



Brotherhood
of St Laurence

Working for an Australia free of poverty

ANGLICARE
AUSTRALIA

*Submission to the
Australian Fair Pay
Commission*

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1 Introduction

This submission is provided by Brotherhood of St Laurence and Anglicare Australia to assist the Australian Fair Pay Commission (AFPC) in reaching its first minimum wage determination.

We note that the objective of the Commission in performing its wage-setting function is to promote the economic prosperity of the people of Australia and that its key considerations are:

- The capacity for the unemployed and low-paid to get, and keep, a job;
- Keeping Australia's labour market strong and competitive;
- Providing a safety net for the low-paid; and
- Providing minimum wages for juniors, trainees and people with a disability to make sure they are competitive in the labour market.

The Brotherhood of St Laurence and Anglicare Australia recognise that the appointment of the AFPC under the Work Choices legislation represents an historic departure from what has been a century long tradition of judicial wage arbitration in Australia. We are particularly conscious of the way that until now Australians have used the wage system to provide social protection for its citizens, especially the low paid, by means other than a welfare state.

Beginning with the 'Harvester Judgement', minimising welfare reliance through making work pay has been a key strategy – although not the only one, by any means – for protecting the living standards of Australians. Our overarching concern in this submission is with the position that the AFPC will take in relation to that tradition. In particular, will the practice of maintaining a strong floor under the labour market be maintained? If not, we believe it is incumbent on the AFPC to show how a decent minimum standard of living for the low paid will be maintained through the tax and welfare systems.

The BSL and Anglicare Australia will argue that the social arguments for maintaining a strong minimum wage remain strong and that the case for the economic benefits of freezing or lowering the minimum wage is not strong enough to warrant radical departure from existing practice.

However we will conclude that in the longer term there are grounds for a more fundamental rethinking of the way we use our wage, tax and welfare systems to assist citizens across the life cycle. Historically the system has never worked in an integrated way to respond systematically to need. Faced with radically altered labour markets and household formations we call on the AFPC to give due consideration to the kinds of policies and institutions which are needed to provide Australia with a system of social protection fully adapted to the twenty first century.

Brotherhood of St Laurence

The Brotherhood of St Laurence is a Melbourne-based community organisation that has been working to reduce poverty in Australia since the 1930s. Our vision is 'an Australia free of poverty'. Our work includes direct service provision to people in need, the development of social enterprises to address inequality, research to better understand the causes and effects of poverty in Australia, and the development of policy solutions at both national and local levels. We aim to work with others to create:

- an inclusive society in which everyone is treated with dignity and respect
- a compassionate and just society which challenges inequity
- connected communities in which we share responsibility for each other

- a sustainable society for our generation and future generations.

The Brotherhood has a significant focus on employment in both service delivery and research and policy development. Our employment-related programs include Job Network, Personal Support Programme, STEP (a group training provider), GAPCo (disability employment), JPET (Jobs, Placement, Education and Training Program), Frankston Furniture Works (a social enterprise providing traineeships), and a Community Jobs Program run in partnership with Neighbourhood Renewal focused on long term unemployed people living in public housing (the Atherton Gardens project).

Anglicare Australia

Anglicare Australia is a nationwide network of locally based Anglican organisations serving the needs of their communities.

The member agencies operate individually in their respective states and territories, providing a range of community services and aged care to people in need and working to address issues of injustice on a local level. In 2005 the 43 member agencies spent over \$500 million in the care of close to 400,000 clients. The network comprises approximately 11,000 staff and 10,500 volunteers.

Collectively, the members operate as Anglicare Australia, providing a national perspective to social and economic policy, and working together to promote a social framework for building communities of hope. That collective voice provides a context for promoting the local work of individual members – to governments, the general community and the Anglican Church.

2 Effects of minimum wages on employment and competitiveness

The relationship between wage levels and employment in the short term is uncertain

There are some in the community who are urging the Commission to consider reducing the real value of the minimum wage over time in an attempt to stimulate low-skilled employment. We believe that this policy response is likely to have a negligible effect on employment and will hurt low-paid workers overall. Empirical evidence from other OECD countries fails to show a clear relationship between minimum wage changes and employment, and a number of studies have found no effect or only negligible increases in employment after increases in the minimum wage (see Dowrick & Quiggin 2003; Gregg 2000; Hyslop & Stillman 2004; Lemos 2004; Stewart 2002; Watson 2004)

We understand that the Australian context differs from many of the countries studied in these references, such as the US and the UK. Australia is a country with one of the highest minimum wages in the OECD. However, the results do indicate that minimum wages and employment are not necessarily inversely related. We feel that there is a need for further research examining this relationship in the Australian context.

