

*Submission to the  
Fair Pay Commission on  
minimum wages  
July 2006*



**Australian Council of Social Service**

# Index

<b>Summary and Recommendations</b> .....	<b>1</b>
Recommendations .....	1
Evidence .....	2
<b>1. The Fair Pay Commission’s remit</b> .....	<b>8</b>
<b>2. The federal minimum wage and low paid employees in Australia and overseas</b> .....	<b>10</b>
Current level of the minimum wage .....	10
Growth in real minimum wages over time .....	10
Who relies on minimum wages?.....	11
International comparisons .....	13
<b>3. Trends in income inequality in Australia and overseas</b> .....	<b>14</b>
Trends in earnings inequality .....	14
Household income inequality .....	15
International comparisons .....	15
<b>4. Minimum wages and living standards</b> .....	<b>17</b>
Possible minimum wage benchmarks .....	17
Minimum wages and poverty.....	19
<b>5. Minimum wages and employment</b> .....	<b>25</b>
The effect of higher minimum wages on the macro-economy.....	25
Effect of minimum wages on structural unemployment.....	27
Low paid jobs as stepping stones to better paid jobs.....	32
<b>6. Minimum wages, income support and work incentives</b> .....	<b>35</b>
The current income support system for low paid households .....	36
The limits of income support .....	38
Effects of lower real minimum wages on income support payments .....	39
Income tests and work incentives for low paid employees.....	41
<b>7. Entry level and ‘regional’ wages</b> .....	<b>44</b>
Young people .....	44
Apprentices and trainees.....	44
Jobs-poor regions .....	46
<b>8. Effect of the 2006 Federal Budget on the living standards of low paid employees</b> .....	<b>48</b>
<b>References</b> .....	<b>50</b>



## Summary and Recommendations

As the peak national organisation of the community sector, and advocate for low income and disadvantaged Australians, ACOSS has a long standing interest in minimum wages and has made a number of submissions on this to the Australian Industrial Relations Commission.

ACOSS is an interested party with expertise in poverty, employment policy and income support policy, rather than an advocate for union or employer positions. We have not advocated any specific wage increase in the past, and do not do so in this submission.

### Recommendations

ACOSS recommends that:

- 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.<sup>1</sup>
- These benchmarks should be well above poverty levels, for two reasons. Australia has traditionally set wages well above poverty levels so that employees can live in dignity. Also, if social security payments for jobless people are set at poverty levels or higher, there is a need to set minimum wages at a higher level than this to preserve work incentives.
- Research should be commissioned to examine a range of possible benchmarks, including the updating and revision of 'Budget Standards' research.
- The 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.
- Subject to economic conditions (which are presently benign), minimum wages should at least be increased to keep them in line with general wage movements, so that minimum wage earners do not fall behind.
- Minimum wage rates for young people, apprentices and trainees, and people with disabilities under the Supported Wage System, should be increased in line with the rise in the federal minimum wage. Lower minimum wages should not be introduced for employees in jobs-poor regions, for adult apprentices, or for a wider range of people with disabilities.

---

<sup>1</sup> The social security and family payment systems should adequately supplement minimum wages in families with jobless adults and children.

## Evidence

These recommendations are informed by our concerns about growing inequality of incomes, the incidence of income poverty among working families, concerns about the effect of any real decline in minimum wages on income support payments and work incentives, and the lack of convincing evidence that significant increases in minimum wages would lead to higher unemployment, in Australia's present economic circumstances. The key evidence detailed in the body of this submission is as follows.

### ***The federal minimum wage and low paid employees***

The Federal Minimum Wage is currently \$484 per week, about the same level, after taking account of inflation, as it was in 1989. This is because increases in minimum wages in the early 1990s were not sufficient to compensate for rises in the cost of living.

Although Australian minimum adult wages are high by wealthy country standards, the proportion of Australian employees who are 'low paid' (14%) is not much less than average for all OECD countries (15%). The reason for this discrepancy is that many Australians are paid below the adult minimum wage (e.g. on youth wages) and many earn just above it.<sup>2</sup>

The incidence of low pay is relatively high among young people, women, low skilled workers in service industries, and in rural and regional areas. Most low paid employees fall within the bottom half (by disposable income) of households of workforce age.<sup>3</sup>

### ***Trends in earnings and income inequality***

Earnings inequality has increased in Australia since the 1980s. From 1986 to 2001, full time earnings increased by:

- 5% for tenth percentile (top of the bottom 10%) of full-time wage earners;
- 9.9% for the 50<sup>th</sup> percentile (median) full-time wage earner;
- 18.3% for the 90<sup>th</sup> percentile (bottom of the top 10%).<sup>4</sup>

Although the effects of greater levels of earnings inequality and an increase in jobless households have been offset to a substantial degree by Government policies (such as family payments), income inequality among households also increased over this period.<sup>5</sup>

Household income distribution is relatively unequal in Australia and other Anglophone countries. Many other countries have avoided major increases in income inequality over the last two decades. This demonstrates that national policies and institutions do make a difference.<sup>6</sup>

---

<sup>2</sup> OECD 2006 *Employment Outlook*. In this study, 'low pay' means earning less than two thirds of the median wage.

<sup>3</sup> Leigh 2005, *Does the minimum wage help the poor?* ANU Centre for Economic Policy Research Discussion Paper 501.

<sup>4</sup> Saunders 2005, *Reviewing recent trends in wage income inequality*. Social Policy Research Centre, University of NSW.

<sup>5</sup> Harding & Greenwell 2001, *Trends in income and expenditure inequality in the 1980s and 90s*; Saunders 2003, *Examining recent changes in income distribution in Australia*, Social Policy Research Centre.

<sup>6</sup> Forster & Ercole 2005, *Income distribution and poverty in OECD countries*, OECD.

## **Minimum wages and living standards**

There are three ways to measure the living standards of households:

- to draft 'basic budgets' for different kinds of households,
- to survey actual living standards, and
- to use 'poverty lines'.

One possible benchmark for setting minimum wages is the 'modest but adequate budget standard' developed by the Social Policy Research Centre. In 2003 this was to \$452pw after tax for a single adult and \$868pw after tax for a family of four.<sup>7</sup>

The 'risk' of income poverty is between 5-10% for households headed by a wage earner, yet 27% of households below the poverty line are headed by a wage earner (including 11% headed by a full time wage earner). The reason that a substantial proportion of people below the poverty line are in wage earning households is that there are many more wage earning households overall than jobless households. Based on NATSEM estimates for 2001, around 500,000 people in wage earning households lived below the poverty line. These are mainly families with children.<sup>8</sup>

International evidence points to a connection between income poverty, especially child poverty, and low paid employment. At 13%, the proportion of Australian children below the poverty line lies between the high levels of the US and UK (which have low minimum wages), and the low levels in European countries with higher minimum wages.<sup>9</sup>

Recent research using focus groups of employees from low paid households suggests that budgeting on minimum wages is a struggle for these households. They must forego items that most wage earning households expect, such as dental care, annual holidays, a car, eating out with friends, and buying a home.<sup>10</sup>

Many low paid employees and their families also find it difficult to afford to rent or buy housing in major capital cities. Recent research on 'housing stress' found that 407,000 working households, or 10% of all working households, devoted over 30% of their disposable incomes to rents or mortgages in 2001. Over one quarter of these households included employees in the low paid occupations of sales assistants, drivers, carers, cleaners, administrative workers, or hospitality workers. A clear majority of employees in these occupations who were in 'housing stress' had incomes below \$600 per week.<sup>11</sup>

---

<sup>7</sup> Saunders 2004, *Updated budget standards estimates for Australian working families*, Social Policy Research Centre.

<sup>8</sup> Lloyd et al 2004, *Australians in poverty in the 21<sup>st</sup> century*. NATSEM. Poverty line is half median household disposable income.

<sup>9</sup> UNICEF 2000, *Child poverty in rich nations*. Innocenti Research Centre.

<sup>10</sup> Masterman-Smith, May, & Pocock 2006, *Living Low Paid: some Experiences of Australian childcare workers and cleaners*. Brotherhood of St Laurence.

<sup>11</sup> Yates et al 2006, *Housing affordability, occupation and location*, Australian Housing and Urban Research Institute.

## **Minimum wages and employment**

Minimum wages can affect levels of employment and unemployment in two ways: by boosting or constraining overall economic growth, and *potentially* by raising the level of structural unemployment, because more low skilled workers are excluded from jobs.

Recent research by the OECD on the effects of minimum wages on employment finds that they generally have little or no impact on employment among adults, though they may effect employment among young people in the absence of lower 'youth rates'.<sup>12</sup>

There is no convincing evidence to suggest that modest increases in minimum wages over the last decade in Australia have constrained overall economic growth. From 1997 to 2005, real minimum wages rose by 8% (after having fallen over the previous decade), and employment rose by 18%. In the present favourable economic conditions, there is room for further increases in minimum wages in 'real terms'.<sup>13</sup>

Large increases in minimum wages such as those experienced in Australia in the 1970s and early 1980s could raise the level of unemployment among low skilled workers, but modest increases or reductions in minimum wages are unlikely to have a substantial impact on structural unemployment.<sup>14</sup>

One of the main reasons for this is that many jobless income support recipients are still some distance away from being competitive for low skilled jobs. Although the 'official' unemployment rate is low, those who remain jobless at this stage of the business cycle are generally drawn from the most disadvantaged groups in society.

For example, most workforce age income support recipients have been on payments (Newstart Allowance, Parenting Payment or Disability Support Pension) for over two years. Most have less than 12 years of formal schooling, and many have serious health problems or have recently experienced domestic violence. In addition, employers are reluctant to engage people with disabilities, mature age workers or Indigenous people regardless of their actual level of productivity.

Growth in full time employment appears to have been biased against low skilled workers since the 1980s, but this has been offset to a significant extent by growth in low skilled part time jobs. Among the OECD countries, Australia is second only to the Netherlands in its high level of part time employment (28% of all jobs). There appears to be a 'dual labour market' in Australia, with low skilled jobs increasingly concentrated in the part time sector and in service industries such as retail and hospitality.<sup>15</sup>

By contrast, in the US, which has much lower minimum wages (US\$5.15 per hour compared to A\$12.75 per hour here), there has been stronger growth in low skilled full time jobs. However, the gap between hourly minimum wages in Australia and the US is so great that an Australian employee working three days a week on the

---

<sup>12</sup> OECD 2006, *Employment Outlook*.

<sup>13</sup> Dawkins (2000) *The labour market*, in Reserve Bank, *The Australian economy in the 1990s*; Australian Industrial Relations Commission website for updates; ABS, *Labour Force data*.

<sup>14</sup> Frijters & Gregory 2005, *From golden age to golden age – Australia's great leap forward?* Conference Paper, ANU Centre for Economic Policy Research.

<sup>15</sup> Borland & Gregory 2001, *Work Rich, work poor*, Victoria University; Song & Webster 2003, *How segmented are skilled and unskilled labour markets?* Australian Economic Papers 42:3.

minimum wage has a similar living standard to a full time minimum wage earner in the US.<sup>16</sup>

It is sometimes argued that low skilled employees are 'compensated' for their low pay by opportunities to move up to higher paid employment. However, the evidence suggests that countries with low minimum wages such as the US and UK seem to offer less opportunities for low paid workers to move up. In the UK and US, 19% and 25% of employees respectively are low paid, compared with 14% here. OECD research shows that in the late 1990s, only 23% of British low paid employees and 38% of those in the US moved up into higher paying jobs over a five year period. By contrast, Australian research indicates that over a three year period in the late 1990s, 41% of low paid Australian employees moved up to higher paid work. The more limited mobility of low paid workers in countries with low minimum wages may be due to a 'bottleneck' effect - where a large population of low paid employees has to compete for a relatively small number of 'middle level' jobs.<sup>17</sup>

Low paid workers in Australia may progress more often into higher paid jobs than their US and UK counterparts, but this progression up the career ladder is still difficult for *jobless* Australian workers. They are more likely to cycle between low paid (especially part time and casual) employment and bouts of joblessness. One reason for this is the high incidence of casual employment in Australia. A recent study by the Productivity Commission revealed that, of jobless people in 2001 who obtained *casual work* in 2002, 27% were jobless again in 2003. The same percentage moved up to a permanent job in 2003, but 47% were still casuals. An earlier study that looked at transitions between joblessness and low paid and higher paid employment reported similar findings. This shows that there is no basic conflict between the interests of jobless people and low paid employees - as implied by some 'insider-outsider' models of the labour market. Many jobless households benefit, for that part of the year when they have jobs, from higher minimum wages.<sup>18</sup>

### ***Minimum wages, income support and work incentives***

The living standards of low income households rest on three foundations: jobs, minimum wage levels, and income support payments. All three play a vital role in preventing poverty. Policies that rely too heavily on one to the exclusion of the others pose risks for people on low incomes.

Policies that rely too heavily on the income support system to prevent poverty in working and jobless households impose fiscal costs that future Governments and taxpayers may be reluctant to bear. For example, a modest earned income tax credit for low income working families proposed by a number of Australian economists is likely to cost well over \$5 billion a year. Even if such a payment was introduced, if minimum wages are too low most of the benefits are likely to be 'captured' by employers.<sup>19</sup>

---

<sup>16</sup> ACOSS calculations for 2005, using Purchasing Power Parities from OECD (2005) *Principal economic indicators*.

<sup>17</sup> Keese, M and A. Pumoyen (forthcoming), *Changes in earnings structure*, OECD Occasional Papers; OECD 2003 *Employment Outlook*; Carino-Abello 2001, *Dynamics of earned income in Australia*, ABS; Richardson 2004, ABS Occasional Paper; *Low wage jobs and pathways to better outcomes*, National Institute for Labour Studies.

<sup>18</sup> Productivity Commission 2006, *The role of non traditional work in the Australian labour market*; Dunlop 2001, *Low paid employment in the Australia labour market* in Borland et al, *Work Rich Work Poor*, Victoria University.

<sup>19</sup> Buddelmeyer et al 2004, *Policy options to encourage welfare to work*, Melbourne Institute Working Paper 9/06.

The cost of Family Tax Benefits, which provide substantial, welcome income support for low paid working families, has already doubled from \$6.6 billion to \$13 billion from 1997 to 2004.

There is a dynamic relationship between the levels of minimum wages and income support benefits. Generally, countries with low minimum wages also have low income support payments for jobless people, in order to preserve work incentives. In Australia, incentives for jobless single unemployed people to take on a full time minimum wage job are strong (their disposable income would almost double), but incentives would diminish over time if minimum wages fell in real terms, because Newstart Allowance and other payments are indexed to the Consumer Price Index. In that event, there is a risk that income support payments for jobless households would be cut and poverty among these households would increase.

Adequate hourly minimum wages are important to maintain work incentives, especially for jobless people and 'second earners' in low and middle income families. For a substantial minority of jobless people and low paid employees, work incentives are already eroded by high 'effective marginal tax rates' caused by social security income tests and income taxes. Growth in the labour force will soon diminish due to the ageing of the population, so labour market policies should encourage jobless people and 'second earners' to take up jobs.

### ***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). The rationale for lower minimum wages for these groups is 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 low productivity.

As a general principle, apart from 'training wages', lower minimum wages for specific groups in the workforce are discriminatory and should only apply 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. Where jobless individuals on income support have lower (perceived) productivity, it is generally fairer for Government to subsidise their wages while they get a foothold in the labour market, as Australia has done successfully in the past for long term unemployed people.

Young people are generally paid less than adult minimum wages. Although unemployment among young people has declined along over the past two decades, many still struggle to progress from school to secure employment. However, this is due mainly to such factors as poor educational outcomes and social disadvantage rather than the level of minimum wages for young people.

