



**Centre of Full Employment and Equity**

**Working Paper No. 05-18**

**Taking the low road: minimum wage determination under 'Work Choices'**

Sally Cowling and William Mitchell<sup>1</sup>

November 2005

Centre of Full Employment and Equity  
The University of Newcastle, Callaghan NSW 2308, Australia  
Home Page: <http://e1.newcastle.edu.au/coffee>  
Email: [coffee@newcastle.edu.au](mailto:coffee@newcastle.edu.au)

## 1. Introduction

The Workplace Relations Amendment (Work Choices) Bill 2005, hereafter Work Choices, was introduced into the House of Representatives on 2 November 2005. Given a Government majority in the Senate it is likely that the Bill will pass into law with few, if any, amendments. The Work Choices legislation will usher in prodigious and primordial changes to labour market regulation in Australia. Our focus in this paper is on changes to the regulatory framework for the determination of minimum wages and the rationale for, and likely consequences of, conferring this power on a new statutory agency called the Australian Fair Pay Commission (AFPC). Work Choices provides for the establishment of the AFPC to set and adjust the standard Federal Minimum Wage and minimum award classification rates of pay; special Federal Minimum Wages for junior employees, employees with disabilities or employees under training arrangements; minimum wages for piece workers; and casual loadings (House of Representatives, 2005: 11).

In exploring the implications of shifting responsibility for minimum wage determination from the Australian Industrial Relations Commission (AIRC) to the AFPC, the paper will be organised as follows. Section 2 sets out the Government's rationale for changing the institutional framework through which minimum wages are determined. Section 3 examines the relationship between minimum wages and employment outcomes in Australia to assess the veracity of the assumptions that underpin the objectives specified in the Work Choices Bill. Section 4 provides detailed analysis of differences between the AIRC and AFPC with respect to the composition and independence of Commission members; the legislative criteria guiding wage decisions; and the role accorded to these decisions in the pursuit of broader economic and distributional goals such as prosperity and fairness. Finally, Section 5 argues that the Work Choices legislation will act as a downward drag on the pay and conditions of minimum wage workers and sets out an alternative policy approach to attaining the Work Choices objectives.<sup>2</sup> This approach requires a State commitment to full employment and the maintenance of a decent living wage.

## 2. The Australian Fair Pay Commission (AFPC) - the rationale for change

Under the *Workplace Relations Act 1996*, the Australian Industrial Relations Commission (AIRC) does not set a single Federal minimum wage. Instead, it determines safety net wage increases for workers who have not procured increases through enterprise bargaining, while specifying changes to minimum award rates (Colvin and Watson, 1998).

The desire to transfer wage determination functions to the AFPC is based on the Commonwealth's long-held view that the level of safety net adjustments awarded by the AIRC has been inimical to the goal of generating additional jobs, apprenticeships and traineeships; and that such adjustments should be confined to the low paid<sup>3</sup> (Howe *et al.*, 2005: 4). Wage decisions that facilitate labour market entry are seen to serve as stepping-stones to higher paying jobs over time (Australian Government, 2005: 64). It follows that in the absence of institutional reform to wage setting arrangements, unemployed persons will remain 'locked' or 'priced' out of the labour market.

At the 2005-06 Budget Senate Estimates Hearings, the Department of Employment and Workplace Relations (DEWR) was asked to estimate the employment effects of changes to workplace relations under Work Choices, and to document the research used to support these estimates and the causal relationship implied. While DEWR did not provide an estimate<sup>4</sup> - on the grounds that the Work Choices Bill was still to be finalised - it stated that:

With regard to the establishment of the Australian Fair Pay Commission (AFPC), DEWR has provided considerable evidence of the negative effects on employment arising from the operation of the current *Workplace Relations Act 1996* where the Australian Industrial Relations Commission (AIRC) continues to grant large wage rises in the annual Safety Net Review...The AFPC will ensure a better balance between fair pay and employment.

DEWR (2005: W319-06)

In the following section we consider whether the economic research literature supports this claim.

### **3. Employment effects of a minimum wage rise**

Underlying the job generation claims discussed in Section 2 is the proposition that wage increases, or the imposition of minimum wages and conditions, will have adverse consequences for employment. This proposition - an inveterate feature of government and employer submissions to wage setting tribunals - is grounded in orthodox microeconomic theory developed within the highly stylised 'competitive' model. The failure of the parameters of this 'text-book' model to materialise in the real world and the existence of pronounced interdependencies between labour demand and supply - in defiance of the model's assumption of independent costs and incomes - are typically ignored by those who want to 'abuse' the 'text-book' theory and use it as an 'authority' for their claims (Thurow, 1983).

