

## Can Australia Afford Low Pay?

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Australia has never been regarded as a low-wage country. The arbitration system which has been the centrepiece of Australian pay-fixing arrangements for a century has ensured that the majority of Australian workers are paid wages that compare favourably with those in other advanced countries. Nonetheless, many Australians are low paid in comparison with others. Those at the lowest end of the award classifications would fit in to most definitions of low pay. Other workers are low paid are either because they are not covered by an award to guarantee a decent wage, or because they do not receive their entitlements under the award. As the arbitration system is undermined, attention must focus on the problem of low pay, and the need for a decent, legally enforceable national minimum wage.

### Who is low paid?

Although Australian wage data limit our analysis of the incidence of low pay, those data which are available make three things clear.

- The position of the lowest paid deteriorated through the 1990s and into the 2000s with the gap between the bottom and top groups of wage earners increasing (Australian Bureau of Statistics Household Income and Income Distribution, Australia (6523.0); see also Buchanan and Watson, 1997, p.13).
- Female, indigenous, migrant and young workers, those employed in small businesses, non-unionised workers are more likely to be low paid.
- The extent of low pay varies dramatically by industry and occupation.

That women are much more likely to be low paid is easily shown. Average weekly earnings for males in November 2004 were \$1032 while the average for females was only \$875 (Australian Bureau of Statistics, *Employee Earnings and Hours, Australia* (6306.0)). This is further confirmed by Buchanan and Watson (1997) who prepared a profile of low wage employees in Australia. Using ABS data for individual workers, and adopting a conservative measure of low pay, they found that 16% of female employees were low paid c.f. with 10% of male employees. When Buchanan and Watson analysed the “black spots” – where low pay was most common – they found that three-quarters of the low paid employees were women. A fifth to three-quarters were also from non-English speaking backgrounds.

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<sup>1</sup> Helen Masterman-Smith made useful suggestions for improvements to this paper, and provided some of the data used below.

The lowest paid industries were: private households (81%) agriculture (48%) personal services (34%) clothing and footwear (29%) retail (24%) (Buchanan and Watson, 1997, p.6). Buchanan and Watson further found that more than a fifth of machine operators, trade assistants factory hands and cleaners were in the lowest paid categories (Buchanan and Watson, 1997, p.7). Women in blue collar occupations were particularly likely to be low paid. Men employed in occupations in which a high proportion of low paid women are concentrated also tend to be paid relatively badly.

Masterman-Smith has analysed the ABS earnings data for May 2004. She found the lowest weekly average earnings to be in Accommodation, Restaurants, Cafes (\$694.70) and Retail (\$698.90), at a time when the average weekly total earnings for full-time adult non-managerial employees was \$915.70. She defined those on two-thirds of average weekly earnings (\$610.47) as low paid, and when she conservatively used earnings of less than \$600 a week, the following industries had higher than average proportions of workers on low pay:

Retail	36.0%
Accommodation, Restaurants, Cafes	34.2%
Health and Community Services	22.3%
Wholesale Trade	19.6%
Personal and Other Services	18.5%
Manufacturing	17.2%
Property and Business Services	16.4%
(All industries)	16.1% (Masterman Smith, in progress)

Some forms of employment lead to low pay. Women are more likely to be employed in these forms. Casual workers are nearly always paid at the lowest rates. Similarly part-time workers are less likely to be promoted and also have a tendency to be low paid. Low pay is also common in jobs or workplaces with no award coverage, and in illegal workplaces.

While many low paid workers are in occupations without formal training educational as an entry barrier, low paid groups are even found within the “trade qualified” category. For example, Buchanan and Watson (1997) found a considerable number of hairdressers fell into the low paid group.

## **Explanations for low pay**

The above research shows that a range of occupations, with widely different degrees of skill and responsibility, have a high proportion of workers receive low wages. Can this be explained?

