

## **Supplementary submission by UnionsWA on the Equal Remuneration Principle**

At the State Wage Case Hearing on held on Wednesday, 22nd May 2019, UnionsWA was requested to provide additional material regarding matters of work value, and the use of a male comparator.

Please find attached please find material submitted by our affiliates United Voice, and the Independent Education Union, to the Fair Work Commission in regards to issuing an Equal Remuneration Order.

Please also find attached a Report for the Pay Equity Unit of the Fair Work Commission on '*Equal remuneration under the Fair Work Act 2009*'.

UnionsWA draws the WA Commission's attention to the following sections:

*Amended application, United Voice, 3 September 2015*

See paragraphs 46-80 regarding

- Structural undervaluation
- Changes to work value
- Loss of previous pay equity gains
- Impact of undervaluation on wages outcomes

*Amended application, Independent Education Union of Australia, 27 September 2017*

See paragraphs 31-47 regarding

- Comparators
- Loss of previous pay relativities
- Impact of undervaluation on remuneration

Report for the Pay Equity Unit of the Fair Work Commission on '*Equal remuneration under the Fair Work Act 2009*'

See pages 106-14 regarding

- Is the use of comparators central to a finding of undervaluation?
- Establishing that undervaluation is gender-based or has a gender associated cause
- An equal remuneration principle
- Benefits of an ERP
- What should a federal ERP look like?

## **Supplementary submission by UnionsWA on the History of the Economics of the Minimum Wage**

At the State Wage Case Hearing, reference was also made to a submission made by UnionsWA to the 2013 State Wage Case, regarding the History of Economic Thought concerning the employment impacts of the minimum wage.

Please find below the relevant extract from the UnionsWA 2013 submission.

We have also attached copies of the two main articles being discussed.

## 9. The History of Theory about the Minimum Wage

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9.1 In previous submissions to the state wage case, and in submission to the national wage case, employer groups and their supporters have been fond of quoting from the ‘seminal’ article ‘The Economics of Minimum Wage Legislation’ published in *The American Economic Review* in 1946.<sup>1</sup>

9.2 Stigler argued that for a minimum wage to be effective it must have one of two effects:

*First, workers whose services are worth less than the minimum wage are discharged (and thus forced into unregulated fields of employment, or into unemployment or retirement from the labour force; or second, the productivity of low efficiency workers is increased.*<sup>2</sup>

9.3 Stigler compares the situations of ‘competitive wage determination’ (each worker receives the value of his marginal product under competition) and ‘employer wage determination’ (an employer has a significant degree of control over the wage rate paid for a given quality of labour). In both cases Stigler finds that *‘the legal minimum wage will reduce aggregate output, and it will decrease the earnings of workers who had previously been receiving materially less than the medium’.*<sup>3</sup>

9.4 What is not often mentioned is that the subsequent edition of the Review carried a refutation of Stigler’s position by Professor Richard A Lester, who made the point that the actual experience of minimum wage increases under the US Fair Labour Standards Act *‘stand directly contrary to Professor Stigler’s conclusions’.* He went on to say:

*In two industries, the firms most affected by wage minimums experienced the greatest increases in employment. With the lack of labour standards characteristic of many low wage industries, including wide variation in wage scales between firms in the same business in a locality or ‘labor market area,’ legally established minimum wages generally force wage increases in but a small percentage of an industry (say 10 per cent) and frequently the whole wage scale is increased in the minority of firms affected so that there is no added stimulus to substitute between labor grades and occupations. Even in the absence of unions, established manufacturing firms have not followed the practice, as stated by Professor Stigler. Of discharging regular employees of the firm in order to hire new employees in their place in hopes thereby to obtain more efficient workers.*<sup>4</sup>

9.5 A key reason for this was that:

*Unlike a reduction in commodity purchases, reduction in an employer’s work force generally involves significant costs to the employer. It is costly, for example, because of the adverse effects upon the morale of the remaining workers, the tendency for workers to restrict output in the face of reductions in the workforce, the need to shift workers to different jobs ...*<sup>5</sup>

