

The evolution and future of the minimum wage in Australia

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Minimum wage – key numbers

- Currently \$606.40 per week
 - Lower for some youth
 - Many obtain casual loading
- Second highest in OECD
- Paid to some 4-10% of employees
 - More common for part-time employees
 - Employees of small business

Theory

- Perfect market – price up, demand down
- Monopsony – distorted market
- Efficiency wage – pay to get people to work
- Bargaining – profit share with employer
- Bargaining – relative wages – for different workers
- Education and training – up or down?

Harvester decision

- Determining a fair and reasonable wage

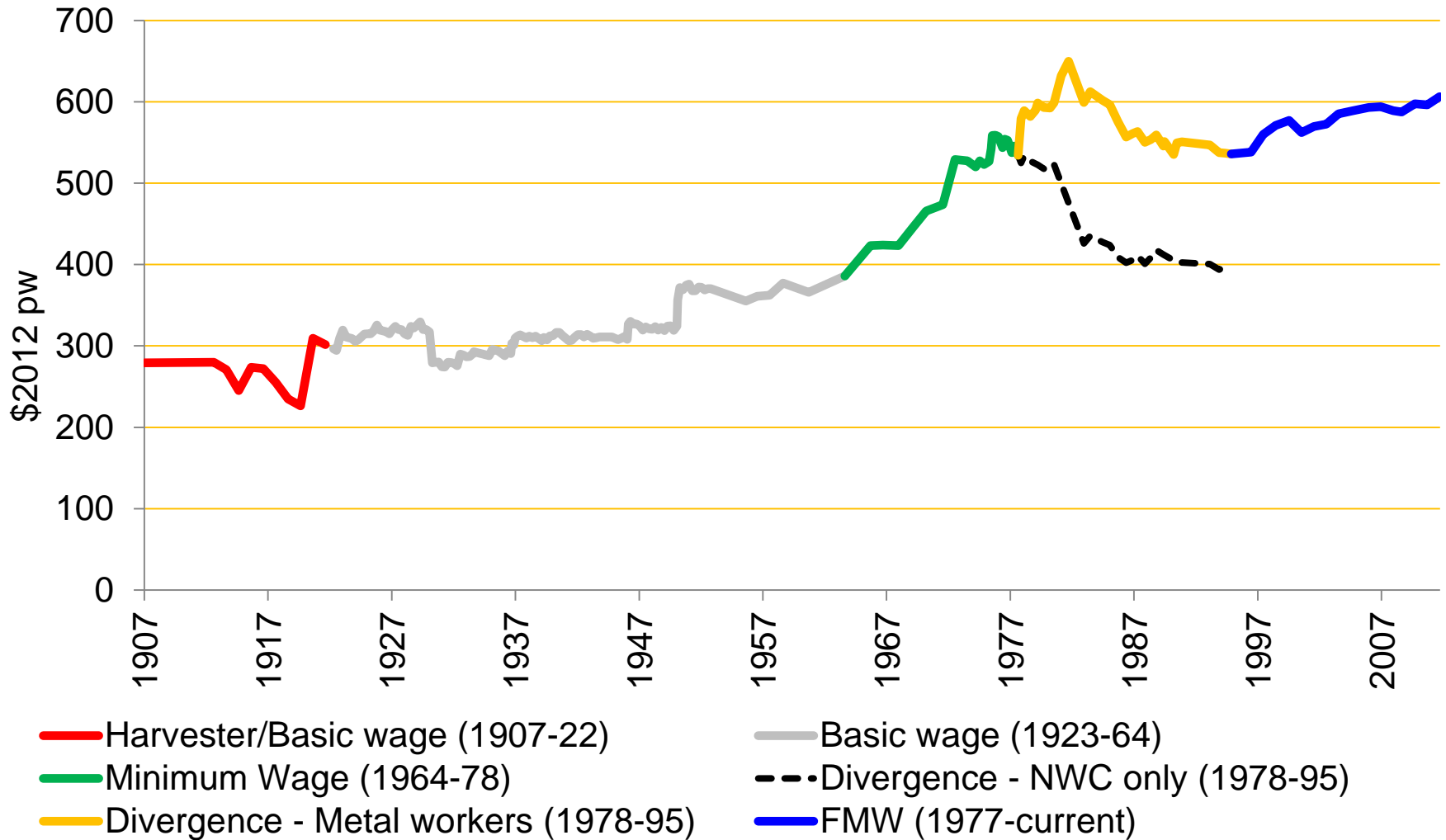
“the normal needs of the average employee regarded as a human being living in a civilised community”

“himself and his family” - “necessary average weekly expenditure for a labourer’s home of about five persons”.