The debate about the impact of a minimum wage rise remains unresolved and largely divides along ideological lines. Neoclassical economists have used a litany of poorly-constructed empirical research to draw a negative association between real wage rises and employment. However, the evidence to date remains inconclusive.

In the past several years, both the Commonwealth and the major business lobby groups<sup>5</sup> have argued that an increase in the Safety Net wage would destroy jobs. The principal research tendered to support this claim was undertaken by Leigh (2003), Harding and Harding (2004), and Dixon, Madden and Rimmer (2005), and was considered in detail at the 2003, 2004 and 2005 Safety Net Review hearings (AIRC: 2003, 2004, 2005). One of the authors of the present paper, William Mitchell, presented expert evidence before the AIRC in 2004 and 2005, critical of the research methodology used, and the findings reached, in these papers (ACTU, 2004 and Mitchell, 2005b).

In the 2005 hearing, Mitchell submitted an opinion critical of evidence tendered by the Commonwealth, which had been prepared by Dixon, Madden and Rimmer (2005). A major point of the critique focused on the 'black box' nature of the Monash simulation model and the fact that the results presented were largely driven by the 'untested' assumptions made before the experiment was conducted. In its 2005 decision (AIRC, 2005: paragraph 203), the Commission acknowledged that "the models assume that employers react to increases in real wages by reducing their demands for labour. Hence the simulations inevitably show that aggregate employment is reduced by increases in real award wages". It went on to state:

We do not propose to place any weight on the Commonwealth's submission...the analysis undertaken by the Commonwealth relies on only a small number of observations. In the May 2004 decision, the Commission referred to the evidence of Professor Mitchell in which he raised a number of limitations in the methodology applied in regression analyses undertaken by the Commonwealth in those proceedings. The limitations identified by Professor Mitchell included:

- Failure to full report diagnostic statistics;

- The number of observations were below the professionally accepted level of 30 in all but one of the models;
- Measurement problems and error; and
- Failure to control for factors which may both affect variables and produce bias and endogeneity problems.

It seems to us that at least the first two limitations identified apply with equal force to the Commonwealth's analyses in these proceedings. Given the technical limitations of the exercise, the material does not allow us to reach any conclusions as to the impact of safety net adjustments on employee hours worked in the three most award-reliant industries.

AIRC, 2005: paragraphs 275-276

Watson (2004) has conducted a comprehensive survey and analysis of recent Australian and international studies of the relationship between changes in the minimum wage and employment. He supports the conclusion drawn by Dolado *et al.* (1996: 327-28) that:

Predictions of economic theories are almost always sensitive to assumptions. We are surprised by an unconditional claim ... [that raising the minimum wage automatically leads to unemployment] ...and skeptical that anyone actually believes it. Yet it pervades the analysis of the minimum wage.

Further Watson (2004) clearly shows that the empirical literature has failed to find any significant and consistent negative relationship between minimum wages movements and employment growth (or levels). His review is particularly critical of the recent study by Leigh (2003), which is demonstrated to be "fundamentally flawed, with major methodological and empirical weaknesses" (Watson, 2004: 9). The international and Australian evidence is not able to substantiate the case that employment growth is significantly hampered by labour market regulations.

The OECD (1998: 31), typically a supporter of policies that serve to increase employer power in the labour market, has stated that:

There is little agreement, at either the theoretical or empirical level, about the precise employment effects of minimum wages, at least over moderate levels relative to average wages. However, there is general agreement that a statutory minimum wage is likely to reduce employment if set above a certain, usually unspecified, level. While sometimes conflicting, the weight of evidence suggests that young workers may be most vulnerable to job losses at a high level of the minimum wage. There is less evidence available on the employment effects, if any, for other groups such as women and part-time workers, who represent a large and growing proportion of the workforce.

Further, the OECD (1998: 451) refute the oft-repeated claim that minimum wages cause employment losses among young workers, arguing that, on the basis of the available evidence, it is not clear that a rise in minimum wages has unambiguously led to job losses for youth in all circumstances. The results of the time-series and pooled, cross-sectional studies are found to be particularly contradictory, with some authors finding negative, but generally small, employment effects and others finding either statistically insignificant or small positive effects.

