On 3 June 2010, the Minimum Wage Panel of Fair Work Australia concluded its Annual Wage Review for 2009-10. Having considered the evidence from written submissions, public consultations and a range of internal and external research, the Panel decided to increase minimum wage rates in modern awards by $26 per week with effect from 1 July 2010. The increase brings the National Minimum Wage for adult employees to $569.90 per week, or $15 per hour for a standard 38-hour week, with proportionate increases for employees paid less than the adult rates.

The decision is important for several reasons relating to: the context in which it was made; the impact it will have on living standards and business costs; and for what it signals about the future of minimum wage adjustment under the Fair Work Act 2009. I review the decision with respect to each of these themes in the following sections.

Context

The Minimum Wage Panel (MWP) that decided the $26 increase is a new authority. None of the five members of its predecessor, the Australian Fair Pay Commission (AFPC), is present on the MWP. Instead, the seven-member Panel consists of four existing members of the Australian Industrial Relations Commission (AIRC), all of whom have experience in setting minimum wages from Safety Net Review – Wages cases in the pre-2006 period, and three new part-time members from backgrounds in trade unions (Mr Vines), academia (Professor Richardson) and business (Mr Dwyer). Procedurally, the MWP operates more like the AFPC than the AIRC. It is not limited to arbitrating on the material presented by the participants in wage cases, but can seek additional input to its reviews through public consultation, internal staff advice and a program of external research. Between 2006 and 2009, the AFPC sponsored a large quantity of research on matters that remain relevant to the MWP, and the Panel will have to consider carefully how to assimilate and build on this existing body of work.
The wage-setting responsibilities under which the MWP acts are quite different from those of the AFPC and also, although arguably to a lesser extent, the AIRC. The *Fair Work Act 2009* defines two statutory objectives which are central to the Annual Wage Review process of the MWP. The ‘minimum wages objective’ (section 284) has as its purpose the establishment and maintenance of a safety net of fair minimum wages, which is to be achieved by reference both to economic factors, such as productivity, business competitiveness and employment growth, and to broader considerations of social inclusion, equity and the needs of the low paid. The ‘modern awards objective’ (section 134) requires further that the safety net operate in ways that promote collective bargaining and the use of more efficient and productive work practices.

Of the various wage-setting criteria that now guide the Minimum Wage Panel, two are likely to prove challenging. The first is ‘relative living standards and the needs of the low paid’. This requirement, mentioned in both the minimum wages and modern awards objectives, reinstates considerations that were central to the wage-fixing role of the AIRC between 1997 and 2005, but repealed by the *WorkChoices* legislation of 2005. Among the relevant issues here are how minimum wages should be related to changes in consumer prices, average earnings, poverty benchmarks and social welfare entitlements. The second challenging criterion is ‘promoting social inclusion through increased workforce participation’. Although there is nothing new about governments instructing wage-fixing authorities to assess the employment effects of their decisions, the reference to social inclusion presents this obligation in a new way. It implies that the MWP is not only responsible for keeping employment rates high in the aggregate, but also for improving the employment prospects of particular individuals and groups that have historically had poorer labour market outcomes. The difficulty is that these two wage-fixing criteria – ‘relative living standards and the needs of the low paid’ and ‘promoting social inclusion through increased workforce participation’ – may be at odds with each other. Like its predecessors, the new Minimum Wage Panel will have to make judgments, based on the best evidence available at any particular time, about whether the welfare-improving benefits of a higher minimum wage for current workers outweigh the employment-reducing effects for jobseekers.

This year’s decision is also of interest because of what it says about the state of the Australian economy. The MWP is an economic agency of both sectoral and national importance. On the latest figures collected by the Australian Bureau of Statistics in August 2008, it sets wages directly for nearly 1.5 million non-managerial employees (ABS 2009, p.34). Wages had not increased for these workers since
October 2008, because of the final AFPC decision to leave minimum rates unchanged in response to the global financial crisis (AFPC, 2009, p.9). Nearly one year on from the AFPC decision, what would the new MWP conclude about the benefits of the wage ‘freeze’? Would the Panel try to recover the losses that minimum-wage workers had experienced while their rates were on hold?

The Decision and its Effects

The decision published by Fair Work Australia on 3 June 2010 is divided into sixteen chapters and follows a reasonably familiar structure. The first two chapters rehearse the Minimum Wage Panel’s obligations under the *Fair Work Act 2009* and summarise the positions of participants in the review about the appropriate amount and form of minimum wage adjustment. Many of the parties favoured ‘flat rate’ increases, including the Australian Council of Trade Unions ($27 per week), the Australian Chamber of Commerce and Industry (a maximum of $12.62 per week at the level of the national minimum wage) and the Australian Industry Group ($12 per week in all adult rates). Various other parties, including the Australian Government, supported increases that were linked to the percentage change in living costs (usually measured by the Consumer Price Index) since the previous minimum wage adjustment, which took effect on 1 October 2008. A lengthy consideration of the submissions and data in relation to macroeconomic performance, the growth outlook and the state of the labour market occupies Chapter 3 of the decision. Chapters 4 to 9 deal further with some of the Panel's other wage-setting priorities, including fairness, social inclusion and the achievement of equal remuneration for work of equal or comparable value.

