Submission to the Fair Work Commission on the Minimum Wage

30 March 2023

About ACOSS

The Australian Council of Social Service (ACOSS) is a national voice in support of people affected by poverty, disadvantage and inequality and the peak body for the community services and civil society sector.

ACOSS consists of a network of approximately 4,000 organisations and individuals across Australia in metro, regional and remote areas.

Our vision is an end to poverty in all its forms; economies that are fair, sustainable and resilient; and communities that are just, peaceful and inclusive.

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Summary

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

The National Minimum Wage (NMW) is $812.60 per week, $21.38 per hour, or around $42,400 per year. Last year's minimum wage increase determined by the Fair Work Commission was 5.2% ($40 per week).[1]

Australia is close to full employment, but we are not there yet

With unemployment at 3.5% and underemployment at 5.8%, Australia is closer to full employment than we have been for five decades, but we are not there yet.[2] A prolonged period of full employment is a worthy goal: it would improve opportunities for people locked out of employment to secure decent paid work and regular adequate working hours, promote growth in wages and living standards, and reduce income inequality and poverty.

Progress towards full employment is now jeopardised by rapid increases in interest rates to curb inflation. ACOSS has argued elsewhere that the Reserve Bank and Government should commit to a full employment objective that is given equal weight to the Bank's inflation target.[3] Nevertheless, all stakeholders should do what they can to contain inflation directly and avoid recourse to higher interest rates. In particular we support the government's initiatives to curb increases in gas prices and have urged them to contain price increases in other key markets such as housing.

While high inflation is concerning, there is no sign of a price-wage spiral

The ABS underlying measure of inflation rose by 6.3% through 2022, though inflation appears to have peaked:[4]

> *''the monthly CPI indicator for January published last week provided support to the idea that headline inflation has also peaked in Australia.'' (*RBA Governor Lowe, *Inflation and Recent Economic Data*, Financial Review Business Summit 2023, Sydney 8 March 2023.)

High inflation in Australia and elsewhere through 2022 was triggered by supply constraints related to COVID19, the war in Ukraine and the temporary boost to incomes from COVID19

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

[2] Seasonally adjusted: https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release#media-releases

[3] ACOSS (2022), *Jobs and Skills Summit statement.* Sydney.

[4] ABS, *Consumer Price Index, Australia*.

economic stimulus measures such as early release of superannuation and JobKeeper Payment.

While there is evidence to suggest that some businesses have taken the opportunity of higher inflation to lift or restore profit margins, there is no evidence that compensatory wage increases are contributing to inflation - or will do so in the foreseeable future:[5]

> '*'we recently received new readings on the Wage Price Index and average earnings from the National Accounts. Both indicate that wages growth is stronger than it was a few years ago, which is a welcome development. It is also positive that the rate of wages growth remains consistent with the inflation target, provided that productivity growth picks up to something like its pre-pandemic pace.*
> *….Together, these data suggest that the risk of a prices-wages spiral remains low."*
> (RBA Governor Lowe, ibid)

On the contrary, real wages have fallen to levels last seen a decade ago

On average, real wages (as measured by the Wage Price Index, adjusted for inflation) declined by 4.5% through 2022, to levels last plumbed over a decade ago.[6] Due to recent decisions of the Commission to substantially increase the National Minimum Wage in nominal terms, its real value has not fallen as sharply as average pay, but it still sits at its 2018 level in real terms.[7]

The failure of wages to 'keep up' with the recent rise in inflation calls into question the previously dominant view in macroeconomic policy that the main driver of large, sustained increases in inflation during economic booms is a 'wage-price spiral' triggered by unemployment that has fallen 'too low'.[8] Since the Global Financial Crisis in 2008, central banks and macro-economists have revised their previous views on the relationship between unemployment and inflation, either lowering the unemployment rate at which they expect inflation to rise or questioning whether there is a robust relationship between those two factors.[9]

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[5] Stanford J (2023), *Profit-Price Spiral: The Truth Behind Australia's Inflation*. Australia Institute, Canberra.

