Living up to the promise of Harvester:
Time for a Living Wage

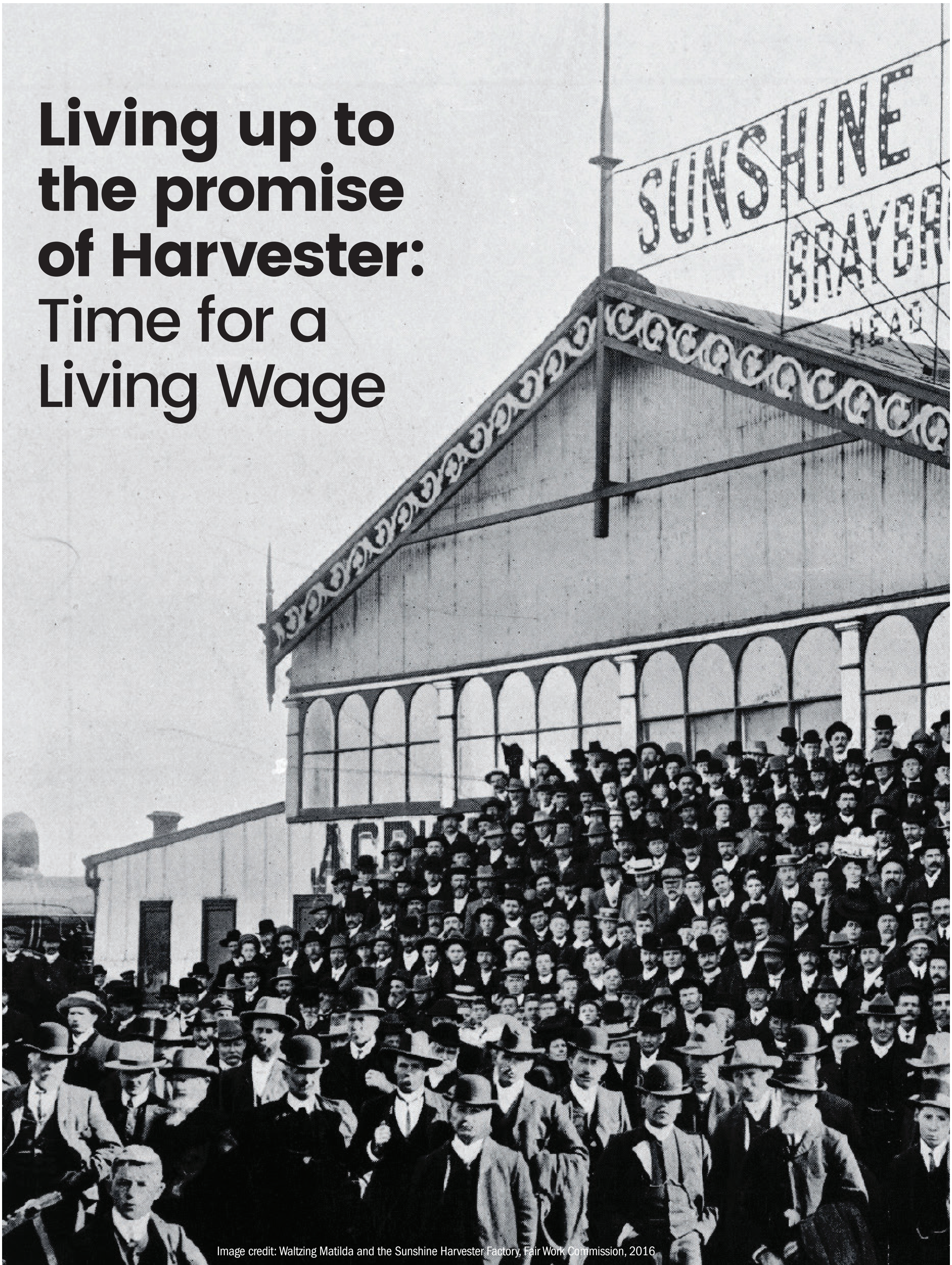

Image credit: Waltzing Matilda and the Sunshine Harvester Factory, Fair Work Commission, 2016

Change THE RULES

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Authorised by S. McManus, ACTU Secretary, 365 Queen St, Melbourne 3000. ACTU D No. 134/2017

Summary

The ACTU is calling for a change in the rules that govern workplace relations and that have contributed to unacceptable levels of inequality in Australia. This must include changes to the way the rules concerning the national minimum are implemented. The objective of such reforms is to focus greater attention on ensuring low paid workers receive an income that will cover the reasonable needs of an average sized family. This must include the cost of: rent in a suitable dwelling; a balanced and healthy diet; a good quality education, childcare and all health needs; transport; electricity and other energy costs; adequate clothing; an allowance for entertainment; and a contingency for unexpected expenses.

This would constitute a move towards a Living Wage. It would also be consistent with the principles that Justice H. B. Higgins established in his 1907 test case ruling related to H. V McKay, the manufacturer of the Sunshine Harvester in his Melbourne factory.[1]

This paper sets out the case for adjusting how the laws concerning minimum wage setting in Australia are applied in practice.

Australia needs a Living Wage: the fight for working people continues

Australia and New Zealand were the first two countries in the world to establish minimum wages.

In Australia this happened one hundred and ten years ago when a judge of the newly created Commonwealth Court of Conciliation and Arbitration was required to decide if a factory owner should be allowed to pay his workers what he thought they were worth. The factory owner, H.V McKay like many employers today, did his upmost to discourage union membership and minimise his labour costs.

Justice Higgins was required by laws, introduced shortly after Federation, to decide what constituted a fair and reasonable wage. Under Prime Minister Deakin the new national Government had linked trade protection for the manufacturing industry to a guaranteed minimum labour standard for employees in the industry. Employers could benefit from tax concessions providing them paid a "fair and reasonable" wage. The difficult task of defining what constituted a fair and reasonable wage fell to Justice Higgins in his first case on the newly created Arbitration Court.

He did so by calculating a wage required to meet the "normal needs of the average employee regarded as a human being living in a civilized community". [2] After having regard to evidence about household budgets, which he had to coax from union members appearing as witnesses before him, he reasoned that for a man, wife and three children to live in "frugal comfort" a minimum wage of 7 shillings a day was required. In practice Higgins noted that the minimum wage would be the same for

[1] John Rickard, "H. B. Higgins: The Rebel as Judge", George Allen and Unwin, 1984.
2 The Hon Reg Hamilton, "The history of the Australian Minimum Wage", Fair Work Commission, 2017.

a worker with no family as for one with lots of children.[3] Higgins also had regard to historical trends in wage levels and sought to restore the real value of wages that had prevailed in more prosperous times.

To the extent that Higgins ruling was passed on to other low paid workers in the small factories and other business being established in the new nation this represented a wage increase of nearly 20 %. Substantial but badly needed after two decades of wage cuts and worker repression that followed the depression of the 1890s. In fact conditions not dissimilar to what working women and men have endured recently in modern Australia.

Today Australia needs to return to the basic principles that underpinned what become known as the Harvester Judgment. The Fair Work Commission is required by law to consider a variety of factors when adjusting the minimum wage.[4] These factors do include considerations about the needs of low paid workers as well as the ability of employers to absorb cost increases and the state of the economy. In practice however, the ACTU is of the opinion, that often the emphasis placed on the needs of low paid workers for an acceptable standard of living in modern day Australia is inadequate when compared with the emphasis placed on other economic considerations.

As a result in 2017 Australia has far too many workers living in poverty. For these workers our national minimum wage does not afford them a life of “reasonable frugal comfort”. In fact we currently face a cost of living crisis due to soaring prices of essential services and commodities.

Due to a combination of wage stagnation at the bottom of the income distribution and soaring gains at the top, income inequality is at a 70 year high. Cuts in penalty rates, the expansion of casual work and temporary jobs and the erosion of job security exacerbate the misery of working life in contemporary Australia.

The case for a Living Wage has never been stronger.

Inequality is the global challenge of our time. Even the Managing Director of the International Monetary Fund (IMF) recently included rising income inequality in the three biggest challenges facing politicians and policy makers.[5] Moreover, despite assertions to the contrary by the Australian Treasurer, IMF analysis demonstrates that Australia is among the countries that have experienced the most rapid increasing income inequality in recent decades.[6]

If we do not change course, Australia will be a fully Americanised society of high inequality and dead end jobs, with long working hours, no holidays, zero job security and poverty pay levels. These are the economic conditions that breed high levels of crime, discrimination against minorities and a broad range of social problems. Excessive inequality creates social havoc.