A widely held view amongst economists, government policy makers and other commentators is that low pay reflects low skills and personal inefficiency. Such arguments, coupled with assertions that wages are "too high", are used to explain the existence of high levels of unemployment (Commonwealth of Australia 2005). For example, the concentration of unemployment amongst the old, the young and those low

paid in their last job is taken as evidence of a lack of skills and ability amongst the jobless. Therefore, it is argued, employment can only be increased by education and training to upgrade workers to fit the jobs available, or the creation of jobs with a low skill content. The federal government argued in the 2005 Safety Net Review that low paid jobs must be preserved as important 'career stepping stones for a large number of workers' (Commonwealth of Australia 2005, 46). Their emphasis on upward mobility downplays the prevalence of churning between low paid work and unemployment (Harding and Richardson 1999; Dunlop 2000; Watson 2002; O'Donnell 2003).

The most striking feature of this type of analysis is that the principal measure of the worth of a job is the level of its pay; no attention at all is paid to job content. Thus we are presented by an argument of impregnable circularity in which the outcome, low pay, is used as the only evidence for the alleged cause - low skill and personal inefficiency. When more sophisticated analyses are deployed, for example, the use of education and training (human capital) as a proxy for skill and capability, few convincing results are forthcoming. Years of formal training help explain why white males reach top positions; but the benefits from education in terms of higher wages are much less for women and ethnic minorities. In the lower strata of the labour market, the returns of education and training are very low (Wilkinson, 1981; especially the papers by Ryan, Rosenberg and Buchele). It should also be added that the human capital approach concentrates exclusively on the formal educational characteristics of the individual and pays no attention to skills acquired outside the formal educational system, or to the requirements of jobs. When the content of jobs has been examined, it is found that many of the lowest paid jobs require significantly more skill, and carry much more responsibility than much more highly rated jobs (Craig *et al.* 1982, Blackburn and Mann, 1979).

A few examples highlight this point:

- after four years of apprenticeship with TAFE and on-the-job training, the award rate for a fully qualified hairdresser in NSW is just \$561 per week;
- pastry cooks in WA who undergo a similar period of training receive only \$547;
- nurses undergo three years of tertiary training, incurring HECS debts yet commence working in WA for only \$594;

The view that low pay is explained by the personal characteristics of individuals is also hardly consistent with the pay and earnings data which show the extent to which the successful operation of whole areas of industry and services depend on people who are very low paid. The reality is, of course, that low pay is generally found in jobs which are socially downgraded and/or those which are performed by classes of workers with low labour market status and whose bargaining power is consequently lower.

Generally, skills historically associated with domestic work or the servant "classes" - caring, serving, cleaning, cooking, or household (or office) management - are afforded low status. Certain manufacturing occupations - sewing machine operating, assembly work requiring nimble fingers, food preparation - are regarded as women's work, or

requiring alleged feminine traits and are classified as low skilled and paid poor wages. Skills originating in land work and thus required for "labouring" in agriculture, gardening, road mending and in construction are also given little social recognition and paid accordingly.

A United Kingdom study of women's employment in smaller firms showed that "relatively disadvantaged groups ... in receipt of low wages have considerable levels of skill and experience acquired through informal on-the-job training, and undertake work which makes heavy demands on the workers; for example, work requiring considerable expertise, intense concentration, the undertaking of repetitive tasks at high speed, or toleration of unpleasant working conditions" (Craig et al., 1985). In other instances, skills associated with declining trades, and jobs offered by firms with poor reputations as employers are socially downgraded because they offer such poor prospects.

Jobs which are downgraded in these ways are generally filled by people who are, to varying degrees, disadvantaged in the competition for better paid jobs. Women, ethnic minorities, people with low educational attainment, the young and the old generally tend to be concentrated in jobs which are poorly rated; this confirms the social valuation of the jobs and incumbents. These disadvantages are further exacerbated by the difficulties in establishing effective trade unionism amongst the low paid so that organisational disadvantages buttress those of social origin.

