

**The Australian Industry Group, Commentary on *One Hundred Years of Dynamic Minimum Wage Regulation: Lessons from Australia, the United Kingdom and the United States*, by Stephen Smith, Head of National Workplace Relations Policy, Australian Industry Group**

The insightful paper by Deputy President Reg Hamilton of the Fair Work Commission (FWC) and Matt Nichol is extremely timely given that:

- The national minimum wage in Australia has recently become the highest in the world on a purchasing power parity (PPP) basis;
- The new Biden Administration has announced a plan to increase the US minimum wage by an unprecedented amount;
- Brexit gives the UK Government more freedom over industrial relations laws and arrangements than it had when it was part of the European Union; and
- The COVID-19 crisis has led to the largest decline in global economic activity in a century and particular challenges for minimum wage setting.

Graph 1 in the paper highlights a very interesting fact that very few Australians would be aware of. In the late 1960s, the US Federal Minimum Wage (FMW) was amongst the highest in the world and close to double that of Australia's minimum wage (on a PPP basis). Today, the Australian National Minimum Wage (NMW) is nearly double that of the US on a PPP Basis. Graph 1 also shows that the current US FMW reached its peak in the late 1960s and has declined steeply since that time in terms of a minimum wage earner's purchasing power.

Every year in the Australian Annual Wage Review there is a debate between employer groups and unions about the impact of increases in minimum wages on employment. Employers argue that excessive minimum wage increases reduce the capacity of employers to employ workers. In contrast, unions argue that awarding substantial wage increases to employees results in increased spending on goods and services, and therefore increased economic activity and increased employment. Each year, the Expert Panel of the FWC carefully considers these arguments and makes the point that a balancing exercise is required. The Panel's view to date has been that modest and regular minimum wage increases do not result in significant disemployment effects (although the dissenting view in the 2019-20 Annual Wage Review Decision put forward a more nuanced view). However, now that Australia has the highest national minimum wage in the world, together with hundreds of even higher legally enforceable award rates, consideration needs to be given to whether we are approaching a tipping point.

There would be little argument that modest and regular minimum wage increases are much better than allowing a situation to develop like that in the US where the FMW is

clearly inadequate. The Biden Administration is proposing to more than double the FMW (from US\$7.25 to US\$15) over the next 5 years. A cost analysis by the non-partisan Congressional Budget Office estimates that the increases will lift 900,000 workers out of poverty but lead to the loss of 1.4 million jobs.

The Australian minimum wage setting system has many positive features that are not shared by many overseas systems. Minimum wage increases are set by an independent tribunal with considerable industrial relations and economic expertise. Also, the Annual Wage Review is an open process where employer representatives, unions and Governments file several rounds of detailed submissions and appear before the Expert Panel before it hands down its decision. Further, the Review takes place annually which enables the current and projected economic circumstances to be taken into account and avoids a situation developing like that which the US is currently faced with.

It can be seen from the comparison in the paper between the wage setting systems in Australia, the US and the UK that Australia's current system compares very favourably, despite a very different history to the others.