

MINIMUM WAGE LAWS AND WAGE REGULATION: DO CHANGES TO A MINIMUM WAGE AFFECT EMPLOYMENT LEVELS?

JOEL BUTLER*

Minimum wage laws are about as clear a case as one can find of a measure the effects of which are precisely the opposite of those intended by the men of good will who support it.¹

I INTRODUCTION

In the recent Australian debate surrounding the Commonwealth government's introduction of changes to the federal Workplace Relations laws² ('WorkChoices'), a good deal of comment centred on the issue of the minimum wage. It was argued by opponents of the changes that the creation of a national Australian Fair Pay Commission ('AFPC') – which is to set a federal minimum wage ('FMW') – would lead to general reductions in wages for workers. It was further argued by opponents of WorkChoices that there would be *no* offsetting benefit in the form of increased employment that would result from any reduction in wages that occurred.

This article starts by looking briefly at the arguments made on the two sides of this debate: by some of the supporters of WorkChoices that reductions in wages and wage flexibility will lead to increased employment; and, by the opponents of WorkChoices, that reductions in wages and increased (downwards) wage flexibility will not and cannot lead to increased employment.

Secondly, the article reviews the voluminous literature³ on the issue. It concludes, contrary to critics of WorkChoices, that there *are* very clear circumstances where the lowering of a minimum wage can lead to increased employment and, similarly, there are instances where an increase in a minimum

* Postgraduate Fellow, Faculty of Law, Bond University. My thanks to Sam Cochrane for his assistance with this article.

1 Quoted in Albert Hirschman, *The Rhetoric of Reaction: Perversity, Futility, Jeopardy* (1991) 27-8.

2 Effected by the *Workplace Relations Amendment (Work Choices) Act 2005* (Cth) that was given Royal Assent by the Governor-General on 14 December 2005 and came into operation on 27 March 2006. The outcome of a constitutional challenge to the validity of the Act in the High Court of Australia by the states is pending.

3 This article is comprehensively referenced in order to allow readers to easily access the large amount of literature in relation to this area.

wage can lead to increased unemployment. The evidence supporting these conclusions is *overwhelming*.

The third part of the article examines whether the conditions in Australia are such that any decrease in the FMW would be likely to lead to increased employment.

II THE DEBATE

The debate in relation to WorkChoices has been bitterly waged. Opposition is vehement. Opposition politicians, labour union officials and industrial relations academics claim that virtually nothing in the *Workplace Relations Amendment (Work Choices) Act 2005* (Cth) delivers any benefits at all. This article looks at only one of the issues in contention: whether, if WorkChoices results in a reduced FMW, this would lead to lower unemployment.

In moving the second reading speech to the Bill, Minister Kevin Andrews implied that the mechanisms in WorkChoices would lead to more jobs:

Work Choices is not simply about raising the living standards of those Australians in jobs. It is also about getting more Australians into jobs.⁴

However, critics claimed that WorkChoices would lead to reductions in workers' wages generally and slower increases in the minimum wage:

Forcing those who can afford it least to give up part of their wages and conditions has been a Howard obsession ever since he entered federal parliament and it is only Labor and the unions that have prevented him from achieving this appalling idea in the past ... Minimum wages will no longer be set by the independent umpire, clearing the way for them to be lower in the future.⁵

Similarly, a letter written by the leader of the federal Opposition, Kim Beazley, on 5 November 2005, stated that:

[the] Howard government's industrial relations changes will lead to lower increases in the minimum wage which will in turn bring down the male total average weekly earnings ...⁶

Comments were made that WorkChoices would 'take an axe to the minimum wage'⁷ and that the intent of WorkChoices was to allow workers 'to go below the minimums':⁸

4 Commonwealth, *Parliamentary Debates*, House of Representatives, 2 November 2005, 17 (Kevin Andrews, Minister for Workplace Relations).

5 Commonwealth, *Parliamentary Debates*, House of Representatives, 7 November 2005, 142 (Steve Gibbons).

6 See Commonwealth, *Parliamentary Debates*, House of Representatives, 8 February 2006, 54 (Kevin Andrews, Minister for Workplace Relations).

7 Commonwealth, *Parliamentary Debates*, Senate, 2 December 2005, 3 (Penny Wong).

8 Commonwealth, *Parliamentary Debates*, Senate, 2 December 2005, 3 (Chris Evans).

[The Federal government] wants to be able to lower the minimum wage, which is what its bosses want. The bosses want to be able to lower their minimum wages, so that is what the government has legislated.⁹

Academics have also criticised the likely effects of WorkChoices. In a submission to the Senate Inquiry into the Bill, prior to it passing through the parliament, a group of academics questioning the 'implicit assumption that raising the minimum wage will affect employment outcomes' and arguing that the 'AFPC is implicitly premised on the controversial notion that a lower minimum wage will assist employment growth'¹⁰ stated that:

the overseas evidence suggests the proposed system of minimum wage determination is likely to result in lower minimum wage increases than would have prevailed under the AIRC, to increase income inequality *and to have little effect on employment*.¹¹

They go on to argue that the links between the changes intended to be brought about by WorkChoices 'and employment are asserted not demonstrated' and conclude that:

The link between real wage cuts and employment is contested; if there is a link, a very substantial real wage cut may be required to produce any gains in unemployment, with serious implications for the relative value of unemployment benefits.¹²

These criticisms were mirrored in many other submissions to the Senate Inquiry. The Australian Council of Trade Unions, for instance, noted:

Reducing real minimum wages and conditions, it is *asserted*, will price more skilled workers into jobs. In theory, the effect of minimum wages on employment levels is *ambiguous* and cannot be deduced from theoretical first principles. The impact of any particular level of minimum wages on employment is an empirical question. The international evidence in support of this theory is *decidedly lacking* and in inverse proportion to the vehemence of advocacy of the proposition by its proponents.¹³

As will be demonstrated below, the effects of changes in minimum wage levels on employment are, in fact, far from contested or ambiguous and there is a very large body of empirical evidence that demonstrates that reduced minimum wage increases would be likely to lead to positive outcomes in employment – especially for young people, women and unskilled workers. However, prior to examining the evidence for these claims, it is appropriate to examine the 'theoretical first principles' in relation to the effect of minimum wages.

9 Commonwealth, *Parliamentary Debates*, Senate, 2 December 2005, 3 (Rachel Siewert). These are just a selection of the many statements made by Opposition, Democrat and Green Members and Senators in the Parliament and elsewhere that the effect of WorkChoices would not only be to decrease wages generally, but to decrease the minimum wage.

10 Submission to the Senate Employment, Workplace Relations and Education Legislation Committee, Parliament of Australia, Canberra, 16 November 2005, 14 (A Group of 151 Australian Industrial Relations, Labour Market and Legal Academics).

11 Ibid 15 (emphasis added).

12 Ibid 27.

13 Submission to Senate Employment, Workplace Relations and Education Legislation Committee, Parliament of Australia, 11 November 2005, 22 (Australian Council of Trade Unions) (emphasis added).

V III 'THEORETICAL FIRST PRINCIPLES'

The simplest supply and demand model of the employment effects of the minimum wage are represented in Figure 1 below. This model posits that the imposition of a minimum wage on an economy that previously operated only in response to supply and demand pressures will clearly have a 'disemployment' effect.

