

## **Chapter 6: The impact of a minimum wage increase on the welfare of the low paid**

### **Introduction**

6.1 When reviewing and setting minimum wages, s.23(c) of the WR Act directs the Commission to have regard to:

*Providing a safety net for the low paid.*

6.2 The safety net provides a foundation of minimum wages for those workers who require such protections. The concept of a safety net for the low paid has not been narrowly defined in the WR Act. Nor have the factors that are encompassed within the term of a safety net for the low paid been identified. The Commission can take as broad approach as it believes relevant in assessing what constitutes a safety net for the low paid.

6.3 Decisions on the appropriate level of the safety net are to be taken with regard to the other wage-setting parameters contained in s.23 of the WR Act. In particular, the capacity of the unemployed and low paid to obtain and remain in employment. Unemployment or joblessness is a key cause of social concern. The appropriate level of the safety net needs to be informed by the impact it may have on unemployment.

6.4 The establishment and maintenance of a safety net occurs in the context of a broader social environment, not just the industrial environment. This includes the impact of the tax-transfer system on household disposable income. As the amendments to the WR Act have explicitly moved minimum wage setting away from a narrow process of arbitrating on competing industrial claims, so the nature of what constitutes a safety net can also broaden.

6.5 A simple formulaic approach to establishing the level of the safety net may not always be in the broader interests of the low paid if it does not acknowledge the potential consequences for their continued employment.

6.6 Decisions regarding the provision of a safety net for the low paid should be informed by the knowledge that such workers are spread widely throughout the household income distribution. The benefits of wage increases are therefore diluted in terms of the benefits provided to many households. In addition, those

low wage workers residing in low income households receive transfer payments from the Government which provide assistance targeted to their particular responsibilities and requirements.

6.7 The next section of this chapter will expand on the reasons why relying solely on the wages system is an inefficient means of assisting the low paid.

## **Income distribution in Australia**

6.8 Chapter 2 of this submission discussed aggregate wage movements in Australia. The chapter demonstrated the inappropriateness of using aggregate wage measures as an indicator of an appropriate level of minimum wage adjustment.

6.9 Chapter 2 also established that Australia has experienced a shift in the compositional make-up of the workforce towards higher paid occupations. However, this does not mean that low paid workers have experienced declines in their real incomes or that the wages of higher paid workers have increased substantially faster than the low paid.

6.10 Moreover, although earnings measures are an indication of economic well-being, the impact of the tax-transfer system must also be taken into account.

6.11 In this regard, the ABS recently released data which revealed no significant change in household income inequality between the mid-1990s and 2003-04.<sup>1</sup> ABS data on trends in the distribution of real disposable household income (that is, household income after tax and transfers and adjusting for price movements – see Table 6.1) show that:

- Real disposable income has increased for all groups across the income distribution between 1994-95 to 2003-04, including the lowest decile.
- The real income for the 90th percentile has increased by 17.7 per cent since 1994-95, compared with a real increase of 20.0 per cent for the 10th percentile.
- There have been improvements in the income share of the three lowest quintiles. The income share of the lowest and second quintiles

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<sup>1</sup> ABS, *Household Income and Income Distribution, Australia, 2003-04*, (Cat. No. 6523.0).

have both increased by 0.3 percentage points, while the third quintile has increased its share by 0.2 percentage points.

- While it is difficult to assess changes in income distribution over time due to the methodological improvements introduced in the 2003-04 survey, according to the ABS it appears “that there has been no significant change in income inequality from the mid-1990s to 2003-04”.<sup>2</sup>
- The Gini coefficient, an indicator of income inequality that increases with the degree of inequality, fell from 0.309 in 2002-03 to 0.294 in 2003-04. However, the ABS notes that this figure is not significantly different from the Gini coefficients for either 1994-95 or 1995-96.

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<sup>2</sup> Ibid.

