

Submission to the

**Australian Fair Pay
Commission**

on behalf of the

**New South Wales
Government**

28 July 2006

New South Wales Government position	4
Introduction	6
The pre-reform federal industrial relations jurisdiction	6
The current federal industrial relations jurisdiction	7
The powers of the AFPC.....	9
Award Review Taskforce (ART).....	9
Employees in NSW who will benefit from an AFPC increase	11
Impact by gender.....	12
Economic environment	13
The Australian Economy.....	13
The NSW Economy	16
The capacity for the unemployed and low paid to obtain and remain in employment..	19
The economic importance of participation	19
Participation rates - Australia	20
Participation rates – New South Wales	21
Relationship between minimum wages and participation.....	22
Relationship between minimum wages, churn rates and transactional costs	23
Impact of AFPC wage increase on employment.....	25
Minimum wage setting in the United Kingdom	27
Minimum wage setting in the United States	29
Minimum wage setting in Australia	30
Employment and competitiveness across the economy	33
Australia’s international competitiveness	35
Minimum wages and the competitiveness of Australian jobs.....	37
Business competitiveness on wage costs	38
Competitiveness of businesses that rely on consumers from low income groups	39
Labour market competitiveness of women.....	40
Social competitiveness	41
Capacity for productivity improvements in APCS reliant industries	43
Profitability v Productivity.....	45
The New Zealand Experience	47
Providing a safety net for the low paid	49
The needs of the low paid.....	49
Impact on household incomes	49
Wage dispersion and income inequality.....	52
Characteristics of low paid employment	57
Issues faced by low paid workers	59

Providing minimum wages for junior employees, employees to whom training arrangements apply and employees with disabilities that ensure these employees are competitive in the labour market.	61
Impact on junior employees	61
Impact on employees to whom training arrangements apply	65
Impact on employees with disabilities	69
Other Issues for Consideration	72
Pay Equity	72
The AIRC Wage Case for transitional employees	75
The Processes of the AFPC	76
Conclusion	77
Appendix A	79

New South Wales Government position

1. The New South Wales Government believes that the legislative parameters within which the Australian Fair Pay Commission (AFPC) must make its decision impose constraints upon ensuring a fair and decent safety net is maintained. Despite these limitations it is the view of the New South Wales Government that the AFPC must make a decision that is consistent with its statutory mandate to provide a safety net for low paid workers. In our submission a viable safety net is one that provides adequate protection of the real incomes of award reliant workers.
2. The New South Wales Government is concerned that fairness, transparency and the capacity for parties to respond to evidence presented have all been removed from the process.
3. However, the New South Wales Government acknowledges that the federal government has imposed a legislative requirement on the AFPC to have regard to the following in performing its wage-setting function:
 - the capacity for the unemployed and low paid to obtain and remain in employment;
 - employment and competitiveness across the economy;
 - providing a safety net for the low paid;
 - 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.
4. In the interests of assisting the AFPC to make a decision that is in the best interests of New South Wales employers and employees and the New South Wales economy, the New South Wales Government has addressed each of these criteria in turn.
5. The New South Wales government submits that the standard Federal Minimum Wage (FMW) and all Australian Pay and Classification Scales (APCSs) be increased by an amount equivalent to \$20 per week for full time employees.

6. The New South Wales Government believes that this is a fair and sustainable adjustment that provides a small increase in real wages for all award reliant employees. It is a responsible increase that ensures that the lowest paid workers receive some benefit from Australia's improved competitiveness and economic growth.
7. Ordinarily the New South Wales Government would oppose a claim for retrospective wage increases.
8. The circumstances however surrounding the AFPC's first wage determination are exceptional as workers who would normally rely on an increase in their award rate of pay will have been denied such an increase for approximately 18 months.
9. Although public statements from both the federal government and the AFPC have indicated the delay will be taken into account, there is no requirement under the Workplace Relations Act 1996 for them to do so.
10. The New South Wales Government position is therefore to apply the equivalent of a \$20 per week increase retrospective to the date of the Industrial Relations Commission of New South Wales (IRC NSW) State Wage Case 2006 decision, that is, 26 June 2006 or twelve months since the last applicable wage case variation, whichever is the latter.
11. This position derives from established Wage Fixing Principles set by the IRC NSW and the Australian Industrial Relations Commission (AIRC) which state that at least twelve months must have elapsed before award rates are increased in accordance with a wage case decision.
12. Further, the New South Wales Government submits that:
 - increases to the FMW be effective immediately
 - existing wage relativities within APCs between tradespersons and apprentice, trainee and junior wages (whether they be full-time or part-time) should be maintained
 - a special FMW for workers with a disability should be made and should provide for orders that are determined on a case-by-case basis, similar to the existing special wage permit system in New South Wales.

Introduction

The pre-reform federal industrial relations jurisdiction

13. For more than one hundred years the Australian Industrial Relations Commission (AIRC) and its predecessors have set fair and reasonable minimum wages for Australian workers and their families.
14. Under the previous federal industrial relations system minimum wages were adjusted by way of an annual wage case initiated by the Australian Council of Trade Unions (ACTU), designed to assist those workers who were not able to achieve wage increases through bargaining. The national wage cases have been held annually since 1993, and in its 1997 decision the AIRC established a federal minimum wage which applied to all employees who were covered by a Federal award. In recent years the AIRC has awarded moderate and sustainable award pay increases that were capable of being absorbed by the economy without having a detrimental impact on employment rates.
15. After the decision in the national wage case, the New South Wales state wage case would ordinarily be convened by the Industrial Relations Commission of New South Wales (IRC NSW) to consider the national decision as part of its statutory responsibility.
16. State wage cases in New South Wales have traditionally been considered under s50 of the New South Wales Industrial Relations Act 1996 (the IR Act) which provides that:

As soon as practicable after the making of a National decision, a Full Bench of the Commission must give consideration to the decision and, unless satisfied that it is not consistent with the objectives of this Act or that there are other good reasons for not doing so, must adopt the principles or provisions of the National decision for the purposes of awards and other matters under this Act.
17. Section 48 of the IR Act defines a National decision as:

... a decision of a Full Bench of the Australian Industrial Relations Commission that generally affects, or is likely to generally affect, the conditions of employment of employees in New South Wales who are subject to its jurisdiction.

18. This process of setting and adjusting minimum award wages reflects the previously similar objectives that were considered by the IRC NSW and the AIRC, up to and including the Safety Net Review 2005, in setting minimum wages, the needs of the low paid being paramount for both.
19. In state wage case proceedings, the IRC NSW would traditionally hear submissions from peak bodies and the New South Wales Government and consider applications for wage increases to state awards with a view to flowing on the decision made by the AIRC in the national wage case. Following the introduction of the *Workplace Relations Amendment (Work Choices) Act 2005* (the amended Workplace Relations Act), the AIRC agreed to delay this year's national wage case until the Australian Fair Pay Commission (AFPC) has made its first wage determination, expected sometime in the Spring of 2006.
20. The 2006 NSW State Wage Case in provided an independent and transparent means of setting fair wages for award reliant employees while giving proper consideration to the economic environment in New South Wales. It is a process of wage setting that has served New South Wales employees and employers and the New South Wales economy well.

The current federal industrial relations jurisdiction

21. The Workplace Relations Amendment (Work Choices) Act 2005, which amended the Workplace Relations Act 1996 has created a new federal wage setting body known as the Australian Fair Pay Commission (AFPC). The AFPC came into existence on 14 December 2005.
22. The amended Workplace Relations Act has fundamentally changed the wage determination process. Upon assent, it removed power from the AIRC to set award wages or to hear national wage cases. Instead, employees of constitutional corporations, including those who were previously covered by state industrial instruments, will now have their minimum wages exclusively determined by the AFPC.
23. Under the new federal industrial relations system, the AIRC is left with only a residual role in setting minimum wages for unincorporated employers covered by federal awards during a five year transitional period.

24. It is clear that the objectives that had to be considered by the AIRC when setting wages under the pre-reform Workplace Relations Act and those of the AFPC under the amended Workplace Relations Act have significantly diverged.
25. Section 88B(2) of the pre-reform Workplace Relations Act provided that the AIRC was required to ensure a safety net of fair minimum wages and conditions of employment was established and maintained having regard for:
- the need to provide fair minimum standards for employees in the context of living standards generally prevailing in the Australian community
 - economic factors including levels of productivity and inflation, and the desirability of attaining a higher level of employment, and
 - when adjusting the safety net, the needs of the low paid.
26. The amended Workplace Relations Act removes the notion of 'fairness' from the wage setting objectives and the legislated parameters related to the process of wage setting. Instead, the AFPC must have regard to the following four economic criteria:
- the capacity for the unemployed and 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.
27. Notwithstanding the above, the principal object of the amended Workplace Relations Act is, in part, to promote the 'welfare of the people of Australia'. Accordingly the New South Wales Government urges the AFPC to consider fairness as part of its decision making process.

28. The New South Wales Government is also concerned that the AFPC must determine the timing, scope and frequency of its wage reviews, the manner in which they are to be conducted and the date on which wage setting decisions are to come into effect. Unlike the AIRC, prior to the implementation of the amended Workplace Relations Act, there is no legislative requirement for the process to be transparent, for parties to be able to make submissions, or for the research and evidence considered by the AFPC to be published. The AFPC is only required to publish its wage setting decisions. The New South Wales Government urges the AFPC to adopt a transparent process when making its decisions and provide an opportunity for interested parties to respond to claims and submissions.

The powers of the AFPC

29. The amended Workplace Relations Act gives the AFPC the power to make and adjust the following:

- the Federal Minimum Wage which applies to every non-exempt adult employee employed by a constitutional corporation
- all wage rates and classifications derived from federal and state awards known as Australian Pay and Classification Scales (APCS)
- casual loadings
- piece rates
- special minimum wages for junior workers, those to whom training arrangements apply (apprentices and trainees) and workers with a disability.

Award Review Taskforce (ART)

30. Under s177 of the amended Workplace Relations Act the AFPC must give regard to any recommendation made by the ART.

31. The ART was established in October 2005 and has submitted two interim reports to the federal Minister for Employment and Workplace Relations concerning the 'rationalisation' and 'simplification' of current federal awards and the wages and classification structures from state and federal awards. The ART advises that neither of these reports will be made public.

32. According to the federal Minister the ART is due to meet its end of July deadline for final recommendations, however this timing means that the public cannot make submissions to the AFPC on these recommendations. A finalised report however is not a prerequisite for the AFPC's first minimum wage determination.
33. Prior to the Work Choices system there were thousands of wage classifications in state and federal awards. These awards also contained multiple classifications dealing with lower rates of pay for juniors and apprentices. A wage fixing process that recognises the need for appropriate pay relativities reflecting skill differentials is one that is best equipped to achieve comparative wage justice.
34. With the proposed rationalisation of the APCS structure and the requirement that differences based on State or Territory boundaries be removed, many classifications contained in APCSs and derived from awards will likely be eliminated. These wage classification structures were determined by fair and transparent processes involving state and federal industrial tribunals which applied accepted standards of industrial equity and recognised differences in the skill levels and qualifications of workers.
35. Particularly in the case of wages derived from enterprise specific awards, the rates also reflect specific industry or enterprise level conditions, local and regional circumstances and customary arrangements. Many wage structures derived from awards also contain what are essentially bargained for pay increases programmed to occur over the life of the award. These structures may be the outcome of carefully crafted industrial arrangements which take into account productivity enhancements and other agreed objectives and allow business to plan for wage increases. The AFPC, under its legislative parameters, cannot determine APCSs which provide for this type of wage structure.
36. Given the legislative constraints imposed on the AFPC it is imperative that workers that have been dependent on award rates adjustments receive a fair and affordable wage increase. The New South Wales Government believes that this wage increase should be extended to workers in a broad range of classifications as reflected in their preserved APCSs in order to ensure some measure of comparative wage justice. The AFPC should not be confined in its actions to adjusting the standard minimum wage or increasing rates for those on the lowest award classification levels.

37. At the time of writing the final recommendations of the ART to the federal Minister are not known. The New South Wales Government however believes that the process thus far appears to be complex, costly and unnecessary. The probable consolidation of former award wages and classifications into rationalised APCs may well lead to a fall in the rates of pay for award reliant employees.

Employees in NSW who will benefit from an AFPC increase

38. To assist in quantifying the impact of any wage increase it is essential to understand which employees in New South Wales will derive a direct benefit from any increase handed down by the AFPC. To this end, the Minister for Industrial Relations has commissioned unpublished data from the ABS survey of Employees, Earnings and Hours, 2004.
39. It is estimated that 64.1 per cent or approximately 2.1 million employees are employed by incorporated entities in the private sector in New South Wales. This figure does not include employees of state-owned corporations engaged in the public sector who fall within the federal jurisdiction.
40. It is not possible to accurately determine those numbers of employees who will receive a direct benefit from the AFPC wage review should they be employed by constitutional corporations and not reliant upon award rates of pay.
41. The data however reveals that 22.5 per cent of all workers in New South Wales are award reliant employees. These employees are receiving the minimum rates of pay as prescribed by their relevant award and are not in receipt of any over award payments. Of these, 64.8 per cent, or 14.6 per cent of all employees in New South Wales, are employed by incorporated entities within the private sector. This equates to approximately 477,500 employees out of a workforce of 3.28 million who will be reliant upon the AFPC determination for any increase in their weekly rate of pay.
42. Table 1 represents the nominal and percentage weekly wage increases which would be realised under the APCs extracted from the Metal Engineering and Associated Industries (State) Award as a consequence of a \$20 increase.

Table 1: Metal Engineering and Associated Industries(State) Award			
Classification	Current	\$20 increase	\$20 as %
C14	\$484.4	\$504.40	4.13
C13	\$501.1	\$521.10	3.99
C12	\$523.6	\$543.60	3.82
C11	\$544.5	\$564.50	3.67
C10	\$578.2	\$598.20	3.45
C9	\$599.1	\$619.10	3.33
C8	\$619.9	\$639.90	3.22
C7	\$638.8	\$658.80	3.13
C6	\$680.5	\$700.50	2.94
C5	\$701.4	\$721.40	2.85
C4	\$722.2	\$742.20	2.76
C3	\$763.90	\$783.90	2.62
C2(a)	\$784.80	\$804.80	2.55
C2(b)	\$822.50	\$842.50	2.43
C1(a)	\$906.00	\$926.00	2.20
C1(b)	\$1031.10	\$1231.10	1.93

Impact by gender

43. As Table 2 shows, female employees comprise a high proportion of the total number of award reliant employees employed by incorporated entities in New South Wales, representing almost 55 per cent of the total number of award reliant employees. Of particular significance, part-time female employees represent almost 35 per cent of the total number of award reliant employees who will directly benefit from any increase to their award wage.

Table 2: Employees of incorporated businesses who are solely reliant on awards (NSW)		
Full time	Males	121,000
	Females	94,850
Part time	Males	94,850
	Females	166,800
	Total	477,500

ABS - Employees, Earnings and Hours, 2004 and Labour Force Survey, May 2006

44. Male employees comprise a smaller but still significant proportion of award reliant workers employed by incorporated entities, representing 45 per cent of the total number of award reliant employees, with part-time male employees representing almost 20 per cent of the total.

Economic environment

45. The amended Workplace Relations Act has as its principal objective the promotion of economic prosperity and the welfare of the people of Australia. The following information has been provided by the New South Wales Treasury to assist the Australian Fair Pay Commission (AFPC) in its deliberations.

The Australian Economy

46. Growth of the Australian economy in 2005-06 was a little slower than expected, as somewhat stronger growth in domestic demand than had been forecast was more than offset by weaker net exports. Net exports made a larger than expected negative contribution due to strong import demand and disruptions to production caused by cyclones in the west. Growth of GDP in 2005-06 is now expected to match the 2004-05 result of 2½ per cent.
47. In 2005-06, a large rise in private business investment and a solid increase in household consumption were the main drivers behind a 4½ per cent rise in private domestic expenditure. Growth in public expenditure was 3¼ per cent, with growth of total domestic spending at 4 per cent. Exports rose by 2 per cent, whereas import growth was 6 per cent. The increase in imports was fuelled by very strong growth in business spending on machinery and equipment, much of which is imported. As a result, GDP grew by 2½ per cent.
48. In 2006-07 the growth of domestic spending is expected to slow a little. Household consumption spending is expected to hold up, but growth of business investment is expected to slow after four years of very strong gains. Dwelling construction is expected to fall again. Overall, domestic spending is likely to rise by about 3 per cent.
49. This should be offset by a rise in inventories and a much smaller negative contribution from net exports. Exports should benefit from a rise in agricultural production and continued strong world demand for Australia's mineral exports. As a result, growth of GDP is expected to accelerate to 3¼ per cent.

50. Despite the moderate rate of economic growth, employment grew by 2.3 per cent and full-time employment by 2 per cent in 2005-06. With the labour force participation rate flat through the year (although up year on year), the relatively rapid growth of employment saw the rate of unemployment decline to 4.9 per cent at the end of the financial year. That is the lowest rate of unemployment at the national level since the current labour force survey began in February 1978.
51. With labour force participation at an apparent plateau and the unemployment rate at a record low, employment growth in 2006-07 is likely to be limited to about 1 per cent.
52. Despite faster than expected employment growth in 2005-06, the rise in household consumption was somewhat slower than had been expected. At 2 $\frac{3}{4}$ per cent in 2005-06, household consumption growth was down from 4 $\frac{1}{4}$ per cent the previous year. The slower growth has been attributed to a flattening in house prices, higher debt servicing payments and the higher price of petrol.
53. While those negative effects will carry over into 2006-07 and will be compounded by slower employment growth, a cut in income tax rates at the start of the current financial year may allow growth of household consumption to accelerate a little to about 3 per cent. Indeed, in the second half of 2005-06 the growth of retail sales, which make up about 40 per cent of household consumption, was much faster than in the first half.
54. Dwelling construction fell by 3 per cent in 2005-06, somewhat more than had been forecast. A recovery had been expected in 2006-07, and one may well begin in the second half of the year but on a year average basis dwelling construction is likely to be negative for the third year in a row.
55. Private business investment is estimated to have risen by 14 per cent in 2005-06 on the back of an increase of almost 15 per cent in business spending on machinery and equipment and a 14 per cent rise in non-residential construction. After such rapid growth for a second successive year, a slowing in growth is expected in 2006-07. In particular, the growth of spending on non-residential construction is expected to be little more than half the previous year's result. Growth of business spending on machinery and equipment is also expected to be lower than in 2005-06.

