

## Chapter 9: Minimum wages for junior employees

### Introduction

9.1 This chapter provides the Commission with material and analysis to assist it to fulfil its functions in relation to junior rates. The key functions of the Commission in relation to junior rates are to:

- establish and adjust any special FMWs for juniors; and
- review and adjust as necessary the minimum wages for juniors that are contained in APCs, including the junior rates that were derived from federal and State awards.

9.2 This chapter is divided into two sections. The first provides background relevant to the Commission's functions, including material about:

- the structure and coverage of junior rates that currently exist in Australia;
- the past treatment of junior rates by wage fixing bodies in Australia;
- the economic reasons why junior rates are essential to protect the position of young people in the labour market;
- the characteristics of the youth labour market; and
- the provisions of the WR Act that are relevant to the Commission's junior rate functions.

9.3 The second section of the chapter sets out considerations that are relevant to how the Commission might fulfil each of its functions in relation to junior rates.

9.4 The Australian Government's position, outlined in this chapter, is to ensure the availability of as many employment opportunities for young people as possible. Junior rates are essential to maintaining the competitive position of young people in the labour market. They play an important role in encouraging employers to provide employment opportunities to young people.

## **Background**

### **The structure of minimum wages for juniors that was derived from State and federal awards**

9.5 This section provides information on what junior rates are, estimates of the number of young people employed on junior rates, and data on pay rates that apply to juniors.

#### ***Definition***

9.6 Junior wage rates contained in preserved APCs are minimum rates of pay for people under the age of 21 that are based on the age of the employee. In awards, junior rates were usually set as a percentage of the wage that applied to an adult employee, with the actual percentage increasing in line with the employee's age. The majority of awards provided adult wages at 21 years of age. The junior rates structures in awards have now been incorporated into preserved APCs as a result of the operation of the WR Act. However, it should be noted that preserved APCs only contain the actual monetary amount of the junior rate, not the percentage of the adult rate that was contained in awards.

9.7 Junior wage rates are different from "training" wages such as those that apply to apprentices and trainees. This is because the employment of apprentices and trainees is subject to a contract of training which requires them to spend part of their working time in structured, accredited training which leads to a recognised qualification, whereas juniors generally spend all of their working time engaged in productive work.

9.8 Junior wage rates have been an integral part of Australia's wage fixing arrangements since the early 1900s. They were included in awards by industrial relations tribunals, often by consent between employers and trade unions. While the lower work value of juniors has been a consistent factor in tribunal decisions, particular emphasis has also been placed on the impact of relative youth wages on the employment of young people.

#### ***Junior employment population***

9.9 A significant proportion of young employees are paid junior rates. Approximately 10.5 per cent of non-farm employees were aged 15 to 20 in May 2004. This represents 861,500 non-farm employees, of whom it is estimated:

- 18.4 per cent were apprentices or trainees (158,500),
- 43.2 per cent were paid junior rates but were not apprentices or trainees (372,000), and
- 38.4 per cent were paid adult rates (331,000).

9.10 Thus, around 43 per cent of employees aged 15 to 20 (372,000) were in receipt of junior minimum wage rates at May 2004 (the latest available data).<sup>1</sup>

### **1999 census of junior rates provisions in federal awards**

9.11 A census of federal awards conducted by the Department of Employment, Workplace Relations and Small Business (DEWRSB) in 1999 found that of the 1690 federal awards at that time that contained wage and salary provisions, 755 (45 per cent) contained junior wage rates.

9.12 DEWRSB's 1999 census found federal awards often prescribed minimum wages of around 50 per cent of the relevant adult rate for 16 year olds, rising by about ten percentage point increments annually to the full adult rate at 21 years of age. While they most commonly provided adult wages at 21 years of age, the 1999 survey found that approximately 12 per cent of federal awards that contained junior rates provided for the adult rate to be paid at age 18 and approximately 13 per cent provided for the adult rate to be paid at age 20. However, there was no uniformity within industries or across industries between the age of the junior and the percentage of the adult wage rate the junior would receive.

9.13 55 per cent of awards did not contain junior wage rate provisions, and there appear to be a number of reasons for this. In particular, the employment of juniors may be effectively precluded due to the qualifications required for the work, such as awards for pilots and engineers. Other awards appear to have

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<sup>1</sup>Sources: ABS, *Labour Force, Australia* – electronic delivery (Cat. No. 6291.0.55.001); ABS, *Employee Earnings and Hours (EEH)*, May 2004 unpublished data (Cat. No. 6306.0); and National Centre for Vocational Education Research (NCVER), unpublished data.

Note: the latest available data on employees on junior rates are from the ABS EEH Survey of May 2004 (released 23 March 2005). This survey does not provide data by age, data on apprentices and trainees, nor on farm employees. Consequently, in order to provide estimates of persons aged under 21 years who are paid junior rates, but are not apprentices or trainees, it is necessary to include data from two other data sources.

ABS Supertables (based on the ABS Labour Force Survey) provides data on employees by industry by age that can be used to estimate the number of employees aged under 21 years, which can be applied to the ABS EEH data on the proportion of employees paid junior rates. The NCVER also provides estimates of the number of apprentices and trainees in training aged under 21 years by industry for the June quarter 2004. Note that as the estimates utilise different data sources they should be viewed with caution and only be used as an indicator of the number of employees in receipt of junior rates.

had junior rates removed because it was considered that they cover unskilled labour that some juniors may be capable of performing at the same level as adults, for example some civil construction and maintenance awards. Finally, another group of awards appear to have excluded junior rates due to occupational health and safety considerations, such as some in the timber industry that cover work involving the operation of machinery.

***2006 survey of junior rates provisions in representative sample of federal awards***

- 9.14 For this submission, junior wage clauses were surveyed by the Department of Employment and Workplace Relations (DEWR) from a sample of 44 key federal awards. These awards were selected on the basis that they were broadly indicative of the general content of awards across all industries. Details of the basis for determining these awards are outlined in Appendix A9.
- 9.15 The majority of the awards surveyed contained junior rates, with 35 of the 44 awards (79.5 per cent) including such provisions.
- 9.16 As the 1999 survey showed, junior wage scales varied from award to award, both with regard to the ages junior rates apply to and the percentages for particular ages. In some cases the junior rate was based on the adult rate for the lowest classification in the award, and in others it was based on the relevant adult rate for the particular classification level applicable to the work being undertaken by the junior. In addition, some awards which contained junior rates also prescribed adult wages where the junior employee works in a higher classification or exercises particular responsibilities.
- 9.17 Presented below are some aspects of the sample of federal awards with junior rates provisions that are relevant to the Commission's function of adjusting the system of junior rates.
- 9.18 The age where the adult rate is payable varied across the 35 awards with junior rates provisions as set out below in table 9.1. The survey showed that nearly half the awards containing junior rates provided for adult rates to be payable at age 21.

**Table 9.1 Age adult rate is payable**

Age	Number of awards	Percentage of sample
Under 16	0	0
16	0	0
17	0	0
18	6	17.1
19	1	2.9
20	10	28.6
21	16	45.7
Other*	2	5.7
Total	35	100

\*the Metal industries and Construction industry awards pay adult rates at 20 or 21, depending on the junior's particular classification.

9.19 The range of hourly junior rates by age across the sample of federal awards is set out below in table 9.2.

**Table 9.2 Range of hourly junior rates by age**

Age	Lowest	Highest
Under 16	\$3.96	\$9.96
16	\$5.37	\$11.39
17	\$6.26	\$12.81
18	\$7.74	\$17.62
19	\$9.56	\$17.62
20	\$10.97	\$17.62

Note: this table does not include where a junior may be entitled to an adult rate for a particular type of work.

9.20 Table 9.3 sets out the range of junior rate percentages that applied to each age in the 35 federal awards with junior rates provisions. As noted earlier, APCs only contain dollar values for junior wage rates, not the percentages of the adult rate listed below.

**Table 9.3 Junior rates by age as a percentage of the adult rate**

Age	Lowest	Highest
Under 16	30	70
16	37.5	80
17	45	90
18	55	90
19	72.5	90
20	85	95

9.21 The characteristics of junior rates in federal awards described above are similar to those of State awards. State awards also differ in terms of the junior rate percentages that apply, the age range at which the junior rates apply, and the age at which the adult rate is payable.<sup>2</sup>

<sup>2</sup> Joint Governments' Submission – Junior Rates Inquiry, November 1998, pages 8 to 10 and Attachment C.

## The history of the treatment of junior rates by wage fixing bodies

- 9.22 Junior rates have been included in awards by industrial relations tribunals, often by consent between employers and trade unions. Where industrial tribunals have set junior wage rates by arbitration, they have been set having regard to the wage fixing 'principles' prevailing at the time, together with other factors particular to young people. These factors have included the needs of young people relative to those of adults, the work value of young people relative to that of adults, and the effect that the level of wages will have on the demand for and supply of young people's labour.
- 9.23 The arbitral history of junior rates until the 1980s was documented in a paper by Pitman.<sup>3</sup> Pitman identified four criteria that have been evident in decisions pertaining to junior wage determination: work value, the needs principle, capacity to pay, and the allocative principle.
- 9.24 Pitman found that the concept of needs has played a major role in the setting of junior wage rates, particularly in tribunal decisions in the early 1900s. While adults were paid a basic wage according to their social needs (for example sufficient to support a family) with the addition of a margin for skilled work, youth with lesser needs (notably no family commitments) were paid less.
- 9.25 In relation to the work value principle, Pitman concluded that it "has been used repeatedly, if not consistently, as an underlying rationale for the determination of junior wages in Australia."<sup>4</sup> He further comments: "To the extent work value is related to the 'gifts or qualities' required by the particular employment, Commonwealth and State tribunals have generally assumed that juniors have a considerably lower work value than adults, whether unskilled or journeymen, because of lower maturity and experience. Although never explicitly stated, this view implies that at least part of adult wages accrues from skill and knowledge that only age and on-the-job experience can offer."<sup>5</sup> Pitman identifies this as the most consistently used principle in the determination of youth wage rates.
- 9.26 In relation to the effect that relative wages have on the demand for and supply of youth labour (the allocative principle), Pitman found that the allocative principle "though less formally recognised has nevertheless been utilised by the

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<sup>3</sup> D Pitman, 'The Determination of Junior Wages in Australia: Needs, Work Value and Employment', *Bureau of Labour Market Research*, Conference Paper No 26, 1983.

<sup>4</sup> *Ibid*, page 9.

<sup>5</sup> *Ibid*, page 9.

tribunals in numerous cases.”<sup>6</sup> “Such considerations have taken the form of fairly explicit deliberations on the economic consequences of adjusting junior wages, and resulted in one and/or other of the following: allowing, or disallowing a wage increase for juniors; placing quantitative restrictions on the employment of juniors vis-a-vis adults in an industry.”<sup>7</sup>

- 9.27 In relation to the capacity to pay principle, Pitman concluded that the principle had “seldom been directly applied to junior wage determination in the manner of the other three criteria. Its impact historically has been more derivative, in that adult wages ultimately constitute the benchmarks on which junior wages are set.”<sup>8</sup>
- 9.28 In evaluating the relative importance of these principles in the determination of junior wages, Pitman concluded that among the benchmark cases dealing specifically with aspects of junior wage determination, “the capacity to pay principle does not figure at all while the work value principle appears to be the most prominent.”<sup>9</sup>
- 9.29 Since Pitman’s paper the Australian Industrial Relations Commission (AIRC) in 1998-99 conducted the Junior Rates Inquiry. The findings of the Inquiry are outlined in the next section.

### **The rationale for junior rates**

- 9.30 This part of the submission draws on economic argument and analysis to demonstrate that minimum wages for juniors need to reflect their lower average productive capacity if young people are to be competitive in the labour market. In particular, this section will discuss:
- how economic theory supports the need for junior rates;
  - the findings of the AIRC’s Junior Rates Inquiry about the importance of junior rates;
  - the recommendations by the UK Low Pay Commission in favour of separate minimum wages for young people;

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<sup>6</sup> Ibid, page 35.

<sup>7</sup> Ibid, page 12.

<sup>8</sup> Ibid, page 17.

<sup>9</sup> Ibid, page 36.

- OECD analysis of economic theory and empirical evidence about junior rates; and
- a survey of other academic research on junior rates.

### **Theory**

- 9.31 As discussed earlier in this submission, the conventional model of the labour market shows a negative relationship between wages and employment. In this model if the minimum wage is set above the market clearing wage, employment will be reduced. Further, if adult minimum wages are applied to young workers, juniors are likely to be priced out of the labour market. This is because if an employer is faced with hiring a young person versus an adult at the same wage rate, the employer is likely to select the adult.
- 9.32 If young people are to be competitive in the labour market, their minimum wages should reflect the fact that, on average, they have lower skills and experience than adults and are also of less value to employers for other reasons. Many of these other factors are associated with maturity. Unless the wages for young people reflect these elements, they are unlikely to be competitive with adults for employment opportunities.
- 9.33 Therefore, the key issue for the youth labour market is the relative cost of employing a young person versus an adult. The junior rate that applies in a particular area of employment should have an appropriate relativity to the adult classification that covers the same type of work – if the junior rates are relatively too high, junior employment will be impaired, while if they are too low, adult employment could be impaired.
- 9.34 It should be noted that the relativities between classifications for different categories of employees performing the same kind of work can have much greater employment impacts than the general level of minimum wages. This is because employers are able to substitute different types of employees within the one kind of work. For example, if one category of employee is overpriced relative to another, an economically rational employer will stop employing that category of employee altogether.
- 9.35 The Commission is required to have regard to providing minimum wages for juniors that ensure these employees are competitive in the labour market.<sup>10</sup>

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<sup>10</sup> *Workplace Relations Act 1996*, sub-section 23(d).

Given the generally lower experience, skills and maturity of youth, minimum wage rates that reflect these elements are necessary to ensure the competitiveness of young people in the labour market.

### ***AIRC's Junior Rates Inquiry***

- 9.36 The most comprehensive and detailed review by an Australian industrial tribunal of junior rates and their impact on youth employment was undertaken by the AIRC in 1998-99. The findings of the AIRC are significant given the AIRC's reluctance in Safety Net Reviews to accept that a negative relationship exists between minimum wages and employment levels.
- 9.37 Section 120B of the *Workplace Relations Act 1996* (prior to the *Work Choices Act*) required a Full Bench of the AIRC to prepare a report for the Minister on the feasibility of replacing junior rates with alternatives that do not discriminate on the basis of age by 22 June 1999. The aim of this was to remove uncertainty about the future of junior rates that had existed since 1993 following the introduction of anti-age discrimination provisions into the former *Industrial Relations Act 1988*.
- 9.38 The AIRC Inquiry invited submissions from a wide range of organisations known to be interested in issues about youth employment and remuneration, and was also advertised in major daily newspapers. Sixty seven bodies and persons made written submissions, including many organisations that represent young people. The Junior Rates Inquiry report, which drew on the oral and written submissions from all major stakeholders, provided overwhelming evidence in favour of retaining junior rates.
- 9.39 Some of the report's key findings were:
- that there is an undisputable relationship between junior rates, their potential abolition and the employment prospects of young people;<sup>11</sup>
  - that none of the proposed alternatives to junior rates are feasible because they either are more complex, overvalue the work of employees, are themselves discriminatory or have considerable adverse cost effects;<sup>12</sup>

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<sup>11</sup> AIRC, Junior Rates Inquiry report, June 1999, pages xiv, 157, 165.