**Table 6.1: Equivalised disposable household income**

<b>Real income per week at top of selected percentiles</b>	<b>1994-95</b>	<b>1995-96</b>	<b>1996-97</b>	<b>1997-98</b>	<b>1999-00</b>	<b>2000-01</b>	<b>2002-03</b>	<b>2003-04</b>	<i>Change 1994-95 to 2003-04 (%)</i>
	\$	\$	\$	\$	\$	\$	\$	\$	
10th	205	204	214	214	217	219	223	246	20.0
20th	245	243	253	255	261	266	273	299	22.0
30th	292	293	301	305	313	317	334	357	22.3
40th	342	339	357	355	371	381	394	425	24.3
50th	403	397	412	418	439	449	459	491	21.8
60th	467	460	473	488	506	523	532	560	19.9
70th	537	535	548	565	584	597	618	635	18.2
80th	625	627	642	654	690	699	719	743	18.9
90th	775	762	782	808	843	871	892	912	17.7
<b>Income share (%)</b>	%	%	%	%	%	%	%	%	<i>Change 1994-95 to 2003-04 Percentage point</i>
Lowest quintile	7.9	8.1	8.3	7.9	7.7	7.7	7.7	8.2	0.3
Second quintile	12.8	13.0	13.1	12.8	12.6	12.6	12.8	13.1	0.3
Third quintile	17.7	17.7	17.8	17.7	17.7	17.6	17.6	17.9	0.2
Fourth quintile	23.7	23.9	23.7	23.8	23.7	23.6	23.7	23.3	-0.4
Highest quintile	37.8	37.3	37.1	37.9	38.4	38.5	38.3	37.4	-0.4
All persons	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	0.0
Second and third deciles	10.8	11.0	11.0	10.8	10.5	10.5	10.6	10.9	0.1
<b>Ratio of incomes at top of selected percentiles</b>									<i>Change 1994-95 to 2003-04 Percentage point</i>
P90/P10	3.77	3.73	3.66	3.77	3.89	3.98	4.00	3.70	-0.07
P80/P20	2.56	2.58	2.53	2.56	2.64	2.63	2.63	2.49	-0.07
P80/P50	1.55	1.58	1.56	1.56	1.57	1.56	1.57	1.52	-0.03
P20/P50	0.61	0.61	0.62	0.61	0.59	0.59	0.60	0.61	0.00
									<i>Change 1994-95 to 2003-04 Percentage point</i>
<b>Gini coefficient</b>	0.302	0.296	0.292	0.303	0.310	0.311	0.309	0.294	-0.008

Source: ABS Household Income and Income Distribution, Various (Cat. No. 6523.0).

6.12 Overall, therefore, the broader tax-transfer system has operated to improve the relative living standards of low paid workers. This assistance provided through the tax-transfer system has been tailored to the particular needs of low paid workers with different household responsibilities.

### **The tax welfare transfer system – re-distributing income to poorer households**

6.13 The Australian Government continues to assist low paid households through a targeted tax-transfer system.

6.14 Harding et al<sup>3</sup>, found that the provision of direct cash benefits (such as the age pension and family benefits) in Australia is highly progressive. For example, households in the bottom two quintiles of equivalised household disposable income distribution receive around 20 times more per week in direct benefits than the top quintile. When aggregating direct and indirect benefits (such as health care and education) the bottom two quintiles receive about 60 per cent of total outlays while the top two quintiles receive 22 per cent.

6.15 Direct benefits account for 84 per cent of the gross household income of the bottom 20 per cent of the population and only 0.6 per cent of the gross income of the top 20 per cent. The authors found that while the top quintile received around 43 times that received by the bottom quintile in terms of private income, after taking into consideration taxes and benefits, this ratio had reduced considerably to three to one. Overall, the bottom 60 per cent of Australians (in terms of income distribution) gain from taxes and benefits. These gains were financed by the top 40 per cent of Australians.<sup>4</sup>

6.16 As explained in Chapter 3, the FMW is currently 57.5 per cent of median earnings – one of the highest across OECD countries. The interaction of the wages and tax-transfer system is made stark when the post tax-transfer FMW is expressed as a proportion of the post tax-transfer median earnings.

6.17 For example, the post tax-transfer wage of a worker on the FMW who is supporting a family of a spouse and two children is 87.6 per cent of the post tax-transfer wage of a worker on median earnings with the same responsibilities. The post tax-transfer wage for a lone parent on the FMW with

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<sup>3</sup> A Harding, R Lloyd and N Warren, 'The Distribution of Taxes and Government Benefits in Australia', National Centre for Social and Economic Modelling, University of Canberra, 2004, page 15.

<sup>4</sup> Ibid, page 24.

one child is 82.5 per cent of the post tax-transfer wage of a lone parent on median earnings with one child. The post tax wage of a worker on the FMW with no dependents (therefore no transfers) is 64.9 per cent of the post tax wage of a worker on median earnings. For a breakdown of the contribution of earnings and transfers to household disposable income for households with one person on the FMW and median earnings see Tables A6.1 and A6.2 in Appendix A.6.

- 6.18 Relatively few workers in Australia are employed on the FMW. The Australian Government undertook modelling of the impact upon current household disposable income of a household member with a more typical low paid job in a variety of households. This analysis provides information on the contribution of earnings from work as well as the transfer system to overall household disposable income.
- 6.19 There is no common international definition of what constitutes a low paid worker. Different researchers and policy makers have adopted different thresholds expressed as a proportion of the median wage. The OECD has defined the low paid as those employees on less than two-thirds of median earnings for all full-time workers.<sup>5</sup> Low paid workers are defined for the purposes of this analysis in a similar way as by the OECD, that is, as having received an hourly wage rate between the FMW and up to two-thirds of the median wage rate. The typical low paid rate adopted for this analysis falls approximately at the mid-point between the FMW and two-thirds of the median wage, that is, \$530 per week.
- 6.20 Table 6.2 shows the contribution from earnings and transfer payments for some key household types. For example, transfer payments contribute almost 40 per cent of total disposable income in households composed of a couple with two children where one parent has a low paid job.
- 6.21 As the table shows, not only does the transfer system provide a substantial share of funds to many low income households, it provides those funds in a way which can be tailored to the particular circumstances of low paid workers. Where low paid workers have greater household responsibilities, government transfers are higher.