The high levels of unemployment which prevailed in the 1990s drastically increased the disadvantages suffered by the low paid by swelling their ranks with workers displaced from previously more favoured segments of the labour market and thus virtually ruling out any escape into better paid jobs. Although unemployment is now much lower, still one worker in twenty remains unemployed, and there are many outside the measured labour force who would seek work were more available. As well, 26.3% of part-time workers are looking for full-time jobs in 2005 (Australian Bureau of Statistics 2005). They are forced to accept part-time employment with its lower pay and frequently with worse working conditions (Watson 2002). The labour underutilisation rate stood at 11.1% in September 2004 (Australian Bureau of Statistics 2005). This deterioration has been accelerated by the determined efforts of Coalition and Labour governments to "liberalise" the labour market (Buchanan and Watson 2000).

The explanation for low pay is therefore to be found in the social structuring of jobs and workers; and this has been exacerbated by unemployment and government policy. This analysis runs counter to the orthodox economist's perception of low pay as the penalty for low skill and ability - which serves to provide justification for society's discriminatory practices. Most importantly, it draws attention to the fact that, generally, workers in low paid areas are paid substantially less for their contribution than those with higher levels of income.

### **The consequences of low pay**

Low pay produces an income distribution that is inherently unjust, it permits poverty in working families and it hinders economic development.

### ***Low pay and justice***

Although the recipients of low pay in developed countries appear to be more or less the same whichever country is studied (e.g. Brosnan and Wilkinson, 1989; Buchanan and Watson, 1997; Rubery, 1995), and although the low-paid are also more likely to be found in small firms (Rubery, 1995; Rainnie, 1989) low pay does not always result from an employer's inability to pay. Many of the industries where low pay is found are heavily monopolised and owned by transnational companies. This is the case in contract cleaning; it is also true of retailing and catering.

The social and economic structure is clearly unjust in that it forces many workers to accept low-paid jobs where their skills are not rewarded. But it is also unjust in that the better paid benefit from the cheap labour of the low-paid. The well-paid benefit from cheaper services where they employ the low-paid directly (e.g. as cleaners). They also benefit if products or services they buy are "subsidised" by low pay. Thus middle-income households benefit from cheaper restaurant meals, hotel services and the like whose prices are kept down by the low pay of the workers who produce these services (Ehrenreich 2001; Miller 2004). To the extent that the public sector utilises low-paid employees, this delivers a disguised bonus in either lower taxes or a wider range of government services. It is ironic that many of the services consumed by the wealthy are provided by the lowest paid workers (Froud, Haslam, Johal et al. 2000).

A further injustice of low pay is that where superannuation is based on past earnings the low pay will be perpetuated in retirement. While highly paid workers usually receive a substantial superannuation payment when they retire, low-paid workers who retire will receive a meagre pension and may be forced to take on further low-paid work in order to make ends meet.

### ***Low pay and poverty<sup>2</sup>***

It is almost stating the obvious to say that the greater the extent of the low pay problem in a society, the greater the degree of poverty. Nonetheless critics of minimum wages argue that a minimum wage does little to relieve poverty since, on the one hand, most of the poor are not in regular employment (e.g. Johnston and Stark, 1991; Standing, 1999) and on the other hand, some of the lower paid belong to well-off households (See also Richardson and Harding, 1999). Is this a cause or effect of low wages? The predominance of persons from higher income households in low paid jobs indicates they are the income group for whom low pay work is most financially feasible (Masterman-Smith in progress)..

