

**Australian
Fabians.**

A Living Wage

Fabian essay

by Meredith Hammat

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A Living Wage

by Meredith Hammat

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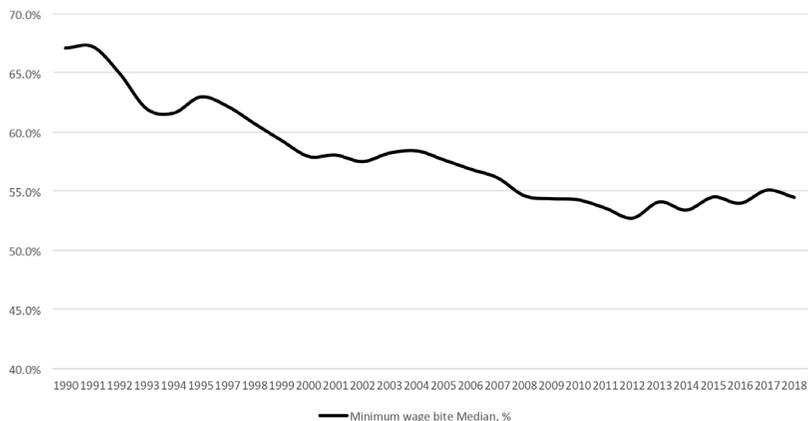
When I first entered the workforce in 1991 after finishing University the federal minimum wage was at around 66% of typical or median full-time earnings of all working people in Australia.

A few years ago, demographer Bernard Salt suggested that if millennials wanted to get into the housing market, they had to stop buying smashed avocado on toast for \$22. Beneath the snappy grabs and barbed retorts there is a serious issue about intergenerational conflict arising from growing inequality.

As a member of Generation X, I don't wish to be precariously perched between, on the one hand, Baby Boomers and on the other, my Millennial children. However, because a living wage is one way that we can reduce inequality in the longer term, could a policy setting from the early 1900s help us all afford smashed avocado and our own home in the modern age?

When I first entered the workforce in 1991 after finishing University the federal minimum wage was at around 66% of typical or median full-time earnings of all working people in Australia. Charted below is the decline of the minimum wage against that benchmark stretching into the next generation. Today, the minimum wage stands at only 55% of the median.

Chart 1: Federal Minimum Wage Percentage of Median Full Time Earnings, 1990 to 2018¹



Minimum wages are more common in some industries and age groups than others.

Research by the Fair Work Commission tells us that workers on the National Minimum Wage are more likely to work for small business (60%) and more likely to be women (60%). Around 22% are aged between 15 and 20 years and around 28% work in accommodation and food services industries².

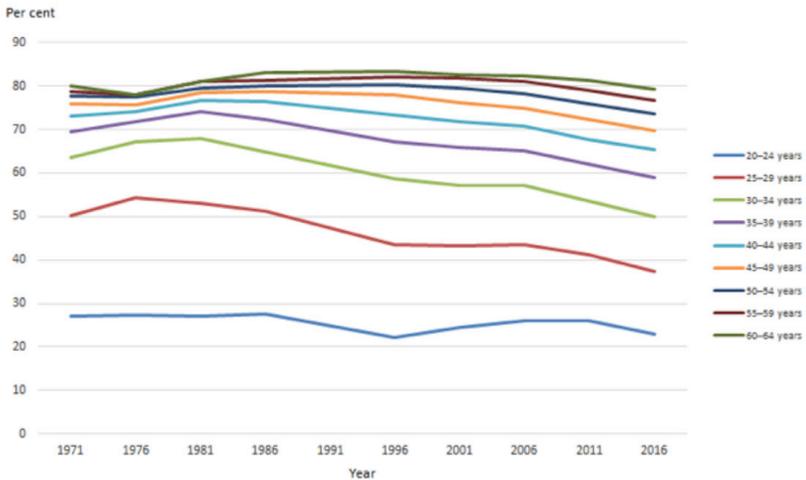
The Australian Institute of Health and Welfare has tracked home-ownership by age (Chart 2) and shown that younger generations today are much less likely to own a home than at any other period over the past half a century. We know that the cost or value of homes has risen sharply since the mid 1990's and at a much greater rate than incomes. The benefit to those, mostly older Australians, who own properties outright has added greatly to differences in wealth, which comes on top of the difference in incomes such as wages (Grattan Institute, 2018).