<sup>12</sup> Ibid, pages ix, 168-172, 206-212.

- that a separate pay rate for entry level work continues to be necessary in the areas in which employment under junior rate classifications is most concentrated, and that well designed junior rate classifications may even create or protect employment opportunities, including in the building and construction industries;<sup>13</sup>
- that, for a range of reasons, the labour force participation of young people is already relatively parlous and relatively scarce, and that changes that might have the effect of significantly increasing the relative cost of teenage labour beyond its real value to an employer may make teenage employment even more precarious, especially in regional and country Australia;<sup>14</sup>
- that if young people are to secure entry level employment and progress to economic self sufficiency through paid employment they more than ever need to be competitive in the labour market;<sup>15</sup> and
- that junior rates are often a useful bridge to full-time employment, especially for the educationally better qualified.<sup>16</sup>

*Assessment of economic research from the AIRC's Junior Rates Inquiry*

9.40 The AIRC report's assessment of the economic evidence placed particular emphasis on the Productivity Commission (PC) research for Australia, and the findings of the OECD and UK Low Pay Commission that youth employment is particularly price sensitive.

Significant negative employment effects if junior rates are abolished

9.41 The AIRC's Inquiry report noted the existence of strong economic evidence in support of the proposition that lower wages for young people are necessary to protect their employment prospects. The AIRC made use of a study by the PC on "Youth Wages and Employment"<sup>17</sup> which found that a 1 per cent increase in youth wages would lead to a decrease in youth employment of 2 per cent in the retail industry, 5 per cent in the accommodation industry, and 2.5 per cent in the cultural and recreational services industry. All of these industries have a high proportion of employment that is reliant on APCs. The PC researchers stated:

<sup>13</sup> Ibid, pages xiii, xvi, 140-141, 189, 191, 201.

<sup>14</sup> Ibid, pages xiii, xiv, 151, 154, 199.

<sup>15</sup> Ibid, pages x, 15.

<sup>16</sup> Ibid, page xv.

<sup>17</sup> Productivity Commission, 'Youth Wages and Employment', staff research paper, 1998.

*While there remain many unanswered questions on the relationship between wages and employment, the balance of evidence presented here suggests that a large increase in the relative wages of teenagers could be expected to have a negative impact on their employment.<sup>18</sup>*

- 9.42 Further, the AIRC Inquiry highlighted the overall conclusion of the Productivity Commission research:

*The purpose of the study was to examine the determinants of youth employment in order to shed light on the possible implications of abolishing junior rates of pay in State and federal awards. To the extent that replacing such awards with non-discriminatory alternatives would lead to an increase in youth wages, the results of this analysis would suggest quite strongly that there would be a more than proportional reduction in youth employment.<sup>19</sup>*

- 9.43 Thus, the PC found that youth employment is price elastic. The AIRC report concluded that the removal of junior rates would involve relative adjustments that would result in significant disemployment effects for junior employees.<sup>20</sup> The Inquiry report notes that this finding was not seriously challenged by the participants in the Inquiry. When given the opportunity to respond to the report's findings in relation to youth employment, the ACTU did not seek to address directly the findings or the substantial weight of economic opinion on which it is based.

- 9.44 The AIRC's Junior Rates Inquiry report noted that the advice given by the UK Low Pay Commission (LPC) to the Government in its first report demonstrated there is "a measure of consensus that the competitive position of young people seeking entry level employment merits special consideration when minimum wages are being established or adjusted."<sup>21</sup>

- 9.45 Further, the AIRC's Junior Rates report stated:

*The Joint Governments<sup>22</sup> Submissions to the Inquiry; the OECD 1998 Economic Outlook; the United Kingdom Low Pay Commission and the Irish National Minimum Wage Commission (each of which adopt OECD submissions); and the 1998 Productivity Commission: Staff Research Paper, is*

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<sup>18</sup> AIRC, Junior Rates Inquiry report, June 1999, page 165.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid, page 167.

<sup>21</sup> Ibid, page 166.

<sup>22</sup> The Joint Governments' consisted of the Commonwealth, Victoria, South Australia, Western Australia, Australian Capital Territory, and the Northern Territory at the time.

*each supportive of the proposition that movement in the real value of minimum wages relative to other wages is likely to have adverse effects on employment of minimum wage earners.*<sup>23</sup>

9.46 Significantly, the Inquiry then used its finding about the disemploying effects of removing junior rates to assess the consequences for youth employment of alternatives that would apply adult rates at 18. The Inquiry found that for most 18 year olds and above, the application of full adult rates would cause an overvaluation of the work performed, and would be expected to reduce the employment prospects of the 18 to 20 years old age group.<sup>24</sup>

9.47 The Joint Governments' submission to the AIRC Inquiry argued that youth employment would be expected to fall further than adult employment in response to an increase in real wages, because young employees generally lack experience and skills. Also, as lower skilled employees juniors are more readily substituted by capital and by older, more experienced labour. Firms may be keen to retain their experienced workforce during times of economic downturn (labour hoarding), to the disadvantage of young people who are new or entering the workforce.<sup>25</sup> The Governments' submission referred to Lewis.<sup>26</sup>

*The major technical restriction in regard to youth labour is that young workers have not accumulated a sufficient stock of human capital i.e. skill, experience, attitudes to work etc. This makes them poor substitutes for adults and conversely makes adults easily substitutable for young workers.*

9.48 The Joint Governments' submission also referred to Hamermesh and his influential book "Labour Demand."<sup>27</sup> Hamermesh, regarded as a world leading authority on the labour market, concluded after reviewing the international evidence that wages do matter, especially for young people whose employment is more sensitive to wage rises than adult employment.<sup>28</sup>

9.49 The Australian Retailers Association estimated in its submission to the AIRC's Junior Rates Inquiry that 170,000 to 180,000 junior jobs would be lost from the retail industry alone (excluding the retail motor vehicle sector) if junior rates were abolished. These jobs would not all be filled by adults. The Retailers

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<sup>23</sup> AIRC, Junior Rates Inquiry report, June 1999, page 166.

<sup>24</sup> Ibid, page 172.

<sup>25</sup> Joint Governments' Submission – Junior Rates Inquiry, November 1998, page 48.

<sup>26</sup> Ibid, page 48 referencing P Lewis, 'The Elasticity of Demand for Labour', *Unpublished Mimeo*, 1998.

<sup>27</sup> D Hamermesh, 'Labour Demand', 1996.

<sup>28</sup> Joint Governments' Submission – Junior Rates Inquiry, November 1998, page 49.

Association estimated a net loss of 70,000 jobs in order to maintain the current level of retail wage costs.<sup>29</sup>

9.50 Thus, the findings of the AIRC's Inquiry provide evidence in favour of retaining a system of junior rates in Australia. The report's assessment of the economic evidence acknowledged that youth employment is sensitive to changes in labour costs. It is clear from the Inquiry that junior rates assist young people by making them more competitive in the labour market. This reinforces the importance of junior rates in enabling young people to gain a foothold in the labour market.

### ***The experience of the UK Low Pay Commission***

9.51 Appendix B9 outlines the experience of the UK LPC in introducing a minimum wage and separate minimum rates for young workers. The Commission should be particularly assisted by the findings of the LPC, which are based on an extensive body of research and empirical studies.

9.52 The LPC's various recommendations in relation to young people are discussed in the attachment. This includes the recommendation to establish a youth rate for 18 to 21 year olds when the adult minimum wage was introduced in 1999, and the establishment of a youth rate for 16 to 17 year olds in 2004. The attachment also details the UK Government's consistent rejections of the LPC's recommendations to include 21 year olds in the adult minimum wage. Key findings from the LPC's reports include:

- young people are particularly susceptible to movement in their wage rates, and a significant proportion of young people are paid at the minimum rate;
- the youth labour market is highly sensitive to economic fluctuations;
- the potential adverse effects of minimum wages are more likely to be felt among young people than adults;
- protecting the employment prospects of young people is a priority. Youth unemployment can scar people's employment prospects later in life;

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<sup>29</sup> AIRC, Junior Rates Inquiry, submission 23 – Australian Retailer's Association.

- the acquisition of qualifications, skills and experience at an early age improves employability, reduces the likelihood of subsequent unemployment and enhances prospects of higher wages later in life. “Entry level jobs for young people offer the chance to gain experience, learn the disciplines of work and acquire worthwhile, transferable job skills;”<sup>30</sup> and
- employers are supportive of youth rates as it “enables them to provide job opportunities that might not otherwise exist, by allowing them to take account of the lower productivity or responsibilities of young workers in their remuneration, and by providing some compensation for the additional time and money spent on their training.”<sup>31</sup>

9.53 In sum, the experience of the UK LPC reinforces the need to provide opportunities to young people to work and acquire on-the-job skills and experience by implementing sub-minimum rates of pay by age. This is demonstrated by the LPC’s introduction of a separate wage rate for 16 to 17 year olds, alongside the youth rate for 18 to 21 year olds (established at the time of the adult minimum wage), with the aim of ensuring young workers are not priced out of the labour market.

### **OECD findings**

- 9.54 Appendix C9 discusses the OECD’s analysis of the theory and empirical evidence in relation to young people and minimum wages. The findings, from various OECD publications, include:
- many countries allow for sub-minimum wage rates differentiated by age. Reducing wage costs is intended to increase youth employment by inducing employers to increase their demand for youth labour;
  - countries grade their minimum wage on the basis that a high minimum wage for inexperienced young workers may negatively affect their employment opportunities. OECD studies, and the vast majority of research papers considered by the OECD, have found a negative impact of minimum wages on youth employment;
  - “Recent experience suggests that a moderate minimum wage generally is not a problem, but that adequate allowance for sub-

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<sup>30</sup> Fourth report of the UK Low Pay Commission, page 133.

<sup>31</sup> Ibid, page 132.

minima for youth and possibly other vulnerable groups is essential,<sup>32</sup>  
and

- youth in all countries face a greater risk of unemployment as they attempt to find a foothold in the labour market. Persistent joblessness among youth may create a disadvantage throughout their working lives.

9.55 Ensuring the successful transition of young people to the labour market by developing their skills in the workforce is a key policy goal for the OECD. The OECD's research emphasises the need to promote the employment prospects of young people, and the role reduced minimum wage rates for young workers can play in achieving this.

#### ***Other academic research***

9.56 Other academic research that has examined the relationship between youth employment and minimum wages is outlined in Appendix D9. The majority of the empirical evidence examined suggests that the employment effects of increases in minimum wages are greatest for young people. Thus, the evidence is supportive of the proposition that the youth labour market requires special consideration in relation to minimum wage setting. Studies indicate this is best achieved through separate minimum wage rates that enable young people to be competitive in the labour market.

#### **Characteristics of the youth labour market**

9.57 Appendix E9 discusses some of the trends in the youth labour market. Key points in relation to the youth labour market include:

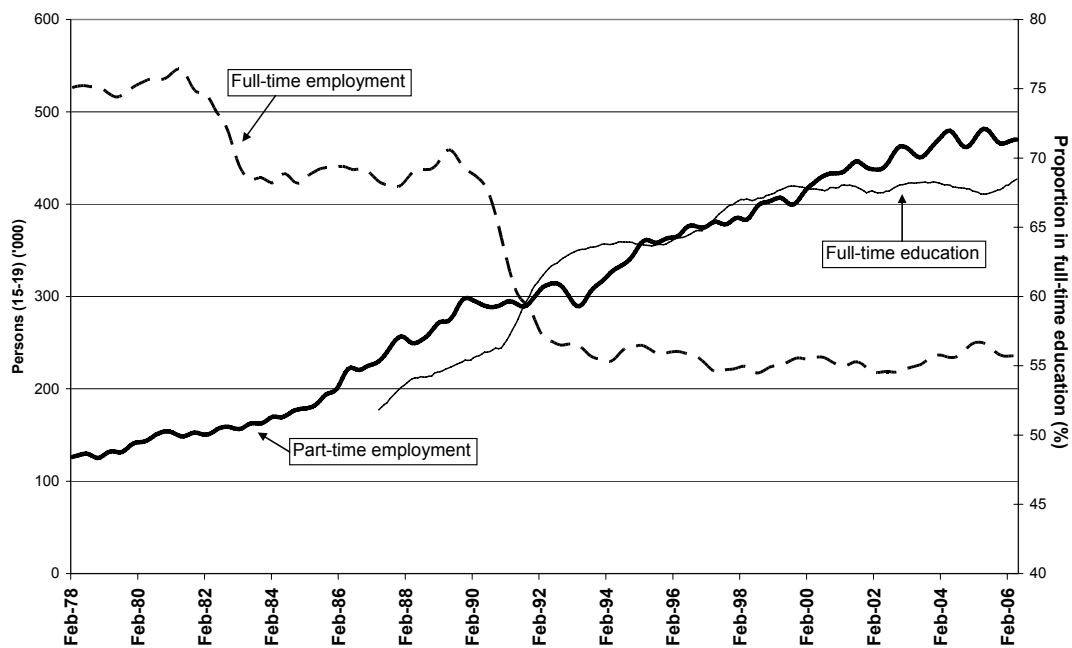
- total teenage employment has increased by 15.8 per cent (or 96,200) over the last decade. However, this is less than the 21.3 per cent increase in total employment for the population as a whole over the same period;
- the teenage full-time unemployment to population ratio (i.e. the proportion of the total teenage population who are unemployed and looking for full-time work) has fallen by 2.6 percentage points over the last ten years to stand at 4.5 per cent in May 2006;

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<sup>32</sup> OECD Employment Outlook 2006, page 88.

- however, over the 12 months to May 2006, a sizeable decline in total teenage employment (down by 23,800 or 3.3 per cent) occurred. The full-time unemployment rate for teenagers has risen, increasing by 0.9 percentage points over the last year to 21.1 per cent;
- over the last 25 years, teenage full-time employment has fallen significantly, by 307,400 (or 56.5 per cent) – refer to chart 9.1 below. One of the major catalysts for the decline in full-time employment for teenagers was the 1980s and 1990s recessions. Teenage full-time employment is extremely sensitive to labour market downturns and is relatively unresponsive during recovery periods;

**Chart 9.1: Teenage full-time and part-time employment, February 1978 to May 2006**



Source: ABS Labour Force, Australia, Spreadsheets (Cat. No. 6202.0.55.001), Trend data; and ABS Labour Force, Australia, Detailed – Electronic Delivery (Cat. No. 6291.0.55.003), May 2006, 12-month average.

