

ELC submission for the Federal Minimum Wage Review 2010-11

1. About ELC

This submission has been prepared by the Employment Law Centre of WA (Inc) (ELC). ELC is a not-for-profit community legal centre which specialises in employment law. It is the only free service in Western Australia offering legal advice, assistance and representation in relation to employment law. Each year ELC provides advice and assistance to approximately 5000 vulnerable non-unionised employees in Western Australia. Of the employees that ELC advises, over 22% earn less than \$25,000 annually.¹

2. Factors to be taken into account in setting the federal minimum wage

Fair Work Australia (FWA) is required under section 285 of the *Fair Work Act 2009* (Cth) (FW Act) to conduct and complete an annual wage review in each financial year. In conducting the review, FWA must establish and maintain a safety net of fair minimum wages, taking into account:

- (a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and
- (b) promoting social inclusion through increased workforce participation; and
- (c) relative living standards and the needs of the low paid; and
- (d) the principle of equal remuneration for work of equal or comparable value; and
- (e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.

Each of the top four factors above is discussed in turn below.

a) Performance and competitiveness of the national economy

It is generally accepted that the Australian economy has experienced significant growth throughout 2010 and the beginning of 2011, exceeding even the more optimistic forecasts for post GFC recovery.

The economy has continued to grow in 2010-2011. Australian GDP increased 2.7% through the year to the December quarter 2010 (in seasonally adjusted terms).²

¹ This statistic is based on data collected during the period July 2010 to December 2010.

² Australian Bureau of Statistics (ABS), *Australian National Accounts: National Income, Expenditure and Product*, December 2010, Catalogue No. 5206.0, Canberra, ABS, 2011.

The unemployment rate in Australia has dropped further since the 2009-2010 Federal Minimum Wage Review – it fell to 5.0% in January 2011 where it has remained for the month of February.³ Australia's unemployment rate is amongst the lowest of any major advanced economy in the world.⁴

Consumer prices have continued to increase. The ABS Consumer Price Index (**CPI**) rose 2.7% through the year to the December quarter 2010.⁵

While the economy has strengthened, certain events and trends have prevented employees from reaping the full benefit, with low wage earners being the most affected in certain instances.

Both fixed and variable interest rates for residential borrowing have risen over 2010 and the beginning of 2011, in some instances above the Reserve Bank's official cash rate. Increased mortgage stress will be passed on to those in the rental market, who are more likely to be low wage earners but without the financial leverage of property owners to adapt to price increases.

ELC submits that, in light of the strength of the Australian economy, the minimum wage could safely be increased without risk of causing any significant increase in the rate of unemployment. In fact, it has been found in research undertaken by the Centre for International Economics (CIE) for the Australian Fair Pay Commission that previous decisions to increase the minimum wage had a very small effect on the rate of unemployment - CIE found that the federal wage-setting decisions from 2006 to 2008 resulted in unemployment being a mere 0.05 of a percentage point higher at the end of 2009.⁶

ELC submits that the minimum wage should be increased as households that are reliant on the minimum wage are under mounting pressure due to increases in consumer prices that have occurred in the last year. In 2011, a sustainable increase in the minimum wage will have a minimal effect on unemployment rates, is in line with CPI increases and will ensure

⁴ OECD, *OECD Employment Outlook 2010 – Moving Beyond The Jobs Crisis*, OECD Publishing, 2010, Table A: Harmonised unemployment rates in OECD countries.

⁴ OECD, *OECD Employment Outlook 2010 – Moving Beyond The Jobs Crisis*, OECD Publishing, 2010, Table A: Harmonised unemployment rates in OECD countries.

⁵ ABS, *Consumer Price Index*, Australia, December 2010, Catalogue No. 6401.0, ABS, 2011.

⁶ P M Downes and K Hanslow, Centre for International Economics, *Modelling of the Macroeconomic Impact of the Fair Pay Commission's Minimum Wage Decisions*, Research Report No. 12/09, June 2009, see e.g. p. 7.

vulnerable employees are provided with a living wage and basic safety net.

b) Promoting social inclusion through workforce participation

According to research conducted by FWA, “[i]t is clear that workforce participation offers benefits and has the potential to enhance social inclusion.”⁷ Paid work “is considered to promote social inclusion by increasing people’s resources (such as income, access to goods and services and human capital), developing their social networks and support, and improving their mental and/or physical health.”⁸

Further “[m]inimum wages may play a role in providing the financial incentives for people to take up, or increase their hours in, jobs paid at minimum wages, or may enhance social inclusion through their role in providing a safety net.”⁹

It is the experience of ELC’s clients that participation in employment maintains personal dignity and pride, sense of self-worth and connection to the community. A minimum wage that allows those reliant upon it to live with dignity and enjoy secure employment is vital for social inclusion.

