



Minimum wage submission
2018





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.

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Introduction

ACOSS welcomes the opportunity to make this submission to the 2018-19 Annual 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.

The National Minimum Wage (NMW) is currently \$695 per week, \$18 per hour, or approximately \$36,140 per year. Last year's minimum wage increase determined by the Fair Work Commission was a rise of 3.3% (\$22 per week).⁴

The NMW has only increased in real terms by an average of 0.3% per annum over the last decade as wages determined in the market have risen more strongly. As a result, the NMW has fallen when compared with the median fulltime wage (from 55% in 2005 to 50% in 2016, the latest date when figures were comparable), leaving minimum wage-earners and their families at risk of falling behind community living standards.

Minimum wage levels affect poverty and inequality in at least three 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.

Minimum wage rates, along with the tax-transfer system, have a direct impact on poverty. The ACOSS/UNSW report, 'Poverty in Australia 2016' found that, based on the OECD-preferred measure of poverty (50% of median income), there were three million people living below the poverty line in 2013-14, of whom 32% came from households where wages were the main source of income.⁵

We are concerned about the impact of weak earnings growth on household living standards and the growth potential of the economy, especially for young people who have been the most impacted by the Global Financial

⁴ Australian Government Fair Work Ombudsman (2017) [Minimum Wages](#).

⁵ ACOSS/UNSW (2016) [Poverty in Australia 2016](#).



Crisis (GFC), the end of the mining boom, and changing patterns of employment. Since the GFC, young people have been disproportionately affected by growth in unemployment and under-employment, and when they do secure the paid working hours they seek, it is more likely to be a low-paid casual job.⁶ A minimum wage increase is especially beneficial for young people under 25 years, who comprise 41% of employees paid at close to NMW levels.⁷ There is a risk that we consign future generations of young people to poverty if both minimum wages and secure paid working hours are not lifted substantially.

The minimum wage also impacts poverty indirectly through 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 work. There is also a clear need for social security payments that are well below the poverty line to increase, so that people without paid work can live with dignity. In our annual budget submission, ACOSS has called for an increase in single rates of Newstart and Youth Allowance of \$75 per week.⁸

If the minimum wage were to fall significantly in real terms, the gap between it and social security payments would narrow. This would reduce the scope for an increase in social security payments, without lowering financial rewards for paid work.

Family Tax Benefits supplement paid work, 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. As a result, the real disposable incomes of low paid families have declined relative to those without children.⁹ Child poverty is increasing

⁶ In 2016, 35% of adult employees aged 21-24 years (compared with 11% of those aged 30-49) earned less than two thirds of the hourly median wage and 39% of these workers were employed as casuals (compared with 25% of all employees). Among workers aged 16-24 years, 18% were either unemployed or under-employed. Yuen, et al (2018) [Characteristics of workers earning the national minimum wage rate and of the low paid](#), Fair Work Commission Research Report 3/2018; Borland J & Coelli M (2017) [Will robots take our jobs?](#) AEF seminar series, Swinburne University; ABS (2017) *Employee Earnings and Hours*, Australia, May 2016.

⁷ Yuen, et al (2018), *ibid*.

⁸ ACOSS (2018) [Budget Priorities Statement, 2017-18](#).

⁹ The Commission's modelling of changes in the disposable incomes of hypothetical single-earner families with children relying on the NMW indicates that in all cases their real incomes declined during 2016-17. Budget reductions in family payments and income support benefits are likely to be a major reason for this.

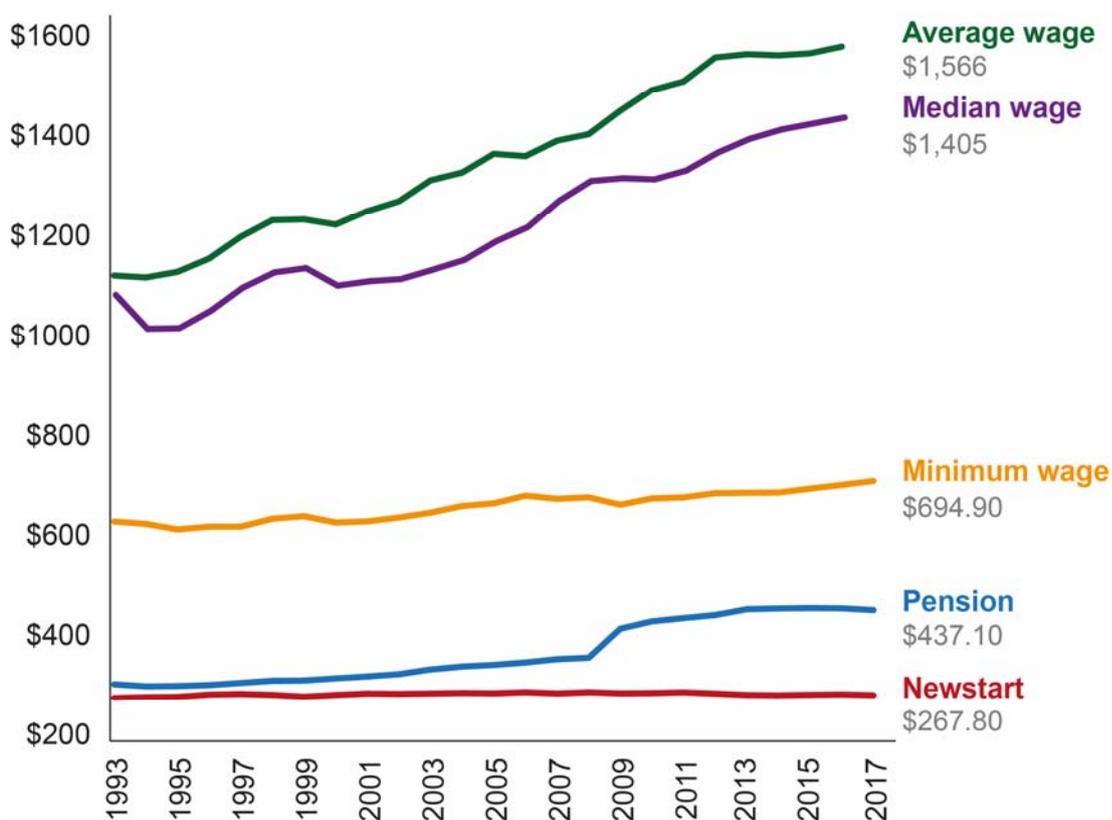


already,¹⁰ and will continue to rise if minimum wages and family payments do not increase in line with wage increases generally.

There is no automatic relationship between minimum wage levels and overall employment and unemployment levels.¹¹

The inadequate real growth in both minimum wages and working age social security payment levels (allowances and family payments) is contributing to the decline in relative living standards for people reliant on these income sources, when compared with both median and average wages growth over the last two decades.

Figure 1: Comparison of Newstart Allowance with pensions and wages (\$2017)



¹⁰ ACOSS/UNSW (2016) [Poverty in Australia 2016](#).

¹¹ Productivity Commission (2015) *Workplace Relations Framework, Productivity Commission Inquiry Report Volume 1*, page 201



Under current economic conditions, there is both more scope and a greater need to 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), wages growth needs to strengthen to lift the economy from its present low-growth, low-inflation path.