- while teenage full-time employment has fallen over the last 25 years, there has been a concurrent large increase in the proportion of teenagers participating in full-time education (see chart 9.1 above). This reflects the fact that many teenagers who, 15 years ago, would have joined the full-time labour force following the completion of year 10, are now participating in further full-time education and are often combining their study with part-time work; and

- the technological and structural changes of recent decades have resulted in the disappearance of many low-skilled, entry level jobs and the shift towards more highly skilled positions. This has meant that some teenagers without formal qualifications have encountered difficulties securing full-time work. These teenagers are at a disadvantage in terms of their competitiveness in the labour market and their ability to secure ongoing, sustainable employment.

9.58 In summary, while labour market conditions for all age cohorts, including teenagers, have improved considerably over the last decade, there has been a clear softening in the pace of employment growth for teenagers over the last 12 months. The experience of the 1980s and 1990s recessions demonstrates that teenage full-time employment is vulnerable to downturns, and fails to respond during recovery periods.

9.59 For those teenagers who choose not to complete further post-school study or who leave school early, their labour market experience upon leaving school is particularly important with respect to future employment prospects. Given this, junior wage rates can play an important role in assisting these young people by ensuring their competitiveness in the labour market.

### **Requirements of the WR Act in relation to minimum wages for juniors**

9.60 This section will discuss the provisions of the WR Act that deal with junior rates. Section 178 of the WR Act defines a junior employee as an employee who is under the age of 21.

#### ***Functions of the Commission***

9.61 The key functions of the Commission in relation to junior rates are to:

- establish and adjust any special FMWs for juniors; and
- review and adjust as necessary the minimum wages for juniors that are contained in APCSSs, including the junior rates that were derived from federal and State awards.

#### ***Provisions in the WR Act that guide the exercise of these powers***

9.62 When exercising these powers in relation to junior rates, the Commission must, inter alia, have regard to:

- providing a safety net for the low paid;<sup>33</sup>
- providing minimum wages for junior employees that ensure they are competitive in the labour market,<sup>34</sup> and
- ensuring that minimum wages are protected at the level determined by the 2005 Safety Net Review conducted by the AIRC.<sup>35</sup>

9.63 Further, one of the principal objects of the WR Act is to protect the competitive position of young people in the labour market.<sup>36</sup>

### ***The setting of special FMWs***

9.64 The WR Act contains special arrangements for the setting and adjustment of minimum wages for juniors. In particular, minimum wages for these employees are exempt from the standard FMW.<sup>37</sup>

9.65 The WR Act empowers the Commission to establish special FMWs for juniors, or for a class of these categories of employees.<sup>38</sup> For example, the Commission may wish to establish a minimum for junior employees who are not covered by other minima (e.g. who are APCS-free), or a minimum for junior employees whose APCS rate would otherwise be below the relevant special FMW.<sup>39</sup> A statement as to whether the special FMW is to operate as a minimum standard and, if so, to which preserved APCSs it should apply must be included in the instrument determining the special FMW.

9.66 Guidance as to how a special FMW is to be expressed is provided in Section 199 of the WR Act. In short, a special FMW must be expressed in such a way that it produces a monetary amount per hour. This means that the Commission must express a special FMW so that it determines either a monetary amount per hour, or provides a method for calculating a monetary amount per hour. This would enable the Commission, for example, to establish a special FMW for juniors that prescribes a wage scale calculated by applying set percentages to the standard FMW.

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<sup>33</sup> *Workplace Relations Act 1996*, sub-section 23(c).

<sup>34</sup> *Ibid*, sub-section 23(d).

<sup>35</sup> *Ibid*, section 218; and Decision, 2005 Safety Net Review, Full Bench, 7 June 2005, Print 002005.

<sup>36</sup> *Workplace Relations Act 1996*, sub-section 3(k).

<sup>37</sup> *Ibid*, section 194.

<sup>38</sup> *Ibid*, section 197.

<sup>39</sup> *Ibid*, section 198.

- 9.67 Finally, the Commission is empowered to adjust any special FMW that it determines.<sup>40</sup> In adjusting special FMWs the Commission must have regard to its wage-setting parameters; any relevant recommendations of the Award Review Taskforce (the ART); how FMWs are to be expressed; and anti-discrimination considerations.
- 9.68 The extent to which the Commission acts on any of these options is a matter for the Commission to determine, for example whether it establishes special FMWs for juniors and, if so, what form they should take.

## **How the Commission may perform its functions in relation to junior rates**

- 9.69 In this section the submission presents considerations and other material that are relevant to how the Commission may fulfil its functions in relation to junior rates. The submission will begin by considering the Commission's power to establish special FMWs for juniors.

### **The establishment of special FMWs for juniors**

#### ***Should a special FMW be established at this time?***

- 9.70 The WR Act does not require the Commission to establish *special* FMWs for juniors. The legislation leaves it to the Commission to decide whether or not to do so.
- 9.71 However, the wage-setting parameters of the WR Act require the Commission to have regard to 'providing a safety net for the low paid.'<sup>41</sup> In considering whether to establish a special FMW it is therefore relevant to consider whether the creation of a special FMW is necessary to provide a safety net for young people.
- 9.72 Nearly all employees under the age of 21 are already covered by the minimum wages that have been derived from federal and State awards and that are now embodied in preserved APCs. In effect, the previous federal and State wage safety nets now apply to young employees covered by the federal system. Significantly this includes preserved APCs derived from State common rule awards and other State standards of general application. The Government is

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<sup>40</sup> Ibid, section 200.

<sup>41</sup> Ibid, sub-section 23(c).

not aware of any significant area of youth employment that is not already covered by the safety net constituted by the system of minimum wages in preserved APCSs.

- 9.73 Another consideration relevant to whether a special FMW should be established at this time is that there may be advantages in awaiting the rationalisation of the system of minimum wages in preserved APCSs before setting a special FMW. As we have detailed earlier in the submission, preserved APCSs currently contain a wide diversity of junior rate scales. Once these junior rates have been rationalised, and the adult rates to which they relate have also been rationalised, it will be easier to choose a scale of junior rates for a special FMW that is consistent with and has a proper relationship with the junior rates contained in preserved APCSs.

***If a special FMW is established, what form should it take?***

- 9.74 If the Commission decides to establish a special FMW for juniors, what form should it take? Two main issues need to be considered:
- Should any junior special FMW apply as a minimum standard for all juniors, including those already covered by a preserved APCS, or should it apply only to junior employees not covered by a preserved APCS?
  - How should any special FMW be structured, and what level of rates should it prescribe?

*Should a special FMW scale apply to all juniors, or only to those who are APCS-free?*

- 9.75 If the Commission were to establish a special FMW for juniors, the Commission could apply it to all juniors, including those who are already covered by a preserved APCS, or it could apply a special FMW only to juniors who are not covered by a preserved APCS.
- 9.76 Setting the junior special FMW scale as a minimum standard for all preserved APCS junior rates would raise some difficulties. This is because of the range and diversity of junior rates contained in preserved APCSs, as outlined earlier in this chapter. For example, if the special FMW for juniors was set at an average level, this would increase the minimum wage for all those junior employees who are covered by a preserved APCS that prescribes junior rates lower than the special FMW. This would disturb the relativity between the junior and adult

rates for juniors covered by these preserved APCSs. The resultant increase in labour costs for the employment of juniors in affected industries or occupations would be likely to harm youth employment in these areas.

- 9.77 If the Commission was to consider applying a special FMW scale to all preserved APCS junior rates, as noted in paragraph 9.74 above, this might be best done once the current structures of junior and adult rates in preserved APCSs have been rationalised.
- 9.78 Alternatively, a special FMW scale for juniors could be applied only to those employees not covered by a preserved APCS junior rate.

*How should any special FMW be structured, and what level of rates should it prescribe?*

- 9.79 In deciding the level at which a special FMW scale for juniors should be set, it is important to bear in mind that the Commission in its wage setting parameters has to have regard to providing minimum wages for junior employees that ensures they are competitive in the labour market.<sup>42</sup>
- 9.80 Three State jurisdictions have previously addressed the issue of what scale of minimum wages should apply to junior employees - Western Australia, Queensland and South Australia. These State junior rates scales have relevance to the Commission's jurisdiction, because the dollar value of the State scales are included in preserved APCSs. The submission will now consider each of these States in turn, and will then provide additional information about the level of junior rates that applied under federal awards.

### Western Australia

- 9.81 Section 13 of Western Australia's (WA's) Minimum Conditions of Employment Act 1993 sets out the minimum weekly rates of pay for juniors. The adult minimum rate in WA (from which junior rates are calculated) is equal to \$504.40 per week, following the 2006 State wage case decision.<sup>43</sup> This minimum binds all employers and employees.<sup>44</sup> The WA scale is set out in table 9.4 below.

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<sup>42</sup> *Workplace Relations Act 1996*, sub-section 23(d).

<sup>43</sup> State Wage Case [2006] WAIRC 04608 (26 June 2006).

<sup>44</sup> *Minimum Conditions of Employment Act 1993*, section 5.

**Table 9.4 Western Australia – junior rates scale**

Age	Percentage of adult rate
Under 16 years	40%
16 years	50%
17 years	60%
18 years	70%
19 years	80%
20 years	90%
21 years	100%

9.82 In the Joint Governments' submission to the AIRC's Junior Rates Inquiry, the Western Australian Government noted that the junior rate scale is "clearly age based and follows a very similar format and progression to those in the award system."<sup>45</sup>

#### Queensland

9.83 Queensland's Minimum Wage declared by the Queensland Industrial Relations Commission (QIRC) sets percentages of the adult rate (equal to \$503.80 following the 2006 State wage case decision<sup>46</sup>) as the minimum rates for award-free juniors. As table 9.5 below shows, the percentages are based on experience or age, with the higher rate of the two applying. This means that, for example, a 17 year old in their 2nd year of experience would receive 65 per cent of the adult rate.

**Table 9.5 Queensland – award-free junior rates scale**

Age	Percentage of adult rate
17 years and under or 1st year of experience*	55%
18 years or 2nd year of experience*	65%
19 years but less than 3rd year of experience*	75%
3rd year of experience	85%
20 years and over	100%

\*Whichever gives the higher rate.

9.84 The junior rates contained in the Queensland Minimum Wage (QMW) have no application to juniors in Queensland covered by an industrial instrument. For these juniors, the junior rate is calculated by applying the junior percentage in the instrument to the relevant adult rate contained in the instrument. The

<sup>45</sup> Joint Governments' Submission – Junior Rates Inquiry, November 1998, Attachment C - Additional submission of the State of Western Australia, page 2.

<sup>46</sup> Queensland State Wage Case 2006 - Decision (27 July 2006).

exception to this is where the relevant adult rate is below the level of the QMW – where this occurs the junior rate is calculated by applying the junior rate percentage contained in the instrument to the QMW. As a result, the junior rates for employees covered by an industrial instrument can be lower than the minimum junior rates for award-free juniors.

*How was the Queensland junior minimum wage scale for award-free juniors established?*

- 9.85 When the QIRC established the QMW for all adult employees it decided there was a need to introduce a minimum wage for junior employees. In its decision of 18 December 2002, the QIRC stated that “whilst awards of the Commission continue to distinguish between adult rates and junior rates, it would be inappropriate to make no such distinction in the award-free sector,”<sup>47</sup> and asked the parties to the case to make submissions in relation to this.
- 9.86 The Queensland Council of Unions and the Australian Workers’ Union proposed a scale that included both age and experience. The QIRC decided to adopt this scale, and rejected the Queensland Government’s proposals. In deciding to adopt a junior scale that explicitly recognised experience, the QIRC referred to section 128 of the Industrial Relations Act 1999: “In making an award that fixes the wage rates [for persons under 21 years], the Commission must consider the age and experience of the persons under 21 years.”<sup>48</sup>
- 9.87 The QIRC made its decision to implement the junior rate scale in the table above on 21 March 2003, despite its observation that “No satisfactory explanation for the choice of particular percentages has been advanced.”<sup>49</sup> The QIRC’s decision did not indicate why it decided to accept an adult rate for 20 year olds in the scale proposed by the Queensland unions.
- 9.88 By using experience as well as age, the scale established by the QIRC is inconsistent not only with junior rates in Queensland awards, but with rates in the federal system and the other States.

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<sup>47</sup> Gordon Nuttall, Minister for Industrial Relations v QCCI [2002], QIRComm 212 (18 December 2002); 172 QGIG 2.

<sup>48</sup> Gordon Nuttall, Minister for Industrial Relations v QCCI [2002], QIRComm 258 (21 March 2003); 172 QGIG 1366.

<sup>49</sup> Ibid.

## South Australia

9.89 Under South Australia's Fair Work Act 1994,<sup>50</sup> the South Australian Industrial Relations Commission (SAIRC) declared the State Minimum Award Wage (equal to \$501.40 following the 2006 State wage case decision<sup>51</sup>) as the minimum standard for remuneration for adults in a statement issued on 14 March 2006. As part of this decision, the SAIRC also set a minimum standard for juniors. The SAIRC stated that the scale had been set by reference to the existing general standard evident in awards, in line with the requirements of the Act.<sup>52</sup> The junior rates scale adopted by the SAIRC is presented in table 9.6 below.

**Table 9.6 South Australia – junior rates scale**

Age	Percentage of adult rate
Under 17 years	50%
17 years	60%
18 years	70%
19 years	80%
20 years	90%
21 years	100%

9.90 The standard established by the SAIRC prevails over contracts of employment and existing award conditions to the extent that the terms of the standard are more favourable to the employee (i.e. it is binding for all employees), with the exception of awards that have been excluded from the standard by the SAIRC on application.

9.91 On 24 May 2006 the SAIRC made a further decision in relation to the minimum standard.<sup>53</sup> In relation to junior rates, SA unions had proposed that gradations for juniors should have regard to both age and service/experience. They referred to the Queensland scale to support their case. But the SAIRC said they were not persuaded that this was appropriate for the standard. The SAIRC stated: "In our view, particularly as part of an initial minimum standard, the

<sup>50</sup> *Fair Work Act 1994*, section 69.

<sup>51</sup> General Application to Review Award Wages July 2006 [2006] SAIRCComm 18 (5 July 2006).

<sup>52</sup> Declaration of remuneration minimum standard pursuant to S.69(3) of the Fair Work Act 1994; 4464 of 2005, 14 March 2006.

<sup>53</sup> Minimum standard for remuneration [2006] SAIRCComm 13; 4464 of 2005, 24 May 2006.

gradations should be set according to age and apply as a percentage of the adult minimum wage.”<sup>54</sup>

- 9.92 It is worth noting here the junior scale established by the SAIRC is almost the same as that in WA – the only difference being the separate rate of 40 per cent in the WA scale for juniors under the age of 16.