1 Source: ABS series: 6333.0 - Characteristics of Employment, Australia; 6310.0 - Employee Earnings, Benefits and Trade Union Membership, Australia.

2 Yuen, Kelvin, Ellis, Grant, Nelms, Lucy, 'Characteristics of workers earning the national minimum wage rate and of the low paid' *FWC Research Report 3/2018*
<https://www.fwc.gov.au/documents/sites/wagereview2018/research/rr32018.pdf>

The OECD has defined the level of relative poverty to be at 60% of full-time median earnings and the Living Wage policy proposed by unions and supported by the ALP at the 2019 federal election, has adopted that benchmark.

Chart 2: Home ownership rates, by age groups, Census years 1971 to 2016³



Persistent, unfair and unequal distribution of income and wealth weakens us all. It creates pressure across generations, particularly for younger Australians but it also affects their relationship to other generations within families and communities.

Inequality fosters other injustices and I've chosen to discuss the equalising impact of a Living Wage on two other important aspects of Australian society – poverty and the unfair and unequal financial outcomes of women compared with men.

The policy of a Living Wage is one important measure in our moving towards, and to some extent returning to, being a fairer and more equal society.

³ Source: Housing Assistance in Australia 2018, Australian Institute of Health and Welfare 2018.

The OECD has defined the level of relative poverty to be at 60% of full-time median earnings⁴ and the Living Wage policy proposed by unions and supported by the ALP at the 2019 federal election, has adopted that benchmark. Most of us have a clear understanding of the difference between average and median, with median being the point where half of a group is above and half below. For the purposes of income distribution median is a more typical indicators than average because a very small number of people on very high levels of income skew the average.

Predictably, the Living Wage policy has triggered a chorus of doom from conservative politicians, media commentators and business. Is it too much to expect reasoned consideration of this important issue?

A Living Wage is not unreasonable nor is it unachievable. As mentioned, as recently as 1990 the federal minimum wage was at more than that level.

This paper discusses the reasons why this new benchmark for minimum wages is needed and how existing workplace laws have led us to our current situation where pay has failed to keep pace with costs of living, and even the Governor of the Reserve Bank is decrying the failure of wages to rise⁵.

Before we consider the current context for wages policy in Australia, it's is worthwhile remembering some of our history.

The Harvester Judgement, handed down in 1907 is key to understanding the logic underpinning the minimum wage in Australia.

A relevant piece of context for the Harvester Judgement is that at the turn of the twentieth century those who wished to strengthen and diversify Australia's economy sought to do so by protecting local manufacturing industries from overseas competition. The newly formed Commonwealth Government imposed a tariff or tax on imported manufactured goods and exempted local manufacturers provided they paid "fair and reasonable" wages.

4 A Shared Responsibility – Apprenticeships for the 21st Century, Expert Panel 2011, p.89
<https://www.voced.edu.au/content/ngv%3A45663>

5 'Productivity, Wages and Prosperity', Address to Australian Industry Group by RBA Governor Philip Lowe (13 June 2018) <https://www.rba.gov.au/speeches/2018/sp-gov-2018-06-13.html>

The “Harvester” in this decision comes from a harvester manufacturer who wished to be exempt from the excise tariff but with a question about the fairness and reasonableness of its wages.

Justice Higgins made the decision and expanded on what constituted ‘fair and reasonable’ wages under the relevant law. He took it to mean “the normal needs of the average employee regarded as a human being living in a civilized community”.

He set a minimum wage for unskilled labourers of 2 pounds, 2 shillings per week the amount an average worker paid for food, shelter and clothing – for him and his family; his family being his dependent wife and two children.

Importantly, Higgins set a wage primarily based on what a worker and their dependents needed. Those needs were mostly defined socially – what was deemed “civilised” and in terms of household arrangements that were typical of the time.

The Harvester judgement has since been abandoned as a key consideration for setting the minimum wage, but it illustrates that Australian society has long been built on a widely and deeply held view that our industrial system is not just about the economic outcomes.

It’s also about social outcomes and it’s about fairness.

