Submission to the Fair Work Commission on the Minimum Wage

25 March 2022

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Summary

ACOSS welcomes the opportunity to make this submission to the Annual Wage Review 2020-21. ACOSS is an interested party in these proceedings with expertise in poverty, employment policy and income support policy. Our long-standing interest in minimum wages stems from their impact on poverty and inequality in Australia.

The National Minimum Wage (NMW) is $772.60 per week, $20.33 per hour, or around $40,200 per year. Last year's minimum wage increase determined by the Fair Work Commission was 2.5% ($18.80 per week).[1]

For the first time in 50 years, full employment is possible – challenging previous views on the relationship between unemployment and inflation

Overall employment has recovered strongly from the recession in 2020. Employment is slightly higher than before the first lockdowns in March 2020 and paid working hours are slightly below their previous level.

The unemployment rate has fallen from 5.1% in February 2020 (before COVID lockdowns) to 4% in March 2022 and both Treasury and the RBA expect it to remain below 4% at the end of 2022. Similarly, underemployment has fallen from 8.6% of the labour force in February 2020 to 6.6% in December 2021.

This opens up an historic opportunity to achieve and sustain full employment – a labour market in which the vast majority of people seeking employment or more paid working hours can quickly secure them. We have not had full employment since the early 1970s, though unemployment fell briefly to its current level just before the Global Financial Crisis (GFC) in 2008.

The combination of sluggish wage growth and falling unemployment during the decade after the GFC calls into question the previously dominant view in macroeconomic policy that an unemployment rate below 5-7% would trigger an unsustainable wage-price spiral. Indeed, the greater risk over that period was *deflation,* fuelled by stagnating incomes and entrenched expectations that prices would not rise or rise very little. The human cost of that view has been to consign millions of people to long term unemployment struggling to survive on the unemployment payment, also stagnating at just $46 per day.

An increase in the minimum wage is needed to support desired wages growth for low paid workers

A substantial increase in minimum wages would help bring about the rise in overall wages sought by the Reserve Bank and many other stakeholders, without risking a wage-price spiral.

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[1] Fair Work Commission (2021): *Decision, Annual Wage Review 2020-21*, FWC, Sydney.

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The RBA is targeting wage growth of around 3% per annum to lift inflation into its 2-3% target range. Despite low unemployment, there is no solid evidence to date that wage growth is approaching that level. The Wage Price Index, that looks through changes in the composition of employment (skewed towards higher-paid jobs during the pandemic) rose by just 2.3% through 2021.

Consumer price inflation has increased due to supply constraints arising from COVID and the war in Ukraine, but the underlying inflation rate only reached the RBA's target band of 2-3% in September last year (rising by 2.7% through the year to December 2021). While it is likely to rise temporarily above 3%, at this stage it is unlikely to remain consistently above that level.[2]

The best way to lift the overall living standards of people with low incomes is to lift their wages and income support payments

From the GFC to the onset of the pandemic, pressures on living standards came more from sluggish growth in wages and income support payments than increases in the cost of living. On average from 2008 to 2018, the CPI (trimmed mean measure) rose by 2.4% per annum while the Wage Price Index rose by 2.9%, a real increase of just 0.5%.[3] Income support payments such as Jobseeker Payment and Family Tax Benefit have only been indexed to the CPI and not wage movements. They have been frozen in real terms for over a decade apart from a one-off $25 per week increase in Allowance payments last year.

Over the last 12 months, real wages have fallen. While consumer prices increased at a faster rate (by 2.7% in underlying terms over the year to December 2021), wages have grown by less than this (by 2.3% as indicated above). Given the inadequacy of unemployment payments and low risk of a wage-price spiral, the best way to improve the overall standard of living for most people of working age is to lift wages and the lowest income support payments (including Jobseeker and Youth Allowance Payments).

Low-paid workers are especially vulnerable to inflation in housing costs

The main cost pressure facing most households of working age today is rapid growth in home prices and rents. Through 2021, average house prices rose by a staggering 24%, though average mortgage interest costs declined due to reductions in interest rates. Higher levels of housing debt will put increasing pressure on household budgets as interest rates rise in coming years.

[2] Reserve Bank of Australia, Statement on Monetary Policy February 2022.

[3] ABS, Consumer Price Index and Wage Price Index.

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Around half (46%) of low paid workers reliant on awards rent their housing.[4] Advertised rents for housing rose by 9% on average through 2021, higher (12%) in regional areas.[5] Among people in the lowest 40% of households by income who rent their homes, this absorbs an average of at least 30% of their disposable income (27% if they receive Commonwealth Rent Assistance).[6] The growing cost of this key essential of life should be taken into account when setting minimum wages.

The minimum wage has fallen behind pay levels across the community

From 1996 to 2014, the minimum wage has declined from 61% to 49% of full-time median weekly earnings and has remained around that level since then.

This decline in the relative value of minimum wages has contributed to earnings and income inequality more broadly.