The 2003 and 2004 Safety Net Review judgments summarise the Australian Industrial Relations Commission's concerns about the absence of robust and conclusive evidence on the employment effects of safety net rises. In its May 2004 decision the Commission says:

After yet another survey of the literature and other material on the economic effects of increases in minimum wages it has clearly emerged, once again, that most of the information is of very limited assistance. The research is either largely irrelevant, is limited in scope, or has serious methodological flaws.

AIRC, 2004: paragraph 229

In a similar vein, the Commission concluded in their 2003 decision that:

Taking all of the research into account, it has not been established that moderate increases in the wages of the low paid, of themselves, will diminish aggregate employment outcomes, although some studies suggest that some negative effects might occur for employees receiving the minimum wage.

AIRC, 2003: paragraph 161

More recently, the distinguished Harvard economist, Professor Richard Freeman, summarised the findings of international studies of the relationship between flexibility and labour market performance as establishing that labour institutions, while reducing earnings inequality, have no clear relation to other aggregate outcomes such as unemployment (Freeman, 2005 cited in *One Hundred and Fifty One Australian Academics*, 2005: 15).

#### **4. Institutional change in minimum wage determination - likely effects**

##### **4.1 Wage levels**

The Work Choices Bill guarantees that nominal minimum and award classification wages will be protected at the level set after the inclusion of the increase granted at the AIRC's 2005 Safety Net Review case. The weekly Federal Minimum Wage cannot fall below \$484.40, which translates to an hourly rate of \$12.75. Where awards currently include specific pro-rata wages for juniors, trainees or apprentices and employees with disabilities, these levels will also be protected at the 2005 Safety Net Review level (House of Representatives, 2005: 19).

While the Bill establishes a money wage floor, the following section outlines the greater emphasis that the AFPC will be required to give to promoting economic prosperity, through employment generation, in determining the level of any subsequent adjustment. Given that the establishment of the AFPC has been explicitly linked to the view that the generosity of AIRC Safety Net decisions has been to the detriment of employment growth, it is reasonable to expect that the real minimum wage will fall over time or grow at a considerably slower rate. Buchanan and Briggs (2005: 188) note that the reforms will also impact on a cohort of skilled workers who lack bargaining power and on low paid workers who earn above the Federal Minimum Wage but for whom safety net increases represent a floor underpinning their wages. The indexation of income support payments suggests that a stagnant nominal minimum wage will also have implications for welfare recipients. This prediction is advanced by orthodox economists who argue that an increase in the replacement ratio<sup>6</sup> will act as a disincentive to work and must be discouraged.

For junior employees, employees with disabilities or employees to whom training arrangements apply, the AFPC will be required to ensure that appropriate minimum rates are established for any group or sub-group of workers not covered by a minimum classification

rate of pay. The AFPC will thus have the power to fill gaps in existing coverage if it considers specific provision should be made for those employees. In establishing these minima, the AFPC will be required to set wages at a level that ensures the particular group of workers is competitive in the labour market (Howard, 2005). It will thus be important to monitor changes to the real wage outcomes of groups who move from the Federal Minimum Wage to a pro rata special minimum wage, and of groups currently in receipt of a special minimum wage for whom a new classification rate is established.

In a media statement on 20 September, 2005, the Prime Minister stressed that the passage of the Work Choices Bill would see the removal of any state or federal award provision that restricted the range and availability of apprenticeships (Howard, 2005). As stated above, the AFPC would have the power to set competitive wages for apprentices and trainees. Should state governments mount a successful constitutional challenge in the High Court - to prevent the Work Choices provisions from overriding state industrial powers - the Commonwealth may still have a mechanism to displace state pay rates for minimum wage workers. It has been argued that the Whitlam Government's 1973 ratification of the International Labor Organisation Convention 131 (Minimum Wage Fixing) may enable the Commonwealth to appropriate the setting of minimum wages as the constitutional basis of the AFPC. This convention requires member states to establish a system of minimum wages that covers all groups of workers (Department of the Parliamentary Library, 2005: 2).