[6] The Wage Price Index grew by 3.3% through 2022 and the CPI rose by 7.8%. ABS, *Wage Price Index* and *Consumer Price Index. Australia*.

[7] Fair Work Commission (2023), *Statistical report—Annual Wage Review 2022–23,* version 1.

[8] This is the theory underpinning measurement of the *Non-Accelerating Inflation Rate of Unemployment* (NAIRU), derived from the *Philips Curve* which tracks the relationship between unemployment and inflation.

[9] Before COVID19, the Reserve Bank revised its estimate of the NAIRU downwards from 5-6% to 4-5% in response to a decade of wage stagnation (Ellis L 2019, *Watching the Invisibles*. Freebairn Lecture in Public Policy, University of Melbourne – 12 June 2019). See also Ratner et al (2021), *Who Killed the Phillips Curve? A Murder Mystery*. Finance and Economics Discussion Series Federal Reserve Board, Washington.

The decline in real wages is causing financial hardship, especially among low-paid workers

Low paid workers and their families are caught in a vice between sluggish growth in wages (though they have been rising in nominal terms) and rapid growth in expenses such as rents, mortgage interest payments and groceries.

In a survey of household incomes and financial stress conducted from 2019 to September 2022, researchers from Australian National University found that *average real household after-tax incomes* declined significantly across the income distribution from April to October 2022, including the second lowest and middle quintile where minimum wage earners are most likely to be located.[10] This followed sharper reductions in real incomes between January 2021 and April 2022, likely due to higher consumer price inflation at this time.

From April to October 2022, the proportion of households finding it '*difficult to get by on current income'* rose from 29.7% to 31.1% for the second lowest quintile though it fell from 26.5% to 23.9% for the middle quintile.

Similarly, the *NAB Financial hardship survey* charts a steady increase in the share of *individuals* with low incomes reporting high levels of financial stress through 2022. From the second to fourth quarter of that year, the proportion with income below $35,000 (which would include many part-time minimum wage earners) reporting high financial stress levels rose from 31% to 33%, while for incomes from $35,000 to $50,000 (including the fulltime minimum wage) it rose from 20% to 27%.[11]

The so-called 'household savings buffer' built up in the first year of the pandemic is not shielding low paid workers from financial hardship. The household saving ratio has fallen back to its pre-COVID level of around 5% of disposable income.[12] In any event, most of the additional saving was undertaken by people in high-income households. In December 2020:

- 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.[13]

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[10] Average household after-tax incomes from all sources (expressed in 2020 dollars) fell from $885 to $874 for the second lowest quintile and from $1,368 to $1,336 for the middle quintile. Biddle N & Gray M (2023), *Economic and other wellbeing in Australia*. ANU Centre for Social Research and Methods. Canberra; Fair Work Commission (2021), *Statistical report—Annual Wage Review 2020–21.*

[11] National Australia Bank (2023), *Financial Hardship: Who is struggling & what are the key drivers?* Quarters 3 and 4 2022. NAB. Melbourne.

[12] ABS (2022), *Australian National Accounts: National Income, Expenditure and Product*.

[13] ABS, *Household financial resources*, December 2020.

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.

Around half (46%) of low paid workers reliant on awards rent their housing.[14] People renting their homes are under the greatest financial stress – due to their lower incomes and increases in rents. 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).[15]

Over the past year, increases in rents have put huge pressure on low-income budgets. Advertised rents for housing rose by 10.2% on average through 2022 (10.9% in capital cities and 8.4% in the rest of the country).[16]

Average home prices fell by 5.3% through 2022, but this followed a staggering 24% increase through 2021, so average prices remain above pre-COVID levels.[17] Despite the recent decline in home prices, higher interest rates are lifting home mortgage payments on existing loans. The share of household disposable income devoted to mortgage payments rose from 6.5% in May 2022 (when interest rates began to rise sharply) to 8.25% in December 2022. According to the Reserve Bank:

> *'mortgage payments are projected to reach between 9½ and 9¾ per cent of household disposable income by the end of 2023, based on cash rate increases to date.'* (RBA 2023, *Statement on Monetary Policy: February 2023).*

The sharply rising cost of this key essential of life should be considered when setting minimum wages.