56. In 2005-06 employment growth was strongest in the mining industry which increased the size of its workforce by more than 20 per cent. Employment in construction grew by almost 5 per cent, as did finance and insurance, health and community services, and cultural and recreational services. Employment in the property and business services sector rose by almost 6 per cent. It seems likely that in 2006-07 employment in some industries will be slowed by a shortage of labour.
57. For Australia's eight capital cities, CPI inflation was 3.2 per cent in 2005-06, up from 2.4 per cent in 2004-05. However the annual increase in the CPI in the June quarter was 4.0 per cent. Increases in the cost of fresh fruit and petrol accounted for almost two thirds of the rise in prices in the June quarter. The cost of health care and financial services also contributed to the acceleration of inflation in the quarter. The cost of recreation fell as a result of lower prices for audio, visual and computer equipment and domestic travel and accommodation. Domestic inflationary pressure in Australia in 2005 was being offset by very low increases in the prices of tradables due to rising imports from China and the higher value of the Australian dollar. In the June quarter, however, the price of tradables accelerated sharply, which added to inflationary pressure.
58. In the first three quarters of 2005-06, the Labour Price Index (LPI) (formerly the wage cost index) was 4.1 per cent higher than in the corresponding period of 2004-05. That was somewhat faster than wages growth in 2004-05 and was mainly caused by higher wage costs in the private sector. For 2006-07 the rise in the LPI is expected to be about 4 per cent.
59. In summary, the outlook for 2006-07 is:
- | | |
|---------------------|---------------|
| GDP: | 3.25 per cent |
| CPI: | 2.75 per cent |
| Employment growth: | 1.0 per cent |
| Unemployment rate: | 5.25 per cent |
| Labour Price Index: | 4.0 per cent |

The NSW Economy

60. The NSW economy did not grow as strongly as expected in 2005-06. Not only was domestic final demand somewhat weaker than forecast, but net exports and inventory investment made a larger than expected negative contribution to growth of NSW Gross State Product (GSP). As a result, while growth of GSP is estimated to have accelerated in 2005-06, growth was less than had been expected.
61. State Final Demand (SFD) is estimated to have grown by 2.5 per cent in 2005-06, reflecting strong growth in private business investment. Household consumption and public sector spending also contributed to growth. However GSP is estimated to have grown by a more subdued 1.75 per cent, as a large rise in imports and lower inventory investment more than offset weaker than forecast export growth.
62. In 2006-07 there is likely to be a rebalancing of economic activity. After four years of very strong growth, business investment growth is expected to slow but that should be offset by stronger net exports. A higher proportion of household budgets are likely to be spent on petrol and increases in interest rates will likely see a further small detraction from housing investment. After these adjustments, SFD is expected to again grow by 2.5 per cent.
63. With a return of dry weather conditions, winter crop output is likely to be lower this year. However with continued strong growth in demand for non-rural exports and some moderation in import growth, net exports are forecast to have a much smaller negative impact on growth of the economy. As a result, GSP is forecast to grow at 2.5 per cent in 2006-07, $\frac{3}{4}$ of a percentage point faster than in 2005-06.
64. With the unemployment rate at historically low levels in 2005-06, the growth of total employment was constrained to 1.6 per cent, up from 1.3 per cent in 2004-05. Growth of full-time employment was 1.2 per cent in 2005-06, up from 0.9 per cent the previous year.
65. During 2005-06 the labour force participation rate was higher in year average terms than in 2004-05, but was virtually flat through the year. That meant employment growth was constrained by the growth of the working age population. That is likely to remain the case in 2006-07.

66. Despite faster employment growth in 2005-06, the growth of household consumption slowed from almost 3 per cent the previous year to about 2.5 per cent, reflecting higher petrol prices and higher interest rates. Moving into 2006-07, continued growth in employment and wages and a reduction in income tax rates should boost consumption growth. However the ½ per cent rise in interest rates in May will balance this effect. On balance it would seem that consumption growth is likely to remain steady in the current financial year. However further interest rate increases or barriers to real wage growth may have a negative impact.
67. A turn-around had been expected in dwelling construction in 2005-06 but that has not eventuated. Dwelling investment fell sharply in the first three quarters of 2005-06, and for the year as a whole the fall is now expected to be larger than the 6.7 per cent drop in 2004-05.
68. A recovery had seemed possible in the course of 2006-07. Population growth appeared to be edging up, vacancy rates in the Sydney rental market had fallen, and there was solid growth in housing finance. However the recent interest rate increase suggests that housing investment may edge lower in 2006-07.
69. Private business investment is now expected to have increased by a solid 10 per cent or more for a fourth successive year in 2005-06. In 2006-07 there will be a further lift in investment in mineral resources, particularly coal, as well as an increase in non-residential construction, particularly of offices and hotels. Given however the recent completion of several privately funded toll road projects, the rate of growth in business investment will be lower than last year.
70. While NSW employment was generally buoyant in 2005-06, the downturn in dwelling construction saw employment in the construction industry fall by 2.8 per cent. Employment in manufacturing fell by 1.5 per cent, possibly reflecting problems caused by the high value of the Australian dollar and high prices for raw materials. Those soft spots were more than offset by robust growth in employment in education, finance and insurance services, property and business services, communication services, health and community services, and cultural and recreational services. The areas of strong employment growth emphasise the fact that the NSW economy is, largely, a service economy.

71. The Sydney CPI rose by 3.0 per cent in 2005-06, much the same as the increase for all eight capital cities, but up from 2.5 per cent the previous year. Sydney's annual rate of inflation was 3.8 per cent in the June quarter. Prices increases for fresh fruit and petrol accounted for most of the acceleration in inflation in the June quarter but increases in the cost of health care and financial services also contributed. During 2005 domestic inflationary pressure in Australia was offset by very low increases in the price of tradables. That situation did not apply in the June quarter.
72. In the first three quarters of 2005-06, the Labour Price Index (LPI) (formerly the wage cost index) was 4.2 per cent higher than in the corresponding period of 2004-05. That was somewhat faster than wages growth in 2004-05 and was caused by higher wage costs in both the public and private sectors. For 2006-07 the rise in the LPI is expected to be about 4 per cent.
73. In summary, the outlook for 2006-07 is:
- | | |
|---------------------|---------------|
| GSP: | 2.5 per cent |
| CPI: | 3.75 per cent |
| Employment growth: | 1.25 per cent |
| Unemployment rate: | 5.25 per cent |
| Labour Price Index: | 4.0 per cent |

The capacity for the unemployed and low paid to obtain and remain in employment

74. The objective of this wage setting parameter is to ensure that minimum wages set by the Australian Fair Pay Commission (AFPC) do not place the employment of the low paid at risk nor price the unemployed out of the labour force. It is based on the federal government's long held view that the levels of safety net adjustments awarded by the AIRC have had an adverse impact on generating employment growth.¹
75. The New South Wales Government rejects the federal government's implicit assumption that moderate increases in minimum wages will have a negative impact on employment and is concerned the removal of the notion of 'fairness' from the wage setting parameters in the federal jurisdiction will lead to a reduction in the real wages of the low paid.
76. The New South Wales Government further submits that when making its decision, the AFPC should consider the relationship between low paid employment, churn rates and impediments to participation in the workforce.
77. This chapter outlines the relationship between minimum wages and participation rates and rejects the federal government's view that increases in minimum wages have a detrimental impact on employment growth.

The economic importance of participation

78. Working life in Australia is continuing to change. There are more diverse employment arrangements, more flexible working time patterns and more people working part-time. Workforce participation reduces individual vulnerability to financial pressures, but more broadly it increases economic wealth and provides a sound basis to deal with the impact of an ageing population.
79. A contraction in participation rates will ultimately have a negative effect on the economy in terms of productivity and output and will result in a lowering of standards of living.

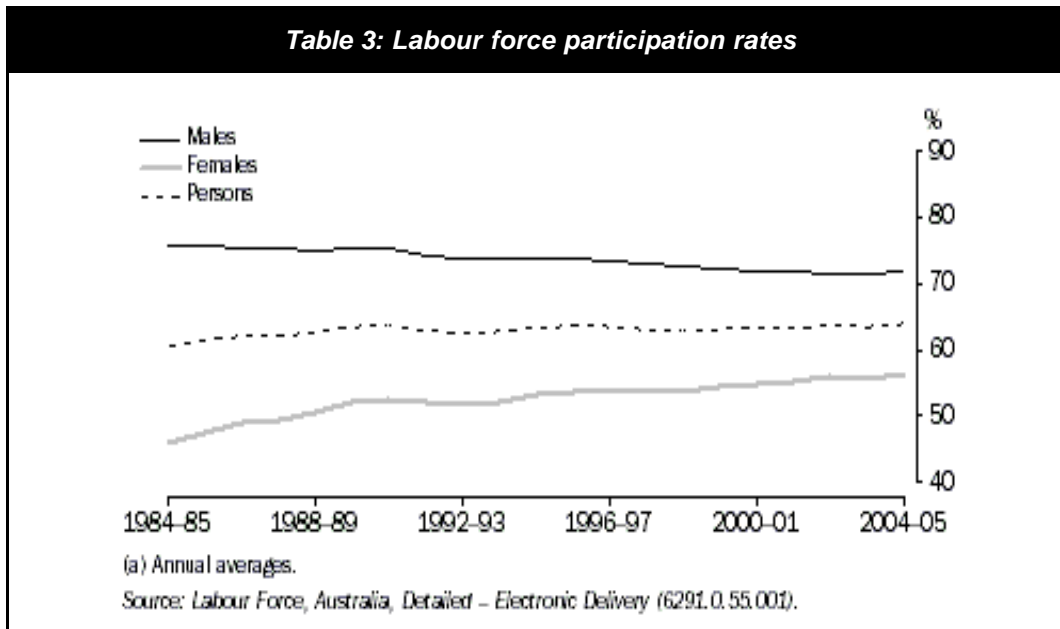
¹ Cowling, S. and Mitchell, W. 2005, Centre of Full Employment and Equity Working Paper No.05-18, 'Taking the low road: Minimum wage determination under 'Work Choices'. p.8

80. It is the New South Wales Government's view that minimum wages should provide an attractive entry point into the labour market, encouraging higher participation rates. If the level of minimum wages do not encourage workers to participate in the workforce, workers may become discouraged from looking for work and 'hidden' unemployment will increase.

Participation rates - Australia

81. Approximately 10.7 million or almost two-thirds (64.8 per cent seasonally adjusted) of Australians aged 15 years and over are either working or actively seeking work. The last 20 years have seen a dramatic shift in the composition of Australia's workforce with participation rates steadily increasing, rising from 60.5 per cent in 1984-85 to 64.0 per cent in 2004-05.²

82. Overall there is a higher participation rate for men than women, but the long term increase in participation rates has been driven by increasing participation of women. The participation rates for women have increased from 45.7 per cent in 1984-85 to 56.5 per cent in 2004-05. Conversely, the male workforce has experienced a slight decline in participation, falling from its height of 75.9 per cent to 71.8 per cent over the same period. These trends are illustrated in Table 3.



² ABS Labour Force: June 2006, Cat 6202.0 & AMP NATSEM: Changing face of the Australian labour force 1985-2005, November 2005

83. Some factors that may help explain these trends include:

- the changing age profile of the population
- increased participation in education
- mothers and married women returning to the labour force
- the inability of families to survive on single incomes
- the restructuring of male dominated industries such as manufacturing
- the increased number of young people working while studying
- falling unemployment rates which result in more people actively seeking work
- increased need for two income households to meet increasing household costs.

Participation rates – New South Wales

84. New South Wales had a labour force numbering approximately 3.28 million people in June 2006, which represents an overall participation rate of 63.2 per cent of the available civilian population aged 15 years and over. Overall there was a seasonally adjusted unemployment rate of 5.4 per cent for those actively seeking employment in New South Wales.³

85. According to the ABS annual regional labour force data to June 2005, Sydney had a higher participation rate than the rest of the State, with a 64.8 per cent participation rate and a lower unemployment rate of 4.5 per cent. The balance of New South Wales had a lower participation rate of 58.4 per cent and a higher unemployment rate of 6.6 per cent. New South Wales regional unemployment rates as at June 2005 ranged from:

- Lowest – Northern Beaches – 2.8 per cent
- Highest – Richmond-Tweed & Mid-North Coast – 9.5 per cent

86. It is important to acknowledge that regional workers have less mobility between jobs. The following table shows it is incorrect to assume that workers in regional areas operate in the same labour market as workers in metropolitan areas. Labour market participation and unemployment rates vary dramatically from location to location for a variety of reasons.

³ ABS: Labour Force Cat 6202.0, June 2006

Table 4: Unemployment and participation rates, NSW		
	Unemployment (per cent)	Participation (per cent)
Sydney	4.5	64.8
Balance of NSW	6.6	58.4
Total NSW	5.3	62.5

Source: Unpublished data ABS Labour Force Survey July 2005 Original (non-seasonally adjusted) in annual averages.

87. Higher unemployment rates mean that workers in regional areas often have less bargaining power than workers in metropolitan labour markets. It is the view of the New South Wales Government that workers with less bargaining power benefit from minimum wage increases.

Relationship between minimum wages and participation

88. Maintaining a decent and fair minimum wage that reflects changes to wages more generally in society provides an incentive for people to look for work and participate in the labour market. A decrease in the minimum wage in real terms provides a disincentive to participate.
89. The federal government is attempting to increase participation rates through the Welfare to Work legislation by reducing access to welfare benefits and forcing workers back into the labour market. At the same time, the Work Choices amendments will likely reduce the value of real wages over time by reducing bargaining power of low paid workers and limiting the scope for increases in the minimum wage by changing the parameters within which minimum wage setting decisions are made. The Welfare to Work legislation aims to increase workforce participation by denying people welfare payments unless they accept any offered job, even if the terms and conditions are less than the award safety net.
90. The example of 'Billy' in the Work Choices brochure issued prior to the federal industrial legislation being enacted makes it clear that the federal government's view is that if the unemployed wish to enter the labour market, they may have to accept terms less than the accepted community or industry standards.⁴

⁴ May, R, Journal of Australian Political Economy No 56. 'The British Low Pay Commission and the Proposed Australian Fair Pay Commission', p102 & Work Choices – A New Workplace Relations System p.15

91. The New South Wales Government believes that maintaining the value of the minimum wage as a living wage will create an incentive to participate in the workforce and provide a barrier against exploitation. Should minimum wages deteriorate in real terms the unfortunate outcomes will be a growth in wage inequality and low pay, leading to poverty and the loss of decency and dignity in the workplace. Employers should not be encouraged to create sub-standard jobs.

Relationship between minimum wages, churn rates and transactional costs

92. Churning is characterised in the labour market as gaining employment for a short period of time and then returning to periods of unemployment.⁵ Churn between low paid work and unemployment appears to be substantial.

93. Research undertaken by the Australian Bureau of Statistics provides unambiguous support for the link between churn rates and the quality of a worker's employment conditions. Workers in low paid jobs are more likely to stay in their job for a short period of time. Significantly, financial benefits were identified as a strong influence in reducing the churn rate and improving job tenure.⁶ Studies have further revealed that those industries that exhibit disproportionately high churn rates are most likely to be the most dominant award reliant industries such as retail, accommodation, cafes and restaurants and cultural and recreational services.⁷

94. Since 1992 the proportion of people who have been in their current job for less than one year has increased. Of those persons working at February 2004, 23 per cent had been employed in their current job for less than one year. Heavily award reliant industries, such as accommodation, cafes and restaurants, and retail trade have the highest proportion of persons who had worked in their current jobs for less than one year: 34 and 31 per cent respectively.⁸ Not surprisingly, both of these industries also had the lowest proportion of persons who had been in their current jobs for more than ten years.⁹

⁵ ABS: Job Quality and Churning of the pool of the unemployed Cat No 6293.0

⁶ Ibid

⁷ Leeves, G: Australian Journal of Labour Economics, 'Worker Turnover: Hires, Separations and Employment Growth at the Employer Level', Vol. 4, No.4, December 2000

⁸ ABS: Labour Mobility, Australia, February 2004, Cat No 6209.0.

⁹ Ibid - N.B. The accommodation, cafes and restaurants industry (7per cent) and retail trade (14per cent) had the lowest proportion of persons who had been in their current job for 10 years or more.

95. The significance of churning in the Australian labour market is often unrecognised in unemployment figures and the costs to the individual associated with interruptions to working life. Workers who face limited labour mobility and higher churn rates include older workers and those in low skilled occupations. Low paid workers face barriers to looking for or moving to higher paid work, including having access to time off and travel costs to attend interviews. This further limits their mobility.¹⁰
96. Churn must also be recognised as a significant cost to business. The New South Wales Government contends that increasing churn and labour mobility, particularly between low paid work and unemployment, will result in a commensurate increase in transactional costs for employers. Employers, regardless of the size of their organisation, face significant transactional costs relating to the turnover of staff. In 2000 it was estimated the cost to business of replacing a manager was \$48,000 with the cost of replacing other staff starting at \$12,000. It has been estimated that organisation turnover can cost between 90 and 2000 percent of a person's annual salary.¹¹
97. These costs are exacerbated when on average it may take up to twenty weeks for new employees to become fully productive in their position.¹² It is known that businesses experiencing high turnover of staff are likely to experience low staff morale and reduced productivity.¹³ The hidden transactional costs that have a detrimental impact upon the profitability and productivity of a particular business include:
- lost time spent on interviews and administrative tasks
 - termination pay
 - loss of good will
 - loss of customers
 - loss of intellectual property
 - loss of specialist knowledge
 - recruitment costs

¹⁰ Masterman-Smith, H, May, R, and Pocock, B 2006, Living Low Paid: Some Experiences of Australian Childcare Workers and Cleaners, p. 14. (From a project funded by the Australian Research Council and the Brotherhood of St Laurence, Liquor Hospitality and Miscellaneous Workers Union (LHMU), SA Unions, Unions NSW and the Victorian Trades Hall Council.)

