Submission to the Fair Work Commission on the Minimum Wage

March 2021

Contents

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Summary

ACOSS welcomes the opportunity to make this submission to the Annual Wage Review 2020-21. ACOSS is an interested party in these proceedings with expertise in poverty, employment policy and income support policy. Our long-standing interest in minimum wages stems from their impact on poverty and inequality in Australia.

The National Minimum Wage (NMW) is $753.80 per week, $19.84 per hour, or around $39,200 per year. Last year's minimum wage increase determined by the Fair Work Commission was 1.75% ($12.80 per week).[1]

A higher minimum wage would contribute to an equitable recovery from the COVID recession

A substantial increase in the minimum wage is needed to help sustain the recovery as government income supports are reduced.

Stronger growth in wages at the lower end of the distribution is needed now to sustain progress towards full employment and prevent a sharp increase in pay inequality.

The minimum wage has fallen behind pay levels across the community

Since 1996, the minimum wage has declined from 61% to 49% of full-time median weekly earnings. It has only increased in real terms by an average of 0.7% per annum over the last decade.

Before COVID-19, poverty was rising among wage-earning households

Prior to the COVID recession, poverty among wage-earning households was trending upwards. In 2017-18, 38% of people below the 50% of median income poverty line and 40% of those below the 60% of median income poverty line were in households whose main income was wages, up from 32% and 34% respectively in 2014-15.

Adequate minimum wages reduce poverty directly by lifting the incomes of low-paid workers and their families

While minimum wages cannot target poverty as precisely as social security payments, they are mainly paid to the lowest 50% of people of working age. Research undertaken by the Commission found that 44% of minimum wage earners were in the lowest three deciles of household income for households where at least one member was employed.

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[1] Fair Work Commission (2018): *Decision, Annual Wage Review 2017-18*, FWC, Sydney.

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Adequate minimum wages reduce poverty indirectly by making room for adequate income support payments

Although at present the maximum rates of unemployment payments are less than 50% of the full-time minimum wage, a higher minimum wage creates more room for the substantial increases in social security payments that are needed to reduce poverty.

To reduce poverty, including in low wage-earnings households, it is also vital that JobSeeker and family payments are increased substantially. ACOSS calls for an increase in JobSeeker and Youth Allowance of at least $162 per week (in the case of single people) and indexation of these payments and Family Tax Benefit to wage movements, to ensure people on the lowest incomes can meet basic living costs.

Minimum wages help reduce the gender pay gap

In 2018, the gap between adult (non-managerial) hourly ordinary time earnings for men and women was $6.41 per week, or 15.2% of the average male rate.

There is no automatic relationship between minimum wages and employment levels

Increases in minimum wages awarded by the Commission in recent years have had no discernible impact on aggregate employment. International evidence generally supports the view that modest increases in minimum wages have little or no adverse impact on employment.

Key recommendations

In brief, we recommend that:

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

More detailed evidence and recommendations on how minimum wages should be set follow.

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Evidence

A higher minimum wage would contribute to an equitable recovery from the COVID recession

Employment has been restored to February 2020 levels since the COVID recession, but the recent pace of growth is unlikely to be sustained.

Last year, Australia experienced its deepest recession in almost a century. From March to June 2020, total monthly hours of paid work fell by 10% and employment fell by 7% (872,000 jobs).

Since the recession was mainly caused by lockdowns to prevent the spread of COVID-19, and the government shielded households from major income losses with the JobKeeper Payment and Coronavirus Supplement, once the lockdowns were eased the recovery in employment was faster – so far - than the last recession in 1991. After falling by 7% in the June quarter of 2020, real GDP grew by over 3% in each of the September and December quarters.

By January 2021, 86% of paid working hours lost and 94% of jobs lost had been restored or replaced, though (as discussed below) this was uneven between men and women, and full-time and part-time jobs.

The unemployment rate in February 2021 was 5.8%, compared with 5.1% in February 2020.

Once the direct impact on employment of lifting lockdowns and state border closures subsided, the recovery was always likely to be slower, all things equal. Employment, household consumption and gross domestic product are unlikely to continue to grow at the same pace as they have over the last two quarters.