Moreover, this argument defines poverty in terms of households rather than individuals. Clearly, household income is a major factor in determining the consumption levels of individuals, but personal poverty can exist in moderately affluent households. Teenagers,

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<sup>2</sup> It is beyond the scope of this paper to compare alternative measures of poverty. On this see Viet-Wilson (1998)

the bulk of the low-paid, do not always receive handouts from their parents, even if the latter are well paid. In any case, if they are forced into this position through low pay, it imposes a financial burden on parents and destroys the independence of working teenagers. A similar argument applies with respect to low-paid women whose husbands are well paid. Despite equal effort in the workplace, the husband is able to make a greater financial contribution to the household and the wife's status and independence is therefore severely diminished. To focus on the income of a person's relatives is to ignore the injustice of not providing an adequate minimum wage. As Rubery (1995) points out, the principle of "a fair day's work for a fair day's pay' ... (should) ... apply irrespective of an individual's family circumstances" (p.545).

Low-income earners are financially penalised by the welfare and taxation systems when they move from government pensions to low paid jobs (Keating and Lambert 1998; St Vincent de Paul Society National Council 2003, 6). In order to overcome the problem of household poverty, the federal government has made Family Tax Benefit available to families with low incomes. These benefits impose high marginal tax rates on recipients because the benefit is abated at 20 cents in the dollar while their income is taxed at 30 cents in the dollar. These benefits catch low-paid workers in the poverty trap – if they improve their gross pay, their net income increases by only a half as a result of higher direct taxes and reduced benefits. The system also provides a disincentive for other family members to join the labour market since they commence work on high marginal tax rates.

The beneficiary of the welfare benefit is not the worker, but their employer who receives an unrecorded subsidy. Much of this may remain hidden from individual workers who struggle to understand the complexities of benefit systems and their interaction with the wage system. To the extent that income becomes separated in the worker's mind from their efforts at work, the effect may be to minimise dissatisfaction with the employer's pay policy. Thus, the subsidies remove the incentive to organise collectively, and they therefore undermine trade unionism making the perpetuation of low pay a stronger probability.

### ***Low pay and economic development***

#### Firm level

Low pay allows inefficient firms to survive where they would otherwise be replaced by their more efficient rivals. Frank Wilkinson In his exposition of *Productive systems* (1984) argues that: "The ability to take advantage of low pay segments of the labour market adjusts the terms of trade in favour of particular productive systems" (p.423) and the "availability of disadvantaged segments in the labour market provides the basis for survival of disadvantaged firms in the product market" (p.423). Even 100 years ago the Webbs observed that a "Common Rule ... knocks another nail into the coffin of the least intelligent and worst-equipped employers in a trade" (Webb and Webb, 1920, p.728-9).

Although low pay may allow badly organised firms, or firms with outdated equipment and methods, to survive and compete, these firms become snared in low productivity

traps from which they have little incentive to escape. Their attention becomes concentrated on the very short run and they ignore the need for long-term investment, better production methods and the creation of new and better products or services. When their more efficient competitors adopt advanced technologies or introduce superior products or services, their only hope of survival is to be able to reduce wages further.

The situation is different where the competition is from overseas. Here other government policies may be needed to induce the domestic industry to become more internationally competitive and to support them while they make the transition – policies such as subsidies on technical innovation, assistance with designs or marketing, and tax breaks during the transition period. The latter case highlights the need for the application of international labour standards in all countries, and for international trade and tariff protection to be linked to the exporting countries' implementation of the appropriate ILO conventions.

#### Economy level

The argument sketched above applies at the level of the nation as well as the firm. Countries which permit low wages encourage inefficient firms that are able to use the low pay to compete with more productive nations in the short run. But this strategy has a heavy price. As the high wage countries seek out more advanced labour-saving technologies, the low-wage countries find it more and more difficult to compete on the basis of labour cost, forcing them to reduce wages further. As wages go down, so does consumption; the countries in question are then forced into a downward spiral of low wages, low productivity, low consumption and declining GDP. Cahuc and Michel (1996) make a similar argument but they stress the role of human capital development as the key component.

