



ACOSS Submission | March 2010

Australian
Council of
Social Service

Submission to Fair Work Australia on minimum wages

March 2010

This submission was prepared by ACOSS Senior Policy Officer Peter Davidson in consultation with CEO Clare Martin and ACOSS's Employment and Social Security policy advisers.

Locked Bag 4777
Strawberry Hills, NSW, 2012 Australia
Ph 02 9310 4844 Fax 02 9310 4822
Email: info@acoss.org.au
Website: www.acoss.org.au

Contents

Summary and Recommendations	1
Recommendations	3
1. Fair Work Australia’s minimum wage objective.....	5
2. The federal minimum wage and low paid employees in Australia and overseas.....	6
(1) The incidence of low pay.....	7
(3) Low pay in the community services sector	8
(4) The household incomes of minimum wage earners.....	9
3. Trends in income inequality in Australia and overseas	12
4. Minimum wages and living standards	16
(1) Budget standards.....	17
(2) Research on poverty in Australia	18
(3) International comparisons	20
(4) The living standards of low paid families	22
(5) Financial stress indicators.....	23
(6) Housing costs	23
1. Employment, working hours and skills	28
2. Long term unemployment	30
6. Minimum wages, income support and work incentives	34
(1) Single adults without children	35
(2) Couples and Families	36
7. Entry level and ‘regional’ wages.....	42
References.....	47

Summary and Recommendations

ACOSS welcomes this opportunity to make our first submission on minimum wages to Fair Work Australia. As the peak national organisation of the community sector and advocate for low income and disadvantaged Australians, ACOSS has a long standing interest in minimum wages. We have regularly made submissions on this issue to the former Australian Industrial Relations Commission and Australian Fair Pay Commission.

ACOSS is an interested party with expertise in poverty, employment policy and income support policy, rather than an advocate for union or employer positions. We have not advocated any specific wage increase in the past, and do not do so in this submission.

The last minimum wage increase awarded by the Fair Pay Commission was a rise of \$21.66 per week in October 2008, bringing the federal minimum wage up to \$543.78. The Commission declined to increase minimum wages in its 2009 minimum wage setting decision. Thus, low paid workers have not received an increase in minimum wages for the last 17 months. Over the first 15 months of that period, to December 2009, the Consumer Price Index rose cumulatively by 1.8% while average weekly ordinary time earnings for fulltime employees rose by 5.6% between November 2008 and November 2009.

As described by the former Commission, that decision was made in 'challenging times for the Australian labour market'.¹ At the tail end of the Global Financial Crisis (GFC), when the decision was published, the unemployment rate was expected to continue to rise to a peak of 8.5%. The Commission declined to increase minimum wages because it feared that this would exacerbate the expected rise in unemployment, especially among low skilled workers. Another key consideration cited in the decision was the Economic Stimulus Payments awarded to most households in late 2008 and early 2009 by the Australian Government. It argued that these enabled the safety net to be maintained without the risk of increasing unemployment.

Two things have changed since that decision was published in July 2009. First, labour market indicators are much more benign than most people had expected. The unemployment rate is currently 5.3% and trending downwards. Second, the economic stimulus payments were a 'one off event' that is very unlikely to be repeated in the foreseeable future. The Government's fiscal policy barometer has switched from expansion to consolidation. For example, the Treasurer has indicated that the Government's commitment to restrict expenditure growth to 2% per year will take effect from this year's Federal Budget. Following the already legislated tax cuts effective from 1 July 2010, Australian households are unlikely in our view to receive large tax cuts for some years to come. The era of annual tax cuts has, of necessity, drawn to a close. The Government's decision in last year's Budget to remove the indexation of Family Tax Benefits for low income families to wage levels (rather than only prices) also removed a key prop underpinning the living standards of low income families.

This shifts the responsibility for sustaining the 'relative living standards and the needs of the low paid' back to minimum wages, in an economic environment where substantial increases are less likely to risk higher unemployment.

ACOSS takes a long term view of minimum wage fixation and the needs of the low paid. Our main concern with last year's minimum wage 'freeze' was that the resulting decline in real

¹ AFPC 2009, Wage setting decision and reasons for decision, p8.

minimum wage levels and rise in wage inequality (in this case the gap between minimum and median or average wages) could be a permanently embedded in the Australian wages structure unless countered by substantial real increases in minimum wages over the next few years. Although many families benefited from last year's stimulus payments, unlike a minimum wage increase they had no lasting impact on *future* wage levels or disposable incomes. Their direct impact on living standards was temporary. Subject to the effects of 'bracket creep', the tax cuts legislated to take effect from 1 July this year will have a more lasting impact. However, a fulltime minimum wage earner can expect to gain only \$3 per week.

Real minimum wages declined sharply through the 1980s to the mid 1990s, and despite increases from the mid 1990s through to 2008 they remain below their mid 1980s values today. The decline in the relative value of minimum wages compared with median wage levels was more pronounced. For example, from 1996 to 2008 (a period over which the real value of minimum wages increased significantly), the federal minimum wage fell from around 60% to 51% of median fulltime non-managerial earnings.

The main focus of our submission is the effect of minimum wages on poverty and social inclusion in Australia, which can be transmitted in 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 wages cannot target poverty as precisely as social security payments although they are mainly paid to the bottom 50% of working-age households.² Nevertheless, a substantial proportion of poor families include low paid workers. In a study of poverty in Australia, the SPRC found that in 2006:

- When a poverty line of 50% of median disposable income was used (a relatively low poverty benchmark used by the OECD), a total of 396,000 people in wage earning households, comprising 17% 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 829,000 people in wage earning households, comprising 22% of all people in poverty, lived below this poverty line.
- Households living below these poverty lines mainly comprised families with children.³

There is a reasonably consistent long term relationship between minimum wage settings and the value of social security payments for jobless Australians. Since the early 1990s, unemployment benefits for a jobless single adult have been around 60% of the value of a fulltime minimum wage, after tax. The consistency of this relationship is not surprising given official concerns about the effect of income support payments on work incentives. Therefore, the impact of minimum wages on poverty extends well beyond the immediate effect on the living standards of low paid workers and their families. This historical link between minimum wages and social security payments helps explain why higher minimum wages are

² Healy & Richardson 2006, *An updated profile of the minimum wage workforce in Australia*. National Institute of Labour Studies.

³ Australia Fair 2007, *International Comparisons 2007*, [poverty estimates from Social Policy Research Centre, University of NSW].

associated in international comparisons with lower levels of child poverty, even though only a minority of poor families in most OECD countries benefit directly from minimum wages.

The relationship between minimum wages and employment is much debated. In theory, high 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), 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 1997 to 2008, real minimum wages rose by 10% while employment rose by 28%). This may be due in part to changes in the operation of the Australian labour market between these two periods, including greater flexibility in the allocation of working hours and a declining role for the award system in wage fixation. The proportion of employees whose wages are directly determined by awards is now only 17%.

Britain has had a similar experience with real minimum wage increases since a new system of minimum wage fixation was introduced in the late 1990s. Prior to the GFC, modest increases in minimum wages did not prevent employment from growing steadily and British unemployment from falling to low levels by OECD standards.

Another important factor for the Commission to consider is the effect of minimum wages on work incentives. As the population ages Australia will have to rely more on jobless households and 'second earners' in partnered households as sources of labour. Both groups are especially sensitive to financial work incentives, especially incentives to work part time. In recent years, real increases in minimum wages, together with the easing of income tests and income tax reductions, have significantly improved those incentives.

Recommendations

Our key recommendations focus on how the needs of the low paid can best be assessed and the respective roles of the wages and social security systems in sustaining a decent standard of living. It is opportune for a new wage fixing body to review these questions.

Minimum wages together with the social security system play a critical role in combating poverty. They place a floor under the incomes of low income households, both directly (by raising the incomes of low paid working families) and indirectly (by ensuring that social security payments for jobless households can be set at adequate levels without undermining work incentives).

In recent years, improvements in family payments and reductions in income tax have helped boost the disposable incomes of many households with low paid employees. However, it is risky for low paid employees and their families, and costly for governments, to rely exclusively on the tax-transfer system to maintain and improve the real disposable incomes of low paid working households. As indicated above, we do not think it likely that the recent succession of tax cuts and bonus payments to households will continue.

Our starting point is that the Federal Minimum Wage (FMW) 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 FMW should not be directly designed to cover the costs of children because that role is best performed by the social security system. However the FMW together with family payments should be 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 social security payments for jobless households and minimum wages to preserve work incentives.

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 listed in its statutory minimum wage objective 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. For example, even if minimum wage *increases* are based on movements in prices and community living standards, this begs the question of whether the minimum wage was adequate in the first place.

In regard to the minimum wage increase for low paid workers in 2010, we consider that given last year's 'freeze' a substantial real increase in minimum wages is needed now to prevent minimum wages from falling behind increases in the cost of living and median pay levels. Given the changed economic circumstances noted above, we take a different view now to the more cautious approach we adopted last year (which was to recommend that minimum wages should be increased broadly in line with inflation).

ACOSS therefore recommends that:

- 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.
- These benchmarks should be well above poverty levels, for two reasons. Australia has traditionally set wages well above poverty levels so that employees can live in dignity. Also, if social security payments for jobless people are to be set above poverty levels, there is a need to set minimum wages at a higher level than this to preserve work incentives.
- Research should be commissioned to examine a range of possible benchmarks, including the updating and revision of 'Budget Standards' research. Poverty lines, deprivation studies and financial stress indicators are other measures that should be considered.
- The combined effect of the minimum wage and family payments on the extent of poverty among families should also be taken into account in setting minimum wages.
- In its decision this year, FWA should substantially increase real minimum wages in order to quickly restore the decline in their real value due to last year's 'freeze', and to prevent minimum wages from permanently falling further behind median pay levels.
- Minimum wage rates for young people, apprentices and trainees, and people with disabilities under the Supported Wage System, should continue to be increased in line with the rise in the federal minimum wage.

1. Fair Work Australia's minimum wage objective

Section 284 of the Fair Work Act (2009) sets out the minimum wage objective that Fair Work Australia must apply to its annual minimum wage reviews, as follows:

'FWA must establish and maintain a safety net of fair minimum wages, taking into account:

- (a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and
- (b) promoting social inclusion through increased workforce participation; and
- (c) relative living standards and the needs of the low paid; and
- (d) the principle of equal remuneration for work of equal or comparable value; and
- (e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.'

This list is broad.

The 'performance and competitiveness of the national economy' arguably has a much wider meaning than growth in Gross Domestic Product. For example, it is acknowledged in the Australian Treasury's 'Well being framework' and in international economic literature that the extent to which national income is widely or narrowly distributed is an important factor in community well being. The fundamental reason for this is that, in assessing their satisfaction with life, people usually compare their circumstances with others. The distribution of living standards also has a major influence on other, more tangible aspects of community well being - for example, countries with high levels of social inequality are more likely to have higher infant mortality rates.⁴

'Employment growth' encompasses any effect of minimum wages on employment, unemployment and workforce participation (for example, work incentive effects). Given the high risk of poverty and social exclusion among people of working age who lack access to paid employment, this is an important consideration.

'Promoting social inclusion through increased workforce participation' refers to the broadly positive effect on social inclusion of participation in the paid workforce.⁵ However, the impact of minimum wages on social inclusion extends well beyond its effects on workforce participation. An adequate income for disadvantaged and vulnerable people is also crucial since material living standards and 'service exclusion' are important dimensions of social inclusion. Although social exclusion is a broader concept than income poverty, the literature on social inclusion emphasises the links between poverty or resource deprivation, an inability to buy essential goods and services, and social inclusion.⁶

The 'relative living standards and the needs of the low paid' is a key factor of interest to ACOSS, given our goals to reduce poverty and social exclusion in Australia. It is significant that *relative* living standards are emphasised here. The quality of people's living standards can only be properly assessed relative to what the community defines as adequate, which

⁴ Treasury 2004, *Policy advice and Treasury's well being framework*. Paper delivered at ACAS meeting.

⁵ Nelms & Tsingas 2010, *Literature review on social inclusion and its relationship to minimum wages and workforce participation*, Fair Work Australia.

⁶ Hayes et al 2008, *Social inclusion, origins concepts and key themes*, Australian Institute of Family Studies.

depends in turn on typical living standards in the community. This is a key tenet of poverty and deprivation research. Minimum acceptable living standards vary over time and in different countries, and rises along with general improvements in household incomes. Since wages form the majority of household incomes, the level and distribution of wages (including the gap between wages at the bottom and middle of that distribution) has a bearing on the incidence of poverty.

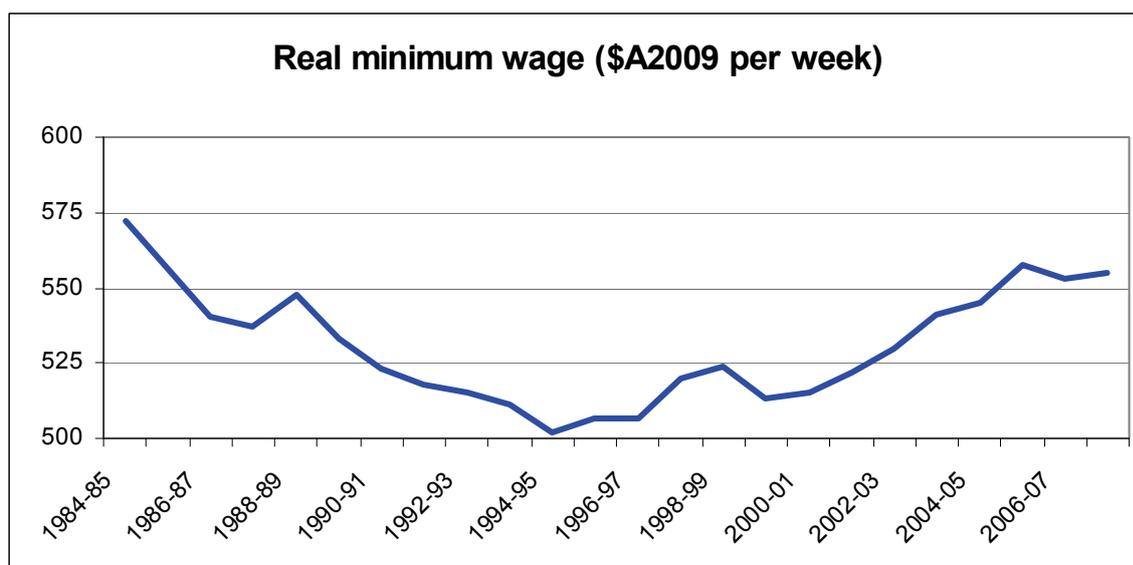
We welcome the inclusion of the ‘principle of equal remuneration for work of equal or comparable value’ among the key factors for Fair Work Australia to consider. On average, women’s wages remain substantially lower than those of men. This is due in part to unequal sharing of caring roles, the over-representation of women in relatively low paid caring occupations including in our own sector, and discrimination against women in hiring and promotions.⁷

2. The federal minimum wage and low paid employees in Australia and overseas

Current level and trends in federal minimum wage over time

The Federal Minimum Wage (FMW) is currently \$14.31 per hour, \$543.78 per week, or approximately \$28,300 per year.

