	\$613.70	\$643.70	4.89	3.26
56	15.3	\$15.80	\$16.25	\$617.50	\$647.50	4.86	3.24
57	15.3	\$15.80	\$16.25	\$617.50	\$647.50	4.86	3.24
58	15.4	\$15.90	\$16.35	\$621.30	\$651.30	4.83	3.22
59	15.5	\$16.00	\$16.45	\$625.10	\$655.10	4.80	3.20
60	15.6	\$16.10	\$16.55	\$628.90	\$658.90	4.77	3.18
61	15.7	\$16.20	\$16.65	\$632.70	\$662.70	4.74	3.16
62	15.8	\$16.30	\$16.75	\$636.50	\$666.50	4.71	3.14
63	15.8	\$16.30	\$16.75	\$636.50	\$666.50	4.71	3.14
64	15.9	\$16.40	\$16.85	\$640.30	\$670.30	4.69	3.12
65	16.0	\$16.50	\$16.95	\$644.10	\$674.10	4.66	3.11
66	16.1	\$16.60	\$17.05	\$647.90	\$677.90	4.63	3.09
67	16.2	\$16.70	\$17.15	\$651.70	\$681.70	4.60	3.07
68	16.3	\$16.80	\$17.25	\$655.50	\$685.50	4.58	3.05
69	16.4	\$16.90	\$17.35	\$659.30	\$689.30	4.55	3.03
70	16.5	\$17.00	\$17.45	\$663.10	\$693.10	4.52	3.02
71	16.6	\$17.10	\$17.55	\$666.90	\$696.90	4.50	3.00
72	16.7	\$17.20	\$17.65	\$670.70	\$700.70	4.47	2.98
73	16.8	\$17.30	\$17.75	\$674.50	\$704.50	4.45	2.97
74	16.9	\$17.40	\$17.85	\$678.30	\$708.30	4.42	2.95
75	17.0	\$17.50	\$17.95	\$682.10	\$712.10	4.40	2.93
76	17.2	\$17.70	\$18.15	\$689.70	\$719.70	4.35	2.90
77	17.3	\$17.80	\$18.25	\$693.50	\$723.50	4.33	2.88
78	17.5	\$18.00	\$18.45	\$701.10	\$731.10	4.28	2.85
79	17.6	\$18.10	\$18.55	\$704.90	\$734.90	4.26	2.84

Percentile	Adj AHOTE	incl 2004 decision	incl 2005 decision	Weekly	increase with \$30	% Increase	12 month Equivalent percentage increase
80	17.8	\$18.30	\$18.75	\$712.50	\$742.50	4.21	2.81
81	18.0	\$18.50	\$18.95	\$720.10	\$750.10	4.17	2.78
82	18.2	\$18.70	\$19.15	\$727.70	\$757.70	4.12	2.75
83	18.4	\$18.90	\$19.35	\$735.30	\$765.30	4.08	2.72
84	18.7	\$19.20	\$19.65	\$746.70	\$776.70	4.02	2.68
85	18.9	\$19.40	\$19.85	\$754.30	\$784.30	3.98	2.65
86	19.2	\$19.70	\$20.15	\$765.70	\$795.70	3.92	2.61
87	19.5	\$20.00	\$20.45	\$777.10	\$807.10	3.86	2.57
88	19.8	\$20.30	\$20.75	\$788.50	\$818.50	3.80	2.54
89	20.2	\$20.70	\$21.15	\$803.70	\$833.70	3.73	2.49
90	20.7	\$21.20	\$21.65	\$822.70	\$852.70	3.65	2.43
91	21.1	\$21.60	\$22.05	\$837.90	\$867.90	3.58	2.39
92	21.8	\$22.30	\$22.75	\$864.50	\$894.50	3.47	2.31
93	22.4	\$22.90	\$23.35	\$887.30	\$917.30	3.38	2.25
94	23.6	\$24.10	\$24.55	\$932.90	\$962.90	3.22	2.14
95	24.6	\$25.10	\$25.55	\$970.90	\$1,000.90	3.09	2.06
96	26.2	\$26.70	\$27.15	\$1,031.70	\$1,061.70	2.91	1.94
97	28.6	\$29.10	\$29.55	\$1,122.90	\$1,152.90	2.67	1.78
98	30.8	\$31.30	\$31.75	\$1,206.50	\$1,236.50	2.49	1.66
99	34.1	\$34.60	\$35.05	\$1,331.90	\$1,361.90	2.25	1.50

• Source: ABS EEH May 2004

ACTU Methodology for estimating the cost impact of a \$30 rise in Minimum wages for all minimum wage levels

We cost a \$30 increase in all minimum rates of pay in Australia using unpublished data from ABS Cat. 6306.0 Survey of Employee Earnings and Hours, May 2004, (May 2004 EEH").

- 1) The first step is to weigh the \$30.00 increase for full-time, part-time, permanent, casual, adult and junior status. This is done on the following assumptions:
 - a full-time permanent adult receives the full increase;
 - a full-time casual adult receives a 20% loading (ie a 1.2 weighting);
 - a part-time permanent adult works on average 18.8 ordinary hours per week (ABS Cat 6306.0) (ie a 0.5 weighting);
 - a part-time casual adult receives a 20% loading and works on average 18.8 hours per week (ie a weighting of 0.6);
 - juniors receive 0.65% of adult earnings on average with casual juniors weighted in the same way as adults. Part-time juniors work an average of 12.5 ordinary hours per week (ABS Cat. 6306.0), thus for juniors the relevant part-time rating is 0.33. This gives an overall weighting for juniors of 0.4.

The mathematical basis for this is as follows:

We define the following key terms:

W = total weekly ordinary time earnings for all employees

ΔW = change in weekly ordinary time earnings for all employees as a result of the proposed increase

N = total no. of all employees

N_A = total no. of minimum wage employees

$AWOTE$ = average weekly ordinary time earnings for all employees

α = proportion increase in total ordinary time earnings as a result of the proposed increase.

For each cohort of minimum wage employees we define:

W_i = total weekly ordinary time earnings for all employees in the cohort

ΔW_i = change in weekly ordinary time earnings for all employees in the cohort as a result of the proposed increase

N_i = total no. of employees in the cohort

w_i = flat increase in ordinary time earnings for each cohort

From the above we note the following relationships:

N_A/N = the number of award only employees as a proportion of all employees

N_i/N_A = the number employees in a particular cohort as a proportion of all award only employees

$$AWOTE = W/N \Rightarrow N \times AWOTE = W$$

$$\Delta W_i = w_i \times N_i$$

$$\Delta W = \sum \Delta W_i$$

We calculate the proportionate increase in ordinary time earnings using the following formula:

$$\Sigma [w_i \times (N_i / N_A)] \times N_A / N \times 1/AWOTE$$

$$= \Sigma [(w_i \times N_i) / (N \times AWOTE)]$$

$$= \Sigma [\Delta W_i / W]$$

$$= \Delta W / W$$

$$= \alpha$$

- 2) The next step is to involves taking the weighted dollar increase and multiplying it by the proportion of Australian Private Sector employees employed in incorporated businesses who are award dependent (receiving the statutory minimum wage) and divided by estimated AWOTE for May 2006 to give a maximum addition to ordinary time earnings.

Our aim is to measure the total increase in ordinary time earnings for all employees attributable to the proposed increase in minimum wages rates.

AWOTE for May 2004 using the EEH survey 6306.0 is \$727.69.

AWOTE for May 2005 is estimated by taking AWOTE for all employees from the May 2004 survey (\$727.69) and adjusting by the change in all Australian employees AWE in the year to May 2005 measured by *Average Weekly Earnings*, November 2005, ABS Cat 6302.0 (5.6%); a total of \$768.44.

For the May 2006 figure we adjust by a further 4.0%, which is the Budget estimate for the increase in the Wage Price Index for 2005-06; a total of \$799.18.

In previous National Wage Cases the ACTU has adjusted the maximum addition to ordinary time earnings to take account of the evidence of non-compliance, the operation of Federal s170MX awards and the absorption of safety net increases into what were formerly paid rates awards. This discounting has not been undertaken on this occasion. This costing assume that 100 percent of eligible employees receive the proposed increase and receive the increase immediately. It is presumed that there will be a resultant overestimation of the impact of an increase in award rates of pay.

- 3) The net CPI impact is calculated by adjusting the net addition to AWOTE by the wage share of total factor income 53.6% - see ABS Cat No. 5206.0 March 2006.

6

Movements in Wages

The ACTU's claim for a \$30 per week increase to all award rates of pay is reasonable and is necessary to ensure those relying on the determinations of the AFPC do not fall further behind.

There is steady real growth in the wages of those employees who are in a position to bargain. The AFPC should not allow minimum wage earners to fall further behind.

Measures of Wages Growth

In Australia there are several measures of wages growth that can, at times, present different signals of wage trends. These differences occur because the series are designed to measure different concepts.

The four most commonly used measures are:

Average Weekly Earnings (AWE) is a measure of non-farm wage and salary earners, from the ABS survey of the same name (Cat No. 6302.0), published for both all employees, and full-time adult employees. For the year to February 2006 AWE all employees increased by 4.4 per cent to be \$817.00. The AWE for full-time employees increased by 3.8 per cent for the year to February 2006 to be \$1084.20.

Average Weekly Ordinary Time Earnings (AWOTE), is derived from the AWE survey but includes only ordinary time earnings of adults working full-time. For the year to February 2006 AWOTE increased by 4.4 per cent to be \$1035.90.

Average Compensation per Non-Farm Employee - published as part of the ABS's Quarterly National Accounts (Cat. No. 5206.0) – also referred to as Average Earnings on a National Accounts basis (AENA) (For the year to December 2005 the AENA grew by 4.4 per cent.); and

The Wage Price Index (WPI), forms part of the expanded Labour Price Index (LPI) Survey (Cat No. 6345.0) is published by the Australian Bureau of Statistics is an index which measures changes in wage movements rather than levels and does not include non-wage costs. It is constructed by measuring the cost of purchasing the same quality and quantity of labour input. Therefore, it is analogous in its construction to that of the Consumer Price Index (CPI).

Advantages of the WPI as a measure

The first three series are all measures of the wage bill, designed to measure the average *level* of wages or labour costs per employee. As these are measures of labour costs per employee, their movements will reflect both movements in wage rates and in the compositional change of the labour force.

Compositional changes in the labour force which may affect wage bill measures include:

- changes in the relative share of full-time and part-time workers; and
- increases in the number of high paid full-time jobs and low paid part-time jobs.

The advantage of the WPI over most of the other measures of wage growth such as the Average Weekly Ordinary Time Earnings (AWOTE) and Average Weekly Earnings (AWE) is that it does not incorporate compositional change,

such as, for example, people moving from full-time to part-time work, or promotions. The WPI measures changes in the price paid for a particular job over time. Moreover, unlike the Average Earnings on a National Accounts basis (AENA) the WPI excludes major non-wage costs such as superannuation, pay-roll tax, workers compensation and annual and public holiday leave.

The AENA differs from AWOTE and AWE as it incorporates the major non-wage costs superannuation, redundancy payments and workers compensation payments. Thus an increase in any one of these will result in an increase in the AENA even though wage payments remain the same.

As the WPI is not affected by compositional change, it is the best measure to assess the economic impact of wage changes to the employer. The WPI is the RBA's preferred measure of wages growth.

In previous federal Safety Net Reviews, the AIRC highlighted the benefits of the WPI as compared to other measures of wage movements as an indicator of wage movements.¹⁴

The increase sought by the ACTU is consistent with movements in the Wage Price Index. The AIRC indicated in their 2005 decision the Wage Price Index is a widely accepted measure of growth in rates of pay.¹⁵

The WPI for the twelve months to the March Quarter 2006 is 4.0 per cent.

Labour Price Index

The LPI provides an indication of the total price of labour to the employer. As seen in Table 6.1 growth in LPI, excluding bonus for the financial year 2004-05 was 3.8 per cent. This was slightly higher than growth in 2003-04 where the LPI increased by 3.5 per cent.

Table 6.1: Percentage change in LPI excluding bonuses

	2002-03	2003-04	2004-05
New South Wales	4.2	3.8	3.6
Queensland	3.8	3.6	3.9
South Australia	4.6	4.4	3.5
Western Australia	4.3	3.1	4.0
Tasmania	3.7	2.9	4.8
Australia	4.1	3.5	3.8

- Source: ABS Cat. No. 6345.0

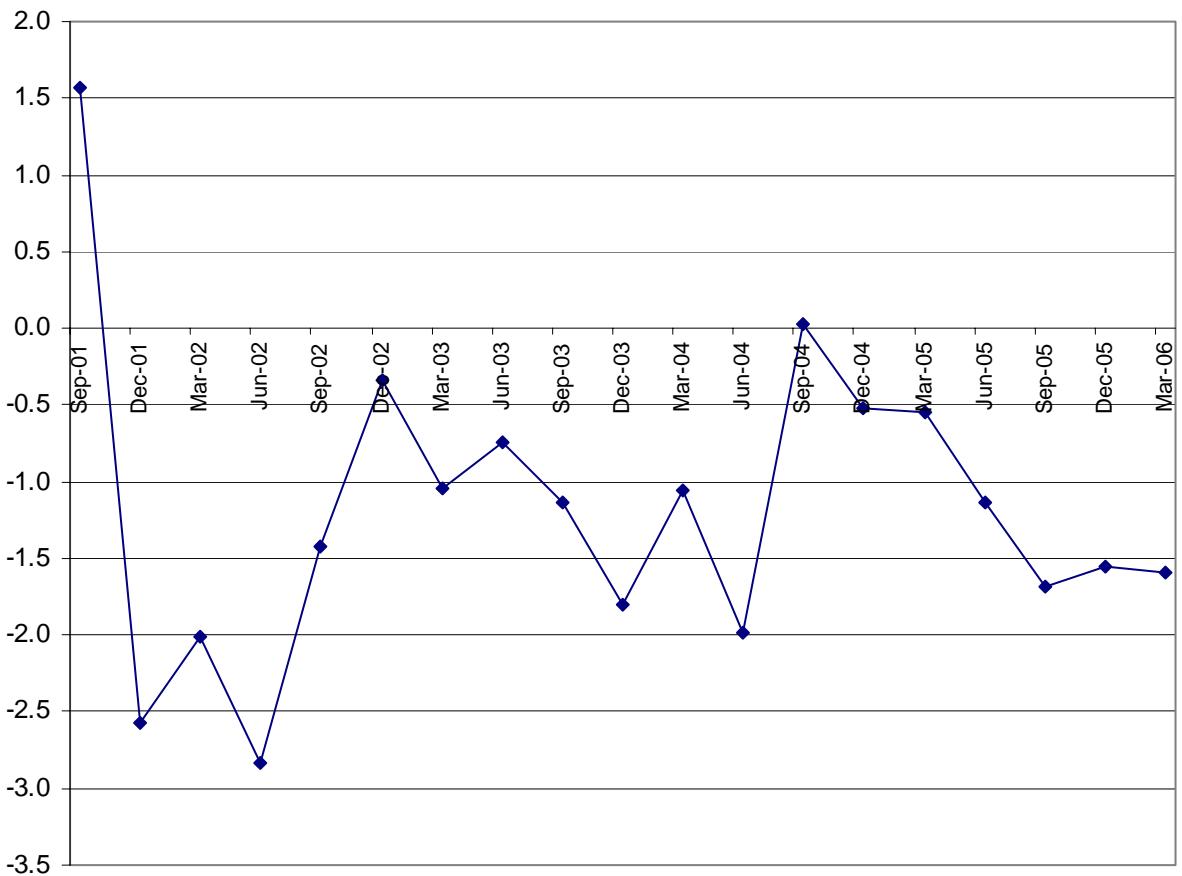
According to the most recent LPI publication, Total Hourly Rates of Pay, Excluding Bonuses for all employees increased 0.9 per cent during the March quarter 2006, to be 4.0 per cent over the year.

Public sector wage rates continued to grow faster than those in the private sector, increasing 4.3 and 3.9 per cent respectively for the year to March 2006.

Real Unit Labour Costs

Figure 6.1 shows that the last positive percentage annual increase in real unit labour costs was in September 2001, where real unit labour costs reached 1.6 per cent for the year. From June 2002 to March 2006 the annual percentage change in real unit labour costs has averaged negative 1.2 per cent. The latest data shows that real unit labour costs fell by 1.3 per cent for the year to March 2006.

Figure 6.1: Annual percentage change in real unit labour costs



Source: http://www.treasury.gov.au/documents/562/XLS/www_Mar06.xls 4 July 2006

Agreements

The recent changes Australia's industrial relations environment are expected to interfere with enterprise bargaining outcomes and the level of agreement making in the short term.

This will be the case as some unions have entered short term agreements to protect existing terms and conditions whilst other negotiating parties have delayed entering into agreements during this time of increased uncertainty.

Recent data on the rate of bargaining and bargaining outcomes is therefore not considered to reflect market conditions.

Data on the wage trends in enterprise bargaining is available from two main sources:

- The *Trends in Enterprise Bargaining*, series which is published quarterly by the Department of Employment and Workplace Relations (DEWR); and
- The *Agreements Database and Monitor Report* (ADAM), published quarterly by ACIRRT / Workplace Research Centre.

One of the main differences between the two series is that Trends in Enterprise Bargaining reports the *Average Annualised Wage Increase* (AAWI) 'per employee', while the ACIRRT report measures AAWI increases 'per agreement'.

The March 2006 issue of *Trends in Enterprise Bargaining* reported that the Average Annual Wage Increase per employee for those agreements certified in the March quarter 2005 quarter was 3.8 per cent and 4 per cent in the private sector.

Over the four quarters to March 2006 the AAWI for agreements certified in each quarter has averaged 4.1 per cent.

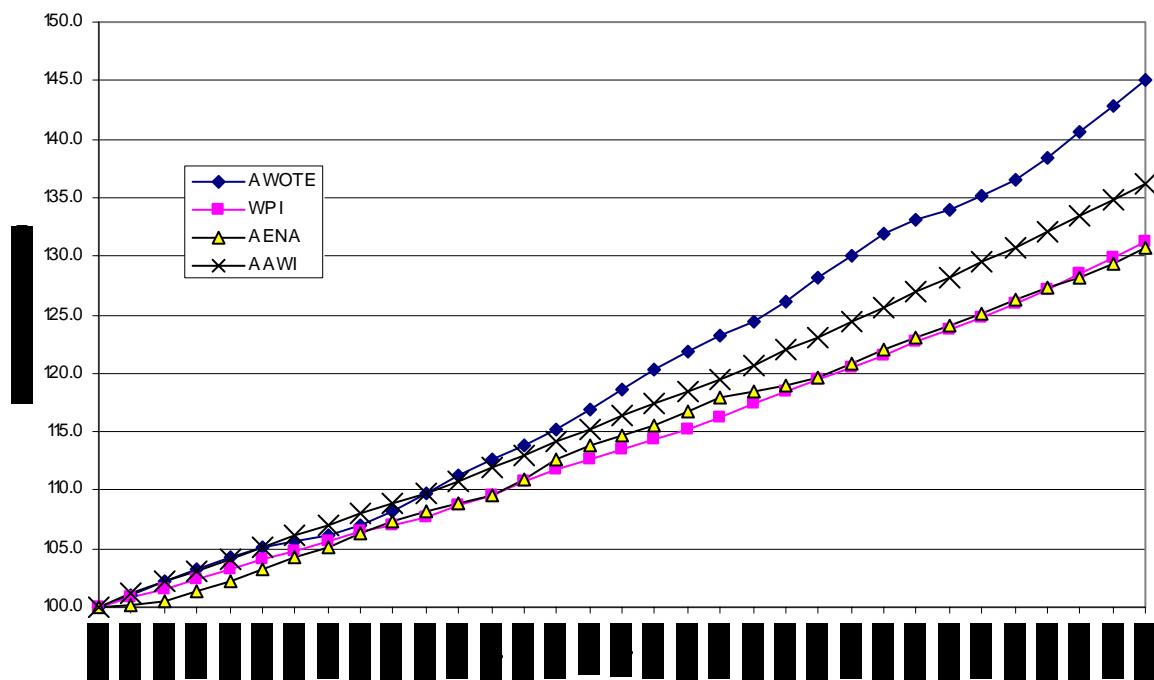
As mentioned above ACIRRT's *ADAM Report* differs to the DEWR measure of wages growth in agreements in that it measures Average Annual Wage Increase (AAWI) 'per agreement'.

The AAWI for agreements registered in the March 2006 quarter was 3.9 per cent. The AAWI for certified agreements registered during the four quarters over the year to March 2006 averaged 4.1 per cent.

Comparing recent trends in Wages Growth

Figure 6.2 below compares the annual movements in the AWOTE, AENA, AAWI and the WPI since the introduction of the WPI in September 1997. The AWOTE, AENA and AAWI measures have grown at average annual rates of 4.7 per cent, 3.5 per cent, and 3.9 per cent respectively. It can be seen in **Figure X**, the average annual rate of the WPI measure has been 3.4 per cent which is just slightly below the AENA measure for the same period.

Figure 6.2: Quarterly wage trend comparisons – September 1997 to 2005



Source: ABS Cat. Nos 5206.0, 6302.0, 6345.0, and DEWR

Management and Executive Remuneration

According to the most recent review of executive salaries conducted by the *Australian Financial Review* in November 2005, the incomes of Australia's top 100 CEOs grew by an average of 143 per cent last year with the average

annual salary being in excess of \$3.9 million. In 2005, the top 100 CEO's average income was 157 times the Federal Minimum Wage.

We note that members of the AFPC have recently received a 4.4 per cent increase after less than six months operation and members of Federal Parliament have received a 7 per cent increase to salaries.

Conclusion

The ACTU's claim for a \$30 per week increase to all minimum rates of pay is reasonable and is necessary to ensure those relying on the determinations of the AFPC do not fall further behind other wage earners.

The wages of minimum wages dependent workers should increase in a way that is comparable to increases for others in the community.

7

Why the Low Paid need an Increase in Minimum Wages

A genuine safety net is required for all award dependent workers.

The Meaning of "a safety net for the low paid"

The AFPC's wage setting parameters include:

s23 (c) Providing a safety net for the low paid

The Chair of the AFPC has stated:

"Part of the Commission's remit is to set minimum wages to become part of the safety net for low-paid Australians."

And

"The first point to make is that the Fair Pay Commission has a role to set and adjust minimum wages. That means that the Federal minimum wage, \$12.75 an hour and the classification wages that go right up the scale in our system ..."¹⁶

The ACTU welcomes this recognition that Australia has a structure of minimum wages, and those minimum wages provide the safety net for low paid Australians.

The term safety net is not defined in the Act. Generally, to provide a safety net is defined "to catch ... in case he falls". Something which is a safety net must be kept in good repair lest it not act as a safety net.

Providing a safety net for the low paid requires a recognition of the obligation to the low paid. As participants at the AFPC Albany public consultation commented:

"That a safety net protect workers and the vulnerable against exploitation."¹⁷

Needs of the low paid

The needs of the low paid are factors to be taken into account in providing a safety net for the low paid.

The Commonwealth Government publication WorkChoices and minimum rates of pay Fact Sheet 5 states:

"In setting wages, the Fair Pay Commission must promote the economic prosperity of the people of Australia, while taking into account a number of factors such as the needs of the low paid and unemployed."¹⁸

The Chair of the AFPC has stated:

"We need to look at the cost of living. What a low-paid person is able to afford and that's part and parcel of the minimum wage as part of a safety net."¹⁹

Data on the characteristics and expenditure of Australian households is provided in the ABS publication the Household Expenditure Survey (HES). Before turning to the HES data to look at the expenditure of working households, the matter of where to locate low paid workers in the income distribution of households needs to be addressed.