### **Minimum wages**

#### ***Australia's obligations under international law***

The Australian Government is obliged, as a member of the United Nations (UN) and the International Labour Organisation (ILO), to ensure that workers are adequately paid for their labour. *The Universal Declaration of Human Rights* (1948) asserts "the right to just and favourable remuneration" (Article 23(2)) as does the UN's *International Covenant on Economic Social and Cultural Rights* (1966) (Article 7). The *Declaration of Philadelphia* (1944), which redefined the aim and purpose of the International Labour Organisation (ILO), identified the guarantee of adequate wages as a task of government.

As a member of the ILO, Australia is thus obliged to provide machinery for setting minimum wages. Australia's commitment is doubly strong for it has ratified each of the ILO conventions which relate to the creation of minimum wage-fixing machinery.<sup>3</sup>

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<sup>3</sup> ILO 26 Convention Concerning the Creation of Minimum Wage-fixing Machinery (1928); ILO 99 Convention Concerning the Creation of Minimum Wage-fixing

Convention 26 obliges the government to create minimum wage-fixing machinery where "no arrangements exist for the effective regulation of wages ... and wages are exceptionally low" (Article 1, para. 1). Convention 99 covers minimum wages in agriculture. Convention 131 is focussed on the "needs of developing countries".

### ***Minimum wage systems in Australia.***

There are many forms of minimum wage system adopted by countries that have ratified the ILO conventions. Most advanced countries either have a statutory national minimum wage with full application (e.g. New Zealand, UK) or rely on collective bargaining but with extensions of collective agreements to other workers not covered by the agreements (e.g. Germany and Italy). Australia has had a system of selective intervention with awards providing specific legal minima in certain industries or occupations. The lowest rate in the lowest awards, as determined by national and state wage cases is conventionally termed the minimum wage. However the coverage is not as wide as it is in most other advanced countries. Some workers, particularly in emerging industry sectors, and those outside the range of commercial and government employment, such as workers in private homes have no award entitlements, and thus no minimum wage. Some state governments have moved to close this gap in coverage by creating state-level statutory minimum wage systems. Unfortunately for non-award workers in New South Wales and Tasmania, their governments have not enacted a statutory minimum wage, thus there is no floor to their wages.

While the coverage of awards and state-level minimum wage systems is broad, they do not ensure that workers are paid their entitlements. Inspection systems are weak. Moreover, the award system is so complex that many workers, particularly in non-unionised workplaces, are unaware of their entitlements. As for the state minimum wage systems, these are not something which low paid workers are aware of; the minimum wage is not advertised broadly, and the enforcement mechanisms are rarely known to non-unionised workers.

### **The Coalition Government's proposed minimum wage**

On the face of it, the Coalition Government's promise to create a genuine minimum wage would be a progressive step that would give a legally enforceable minimum to all workers. However, it comes at a considerable cost in that the Coalition package undermines wages by reducing the effectiveness of awards and making bargaining enterprise bargaining difficult given that most employers will have a licence to dismiss workers unfairly. Moreover there is no guarantee that a new national minimum wage would be an effective minimum, either in terms of its level or its operation.

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Machinery in Agriculture (1951); ILO 131 Convention Concerning Minimum Wage-fixing with Special Reference to Developing Countries (1970).

As the above discussion has made clear, a realistic national minimum wage would create a fairer wage system, contribute towards the reduction of poverty, and act as a spur to a more efficient economy.

For a minimum wage to be effective, it must:

- Be set initially at a realistic level
- Not have exemptions for particular categories of workers according to personal or characteristics or industry of employment
- Be updated, at least annually, in line with price movements or other wage movements
- Be advertised widely so that workers are aware of their entitlement, and employers are aware of their obligation
- Have an adequately funded inspectorate with powers of immediate inspection in workplaces, and with severe penalties for underpayment
- Not be used as an instrument of economic policy<sup>4</sup>

### **Level**

If Australia were to honour its obligations under international law, at what level should the Minimum Wage be set? The precise relation between minimum wages and average earnings is not specified by the ILO. The Conventions do not specify the level at which minimum wages should be set. However, Recommendation 30 which is intended to be a guide to Convention 26 states that minimum wages should be set according to "the general level of wages prevailing in the country" (Section III). A possible guide to an appropriate relationship is specified by the European Social Charter which defines a "decency threshold" of 68 percent of the adult mean wage (Council of Europe, 1977). Although the European Social Charter does not bind Australia, it does bind the majority of Australia's fellow members in the OECD and could be taken as a guide to a "decent" level of income in Australia. That said, it must be noted that conservative governments in European countries have not met this standard. Accordingly 60% of mean earnings might be a more realistic figure.

