



100 years of the minimum wage and the tax transfer system – what have we learnt, what are the challenges?

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Approach

- 100 years of the minimum wage
- Interactions between the minimum wage and the tax transfer system over time
- Looking forward
 - Maintaining a living wage (or income)
 - The challenges of coordination
 - Lessons on how changes occur?

4 ways to meet a family's needs

1. A high single breadwinner wage for a family to live on
2. Limit tax burden on families
3. Welfare support for families
4. Multiple wage earners

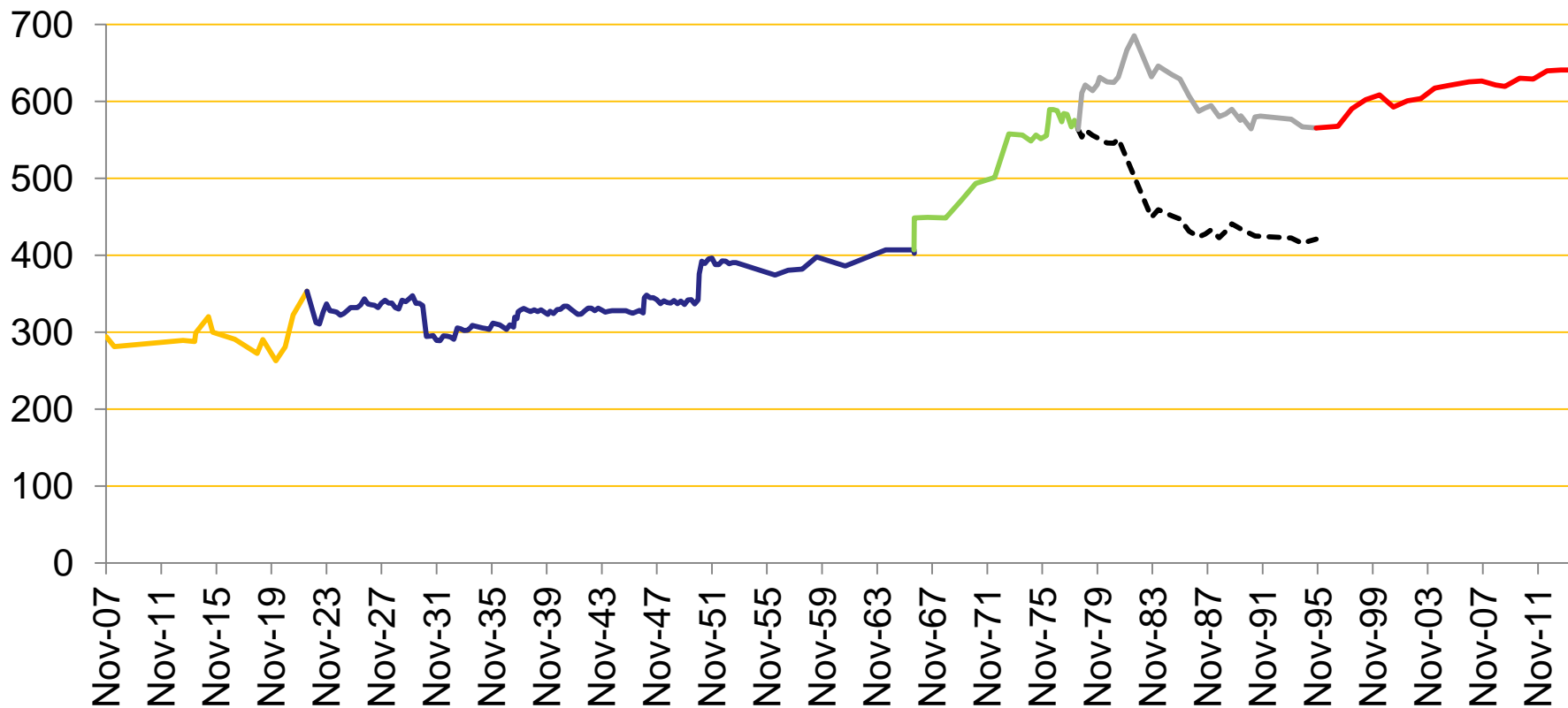
A family wage - establishment

- “For himself and his family” ... “necessary average weekly expenditure for a labourer’s home of about five persons”. 1907 Harvester Decision 2 CAR 1
- “I regard the present basic wage as adequate for a family unit of three persons, but think it offers only a meagre existence for a family unit of four. When that unit gets beyond four, hardship is often experienced.” 1940 Basic Wage Inquiry (44 CAR 38)

