acoss

Minimum wage submission

2017

Who we are

ACOSS is the peak body of the community services and welfare sector and a national voice for the needs of people affected by poverty and inequality.

Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

What we do

ACOSS leads and supports initiatives within the community services and welfare sector and acts as an independent non-party political voice.

By drawing on the direct experiences of people affected by poverty and inequality and the expertise of its diverse member base, ACOSS develops and promotes socially and economically responsible public policy and action by government, community and business.

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Introduction

ACOSS welcomes the opportunity to make this submission to the 2016-17 Annual Wage Review. ACOSS is an interested party in these proceedings with expertise in poverty, employment policy and income support policy. Our long-standing interest in minimum wages stems from their impact on poverty and inequality in Australia.

The National Minimum Wage (NMW) is currently $17.70 per hour, $673 per week, or approximately $34,980 per year[4]. Last year's minimum wage increase determined by Fair Work Australia (FWA) was a rise of 2.4% ($16 per week).[5]

The NMW has only increased in real terms by an average of 0.3% per annum over the last decade as wages determined in the market have risen more strongly. As a result, the NMW has fallen when compared with the median fulltime wage (from 57.5% in 2005 to 53.4% in 2015), leaving minimum wage-earners and their families at risk of falling behind the living standards of the rest of the community.

Minimum wage levels affect poverty and inequality in at least three ways:

- through their direct effect on the disposable incomes of low paid workers and their families;
- through their indirect effect on the adequacy of social security payments;
- through their effect on employment.

Minimum wage rates, along with the tax-transfer system, have a direct impact on poverty. The ACOSS/SPRC report, 'Poverty in Australia 2016' found that, based on the OECD-preferred measure of poverty (50% of median income), there were 2.99 million people living below the poverty line in 2013-14, of whom 32% came from households where wages were the main source of income.[6]

The minimum wage also impacts poverty indirectly through its relationship with the social security system. It is appropriate that a gap is maintained between social security payments and the minimum wage in order to ensure there is an adequate reward for paid work. There is also a clear need for social security payments (already set at levels well below the poverty line) to increase, to enable people without paid work to live with dignity. If the minimum wage were to fall significantly

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[4] Available at: http://www.fairwork.gov.au/how-we-will-help/templates-and-guides/fact-sheets/minimum-workplace-entitlements/minimum-wages
[5] Fair Work Commission (2016) *Minimum Wages*. Available: http://www.fairwork.gov.au/ArticleDocuments/723/Minimum-wages.pdf.aspx
[6] ACOSS/SPRC (2016) *Poverty in Australia 2016* Available: http://www.acoss.org.au/wp-content/uploads/2016/10/Poverty-in-Australia-2016.pdf

in real terms, the gap between it and social security payments would narrow. This would reduce the scope for an increase in social security payments without significantly undervaluing the financial reward appropriate for paid work.

Social security payments such as Family Tax Benefits also supplement paid work, raising the disposable incomes of low-paid households. However, in recent years governments have reduced many of these payments (cutting $12 billion from Family Tax Benefits alone between 2009 and 2016), leaving families with low incomes more reliant on wage increases.

There is no automatic relationship between minimum wage levels and overall employment and unemployment levels. From 1997 to 2016, real minimum wages rose by 12% while employment rose by 36%. The Productivity Commission concluded in a 2015 Report that empirical evidence does not lead to a definitive conclusion about any effect of changes in Australia's minimum wages on employment levels or hours worked.[7] In any event, with 23% of wage earners directly affected by award wages, increases in minimum wages have a limited impact on wage cost inflation.

There is scope to significantly increase minimum wages without impacting employment growth, and a need to do so to reduce poverty and the gap between the NMW and median earnings. While the latter has been stable since the GFC and the minimum wage 'freeze' in 2009, this is mainly due to very weak growth in wages.

In brief, we recommend that:

- FWA increase real minimum wages substantially in order to significantly reduce the gap between them and median pay levels.
- Decisions on the level of minimum wages be informed by regular comparisons of the living standards of minimum wage-earning households with benchmark indicators of a 'decent basic living standard' for a single adult, together with the wages needed (along with relevant social security payments) to ensure that low-paid families with children are free from poverty.

More detailed evidence and recommendations follow.

[7] Productivity Commission (2015) *Workplace Relations Framework, Productivity Commission Inquiry Report Volume 1*, page 201

Recent economic trends

Minimum wages increased above consumer price inflation over the past year, but it is unlikely that minimum wage-earning families renting privately have seen their overall living standards improve.

Comparing the last minimum wage increase of 2.4% with inflation and community-wide wage increases over the previous year (from December 2015 – December 2016) the Consumer Price Index (CPI) rose by 1.5% and the Wage Price Index rose by 1.9%. Thus, the minimum wage was above CPI inflation (by 0.9%) and slightly above the growth of the Wage Price Index (by 0.5%).[8] The Living Cost Index (LCI) for employees rose by 1.0% during the same period.

Recent economic trends suggest there is scope for a significant increase in the minimum wage in the context of weak wages growth, low inflation, and signs of renewed growth in productivity.

The Reserve Bank (RBA) forecasts that GDP will grow by 2.5-3.5% in 2017, that underlying inflation will be 1.5-2.5%, and unemployment will remain at 5-6% at the end of the calendar year.[9] Multi-factor productivity growth picked up after 2013 and has since grown at 0.5-0.9% per annum.[10] The subdued labour market is likely to continue to exert downward pressure on wages and inflation.

Living standards

ACOSS takes a long term view of minimum wage fixation and the needs of people living on low incomes. The substantial reduction in the relative value of minimum wages over the last two decades down to at 53.4% of fulltime median weekly earnings in 2015 has significant and worrying social consequences.

While minimum wages cannot target poverty as precisely as social security payments, they are mainly paid to the bottom 50% of people of working age. A recent report on the distribution of minimum wages among employee households by the Commission found that 44% of minimum wage earners were in the lowest three

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[8] Australian Bureau of Statistics (2016): *Wage Price Index, september 2016, Cat. No. 6345.0* Available: http://www.abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/024E14E28EFD5450CA2580CE0012F48F?opendocument

[9] Reserve Bank of Australia (2015): *Economic Outlook, September 2015* Available: http://www.rba.gov.au/publications/smp/2015/nov/06-economic-outlook.html

[10] Australian Bureau of Statistics: *Australian system of national accounts, Cat. No 5204.*

deciles of household income for households where at least one member was employed.[11]

Research published by ACOSS and the Social Policy Research Centre found that in 2014, almost one third of people living in poverty were in households where wages were the main source of income:

- Using the OECD-preferred 50% of median disposable income poverty line, a total of 959,800 people in households for which wages were the main source of income lived in poverty in 2014. This comprises 32% of all people in poverty.[12]
- Using the European Union-preferred poverty line of 60% of median disposable, a total of 1,048,900 people in households for which wages were the main source of income lived in poverty. This comprises 34% of all people in poverty.
- Households living below these poverty lines mainly comprised families with children (53% of households living below the 50% poverty line and 50% of those below the 60% poverty line).[13]

A hypothetical comparison by the Commission of disposable incomes for families receiving the NMW with the 60% of median income poverty line in September 2016 found that couples with or without children had disposable incomes below that poverty line, unless they also received Newstart Allowance [14]. Those with children were living close to the 60% poverty line.

The Commission's research indicates that in 2015, 31% of low-paid employee households, twice the share of all employee households (16%), experienced financial stress.[15]

One likely reason for this is the rising cost of housing, which is a major part of the budgets of low paid households. From the March quarter 2002 to December quarter 2016, home prices rose by 66.6% in nominal terms and rents increased by 64.2%, compared with increases of 44.5% in the CPI and 62.5% in wages.[16] In December 2016, the median rent for a two bedroom flat in Sydney was $530 per week and that for a one bedroom flat in Melbourne was $340 per week in December 2016.[17]

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[11] Jiminez and Rozenbes (2017), *Award reliant wokers in the household income distribution.* Fair Work Commission.