AIRC’s Junior Rates Inquiry selection of federal awards

- 9.93 The AIRC’s 1999 Junior Rates Inquiry examined a selection of 111 federal awards that contained junior rates and identified 35 different junior wage scales. It then calculated the average percentages based on these different scales listed in table 9.7 below.<sup>55</sup>

**Table 9.7 AIRC selection – average junior rate percentage**

Age	Percentage of adult rate
Under 16 years	50%
16 years	54.2%
17 years	63%
18 years	75.5%
19 years	85.5%
20 years	94.5%

- 9.94 In summary, the minimum wage scales for juniors that have been established in WA and SA are very similar, and they are also broadly comparable to the average situation in the sample of federal awards examined by the AIRC. The one exception is Queensland. However, the junior scale established in Queensland by the QIRC is a reflection of the particular requirements of the Queensland Act, and does not reflect the standard for junior rates in Queensland awards or in other jurisdictions. It is also worth noting here that if the Commission were to establish a special FMW for juniors expressed as a scale of percentages, the percentages would be applied to the standard FMW. This would ensure that the FMW for juniors could not exceed the FMW for adults.

<sup>54</sup> Ibid, page 34.

<sup>55</sup> AIRC, Junior Rates Inquiry report, June 1999, figure 2.3, page 76.

## Adjustment of junior wage rates in preserved APCSS

- 9.95 The adjustment of preserved APCS junior wage rates is the other key responsibility of the Commission in relation to juniors.
- 9.96 The key issue in relation to junior pay rates is setting an appropriate relative cost for employing a young person versus an adult. This means that the junior rate that applies in a particular area of employment must have an appropriate relativity to the adult classification that covers the same type of work – if the junior rates are relatively too high, junior employment will be impaired, while if they are too low, adult employment could be impaired. Disturbing the relativities between adult and junior pay rates risks distorting the labour market.
- 9.97 If junior rates in preserved APCSSs were expressed as percentages of adult rates, no special action would need to be taken to adjust junior rates. When adult rates were adjusted, the junior rates would also adjust automatically, and the relativity between the junior rate and the relevant adult rate would be maintained.
- 9.98 However, preserved APCSSs do not currently include the scales of junior rate percentages that were specified in the awards from which the preserved APCSSs were derived. The WR Act provides that basic periodic rates of pay contained in preserved APCSSs are notionally adjusted so that they are taken to directly specify a monetary amount.<sup>56</sup> The Act further provides that the rate provisions are to be adjusted so that they are expressed as a monetary hourly rate.<sup>57</sup>
- 9.99 The issue thus arises as to the most appropriate method by which the Commission ought to adjust the hourly rates for juniors in preserved APCSSs.
- 9.100 One of the Government's intentions in providing that basic periodic rates of pay for all classifications be adjusted so that they are expressed in preserved APCSSs as a monetary hourly amount, was to ensure a maximum degree of flexibility for the rationalisation of wage and classification structures.
- 9.101 However, a rationalisation strategy for wage and classification structures has not yet been finalised. Until a strategy has been adopted, there are advantages in applying any increases to junior rates in such a way that their relativities with adult rates are maintained. This could be achieved by increasing junior rates

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<sup>56</sup> *Workplace Relations Act 1996*, sub-section 209(1).

<sup>57</sup> *Ibid*, section 211.

on exactly the same basis as they have been increased in the past when they were expressed as percentages.

9.102 For example, if adult minimum wages in preserved APCSs were to be increased by 50 cents per hour, each corresponding junior rate would be increased by the percentage applicable to the junior rate in the relevant award immediately before the commencement of the new system. More specifically, consider an award that, immediately before the commencement of the new system, provided that an 18 year old employee is entitled to 60 per cent of the minimum adult rate. The preserved APCS that was derived from this award would provide that an 18 year old employee is entitled to a monetary amount equating to 60 per cent of the actual minimum adult rate that applied at the commencement of the new system. Under the approach proposed here, if the minimum adult rate was increased, the monetary amount applicable to the 18 year old would be increased by 60 per cent of the monetary amount by which the adult rate was increased. This would produce exactly the same outcome as if the junior rates contained in preserved APCSs continued to be specified as percentages of adult rates.

9.103 Adjusting the basic periodic rate for juniors in this way would ensure that the relativities between basic periodic rates for juniors and those of the relevant adult (and other classifications as well), would remain consistent and that the competitiveness of juniors in the labour market is not jeopardised.

## **Conclusion**

9.104 If young people are to be competitive in the labour market, their minimum wages should reflect the fact that, on average, they do not have the skills, experience and maturity of adults. Unless the minimum wages of young people reflect these factors, they will not be competitive with adults for employment opportunities.

9.105 The majority of economic evidence suggests that youth employment is more sensitive to wage increases than employment in general. The Australian studies and the international evidence are consistent in this view.

9.106 The youth labour market has particular characteristics which makes the employment of young people relatively precarious. Increasing the relative cost of employing young people risks damaging the fragile youth labour market.

9.107 With respect to establishing a special FMW for juniors, the Commission should consider:

- the extent to which junior employment is already covered by the safety net of minimum wages contained in preserved APCSs.
- whether it may be more appropriate to apply a special FMW to preserved APCSs that have been rationalised.

9.108 If the Commission were to establish a special FMW for juniors at this time, there would be advantages in applying it only to APCS-free juniors - i.e. only to juniors who are not already covered by a minimum wage provided in a preserved APCS. If a special FMW were applied to juniors covered by preserved APCSs, relativities between different juniors and between junior classifications and adult classifications would be disrupted.

- The minimum wages of general application that have been established for juniors by various State tribunals and the average rates applying under preserved APCSs provide some guide as to a level that could be applicable in a special FMW.

9.109 Considerations that are relevant to how junior rates could be adjusted if the Commission decides to apply a general increase to minimum wages include:

- Junior rates have been translated into preserved APCSs as monetary amounts, and now must be adjusted separately.
- It would be desirable to adjust junior rates in a way that does not disrupt existing relativities between junior and adult rates. This can be achieved by applying increases to junior rates on exactly the same basis as when they were expressed as percentages, i.e. they would receive a monetary increase proportional to the increase that applies to the relevant adult wage, using the percentage that applied immediately before the commencement of the new system.

## Appendix A9: DEWR's 44 indicative awards

- A9.1 Junior wage clauses were surveyed from a group of 44 federal awards. These awards were selected by DEWR on the basis that they were broadly indicative of the general content of awards across all industries.
- A9.2 It is not possible to ascertain employee coverage for each award. Therefore, we do not have a definitive method of identifying the 44 awards with the highest coverage. Identifying a broad representative sample of awards therefore requires some subjective judgement. Key issues used in determining these awards were as follows:
- Industry divisions across the spectrum should be represented, to give an overall view of award provisions across the economy.
  - 'Significant' or 'key' awards are those awards that influence what happens in other awards – 'parent' awards are clearly 'key' awards.
  - Awards can be chosen even if they pertain to an industry which has engaged extensively in agreement coverage. As the vast majority of agreements are not comprehensive, employees covered by agreements ultimately rely on their underpinning award.
- A9.3 Some sixteen of the awards chosen are self-evident, as they are broad based peak awards that cover a large number of businesses in a particular industry. These awards tend to dominate the workplace relations arrangements of an industry, for example, the Metals Award in the manufacturing sector and the National Building and Construction Award in the construction industry.
- A9.4 The remaining awards were chosen on a more subjective basis. These awards were not as dominant in a particular industry, but often influential in a sub-industry sector (for example, the Clothing Award is the most significant award in the TCF manufacturing sub-sector). Overall, the awards were chosen from a range of industries in order to cover the broad spectrum of the economy.

**Table A9.1 DEWR's 44 indicative awards**

<b>Award Code</b>	<b>Award Name</b>
AW766597	Australia Post General Conditions of Employment Award 1999
AW766579	Australian Public Service Award 1998
AW822844	Building Services (Victoria) Award 2003
AW769412	Business Equipment Industry - Technical Service - Award 1999
AW772675	Children's Services (Victoria) Award 1998
AW773032	Clerical and Administrative Employees (Victoria) Award 1999
AW772144	Clothing Trades Award 1999
AW774609	Coal Mining Industry (Production and Engineering) Consolidated Award 1997
AW819725	Contract Call Centre Industry (Interim) Award 2002
AW779906	Dry Cleaning Industry Award 2000
AW780413	Entertainment and Broadcasting Industry - Actors - (Theatrical) Award 1998
AW781451	Federal Meat Industry (Processing) Award 2000
AW811317	Fitness Industry (Victoria) Interim Award 2000
AW825280	Furnishing Industry National Award 2003
AW782505	Graphic Arts - General - Award 2000
AW806816	Hairdressing and Beauty Services - Victoria - Award 2001
AW783945	Health and Allied Services - Public Sector - Victoria Consolidated Award 1998
AW783476	Horse Training Industry Award 1998
AW784867	Horticultural Industry (AWU) Award 2000
AW783479	Hospitality Industry - Accommodation, Hotels, Resorts and Gaming Award 1998
AW784988	Insurance Industry Award 1998
AW787213	Liquor and Accommodation Industry - Restaurants - Victoria - Award 1998
AW788080	Maritime Industry Seagoing Award 1999
AW789529	Metal, Engineering and Associated Industries Award 1998 - Part 1
AW790741	National Building and Construction Industry Award 2000
AW791396	National Electrical, Electronic and Communications Contracting Industry Award 1998
AW790805	Nurses (Victorian Health Services) Award 2000
AW792378	Pastoral Industry Award 1998
AW792955	Pharmaceutical General: CSL Award 1998
AW793302	Power and Energy Industry Electrical, Electronic & Engineering Employees Award 1998
AW794740	Retail and Wholesale Industry - Shop Employees - Australian Capital Territory - Award 2000
AW794720	Rubber, Plastic and Cable Making Industry - General - Award 1998
AW796143	Security Employees (Victoria) Award 1998
AW796250	Shop Distributive and Allied Employees Association - Victorian Shops Interim Award 2000
AW796561	Social and Community Services - Victoria - Award 2000
AW796113	Stevedoring Industry Award 1999
AW818390	Storage Services - Fruit Packing - Victoria - Award 2002
AW796791	Storage Services - General - Award 1999
AW819699	Telecommunications Services Industry Award 2002
AW800937	Timber and Allied Industries Award 1999
AW799474	Transport Workers Award 1998
AW799612	Travel Industry - Agencies - General Award - 1999
AW824308	Vehicle Industry-Repair, Services and Retail-Award 2002
AW811556	Victorian Local Authorities Award 2001

## **Appendix B9: the experience of the UK Low Pay Commission**

B9.1 This section outlines the experience of the UK Low Pay Commission (LPC) in introducing a minimum wage and separate minimum rates for young workers. The Commission might be particularly assisted by the findings of the LPC, which are based on an extensive body of research and empirical studies. The LPC's various report findings and recommendations in relation to young people are discussed in this section, including the recommendation to introduce a new youth rate for 16 to 17 year olds in 2004 (alongside the pre-existing youth rate for 18 to 21 year olds). A key theme of the LPC's reports in relation to the youth labour market is the need to provide young people with the opportunity to enter the workforce and develop skills and experience, which is achieved through minimum wage rates separate from the adult minimum wage.

### **First report of the UK Low Pay Commission May 1998**

B9.2 In July 1997, the British Government established the LPC to recommend to the Prime Minister the initial level at which a national minimum wage should be set. The LPC brought together nine commissioners, including representatives of employers and employees, together with prominent academics. The LPC submitted its first report to the Prime Minister on 27 May 1998.

B9.3 The LPC recommended that a new national minimum wage be set at £3.70 per hour from June 2000, with an initial phasing-in rate of £3.60 per hour effective from April 1999. The LPC also recommended a development rate for young workers aged 18 to 20 set at £3.20 per hour from April 1999, rising to £3.30 per hour in June 2000. The LPC argued that young people aged below 18 should not be regarded as full participants in the labour market, and accordingly should be excluded from any legislated minimum.<sup>58</sup>

B9.4 The Government accepted the recommendation for a new national minimum wage of £3.60 from April 1999, rising to £3.70 in June 2000. It also accepted that 16 to 17 year olds should be excluded from any legislated minimum. However, the Government decided to introduce the youth development rate at £3.00 rather than £3.20, and also apply it to those aged 21. This reflected the Government's concern about the impact of the minimum wage on youth employment.

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<sup>58</sup> First report of the UK Low Pay Commission, page 89.

- B9.5 The report of the LPC recognised that the employment of young people aged 18 to 20 is particularly susceptible to movement in their wages rates and that a significant proportion of young people are paid the minimum rate. Often, this reflects the fact that young people are still undertaking further education and training, enhancing their ability to command higher wages in the future. For this reason, the LPC (and indeed the British Government) proceeded with caution in introducing the development rate. As the LPC stated: “To avoid making youth unemployment worse, and losing valuable employer investment in young workers, we recommend that a minimum development rate should be available to all 18 to 20 year olds.”<sup>59</sup>
- B9.6 After analysing the literature the LPC concluded that while the evidence is mixed, there have been times when minimum wages have cost jobs, particularly for young people. The LPC were very conscious that they would not assist young employees if they set the minimum wage too high. Finally, the LPC noted that wage rates for young people with skills and qualifications tend to increase fairly rapidly after initial education and training, and that low income is largely a function of unemployment not low wages - “The acquisition of qualifications, skills and experience at an early age improves employability, reduces the likelihood of subsequent unemployment and enhances prospects of higher wages later in life.”<sup>60</sup>

## **Second Report of the Low Pay Commission February 2000**

- B9.7 For their second report, the LPC was asked by the Government to monitor and evaluate the implementation of the minimum wage. In this report the LPC stated its primary concern was the particular problems of youth unemployment and a belief that the way for youth to secure and keep well-paid jobs was through the acquisition of skills and experience.
- B9.8 The LPC asserted that those in the youth labour market or trying to enter the labour market are among the most vulnerable in the workforce – “They need work, and they need work which will allow them to acquire basic skills to enable them to develop.”<sup>61</sup> This is consistent with the ‘stepping stone’ principle outlined earlier in Chapter 7 of this submission.

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<sup>59</sup> First report of the UK Low Pay Commission, page 81.

<sup>60</sup> Ibid, page 66.

<sup>61</sup> Second report of the UK Low Pay Commission, page 78.

B9.9 According to the LPC, their initial recommendation of a lower rate for young people reflected the reality of the labour market. A lower rate encourages employers to invest in the development of workers – “the benefits to business come in improvements in performance and productivity which underpin higher wages.”<sup>62</sup> The LPC again recommended that 21 year olds should receive the adult minimum wage, but the Government decided against this.