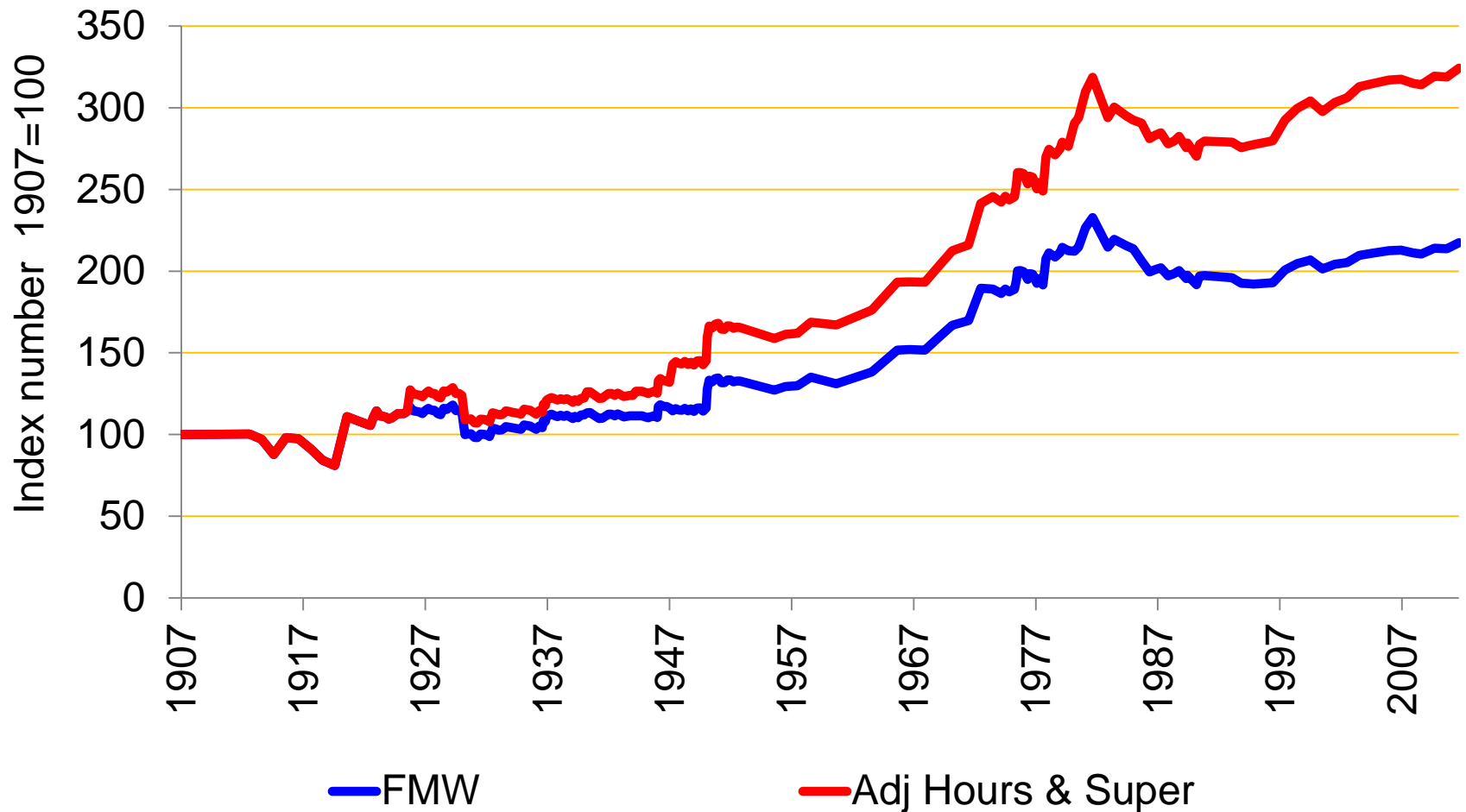
“to insure the workman, food, shelter, clothing, frugal comfort, provision for evil days, &c”.

