



Tuesday, 7 July 2009

Wage-Setting Decision designed to protect jobs

The Australian Fair Pay Commission today announced its fourth and final minimum wage-setting decision.

In a decision intended to protect jobs and to support a stronger recovery in employment as the economy picks up, the Commission has 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.

Commission Chairman, Professor Ian Harper, said this year's decision has been a most difficult one.

"These are uncertain times for the economy and for the Australian labour market, and in the Commission's view caution is warranted at this time in the setting of minimum wages."

He said: "This is not the time to risk the jobs of low paid Australians by increasing minimum wages."

The Commission notes that in previous economic downturns the recovery in employment was weak and unemployment took a long time to return to its initial low rate.

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

"While some commentators are pointing to the 'green shoots' of a recovery, even these observers agree that unemployment will rise further before it begins to fall.

"We note 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."

Professor Harper said each wage-setting decision needs to be seen in the context of the economic and social circumstances in which it is made.

"The 2009 decision is set in a very different economic climate to the Commission's previous three wage decisions.

"On each previous occasion the economy was robust with evidence of strong growth and rising demand for labour. Any minimum wage increase was readily absorbed and any negative employment effect was short-lived. As a result, the Commission was able to announce real wage increases for Australia's lowest paid workers."

He said there is far greater potential for an increase in minimum wages this year to adversely affect employment given the number of Australians in work is falling and unemployment is rising.

The Commission is particularly concerned that the effects of a downturn tend to be most concentrated in and have longer term implications for the most disadvantaged sections of the labour force.

People who become unemployed during a downturn go to the back of the employment queue and often become long-term unemployed or leave the workforce altogether.

“These workers are employed as shop assistants, cafe and restaurant workers, cleaners, labourers, and office staff, and these are the jobs that are most vulnerable during a downturn.”

Professor Harper stressed that the Commission sets minimum wages only and if employers have the capacity to pay higher than minimum wages they can and should do so.

“The Commission’s concern at this time 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”, he said.

Professor Harper said while the focus in this Decision is on preserving jobs, the Commission has not overlooked its obligation to provide a safety net for low paid Australians.

“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 recent changes to the tax and transfer system and the fiscal stimulus packages have delivered real increases in disposable income for most households including significant increases for Australia’s lowest income households.

“These measures allow the Commission to make a decision that places greater emphasis on protecting jobs and is therefore both economically sustainable and socially responsible.”

Since the Commission’s first wage-setting decision in 2006, the combination 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.

Professor Harper said that the Commission’s minimum wage-setting 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.”

The full decision document, fact sheets, research, and submissions can be found on the Australian Fair Pay Commission web site at www.fairpay.gov.au.

Media Enquiries: Justin Napier (03) 8621 8206
Paul Vadasz (03) 8621 8223