Submission to the Fair Work Commission: Annual Wage Review 2014

Aaron Lane, Research Fellow
Dr Julie Novak, Senior Fellow

March 2014

Institute of Public Affairs
Free people, free society

Executive Summary

Performance and competitiveness of the national economy

- Australia has one of the highest minimum wages across OECD member countries. A relatively high minimum wage acts as a reverse-tariff for labour intensive production in Australia.

- The minimum wage is a blunt, national instrument. The Fair Work Commission should be cognisant that an increase in the minimum wage may worsen economic outcomes in under-performing states.

Social Inclusion

- The imposition of a mandatory minimum wage by the government is fundamentally at odds with conceptions of social inclusion as minimum wages discourage employment and workforce participation.

- The economic theory is unequivocal about the effect of a minimum wage on employment. There is also more than sufficient empirical evidence of the disemployment effects of minimum wages.

- Using Australian labour demand elasticities, the Institute of Public Affairs estimates that last year's minimum wage increase reduced overall labour demand, all other things being equal, by 0.75 per cent. This is equivalent to the loss of about 87,900 jobs, principally low skilled.

Relative living standards and needs of the low-paid

- Further increases in the minimum wage would be contrary to the relative living standards and the needs of the low paid objective. Minimum wages are poorly targeted as an anti-poverty device, and increases in the minimum wage do not have a statistically significant effect on poverty.

- The difference between the minimum wage and the Newstart allowance creates an effective gap where employment prohibition applies, resulting in guaranteed lower living standards for those that are unable to secure minimum wage employment.

- There is dignity in work, and the minimum wage is a threat to the dignity of the unemployed. The current statutory framework prefers that unemployed persons remain unemployed, and deprives people of a choice to attain employment at a wage rate that would increase their standard of living.

Recommendation

- The Institute of Public Affairs recommends that, for the present annual round of determinations, the current minimum wage be frozen at its current level. Ultimately, the IPA is philosophically opposed to the government mandating wage levels.

Contents

1.0 Background

1.1 Legislative parameters

The Fair Work Commission is responsible for setting minimum wages for employees in the national workplace relations system, pursuant to the *Fair Work Act* 2009 (FW Act).

The objects of the FW Act include:

- ensuring a guaranteed safety net of fair, relevant and enforceable minimum terms and conditions through the National Employment Standards, modern awards and *national minimum wage orders*; and

- ensuring that the guaranteed safety net of fair, relevant and enforceable *minimum wages* and conditions can no longer be undermined by the making of statutory individual employment agreements of any kind given that such agreements can never be part of a fair workplace relations system.[1]

[Emphasis added]

The minimum wages objective is set out in section 284 of the FW Act.

The minimum wages objective is that the Fair Work Commission must establish and maintain a safety net of fair minimum wages, taking into account:

a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and

b) promoting social inclusion through increased workforce participation; and

c) relative living standards and the needs of the low paid; and

d) the principle of equal remuneration for work of equal or comparable value; and

e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.[2]

The Fair Work Commission is also required to take into account the modern awards objective in section 134(1) of the FW Act, but only as the matters specified relate to setting, varying or revoking modern award minimum wages.

We consider that nothing in the FW Act precludes the Fair Work Commission from freezing the minimum wage, reducing the minimum wage, or indeed setting the minimum wage to zero.

[1] FW Act, s 3.
[2] FW Act, s 284(1).

1.2 Institute of Public Affairs' position and recommendation

The Institute of Public Affairs believes that the government should not be engaged in fixing any wage levels in the Australian economy. The IPA's preferred policy outcome is for the statutory minimum wage regime to be abolished, and for it to be replaced with a system that allows individual employees and employers to come to their own agreements about pay and working conditions.

A statutory minimum wage is a restriction on freedom of contract. A minimum wage prohibits an employee and an employer from coming to their own wage agreements below an arbitrary wage rate.

The economic theory is unequivocal about the effect of a minimum wage on employment. There is also more than sufficient empirical evidence of the disemployment effects of minimum wages. Where contrary empirical evidence is put to the Fair Work Commission, we consider that the Commission should nevertheless favour the weight of the conventional approach.

The minimum wage contributes to unemployment, and slower employment growth – particularly for those people on the margins of the labour market. The current statutory framework prefers that unemployed persons remain unemployed, rather than attain employment at a wage rate below an arbitrary minimum wage. The minimum wages framework assumes that low-paid workers are incapable of making a decision to work to increase their standard of living. The framework denies the choice of unemployed persons to attain entry-level positions within the labour force that will provide opportunities to achieve higher standards of living in the long run.