### **Third Report of the Low Pay Commission June 2001 (Volume Two)**

B9.10 The LPC in their third report stated its priority for young people is to protect their employment prospects and ensure that the lowest-skilled youths are not priced out of the labour market. The LPC “could not ignore the fact that youth unemployment can scar people’s employment prospects later in life.”<sup>63</sup> The LPC also noted that many other countries (eight of twelve from the countries the report analysed) had lower rates for young people in their minimum wage systems.

B9.11 The LPC pointed out that in its first report it wanted the youth development rate to be set “at a level which provides a sufficiently attractive and affordable first step on a genuine jobs ladder.”<sup>64</sup> The relativity between the youth development rate and the main rate worked well according to the LPC, and for this reason it recommended increasing the youth rate in proportion to the adult rate. The Government again rejected the LPC’s recommendation that 21 year olds receive the adult rate.

### **Fourth report of the UK Low Pay Commission March 2003**

B9.12 The LPC in their fourth report noted the vulnerable position of young people in the labour market – “their wages are lower than older workers and they have higher unemployment rates.”<sup>65</sup> The LPC stated they must take care to ensure that young people are not priced out of the labour market, particularly given the international evidence that the potential adverse effects of minimum wages are more likely to be felt among young people than adults.

B9.13 The LPC noted that wage rates for young people with skills and qualifications tend to increase fairly rapidly after training. The LPC supported a youth development rate as the acquisition of qualifications, skills and experience at an

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<sup>62</sup> Ibid, page 79.

<sup>63</sup> Third report of the UK Low Pay Commission June 2001 (Volume Two), paragraph 2.2.

<sup>64</sup> Ibid, paragraph 2.79.

<sup>65</sup> Fourth report of the UK Low Pay Commission, page 112.

early age improves employability, reduces the likelihood of subsequent unemployment and enhances prospects of higher wages later in life.<sup>66</sup> Further, “entry level jobs for young people offer the chance to gain experience, learn the disciplines of work and acquire worthwhile, transferable job skills.”<sup>67</sup>

B9.14 The LPC recommended increases to the youth development rate that were slightly less than the recommended increases to the adult rate. The LPC stated its examination of young people indicated the need for caution in relation to youth rates.<sup>68</sup> The Government accepted these increases, but again did not accept that 21 year olds should receive the adult minimum wage rate.

### **Protecting Young Workers - UK Low Pay Commission Report 2004**

B9.15 In their fourth report, the LPC recommended to the Government that it should review the 16 to 17 year old age group to advise on whether a minimum wage should be introduced for this group. The LPC investigated this group in its 2004 ‘Protecting Young Workers’ report and concluded that a minimum wage of £3.00 per hour for 16 to 17 year olds should be introduced in October 2004.

B9.16 The LPC stated it saw no reason to automatically link its level to the youth development rate (for 18 to 21 year olds), and that the recommended rate is prudent and should avoid the risk of pricing this group out of the labour market. The LPC also referred to the AIRC’s Junior Rates Inquiry finding that the removal of junior rates in Australia would have a detrimental impact on youth employment and would damage young people’s longer-term prospects.<sup>69</sup>

B9.17 The LPC’s consultation responses from employers highlighted young people’s greater inexperience, their lower productivity; legal restrictions on their roles (e.g. prohibitions on selling age-restricted products without supervision and health and safety rules); and the need to provide greater supervision. According to the LPC, small business focus groups organised by the Small Business Service highlighted retention problems, concerns about the lower motivation of 16 to 17 year olds, the lack of a track record and the cost and time of training this age group as justification for paying them lower wages compared with more experienced, skilled and productive workers.<sup>70</sup>

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<sup>66</sup> Ibid, page 132.

<sup>67</sup> Ibid, page 133.

<sup>68</sup> Fourth report of the UK Low Pay Commission, page XVI.

<sup>69</sup> Protecting Young Workers - UK Low Pay Commission report 2004, page 51.

<sup>70</sup> Ibid, pages 65-66.

B9.18 The Government accepted the LPC's recommendation to introduce a minimum rate for 16 to 17 year olds. The Government again decided against including 21 year olds in the adult minimum wage. With the introduction of a minimum wage for 16 to 17 year olds separate to the youth development rate, the UK's youth rates are in some ways moving towards Australia's junior rates system in APCs that incrementally set different wage levels by age.

### **UK Low Pay Commission Report February 2005**

B9.19 In their 2005 report, the LPC's findings in relation to young people highlighted the importance of relative labour costs for young people versus adults. The LPC noted that a number of employers introduced age-related pay (i.e. junior rates) to offset the cost of large minimum wage increases for adults. Businesses such as fast food restaurants, nurseries and some pubs and restaurants are making use of the flexibility offered by the youth development rate, according to the LPC.<sup>71</sup>

B9.20 The LPC stated, however, that there was no clear long-term trend to age-related pay – "Its use is not widespread and even in the minority of firms that employ it, its use is often restricted to certain positions or new recruits in the first few months of employment."<sup>72</sup>

B9.21 The LPC's view is that the international evidence on the impact of minimum wages on youth employment, combined with the data on unemployment rates for young people not in full-time education, demonstrates the need to ensure that young people, particularly those with few or no qualifications, are not priced out of the labour market. The LPC added that the arguments for the youth development rate would be even stronger in the event of an economic downturn, as the youth labour market is particularly sensitive to economic fluctuations.<sup>73</sup>

B9.22 The LPC suggested the existence of the youth development rate also permits a higher level of the adult rate, with the alternative being a single lower rate for all ages. Thus, the youth development rate provides opportunities for young people in the labour market. Further, the LPC stated a lower rate for youth

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<sup>71</sup> UK Low Pay Commission report 2005, pages 128 and 147.

<sup>72</sup> Ibid, page 128.

<sup>73</sup> Ibid, page 148.

plays “an essential part in assisting young people to gain experience of work, receive coaching and develop workplace skills.”<sup>74</sup>

B9.23 For the youth development rate the LPC recommended slightly lower increases than those proposed for the adult minimum wage, with a 3.7 per cent increase in October 2005 and a total of 8.5 per cent over two years. The Government accepted these increases, although once again it decided not to accept the LPC’s recommendation that 21 year olds be paid the adult minimum wage. The Government stated it would keep the issue of whether to put 21 year old workers onto the adult rate under review. The Government accepted the LPC’s recommendation for the minimum wage for 16 to 17 year olds to remain at £3.00 in 2005.

### **UK Low Pay Commission Report March 2006**

B9.24 In their latest report, the LPC reviewed the increases scheduled for October 2006 it recommended in its 2005 report for the adult minimum wage and the youth development rate. According to the LPC, its economic review did reveal some factors which could argue for slight reductions in the proposed 2006 increases, but the evidence of changed economic conditions was insufficient to recommend a reduction to the proposed 2006 increases.

B9.25 The LPC also recommended an increase in the 16 to 17 year old rate from £3.00 to £3.30, which was accepted by the Government. The LPC stated the primary role of the 16 to 17 year old rate was to prevent very low wages, but given it was introduced at a cautious level and was not up rated at all in 2005, the increase was sustainable.<sup>75</sup>

B9.26 The LPC report indicated that all but one employer in its stakeholder consultations indicated no change in their willingness to hire 16 and 17 year olds as a result of the introduction of the minimum wage for this age group. No employers suggested a move to substitute workers in this age group in favour of older workers, with many noting they already paid workers in the age group substantially above the minimum rate. Most employers wanted the differential between the 16 to 17 year old rate and the youth development rate (for 18 to 21 year olds) to remain substantial.<sup>76</sup>

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<sup>74</sup> Ibid, page 148.

<sup>75</sup> UK Low Pay Commission report 2006, pages vi.

<sup>76</sup> Ibid, page 64.

- B9.27 The LPC noted that it sees the main purpose of the 16 to 17 year old minimum wage as providing a wage floor to prevent exploitation. The LPC believes there continues to be a need to protect the position of 16 and 17 year olds in the labour market, and this is achieved by having a separate minimum wage rate set at a lower level than for older workers.<sup>77</sup> The LPC also noted research on the scarring effect of unemployment on young people throughout their working lives, and the international evidence that any potential adverse effects of minimum wages are more likely to be felt by young people.<sup>78</sup>
- B9.28 In sum, the experience of the LPC reinforces the need to provide opportunity to young workers to acquire on-the-job skills and experience by implementing sub-minimum rates of pay by age. This is demonstrated by the LPC's introduction of a separate wage rate for 16 to 17 year olds, alongside the youth rate for 18 to 21 year olds (established at the time of the adult minimum wage) with the aim of ensuring young workers are not priced out of the labour market. The UK Government's reluctance to accept the LPC's recommendation to apply the adult rate to 21 year olds highlights the importance the British Government places on assisting young people to gain a foothold in the labour market.

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<sup>77</sup> Ibid, page 66.

<sup>78</sup> Ibid.



## Appendix C9: OECD findings

C9.1 This section discusses the OECD's analysis of the theory and empirical evidence in relation to youth minimum wages. Ensuring the successful transition of young people to the labour market by developing their skills in the workforce is a key policy goal for the OECD. The OECD's research emphasises the need to promote the employment prospects of young people, and the role reduced minimum wage rates for young workers can play in achieving this.

### OECD submissions to the UK Low Pay Commission and Ireland National Minimum Wage Commission 1997

C9.2 The OECD reported that many countries allow for sub-minimum wage rates differentiated by age. In its submissions to the UK LPC and Irish Minimum Wage Commission the OECD stated "there is a case for differentiating the minimum wage by age."<sup>79</sup> Countries grade their minimum wage on the basis that a high minimum wage for inexperienced young workers may negatively affect their employment opportunities. According to the OECD, many studies confirm that a high minimum wage has detrimental effects on youth employment. The OECD also noted that for many young workers low paid jobs are a stepping stone to better jobs in the future.<sup>80</sup>

C9.3 The OECD stated "Empirical evidence suggests that changes in the grading of the minimum wage by age have produced significant impacts on youth employment and unemployment."<sup>81</sup> The OECD summarised the evidence that junior rates will support youth employment as follows:

*In the Netherlands, where the negotiated youth minimum wage tended to fall behind both the negotiated minimum wage for adults and the average wage in the past decade, there is some evidence of an increase in youth employment. Evidence from Canada comparing youth unemployment across two contiguous provinces with fairly similar adult unemployment (Ontario and Quebec) also suggests a positive correlation between youth unemployment rates and the level of the minimum wage (OECD, 1996a). Evidence for New Zealand confirms a strong impact of the minimum wage on youth employment: a 10 per*

<sup>79</sup> OECD, Submission to the Ireland National Minimum Wage Commission, working paper 186, 1997, page 17 and OECD, Submission to the UK Low Pay Commission, working paper 185, 1997, page 16.

<sup>80</sup> OECD, Submission to the Ireland National Minimum Wage Commission, working paper 186, 1997, page 17.

<sup>81</sup> OECD, Submission to the UK National Minimum Wage Commission, working paper 186, 1997, page 16.

*cent increase in the minimum wage was associated with a fall in the employment of young workers (aged 20-24) of about 3.5 per cent, while the absence of the minimum wage for teenagers (until 1994) was found to have beneficial effects on their employment opportunities (OECD, 1996c).<sup>82</sup>*

## **OECD Employment Outlook 1998**

C9.4 In the 1998 Employment Outlook, the OECD conducted a number of cross-country time-series regressions using annual data in which the employment/population ratio for different demographic groups was regressed against the ratio of minimum to average wages (and other explanatory variables). This was done for nine countries over the period 1975 to 1996: Belgium, Canada, France, Greece, Japan, the Netherlands, Portugal, Spain and the United States. Separate regressions were carried out for teenagers, young adults, and prime-aged adults. By using a cross-country approach the OECD was able to overcome one of the main problems inherent in national studies based on time series data – “the lack of variation in minimum wages relative to other factors affecting employment outcomes.”<sup>83</sup>

C9.5 The OECD found that minimum wage rises have a significant negative impact on total teenage employment, although the magnitude of the reported impact varies considerably, ranging from -0.3 to -0.6 when Spain and Portugal are excluded from the regression, to 0 to -0.2 when they were included.<sup>84</sup> The elasticity for teenagers was the largest of any of the demographic groups studied. For instance, the results for young adults were generally close to or insignificantly different from zero, while for prime-aged adults, the results suggested that minimum wages have no impact on their employment outcomes.<sup>85</sup> The results for young and prime age adults are not really surprising as only a small minority of adults across the OECD countries analysed are paid at the minimum wage. Thus, this means that rises in minimum wages across these countries would be likely to have had most impact on total teenage employment.

C9.6 The OECD summarised the international minimum wage literature as follows:

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<sup>82</sup> Ibid.

<sup>83</sup> OECD, Employment Outlook 1998, page 45.

<sup>84</sup> Time series data of average wages by gender for Spain and Portugal are only available for a short period.

<sup>85</sup> OECD, Employment Outlook 1998, pages 46 to 48.

*Both theory and empirical evidence are inconclusive about the precise employment effects of minimum wages over some range relative to average wages. However at high levels, there is general agreement that a statutory minimum wage will reduce employment. While sometimes conflicting, there is evidence that young workers may be most vulnerable to job losses.<sup>86</sup>*

### **OECD background report – Giving young people a good start**

C9.7 This report focused on the labour market characteristics of youth across OECD countries. However, this OECD report states that one solution to minimise the potential disemployment effects on young people of a minimum wage set at above market clearing levels is to allow for sub-minimum rates by age. Reducing wage costs is intended to increase youth employment by inducing employers to increase their demand for youth labour.<sup>87</sup>

### **OECD Employment Outlook 2006**

C9.8 The OECD's 2006 Employment Outlook report emphasised the need to promote the employment prospects of youth. The OECD stated that developing young people's employability is a key policy goal to ensure their transition to the labour market and access to career-oriented employment.<sup>88</sup>

C9.9 According to the OECD, youth in all countries face a greater risk of unemployment as they attempt to find a foothold in the labour market. For the OECD, persistent joblessness among youth may create a disadvantage during their working lives, which is a major policy concern.<sup>89</sup>

C9.10 The OECD stated "Recent experience suggests that a moderate minimum wage generally is not a problem, but that adequate allowance for sub-minima for youth and possibly other vulnerable groups is essential."<sup>90</sup>

### **OECD working paper - Bassanini and Duval**

C9.11 In an OECD working paper Bassanini and Duval stated that, theoretically, a high minimum wage can "drive a wedge between youth labour costs and their expected productivity, thereby raising unemployment and discouraging some of

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<sup>86</sup> Ibid, page 57.

<sup>87</sup> N Bowen, A Sonnet and L Bardone, 'Giving young people a good start: the experience of OECD countries', *OECD background report*, 1998

<sup>88</sup> OECD Employment Outlook 2006, page 136.

<sup>89</sup> Ibid.