Despite recent minimum wage increases, the minimum wage remains well below its historical relativity to median wages

Over the decade from 1996 to 2006, the minimum wage declined from 62% to around 50% of full-time median weekly earnings and has remained around that level since then.[18]

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[14] Yuen, K et al. (2018): *Characteristics of workers earning the national minimum wage rate and of the low paid*. Fair Work Commission, Melbourne.

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

[16] Corelogic (2023), *Quarterly Rental Review* (Dec 2022). The median asking rent nationally was $555 per week. This ranged from $679 in Sydney to $500 on average outside the capital cities.

[17] In December 2022, average capital city dwelling values remained 11.7% above pre-COVID levels (March 2020), while values outside capital cities were 32.2% above pre-COVID levels (*CoreLogic Home Value Index*, January 2023).

[18] ABS (2022), *Employee earnings and hours*.

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

Research undertaken by ACOSS and UNSW Sydney indicates that poverty among wage-earning households has been increasing. In 2019-20, 38% of people below the 50% of median income poverty line and 41% 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.[19]

Similarly, in 2019-20, 38% of people in poverty (1,275,000 people, based on the 50% of median income poverty line) were in households *whose main income-earner was employed*: 21% where the main earner was employed fulltime and 17% where they were employed part time. Among all people in households whose main income-earner was employed fulltime, 5% were in poverty, rising to 19% where the main earner was employed part-time.[20]

The Commission's research indicates that single parents employed part time and single earner couples (with or without children) whose only private income is the minimum wage typically have incomes below the 60% of median income poverty line, and that those incomes have fallen further below the poverty line since 2017.[21]

Budget Standards research indicates that families on the minimum wage lack sufficient income for the essentials

ACOSS welcomes the Commission's decision to use Budget Standards research to help assess the adequacy of minimum wages, combined with government income supports. A recently published update of Budget Standards research by the Social Policy Research Centre at UNSW Sydney is very informative.[22] This research uses expert judgement and

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[19] ACOSS & UNSW Sydney (2022), *COVID, inequality and poverty in 2020 and 2021*.

[20] The equivalent statistics for the 60% of median income poverty line are as follows: 1,730,000 or 41% of people in poverty in households mainly reliant on wages; 26% of people in poverty in households whose main earner was employed fulltime, and 16% where they were employed part-time (ACOSS & UNSW Sydney 2023, *Poverty in Australia: 2023 Who is affected?* forthcoming).

[21] See Fair Work Commission (2023) op cit. Taking account of income tax and social security payments, a single parent with one child employed part time has disposable income equal to 80% of that poverty line (76% with two children). A single earner couple employed fulltime (without income support) with no children has income equal to 75% of the poverty line (86% with one child and 82% with two children). In all these cases, disposable incomes have fallen further below the poverty line since September 2017. Single earner couples may receive part-payments of Jobseeker or Parenting Payment which, together with their other incomes lift them just above that poverty line. However, claiming Jobseeker Payment brings costs that often exceed the small amounts of part-rate payment available (including compliance with stringent activity requirements).

[22] Bedford, M; Bradbury, B & Naidoo, Y (2023), *Budget Standards for Low-Paid Families.* Report prepared for the Fair Work Commission, Melbourne, Australia.

input from focus groups of people directly affected to draw up minimum household budgets. These are compared with the incomes available to hypothetical families whose only private income is the (fulltime or part-time) minimum wage.