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<sup>5</sup> OECD Employment Outlook 2006, page 181, note 20.

6.22 In conclusion, income inequality has not changed over the past decade. The tax-transfer system has made a significant contribution to increased household disposable income for low paid workers and has been predominantly responsible for the stability of income inequality over the past decade. This is despite the shift in demand away from less skilled and low paid employees to more highly skilled employees (Table A6.3 in Appendix A.6 contains more household types).

**Table 6.2: Composition of household disposable income for low paid workers by household type**

Household Type	Wage from low paid employment	Transfer payments <sup>6</sup>	Tax and Medicare	Disposable income	Transfers as a per cent of disposable income
	(A)	(B)	(C)	(D=A+B-C)	(E=B/D)
Single Adult working (no children)	\$530	0	\$67.96	\$462.04	0.0
Lone parent working with 1 child aged 4 years,	\$530	\$71.27 (PP) \$149.31 (FTB) \$220.58 (Total)	\$76.56	\$674.02	32.7
Couple with 2 children, aged 4 and 7 years - one parent working	\$530	\$80.55 (PP) \$232.12 (FTB) \$312.67 (Total)	\$60.01	\$782.66	39.9

Source: DEWR modelling using various sources. For complete list of sources see Appendix A6.

Note: PP is Parenting Payment and FTB is Family Tax Benefit.

## Relationship between income distribution and the minimum wage

6.23 The previous section of this chapter demonstrated that the wages system should not be the sole consideration when establishing a safety net for the low

<sup>6</sup> The transfers identified are only a small example of those available to low paid workers. Other transfers could include Health Care Cards, Child Care Benefit, Partner Allowance, Youth Allowance, Mobility Allowance, and Austudy depending upon the particular circumstances of the low paid worker.

paid. This section demonstrates that using the minimum wages system as a safety net can, in some circumstances, undermine the welfare of the low paid.

- 6.24 This issue has been subjected to considerable international academic debate. O'Brien-Strain and MaCurdy<sup>7</sup>, who examined the impact of the 1996 increase in the minimum wage in California, found that high-income families and low-income families were nearly equally likely to benefit. O'Brien-Strain and MaCurdy also found that 22 per cent of the additional earnings went in taxes. Under the assumption that all costs from the higher minimum wage are passed through as higher prices, they argued that low-income families faced a relatively larger percentage increase in the price of goods they purchased. Consequently, they concluded that the net effect of raising the minimum wage was negative when averaged across all families.
- 6.25 Neumark and Wascher conducted a number of studies in the late 1990's looking at the welfare impact of the minimum wage. In the earlier studies (1997 and 1998), Neumark et al<sup>8</sup> concluded that the net effect of minimum wage increases was more a process of income redistribution among low-income families than redistribution from high to low-income families.
- 6.26 More specifically, Neumark and Wascher<sup>9</sup> found that in the wake of minimum wage increases in the US, some families gained and others lost. The authors found that minimum wages increased earnings per worker but also that minimum wages cause the number of workers per family to decline. This effect resulted in some families falling into poverty.
- 6.27 In their 2000 study on this issue, Neumark et al examined the minimum wage effects on wages, hours and employment. This study took into account the lagged effects on these variables after one year. As expected, the results show that as a result of a minimum wage increase, wages increased for those at or near the minimum wage. In terms of hours worked, the authors found that there was only a very small immediate effect. But after one year this became relatively large and negative. The effect on numbers employed was slightly negative.

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<sup>7</sup> M O'Brien-Strain and T MaCurdy, 'Increasing the Minimum Wage: California's Winners and Losers', Public Policy Institute of California, 2000.

<sup>8</sup> D Neumark and W Wascher, 'Do Minimum Wages Fight Poverty?', National Bureau of Economic Research, Working Paper 6127, August 1997.

<sup>9</sup> Ibid.

6.28 Overall, the Neumark et al<sup>10</sup> analysis demonstrates that:

*“...the total effects indicate that those below the minimum, at the minimum, and up to 1.1 times the minimum, experience income declines...Although disemployment effects are tempered, hours reduction after one year are much sharper and the wage gains considerably weaker. Overall this analysis indicates that the average low-wage worker is not helped, and is perhaps hurt, by a minimum wage increase. Although the minimum wage bumps up wages of these workers, hours reductions, in particular, interact with changes in wages in such a way that earned income declines.”*

6.29 Golan et al,<sup>11</sup> using four different measures of welfare, found in their 2001 study, that for each measure an increase in the minimum wage reduced welfare:

*“...we find that a 10 per cent increase in the minimum wage would lower the average annual income per adult by \$226 (US) and would increase the variance, skewness, and kurtosis of the income distribution. These shifts in the distribution makes it less egalitarian by all our welfare measures. These results confirm that the minimum wage lowers average income and increases inequality according to all standard measures.”*

6.30 The overseas research demonstrates that increases in minimum wages can be a counterproductive means of assisting low paid workers if the impact on employment is taken into account.

