



SPEECH – 2009 MINIMUM WAGE DECISION 7 July 2009

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Ladies and gentlemen, good afternoon and welcome to today's announcement of the Australian Fair Pay Commission's fourth and final general Wage-Setting Decision.

This year's decision has been a most difficult one for the Commission. Conditions in the Australian labour market have deteriorated markedly since July 2008 when the Commission announced last year's decision.

Australia is enduring a sharp economic downturn in the wake of a global financial crisis. The number of Australians in work is falling and unemployment is rising.

These are challenging times for the economy and for the Australian labour market.

In the current environment, the ability of employers to offer sufficient work has been curtailed and there is a heightened risk that an increase in minimum wages would further reduce employment and working hours.

In the Commission's view, caution is warranted at this time in the setting of minimum wages.

Each of the Commission's decisions needs to be seen in the context of the economic and social circumstances in which it is made. This year's decision is no different.

The Commission's remit requires that we have regard to a range of criteria including;

- the capacity for the unemployed and low paid to obtain and remain in employment;
- employment and competitiveness across the economy; and
- providing a safety net for the low paid.

In its 2008 decision, the Commission was especially mindful of the financial pressures on low-income households during a time of increasing consumer prices and rising interest rates. The labour market and the economy were performing well and unemployment was at near record lows.

The Commission considered that the increase in minimum wages awarded at that time would have only a relatively minor impact on employment and unemployment for low-paid workers, given the economic circumstances that then existed.

The 2009 decision is set in a very different economic climate. There is greater potential for this decision to adversely affect employment and unemployment. However, the Commission remains concerned about the need to provide a safety net for the low paid.

Lower inflation, the Australian Government's changes to the tax and transfer system and the stimulus packages have together delivered real increases in disposable income for most low-paid households.

This year's wage-setting decision is primarily intended to protect jobs ... and importantly to support a stronger recovery in employment as the economy picks up.

The Commission has therefore decided to leave Australia's Federal Minimum Wage unchanged at \$543.78 per week. The Australian Pay and Classification Scales will also remain unchanged at their present levels throughout 2009.

The Commission believes this decision will help minimise the effect of the downturn on employment and particularly its impact on the most vulnerable workers.

In making this year's general Wage-Setting Decision, the Commission has given first priority to saving jobs and keeping Australia's unemployment rate as low as possible. The Commission's chief concern at this time is that minimum wages not exacerbate the forecast increase in unemployment.

Our research shows that many people who become unemployed during a downturn do not re-enter paid employment. They go to the back of the queue and become long-term unemployed or leave the labour force altogether.

The Commission has also heard directly from unemployed and low-paid Australians just how hard it is to get back into employment once you've lost your job and how devastating unemployment can be for individuals and their families.

For most people an adequate living standard depends on having sufficient paid work. Unemployment corrodes economic prosperity and is a primary source of poverty and social exclusion in our communities.

Our decision to leave minimum wages unchanged at this time is not taken lightly. As I said this has been a most difficult decision for the Commission.

Each of the Commission's previous decisions was set against a very different backdrop. On each occasion, the economy was robust with evidence of strong growth and rising demand for labour. Each minimum wage increase was readily absorbed and any negative employment effect was short-lived.

The Commission is very concerned that this year's decision is set against an entirely different economic backdrop. Wage growth is slowing, and job opportunities are diminishing. There is a real risk that a minimum wage increase will have a magnified employment effect in this environment.

This year the Commission has focused on the need to encourage employers of Australia's low-paid workers to keep them on in these difficult times.

Our research finds that many low paid Australians work in small and medium sized businesses in industries that operate with low margins.

These businesses employ shop assistants, cafe and restaurant workers, cleaners, labourers, and office staff.

And it's their jobs that are most at risk from higher wages and lower aggregate demand.

The Commission sets **minimum** wages. If employers have the capacity to pay higher than minimum wages then they **can** and **should** do so.

Our concern is that a blanket increase in minimum wages, while affordable to some businesses, may not be sustainable for all businesses and will therefore result in lower employment and even in some business closures.

While the focus in this Decision is firmly on preserving jobs for Australia's lowest paid workers, the Commission has not overlooked its obligation "to provide a safety net for the low paid".

Inflation is slowing as the downturn takes hold and is now lower than the Reserve Bank's target range. Yet prices are still rising, albeit slowly, reducing purchasing power and putting pressure on household disposable income.

The Commission maintains the position that the safety net is provided by a combination of minimum wages and the tax/transfer system, with the Australian Government responsible for the latter.

The Government's changes to the tax and transfer system and its recent fiscal stimulus packages have delivered real increases to disposable income for most households. Australia's lowest income households have benefited significantly from these policy measures.

All categories of low-income households modeled by the Commission now have higher real disposable incomes than in July 2008. This is due to the combination of the 2008 increase in minimum wages and changes to the tax/transfer system.

Since the Commission's first wage-setting decision in 2006, this mix of minimum wage increases and tax and transfer changes has resulted in the disposable incomes of low-paid Australians increasing by one-and-a-half to nearly twice the rate of inflation.

Looking at minimum wages alone, each of the Commission's previous three decisions has delivered real wage increases to Australia's lowest paid workers.

As I said at the outset, each minimum wage decision needs to be seen in context.

The Commission accepts that the economy may recover sooner than expected and that unemployment may not rise as high as currently forecast.

Some say they see the “green shoots” of a recovery already; but even these observers agree that unemployment will rise further before it begins to fall.

We note, for example, that the Reserve Bank, the Australian Treasury, the OECD and the IMF all believe unemployment in Australia will rise further over the next 12-18 months.

On balance, the Commission believes the timing of the upturn is uncertain and in these circumstances we have opted for caution.

This is not the time to risk the jobs of the low paid through minimum wage increases.

In previous economic cycles, while the downturn itself may have been short, the recovery in employment was weak. It has typically taken a long time for unemployment to return to its initial low rate.

A lesson from this experience is that decision-makers should act early to limit the increase in unemployment and to support employment.

This is the context for the 2009 minimum wage decision.

Finally the Commission notes that its successor, Fair Work Australia, will have an opportunity six months from now, to again review minimum wages in Australia.

Hopefully the economic picture will be clearer by then and the economy in a better position to sustain an increase in minimum wages.

I conclude by thanking my colleagues on the Commission for their hard work and the commitment they have given to the important task of setting Australia's minimum wages over the past three years.

I would also like to thank the hundreds of individuals and organisations who have taken the time to prepare submissions to this wage review and to the three previous reviews, and to acknowledge those Australians in every state and territory who have participated in our extensive consultations since 2006.

The Commission has established a bank of research knowledge relating to minimum wages in the Australian context and I would like to thank our research partners for their high quality work and insights.

Finally, I would like to thank the Secretariat staff for their professionalism and the support they have given me and my colleagues during the life of the Commission.

I am happy to take questions.

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