<sup>90</sup> Ibid, page 88.

them to enter the labour market.”<sup>91</sup> In terms of empirical evidence, the OECD working paper indicated that several cross-country or cross-region empirical studies have identified negative effects of minimum wages on youth employment, but notes that Card and Krueger (1995) failed to do so. However as noted in paragraphs 3.44 to 3.49 of Chapter 3, Card and Krueger’s studies have been the subject of extensive criticism.

- C9.12 According to Bassanini and Duval econometric studies for youths are inherently more difficult to undertake than for other population groups. This is because several important drivers of youth education and labour force participation decisions cannot be studied due to a lack of data. This is a problem as enrolment in education is one of the main reasons behind low youth participation. Thus, Bassanini and Duval do not rule out the possibility of an omitted variable bias in their regression exercise.<sup>92</sup>
- C9.13 Bassanini and Duval’s analysis, covering the period from 1982 to 2003, finds that youth employment is highly sensitive to aggregate economic fluctuations, which is in line with the extensive literature on the youth labour market.<sup>93</sup> Their analysis also found a large impact from youth education, with one additional year of education reducing the youth employment rate by 3.3 percentage points. The OECD working paper’s estimates also suggest that large youth cohorts tend to have poorer job prospects, though the effect is small – and is not robust across all specifications.<sup>94</sup>
- C9.14 On the basis of their regression analysis of the impact of minimum wages on employment outcomes for youths, Bassanini and Duval stated that “while significant negative effects may be found within a cross-country dimension, this conclusion does not hold in the time-series dimension. As a result, no strong policy conclusions can be drawn from this and the present analysis as regards the impact of minimum wages on youth employment.”<sup>95</sup>
- C9.15 The OECD working paper’s regression analysis of the impact of minimum wages has little relevance to the case of junior rates in Australia. This is because the analysis of the youth minimum wage is based on an average of the

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<sup>91</sup> A Bassanini and R Duval, ‘Employment patterns in OECD countries: reassessing the roles of policies and institutions’, Social, employment and migration working papers no 35, page 49.

<sup>92</sup> Ibid.

<sup>93</sup> Ibid, page 50.

<sup>94</sup> Ibid.

<sup>95</sup> Ibid.

minimum wage that applies for individuals aged 20 through to 24.<sup>96</sup> This calculated youth minimum wage would differ little from the adult minimum wage in Australia, where junior rates only apply up to age 21.

C9.16 However, Bassanini and Duval state that its youth minimum wage variable differs from the adult minimum wage only in those four countries where sub-minimum rates apply for younger workers – Belgium, Ireland, Netherlands and the United Kingdom. Thus, the OECD working paper’s analysis for Australia does not appear to have included the junior rate received by many 20 year olds.

C9.17 Therefore, the youth minimum wage variable used by Bassanini and Duval is nothing like a true reflection of the level of minimum rates that apply to juniors in Australia (this is also likely to be the case for other OECD countries that have introduced sub-minimum rates for youths). This means that the key rationale for junior rates – to reduce the relative wage costs of young people compared with adults to ensure their competitiveness, is not captured by the OECD working paper’s analysis.

C9.18 In sum, the OECD’s body of evidence in relation to the impact of minimum wages indicate the need to apply separate minimum wage rates to young workers. As outlined above, the results of the Bassanini and Duval study that did not find conclusive evidence of the impact of minimum wages on youth employment are not relevant to Australia. OECD studies, and the vast majority of research papers considered by the OECD, have resoundingly found a negative impact of minimum wages on youth employment. Countries risk pricing young people out of the labour market if they do not have junior wage rates in place.

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<sup>96</sup> Note: Bassanini and Duval’s reason for restricting the youth population to the 20 to 24 age group was to minimise any potential biases arising from omitted interactions between employment and schooling. A Bassanini and R Duval, ‘Employment patterns in OECD countries: reassessing the roles of policies and institutions’, Social, employment and migration working papers no.35, page 49.



## Appendix D9: academic research – youth employment and minimum wages

D9.1 This attachment outlines academic research that has examined the relationship between youth employment and minimum wages.

### OECD countries

D9.2 Neumark and Wascher estimated the employment effects of changes in minimum wages for 17 OECD countries over the period 1975 to 2000.<sup>97</sup> Their findings suggest that while the employment effects of minimum wages vary across countries, their estimated minimum wage effects are consistent with the view that minimum wages cause employment losses among youths. Importantly, they also found “that the presence of a youth sub-minimum wage tends to reduce the negative impact of the overall minimum wage on teenage employment.”<sup>98</sup>

### European studies

D9.3 In 1996, Dolado, Kramarz, Machin, Manning, Margolis and Teulings published a comprehensive study of minimum wages and youth employment in France, the Netherlands, Spain and the UK. Although their findings varied between countries, they found that the aggregate employment effect of minimum wages on youth unemployment was not large, and could often be attributed to other economic factors. However, under certain conditions, Dolado et al. agreed that there is some evidence of an adverse employment effect for young workers.<sup>99</sup> They conclude that: “As the employment effects of minimum wages on the youth labour market do seem to be worse, there is a strong case for having a lower minimum wage for young workers.”<sup>100</sup>

D9.4 In 1990, Van Soest and Kapteyn found that a substantial share of unemployment in the Netherlands could be attributed to the minimum wage, particularly for young people with little work experience and a low level of education. They estimated a negative employment elasticity of -0.3 to -0.8 for young workers (aged 16 to 24). They also found that between 1984 and 1987,

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<sup>97</sup> D Neumark and W Wascher, ‘Minimum wages, labour market institutions and youth employment: a cross-national analysis’, Federal Reserve board discussion paper, 2003.

<sup>98</sup> Ibid, page 20.

<sup>99</sup> J Dolado, F Kramarz, S Machin, A Manning, D Margolis and C Teulings, ‘The Economic Impact of Minimum Wages in Europe’, *Economic Policy*, October 1996.

<sup>100</sup> Ibid, page 357.

consistent with the decline in the real value of the minimum wage in the Netherlands, the importance of the minimum wage in determining unemployment decreased.<sup>101</sup>

- D9.5 Similarly, in a study conducted in 1994 using data from April 1984 to October 1987, Van Soest again found that youth minimum wages substantially affect employment probabilities for young workers: “In sharp contrast with, for example, recent findings of Card, all these findings are in accordance with standard economic theory.”<sup>102</sup>
- D9.6 For Portugal, Pereira evaluated the experience of up rating the minimum wage for workers aged 18 and 19 to the full adult rate.<sup>103</sup> The study examined the employment impact of the 49.3 per cent increase in the minimum wage between 1986 and 1987 for this age group. The impact of removing the reduced minimum wage for teenagers was found to be harmful to teenage employment, with an estimated elasticity of between -0.2 and -0.4 calculated.<sup>104</sup> Pereira stated this elasticity is significant, particularly given the very large change that occurred in the minimum wage for teenagers.

## United States studies

- D9.7 A study by Bazen and Marimoutou noted the inability of most time series models to successfully model teenage employment in the United States (US) over long time frames.<sup>105</sup> The authors overcame these difficulties by successfully developing a time series model that tracked the time path of the teenage employment to population ratio both within and out of sample, with consistent results over a long period of time.<sup>106</sup> This model indicated a consistent negative relationship between teenage employment and the minimum wage over the period 1954 to 1999. According to the model, a 10 per cent increase in minimum wages leads to a 1 per cent fall in teenage employment in the short run, rising to a 2 to 3 per cent fall in employment in the longer run.<sup>107</sup>

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<sup>101</sup> A Van Soest, ‘Youth Minimum Wage Rates: The Dutch Experience’, *International Journal of Manpower*, No 2/3, 1994, page 106.

<sup>102</sup> *Ibid*, page 114.

<sup>103</sup> S Pereira, ‘The impact of minimum wages on youth employment in Portugal’, *European Economic Review*, 2003, Vol 47, issue 2.

<sup>104</sup> *Ibid*, page 244.

<sup>105</sup> S Bazen and V Marimoutou, ‘Looking for a Needle in a Haystack ? A Re-examination of the Time Series Relationship between Teenage Employment and Minimum Wages in the United States’, *Oxford Bulletin of Economics and Statistics*, Vol 64, Supplement, 2002, page 699.

<sup>106</sup> *Ibid*, pages 699, 717 to 721.

<sup>107</sup> *Ibid*, pages 721, 723.

- D9.8 Bazen and Marimoutou concluded that other studies, such as Card and Krueger, may have failed to pick up any discernible impact of minimum wages on unemployment because they focused on the short-run rather than the long-run.<sup>108</sup> They also noted that while the estimated elasticities are small, they could be larger if the minimum wage were to be 'raised to the kind of levels found in France and the Netherlands'.<sup>109</sup> As noted previously, Australia has the highest minimum wage relative to full-time median earnings in the OECD.
- D9.9 In another study, Williams and Mills revisited several time-series studies which investigated the effect of an increase in the minimum wage on teenage employment in the US. After respecifying previous time-series models, they found a significant negative relationship between the minimum wage and teenage employment, with fairly robust results. The authors found that the response of the teenage employment rate to a 10 per cent increase in the minimum wage is negative and ranges between 3 per cent and 5 per cent, increasing in strength over the first year or so before the effect begins to decrease.<sup>110</sup>

### **New Zealand studies**

- D9.10 Maloney in 1994 researched New Zealand (NZ's) experience using time-series data from 1985 to the mid-1990s. Maloney's research studied the impact on youth employment of the introduction in NZ of the youth minimum wage at \$3.68 per hour for 15 to 19 year olds on 31 March 1994. Prior to March 1994, NZ had not enforced a statutory minimum wage for teenagers for an extended period of time, although adults aged 20 and above were covered by a minimum rate of \$6.12. Maloney found a significant negative elasticity of demand for youth employment in New Zealand, which he estimated at -0.35.<sup>111</sup>
- D9.11 Maloney updated his work in 1997 using a slightly longer time-series from the fourth quarter 1985 to the second quarter 1996. Based on alternative formulations and use of data, Maloney reported a wide elasticity of youth employment with respect to the minimum wage range of -0.1 to -0.4, although he noted that at the lower end of the range, the results were not statistically significant. Maloney concluded: "The results reported above are far from

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<sup>108</sup> Ibid, page 723.

<sup>109</sup> Ibid, pages 699 to 724.

<sup>110</sup> N Williams and J Mills, 'The minimum wage and teenage employment: evidence from time series', *Applied Economics*, Vol 33, Issue 3, 2001, page 14.

<sup>111</sup> T Maloney, 'The "New Economics" of the Minimum Wage? Evidence from New Zealand', *Agenda*, Vol 4, No 2, 1997, page 3.

conclusive, [but] they suggest that increases in the minimum wage reduce the employment of the age group most likely to be directly affected by the legislation.”<sup>112</sup>

D9.12 Following on the work of Maloney, in 1997 Chapple published ‘Do minimum wages have an adverse impact on employment? Evidence from New Zealand’. This study revisited the work of Maloney using a longer time series - from the fourth quarter of 1985 through to the first quarter of 1997 (this is still only a third of the length of US time series data, leading Chapple to express caution in drawing strong conclusions). Chapple estimated a long run own-wage elasticity of demand for youth employment of -0.18 to -0.34, slightly below the levels estimated by Maloney.<sup>113</sup>

D9.13 However, using different equations, Chapple found that: “In the preferred specification, the elasticity is much lower than found by Maloney, and the hypothesis that the long-run impact of minimum wages on youth employment is zero cannot be rejected.”<sup>114</sup>

D9.14 Chapple also undertook a further study of industry specific employment elasticities in NZ, based on variations in the NZ minimum wage during the 1980s and 1990s. He found that 14 industries had negative responses to the real minimum wage, and 15 had positive responses, ‘with no overall tendency for minimum wages to be negatively associated with employment’. Furthermore, Chapple found no correlation between low-wage industries and a decrease in employment in response to a rise in the minimum wage.<sup>115</sup>

D9.15 A recent NZ study by Hyslop and Stillman looked at the impact of an increase in the teenage minimum wage on employment.<sup>116</sup> The study found no adverse impact from the large increase in youth minimum wages in NZ on youth employment. There was a high degree of non-compliance, however, with many employers not paying the new higher minimum wage.<sup>117</sup> Increased compliance with the increased wage rates may come at the expense of employment. Referring to their findings, the authors noted that ‘given the recent increases, whether such benign effects continue going forward remains a moot point’. It is

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<sup>112</sup> Ibid, page 195.

<sup>113</sup> S Chapple, ‘Do minimum wages have an adverse impact on employment? Evidence from New Zealand’, *Labour Market Bulletin*, Vol 2, 1997, page 26.

<sup>114</sup> Ibid.

<sup>115</sup> Ibid.

<sup>116</sup> D Hyslop and S Stillman, ‘Youth Minimum Wage and the Labour Market’, *New Zealand Treasury*, working paper, May 2003.

<sup>117</sup> Ibid.

therefore premature to conclude that increasing the youth minimum wage in NZ would have no adverse effect on employment in that country.

## **Other Australian research**

### ***Australian Council of Trade Union's research – support for junior rates***

D9.16 The ACTU's senior research officer is supportive of separate minimum wage rates for juniors. Belchamber stated: "Where some reduction vis-à-vis the adult minimum is agreed to be appropriate, for young workers and/or as part of structured training provision, a lower limit is provided by need, efficiency wage considerations, and any social security payments which may be available. A young person living at home may share domestic infrastructure; for as long the young person's primary activity is schooling, some reduction vis-à-vis the adult minimum wage may be supportable. This may particularly apply in countries where the adult minimum is set at comparatively high levels."<sup>118</sup> Given Australia's adult minimum wage is the highest in the OECD as a proportion of full-time median earnings, junior rates are beneficial for enhancing the competitive position of young people.

## **Other international research**

### ***Ghellab – rationale for junior rates***

D9.17 Ghellab, in an International Labour Organisation (ILO) paper, reviewed minimum wages and their impact on youth unemployment across countries.<sup>119</sup> Ghellab stated the rationale for setting up a sub-minimum wage rate for youth is that a higher wage floor might reduce the employment opportunities of youth. The establishment of specific rates for young workers is seen as an action to stimulate the demand for youth through the reduction of their relative wage, and an action to reduce the supply of young workers in the labour market by keeping them in school.

D9.18 Therefore, junior rates have been introduced by countries to allow employers to hire inexperienced workers who otherwise would have difficulties in finding employment, because their productivity was below the level of the adult minimum wage. According to Ghellab, junior rates are generally justified on the basis that young workers receive on-the-job training and it allows them to develop a work history.

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<sup>118</sup> G Belchamber, 'Minimum wages and youth employment', *Labour Education*, 2004/3 No 136, page 35.

<sup>119</sup> Y Ghellab, 'Minimum wages and youth unemployment', *International Labour Office*, 1998, page 32.

**Yuen – youth are a heterogeneous group**

D9.19 The ILO released a discussion paper in 2004 'The minimum wage: Catalyst for social dialogue or economic policy instrument' that referred to a paper by Yuen. Yuen looked at the experience of raising the minimum wage in Canada.<sup>120</sup>

D9.20 Yuen found that increases in the minimum wage caused greater employment reductions among those teenagers and young workers who had been in low wage employment for relatively longer periods of time than workers who worked for shorter periods.

