

Wages and the Economy

Professor Ian Harper, Chairman, Australian Fair Pay Commission

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Well, thank you, Tom for that generous introduction. Thank you, ladies and gentlemen, for your warm welcome. Please do go ahead and continue with your lunch while I talk to you a bit about the Fair Pay Commission and setting minimum wages in Australia. It's a great pleasure to have the opportunity to address this distinguished audience of CEDA members and members of the South Australian branch of the Economic Society of Australia. I'm privileged to be able to say that both of those organisations, at least their either national equivalents or their other interstate equivalents, I've been associated with myself for a lengthy period of time, having been a honorary trustee of CEDA since, I think, 1978 and a member of various branches of the Economic Society of Australia, including presently the Victorian branch. So I feel as though I'm among friends and I hope that that's the case. It's a great pleasure to be here and to be in Adelaide on such a glorious day, great to have that weather turned on.

Well, ladies and gentlemen, one of the responsibilities of the Fair Pay Commission is to broaden public understanding of the new mechanism that the new legislation had introduced for setting and adjusting minimum wages in Australia and so it's in that vein that I come before you today and thank you for the opportunity. Thank you for coming along to hear a bit about the work of the Commission because it is a new approach to setting minimum wages, having the advantage, at my table, of talking to Keith Hancock, who of course for many years was associated with our predecessor in this business, the Australian Industrial Relations Commission, chatting about different ways in which the two commissions go about their business.

Setting minimum wages in Australia is nothing new. You would be aware of that. This year in fact marks the centenary of the original Harvester Judgment when Mr Justice Henry Bournes Higgins, back in 1907, in the original Australian Conciliation and Arbitration Court brought down what we would recognise, I suppose, as the first formal setting of minimum wages at least within the federal jurisdiction. Even prior to that, the various colonies had minimum wages reaching back into the 19th century. So setting minimum wages is not new for Australia. What is new is the new institution that now sets minimum wages in the federal jurisdiction and that's for about 85 per cent of all Australian employees, those who are employees of constitutional corporations. The remaining 15 per cent are either not employed by constitutional corporations or they are employees of State governments and, therefore, within the State jurisdictions. So you would be aware that for all of the states, apart from Victoria, which referred its powers to the commonwealth, there are still State industrial relations commissions or tribunals and those industrial relations commissions still set minimum wages for employees of the states or those, as I say, who aren't employees of constitutional corporations and they do so using the time honoured adversarial system of taking evidence and making decisions through a quasi judicial process.

The Australian Fair Pay Commission, on the other hand, is a non-judicial body. Neither me, nor my fellow commissioners - and may I at this juncture acknowledge two of my fellow commissioners, Mr Hugh Armstrong and Mr Michael O'Hagan, both of whom are members of the Australian Fair Pay Commission and have been able to join me today. There are five of us altogether and the legislation establishes the commission, with representation from different quarters. Hugh Armstrong was National President of the Australian Services Union and brings to the Commission table expertise in workplace relations that's required by the Act and Mike O'Hagan is a very successful small businessman, operates a business called MiniMovers in Queensland and in Victoria and Mike fills the spot on the Commission, bringing expertise from small business. Many of you would be known to Professor Judith Sloane, of course, who was at one stage Director of the National Institute for Labour Studies at Flinders University, but Judy is also on the board of Santos and, I gather, well known around the South Australian scene. Well, Judy is member of the Commission as well and she brings expertise as a labour economist. I'm an economist, but not a labour economist and the final member of the Commission is Mr Patrick McClure, who until recently was the CEO of Mission Australia and Patrick occupies the position which is set aside for expertise and experience in community relations.

So the Commission has been set up by the law to bring those different expertise and experience to the Commission table for the setting and adjusting of minimum wages. So while it is an economic institution - I want to make that point clear and explain to you why I say that in a moment - I wouldn't want to give you the impression for a moment that the Commission, that is the five commissioners, are all card carrying economists. That's not the case. Nor is it the case that the legislation spells that out, excepting in one case. There is one spot for an economist, but even the chair of the Fair Pay Commission could be, frankly, from anywhere. I happen to have been invited. I don't know why. You'd need to ask the government that question and I happen to be an economist, but I have the privilege of the inaugural chairman of this institution and it is a privilege, ladies and gentlemen.