Consistent with the Commission's own analysis comparing family incomes with the 60% of median income poverty line, couples and sole parent families have incomes well below an 'adequate' level. The research finds that, among the hypothetical families surveyed, only dual-wage families have disposable incomes *above* the relevant Budget Standard.

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.[23] Further, 43% of low-paid workers who are reliant on Award rates of pay were the sole or main income-earner in their household and 35% had one or more dependent children.[24]

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.

There is an urgent need to substantially increase Jobseeker and other working-age income support payments which sit well below the poverty line. ACOSS is calling for an increase in JobSeeker Payment and Youth Allowance of at least $185 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. [25] In addition, base payments should be supplemented by adequate family payments and appropriate and adequate supplementation for the additional costs of private rent, disability and raising children alone.

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[23] Fair Work Commission (2021), op cit.

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

[25] ACOSS (2022), Addressing inadequacy of income support: Briefing note. Sydney

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 $6 per hour, or 13.4% of the median rate for men.[26] More than half (55%) of low-paid award-reliant workers are women.[27]

ACOSS warmly welcomes the establishment of Expert Panels for decision making on modern award adjustments cases relating to gender pay equity and the Care and Community Sector.

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.[28]

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

If low unemployment is sustained, this presents an opportunity for many workers who have effectively been frozen out of employment, including over 600,000 people on unemployment payments long-term.[29]

It also poses a challenge for employers. 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).[30] 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.[31]

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[26] Fair Work Commission (2023) op cit.

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

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

[29] Department of Social Services (2023), *Income support statistics*; ACOSS (2021), *Faces of unemployment.*

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

[31] National Australia Bank (2022), *Behavioural Insights report (February 2022), Australia's great resignation*. Melbourne.

These recruitment and retention challenges are especially acute in care services, one of the fastest growing occupations. 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.[32] 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 working hours. Among those surveyed, 45% had unpredictable working hours and among permanent employees the average working week was just 22 hours. [33]

Key recommendations

In brief, we recommend that:

- The Commission increase real minimum wages substantially to reduce financial hardship as living costs rise, and to reduce the gap between minimum wages and median pay levels.
- Decisions on the level of minimum wages be informed by regular comparisons of the living standards of minimum wage-earning households with benchmark indicators of a 'decent basic living standard' for a single adult, 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.

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

[33] Cortis N & Toorn D (2020), *Working in new disability markets: A survey of Australia's disability workforce*, Social Policy Research Centre, UNSW Sydney.

Additional evidence

High inflation has wiped out three years of solid gains in real minimum wages

From the Global Financial Crisis in 2008 to 2021, the minimum wage only increased in real terms by an average of 0.4% per annum, after the recent surge in inflation wiped out three years of solid real wage gains (Figure 1).

Figure 1: Long-term trends in real minimum wages

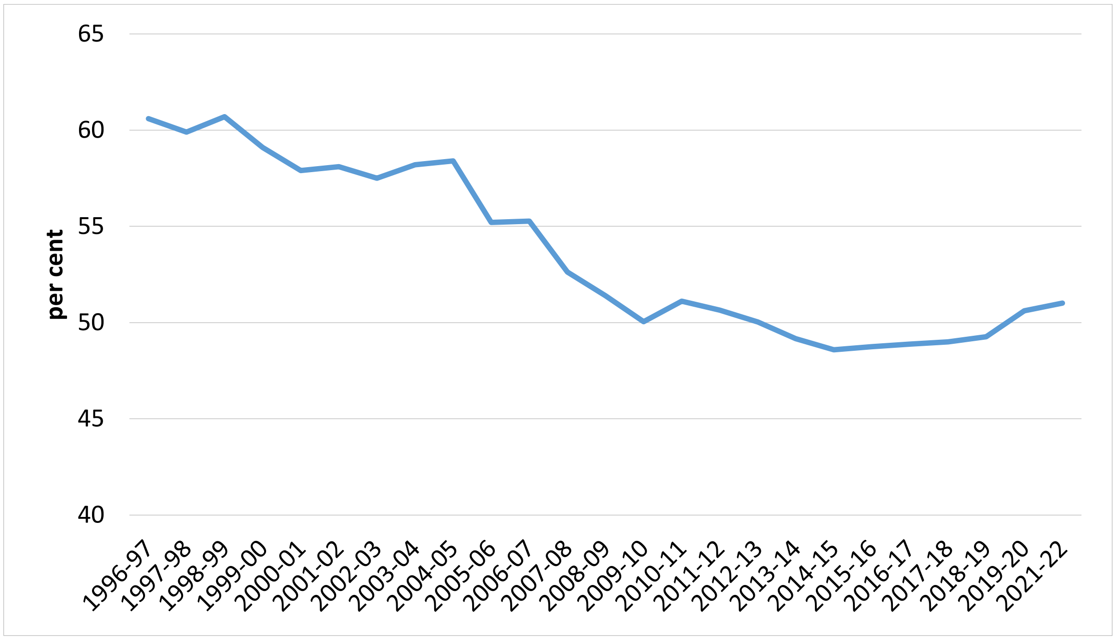
Sources: Fair Work Commission; ABS (2023), *Consumer Price Index*.

