



## The problem with junior pay rates, explained.

By Kyle Taylor

### Key points

1. Almost 60 per cent of young people 20 and under are earning less than the national minimum wage or relevant award.
2. Young Australians are collectively earning an estimated \$3.5 billion less in wages per annum compared with what they would earn on the adult rates, further contributing to intergenerational inequity.
3. Internationally, many countries, such as New Zealand, Canada, South Korea and Belgium, have removed, or restricted in scope, sub-minimum wages for young people entirely or for young people 18 and over.
4. It is estimated that incremental increases to the junior rates to match the adult rates would have minimal labour displacement effects.
5. It is estimated that increasing the wages of Australians 20 years and under paid junior rates to match adult pay rates would boost the Australian economy by \$548 million to \$902 million and would generate approximately 3,400 to 5,600 new full-time equivalent jobs.
6. It is recommended that the junior rates be phased out for young Australians 18 and over and be set at a fixed rate for young people 17 and under.

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### Many young Australians are paid less than the national minimum wage

In Australia there are separate minimum wages for young people under the age of 21 years. For such employees, employers can pay them a percentage of the national minimum wage or relevant award, although not all awards have junior rates. Table 1 shows the rates of pay for junior employees not covered by an award.

**Table 1:** Rates of pay (%) for junior employees not covered by an award

AGE	% RATE OF PAY
Under 16 years of age	37 per cent
At 16 years of age	47 per cent
At 17 years of age	58 per cent
At 18 years of age	68 per cent
At 19 years of age	83 per cent
At 20 years of age	98 per cent

Source: Fair Work Commission, as at January 2020



Around 57 per cent of young people aged 20 years and under are earning less than the national minimum wage or relevant award, suggesting that employers are using the provision heavily.<sup>1</sup> Disaggregated by age group, approximately 38 per cent of 18- to 20-year-old employees are paid junior rates compared to around 92 per cent of young people 17 and under.<sup>2</sup>

Based on Australian Bureau of Statistics (ABS) data on employee earnings and hours, it has been estimated that the individual cost of the junior pay rates is on average \$8,483 per year per junior employee, resulting in approximately \$3.5 billion per year in lost wages for young Australians, further contributing to intergenerational inequity.<sup>3</sup>

Importantly, the proportions that apply to the junior rates are usually based on the employee's age and increase on their next birthday. Therefore, the provision promotes the hiring of young people who meet the minimum legal age for employment who are most likely still enrolled in secondary school, as opposed to post-secondary school students, secondary school graduates and early leavers. This is counter-intuitive as young people who are post-secondary school students, secondary school graduates or early leavers may actually need the income more than enrolled secondary students.

### **Why do we have junior rates?**

The rationale for a junior pay rate is to facilitate the employment of young people often entering their first or second job, recognising their competitive disadvantage in the job market relative to older Australians who generally have more work experience. Proponents of the lower rate believe it is necessary to give employers an incentive to hire young people and that employment opportunities for young Australians, which are extremely important to their future career development, would decline if junior pay rates did not exist. However, many of these claims lack tested empirical evidence, and are heavily reliant on anecdotes from the business community.

There are also arguments that young people incur training costs and need a high level of supervision, both of which may justify a lower rate. Further, it is argued that providing these opportunities comes at a cost to employers because younger employees are less productive and have a higher turnover rate than other, more experienced employees who are paid the national minimum wage or relevant award.

There is scant evidence to indicate the extent to which turnover of employees paid at a junior rate is greater than employees paid an adult rate, and to which training costs are higher, and productivity is lower.

When young people work, they more often work part-time, with approximately 93 per cent of employees paid junior rates working part-time compared to almost 40 per cent of employees paid adult rates.<sup>4</sup> Linked to this, the types of jobs they perform are more likely to be low-skilled and low-paid. Employees paid junior rates generally do the same work as older workers in low-skilled and low-paid industries, such as retail trade and accommodation and



food services, with minimum differences in skills, experience and productivity to justify wage discounts for young workers averaging 40 per cent of the adult rates.

That said, there could be some truth behind some of the assertions, but the reliance on anecdotal evidence and the lack of quantifiable measures makes it difficult to conclude that it is necessary and further research is warranted.