Interaction with the income-support system

Reducing real minimum wages may also act as a work disincentive for those on unemployment benefits, as work would not pay. With little additional financial return from working this can increase the impact of poverty traps. Our concern is that an option to remedy this problem would be to reduce unemployment benefits, which could further increase poverty.

Long-term competitiveness

Most research on the effect of minimum wages on employment and the economy is based on the short term situation. However workers and firms will adjust to minimum wages over time therefore potentially affecting the economy's growth path in the long-run.

A theory, developed by Cahuc and Michel (1996), is that minimum wages contribute to long term economic growth via the externalities associated with human capital investment. The authors show that, in an overlapping generations model with endogenous growth, 'high minimum wages can have positive effects on the growth rate and welfare by increasing the proportion of skilled workers'. What this model suggests is that there is generally a trade-off between growth and the proportion of unskilled jobs: a low demand for unskilled labour, brought about by a high minimum wage, may create a human capital reallocation towards the qualified sector of the economy.

Askenazy, (2003) follows this by showing in a theoretical model that minimum wages in open economies can lead countries to grow faster than under the laissez faire model. This is also supported by initial empirical analysis of 11 OECD countries. The empirical analysis of these types of models is still quite preliminary with further research needed. Another reason to tread carefully until we know more about the long run effects on economic growth.

These growth theories are consistent with studies such as Michie & Sheehan (2003) who find that growth in low wage, low skilled employment is negatively associated with company OR business or enterprise level innovation. Indeed some suggest that the US loss of the productivity advantage it once held over Europe — a number of EU countries now having higher productivity per hour (OECD 2004)— is due to the varying labour market arrangements in each country (Osterman et al. 2001).

Also, there is some evidence that higher minimum wages may encourage greater investment in skill development by employers. In the UK increases in the minimum wage at a rate faster than average wage increases was linked to an increase in training for affected groups of 8 to 11% (Arulampalam, Booth & Bryan 2002). This is consistent with a model developed by Acemoglu & Pischke (1999), under which higher minimum wages can lead to increased company level investment in general training of affected workers.

Encouraging low-wage, low-skilled employment therefore seems at odds with the government's stated desire to compete in the 'knowledge economy' through the development of a highly skilled, innovative workforce (DEST 2001).

3 Low-pay dynamics and the need for additional assistance

If the Commission did decide to hold down the real value of the minimum wage and there was a subsequent growth in low-wage employment, the Brotherhood and Anglicare Australia would still be concerned that those entering the labour market would remain vulnerable if this work did not act as a 'stepping stone' to improved employment prospects over the longer term. For instance Richardson (2003) finds that in most cases this work does not serve as a stepping stone to better quality employment. We are particularly concerned that the most vulnerable job seekers would cycle between low-paid work and unemployment. This 'low-pay no-pay' cycle occurs internationally (for example see Stewart (2002) for UK) and the recent Productivity Commission (2006) report on non-traditional employment indicates is an issue for the most vulnerable in the Australian labour market. This is another area which we feel needs further research.

We believe that other initiatives need to be implemented to improve employment retention and development of the long-term jobless entering the labour market. There is evidence that intensive employment assistance works when education and training is provided to those most at risk and emphasis is on getting people into 'good' jobs (Campbell, Maniha & Rolston 2002).

4 Poverty and social exclusion for low-paid workers

As overall employment effects are likely to be minimal, the Brotherhood and Anglicare Australia believe that it is important to consider other important functions of minimum wages. These include:

- restricting inequality
- reducing poverty, although this is not a direct relationship since many low-paid workers do not live in poor households
- reducing exploitation of vulnerable groups in the labour market (Gregg 2000)
- preventing the growth of low-quality jobs in low wage, low skill industries, as occurred when the Kennett government cut wages in Victoria (Watson 2001)
- reducing employee turnover and encouraging investment in training (Arulampalam, Booth & Bryan 2002)

While low-paid workers are spread across the household income distribution, they are twice as likely to be poor as other workers. Typically they work full time, are of prime age, have no formal education qualifications, and are disproportionately married and female (Richardson & Harding 1998).

This effect is predicted by labour market segmentation theory, which suggests that letting wages fall encourages the growth of a secondary labour market made up of poor quality jobs with little investment in skills or opportunity for advancement (Cormier & Craypo 2000).

