



Minimum wage submission
2016

increase
and which should
relate to this.
Minimum wage:
lowest wage an emp
by contract or by law
scribed the meani
that the basis



Who we are

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

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

What we do

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

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

First published in 2016 by the
Australian Council of Social Service

Locked Bag 4777
Strawberry Hills, NSW, 2012 Australia
Email: info@acoss.org.au
Website: www.acoss.org.au

ISSN: 1326 7124

© Australian Council of Social Service

This publication is copyright. Apart from fair dealing for the purpose of private study, research, criticism, or review, as permitted under the Copyright Act, no part may be reproduced by any process without written permission. Enquiries should be addressed to the Publications Officer, Australian Council of Social Service. Copies are available from the address above.

Front cover image © istockphoto/acosspublications



Contents

Introduction.....	4
Recent economic trends.....	5
Living standards.....	6
Employment.....	8
Recommendations.....	9
1 The level and incidence of the federal minimum wage.....	11
1.1 Current level and trends in federal minimum wage over time....	11
1.2 Who relies on minimum wages?.....	12
2 Minimum wages and living standards.....	16
2.1 Possible minimum wage benchmarks.....	16
2.2 Budget standards.....	17
2.3 Research on poverty in Australia.....	20
2.4 International comparisons.....	23
2.5 The living standards of low paid families.....	25
2.6 Financial stress indicators.....	25
2.7 Housing costs.....	26
3 Minimum wages, income support and work incentives.....	28
3.1 The current income support system for low paid households....	28
3.2 The limits of income support.....	29
3.3 Effects of minimum wages on income support payments.....	30
3.4 Income tests and work incentives for low paid employees.....	32
3.5 Entry level and ‘regional’ wages	35
3.6 Young people.....	35



ACOSS welcome the opportunity to make this submission to the 2015-16 Minimum Wage Review. ACOSS is an interested party in these proceedings with expertise in poverty, employment policy and income support policy. Our long-standing interest in minimum wages stems from their impact on poverty and inequality in Australia.

Minimum wage levels affect poverty and inequality in four ways:

- through their direct effect on the disposable incomes of low paid workers and their families;
- through their indirect effect on the adequacy of social security payments;
- through their effect on employment; and
- though their effect on people's future retirement incomes.

Introduction

The Federal Minimum Wage (FMW) is currently \$17.29 per hour, \$657 per week, or approximately \$34,160 per year⁴. **Last year's minimum wage increase determined by Fair Work Australia (FWA) was a rise of 2.5% (\$16 per week).**

The minimum wage has not significantly increased in real terms over the last decade, as wages determined in the market have risen strongly. As a result, the federal minimum wage has fallen sharply in comparison with the median fulltime wage, leaving minimum wage earners and their families at risk of falling behind the living standards of the rest of the community⁵.

Minimum wage rates have an impact on poverty. ACOSS' report, 'Poverty in Australia 2014' found that, based on the OECD-preferred measure of poverty (50% of median income), there were 2.6 million people living below the poverty line in 2011-12, with a third of these coming from households where wages were the main source of income.

The minimum wage also impacts poverty via its relationship with the social security system. It is appropriate that a gap is maintained between social security payments and the minimum wage in order to ensure there is an adequate reward for paid

⁴ Available at: <http://www.fairwork.gov.au/pay/national-minimum-wage/pages/default.aspx>

⁵ Fair Work Commission (2015) National Minimum Wage Order 2015. Available: https://www.fwc.gov.au/documents/sites/wagereview2015/decisions/c20151_order.pdf



work. There is also a clear need for social security payments (already set at levels well below the poverty line) to increase. The level of allowance payments needs to be increased in order to provide income support to live with dignity, and would not impact on **people's desire to secure paid employment**. If the minimum wage were to fall significantly in real terms, the gap between the minimum wage, and social security payments would narrow. This would reduce the scope for an increase in social security payments without significantly undervaluing the financial reward appropriate for paid work.

There is no automatic relationship between minimum wage levels and overall employment and unemployment levels. From 1997 to 2016, real minimum wages rose by 12% while employment rose by 36%. The Productivity Commission concluded similarly in its 2015 Report on the Workplace Relations Framework Inquiry that empirical evidence does not lead to a definitive conclusion about any effect of **changes in Australia's minimum wages on employment levels or hours worked**.⁶ 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.

Therefore, there is scope to significantly increase minimum wages without impacting on employment growth. Further, there is an opportunity to start to reverse the growing gap between minimum and median wages. An increase in the minimum wage would also **help offset the impact on minimum wages of the 'freeze' applied during the Global Financial Crisis**.