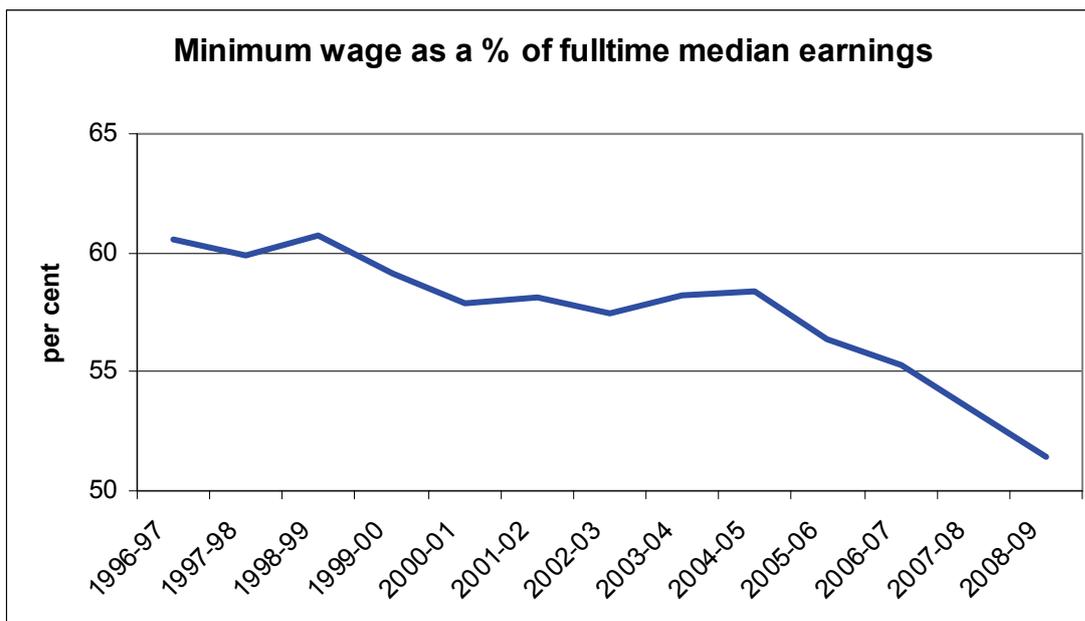
The minimum wage fell in real terms over the 1980s and early 1990s, but rose moderately from the mid 1990s. As a result, its real value is approximately the same now as it was 20 years ago (see graph below).



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*.

⁷ House of Representatives standing committee on employment and workplace relations 2009, *Making it fair*. Commonwealth of Australia

Although real minimum wages have grown modestly over the last decade, they have fallen substantially when compared with median (middle) wages (see graph below). This is consistent with a rise in earnings inequality over this period (see section on ‘inequality’ below).



Sources: Australian Industrial Relations Commission, *Safety net adjustment decisions*; Australian Fair Pay Commission, *Wage setting decisions*; ABS 6302, *Employee earnings & hours*.
 Note: Weekly fulltime minimum wages as a proportion of fulltime median wages for non-managerial employees.

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.

(1) The incidence of low pay

Research undertaken by the National Institute of Labour Studies (NILS) estimated that in 2004 there were around one and a half million adult employees (19% of all adult employees) earning below the hourly FMW or up to \$2 per hour above it. Of this group:

- 9% of adult employees (701,000 employees) earned between the FMW and \$2.20 per hour above it.
- 10% (725,000 employees) earned *less than or equal to* adult minimum wages.⁸

⁸ Healy & Richardson 2006, *Updated profile of the minimum wage workforce in Australia*, Report for Fair Pay Commission, National Institute of Labour Studies,

Using different cut out points, a study by the Melbourne Institute found that a lower number of adult employees received less than or just above minimum hourly wages (up to 811,000 or 11% of adult employees).⁹

Profiling those living on or below minimum wages, the NILS study found that:

- 52% of low paid employees were women compared with 45% of the overall workforce;
- An additional 630,000 young employees under 21 years were paid at or less than the adult minimum wage and an extra 102,000 were paid less than \$2.20 per hour above it. The main reason for this is likely to be the lower junior wage rates;
- Almost 60% of those paid below or just above the minimum were married, of whom about half had dependent children;
- 8% of those paid below or just above the minimum were sole parents;
- 60% of those paid below the minimum and 40% of those paid just above it were employed part time;
- 40% of those paid below the minimum and 34% of those paid just above it worked in five industries – business services, accommodation cafes and restaurants, community services, personal and home goods retailing, and agriculture;
- 40% of those paid below the minimum and 45% of those paid just above it worked in five occupations – intermediate service workers, intermediate clerical workers, elementary sales workers, labourers and related workers, and social arts and miscellaneous professionals;
- 38% of those paid below the minimum and 35% of those paid just above it had less than Year 12 qualifications.

(3) Low pay 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. With approximately 12% of Award reliant employees working in health and community services, the industry ranks as the fourth largest employer of these workers.¹⁰ A major reason for this is that Government funding contracts often provide no scope for employers to offer above-award rates of pay notwithstanding the qualifications and skills required of their employees and labour shortages in the sector.

The vast majority of employees in the community services sector (82%) are women. 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.¹¹

⁹ McGuinness et al 2006, *Characteristics of minimum wage employees*, Australian Fair Pay Commission.

¹⁰ 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.

¹¹ Australian Services Union 2007, *Building social inclusion in Australia: priorities for the social and community services sector workforce*.

Research by ACIL Tasman found that one quarter of employees in health and community services rely exclusively on the Award system for their wages, well above the national average. This is despite the relatively highly skilled character of the workforce, with three quarters having a post school qualification. This reflects the industry's reliance on public funding and the unwillingness of governments to pay above the relevant Award.¹²

This has led to problems in recruiting and retaining skilled staff, a critical issue for an industry with an ageing workforce. In 2001, over 40% of the community sector's workforce was over 44 years of age.¹³ ACOSS conducts a regular survey of the state of non government community services, the 'community sector survey'. In the 2008 survey, 58% of service provider respondents reported difficulty in recruiting qualified staff.¹⁴ Research by Colmar Brunton Social Research confirmed that this is a problem often raised by employers and employees alike.¹⁵ This problem is likely to worsen if Awards continue to be adjusted in flat dollar amounts, reducing rewards for skill in the sector. We understand that the Australian Services Union has recently lodged a major pay equity claim for community sector workers to address these and other concerns.

(4) The household incomes of minimum wage earners

The NILS study of minimum wage earners referred to above examined the placement of households with minimum wage earners within the household income distribution. Since minimum wage earners are competing for jobs or promotions with the rest of the labour force, an appropriate comparison is that between the disposable incomes of minimum wage earning households and other households with members in the labour force (excluding, for example, retirees). Within this income distribution, households with a member earning the minimum wage or below in 2004 were located near the bottom, with 40% of such households 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.

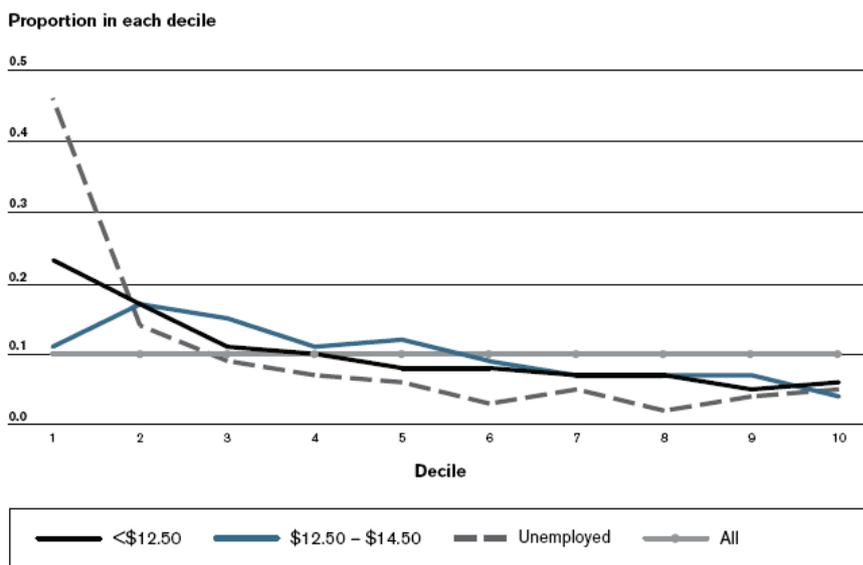
¹² ACIL Tasman 2008, *Health and community services industry profile*, commissioned by the AFPC.

¹³ Australian Services Union 2007, *ibid*.

¹⁴ ACOSS 2007, *Australian Community sector survey*.

¹⁵ Colmar Brunton Social Research 2008, *Health and community services industry profile*, commissioned by the AFPC.

Location of minimum wage earners in the distribution of households with members in the labour force (2004)



Source: Healy & Richardson 2006, op cit. Note: household income was equivalised.

Similarly, Leigh found that minimum wage-earning households were concentrated towards the bottom of the income distribution of households of working age:

- half of all households with workers on less than to just above minimum wages came from households in the bottom 40% of this distribution.¹⁶

This is also consistent with Richardson & Harding’s findings for 1995.¹⁷

International comparisons

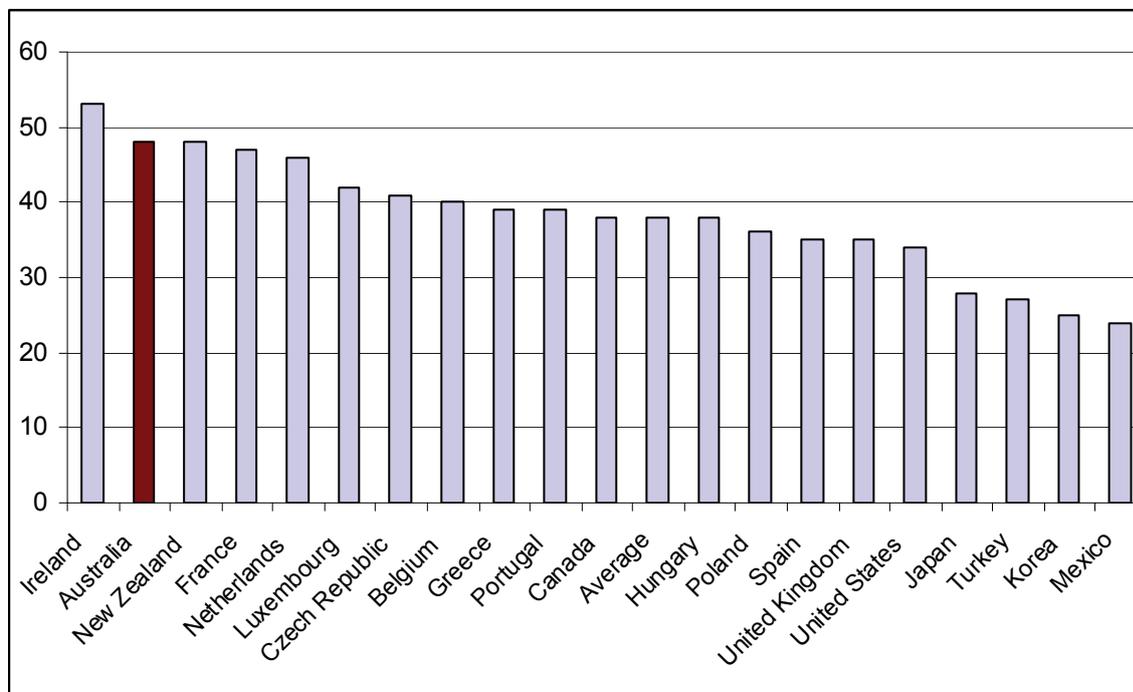
Australian weekly minimum wages are around 48% of average wage rates and 57% of the median weekly fulltime wage.¹⁸ This is higher than most OECD countries, and has been so for many years.

¹⁶ Leigh 2005, *Does the minimum wage help the poor?* ANU Centre for Economic Policy Research Discussion Paper 501. Note that Leigh’s distribution was different to the one in the graph above as it included people of working age outside the labour force.

¹⁷ Healy & Richardson 2006, *An updated profile of the minimum wage workforce in Australia*. National Institute of Labour Studies; Richardson & Harding 1999, op cit.

¹⁸ Average wage estimate is for fulltime production workers from Immervol, op cit. Median wage estimate is for Full time non managerial workers, ABS 6302, Employee earnings & hours 2006.

Minimum wages as a percentage of average production worker's wage (2005)

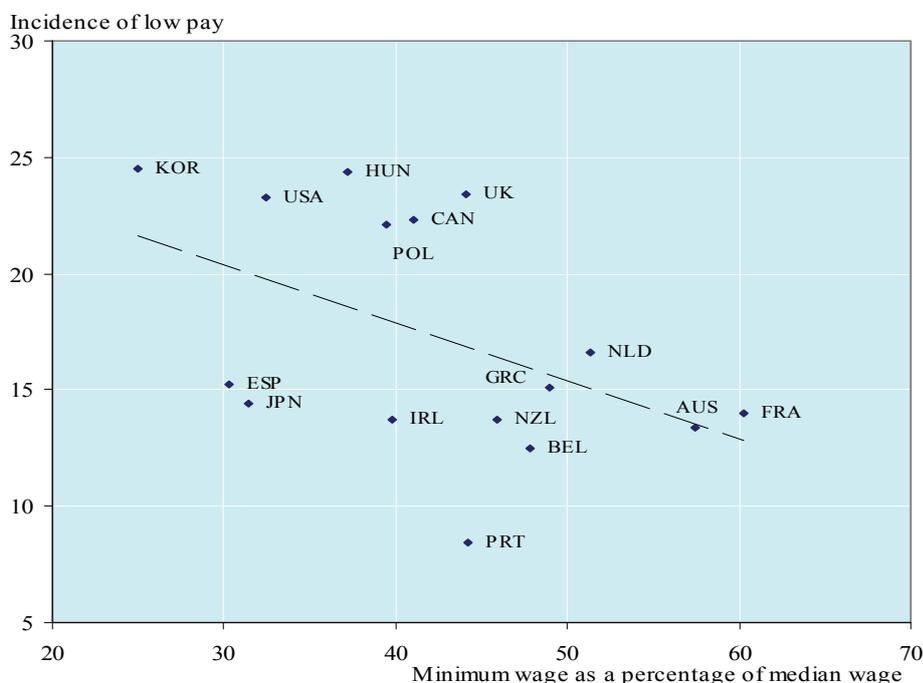


Source: Immervol 2007, *Minimum wages minimum labour costs and the tax treatment of low wage employment*, OECD Social employment and migration working paper No 46.