Over the longer-term, minimum wages have declined relative to median earnings

Over a longer timeframe, increases in the minimum wage since the mid-1990s were well below growth in median pay levels. Consequently, the minimum wage fell from 61% of full-time median weekly earnings in 1996 to around 50% in 2009, and has remained around that level since. This means that people on minimum wages and their families have fallen behind improvements in community living standards (Figure 2).[34]

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

Figure 2: Trends in the minimum wage as a % of full-time median earnings



Source: Fair Work Commission; ABS (2022), *Employee earnings and hours.*
Note: Full-time adult non-managerial median earnings for all jobs held by an employee.

Budget Standards research indicates that families on the minimum wage lack sufficient income for the essentials

Budget Standards research uses expert judgement and input from focus groups of people directly affected to draw up minimum household budgets. These can then be compared with the incomes available to hypothetical families whose only private income is the (fulltime or part-time) minimum wage.

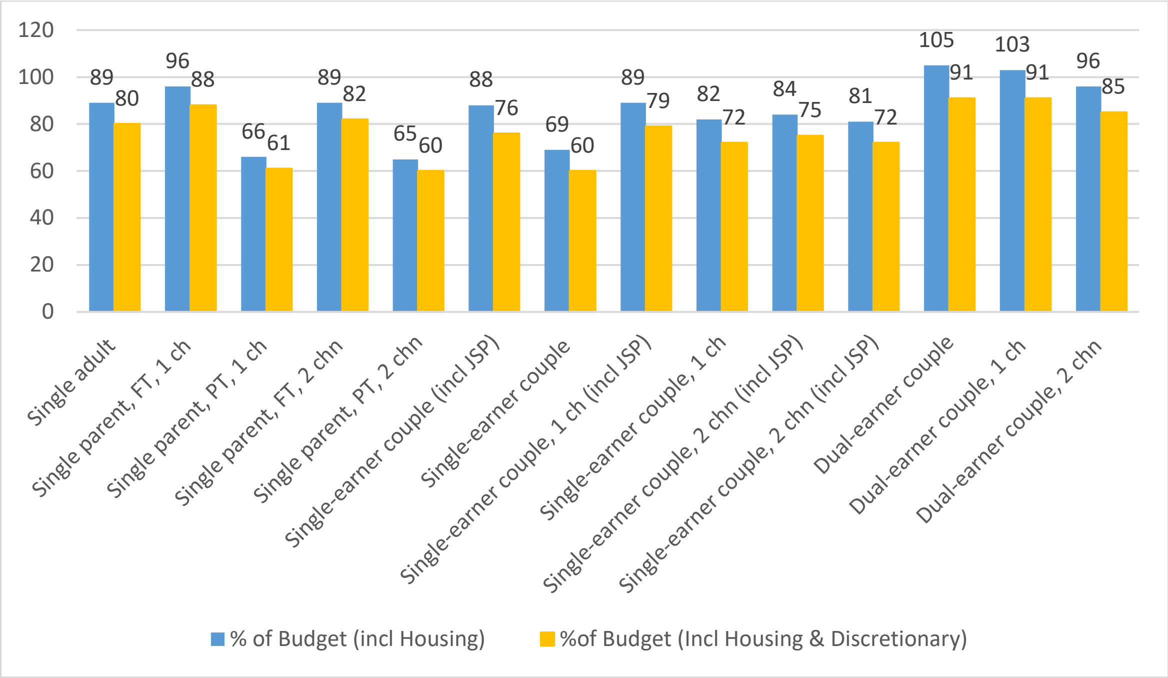
Figure 3 shows results from recently published Budget Standards research commissioned by the FWC. [35]