The OECD Employment Outlook 2006 says a substantial proportion of the workers in minimum wage jobs are not poor, for example, because other family members have earnings.²⁰ Expressed another way, it is argued that low wage earners are found in middle or high income households. These findings must been seen in the context of which population of households is being referenced.

As ACOSS has argued, commenting on such findings²¹:

"However, it only holds (if it does at all) if retired households are included in the income distribution.

...

A more appropriate basis on which to locate low-paid workers within the household income distribution is to confine the analysis to households of workforce age. If this is done, the majority of low wage-earners clearly fall within the bottom of the distribution."

Andrew Leigh in a 2005 paper²², finds that if the population is 'All Households' 39 per cent of minimum wage workers are in the bottom 40 per cent of the household income distribution. If retired households are excluded so the population is 'Working age households' 51 per cent of minimum wage workers are in the bottom 40 per cent of the income distribution. If jobless households are then excluded so the population is 'Households with at least one employed person' 60 per cent of minimum wage workers are in the bottom 40 per cent of the income distribution. Within this latter population Leigh also finds, for workers in the second quintile of hourly wages, 44 per cent are in the bottom 40 per cent of the income distribution.

The following data from the HES 2003-04, which is for the population of households whose principal source of income is wages and salaries, focuses on the first quintile of households as representing low paid workers.

This HES unpublished data provides household characteristics by household income quintile group as shown in Table 7.1. For 2003-04 the first quintile comprises households with income up to \$850.00 per week. The average household income in this quintile is \$643.00, 89.9 per cent of which is sourced from wages and salaries. The number of employed persons is, on average, 1.2 persons, 46.2 per cent of the households being Lone Person. The average number of dependent children in the first quintile households is 0.4.

Table 7.1: Household Characteristics by gross household income quintile of households where principal source of income is wages and salaries

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Total
Upper boundary of income quintile	\$850	\$1150	\$1490	\$1993		
Mean gross household income per week	\$643	\$10000	\$1310	\$1717	\$2782	\$1490
Source of income (% of total)						
Employee income	89.9	87.8	90.7	93	92.8	91.5
Average number of employed persons in household	1.2	1.4	1.8	2.1	2.5	1.8
Average age of reference person	41	41	41	41	44	42
Family composition of household (% of households)						
One family households						
Couple family with dependent children	19.6	32.0	43.1	47.1	44.8	37.3
One parent family with dependent children	5.9	8.3	6.5	2.2	1.0	4.8
Couple only	18.7	19.9	23.3	26.9	21.6	22.1
Other one family households	7.1	14.0	11.3	12.5	21.6	13.3
Multiple family households	-	0.1	1.2	1.4	4.4	1.4
Non-family households						
Lone person	46.2	21.9	9.9	5.6	2.3	13.3
Group households	2.5	3.9	4.8	4.3	4.1	1.4

Table continued

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Total
Tenure & Landlord type						
Owner without a mortgage	21.8	22.2	18.7	20.0	23.4	21.2
Owner with a mortgage	33.6	43.3	52.9	57.8	60.1	49.5
Renter						
State/Terr. housing authority	4.7	1.2	0.8		0.3	1.4
Private landlord	34.9	30.2	22.1	20.4	13.1	24.2
Other landlord	1.6	1.6	1.7	1.4	1.4	1.5
Total Renters	41.3	33.0	24.6	21.8	14.8	27.1
Other tenure type	3.3	1.6	3.8	0.4	1.7	2.1
Average number in household	0.4	0.8	1.0	1.0	0.9	0.8
Dependent children						
Persons						
Under 18 years	0.4	0.7	0.9	0.9	0.8	0.8
18-64 years	1.5	1.8	2.0	2.2	2.7	2.0
65 years and over	0.1	0.1	0.1	0.1	0.1	0.1
Total	2.0	2.6	3.0	3.2	3.5	2.9
Estimated number in population						
Total households	892100	894000	891000	891600	891100	4459900
Persons	1767500	2310900	2672300	2852300	3138500	12741500

• Source: Unpublished data ABS Household Expenditure Survey 2003-04

The unpublished ABS HES data also provides information on the spending pattern of households in each quintile as shown in Table 7.2.

Table 7.2: Broad expenditure groups by gross household income quintile of households where principal source of income is wages and salaries

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Total
Upper boundary of income quintile (\$)	850	1150	1490	1993		
Mean gross household income per week (\$)	643	1000	1310	1717	2782	1490
Broad expenditure group	\$	\$	\$	\$	\$	\$
Current housing costs (selected dwelling)	137.63	156.92	165.57	199.43	238.46	179.58
Domestic fuel & power	19.96	23.44	24.71	27.74	33.67	25.90
Food & non-alcoholic beverages	109.60	144.07	175.45	202.76	268.10	179.96
Alcoholic beverages	17.85	22.96	27.46	32.19	48.25	29.73
Tobacco products	11.77	12.83	14.26	13.09	12.99	12.99
Clothing & footwear	21.10	31.60	49.55	49.50	74.67	45.27
Household furnishings and equipment	39.11	49.43	60.68	66.68	91.24	61.42
Household services and operation	41.33	53.89	59.92	74.65	88.21	63.59
Medical care and health expenses	28.83	40.74	45.18	58.22	82.14	51.01
Transport	100.63	148.16	184.98	179.94	256.50	174.01
Recreation	71.48	105.02	132.50	167.31	237.41	142.71
Personal care	10.22	16.72	20.68	25.32	33.88	21.36
Miscellaneous goods and services	54.92	76.08	96.79	137.15	154.76	103.91
Total goods and services expenditure	664.44	881.87	1057.73	1233.97	1620.27	1091.44
Other payments						
Income tax	92.87	169.65	242.78	359.33	730.06	318.80
Mortgage repayments – principal (selected dwelling)	27.44	33.99	53.37	67.75	95.66	55.62
Superannuation & life insurance	11.14	19.49	25.78	32.35	64.22	30.58

• Source: ABS unpublished data Household Expenditure Survey 2003-04

From this table the key areas of expenditure for the first quintile households can be identified. Table 7.3 sorts the expenditure of the first quintile households in a descending order of proportionate value:

Table 7.3: Broad expenditure groups: first quintile households – proportion of total goods and services expenditure

First quintile expenditure	Descending order of expenditure proportion
	%
Current housing costs [selected dwelling]	20.7
Food and non-alcoholic beverages	16.5
Transport	15.1
Recreation	10.8
Miscellaneous goods and services	8.3
Household services and operation	6.2
Household furnishings and equipment	5.9
Medical care and health expenses	4.3
Clothing and footwear	3.2
Domestic fuel and power	3.0
Alcoholic beverages	2.7
Tobacco products	1.8
Personal care	1.5

- Source: ABS unpublished data Household Expenditure Survey 2003-04

The Australian Bureau of Statistics Consumer Price Index (CPI) measures changes in the price of a 'basket of goods and services'. The composition of the 'basket' for the 15th and current Series of the CPI is based on the pattern of household expenditure of the CPI population, information on which was obtained from the ABS 2003-04 Household Expenditure Survey (HES).²³

The total basket is divided into 11 major groups, each representing a specific set of commodities:

- Food
- Alcohol and tobacco
- Clothing and footwear
- Housing
- Household contents and services
- Health
- Transportation
- Communication
- Recreation
- Education
- Financial and insurance services.²⁴

Table 7.4 records changes in costs as measured by the CPI for the broad expenditure groups over the last fifteen months – March Quarter 2005 to June Quarter 2006. March Quarter 2005 is selected as the base period because this was the latest quarter available before the AIRC made its 2005 Safety Net Review – Wages decision. As generally acknowledged, the AFPC will take into the time which has elapsed since that decision.

Table 7.4: Changes in Costs as measured by CPI

Expenditure Group	Weighted Average of Eight Capital Cities Mar Qtr 2005 to Jun Qtr 2006 % change
Food	8.4
Alcohol & Tobacco	4.2
Clothing & Footwear	-0.9
Housing	4.1
Household Contents & Services	2.7
Health	7.1
Transportation	9.9
Communication	-1.8
Recreation	0.2
Education	5.9
Financial & Insurance services*	
Insurance services	4.8
All Groups	4.6

* Group introduced in September 2005, Insurance services from March Q 2005

• Source: ABS Cat No 6401.0

Combining the data in Tables 7.3 and 7.4 shows that:

- The largest expenditure item for first quintile wages and salaries households, comprising 20.7 per cent of total goods and services expenditure is housing. Over the last fifteen months, the cost of housing has increased by 4.1 per cent.
- The second largest component of first quintile households expenditure on goods and services is expenditure on Food, comprising 16.5 per cent of total expenditure. The cost of food has increased at a faster rate than the CPI over the last fifteen months. While the CPI has increased by 4.6 per cent over the last fifteen months, the cost of food has increased by 8.4 per cent.
- The third largest expenditure item for first quintile households, comprising 15.1 per cent of total goods and services expenditure is transportation. The cost of

transportation over the last fifteen months also has increased at a faster rate than CPI. Again a CPI increase of 4.6 per cent compares with a transportation increase of 9.9 per cent.

Together housing, food and transportation comprise 52.3 per cent of first quintile average expenditure per week.

The top three expenditure groups ranked according to proportion of total expenditure of first quintile households remain Housing, Food and Transport if we use the CPI – HES Concordance²⁵ to determine the ‘weights’ or proportions attaching to expenditure on the broad expenditure groups.²⁶

The view of low paid workers

Beyond these statistics, identifying what it is like living on minimum wages can be addressed by qualitative research undertaken with low paid workers.

The *Low Paid Services Employment in Australia: Dimensions, Causes, Effects and Responses* project²⁷ provides evidence of what it is like living on minimum wages.

In one report arising from the Project, *Living Low Paid: Some Experiences of Australian Childcare Workers and Cleaners*²⁸ the authors find:

- The lived experience of the working poor receives too little attention in Australia, and not only because it is likely to continue to grow, but because its private costs are high and hidden. [p.3]
- The working poor are different from the non-working poor. As many interviewees illustrate, they are both income poor and time poor. Unlike many welfare recipients and higher paid workers, low paid workers often face time and financial pressures. They do not qualify for many government assistance programs, yet their incomes alone are insufficient to provide a decent standard of living and wellbeing. [pp.3-4]

- Alongside this they have costs that the non-working poor do not face. The low paid are in the position of having to meet the hidden costs of working, such as maintaining a car and acceptable clothing. Many struggle to meet these. [p.4]
- Workers are affected in different ways depending on their household circumstances and age group, but a sense of deprivation and struggle runs through the vast majority of accounts. Many have given up the prospect of home ownership. Their mobility is sharply constrained. Many live in the shadow of anxiety about the unexpected bill or social invitation. [p.4]
- Many low paid workers worry about ill-health because it means losing time from work. Many participants noted they regularly exceed their paid sick leave entitlements, forcing them to take unpaid leave or use their annual leave to cover sickness. [p.6]
- The burdens of low pay do not stop at the well-being of individual workers; they inevitably flow on to other household members. Low paid workers report that their children miss out on education, recreation, sporting, family interaction and health needs because of their low pay. [p.6]
- The effects of low pay are not limited to workers and their households alone. Low paid workers commonly experience shortages of time and money that constrain involvement in all kinds of social and community life. For some workers maintaining social relationships is hindered by the cost of communication and travel. [p.7]
- While sharing income gives greater security to some, it is not universally the case. [p.9]
- It is sometimes said that the wages of the low paid, especially those of women, are peripheral 'pin-money' in households with other sources of income. However, this view finds no support in interviews with cleaners and child care workers. All saw their low wage as essential to meeting basic needs such as housing, food, utilities and care repayments. [p.10]
- Suggestions that low paid workers can readily increase their income by taking on a second job or through social security do not take account of the complexities of living on low pay. In some industries and occupations, there is little scope for second jobs given the demands of existing work. [p.11]

- A common perception of low paid work is that it provides an entry point or stepping stone to higher paid positions. While this may occur in some sectors, it does not apply for the majority of cleaning and childcare workers interviewed. [p.12]
- For many childcare workers and cleaners, low pay is not a fleeting, transitory experience. It is a long term experience with consequences for both personal and family well-being. [p.14]

The findings of the Low Pay Project are consistent with financial stress data commissioned by the ACTU from the ABS Household Expenditure Survey 1998-99. That data found, for example, that substantial percentages of first quintile households in the income distribution for households whose principal source of income is wages and salaries reported being unable to afford a holiday away from home, a night out once a fortnight; difficulty paying bills on time, experiencing cash flow problems in the previous 12 months, or an inability to raise \$2000 if an emergency was to arise²⁹.

Participants in the AFPC Albany Consultation commented on the cost of living for minimum wages workers including the cost of fuel, childcare, education, health and housing; affordability, the need to provide a standard of living or a living wage, and the need to have access to discretionary spending.

The ACTU encourages the AFPC to visit workplaces and meet the low paid to hear their experience of living on minimum wages.

Income mobility

It is sometimes argued that the level of minimum wages should be considered in the context of whether low paid jobs are a stepping stone to higher paid jobs.

Yvonne Dunlop in her chapter *Low-paid employment in the Australian labour market*³⁰ finds that while many low paid worker experience income mobility just as many do not:

*"...outcomes experienced by low-paid workers in the Australian labour market are many and varied. For a significant number, low-paid employment appears to be temporary with many able to move to a higher paid work quickly. Further, results indicate that these workers have a high chance of staying out of low pay. However, whereas many do leave low pay for better paid jobs, just as many do not, raising the potential that, for a significant number, low-paid employment may be persistent and a position from which it is difficult to leave. The fact that much of the escape out of low pay occurs during the first period may also suggest that the longer a worker experiences low pay, the harder it may be to break out of it."*³¹

"Low paid adult workers in the Australian labour market can be broadly divided into two groups. In the first group, comprising about half the total number of low paid employees, are adult workers for whom low paid employment can be regarded as temporary.

....

For the second group, on the other hand, low pay is more likely to be persistent. ...

*Workers more likely to be in the second group are women, those who find employment in very small workplaces, older workers and those living in rural communities. Further, workers who find casual employment, part-time employment and those in the private sector were at greater risk of being in the low-paid group displaying poorer labour-market outcomes."*³²

Given that employees reliant on minimum wages are predominantly in the private sector, Dunlop's finding that those in the private sector were at greater risk of being in the low-paid group displaying poorer labour-market outcomes is highly relevant.

Adjustment of minimum wages has a positive impact on the disposable incomes of minimum wages workers

The Chair of the AFPC has raised the question³³:

How are the incomes of the low paid affected by changes in minimum wages?

The AFPC decision will have an impact because low paid workers do receive benefits of minimum wages adjustment in their disposable income.

Effective Marginal Tax Rates for individuals earning wages and salaries

An effective marginal tax rate (EMTR) is the percentage of a one dollar increase in private income that is lost to income tax and, for those eligible to receive income support, withdrawal of benefits. An employee's effective marginal tax rate will determine the increase in disposable income that employee receives from a \$1 increase in private income from, for example, an increase in minimum wages.

The research clearly shows that minimum wage earners do not face high EMTR's. Assertions to the contrary are ill informed and self serving. The AFPC can be confident that it can increase minimum wages and that the benefit will flow to minimum wage earners.

In 2005, the ACTU commissioned The National Centre for Social and Economic Modelling (NATSEM) to produce data, from their microsimulation model STINMOD, which analysed the distribution of effective marginal tax rates for the population of Australian employees. The NATSEM data was produced for the financial year 2004-05.

The NATSEM data commissioned by the ACTU was presented for individuals with earnings from wages and salaries.³⁴ The individual's effective marginal tax rate was calculated on the basis of their household's/family's gross income per week. To generate effective marginal tax rates for individuals, the income of the family reference person is increased by one dollar and the family's effective marginal tax rate calculated. The reference person's income is then set back to its original level and the income of the spouse (if there is one) is increased by one dollar. Again the family's effective marginal tax rate is calculated. This is because the effective marginal tax rate resulting from an increase in the reference person's income may be different to the effective marginal tax rate resulting from an increase in their spouse's income.

NATSEM's analysis of effective marginal tax rates of individuals with earnings, according to their deciles of gross family income, and for the period for which they were produced, is shown in Table 7.5

Table 7.5 shows that a majority of individuals in deciles 1 to 8 of family income, with average gross family income per week from \$304 in Decile 1 to \$1506 in Decile 8, face effective marginal tax rates not exceeding 40 per cent. This means 4,328,377 individuals from a total number of 5,999,500 individuals, or 72 per cent of all individuals with earnings from wages and salaries, in the first eight deciles of gross family income lose no more than 40 cents in a dollar increase in private income to the effect of the tax and transfer system. Table 7.5 also shows that the average effective marginal tax rates for the first eight deciles do not exceed 40 per cent. The tables also show that a vast majority of individuals in these deciles face effective marginal tax rates not exceeding 60 per cent.

Table 7.5: Estimated percentage distribution of individuals with earnings from wages and salaries, classified by family income decile, in EMTR ranges 2004-05

Family EMTR (t) ranges	Gross family income decile for individuals with wage and salary income										
	1	2	3	4	5	6	7	8	9	10	
%	%	%	%	%	%	%	%	%	%	%	%
T=0	12	3	*	*	*	*	*	*	*	*	1
0<t<=20	58	3	3	5	7	5	4	5	3	2	8
20<t<=40	16	85	82	70	69	54	48	60	44	29	54
40<t<=60	2	4	4	9	18	39	46	32	34	67	29
60<t<=80	6	3	9	12	5	2	2	3	19	2	6
80<t<=100	6	2	*	*	*	-	-	-	*	-	1
t>100	-	*	*	3	*	*	-	-	-	-	0
	100	100	100	100	100	100	100	100	100	100	100
Average EMTR	26	35	36	40	38	39	39	37	44	43	38
Proportion with EMTR >60%	12	5	10	16	6	2	2	3	19	2	8
Average gross family income per week (\$)	304	533	646	780	920	1,096	1,273	1,506	1,862	3,065	1,333
Number of individuals in each decile ('000)s	640.4	656.1	670.5	695.7	727.6	802.4	861.0	945.8	1,042.3	1,071.6	8,113.5

Some columns may not add to 100 per cent due to rounding

* Estimate statistically unreliable

- No observations of this type in data

- Source: NATSEM 2005

NATSEM also analysed effective marginal tax rates for individuals with wage and salary earnings by labour market status. In Table 7.6 employees employed part-time are divided into two columns. Those with income only from wages and salaries are included in the Part-time employed column. Those with income from wages and salaries but also eligible to receive part Newstart Allowance are included in the Unemployed column.

The analysis reproduced in Table 7.6 shows that 61 per cent of individuals employed full time have effective marginal tax rates not exceeding 40 per cent and 95 per cent have effective marginal tax rates not exceeding 60 per cent. 79 per cent of individuals employed part-time face effective marginal tax rates not exceeding 40 per cent and 90 per cent have effective marginal tax rates not exceeding 60 per cent. The tax transfer effect, in 2004-05, of personal income tax, at 17 cents, and/or withdrawal of Newstart allowance, at 50 cents or 70 cents, on an increase in private income is reflected in the higher effective marginal tax rates for individuals included in the Unemployed column.

Table 7.6: Estimated percentage distribution of individuals with earnings, classified by labour market status, in EMTR ranges 2004-05

EMTR (t) range	Full-time employed	Part-time employed	Unemployed	Total
%	%	%	%	%
t=0	0	6	*	1
0<t<=20	4	27	*	8
20<t<=40	57	46	*	54
40<t<=60	34	11	7	29
60<t<=80	5	9	48	6
80<t<=100	0	1	29	1
t>100	0	*	-	0
Total	100	100	100	100

Some columns may not add to 100 per cent due to rounding

* Estimate statistically unreliable

- No observations of this type in data

- Source: NATSEM 2005

Table 7.7 provides the NATSEM data results when individuals with earnings are classified by their family type.

Table 7.7: Estimated proportion of individuals with earnings from wages and salaries, classified by family type, in EMTR ranges 2004-05

Family EMTR (t) ranges	Couple with no children	Couple with children	Sole Parents	Single with no children	Total
	%	%	%	%	%
t=0	1	1	4	2	1
0<t<=20	9	4	*	12	8
20<t<=40	62	37	22	67	54
40<t<=60	26	44	39	16	29
60<t<=80	1	13	32	1	6
80<t<=100	0	1	*	1	1
t>100	*	1	*	-	0
Total	100	100	100	100	100

Some columns may not add to 100 per cent due to rounding

* Estimate statistically unreliable

- No observations of this type in data

• Source: NATSEM 2005

Table 7.7 shows that for the 2004-05 financial year a majority of individuals with earnings from wages and salaries, in total and classified by each family type, have effective marginal tax rates not greater than 60 per cent. Indeed the table shows this to be the case for the vast majority of individuals in total and for each family type other than Sole Parents.

Table 7.7 also shows that a majority of individuals, in total and in the family types Couple with no children and Single with no children, have effective marginal tax rates not greater than 40 per cent.

Of course, EMTRs from 1 July 2006 will vary from those in the above tables given the changes in the tax and transfer systems since 2004-05, the period for which our NATSEM data was produced.

The worst case EMTR scenario, sometimes provided as an example of the impact of minimum wages increases, involves the minimum wages earner who, on receiving a minimum wages increase, loses 30 cent in the dollar to tax, 4 cents in the dollar to withdrawal of the Low Income Tax Offset and whose partner loses 60 cents to Parenting Payment (Partnered) withdrawal. How representative of low wage earners is this example?

According to the most recently released Department of Family and Community Services Income Support Customers publication, in June 2004³⁵ there were 87945 Parenting Payment Partnered recipients who were partnered by a 'low income partner'.³⁶ There are 1.5 million low paid workers who receive benefits of minimum wages increases. Even if all the 87945 Parenting Payment Partnered recipients were partnered by minimum wages earners this household type and its associated high EMTR would represent only 5.9 per cent of all minimum wages workers. While an accurate depiction of the EMTR faced by the scenario household, the Income Support Statistics demonstrate that this scenario is clearly not representative of low paid workers, and says very little about the EMTRs they face or the gains they keep from adjustments of minimum wages.

The OECD Employment Outlook 2006³⁷ reviews tax wedges in OECD countries for workers in four scenarios representing different earnings levels and family types. Each panel shows Australia to have tax wedges at the lower end of the scale. Two of the scenarios depict low earners. The Single low-earner (40 per cent of the Average Production Worker) with 2 children is reported to have a tax wedge of -34 percent in 1996 declining to -48 percent in 2003. The Dual low-earner couple (both earning 40 per cent of the Average Production Worker) with 2 children are reported to have a tax wedge of 3 per cent in 1996 and 6 per cent in 2003.

The ABS Research Paper *Analysing the Terms of Trade Effect on GDP and Employment in the Presence of Low real Unit Labour Costs*³⁸ finds Australian Real Unit Labour Costs at historically low levels. Department of Treasury *Unit*

*Labour Costs*³⁹ data shows Real Unit Labour Costs have declined from a ratio of 97.5 in the March Quarter 1996 to 90.3 in the March Quarter 2006.

The discussion of the interaction of the tax/transfer and wages systems extends beyond the question of EMTRs to the relevant consideration that workers want to earn their income from wages. Wage determination is about reward for skill and effort, about a fair day's pay for a fair day's work. About decency in work. Decent work includes decent wages which reflect the skill and effort of the worker. The ILO definition of Decent Work includes work that delivers a fair income.

O'Donnell (2006) wrote:

"The Federal Government seems conflicted. It has spent nearly a decade warning us of the evils of welfare dependency. Now, we are told not to worry too much about the minimum wage because welfare payments offer a much better way of upholding household living standards."