Higgins 1907

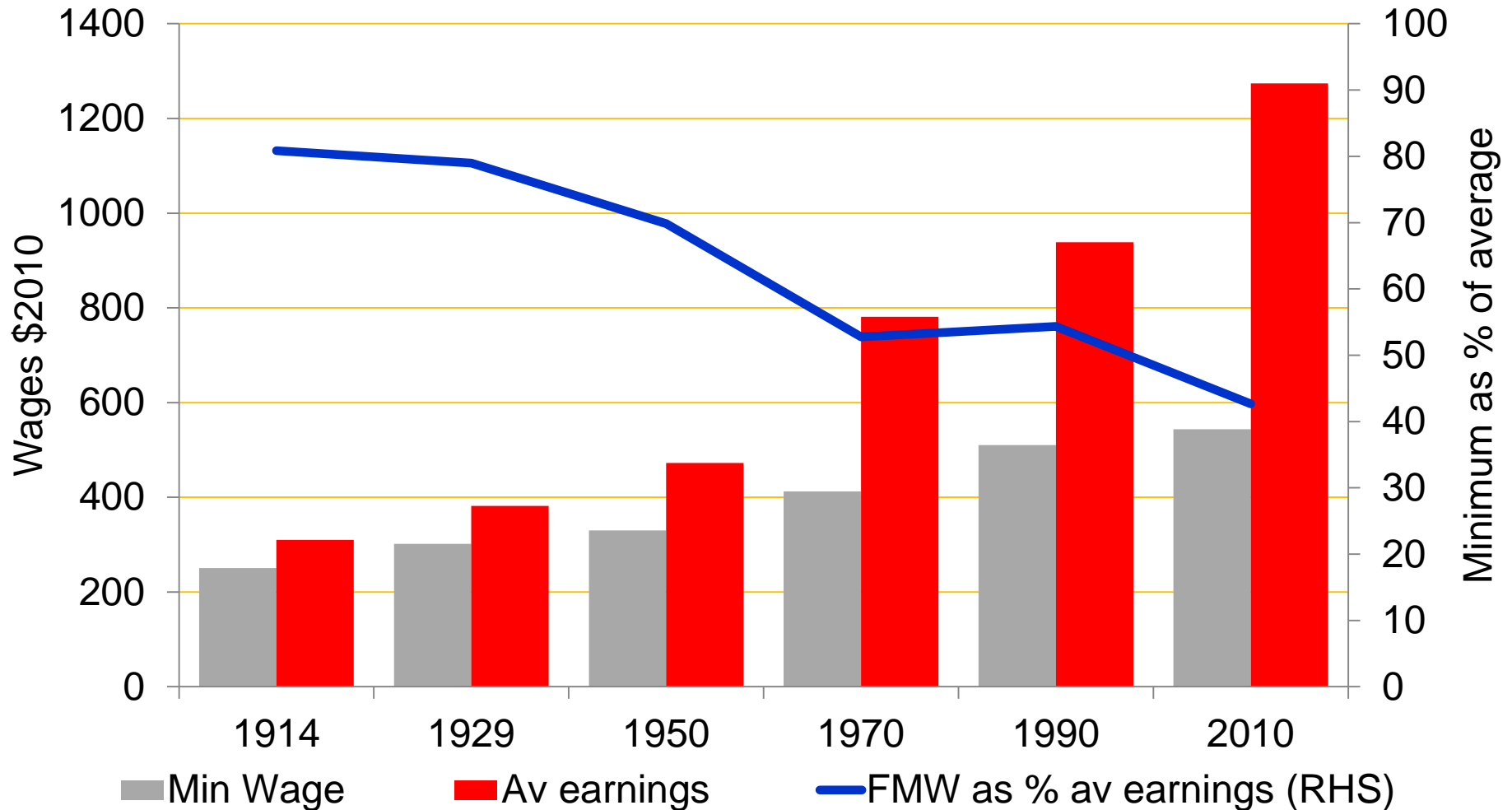
The minimum wage since 1907