Fundamentally, there is a moral case for the abolition of minimum wages. There is dignity in work, and minimum wage constitutes a threat to the dignity of the human person. Individuals are in the best position to make decisions about their own pay and working conditions.

The Institute of Public Affairs recognises that the Fair Work Commission, in the context of the Annual Wage Review, must operate within its statutory framework. There is nothing in the *Fair Work Act* 2009 that would prevent the Fair Work Commission from making a minimum wage order that lowers the minimum wage. Nevertheless, we accept that the Fair Work Commission is bound to arrive at a minimum wage order by balancing competing economic and social objectives. In this task, the Institute of Public Affairs urges the Fair Work Commission to give the greatest weight to the effects on those on the margins of the labour market, and those outside of the labour force – it is these people that will be most negatively impacted by an increase in the minimum wage.

The Institute of Public Affairs recommends that, for the present annual round of determinations, the current minimum wage be frozen at its current level.

2.0 Economic implications

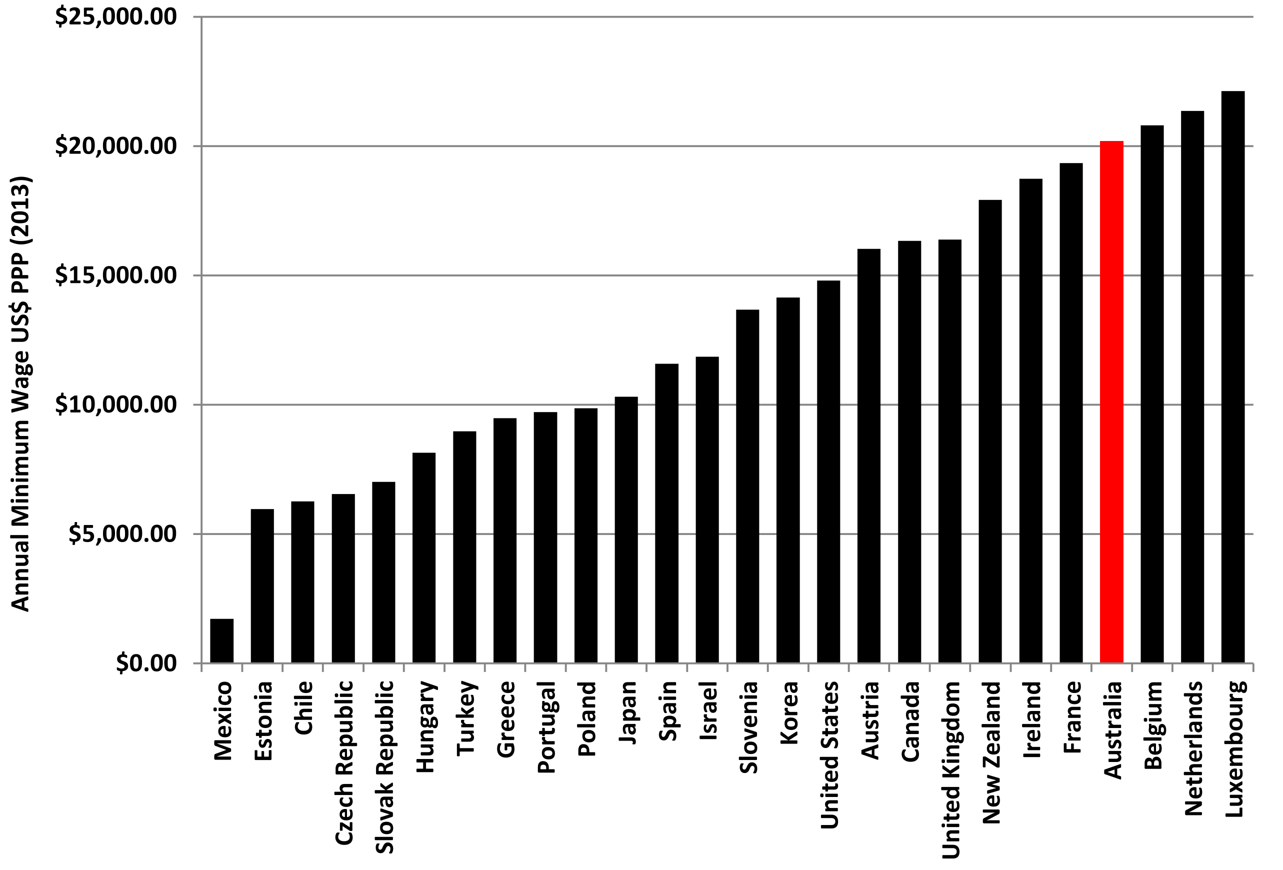
When setting the minimum wage, the Fair Work Commission is obliged to take into account the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth.[3] We do not seek to provide the Commission with an exhaustive submission in this regard, but rather highlight key pressure points.

