

Paying the Price:

The Commission of Audit's plan to cut the wages of Australia's lowest paid workers

OVERVIEW

The Commission of Audit states that “the level of the national minimum wage... is essentially a societal choice.” Their preferred choice is for the minimum wage to fall in real terms every year for a decade until it’s only 44% of the average wage, down from 56.3% in 2013. In today’s terms, a minimum wage set at 44% of the average wage would be only \$486.20, which is \$136 lower than the current minimum of \$622.20 for a 38-hour week.

The Commission’s recommendation to cut the real wages of Australia’s 1.54 million lowest paid workers would leave them substantially worse off. Within only two to three years, Australia’s minimum wage would be lower than Britain’s and Canada’s, as a proportion of the average wage. By 2023, when the Commission’s real wage cuts are fully phased in, Australia would have one of the lowest minimum wages in the OECD. This is a prescription for the Americanisation of our labour market.

The Commission of Audit’s extreme recommendations are an ambush for low paid workers. There was nothing in the Commission’s terms of reference about minimum wages or industrial relations. None of the Audit Commissioners publicly mentioned that these large real wage cuts were under consideration. None of the Audit Commissioners raised this issue when they met privately with the ACTU. Unions and workers were not given a chance to defend the current wage-setting arrangements or point out the many flaws in the Commission’s proposed scheme.

The Commission of Audit has proposed that control over the minimum wage be given to the government of the day, for the first time in the 107 year history of Australian minimum wages. At the moment, Australia’s minimum wages are set by an independent body of experts that makes a merits-based decision after hearing arguments and evidence from unions, employer groups, and governments. Instead of this, the Commission of Audit wants to turn minimum wages into a political football. In countries like the United States where the minimum wage is set by politicians, the typical experience is that the minimum wage stagnates for years, punctuated by large, irregular increases. This is bad for workers, who see their real wages fall for year after year, and it’s bad for employers, who have to adjust to large one-off increases in wages.

The radical proposal to Americanise Australia’s labour market should be firmly rejected.

WHAT IS THE COMMISSION OF AUDIT'S PLAN?

The Commission has recommended:

- Removing the power to set the minimum wage from the independent umpire, the Fair Work Commission, and giving it to the Government of the day.
- Cutting the National Minimum Wage in real terms every year for a decade.
- Pegging the National Minimum Wage to 44% of average weekly earnings from 2023, down from 56.3% at present.
- Varying the minimum wage by state, to be equal by 2023 to either the National Minimum Wage or 44% of the state's average wage, whichever is lower.

It is unclear what the Commission's plan would mean for award wages.

WHAT WOULD THE COMMISSION OF AUDIT'S PLAN MEAN FOR AWARD WAGES?

Relatively few people are paid exactly at the National Minimum Wage.¹ Instead, most low-paid Australian workers are paid according to the minimum wages set out in awards. Awards provide a range of minimum wages that vary by industry, occupation, and skill level. At the moment, award minimum wages and the NMW are adjusted each year by the Fair Work Commission as part of its Annual Wage Review. In recent years, the Fair Work Commission has decided to increase the NMW and award minimum wages by the same percentage amount (2.6% in 2013).

The Commission of Audit does not specify what should happen to award minimum wages. There would seem to be three options:

1. Leave the setting of award minimum wages to the Fair Work Commission.
2. Maintain existing relativities between award minimum wages and the NMW.
3. Abolish award minimum wages and have only a single minimum wage.

The Commission of Audit's aim is to lower Australia's real wage floor. Implementing its recommendations along with option 1 would have relatively little impact on the labour market. Instead, it is likely to favour either option 2 or option 3.

Option 2 would see all minimum wage workers (whether they are paid the NMW or an award minimum wage) have their real wage cut each year for ten years. If an award minimum rate is, say, 10% higher than the NMW, it would remain 10% higher than the NMW. In 2023 when the NMW is equal to 44% of the average wage, the award minimum rate would be 48.4% of the average wage.