.....

"Yet, apart from family payments, most social security transfers go to those outside or only marginally attached to the labour market. Generally, the situation of workers, including low-wage workers, are not being much improved by social security. Only a tiny proportion of their income, on average, comes from Government cash benefits. For some employed families, Government assistance for children is significant. But on average it is not. This is the way the social security system was intended to work."

"So it is a big step from saying that different family needs should be met through social security payments to offering substantial benefits to those in paid work, especially those without children. It would signal that wages are no longer reward for individual skill and effort. It would mean abandoning strong social values and norms about what is a fair day's pay for a fair day's work."

The Government and employer groups often use the gambit that low wages are not a problem because many low-wage workers are "secondary earners" – that is women and young people – living in reasonably prosperous multi-earner households. Most low-wage workers do not, in fact, fall into this category. But the argument again relies on a shift in focus from wages as a reward for individual effort to poverty, which we conveniently measure by reference to household income. It is a shift that is only sustainable if we don't care about the financial autonomy of women either within marriage or outside of it." ⁴⁰

On this point Briggs (2005)⁴¹ has noted:

"In their submissions to annual safety net hearings, business lobbies and the Federal Government have consistently advocated shifting the emphasis for poverty alleviation from minimum wage increases to transfer payments."

....

"There are important social changes involved in excessive use of the welfare system to offset stagnant wages. A living wage can underpin a society of self reliant individuals in a way in which government subsidies to low wage employment can never do. The recipient, despite a partial income from paid employment, remains 'dependent' on welfare. A secure livelihood, based on a living wage, earned in the workplace, remains a far preferable basis for citizenship and social inclusiveness. The balance has already shifted in Australia but further shifting the balance would have negative equity and social consequences. "

When minimum wages workers receive a pay increase the composition of their income changes. They receive more of their income from private

provision and they become more self reliant. (Of course, for those who do not receive government support income is already from private provision.)

The AIRC in its Safety Net Review – Wages decision of 2005 stated:

[414] Some submissions were directed to the fact that the application for a safety net adjustment might not result in an actual increase in pay in particular cases. This was said to result from reductions in means tested payments and changes in marginal tax rates or both. The interaction between increases in wages, tax scales and social welfare payments is a structural issue which potentially affects all increases in wages, regardless of their source. It is also important to note that these effects do not occur evenly and depend upon the circumstances of the wage earner. Furthermore, we think that all other things being equal it is preferable that income be sourced from earnings rather than welfare.⁴²

As the British Low Pay Commission concluded in its first report, speaking of minimum wage workers:

"Even for those in receipt of benefits, we believe that there will be a real gain when income comes more from earnings than from benefits. As we were told by the National Council for One Parent Families, 'the advantage of replacing benefit income with earned income is real; it helps workers move out of the poverty trap.'⁴³

The needs of the low paid in retirement are a relevant consideration. As the Superannuation Guarantee Contribution is based on earnings, reliance on the tax-transfer systems to assist the low paid means lower Superannuation Guarantee contributions towards their retirement incomes. As the Government at the ATO website emphasises:

"The aim of the superannuation guarantee is to ensure as many Australians as possible enjoy the benefits of superannuation income in their retirement."⁴⁴

A recently released Commonwealth Government commissioned paper *Aspects of Retirement for Older Women* identifies low pay as a factor in low retirement savings:

"Even with the introduction of compulsory superannuation, women receive less because contributions are usually based on a percentage of total salary and, on average, mens' earnings are higher than womens', and more women than men work in low-paying occupations. "⁴⁵

While the focus of the paper is the retirement savings of women, to the extent that it identifies low pay as a factor it is relevant for all low paid workers.⁴⁶

Effect of 2006-07 Budget changes on disposable income of those on minimum wages

The 2006-07 Federal Budget increased the upper threshold for the 30 cent income tax rate from \$21,600 to \$25,000 from 1 July 2006. The effect of this budget measure for minimum wages workers is shown in Table 7.8.

Table 7.8: Income tax cut from increase in 30 per cent income tax rate threshold, 1 July 2006

Annual Wage / salary	Income tax cut per week
	\$
6000 – 21000	0
22000	1.20
23000	4.00
24000	6.90
25000 – 53000	9.80

• Source: ACTU Calculations

The 2006-07 Federal Budget increased the Low Income Tax Offset (LITO) from \$235 to \$600 per year from 1 July 2006. The threshold at which withdrawal of the LITO starts was increased from \$21,600 to \$25,000. A tax

offset is only claimed / received at the time income tax is assessed, at the end of the financial year. That is, the benefit of this measure is will not be received until after 1 July 2007. The effect of the measure for minimum wages workers is shown in Table 7.9.

**Table 7.9: Income tax cut from increase in LITO, and
LITO withdrawal threshold, 1 July 2006**

Wage / salary	Income tax cut per annum	Equivalent per week
	\$	\$
6000	0	0
7000	0	0
8000	65	1.30
9000	215	4.10
10000 – 21000	365	7.00
22000	381	7.30
23000	421	8.10
24000	461	8.90
25000	501	9.60
26000	501	9.60
27000	501	9.60
28000	480	9.20
29000	440	8.50
30000	400	7.70
310000	360	6.90
23100	320	6.20
33000	280	5.40
34000	240	4.60
35000	200	3.80
36000	160	3.10
37000	120	2.30
38000	80	1.50
39000	40	0.80
40000	0	0.00

• Source: ACTU Calculations

The 2006-07 Federal Budget increased the threshold before Family Tax Benefit Part A is reduced from \$33361 in 2005-06 (and \$37,500 announced in the 2005-06 Budget) to \$40,000 from 1 July 2006. This measure increases FTB Part A by up to \$9.62 per week for families with incomes above the previously existing threshold.⁴⁷

Large family supplement was extended to families with 3 or more children (previously 4 or more) from 1 July 2006. Payment is subject to same income test as for FTB Part A. This measure provides up to \$248 per year from 1 July 2006 for families with three children.⁴⁸

Other regular (non-Budget) changes to income support payments and thresholds from 1 July 2006 maintain, but do not increase, the real value of the payments.

The community supports adjustment of minimum wages

It is relevant to consider the views of those who work with and who advocate for the unemployed.

The Brotherhood of St Laurence has recently stated:

"The Brotherhood believes that reducing the real value of minimum wages is likely to have a negligible effect on unemployment but will also hurt low-paid workers. Maintaining fair and adequate wages is crucial to avoid increasing the number of 'working poor' and increasing the proportion of low-paid, low-productivity jobs."

...

"There is, ... little evidence of a clear relationship between minimum wage changes and employment. Several studies have found a negligible impact on employment after increases in the minimum wage (Dowrick & Quiggin 2003; Gregg 2000)."

"In addition, cross national studies show a strong positive relationship between incidence of low pay and poverty (e.g. see Cantillon, Marx & Van den Bosch 2004). While some low paid workers are second income earners are in well-off households, low-paid workers typically have full-time jobs, are aged 35-54, and lack formal qualifications; and they are twice as likely as other workers to be poor."

...

"Reducing minimum wages might discourage unemployed job seekers, as work would not be financially worthwhile ..."

"Stimulating growth of a low-wage, low-skill sector is completely at odds with the Australian Government's stated desire to develop a highly skilled, innovative workforce to compete in the knowledge economy."

...

"Overall, evidence suggests that minimum wages like those applied in Australia over many decades reduce inequality and poverty, with a minimal impact on employment and no adverse impact on economic performance (Dowrick & Quiggin 2003; Gregg 2000)."

...

"Experiencing life on low wages

The Brotherhood of St Laurence's research (Life Chances Study) and services experience shows how families living on low wages struggle to make ends meet, and find themselves unable to meet daily living costs such as rent, utilities, health costs, let alone school costs for their children. These workers and their children are excluded from many of the 'ordinary' activities of life in Australia." 49

ACOSS in its submission to the AIRC 2005 Safety Net Review case stated:

"A fair safety net of minimum wages and conditions of employment is essential to stem the increase in poverty and income inequality and preserve work incentives for jobless people. Minimum wages should assist low-paid workers to meet basic needs and keep in touch with wider living standards without jeopardising the economy or jobs growth.

*There is no evidence to suggest that recent minimum wage increases have weakened employment growth. Indeed the official unemployment rate had fallen to less than 6 per cent. ... the level of minimum wages is not in our view a major impediment to reducing unemployment further."*⁵⁰

Recent evidence of the views of the unemployed is provided by Peter Saunders and Kelly Sutherland in their 2006 publication *Experiencing Poverty: the Voices of Low Income Australians*:

"However, for some it was considered most important for decent employment to provide access to adequate financial resources, as low wages and limited choice and opportunity meant many low-income people faced huge disincentives when transferring from welfare benefits to employment.

*"And your rent goes up if you're with the Ministry [government housing], you lose your health care card, you can't afford to get sick ... you lose everything so that at the end of the week you're not even better off!" Group 3"*⁵¹

Consistent with this reporting, participants at the AFPC Albany Consultation commented that the transition has to be worth it, that there are additional expenses in entering the workforce and attending a workplace such as childcare, equipment and clothing, transport and in some cases training costs.⁵²

ACOSS, the peak council of the community services and welfare sector, who advocate on behalf of people affected by poverty and inequality has stated:

"Those who are unemployed in the current labour market tend to be highly disadvantaged. For instance, 60% of single parents on payment shave no more than a Year 10 education. Others face a number of barriers to work such as transport, child care and experiences of mental illness, poor health or domestic violence."⁵³

ACOSS notes that:

"... countries that have invested heavily in employment assistance have been most successful in reducing unemployment and reliance on payments over the long term."⁵⁴

In a 2006 article the ABS finds that for many categories of unemployed people a critical factor for remaining unemployed is that they lack necessary skills.⁵⁵

8

Increasing Minimum Wages is Affordable

The Australian economy is robust and can readily absorb a real increase in minimum wages.

The Australian economy is in its 58th consecutive quarter of economic growth while unemployment is at a 30 year low. There will be no better time to provide wage increases to Australian minimum wage earners.

Economic Growth

Gross Domestic Product (GDP) grew by 0.6 per cent (0.9 per cent seasonally adjusted) in the March quarter 2006, to be 2.8 per cent (3.1 per cent seasonally adjusted) higher for the year. This is up from the previous quarter's figures of 0.6 per cent in trend and seasonally adjusted.

Abstracting for the volatility of the farm sector Gross Non Farm Product (GNFP) grew by 0.8 per cent for the March quarter 2006 to be 3.0 per cent higher than at the same time last year.

The current economic expansion is now in its 15th year, with a total of 58 consecutive quarters of positive growth (the last recorded negative GDP quarter was in September 1991). This is by far the longest economic expansion on record with the economy averaging a rate of growth of around 0.9 per cent per quarter, or 3.6 per cent annually.

Aggregate Private Demand

Private final demand grew 0.9 per cent in the March 2006 quarter to be 4.5 per cent over the year. (ABS Cat. No. 5206.0; National Income, Expenditure and Product; March 2006)

The most recent data for March quarter 2006 revealed that private consumption expenditure grew by 0.7 per cent during the quarter, to be 2.6 per cent higher than a year earlier. This was supported by strong growth in private capital expenditure, which grew by 1.4 per cent for the March quarter 2006 to be 10.7 per cent higher than in the same quarter in the previous year and 12.8 per cent higher in seasonally adjusted terms. (ABS Cat. No. 5206.0; National Income, Expenditure and Product; March 2006)

Private Business Investment Expenditure

Private business investment expenditure has continued to grow over the past year with a 3.2 increase in the March quarter with a staggering 18.8 per cent increase in the year to March 2006, or 20.4 per cent in seasonally adjusted.

One of the key contributors to economic growth has been the increase in business investment. As the Treasurer, Peter Costello, points out business investment "is laying the foundation for future economic growth in Australia"⁵⁶

Examining the two major components of business investment we find that both machinery and equipment; and non-dwelling construction have achieved strong growth. In the March quarter 2006 machinery and equipment increased by 3.9 per cent and non-dwelling construction increased by 1.3 per cent to be 22.2 per cent and 16.1 per cent, respectively, higher than in the same quarter in 2005. (ABS Cat. No. 5602.0 National Income, Expenditure and Product, March 2006)

Wage and Profit Shares

During the current economic expansion profit share of total factor income has increased by 26.9 per cent while wage share of total factor income has decreased by 4.4 per cent.

In March 2006 compensation of employees (COE) represented 53.6% of total factor income in the March quarter. The trend increase of 1.5% in the March quarter reflected a rise of 1.2% in average earnings and a 0.3% rise in the number of wage and salary earners. Seasonally adjusted, compensation of employees grew by 1.3%. Average earnings increased by 0.8%, while the number of wage and salary earners increased by 0.5%.

Figure 8.1: Wages(a) share of total factor income (Trend)



• Source: ABS National Accounts Cat No. 5206.0 March 2006

The Gross operating surplus (GOS) of corporations represented 27.1% of total factor income in the March quarter. The March quarter saw a 1.4% increase in trend GOS (1.0% in seasonally adjusted terms). While this was somewhat lower than the growth over the past four quarters, GOS remained at historically high levels.

Figure 8.2: Profit(a) share of total factor income (Trend)



(a) GOS of non-financial and financial corporations.

- Source: ABS National Accounts Cat No. 5206.0 March 2006

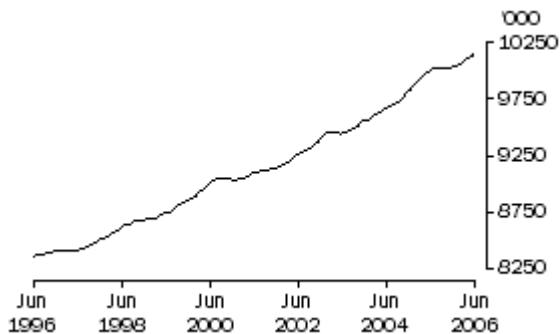
Prices

The Consumer Price Index (CPI) increased by 1.6 per cent during the June quarter 2006, to be 4.0 per cent higher over the year. (ABS Cat. No. 6401.0 Consumer Price Index, original data).

Labour Market

Employment has grown solidly over the past year with over 10.1 million people employed in the economy for the first time. As can be seen in Figure 8.3 below total employment increased by 1.5 per cent over the year to June 2006; with a total of 10.2 million persons now employed.⁵⁷

Figure 8.3: Employed persons – Australia – 1996 to 2006.



• Source: ABS Cat No. 6202.0 June 2006

The remarkable strength in the labour market has been dominated by growth in full-time jobs over the last twelve months; with 70 per cent of all new jobs being full-time. In June 2006 employment increased by 52,000 to 10,194,2000 (seasonally adjusted). At the same time the participation rate has increased by 0.3 percentage points to 64.8 per cent.

Unemployment has been on a downward trend since 1993. In June 2006 the unemployment rate was at a historically low 4.9 per cent which is a 30 year low.

The Department of Employment and Workplace Relations describes labour market conditions in glowing terms:

***"Labour market conditions in 2006 are the best they've been since the 1970's."*⁵⁸**

In the short time since this DEWR document has been published the unemployment rate has fallen from 5.2 per cent to 4.9 per cent. Male unemployment is at 4.8 per cent with female unemployment at 5.1 per cent.

Figure 8.4: Unemployment rate – Australia – 1991 to 2006.



• Source: ABS Cat No. 6202.0 June 2006

The Treasurer describes the state of the labour force as “...really great news for all Australians.”⁵⁹

The Treasurer continued:

“And if you look back over the course of the financial year that just finished, 178,000 new jobs have been created in Australia. Around 107,000 of those new jobs created are full-time and about 71,000 are part-time..... our unemployment rate continues at 4.9 per cent and we have the highest participation rate ever recorded – that is 64.8 per cent. That is more people are looking for work than we have had in the past and more people are able to find it and we have had 178,000 new jobs in the course of the last year.”⁶⁰

In answering a question on the low rate of unemployment the Treasurer responded:

“You know, if you had said to me George that we could be presiding over a 4.9 per cent unemployment rate I wouldn’t have believed you ten years ago. I don’t think anybody did, I don’t think anybody thought that we would get to something with a five in front of it. So, this has exceeded everybody’s expectations.”⁶¹

Table 8.5: Percentage change in employment Australia, August 2000 to August 2005

Industry	% growth change Aust
Agriculture, forestry & fishing	19.5% decrease
Mining	57% increase
Manufacturing	7.5% decrease
Electricity, gas & water	28% increase
Construction	23.1% increase
Wholesale trade	3.2% decrease
Retail trade	16.4% increase
Accommodation, cafes and rest.	6.85% increase
Transport & storage	8.79% increase
Communication services	6.73% increase
Finance and insurance	14% increase
Property & business services	11.5% increase
Govt admin & defence	30.9% increase
Education	13.9% increase
Cultural & recreational services	27% increase
Health & community services	19% increase
Personal and other services	20% increase

- Source: ABS Labour force data cat no 6291

The consistent trend of employment growth in the most award-reliant industries has also been recognised by the AIRC. For example, in its 2003 decision, the AIRC found that:

"a general assessment of recent employment data shows since May 1996 employment growth in the three most award reliant sectors has significantly exceeded total employment growth of 12.5%. Employment grew 24.7% in health and community services, 19.7% in accommodation, cafes and restaurants, and 14.6% in the retail industry."⁶²

The Terms of Trade and Employment

In July the Australian Bureau of Statistics released a research paper entitled "Analysing the Terms of Trade Effect on GDP and Employment in the Presence

of Low Real Unit Labour Costs".⁶³ The paper, which is described as a 'exploratory statistical analysis', explores whether sustained increases in the terms of trade and low real unit labour costs have altered the statistical relationship between GDP and employment growth.

The ABS research finds that:

***"Our analysis suggests that the strong employment growth over the last year may be partly attributed to the higher incomes induced by the rapidly rising terms of trade and the long-term level of employment has been supported by historically low real unit labour costs."*⁶⁴**

Terms of Trade

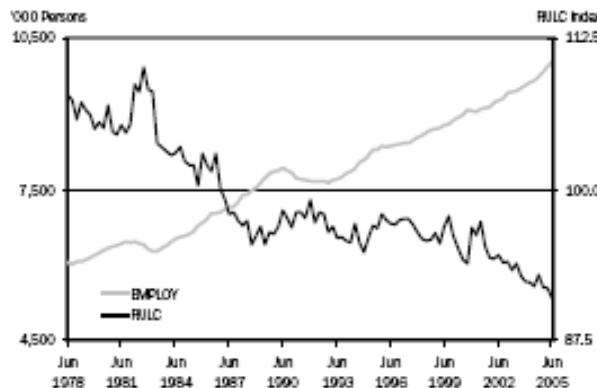
As export prices have been rising relative to import prices, Australia's terms of trade (TOT) have been improving. The real purchasing power of the Australian economy is improved as larger volumes of imports can be purchased as a result of the increased prices received from exports. In 2006 Australia's terms of trade reached a 31 year high.

Real Unit Labour Costs

Real Unit Labour Costs (RULC) are an estimate of the real cost to employers of employing labour. RULC have been steadily declining for a considerable period.

The ABS research paper finds that increases in the terms of trade have a positive effect on employment and a negligible impact on Gross Domestic Product (GDP) in the short term.

Figure 8.6: Employed Persons vs Real Unit Labour Costs



- Source: ABS Cat. No. 1351.0.55.014

Labour Productivity is improving

The Full Bench of the South Australian Industrial Relations Commission recognized that labour productivity, particularly in minimum wage industries, has increased and that this is part of a longer term trend.

"107 Both witnesses were largely proved correct by the release on 7 June 2006 of the ABS statistics series 5206.0 for the March Quarter 2006. Among other things these latest statistics show that GDP per hour worked in the market sector has bounced back strongly, thus demonstrating the volatility of the statistical series and confirming that the negative figures of recent times did not signal a break in the positive long-term trend. What the latest figures actually show is that labour productivity has made a strong contribution to the overall growth in the Australian economy over the last twelve months."

⁶⁵

9

The Economic Outlook is Strong

Australia's Minimum Wage Earners should not be denied the benefit of continued economic growth

The Commonwealth Treasury's *Budget* for 2006-07 was released on 9 May 2006. The Budget provides the Treasury's economic forecasts for the state of the national economy and is the most authoritative official outlook available for Australia. The forecast is for continued economic growth.

The Outlook for the Domestic Economy

The official forecasts paint a positive picture of the Australian economy over the near future.

Growth in the non-farm sector of the economy is expected to remain solid, growing 3½ per cent during 2006-07.

The Treasury's key domestic forecasts for 2006-07 are summarised in Table 9.1 below. The Budget forecasts for 2006-07 and the Treasury's projections for the medium term are outlined in Table 9.2.⁶⁶.

Table 9.1: Domestic Economic Forecasts^(a)

	Outcomes(b)	Estimates	Forecasts	
	2004-05 year average	2005-06 year average	2006-07 year average	Four quarters to June 2007
Panel A - Demand and output(c)				
Household consumption	4.2	2 3/4	3	3
Private investment				
Dwellings	-1.5	-3	-1	2
Total business investment(d)	11.7	14	8	11
Non-dwelling construction(d)	7.7	14	6	8
Machinery and equipment(d)	15.4	15	9	13
Private final demand(d)	4.5	4 1/4	3 3/4	4 1/2
Public final demand(d)	4.3	3 1/4	3 1/4	2 1/4
Total final demand	4.4	4	3 1/2	4
Change in inventories(e)				
Private non-farm	-0.3	0	0	0
Farm and public authorities(f)	0.0	0	- 1/4	- 1/4
Gross national expenditure	4.1	4	3 1/2	4
Exports of goods and services	2.5	2	7	6
Imports of goods and services	12.0	6	7	9
Net exports(e)	-2.0	-1	- 1/2	-1
Gross domestic product	2.5	2 1/2	3 1/4	3 1/4
Non-farm product	2.6	2 3/4	3 1/4	3 1/2
Farm product	-0.5	-1	2	-1
Panel B - Other selected economic measures				
External accounts				
Terms of trade	10.0	10	0	-1 1/4
Current account balance				
\$billions	-57.6	-56 1/4	-62 1/2	
Percentage of GDP	-6.4	-6	-6 1/4	
Labour market				
Employment (labour force survey basis)	3.0	2	1	1 1/4
Unemployment rate (per cent)(g)	5.3	5 1/4	5 1/4	5 1/4
Participation rate (per cent)(g)	64.0	64 1/2	64 1/4	64 1/4
Prices and wages				
Consumer Price Index	2.4	3	2 3/4	2 1/2
Gross non-farm product deflator	3.9	4 1/2	2 1/2	2 1/4
Wage Price Index	3.8	4	4	3 3/4

- (a) Percentage change on preceding year unless otherwise indicated.
- (b) Calculated using original data.
- (c) Chain volume measure.
- (d) Excluding transfers of second-hand asset sales between the public and private sectors.
- (e) Percentage point contribution to growth in GDP.
- (f) For presentational purposes, inventories held by privatised marketing authorities are included with the inventories of the farm sector and public marketing authorities.
- (g) The estimates in the final column are the forecast rates in the June quarter 2007.

• Source: Treasury Budget Strategy and Outlook 2006-07: Budget Paper No. 1, 9 May 2006

Table 9.2: Major economic parameters^(a)

	Forecasts		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10
Real GDP	2 1/2	3 1/4	3 1/2	3 1/4	3 1/4
Employment	2	1	1 1/2	1 1/4	1 1/4
Wage Price Index	4	4	3 3/4	4	4
CPI	3	2 3/4	2 1/2	2 1/2	2 1/2

(a) Year-average percentage change.