In brief, we recommend that:

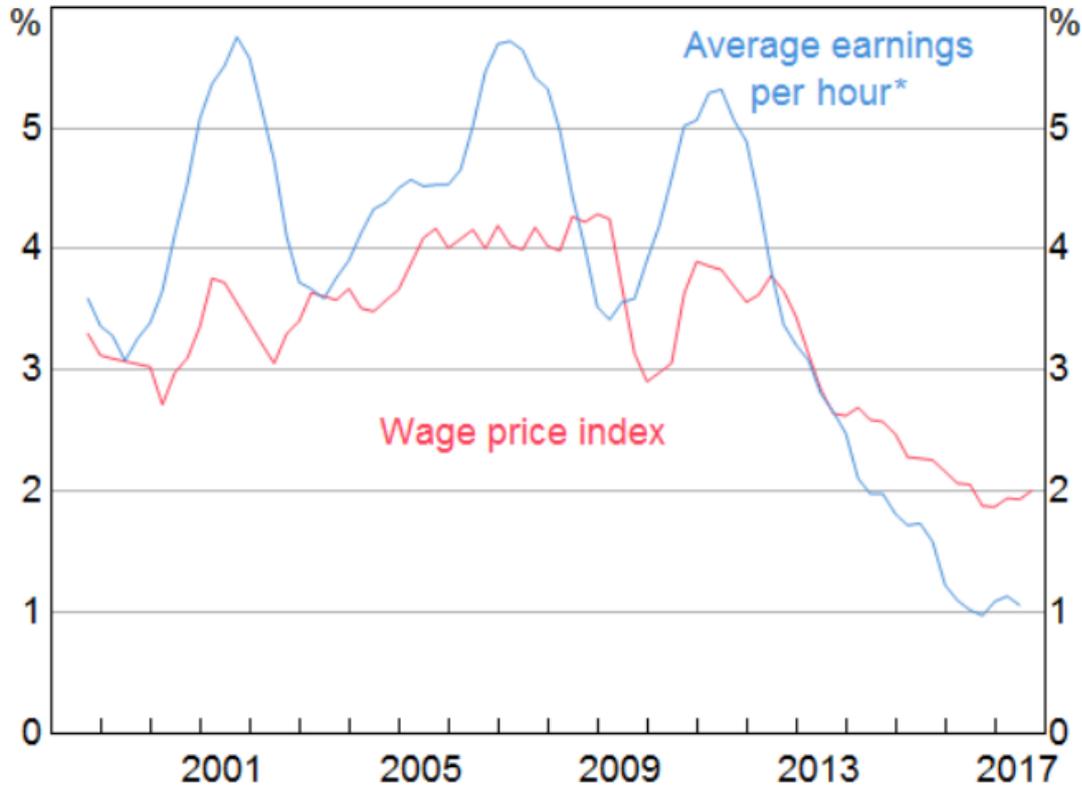
- FWA increase real minimum wages substantially in order to significantly reduce the gap between them and median pay levels.
- Decisions on the level of minimum wages be informed by regular comparisons of the living standards of minimum wage-earning households with benchmark indicators of a 'decent basic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

More detailed evidence and recommendations follow.

Recent economic and labour market trends

The most significant economic development for the purpose of setting minimum wages is the fact that growth in Gross Domestic Product (GDP), wages, and consumer spending have been subdued despite very low interest rates. In the past, the impact of increased wage growth on inflation, and therefore unemployment, was an abiding concern for policy-makers and central bankers. A more pressing concern now, almost a decade after the GFC, is the inability of economies in wealthy nations to break out of a low growth, low wage growth, low inflation cycle (Figure 2).

Figure 2: Wages growth has declined despite a recovering economy



Source: Lowe (2017), [Some Evolving Questions, presentation to Business economists](#), Sydney November 2017.

The Reserve Bank (RBA) recently raised concerns about weak growth in wages.¹² The Wage Price Index grew by just 0.2% in real terms through 2017 and the Mid-Year Economic and Fiscal Outlook forecasts that it will rise by 0.5% through 2018-19 even though real GDP is estimated to grow by 3% and unemployment to fall to 5.25%.¹³ The RBA estimates that underlying inflation will only rise to 2% (the bottom of its target band) by June 2019.¹⁴

Under these conditions, higher minimum wages can help strengthen wages growth and growth in the economy, without risking a break-out in inflation.

¹² Lowe (2017), *Some Evolving Questions, presentation to Business economists*, Sydney November 2017. <https://www.rba.gov.au/speeches/2017/pdf/sp-gov-2017-11-21.pdf>

¹³ Australian Government, *Mid-Year Economic and Fiscal Outlook 2017-18*.

¹⁴ Reserve Bank of Australia (2015): *Statement on Monetary Policy*, February 2018.



Living standards

In 2017, as a result of last year's significant \$22 per week increase in the NMW, its value rose by \$9 per week (1.4%) over and above consumer price inflation.¹⁵ It also grew faster than the Wage Price Index. If this trend continues, it is likely to further reduce the distance between the NMW and median fulltime earnings.¹⁶ Regrettably, a major reason for this was the slow growth in wages generally.

ACOSS takes a long term view of minimum wage fixation and the needs of people living on low incomes. Since 2005, the minimum wage has declined from 57.5% to 53.8% of fulltime median weekly earnings (Figure 3 below). Over a longer time-frame, the decline has been more pronounced. All things equal, this implies that low paid workers have fallen well behind growth in community living standards.

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. Recent 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.¹⁷ 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.¹⁸

Research published by ACOSS and the UNSW Social Policy Research Centre found that in 2014, almost one third of people living in poverty were in households where wages were the main source of income:

- Using the OECD-preferred 50% of median disposable income poverty line, a total of 959,800 people in households for which wages were the main source of income lived in poverty in 2014. This comprised 32% of all people in poverty.¹⁹
- Using the European Union-preferred poverty line of 60% of median disposable, a total of 1,048,900 people in households for which wages

¹⁵ ABS, *Consumer Price Index, Australia, Dec 2017*,

¹⁶ The NMW rose from 53.4% to 53.8% of median fulltime earnings in 2016 (ABS, *Employee Earnings, Benefits and Trade Union Membership, Australia*).

¹⁷ Jiminez and Rozenbes (2017), *Award reliant workers in the household income distribution*. Fair Work Commission.

¹⁸ Yuen, et al (2018), *ibid*.

¹⁹ ACOSS 2016, *Op.Cit*.



were the main source of income lived in poverty. This comprised 34% of all people in poverty.

- Households living below these poverty lines mainly comprised families with children (53% of households living below the 50% poverty line and 50% of those below the 60% poverty line).²⁰

A hypothetical comparison by the Commission of disposable incomes for families receiving the NMW with the 60% of median income poverty line in September 2017 found that single parents employed part time (half of fulltime hours), and single earner couples with or without children, had disposable incomes below that poverty line, unless they also received Newstart Allowance.²¹

The Commission's research indicates that in 2015, 31% of low-paid employee households, twice the share of all employee households (16%), experienced financial stress.²²

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.²³ From the March quarter 2002 to December quarter 2016, home prices rose by 66.6% in nominal terms and rents increased by 64.2%, compared with increases of 44.5% in the CPI and 62.5% in wages.²⁴ In June 2017, the median rent for a two bedroom flat in Sydney was \$550 per week and \$410 a week in Melbourne.²⁵

²⁰ *ibid*

²¹ Fair Work Commission (2018), *Statistical report – annual wage review*.

²² Fair Work Commission (2017), *Statistical report – annual wage review*.

²³ Yuen, et al (2017), *op cit*.

²⁴ Australian Bureau of Statistics (2017) *Consumer Price Index, Australia, Dec 2016, Cat no 6401.0* and *Wage Price Index, Australia, Dec 2016, Cat no. 6345.0*

²⁵ Housing NSW (2017) *Rent and Sales Report No 118*. Available:

https://www.housing.nsw.gov.au/data/assets/pdf_file/0005/428576/R-and-S-Report-No-120.pdf ;

Department of Human Services Victoria (2017) *Rental Report, June Quarter 2016* Available:

<https://dhhs.vic.gov.au/sites/default/files/documents/201709/DHHS%20Rental%20Report%20June%20quarter%202017.docx>



Relationship between minimum wages and social security

The social security system impacts the living standards of minimum wage-earning households through 'in-work' payments such as Family Tax Benefit. At the same time, minimum wages impact on 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 reduce child poverty. In recent years, this social compact between workers, employers and governments has begun to break down.

When account is taken of income tax and social security payments, the real disposable incomes of all eight hypothetical single-earner families with children modelled by the Commission (receiving the NMW and no other private income) fell in 2016-17.²⁶ The largest decline was \$14 per week or 2% in nominal terms, for a sole parent with two children employed part time (on half fulltime pay). Among the likely reasons for this decline in incomes among families at high risk of poverty is the ongoing reductions in the real value of Family Tax Benefits and the abolition of the Schoolkids Bonus (without replacing this with higher FTB payments).

Taking a longer view, since 2009, budget cuts totalling 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 the maximum payment for a school-age child by at least \$20 per week;
- 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;
- The abolition of the 'Schoolkids Bonus' (\$4.30 to \$8.60 per child per week) for primary and secondary school-age children in 2016.

²⁶ Fair Work Commission (2018), *Op.Cit*; Australian government (2017), *op cit*. The Commission modelled changes in nominal household disposable incomes (including social security payments). According to the [Mid-Year Economic and Fiscal Outlook \(MYEFO\)](#), the CPI rose by 1.9% over 2016-17.