¹¹ Reported in Diversity No 6, 2002, "The Diversity Dividend"

¹² Quay Issues, Quay Appointments, August 2001.

¹³ Attract and Retain the Best Talent; www.eeo.gov.au

- advertising costs
- orientations, training, learning material for new employees
- loss of productivity of departing employees, reduced productivity of new employees learning their role and lost productivity of supervisors monitoring output or training of any new employees.¹⁴

Impact of AFPC wage increase on employment

98. It would appear the establishment of the AFPC is based, at least in part, on the view of the federal government that the level of past safety net adjustments awarded by the Australian Industrial Relations Commission (AIRC) impeded employment growth and accordingly such adjustments should be reduced and confined to the low paid. Underlying this view is the proposition that increases in the minimum wage will have a detrimental impact on employment rates.
99. The New South Wales Government vigorously rejects this assertion and strongly believes that moderate, predictable increases in minimum award wages will not adversely impact on employment and instead contribute to stability, harmony and decency in the workplace.
100. It is often simply assumed that minimum wage increases create unemployment. This assumption has been based on an economic framework that requires the labour market to set a 'market clearing' wage. A large number of empirical studies have investigated a possible link between increases in minimum wages and unemployment and have not been able to conclusively support such an assertion.
101. In the 2005 Safety Net Review decision the Bench referred to approximately fifty overseas studies and ten Australian studies the Commonwealth had presented in previous safety net reviews investigating the impact of increases in minimum wages on employment. The AIRC was largely dismissive of such evidence stating:

As we have noted previously, most of this material is of very limited assistance. The research is either largely irrelevant, limited in scope or has serious methodological flaws.¹⁵

¹⁴ Ibid

¹⁵ PR002005 para 164 & PR002004 para 229

102. The AIRC has been particularly critical of studies based on increases in a single minimum wage. As past safety net adjustments in Australia have applied to a range of minimum rates at various levels throughout the award system, such studies do little to assist the understanding of employment effects of multiple wage adjustments. This is exacerbated by the diversity of research findings.

103. In its 2005 Decision, the AIRC referred to the difficulties associated with such conclusions in the following manner:

To illustrate the problems with the research...in the 2004 proceedings the Commonwealth relied upon a study which showed an elasticity of demand for labour of -0.21 per cent. This year it urged us to accept a study which showed an elasticity of -0.63 per cent. On the Commonwealth's submission this year we would have been wrong to accept its submission in last year's safety net review.¹⁶

104. The international material available also does not provide direct assistance in the context of the Australian workplace. The OECD has recently noted that empirical evidence concerning a negative impact of minimum wages on employment is mixed, with a number of studies finding an adverse impact is modest or non-existent.¹⁷

105. Indeed in its publication, *OECD Employment Outlook: Boosting Jobs and Incomes 2006*, it notes that a minimum wage can encourage higher participation by assisting to make work pay for the low skilled. It further notes that a well-designed minimum wage can contribute to broader strategies to encourage employment growth by guaranteeing that work is more beneficial than remaining on social benefits.¹⁸

106. In its 2006 NSW State Wage Case decision, the IRC NSW referred to the OECD study noting that:

...the impact of minimum wage adjustments...remains somewhat contentious. Some part of that controversy will, no doubt, be alleviated or resolved by the recent authoritative announcement by the OECD... The OECD study plainly indicates that there is a scope for moderate minimum rate adjustments without significantly affecting employment growth in an adverse way...¹⁹

¹⁶ PR002005 para 409

¹⁷ OECD Employment Outlook 2006 Boosting Jobs and Income p.86

¹⁸ Ibid pp86-88

¹⁹ SWC 2006 (No.6) [2006] NSW IRComm 204, para 254

107. The relationship between unemployment and minimum wage increases is undoubtedly of great policy importance. Unfortunately in the context of the Australian workplace much research remains to be undertaken and consequently it remains unclear whether such a relationship exists.²⁰

Minimum wage setting in the United Kingdom

108. While the New South Wales Government acknowledges the value of international studies on minimum wage adjustments is limited, there are practical international examples that demonstrate how minimum wage increases have led to improved, or at least stable employment outcomes. The New South Wales Government urges the AFPC to critically analyse any research that attempts to establish a relationship between minimum wage increases and negative employment growth.

109. The federal government has based the AFPC on the Low Pay Commission (LPC) which sets minimum wages in the United Kingdom. There are however some integral differences between the two wage setting bodies.

110. In the first instance the LPC was established to introduce a minimum wage system where none previously existed. Further, the LPC only sets a youth development rate; a minimum wage for adults and introduced a minimum rate for sixteen and seventeen year olds in 2004. The LPC must also take into account wider social implications as well as economic considerations when setting wages. Its various reports show it has taken the issues concerning the low paid very seriously.²¹ By contrast the AFPC has as its primary objective 'to promote the economic prosperity' of the people of Australia and in achieving its ends must consider, 'the capacity of the unemployed and low paid to obtain and remain in employment'.

111. The LPC and its minimum wage thus sit firmly within a broadly progressive social agenda and its establishment was part of wider social policy changes, including broad measures to reduce poverty.²²

²⁰ Watson, I 2004, *A Needle in a haystack. Do increases in the minimum wage cause employment losses?*, Working Paper 90, acirrt, p.15.

²¹ May, R, op cit, p.99

²² Ibid, pp.99-100

112. In contrast, there is now justifiable concern within the broader Australian community that the AFPC's narrow, economically focused wage setting parameters appear to be an instrument for intensifying low pay.
113. While the New South Wales Government does not support the removal of the minimum wage setting function from the AIRC, some empirical evidence concerning the employment impact of LPC wage adjustments is relevant in considering the employment impact of increases to the minimum wage.
114. In 2004, Professor Mark Stewart, of the University of Warwick published findings into the potential relationship between minimum wages set by the LPC and employment. The research estimated the employment effects on low wage employees of the introduction of the National Minimum Wage in 1999 and the subsequent increases in 2000 and 2001.
115. Professor Stewart's research concluded that the wage increases recommended by the LPC between these years had no significant adverse effect on employment for any of the demographic groups considered.²³
116. In its 2003 report on the National Minimum Wage, the LPC noted that: 'All the signs are that the minimum wage can be increased without producing damaging economic effects.'²⁴
117. The 2006 report of the LPC, published in March, noted a continued growth in employment, both in the national economy and in the low paying sectors. The latest data revealed an increase of 221,000 in total employment figures over the year to November 2005.²⁵ The LPC noted:

Between September 2004 and September 2005, 38,000 net new jobs were created in the low-paying sectors, including 22,500 net new jobs in the retail sector. In 2005, private sector employment grew at its fastest rate since 2000.²⁶

²³ Stewart, M 2004, 'The Employment Effects of the National Minimum Wage', *The Economic Journal*, pp. 110-116.

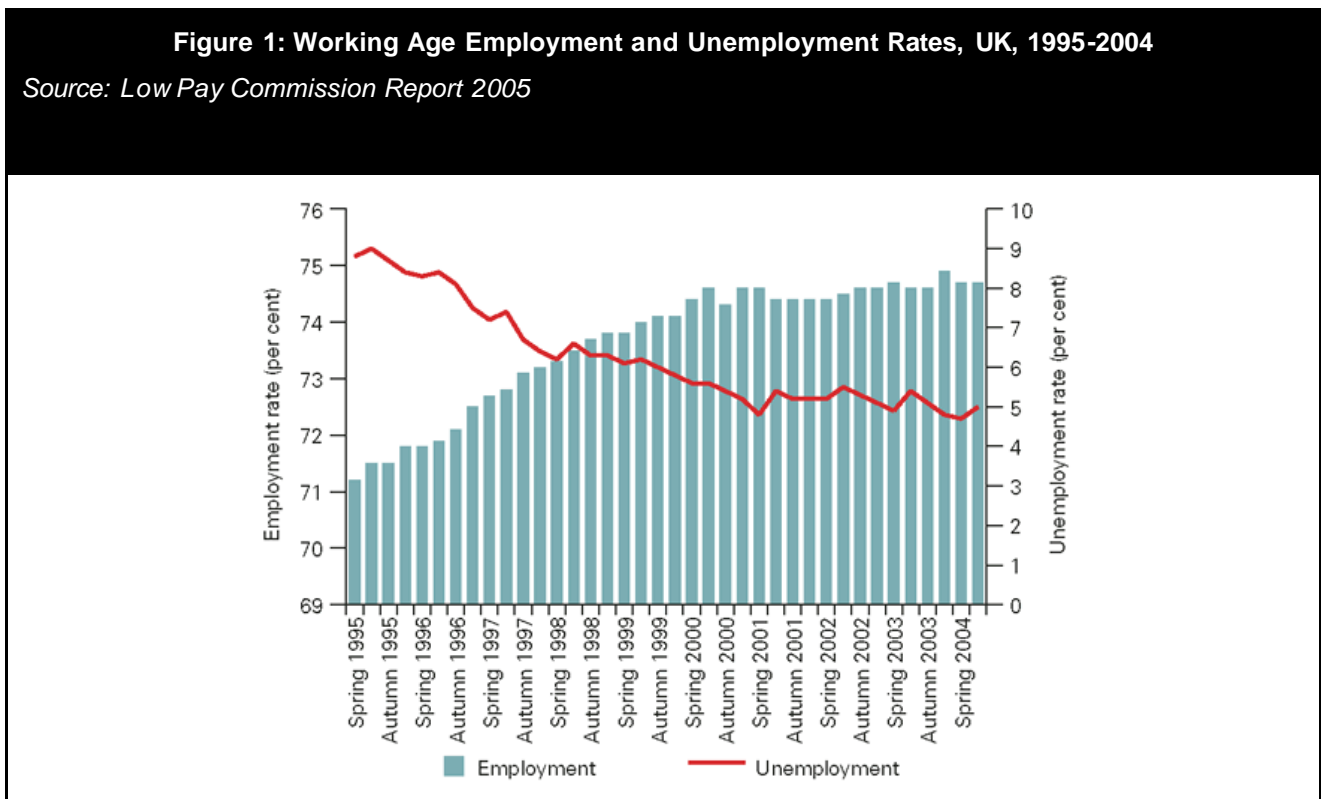
²⁴ Low Pay Commission, 2003, *The National Minimum Wage: Building on Success. Fourth Report of the Low Pay Commission*, United Kingdom, p. 9.

²⁵ Low Pay Commission, 2006, *National Minimum Wage. Low Pay Commission Report 2006*. United Kingdom, p. 7.

²⁶ Ibid.

118. Since its introduction in the United Kingdom the minimum wage will have risen 49 per cent by October of this year.²⁷ The New South Wales Government believes the United Kingdom experience shows that increases in minimum wages can provide significant benefits for minimum wage earners without having a detrimental impact on unemployment rates.

119. Figure 1 shows that since the National Minimum Wage was introduced in 1999 the unemployment rate in the UK has steadily decreased.



Minimum wage setting in the United States

120. The federal minimum wage in the United States is US\$5.15 per hour (AUD \$6.84) and has not increased since 1997. While many states have their own legislated minimum wage rates only eighteen of the fifty states have enacted laws to enforce wage rates higher than the federal minimum wage. Some labour market economists often point to the United States to support the argument that low minimum wages encourage prospects of employment.

²⁷ Workplace Express, 'UK Minimum up 49per cent: growth much faster than in Australia', 5 April 2005

121. However despite the real value of the minimum wage falling by fifteen per cent in the US between 1997 and 2004, employment growth since 1996 has been nine per cent lower than Australia.²⁸
122. There is in fact solid evidence at a local level in the United States that raising minimum wages can improve living standards of the low paid and maintain successful businesses without any detrimental impact upon employment. Over the last decade, the United States has witnessed the rapid expansion of a municipal policy initiative known as the living wage ordinances which mandate minimum wages above the federal minimum wage for particular classes of workers. These measures were introduced as an effort to ameliorate the working conditions of the low paid in an environment of a stagnating federal minimum wage and customarily apply to businesses that are under contract to local government.
123. Studies undertaken by a number of academics encompassing nine cities have found that on balance employers who have participated in living wage ordinances have offset higher labour costs through a combination of prices, increased productivity and internal redistribution rather than terminating employment.²⁹ While not suggesting higher minimum wages are inextricably linked to higher rates of employment growth, such studies indicate that the two are not incompatible, particularly in a climate of continuing general economic growth currently being experienced by Australia.

Minimum wage setting in Australia

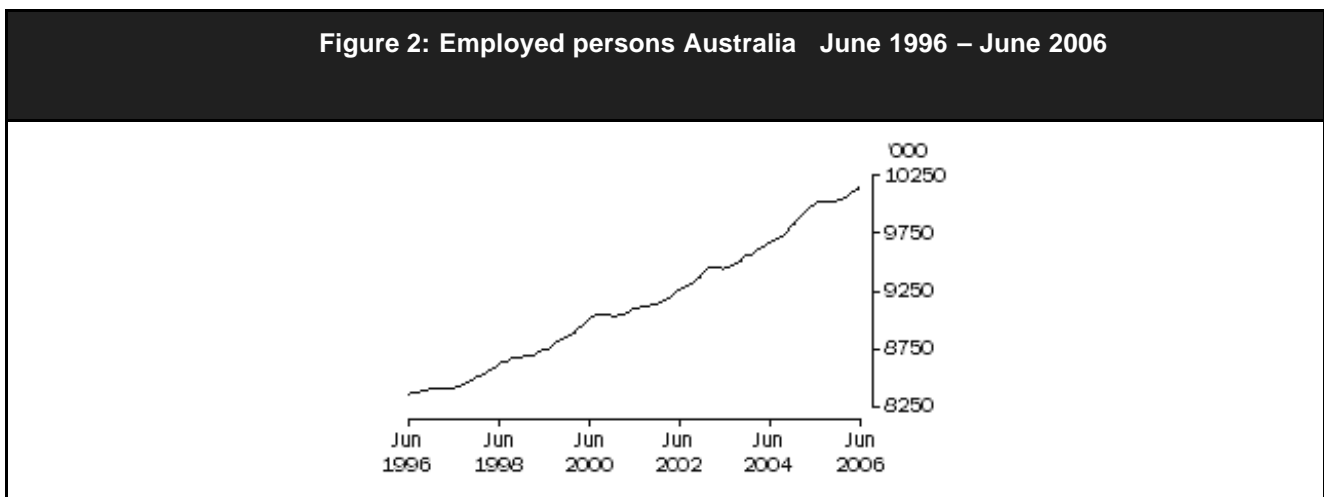
124. In past federal safety net reviews the federal government have strongly argued against granting reasonable minimum wage increases in favour of increasing employment, as though the two are mutually exclusive. In the New South Wales Government's submission, however, responsible increases in the minimum wage are entirely compatible with positive and continuing employment outcomes.
125. In the decision of its final national Safety Net Review in 2005, the AIRC concluded:

²⁸ Australian Council of Trade Unions, 2005, *Minimum Wage Case – April 2005, ACTU Factsheet*, p. 4.

²⁹ Brenner, M 2004, *The Economic Impact of Living Wage Ordinances*, Working Paper No. 80, Political Economy Research Institute, University of Massachusetts: Amherst, p. 28. <http://wwwx.oit.umass.edu/~peri/html/3/163.html>

In light of the growth in employment over the last eight years and the fact that [un]employment has declined to its lowest level in 28 years, it would be difficult to accept that the Commission's safety net adjustments have been excessive even if employment was the only matter the Commission had to take into account in maintaining the safety net.³⁰

126. The Industrial Relations Commission of New South Wales (IRC NSW) endorsed the above comments in its 2006 NSW State Wage Case decision. It noted that, notwithstanding the expressions of concern by the federal government about the impact on employment growth of wage increases, those fears have clearly not been realised, despite the fact that in 2005 an increase of \$17 was awarded by the AIRC.³¹
127. Current economic indicators do not support the argument of the federal government. The Australian economy has experienced fifteen years of continuous economic growth and in terms of living standards there has been an improvement in Australia's relative international position, rising from nineteenth in 1990 to eighth in 2004.³² In June 2006 the unemployment rate remained steady at 4.9 per cent, (the lowest unemployment rate for thirty years) and the participation rate increased to a record high of a seasonally adjusted rate of 64.8 per cent.³³
128. The Australian experience proves beyond doubt that it is possible to have falling unemployment while experiencing wages growth. Figures 2 and 3 indicate the steady national growth in participation rates and decline in unemployment rates over the last decade.