- Source: Treasury, *Budget Strategy and Outlook 2006-07; Budget Paper No. 1*, 9 May 2006

Economic Growth

The Australian economy is forecast to grow 3 1/4 per cent in 2006-07, up from 2 1/2 per cent from 2005-06. The major driver of growth in the Australian economy is strong world demand for Australian commodities, which is :

"boosting business investment, supporting growth in corporate profits and household incomes, and establishing conditions favourable to increasing exports."⁶⁷

Economic growth in 2006-07 will be characterised by high levels of investment with improvements in export growth.

Consumption

The outlook for consumption growth is to remain moderate with household consumption to strengthen slightly in 2006-07 to 3 per cent from 2 3/4 per cent in 2005-06. This is slower than the 4.2 per cent growth achieved during 2004-05, where consumption spending was growing at a faster rate than income growth, fueled by increases in household wealth.

Investment

Treasury expects the recent strength in business investment to continue and "be a major contributor to economic growth"⁶⁸. The forecast for growth in new

business investment is 8 per cent in 2006-07. The forecast for growth in business investment in non-dwelling construction is expected to increase by 6 per cent for 2006-07. This is supported by strong growth in machinery and equipment which is forecast to grow by 9 per cent in 2006-07.

Expected new capital expenditure (as reported by the ABS) for the 2006-07 as reported in January and February 2006 was \$52.6 billion⁶⁹. This is a staggering 17.6 per cent higher than that reported a year earlier, indicating that businesses have confidence in the continuing strength of the economy.

Public final demand

The Treasury expects public final demand to increase by 3½ per cent in year average terms over 2006-07, reflecting large public investment spending at all levels of government.

Net exports, terms of trade and the current account

Treasury expects net exports to subtract ½ a percentage point from GDP growth in 2006-07; this is less than the 1 percentage point subtraction in 2005-06.

The forecast for export growth is an increase of 7 per cent in 2006-07, supported by increased growth in rural and non-rural exports.

The Treasury's outlook for imports is for growth of 7 per cent in 2006-07, supported by high levels of imported capital equipment reflecting increased business investment.

Treasury predicts the Current Account Deficit (CAD) to widen slightly in 2006-07 to 6½ per cent of GDP from 6 per cent of GDP in 2005-06.

Labour Market

Treasury's outlook for employment to moderate to 1 per cent during 2006-07 however this is coming off strong growth during 2004-05. Unemployment is expected to remain around 5½ per cent in 2006-07.

Prices and Wages

Despite increases in oil prices, Treasury forecast a rather benign outlook for inflation. The forecast for CPI is to increase by 2¾ per cent, in 2006-07, even though increases in petrol prices are expected to contribute to inflation. Treasury expect the "*cyclical upswing in productivity and slow growth in import prices should have a moderating influence on inflation.*"⁷⁰

It is likely that the budget forecast will be amended upwards given the June 2006 CPI increase of 1.6 per cent flowing significant increases in fuel and food costs.

"The WPI is expected to grow by 4 per cent in 2006-07. While Treasury acknowledge that businesses continue to report skill shortages, Treasury has found that this has not "led to significant wage pressures"⁷¹. Treasury also acknowledge that there is strong demand for labour in the resource sector however, this is not expected to have an impact on aggregate wages pressure "given the relatively low share of the mining sector in total employment"⁷²

The economic conditions and forecast support a granting of a real increase to minimum wage levels.

10

There are No Negative Effects Resulting from Increasing Minimum Wages

Moderate real increases in federal minimum wages do not have an adverse impact on employment and the economy

Even a casual perusal of past employee and employer submissions to National Wage Cases demonstrates the different views expressed by the parties regarding the impact on employment levels of increases in minimum wage levels. The Federal Government and employer associations passionately hold the view that there is a strong negative impact on employment levels associated with increases in minimum wages.

The AIRC and other independent bodies who have considered this matter have ultimately rejected the views of employer representatives and the federal government on this matter. The AIRC has held that moderate real increases in federal minimum wages do not have an adverse impact on employment and the economy and to the small extent that they do, the benefits of awarding such increases outweigh any small negative impacts.

The AIRC has been attacked by employer organisations and the Federal Government for weighing the available evidence and coming to such a conclusion. There is a wide spread perception that the AFPC will be more sympathetic to the views expressed by employers and the federal government. In section 11 we outline the considered views of State Industrial

Tribunals who have examined the evidence regarding the impact of increasing minimum wages on the economy and employment and found no negative correlation. The AFPC should not dismiss these views lightly.

The ACTU is aware of the stated views on this contentious subject by some members of the AFPC. The ACTU does not share these views. We do not accept that there is a negative elasticity of demand for labour. The union movement believes that moderate wage increases can be associated with continued economic growth and growth in employment. We ask that an open mind be kept on this important matter.

The facts speak for themselves

Despite growth in the real value of minimum wages there has been growth in employment and participation levels. The facts speak for themselves. Australia has enjoyed 15 consecutive years of economic growth. Unemployment, at 4.9 per cent is at a historically low level with full time employment increasing.

The retort, that a lowering of the minimum wage would see even lower levels of unemployment and would assist those who are underemployed, whilst politically opportunistic, is simplistic and can not be substantiated.

Employer advocates argue following each decision to increase minimum wages that tens of thousands, in some cases hundreds of thousands of jobs will be lost as a direct result of the decision to increase minimum wages. The reality is that employment levels have continued to grow. Employment and participation levels have increased, not decreased. The facts speak for themselves.

The view that increasing minimum wages harms employment levels is now under attack from one the theory's greatest advocates.

The 2006 OECD Employment Outlook

The OECD in its 2006 Employment Outlook⁷³ undertakes what it describes as a 'broad reassessment of the OECD jobs strategy'.⁷⁴ This reassessment of the 1994 OECD Jobs Strategy follows the most comprehensive analysis of policy settings that impact on employment and unemployment to date.

After analysing the results of this comprehensive work the OECD has abandoned its previously stated policy prescriptions that advocated radical deregulation of labour markets.

OECD Findings

The OECD has concluded that:

- Minimum wages do not harm employment, and may in combination with appropriate tax and benefit policies create dynamic labour market settings that boost participation and employment;
- Co-ordinated wage bargaining mechanisms are strongly related to low unemployment and lower wage inequality;
- Employment Protection legislation such as unfair dismissal laws, are not found to harm employment. Rather moderate employment protections in combination with other policies can help create a dynamic labour market while also providing adequate employment security to workers.

These findings follow the most comprehensive analysis yet undertaken by the OECD and represent a significant change in attitude from the OECD.

These important and authoritative findings provide a clear guidance to the AFPC. The work is highly relevant to the statutory considerations required of

the AFPC. The AFPC will not obtain a more relevant, authoritative or comprehensive work than the OECD Employment Outlook.

The OECD's findings directly challenge the theory espoused by the federal government and employer organisations. It is the view of the ACTU that the OECD's findings lend support to the granting of a \$30 increase to minimum rates of pay across all classification levels.

We believe it is incumbent upon those who remain committed to the theory that increases in minimum wages have a negative impact on employment to demonstrate why their views and not that of the OECD should be preferred.

Opponents of increases to the minimum wage have relied heavily on the previous works of the OECD to support their view. We trust that ideology will not obscure the facts once again.

OECD finds that the level of minimum wage has no significant impact on unemployment

The OECD finding that the level of minimum wages have no significant impact on unemployment levels and that the lowering of the minimum wage would create few, if any jobs whilst harming low income earners are highly significant and can not be ignored by the AFPC.

Reduction in unemployment through retraining

Importantly the OECD also finds that a real and significant reduction in unemployment can be obtained through retraining programs for the unemployed. The report finds that Australia's expenditure of 0.04 of annual income on retraining is lagging well behind other OECD countries with an average expenditure of 0.17 with countries such as Germany, Portugal, Sweden, Switzerland, Netherlands, Finland, Denmark, Austria and France spending near or well in excess of 0.30 per cent of annual income on training.

With a strong labour market those workers finding difficulty finding work are likely to be facing multiple barriers to employment. One of the most significant barriers is lack of skills and the inability to retrain. Increases in minimum wages will act as an incentive for individuals to invest in their human capital and to access retraining programs. Unfortunately for these workers, the Australian Government has failed to invest in retraining, a failure recognised by the OECD.

OECD findings counter government 'reforms'

The federal government has often relied upon the work of the OECD to justify industrial relations changes such as reduction in employment protection, reduction in collective bargaining rights, restriction in the adjustment of the minimum wage. However, the outcomes of the OECD study show that :

- **Removing unfair dismissal protection will not create jobs;**
- **Favouring individual agreements may result in decreased employment, less wage restraint and greater income inequality; and ;**
- **Restraining growth in or decreasing the minimum wage will not create jobs.**

The OECD details at chapter 7⁷⁵ its new empirical analysis of the policy drivers behind labour market performance, taking into account recent advances in both theory and empirical methodology.

The revised OECD assessment of the impact of these policies on unemployment is in stark contrast to the previous OECD policy developed in 1994. The outcomes of the study are deeply at odds with the stated views of the Federal Government and employer organisations.

Compared with previous studies, it uses a comprehensive database and takes advantage of the most up-to-date macroeconometric techniques. Box 7.1 on page 219 of the report briefly presents the OECD's revised methodology.

Collective or centralised bargaining found to reduce unemployment

The OECD report finds that centralised or coordinated bargaining significantly reduces unemployment.

"The level of coordination of the wage-bargaining matter..."

The degree of corporatism – captured by a dummy variable, which takes the value of one when wage bargaining is highly centralised or co-ordinated and zero otherwise – is found to significantly reduce unemployment, lending some support to the view that, in centralised/co-ordinated bargaining systems, unions and employers are able to internalise the adverse employment consequences of excessive wage claims."

.....

*"..Recent experience also suggests that greater allowance be made for the potential contribution of centrally co-ordinated bargaining to achieving aggregate wage restraint, at least in those countries whose histories and institutional structures are compatible with such an approach."*⁷⁶

Removing unfair dismissal laws does not create jobs

The OECD report's findings run counter to the nonsensical claims made by the Federal Government and employer organisations that by making it easier to sack workers by removal of employment protection legislation, jobs will be created. The OECD finds that this is not the case.

"... but the effects of trade-unions and employment protection legislation are statistically insignificant. By contrast, the impact of EPL and union density on unemployment are statistically insignificant. These findings are not inconsistent with recent theoretical developments that predict that: i) lay-off regulations tend to affect more the distribution of unemployment rather than its level; and ii) the bargaining power of unions has more to do with the way rents are distributed rather than the level of labour demand (see Chapter 3)." ⁷⁷

"A key finding is that the effect of EPL on overall unemployment is probably small (Table 3.13). Recent cross-country panel regression studies, including Bassanini and Duval (2006), generally have not found robust evidence for a significant direct effect of EPL on unemployment. "

....

*"...recent experience shows that moderately strict EPL, when combined with a well-designed system of unemployment benefits and a strong emphasis on active labour market programmes, can help create a dynamic labour market while also providing adequate employment security to workers."*⁷⁸

Increases in Minimum Wages have no clear impact on unemployment

The OECD report considers that the level of the minimum wage has no clear impact on unemployment. This is significant and must be heeded by the AFPC.

The AFPC will receive no more authoritative work on this subject than that undertaken by the OECD.

The onus is now on those who argue that there is a negative impact on unemployment levels.

"Minimum wages have no clear impact on unemployment..."

*To study the impact of minimum wages on unemployment, the baseline model is augmented by including the ratio of gross statutory minimum wages to median wages, following the most frequent approach in the literature (see e.g. OECD, 1998; Elmeskov et al., 1998). Consistent with previous OECD work using this approach, no significant direct impact of the level of the minimum wage on unemployment is identified."*⁷⁹

*"Simple economic reasoning indicates that a statutory minimum wage or labour costs set at too high a level will become a barrier to employment for low-productivity workers, reducing national output while also frustrating the equity goals motivating these measures. However, pinning down the size of the employment losses that result from minimum wages has proven to be difficult and there is considerable uncertainty concerning how many jobs might be lost due to minimum wages set at the levels actually observed in different countries."*⁸⁰

*"The fact that a considerable number of studies have found that the adverse impact of minimum wages on employment is modest or non-existent, also suggests that there may be scope to use minimum wages as one part of employment-centred social policy, intended to mitigate poverty while fostering high employment rates. A minimum wage could encourage higher participation, by helping to make work pay for the low skilled."*⁸¹

Impact on Youth unemployment

The OECD finds no clear empirical effect of minimum wages on youth employment. The OECD does find that unemployment benefits and the 'tax wedge' reduce employment.⁸²

The OECD argues for a sub-minima rate for youth and other vulnerable groups. The existing award arrangements for juniors, trainees, apprentices and disabled workers is just such an arrangement and is dealt with in Chapter 12.

The OECD addresses this issue:

*"Recent experience suggests that a moderate minimum wage generally is not a problem, but that adequate allowance for sub-minima for youth and possibly other vulnerable groups is essential. Another insight is the potential for a well-designed minimum wage to contribute to a broader strategy to foster higher employment by guaranteeing that work pays better than remaining on social benefits."*⁸³

And we concur. The existing award structures provide the structure the OECD seeks with minimum wage levels linked to skills and qualifications.

Tax Wedge and unemployment benefits

The OECD finds that;

*".. in the average OECD country, tax wedge and unemployment benefits appear to be the most important determinants of aggregate employment rates ..."*⁸⁴

In chapter 7 of these submissions the ACTU deals at some length with the proposition that Effective Marginal Tax Rates (EMTR's) are a disincentive to employment. We argue, amongst other things, that marginal tax rates are readily adjusted by government; that the incidence of high EMTR's is low amongst low paid award workers and that in any case decency in work dictates that a fair days work for a fair day's pay is personally and socially preferable to a low wage benefit combination. We agree with the OECD that work should pay better than social benefits.

The umpire has found that increasing minimum wages does not cause unemployment

After more than a decade of vigorous debate before the Australian Industrial Relations Commission (AIRC) concerning the employment impact of increasing minimum wages, in 2005 the Full Bench of the AIRC reviewed the

literature on the academic research on this important topic. These findings provide a valuable guide to the AFPC and should be heeded. We append the findings of the AIRC to this submission.

Relevance of the State Wage Cases

After considering the evidence industrial umpires have granted real increases in minimum wages

With the exception of Victoria and the Territories, there remain in Australia State Industrial Relations Commissions. These Commissions continue to set minimum wages for hundreds of thousands of Australian workers.

For many decades the State Commissions have held State Wage Cases. These have invariably followed the national wage case heard by the Full Bench of the Australian Industrial Relations Commission (AIRC) and have, with a few notable but rare exceptions, the State Commission have flowed the national decision on to state award workers.

AIRC no longer sets Minimum Wages for most employees

The AIRC has been stripped of the power to make orders to establish rates of pay, including minimum wage levels, for most employees. The AIRC continues to hold the power to determine minimum rates of pay for employees who are within the federal industrial regime by way of a federal industrial instrument and are employed by unincorporated bodies. The AIRC continues to use its conciliation and arbitration powers to set minimum wages for these 'transitional employees'. The exact number of transitional employees is not known, although it is likely to be less than 150,000 throughout Australia.'

Although the AFPC does not have the power to determine wages for transitional employees, AIRC is required to take account of any minimum wage determination of the AFPC when making its decision.

The States continue to run State Wage Cases

In early to mid 2006 the union movement made claims in the various State Commissions for a 4 per cent increase to State Award rates of pay. The State Governments supported a \$20 per week increase to rates of pay and employers and the Federal Government sought to have the State Wage Cases delayed until after a determination was made by the AFPC.

Each State Commission rejected applications for a stay of proceedings. Each case has now been heard by a Full Bench of each State Commission and decisions have been made.

State Commissions grant \$20 wage increases

After hearing the evidence, much of it from expert witnesses, the State Commissions have all granted wage increases that are not inconsistent with the claims made by the union movement.

On 26 June 2006 the New South Wales Industrial Relations Commission granted a \$20 increase in wages.

The Western Australian Industrial Relations Commission also increased the rates of pay in Western Australian awards by \$20 on 26 June.

On the 5 July the South Australian Commission increased rates of pay by \$17 and \$19 per week.

On 27 July the Tasmanian Industrial Relations Commission granted a \$20 rise; and

On 27 July the Queensland Industrial Relations Commission altered State awards by \$19.40 or approximately 4 per cent at the State Minimum Wage.

All decisions also granted an increase in allowances.

National consistency in minimum rates of pay

Employers and the Federal Government unsuccessfully sought long-term adjournments of the various State Wage Cases, arguing that the State Commissions should take their lead from the AFPC. This position was rejected on a number of grounds, not least of which was that the AFPC did not have an evidentiary based process. Some Commissions also had a statutory obligation to hold an annual hearing.

It was strongly argued by employer representatives and the Federal Government that national consistency in the setting of minimum wage rates was of significant importance.

Uniformity of outcome is said to be important by the Commonwealth.

The Minister for Employment and Workplace Relations has stated this year:

***"A nationally consistent approach is vital to ensure that our economy continues to grow and create more and more job opportunities."*⁸⁵**

And

***"The Government strongly believes that national consistency should be maintained ..."*⁸⁶**

Relevance of State decisions

The State Commissions bring considerable experience and expertise to the determination of minimum rates of pay. They also bring a solid practical grounding to the exercise.

After considering the extensive economic and other material put to them the State Commissions have granted significant increases in minimum wages. The decisions of the State Commissions are extremely relevant to the work of the AFPC and should be carefully examined.

What the Industrial Tribunals found

NSW State Wage Case

"After reviewing the extensive economic and other material and the submissions of the parties, we have concluded that Unions NSW has established a substantial case for an increase in minimum award wages. The primary reason for this conclusion is that the applicant has established, on the evidence, that there are "good reasons" for the purposes of s 51(1) of the Act to warrant that outcome. Having regard to the basis for safety net adjustments in modern times, the applicant was entitled to rely upon, subject to countervailing economic considerations, movements in wage costs as reflected in the wage price index and the erosion of the purchasing power of wages within the relevant period to establish a case for a general adjustment in wages. The claim is in conformity with those criteria. More significantly, and having regard to the requirements of the Commission to set fair and reasonable conditions of employment for employees under s 10 of the Act (see also s 3(a)), we consider that a powerful case has been established by Unions NSW and the New South Wales Minister for Industrial Relations for the adjustment of wages of the low paid, having regard to the economic position of those workers, including their income and living costs, and questions of

wage dispersion and income inequality. These workers have little or no bargaining power so as to engage in enterprise bargaining and have a reduced capacity to sustain themselves and their families at an acceptable standard upon the present levels of minimum wages. We have discussed these issues at some length in our decision."⁸⁷

WA State Wage Case

"[148] However, we are satisfied from the evidence before us that there are employees now who are unable to bargain for wage increases based upon either maintaining the purchasing power of their wages or assisting in changes in the workplace to make enterprises more productive. We reaffirm that enterprise bargaining is the cornerstone of the wage fixing system. The award wage, and increases to it, form the safety net for those who are unable to achieve the benefits of that system. We accept that those persons include the vulnerable in our society, particularly the low-skilled and predominantly female sectors of the State's workforce. We have evidence before us, not contradicted, of a class of "working poor" for whom minimum wages are insufficient to meet minimum living expenses. The evidence from WACOSS and the SJC of the Uniting Church has been particularly relevant in this regard.

[149] The economic material before the Commission, which was not disputed by any person appearing, provides a sound basis for the determining whether employees in this State who are award-dependent and who have not been able to negotiate a wage increase should now have their wages increased. Against the background of the State's final demand and its forecast for the future, fairness and a consideration of the labour-related economic data supports a positive conclusion.

...

[150] ... Indeed, we accept the evidence before us from the Plowman Report that it is more likely that the CPI affects the level of the minimum wage rather than the reverse. The increase sought is to compensate for the past year's cost of living increases, not to cause a further increase in costs.

...

[156] In the context of all of the foregoing, and in equity, good conscience and the substantial merits of the case, we have decided to increase the award adult full time minimum wage, award wage rates and associated allowances by \$20.00 per week. In the context of the previous increases which have occurred in recent times and the very strong economy in this State, that increase is modest. On the evidence, it will be economically insignificant. There is no evidence that such an increase will impact unfairly on small business. We consider it will be within the capacity of employers generally and individually to pay.

[157] We also consider that the resulting minimum wage of \$504.40 is both fair and sustainable. The full increase will apply only to employees who are paid the award wage; any wage paid over that award rate is able to be used to offset the increase.”⁸⁸

SA State Wage Case

“6 We have carefully considered the application, the nature and circumstances of the national and South Australian economies and our statutory charter under the Act. This consideration has included an analysis of comprehensive submissions and evidence regarding the composition of the employers and employees who are likely to be directly affected by this decision; the state of the economy and the capacity to absorb an increase in Award wages at this time; the needs of the employees, and the low paid in particular; and the implications of the recent Commonwealth Work Choices reforms.

7 The Full Commission has on balance determined that we should decide this application now and not await the outcome of the AFPC process. We also do not consider that an interim adjustment would be appropriate in this matter. Without canvassing all of the relevant considerations, the evidence before the Commission strongly supported the need for an adjustment to our Award safety net at this time and whilst we would be informed by the AFPC outcome (given it will apply to a significant part of the South Australian workforce) the other considerations outweigh that factor. These

considerations included the prejudice caused by the delay, the objects of the Act, including those directed to ensuring an effective and fair safety net for parties within our jurisdiction, and the finding that we have sufficient evidence and material before us to enquire into and properly deal with the application at this time.

8 Having reviewed the comprehensive economic and related evidence we considered that there was a strong case before us to support the contention that it is appropriate to review and increase the wages within our Awards at this time, particularly so as to maintain a fair safety net for employees who are paid Award rates. In particular, an increase in Award wages is appropriate having regard to the economic position of those employees, including their income and living costs, and taking into account the increase in wage dispersion and income inequality if no adjustment is made at this time. The employees who are subject to this application have in our view less bargaining power so as to engage in enterprise bargaining than other sectors of the community and have a reduced capacity to sustain themselves and their families at an acceptable standard based upon the present levels of minimum wages.⁸⁹

State Wage Case Tasmania

[101] In considering the impact of an increase in the minimum wage we were referred to the 2006 "*Boosting Jobs and Incomes - Policy Lessons from Reassessing the OECD Jobs Strategy.*"

[102] The report said:

"Experience confirms the importance of policies to assure that real wages adjust flexibly in response to supply - and demand - side pressures, so as to support high levels of employment in a constantly changing economic environment...Experience also indicates that both decentralised and centralised bargaining often result in better employment performances than when bargaining is at the sectoral level. This is because decentralisation offers stronger relative wage flexibility and centralisation provides greater aggregate real wage flexibility.

Recent developments suggest that a moderate legal minimum wage generally does not undermine employment, but also that adequate allowance for wages below that level for youth and possibly other vulnerable groups is essential. "[31](#)

[103] The effect of minimum wage/safety net adjustments on unemployment has been a vexed issue for some time. The Australian Commission has addressed the matter in a number of Safety Net Review decisions and said in its Safety Net Review decision of 2005:

"In the May 2004 decision the Commission repeated the observation made in the May 2003 decision, that it would be assisted by high quality research into the employment effects of safety net adjustments.

The issue was again referred to at the commencement of these proceedings. In the preliminary hearing of this matter the President raised for the consideration of parties and interveners whether there may be some benefit in extending the opportunity to other groups in the community and members of the community to participate in these proceedings, particularly in relation to the issue of the connection between minimum wages and unemployment. The Commission raised as one possibility a preparedness of the Full Bench to sit in State capitals and advertise hearing times and invite public submissions. No party or intervener responded positively to this invitation.