People sometimes ask me why I got involved with this. I'm not a labour economist, as I say, by training. This is my first foray into this particular area. One of my former students looked at me one day soon after the announcement of my appointment and said, "Harper, whatever possessed you to put your head into a mangle like that?" Well, one of the things that possessed me to put my head into a mangle like this is that I figure I'll get only one opportunity in my professional career to be there at the very outset of a new economic institution. I don't know whether the institution will continue to have this particular form after the election result is declared later this year. It's possible that it will take a somewhat form, but my understanding of the Labor Party's policy, which is no better than yours - unless you happen to be a much closer member of the party. I'm not a member of the party - is that the setting of minimum wages by the body they would propose to establish, if the Labor Party wins the election later this year, would continue to set minimum wages on a consultative, non-judicial basis in much the same way as the Fair Pay Commission does. Now, of course, that's a matter totally of speculation. It would require us to see what would emerge in that event, but in any case, for the time being, I, as chair, and my fellow commissioners are seeing ourselves building the foundations of a new institution which, by the law, adopts a new approach to the setting of minimum wages, one that is not adversarial, as we've been used to, but one which is consultative and inquisitorial.

The law, as I say, does not use a legal framework. We're not a court. My fellow commissioners and I are not justices and the process which is laid down by the law is that we shall consult, undertake independent research, take submissions from the public and then make a collective judgment about the setting and adjusting of minimum wages according to the criteria that I'll come to in a moment and one of that approach is that for the first time, at least in the federal jurisdiction,

it's possible for anybody to have a view and to express that view about what minimum wages ought to be, things that they believe the Commission should take into account and directly to communication those views to my fellow commissioners and to me. Not only do we welcome that, we read the legislation to require and encourage just that type of approach and my fellow commissioners and I welcome that approach. In fact that's why Hugh and Mike are with me today. We've been over here in Adelaide yesterday, having the great privilege of talking to people from the Phoenix Society, you might be aware, who operate a business services, or what used to be known as a sheltered workshop, up here in North Adelaide, a very impressive outfit, talking to them and to others in the business of placing or hiring workers with a disability in those types of services, chatting to them about how the supported wages system is working, how the decisions the Commission has already made with respect to workers with a disability are panning out for them.

This morning we had the opportunity to spend some time with your Department of Further Education, Employment, Science and Training about the very important question of training and apprenticeships and what the Commission needs to hear about those issues as move into the question of thinking about what might happen to minimum wages for trainees, apprentices and juniors. I'll say a bit more about that later on in my remarks as well.

So the whole approach is precisely like that, consultation. We're looking for submissions. We undertake independent research but, importantly, the overarching objection of the Commission is to set and adjust minimum wages within the federal jurisdiction so as to promote the economic prosperity of the people of Australia, says the Act, and that places the Australian Fair Pay Commission among a very small number of economic agencies in our country, who have that as their objective. Another one that's very well known to us is the Reserve Bank of Australia. It has the same objective and the Reserve Bank of Australia has one instrument, like us. Their instrument, of course, is the cash interest rate and they are charged to adjust the cash interest rate so to promote the economic prosperity of the people of Australia and we might see them doing that a little bit later this week. We'll see, but as far as the Fair Pay Commission is concerned, we have one objective, which is the same, promoting economic prosperity and our instrument is the minimum wage, set and adjust minimum wages so as to promote economic prosperity.

The Act says a little bit more about the other criteria that we need to take into account, so we just can't set and adjust minimum wages completely willy nilly. There are other constraining criteria that I'll mention, but I want to make the point that we are an economic policy agency and that, therefore, takes us into somewhat different territory from previous incarnations of minimum wage setting bodies in our country, not totally, but somewhat.

