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3. The capacity for the unemployed and low paid to obtain and remain in employment

The Australian labour market changed significantly between the early 1990s and 2008. By 2008, the labour market was characterised by:

- labour force participation rates and employment-to-population ratios at historic highs;
- unemployment at rates not seen since the early 1970s, with long-term unemployment below one per cent of the labour force;
- high rates of job vacancies in both skilled and unskilled occupations;
- structural change occurring among industries; and
- very strong wage growth in some parts of the labour market, combined with steady growth in wages overall.⁷¹

These labour market outcomes were reflected in the experience of many, but not all, low-skilled groups. At the same time, there was concern around continuing levels of underemployment, barriers to obtaining work, skill shortages and the adequacy of labour force participation rates in the context of an ageing population.⁷²

This section considers how the capacity for the unemployed and low paid to obtain and remain in work may be affected in 2009–10, since economic downturns are typically associated with significant changes in the composition of employment and unemployment. These changes vary by age, gender, skill, education, location, household type, form of employment, industry and occupation. Extensive research has also demonstrated that unemployment has significant costs. This suggests that strategies are needed to minimise the emergence and duration of unemployment wherever possible.

3.1. Employment by industry and occupation

Industry views

Employer organisations predict that increases to minimum wages in the current economic climate will have a disproportionate effect on certain industries, especially Accommodation and food services and Retail trade, with a resultant decrease in employment:

'A particular consideration in 2009 is the disproportionate impact of the economic crisis on consumer demand for the retail sector, and on demand for restaurant meals, and other hospitality and tourism services...

It is retail, tourism and hospitality businesses which have experienced the direct and early impact of Australians changing their purchasing decisions in the face of (a) crisis, but also (b) uncertainty about their jobs, their mortgages and their economic prospects. It is retail and hospitality employers who stand the direct prospect of going under in light of depressed demand and depressed operating conditions, and increased operating costs.⁷³

⁷¹ Commonwealth of Australia, *Budget Paper No. 1: Budget Strategy and Outlook 2008–09*, Canberra, Canprint Communications, 2008.

⁷² Some of these concerns are reflected in Australian Industry Group, *How fast can Australia Grow? III*, discussion paper prepared by Australian Industry Group, February 2008, <<http://www.aigroup.com.au>> at 6 May 2009.

⁷³ ACCI, March 2009, p. 30, paras. 112–113.

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'A wage increase in the midst of the current crisis will send the wrong message to employers and employees who are doing all they can to work together to protect jobs until the economy recovers. A wage increase this year will impact the hospitality sector in a more profound way than in most other sectors, as it is heavily pay scale reliant.'⁷⁴

Many employers are concerned about their capacity to maintain employment of staff during the current downturn. While some expect to increase recruitment, a larger proportion expects to maintain or reduce employment over the next twelve months. For example, the Australian Retailers Association (ARA) reports that around 50 per cent of respondents to its survey plan to reduce casual and part-time staff over the next six to twelve months, while around one-third expect to reduce permanent staff.⁷⁵

Master Grocers Australia (MGA) reports that around 70 per cent of independent supermarket store owners surveyed indicate they would reduce the number of employees in response to a minimum wage increase.⁷⁶ This risk to employment from an increase in minimum wages also appears to be greater when the results from Chamber of Commerce and Industry Queensland (CCIQ) surveys are compared between 2008 and 2009.⁷⁷

However, some employer groups remain more confident about the medium-term prospects for the industries they represent. The ARA believes that the fundamentals of the economy are still strong and foresees some recovery in the Retail trade industry in late 2009.⁷⁸

Variations in employment by industry and occupation

In any given year, levels of economic activity and employment vary by industry, even in periods of strong economic growth. This reflects the nature of structural change. However, recessions can have a heightened effect on some industries and influence the patterns of recovery.

