

Submission to Fair Work Australia: Minimum wage targets and disability wages

October 2016



This short submission addresses two issues relating to this month's preliminary hearing on minimum wages: proposals for a medium term target or goal for minimum wages, and minimum pay rates for people with disabilities. Given time and resource constraints, we do not seek leave to appear.

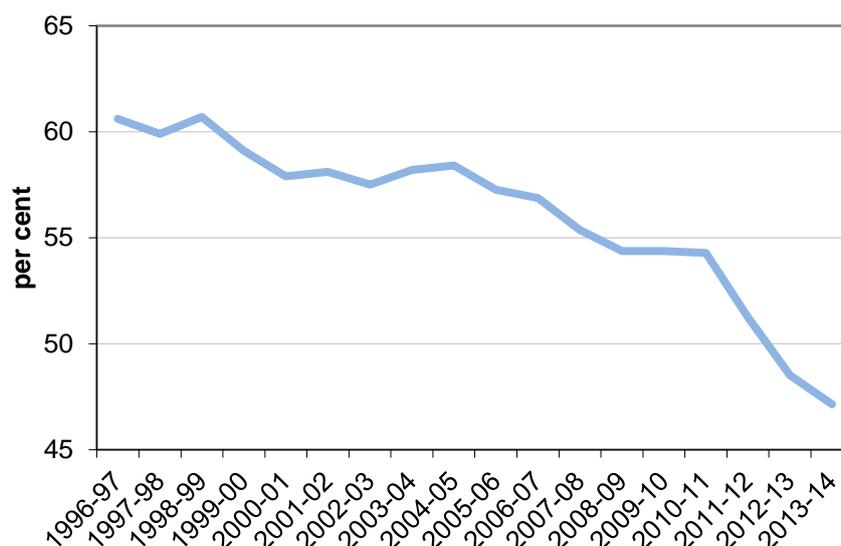
Issue 1: Proposals for a medium term target/goal for minimum wages

United Voice and the ACTU propose that the Commission adopt a medium term goal or target to lift minimum wages.

This idea is consistent with the view expressed in our minimum wage submissions that the setting of minimum wages should be informed by living standard 'benchmarks' and that minimum wages should be increased substantially relative to median pay rates. By their nature these objectives (which relate to the adequacy of minimum wages and work incentives) are medium term goals that need to be balanced with others, including employment and economic growth, on a year by year basis.

In the absence of a medium term 'compass' there is a risk that these adequacy and work incentive goals will fade into the background as short term considerations take centre stage. This is all the more concerning given the secular decline in minimum wages relative to the median over the past two decades (Figure 1).

Figure 1 – Minimum wage as a proportion of fulltime median wage

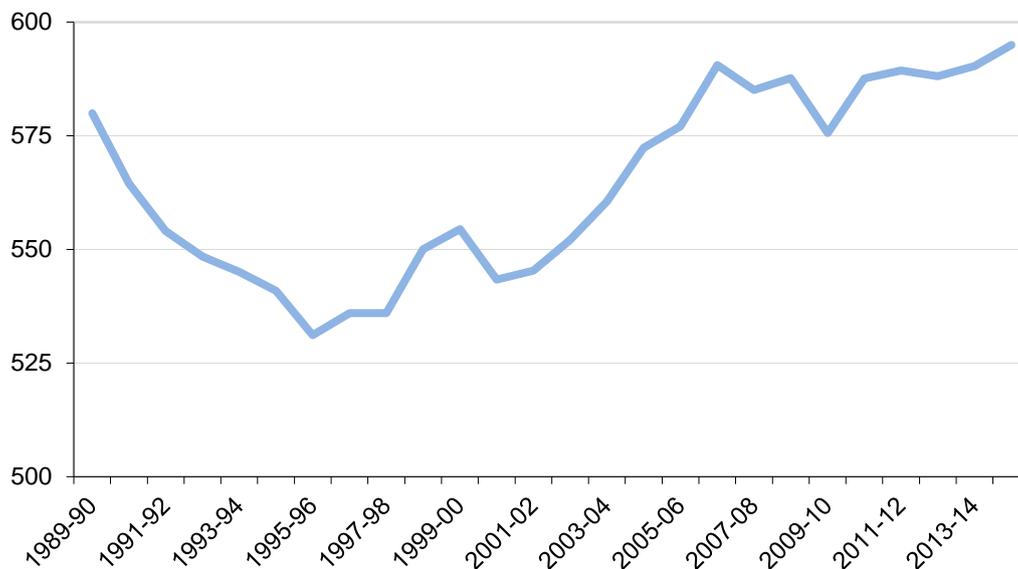


Sources: Australian Industrial Relations Commission, Safety net adjustment decisions; Australian Fair Pay Commission, Wage setting decisions; ABS 6310, Employee Earnings, Benefits and Trade Union Membership.
Note: Weekly fulltime minimum wages as a proportion of fulltime median wages in main job for all employees.



Over the first decade of national minimum wages (1996 to 2006), the Commission's predecessors awarded increases significantly above CPI rises, which stemmed the reduction in minimum wages relative to the median. However, since then, increases have only been slightly higher than consumer price inflation (Figure 2) and the downward trend in the relative value of minimum wages has accelerated (Figure 1).

Figure 2 – Real minimum wage levels (\$A per week)



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*.