Recent economic trends

Recent economic trends suggest there is scope for a modest increase in the minimum wage, in the context of low interest rates, stronger than expected employment growth (despite signs of softening in 2016) and expectations of productivity growth.

Comparing the last minimum wage increase of 2.5% with inflation and community-wide wage increases over the previous financial year (from July 2014 – June 2015) the Consumer Price Index (CPI) rose by 1.5% and the Wage Price Index rose by 2.3%. Thus, the minimum wage was above CPI inflation (by 1%) and the slightly above the

⁶ Productivity Commission (2015) Workplace Relations Framework, Productivity Commission Inquiry Report Volume 1, page 201



growth of the Wage Price Index (by 0.2%). The Living Cost Index (LCI) for employees rose by 0.9% during the same period.

Turning to the latest available data on living costs and general wage increases, the CPI rose by 1.7% over the over the 12 months to December 2015⁷. Median rents for a two bedroom flat rose by 4% in Sydney⁸ and 2.3% in Melbourne⁹ over the year to December 2015. The Wage Price Index (WPI) rose by 2.2%¹⁰.

The Reserve Bank (RBA) forecasts that underlying inflation will be around 2% for most of 2016. Productivity is expected to grow over 2016. Over the forecast horizon inflation is forecast to be consistent with the 2-3% target, while continued productivity growth is forecast¹¹. The subdued labour market is expected to exert downward pressure on wages and inflation.

While employment growth has been stronger than expected over the last year, unemployment remains too high at 5.8% in February 2016, with indications that it will remain close to this level for some time.¹².

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 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.¹³ A substantial proportion of people living in poverty include low paid workers:

⁷<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>

⁸ Housing NSW (2016) *Rent and Sales Report No 114* Available: www.housing.nsw.gov.au/_data/assets/file/0003/361173/R-and-S-Report-114.pdf

⁹ Department of Human Services Victoria (2016) *Quarterly media rents by LGA September 2015* Available: http://www.dhs.vic.gov.au/_data/assets/pdf_file/0005/956894/Rental-Report-September-quarter-2015.pdf

¹⁰ <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6345.0/>

¹¹ Reserve Bank of Australia (2015): *Economic Outlook, September 2015* Available: <http://www.rba.gov.au/publications/smp/2015/nov/06-economic-outlook.html>

¹² Reserve Bank of Australia (2015): *Economic Outlook, September 2015* Available: <http://www.rba.gov.au/publications/smp/2015/nov/06-economic-outlook.html>

¹³ Healy & Richardson 2006, *An updated profile of the minimum wage workforce in Australia*. National Institute of Labour Studies.



- 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.¹⁴
- 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).¹⁵

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 tax. Currently it sits at 40% of the minimum wage¹⁶. 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 ¹⁷promotions. Minimum wage increases from 1995 to 2005 were estimated to reduce the gender pay gap by 1.2 percentage points.

¹⁴ ACOSS 2014, Poverty in Australia.

¹⁵ ACOSS 2014, *Op Cit*

¹⁶ Department of Human Services (2015) *A Guide to Australian Government Payments and History of National Increases*, available: <http://workplaceinfo.com.au/payroll/wages-and-salaries/history-of-national-increase>

¹⁷ 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 2008-2016, real minimum wages rose by 2.3% while employment rose by 12%. This may be due to changes in the operation of the Australian labour market between these two periods, including 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.

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 workers¹⁸. 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

¹⁸ 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>



back. Substantial pay increases are needed over time to improve the quality of community services by helping them to avert shortages of skilled workers. While these increases are being phased in, the Equal Remuneration Order rates will be increased in line with national minimum wage rises.

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 of 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** (See Attachment 1).

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.

ACOSS recommends that:

- FWA should 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 (See Attachment 2).**
- Minimum wage rates for young people, apprentices and trainees, and people with disability under the Supported Wage System, should continue to be increased in line with the rise in the federal minimum wage. (See Attachment 3)