In February 2005 the award minimum was \$467.40 while mean adult ordinary time earnings were \$991.2 (Australian Bureau of Statistics, *Average Weekly Earnings, Australia* (6302.0)). Thus the award minimum was only 47% of ordinary time earnings. While the recent increase in the award minimum to \$484.4 will improve this percentage to about 48% (depending on average earnings) it is still less than half the mean. If the national minimum wage were set in line with a "decency threshold" of 68 percent of the

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<sup>4</sup> The deficiencies of minimum wage systems are set out in Brosnan (2003b)

adult mean, it would need to be set at more than \$674.<sup>5</sup> Even at a lower level of 60% it would need to be \$595.

### **No exemptions**

As highlighted above, the main weakness of the current wage system is its incomplete coverage. Any new minimum wage system must cover all workers. It would be simply unfair to not have it apply to particular groups. Some countries have lower rates for youth workers, but these have become less common. It is of interest to note that the New Zealand government, which does have a youth minimum, has acted in 2002 to have the adult minimum apply at 18 years instead of 20, and increased the youth rate from 60% to 80% of the adult rate.

Treating workers equally is a matter of fairness. It is also a matter of fairness but also of economic incentive to not grant exemptions to particular types of firm, be it on the basis of size, or industry. If uncompetitive firms need subsidies to survive, they should come via an explicit government grant, funded from taxation. They should not take the form of an implicit subsidy provided by disadvantaged workers.

### **Updates**

A minimum wage is useless if it is not regularly maintained at a decent level. The OECD (1988a) commented that the minimum wage has been allowed to decline in many countries during the 1990s. In fact minimum wages were allowed to decline in earlier periods too. The US minimum wage buys only 60% what it did in 1968. It was not adjusted at all between January 1981 and April 1990, and it has not been adjusted since 1997. Closer to home, the purchasing power of the New Zealand minimum wage was allowed to decline by almost a half between 1954 and 1984 (Brosnan and Wilkinson, 1989).

### **Advertise entitlements and obligations**

Clearly if the level and coverage of the minimum wage is not widely known, it is unlikely to be enforced. Although Queensland has had a state minimum wage with full coverage for several years, few Queensland workers would know that it existed and what its level was. The situation may be the same in South Australia and Western Australia.

In countries where a minimum wage applies successfully, citizens are aware of the minimum rate and it operates as a reference point for wage bargaining and for social security. For example the French minimum wage, the *Salair Minimum Interprofessionnel de Croissance* (the SMIC), is so well known that workers on the minimum are referred to in ordinary discourse as *smicards*.

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<sup>5</sup> As the minimum wage increased so would mean earnings; although by less than the rise in the minimum.

## ***Inspections***

A legal right to a minimum wage is not much use if workers are not able to enforce it. Many workers who are paid below their minimum entitlements are unable to do anything about it. They are reliant on the job for their continuing livelihood, have no trade union nor means of effectively challenging their employer, and have few, if any, alternatives for employment. They could report violations to the relevant authority but this presupposes their being aware of their entitlements, having the courage to report their employer, and being able to do so when they may be required to work at the very times the relevant agency is open to receive complaints.