Chapter 10 is most revealing about the reasoning behind the $26 per week minimum wage increase. The major influences on the Panel’s thinking seem to have been an upbeat assessment of the national economy, which was seen to provide an imperative for ending the minimum wage ‘freeze’ initiated by the AFPC, combined with a sense of the growing disadvantage of minimum-wage recipients, both in absolute terms (as their costs of living have increased) and in relative terms (as wages have increased for other workers and profits have increased as a share of the national income). In the key passage of its decision (pp.73-75), the Panel observes that the Australian economy has ‘performed much better than expected’ since March 2008; that over this period ‘there has been a significant decline in the real value of minimum wages’, while wages have ‘increased substantially’ for other workers; and that ‘minimum wage earners have only shared to a very limited extent in the benefits of productivity growth’ during the previous decade.
The Panel concludes from these developments that ‘there is a strong case for a rise in minimum wages…[and] a substantial increase is warranted’ (pp.74-75).

Among the most interesting elements of the decision is the Panel’s assessment that it should attempt to recover some of the ground lost by minimum-wage recipients while their rates were on hold through 2009. In examining the changes in various wage and price indices, the Panel refers mainly to the time period since March 2008, rather than since the final AFPC decision given in July 2009. The Panel accepted the submissions of various parties that it should look at ‘developments since the last adjustment in minimum wages in the federal system’, and consequently formed the view that it was ‘appropriate to consider changes in the key indicators that were available to the AFPC when it gave its wage-setting decision in July 2008’ ( p.74). The important implication of this judgment is that the MWP would not only end, but also reverse, the AFPC wage freeze. While this reversal was not explicitly anticipated by the AFPC in July 2009, it hinted at the possibility by describing the wage freeze as ‘a cautious decision designed to protect employment in the short term, pending the next wage review in 2010’ (AFPC 2009, p.13). The new Panel’s justification for acting retrospectively against the wage freeze is that it was an emergency measure, which has proven to be excessively cautious in light of subsequent economic performance.

Missing from the decision, however, is an evaluation of what the effects of the AFPC wage freeze have been, particularly on the employment of lower-skilled people. The Panel recognises that the aggregate unemployment rate has recently been falling from a peak of 5.8 per cent in July 2009, when the AFPC wage freeze was decided (FWA 2010, p.73). The fact that unemployment remains particularly high among younger people and lone parents is mentioned in the economic section of the decision (p.30). The Panel had received ‘several submissions drawing attention to the decline in the real value of minimum wages as a result of the AFPC’s decision to leave minimum rates of pay unchanged in 2009’ (p.49). In addition, ‘some claims were made regarding possible links between previous minimum wage decisions and the current level of unemployment’ ( p.58). These points suggest that the AFPC wage freeze may have contributed – as was intended – to the improvement in economic and labour market conditions that the MWP felt justified its decision on this occasion, but this link is not analysed in any detail in the decision. Other than some observations about the employment effects of ‘moderate’ minimum wage increases typically being ‘swamped’ by other demand factors, and an assurance that the $26 per week increase ‘will not threaten employment growth’, the MWP has not declared its opinion about
whether the AFPC wage freeze fulfilled its purpose of ‘protecting employment in the short term’ (FWA 2010, p.60; AFPC 2009, p.13).

What does the decision mean for low-paid workers? For an employee at the national minimum wage, the $26 per week represents a nominal increase of 4.8 per cent. In real terms, the increase is 1.4 per cent, if we take account of changes in the Consumer Price Index between September 2008 (the quarter immediately before the last increase given by the AFPC) and June 2010. This represents the largest real increase in the minimum wage since the May 2004 decision of the AIRC ($19 per week). The 1.4 per cent arguably understates the real impact of the MWP decision, because it counts price increases that were already built into, or anticipated by, the AFPC decision to leave minimum rates unchanged in July 2009. If these price changes are removed from the calculations, the recent MWP decision provides a real increase in the national minimum wage of closer to 3 per cent – well above any increase given by the AFPC, and exceeded only by the April 1998 AIRC decision, which was made at a time of very low inflation. These figures demonstrate the Panel’s intention to improve, rather than merely maintain, the living standards of the lowest-paid workers. Another expression of this intent is the Panel’s observation that, in the context of labour productivity growth that had substantially exceeded the growth in real award wages over the past decade, ‘the maintenance of the real value of award wages alone would not adequately maintain relative living standards’ (p.59).