- The freezing of maximum rates of Family Tax Benefit (Part A) for low-income families in nominal terms from 2017 to 2019.
- The freezing of the income test free areas for Parenting Payment and Newstart Allowance for three years from 2017.

The experience of the last nine years indicates that governments cannot be consistently relied upon to supplement low pay for families with children, leaving them vulnerable to poverty in the absence of substantial increases in the NMW.

Minimum wages also impact on poverty indirectly, though their influence on social security settings. There is a consistent long term relationship between minimum wages and unemployment benefits. Between 1994 and 2013, unemployment benefits for a single adult with no dependent children fell between 40-45% of the fulltime minimum wage, before tax. Currently it sits at 39% of the minimum wage.²⁷ The constancy of this relationship is not surprising given official concerns 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.

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 2016, the gap between median adult hourly ordinary time earnings among men and women was \$6 per week, or 14% of the average male rate.²⁸ Minimum wage increases from 1995 to 2005 were estimated to reduce the gender pay gap by 1.2 percentage points.²⁹

²⁷ Department of Human Services (2018) [A Guide to Australian Government Payments](#) and [History of National Increases](#)

²⁸ Fair Work Commission (2018), *Statistical report – annual wage review*.

²⁹ 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

Employment growth was strong during 2017, rising by 400,000 or 3.3%. This was similar to the employment growth rate at the peak of the mining boom in 2007. Yet, as indicated, wage growth and inflation remain low. The unemployment rate fell from 5.7% to 5.5% notwithstanding a rise in the participation rate from 79.8% to 80.9%.

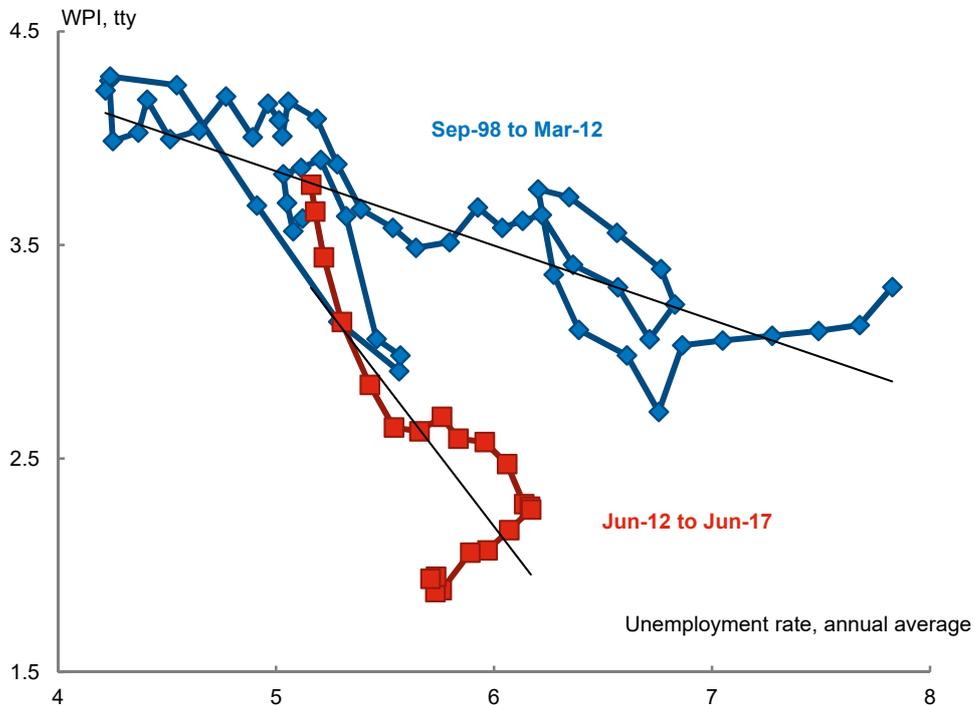
The Treasury and RBA point to a recent change in the relationship between unemployment and inflation (Figure 2).³⁰ Similar changes in other wealthy nations have led economists to question whether further reductions in unemployment are constrained by the risk of a break-out in inflation (the NAIRU or structural unemployment constraint).³¹ Under present conditions, unemployment could fall well below the RBA's most recent estimate for the NAIRU (5%) without adverse economic consequences.³² This brings one obvious benefit - unemployment has declined and can continue to fall - but it raises questions about the level of growth in general living standards that can be achieved over the next few years.

³⁰ Bishop & Cassidy (2017) *Insights into Low Wage Growth in Australia* RBA Bulletin March 2017; Treasury (2017) [Analysis of wage growth](#)

³¹ Blanchard (2017), Should We Reject the Natural Rate Hypothesis?, Peterson Institute for International Economics Working Paper 17:14

³² Cusbert (2017), Estimating the NAIRU and the Unemployment Gap, RBA Bulletin, June 2017.

Figure 3: The relationship between unemployment and wage growth has changed



Source: Treasury (2017) *op cit*

One likely reason for the lack of a pick-up in wages and inflation is the high rate of under-employment, suggesting that there is more slack in the labour market than the headline unemployment rate suggests. Another explanation is that structural change in the labour market is suppressing wages growth.

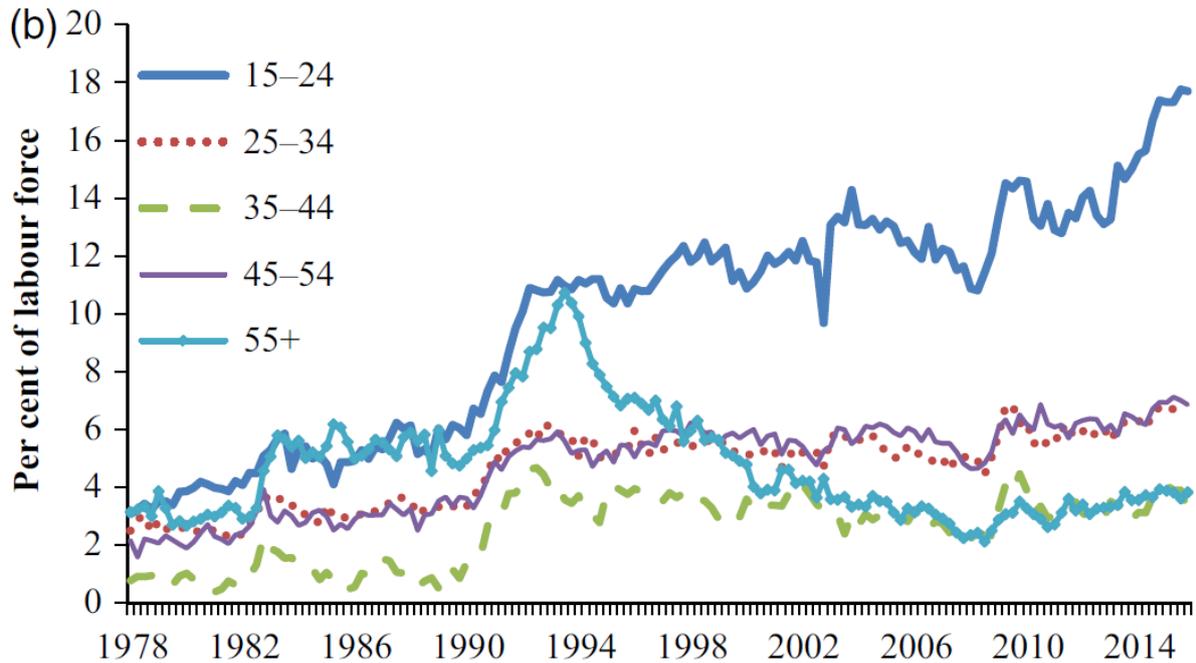
While most employees are in permanent jobs, and we are sceptical of arguments that a large proportion of jobs will be lost to technological change, young people in particular find themselves in a more precarious position in the labour market than in the past.³³ Of all young people (under 25 years) in the labour force, 18% are unemployed or under-employed (Figure 4 below).³⁴ In addition to the challenges they face in securing the paid working hours they seek, one third of 21-24 year old adults have low hourly wage rates (below two thirds of the median), and almost 40% are employed as

³³ Borland J & Coelli M (2017) *op.cit.*

³⁴ Borland J & Coelli M (2017) *ibid*

casuals.³⁵ Further, 22% of low paid workers were ‘non dependent children’ living with their parents, consistent with concerns that many young people cannot afford to leave the parental home until they reach their thirties.³⁶

Figure 4: Labour under-utilisation (unemployment + under-employment): young people are most affected



Source: Borland & Coelli (2016) *Labour market inequality in Australia*. Economic Record, Vol 92, no. 299, December 2016

Further, recent declines in collective bargaining coverage appear to have reduced the bargaining power of workers generally. The share of non-managerial employees covered by collective agreements fell from 43% in 2010 to 37% in 2016. At the same time, a growing share (up from 15% to 25%) rely on awards.³⁷ This means that more workers and their families rely on minimum wage decisions to improve their living standards.