It remains the case today that our laws should reflect how we function as a society, not primarily how we function as an economy. Our economy needs to serve our society, not the other way around.

Framing consideration primarily in terms of the kind of society we have now and want into the future, the policy of a living wage is discussed here first by reference to the impact wages have on poverty and the working poor, for women compared with men and on the capacity of a Living Wage to deliver greater equality.

The Minimum Wage in Australia is higher than other OECD countries, although in recent decades it has been in significant relative decline.

Working poor

The Minimum Wage in Australia is higher than other OECD countries, although in recent decades it has been in significant relative decline⁶. Nevertheless, it is still the case that Australian society has benefited from a Minimum Wage that has mostly acted to prevent poverty for those who are in employment.

Professor Peter Whiteford of the Social Policy Research Centre argues that Australia has the lowest level of 'in-work poverty' among families with children in the OECD precisely because we have been willing to pay relatively high minimum wages⁷. He has also noted Australia's tax-transfer system, primarily comprised for government payments to working households to support the cost of raising children, have be important in addressing the numbers of children living in poverty.

Professor Whiteford has also examined the ability of lone parent families on the minimum wage, mostly working mothers, to escape poverty in Australia (which he defines as going above 60% of the median income line). He found that working full time at the minimum wage, combined with family benefits, was enough to escape poverty in Australia. By contrast

...families at the minimum wage are well below the 50% poverty line in Spain, Greece, Portugal, Turkey and the USA⁸.

Patterns of poverty, whether as a result of being working poor or being jobless, are not evenly felt. Women, as we have noted, are more likely to be in poverty. It has also been argued that the minimum wage provides some protection for others that are particularly vulnerable, such as workers with poor English language skills⁹.

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- 6 '20 years of the National Minimum Wage A history of the UK minimum wage and its effects' Low Pay Commission, UK, April 2019
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/790910/20_years_of_the_National_Minimum_Wage_-_a_history_of_the_UK_minimum_wage_and_its_effects.pdf
 - 7 Whiteford, Peter, 'Transfer Issues and Directions for Reform: Australian Transfer Policy in Comparative Perspective', *Melbourne Institute - Australia's Future Tax and Transfer Policy Conference* (June 2009) (p.57)
http://taxreview.treasury.gov.au/content/html/conference/downloads/conference_report/03_afts_tax_and_transfer_policy_conference_chap_3.pdf
 - 8 Whiteford, Peter, Family Joblessness in Australia (January 2009) (pp.51-52)
http://www.socialinclusion.gov.au/sites/www.socialinclusion.gov.au/files/publications/pdf/family_joblessness_Jan2009.pdf
 - 9 Bray, J. Rob, 'Reflections on the evolution of the Minimum wage in Australia: options for the future' SPI Working Paper 01/2013 (pp.95-6)
http://www.pc.gov.au/_data/assets/pdf_file/0003/187428/sub0032-workplace-relations-attachment.pdf

...it is important to address the common concern raised by employers and some theoretical economists that raising a minimum wage will lead to a loss of jobs.

An important aside to the issues of paid work, poverty and a Living Wage, is, of course, the adequacy of income support payments for unemployed Australians. Poverty is entrenched by the inadequacies of income support, rising average durations of unemployment as well as the nature of the available job market, often characterised by poor pay and insecure work, particularly for unemployed people¹⁰.

Of course, paid employment that is secure and decently paid is the most important strategy for escaping or preventing poverty in the first place. Therefore, it is important to address the common concern raised by employers and some theoretical economists that raising a minimum wage will lead to a loss of jobs.

An important recent study on the impact of minimum wages and employment by Hristos Doucouliagos and T.D. Stanley performed a meta-analysis of 64 studies of the minimum wage in the United States and concluded that:

minimum wages may simply have no effect on employment... second, minimum-wage effects might exist, but they may be too difficult to detect and/or are very small... if there is some adverse employment effect from minimum-wage rises, it must be of a small and policy-irrelevant magnitude¹¹.

In testimony on minimum wage indexation before the U.S. Senate's Committee on Health, Education, Labor & Pensions, Professor Arindrajit Dube concluded that "the belief that minimum wages necessarily cause job loss no longer appears to be a majority position within the [economics] profession".