Poverty has risen among wage-earning households

Prior to the COVID recession, poverty among wage-earning households was trending upwards. In 2017-18, 38% of people below the 50% of median income poverty line and 40% of those below the 60% of median income poverty line were in households whose main income was wages, up from 32% and 34% respectively in 2014-15.[7]

Recently published research from ACOSS and UNSW Sydney indicates that both poverty and household income inequality fell during the recession due to COVID income supports (Coronavirus Supplement and JobKeeper Payment), but then rose above their pre-COVID levels when those supports were withdrawn.[8]

The Commission's research also suggests that poverty among families on the minimum wage (measured using the higher 60% of median income poverty benchmark) increased after COVID income supports were withdrawn in early 2021. The disposable incomes of hypothetical single parent and single-income couple families on the minimum wage rose

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[4] Yuen, K et al. (2018): Characteristics of workers earning the national minimum wage rate and of the low paid. FWC, Melbourne.

[5] in the year to September 2021, average asking rents rose by 12.5% across regional Australia compared with 7.5% across capital cities, and the median rent across Australia was $450pw in September 2021 (Pawson et al 2020, COVID-19: Housing market impacts and policy responses, an international review, UNSW Sydney and ACOSS). ABS, Residential Property Price Indexes: Eight Capital Cities (Dec 2021); ABS, Selected Living Cost Indexes (Dec 2021, employee households); Corelogic, Quarterly Rental Review (Dec 2021).

[6] Reserve Bank of Australia (2021), Submission to House of Representatives Standing Committee on Tax and Revenue Inquiry into Housing Affordability and Supply in Australia.

[7] ACOSS & UNSW Sydney (2020), Poverty in Australia, causes and people affected.

[8] ACOSS & UNSW Sydney (2022), COVID, inequality and poverty in 2020 and 2021. Note that poverty among wage-earning households was not specifically modelled.

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above that poverty benchmark in 2020 (if they received Jobseeker Payment and the Coronavirus Supplement) but fell below it again in 2021.[9]

Adequate minimum wages reduce poverty directly by lifting the incomes of low-paid workers and their families

While minimum wages cannot target poverty as precisely as social security payments, they are mainly paid to the lowest 50% of households of working age ranked by income. Research undertaken by the Commission found that 60% of minimum wage earners were in the lower half of the income distribution for households where at least one member was employed.[10] Further, 43% of low-paid workers who are reliant on Award rates of pay are the sole or main income-earner in their household and 35% have one or more dependent children.[11]

Adequate minimum wages reduce poverty indirectly by making room for adequate income support payments

While at present the maximum rates of unemployment payments are less than 50% of the full-time minimum wage, a higher minimum wage creates more room for the substantial increases in social security payments that are needed to reduce poverty.

ACOSS is calling for an increase in JobSeeker and Youth Allowance of at least $172 per week (in the case of single people) to pension levels, and indexation of these payments and Family Tax Benefit to wage movements, to ensure people on the lowest incomes can meet their basic living costs.

Minimum wages help reduce the gender pay gap

In 2021, the gap between median adult (non-managerial) hourly ordinary time earnings for men and women was $4.20 per hour, or 8.8% of the median male rate. More than half (55%) of low-paid award-reliant workers are women.[12]

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[9] The disposable income of a single income couple without children receiving the minimum wage and Jobseeker Payment fell from 1.17 to 0.99 times the 60% of median income poverty line. That of a single income couple with one child fell from 1.11 to 0.99 times the poverty line. The income of a single income couple with two children fell from 1.04 to 0.94 times the poverty line. Receipt of Jobseeker Payment and Coronavirus Supplement was not modelled for other family types (Fair Work Commission, Statistical report—Annual Wage Review 2021–22 V1).

[10] Fair Work Commission, Statistical report—Annual Wage Review 2020–21

[11] Wilkins R & Zilio F (2020), Prevalence and persistence of low-paid award-reliant employment. Fair Work Commission Research Report 1/2020.

[12] Wilkins & Zilio (2020), ibid.

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There is no automatic relationship between minimum wages and employment levels

Increases in minimum wages awarded by the Commission in recent years have had no discernible impact on aggregate employment. International evidence generally supports the view that modest increases in minimum wages have little or no adverse impact on employment.[13]

Higher minimum wages and improved working hours and job security would help ease labour shortages in entry-level jobs

With unemployment at 4% and reduced access to temporary migrant workers, employers are having greater difficulty than in the past filling entry-level jobs. If unemployment declines further and the reduction is sustained, this presents an opportunity for many workers who have effectively been frozen out of employment, including almost 800,000 people on unemployment payments long-term. A large proportion of people on those payments have disabilities, are older than 50 years, are raising young children alone, or come from Aboriginal or Torres Strait Islander backgrounds – groups that have faced discrimination and barriers to securing paid work, with employers often reluctant to consider applications in the past.[14]