Consistent with the Commission's own analysis comparing family incomes with the 60% of median income poverty line, couples and sole parent families have incomes well below an 'adequate' level. In those cases, more family members depend on the combination of a single minimum wage and government income support.

The researchers find that, among the hypothetical families surveyed, only dual-wage families have disposable incomes *above* the relevant standard.

[35] Bedford, M; Bradbury, B & Naidoo, Y (2023), *Budget Standards for Low-Paid Families.* Report prepared for the Fair Work Commission, Melbourne, Australia.

Figure 3: Incomes of minimum wage-earners as a % of Budget Standards (per cent)



Source: Bedford, M; Bradbury, B & Naidoo, Y (2023), op cit.
Note: A set of basic Budgets including housing costs (which vary across the country) were modelled (blue bars); in addition to an alternative (higher) set of Budgets that also included 'discretionary items' such as alcohol and various recreational activities (yellow bars).
Incomes of hypothetical families include full or part-time minimum wages, social security payments and income tax.

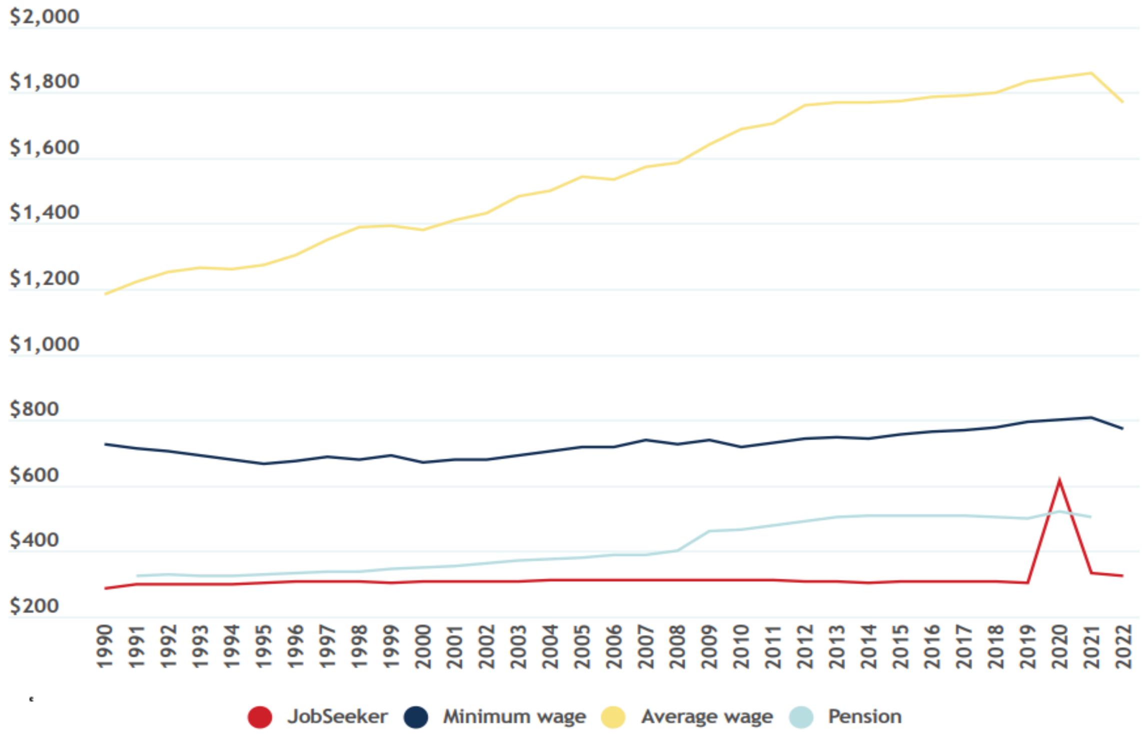
Adequate minimum wages reduce poverty indirectly by making room for adequate income support payments

