



Australian Council of Social Service



Submission to the Minimum Wage Review, 2015





Who we are

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

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

What we do

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

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

Join ACOSS

Anybody can become an ACOSS member. We have memberships available to organisations, both national and local, and to individuals. Go to http://www.acoss.org.au/take_action/join/ to find out more.

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List of acronyms

ACLI	Analytical Cost of Living Index
ACOSS	Australian Council of Social Service
COSS	Council of Social Service
CPI	Consumer Price Index
FMW	Federal Minimum Wage
FWA	Fair Work Australia
GDP	Gross Domestic Product
OECD	Organisation for Economic Cooperation and Development
RBA	Reserve Bank of Australia
WPI	Wage Price Index



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Summary and Recommendations

ACOSS has a long standing interest in minimum wages. We have made submissions on minimum wage fixation to industrial tribunals since the mid 1990s. ACOSS is an interested party with expertise in poverty, employment policy and income support policy, rather than an advocate for union and industry, or worker and employer positions. We have not advocated specific wage increases in the past, and do not do so in this submission.

The last minimum wage increase awarded by Fair Work Australia (FWA) was a rise of \$18.70 per week (2.9%), bringing the federal minimum wage up to \$640.90 from 1 July 2014¹.

Our interest in minimum wages stems from their impact on people at risk of poverty and disadvantage in Australia:

1. through their direct effect on the disposable incomes of people in low paid work and their families;
2. through their indirect effect on the adequacy of social security payments;
3. through their effect on employment; and
4. through their effect on people's future retirement incomes.

Our 'Poverty in Australia 2014' report found that in 2011 a total of 779,118 people in households for which wages were the main source of income lived in poverty. This figure used the OECD-preferred poverty line, 50% of median disposable income; and comprised 31% of all people in poverty. Although minimum wages are not targeted to reduce poverty, they have a direct impact on poverty of people in paid work and an indirect effect on poverty through the relationship between minimum wages and unemployment payments.

We are concerned that the federal minimum wage (or its equivalent) has barely kept pace with inflation, and has fallen sharply in comparison with median fulltime wage levels, over the last two decades. From 1996 to 2013 the federal minimum wage fell from around 61% to 54% of median fulltime earnings². This leaves minimum wage earners and their families at risk of falling behind improvements in community living standards. However, given growth in median wages has slowed in response to slower economic growth, there is an opportunity to reduce the gap between the two, through a modest increase in minimum wages beyond last year's CPI increase. This would help offset the impact on minimum wages of the 'freeze' applied during the Global Financial Crisis.

Minimum wage increases should at the very least keep up with increases in the cost of living for those affected by them. Over the last calendar year (2014), the CPI rose by 1.7% and the Living Cost Index

¹ Fair Work Commission (2014): *Annual Wage Review 2013-14* Available: https://www.fwc.gov.au/documents/sites/wagereview2014/decisions/c20141_order.pdf

² OECD statistical database, available: <http://stats.oecd.org>



(LCI) for people in paid work rose by 1.6%³. A major reason for the lower value for the LCI is home mortgage costs, which are not relevant to many of the lowest paid workers as they are renting. Rents continue to rise strongly. Median rents for a two bedroom flat rose by 4.2% in both Sydney⁴ and Melbourne⁵ during 2014.

There is no automatic relationship between minimum wage levels and overall employment and unemployment levels. From 1997 to 2012, real minimum wages rose by 11% while employment rose by 36%. The rise in unemployment since the Global Financial Crisis was caused by external influences rather than wage increases, and there is no indication to date that a wage-price spiral will emerge as the economy adjusts to lower investment in mining construction and mineral prices and the Australian dollar weakens. Indeed, wages growth has subsided in response to two years of weak employment growth, suggesting that wages have responded to market conditions. In any event, with only 19% of wage earners directly affected by award wages, increases in minimum wages have a limited impact on wage cost inflation. Since minimum wages have already fallen sharply compared to fulltime median earnings, it would be unconscionable for those on the lowest wages to bear the brunt of wage restraint.

ACOSS recommends that:

- FWA should substantially increase real minimum wages in order to significantly reduce the gap between them and median pay levels.
- Decisions on the level of minimum wages should be informed by 'benchmark' estimates of the cost of attaining a 'decent basic living standard' for a single adult according to contemporary Australian standards.
- The combined effect of the minimum wage and family payments on the extent of poverty among families should also be taken into account in setting minimum wages.
- Research should be commissioned and consultations held with key stakeholders to develop a robust set of indicators of a minimum adequate living standard for people in low paid work. This should take account of new research to update and revise 'Budget Standards', and include regular assessment of the living standards of people on minimum wages against this benchmark as well as median household disposable incomes, poverty lines, deprivation indicators and financial stress indicators.

³ Australian Bureau of Statistics (2015) *Consumer Price Index, Australia, December 2014* http://www.abs.gov.au/ausstats/meisubs.NSF/log?openagent&64010_dec%202014.pdf&6401.0&Publication&8EC44B487DC43EC3CA257DDA000B4AC1&&Dec%202014&28.01.2015&Latest and *Selected Living Cost Indexes, Australia, December 2014* Available <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6467.0>

⁴ Housing NSW (2015) *Rent and Sales Report No 110* Available: <http://www.housing.nsw.gov.au/NR/rdonlyres/6982F5F1-00F5-4E06-B2D6-F7B34C0276D2/0/RentandSalesReport110.pdf>

⁵ Department of Human Services Victoria (2015) *Quarterly media rents by LGA September 2014* Available <http://www.dhs.vic.gov.au/about-the-department/documents-and-resources/research,-data-and-statistics/rental-reports-2014>



- Minimum wage rates for young people, apprentices and trainees, and people with disability under the Supported Wage System, should continue to be increased in line with the rise in the federal minimum wage.

Recent economic trends

Comparing the last minimum wage increase of 2.9% with inflation and community-wide wage increases over the previous financial year (from July 2013 – June 2014) the Consumer Price Index (CPI) rose by 3.0% and the Wage Price Index rose by 2.9%. Thus, the minimum wage was slightly below CPI inflation (by 0.1%) and the same rate of growth as the Wage Price Index. The Living Cost Index (LCI) for employees rose by 1.4%.

Turning to the latest available data on living costs and general wage increases, the LCI for employee households rose by 1.7% over the 12 months to December 2014 while the CPI rose by 1.6% over the same period⁶. It is worth noting that a major reason for the lower value of the LCI is home mortgage costs, which are not relevant to many of the lowest paid workers as they are renting. Rents continue to rise strongly. Median rents for a two bedroom flat rose by 4.2% in both Sydney and Melbourne over the year from December 2013 to December 2014. The Wage Price Index (WPI) rose by 2.5%⁷.

The Reserve Bank of Australia (RBA) forecasts slightly weaker economic growth than anticipated in 2014 with growth likely to strengthen a little later than previously anticipated, and reaching trend level growth at best.

The RBA forecasts that underlying inflation in 2015 will remain steady at 2.25% to June 2015, before increasing to around 3% during 2016. Productivity is expected to decrease slightly initially before growing after June 2015. Over the forecast horizon inflation is forecast to be consistent with the 2-3% target, while productivity is forecast to continue to grow. The subdued labour market is expected to exert downward pressure on wages and inflation.

Particularly concerning to ACOSS is the fact that, with economic growth expected to remain below trend for longer than expected and for a few more quarters at least, employment growth will remain weak and the unemployment rate will peak later and higher.

Living standards

ACOSS takes a long term view of minimum wage fixation and the needs of people living on low incomes. The substantial reduction in the value of minimum wages relative to the median over the last

⁶<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6467.0Main+Features1Dec%202013?OpenDocument> and <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6401.0?opendocument>

⁷ <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6345.0/>



two decades has significant and worrying social consequences. While minimum wages cannot target poverty as precisely as social security payments, they are mainly paid to the bottom 50% of people of working age.⁸ A substantial proportion of people living in poverty include low paid workers:

- using the OECD-preferred 50% of median disposable income poverty line, a total of 779,000 people in households for which wages were the main source of income lived in poverty. This figure comprises 31% of all people in poverty.⁹
- Using the European Union-preferred higher poverty line of 60% of median disposable, a total of 1,286,000 people in households for which wages were the main source of income lived in poverty. This figure comprises 32% of all people in poverty.
- Households living below these poverty lines mainly comprised families with children (51% of households living below the 50% poverty line and 47% of those below the 60% poverty line).¹⁰

There is a reasonably consistent long term relationship between minimum wage settings and the value of social security payments for people not in paid work. Between 1994 and 2013, unemployment benefits for a single adult have been between 40-45% of the value of a fulltime minimum wage, before tax¹¹ Currently it sits at 41% of the minimum wage¹². The constancy 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 associated in international comparisons with lower levels of child poverty, even though only a minority of poor households in most OECD countries benefit directly from minimum wages.

Minimum wages also play an important role in reducing the gender pay gap, which is caused by a combination of unequal sharing of caring roles, the over-representation of women in relatively low paid caring occupations (including in our own sector), and discrimination against women in hiring and promotions. Minimum wage adjustments awarded between 1995 and 2005 were estimated to contribute to a reduction of the gender pay gap in Australia over this period by approximately 1.2 percentage points¹³.

⁸ Healy & Richardson 2006, *An updated profile of the minimum wage workforce in Australia*. National Institute of Labour Studies.

⁹ ACOSS 2014, *Poverty in Australia*.