In addition to broadening their sources of recruitment, employers with entry-level jobs need to do more to retain their existing workforce. Average annual turnover rates are much higher in sales occupations (3.9), labouring jobs (2.8) and non-professional community and personal services occupations (2.7), than in higher-paid occupations such as managers (2.3) and professionals (1.7).[15] There are many reasons for this (including the seasonality of much retail and hospitality work) but low pay and lack of career advancement are important factors. In a recent survey, 77% of people who left their jobs in sales occupations, 82% of those who left labouring jobs and 68% of those who left non-professional community and personal services jobs reported that their main reason for leaving was either low pay or lack of career advancement.[16]

An example from the community sector illustrates this labour retention challenge. The Department of Social Services estimates that by 2024, 80,000 more care workers will be needed in National Disability Insurance Scheme (NDIS)-funded services.[17] Yet annual workforce turnover in NDIS services is 17-25%. In a recent survey of NDIS workers, 39% of respondents were dissatisfied with their pay levels compared with 37% who were satisfied. For most NDIS workers, low pay is exacerbated by inadequate and insecure paid

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[13] Dube, A (2019): *Impacts of minimum wages: review of the international evidence*, HM Treasury, London.

[14] ACOSS (2021), Faces of unemployment.

[15] Shah & Dixon (2018), Future job openings for new entrants by industry and occupation. NCVER.

[16] NAB Behavioural Insights report (February 2022), Australia's great resignation.

[17] Department of Social Services (2021), NDIS National Workforce Plan: 2021–2025.

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working hours. Among those surveyed, 45% had unpredictable working hours and among permanent employees the average working week was just 22 hours. [18]

Key recommendations

In brief, we recommend that:

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

More detailed evidence and recommendations on how minimum wages should be set follow.

[18] Cortis & Toorn (2020), Working in new disability markets: A survey of Australia's disability workforce, SPRC, UNSW Sydney.

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Additional evidence

Full employment is within reach: to sustain it we need steady growth in the lowest incomes

Since the Global Financial Crisis in 2008, new economic thinking has challenged previously dominant views on macroeconomic stabilisation, the relationship between unemployment and inflation, and between income inequality and growth. This includes a reassessment of:

- The role of fiscal policy in strengthening growth in jobs and incomes and the sustainability of public debt in an era of lower inflation and interest rates;
- The extent to which unemployment can be reduced without accelerating inflation;
- The extent to which income and earnings inequality has become a constraint on growth (due to weaker consumer demand and under-investment in the capacities and skills of people with low incomes). [19]

Australia's experience with the pandemic and the public policy response to it has reinforced this new thinking in at least two ways: a more optimistic assessment of the prospects for a return to full employment, and a greater appreciation of the contribution of people in the lower half of the income distribution to consumer demand and economic growth.

Last year the Reserve Bank reassessed how low unemployment could fall without triggering a wage-price spiral, reducing its estimate of the NAIRU:

'There is, inevitably, some uncertainty about what exactly constitutes full employment in our modern economy. Over the past decade, the estimates of the unemployment rate associated with full employment have been repeatedly lowered both here and overseas. So there is uncertainty. But based on this experience, it is certainly possible that Australia can achieve and sustain an unemployment rate in the low 4s, although only time will tell.'[20]

The Bank now estimates that the unemployment rate will fall to 3.75% by December 2022 and remain at that level in December 2023. Despite this reduction in unemployment, it estimates that the underlying inflation rate will decline from 3.25% in December 2022 to 2.75% in December 2023. [21]

In regard to household spending and saving patterns, the evidence suggests that people with low or modest incomes were more likely than those with higher incomes to quickly spend the substantial COVID income supports (Coronavirus Supplement and JobKeeper

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[19] Blanchard (2016), Should We Reject the Natural Rate Hypothesis? Peterson Institute for International Economics;
Alichi et al (2016), Income Polarization in the United States. IMF Working Paper 16/121;
OECD (2015), In It Together: Why Less Inequality Benefits All.

[20] Lowe, P (2021b): *The recovery, investment and monetary policy*. AFR Business Summit, Sydney, 10 March 2021. See also Bishop, J and Cassidy, N (2017), Insights into low wage growth in Australia, RBA Bulletin March 2017.

[21] RBA, Statement on Monetary Policy, February 2022.