There is an emerging view in the international labour economics literature that large employers in some labour markets are in a monopsony position

³⁵ In 2016, 35% of adult employees aged 21-24 years earned less than two thirds of the hourly median wage, while over four in ten low-paid employees (those with hourly wages lower than this benchmark) were aged 21-29 years. (Yuen, et al (2018), op cit). In 2017, 39% of all employees aged 21-24 and 52% of all employees under 25 years were casuals, compared with 25% of all employees. (ABS (2017), *op cit*).

³⁶ Yuen (2017), *ibid*.

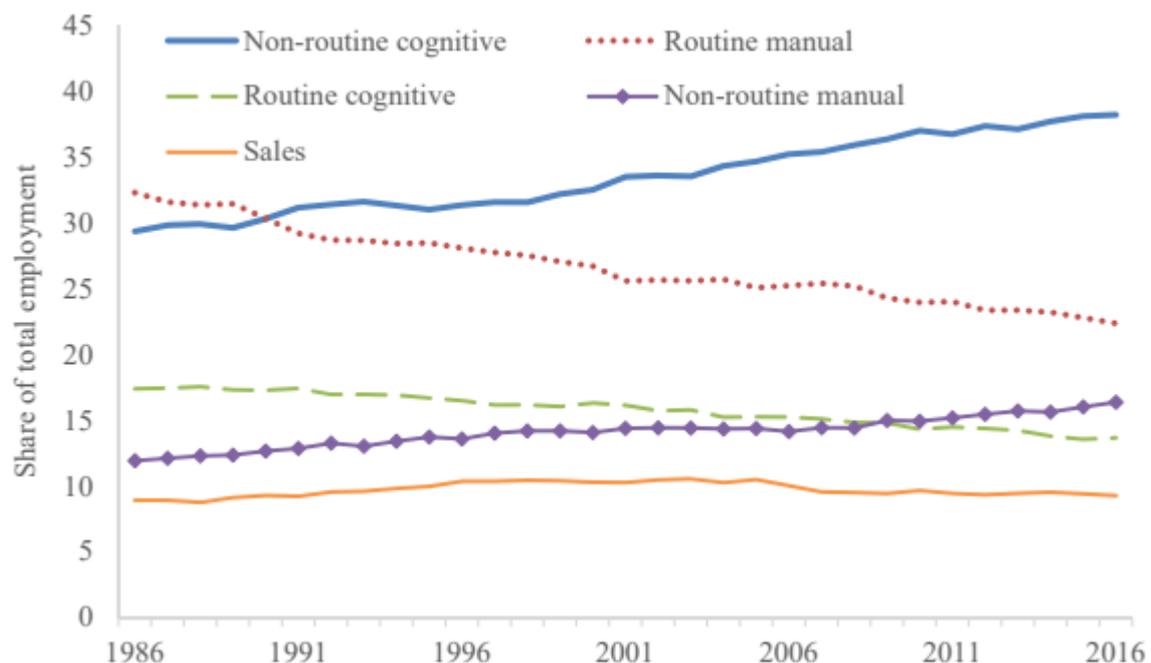
³⁷ ABS, Employee Earnings and Hours, Australia.



(and therefore able to exert downward pressure on wages.³⁸ We are not able to assess whether the Australian labour market (or sub-markets) operate in this way, but in that event higher minimum wages are likely to increase rather than reduce employment.³⁹

Another factor that is likely to suppress employment and wages among low skilled workers (especially in manual occupations) is the ongoing structural shift in the labour market from low and middle to high skilled jobs (Figure 5). A concerted policy effort is needed to reduce inequalities in the education system and update the skills of low skilled workers.

Figure 5: Share of employment by skill (Australia, 1986-2016)



Source: Borland & Coelli (2017), *op cit*

As the peak organisation in the non-government community services sector, ACOSS has a particular interest in employment issues in community

³⁸ Sandford J (2017), 'The resurgence of gig work: Historical and theoretical perspectives.' *The Economic and Labour Relations Review* 1–20.; President's Council of Economic Advisors (2016), *Labor market monopsony: trends consequences and policy responses*, White House, Washington DC, at: https://obamawhitehouse.archives.gov/sites/default/files/page/files/20161025_monopsony_labor_mrkt_cea.pdf

³⁹ Ashenfelter O, et al (2010) *Modern Models of Monopsony in Labor Markets: A Brief Survey* IZA Discussion Paper No. 4915



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.

In 2016, 440,000 employees (28.8% of all employees) in health care and social assistance were award-reliant (up from 17.1% 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.⁴⁰

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. Substantial pay rises are needed over time to improve the quality of community services by helping avert shortages of skilled workers.

Recommendations

We recommend that the NMW be increased consistently and substantially to reduce the gap between the NMW 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 NMW 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 NMW should not be directly designed to cover the costs of children because that role is best performed by the social security system. However, in assessing the living standards of low paid workers and their families, the Commission should take account of changes in social security settings, especially reductions in the value of Family Tax Benefits and other relevant social security payments in recent years. It is vital that the NMW 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, in keeping

⁴⁰ Fair Work Commission (2018) *Op. Cit.*



with Australian public policy tradition, and the need to maintain a gap between maximum social security payments and minimum wages to maintain rewards for paid work.

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. 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 Reports.

We recommend that:

- FWA should increase real minimum wages substantially 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, including recent significant cuts in family payments, should also be expressly considered in setting minimum wages.
- FWA 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 (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 NMW. (See Attachment 3)



ATTACHMENTS

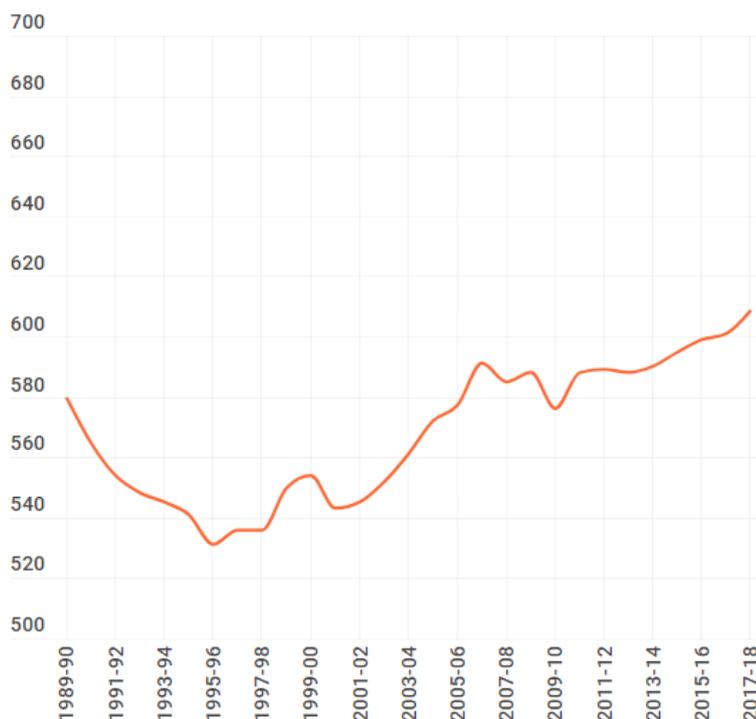
1 The level and incidence of the national minimum wage

1.1 Current level and trends in national minimum wage over time

The National Minimum Wage (NMW) is currently \$695 per week, \$18 per hour, or approximately \$36,140 per year. Last year's minimum wage increase determined by the Fair Work Commission was a rise of 3.3% (\$22 per week).⁴¹

The minimum wage fell in real terms over the 1980s and early 1990s, and returned its previous level in the mid-2000s. Increases above inflation have been modest since then. As a result, its real value is only slightly higher now than over 25 years ago (see graph below).

Figure 1: Real minimum wage 2018 (\$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*.

⁴¹ Fair Work Commission (2018) [Minimum Wages](#)



Since 2005, the minimum wage has declined from 57.5% to 53.8% of fulltime median weekly earnings (see graph below). This has contributed to a rise in earnings inequality over this period.⁴² The relationship between the NMW and median full time ordinary time wages has been steady since the GFC, mainly because growth in wages generally has been weak.