Moving toward a US style system with cuts in minimum wages and associated policies is likely to result in an increase in low quality, low skill jobs that are less likely to provide training or act as a stepping stone to better jobs (Richardson 2003). Such a growth in the low pay sector was seen in Victoria after the Kennett government's Industrial Relations changes (Watson 2001)

Cross-national data shows that having a larger low pay sector is also associated with less mobility of low-paid workers over time. The US, for example, has one of the highest proportions of working poor but lowest progressions out of poverty over time for low-paid workers (Richardson 2003). In addition, cross-national studies show a strong positive relationship between the incidence of low pay and poverty (OECD 2001).

There is also a strong link between low pay and social exclusion. European data has shown an increased risk of social exclusion for low-paid workers through reducing the commitment to employment, an undermining the maintenance of learning skills and increased vulnerability to ill health (Gallie & Paugam 2002). Cross national studies have found a strong positive relationship between low pay and poverty (Cantillon, Marx & Van den Bosch 2002).

Psychological studies have also indicated that bad or unsatisfactory work is no better for people than unemployment across a range of measures such as depression, self-esteem, hopelessness, psychological distress, and social alienation (Richardson 2003).

Brotherhood research (Taylor and Fraser 2003) and service experience across the Anglicare Australia network of 43 member agencies show that families living on low wages struggle to make ends meet, and find themselves unable to meet daily living costs such as rent, utilities, health costs, let alone school costs for their children. These workers and their children are excluded from many of the 'ordinary' activities of life.

Project on precarious and low-paid work

Maintaining the real value of minimum wages is crucial to stop increases in the number of working poor. Evidence from an ARC project on precarious and low-paid work in which the Brotherhood is involved with RMIT University, The Centre for Work and Life at the University of South Australia, the Workplace Research Centre at the University of New South Wales and the Liquor, Hospitality and Miscellaneous Workers' Union, shows the pressure that low-paid work already places on families.

Many low-paid workers have been shown to be in households facing significant consumption constraints and chronic financial distress (Buchanan, 2006). Such financial distress among the lowest 20% of income earners resulted in impacts such as the following:

- 45% can't afford a week-long holiday
- 36% are unable to raise \$2000 for important needs
- 32% can't afford to go out once fortnight
- 26% can't pay electricity, gas, etc. bills on time
- 24% can only afford second-hand clothing.

Consumption constraints were also evident in single income families with one low-paid earner. These families spent significantly less than average on a range of basic living items including:

- food (\$30s a week less than average)
- clothing and footwear (half average)
- transport (less than half)
- medical expenses (less than half)
- recreation/entertainment (less than half)
- superannuation/insurance (less than a quarter).

Interviews and focus groups with low-paid childcare workers and cleaners showed low-paid work often to have a severe emotional and psychological impact, cause gnawing stress and anxiety and adversely affecting household stability and the well-being of children

Paula, a 55-year-old single mother of two, has worked two cleaning jobs for most of the last 20 years, since her marriage broke down. She explains her situation:

I don't go out much because I can't afford to...I don't have a car as well, because I can't afford a car...Oh, I haven't gone to the dentist. I have to go. I'm thinking I have to go but [I'm] too scared to go in case he finds something I can't afford.

Many people reported that their children miss out on education, recreation, sporting, family interaction and health needs because of their low pay. Paula describes how she often went without in order to protect her children from the realities of her low wage:

How do I manage? I scrimped and saved, you know. Like I used to make sure the boys had lots to eat and I used to go home, or go to bed without much food, and it was really hard, really, really difficult, really difficult, yeah. Really difficult, because as long as they ate, I was happy, and I was just happy with bread and butter for example, and some vegemite ... as long as they ate.

Other respondents like Sally, a single, childless childcare worker in her twenties, may not have had to go to such lengths to survive, yet her pay level still affects her sense of self-worth. She failed to see why her work was considered of so little value compared to others.

I've got a friend that's ... [in] telemarketing and I just think, well all you do is pretty much sit on your bottom all day and answer phones and get paid double, triple the amount I do for actually educating ... the kids of tomorrow...'

We believe the Commission must ensure the safety net in place is able to provide for a decent standard of living for low wage workers:

5 People with disabilities

The Brotherhood and Anglicare Australia support initiatives to help people with disabilities get into employment, so long as people are not made worse off. We recognise however, that it is not a simple matter for people with disabilities to find ongoing employment. A large proportion of people on the Disability Support Pension are men over 50. Employers are reluctant to take on older workers generally, let alone those who also have a disability. We therefore believe that there should be greater incentives for employers to take on people with disabilities.

