



MINIMUM WAGE SUBMISSION APRIL 2013

Abstract

This submission argues that, in circumstances where Australia's weekly minimum wage is already about equivalent to half of average earnings and is the highest nationally mandated minimum wage in the world, further increases are unnecessary and are likely to have adverse effects on the employment of unskilled or lesser skilled workers. It also argues that the minimum wage is both ineffective and inefficient as a welfare measure to assist low wage earners. Accordingly, the HR Nicholls Society recommends there be no increase in the federal minimum wage and that the FWC should recommend to the government that the minimum wage be scrapped.

Employment Implications

As noted last year in its decision, the Fair Work Commission is "required to take account of social inclusion through increased workforce participation."

It also noted that "Unemployment in April 2012 was at historically low levels and growth in hours worked rebounded quite strongly in the first few months of 2012 from sharp falls during 2011. Employment growth was more modest and varied between industries. However, the continuing high levels of unemployment among young people, the reasonably elevated underemployment rate and some decline in the participation rate and the employment to population ratio for men signals some fragility in the labour market."

Since last year's decision labour market conditions have softened further.

The most recent data, March 2013, reveals that the seasonally adjusted unemployment rate increased by 0.2% to 5.6%. While the trend rate for the month was steady at 5.5%, over the course of the year it showed unemployment climbing by 0.3% while the trend for the participation rate fell by 0.1% over the year. The recent growth rate in employment of just over 1 % pa is now well below the trend rate of about 2 per cent per annum over the whole period since 2000.

Unemployment for 15-24 year olds is now higher than what it was during the Global Financial Crisis, while the rate of unemployment for males in this cohort is the highest rate in almost a decade. In raw numbers there are now more people unemployed than there were at the height of the Global Financial Crisis.

Disturbingly, the number of long term unemployed now stands at 19.6% while the number of discouraged job seekers has increased by 18% from 90,700 in 2011 to 106,000 in September 2012, according to the latest ABS data.

These data make it important to recognise economic analysis indicating that minimum wage increases are likely, ceteris paribus, to reduce labour demand below what it

would otherwise be. For example, Andrew Leigh, now the federal member for Fraser in the ACT and Parliamentary Secretary to the Prime Minister, found, when he was a Professor of Research Economics at the ANU, a “minimum wage elasticity of labour demand” of 0.29% with a sensitivity analysis range from 0.25 to 0.4.

Therefore for each 1.0% increase in the minimum wage we can expect a 0.29% decrease in labour demand. The situation is even more fraught for the different cohorts such as 15-24 year olds.

In short, an increase in the minimum wage is likely to cost jobs –compared with what they would otherwise be - and principally the jobs of the lesser skilled people.

Importantly also, it is absurd and unfair to prevent workers being paid less than the prescribed minimum wage of about \$31,500 a year. This means that anyone unable to get a job at or above that rate has to go on the dole, which is about \$12,922 per annum.

The present arrangements have thus created a “gap” where wages could be earned by low skilled workers but where they cannot be (legally) employed.

In this context it is worth noting that the middle 50% of the full time non managerial adults paid by awards received weekly cash payments of between \$713 and \$1135. Further, the award only employees in the 10th percentile received weekly cash earnings of \$624, which is \$18 more than the minimum wage.

Competitiveness Implications

As the federal minimum wage forms the bedrock of the wages system, and thus influences the extent of other wage levels, its high rate has an adverse effect on Australia’s international competitiveness. In circumstances where Australia’s historically high exchange rate is already reducing competitiveness, particularly in manufacturing and agriculture, wage costs must be kept down. It is relevant that the Reserve Bank judges that a high exchange rate is likely to continue despite the expected continued fall in the terms of trade.

It is worth noting that some OECD countries such as Germany have no federal minimum wages. Rather, they are set by collective agreements which have the potential to gain productivity trade offs.

The very high minimum wage must also be considered in context with the penalty rate regime which has particularly adverse effects on the competitiveness of some sectors of the economy, such as the accommodation, food services and retail sectors which have little chance to onpass increased costs and are already struggling in a softening economy.