¹⁰ ACOSS 2014, *Op Cit*

¹¹ ACOSS 2012 *Surviving , not living: Submission to Senate Employment Committee on the adequacy of 'Alloance' payments*. ACOSS Paper 192

¹² Human Services A Guide to Australian Government Payments Available <http://www.humanservices.gov.au/spw/corporate/publications-and-resources/resources/co029/co029-1503.pdf> History of National Increases, available: <http://workplaceinfo.com.au/payroll/wages-and-salaries/history-of-national-increase>

¹³ Austen et al 2008, *Gender pay differentials in low paid employment*. Women in social and economic research, commissioned by the Australian Fair Pay Commission.



Employment

The relationship between minimum wages and employment is much debated. In theory, 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, the non-accelerating inflation rate of unemployment), or by discouraging employers from engaging low skilled workers. The very large and rapid increases in award rates of pay in the early 1970s may have contributed to the rise in unemployment over that decade and, conversely, aggregate wage restraint may have contributed to the lowering of unemployment over the 1980s. However, since the mid 1990s modest real increases in minimum wages appear to have had little or no impact on employment or unemployment levels. From 1997 to 2014, real minimum wages rose by 11% while employment rose by 40%. 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 regulated wages in wage fixation. Since the Global Financial Crisis in 2008, unemployment has increased, but as a result of external factors which reduced the pace of economic growth.

There is no indication to date that a wage-price spiral will emerge as the economy adjusts to lower investment in mining construction and mineral prices and the Australian dollar weakens. Indeed, wages growth has subsided in response to two years of weak employment growth, suggesting that wages have responded to market conditions. In any event, with just 19% of employees in 2010 on wages directly determined by the award system, increases in minimum wages have a limited impact on wage cost inflation.

As the peak organisation in the non government community services sector, ACOSS has a particular interest in employment issues in community services. The community sector's capacity to provide quality services depends on the availability of suitably skilled employees, many of whom rely on the award system for their wages. With approximately 15% of Award reliant employees working in health and community services, the industry ranks as the third largest employer of these workers¹⁴. The vast majority of employees in the community services sector (82%) are women. The undervaluation of their work, together with the erosion of real minimum wages over time and a succession of flat rate minimum wage increases, has depressed their rates of pay despite the highly skilled nature of much of their work. ACOSS therefore welcomed the Commission's 2012 decision to increase minimum rates of pay for employees in our sector over the coming years. The Councils of Social Service (COSS) network has been advocating with Governments to ensure that funding keeps pace with those increases and services are not trimmed back. Substantial pay increases are needed over time to improve the quality of community services by helping them to avert shortages of skilled workers.

¹⁴ Australian Council of Trade Unions 2012 *Submission to 2012-13 Annual Wage Review* Available: <http://www.actu.org.au/Images/Dynamic/attachments/7871/ACTU%20Submission%20-%202012-13%20Annual%20Wage%20Review%20-%20March%202013.pdf>



While these increases are being phased in, the Equal Remuneration Order rates will be increased by national minimum wage rises.

Another key factor for the Commission to consider is the effect of minimum wages on paid work incentives. As the population ages, Australia will have to rely more on income support recipients and women outside the paid labour force as potential 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 recommendations focus on how the needs of people on low pay can best be assessed and the respective roles of wages and social security in sustaining a decent standard of living. Our starting point is that the 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 maximum social security payments 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 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. Because of the importance of research on benchmarks community living standards, ACOSS, together with Catholic Social Services Australia and United Voice, is partnering with the Social Policy Research Centre to update their 1996 budget standards to reflect changes in what constitutes a 'basic' living standard.

Our recommendations – listed above – include that the Commission undertake further work, including commissioned research and consultations, to develop a robust set of indicators of a minimum adequate living standard for low paid workers and their families and to track those measures over time. In the interim, ACOSS welcomes the Commission's use of updated poverty lines and financial stress indicators and expenditure patterns of low paid workers in the Annual Wage Review Statistical Report.



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 international economic literature that the extent to which national income is widely or narrowly distributed is an important factor in community well being¹⁵. 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.¹⁶

'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.¹⁷ 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

¹⁵ For example, OECD 2013 *Framework for Statistics on the Distribution of Household Income*

¹⁶ Treasury 2004, *Policy advice and Treasury's well being framework*. Paper delivered at ACAS meeting.

¹⁷ Nelms & Tsingas 2010, Literature review on social inclusion and its relationship to minimum wages and workforce participation, Fair Work Australia.



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.¹⁸

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 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.¹⁹

¹⁸ Hayes et al 2008, Social inclusion, origins concepts and key themes, Australian Institute of Family Studies.

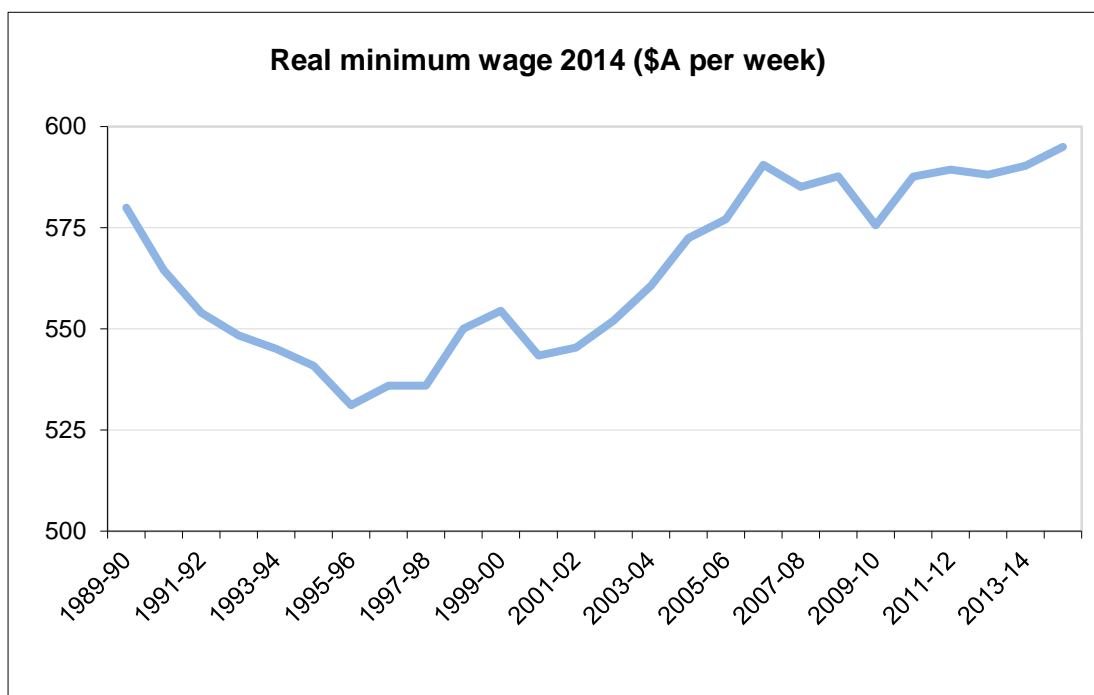
¹⁹ House of Representatives standing committee on employment and workplace relations 2009, Making it fair. Commonwealth of Australia.



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 \$17 per hour, \$641 per week, or approximately \$33,327 per year²⁰. The minimum wage fell in real terms over the 1980s and early 1990s, but rose moderately from the mid 1990s to the mid 2000s. As a result, its real value is approximately the same now as it was 20 years ago (see graph below). As indicated in the summary, the 2010 decision roughly restored its purchasing power to that which prevailed before the 2009 minimum wages ‘freeze’.

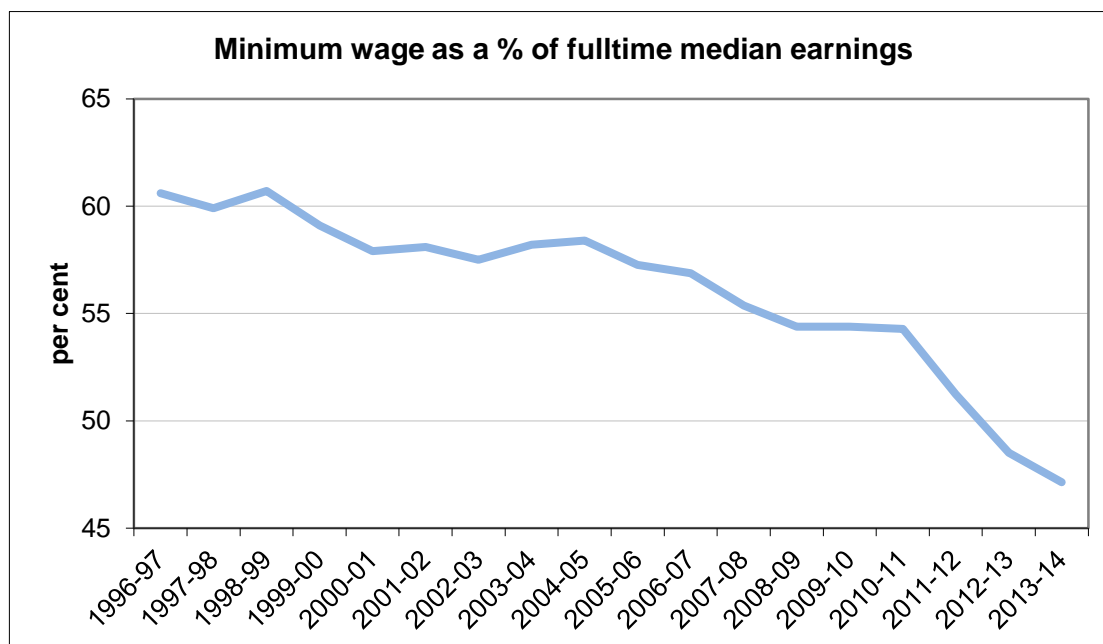


Sources: Dawkins (2000) *The labour market*, in Reserve Bank, *The Australian economy in the 1990s*; ABS, *Consumer Price Index*; Australian Industrial Relations Commission, *Safety net adjustment decisions*; Australian Fair Pay Commission, *Wage setting decisions*; Fair Work Australia, *Annual wage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

²⁰ Available at: <http://www.fairwork.gov.au/pay/national-minimum-wage/pages/default.aspx>



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 6310, *Employee Earnings, Benefits and Trade Union Membership*.