Figure 2: Minimum wage as a % of fulltime median earnings



Sources: Australian Industrial Relations Commission, *Safety net adjustment decisions*; Australian Fair Pay Commission, *Wage setting decisions*; Australian Fair Pay Commission, *Statistical report – annual wage review 2016-17*.

Note: Weekly fulltime minimum wages as a proportion of fulltime median wages for non-managerial staff.

⁴² 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



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 award reliance

The Commission estimates that the proportion of employees whose wages were directly determined by awards was 25% in 2016.⁴³

Previous research commissioned by Fair Work Australia profiled employees earning between 100% and 120% of the NMW, finding that:

- 51% of low paid employees (those earning below, at, or just above minimum wage) were women, compared with 47% of the total workforce;
- 58% of low paid workers were partnered, and approximately half of these had dependent children;
- 5% of those paid below or at the minimum wage were sole parents with dependent child/ren;
- 14% of those paid below or at the minimum wage worked part-time (less than 30 hours a week);
- 11% of those paid below, at or just above minimum wage worked in the health care and social assistance industries;
- The industries which had most employees earning below, at, or just above the minimum wage were accommodation and food services; health care and social assistance; and retail trades.
- Occupations with the most employees earning below, at, or just above the minimum wage were labourers; community and personal service workers; sales workers; and technicians and trade workers.⁴⁴

(2) Award reliance 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.

⁴³ Fair Work Commission (2018) *Op. Cit.*

⁴⁴ Nelms, 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



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.

In 2016, health and community services had the fourth-highest share of award reliant employees (28.8%) after retail; hospitality and food services; and administrative and support services.⁴⁵ 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 women.⁴⁶ 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 average of 29%. Limitations on paid working hours exacerbate the low hourly rates of pay across the sector.⁴⁷

Low pay in community services makes it difficult for employers to recruit skilled staff, a problem likely to worsen if minimum rates of pay in Awards are adjusted in flat dollar amounts, reducing rewards for skill in the sector.

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(3) The household incomes of minimum wage earners

When comparing the household incomes of minimum wage earners with other households for wage-setting purposes, the most appropriate benchmark is the disposable incomes of households with members in the labour force (excluding, for example, retirees).

On this basis, minimum wages are mainly earned by people living in low-income households. The Commission's study of award-reliant workers in the household income distribution found that, in 2015:

⁴⁵ Fair Work Commission (2018): *Op. Cit.*

⁴⁶ 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>

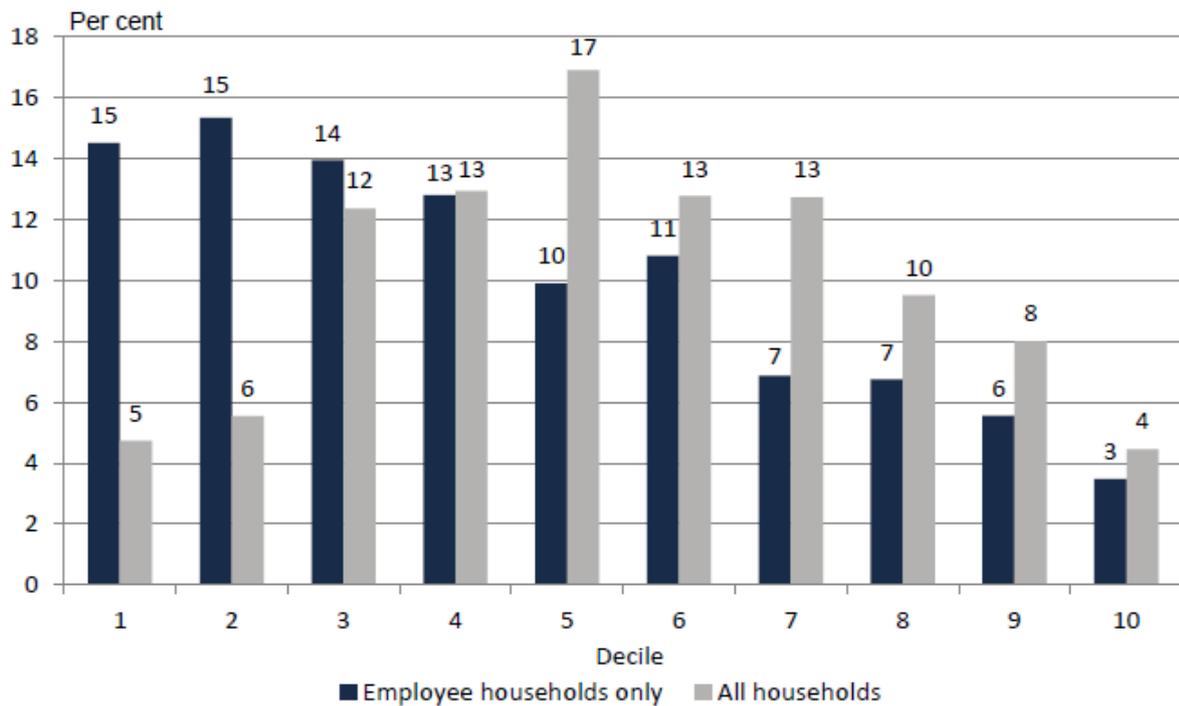
⁴⁷ Australian Services Union (2007) *Building social inclusion in Australia: priorities for the social and community services sector workforce.*

⁴⁸ Colmar Brunton Social Research (2008) *Health and community services industry profile*, commissioned by the AFPC.



- 44% of award-reliant households were in the lowest 30% of the employee household income distribution;
- 67% were in the lower half of that distribution⁴⁹.

Figure 3: Distribution of award reliance across household income for all households and employee households⁵⁰



Source: HILDA Survey, wave 15.

⁴⁹ Jiminez and Rozenbes (2017), *Award reliant workers in the household income distribution*. Fair Work Commission.

⁵⁰ *Ibid*



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 should be informed by a set of 'basic income' benchmarks. This does not mean that minimum wages should target 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 Family Tax Benefit) to meet the minimum costs of raising children in low income families;
- 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 weakened.⁵¹

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 that of the median full time 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:

1. The 'budget standards' approach in which experts draft standardised household budgets encompassing the minimum expenditure requirements for different types of families.
2. 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.
3. 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

Budget Standards were adopted by the first Australian industrial commission in developing the 'Harvester standard' or 'basic wage' early last century. They were used in a landmark 1996 study by the Social Policy Research Centre (SPRC), commissioned by the former Department of Social Security, to assist in the assessment of the adequacy of social security payments.⁵² 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

⁵¹ This assumes that these payments should be sufficient to keep their recipients out of poverty.

⁵² SPRC (1997) *Indicative budget standards for Australia*. Dept of Social Security.



which is a basic or modest standard of living set above poverty levels. These budgets were then costed using information supplied by retailers and other sources.

The main advantages of this approach are its transparency (the budgets and the items comprising them are readily understood) and 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. While it is possible to update these budgets using the CPI, this does not take account of changes in community living standards and expectations, effectively 'freezing' the budget standards at the level of living that applied in the year in which the field research (such as consultations with experts such as nutritionists, supermarket visits, and focus groups with consumers) is conducted.

Last year, the SPRC published a revised set of budget standards for low paid and unemployed households, based on a 'healthy living standard' and replacing the Modest but Adequate standard with a lower one for 'low paid families'.⁵³

Importantly, these budgets were based on more up to date household spending patterns, from fieldwork conducted in 2016.

The budgets for low paid families are detailed in Table 1. Note that these are expressed in 2016 values.