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. However, 'traditional' apprenticeships have declined over the long term, and almost half of those who commence these apprenticeships do not complete them. The result is severe shortages of tradespeople. The reasons for this decline in traditional apprenticeships appear to include low levels of pay for extensive periods of time that are not justified by provision of training, and a lack of investment in training by employers due to a 'free

rider' problem (employers relying on the training investments of other employers). There may therefore be a case for significant increases in wages for young apprentices. Adult apprentices are paid at closer to standard award rates. Despite this, their number has grown, as a proportion of all apprenticeships, from 15% in 1997 to 41% in 2005.<sup>20</sup>

Regional labour market inequalities, including differences in unemployment rates, are less pronounced in Australia than in most other wealthy countries. This problem is best addressed by structural adjustment policies (such as retraining of displaced workers in regions where major industries decline) rather than by allowing employers in high-unemployment regions to pay wages below the national minimum. Wages are already generally lower in rural and regional areas than in capital cities.<sup>21</sup>

Only 43% of people with disabilities are employed compared with 72% of the population of workforce age. The major barrier to employment for most people with disabilities is not their actual productivity, but employer perceptions of a high 'risk' associated with employing people with disabilities, especially those with mental health problems. Many jobless people with disabilities would be highly productive if employers were prepared to engage them and the workplace is organised to facilitate this.<sup>22</sup>

Under the *Supported Wage Scheme*, some 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. There is no evidence to suggest that, if this principle were applied to a wider range of people with less severe disabilities, it would improve their employment prospects. On the other hand, it is possible that the extension of sub-minimum rates of pay to a wider range of people with disabilities could weaken their job prospects by signalling to employers that there are risks attached to employing them.

### ***Effect of the 2006 Federal Budget on the living standards of low paid employees***

Tax cuts in the 2006 Federal Budget raise the disposable income of a single adult full time employee on the minimum wage by around \$17 per week. However, most minimum wage earners will gain much less than this because they are employed part time. For example, the income gain for a part time employee on half this weekly wage is approximately \$7 per week.

### ***Conclusion***

There is further scope in the present favourable economic climate to improve the real level of minimum wages, and income support and family payments, so that those on the lowest incomes share in the improvements in living standards that most Australians have enjoyed in recent years. Policy makers should take advantage of this opportunity.

---

<sup>20</sup> NCVER 1999, *Apprentices and trainees in Australia 1985 to 1999*; NCVER 2005, *Apprenticeships and traineeships*. Ball 2004, *Factors influencing completion of apprenticeships and traineeships*, NCVER.

<sup>21</sup> OECD 2006, 2003 and 1998, *Employment Outlook*; Kennedy & Borland 1997, *A wage curve for Australia?* ANU CEPR Discussion Paper No 372. Leigh 2005, op cit.

<sup>22</sup> ABS 2003, *Disability, carers and ageing survey*.

# 1. The Fair Pay Commission's remit

Section 23 of the Workplace Relations Act gives the Fair Pay Commission authority to set a standard federal minimum wage for adults and to determine relativities in the award structure between this and rates of pay for higher classifications. In doing so, it must take account of:

- the economic prosperity of the people of Australia
- the capacity of the low paid to obtain and remain in employment
- employment and competitiveness across the economy
- providing a safety net for the low paid.

This list of objectives is very broad.

The '*economic prosperity of the people of Australia*' has a much wider meaning than growth in Gross Domestic Product. For example, it is acknowledged in the Australian Treasury's 'Well being framework' and in international economic literature that the extent to which national income is widely or narrowly distributed is an important factor in community well being. The fundamental reason for this is that, in assessing their satisfaction with life, people usually compare their circumstances with others. The distribution of living standards also has a major influence on other, more tangible aspects of community well being - for example, countries with high levels of social inequality are more likely to have higher infant mortality rates<sup>23</sup>

The European Union has developed a set of key structural indicators to measure community well being more broadly than growth in the economy (see box below). Also, the Australian Bureau of Statistics regularly updates its Measuring Australia's Progress publication, which also contains a range of indicators of community and environmental well being.

This objective includes any effect of minimum wages on individual and household incomes and on workforce participation (for example, work incentives among mothers) and unemployment.

The '*capacity of the low paid to obtain and remain in employment*' includes any effect of minimum wages on the overall level of employment (especially low skilled jobs) and any effect on 'churning' in the labour market between low skilled jobs and joblessness.

'*Employment and competitiveness across the economy*' includes any effect on employment (as above) and any effect on national productivity.

'*Providing a safety net for the low paid*' includes the benchmarking of minimum wages to indicators of individual and household living standards, including any effect on income poverty and on the ability of people to afford the essentials that comprise a 'decent basic living standard' in Australia today. This benchmarking of living standards should arguably take account of the Australian ethos that wages should be enough for people to live and work with dignity, and that large inequalities of income are unacceptable.

---

<sup>23</sup> Treasury 2004, *Policy advice and Treasury's well being framework*. Paper delivered at ACAS meeting.

### The European Union's key structural indicators

At the 'Stockholm Summit' in March 2001, the European Commission endorsed seven key social indicators, for adoption across Europe:

1. Distribution of income (ratio of share of top 20% to share of bottom 20%)
2. Share of population below poverty line before and after social transfers (defined as 60% of national median equivalised income)
3. Persistence of poverty (share of population below poverty line for three consecutive years)
4. Proportion of jobless households
5. Regional disparities (coefficient of variation of regional unemployment rates)
6. Low education (proportion 18-24 not in education or training and have only lower secondary education)
7. Long term unemployment rate.<sup>24</sup>

---

<sup>24</sup> European Commission (2000b) *Structural Indicators*, Annex 2 to the Stockholm Report, Communication from the Commission, COM (2000) 79 final/2. Atkinson et al (2002) *Social Indicators – the EU and Social Inclusion*, Oxford University Press, Oxford.

## 2. The federal minimum wage and low paid employees in Australia and overseas

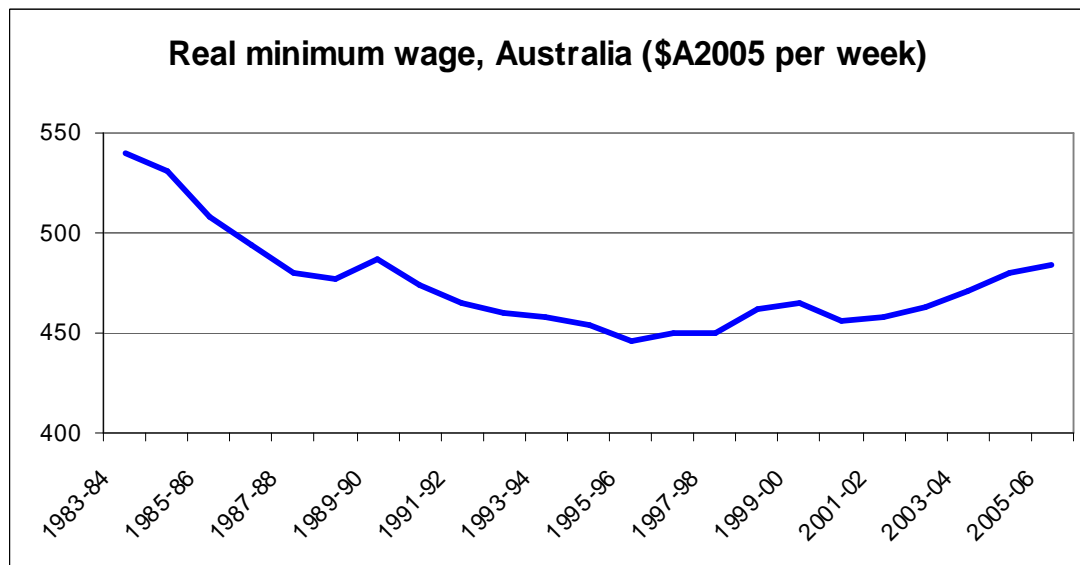
### Current level of the minimum wage

The Federal Minimum Wage (FMW) is currently \$12.75 per hour, \$484.40 per week, or approximately \$25,200 per year. The legislation states that this cannot be reduced in nominal terms by the FPC, though it could possibly be reduced in real terms (after inflation) over time.

### Growth in real minimum wages over time

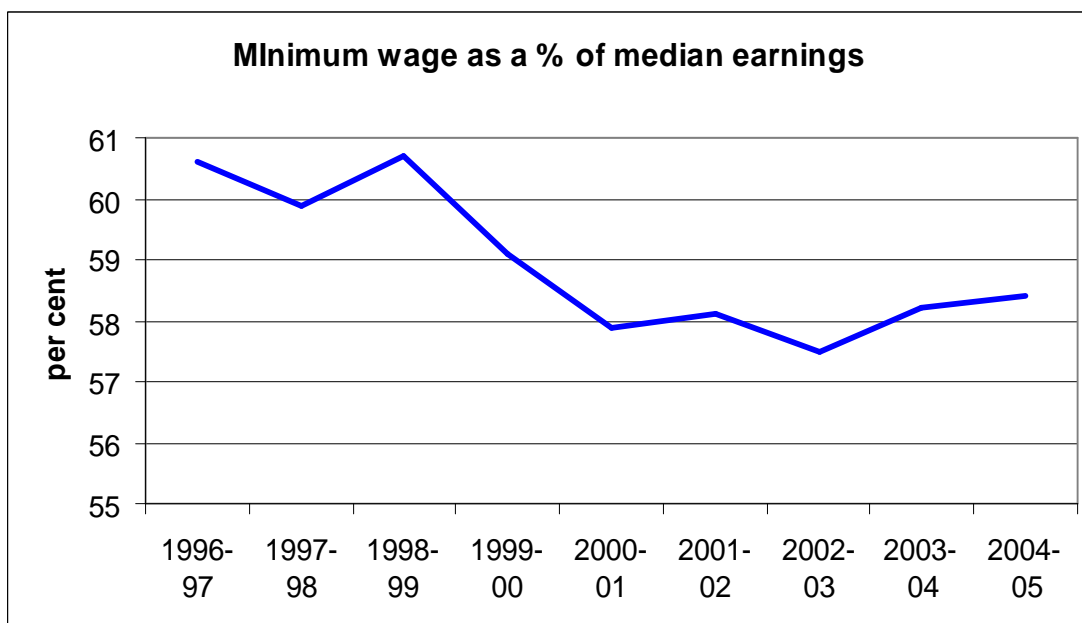
The minimum wage has fallen in 'real terms' over the 1980s, but risen moderately since the mid 1990s. As a result, its real value is approximately the same now as it was in 1989.

In recent years (since about 2000) Australian Industrial Relations Commission (AIRC) decisions have increased minimum wages broadly in line with movements in the 'Wage Cost Index'. This means they have increased modestly in real terms (above inflation). But the Federal Minimum Wage is still significantly below the level of 20 years ago, in real terms.



Sources: Dawkins (2000) *The labour market*, in Reserve Bank, *The Australian economy in the 1990s*; ABS, Australian Economic Statistics; Industrial Relations Commission website for updates.

Although real minimum wages have grown modestly over the last decade, they have fallen substantially when compared with median (middle) wages (see graph below). This is consistent with a rise in earnings inequality over this period (see section on 'inequality' below).



Source: Australian Industrial Relations Commission 2005, *Safety net adjustment decision*.

## 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 are included.

### (1) The incidence of low pay

Leigh (2005) used a benchmark of up to an hourly wage of the Federal Minimum Wage plus \$2, and data from the ABS Income Distribution Survey to conclude that 23% of *all* employees were low paid in 2004, comprising:

- 10% of wage earners earned just over the minimum wage (he found that the size of this group is diminishing over time).
- Up to another 13% earned *below* adult minimum wages. The reasons for this include lower 'youth rates', occupations and industries outside the award system, underpayment of employees, and under-estimation of incomes in the ABS data.<sup>25</sup>

Other estimates of the incidence of low pay are much lower:

- The OECD estimated that around 13% of *full time* employees earned less than two thirds of median full time wages in 2003;
- Watson et al also estimated that around 13% had weekly wages below this level in 2001;
- Richardson and Harding estimated that 16% of employees earned less than \$10 per hour in 1995.<sup>26</sup>

### (2) The demographic profile of low paid employees

<sup>25</sup> Leigh A 2005, *Does the minimum wage help the poor?* ANU Centre for Economic Policy Research Discussion Paper 501.

<sup>26</sup> OECD 2006, *Employment Outlook*; Watson et al 2003, *Fragmented futures*, Federation Press; Richardson & Harding 1999, *Poor workers?* in Richardson 1999, *Reshaping the labour market*, Cambridge University Press.

According to Leigh, the basic profile of low paid employees is as follows:

- The incidence of low pay is much greater for young people, and about 40-50% of the low paid are under 25 years
- It is also much greater among those with low educational qualifications
- Although women are a minority of employees overall, they are much more likely to be minimum wage earners than men.
- About one third of minimum wage earners are the sole breadwinners in their household.
- About two fifths are the highest earner in their household.
- The rest are mainly 'second earners' in married couple households or young people living with their parents.

These findings regarding the higher incidence of low pay among young people, women and people with low qualifications are similar to those in other research. Other studies have also found that:

- there is a higher incidence of low pay among employees living outside major cities,
- low paid employees come mainly from the retail, hospitality, and community services industries, and
- they come mainly from low skilled occupations such as elementary or intermediate service workers, labourers, and production workers.<sup>27</sup>

Leigh found that most low paid employees are engaged part time, and about half are casuals (most of whom would also be employed part time).

### **(3) The household incomes of minimum wage earners**

Leigh's research found that:

- Minimum wage earners come mainly from the middle of the income distribution when retired households are included (see table below). The reason for this is that around three quarters of retired people are age pensioners on very low incomes.
- However, since minimum wages only directly affect people of workforce age (whether in jobs or unemployed) it is appropriate to exclude retired people when examining the effect of minimum wages on income inequality. When this is done, half of all minimum wage earners come from households in the bottom 40% of the distribution.

This is consistent with Richardson & Harding's findings for 1995.

---

<sup>27</sup> Leigh op cit; State of Working Victoria project 2003, *The low paid in Victoria*; Richardson & Harding op cit.

## Where minimum wage earners fit in the household income distribution (2002)

	Bottom 20%	2nd 20%	3rd 20%	4th 20%	Top 20%
All households					
Location of bottom 20% of hourly wage earners	19%	<b>20%</b>	<b>26%</b>	<b>20%</b>	14%
Working age households (15-55 years)					
Location of bottom 20% of hourly wage earners	<b>23%</b>	<b>28%</b>	22%	16%	11%

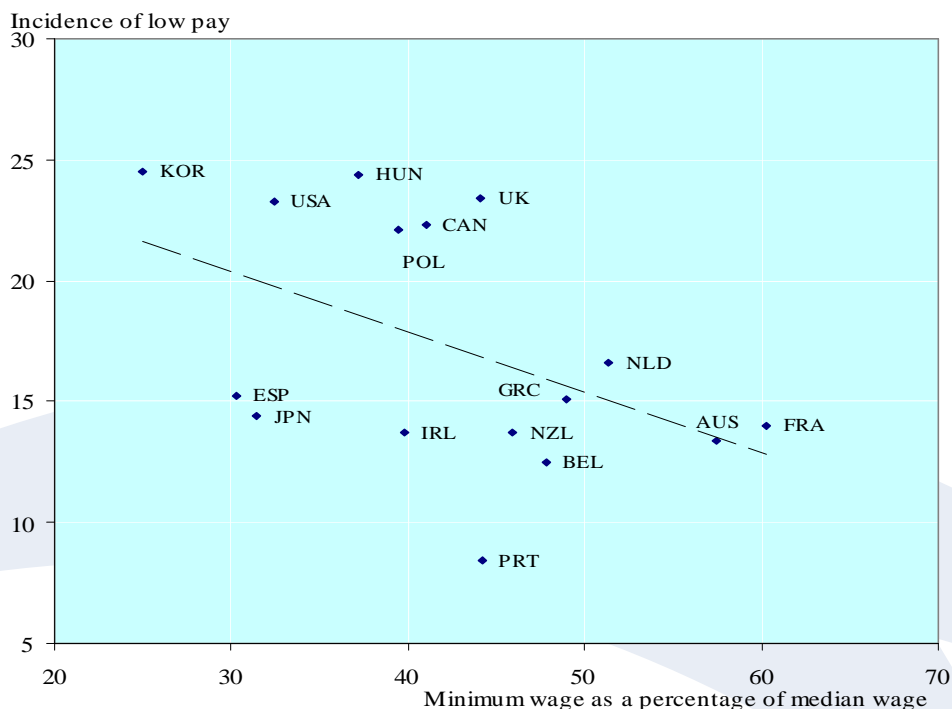
Source: Leigh, 2005, *Does raising the minimum wage help the poor?*

## International comparisons

Australian weekly minimum wages are around 58% of the median weekly wage. This is higher than most OECD countries, and has been so for many years.

