

Overview

1. The inaugural wage review by the Australian Fair Pay Commission (the Commission) represents a new era of wage fixation at the federal level in Australia and a clear break with the adversarial approach of the past. The review is a major step forward in the process of wage determination and will be critical in building support for and confidence in the new arrangements.
2. The Commission's first determination will clearly have a significant bearing on the Australian economy and community more generally. In performing its functions the Commission will need to ensure that its decision contributes to the continued economic wellbeing of the Australian people.
3. The Commission's inaugural wage review takes place against a backdrop of continuing favourable economic conditions. Strong employment growth, low levels of inflation and strong business investment have contributed to a prosperous economic environment. However, the Australian Government recognises that high petrol prices are continuing to cause concerns for workers and Australians more generally. Any increase determined by the Commission should apply to workers from a date declared by the Commission.
4. In conducting its inaugural wage review and exercising its wage setting powers, the Commission will need to determine whether an increase, or range of increases in minimum wages is justified and, if so, to whom the increase/s should apply.
5. The Australian Government believes that there are strong grounds to justify the Commission awarding an appropriate level of increase in minimum wages for the low paid. In doing so, the Australian Government believes that the Commission should take into account the period that has elapsed since the 2005 Safety Net Adjustment.
6. The Australian Government further believes that the quantum and application of any increase/s in minimum wages is a matter for the Commission to determine.

Introduction

7. The WorkChoices amendments to the *Workplace Relations Act 1996* (WR Act) introduced a new way of determining minimum wages and assessing material

relevant to informing a decision regarding the appropriate level of minimum wages.

8. The changes to the WR Act build on past reforms and introduce further flexibilities to the workplace relations system. This is reflected in the principal object of the WR Act which states that the WR Act is to provide a framework for cooperative workplace relations which promotes the economic prosperity and welfare of the people of Australia.
9. The Australian Government recognises that some workers will rely solely on minimum wage-setting arrangements for some periods of their working lives. While the Government considers that wages and conditions should primarily be determined by agreement-making at the workplace level, the WR Act has in its principal object the provision of an economically sustainable safety net of minimum wages and conditions. The Commission has a vital role to play in this regard as wages are a key component of the Australian Fair Pay and Conditions Standard.
10. The WR Act sets out the Commission's wage setting powers. In particular, these are determining and/or adjusting:
 - (a) the thousands of classification wages drawn from federal and State awards, including the federal minimum wage (FMW - which is currently set at \$12.75 per hour) and basic piece rates of pay payable to employees;
 - (b) special FMWs for juniors, employees with a disability, trainees and apprentices;
 - (c) casual loadings; and
 - (d) new Australian Pay and Classification Scales (APCSs).
11. A clear intention of the Australian Government in introducing the reforms was to move away from the adversarial legalistic framework adjusting minimum wages through the settling of a dispute between industrial parties. Under the former arrangements the unemployed were not a direct party to the Australian Industrial Relations Commission's (AIRC's) annual Safety Net Review although they were arguably the group with most at risk in relation to changes in minimum wages. The Australian Government repeatedly raised the need to consider their employment needs when adjusting minimum wages. The

unemployed remained, however, peripheral to the industrial arguments which dominated the dispute between those representing those already in employment and employers. The new arrangements should address the insider-outsider (employed/unemployed) delineation in the setting of minimum wages.

12. The wage setting parameters that the Commission is required to have regard to in promoting the economic prosperity of the people of Australia reflect the shift from an adversarial system. Specifically, the Commission is to have regard to:
 - the capacity for the unemployed and the low paid to obtain and remain in employment;
 - employment and competitiveness across the economy;
 - providing a safety net for the low paid;
 - providing minimum wages for junior employees, employees to whom training arrangements apply and employees with a disability that ensure those employees are competitive in the labour market.

13. The emphasis of the WR Act on bargaining at the workplace level underpinned by an appropriate safety net of pay and conditions has been reinforced by the WorkChoices reforms.

14. The Australian Government also believes other interventions in the form of substantial transfers to low paid workers and other public goods need to be taken into account in considering the nature of the safety net role performed by minimum wages.

15. In the past, Safety Net Reviews set minimum wages in response to an annual claim lodged by unions. This prevented the adequate consideration of a longer term view of the role of minimum wages in the overall wages system and the cumulative effect of past changes to the level of minimum wages. Taking a longer term perspective to minimum wage setting is consistent with the principal object of the WR Act and the Commission's wage-setting parameters.

16. A further important change to the WR Act is the Commission's responsibility to review and set the minimum wages or APCs derived from pre-reform wage instruments such as federal and state awards. These minima range from payments at the FMW level up to higher paid workers and do not reflect a

coherent set of relativities within each APCS or across different APCSs. The rates are partly a result of numerous 'flat dollar' safety net decisions by state and federal industrial tribunals that have compressed relativities.