[12] ACOSS 2016, *Op.Cit.*

[13] *ibid*

[14] Fair Work Commission (2017), *Statistical report – annual wage review.*

[15] *ibid*

[16] Australian Bureau of Statistics (2017) *Consumer Price Index, Australia, Dec 2016, Cat no 6401.0* and *Wage Price Index, Australia, Dec 2016, Cat no. 6345.0*

[17] Housing NSW (2017) *Rent and Sales Report No 118.* Available: http://www.housing.nsw.gov.au/__data/assets/pdf_file/0010/408826/R-and-S-Report-No-118.pdf; Department of

Relationship between minimum wages and the social security system

The social security system impacts the living standards of minimum wage-earning households through 'in-work' payments such as Family Tax Benefit. At the same time, minimum wages impact on social security payments for people of working age by 'making room' for those payments to be set at adequate levels while maintaining reasonable rewards for paid work.

Since 'child endowment' was introduced in the 1940s, family payments have supplemented minimum wages to help with the costs of raising children and reduce child poverty. In recent years, this social compact between workers, employers and governments has begun to break down.

When account is taken of income tax and social security payments, the Commission estimates that the nominal disposable income of hypothetical families receiving the NMW and no other private income rose by between 1.4-2.2% in 2015-16 (depending on family type), while the CPI rose by 1.0%.[18] Significantly, the increases were generally lower for families with children. A likely reason for this is reductions in the real value of Family Tax Benefits.

From 2009 to 2016, Budget cuts totalling $12 billion have been made to payments for families with low incomes, including:

- The removal of indexation of Family Tax Benefit (Part A) for low-income families to wage movements in 2009, reducing the maximum payment for a school-age child by at least $20 per week;
- The 'freezing' of the income test 'free areas' for Family Tax Benefit from 2009 to 2020;
- The transfer of 80,000 sole parent families from Parenting Payment Single to the lower Newstart Allowance in 2013, reducing payments for a sole parent with school-age children by at least $60 a week;
- The abolition of the 'Schoolkids Bonus' ($4.30 to $8.60 per child per week) for primary and secondary school-age children in 2016.

Human Services Victoria (2017) *Rental Report, December Quarter 2016* Available: http://www.dhs.vic.gov.au/__data/assets/pdf_file/0007/984085/DHHS-Rental-Report-December-quarter-2016.pdf

[18] Fair Work Commission (2017), *Op.Cit.*

Last week, legislation was passed to:

- 'Freeze' the maximum rate of Family Tax Benefit (Part A) for low-income families in nominal terms from 2017 to 2019.
- 'Freeze' the income test 'free areas' for Parenting Payment and Newstart Allowance for three years from 2017.

The experience of the last seven years indicates that Governments cannot be consistently relied upon to supplement low pay for families with children, leaving them vulnerable to poverty in the absence of substantial increases in the NMW.

Minimum wages also impact on poverty indirectly, though their influence on social security settings. There is a consistent long term relationship between minimum wages and unemployment benefits. Between 1994 and 2013, unemployment benefits for a single adult have been between 40-45% of the value of a fulltime minimum wage, before tax. Currently it sits at 40% of the minimum wage.[19] The constancy of this relationship is not surprising given official concerns about the effect of income support payments on work incentives. This historical link between minimum wages and social security payments helps explain why higher minimum wages are associated in international comparisons with lower levels of child poverty, even though only a minority of poor households in most OECD countries benefit directly from minimum wages.

Minimum wages also play an important role in reducing the gender pay gap, which is caused by a combination of unequal sharing of caring roles, the over-representation of women in relatively low paid caring occupations (including in the community services sector), and discrimination against women in hiring and promotions. In 2014, the gap between adult hourly ordinary time earnings among men and women averaged $7 per week, or 16.9% of the average male rate.[20] Minimum wage increases from 1995 to 2005 were estimated to reduce the gender pay gap by 1.2 percentage points.[21]

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[19] Department of Human Services (2015) *A Guide to Australian Government Payments* and *History of National Increases*, available: http://workplaceinfo.com.au/payroll/wages-and-salaries/history-of-national-increase
[20] Fair Work Commission (2017), *Statistical report – annual wage review.*
[21] Austen et al (2008), *Gender pay differentials in low paid employment, Women in social and economic research*, commissioned by the Australian Fair Pay Commission.

Employment

The relationship between minimum wages and employment is much debated. In theory, increases in minimum wages could reduce employment in two ways: by contributing to wage inflation and thus lifting the minimum sustainable rate of unemployment (referred to by economists as the NAIRU, the non-accelerating inflation rate of unemployment), or by discouraging employers from engaging low skilled workers. The very large and rapid increases in award rates of pay in the early 1970s may have contributed to the rise in unemployment over that decade and, conversely, aggregate wage restraint may have contributed to the lowering of unemployment over the 1980s.

However, since the mid-1990s, modest real increases in minimum wages appear to have had little or no impact on employment or unemployment levels. From 2008-2016, real minimum wages rose by 2.3% while employment rose by 12%. This may be due to changes in the operation of the Australian labour market between these two periods, including a declining role for regulated wages in wage fixation and adjustments to working hours. The latter changes include 'compression' of working hours into shorter part time hours, and a more worrying trend towards contingent (including casual) employment. Since the Global Financial Crisis in 2008, unemployment has increased, but this has been a result of external factors which reduced the pace of economic growth.

As the peak organisation in the non-government community services sector, ACOSS has a particular interest in employment issues in community services. The community sector's capacity to provide quality services depends on the availability of suitably skilled employees, many of whom rely on the award system for their wages.

In 2016, 440,000 employees (28.8% of all employees) in health care and social assistance were award-reliant, making this one of four major industries with a high share of award-reliant workers; the others being retail; accommodation and food services; and administrative and support services.[22]

The vast majority of employees in the community services sector (82%) are women. The undervaluation of their work, together with the erosion of real minimum wages over time and a succession of flat rate minimum wage increases, has depressed their rates of pay despite the highly skilled nature of much of their work. Substantial pay increases are needed over time to improve the quality of community services by

[22] Fair Work Commission (2017) *Op. Cit.*

helping avert shortages of skilled workers. ACOSS therefore welcomed the Commission's 2012 decision to increase minimum rates of pay for employees in our sector over the coming years. The Councils of Social Service (COSS) network has been advocating to ensure that funding keeps pace with those increases and services are not trimmed back. While these increases are being phased in, the Equal Remuneration Order rates will be increased in line with national minimum wage rises.

Recommendations

We recommend that the NMW be increased consistently and substantially to reduce the gap between the NMW and the median wage. While we do not recommend specific increases in minimum wages, the rest of our recommendations focus on how the needs of people on low pay can best be assessed, and the respective roles of wages and social security in sustaining a decent standard of living. Our starting point is that the NMW should be designed to at least provide a decent living standard, well above poverty levels, for a single adult; and that the tax-transfer system should meet the basic costs of raising children in a low income family.

The NMW should not be directly designed to cover the costs of children because that role is best performed by the social security system. However, in assessing the living standards of low paid workers and their families, the Commission should take account of changes in social security settings, especially reductions in the value of Family Tax Benefits and other relevant social security payments in recent years. It is vital that the NMW and family payments together are sufficient to prevent a family from falling into poverty. The minimum wage itself should be set well above poverty levels, in keeping with Australian public policy tradition, and the need to maintain a gap between maximum social security payments and minimum wages to maintain rewards for paid work.

We do not propose that minimum wages be tied to a single benchmark of income adequacy such as a poverty line or budget standard. Fair Work Australia needs the flexibility to take account of the other factors including the state of the economy, work incentives and employment. Further, it is unlikely that a consensus would be reached around a single benchmark. Nevertheless, without reference to benchmarks grounded in thorough independent research on living standards, the adequacy of minimum wages cannot be objectively assessed. ACOSS welcomes the Commission's use of updated poverty lines and financial stress indicators and expenditure patterns of low paid workers in the Annual Wage Review Statistical Report.