Despite our relatively high minimum wages, the proportion of Australian employees who are *low paid* (defined in this case as earning less than two thirds of median full time wages) is close to the median of 15 countries recently surveyed by the OECD (for Australia, the estimate is 13-14%, compared with a median level of around 15% - see graph below). The most likely explanation for the difference between these two indicators of low pay is that, compared with other wealthy countries, a high proportion of Australian employees earn wages that are *below or just above* the minimum.

## Minimum wages and low pay in the OECD (2000-03)



Source: OECD 2005, *Employment Outlook*, supplementary data.

Note: Incidence of low pay (% of full time employees on less than 2/3 of median wages) is on the vertical axis; Minimum wage as a % of median wage is on the horizontal axis.

### 3. Trends in income inequality in Australia and overseas

#### Trends in earnings inequality

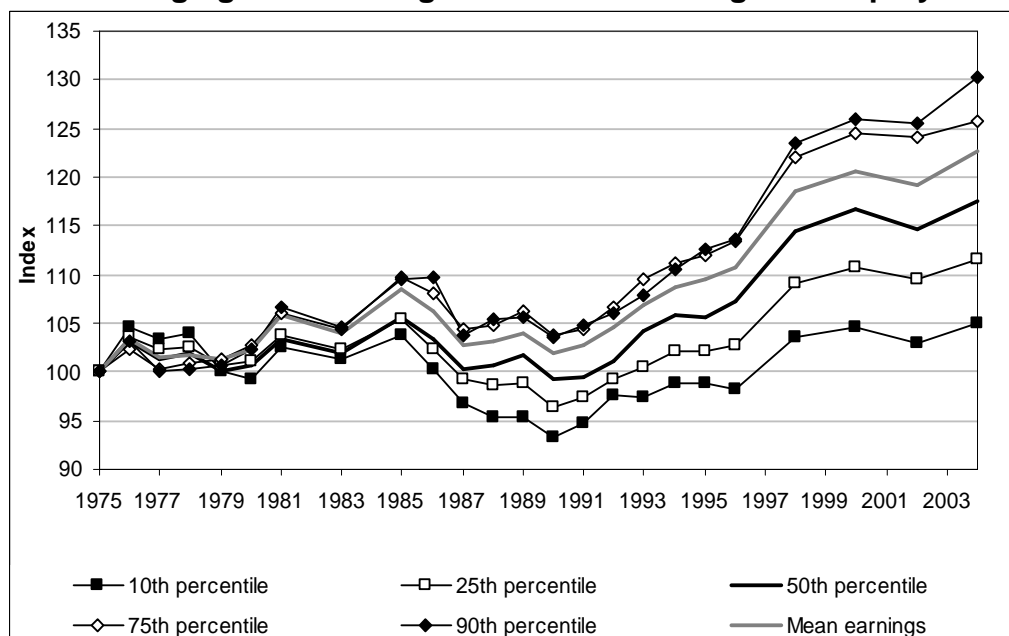
Earnings have become less equal in Australia since the mid 1970s. The graph below shows the disparate growth in real earnings of full time employees among low, middle and high income earners over that period.

From 1986 to 2001, full time earnings have increased by:

- 5% for tenth percentile (top of the bottom 10%) of full-time wage earners;
- 9.9% for the 50<sup>th</sup> percentile (median) full-time wage earner;
- 18.3% for the 90<sup>th</sup> percentile (bottom of the top 10%).

Male full time wages have become relatively more unequal over this period compared to female full time wages.<sup>28</sup>

#### Real earnings growth among full time non managerial employees



Source: FACS 2003, *Submission to Senate Inquiry into Poverty*, updated using ABS (6306.0) *Employee Earnings and Hours, Australia*.

Wage inequality has a major impact on the overall inequality of income among households. The way in which jobs are distributed across the population (the level of unemployment and joblessness) has a bigger impact than the distribution of wages (wage inequality) on the *current* overall level of household income inequality in Australia. However, when we examine changes in the level of inequality over time, the *increase* in earnings inequality over the past 20 years explains much of the overall *rise* in household inequality over that period.

<sup>28</sup> Saunders 2005, *Reviewing recent trends in wage income inequality*. Social Policy Research Centre, University of NSW.

## Causes of greater earnings inequality

There are a number of different theories to explain the rise in earnings inequality in Australia and many other OECD countries:

- Some argue that technological change has biased job creation towards high skilled jobs to the disadvantage of the low skilled.
- Others argue that jobs growth has been stronger at both the bottom and the top of the earnings structure (the 'disappearing middle' theory), reflecting changes in industry structure and the deregulation of wage fixing.
- Others argue that the distribution of hourly wage rates according to different levels of skill has not changed much, but that full time jobs growth has occurred mainly at the high skilled end while most of the extra jobs at the bottom end have been part time.<sup>29</sup>

## Household income inequality

Since the mid 1980s, income inequality among households has increased modestly in Australia, though the rate of increase may have slowed in recent years. This modest rise in inequality is the result of two forces pushing in opposite directions – substantially greater inequality in market incomes (jobs and wages) and greater effort by Governments to reduce it.

According to the ABS household income surveys, between 1994 and 2003, household disposable incomes have increased by:

- 8.5% at the tenth percentile (top of the bottom 10% of all households)
- 13.7% at the 50<sup>th</sup> percentile (median) household'
- 14.9% at the 90<sup>th</sup> percentile (bottom of the top 10%).<sup>30</sup>

According to analysis by NATSEM of ABS Household Expenditure Surveys, income inequality had already increased between the mid 1980s and mid 1990s.<sup>31</sup>

## International comparisons

A trend towards higher income inequality is not the inevitable consequence of 'globalisation' or national economic 'reform' in response to it. Over each of the past two decades, household income inequality has fallen in almost as many OECD countries as it has risen.<sup>32</sup>

There is also considerable diversity in the level of household income inequality among OECD countries. Generally speaking, the 'Anglophone' countries (including Australia) have relatively high levels of income inequality.

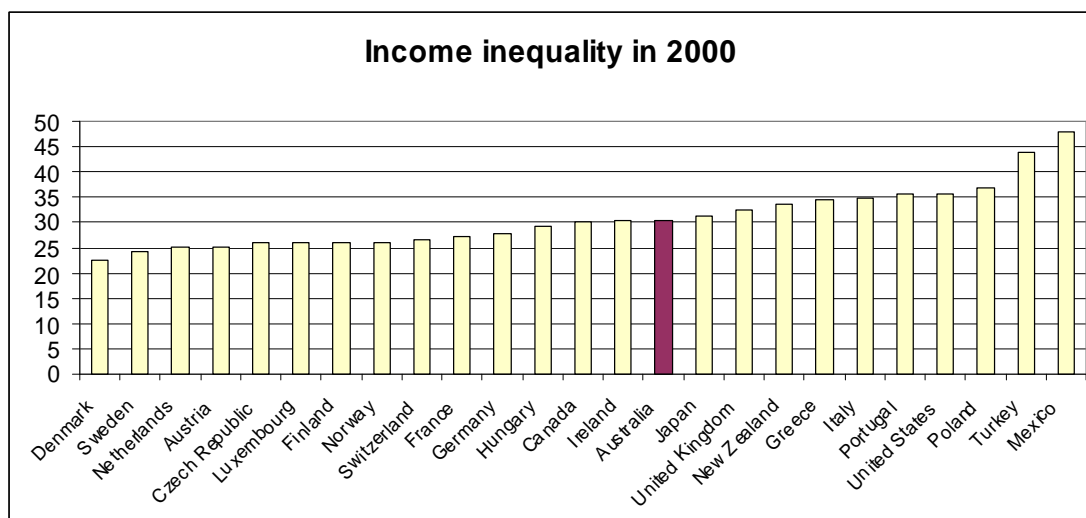
<sup>29</sup> Borland & Gregory 2001, *Work Rich, work poor*, Victoria University; Gregory 1993, *Aspects of Australian and US living standards*, Economic Record Vol 69; Watson et al 2003, *Fragmented futures*, Federation Press; Keating 2003, *Earnings and inequality*, ANU Centre for Economic Policy Research Discussion paper 460; Frijters & Gregory 2005, *From golden age to golden age – Australia's great leap forward?*; Saunders 2005, *Reviewing recent trends in wage income inequality*; Richardson 2004, *Low wage jobs and pathways to better outcomes*. NILS.

<sup>30</sup> ABS *Household income and income distribution survey 2002-03*. See also Saunders 2003, *Examining recent changes in income distribution in Australia*, Social Policy Research Centre. It is not possible to compare incomes directly from these surveys with previous ABS income surveys due to a break in the series in the mid 1990s. Further, a comparison with the latest (2003-04) ABS income survey is likely to be misleading due to changes in the methodology in that year that significantly reduce the previous under-estimation of income by many households in the bottom decile.

<sup>31</sup> Harding & Greenwell 2001, *Trends in income and expenditure inequality in the 1980s and 90s*.

<sup>32</sup> OECD 2006, *Employment Outlook*.

The graph below shows that Australia has an overall level of household income inequality slightly above the median (middle) level among OECD countries.



Source: Forster & dErcole, *Income distribution and poverty in OECD countries*, OECD Working Paper. Inequality measure used was gini coefficient. A gini coefficient of 1.0 means that one individual has all the nation's household income, a value of 0 means complete equality of income.

When we examine specifically how household income is shared among high, middle and low income households, we also find a good deal of diversity among wealthy countries.

For example, in the late 1990s, the share of all household income going to the *bottom* 20% of households was:

- Relatively low in Australia, the US and UK at 7.6%, 6.2% and 7.7% respectively, compared with an OECD average of 8.2%.
- Relatively high in Denmark, France and the Netherlands, at 10.2%, 9.1% and 9.2% respectively.

The share of all income going to the *top* 20% of households was:

- Around the middle in Australia, and France, at 36.8%, and 36.7% respectively, compared with an OECD average of 37.2%;
- Relatively high in the US and UK, at 40.8% and 39.4% respectively;
- Relatively low in Denmark and the Netherlands, at 32.7% and 34.2% respectively.<sup>33</sup>

This evidence suggests that national policies and institutions matter in determining the level of income inequality in each country.

<sup>33</sup> Forster & dErcole 2005, *Income distribution and poverty in OECD countries*, OECD.

## 4. Minimum wages and living standards

### Possible minimum wage benchmarks

An adequate 'safety net' for low paid employees and their families requires an objective assessment of their basic income needs. Ideally, this assessment should be informed by a set of 'basic income' benchmarks. This does not mean that minimum wages should immediately be set at the level of a 'chosen' 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 setting minimum wages.

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

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

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

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

- a strong consensus in the community that minimum wages should be sufficient for people to live in dignity, not well below the living standards of the rest of the community,
- a pragmatic judgement that, if wages were set around poverty levels, work incentives for jobless social security recipients would be eroded.<sup>34</sup>

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 is likely to lie somewhere between a 'poverty' standard of living and the living standard of the median (middle income) earner. It is likely to rise over time, along with standards in the community generally.

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

- The 'budget standards' approach in which experts draft 'basic budgets' encompassing the minimum expenditure requirements for different types of families.<sup>35</sup>

<sup>34</sup> This assumes that these payments should be sufficient to keep their recipients out of poverty.

<sup>35</sup> This was the approach adopted by the Industrial Commission in developing the 'Harvester standard' or 'basic wage' early last century. It was also adopted in a 1996 study by the Social Policy Research Centre, commissioned by the former Department of Social Security, to assist in the assessment of the adequacy of social security payments. See SPRC 1997, *Indicative budget standards for Australia*. Dept of Social Security.

- Direct measurement of the living standards of low income households, 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 and living standards in Australia today.<sup>36</sup>
- 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.<sup>37</sup>

At this stage, the most robust and credible of these benchmarks for wage fixation purposes appears to be the Budget Standards developed by the Social Policy Research Centre. The main advantages of this approach are its transparency (the budgets and the items comprising them, are readily understood) and its adaptability (the budgets can easily be changed in the event of disagreement over any item included). The main problems include reliance on the judgement of 'experts' as to which items should be included, and the need to update them from time to time to reflect changes in what constitutes a 'basic' living standard. As this has not been done since these Budget Standards were developed in 1996, they are probably somewhat out of date with current community expectations of a decent living standard.<sup>38</sup>

The Budget Standards, and two poverty lines for single adults and a family of four are detailed in the table below. There are two set of Budget Standards – a 'low cost' standard which is equivalent to 'poverty', and a 'modest but adequate' standard which is a basic standard of living set above poverty levels. When indexed to 2003 using the CPI, the 'Modest but Adequate' Budget Standard for a single adult was \$452 per week, which is equivalent to about \$26,150 per year before tax. By comparison, the federal minimum wage is approximately \$440 per week after tax for a single adult without children.<sup>39</sup>

<sup>36</sup> This approach has been adopted in a study currently under way at the Social Policy Research Centre, in collaboration with ACOSS, Mission Australia, Brotherhood of St Laurence, Anglicare NSW and Baptist Community Services NSW. This national survey asks respondents what they consider to be 'essentials' and whether or not they have them, and whether or not they don't have them due to lack of income.

<sup>37</sup> The 'Henderson Poverty Lines' were developed for a National Inquiry into Poverty commissioned by the Australian Government in 1970. Their development was informed by a survey of the living standards of Melbourne residents. However, the benchmark used for a family of four was the then 'basic wage' together with child endowment. Other poverty lines used here and overseas are based on 50 or 60% of median family incomes, or 50% of average family incomes.

<sup>38</sup> Updating is a problem with all three methods described above. A further technical problem with the SPRC Budget Standards is that they do not take account of wide variations in housing costs across Australia. This could be addressed fairly easily by using a median national estimate for rents, or by developing different budget standards for different housing markets.

<sup>39</sup> The Budget Standards are a measure of expenditure, so they are equivalent to disposable (after tax) income rather than the gross wage. It might be argued that these Budget Standards are inflated by the use of Sydney rents as the benchmark for housing costs. On the other hand, since they are a decade old, the Budget Standards need updating to take account of changes in living standards since 1996 when they were set. Although they have been indexed to the CPI since then, community living standards and the range of goods perceived as 'necessities' will have risen faster than inflation.

### Living standard benchmarks (2003)

	Single adult	Couple, 2 children (5-12)
'Modest but adequate' income thresholds		
Budget Standards: 'Modest but adequate' (2003)	\$452	\$868
Poverty thresholds		
Budget Standards: 'Low cost' (2003)	\$354	\$709
Poverty line (50% of average income)	\$244	\$452
Poverty line (Henderson)	\$294	\$551

Source: Saunders 2003, *Updated budget standards estimates*. Social Policy Research Centre.