The number of people employed in each broad industry category decreased at some stage during the recession of the early 1990s. The largest decline occurred in Manufacturing (139 000 fewer jobs than at its peak) and Financial and insurance services (63 000 fewer people employed). Employment in Retail trade and Accommodation and food services, two of the more Pay Scale reliant industries, declined to a smaller extent and over a shorter period of time before recovering.⁷⁹

Employment in low-skilled and higher-skilled occupations declined to a similar degree during the 1990s recession. Again, this varied by industry, with some such as Accommodation and food services continuing to deliver moderate growth in low-skilled jobs. In the early phase of the recovery from that recession, the more Pay Scale reliant industries tended to deliver stronger growth in low-skilled employment, with higher-skilled employment growing at a slower rate.

⁷⁴ AHA, *2009 Submission to the Australian Fair Pay Commission, Concerning Minimum Wages*, 20 March 2009, p. 5.

⁷⁵ ARA, *Submission to the Australian Fair Pay Commission*, 20 March 2009, Schedule 1, pp. 1–2.

⁷⁶ MGA, *2009 Minimum Wage Review, Submission by the Master Grocers Australia*, 20 March 2009, p. 6.

⁷⁷ CCIQ, supplementary material for the Australian Fair Pay Commission Minimum Wage Review, letter to Professor Ian Harper dated 11 May 2009.

⁷⁸ ARA, March 2009, p. 8, paras. 19–20.

⁷⁹ ABS, *Labour Force, Detailed, Quarterly*, February 2009, Catalogue No. 6291.0.55.003, Canberra, ABS, 2009.

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There are some similarities between the patterns of change in the year to February 2009 and the early part of the 1990s recession.

- The largest decline in activity, profitability and employment has occurred in the Manufacturing industry, with 65 000 fewer people employed in Manufacturing and Financial and insurance services, combined, over the year to February 2009.⁸⁰
- Employment in Accommodation and food services has decreased, although the *Sensis Business Index* reports that the industry strengthened by early 2009, recording the highest net performance in sales, profitability and capital expenditure of all industries.⁸¹
- The number of people employed in Retail trade declined by 32 000 over the year to February 2009. The outlook for this industry remains mixed, with the *Australian Retailers Index* suggesting that weaker sales and profit growth are expected by mid-2009. However, the Australian Government suggests that there are grounds for optimism, with employment increasing in the industry in the early part of 2009.⁸²
- The number of job vacancies has declined sharply over the last year, by around 50 per cent on some estimates, across a broad range of occupations and skill levels.⁸³

The role for minimum wages

The Australian labour market can expect to experience further compositional changes through 2009–10, with total employment forecast to decrease. The nature of these changes will become more apparent as they unfold. However, the Commission is conscious that minimum wages affect some industries and occupations more than others. For example, around 55 per cent of employees in the Accommodation and food services industry rely on an award or Pay Scale only, with part-time employees and elementary clerical and sales workers the most highly reliant on minimum wages. Changes in minimum wage rates are therefore more likely to affect both levels of continued employment and the potential for further jobs to be offered within those industries and occupations.

One of the tasks of labour market policy is to encourage the matching of job seekers with vacancies. Borland and Kennedy have found that unemployment is disproportionately high for workers whose last job was as a labourer, tradesperson, clerical, sales or service worker and/or in the Manufacturing, Construction or Accommodation and food services industry.⁸⁴

⁸⁰ ABS, *Australian National Accounts: National Income, Expenditure and Product*, December 2008, Catalogue No. 5206.0, Canberra, ABS, 2009; ABS, *Business Indicators*, December 2008, Catalogue No. 5676.0, Canberra, ABS, 2009; and ABS, *Labour Force, Detailed, Quarterly*, February 2009, Catalogue No. 6291.0.55.003, Canberra, ABS, 2009.

⁸¹ Sensis, *Sensis Business Index – Small and Medium Enterprises*, February 2009, <<http://www.about.sensis.com.au/resources/sbi.php>> at 11 May 2009.

⁸² Commonwealth of Australia, *Budget Paper No. 1: Budget Strategy and Outlook 2009–10*, Canberra, Canprint Communications, 2009, p. 2–19.

⁸³ DEEWR, *Vacancy Report*, April 2009, <<http://www.workplace.gov.au>> at 23 April 2009.

⁸⁴ J Borland and S Kennedy, 'Dimensions, structure and history of Australian unemployment' in G Debelle and J Borland (eds), *Unemployment and the Australian Labour Market, Proceedings of a Conference*, H C Coombs Centre for Financial Studies, Kirribilli, 9–10 June 1998, RBA and ANU, Canberra, Alken Press Pty Ltd, 1998, pp. 81–83.