#### 4.2 A different Commission with different criteria

The Australian Fair Pay Commission (AFPC) will comprise five members appointed by the Government: a Chairman who can be appointed on a full-time or part-time basis for a period of up to five years, and who will be required to have high levels of skills and experience in business or economics; and four Commissioners who can be appointed on a part-time basis for a period of up to four years (House of Representatives 2005: 50). The Commissioners must each have experience in one or more of the following areas: business; community organisations; workplace relations; and economics. By framing the selection criteria in terms of individual experience - as opposed to the representation of specified interest groups - the Bill does not require that the AFPC, considered as a collective, has experience in each of the defined areas. The Commonwealth argues that the AFPC will be independent of Government. This is true to the extent that the AFPC will make its own determinations and its decisions cannot be appealed. However, the notion of independence is diluted by the short-term nature of appointments, and the capacity for Government to remain obedient to the selection criteria while appointing Commissioners sympathetic to the view that slower real wage growth is needed to increase employment. By contrast, while the Government also appoints AIRC Commissioners, these appointments are not time limited. A Full Bench of the AIRC makes wage determinations in Safety Net review cases.

The AFPC will determine the timing, scope and frequency<sup>7</sup> of its wage reviews, the manner in which wage reviews are to be conducted and the date on which wage-setting decisions are to come into effect (House of Representatives, 2005: 20). In its submission to the Senate Committee Inquiry on the Workplace Relations Amendment (Work Choices) Bill 2005, the Department of Employment and Workplace Relations (DEWR) notes that the "policy intent" of creating the AFPC is to "enable a more consultative approach to minimum wage setting in Australia" (DEWR, 2005: 20). While the Department states that the wage reviews undertaken are designed to be inclusive and that the Commission can [authors' emphasis] undertake or commission research, engage in consultation, and monitor and evaluate the impact of its wage-setting decisions, this will be for the AFPC to determine. There will be no legislative requirement for the process by which the Commission arrived at its decision to be transparent

or for the relevant research evidence to be published. The AFPC will only be required to publish its wage-setting decisions.

While the Government's policy objective is to move away from the legalistic and adversarial process of minimum wage determination before the AIRC, it is important to consider (1) whether AIRC safety net decisions are based on the application of appropriate standards of evidentiary proof to the submissions of all parties (Buchanan and Briggs, 2005: 188); and (2) why labour relations in Australia have, until the present time, been the province of a specialised judicial process.

With respect to standards of evidence, the Safety Net Reviews guarantee certain parties participation rights<sup>8</sup> while others are permitted to provide evidence as 'interveners' (One Hundred and Fifty One Australian Academics, 2005: 14). A range of parties and expert witnesses present evidence, are questioned by the Commissioners, and may be subject to cross-examination. The Full Bench of the AIRC not only publishes its decision, but publishes a detailed evaluation and assessment of the evidence presented to explain the basis on which its determination was made. The standards of evidentiary proof are more exacting, and certainly more transparent, than those to be required of the AFPC.

On the second point, the development of labour-specific, union-oriented conciliation and arbitration processes in Australia reflected a need for labour law to redress the power imbalance, which places workers in a subordinate position to employers (Mitchell, 2005a: 2). Labour relations were accorded a specialised judicial process as a countervailing power to ensure that employees were not treated as expendable commodities. Free market economics does not concur with Polanyi's argument that the 'commodity description of labour is entirely fictitious' (Polanyi, 1944: 72 cited in Buchanan and Briggs, 2005: 183), instead treating the exchange of labour as indistinguishable from the exchange of any other commodity. Accordingly, the object is exchanged for money and use values are transferred between worker and employer to be consumed outside the exchange (Mitchell, 2005a: 2). This construction fails to recognise that labour is a special commodity because the employer consumes the use values of the exchange during the work process rather than after the exchange, and because the worker relies on employment for both sustenance and social identity. Shifting minimum wage determination from labour law to the AFPC dismantles responsibilities that transcend commodity exchange, leaving workers who have limited, if any, bargaining power in a vulnerable position.

Finally, changes to wage-setting parameters mean that, unlike the AIRC, the AFPC will not be required to consider the notion of fairness when determining the Federal Minimum Wage. Section 88B of the Workplace Relations Act 1996, provides that the AIRC must ensure that a safety net of fair minimum wages and conditions of employment is 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 high level of employment; and, when adjusting, the safety net, the needs of the low paid (Colvin and Watson, 1998). The Work Choices Bill removes 'fairness' from both the wage-setting objectives (which focus exclusively on promoting the economic prosperity of the Australian people) and from the legislated parameters. The AFPC must now give regard to four economic criteria in their wage-setting decisions. These criteria (as stipulated in House of Representatives, 2005: 49) are stated as parameters (a) through (d) below. Comments on their implications and import follow.