There's a very strong focus in the legislation on employment and so jobs are a big deal for the Australian Fair Pay Commission and minimum wages, as you can imagine, will have an influence. They needn't be the dominant influence, but they will have an influence on job creation, particularly for low paid Australians. The legislation also directs the Commission's attention to low paid Australians. This Commission, ladies and gentlemen, is not setting and adjusting wages for every employee in the land, not even every employee within the federal jurisdiction. It sets and adjusts minimum wages for those employees who are reliant on the pay and classification scales and the Federal Minimum Wages themselves and that's around about 11 per cent of the Australian workforce, about one and a quarter million Australians, a not insignificant number, but another point I think people need to understand is the days - certainly the days that Keith would well remember - when the Industrial Relations Commission would bring down wages cases that effectively influenced the wages of the great majority if not every employee in the land.

Those days are no longer with us and they've been away from us for some length of time. This isn't anything to do with the present government even. This process really began in the 1980s, but

here we are now in 2007. The minimum wages which the Australian Fair Pay Commission sets are essentially applying to about 11 per cent of the workforce, who are, as we say, pay scale reliant. That means that they wouldn't get a wage increase, except for the decisions of the Australian Fair Pay Commission. They're not on agreements. They don't have any enterprise arrangements, which would carry them above what we would once have called the award, but they in fact are paid what used to be called the award wage, what are now called pay scales. Well, those are the people who are the attention of the Commission and the majority of such people are low paid Australians. Most Australians are paid, if they are employees, within the federal jurisdiction under agreements of one form or another, individual agreements, collective agreements. They aren't actually paid directly an award wage.

Now agreements, of course, must contain a wage which is no lower than the Federal Minimum Wage for that particular classification. So it's still true that every agreement refers to the decision the Commission makes. That's clearly true, but for the great majority of workers the wages which are included in their agreements are well above the statutory minimum that's set by the Commission. In some case those agreements may have to be amended if the Commission makes a decision which carries the minimum above whatever wage was specified in the agreement, but in most cases that's not the case.

Well, setting minimum wage, like setting interest rates, can therefore affect employment, particularly for the low paid. It can affect the rate inflation. It can affect competitiveness in the Australian economy. So we could certainly set minimum wages in ways which would derail employment growth for low paid workers or cause national inflation to be increased, that's true, even though we're only affecting 11 per cent of the workforce and that's why the Act does say that the Commission must, in setting and adjusting minimum wages, look to economic prosperity, but also be concerned about the employment opportunity for low paid Australians, the capacity of unemployed Australians to find work, the competitiveness of the Australian economy and employment across the economy, as well, and importantly, including, of course, providing a safety net for low paid Australians.

Originally when Justice Henry Bourne Higgins brought down the famous Harvester Judgment it was first and foremost about a safety net. Back in 1907 there was no federal income tax. There was nothing that looked like a social security system back then and so the decision that was made by Justice Higgins was really about providing a safety net. These 100 years later, while minimum wage are still part of the safety net for Australians, the safety net is dominated by the income tax and social security system, but the legislation still links minimum wage setting to the provision of a safety net and so in the Commission's most recent decision, if you've taken a look at those documents that we published in July, you would see in the reasons for decision and extensive discussion of how the Commission's latest decision was informed by and interacted with the latest changes to the safety net which were announced by the Federal Treasurer in the May budget. It is still important, in setting minimum wages, for the Commission to be concerned about the safety net. That's written down in the Act, alongside, of course, concerns about employment and unemployment.

You'd appreciate that workforce participation is one of the key drivers of our future prosperity. It's one of the Ps that the secretary to the Treasury talks about. Alongside population and productivity is workforce participation and the Commission does have a role in encouraging Australians to participate in the workforce, particularly low paid Australians, particularly those for whom remaining out of the workforce on some form of benefit would be a viable option.

One of the differences between the Australian system of minimum wage setting and that elsewhere in the world - incidentally, this was brought to home to me, as I imagine it was to others with the

recent visit of the ACTU organised, of the three low paid workers from the United States. You might have seen some publicity about that and I asked the ACTU if they would allow me to meet these three people and in fact Mike O'Hagan, my fellow commissioner, and I went to Canberra last week and met with them and, apart from the fact that of course there are many aspects of minimum wage setting in the United States, which are very different and almost unrecognisable to us here in Australia, one of the things that's clear, of course, is that the US has a far less generous safety net than we do here in Australia and so the whole question of how the safety net articulates with minimum wages is not really one that arises in the US context.