¹ The Commonwealth Government [estimates](#) that 104 000 adults are paid exactly at the NMW. The ACTU's estimate is closer to 50 000.

Option 3 would see low-paid workers who are paid according to award minimum wages suffer even larger real wage cuts than is recommended for the NMW. This is because, by abolishing award minimum rates, their wages would eventually be levelled down to the NMW (which would itself be falling in real terms).

All three options would see at least some low-paid workers suffer real wage cuts. Option 3 would have the worst adverse effects; option 1 would have the least. In the absence of any more detail regarding the Commission of Audit's recommendations, it may be assumed that the Commission favours either option 2 or option 3 and that all award-reliant workers would therefore be affected if the recommendations were implemented..

ABOLISHING THE ROLE OF THE INDEPENDENT UMPIRE

Australia has had minimum wages set by an independent umpire since 1907. For most of that time, the adjustment of minimum wages was the job of the Australian Industrial Relations Commission and its predecessors. Even under Work Choices, the minimum wage wasn't set by politicians - the Australian Fair Pay Commission had responsibility for wage setting. Since 2010, responsibility for adjusting minimum wages has fallen to the Fair Work Commission, which is required to conduct an Annual Wage Review.

The Fair Work Commission has to take into account a broad range of factors when adjusting minimum wages, including:

- (a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth;
- (b) promoting social inclusion through increased workforce participation;
- (c) relative living standards and the needs of the low paid;
- (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.

The independent umpire has to take into account the needs of low paid workers and their living standards relative to the rest of the community, as well as a range of economic considerations. Under the Commission of Audit's plan, these criteria would be scrapped.

The Commission of Audit recommends that the setting of the minimum wage be made an "administrative process, possibly implemented by the Department of Employment." The minimum wage would be adjusted by the Department, according to rules set out by the Government of the day.

Australia has never before had a situation in which the National Minimum Wage is set by the government of the day. This would make minimum wages in Australia more of a political football, as is the case in the United States and elsewhere.

WHO WOULD BE AFFECTED BY THE COMMISSION OF AUDIT'S PLAN?

There are 1.54 million Australian workers who are paid exactly at the National Minimum Wage or an award minimum wage.² That means 16.1% of all employees rely on a minimum wage and would be directly affected by the Commission of Audit's plan. The majority of these workers – 892 500 of them – are women.

Most minimum wage workers³ are adults (85.9%) as are most other workers (95.9%). Compared to other workers, minimum wage workers are:

- a. more likely to be female (57.8% of award only workers are female vs 48.7% of other workers);
- b. more likely to work part-time (60.9% vs 32.2%);
- c. more likely to be casual rather than permanent or fixed term (46.5% vs 15.9), although a majority are still permanent;
- d. more likely to work in small business (38.2% vs 20.3%), although a majority of award only workers are employed in businesses with more than 20 employees;⁴
- e. more likely to be in the private sector (91.9% vs 78.3%);
- f. more likely to have weekly cash earnings below \$1000 (84.4% vs 46%).