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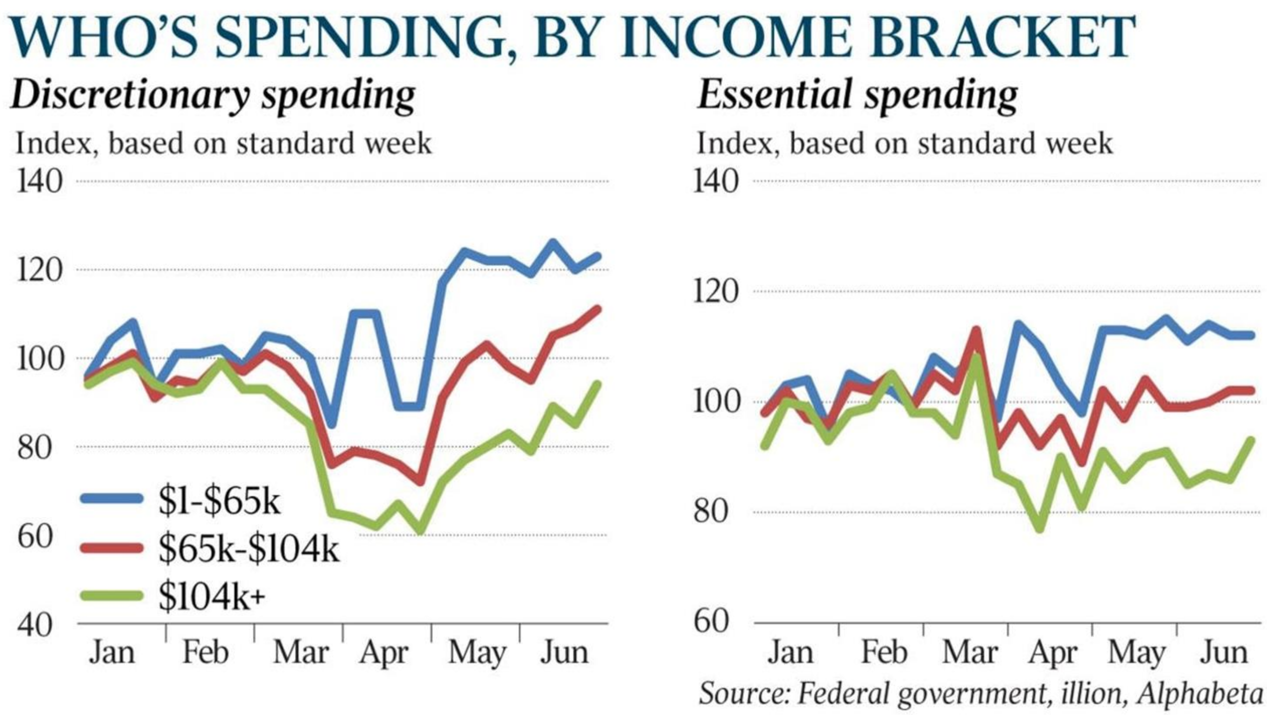
Payment) introduced to protect jobs and boost economic growth during COVID lockdowns. Together with reductions in interest rates, the substantial investment in COVID income supports prevented a much deeper and longer-lasting recession.[22]

Consumer expenditure data sourced from financial institutions by Alpha-Beta (Figure 1) suggests that, when these COVID income supports were introduced in April 2020, spending by individuals with low or modest incomes (below $65,000) rose more sharply than spending by people with higher incomes.

Figure 1



Source: Analysis of household spending patterns by Alpha-Beta (June 2020)

Not all of these COVID income supports were quickly spent. Together with pandemic-related restrictions, they contributed to a sharp increase in overall household saving.[23] It is likely that most of this saving was undertaken by households with above-average incomes. Figure 2 indicates that in December 2020, high-income households were much more likely to save regularly than those with low or modest incomes:

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[22] OECD (2021), Economic Surveys, AUSTRALIA.

[23] Treasury (2021), Insights from the first six months of JobKeeper.

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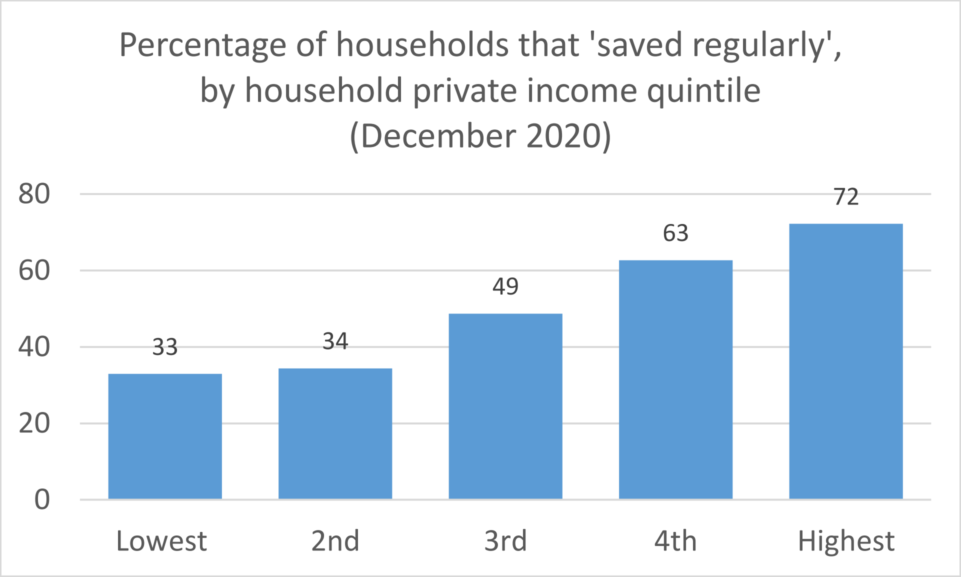
- Among the lowest 40% of households ranked by private income (whose main income source would be income support and/or low wages), only one third reported saving regularly;
- compared with over 70% of the highest 20% of households by income.