The transition away

- “The most we are able to say is that there is still a relic of the concept of the family wage in most of the present total wages” (1969 127 CAR 1142 p1153)
- “ever since the minimum wage has been the subject of debate it has been presented by the unions and considered by the Commission as including a family component” (1972 Equal Pay 147 CAR 172)
- “we believe the family component should be discarded from the minimum wage concept” (1974 157 CAR 293 p299)
- “The appropriate reference household for the purposes of setting minimum wages is the single person household, rather than the couple household with children” (Fair Work Commission 2014)

Real minimum wage 1907-2014



— Harvester/Basic wage (1907-22)
— Minimum Wage (1966-78)
— Divergence - Metal workers (1978-95)

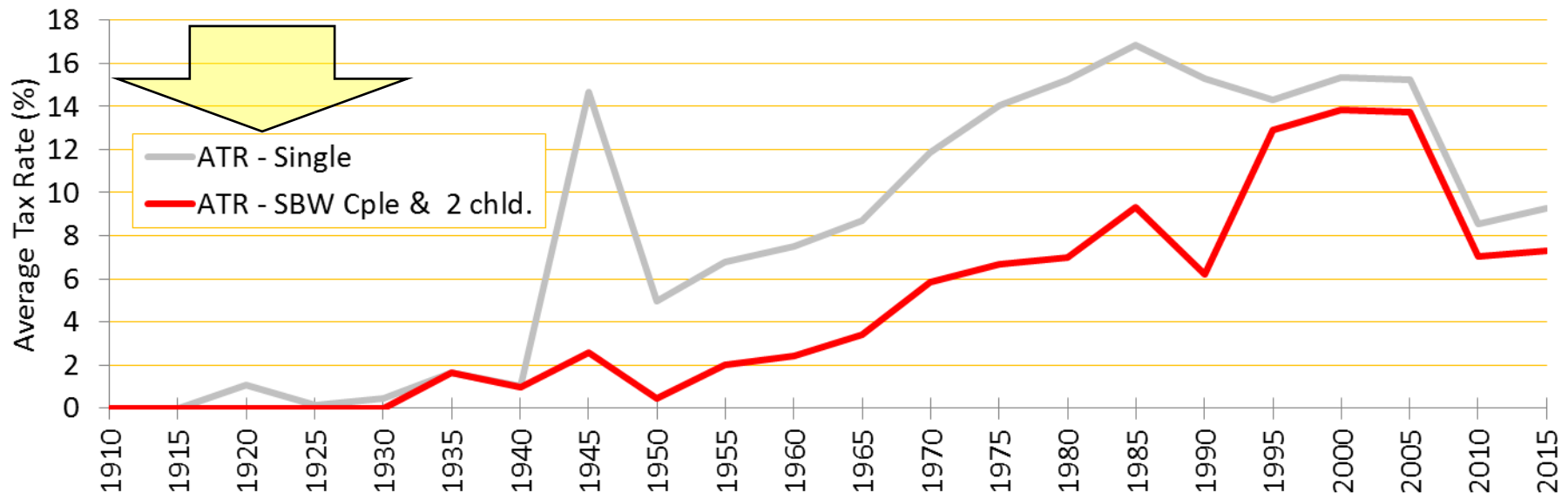
— Basic wage (1923-66)
--- Divergence - NWC only (1978-95)
— FMW (1997 -)

Real Minimum wage increases

Period	Minimum wage			Hours & Super adj Minimum wage	
	Growth	Annualised		Growth	Annualised
			-%-		
100 years	114.1	0.8		220.1	1.2
50 years	57.4	0.9		84.8	1.2
25 years	8.6	0.3		15.2	0.6
10 years	3.8	0.4		4.1	0.4
Pre divergence to current	13.7	0.4		30.8	0.7
Peak to current	-6.5	-0.2		2.2	0.1