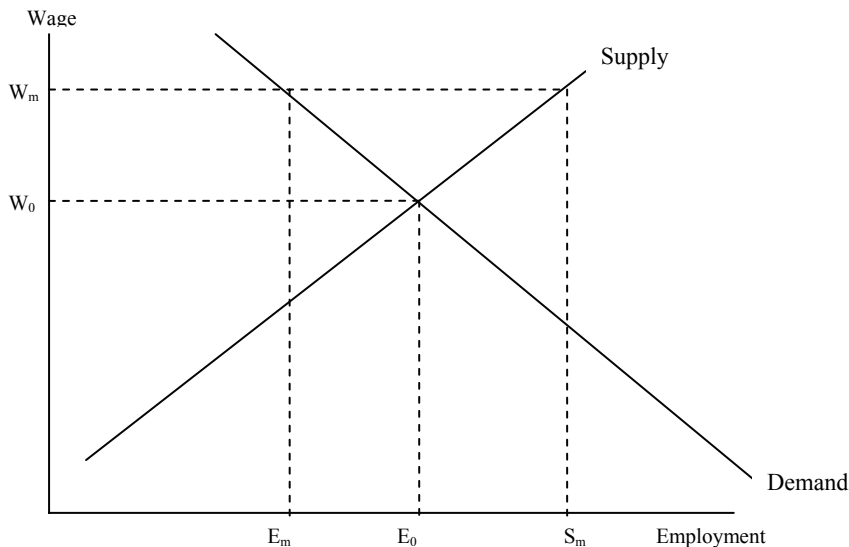


Figure 1

In this model, if the wage level were set by market forces, it would be W_0 and the number of workers employed would be E_0 . If a minimum wage were statutorily imposed at the higher W_m level employment would drop to E_m – resulting in fewer people employed (equal to $E_0 - E_m$).

Researchers indicate that the decrease in employment suggested by the model above may be apparent in the form of lower employment growth (rather than a sudden jump in unemployment due to layoffs) as employers fail to replace workers who leave employment.¹⁴ Similarly, Brown, Gilroy and Cohen¹⁵ note that, while this model determines that there will be an excess of labour at the new minimum wage equal to $S_m - E_m$, the excess supply of labour will not necessarily correspond to the number of unemployed. Instead, S_m represents the number of persons willing to work at S_m but many of the $S_m - E_m$ who are not employed may

14 Muriel Converse et al, 'The Minimum Wage: An Employer Survey' in Minimum Wage Study Commission, *Report of the Minimum Wage Study Commission* (1981) 241, 282.

15 Charles Brown, Curtis Gilroy and Andrew Cohen, 'The Effect of the Minimum Wage on Employment and Unemployment' (1982) 20 *Journal of Economic Literature* 488. See also Finis Welch, 'Minimum Wage Legislation in the United States' in Orley Ashenfelter and James Blum (eds), *Evaluating the Labour Market Effects of Social Programs* (1976) 8.

decide that prospects of finding work are too dim to make actively searching for work worthwhile. As we shall see later on, research indicates that higher minimum wages most affect the employment prospects of those whose relationship with the labour market could be described as the most 'tenuous' – female unskilled workers and young workers. These categories of workers are just as likely to 'opt out' of searching for work as they are to be forced into unemployment. For instance, young people engaged in study may not bother to seek a casual or part-time job because they know that it will be almost impossible to acquire one.

More complex theoretical models on the effects of a minimum wage¹⁶ posit several variations on this simplest of models and project outcomes ranging from increases in employment in certain models resulting in increases in a minimum wage. Generally, where an employer has monopsony power or where the productivity of workers is linked to the wages paid, this simple model will not apply in such simple terms.¹⁷

IV RESEARCH ON MINIMUM WAGE EFFECTS

There have been many hundreds of empirical studies conducted on the effects of minimum wage regimes in force across a large number of countries and, perhaps surprisingly, there is a good deal of practical research in countries other than the US – which is the jurisdiction most Australian commentators refer to in respect of evidence with regards to minimum wage effects. Below, the major research that has been conducted in the various jurisdictions is considered in relation to the major effects examined in relation to minimum wage systems.

A Empirical Evidence – Effect of a Minimum Wage Increase Generally

There are a very large number of studies in relation to the effect of the introduction of a FMW and increases in a FMW. A very significant majority of these show that a minimum wage has an adverse effect on levels of employment and clearly indicate that *increases* in a minimum wage will have disemployment effects. A number of studies show a significant effect, whilst others indicate either small effects or ambivalent results. Other studies examine the effects of minimum wages on different segments of the working population (these are examined in detail below) and have found more pronounced negative effects in relation to groups such as young and teenage workers, women and the low-skilled.

Although studies are less ambivalent regarding the effects of an increase in the minimum wage for more vulnerable segments of the population, they are more ambivalent in relation to the effects of a rise in the minimum wage on adult male workers. The group of studies examined by Brown et al find that the effect across

16 For a comprehensive discussion on research up to 1982, see Brown et al, above n 15, 488ff.

17 For an excellent discussion of some more complex theoretical models, see Raja Junankar, 'Are Wage Cuts the Answer? Theory and Evidence' in Stephen Bell (ed), *The Unemployment Crisis in Australia: Which Way Out?* (2000) 21.

the economy on adult male workers of an increase in the minimum wage is small – generally less than a one percent reduction responding to an increase in the minimum wage of 10 percent.¹⁸ In some cases, a few studies have found the negative correlations to be statistically insignificant.¹⁹ There are a number of studies that have found that there are *no* negative effects arising from an increase in a minimum wage. Three well-known US economists, in particular, undertaking studies²⁰ in the US fast food industry have made these findings. However, even these few studies have since been widely criticised.²¹ There are some studies that show *positive* employment effects of an increase in the minimum wage (these are also discussed below). However, the overwhelming numbers of empirical studies

18 See Brown et al, above n 15, 512.

19 Edward Gramlich, 'Impact of Minimum Wages on Other Wages, Employment and Family Incomes' (1976) 2 *Brookings Papers on Economic Activity* 409, 438; See also Gerard Adams, 'Increasing the Minimum Wage: The Macroeconomic Impacts' in Economic Policy Institute, *Briefing Paper* (1987) which found that an increase in the minimum wage from \$3.35 to \$4.65 over three years would increase the unemployment rate by less than 0.1 percent.

20 David Card and Alan Krueger, 'Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania' (1994) 84 *American Law Review* 772; Lawrence Katz and Alan Krueger, 'The Effect of the Minimum Wage on the Fast-Food Industry' (1992) 46 *Industrial and Labor Relations Review* 6; David Card, 'Do Minimum Wages Reduce Employment? A Case Study of California, 1987-89' (1994) 46 *Industrial and Labour Relations Review* 38. But see Clair Brown, 'Minimum Wages, Employment and the Distribution of Income' in Orley Ashenfelter and David Card (eds), *Handbook of Labour Economics* (3rd ed, 1999); Richard Dickens, 'The Effects of Minimum Wages on Employment: Theory and Evidence from Britain' (2000) 17 *Journal of Labor Economics*, 1; Mark Stewart, 'The Employment Effect of the National Minimum Wage' (2004) 114 *The Economic Journal* C110; Mark Stewart, 'The Impact of the Introduction of the U.K. Minimum Wage on the Employment Probabilities of Low-Wage Workers' (2004) 2 *Journal of the European Economic Association* 67.