Source: Australian Bureau of Statistics *Labour Force June 2006* Cat no. 6202.0

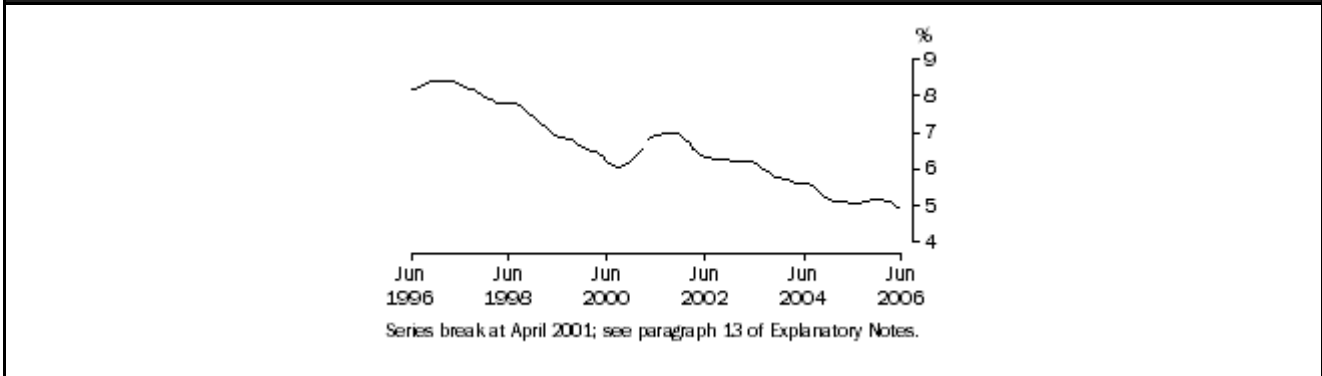
³⁰ PR002005 paragraph 410

³¹ State Wage Case 2006 NSWIRComm 204, para 120

³² Paper presented to Committee for Economic Development of Australia (CEDA) by Stephen Smith MP, 24 February 2006

³³ ABS Labour Force: June 2006, Cat 6202.0

Figure 3: Unemployment Rate Australia June 1996 – June 2006



Source: Australian Bureau of Statistics *Labour Force June 2006* Cat no. 6202.0

129. After considering the latest economic forecasts from the federal government's 2006-07 Budget Papers, the IRC NSW stated in its 2006 NSW State Wage Case decision that the national economy in 2006 was better placed to sustain an increase in wages, particularly in relation to levels of employment, than it was twelve months ago.³⁴
130. The New South Wales Government believes the AFPC should give due consideration to the evidence and submissions made to the NSW State Wage Case when making its wage determination.

³⁴ State Wage Case 2006 NSWIRComm 204, para 61

Employment and competitiveness across the economy

131. The Australian Fair Pay Commission (AFPC) is required to have regard to employment and competitiveness across the economy when performing its wage setting-functions.³⁵
132. Competitiveness is a term that may be defined in many different ways, but commonly includes notions such as labour costs, GDP growth, market responsiveness, price and quality of products and services and productivity, balanced against the capacity to simultaneously deliver sustainable and expanding real incomes and improved standards of living. Appendix A provides a summary of definitions of competitiveness.
133. The concept of competitiveness for countries and businesses is quite different. Competitiveness of companies tends to focus on profitability, while a nation's competitiveness instead focuses on productivity as a tool to deliver improved social outcomes.
134. While former United States President Bill Clinton has described nations as 'like a big corporation competing in the global marketplace' there is in fact very little similarity between a corporation and a country. The AFPC must resist the approach to analyse the economy as a corporation and should apply a broader definition of competitiveness than would normally apply solely to an employing entity.
135. The federal government called on Australia to become more competitive, claiming that policies need to be changed because the world has become a more competitive place. The federal government has continually argued that its Work Choices amendments were necessary to improve Australia's international competitiveness. One of the objects of the amended Workplace Relations Act is:
- encouraging the pursuit of high employment, improved living standards, low inflation and international competitiveness through higher productivity and a flexible and fair labour market
136. It seems odd then that the federal Minister in his second reading speech does not refer to competitiveness at all. The Shadow Minister for Industry, Infrastructure and Industrial Relations, Mr Stephen Smith summarised it well in his contribution to the second reading debate when he said:

³⁵ S. 23(b) of the Workplace Relations Act 1996 as amended by Work Choices.

When did we hear the arguments that these measures were so essential and so important to our international competitiveness that they had to be dealt with? We heard a deafening silence...

137. In fact the only reference to competitiveness in the Explanatory Memorandum to the original Bill and in the amended Workplace Relations Act itself relates to the parameters within which the AFPC must make its minimum wage decisions. On this basis one could draw the conclusion that the federal government sees minimum wage setting as the only mechanism in the legislation to promote 'competitiveness'.
138. In this context it is of concern to the New South Wales Government that at no stage has the federal government sought to explain how its Work Choices amendments will in fact contribute to 'improved competitiveness', or even what meaning is intended when it uses this expression.
139. The federal Minister for Workplace Relations has offered some simplistic comments on the importance of workplace relations reforms and competitiveness. A search on his website over the past two years offers the following:
- In the mining industry - which is crucial to Australia's international competitiveness - almost 50 percent of workers on federal agreements are now employed under AWAs.³⁶
140. There is of course no attempt to explain how AWAs have contributed to the competitiveness of the mining industry.
141. In a speech from November 2005, Mr Andrews noted:
- In Australia today those who deny the need for further reform are also denying the very real future challenges Australia faces. Those who argue and counsel doing nothing will condemn this country to declining competitiveness, diminishing job opportunities and over time, lower wages.³⁷
142. This is particularly interesting when one considers the World Competitiveness Yearbook has found that Australia's competitive ness rating has improved so dramatically in recent years.³⁸
143. The federal Minister has also attempted to link the need for industrial relations reform with competitiveness in the building and construction industry:

³⁶ Andrews, K 2005, New OEA small business initiative, Media release, 28 April.

³⁷ Andrews, K (2005) Speech, Australian Corporate Lawyers Association, Hilton On The Park, East Melbourne, 11 November, 2005

³⁸ http://www.trademinister.gov.au/speeches/2005/050622_economist_roundtable.html

A major employer in the mining sector recently told me of how the many building projects that it undertakes in Australia take up to six months longer to complete than similar projects overseas. This is a serious impediment to Australia's international competitiveness in export industries such as mining.³⁹

144. However, the federal government's own submission to the Building and Construction Industry Royal Commission that stated the cost of construction in New South Wales is 20 to 30 per cent cheaper than in Victoria, which has operated solely under the federal industrial relations system since 1996. Further, Daniel Grollo, Managing Director of Grocon, conceded in August 2005 that construction times in Victoria are one and a half times longer than those in NSW.
145. The New South Wales Government submits that the AFPC should consider the definition of competitiveness to be a broad construct that should not be viewed in the narrow terms of setting minimum wages as low as possible. Competitiveness should instead be viewed to mean success in markets through sustainable economic growth that translates into increases in general welfare and standards of living for Australians and not merely a reduction in labour costs.
146. Elements of competitiveness that should be considered by the AFPC include:
- Australia's international competitiveness
 - Minimum wages and the competitiveness of Australian jobs
 - Businesses competitiveness on wage costs
 - Competitiveness of businesses that rely on consumers from low income groups
 - Labour market competitiveness of women
 - Competitiveness of Australia as a fair and decent society
 - Capacity for productivity improvements in award reliant industries

Australia's international competitiveness

147. In a speech to the Economist Group Roundtable in June 2005 the federal Trade Minister, Mark Vaile said:

For the third year in succession, the World Competitiveness Yearbook 2004 ranked Australia as the most resilient economy in the world... and in a mere, but highly productive, ten years we have moved from 15th to 4th place on the World Competitiveness Index.⁴⁰

³⁹ Andrews, K (2004) Speech to Master Builders Association, Master Builders Association NSW Top 50 Builders Luncheon Starcity Casino, Sydney, 19 November 2004.

⁴⁰ http://www.trademinister.gov.au/speeches/2005/050622_economist_roundtable.html

148. Since that time Australia has repeated this performance and has for a fourth year been named as the most resilient economy in the world.⁴¹

149. In its community consultation sessions, the AFPC heard views that minimum wage decisions should consider issues such as competitiveness, the cost impact on business, the state of the economy and the ability of business to pay. A comment was made that 'Businesses need to compete with third world countries'.⁴² Similar sentiments have been previously expressed by the federal Employment and Workplace Relations Minister:

Australia's businesses and Australia's workers must have a modern workplace relations system if they are to compete with the likes of China and other emerging economies.⁴³

150. It is of concern to the New South Wales Government that the federal government views minimum wages only as a mechanism for Australia to be more competitive with emerging economies. Australia does not have the growth potential of countries like India and China which are starting from a significantly lower base.⁴⁴ Further, Austrade, the Australian government trade commission for Australian exporters has noted:

China's low labour costs do not imply that all Chinese outputs are 'undervalued' and that this is going to undermine the region - what matters is not absolute costs but relative costs... Furthermore, China is coming from a low base and an isolated economy, real incomes have only one way to go and that is up.⁴⁵

151. The New South Wales Government submits that Australia should seek sustained economic growth through innovation, research and development, infrastructure, business efficiency and resource allocation efficiency. Reducing minimum wages in real terms to compete with emerging economies is a low-road, race-to-the-bottom approach to economic competitiveness.

⁴¹ IMD World Competitiveness Yearbook 2005

⁴² Overview of Albany Consultation Session, www.fairpay.gov.au

⁴³ Hon Kevin Andrews MP, Minister for Employment and Workplace Relations, Minister Assisting the Prime Minister for the Public Service on 27 July, 2005, speech delivered on 'The Howard Governments New Workplace Relations System'

⁴⁴ *International Competitiveness*, Research Paper for the Business Council of Australia Scenario Planning Project 'Aspire Australia 2025' p1

⁴⁵ Austrade, <http://www.austrade.gov.au/>

152. Innovation is recognised as the heart of all modern and successful economies and is driven by research and development.⁴⁶ Australia's former Chief Scientist, Dr Robin Batterham states that it is not enough for Australia to be a consumer of technology. There is also a need to develop leading edge capabilities to compete on a global scale.⁴⁷ Last year federal Industry Minister Ian Macfarlane commented on Australia's automotive industry:

We need to use innovation to penetrate new markets ... We do have a competitive edge, we are a cheaper place to do research and development, we are a cheaper place than America and Europe to manufacture some of the sophisticated componentry and we need to take advantage of that... There are some parts where we won't be able to compete particularly with mass produced parts out of China, but there are other parts where we can compete. We can produce at 80 per cent of the cost of manufacturing in most Western countries... Automotive exports are running at more than \$5 billion a year with \$2 billion coming from parts makers.⁴⁸

153. However, instead of fostering innovation in the Australian economy to further promote our competitive advantage, the federal government has targeted wages and conditions of ordinary Australians to cut costs and drive profitability. Currently Australia's private investment in research and development is significantly below world's best practice, ranking 16th out of 28 member countries of the OECD.⁴⁹

154. While Australia has a highly competitive and resilient economy, and real unit labour costs are at historically low levels,⁵⁰ the New South Wales Government submits that this edge is at risk if the AFPC does not deliver real wage growth to Australian workers who rely on awards and the minimum wage.

Minimum wages and the competitiveness of Australian jobs

155. The New South Wales government submits that any consideration of competitiveness when setting the minimum wage should include a consideration of the competitiveness of Australian jobs.

156. Australian jobs need to remain competitive in terms of decent work and minimum conditions, especially if overseas workers are to be attracted and Australian workers retained to address current skill shortages.

⁴⁶ Innovation Policy Discussion Paper – Federal Labour Caucus Economics Committee p3

⁴⁷ A Chance to Change, Report on the Chief Scientist, Dr Robin Batterham, November 2000 in Innovation Policy Discussion Paper – Federal Labour Caucus Economics Committee p3

⁴⁸ Roberts, D 2005, 'Drive to save car export jobs', Australian Financial Review, 13 August

⁴⁹ OECD 2005 STI Scoreboard

⁵⁰ Note: The real unit labour cost is an estimate of the real cost to employers of employing labour to produce one unit of output. Refer to Analysing the Terms of Trade Effect on GDP in the Presence of Low Real Unit Labour Costs – ABS 1351.0.55.014

157. It is also essential that minimum wages provide a fair and decent safety net to ensure that there is no incentive for businesses to exploit overseas workers at the expense of Australian workers.
158. The New Zealand experience shows the danger for a nation of reducing wages and conditions to the extent that both skilled and semi-skilled workers seek to leave that country in search of better earning and opportunities overseas.
159. RMIT Research Fellow Robin May explained that the New Zealand experiment resulted in a significant wage gap estimated to be up to 20 per cent between Australia and New Zealand, and has resulted in an exodus of skilled workers across the Tasman in search of higher wages.⁵¹ New Zealand nurses are still recovering from more than a decade of industrial reforms which left their wages far below other professions, eliminated many of their employment rights, and forced many New Zealand nurses to move overseas to find work.⁵²
160. The New South Wales Government submits that in the current environment of skill shortages, it is imperative that minimum wages are maintained at a level that ensures that Australia is an attractive and competitive place to live and work.

Business competitiveness on wage costs

161. The New South Wales Government urges the AFPC to consider the impact of a reduction in the wage safety net in real terms in an environment that encourages businesses to compete on wage costs. When wages, not quality and innovation, become the basis for competition, businesses have no choice but to reduce wages to the lowest common denominator in order to remain competitive, initiating and reinforcing a 'race to the bottom'.

⁵¹ May, R 'NZ's past paints a clear picture on reform', The Age, Business Section 24 May 2005 and

⁵² "The New Zealand experience: a cautionary tale." Australian Nursing Journal 12.11 (June 2005): 25(1). Expanded Academic ASAP. Thomson Gale. 25 July 2006

162. This race to the bottom impacts on competitiveness between business not only in terms of wages, but subsequent profitability. Businesses are unlikely to consider macroeconomic or national competitiveness in their daily operations. Businesses who go down the road of reduced wage costs have little incentive to focus on other aspects of competition in their businesses, such as improvements in production processes to reduce costs and prices, to produce new, innovative products or to use resources as efficiently as possible.
163. The New South Wales Government submits that a fair minimum wage provides incentives for better performance of business and this in turn will lead to improved productivity and international competitiveness of Australian businesses.

Competitiveness of businesses that rely on consumers from low income groups

164. The New South Wales Government submits that any consideration of competitiveness when setting the minimum wage should include the ability of business to compete and remain viable when their customer demographic is in lower income groups.
165. As minimum wages remain static and fail to keep up with the cost of living, businesses who rely on lower income earners to survive are suffering downturns in profit, largely due to a reduction in discretionary spending. Roger Corbett, the Chief Executive of supermarket group Woolworths, was recently reported as saying (in relation to Big W) that discretionary spending in the family budget was 'as tight as I've seen it in years' which is largely due to increases in petrol prices and interest rates. On the other hand, David Jones, with a customer base comprised of middle to high income earners, has noticed little affect on sales and have opened three new stores.
- 53
166. The New South Wales Government submits that it is important for the AFPC to consider the ongoing competitiveness of businesses that rely on low wage earners as a significant proportion of their customer base when carrying out its wage-setting functions.

⁵³ Weekend Australian Financial Review, July 22-23, 2006 pg 5

Labour market competitiveness of women

167. The New South Wales Government submits that the AFPC must consider the competitive position of women in the labour market when carrying out its wage-setting functions.
168. Australian women who work full-time earn an average of 15 per cent less than men who work full time. This gap widens considerably to 35 per cent when those employed on a part-time or casual basis are included.⁵⁴
169. Various labour surveys available from the Australia Bureau of Statistics illustrate the correlation between gender and work value by showing that workers in traditionally feminised industries are paid the lowest wages in Australia. Women also tend to be more reliant on minimum award rates of pay and concentrated in jobs with less access to a range of over award payments and bonuses.⁵⁵
170. Women tend to be concentrated in part-time and casual work in Australia. Only 35 per cent of full-time employees are female. On the other hand, females represent 71 per cent of all part-time employees⁵⁶ and 67 percent of part-time casual employees.⁵⁷ While part-time work may be preferred by some women, especially those with family responsibilities, women's concentration in part-time and casualised employment has a number of pay equity implications including but not limited to more precarious and lower-remunerated work, less access to training and more limited opportunities for advancement and career development than full-time employees.
171. Over time, the wage gap will grow for low-income, female workers in particular when compared with those in stronger bargaining positions. Recent national figures show that women who rely on individual bargaining to achieve wage increases earn 11 per cent less than women covered by collective agreements.⁵⁸

⁵⁴ ABS 6203.0 *Average Weekly Earnings*, February 2006.

⁵⁵ Rubery, J, Grimshaw, D and Figueiredo, H 2002, 'The Gender Pay Gap and Gender Mainstreaming Pay Policy', presented at the European Work and Employment Research Centre, UMIST, Manchester, cited in *Research Evidence About the Effects of the 'Work Choices' Bill* A Submission to the Inquiry into the *Workplace Relations Amendment (Work Choices) Bill 2005*, authored by A Group of One Hundred and Fifty Australian Industrial Relations, Labour Market, and Legal Academics, November 2005, p.33.

⁵⁶ ABS 6202.0 *Labour Force*, Australia, April 2006.

⁵⁷ ABS 6310.0 *Employee Earnings, Benefits and Trade Union Membership*, 2005. and ABS 6202.0 *Labour Force*, Australia, April 2006.

⁵⁸ ABS 6306.0 – *Employee Earnings and Hours*, Australia, May, 2004

172. Pay inequity will likely be further exacerbated by the award simplification and rationalisation processes. Award classification structures and the non-gendered assessment and valuation of skill and reward are intrinsic factors in addressing and resolving pay inequity.⁵⁹ Reducing occupational classifications and salary points by rationalising awards reduces the skill-based career paths built into the current system and the way in which these career-paths help to reduce the gender pay gap.⁶⁰
173. The New South Wales Government is concerned that the AFPC is not empowered to monitor and remedy the sensitive indicator of pay equity. Given that women remain clustered in low paid sectors and jobs, there is a real and significant risk that new minimum rates of pay and classifications in feminised industries will increase the pay gap if the AFPC does not at least maintain APCs and minimum wages in real terms.

