

# Fair pay will lead to unfair results

[Economics & Deregulation](#) and [Work Reform and Productivity Unit](#) | [Alan Moran](#)  
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Two weeks ago the Fair Pay Commission awarded a 4.1 per cent pay increase to the 1.3 million workers who earn the minimum wage.

While most countries have some form of minimum wage, Australia has a relatively high proportion of people actually earning it. Whereas in the US and Japan the minimum wage is only one-third of average earnings, in Australia it is over half.

As a result, the proportion of people covered by the Australian Fair Pay Commission's decisions is higher than overseas. The commission's importance has, however, tended to decline. Its decisions now cover only 12 per cent of the workforce -- down from 20 per cent five years ago.

This decline stems from the general prosperity Australia has experienced in recent years. It has been assisted by other policy moves, especially allowing businesses to terminate poorly performing employees or employees who can no longer be profitably employed. Job prospects are harmed if employers think it is too costly to sack an under-performing employee.

Reducing an employer's costs of reversing a mistaken hiring decision brings an increase in jobs. This allows inexperienced novices to develop work skills to become valued employees.

The increased wages required by the Fair Pay Commission's recent decision, though considerably higher than that recommended by employer groups, is in line with average wage increases.

Hence, it is not likely to mean an abrupt departure of outsourced jobs to India. Even so, the decision carries unfortunate downsides.

The people earning the minimum wage tend to split 50-50 between two categories.

One category comprises those on the first step of the job ladder. They very quickly acquire the skills to warrant and receive wage increases that take them above the minimum wage.

The second category comprises people who tend to stay on the minimum wage, though many change their jobs.

Some of these people are students and others whose interest is in earning a bit of money to bankroll other objectives.

Increasing the minimum wage, though ostensibly to benefit the poor, actually works to the disadvantage of those who cannot get a job.

An increase in the minimum wage damps down the demand for those at the margin of employment. These are people without skills and the number of unskilled jobs is showing slow growth.

In an economic downturn, which almost everyone expects, employers are likely to be more cautious in taking on additional workers. And a 4 per cent increase in wages will tip the balance for some.

Australia is better off seeing the minimum wage play a progressively reduced role in the economy. In the bad old days of the 1970s, award rates covered the vast majority of workers.

The downside of that system was illustrated by the surge in unemployment that came with a recession.

The much reduced level of wage regulation we have seen in the past 25 years has been accompanied by lower unemployment, increased productivity and better job security.

Forcing higher wage levels during an economic downturn will deliver the cruellest blow to those who seek a job as a springboard to better-paid employment.

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