21 Given the fact that these studies came to conclusions quite different to most studies ever conducted previously, there was extensive examination of the methodology and conclusions in a large number of studies since. This led to the conclusion by the Nobel winning economist Gary Becker of the University of Chicago that 'Card-Krueger studies are flawed and cannot justify going against the accumulated evidence from many past and present studies that find sizeable negative effects of higher minimums on employment': quoted in testimony by Bruce Bartlett (Senior Fellow, National Centre for Policy Analysis) before the US House of Representatives Committee on Small Business. For criticisms of the Card/Krueger research, see Lowell Taylor, *The Employment Effect in Retail Trade of a Minimum Wage: Evidence from California* (1993); David Neumark and William Wascher, 'Employment Effects of Minimum and Subminimum Wages: Panel Data on State Minimum Wage Laws' (1992) 46 *Industrial and Labour Relations Review* 55; Richard Burkhauser, Kenneth Couch and David Wittenberg, 'Who Gets What' from Minimum Wage Hikes: A Re-estimation of Card and Krueger's Distributional Analysis in Myth and Measurement: The New Economics of the Minimum Wage' (1996) 49 *Industrial and Labour Relations Review* 547.

that have been conducted *do* show clear negative results.²²

B Empirical Evidence – Groups Most Adversely Affected by Minimum Wage

The negative impacts of a FMW are experienced the most by workers whose employment position is already tenuous – those on or close to the minimum wage, in declining industries or in regional areas.²³ A 1960 study in Florida, for instance, found that, after an increase in the minimum wage unemployment increased most in the areas where wages were lowest and least in areas where wages were highest beforehand.²⁴ This research is supported in Australia by the 2005 Commonwealth Treasury report that stated:

International evidence consistently finds that significant increases in minimum wages have a negative effect on employment. The more closely are wages linked to productivity, the better we are able to keep inflation steady and allow the economy to expand. There is strong evidence that aggregate wages growth is negatively correlated with employment: conservatively, a one per cent increase in wages is

22 See, eg, James Cox and Ronald Oaxaca, 'Minimum Wage Effects with Output Stabilization' (1986) 24 *Economic Inquiry* 443. Cox and Oaxaca argue that the minimum wage in the labour market segment under review causes unskilled wages to be 15.7 per cent higher than they otherwise would be, resulting in employment being 11.2 per cent lower than it otherwise would be. See also Janet Currie and Bruce Fallick, 'A Note on the New Minimum Wage Research' (Working Paper No 4348, National Bureau of Economic Research, 1993), which found that employed individuals affected by the increases in the minimum wage in 1979 and 1980 were three to four percent less likely to be employed a year later; Harry Doubt, 'Some Effects of the \$1.00 Minimum Wage in the United States' (1960) 27 *Economica* 137; H F Gallasch Jnr, 'Minimum Wages and the Farm Labour Market' (1975) 41 *Southern Economic Journal* 480; Richard Burkhauser, Kenneth Couch and David Wittenburg, 'A Reassessment of the New Economics of the Minimum Wage Literature with Monthly Data from the Current Population Survey' (2000) 18 *Journal of Labor Economics* 653; Taeil Kim and Lowell Taylor, 'The Employment Effect in Retail Trade of California's 1988 Minimum Wage Increase' (1995) 13 *Journal of Business and Economic Statistics* 175; Stephen Machin, Lupin Rahman and Alan Manning, 'Care Home Workers and the Introduction of the UK Minimum Wage' (2003) 1 *Journal of the European Economic Association* 154; Peter Orazem and Peter Mattila, 'Minimum Wage Effects on Hours, Employment, and Number of Firms: The Iowa Case' (2002) 23 *Journal of Labour Research* 3. These results are not just found in the US and Canada. See Vittorio Corbo, 'The Impact of Minimum Wages on Industrial Employment in Chile' in Simon Rottenberg (ed), *The Economics of Legal Minimum Wages* (1981), 340 for Chile; Alida Freeman and Richard Freeman, 'Minimum Wages in Puerto Rico: Textbook Case of a Wage Floor?' (Working Paper No 3759, National Bureau of Economic Research, 1991) for Puerto Rico (see also the chapter by Rottenberg in this collection); William Maloney and Jairo Nunez, 'Measuring the Impact of Minimum Wages: Evidence from Latin America' (Working Paper No 2597, World Bank, 2001) for eight Latin American Countries; Jean-Jacques Rosa, 'The Effect of Minimum Wage Regulation in France' in Simon Rottenberg (ed), *The Economics of Legal Minimum Wages* (1981) 357 and John Abowd, Francis Kramarz and David Margolis, 'Minimum Wages and Employment in France and the United States' (NBER Working Paper No W6996, CREST, 2000) for France; Tor Eriksson and Mariola Pytlikova, 'Firm-level Consequences of Large Minimum Wage Increases in the Czech and Slovak Republics' (2004) 18 *LABOUR* 75 for the Czech and Slovak Republics; Martin Rama, 'The Consequences of Doubling the Minimum Wage: The Case of Indonesia' (2001) 54 *Industrial and Labour Relations Review* 864 and Asep Suryahadi et al, 'Minimum Wage Policy and its Impact on Employment in the Urban Formal Sector' (2003) 39 *Bulletin of Indonesian Economic Studies* 29 for Indonesia; Linda Bell, 'The Impact of Minimum Wages in Mexico and Colombia,' (1997) 15 *Journal of Labour Economics* S102 for Mexico and Colombia.

23 Ronald Krumm, *The Impact of the Minimum Wage on Regional Labour Markets* (1981).

24 Marshall Colberg, 'Minimum Wage Effects on Florida's Economic Development' (1960) 3 *Journal of Law and Economics* 106.

correlated with a 0.4 per cent fall in employment. This elasticity may be higher for people of relatively low skill or who are marginally attached to the labour force.²⁵

The Treasury minute went on to state that increasing the flexibility of working conditions and making wages more flexible are key parts of the policy menu needed to achieve employment and economic growth; that since wages are already fully flexible on the up-side, this can only mean that more flexibility is needed, according to the Treasury, on the 'downwards side'.

C Empirical Evidence – Effect of Minimum Wage on Young Workers

There is a very large body of evidence that demonstrates that the negative effects of a minimum wage (or an increase in a minimum wage) is felt most acutely in the employment and employment prospects of young people. In a survey of over two dozen empirical studies of the effects of an increase in the minimum wage on youth employment, Brown et al found that

on balance, a 10 percent increase in the minimum wage is estimated to result in about a 1-3 percent reduction in total teenage employment. All studies find a negative employment effect for all teenagers together and the signs are almost exclusively negative for the various age-sex-race subgroups.²⁶

It should be emphasised that almost all the studies reviewed by Brown et al found that there were only small 'unemployment' effects of a rise in the minimum wage, but significant 'disemployment' effects: in other words, although there were not necessarily many immediate layoffs consequent on the FMW increases, employers simply did not replace any workers who left. Those most vulnerable workers who were forced out of the wage-earning system by an increase in the minimum wage simply withdrew from the labour market – they ceased looking for work.²⁷ For young adults, the empirical studies examined by Brown et al found similarly consistent negative employment effects (but only a one percent negative move in relation to a 10 percent increase in the minimum wage) but more pronounced unemployment results (in other words, young adults were more likely than teenagers to remain looking for work).

25 Commonwealth of Australia Treasury, *Treasury Executive Minute: Workplace Relations Policy Announcement*, 6 October 2005.

26 Brown et al, above n 15, 505.

27 Other studies have found similar results – that increases in minimum wages are likely to lead to increases in structural unemployment – see Yale Brozen, 'Minimum Wage Rates and Household Workers' (1962) 5 *Journal of Law and Economics* 103.