Last Friday we had the benefit of a seminar that the Commission had organised in Melbourne, featuring Professor Newmark, David Newmark, from the University of California, whose is a specialist in the economics of minimum wage determination and has published a very extensive international survey and hearing him talk about the same thing. One of the things which surprised him was, oh well, in the US, of course, we don't need to be concerned about the interaction with the safety net. Well, that's right. Here we do. So the Australian Fair Pay Commission is not just concerned about the demand side amongst economists - I think I can use that term without too much explanation - in other words, not totally concerned about pricing low paid workers out of the workforce. That is an important consideration. We don't have to stop there. We must also be concerned about the supply side. We must also be concerned about providing sufficient incentive for low paid people and unemployed people to take work and remain in work because our safety net is far more generous relative to the minimum wage than is true elsewhere in the world and, of course, even if we're just thinking about the impact of minimum wage setting on the safety net and on concerns about social circumstances, including poverty, I think the last point there would be widely recognised by most of us, namely that having a job is one of the most important safeguards against poverty and disadvantage. So the Commission's role as being part of the safety net is also to encourage people into work, not to set minimum wages in a way which would discourage people taking work.

So our broad Rembrandt, as you can see there - when I get my machine to work, which doesn't want to happen here. Well, I'll carry on. Perhaps you can look after that for me, Hamilton. The Act says that we are to adjust minimum wages. There you are. Thank you very much - adjust the standard Federal Minimum Wage, which you would know about. For the first time, interestingly, this legislation now provides a Federal Minimum Wage right across the federal jurisdiction, but that wasn't the case prior to the new legislation being passed. There wasn't a national, within the federal jurisdiction, Federal Minimum Wage. There now is. At the moment it's \$13.47 an hour. After the first pay period in October it will become \$13.74 an hour. It is now illegal for any employee of a constitutional corporation to be paid less than \$37.47 (as said) an hour, unless they're in one of three situations; they're a junior, that is to say, they are under the age of 21; they are an employee with a disability, as assessed independently by the Department of Family and Community Services; or, thirdly, they are in a registered training program. If they are an employee in one of those three situations, then the Federal Minimum Wage doesn't apply to them and instead so-called special Federal Minimum Wages apply for juniors, for trainees and for workers with a disability. So if you think about it this way. The Commission sets the Federal Minimum Wage, which reaches right across the jurisdiction. Beneath the Federal Minimum Wage it then sets these three special Federal Minimum Wages, juniors, trainees, workers with a disability, and then on top of that come all the Australian pay and classification scales and there are 105,000 of them.

I recently had the pleasure of explaining to the third of three delegations from the People's Republic of China. They're very interested in the way we set wages in this country, for reasons that you might care to speculate on, and always interesting to talk to our Chinese friends, as you know. This was quite a large delegation and I had my translator there and I got to this point of the presentation and I said, "Well, there are 105,000 minimum wages effectively in Australia", and the translator

looked at me and said, “105”, and I said, “No, 105,000.” Still the translator wouldn’t translate and said, “105, one zero five.” I said, “No, one zero five zero zero zero”, which he then translated to the Chinese, who all stood up and were taken aback and I said, “You tell our Chinese friends that it’s not often that we here in Australia can shock our Chinese friends with large numbers, but this is an exception.”

It’s a system which has grown up over 100 years, ladies and gentlemen, and, to be fair, the great the number of those classifications are no longer relevant. That’s true, but the reality is that there are around about 4000 pay scales and about 105,000 pay points and the Commission will be moving into a period in which we will be considering various ways in which this process might be rationalised. We’re required by the law to rationalise or consider ways in which this process or this set of pay scales might be rationalised. More of that later on, but effectively what’s happening is that the Commission is setting all of these minimum wages. It may be well clear to us what role the Federal Minimum Wage plays and the special Federal Minimum Wages play. The Commission will be very interested to hear what role people feel the pay and classification scales play. These are also minimum wages and some of them are well into six figures and they apply to, for example, airline pilots, some very top grade engineers, still subject technically to minimum wages and the Commission has been asked to enquire into this. So we will be very interested to hear what people say, particularly like yourselves from the business community. What role does having a set of pay and classification scales, even if there isn’t 105,000 of them, what role does having minimum wages above a Federal Minimum Wage, what role do they play for you as employers - we will, of course, be speaking to the trade unions - for you as members of trade unions, those people who run trade unions, for members of the community, what role do they play - an important question for us as we go forward.