⁵³ Saunders & Bedford (2017), New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians, Social Policy Research Centre UNSW Sydney. The healthy living standard was defined as one that allows '*each individual to lead a fully healthy life in all of its dimensions, in their roles as family members, workers and consumers.*' Saunders & Bedford (2017), New Budget Standards for Low-Paid and Unemployed Australians: Summary Report, p4



Table 1: SPRC Budget standards for low paid families (2016)

BUDGET CATEGORY	SINGLE ADULT	COUPLE, NO CHILDREN	COUPLE WITH ONE CHILD	COUPLE WITH 2 CHILDREN	SOLE PARENT, 1 CHILD
Food	61.80	123.60	156.22	200.91	89.49
Clothing & footwear	10.81	15.77	23.72	33.20	18.78
Household goods & services	79.23	99.59	112.72	139.10	90.46
Transport	77.71	120.725	144.72	144.72	100.39
Health	7.33	14.45	19.51	24.36	13.61
Personal Care	15.59	27.04	31.03	35.34	21.52
Recreation	29.04	39.54	62.06	76.99	50.64
Education	0.00	0.00	27.43	61.26	50.31
Total (excluding housing)	281.51	440.74	577.40	715.88	435.20
Housing costs (rent)	315.80	392.50	392.50	457.50	392.50
Total (grossed-up, including housing)	597.31	833.24	969.90	1,173.38	827.70

Source: Saunders & Bedford (2017), *ibid*

A major challenge in developing budget standards is the treatment of housing costs, which vary widely across the country, and also by dwelling type, size and tenure. In this research, the SPRC used median rents for capital cities for dwellings considered suitable for different types of households. The national figure used was the average of results for Sydney, Melbourne and Brisbane (which comprised a majority of rental properties).

The new budgets are more stringent than the previous version. The authors note that: *'They are extremely tight and leave no room for even the most modest of special treats.'* For example, in the low paid families budgets are calculated on the basis of:

- no allowance for saving
- buying generic brands of food and clothing (with a 5% discount for 'shopping around' for food),
- no allowance for one-off costs (eg. rental bonds)
- no allowance for repairs of household items
- an assumption of good health
- low child care budgets due to the ages of children in hypothetical families (school age)



- very small recreation budgets, with no tobacco and little alcohol.

Thus, the new budgets would support only a very frugal living standard, arguably below that which the National Minimum Wage should support, and significantly below that of the previous ‘Modest but Adequate’ budget standard. For example, many households with preschool age-children or poor health would not be able to live within these budgets. Table 2 shows that the Low Paid Family budget was 17% below the updated Modest but Adequate budget for a single adult female living alone.

Table 2: New ‘Low Paid’ budget standard compared with up-dated ‘Modest but Adequate’ standard (Single female, 2016)

	New low-paid MIHL standard	Updated MBA standard	New unemployed MIHL standard	Updated LC standard
Food	56.87	86.72	54.03	66.76
Clothing & footwear	10.83	23.99	4.9	18.10
Household goods & services	79.23	44.72	68.37	37.77
Transport	78.30	103.34	44.88	68.63
Health	8.55	9.43	6.41	6.75
Personal Care	17.88	36.33	14.23	11.18
Recreation	29.04	33.94	15.00	25.20
Education	0.00	0.00	0.00	0.00
Total	280.69	338.49	207.89	234.41

Source: Saunders & Bedford (2017), *ibid*

Table 3 compares the budgets (with housing rents included, as outlined above) with ‘safety net incomes’. In the case of low paid families, this comprises a single full-time NMW, relevant social security payments, and any income tax paid.



Table 3: SPRC Budget standards for low paid families compared with safety net incomes (2016)

Family type	LOW-PAID			UNEMPLOYED		
	Grossed-up Budget Standard (1)	Safety Net Income (2)	(2) minus (1)	Grossed-up Budget Standard (1)	Safety Net Income (2)	(2) minus (1)
	56.87	86.72	54.03	66.76		
	10.83	23.99	4.9	18.10		
	79.23	44.72	68.37	37.77		
	78.30	103.34	44.88	68.63		
	8.55	9.43	6.41	6.75		

Source: Saunders & Bedford (2017), *ibid*

The table indicates that the safety net incomes for single adults without children and sole parents with one child were above the relevant budget standard (by \$62 a week and \$45 per week respectively) while those for couples without children, or with one or two children were below the relevant budget standards (by \$39, \$9 and \$89 respectively).

Income support payments fall substantially below the budget standards in all cases, reflecting the very low level of the Newstart Allowance in particular.

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. While 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 those out of paid work.

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 2016 ACOSS and the SPRC published an updated report on Poverty in Australia⁵⁴. The data source is the Australian Bureau of Statistics (ABS) Income and Expenditure surveys for 2013-14 and previous years.

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 (and poverty estimates published by the Commission) by taking into account people's housing costs as well as their incomes. This is important 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 mortgagers).

In the report, housing costs (rent, mortgage payments and rates) are deducted from income before calculating the median income on which the poverty lines are based (reducing the poverty lines) and each household's housing costs are then deducted from their income (reducing household incomes). In this way, the research compares different households' ability to meet their basic living costs apart from housing⁵⁵. The report also includes updated data on deprivation-based measures of financial hardship (discussed later)⁵⁶.

This study found that in 2013-14:

- When a poverty line of 50% of median disposable income was used (a relatively low poverty benchmark used by the OECD), a total of 959,800 people in households for which wages were the main source of income, comprising 32% of all people in poverty, lived below this poverty line.
- When the higher poverty line of 60% of median disposable income (used in European Union countries) was used, a total of 1,560,800 people in households for which wages were the main source of income, comprising 34% of all people in poverty, lived below this poverty line.

⁵⁴ ACOSS/SPRC 2016 *Op.Cit.*

⁵⁵ Note that estimates of numbers of poverty in this report are adjusted for the exclusion of the self-employed and people with zero or negative income.

⁵⁶ Part 14 of the new report. See also ACOSS (2012) *Who is missing out: Material deprivation and income support payments*, ACOSS Paper 187



- Around half the households living below these poverty lines comprised families with children (52.5% of households living below the 50% poverty line and 49.5% of those below the 60% poverty line).⁵⁷

Table 2: People living below poverty lines in 2013-14

	Profile of poverty (%)		Proportion of different groups living in poverty (%)	
	50% of median income (%)	60% of median income (%)	50% of median income	60% of median income
By main income source⁵⁸				
Wages	32.1	34.4	6.0	9.7
Social security payment	57.3	57.3	36.1	54.7
Other	10.6	8.3	18.4	21.9
All people	100	100	13.3	20.1
By labour force status⁵⁹				
Employed (full time)	20.8	23.2	4.7	7.9
Employed (part time)	13.8	14.2	15.5	24.1
Unemployed	9.7	7.5	63.2	73.6
Not in labour force (retired)	16.0	21.2	14.4	28.8
Not in labour force (other)	39.6	34.0	43.9	57.1
All people	100	100	13.3	20.1

Source: ACOSS/SPRC (2016) *Op.Cit.*

⁵⁷ ACOSS/SPRC 2016, *Op.Cit.*

⁵⁸ Of the household in which people live.

⁵⁹ Refers to household reference person.



Profile of poverty (number in poverty)		
By main income source	50% of median income (%)	60% of median income (%)
Wages	959,800	1,560,800
Social security payment	1,714,100	2,596,400
Other	316,400	377,500
All people	2,990,300	4,534,700
Profile of poverty (number in poverty)		
By labour force status	50% of median income (%)	60% of median income (%)
Employed (full time)	622,700	1,051,100
Employed (part time)	412,900	643,100
Unemployed	291,000	338,700
Not in labour force (retired)	497,700	961,300
Not in labour force (other)	1,184,000	1,540,500
All people	2,990,300	4,534,700

Source: ACOSS (2016) *Op.Cit.*

2.4 International comparisons

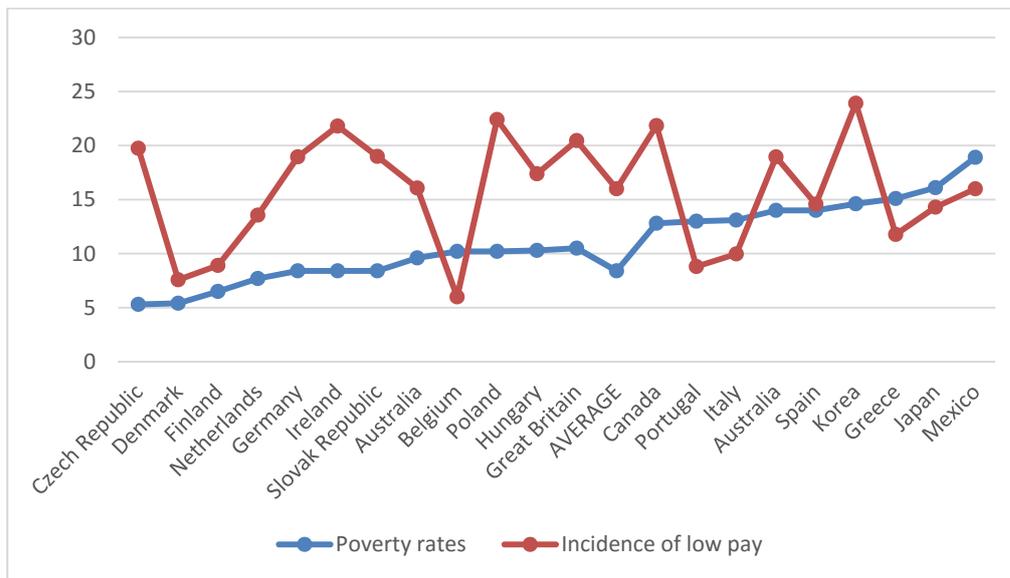
International evidence suggests that there is a link between levels of low pay and income poverty across nations. Broadly speaking, the greater the incidence of low pay (typically defined as employees earning less than two thirds of the median wage) the greater the incidence of income poverty (typically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



the OECD statistical database to chart the relationship between income poverty across the whole population and the incidence of low pay.