Further, during the course of oral argument, the Commission sought additional data from the Commonwealth. Some data were provided which were of assistance. However, importantly, the Commonwealth did not provide any data with respect to the following:

- the proportion of the workforce to which safety net adjustments applied in 1997 and 2004;*
- the proportion of the workforce to which the federal minimum wage adjustment applied in 1997 and 2004; or*
- the contribution made by safety net adjustments to aggregate wages growth for each of the last three years.* "[32](#)

[104] The issue was not one debated before us but is a matter we have taken into consideration albeit there is a lack of relevant research directed to the effect of safety net adjustments on unemployment in Australia generally, as was noted by the Australian Commission."⁹⁰

Queensland State Wage Case

[271] We have not been provided with any evidence that would support the proposition that a reasonable increase in the Queensland Minimum Wage and award rates of pay will adversely impact on employment in Queensland or award reliant workers or any other persons out of work in Queensland.

[272] In many of its safety net decisions, the AIRC has considered the argument that increases in minimum wage standards creates unemployment and has been unable to find any credible link between reasonable minimum wage adjustments and employment. There is nothing in the material before this Full Bench which would cause us to conclude that such a link exists. After almost a decade of safety net adjustments, the analysis of employment data in Queensland shows that reasonable increases have not had adverse implications and have in fact been associated with strong macro-economic performance in the Queensland economy, including strong employment growth and lower unemployment.

[273] The rate of increases in income levels generally is something that should be taken into account in deciding what adjustment is necessary to ensure that wages and employment conditions provide fair standards in relation to living standards prevailing in the community. There is no evidence that recent increases in award wage rates of pay have slowed the growth in bargaining. There is nothing in any of the various measures of wages growth to indicate a threat to macro-economic balance, either nationally or at a state level, if a reasonable adjustment is made to the Queensland Minimum wage and award rates of pay.

[274] Social Factors: We accept that the legislative obligations placed on us mean that award rates should be adjusted with some reference to general movements in wages across the community. One of the major indicators of general movements across the community are the wage increases that have been achieved through enterprise bargaining and in the community generally. As we have said previously the legislation does not require us to establish a

safety net of wages and conditions. In that regard we are required to address the disparity between award rates and enterprise bargaining rates, as well as general wage movements across the community.

[275] We endorse the submission of the Queensland Government that improvements in wages and conditions should not be restricted to those employees who are best placed to bargain for themselves in negotiations with their employer. The concept of fair wages and community standards also contains some notion of ensuring that wage increases improve living standards and address issues of poverty and inequality. Fair wages should not have the effect of reducing real wages across the board for the lowest paid employees in the workforce i.e. the award-reliant and minimum wage employees.⁹¹

Conclusion

The informed views of the State Industrial Relations Commissions should be carefully considered by the AFPC. There is no good reason why the AFPC should not follow the lead of the experienced industrial tribunals. We also urge the AFPC to read the Appendix to these submissions.

12

Minimum Wages for Trainees, Apprentices, Juniors, Piece Workers and Workers with Disabilities – and casual loadings

In so far as it is possible the existing relativities and formulas that apply to the establishment of these rates should continue to apply.

It is the firm view of the ACTU that the AFPC should not alter the existing arrangements and principals that apply to the establishment of 'special rates'.

In so far as it is possible the existing relativities and formulas that apply to the establishment of these rates should continue to apply. Whilst it may be tempting for the AFPC to act expeditiously, we strongly advise caution. The potential for added confusion and economic harm is significant. We urge caution and further consultation regarding the establishment of new rates or formulas for the establishment of rates of pay for Trainees and Apprentices, Juniors, Piece Rate workers and workers with disabilities.

Trainees and Apprentices

There currently exist within the workforce two distinct strands to the vocational training and education - traineeships and apprenticeships. These are collectively referred to as "Australian Apprenticeships" (recently re-named from New Apprenticeships).

Apprenticeships operate in the traditional trades areas and the wages and conditions of the apprenticeship are located in the relevant industry or occupational award (up to 27 March 2006). Apprenticeships have a history going back to the commencement of work in Australia and well before that in the UK. They derive from the indentured training system and in their earliest form involved a payment *to* the "master" for the training provided⁹².

Traineeships on the other hand have a much more recent history. In Australia the traineeship system as it is now known came about in the late 1980s and early 1990s in response to rising youth unemployment and chronic long term unemployment. The traineeship system was designed originally to give the unemployed basic skills through training whilst employed. In recognition of the training being provided and the lack of productive time to the employer whilst in training, wages were discounted with full award wages being payable at the completion of training.

Because of these differences in history, while the two groups are under the umbrella of "Australian Apprenticeships" the mechanism of setting and adjusting wages has been quite different. These differences need to be recognised.

Apprentices

A typical apprenticeship operates for a nominal period of three or four year periods, with early completion possible.

Apprentice rates of pay have an historical nexus with the relevant trade rate. This made sense – an apprentice would eventually work in that trade so the rates paid for each year of the apprenticeship related to the final trade rate payable.

While there is no hard and fast rule, and variations exist across industries, the rates for apprentices have been around 40 per cent of the relevant trades rate

for a first year apprentice, 55 per cent for a second year apprentice, 70 per cent for a third year apprentice and 85 per cent for a fourth year apprentice.

Apprenticeships with a nominal period of 3 years will have a third year rate somewhere between 70 and 85 per cent.

The introduction of competency based training into the trades area has enabled the 'early completion' of apprenticeships, prior to their nominal time period. Completion has been based on demonstration of the required competencies both on and off the job and any fulfillment of other requirements of the trade (e.g. licensing). In these circumstances while the award maintains a nominal "time served" approach to the rates of pay, movement to the appropriate trades rate can (and regularly does) occur at an earlier time.

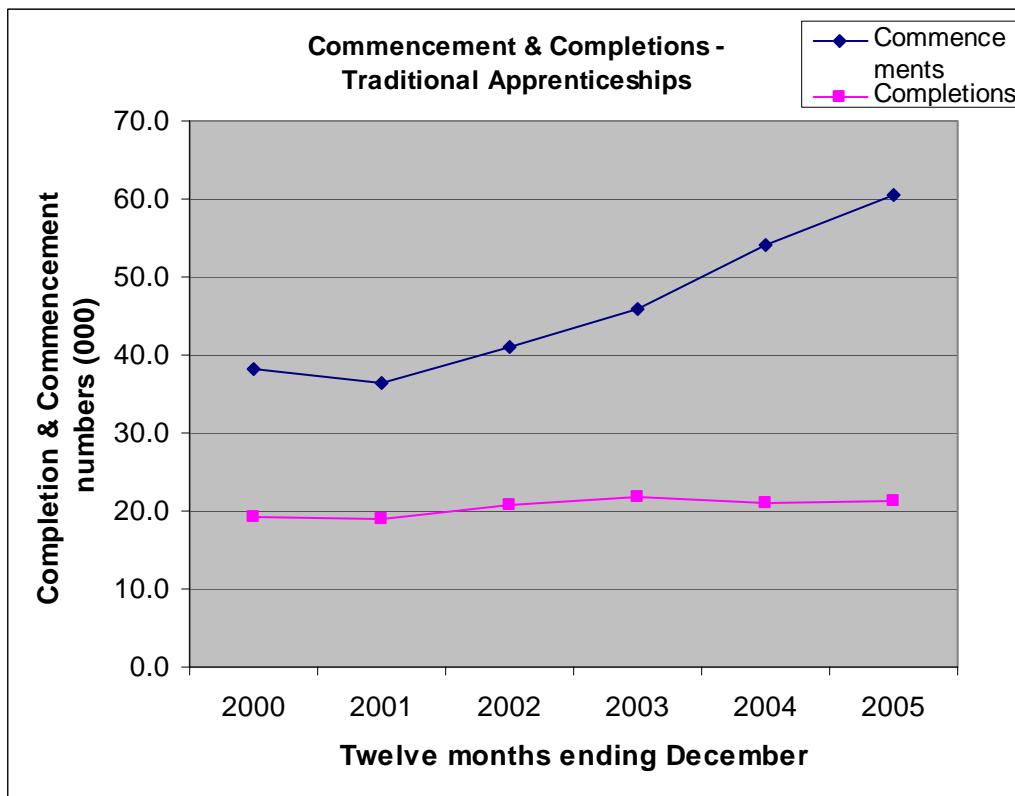
Apprenticeship wages & attracting and retaining apprentices

The rates of pay made to apprentices has an effect on the capacity to attract potential apprentices and, once started, to retain workers in apprenticeships.

Whilst there has been an increase in the number of people starting apprenticeships there has been no commensurate increase in the number of completions (recognising that there is a 2-4 year lag between increases in commencements and any expectation of an increase in completions).

Data from NCVER on apprenticeships commencements and completions illustrates this point⁹³.

Figure 12.1: Commencement and Completions Traditional Apprenticeships



- Source: NCVER Australian Vocational education and training statistics Apprentices and trainees December quarter 2005

Whilst it is important to recognise that a lag does exist in reflecting changes in completion numbers based on changes in commencements, this figure clearly shows that there has been no substantial increase in completions following the marked increase in commencements of apprentices from 2002 onwards. If the improvement in commencements was reflected in completions you would expect to see a marked improvement in the number of completions at least in 2004 and 2005. Instead, what is being observed is a fall in completions on these years.

Studies on the rates of completions take into account the lag effect between commencement and completions. Even so completion rates for traditional apprenticeships have significantly fallen over time⁹⁴.

Table 12.2: Estimated rates of completion by ‘traditional apprenticeship’ category*, %

	Year of commencement				
	1995	1996	1997	1998	1999
Traditional apprenticeships	64.6	61.8	57.0	53.3	51.6
Other	47.2	49.7	51.0	51.9	51.5
All contracts	55.1	53.7	52.6	52.2	51.6

Note: * Contracts identified as ‘traditional apprenticeships’ are defined as those contracts in the trades and related workers occupational group at AQF III qualification or above with more than two years expected duration for full-time contracts and more than eight years expected duration for part-time or school-based contracts.

- Source: NCVER National Apprentice and Trainee Collection, March quarter 2003 (1995 to 1998); September quarter 2004 (1999)

This decline in completion rates is reflected in all trades areas. Ball & John (2005) suggest that, in part, this is attributable to the apprentices being enticed to change employer, and move out of their apprenticeship, by a higher wage offer and hence not completing their apprenticeship.

Pay rates, in particular low pay rates, for apprentices hence are seen to have a direct impact on the capacity to retain apprentices once they have commenced their apprenticeship.

These low rates of pay also affect the capacity of employers to attract potential apprentices. The low rates of pay available to apprentices are recognised as a *disincentive* to young people to enter the trades.

A recent inquiry into training conducted by the Victorian Government identified a number of studies that have considered the reasons why young people fail to take up apprenticeships. These reasons for not taking up apprenticeships included:

- Apprenticeships take too long;
- Apprentices get relatively low wages;

- Limited career advice about apprenticeships;
- Cost of VET in schools programs;
- Qualifications are relatively low.⁹⁵

Whilst work is already underway to ensure that apprenticeship are truly based on attainment of competencies rather than time served, the effect of low wages in attracting people into apprenticeships should not be underestimated.

As the Victorian report noted the difference in wage rates between apprentices and trainees, unskilled workers and part time workers in the service industries acts as a real disincentive for young people to start and complete apprenticeships.

Employers also recognise the effect of low wages paid to apprentices.

A recent study Toner (2005)⁹⁶ found that higher wages for apprentices were supported by employers on the basis that it would attract higher quality applicants for positions. Employers themselves recognise the essential link between the quality of the apprentices and the wages they receive⁹⁷.

Conversely there is no work that suggests that reducing apprentice wages will either encourage more young people to take up apprenticeships or encourage more employers to take apprentices on. A survey of 1500 employers in NSW who had taken on an apprentice in 2004 found that only 2 out of 567 respondents suggested that reducing apprentice wages would encourage their business to take on more apprentices⁹⁸, while 13% (the third highest response) suggested that “increased wages/higher government incentives *going straight to the apprentice*” would be a good change to the system⁹⁹. Toner (2005) also found little support for a decline in apprentice wages as such a reduction would inevitably result in a decline in the quality of apprentices. Employers comments reported in the study included that:

"Low wage levels in the first couple of years deter some of the better applicants."

"Apprentices...feel underpaid compared to friends who may not be training as an apprentice and they receive considerably more pay."

"Higher wages to apprentices!"

"More incentives to apprentices and employer. They are on such a low wage it is a fine line between getting the dole and working a 38 hour week for not much more money. Something has to be done to encourage more young kids to want a trade [as] the low wage just turns them off."

"I think that most apprentices, like the one we employed, deserve higher wages to help keep them motivated in their chosen trade."¹⁰⁰

Current rates of pay for apprentices are not high by anyone's measure. A first year apprentice in the metal industry can be paid as little as \$6.39 an hour and, even with year 12 completion receive as little as \$7.71 per hour for the first year of the apprenticeship¹⁰¹. A hairdressing apprentice in their first year in Victoria receives \$6.85 per hour, rising to \$11.70 per hour in their final (3rd year) of the three year apprenticeship¹⁰².

The inherent structure of apprentice rate of pay has altered little over the last 20 years. Apprentice rates of pay have historically been set relative to the trades' rate. Movement in apprentice rates of pay is therefore reliant on movements in the skilled trades' rates. There is no question that the rates for apprentices, particularly in the first and second year are extremely low.

Changes to wages structures for apprentices

Prior to the 2006 changes to the Workplace Relations Act 1996, activity was underway in a number of awards of the AIRC to amend the structure of wages in awards as they applied to apprentices. These changes were designed to more effectively recognise the attainment of competencies and pre-training educational outcomes as the basis for determining commencement rates and movement through apprentice rates of pay. This would put the wages structures for apprentices on a similar footing to that of trainees. This work was completed under the Metals Engineering and Associated Industries Award 1998 and was attempted in the Building & Construction Industry Award but, due to employer opposition, was not completed prior to the changes to the Award system brought about by the new industrial legislation.

Generally, therefore, pre-reform wage rates for apprentices are based on a percentage of the trades rate.

The preserved APSC that is derived from the pre-reform wage instrument (ie the award) will therefore be subject to the notional adjustment provisions specified in s.209 of the WRA. The effect of this is such that the preserved APSC for apprentices is the actual hourly rate of pay that would have applied at the time of reform through the application of the specified percentages to the relevant trades rate. Through this the relativity of apprentice rates to the trades rates previously established under the pre-reform wage system no longer exists such that any adjustment to the trades rates will not flow automatically to the apprentice rates.

How should apprentice rates be adjusted in this round?

Clearly, the (post-reform) WRA contemplates some changes to the APSC. A taskforce was established by the Government to undertake an examination of relevant wage and classification structures. The initial timetable for the Taskforce provided for the Taskforce to report to the Minister for Employment

and Workplace Relations on its recommended strategy for rationalising the wage and classification structure by the end of March 2006 with the Taskforce completing its initial round of rationalisation for presentation to the AFPC by the end of July 2006.

It is apparent that this timetable has not been met. Whilst there may be a number of reasons for this, the complexity of the task required to be undertaken is clearly a key reason.

Given this situation, and hence the lack of proper consideration of the appropriate rates for apprentices outside of the historical relativities that existed prior to the reforms, it would be inappropriate to disadvantage a group of low paid workers such as apprentices. It would also, in our view, be inappropriate at this time to disrupt the wages structure as it existed at the time of reform.

For this reason it is our view that the apprentice rates of pay should be adjusted based on the historical relativities with the trades rate.

Such a process does not prevent the AFPC from making further adjustments to the APCS as it applies to apprentices following a proper consideration of the issues involved. There is nothing in the legislation that dictates haste in the consideration of these matters.

Traineeships

Traineeships were introduced in their current form in 1994 (although traineeships of a type were available prior to this). Traineeships were directed at providing entry level training into the workforce, particularly for the young or long term unemployed. The program was devised at a time of high unemployment and soaring youth unemployment.

The training wage structure developed in 1994 is not based on age (even though the traineeship system was developed in large response to youth unemployment issues) but on the completed years of secondary schooling,

the period of elapsed time (and experience) since leaving school, the skill level associated with the work and training. At the end of the traineeship the trainee moves on to the relevant award wage.

While some of this structure has changed and evolved over time, the critical relationships between wages, schooling and skill level remains.

While apprenticeships remain virtually the only pathway into certain occupations (engineering, electrical, plumbing and gas fitting, building and construction and automotive) traineeships are not the only pathway into employment in the occupations in which they are offered¹⁰³. This is perhaps one of the distinguishing features between apprenticeship and traineeships.

While the traineeship base was quite narrow in 1994 it is now quite extensive incorporating a vast array of industries.

The National Training Wage Award

When initially established in 1994 the NTWA applied only to those employers who had in place a training program recognised by the relevant training authority or who had received interim authorisation for a structured training program. The key requirement was that the training program on offer was structured in such a way as to deliver an identified set of skills and competencies leading to a recognised and portable qualification.

The NTWA established three identifiable skill levels. The other factors mentioned above – highest year of schooling completed and number of years out of school, when combined with each skill level, then form a matrix at each skill level for the determination of rates of pay.

This structure was a radical departure from the traditional junior rates of pay that continued to pay young people (and do today) based on age with no regard to skill and competence.

Operation of the NTWA in 2005

The NTWA in 2005 brings together a number of different strands of the training framework operating in Australia – nationally recognised and accredited training, qualifications outcomes and wages paid whilst in training.

The NTWA aligns national qualifications outcomes (AQF I, II, III & IV) with one of three wages levels relating to skills. The specification of the relevant training packages for the qualifications outcomes are also included as an integral part of the NTWA. Without each of the elements specified in the NTWA today, the wage rates are meaningless. That is, the classification 'descriptors' include all of the elements in the NTWA.

Importantly the NTWA reflects the training packages available as determined by Industry Skills Councils within the Vocational Education and Training (VET) sector. As such the NTWA reflects the industry requirements for training and qualifications and responds to industry needs as opposed to pre-determining what will be available. In this aspect the NTWA is regularly adjusted to reflect changing industry needs.

The rates of pay struck in the NTWA recognise the time spent in training by a trainee and are discounted for this. The wage rates have built into them a 20 per cent 'discount' in acknowledgement of the time spent in formal training, either on or off the job training. In addition the NTWA provides for part-time trainees and for school-based trainees with rates specified accordingly. These rates too reflect time spent in training.

The NTWA was adjusted in February 2006, bringing it up to date to reflect any changes in training packages. This was done following extensive consultation with employers, employer associations, Industry Skills Councils (who are responsible for training package development) and unions. The NTWA, along with any specific trainee arrangements in specific APSCS therefore covers the necessary field with respect to traineeships and wages.

How are the wages structured

As mentioned above the wage rates at each wage level are a matrix taking into account the amount of time out of schooling and the level of schooling achieved. There are internal relativities amongst the rates at each wage level. This recognises the relationships between the factors that make up the rates of pay.

The NTWA is, for most trainees, the pre-reform federal wage instrument. A number of state instruments also exist but are broadly reflective of the federal instrument. The rates of pay along with all information necessary for determination of differential wage rates, is the preserved APSC.

How should wages for trainees be adjusted?

The maximum rate payable at each wage level is based on the trainee spending 20% of their time in training. The specified rate takes this training time into account.

The appropriate mechanism for adjustment of trainee rates of pay therefore is to apply 80 per cent of the general wage adjustment determined by the AFPC to the maximum rate at each wage level. This rate should then flow to all other rates in the NTWA through the internal relativities that already exist.

Junior Rates of Pay

A junior rate of pay provision in an award (now a preserved Australian Pay and Classification Scale – APSC) is understood to be an aged based condition for payment. It has historically been specified as a percentage of the full adult rate of pay.

Not all preserved APSCs contain junior rates of pay. In addition not all APSCs that contain junior rates have those rates struck at the same relativity to the

adult rate. It should also be noted that junior rates do not necessarily apply to all classifications in an APCS. That is, some preserved APCSs will specify the operation of a junior rate of pay only in specific classifications. Once an employee moves above that classification level they are paid the specified rate, regardless of age. Other preserved APCSs provide for the application of the relativity based on age, regardless of the classification held.

Whilst not all preserved APCSs contain junior rates of pay, those industries that employ the vast majority of juniors do have junior rates present in their preserved APCS. The distribution of teenage employment indicates that it is concentrated in retail and hospitality (when considering both full and part time teenage employment) and in retail and manufacturing when considering fulltime employment. These industries have junior rates of pay in their preserved APCSs.

The last substantial investigation into junior rates of pay was undertaken by the Australian Industrial Relations Commission in 1999¹⁰⁴. This report was provided in accordance with Section 120B of the (pre-reform) *Workplace Relations Act 1996*. What this report indicates is that there are historical, industry based reasons for the development of junior rates as they exist today. The report traces the history of junior rates, alternatives to junior rates and the utility of junior rates. The report demonstrates the complexities that exist within the junior rates regime. There is no single model for junior rates precisely because they have developed in accordance with industry needs.

So how should junior wage rates be adjusted?

Junior rates of pay, as mentioned above, were expressed in awards as a percentage of the appropriate adult rate (as defined). Section 209 of the Workplace Relations Act 1996 acts to ensure that, upon commencement of the Act, those rates be expressed directly and without reference of relationship to other rates of pay. That is, the rates of pay for juniors, immediately upon commencement of the Act, as contained within the preserved APCS, are the actual rates derived for the application of the percentages specified in the pre-reform awards.

As mentioned above, there are a range of rates applicable to junior depending on the structure of the pre-reform industrial instrument from which these rates were derived. Any attempt to restructure APCSs as they apply to junior is, in our view, a complex task and not something that should be undertaken lightly or with haste. This then raises the question of how junior rates should be adjusted through this pay adjustment given that the historic relativities do not exist in the preserved APCSs.

In this respect we believe that the fairest and most appropriate method of adjusting the rates for junior should be to apply the wages outcomes to the adult rates and apply the historic relativities as they existed immediately prior to the reforms to the adult rates. These new rates for juniors should then be expressed directly and without reference to the adult rate (as required under s.209 of the Act).

Such an outcome would be both fair and equitable. Such an outcome does not place any impediment in the operation of the AFPCs further functions in reviewing and determining appropriate junior rates of pay but ensures that that task is conducted in a fair and timely manner.

Piece Rates

By the same approach, the AFPC should take a cautious approach to adjustment of piece work rates. Piece work rates, their history and their structure vary from award to award. Piece work rates in some (pre-reform) awards determine the entire wage under the award, others determine only part of the rate and must be read in conjunction with a specified hourly or weekly rate.

Just as it is true for juniors, piece work rates have evolved on an industry by industry basis and do not apply to all industries.

Again it is our view that piece rates should be adjusted as they would have been adjusted had the reforms not commenced. Any re-adjustment necessary should then be undertaken in accordance with the provisions of the Act.

Wages for Workers with a Disability

There are at least three possibilities for wages for people with disability.

- 1) Work at full wages: at minimum wages or above.
- 2) In open (mainstream) employment: for workers with disability whose productivity is affected by their disability, and who meet the eligibility criteria for participation, pro-rata wage determination under the Supported Wage System.
- 3) In supported employment: for workers with disability employed by supported employment services, as defined by the Disability Services Act, pro-rata wage determination under a number of wage assessment methods or tools.

Many people with disability obtain jobs at full wages. For these people who are employed under the jurisdiction of the WRA their wage rates are those in pre-reform wage instruments (awards) or agreements. For those employed on minimum wages, their rates of pay and classification definitions will be reflected in preserved APCSs. These rates of pay will be adjusted by the general wage adjustment determined by the AFPC.