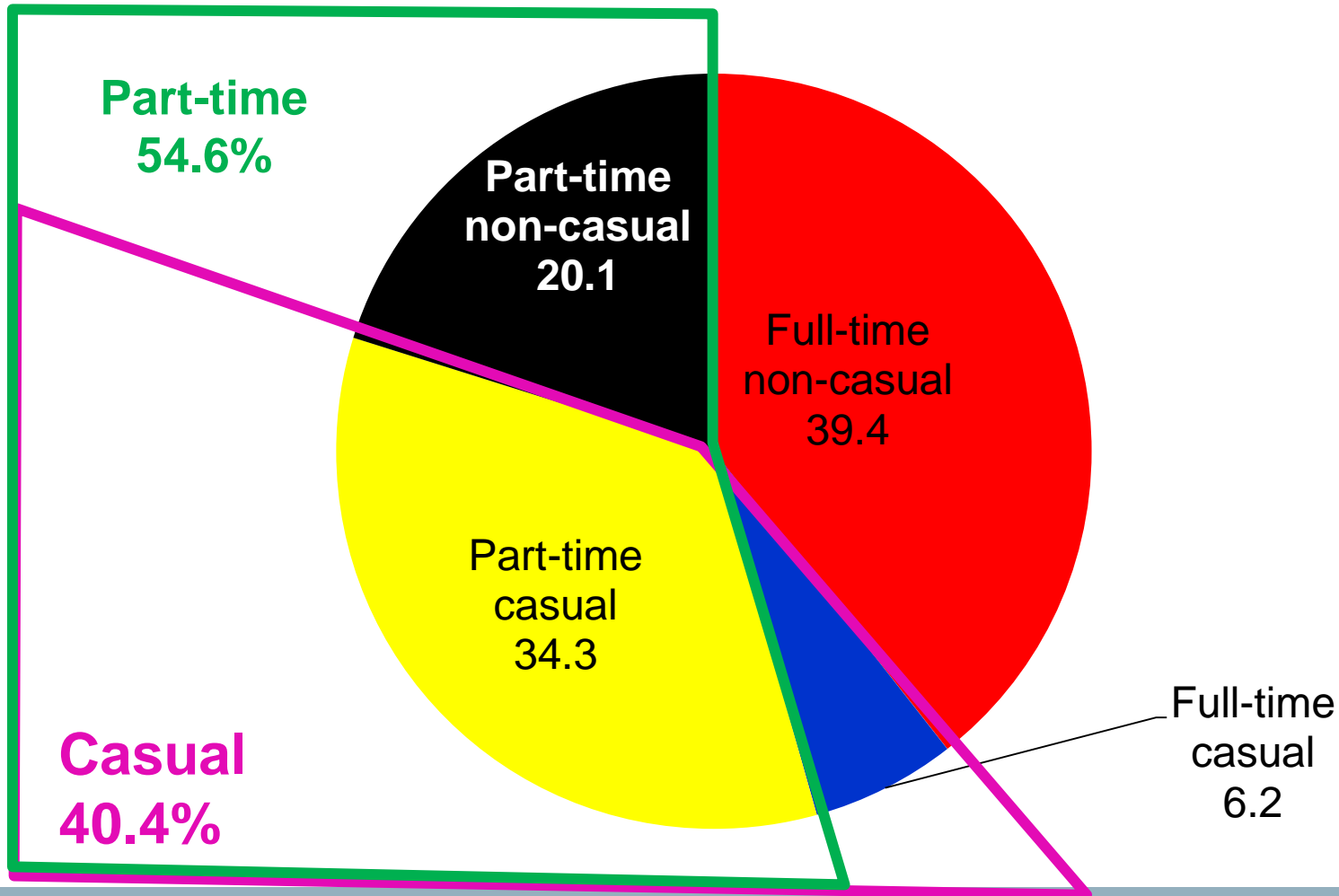
Effective value of the minimum wage



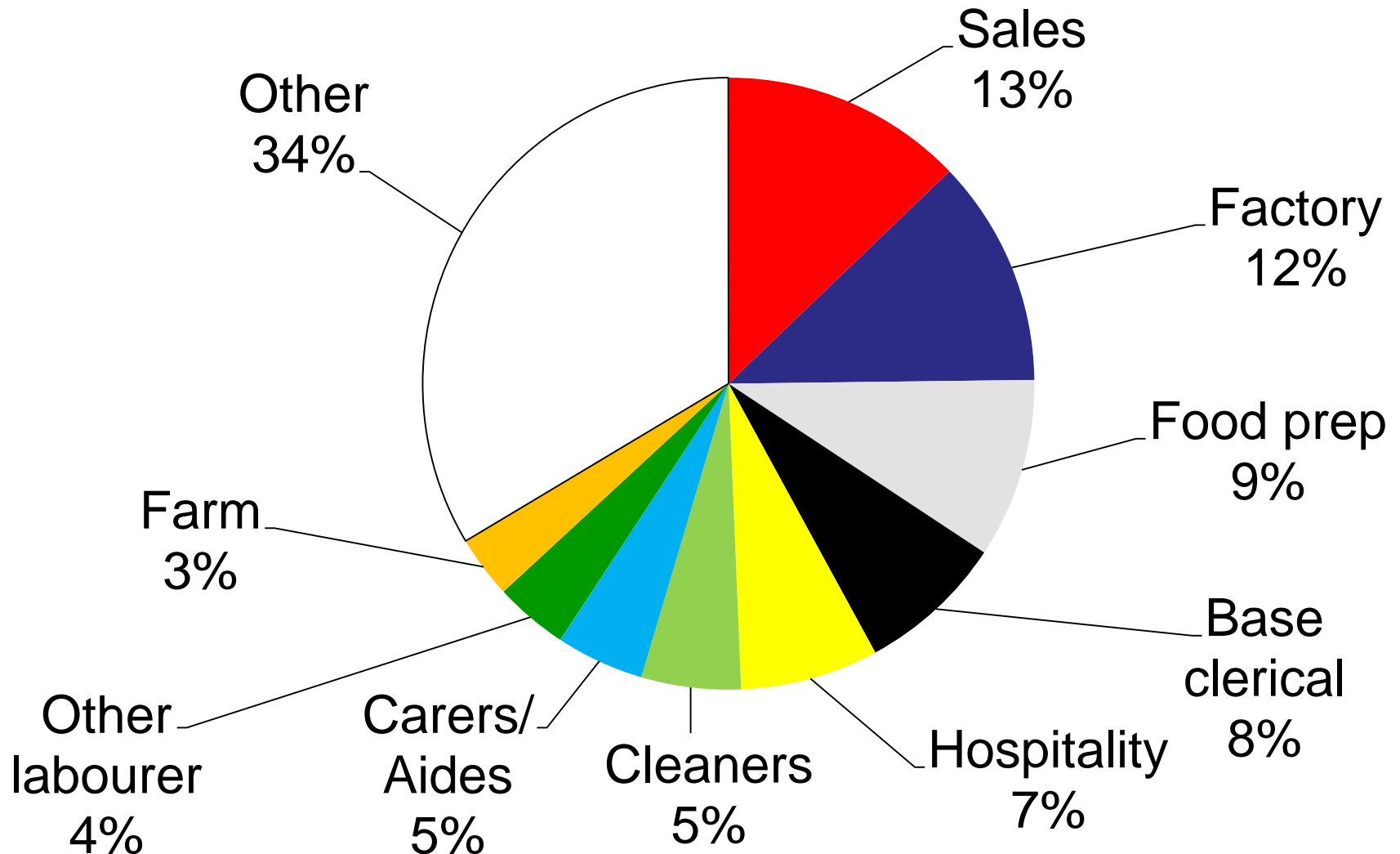
Relative to other earnings



The minimum wage today – type of employment (EEH 2010)