Despite our relatively high minimum wages, the proportion of Australian employees who are *low paid* (defined in this case as earning less than two thirds of median full time wages) is close to the median of 15 countries recently surveyed by the OECD (for Australia, the estimate is 13-14%, compared with a median level of around 15% - see graph below). One possible explanation for the difference between these two indicators of low pay is that, compared with other wealthy countries, a high proportion of Australian employees earn wages that are *below or just above* the minimum. This interpretation appears to be borne out by research by the Melbourne Institute which found a substantial number of employees on below minimum rates of pay across Australia.¹⁹

¹⁹ McGuinness et al 2006, *Characteristics of minimum wage employees*, Melbourne Institute.

Minimum wages and low pay in the OECD (2000-03)



Source: OECD 2005, Employment Outlook, supplementary data.

Note: Incidence of low pay (% of full time employees on less than 2/3 of median wages) is on the vertical axis; Minimum wage as a % of median wage is on the horizontal axis.

3. Trends in income inequality in Australia and overseas

Trends in earnings inequality

Earnings have become less equal in Australia since the mid 1970s. The graph below shows the disparate growth in real earnings of full time employees among low, middle and high income earners over that period.

From 1975 to 2006, real full time non-managerial earnings increased by:

- 7% for tenth percentile (top of the bottom 10%) of full-time wage earners;
- 22% for the 50th percentile (median) full-time wage earner;
- 38% for the 90th percentile (bottom of the top 10%).

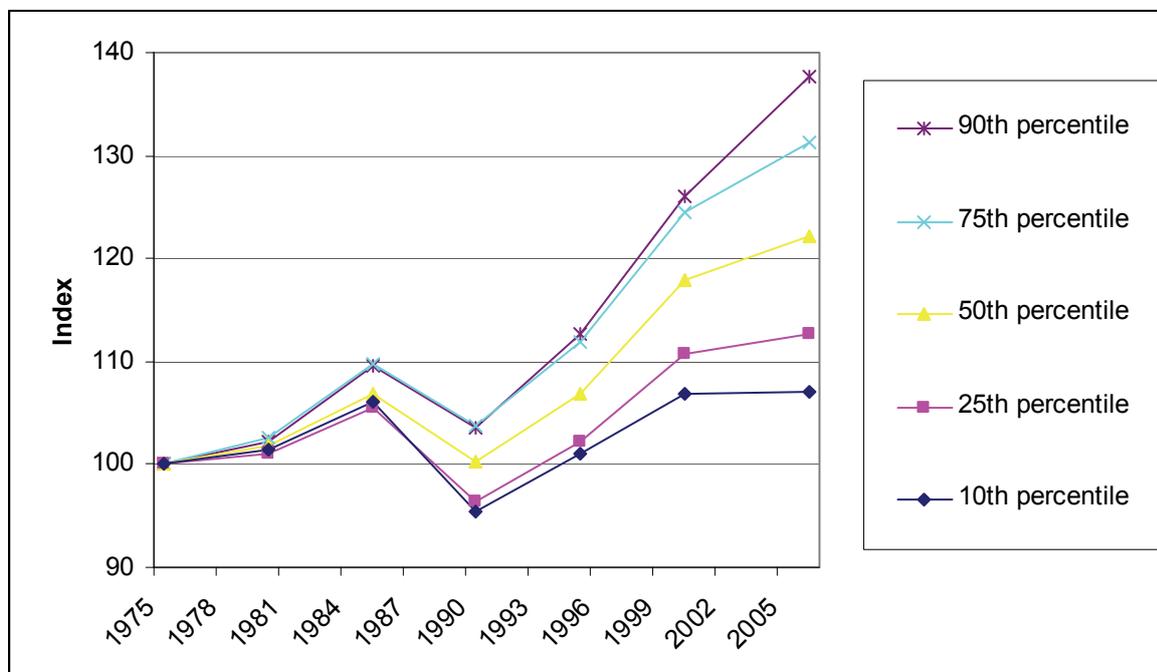
Male full time wages have become relatively more unequal over this period compared to female full time wages.²⁰

This trend towards wider dispersion of earnings continued between 2001 and 2006.²¹

²⁰ Saunders 2005, *Reviewing recent trends in wage income inequality*. Social Policy Research Centre, University of NSW.

²¹ Over that period, the increases at each of the three points in the earnings distribution cited above were zero, 4% and 9% respectively. Source: ABS (6306.0) *Employee Earnings and Hours*, Australia.

Real earnings growth among full time non managerial employees



Source: FACS 2003, *Submission to Senate Inquiry into Poverty*, updated using ABS (6306.0) *Employee Earnings and Hours, Australia*.

Note: There was a break in the relevant ABS data series after 2006.

Wage inequality has a major impact on the overall inequality of income among households. The way in which jobs are distributed across the population (the level of unemployment and joblessness) has a bigger impact than the distribution of wages (wage inequality) on the *current* overall level of household income inequality in Australia. However, when we examine changes in the level of inequality over time, the *increase* in earnings inequality over the past 20 years explains much of the overall *rise* in household inequality over that period.

Earnings inequality between men and women, as measured by gender pay equity ratios, dramatically declined in the 1970s and continued to decline more slowly between 1981 and 2002, but has increased since 2004.²² In 2006, women earned 84% of the average weekly earnings of male employees, compared with 87% in 2004. International research suggests that adequate minimum wages are a key factor in reducing the gender pay gap, since most women are usually located near the bottom of the wage distribution.²³ This is supported by recent research which found that minimum wage adjustments awarded between 1995 and 2005 contributed to a reduction the gender pay gap in Australia over this period by approximately 1.2 percentage points.²⁴

²² URCOT 2005, *Pay equity – how to address the gender pay gap*, Industrial Relations Victoria; ABS, Employee earnings and hours survey.

²³ Blau 2003, *Understanding international differences in the gender wage gap*, Journal of Labor Economics 21:1.

²⁴ Austen et al 2008, *Gender pay differentials in low paid employment*. Women in social and economic research, commissioned by the AFPC.

Causes of greater earnings inequality

There are a number of different theories to explain the rise in earnings inequality in Australia and many other OECD countries:

- Some argue that technological change has biased job creation towards high skilled jobs to the disadvantage of the low skilled.
- Others argue that jobs growth has been stronger both at the bottom and the top of the earnings structure (the 'disappearing middle' theory), reflecting changes in industry structure and the deregulation of wage fixing.
- Others argue that the distribution of hourly wage rates according to different levels of skill has not changed much, but that full time jobs growth has occurred mainly at the high skilled end while most of the extra jobs at the bottom end have been part time.²⁵

These issues are discussed further in the section dealing with minimum wages and employment, below.

Household income inequality

Since the mid 1980s, income inequality among households has increased in Australia, though the rate of increase may have slowed in recent years. This rise in inequality is the result of two forces pushing in opposite directions – substantially greater inequality in market incomes (jobs and wages) and greater effort by Governments to reduce it.

According to the ABS income distribution surveys, between 1994 and 2006, average household disposable incomes have increased in real terms by:

- 31% for low income households in the second two deciles (from the 10th percentile to the 30th)
- 32% for middle income households in the fifth and sixth deciles (from the 40th percentile to the 60th)
- 36% for high income households in the top two deciles (from the 80th percentile to the 100th).²⁶

According to analysis by NATSEM of ABS Household Expenditure Surveys, income inequality had already increased substantially between the mid 1980s and mid 1990s.²⁷

International comparisons

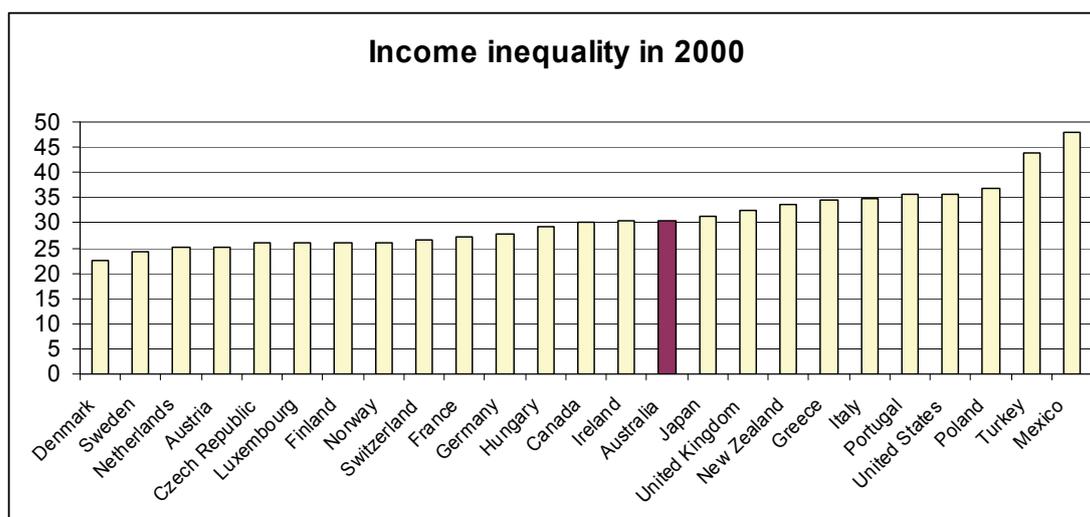
A trend towards higher income inequality is not the inevitable consequence of 'globalisation' or national economic 'reform' in response to it. Over each of the past two decades,

²⁵ Borland & Gregory 2001, *Work Rich, Work Poor*, Victoria University; Gregory 1993, *Aspects of Australian and US living standards*, Economic Record Vol 69; Watson et al 2003, *Fragmented futures*, Federation Press; Keating 2003, *Earnings and inequality*, ANU Centre for Economic Policy Research Discussion paper 460; Frijters & Gregory 2005, *From golden age to golden age – Australia's great leap forward?*; Saunders 2005, *Reviewing recent trends in wage income inequality*; Richardson 2004, *Low wage jobs and pathways to better outcomes*. NILS.

²⁶ ABS *Household income and income distribution survey 2005-06*. See also Saunders 2003, *Examining recent changes in income distribution in Australia*, Social Policy Research Centre. It is not possible to compare incomes directly from these surveys with previous ABS income surveys due to a break in the series in the mid 1990s. Further, changes in the ABS methodology from 2003-04 raised the estimated incomes of many low income households, so that the above estimate of a 31% increase in their incomes from 1994 to 2006 probably overstates the increase in their incomes.

²⁷ Harding & Greenwell 2001, *Trends in income and expenditure inequality in the 1980s and 90s*.

household income inequality has fallen in almost as many OECD countries as it has risen.²⁸ There is also considerable diversity in the level of household income inequality among OECD countries. Generally speaking, the Anglophone countries (including Australia), along with the poorer OECD nations (such as Mexico) have relatively high levels of income inequality. The graph below shows that in 2000 Australia had an overall level of household income inequality slightly above the median (middle) level among OECD countries.



Source: Forster & dErcole, *Income distribution and poverty in OECD countries*, OECD Working Paper. Inequality measure used was gini coefficient. A gini coefficient of 1.0 means that one individual has all the nation's household income, a value of 0 means complete equality of income.

When we examine specifically how household income is shared among high, middle and low income households, we also find a good deal of diversity among wealthy countries.

For example, in the late 1990s, the share of all household income going to the *bottom* 20% of households was:

- Relatively low in Australia, the US and UK at 7.6%, 6.2% and 7.7% respectively, compared with an OECD average of 8.2%.
- Relatively high in Denmark, France and the Netherlands, at 10.2%, 9.1% and 9.2% respectively.

The share of all income going to the *top* 20% of households was:

- Around the middle in Australia, and France, at 36.8%, and 36.7% respectively, compared with an OECD average of 37.2%;
- Relatively high in the US and UK, at 40.8% and 39.4% respectively;
- Relatively low in Denmark and the Netherlands, at 32.7% and 34.2% respectively.²⁹

This evidence suggests that national policies and institutions matter in determining the level of income inequality in each country.

²⁸ OECD 2006, *Employment Outlook*.

²⁹ Forster & dErcole 2005, *Income distribution and poverty in OECD countries*, OECD.

4. Minimum wages and living standards

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 assessment should be informed by a set of 'basic income' benchmarks. This does not mean that minimum wages should be targeted towards 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 called 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 eroded.³⁰

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 the living standard of the median 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:

³⁰ This assumes that these payments should be sufficient to keep their recipients out of poverty.

- The 'budget standards' approach in which experts draft standardised household budgets encompassing the minimum expenditure requirements for different types of families.
- Direct measurement of the living standards of low income households, 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.
- 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.

(1) Budget standards

At this stage, the most robust of these benchmarks for wage fixation purposes appears to be Budget Standards. This was the approach adopted by the first Australian industrial commission in developing the 'Harvester standard' or 'basic wage' early last century. It was also adopted in a 1996 study by the Social Policy Research Centre, commissioned by the former Department of Social Security, to assist in the assessment of the adequacy of social security payments.³¹ 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 its adaptability (the budgets can 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.³²

The Budget Standards for 2006, and two poverty lines for single adults and a family of four are detailed in the table below (we were unable to find estimates for poverty lines post 2006). 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 2009 using the CPI, the Modest but Adequate Budget Standard for a single adult in a working household is higher than in the table below, at \$540 per week. The relevant Modest But Adequate budget standard for a

³¹ See SPRC 1997, *Indicative budget standards for Australia*. Dept of Social Security.

³² 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.

couple with two children was \$1,035 in December 2009. By comparison, the federal minimum wage is approximately \$470 per week after tax for a single adult without children.³³

Budget Standard and Poverty Lines (2006)

	Single adult	Couple, 2 children (5-12)
‘Modest but adequate’ income thresholds (\$ per week, after tax)		
Budget Standards: ‘Modest but adequate’	\$478	\$917
Poverty thresholds (\$ per week, after tax)		
Budget Standards: ‘Low cost’	\$374	\$749
Poverty line (50% of median income)	\$281	\$590
Poverty line (60% of median income)	\$337	\$708

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.

Saunders et al 2007, *Poverty in Australia: Sensitivity Analysis and Recent Trends*. Social Policy Research Centre
 Note: The equivalent wage levels for single adults will usually be higher than these figures (due to income tax) while those for families will usually be lower (due to Family Tax Benefits and other payments).