2.1 Australia's export competitiveness

Because wages are an input cost of production, continued increases in the minimum wage may have adverse implications for Australia's trade-exposed industries.

As illustrated in Figure 1, Australia has one of the highest minimum wages across OECD member countries. Indeed, Australia's minimum wage is the fourth highest, behind Luxembourg, Netherlands and Belgium. At an annual wage of US$PPP 20,179, it is significantly higher than the OECD average of US$ PPP $13,050 – this is excluding member nations which do not have a minimum wage.

Figure 1 – Minimum wages across OECD countries US$ PPP



Source: OECD StatExtracts, 2014

[3] *Fair Work Act* 2009 (Cth), s 284(1).

A relatively high minimum wage acts as a reverse-tariff for labour intensive production in Australia. While less trade exposed industries can pass on the cost of higher wages to consumers by way of higher prices, trade exposed industries are far more constrained from doing so.

Trade exposed industries are already affected by a relatively high Australian dollar. To be sure, the exchange rate has been affected, in part, by a combination of budgetary deficits, quantitative easing and other currency manipulation around the globe – well beyond the control of the Fair Work Commission. However, for highly competitive, trade exposed industries, further increases in the minimum wage will only serve to increase other countries' comparative advantage for labour relative to Australia.

2.2 Economic performance of Australian states

The minimum wage is inherently a blunt instrument. It is a national minimum wage. The Fair Work Commission's minimum wage order will require a business in Hobart to pay the same minimum wage as a similar business in Sydney – notwithstanding a myriad of different economic conditions that exist, not least of all consumer demand.

The Fair Work Commission has no other option in this regard. We note that section 154 of the FW Act operates as a prohibition on awarding interstate wage differentials insofar as the minimum wage relates to modern awards.

In this case, we submit that the Fair Work Commission should adopt a cautious approach and set minimum wages no higher than would be prudent for the worst performing state. State's economic performance can be analysed using Gross State Product growth figures, as shown in Figure 2.

Figure 2 – Gross State Product Per Capita, 2012-2013

Source: ABS, 2013

As the above figures show, while some states have experienced a moderate level of economic growth between November 2012 and November 2013, state product in Victoria and Tasmania actually declined.

The Tasmanian economy in particular has experienced a trajectory of slowing growth figures over the last decade, and now may be in recession. The latest unemployment figures show that Tasmanian's unemployment rate is 7.4%, compared to the national rate of 6.0%.[4]

There is a real threat that an increase in the minimum wage would worsen economic outcomes in under-performing states.

[4] Australian Bureau of Statistics, 13 March 2014,'Labour Force', 6202.0.

3.0 Social inclusion implications

In its deliberations to determine minimum wages, the FWC is also required to take into account the legislated objective of 'promoting social inclusion *through* increased workforce participation.' (emphasis added). We note that the FWC's consideration of social inclusion in the context of section 284(1)(b) of the FW Act is limited to increased workforce participation.[5]

Whilst the vague open-endedness of the term 'social inclusion' prohibits a conclusive definition of the concept, the previous federal government's Social Inclusion Board stated that 'the social inclusion agenda provides a new framework to invest in people who are most in need, to ensure that all Australians have access to the resources and opportunities they need to shape their own life and to fulfill their potential.'[6]