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

The ABS estimates that the proportion of employees whose wages were directly determined by awards was 18.8% in 2014²¹.

²¹ ABS (2012) *Employee earnings and hours*, May 2012.



Research undertaken by Fair Work Australia²² shows that, in 2007, between 10 and 11 per cent of all adult employees earned between 100% and 120% of the Federal Minimum Wage. Profiling employees below, on, or slightly above the minimum wage, the study found that:

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

(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.²³ 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 (84%) are women²⁴. 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

²² Nels, L; Nicholson, P; Wheatley, T 2011, *Employees earning below the federal minimum wage: review of data, characteristics and potential explanatory factors* Minimum Wages and Research Branch, Fair Work Australia

²³ 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.

²⁴ Australian Bureau of Statistics (2011) *Australian Social Trends, September 2011: Community Service Workers* Available: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features30Sep+2011>



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.²⁵

Research by ACIL Tasman found that one quarter of employees in health and community services rely exclusively on the Award system for their wages in 2006, well above the national average, though more recent ABS data indicates this fell to 17% in 2008. Their relatively high reliance on award pay scales comes 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.²⁶

This has led to problems in recruiting and retaining skilled staff, a critical issue for an industry with an ageing workforce. In 2010-11, 50% of workers in community service industries were aged over 45, compared with 38% of workers in all industries.²⁷ ACOSS conducts a regular survey of the state of non government community services, the 'community sector survey'. In the survey for the 2009-2010 financial year:

- average annual turnover across respondent agencies was equivalent to 24%
- 68% of respondent agencies indicated that salaries made attracting and retaining staff more difficult.²⁸

A study by Colmar Brunton Social Research confirmed that this is a problem often raised by employers and employees alike.²⁹ This problem is likely to worsen if Awards continue to be adjusted in flat dollar amounts, reducing rewards for skill in the sector.

In recognition that community sector wages are significantly below market-based wages and wages paid for equal or comparable work in other sectors, ACOSS supported the application by unions including the Australian Services Union for an equal remuneration order for community sector workers to attempt to redress this.

ACOSS therefore warmly welcomed the Commission's decision in 2012 to increase minimum rates of pay for employee's in our sector substantially over the coming years, and the COSS network has worked with Governments to ensure that funding keeps pace with those increases and services are not trimmed back. Over time, these pay increases should improve the quality of community services by helping them to avert shortages of skilled workers.

²⁵ Australian Services Union 2007, Building social inclusion in Australia: priorities for the social and community services sector workforce.

²⁶ ACIL Tasman 2008, *Health and community services industry profile*, commissioned by the AFPC.

²⁷ ABS, 2011, *ibid*.

²⁸ ACOSS 2011, Australian Community sector survey.

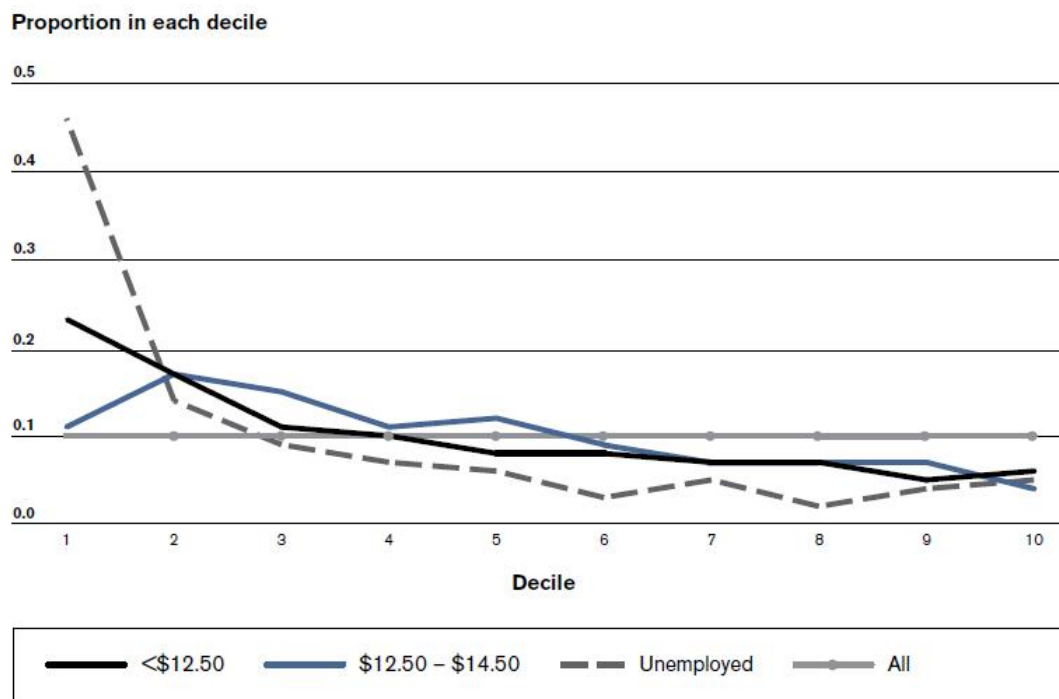
²⁹ Colmar Brunton Social Research 2008, *Health and community services industry profile*, commissioned by the AFPC.



(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.

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:



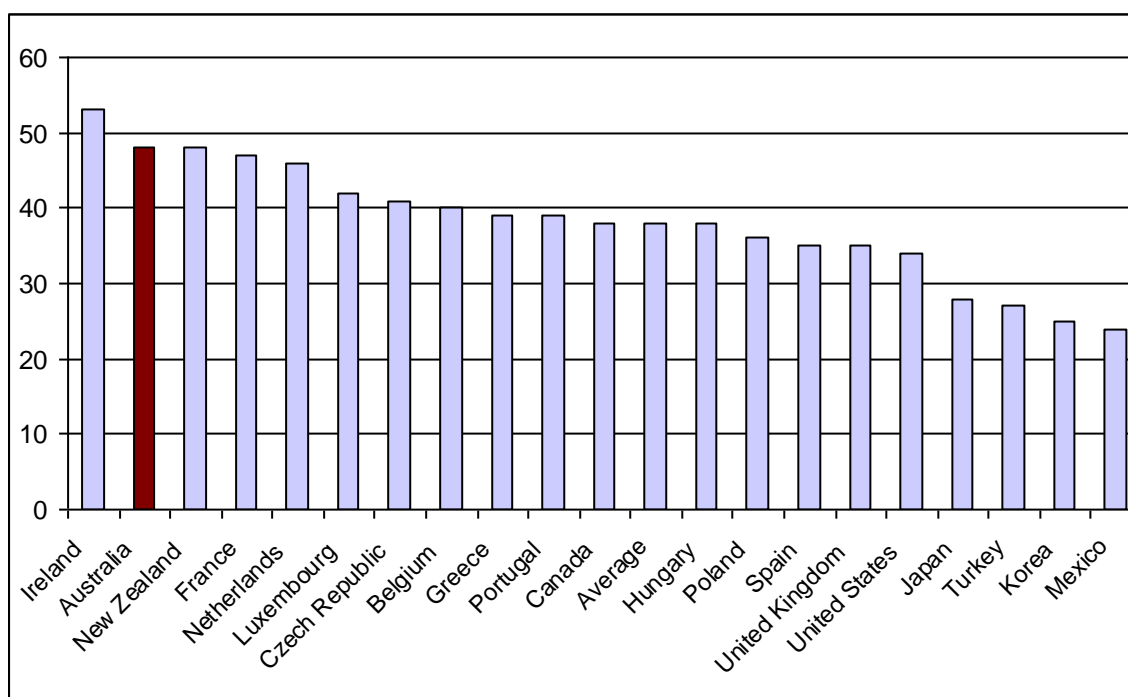
- half of all households with workers on less than to just above minimum wages came from households in the bottom 40% of this distribution.³⁰

This is also consistent with Richardson & Harding's findings for 1995.³¹

International comparisons

In 2013, Australian minimum wages were around 44% of average wage rates and 54% of the median weekly fulltime wage.³² This is higher than most OECD countries, and has been so for many years.

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.