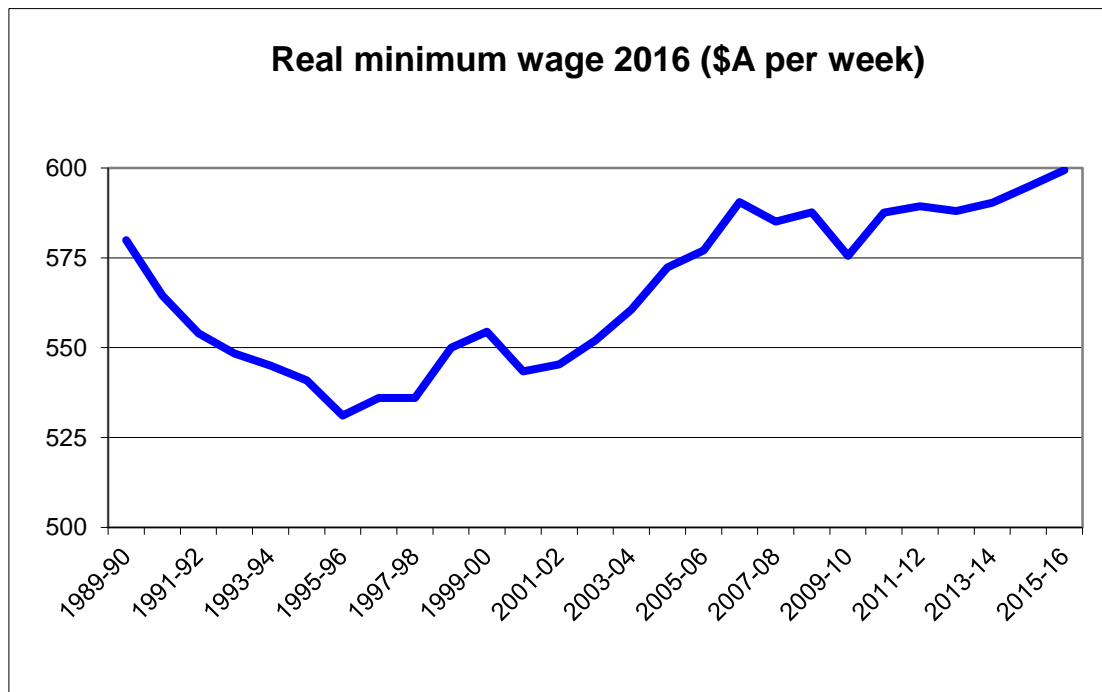


ATTACHMENTS

1 The level and incidence of the federal minimum wage

1.1 Current level and trends in federal minimum wage over time

The Federal Minimum Wage (FMW) is currently \$17.29 per hour, \$657 per week, or approximately \$34,160 per year¹⁹. 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).

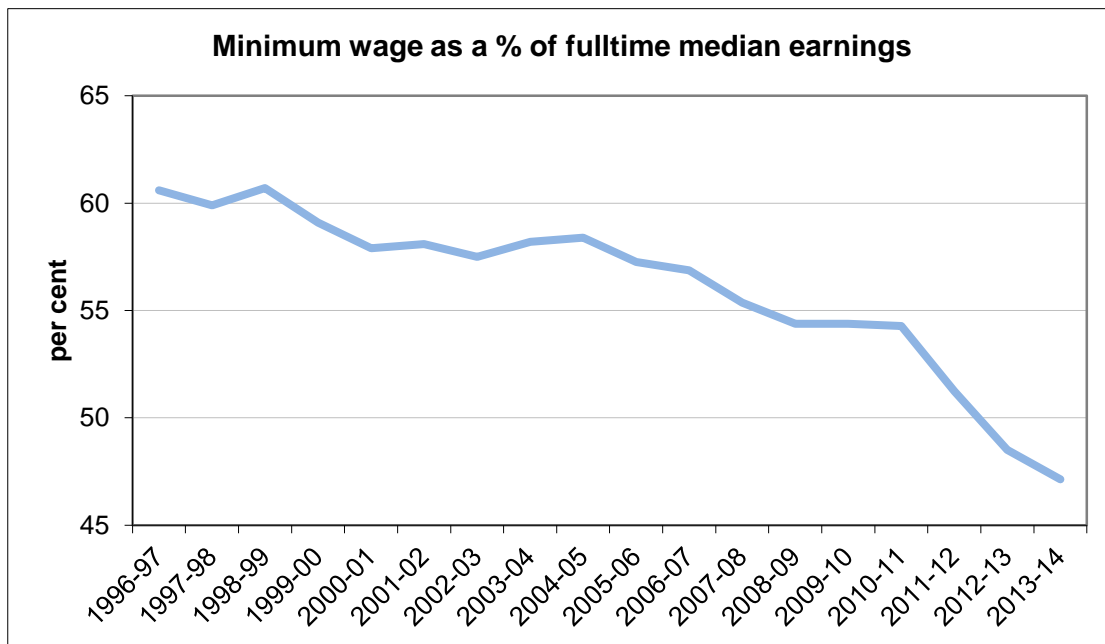


Sources: Dawkins (2000) *The labour market*, in Reserve Bank, *The Australian economy in the 1990s*; ABS, *Consumer Price Index*; Australian Industrial Relations Commission, *Safety net adjustment decisions*; Australian Fair Pay Commission, *Wage setting decisions*; Fair Work Australia, *Annual wage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

Although real minimum wages have grown modestly over the last decade, they have fallen substantially when compared with median (middle) wages (see graph below). This has contributed to a rise in earnings inequality over this period ²⁰.

