

Submission to the Australian Fair Pay Commission on the Minimum Wage

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“Blessed are you who are poor, for yours is the kingdom of God”
— (Luke 6:20)

I understand that, in reaching its decisions on the minimum wage, the Fair Pay Commission is required not to decide on a decrease in the monetary amount. That is an unfortunate and regrettable constraint that is likely to continue to have the adverse effects on potential employees on low incomes that have resulted from previous irresponsible decisions by the Australian Industrial Relations Commission. However, as a poor second best, I submit that the Fair Pay Commission’s first decision on the minimum wage in Spring 2006 should be that there be no increase in the monetary minimum, thereby allowing a reduction in the ratio of the minimum to the median wage. The Commission should also indicate that it intends to continue a policy of no monetary increase.

There are many reasons, both economic and social, for making such a decision and I have outlined them in some detail in my article on “Minimum Wages: Employment and Welfare Effects or Why Card and Krueger Were Wrong” in the *Australian Bulletin of Labour*, Vol. 28, No.3, September 2002. This bulletin is published by the National Institute of Labour Studies at Flinders University in Adelaide.

I would also refer you to the paper I gave to the HR Nicholls Society XXV conference on 6-8 August 2004 entitled “Overmighty Judges—100 Years of Holy Grail is Enough”. I refer in particular to my comments on the decision by the AIRC in the 2004 Safety Net Wage case and to its astonishing conclusion that “It ought now be regarded as well established that the expression ‘low paid’ in s88B(2) refers to the low paid in employment and does not extend to include the low paid who are not employed.”

That 2004 paper is published on the Website of the HR Nicholls Society (<http://www.hrnicholls.com.au>), which contains other analyses relevant to the research that you indicate you will be undertaking. I have published in the media other, briefer articles on the subject which I assume you will also be accessing.

For present purposes I draw your attention to only two aspects bearing on the minimum wage.

First, I attach a copy of data for 21 OECD countries showing the ratio of minimum-to-median earnings of full time employees (click [here](#) to download the Excel spreadsheet). This data, which was obtained in May from Mr John Martin, head of the OECD Employment division, shows that Australia has the second highest (after France) minimum wage amongst the 21 countries. At 57 per cent of the median,

Australia's minimum is 78 per cent higher than in the US, nearly 30 per cent higher than in the UK and 24 per cent higher than in New Zealand.

Should the Commission decide on some increase in the monetary wage, it would presumably consider and explain why Australia's minimum ratio needs to be higher than countries with comparable economic and political systems.

Second, I submit that, as well as taking account of those who are included in the labour force and who are statistically unemployed, the Commission should take specific account of those who are statistically defined as not in the labour force but who say they would be available to start work within 4 weeks. The latest ABS publication surveying those not in the labour force is *Persons Not In The Labour Force*, September 2005, Cat. No. 6220.0

The survey shows that 771,000 said they would be available to start work within four weeks. Why, then, are they not counted as part of the labour force and as unemployed? The short answer is that only 545,000 were then included as unemployed (5.2 percent) because only they said they were actively looking for work and available to start within a week. While this is the internationally accepted criterion for determining who is unemployed, there is no escaping the fact that 1,316,000 were then available to start work—or that that constituted 12.4 per cent of the workforce. In addition, other surveys have shown that a significant proportion of part-time employees (totalling nearly 2.9 million in September 2005) would like additional employment.

How then is the minimum wage pertinent? As a high proportion of the 12.4 per cent, and part-timers would be either unskilled or have relatively low productivity, the demand for such workers is particularly sensitive to the lowest wage that employers are able to offer. Hence the employment deterrent effect of the AIRC determinations at 58 per cent of the median wage.

It has been argued that, if that ratio were to be reduced, those currently on the minimum would either lose their job or experience a reduction in wages and hence in living standards. However, this analysis has no substantive economic basis.

Unless those presently employed on the minimum have an inadequate productivity performance, their wages and/or jobs should not be adversely affected, ie as a general rule they are employed at the existing rate because their productivity justifies it (exceptions will exist where restrictive union practices apply). Moreover, although the minimum awarded by the AIRC has extended to about 1.5 million employees, advice from the Department of Employment suggests that only about 150,000 are actually on the minimum itself. Accordingly, if there was a minimum ratio closer to that in more sensible OECD countries, there is little if any potential for wages of existing employees to fall below the current rate.

The main outcome of a lower minimum ratio would not be job replacement but additions to employment at wages lower than the current rate. The resultant job training would, in turn, provide considerable potential for higher wages down the track.

As indicated by the analysis in my *ABL* paper, the social case for having a lower minimum wage ratio is strong. It is obviously grossly unfair to have a regulation that inhibits or prevents the legal employment of many at the bottom of the social spectrum. The extent of the unfairness is illustrated by the fact that no wage can legally be paid between the minimum of around \$25,000 a year and the Newstart Allowance of about \$11,000 (for a single adult).

Nor do current arrangements offer social fairness when they help the more than half of low wage earners who are in the top half of household incomes and who now receive a minimum wage. Moreover, as ABS data shows that wages provide only a very small proportion of low income households' incomes, a reduction of the minimum wage ratio could not be seen as taking away any important component of the social security safety net.

The living standards of lower productivity workers should be “protected”—but not by maintaining a high minimum wage ratio. The social security system exists to help the poor and, were the Fair Pay Commission to increase that ratio, it would be acting contrary to their interests.