Most other studies²⁸ have found *significant* unemployment effects for teenage workers from increases in a minimum wage. Significantly, research seems to indicate that many businesses will engage in cost-cutting measures to off-set the requirement to pay higher wages – such as training or overtime payments to workers²⁹ (see below). Similarly, other studies indicate that increases in the

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- 28 Douglas Adie, 'Teen-Age Unemployment and Real Federal Minimum Wages' (1973) 81 *Journal of Political Economy* 435; Nabeel Al-Salam, Alene Quester and Finis Welch, 'Some Determinants of the Level and Racial Composition of Teenage Employment' in Simon Rottenberg (ed), *The Economics of Legal Minimum Wages* (1981) 435; OECD, *Employment Outlook 1998* (1998); Donna Vandenbrink, 'The Minimum Wage: No Minor Matter for Teens' (1987) 11 *Economic Perspectives* 19; Charles Brown, Curtis Gilroy and Andrew Cohen, 'Time-Series Evidence of the Effect of the Minimum Wage on Teenage Employment and Unemployment' (1981) 5 *Minimum Wage Study Commission* 103; Yale Brozen, 'The Effect of Statutory Minimum Wage Increases on Teen-age Employment' (1969) 12 *Journal of Law and Economics* 109. This research found that increases in the minimum wage only sped up wage increases that would have occurred over time. In the interval between an increase and the time when productivity catches up to it, higher unemployment and business failures occur. In the case of young workers, many are barred from jobs and suffer long-term effects from the failure to gain job skills: David Forrest, 'Minimum Wages and Youth Unemployment: Will Britain Learn from Canada?' (1982) 2 *Journal of Economic Affairs* 247; Daniel Hammermesh, 'Minimum Wages and the Demand for Labour' (1982) 20 *Economic Inquiry* 365; Marvin Kosters and Finis Welch, 'The Effects of Minimum Wages on the Distribution of Changes in Aggregate Employment' (1972) 62 *American Economic Review* 323; Robert Meyer and David Wise, 'Discontinuous Distributions and Missing Persons: The Minimum Wage and Unemployed Youth' (1981) 5 *Minimum Wage Study Commission* 175; Robert Meyer and David Wise, 'The Effects of the Minimum Wage on the Employment and Earnings of Youth' (1983) 1 *Journal of Labour Economics* 66; Jacob Mincer, 'Unemployment Effects of Minimum Wages' (1976) 84 *Journal of Political Economy* S87; Ronald Mincy, 'Raising the Minimum Wage: Effects on Family Poverty' (1990) 113 *Monthly Labour Review* 18; Thomas Moore, 'The Effect of Minimum Wages on Teenage Unemployment Rates' (1971) 79 *Journal of Political Economy* 897; David Neumark and William Wascher, 'Employment Effects of Minimum and Subminimum Wages: Panel Data on State Minimum Wage Laws' (1992) 46 *Industrial and Labour Relations Review* 55; James Ragan, 'Minimum Wages and the Youth Labour Market' (1977) 59 *Review of Economics and Statistics* 129; Finis Welch and James Cunningham, 'Effects of Minimum Wages on the Level and Age Composition of Youth Employment' (1978) 60 *Review of Economics and Statistics* 140; Stephen Brazen and John Martin, 'The Impact of the Minimum Wage on Earnings and Employment in France' (1991) 16 *OECD Economic Studies* 199; Stephen Bazen and Nicolas Skourias, 'Is There a Negative Effect of Minimum Wages in France?' (1997) 41 *European Economic Review* 723; Michael Baker, Dwayne Benjamin and Shuchita Stanger, 'The Highs and Lows of the Minimum Wage Effect: A Time Series-Cross Section Study of the Canadian Law' (1999) 17 *Journal of Labor Economics* 318; John Abowd et al, 'Minimum Wages and Youth Employment in France and the United States' in David Blanchflower and Richard Freeman (eds), *Youth Employment and Joblessness in Advanced Countries* (2000) 427; Juan Dolado, Florentino Felgueroso and Juan Jimeno, 'The Effects of Minimum Bargained Wages on Earnings: Evidence from Spain' (1997) 41 *European Economic Review* 713; Juan Dolado et al, 'The Economic Impact of Minimum Wages in Europe' (1996) 23 *Economic Policy* 319; Janet Currie and Bruce Fallick, 'The Minimum Wage and the Employment of Youth: Evidence from the NLSY' (1993) 31 *Journal of Human Resources* 404; Robert Swidinsky, 'Minimum Wages and Teenage Unemployment' (1980) 13 *Canadian Journal of Economics* 158; Terence Yuen, 'The Effect of Minimum Wages on Youth Unemployment in Canada: A Panel Study' (2003) 38 *The Journal of Human Resources* 647; Nicolas Williams and Jeffrey Mills, 'The Minimum Wage and Teenage Employment: evidence from Time Series' (2001) 33 *Applied Economics* 285.
- 29 See, eg, Belton Fleisher, *Minimum Wage Regulation in Retail Trade* (1981); Masanori Hashimoto, 'Minimum Wage Effects on Training on the Job' (1982) 72 *American Economic Review* 1070; Linda Leighton and Jacob Mincer, 'The Effects of Minimum Wages on Human Capital Formation' in Rottenberg, above n 22, 155.

minimum wage may lead to the replacement of labour with machinery³⁰ (and this is in relation to all jobs, not simply that of young persons).

In noting the adverse effects of minimum wages on young workers, the Organisation for Economic Cooperation and Development ('OECD') stated that the clear policy conclusion was that:

in the current context of high and persistent unemployment in many countries it is suggested that more weight be given to the market clearing role of wages, while pursuing equity objectives through other instruments.³¹

D Empirical Evidence – Other Groups Particularly Affected by a Minimum wage – Women Workers

In addition to widespread findings that a FMW has negative effects on youth employment, there are a large number of studies that have found that other groups within a country's labour force will be negatively affected. Most of these studies have found that it is groups that would often be referred to as marginal or disadvantaged, or those who are in already tenuous employment that will be most adversely affected – women,³² workers in regional areas, migrant workers, very low skilled workers and casual and part-time workers.³³

Interestingly, many of the studies have concluded that the adverse affect on these groups corresponds with an advantage to white, male, full-time, higher wage earning workers.³⁴ In a 1981 study, it was found that increases in the minimum wage would benefit few families with incomes below the poverty level while much of any benefit would accrue to upper income families with *secondary* earners, such as wives and children.³⁵ Similarly, a 1995 study indicated that women on welfare were worse off after their minimum wages were increased.³⁶

30 See John Trapani and John Moroney, 'The Impact of Federal Minimum Wage Laws on Employment of Seasonal Cotton Farm Workers' in Simon Rottenberg (ed), *The Economics of Legal Minimum Wages* (1981) 233.

31 OECD, 'Submission to the Irish National Wage Commission' (Working Paper No 186, OECD Economics Department, 1997) 13.

32 For women, see Horst Feldmann, 'Labour Market regulation and Labour Market Performance: Evidence Based on Surveys among Senior Business Executives' (2003) 56 *KYKLOS* 509, 531; Orazem and Mattila, 'The Iowa Case', above n 22, 18.

33 It should also be noted that many of the first groups mentioned in this list are also disproportionately represented in the part-time, casual and low skilled categories of work; that is, there are more young people and women who are also casual or part-time workers.