Open Employment

Some workers with disability who work in open or mainstream employment cannot work at full wages due to the effects of disability on their productive capacity. Since 1994 for such workers there has been a pro-rata disability pay method known as the Supported Wage System (SWS).

Tripartite Agreement on Supported Wage

The Supported Wage System was developed on a multipartite basis by government, employer, trade union, and disability peak bodies and specialised employment agencies for people with disability. The SWS was introduced to create job opportunities for people with disability. 3425 people were employed under the SWS in 2003-04.

On July 20, 1994 a Full Bench of the AIRC heard an application jointly made by the ACTU, ACCI and Commonwealth Government for the insertion of a model clause covering the employment of workers with disability into a range of Federal Awards. Since that time the SWS model clause has been inserted into virtually all federal awards.

The clause provides for assessment of an employee's productive capacity by a transparent, reliable assessment process, and payment of the applicable percentage of the minimum rate of pay prescribed by the award or agreement for the class of work which the person is performing. As such the wage assessment process provides a method to assess the worker against the minimum classification standards established in awards or agreements.

Key Principles

The key principles of the SWS were set out in the Supported Wage System Handbook. They are:

- The system will operate within the normal industrial relations regulatory framework;
- Workers with disability have the same conditions of employment as their co-workers;

- The assessed percentage of productivity should apply to the wage rate only. All other employment conditions should apply according to the award or agreement;
- The wage setting arrangements are to operate in open employment settings (also now supported employment business service settings) and will use the existing awards and principles of wage fixing which apply to all other workers in State and Federal industrial relations systems;
- Workers should receive superannuation which is at least consistent with the requirements of the Superannuation Guarantee Charge;
- The system must be equitable in its application, in relation to both other workers with disability and those without disability;
- Only when it is clear that the person with disability is unable to work at a fully productive capacity should a pro-rata wage rate be used, the presence of disability does not itself warrant a pro-rata wage rate;
- The system should not be used to reduce the wages of people with disability already in jobs; but the system is available to assist people whose continued employment at full wage rates is in jeopardy, subject to conditions;
- Only people eligible to use the system are able to use it, and it is not applicable to other employees, particularly to other disadvantaged job seekers without disability;
- The system will be simple and practical to operate;
- It is essential that workers are not pre-assessed as capable of performing at a certain wage level and then placed in jobs. A supported wage can only be determined by assessment of the performance of a particular individual in a particular job;
- The supported wage system is not intended for short term or temporary jobs, nor for jobs where the core duties and tasks often change;
- One person's wage assessment cannot be applied to other workers with disability performing similar duties, or to the same employee in another position.

The Supported Wage System does not apply to all workers with disability. The SWS has strict eligibility criteria. We understand eligibility for the SWS to be based on meeting the impairment criteria for the Disability Support Pension. We quote the Supported Wage System Handbook, particularly point 5:

- 1) The job under consideration is covered by legislation which permits employment for pro-rata wages
- 2) Australian citizen or permanent resident
- 3) 15 or plus years
- 4) no outstanding workers compensation claim against the current employer
- 5) as determined by Centrelink meets the impairment criteria for receipt of DSP:
 - permanently blind, or
 - physical, intellectual or psychiatric impairment and
 - impairment is of 20% or more under the Impairment Tables and
 - the person has a continuing inability to work.

A person who is not in receipt of Disability Support Pension may ask the SWS Management Unit for authority to enable Centrelink to test whether they meet only the impairment criteria for the DSP – and thus be eligible for the Supported Wage System.

We understand 'continuing inability to work' to mean a continuing inability to work at full award wages.

The wages and conditions of employees eligible for and employed under the SWS are located in most industry or occupational awards (up to 27 March 2006). This reflects the strong preference of employees with a disability to be employed under the relevant industry or occupational award, as opposed to a disability Award. The SWS (model) clause is in the preserved APSCS derived from a pre-reform wage instrument (i.e. the award).

The SWS percentage determination provisions are exempted from the notional adjustment provisions specified in s209 of the WRA by virtue of s209(3):

s209(3) If the rate provisions included in a preserved APCS as mentioned in section 208 determine a basic periodic rate of pay by (or by referring to) a pro-rata disability pay method, subsection (1) applies to any other rate of pay that the method refers to, but does not otherwise apply to the method.

The SWS (model) clause provides for a minimum amount payable per week. The minimum amount payable per week is equal to the trial period payment per week. The paid rates award version of the original clause contained the following words:

The amount payable to the employee during the trial period shall be \$45 per week or such greater amount as is agreed from time to time between the parties (taking into account the Department of Social Security income test free area for earnings) and inserted into this Award.

Following this guidance, from time to time, the parties, principally the ACTU and the ACCI, have agreed to seek an increase in the minimum amount payable per week, and the minimum amount payable to the employee during the trial period, to reflect the weekly equivalent of the income test free area of earnings for pensions, specifically the Disability Support Pension, which is adjusted from 1 July each year.¹⁰⁵

It should be recognised that this minimum amount applies as a **weekly** amount. The Evaluation of the SWS, commissioned by the Department of Family and Community Services, and released in 2000, found that 15.42 per cent of all assessed wage rates to June 2000 were at the minimum amount per week:

A feature of the data above is the high number of assessed wages at the minimum SWS wage (\$45-\$53), 685 (15.42%) of all assessed wages have been paid at this rate. ... [p.22]

The ACTU notes that the basis for the minimum amount payable has increased to \$128 per fortnight from 1 July 2006. The minimum amount and the trial period amount payable under the SWS model clause should therefore be increased to \$64 per week.

Supported Employment

There is a history of Union involvement in seeking to achieve fair wages for people employed in supported employment. Individual Unions have worked with individual Supported Employment Services, also known as Business Services, to develop the wage assessment tool utilised in those Services, and the LHMU and ACTU were involved in the Business Services Wage Assessment Tool Reference Group.

The ACTU endorses that part of the submission of ACROD which relates to supported employment. Our support for a special APCS for this sector is distinguished on the basis that the proposal is to create a special APCS which would apply across a legislated area; the legislated area as defined by the Disability Services Act.

The ACTU supports the making of a special APCS in order to continue the progress that was made in the AIRC to include all wage assessment tools/pro-rata disability pay methods in an award and to extend the award to the sector.

Like the SWS, the percentage determination provisions in the pro-rata disability pay methods to be included in the special APCS are exempted from the notional adjustment provisions specified in s209 of the WRA by virtue of s209(3).

There is no special FMW for this sector because the assessment tools, other than the SWS, do not so provide. The SWS minimum amount payable is discussed above.

Casual Loadings

Casual loadings are again an area of complexity. Prior to the reform commencement casual rates have been expressed either as a percentage loading in addition to the specified rate of pay, as a single composite rate of pay for casuals only – that is the rate incorporates any loading, or as an additional flat dollar monetary amount.

As at the time of the reform commencements if the casual rate was a composite casual rate (that is had an inbuilt casual loading amount) and that rate of pay is higher than it would be if the employee was not a casual employee, then the rate provisions are taken to be disaggregated so that they specify a basic periodic rate of pay (equivalent to the non-casual rate) plus a casual loading¹⁰⁶. Otherwise the specified casual loading applicable to the employee must be paid¹⁰⁷.

In the application of any increase to casual employees arising from any wage increase awarded by the AFPC, causal employees should not be disadvantaged by the changes that are deemed to have been made post reform. That is, the rates of pay for casuals should be adjusted in such a way that they are not disadvantaged on the basis of what they would have received had the reforms not occurred but there had been a wage movement that would have affected their rates of pay.

This proposition does not affect the capacity of the AFPC to undertake any review of casual loadings as specified in the Act to determine at some time in the future appropriate casual loadings to apply to some or all APCSs.

How the Fair Pay Commission can be Fair!

The initial deliberations of the AFPC are an ideal opportunity to address widespread negative perceptions.

Employers, the Government and some public statements from the members of the AFPC have lamented the adversarial role of the AIRC and welcomed a more balanced and considered approach to the formation of minimum wages. We do not share this view. The union movement and significant section of the Australian community supported an independent industrial umpire that was charged with openly considering evidence that was placed before it.

The ACTU does not consider the AFPC to be an industrial umpire. There is a perception in the community that, in part, it is role of the AFPC to, at the very least, limit the growth of minimum wages.

The initial deliberations of the AFPC are an ideal opportunity to address those widespread perceptions.

The processes and procedures adopted by the AFPC during its deliberations will be important in the shaping of future views of the AFPC by the Australian union movement and the wider public.

We welcome the AFPC's willingness to consult and the ACTU looks forward to working constructively with the AFPC and any future successor charged with determining the level of minimum wages.

Pay Equity

Not surprisingly pay equity issues are not expressly dealt with in the statutory charter of the AFPC. This does not mean that the AFPC should not place pay equity considerations at the forefront of deliberations.

Because women are more dependent on minimum wages, upward adjustment of minimum wages will have an impact on male – female wage inequality.

In his forward to the Low Pay Commission Report 2006 the Chairman of the British Low Pay Commission noted that the minimum wage had played a major role in narrowing the gender pay gap.

Inequality of Income

It is sometimes said that the increase in minimum wages will not affect inequality because it does not impact on non-working families. The British Low Pay Commission in its first Report, focused not on inequality of income of all families, but on the effect of the NMW on inequality of income among working families:

"The National Minimum Wage will have a significant effect in reducing inequality of income among working families."¹⁰⁸

Factors considered by US Congress when determining the level of the US Minimum Wage

Factors taken into account when the US federal Minimum Wage was last increased in 1996 (as identified in speeches to Congress)¹⁰⁹ include:

- Increase in cost of living, as measured by the CPI.

- It is discouraging for a citizen to work, full time, and to see their earnings go down, while corporate profits and executive salaries continue to go up.
- Makes a big difference in the ability of families to buy food and shelter, to pay for energy to heat their homes, and to be able to clothe, care for, and educate their children.
- It is the fair thing to do.
- Raising the minimum wage will allow for people to be self-supporting and to provide for their families, without the Government having to do it.
- Will honour and reward hard work.
- Rewarding work – by making work a prize. Work is a prize when a full time worker can earn enough to pay for life's necessities

All these considerations should also be considerations of the AFPC.

Annual Decisions

We strongly argue that there should be an annual decision by the AFPC regarding the level of minimum wages. Too not do so will see the relative and real value of minimum wages fall behind wages in general. The vast majority of collective and other industrial agreements allow for annual increases. It should be noted that some State industrial legislation requires an annual consideration of the level of state minimum wages.

It is also a common factor of remuneration packages for an annual adjustment feature to be included.

We also note that remuneration tribunals have a regular, more often than not, annual review process. Members of the AFPC have recently received a 4.4 per cent increase in their salaries as a result of this process whilst federal politicians have recently received a 7 per cent increase.

It should be noted that the British Low Pay Commission makes an annual determination.

To deny an annual review process to Australia's low paid workers would be manifestly unfair and inequitable.

Timing of decision

There have been calls in the recent past for any decision by wage setting bodies to follow the delivery of the federal Budget.

Provided there is not consequent delay in the operative date that may apply to any increase to minimum wages, we have no objection to such an approach. Having said this, we do not believe it is essential that the AFPC's deliberations await the delivery of the federal Budget as little new economic data is obtained through the Budget process.

Implementation of Decision

It is the view of the ACTU that any decision to increase minimum wages should be implemented immediately. Any increase to minimum wages should be applied from the day of the decision. A prospective decision is likely to cause confusion amongst employers and employees alike. Low paid workers have waited too long for a pay increase.

Submission process

The ACTU recognises that the deliberations of the AFPC are undertaken within a different legislative environment to the AIRC. We believe the public perception of a closed and biased process can be in part countered via an open process.

We believe that it should be standard procedure for the AFPC to place all submissions on its website for public access. We do not believe there are any public policy considerations that would justify the receipt and consideration of private or secret submissions.

The acceptance of secret submissions only fuels allegations of bias. Should this view not be accepted, at the very least the AFPC should outline who has provided submissions to it and with whom it has consulted during its deliberations. The failure to provide the names of all those who have made submissions to the AFPC would seriously undermine the credibility of the AFPC.

Reply to Submissions

We believe it would be appropriate for interested parties to be given an opportunity to address issues raised in submissions made by others prior to the AFPC finalising its deliberations.

Reasons for decision

The AFPC is required to publish its decision. We believe that full reasons for any decision should be published. Such reasons should address the major submissions put to the AFPC by key parties.

Research

The AFPC has a substantial research budget. The ACTU believes the AFPC should allocate some of the research funds to an investigation of the number of demographics of low paid workers. We believe such research should involve employer and employee representatives with government agency representatives, in particular the ABS. We also believe that there should be timely access to research by the public.

Conclusion

The AFPC can make a significant difference to the lives of Minimum Wage Workers

The AFPC can make a significant difference to the lives of Australia's minimum wage workers by increasing their rates of pay by \$30. The ACTU's claim is not an ambit claim. Anything less than the claim by the ACTU will see the AFPC in its first determination, preside over a real pay cut to Australia's low paid workers. There is nothing fair in such an outcome. For 50 per cent of award workers the claim is a moderate 3.3 per cent.

The Fair Pay Commission should live up to its name and provide a fair outcome to those workers who are not in a position to bargain and look to be AFPC for assistance. Minimum wage earners earn considerably less than the rest of the workforce and spend a disproportionate amount of their small income on housing, petrol and food, all of which have increased considerable. They need relief.

Minimum wage earns also deserve an increase, real unit labour costs have decline and productivity by minimum wage workers has increased.

The cost of providing an increase to low paid workers is negligible and the benefits significant. Given the strong state of the economy, the Fair Pay Commission can provide a \$30 increase in the knowledge that it will be meeting its statutory obligations and helping those who are not in a position to bargain.

There are no negative impacts resulting from moderate increases to the minimum wage. The ACTU's claim for a \$30 increase results in 50 per cent of minimum wage earners receiving an increase less than inflation at 3.3 per cent. We can not emphasize enough the strong view held by all independent bodies who have investigated this matter, that moderate wage increases do not have a negative impact on employment. This view is now shared by the OECD. If the AFPC is to take a contrary view to that of these experienced courts and tribunals, and the OECD, the AFPC should explain in clear terms why they take a different view.

We say the facts speak for themselves, strong economic growth continues, unemployment is at a historic low. There is a wide scope for the AFPC to act fairly and it should do so.

Endnotes

- ¹ Throughout these submissions the term 'award', 'minima' and 'statutory minima' and 'Australian Pay and Conditions Standards (APCS)', are used interchangeably.
- ² <http://www.fairpay.gov.au/fairpay/Submissions/> Accessed 7 June 2006
- ³ Department of Employment and Workplace Relations. Australian Jobs 2006.page 9
- ⁴ ibid page 21.
- ⁵ Transcript of press conference Treasurer Peter Costello. Thursday 13 July 2006, Treasury Place Melbourne.
- ⁶ Transcript of interview. Prime Minister John Howard with Neil Mitchell Radio 3AW Melbourne 14 July 2006.
- ⁷ See Australian Industrial Relations Commission Minimum Wage Case 2005 Submission of the State and Territory Governments Paragraph 7.27 – 7.2.12 and Moorhead A. Australian Workplace Industrial Relations Survey, Longman Cheshire, Melbourne, 1997, p.462.
- ⁸ AFPC. Overview of Albany Consultation session. www.fairpay.gov.au/fairpay/Consultation/Feedback Accessed 17 July 2006
- ⁹ The majority of award dependent employees in unincorporated businesses will fall within the jurisdiction of State industrial tribunals or will be 'transitional employees' whose wages will continue to be established by the AIRC.
- ¹⁰ ABS EEH May 2004 Cat No. 6305.0 (Unpublished)
- ¹¹ ABS Australian Social Trends 2006 Cat. No. 4102.0
- ¹² Safety Net Review of Wages June 2005 PR002005 Paragraph 243
- ¹³ ABS EEH Income data Award reliant, Adult, Non-Managerial, Private Sector within incorporated businesses. Cat No. 6305.0 May 2004 (Unpublished)
- ¹⁴ Safety Net Review Wages May 2004 para. 132
- ¹⁵ AIRC Safety Net Review of Wages June 7 2005, PR002005 paragraph 402.
- ¹⁶ Transcript of Lateline Programme, New Fair Pay Commissioner readies to preside over the new IR regime, 31 May 2006
- ¹⁷ Fair Pay Commission, Consultation, Feedback, Overview of Albany Consultation session, Page 2
- ¹⁸ Document located at www.workchoices.gov.au/ourplan/publications/WorkChoicesandminimumratesofpay.htm. Accessed 13 June 2006.
- ¹⁹ Transcript of Lateline Programme, New Fair Pay Commissioner readies to preside over the new IR regime, 31 May 2006
- ²⁰ OECD Employment Outlook 2006 p.86
- ²¹ ACOSS Submission to the Australian Industrial Relations Commission National Wage Case March 2005 p.9
- ²² Leigh A, Does Raising the Minimum Wage Help the Poor? ANU Centre for Economic Policy Research Discussion Paper No 501, November 2005, Table 3 p.13
- ²³ ABS Guide to the Consumer Price Index, 15th Series, 6440.0, October 2005
- ²⁴ ibid. p.6
- ²⁵ ABS CPI Concordance with HEC 6446.0.55.001 (September 2005)
- ²⁶ The CPI – HES Concordance identifies the HES items of expenditure (Household Expenditure Classifications) included in the CPI basket of goods and services.
- ²⁷ Masterman-Smith. H, Pocock. B and May. R, *Low Paid Services Employment in Australia: Dimensions, Causes, Effects and Responses* The ARC and the Brotherhood of St Laurence, Liquor Hospitality and Miscellaneous Workers Union, SA Unions, Unions NSW and the Victorian Trades Hall Council fund the project.
- ²⁸ Helen Masterman-Smith and Barbara Pocock, Centre for Work and Life, University of South Australia and Robyn May, Centre for Applied Social Research, RMIT.
- ²⁹ ACTU Safety Net Review Submission ... p.
- ³⁰ Dunlop. Y, Low-paid employment in the Australian labour market, Work Rich Work Poor, Eds. Borland. J, Gregory. B, and Sheehan. P, Centre for Strategic Economic Studies, Victoria University, 2001
- ³¹ ibid p 104
- ³² ibid p 114
- ³³ Professor Ian Harper, Chair AFPC CEDA Address.
- ³⁴ The self employed are excluded.
- ³⁵ Income Support Customers: a statistical overview 2004 is the latest edition of this series
- ³⁶ Low income partner excludes partnered by partner on Youth Allowance, Newstart Allowance, Sickness Allowance, Special Benefit, and Pension
- ³⁷ OECD Employment Outlook 2006 pp. 90-91
- ³⁸ Zhang. M, Gourley. S, and Soriano. F, ABS Research Paper Analysing the Terms of Trade Effect on GDP and Employment in the Presence of Low Real Unit Labour Costs, 1351.0.55.014, July 2006
- ³⁹ Department of Treasury (2006) Unit Labour Costs, accessed on 14 July 2006, Dept of Treasury website.

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- ⁴⁰ Anthony O'Donnell, Should Australia's Safety Net Be Made From Earnings or Welfare?, *The Age*, 19 January 2006, p.8
- ⁴¹ Briggs. C, Federal IR Reform: the Shape of Things to Come, ACIRRT, 2005, pp99-100
- ⁴² AIRC Safety Net Review of Wages. Decision 7 June 2005 Paragraph 414
- ⁴³ First Report British Low Pay Commission 1998 Page 145
- ⁴⁴ Australian Taxation Office Website www.ato.gov.au
- ⁴⁵ Warren. D Aspects of Retirement for Older Women, MIAESR for Australian Government Office for Women, July 2006, p.40
- ⁴⁶ It should be noted that the SGC is not a tax on business. The Treasurer has recently stated "The facts are that this is set aside by an employer. It's part of an employee's remuneration. It's their savings. It is always owned by them. They may not be able to draw down on it until they are over 55, but it is their savings and this is part of a remuneration package. It is not a tax." Transcript of 7.30 Report Costello Looks Ahead, 1 March 2006
- ⁴⁷ Australian Government Budget Overview 9 May 2006 p.15
- ⁴⁸ Ibid.
- ⁴⁹ Brotherhood of St Laurence, Policy commentary Minimum wages, September 2005
- ⁵⁰ Australian Council of Social Service Submission Safety Net Review of Wages 2005. Page 1
- ⁵¹ Saunders. P and Sutherland. K Experiencing Poverty: The Voices of Low-Income Australians Towards New Indicators of Disadvantage Project Stage 1 Focus Group Outcomes p.10 Accessed at www.sprc.unsw.edu.au/
- ⁵² Fair Pay Commission, Consultation, Feedback, Overview of Albany Consultation session p.2
- ⁵³ ACOSS Welfare to Work – effects and solutions accessed at www.acoss.org.au
- ⁵⁴ ACOSS Payment Levels and Unemployment – The Facts accessed at www.acoss.org.au
- ⁵⁵ ABS Cat No 6105.0 Australian Labour Market Statistics, July 2006, Feature Article, Job search experience of unemployed people, p.15. For those who have never worked previously and are unemployed for less than 12 months the main difficulty in finding a job is insufficient work experience. However, the ABS finds that perhaps this reflects the fact that many people in this category were young job seekers who have recently finished education or may still be studying.
- ⁵⁶ Costello, P; *National Accounts – December Quarter 2005*, Press Release 009, 2 March 2006
- ⁵⁷ ABS. Labour Force June 2006 Cat No. 6202.0
- ⁵⁸ Department of Employment and Workplace Relations. Australian Jobs 2006.page 4
- ⁵⁹ Transcript of press conference Treasuer Peter Costello. Thursday 13 July 2006, Treasury Place Melbourne.
- ⁶⁰ ibid
- ⁶¹ ibid
- ⁶² Safety Net Review of Wages PR002003, paragraph 149
- ⁶³ ABS: Cat No. 1351.0.55.014 - Research Paper: Analysing the Terms of Trade Effect on GDP and Employment in the Presence of Low Real Unit Labour Costs, Jul 2006
- ⁶⁴ ibid page 2
- ⁶⁵ South Australian Industrial Relations Commission. State Wage Case 2006 Paragraph 107
- ⁶⁶ The longer term projections for the years 2007-08, 2008-09 and 2009-010 essentially reflect the medium-term average growth rates of the various measures used, and an assumption by Treasury that these will revert back to medium term trend levels over the medium-long term. The *projections* are produced by Treasury for the purpose of arriving at its Budget estimates, rather than providing an accurate outlook for the economy, and should not be confused with the *forecasts* for 2005-06 and 2006-07.
- ⁶⁷ Treasury, *Budget Strategy and Outlook 2006-07: Budget Paper No. 1*, 9 May 2006, page 3-3
- ⁶⁸ ibid page 3-4
- ⁶⁹ ABS Cat. No. 5624.0 *Private New Capital Expenditure and Expected Expenditure*, December quarter 2005
- ⁷⁰ Treasury, *Budget Strategy and Outlook 2006-07: Budget Paper No. 1*, 9 May 2006 page 3-5
- ⁷¹ ibid page 3-29
- ⁷² Ibid page 3-29
- ⁷³ OECD Employment Outlook – Boosting Jobs and Incomes. OECD Publishing 2006.
- ⁷⁴ ibid page 23
- ⁷⁵ Reassessing the Role of Policies and Institutions for Labour Market Performance: A Quantitative Analysis
- ⁷⁶ Op cit OECD Economic Outlook Page 212
- ⁷⁷ Ibid Page 212
- ⁷⁸ ibid Page 96
- ⁷⁹ ibid Page 216
- ⁸⁰ ibid Page 86
- ⁸¹ ibid
- ⁸² ibid Page 225
- ⁸³ ibid Page 88

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- ⁸⁴ ibid 225
- ⁸⁵ Minister for Employment and Workplace Relations Media Release: NSW State Wage Case, 26 June 2006
- ⁸⁶ Minister for Employment and Workplace Relations Media Release, 15 May 2006
- ⁸⁷ State Wage Case 2006 - STATEMENT [2006] NSWIRComm 208 26 June 2006 Paragraph 6
- ⁸⁸ Western Australian Industrial Relations Commission (WAIRC) Full Bench Decision 04608 26 June 2006
- ⁸⁹ South Australian Industrial Relations Commission (SAIRC) State Wage Case Decision SAIRComm 18, 5 July 2006
- ⁹⁰ Tasmanian Industrial Relations Commission State Wage Case 2006 T12395 27 July 2006
- ⁹¹ Queensland State Wage Case Full Bench Decision. B1197 [2005] 27 July 2006
- ⁹²For more detailed history see: Smart. N. (ed) Australian Apprenticeships. Research Readings. NCBR 2001
- ⁹³ NCVER data for 'traditional apprenticeships' (that is excluding traineeships) is based on proxy data. Traditional apprenticeships is approximated by training contracts at AQF III qualification or above with two or more years of expected duration for full-time contracts and more than eight years expected duration for part-time of school-based apprenticeships. This definition may not be consistent with legal definitions of apprenticeships that apply in some jurisdictions. It is however a consistent proxy used by the NCVER for their research.
- ⁹⁴ Ball K and John D, (2005) *Apprentice and trainee completion rates*, NCVER
- ⁹⁵ Department of Education and Training (2006) *Inquiry into Vocational Education and Training*, Victorian Government
- ⁹⁶ Toner, P (2005) *Getting it right: what employers and apprentices say about apprenticeships* Dusseldorf Skills Forum
- ⁹⁷ It is important to recognise that, from an employer perspective it is not just the quantity of people undertaking apprentices that is important to employers, but the quality of those coming into apprenticeships.
- ⁹⁸ Toner, P (2005) *Getting it right: what employers and apprentices say about apprenticeships* Dusseldorf Skills Forum, p 51
- ⁹⁹ Toner, P (2005) *Getting it right: what employers and apprentices say about apprenticeships* Dusseldorf Skills Forum, p 55
- ¹⁰⁰ Toner, P (2005) *Getting it right: what employers and apprentices say about apprenticeships* Dusseldorf Skills Forum, p 19
- ¹⁰¹ Metals, Engineering and Associated Industries Award 1998 (AW789529CRV, AIRC Melbourne)
- ¹⁰² Hairdressing and Beauty Services - Victoria - Award 2000 (AW 806816CRV, AIRC Melbourne)
- ¹⁰³ Vic Inquiry into Vocational Education and Training
- ¹⁰⁴ *Junior Rates Inquiry*, Print R5300 (4 June 1999), AIRC, Munro J, Duncan DP and Rafaelli C,
- ¹⁰⁵ The minimum amount payable has been adjusted in the following years: 1997, 2001, 2002, 2003, 2004 and 2005
- ¹⁰⁶ See section 210 of the Workplace Relations Act 1996 for a full explanation of these provisions.
- ¹⁰⁷ See section 185 of the Workplace Relations Act 1996
- ¹⁰⁸ First Report British Low Pay Commission 1998 Page 145
- ¹⁰⁹ The Library of Congress – THOMAS, Congressional Record, various House of Representatives and Senate records, various dates 1995 and 1996.