6.31 The next section of this chapter will examine some of the reasons why the increase in income flowing from increases in minimum wages is muted, as much of the increase in wage income flows to middle and higher income households.

### **Distribution of low paid workers among households**

6.32 Decisions made to protect the living standards of low paid workers should be undertaken in the knowledge that they are spread widely throughout the family income distribution. It is incorrect to simply assume that low paid employees

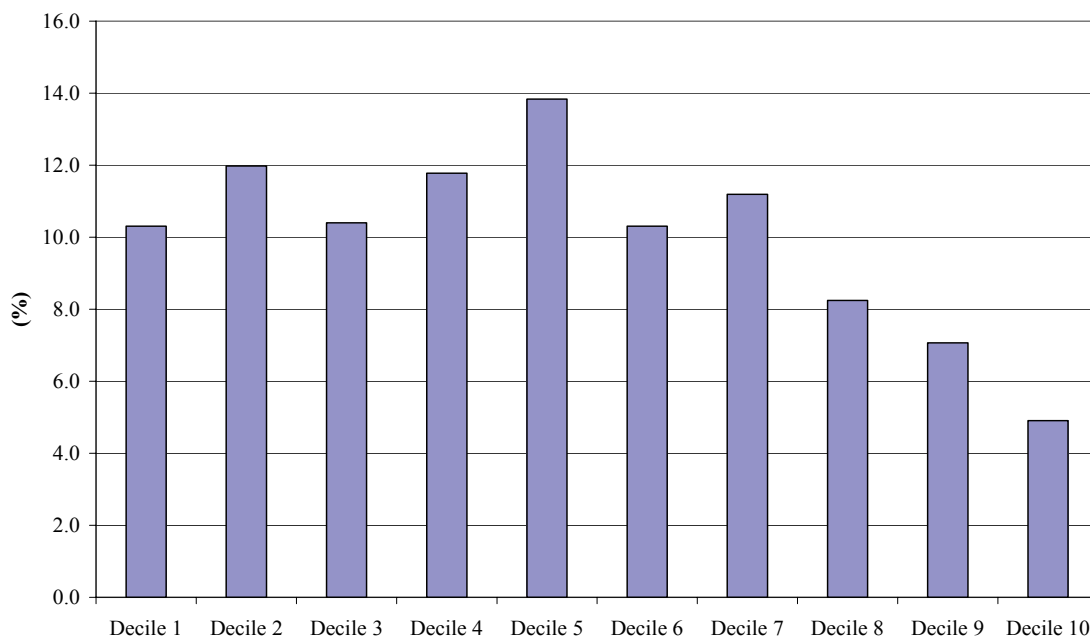
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<sup>10</sup> D Neumark, M Schweitzer and W Wascher, 'The Effects of Minimum Wages Throughout the Wage Distribution', National Bureau of Economic Research, Working Paper 7519, February 2000, page 24.

<sup>11</sup> A Golan, J Perloff and X Wu, 'Welfare Effects of Minimum Wage and Other Government Policies', February 2001, page 28.

are concentrated in less wealthy households. Chart 6.1 indicates that a sizeable proportion of low paid employees reside in households in the middle of the household income distribution through to relatively wealthy households.

**Chart 6.1: Distribution of low paid employees by household income decile (among households with employees) - 2004**



Source: *Household Income and Labour Dynamics Australia (HILDA) Survey Release 4.0 (February 2006)*.

- 6.33 Any decision made to support all low paid workers through wage increases will deliver the same pay rise to those living in much more wealthy households as well as those in relatively low-income households.
- 6.34 According to Wave 4 of the Household Income and Labour Dynamics in Australia (HILDA) survey data around 41.7 per cent of low paid employees<sup>12</sup> were in households in the top half of the income distribution.<sup>13</sup> Meanwhile, 58.3 per cent of low paid workers were in the bottom half of the household income distribution. Furthermore, while 22.3 per cent of low paid employees were