(2) 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. The available evidence suggests that although 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 jobless households.

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. The latter were developed for the National Inquiry into Poverty commissioned by the Australian Government in 1970. Their development was informed by a survey of the living standards of Melbourne residents. However, the benchmark used for a family of four was the then ‘basic wage’ together with child endowment.

Research conducted by the SPRC for ACOSS used the ABS Household Expenditure Survey for 2005-06 to estimate the numbers of people living below poverty lines set at 50% and 60% of equivalent household disposable income. These are the standard poverty lines used by the OECD and the European Union countries respectively.

³³ 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.

This study (see table below) found that in 2006:

- When a poverty line of 50% of median disposable income is used (a relatively low poverty benchmark used by the OECD), a total of 396,000 people in wage earning households, comprising 17% of all people in poverty, lived below this poverty line. The ‘risk’ of income poverty was 6% for households with one wage earner and 1% for those with two or more wage earners.
- When the higher poverty line of 60% of median disposable income (used in the UK and other European Union countries) is used, a total of 829,000 people in wage earning households, comprising 22% of all people in poverty, lived below this poverty line. The ‘risk’ of income poverty was 15% for households with one wage earner and 4% for those with two or more wage earners.
- Households living below these poverty lines mainly comprised families with children.³⁴

Individuals over 15 years in income poverty in 2005-06

	Risk of poverty (%)		Profile of poverty (%)	
	50% of median poverty line	60% of median poverty line	50% of median poverty line	60% of median poverty line
One wage earner in household	6.9	14.5	17.9	21.5
Two or more wage earners in household	1.9	3.6	8.7	9.5
Jobless household	39.9	65.5	73.4	69.0
All	11.1	19.4	100	100

Source: Social Policy Research Centre 2007, *Poverty in Australia*, report for ACOSS.

The findings are broadly consistent with earlier studies. For example, NATSEM found that in 2001, 4% of people in families with at least one fulltime wage earner and 8% of those in families with at least one part time wage earner were poor, based on the ‘50% of median income’ poverty line. Overall, individuals from wage earning households comprised 27% of all people living below that poverty line.³⁵

More recent research by the Melbourne Institute examined the incidence of poverty and financial stress among low paid employees using a range of measures. This research found that when a 60% of median income poverty line was used, 15% of workers on wages around or below the Federal Minimum Wage lived in poor households, rising to 28% when the line was increased to 75% of median income. The 15% estimate is consistent with the SPRC’s estimate (14.5%) for a single wage-earning household in the table above. Low paid employees in poor households were found to be more likely than non-poor low paid employees to be younger, male, to have a disability or long term illness, to be engaged in

³⁴ Social Policy Research Centre 2007, *Poverty in Australia*, report for *Australia Fair*.

³⁵ Source: Lloyd, et al 2004, *Australians in poverty in the 21st century*, NATSEM.

manual occupations, and to live in single person or share households. Around half had left poverty after four years and the other half were still in a poor household.³⁶

The prevalence of poverty among low paid employees was substantially lower when a much more stringent poverty benchmark was used in this study – those simultaneously having low income, low wealth and low consumption, again using 60% and 75% of the median as the poverty benchmarks. While this more stringent approach is of interest as a way to identify people with very low living standards, it departs from the standard idea of poverty as lacking a minimum level of income. It assumes, for example, that an individual on a poverty-level income is not poor if their expenses are significantly higher than their income and they borrow or draw down savings to cover them. An alternative approach, that maintains the basic concept of poverty as a measure of inadequate income while addressing concerns that some wealthy people or households with high expenditures may be inadvertently included in the poverty count, is to exclude households whose financial assets or consumption levels are significantly above the median level. When this approach was adopted by Saunders et al, the effect on the numbers of individuals found to be living in poverty was much less substantial.³⁷

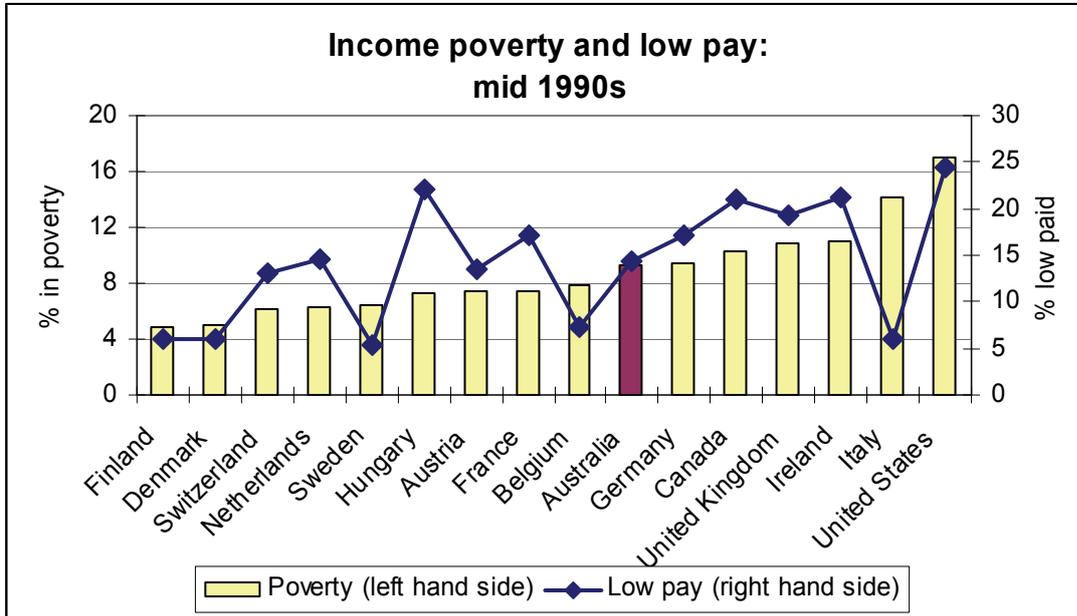
(3) International comparisons

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 is derived from an OECD study of income poverty. It charts the relationship between income poverty across the whole population (see bars in the graph) and the incidence of low pay (the dark line).

³⁶ Hahn & Wilkins 2009, *A multidimensional approach to investigation of living standards of the low paid*, Melbourne Institute, commissioned by the AFPC. The 15% estimate is derived from Table 15, based on the 60% of median income poverty line.

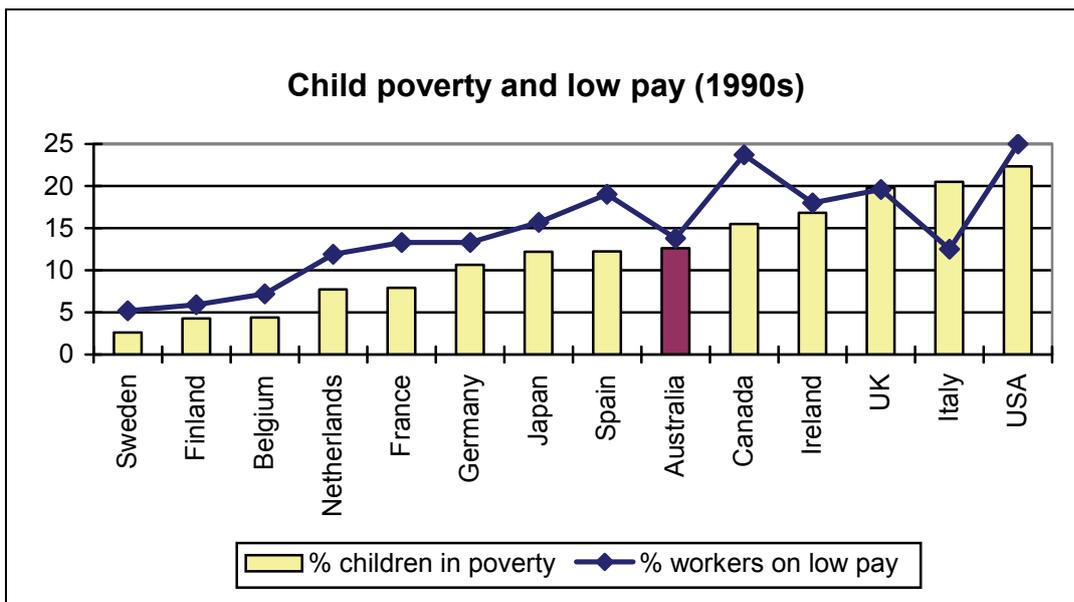
³⁷ Saunders et al 2007, *Poverty in Australia, Sensitivity Analysis and Recent Trends*. Social Policy Research Centre.



Source: Förster, M. (2000), *Trends and driving factors in income distribution and poverty in the OECD area*, Labour Market and Social Policy Occasional Paper, No. 42, OECD, Paris.

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.

The graph below is derived from a separate international study of *child poverty* conducted on behalf of UNICEF. It charts the relationship between income poverty among children and the incidence of low pay. The link between minimum wages and child poverty is stronger, because in this analysis retired households are not included in the poverty count.



Source: UNICEF (2000), *Child poverty in rich countries*. Florence.

Note: "Workers on low pay" refers to the % of full-time workers on wages less than 2/3 of the median. "Children in poverty" refers to the % of all children living in poor households, with the poverty line based on half median equivalent household disposable income.

This study found that that 14% of Australian workers were low paid (earning less than two thirds of median wages). The proportion of Australian children living below a low poverty line (half median household income) was 13%, around the middle of the OECD countries surveyed. The US had a higher proportion of low paid workers (25%) and a much higher child poverty level (22%). By contrast, just 5% of Swedish employees were low paid and 3% of children in that country lived below the poverty line. The authors of the UNICEF study suggest that minimum wages may have an internationally consistent indirect effect on child poverty in jobless families because:

- social security payments are often linked to minimum wage levels (to maintain work incentives), so countries with low minimum wages have lower social security payments.
- in countries with high minimum wages there is a stronger policy consensus in favour of reducing inequality generally.³⁸

(4) 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, for health care) and different assets at their disposal (for example, savings). Nevertheless, with some exceptions, income poverty data provides a reasonable indicator of the risk of poverty.³⁹

An innovative study completed in 2006 sought to measure Australian living standards directly. This was conducted by the Social Policy Research Centre in collaboration with ACOSS, Mission Australia, the Brotherhood of St Laurence, Anglicare NSW and Baptist Community Services NSW. A national survey was conducted to asks respondents what they consider to be 'essentials', whether or not they have them, and whether or not they lack them due to lack of resources. This study was not specifically designed to assess the levels of deprivation among low paid working households, though the data could be adapted to that purpose. That study is being updated with another survey this year, which aims to capture the effects on living standards of the Global Financial Crisis.⁴⁰

Another 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 indicates 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.⁴¹

³⁸ UNICEF (2000), *Child poverty in rich countries*. Florence

³⁹ ACOSS 2003, *The bare necessities*. The main exceptions are low income self employed people and low income retirees with substantial assets.

⁴⁰ Saunders & Naidoo 2007, *Towards new indicators of disadvantage*, Social Policy Research Centre.

⁴¹ Masterman-Smith, May, & Pocock 2006, *Living Low Paid: Some Experiences of Australian Childcare Workers and Cleaners*.

(5) Financial stress indicators

A further source of data on the living standards of Australian households is the Australian Bureau of Statistics' financial stress indicators. These are used by the ABS in its income and expenditure surveys, and are also included in the Melbourne Institute's HILDA longitudinal survey.

These data have on occasion been used for the purpose of assessing the living standards of low paid households, including in the above-mentioned research by the Melbourne Institute. As might be expected, they indicate that lower incomes generally, and low pay specifically, are associated with higher levels of financial stress: 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. The Melbourne Institute study found that 14% of low paid employees experienced financial stress compared with 9% of higher paid employees. However the authors cautioned that these are not a good overall measure of living standards. One problem with financial stress indicators is that different respondents to surveys have different perceptions of the meaning of the questions used.⁴²

(6) Housing costs

Another potentially useful 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 are the proportions of different kinds 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).

Research on housing stress found that 407,000 working households, or 10% of all working households, experienced housing stress in 2001. Over one quarter of these households included employees in the low paid occupations of sales assistants, drivers, carers, cleaners, administrative workers, or hospitality workers. A clear majority of these employees who were in housing stress had incomes below \$600 per week.⁴³

Housing costs have a big impact on the budgets of low income households in our major capital cities. For example:

- median rents for a recently-let single flat or three bedroom house in Sydney in December 2009 were \$365 per week and \$400 respectively,
- median rents for a recently let single bedroom or three bedroom flat in Melbourne in September 2009 were \$270 and \$300 per week respectively.⁴⁴

⁴² Hahn & Wilkins 2008, *A multidimensional approach to investigation of the living standards of the low paid*. Melbourne Institute. Data cited are for individuals reporting 2 or more financial stress indicators. See also Bray, *Hardship in Australia*, FACS Occasional Paper No4; ACTU 2002, *Living wage case submission, composite exhibit* contains results of an analysis of financial stress data by the ABS, commissioned by the ACTU.

⁴³ Yates et al 2006, *Housing affordability, occupation and location*. Australian Housing and Urban Research Institute.

⁴⁴ Housing NSW and Victorian Office of Housing 2006, *Rental Reports*.

From December 2006 to December 2009, rents rose by an average of 22%, well above the overall increase in the Consumer price Index for this period (9%).⁴⁵

When these rent levels are compared with the Federal Minimum Wage (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.

5. Minimum wages and employment

Modest real increases in minimum wages at this time are unlikely to lead to significant reductions in employment growth or increases in unemployment.

Economic research into the effects of minimum wages on employment yields diverse and often conflicting results. The OECD concludes from a thorough evaluation of the international evidence that the effect of lower minimum wages on employment is ambiguous. Modest reductions in minimum wages may have no effect at all.⁴⁶

In theory, there are two main ways in which higher minimum wages could affect employment and unemployment rates:

- by increasing or slowing the rate of job growth across the economy. For example, a rise in minimum wages could lower employment because interest rates are increased to curb inflation,
- by reducing the number of jobs available to low skilled employees specifically, because employers consider their productivity too low to justify employing them at the higher wage. This could increase unemployment (especially long term unemployment) because unemployed people are disproportionately low skilled.

To simplify, we refer below to these two effects as the effect of minimum wages on the 'macro-economy' and on 'structural unemployment'.

We conclude that the effect of minimum wages on employment is ambiguous. However, the effect on the incomes of minimum wage earners is clear cut. In our view, it would not be worth putting the living standards of low paid households at risk – by cutting real minimum wages – in return for uncertain gains in employment.