We recommend that:

- FWA should increase real minimum wages substantially in order to significantly reduce the gap between them and median pay levels.
- Decisions on the level of minimum wages should be informed by 'benchmark' estimates of the cost of attaining a 'decent basic living standard' for a single adult according to contemporary Australian standards.
- The combined effect of the minimum wage and family payments on the extent of poverty among families, including recent significant cuts in family payments, should also be expressly considered in setting minimum wages.
- FWA should continue to commission research and hold consultations with stakeholders to develop and update a robust set of indicators of a minimum adequate living standard for people in low paid work. It should regularly assess the living standards of individuals and households receiving minimum wages against median household disposable incomes, poverty lines, budget standards and deprivation indicators, including financial stress indicators (See Attachment 2).
- Minimum wage rates for young people, apprentices and trainees, and people with disability under the Supported Wage System, should continue to be increased in line with the rise in the NMW. (See Attachment 3)

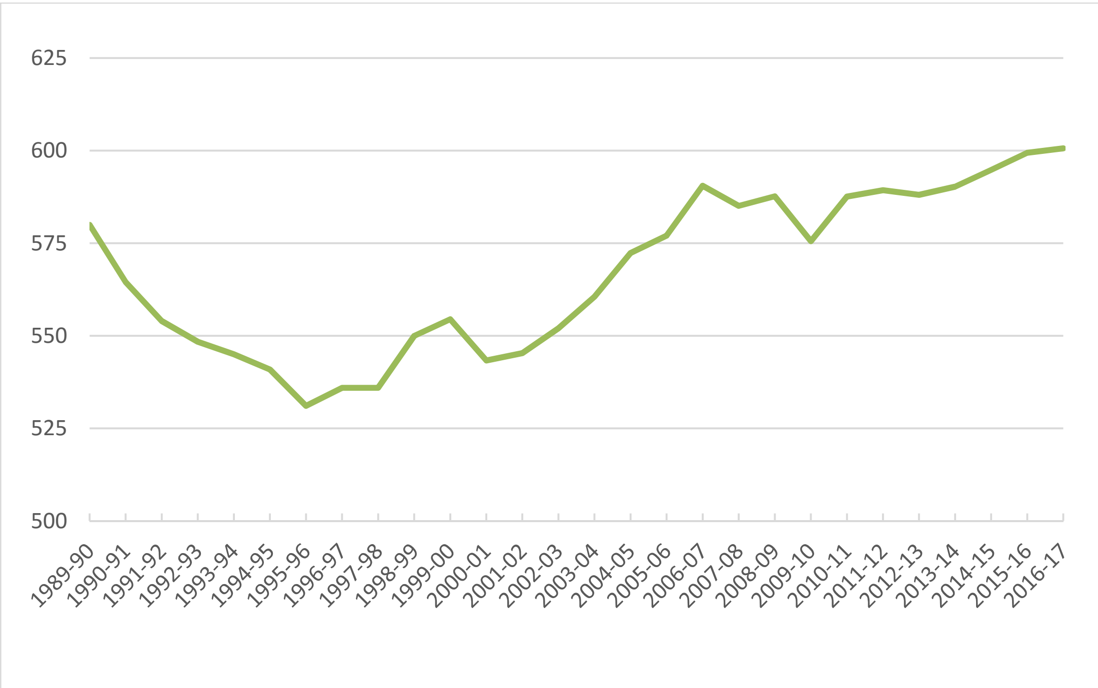
ATTACHMENTS

1 The level and incidence of the national minimum wage

1.1 Current level and trends in national minimum wage over time

The National Minimum Wage (NMW) is currently $17.70 per hour, $672.70 per week, or approximately $34,980 per year.[23] The minimum wage fell in real terms over the 1980s and early 1990s, but rose moderately from the mid-1990s to the mid-2000s. As a result, its real value is only slightly higher now than 25 years ago (see graph below).

Figure 1: Real minimum wage 2017 ($A per week)



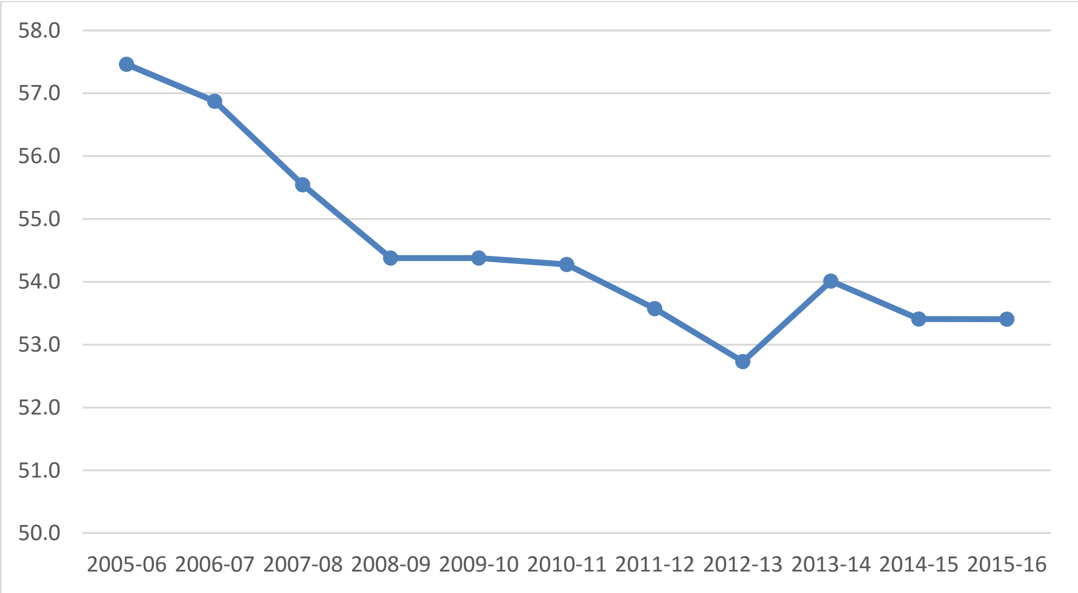
Sources: Dawkins (2000) *The labour market*, in Reserve Bank, The Australian economy in the 1990s; ABS, *Consumer Price Index*; Australian Industrial Relations Commission, *Safety net adjustment decisions;* Australian Fair Pay Commission, *Wage setting decisions;* Fair Work Australia, *Annual wage review decisions*.

Although real minimum wages have grown modestly over the last decade, they have fallen substantially when compared with median (middle) fulltime wage and in 2015 stood at 53.4% of fulltime median weekly earnings (see graph below). This has

[23] Available at: http://www.fairwork.gov.au/pay/national-minimum-wage/pages/default.aspx

contributed to a rise in earnings inequality over this period.[24] The relationship between the NMW and median full time ordinary time wages has been steady for since the GFC, but only because growth in wages generally has been very weak.

Figure 2: Minimum wage as a % of fulltime median earnings



Sources: Australian Industrial Relations Commission, *Safety net adjustment decisions;* Australian Fair Pay Commission, *Wage setting decisions;* Australian Fair Pay Commission, *Statistical report – annual wage review 2016-17.*

Note: Weekly fulltime minimum wages as a proportion of fulltime median wages in main job for all employees.

1.2 Who relies on minimum wages?

Estimates of the number of low paid workers and their profile vary according to how 'low pay' is defined, the data source used, and whether part time employees and young people are included.

[24] Data on earnings and wider income inequality is presented in our 'Inequality Report' at http://acoss.wpengine.com/wp-content/uploads/2015/06/Inequality_in_Australia_FINAL.pdf

(1) The incidence of award reliance

Fair Work Australia estimates that the proportion of employees whose wages were directly determined by awards was 24.5% in 2016.[25]

Previous research commissioned by Fair Work Australia profiled employees earning between 100% and 120% of the NMW, finding that:

- 51% of low paid employees (those earning below, at, or just above minimum wage) were women, compared with 47% of the total workforce;
- 58% of low paid workers were partnered, and approximately half of these had dependent children;
- 5% of those paid below or at the minimum wage were sole parents with dependent child/ren;
- 14% of those paid below or at the minimum wage worked part-time (less than 30 hours a week);
- 11% of those paid below, at or just above minimum wage worked in the health care and social assistance industries;
- The industries which had most employees earning below, at, or just above the minimum wage were accommodation and food services; health care and social assistance; and retail trades.
- Occupations with the most employees earning below, at, or just above the minimum wage were labourers; community and personal service workers; sales workers; and technicians and trade workers. [26]

(2) Award reliance in the community services sector

As the peak organisation in the non-government community services sector, ACOSS has a special interest in employment issues in community services. The community sector's capacity to provide quality services depends on the availability of suitably skilled employees, many of whom rely on the award system for their wages.

In 2016, health and community services had the fourth-highest share of award reliant employees (28.8%) after retail; hospitality and food services; and administrative and support services.[27] A major reason for this is that Government funding contracts often provide no scope for employers to offer above-award rates of

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[25] Fair Work Commission (2017) *Op. Cit.*

[26] Nels, L; Nicholson, P; Wheatley, T 2011, *Employees earning below the federal minimum wage: review of data, characteristics and potential explanatory factors* Minimum Wages and Research Branch, Fair Work Australia

[27] Fair Work Commission (2017): *Op. Cit.*

pay notwithstanding the qualifications and skills required of their employees and labour shortages in the sector.