### **A number of countries have removed, or restricted in scope, provisions setting sub-minimum wages for young workers**

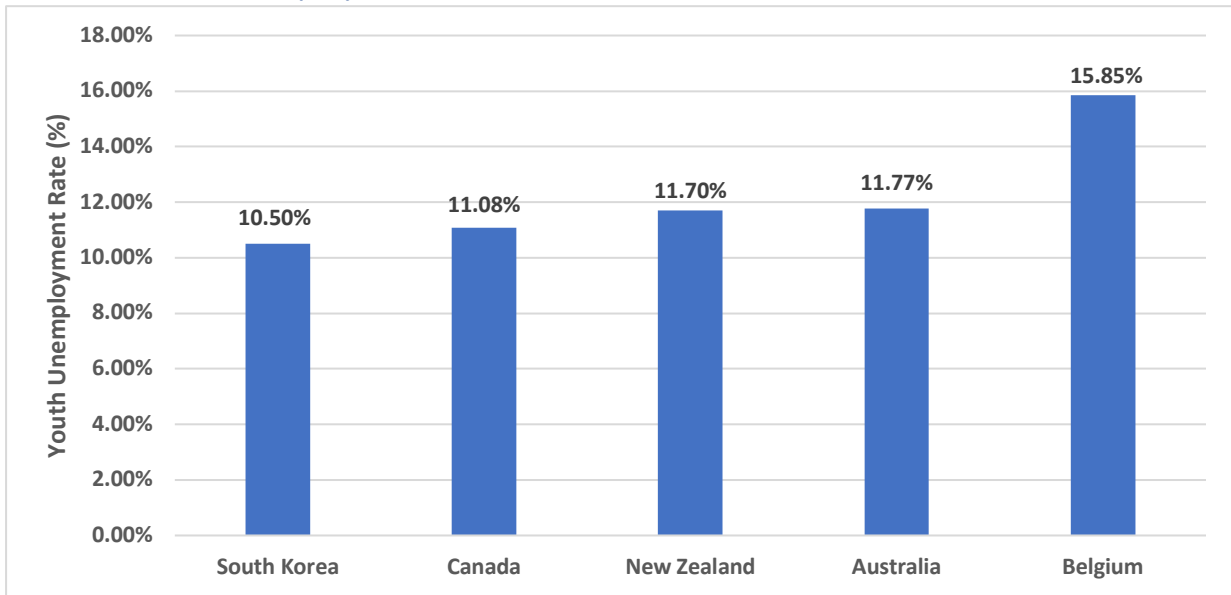
A number of countries have abolished sub-minimum wages for young people entirely or for young people aged 18 years and over. For example, Belgium had sub-minimum wages for 18- to 20-year-old employees but phased these out between April 2013 and December 2014.<sup>5</sup> However, the sub-minimum wages for young people aged 16 and 17 are still in place, amounting respectively to 70 per cent and 76 per cent of the adult minimum wage.

Other countries such as Canada, apart from Ontario, have removed their sub-minimum wages for young people entirely.<sup>6</sup> In Ontario, those aged less than 18 years who work up to 28 hours per week during school time, or who are employed during school holidays, earn approximately 95 per cent of the Province's minimum wage.

Similarly, South Korea abolished its sub-minimum wages for workers 18 years and under in 2005.<sup>7</sup> Prior to this, all young people aged less than 18 years were entitled to 90 per cent of the national minimum wage for the first six months of their employment. Today, all workers in South Korea, regardless of age, with less than three months work experience, are paid 90 per cent of the national minimum wage.

Interestingly, as opposed to age-based sub-minimum wages for young people, New Zealand introduced rates based on continuous time spent in a job.<sup>8</sup> The starting-out minimum wage applies to 16- to 19-year old employees who are commencing employment for the first time, and are entitled to 80 per cent of the adult minimum wage. Once they have completed six months of continuous employment with the same employer, they must be paid the adult rate.

**Table 2: Youth unemployment rate (%), selected countries, 2018**



Source: OECD data.

It is worth noting that the youth unemployment rate – the number of persons unemployed aged 15 to 24 years expressed as a percentage of the youth labour force – is not more prevalent in Canada, South Korea, and New Zealand than in Australia (Table 2).<sup>9</sup> This finding is in line with a meta-analysis of evidence presented by the International Labour Organisation (ILO), which found that reducing or removing minimum wages was unlikely to have a significant positive impact on youth employment.<sup>10</sup>

### **Eliminating junior rates would cost less than an annual award wage increase**

Employees paid junior rates make up less than 4 per cent of all employees in Australia, and it is estimated that eliminating junior rates would equate to a 0.5 per cent increase in the overall wage costs to employers.<sup>11</sup> The wage cost increase from eliminating junior rates would be higher in some industries compared to others, particularly in industries where employees who are paid junior rates make up a higher proportion of the overall workforce, such as in the retail trade and accommodation and food services industries.