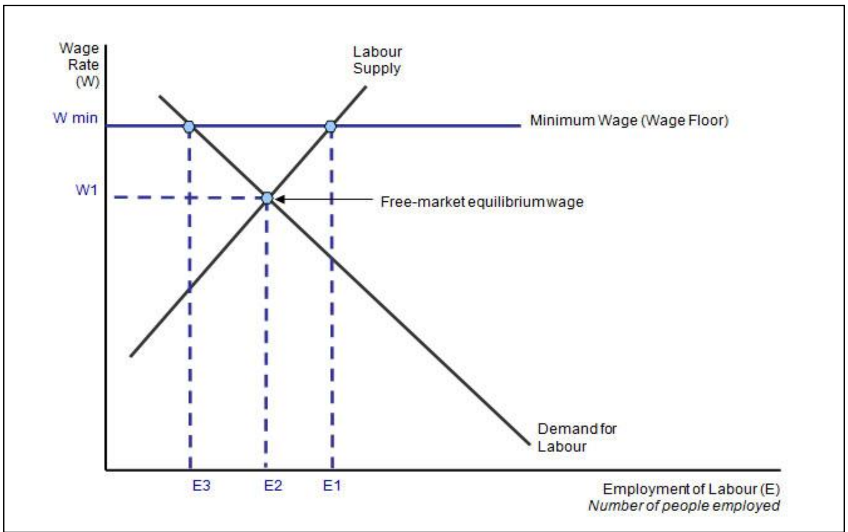
Further, the website of the former Board stated that 'work by participating in employment' represents part of a vision for a socially inclusive society.

However, the imposition of a mandatory minimum wage by government is fundamentally at odds with such conceptions of social inclusion, in that minimum wages *discourage* employment and workforce participation.

The conceptual economic case against the minimum wage is clear, as it is with all forms of price floors: increase the minimum price of (legally provided) labour services by legislative fiat, and excess labour supply (i.e., unemployment) is created at the mandated minimum wage rate.

The process by which this hypothesised outcome materialises can be illuminated by way of example, as shown in Figure 3.

Figure 3 – Economic effects of a minimum wage



[5] Annual Wage Review 2012-2013 [2013] FWCFB 4000 at [101]
[6] http://pandora.nla.gov.au/pan/142909/20130920-1300/www.socialinclusion.gov.au/index.html (accessed 23 January 2014).

Without a minimum wage, the number of people employed (E2) at the prevailing market wage rate (W1) is determined by the interaction of supply and demand, which so happens to arrive at an equilibrium position.

The government then imposes a minimum wage rate (Wmin) above the prevailing market wage rate. More people are prepared to supply their labour services in greater quantities, in response to the mandated higher wage, however the rising cost of labour services reduces the quantity demand for labour by prospective employers. Therefore, the consequence of imposing a minimum wage is unemployment, as excess labour supply emerges within the labour market in the presence of the minimum wage.

To be sure, the extent to which the minimum wage leads to the displacement of low paid workers is contingent upon a great range of factors, including the elasticity of labour demand (or the responsiveness of demand to changes in the wage rate) and the extent of the increase in minimum wages.

The size of the labour demand elasticity effect, influencing the strength of the disemployment effects of minimum wages, has consequently been the subject of voluminous empirical literature. This submission presents the results of some recent studies, ranging from industry or sectoral case studies to economy-wide or cross-country analyses, as well as literature surveys.

Neumark and Wascher employ a sample of 17 countries, for the period 1975 to 2000, when estimating the youth job effects of changes to national minimum wages. While there are inter-country differences, partly reflecting the existence of subminimum wage provisions for young people, the general result is that minimum wages tend to reduce youth employment.[7]

Campolieti, Fang and Gunderson examined the effects of 24 minimum wage changes in Canada during the 1990s, by comparing the transitions from employment to non-employment for individuals affected by the changes (e.g., low-wage youths) with those who were not affected.[8]

According to the researchers, '[o]ur estimates suggest that a 1% increase in the minimum wage would give rise to an increase in the transition from employment to non-employment ranging from approximately 1 to 2%, with our preferred estimate being 1.5%. These disemployment effects imply 'minimum wage elasticities' of approximately -0.3 to -0.5, with an estimate in of -0.4 in the mid-range being reasonable.'[9]

Adopting methodology employed by labour market economist David Neumark, Campolieti, Gunderson and Riddell again found evidence of strongly adverse employment effects associated

[7] David Neumark and William Wascher, 2004, 'Minimum Wages, Labor Market Institutions, and Youth Employment: A Cross-National Analysis', *Industrial and Labor Relations Review* 57 (2): 223-248.
[8] Michele Campolieti, Tony Fang and Morley Gunderson, 2005, 'Minimum wage impacts on employment transitions of youths: 1993-99', *Canadian Journal of Economics* 38 (1): 81-104.
[9] Ibid., 103.

with Canadian minimum wages: '[t]he elasticities for youths (16-24) range from -0.17 to -0.44 with -0.30 being a reasonable point estimate.'[10]

In a 2006 study for the US Employment Policies Institute, Joseph Sabia critiques a study suggesting that increases in the minimum wage at the state level have had no adverse employment effects.[11] Based on econometric analysis, Sabia found that minimum wage increases were associated with a reduction in teenage employment within the retail sector, with elasticities ranging from -0.27 to -0.43.