### Minimum wages and poverty

The available evidence suggests that although the risk of *income poverty* (living below a poverty line) is low for full time minimum wage earners in Australia today, around one quarter of income-poor families – mainly families with children – earns wages.

Caution should be exercised in interpreting estimates of poverty based on 'poverty lines' since the results are sensitive to:

- the level of the poverty line chosen and how the poverty line itself is affected by changes in low pay, especially if the poverty line is based on a percentage of median household income (see discussion below);
- the definition of 'low pay' or 'minimum wage earner' that is used;
- the reliability of the incomes data used.

For these reasons, it is desirable to apply 'sensitivity tests' by using a range of poverty lines and measures of low pay, instead of relying on a single set of results. Unfortunately, there are few recent studies of the extent of poverty in Australia on which we can rely.

We examine below research by NATSEM on the incidence of income poverty in Australia in 2001, and by Leigh on the relationship between minimum wages and poverty in 2002. These studies use data from the ABS on the distribution of incomes in Australia. We then examine international poverty research conducted for the OECD and UNICEF.

#### (1) NATSEM research on income poverty in Australia

The NATSEM research indicates that the risk of poverty among households with an employed head is low in Australia (4% if the head is employed full time and 8% of part time – see table below). This is broadly consistent with earlier studies.

This is a legacy of our relatively high minimum wages. Poverty in wage earning families is much higher in some OECD countries, including the US (see graph below).

However, because wage earning families greatly outnumber jobless families, a substantial proportion of poor families (27%) is nevertheless headed by a low wage earner (see table below). These are generally families with children.

Care must be taken in interpreting these data due to problems with the reliability of the income estimates provided by some low income households to the ABS. On the other hand, the poverty line chosen is low by international standards. A higher proportion of wage earning families may be classified as poor if a higher poverty line were chosen.

### Individuals over 15 years in income poverty in 2000 and 2001

	Risk of poverty (%)	Profile of poverty (%)
Full time earner in household	4%	16%
Part time earner only	8.2%	11%
Jobless household	22.7%	73%
All	11.5%	100%

Source: Lloyd, et al 2004, *Australians in poverty in the 21<sup>st</sup> century*, NATSEM. Poverty line is half median household disposable income.

## (2) Leigh's research on the relationship between poverty and minimum wages

Leigh questions whether higher minimum wages would reduce income poverty. His research suggests that higher minimum wages could either increase or decrease poverty levels, and that in any event the effect is likely to be modest. The modest impact is mainly due to the inclusion of retired households in the sample when measuring income poverty across the population. As the international studies cited below indicate, estimates of *child poverty* are more sensitive to the level of minimum wages. When poverty among children is measured, retired households are not counted.

His finding that a higher minimum wage could *increase* the overall level of income poverty is due in large part to the choice of poverty line - 50% of median household disposable income. Since many minimum wage earners are in households with incomes close to the median (middle) household, raising the minimum wage raises the poverty line significantly, thereby increasing the estimate of poverty.<sup>40</sup> This finding is also likely to be sensitive to the definition of 'low pay' used, in this case one that excludes individuals on *below-minimum* wages such as people on youth rates.

In Australia today, minimum wages are not *primarily* designed to reduce income poverty at the household level. Their impact on poverty is blunted by the uneven distribution of jobs across households, and variations in the size of households. Nevertheless, along with the income support system minimum wages are part of the 'income floor' that protects people from poverty. Further, as the following discussion of poverty at the international level suggests, minimum wages also have an *indirect* effect on poverty levels because they influence the level of income support paid to

<sup>40</sup> Leigh (2005), *Does raising the minimum wage help the poor?* ANU Centre for Economic Policy Research Discussion Paper 501.

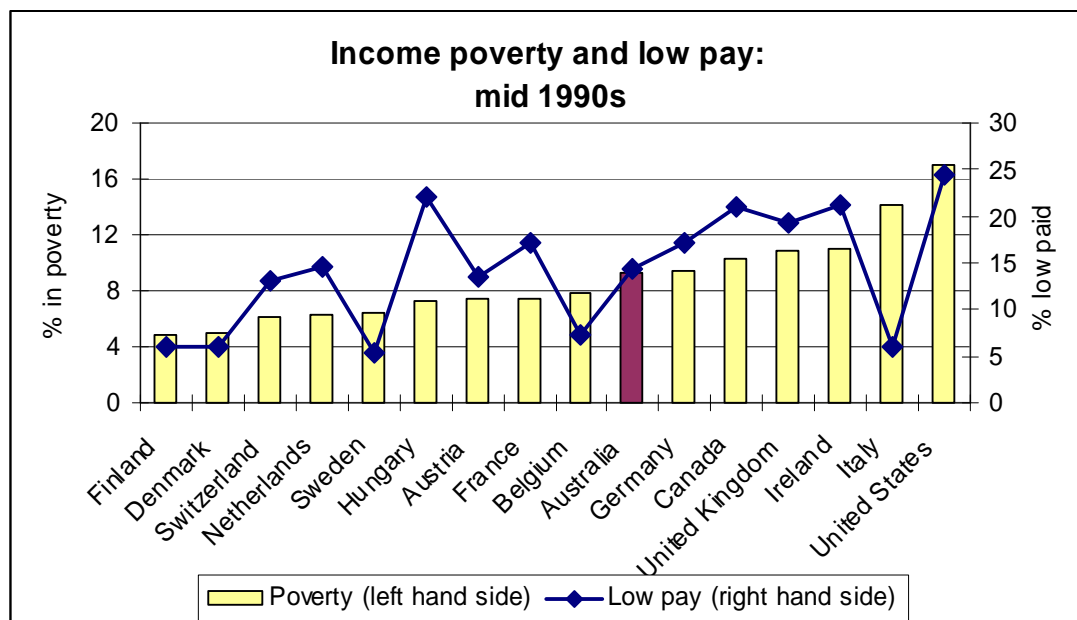
jobless people. Minimum wages and income support are best viewed as an integrated system, not as alternative strategies to reduce poverty.

### (3) 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).

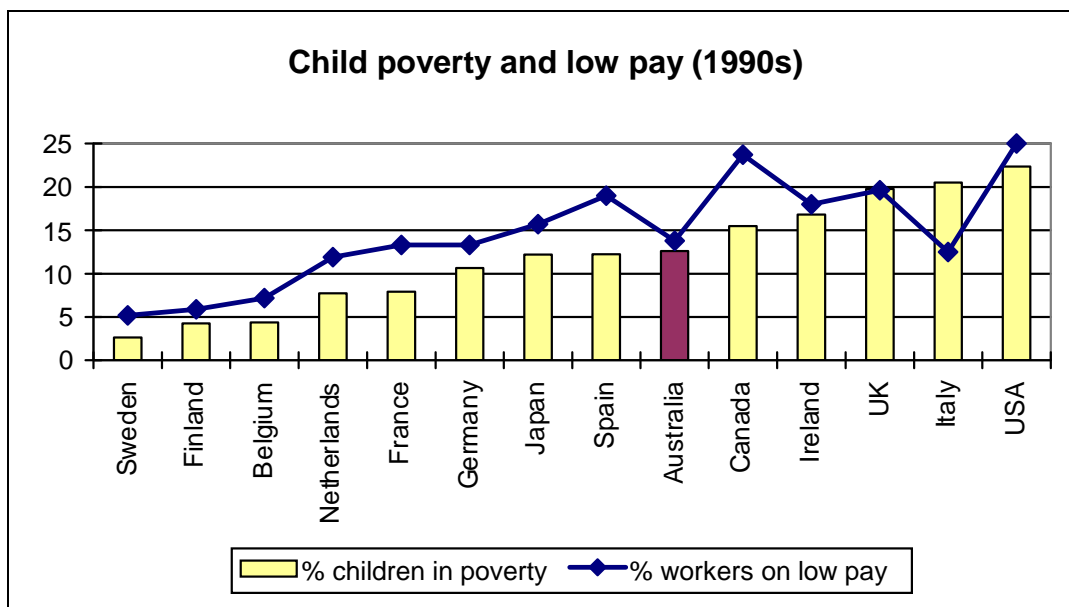
As discussed above, the two indicators need not be linked in this way, since low pay is a measure of individual income and income poverty is a measure of household income.

The graph below is derived from an OECD study of income poverty. It charts the relationship between income poverty across the whole population (see bars in the graph) and the incidence of low pay (the dark line).



Source: Förster, M. (2000), *Trends and driving factors in income distribution and poverty in the OECD area*, Labour Market and Social Policy Occasional Paper, No. 42, OECD, Paris.  
 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 in poor households, with the poverty line based on half median equivalent household disposable income.

The graph below is derived from a separate international study of *child poverty* conducted on behalf of UNICEF. It charts the relationship between income poverty among children and the incidence of low pay. The link between minimum wages and child poverty is stronger, because in this analysis retired households are not included in the estimation of poverty.



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

Note: "Workers on low pay" refers to the % of full-time workers on wages less than 2/3 of the median. "Children in poverty" refers to the % of all children living in poor households, with the poverty line based on half median equivalent household disposable income.

This study found that that 14% of Australian workers were low paid (earning less than two thirds of median wages). The proportion of Australian children living below a low poverty line (half median household income) was 13%, around the middle of the OECD countries surveyed. The US had a higher proportion of low paid workers (25%) and a much higher child poverty level (22%). By contrast, just 5% of Swedish employees were low paid and 3% of children in that country lived below the poverty line. The authors of the UNICEF study suggest that minimum wages may have an internationally consistent *indirect* effect on child poverty in jobless families because:

- social security payments are often linked to minimum wage levels (to maintain work incentives), so countries with low minimum wages have lower social security payments.
- in countries with high minimum wages there is a stronger policy consensus in favour of reducing inequality generally.<sup>41</sup>

#### (4) The living standards on low paid families

Income poverty is only an indicative measure of family living standards, since families may have different expenditure needs (for example, for health care) and different assets at their disposal (for example, savings).

Nevertheless, with some exceptions, income poverty data provides a reasonable indicator of the risk of poverty.<sup>42</sup>

Unfortunately there is little statistical information available on the actual living standards of low paid households in Australia. This gap in the research will be filled to some extent when results are available from the living standards survey conducted this year by the Social Policy Research Centre (referred to above).

<sup>41</sup> UNICEF (2000), *Child poverty in rich countries*. Florence

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

Another recent 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 indicates 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.<sup>43</sup>

## **(5) ABS data on financial hardship**

Another useful source of data on the living standards of Australian households is derived from the Australian Bureau of Statistics' 'financial stress' indicators. These are used by the ABS in its income and expenditure surveys, and are also included in the Melbourne Institute's HILDA longitudinal survey.

These data have been little used for the purpose of assessing the living standards of low paid households. As might be expected, they indicate that lower incomes generally, and low pay specifically, are associated with higher levels of financial stress: for example not being able to raise \$2,000 in an emergency, not being able to heat ones' home, and not being able to pay bills on time.<sup>44</sup>

## **(6) Housing costs**

Another potentially useful source of data on the living standards of low paid households is housing costs, since housing is the largest 'fixed' component of most family budgets.

Estimates of the affordability of housing have been prepared using 'housing stress' indicators. These are the proportions of different kinds of households in the bottom 40% of the household income distribution who spend more than 30% of their disposable income on housing (rents or mortgages).

Recent research on housing stress found that 407,000 working households, or 10% of all working households, experienced housing stress in 2001. Over one quarter of these households included employees in the low paid occupations of sales assistants, drivers, carers, cleaners, administrative workers, or hospitality workers. A clear majority of these employees who were in housing stress had incomes below \$600 per week.<sup>45</sup>

---

<sup>43</sup> Masterman-Smith, May, & Pocock 2006, *Living Low Paid: Some Experiences of Australian Childcare Workers and Cleaners*.

<sup>44</sup> See Bray, *Hardship in Australia*, FACS Occasional Paper No4; ACTU 2002, *Living wage case submission, composite exhibit* contains results of an analysis of financial stress data by the ABS, commissioned by the ACTU.

<sup>45</sup> Yates et al 2006, *Housing affordability, occupation and location*. Australian Housing and Urban Research Institute.

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

- median rents for a recently-let single or three bedroom flat in Sydney in March 2006 were \$285 per week and \$300 respectively,
- median rents for a recently let single bedroom or three bedroom flat in Melbourne in late 2005 were \$190 and \$260 per week respectively.<sup>46</sup>

When these rents are compared with the Federal Minimum Wage of approximately \$440 per week 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 wage earning households without children.

---

<sup>46</sup> NSW Dept of Housing and Victorian Office of Housing 2006, *Rental Reports*.

## 5. Minimum wages and employment

Modest real (after inflation) increases in minimum wages are unlikely to reduce employment growth in the present economic conditions. Further, any effect of modest increases in minimum wages on structural unemployment in Australia is difficult to quantify and may be insignificant.<sup>47</sup>

Economic research into the effects of minimum wages on employment yields diverse and often conflicting results. The OECD concludes from a thorough evaluation of the international evidence that the effect of lower minimum wages on employment is ambiguous. Modest reductions in minimum wages may have no effect at all.<sup>48</sup>

In theory, there are two main ways in which higher minimum wages could affect employment and unemployment rates:

- by increasing or slowing the rate of job growth across the economy. For example, a rise in minimum wages could lower employment because interest rates are increased to curb inflation,
- by reducing the number of jobs available to low skilled employees specifically, because employers consider their productivity too low to justify employing them at the higher wage. This could increase unemployment (especially long term unemployment) because unemployed people are disproportionately low skilled.

To simplify, we refer below to these two effects as the effect of minimum wages on the 'macro-economy' and on 'structural unemployment'.

Adverse effects of higher minimum wages on employment may be offset by three factors:

- wage assimilation – where employers offset the cost of minimum wage rises by reducing other work benefits'
- turnover costs – where employers prefer to pay a higher wage to reduce the costs of the higher turnover induced by low pay'
- monopsony – where the labour market so strongly favours employers that wages are too low to encourage workers to seek employment.<sup>49</sup>

### The effect of higher minimum wages on the macro-economy

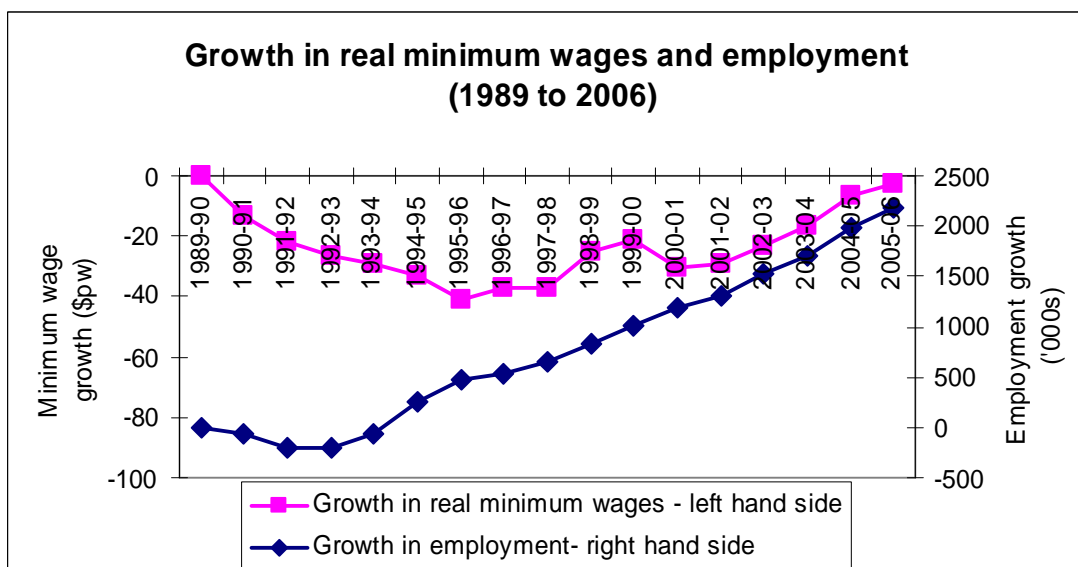
There is no evidence to suggest that the real increases in minimum wages awarded in recent years have had any adverse effect on the macro-economy, or on employment growth generally.