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[3] John Rickard, op cit, p 173.

4 These include the objectives of the Fair Work Act and the specific minimum wage objectives that are set out in Section 284 of the Act.

5 Christine Lagard, Opening address at the Annual Meeting of the IMF and Word Bank, Washington, October 2017.

6 Victor Gaspar, Director of Fiscal Affairs, IMF, Opening remarks when launching the IMF Fiscal Monitor, “Tackling Inequality”, October 2017.

Rising inequality is also bad for the economy. It weakens the ability of low income groups to buy goods and services, discourages entrepreneurs from investing, weakens the incentive for productivity enhancing technological change, reduces economic growth and destroy jobs.[7]

Instead we must return to being a country in which families on a normal income can afford to pay rent or buy a home, provide a good education for their kids and have a decent standard of living. Societies that pay their workers fairly and provide job security tend to have low crime levels, less social problems and are more inclusive.

We must return to the basic principles that underpinned the Harvester Judgment: that every worker deserves a fair and reasonable wage so that they can live normally as a human being in a civilized society.

Many features of the undesirable world of work that Justice Higgins tried to change is back with us today

Prior to the Harvester Judgment there were a few important groups lobbying for a minimum wage and highlighting the plight of the working poor. For example, the "Victorian Anti-Sweating League" had been established in the 1890's by protestant reformers to campaign against poor working conditions. Second, parliamentary inquiries into poor working conditions led to the adoption of the Victorian Factory and Shops Acts which aimed to remedy these problems. In 1885 a Victorian Board of Inquiry had highlighted an example one single woman with two children:

> *"Her working hours averaged 72 per week, and she worked sometimes on Sunday in order to keep body and soul together. I checked the tickets and saw that she made knicker trousers throughout for from 2 shillings 6 pence to 3 shillings per dozen. Seven years ago she got 6 shillings per dozen for the same work. Her earnings averaged 11 shillings per week'*

Beyond Australia progressive groups were also advocating the adoption of a reasonable floor to the wage structure. The "Living Wage" is a book that was published just a few years after the Harvester Judgment. The author makes reference to a Plimsoll line: the load line on the side of a ship which indicates how low it may safely sit in the water[8]. The relevant passage argued that society required "a Plimsoll line for labour as well as for ships, a line to limit the extent of peril and suffering to which the worker is to be liable"[9]

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[7] IMF
[8] Snowden, "The Living Wage" 1912
[9] As quoted in Bain G, "The National Minimum Wage: Further Reflections"

'A living wage is something far greater than the figures of a wage schedule. It is at the same time a condemnation of unmerited and unnecessary poverty and a demand for some form of justice'

Snowden, "The Living Wage" 1912

The above mentioned publication and the Harvester decision appeared on the eve of the Great War and towards the end of the last great episode of globalisation. A period in which the industrial revolution and increased international trade had generated rapid economic growth and prosperity. Yet it was also a period of dramatic increases in income inequality and indecent working conditions as new factories relied on "sweatshop" conditions to produce their output with low labour costs to make them competitive.

In the latest wave of globalisation, over the last few decades, some of the same tendencies have resurfaced. For example working on Sundays without adequate compensation is back after more than a century of progress. The gulf between rich and poor in Australia has widened appreciable since the beginning of the neo liberal era in the 1980s. Inequality can be assessed in many ways. For example, measures of factor shares show that the proportion of national income accruing to profits has increased dramatically while that going to labour has been in steady decline for decades. Among wage and salary earners income differentials between those at the top and the middle have increased significantly. While those between the middle and the bottom have also expanded. Our middle class has been hallowed out. We are increasing a society characterized by the young fast talking equities trader in Sydney and the middle- aged single mother working as a cleaner in Pakenham, with little in between. As a result income gaps have reached obscene dimensions.

There is no doubt that a lot of people are suffering. They feel that day-to-day life has got a lot harder. They struggle more today than previously to pay the rent and to cover basic necessities for the family. And the large bills that arrive at the end of each month or quarter keeping getting bigger and bigger. Meanwhile the wage packet that has to cover all these expenses has been treading water in recent years. The net result is rising debt and desperation for ordinary people.

Yet these same people are told that Australia remains the lucky country that has broken the world record for the longest period without a recession. They hear on the news that the stock market has reached another record. They know all about sky high property prices that prevent them from getting into the housing market. They read about the life-styles of Australian billionaires and those with harbor side mansions.

There was a time when the wealth gap between the rich and the rest in Australia was sufficient to generate ambition and desire to succeed without generating disgust and disillusionment. This was a time when families sacrificed to give their kids a tertiary education because they understood our society supported social mobility. It was possible for working class families to have a decent but modest life style and still meet the mortgage. This is no longer the case.

There are many factors contributing to the growth in inequality. They include trade liberalization, technological change, offshore outsourcing of production, the demise of the welfare state, attacks on trade unions, and the proliferation of precarious forms of work including the growth in casual, contract, and part-time work. All these factors are associated with significant structural changes in the composition of national output and far reaching reforms in the world of work.

The consequences of these developments are far reaching. Our society is seen by the poor as increasingly unfair. Social cohesion is threatened. If these trends are allowed to accelerate further they will be a breeding ground for extreme political views and a threat to security and the democratic freedoms we have previously taken for granted. Extreme racial tension and violence lurk close to the surface of our society. If the causes are left untreated, the symptoms will persist, and the disease will spread.

Some policy makers and politicians recognize these dangers. There are numerous public policy instruments that could be used to mitigate these trends and redistribute income. The government should revise some aspects of the trade, industry, labour market and workplace relations policies that have contributed to increasing inequality.

But it is clear that society should also act in a direct fashion to raise the wages of the lowest paid workers in the country. Governments, at both federal and state level, should support the raising of the minimum wage to new level – to a real living wage.

Minimum wage workers live in poverty and recent decisions of the FWC were not adequate to reduce high levels of child poverty

Around 3 million working people and their families live in poverty, with roughly a third of people in poverty relying on wages as their main source of income. Research by the Fair Work Commission shows that more than two thirds of award reliant employees are located in the bottom half of the household income distribution. About a half were in the bottom thirty per cent of the income distribution. So any suggestion that raising minimum wages would not target people in need, or would not improve their position, is clearly wrong and should be dismissed out of hand.

In their 2017 minimum wage decision the Fair Work Commission (FWC) made clear that the increase they granted would not lift workers out of poverty. The FWC stated that:

> *"In previous Reviews, the Panel has accepted that if the low paid are forced to live in poverty then their needs are not being met and that those in full-time employment can reasonably expect a standard of living that exceeds poverty levels. While we have not departed from that position, we acknowledge that the increase we propose to award will not lift all award-reliant employees out of poverty, particularly those households with dependent children and a single-wage earner."*

It also stated that:

"The high and continuing levels of child poverty indicate that the combination of wages and social welfare assistance, are not sufficient to ensure that the needs of all low wage families are met. We view this as a serious matter for society. This conclusion is supported by the evidence that about one-third of people in poverty lived in households for which wages were the main source of income and that about half of these families had children"[10]

It needs to be acknowledged that there are various ways of lifting low paid workers out of poverty. In theory this could happen through the application of a progressive tax system and a strong welfare state. In the past employers and some governments have pointed to those policy tools when asking the FWC to minimise adjustments to the minimum wage. But the same governments and employers have then failed to support reforms that would provide a progressive tax system, adequate in-work benefits and a strong social safety net. Instead, as we are all well aware, the focus of the current national Government is on company tax cuts that will make of tax system even more regressive than it is today.

In light of this sorry history, governments cannot be trusted to use the tax system and transfer payments to lift low paid workers above the poverty line. It is therefore essential that we use what tools are available to raise the primary income of the low-paid. For this we need a Living Wage.

The Minimum Wage has undergone a dramatic and sustained decline relative to important benchmarks

In order to take account of relative living standards and the needs of the low paid it makes sense to consider the minimum wage in relation to poverty lines and other relevant benchmarks. One such well recognized guide is 60 per cent of the median wage. The median wage being that received by the person in the middle of the income distribution which tends to be substantially lower than the average wage which is pushed up by those in the top 10 per cent of income earners. Consequently 60 per cent of the median wage turns out to be a relatively modest sum and a very reasonable benchmark when setting the minimum wage.

This is an indicator that is used by the OECD and other international organisations to provide a guide to relative poverty. Those workers earning below this threshold are deemed to be in "working poverty". This indicator has also been used extensively by the UK Low Pay Commission in setting their minimum wage. Comparing trends in the level of the minimum wage over time with an indicator such as this enables an assessment to be made about how well the minimum wage is addressing poverty.

