Australian Fair Pay Commission
Minimum Wage Review 2009

AYAC’S response

March 2009
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The Australian Youth Affairs Coalition

The Australian Youth Affairs Coalition (AYAC) is Australia's non-government youth affairs peak body, representing the rights and interests of young people and the sector that supports them. AYAC was established in 2002 by state and territory youth affairs peaks and a number of national youth sector organisations following de-funding of the previous peak body, AYPAC, in 1999. Up until February 2009 AYAC was unfunded and had no paid staff. An elected Executive Committee of volunteers has managed AYAC throughout the last seven years.

AYAC aims:

- To provide a body broadly representative of the issues and interests of young people and the youth affairs field in Australia. To advocate for a united Australia which respects and values Aboriginal and Torres Strait Islander heritage, promotes human rights, and provides justice for all.
- To represent the rights and interests of young people in Australia, at both a national and an international level.
- To promote the elimination of poverty and to promote the well-being of young Australians, with a particular focus on those who are disadvantaged.
- Recognising the diversity of Australian society, to promote the cultural, social, economic, political, environmental and spiritual interests and participation of young people in all aspects of society.
- To advocate for, assist with and support the development of policy positions on issues affecting young people and the youth affairs field, and to provide policy advice, perspectives and advocacy to Governments and the broader community.
- To facilitate co-ordination and co-operation within the youth affairs field.

For further information, please contact Luke Bosher, AYAC Chairperson, 0402-765-339 or chair@ayac.org.au.
Introduction

AYAC welcomes the opportunity to submit to the Fair Pay Commission to assist in its deliberations in the 2009 minimum wage review. AYAC notes the Commissions previous decisions to raise the minimum wage, and in turn to adjust rates for junior employees, employees to whom training arrangements apply and employee with a disability. AYAC submits to the Commission specifically on the needs of young people as junior and minimum wage workers.

AYAC understands that the global economic crisis presents specific issues for the Commission to consider in this wage setting decision, however argues that a minimum wage rise is necessary in the current economic climate to ensure that:

- Young people who are low-income earners (and other low-income earners) are not unfairly disadvantaged in measures to remediate the impact of the global economic crisis.
- Young people (particularly those living independently) are protected from increasing economic vulnerability and are able to maintain a reasonable, basic living standard.

More broadly, AYAC agrees with the assertion made by the ACTU in their submission to this review that ‘there is no evidence that the level of the minimum wage is having a negative impact on employment’ and that ‘an increase in the rates of pay of minimum wages workers, which maintains their real wages, will assist to provide the needed stimulus to demand.’

AYAC notes that young people already face challenges in accessing full-time work which will be exacerbated by the global economic crisis, however AYAC does not accept that a cut in real wages for young people who earn the minimum wage is a reasonable ‘solution’ to the increasing job insecurity they will experience during the economic crisis. Instead, AYAC believes that a minimum wage freeze will mean that

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young people become increasingly economically vulnerable, jeopardising the capacity particularly of young people living independently, to maintain a decent standard of living.

In relation to junior wages, AYAC acknowledges that the remit of the Commission does not allow for it to comment on the ‘fairness’ of the junior wage system. However AYAC puts to the Commission that junior wages are fundamentally discriminatory and in breach of Human Rights Instruments and Laws.

Given that the Commission will not be making a decision outlining wage reform in relation to junior wages, AYAC asserts that any increase in the Federal Minimum Wage should again flow on to junior wages employees, employees to whom training arrangements apply and employees with a disability. The Commission has rightfully ensured this is the case in previous wage setting decisions and AYAC calls on the Commission to ensure that young people on junior wages do not miss out on a wage increase enjoyed by other low-paid employees on the basis of age.

The Global Economic Crisis

Young people will be hard hit by the global economic crisis. It is anticipated that young people will bear the brunt of job cuts and will struggle to enter the labour market while employers reduce recruitment. The availability of apprenticeships and traineeships is dropping dramatically. As will be illustrated later in this submission, young people (particularly those living independently) face increasing difficulty in meeting the costs of living and experience particular vulnerabilities to poverty.