In concluding comments, the author stated 'the evidence presented here should serve as a reminder that there is no such thing as a free lunch. Raising the minimum wage will hurt rather than help low-skilled workers in retail and small businesses.'[12]

Dolton and Bondibene investigated the employment effect of minimum wages on a sample of 33 countries from 1971 to 2009.[13] Their study found a significant negative employment effect of the minimum wage on young people, with an elasticity effect of -0.21, but less significant negative effects for adults (with an elasticity coefficient close to zero). The estimated negative employment outcomes for young people were robust to specifications of institutional environment and the business cycle.

Another 2012 study, by Sabia, Burkhauser and Hansen, examined the effect of minimum wage increases in New York state on the employment rates of young people, aged between 16 and 29, who did not have a high school diploma.[14] The authors found that employment among all less-educated young people fell in response to the minimum wage increase, with an implied median elasticity effect of about -0.7; 'the estimated employment elasticity is largest for younger individuals aged 16 to 19 (-1.010) and smallest for older dropouts aged 25 to 29 (-0.314).'[15]

In a recent analysis, Meer and West concluded that the additional search effort from unemployed workers, in response to a higher minimum wage, did not overcome the negative demand-side effects of higher labour costs.[16]

With regard to the effect of minimum wages on net jobs growth, the researchers indicated that 'each ten percent increase in a state's real minimum wage, relative to its regional neighbors, causes a 1.2 percent reduction in total employment relative to the counterfactual by the end of five

[10] Michele Campolieti, Morley Gunderson and Chris Riddell, 2006, 'Minimum Wage Impacts from a Prespecified Research Design: Canada 1981-1997', *Industrial Relations* 45 (2): 195-216, p. 212.

[11] Joseph Sabia, 2006, The Effect of Minimum Wage Increases on Retail and Small Business Employment, Employment Policies Institute, May, http://www.epionline.org/studies/sabia_05-2006.pdf.

[12] Ibid., p. 16.

[13] Peter Dolton and Chiara Rosazza Bondibene, 2012, 'The international experience of minimum wages in an economic downturn', *Economic Policy* 69: 99-142.

[14] Joseph J Sabia, Richard V Burkhauser and Benjamin Hansen, 2012, 'Are the effects of minimum wage increases always small? New evidence from a case study of New York state', *Industrial and Labor Relations Review* 65 (2): 350-376.

[15] Ibid., p. 371.

[16] Jonathon Meer and Jeremy West, 2013, 'Effects of the Minimum Wage on Employment Dynamics', National Bureau of Economic Research, Working Paper No. 19262.

years.'[17] The study also showed that imposition of a minimum wage reduces the employment prospects of those with less skill and experience, especially teens.

In a substantial survey of 102 studies on minimum wage effects, David Neumark and William Wascher did find a range wide of labour demand elasticity estimates with respect to the minimum wage. Nonetheless, they found that at least 85 per cent of the studies adjudged as providing the most credible empirical evidence pointed to negative employment effects.[18] Further, 'when researchers focus on the least skilled groups most likely to be adversely affected by minimum wages, the evidence for disemployment effects seems especially strong.'

In their 2008 book, *Minimum Wages*, Neumark and Wascher reinforce the point that, in their assessment, evidence for disemployment effects appears particularly strong for least-skilled groups most likely to be directly affected by minimum wage increases.[19] They also remark that minimum wages could induce labour-labour substitution within low skill groups, implying even greater economic harm than the net disemployment effects estimated in many studies. In summary, the authors conclude by noting:

> We view the [empirical] literature - when read broadly and critically - as largely solidifying the view that minimum wages reduce employment of low-skilled workers, and as suggesting that the low-wage labor market can be reasonably approximated by the neoclassical competitive model.[20]

Now, it is clear that the divergent economic circumstances and institutional structures affecting labour market conditions across various countries means that the implications of international empirical studies cannot be directly transferred to the Australian situation. Nonetheless, a sufficiently large number of studies seem to confirm the basic economic insight that minimum wages deter employment, particularly for those on the margins of the labour market.