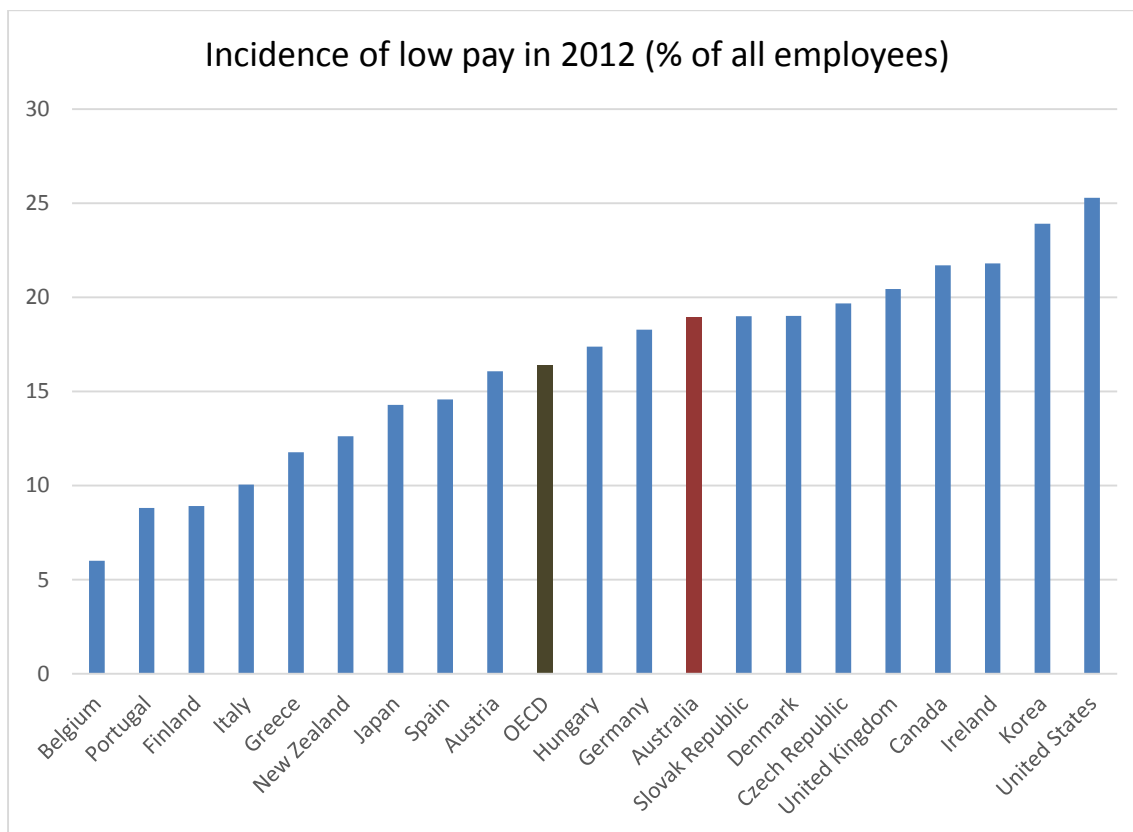
³⁰ Leigh 2005, *Does the minimum wage help the poor?* ANU Centre for Economic Policy Research Discussion Paper 501. Note that Leigh's distribution was different to the one in the graph above as it included people of working age outside the labour force.

³¹ Healy & Richardson 2006, *An updated profile of the minimum wage workforce in Australia*. National Institute of Labour Studies; Richardson & Harding 1999, op cit.

³² OECD Statistics Database, <http://stats.oecd.org/>



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 OECD countries (for Australia, the estimate is 17%, compared with a median level of around 16% - 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 which has found a substantial number of employees on below minimum rates of pay across Australia.³³



Source: OECD Statistics Database, <http://stats.oecd.org/>.

Note: Incidence of low pay refers to the % of full time employees on less than 2/3 of median wages.

³³ Nelms et al (2011), *Employees earning below the Federal Minimum Wage*, Fair Work Australia; McGuinness et al (2006), *Characteristics of minimum wage employees*, Melbourne Institute.



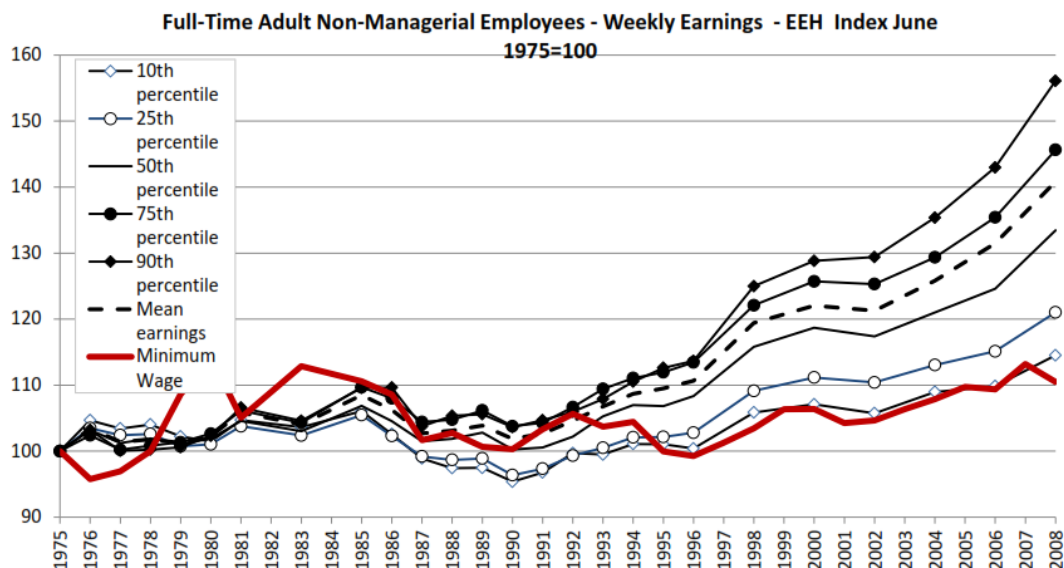
3. Trends in income inequality in Australia and overseas

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 the different percentiles over that period, compared with mean earnings and minimum wage.

Real earnings growth among full time non managerial employees

Trends in earnings inequality for full-time workers, Australia, 1975 to 2008



Source: Whiteford, P (2012) Is Inequality Increasing?

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 2004.³⁴ In 2013³⁵, women earned 83% 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.³⁶ 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.³⁷

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.³⁸

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

³⁴ URCOT 2005, *Pay equity – how to address the gender pay gap*, Industrial Relations Victoria; ABS, Employee earnings and hours survey.

³⁵ ABS 2013, *Average Weekly Earnings, Australia, November 2013*. Cat no. 6302.0

³⁶ Blau 2003, Understanding international differences in the gender wage gap, *Journal of Labor Economics* 21:1.

³⁷ Austen et al 2008, *Gender pay differentials in low paid employment*. Women in social and economic research, commissioned by the Australian Fair Pay Commission.

³⁸ 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.



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.³⁹

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.

³⁹ This assumes that these payments should be sufficient to keep their recipients out of poverty.



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

- 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 households on low incomes, on the basis of access to a set of essential goods and services. This requires a degree of consensus over what comprises essential goods and services in Australia today.
- 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.⁴⁰ 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.

The Budget Standards have been updated since 1996 using the CPI, but this does not capture real increases in community living standards.⁴¹

⁴⁰ See SPRC 1997, *Indicative budget standards for Australia*. Dept of Social Security.

⁴¹ 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



Because of this, ACOSS, together with Catholic Social Services Australia and United Voice, is partnering with the Social Policy Research Centre to update their 1996 budget standards to reflect changes in what constitutes a 'basic' living standard.

The Budget Standards for 2012, and a commonly used poverty line for single adults and a family of four are detailed in the table. 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 2013 using the CPI, the Modest but Adequate Budget Standard for a single adult in a working household was \$602 per week. The relevant Modest But Adequate budget standard for a couple with two children was \$1,155. By comparison, the federal minimum wage was approximately \$557 per week after tax and transfers for a single adult without children.⁴²

The table below estimates Modest but Adequate Budget Standards, Low Cost Budget Standards, and the 60% of median income poverty line (the standard poverty measure used in the European Union) with minimum wages after tax and transfers for two family types in December 2012.

be addressed fairly easily by using a median national estimate for rents, or by developing different budget standards for different housing markets.

⁴² 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.



Budget Standards and Poverty Lines (2013)

	Single adult	Single-income couple, 2 children (5-12)
'Modest but adequate' income thresholds (\$ per week, after tax)		
'Modest but Adequate' Budget Standards	\$602	\$1,155
Minimum wage (after tax and transfers) as a % of 'Modest but Adequate' Budget Standards	95%	91%
Poverty thresholds (\$ per week, after tax)		
'Low Cost' Budget Standards	\$471	\$943
Minimum wage (after tax and transfers) as a % of 'Low Cost' Budget Standards	122%	112%
Poverty line (60% of median income)	\$489	\$1,028
Minimum wage (after tax and transfers) as a % of Poverty line (60% of median income)	114%	99%

Sources: Saunders 2003, *Updated budget standards estimates*. Social Policy Research Centre, The MBA Budget Standards for September 2003 were \$452.30 for a single female and \$867.90 for a couple with 2 children. These estimates were updated using the CPI, as recommended in that report.

Fair Work Australia (2012), *Statistical Report, Annual Wage Review 2012-13*, table 8.3. Note that the 'modified OECD equivalence scale' was used to calculate these poverty lines and that they were updated to 2012 using trends in household disposable income per capita. In single income couples, one partner receives Newstart or Parenting Payment.

(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 households seeking employment.



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

In 2014 ACOSS commissioned new research on poverty in Australia from the Social Policy Research Centre at the University of New South Wales⁴³. The data source is the Australian Bureau of Statistics (ABS) Income and Expenditure surveys for 2011-12 and previous years.

