



## **Australian Fair Pay Commission**

### **Reasons for Decision**

July 2008

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### 1. Promoting the economic prosperity of the people of Australia

The *Workplace Relations Act 1996* (WR Act) assigns the Australian Fair Pay Commission (Commission) an overarching objective 'to promote the economic prosperity of the people of Australia'. To achieve this objective, the Commission must have regard to the following criteria in performing its wage-setting function:

- the capacity of 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; and
- providing minimum wages for junior employees, employees to whom training arrangements apply and employees with disabilities that ensure those employees are competitive in the labour market.

As in previous years, the Commission invited submissions to its 2008 Minimum Wage Review to address some or all of the criteria (see Appendix A). In addition, the criteria guided the Commission's consultations with stakeholders, and its internal and external research programs.

Views were sought directly through submissions and a range of consultations, including focus groups, online bulletin boards and meetings with key stakeholders in each state and territory. The Commission also drew on the available data and research literature in considering the impact of its previous decisions.

The Commission restates its previously expressed view that promoting the economic prosperity of the people of Australia is a very broad objective, and this is reflected in the range of interpretations offered to the Commission through submissions and consultations. A number of submissions equate 'economic prosperity' with the provision of a safety net. For example:

'The objective of the AFPC in performing its wage-setting function is to promote the economic prosperity of the people of Australia. This requirement must be interpreted to include ensuring that the lowest paid workers in Australia do not get left behind in terms of their ability to participate in Australia's prosperity. This is supported by the specific requirement of the AFPC to have regard to "providing a safety net for the low paid".<sup>1</sup>

'Compared with the 2006 review, the 2007 process highlighted that the AFPC has broadened the scope when interpreting the primary objective of making economically responsible wage decisions that 'promote the economic prosperity of the people of Australia'. Despite these moves, the interpretation of this objective still falls short of the crucial element, which is to ensure that a safety net of *fair minimum wages* and conditions of employment is established and maintained.<sup>2</sup>

The Commission recognises that minimum wages form part of the safety net for low-paid people and help to sustain their living standards. The Commission does not, however, accept the exclusive alignment implied in these submissions between the prosperity objective and the provision of an adequate safety net. Providing a safety net for the low paid is one of four criteria which the Commission must, by law, take into account when setting minimum wages to promote economic prosperity.

<sup>1</sup> Queensland Government, *Queensland Government Submission, Australian Fair Pay Commission, 2008 Wage Review*, 14 March 2008, p. 34, para. 133.

<sup>2</sup> Victorian Government, *The Victorian Government's submission to the Australian Fair Pay Commission*, 14 March 2008, pp. 5-6.

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Instead, the Commission understands its role as balancing a desire for minimum wages to promote employment opportunities for unemployed and low-paid Australians with the need for minimum wages to play their part in maintaining a safety net. The Commission therefore interprets economic prosperity broadly rather than narrowly. An economically prosperous Australia is one where those seeking work have ample opportunity to participate in employment and where a safety net mitigates hardship.

In current circumstances, the Commission has taken care to ensure that minimum wage increases do not exacerbate inflation. Both potential consequences of the Commission's Decision – higher inflation and lower employment growth – are likely to impact disproportionately on unemployed and low-paid Australians.

The Commission acknowledges that minimum wages are only one of the factors that influence the prosperity of Australians, including those who are unemployed or low-paid, and that it is responsible only for adjusting minimum and classification wages for employees within the federal jurisdiction.

### 1.1. Monitoring the effects of Commission decisions

The Commission has implemented a robust and transparent process to monitor the effects of its decisions. This process, drawn from recommendations of two research reports commissioned in 2007,<sup>3</sup> relies on detailed analyses of relevant microeconomic and macroeconomic data. Given that almost two years of data have accumulated since the Commission's first minimum wage Decision, the range of insights provided by the monitoring is expanding rapidly.

Some of the main insights have been collated in the Commission's *Economic and Social Indicators - Monitoring Report*.<sup>4</sup> The first issue of that report was released on 25 February 2008. The report will be published twice yearly, with the next issue due in September 2008.

Publication of the monitoring report ensures that those with an interest in minimum wages have access to the same data and analysis which inform the deliberations of the Commission. Feedback from a range of stakeholders – including through the Commission's Research Advisory Committee – indicates that the report has been useful in informing submissions to the 2008 Minimum Wage Review.

The Commission is committed to strengthening and refining its monitoring capability, and will seek out all available expertise and information sources in order to fill any gaps remaining in the coverage and scope of its monitoring report. It will do likewise in terms of its broader research activities, through continuing dialogue with the stakeholder community, and through the convening of a Minimum Wage Research Forum in October 2008.

The strength of the Commission's research engagement is also demonstrated through the recent launch of a research report series. In May 2008, the Commission published the full range of commissioned research received since it began operations.

<sup>3</sup> J Healy and S Richardson, *A Strategy for Monitoring the Micro-Economic and Social Impacts of the Australian Fair Pay Commission*, National Institute of Labour Studies, report commissioned by AFPC, 2007; and Access Economics, *Monitoring Strategy for Wage-Setting Decisions*, report commissioned by AFPC, 2007.

<sup>4</sup> AFPC, *Economic and Social Indicators - Monitoring Report*, Issue 01, Commonwealth of Australia, July to December 2007.

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In the interest of fostering broad discussion, the Commission will release research reports as soon as practicable after they are finalised. The latest report in the research series examines the economic and social circumstances of young Australians.<sup>5</sup>

This third general Wage-Setting Decision, like its predecessors, is informed by the research evidence available to the Commission at the time of writing. In addition, the Commission considers a range of information sources to assist in determining the impact of its decisions, including the Australian Government Budget, Reserve Bank of Australia statements and recent business surveys.



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<sup>5</sup> P Flatau, M Dockery and T Stromback, *The Economic and Social Circumstances of Australian Young People Aged 15-20 Years*, Centre for Labour Market Research, report commissioned by AFPC, 2007.