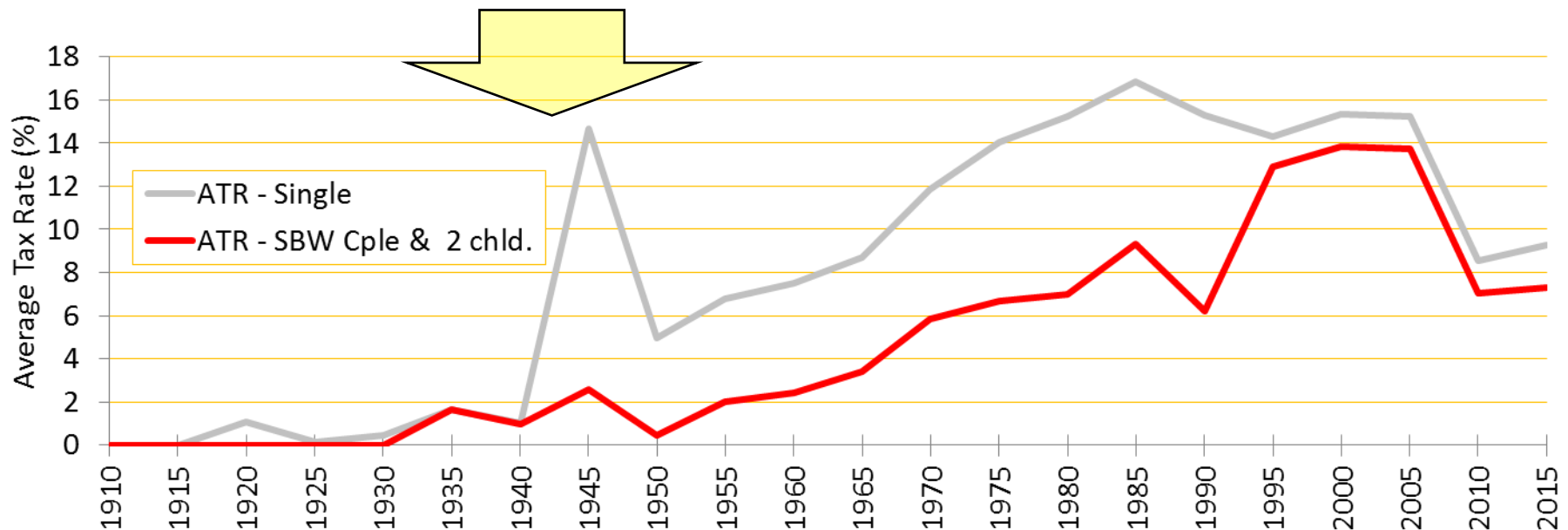
ATR Minimum wage worker 1910-1930

- State taxes
 - Most thresholds excluded minimum wage workers
 - Mixed availability of concessions for dependent children & spouse
- Commonwealth income tax introduced 1915-16
 - exemption/deduction 1916: £156/£156; 1917: £100/£156; 1924: £300/£300



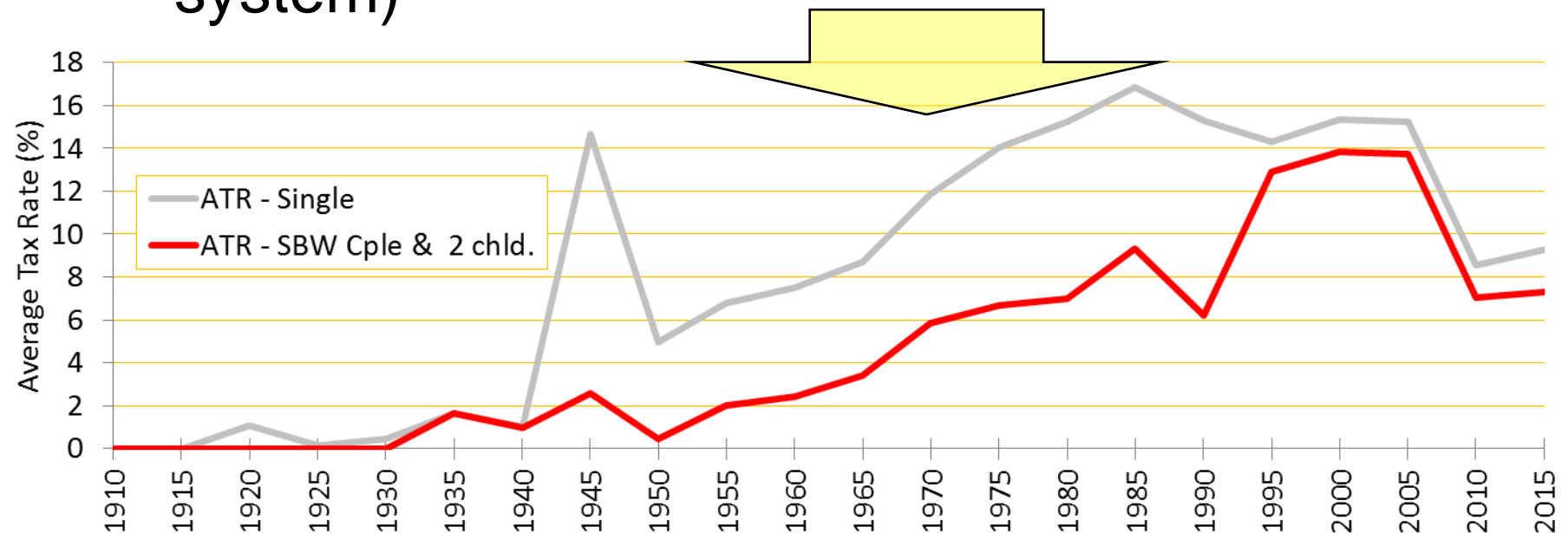
ATR Minimum wage worker 1930-1950

- Bite of state taxes
 - Victoria – 1930 Unemployment relief tax, 1931 Special tax (no allowance for family)
- Commonwealth – 1942 – Single income tax
 - Effective exemption for single person £250 pre war to £104 in 1934
 - Rebates up to £100 spouse, £75 first child £30 other – replaced as deductions from 1950-51