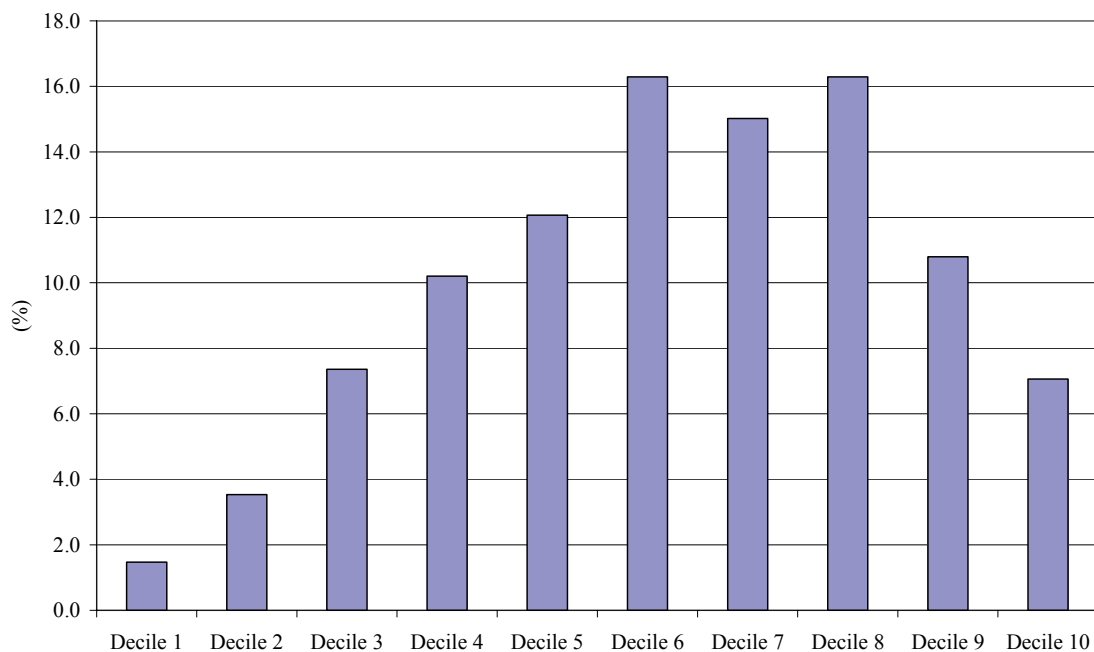
<sup>12</sup> Low paid employees are defined as those being paid between a lower bound of C14 of the Metal, Engineering and Associated Industries Award and an upper bound of C10. C10 represents a wage rate approximately two-thirds of median earnings. The range was broadened slightly at either end to allow for the gradual flow into awards following an SNR decision. Adjustments have also been made to account for loadings for casual employees. Employees under 21 years of age were excluded due to the complexity of junior rates that would apply. See Appendix A.7 for full details on how methodology for measuring low paid employees was determined.

<sup>13</sup> Household financial year gross income.

found in the bottom two household income deciles, around 12.0 per cent were in the top two household income deciles.

- 6.35 The above analysis is restricted to households with at least one employee. Low paid employees are distributed more towards middle and higher income households if we examine *all* households (those with and without employees) (See Chart 6.2). This is due to the fact that a large proportion of relatively poor households are composed of households in which no member is working.

**Chart 6.2: Distribution of low paid employees by income decile among all households (those with and without employees) - 2004**



Source: *Household Income and Labour Dynamics Australia (HILDA) Survey Release 4.0 (February 2006)*.

- 6.36 Almost two thirds (65.4 per cent) of low paid workers in all households are in the top half of the income distribution and only 5.0 per cent are in the bottom quintile.
- 6.37 Average and median income is much higher in households in which members are working. According to HILDA data, mean (or average) household income for all households in 2004 was \$63,050 while median income was \$50,410. By comparison mean income for households *with at least one employee* in 2004 was \$78,980 while median income was \$68,230.

- 6.38 An earlier study by Harding and Richardson<sup>14</sup> examined 1994-95 ABS *Survey of Income and Housing Costs* unit record data using equivalised family income to determine where low paid workers were spread throughout the income distribution. This method accounts for different family sizes using equivalence scales to estimate how much income families with various characteristics require to achieve the same standard of living as a “benchmark” family<sup>15</sup>.
- 6.39 Harding and Richardson found that employees on the FMW were concentrated in the middle income deciles (from 4 to 6). One of the reasons provided for this outcome was that the FMW paid to a full-time worker with no or few dependants was enough to put them in the middle income deciles. Also, minimum wage earners often live in families in which there is more than one income earner. The combined income of these families places their total household income in the middle deciles.
- 6.40 Harding and Richardson also found that the majority of low wage earners were found further up the income distribution than FMW earners in middle to high income households.<sup>16</sup> Chart 6.2 above presents a similar conclusion using HILDA data.
- 6.41 These findings are replicated in international studies. Savage quotes a study by Dixon for New Zealand which found that about one quarter of low wage earners live in households that are in the bottom third of the household income distribution.<sup>17</sup> Nolan found that in Ireland around 24 per cent of full-time employees are low paid (earning less than two thirds of median gross weekly earnings), and that as few as 6 and 13 per cent of them live in households below half and 60 per cent of average equivalent income respectively.<sup>18</sup>
- 6.42 Richardson states that there is strong evidence from the United States, and some from the United Kingdom, that the benefits of an increase in minimum

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<sup>14</sup> A Harding and S Richardson, 'Unemployment and Income Distribution' in Debelle and Borland (eds) *Unemployment and the Australian Labour Market*, pages 139 to 164.

<sup>15</sup> The authors applied OECD equivalence scales to the after tax income of income units to assess the relative living standards of the unemployed. The scales used attribute a value of 1.0 to the reference person in the income unit, 0.7 to the second person, and 0.5 to the third and subsequent persons. Hence, an income unit consisting of a couple with 2 dependent children were assumed to need 2.7 times as much income as a single person to achieve the same standard of living.