I mentioned the objectives that constrain, as well as direct, the Commission and there they are. We must have regard to the capacity of 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 setting these sub-minimum wages, the special Federal Minimum Wages for juniors, trainees and workers with disability, in ways which preserve the competitiveness of those workers in the workforce. That’s the legislation. That’s what we’re asked to do.

Well, Hamilton mentioned that I’d spoke about our most recent decision and I’m happy to do that. You will be aware that as of July the Australian Fair Pay Commission have brought down two general wage setting decisions, as they’re known under the Act, and this most recent one increased the Federal Minimum Wage - and now you’ll understand what I’m saying - increased the Federal Minimum Wage and all the pay and classification scales up to \$700 a week by \$10.26 a week. That covers about 850,000 Australian workers or about 8 per cent of the workforce and then above that, so the pay and classification scales above 700, right up to the top, whatever that might be, the top end of the pay scales, they would be given \$5.32 and that represents about another 350,000 workers or about 3 per cent. So there’s your 11 per cent, 8 plus 3. Why is it split? It’s split because the Act directs the attention of the Commission to low paid Australians. \$700 a week is near enough to about two-thirds of average weekly ordinary time earnings. Our researchers inform us that the international - if there is a benchmark on what constitutes low pay, most of the researchers in the area would say, well, probably about two-thirds of median weekly earnings. Median earnings are below average earnings, as you’d be aware, because the high ones pull the average up above the median.

Well, the Commission hasn’t come down with a hard and fast rule, but in the first two determinations we’ve effectively said two things, one, that we believe that the Act directs the Commission to be considering the low paid first and so we’ve given in both of our decisions higher increases to lower paid Australians. We have not ignored those further up the pay scales, but we

have essentially recognised that those people aren't really, by any fair definition, low paid. They are, however, still dependent on the pay scales for a wage rise. That's true. So they get a wage rise in both of these first two decisions, but research also informs us that people further up the pay scales, in this case, although it's arbitrary, above \$700, arguably, are far more likely to be able to negotiate wage increases directly with their employers by agreement and the Act also enjoins the Fair Pay Commission not to do anything which would stand in the way of bargaining between employers and employees, either collectively or individually.

The legislation which sets the Fair Pay Commission up is part of the WorkChoices legislation and its overarching objection is to encourage bargaining between employers and employees to establish conditions and wages within the constrained framework and which, of course, has also recently been strengthened with the recent decisions of the government over its own safety net introduced into the legislation. So from the Fair Pay Commission's point of view, what we've done is to split the increase on both occasions, recognising that some Australians are more dependent on the Commission than others for wage increases and other Australians, although they are still pay scale dependent have, in the Commission's view, stronger options to negotiate wages directly with their employers, as others who would be paid at the higher end of the pay scales have done. These increases flow through to juniors, to employees to whom training arrangements apply and employees with a disability, as you can see there.

One of the other differences that was quite clear in talking to our American friends the other day is, of course, they haven't had a minimum wage increase federally in the United States for seven years. The Australian Fair Pay Commission has increased the minimum wage twice in the last 10 months by a total of \$37.62 and on both occasions those increases for the Federal Minimum Wage, at the bottom, were real increases, as predicted with the forecasts of inflation at the time that the decisions were made and the first decision was made, it turns out, that in fact the inflation rate went down relative to what it was expected to be when the first decision was made. With respect to the second decision, maybe the inflation rate will turn up a bit relative to what was forecast by the Reserve Bank at the time that the Commission the decision. We'll have to wait and see, but the Commission has also committed itself now to an annual cycle, as was requested by our stakeholders.

We are required again by the Act to monitor our decisions and to continue to be informed by our stakeholders. We asked them what they thought about the first time through - this is a new institution and I came back on 1 December, the day when the first decision took effect, and asked people for the next round of submissions and some people said, "Whoa, whoa, we've only just sort of dealt with you. How come we're back already?" Well, I'm back already because the law requires me to find out from you what you think. This is a brand new institution and my colleagues and I on the Commission want to know as soon as possible whether you have major misgivings about the way the Commission went about its first decision, the decision itself and so on and so forth. That's the way this new system is supposed to operate, in our view.

