



## **SETTING MINIMUM WAGES IN AUSTRALIA—2007 AND BEYOND**

**Address to the National Press Club**

**By Professor Ian Harper  
Chair, Australian Fair Pay Commission  
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**[Check against delivery]**

Australia has a new system for setting minimum wages in the federal jurisdiction.

For the first time, those who are affected by minimum wage decisions—workers, their employers and the unemployed—can have a direct say in what minimum wages should be.

We have moved from an adversarial system to a consultative one, supplemented by independent research and analysis.

The move away from a courtroom setting with its attendant rules and procedures is the most significant change in the way the Australian Fair Pay Commission operates compared with its predecessors.

A new institution for setting minimum wages with a fresh approach is suited to our changing times.

More than ever, we need to understand the impact of globalising markets, skill-biased technical change and an ageing workforce on Australia's future economic prosperity.

The setting of minimum wages, including the pay and classification scales, has been added to the mix of policy instruments that focus on the national economy.

The legislative charge to the Australian Fair Pay Commission is ‘to promote the economic prosperity of the people of Australia’. This places the Commission among a small number of public agencies with responsibility for implementing national economic policy.

Another of these bodies, the Reserve Bank of Australia, sets the cash interest rate to promote national economic prosperity, among other objectives.

Like the Reserve Bank, the Australian Fair Pay Commission has only one economic lever to pull. In our case, it is the level of minimum wages.

Obviously, there’s a good deal more to economic prosperity than the level of minimum wages—or the level of interest rates, for that matter.

But, like interest rates, minimum wages influence important decisions in our economy and can affect employment conditions (especially for the low paid), the rate of inflation and ultimately the competitiveness of the Australian economy.

Workforce participation is one of the key drivers of our future economic prosperity. As our population ages, Australia’s future economic growth and living standards will depend upon an adequate supply of labour.

Minimum wages can affect labour supply as well as labour demand. In other words, minimum wages, including classification minimum wages,

can affect a worker's decision to take up employment as well as an employer's decision to offer it.

Having a job is also widely recognised as a guard against poverty and disadvantage. Minimum wages are therefore a component, albeit just one component, of the social safety net.

While acknowledging the role of minimum wages in securing the social safety net, I must point out that the Australian Fair Pay Commission is not constituted primarily as an anti-poverty commission.

I say this not to downplay the importance of minimum wages in providing a safety net for low-paid Australians but to acknowledge that minimum wages can only ever be a bit-player in this regard.

They are not targeted narrowly enough to address genuine disadvantage. For example, significant numbers of low-paid workers live in high-income households.

An effective social safety net requires, in addition, targeted assistance provided through the income tax and social security systems.

Setting minimum wages at appropriate levels affects *both* the potential for economic prosperity *and* people's capacity to share in rising community living standards.

Placing minimum wage setting among the other instruments of economic policy establishes the context within which the Australian Fair Pay Commission operates.

This is a new economic institution for our country.

As inaugural Chair of this new institution, I see my task, first and foremost, as establishing the Australian Fair Pay Commission on a firm footing. My focus is to set in place the processes and procedures and, most importantly, the culture and values, which will guide the Commission into the future.

While the Commission itself is new, one thing that hasn't changed is the independence of minimum wage setting from the government of the day. There has always been an independent umpire setting and adjusting minimum wages in Australia.

This is a strength of our system and the Australian Fair Pay Commission continues in this tradition.

When I met last year with the Chair of the British Low Pay Commission, he was surprised to learn that decisions of the Australian Fair Pay Commission are not, like those of his Commission, mere recommendations to government.

Our decisions are legal instruments in their own right. They bind the federal government along with all other parties.

The Australian Fair Pay Commission values its independence. It frees us to focus on promoting economic prosperity over the longer term—to take the long-term view of the national economy and wages.

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You will be aware that the Commission celebrated its first birthday in March this year.

I think it would be fair to say that we hit the ground running.

Just seven months from its inception, the Commission brought down its first decision on 26 October last year. This followed a busy round of consultations and public meetings, digesting more than 180 submissions, and analysing the results of several major pieces of commissioned research.

Submissions, consultations and research—these are the hallmarks of the new approach to minimum wage setting. In an increasingly complex and fast-changing world, the Commission needs input from every quarter to be fully informed about what’s happening on the ground.

It must also be prepared to probe deeper and ask the hard questions. This is where the Commission’s research capability is invaluable.