- (a) The capacity of the unemployed and the low paid to remain in employment.
- (b) Employment and competitiveness across the economy.

- (c) Providing a safety net for the low paid.
- (d) 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.

The objective of parameter (a) is to ensure that the minimum wages and casual loadings set by the AFPC do not price the unemployed out of the labour market and do not place the jobs of the low paid at risk. As discussed in Section 3, earlier Safety Net Reviews have cast doubt on the implicit assumption that raising minimum wages will lower employment. However, in the absence of parameters that give regard to fairness and the living standards of the Australian community, the AFPC will be reluctant to increase the wages of workers at the bottom of the earnings distribution. With respect to parameter (b), DEWR (2005: 13) acknowledges that it is broader than parameter (a) as the focus on competitiveness requires that the AFPC support the competitive position of Australian industry, both domestically and internationally. Again, the focus on labour costs is likely to promote overly cautious wage decisions, particularly when economic activity slows.

Parameter (c) changes the concepts of ‘safety net’ and ‘low paid’ from those currently defined under Section 88B of the Workplace Relations Act 1996. First, the maintenance of a safety net of fair minimum wages and conditions by the AIRC was not confined to the low paid, as is the case in the Work Choices Bill. DEWR (2005: 14) states that this amendment reflects the Government’s commitment to using the tax transfer system in conjunction with the workplace relations system to address the needs of the low paid. Should safety net increases be confined to minimum classification rates at or below the C10 classification in the Metal Industries Award, this would compress relativities and deny a group of better paid workers access to wage increases. Howe et al. (2005: 4) note that if the AFPC was to restrict real wage rises to the lowest classifications within a rationalised award structure this would “result over time in a compression of award rates towards a de facto single minimum wage” [emphasis in the original]. Further implications which derive from parameter (c) will be the subject of the next section. Finally, parameter (d) is directed to supporting youth employment, apprenticeships and traineeships and employment opportunities for people with disability. With the unemployment rate for persons aged 15-19 years at 16.3 per cent in October (ABS, 2005) and the unemployment rate for people with disability at 8.3 per cent in November 2003 (ABS, 2004) a Commission which assumes an inverse relationship between minimum wage and employment levels must cut the wages of the most disadvantaged in a flawed pursuit of competitive outcomes.

### 4.3 Confusing ends and means

Three of the four wage-setting parameters specified in the Work Choices Bill derive from the often-stated, though unsubstantiated, view that Safety Net wage increases under the AIRC have dampened employment growth. However, the remaining parameter - parameter (c) - reflects the growing attention given to the effectiveness of minimum wage adjustments as a distributional instrument.

In a study published in 1999, Sue Richardson and Ann Harding examined the relationship between low wages, low family income and the tax and transfer systems in Australia. The authors found that in the period spanning 1986 to 1994-95, low wage (and minimum wage) workers were not strongly concentrated in households with low annual equivalent post-tax incomes. This result was attributed to two factors. First, single full-time workers in receipt of the minimum adult wage still had a middling level of equivalent income because the wage was only required to support one person. Second, many low-wage workers (particularly



women engaged in part-time or casual work) had an employed spouse and their combined income pulled them out of the lowest deciles of the distribution (Richardson, 1999: 26).

These findings have been used to advance the view that "...safety net adjustments are now a very blunt instrument for trying to improve the position of low income families" (Dawkins, 2005: 1). The extension of this argument is that pay equity and income distribution issues are better addressed through coordinated adjustments within the wage, tax and transfer systems. It is this approach to "providing a safety net for the low paid" (House of Representatives, 2005: 49) that alters, in a fundamental way, the context for minimum wage determinations by the AFPC. We argue that focusing attention on the distribution of household income raises two important questions. First, what is an appropriate role for minimum wage decisions and what should be the focus of the body charged with their determination? Second, if the concern to reduce household income inequality is genuine, is a focus on the intersection of the wage, tax and transfer systems an effective means through which to achieve this goal?