The effect of higher minimum wages on the macro-economy

Given the ambiguous outcomes of economic research in this area, and the segmentation of the labour market described below, ACOSS is sceptical of estimates of the effect of minimum wages on employment that rely on a single figure – such as the overall elasticity of demand for labour to aggregate wages.

⁴⁵ ABS 2010, *Consumer Price Index*.

⁴⁶ See, for example, the discussion on minimum wages in OECD 2006 *Employment Outlook*, and the more substantial study in its 1998 *Employment Outlook*.

In any event, the research suggests that modest changes in minimum wages generally have little or no impact on employment and unemployment.⁴⁷

The 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 that aggregate wage restraint may have contributed to the lowering of unemployment level over the 1980s.⁴⁸ However, as since the mid 1990s modest real increases in minimum wages appear to have had little or no impact on employment or unemployment levels. Following a sluggish recovery from the recession of the early 1990s, employment has grown strongly since the AIRC began to increase minimum wages in real terms (from about 1998, see graph below). From 1997 to 2009, real minimum wages rose by 7% while employment rose by 28%.



Sources: Dawkins (2000) *The labour market*, in Reserve Bank, *The Australian economy in the 1990s*; Australian Fair Pay Commission 2006 & 2007, *Wage setting decision*; ABS, *Consumer price Index* and *Labour Force*. Note: 2009-10 data are for December 2009.

This may be due to changes in the operation of the Australian labour market between these two periods, including greater flexibility in the allocation of working hours and a declining role for the award system in wage fixation. For example, the proportion of employees whose wages are directly determined by the award system is now just 17%.⁴⁹ Further, compared to the 1970s and 1980s, improved productivity growth and lower inflation have created more room for the economy to grow and to deliver higher wages.

Britain has had a similar experience since a new system of minimum wage fixation was introduced in the 1999. Prior to the GFC, modest increases in minimum wages did not

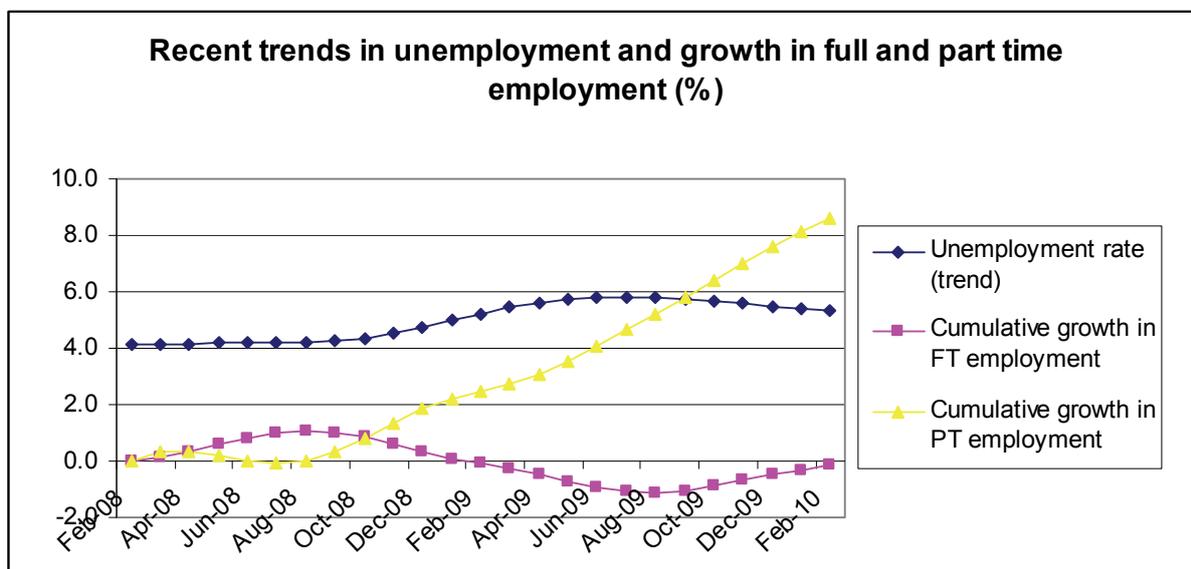
⁴⁷ Gregg 2000, op cit.

⁴⁸ Chapman et al 1991, *Analysing the impact of consensual incomes policy on aggregate wage outcomes*. Centre for Applied Economic Research Discussion Paper 253, ANU.

⁴⁹ ABS 2008, *Employee earnings and hours*, August 2008.

prevent employment from growing steadily and British unemployment from falling to low levels by OECD standards.⁵⁰

Australia’s economic circumstances changed in the second half of 2008 with the onset of the Global Financial Crisis. Growth in gross domestic product was close to zero in the September and December quarters. Growth in employment was also subdued through 2008-09. The unemployment rate rose from 4.1% in February 2008 to a peak of 5.8% in August 2009, and has since declined to 5.3% as at February 2010. A notable feature of labour market developments over this period was that hours worked declined more substantially than employment. A shift in working hours from full to part time employment buffered Australia against a steeper rise in unemployment. Around 30% of jobs are now part time, up from 28% in February 2008. Since August 2009, fulltime employment has been trending upwards again and unemployment has been trending downwards.



Source: ABS, The Labour Force.

Effect of minimum wages on structural unemployment

For the last six years, the official unemployment rate in Australia remained below 6%, which is low by OECD standards. Most of Australian unemployment is likely to be structural in nature - that is, it will not be reduced much further simply by growing the economy.

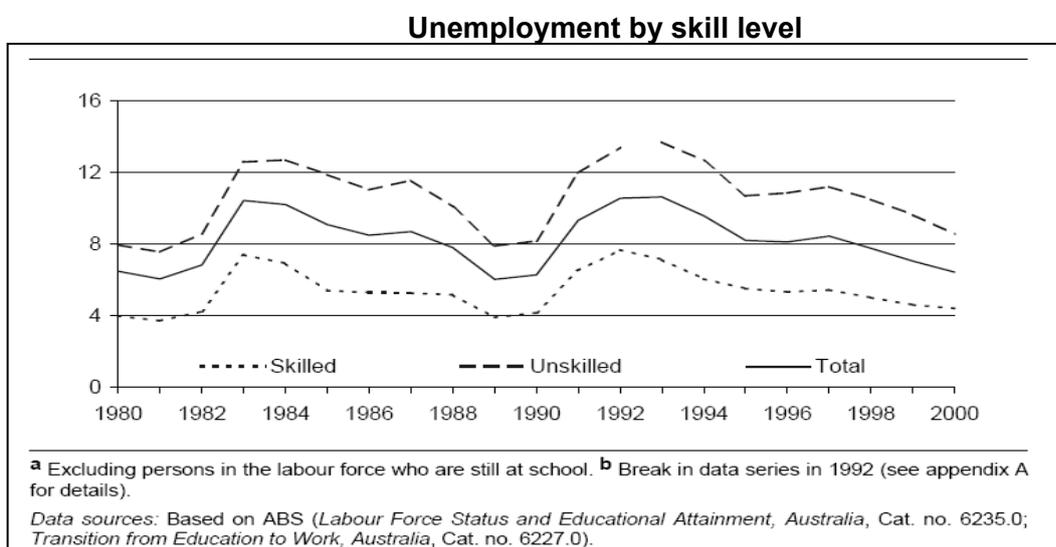
One theory that is advanced to explain structural unemployment is that most jobless people are not as productive (or not perceived to be by employers) as those who have jobs. For example, they may have low skills and education levels. According to this theory, to assist them to get jobs, either their (perceived) productivity must be improved, or minimum wages must be reduced to a level at which employers will be prepared to take them on.⁵¹

⁵⁰ Metcalfe 2007, *Why Has the British National Minimum Wage Had Little or No Impact on Employment?* CEP Discussion Paper No 781, London School of Economics.

⁵¹ Frijters & Gregory 2005, *From golden age to golden age - Australia’s great leap forward?*

This view is consistent with one explanation of growth in earnings inequality: that in wealthy countries demand for low skilled employees has declined relative to the higher skilled, due to technological change.⁵²

It is not clear, however, whether this is a major cause of structural unemployment in Australia. As argued below, low skilled employment has grown strongly since the early 1990s although the growth was largely confined to part time jobs. Further, whether a bias in jobs growth towards high skilled jobs leads to higher levels of structural unemployment depends also on the supply side response (for example, whether more people pursue higher qualifications to avoid low pay and unemployment).⁵³ The graph below indicates that since 1980, unemployment has increased and declined at roughly the same pace across all skill levels (though of course it was consistently higher among low skilled workers).



Source: Productivity Commission 2002, Skill and Australia’s productivity surge, Staff research paper.
 Note: “Skilled” refers to having a post school qualification.

Even large international variations in minimum wages among nations are not consistently associated with the employment prospects of low skilled workers. For example, despite the much lower minimum wages paid in the United States, their (pre GFC) unemployment rate for low skilled labour was generally higher than in Australia (9% of the low skilled labour force in the US compared with 6.3% in Australia in 2005).⁵⁴

We explore below two important dimensions of structural unemployment in Australia: the relationship between employment skills and working hours, and the exclusion from employment of a substantial cohort of long term unemployed people.

⁵² See section dealing with earnings inequality, above.

⁵³ Nickel 2003 argues for example that of the major OECD countries only the US and UK experienced a sharp rise in the ‘oversupply’ of low skilled labour over the 1980s and 1990s. Nickell 2003, *A picture of European unemployment. Unemployment in Europe: reasons and remedies*. CESifo Munich and Centre for economic performance, London School of Economics.

⁵⁴ OECD 2007, *Employment Outlook*; see also Kennedy 2007, *Full employment in Australia and the implications for policy*. Department of the Treasury.

1. Employment, working hours and skills

The reality of labour market restructuring over the longer term in Australia is more complex than a simple story of reduced demand for low skilled labour. Employment growth has not been biased exclusively to high skilled jobs. Instead, it appears that employment growth has hollowed out, with employment growth concentrated on low and high skilled positions rather than middle level jobs. Over the 1990s *full time* jobs growth was biased towards the high skilled, but *part time* jobs growth was concentrated in low skilled occupations especially in service industries (see table below).

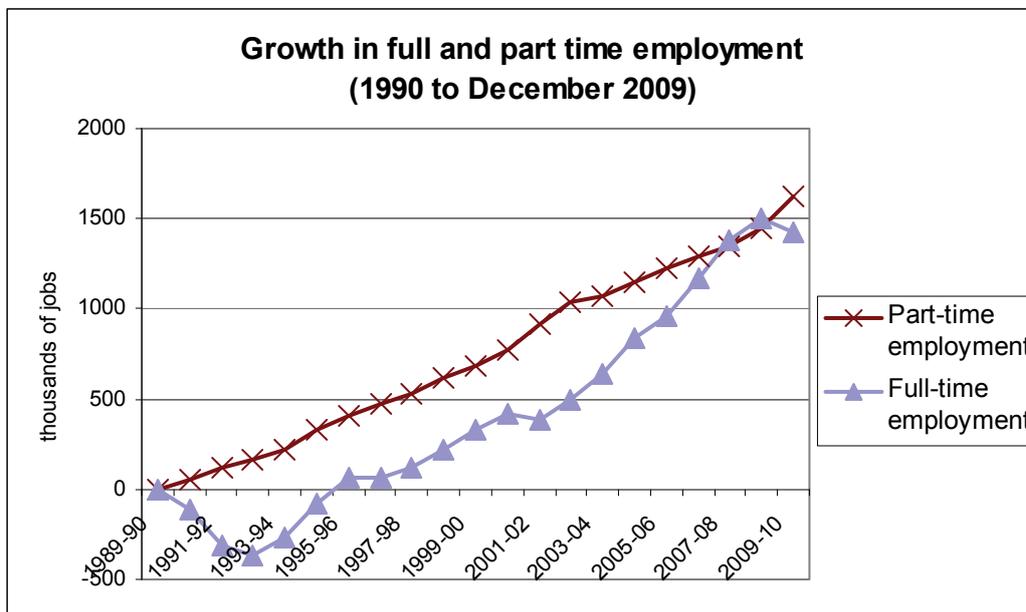
Change in employment by skill level and job status (1990-2000)

Skill level	Full time permanent	Full-time casual	Part-time permanent	Part-time casual	Total
Managers and professionals	387,000	135,000	115,000	20,000	657,000
Trades, advanced sales and service	-238,000	59,000	25,000	27,000	-127,000
Lower-skilled workers	-200,000	138,000	215,000	446,000	600,000
Total	-51,000	333,000	356,000	493,000	1,130,000

Source: Borland, Gregory & Sheehan, 2001, *Inequality and economic change*, in Borland et al, *Work rich, work poor*, Victoria University. Shaded areas represent net reductions in jobs.

This suggests that the Australian labour market operates as a dual labour market in which higher skilled employees have access to full time jobs, while lower skilled employees are increasingly confined to part time jobs. As the graph below shows, part time employment grew much more strongly than full time jobs from 1990 up until the early 2000s, when this trend was reversed.⁵⁵ The long term shift of low skilled employment into part time jobs appears to have reasserted itself after the Global Financial Crisis in 2008-09.

⁵⁵ This may reflect strong growth in fulltime jobs in construction and mining related industries at this time.



Sources: FaCS 2002, *Submission to Senate inquiry into poverty and financial hardship*, updated to 2000; ACOSS calculations using ABS Labour Force data.

Australia is exceptional in its incidence of part time and casual employment: 30% of employees are employed part time and a similar proportion is employed casually. Compared with other OECD countries, Australia's incidence of part time employment is second only to the Netherlands and its incidence of casual work is second only to Spain. There is a high incidence of low pay in both part time and casual employment.

Aside from differences in the supply of part time and full time workers (the greater reliance of mothers and students on part time jobs), one possible explanation for this 'two track' labour market is that employers have been prepared to engage lower skilled workers on a part time or casual basis because they are perceived to be more productive when employed in this way. For example, many part time and casual employees (such as shop assistants and bank tellers) are brought in to work only during times of peak activity.⁵⁶

If there has been a long term bias in favour of skilled employment in Australia, this has been tempered by strong growth in low skilled part time employment. That is, the bias lies in the distribution of *working hours* rather than the distribution of jobs.⁵⁷

Abstracting from the business cycle, low skilled jobs are relatively easy to obtain in Australia. In 2005, the average unemployment rate among people with less than full secondary education qualifications (12 years of schooling) in Australia was 6.3% compared with 11%

⁵⁶ Most part time jobs are casual, and vice versa, so that employers have the flexibility of 'daily hire' in addition to the flexibility of working people for only part of the week. On the other hand, many casual jobs are actually long term jobs, albeit without job security. See Watson et al 2003, *Fragmented Futures*, Federation Press; Wooden & Warren 2005, *The characteristics of casual and fixed term employment*, Melbourne Institute Working Paper 15/03. For an empirical analysis of labour market segmentation in Australia, see Song & Webster 2003, *How segmented are skilled and unskilled labour markets?* Australian Economic Papers 42:3.