17. As such, the Commission should consider whether it accords any special status with respect to work value and claims based on work value. The Australian Government believes that wage relativities are best addressed through bargaining at the workplace level, where relevant local considerations can be more properly assessed.
18. The Award Review Taskforce's (ART) report on the rationalisation of wages and classification structures is intended to assist the Commission in making these decisions.

The macroeconomic environment

19. The sustained employment growth which Australia has experienced since the mid-1990s is a result of steady and sustained economic growth, reflecting sound macroeconomic policy settings and a long term programme of microeconomic reform which has made the economy much more adaptable and flexible.
20. The Australian economy is expected to strengthen in 2006-07, with the world economy continuing to provide significant impetus to Australia's economic growth. Strong global demand for commodities is boosting business investment, supporting growth in corporate profits and household incomes, and establishing conditions favourable to increasing exports. Growth of gross national expenditure is forecast to remain moderate, with growth in business investment offsetting slower growth in household consumption and a modest decline in dwelling investment. After a period of strength, employment growth is forecast to ease in 2006-07, and inflation is expected to remain moderate.
21. The Australian labour market continues to perform strongly. There remain, however, a number of vulnerable groups in the labour market, such as teenagers, lone parents and the long-term unemployed whose employment prospects are sensitive to increases in minimum wages.

Issues for consideration

Minimum wages and employment

22. A major consideration in reviewing and setting minimum wages is the impact of such decisions on employment. While employment may continue to grow as the economy grows, the employment dividend is limited by wage growth that is not supported by productivity improvements. Overwhelmingly, the weight of the evidence confirms that wage rises without offsetting corresponding productivity improvements can cost jobs.
23. While the strong performance of the labour market over the past decade is welcome, more needs to be done, particularly in light of Australia's ageing population. The unemployment rate despite being at a 30 year low can still be lowered further.
24. While the national employment picture is sound, there are still a small number of regions which are continuing to experience levels of unemployment higher than the national average. While all regions are affected by an increase in minimum wages to some degree, it is important that in setting minimum wages the Commission take into account the capacity of some regions to absorb the impact of an increase in minimum wages on employment.

Minimum wages and the Safety Net

25. The Australian Government assists the low paid in the form of various types of targeted transfer payments. Therefore, the wages system does not provide the sole support to low income households and consideration of the appropriate level of minimum wages should take into account the indirect relationships that exist between wages, the low paid and family income. The chief cause of poverty, or residing in a low income household, is not due to low pay, but rather joblessness.
26. Moreover, decisions regarding the setting of minimum wages should be mindful that improving the wages of the low paid in the short run can sometimes be at the expense of their longer term living standards. Low paid jobs are an important entry point for the unemployed and low skilled into the workforce and are also important stepping stones to higher paying jobs.
27. In general, low paid workers can expect their incomes to rise through the normal course of work by increasing their skill level through on-the-job training

and work experience to gain a promotion or a higher paying job. Moreover, the current level of minimum wages generally provides sufficient incentives for the unemployed to seek employment. However, as the Commission is aware, minimum wages need to be set at a level that ensures lower skilled workers and the unemployed are competitive in the labour market.

Minimum wages and productivity

28. The principal object of the WR Act explicitly recognises that workplace bargaining is the prime means to set wages and conditions. Workplace bargaining has led to sustainable improvements in wages over the last decade and a half as they have been supported by labour productivity improvements. The object of the Government's WorkChoices reforms is to ensure that this continues to be the case and that agreement making becomes even more widespread.

Other responsibilities of the Commission

The setting of special minimum wages

29. The Commission has particular functions in relation to minimum wages for juniors, apprentices, trainees and employees with a disability, including to:
- establish and adjust any special Federal Minimum Wages (special FMW); and
 - review and adjust the minimum wages for these employees that are contained in APCSSs.
30. The Commission is also empowered to fill all gaps in the coverage of minimum wages for apprentices, trainees and employees with a disability by determining special APCSSs. This is an important function because the employment of some types of apprentices, trainees and employees with a disability is currently likely to be impeded due to the absence of suitable minimum wages.

Minimum wages for juniors

31. If young people are to be competitive and get a start in the labour market, their minimum wages should reflect the fact that, on average, they do not have the skills, experience and maturity of adults. The current system of junior rates

reflects these factors. Unless the minimum wages of young people continue to be determined in this way, they will not be competitive with adults for employment opportunities. A large body of economic evidence and research supports the need for junior rates that appropriately take these factors into account.