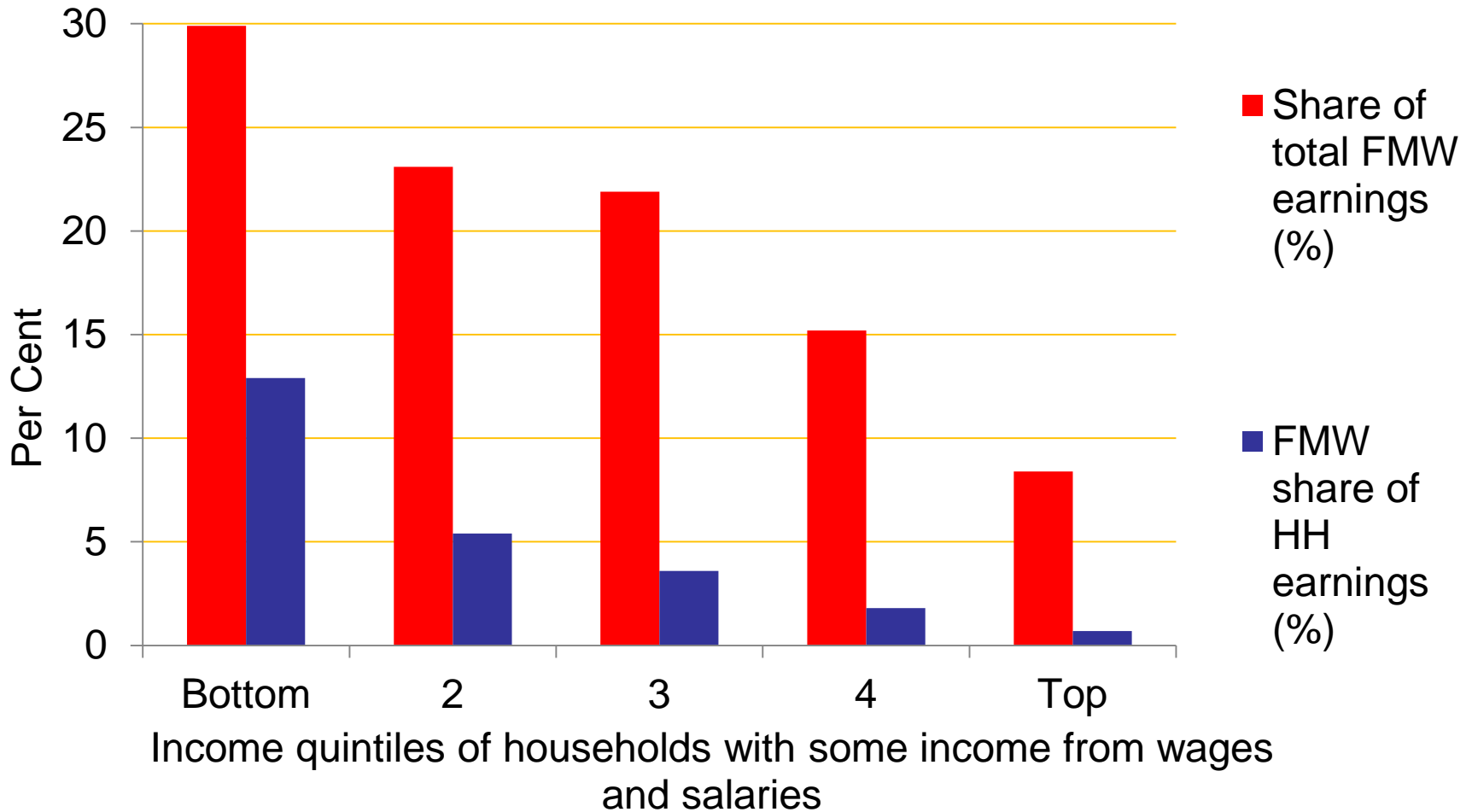
Occupations of FMW employees (EEH 2010)