⁵⁷ Keating 2002, Watson et al 2005.

across the OECD as a whole.⁵⁸ However, it is more difficult for low skilled Australian employees to secure full time jobs than part time jobs. Further, as outlined below, a substantial minority appear to be stuck in low skilled, low paid jobs.

If minimum wages were reduced substantially – for example, to US levels - it is conceivable that over the long term, the composition of growth in low skilled employment in Australia would shift from part time to full time jobs. The reasons for this are that employers could afford to engage more low skilled workers on a full time basis, whereas employees could no longer afford to work part time only.⁵⁹ However, it is doubtful that low skilled workers would be better off. For example, at US minimum wage rates, they would have to work full time to attain the same living standard they now achieve working three days a week.⁶⁰

2. Long term unemployment

Another reason that even a large reduction in relative minimum wages would not substantially reduce unemployment and reliance on income support is that many long term unemployed people are a considerable distance from being ready to take on employment at the levels of productivity now expected by employers. So lowering the ‘productivity bar’ a little will not help them to jump from joblessness into employment.

In May 2009 among the 627,000 Newstart and Youth Allowance (other) recipients, 309,000 received these payments for over one year, 222,000 for over 2 years and 112,000 for over 5 years.⁶¹ Long term reliance on Parenting Payment and Disability Support pension is much higher, though most of these income support recipients are not required to actively seek employment.

The main factors preventing most from securing employment are very low skill levels and personal and social barriers to employment. Those who remain unemployed after many years of strong growth in the economy are generally drawn from the most disadvantaged sectors of the community.

For example:

- Around 60% of jobless Parenting Payment recipients and people with disabilities have a year 10 education or less.
- About half of jobless Parenting Payment recipients suffer from anxiety or depression and around 20% were recent victims of violence.
- Many income support recipients cannot afford to rent in ‘jobs-rich’ cities. For example, during 2000, around 18% of Parenting Payment recipients and 10% of DSP recipients

⁵⁸ OECD 2007, *Employment Outlook*.

⁵⁹ These may be the main reasons that the level of part time employment is much lower in the US than in Australia.

⁶⁰ ACOSS calculations based on OECD purchasing parities for 2005. In 2005, US minimum wages were worth \$A278 per week in purchasing parity terms compared with \$A467 here.

⁶¹ DEEWR 2009, *Department of Education, Employment and Workplace Relations response to Senate Estimates question No EW0015-10*.

who were then living in Brisbane moved out of that city, mainly to surrounding regional areas where rents were lower.⁶²

- Many income support recipients are not proficient in English, and this adversely affects their job prospects.

Data on employment outcomes from the highest level of assistance available to job seekers in the Job Network ('Customised Assistance') suggest that these groups found it difficult to secure full time employment even when the economy was still growing strongly (see table below).

Employment outcomes from Job Network Customised Assistance (2008-09)

Job outcomes 3 months after assistance	People with disability on Newstart Allowance	Single parents	Long term unemployed (12-24 months)	Mature age (50 or more)
Full time job	9%	10%	14%	10%
Part time job	28%	42%	30%	31%

Source: DEEWR 2009, *Labour market assistance outcomes for year ending June 2009*. Proportion in employment three months after completion of assistance.

This evidence of entrenched labour market disadvantage among income support recipients suggests that lowering real minimum wages is unlikely to greatly improve their job prospects. This is illustrated by the experience with the Job Compact in the mid 1990s that guaranteed all long term unemployed people on income support a temporary paid job for six months. It was anticipated that most of these positions would be offered through the JOBSTART program that paid 50% of wages to private employers to take on long term unemployed people for six months. The official evaluation of the Working Nation strategy found that most of the Job Compact positions were fully subsidised jobs in the public and community sectors because private sector employers were not prepared to employ long term unemployed people on the scale required (more than 200,000 per year), even though half the wage was paid by the Government.⁶³

To overcome the barriers to work for long term jobless Australians, more investment in programs that improve their skills, work capacity, health and personal circumstances is likely to be needed. Better education of employers about the capabilities of people that many are currently reluctant to employ - especially people with disabilities, mature age workers and indigenous people - could also make a difference, especially as growth in the supply of labour falls in the coming years due to population ageing. Attempts to reduce minimum wages specifically for those groups experiencing discrimination could backfire, by reinforcing employers' impressions that their work capacity and productivity are low.

⁶² See ACOSS 2005, *Welfare reform, participation or punishment?* and Marshall et al 2003, *Welfare outcomes of migration of low income earners from metropolitan to non metropolitan Australia*, AHURI, February 2003

⁶³ DEETYA 1998, *Evaluation of Working Nation, labour market elements*.

Low paid jobs as stepping stones to better paid jobs

Employees and unemployed people have been characterised as the ‘insiders’ and ‘outsiders’ of the labour market, respectively. According to this view, increases in wages may benefit those with jobs (the ‘insiders’) but disadvantage those out of work (the ‘outsiders’). This view of the labour market is too simplistic. In reality, many people cycle between joblessness and employment – especially low paid employment - within a given year. People also move from low paid employment to higher paid jobs and vice versa.

Therefore, when considering the well being and living standards of low paid employees, their job mobility should be taken into account. If employees are stuck in low paid jobs for many years, this will have a greater adverse effect on their well being than one short bout of low paid employment. Evidence as to whether low paid jobs are ‘stepping stones’ from unemployment to higher paid or more secure employment should also be considered.

The evidence on the job mobility of low paid employees is mixed. Jobless people are more likely to be able to secure low paid jobs – especially casual jobs – than they are to move straight into higher paid, more secure jobs. There is also some evidence to suggest that these low paid or casual jobs can lead to better paid or more secure employment, including for people who were previously jobless. But many return to joblessness, and many others remain in low paid work over the long term - especially if they were previously unemployed or have major work barriers such as a disability.⁶⁴

The tables below are from research examining transitions over a number of years from low paid employment (first table) and transitions from casual employment (second table). Most casual jobs are also low paid.

They indicate that people who were formerly jobless who obtain a low paid or casual job have about an equal chance of moving up in the next year to a higher paying or permanent job, or falling back into joblessness. Their chances of moving up are much lower than those of low paid or casual employees who were not recently unemployed, suggesting that unemployment has a scarring effect that endures for at least a few years after they get a job. A substantial minority remain in low paid or casual employment from year to year.

Changes in the labour market status of low-paid and formerly jobless workers (1995-1997)

Labour market status in 1995	Labour market status in 1997			
	Higher paid job	Low paid job	Jobless	All
Low paid workers	50%	33%	16%	100%
Low paid former job-seekers	36%	32%	32%	100%

Source, Dunlop Y, 2001, *Low paid employment in the Australian labour market*, in Borland et al, 2001, *Work rich, work poor*. Victoria University.

⁶⁴ Productivity Commission 2006, *The role of non traditional work in the Australian labour market*; Dunlop 2001, *Low paid employment in the Australia labour market* in Borland et al, *Work Rich Work Poor*, Victoria University; Kalb 2000, *Are part time jobs a stepping stone to full time employment?*

Changes in the labour market status of casual and formerly jobless workers (2001-2003)

Labour market status in 2001	Labour market status in 2003			
	Ongoing employees	Casual employees	Jobless	All
All casual employees ⁶⁵	38%	46%	12%	96%
Casual employees in 2002 who were unemployed in 2001 ⁶⁶	27%	47%	27%	100%

Source, Productivity Commission 2006, *The role of non traditional work in the Australian labour market*.

A more recent study by the Melbourne Institute yielded broadly similar findings in regard to movements from low paid employment to higher paid jobs and joblessness. In this study, over a three year period from 2001, 58% of fulltime low paid employees progressed to higher paying jobs, 32% remained low paid, and 11% were no longer employed. The equivalent figures for part time low paid employees were 43%, 25% and 30% respectively. Taking these together, the results are similar to those obtained by Dunlop for a two year period in the mid 1990s. However, the study does not estimate wage mobility for low paid former jobseekers.⁶⁷

It is sometimes argued that in countries with low minimum wages such as the US, low skilled employees are partly compensated for their low pay by a relatively high level of upward mobility to higher paid employment. The evidence suggests otherwise.

For example, in the US and UK, which have a relatively high incidence of low paid jobs, fewer people progress from these jobs to higher paying jobs than in countries such as Australia, Denmark and the Netherlands, where low pay is less widespread (see table below). This suggests that, all things being equal, lower minimum wages may *diminish* low skilled employees' prospects of moving up from low paid to higher paid jobs. For example, the evidence points to a reduction in upward mobility for low paid employees in the US and UK over the 1980s and 1990s, a period over which minimum wages fell in real terms. This could be due to a 'bottleneck effect', where a larger proportion of low paid employees has to compete for a smaller proportion of middle level jobs.⁶⁸

⁶⁵ Data in this row do not add up to 100% because 4% become self employed.

⁶⁶ Data in this row are one year transitions from casual employment between 2002 and 2003, following joblessness in 2001. Few or none become self employed.

⁶⁷ McGuinness et al 2006, op cit.

⁶⁸ Richardson 2004, *Low wage jobs and pathways to better outcomes*, NILS. Stewart 2002, *The inter-related dynamics of unemployment and low pay*. EALE/SOLE World Congress, Milan; Buchinsky & Hunt 1999, *Wage mobility in the United States*. Review of Economics and Statistics, 81:3; Dickens 2000, *Wage mobility in Great Britain - 1975-1994*, *Economica* 67, 477-497.

Earnings mobility of employees over a five year period (1990s)

	Australia	Denmark	Netherlands	USA	UK
Movement from low paid to higher paid jobs after 5 years	41%*	54%	45%	38%	23%
Incidence of low paid jobs (% of fulltime jobs)	14%	6%	15%	25%	19%

Sources: OECD 2003 *Employment Outlook*, Carino-Abello 2001, *Dynamics of earned income in Australia*, ABS; Keese, M and A. Pumoyen (forthcoming), *Changes in earnings structure*, OECD Occasional Papers.

* Note that data for Australia are from a separate study conducted over a 3 year period from 1994 to 1997 rather than 5 years. Upward mobility could be higher for Australia over a 5 year period.

6. Minimum wages, income support and work incentives

The living standards of low income households 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 working households 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 jobless households 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.

The current income support system for low paid households

The Australian income support system has three main components:

- income support payments for adults in low income households,
- Family Tax Benefits for children, targeted mainly towards low income families,
- supplementary benefits such as Rent Assistance payments and pensioner concession cards.

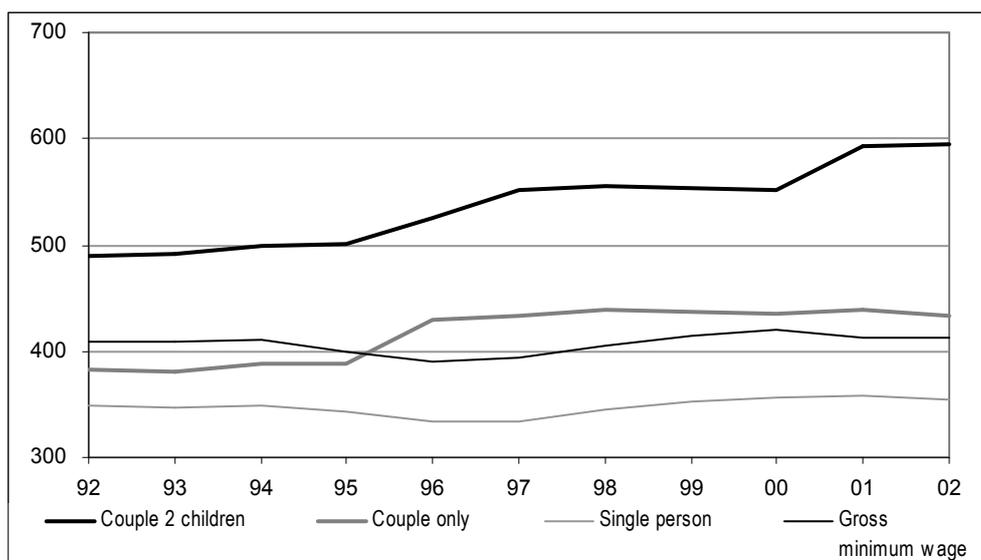
Of these, only *Family Tax Benefits* have traditionally been designed to supplement low full time wages. These payments were substantially increased in the mid 1990s, in the 2000 tax reform package, and in subsequent Federal Budgets. Although *income support payments*

and supplements for adults do extend to low wage earning households under some circumstances (mainly part time employees), they were not designed with this aim in mind, and few full time employees receive them. However, Newstart Allowance and Parenting Payment have been paid to the unemployed partners of low paid full time employees since 1996.

The graph below illustrates the main ways in which the social security system supplements low pay. It shows that:

- Low paid full time single employees without children receive no assistance. Their disposable income is lower than their wage due to income tax.
- Couples without children on a low full time wage have received some support since 1996, due to the payment of income support to the partner of a low paid wage earner.
- Couples with children on a low full time wage receive this together with Family Tax Benefit, which has increased on a number of occasions since the mid 1990s.

Comparison of the incomes of minimum wage earners before and after taxes and transfers



Source: FaCS 2002, *Submission to Senate inquiry into poverty and financial hardship*,

Note: The gross value of the minimum wage is compared with the disposable incomes of minimum wage earners from different family types.

(1) Single adults without children

In Australia, there is no income support payment to top up low wages generally, including for single adults without children.

The main unemployment benefit, Newstart Allowance (NSA), is income tested in a way that *deliberately* excludes minimum wage earners. This payment cuts out completely at earnings of about \$430 per week. Above that income level, there are no supplementary payments (e.g. Rent Assistance for low income private tenants) or fringe benefits (e.g. low income health care cards) available.

There are two circumstances in which a single adult without children can receive income support payments and supplementary benefits.

First, if they receive Pension payments, such as Parenting Payment Single and the Disability Support Pension, they may keep a part pension if they earn up to about \$750 because the income test is less stringent. The reason for this is that these recipients are generally only expected to work part time (if at all), so the income test is designed to encourage part time work, not to exclude full time workers. Few recipients of these payments are employed full time.

Second, many single income support recipients (including those on Newstart Allowance) work part time, and retain 'part-payments' under the income test. However, the income test for Newstart Allowance is severe (clawing back 60 cents per dollar earned over a wide range of part time earnings). This is consistent with its traditional objective – to encourage people to move to full time jobs and off income support rather than living on a combination of part time earnings and income support.