Figure 2



Source: ABS, Household financial resources, December 2020
Note: Self-reported saving behaviour, by households ranked by private income.

These data also support the proposition that households with low or modest incomes are more likely to spend any significant increase in their incomes, boosting demand for goods and services across the economy.

Strong and persistent demand for goods and services is not the only requirement for sustained growth in jobs and incomes (and it could trigger higher inflation if the supply of goods and services fails to keep up); but it is likely to be needed to sustain the recovery and achieve full employment.

The minimum wage has fallen behind pay levels across the community

Over the decade from the Global Financial Crisis in 2008 to 2018, the minimum wage only increased in real terms by an average of 0.5% per annum (Figure 3).

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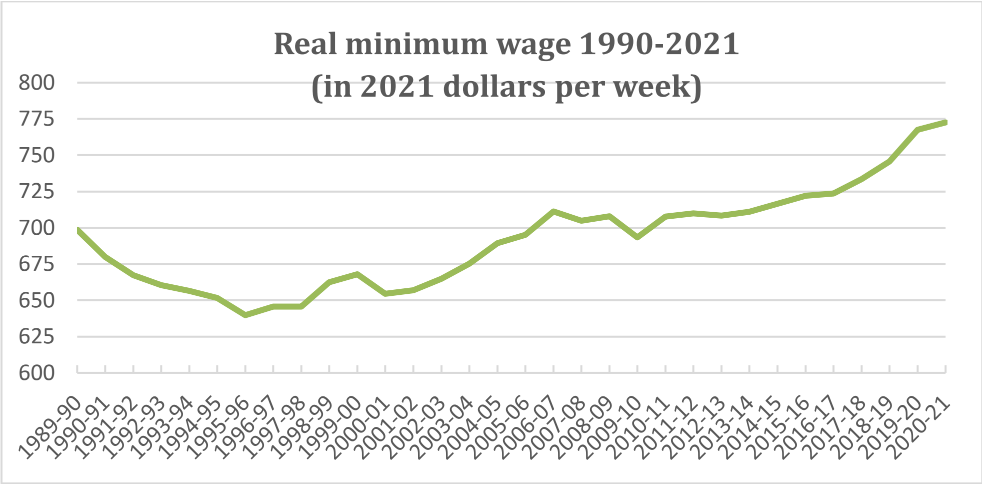
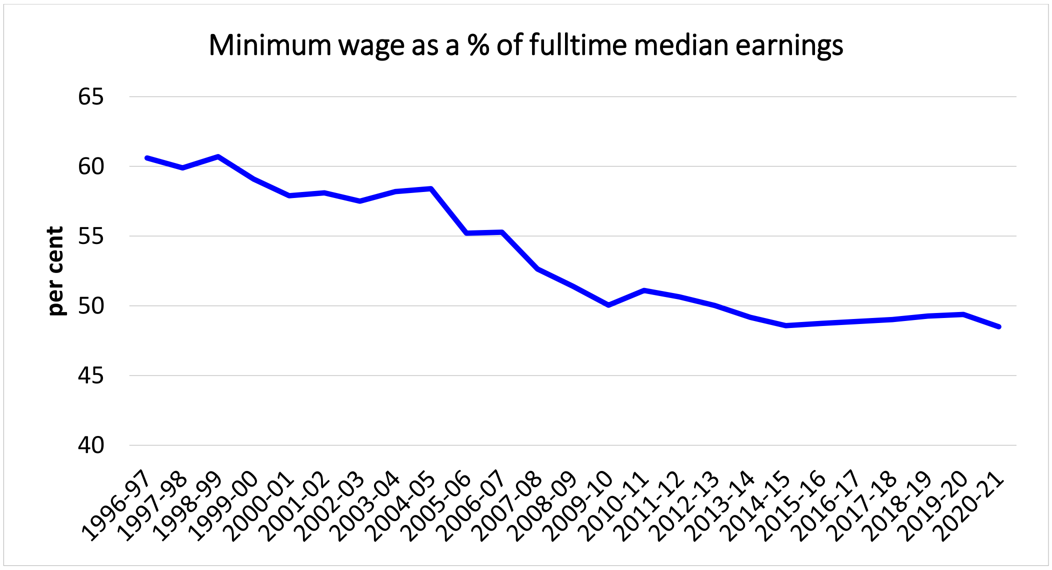
Figure 3: Long-term trends in real minimum wages



Sources: Fair Work Commission; ABS, Consumer Price Index.

Over a longer timeframe, increases in the minimum wage since the mid-1990s were well below growth in median pay levels. Consequently, it fell from 61% of full-time median weekly earnings in 1996 to 49% in 2018, so that minimum wage earners and their families fell behind improvements in community living standards (Figure 4).[24]

Figure 4: Trends in the minimum wage as a % of full-time median earnings



Source: ABS, Employee earnings and hours
Note: Full-time adult non-managerial median earnings for all jobs held by an employee.