The graph below examines trends in the minimum wage relative to the median wage since the early 1980s. Historically, thanks to the wisdom of those politicians and policy makers that forged our nation, and decisions like the Harvester Judgement, Australia developed a highly centralized wage fixing system. At one time a large majority of workers were covered by award wages and for long periods all federal award wages were adjusted regularly and simultaneously. Similar process were followed at the State level. This provided a high degree of protection for the majority of workers.

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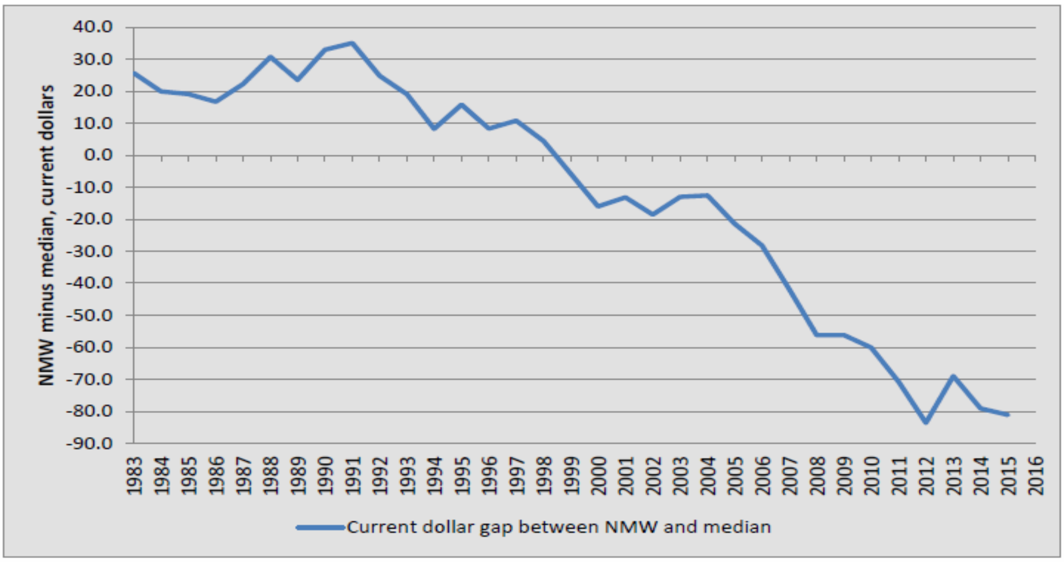
[10] Fair Work Commission, Statement, Annual Wage Review, 2016-17, Melbourne, 6 June 2017.

The impact of this approach can be seen in the graph below. In the 1980s and 1990s the effective minimum wage set by the Australian Conciliation and Arbitration Commission (the fore runner to the FWC) was above 60 per cent of the median wage. In fact in the early 1990s the effective minimum wage was roughly 35 per cent above this threshold. But due to far reaching reforms to the national wage fixing system this this ratio fell dramatically during the 1990s. In 1999 the minimum wage fell below the median wage and for much of the last two decades the rate of decline has continued at an extremely rapid pace with a few short periods of relief.

While the minimum wage continues to be extremely important for low paid workers its role in fighting poverty has diminished dramatically in the last 30 years. It is time to arrest this trend and restore a sense of balance to our wage fixing machinery.

Trends in the minimum wage relative to the median wage over time



Sources: FWC and Bray (2013), ABS Cats 6302, 6310, 6333, 6401, and ACTU calculations

There is a cost of living crisis – we need to change the rules

As noted in the introduction, in Australia as in most countries, the statutory criteria governing the FWC in respect of minimum wage fixing requires the Commission to balance a wide variety of factors.[11] It simple terms this includes the interests of business and the wider economy on the one hand, and the interests of the worker, on the other hand. This is because the wage is both a cost to the employer and

[11] Most countries that have established minimum wage fixing systems have had paid some regard to ILO Convention No. 131, concerning Minimum Wage Fixing. Article 3 of the Convention states: “The elements to be taken into consideration in determining the level of the minimum wage shall…include: (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; and (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

also the main source of income for the worker. It is therefore usually the main factor influencing the living standards of the low paid.

This is all fine in theory. But in practice what happens is that these two sides of the coin are rarely given equal weight. Most of the focus ends up being on the cost of labour which is the main concern of the bosses. Far too little attention is paid, in practice, to the income and living standards of the worker. It turns out that our coin is rigged. It may have two sides but when flipped it always seems to comes up on the cost side and never on the income side.

Why is this the case? It has a lot to do with how economic analysis and debate has evolved since the mid-1980s. Economists, the world over, have devoted great time and energy to developing concepts and indicators that measure labour costs. The focus of economic debate then concentrates on the impact of labour costs on profits, international competitiveness, investment, economic growth and other economic objectives.

However, generally speaking the majority of the economics profession have failed to devote the same time and energy to thinking and measuring what income a worker needs to have a civilized standard of living.[12] This means that when we have a national minimum wage case most of the debate is about different measures of labour costs and the impact that a further increase in labour costs will have for our international competitiveness, on the ability of our export and import competing industries to survive, and the impact of all this on economic growth and unemployment.

When discussion turns to what should be the workers side of the coin, the debate avoids the most critical issue. No, or very little, consideration is given to whether the base on which the minimum wage adjustment is being build is fair and reasonable. What normally happens instead in a national wage case is that the parties discuss the increase in inflation since the last wage case, and if the workers are very lucky, they may pay some regard to improvements in productivity. This is supposed to be the part of the calculation that takes into account the interests of the workers. In practice it usually provides a maximum ceiling for the minimum wage increase (price movements plus trend productivity) that is then reduced to take into account the needs of the employers to keep labour costs down.

What is usually missing from this process is any attempt to define and measure what income the worker needs to have a reasonable standard of living. In other words, there is no serious attempt to check that the base figure on which the minimum wage increase is calculated is adequate to provide a normal family with a civilized existence. Rather, in practice what happens under the way the rules of the game usually implemented, is that the minimum wage level that was established in the previous year is taken as a given.

But if the minimum wage set in 2016 was not sufficient to cover the cost of housing, food, clothing, education and other basic necessities, then just increasing this base amount by changes in inflation

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[12] There are exceptions to this general rule. See for example Richard Anker and Martha Anker, "Living wages around the world: Manual for Measurement", 2016.

for the last year is not going to provide a minimum wage in 2017 that meets the needs of a worker and her family.

There needs to be much more time devoted in national wage cases to defining and measuring things like:

- What sort of accommodation is acceptable for a family of 4 in modern day Australia and how much does it cost to rent a two bedroom flat in a working class suburb of Melbourne or Sydney;
- What would a balanced diet for this family look like and how much would it cost;
- What income do you need to run a car and get transport to work and school;
- How much is the average family spending on electricity and gas;
- What do you need to cover child care, education, health and decent clothing;
- How much do you need left over at the end of the week to take the family out for a meal or to a footy match; and,
- What would be a reasonable contingency for unexpected costs that an average family may need.