Previous research commissioned by the Australian Fair Pay Commission found that health and community services was the fourth largest employer of award reliant workers in 2006.[28]

The vast majority of employees in the community services sector (84%) are women.[29] A high proportion of employees in community services work part time, often due to restrictions in funding rather than personal preference. In health and community services overall, 43% of employees were part time in 2008, compared with a national average of 29%. Limitations on paid working hours exacerbate the low hourly rates of pay across the sector.[30]

A study by Colmar Brunton Social Research confirmed that low pay in community services was making it difficult for employers to recruit skilled staff.[31] This problem is likely to worsen if minimum rates of pay in Awards are only adjusted in flat dollar amounts, reducing rewards for skill in the sector.

(3) The household incomes of minimum wage earners

When comparing the household incomes of minimum wage earners with other households for wage-setting purposes, the most appropriate benchmark is the disposable incomes of households with members in the labour force (excluding, for example, retirees).

On this basis, minimum wages are mainly earned by people living in low-income households. The Commission's recently published study of award-reliant workers in the household income distribution found that, in 2015:

- 44% of award-reliant households were in the lowest 30% of the employee household income distribution;

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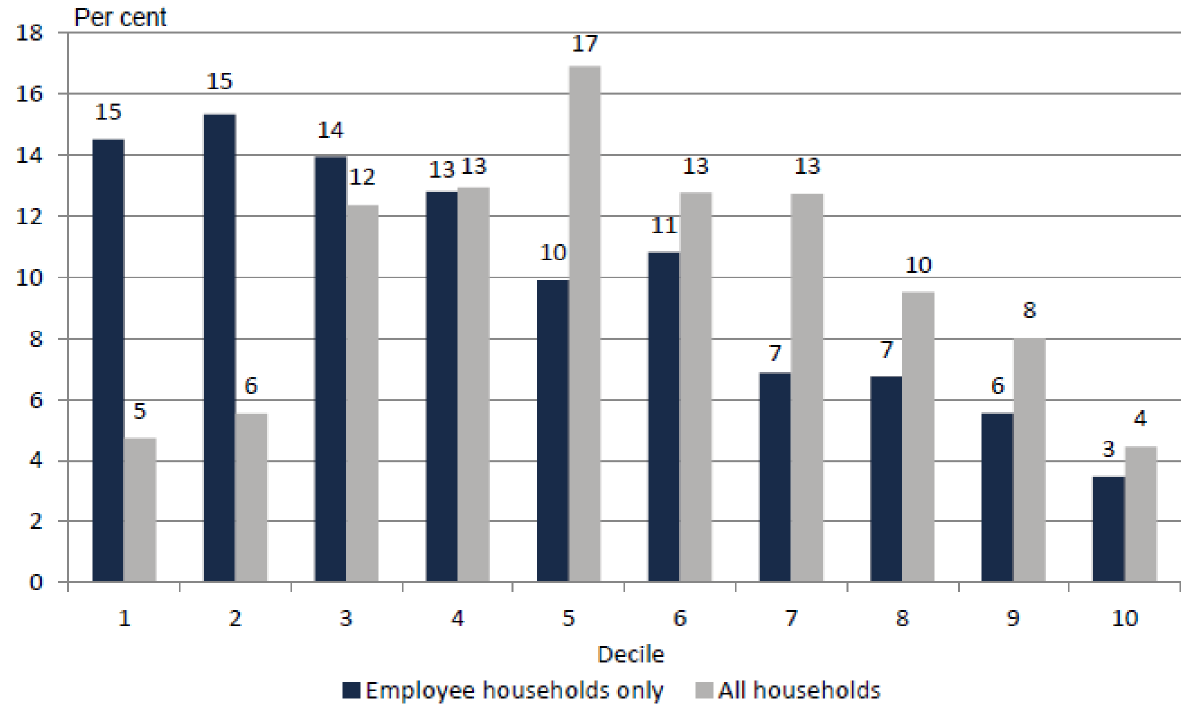
[28] AFPC 2007, *Wage setting decisions and reasons for decisions.* Note that the community services sector described here is a subset of health and community services, excluding core health services.
[29] Australian Bureau of Statistics (2011) *Australian Social Trends, September 2011: Community Service Workers* Available: http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features30Sep+2011
[30] Australian Services Union (2007) *Building social inclusion in Australia: priorities for the social and community services sector workforce.*
[31] Colmar Brunton Social Research 2008, *Health and community services industry profile*, commissioned by the AFPC.

- 67% were in the lower half of that distribution [32].

Figure 3: Distribution of award reliance across household income for all households and employee households[33]



Source: HILDA Survey, wave 15.

These findings are consistent with those of Healy and Richardson's 2006 study of minimum wage earners. Within the income distribution of households with employee income, those with a member earning the minimum wage or below in 2004 were located near the bottom, with 40% located in the bottom quintile (20%). Just under 30% of households with workers on wages just above the minimum wage were also found in the bottom quintile.

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32 Jiminez and Rozenbes (2017), *Award reliant workers in the household income distribution.* Fair Work Commission.
33 *Ibid*

2 Minimum wages and living standards

2.1 Possible minimum wage benchmarks

An adequate 'safety net' for low paid employees and their families requires an objective assessment of their basic income needs. Ideally, this should be informed by a set of 'basic income' benchmarks. This does not mean that minimum wages should target a single benchmark, since other factors (including employment impacts) must be considered. It is also unlikely that a consensus will be forged over a single benchmark. Instead, a set of basic income benchmarks should be used as a guide in assessing the adequacy of minimum wages.

There are three issues to resolve in setting benchmarks for the adequacy of incomes.

The first issue is the *type of family to be used as the 'benchmark' family*. ACOSS considers that for the purpose of fixing minimum wages, the basic income needs of a single adult living alone is the appropriate reference point since:

- it is not feasible for wages to take account of the size of an employee's family;
- for this and other reasons, Australia developed a national system of child endowment (now Family Tax Benefit) to meet the minimum costs of raising children in low income families;
- also, it is generally accepted today that women are income earners in their own right rather than dependents of their partners. This is reflected in the 'equal pay' decision of the AIRC in the early 1970s, and in the payment of income support separately to men and women in married couples (though the income of the partner is taken into account).

The second issue is the *level of living standard* that a person should be able to attain on a full time minimum wage. For many years, Australia has set minimum wages well above poverty levels. This reflects:

- a strong consensus in the community that minimum wages should be sufficient for people to live in dignity, not well below the living standards of the rest of the community;
- a pragmatic judgement that, if wages were set around poverty levels, work incentives for jobless social security recipients would be weakened.[34]

[34] This assumes that these payments should be sufficient to keep their recipients out of poverty.

ACOSS believes that minimum wages should be sufficient for a single adult to achieve a 'decent' basic living standard, well clear of poverty levels, in accordance with community expectations. This living standard would lie somewhere between a 'poverty' standard of living and that of the median full time wage earner. It is likely to rise over time along with standards in the community generally.

The third issue is *how to measure this living standard*. There are three main approaches to setting 'basic income' benchmarks:

1. The 'budget standards' approach in which experts draft standardised household budgets encompassing the minimum expenditure requirements for different types of families.
2. Direct measurement of the living standards of households on low incomes, on the basis of access to a set of essential goods and services. This requires a degree of consensus over what comprises essential goods and services in Australia today.
3. Poverty lines - income levels below which it is considered that households face a high risk of failing to achieve a 'basic' minimum living standard. These may be expressed as a proportion of overall average or median household income, or they may be set with reference to the other two methods above.

2.2 Budget standards

Budget Standards were adopted by the first Australian industrial commission in developing the 'Harvester standard' or 'basic wage' early last century. They were used in a landmark 1996 study by the Social Policy Research Centre (SPRC), commissioned by the former Department of Social Security, to assist in the assessment of the adequacy of social security payments.[35] The method adopted was to draft budgets for different types of household based on a lists of goods and services approved by a panel of experts. In the SPRC study there were two Budget Standards – a 'low cost' standard which is a poverty standard, and a 'modest but adequate' standard which is a basic or modest standard of living set above poverty levels. These budgets were then costed using information supplied by retailers and other sources.

