

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 349

Topic: Labour Market

Hansard Page: Written

Senator EGGLESTON asked:

1. Dr Gruen in a speech in 2006 you said that:

Australia's institutional settings — which include a market-determined exchange rate, medium-term monetary and fiscal policy frameworks as well as a flexible labour market — have given the economy the flexibility needed to deal with different economic shocks and helped to largely avoid problems that arose in previous terms of trade booms.

The budget also confirms that labour market flexibility was a key contributor to the ability of Australian employers to keep staff on during the economic downturn. Can you explain what features of the labour market contributed to this result?

2. In this context, what are your thoughts on the OECD's Going for Growth study on Australia, released in March, where they said:

*A 2006 reform fostered individualisation of labour relations and an independent body was created to set the federal minimum wage, taking into account its employment impact. These measures were partly reversed in 2008 through a reinforcement of the role of awards, **raising the risk of increases in minimum labour costs.***

Are the reversals that the OECD talks about a risk to the performance of Australia's labor market in future economic downturns?

Answer:

Part 1:

Under the *Fair Work Act 2009* (the FW Act), labour market flexibility is retained in parts (a), (d), (f) and (g) of the Object of the FW Act. These parts are reproduced below:

(a) providing workplace relations laws that are fair to working Australians, are flexible for businesses, promote productivity and economic growth for Australia's future economic prosperity and take into account Australia's international labour obligations;

(d) assisting employees to balance their work and family responsibilities by providing for flexible working arrangements;

(f) achieving productivity and fairness through an emphasis on enterprise level collective bargaining underpinned by simple good faith bargaining obligations and clear rules governing industrial action;

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(g) acknowledging the special circumstances of small and medium sized businesses.

In addition, enterprise agreements and modern awards must include a model flexibility clause, to allow employers and individual employees to make arrangements that suit their particular needs. Employees earning over \$113,800 per annum (indexed annually) are free to agree to their own pay and conditions without reference to awards. This will provide flexibility for employers and employees.

Part 2:

In relation to the OECD's reference to the previous Australian Fair Pay Commission as an independent minimum wage setting body that took into account the employment impacts of its decisions, it is important to note that a similar body exists under the new Fair Work system. Under the FW Act, a specialist Minimum Wage Panel within Fair Work Australia (FWA). This Panel is responsible for setting minimum wages for employees in the national workplace relations system. In doing so, FWA must take into account a range of factors including the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth.

In addition, the aim of the award modernisation process which was undertaken by the Australian Industrial Relations Commission was to rationalise and streamline existing awards and other industrial instruments in order to make it easier for employees, employers and their representatives to understand their obligations and entitlements. Through this process, the AIRC reduced 3,715 state and federal instruments, many of which were complex and lengthy, to just 122 modern awards. These awards commenced on 1 January 2010 and include transitional provisions to phase in changes in wages, loadings and penalties over a five-year period. When combined with the model flexibility clauses referred to above, this is expected to contribute to greater labour market flexibility.