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

Housing costs (rent, mortgage payments and rates) are deducted from income before calculating the median income on which the poverty lines are based (which reduces the poverty lines) and deducts each household's housing costs from their income (which reduces household incomes). In this way, it compares different households' ability to meet their basic living costs apart from housing⁴⁴. The report also includes updated data on on 'deprivation based' measures of financial hardship, ⁴⁵.

This study found that in 2010:

- When a poverty line of 50% of median disposable income was used (a relatively low poverty benchmark used by the OECD), a total of 779,000 people in households for which wages were the main source of income, comprising 31% of all people in poverty, lived below this poverty line.⁴⁶
- When the higher poverty line of 60% of median disposable income (used in European Union countries) was used, a total of 1,286,000 people in households for which wages were the main source of income, comprising 32% of all people in poverty, lived below this poverty line.
- Households living below these poverty lines mainly comprised families with children (51% of households living below the 50% poverty line and 47% of those below the 60% poverty line).⁴⁷

⁴³ ACOSS 2014Op.Cit,

⁴⁴ Households reporting zero or negative incomes and those with self-employed residents were excluded from the sample due to uncertainty about the accuracy of their incomes as measured in the survey. Note that this reduces the overall population by approximately 3.7 million people. Estimates of the risk of poverty in this report are expressed as proportions of this lower overall population.

⁴⁵ Part 14 of the new report and ACOSS (2012), Who is missing out: Material deprivation and income support payments, ACOSS Paper 187

⁴⁶ While the changed methodology does not permit direct comparisons, this is proportion 70% higher than found in the earlier 2007 report prepared for ACOSS, Saunders, Bradbury & Hill 2007, *Poverty in Australia, Sensitivity Analysis and Recent Trends*, Social Policy Research Centre, report for Australian Council of Social Service.

⁴⁷ ACOSS 2012, *Poverty in Australia*: ACOSS Paper 194



People living below poverty lines in 2011-12

	Profile of poverty (%)		Risk of poverty (%)	
	50% of median income (%)	60% of median income (%)	50% of median income	60% of median income
By main income source ⁴⁸				
Wages	30.6	31.9	5.9	9.8
Social security payment	60.7	61.4	40.1	64.9
Other	8.7	6.7	16.9	20.5
All people	100	100	13.9	22.0
By labour force status ⁴⁹				
Employed (full time)	20.5	22.1	4.7	8.1
Employed (part time)	12.7	12.8	15.9	25.2
Unemployed	6.4	4.5	61.2	67.6
Not in labour force (retired)	17.1	25.5	16.0	37.6
Not in labour force (other)	43.3	35.1	48.4	62.2
All people	100	100	13.9	22.0

Source: ACOSS 2012, *Poverty in Australia*: ACOSS Paper 194.

⁴⁸ Of the household in which people live.

⁴⁹ Refers to household reference person.



	Profile of poverty (number in poverty)	
By main income source	50% of median income (%)	60% of median income (%)
Wages	779,118	1,285,742
Social security payment	1,546,706	2,473,838
Other	222,672	269,945
All people	2,548,496	4,029,526

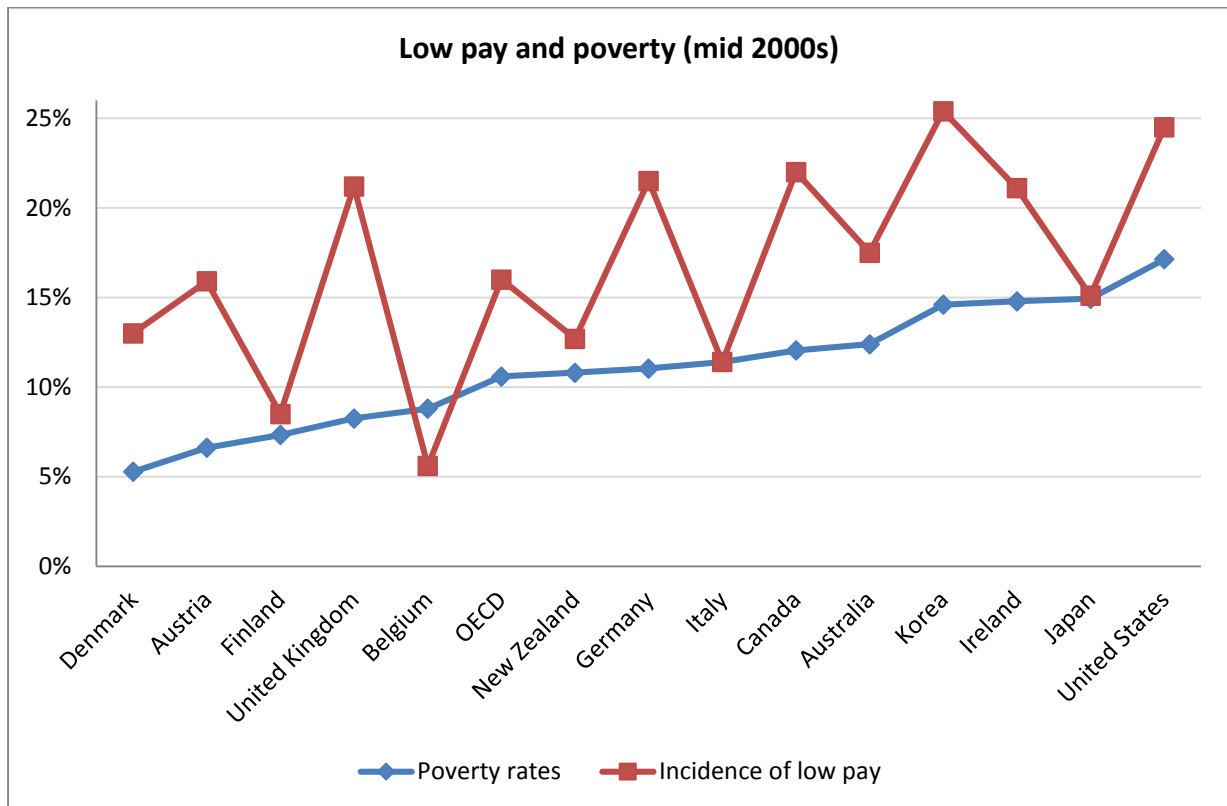
By labour force status		
Employed (full time)	522,138	891,343
Employed (part time)	324,563	514,916
Unemployed	162,811	179,812
Not in labour force (retired)	436,016	1,079,710
Not in labour force (other)	1,102,968	1,415,745
All people	2,548,496	4,029,526

Source: ACOSS 2012, *Poverty in Australia*: ACOSS Paper 194.

(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).

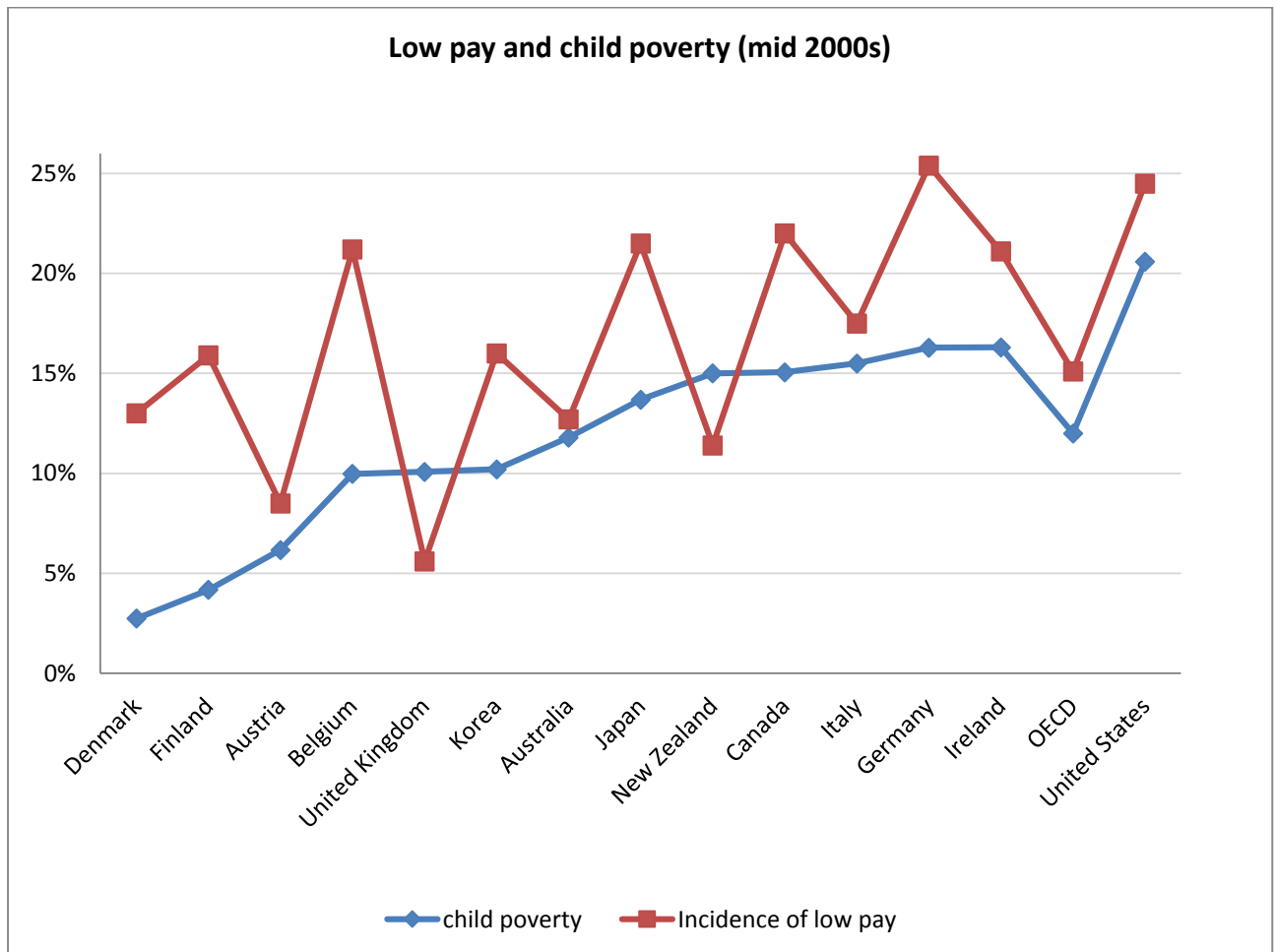
As discussed above, it is not inevitable that the two indicators will be linked in this way, since low pay is a measure of individual income and income poverty is a measure of household income. The graph below uses data from an OECD study of income poverty and inequality. It charts the relationship between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



Source: OECD 2008, *growing unequal*, p127.