Following a sluggish recovery from the recession of the early 1990s, employment has grown strongly since the AIRC began to increase minimum wages in real terms (from about 1998, see graph below). From 1997 to 2005, real minimum wages rose by 8% (after having fallen over the previous decade), and employment rose by 18%. More broadly, over the period from 1990 to 2002, real wages overall grew by about 0.8% per year, after declining over the 1980s.

<sup>47</sup> OECD 2006, *Employment Outlook*; OECD 1998, *Employment Outlook*.

<sup>48</sup> See, for example, the discussion on minimum wages in OECD 2006 *Employment Outlook*, and the more substantial study in its 1998 *Employment Outlook*.

<sup>49</sup> Gregg P 2000, *The use of wage floors as policy tools*. OECD Economic Studies No 31.



Sources: Dawkins (2000) *The labour market*, in Reserve Bank, *The Australian economy in the 1990s*; Australian Industrial Relations Commission website for updates; ABS, *Labour Force data*.

It is likely that there is more scope now than in the past for the economy to grow *and* to deliver higher wages. The reasons for this include:

- lower inflation,
- higher productivity growth,
- decentralised wage bargaining – for example, minimum wages already ‘flow through’ to a declining proportion of the workforce.

Present economic conditions are favourable. The Federal Budget Papers estimate that the economy will grow by 3.25% this year (2006-07), employment will grow by 1% and inflation and unemployment will remain steady at 2.75% and 5.25%, respectively.

If economic conditions worsen, there may be a case for across the board restraint in wages to minimise the loss of jobs. Across the board wage restraint under the Accord helped raise the ‘speed limits to growth’ in the 1980s, after Australia had just experienced a wages boom and inflation was much higher.<sup>50</sup> Even if a similar wages boom occurs in the near future, which is unlikely, it would be unfair and also ineffective to rely exclusively on restraint in minimum wages to curb inflation. This would adversely effect the most financially vulnerable employees, and would have only limited impact on overall wage growth because only about 20% of employees are paid award rates, and this proportion is already diminishing.<sup>51</sup>

<sup>50</sup> Chapman et al 1991, *Analysing the impact of consensual incomes policy on aggregate wage outcomes*. Centre for Applied Economic Research Discussion Paper 253, ANU.

<sup>51</sup> Australian Industrial Relations Commission, *Safety Net Adjustment Decision 2005*. Note that this includes employees paid under awards whose pay is significantly higher than the federal minimum wage.

## Effect of minimum wages on structural unemployment

At around 5%, the official unemployment rate is relatively low in Australia, and not much different to the US which has much lower minimum wages.

However, the level of involuntary joblessness is much higher than the unemployment rate as measured by the ABS, because many people have either given up searching for work or have only been able to secure 'short' part time hours. ACOSS estimated recently that when these two categories of 'hidden unemployment' are added to 'official' unemployment rate, it roughly doubles.<sup>52</sup> Around 30% of Australians of workforce age are not employed (though not all are seeking work) and around 18% rely on income support.

At a time when conditions of 'full employment' have been achieved in some parts of Australia – especially in the wealthier suburbs of capital cities and in regions dominated by the mining industry - it is likely that a large proportion of Australian unemployment is 'structural'. That is, it will not be reduced much further simply by growing the economy. Major changes to policies and institutions are needed to reduce it further.

One theory that is advanced to explain structural unemployment is that most jobless people are not as productive (or not perceived to be by employers) as those who have jobs. For example, they may have low skills and education levels. According to this theory, to assist them to get jobs, either their (perceived) productivity must be improved, or minimum wages must be reduced to a level at which employers will be prepared to take them on.<sup>53</sup>

This view is consistent with one explanation of growth in earnings inequality: that demand for low skilled employees has declined in wealthy countries due to technological change.<sup>54</sup>

### 1. Changes in the structure of employment

However, as discussed above, the reality of labour market restructuring over the longer term in Australia is more complex. Employment growth has not been 'biased' exclusively to high skilled jobs. Although researchers differ on this issue, the most likely explanation of employment trends over the past 20 years is that *full time* jobs growth has been biased towards the higher skilled but *part time* jobs growth has been concentrated in low skilled occupations especially in service industries (see table below).

---

<sup>52</sup> ACOSS 2004, *Hidden unemployment in Australia*.

<sup>53</sup> Frijters & Gregory 2005, *From golden age to golden age - Australia's great leap forward?*

<sup>54</sup> See section dealing with earnings inequality, above.

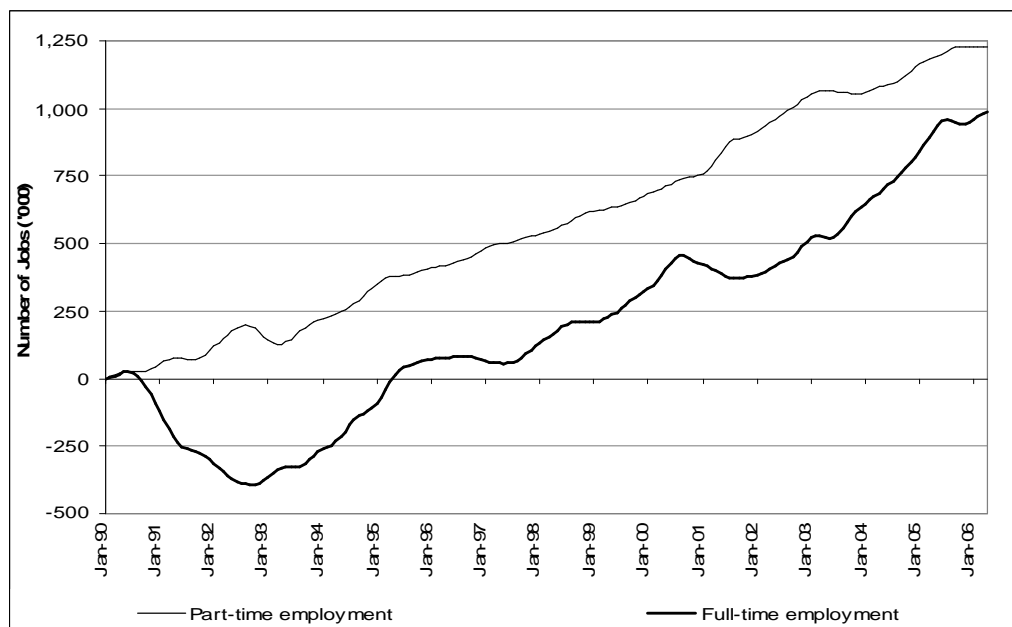
### Change in employment by skill level and job status (1990-2000)

Skill level	Full time permanent	Full-time casual	Part-time permanent	Part-time casual	Total
Managers and professionals	387,000	135,000	115,000	20,000	657,000
Trades, advanced sales and service	-238,000	59,000	25,000	27,000	-127,000
Lower-skilled workers	-200,000	138,000	215,000	446,000	600,000
<b>Total</b>	<b>-51,000</b>	<b>333,000</b>	<b>356,000</b>	<b>493,000</b>	<b>1,130,000</b>

Source: Borland, Gregory & Sheehan, 2001, *Inequality and economic change*, in Borland et al, *Work rich, work poor*, Victoria University.

In this regard, the Australia labour market has the characteristics of a 'dual labour market', in which higher skilled employees have access to full time jobs, while lower skilled employees are 'quarantined' in lower paid part time jobs. As the graph below shows, these two forms of employment have grown at markedly different rates over the long term. In contrast to full time jobs, part time jobs continued to grow when the economy slowed.<sup>55</sup>

### Full and Part-time Employment growth, 1990-2006



Source: FaCS 2002, *Submission to Senate inquiry into poverty and financial hardship*, updated to 2006 using ABS Labour Force data.

Australia is exceptional in its incidence of part time and casual employment: 28% of employees are employed part time and a similar proportion are casuals. Compared with other OECD countries, Australia's incidence of part time employment is second

<sup>55</sup> Since about 2001, growth in full time employment has exceeded that in part time jobs. This appears to include strong growth in full time low skilled jobs, especially in construction. However, this pattern is likely to reflect the 'peak' of economic boom conditions, and may not be sustained over the medium term.

only to the Netherlands and its incidence of casual work is second only to Spain. There is a high incidence of low pay in both part time and casual employment.

Aside from differences in the supply of part time and full time workers (the greater reliance of mothers and students on part time jobs), one possible explanation for this 'two track' labour market is that employers have been prepared to engage lower skilled workers on a part time or casual basis because these jobs are perceived to be more 'productive'. For example, many part time and casual employees (such as shop assistants and bank tellers) are brought in to work only during times of peak activity.<sup>56</sup>

If there has been a general bias in favour of skilled employment in Australia, this has been tempered by strong growth in low skilled part time employment. That is, the bias lies in the distribution of *working hours* rather than the distribution of jobs.<sup>57</sup>

Evidence on the quality and desirability of part time jobs is mixed. For those who would prefer to work fulltime, part time jobs have many disadvantages, especially lower weekly incomes and career prospects. Income poverty rates among households with a part time employee only are much higher than for households with at least one full time worker (see section dealing with poverty, above). Casual employment is less secure, and there is evidence to suggest that an increasing number of low skilled workers cycle between casual jobs and unemployment (see section below on the dynamics of low paid employment).

On the other hand, many part time employees prefer to work part time due to other commitments, such as caring or study. Growth in low paid part time jobs may also have provided a 'buffer' against unemployment for many low skilled employees, notwithstanding Australia's relatively high minimum wages.

## 2. Estimates of the effect of reductions in minimum wages

Given the ambiguous outcomes of economic research in this area, and the 'segmentation' of the labour market described above, ACOSS is sceptical of estimates of the effect of minimum wages on employment that rely on a single figure – such as the overall elasticity of demand for labour to aggregate wages.

In any event, the research suggests that modest changes in minimum wages generally have little or no impact on unemployment.<sup>58</sup> In Australia's case, it is possible that the very large increase in wages for low skilled jobs (accompanied by a large rise in wages across the board) in Australia in the mid 1970s and early 1980s contributed to the high level of structural unemployment in those two decades. On the other hand, much of this increase in 'low pay' was wound back during the Accord period in the 1980s and early 1990s when real wages declined substantially, but there is no evidence to suggest that structural unemployment fell commensurately.

International comparisons tell a similar story. Even if minimum wages were the only cause of Australia's higher level of joblessness compared to the US (which is

---

<sup>56</sup> Most part time jobs are casual, and vice versa, so that employers have the flexibility of 'daily hire' in addition to the flexibility of working people for only part of the week. On the other hand, many casual jobs are actually long term jobs, albeit without job security. See Watson et al 2003, *Fragmented Futures*, Federation Press; Wooden & Warren 2005, *The characteristics of casual and fixed term employment*, Melbourne Institute Working Paper 15/03. For an empirical analysis of labour market segmentation in Australia, see Song & Webster 2003, *How segmented are skilled and unskilled labour markets?* Australian Economic Papers 42:3.

<sup>57</sup> Keating 2002, Watson et al 2005.

<sup>58</sup> Gregg 2000, op cit.

unlikely), a simple comparison suggests that large reductions in minimum wages would be required to reduce structural unemployment to the level prevailing there.<sup>59</sup>

Although the effect of minimum wages on employment is ambiguous, the effect on the incomes of minimum wage earners is immediate and finite. In our view, it would not be worth putting the living standards of low paid households at risk – by cutting real minimum wages – in return for uncertain gains in employment.

If minimum wages were reduced substantially – for example, to US levels - it is conceivable that over the long term, the composition of growth in low skilled employment in Australia would shift from part time to full time jobs. The reasons for this are that employers could ‘afford’ to engage low skilled workers on a full time basis, whereas employees could no longer afford to work part time only.<sup>60</sup>

However, it is doubtful that low skilled workers would be better off. For example, at US minimum wage rates, they would have to work full time to attain the same living standard they now achieve working three days a week.<sup>61</sup>

### **3. Barriers to employment for jobless people**

Regardless of how responsive the demand for labour is to minimum wages, real reductions in minimum wages are unlikely to lead to a substantial reduction in unemployment and reliance on income support. The main reason for this is that a substantial proportion of income support recipients of workforce age are some distance away from being ready to take on employment at the levels of productivity now expected by employers. So lowering the ‘productivity bar’ a little will not help them to jump from joblessness into employment.

Income support recipients of workforce age generally receive one of three payments. In 2005, there were approximately 500,000 Newstart and Youth Allowance recipients (other than full time students), 600,000 Parenting Payment recipients (mostly single parents), and 700,000 Disability Support Pension recipients, most of whom were jobless.<sup>62</sup>

The main factors preventing most from securing employment are their low skills and personal and social barriers to employment. Those who remain unemployed after many years of strong growth in the economy are generally drawn from the most disadvantaged sectors of the community.

---

<sup>59</sup> Gregory 1993, *Aspects of Australian and US living standards*, Economic Record Vol 69; Frijters & Gregory 2005, *From golden age to golden age – Australia’s great leap forward?* Conference Paper, ANU Centre for Economic Policy Research.

<sup>60</sup> These may be the main reasons that the level of part time employment is much lower in the US than in Australia.

<sup>61</sup> ACOSS calculations based on OECD purchasing parities for 2005.

<sup>62</sup> See ACOSS 2005, *Welfare reform, participation or punishment?* Around 40% of Parenting Payment recipients, 20% of NSA/YA recipients, and 10% of DSP recipients had jobs, mainly part time.

For example:

- Around 60% of jobless Parenting Payment recipients and people with disabilities have a year 10 education or less.
- About half of jobless Parenting Payment recipients suffer from anxiety or depression and around 20% were recent victims of violence.
- Many Newstart and Youth Allowance recipients also have mental health problems or addictions.
- Many income support recipients cannot afford to rent in 'jobs-rich' cities. For example, during 2000, around 18% of Parenting Payment recipients and 10% of DSP recipients moved out of Brisbane, mainly to surrounding regional areas.<sup>63</sup>
- Many income support recipients are not proficient in English, and this adversely affects their job prospects.
- In June 2005, 43% of Newstart Allowance and Youth Allowance recipients were on these payments continuously for over 2 years, the average duration of receipt of Parenting Payments and Disability Support Pensions is much longer.<sup>64</sup>

The major barrier to employment for most people with disabilities is not their actual productivity, but employer perceptions of a high 'risk' associated with employing people with disabilities, especially those with mental health problems.

An indication of the difficulty of getting employers to engage long term unemployed Australians can be gleaned from the experience with the 'Job Compact' in the mid 1990s. The Job Compact guaranteed that all long term unemployed Newstart Allowance recipients 6 months' employment in a subsidised job. The original plan was to offer 70% of long term unemployed people a 50% wage subsidy under the private sector JOBSTART scheme, leaving the 100% wage subsidies paid under the public sector-based New Work Opportunities (NWO) and Jobskills programs to a minority of job seekers considered 'hardest to place'. However, in 1995-96, only one third of Job Compact places were subsidised through JOBSTART. The majority were the more expensive NWO or Jobskills places. The main reason for this was employer reluctance to take on long term unemployed people, even with a 50% wage subsidy.<sup>65</sup>

---

<sup>63</sup> See ACOSS 2005, *Welfare reform, participation or punishment?* and Marshall et al 2003, *Welfare outcomes of migration of low income earners from metropolitan to non metropolitan Australia*, AHURI, February 2003

<sup>64</sup> Response from DEWR to Senate Estimates questions, November 2005.