32. The Commission is empowered to determine special FMWs for juniors. If the Commission decides to do so, it could determine a special FMW for all juniors, or only for juniors not currently protected by an APCS. However, the establishment of a special FMW for juniors already covered by an APCS could disrupt relativities with adult classifications. Furthermore, nearly all juniors are likely to be already protected by minimum wages in APCSs.
33. Until the rationalisation of classification wages has been determined, it would be desirable to apply any general increase in minimum wages in a way that does not disrupt relativities between junior and adult rates.

Minimum wages for apprentices and trainees

34. Apprenticeships and traineeships provide valuable training opportunities for employees and play an integral role in the Government's strategy for meeting the skills needs of industry.
35. It is important that apprentices and trainees be competitive in the labour market. If apprentices and trainees are to remain competitive, their wages should be set at a level which provides appropriate relativity to other employees with whom they will be competing for jobs. To achieve this, apprentice and trainee rates need to continue to take into account such factors as lesser skills and experience and the time they spend in structured training.
36. In the main, apprentice rates have previously been expressed as a percentage of the relevant tradesperson's rate and were automatically adjusted on a proportionate basis with any increase in the tradesperson's rate. However, preserved APCSs covering apprentices now contain only monetary amounts which will need to be adjusted separately.
37. Until the rationalisation of wage and classification structures has been undertaken, it is desirable that existing relativities between apprentice and trainee rates and other classification rates be maintained. This can be achieved by adjusting apprentice and trainee rates in the same manner and by the same

proportion as they were immediately before the commencement of the new system.

38. Relative increases in minimum wages for apprentices should not be considered without detailed evidence about the impact of the increases on the competitiveness of apprentices in the labour market. Furthermore, decisions about whether higher wages are necessary in some areas to attract more apprentices, or whether an adult apprentice should receive higher rates, can be and indeed have been made more appropriately through workplace bargaining.
39. The Australian Government supports and encourages the introduction of competency based wage progression at the enterprise level through the agreement-making process. It is hoped that through widespread development and trialling of options through workplace bargaining that robust models capable of gaining broad acceptance across industry might be produced. However, it is too early in the development of acceptable arrangements for competency based wage progression to consider centrally imposing particular models on industry.
40. Gaps in coverage of minimum wages for various classes of apprentice and trainee have been a serious impediment to the provision of training opportunities for young Australians. The Commission could consider establishing a number of special APCs to fill these gaps and encourage the further employment of these classes of apprentice and trainee.

Minimum wages for employees with a disability

41. The new provisions of the WR Act provide an opportunity to remove impediments to the employment of people with a disability. Employees who are unable to earn the full minimum wage for their job due to disability tend to be excluded from employment unless they can be paid pro-rata wages that appropriately reflect their lower productive capacity. The WR Act empowers the Commission to extend the coverage of current pro-rata wage arrangements so that all employees with a disability will be able to access these arrangements and be competitive in the labour market.
42. Currently there are two classes of employees with a disability that need to be considered:
 - those who obtain employment in open employment (the general workforce); and

- those who are employed in business services (formerly known as sheltered workshops).
43. The most successful method of pro-rating wages for employees with a disability in open employment has been the Supported Wage System (SWS). Since the SWS establishes minimum wages for employees that are proportionate to their productive capacity, it ensures that they are competitive in the labour market. However, wherever wage instruments do not make provision for the SWS, the employment of people with a disability is impeded.
44. The Commission may wish to consider making the SWS available in all areas of open employment to facilitate the employment of people with a disability. The Commission could achieve this objective by two interventions:
- Firstly, by determining a special APCS that will fill all gaps in SWS coverage in all existing APCSs.
 - Secondly, by determining a special FMW for employees with a disability that are not covered by an APCS (i.e. those that are APCS-free). This special FMW would provide access to the SWS, and would apply the full FMW to any employees with a disability who are able to earn the full minimum wage and who are therefore not employed under the SWS.
45. Historically, business services have not been regulated by state or federal workplace relations systems. However, the business services sector agreed in 2005 to introduce pro-rata award based wages for all employees of business services. The Australian Government supports this agreed position. At present, the agreement to introduce pro rata award wages is not yet fully implemented. The Commission could establish appropriate minimum wages for the sector by continuing to implement the agreement reached by the industry parties.

Conclusion

46. On balance, given the sound economic conditions and strong labour market, the Australian Government believes that there are grounds for the Commission to determine an appropriate level of increase in minimum wages for the low paid. In coming to its decision, the Commission should also take into account the period that has elapsed since the 2005 Safety Net Adjustment. The Australian Government further believes that the precise quantum and

application of any increase/s in minimum wages is a matter for the Commission to determine.