With respect to the first question, we argue that the AFPC will be required to give consideration to the household distribution of income when key parameters that influence this distribution (such as rates and thresholds within the personal income tax system and the level, and targeting, of income support payments) are the province of Government. In order for the Commission's wage-setting parameters to be consistent, attention must be directed to passing judgment on the labour market incentive or disincentive effects which are generated by the interplay of the wage, tax and transfer systems. Even if research evidence supported the view that employment decisions are being driven from the supply side, the AFPC will be required to respond to the effective marginal tax rates for low income groups, as determined by Government, as opposed to making determinations about appropriate wage settings per se. This decision-making process leaves no room for consideration of what constitutes a fair division of production between labour and capital. This represents an important shift from the determination of a fair social minimum, and the recognition that labour is a special commodity, which underpinned the 1907 Harvester Judgment and the Australian system of labour relations.

The Work Choices Bill fails to recognise that "fairness among workers and fairness among the population are not the same thing" (Richardson and Harding, 2005: 152). While it is true that increasing the minimum wage will not, in isolation, have a potent and equalising impact on the distribution of household income, it is important that a Commission charged with ensuring 'fair pay' is able to determine a minimum wage rate that prevents worker exploitation and provides remuneration that proxies the worker's contribution to the value of output.

With respect to the second question, the key to generating a more egalitarian distribution of household income is to generate the quantum of jobs, and the hours of paid work, required to absorb the unemployed, the underemployed and the hidden unemployed. While Richardson and Harding were correct to identify the spread of minimum wage workers throughout the household income distribution, of greater import is the concentration of the unemployed and those not in the labour force at the bottom of this distribution. In Section 3 we established the absence of research to support the hypothesis that Safety Net wage increases awarded by the AIRC have served to price the unemployed out of paid work. Cutting the real minimum wage - or slowing its rate of increase - does not guarantee paid employment outcomes for the unemployed although it does serve to undermine the traditional objectives of wage determination in Australia. In our final section we consider alternative policy settings, which can generate employment while maintaining a fair wage floor.

## 5. A Better Way

Following fourteen years of sustained economic growth, the official unemployment rate in Australia remains at 5.2 per cent (ABS, 2005) and broader measures of labour underutilisation reveal that we are wasting 9.6 per cent of willing labour hours (Centre of Full Employment and Equity, 2005). The Work Choices Bill argues that persistent unemployment is the consequence of (overly) generous increases in the Safety Net Wage, which have been awarded by the Australian Industrial Relations Commission. We argue that moving responsibility for the determination of the Federal Minimum Wage to the Australian Fair Pay Commission - and changing wage-setting parameters so that the AFPC gives regard to labour costs and economic competitiveness to the exclusion of fairness – will serve to “counter pose ‘standards’ against ‘flexibility’” (Buchanan and Briggs, 2005: 189). Promoting the access of employers to insecure, low-paid, poor-quality work under the guise of promoting competitiveness will only spur a race to the bottom.

The Work Choices Bill is correct to recognise that unemployment is our most serious labour problem. However, there is scant evidence to support its central tenet that cuts to (or slower growth of) real minimum wages is required to generate jobs and to create a more equal distribution of household income. The curse of Work Choices is that it ignores the role of macroeconomic policy in directly addressing the efficiency, fairness and distributional issues that have been said to motivate its provisions. The Bill also ignores the different bargaining power of workers and capital, and pays no attention to the serious social repercussions that will flow when labour is treated like a commodity. This begs the question of whether there is a better way to achieve the employment and distributional objectives the Bill sets out..

To directly address the cause of unemployment and income inequality requires the State to use its power as the issuer of currency to maintain full employment and inflation control. In earlier papers (see Mitchell, 1998; Mitchell, Cowling and Watts, 2003), the Centre of Full Employment and Equity (CofFEE) has set out a proposal for a Job Guarantee (JG) in which the public sector would maintain a ‘buffer stock’ of minimum wage jobs that would be available to anyone willing and able to work. Under the JG model, full employment is attained by the guaranteed provision of a public sector job to all workers unable to find a job in the private sector. It does not rely on engineering labour supply adjustments by paring back returns for those at the bottom of the earnings distribution. By setting the Job Guarantee wage rate at the level of the Federal Minimum Wage, the private sector wage structure is not disturbed and workers cannot be played off against one another to the detriment of their bargaining position.