There are only limited numbers of empirical studies in the Australian context on the relationship between minimum wages and employment outcomes, though, if anything, they appear to reinforce the conclusions stated above.

In an oft-cited paper, Andrew Leigh examined the employment effects of six increases in the Western Australian minimum wage from 1994 to 2001, remarking that '[t]he elasticity of the Western Australian statutory minimum wage appears similar to that of US minimum wages.'[21]

Overall, the imputed elasticity of labour demand was estimated at -0.29 per cent; that is, for a ten percentage point increase in the minimum wage a 2.9 per cent reduction in labour demand would

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[17] Ibid., p. 20.

[18] David Neumark and William Wascher, 2006, 'Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research', National Bureau of Economic Research, Working Paper No. 12663.

[19] David Neumark and William L Wascher, 2008, *Minimum Wages*, MIT Press, Cambridge.

[20] Ibid., p. 106.

[21] Andrew Leigh, 2003, 'Employment Effects of Minimum Wages: Evidence from a Quasi-Experiment', *The Australian Economic Review* 36 (4): 361-373, p. 371; Andrew Leigh, 2004, 'Employment Effects of Minimum Wages: Evidence from a Quasi-Experiment - Erratum', *The Australian Economic Review* 37 (1): 102-105.

be expected. Significantly, the estimated elasticity for people aged between 15 and 24 was -1.009 (specifically, -0.681 for males; -1.426 for females).

Assuming these results are contemporaneous and apply nationally, it is possible to provide a rough estimate of the implied job losses attributable to last year's federal minimum wage increase (2.6 per cent). With the Australian Bureau of Statistics estimating over 11 million people in employment, the minimum wage increase would have reduced overall labour demand, all other things being equal, by 0.75 per cent - *equivalent to the loss of about 87,900 jobs*.

As reflected in the ACTU 2012-13 Annual Wage Review submission, there are a number of empirical studies for other countries contradicting the basis of the neoclassical labour market model, i.e., that indicate a very small, or even positive, effect of minimum wages on employment.

Such studies have been seized upon by minimum wage advocates in asserting that the extent of economic harm associated with increasing mandated minimum wages is minimal.

Academic disputes over specification and other methodological issues in the empirical minimum wage literature are unlikely to be resolved soon. Nonetheless, the veracity of the conceptual argument against imposing minimum wages, and the weight of empirical studies leaning towards a negative association between the minimum wage and employment, suggest that policymakers should be hesitant to increase minimum wages that price some people out of the labour market, thus compromising their workforce participation.

On similar grounds, the IPA shares the reservations of employer groups regarding the likely disemployment effects of the Fair Work Commission's decision last year to substantially increase apprentice subminimum wages, in some cases over $100 per week.

In summary, *an increase in the minimum wage is likely to cost jobs* - compared with what they would otherwise be - and principally the jobs of lesser skilled people. Such outcomes are incompatible with the social inclusion objective. Indeed, *further increases in the minimum wage are unnecessary and, in fact, counterproductive*.

4.0 Low paid living standard implications

The difference between the minimum wage and the Newstart allowance creates an effective gap where employment prohibition applies, resulting in guaranteed lower living standards for those that are unable to secure minimum wage employment. Minimum wages are poorly targeted as an anti-poverty device, and increases in the minimum wage do not have a statistically significant effect on poverty. Further increases in the minimum wage would be contrary to the relative living standards and the needs of the low paid.

4.1 A minimum wage guarantees lower living standards

In Section 3 of this submission we outlined that the 2013 increase in the minimum wage reduced overall labour demand, all other things being equal, by around 87,900 jobs. Further increasing the costs of labour will only further reduce the demand for labour.

A further increase in the minimum wage may force some workers on to the unemployment benefit. Of course, these adjustments in response to an increase in the minimum wage may not occur in the form of overt redundancies. Rather, they are likely to occur in more subtle forms of slower growth of employment or hours of work in low wage jobs.[22] As such, for those already unemployed it will make employment even harder to obtain – prolonging their period of unemployment and continuing to consign those persons to low standards of living.

Unemployed persons aged 22 years or above that are looking for work are eligible for the 'Newstart Allowance' through Centrelink.

The rates of the Newstart payment differs depending on partnership status and the amount of dependent children, as outlined in Table 1 below. When the payment is averaged over a 38-hour week, it provides the effective full-time wage rate, also outlined in Table 1.