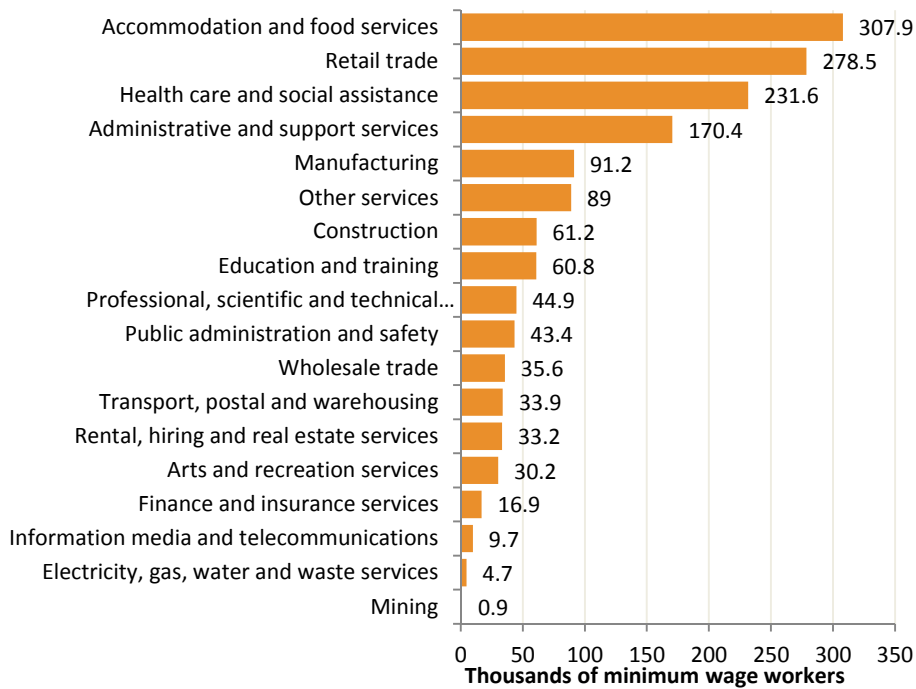
Most minimum wage workers are in four key industries, as shown below.

² Data in this section are derived from the ABS 2013 *Employee Earnings and Hours, Australia, May 2012*, Catalogue number 6306, including unpublished data.

³ By 'minimum wage workers' we mean workers who are paid exactly at the National Minimum Wage or an award minimum wage.

⁴ The 'all other workers' figure for business size excludes owner-managers of incorporated enterprises.

Figure 1: Number of minimum wage workers in each industry



Source: ABS 6306, May 2012.

Minimum wage workers are also concentrated in a few key occupations, as shown below. The most common occupation for minimum wage workers is sales assistant and salespersons – there are 234 400 minimum wage workers in this occupation.

Figure 2: Occupations in which minimum wage workers are predominantly found



Source: ABS 6306, May 2012

WHAT WOULD THE PLAN MEAN FOR THE VALUE OF THE MINIMUM WAGE?

The National Minimum Wage is currently \$622.20 for a 38-hour week. This is 56.3% of the average weekly earnings of all employees. The Commission of Audit recommends that this be cut to 44% of average weekly

earnings. If this was implemented today, the minimum wage would be \$486.20 per week, a \$136 cut. That's just \$12.80 per hour, down from \$16.37 at the moment.

The proposal is to phase this cut in the minimum wage over time, so that it reaches the 44% of average earnings 'benchmark' in 2023. This would mean that the purchasing power of the minimum wage would be 9.3% lower in ten years' time than it is today – equivalent to just \$564 per week. Meanwhile, the average earnings of all employees are expected to rise by around 16% over the same period.

