



Australian Fair Pay Commission

Reasons for Decision

July 2009

Section 1

1. Promoting the economic prosperity of the people of Australia

The Australian Fair Pay Commission (Commission) is responsible for setting minimum rates of pay, with the overarching objective of promoting the economic prosperity of the people of Australia. In undertaking this task, the Commission is required by the *Workplace Relations Act 1996* to have regard to:

- 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 reviews, the Commission invited submissions to its 2009 Minimum Wage Review to address some or all of these criteria. The criteria also informed the Commission's consultations in each state and territory, and the ongoing research program.

With the economy in transition, these complementary processes and information sources have been particularly valuable, enabling the Commission to analyse the effects of minimum wages from a variety of perspectives.

Many submissions to the Commission equate economic prosperity with maintaining the purchasing power of all minimum wage rates and/or the relative living standards of people who rely on minimum wages.¹ Other submissions emphasise that increases in minimum wages, particularly at this time, would have adverse effects on employment and competitiveness, thus reducing living standards for many. The latter submissions argue that a suitable wage safety net is already in place and highlight the effects on household income of recent changes to the tax/transfer system and the Australian Government's fiscal stimulus packages.²

Some organisations that emphasised cost of living factors in previous wage reviews now ask the Commission to take greater account of the difficult economic circumstances and the likelihood of an increase in unemployment in the near future. For example, in its 2008 submission, the Australian Government indicated that "the most pressing of these economic challenges is the heightened inflationary environment".³ With the changing economic conditions, it now indicates that "during this period of weaker labour demand, the Government's primary focus is on supporting jobs".⁴

Similarly, in contrast to its 2008 submission, the Australian Council of Social Service (ACOSS) notes that "in these circumstances overall restraint in wage increases is needed to support employment growth", although "the burden of wage restraint should not fall on low paid workers alone".⁵

¹ For example, ACTU, *Australian Council of Trade Unions Submission to the Australian Fair Pay Commission*, March 2009, p. 7, para. 1.5.

² For example, ACCI, *2009 Minimum Wage Review, ACCI Submission*, March 2009, pp. 5–6, paras. 19–23.

³ Australian Government, *Submission to the Australian Fair Pay Commission Minimum Wage Review*, 14 March 2008, p. 1, para. 1.2.

⁴ Australian Government, *Post-Budget Submission to the Australian Fair Pay Commission Minimum Wage Review 2009*, 21 May 2009, p. 2, para. 11.

⁵ ACOSS, *Submission to the Fair Pay Commission on minimum wages*, March 2009, pp. 2–3, compared with ACOSS, *Submission to the Fair Pay Commission on minimum wages*, March 2008, p. 2.

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1.1. The economic and labour market outlook

In considering submissions to the 2009 Minimum Wage Review, the Commission has looked ahead to the period when its decision would come into effect. The economic and labour market environment in 2009–10 will be very different from that of the Commission's previous decisions. After unemployment reached a low of 3.9 per cent in early 2008, employment growth has slowed rapidly in response to the sharp weakening of the global economy.

While opinions vary, most analysts expect employment to continue falling through 2009–10, with unemployment rising towards 8.5 per cent of the labour force. In previous recessions, increases in unemployment have taken many years to reverse, and the Australian Government projects that unemployment will not return to current levels for approximately six years.

The Commission has considered information from a broad range of sources best to gauge the effect of its decision. It is possible that the economy may recover more quickly than expected, due to supportive macroeconomic policy settings and a flexible labour market. However, there are also risks that the labour market may weaken further than anticipated and take longer to recover.

The scarring effects of unemployment magnify the costs associated with this downside risk. Unemployment tends to affect more severely those people who are already vulnerable, low-paid and low-skilled workers. Many people who become unemployed during a recession do not re-enter paid employment and instead become long-term unemployed or leave the labour force. Therefore, the Commission considers that its main priority in this decision is to protect jobs in the short term and help job seekers to be competitive in the labour market.

1.2. Monitoring the effects of Commission decisions

Since it was established in 2006, the Commission has sought to ensure that its decisions are based on the best available evidence at the time. The Commission receives feedback on the effects of its decisions through submissions, consultation processes, independent data analysis and research.

Most recent analyses of minimum wages have been conducted in a labour market with relatively low unemployment and steady wage growth. The findings from those analyses may not be readily applicable in a weaker labour market. Given the outlook for the labour market, the Commission has therefore revisited the effects of previous recessions and monitored the most recent business surveys.

Research and analysis are central to the evidence-based approach promoted by the Commission. Since its inception, the Commission has initiated a wide range of research on topics relevant to the setting of minimum wages. The Commission has also drawn on relevant academic expertise through the Minimum Wage Research Forum that it convened in October 2008.

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The Commission monitors the effects of its decisions on an ongoing basis, with the main findings published in the six-monthly *Economic and Social Indicators – Monitoring Report*. Publication of this report ensures that those with an interest in minimum wages have access to information that influences the deliberations of the Commission.

Accurate monitoring relies on high quality, relevant data. In 2008–09, the Australian Bureau of Statistics (ABS) made significant changes to its survey program and some of these, especially the improved availability of micro-level data, have enhanced the capacity of the Commission to monitor the effects of its decisions.

However, further information on who are paid minimum wage rates would improve the value of a number of ongoing surveys conducted by the ABS and other organisations. The linking of existing surveys could also enhance the capacity of researchers to examine the behaviour of employers and employees at the micro level.

Minimum wage research in other countries relies to a large extent on data collected at the enterprise level. These data are often case-study in nature, though sufficient to evaluate policy changes.

Given the diversity of views offered to the Commission in its 2009 Minimum Wage Review and at the Minimum Wage Research Forum, further development of micro-level data sets and research methods would improve analysis of a range of minimum wage issues.

1.3. Summary

These are challenging times for the Australian labour market, with unemployment expected to increase significantly in 2009–10. Caution is therefore warranted in the setting of minimum wages.

Having sufficient paid work is the main determinant of living standards for most people, while unemployment is the main cause of relative poverty and social exclusion. 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 regulated minimum wages would reduce employment and working hours. One consequence of increased job losses and fewer hours of work would be significantly lower living standards for many people.

At the same time, consumer prices continue to increase, putting some pressure on disposable income. The Australian Government's changes to the tax/transfer system and its recent fiscal stimulus packages have, however, provided additional disposable income to cover the average increase in prices for most households, without the risk of increasing unemployment that is associated with higher minimum wages.

The Commission has decided, following its 2009 Minimum Wage Review, that minimum wages will remain at their current levels and not be increased. In making this decision, the Commission has focused on protecting jobs and supporting a stronger recovery in employment as the economy improves.

The Commission notes that the next minimum wage review will be conducted by Fair Work Australia. The Commission considers that, by the next review, the outlook for the economy, and especially the labour market, will be more certain.