We do not however believe that reducing wages and conditions for people with disabilities is an effective way of doing this. The Commission should ensure that wages and conditions for low-paid workers do not become separated from those of higher paid workers. Reducing the minimum wage will increase the poverty of people with disabilities, many of whom are in low-paid jobs and are dependent on the Commission's federal minimum wage decision to get annual pay increases.

Rather, the Brotherhood and Anglicare Australia believe that these incentives should be provided with other measures. These would include measures such as a wage subsidy scheme funded separately to employment assistance and a well-resourced employer incentives package, akin to the UK's 'Access to Work' program. This package would include a range of interventions necessary to neutralise disability-related participation barriers and increase the probability of a successful employment outcome including assistance with the purchase of special licenses; skills training; pre- and post-placement assistance (interpreters, note-takers, mentors, job coaches, vocational counsellors, support workers); work-based personal assistance; supported wage assessments; disability awareness training; ergonomic/work capacity assessments; workplace adaptations or purchase/hire of special aids/equipment.

We also believe that initiatives to improve the employment prospects for people with disabilities need to consider various affirmative action policies, particularly within the public sector, and a national marketing campaign aimed at employers and the entire community about the ability of workers with disabilities and what assistance/programs government funds.

6 Wages, tax and welfare: remaking the 'safety net'

We have argued that in the light of existing evidence and debate the best interests of the poor will be best served by the AFPC maintaining the role of the minimum wage and for government more generally investing in the capacities of unemployed and low paid workers to achieve well paid and more sustainable employment. This, of course, highlights the fact that when considering how Australians meet their needs, the role of wage policy has to be set along side the full gamut of tax, welfare, employment and other policies which affect people's well being. Currently, as Wooden has observed, there are no institutional mechanisms to allow for this integrated approach.

While much warranted, an integrated approach has always been more of an aspiration than a reality in Australia. The Harvester Judgement in 1907, of course, did aspire to provide a 'living wage' which would allow worker and family to satisfy basic needs. But as Hancock (1998) has shown

wage setting was never in fact done in a way which reflected a systematic estimation of 'need' or the role other policies played in meeting needs. Indeed the whole idea of the living wage was bedevilled from the outset by variations in family size and the tensions entailed by single and married workers receiving the same pay (Hancock and Richardson 2004).

The end of the basic wage in 1967 and the equal pay decision of 1974 saw the Commission declare that it 'was not a social welfare agency' and state that the 'care of the family needs' to be a task for governments through the welfare system. The Accord system of the 1980s shifted the focus of social protection from the industrial courts to the social policy institutions proper (Barbara 2001) and there was a conscious attempt to harmonise the wage with what was called the 'social wage'. The end of the Accord approach and rise of enterprise bargaining in the 1990s ended this practice. While the Commission from 1996 was to have regard to the 'needs of the low paid', this did not mean that minimum wages were set according to a systematic understanding of these 'needs'. The Commission ended its life with an unresolved debate as to what extent the needs of the low paid should be met through the wage system and to what extent they should be met through institutions of social policy.

The Brotherhood of St Laurence and Anglicare Australia believe that the AFPC has an historic opportunity to resolve this set of unsatisfactory arrangements inherited from the federation period. Australians have a right to know how their tax, welfare and wage systems will function together to provide a durable system of social protection for all. This is even more the case given the hugely fragmented labour market we now face and the challenge it creates to combine work with family and the challenges of life long training and education.

7 Concluding comments

Our submission has emphasised that we should not take a narrowly economic view of the role of wage policy. Wage policy is but one of a range of interrelated policies which affect the kind of society we have as much as the kind of economy in which we work.

The Brotherhood and Anglicare Australia urge the AFPC to take an integrated view of wage and welfare policies; one which will ensure that all Australians can see how these different arms of policy work together to produce a robust system of social protection especially for the more vulnerable members of our society.

Our concerns however are as much economic as social. We do not believe that lowering the price of labour makes good economic sense. It would likely only proliferate an un-Australian 'working poor'. We believe that there are better ways of improving the labour market situation of the low skilled; ways that are better for the individuals involved and for society at large.

We call on the AFPC not to base their wage decisions on a 'low road' strategy of expanding a low-skill, low-wage sector and accompanied by greater poverty and inequality. Instead we ask them to decide in terms of a 'high road' strategy based on skill development, improved productivity and decent work. Such a strategy would offer not just economic strength but provide the basis for reducing poverty and inequality in a Good Society.

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