It is worth noting that while junior employees in the retail trade and accommodation and food services industries make up approximately 76 per cent of all employees paid junior rates, employees paid junior rates do not make up the majority of employees in the retail trade and accommodation and food services industries.<sup>12</sup> Employees paid junior rates in the retail trade and accommodation and food services industries make up approximately 13 per cent and 21 per cent of all employees in those industries, respectively, and eliminating junior rates for young workers to match adult rates will increase the overall wage costs to employers approximately 2.5 per cent in retail trade and almost 5 per cent in accommodation and food services.<sup>13</sup>

### **Phasing out junior rates would have minimal labour displacement effects**



It is estimated that eliminating junior pay rates could cause an initial fall in employment of young Australians paid junior rates of up to approximately 2 per cent.<sup>14</sup> Alternatively, employers might undertake recruitment freezes. However, the impact from eliminating junior rates would be less pronounced if the junior rates were phased out over time.

These findings are in line with a meta-analysis of evidence presented by the ILO, which found that increases in the minimum wage have either a small or a not statistically significant impact on youth employment, or both.<sup>15</sup> The analysis presented by the ILO is based on 328 estimates of the effects of minimum wages on the employment of young people from 15 countries that were published between 1990 and 2015.

Overall, the evidence suggests that phasing out junior pay rates to match adult rates is unlikely to harm youth employment to any significant degree. Even if phasing out junior pay rates did have a negative impact on the employment of young people, this would be small in percentage terms compared to the increase in wages.

### Eliminating junior pay rates would generate economic activity and create jobs

Showing that eliminating junior rates would be a tool for generating economic activity requires an examination of the stimulative effects from potential wage increases for employees paid junior rates. Because wage increases come from employers, we must construct wage increase multipliers that take into account the increase in compensation to young Australians and the decrease in company profits that occur as a result of wage increases. Eliminating the junior rates means shifting profits from employers who are less likely to spend immediately to workers paid junior rates who are more likely to spend immediately. Thus, it is assumed that eliminating junior rates for young Australians would stimulate demand for goods and services, leading employers in the broader economy to bring on new staff to keep up with this increased demand.

When analysing the net economic stimulus effect of policy proposals (e.g., income tax cuts that boost disposable incomes), economists use a set of widely accepted fiscal multipliers to calculate the total increase in economic activity due to an increase in spending. In applying these multipliers, economists generally recognise a direct relationship between increased economic activity and job creation.

**Table 3: Estimated economic impact of eliminating junior rates**

	Lower Bound	Upper Bound
<i>Total economic impact (\$ million)</i>	\$547.84	\$902.32
<i>Boost in GDP (%)</i>	0.03 per cent	0.05 per cent
<i>Jobs Impact: full-time employment</i>	3,424	5,639

Source: IMF data, ABS data, Author's calculations (See Appendix).

Using fiscal multipliers to analyse the economic impact of eliminating junior pay rates, we find that increasing the wages of Australians 20 years and under paid junior rates to match adult pay rates would boost the Australian economy by \$548 million to \$902 million.<sup>16</sup> This equates



to a 0.03 to 0.05 per cent gain in GDP and could generate approximately 3,400 to 5,600 new full-time equivalent jobs (Table 3).<sup>17</sup>

Though the resulting economic impact is modest in the context of the approximately 700,000 workers currently unemployed nationwide, creating a few thousand jobs would be a step in the right direction.

### **The time has come to re-evaluate the junior rates**

The junior rates are out of step with the core Australian principle of a fair day's wage for a fair day's work. The impact of the junior rates is inherently discriminatory, and the argument that younger workers are less experienced and therefore, should be paid a lower rate really starts to unravel when, for example, you have two equivalently inexperienced employees, one a 21-year-old and the other a 19-year-old. There is no valid argument as to why the 19-year-old employee should not receive the same wage as the 21-year-old employee.

Presumably if young Australians were truly not up to the employment tasks, or made the workplace so much less productive, businesses would not be employing young Australians at all. Factors such as their eagerness to learn and their availability to work short, irregular shifts at non-standard times have been cited by employers as influencing their decision to employ young people.<sup>18</sup> Employers hiring young people may also reflect a company's brand strategy and market orientations, as many employers such as in the retail sector have policies relating to the physical appearance of their staff, including bodily characteristics such as age.<sup>19</sup>

### **The real issue with junior rates is an economic one**

The real issue is an economic one and that young Australians are collectively earning an estimated \$3.54 billion less in wages per year compared with what they would earn on adult rates. This cost will either continue to be absorbed by young Australians if the junior rates remain, or it will be absorbed by consumers or by employers if the junior rates are eliminated. There may well also be some impact on the employment of young Australians, at least in the short run, if junior rates are eliminated. However, as indicated earlier, this could be relatively small if the change is phased in.