Independent research undertaken or commissioned by the wage-setting authority is a completely new feature of our system. A judicial or arbitral body is precluded from considering evidence apart from that brought before it by parties to a dispute.

As a non-judicial authority, the Australian Fair Pay Commission can inform itself independently on questions of fact or interpretation which arise in its deliberations. This knowledge adds to the information brought before the Commission through submissions and consultations.

The Commission can also establish, as we have done, a forward agenda of research, so that evidence accumulates and allows decisions to be better informed as our work progresses.

The Commission is committed to monitoring the results of its decisions. We expect to learn from experience.

To this end, we have commissioned two research projects specifically to assist in developing our monitoring strategy. These research projects will identify relevant existing data and how these should be used to monitor wage decisions in light of the Commission's legislative wage-setting parameters.

The monitoring strategy allows us to analyse the impact of our decisions at an aggregate as well as an industry, regional and (in some cases) workplace level. It provides us with tools to identify emerging trends in employment and wages.

The two projects we have commissioned consider the impact of our decisions from differing perspectives. One considers the effect on individual workers and unemployed people as well as a range of household types. It takes a decidedly social focus.

The other adopts a macroeconomic approach to changes in labour supply and demand, considering the impact of the Commission's decisions on the aggregate economy, including employment, unemployment, inflation, wages growth and productivity.

While the Commission waits for this specialised research to produce results, we have maintained a watching brief on aggregate economic indicators.

We note that both inflation and unemployment have fallen since December last year, and the Wage Price Index did not see the anticipated spike in the March quarter following our decision.

Furthermore, the labour force participation rate has increased and 80,000 more workers have entered the labour force since December.

By these measures at least, it seems that our 2006 decision, in addition to delivering real wage increases for the lowest paid, produced no adverse economic outcomes at the aggregate level.

Engagement with stakeholders across a broad front builds trust in a new institution. Openness and transparency encourage people to share information and to contribute constructively to the work of the Commission.

A particularly pleasing example is our Disability Roundtable. This brings together representatives of workers with a disability, their employers, unions and government to discuss issues specifically related to disability wages.

As part of its 2006 Wage-Setting Decision, the Commission announced changes to the Supported Wage System designed to encourage greater access by workers with a disability and their employers, and to fill gaps in minimum-wage coverage for workers with a disability.

These changes were discussed and agreed with members of the Disability Roundtable prior to the publication of the Commission's first decision.

The Commission is proud of this on-going work as it demonstrates how a cooperative and non-adversarial process involving key stakeholders can achieve worthwhile results. Our only disappointment is that the work has so far passed largely unnoticed by the mainstream media and the wider community.

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On the day our first decision took effect, 1 December 2006, we called for submissions to our second minimum wage review. This second decision will be announced publicly in about a fortnight's time.

Some observers were surprised that the Commission would embark on its second wage review so soon after the first. The decision was deliberate and intended to give maximum scope for people to feed back to the Commission their reactions to our first decision.

As I have said already, this is a new institution and a new approach to minimum wage setting. Perhaps especially because it comes after nearly a century of wage setting under a different system, the Commission was keen to hear as soon as possible what people thought about our first determination.

In the past month or so, the Commission has commenced the task of creating and publishing new Pay Scales.

In its May budget, the federal government allocated \$5 million to the Commission over three years to undertake this task.

The creation of new Pay Scales will establish legally-binding instruments that provide employers and employees with a clear understanding of minimum rates of pay across the many different pay classifications.

We have met recently with key stakeholder organisations—including the ACTU, ACCI, the Ai Group, and the Australian Government—to determine the most effective and efficient way to tackle this project.

We have asked these organisations to identify the most important Pay Scales and the ones they can agree on most readily.

The creation of Pay Scales raises a number of complex issues that will take time to resolve. We anticipate that some Pay Scales will not be straightforward and may require the Commission to adjudicate disagreements between the parties.

The Commission is committed to resolving issues as they arise in a transparent and consultative manner. Having jumped the initial hurdles, we anticipate the task will get easier as we go along and will pick up pace with time.

A related but different challenge is the rationalisation of Pay Scales. The Commission has benefited from a comprehensive report on this topic written by Matthew O'Callaghan. This report is published on the Commission's website.

There is no hiding the fact that rationalising the Pay Scales is a complex and demanding task. Consider for a moment what is involved. There are around 4,000 separate Pay Scales and about 105,000 different classifications or pay points within these scales.

Admittedly, many classifications are simply redundant—but the fact remains that we have inherited from the old award system a complex and confusing array of Pay Scales.