(2) Couples and Families

For low paid *couples and families*, the situation is different.

In the case of *couples without children*, Newstart and Parenting Allowances are paid to the *partners* of low paid full time employees. This reflects a policy view that married women should be regarded as social security claimants in their own right, not simply as dependent on their partners. However, if the main wage earner in a couple earns significantly above minimum wages (above about \$30,000) then their partner is no longer entitled to these income support payments. Couples on pension payments can continue to receive a part-payment up to a combined income of about \$70,000 but it is rare for pensioner couples to earn this much.

In the case of low income *families with children*, family allowances (now called Family Tax Benefit) have for many years explicitly supplemented low pay. The objective was to reduce child poverty and maintain work incentives, since it is difficult for the wage system to take account of the size of each employee's family.

Almost all low income families with children with family incomes below \$40,000 receive a higher rate of Family Tax Benefit to assist them with the costs of their children.

Family Tax Benefits for low income families have substantially increased in recent years, and this has helped many low income families avoid poverty. A 2004 study by NATSEM of the bottom 20% of families with children, commissioned by ACOSS, Anglicare Australia, Brotherhood of St Laurence, Family Services Australia, the Welfare Rights Centre, and Australian Education Union⁶⁹ found that:

- 28% of families in the bottom 20% earned a full or part time wage - for two thirds of these low paid families, wages were the main source of income.

⁶⁹ McNamara et al (2004), *How low income families have fared in the boom times*. NATSEM.

- From 1997 to 2004, real wages and family payments for low income families both rose.
 - The average level of wages paid to the bottom 20% of families rose by about 8% in real terms.⁷⁰
 - The average level of income support (mainly Family Tax Benefits) paid to the bottom 20% of families rose by about 20%.⁷¹
- As a result, the income of a couple family with two school age children on the minimum wage rose by about 12% in real terms over that period.⁷²

The limits of income support

Notwithstanding the recent income gains for low paid families described above, the role of the income support system in sustaining living standards is limited by its cost, and official concerns about 'welfare dependency'.

For example, the increases in family payments noted above have come at considerable cost to the federal budget. From 1997 to 2004:

- Spending on family payments doubled, from \$6.6 billion to \$13 billion per year;
- As a percentage of Federal Government spending, it rose from 4.9% to 6.7%;
- As a percentage of GDP, it rose from 1.3% to 1.5%.⁷³

Further, the cost of increasing Family Tax Benefits has risen in recent years, as the income test for this payment has been eased to encourage primary carers to take up jobs. Around half of all families now receive the higher rate of FTB Part A that was previously reserved for low income families. As a result of the easing of this income test in 2005 and 2006, the cost of a \$1 per week rise in the maximum rate of payment has risen by 50%.

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.⁷⁴ This is a major change in social policy settings for Australia, overturning the previous Labor Government's commitment to reduce child poverty by progressively increasing family payments. For this reason, it is unlikely that Family Tax Benefits will help 'pick up the slack' for low paid families, in the event that minimum wages fall in real terms.

An earned income tax credit or some other form of 'in work payment' would also be a costly option. For example, the tax credit proposed by the 'five economists' to preserve family living

⁷⁰ This could be due to families in the bottom 20% working more hours, as well as minimum wage rises.

⁷¹ Note that part of these family payment increases were to compensate for the GST, so they did not all translate into higher living standards.

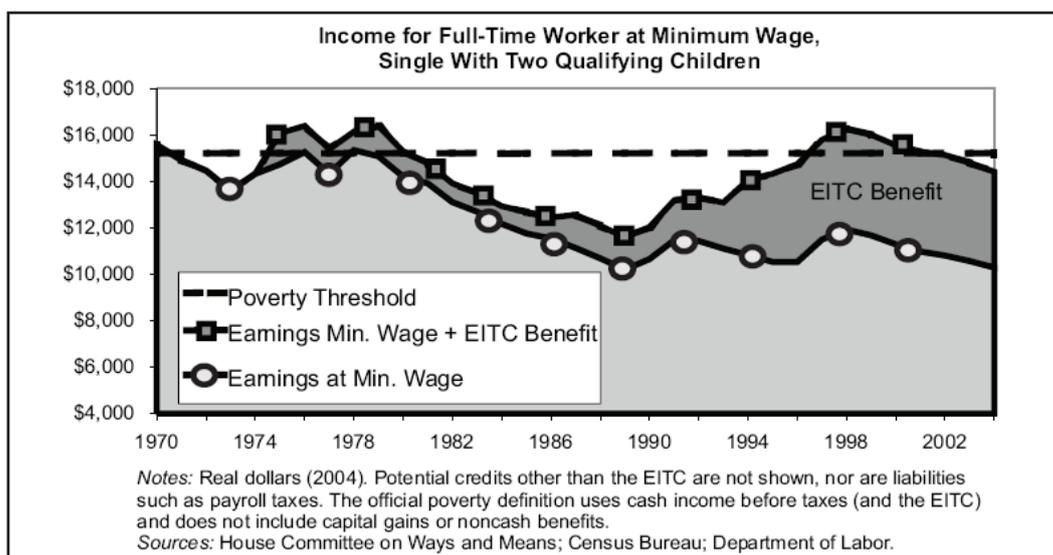
⁷² From \$641 to \$700.

⁷³ Federal Budget Papers 2004-05; FACS 2001, *Income support statistics* 1989 to 1999.

⁷⁴ Federal Budget Papers 2009-10. ACOSS 2009, *Reform of family payments*.

standards in the event of a fall in minimum wages would cost well over \$5 billion per year if introduced today.⁷⁵

Another problem with general public subsidies for low pay such as earned income tax credits is that much of the subsidy would be captured by employers, especially if minimum wages fall in real terms. This has been the outcome in recent years in the US. As real minimum wages have fallen through lack of indexation, the cost of the Earned Income Tax Credit has risen (see graph below). In 2007 the US Government spent around \$40 billion per year on its Earned Income Tax Credit, more than it spent on traditional social assistance programs such as the Temporary Assistance for Needy Families program for jobless and low paid families. Despite this, minimum wages and the tax credit combined were still insufficient to protect a single parent family with two children from poverty.



Source: Kravitz T 2005, *Minimum wage, earned income tax credit, and inflation*, Urban Institute Brookings Institution Tax Policy Centre.

Another concern about the use of income-tested payments such as these to bolster low wages for working families is that they reduce work incentives 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.⁷⁶

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

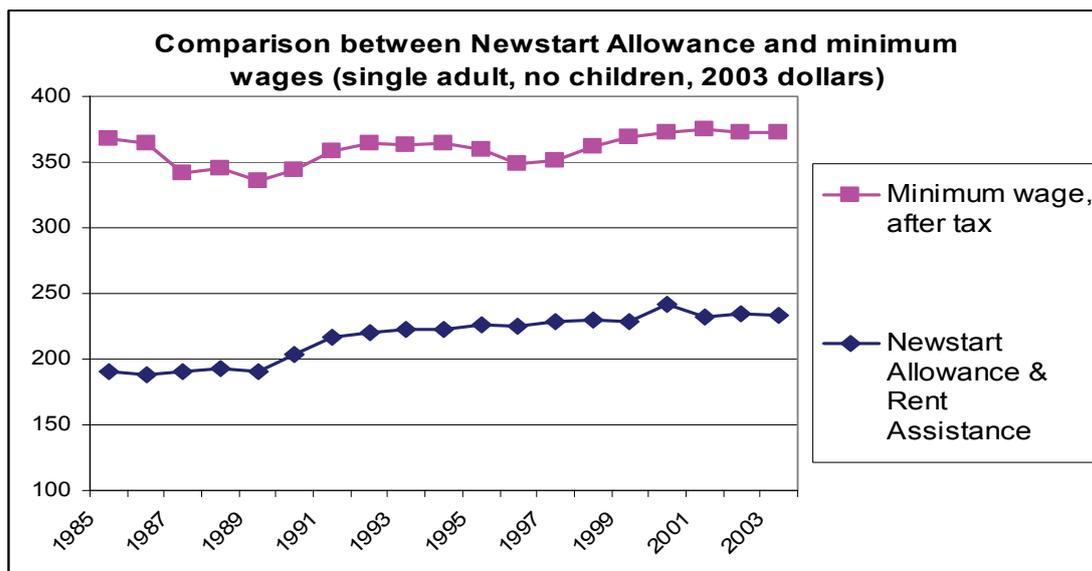
⁷⁵ Buddelmeyer et al 2004, *Policy options to encourage welfare to work*, Melbourne Institute Working Paper 9/06. Note that the proposed EITC would cost much more than indicated in this paper, because its family income test is integrated with that for FTB, and that income test has since been substantially eased.

⁷⁶ Gregg 2000, op cit.

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 work incentives.

For example, a single jobless adult who obtains a full time job at the minimum wage would almost double their disposable income. The relationship between after-tax minimum wages and unemployment benefits for single adults has been remarkably stable (at around 60%) over the past 20 years. As the graph below indicates, disposable income from Newstart Allowance for jobless adults has increased slightly relative to minimum wages over this period. The main reasons for this were increases in Rent Assistance for social security recipients renting privately (which does not extend to low paid full time employees), and a lack of real growth in minimum wages over the longer term. Newstart Allowances were indexed to the Consumer Price Index throughout this period.



Source: Oliver 2003, *Taxes, benefits and families in Australia, an historic perspective*. Paper delivered at National Economists Conference.

Modelling by the former Australian Fair Pay Commission indicated that benefit replacement rates (the ratio of disposable incomes on income support to those on the FMW) for selected families in 2007 were:

- Between 55% and 60% for single adults,
- Between 60% and 65% for sole parent with one child,
- Around 70% for a couple with no children,
- Around 75% for a couple with two school age children.⁷⁷

The gap between income support for jobless people and low pay could, therefore, narrow to some extent without removing financial incentives altogether. However, if minimum wages

⁷⁷ AFPC 2009, *Economic and social indicators*.

fall consistently in real terms the gap will narrow over time because income support payments are indexed to at least the CPI.⁷⁸

A point would be reached where Governments would adjust the income support system 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 jobless people.

If Governments were under fiscal pressure at the time, the second option is more likely. This was pursued by the previous New Zealand Government during a recession in 1991. Wage fixation was deregulated with the introduction of the *Employment Contracts Act*. In the same session of Parliament, legislation was passed to substantially reduce social security payments for unemployed people. The link between lower minimum wages and lower social security payments was explicitly made by the Minister for Social Welfare at the time.⁷⁹ It is likely that Governments would pre-empt any major reduction in work incentives, rather than wait until significant numbers of income support recipients are better off jobless than employed on the minimum wage.

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 effectively benchmarked in the Social Security legislation to 27% of male total average weekly earnings.

Income tests and work incentives 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 work incentives.

This has two implications for minimum wages:

- If minimum wages are too low, the combined effect of low pay and income tests could discourage jobless people from working.
- 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):

- 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

⁷⁸ Pensions are indexed to movements in average earnings, but as indicated above a full time low paid employee may receive a part pension, so this blunts any adverse effects on work incentives.

⁷⁹ Stephens R 1994, *Budgeting with the benefit cuts*, in Dalziel P: *The decent society* Wellington 1994.

generally don't take effect until a family earns well above a single minimum fulltime wage (but they do affect 'second earners' in low and middle income families).

Social security income tests, January 2010

	Newstart Allowance (single) (\$pw or %)	Pensions (single) (\$pw or %)	Family Tax Benefit (2 chn. under 13) (\$pw or %)
Free area	\$31	\$71	\$849
First taper rate	50%	50%	20%
2 nd threshold	\$125	n.a.	\$1,959*
Second taper rate	60%	n.a.	30%
Cut out point	\$427	\$743	\$2,146

Source: Centrelink, *Guide to Australian Government payments*

Note that FTB refers to FTB Part A only.

* 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, in 2005, the effective marginal tax rates on the next dollar of earnings were:

- 73% for a single adult on Newstart Allowance earning \$200pw
- 57% for a single parent on Parenting Payment Single earning \$200pw
- 45% for a second earner in a low income family with two children in child care, earning \$800pw.⁸⁰

When other costs are added in (such as transport to work, child care, and any reduction in subsidised public rents), these high effective marginal tax rates mean that some people have limited financial incentive to take up a part time job. As noted above, financial incentives for single adults to move into a full time job at the minimum wage are reasonably strong, though they are somewhat weaker for married jobless people.

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

- jobless people 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 roughly half of all low skilled jobs, are part time.

⁸⁰ NATSEM 2005, *Distributional impact of welfare to work reforms*, and ACOSS calculations.

Under these circumstances, adequate hourly minimum wages are likely to play an important role in strengthening incentives for these people to work part time. This will be crucial in the coming years, as the supply of labour dwindles due to population ageing. Increasing the labour force participation of mothers and income support recipients generally will become a core objective of public policy. Adequate minimum wages make a significant contribution to economic growth and efficiency through the mobilisation of additional labour, for example from 'second earners' in middle income households.

On the other hand, high effective marginal tax rates could potentially erode the value of increases in minimum wages. For example, as noted above, a single parent on Parenting Payment who earns \$200 per week faces the loss of almost 60% of her next dollar of earnings due to taxes and social security income tests.

The effect of minimum wages and high effective marginal tax rates on work incentives is qualified by the following factors:

- The evidence suggests that these financial work disincentives are strongest at the point when a jobless person decides whether or not to take a job, but that they have much less impact on decisions to increase working hours.
- Other factors, such as a desire to start a career or the social benefits and status of paid employment, often override financial disincentives.

In addition, the effect of high effective marginal tax rates on work incentives is qualified by the fact that only a minority of employees face them.

NATSEM recently estimated the incidence of high effective marginal tax rates among low paid employees whose hourly earnings increase by 39 cents. This study found that the effective tax rates for a majority (52%) of low paid employees were 30% or less and that only 10% faced effective tax rates of more than 50%. That is, in the vast majority of cases the wage earner retained more than half of the pay increase.⁸¹

On balance, increases in minimum wages are an effective way to improve work incentives for jobless people. Research conducted by the former Australian Fair Pay Commission indicates that work incentives improved significantly for typical jobless households from 2005 to 2008, due to increases in minimum wages and changes to taxes and transfers.⁸²

7. 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.

⁸¹ NATSEM 2006, *Interactions between wages and the tax-transfer system*, Report for the Fair Pay Commission.

⁸² Australian Fair Pay Commission 2008, *Economic and Social Indicators*.

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.

Young people

Young people are generally paid less than adult minimum wages. Although they may fare relatively poorly in recessions because employers often close their books to new hires, unemployment among young people has declined along with that among other age groups over the past two decades.