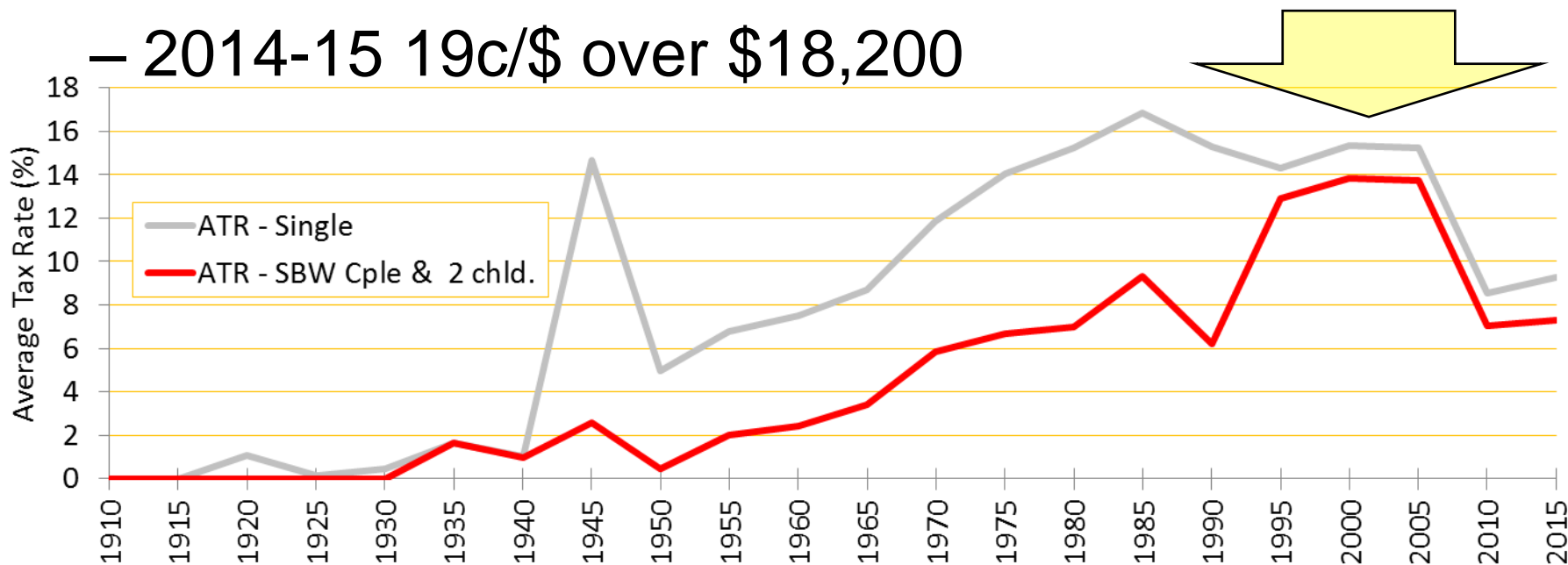
ATR Minimum wage worker 1950-1985

- Bracket creep
- Spouse/child (deductions to 1974, rebates after)
 - Significant – but irregular updating
 - Child deductions abolished in 1976 (to transfer system)