The Job Guarantee does not force policy makers to choose between “high unemployment with moderate social protections, or lower unemployment with low levels of social protection and high income inequality” (Palley, 1998: 338). In recognising that unemployment is not a behavioural dysfunction, but a failure in the conduct of macroeconomic policy, the State can address the problem at its root cause by maintaining full employment and a decent wage floor. As its name suggests, the Job Guarantee model delivers employment outcomes rather than relying on real wage cuts to generate an unknown quantum of jobs. Unlike Work Choices, it is a policy approach that does not require us to jettison economic security, social justice and the traditional objectives of wage setting in order to build an efficient and productive economy.

## References

Andrews, K. (2005) 'Work Choices Funding - Australian Fair Pay Commission', *Media Statement by the Minister for Employment and Workplace Relations*, 328/05, November.

Australian Bureau of Statistics (2005) *The Labour Force, Australia*, Cat. No. 6203.0, Canberra, October.

Australian Bureau of Statistics (2004) *Disability, Ageing and Carers, Australia*, Cat. No. 4430.0, Canberra, September.

Australian Council of Trade Unions (2004) *ACTU Minimum Wage Case 2004 – Written Reply Submission*, March.

Australian Government (2005) *Work Choices: A New Workplace Relations System*, Commonwealth of Australia, October.

Australian Industrial Relations Commission (2005) 'Safety Net Review – Wages', *Decision and Statement*, June. Available at: <http://www.e-airc.gov.au/wage2005/>

Australian Industrial Relations Commission (2004) 'Safety Net Review – Wages', *Decision and Statement*, May. Available at: <http://www.e-airc.gov.au/wage2004/>

Australian Industrial Relations Commission (2003) 'Safety Net Review – Wages', *Decision and Statement*, May. Available at: <http://www.e-airc.gov.au/wage2003/>

Briggs, C. and Buchanan, J. (2005) 'Work, Commerce and Law: A New Australian Model?', *Australian Economic Review*, 38(2), 182-191, June.

Centre of Full Employment and Equity (2005) *CoffEE Labour Market Indicators*, August. Available at: <http://e1.newcastle.edu.au/coffee/indicators/indicators.cfm>

Colvin, J.H.C. and Watson, G.R. (1998) *The Workplace Relations Handbook: A Guide to the Workplace Relations Act 1996*, Butterworths, Australia.

Cowling, S. (2004) 'States of Dependence: Lessons from the U.S. Road from Welfare to Work', in Carlson, E. (ed.) *A Future that Works, Refereed Proceedings of the 6<sup>th</sup> Path to Full Employment Conference and 11<sup>th</sup> National Conference on Unemployment*, December, 127-137.

Dawkins, P. (2005) 'Do We Need a Low Pay Commission in Australia?', *Business Council of Australia Papers*, forthcoming.

Department of the Parliamentary Library (2005) *Workplace Relations Reforms: A Chronology of Business, Community and Government Responses*, Parliament of Australia, October.

Department of Employment and Workplace Relations (2005) *Answer to Question on Notice W319-06*, 2005-06 Budget Senate Estimates Hearing, Senate Employment, Workplace Relations and Education Legislation Committee, May.

Dixon, P.B., Madden, J.R. and Rimmer, M.T. (2005) *The Effects on the Australian Economy of a Sustained Increase In Award Wage Rates: Results from the MONASH Model*, Centre of Policy Studies, Monash University, February.

Dolado, J., Kramarz, F., Machin, S., Manning, A., Margolis, D. and Teulings, C. (1996) 'The Economic Impact of Minimum Wages in Europe', *Economic Policy*, 23, 319–372, October.

Harding, D. and Harding, G. (2004) 'Minimum Wages in Australia: an Analysis of the Impact on Small and Medium Sized Businesses', *Report to the Department of Employment and Workplace Relations*, March.

