

Overview

Introduction

- 1.1 This submission builds upon the material presented in the Australian Government's submission to the Australian Fair Pay Commission's (the Commission) 2006 Minimum Wage Review.
- 1.2 This submission does not seek to replicate last year's submission. The Commission should consider this submission in conjunction with the arguments and information contained in the Government's 2006 submission.
- 1.3 Given the short time that has transpired since the effect of the Commission's 2006 decision, it is too soon to draw any firm conclusions regarding the employment and economic effects of that decision.

Issues for consideration

- 1.4 Once again, this submission focuses on issues surrounding the Commission's legislative parameters at section 23 of the *Workplace Relations Act 1996* (the WR Act). These parameters are:
 - a. the capacity for the unemployed and the low paid to obtain and remain in employment;
 - b. employment and competitiveness across the economy;
 - c. providing a safety net for the low paid;
 - d. 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.
- 1.5 As the Commission intends dealing with minimum wage issues relating to juniors and apprentices/trainees in separate minimum wage reviews, this submission does not focus on the labour market competitiveness of these groups.

Employment and competitiveness across the economy

- 1.6 Chapter 3 of this submission presents an update of the macroeconomic conditions and forecasts and labour market developments. This draws on the latest forecasts contained in the Mid Year Economic and Fiscal Outlook (MYEFO), released on 20 December 2006.
- 1.7 The sustained economic and employment growth that has been a hallmark of this Government's term in office, continues.
- 1.8 While economic growth has moderated somewhat, growth is likely to remain solid, particularly if drought conditions ease.
- 1.9 Employment growth has been strong but may moderate in the coming year. The unemployment rate remains close to 30-year lows. Further Welfare to Work reforms will commence later this year. The Government expects that this will increase labour force participation which is likely to result in a temporary rise in the unemployment rate as more people look for work.
- 1.10 Headline inflation is currently running at 3.3 per cent but is expected to moderate over the coming quarters. Wages growth remains solid – both in nominal and real terms. Strong wage growth remains broadly contained to those sectors experiencing strong labour demand, such as Mining and Construction.

The unemployed and low paid to obtain and remain in employment

- 1.11 The Commission stated in its 2006 decision that it “considers that there is a negative relationship between the level of minimum wage increases and employment in Australia. The basis for any disagreement seems to involve the magnitude of the relationship rather than its existence”.¹ This is an important finding.
- 1.12 In Chapter 4, the Government presents the findings of a large metastudy by David Neumark and William Wascher released since the due date for 2006 Minimum Wage Review submissions. The study concludes that the vast majority of international studies show a negative relationship between minimum wage increases and employment. Neumark and

¹ Australian Fair Pay Commission, *Wage Setting Decision and Reasons for Decision*, 2006, page 73.

Wascher make a number of recommendations for research that would inform the minimum wage debate.

- 1.13 As noted in this submission, labour market conditions remain strong. However, a number of vulnerable groups continue to experience labour market disadvantage.
- 1.14 Long-term unemployment is at a record low. However, 77,600 Australians remain long-term unemployed. Furthermore, there remain 585,200 children who live in a family where no parent is employed. The labour market performance of some regions continues to lag the rest of the country.

A safety net for the low paid

- 1.15 In its 2006 Minimum Wage Review decision, the Commission found “the research [on the low paid] useful in updating knowledge about the groups most affected by its decisions, especially vulnerable groups who are more likely to be Australian Pay and Classification Scale (Pay Scale)-reliant”.²
- 1.16 Chapters 5 and 6 of this submission use the latest data from the Household and Labour Dynamics in Australia (HILDA) survey to examine the characteristics and incidence of low paid employment and the wage and employment transitions of low paid workers. For the purpose of analysis in this submission, the Government uses a common international definition of low paid workers - those earning less than two-thirds of median earnings.
- 1.17 The Government maintains that the best way out of poverty is paid employment. The Government is rightly proud of its record of more jobs and higher wages.
- 1.18 The research contained in this submission confirms that low paid workers are a diverse group. Well over a half of low paid workers in 2001 progressed to higher paying jobs by 2004. A high proportion of low paid workers also moved well away from low pay.
- 1.19 The vast majority of low paid workers also remain in employment in successive years. HILDA data confirm that more than 80 per cent of low paid workers were still in employment three years later. This highlights

² Ibid, page 69.

that low paid work can provide valuable employment experience that provides the platform for ongoing higher paid work in the future.

- 1.20 There is, however, a minority of individuals who remain in low paid employment.
- 1.21 A decision to preserve the living standards of the low paid needs to consider the valuable opportunity that low paid work provides - particularly to those less skilled and less educated people who are on the fringes of the labour market.

Post-budget submission

- 1.22 There is a considerable amount of economic data and information due for release over the coming months. For instance, the Treasurer is due to hand down the Australian Government's 2007-08 Budget on 8 May 2007.
- 1.23 To ensure the Commission has the most up-to-date economic information available, the Government suggests that the Commission consider receiving post-Budget submissions prior to handing down its 2007 Minimum Wage Decision.
- 1.24 Any post-Budget submission from the Government would also contain an analysis of unpublished data from the ABS *Employee Earnings and Hours* survey which the Government is due to receive from the ABS over the coming weeks. These data would allow the Commission to have the benefit of more information regarding Pay Scale-reliant workers.

Conclusion

- 1.25 The Australian economy and labour market continue to perform strongly. Jobs growth is strong and the unemployment rate is at an historically low level. Under these circumstances, the Government believes that, on balance, the low paid should receive an appropriate increase in minimum wages.