APPENDIX

Australian Industrial Relations Commission Safety Net Review -

Wages 2005 Decision

5. THE EFFECTS OF SAFETY NET ADJUSTMENTS

5.2 Employment Effects

[163] As in previous cases of this kind, the Commonwealth referred to and discussed in varying degrees numerous studies concerning the impact of minimum wages on employment. The Commonwealth noted that in previous safety net reviews it had presented the results of approximately 50 overseas studies and 10 Australian studies investigating the impact of increases in minimum wages on employment. It contended that the majority of the overseas studies and all of the Australian studies have shown a significant negative relationship between wage increases and employment levels.

[164] The 50 overseas studies to which the Commonwealth referred have all been considered in previous safety net review decisions. We need not canvass them again in much detail here. As we have noted previously, most of this material is of very limited assistance.³¹ The research is either largely irrelevant, limited in scope or has serious methodological flaws.

[165] On the question of relevance, we repeat the observation made in the May 2004 decision, that studies based on movements in a single minimum wage are unlikely to shed much light on the economic effects of safety net adjustments. This is because safety net adjustments apply to a range of minimum rates at various levels throughout the award system. In the same way, studies which model a single statutory minimum wage increase for a particular sector of the labour market, such as teenage employment, are of limited relevance in determining the effect of increases in award rates of pay across a range of skill levels. There may well be a range of elasticities of demand for labour throughout the award classification structures and the elasticities may differ at various points in time. We also note that in past safety net review proceedings there has been a significant measure of agreement that much of the research is about the effects of increasing minimum wages in circumstances which are quite different from those which characterise the Australian industrial relations systems. Despite this apparent consensus, we have again been presented this year with material of that kind.

[166] As to the scope of the material, studies which deal with employment effects should be treated with caution unless they also deal with countervailing effects which may also be significant. That proposition is well expressed in this passage from Leigh's paper:

*"Naturally, this study has focused only on the employment effect of raising the minimum wage. But this is of course only half the story. Policy makers must weigh the employment cost of minimum wage increases against the higher earnings that accrue to low-wage workers and their families. This involves learning more about those workers who hold minimum wage jobs, and how minimum wage increases affect household incomes-issues about which we currently know surprisingly little."*³²

[167] There are also methodological limitations which undermine confidence in much of the material to which the Commonwealth refers. Those limitations have been explored in previous safety net review decisions. It is sufficient to refer to two persistent problems with surveys-unacceptably low response rates and lack of testing for non-response bias.

[168] The international material does not provide direct assistance in an Australian context, particularly given the diversity of research findings. As we have noted in previous safety net review decisions, this diversity of findings is reflected in the commentary of the OECD in its June 1998 Employment Outlook:

*"There is little agreement, at either the theoretical or empirical level, about the precise employment effects of minimum wages, at least over moderate levels relative to average wages. However, there is general agreement that a statutory minimum wage is likely to reduce employment if set above a certain, usually unspecified, level. While sometimes conflicting, the weight of evidence suggests that young workers may be most vulnerable to job losses at a high level of the minimum wage. There is less evidence available on the employment effects, if any, for other groups such as women and part-time workers, who represent a large and growing proportion of the workforce."*³³

[169] The commentary notes that many studies focus on youth. It concludes from the available studies that:

*"On the basis of the available evidence, however, it is not clear that a rise in minimum wages has unambiguously led to job losses for youth in all circumstances. The results of the time-series and pooled, cross-sectional studies are especially contradictory, with some authors finding negative, but generally small, employment effects and others finding either statistically insignificant or small positive effects."*³⁴

[170] The OECD study importantly notes that minimum wages have both benefits and costs. Potential adverse employment effects arising from statutory minimum wages which are set too high constitute one such cost. Against that, however, the commentary notes the beneficial equity effect of minimum wages in narrowing earnings differentials reflected in most studies. A balancing of the costs and benefits arises squarely in considering claims such as the ACTU's claim in the present case, given the statutory context which requires attention to competing considerations such as employment effects and the needs of the low paid.

[171] The lack of relevant research directed to the effect of safety net adjustments in the Australian context has been recognised by parties to these proceedings. In the 2003 safety net review proceedings AiG noted some methodological limitations in relation to its own survey material and submitted that it was desirable that the Commission conduct a comprehensive independent survey on the impact of Safety Net Review decisions. The Commission responded positively to that suggestion, in the following terms:

"[T]here is limited material directed specifically to the effect of safety net adjustments on employment in the Australian context. We see value in a comprehensive, representative and technically robust survey directed to providing direct and contemporary information relevant to the Commission's task in adjusting the wages safety net. In the past surveys such as the AACs and AWIRS, whilst broader in their scope than the survey suggested by AiG, have provided worthwhile information. We do not think, however, that the Commission should undertake such a survey. Were it to do so it would be required to make a number of judgments about the questions to be asked and technical matters, raising potential issues in relation to its role as the independent arbitrator of the claims before it. Suggestions might arise that the Commission, in exercising its judgment in formulating a survey, had created a bias, or in some way favoured one interest or the other in these proceedings. Nevertheless the Commission would be assisted by a more comprehensive base of information and a relatively high level of agreement that the results were reliable. Accordingly, we urge the parties and in particular the Commonwealth to give consideration to facilitating survey research of the nature suggested by AiG.

Various parties have submitted that the employment effects of safety net adjustments should weigh more heavily in the Commission's deliberations. That submission would obviously be assisted by high quality research into those effects. Some degree of consultation, and hopefully agreement, between the major parties and interveners as to

the scope, content and technical specification of any such research would enhance the value of the results."³⁵

[172] The Commonwealth responded to the Commission's concerns about the lack of probative material in relation to the effects of safety net adjustments on employment. It commissioned the research referred to as the *Minimum Wages in Australia: An Analysis of the Impact on Small and Medium Sized Businesses* (the Minimum Wages Report), although regrettably there was apparently little or no consultation with other parties and no agreement as to the nature and content of the research.

[177] We now turn to the Australian studies upon which the Commonwealth relies.

[178] Table 11 below, taken from the Commonwealth's submission, outlines the findings of studies on the issue of the impact of Australian wage increases on Australian employment. It was submitted that this is a considerable body of work developed over many years looking at the Australian labour market, that is unanimous in finding that wage rises in Australia cost jobs.

Table 11: Australian Academic Research on the Relationship between Wages and Employment

Author(s)	Year	Elasticity	Methodology	Time period
P Lewis ³⁷	1983	-0.6	Used a disequilibrium model to estimate the elasticity of total employment to real wages	1966-1986
C Pissarides ³⁸	1987	-0.8	Used Layard-Nickell type model to estimate the employment elasticity with respect to real wages	1967-1987
P Lewis & MG Kirby ³⁹	1988	-0.8	Total employment with respect to real wages	1969-1987
B Russell & W Tease ⁴⁰	1991	-0.6	Total male employment elasticity with respect to real wages	1969-1997
G Debelle & J Vickery ⁴¹	1998	-0.7 (-0.4)	Used Layard-Nickell type model to estimate the employment (hours) elasticity with respect to real wages	1979-1997
M Dungey & J Pitchford ⁴²	1998	-0.4	Used a disequilibrium model to estimate the elasticity of total employment to real wages	1984-1997
K Bernie & P Downes ⁴³	1999	-0.6	Used the Treasury Macroeconomic Model to estimate the employment (hours) elasticity with respect to real wages	1971-1998
P Lewis & G MacDonald ⁴⁴	2002	-0.8	Re-estimated the aggregate demand for labour, estimating the elasticity of the demand for labour with respect to real wages	1959-1998
A Leigh ⁴⁵	2003	-0.15	Estimated the elasticity of labour demand with respect to the Western Australian statutory minimum wage	1994-2001
D Harding & G Harding ⁴⁶ (The Minimum Wages Report)	2004	-0.21	Based on a survey of small and medium employers, estimated the short run elasticity of employment demand with respect to the minimum award rate	2003

[Source: Exhibit Commonwealth 2 at Table 4.1.]

[179] The material summarised in this table, taken alone, suggests that econometric studies in Australia produce a consistent direction of labour elasticity, but a diversity of specific elasticities, reflecting different methodologies and different periods over which aggregate elasticities are

measured. For example, the Debelle and Vickery results show smaller elasticities over the period since 1978 than from 1969.

[180] We think it would be unwise to rely on any specific elasticities reported or to assume that elasticities are fixed over time and independent of other factors, such as the general state of the economy, the level of corporate profitability or the size of real wage increases. It is commonly agreed for example that significant real wage increases in the 1970s had marked adverse employment effects. In contrast, viewed overall, there is no cogent evidence to suggest that recent safety net increases have led to adverse employment effects of the same magnitude, or anything like it.

[181] The difficulty with much of this material is demonstrated by comparing the elasticities found in three of the recent studies upon which the Commonwealth relies. In the Minimum Wages Report, tendered by the Commonwealth in the 2004 safety net review proceedings, the short-term impact of the May 2003 safety net adjustments on employment demand was 14 000 fewer job places than would otherwise have been the case. This represented an elasticity of demand of about -0.2 per cent, that is, for every 1 per cent increase in award wages employment demand for award workers will fall by 0.2 per cent.⁴⁷

[182] In the same proceedings the Commonwealth relied on a paper by Leigh which sought to estimate the effect of raising the Western Australian statutory minimum wage on employment. Leigh's overall finding was that a 1 per cent rise in the minimum wage leads to a 0.15 percentage fall in employment⁴⁸-an elasticity of demand of -0.15 per cent.

[183] The findings in these two studies may be contrasted with the results of the Monash Paper, upon which the Commonwealth relied in these proceedings and to which we shall return shortly. The Monash Paper found an overall implied elasticity of labour demand of -0.63 per cent, more than three times higher than that found in the other two studies to which we have referred. No attempt has been made by the Commonwealth to explain these differences. In such circumstances it is appropriate that the results be treated with considerable caution.

[184] We propose to deal in some detail with the paper by Leigh and the Minimum Wages Report which are referred to in the above table.

[185] The paper by Leigh sought to estimate the effect on employment of raising the Western Australian statutory minimum wage. He looked at six statutory minimum wage increases between 1994 and 2001. By comparing employment rates before and after the increases, he sought to test the proposition that increases in minimum wages cost jobs. Leigh made use of a control group

(the rest of Australia) to validate his before and after results. The before and after minimum wage increase difference in employment rates for Western Australia was calculated by subtracting the employment rate three months after a minimum wage increase from the employment rate which prevailed three months before. This was done for six occasions when minimum wage increases occurred in Western Australia between 1994 and 2001. The before and after differences were also calculated for the control group, i.e. the rest of Australia. Leigh then calculated the difference between the Western Australian figure and the figure for the rest of Australia.

[186] Leigh's overall finding was that a 1 per cent rise in the minimum wage leads to a 0.15 percentage point fall in employment. Leigh's study has been trenchantly criticised by Professor Junankar and Dr Watson in separate papers. In his March 2004 paper, Dr Watson describes Leigh's study as fundamentally flawed, with major methodological and empirical weaknesses.⁴⁹

[187] In the May 2004 decision, the Commission identified four particular criticisms which may be made of Leigh's paper:

1. There is reason to doubt the appropriateness of using the rest of Australia as a control group, as the other Australian states have widely differing industry and employment characteristics to Western Australia. Leigh has not controlled for other factors that may be influencing the rate of employment growth in Western Australia versus the rest of Australia, such as different compositional structures in GDP and different policy settings.
2. The six minimum wage increases which Leigh examined averaged 6.3 per cent hence, on his own estimation, we are looking at employment losses of around 1300 persons. Given the month-to-month variability in employment it seems unlikely that such an impact would be discernable. Further, the ABS table of standard errors for Western Australian employment statistics shows that figures of about 1000 persons are subject to standard errors of 450 persons.
3. In at least four of the minimum wage increases studied, the gap between the employment rate in Western Australia and the rest of Australia was already trending against Western Australia before the relevant increase in the minimum wage.
4. Leigh's results appear sensitive to a change in the months before and after the minimum wage increases which are analysed. If a different time frame is chosen to analyse the effect, for example by comparing employment rates one month before an increase and three months after, then the results are quite different. On four of the 10

occasions when the statutory minimum wage increased, Western Australia had a better employment performance than the rest of Australia.

[188] Having regard to these criticisms, the Commission concluded:

*"In the circumstances we think that the appropriate course is not to place any weight on the study until it has been the subject of further debate. In any event we note that even if the methodological problems which have been identified are satisfactorily addressed, the study will only be of limited relevance. It focuses on the effect of adjusting a minimum rate and, as we have noted, the circumstances we are dealing with are quite different."*⁵⁰

[189] In its written submission the Commonwealth submitted that "*Leigh addressed the criticisms of his work in a refereed article that appeared in the Australian Economic Review*". The Commonwealth offered no analysis of the article to which it referred. Further, it was not suggested that the criticisms of Leigh's paper identified in the May 2004 decision lacked validity.

[190] In the article in question Leigh responds to the criticism by Watson that his methodology was fundamentally flawed.⁵¹ In particular, Leigh:

- agreed that macrodata remains an imperfect substitute for microdata but argued that unless one can produce a credible explanation for why macrodata should bias the results, using microdata will merely introduce more movement into the regression;
- argued that Watson's criticism that the rest of Australia is a poor control group for Western Australia (WA) fails to address the reasons for the rest of Australia being chosen as a control group. It is said that there are problems with using a single state as a control group because it increases the possibilities that idiosyncratic factors will affect employment in the control state. Leigh notes that there is no evidence given by Watson that a shock impacted on all states except WA and that shock was correlated with the timing of more than one increase in the WA minimum wage;
- tested the hypothesis that the employment gap between WA and the rest of Australia was trending apart during the period when WA had a statutory minimum wage and demonstrated that the original estimates were not driven by divergent employment trends between WA and the rest of Australia;
- reworked the choice of before and after periods and argued that the findings of the original study were clearly robust to various periods;
- concluded that given the manner in which the WA minimum wage is fixed by Government, the WA statutory minimum wage was unusually exogenous compared with other minimum award rates in Australia which are fixed by industrial tribunals. If endogeneity did affect increases in the WA minimum wage, then the observed coefficient is an underestimate of the true elasticity of labour demand with respect to the minimum wage; and
- questioned Watson's claim that changes in the WA minimum wage cannot be distinguished among the noise of month-to-month changes in ABS estimates of employment. Using ABS standard error tables, four of the six minimum wage

increases are negative and statistically distinguishable from zero at the 5 per cent level or better.

[191] Leigh concluded that there can be little doubt about the sign of the effect of minimum wages on employment but that "*the magnitude is the most important issue . . . As the Western Australian minimum wage experiment has shown, there is an employment cost to raising the Australian minimum wage, but it seems to be smaller than many have argued*".⁵²

[192] Despite the fact that Leigh has addressed some of the methodological problems raised in the May 2004 decision, there is nothing in Leigh's reply which would lead us to depart from the overall conclusion reached in 2004. Not only is Leigh's study concerned with changes in the single statutory minimum wage in WA, but that wage applies to non-award industries which may have different characteristics to the award-reliant industries which are subject to the application before us.

[193] The Minimum Wages Report was also considered in the May 2004 decision. As we have noted, in the May 2003 decision the Commission encouraged the parties, and in particular the Commonwealth, to give consideration to facilitating a comprehensive, representative and technically robust survey to provide direct and contemporary information relevant to the Commission's task in adjusting the wages safety net. The Commonwealth responded by commissioning research intended to provide answers to the following questions:

- How many businesses and employees have their wages adjusted through the annual safety net case and its flow-on effects?
- What is the effect of the annual safety net decision on wage setting and labour costs?
- What was the effect of the 2003 safety net adjustment on employment? and
- What is the effect of safety net adjustments on employment levels?

[194] The resultant report entitled *Minimum Wages in Australia: an analysis of the impact on small and medium sized businesses* was tendered during the course of the 2004 safety net review proceedings. Some of the key findings of the Minimum Wages Report are:

- annual safety net adjustments influence (directly or indirectly) about 4.3 million people employed by small and medium sized businesses;
- over a three-month period the short-term impact of the May 2003 safety net adjustments on employment demand was almost 13 000 fewer job places than would otherwise have been the case. This represents an elasticity of demand of about -0.2 per cent, that is, for every 1 per cent increase in award wages employment demand for award workers will fall by 0.2 per cent; and
- a guarantee that there would be no safety net adjustments awarded for a period of five years would result in an increase in employment demand of 245 000 jobs.

[195] The Commonwealth relied on the Minimum Wages Report in the 2004 safety net review proceedings in support of its contention that a cautious approach should be taken to adjusting minimum wages because of negative employment consequences. In its May 2004 decision the Commission identified a number of methodological limitations with the report.

[196] First, the accuracy of the survey responses is dependent on the extent to which respondents to the survey understood what a safety net adjustment is and there was reason to doubt whether at least some of the survey respondents had a sufficient understanding of the concept.

[197] Secondly, there were significant differences between a number of industry sector estimates extrapolated from the Minimum Wages Report questionnaire and those from established ABS surveys. Some of these differences are summarised below:

Table 12: Differences between Minimum Wages Report and EEH Survey

	Minimum Wages Report survey	ABS EEH survey	Difference
	'000	'000	%
Part-time employment	788.1	561.0	40.5
Award-only employees by industry sector			
All sectors	1826.2	1456.0	25.4
Accommodation, cafes and restaurants	335.2	247.6	35.3
Retail trade	526.1	369.2	42.5
Cultural and recreational services	158.4	88.4	79.2

Note: EEH Survey-ABS Survey of *Employee Earnings and Hours, Australia*.

[198] The third point related to the low response rate. The response rate of the Minimum Wages Report survey was 20 to 22 per cent. The Commission accepted evidence that in the absence of a survey of non-respondents, there could be no certainty that non-response bias would not be present.

[199] Having regard to these methodological limitations the Commission concluded that it would be unwise to place any reliance on the Minimum Wages Report.

[200] The material advanced in past safety net review proceedings has been supplemented in these proceedings by:

- the Monash Paper;
- the IMF and OECD Reports;
- the Yuen Paper;
- Gindling and Terrell;
- Household, Income and Labour Market Dynamics in Australia (HILDA) data; and
- economic performance in award-reliant industries.

[201] We now turn to our consideration of this material.

5.3 The Monash Paper

[202] The Commonwealth commissioned the Centre of Policy Studies at Monash University to model and report on the impact of a \$26.60 increase in award wages at a national, state and regional level. The report is entitled *The effects on the Australian economy of a sustained increase in award wage rates: results from the MONASH model.*⁵³ We refer to this report as the Monash Paper.

[203] Professor Bill Mitchell provided a critique of the Monash Paper⁵⁴ and the authors of the Monash Paper have provided a written reply to this critique.⁵⁵ One of the authors of the Monash Paper, Associate Professor Madden, gave evidence during the proceedings.

[204] The Monash Paper uses a national model (MONASH) linked with a regional model (MMRF) to simulate the effects of an increase in award wage rates in 2005. MONASH is a dynamic computable general equilibrium model of the Australian economy. MMRF is a dynamic model of the six Australian states and two territories. It models each region as an economy in its own right. The structure of the sub-model for each region is said to be similar to that of MONASH. The models assume that employers react to increases in real wages by reducing their demands for labour.⁵⁶ Hence the simulations inevitably show that aggregate employment is reduced by increases in real award wages.

[205] Two simulations were conducted. In the main simulation (referred to as S1) the authors calculate the effects on the economy of granting an across-the-board award wage increase in 2005 of \$26.60 a week compared with granting no increase at all. Simulation S1 shows a decrease in aggregate employment in 2005 of 0.77 per cent, a loss of about 74 000 jobs. This result is to be interpreted as meaning that if an award wage increase of \$26.60 per week were granted then employment in 2005 would grow by 74 000 jobs less than if no award wage increase were granted at all. Employment losses would occur across all regions and all industries, not just

regions and industries in which there are heavy concentrations of award-reliant workers. The region where employment is most vulnerable to award wage increases is New South Wales. The least vulnerable region is the Northern Territory.

[206] The overall implied elasticity of labour demand in the simulations is -0.63 per cent which the Monash Paper claims is reasonable given the estimates of Debelle and Vickery⁵⁷ who found an elasticity of -0.5 per cent.⁵⁸

[207] In the second simulation (referred to as S2) the authors calculate the effects on the economy of granting an across-the-board award wage increase of \$26.60 a week compared with granting a CPI increase to all award wage earners. The results for this simulation are to a large extent a scaled down version of the results in S1. The employment reduction in S2 is 35 000 jobs rather than 74 000.