The main advantages of this approach are its transparency (the budgets and the items comprising them are readily understood) and adaptability (the budgets can

[35] See SPRC (1997) *Indicative budget standards for Australia.* Dept of Social Security.

easily be changed in the event of disagreement over any item). The main problems include reliance on the judgement of experts as to which items should be included, and the need to update them from time to time to reflect changes in what constitutes a 'basic' living standard. As this has not been done since these Budget Standards were developed in 1996, they would now be out of line with (that is, below) current community expectations of a decent living standard.

The Budget Standards have been updated since 1996 using the CPI, but this does not capture real increases in community living standards.[36] For this reason ACOSS, together with Catholic Social Services Australia and United Voice, is partnering with the SPRC to update their 1996 budget standards to reflect changes in what constitutes a 'basic' living standard.

The 1996 Budget Standards, updated to 2015, and a commonly used poverty line for single adults and a family of four are compared in the table below. As indicated previously, we consider that a living standard benchmark for minimum wages should be set at well above poverty levels, so the Modest But Adequate standard is more appropriate for this purpose than the Low Cost standard (which should be used to assess the adequacy of income support payments). The Budgets for households participating in the paid workforce are more appropriate than those for non-participants (for example mature age households). When indexed forward to December 2014 using the CPI, the Modest but Adequate Budget Standard for a single adult in a working household was $626 per week. The relevant Modest But Adequate budget standard for a single-income couple with two children was $1,201.[37] By comparison, the federal minimum wage was approximately $581 per week after tax and transfers for a single adult without children, and $1,072 per week after tax and transfers for a single-income couple with two children.[38]

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[36] Updating is a problem with all three methods described above. A further technical problem with the SPRC Budget Standards is that they do not take account of wide variations in housing costs across Australia. This could be addressed fairly easily by using a median national estimate for rents, or by developing different budget standards for different housing markets.

[37] Saunders 2003, *Updated budget standards estimates.* Social Policy Research Centre, updated by ACOSS using the CPI. The Budget Standards are a measure of expenditure, so they are equivalent to disposable (after tax) income rather than the gross wage. It might be argued that these Budget Standards are inflated by the use of Sydney rents as the benchmark for housing costs. On the other hand, since they are a decade old, the Budget Standards need updating to take account of changes in living standards since 1996 when they were set.

[38] Fair Work Commission (2017) *Op Cit*

Table 1: Budget Standards and Poverty Lines (2014)

	Single adult	Single-income couple, 2 children (5-12)
'Modest but adequate' income thresholds ($ per week, after tax)		
'Modest but Adequate' Budget Standards	$626	$1,201
Minimum wage (after tax and transfers) as a % of 'Modest but Adequate' Budget Standards	93%	89%
Poverty thresholds ($ per week, after tax)		
'Low Cost' Budget Standards	$490	$981
Minimum wage (after tax and transfers) as a % of 'Low Cost' Budget Standards	119%	109%
Poverty line (60% of median income)	$520	$1,092
Minimum wage (after tax and transfers) as a % of Poverty line (60% of median income)	119%	111%

Sources: Saunders 2003, *Updated budget standards estimates*. Social Policy Research Centre, The MBA Budget Standards for September 2003 were $452.30 for a single female and $867.90 for a couple with 2 children. These estimates were updated using the CPI, as recommended in that report.
Fair Work Australia (2017), *Statistical Report, Annual Wage Review* 2016-17, table 8.5. Note that the 'modified OECD equivalence scale' was used to calculate these poverty lines. In single income couples, one partner receives Newstart or Parenting Payment.

2.3 Research on poverty in Australia

Although poverty lines do not tell the whole story of deprivation, they are a widely accepted benchmark for measuring disadvantage. While the risk of income poverty (living below a poverty line) is low for full time minimum wage earners in Australia today, a much higher proportion of income-poor families includes at least one wage earner. The reason for this is that wage earning households outnumber those out of paid work.

The main poverty lines commonly used in Australia are based on 50% or 60% of median household incomes or the 'Henderson Poverty Lines' updated by the Melbourne Institute.

In 2016 ACOSS and the SPRC published an updated report on Poverty in Australia[39]. The data source is the Australian Bureau of Statistics (ABS) Income and Expenditure surveys for 2013-14 and previous years.

This report analyses the risk and profile of poverty amongst a range of household types using the international standard benchmarks of 50% and 60% of median income. It differs from the OECD methodology (and poverty estimates published by the Commission) by taking into account people's housing costs as well as their incomes. This is significant because people who have low housing costs (such as those who own their homes outright) are able to achieve a higher standard of living on the same income than those with higher housing costs (for example, tenants and mortgagers).

In the report, housing costs (rent, mortgage payments and rates) are deducted from income before calculating the median income on which the poverty lines are based (reducing the poverty lines) and each household's housing costs are then deducted from their income (reducing household incomes). In this way, the research compares different households' ability to meet their basic living costs apart from housing[40]. The report also includes updated data on 'deprivation based' measures of financial hardship[41].

This study found that in 2013-14:

- When a poverty line of 50% of median disposable income was used (a relatively low poverty benchmark used by the OECD), a total of 959,800 people in households for which wages were the main source of income, comprising 32% of all people in poverty, lived below this poverty line.
- When the higher poverty line of 60% of median disposable income (used in European Union countries) was used, a total of 1,560,800 people in households for which wages were the main source of income, comprising 34% of all people in poverty, lived below this poverty line.

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[39] ACOSS/SPRC 2016 *Op.Cit*,

[40] Note that estimates of numbers of poverty in this report are adjusted for the exclusion of the self-employed and people with zero or negative income.

[41] Part 14 of the new report. See also ACOSS (2012) *Who is missing out: Material deprivation and income support payments*, ACOSS Paper 187

- Households living below these poverty lines mainly comprised families with children (52.5% of households living below the 50% poverty line and 49.5% of those below the 60% poverty line).[42]

Table 2: People living below poverty lines in 2013-14

	Profile of poverty (%)		Proportion of different groups living in poverty (%)	
By main income source[43]	50% of median income (%)	60% of median income (%)	50% of median income	60% of median income
Wages	32.1	34.4	6.0	9.7
Social security payment	57.3	57.3	36.1	54.7
Other	10.6	8.3	18.4	21.9
All people	100	100	13.3	20.1
By labour force status[44]				
Employed (full time)	20.8	23.2	4.7	7.9
Employed (part time)	13.8	14.2	15.5	24.1
Unemployed	9.7	7.5	63.2	73.6
Not in labour force (retired)	16.0	21.2	14.4	28.8
Not in labour force (other)	39.6	34.0	43.9	57.1
All people	100	100	13.3	20.1

Source: ACOSS/SPRC (2016) *Op.Cit.*

[42] ACOSS/SPRC 2016, *Op.Cit.*
[43] Of the household in which people live.
[44] Refers to household reference person.

Profile of poverty (number in poverty)		
By main income source	50% of median income (%)	60% of median income (%)
Wages	959,800	1,560,800
Social security payment	1,714,100	2,596,400
Other	316,400	377,500
All people	2,990,300	4,534,700
By labour force status	50% of median income (%)	60% of median income (%)
Employed (full time)	622,700	1,051,100
Employed (part time)	412,900	643,100
Unemployed	291,000	338,700
Not in labour force (retired)	497,700	961,300
Not in labour force (other)	1,184,000	1,540,500
All people	2,990,300	4,534,700