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 from the same source. It charts the relationship between child poverty and the incidence of low pay. The link between minimum wages and child poverty is somewhat stronger, because in this analysis retired households (who are not generally affected by low pay) are not included in the poverty count.



Source: OECD 2008, *Growing unequal*, p127.

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

The authors of an earlier UNICEF study suggested 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.⁵⁰

⁵⁰ UNICEF (2000), *Child poverty in rich countries*. Florence



(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.⁵¹

An alternative approach is to measure living standards directly. A number of 'deprivation' studies have been conducted by the Social Policy Research Centre in collaboration with ACOSS, and other agencies. National surveys were conducted to ask 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. These studies were not specifically designed to assess the levels of deprivation among households with people in paid work, though the method could be adapted to that purpose.⁵²

One deprivation study by Masterman-Smith et al using focus groups of low wage earners sheds more light on the lived experience of low paid workers. This study indicated that families reliant on low pay must budget very carefully to avoid financial hardship, foregoing things most Australians take for granted such as dental care, annual holidays, a car, eating out with friends, and buying a home.⁵³

(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. One problem with financial stress indicators is that different respondents to surveys have different perceptions of the meaning of the questions used.⁵⁴

⁵¹ ACOSS 2003, *The bare necessities*. The main exceptions are low income self employed people and low income retirees with substantial assets.

⁵² Saunders & Naidoo 2007, *Towards new indicators of disadvantage*, Social Policy Research Centre.

⁵³ Masterman-Smith, May, & Pocock 2006, *Living Low Paid: Some Experiences of Australian Childcare Workers and Cleaners*.

⁵⁴ 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.



The Melbourne Institute study found that in 2011, 33% of low paid employees experienced financial stress compared with 17% of all employees. 17% of low paid employees experienced moderate to high financial stress compared to 5% of all employees. In both groups, and across all measures of financial stress, the levels of stress reported have increased between 2007 and 2011.⁵⁵ However the authors cautioned that these are not a good overall measure of living standards.

(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.⁵⁶

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

- the median rent for one bedroom flat in Sydney was \$500 per week in December 2014;
- the median rent for a one bedroom flat in Melbourne was \$350 per week in December 2014.⁵⁷

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.

⁵⁵ Melbourne Institute, *Household Income and Labour Dynamics in Australia Survey, various*, cited in Fair Work Australia, *Statistical Report—Annual Wage Review 2012–13*

⁵⁶ Yates et al 2006, *Housing affordability, occupation and location*. Australian Housing and Urban Research Institute.

⁵⁷ Housing NSW (2015) *Rent and Sales Report No 110* Available:

<http://www.housing.nsw.gov.au/NR/rdonlyres/6982F5F1-00F5-4E06-B2D6-F7B34C0276D2/0/RentandSalesReport110.pdf>; ; Department of Human Services Victoria (2015)

Quarterly media rents by LGA September 2014 Available

http://www.dhs.vic.gov.au/__data/assets/excel_doc/0007/912193/20144-December-quarterly-median_rents_LGA.xls



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.⁵⁸

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.

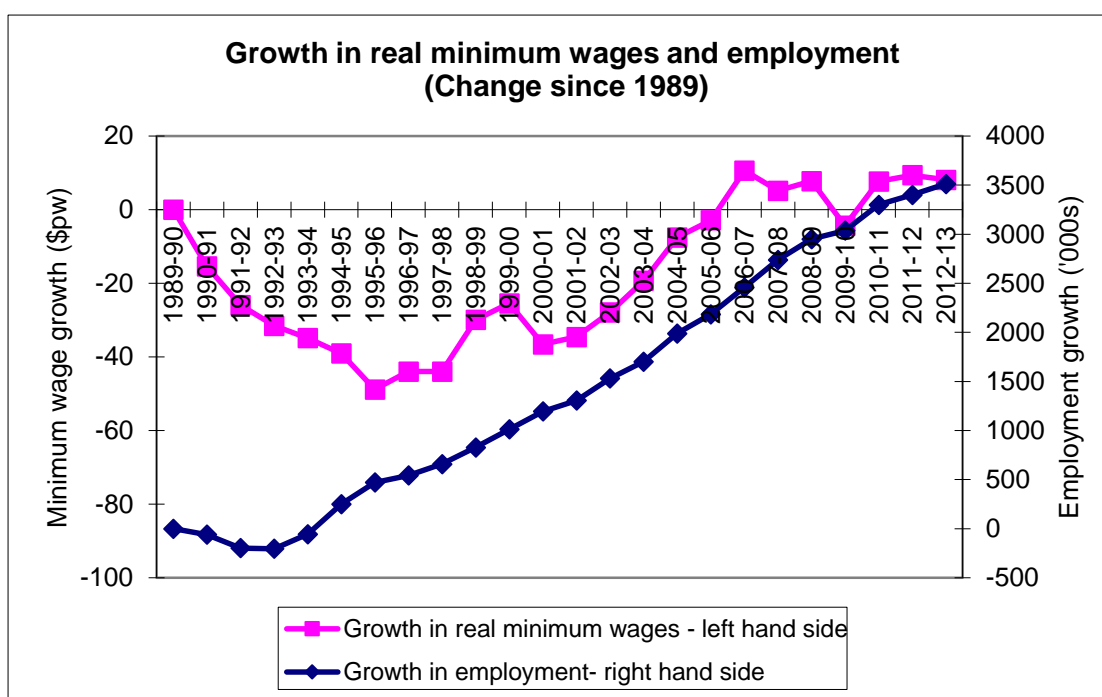
In any event, the research suggests that modest changes in minimum wages generally have little or no impact on employment and unemployment.⁵⁹

⁵⁸ See, for example, the discussion on minimum wages in OECD 2006 *Employment Outlook*, and the more substantial study in its 1998 *Employment Outlook*. Employment outlook

⁵⁹ Gregg 2000, op cit.



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 aggregate wage restraint may have contributed to the lowering of unemployment level over the 1980s.⁶⁰ However, 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 wage setting tribunals began to increase minimum wages in real terms (from about 1998, see graph below). From 1997 to 2012, real minimum wages rose by 11% while employment rose by 40%.



Sources:

Dawkins 2000, The labour market, in Reserve Bank, The Australian economy in the 1990s; Fair Work Australia 2012, Statistical Report – Annual Wage Review; Australian Fair Pay Commission (various years), Wage setting decisions; Australian Industrial Relations Commission (various years), Safety net adjustment decision; ABS, Consumer Price Index and Labour Force. Note: 2010-11 and subsequent data are for December.

This may be due to changes in the functioning 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. 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 over the long term.

⁶⁰ Chapman et al 1991, *Analysing the impact of consensual incomes policy on aggregate wage outcomes*. Centre for Applied Economic Research Discussion Paper 253, ANU.



There is no indication to date that a wage-price spiral will emerge as the economy adjusts to lower investment in mining construction and mineral prices and the Australian dollar weakens. Indeed, wages growth has subsided in response to two years of weak employment growth, suggesting that wages growth has responded to market conditions. In any event, increases in minimum wages have a limited impact on wage cost inflation overall.

Britain has had a similar experience since a new system of minimum wage fixation was introduced in 1999. Prior to the GFC, modest increases in the National Minimum Wage (NMW) did not prevent employment from growing steadily and British unemployment from falling to low levels by OECD standards. There is also evidence to suggest that in some years, increases in the NMW led to increases in employment.⁶¹

The outlook for international economic growth is improving, and the Reserve Bank expects global economic growth to pick up gradually over 2013, with growth in Australia's major trading partners at or a little above the long run average over each of the next two years. Nonetheless, after picking up for three years after the downturn of 2008-09, growth in the economy slowed somewhat through the year. The RBA expects that GDP growth is likely to have been 2 ¾ per cent over 2014, but to be between 2 ¼ - 3 ¼ over 2015.⁶²

Inflation remains low – and lower than earlier projected, with underlying inflation around 2¼ per cent since the middle of last year. The RBA expects the rate of underlying inflation to pick up a little to around 3per cent by the end of 2015.

Employment trends have been less consistent since 2009, rising by 2.7% in calendar 2010 but recording only 0.4% growth in 2011. In 2012 employment growth was a little stronger at 1.3%. After a strong decline to 4.9% in 2010, the unemployment rate has continued to rise over the past two years to 5.4% at the end of 2012.