Figure 4: Low pay and poverty (2012)



Source: OECD 2017, <http://data.oecd.org/inequality/poverty-rate.htm> and <https://data.oecd.org/earnwage/wage-levels.htm>

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.

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, health care) and different assets at their disposal (for example, owning a home).

Nevertheless, with some exceptions, income poverty data adjusted for housing costs provides a reasonable indicator of the risk of financial hardship.⁶⁰

An alternative approach is to measure living standards directly. A number of 'deprivation' studies have been conducted by the SPRC in collaboration with ACOSS and other agencies. National surveys were conducted to ask respondents what they considered to be 'essentials', whether or not they had

⁶⁰ ACOSS 2003, *The bare necessities*. The main exceptions are low income self employed people and low income retirees with substantial assets.



them, and whether or not they lacked 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.⁶¹

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.⁶²

2.6 Financial stress indicators

A further source of data on the living standards of Australian households is financial stress indicators such as those found in the Melbourne Institute's HILDA survey and ABS Household Expenditure Surveys.

The Commission's research, based on HILDA data, indicates that in 2015, 31.2% of low-paid employee households experienced financial stress, compared with 15.8% of all employee households.⁶³

As might be expected, these data indicate that lower incomes generally, and low pay specifically, are associated with higher levels of financial stress including, 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.⁶⁴

The results are consistent with a previous Melbourne Institute study which found that in 2011, 33% of low paid employees experienced financial stress compared with 17% of all employees. In that study, 17% of low paid employees experienced moderate to high financial stress compared to 5% of

⁶¹ Saunders & Naidoo 2007, *Towards new indicators of disadvantage*, Social Policy Research Centre.

⁶² Masterman-Smith, May, & Pocock (2006) *Living Low Paid: Some Experiences of Australian Childcare Workers and Cleaners*.

⁶³ Fair Work Commission (2017), *Statistical report – annual wage review*. 'Low paid' refers to households in the bottom quintile of the distribution of employee households.

⁶⁴ One problem with financial stress indicators is that different respondents to surveys have different perceptions of the meaning of the questions used: Hahn & Wilkins (2008) *A multidimensional approach to investigation of the living standards of the low paid*. Melbourne Institute. Data cited are for individuals reporting two or more financial stress indicators.



all employees.⁶⁵ However the authors cautioned that these are not reliable enough to be used as the single overall measure of living standards.

2.7 Housing costs

Another key 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. 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.⁶⁶

Estimates of the affordability of housing have been prepared using 'housing stress' indicators. These measure the proportion 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).

According to the Australian Bureau of Statistics, 18% of all households experienced housing stress in 2016.⁶⁷ The proportion of lower income households (with incomes between 3rd and 40th income percentiles) experiencing rental stress was 51%, and the proportion of lower income households experiencing mortgage stress was 14.8%.⁶⁸

Over the long-term, housing costs have risen faster than consumer prices generally, and also wages. From the March quarter 2002 to December quarter 2016, home prices rose by 66.6% in nominal terms and rents increased by 64.2%, compared with increases of 44.5% in the CPI and 62.5% in wages.⁶⁹

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

- In June 2017, the median rent for a two bedroom flat in Sydney was \$550 per week, and

⁶⁵ Melbourne Institute, *Household Income and Labour Dynamics in Australia Survey, various*, cited in Fair Work Australia, *Statistical Report—Annual Wage Review 2012–13*

⁶⁶ Yuen, et al (2017), *op cit*.

⁶⁷ ABS (2017) *Housing Occupancy and Costs, 2015-16. Cat no: 4130.0*. Available: <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4130.0~2015-16~Main%20Features~Key%20Findings-1>

⁶⁸ Ibid.

⁶⁹ Australian Bureau of Statistics (2017) *Consumer Price Index, Australia, Dec 2016, Cat no 6401.0* and *Wage Price Index, Australia, Dec 2016, Cat no. 6345.0*



- In June 2017, the median rent for a two bedroom flat in Melbourne was \$410 a week.⁷⁰

When these rent levels are compared with the NMW (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.

2.8 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.

2.9 The current income support system for low paid households

The Australian income support system has three main components:

1. Income support payments for adults in households on low incomes;
2. Family Tax Benefits for children, targeted mainly towards low income families; and
3. Supplementary benefits such as Rent Assistance payments and pensioner concession cards.

⁷⁰ Housing NSW (2017) *Op. Cit.* Human Services Victoria (2017) *Op. Cit.*



Of these, only *Family Tax Benefits* have traditionally been designed to supplement low full time wages. These payments were increased in the mid-1990s, in the 2000 tax reform package, but since the 2009 they have been reduced and income tests have been tightened, as detailed in the summary. Although *income support payments* and supplements for adults do extend to low wage-earning households under some circumstances, most of these recipients are part time employees. Few full time employees receive them because Newstart and Youth Allowance payments are designed to exclude full time wage-earners, and few full time employees receive the more liberally income-tested 'pension' payments such as Disability Support Pension. However, Newstart Allowance and Parenting Payment have been paid to the unemployed partners of low paid full time employees since 1996.

2.10 The limits of income support

The role of the income support system in sustaining living standards is ultimately limited by its cost, and by official concerns about so-called 'welfare dependency'.

The 2009 Federal Budget removed the indexation of Family Tax Benefit Part A to wages, so that family payments for low paid workers only rise with price movements, unless the Government otherwise decides.⁷¹ This is a fundamental shift in Australian social policy, overturning the Hawke Government's commitment to reduce child poverty by progressively increasing family payments. Unless this and subsequent reductions in the maximum rates of Family Tax Benefits are overturned, it is unlikely that Family Tax Benefits will help 'pick up the slack' for low paid families in the event that minimum wages are inadequate to meet the costs of children.

'In-work benefits' can become costly for governments if minimum wages fall in real terms and the benefits of public support of low pay are captured by employers. This has been the long-term outcome in the United States. As real minimum wages fell through lack of appropriate indexation, the cost of the Earned Income Tax Credit (EITC) has risen. In 2013 the US Government spent \$62 billion per year on the EITC, much more than it spent on traditional social assistance programs such as the Temporary Assistance for

⁷¹ Federal Budget Papers 2009-10. ACOSS 2009, *Reform of family payments*.



Needy Families program for jobless and low paid families.⁷² Despite this, the marginal impact of increases in the EITC on poverty among low paid working families was small.⁷³

Another concern about the use of income-tested ‘in-work payments’ such as these to bolster low wages for working families is that they reduce rewards for paid work 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.⁷⁴

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

2.11 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 rewards for paid work.