Social competitiveness

174. The New South Wales Government submits that the AFPC must give as much weight to the importance of social competitiveness as it does economic competitiveness in delivering its minimum wage decisions. The AFPC is required, within the framework of the Workplace Relations Act, to consider all aspects of competitiveness, not just economic competitiveness.
175. It is the view of the New South Wales Government that in this consideration the AFPC must have regard to the implications for the low paid of the Welfare to Work legislation when determining the federal minimum wage. Further the AFPC must consider social competitiveness in terms of social welfare, equity and access to the workplace, as well as the preventing the establishment of a 'working poor'.
176. The central changes under Welfare to Work include the overall tightening of eligibility requirements and reporting conditions for social security, the introduction of the conditional suspension of welfare payments for breaches to participation requirements and tougher activity requirements for unemployed people on the Newstart Allowance.
177. Those most directly and adversely affected by the welfare changes will be sole parents, the unemployed, low skilled workers and people with disabilities.

⁵⁹ Submission by CPSU, The Community and Public Sector Union (PSU and SPSF Groups) to the Award Review Taskforce, January 2006, p.26.

⁶⁰ Human Rights and Equal Opportunity Commission submission to the Award Review Taskforce, January 2006, p.4.

178. Under the Welfare to Work changes sole parents currently on the Parenting Payment Single (PPS) will be transferred over to the lower paid Newstart Allowance once their youngest child turns 8. Sole Parents who apply for the PPS after 1 July 2006 will be transferred over to the Newstart Allowance once their youngest child turns 6. Sole parents will also be required to work part time for at least 15 per hours per week or demonstrate an effort to seek part-time work. There are approximately 821,000 sole parent families in Australia, representing 15 per cent of all families.⁶¹
179. The federal government claims that the reforms are necessary to reduce unemployment and long-term reliance on social security and encourage welfare recipients into the workforce. Yet these changes will require many welfare recipients to work at a financial loss. ACOSS estimates that 158,000 people will be put on lower payments as a result of Welfare to Work. This includes 81,000 people with disabilities, who will get \$45 a week less, and 77,000 single parents, who will get \$30 a week less.⁶²
180. The New South Wales Government is concerned that Welfare to Work, coupled with Work Choices, will create a steady supply of cheap labour for low paid jobs with conditions which undercut existing minimum wages and employment standards with 'take it or leave it' Australian Workplace Agreements.⁶³
181. Further, under Welfare to Work women will be subsidised through the Family Tax Benefit to stay at home and care for their children provided they are also caring for a spouse. However, single mothers will have to work, regardless of their children's needs. This system ignores the fact that it is difficult to find part time work for 15 hours a week or work that fits into school hours, making it more likely that single mothers will have to work longer hours and take low-paid, low-skilled work. This punitive approach will encourage wage inequality in feminised industries and as a result, the historical undervaluation of work on the basis of gender will remain unchanged and unchallenged.

⁶¹ ABS 1370.0, [Measures of Australia's Progress](#), 2006

⁶² ACOSS, *ACOSS & its members respond to start of Welfare to Work*, July 2, 2006, <http://www.acoss.org.au/News.aspx?displayID=99&articleID=1032>

⁶³ Briggs, C, *Federal IR Reform: the Shape of Things to Come*, ACIRRT, University of Sydney, commissioned by Unions NSW, November 2005, pp76.

182. The New South Wales Government submits that the AFPC must ensure that the interaction of the labour market and the welfare system does not establish for the first time a 'working poor' in Australia.

Capacity for productivity improvements in APCS reliant industries

183. The New South Wales Government acknowledges that productivity improvements are an essential component of maintaining and improving the social and economic competitiveness of Australian businesses and Australia as a nation. However, the AFPC must have regard to the fact that workers who rely on minimum wages are more likely to work in industries with less scope for productivity improvements.

184. In past national wage cases the federal government and major employer groups have argued that minimum wages should not be increased without measured gains in productivity. Indeed in the 2005 National wage case the federal government expressed their concerns that no productivity offsets are achieved in wage rate increases awarded as safety net adjustments compared with increases achieved through agreement-making.⁶⁴

185. However the New South Wales Government submits that measurement of labour productivity is problematic when analysing methods of gauging productivity performance in highly award (or APCS) reliant industries such as accommodation, hospitality, retail and the community services sector. In these service oriented industries, measures of labour productivity traditionally based on physical output and hours worked may not be the most reliable or relevant indicators.⁶⁵ As Rasmussen and Deeks have noted:

Measurement problems arise in the context of assessing productivity in areas where the product is service- now covering the major part of employment through the various service sectors and the public sector, in the increased emphasis on quality rather than quantity in the output of goods and services, and in the growing use of non-standard labour.⁶⁶

⁶⁴ PR002005 para 80

⁶⁵ Rasmussen, E and Deeks, J 1997-98, 'Contested Outcomes: Assessing the Impacts of the Employment Contracts Act', *Californian Western International Law Journal*, vol.28, pp. 275-296 at 288.

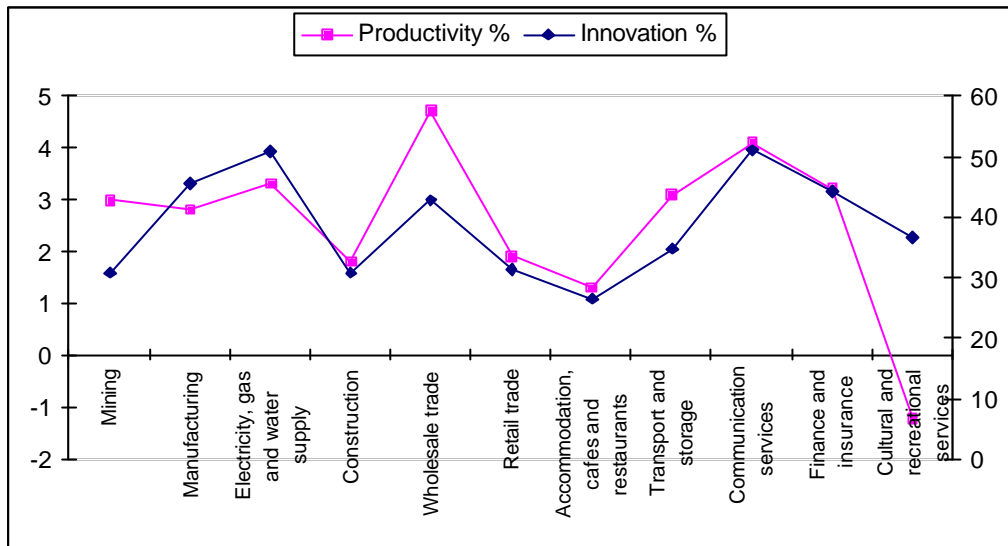
⁶⁶ Ibid.

186. In these industry sectors the delivery of services, rather than physical output or manufactured goods, is the primary mode of 'production'. Productivity gains can be secured by improved staff training, investing in skills formation and adopting effective management processes or new operational procedures to bring about qualitative improvements in service delivery.
187. In New South Wales service oriented industries where award-reliance is relatively high (such as retail, hospitality and accommodation), recognised drivers of labour productivity increases, including technological advances, innovation and capital deepening strategies, are not characteristic features. ABS data, on an industry basis, shows that the manufacturing industry contributed the highest proportion (27.1 per cent) to the total Australian expenditure on innovation - more than five times the proportional contribution made by the retail and accommodation, cafes and restaurants industries.⁶⁷
188. On the other hand, the average annual growth rate in labour productivity for the period 1992-1993 to 2002-2003 was, for industries such as retail, accommodation and restaurants, less than, or did not exceed, the average for all market sector industries.⁶⁸
189. Further, there is a clear association between labour productivity increases and the degree to which an industry or business invests in both technological innovation and non-technological innovation such as the implementation of new or significantly improved operational and managerial processes. This association is illustrated in Figure 4.
190. In service industries there is simply not the same scope for productivity increases as there is in industry sectors such as mining or manufacturing where productivity growth is driven, in great part, by technological innovation and increased outlays on capital equipment.

⁶⁷ Australian Bureau of Statistics 2003, [Innovation in Australian Business, 2003](#), cat. no. 8158.0, ABS, Canberra, p. 9.

⁶⁸ Australian Bureau of Statistics 2004, *Australian System of National Accounts 2002-03*, cat. no. 5204.0, ABS, Canberra.

Figure 4: Changes in labour productivity and business innovation



Source: Australian Bureau of Statistics 2003, *Innovations in Australian Business*, cat. no. 8158.0 and *Australian System of National Accounts, 2002-03*, cat. no. 5204.0, ABS, Canberra.

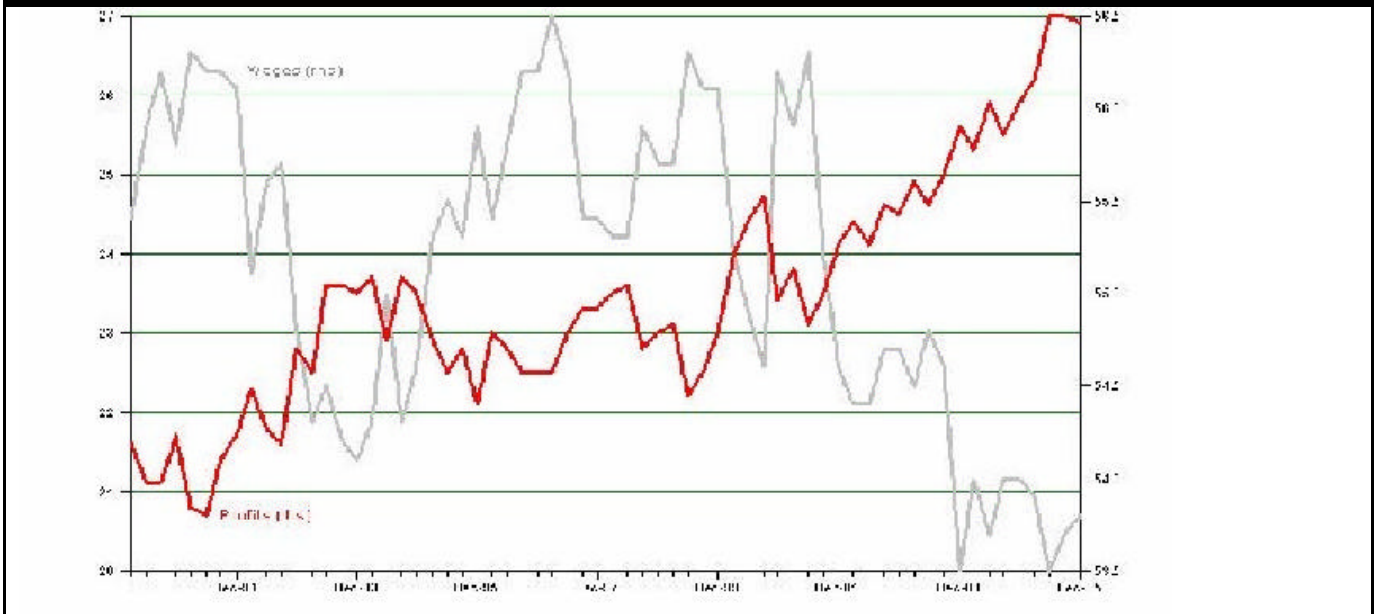
191. The New South Wales Government is strongly of the view that constraints on productivity improvements typical in service industries such as retail, accommodation and restaurants do not provide a justification for award or APCS dependent employees not being granted reasonable and economically sustainable minimum wage increases. Sustainable moderate increases to the Federal Minimum Wage and the respective APCSs will extend to these employees a modest but equitable share of national prosperity.

Profitability v Productivity

192. When wages fall in real terms, it is in fact likely to be profitability, not productivity, that benefits. The favourable current outlook for business investment and profitability was noted by the Industrial Relations Commission of New South Wales (IRC) in its 2006 NSW State Wage Case decision where it was noted that business investment levels were strong and an adjustment to minimum wages was likely to have little effect on the wage/profit share ratio without inhibiting investment.⁶⁹ Figure 5 shows increases in the profits share of total factor income and a corresponding decline in the share of wages.

⁶⁹ State Wage Case 2006 paras 88 & 93

Figure 5: Wages and Profit Shares from total factor income



Source: ABS National Accounts, December Quarter 2005 Cat No. 5206.0

193. Reduced minimum wages in real terms may facilitate greater profitability but does not increase employee output for each hour worked:

...Corporations may claim that not having to pay penalty rates for night or weekend work increases labour productivity in the hospitality industry. But it does not. There is no gain in the number of meals served per restaurant employee by abolishing their penalty rates. All that happens in that situation is that the wage cost per meal has gone down, and profits go up (and restaurant worker's incomes go down), even though productivity is unchanged.⁷⁰

194. An industrial relations system that suppresses labour costs reduces the incentive of business to focus on capital investment and other more sophisticated sources of competitive advantage.⁷¹ Low pay acts as a disincentive for some employers to seek genuine productivity improvements. The ability of some badly organised firms to take advantage of low pay segments of the labour market provides the basis for the survival of these firms in the product market. It allows them to survive and compete without having to invest in their businesses or improve their production methods.

⁷⁰ Peetz, D 2005, 'Hollow Shells: The Alleged Link Between Individual Contracting and Productivity Growth', *Journal of Australian Political Economy*, vol.56, pp.32-55 at 49.

⁷¹ Paper presented to the Committee for Economic Development of Australia (CEDA) by Stephen Smith, 24 February 2006

195. These firms become ensnared in low productivity traps, characterised by short-sighted and short-run labour cost cutting strategies from which they have little incentive to escape.⁷² Such behaviour promotes competitiveness on wage costs only and further encourages a race to the bottom on wages as other businesses are required to reduce wage costs in order to compete.
196. Further, the Federal Treasury recently released a report showing that historically Australia's labour productivity levels have consistently equalled approximately 80 per cent of the USA over the past fifty years.⁷³ Their analysis reveals that the nature of Australia's isolation from world economic centres impinges upon its capacity to compete with countries such as the USA and suggests that it may not be entirely possible to close the gap with policy, due to the 'tyranny of distance'.⁷⁴

The New Zealand Experience

197. The New Zealand experience is particularly salient when analysing the relationship between minimum wages and productivity rates. The *New Zealand Employment Contracts Act 1991* (ECA) removed the award system that had provided minimum occupational or industry wages and conditions for many workers. The system of arbitrated pay increases was effectively replaced by wage settlements through collective agreements and individual contracting arrangements underpinned by a statutory minimum wage.⁷⁵
198. The productivity performance of the New Zealand economy during the ECA period was unimpressive. Average labour productivity growth in the period 1993-1998 was 0.5 percent. During the same period in Australia, where a centralised system of award minimum wage adjustments was in operation, average labour productivity growth was 3.2 percent.⁷⁶

⁷² Brosnan, P 2005, *Can Australia Afford Low Pay?* Griffith University, pp. 6-7.

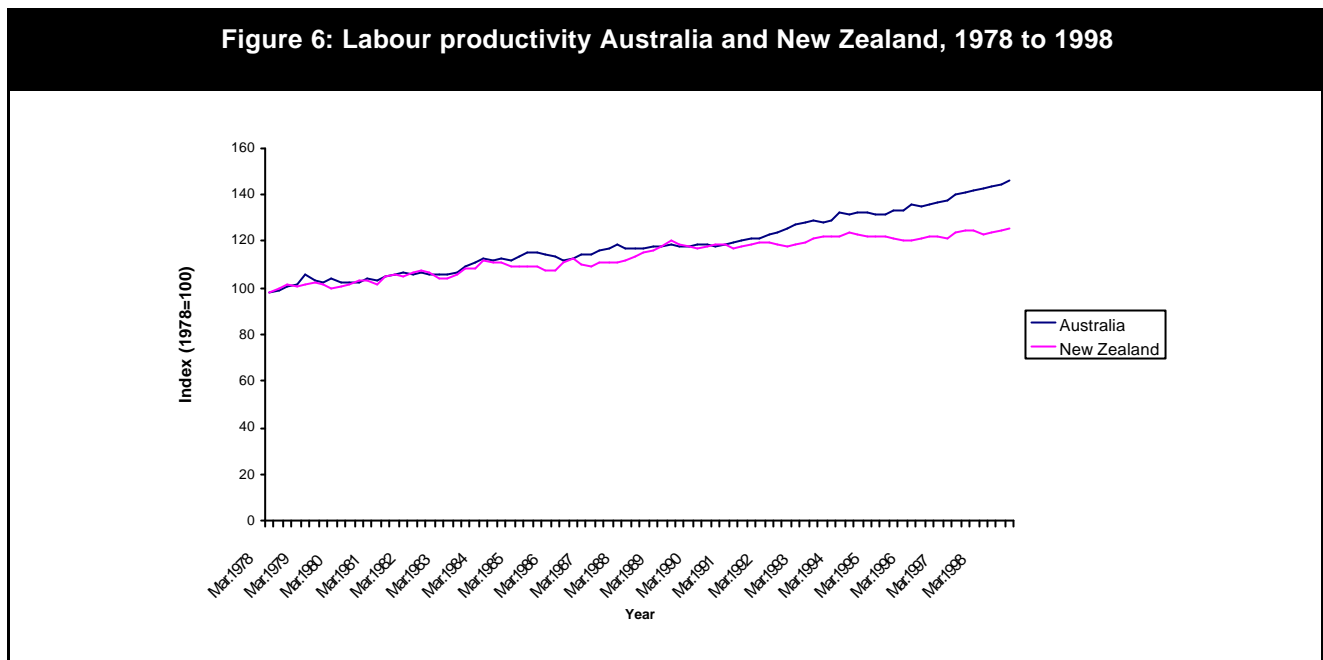
⁷³ Does Distance Matter? The Effect of Geographic isolation on Productivity Levels, Treasury Working Paper 2006 – 03.

⁷⁴ Ibid. p22

⁷⁵ Rasmussen, E and Deeks, J 1997-98, 'Contested Outcomes: Assessing the Impacts of the Employment Contracts Act', *Californian Western International Law Journal*, vol.28, pp. 275-296 at 288.