What principles should guide the Commission in rationalising Pay Scales? How important are these scales in securing economic prosperity for the Australian people? What role should rationalised Pay Scales play in a modern, flexible labour market?

We need to get this right.

We need to get the facts; find out what the issues and options are; involve stakeholders in a meaningful dialogue; and reach a decision that is fair, balanced and reasoned.

In September this year, we will publish an Issues Paper outlining the challenges involved in Pay Scale rationalisation and seek feedback from interested parties.

The Commission has decided to incorporate the planned review of junior wages (as well as wages for trainees and apprentices) within the broader Pay Scale rationalisation process.

Given that many Pay Scales contain provisions relating to payment arrangements for juniors, trainees and apprentices, it makes sense for the Commission to conduct the various reviews concurrently.

Given the complexity and importance of the task, we will be looking for cooperation among parties who have been historical adversaries in such matters. This will be a test of the Commission's collaborative approach.

The Commission is determined to make the most of this opportunity to re-consider Australia's framework of classification wages. It places us in the foreground of a national economic debate.

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As I've mentioned already, the Commission announced its first wage-setting decision in October 2006. The decision was generally well received—indeed, more than a few people seemed quite surprised by the outcome.

We based our first decision on a number of factors.

We took into account the 18-month period since the previous adjustment of the Federal Minimum Wage; the continued strong performance of the economy (even if not uniform across the nation); the strength of the labour market; movements in consumer prices; and the potential impact of our decision on unemployment and inflation.

Overall we sought to balance the sensitivity of low-paid employment to minimum wage movements with the incentives for people to seek and remain in employment.

Submissions to the Commission's second minimum wage review closed in April this year. We received 73 responses from employee and employer organisations, community groups, state and federal governments, academics, individuals and businesses.

Everyone has the opportunity to make written submissions to the Commission, and all submissions are posted on our website (unless confidentiality is requested).

Through our national submissions campaign, we sent information to some 7,000 community locations around the country including local libraries, Councils and job network providers, to inform people of our work and to encourage their participation in the submissions process.

For the 2007 wage review, we developed an online submission form and trialed internet-based discussion groups, through national bulletin boards. We found this to be an especially effective way to access young people.

We also provide information in the major community languages to inform the public of our work and how we operate.

In the lead-up to our 2006 decision, we met with more than 200 stakeholder organisations representing the views of employers, employees, community groups and government.

This year we met with key stakeholders to discuss their submissions to the 2007 wage review and to seek their feedback on the impact of our 2006 decision.

Commissioners have visited various sites around the country, meeting with people and talking with them about employment and training issues.

We have established a Business Consultative Group to hear first-hand about the impact of our first decision on small to medium-size employers in metropolitan and regional Victoria. The Commission plans to run similar sessions in other states in future.

No Australian is precluded from having a say about federal minimum wages.

We have travelled across Australia to talk about our role and the wage-setting process. Last year we held community meetings in metropolitan and regional centres from Albany to Traralgon, from Launceston to Rockhampton, and encouraged people to talk directly with the Commission. We will continue this valuable work in 2007 and beyond.

During February and March this year, we held 24 focus group discussions to hear directly the views of those most affected by our decisions—the low paid, the unemployed and employers of the low paid. We also spoke to juniors, indigenous Australians and people from culturally and linguistically diverse backgrounds.

The findings from our focus-group research will be released at the time of the 2007 decision but let me give you a brief preview.

The issues that people told us about varied across the nation. We heard about differences in job opportunities, the skills that employers are seeking, and the wages being paid across states and regions. There are also variations in localised factors such as the cost of housing and access to public transport.

The groups revealed how the Commission's decisions affect the national economy and people's quality of life. Their input helps us tap into emerging trends and issues in the regions, along with the challenges being faced by different groups in our community.

For example, in Perth we learned from employers in the aged care and child care sectors that they are struggling to attract employees due to the knock-on effect of high wages being paid in the mining sector.

We met seasonal workers in Coffs Harbour, who told us about the difficulties of moving between employment and welfare, of budgeting when one's income is inconsistent, and moving from region to region to follow employment opportunities.

In Bendigo and Adelaide, we met with school and university students who were in low-paid jobs. For them, low-paid work provided employment experience, and the wages they earned financed leisure activities or were put aside for the future.

On the other hand, in Brisbane we spoke to low-paid workers aged over 50 and found a very different picture. Most were dependent on low wages for their survival and were fearful of the consequences of not

working. This group said the December 2006 pay increase made a significant difference to the quality of their lives.