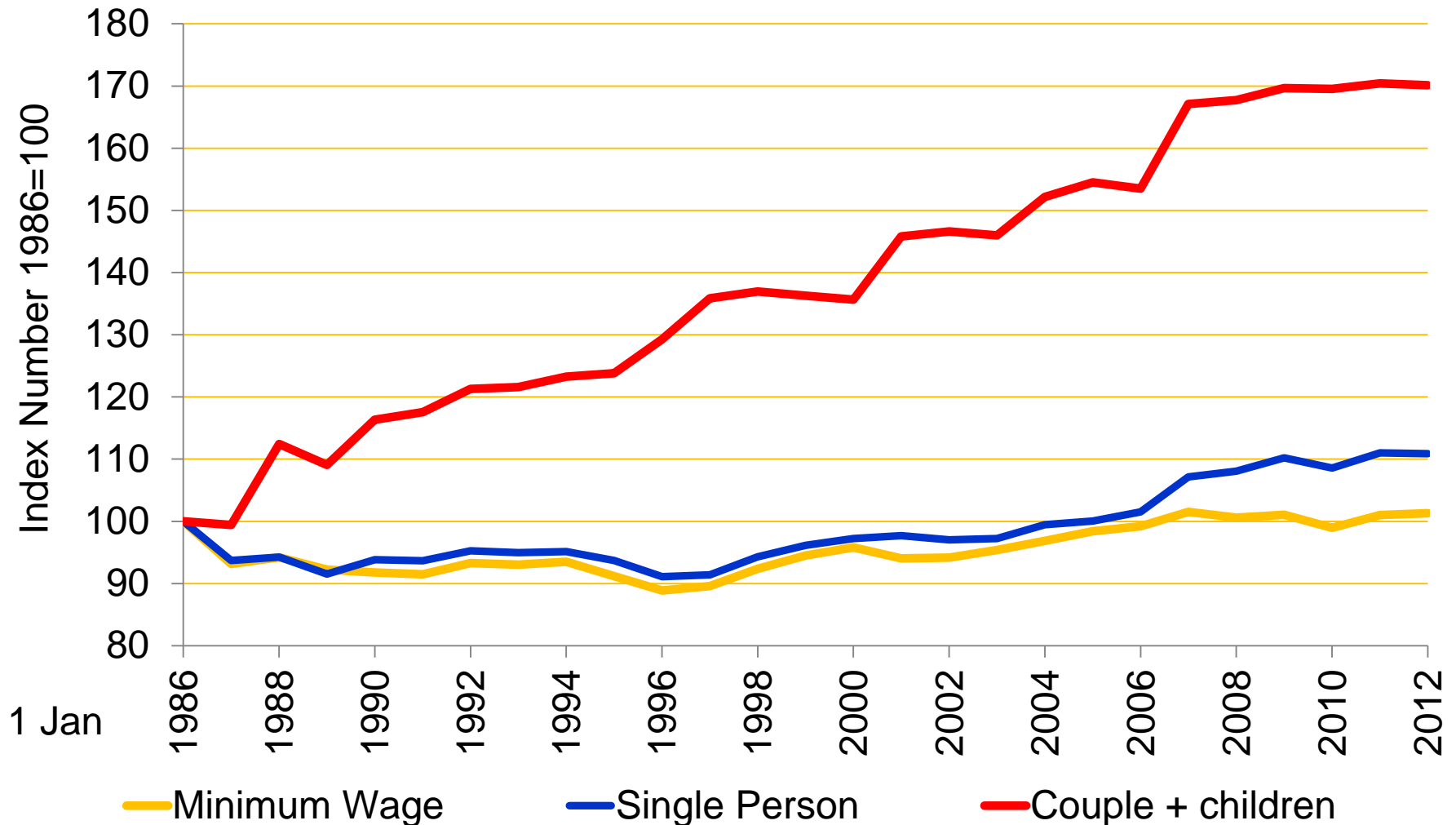
Who gets the minimum wage (HILDA 2011)

- Adults
 - Couples with children 25.8%
 - Couples without children 26.0%
 - Non-student adult child 19.5 %
 - Adult student child 4.0%
 - Lone parent 8.2%
 - Other 16.5%
- Couples
 - 10.4 % have a minimum wage earner
 - Mainly supplementary (27.8% only minimum wage)