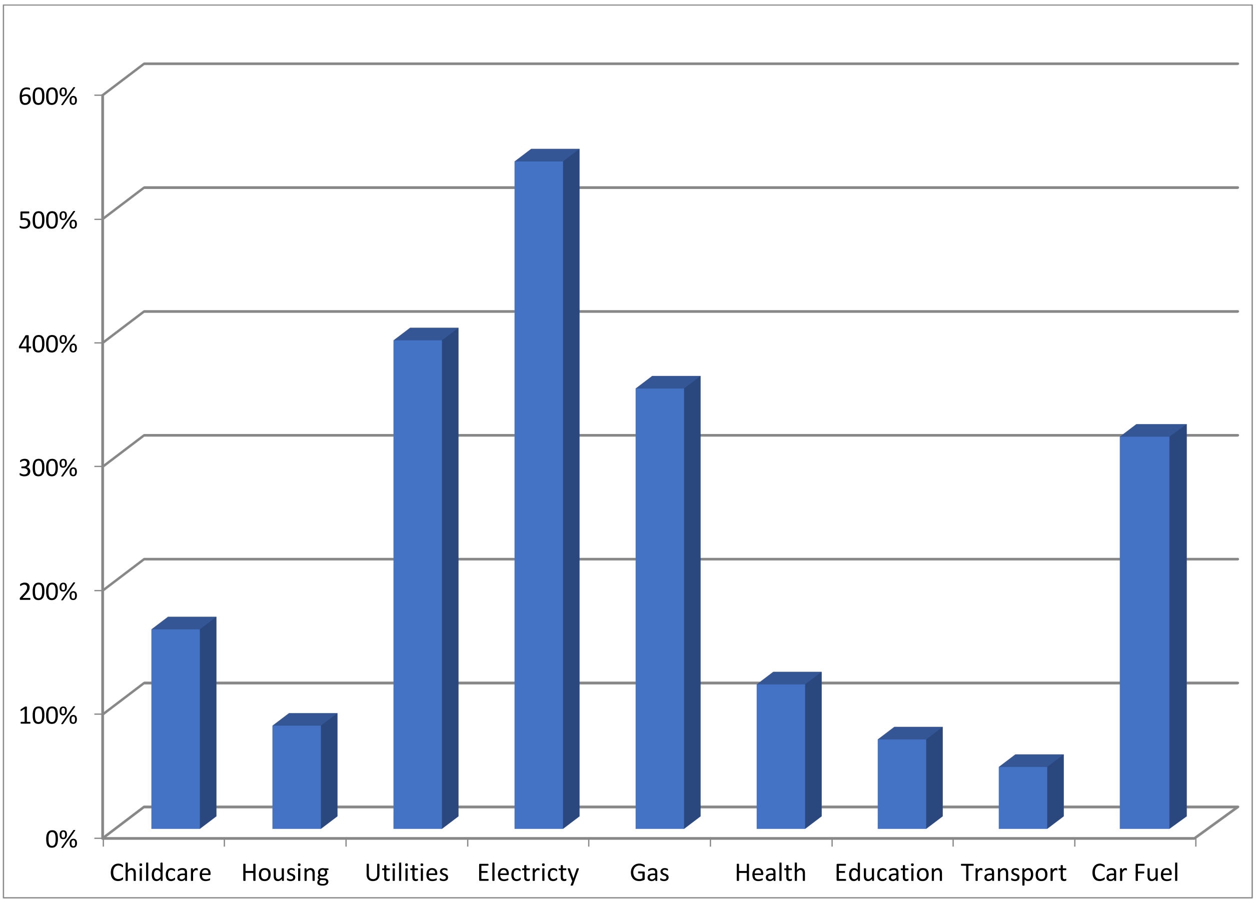
The above is not a definitive list of items to be included in a living wage calculation. Rather these are examples of items it would seem reasonable to include in such a calculation. There may be additional goods and services that should be considered for inclusion. The calculation of a living wage is a task that economists and statisticians can legitimately undertake even if we recognize that some costs may vary across geographical regions and many families may have more than one income earner. In other countries methodologies have evolved to manage these complexities and sill capture a very accurate guide to the living wage. The ACTU recognizes that these methodological issues require further discussion.

However it is clear that focusing more attention on these basic cost issues would put the concerns of ordinary people more at the center of the debate. More discussion about these “bread and butter” issues in minimum wage cases would make sense to ordinary Australians. These are the calculations required to ensure that the two sides of coin are balanced when setting the minimum wage.

We know that a more balanced approach to minimum wage fixing, which would involving focusing more attention on the real costs facing a working family, would lead to a significant increase in the minimum wage. To illustrate this point it is interesting to compare recent price hikes for some of the most basic commodities and services that a working family needs to survive with changes in the rate of inflation. A breakdown of official (ABS) data show the following increases over the last year compared to the rate of inflation:

- The price of electricity has increased 539% faster than the CPI;
- Gas increased 356% faster
- Childcare increased 161% faster
- Utilities increased 394% faster
- Health increased 117% faster
- Housing increased 83% faster
- Education increased 74% faster
- Transport increased 50% faster
- Car fuel increased 317% faster

Cost of Living Crisis: Annual price increases for essential items compared to CPI movements over the last year



Source: ABS and ACTU calculations. On the year September 2017

Australians are paying more to see a doctor, paying more for childcare and paying more for energy. There are millions of our fellow Australians who simply feel like they're stuck on a treadmill.

This is bad news for workers but it is also bad for the general economy. The latest retail spending figures show Australian consumers are buying less because they cannot afford basic necessities. Retail sales suffered the biggest two-month decline in the last 7 years. The impact of stagnant wages and rapidly rising prices for critical goods and services is also reflected in data related to financial stress. A recent survey found that among low paid employees:[13]

- 19.4% could not pay their electricity, gas or telephone bills on time;
- 11.9% sought help from friends or family: and
- 18.5% were unable to raise $2,000 dollars in a week for something important.

Consequently more and more families are going into debt. At present household debt in Australia is over 120 per cent of GDP, which makes it among the highest rates in the world. The ratio of household debt to income has nearly quintupled since the 1980s, reaching an all-time high of 194 per cent.

Australia is going backwards compared to other countries

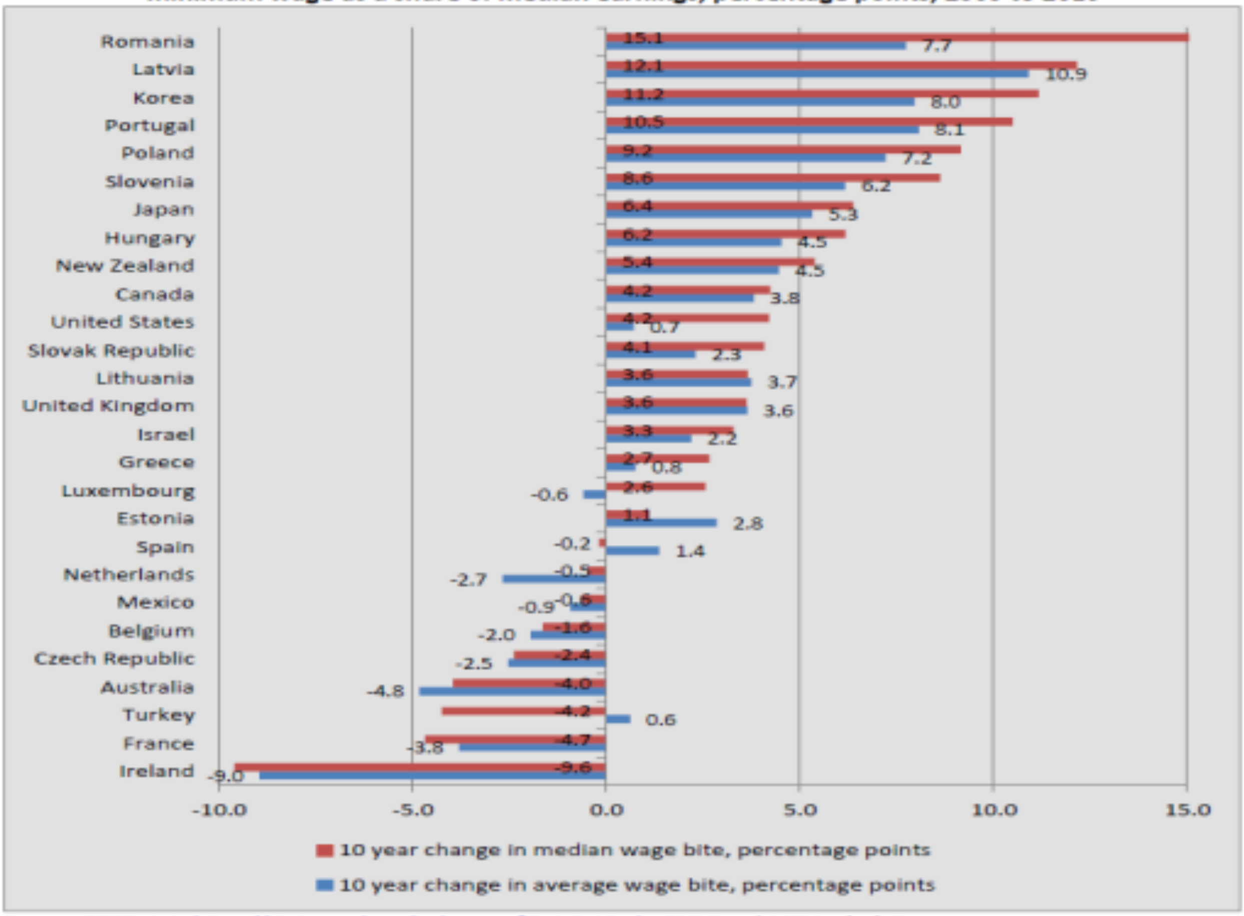
While the importance of minimum wages in Australia has been diminishing many of the most successful economies and cohesive societies have been moving in the opposite direction. The graph below shows changes over the last 10 years in the minimum wage as a proportion of full time average earnings across OECD countries. In the literature on the economics of the minimum wage this ratio is often referred to as the "minimum wage bite": the higher the ratio the greater the impact or "bite" of minimum wages.[14]

Australia has gone from being a global pace setter with very significant minimum wage bite to being in the middle of the pack among OECD countries. Over the past decade Australia experienced the largest fall in the minimum wage bite of any OECD country. But this trend has been evident for much longer, with the ratio in Australia falling steadily for the past twenty years. If this trend continues Australia can expect to have a wage bite similar to the USA in the next two decades. Importantly, the minimum wage has fallen relative to average wages even in the industries in which low-paid workers are concentrated: retail, hospitality, health care and social assistance, as well as administrative and support services.

