



## HC COOMBS POLICY FORUM FINDINGS

# Reflections on the evolution of the minimum wage in Australia: Options for the future

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**This paper details the transformation of the minimum wage in Australia and considers its implications for the minimum wage in the future.**

### Key points

- > The minimum wage in Australia has shifted over time from being a family wage to a wage for a single person. This has been possible through changing patterns of family workforce participation (more dual-income households) and with greater financial support for families coming from government.
- > Estimates of the proportion of the current Australian workforce employed on the minimum wage vary, but fall in the range of four to ten per cent of adult employees.
- > Minimum wage employment is more common amongst the young, those in part-time employment, and (although data series differ) amongst women.
- > Occupations with high levels of minimum wage employment include factory process workers, farm, forestry and garden workers, food preparation and trades, and hospitality.
- > Although more likely to be in lower income households, minimum wage workers in Australia are spread across a wide spectrum of middle and higher income households. This suggests raising the minimum wage is not the most effective or efficient means of helping low-income households.
- > For much of its existence, the minimum wage has played a dual role, both as a minimum floor wage and as the fundamental building block from which other award wages are derived.
- > The author identifies three major pathways for the future of the minimum wage:
  - A minimum wage which, as with the Australian minimum wage over recent decades, is held flat in real terms
  - Increasing the minimum wage broadly in line with wages and productivity gains more generally across the community, potentially complemented by targeted training to boost the productivity of those with the lowest skills, or
  - Maintaining the minimum wage as with the first pathway, but seeking to top up the incomes of low income workers to ensure that their living standards do not drop relative to others in the community.
- > Exploring these pathways should be in the context of a wider discussion about the role of the welfare system in acting as a subsidy for employment and on expectations about workforce participation.

### For further information

The full paper is available at the HC Coombs Policy Forum website: [crawford.anu.edu.au/hc-coombs/](http://crawford.anu.edu.au/hc-coombs/)

## Background

This paper is concerned with the current and future role of the minimum wage in Australia. It is important to note that the nature of the 'minimum wage' in Australia has varied considerably over time and there has rarely been a single comprehensive minimum wage across the population. For much of the 20th century, the States' industrial relations systems played a more significant role than the Federal system, but given this paper is concerned with the broad development of the minimum wage and its contemporary role, the focus is on the federal jurisdiction.

This summary focuses on the historical and current role of the Australian minimum wage, alongside suggested pathways for the future of the minimum wage. The full paper also details an international comparison of minimum wages. The Australian minimum wage is amongst the highest in absolute terms and relative to median earnings, and Australia has a relatively high incidence of employment at or close to the minimum wage. However, the author cautions that the extent of use of minimum wages should not be treated as analogous to low pay in general. For more on the international data, see the full paper at [crawford.anu.edu.au/hc-coombs](http://crawford.anu.edu.au/hc-coombs).

The full paper also examines the theory and empirical evidence relating to the economics of the minimum wage. Clearly, changes in the minimum wage influence the behaviour of firms and can affect employment levels, the distribution of wages, prices, profits and the productivity demands on workers. These effects can be transitional and/or long-term. Much of the theory and evidence seems contradictory, but the author suggests it is perhaps more accurate to interpret the diverging findings as a reflection of the complexity of labour markets and that different mechanisms are operating in different contexts at different points in time. Again, see the full paper at [crawford.anu.edu.au/hc-coombs](http://crawford.anu.edu.au/hc-coombs) for this analysis.

## Summary of findings

### History of the minimum wage

The minimum wages established by Wages Boards under the Victorian Factories and Shops Act 1896, along with contemporary developments in New Zealand, were amongst the first independently established minimum wages in Australia and the world.

The foundation of the Australian Federal Minimum Wage was the 1907 Harvester decision, which addressed the question of what a 'fair and reasonable' wage was for the employees of the Sunshine Harvester Works. The case approached this by considering what level of pay would be sufficient to meet the needs of an average employee and his family.