9.6 Lester concluded that *‘Wage employment relationships for individual firms cannot be adequately explained if we confine our thinking within the mental rut of the marginalists’* (his

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<sup>1</sup> E.g. the Australian Chamber of Commerce and Industry’s submission to the 2012-13 Annual Wage Review (para 261) [http://www.fwc.gov.au/sites/wagereview2013/submissions/ACCI\\_sub\\_awr1213.pdf](http://www.fwc.gov.au/sites/wagereview2013/submissions/ACCI_sub_awr1213.pdf); the Mannkal Economic Education Foundation submission to the WA state wage case 2013 (para 3) <http://www.wairc.wa.gov.au/WageCase/SWC2013/Incoming/Mannkal%20Economic%20Education%20Foundation%20submission%2009-May-2013.pdf>

<sup>2</sup> Stigler, George J, ‘The Economics of Minimum Wage Legislation’, *The American Economic Review*, Vol.36, No.3 (June 1946), pp.358-365, (p.358).

<sup>3</sup> Ibid. (p.361).

<sup>4</sup> Lester, Richard A, ‘Marginalism, Minimum Wages and Labour Markets’, *The American Economic Review*, Vol.37, No.1 (Mar. 1947), pp.135-148 (p.144).

<sup>5</sup> Ibid. (p.146).

term for those who believe that ‘each worker receives the value of his marginal product under competition’).<sup>6</sup>

- 9.7 Decades later the study by David Card and Alan B. Krueger of the impact of a minimum wage increase in New Jersey in the 1990s, found that, despite the dire predictions of economic modelling using precepts similar to Stigler’s the increase led to higher pay but no loss of employment. They concluded that ‘*Contrary to the central prediction of a text book model of the minimum wage, but consistent with a growing number of studies based on cross-sectional-time series comparisons of affected and unaffected markets or employers, we find no evidence that the rise in New Jersey’s minimum wage reduced employment at fast-food restaurants in the state.*’ They also found no evidence that ‘*no evidence that minimum wage increases reduce the number of McDonald’s outlets opened in a state.*’<sup>7</sup>
- 9.8 While Card and Krueger’s findings have been controversial, in 2010 Arindrajit Dube, T William Lester, and Michael Reich published an article in the Review of Economics and Statistics, which substantially confirmed them. Dube, Lester and Reich looked at differing effects of minimum wage levels across the borders of US counties and found that their estimates suggested ‘*no detectable employment losses from the kind of minimum wages increases that we have seen in the United States.*’<sup>8</sup>
- 9.9 This article confirmed the findings of an earlier study by Dube, Reich and Suresh Naidu of the economic effects from adopting a city-wide minimum wage in San Francisco which found that
- ‘the San Francisco wage floor policy increased pay significantly at affected restaurants and compressed the wage distribution among restaurant workers. The policy increased average pay by twice as much among fast-food restaurants as among table-service restaurants. We do not detect any increased rate of business closure or employment loss among treated restaurants ...’*<sup>9</sup>
- 9.10 UnionsWA contends that the actual evidence of the state minimum wage in Western Australia demonstrates that having a higher rate has not adversely impacted the Western Australia economy. Nor does it appear to have adversely impacted the businesses which are most likely to be impacted by a minimum wage increase.
- 9.11 What the evidence does show is that the Western Australia community has major set of issues with inequality. A strong increase in the minimum wage will not ‘fix’ these issues by itself, but few other measures will be effective without such an increase.

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<sup>6</sup> Ibid. (p.147).

<sup>7</sup> Card, David, Krueger, Alan B, ‘Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania’, *NBER Working Paper No. 4509* (Oct 1993) (pp.34-5).

<sup>8</sup> Dube, Arindrajit, Lester, T William, Reich, Michael, ‘Minimum Wage Effects across state borders: estimates using contiguous counties’, *The Review of Economics and Statistics* (Nov 2010), 92(4) pp.945-964 (p.962).

<sup>9</sup> Dube, Arindrajit, Naidu, Suresh, Reich, Michael, ‘The Economic Effects of a Citywide Minimum Wage’, *Industrial and Labour Relations Review*, Vol.60, No.4 (Jul 2007), pp.522-543 (p.541).