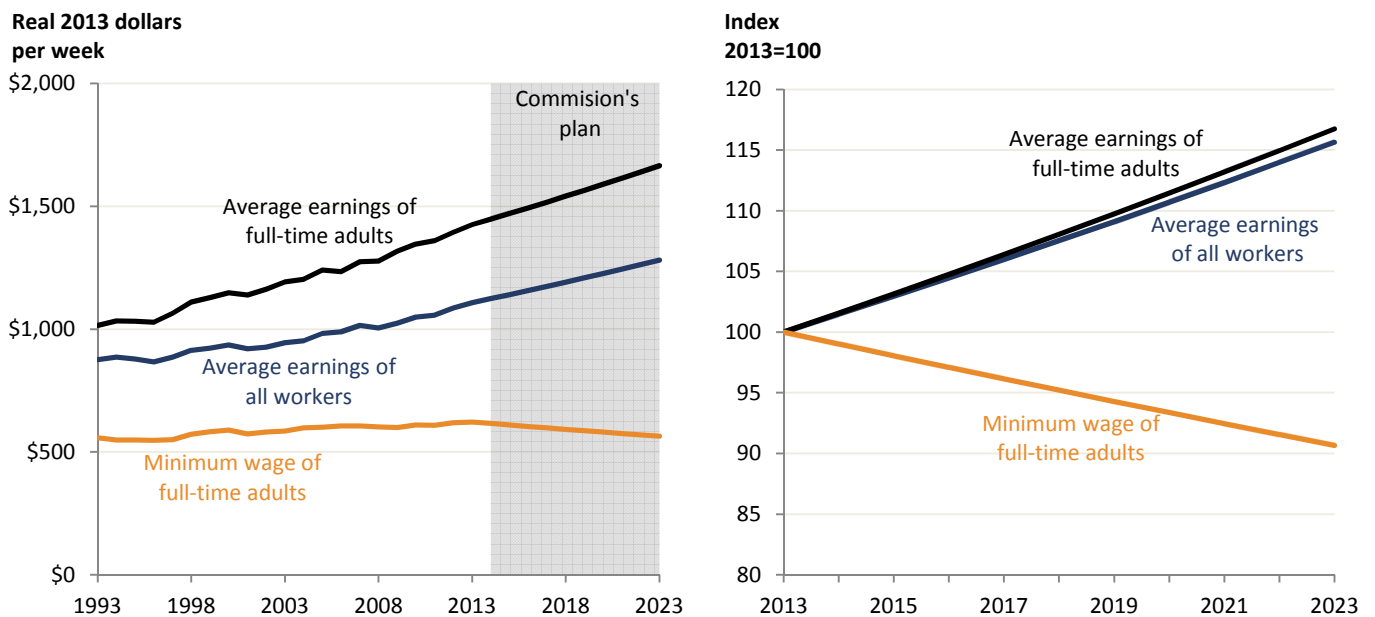
Table 1: Real wages under the Commission of Audit's plan (2013 dollars)

	2013	2023	Change (\$)	Change (%)
National Minimum Wage	\$622.20	\$564.11	-\$58.09	-9.3%
Average wage of all employees	\$1,105.00	\$1,281.33	\$176.33	16.0%
Average wage of full-time adults	\$1,420.90	\$1,665.21	\$244.31	17.2%

Source: Current NMW from Fair Work Commission. Current average wages from ABS 6302. Projections assume that the CPI rises by 2.5% per year, the NMW rises by 1.5% per year, the average wage of all employees increases 4% a year and average wages of full-time adults rise by 4.1% per year.

The Commission of Audit's plan would see the real value of the minimum wage fall to its 1998 level in 2023 – that's a quarter of a century with no real wage gain for low-paid workers.

Figure 3: The Commission of Audit's plan for real wages



Source: as per Table 1.

WHAT WOULD THE PLAN MEAN FOR WAGE INEQUALITY?

Under the Commission of Audit’s plan, the real minimum wage would be cut each year for the next decade, while average wages will continue to rise, as shown above. The minimum wage will fall from 56.3% to 44% of the average wage of all employees, which is the Commission’s recommendation.