¹⁹ Available at: <http://www.fairwork.gov.au/pay/national-minimum-wage/pages/default.aspx>

²⁰ Data on earnings and wider income inequality is presented in our 'Inequality Report' at http://acoss.wpengine.com/wp-content/uploads/2015/06/Inequality_in_Australia_FINAL.pdf



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.

1.2 Who relies on minimum wages?

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

(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.

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:

²¹ ABS (2014) *Employee earnings and hours*.

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



- 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.

(2) 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 part time in 2008, compared with a national

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>



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

A study by Colmar Brunton Social Research confirmed that low pay in community services was making it difficult for employers to recruit skilled staff.²⁷ This problem is likely to worsen if Awards continue to be adjusted in flat dollar amounts, reducing rewards for skill in the sector.

(3) 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.

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

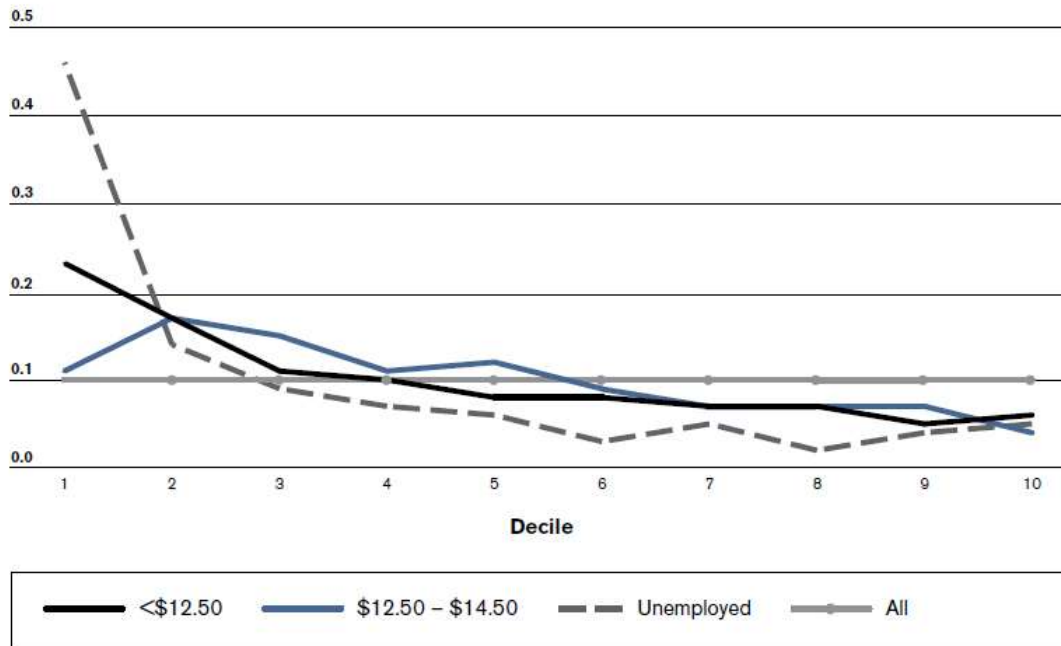
²⁶ ACIL Tasman 2008, *Health and community services industry profile*, commissioned by the AFPC.

²⁷ Colmar Brunton Social Research 2008, *Health and community services industry profile*, commissioned by the AFPC.



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

Proportion in each decile



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.²⁸

This is also consistent with Richardson & Harding’s findings for 1995.²⁹

²⁸ 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.

²⁹ Healy & Richardson 2006, *An updated profile of the minimum wage workforce in Australia*. National Institute of Labour Studies; Richardson & Harding 1999, *op cit*.



2 Minimum wages and living standards

2.1 Possible minimum wage benchmarks

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

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

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

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

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

- a strong consensus in the community that minimum wages should be sufficient for people to live in dignity, not well below the living standards of the rest of the community,



- a pragmatic judgement that, if wages were set around poverty levels, work incentives for jobless social security recipients would be eroded.³⁰

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

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

- 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.

