Australian Fair Pay Commission makes a political decision on wage rates

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13 November 2006

The pay decision handed down last month by the recently-formed Australian Fair Pay Commission (AFPC) was not determined by the needs of minimum-pay workers. It was shrewdly crafted to advance the long-term economic requirements of big business and the political needs of the Howard government.

The ruling was the first by the wage body since its formation this year as part of the government's anti-working class industrial relations laws, WorkChoices. It awarded a weekly increase of $A27.36 to 1.5 million workers on the minimum wage of $484.40 a week ($12.75 an hour). Low-paid workers on between $700 and $1,000 a week received a $22.04 rise.

The increases, which on closer scrutiny are not substantial, were higher than generally predicted. It is not, however, difficult to fathom why the AFPC has not immediately wound back minimum wage rates. Given the widespread distrust of the body, its decision was aimed at undercutting the popular view that it is simply a pay-cutting creature of government and big business.

The government certainly understood the ruling's political purpose. In its submission, Canberra had claimed that thousands of jobs would be threatened if the AFPC granted the $30-a-week increase sought by Australian Council of Trade Unions (ACTU). But far from criticising the decision, Prime Minister John Howard welcomed it as a "good, fair" outcome, declaring that the AFPC had "lived up to its name".

Federal Treasurer Peter Costello, while claiming "surprise", praised the decision as "very clever economically". "It's a large increase; it's probably larger than many people expected. Far from proving to be a patsy for the government, [the AFPC] proved itself very independent," he said.

The comments should fool no one. The government was undoubtedly aware of the intended decision and approved it in advance. With a federal election looming next year, Howard is hoping the increase will placate broad hostility to the new industrial relations laws and their impact on working conditions and basic rights, as well as over rising interest rates and the spiralling cost of living.

Costello referred to the ruling as "very clever economically" because, while promoting illusions in the AFPC's independence, the commissioners faithfully adhered to their official brief—to enshrine economic considerations, in particular the ability of business to pay, as the primary criteria for setting pay rates.

AFPC head Professor Ian Harper, a conservative economist, said the increase was "sensible and sustainable given the current economic conditions". He knows full well that in the future, "economic conditions" will be used to impose far tougher pay measures.

The government is already pointing to changing economic circumstances. This month Costello predicted that the current widespread drought would cut farm output by 20 percent and rural exports by about 9 pecent. He warned of a "commensurate detraction from the GDP," noting that the boom in minerals prices was also set to "unwind".

Some economic analyists commented that Costello's statement was meant to set the stage for a review of the government's 2006-07 growth forecast of 3.5 percent, which could be downgraded after the half-yearly budget review next month.

The ACTU, the country's peak union body, welcomed the pay decision uncritically. ACTU secretary Greg Combet absurdly claimed that the pay increase was a "win" for the unions and "a massive slap in the face for the business community, and most importantly for the Howard government".

Combet's comments serve to legitimise the AFPC and prepare the ground for future wage cuts. For all the ACTU's posturing against Howard's new industrial relations laws, the unions have accepted the new wages framework set up by the government at behest of big business.

The ACTU's role is little different from when it took annual wage cases for the low-paid to the Australian Industrial Relations Commission (AIRC). The unions organised no campaigns to fight for decent wages and used the yearly ritual at the AIRC to justify their actions. Millions of low-paid workers were left with the pittances handed down by the AIRC.

One factor constricting the AFPC's ability to cut real wages is the continued existence of a limited welfare system. The government has slashed welfare payments and attempted to drive thousands of welfare recipients into low-paid jobs. But if minimum pay rates are too low, many will be worse off accepting a poorly paid, often casual or temporary job.

Professor Harper told the media the wage-fixing decision was a balancing act. The body had to have "the sensitivity of having the real minimum wage rise too quickly against having it not rise fast enough to give an incentive to come off unemployment and look for low-paid work".

Harper is known for his support of the bogus argument routinely put by big business that "higher wages cost jobs". His recognition that the welfare system is acting as a barrier to the further cutting of real wages is a signal that welfare has to be further restricted to create a huge pool of cheap labour ready to work at any wage.

Finally, it is necessary to debunk the claims that the AFPC delivered a bonanza to the low-paid. Catholic Social Services Australia executive director Frank Quinlan pointed out that the pay increase, the first in 18 months, "would barely cover inflation". "Workers on the federal minimum wage of $484.40 a week will see a nominal increase of 5.65 percent. But inflation over the relevant period has been approximately 5.4 percent," he said.

Calculations by the National Centre of Social and Economic Modelling (NATSEM) demonstrate that the weekly income of many of the working poor will not rise by $27.36. A minimum-wage family with one income and two children will lose $9 a week in tax and $13 in family welfare benefits, leaving a rise of just $5.