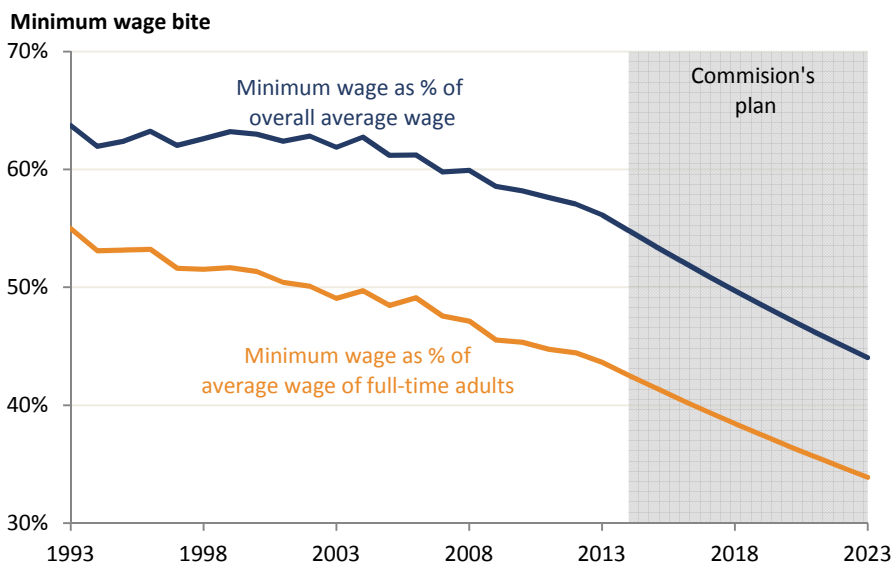
The plan would see the minimum wage fall from 43.8% of the average full-time wage to just 33.9%. Minimum full-time wages are more often compared to the average wage for *full-time* workers, rather than the average for all workers. The current minimum wage is already at a record low in Australia, as a proportion of the average full-time wage – the Commission’s plan would see it fall dramatically over the next ten years.

Table 2: Minimum wage as a percentage of average wages under the Commission of Audit’s plan

	2013	2023	Change (percentage points)
NMW as a % of average wage of all employees	56.3%	44.0%	-0.12
NMW as a % of average wage of full-time adults	43.8%	33.9%	-0.10

Source: as per Table 1.

Figure 4: Minimum wage as a percentage of the average wage



Source: as per Table 1.

The Commission of Audit’s proposal is for wage inequality to grow more rapidly. Low-paid workers would fall much further behind the living standards of other workers. The minimum wage was over half the average full-time wage in 2000 – it’s now barely 43 and would fall to 33.9% under the plan.

WHAT WOULD THE PLAN MEAN IN EACH STATE?

The Commission of Audit’s plan is for the minimum wage in each state to be either 44% of the state’s average wage, or 44% of the national average wage, whichever is lower. If this plan was implemented, this would mean large cuts to the minimum wage in each state.

If the Commission's recommendation was to be implemented now, the minimum wage cut would range from \$136 (in NSW, WA, ACT & the NT) to \$209.48 per week.

Table 3: Cut to minimum wage in each state if Commission's recommendation implemented immediately

	Aus	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Average weekly earnings	\$1,105.00	\$1,108.00	\$1,046.00	\$1,079.00	\$1,298.00	\$979.00	\$938.00	\$1,374.00	\$1,253.00
NMW	\$622.20	\$622.20	\$622.20	\$622.20	\$622.20	\$622.20	\$622.20	\$622.20	\$622.20
Min wage as % of state AWE	56.3%	56.2%	59.5%	57.7%	47.9%	63.6%	66.3%	45.3%	49.7%
44% of State AWE	\$486.20	\$487.52	\$460.24	\$474.76	\$571.12	\$430.76	\$412.72	\$604.56	\$551.32
Min wage under Commission's plan	\$486.20	\$486.20	\$460.24	\$474.76	\$486.20	\$430.76	\$412.72	\$486.20	\$486.20
Cut to min wage	-\$136.00	-\$136.00	-\$161.96	-\$147.44	-\$136.00	-\$191.44	-\$209.48	-\$136.00	-\$136.00