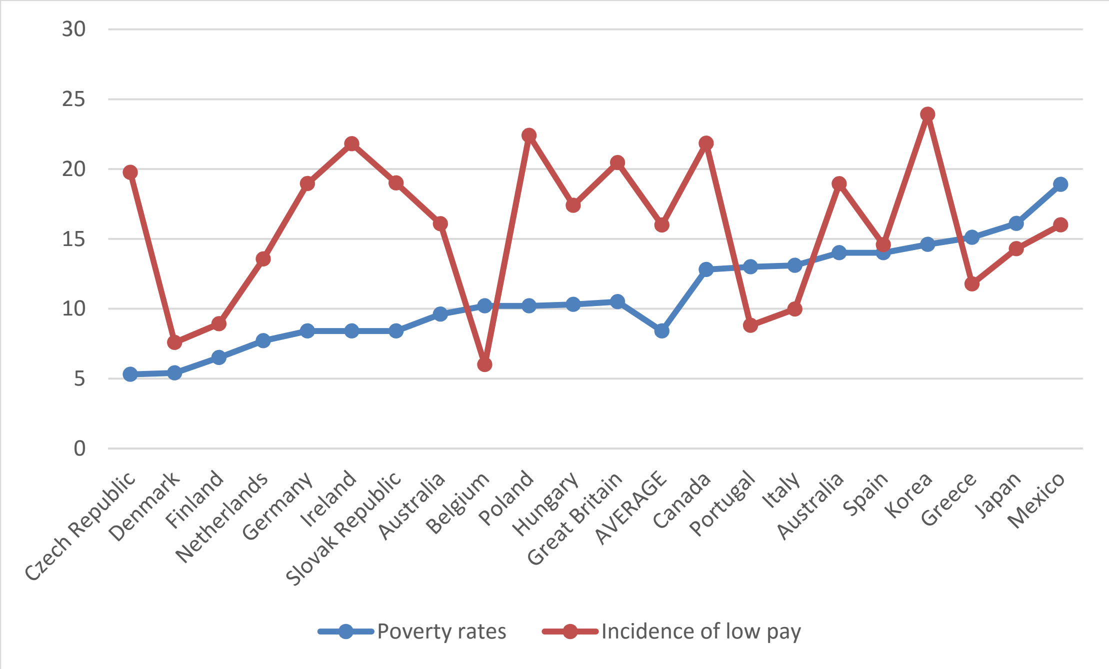
Source: ACOSS (2016) *Op.Cit.*

2.4 International comparisons

International evidence suggests that there is a link between levels of low pay and income poverty across nations. Broadly speaking, the greater the incidence of low pay (typically defined as employees earning less than two thirds of the median wage) the greater the incidence of income poverty (typically defined as income below a fixed percentage of median disposable household income).

As discussed above, it is not inevitable that the two indicators will be linked in this way, since low pay is a measure of individual income and income poverty is a measure of household income. The graph below uses data from the OECD statistical database to chart the relationship between income poverty across the whole population and the incidence of low pay.

Figure 4: Low pay and poverty (2012)



Source: OECD 2017, http://data.oecd.org/inequality/poverty-rate.htm and https://data.oecd.org/earnwage/wage-levels.htm

Note: "Low pay" refers to the % of full-time workers on wages less than 2/3 of the median wage. "Poverty" refers to the % of all people living on less than half median equivalent household disposable income.

2.5 The living standards of low paid families

Income poverty is only an indicative measure of family living standards, since families may have different expenditure needs (for example, health care) and different assets at their disposal (for example, owning a home). Nevertheless, with some exceptions, income poverty data adjusted for housing costs provides a reasonable indicator of the risk of financial hardship.[45]

An alternative approach is to measure living standards directly. A number of 'deprivation' studies have been conducted by the SPRC in collaboration with ACOSS and other agencies. National surveys were conducted to asks respondents what they considered to be 'essentials', whether or not they had them, and whether or not they lacked them due to lack of resources. These studies were not specifically designed

[45] ACOSS 2003, *The bare necessities*. The main exceptions are low income self employed people and low income retirees with substantial assets.

to assess the levels of deprivation among households with people in paid work, though the method could be adapted to that purpose.[46]

One deprivation study by Masterman-Smith et al using focus groups of low wage earners sheds more light on the lived experience of low paid workers. This study indicated that families reliant on low pay must budget very carefully to avoid financial hardship, foregoing things most Australians take for granted such as dental care, annual holidays, a car, eating out with friends, and buying a home.[47]

2.6 Financial stress indicators

A further source of data on the living standards of Australian households is financial stress indicators such as those found in the Melbourne Institute's HILDA survey and ABS Household Expenditure Surveys.

The Commission's research, based on HILDA data, indicates that in 2015, 31.2% of low-paid employee households experienced financial stress, compared with 15.8% of all employee households.[48]

As might be expected, these data indicate that lower incomes generally, and low pay specifically, are associated with higher levels of financial stress including, for example, not being able to raise $2,000 in an emergency, not being able to heat one's home, and not being able to pay bills on time.[49]

The results are consistent with a previous Melbourne Institute study which found that in 2011, 33% of low paid employees experienced financial stress compared with 17% of all employees. In that study, 17% of low paid employees experienced moderate to high financial stress compared to 5% of all employees.[50] However the authors cautioned that these are not reliable enough to be used as the single overall measure of living standards.

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[46] Saunders & Naidoo 2007, *Towards new indicators of disadvantage*, Social Policy Research Centre.
[47] Masterman-Smith, May, & Pocock (2006) *Living Low Paid: Some Experiences of Australian Childcare Workers and Cleaners.*
[48] Fair Work Commission (2017), *Statistical report – annual wage review.* Low paid' refers to households in the bottom quintile of the distribution of employee households.
[49] One problem with financial stress indicators is that different respondents to surveys have different perceptions of the meaning of the questions used: Hahn & Wilkins (2008(*A multidimensional approach to investigation of the living standards of the low paid*. Melbourne Institute. Data cited are for individuals reporting two or more financial stress indicators.
[50] Melbourne Institute, *Household Income and Labour Dynamics in Australia Survey*, *various,* cited in Fair Work Australia, *Statistical Report—Annual Wage Review 2012–13*

2.7 Housing costs

Another key source of data on the living standards of low paid households is housing costs, since housing is the largest fixed component of most family budgets.

Estimates of the affordability of housing have been prepared using 'housing stress' indicators. These measure the proportion of households in the bottom 40% of the household income distribution who spend more than 30% of their disposable income on housing (rents or mortgages).

Rowley and Ong (2012) found that 16% of all households experienced housing stress in 2010. Of these households 27% were in the bottom income decile and 20% in the bottom quintile.[51]

Over the long-term, housing costs have risen faster than consumer prices generally, and also wages. From the March quarter 2002 to December quarter 2016, home prices rose by 66.6% in nominal terms and rents increased by 64.2%, compared with increases of 44.5% in the CPI and 62.5% in wages.[52]

Housing costs have a major impact on the budgets of people on low incomes in our major capital cities. For example:

- the median rent for a one bedroom flat in Sydney was $530 per week in December 2016;
- the median rent for a one bedroom flat in Melbourne was $340 per week in December 2016.[53]

When these rent levels are compared with the NMW (after tax), it is clear that a single adult minimum wage-earner living alone would have great difficulty renting in Sydney or Melbourne. Commonwealth Rent Assistance is generally not available to low fulltime wage-earning households without children.

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[51] Rowley, S and Ong R (2012), *Housing affordability, housing stress and household wellbeing in Australia. AHURI Final Report 192.* Australian Housing and Urban Research Institute.
[52] Australian Bureau of Statistics (2017) *Consumer Price Index, Australia, Dec 2016, Cat no 6401.0* and *Wage Price Index, Australia, Dec 2016, Cat no. 6345.0*
[53] Housing NSW (2017) *Rent and Sales Report No 118.* Available: http://www.housing.nsw.gov.au/__data/assets/pdf_file/0010/408826/R-and-S-Report-No-118.pdf; Department of Human Services Victoria (2017) *Rental Report, December Quarter 2016* Available: http://www.dhs.vic.gov.au/__data/assets/pdf_file/0007/984085/DHHS-Rental-Report-December-quarter-2016.pdf

3 Minimum wages, income support and work incentives

The living standards of people on low incomes rest on three pillars: jobs, minimum wage levels, and income support payments. All three play a vital role in preventing poverty, and it is counter-productive to focus on one to the exclusion of others.

In the absence of adequate minimum wages:

- Poverty would rise substantially unless government income support for households with people in paid employment was increased to 'picked up the slack'. However, the US experience suggests that this would be expensive for Governments and ineffective in keeping poverty levels low.
- There would be pressure to reduce income support for households with unemployed members to maintain work incentives.

Arguments that minimum wages are too blunt an instrument to reduce poverty ignore these dynamic relationships between jobs, minimum wages, and income support – which help explain why countries with very low minimum wages generally have higher overall income poverty levels.

3.1 The current income support system for low paid households

The Australian income support system has three main components:

1. Income support payments for adults in households on low incomes;
2. Family Tax Benefits for children, targeted mainly towards low income families; and
3. Supplementary benefits such as Rent Assistance payments and pensioner concession cards.