34 See, eg, Jere Behrman, Robin Sickles and Paul Taubman, 'The Impact of Minimum Wages on the Distributions of Earnings for Major Race-Sex Groups: A Dynamic Analysis' (1983) 73 *American Economic Review* 766 for the adverse effects on black males and females. See also Linda Datcher and Glenn Loury, 'The Effect of Minimum Wage Legislation on the Distribution of Family Earnings among Blacks and Whites' (1981) 7 *Minimum Wage Study Commission* 125.

35 See Carolyn Bell, 'Minimum Wages and Personal Income' in Rottenberg (ed), *The Economics of Legal Minimum Wage*, above n 22. For an identical finding, see William Johnson and Edgar Browning, 'Minimum Wages and the Distribution of Income' (1981) 7 *Minimum Wage Study Commission* 31.

36 Peter Brandon, *Jobs Taken by Mothers Moving from Welfare to Work and the Effects of Minimum Wages on this Transition* (1995); George Iden, 'The Labour Force Experience of Black Youth: A Review' (1980) 103 *Monthly Labour Review* 10. See also Peter Linneman, 'The Economic Impacts of Minimum Wage Laws: A New Look at an Old Question' (1982) 90 *Journal of Political Economy* 443.

Other studies have shown disproportionately negative effects for rural and remote regional areas.³⁷

E Empirical Evidence – Other Groups Particularly Affected by a Minimum Wage – Low Skilled Workers

Studies have consistently found that one of the groups most adversely affected by a minimum wage is low skilled workers. Employer responses to increased wage costs include increasing training for workers (to the detriment of unskilled workers who are not employed), hiring of more full-time, qualified and trained workers (to the detriment of untrained casual and part-time workers) and attempts to multi-skill existing workers.³⁸ Generally, if there are unemployment effects resulting from an increase in a FMW, the first workers to be affected are those who are least productive – generally those with the least skills. These employees gain a great deal from employment as it gives them the experience and skills they need to increase their ‘employability’ and are therefore doubly affected by unemployment as they are deprived of any ability to gain skills or experience.

The research also points to the fact that disemployment effects for the low skilled are magnified where the workforce is highly unionised as a result of the higher bargaining power of incumbent workers.³⁹ Generally, the research also indicates that the imposition of a minimum wage does nothing to decrease the ‘net’ poverty in an area and may, in fact, increase it.⁴⁰

F Empirical Evidence – New Entrants and Small Business

There is also evidence that a FMW has disproportionate effects on new entrants into the market place. A 1994 Danish study⁴¹ found that one percent of new jobs are in ‘new firms’ – firms that did not exist a year earlier and that have a larger number of low paid workers. Evidence also indicates that new businesses tend to be less productive than existing businesses and as such a higher wage cost will, in some cases, prohibit entry for companies that have the potential to

37 Alana Gilbert, Euan Phimister and Ioannis Theodossiou, ‘The Potential Impact of the Minimum Wage in Rural Areas’ (2001) 35 *Regional Studies* 765; Marvin E Dodson III, ‘The Impact of the Minimum Wage in West Virginia: A Test of the Low-Wage-Area Theory’ (2002) 23 *Journal of Labor Research* 25.

38 See David Neumark and Scott Adams, ‘Detecting Effects of Living Wage Laws’ (2003) 42 *Industrial Relations* 531, 562; Feldmann, above n 32, 531; Kenneth Couch and David Wittenberg, ‘The Response of Hours of Work to Increases in the Minimum Wage’ (2001) 68 *Southern Economic Journal* 171, 175-176.

39 See Neumark and Wascher, ‘Panel Data on State Minimum Wage Laws’, above n 21, 241; David Coe and Dennis Snower, ‘Policy Complementarities: The Case for Fundamental Labour Market Reform’ (1997) 44 *IMF Staff papers* 1.

40 See, eg, Richard Vedder and Lowell Gallaway, ‘The Minimum Wage and Poverty among Full-Time Workers’ (2002) 23 *Journal of Labour Research* 41; Paul Johnson and Graham Stark, ‘The Effects of a Minimum Wage on Family Incomes’ (1991) 12 *Fiscal Studies* 88; Sue Richardson and Ann Harding, ‘Poor Workers? The Link between Low Wages, Low Family Income and the Tax and Transfer Systems’ in Sue Richardson et al (eds), *Reshaping the Labour Market: Regulation Efficiency and Equality in Australia* (1998); Guy Standing, *Global Labour Flexibility: Seeking Distributive Justice* (1999).

41 Quoted in OECD, above n 31.

increase their productivity in the years after having become established in the marketplace.⁴²

Empirical research demonstrates that small businesses are disproportionately affected by increases in FMWs.⁴³ It is estimated that, during 2000–1, there were 1 233 200 private sector small businesses in Australia which represented 97 per cent of all private sector businesses; these small businesses employed almost 3.6 million people, 49 per cent of all private sector employment.⁴⁴ The evidence is that small businesses generally tend to have smaller profit margins and fewer strategies available to counter increases in costs that are not accompanied by increases in productivity. Some commentators⁴⁵ have argued that low minimum wages or ‘leaving wages to the market’ results in more capacity for ‘inefficient’ firms to continue existing, and that this is no argument for imposing unnecessarily low wages on workers. However, there are a number of reasons why companies – especially new market entrants – may be less productive than other firms. These reasons include both the high investment costs of starting a business and the need to allow marketing to build up a company’s clientele over a few years. There is no reason why less efficient companies cannot provide worthwhile jobs in an interim period prior to increases in productivity being achieved.

G Empirical Evidence – Distributional Effects and Wage Compression

Studies have shown that there are some instances where an increase in the minimum wage will actually see an *increase* in employment. This is generally thought to result from an increased number of previously ‘not employed’ (not necessarily unemployed) workers entering the workforce as jobs with now higher wages are more attractive. However, there are, in these circumstances, ‘distributional effects’ resulting from the increase in a FMW. In these cases, higher skilled or qualified employees displace lower skilled employees. In some instances, the number of higher-qualified, full-time workers will increase to the detriment of low-skilled, part-time or casual employees.⁴⁶

42 See also Martin Bailey et al, ‘Productivity Dynamics in Manufacturing Plants’ (1981) 1 *Brookings Papers on Economic Activity: Microeconomics* 187; John Baldwin, *The Dynamics of Industrial Competition: A North American Perspective* (1995); Zvi Griliches and Haim Regev, ‘Firm Productivity In Israeli Industry, 1979-1988’ (1995) 65 *Journal of Econometrics* 175.

43 James Arrowsmith, Mark Gilman, Paul Edwards and Monder Ram, ‘The Impact of the National Minimum Wage in Small Firms’ (2003) 41(3) *British Journal of Industrial Relations* 435, 441ff.

44 Australian Bureau of Statistics, *Small Business in Australia 2001*, Catalogue 1321.0. Small businesses are defined by the ABS as ‘a business employing less than 20 people’. Categories of small businesses include; (1) non-employing businesses - sole proprietorships and partnerships without employees; (2) micro businesses - businesses employing less than five people, including non-employing businesses; (3) other small businesses - businesses employing five or more people, but less than 20 people. Small businesses tend to have the following management or organisational characteristics: (1) independent ownership and operations; (2) close control by owners/managers who also contribute most, if not all the operating capital; and (3) principal decision-making by the owners/managers.