<sup>65</sup> DEETYA 1997, *Evaluation of the Working Nation strategy – employment elements*; DEET, Annual Reports. Minister for Employment Education training and Youth Affairs 1996, *Reforming Employment Assistance*.

The Government's *Welfare to Work* policy, which is being implemented from July 2006, requires two major groups of future income support recipients – parents whose youngest child is 6 years or over and people with disabilities able to work part time - to seek at least part time employment. The number of people potentially subject to these requirements is as follows:

- around 20,000 additional parents per year on Newstart Allowance, plus from July 2007 another 180,000 jobless parents who continue to receive Parenting Payment,
- around 20,000 additional people with disabilities per year on Newstart Allowance, plus an additional 20,000 who are transferred from DSP to Newstart Allowance.

Data on employment outcomes from the highest level of assistance available to job seekers in the Job Network ('Customised Assistance') suggest that they will find it difficult to obtain full time employment (see table below). These figures greatly overstate the likely employment impacts of the *Welfare to Work* changes, since most of the single parents and people with disabilities in the Job Network at the time the data were collected were voluntary participants. It should also be noted that these employment outcomes include short term casual jobs that may not be sustained over time.

### Employment outcomes from Job Network Customised Assistance (2004)

Job outcomes 3 months after assistance	People with disability on Newstart Allowance	Single parents	Very long term unemployed (24-36 months)	Mature age (50 or more)
Full time job	12%	11%	15%	14%
Part time job	25%	39%	28%	28%

Source: DEWR 2005, *Labour market assistance outcomes*.

The evidence of entrenched labour market disadvantage among income support recipients suggests that lowering real minimum wages is unlikely to greatly improve their job prospects. More investment in programs that improve their skills, work capacity, health and personal circumstances is likely to produce better outcomes. Better education of employers about the actual capabilities of groups they are currently reluctant to employ - especially people with disabilities, mature age workers and indigenous people - could also make a difference, especially as growth in the supply of labour falls in the coming years due to population ageing. Attempts to reduce minimum wages specifically for those groups experiencing discrimination could backfire, by reinforcing employers' impressions that their work capacity and productivity are low.

### Low paid jobs as stepping stones to better paid jobs

Employees and unemployed people have been characterised as the 'insiders' and 'outsiders' of the labour market, respectively. According to this view, increases in wages may benefit those with jobs (the 'insiders') but disadvantage those out of work (the 'outsiders').

This view of the labour market is too simplistic. In reality, many people cycle between joblessness and employment – especially low paid employment - within a given year. People also move from low paid employment to higher paid jobs, and vice versa.

Therefore, when considering the well being and living standards of low paid employees, their *job mobility* should be taken into account. If employees are ‘stuck’ in low paid jobs for many years, this will have a greater adverse effect on their well being than one short bout of low paid employment. Evidence as to whether low paid jobs are ‘stepping stones’ from unemployment to higher paid or more secure employment should also be considered.

The evidence on the job mobility of low paid employees is mixed. Jobless people are more likely to be able to secure low paid jobs – especially casual jobs – than they are to move straight into higher paid, more secure jobs. There is also some evidence to suggest that these low paid or casual jobs can lead to better paid, or more secure employment, including for people who were previously jobless. But many return to joblessness, and many others remain in low paid work over the long term - especially if they were previously unemployed or have major work barriers such as a disability.

The tables below are from research examining transitions over a number of years from low paid employment (first table) and transitions from casual employment (second table). Most casual jobs are also low paid.

They indicate that people who were formerly jobless who obtain a low paid or casual job have about an equal chance of moving up in the next year to a higher paying or permanent job, or falling back into joblessness. Their chances of moving up are much lower than those of low paid or casual employees who were not recently unemployed, suggesting that unemployment has a ‘scarring effect’ that endures for at least a few years after they get a job. A substantial minority remain in low paid or casual employment from year to year.

**Changes in the labour market status of low-paid and formerly jobless workers (1995-1997)**

Labour market status in 1995	Labour market status in 1997			
	Higher paid job	Low paid job	Jobless	All
Low paid workers	50%	33%	16%	100%
Low paid former job-seekers	36%	32%	32%	100%

Source, Dunlop Y, 2001, *Low paid employment in the Australian labour market*, in Borland et al, 2001, *Work rich, work poor*. Victoria University.

<sup>66</sup> Productivity Commission 2006, *The role of non traditional work in the Australian labour market*; Dunlop 2001, *Low paid employment in the Australia labour market* in Borland et al, *Work Rich Work Poor*, Victoria University; Kalb 20 ,*Are part time jobs a stepping stone to full time employment?*

## Changes in the labour market status of casual and formerly jobless workers (2001-2003)

Labour market status in 2001	Labour market status in 2003			
	Ongoing employees	Casual employees	Jobless	All
All casual employees <sup>67</sup>	38%	46%	12%	96%
Casual employees in 2002 who were unemployed in 2001 <sup>68</sup>	27%	47%	27%	100%

Source, Productivity Commission 2006, *The role of non traditional work in the Australian labour market*

It is sometimes argued that in countries with low minimum wages such as the US, low skilled employees are partly compensated for their low pay by a relatively high level of upward mobility to higher paid employment. The evidence suggests otherwise.

For example, in the US and UK, which have a relatively high incidence of low paid jobs, fewer people progress from these jobs to higher paying jobs than in countries such as Australia Denmark and the Netherlands, where low pay is less widespread (see table below). This suggests that, all things being equal, major reductions in minimum wages could *diminish* low skilled employees' prospects of moving up from low paid to higher paid jobs. For example, the evidence points to a *lowering* of upward mobility for low paid employees in the US and UK over the 1980s and 1990s, a period over which minimum wages fell in real terms. This could be due to a 'bottleneck effect', where a larger proportion of low paid employees has to compete for a smaller proportion of middle level jobs.<sup>69</sup>

## Earnings mobility of employees over a five year period (1990s)

	Australia	Denmark	Netherlands	USA	UK
Movement from low paid to higher paid jobs after 5 years	41%*	54%	45%	38%	23%
Incidence of low paid jobs (% of fulltime jobs)	14%	6%	15%	25%	19%

Sources: OECD 2003 *Employment Outlook*, Carino-Abello 2001, *Dynamics of earned income in Australia*, ABS; Keese, M and A. Pumoyen (forthcoming), *Changes in earnings structure*, OECD Occasional Papers.

\* Note that data for Australia are from a separate study conducted over a 3 year period from 1994 to 1997 rather than 5 years. Upward mobility could be higher for Australia over a 5 year period.

<sup>67</sup> Data in this row do not add up to 100% because 4% become self employed.

<sup>68</sup> Data in this row are one year transitions from casual employment between 2002 and 2003, following joblessness in 2001. Few or none become self employed.

<sup>69</sup> Richardson 2004, *Low wage jobs and pathways to better outcomes*, NILS. Stewart 2002, *The inter-related dynamics of unemployment and low pay*. EALE/SOLE World Congress, Milan; Buchinsky & Hunt 1999, *Wage mobility in the United States*. Review of Economics and Statistics, 81:3; Dickens 2000, *Wage mobility in Great Britain - 1975-1994*, *Economica* 67, 477-497.

## 6. Minimum wages, income support and work incentives

The living standards of low income households rest on three foundations: 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. Countries are likely to be most effective in reducing poverty where their income policies are constructed on all three foundations, and acknowledge the relationships between them. For example:

- Jobs may be affected by excessive wage increases.
- On the other hand, if wages are too low, too much reliance may be placed on income support to prevent poverty. This may not be fiscally or politically sustainable.
- There is a tension between providing adequate income support for jobless people to reduce poverty, and maintaining work incentives.
- If minimum wages are too low, this tension can only be resolved by reducing income support for jobless people or by recourse to potentially expensive 'in work' payments (such as tax credits).
- Minimum wages also directly affect work incentives, especially those of mothers. This can adversely effect employment levels and increase reliance on income support.

Arguments that minimum wages are a 'blunt instrument' to reduce poverty, and that we should therefore rely exclusively on the income support system to perform this role, ignore these dynamic relationships between jobs, minimum wages, and income support.

Some argue that if minimum wages were substantially reduced – by cutting nominal wage rates or by increasing them at less than the inflation rate for a number of years – the income support system could 'pick up the slack'. In theory, this could be achieved by boosting existing income support payments such as family payments or by introducing separate 'in work' payments such as tax credits. In practice, the scope for Governments to do so is limited by the cost of these payments, and the extent to which the public accepts the use of their taxes to support low paid employment.

One risk for low paid employees is that Governments may decide not to supplement lower minimum wages, or may do so now and withdraw the extra support if future when the Federal Budget is tighter. There is also a risk for jobless people that income support payments may be reduced to preserve work incentives.

These dynamic relationships between jobs, wages and income support help explain why countries with very low minimum wages generally have higher overall income poverty levels. The United States, for example, has high poverty levels despite its low levels of unemployment. The main reasons are very low minimum wages and a lean income support system. Low minimum wages and inadequate income support for jobless people are arguably related.

## The current income support system for low paid households

The Australian income support system has three main components:

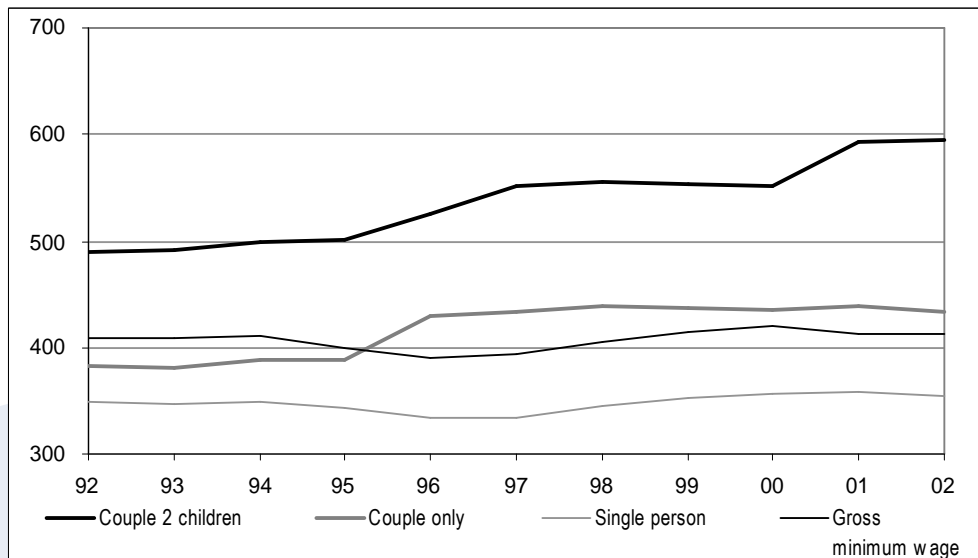
- income support payments for adults in low income households,
- Family Tax Benefits for children, targeted mainly towards low income families,
- supplementary benefits such as Rent Assistance payments and pensioner concession cards.

Of these, only *Family Tax Benefits* have traditionally been designed to supplement low full time wages. These payments were substantially increased in the mid 1990s, in the 2000 tax reform package, and in subsequent Federal Budgets. Although *income support payments* and supplements for adults do extend to low wage earning households under some circumstances (mainly part time employees), they were not designed with this aim in mind, and few full time employees receive them. However, Newstart Allowance and Parenting Payment have been paid to the unemployed *partners* of low paid full time employees since 1996.

The graph below illustrates the main ways in which the social security system supplements low pay. It shows that:

- Low paid full time single employees without children receive no assistance. Their disposable income is lower than their wage due to income tax.
- Couples without children on a low full time wage have received some support since 1996, due to the payment of income support to the partner of a low paid wage earner.
- Couples with children on a low full time wage receive this together with Family Tax Benefit, which has increased on a number of occasions since the mid 1990s.

### Effects of the social security system on the disposable income of minimum wage earners



Source: FaCS 2002, *Submission to Senate inquiry into poverty and financial hardship*,

## **(1) Single adults without children**

In Australia, there is no income support payment to top up low wages generally, including for single adults without children.

The main unemployment benefit, Newstart Allowance (NSA), is income tested in a way that *deliberately* excludes minimum wage earners. This payment cuts out completely at earnings of about \$18,000. Above that income level, there are no supplementary payments (e.g. Rent Assistance for low income private tenants) or fringe benefits (e.g. low income health care cards) available.

There are two circumstances in which a single adult without children can receive income support payments and supplementary benefits.

First, if they receive Pension payments, such as Parenting Payment Single and the Disability Support Pension, they may keep a part pension if earn up to about \$35,000, because the income test is less stringent. The reason for this is that these recipients are generally only expected to work part time (if at all), so the income test is designed to encourage part time work, not to exclude full time workers. Few recipients of these payments are employed full time.

Second, many single income support recipients (including those on Newstart Allowance) work part time, and retain 'part-payments' under the income test. However, the income test for Newstart Allowance is severe (clawing back 60 cents per dollar earned over a wide range of part time earnings). This is consistent with its traditional objective – to encourage people to move to full time jobs and off income support rather than living on a combination of part time earnings and income support.

## **(2) Couples and Families**

For low paid *couples and families*, the situation is different.

In the case of *couples without children*, Newstart and Parenting Allowances are paid to the *partners* of low paid full time employees. This is consistent with the view that married women should be supported to achieve a degree of financial independence. However, if the main wage earner in a couple earns significantly above minimum wages (above about \$30,000) then their partner is no longer entitled to these income support payments. Couples on pension payments can continue to receive a part-payment up to a combined income of about \$60,000, but it is rare for pensioner couples to earn this much.

In the case of low income *families with children*, family allowances (now called Family Tax Benefit) have for many years explicitly supplemented low pay. The objective was to reduce child poverty and maintain work incentives, since it is difficult for the wage system to take account of the size of each employee's family.

Almost all low income families with children with family incomes below \$40,000 receive a higher rate of Family Tax Benefit to assist them with the costs of their children.

Family Tax Benefits for low income families have substantially increased in recent years, and this has helped many low income families avoid poverty. A recent study by NATSEM of the bottom 20% of families with children, commissioned by ACOSS,

Anglicare Australia, Brotherhood of St Laurence, Family Services Australia, the Welfare Rights Centre, and Australian Education Union found that:

- 28% of families in the bottom 20% earn a full or part time wage<sup>70</sup> - for two thirds of these low paid families, wages are the main source of income
- From 1997 to 2004, real wages and family payments for low income families have both risen.
  - The average level of wages paid to the bottom 20% of families rose by about 8% in real terms.<sup>71</sup>
  - The average level of income support (mainly Family Tax Benefits) paid to the bottom 20% of families rose by about 20%.<sup>72</sup>
- As a result, the income of a married couple family with two school age children on the minimum wage rose by about 12% in real terms over the same period.<sup>73</sup>

### The limits of income support

Notwithstanding the recent income gains for low paid families described above, the role of the income support system in sustaining living standards is limited by its cost, and Government concerns about 'welfare dependency'.

For example, the increases in *family payments* noted above have come at considerable cost to the federal budget. From 1997 to 2004:

- Spending on family payments doubled, from \$6.6 billion to \$13 billion per year:
- As a percentage of Federal Government spending, it rose from 4.9% to 6.7%
- As a percentage of GDP, it rose from 1.3% to 1.5%.<sup>74</sup>

Further, the cost of increasing Family Tax Benefits has risen in recent years, as the income test for this payment has been eased to encourage mothers to take up jobs. Around half of all families now receive the higher rate of FTB Part A that was previously reserved for low income families. As a result of the easing of this income test in the past two years, the cost of a \$1 per week rise in the maximum rate of payment has risen by 50%. For this reason, it is unlikely that Family Tax Benefits could be used to 'pick up the slack' for low paid families, in the event that minimum wages fall in real terms.