Between 1913 and 1974, the minimum wage was reviewed on a number of occasions and revisions adopted which included introducing the principle of *capacity of industry to pay*, geographic and industry based loadings (later known as prosperity loadings) and a child endowment for the second or above child in the family. This period was also notable for a series of reductions in working hours, the introduction of annual leave and, in 1975, the extension of the minimum wage to adult females.

From 1978 to 1987, it is more difficult to track the movement in the 'minimum wage' as the Commonwealth Conciliation and Arbitration Commission decided to abandon plateau indexation and decentralised wage bargaining emerged. A simple focus on the rate of the minimum wage over this period also does not tell the full story of the changes in well-being of low-paid workers. Between September 1983 and July 1995, under a series of seven 'Prices and Incomes Accords' between ACTU and the federal Labor Government, there was a series of negotiated trade-offs of wage increases in favour of social wage benefits. These included: personal income tax cuts; child care subsidies; increased family payments; health care through Medicare; and the development of employer funded superannuation.

The April 1997 Safety Net Review conducted by the Australian Industrial Relations Commission saw the introduction of a new Federal Minimum Wage. The responsibility for the setting of the minimum wage was transferred to the Australian Fair Pay Commission in 2006 and then to Fair Work Australia in 2010. Both organisations have specific legislative criteria for setting the minimum wage which include giving consideration to the overall health of the economy as well as factors affecting the employment and living standards of the low paid.

The minimum wage through its history has had a dual role, both as a minimum floor wage and as the fundamental building block from which other award wages are derived. However, the ways in which changes to the minimum wage have been applied to other wage awards has varied considerably. The author suggests the nature of wage setting decisions might be best characterised as the minimum wage and other wage rates being 'co-determined' rather than changes to the minimum wage 'flowing-on' to other employees.

## Current role of the minimum wage

Limited information is available about the number of people in the workforce who are in receipt of the minimum wage and different data sources generate different estimates. (The two main sources of data are the Employee Earnings and Hours (EEH) survey and the Household Income and Labour Dynamics Australia (HILDA) survey.) The proportion of the current Australian workforce employed on the minimum wage therefore varies, but falls in the range of four to ten per cent of adult employees. Minimum wage employment is also more common amongst the young, those in part-time employment, and (although again data series differ) amongst women.

By industry, there is a strong concentration of minimum wage employment in the 'accommodation and food service sector' where 11.8 per cent of employees are paid around the minimum wage. Other concentrations include: 'Administrative and support services', 8.2 per cent; 'other services', 7.6 per cent; and construction, 7.2 per cent. The 'retail trade', 5.9 per cent; 'rental hiring and real estate', 5.3 per cent; and 'manufacturing', 5.1 per cent also had higher than average rates of minimum wage employment.

Other key characteristics of minimum wage employees include:

- > *A range of household situations, but most commonly one member of the couple is working full-time at a wage above the minimum wage, while their partner works part-time in a minimum wage job (32.5 per cent).*  
Only 10.0 per cent of couples with at least one person employed at the minimum wage have a single full-time breadwinner, and only around 19,600 couple families with dependent children under 15 years (the archetypical 'Harvester' family) are in this situation.
- > *A wide spread of minimum wage workers across households of differing income levels.*  
28.6 per cent of full-time minimum wage earners live in the poorest 20 per cent of Australian working households, with 22.6 per cent in the second quintile and 21.7 per cent in the third quintile. Some 9.0 per cent of adult full-time minimum wage workers are in the highest quintile. While part-time minimum wage workers are somewhat more concentrated in the lowest quintiles over 40 per cent of these workers are in the top three quintiles.
- > *Adult full-time minimum wage earners not carrying any disproportionate burden of poverty or financial stress and hardship.*  
People or households on the minimum wage are more frequently at risk of poverty when this employment is part-time or where young people are seeking to live independently on incomes at or around the minimum wage.

## Workforce participation

In considering the changing role of the minimum wage in supporting families, in particular given that minimum wage employment is frequently a complement to other employment within a household, attention must also be given to changes in family workforce participation. Of particular relevance is that the 'Harvester' concept of a single breadwinner on the minimum wage supporting their partner and children has largely disappeared. In 1983 exactly half (50.0 per cent) of all couples with a dependent child under the age of 15 years had a traditional single full-time breadwinner. This fell to 28.8 per cent in 2011. Over the same interval, the proportion of families with both partners being in the workforce increased from 39.4 per cent to 62.6 per cent.