Well, one of the things they said was, "We need certainty. We don't want to be in a situation where you could make decision, whether you like it or whether you don't. We want to know where you're coming from." So we decided as a Commission that this time we would commit to an annual timetable. There would be a mid year decision and there would be a lag before implementation. So mid year decision July; implementation sometime in October going forward and we're committed to that now. I mentioned that both increases were real increases. I'll give you that evidence in a moment and clearly the other effects that you can see there were important for us, the impact on inflation, jobs and interest rates, maintaining a safety net and the incentives to seek and remain in employment, which I've mentioned to you and, interestingly this time, recognising the fact that some of our businesses are experiencing the most severe climatic conditions they've experienced in a long while.

Another historic aspect of this second wage setting decision is that the Commission agreed to grant a deferral from the general wage setting decision to farm businesses in receipt of the exceptional circumstances interest rate subsidy. Now in order for a business to receive this deferral, firstly, it has to be in an exceptional circumstances declared area. It then must be in receipt of the exceptional circumstances interest rate subsidy. It must employ workers in an exceptional circumstances area and they must be employed under a specified set of awards. So can I emphasise that, while we're very keen to ensure that businesses in the most difficult circumstances brought about by the drought, are able to take advantage of this deferral, at most 12 months or until the drought relief scheme were lifted, I would not want to exaggerate the number of people who are able to take advantage of this. The Department of Agriculture suggests it's about 13,000 businesses. Nevertheless, the Commission believed that it was an important point to make that under the new arrangements, when circumstances warrant, the system is flexible enough to allow a deferral in this case for the purposes of protecting jobs. The Commission is required by the Act to protect jobs, not to take decisions with minimum wages which might have the opposite effect and in this particular area we felt that there was a possibility that might occur and so we deferred the wage rise for 12 months or until the ECIRS is lifted, whichever comes sooner.

I've spoken about the two increases being real wage increases. There's been some comment about this in the press. It is true that the forecasts that we used to make that statement are now a little bit out of date, but they are forecasts that were made and available to us by the Reserve Bank at the time that we made the decision, public forecasts, and we estimated, using the Reserve Bank's data, that inflation would be 1.6 per cent between our first decision, 1 December, and October of this year. The latest CPI figure of 1.2 may mean that that number turns out to be higher than we'd expected. On the other hand, the December quarter last year was minus .1. The March quarter was .1. So it's not at all impossible that we could for the September quarter have a figure that comes in at .4 or less, in which case the 1.6 would still hold, but I'm not in the business of making inflation forecasts. We took those numbers from the Reserve Bank.

To the extent to which those numbers are valid, then you can see that the decision that we made, our 2007 decision, was clearly a real increase for the very bottom, for the Federal Minimum Wage, and in fact real increases up through the trades persons' rate, as it's known, C10 up to C9, further up the pay scales than the first decision. Many people seem to be foxed by the fact that the first decision was \$27.36 and the second decision is \$10.62. Therefore, we are more generous time 1 than time 2. This audience would quickly recognise that the first decision covered an 18 month period and the second decision a 10 month period and, when you do your sums, you work out that they have this real effect in fact the other way around. Put the two of them together and, as you can see, the Commission's decision has produced a real wage increase.

Some people have been asking me, particularly after the visit last week of the low paid American, also is this down which we could expect the Commission to go? Well, I have to let you make your own judgment about that, but let me say, from the Commission's perspective, that all you have to go on at the moment is the first decisions of the Australian Fair Pay Commission and they both produced real wage increases for those on the Federal Minimum Wage and several classifications above it and the Federal Minimum Wage here, as you're aware, is about twice that in the United States.

Various other factors that we pointed to in this report are all available for you to take a look at on the web. There's quite a discussion about the impact of effective marginal tax rates in the latest Commission's report. People worry about how much of an increase folk will actually receive and our latest data show that they will receive as much as three-quarters of the increase when you take into account the impact of taxes and changes in the social security system.