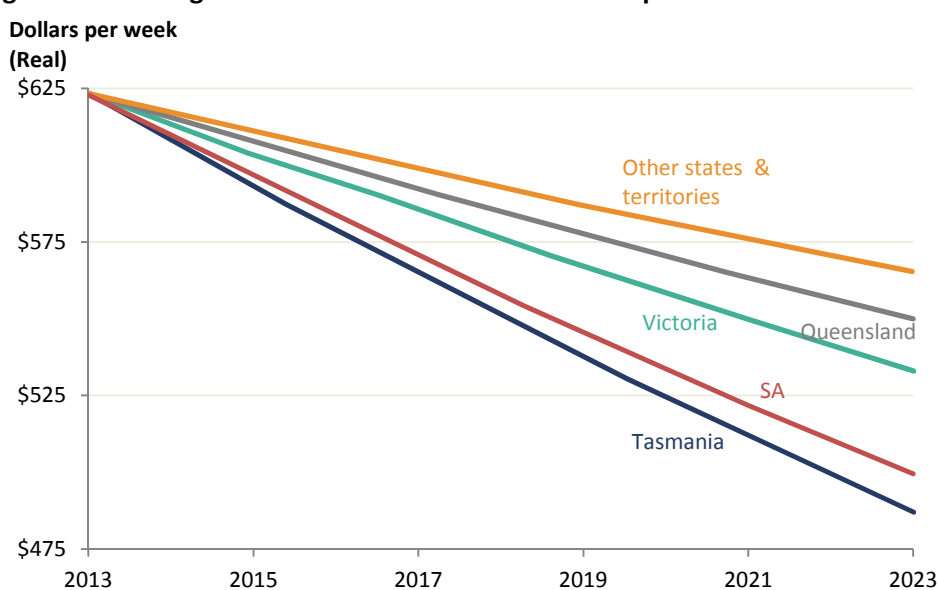
Source: ACTU calculations based on Commission of Audit 2014, table 9.11.2.

If the Commission's recommendation was to be phased in over ten years, the real value of the minimum wage would still fall in every single state and territory. The ACTU calculates that these falls would be as follows:

- Tasmania: \$136 per week real wage cut
- Victoria: \$90 per week real wage cut
- Queensland: \$73 per week real wage cut
- South Australia: \$123 per week real wage cut
- All other states and territories: \$58 per week real wage cut.⁵

The real wage cuts would be phased in as per Figure 5.

Figure 5: Real wages under the Commission of Audit's plan in each State and Territory

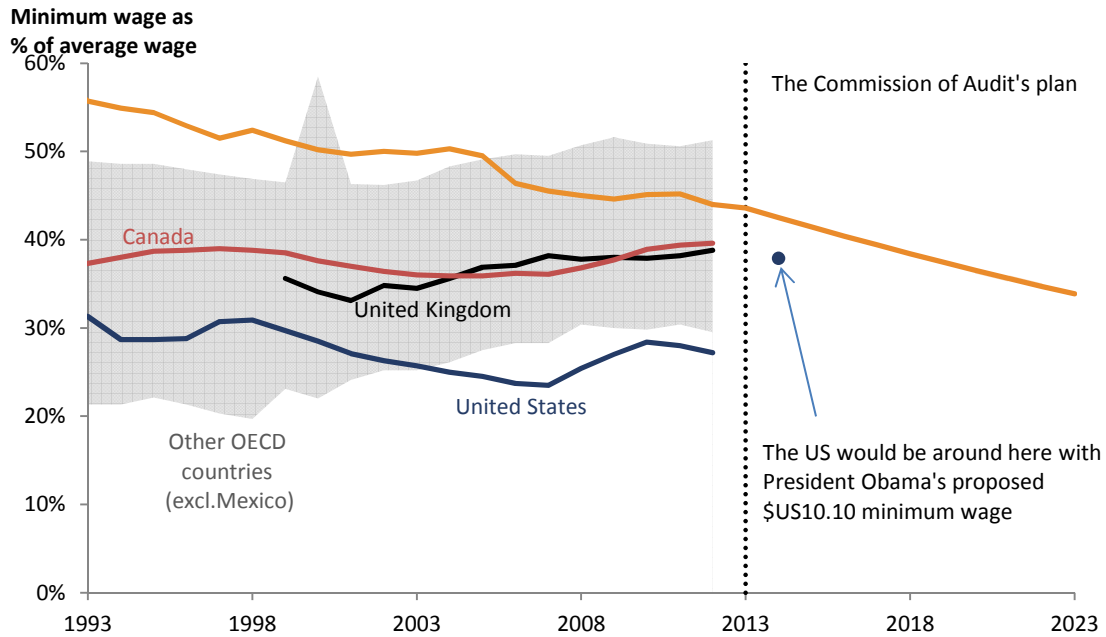


Source: ACTU calculations based on Commission of Audit 2014, chart 9.11.9

⁵ Assumes CPI inflation is 2.5% per year in each jurisdiction.