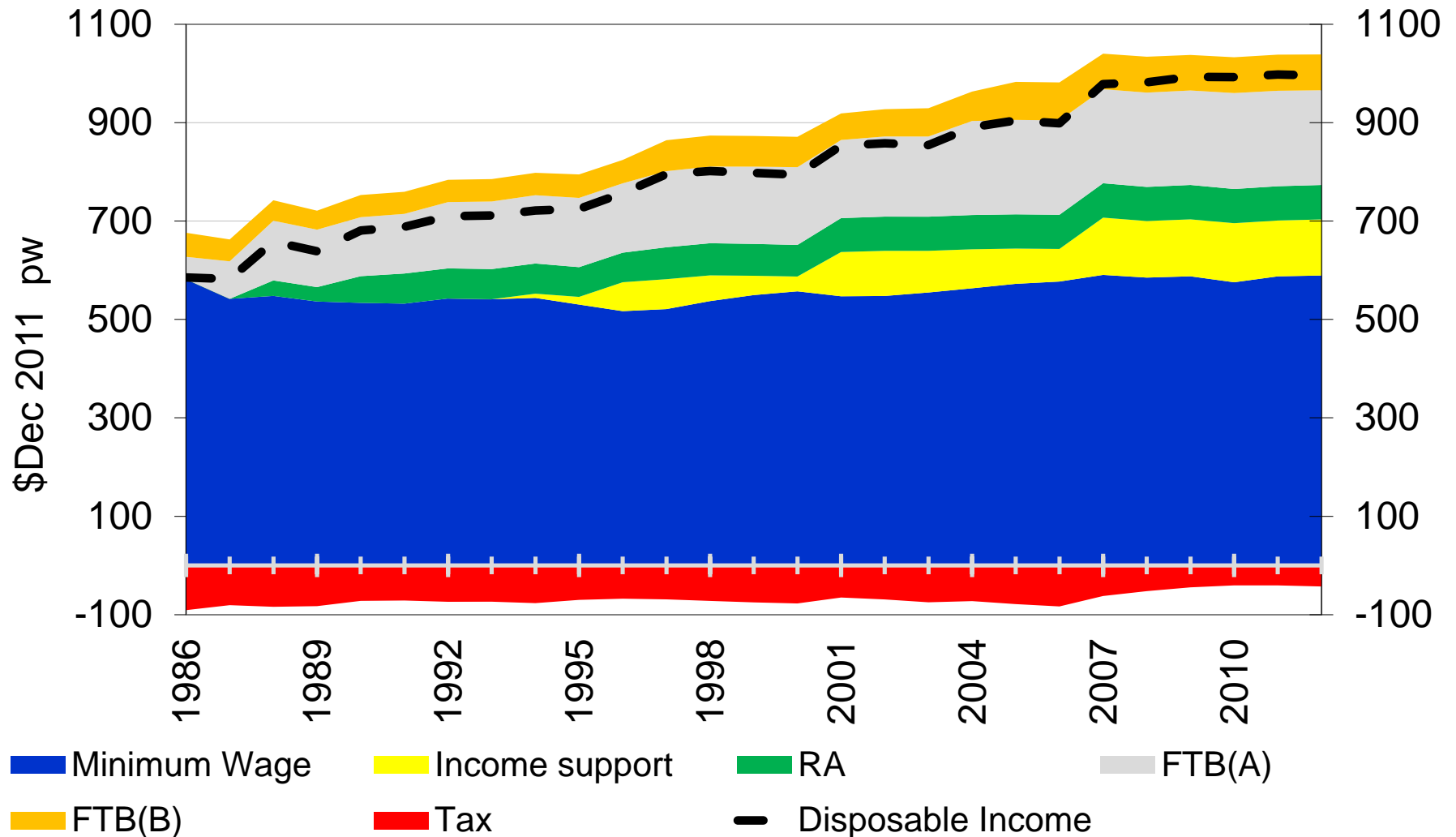
Household distribution of adult FMW income (HILDA 2011)



Minimum wage, taxes and transfers



Single breadwinner couple family (Kids 3 & 8 years)



Taking stock

- Minimum wage fallen relative to other earnings
- Paid to 4-10%, over half part-time
- While more concentrated in low income households only part contribution to income
- While real rate effectively flat
 - Single - mainly tax +11%
 - Couple with children – mainly transfers +70%
- ‘Harvester family’ largely disappeared

The low lying fruit has been picked

- Transition from family wage to single wage is now complete
- Essentially has involved 25 years of minimal pressure from minimum wage
- ... and has occurred without too much impact on income inequality
- Scope for this is coming to an end

Options

- Get rid of the minimum wage
- Allow the minimum wage to grow in step with other earnings
- Continue to hold the minimum wage flat in real terms
- Continue to hold the minimum wage flat in real terms – but intervene to increase income of low income households

Get rid of the minimum wage

- Risk of downward wages spiral
- Employers will rent seek on support for families
- Has a role in underpinning other wages
- Has a role with regard to transfers

Allow the minimum wage to increase

- Will require productivity of minimum wage workers to grow at same rate as overall
 - If not will have employment consequences for least skilled
- Is there a training path?
 - Are we confident about the ability to assist the most disadvantaged?

Hold the minimum wage flat

- Minimises adverse employment effect
- Will increase earnings inequality – and have significant effects for some households
- Will put pressure on income support payment rates

Hold flat but complement

- Introduce an Earned Income Tax Credit
- Can target it at those on low earnings and in low income households
- But signals a real change
 - Full time work may not be sufficient to earn enough – but is recognised as a contribution/obligation
 - We have done this for families

What now?

- Important but not urgent?
- Path choice is essential
 - Current annual mechanisms limit options – and indeed risks poor outcomes
 - Other paths require the development of new institutions
- Challenge is how we decide
 - ... and recognise the need to do something before we run into problems



The End