> *Growth will now begin to moderate as we move past the initial phase of the recovery. We will need to remain mindful of continued risks to the outlook, including from further outbreaks and ongoing trade and geopolitical tensions.*[2]

The withdrawal of the public income supports that boosted growth in household incomes in the COVID recession put the jobs recovery at risk.

During the COVID recession, the timely introduction of the JobKeeper Payment and the Coronavirus Supplement sustained household incomes, which grew by 4.6% in the June quarter of 2020 despite the large reduction in paid working hours (ABS National Accounts, June quarter 2020).

The increases in income support for people with the lowest incomes (especially the Coronavirus Supplement) had a strong and rapid impact on consumer spending. On the

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[2] Kennedy, S (2021): Opening statement - Senate Economics Legislation Committee, 24 March 2021, Treasury, Canberra.

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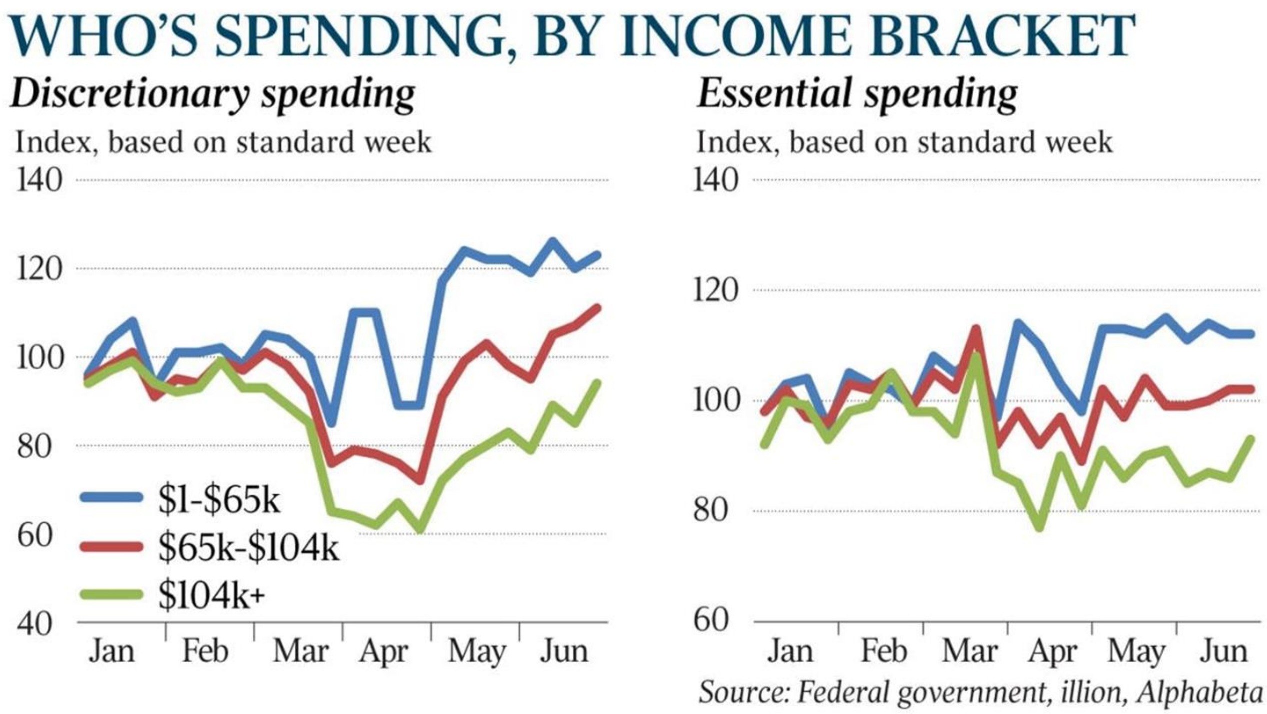
other hand, higher income-earners saved a greater share of their incomes as opportunities for spending on items such as eating out and travel diminished in the lockdowns (Figure 1).

Figure 1: Household spending patterns by income bracket



Source: Analysis of household spending patterns by Alpha beta (June 2020)

Saving by higher income households led to a sharp rise in the household savings ratio to 20% in the June quarter of 2020, which dampened the impact of the above public income supports on consumer spending (ABS National Accounts, July 2020).