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Studies of workers who regain employment after a period of unemployment have found that they often experience a change in the nature of their work, with many higher-skilled people moving to lower-skilled occupations and/or other industries. For example, some people retrenched from Manufacturing have subsequently found employment in service industries.⁸⁵ On that basis, it is important that minimum wage rates be set at a level that encourages new employment opportunities for people who are displaced from their current jobs.

Lower-skilled people also become less competitive in the labour market as higher-skilled people who become unemployed accept lower-skilled jobs.⁸⁶ This 'crowding out' effect is likely to be greater during downturns, when unemployment rates of higher-skilled people tend not to increase to the same degree as those of low-skilled people. Low-skilled people are less likely to regain employment and are more likely to leave the labour force.⁸⁷

As indicated previously, the retail and hospitality industries are most concerned by the increase in costs that would be associated with higher minimum wages at this time. Provided that minimum wages are set at a supportive level, the experience of the last recession suggests that some of the more Pay Scale reliant industries have the potential to offer higher levels of employment growth through the recovery, in part because of the greater flexibility of employment structures within those industries.

3.2. Employment and unemployment of low-skilled people

Labour market disadvantage

The patterns of unemployment that emerged in earlier periods of Australia's economic history, and the associated effects on people who become unemployed, have been extensively reviewed in the past.⁸⁸ In previous recessions, labour market disadvantage has tended to become concentrated in particular parts of the community and has proven difficult to reduce.

The Australian Government submits that the strength of the economy until 2008 has benefited all groups of workers. However, it expects that some groups will be more disadvantaged than others as the economy weakens.

While labour market conditions have strengthened for most cohorts over recent years, certain groups in the labour market, including teenagers, the long-term unemployed, lone parents, lower skilled workers and those with low levels of educational attainment, are likely to face significantly greater levels of labour market disadvantage as a result of the economic impact of the global financial crisis, compared with most other cohorts.⁸⁹

⁸⁵ G Murtough and M Waite, *Unemployment and Re-employment of Displaced Workers*, Productivity Commission Staff Research Paper, Canberra, AusInfo, 2000, pp. x–xi.

⁸⁶ I Linsley, *Causes of Overeducation in the Australian Labour Market*, Department of Economics, University of Melbourne, Research Paper Number 940, 2005.

⁸⁷ P Frijters and R Gregory, 'From Golden Age to Golden Age: Australia's 'Great Leap Forward'?', *The Economic Record*, Vol. 82, No. 257, 2006, pp. 207–224.

⁸⁸ For example, in Committee on Employment Opportunities, 1993.

⁸⁹ Australian Government, March 2009, p. 16, para. 3.12.

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Baum and Mitchell suggest that some individuals, families and communities can be expected to emerge from the current downturn only mildly scarred, while others may experience greater disadvantage.⁹⁰ Australian evidence indicates that the burden of increased unemployment falls disproportionately on identifiable demographic groups, especially those attempting to find a foothold in the labour market and to maintain that position. These groups include young people, low-skilled people, and migrants from non-English speaking backgrounds, demographic groups identified as being both more heavily reliant on minimum wages and at higher-risk unemployment.⁹¹

Employment effects of the 1990s recession

During the recession of the early 1990s, the employment rate of the Australian working-age population (aged 15 to 64 years) fell by almost four percentage points on an annualised basis. However, this effect varied across demographic groups, with some experiencing no reduction in aggregate employment.

Table 2 summarises population employment rates by gender and age for the working-age population in 1989 and 1993 (immediately before and after the recession) and most recently in 2008. This shows that the male employment rate fell by almost six percentage points between 1989 and 1993, compared with a fall of less than one percentage point among working-age women. Employment losses were greatest for young men and women under the age of 25 and for men aged 55 to 64, while the employment rate of prime-age women remained essentially unchanged and that of women aged 55 to 64 increased.