D9.21 Yuen attributed this to a worker's current wage rate being an imperfect reflection of the worker's permanent level of productivity. Workers who had been in low paid jobs for longer periods had lower productivity than those who worked in the same low paid jobs for shorter periods.

D9.22 Young workers that remain in low paid jobs for longer periods benefit from junior wage rates, as it ensures they are not priced out of the labour market. However, young workers that are employed in low paid jobs for a shorter period while in further education, for example, also receive the benefit of junior rates as it allows them to gain a foothold in the labour market and gain work skills before progressing to higher paid work. Thus, while young workers are a heterogeneous group, junior rates provide important opportunities in the labour market to youth regardless of whether they are investing in education while working or engaged in low skilled, entry level work on a longer term basis.

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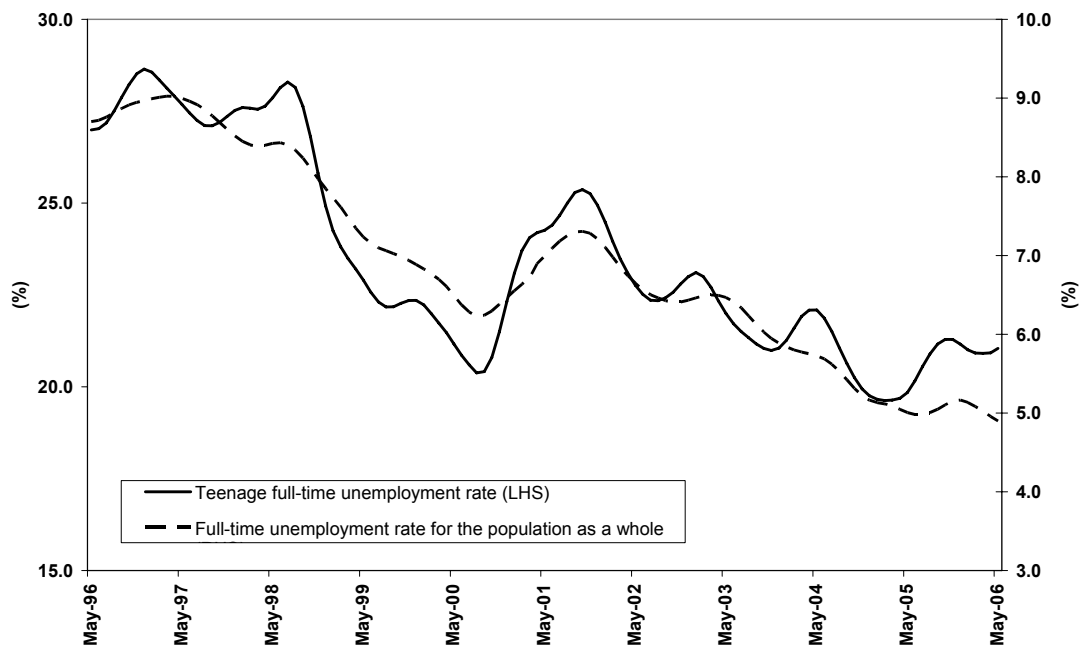
<sup>120</sup> T Yuen, 'The effects of minimum wages on youth employment in Canada: a panel study', *The Journal of Human Resources*, 2003, Vol 38 No 3, pages 647 to 672.

## Appendix E9: youth labour market

### Introduction

E9.1 Against the backdrop of strong economic and employment growth nationally, the teenage labour market has strengthened significantly over the last decade, with total teenage employment increasing by 96,200 (or 15.8 per cent) since May 1996. Despite the clear improvement in labour market conditions for teenagers, the pace of employment growth for this cohort over the period has been much less robust than for the population as a whole (where employment has increased by 21.3 per cent over the same period).

**Chart E9.1: Teenage full-time unemployment rate and full-time unemployment rate for total population, May 1996 to May 2006**



Source: ABS Labour Force, Australia, Spreadsheets (Cat. No. 6202.0.55.001), May 2006, trend data.

E9.2 Moreover, while the teenage full-time unemployment rate has fallen considerably, by 6.4 percentage points over the last 10 years to stand at 21.1 per cent in May 2006 (see Chart E9.1), it is important to recognise that it remains over four times higher than the equivalent rate for the population as a whole.

E9.3 That said, it should be noted that the teenage full-time unemployment rate does not include more than two thirds of teenagers who participate in full-time education. Accordingly, a better indicator of labour market disadvantage for

teenagers is the full-time unemployment to population ratio (i.e. the proportion of the total teenage population who are unemployed and looking for full-time work). In line with improvements in teenage labour market conditions, the teenage full-time unemployment to population ratio has fallen by 2.6 percentage points over the last ten years to stand at 4.5 per cent in May 2006.

- E9.4 Despite these considerable improvements, labour market conditions appear to be beginning to slow for teenagers, as evidenced by the decline in teenage employment (down by 23,800 or 3.3 per cent) that occurred over the last 12 months. In addition, the full-time unemployment rate for teenagers has risen, increasing by 0.9 percentage points over the last year.
- E9.5 Clearly, in an environment of already softening employment growth, labour market outcomes for the teenage cohort will be far more vulnerable to wage shocks, such as increases in the minimum wage or rises in junior wage rates. Perhaps even more important than this, however, is that wholesale structural changes that have occurred in the teenage labour market over recent decades have resulted in select groups of teenagers becoming particularly vulnerable to labour market downturns and/or wage shocks.
- E9.6 A discussion of the structural changes that have occurred in the teenage labour market, and their particular relevance for the most precariously placed teenagers in the labour market, is outlined below.

### **Changes in the teenage labour market**

- E9.7 The structure of the teenage labour market has changed dramatically over the last few decades, in response to a range of different factors. Technological change, increased global competition, the wide ranging effects of the 1980s and 1990s recessions and broad social changes, including the increased participation of women in the labour force, have together resulted in a significant reduction in full-time employment for teenagers. The impact of the aforementioned factors on the teenage labour market is investigated in more detail below.

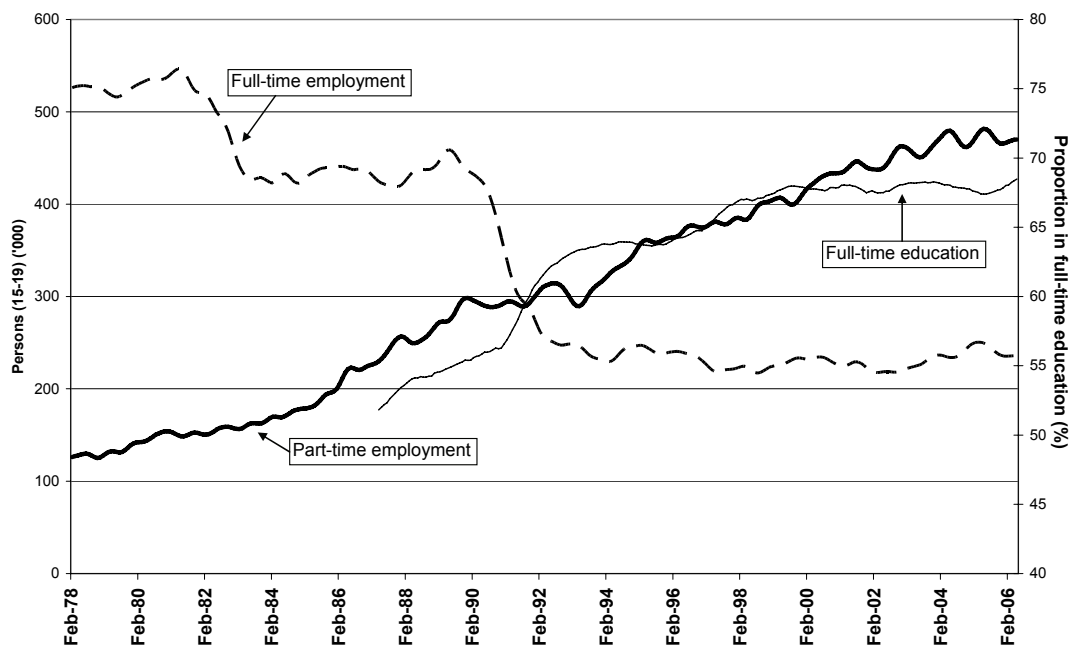
#### ***Declining full-time employment***

- E9.8 As is illustrated in Chart E9.2, teenage full-time employment has fallen significantly, by 307,400 (or 56.5 per cent) over the last 25 years. Most notably, however, one of the major catalysts for the decline in full-time employment for

teenagers was the sharp downturn in economic activity that occurred during both the 1980s and 1990s recessions.

E9.9 Of particular concern, however, was that despite subsequent large-scale economic expansions in the years following on from the two recessions, full-time employment for teenagers (unlike other age cohorts) failed to recover to its pre-recession level. Importantly, both the 1980s and 1990s downturns caused a persistent and hysteretic effect on teenage full-time job prospects (see Chart E9.2). Put another way, it is quite clear that teenage full-time employment is extremely sensitive to labour market downturns and is relatively unresponsive during recovery periods.

**Chart E9.2: Teenage full-time and part-time employment, February 1978 to May 2006**



Source: ABS Labour Force, Australia, Spreadsheets (Cat. No. 6202.0.55.001), May 2006, trend data; and ABS Labour Force, Australia, Detailed – Electronic Delivery (Cat. No. 6291.0.55.003), May 2006, 12-month average.

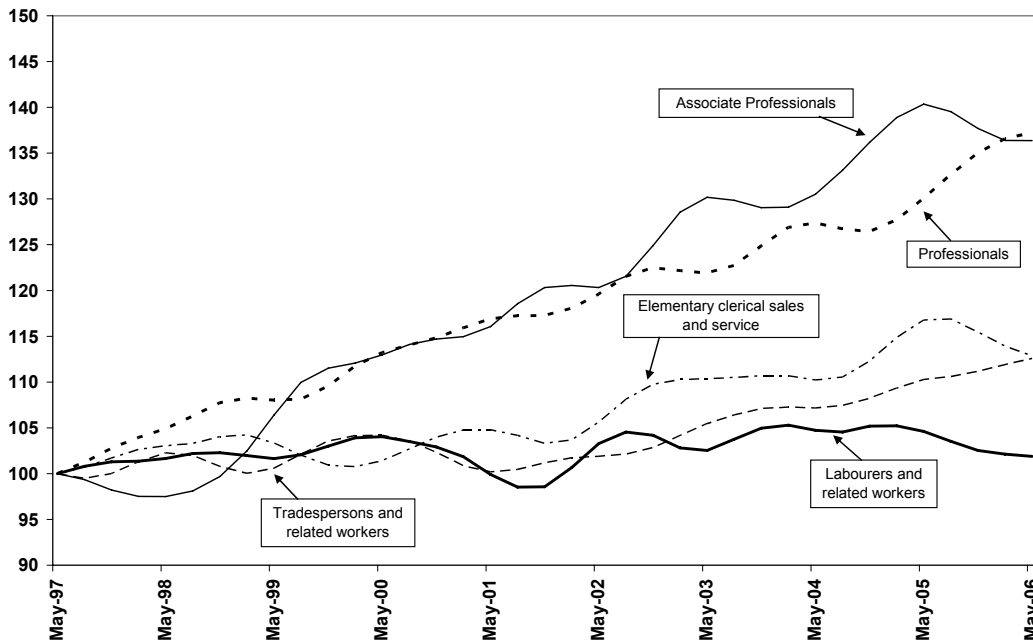
E9.10 Despite the failure of teenage full-time employment to recover, the impact of the two recessions on teenagers has not all been negative. While teenage full-time employment has clearly fallen considerably over the last 25 years, there has been a concurrent large increase in the proportion of teenagers participating in full-time education (see Chart E9.2 above).

- E9.11 Indeed, participation in full-time education for this cohort has increased from 52.0 per cent in May 1987 to 68.5 per cent in May 2006, reflecting the fact that many teenagers, who 15 years ago would have joined the full-time labour force following the completion of year 10, are now participating in further full-time education and are often combining their study with part-time work.
- E9.12 It is not just the impact of the two recessions, however, which has facilitated the loss of full-time jobs for teenagers and their subsequent shift into full-time education. Recent decades have also been marked by technological and structural changes. This has resulted in the disappearance of many low-skilled, entry level jobs and the shift towards more highly skilled positions, which has meant that some teenagers without formal qualifications have encountered difficulties securing full-time work.
- E9.13 Indeed, employers looking to fill many of today's jobs are demanding highly trained, well educated employees. Accordingly, teenagers are now realising the need to undertake further education in order to gain the qualifications necessary to secure more highly skilled, better paid employment.
- E9.14 It is also quite clear that considerably greater employment opportunities exist for young people in the rapidly expanding highly skilled occupations. By way of example, over the last nine years,<sup>121</sup> employment in the highly skilled occupations of Professionals and Associate professionals has increased strongly (by 37.3 per cent and 36.4 per cent respectively since May 1997) compared with growth in the less skilled occupations, such as Elementary clerical, sales and service workers (12.9 per cent), Tradespersons and related workers (12.6 per cent) and Labourers and related workers (1.9 per cent) - see Chart E9.3.
- This trend has been particularly pronounced with respect to full-time employment. Indeed, since May 1997, full-time employment has increased by 30.5 per cent for Professionals and 30.1 per cent for Associate professionals, compared with growth of only 7.6 per cent for Tradespersons and related workers, and a decline of 1.8 per cent for Elementary clerical, sales and service workers and 0.4 per cent for Labourers and related workers (see Chart E9.4).