45 See, eg, Peter Brosnan, *Can Australia Afford Low Pay?* (Unpublished article, University of Sydney, 2005).

46 See OECD, above n 31.

Research into the effect of the introduction of a FMW in the United Kingdom (that occurred in April 1999) indicated that there were a number of strategies adopted by employers in response to the increased labour costs they faced as a result of the introduction of the FMW – these strategies included replacing several part-time employees with a single full-time employee.⁴⁷

Some studies have shown that an increase in minimum wages will not necessarily lead to unemployment or disemployment but will, instead, lead to wage compression. As a result of increases in a FMW, although there will be more workers who were previously earning less but who will be earning more as a result of a FMW increase, other workers who were previously earning above the minimum wage will not gain increases in their wages, but will move downwards and closer to the minimum wage in their earnings. Over time, it can be expected that the average wage of workers will be ‘dragged down’ towards the minimum wage.⁴⁸

H Empirical Evidence – Other Employer Strategies in Response to FMW

Other strategies adopted by employers in response to the introduction of or increases in a national minimum wage include those that are ‘positive’ in response to labour management (but negative in relation to employment levels) and those that are negative in relation to both labour management and employment levels. In the latter case, some increases in minimum wages have lead to increased capitalisation and mechanisation by employers and to moving production offshore where labour is cheaper.⁴⁹ One of the positive responses to increases in minimum wages by employers is to increase employee training.⁵⁰

However, increased emphasis on training has the inevitable effect of not only leading to disemployment results for the low-skilled, but also making it even harder for them to enter employment as the skills-gap widens, with fewer jobs available for unskilled and untrained entrants in the jobs market.⁵¹ This response by employers results in similarly negative distributional outcomes as discussed above.

Increases in a FMW also lead employers to adopt other means of attempting to increase productivity – including increasing oversight and supervision of workers,⁵² ‘simply expecting everyone to work twice as hard’⁵³ and reducing

47 Rosemary Lucas and Michele Langlois, ‘Anticipating and Adjusting to the Introduction of the National Minimum Wage in the Hospitality and Clothing Industries’ (2003) 24 *Policy Studies* 33, 44.

48 Dickens, ‘The Effect of Minimum Wage on Employment’, above n 20; Dolado, ‘Evidence from Spain’, above n 28; Stephen Machin, Lupin Rahman and Alan Manning, ‘Where the Minimum Wage Bites Hard: Introduction of Minimum Wages to a Low Wage Sector’ (2003) 1 *Journal of the European Economic Association* 154, 157.

49 See Lucas and Langlois, above n 47, 45-6.

50 Ibid 43-4. See also Arrowsmith et al, above n 43, 445; David Metcalf, ‘The Impact of the National Minimum Wage on the Pay Distribution, Employment and Training’ (2004) 114 *The Economic Journal* C84.

51 See also Neumark and Wascher, ‘Panel Data on State Minimum Wage Laws’, above n 21, 557ff.

52 See Arrowsmith et al, above n 43, 446. However, classical economic theory would suggest that lower wages also increase the need for supervision of employees as they are more indifferent to whether or not they retain their job and therefore are less willing to expend effort ensuring that they do so. See Andrew Weiss, *Efficiency Wages: Models of Unemployment, Layoffs and Wage Dispersion* (1991) 5.

employees' work hours (including imposing reductions in overtime).⁵⁴ Research in Canada seems to indicate that these responses (sometimes referred to as 'shock effects'⁵⁵) might offset some of the disemployment effects of a minimum wage (or a rise in the minimum wage) but not all of those effects.⁵⁶

I Empirical Evidence – Where there is Non-universal Coverage

Where part of the sector is covered by a minimum wage and part is not, the workforce as a whole reacts to the minimum wage as it would if coverage were universal.⁵⁷ This is relevant in the Australian context as there will not be heterogeneous coverage of all workers by a single FMW.⁵⁸ Indeed, it can be expected, based on the current rhetoric of state governments, that the state minimum wages for workers who remain covered by the state systems will be higher for employees covered by the FMW. This would suggest that (all other things being equal) demand for state system jobs in any sector will be higher than for federal system jobs. The research indicates that this fact leads to a 'levelling-out' of the system as a whole, in which '[w]orkers displaced by the minimum wage 'migrate' to the uncovered sector, shifting supply there outward. As a result, wages fall and employment increases in the uncovered sector.'⁵⁹

In the Australian context, however, there is no 'uncovered' system; instead, there will be two 'covered' systems. This would tend to imply – in simple terms – that, if there is a larger supply of workers in the state systems (with higher low wages), there will be an impetus for employers to offer lower wages (closer to the state minimum wage) and the number of workers in the state system earning over the minimum wage would be reduced. That is, there will be more workers in the state systems working at the state minimum wage than there were before the introduction of a lower federal minimum wage. This theoretical model would also suggest that there would be some impetus for employers in the federal system to offer wages above the federal minimum wage and closer to or better than the state minimum wage in order to attract (or ensure they retain) low wage employees who are likely to migrate to the (higher-paid) state systems.

53 See Arrowsmith et al, above n 43, 447.

54 See Machin et al, above n 48, 175; Eriksson and Pytlikova, 'Minimum Wage Increases in the Czech and Slovak Republics', above n 22, 95; Jason Heyes and Alex Gray, 'The Impact of the National Minimum Wage on the Textiles and Clothing Industry' (2001) 22 *Policy Studies* 83, who found that overtime was cut and the number of tasks undertaken by workers increased after an increase in the FMW.

55 See Brown et al, above n 15, 489-90.

56 Edwin West and Michael McKee, *Minimum Wages: The New Issues in Theory, Evidence, Policy and Politics* (1980).

57 Brown et al, above n 15, 490-493.

58 The federal workplace relations regime will cover only those employers that are engaged in interstate trade, that are Commonwealth public sector employers, that are constitutional corporations or are employers in a few other limited categories. All in all, it is expected that coverage will amount to more than three quarters of all employers within three years.

59 Brown et al, above n 15, 490.

V WORK IN AUSTRALIA

In order to understand the likely effects of a lower FMW in Australia, it is necessary to have some idea of the nature of the Australian workforce, as well as the place of the FMW in Australia, in relation to those overseas countries where the bulk of the research above occurred. Australia is not alone in the world in having in place a statutory national minimum wage. There are more than 20 OECD countries with statutory national minimum wage regimes in place, with the OECD average minimum wage being approximately 42 per cent of the median wage. The range of the minimum wage as a percentage of the average wage varied significantly, ranging from 19 per cent in Mexico to approximately 60 per cent in France. Australia has the second highest minimum wage as a percentage of the median wage at approximately 58 per cent.⁶⁰ In the 2005 Annual Safety Net Review, the AIRC noted that Australia had a traditionally high minimum wage when the wage was expressed as a percentage of median wages:

Some parties relied on international material relating to comparisons between the minimum wage and earnings. In particular it was submitted by the Commonwealth that "*Australia now has the highest minimum wage compared with median earnings ... in the OECD*". The Commonwealth produced OECD comparative data for the period since 1985. While we have not seen any objective validation of the OECD comparisons, they show that for most of the 19-year period Australia has had the highest minimum wage compared with median earnings in the OECD. The suggestion that this is a recent development, on the data provided, is wrong. More importantly, according to those data ... the relationship between the minimum wage and median earnings has been in decline since 1996.⁶¹

60 2003 figures: OECD, *Economic Policy Reforms; Going for Growth* (2006) Annex A. For a comparison of other countries, see also David Neumark and William Wascher, 'Minimum Wages, Labour Market Institutions and Youth Employment: A Cross-national Analysis' (2004) 57 *Industrial and Labour Relations Review* 223, 227-230. Australia had the highest FMW as a percentage of minimum wage in 1998, being just a percentage point above France at 60 per cent. The ACTU states that the minimum wage is currently 65 percent of Australian average earnings.

