28 October 2011

The Hon Justice Giudice
President
Fair Work Australia
GPO Box 1994
Melbourne Vic 3000

Your Honour

**Annual Wage Review 2011-12: Research Program**

I refer to your statement of 24 October 2011 concerning the draft research program for the Annual Wage Review 2011-12.

The ACTU supports this draft program, but offers the following comments regarding aspects of the proposed research.

The second and third projects (statistical analysis of job mobility and of expenditure patterns) propose to analyse data from the Household, Income and Labour Dynamics Australia (HILDA) survey and the ABS Household Expenditure Survey (HES). For each analysis, it is proposed that a "benchmark or benchmarks of low pay based on earnings/income will be used". It is understandable that the research be designed in this way, given the limitations of the underlying data, but any research that uses such benchmarks must be clear about its limitations.

We draw the Panel’s attention to its decision in the *Annual Wage Review 2009-10*, in which it concluded that:

> “There is no consensus among the parties and other commentators with respect to a definition of the low paid. Because there is a continuous distribution of wages, there is no wage threshold just below which people are clearly low paid and just above which people are clearly not low paid. Rather, the lower the wage, the more "low paid" is the employee. People earning above or near median earnings are clearly not low paid in an absolute sense. In considering relative living standards and the needs of the low paid, we have focussed mainly on those receiving less than two-thirds of median adult ordinary-time earnings... We have also had regard in particular to those paid at the C10 rate, in recognition of past practice, on the C14 rate, which is equivalent to the minimum wage, and on those whose full-time equivalent wages put them in the bottom quintile of the wage distribution. Employees on award wages that are above these rates can be considered to be low paid in a different sense."¹

The proposed research will be limited in its application to the Annual Wage Review for two reasons. Firstly, as the Panel noted in its 2009-10 decision, there is no obvious and uncontroversial threshold that defines ‘low pay’, either in absolute or relative terms.

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Secondly, any such threshold will not take account of the type of industrial instrument that sets employees’ pay.

Using an income-based proxy for 'low pay' status will result in some employees who are not award-reliant being classified as low paid, and some award-reliant employees not being classified as low paid. This clearly has implications for the way the research is used to inform the Panel in future Reviews. We support the proposed research, but ask that the Research Branch ensure that its reports make it clear that the 'low paid' employees who are the subjects of the research are not necessarily the same 'low paid' employees directly affected by decisions of the Panel.

The ACTU’s remaining comments pertain to the final proposed project, the elasticity of hours worked with respect to changes in minimum wage rates. The Panel proposes that the Research Branch of FWA will instigate an open tender process to determine whether research into this topic is feasible.

Previous research on the economic effects of minimum wage increases, both in Australia and elsewhere, has yielded a wide range of estimates of the elasticity of employment with respect to minimum wage increases. While the proposed research concerns the elasticity of hours worked, as opposed to employment, it remains a highly contested topic and one on which studies with methodological differences are likely to yield appreciably different results.

There is a danger that a study commissioned by FWA on this matter will acquire an official imprimatur and be taken to be authoritative, despite the inherent sensitivity of such econometric analyses to the underlying modelling assumptions.

The ACTU believes that the Research Branch should not just investigate the feasibility of such research, but rather the feasibility of conducting research that answers this question using a methodological approach that is broadly accepted by all parties. The ACTU has doubts as to whether this is possible.

Yours sincerely

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