The removal of the JobKeeper wage subsidies and Coronavirus Supplement by the end of March 2021 (only partly offset by a $25 a week increase in the base rate of allowance payments) will sharply reduce household incomes. The removal of JobKeeper is estimated to trigger between 100,000 and 250,000 redundancies.[3] All things equal, Deloitte Access Economics estimated in September 2020 that the planned removal of the Coronavirus

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[3] *Ibid*; Borland, J (2021): *Another step forward, but how many steps backward are we about to go?*, Labour market snapshot #76, 3 March, Department of Economics, University of Melbourne.

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Supplement in April 2021 would reduce employment by 145,000 full-time equivalent jobs over the next two years.[4]

The winding back of these public income supports is likely to stall further progress in reducing unemployment in the first half of 2021. Beyond that, the future path of consumer spending and employment is uncertain:

> *Job vacancies, job ads and business hiring intentions are at high levels, which suggests continuing solid employment growth over the next few months. Beyond that, some slowing in employment growth is expected when the JobKeeper program comes to an end in March.*[5]

Stronger growth in wages at the lower end of the distribution is needed now to sustain progress towards full employment.

Australia is well short of achieving full employment. The Reserve Bank believes that the level of unemployment at which inflation is likely to accelerate may be close to 4%.[6]

> *There is, inevitably, some uncertainty about what exactly constitutes full employment in our modern economy. Over the past decade, the estimates of the unemployment rate associated with full employment have been repeatedly lowered both here and overseas. So there is uncertainty. But based on this experience, it is certainly possible that Australia can achieve and sustain an unemployment rate in the low 4s, although only time will tell*.[7]

In our view, to sustain growth in consumer demand and employment through this year and the next, stronger growth in wages in the lower half of the pay distribution is needed, along with an adequate, permanent increase in the JobSeeker Payment and higher levels of public expenditure to improve care services and public infrastructure.[8]

The Reserve Bank considers that to reach full employment, persistent annual wage growth of more than 3% is needed.

> *For inflation to be sustainably within the 2-3% range, it is likely that wages growth will need to be sustainably above 3%.*[9]

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[4] Deloitte Access Economics (2020): *Estimating the economic impacts of lowering current levels of income support payments*, ACOSS, Canberra.

[5] Lowe, P (2021a): *The year ahead.* National Press Club of Australia, Canberra, 3 February 2021.

[6] Labour market economist Professor Jeff Borland suggests that due to elevated levels of underemployment, the NAIRU is likely to be much lower than it was in the 1990s. See Borland, J (2021): *Another reason why Australia's target of unemployment should be low*, Labour market snapshot #77, 16 March, Department of Economics, University of Melbourne.

[7] Lowe, P (2021b): *The recovery, investment and monetary policy*. AFR Business Summit, Sydney, 10 March 2021.

[8] ACOSS (2021a): *Budget Priorities Statement 2021-22*, ACOSS, Sydney.

[9] Lowe, P (2021b): *op. cit.*

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Wage growth is well below this level. Over the two years before 2020, the Wage Price Index rose by an average of just 2.2% per annum, barely above inflation at 1.8%.[10] In the year to the end of December 2020, it rose by only 1.4% - the lowest rate on record.[11] Average Weekly Ordinary Time Earnings rose by 3.2% in 2020, a larger increase due to the disproportionate loss of lower-paid jobs in the recession.[12]

In the absence of support for household incomes from the JobKeeper Payment and the Coronavirus Supplement, stronger growth in earnings - especially in the lower half of the pay distribution - is needed to sustain consumer demand and growth in employment.

After the COVID recession, it is likely that wage inequality will increase in the absence of a substantial increase in minimum wages.

Since the COVID recession had a disproportionate impact on part-time and casual employment in service industries, job losses were unevenly distributed.

Young people, women, and people in lower-paid jobs were disproportionately affected: from March to June 2020, 872,000 jobs were lost overall (a reduction of 6.7%), young people lost 332,000 jobs (a 17.1% reduction), women lost 471,000 jobs (a 7.7% reduction), while men lost 401,000 jobs (a 5.9% reduction).[13]

Between August 2019 and August 2020, employment fell by 3% overall. The number of positions at the lowest skill level (level 5) declined by 8%, while those at the highest level (level 1) increased by 5%.[14]

Part-time jobs were disproportionately affected, falling by 13% (528,000 jobs) compared with a fall of 4% (287,000 jobs) in full-time positions.[15]

In the initial phase of the recovery from June 2020 to January 2021 as lockdowns were eased, part-time jobs recovered faster than full-time positions: 99% of part-time positions 'lost' were 'replaced' compared with 85% of full-time positions. Overall, 96% of jobs filled by men were replaced, and 91% of those filled by women.