Table 2: Employment rates by gender and age, 1989, 1993 and 2008

		Employment rate (% of population)			
Gender/age group		1989	1993	Change 89-93	2008
Men aged	15-24	67.5	58.0	-9.5	65.2
	25-54	89.1	84.0	-5.1	88.3
	55-64	58.9	52.7	-6.2	65.7
All men aged	15-64	79.9	74.0	-5.9	79.6
Women aged	15-24	60.9	54.5	-6.4	63.4
	25-54	62.0	62.1	+0.1	72.5
	55-64	22.9	25.2	+2.3	49.1
All women aged	15-64	56.6	55.7	-0.9	66.7

Note: All figures are averages of monthly data for the relevant calendar year.

Source: ABS, *Labour Force, Australia, Detailed – Electronic Delivery*, April 2009, Catalogue No. 6291.0.55.001, Canberra, ABS, 2009.

⁹⁰ S Baum and W Mitchell, *Red Alert Suburbs: An Employment Vulnerability Index for Australia's Major Urban Regions*, University of Newcastle and Griffith University, March 2009.

⁹¹ J Healy and S Richardson, *A Strategy for Monitoring the Micro-Economic and Social Impacts of the Australian Fair Pay Commission*, Research report No. 4/07, National Institute of Labour Studies, report commissioned by AFPC, 2006, p. 12.

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Table 2 also shows that, while most groups had 2008 employment rates that were substantially higher than immediately before the last recession, those of young and prime-age men remained below their 1989 levels.

Borland and Kennedy find that cyclical phases where unemployment has increased have generally involved a decrease in the male full-time employment-to-population ratio, whereas phases that involve a decrease in unemployment generally involve increases in female full-time and part-time employment.⁹²

Frijters and Gregory report that the male full-time employment-to-population ratio has decreased since the early 1980s, with the decrease concentrated among low-skilled and unskilled men.⁹³ At the same time, the proportion of men who have become reliant on income support has increased. While the decline in male full-time employment rates was evident in most age categories, many older men had left the labour force via the Disability Support Pension, with each recession shifting the amount of job loss higher.⁹⁴

Each economic downturn reduces the level of unskilled male employment which, when the economic upswing begins, does not return to previous levels and therefore the welfare population increases considerably.⁹⁵

These cyclical trends began to re-emerge in the year to April 2009. Male full-time employment decreased from its peak in August 2008 by 97 000, while male part-time employment increased by 58 000 and female part-time employment increased by 37 000.⁹⁶ The labour force participation rate of men did not change, so that the reduction in employment translated into higher unemployment. Among women, labour force participation increased over the period, also resulting in higher unemployment.

Table 3 further illustrates how the employment of groups with differing household relationship status changed during the last recession and the subsequent recovery. The two groups that saw the largest reduction in employment were non-dependent children living with their parents and people living with unrelated others. These groups are predominantly aged under 35 (85 per cent of the former and three-quarters of the latter). The employment rates of both of these groups are still well below their 1989 levels.

Single parents with dependent children also suffered a reduction in their employment rate of around five percentage points over the course of the 1990s recession, but since then their employment rate has improved substantially. Nevertheless, this group remains relatively low-skilled and may thus be vulnerable to future job losses and unemployment. Whiteford observes that long-term joblessness continues to be concentrated in a relatively small group of families at risk of severe disadvantage, with Australia having one of the highest levels of joblessness among (primarily single parent) families with children.⁹⁷

⁹² Borland and Kennedy, 1998, p. 72.

⁹³ Frijters and Gregory, 2006, pp. 211–213.

⁹⁴ R G Gregory, 'Australian Labour Markets, Economic Policy and My Late Life Crisis', mimeo, undated <<http://rsss.anu.edu.au>> at 26 May 2009, pp. 214–215.

⁹⁵ R G Gregory, undated, p. 219.

⁹⁶ ABS, *Labour Force, Detailed, Quarterly*, February 2009, Catalogue No. 6291.0.55.003, Canberra, ABS, 2009.

⁹⁷ P Whiteford, *Family joblessness in Australia*, paper commissioned by the Social Inclusion Unit of the Department of the Prime Minister and Cabinet, January 2009, <<http://www.socialinclusion.gov.au/Pages/ResearchPapers.aspx>> at 25 May 2009, pp. 4–5.