c) Relative living standards and needs of low paid

As discussed above, the CPI rose 2.7% through the year to the December quarter 2010. The Analytical Living Cost Index (**ALCI**)¹⁰ for employee households also rose 4.5 % for the year to December quarter 2010 (compared to 0.4% for the year to December quarter 2009).¹¹

In Western Australia, energy costs are expected to rise sharply in 2011. A report from the Western Australian office of energy in 2009 noted that consumer energy prices were not reflective of the costs of production and that increases in consumer prices were necessary¹². Western Australians experienced a tariff increase from electricity provider Synergy of 10% shortly after the last FWA wage order, and only approximately three months after the previous tariff increase of 7.5%¹³. In line with the 2009 report, it is to be expected that significant further increases will be introduced in 2011.

⁷ Lucy Nelms and Dr Constantine Tsingas, Minimum Wage and Research Branch, Fair Work Australia, *Literature review on social inclusion and its relationship to minimum wages and workforce participation*, Research Report 2/2010, February 2010, p. 36.

⁸ Above n 7 p. 4.

⁹ Above n7, p. 36.

¹⁰ The ALCI measures changes over time in the purchasing power of the after-tax incomes of households.

¹¹ ABS, *Analytical Living Cost Indexes for Selected Australian Household Types*, December 2010, Catalogue 6463.0, ABS, 2011.

¹² Government of Western Australia Office of Energy, *Electricity Retail Market Review*, January 2009

¹³ http://www.synergy.net.au/at_home/prices.xhtml accessed on 18 March 2011.

Both Fuelwatch in WA and the Australian Institute of Petroleum statistics detail recent short and medium term fuel price increases. Fuelwatch statistics suggest that fuel prices are at a 27 month high and indicate a sharp increase (relative to the previous 12 months) from January 2011¹⁴. The Australian Institute of Petroleum evidences the same sharp recent increase since Jan 2011¹⁵, accelerating even more rapidly in the last few weeks, presumably in response to unrest in the middle east that does not appear to be resolving soon.

Increases in the cost of living are felt most by low-paid employees. In relative terms, low income earners will experience a greater reduction in purchasing power than high income earners where there is an increase in living costs. An increase in living costs potentially decreases living standards where there is no comparable increase in household income, particularly amongst the low paid.

Australian employees relying on the current minimum wage are at risk of falling below the poverty line. According to the recent Henderson poverty line for a family comprising two adults, one of whom is working, and two dependent children, the poverty line is \$803.79 per week.¹⁶ The current federal adult minimum wage is well below the poverty line, being \$569.90 per week.

The increases in consumer prices and changes in the purchasing power of employee households discussed above have placed additional pressure on households that are reliant on the minimum wage. On this basis, ELC submits that the minimum wage should at least be increased to account for increases in consumer prices and other increases in the cost of living.

d) Equal remuneration for work of equal or comparable value

In requiring FWA to take into account the principle of equal remuneration for work of equal or comparable value, subsection 294(1) of the FW Act provides for consideration of issues of pay equity.

¹⁴ FuelWatch historical Price Search from January 2008 to March 2011 accessed at <http://www.fuelwatch.wa.gov.au/fuelwatch/pages/public/historicalPriceSearch.aspx> on 18 March 2011.

¹⁵ Australian Institute of Petroleum, *Average Weekly Prices for the 40 Weeks to Sunday, 13 March 2011*, accessed at <http://www.aip.com.au/pricing/retail/ulp/index.htm> on 18 March 2011.

¹⁶ Melbourne Institute of Applied Economic and Social Research, *Poverty lines: Australia*, ISSN 1448-0530, September Quarter 2010.

The use of the term “comparable” in the legislation means that the test of equal remuneration is broader than it has been historically because it allows comparisons to be made between different but comparable jobs.¹⁷

Gender pay equity in particular is an issue that consistently arises in discussions of pay equity. As women are over-represented in low paid jobs, an increase in the federal minimum wage would go some way towards addressing gender pay inequity.¹⁸

ELC submits that the federal minimum wage should be increased as a way of addressing, amongst other things, gender pay inequity.

3. Conclusion

It is ELC’s view that the federal minimum wage should be increased. In this regard, we endorse the submission of the Australian Council of Trade Unions which argues for a \$28 per week increase. This would ensure a basic safety net for vulnerable employees on the minimum wage whilst enabling unemployed and low paid workers to obtain, and remain in, employment.

¹⁷ Explanatory Memorandum, Fair Work Bill 2009 (Cth).

¹⁸ S Austin, T Jefferson, A Preston and R Seymour Women in Social & Economic Research (WiSER) Curtin University of Technology, *Gender Pay Differentials in Low-Paid Employment*, Research Report No. 3/09, October 2008, see e.g. p. 33.