HOW WOULD AUSTRALIA'S MINIMUM WAGE COMPARE INTERNATIONALLY?

Figure 6: Minimum full-time wage as a percentage of the average full-time wage in OECD countries

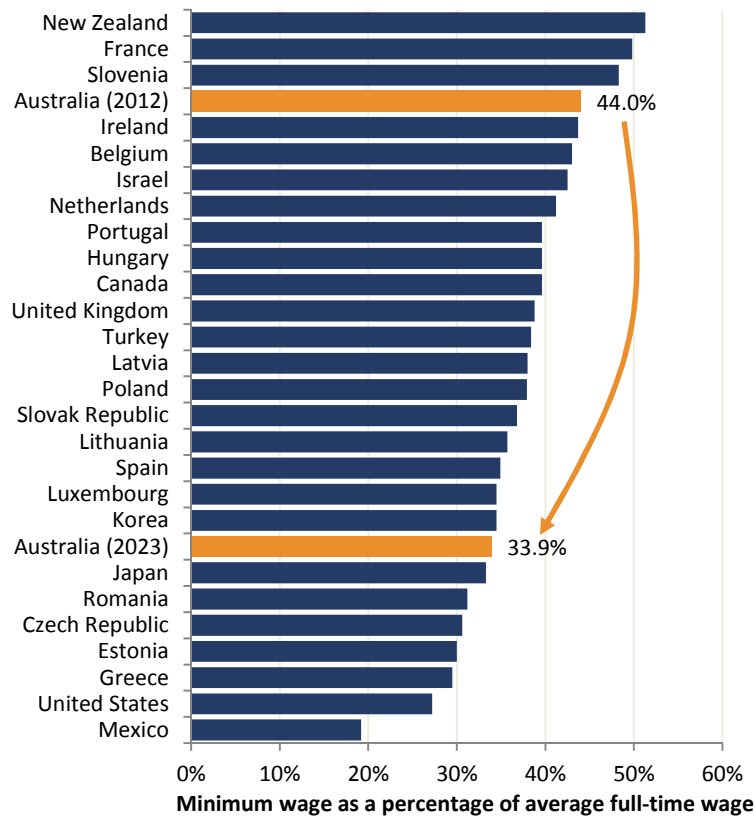


Source: OECD Stat and ACTU calculations based on the Commission of Audit's recommendation.

Until the early 2000s, Australia had the highest minimum wage, as a proportion of the average wage, in the OECD. Since then, we've been falling rapidly back to the middle of the pack. Under the Commission of Audit's recommendation, we'd rapidly descend to having one of the lowest minimum wages, as a proportion of the average wage, of any advanced economy. In just two years our minimum wage would be around 40% of the average full-time wage, around where Canada and the UK are now.

By 2023, after the decade of real wage cuts recommended by the Commission of Audit is over, Australia's minimum full-time wage would be about 33.9% of the average full-time wage. This would be one of the lowest minimum wages in the OECD, not much higher than America's (27.2%).

Figure 7: Minimum full-time wage as a percentage of the average full-time wage in OECD countries



Source: OECD Stat and ACTU calculations based on the Commission of Audit's recommendation.

Over that decade, while the Australian minimum wage was being cut, the minimum wage may rise in other OECD countries (as it has in most over the past decade), which would make these comparisons even worse.

ADDRESS

ACTU
365 Queen Street
Melbourne VIC 3000

PHONE

1300 486 466

WEB

actu.org.au

D No: 58/2014

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