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Table 3: Employment rates by household relationship status, working-age population, 1989, 1993 and 2008

Household relationship status	Employment rate (% of population)			
	1989	1993	Change 89-93	2008
Partnered person with dependent children	73.7	71.3	-2.4	79.6
Partnered person without dependent children	66.0	65.4	-0.6	76.0
Single parent with dependent children	50.3	45.4	-4.9	62.5
15-24 year old student living with parents	31.0	29.4	-1.6	45.7
Non-dependent child living with parents	87.2	78.3	-8.9	79.8
Person living with unrelated others	82.7	72.6	-10.1	78.2
Person living alone	68.7	65.0	-3.7	73.5
Total	69.1	65.4	-3.7	73.4

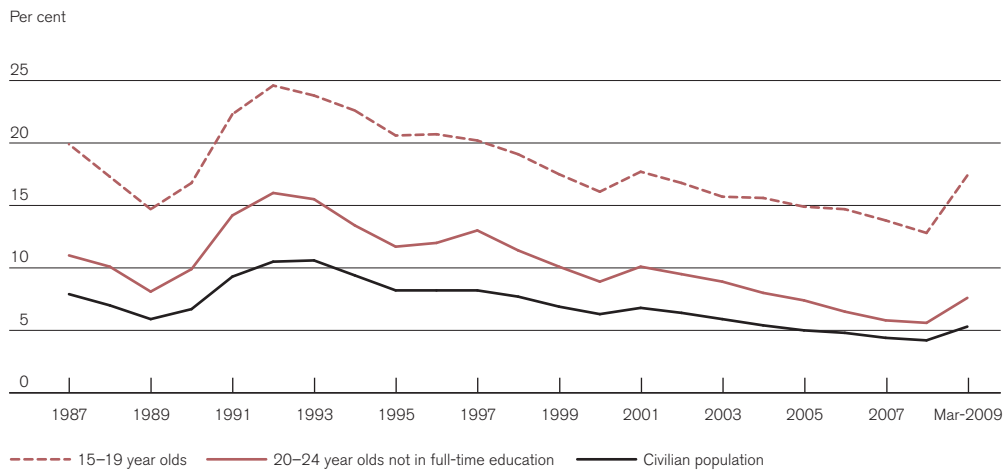
Note: Dependent children include all children under the age of 15 and full-time students aged 15 to 24. Figures are as at June in each year.

Sources: ABS, *Labour Force Status and Other Characteristics of Families, Australia*, June 1989 and 1993, Catalogue No. 6224.0, Canberra, ABS; and ABS, *Labour Force, Australia, Detailed – Electronic Delivery*, April 2009, Catalogue No. 6291.0.55.001, Canberra, ABS, 2009.

The data summarised in Tables 2 and 3 suggest that young people, especially those who are not full-time students, may be at particular risk of employment reductions over the course of the current downturn. While it is usual for young people to have a higher risk of unemployment than older age groups, this effect is magnified when young people seek to enter the labour market during a period of weakness.

The Australian Government notes that labour market conditions for young people have deteriorated over the last year and that they may have difficulty gaining full-time employment during an economic downturn.⁹⁸ Figure 7 confirms that unemployment among young people has already increased in early 2009 to a greater degree than for the labour force as a whole.

Figure 7: Unemployment rates of selected age groups, 1987 to 2009



Source: ABS, *Labour Force, Detailed, Quarterly*, February 2009, Catalogue No. 6291.0.55.003, Canberra, ABS, 2009.

⁹⁸ Australian Government, March 2009, p. 17.

Section 3 Effects of unemployment on subsequent labour market experience

A number of submissions recognise that, in weak economic conditions, the lowest skilled and marginal workers are more at risk of not obtaining or remaining in employment.