61 Australian Industrial Relations Commission, *Safety Net Review – Wages* (2005) [404].

The AIRC's data is reproduced in Table 1 below:

TABLE 1: MINIMUM WAGE AND MEDIAN EARNINGS MINIMUM WAGE (C14)/MEDIAN WAGES PERCENTAGE

	%
1996	60.6
1997	59.9
1998	60.7
1999	59.1
2000	57.9
2001	58.1
2002	57.5
2003	58.2
2004	58.4

The national, seasonally-adjusted, annual, weekly, adult, ordinary-time wage in Australia in November 2005 was \$1026 – ranging between \$996 for the private sector and \$1131 for the public sector.⁶² The statutory national minimum wage in Australia (which, until the Work Choices changes to the federal industrial relations regime, was set in Annual National Wage cases by the Australian Industrial Relations Commission) is currently \$484.40 a week (or \$12.75 per hour). The average hourly earnings for all full-time adult non-managerial employees in 2004 were \$23.20.⁶³

According to classical economic theory, those workers whose after-FMW-increase-wages are higher than what would have been paid to them 'at market' will be affected by increases in the FMW. Those whose after-FMW-increase-earnings remain higher than the new FMW will not be directly affected (although they may be affected by broad changes in the labour market) because employers will presumably still be willing to offer them the same wage rate – a rate that, both before and after the FMW increase, was higher than the FMW. The Australian workers most affected by FMW increases are, therefore, those on the FMW or close to it. It is difficult to determine how many Australian workers are currently paid the minimum wage⁶⁴ but some conclusions can be drawn about low wage workers generally – low paid workers are more likely to be employed in small firms than large and are more likely to be women or young workers;⁶⁵ low paid work is found in some industries more than others; and low paid workers are more likely to be part-time workers.

Australian statistics pinpoint some industry sectors where wages of workers are low, and highlight the differences in wages between junior workers and adult

62 Australian Bureau of Statistics, *Average Weekly Earnings, Australia, November 2005* (2005) 1.

63 Australian Bureau of Statistics, *Employee Earnings and Hours, May 2004* (2005).

64 A similar difficulty exists internationally See OECD, above n 31.

65 Alistair Rainnie and Michael Scott, 'Industrial Relations in the Small Firm' in James Curran, John Stanworth and David Watkins (eds), *The Survival of the Small Firm Volume 2: Employment, Growth, Technology and Politics* (1986) 42, 52.

workers. The average weekly total earnings for full-time non-managerial employees across broad industry sectors are outlined in Table 2 below.

As the table shows, although no category of adult employment has average earnings below the federal minimum wage, there are a large number of categories of junior employment – both male and female – where the average weekly earnings fall below the FMW – with junior females earning on average below the minimum wage in *every industry category* and junior males earning below the minimum wage in 11 of 16 industry categories (69 per cent).⁶⁶ In one category – ‘Personal and Other services’ – the female junior average wage is 65 per cent of the FMW.

Of all employees in the Australian Bureau of Statistics 2004 survey,⁶⁷ full-time employees accounted for 65.7 per cent of all employees and part-time employees 34.3 per cent, with non-managerial full-time employees accounting for 55.7 per cent of all employees and part-time non managerial employees being 33.2 per cent.

Of the 55.7 per cent of full-time non managerial employees, 53.8 per cent were adult employees and only 1.9 per cent junior employees; whereas, in the part-time category, adult part-time non managerial employees accounted for 28.6 per cent of all employees and part-time employees in this category accounted for 4.6 per cent.

66 The national wage setting procedures allow for junior rates of pay to be inserted into federal awards. Usually an award will allow junior pay rates as a percentage of full adult wages based on the number of years in age an employee is below 20. The *Award Simplification Decision* in December of 1997 (Print P7500) allowed for non-office juniors to be paid at: 17 years of age and under – 70 per cent of the adult wage; 18 years of age – 80 per cent of the adult wage; 19 years of age – 90 per cent of the adult wage and 20 years of age – full adult rate. Applying this typical pattern (junior wages were generally to be determined on an award-by-award basis) to the current federal minimum wage would result in ‘youth minimums’ of: 17 yrs - \$339.08; 18 yrs – \$387.50; 19 yrs – \$435.96.

67 Australian Bureau of Statistics, above n 63.

TABLE 2 – AVERAGE WEEKLY TOTAL EARNINGS, ADULT AND JUNIOR NON-MANAGERIAL FULL-TIME EMPLOYEES – MAY 2004

Sector	Female Adult	Female Junior	Male Adult	Male Junior	Total
Mining	1,157.10	np	1,584.20	558.60	1,522.00
Manufacturing	772.50	529.60	971.50	410.80	913.90
Utilities	928.00	np	1,211.30	488.40	1,144.50
Construction	781.80	366.00	1,025.40	372.70	960.50
Wholesale trade	769.90	428.40	880.10	439.50	841.10
Retail trade	647.40	405.60	730.50	393.80	669.00
Accommodation, café's & restaurants	697.40	403.70	708.60	341.90	673.00
Transport & storage	804.80	419.50	993.10	590.20	931.90
Communications services	857.70	-	1,079.90	376.40	996.10
Finance & insurance	883.60	438.40	1,167.20	381.20	1,005.90
Property & business services	834.10	388.80	996.30	424.40	906.70
Govt Administration & defence	896.60	401.30	951.30	395.10	924.70
Education	961.40	343.20	1,047.20	408.10	980.40
Health & Community services	826.20	396.30	1,010.30	436.90	869.60
Cultural and recreational services	845.00	475.30	921.20	488.50	881.30
Personal & Other services	770.60	317.00	1,017.40	523.00	868.40
All Industries	828.00	395.00	974.90	410	898.20
Minimum Wage	484.40	484.40	484.40	484.40	484.40

np – not published

There is a clear difference in the number of females in all categories between full-time and part-time employees as evidenced by the following table:

TABLE 3 – MALE AND FEMALE FULL-TIME AND PART-TIME NON MANAGERIAL EMPLOYEES AS A PERCENTAGE OF ALL PERSONS EMPLOYED

	Full-time Adult	Full-time junior	Part-time adult	Part-time junior
Male	32.1%	1.1%	7.7%	1.8%
Female	21.7%	0.8%	21.0%	2.8%

As is apparent, females are disproportionately represented in the part-time employment category.

VI CONSEQUENCES OF INCREASES IN THE NATIONAL MINIMUM WAGE IN AUSTRALIA

If the empirical evidence above is applied to Australia, it clearly demonstrates that the national minimum wage in Australia has probably resulted in disemployment and unemployment in the same way that it has in every other country in the world where it has been studied. There is no reason to consider that Australia is a special or different case.

Similarly, it should be expected that these unemployment and disemployment effects will be disproportionately experienced by workers who are young, female or low skilled. At a simplistic level, based on the figures illustrated above, it appears that this outcome could also be expected to be reinforced by the disproportionate numbers of women and young workers (and especially young women workers) who are in low income employment in low income industries.