As well as easing poverty directly in families where more than one person depends on a single minimum wage, 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 average wages over the last two decades (Figure 4).

Figure 4: Historical comparison of unemployment payments, minimum and average wages ($2022)



Sources: ABS, *Survey of Employee Earnings and Hours;* ABS*, Average Weekly Earnings*; Fair Work Commission; Department of Social Services.
Note: Average weekly total earnings in main job.

Figure 4 shows a consistent long-term relationship between minimum wages and unemployment benefits – aside from the temporary increase in the latter payments during the first year of the COVID pandemic. 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.[36]

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

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

child poverty, even though only a minority of poor households in most OECD countries benefit *directly* from minimum wages.[37]

To reduce poverty, the JobSeeker Payment and other working-age income support 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.[38] ACOSS calls for a permanent increase in JobSeeker and related payments to bring it up to same level as pension payments (currently an increase of $185 per week in the case of single people) and ensure people looking for paid work can meet basic living costs and search for employment. In addition, base payments should be supplemented by adequate family payments and appropriate and adequate supplementation for the additional costs of private rent, disability and raising children alone.

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

Around one third (35%) of low paid award-reliant workers are parents with dependent children. [39]

Family Tax Benefits supplement income from employment for households with dependent children, raising the disposable incomes of low-paid households. However, over the last decade 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). [40]

As a result, the real disposable incomes of low-paid families have declined relative to those without children.[41] 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.[42]

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[37] OECD (2021), Family Database. Paris.

[38] ACOSS, ACTU & BCA (2022), *Full employment and the Jobs and Skills Summit*. Canberra.

[39] Wilkins R & Zilio (2020), op cit.

[40] Whiteford, P (2018), *Social Security since Henderson*. in Saunders P (2018), *Social Security Reform: Revisiting Henderson and Basic Income*, Melbourne University Press, Melbourne.

[41] 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.

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

Minimum wages help reduce the gender pay gap

ACOSS warmly welcomes the establishment of Expert Panels for decision making on modern award adjustments cases relating to gender pay equity and the Care and Community Sector.

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.[43]

In 2021, the gap between median adult non-managerial hourly ordinary time earnings for men and women was $6 per hour, or 13.4% of the median rate for men. More than half (55%) of low-paid award-reliant workers are women. [44]

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.[45]

We welcomed increases in pay for community workers arising from the Commission's equal remuneration decision in 2012, which were phased in up to 2020.[46] Further increases are likely to be needed over time to improve the quality of community services by helping avert shortages of skilled workers. Successive governments have committed to support community sector employers to meet these pay increases, but funding for this purpose has not been consistently provided and in some cases is time limited and insecure.

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[43] 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.

[44] Fair Work Commission (2023) op cit.

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

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

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, and its commissioning of Budget Standards research.

ACOSS recommends that:

- The Commission should increase real minimum wages substantially to ease financial hardship 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 at least 60% of the full-time median wage.

- The combined effect of the minimum wage and family payments on the extent of poverty among families, including reductions 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.