Of these, only *Family Tax Benefits* have traditionally been designed to supplement low full time wages. These payments were increased in the mid-1990s, in the 2000 tax reform package, but since the 2009 they have been reduced and income tests have been tightened, as detailed in the summary. Although *income support payments* and supplements for adults do extend to low wage-earning households under some circumstances, most of these recipients are part time employees. Few full time employees receive them because Newstart and Youth Allowance payments are designed to exclude full time wage-earners, and few full time employees receive the more liberally income-tested 'pension' payments such as Disability Support Pension. However, Newstart Allowance and Parenting Payment have been paid to the unemployed partners of low paid full time employees since 1996.

3.2 The limits of income support

The role of the income support system in sustaining living standards is ultimately limited by its cost, and by official concerns about so-called 'welfare dependency'.

The 2009 Federal Budget removed the indexation of Family Tax Benefit Part A to wages, so that from now on family payments for low paid workers will only increase along with price movements, unless the Government otherwise decides.[54] This is a fundamental shift in Australian social policy, overturning the Hawke Government's commitment to reduce child poverty by progressively increasing family payments. Unless this and subsequent reductions in the maximum rates of Family Tax Benefits are overturned, it is unlikely that Family Tax Benefits will help 'pick up the slack' for low paid families in the event that minimum wages are inadequate to meet the costs of children.

'In-work benefits' can become costly for governments if minimum wages fall in real terms and the benefits of public support of low pay are captured by employers. This has been the long-term outcome in the United States. As real minimum wages fell through lack of appropriate indexation, the cost of the Earned Income Tax Credit (EITC) has risen. In 2013 the US Government spent $62 billion per year on the EITC, much more than it spent on traditional social assistance programs such as the Temporary Assistance for Needy Families program for jobless and low paid families.[55] Despite this, the marginal impact of increases in the EITC on poverty among low paid working families was small.[56]

Another concern about the use of income-tested 'in-work payments' such as these to bolster low wages for working families is that they reduce rewards for paid work in the income ranges over which the payment is phased out (see section below on work incentives). These income tests usually have the greatest impact on incentives for 'second earners' within families (mainly women), since they are based on family income rather than personal income. Depending on the design of the income test, another possible consequence is to discourage upward job mobility among low paid employees, effectively trapping them in low paid jobs.[57]

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[54] Federal Budget Papers 2009-10. ACOSS 2009, *Reform of family payments*.
[55] Government Audit Office (2015), 'Federal low-income programs' at http://www.gao.gov/assets/680/671779.pdf
[56] A $100 increase in the EITC was estimated to reduce the risk of poverty in low paid working families by just 0.94 percentage points. Ault Bucknor (2014), *Poverty and the earned income tax credit*, The Public Purpose, Vol 12 No 1.
[57] Gregg 2000, *The use of wage floors as policy tools*. OECD Economic Studies No 31.

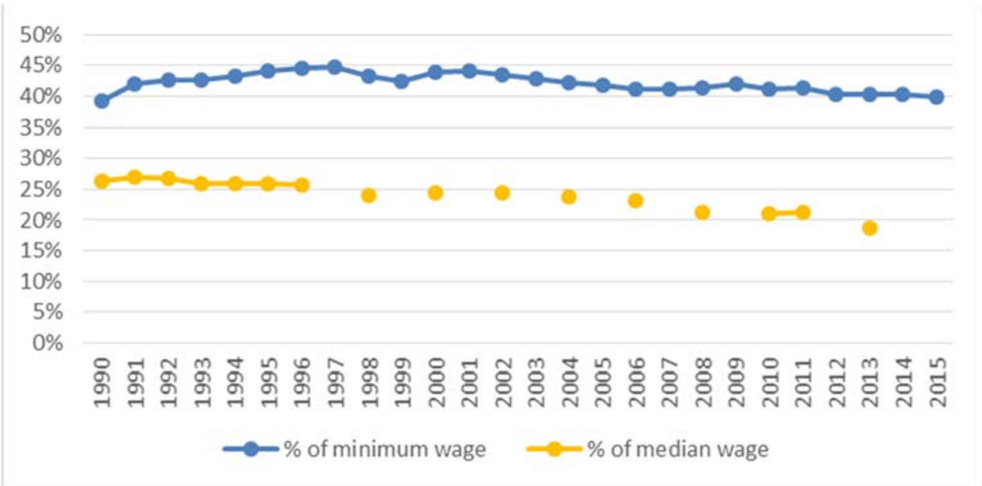
For these reasons, a robust minimum wage is needed, in addition to adequate public income support, to protect low-paid families from poverty.

3.3 Effects of minimum wages on income support payments

In Australia, income support payments have traditionally been set at levels well below minimum full time wages in order to preserve rewards for paid work.

The relationship between minimum wages and unemployment benefits for single adults has been remarkably stable over the past 25 years. The graph below compares before-tax minimum wages with Newstart Allowance for jobless adults. Newstart Allowances were indexed to the Consumer Price Index only for most of this period.

Figure 5: Single adult rate of Newstart Allowance as a % of minimum and median wages, before tax



Sources: Fair Work Australia, ABS Employee Earnings and Hours series.

Note: Newstart Allowance only (not including Rent Assistance), tax is not taken into account.

When income tax is taken into account, the ratio of disposable income while unemployed to that on a full time minimum wage is slightly higher. In 2016, that ratio was 40% for single adults.[58]

The stable relationship between unemployment payments and the minimum wage has implications for social security policy. The adequacy of income support for

[58] ACOSS (2012) *Surviving not living: Submission to Senate Employment Committee on the adequacy of 'allowance' payments*, ACOSS Paper 192. P50. ACOSS calculations

unemployed people has sharply declined over the long term. The last real increase in Allowances such as Youth Allowance and the Newstart Allowance was in 1994. As a result, the adequacy of Allowances (compared with rising living standards) has been severely eroded over the last two decades. Consequently, 52% of people on the Youth Allowance, and 55% of people on Newstart are already living below the poverty line.[59] Importantly, the gap between income support for people who are unemployed and the minimum wage could narrow to some extent without undermining financial incentives to move from unemployment to a fulltime job on the minimum wage. However, if minimum wages were to fall significantly in real terms the gap would narrow because unemployment payments are only indexed to the CPI.[60]

A point would then be reached where Governments are likely to adjust income support to preserve work incentives, by either:

- introducing or expanding 'in work payments', such as Family Tax Benefit or an Earned Income Tax Credit; and/or
- reducing income support payments for people who are unemployed.

A more direct link exists between wages and *pension* rates (including age pensions, disability support pensions, and parenting payment single). The single pension rate is benchmarked in Social Security legislation to 27% of male total average weekly earnings.

3.4 Income tests and rewards for paid work for low paid employees

The Australian social security system generally targets income support to families on low incomes, using income tests. One problem with these income tests is that they reduce rewards for paid work.

This has two implications for minimum wages:

1. If minimum wages are too low, the combined effect of low pay and income tests could discourage people who are unemployed from working.
2. If they are increased, part of the increase could be 'clawed back' by the income tests, reducing families' social security entitlements.

There are three types of social security income tests (see table below):

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[59] ACOSS/SPRC (2016) *Op.Cit.*
[60] Pech 2011, Relative living standards and needs of low paid employees, Fair Work Australia

- those for Allowances such as Newstart Allowance (unemployment benefits):
  – these are designed to exclude low paid full time employees from payment so they are very stringent,
- those for Pensions such as Parenting Payment Single:
  – these are designed to encourage recipients to work part time, so they are less severe than the 'Allowance' income test,
- those for Family Tax Benefit:
  – these are designed to support low paid families as well as jobless families, so they generally don't take effect until a family earns above a single minimum fulltime wage (but they do affect 'second earners' in low and middle income families).

Table 3: Social security income tests, March 2017

	Newstart Allowance (single) ($pw or %)	Pensions (single) ($pw or %)	Family Tax Benefit (2 chn. under 13) ($pw or %)
Free area	$52	$82	$998
First taper rate	50%	50%	20%
2nd threshold	$127	n.a.	$1,814*
Second taper rate	60%	n.a.	30%
Cut out point	$518	$970	$2,009

Sources: Department of Human Services (2017): *A guide to Australian Government payments, 20 March – 30 June 2017*. Available: https://www.humanservices.gov.au/sites/default/files/2017/03/co029-1703.pdf
* at this level, only a small 'minimum' payment is available.

When the effect of these income tests is combined with income tax and other income tested programs (such as Child Care Benefit and public housing rental subsidies), they give rise to high 'effective marginal tax rates' (EMTRs). These are more likely to influence decisions to take up low paid part time work or to increase part time working hours, rather than decisions to than to undertake full time work. For example, the table below compares disposable incomes in 2010 for an individual on income support payments when jobless and employed part time for 15 or 20 hours a week at the minimum wage.