AYAC notes that the Commission has received a submission from the Australian Chamber of Commerce and Industry, arguing for a freeze of the minimum wage. In relation to the proposal to freeze the minimum wage, AYAC would also like to reiterate the argument made in ACOSS’s submission to this review that:

2 Schneiders, B. ‘Wage freeze call for 1.3m low-paid’ The Age. 24/04/09 p. 4.
While in these circumstances overall restraint in wage increases is critical to curb inflation and sustain economic growth it would be unreasonable, and ineffective, if the burden of wage restraint was to fall on those employees who rely on the Pay Scales. The Federal Minimum Wage and associated Pay Scales make only a very modest contribution to overall wages growth since only 20% of employees rely on the Pay Scales for their wage increases.  

AYAC asserts that as low-paid workers, young people will become increasingly economically vulnerable should the minimum wage be frozen. 

The capacity of young people to remain in employment

AYAC would like to highlight to the Commission research illustrating particular challenges in relation to young people’s access to employment, particularly those aged 20-24 years. These challenges are likely to be exacerbated in the context of the economic crisis. As has been already stated, AYAC does not concede that this justifies a cut in real wages for minimum and junior wage earners.

AYAC notes that in recent times of economic prosperity, young people have not benefited in terms of access to employment in the same way as older Australians. The Dusseldorp Skills Forum noted in 2007 that:

> Full time jobs for Australians aged 25-64 years have risen by more than 1.270 million since 1995 but been static for teenagers and declined by 42,000 for young adults. This gap in opportunities is not a result of fewer numbers of young people entering the labour market.  

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It is of serious concern to AYAC that a cohort of the population that has not reaped the benefits of previous economic prosperity in terms of employment and will be further penalised in the context of the global economic crisis in terms of access to jobs and in terms of jobs lost, may also be subjected to a cut in real wages should the minimum wage be frozen.

In the context of a recent drop in full-time employment rates, young people are most hard hit according to The Fair Pay Commissions Economic and Social Indicators Monitoring Report July to December 2008:

‘Following the Commission’s third wage-setting decision, part-time employment rates increased and full-time employment rates decreased for each of (the demographic groups with a high concentration of low-skilled workers listed in the report). The largest fall in the total employment rate was for 20-24 year olds who are not in full-time education.’

Data reported in How Young People are Fairing ’08 relating to May 2008, shows 21 per cent of young adult males not engaged fully in education or the workforce. Instead, these young people are either unemployed, working part-time or not in the labour force.

The problem of under-employment of young people (particularly young people aged 20-24 – those most likely to be living independently and with increased financial responsibility) will be exacerbated by the economic downturn. AYAC asserts that should the minimum wage also be frozen, young people will face increasing challenges in meeting the costs of living.

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AYAC does not accept that a cut in real wages for young people who earn the minimum wage is a reasonable ‘solution’ to the increasing job insecurity they will experience during the economic crisis.

The costs of living, young people and economical vulnerability

AYAC shares the concern expressed by the Youth Affairs Council of Victoria in their submission to this review that ‘(e)ven in times when economic conditions are generally favourable, often the needs of young people (particularly those living independently) are set to the side of analyses that focus on economic outcomes for older adult individuals or families.’

Economic vulnerability and the impact it has on wellbeing outcomes is a reality for many young Australians. The Victorian State Government report The State of Victoria’s Young People, prepared by the Department of Education and Early Childhood Development and the Department of Planning and Community Development comments on a national scale that ‘(w)hile Australia is a wealthy country by international standards, some Australians, including young people (especially those in low-income groups) remain at high risk of poverty.’ Of note are the specific vulnerabilities to disadvantage experienced by young people with a disability, young people from CALD backgrounds, young people in rural areas and Indigenous.

Limited financial resources can mean that young people do not access critical opportunities and services, so important at a time of personal development in which they may experience particular vulnerabilities in adolescence and during their transition into adulthood. Young people’s economic capacity impacts on their access

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to educational opportunities, their capacity to travel to access services, their access to recreational opportunities or to adequate housing and can assist to keep them free from debt.

Young people living independently are at particular risk of poverty. Meeting the rising costs of rent, paying for basic food items and utility bills, meeting the costs of transport can be a struggle on a minimum wage rate, particularly for young people who are employed part-time.