An *earned income tax credit* or some other form of 'in work payment' is another option. These payments are restricted to low income households with jobs. However, the tax credit proposed by some of the 'five economists' to preserve family living standards in the event of a fall in minimum wages would cost over \$5 billion per year if introduced today.<sup>75</sup>

<sup>70</sup> McNamara et al (2004), *How low income families have fared in the boom times*. NATSEM.

<sup>71</sup> This could be due to families in the bottom 20% working more hours, as well as minimum wage rises.

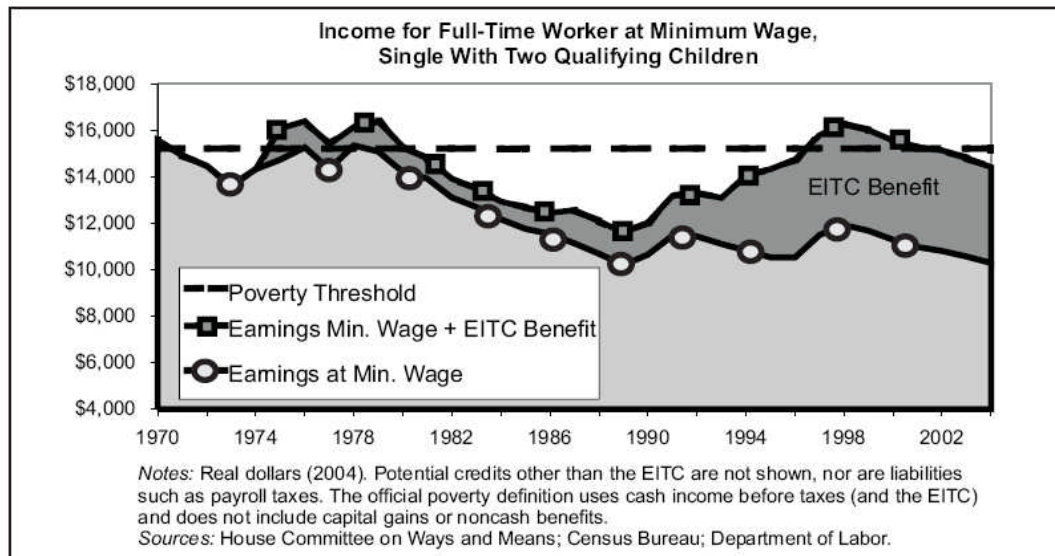
<sup>72</sup> Note that part of these family payment increases were to compensate for the GST, so they did not all translate into higher living standards.

<sup>73</sup> From \$641 to \$700.

<sup>74</sup> Budget Papers 2004-05; FACS 2001, *Income support statistics* 1989 to 1999.

<sup>75</sup> Buddelmeyer et al 2004, *Policy options to encourage welfare to work*, Melbourne Institute Working Paper 9/06. Note that the proposed EITC would cost much more than indicated in this paper, because its family income test is integrated with that for FTB, and that income test has since been substantially eased.

Another problem with general public subsidies for low pay such as earned income tax credits is that much of the subsidy would be captured by employers, especially if minimum wages fall in real terms. This has been the outcome in recent years in the US. As real minimum wages have fallen through lack of indexation, the cost of the Earned Income Tax Credit has risen (see graph below). The US currently spends around \$40 billion per year on the Earned Income Tax Credit, which is more than it spends on traditional social assistance programs such as the Temporary Assistance for Needy Families program for jobless and low paid families. Despite this, minimum wages and the tax credit combined are now insufficient to protect a single parent family with two children from income poverty.



Source: Kravitz T 2005, *Minimum wage, earned income tax credit, and inflation*, Urban Institute Brookings Institution Tax Policy Centre.

A further concern about expanding income-tested payments such as these to support low paid households is that they reduce work incentives in the income ranges over which the payment is phased out (see section below on work incentives). These income tests usually have the greatest impact on incentives for 'second earners' within families, 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.<sup>76</sup>

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

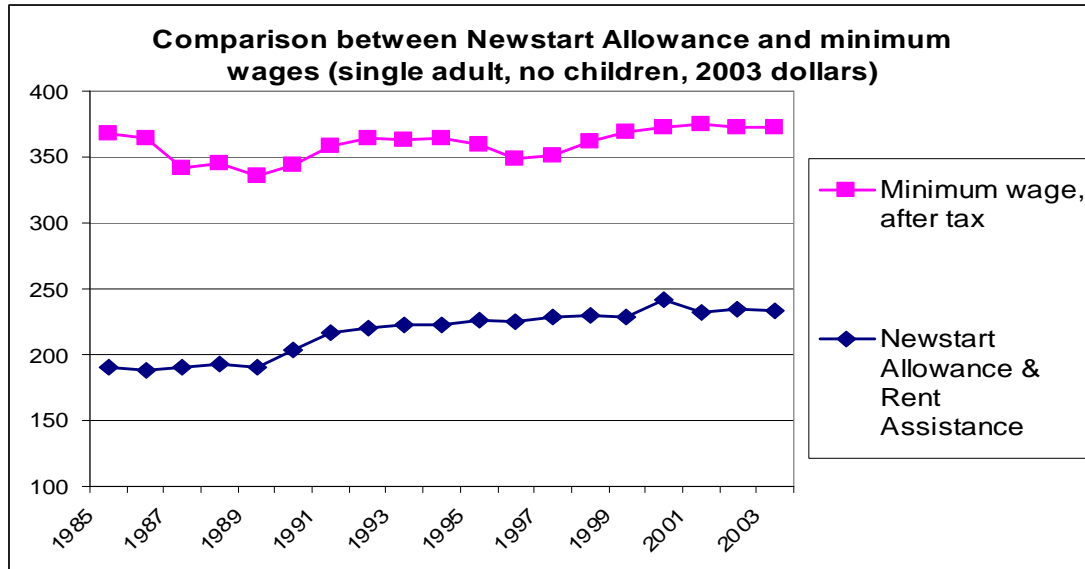
### Effects of lower real minimum wages on income support payments

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

For example, a single jobless adult who obtains a full time job at the minimum wage would almost double their disposable income. The relationship between minimum wages and unemployment benefits for single adults has been remarkably stable over the past 20 years. As the graph below indicates, disposable income from Newstart Allowance for jobless adults has increased slightly relative to minimum wages over

<sup>76</sup> Gregg 2000, op cit.

this period. The main reasons for this were increases in Rent Assistance for social security recipients renting privately (which does not extend to low paid full time employees), and a lack of real growth in minimum wages over the longer term. Newstart Allowances were indexed to the Consumer Price Index throughout this period.



Source: Oliver 2003, *Taxes, benefits and families in Australia, an historic perspective*. Paper delivered at National Economists Conference.

The gap between income support and minimum wages is smaller for couples with children. An unemployed couple with children that obtains a single full time job on the minimum wage would generally be about 50% better off.

The gap between income support for jobless people and low pay could, therefore, narrow to some extent without a major adverse impact on work incentives.

However, if minimum wages fall consistently in real terms – for example if they are not at least increased in line with inflation – the gap will narrow over time because income support payments are indexed to at least the CPI.<sup>77</sup> A point would be reached where Governments would adjust the income support system to preserve work incentives, by either:

- introducing or expanding 'in work payments', such as Family Tax Benefit or an Earned Income Tax Credit; and/or
- reducing income support payments for jobless people.

If Governments were under fiscal pressure at the time, the second option is more likely. This was pursued by the previous New Zealand Government during a recession in 1991. Wage fixation was deregulated with the introduction of the *Employment Contracts Act*. In the same session of Parliament, legislation was passed to substantially reduce social security payments for unemployed people. The link between lower minimum wages and lower social security payments was explicitly made by the Minister for Social Welfare at the time.<sup>78</sup>

<sup>77</sup> Pensions are indexed to movements in average earnings, but as indicated above a full time low paid employee may receive a part pension, so this blunts any adverse effects on work incentives.

<sup>78</sup> Stephens R 1994, *Budgeting with the benefit cuts*, in Dalziel P: *The decent society* Wellington 1994.

It is likely that Governments would *pre-empt* any major reduction in work incentives, rather than wait until significant numbers of income support recipients are better off jobless than employed on the minimum wage.

A more direct link exists between minimum wages and *pension* rates (including age pensions, disability support pensions, and parenting payment single). The single pension rate is benchmarked, in the Social Security legislation, to 25% of male total average weekly earnings. Minimum wages affect the level of average wages, though probably in a minor way. Average wages, in turn, affect pension levels.

## Income tests and work incentives for low paid employees

The Australian social security system generally targets income support to families on low incomes, using income tests. One problem with these income tests is that they reduce work incentives.

This has two implications for minimum wages:

- If they are too low, the combined effect of low pay and income tests could discourage jobless people from working.
- If they are increased, part of the increase could be 'clawed back' by the income tests, reducing families' social security entitlements.

There are three types of social security income tests (see table below):

- those for Allowances such as Newstart Allowance (unemployment benefits):
  - these are designed to exclude low paid full time employees from payment so they are very stringent,
- those for Pensions such as Parenting Payment Single:
  - these are designed to encourage recipients to work part time, so they are less severe than the 'Allowance' income test,
- those for Family Tax Benefit:
  - these are designed to support low paid families as well as jobless families, so they generally don't take effect until a family earns well above a single minimum fulltime wage (but they do affect 'second earners' in low and middle income families).

**Major social security income tests, July 2006**

	<b>Newstart Allowance (single) (\$pw or %)</b>	<b>Pensions (single) (\$pw or %)</b>	<b>Family Tax Benefit (2 chn. under 13) (\$pw or %)</b>
Free area	\$31	\$64	\$770
First taper rate	50%	40%	20%
2 <sup>nd</sup> threshold	\$125	n.a.	\$1,250*
Second taper rate	60%	n.a.	30%
Cut out point	\$390	\$695	\$2,000

Source: Centrelink, *Guide to Australian Government payments*

\* beyond this level, only a small payment is available.

When the effect of these income tests is combined with income tax and other income tested programs (such as Child Care Benefit and public housing rental subsidies), they give rise to high 'effective marginal tax rates' (EMTRs) that may discourage employment at low hourly wages.

For example, in 2005, the effective marginal tax rates on the next dollar of earnings were:

- 73% for a single adult on Newstart Allowance earning \$200pw
- 57% for a single parent on Parenting Payment Single earning \$200pw
- 45% for a second earner in a low income family with two children in child care, earning \$800pw.<sup>79</sup>

When other costs are added in (such as transport to work, child care, and any reduction in subsidised public rents), these high effective marginal tax rates mean that some people have little financial incentive to take up employment.

As noted above, financial incentives for single adults to move into a full time job at the minimum wage are reasonably strong, though they are weaker for married jobless people.

The worst work disincentives in our social security system are those affecting:

- jobless people on Allowance payments working part time
- second earners (usually mothers) in low and middle income families working part time.

This is of concern, given that 28% of Australian jobs are part time.

Under these circumstances, adequate hourly minimum wages are likely to play an important role in strengthening incentives for these people to work part time. This will be crucial in the coming years, as the supply of labour dwindles due to population ageing. Increasing the labour force participation of mothers and income support recipients generally will become a core objective of public policy. Criticism of Australian minimum wages on the grounds that they are not well targeted to reduce poverty (see section on living standards above) ignores their potential contribution to economic growth and efficiency through the mobilisation of additional labour, for example from 'second earners' in middle income households.

High effective marginal tax rates can also erode the value of increases in minimum wages. For example, as noted above, a single parent on Parenting Payment who earns \$200 per week faces the 'loss' of almost 60% of her next dollar of earnings due to taxes and social security income tests.

The effect of minimum wages and high effective marginal tax rates on work incentives is qualified by the following factors:

- The evidence suggests that these financial work disincentives are strongest at the point when a jobless person decides whether or not to take a job, but that they have much less impact on decisions to increase working hours.
- Other factors, such as a desire to start a career or the social benefits and status of paid employment, often override financial disincentives.

---

<sup>79</sup> NATSEM 2005, *Distributional impact of welfare to work reforms*, and ACOSS calculations.

In addition, the effect of high effective marginal tax rates on work incentives is qualified by the fact that only a minority of employees face them:

- For example, NATSEM estimates that 79% of part time employees and 61% of full time employees face EMTRs below 40% on their next dollar of earnings. This is because only a minority qualify for income support *and* have individual or family incomes within the range over which the above income tests operate.

## 7. 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 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.

### Young people

Young people are generally paid less than adult minimum wages. Although they fare relatively poorly in the recessions because employers often close their books to new hires, unemployment among young people has declined along with that among other age groups over the past two decades.

Nevertheless, many young people still have problems with the transition from school to work. Of all teenagers aged 15 to 19 years in May 2005, 15% were economically 'inactive' (neither working nor studying) along with 24% of young adults aged 20 to 24 years. The main structural barriers to employment for these young people appear to be:

- poor performance at school, often linked to social disadvantage;
- the lack of comprehensive school to work programs that link 'inactive' young people who fared poorly at school with mentoring, career planning, job search, and training assistance;
- the long term decline in traditional apprenticeships, which previously provided a pathway for many young men to secure employment;
- cultural norms and family responsibilities that delay the entry of many young women to further education or the workforce.<sup>80</sup>

Although employment levels for young people are generally more sensitive to wage levels than for adults, there is no convincing evidence to show that the present minimum wage levels for young people have reduced their employment prospects relative to workers in other age groups.

### 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.

<sup>80</sup> Dusseldorp Skills Forum 2005, *How young people are faring*.

However, there are problems with the apprenticeship system. 'Traditional' apprenticeships have declined over the long term, at a greater rate than the decline in employment in the manual trades. Almost half of those who commence traditional apprenticeships do not complete them. The result is severe shortages of tradespeople, and the attendant risk of wage inflation in conditions of sustained economic growth such as the present time.<sup>81</sup>

The reasons for this decline in traditional apprenticeships appear to include:

- a clash between the expectations of 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 compounded by a 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 the present circumstances an increase in their wages may be part of the solution to these problems.

Compared to young people, adult apprentices are paid much closer to standard wage rates for their classification. There is no evidence to suggest that this has discouraged employers from taking them on. Of 400,000 apprentices and trainees in December 2005, 41% were 25 years or over. This proportion has risen dramatically from just 15% in 1997. This may be due in part to the expansion of apprenticeships into the service sector of the economy.<sup>82</sup>

This evidence does not suggest that pay levels for adult apprentices discourage employers from recruiting 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 jobless people who are least likely to have the opportunity to participate in structured training if they were paid normal wages. Structured training can substantially improve the job prospects of people who have been unemployed long-term because it combines experience in employment with the upgrading of their skills. The former *Jobskills* program for long term unemployed people, for example, achieved good employment outcomes. Trainee wage rates for this program have been updated from time to time by the Australian Industrial Relations Commission, although it has no practical relevance today because the program was abolished in 1998.<sup>83</sup>

There is no justification or need to extend sub-minimum wages to disadvantaged job seekers generally (that is, regardless of whether they are engaged in structured training). Given the substantial number of income support recipients, this could undermine the minimum wage system. A fairer way to encourage employers to engage income support recipients would be for the Government to temporarily subsidise the wages of disadvantaged jobseekers working in low skilled jobs at

---

<sup>81</sup> Ball 2004, *Factors influencing completion of apprenticeships and traineeships*, NCVER.

<sup>82</sup> NCVER 2005, *Apprenticeships and traineeships*, NCVER 1999, *Apprentices and trainees in Australia 1985 to 1999*. See [www.ncver.edu.au/statistics](http://www.ncver.edu.au/statistics).

<sup>83</sup> See Stromback et al 1998, *Labour market programs and labour market outcomes*, Melbourne Institute Working Paper 14/98.