<sup>16</sup> Low wage earners were defined as those adult employees earning less than \$10 per hour and juniors earning less than \$6.00 per hour in 1994-95.

<sup>17</sup> J Savage 'Evidence on labour market disadvantage in New Zealand', Report prepared for the Treasury, Wellington, 1999, New Zealand.

<sup>18</sup> B Nolan 'Low pay in Ireland: A Report for the National Minimum Wage Commission' *Report of the National Wage Commission*, Vol 2, 1998, Department of Enterprise, Trade and Employment, Dublin.

wages go predominantly to workers who are not in households at the bottom of the income distribution.<sup>19</sup>

- 6.43 A recently released book by US economists Formby et al concluded that while poorer households are more likely to have workers earning near-minimum wages, their earnings are likely to account for only between 10 and 15 per cent of disposable income for low-income families.<sup>20</sup> Australian academics have reached similar conclusions.<sup>21</sup>
- 6.44 Formby et al also concluded that a minimum wage rise is poorly targeted with between 45 and 49 per cent of benefits accruing to those low wage earners residing in the top 3 quintiles of the income distribution.

### **Characteristics and distribution of the unemployed**

- 6.45 It is clear, when the unemployed are included into the distribution of household income, that high increases in minimum wages may increase income inequality if increased unemployment results. Analysis of HILDA data confirms that unemployed persons are more heavily concentrated in the bottom of the household income distribution (using gross household financial year income).
- 6.46 Around 40.3 per cent of unemployed persons aged 21 years and over were in the bottom three deciles of the household income distribution<sup>22</sup> in 2004 (see Chart 6.3). This excludes teenage job seekers who may still be living at home and being supported in part at least by parents. Almost two thirds (62.0 per cent) of unemployed persons aged 21 years and over were living in households receiving less than median gross household income of \$50,410.

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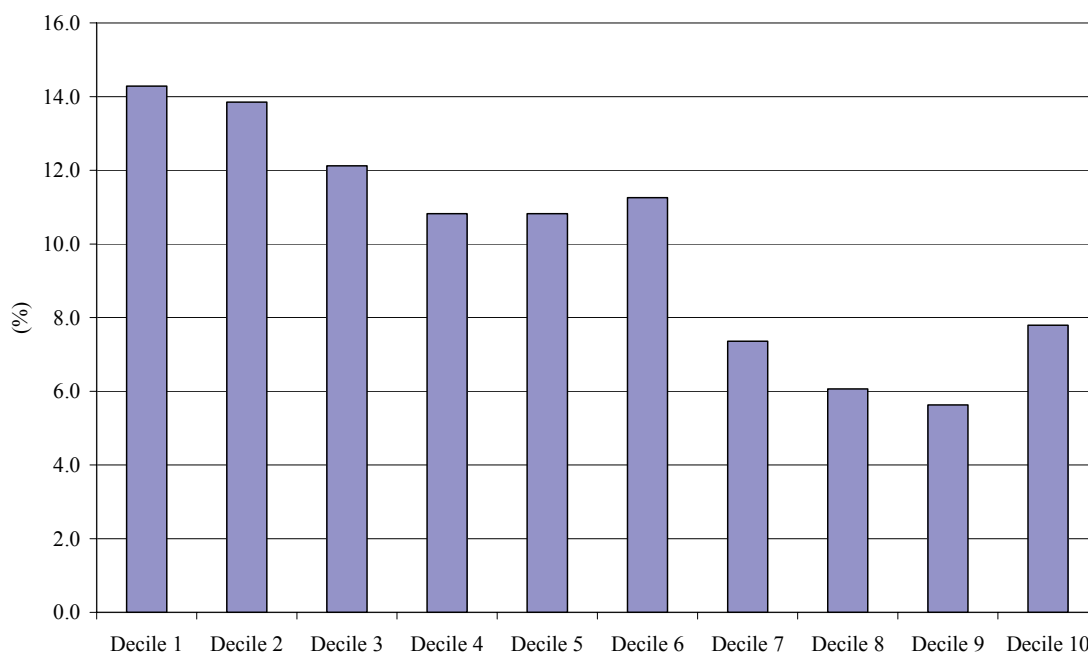
<sup>19</sup> S Richardson 'Who gets Minimum Wages?' *The Journal of Industrial Relations*, December 1998, Vol 40, No 4.

<sup>20</sup> J Formby, J Bishop and H Kim, 'Minimum Wages and Poverty: An Evaluation of Policy Alternatives' 2005, Elsevier Science, Oxford.

<sup>21</sup> A Harding, R Lloyd, and N Warren, 'The Distribution of Taxes and Government Benefits in Australia', paper presented to Conference on the Distributional Effects of Government Spending and Taxation, The Levy Economics Institute, October 2004.

<sup>22</sup> Household Financial Year Gross Income Distribution.

**Chart 6.3: Distribution of unemployed people aged 21 years and above by decile of gross household income - 2004**



Source: *Household Income and Labour Dynamics Australia (HILDA) Survey Release 4.0 (February 2006)*.

