15 August 2011

Justice GM Giudice AO
President
Fair Work Australia
11 Exhibition Street
Melbourne VIC 3000

Dear Justice Giudice

Re. Annual Wage Review 2011-12 Research Proposal

We refer to the Minimum Wage Panel’s invitation in its *Annual Wage Review 2010-11 Decision*, for interested parties to lodge research proposals to assist the Panel in the *Annual Wage Review 2011-12*.

Ai Group proposes the following areas of research:

1. **The elasticity of hours worked with respect to changes in minimum wage rates**

   Too often the debate is couched in terms of the relationship between unemployment and wage levels. Sometimes the business reaction to a wage increase will be to reduce the hours of casual workers and/or reduce overtime hours.

2. **The impact of higher wages on labour force supply and demand**

   It is often argued that higher levels of minimum wages increase participation in paid work. However, Ai Group has argued that, other things being equal, an increase in wage rates would have both a supply response and a (negative) demand response with the net result of an increase in rates of unemployment or underemployment.

3. **The impact of minimum wages on training**

   There is potentially a trade-off between minimum wages and incentives for employers to offer and invest in employee training. The study would examine whether this effect is prevalent and assess the subsequent negative impacts on human capital accumulation and workplace productivity.
4. The effects of minimum wages on the reallocation of jobs across industries

Reallocation of labour across industries can promote labour productivity. Impediments to the efficient reallocation of resources can reduce these benefits. What role do minimum wages play in hindering job reallocation and potentially productivity?

5. The impact of minimum wage increases on wage movements for employees who receive over-award payments

In addition to those employers who are required to pass on Annual Wage Review increases because they pay minimum wage rates, there are a large number of employers who choose to pass on Annual Wage Review increases to employees who receive over-award payments. The economic impact of this practice is an important consideration for the Minimum Wage Panel given the legislative requirement to take into account the performance and competitiveness of the Australian economy.

Ai Group appreciates the opportunity to submit our views and we look forward to the discussion at the Conference anticipated by the Minimum Wage Panel.

Yours sincerely

Stephen Smith
DIRECTOR – NATIONAL WORKPLACE RELATIONS