

## More low-paid work is part of the problem, not the solution

Written by The Conversation

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Employer organisations such as the [Australian Retailers Association](#) , [supported](#) by the federal government, have recently argued that wages for Australia’s lowest-paid workers should be increased by less than inflation. This would mean a cut in real wages. But none of their assertions are sustained by evidence or research.

Three arguments have been put forward to cut the minimum wage. First, that the cut will ensure employers [create more low-paid jobs](#) , thereby reducing unemployment. Second, that low wages are not a problem anyway, as low-paid workers are “[often found in high-income households](#)”. Finally, that there have [not been sufficient productivity improvements](#) to support wage increases for the low-paid.

This is counter to the current thinking on wages. After advocating for decades that Australia needed more (downward) “wage flexibility” to solve unemployment, key international agencies – including the World Bank, IMF and the OECD – [now recognise](#) this misses the point. Australia’s award wages for our lowest-paid workers are [among the highest in the world](#) and this is now recognised as a good thing.

Meanwhile, deepening inequality, much of it originating in the labour market, is retarding the demand necessary to sustain output and employment growth. If people’s real earnings fall, then they have less to spend. When people spend less, demand for goods and services falls, and in turn so does the demand for labour (i.e. jobs). This is why a cut in wages for low-paid workers will not create jobs; rather it will reduce living standards for those earning them.

In Australia, there is modest alarm at just how low wages growth has become. Wages are growing at [only 1.9% per annum](#) , which is significantly down on the rate [over the last decade](#) .

The RBA [recently released research](#) noting workers now have too little bargaining power in wage setting. Even the federal treasurer [has said](#) slow wage growth is one of the economy’s biggest problems. It could also cause issues for the budget, as it means less income tax for the government.

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Cutting wages for the lowest-paid will only make these problems worse, not better.

### The facts on low wage earners

While wages are growing only slowly, the average Australian worker produces approximately [twice as much](#)

as he or she did three decades ago. This echoes a

[world-wide disconnect](#)

. The ILO, OECD and IMF have all

[noted](#)

that there is a deep problem in the wage-productivity nexus – wages have not kept up with productivity!

The key challenge today is not “productivity” per se, but rather how gains from increasing productivity are distributed and used. Given the [increasing inequality](#), it is clear the gains have not been well distributed or deployed. This has resulted in huge gains for upper income earners. That, in turn, has driven inflation for assets like property and shares.

The productive performance of the economy or quality of social services has suffered commensurately. In short, the 30-year experiment in neoliberal policies – including attacks on labour standards like award wages – has failed. This, and not the alleged “unproductive” performance of low-paid workers, is the problem.

While shareholder value may have been maximised, the gains for society at large have been modest. Worse, things like [job quality](#) have fallen as a result.

Further, while some low-paid workers do live in high-income households, we should keep [some facts](#)

in mind.

The first is that in the bottom 20% of households hardly anyone works – they are either on income support or retirees. When this sub-population is included, then low-paid workers are, by definition, in the “top 80%”. But when the data for households with working earners are considered separately, the majority of low- and middle-wage workers [live with other low- and](#)

### [middle-wage earners](#)

The rest of the low- and middle-wage earners who live in wealthy households are often wives with well-paid spouses, and young people, many of whom are students. But cutting wages for these groups will also deepen well-known problems. Marriages break up and women can become totally dependent on their low-paid jobs. Many young people are living at home longer because housing is becoming unaffordable.

## Enough with the failed experiment

The government has [argued](#) that targeted income support provided through the social welfare system is better for “meeting the needs of low-paid households”. This argument is flawed on two grounds.

First, it would support a wages policy that makes things worse and not better. Second, there are no budget submissions to increase social policy expenditure by the billions of dollars necessary to compensate for any cut in the wages of low-paid workers.

The recent decision to [cut Sunday penalty rates](#) for low-paid hospitality and retail employees has created a lot of indignation. Growing numbers of people are uneasy about how we treat our lowest-paid workers. This unease is well founded. Cutting living standards of the lowest-paid workers will not help fix our current economic malaise – in fact, it will make the situation worse.

There is now ample evidence and a growing policy research literature on how to nurture more sustainable and inclusive approaches to economic development. The nation would benefit immensely if we stopped the failed neoliberal experiment we have all been subjected to over the last three decades.

*John Buchanan does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.*

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