ATR Minimum wage worker 1990-2015

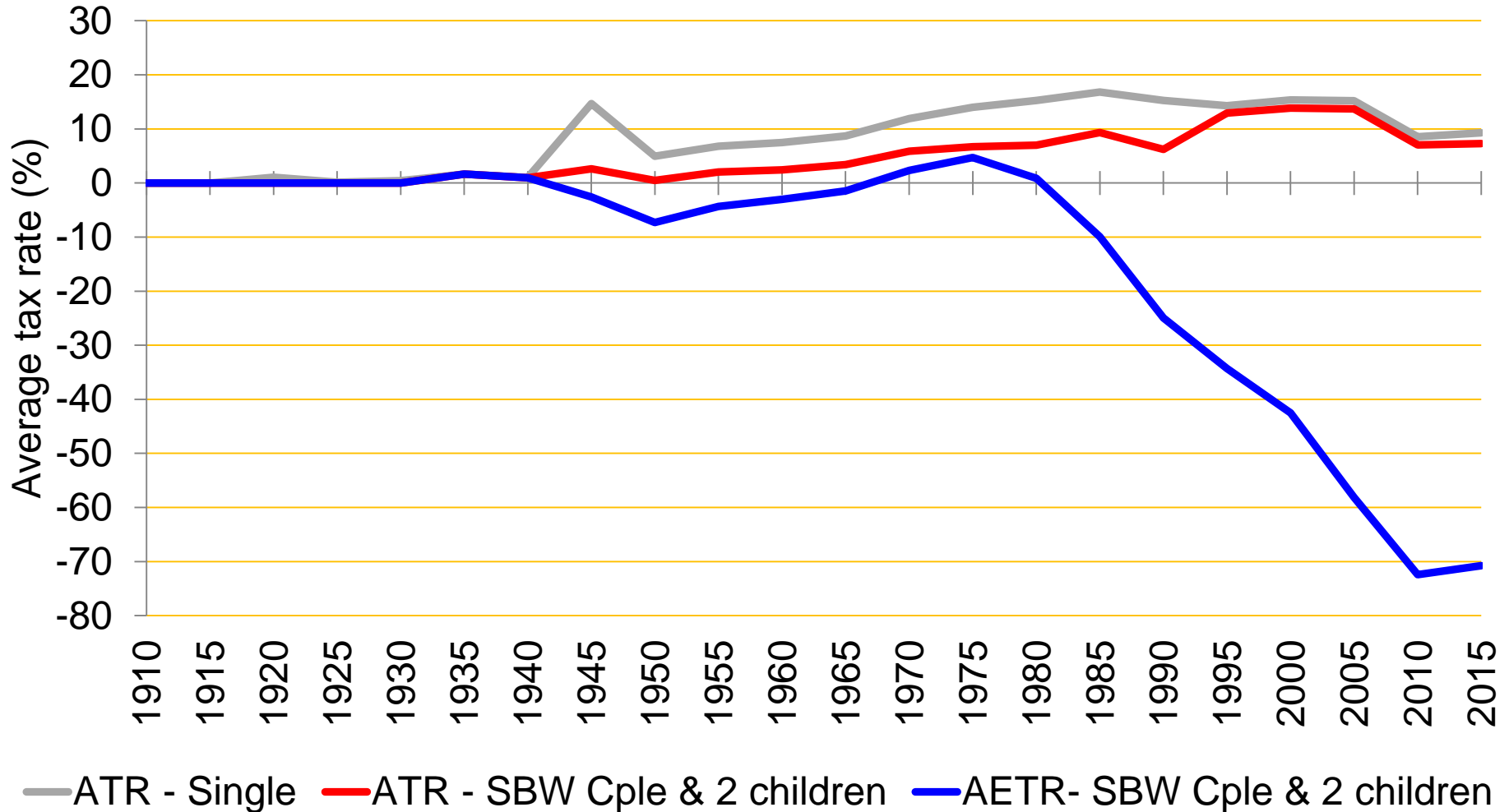
- DSR to transfer 1994-95
- Introduction and increase in LITO
- Higher threshold & declining rate
 - 1984-85 26.67c/\$ over \$4,595
 - 2014-15 19c/\$ over \$18,200





