

# THE FIRST RUNG: THE ROLE OF LOW-PAID WORK IN BUILDING SUCCESS

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There is no such thing as a dead end job. All work provides dignity, skills, and financial independence. Low-paid work is an important rung toward higher paid work and career success. But Australia’s high minimum wage undermines the ability of young people to enter the workforce and experience the dignity of work.

- 64% of low-paid Australian workers move to higher paid work within two years.
- Australia’s minimum wage is the highest in the OECD.
- The minimum wage disadvantages young and low-skilled Australians.

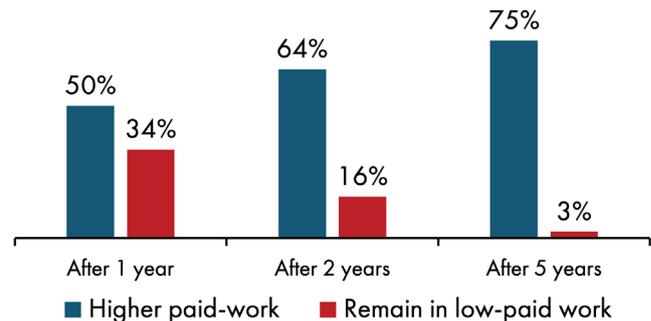
## 64% of low-paid Australians move to higher paid work within two years

Low-paid work performs an important function as the first rung of the career ladder. Contrary to arguments that workers are exploited in low-paid work and lack income mobility,

- over half of workers earning less than \$20.27 per hour (two thirds the median wage) transition to higher paid work after just one year,
- after two years only 16 per cent remain in low-paid work and 64 per cent move to higher paid work,
- after five years only three per cent remain in low-paid work and 75 per cent move to higher paid work.<sup>1</sup>

Low-paid work equips workers with important experience, builds transferable skills, demonstrates a willingness to work, and provides references and contacts for future work opportunities.<sup>2</sup> It also functions as a starting point for young people to experience the dignity of work that provides meaning and direction, and fosters personal responsibility and independence.

**Graph: Percentage of low-paid workers who transition to higher paid work**

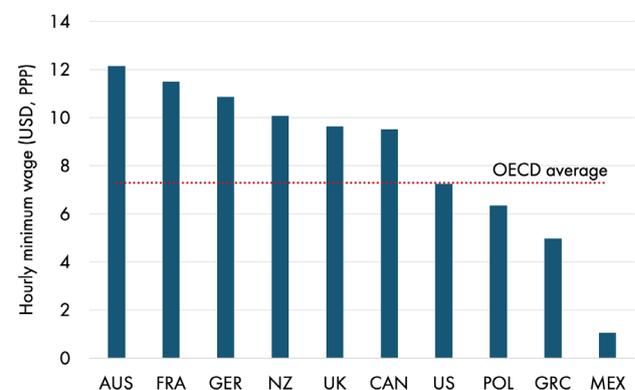


Source: Australian Government Submission, IPA calculations  
 Note: Remaining percentages either entered unemployment or left the labour force.

## Australia’s minimum wage is the highest in the OECD

Australia has the highest minimum wage in the OECD in both absolute and purchasing power terms, and is almost double the OECD average (excluding countries without a national minimum wage such as Austria, Denmark, Sweden, and Switzerland).<sup>3</sup> The minimum wage undermines work opportunity and job creation by making work below \$19.49 per hour illegal.

**Graph: Real Minimum Wage (USD, PPP)**



Source: OECD

On top of the minimum wage there is a superannuation and industrial relations system that creates a significant barrier for people seeking to enter the workforce.