Of course, the changing value of the national minimum wage is only one side of the decision’s impact. Recent research conducted by Fair Work Australia shows that, of the adult employees who rely on awards, less than 10 per cent work for the national minimum wage (this is after discounting casual workers’ wages in recognition of the casual loadings which they receive) (Bolton and Wheatley 2010). Other similar research has shown that the majority of adult award-reliant employees receive hourly rates well above the minimum wage: around two-thirds are employed at or above the tradespersons’ minimum rate (C10) in what is now the Manufacturing and Associated Industries and Occupations Award 2010 (Healy 2010, pp.132-135). What does the MWP decision offer to these higher-paid award workers? On the one hand, the large size of the adjustment means that many of them will receive real wage increases. The decision will offset some of the real wage losses that these workers have experienced over the past decade of safety net adjustments (FWA 2010, pp.49-50). On the other hand, because the decision is expressed as a uniform dollar increase that is worth less (in percentage terms) to higher-paid workers, it increases what is already a very large gap between
the minimum rates secured by the safety net and the wages that are set through bargaining. While it is clear that if award rates are to provide a ‘safety net’, they cannot match prevailing market rates, the continued growth of the gap between the two systems discourages employers from bargaining where union organisation is weak and willing workers can be found at the award rate. The MWP recognises these problems and has identified the continued growth of the gap between award rates and bargained rates as a threat to the ‘relevance’ of the safety net (p.75). The Panel appears to have favoured the option of expressing its adjustments in percentages, rather than in dollar amounts, but was not willing to do this in the current review because of a lack of evidence about the employment effects of this approach (p.75).

Unresolved Issues

Fair Work Australia has quickly become involved in the production of new research, with five reports published prior to the Annual Wage Review 2009-10 on issues such as workforce composition and the earnings of award-reliant employees, and a number of other reviews now underway relating to equal remuneration principles, productivity and business competitiveness and relative living standards and the needs of low-paid employees. The decision of the Minimum Wage Panel identifies the need for further research in several other priority areas, particularly studies that would focus on ‘the composition of the award-reliant workforce and the relationship between minimum wages and the incentive to bargain’ (FWA 2010, p.91).

Quite a lot is known already from cross-sectional studies about the characteristics of employees who rely on award minimum rates of pay. The May 2006 ABS Survey of Employee Earnings and Hours shows that adult award-reliant employees are typically female (62 per cent), employed part-time (58 per cent), and employed in industries where the trade union density rate is below the national average (54 per cent) (Healy 2010, pp.112-116). We also have evidence, from recent FWA research using the same ABS dataset, about where award-reliant employees are positioned in the hourly wage distribution (Bolton and Wheatley 2010). Much less is known, however, about the ‘dynamic’ nature of award reliance, such as how quickly workers move up through the minimum pay scales over time, under what conditions workers are best able to shift into the bargaining system and what benefits bargaining delivers in terms of earnings and job satisfaction. These are questions that can only be answered with longitudinal data, and the inclusion of a new question on pay-setting methods in the 2008 wave of the Household Income and Labour Dynamics in Australia (HILDA) survey will allow more progress to
be made on issues, such as the link between award wages and the incentive to bargain, that are highlighted by the Minimum Wage Panel.

Improving the evidence about the employment effects of Australian minimum wage cases is of equal importance. Little has changed since Gahan and Hearn-MacKinnon (2005, p.127) observed that ‘the institutional complexity of Australian wage fixing… makes it difficult to apply a US-style analysis to the [employment] question; yet no alternative approach has been devised’. In 2010, the FWA Minimum Wage Panel was able to repeat a long-standing criticism of the AIRC that ‘the relevance of some of the studies is limited insofar as they are directed to the effects of increasing a single minimum wage in circumstances which are quite different to those which characterise the Australian industrial relations system’ (FWA 2010, p.60). While the resolution of these issues has proven difficult because of data limitations and the ‘institutional complexity’ of the award system noted by Gahan and Hearn-MacKinnon, two recent developments encourage further progress. First, the ABS has begun to release the unit record data from its Survey of Employee Earnings and Hours, which identify award-reliant workers directly and can be used to model their earnings and working hours. Second, the recent AFPC wage freeze has created a situation akin to a natural experiment, since minimum wages were on hold for workers in the Federal industrial system, but increased for workers in other jurisdictions by the relevant State tribunals. By devising an empirical strategy that exploits both of these recent developments, it may be possible to produce more compelling evidence about the employment effects of Australian minimum wage increases than any that has previously been available.

References