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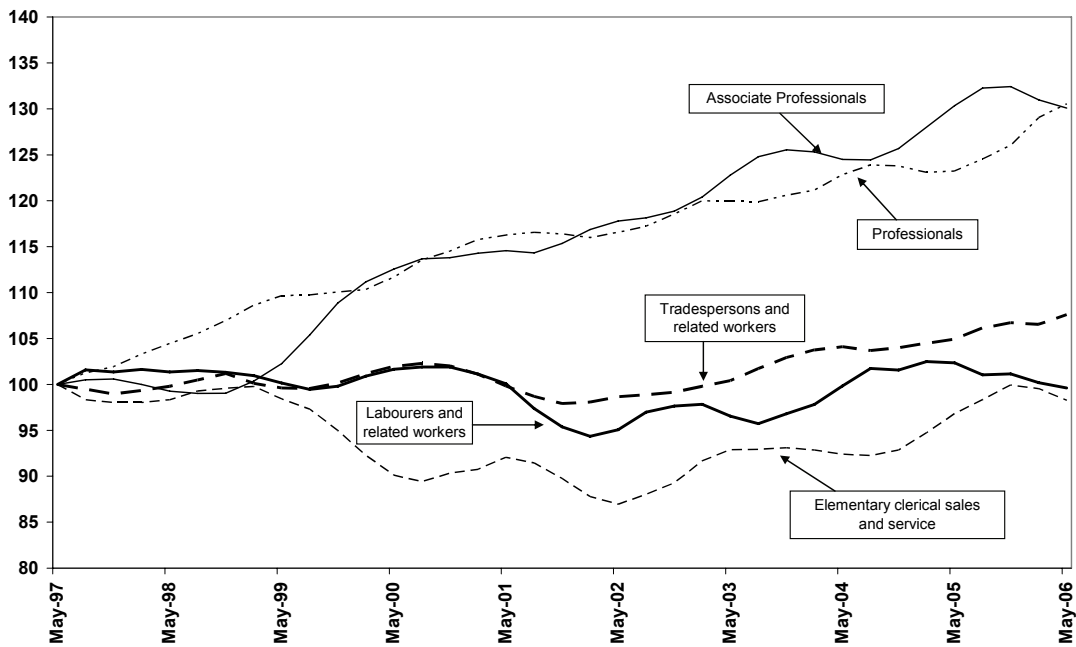
<sup>121</sup> The ABS introduced the current occupational classification structure just over nine years ago.

**Chart E9.3: Total employment (indexed May 1997 = 100) - selected occupational groups, May 1997 to May 2006**



Source: ABS Labour Force, Australia, Detailed, Quarterly (Cat No: 6291.0.55.003), trended by DEWR.

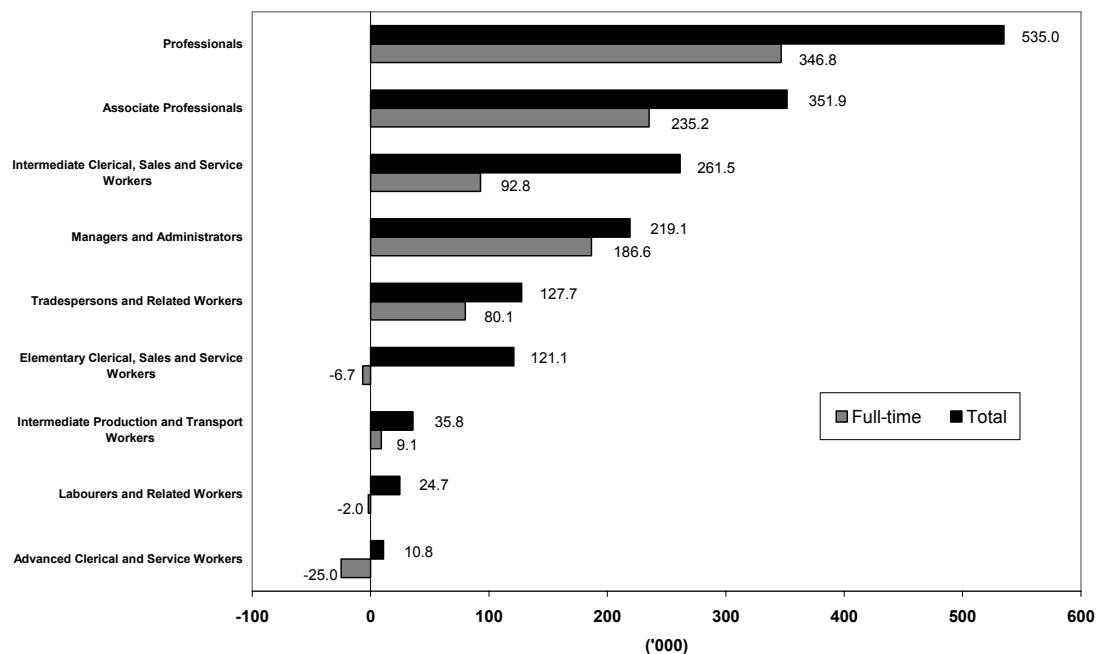
**Chart E9.4: Full-time employment (indexed May 1997 = 100) - selected occupational groups, May 1997 to May 2006**



Source: ABS Labour Force, Australia, Detailed, Quarterly (Cat No: 6291.0.55.003), May 2006, four quarter average.

E9.15 Chart E9.5 below, illustrates the change in employment and full-time employment for all nine occupation groups since May 1997. Significantly, the occupations in the three most highly skilled groups (i.e. Professionals, Managers and administrators, and Associate professionals), have accounted for almost two-thirds (65.5 per cent) of total employment growth and, importantly, the vast majority (83.8 per cent) of full-time employment growth over the period.

**Chart E9.5: Total and full-time employment growth ('000) for occupational groups, May 1997 to May 2006**



Source: ABS Labour Force, Australia, Detailed, Quarterly (Cat No: 6291.0.55.003), May 2006, four quarter average.

E9.16 This clear shift towards more highly skilled employment has considerable ramifications for teenagers. In particular, the relative number of lower skilled, entry level jobs that were once available to school leavers in previous generations has been reduced substantially. This has meant that those who leave school early or who do not complete further post-school study are at a significant disadvantage, in terms of their competitiveness in the labour market and their ability to secure ongoing, sustainable employment.

## The 'at risk' disadvantaged teenage groups

E9.17 There are two key groups amongst teenagers who remain particularly vulnerable in the labour market and who are at much greater risk of not making the transition to employment without repeated spells of unemployment or extended periods out of the labour force. The first is those who are currently not participating in either full-time education or employment, while the second is those who are in employment but who possess low skill levels and a low educational attainment level. These two groups are discussed in more detail below.

### ***Group 1: those not participating in either full-time education or employment***

E9.18 Those teenagers not participating in either full-time study or employment are often considered the most disadvantaged or 'at risk' young people. It should be noted, however, that not all teenagers who fall within this group can be considered 'at risk'. Indeed, included in this group is a significant sub-group of teenagers undertaking transitional activities, such as travelling or voluntary work, while others may have responsibilities including child raising that would preclude them, at least temporarily, from undertaking study or employment.

E9.19 There are, however, a considerable number of teenagers who find the transition from school-to-work difficult and face significant disadvantages in securing employment. In particular, those teenagers who are either not participating in education or work can often experience a 'scarring' effect that can have lasting negative effects on their ability to obtain employment in the future. Indeed, a report released by the Australian Council for Educational Research<sup>122</sup> found that although much youth unemployment is transient, there is a group of young unemployed people who face a particularly difficult situation characterised by lengthy periods out of the labour force.

E9.20 This notion is supported by Chapman and Gray<sup>123</sup> who found that young Australians experiencing either very long or frequent spells of unemployment, or long periods out of the labour market, have poor future labour market outcomes. The ILO<sup>124</sup> in their report indicated that prolonged spells of

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<sup>122</sup> Australian Council for Educational Research, 'The transition to full-time work of young people who do not go to university', Research Report No 49, 2006.

<sup>123</sup> B Chapman and M Gray, 'Youth unemployment: Aggregate incidence and consequences for individuals', Australian National University Discussion Paper No 459, 2002.

<sup>124</sup> ILO, 'World Employment Report 1998-99: Employability in the Global Economy, How Training Matters', International Labour Organisation, 1998.

unemployment or being out of the labour force at the beginning of a young person's working life increased the probability of future joblessness.

E9.21 Further, Ainley and McKenzie<sup>125</sup> found that the first experience early school leavers have in the labour market was crucial, with young people who did not experience full-time employment in their first year after leaving school, spending substantially less time in work over the next five years compared with those who were employed full-time in the first year.

***Group 2: those in employment but with low levels of skills and educational attainment***

E9.22 While this group of teenagers may not be as disadvantaged as those in Group 1, as they are currently in employment, it is important to recognise that these teenagers can have a reasonably tenuous attachment to their job. Indeed, as illustrated in Chart E9.6 below, even in the current favourable economic environment, those young people with low levels of educational attainment have significantly higher unemployment rates than their more educated, and generally more highly skilled, counterparts.

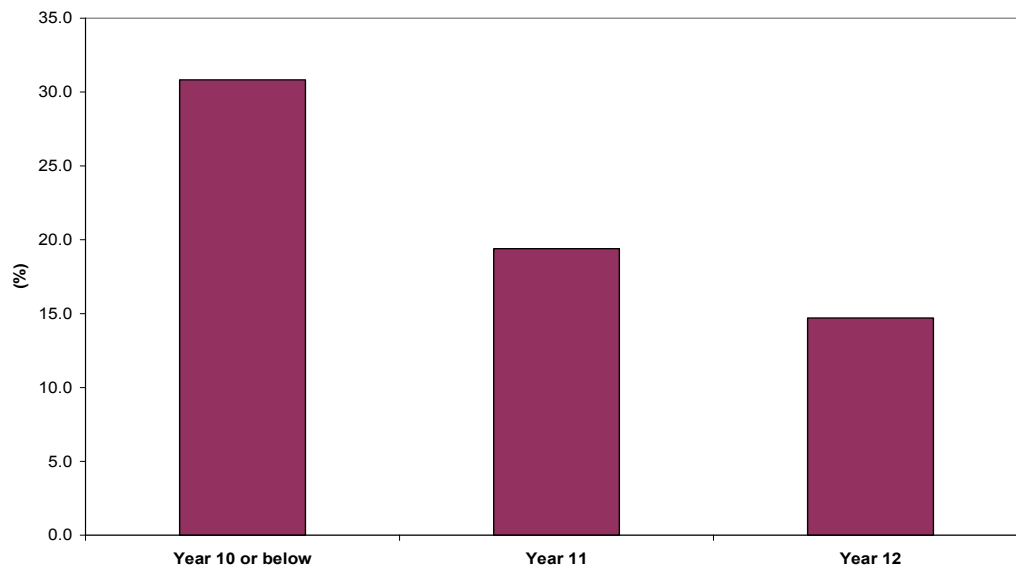
E9.23 For instance, the unemployment rate for school leavers<sup>126</sup> who have completed Year 12 stood at 14.7 per cent in May 2005. This increases significantly to 19.4 per cent for those who have only completed Year 11 and to 30.8 per cent for those who have left school with only Year 10 or below.

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<sup>125</sup> J Ainley and P McKenzie, 'The Influence of School Factors' in Australia's Young Adults: The Deepening Divide', *Dusseldorp Skills Forum*, 1999.

<sup>126</sup> Unemployment rate data by the highest level of schooling completed is only readily available for youth aged 15 to 24. Further the data presented only refer to those youth who left school in the previous year, and were not attending in May 2005.

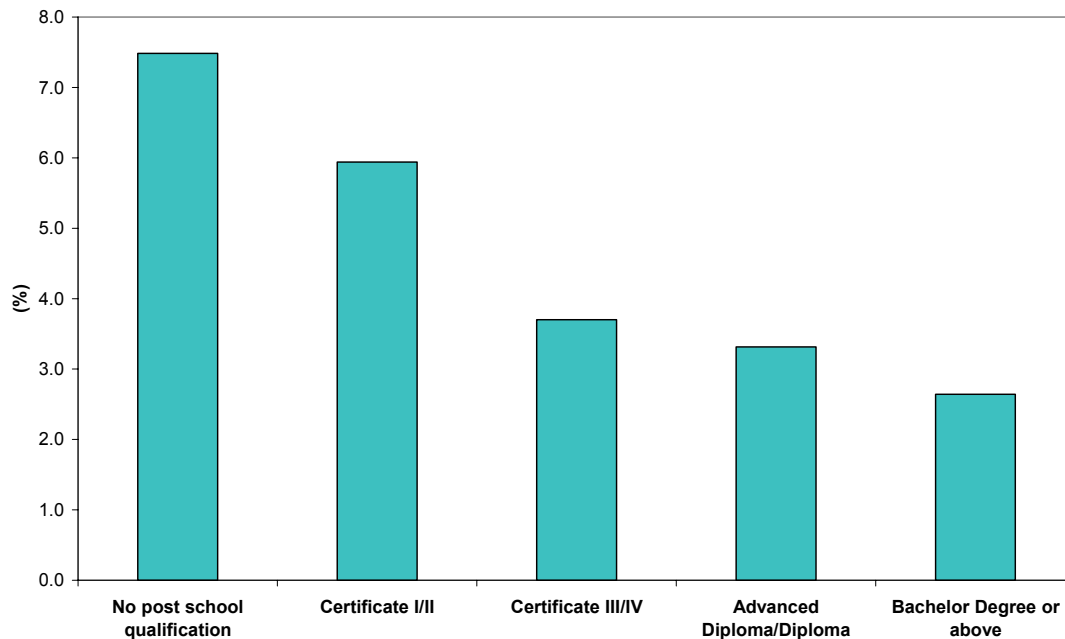
**Chart E9.6: Youth unemployment rate for school leavers by highest level of schooling completed, May 2005**



Source: ABS Education and Work, Australia (Cat. No. 6227.0), May 2005.

E9.24 The importance of post-school qualifications is also demonstrated in Chart E9.7 below. While data for teenagers are not readily available (and are largely inappropriate, given the time needed to complete post-school qualifications), data for all persons show that the unemployment rate for persons without post-school qualifications (7.5 per cent) is considerably higher than for those with post-school qualifications. Indeed the respective unemployment rates for persons with a Certificate I/II and a Certificate III/IV stand at 5.9 per cent and 3.7 per cent respectively, while those with a Bachelor Degree or higher have an unemployment rate of only 2.6 per cent.

**Chart E9.7: Unemployment rate by highest level post-school qualification attained, May 2005**



Source: ABS Education and Work, Australia (Cat. No. 6227.0), May 2005.

E9.25 Clearly, those teenagers who do not go on to attain post-school qualifications, and who have a far greater propensity to end up in low skilled jobs, are considerably more likely to experience labour market disadvantage in the future. Moreover, teenagers with low levels of education and low skills are significantly more vulnerable to economic slowdowns (as well as wage shocks) than their more highly educated and highly skilled employed teenage counterparts, as the more tenuous nature of their employment means that they are likely to be amongst the first to lose their jobs in a labour market downturn.

E9.26 Given the clear disadvantage already faced by Group 1 and Group 2 teenagers, it is desirable that any movement in junior rates does not impact on the competitiveness of teenagers so that sufficient job opportunities are available to aid the transition from school to work.

E9.27 In summary, while labour market conditions for all age cohorts, including teenagers, have improved considerably over the last decade, there has been a softening in the pace of employment growth for teenagers over the last 12 months. In this environment, two key groups of teenagers (those already not participating in the labour market and those with low skills and educational attainment levels with a more precarious attachment to the labour market) are

particularly vulnerable to lay-offs, as was demonstrated during the protracted downturns of the 1980s and 1990s recessions.

E9.28 For those teenagers who choose not to complete further post-school study or who leave school early, their labour market experience upon leaving school is particularly important with respect to their future employment prospects. It is therefore essential that sufficient jobs are available to aid the important transition from school to work for these disadvantaged teenagers.