Table 1 - Rates of Centrelink Newstart Allowance

Recipient Status	Fortnightly payment	Effective full-time wage rate	Fortnightly gap at current minimum wage	Fortnightly wage gap at $10/hr
Single, no children	$501.00	$6.59 / hour	$743.40	$259
Single, with dependents	$542.10	$7.13 / hour	$702.30	$217.90
Single (60 or over), after 9 months on payment	$542.10	$7.13 / hour	$702.30	$217.90
Partnered	$452.30	$5.95 / hour	$792.10	$307.70

Source: Commonwealth Department of Human Services Website: <http://www.humanservices.gov.au/customer/services/centrelink/newstart-allwance> accessed 18 Feb 2014.

[22] Michelle Campolieti, Morely Gunderson, Byron Lee, 2012, 'The (Non) Impact of Minimum Wages on Poverty: Regression and Simulation Evidence for Canada', *Journal of Labor Research,* 33 (2012): 287-302, p 289.

For any overt job losses that do occur, an increase in the minimum wage will significantly lower their standards of living. Currently, if a single person without children, for example, who is employed on the current minimum wage moves into unemployment will be $743.40 worse off per fortnight, for the duration of their unemployment. In this regard, it is hard to reconcile any further increase in the minimum wage with the Commission's obligation to consider the relative living standards and needs of the low paid.

This person may be consigned a lower standard of living for a substantial period of time. 62 per cent of Newstart recipients, which is over 340,000 people, are in receipt of the payment for longer than 12 months.[23] The median duration of payment is 88 weeks.[24] Other things remaining equal, slower jobs growth will only make this situation worse.

The current statutory framework prefers that unemployed persons remain unemployed, rather than attain employment at a wage rate below the minimum wage. This is despite the fact that such employment would significantly increase the standard of living of the low paid, and thereby decrease the gap in relative living standards.

The Newstart payment acts as a de facto minimum wage. In the absence of a minimum wage, an unemployed person would not rationally seek employment paying less than the effective full-time wage rate outlined in Table X. However, above this rate it would be rational for some jobseekers to prefer to work at a lower wage than the current statutory minimum wage. Such employment will increase their standard of living.

For example, if a single person without children chose to work at $10 per hour, this person's living standards would increase by $249 per fortnight compared to receiving the Newstart allowance, as outlined in Table 1.

A statutory minimum wage has the effect of prohibiting employment in this zone between the Newstart payment and the current minimum wage. The minimum wages framework assumes that low-paid workers are incapable of making a decision to work to increase their standard of living. There is dignity in work and, as such, this choice should be encouraged rather than prohibited.

We acknowledge that there is the capacity for Newstart recipients to supplement their payment by working. We note that Newstart recipients can earn up to $62 per fortnight before tax, before their payment is affected – approximately 4 hours of work on the minimum wage. Income above $62 and up to $250 per fortnight reduces the payment by 50 cents in the dollar. Income above $250 per fortnight reduces the payment by 60 cents in the dollar. For single principal carers of a dependent child, income about $62 per fortnight reduces the payment reduces by 40 cents in the dollar.[25]

However, the evidence is clear that the majority of Newstart recipients do not top-up their payments with employment income. 85 per cent of short-term, and 80 per cent of long-term, Newstart recipients do not receive any employment income.[26]

In the Fair Work Commission's previous Minimum Wage Orders, the Commission has always reached a decision that sets the minimum wage significantly higher than the Newstart payment. With

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[23] Department of Social Services, 2013, 'Statistical Paper No. 11, Income support customers: a statistical overview 2012', p 37-44.
[24] Ibid.
[25] Department of Human Services website, n 21.
[26] Ibid.

respect, the Institute of Public Affairs considers that a further expansion in this gap would be inconsistent with the minimum wage objectives in respect to the relative living standards and the needs of the low paid.

4.2 Increasing minimum wages will not have an effect on poverty

Increases in the minimum wage do not have a statistically significant effect on poverty. Decades of research shows that the minimum wage harms the least-skilled workers from poor families, while heavily benefiting young workers from middle-income households. In this regard, Milton Friedman in 1966 remarked that:

> The real tragedy of minimum wage laws is that they are supported by well-meaning groups who want to reduce poverty. But the people who are hurt most by high minimums are the most poverty stricken.[27]

The first problem is that job losses due to increases in the minimum wage are disproportionately concentrated on the poor.