⁷⁶ Goulter, P 2005, Paper presented to the National Industrial Relations Conference, 'Fair Go or Anything Goes', 13 July 2005, Sydney.

199. Figure 6 shows clearly the divergence in productivity performance between Australia and New Zealand, coinciding almost precisely with the period of operation of the ECA.⁷⁷



200. While productivity increases were minimal, the New Zealand minimum wage as a proportion of average weekly earnings declined from 47 per cent in September 1990 to 41 per cent in 1998-99.⁷⁸ The New Zealand case demonstrates that constraining the growth of minimum wages is unlikely to produce a favourable outcome in terms of productivity performance, while increasing the wage gap between low paid and other work.

201. The New South Wales Government submits, as the New Zealand experience illustrates, that there is no confirmed causal relationship between modest and affordable minimum wage increases and adverse impacts on productivity.

⁷⁷ Dalziel, P 2002, 'New Zealand's Economic Reforms: An Assessment', *Review of Political Economy*, vol.14 no.1, pp. 31-46 at 41.

⁷⁸ Sources: Brosnan and Wilkinson (1987), various Labour Department Publications and Prue Hyman, Low Waged Work and Gender Pay Equity in New Zealand, Paper for National Advisory Council on the Employment of Women Conference on Pay and Employment Equity for Women, June 2004.

Providing a safety net for the low paid

202. This chapter examines income and expenditure characteristics of low paid workers and households, emphasising the need to maintain a decent minimum wage to avoid the establishment of a working poor.

The needs of the low paid

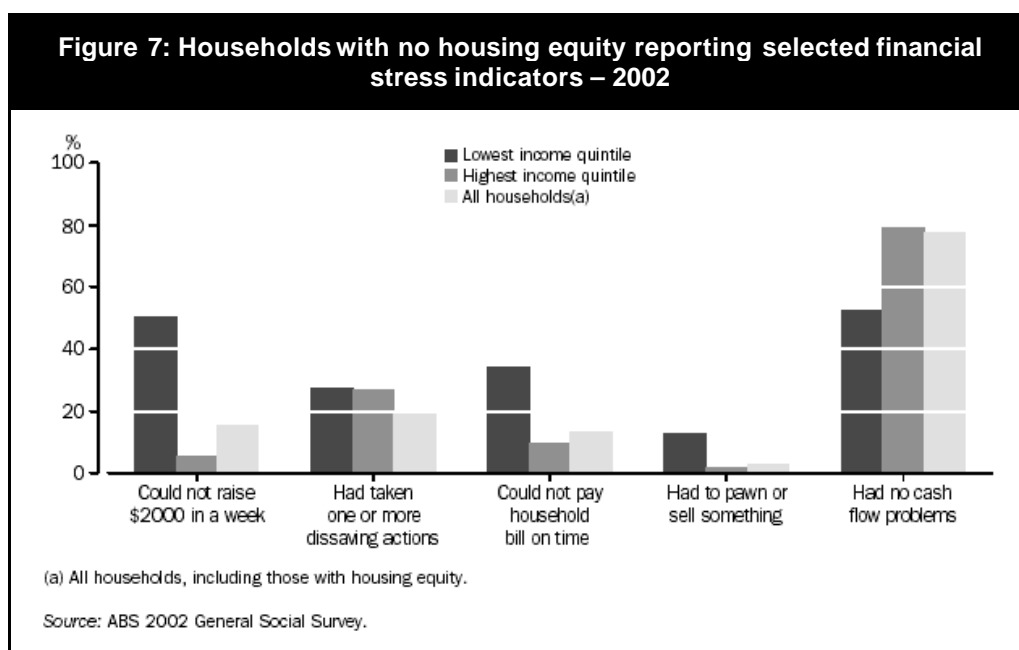
203. The climate in which this Australian Fair Pay Commission (AFPC) initial wage review will be determined is dynamic. The introduction of the Work Choices Act, the Welfare to Work legislation and changes in the nature of childcare support occur against a background of widening inequality and growing insecurity in the labour market with significant implications for the low paid.
204. Household income structure and expenditure is increasingly based (and dependent upon) a dual income model. Assumptions regarding the sharing of resources in private households imply other household members can afford to subsidise those with low pay. If this is the case, low paid workers relying financially on other household members are 'poorly prepared to cope with the costs of living independently in the event of household break-up.'⁷⁹

Impact on household incomes

205. In New South Wales, based on the ABS Household Expenditure Survey for 2003-04, the total expenditure on goods and services of the lowest household income quintile is \$438.94 per week, and for the second lowest quintile, it is \$609.39 per week.

⁷⁹ Masterman-Smith, H, May, R, and Pocock, B 2006, *Living Low Paid: Some Experiences of Australian Childcare Workers and Cleaners*, p.10. (From a project funded by the Australian Research Council and the Brotherhood of St Laurence, Liquor Hospitality and Miscellaneous Workers Union (LHMU), SA Unions, Unions NSW and the Victorian Trades Hall Council.)

206. When compared against income based on the minimum wage, currently \$484.40 per week in the federal jurisdiction, there is little left over for those in the lowest income quintile once essential costs have been met. Furthermore a lack of financial resources to invest in training and education for those employees at the bottom end of the labour market impinges upon their chances of improving their living conditions.
207. In New South Wales the mean net household worth of the lowest household quintile is \$24,681. Of this quintile, 94.2 percent are renters.⁸⁰ The most disadvantaged households are households with people in the bottom income quintile with no housing equity.
208. In 2002, just over half of households in the lowest quintile reported that they could not, in an emergency, raise \$2,000 in a week, compared to 15 per cent of all Australian households who could not. Non-homeowners in the bottom income bracket were much more likely to have been unable to pay a household bill on time and to have had to pawn or sell an item to raise money, as illustrated in Figure 7.⁸¹



⁸⁰ Masterman-Smith, H, May, R, and Pocock, B, op cit

⁸¹ Australian Bureau of Statistics 2004, *Australian Social Trends*, cat. no. 4102.0, ABS, Canberra.

209. According to measures used in the ABS 1998-99 Household Expenditure Survey, one-parent households and younger single people reported the highest levels of financial stress. Low income households were much more likely to have experienced these difficulties than other households. Non-homeowners comprised 30 per cent of all Australian households in 2002 but represented 58 per cent of households unable to pay their electricity, gas or telephone bills on time and about three quarters of households experiencing more severe problems such as going without meals, pawning or selling possessions and seeking welfare assistance.⁸²
210. Such circumstances jeopardise household stability and formation, and the wellbeing of children.⁸³ Family characteristics, such as labour force status, income source and family composition can be associated with the likelihood of having low income.
211. The proportion of families categorised in the lowest income quintile is illustrated in Figure 8⁸⁴ positive minimum wage adjustments are needed to continue to assist workers with the least bargaining power to meet their living costs. A higher minimum wage increases disposable income for those most likely to spend that income and to spend it on local consumption.⁸⁵
212. Those on low wages have a higher propensity to consume, given that a higher proportion of income must be spent on essentials. A reduction in this spending power will have economic effects, demonstrating an economic need for incomes to keep up with expenditure requirements.⁸⁶

⁸² Ibid.

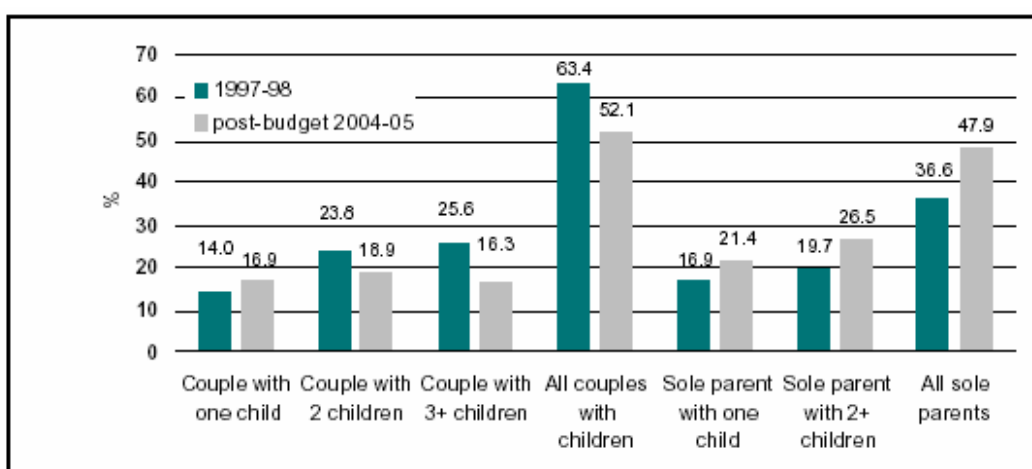
⁸³ Masterman-Smith, H, May, R, and Pocock, B, op cit, p.3

⁸⁴ McNamara, J, Lloyd, R, Toohey, M, and Harding, A 2004, *Prosperity for all? How low income families have fared in the boom times*, National Centre for Social and Economic Modelling, University of Canberra, pp. 3-4.

⁸⁵ Brosnan, P 2005, *Can Australia Afford Low Pay?* Griffith University, p. 12.

⁸⁶ *Research Evidence About the Effects of the 'Work Choices' Bill* A Submission to the Inquiry into the *Workplace Relations Amendment (Work Choices) Bill 2005*, authored by A Group of One Hundred and Fifty Australian Industrial Relations, Labour Market, and Legal Academics, November 2005, p. 14.

Figure 8: Percentage of family types in bottom quintile, 1997/98 to 2004/05



Note: Child includes any child under 15, and dependent students living at home under 21
 Data source: NATSEM calculations based on STINMOD/98A and STINMOD/04A

213. When minimum wages fall in real terms there are also detrimental impacts upon businesses that may target that particular demographic, resulting in downturns in profit, largely due to a reduction in discretionary spending. Referring to recent disappointing business results, Roger Corbett, the Chief Executive of supermarket group Woolworths, was reported stating discretionary spending in the family budget had markedly decreased due to increases in petrol prices and interest rates. By contrast, businesses that target a more affluent demographic such as David Jones, have not noticed any affect on sales and have opened three new stores.⁸⁷

Wage dispersion and income inequality

214. Wage inequality exacts a large toll from the low paid and their dependents. Low wages and poverty add costs to society by way of increased health, policing and public sector costs.⁸⁸ Australians are paid wages which compare favourably with those in other advanced countries but many Australians are low paid compared with other Australian workers.⁸⁹

⁸⁷ Weekend Australian Financial Review, July 22-23, 2006 p.5

⁸⁸ Masterman-Smith, H, May, R, and Pocock, B, op cit, p.2

⁸⁹ Buchanan, J and Watson, I 1997, *A Profile of Low Wage Employees*, acirtt, University of Sydney.

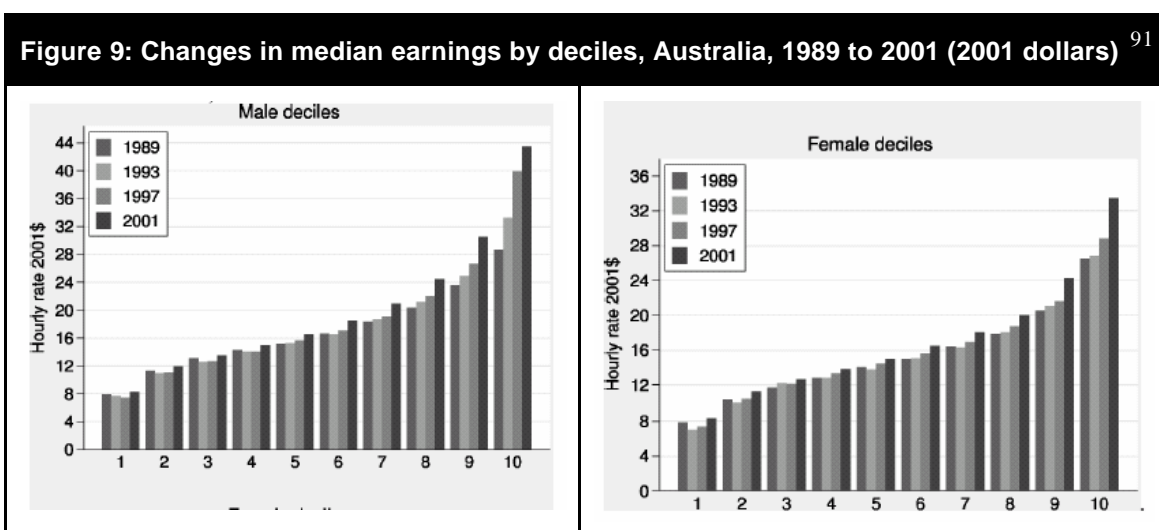
215. The award system and annual safety net adjustments have moderated the wage inequality which has grown as a result of fragmentation and decentralisation in the bargaining system.⁹⁰ Table 5 indicates however that despite criticisms from the federal government that past safety net adjustments have been unsustainable, the minimum wage compared with median earnings and Average Weekly Ordinary Time Earnings (AWOTE) for full-time employees has steadily declined over the last decade.
216. The New South Wales Government submits that without regular safety net adjustments which consider the minimum wage as a proportion of earnings generally, this inequity will be significantly exacerbated.

Table 5: Comparison Between The Minimum Wage , Median Earnings and Average Weekly Ordinary Time Earnings			
Year	Minimum Wage	Minimum Wage as a percentage of median earnings for fulltime earnings	Minimum wage as a percentage of average weekly ordinary time earnings
1996	349.40	60.6 %	52 %
1997	359.40	59.9 %	51.4 %
1998	373.40	60.7 %	51.3 %
1999	385.40	59.1 %	51.5 %
2000	400.40	57.9 %	51 %
2001	413.40	58.1 %	50.2 %
2002	431.40	57.5 %	49.6 %
2003	48.40	58.2 %	48.9 %
2004	467.40	57.4 %	49.1 %
2005	484.40	57.3 %	48.1 %

Source: Australian Government OECD data prior to 2001, ABS Cat. No.6310.0, Cat. No. 6302.0 and Metal Engineering and Associated Industries (State) Award.

⁹⁰ Briggs, C 2005, *Federal IR Reform: The Shape of Things to Come*, acirrt, University of Sydney, p.71

217. While real wages have increased since 2002, this has come at the expense of higher wage inequality. Real wage growth has been disproportionately higher for high income earners. Increases to the minimum wage go some way towards redressing wage inequality, underpinning a real need for protection of low paid workers' living standards.
218. Figure 9 illustrates changes in hourly rates by decile from the poorest 10 per cent to the richest 10 per cent for men and women between 1989 and 2001 and growth in wage inequality – where the top two deciles experienced 'phenomenal' growth, the middle experienced 'moderate' growth while the bottom deciles experienced stagnation.



219. The incidence of casual and part-time work can also in part explain widening distribution of income. Between 1990 and 2000 only one quarter of new jobs created was full-time, and of those, virtually all were casual.⁹²

⁹¹ Reproduced from Briggs, C 2005, *Federal IR Reform: The Shape of Things to Come*, acirrt, University of Sydney, p.71.

⁹² Gregory, R,G 2002, 'It's full-time jobs that matter', *Australian Journal of Labour Economics*, vol.5, no.2, pp. 271-278 cited in Saunders, P 2006 *A perennial problem: employment, joblessness and poverty*, Discussion Paper No.146, Social Policy Research Centre, University of New South Wales.

220. Current data indicate 27 per cent of Australians in their main job were casual at August 2005. Of these workers, 65 per cent were part-time, 54 per cent were female, and 26 per cent worked in the retail trade industry, 23 per cent worked in clerical, sales and service, 20 per cent were aged 15-19 and 30 per cent earned less than \$200 per week in their main job. Average earnings from full-time casual and part-time permanent or casual jobs have declined relative to full-time permanent earnings.⁹³
221. Table 6 illustrates changes in the average weekly ordinary time earnings for non-managers between 1998 and 2004. For the bottom 20 per cent of wage earners incomes increased by only 1.2 per cent in real terms. These figures fall well short of the 16.8 per cent real wage increases cited by the federal government.
222. Overall non-managerial workers had a 3.6 per cent real increase in average weekly ordinary time earnings, but even this figure is skewed upwards by the large increases gained by high income earners. Removing managers and high income earners from the equation reveals only a modest growth in real wages driven by increases to the minimum wage.⁹⁴
223. The incidence of low pay for wage earners increased from 14 per cent of the labour force in the mid-1990s to 20 per cent in 2003. This represents an additional 600,000 Australians earning around \$14 an hour, or less than \$28,000 a year.⁹⁵

⁹³ Australian Bureau of Statistics 2005, *Employee Earnings, Benefits and Trade Union Membership*, cat. no. 6310.0, ABS, Canberra.

⁹⁴ Briggs, C 2005, *Federal IR Reform – the Shape of Things to Come*, commissioned by Unions NSW, and Unions NSW media release, August 29, 2005 'Research busts '14 per cent' real wages mantra'.

⁹⁵ Masterman-Smith, H, May, R, and Pocock, B, op cit, p.13

Table 6: Increases in Full-time Weekly Total Earnings of Non-Managerial Employees by Distribution of Earnings: 1998-2004				
Earnings percentile	1998	2004	Nominal per cent change 1998-2004	Real per cent change 1998-2004
10	458.70	557.00	21.4 %	1.2 %
20	513.80	624.00	21.4 %	1.2 %
25	538.90	659.00	22.2 %	2.0 %
30	563.20	690.00	22.5 %	2.3 %
40	614.90	758.00	23.3 %	3.1 %
50	675.00	829.00	22.8 %	2.6 %
60	747.00	912.00	22.1 %	1.9 %
70	830.20	1017.00	22.5 %	2.3 %
75	873.90	1078.00	23.4 %	3.2 %
80	920.10	1150.00	25.0 %	4.8 %
90	1018.80	1366.00	34.0 %	13.8 %
AWE	739.40	915.70	23.8 %	3.6 %
90/10 ratio	2.22	2.45		

Source: Jackson S, 2005 unpublished data – ACIRRT research commissioned by Unions NSW.