2.2 Budget standards

At this stage, the most robust of these benchmarks for wage fixation purposes appears to be Budget Standards. This was the approach adopted by the first Australian industrial commission in developing the 'Harvester standard' or 'basic wage' early last century. It was also adopted in a 1996 study by the Social Policy Research Centre, commissioned by the former Department of Social Security, to assist in the assessment of the adequacy of social security payments.³¹ The method adopted was to draft budgets for different types of household based on a lists of goods and services approved by a panel of experts. In the SPRC study there were two Budget Standards – a 'low cost' standard which is a poverty standard, and a 'modest but adequate' standard which is a basic or modest standard of living set above

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

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



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.³²

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 2013, 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.³³

³² Updating is a problem with all three methods described above. A further technical problem with the SPRC Budget Standards is that they do not take account of wide variations in housing costs across Australia. This could be addressed fairly easily by using a median national estimate for rents, or by developing different budget standards for different housing markets.

³³ Saunders 2003, *Updated budget standards estimates*. Social Policy Research Centre, updated by ACOSS using the CPI. The Budget Standards are a measure of expenditure, so they are equivalent to disposable (after tax) income rather than the gross wage. It might be argued that these Budget Standards are inflated by the use of Sydney rents as the benchmark for housing costs. On the other hand, since they are a decade old, the Budget Standards need updating to take account of changes in living standards since 1996 when they were set.



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.

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.



2.3 Research on poverty in Australia

Although poverty lines do not tell the whole story of deprivation, they are a widely accepted benchmark for measuring disadvantage. 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 Wales³⁴. 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 housing**³⁵. The report also includes updated data on 'deprivation based' measures of financial hardship³⁶.

This study found that in 2011-12:

³⁴ ACOSS 2014 *p. Cit.*

³⁵ 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.

³⁶ Part 14 of the new report and ACOSS (2012), *Who is missing out: Material deprivation and income support payments*, ACOSS Paper 187



- 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.³⁷
- 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).³⁸

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 ³⁹				
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 ⁴⁰				
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

³⁷ 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.

³⁸ ACOSS 2012, *Poverty in Australia: ACOSS Paper 194*

³⁹ Of the household in which people live.

⁴⁰ Refers to household reference person.



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.

	Profile of poverty (number in poverty)	
	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

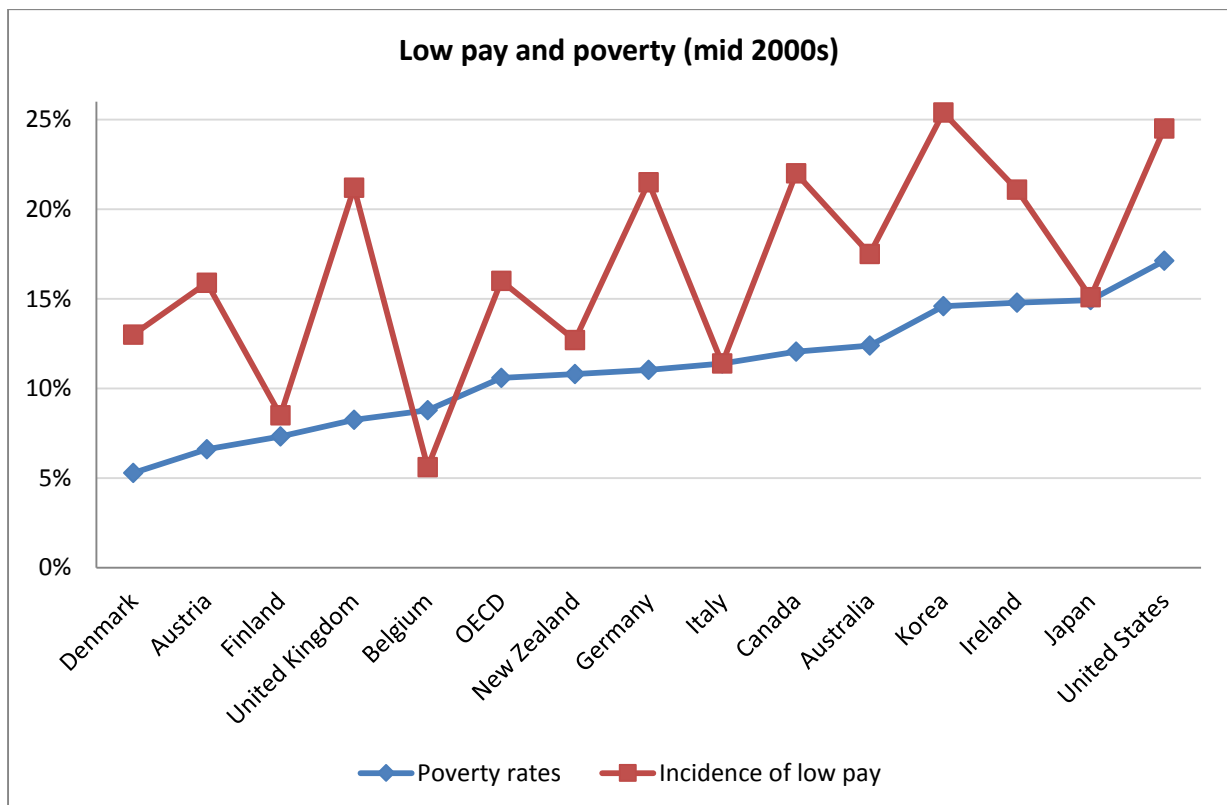
By labour force status		
Employed (full time)	522,138	891,343
Employed (part time)	324,563	514,916
Unemployed	162,811	179,812
Not in labour force (retired)	436,016	1,079,710
Not in labour force (other)	1,102,968	1,415,745
All people	2,548,496	4,029,526