- House of Representatives (2005) 'Workplace Relations Amendment (Work Choices) Bill 2005', *Explanatory Memorandum*, The Parliament of the Commonwealth of Australia, November.
- Howard, J. (2005) 'Workplace Relations Reform and Apprenticeships', *Prime Minister's Media Statement*, 20 September.
- Howe, J., Mitchell, R., Murray, J., O'Donnell, A. and Patmore, G. (2005) 'The Coalitions Proposed Industrial relations Changes: an Interim Assessment', *Australian Bulletin of Labour*, 31(3), September.
- Leigh, A. (2003) 'Employment Effects of Minimum Wages: Evidence from a Quasi-Experiment', *Australian Economic Review*, 36(4), 361–373, December.
- Mitchell, W.F. (2005a) 'Industrial Relations Changes: The Final Demise of a 'Fair Go' Society!', *New Matilda*, May.
- Mitchell, W. F. (2005b) 'Safety Net Review of Wages: Critique of Madden, Dixon and Rimmer', Minimum Wages Case 2005, Reply Composite Exhibit, R4.
- Mitchell, W.F., Cowling, S. and Watts, M.J. (2003) *A Community Development Job Guarantee: A New Paradigm in Employment Policy*, Policy Discussion Report, Centre of Full Employment and Equity, April.
- Mitchell, W.F. (1998) 'The Buffer Stock Employment Model - Full Employment without a NAIRU', *Journal of Economic Issues*, 32(2), 547-55.
- OECD (1998) 'Making the Most of the Minimum: Statutory Minimum Wages, Employment and Poverty', *OECD Employment Outlook*, June.
- One Hundred and Fifty One Australian Industrial Relations, Labour Market and Legal Academics (2005) 'Research Evidence about the Effects of the 'Work Choices' Bill', *Submission to the Senate Employment, Workplace Relations and Education Committee Inquiry into the Workplace Relations Amendment (Work Choices Bill 2005)*, November.
- Palley, T.I. (1998) 'Restoring Prosperity: Why the U.S. Model is not the Answer for the United States or Europe', *Journal of Post Keynesian Economics*, 20(3), 337-53, Spring.
- Parkinson, M. (2005) 'Advice to Government on Workplace Relations', *Treasury Press Release No. 8*, November 5. Available at: <http://www.treasury.gov.au/contentitem.asp?NavId=007&ContentID=1030>
- Richardson, S. (1999) 'Regulation of the Labour Market' in S. Richardson (ed.) *Reshaping the Labour Market: Regulation, Efficiency and Equality in Australia*, Cambridge University Press, Melbourne, 1-37.
- Richardson, S. and Harding, A. (1999) 'Poor Workers? The Link between Low wages, Low Family Income and the Tax and Transfer Systems' in S. Richardson (ed.) *Reshaping the Labour Market: Regulation, Efficiency and Equality in Australia*, Cambridge University Press, Melbourne, 122-158.
- Thurow, L. (1983) *Dangerous Currents: The State of Economics*, Oxford University Press, Oxford.
- Watson, I. (2004) 'A Needle in a Haystack: Do Increases in the Minimum Wage Cause Employment Losses', *Australian Centre for Industrial Relations Research and Training Working Paper*, 90, March.

---

<sup>1</sup> The author is a Research Officer, at the Centre of Full Employment and Equity (Cowling) and Professor of Economics and Director, Centre of Full Employment and Equity (Mitchell) at the University of Newcastle, Australia.

<sup>2</sup> While the focus of this paper is restricted to the impact of changes to minimum wage determination on the living standards of the low paid, we acknowledge that other elements of the Work Choices Bill will have a pernicious effect on the pay and conditions of workers with limited bargaining power. These elements include the abolition of the 'no disadvantage' test, the reduced protections offered by the Australian Fair Pay and Conditions Standard, changes to unfair dismissal laws, and the strictures placed on employee representation.

<sup>3</sup> In this context the low paid are defined as individuals receiving wages at or below the equivalent of the C10 (skilled tradesperson) rate in the Metal Industry award (Howe *et al.*, 2005).

<sup>4</sup> Indicative estimates of the employment effects flowing from a range of workplace reform options were provided to Cabinet by the Department of Treasury, in the period spanning March 2005 to May 2005. These indicative estimates have not been made public (Parkinson, 2005).

<sup>5</sup> Including the Business Council of Australia (BCA), the Australian Chamber of Commerce and Industry (ACCI), and the Australian Industry Group (AiG).

<sup>6</sup> The replacement ratio is defined as the ratio between unemployment benefits and the post-tax income available to a person should he or she attain employment.

<sup>7</sup> In a press release issued on 2 November, the Minister for Employment and Workplace Relations stated that: "The first decision of the Fair Pay Commission will be no later than Spring 2006" (Andrews, 2005). While this is not stipulated in the Work Choices Bill, it implies that any adjustment of the Federal Minimum Wage will be determined (as opposed to granted) between 15 and 18 months after the award of the last Safety Net wage rise on June 7, 2005.

<sup>8</sup> The representative rights of trade unions have also served to ensure regular (that is, annual) reviews of the Safety Net wage level. Under the Work Choices Bill, the AFPC will determine the frequency of such reviews.