As we have detailed in previous sections of this submission, there is a general consensus among labour economists that increases in the minimum wage will have adverse employment effects – and this will be especially felt by low-skilled, low-paid workers.[28] Of particular concern is the research that suggests that minimum wages make it more difficult for youth to obtain jobs and gain experience, which may have permanent effects.[29] The Brotherhood of St Laurence recently released a report into youth unemployment in Australia, and described the youth unemployment rate as being at a 'crisis point'.[30] Of course, unemployment has long been identified as one of the most significant poverty indicators.[31]

The second problem is minimum wages are a blunt instrument, poorly targeted to the task of tackling poverty.

As Leigh identified in a 2007 paper, it is unlikely that raising the minimum wage will significantly lower family income inequality.[32] This is because most of those in the poorest households are outside of the labour force. The median low-wage worker is in a middle-income household, and only slightly more low-wage earners are found in the poorest 40 per cent of households than in the richest 40 per cent of households.[33]

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[27] Milton Friedman, 1966, 'The Minimum Wage Rate, Who Really Pays? An Interview with Milton Friedman and Yale Brozen', Free society Association: 26-27.
[28] Michelle Campolieti, Morley Gunderson, Byron Lee, 2012, 'The (Non) Impact of Minimum Wages on Poverty: Regression and Simulation Evidence for Canada, Journal of Labor Research, 33: 287 – 302.
[29] Ibid: 290.
[30] Brotherhood of St Laurence, 2014, 'Australian Youth Unemployment 2014: Snapshot': 2.
[31] For example, see: Peter Saunders, 2002, 'The Director and Indirect Effects of Unemployment on Poverty and Inequality', Social Policy Research Centre: 4-5.
[32] Andrew Leigh, 2007, 'Does Raising the Minimum Wage Help the Poor?', Economic Record, Vol. 83 no. 263, 432-445.
[33] Ibid: 440.

The ill-targeted approach to poverty alleviation as evidenced by Australian minimum wages appears elsewhere. For example, in a 2012 Canadian study, Campolieti, Gunderson and Lee found that only about 30 per cent of the net earnings from a minimum wage increases goes to poor, while about 70 per cent goes into the hands of the non-poor.[34]

On this point, the empirical evidence seems clear. In a 2008 study for the Employment Policies Institute, Sabia and Burkhauser analysed poverty rates in the United States.[35] The authors found no evidence that minimum wage increases between 2003 and 2007 lowered state poverty rates.[36] Similarly, in their analysis of the Canadian job market, Campolieti et al. concluded that increases in minimum wages did not have a statistically significant effect on poverty rates.[37]

Minimum wage jobs are often an entry point into the labour market. As experience and skills increase, opportunities can flourish for low paid workers who are then able to seek higher paying work. For example, a United States study revealed that only 2.8 per cent of employees older than 30 worked at or below the minimum wage, and the average income of minimum wage employees of all ages increased 30 per cent with one year of employment.[38]

Therefore, the continued existence of low wage jobs is important for those currently outside the labour market. In this regard, the effect of rising minimum wages should be seen in the broader context of Australia's burdensome industrial relations laws. The re-regulation of the labour market by the Fair Work regime has discouraged employment. For example, there has been a marked increase in industrial disputes[39], and a trebling in workplace litigation[40].

The focus of poverty alleviation should be on enabling individuals to strike their own wage agreements with employers who wish to employ them. Greater labour market freedom would best enable people to build their human capital, by acquiring much-needed work experiences, and enable them to improve their income positions over time.

Further increases in the minimum wage would run counter to the minimum wages objective.

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[34] Campolieti, Gunderson and Lee, n. 33: 299.
[35] Joseph J. Sabia, Richard V. Burkhauser, 2008, 'Minimum wages and poverty: will the Obama Proposal Help the Working Poor?', Employment Policies Institute.
[36] Ibid.
[37] Campolieti, Gunderson and Lee, n. 33.
[38] Carl F. Horowitz, 2003, 'Keeping the Poor Poor: The Dark Side of the Living Wage', Policy Analysis, No. 493: 5.
[39] Australian Bureau of Statistics, 13 March 2014, 'Industrial Disputes, Australia, Dec 2013', 6321.0.55.001.
[40] See: Fair Work Commission, Annual Reports: <http://www.fwc.gov.au/index.cfm?pagename=aboutannual> accessed 27 March 2014.

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7.0 About the authors

Aaron Lane is a Research Fellow with the Institute of Public Affairs.

Dr Julie Novak is a Senior Fellow with the Institute of Public Affairs.