The Household, Income and Labour Dynamics in Australia (HILDA) survey identified types of financial hardship experienced by young people:

Examples of hardship included going without meals, being unable to heat their homes, having to pawn or sell something, not being able to pay the mortgage or to pay household bills. The most common form of hardship experienced by young people (aged 15-24) was not being able to pay gas, electricity or telephone bills on time because of a lack of money (12.2 per cent of males and 15.4 per cent of females). More that 6 per cent of young people could not pay their mortgage on time between 5 and 6 per cent had gone without meals (cited in AIHW 2007a).

Poverty and under-employment

Young people are particularly susceptible to under-employment in Australia. The Australian Bureau of Statistics report Australian Labour Market Statistics, July 2008: Underemployed Workers tells us that:

The underemployment rate in Australia has remained relatively stable in recent years despite a

\(^{10}\) ibid. p.77.
\(^{11}\) ibid. p.87.
period of strong economic growth and falling unemployment...Of the 668,500 underemployed workers in May 2008, the majority (617,800 or 92%) were underemployed part-time workers.\(^\text{12}\)

It goes on to tell us that:

As women and young people are more likely than others to be employed part-time, underemployment also tends to be higher among occupation groups with a high proportion of females and people aged 15-24 years....Occupations that have a higher proportion of young part-time workers are also more likely to have a higher incidence of underemployments among their part-time workers.\(^\text{13}\)

Research identifies a relationship between poverty and under-employment. The State of Victoria’s Young People notes that:

Recent research has suggested that full-time work may be needed to ensure that incomes are higher than the poverty line. This is an important finding as many of the new jobs created over the past 20 years have been either casual or part time.\(^\text{14}\)

The report cites 2007 census data to demonstrate that ‘the mean weekly earnings of young people increases with age and those in full-time employment earn more on average than those in part-time employment.’\(^\text{15}\)


\(^\text{13}\) Ibid.


\(^\text{15}\) ibid. p.85.
A freeze in the minimum wage will make young people, particularly those living independently and employed at a part-time rate, increasingly economically vulnerable. AYAC urges the Commission to safeguard a reasonable safety net for young people reliant on the minimum wage.

**The provision of minimum wages for junior employees**

AYAC asserts that a wage system based on age rather than capacity is discriminatory and in breach of a number of International Human Rights Standards and Laws. In particular, AYAC would like to highlight to the Commission the following standards and laws:

- Article 23 of the Universal Declaration of Human Rights, declares that ‘Everyone, without discrimination, has the right to equal pay for equal work.’
- Article 32 of the United Nations’ Convention on the Rights of the Child (CROC), to which Australia is a signatory, protects young workers from economic exploitation and requires that States take legislative and administrative measures to ensure that this protection is implemented.
- The International Labour Organisation Minimum Age Recommendation, 1973 (No. 146) stipulates that special attention should be given to the provision of fair remuneration to young people, bearing in mind the principle of equal pay for equal work. (Part IV, paragraph 13(1)(a).\(^\text{16}\))

**The New Zealand Experience**

In March 2000, following a review of the youth wage in New Zealand, the Government decided to lower the eligibility age for the adult minimum wage from 20 to 18 years and to increase the youth wage from 60% to 80% of the adult minimum. These changes were implemented from March 2001, in a two-step process that raised the youth wage from 60-70% in the first year and 70-80% in the second.

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\(^\text{16}\) National Children’s and Youth Law Centre, (2008). *Submission on Award Modernisation Process to the Australian Industrial Relations Commission*. Available for download from [www.ncylc.org.au](http://www.ncylc.org.au)
In a 2004 Working Paper submitted to the New Zealand Treasury, providing an analysis of the effects of the reform, Dean Hyslop and Steve Stillman reviewed existing literature to say that ‘the consensus has been broken and that the empirical evidence indicates, in certain situations, an increase in the minimum wage may not reduce employment.’

Hyslop and Stillman’s findings in relation to the impact of wage reform in New Zealand in 2004 were as follows:

‘We find no robust evidence of adverse effects on youth employment or hours worked. In fact, we find stronger evidence of positive employment responses to the changes for both groups of teenagers (16-17 and 18-19 year olds), and that 16-17 year olds increased their hours worked by 10-15 percent following the minimum wage changes. Given the absence of any adverse employment effects, we find significant increases in labour earnings and total income of teenagers relative to young adults. However, we do find some evidence of a decline in educational enrolment, and an increase in unemployment and inactivity, although these results depend on the specification adopted.’