Larger gaps remained between pre- and post-recession employment levels for women employed part-time (returning to 88% of the March 2020 level) and young people (returning to 78% of the March 2020 level). The unemployment rate among young people (12.9%) remains elevated.[16]

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[10] ABS (2019a): *Wage Price Index, Australia, September 2019*; ABS (2020a): *Consumer Price Index, Australia, December 2019*.

[11] ABS (2021a): *Wage Price Index, Australia, December 2020*.

[12] ABS (2021b): *Average Weekly Earnings, Australia, November 2020*.

[13] ABS (2020b): *Labour Force, Australia, June 2020*.

[14] ABS (2020c): *Characteristics of Employment, August 2020*.

[15] ABS (2020b): *op. cit.*

[16] ABS (2021c): *Labour Force, Australia, February 2021*.

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The restoration of previous employment levels does not represent a 'return to normal.' To begin with, we have lost a year of employment *growth* to reduce unemployment and absorb new entrants to the paid workforce, though this was offset temporarily by a reduction in the supply of labour from migrants entering Australia.

The COVID recession is likely to accelerate trends already under way in Australia and other wealthy countries towards:

- The use of information technology to reduce labour costs;
- Lower employment and higher underemployment among young people;
- A 'hollowing out' of the structure of employment with a bias towards growth in highly-skilled occupations;
- Entry-level jobs increasingly offered on a part-time rather than full-time basis.[17]

In the absence of substantial increases in minimum wages, these factors are likely to increase pay inequality between low and higher-paid workers, young people and people of middle-age, and between women and men.

The minimum wage has fallen behind pay levels across the community

The minimum wage only increased in real terms by an average of 0.7% per annum over the last decade.

The average annual increase in the minimum wage of just 0.7% over the last decade was well below growth in median pay levels. Consequently, it fell from 61% of full-time median weekly earnings in 1996 to 49% in 2018, leaving minimum wage earners and their families falling behind improvements in community living standards (Figure 2).[18]

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[17] National Skills Commission (2020): *The shape of Australia's post COVID-19 workforce*, NSC, Canberra; ACOSS and Jobs Australia (2020): *Faces of unemployment*, ACOSS, Sydney; Autor, D and Reynolds, E (2020): *The nature of work after the COVID crisis: too few low-wage jobs*, Brookings Institute and Hamilton Project, Washington DC; Barrero, J et al. (2020): *COVID-19 is also a reallocation shock*, NBER Working Paper 27137, Cambridge, MA.

[18] ABS (2019b): *Employee earnings and hours, Australia, May 2018*.

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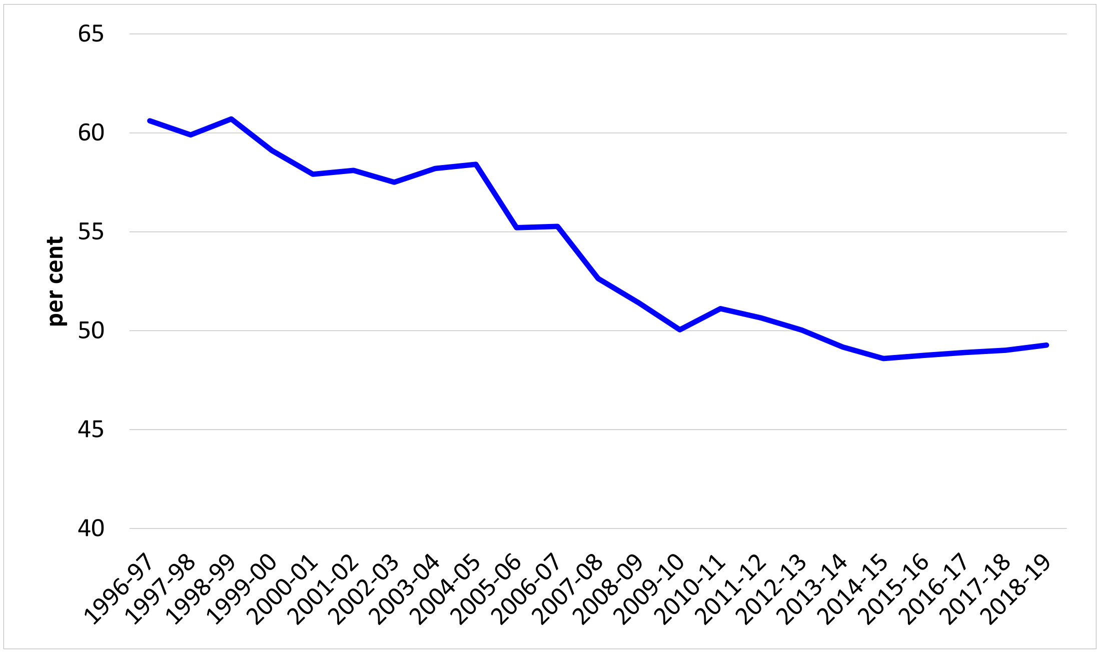
Figure 2: Minimum wage as a % of full-time median earnings