224. Research recently undertaken for the AFPC has noted that there would have been 650,000 more jobs had there been no minimum wage rises over the past decade. While the New South Wales Government disputes this assertion it also has concerns that the types of jobs that are suggested would be created would be those at the bottom end of the labour market which are likely to be part-time and insecure.
225. Further, there is no guarantee that more jobs translate into reduced unemployment. It is possible that the same people will simply be working in more than one job in order to earn the equivalent of a full-time wage.

Characteristics of low paid employment

226. Low paid employment is concentrated in the hospitality, retail and service based industries as shown below in Table 7.⁹⁶ These same industries also have the highest proportions of award-reliant employees as seen in Table 8.⁹⁷ Those at the lowest end of the award classifications fit most definitions of low pay; others are low paid because they are not covered by an award, or do not receive their award entitlements.⁹⁸

Table 7: Industry Location of Low Paid 2005		
Industry (Top 6)	Full time employees (%)	All employees (%)
Agriculture	21	33
Hospitality	19	57
Retail	18	56
Construction	13	20
Cultural and Recreational Services	12	45
Health and Community Services	12	35
All industries	10	30

Table 8: Award Reliant Industries, Australia 2006	
Industry	% of Employees totally award reliant
Hospitality	60.1
Retail	31.3
Health and Community Services	26.6
Personal Services	23.5
Prop and Business Services	19.7
All Industries	20.0

⁹⁶ Buchanan, J 2006, *Low paid employment- a brief statistical profile*, Overheads prepared for press conference on LHMU- Uni of South Aust- ARC, Project on low paid service sector employment, Workplace Research Centre, University of Sydney.

⁹⁷ Ibid

⁹⁸ Brosnan, P 2005, op cit

227. Table 9 shows the high incidence of award reliance for low paid workers. More than half of workers earning less than \$500 a week rely on awards, as do a third of those who earn between \$500 and \$700 per week. These are the workers who will derive most benefit from a moderate increase to their relevant APCs.

Weekly earnings	Award only	Collective agreement	'Individual' arrangement	All methods
<\$500	52	21	27	100 (6%)
\$500-\$700	35	25	40	100 (29%)
\$700-\$1000	14	42	44	100 (36%)
\$1000+	6	51	43	100
Total	20	38	42	100/1000

Buchanan, J. (2006). Overheads prepared for press conference on LHMU- Uni of South Aust-ARC Project on low paid service sector employment, April.

228. Awards are the primary source of determining pay for 24 per cent of all female employees⁹⁹ and by occupation, industry, and employment status, women are most likely to be concentrated in jobs affected by minimum wage regulation.¹⁰⁰ Many pay equity issues are exacerbated by this occupational segregation.

⁹⁹ Submission to the Inquiry of the Senate Employment, Workplace Relations and Education Committee into the Workplace Relations Amendment (Work Choices) Bill 2005 on behalf of the Governments of New South Wales, Queensland, Western Australia, South Australia, Tasmania, The Australian Capital Territory, The Northern Territory, 9 November 2005, p. 56.

¹⁰⁰ Rubery, J, Grimshaw, D and Figueiredo, H 2002, 'The Gender Pay Gap and Gender Mainstreaming Pay Policy', presented at the European Work and Employment Research Centre, UMIST, Manchester, cited in *Research Evidence About the Effects of the 'Work Choices' Bill A Submission to the Inquiry into the Workplace Relations Amendment (Work Choices) Bill 2005*, authored by A Group of One Hundred and Fifty Australian Industrial Relations, Labour Market, and Legal Academics, November 2005, p. 33.

229. The amended Workplace Relations Act removed pay rates and classification structures from awards and established preserved APCs to be maintained by the AFPC. It is imperative that minimum rates determined by the AFPC do not increase the current pay gap between female and male occupations. The implications for pay equity under the wage setting parameters of the AFPC are considered further in the 'Other Issues for Consideration' section of this submission.
230. Low pay is generally found in jobs of low social status and/or performed by workers with low labour market standing and bargaining power. Such jobs are filled by people disadvantaged in the competition for better paid jobs. The concentration of 'women, ethnic minorities, people with low educational attainment, the young and the old' demonstrates the social valuation of jobs and their incumbents.¹⁰¹
231. These disadvantages are augmented by weak bargaining power and low labour market status.¹⁰² The historic difficulty of establishing effective trade unionism among these low paid groups is a contributing factor, due to such workers experiencing difficulties in organising and reduced accessibility to representation.

Issues faced by low paid workers

232. The AFPC's initial wage review will be made against a background of changes in the welfare system. The Federal Welfare to Work legislation targets people with disabilities, single parents, the long-term unemployed and the mature aged jobless, obliging them to take up part-time work. With little or no bargaining power, the risk of losing pension benefits will force these groups into work with potentially sub-standard conditions, reducing their capacity to manage caring responsibilities and other commitments.¹⁰³

¹⁰¹ Ibid, pp. 3-4.

¹⁰² Ibid

¹⁰³ Submission to the Inquiry of the Senate Employment, Workplace Relations and Education Committee into the Workplace Relations Amendment (Work Choices) Bill 2005 on behalf of the Governments of New South Wales, Queensland, Western Australia, South Australia, Tasmania, The Australian Capital Territory, The Northern Territory, 9 November 2005, p. 52.

233. Welfare and industrial relations reforms will forcibly generate a labour supply for low pay jobs which undercut existing wage and employment standards.¹⁰⁴ Raising the minimum wage for these employees will assist in ameliorating the worst excesses of these effects and provide a genuine incentive to participate in the workforce.
234. People targeted by these changes will not find it easy to secure employment. Around 60 per cent of people with a disability and jobless single parents have ten or less years of schooling. Further, many pension recipients live in regional areas where rent is cheaper, but there are fewer jobs.¹⁰⁵
235. Single parents receiving Parenting Payments, required to find and participate in part-time work or take up study under the Welfare to Work proposals, will suffer a loss of income.¹⁰⁶ Additionally, single parents who take up full-time study will lose their Pensioner Concession Cards, Pharmaceutical Allowance, and Telephone Allowance.¹⁰⁷
236. By increasing the minimum wage, these disadvantaged workers will be better able to meet their additional costs as a result of their changed labour market status. It is imperative the AFPC increases the minimum wage by the equivalent of \$20 per week to help ameliorate the pressures low income earners face when meeting cost of living increases and welfare requirements.

¹⁰⁴ Briggs, C 2005, *Federal IR Reform: The Shape of Things to Come*, acirt, University of Sydney, p.76.

¹⁰⁵ Australian Council of Social Service, Submission to the Senate Community Affairs Committee Inquiry into The Employment and Workplace Relations (Welfare to Work) Bill 2005, November 2005, p. 13.

¹⁰⁶ Ibid, p. 18.

¹⁰⁷ Ibid, p. 16.

Providing minimum wages for junior employees, employees to whom training arrangements apply and employees with disabilities that ensure these employees are competitive in the labour market.

237. The above wage setting parameter is predicated on the flawed assumption that minimum wage increases will have a detrimental impact on employment rates. The New South Wales Government is concerned that setting minimum wages that are 'competitive in the labour market' will merely result in a diminution of wages and conditions for the most vulnerable members of the workforce.
238. In the New South Wales Government's view, the Australian Fair Pay Commission (AFPC) should establish a special Federal Minimum Wage (FMW) for these workers and retain and adjust appropriate wage classifications in APCSs.
239. This chapter outlines the impact on junior employees, apprentices and trainees, and those employees with a disability if such minima are not set.

Impact on junior employees

240. Section 182(3) of the amended Workplace Relations Act excludes junior employees from the Federal Minimum Wage (FMW). Further s197 provides that the AFPC 'may' determine a special FMW for these workers. If the AFPC declines to exercise this power and no APCS applies then no minimum wage will apply to employees who are classified as juniors. A junior employee is defined at s178 as an employee who is under the age of 21.

241. Young people represent a significant section of the labour market. Around 240,000 children aged between 12 and 16 years work in New South Wales, 61 per cent or about 146,000 of whom do so in formal employment.¹⁰⁸ In New South Wales the participation rates for 15-19 year olds and 20-24 year olds were 57.1 per cent and 80.7 per cent respectively at July 2005.¹⁰⁹
242. The bargaining power of junior employees is weak and their employment is coincidentally generally located in industries which fall outside the bargaining stream. Junior employees are highly concentrated in the retail trade and accommodation, café and restaurant industries, most likely to be casual and therefore largely reliant on awards for their conditions and minimum wage increases to improve and maintain their pay.¹¹⁰ They are less likely to have the bargaining power to achieve pay and conditions above the minimum, or to obtain arrangements that allow them to balance work with other responsibilities.
243. A recent report undertaken by the Youth Action and Policy Association (YAPA) that surveyed over 400 young workers revealed less than 20 per cent of respondents believed they were better off negotiating their own pay and conditions, while approximately 50 per cent believed their particular workplace award would deliver more beneficial outcomes. The respondents believed the rudimentary nature of the skills required and a flexible youth labour market were the two dominant factors in favour of the employer during the negotiation process.¹¹¹

¹⁰⁸ NSW Commission for Children and Young People (2005). *Children at Work*. Researched and written by Toby Fattore, Sydney: NSW Commission for Children and Young People.

¹⁰⁹ Australian Bureau of Statistics, *Australian Social Trends, 2005*, cat. no. 4102.0, ABS, Canberra.

¹¹⁰ ABS: Employees, Earnings and Hours, May 2004

¹¹¹ YAPA Industrial Relations Report: Young People, Industrial Relations and Workplace Negotiations: Not a Young Person's Choice, 26 May 2006, p.3

244. The experience of young people in New Zealand of labour market deregulation is a useful case study in light of Australia's similar moves towards individual bargaining and the changing parameters concerning wage setting under the Work Choices legislation. The introduction of individual contracts in New Zealand saw many young and part-time workers commence work on lower wages and conditions than those already employed at the workplace because they lacked the skills and bargaining power to negotiate.¹¹²
245. The New Zealand experience revealed the steady lowering of commencement rates and conditions for new workers, such as lower hourly rates and reduced or removed overtime or penalty rates, had intergenerational effects on the wider workforce.¹¹³ The combined effects of labour market and economy-wide deregulation increased the income inequality experienced by young workers compared to the general labour force. Without a commensurate increase in purchasing power, the median incomes of 15-25 year olds fell from NZ\$14,700 in 1986 to NZ\$8,100 in 1996, a fall of almost 45 per cent in ten years.¹¹⁴
246. Prior to the commencement of the amended Workplace Relations Act, the NSW Office of Industrial Relations commissioned the Australian Centre for Industrial Relations Research and Training (ACIRRT) to undertake the *Young People and Work Survey*. The survey of 5000 children and young people aged between 12 and 25 revealed that these employees are a vulnerable group in the workforce, having a limited knowledge of their fundamental employment rights and conditions and a restricted capacity to defend their interests.
247. The survey indicated that:

¹¹² Conway, P. (2002). *The New Zealand Experiment 1984-1999*. Paper presented to the GPN Asia/Pacific Regional Meeting, 2-4 September, Holiday Inn/ Crowne Plaza Hotel, Bangkok. Published by New Zealand Council of Trade Unions, p.8.

¹¹³ Conway, P. (1999). "An 'unlucky generation'? The wages of supermarket workers post-ECA", *Labour Market Bulletin*, pgs 23-50. Department of Labour, New Zealand, p.29.

¹¹⁴ Conway, P. (2002). *The New Zealand Experiment 1984-1999*. Paper presented to the GPN Asia/Pacific Regional Meeting, 2-4 September, Holiday Inn/ Crowne Plaza Hotel, Bangkok. Published by New Zealand Council of Trade Unions, p.17.

- 50 percent of respondents who thought they were ongoing employees received no paid leave
- 50 percent of respondents had not received any written information from their employers about pay, hours of work or safety when starting their jobs
- 12 percent of respondents had worked an unpaid trial at the start of their current job.

248. Young people who did unpaid work trials were also more likely to have further bad experiences at work such as unpaid hours, bullying and workplace injuries.

249. The survey demonstrates that even with the protection of a state based safety net, young, vulnerable employees are in no position to negotiate their overtime, penalty rates and other working arrangements. As young people have a limited understanding of their rights they will be one of the categories of employees hardest hit by the Work Choices legislation, particularly as a result of the removal of the no-disadvantage test.

250. In an attempt to redress this imbalance, the New South Wales Government has implemented many initiatives which aim to address the particular concerns of young people. Targeted compliance campaigns, seminars, and education tools such as *Money Stuff*¹¹⁵ and online services assist young people to understand their rights and obligations when starting work.

¹¹⁵ See www.moneystuff.net.au

251. The New South Wales Government submits that the AFPC must consider the particular needs of young workers and provide an adequate safety net. Accordingly, a special Federal Minimum Wage must be established for junior employees that reflects existing relativities within the relevant APCs. The maintenance of fair and decent minimum wages is critical to ensuring that young people are not exploited in the workplace. Positive early workplace experiences also have long term implications for continued participation in the workforce over time.

Impact on employees to whom training arrangements apply

252. Skills are integral to the productive growth of the economy and the workplace. Australia is currently experiencing a national skills shortage in a range of trades and professional occupations. According to the federal Department of Employment and Workplace Relations, there is much unmet demand for specialised skills.¹¹⁶ As at March 2006, New South Wales state wide skills shortages have been identified in a range of trades and occupations including: engineering, automotive, metal, electrical, construction, chefs and hairdressers.¹¹⁷
253. Although skills shortages may occur for a number of reasons, including the emergence of new industries, technologies and location and demographic changes, a key factor is the lack of interest in particular industries among potential job seekers. Industrial relations arrangements, including remuneration and conditions of employment, impact on the attractiveness of particular industries and occupations.
254. Notwithstanding this need for skilled employees, the existing system appears to have difficulties ensuring that apprentices and trainees complete their training, and do so without being exploited or harassed.

¹¹⁶ Department of Employment & Workplace Relations (DEWR), National and State Skills Shortages, December 2004

¹¹⁷ DEWR Skills in Demand Lists States and Territories, March 2006

255. A SA Unions report into youth employment in South Australia titled *'Dirt Cheap and Disposable'* uncovered high levels of unpaid overtime, under award payments, bullying and sexual harassment. The report found that approximately 50 per cent or more of young people on apprenticeships and traineeships did not complete their training due to unsatisfactory conditions.¹¹⁸
256. This finding is supported by data in a national survey conducted by the National Centre for Vocational Educational Research (NCVER) into reasons for non-completion by apprentices. The research revealed that more than half of the apprentices left because of reasons related to the work and felt that they were being used as cheap labour. Approximately 23 per cent cited bullying as a reason for the termination of training whilst two-thirds of trainees and almost 60 per cent of apprentices cited no or poor quality training. Alarming, almost two-thirds of those surveyed by NCVER were not participating in any further study or training at the time the survey was undertaken.¹¹⁹ It is reasonable to conclude that unsatisfactory working relationships are inimical to completion.
257. In traditional apprenticeship areas such as metal trades, carpentry and bricklaying, completion rates are also in decline. Since 1996, completion rates have dropped from 71 per cent to 60 per cent for traditional apprentices who were expected to complete their training during the period from 1999 to 2003.¹²⁰
258. Yet the amended Workplace Relations Act, and in particular the legislative parameters under which the AFPC is required to operate, do little to address these issues. Wage setting parameters that facilitate the provision of minimum wages for apprentices and trainees that ensure they 'are competitive in the labour market'¹²¹ will only result in a reduction of wages and conditions to an already disadvantaged section of the work force.

¹¹⁸ SA Unions, (2005) *'Dirt Cheap and Disposable'*, p.21

¹¹⁹ NCVER (2001) *'Reasons for New Apprenticeships non-completions'*

¹²⁰ Macklin, J, (2005) Speech *'AFR Skilling Australia Conference'*, 20 September 2005

¹²¹ Section 23(d), Workplace Relations Act 1996 (as amended)

259. At s197, the amended Workplace Relations Act provides that the AFPC ‘may’ determine a special FMW for certain categories of workers, including those to whom training arrangements apply. The AFPC is not compelled to exercise this power. Should such employees not be covered by an APCS and no special FMW is determined by the AFPC, they are specifically excluded from coverage by the standard FMW and therefore no minimum rate of pay would apply. In addition, the amended Workplace Relations Act provides no specific requirement that trainees and apprentices be paid for off-the-job training, such as attendance at TAFE. Should such a provision not be included within their APCS, this will be a matter determined between the parties at the workplace or most likely by the employer.
260. The New South Wales Government submits that unless the AFPC sets a special FMW and either retains the current wage classifications from former awards in preserved APCSs, or alternatively establishes a comprehensive new APCS structure for trainees and apprentices, it is likely to increase the vulnerability and disadvantage of these workers in a climate of acute skills shortages.
261. In light of the wage setting parameters of the AFPC and public statements from the Prime Minister¹²² one can presume the special FMW, if established, will be set at a lower rate than the standard FMW. The New South Wales Government is concerned that the setting of wages for apprentices and trainees to ‘ensure they are competitive in the labour market’ is merely code for reduced wages and conditions and in all likelihood will merely exacerbate the existing disturbingly high level of drop out rates.