Table 4: Disposable incomes for jobless people undertaking part time employment (2010)

Gross earnings	No work (0)	15 hours a week (214.65)	20 hours a week (286.20)
DSP	335.95	478.78	514.55
Newstart	228.00	335.62	355.35
Newstart PCW(a)	231.00	338.62	358.35

(a) Partial work capacity greater than 15 hours a week

Source: *Australia's Future Tax System review* (2010), Report to the Treasurer, Part 2, p508.

Disincentives to undertake part time employment are particularly acute for Newstart Allowance (NSA) recipients. In the example above, a single adult on NSA would have gained only $108 per week ($7.20 per hour) from working 15 hours a week on the minimum wage. This does not take account of any of the additional costs of working such as transport and clothing.

The worst work disincentives in our social security system are those affecting:

- people who are seeking employment on Allowance payments working part time;
- second earners (usually mothers) in low and middle income families working part time.

Disincentives to work part time are of particular concern, given that 30% of Australian jobs, and half of all low skilled jobs, are part time.

Encouraging more people to join the paid workforce, especially mothers, older people, and income support recipients will be crucial in the coming years as the supply of labour dwindles due to population ageing. By improving the rewards for paid work for many of these people – especially those considering part time low-paid jobs, adequate minimum wages can make a vital contribution to economic growth and efficiency.

3.5 Entry level and 'regional' wages

Australia has a separate set of (lower) minimum wages for young people, apprentices and trainees, and some people with disabilities (under the Supported Wage Scheme). Some have also called for special sub-minimum wages in regions with high unemployment. The rationale for lower minimum wages for certain groups varies, but is generally twofold:

- to recognise working time spent in training towards a widely recognised qualification,
- to improve the employment prospects of people who may otherwise struggle to find employment due to inexperience or (perceived) low productivity.

Apart from 'training wages', as a general principle lower minimum wages should only be paid to specific groups in the workforce in exceptional circumstances. If sub-minimum wages become too widespread, there is also a risk that the minimum wage itself will be undermined, or that the groups targeted for sub-minimum wages will displace other workers.

3.6 Young people

Young people are generally paid less than adult minimum wages, and as recent experience shows they fare relatively poorly in economic downturns because employers often close their books to new hires.

Almost a decade after the economic down-turn in 2008, young people are still disproportionately affected. In February 2017, the youth unemployment rate was 14% compared with 9% a decade earlier, while the underemployment rate was 17% compared with 12% in 2007.[61] In 2014, of all people aged 15 to 24 years, 19% were not in education employment of training (NEET) compared with 16% in 2007.[62]

The main structural barriers to employment for these young people appear to be:

- poor performance at school, often linked to social disadvantage;
- the lack of comprehensive school to work programs that link 'inactive' young people who fared poorly at school with mentoring, career planning, job search, and training assistance;

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[61] Brotherhood of St Laurence (2017), *Generation stalled.*
[62] Foundation for Young Australians http://unlimitedpotential.fya.org.au/downloads/

- the long term decline in traditional apprenticeships, which previously provided a pathway for many young men to secure employment;
- Cultural norms and family responsibilities that delay the entry of many young women to further education or the workforce.

Although employment for young people is generally more sensitive to wage levels than for adults, there is no convincing evidence to indicate that the present minimum wage levels for young people have reduced their employment prospects relative to workers in other age groups.

3.7 Apprentices and trainees

Apprenticeships have historically provided a reliable point of entry into the workforce for young people in blue collar occupations, and increasingly do so for people in other age groups and in service sector jobs. Employers who train apprentices receive subsidies from governments, and from their employees in the form of lower rates of pay. In return, they are expected to invest in the employee's training, release them from work for any off the job courses and guarantee them employment on completion of the apprenticeship. In principle, this is a fair bargain that benefits all.

However, there are problems with the apprenticeship system. 'Traditional' apprenticeships have declined over the long term, at a greater rate than the decline in employment in the manual trades. Completion rates are low. The result is severe shortages of tradespeople during economic booms.

The reasons for this decline in traditional apprenticeships appear to include:

- a clash between the expectations of the present cohort of young people and the traditional 'master and apprentice' culture in many trades;
- low levels of pay that are not clearly linked to skills training;
- their unnecessarily long duration;
- a 'free rider' problem among many private sector employers, who poach new tradespeople from other employers, and therefore fail to invest in training themselves. This is related to the long term decline in apprenticeships in the public sector.

Although in the past concerns were expressed that wages for apprentices were pricing many out of the labour market, in these circumstances an increase in their wages may be part of the solution to these problems.

Compared with young people, adult apprentices are paid much closer to standard wage rates for their classification. There is no evidence to suggest that this has discouraged employers from engaging them.

There is a case, however, to target lower training wages to adults who are disadvantaged job seekers on income support when they participate in structured training programs. In this way, sub-minimum wages for adults can be targeted towards those who are seeking employment who are least likely to have the opportunity to participate in structured training if they were paid normal wages. Structured training can substantially improve the job prospects of people who have been unemployed long-term because it combines experience in employment with the upgrading of their skills. The former *Jobskills* program for long term unemployed people, for example, achieved good employment outcomes.[63] Trainee wage rates for programs of this kind are set by the Commission.

There is no justification or need to extend sub-minimum wages to disadvantaged job seekers generally (that is, regardless of whether they are engaged in structured training). Given the large number of income support recipients, this could undermine the minimum wage system. A fairer way to encourage employers to engage income support recipients is to extend the temporary wage subsidy schemes already in place for disadvantaged jobseekers working in low skilled jobs at 'normal' wages. Their main purpose is to give disadvantaged jobseekers already capable of performing low skilled work a foot in the door which would otherwise be denied them, for example due to the long duration of their unemployment. Recent government budget decisions to expand these schemes are welcome.

Unlike a general reduction in minimum wages for less productive jobless workers, programs such as this enable the Government to target wage subsidies carefully to those who are most likely to benefit, to withdraw them when they are no longer needed, and to minimise displacement and substitution.

3.8 People with disabilities

Only 48% of people with disabilities were employed in 2012, compared with 78% of those without disabilities.[64] It would be misleading to suggest that this is simply due to 'lower productivity' among workers with disabilities. Many people with disabilities who are unemployed would be highly productive in their occupation if the workplace

[63] See Stromback et al 1998, *Labour market programs and labour market outcomes*, Melbourne Institute Working Paper 14/98.
[64] ABS 2013, *Disability ageing and carers, 2012.*

were organised to facilitate this. For example, a person with tertiary qualification with paraplegia may be highly productive in a professional job, if the workplace is modified appropriately. If the person has a visual impairment, they may be highly productive with the assistance of information technology.

To ease barriers to employment of some people with disabilities who have much lower productivity levels than the general community (such as some people with developmental disabilities) Australia has a *Supported Wage Scheme*. Under this scheme, employees with severe disabilities who are assessed as having a much lower level of productivity than the general community may be paid at lower hourly rates. The scheme is currently small-scale.

To the extent that the productivity of people with disabilities is substantially lower than that of other employees, and this cannot be redressed by changes in the workplace, a system of sub-minimum wages can improve their employment prospects in 'mainstream' jobs. The keys to a fair and effective system of sub-minimum wages for workers with disabilities are a transparent and consistent system of productivity assessment that incorporates a requirement to change the workplace and work practices to improve productivity as far as possible prior to the assessment of individual worker productivity. Recent court decisions confirmed that some of the existing instruments used for this purpose were unreliable, and that people with disability employed in 'business services' were being underpaid. They should be reviewed and standardised as far as possible, rather than leaving it to individual enterprises to develop and use their own instruments.

More broadly speaking, we have two concerns with the present system of rates of pay for people with disabilities:

- The system is too complex. For example, there is no need to adopt a separate system of minimum wage regulation for people whose disabilities do *not* affect their productivity, is the case presently (even though for practical purposes this is the same as the NMW).
- The minimum rate of pay for people with disabilities whose productivity is affected by a disability is far too low. This is set at the income test free area for the Disability Support Pension.

Both of these features of the present system are out of step with modern thinking about disability – the first because people with disabilities should as far as possible be treated the same as other workers for wage fixing purposes, and the second because it reinforces the outdated notion that wages for some people with disabilities are merely supplements to their main income, which is the pension.

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