6.47 Harding and Richardson used *equivalised* family income from the 1994-95 ABS *Survey of Income and Housing Costs* to calculate that a much higher proportion (63 per cent) of unemployed persons reside in the bottom quintile of the household disposable income distribution for all persons while only 12 per cent resided in the top half.<sup>23</sup>

## Relative poverty and income mobility – the importance of being in work

6.48 Unemployment is the major cause of inequality and poverty. Lloyd et al<sup>24</sup> used data from the ABS *Survey of Income and Housing Costs* to provide information about the characteristics of persons in relative poverty - or more correctly, people with the lowest disposable cash incomes.<sup>25</sup> The authors concluded that

<sup>23</sup> A Harding and S Richardson, 'Unemployment and Income Distribution', NATSEM Discussion Paper No. 32, August 1998.

<sup>24</sup> R Lloyd, A Harding and A Payne, 'Australians in Poverty in the 21<sup>st</sup> Century', NATSEM Paper prepared for 33<sup>rd</sup> Conference of Economists, September 2004.

<sup>25</sup> The authors emphasised concerns by the ABS about the accuracy of the data underpinning this research and noted that the analysis ignored non-cash benefits, such as education and health services. Homeless people were also not included in the survey.

persons who were either unemployed or not in the labour force and/or dependent on income support were more likely to be poor.

- Around 41.1 per cent of unemployed people were considered to be in relative poverty,<sup>26</sup> along with 17.9 per cent of people not in the labour force and 24.3 per cent of people whose main source of income was government cash benefits.
- People whose principal source of income was Government cash benefits accounted for 56 per cent of all persons in relative poverty.

- 6.49 Finding a job is the best way of exiting relative poverty. The Lloyd et al study found that only 2.0 per cent of people whose main source of income was wages and salaries were considered to be in relative poverty.<sup>27</sup> Furthermore, the majority of full-time workers who were on such low incomes were not wage and salary earners, but employers or self-employed persons.
- 6.50 In many cases, income may have been directed by self-employed persons back into their business or received through business expenses which may not be captured by survey questions. As a result, many employed persons characterised by survey data as income poor or in relative poverty may be in much better financial circumstances.
- 6.51 According to data from the ABS *Household Income and Income Distribution* survey persons in low income household are much less likely to have people in work than those in higher income households. The average number of employed persons in low income households was 0.5, which compares with 1.5 for middle income households and 1.9 for higher income households.<sup>28</sup>
- 6.52 The chief cause of poverty, or residing in a low income household, is not low pay, but rather no pay.

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<sup>26</sup> A person is defined as being in relative poverty if they reside in a household earning less than half the median household income.

<sup>27</sup> R Lloyd, A Harding and A Payne, 'Australians in Poverty in the 21<sup>st</sup> Century', NATSEM Paper prepared for 33<sup>rd</sup> Conference of Economists, September 2004.

<sup>28</sup> Low income households are defined as those households in the second and third income quintiles, middle income households are those in the middle income quintile, and high income households are those in the highest income quintile.

## Conclusion

- 6.53 This chapter provides information on the relevant factors to consider when providing a safety net for the low paid. In this respect, this chapter demonstrates that there is no simple relationship between the level of minimum wages and household income.
- 6.54 Providing a wage rise to the low paid can be inefficient if the intention is to improve the relative financial position of low income households. Many low paid workers live in middle and high income households.
- 6.55 While other low paid workers do live in low income households, the benefits of a wage rise to this group can be diluted when the impact of various government transfers are considered.
- 6.56 Consequently, the benefit to household income from an increase in minimum wages depends on specific household circumstances. The costs, however, are concentrated on those low paid workers who lose their jobs and the unemployed who find it more difficult to gain employment.
- 6.57 Consequently, the provision a safety net for the low paid needs to balance the requirement for a foundation of minimum wages with the continued provision of employment opportunities.

## Appendix A6

**Table A6.1: Composition of household disposable income for households with one person on FMW (\$)**

Household Type	Wage (s) from low paid employment (A)	Transfer payments <sup>29</sup> (B)	Tax and Medicare (C)	Disposable income (D=A+B-C)	Transfers as a per cent of disposable income (E=B/D)
Single Adult working (no children)	484.40	0	51.77	432.63	0
Lone parent working with 1 child aged 4 years,	484.40	89.51 (PP) 149.31 (FTB) 238.82 (Total)	61.69	661.53	36
Couple with 2 children, aged 4 and 7 years -one parent working	484.40	107.91 (PP) 226.84 (FTB) 334.75 (Total)	44.50	774.64	43

Note: FTB is the Family Tax Benefit B and PP is the Parenting Payment

**Table A6.2: Composition of household disposable income for households with one person on median earnings (\$)**

Household Type	Wage (s) from low paid employment (A)	Transfer payments <sup>30</sup> (B)	Tax and Medicare (C)	Disposable income (D=A+B-C)	Transfers as a per cent of disposable income (E=B/D)
Single Adult working (no children)	843.00	0	176.12	666.88	0
Lone parent working with 1 child aged 4 years,	843.00	134.60 (FTB)	176.12	801.47	17
Couple with 2 children, aged 4 and 7 years -one parent working	843.00	217.41 (FTB)	176.12	884.28	25

<sup>29</sup> NSA is New Start Allowance, FTB is Family Tax Benefit, PP is Parenting Payment and YA is Youth Allowance. The transfers identified are only a small example of those available to low paid workers. Other transfers could include Health Care Cards, Child Care Benefit, Partner Allowance, Mobility Allowance, and Austudy depending upon the particular circumstances of the low paid worker.