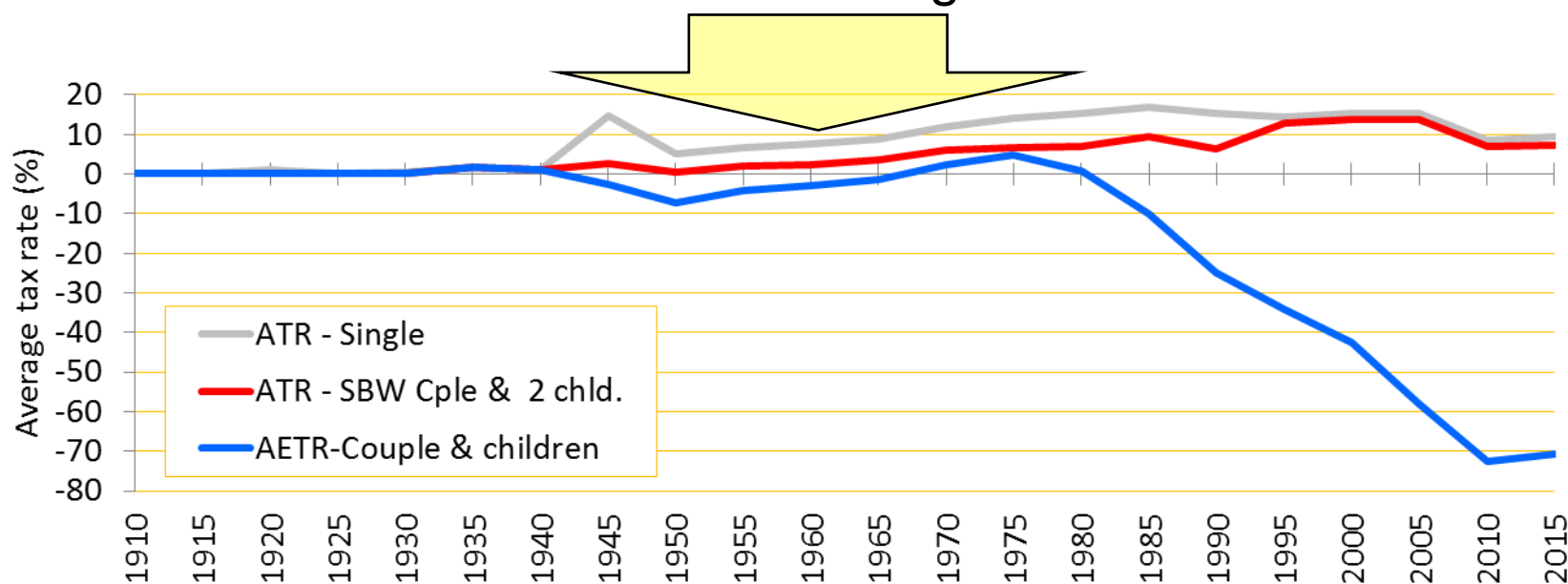
But tax is only part of the story

Minimum wage employee



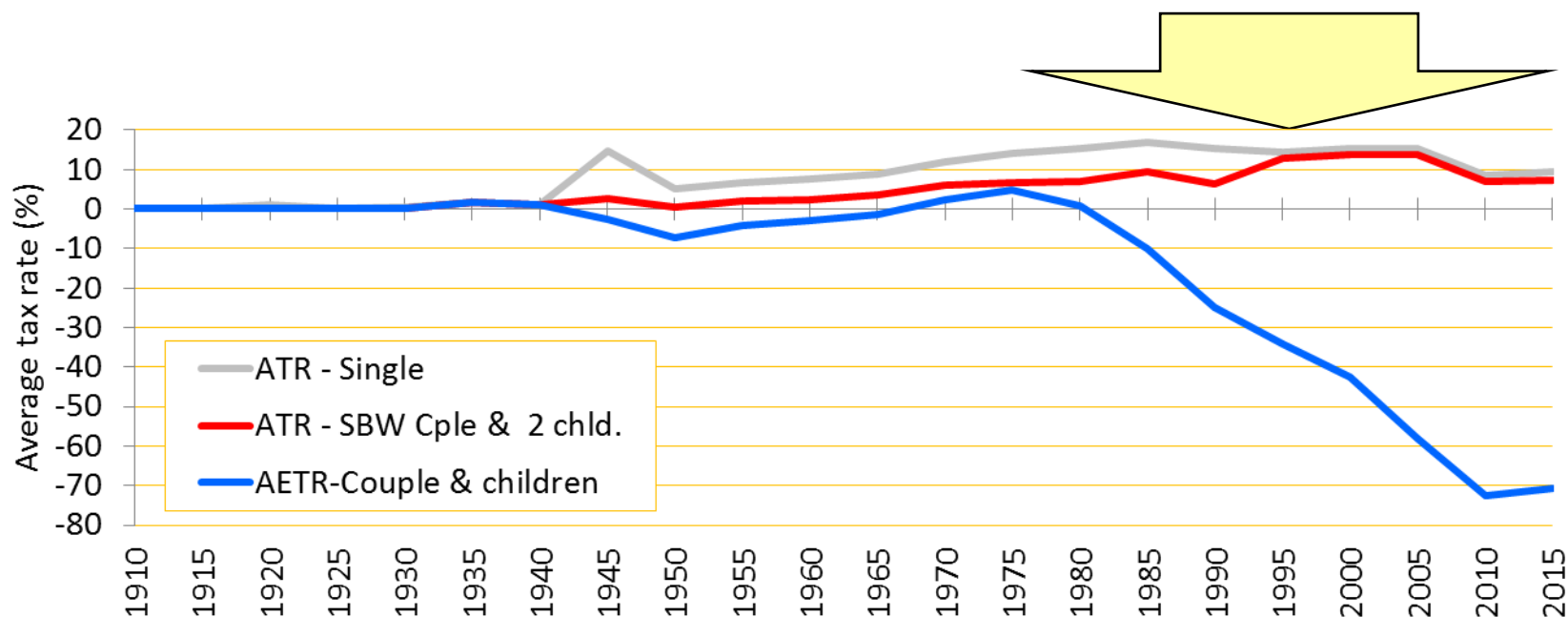
Family assistance – 1950-1980(1)

- Universal child endowment introduced in 1941 and extended in 1950
 - \$0.50 for first \$1 for second and above (from 1950) kept at this level until 1976
 - 1976 replaced tax deductions and endowment with Family allowance – but no substantive gain relative to 1950