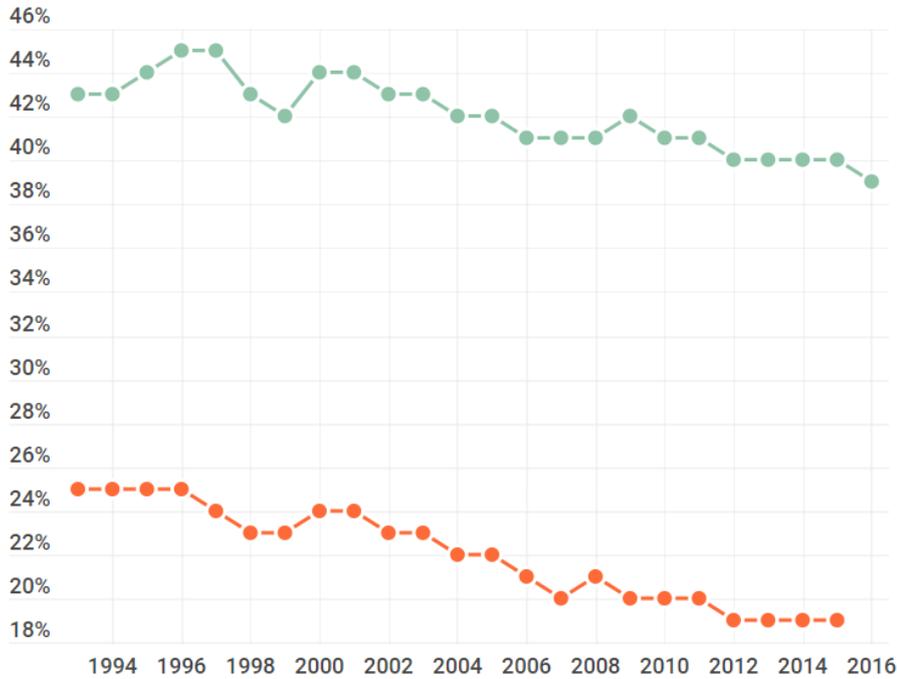
The relationship between minimum wages and unemployment benefits for single adults has been remarkably stable over the past 25 years, albeit with a gradual decline in the relative value of Newstart Allowance, which has not been increased in real terms for 24 years. The graph below compares before-tax minimum wages with Newstart Allowance for jobless adults. Newstart Allowances were indexed to the Consumer Price Index only for most of this period.

⁷² Government Audit Office (2015), ‘Federal low-income programs’ at <http://www.gao.gov/assets/680/671779.pdf>

⁷³ A \$100 increase in the EITC was estimated to reduce the risk of poverty in low paid working families by just 0.94 percentage points. Ault Bucknor (2014), *Poverty and the earned income tax credit*, The Public Purpose, Vol 12 No 1.

⁷⁴ Gregg 2000, *The use of wage floors as policy tools*. OECD Economic Studies No 31.

Figure 5: Single adult rate of Newstart Allowance as a % of minimum and median wages, before tax



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

Note: Newstart Allowance only (not including Rent Assistance), tax is not taken into account. Median wage is for fulltime non-managerial workers .

When income tax is taken into account, the ratio of disposable income while unemployed to that on a full time minimum wage is slightly higher. In 2017, that ratio was 43% for single adults.⁷⁵

The stable relationship between unemployment payments and the minimum wage has implications for social security policy. The adequacy of income support for unemployed people has sharply declined over the long term. The last real increase in Allowances such as Youth Allowance and the Newstart Allowance was in 1994. As a result, the adequacy of Allowances (compared with rising living standards) has been severely eroded over the last two decades. Consequently, 52% of people on the Youth Allowance, and 55% of people on Newstart are already living below the poverty line.⁷⁶ Importantly, the gap between income support for people who are unemployed and the

⁷⁵ ACOSS (2012) *Surviving not living: Submission to Senate Employment Committee on the adequacy of 'allowance' payments*, ACOSS Paper 192, updated with ACOSS calculations

⁷⁶ ACOSS/SPRC (2016) *Op.Cit.*



minimum wage 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 only indexed to the CPI.⁷⁷

A point would then be reached where Governments are likely to adjust income support 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 benchmarked in Social Security legislation to 27% of male total average weekly earnings.

2.12 Income tests and rewards for paid work 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 rewards for paid work.

This has two implications for minimum wages:

1. If minimum wages are too low, the combined effect of low pay and income tests could discourage people who are unemployed from working.
2. 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,

⁷⁷ Pech (2011) *Relative living standards and needs of low paid employees* Fair Work Australia



- 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 above a single minimum fulltime wage (but they do affect ‘second earners’ in low and middle income families).

Table 3: Social security income tests, March 2018

	Newstart Allowance (single) (\$pw or %)	Pensions (single) (\$pw or %)	Family Tax Benefit (2 chn. under 13) (\$pw or %)
Free area	\$52	\$84	\$1,013
First taper rate	50%	50%	20%
2nd threshold	\$127	n.a.	\$1,814*
Second taper rate	60%	n.a.	30%
Cut out point	\$521	\$978	\$2,009

Sources: Department of Human Services (2018): *A guide to Australian Government payments, 1 January – 19 March 2018*.

Available: <https://www.humanservices.gov.au/sites/default/files/2017/12/co029-1801.pdf>

* 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 often give rise to high ‘effective marginal tax rates’ (EMTRs).

The table below examines rewards for part time employment by comparing disposable incomes in early 2018 for an individual on income support payments when unemployed and employed part time for 15 or 20 hours a week at the minimum wage.



Table 4: Disposable incomes for jobless people undertaking part time employment (2018)

Gross earnings	No work	15 hours a week	20 hours a week
	(0)	(274.30)	(365.70)
DSP	407.00	628.25	673.85
Newstart*	269.40	456.70	515.42

Note: base rate only, single, no children, for Newstart and Pension

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

Disincentives to undertake part time employment are especially acute for Newstart Allowance (NSA) recipients. In the example above, a single adult on NSA would have gained only \$187.30 per week (\$12.48 per hour) from working 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 half of all low skilled jobs, are part time.

Encouraging more people to join the paid workforce, especially mothers, older people, and income support recipients will be crucial in the coming years as the supply of labour dwindles due to population ageing. By improving the rewards for paid work for many of these people - especially for part time low-paid jobs - adequate minimum wages can make a vital contribution to economic growth and efficiency.

Income tests affect the returns from a marginal increase in the NMW for those already in paid work.

Data provided by the Commission indicates that this issue is of less concern than low rewards for paid work for unemployed people taking on a part time job. In nine of 14 hypothetical low-paid families modelled, over 75% of last year's (\$22 per week) increase in the NMW would be retained by the household. The households with the lowest financial returns from an



increase in the NMW were single income couples, reflecting the structure of family-based income tests.

2.13 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.

2.14 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.

A decade after the economic down-turn in 2008, young people are still disproportionately affected. In February 2017, the youth unemployment rate was 14% compared with 9% a decade earlier, while the underemployment rate was 17% compared with 12% in 2007.⁷⁸ In 2014, of all people aged 15 to 24 years, 19% were not in education employment or training (NEET) compared with 16% in 2007.⁷⁹

The main structural barriers to employment for these young people appear to be:

⁷⁸ Brotherhood of St Laurence (2017), *Generation stalled*.

⁷⁹ Foundation for Young Australians <http://unlimitedpotential.fya.org.au/downloads/>



- poor performance at school, often linked to social disadvantage;
- the lack of comprehensive school to work programs that link young people who fared poorly at school with mentoring, career planning, job search, and training, although the Transition to Work program is a step towards this goal;
- the long term decline in traditional apprenticeships, which previously provided an employment pathway for many young men;
- Cultural norms and family responsibilities that delay the entry of many young women to further education or the workforce.

Although employment for young people is 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.

As discussed previously, employment rates are not the only metric by which the labour force status of young people should be measured. They are also disproportionately affected by low pay, underpayment, and insecure work.

2.15 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. Completion rates are low. The result is severe shortages of tradespeople during economic booms.

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 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.

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 engaging them.

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 greatly 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.⁸⁰ Trainee wage rates for programs of this kind are set by the Commission.

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 large number of income support recipients, this could undermine the minimum wage system. A fairer way to encourage employers to engage income support recipients is to extend the temporary wage subsidy schemes already in place for disadvantaged jobseekers working in low skilled jobs at 'normal' wages. 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. Recent government budget decisions to expand these schemes are welcome.

⁸⁰ See Stromback et al 1998, *Labour market programs and labour market outcomes*, Melbourne Institute Working Paper 14/98.



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 displacement and substitution.

2.16 People with disabilities

Only 48% of people with disabilities were employed in 2012, compared with 78% of those without disabilities.⁸¹ 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 much lower than other employees, and this cannot be redressed by changes in the workplace, a system of sub-minimum wages can improve their employment prospects. 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 underpaid. The assessment tools should be reviewed and standardised

⁸¹ ABS 2013, *Disability ageing and carers, 2012*.



as far as possible, rather than leaving it to individual enterprises to develop and use their own.

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 NMW).
- The minimum rate of pay for people with disabilities whose productivity is affected by a disability is far too low. This is set at the income test free area for the Disability Support Pension.

Both of these features of the present system are out of step with modern thinking about disability – the first because people with disabilities should as far as possible be treated the same as other workers for wage fixing purposes, and the second because it reinforces the outdated notion that wages for some people with disabilities are merely supplements to their main income, which is the pension.



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