Source: ABS, Employee earnings and hours

Note: Full-time non-managerial median earnings for all jobs held by an employee

Before COVID-19, poverty was rising among wage-earning households

The ACOSS/UNSW report, 'Poverty in Australia 2020' includes estimates of poverty among people in households where wages were the main source of income, derived from the ABS 2017-18 Survey of Income and Wealth.[19]

In 2017-18, there were 1,017,000 people living below the 50% of median income poverty line and 1,666,000 people living below the 60% of median income poverty line, in households where wages were the main source of income. This comprised 38% and 40% of all people in poverty respectively (apart from people in self-employed households).

This represents a significant increase in poverty in households with a wage-earner since 2013-14. In that year, 32% of people below the 50% of median income poverty line and 34% of those below the 60% of median income poverty line came from households whose main income was wages.[20]

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[19] Davidson, P et al. (2020): *Poverty in Australia 2020: Part 2, Who is affected?*, ACOSS/UNSW Poverty and Inequality Partnership Report No. 4, ACOSS, Sydney.

[20] ACOSS and SPRC (2016): *Poverty in Australia: 2016*, ACOSS, Sydney.

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The Commission's research indicates that in 2019, 30.6% of low-paid employee households, twice the share of all employee households (15.2%), experienced financial stress.[21]

One likely reason for this is the rising cost of housing, which is a major part of the budgets of low-paid households. The Commission's research found that in 2016, 52% of low-paid working households (those where the primary earner received less than two-thirds of median hourly wages) were renting privately.[22]

Adequate minimum wages reduce poverty directly by lifting the incomes of low-paid workers and their families

While minimum wages cannot target poverty as precisely as social security payments, they are mainly paid to the lowest 50% of people of working age. Research undertaken by the Commission found that 44% of minimum wage earners were in the lowest three deciles of household income for households where at least one member was employed. In 2016, 38% of low-paid adult workers (earning below two-thirds of the hourly median wage) who were partnered were either the sole or primary earners in the household.

A hypothetical comparison by the Commission of disposable incomes for families receiving the NMW with the 60% of median income poverty line in September 2020 found that single parents employed part-time (half of full-time hours), and single-earner couples with or without children, had disposable incomes below that poverty line, unless they also received the JobSeeker Payment.[23]

Adequate minimum wages reduce poverty indirectly by making room for adequate income support payments

It is appropriate to maintain a gap between the base rate of working-age social security payments and the minimum wage, in order to provide a financial reward for paid work. At present that gap is substantial. An individual receiving the maximum rate of the JobSeeker Payment more than doubles their disposable income if they take up full-time employment at the minimum wage. Nevertheless, a higher minimum wage creates more room for the substantial increases in social security payments that are needed to reduce poverty.

Inadequate real growth in both minimum wages and working-age social security payments (allowances and family payments) is contributing to their decline relative to median and average wages over the last two decades (Figure 3).

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[21] Fair Work Commission (2021): *Statistical report—Annual Wage Review 2020–21*, FWC, Sydney. 'Low-paid' households refers to those in the bottom quintile of equivalised disposable household income for employee households.