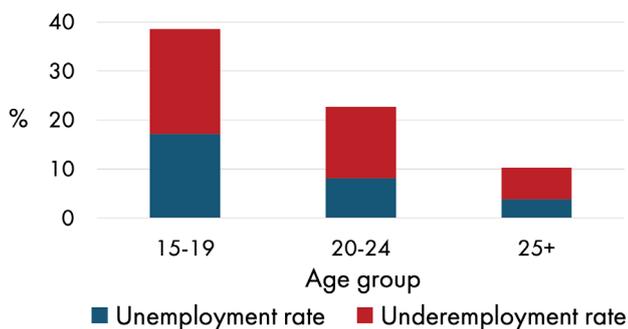
- Including the compulsory employer superannuation contribution of 9.5 per cent, the minimum wage is \$21.34 an hour.
- When paid leave (annual leave, sick and carer's leave, and public holidays) is accounted for, full time minimum wage employees are actually paid \$25.34 per hour worked.<sup>4</sup>

## The minimum wage disadvantages young Australians

The minimum wage keeps many people out of the workforce by prohibiting jobs under the price floor. This has the strongest effect on young people who have the highest rates of underutilisation. The underutilisation rate is the unemployment rate plus the underemployment rate.

- 38 per cent of 15 to 19 year olds in the labour force are underutilised.
- 23 per cent of 20 to 24 year olds in the labour force are underutilised.<sup>5</sup>

**Graph: Underutilisation rate by age**



Source: Australian Bureau of Statistics

Also of concern is the proportion of young people outside the labour force who are not engaged in study and are not reflected in the unemployment statistics.

- Based on the 2016 census an estimated 250,000 Australians aged 15 to 24 are not engaged in work, study, or caring for children.<sup>6</sup>

## Expanding access to the dignity of work

### Minimum wage

Government dictated wages which are above market value creates joblessness, particularly amongst young Australians. The minimum wage removes the first rung of the career ladder for many young and low-skilled Australians, preventing them from experiencing the dignity of work. The data shows there is strong upward mobility from low-paid work. The way to ensure wage growth for inexperienced and low-skilled workers is to lower the barriers keeping them out of the workforce where they can gain experience and improve their skills and productivity.

### Labour market regulation reform

Australia's stringent labour market regulation raises the employment costs for businesses, making it difficult for those who lack experience to find work. Centrally mandated benefits have reduced flexibility of individual agreements that benefit both employer and employee. According to the World Economic Forum, this has led to Australia having the 105th least flexible labour market out of 140 nations. Further, onerous dismissal laws see Australia ranked 110th for hiring and firing practices. Reducing hiring flexibility makes businesses less likely to take a chance on those who lack a proven track record in the labour market.

## Conclusion

There is no such thing as a dead end job. For many young Australians, low-paid and low-skilled work is an important source of dignity, direction, and financial independence. Low-paid work is also an important first rung on the career ladder and provides a path to higher paying, higher skilled, and more secure work. Governments should acknowledge the dignity of all work and reduce barriers to employment.

### Endnotes

- 1 Calculations from reported statistics from Australian Government, "Australian Government Submission to the Fair Work Commission Annual Wage Review 2019", accessed July 4, 2019, <https://www.fwc.gov.au/documents/wage-reviews/2018-19/submissions/ausgov-sub-awr1819.pdf>.
- 2 Department of Employment, Skills, Small and Family Business, "What students need to know about entering the workforce", accessed July 5, 2019, <http://lmip.gov.au/PortalFile.axd?FieldID=3120380&.pdf>.
- 3 Organisation for Economic Co-operation and Development, "Real minimum wages", accessed July 5, 2019, <https://stats.oecd.org/Index.aspx?DataSetCode=RMW>.
- 4 Calculated as (minimum wage + superannuation)\*(paid days/ days worked).  $(\$19.49 + \$19.49 * 0.095)(260/219) = \$25.34$ . Assuming 20 days annual leave, 10 days of sick and carer's leave, and 11 public holidays falling on weekdays (based on Victoria).
- 5 Australian Bureau of Statistics, "Australian Labour Force", Canberra, Australia, (2019).
- 6 Calculated from 2016 census data: Australian Bureau of Statistics, "2016 Census of Population and Housing: Employment, Income and Education", Canberra, Australia, (2016).

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