## Trends in the minimum wage and interaction with the tax and transfer system

People in receipt of the minimum wage frequently interact with both the tax and the transfer systems. Of specific interest in this paper are the changes in these interactions over time, and the current impact of taxes and transfers on families with children where the minimum wage is a source of income.

Between January 1986 and January 2012, the real value of the minimum wage increased by just 1.3 per cent. Notwithstanding the minimal (\$7.67 per week) real growth in the minimum wage over this period, the disposable income of a single person working for the minimum wage would have increased in real terms by \$53 per week. This occurred due to an almost halving of the income tax paid by such a person. The impact of changes in the tax and transfer systems has been even more marked for those households in receipt of support for children. While again the real value of the minimum wage has increased by 1.3 per cent over the period, the disposable income of a family of four has increased from \$585.33 to \$995.88, an increase of 70.1 per cent.

With regard to the minimum wage these changes have had two specific impacts. The first is a small increase in the incomes of single persons on the minimum wage, notwithstanding the lack of growth in the wage itself. The second is much more significant and is the major shift in the role of the minimum wage for families with children. Reflecting changing patterns of

workforce participation by women, there is now an effective expectation that partners in couples will be employed unless there are young children, or where a person is unable to work due to disability or age. Today, neither the support of a partner, nor of children, is seen as functions of the minimum wage. Support for children in low, and indeed many middle, income families has moved from the wages system to the transfer system.

Implicit in this change has been a realignment of the income of families and singles reliant upon the minimum wage. While in January 1986 the real disposable income of a couple with two young children on the minimum wage of \$585 was just 1.21 times that of the \$485 received by a single person with the same gross earnings, by 2012 the ratio between the \$996 of the couple and \$538 of the single had risen to 1.85. Although this is still below the ratio used in most common equivalence scales, it represents a much more 'balanced' outcome for these households given their relative needs.

## Policy implications and avenues for future work

The minimum wage of today has undergone a major transformation in its role in comparison with that which it played 25 to 30 years ago. In broad terms the minimum wage has shifted from being a family wage to become a wage for a single person. The support for families in receipt of this level of earnings has been taken by the state, and by changing patterns in family workforce participation.

The author suggests that this transition has effectively worked its way through and choices need to be made about the future. Three major pathways can be identified:

- > A minimum wage which, as with the Australian minimum wage over recent decades, is held flat in real terms
- > Increasing the minimum wage broadly in line with wages and productivity gains more generally across the community, or
- > Maintaining the minimum wage as with the first pathway, but seeking to top up the incomes of low income workers to ensure that their living standards do not drop relative to others in the community.

The first of these, while minimising pressures on the labour market, brings with it questions of the impact of such a policy on inequality and income distribution. These impacts arise from the failure of such a minimum wage to reflect overall improvements in living standards, and the degree to which it may impose a 'cap' on the extent to which income support payments can be paid. The second pathway essentially requires that the individual productivity of minimum wage employees grows at rates consistent with that of the rest of the workforce. Increased training may assist but only if the gains are for the most disadvantaged. If this is not achieved then increases in the minimum wage are likely to be at a cost to employment for unskilled low wage workers. The third requires the introduction of alternative mechanisms, such as an earned income tax credit, by which income top ups can be provided to those with low incomes. Traditionally in Australia this has only been undertaken for families with children. It also represents a potential shift in perceptions about the role of employment.

There is an evident need for future policy with regard to the minimum wage, its role and level, to be guided by a clear perspective of the outcomes that are sought and with the appropriate development of complementary policies. Exploring these pathways would be guided by improved data and analysis, particularly in relation to:

- > many aspects of the current role of the minimum wage, which are currently lacking
- > the challenges of the training agenda and its potential to achieve productivity gains.

Finally there are questions about policy priorities. To what extent should the welfare system act as a subsidy for employment? What level of workforce participation should people be expected to achieve – even if this is not sufficient to earn a sufficient income?