Turning to current economic and labour market conditions, the Reserve Bank of Australia (RBA) forecasts slightly weaker economic growth than anticipated in 2014 with growth likely to strengthen a little later than previously anticipated, and reaching trend level growth at best. The RBA forecasts that underlying inflation in 2015 will remain steady at 2.25% to June 2015, before increasing to around 3% during 2016. Productivity is expected to decrease slightly initially before growing after June 2015. Over the forecast horizon inflation is forecast to be consistent with the 2-3% target, while productivity is forecast to continue to grow. The subdued labour market is expected to exert downward pressure on wages and inflation.

Reserve Bank economic forecasts for 2015-16. In 2015-16:

⁶¹ Dolton et al (2010) Employment, Inequality and the UK National Minimum Wage over the Medium-Term, IZA Discussion Paper No. 5278; 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.

⁶² RBA 2015, *Op Cit*



- GDP is forecast to grow by around 2.25% to 3.75%;
- Underlying inflation, based on current legislation or the price of carbon, is estimated at 2.25% to 3%.

Effect of minimum wages on structural unemployment

For the eight years to February 2014, the official unemployment rate in Australia remained below 6%⁶³, and is now 6.3%, 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 people who are unemployed 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.⁶⁴

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.⁶⁵

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).⁶⁶ 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).

⁶³ ABS 2014 *Labour Force Australia, Feb 2014* ***Cat no 6202.0

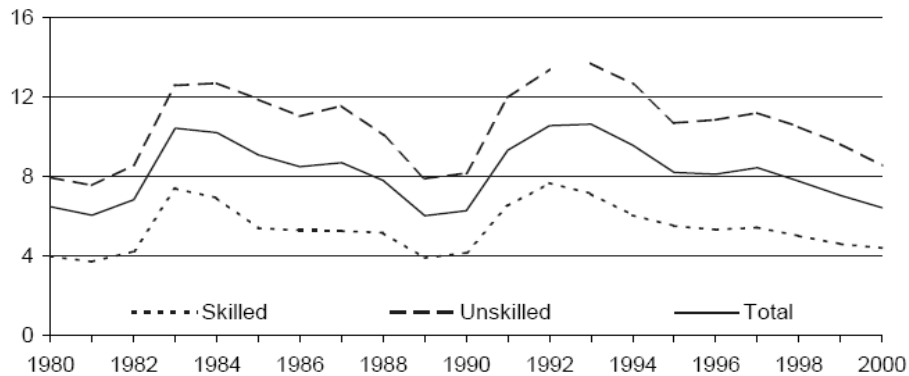
⁶⁴ Frijters & Gregory 2005, From golden age to golden age - Australia's great leap forward?

⁶⁵ See section dealing with earnings inequality, above.

⁶⁶ 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.



Unemployment by skill level



^a Excluding persons in the labour force who are still at school. ^b Break in data series in 1992 (see appendix A for details).

Data sources: Based on ABS (*Labour Force Status and Educational Attainment, Australia*, Cat. no. 6235.0; *Transition from Education to Work, Australia*, Cat. no. 6227.0).

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

Large international differences 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).⁶⁷

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.

(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).

⁶⁷ OECD 2007, *Employment Outlook*; see also Kennedy 2007, *Full employment in Australia and the implications for policy*. Department of the Treasury.

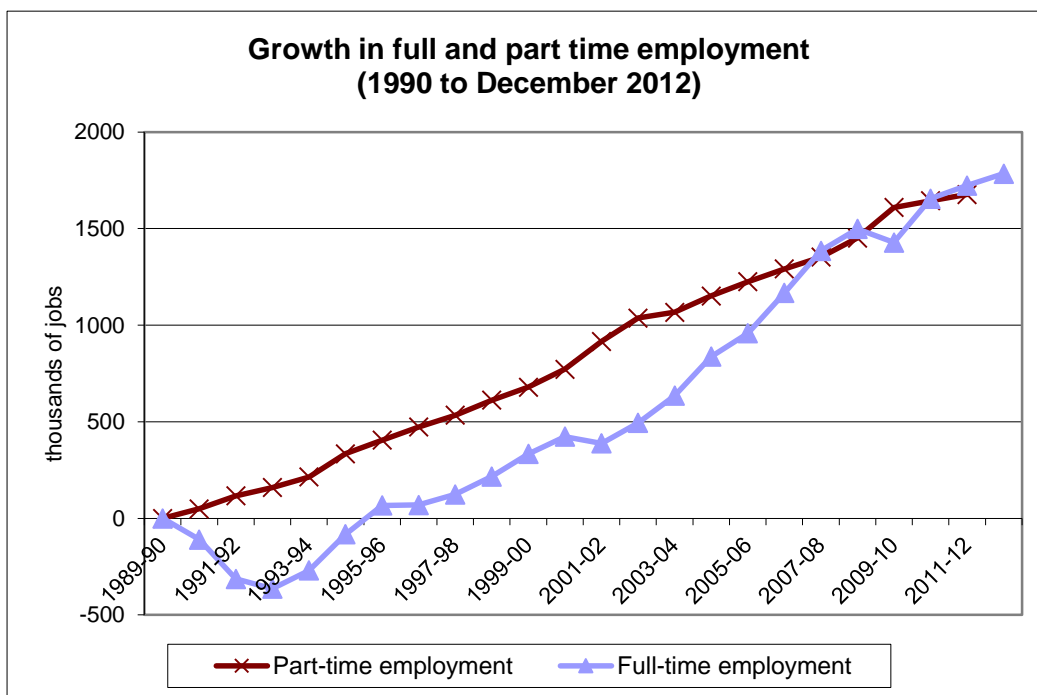


Change in employment by skill level and job status (1990-2000)

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.

These shifts in the composition of employment by skill occurred over a decade (the 1990s) when part time employment grew while fulltime employment failed to recover to pre (early 1990s) recession levels. From the early 2000s to the economic downturn in 2008-09, full time employment grew more rapidly than part time employment (see graph below). This reflected strong growth in fulltime jobs in construction and mining related industries, as well as ongoing growth in professional employment generally over that period. During the GFC, the previous pattern of relatively strong growth in part time employment was resumed.



Sources: FaCS 2002, *Submission to Senate inquiry into poverty and financial hardship*, updated to 2000; ACOSS calculations using ABS Labour Force data (last 3 years refer to employment in December)



Australia is exceptional in its high 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 rate of casual work is second only to Spain. There is a high rate of low pay in both part time and casual employment. 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 to a large extent confined to part time jobs⁶⁸.

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.⁶⁹

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 lay in the distribution of *working hours* rather than the distribution of jobs.⁷⁰

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.⁷¹ However, it is doubtful that low skilled workers would be better off. For example, at 2005 US minimum wage rates, they would have had to work full time to attain the same income they now have working three days a week.⁷²

(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

⁶⁸ 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.

⁶⁹ 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.

⁷⁰ Keating 2002, *Earnings and inequality*, ANU Centre for Economic Policy Research Discussion paper 460.

⁷¹ These may be the main reasons that the level of part time employment is much lower in the US than in Australia.

⁷² 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.



considerable distance from 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 February 2014 among the 870 037 Newstart and Youth Allowance (other) recipients, 537,533 received these payments for over one year.⁷³ 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, in 2010:

- one in six had been assessed as able to work part time only due to a disability,
- one in sixteen were sole parents,
- one in ten were Indigenous,
- one in three were over 44 years of age,
- half of people participating in Job Services Australia services had less than Year 12 qualifications⁷⁴.

Data on employment outcomes from the Job Services Australia program, the major federal employment services program for unemployed people, suggests that those participants assessed as disadvantaged had low prospects of securing fulltime employment and thus leaving income support. (see table below).

Employment outcomes of unemployed people using JSA services

Service received	No of jobseekers	% employed full time 3 months after assistance
JSA Stream 1	640,206 (45%)	27%
JSA Stream 2	406,939 (29%)	15%
JSA Stream 3	273,924 (19%)	7%
JSA Stream 4	233,576 (16%)	9%
All JSA	1,421,946 (100%)	30%

⁷³ Department of Social Services (2015): *Labour Markets and Related Payments, February 2015* Available: https://www.dss.gov.au/sites/default/files/documents/03_2015/labour_market_and_related_payments_february_2015.pdf

⁷⁴ DEEWR (2010) *Response to Senate Education Employment and Workplace Relations Committee Question on Notice EW0534_11*. And DEEWR (2011) *Labour market assistance outcomes*.



Senate Standing Committee on Education and Employment (2014), EM0091_14; Department of Employment (2013) *Labour market Assistance Outcomes, Job Services Australia, March 2013*

Note: Numbers are a count of individual jobseekers on the JSA caseload on any given day during 2012-13. Percentages are from March 2013. A job seeker can participate in more than one stream over the course of a financial year, so the sum of the streams is greater than the total participant count. More were employed part time but remained on income support.

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.⁷⁵

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. Encouragement and support of employers to engage disadvantaged jobseekers including 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.

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.

⁷⁵ DEETYA 1998, Evaluation of Working Nation, labour market elements.



The evidence on the job mobility of low paid employees is mixed. People who are unemployed 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. Low paid workers have roughly an equal chance of progressing within two to three years into a higher paying job on the one hand, or either remaining in low paid employment or leaving employment on the other. The table below shows results from a study of job mobility among low paid workers commissioned by Fair Work Australia.

Changes in the labour market status of low paid workers (2006-2010)

	Labour market status in 2010		
Labour market status in 2006	Higher paid employment	Low paid employment	Not employed or self employed ⁷⁶
Employed on <2/3 hourly median wage	54%	20%	26%
Employed on lowest quintile of hourly earnings	42%	33%	25%

Source: FWA 2012, Statistical Report Annual Wage Review, March 2012; HILDA survey.