In classical economic theory, the introduction of a minimum wage or an increase in a FMW will only result in those unemployment or disemployment effects if the resultant wage is greater than the marginal product of the worker in question – that is, if, as a result of the increase in wages, the worker costs (or starts to cost) an employer more to employ than the worker creates in value. As we have seen above, however, employers engage in a number of strategies to attempt to respond to increases in wages, including ‘getting employees to work harder’, passing on costs (where possible) to consumers of the employer’s goods or services, cutting overtime or a wide range of other strategies that eliminate the need to reduce the number of employees. Additionally, it is often the case that employers are willing to simply absorb some of the additional wage costs and, therefore, accept lower profits possibly because it is difficult to accurately price the value of any one employee’s actual contribution to production precisely. Firm labour expense is viewed on a collective or ‘sectional’ basis so, for instance, the ‘human resources office’ is seen as contributing a certain value, the ‘sales staff’ another and the shop floor employees another, rather than trying to ascertain worker value on a worker-by-worker basis. Employment value assumptions within a firm can lead to some circumstances where employees are retained even though their marginal product is actually less than their labour cost.

Increases in the FMW could only be expected to affect unemployment or disemployment across the economy where the wage is set above what employers would otherwise offer to workers, and above the level that workers would otherwise accept from employers as a wage. It is, of course, very difficult to evaluate whether wages are, in fact, currently above the market clearing rate and, if so, in what industry sectors. However, one can assume that, given Australia’s high level of FMW to average wage, there are at least some employees who would be willing to accept lower wages for a job, and some employers who would be willing to offer them.

It should not be assumed that, if Australia were to abolish the FMW, then wages would immediately drop. Other than there being structural reasons why this would be difficult, there are many reasons why an employer would offer above (or significantly above) the 'market rate'.⁶⁸ Indeed, this must be the case in Australia at the moment because most employees are currently earning well above the FMW – at least partially as a result of market pressures⁶⁹ (see Table 2 above).

Having assumed, therefore, that the FMW is at least for some sectors above the market clearing rate, it can also be safely assumed, based on the very significant empirical evidence summarised above, that there are currently unemployment and disemployment effects exerted by the FMW. It can also be safely assumed that these effects are mostly being experienced by unskilled, young and female workers.

It follows that, if it were the case that the operation of the new AFPC were to result in a lower FMW or slower increases in the FMW, there *would be positive effects for employment*. This fact is uncontroversial. What is controversial – and untestable at this point in time – is the *extent* of the effect that any reduction in the FMW would have.

However, a few informed guesses can be made and some of the policy considerations that might be taken into account by the AFPC in its task of minimum wage setting can also be suggested.

First, since the Australian FMW is currently at a very high proportion of the average wage, any reduction is likely to have a larger positive employment effect than would otherwise be the case. This effect would be experienced most by those who are most disadvantaged in the labour market.

If the operations of the AFPC results in a lower FMW, but this happens only gradually and in small movements, then, as a result of the lag effects demonstrated in the research outlined above, any positive effect would be expected to occur slowly and be evident only after time – the AFPC is precluded from making any immediate downwards adjustments to the FMW by the operation of the Act.⁷⁰ It is very unlikely that the operations of the AFPC will result in any major decline in the FMW except in the long term and, therefore, initially it is unlikely that there will be any radical improvement for large numbers of workers previously excluded from labour market participation because of the FMW. However, this does not discount that there may be some immediate positive employment effects, especially in some industry sectors.

Because the new Act allows for junior pay rates, disabled pay rates, special pay rates and trainee pay rates that are differentiated from the FMW⁷¹ (and will presumably always be lower than the FMW) then the negative employment effects of the FMW will be tempered for those most disadvantaged groups because 'their' minimum wage is lower than the FMW.

68 See Junankar, above n 17, 93-94.

69 Although it is also clearly the case that collective wage bargaining structures and award setting mechanisms have also contributed to wages possibly above what would also be 'offered at market'.

70 See *Workplace Relations Act 1996* (Cth) ss 190-193.

71 See *Workplace Relations Act 1996* (Cth) pt 7, div 2, subdiv B.

The effect of other labour market regulation measures in combination with the effect of the FMW will help determine whether reductions in the FMW will have positive employment results. Research has shown that, in countries with low levels of employment protection and active labour market policies, minimum wage effects are predominately negative and those with restrictive labour standards will experience even more marked effects. With countries that have less restrictive labour standards, the effects are even more marked. The current federal government is generally accepted as moving from a system that has more restrictive labour standards to less restrictive ones, and therefore from a system where the FMW has less of an effect (although still a negative one) to *more* of an effect.⁷² This research would tend to support a contention that other labour market flexibility changes being implemented by the Australian Federal government would complement any positive results occurring as a reduction in the FMW.

At times of high employment, it can be assumed that more employees are paid at rates in excess of a FMW than occurs in times of high unemployment. This is because in times of high unemployment there are more workers who are seeking work and there is a high probability that at least some of those at least would be willing to work for less, resulting in downwards pressure on wages. Currently, Australia is experiencing relatively high levels of employment⁷³ and, therefore, one would expect that, as a general principle, any negative employment effects of a FMW would be less pronounced than in a time of high unemployment. This principle, it is suggested, is one that the AFPC needs to take into account: upward changes in times of high or rising unemployment will have much more significant unemployment and disemployment effects.

There is evidence that increases in a FMW will result in inflation as employers will attempt, where this is feasible, to pass on any increases in labour costs as higher prices. Lower increases in the FMW will mean slower increases in inflation. Again, it is difficult to estimate the actual effects of this outcome which may be quite slight.

VII CONCLUSION

There is no doubt that the FMW has disemployment and unemployment effects in Australia and that these effects are largely experienced by the most vulnerable categories of worker. The actual extent of the effects is difficult to estimate and there is no extant research on the effects of the FMW on the Australian labour market. However, despite any clear indication of the extent of the negative effects, it is beyond dispute that future increases in the FMW would have negative effects on the likelihood that some Australians will have jobs in the future. If, as some commentators suggest, the operations of the AFPC will

72 See Neumark and Wascher, above n 60, 243.

73 Unemployment is currently at 5.2 per cent. See Australian Bureau of Statistics, *Labour Force Australia – February 2006* (2006).

necessarily result in lower minimum wages (although it is difficult to understand why this assumption has been made), this would result in more jobs.

The research above shows that a FMW does little to alleviate poverty – if anything, it sometimes acts to increase it. The main effect of a FMW is to protect certain segments of a workforce (those in jobs) to the detriment of others (those who would be willing to work for less than the FMW). Those ‘others’ – generally women, migrants, young people and the unskilled – are thereby deprived of the experience, training and other opportunities (in addition to a wage) that a job provides. The evidence shows that increases in a FMW tends to *increase* any disadvantage already suffered by these groups as responses by employers to FMW increases often include worker training and multi-skilling which widen the employability gap that these groups suffer.

The research supports an argument that the FMW is not a useful social justice policy tool with which to alleviate poverty. Nor is there any evidence that it achieves any useful labour market outcome other than increasing the income of some at the expense of others. It is undoubtedly arguable that wages policy is not a place where it is appropriate, efficient or useful to attempt to achieve legitimate social justice policy outcomes, but if it is, the best social justice outcomes are actually achieved by *reducing or eliminating* a FMW because ‘[t]here is widespread agreement amongst economists that holding down real wages would offer great hope for significantly lower unemployment.’⁷⁴

Commentators have assumed that the AFPC would act to lower the FMW and, based on the empirical evidence presented above, this is an entirely appropriate and desirable outcome.

74 Peter Dawkins, ‘Solutions to Unemployment and Avoiding the ‘Diabolical Trade-off’: A Discussion’ in Guy Debelle and Jeff Borland (eds), *Unemployment and the Australian Labour Market* (1998).