'normal' wages. Australia has a long history of large scale wage subsidy schemes of this kind, for example the JOBSTART program in the 1990s. Their main purpose is to give disadvantaged jobseekers already capable of performing low skilled work a 'foot in the door' which would otherwise be denied them, for example due to the long duration of their unemployment. As part of its Welfare to Work package, the Government announced in the 2005 Federal Budget a new wage subsidy scheme for long term unemployed people called *Wage Assist*. This program will operate on a very small scale (15,000 workers over three years) but it could be substantially expanded to good effect.<sup>84</sup>

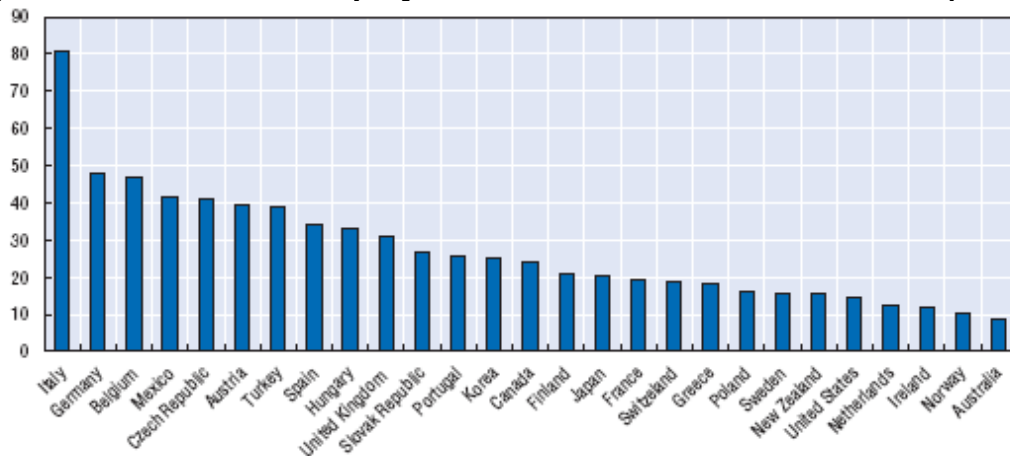
Unlike a general reduction in minimum wages for 'less productive' jobless workers, programs such as this enable the Government to target wage subsidies carefully to those who are most likely to benefit, to withdraw them when they are no longer needed, and to minimise the displacement and substitution of other employees.

### Jobs-poor regions

Some countries with severe regional inequities in the labour market have attempted to reduce unemployment in their most disadvantaged regions by allowing minimum rates of pay to vary across the nation.<sup>85</sup>

However, Australia does not have the severe regional labour market inequalities faced by countries such as Italy, Germany and Spain (see graph below).

### Regional variation in unemployment rates within OECD countries (2003)



Source: OECD 2006, *Employment Outlook*. Note: The bars represent an 'index of variation'. The greater the index, the greater is the variation in unemployment rates across regions within a country.

In Australian regions where unemployment rates are much higher than the national average, the main reason is usually a factor other than location per se, such as the decline of employment in traditional large scale manufacturing industries (for example in the Hunter and Illawarra regions of NSW) or the disadvantaged economic and social position of indigenous Australians (for example in Central Australia and Cape York). Policies that directly address the main causes of high unemployment in these areas are likely to be fairer and more effective than lower minimum wages. Another alternative approach is to facilitate greater mobility from disadvantaged regions to those with better job opportunities.

<sup>84</sup> Stromback et al 1998, *Labour market programs and labour market outcomes*, Melbourne Institute Working Paper 14/98; DEETYA 1997, *The net impact of labour market programs*.

<sup>85</sup> De Koning et al 2004, *Report to the European Union on Policies for full employment*.

In any event, there is already a fair degree of regional 'flexibility' in wages across Australia, in response to the state of regional labour markets.<sup>86</sup> As noted previously, low paid workers are more likely to come from rural and regional areas.

### **People with disabilities**

Only 43% of people with disabilities are employed compared with 72% of the workforce age population as a whole.<sup>87</sup> It would be misleading to suggest that this is due to 'lower productivity' among workers with disabilities. Many jobless people with disabilities would be highly productive in their occupation if the workplace is 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.

The major barrier to employment of most unemployed people with disabilities is reluctance among employers to consider their particular skills and abilities. This is usually due to a combination of lack of understanding of disability on the part of employers, and a general concern that it is 'risky' to engage people with disabilities. For example, many employers fear that they will face workers compensation claims.

To address the 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. This scheme is tightly targeted, and therefore small-scale.

A major problem with extending this or a similar scheme to people with disabilities who are assessed as more 'productive' than Supported Wage System employees is the difficulty in fairly and accurately measuring productivity among people with disabilities. Environmental factors, such as the layout and organisation of the workplace, have a major influence on their productivity. If the productivity of a wider range of people with disabilities had to be assessed to determine their rate of pay, it would be very difficult to separate these environmental influences from the individual's disability.

Moreover, there is no evidence to suggest that, if this principle were applied to a wider range of people with 'less severe' disabilities, it would improve their employment prospects. It may weaken them to the extent that sub-minimum rates of pay signal to employers that it is 'risky' to employ people with disabilities.

A more fruitful approach would be to expand specialised employment services for people with disabilities such as the Disability Employment Network, which train, rehabilitate or mentor people with disabilities seeking jobs, work with employers to make adjustments to the workplace and work practices, and intervene when problems arise. A major national education campaign targeted to employers and the non-disabled workforce would also help overcome inaccurate negative perceptions about the employability of people with disabilities. Steps have been taken along these lines in the Welfare to Work package, but there is much more that could be done.

---

<sup>86</sup> Kennedy & Borland 1997, *A wage curve for Australia?* ANU CEPR Discussion Paper No 372.

<sup>87</sup> ABS 2003, *Disability ageing and carers*. Data cited are for people with specific activity restrictions.

## 8. Effect of the 2006 Federal Budget on the living standards of low paid employees

Two decisions announced in this year's Federal Budget will affect the disposable incomes of minimum wage earners: income tax cuts and changes to Family Tax Benefit.

The tax cuts, estimated to cost \$6.4 billion in 2006-07, focus on the top and bottom ends of the tax scales. The major changes at the bottom end are:

- the \$21,600 tax threshold is raised to \$25,000.
- the \$5 per week Low Income Tax Offset (LITO) is increased to \$12 per week and the 'tax free area' for its income test is raised from \$21,600 to \$25,000. Instead of cutting out completely at an individual taxable income of at \$27,500 the LITO will cut out at \$40,000.

The main benefits of the tax cuts for low income individual taxpayers arise from the combination of the increase in the LITO and the raising of the \$21,600 tax threshold. For example, an individual taxpayer on the full time minimum wage (approximately \$25,000) would gain approximately \$17 per week from these two changes. Due the income test that applies to the LITO, the income gain falls gradually as taxable income rises above \$25,000.

However, a majority of minimum wage employees would gain less than this since they are employed part time. For example, a person employed for half of every week on the minimum hourly wage (earning approximately \$12,500 per year) would gain approximately \$7 per week.

There are two changes to Family Tax Benefit Part A (the former Family Allowance):

- the family income test is eased by raising the 'tax free area' from \$37,500 (announced in last year's budget to take effect from July 06) to \$40,000, at a cost of \$200 million in 2006-07.
- the \$5 per week Large Family Supplement from families to 4 or more children will extend to families with 3 children, at a cost of \$100 million.

The greatest benefits of the Family Tax Benefit income test change extend to middle income families on incomes between about \$50,000 and \$70,000. This will benefit some minimum wage earners who are 'second earners' in middle income families, but will not benefit low income families. The extension of the Large Family Supplement will increase family disposable income by \$5 per week for an unknown number of low income families.

The changes to the income tax scales and Family Tax Benefits are detailed in the tables on the following page.

### Changes to income tax scales from July 2006

Old thresholds	Old Tax rates <sup>88</sup>	New thresholds (from July 2006)	New Tax rates (from July 2006)
0-6,000	0	0-6,000	0
6,001-21,600	15%	6,001- <b>25,000</b>	15%
21,601-70,000	30%	25,001- <b>75,000</b>	30%
70,001-125,000	42%	75,001- <b>150,000</b>	<b>40%</b>
125,001+	47%	<b>150,001+</b>	<b>45%</b>
Old Low income tax offset	\$5pw up to \$21,600	New Low income tax offset	<b>\$12pw up to \$25,000</b>

Note: changes in bold italic type

### Changes to the Family Tax Benefits to be implemented from July 2006 (family with 2 children under 13 yrs)

Old free area (family income) <sup>89</sup>	\$37,500	New free area (family income)	<b>\$40,000</b>
Old taper rate (% of income)	20%	New taper rate (% of income)	20%
Old cut out point (family income) <sup>90</sup>	\$61,700	New cut out point (family income)	\$64,900
Old Large family supplement	\$5pw per child >3 children	New Large family supplement	\$5pw per child >2 children

Note: changes in bold italic type

Note: The income test applies to family incomes between the free area and cut out point. Above the cut out point, FTBA falls to the 'minimum rate' of about \$22pw.

<sup>88</sup> These tax rates were announced in last year's budget, but were to take effect from July 2006. They have been superseded by the new tax rates.

<sup>89</sup> This free area was announced in last year's budget, but was to take effect from July 2006. It has been superseded by the new free area.

<sup>90</sup> Only a small 'minimum rate' of FTB is paid above this income.

## References

- ABS 2003, *Disability ageing and carers*
- ABS 2003, *Household income and income distribution survey 2002-03.*
- ACOSS 2003, *The bare necessities.*
- ACOSS 2004, *Hidden unemployment in Australia.*
- ACOSS 2005, *Welfare reform, participation or punishment?*
- ACTU 2002, *Living wage case submission, composite exhibit.*
- Atkinson et al 2002, *Social Indicators – the EU and Social Inclusion*, Oxford University Press, Oxford.
- Australian Industrial Relations Commission 2005, *Safety Net Adjustment Decision 2005.*
- Ball 2004, *Factors influencing completion of apprenticeships and traineeships*, NCVET.
- Borland & Gregory 2001, *Work Rich, work poor*, Victoria University.
- Bray 2003, *Hardship in Australia*, FACS Occasional Paper No4.
- Buchinsky & Hunt 1999, *Wage mobility in the United States*. Review of Economics and Statistics, 81:3.
- Buddelmeyer et al 2004, *Policy options to encourage welfare to work*, Melbourne Institute Working Paper 9/06.
- Budget Papers 2004-05;
- Carino-Abello 2001, *Dynamics of earned income in Australia*, ABS.
- Chapman et al 1991, *Analysing the impact of consensual incomes policy on aggregate wage outcomes*. Centre for Applied Economic Research Discussion Paper 253, ANU.
- Dawkins (2000) *The labour market*, in Reserve Bank, *The Australian economy in the 1990s*.
- De Koning et al 2004, *Report to the European Union on Policies for full employment.*
- DEETYA 1997, *Evaluation of the Working Nation strategy – employment elements.*
- DEETYA 1997, *The net impact of labour market programs.*
- DEWR 2005, *Labour market assistance outcomes .*
- Dickens 2000, *Wage mobility in Great Britain - 1975-1994*, *Economica* 67, 477-497
- Dunlop 2001, *Low paid employment in the Australia labour market* in Borland et al, *Work Rich Work Poor*, Victoria University.
- Dusseldorp Skills Forum 2005, *How young people are faring.*
- European Commission (2000) *Structural Indicators*, Annex 2 to the Stockholm Report, Communication from the Commission, COM (2000) 79 final/2.
- FACS 2003, *Submission to Senate inquiry into poverty.*
- FACS 2001, *Income support statistics 1989 to 1999.*
- Förster, M. (2000), *Trends and driving factors in income distribution and poverty in the OECD area*. OECD Occasional Paper.

Forster & dErcole 2005, *Income distribution and poverty in OECD countries*, OECD Working Paper.

Frijters & Gregory 2005, *From golden age to golden age – Australia's great leap forward?* Conference Paper, ANU Centre for Economic Policy Research.

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

Gregory 1993, *Aspects of Australian and US living standards*, Economic Record Vol 69.

Harding & Greenwell 2001, *Trends in income and expenditure inequality in the 1980s and 90s*.

Harding et al 2005, *Distributional impact of welfare to work reforms*, NATSEM.

Kalb 2003, *Are part time jobs a stepping stone to full time employment?* Social Policy Research Centre.

Keese, M and A. Pumoyen (forthcoming), *Changes in earnings structure*, OECD Occasional Papers. Keating 2003, *Earnings and inequality*, ANU Centre for Economic Policy Research Discussion paper 460.

Kennedy & Borland 1997, *A wage curve for Australia?* ANU CEPR Discussion Paper No 372.

Kravitz T 2005, *Minimum wage, earned income tax credit, and inflation*, Urban Institute Brookings Institution Tax Policy Centre.

Leigh A 2005, *Does the minimum wage help the poor?* ANU Centre for Economic Policy Research Discussion Paper 501.

Lloyd et al 2004, *Australians in poverty in the 21<sup>st</sup> century*. NATSEM.

Marshall et al 2003, *Welfare outcomes of migration of low income earners from metropolitan to non metropolitan Australia*, AHURI.

Masterman-Smith, May, & Pocock 2006, *Living Low Paid: some Experiences of Australian childcare workers and cleaners*. Brotherhood of St Laurence.

McNamara et al 2004, *How low income families have fared in the boom times*. NATSEM.

Minister for Employment Education training and Youth Affairs 1996, *Reforming Employment Assistance*.

NCVER 1999, *Apprentices and trainees in Australia 1985 to 1999*. see [www.ncver.edu.au/statistics](http://www.ncver.edu.au/statistics).

NCVER 2005, *Apprenticeships and traineeships*, see [www.ncver.edu.au/statistics](http://www.ncver.edu.au/statistics).

NSW Dept of Housing 2006, *Rental Reports*.

OECD 2006, 2005, 2003 and 1998, *Employment Outlook*.

OECD (2005) *Principal economic indicators*.

Oliver 2003, *Taxes, benefits and families in Australia, an historic perspective*. Paper delivered at National Economists Conference.

Richardson & Harding 1999, *Poor workers?* in Richardson 1999, *Reshaping the labour market*, Cambridge University Press.

Productivity Commission 2006, *The role of non traditional work in the Australian labour market*.

Richardson 2004, *Low wage jobs and pathways to better outcomes*, National Institute for Labour Studies.

Saunders 2003, *Examining recent changes in income distribution in Australia*, Social Policy Research Centre.

Saunders 2004, *Updated budget standards estimates for Australian working families*, Social Policy Research Centre.

Saunders 2005, *Reviewing recent trends in wage income inequality*. Social Policy Research Centre, University of NSW.

Song & Webster 2003, *How segmented are skilled and unskilled labour markets?* Australian Economic Papers 42:3.

SPRC 1997, *Indicative budget standards for Australia*. Department of Social Security.

State of Working Victoria project 2003, *The low paid in Victoria*. Victorian Government.

Stewart 2002, *The inter-related dynamics of unemployment and low pay*. EALE/SOLE World Congress, Milan.

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

Treasurer 2006, Budget Measures. Australian Government.

Treasury 2004, *Policy advice and Treasury's well being framework*. Paper delivered at Australian Statistics Advisory Council meeting.

Stephens R 1994, *Budgeting with the benefit cuts*, in Dalziel P: *The decent society*" Wellington 1994.

UNICEF 2000, *Child poverty in rich nations*. Innocenti Research Centre.

Victorian Office of Housing 2006, *Rent Reports*.

Watson et al 2003, *Fragmented futures*, Federation Press.

Wooden & Warren 2005, *The characteristics of casual and fixed term employment*, Melbourne Institute Working Paper 15/03.

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