[24] ABS (2019b): *Employee earnings and hours, Australia, May 2018*.

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Before COVID-19, poverty was rising among wage-earning households

The ACOSS/UNSW report, 'Poverty in Australia 2020' includes estimates of poverty among people in households where wages were the main source of income, derived from the ABS 2017-18 Survey of Income and Wealth.[25]

In 2017-18, there were 1,017,000 people living below the 50% of median income poverty line and 1,666,000 people living below the 60% of median income poverty line, in households where wages were the main source of income. This comprised 38% and 40% of all people in poverty respectively (apart from people in self-employed households).

This represents a significant increase in poverty in households with a wage-earner since 2013-14. In that year, 32% of people below the 50% of median income poverty line and 34% of those below the 60% of median income poverty line came from households whose main income was wages.[26]

The Commission's research indicates that in 2020, 24% of low-paid employee households, twice the share of all employee households (12.1%), experienced financial stress.[27]

Poverty fell when COVID income supports were introduced, but rose to a higher level than before when they were removed

Overall poverty levels fell in the first year of the pandemic from 11.8% to 9.9%. This was mainly due to COVID income supports, especially the Coronavirus Support, which almost doubled income support for people who were unemployed (Figure 5).

When COVID income supports were reduced, it rose to a higher level than before the pandemic (14% in January 2021).

[25] Davidson, P et al. (2020), Poverty in Australia 2020: Part 2, Who is affected?, ACOSS/UNSW Poverty and Inequality Partnership Report No. 4, ACOSS, Sydney.

[26] ACOSS and SPRC (2016), Poverty in Australia: 2016, ACOSS, Sydney.

[27] Fair Work Commission (2022), Statistical report—Annual Wage Review 2021–22. 'Low-paid' households refers to those in the bottom quintile of equivalised disposable household income for employee households.

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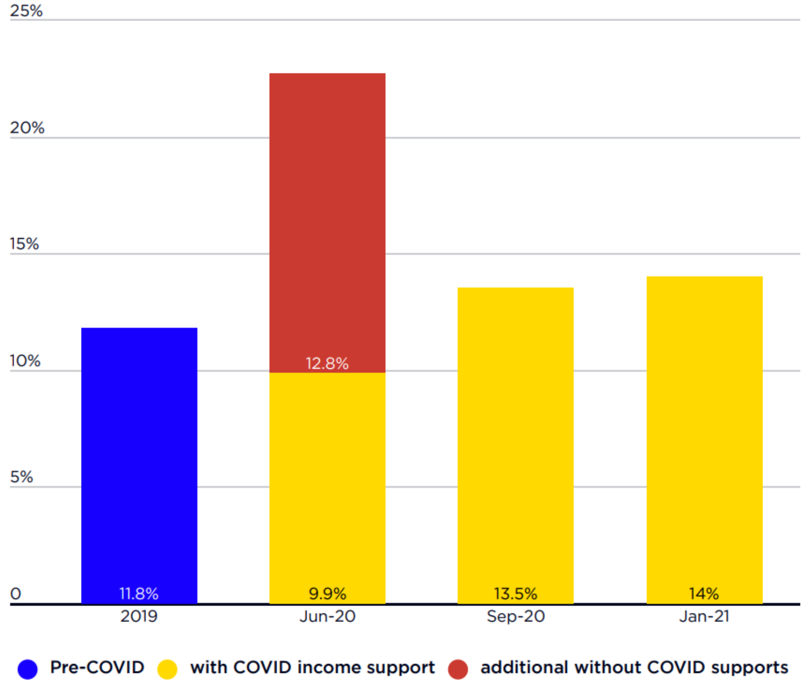
Figure 5: Poverty with and without COVID income supports (% of all people)



Source: ACOSS & UNSW Sydney (2022), COVID, inequality and poverty in 2020 and 2021.

Adequate minimum wages reduce poverty indirectly by making room for adequate income support payments

Minimum wages impact on poverty indirectly, through their influence on social security settings.

It is appropriate to maintain a gap between the base rate of working-age social security payments and the minimum wage to provide a financial reward for paid work. At present that gap is substantial. An individual receiving the maximum rate of the JobSeeker Payment more than doubles their disposable income if they take up full-time employment at the minimum wage. Nevertheless, a higher minimum wage creates more room for the substantial increases in social security payments that are needed to reduce poverty.

Inadequate real growth in both minimum wages and working-age social security payments (allowances and family payments) is contributing to their decline relative to median and average wages over the last two decades (Figure 6).