[13] Statistical Report 'Annual Wage Review 2016-17' 1 June 2017

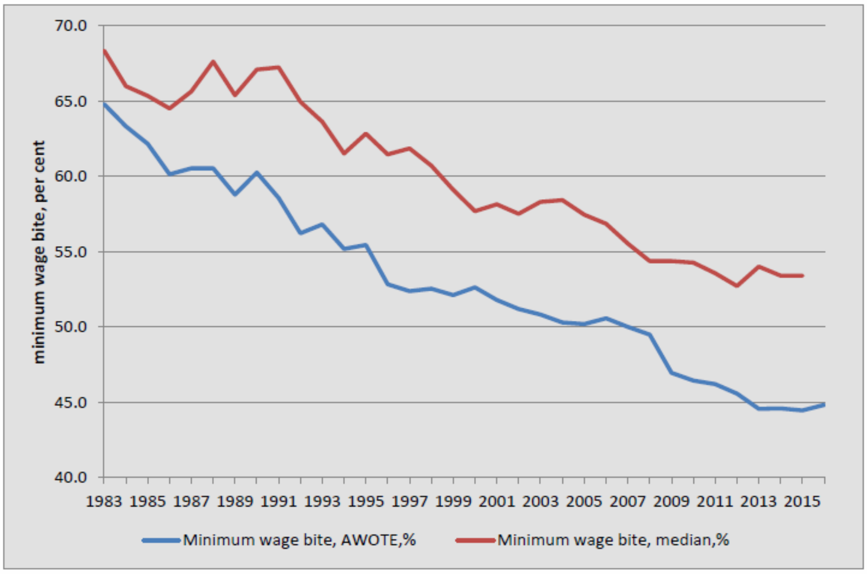
14 More precisely the ratio of the minimum wage to either the mean or median full time earnings can be used to calculate the "minimum wage bite".

Figure 66 Total change over 10 years in minimum wage as a share of full time mean earnings, change in minimum wage as a share of median earnings, percentage points, 2005 to 2015



Source: OECD stats https://stats.oecd.org/Index.aspx?DataSetCode=RMW and ACTU calculations

Australia's minimum wage relative to average wage is on a downward trend



Sources: Average full-time earnings is AWOTE from ABS 6302. Median from ABS 6333, most recent. NMW All series deflated by the CPI (ABS 6401). ACTU calculations.

Australia's minimum wage bite is less than in 1907

In his paper 'The History of the Minimum Wage' the Hon. Reg Hamilton suggested that Australia's wage bite today may be lower than it was in the era of Justice Higgins. While this statement is heavily caveated because of uncertainty about the accuracy of earlier statistics the diminishing role of minimum wages in keeping workers out of poverty and providing some degree of justice is clearly evident. The same paper shows that over the last century (1907-2010) the minimum wage doubled in real terms but completely failed to ensure that low paid workers were adequately compensated for improvements in productivity and national prosperity. In fact real gross domestic product per capita increased four and half times over the same period while real average earning increased nearly four times.

Table One: Australia's Minimum Wage bite falling over time

Year	Real gross domestic product per capita[1]	Real average weekly earnings[2]	Real minimum weekly wage (Harvester $2012)[3]	Wage bite: minimum wage/ average weekly earnings
1907 Commonwealth Conciliation and Arbitration Act 1904, the Harvester decision 'living wage' 1907. Minimum wage set in settling 'industrial disputes' 1908–2006.	0.0138	2.44	279 (Harvester wage in 1907: 42 s. per week for an unskilled labourer)	0.85
1917 Realisation of need to maintain real value in minimum wage.	0.0128 (93%)	2.27 (93%)	272 (97%)	0.89
1927 Automatic quarterly indexation 1921–1953 ('cost of living adjustments'), Harvester wage adopted across Australia.	0.0148 (116%)	3.11 (137%)	320 (118%)	0.76
1937 1931 the minimum wage cut by 10% because of the Great Depression. Then a 'fresh start' (1934) and prosperity loadings to reflect economic recovery (1937).	0.0147 (99%)	2.96 (95%)	312 (98%)	0.78
1947 Postwar period. Quarterly indexation until 1953, then wage indexation rejected 1953–1975, Commission to look at all economic indicators	0.0169 (115%)	3.48 (118%)	325 (104%)	0.69
1957 As above	0.0213 (126%)	4.37 (126%)	361 (111%)	0.61
Increase 1907–1957	**154%**	**179%**	**129%**	**-0.24**
1967 1967–1981 Commission concerned about 'three tiered wage system' (over-awards, industry agreements and minimum wage cases) instead of National Wage Cases being the source of increases. The total wage replaces the basic wage and margins (1967).	0.0275 (129%)	5.41 (124%)	424 (117%)	0.58
1977 Return of wage indexation 1975, three tiered system continues	0.0341 (124%)	7.53 (139%)	537 (127%)	0.53
1987 Wages explosion 1981, Wage Pause 1982, wage indexation 1983–1986, end of 'three tiered system'. Reform of workplaces/ awards from 1987–1988, enterprise bargaining from October 1991, awards a 'safety net' from 1993. Industrial Relations Act 1988, Industrial Relations Reform Act 1993.	0.0398 (117%)	8.08 (107%)	561 (104%)	0.51
1997 Awards a 'safety net' with allowable matters, Workplace Relations Act 1996	0.0486 (122%)	8.67 (107%)	538 (96%)	0.46
2007 Workplace Relations Amendment (Work Choices) Act 2005. Statutory wage fixing system based on corporations power.	0.0617 (127%)	9.39 (108%)	594 (110%)	0.47
2010 Fair Work Act 2009. Statutory wage fixing system based on corporations power.	0.0627 (102%)	9.61 (102%)	597 (101%)	0.46
Increase 1957–2010	**228%**	**178%**	**141%**	**-0.15**
Increase 1907–2010	**454%**	**394%**	**214%**	**-0.39**

Source: The Hon. Reg Hamilton

Evidence from the United Kingdom is revealing

The Fair Work Commission in the 2017 minimum wage decision indicated that:

> "*...the UK research, has fortified our view that modest and regular wage increases do not result in dis-employment effects. That research also suggests that the Panel's past assessment of what constitutes a 'modest' increase may have been overly cautious, in terms of its assessed dis-employment effect*s."

Since the introduction of their national minimum wage in 1999 the United Kingdom has increased its real value by 33.1 per cent, albeit from a low base. This represents annual average real increases of around 4 per cent. Over the same period the real value of the Australian minimum wage has risen a mere 7 per cent. That is a 7 per cent real increase over a 22 year period: that represents an uptick of around 0.3 per cent annually. Based on these comparisons the Fair Work Commission was right to confirm that it has been excessively cautious in the past when uprating our minimum wage.