If a government is sincere about having a genuine minimum wage, it must commit resources to inspection and enforcement. Recommendation 30 (1928) concerning ILO Convention 26, recommends that a "sufficient staff of inspectors should be employed ... ascertaining whether the rates in force are ... being paid" (IV (1)). Employer organisations object to extensive inspection, which they characterise as harassment. However, if the minimum wage is widely advertised employers should be aware of their obligations, and decent employers would have nothing to fear. As Australia de-industrialises, and as more "flexible" forms of employment are generated, it becomes increasingly important to uncover the modern sweat shops which employ workers below the legal minimum, and which compete unfairly with more scrupulous businesses.

## ***Separate from economic policy***<sup>6</sup>

There is always a danger that the minimum wage will be made a pawn of economic policy. It appears from the government's pronouncements that this could be the case in Australia. However, the idea of wage increases, especially at the lower end of the pay distribution being detrimental to the economy lacks a sound empirical basis.

It has always been a frequent and confident assertion of neoclassical economists that a minimum wage increases unemployment (e.g. Stiglitz, 1946). However, they are never able to explain exactly how this would occur, other than to provide a two-dimensional diagram, which they have drawn themselves, with supply and demand curves and an arbitrarily drawn line called the "Minimum Wage".

Empirical evidence against this proposition has long been available but has been ignored. As long ago as 1914, C. Smith contributed an article to the *Journal of Political Economy* which investigated the employment effects of Trade Boards which had been established in Ireland and Great Britain. Smith found that while workers lives were improved by the increase in wages, it did not increase product prices and did not lead to the dismissal of the least productive workers (cited in McMahon, 1991). Many other studies have shown that there is no relationship, or that previously announced relationships are spurious (e.g. Eccles 1984, Anyadike-Danes and Godley 1989). These never put the matter to rest as this important piece of neoclassical doctrine "cannot be wrong" and new data sets, and

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<sup>6</sup> This argument is developed further in Brosnan (2003a)

new econometric specifications are produced which purport to re-establish the status quo. Even so, Richard Freeman (1996), summarising the relevant literature, concludes: "The debate over the employment effects of the minimum is a debate of values around zero" (p.642) (See also Chapple, 1997).

Over the last decade, some neoclassical economists have become less confident of the simple proposition that an increase in the minimum wage will produce an increase in unemployment. In large part, this is due to the work of Card and Krueger (1994, 1995a, 1995b) who have critiqued previous econometric studies, and carried out their own research into the effects of minimum wage increases on employment. Card and Krueger's findings are entirely consistent with the analysis above. A higher minimum wage increases disposable income for those most likely to spend that income and spend it on local consumption.

There are no reasons to believe there would be a significant loss of employment if the minimum wage were increased. In general, low-paid occupations for example, cleaners, catering staff, and sewing machinists - have no close substitutes, or if they do, they are low-paid as well. It is also unlikely that the introduction of a higher minimum wage would lead to a widespread move to replace workers by machines (Brosnan and Wilkinson, 1988). Grimshaw and Carroll (2002) in a study of the introduction of a statutory minimum wage in the UK found from case study work that firms were as likely to increase employment as decrease following the increase in wages among minimum wage firms.

## **Conclusion**

This paper has argued that the low paid are not low paid because they are necessarily inefficient workers. Rather they are low paid because they are socially disadvantaged. The costs of low pay are borne by the individuals concerned and their families, but they are borne by society as a whole in terms of greater poverty and the consequences of poverty. Society also bears a burden in that low pay provides a disguised subsidy to employers; this "subsidy discourages more efficient production methods that add to economic growth.

The key to preventing low pay is to have a strong collective bargaining system, as required by ILO Convention 98 (Right to Organise and Collective Bargaining (1949)). However it is important that it be underpinned by an effective minimum wage to protect those who are unable to organise and to set a floor for collective negotiations. As has been argued above, the minimum wage must be set initially at a realistic level and updated regularly, not offer exemptions, be advertised widely, and have a properly funded inspectorate which has strong sanctions in the event of deliberate breaches. Moreover the minimum wage must be recognised as a spur rather than a brake on economic growth and the low paid must not be disadvantaged further by having their wages held back when the economy is performing poorly.

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