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

2.4 International comparisons

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

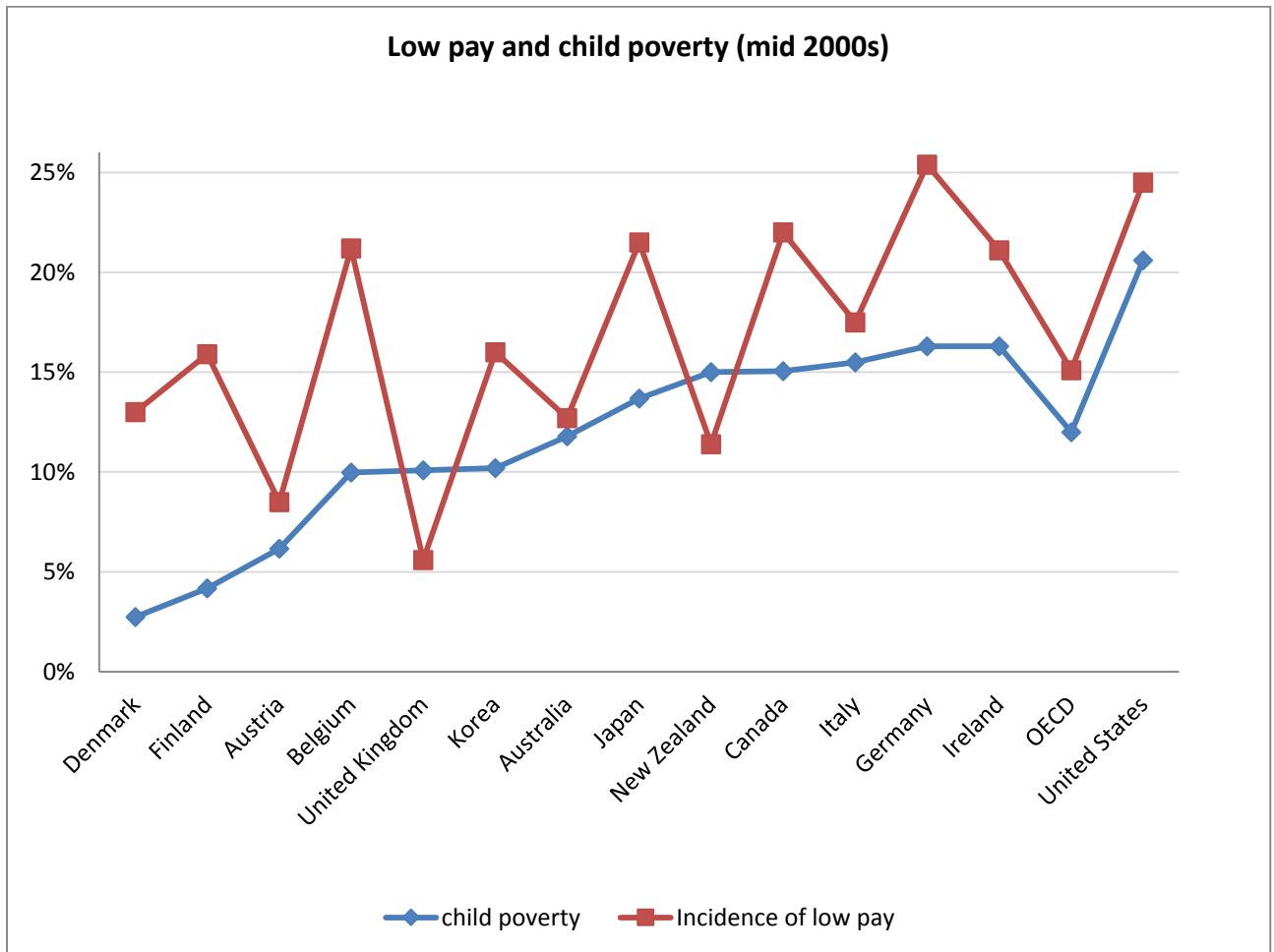
As discussed above, it is not inevitable that the two indicators will be linked in this way, since low pay is a measure of individual income and income poverty is a measure of household income. The graph below uses data from an OECD study of income poverty and inequality. It charts the relationship between 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.⁴¹