[208] MONASH assumes that real increases in award wages induce employers to substitute towards workers who are not award-reliant and workers to substitute away from non-award activities. In other words, there is an increase in demand for workers who are not award-reliant and a decrease in supply. Through the wage adjustment equation non-award wage rates rise. For example it is assumed that if award wages for manufacturing tradespersons rise relative to non-award wages for manufacturing tradespersons, then employers will substitute strongly (elasticity of substitution of 2) in favour of workers who are not award-reliant.

[209] As the authors concede, economic modelling is not an exact science and the use of different parameter estimates can change the results significantly.⁵⁹ If a lower substitution elasticity is used (0.5 as opposed to 2) the negative effect on employment in simulation S1 is reduced from 74 000 jobs to 51 000 jobs.

[210] Implicit in the substitution assumption is the proposition that higher paid workers who are not award-reliant are more productive than lower paid award-reliant workers. The substitution of award-reliant workers for workers who are not award-reliant results in lower employment, as fewer of the workers who are not award-reliant are required (because such workers are more productive). It is contended that consistent with economic theory, employers have paid the value of the marginal product, hence as they have paid a higher price for labour that is not award-reliant it is reasonable to assume that such labour was more productive.⁶⁰

[211] Whether substitution occurs, and if so the extent of the substitution, are issues on which reasonable minds might differ. We refer to some of the matters which make these issues controversial. First, we question the implication that workers who are not award-reliant are, per

se, more productive than award-reliant workers. There are many reasons why employers enter into non-award arrangements. For example, wage stability and bargaining pressure to name just two. No doubt in some instances employers pursue bargaining at the enterprise level in order to increase productivity, but in others different considerations would operate, a point with which Associate Professor Madden agreed.⁶¹ Nor is it clear how such a substitution would take place as a matter of practice.⁶² It is simply assumed that it does take place.⁶³ True it is that parties at an enterprise level may enter into a certified agreement or an AWA and as a result the employees concerned shift from award to non-award coverage. But the proposition that safety net increases give employers an incentive to pursue such a shift is by no means an obvious one. Furthermore the proposition runs counter to one of the main themes advanced by the employers and the Commonwealth, namely that large safety net adjustments reduce the incentive to bargain.⁶⁴

[212] It may also be significant that there is no evidence that the shift from award to agreement coverage has been accompanied by a decline in employment. Finally, there is apparently no econometric basis for the elasticity of 2, which was chosen on the basis that it resulted in a level of flow-on which was expected.⁶⁵ We now turn to consider the flow-on assumption.

[213] In S1, the \$26.60 per week increase in award wage rates results in an increase in real wages of 1.22 per cent overall. This is the weighted average of the real increase in average award wages and a real increase of the induced 0.85 per cent in non-award wages. The latter figure is attributable to the flow-on of the safety net adjustment to 30 per cent of employees who are not award-reliant in the first 12 months after the increase came into effect.⁶⁶ Associate Professor Madden said that he regarded the assumed level of flow-on as reasonable on the basis of the Minimum Wages Report.⁶⁷

[214] There is reason to doubt the 30 per cent flow-on assumption. It relies heavily on the Minimum Wages Report, which we have expressed reservations about. No independent justification for the figure was advanced. Award and Agreement Coverage Survey 1999 (AACS) data for June 1999 showed that only 3 per cent of employees in the labour force received agreement or overaward payments also benefited from safety net adjustments. In the May 2004 decision, the Commission said:

"Reliable economy-wide data on the indirect costs of safety net adjustments is hard to find. In previous safety net reviews the Commission has not relied too heavily on surveys like those which ACCI and NMI advanced in this case. Data from the Award and Agreement Coverage Survey 1999 (AACS), discussed in the Safety Net Review-Wages May 2000 decision (the May 2000 decision), suggest that flow of safety net adjustments

*to employees in receipt of overaward payments or paid pursuant to certified agreements is limited.*⁶⁸

[215] We see no reason to depart from the above conclusion. The flow-on assumption is an important one because the results of the simulation are quite sensitive to changes in the extent of flow-on. If the flow-on estimate is reduced to 6 per cent then the employment loss under S1 falls from 74 000 to 30 000.⁶⁹

[216] Three further points about the Monash Paper should be noted. The first point is that even a safety net adjustment of the magnitude of \$26.60 may not be inconsistent with employment growth. As the authors say:

*"[D]espite increases in wage rates, employment can grow in the policy run. Improvements in productivity, increases in the terms of trade and reductions in required rates of return on capital all act to allow increased wage rates to be compatible with employment growth. What our results mean is that for given movements in productivity, terms of trade and required rates of return, increases in real award wage rates make employment lower than it otherwise would have been . . ."*⁷⁰

[217] The second point to note is that the authors did not perform any historical analysis of safety net review decisions to test the assumptions they have adopted. When asked about this, Associate Professor Madden said:

*"We do a lot of historical analysis to try and look at the past in just such a way but in this particular case we weren't asked to do that and of course we only could have the resources to do what we were asked to do."*⁷¹

[218] It may be that back testing of this kind is not feasible. Nevertheless this seems to us to be an area worthy of exploration. If historical testing were possible, it is likely that it could add significantly to our knowledge of the economic effects of safety net adjustments, particularly the employment effects.

[219] Finally, the safety net adjustment we have decided to award is significantly less than the increase modelled in the Monash Paper.

[220] While the simulations undertaken may provide some guidance as to the direction of effects from an increase in award wage rates, for the reasons given, little weight should be attached to the specific magnitude of the effects reported. As the Commission has noted in the past, models such as those utilised in the Monash Paper are the product of technical specifications, which are

open to debate and involve a wide range of inputs and the application of judgment. Nevertheless we encourage further research into this important area.

5.4 The IMF and OECD Reports

[221] In preliminary proceedings the Commission raised with the parties the comment made in the May 2003 decision and reiterated in the May 2004 decision that we would be assisted in our deliberations on the employment effect of safety net adjustments by high-quality research into those effects. We drew the parties' attention to a recent international report by the IMF and invited them to provide any empirical data supporting one of the propositions in the report. That proposition was that the role of the award system, in setting the minimum wage, has contributed to a relatively high unemployment rate for low-skilled workers in Australia. The Commission also referred the parties to the OECD Employment Outlook 2004 and observations made in it concerning the employment effects of downward award flexibility where, because of the interaction between the tax system and income tested benefits, the returns to working become very low.

[233] Four broad points may be made about the IMF and OECD material.

[234] First, while the parties have highlighted the particular parts of these reports which support the position for which they contend it is apparent from reading the reports as a whole that any conclusions are often heavily qualified. This point is illustrated by the following extracts:

"Economic theory provides strong grounds for believing that wage-setting institutions that attempt to set aggregate wages at a level that is too high relative to productivity will raise equilibrium unemployment . . . Although this theoretical framework commands broad acceptance among researchers, opinions differ concerning which institutional configurations are most likely to result in excessive upward pressure on the aggregate wage and how important of a role excessive wage demands have played in undermining employment performance.

The overall fragility of the evidence linking collective bargaining to macroeconomic performance suggest that great caution should be exercised when attempting to draw guidance for making policy choices from this research.

*This descriptive analysis of recent wage trends tends to reinforce concerns that the OECD countries where wage-setting has tended to mute market pressures for a widening of wage differentials have paid a penalty in weaker employment performance. However, it must be emphasised that the preceding argument has been illustrative, rather than rigorous.*⁸⁵

[235] The second point is that the OECD apparently relied, in part, on the Leigh paper and the Minimum Wages Report to support some of its observations. In relation to the Minimum Wages Report the Commonwealth submitted that the methodological concerns identified by the Commission in its May 2004 decision did not warrant total dismissal of its findings.

[236] Similarly, AiG submitted that it is appropriate that we rely on the OECD report as evidence of the link between higher minimum award wages and fewer employment opportunities. It supported the OECD's use of the Minimum Wages Report and the Leigh paper and submitted:

"114. This is particularly the case because the context of the Commission's deliberations implies that factors other than the usual criteria of intellectual rigour and standards of evidence may properly weigh on decisions to accept or reject particular arguments and evidence. These factors need not inhibit the OECD's consideration of the same evidence and argument because such consideration is completely independent from the unique context of the Commission's deliberations.

*115. Further, even though the Commission has previously decided not to rely on some of the empirical material cited by the OECD study, Ai Group maintains that the study itself, and certainly the main lines of its arguments in relation to the association between high minimum wage levels and low skilled employment opportunities, should be taken into account by the Commission."*⁸⁶

[237] AiG did not put forward any reason why the Commission should now take the studies into account. The Commission has acknowledged the potential for safety net adjustments to have negative employment effects in industries in which award reliance is high. While the Leigh Report and the Minimum Wages Report advance the state of knowledge of the nature of those effects and the conditions under which they might occur, for reasons we have given now on a number of occasions, the precise findings are not reliable. With respect to those who submit to the contrary, any other conclusion would constitute an abandonment of proper standards of decision-making.

[238] Thirdly, the OECD's Economic Survey of Australia (February 2005) records that unemployment is at its lowest level in about 28 years and close to the OECD estimate of the non-

accelerating inflation rate of unemployment. The survey also notes that Australia's unemployment rate has been below the OECD average since late 2001.

[239] Finally, in this context, we propose to address the Commonwealth's contention that the economic impact on employment of increasing the minimum wage is likely to be greater in Australia than that observed in international studies because as a proportion of median earnings the Australian minimum wage is the highest in the OECD. It was contended that a relatively high minimum wage means that the impact of increasing it is likely to be greater because a higher proportion of the workforce will be affected by the increase. This may have serious consequences for employment and inflation. It also emphasised that Australia is unique in having a series of minimum award wage rates up to at least \$1014 per week. These represent successively higher floors to bargained wage outcomes and have increased over time through the Commission's decisions.

[240] The OECD's Economic Survey of Australia (February 2005) deals with this issue in the following terms:

"Another problem is that 'safety-net awards' are arguably too high, given that minimum wages in Australia are estimated at around 58 per cent of median earnings for adult full-time employees, the second highest among OECD countries (Figure 4.3.) They may therefore constrain employment prospects for the low-skilled. Negative employment effects of minimum wage increases were found by Leigh (2003, 2004a) for Western Australia and by Harding and Harding (2004) for Australia. It is also worth noting in this context that the 'safety net' sets not only wage minima for low-paid workers, but establishes wage floors for higher-paid employees, hence a whole ladder of wage minima.⁸⁷

[241] We have already commented on the OECD's reliance on the Leigh and Harding studies. We make two additional observations. The first is that we are not aware of any independent validation of the OECD data, although the thrust of them does not appear to be seriously in doubt. Further, OECD data produced by the Commonwealth indicate that for many years the level of the minimum wage relative to median earnings in Australia has been at or near the highest in the OECD. What is not so generally recognised is that in the period since the passage of the Act in 1996, median earnings have been increasing more quickly than the minimum wage in Australia and the gap between the two has been increasing in money and percentage terms. Data are available for the relationship between the minimum wage and AWOTE for full-time adults. The relationship has been in decline since 1996. Whatever the impact on the economy of a given

increase in minimum wages in 2005 an increase of the same order would have had a greater effect in 1996. Hence, to the extent that the relationship between minimum wages and earnings is an issue, it is less significant than in past years.

[242] ACCI submitted that the effective minimum wage is much higher than the C14 classification level in the Metal Industries Award because few employees are engaged at that level on an ongoing basis. If the ACCI approach were adopted, the relationship between the minimum wage and median earnings would be even higher. In our view, the approach is fraught with difficulty. First, it is unsupported by cogent data about the size and duration of employment at C14. Secondly, it begs the question as to the basis for the minimum wage calculation in other OECD countries. Thirdly, even if the approach were adopted, in relative terms the pattern of reduction in recent years would not alter, indeed there would be a slightly larger reduction relative to median earnings.

[243] In relation to what the Commonwealth referred to as a series of minimum award wage rates, almost all award rates are arranged in a consistent hierarchy of 14 skill levels. This structure is a consequence of the rationalisation of award classifications which commenced in the late 1980s and the implementation of the award simplification process in the Transitional Provisions of the *Workplace Relations and Other Legislation Amendment Act 1996* (WROLA Act).⁸⁸ While the award structure has undergone compression since 1996 as a result of the form of safety net adjustments, that compression would have been much greater if the Commission had accepted proposals that adjustments be limited to the tradesperson (C10) classification level and below. It is also important to observe that while there has been some compression in the award structure, it is not clear that there has been compression in earnings in the economy generally. The reverse is likely to be the case.

[244] It is not necessary that we deal with the IMF and OECD Reports in any further detail. There are a number of reasons for this. First, none of them addresses the current statutory framework and the Commission's obligations under it. Secondly, to the extent that the recommendations are directed at policy makers, they are of limited relevance to the Commission's task. Thirdly, the recommendations consist mainly of generalised statements of policy unsupported by any specific research of an economic nature or otherwise. Subject to those qualifications, we accept that the views of international bodies such as the IMF and the OECD are always worthy of attention. On this occasion, however, we do not think they materially add to the substantive case put by the Commonwealth and the employers although they add some weight to that case.

5.5 The Yuen Paper

[245] The Commonwealth also submitted that a paper by Yuen on the experience of raising the minimum wage in Canada⁸⁹ indicates that increases in the minimum wage will have an uneven impact on low-paid workers depending on their levels of productivity and will cause greater unemployment among teenagers and young workers who have low skill levels and low productivity. We agree that to the extent that increases in minimum wages do have negative employment effects, it is likely that the effects would be more severe for employees who are relatively less productive. Because of the significant differences between circumstances in Australia and those in which the study took place, we think the Yuen Paper is of limited relevance.

5.6 Gindling and Terrell

[246] ACCI relied upon a study into the effects of changes in multiple minimum wages in Costa Rica.⁹⁰ ACCI acknowledged that there were differences between the Australian and Costa Rican systems of regulating wages but argued the findings from the study should be informative to the Commission's deliberations because of important similarities, namely:

- at the start of the study period, there were over 500 minimum wages in Costa Rica; and
- the Costa Rican minimum is around 70 per cent of the average wage and would be closer to the Australian minimum.

[247] ACCI relied on the findings of the study that:

- a 10 per cent increase in the minimum rate increases real wages by 1.03 per cent, cuts employment by 1.09 per cent and hours worked fall by 0.6 per cent;
- on average, the increase in minimum wages has no beneficial effect on incomes because higher wages and shorter hours cancel out; and
- the largest impact on wages and employment is in the lower half of the distribution.

[248] The study was conducted during a period in which significant changes were made in the structure of minimum wages in Costa Rica and in which wages were varied for between 19 and 500 occupations/skill categories. Gindling and Terrell note that approximately one-fifth of the labour market in Costa Rica is not covered by minimum wage legislation. The study used cross-sector/time series data from annual household surveys conducted from 1988-2000. Gindling and Terrell assigned a specific minimum wage to over 350 different occupational/skill categories of workers in each year and estimated the wage, employment and hours worked effects separately for the covered and uncovered sectors. It was found that the legal minimum wages had a

significant positive effect on the average wage of workers in the covered sector, but no significant effect on the average wage of workers in the uncovered sector.

[249] During the period under study, the government of Costa Rica implemented a policy of gradually reducing the number of minimum wages from over 500 categories, set by occupation, skill and industry in 1987 to 19 categories set by skill only, in 1997. Over a period of several years, one minimum wage emerged for each broadly defined skill/occupation, irrespective of industry.

[250] We find this study of limited use in our deliberations, for three reasons. First, Costa Rica is a developing economy with different political, economic and social environments to that experienced in Australia. Gindling and Terrell themselves state that "*the complex structure of minimum wages in Costa Rica is not uncommon in Latin America . . . Hence, our methodology and results are relevant for many other Latin American countries*".⁹¹

[251] Secondly, the pay setting policies in Costa Rica are distinguishable from those applying in Australia. For instance, in Costa Rica some 70 per cent of employees are covered by legislative minima and prior to 1997 the classifications were not skill based. In Australia we have a matrix of properly fixed minimum wages based on around 14 skill levels across awards. The rates in Costa Rica were varied twice a year and large increases in real wages were awarded. The result of the exercise was that from 1997 to 2000 the average real minimum wage increased by 23 per cent.

[252] Thirdly, the exercise of shifting employees to skill-based classifications was undertaken in an environment of high inflation.

5.9 Conclusion on the Effects of Safety Net Adjustments

[279] The material to which we have been referred does not undermine the conclusion expressed by the Commission in the May 2003 decision that there is a continuing controversy amongst academics and researchers about the employment effects of minimum wage improvements.⁹⁵ There is nothing before the Commission to indicate that the controversy has been resolved. Substantial safety net adjustments may have some negative effects on employment in those sectors of the economy in which a high proportion of the workers are award-reliant.

[280] The material brought to the Commission's attention does not establish an empirical basis for affording greater importance to concerns about employment effects than to other considerations to which we must have regard. Having considered the material, our assessment is that, under

current economic conditions, the adjustment we have decided on of itself, will do little or nothing to diminish job prospects.

- 31 For example, see the May 2004 decision at paras 229-36.
- 32 Leigh, Andrew, December 2003, `Employment Effects of Minimum Wages: Evidence from a Quasi-Experiment', *The Australian Economic Review*, Vol. 36, No. 4 at pp. 361-73.
- 33 OECD, June 1998, `Making the Most of the Minimum: Statutory Minimum Wages, Employment and Poverty', *OECD Employment Outlook* at p. 31.
- 34 ibid. at p. 45.
- 35 May 2003 decision at paras 176-7.
- 36 May 2004 decision at para 235.
- 37 Lewis, P, 2003, `Disequilibrium in the Australian Aggregate Labour Market', *Economics Letters*, Vol. 11 at pp. 185-9.
- 38 Pissarides, C, 1987, *Real Wages and Unemployment in Australia*, Centre for Labour Economics, London School of Economics, Discussion Paper No. 286.
- 39 Lewis, P & Kirby, MG, 1998, `A New Approach to Modelling the Effects of Incomes Policies', *Economics Letters*, Vol. 28 at pp. 81-95.
- 40 Russell, B & Tease, W, 1991, `Employment, Output and Real Wages', *Economic Record*, Vol. 67, No. 196 at pp. 34-45.
- 41 Debelle, G & Vickery, J, 1998, *The Macroeconomics of Australian Unemployment*, Reserve Bank of Australia Annual Conference, Volume 1998-15.
- 42 Dungey, M & Pitchford, J, 1998, *Prospects for Output and Employment Growth with Steady Inflation*, Reserve Bank of Australia Annual Conference, Volume 1998-15.
- 43 Bernie, K & Downes, P, 1999, *The macroeconomics of unemployment in the Treasury Macroeconomic (TRYM) model*, Reserve Bank of Australia Seminar Series.
- 44 Lewis, P & MacDonald, G, 2002, *The Elasticity of Demand for Labour in Australia*, Economic Record, Vol. 78, No. 240 at pp. 18-30.
- 45 Leigh, Andrew, December 2003, `Employment Effects of Minimum Wages: Evidence from a Quasi-Experiment', *The Australian Economic Review*, Vol. 36, No. 4 at pp. 361-73.
- 46 Harding, D & Harding, G, 2004, *Minimum wages in Australia: an analysis of the impact on small and medium sized businesses-A report to the Department of Employment and Workplace Relations*, Turning Point Research Pty Ltd.
- 47 Minimum Wages Report, Section 3.3, Table 3.3 at p. 49; and Exhibit Commonwealth 5 of the 2004 Safety Net Review proceedings at para R5.10. We note that the estimate of 14 000 jobs was subsequently revised to a figure of "almost 13 000" in Dr Harding's supplementary statement of 15 April 2004.
- 48 This figure comes from Leigh's erratum in *The Australian Economic Review*, Vol. 37, No. 1 at pp. 102-5.
- 49 Watson, I, March 2004, *A Needle in a Haystack. Do increases in the minimum wage cause employment losses?*, ACIRRT Working Paper 90, University of Sydney.
- 50 May 2004 decision at para 215.
- 51 Leigh, A, 2004, `Minimum Wages and Employment: Reply', *The Australian Economic Review*, Vol. 37, No. 2, at pp. 173-9.
- 52 ibid. at p. 178.

- 53 Dixon, PB, Madden, JR & Rimmer, MT, March 2005, A Report to the Department of Employment and Workplace Relations.
- 54 *Safety Net Review of Wages, Critique of Dixon, Madden and Rimmer*, April 2005, see Exhibit ACTU 5 at p. 11.
- 55 See Exhibit Commonwealth 6 at Attachment B.
- 56 Monash Paper at p. 16.
- 57 Debelle & Vickery, op. cit. at pp. 235-65.
- 58 Monash Paper, op. cit. at p. 7.
- 59 Exhibit Commonwealth 6 at p. 35.
- 60 Transcript at paras 2359, 2386, 2395 and 2534.
- 61 Transcript at para 2396.
- 62 ibid. at paras 2507-8.
- 63 ibid. at para 2517.
- 64 See for example Exhibit Commonwealth 2 at para 6.48; and Exhibit Commonwealth 6 at paras R5.22-R5.227.
- 65 Transcript at paras 2347, 2520-1.
- 66 ibid. at paras 2521-3.
- 67 ibid. at para 2521; see also paras 2511-3.
- 68 May 2004 decision at para 123. See also Print S5000; (2000) 95 IR 64 at paras 62 and 65; May 2003 decision at paras 138-9.
- 69 Transcript at para 2523.
- 70 Monash Paper, op. cit. at p. 16.
- 71 Transcript at para 2568.
- 72 International Monetary Fund, Australia, November 2004, *Staff Report for the 2004 Article IV Consultation* at p. 13.
- 73 OECD Employment Outlook 2004 at p. 153.
- 74 ibid.
- 75 OECD, February 2005, *Economic Survey of Australia* at p. 189.
- 76 ibid. at p. 193.
- 77 May 2004 decision at paras 196 and 215.
- 78 OECD, Employment Outlook 2004 at p. 140.
- 79 ibid. at p. 140.
- 80 ibid. at p. 142.
- 81 Puhan, P, *A text of the Krugman Hypothesis for the United States, Britain and Western Germany*, IZA Discussion Paper No. 764.
- 82 OECD, March 2005, *Economic Policy Reforms: Going for Growth* at p. 58.
- 83 OECD, 1997, *OECD Submission to the Irish National Minimum Wage Commission*, Economics Department Working Papers No. 186, p. 15.
- 84 ibid.
- 85 OECD Employment Outlook 2004 at pp. 132-3 and 141-2.
- 86 Exhibit AiG 1.
- 87 At p. 157.
- 88 See the *Paid Rates Review* decision, Print Q7661; (1998) 123 IR 240.

- 89 Yuen, T, 2003, 'The Effects of Minimum Wages on Youth Employment in Canada: A panel study', *The Journal of Human Resources*, Vol. 38, No. 3 at pp. 647-72.
- 90 Gindling, TH & Terrell, K, May 2004, *The Effects of Multiple Minimum Wages Throughout the Labour Market*, IZA Discussion Paper No. 1159.
- 91 ibid. at p. 2.
- 92 McNamara, J, Lloyd, R, Toohey, M & Harding, A, 14 October 2004, *Prosperity for all? How Low Income Families Have Fared in the Boom Times*, NATSEM Paper at p. 8.
- 93 Exhibit ACTU 2 at paras 6.15-6.17 and Figure 6.1.
- 94 May 2004 decision at para 163.
- 95 See May 2003 decision at paras 180 and 182.