Higher wages must not cost jobs
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Wage debate

The one constant in reducing poverty is having a job. That is why wage policy has to be managed with caution.

Josh Frydenberg

When it comes to the debate about the minimum wage, it's time to separate fact from fiction.

The minimum wage, at $18.93 an hour or $37,398 a year, is a paid to 180,200 workers or 1.7 per cent of the workforce.

It has a direct impact on the 2.2 million Australians who are paid an award rate.

Low-paid work is an entry point for more than a third of new workforce entrants, with around half of the new entrants subsequently moving to higher paid work within a year.

The minimum wage, as determined by the independent Fair Work Commission, has increased by more than 3 per cent in each of the last two years.

This is faster than both inflation and the average increase in national wages and puts Australia's minimum wage as the third highest in the OECD.

The combination of our targeted tax and transfer system has helped reduce inequality, which has remained relatively stable for more than a decade.

Living standards are increasing according to the Productivity Commission across all income deciles.

The "one constant" in tackling poverty and inequality according to the PC is "having a job". This is why the minimum wage setting and the way it is determined has to be right.

The government strongly supports the independence of the Fair Work Commission as the body that sets the minimum wage. As the government's submission lodged yesterday with the Fair Work Commission makes clear, "wages, like all business costs, are likely to have an impact on employers' workforce decisions" and "an increase to wages may price marginally productive workers out of the labour market".

The challenge is particularly acute for small businesses, which tend to be more labour intensive than large businesses. Small businesses, as made clear in the government's submission, already "remain cautious in taking on additional labour" and a major increase to the minimum wage "could present a major constraint".

When Opposition Leader Bill Shorten was challenged about the ACTU's proposal for a 12 per cent increase in the minimum wage over the next two years and its risk to employment, he reverted to type, labelling Australia's 3.3 million small and medium-sized businesses as "fat cats".

This arrogant and ignorant dismissal of the genuine concerns of those hiring workers goes against even what his own shadow assistant treasurer, Andrew Leigh, has said.

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In his own published research, Dr Leigh found a 6 per cent increase in the minimum wage could lead to a 6 per cent decrease in youth employment.

In Mr Shorten's rush to fuel another round of class warfare, he conveniently ignores the fact that outside the mining sector, business profits have grown more slowly than the economy's overall wages bill.

Non-mining profits through the year to the December quarter grew by 2.8 per cent, in contrast to compensation of employees which grew by 4.3 per cent.

This comparison may not suit Mr Shorten's political argument, but it is the economic reality for many Australian businesses.

Labor's lack of clarity about its position on the minimum wage is illustrated by the fact that their frontbenchers have had at least five different positions in five days.

Mr Shorten said he can "change the legislation". Dr Leigh believes the "independent Fair Work Commission" is the "appropriate" decision maker and "largely gets it right". Opposition finance spokesman Jim Chalmers wants to "encourage the Fair Work Commission to do the right thing".

Environment spokesman Mark Butler thinks "the guidelines for the Fair Work Commission, which sets minimum wages, should be at least changed", while shadow treasurer Chris Bowen cannot provide any details, saying "we will have more to say" as "we go about the process of consulting".

There is a substantial gulf between what Labor promises and what they deliver on the minimum wage because in three of the six years they were last in office, the minimum wage went backwards in real terms.

It is true that wages growth in Australia has been more gradual than many experts have expected. This is not just an Australian phenomenon. Particular factors at play include a lag effect after the mining boom, a lower-inflation environment and the existence of spare capacity in the labour market, despite falling unemployment.

The key to driving up wages is creating a strong economy with more jobs and higher productivity. Over the current cycle, Australia's labour productivity has grown at an average rate of 1.6 per cent, although it has been softer more recently.

This is why we are delivering a pro-growth agenda with lower taxes to encourage investment, creating new opportunities for businesses with new free trade agreements, cutting red tape and investing record levels of funding in infrastructure.

This will add to the productive capacity of the economy. Businesses are responding to the plan. Non-mining investment grew in 2017-18 by 9.7 per cent, the fastest increase since 2004-5.

The latest capex survey also showed business investment intentions for 2018-19 have increased.

With $200 billion in legislated tax cuts for individuals and small businesses, the Coalition is setting up the economy for a brighter future.

When it comes to the minimum wage, there is an independent process through the Fair Work Commission which needs to be respected. A balance must always be struck between the size of the wage increase and the legitimate objectives of higher employment and greater workforce participation.

Josh Frydenberg is the federal Treasurer.