[22] Yuen, K et al. (2018): *Characteristics of workers earning the national minimum wage rate and of the low paid*. FWC, Melbourne.

[23] Fair Work Commission (2021): *op. cit.*

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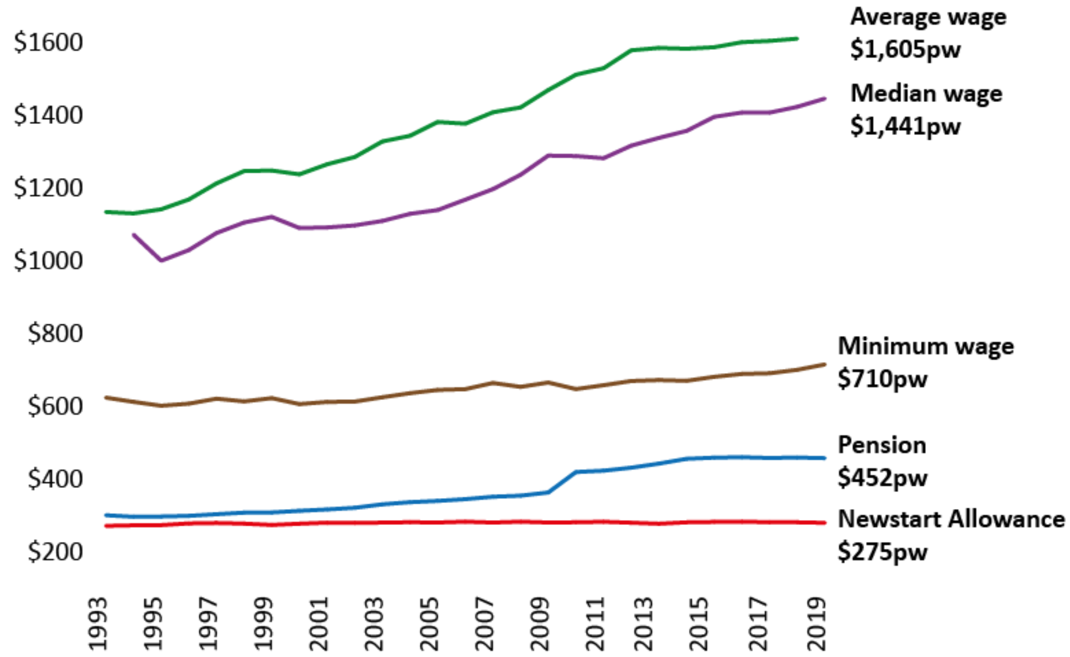
Figure 3: Historical comparison of Newstart Allowance with pensions and wages ($2019)



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

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

Since 2009, budget cuts totaling over $12 billion have been made to payments for families with low incomes, including:

- The removal of indexation of Family Tax Benefit (Part A) for low-income families to wage movements in 2009, reducing payments since then by $13 per week for each younger child under 12 years and $17 per week for each older child;
- The freezing of the income test free areas for Family Tax Benefit from 2009 to 2020;
- The transfer of 80,000 sole parent families from Parenting Payment Single to the lower Newstart Allowance in 2013, at the time reducing payments for a sole parent with school-age children by at least $60 a week;

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- The abolition of the 'Schoolkids Bonus' ($4.30 to $8.60 per child per week) for primary and secondary school-age children in 2016;
- The freezing of maximum rates of Family Tax Benefit (Part A) for low-income families in nominal terms from 2017 to July 2019;
- Removal of the Large Family Supplement for families with four or more children;
- Removal of Family Tax Benefit (Part B) from couples whose youngest child is 13 years or over;
- The freezing of the income test free areas for Parenting Payment and Newstart Allowance for three years from 2017.[24]

The cumulative effect of these changes on the incomes of low-income families is substantial. For example, a sole parent with two preschool-age children receiving the maximum rate of Parenting Payment Single has lost nearly $43 per week (around 6% of their disposable income). For a sole parent family with two children aged 8 to 15 years, the loss is about $136 per week (a cut in disposable income of nearly 19%).[25]

The experience of the last decade shows that governments cannot be consistently relied upon to supplement low pay for families with children, leaving them vulnerable to poverty in the absence of adequate increases in the minimum wage.