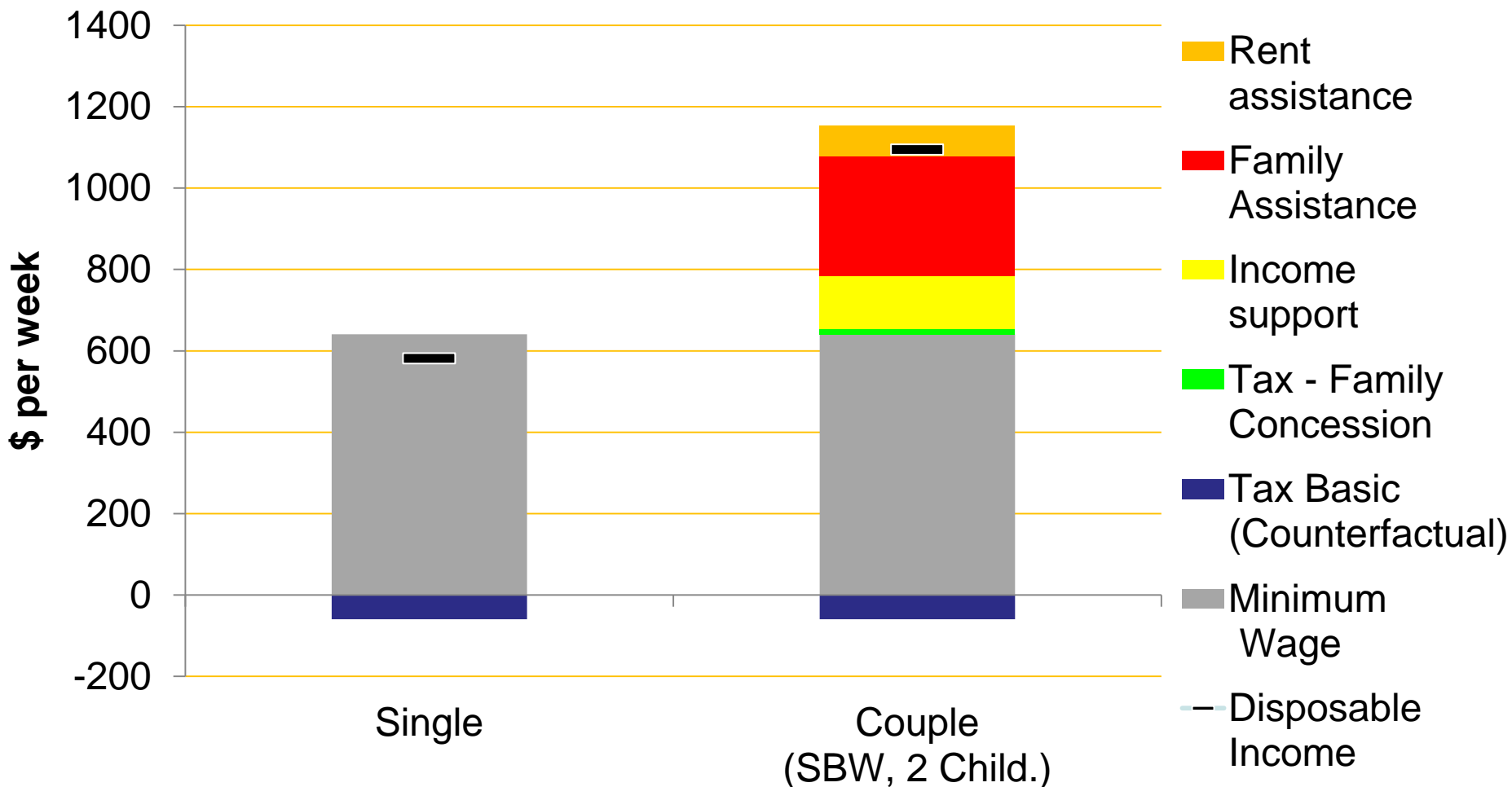


Family assistance 1980-2015(1)