'...in a more difficult labour market environment those with lower educational attainment will find it more difficult to secure another job after retrenchment than their more highly skilled counterparts. Similarly, new labour market entrants without skills will encounter greater difficulty securing an initial foothold in the jobs market if the labour market weakens further, as predicted.'⁹⁹

'While high skilled workers are now losing jobs in response to changed market conditions and the drop in demand for their skills, the unskilled are always most susceptible to increases in minimum rates...The employment impact of any increase will be sharpest for those who are intended to be the focus of the AFPC attention.'¹⁰⁰

'Those with lesser skills, shorter labour market attachment (or longer periods out of work), with disabilities, or indeed parents with restrictions on their working availability may well be amongst the first to feel the impacts of reduced labour demand.'¹⁰¹

Empirical evidence points to long-term consequences or scarring for individuals who experience joblessness.¹⁰² As the contraction in employment persists, many people who become unemployed in its early phases remain jobless and find it increasingly difficult to regain work, thus leading to a concentration of unemployment.¹⁰³

Given diminished demand for labour and the position of low-skilled job seekers at the 'back of the queue', some react to the adverse labour market conditions by withdrawing from active job search and possibly leaving the labour force altogether. This has been the experience of many older workers, for whom loss of employment is more likely to lead to long-term unemployment.

Murtough and Waite¹⁰⁴, in addition to other researchers¹⁰⁵, have also found that low-skilled people are less likely to regain employment and have an increased likelihood of leaving the labour force.

A further deleterious effect is that periods of unemployment restrict subsequent earnings in a number of ways – by reducing hourly wages or the number of hours worked or by making people susceptible to persistent underemployment. Minimising the extent of cyclical unemployment would therefore help to minimise the ongoing extent of underemployment and lower earnings.

⁹⁹ Australian Government, March 2009, p. 19, para. 3.25.

¹⁰⁰ AFEI, March 2009, p. 25, para. 42.

¹⁰¹ ACCI, March 2009, p. 12, para. 54.

¹⁰² A T Le and P W Miller, *A Risk Index Approach to Unemployment: An Application Using the Survey of Employment and Unemployment Patterns*, ABS Occasional Paper, Catalogue No. 6293.0.00.01, Canberra, ABS, 2009, p. ix; D Doiron and T Gorgens, 'State dependence in youth labour market experiences, and the evaluation of policy interventions', *Journal of Econometrics*, vol. 145, Issues 1–2, 2008, pp. 81–97; M Gray, *The Effects of Unemployment on the Earnings of Young Australians*, ANU Centre for Economic Policy Research, Discussion Paper 419, September 2000, p. 1; and B Chapman and M Gray, *Youth Unemployment: Aggregate Incidence and Consequences for Individuals*, ANU Centre for Economic Policy Research, Discussion Paper 459, December 2002.

¹⁰³ B Chapman and C Kapuscinski, *Avoiding Recessions and Australian Long-Term Unemployment*, ANU Centre for Economic Policy Research, Discussion Paper 418, July 2000.

¹⁰⁴ Murtough and Waite, 2000, pp. x–xi.

¹⁰⁵ Frijters and Gregory, 2006, pp. 207–224.

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While recognising that wage restraint is needed to support employment growth, ACOSS considers that the extent to which minimum wage restraint can improve the job prospects of low-skilled workers is limited. It suggests that:

More investment in programs that improve their skills, work capacity, health and personal circumstances is likely to produce better outcomes. Better education of employers about the actual capabilities of groups they are currently reluctant to employ - especially people with disabilities, mature age workers and indigenous people - could also make a difference...¹⁰⁶

As Baum and Mitchell indicate, "there is no shortage of research which illustrates that the early experiences of those entering or seeking to enter the labour market significantly influence their future social, economic and behavioural fortunes".¹⁰⁷

Community groups, including some specifically concerned with youth affairs, agree that the problems that young people have in gaining employment will be exacerbated by the economic downturn. However, they remain more concerned about the effect of the downturn on young people's living standards if minimum wage rates are not maintained in real terms.¹⁰⁸

Some submissions respond to the Commission's interest in labour market transitions, as expressed in the 2008 general Wage-Setting Decision.¹⁰⁹ However, most of the research cited in submissions was conducted during stronger labour market conditions and this may limit the application of those findings to prospective conditions.