Minimum wage increases do not have negative employment impacts

Over the last two decades or so there has emerged considerable hard evidence disputing concerns about the employment impact of minimum wages. Indeed much of the evidence points towards the positive effects that carefully determined minimum wages can have on both the quantity and quality of jobs. In their path breaking study Card and Krueger (1995) examine evidence on the employment effects of the minimum wage in the U.S.A. using a number of different data sources and methods. They concluded that:

> *"Recent minimum wage increase have not had the negative employment effects predicted… Some of the new evidence points towards a positive effect of the minimum wage on employment; most shows no effect at all. Moreover, a re-analysis of previous minimum wage studies finds little support for the prediction that minimum wages reduce employment"* [15]

In the United Kingdom one of the first researchers to employ similar techniques to those used by Card and Kruger was M.B. Stewart in the paper entitled "Estimating the impact of the minimum wage using geographical wage variation". Stewart, like the American economists before him, viewed minimum wage adjustments as a 'quasi experiment' with the 'treatment' effects varying across local areas. The paper by Stewart examined the employment impact of introducing the UK minimum wage in 1999. The study reviewed employment impacts in 140 different areas of the country, and found that employment growth was not significantly lower in areas of the country with a high proportion of low wage workers[16]. The idea at the core of Stewarts' approach was an intuitively obvious one: other things being equal, the largest effects of the minimum wage on employment should be found where it has the largest effects on wages. Thus, in very low paying regions an increase in the minimum wage

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[15] Card, D and Krueger, A. (1995) Myth and Measurement: The New Economics of the minimum wage, Princeton University Press

[16] Stewart, M. "Estimating the Impact of the Minimum Wage Using Geographical Wage Variation", *Oxford Bulletin of Economics & Statistics*, 2002, 64(5), 583

should increase the actual wage of a large proportion of workers, yet the employment effects were not statistically different from other regions. Indeed the empirical evidence for the last two decades across a very broad range of countries have confirmed the UK and USA findings that increases in the minimum wage do not have a negative impact on employment.

Armed with this large body of empirical evidence the UK Low pay Commission recently introduced their version of a 'living wage'. They provided low paid workers with the biggest annual increase in the minimum wage since its introduction in 1999. The increase of 10.8 per cent has pushed the minimum wage bite in the UK up to 55.8 per cent for workers aged 25 and over. Furthermore the UK Government has indicated its support for the minimum wage to reach 60 per cent of median earnings by 2020.

The weight of empirical evidence had led to many influential observers in conservative circles to change their minds about the importance of minimum wages. For example, in recent years the Economist magazine admitted it had been wrong. It had opposed the introduction of a nationwide minimum wage in Britain in 1999 on the grounds that it would cost jobs. More recently the editors of Economist had this to say:

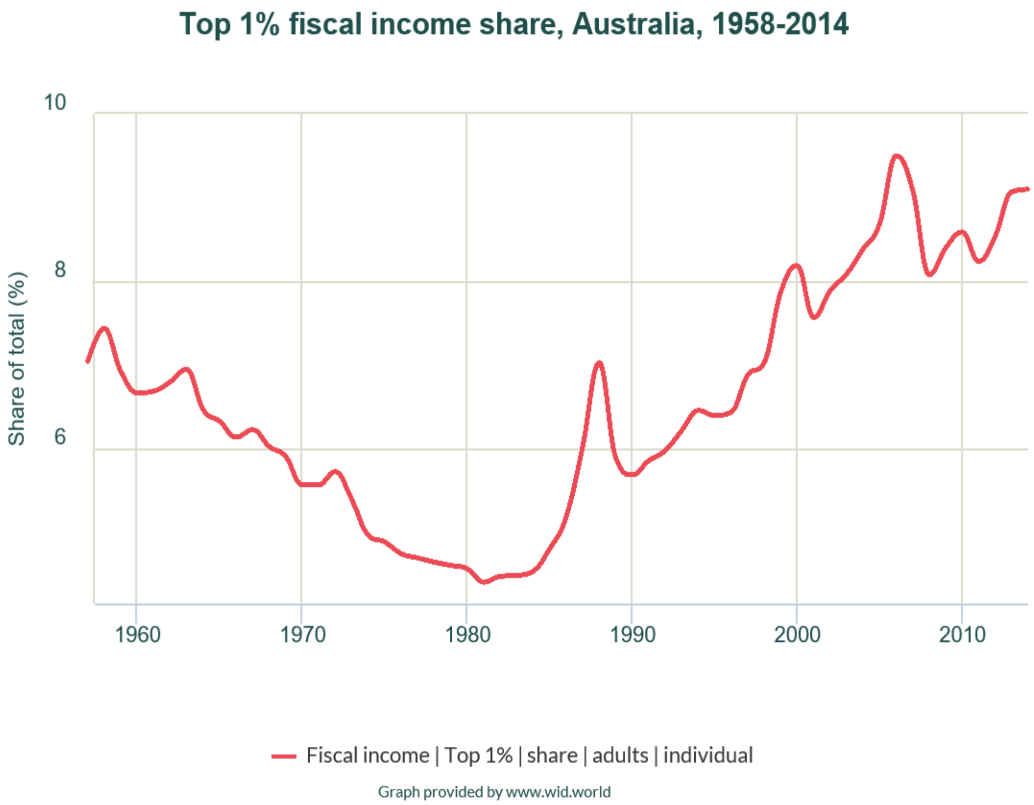
> "No-one who has studied the effects of Britain's minimum wage now thinks it has raised unemployment"

Based on hard evidence the Magazine boldly admitted it had "changed its mind".

And in the United States more than 600 economists – including seven Nobel Prize winners –recently signed an open letter to Congress calling for an increase in the minimum wage. They said the weight of evidence now demonstrated that increases in the wage had "little or no negative effect on the employment of minimum-wage workers".

Rising inequality and record low wage growth

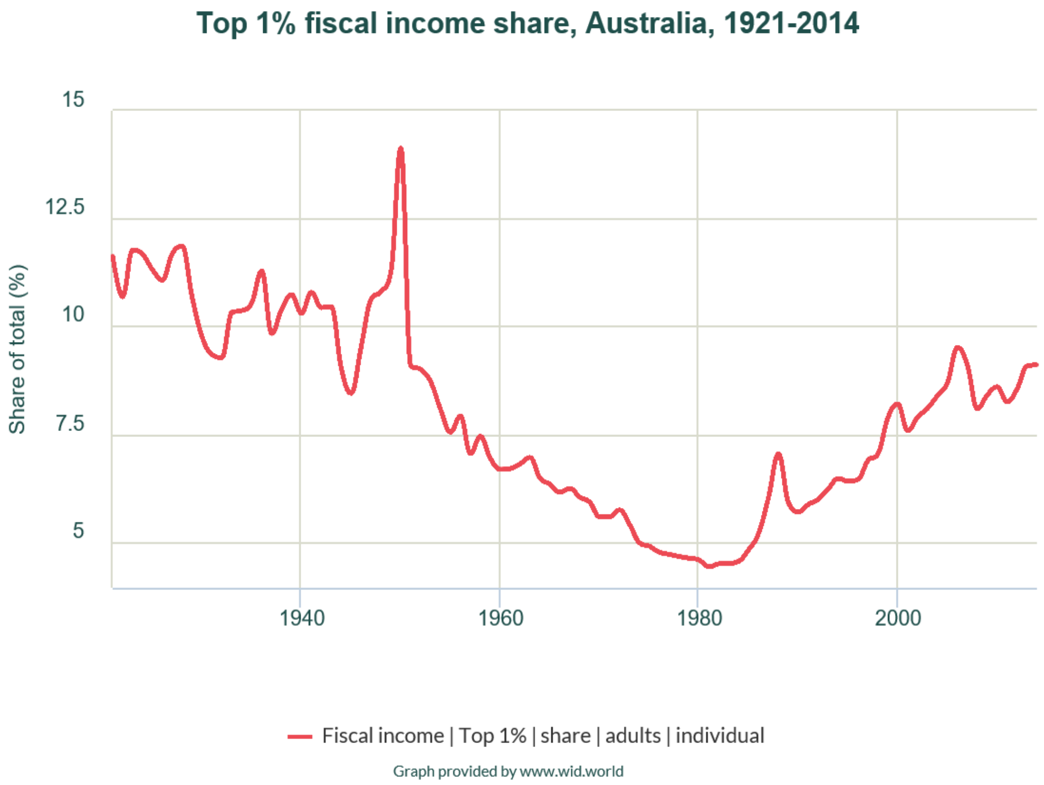
As mentioned previously income inequality has been rising in Australia and claims to the contrary are nonsense. The rise in inequality has been particularly pronounced since the 1980s when neo liberal economic policies dominated both global and national policy making. One of the most dramatic indicators of rising inequality is the share of national income accruing to the wealthiest 1 per cent of the population. The graph below shows a significant and sustained upward trend in the share of national income accruing to this wealthy elite from the early 1980s onwards. There was a slight dip in this trend immediately after the GFC, when Australian and global equity markets dropped sharply, but these trends were rapidly reversed those belonging to the so-called "1 per cent" recovered their losses.