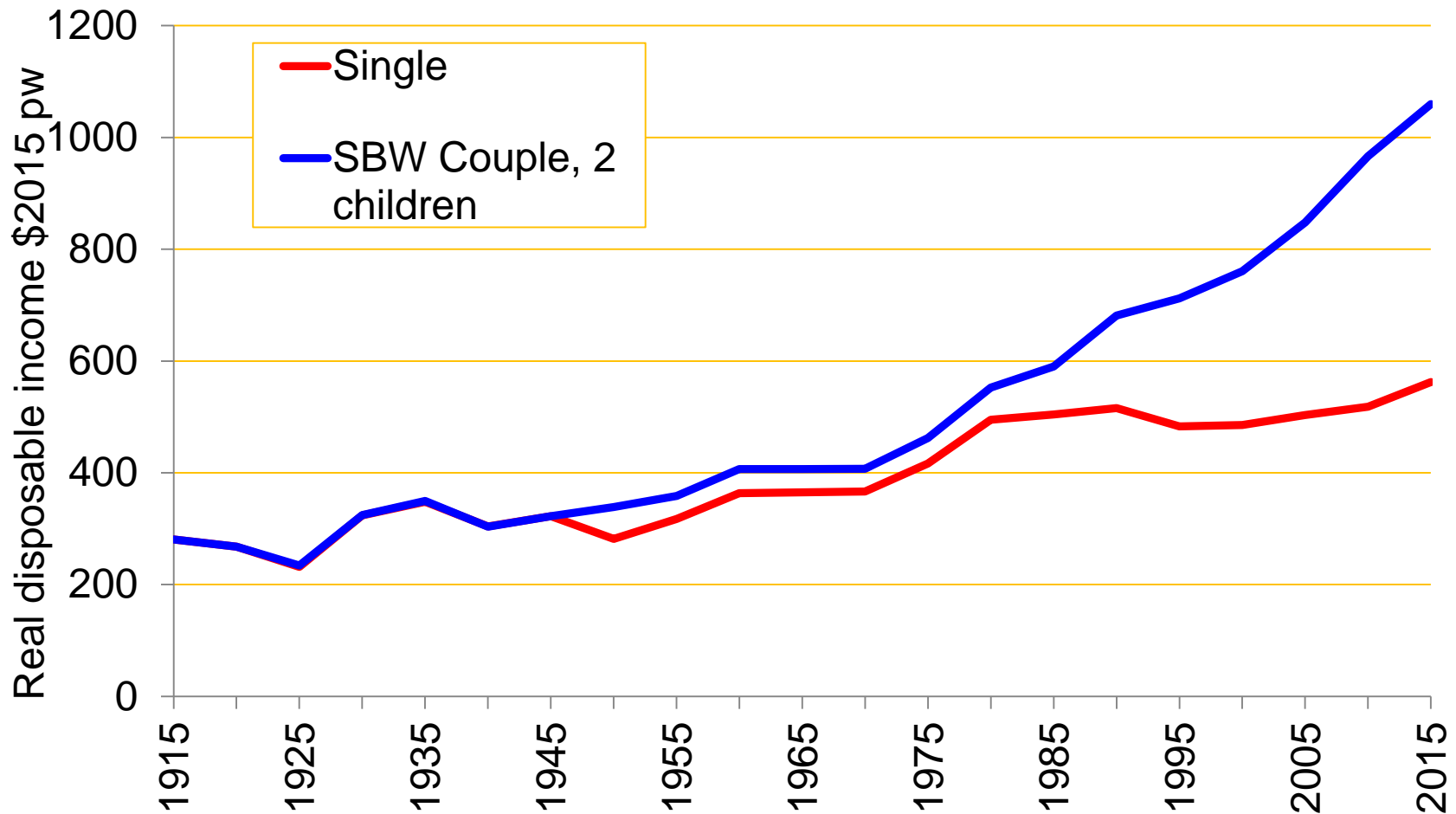
- Child assistance - FA/FIS/FAS/BFP/FP/FA/FTB(A)
- Assistance to principal carer in one income households– HCCA/PgA/PPP & FTB(B)
- From mid 2000s some retrenchment



Minimum wage employee - Composition of disposable income, January 2015



Aggregate impact – real living standards from minimum wage



Issues arising

- Achieving change can be slow
- The future of the minimum wage
- The challenge of tax transfer coordination
 - And integration with the wages system
- Where from here?

Change can be slow and not straightforward

- Child endowment
 - Piddington 1920
 - Commonwealth 1941
 - Then neglected for 30 years
- Take children out of the tax system Downing 1964
 - While implemented in 1976 – alphabet soup of programs over next 25 years
- “The rate of family payments should reflect the direct costs of children in low income families”. (Henry 2009)
 - But 2009-10 & 2014-2015 indexation decisions
- Nature of minimum wage – 1974 to 2014

The future of the minimum wage

- The slack of the transition from family wage has been largely absorbed
- Minimum wage and singles
 - Hold flat => potential adverse living standards
 - Allow it to increase – cost jobs?
 - EITC
- Families
 - The task taken by the transfer system is being diminished: => living standards will fall relative to others in community

Tax, transfer coordination

- Track record is not good
 - Historically little evidence of coherence
 - 1975 Asprey “interactions ... important not to neglect”
 - 1985 White Paper “need to consider interaction”
 - AFTS – initial hopes for tax-transfer system
 - Re:think – largely ignored

... and the wages system

“ both minimum wages and the tax-transfer system are relevant to the maintenance of an effective safety net for the low paid ... we would also encourage the Australian Government to discuss such matters with the major parties ... ”

Fair Work Commission Annual Wage Review 2012-13

Conclusion

- Lessons from the last 100 years
 - Change can occur – but can be slow and gains can be lost through neglect
- Specific issues around the minimum wage and support for children in low income households
 - However no immediate crisis
 - Just big challenges

2015 EMTRs for SBW couple & 2 children