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, a higher incidence of low paid employment *diminishes* low skilled employees' prospects of moving up from low paid to higher paid jobs. 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.⁷⁷

⁷⁶ Includes unemployed people and those who retired.

⁷⁷ 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 people on low incomes rest on three pillars: jobs, minimum wage levels, and income support payments. All three play a vital role in preventing poverty, and it is counter-productive to focus on one to the exclusion of others.

In the absence of adequate minimum wages:

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

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

The current income support system for low paid households

The Australian income support system has three main components:

- income support payments for adults in households on low incomes,
- 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 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%.⁷⁸

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.⁷⁹ This is a fundamental shift in Australian social policy, 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, especially if minimum wages fall in real terms and much of this low-wage subsidy is captured by employers. 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. In 2011 the US Government spent around \$60 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.

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.⁸⁰

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

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.

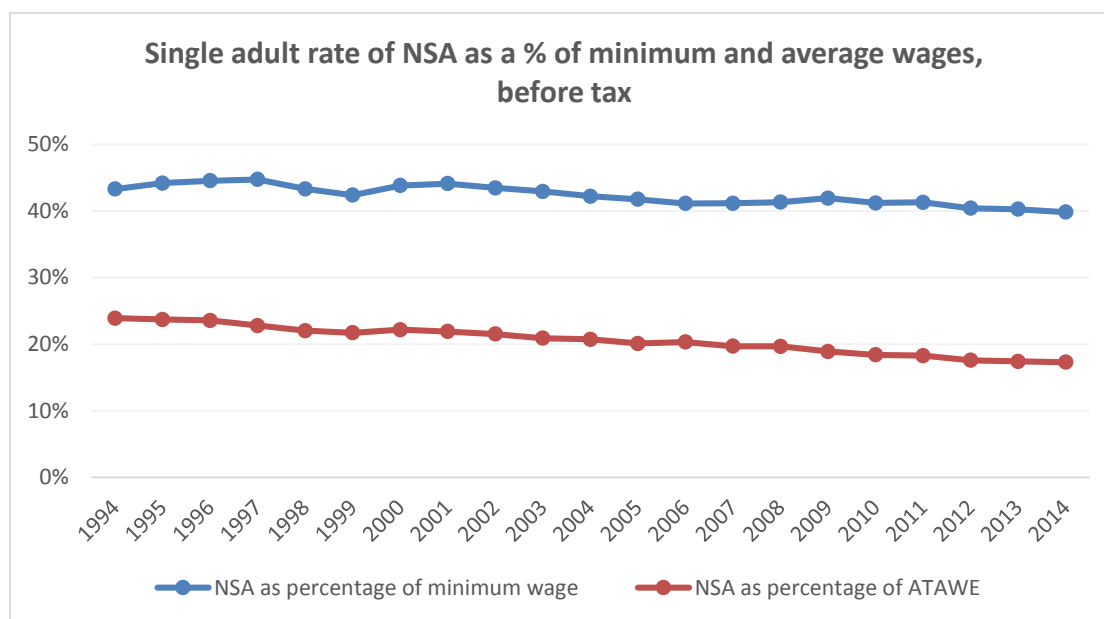
⁷⁸ Federal Budget Papers 2004-05; FACS 2001, *Income support statistics 1989 to 1999*.

⁷⁹ Federal Budget Papers 2009-10. ACOSS 2009, *Reform of family payments*.

⁸⁰ Gregg 2000, *The use of wage floors as policy tools*. OECD Economic Studies No 31.



The relationship between minimum wages and unemployment benefits for single adults has been remarkably stable over the past 20 years. The graph below compares before-tax minimum wages with Newstart Allowance for jobless adults. Newstart Allowances were indexed to the Consumer Price Index throughout this period.



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

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

When income tax is taken into account, the ratio of income while unemployed to that on a full time minimum wage is slightly higher. In 2012, that ratio was 43% for single adults⁸¹.

This stability in the difference between the level of income support payments for people who are unemployed, and the level of the minimum wage needs to be understood in the context of the declining adequacy of income support levels over the same period. The rate of Allowances, both Youth Allowance and the Newstart Allowance have been indexed to CPI since [insert date]. As a result, the adequacy of Allowances has been severely eroded over the last two decades years. Consequently, over 50% of people on the Youth Allowance, and 55% of people on Newstart are already living below the poverty line.

The inadequacy of CPI as the indexation of incomes support payments is at the heart of the recent public opposition to the proposed reduction of the indexation of Pensions to CPI. This measure was

⁸¹ ACOSS 2012, Surviving not living: Submission to Senate Employment Committee on the adequacy of 'allowance' payments, ACOSS Paper 192. P50. ACOSS calculations



announced in the Federal Budget 2014. However, the Federal Government has failed to secure the reduction in indexation for Pensions through the Parliament.

Importantly, the gap between income support for people who are unemployed and low pay could narrow to some extent without undermining financial incentives to move from unemployment to a fulltime job on the minimum wage. However, if minimum wages were to fall significantly in real terms the gap would narrow because unemployment payments are indexed to the CPI.⁸²

A point would then 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 people who are unemployed.

A more direct link exists between wages and *pension* rates (including age pensions, disability support pensions, and parenting payment single). The single pension rate is effectively benchmarked in Social Security legislation to 27% of male total average weekly earnings. However, a full time low paid employee may receive a part pension, which blunts any adverse impact on work incentives.

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 people who are unemployed 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,

⁸² Pech 2011, Relative living standards and needs of low paid employees, Fair Work Australia



- those for Family Tax Benefit:
 - these are designed to support low paid families as well as jobless families, so they generally don't take effect until a family earns well above a single minimum fulltime wage (but they do affect 'second earners' in low and middle income families).

Social security income tests, March 2013

	Newstart Allowance (single) (\$pw or %)	Pensions (single) (\$pw or %)	Family Tax Benefit (2 chn. under 13) (\$pw or %)
Free area	\$50	\$80	\$964
First taper rate	50%	50%	20%
2 nd threshold	\$125	n.a.	\$1,887*
Second taper rate	60%	n.a.	30%
Cut out point	\$503	\$940	\$2,174

Sources: Department of Human Services Payments Estimator, available on website www.humanservices.gov.au

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 undertake full time work. For example, the table below compares disposable incomes in 2010 for an individual on income support payments when jobless and employed part time for 15 or 20 hours a week at the minimum wage.

Disposable incomes for jobless people undertaking part time employment

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

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

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

Disincentives to undertake part time employment are particularly acute for Newstart Allowance (NSA) recipients. A single adult on NSA would gain only \$108 per week (\$7.20 per hour) from



employment of 15 hours a week on the minimum wage. This does not take account of any of the additional costs of working such as transport and clothing.

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

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

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

Therefore, 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 providing adequate financial gain for people to participate in paid employment, including from income support recipients, 'second earners' in middle income households, and mature age people seeking a part time job.

On balance, increases in minimum wages are an effective way to improve work incentives for people who are unemployed. Research conducted by the former Australian Fair Pay Commission indicates that work incentives improved significantly for typical households with people unemployed from 2005 to 2008, due to increases in minimum wages and changes to taxes and transfers.⁸³

⁸³ Australian Fair Pay Commission 2008, *Economic and Social Indicators*.



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.

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, and as recent experience shows they fare relatively poorly in economic downturns because employers often close their books to new hires.

Many young people still have difficulties making transitions from school to work. Of all teenagers aged 15 to 19 years in 2013, 17% were neither employed nor studying full-time along with 9% of young adults aged 20 to 24 years.⁸⁴

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.

⁸⁴ Foundation for Young Australians (2014), *How Young People are Faring in the Transition from School to Work*.



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 complete them. The result is severe shortages of tradespeople during economic booms.⁸⁵

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 these 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.

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

⁸⁵ Ball 2004, Factors influencing completion of apprenticeships and traineeships, NCVER.



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 to extend to the temporarily wage subsidy schemes already in place for 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.

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.

People with disabilities

Only 53% of people with disabilities are employed compared with 83% of the workforce age population as a whole.⁸⁷ It would be misleading to suggest that this is simply due to 'lower productivity' among workers with disabilities. Many people with disabilities who are unemployed would be highly productive in their occupation if the workplace were organised to facilitate this. For example, a person with tertiary qualification with paraplegia may be highly productive in a professional job, if the workplace is modified appropriately. If the person has a visual impairment, they may be highly productive with the assistance of information technology.

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

To the extent that the productivity of people with disabilities is substantially lower than that of other employees, and this cannot be redressed by changes in the workplace, a system of sub-minimum wages can improve their employment prospects in mainstream jobs. The keys to a fair and effective system of sub-minimum wages for workers with disabilities are a transparent and consistent system of

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

⁸⁷ ABS 2013, *Disability ageing and carers, 2012*. Data cited are for people with specific activity restrictions.



productivity assessment that incorporates a requirement to change the workplace and work practices to improve productivity as far as possible prior to the assessment of individual worker productivity. Recent court decisions suggest that some of the existing instruments used for this purpose are unreliable. They should be reviewed and standardised as far as possible, rather than leaving it to individual enterprises to develop and use their own instruments.

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

- The system is too complex. For example, there is no need to adopt a separate system of minimum wage regulation for people whose disabilities do *not* affect their productivity, is the case presently (even though for practical purposes this is the same as the 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.



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