⁴¹ UNICEF (2000), *Child poverty in rich countries*. Florence



2.5 The living standards of low paid families

Income poverty is only an indicative measure of family living standards, since families may have different expenditure needs (for example, 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.⁴²

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 asks respondents what they consider to be 'essentials', whether or not they have them, and whether or not they lack them due to lack of resources. 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.⁴³

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.⁴⁴

2.6 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

⁴² ACOSS 2003, *The bare necessities*. The main exceptions are low income self employed people and low income retirees with substantial assets.

⁴³ Saunders & Naidoo 2007, *Towards new indicators of disadvantage*, Social Policy Research Centre.

⁴⁴ Masterman-Smith, May, & Pocock 2006, *Living Low Paid: Some Experiences of Australian Childcare Workers and Cleaners*.



stress indicators is that different respondents to surveys have different perceptions of the meaning of the questions used.⁴⁵

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 2011.⁴⁶ However the authors cautioned that these are not a good overall measure of living standards.

In 2014, 8.4% of households with low paid workers reported financial stress defined by researchers as 'moderate' (and 1.9% reported 'high' stress) compared with 3.1% and 0.8% respectively of all households with paid workers⁴⁷.

2.7 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.⁴⁸

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

⁴⁵ 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.

⁴⁶ Melbourne Institute, *Household Income and Labour Dynamics in Australia Survey, various*, cited in Fair Work Australia, *Statistical Report—Annual Wage Review 2012–13*

⁴⁷ *Household, Income and Labour Dynamics in Australia Survey* cited in Fair Work Commission 2016, *Statistical report—Annual Wage Review 2015–16*.

⁴⁸ Yates et al 2006, *Housing affordability, occupation and location*. Australian Housing and Urban Research Institute.



- the median rent for one bedroom flat in Sydney was \$520 per week in December 2015;
- the median rent for a one bedroom flat in Melbourne was \$355 per week in September 2015.⁴⁹

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.

⁴⁹ Housing NSW (2016) *Rent and Sales Report No 114*. Available: http://www.housing.nsw.gov.au/_data/assets/file/0003/361173/R-and-S-Report-114.pdf ;
Department of Human Services Victoria (2015) *Rental Report, September Quarter 2015* Available http://www.dhs.vic.gov.au/_data/assets/pdf_file/0005/956894/Rental-Report-September-quarter-2015.pdf



3 Minimum wages, income support and work incentives

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

In the absence of adequate minimum wages:

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

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

3.1 The current income support system for low paid households

The Australian income support system has three main components:

- 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.



3.2 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, while there is little doubt the increases in family payments noted above have contributed to reducing child poverty, have come at 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%.⁵⁰

The 2009 Federal Budget removed the indexation of Family Tax Benefit Part A to wages, so that from now on family payments for low paid workers will only increase along with price movements, unless the Government otherwise decides.⁵¹ 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.

The 2014 Budget included proposals, amended by the Government in 2015, to sharply reduce maximum rates and indexation of Family Tax Benefits⁵². For example a low-income single parent family would lose at least \$2,500 a year if the amended changes were implemented.

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

⁵⁰ Federal Budget Papers 2004-05; FACS 2001, *Income support statistics 1989 to 1999*.

⁵¹ Federal Budget Papers 2009-10. ACOSS 2009, *Reform of family payments*.

⁵² For detailed analysis of the proposed changes see: <http://www.acoss.org.au/wp-content/uploads/2015/11/Submission-to-inquiry-into-family-payments-changes.pdf>