Certainly the findings in relation to inactivity and educational enrolment need further consideration, however the positive outcomes in relation to hours worked and wage increase for young people need to be noted.

Dean Hyslop later collaborated with co-authors from the New Zealand Department of Labour and the Statistics New Zealand and Motu, to present an analysis of drawing on statistical data over the period of 2000-2007, of the responses of firms to the increases in the minimum wages for teenage workers.

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18 Hyslop, D. & Stillman, S. op.cit. p.i.
The authors warned that ‘the analysis is largely circumstantial, whether the results we find can be attributed to such minimum wage increases is unclear.’\textsuperscript{20} However, they found:

‘mixed evidence on whether high initial teenage-employment shares reduced their teenage employment over the period. For employment share changes over the period as a whole, we estimate that initial high teenage-employing firms tended to reduce their subsequent teenage employment: by 2.5-3 percentage points for firms in the main-teenage industries, and about 1.2 percentage points for firms in other industries. On the other hand, based on annual changes, we estimated small and insignificant effects for firms in the main teenage-employing industries and positive effects in other firms.’\textsuperscript{21}

The research did find that some firms didn’t survive the transition of wage reform, however newly established firms were not deterred from hiring teenagers.\textsuperscript{22} With regard to the survival rate of firms, the research pointed out that ‘it is unclear whether the patterns associated with exit and entry are due to higher teenage wages associated with minimum wage increases, or are a reflection of characteristics associated with the entry and exit dynamics of firms.’\textsuperscript{23}

AYAC acknowledges that simply transferring the findings of New Zealand research on the impact of wage reform to the Australian context is an inadequate assessment of the potential risks or benefits of wage reform in this area. However, given the clear breach of human rights standards that age based wage structures represent and the findings of evidence in the New Zealand context, AYAC asserts

\textsuperscript{20} Hyslop, D. & Mare, D. & Stillman, S. & Timmins, J. \textit{op.cit.} p.114.
\textsuperscript{21} Hyslop, D. & Mare, D. & Stillman, S. & Timmins, J. \textit{op.cit.} p. 115
\textsuperscript{22} \textit{Ibid.}
\textsuperscript{23} \textit{Ibid.}
that genuine debate about the adequacy of age based wage structure needs to be opened and explored in the Australian context.

AYAC asserts that a competency based wage system could balance the rights of young people to receive equal pay for equal work and the needs of employers.

AYAC understands that the Commission will not be making recommendations relating to wage reform and as such would like to reiterate the recommendation made by the ACTU in their submission to this review that:

‘The general AFPC Wage Setting Decision should flow on to Junior Employees, employees to who training arrangements apply, and employees with a disability. The...AFPC should adjust junior, trainee and apprentice rates as they were adjusted in the AFPC Decision 2 of 2008.’

Summary of recommendations

AYAC does not accept that a cut in real wages for young people who earn the minimum wage is a reasonable ‘solution’ to the increasing job insecurity they will experience during the economic crisis. AYAC submits that a freeze in the minimum wage will make young people, particularly those living independently and employed at a part-time rate, increasingly economically vulnerable. AYAC urges the Commission to safeguard a reasonable safety net for young people reliant on the minimum wage.

AYAC asserts that a wage system based on age rather than capacity is discriminatory and in breach of a number of International Human Rights Standards and Laws and that a competency based wage system should be given serious consideration in the Australian context.

AYAC reiterates ACOSS’s recommendation to this review that the Commission increase the minimum wage at least in line with general price movements to ensure that the living standards of minimum wage earners do not fall.\textsuperscript{25}

AYAC also reiterates the recommendation made by the ACTU to this review that ‘the general AFPC wage setting decision should flow on to junior employees, employees to whom training arrangements apply, and employees with a disability.’\textsuperscript{26}

\textsuperscript{25} ACOSS Submission to the Fair Pay Commission on minimum wages (2009). \textit{op.cit.} p. 3.
\textsuperscript{26} Australian Council of Trade Unions, (2009). \textit{op.cit.}p.148