In Burnie, Tasmania, we spoke to unemployed people of varying ages and backgrounds. Some were young mothers trying to find flexible employment and childcare so they could re-enter the workforce; others had moved in and out of employment from one low-skilled casual job to the next.

The group also included long-term unemployed, some of whom were suffering from depression or anxiety. What they had in common was that they wanted to be in the workforce but found barriers related to their age, employment history, health or the lack of childcare.

Talking to people about their circumstances and hearing at first hand how minimum wages affect their lives is an enlightening and grounding experience.

One striking theme that emerges from the focus groups is that low-paid workers are not a homogenous group. Low wages are earned by people across a very broad spectrum of our society.

How a single 18-year-old student living at home and working casually feels about life on low wages is generally quite different from a person who is self-supporting, perhaps with dependant children, and for whom low wages are the sole source of income.

Some people work in low-wage employment because they lack the skills or training to move into higher-paid positions. For others, however, life on low wages, while financially challenging, is a choice they make, given other priorities in their lives.

We found different views across the regions. People living in areas brimming with employment opportunities have quite high wage-bargaining power and employment flexibility, whereas those in struggling locations may not.

We learned that many unemployed feel that low wages do not provide enough incentive for them to seek work due to the impact on their benefits and in some cases on their lifestyle. But we also found that, for a range of social and psychological reasons, the majority said they preferred employment to the alternative. This is especially true if they can see a pathway through low-paid work to a steady job paying good wages.

People are having their say about minimum wages ... and the Commission is listening.

I mentioned earlier the high importance the Commission places on its research agenda.

We have established an expert committee to advise us on the appropriate direction and approach of our research. The committee includes representatives from peak employer and employee organisations, community groups and governments (including the states).

We are committed to evidence-based decision-making and will continue to commission research from independent experts to inform our decisions. All of the commissioned research is published on our website.

This year to date we have commissioned two projects.

One is to develop the monitoring strategy to which I also referred earlier.

The other is looking into the economic and social circumstances of young Australians aged 15 to 20, in anticipation of the Commission's enquiry into junior wages later this year.

Through our program of commissioned research, we are building a bank of knowledge on the Australian labour market and the minimum wage. The Commission will continue to draw on this knowledge as our work progresses.

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Now to the future ...

How will I know whether or not I have succeeded as the Commission's inaugural Chair when my term concludes in around three years' time?

The first marker of success is that the Commission will be seen by the Australian community to be focussed on and responsive to the needs of unemployed and low-paid Australians. It will be seen as approachable and accessible in the way it goes about its business.

Having established this as a primary aim, I do not underestimate the challenge of creating an environment in which Australians feel comfortable about approaching the Commission and communicating with it.

It is too easy to assume that our audience is educated and at ease with formal processes. We must continue to explore ways of capturing the views of those most affected by our decisions, regardless of their education, background and resources.

I would hope that the Commission is respected and recognised both in Australia and internationally for the quality of its work.

I would want the Commission to be seen as a leading authority on minimum wages and labour markets in Australia, a centre of excellence which attracts high quality staff and is renowned for the quality of its research, both commissioned and in-house.

Our work will be informed by a range of social and economic research and consultative processes that provide the Commission with knowledge of what is actually happening at both enterprise and individual level, and across states and regions.

I would like to have established effective working relationships with our many stakeholders and have entrenched a collaborative and non-adversarial approach to minimum wage setting. I would also hope that we have earned a reputation for independence in our thinking and in our decision-making.

In sum, I would hope that the Commission will enjoy the respect and standing of an expert, independent economic agency like the Reserve Bank of Australia.

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Setting minimum wages is a singularly important task that goes to the heart of the kind of economy and society we want for Australia. Choosing the right level for minimum wages influences our chances for enjoying economic prosperity and engaging as many of our citizens as possible in that prosperity.

In many respects, a society is to be judged by the way it treats its least advantaged citizens. I would like to think that the Australian Fair Pay Commission will contribute towards a fair go for all members of our community but most especially unemployed and low-paid Australians.

We will do this if we keep our eyes fixed on the goal of promoting economic prosperity—in other words, setting minimum wages at levels which encourage employment and participation in the workforce while contributing towards a fair and realistic safety net for the low paid.

Setting minimum wages is very much a question of balancing a range of often competing priorities, without the Commission being able to influence all or any of them directly.

The challenge is profound and the stakes are high but I believe the Commission is well equipped to carry out this important task for Australia.

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