If the relative value of minimum wages continues on its present path over the medium to long term, the following consequences are likely:

- + A direct increase in poverty in households - especially families with children - whose main income source is a low paid job. In the past Australia has managed to keep poverty in households with fulltime paid work relatively low, in large part due to minimum wages.
- + An indirect increase in poverty in households mainly reliant on working-age social security payments, as there is less scope for governments to lift these payments - especially Newstart Allowance - to a minimum level of decency without weakening work incentives or extending those payments (as a form of 'wage subsidy') to individuals on fulltime minimum wages ⁴.
- + A weakening of work incentives for recipients of social security payments and others who are considering a return to paid work, especially women who have been caring fulltime for children or relatives with disabilities. This would crimp future economic growth.

⁴ That is, as the 'cut off point' for benefits surpasses the after-tax value of the minimum wage.



- + Increased social security costs for governments (one of the main reasons for the British Government's recent commitment to increase the minimum wage). This would arise in part from weaker work incentives for those currently out of paid work, and more directly from an increase in the cost of 'in work payments' especially Family Tax Benefits.

These effects build over time. Since they are less visible (and may appear less threatening) on a year by year basis, it is difficult for the Commission and other stakeholders to properly take them into account in contrast to other considerations that may seem more urgent. This is the 'boiling frog' problem: the frog does not try to escape from the pot until it is too late.

While we do not favour rigid wage 'targets', there is a strong case under these circumstances to set temporary medium term goals to ensure that the living standards and work incentives of minimum wage earning households, and the relationship between minimum wages and those of the 'median worker', both move to a higher equilibrium level. This occurred (but in a downward direction) in the early 1990s when wage fixation was decentralised but a national minimum wage was not established until five years later. The ratio of minimum to median fulltime wages fell between 1991 and 1995 from 68% to 63%⁵.

Wage growth has slowed considerably in recent years. If this continues, then all things being equal it may slow the secular trend for the gap between minimum and median wages to widen, so that the frog would boil more slowly. Conversely, as we argued in this year's minimum wage submission, this presents an opportunity to reduce the gap more quickly without the need for very large increases in minimum wages.

We do not have a fixed view on how a medium term goal or target should be set. Based on our previous submissions, at least three factors should be considered:

1. 'FWA should substantially increase real minimum wages in order to significantly reduce the gap between them and median pay levels.
2. 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.
3. 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'⁶.

The British target of 60% of median wages has advantages. It is relatively straightforward to plot a path towards a minimum wage based on this measure, the data are updated annually, and it is a feasible medium term goal based on historical experience in Australia. More direct measures of household living standards should also be considered in setting such a

⁵ ABS, 'Weekly earnings of employees, distribution' Cat No 6310.0; Reserve bank statistics. Not shown in Figure 1 above.

⁶ ACOSS (2016): [Minimum wage submission 2016](#), p6.



benchmark, including 'budget standards', poverty lines (especially for families with children, taking account of social security payments), and financial stress indicators.

Finally, we do not have a view as to whether there is legislative scope for the Commission to set a medium term goal or target. We believe it would be helpful for the Commission to publish its view on the desirability and feasibility of such a goal prior to the next round of minimum wage submissions.

Issue 2: Minimum wages for people with disabilities

Given time and resource constraints, we do not have much to add at this time to our previous submissions on minimum wages for people with disabilities.

We repeat our two main points:

1. That it should not be necessary to set a separate minimum wage for people with disabilities whose work capacity is assessed at 100%.
2. That the minimum rate of pay under the Supported Wage System (SWS) is too low and should not be based on the 'free area' for the Disability Support Pension.

We understand the redesign of assessment tools is being considered separately and do not repeat our previous submissions on that issue here.

In regard to our first point, the Commission's discussion paper suggests that this may be a legislative problem rather than a matter the Commission can resolve of its own accord.

Section 294(3)(c) of the Fair Work Act (2009) appears to exclude employees with a 'disability' from the national minimum wage, regardless of the impact on their productive capacity. In our view, to improve clarity this exemption should be limited to those whose work capacity is substantially reduced. Whether or not a separate minimum wage determination is needed (pursuant to the current law) to protect the rights of people with '100% work capacity' turns on the definition of 'disability'.

In regard to our second point, it is clearly inappropriate in today's disability policy world for wages for workers with disabilities to be treated as supplements to disability pensions. On that basis alone, the 'free area' for the DSP is not an appropriate benchmark for minimum wages. A further problem with this benchmark is that it is unstable and uncertain as it is subject to changes in government policy. A recent example is the 2014-15 Federal Budget proposal to 'freeze' the free areas of social security payments to reduce budget expenditures⁷.

⁷ The Government announced in the 2015-16 Budget that it would not proceed with this measure.



We also maintain our view that the current minimum benchmark is too low, being just 31% of the minimum hourly wage for 15 hours' work a week (58% for eight hours' work)⁸. These vast differences in hourly rates of pay are also inequitable. It would be fairer and more productive to set the minimum rate as a percentage of the hourly national minimum wage. This would encourage and reward longer working hours for people with disabilities (such as intellectual disabilities), aiding their transition towards full participation in the labour market and society.

Given the complexity of these issues, the need to carefully assess the implications of any changes, and the desirability of consensus on the design of the SWS among the key stakeholders that designed and support it, we believe the best way to proceed is to signal the direction of any proposed changes and seek submissions on matters of detail (especially the quantum of any increases or minimum benchmarks) in the next round of minimum wage consultations.

⁸ For award-free employees subject to the SWS.