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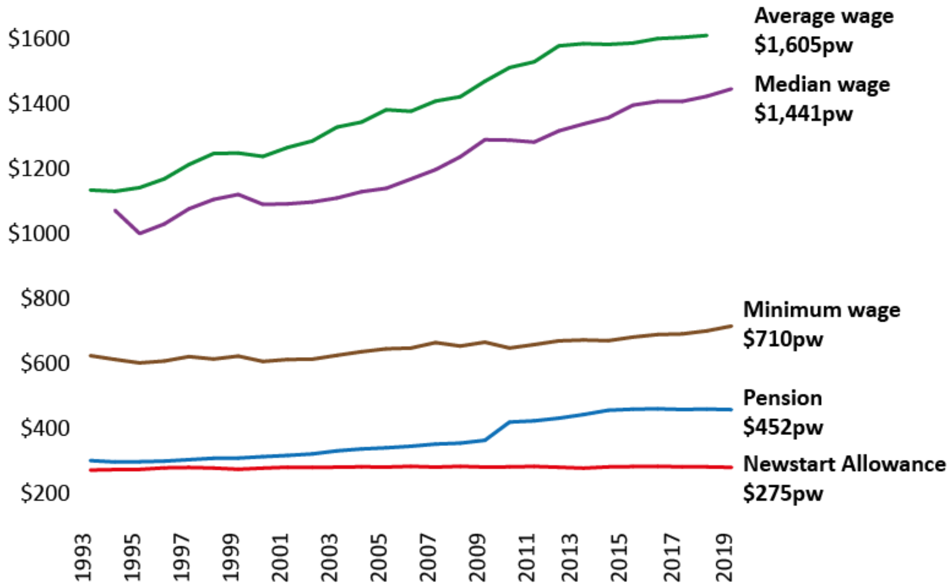
Figure 6: Historical comparison of Newstart Allowance with pensions and wages ($2019)



Sources: ABS, Survey of Employee Earnings and Hours, Average Weekly Earnings; Fair Work Commission; Department of Social Services.

Figure 6 shows a consistent long-term relationship between minimum wages and unemployment benefits. Between 1995 and 2010, unemployment payments for a single adult with no dependent children sat in a narrow band between 43-44% of the minimum wage (before tax). Before the pandemic in 2019, JobSeeker Payment was just 38% of the minimum wage, suggesting there is considerable scope to increase it without weakening rewards for employment.[28]

The constancy of this relationship over the longer term is not surprising given official concerns (accurate or not) about the effect of income support payments on work incentives. This historical link between minimum wages and social security payments helps explain why higher minimum wages are associated in international comparisons with lower levels of child poverty, even though only a minority of poor households in most OECD countries benefit directly from minimum wages.[29]

To reduce poverty, the JobSeeker Payment and family payments must be increased substantially. There is now a broad consensus for this ranging from the Business Council to the Australian Council of Trade Unions, the Australian Investment Council and Deloitte Access Economics.

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[28] Department of Human Services (2019), *A guide to Australian Government payments*, DHS, Canberra; Workplace Info (2020): *History of national increases*, Workplace Info, Sydney.

[29] OECD (2021): *Poverty rate*, OECD, Paris; OECD (2021): *Wage levels*, OECD, Paris.

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On 1st of April 2021 the maximum rate of Allowance payments was increased by $25 a week, though the immediate effect of that increase was to reduce incomes by $50 a week since the $75 a week Coronavirus Supplement was removed at the same time. ACOSS calls for a permanent increase in the JobSeeker Payment and Youth Allowance of $172 per week (in the case of single people) to ensure people looking for paid work can meet basic living costs and search for employment.

Family Tax Benefits lift the incomes of families on the minimum wage, but they have been cut significantly over the last decade

Family Tax Benefits supplement income from employment for households with dependent children, raising the disposable incomes of low-paid households. However, in recent years governments have reduced these payments (cutting $12 billion from Family Tax Benefits alone between 2009 and 2016), leaving families with low incomes more reliant on wage increases.

Since 2009 Family Tax Benefit (Part A) for low-income families has been indexed to CPI only rather than wage movements, reducing payment levels since then by over $13 per week for each child under 12 years and $17 per week for each older child (with further reductions in the future).[30] As a result, the real disposable incomes of low-paid families have declined relative to those without children.[31]

Child poverty has already increased over the past two decades, and will continue to rise, if minimum wages and family payments do not increase in line with wage increases generally.[32]

Minimum wages help reduce the gender pay gap

Minimum wages play an important role in reducing the gender pay gap, which is caused by a combination of unequal sharing of caring roles, the over-representation of women in relatively low-paid caring occupations (including in the community services sector), and discrimination against women in hiring and promotions. Minimum wage increases from 1995 to 2005 were estimated to reduce the gender pay gap by 1.2 percentage points.[33]

In 2021, the gap between median adult (non-managerial) hourly ordinary time earnings for men and women was $4.20 per hour, or 8.8% of the median male rate.

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[30] Whiteford, P et al. (2018), *op. cit.*

[31] In the Commission's modelling of changes in the disposable incomes of hypothetical families with children relying on the NMW from 2013 to 2018, they had smaller increases in household disposable income than those without children. See Fair Work Commission (2019), *Statistical report- Annual Wage Review 2018–19*, Table 8.4.
Federal Budget reductions in family payments and income support payments are likely to be a major reason for this.

[32] Davidson, P et al. (2020), *Poverty in Australia 2020 – Part 1: Overview*, ACOSS/UNSW Poverty and Inequality Partnership Report No. 3, ACOSS, Sydney.

