



Opinion Piece for the Australian Financial Review by Peter Hendy, Chief Executive - 20 January 2004

MINIMUM WAGE MUST BE A TRUE SAFETY NET

It is appropriate in Australia that we have a properly targeted federal minimum wage. It can provide a balance between social considerations and economic matters that the Australian Industrial Relations Commission is required by law to take into account.

In this year's minimum wage case, the ACTU is seeking an increase of \$26.60 per week by centralised arbitration, or 5.9 per cent on the minimum wage. The claim is more than double recent rises in the cost of living. If it were granted, the commission would have arbitrated increases of \$125.60 since 1997, or 36 per cent .

The continuing challenge in setting minimum wages is to ensure that any wage increases do not come at the expense of other people's jobs. Employers have the work, but can't employ if the costs are too great.

Last week's employment data released by the ABS shows that though we have made some good inroads into the unemployment problem, 574,900 Australians remain unemployed and 1.2 million are underemployed. We should not be satisfied until every Australian who wants to work is in a job.

Andrew Leigh's article (AFR Opinion, January 14) estimates the employment effects of a 6 per cent increase in the federal wage floor and concludes that moderate increases in the federal minimum wage (at present, \$23,316.80 per annum) are not likely to cause significant employment losses.

Australia has an awards system with 50,000 arbitrated minimum wages. It is not just those on the \$23,316.80 minimum wage whose wages are increased by centralised wage arbitration but every employee paid an award rate. This consideration is missing from Leigh's analysis.

Something like a quarter of all private sector employees (1.7 million) automatically receive whatever increase is granted. These include employees paid up to \$1000 per week.

Further increases to award pay rates made by industrial tribunals become the negotiating floor for subsequent union claims. These arbitrated decisions flow on, once these claims are made, in workplace bargaining.

This is entirely different from the way in which the minimum wage applies in the rest of the world. Everywhere else the minimum wage is a true safety net, only for those on the bottom of the wage structure.



This limits any negative effects on employment and ensures that any minimum wage increases target those most in need.

In Australia, the increases occur at every level of the award pay scale.

Those increases have a substantial flow-on effect into pay rates for non-award employees and employees employed on above- award rates of pay.

Higher wages are sustainable when earned through higher productivity. If we are genuinely serious about a high-wage, high-productivity economy with lower levels of unemployment, then our minimum wage system needs to be restructured into a true safety net targeted to benefit those at the bottom of the wage system and the unemployed.