I've also talked about the importance of maintaining an incentive for people to take work at low wages. This chart here shows you that there is still, taking into account the Commission's latest decision, a very healthy gap between the reward for not being in work, if you like, income out of work, as compared with being on the Federal Minimum Wage and that's important for maintaining supply-side incentives for those who might be out of work to seek work, even at the Federal Minimum Wage and the poverty line figures also point out that even at 50 per cent of the Federal Minimum Wage those numbers are well clear of the Henderson poverty lines across various categories of household.

It's a balancing act, ladies and gentlemen, the Commission has to go through. There is no formula. There can be no formula when we're trying to combine social and economic criteria. It would not be possible to have a formula even it were just economic criteria. The Reserve Bank does not publish a formula for determining interest rate increases. The Fair Pay Commission will not publish a formula for determining minimum wage increases, but what we will do is tell you all of the different factors that my colleagues around the table and myself look to and take into account when we're setting and adjusting minimum wages.

Let me just say a final word about the pay scales. I've spoken a lot about exactly what they are. We are required to do two things, firstly, to publish the pay scales and that process is well underway already. There is an agreed process, agreed amongst the parties, the ACTU, ACCI, the government and about exactly which pay scales will be published first and how that process will work. I won't take you through this, but if you're particularly interested in this topic, can I refer you to the Commission's website. That process is up and running and there is work already on the top seven pay scales well underway, with the intention that they will be published. This audience would appreciate this exercise is a complex one, but it is one that is well and truly underway. So, firstly, publishing them and then, secondly, rationalising them, thinking about ways in which we might convert those 105,000 pay scales to something that continues to do what role the pay scales may well perform, but to do so in a rationalised, smoother way.

The Commission is committed to publishing a discussion paper at the end of September, that's the end of next month, which will raise, we hope, all of the key issues that we're wanting people to think about in the context of that important issue and we'll then give a reasonable period of time for groups to come back to us with views about how the process should be rationalised and what a rationalised set of pay scales might look like. Can I encourage you to be a part of that process? That's a very difficult and detailed one. We'd like to have as much as input as we possibly can. As part and parcel of that process, we will also be looking into what might occur with junior wages and wages for trainees. They're connected. If there is an important role to be played by junior wages and trainee wages for training and skill formation, people tell us the same is true of the pay scales themselves. So these issues are connected and we're going to look, therefore, at all of that under one banner and we'd invite you to respond to that discussion paper.

Just by way of setting that conversation running, can I point out that these questions at the bottom of the slide will focus the Commission's attention first up. Our first task is to ask ourselves these questions. How important are the pay scales in securing economic prosperity? That's what the Commission has to look to. Answer that for us. And what role should a rationalised pay scale system play in a modern, flexible labour market.

Let me conclude by answering this question for you. People ask me, as the inaugural chairman of a new body, what sort of body I'm seeking, with my colleagues on the Commission, to create? What am I shooting for? What's the objection? Well, let me share it with you. I am trying, as the inaugural chairman of the Australian Fair Pay Commission, to build, together with my colleagues

on the Commission, an organisation, whose focus is first and foremost on unemployed Australians and low paid Australians and their employers. I want our decisions to be evidence based, informed and balanced and I hold us and my colleagues - hold us to account with you, our stakeholders. Tell us if you feel as though we are not abiding by those standards. I want our procedures to be open, transparent and independent, an emphasis on research, an analysis. In the end, I'm an academic and, if they appointed me to this, they ought to have expected that I would emphasise research and analysis, but my colleagues, who aren't academics, are also committed to us approaching things in precisely that way.

I would hope that the Fair Pay Commission becomes a respected authority on the link between employment and minimum wages in an Australian context. Shorthand, if you want a little picture about what it is that's in my head that I'm trying to build, then think Reserve Bank of Australia. Ladies and gentlemen, I will be very proud, as an Australian, however long I end up serving in this role, which might not be long at all if the government changes. I'll be very proud if, in five to 10 years time, you and our countrymen think of the Australian Fair Pay Commission as being like the Reserve Bank of Australia, is independent, professional, respected. Its decisions are based on research and analysis. It is unbiased and it makes a decision, in their case interest rates, in this case minimum wages, which is seen by all members of our community as balanced and fair.

Thank you for your attention.

End of transcript

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