¹²² Prime Minister’s Statement, *Workplace Relations Reform and Apprenticeships*, 20 September 2005

262. In contrast to various New South Wales state awards, there is also no explicit provision within the amended Workplace Relations Act to provide a rate of pay applicable to adult apprentices and trainees. It is estimated that 45 per cent of employees undertaking an apprenticeship or traineeship in New South Wales are aged over 25 years¹²³ and over the past decade the average age of Australia's apprentices and trainees has been steadily increasing and one in seven are now aged over 45.¹²⁴ The New South Wales Government is concerned that such individuals will be forced to train on junior wages for up to four years. Such conditions will create a significant disincentive to enter structured training and impact detrimentally upon the skills base of New South Wales.
263. A reduction in the real minimum wages of apprentices and trainees will have a detrimental impact upon the current skills shortage in Australia and create an incentive for employers to compete on the basis of reduced labour costs rather than a sustained investment in skills and training development.
264. The consequences of doing so will be substantial. Economic forecaster BIS Shrapnel has recently reported that the chronic shortage of skilled labour is set to act as a permanent constraint on Australia's growth. According to BIS Shrapnel, improving economic growth requires measures that will improve labour productivity and increase the pool of skilled labour, but the amended Workplace Relations Act 'will do little to improve either and is deflecting the debate away from how to grow the pie bigger, to how best to cut it up'.¹²⁵
265. At s3 the principal object of the amended Workplace Relations Act is to promote 'the economic prosperity and welfare of Australians' by, in part, promoting youth skills and employment. The wage setting parameters of the AFPC concerning apprentices and trainees seems to contradict this by decreasing the attractiveness of training arrangements for young people and consequently undermining national skills development.

¹²³ NCVER – Australian vocational education and training statistics: Apprentices and trainees - September quarter 2005

¹²⁴ Sydney Morning Herald, 'Struggles loom for older apprentices', 21 September 2005

¹²⁵ Media Release: 'Labour Shortages usher in new era of constrained growth', 26 June 2006

266. It is the view of the New South Wales Government that a fair and productive industrial relations system must consider the particular needs of those employees in training arrangements and provide a fair and sustainable safety net at least equal to the well established provisions afforded by the New South Wales state system.
267. To this end, the New South Wales Government submits that a special FMW must be established by the AFPC alongside comprehensive APCS classification structures for both junior and adult employees in training arrangements. Such classification structures should also incorporate clearly delineated skill levels that foster career paths and encourage skills development.

Impact on employees with disabilities

268. As indicated in the previous section of this chapter, it will be possible for there to be more than one Federal Minimum Wage (FMW) within the federal jurisdiction. At s197, the amended Workplace Relations Act provides that the AFPC 'may' determine a special FMW for certain categories of workers, including those employees with a disability. Section 178 of the amended Workplace Relations Act defines an employee with a disability as 'an employee who qualifies for a disability support pension'.
269. Many disabled people are productive members of the community, engaged in professional and skilled employment. There are concerns that such employees will legally be able to receive less than their colleagues merely on the basis of their disability.
270. The amended Workplace Relations Act affords the AFPC the power to establish wages for a group of workers who may have injuries or disabilities that would not affect their ability to work yet are unfairly classified under a substandard minimum wage.

271. Under the New South Wales industrial relations system a person with a disability who seeks employment is required to be paid the relevant minimum award rate of pay. The New South Wales *Industrial Relations Act 1996* however, does provide that the Industrial Registrar may issue a Special Wage Permit for an employee to work for less than the set rate of pay for their job if the employee considers that they are unable to earn the minimum rate due to any impairment.
272. In the New South Wales system each application is assessed on its merits and the specific impairment of the employee is quantified to the extent that it limits their ability to perform their duties of the position at the full-award level of productivity. Further, in most circumstances, permit holders are covered by all the usual provisions of the relevant industrial award or agreement. Significantly, to protect these employees from any potential exploitation, the Industrial Registrar is required to notify the relevant union and may request the Office of Industrial Relations undertake workplace inspections to ensure compliance.
273. In contrast to the open and fair individual assessment process undertaken within the New South Wales jurisdiction, the AFPC (should it choose to exercise its powers) may consider establishing an indiscriminate minimum rate of pay for this class of employees, irrespective of their impairment or their ability to contribute to the working environment.
274. The problems for people with disabilities will be exacerbated by tighter welfare reforms which will increase pressure on workers to accept poorly paid jobs rather than risk loss of benefits. As of November 2003, working age people with disabilities had a high relative unemployment rate of 8.6 per cent.¹²⁶ A combination of tougher welfare measures interacting with industrial legislation that explicitly undermines award wages and conditions will create a ready labour supply for low paid jobs.

¹²⁶ ABS Year Book Australia, 2006 Cat No. 1301.0

275. New recipients of income support from July 2006 will receive between \$29 and \$166 per week less than existing recipients. Differences in the indexation of pensions and allowances mean these reductions will increase over time. The potential losses in disposable income for single adults with a disability obliged to look for and undertake work is detailed in Table

Table 10: Reductions in disposable income for a single adult with disabilities affected by Welfare to Work changes (in 2006)¹²⁷

	Income on DSP (\$ per week)	Income on NSA/Austudy (\$ per week)	Loss of income (\$ per week)
Jobless	\$254	\$208	-\$46
Works 15 hours pw at min. wage	\$387	\$288	-\$99
Studying fulltime (not renting)	\$285	\$170	-\$115
Studying fulltime (renting)	\$336	\$170	-\$166

Note: Includes wages (after tax) where relevant. Minimum wage for 15 hours is approx \$190-\$200pw before tax.

276. The New South Wales Government fears the AFPC may reduce the real wages of the most disadvantaged workers, including workers with a disability, since its priority is to set the minimum wage 'to ensure those employees are competitive in the labour market'. The New South Wales Government is concerned this process of wage setting will result in a steady decline of the real incomes of workers with little bargaining power.

¹²⁷ Australian Council of Social Service, Submission to the Senate Community Affairs Committee Inquiry into The Employment and Workplace Relations (Welfare to Work) Bill 2005, November 2005, pp. 17-18.

Other Issues for Consideration

Pay Equity

277. Gendered wage disparity is a systemic problem within the Australian workplace. Australian women who work full time still earn an average of 15 per cent less than men who work full time. This gap widens considerably to 35 per cent for total earnings of all employees, including those employed on a part-time or casual basis.
278. Various labour surveys available from the Australia Bureau of Statistics illustrate the correlation between gender and work value by showing that workers in traditionally feminised industries are paid the lowest wages in Australia. Women also tend to be more reliant on awards and concentrated in jobs with less access to a range of over award payments and bonuses and in jobs affected by minimum wage regulation.¹²⁸
279. The gap between men and women's earnings reflects a number of distinct, yet complex and interrelated factors. Prior to the introduction of the Work Choices legislation and the subsequent formation of the AFPC, mechanisms existed in both the state and federal jurisdictions to address the systematic causes of the gender-based pay gap.
280. In June 2000, the landmark *Equal Remuneration and Other Conditions Principle* was established by the Industrial Relations Commission of New South Wales (IRC NSW) to redress pay inequity. The principle followed a recommendation of the 1998 New South Wales Pay Equity Inquiry that a new principle to address the undervaluation of women's wages be established.

¹²⁸ Rubery, J, Grimshaw, D and Figueiredo, H 2002, 'The Gender Pay Gap and Gender Mainstreaming Pay Policy', presented at the European Work and Employment Research Centre, UMIST, Manchester, cited in *Research Evidence About the Effects of the 'Work Choices' Bill A Submission to the Inquiry into the Workplace Relations Amendment (Work Choices) Bill 2005*, authored by A Group of One Hundred and Fifty Australian Industrial Relations, Labour Market, and Legal Academics, November 2005, p.33.

281. The objective of the Equal Remuneration Principle is to redress pay inequity by providing the framework for unions to bring equal pay cases before the IRC NSW. The Principle seeks to remedy the effect of the historical gender-based undervaluation of work, particularly in feminised industries, and the consequential gap in women's earnings. The Principle provides the mechanism to achieve pay equity without the traditional need for comparisons between female and male dominated industries and ensures the reassessment of the value of work is gender-neutral. This principle has been successfully applied to librarians and archive workers, and more recently to child care workers in New South Wales.
282. In the pre-reform federal jurisdiction, the Australian Industrial Relations Commission (AIRC) set minimum wages and wage relativities through the award system on the basis of fairness and equity. The award system provided a systematic mechanism for addressing pay equity. The AIRC was also required to prevent discrimination against workers with family responsibilities and to help workers reconcile their work and family responsibilities under the Family Responsibilities Convention.
283. The New South Wales Government is concerned the amended Workplace Relations Act has significantly diminished the capacity of industrial tribunals to address pay inequity. Although the AIRC is still able to hear pay equity claims, it no longer has the capacity to make orders regarding these claims. Furthermore, state industrial tribunals can no longer make equal remuneration for work of equal value orders in respect of employees covered by the federal jurisdiction.

284. The amended Workplace Relations Act offers no systematic means to investigate or redress pay inequity or make determinations based on the principle of pay equity and work value in the federal jurisdiction. Unfortunately the central role the AIRC and the IRC NSW have played in addressing issues of pay equity is not matched by the legislative capacity of the AFPC. The amended Workplace Relations Act provides no mechanism for the AFPC to hear pay equity or work value applications or make wage determinations based solely on pay equity principles.¹²⁹
285. Under s222(1)(a) of the amended Workplace Relations Act the AFPC must have regard to the principle that men and women should receive equal remuneration for work of equal value. Yet the AFPC has no mechanism to achieve that objective and no mandate to ensure its decisions deliver equal remuneration for work of equal value.¹³⁰
286. The legislative framework within which the AFPC operates also fails to provide for anti-discrimination considerations in the wage setting parameters and does not specify how the AFPC will take such matters into consideration. Hence, there is potential for indirect discrimination, such as bias about the value of certain skills and attributes in feminised occupations and industries, to impact on the setting of wages and classifications.¹³¹
287. The New South Wales Government is concerned that due to the legislative constraints placed upon the AFPC within its wage setting parameters the issue of pay equity will not be adequately addressed and consequently gender wage disparity will be exacerbated.

¹²⁹ NSW Government submission to the Legislative Council Standing Committee on Social issues Inquiry into the impact of Work Choices, June 2006, pp 72- 73

¹³⁰ Ibid

¹³¹ Ibid

The AIRC Wage Case for transitional employees

288. Under the amended Workplace Relations Act, the AIRC will maintain a residual role in minimum wage setting for unincorporated employers covered by federal awards ('transitional employees') during a five year transitional period. The jurisdiction of the AIRC, however has been significantly diminished both in terms of its powers and the manner in which they may be exercised.

289. The objects of schedule 6 of the amended Workplace Relations Act ensure that the AIRC exercises its functions and powers to vary transitional awards, so that wages are not inconsistent with the wage setting decisions handed down by the AFPC. Further s8(3) specifically requires the AIRC, when determining minimum safety net entitlements of transitional employees, to have regard to the:

- wage setting decisions and any relevant statements of the AFPC
- desirability of its decisions being consistent with those of the AFPC
- principle that the wages of transitional employees should not place them at a disadvantage compared with the entitlements of other federal system employees

290. Given the statutory constraints placed upon the AIRC, the New South Wales Government submits the AFPC should assist the AIRC in discharging its statutory obligations. The AFPC must therefore determine a type of decision which affords its outcomes to be transferred into the transitional provisions of federal awards. To this end, the AFPC must ensure that all workers in the broad range of classifications preserved in APCs receive fair and sustainable wage increases that are comprehensive in coverage and provides a small increase in real wages for award reliant employees.

The Processes of the AFPC

291. Under the amended Workplace Relations Act, the AFPC is required to determine the timing, scope and frequency of its wage reviews, the manner in which they are to be conducted and the date on which wage setting decisions are to come into effect.
292. The New South Wales Government submits that the legislation may hinder transparency and accountability of the AFPC. In contrast to the provisions of the pre-reform Workplace Relations Act, the AIRC was required to adopt an appropriate standard of procedural fairness in the conduct of its hearings and allow all interested parties and stakeholders to furnish evidence, make submissions and be subject to cross-examination.
293. The AFPC may undertake or commission research, engage in consultation and monitor and evaluate the impact of its wage decisions, but this will be for the AFPC to determine without legislative guidance. There is no legislative requirement for the process undertaken by the AFPC to be transparent or for the research used to assist it in its decision be made open to the public. The AFPC will only be required to publish its wage setting decisions.
294. The New South Wales Government calls on the AFPC to minimise the negative aspects of the legislation by ensuring that future wage determination processes:
- set out clear terms of reference that determine specific labour market issues that the AFPC wishes to consider
 - make available internal research commissioned by the AFPC prior to the closing date of submissions
 - provide an opportunity for interested parties to respond to evidence and submissions put before the AFPC.

Conclusion

295. The position put by the New South Wales Government offers a fair and sustainable increase that provides for a small increase in real wages for all award reliant employees. It is a responsible increase that ensures that the lowest paid workers receive some benefit from Australia's improved competitiveness and economic growth.

296. The submission of the New South Wales Government addresses each parameter that the Australian Fair Pay Commission must have regard to in performing its wage-setting function.

297. Specifically, the New South Wales Government argues that a fair and sustainable increase to the standard Federal Minimum Wage (FMW) and Australian Pay and Classification Scales will:

- not have an adverse effect on employment and will provide incentives for the unemployed and low paid to participate and remain in the workforce
- share the benefits of Australia's competitive international position with Australia's low paid workers and will promote economic and social competitiveness across the Australian economy and within the Australian workforce
- maintain a fair and viable safety net for low paid workers
- encourage workforce participation of junior employees, employees to whom training arrangements apply and employees with disabilities while ensuring that these workers with a reduced capacity to achieve wage increases through bargaining are not exploited.

298. Additionally, the New South Wales Government has made submissions about issues relating to the process adopted by the AFPC and the mechanism by which pay equity issues are addressed.

299. The New South Wales Government believes that the AFPC should interpret the legislative parameters within which it must make its decision widely to ensure that its decision delivers fair and sustainable outcomes for all workers in the federal jurisdiction.

Appendix A

Definitions of Competitiveness	
Definition	Source
Competitiveness is a measure of a country's advantage or disadvantage in selling its products in international markets.	OECD Definition: COMPETITIVENESS (IN INTERNATIONAL TRADE)
No definition of competitiveness.	Australian Productivity Commission
Five indicators of competitiveness: real exchange rates based on consumer price indices, export unit values in manufacturing, normalized unit labour costs in manufacturing, the relative price of traded to non-traded goods, and the ratio of normalized unit labour costs to value-added deflators in manufacturing.	International Monetary Fund- Competitiveness Indicators - A Theoretical and Empirical Assessment
The ability of a country to achieve sustained high rates of growth in GDP per capita	World Economic Forum, Global Competitiveness Report 1996, pg.19
The ability of a country to create added-value and thus increase national wealth by managing assets and processes, attractiveness and aggressiveness, globality and proximity, and by integrating these relationships into an economic and social model	International Institute for Management Development (Economist, 01/06/96, pg. 84)
Competitiveness is relative and not absolute. It depends on shareholder and customer values, financial strength which determines the ability to act and react within the competitive environment and the potential of people and technology in implementing the necessary strategic changes. Competitiveness can only be sustained if an appropriate balance is maintained between these factors which can be of conflicting nature	Feurer, R. and K. Chaharbaghi, 1994. "Management Decision", Vol. 32, No. 2, pp. 49-
A firm is competitive if it can produce products and services of superior quality and lower costs than its domestic and international competitors. Competitiveness is synonymous with a firm's long-run profit performance and its ability to compensate its employees and provide superior returns to its owners	Report of the Select Committee of the House of Lords on Overseas Trade (1985)
The immediate and future ability of, and opportunities for, entrepreneurs to design goods world-wide whose price and non-price qualities form a more attractive package than those of foreign and domestic competitors	European Management Produce and Market

National competitiveness refers to a country's ability to create, produce, distribute and/or service products in international trade while earning rising returns on its resources	Scott, B. R. and Lodge, G. C. pg. 3, "US Competitiveness in the World Economy" (1985)
Competitiveness includes both efficiency (reaching goals at the lowest possible cost) and effectiveness (having the right goals). It is this choice of industrial goals which is crucial. Competitiveness includes both the ends and the means towards those ends	Buckley, P. J. et al, "Measures of International Competitiveness: A critical Survey." Journal of Marketing Management, (1988)
Competitiveness implies elements of productivity, efficiency and profitability. But it is not an end in itself or a target. It is a powerful means to achieve rising living standards and increasing social welfare, - a tool for achieving targets. Globally, by increasing productivity and efficiency in the context of international specialisation, competitiveness provides the basis for raising peoples' earnings in a non-inflationary way	Competitiveness Advisory Group, (Ciampi Group). "Enhancing European Competitiveness". First report to the President of the Commission, the Prime Ministers and the Heads of State. June 1995
Competitiveness should be seen as a basic means to raise the standard of living, provide jobs to the unemployed and eradicate poverty	Competitiveness Advisory Group, (Ciampi Group). "Enhancing European Competitiveness". Second Report to the President of the Commission, the Prime Ministers and the Heads of State. December 1995
Competitiveness is the degree to which a nation can, under free trade and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long-term	OECD
Industrial competitiveness is the ability of a company or industry to meet challenges posed by foreign competitors.	US Department of Energy
The ability to produce goods and services that meet the test of international markets while citizens earn a standard of living that is both rising and sustainable over the long run.	The First Report to the President and Congress, 1992 US Competitiveness Policy Council
Supporting the ability of companies, industries, regions, nations or supra-national regions to generate, while being and remaining exposed to international competition, relatively high factor income and factor employment levels.	OECD, 1996. Industrial Competitiveness: Benchmarking Business Environments in the Global Economy
Competitive advantage at firm level is the ability to consistently and profitably deliver products and services which customers are willing to purchase in preference to those of competitors.	Department of Enterprise, Trade and Employment.
A nation's ability to sustain and drive long-term productivity growth and maintain a rising	Economic Development America

<p>standard of living for all its citizens. Competitiveness is the way communities, states, and regions will succeed in the 21st century global economy. Achieving economic competitiveness requires engagement and collaboration of networks of economic, environmental, and social assets to identify and utilize distinctive competitive advantages. In an era of globalization, economic competitiveness is more effectively pursued by regions of economic spheres of common interest.</p>	
---	--