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.⁵³

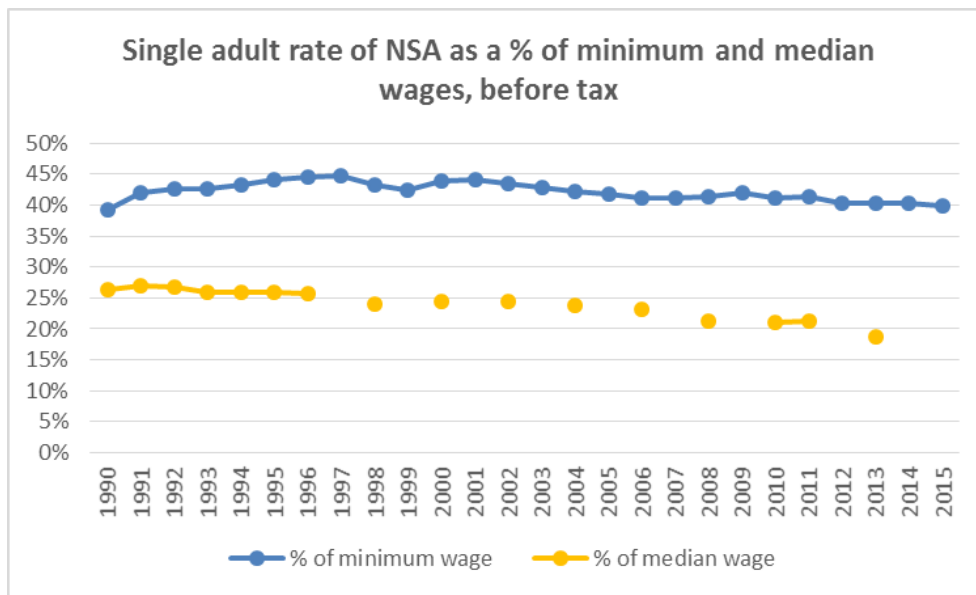
For these reasons, a robust minimum wage is needed, in addition to adequate public income support, to protect families from poverty.

3.3 Effects of minimum wages on income support payments

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

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 for the majority of this period.

⁵³ Gregg 2000, *The use of wage floors as policy tools*. OECD Economic Studies No 31.



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 2016, that ratio was 40% for single adults⁵⁴. (Newstart allowance divided by minimum wage)

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 [1997]. As a result, the adequacy of Allowances has been severely eroded over the last two decades. Consequently, over 50% of people on the Youth Allowance, and 55% of people on Newstart are already living below the poverty line. 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.⁵⁵

⁵⁴ ACOSS 2012, *Surviving not living: Submission to Senate Employment Committee on the adequacy of 'allowance' payments*, ACOSS Paper 192. P50. ACOSS calculations

⁵⁵ Pech 2011, *Relative living standards and needs of low paid employees*, Fair Work Australia



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.

3.4 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,
- 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	\$51	\$81	\$981
First taper rate	50%	50%	20%
2 nd threshold	\$126	n.a.	\$1,814*
Second taper rate	60%	n.a.	30%
Cut out point	\$511	\$955	\$2,065

Sources: Department of Human Services (2016): A guide to Australian Government payments

* at this level, only a small 'minimum' payment is available.

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

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

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

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

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

Disincentives to undertake part time employment are particularly acute for Newstart Allowance (NSA) recipients. A single adult on NSA would have gained 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.⁵⁶

⁵⁶ Australian Fair Pay Commission 2008, *Economic and Social Indicators*.



3.5 Entry level and 'regional' wages

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

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

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

3.6 Young people

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

In 2014, an estimated 13% of 15 to 19 year olds, and 26% of 20 to 24 year olds were neither employed nor studying full time.⁵⁷

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.

⁵⁷ <http://unlimitedpotential.fya.org.au/transition/youth-unemployment-and-disengagement-are-a-growing-concern/>.



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.

3.7 Apprentices and trainees

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

However, **there are problems with the apprenticeship system.** 'Traditional' apprenticeships have declined over the long term, at a greater rate than the decline in employment in the manual trades. Almost half of those who commence traditional apprenticeships do not complete them. The result is severe shortages of tradespeople during economic booms.⁵⁸

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.

⁵⁸ Ball 2004, Factors influencing completion of apprenticeships and traineeships, NCVET.



Compared with young people, adult apprentices are paid much closer to standard wage rates for their classification. There is no evidence to suggest that this has discouraged employers from 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* 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.⁵⁹

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 the temporary 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.

⁵⁹ See Stromback et al 1998, *Labour market programs and labour market outcomes*, Melbourne Institute Working Paper 14/98.



3.8 People with disabilities

Only 53% of people with disabilities are employed compared with 83% of the workforce age population as a whole.⁶⁰ 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 productivity assessment that incorporates a requirement to change the workplace and work practices to improve productivity as far as possible prior to the assessment of individual worker productivity. Recent court decisions confirmed that some of the existing instruments used for this purpose were unreliable, and that people with disability employed in 'business services' were being underpaid. They should be reviewed and standardised as far as possible, rather than leaving it to individual enterprises to develop and use their own instruments.

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

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

⁶⁰ ABS 2013, *Disability ageing and carers, 2012*. Data cited are for people with specific activity restrictions.



- 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.



Australian Council of Social Service

www.acoss.org.au

@ACOSS