[33] Fair Work Commission (2020), *Statistical report- Annual Wage Review 2019-20*, FWC, Sydney; Austin et al. (2008): *Gender pay differentials in low-paid employment*, Australian Fair Pay Commission, Canberra.

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As the peak organisation in the non-government community services sector, ACOSS has a particular interest in employment issues in community services. The vast majority of employees in the community services sector (82%) are women. Consistent with the treatment of caring work more broadly, their work is undervalued, despite being highly skilled.

In 2021, 33% of employees in health care and social assistance were award reliant (up from 17% in 2010), making it one of four major industries with a high share of award-reliant workers; the others being retail; accommodation and food services; and administrative and support services.[34]

We warmly welcomed increases in pay for community workers arising from the Commission's equal remuneration decision in 2012, which were phased in up to 2020.[35] Further increases are likely to be needed over time to improve the quality of community services by helping avert shortages of skilled workers. The Australian government is committed to providing financial support for community sector employers to meet these pay increases in many funding programs but not all, an anomaly that should be rectified.[36]

There is no automatic relationship between minimum wages and employment levels

Increases in minimum wages awarded by the Commission in recent years have had no discernible impact on aggregate employment.[37] International evidence generally supports the view that modest increases in minimum wages have little or no adverse impact on employment.[38] One reason for this is that competition in labour markets is not as frictionless as conventional economic models imply. For example, major employers increasingly hold monopsony price-setting powers in key industries.[39]

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[34] Fair Work Commission (2022), *op. cit.*

[35] Fair Work Australia (2012), *Decision, Equal Remuneration Case*.

[36] ACOSS (2021), *Equal Pay commitment must apply to whole of community service sector*. Media release, 9 March 2021, Sydney. Australian government (2021), Budget Measures.

[37] Productivity Commission (2015), *Workplace Relations Framework: Productivity Commission Inquiry Report: Volume 1*, page 201; Bishop, J (2018), *The effect of minimum wage increases on wages, hours worked and job loss*, RBA Bulletin September 2018.

[38] Dube, A (2019), *Impacts of minimum wages: review of the international evidence*, HM Treasury, London.

[39] Manning A (2021), Monopsony in Labor Markets: A Review. ILR Review, 74(1), January 2021, pp. 3–26.

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Recommendations

We recommend that the minimum wage be increased consistently and substantially to reduce the gap between the minimum wage and the median wage. While we do not recommend specific increases in minimum wages, the rest of our recommendations focus on how the needs of people on low pay can best be assessed, and the respective roles of wages and social security in sustaining a decent standard of living.

Our starting point is that the minimum wage should be designed to at least provide a decent living standard, well above poverty levels, for a single adult; and that the tax-transfer system should meet the basic costs of raising children in a low-income family.

The minimum wage should not be directly designed to cover the costs of children because that role is best performed by the social security system. In assessing the living standards of low-paid workers and their families, the Commission should take account of both minimum wages and social security payments, especially Family Tax Benefits. Nevertheless, it is vital that the minimum wage and family payments together are sufficient to prevent a family from falling into poverty.

The minimum wage itself should be set well above poverty levels for a single adult, in keeping with Australian policy tradition and the desirability of maintaining an appropriate gap between maximum social security payments and minimum wages.

In addition to these measures, an appropriate benchmark for the adequacy of the minimum wage is to compare it with the full-time median wage. A reasonable goal would be to restore its value to at least 60% of the full-time median wage.

We do not propose that minimum wages be tied to a single measure of income adequacy such as a poverty line or budget standard. The Commission needs flexibility to take account of the other factors including the state of the economy, work incentives and employment. Nevertheless, without reference to benchmarks grounded in thorough independent research on living standards, the adequacy of minimum wages cannot be objectively assessed. ACOSS welcomes the Commission's use of updated poverty lines, financial stress indicators and expenditure patterns of low-paid workers in the Annual Wage Review Statistical Reports.

We recommend that:

- The Commission should increase real minimum wages substantially in order to support recovery from the COVID recession and significantly reduce the gap between them and median pay levels.
- Decisions on the level of minimum wages should be informed by benchmark estimates of the cost of attaining a 'decent basic living standard' for a single adult according to contemporary Australian standards.
- A reasonable benchmark for the adequacy of minimum wages in comparison with wages across the community would be 60% of the full-time median wage.

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- The combined effect of the minimum wage and family payments on the extent of poverty among families, including recent significant cuts in family payments, should also be expressly considered in setting minimum wages.
- The FWC should continue to commission research and hold consultations with stakeholders to develop and update a robust set of indicators of a minimum adequate living standard for people in low-paid work. It should regularly assess the living standards of individuals and households receiving minimum wages against median household disposable incomes, poverty lines, budget standards and deprivation indicators, including financial stress indicators.
- Minimum wage rates for young people, apprentices and trainees, and people with disability under the Supported Wage System should continue to be increased in line with the rise in the minimum wage for adults.

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