Minimum wages impact on poverty indirectly, through their influence on social security settings. There is a consistent long-term relationship between minimum wages and unemployment benefits. Between 1995 and 2010, unemployment payments for a single adult with no dependent children sat in a narrow band between 43-44% of the minimum wage (before tax). The JobSeeker Payment has since fallen to 38% of the minimum wage, suggesting there is considerable scope to increase it without weakening rewards for employment.[26]

The constancy of this relationship over the longer term is not surprising given official concerns (accurate or not) about the effect of income support payments on work incentives. This historical link between minimum wages and social security payments helps explain why higher minimum wages are associated in international comparisons with lower levels of child poverty, even though only a minority of poor households in most OECD countries benefit directly from minimum wages.[27]

To reduce poverty, the JobSeeker Payment and family payments should also be increased.

[24] Whiteford, P et al. (2018): It's not just Newstart. Single parents are $271 per fortnight worse off, *The Conversation*, 3 December 2018.

[25] Whiteford, P et al. (2018): *Ibid.*

[26] Department of Human Services (2019): *A guide to Australian Government payments*, DHS, Canberra; Workplace Info (2020): *History of national increases*, Workplace Info, Sydney.

[27] OECD (2021): *Poverty rate*, OECD, Paris; OECD (2021): *Wage levels*, OECD, Paris.

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There is now widespread consensus that the maximum rates of working-age income support payments – Allowances - should be substantially increased. Support for raising the rate of the JobSeeker Payment and related allowance payments ranges from the Business Council to the Australian Council of Trade Unions, the Australian Investment Council and Deloitte Access Economics. Since these payments have not been increased in real terms for 25 years, they sit well below well below the poverty line. In our annual budget submission, ACOSS calls for an increase in the JobSeeker Payment and Youth Allowance of $162 per week (in the case of single people) to ensure people looking for paid work can meet basic living costs and search for employment.[28]

Family Tax Benefits supplement income from employment for households with dependent children, raising the disposable incomes of low-paid households. However, in recent years governments have reduced these payments (cutting $12 billion from Family Tax Benefits alone between 2009 and 2016), leaving families with low incomes more reliant on wage increases. In particular, since 2009 Family Tax Benefit (Part A) for low-income families has been indexed to CPI only rather than wage movements, reducing payment levels since then by over $13 per week for each child under 12 years and $17 per week for each older child (with further reductions in the future).[29] As a result, the real disposable incomes of low-paid families have declined relative to those without children.[30]

Child poverty has already increased over the past two decades, and will continue to rise, if minimum wages and family payments do not increase in line with wage increases generally.[31]

Minimum wages help reduce the gender pay gap

Minimum wages also play an important role in reducing the gender pay gap, which is caused by a combination of unequal sharing of caring roles, the over-representation of women in relatively low-paid caring occupations (including in the community services sector), and discrimination against women in hiring and promotions. In 2018, the gap between adult (non-managerial) hourly ordinary time earnings between men and women was $6.41 per week, or 15.2% of the average male rate. Minimum wage increases from 1995 to 2005 were estimated to reduce the gender pay gap by 1.2 percentage points.[32]

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

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[28] ACOSS (2021a): *op cit.* Amount adjusted to take account of $25 per week increase subsequently legislated.

[29] Whiteford, P et al. (2018): *op. cit.*

[30] In the Commission's modelling of changes in the disposable incomes of hypothetical families children relying on the NMW from 2013 to 2018, families with children (whether singles or couples) had smaller increases in household disposable income than those without children. See Fair Work Commission (2019): *Statistical report- Annual Wage Review 2018–19*, Table 8.4, FWC, Sydney. Federal Budget reductions in family payments and income support payments are likely to be a major reason for this.

[31] Davidson, P et al. (2020): *Poverty in Australia 2020 – Part 1: Overview*, ACOSS/UNSW Poverty and Inequality Partnership Report No. 3, ACOSS, Sydney.

[32] Fair Work Commission (2020): *Statistical report- Annual Wage Review 2019-20,* FWC, Sydney; Austin et al. (2008): *Gender pay differentials in low-paid employment*, Australian Fair Pay Commission, Canberra.

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capacity to provide quality services depends on the availability of suitably skilled employees, many of whom rely on the award system for their wages.