Small businesses, particularly those with 20 employees or less, are very award reliant and any increase in labour costs cannot be readily onpassed and nor are there significant opportunities for productivity improvements.

Welfare Implications

Those receiving the minimum wage include a large proportion living in households where the household income is relatively high. This relates mainly to the wives and younger adults in a household. Such individuals have no need for a wage this high, a wage that is keeping others out of work.

The reality of the minimum wage system is that it mistakenly uses the wage system as a vehicle of social welfare policy. When the Fair Work Commission determines the minimum, it also sets wage rates considerably above the minimum. It is unnecessary for such wage rates to be set on any ground of “protecting” income levels.

Protection of income levels is a matter for social welfare policy.

BACKGROUND DATA

- Australia has the highest minimum wage in the world (figures standardised to US dollars for comparison) at US\$32,508. Nations such as Canada have a minimum wage of US\$19,960; the UK US\$19,833; the USA US\$15,080.
- Some countries such as Norway and Germany have not set mandated wage rates with all wages determined by collective agreements.
- The most recent bi-annual ABS Employee Earnings and Hours survey, May 2012, the average weekly cash earnings for all employees were \$1,122 or \$58,375 annually.
- Median total cash earnings were \$963 for all employees or \$50,076 annually.
- The Federal Minimum Wage currently is \$606.40 per week or \$31,536 annually.
- The Newstart allowance for a single person with no children is \$12,922 pa.
- The labour market is softening. The seasonally adjusted unemployment rate for March increased by 0.2% to 5.6% while the trend rate was steady at 5.5%. However the trend over the course of the year showed unemployment climbing by 0.3%.
- The March data shows that the unemployment rate for young workers (15-24 year-olds) is currently 12.2 per cent, higher than during the GFC (12.1 per cent in May and June of 2009).
- And the unemployment rate for young (15-24 year old) males is currently 13.4 per cent, the highest rate in almost a decade.
- In raw numbers there are now more people unemployed (687,000) than there were during the height of the Global Financial Crisis (683,000).

- The seasonally adjusted participation rate declined by 0.2% to 65.1% and for the year to March the trend shows the participation rate dropping by 0.1%.
- The fall in the participation rate is masking the real size of the pool of unemployed.
- Further the latest ABS data (July 2012) reveals that long term unemployment now stands at 19.6%.
- The most recent (September 2012) ABS People Not in the Labour Force survey found there were 106,600 discouraged job seekers. These were people who wanted to work and were available to start if offered a job, but were not actively looking for one because they believed they would not find one.
- According to the ABS the number of discouraged job seekers had increased by 18% from 90,700 in 2011.
- Almost all economists accept that there is a link between wages and employment. Andrew Leigh, formerly Professor of Research Economics and now the federal ALP member for Fraser estimated the link between minimum wages and found a "minimum wage elasticity of labour demand" of 0.29, with a sensitivity analysis range from 0.25 to 0.4.
- This means that, *ceteris paribus*, for each 1 per cent increase in the minimum wage we can expect a 0.29 per cent decrease in labour demand.
- When Andrew Leigh disaggregates by age, his estimated elasticity for 15–24 year-olds is much larger: 1.01.
- On last year's 2.9% increase to the FMW and given that we have over 11 million people working, the increase would have reduced labour demand by 0.8 per cent, which is just over 96,000 jobs.
- According to the EEH 16.1% of people are reliant on awards and almost a quarter of people employed (23.3%) were employed in businesses with less than 20 employees.
- Award only method of payment for employees was highest in the Accommodation and food services industry at 44.8%, the EEH found.
- This sector is already heavily penalised by excessive and inappropriately levied penalty rates.
- However awards set the bedrock rates of pay for all industries.
- The EEH shows that the middle 50% of full time non-managerial adults paid by awards received weekly cash payments of between \$713 and \$1135.

- Awards are more common in small business and increases in award payments impact disproportionately on small business that have tight margins and little ability to pass on increased costs.
- The high Australian dollar and the slide in our terms of trade, falling by 12.9% over the year to the December quarter 2012, according to the latest national accounts, are putting increasing cost pressures on businesses.