Nevertheless, many young people still have difficulties making transitions from school to work. Of all teenagers aged 15 to 19 years in May 2006, 14% were economically 'inactive' (neither working nor studying) along with 23% of young adults aged 20 to 24 years.⁸³

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;
- 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 levels for young people are 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.

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. Almost half of those who commence traditional apprenticeships do not

⁸³ Dusseldorp Skills Forum 2006, *How young people are faring*.

complete them. The result is severe shortages of tradespeople, and the attendant risk of wage inflation in conditions of sustained economic growth such as the present time.⁸⁴

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 directly 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 the present circumstances an increase in their wages may be part of the solution to these problems.

Compared to 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 taking them on. Of 400,000 apprentices and trainees in December 2005, 41% were 25 years or over. This proportion has risen dramatically from just 15% in 1997. This may be due in part to the expansion of apprenticeships into the service sector of the economy.⁸⁵

This evidence does not suggest that pay levels for adult apprentices discourage employers from recruiting 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 jobless people 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. Trainee wage rates for programs of this kind are set by the Commission.⁸⁶

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 substantial number of income support recipients, this could undermine the minimum wage system. A fairer way to encourage employers to engage income support recipients would be for the Government to temporarily subsidise the wages of disadvantaged jobseekers working in low skilled jobs at 'normal' wages. Australia has a long history of large scale wage subsidy schemes of this kind, for example the JOBSTART program in the 1990s. 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.

⁸⁴ Ball 2004, *Factors influencing completion of apprenticeships and traineeships*, NCVER.

⁸⁵ NCVER 2005, *Apprenticeships and traineeships*, NCVER 1999, *Apprentices and trainees in Australia 1985 to 1999*. See www.ncver.edu.au/statistics.

⁸⁶ See Stromback et al 1998, *Labour market programs and labour market outcomes*, Melbourne Institute Working Paper 14/98.

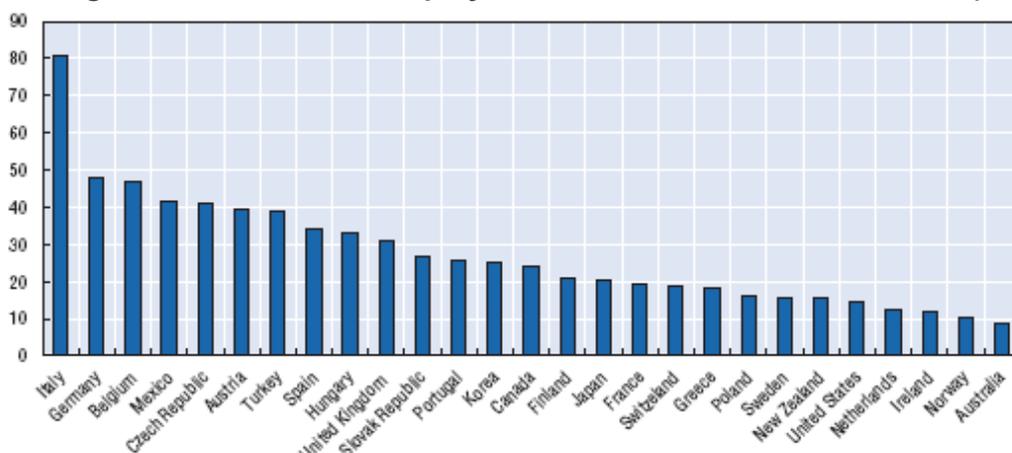
Unlike a general reduction in minimum wages for less productive jobless workers, programs such as this enable the Government to target wage subsidies carefully to those who are most likely to benefit, to withdraw them when they are no longer needed, and to minimise the displacement and substitution of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

Jobs-poor regions

Some countries with severe regional inequities in the labour market have attempted to reduce unemployment in their most disadvantaged regions by allowing minimum rates of pay to vary across the nation.⁸⁷

However, Australia does not have the severe regional labour market inequalities faced by countries such as Italy, Germany and Spain (see graph below).

Regional variation in unemployment rates within OECD countries (2003)



Source: OECD 2006, *Employment Outlook*. Note: The bars represent an 'index of variation'. The greater the index, the greater is the variation in unemployment rates across regions within a country.

In Australian regions where unemployment rates are much higher than the national average, the main reason is usually a factor other than location per se, such as the decline of employment in traditional large scale manufacturing industries (for example in the Hunter and Illawarra regions) or the disadvantaged economic and social position of indigenous Australians (for example in Central Australia and Cape York). Policies that directly address the main causes of high unemployment in these areas are likely to be fairer and more effective than lower minimum wages. Another alternative approach is to facilitate greater mobility from disadvantaged regions to those with better job opportunities.

In any event, there is already a fair degree of regional 'flexibility' in wages across Australia, in response to the state of regional labour markets.⁸⁸ As noted previously, low paid workers are more likely to come from rural and regional areas.

⁸⁷ De Koning et al 2004, *Report to the European Union on Policies for full employment*.

⁸⁸ Kennedy & Borland 1997, *A wage curve for Australia?* ANU CEPR Discussion Paper No 372.

People with disabilities

Only 43% of people with disabilities are employed compared with 72% of the workforce age population as a whole.⁸⁹ It would be misleading to suggest that this is simply due to 'lower productivity' among workers with disabilities. Many jobless people with disabilities would be highly productive in their occupation if the workplace 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 address the 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. This was part of the AFPC's decision last year when it extended the Supported Wage System to more employees with disabilities in different industries. The extension of the Supported Wage System makes careful monitoring of the reliability and equity of the various instruments used to assess productivity essential. On equity grounds, it would be desirable to standardise the instruments to a greater degree than at present.

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

- The system is very complex and difficult to understand. 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 Federal Minimum Wage).
- 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.

⁸⁹ ABS 2003, *Disability ageing and carers*. Data cited are for people with specific activity restrictions.

References

- ABS, *Disability ageing and carers*.
- ABS, *Household income and income distribution survey*.
- ABS, *Consumer Price Index*.
- ABS, *Employee earnings and hours*.
- ABS, *Labour Force*.
- ACOSS 2003, *The bare necessities*.
- ACOSS 2004, *Hidden unemployment in Australia*.
- ACOSS 2005, *Welfare reform, participation or punishment?*
- ACOSS 2008, *Community Sector Survey*.
- ACOSS 2009, *Reform of family payments*
- ACIL Tasman 2008, *Health and Community Services Industry Profile – Quantitative Analysis*, Australian Fair Pay Commission.
- ACTU 2002, *Living wage case submission, composite exhibit*.
- Atkinson et al 2002, *Social Indicators – the EU and Social Inclusion*, Oxford University Press, Oxford.
- Austen et al 2008, *Gender pay differentials in low paid employment*, Women in social and economic research, Australian Fair Pay Commission.
- Australia Fair 2007, *International Comparisons 2007*.
- Australian Fair Pay Commission 2008, *Wage setting decision and reasons for decision*.
- Australian Fair Pay Commission 2009, *Economic and social indicators*.
- Australian Industrial Relations Commission 2005, *Safety Net Adjustment Decision 2005*.
- Australian Services Union 2007, *Building social inclusion in Australia, priorities for the social and community services workforce*.
- Ball 2004, *Factors influencing completion of apprenticeships and traineeships*, NCVET.
- Borland & Gregory 2001, *Work Rich, Work Poor*, Victoria University.
- Bray 2003, *Hardship in Australia*, FACS Occasional Paper No 4.
- Buchinsky & Hunt 1999, *Wage mobility in the United States*. Review of Economics and Statistics, 81:3.
- Buddelmeyer et al 2004, *Policy options to encourage welfare to work*, Melbourne Institute Working Paper 9/06.
- Carino-Abello 2001, *Dynamics of earned income in Australia*, ABS.
- Chapman et al 1991, *Analysing the impact of consensual incomes policy on aggregate wage outcomes*. Centre for Applied Economic Research Discussion Paper 253, ANU.

- Colmar Brunton Social Research 2008, *Health and Community Services Industry Profile – Qualitative Analysis*, Australian Fair Pay Commission.
- Dawkins (2000) *The labour market*, in Reserve Bank, *The Australian economy in the 1990s*.
- De Koning et al 2004, *Report to the European Union on Policies for full employment*.
- DEETYA 1997, *Evaluation of the Working Nation strategy – labour market elements*.
- DEETYA 1997, *The net impact of labour market programs*.
- DEWR 2006, *Labour market assistance outcomes*.
- Dickens 2000, *Wage mobility in Great Britain - 1975-1994*, *Economica* 67, 477-497
- Dunlop 2001, *Low paid employment in the Australia labour market* in Borland et al, *Work Rich Work Poor*, Victoria University.
- Dusseldorp Skills Forum 2005, *How young people are faring*.
- European Commission (2000) *Structural Indicators*, Annex 2 to the Stockholm Report, Communication from the Commission, COM (2000) 79 final/2.
- FACS 2003, *Submission to Senate inquiry into poverty*.
- FACS 2001, *Income support statistics 1989 to 1999*.
- Förster, M. (2000), *Trends and driving factors in income distribution and poverty in the OECD area*. OECD Occasional Paper.
- Forster & dErcole 2005, *Income distribution and poverty in OECD countries*, OECD Working Paper.
- Frijters & Gregory 2005, *From golden age to golden age – Australia’s great leap forward?* Conference Paper, ANU Centre for Economic Policy Research.
- Gregg P 2000, *The use of wage floors as policy tools*. OECD Economic Studies No 31.
- Gregory 1993, *Aspects of Australian and US living standards*, *Economic Record* Vol 69.
- Hahn & Wilkins 2009, *A multidimensional approach to investigation of living standards of the low paid*, Australian Fair Pay Commission.
- Harding & Greenwell 2001, *Trends in income and expenditure inequality in the 1980s and 90s*.
- Harding et al 2005, *Distributional impact of welfare to work reforms*, NATSEM.
- Harding et al 2006, *Interactions between wages and the tax transfer system*, NATSEM.
- Hayes et al 2008, *Social inclusion, origins concepts and key themes*, Australian Institute of Family Studies.
- Healy & Richardson 2006, *An updated profile of the minimum wage workforce in Australia*. National Institute of Labour Studies.
- HREOC 2005, *People with disability in the open workplace*.
- Kalb 2003, *Are part time jobs a stepping stone to full time employment?* Social Policy Research Centre.

- Keese and Pumoyen (forthcoming), *Changes in earnings structure*, OECD Occasional Papers. Keating 2003, *Earnings and inequality*, ANU Centre for Economic Policy Research Discussion paper 460.
- Kennedy 2007, *Full employment in Australia*, Department of the Treasury.
- Kennedy & Borland 1997, *A wage curve for Australia?* ANU CEPR Discussion Paper No 372.
- Kravitz T 2005, *Minimum wage, earned income tax credit, and inflation*, Urban Institute Brookings Institution Tax Policy Centre.
- Leigh A 2005, *Does the minimum wage help the poor?* ANU Centre for Economic Policy Research Discussion Paper 501.
- Lloyd et al 2004, *Australians in poverty in the 21st century*. NATSEM.
- Marshall et al 2003, *Welfare outcomes of migration of low income earners from metropolitan to non metropolitan Australia*, AHURI.
- Masterman-Smith, May, & Pocock 2006, *Living Low Paid: some Experiences of Australian childcare workers and cleaners*. Brotherhood of St Laurence.
- McGuinness et al 2006, *Characteristics of minimum wage employees*. Melbourne Institute.
- McNamara et al 2004, *How low income families have fared in the boom times*. NATSEM.
- Metcalf 2007, *Why Has the British National Minimum Wage Had Little or No Impact on Employment?* CEP Discussion Paper No 781, London School of Economics.
- Minister for Employment Education Training and Youth Affairs 1996, *Reforming Employment Assistance*.
- NCVER 1999, *Apprentices and trainees in Australia 1985 to 1999*. see www.ncver.edu.au/statistics.
- NCVER 2005, *Apprenticeships and traineeships*, see www.ncver.edu.au/statistics.
- Nelms & Tsingas 2010, *Literature review on social inclusion and its relationship to minimum wages and workforce participation*, Fair Work Australia.
- NSW Dept of Housing 2006, *Rental Reports*.
- OECD 2006, 2005, 2003 and 1998, *Employment Outlook*.
- OECD (2005) *Principal economic indicators*.
- Oliver 2003, *Taxes, benefits and families in Australia, an historic perspective*. Paper delivered at National Economists Conference.
- Reserve Bank of Australia 2008, *Statement on monetary policy*, February 2008.
- Richardson & Harding 1999, *Poor workers?* in Richardson 1999, *Reshaping the labour market*, Cambridge University Press.
- Productivity Commission 2006, *The role of non traditional work in the Australian labour market*.
- Richardson 2004, *Low wage jobs and pathways to better outcomes*, National Institute for Labour Studies.

- Saunders 2003, *Examining recent changes in income distribution in Australia*, Social Policy Research Centre.
- Saunders 2004, *Updated budget standards estimates for Australian working families*, Social Policy Research Centre.
- Saunders 2005, *Reviewing recent trends in wage income inequality*. Social Policy Research Centre, University of NSW.
- Song & Webster 2003, *How segmented are skilled and unskilled labour markets?* Australian Economic Papers 42:3.
- SPRC 1997, *Indicative budget standards for Australia*. Department of Social Security.
- State of Working Victoria project 2003, *The low paid in Victoria*. Victorian Government.
- Stephens R 1994, *Budgeting with the benefit cuts*, in Dalziel P: *The decent society* Wellington 1994.
- Stevens 2007, *Statement to Parliamentary Committee*, in Reserve Bank of Australia, *Bulletin*, March 2007.
- Stewart 2002, *The inter-related dynamics of unemployment and low pay*. EALE/SOLE World Congress, Milan.
- Stromback et al 1998, *Labour market programs and labour market outcomes*, Melbourne Institute Working Paper 14/98.
- Treasury, *Budget Papers* 2004-05; 2006-07.
- Treasury 2004, *Policy advice and Treasury's well being framework*. Paper delivered at Australian Statistics Advisory Council meeting.
- Treasury 2006, *Mid Year Economic and Fiscal Review*.
- UNICEF 2000, *Child poverty in rich nations*. Innocenti Research Centre.
- URCOT 2005, *Pay equity*, Industrial Relations Victoria.
- Victorian Office of Housing 2006, *Rent Reports*.
- Watson et al 2003, *Fragmented futures*, Federation Press.
- Whiteford & Adema 2007, *What works best in reducing child poverty?* OECD.
- Wooden & Warren 2005, *The characteristics of casual and fixed term employment*, Melbourne Institute Working Paper 15/03.
- Yates et al 2006, *Housing affordability, occupation and location*, Australian Housing and Urban Research Institute.