Source: World Wealth and Income Database

The graph below shows the same indicator but over a much longer time span. The important point to note is that rising incomes shares for a small section of the population, and the associated increased inequality, is not an inevitable outcome. These trends result from the policy choices we make in our societies. For several decades after the second World War Australia used a highly centralized wage fixing system, the gradual extension of social security and a slightly more progressive tax system then we have today to reduce the share of national income going to the most wealthy one per cent. In fact from the graph below it is evident that between the early 1950s and early 1980s the share of national income in the hands of this small elite was reduced by more than a half. These trends were not confided to Australia. In many parts of the world this was considered “a golden era” of steady economic growth, relatively full employment and increasing prosperity. This period coincided with the high- water mark for Keynesian economic thought and active demand management.

These economic outcomes provided an environment in which people could believe that our society provided a “fair go” for everyone and that “if you work hard you will get ahead”. There were no doubt important social, economic and political shortcomings in Australia during this three decade period but perhaps there were also a few policy lessons that we need to recall and reconsider if we want to rebuild a more cohesive society.



Source: World Wealth and Income Database

Returning to the contemporary debate about income inequality it is surprising that Scott Morrison continues to deny that the gap between the rich and poor in Australia has increased. As was noted in the introduction the traditionally conservative global economic institutions, such as the OECD and the IMF, have made it clear that they think rising inequality is among the most pressing economic and social issues of our time. Moreover the IMF is adamant that reducing income inequality will generate economic gains:

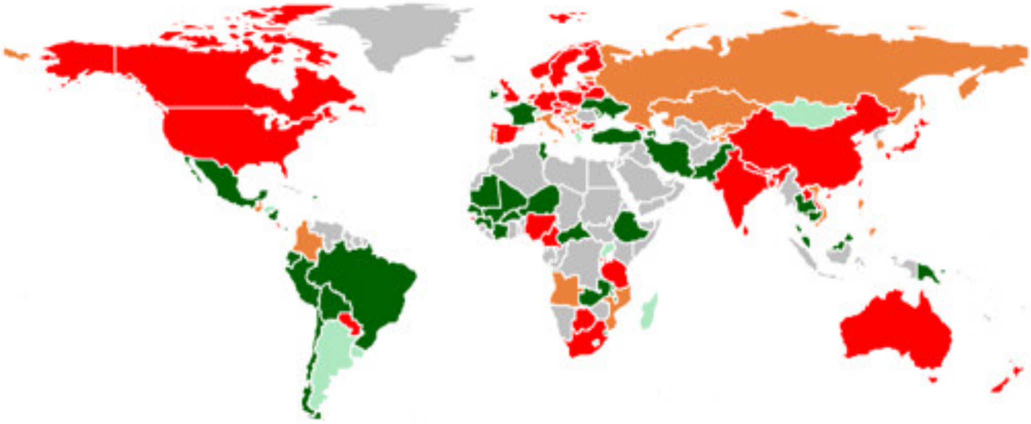
> *"We find that increasing the income share of the poor and the middle class actually increases growth while a rising income share of the top 20 per cent results in lower growth—that is, when the rich get richer, benefits do not trickle down".*

And they leave no doubt about the fact that Australia is one of a small set of countries with a particularly large increase in income inequality. In fact just a few weeks ago the IMF released one of their flagship publications for 2017 that was entirely devoted to the problem of rising income inequality.[17] Information contained in the IMF presentation about this publication made it clear that over the last 30 years Australia has had one of the fastest increases in income inequality in the world. Income inequality trends in Australia were categorized in the same group as the United States, India,

17 IMF, Fiscal Monitor, 2017.

China, the UK and other parts of Europe. For details see the graph below which reproduces the IMF findings.

Figure 3. Income Inequality has Increased in Half of the Countries over Past 30 Years

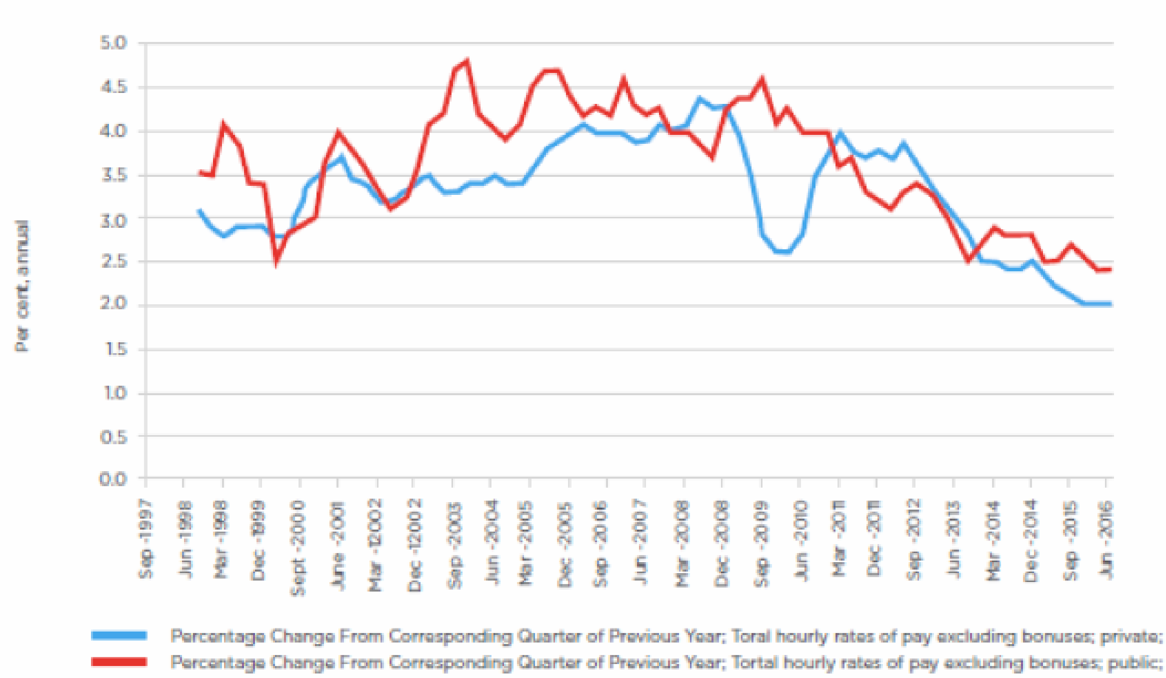


Source: IMF staff calculations, using Luxembourg Income Study, Eurostat, OECD's Income Distribution Database, Socio-Economic Database for Latin America and the Caribbean, and World Bank PovcalNet. Data for China and India from Milanovic. Note: Absolute changes in Gini coefficient greater than 2 points are considered economically significant (see Atkinson 2015 for further discussion of economically significant changes). Inequality changes over the period 1985 to 2015. Due to data availability, the change in inequality over the period 1990-2015 is used for Angola, Bosnia and Herzegovina, Colombia, Djibuti, El Salvador, Estonia, Guatemala, Macedonia, Malta, Russia, Serbia, and Tajikistan; 1995-2015 for Korea and Montenegro; 1985-2012 for China; and 1983-2011 for India.

Much of the increase in inequality is due to dramatic increases in incomes that the wealth derive from investments in equities, bonds, property and other assets. But the wage fixing system is also a factor contributing to rising inequality. Between 1975 and 2014 real wages increased by 72 per cent for those in the highest paid 10 per cent of all wage and salary earners. But at the other end of the spectrum, over these four decades, real wages of those in the bottom 10 per cent of wage and salary earners rose by just 23 percent.