The vast majority of employees in the community services sector (82%) are women. Consistent with the treatment of caring work more broadly, their work is undervalued, despite being highly skilled.

In 2018, 32% of employees in health care and social assistance were award reliant (up from 17% in 2010), making this one of four major industries with a high share of award-reliant workers; the others being retail; accommodation and food services; and administrative and support services.[33]

We warmly welcomed increases in pay for community workers arising from the Commission's equal remuneration decision in 2012, which were phased in up to 2020.[34] Further increases are likely to be needed over time to improve the quality of community services by helping avert shortages of skilled workers. The Australian government is committed to providing financial support for community sector employers to meet these pay increases in some funding programs but not others, an anomaly that should be rectified.[35]

There is no automatic relationship between minimum wages and employment levels

Increases in minimum wages awarded by the Commission in recent years have had no discernible impact on aggregate employment.[36] International evidence generally supports the view that modest increases in minimum wages have little or no adverse impact on employment.[37]

Under current economic conditions, there is both more scope and more need to substantially increase minimum wages. There is more scope to do so because the relationship between wage growth and inflation has changed in recent years and Australia is well short of full employment. There is a greater need to do so because (in addition to wider concerns around poverty and living standards), Australia needs stronger wage growth to sustain the recovery from the COVID recession.

In recent years, the Reserve Bank has identified a significant change in the relationship between unemployment and inflation.[38] Similar changes in other wealthy nations have led

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[33] Fair Work Commission (2019): *op. cit.*

[34] Fair Work Australia (2012): *Decision, Equal Remuneration Case*, FWA, Sydney.

[35] ACOSS (2021b): *Equal Pay commitment must apply to whole of community service sector*. Media release, 9 March 2021, Sydney.

[36] Productivity Commission (2015): *Workplace Relations Framework: Productivity Commission Inquiry Report: Volume 1*, page 201, PC, Canberra; Bishop, J (2018): *The effect of minimum wage increases on wages, hours worked and job loss*, RBA Bulletin September 2018.

[37] Dube, A (2019): *Impacts of minimum wages: review of the international evidence*, HM Treasury, London.

[38] Bishop, J and Cassidy, N (2017): *Insights into low wage growth in Australia,* RBA Bulletin March; The Treasury (2017): *Analysis of wage growth*, The Treasury, Canberra.

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economists to question whether further reductions in unemployment are constrained by the risk of accelerating inflation (the NAIRU).[39]

Recommendations

We recommend that the minimum wage be increased consistently and substantially to reduce the gap between the minimum wage and the median wage. While we do not recommend specific increases in minimum wages, the rest of our recommendations focus on how the needs of people on low pay can best be assessed, and the respective roles of wages and social security in sustaining a decent standard of living.

Our starting point is that the minimum wage 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 minimum wage should not be directly designed to cover the costs of children because that role is best performed by the social security system. In assessing the living standards of low-paid workers and their families, the Commission should take account of both minimum wages and social security payments, especially Family Tax Benefits. Nevertheless it is vital that the minimum wage and family payments together are sufficient to prevent a family from falling into poverty.

The minimum wage itself should be set well above poverty levels for a single adult, in keeping with Australian public policy tradition and the desirability of maintaining an appropriate gap between maximum social security payments and minimum wages.

In addition to these measures, an appropriate benchmark for the adequacy of the minimum wage is to compare it with the full-time median wage. A reasonable goal would be to restore its value to at least 60% of the full-time median wage.

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

[39] Blanchard, O (2017): *Should we reject the natural rate hypothesis?*, Peterson Institute for International Economics, Working Paper 17-14, Washington D.C.

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We recommend that:

- The Commission should increase real minimum wages substantially in order to support recovery from the COVID recession and 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;
- A reasonable benchmark for the adequacy of minimum wages in comparison with wages across the community would be 60% of the full-time median wage;
- The combined effect of the minimum wage and family payments on the extent of poverty among families, including recent significant cuts in family payments, should also be expressly considered in setting minimum wages;
- The FWC should continue to commission research and hold consultations with stakeholders to develop and update a robust set of indicators of a minimum adequate living standard for people in low-paid work. It should regularly assess the living standards of individuals and households receiving minimum wages against median household disposable incomes, poverty lines, budget standards and deprivation indicators, including financial stress indicators;
- 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 minimum wage for adults.

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