<sup>30</sup> NSA is New Start Allowance, FTB is Family Tax Benefit, PP is Parenting Payment and YA is Youth Allowance. The transfers identified are only a small example of those available to low paid workers. Other transfers could include Health Care Cards, Child Care Benefit, Partner Allowance, Mobility Allowance, and Austudy depending upon the particular circumstances of the low paid worker.

**Table A6.3: Composition of household disposable income for low paid workers  
by household type (\$)**

Household Type	Wage (s) from low paid employment (A)	Transfer payments <sup>31</sup> (B)	Tax and Medicare (C)	Disposable income (D=A+B-C)	Transfers as a per cent of disposable income (E=B/D)
Single Adult in low paid job (no children)	\$530	0	\$67.96	\$462.04	0.0
Couple with no children – one in a low paid job other on Newstart	\$530	80.55 (NSA)	53.97	556.58	14.5
Couple with 1 child aged 7 – one in a low paid job other on Newstart	\$530	80.55 (NSA) 130.97 (FTB) 211.52 (Total)	62.16	679.36	31.1
Couple with 2 children, aged 4 and 7 years – one in a low paid job other at home	\$530	\$80.55 (PP) \$232.12 (FTB) \$312.67 (Total)	\$60.01	\$782.66	39.9
Couple with 2 children aged 9 and 11 – one in a low paid job other on Newstart	\$530	80.55 (NSA) 213.78 (FTB) 294.33 (Total)	60.01	764.32	38.5
Couple with one dependent student aged 16 years – one in a low paid job other on Newstart	\$530	80.55 (NSA) 91.60 (YA) 172.15 (Total)	53.97	648.18	26.6

<sup>31</sup> NSA is New Start Allowance, FTB is Family Tax Benefit, PP is Parenting Payment and YA is Youth Allowance. The transfers identified are only a small example of those available to low paid workers. Other transfers could include Health Care Cards, Child Care Benefit, Partner Allowance, Mobility Allowance, and Austudy depending upon the particular circumstances of the low paid worker.

Household Type	Wage (s) from low paid employment (A)	Transfer payments <sup>31</sup> (B)	Tax and Medicare (C)	Disposable income (D=A+B-C)	Transfers as a per cent of disposable income (E=B/D)
Couple, neither working, both on Newstart Allowance, with 2 dependent students aged 16 and 18. One in a low paid job other on Newstart	\$530	80.55 (NSA) 201.75 (YA) 282.30 (Total)	53.97	758.33	37.2
Lone parent with 1 child aged 4 years, receiving PP – working in low paid job	\$530	\$71.27 (PP) \$149.31 (FTB) \$220.58 (Total)	\$76.56	\$674.02	32.7
Lone parent with 1 child aged 9 years, receiving NSA – working in a low paid job	\$530	130.97 (FTB)	60.01	600.96	21.8
Lone Parent with 2 children aged 4 and 6 years, receiving PP – working in a low paid job	\$530	76.19 (PP) 232.12 (FTB) 308.31 (Total)	76.71	761.60	40.5
Lone Parent with 2 children aged 9 and 11 years, receiving NSA –working in a low paid job	\$530	213.78 (FTB)	60.01	683.77	31.3
Couple with no children – both in low paid jobs	\$1,060 (\$530 x 2)	0	\$135.92 (\$67.96 x 2)	\$924.08	0
Couple with 1 child aged 7 – both in low paid jobs	\$1,060 (\$530 x 2)	\$35.07 (FTB)	\$135.92 (\$67.96 x 2)	\$959.15	3.7

Source: DEWR modelling using various sources. See next page.

**Data sources for Tables 6.2, A6.1, A6.2 and A6.3:**

- Income Tax Assessment Act 1936 (via ComLaw/Scaleplus)
- Income Tax Assessment Act 1997 (via ComLaw/Scaleplus)
- Medicare Levy Act 1986 (via ComLaw/Scaleplus)
- A New Tax System (Family Assistance) Act 1999 (via ComLaw/Scaleplus)
- Centrelink (Guide to Australian Government Payments)
- Australian Taxation Office (ATO) (website)
- Department of Treasury website ([www.budget.gov.au](http://www.budget.gov.au))
- Department of Families, Community Services and Indigenous Affairs (DFaCSIA) indexation service
- Social Security Act 1991