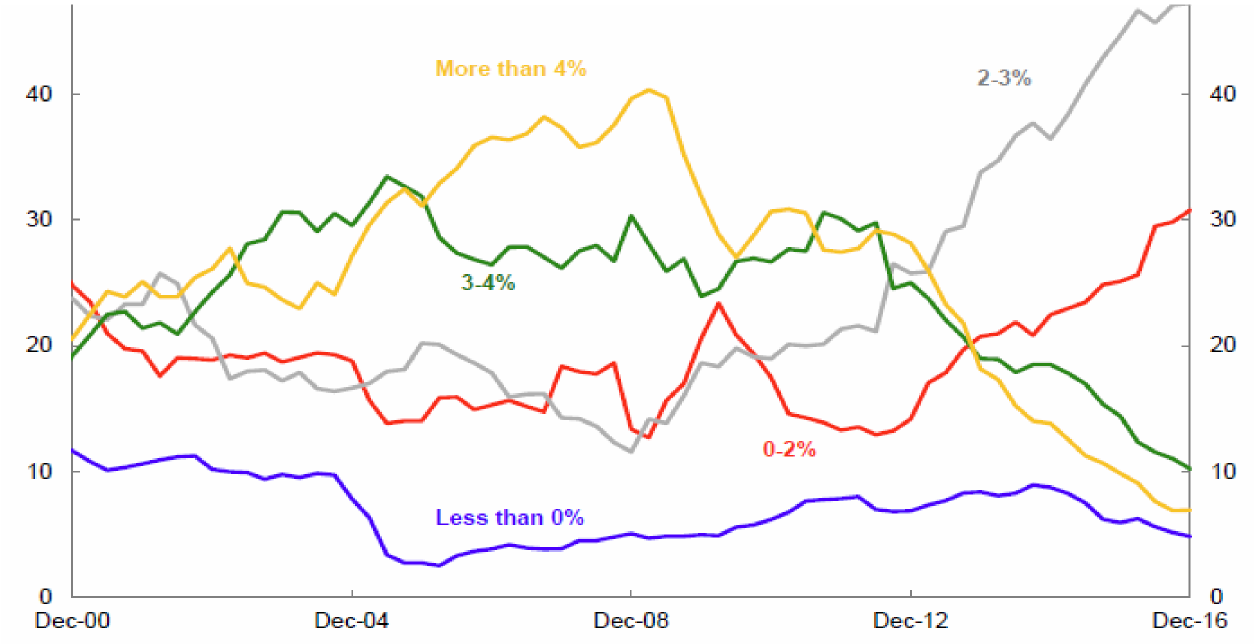
Recently wage increases for the vast majority of workers have virtually stalled. The wage price index (WPI) grew by a little less than 2 per cent over the year to June 2017. The Governor of the Reserve Bank of Australia has argued that this is highly detrimental to the economic health of the nation.

Australia has the lowest wage growth on record



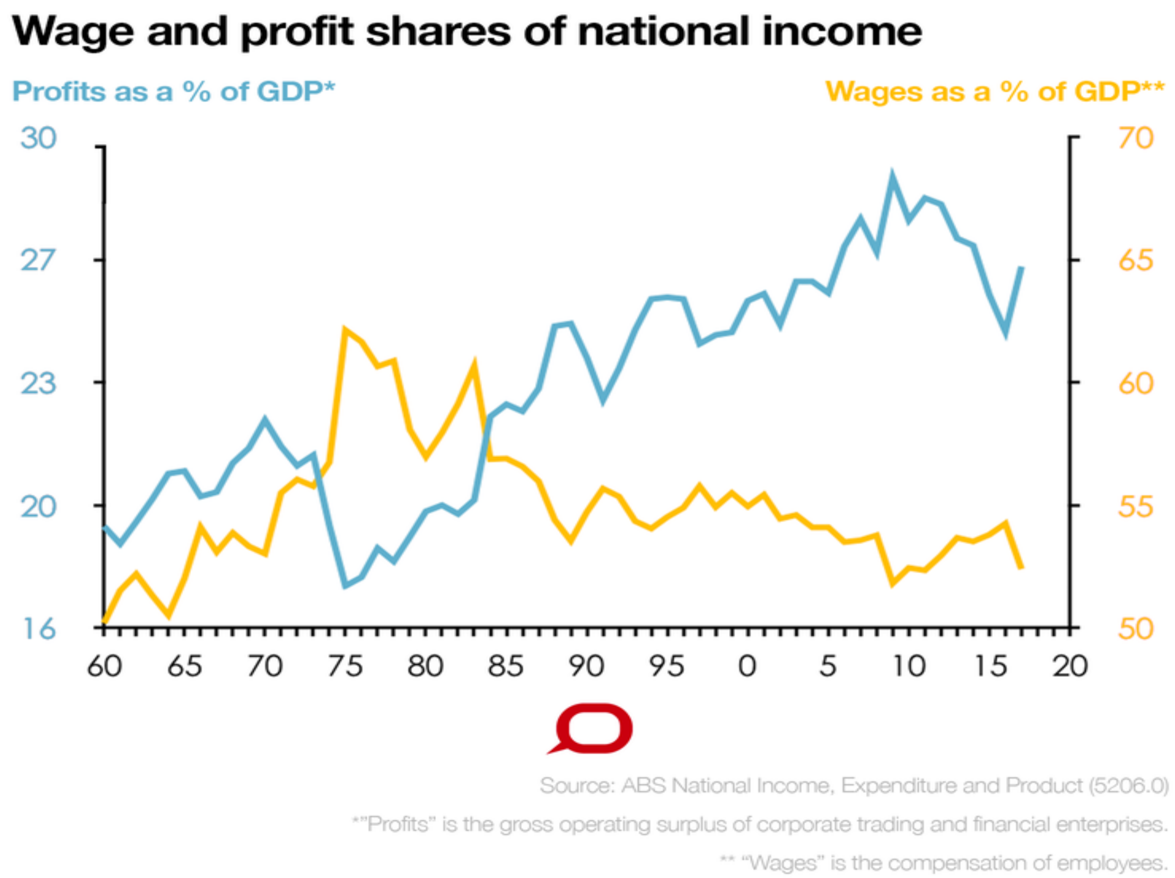
We can see below that smaller wage increase are now far more common than in in the past. The proportion of workers receiving an annual wage increase of between zero and 3 percent has increased dramatically over the last 5 years (see gray and red lines in graph below). Meanwhile the proportion of workers getting wage hikes of 4 per cent or more a year has diminished from around 40 per cent of the workforce to well below 10 per cent.

Record low wage growth – small wage increase are now the most common



Labour's Share of national Income is at a 50 year low

These developments help explain why the share of national income going to labour is at a 50 year low. The flip side of this is a dramatic increase in the share of national wealth that is flowing into profits and the capital gains of the wealthy.



Let's not go down the American Road

As mentioned in the introduction, if we keep heading down this road Australia will become like America. American workers have not had an increase in their national minimum wage for seven years. The United States has the weakest labour laws and the most rapid increase in income inequality in the OECD. Income inequality in the US is roughly one-third higher than say that of Sweden.

There are many great things about the United States but there are not many people saying this is a great time to be an American worker. In fact the great American dream of an expanding and prosperous middle class has turned into a nightmare for the vast majority of workers. Over the last 30 years American employers have managed to almost wipe out trade unions, eliminate collective bargaining and avoid any responsibility for paying overtime, penalty rates and other benefits.

The number of jobs in America has been expanding recently. But these are mainly dead end jobs, characterised by long working hours, no holidays, zero security and poverty pay levels. After decades of bad treatment American workers are desperate. Make no mistake America is threatened by corporate greed and worker exploitation. This low road to social and economic disparity is not one we want to travel. Unfortunately this is the direction that the policies advocated the Liberal Party will lead us.

Conclusions

Australia needs to move towards a living wage and return to the values that underpinned the Harvester judgment. This can be achieved by adjusting the way the Fair Work Commission implements the existing criteria they are legally required to consider when adjusting the minimum wage. The law requires them to consider the needs of the worker, the employer and the broader economy. Unfortunately in practice the needs of the worker usually do not get the attention they warrant in these deliberations. Balance can be restored by focusing more on assessing the income that a working family requires to purchase the basic commodities and services that they require for a civilized existence in contemporary Australian cities.

This is not rocket science. In 1907 Justice Higgins was able to examine the budgets of ordinary working class families and derive a rough estimate of what was required to provide a civilized existence. Today with the economic expertise and the skills of statisticians that are available it would be a relatively simple exercise to produce robust estimates of a Living Wage. It would be desirable for such estimates to be based on an agreed methodology that governments, employers and trade unions can support.

Moving towards a Living Wage would help mitigate widening income inequality. Rising income and wealth inequality is the challenge of our time. Tackling inequality will help resolve many of the fundamental economic and social problems we currently confront.

A more equal Australia will be one that is more harmonious. It will help slow, and eventually eradicate, recent trend towards extremist politics. A more equal and inclusive society will reduce crime and violence and help mitigate a wide range of social problems. It will help restore social mobility and once again allow Australians to believe they live in a country where everyone gets a “fair go”.

Boosting the wages of the low paid makes sound economic sense. In a time of international economic uncertainty boosting domestic consumption by lower income groups is desirable. It will provide greater certainty for domestic producers and help lift business investment out of its recent trough. Balanced growth of this nature will ensure that employment growth remains strong and that the recent pick-up in full time jobs is sustained.

The combination of these political, social and economic achievements will be reflected in a larger and reinvigorated middle class. The polarization of the last few decades can be reversed.

It is time to live up to the promises of the Harvester judgment and restore a minimum wage that is “fair and reasonable” and sufficient to provide a standard of living that is suitable for a contemporary “human being living in a civilized community".

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