Of course, those with low wages tend, by necessity, to spend all they earn. Such spending is most likely to go back into local economies and in doing so will help create employment¹².

10 'Poverty in Australia', ACOSS and UNSW, Syd. 2018

11 Doucouliagos, Hristos, Stanley, T.D., 'Publication Bias in Minimum Wage Research? A Met-Regression Analysis', Deakin School of Accounting, Economics and Finance *School Working Paper* (2008/14) (pp.20-22) http://www.deakin.edu.au/buslaw/aef/workingpapers/papers/2008_14eco.pdf

12 'Raising the Federal Minimum Wage to \$10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost', Economic Policy Institute Briefing Paper #371 (December 2013) <https://www.epi.org/publication/raising-federal-minimum-wage-to-1010/>

Gender pay gap

There are many factors that contribute to the gender pay gap, such as gender segregation patterns in employment, discriminatory practices, harassment at work, the expectations that women will undertake unpaid work.

Achieving a living wage will not, in itself, 'solve' the issue of pay equity. But it may go some way towards mitigating the long term consequences of the pay gap.

As women are more likely to be on minimum or award wage rates (58.7% of minimum wage earners are female)¹³ and there is disparity between the minimum wage and other wage measures, it is in the interests of working women in particular (and the community as a whole) for there to be a substantial increase in the minimum or living wage.

In doing so, a living wage would be a step towards overcoming a fundamental inequality – lower lifelong earnings and wealth of women compared with men, including into retirement.

It is also worth noting the economic benefit that improved pay equity will deliver, primarily through higher labour force participation by women, which in Australia is lower than many other OECD countries¹⁴.

The gender pay gap has been persistent, barely changing over time. A significant, rather than token, increase in the minimum wage, as a Living Wage would provide for, is justified in part by the stronger economic foundation that it will provide for working women disproportionately clustered in low paying jobs.

The case for a Living Wage is not based on poverty prevention or gender equity alone. Our suggested benchmark is, deliberately, a relative one – 60% of median full-time earnings. That benchmark invites us to address the case for greater equality, not just a minimum standard.

13 Yuen, Kelvin, Ellis, Grant and Nelms, Lucy, 'Characteristics of workers earning the national minimum wage rate and of the low paid', *Fair Work Commission Research Report 3/2018*
<https://www.fwc.gov.au/documents/sites/wagereview2018/research/rr32018.pdf>

14 Austin S, Jefferson, T, Preston, A, Seymour, R 'Gender Pay Differentials in Low Paid Employment', Research Report No.3/09, 2008, AFPC.

A Living Wage that is benchmarked to median full-time earnings creates a floor that keeps low paid working people out of poverty and within reach of the standard of living of others in the workforce.

As Fabians, one of our founding strategic approaches comes from our name, which is drawn from the classical reference to the Roman general, Fabius, who by careful planning and steady, rather than flamboyant, conduct defeated Hannibal.

A Living Wage is that – careful in its planning, achievable and supported.

A recent poll of Australians commissioned by Australians Fabians and conducted by Essential Research found that 44% of Australians think that raising the minimum wage to a living wage would be a very effective way of reducing wealth inequality. Another 25% of respondents agreed that a living wage would be moderately effective.

A Living Wage that is benchmarked to median full-time earnings creates a floor that keeps low paid working people out of poverty and within reach of the standard of living of others in the workforce. A Living Wage would contribute to greater equality.

This is important not only because we value equality in its own right as a good and fair thing. As is so often the case with good social policy and practice, there are other positive spin offs.

For example, we know that more equal societies tend to enjoy better health outcomes and that “social relationships (social cohesion, trust, involvement in community life, and low levels of violence) are better in more equal societies¹⁵.

Surely, we still value social cohesion, trust and community enough to seriously consider all public policy settings that will help us to maintain and strengthen them? To paraphrase my mum, ‘there is no use crying over smashed avocado’. Far better we get serious about achieving a living wage for working people in this country. I think it will help us address some economic challenges and contribute positively to many of our social challenges as well.

¹⁵ Pikett, K and Wilkinson, R.

<https://www.ahrq.gov/professionals/education/curriculum-tools/population-health/pickett.html>

**We aim to promote
greater equality of
power, wealth and
opportunity.**

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