

Australia pays fast-food workers \$20 an hour and the sky hasn't fallen

By Andrew Newman

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Australia and Canada share much in common, but one striking point of difference is the minimum wage. While Canada has been engulfed in a debate around the minimum wage in recent months, it's a given in Australia that a barista making your latte or a fast-food worker serving your burger is earning at least \$20 an hour.

The principle that employees must be paid a "living wage" dates back to a 1907 decision of the Commonwealth Court of Conciliation and Arbitration, which stated that if an employer was unable to pay a living wage, it was not entitled to operate a business. A living wage was defined in the decision as being sufficient to permit an unskilled worker, a dependent spouse and three dependent children to live in "frugal comfort."

Today, the majority (around 60 per cent) of all Australian employees are covered by one of two collectively determined standards – Modern Awards or Enterprise Agreements. Modern Awards set wages by industry or occupation and take into account levels of experience, skill and responsibility within the workplace. Additional pay is usually required for overtime and work on nights and weekends. Enterprise Agreements are much like Canadian collective agreements and largely exist at the workplace level. They must build upon minimum Modern Award standards, often through a wage increase of some description.

Wages for service sector jobs tend to be much higher than in Canada, where the dollar currently trades at par with the Australian currency. Entry-level fast-food workers, for example, are paid \$20.08 an hour as a base hourly wage. Pay goes up to \$25.10 on Saturday, \$29.12 on Sunday, and overtime

hours are \$30.12 for the first two hours and \$40.16 for each hour thereafter. On top of this, employers pay 9.5 per cent of wages to every employee's nominated retirement fund. Workers who are non-permanent "casual" employees are generally paid a further 25 per cent of their wages on top of these amounts.

Has the economy crumbled under the weight of high wages? No. The Australian economy has fared quite well by international standards. GDP per capita is healthy at around US\$48,000, compared with Canada's \$44,000. The unemployment rate is low, at 5.4 per cent nationally. There has not been a recession since the early 1990s. This is arguably in part a result of the buoyancy of demand created by high wages.

Have these wages made life horribly expensive for the consumer? Not really. OECD price level indexes for 2016 place Australia at 125-per-cent OECD average and Canada at 107 per cent. Prices that are sensitive to the cost of labour, such as restaurants, do seem to be higher. However, where prices are higher, they can usually be met by well-paid workers.

Of course, poverty continues to exist, usually as a result of unemployment, underemployment or insecure employment, which covers a large and growing number of Australians. Wage inequality has increased in recent years as the wealthy have benefited disproportionately from increases in asset prices. Wage growth in Australia is at historically low levels. These problems are, however, far from unique to Australia.

There is an often overlooked efficiency to high minimum wages. They can reduce the burden on the state and the taxpayer. Why, after all, should a person working full time depend on a

patchwork of confusing and often arbitrary government entitlements and social programs funded through general tax revenue when they could more directly be paid a living wage by their employer? Government bureaucracies can be slow moving and uneven in their decision making. A low-wage system shifts the burden of providing the necessities of life from the employer to the taxpayer. It subsidizes marginal businesses with cheap labour. It disadvantages those employers who either voluntarily pay higher wages or are forced to do so through collective bargaining. Some credit the Australian "wages welfare state" as having contributed to a comparatively low level of sovereign debt (OECD data for 2015 puts Australia at 67-per-cent debt/GDP ratio and Canada at 114 per cent.)

A further aspect of efficiency, and of workplace culture, is the efficient allocation of skills and labour. A high-wage system encourages movement between jobs because it minimizes the downside risk of job changes or job loss. Modern Award wages also encourage job retention and development of skills by raising the minimum wages paid according to classifications linked to responsibility, skills and knowledge of an employer's business. In Australia, a retail job is a viable alternative for many middle age and older Australians because it pays well.

Beyond the efficiency argument, there is a dignity and fairness to the Australian wage system. Australia's minimum wages are among the highest in the world (OECD 2016 ranks Australia third in 2016 in real minimum wages in U.S. dollars at \$21.96 an hour and Canada is 10th at \$16.79). Because of high minimum wages, the chance of getting ahead financially are greater for vulnerable groups, such as new

migrants, particularly if they are able to work long hours and weekends (28 per cent of Australians were born overseas). High minimum wages also shape the culture of the place in a number of less profound but nevertheless meaningful ways. As guaranteed minimum pay is high, there is very little of the undignified practice of relying on tips as a substitute for decent pay. Australian youth travel for long periods of time because they can afford to and tuition is also less of an obstacle if and when they choose to study.

To be sure, a transition to a high-wage economy does not happen overnight and it does not happen without pain. Some businesses will close. Some prices will increase. Some employees will lose valuable shifts. A longer period of adjustment may be justified. A different legal structure certainly is.

Despite the challenges, the goal of a providing a living wage is nevertheless a noble one. It is also attainable. Lifting the minimum wage to \$15 is a good first step. However, a single minimum wage is a blunt policy tool. It lumps together nearly all employers and employees, rural and urban, large and small, thriving and struggling. Future wage increases beyond \$15 should follow a more occupation – and industry-specific approach. The Australian system of Modern Awards provides a good model of how to accomplish this.

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