ACOSS reiterates that there is evidence that some low-paid workers move to more secure, better-paid jobs, while others return to joblessness.¹¹⁰ Buddelmeyer, Lee and Wooden find that, while low-paid workers are at greater risk of future unemployment than workers in more highly-paid jobs, an episode of employment, whether low-paid or high-paid, reduces the scarring effect of unemployment in terms of future employment and earnings.¹¹¹

The Commission notes that the Australian Government has introduced a range of measures to assist job seekers back into employment, including greater access to employment services and training for vulnerable young job seekers, retrenched workers and apprentices. These measures are in addition to encouraging greater demand for workers.

¹⁰⁶ ACOSS, March 2009, p. 36; and WACOSS, *Submission to the Australian Fair Pay Commission Minimum Wage Review*, March 2009.

¹⁰⁷ S Baum and W Mitchell, 'Adequate Employment, Underutilisation and Unemployment: an Analysis of Labour Force Outcomes for Australian Youth', *Australian Journal of Labour Economics*, Vol. 11, No. 3, 2008, p. 187.

¹⁰⁸ See ACOSS, March 2009, p. 47; AYAC, March 2009, p. 4; NSW Young Labor Action, *Submission to the Fair Pay Commission 2009 Minimum Wage Review*, 19 March 2009; and YACVic, *Submission to the Australian Fair Pay Commission 2009 Minimum Wage Review*, March 2009, p. 8.

¹⁰⁹ For example, Victorian Government, March 2009, p. 36, para. 3.3.9.

¹¹⁰ ACOSS, March 2009, pp. 36-38.

¹¹¹ H Buddelmeyer, W Lee and M Wooden, *Low-Paid Employment and Unemployment Dynamics in Australia*, Melbourne Institute Working Paper No. 6/09, March 2009.

Section 3 Public consultations on economic behaviour at the micro level

As reported previously, public consultations with individual employees, jobseekers and businesses were undertaken for the 2009 Minimum Wage Review on behalf of the Commission. Some participants described the labour market as being “more akin to an employers’ market”, with the supply of labour exceeding the demand for labour and hiring activity slowing.¹¹²

In later stages of the consultations, both employees and jobseekers reported placing greater importance on job security, particularly those who had maintained their job but had been directly exposed to the effects of the downturn in some way. In contrast with previous consultations, people were more likely both to report increasing their work effort to retain their employment and to express a desire for permanent work. Relative to other wage reviews, perceived prospects for upward labour mobility were weak. Stage two consultations also revealed that job seekers were more prepared to work in less desirable forms of employment, with lower pay and conditions, and fewer working hours, if it meant being able to keep a foothold in the workforce.¹¹³

3.3. Summary

Submissions to this wage review indicate widespread concern about the potential for unemployment among segments of the labour force. Many employer submissions argue that, in the current economic climate, an increase in minimum wages will raise the level of unemployment among low-skilled people.¹¹⁴ ACCI suggests that:

An increase in FMW may reduce the employment of low-skilled employees as employers substitute low-skilled workers with higher skilled workers and reduce opportunities for work experience accumulation directly via the disemployment effect. These adverse effects of minimum wages on skill formation development amongst low-skilled employees consequently imply that fewer low-skilled workers will attain higher wage jobs in the future – one of the most effective ways of attaining higher living standards.¹¹⁵

The number of people unemployed reached around 900 000 during the recession in the early 1990s, with a larger number of people also affected indirectly as a result of being fellow household members or via the social costs of unemployment. Research has indicated that the costs of unemployment tend not to be temporary and that it takes an extended period of time to reduce unemployment once it has occurred, particularly among the low skilled.¹¹⁶

On balance, the capacity of the unemployed and low paid to obtain and remain in employment has been reduced by the economic downturn. The Commission considers that its decision will both protect jobs in the short term and better support a speedy recovery in employment in the medium term. As the effects of downturns tend to be concentrated on the most disadvantaged segments of the labour force and have longer term implications, the Commission’s key concern is that an increase in minimum wages may exacerbate the forecast increase in unemployment.

¹¹² Southwell et al, 2009, forthcoming.

¹¹³ Southwell et al, 2009, forthcoming.

¹¹⁴ AHA, March 2009, p. 5.

¹¹⁵ ACCI, March 2009, p. 149, para. 420.

¹¹⁶ For example, Chapman and Kapuscinski, 2000.