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Workplace Relations Inquiry
Productivity Commission
GPO Box 1428
CANBERRA CITY ACT 2601

SUBMISSION TO PRODUCTIVITY COMMISSION INQUIRY ON WORKPLACE RELATIONS FRAMEWORK

This submission is directed toward one aspect of the Australian workplace relations regulatory framework, specifically the minimum wage regime. This is consistent with that aspect of the Inquiry Terms of Reference investigating ‘fair and equitable pay and conditions for employees, including the maintenance of a relevant safety net.’

In its Annual Wage Review for 2013-14, and in line with legislative provisions accorded to it, the Fair Work Commission determined the minimum rate of pay for ordinary hours worked by any employee not covered by a Modern Award or Agreement would be \$640.90 per week (\$16.87 per hour). These exclude related decisions made regarding minimum wages mandated to be paid by employers in relation to employees with a disability, or apprentices and trainees.

While there are varied estimates concerning the coverage of minimum wages, ranging from about four to nine per cent of employees paid at or below the minimum wage rate, economists have long held concerns about the disemployment effects of the minimum wage.

As standard economic theory makes it clear, effectively imposing a price floor to the labour market discourages the demand for labour yet induces additional labour supply. Other things being equal, a more plentiful supply of labour relative to demand at the minimum wage rate induces unemployment.

Drawing upon empirical evidence, most notably an *Australian Economic Review* study by former academic and now politician Dr Andrew Leigh, it is possible to indicatively estimate by how much labour demand by employers could fall in response to minimum wage increases.

Based on Dr Leigh’s ‘wage elasticity of labour demand’ estimate, and official data on employment in Australia, last year’s minimum wage increase of three per cent would have reduced overall labour demand by about 0.87 per cent, the equivalent of roughly 70,100 jobs.

Compounding the employment disincentive effects of the minimum wage is its interaction with the Newstart Allowance, which forms an artificial zone of effective wage rates in which employment prohibition applies.

The Australian minimum wage is now supported by its adherents not as a basis for upholding the living standards of a family headed by a male 'breadwinner,' but as a regulatory instrument to assist the lowly paid and, in so doing, improve their living standards.

But minimum wages are poorly targeted as an anti-poverty device, given the prospect that some minimum wage earners might reside in middle to upper income households, and international studies have shown that increasing the minimum wage does not have a statistically significant effect upon poverty reduction.

Abolishing the minimum wage would enable more of the poor in this country to build their human capital base, by acquiring economically desirable aptitudes and skills in the workplace, and earning much-needed experience to find a better paying career into the future.

For the information of the inquiry secretariat, a copy of the IPA submission to the Fair Work Commission Annual Wage Review 2013-14 is attached.

Kind regards,

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