Paying young people lower rates is not justifiable in a modern world where cost of living is mounting, wage growth is near stagnant, and young people are trying make important efforts to join the workforce and start lives of their own. The fact that employers are hiring young people makes it unlikely that the training costs for younger people is so markedly different than for older people, or that there is a significantly greater need of supervision that makes the junior rates justifiable.

Young people should be recognised for the work they do and should be as valued as any other worker. The fundamental message should not be that young Australians are worth less than others.



## Recommendations for consideration

Recommendation 1: Junior rates should be phased out for 18 and over.

If you are treated as an adult in every other respect of your life when you turn 18, you should also be getting paid an adult rate. Considering that the majority of 18- to 20-year-old employees are already paid an adult rate, phasing out junior rates for the rest of the age cohort is not only fair but it would represent a small proportion of the overall wage cost to employers.

Recommendation 2: Junior rates should be set at a fixed rate Australians 17 and under

The percentages that apply to the junior rates for young people aged 17 years and under should be phased out and instead, should be set at 80 per cent of the national minimum wage or relevant award. This option recognises the apparent competitive disadvantage of younger people in the job market relative to older Australians while paying young people a fairer wage. It will also disincentivise employers from hiring secondary school students over post-secondary students, secondary school graduates or early leavers because of a wage discount solely on the basis of age.

## Appendix: Methodology

An analysis of the stimulative impact of eliminating out junior pay rates draws on the macroeconomic multipliers for Australia calculated by the International Monetary Fund (IMF), which estimate the average two-year response of real GDP to a two-year, 1 per cent of GDP change in a fiscal instrument (e.g., increased transfers to all households).<sup>20</sup> Using the multiplier for increased transfer to liquidity-constrained households gives a reasonable fiscal stimulus multiplier for the spending increase due to the increase in compensation to young Australian workers. This value is 0.39, which means that a \$1.00 increase in compensation to young Australian workers leads to a \$0.39 increase in economic activity.

The calculation of the economic impact from eliminating junior rates, however, must also account for the offsetting shift from employers. We assume employers pass on some of the wage increase (somewhere between 25 per cent and 50 per cent) to consumers through increased prices. Therefore, we calculate the offsetting multiplier effects as a weighted average of IMF estimates for personal income tax cuts (0.19, as a proxy for increased prices) and estimates for cuts in the corporate tax rate (0.25).<sup>21</sup> This would suggest adjusted multiplier effects for eliminating junior rates between 0.17 (representing the case where 50 per cent of the wage increase is passed through to prices) and 0.28 (representing the case where 25 per cent of the wage increase is passed through to prices).

This analysis also assumes that a \$160,000 increase in economic activity results in the creation of one new full-time equivalent job in the economy. This is based off OECD data on GDP per hour worked.<sup>22</sup> We also assume that a full-time equivalent job is 38 hours per week for 52 weeks in a year.



## References

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- <sup>7</sup> Ibid.
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- <sup>9</sup> OECD. (2020). Youth unemployment rate (indicator). Accessed online: <https://data.oecd.org/unemp/youth-unemployment-rate.htm#indicator-chart>.
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- <sup>14</sup> Author's calculations.; Australia Bureau of Statistics. (2019). *Earnings and Hours, Australia, May 2018*, cat. no. 6306.0. Accessed online: <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6306.0/>.; Bishop, J. (2018). *The Effect of Minimum Wage Increases on Wages, Hours Worked and Job Loss* (No. rdp2018-06). Reserve Bank of Australia. Accessed online: <http://www.rba.gov.au/publications/rdp/2018/pdf/rdp2018-06.pdf>. This paper found no evidence that small, incremental increases in award wages have adverse effects on hours worked and job loss. The author found that the elasticity of wages is 0.93 per cent. This means that for every 1 per cent increase in award wages, approximately 0.93 per cent of the increase is passed through to wages. This may reflect some degree of non-compliance by businesses. The author also found that the elasticity of job loss is -0.37 percentage points. This means that for every 1 per cent increase in award wages, employment fell approximately 0.37 percentage points. The analysis excluded juniors, as it was too difficult to accurately infer their award wage adjustment. However, for this analysis, we have assumed that the effects of minimum wage increases on wages and job loss for employees paid junior rates is comparable, if not slightly larger, to the effects for employees paid adult rates. We have also assumed that a 1 per cent increase in award wages is comparable to a 1 per cent increase in overall labour cost.
- <sup>15</sup> O'Higgins, N., & Moscariello, V. (2017). *Labour market institutions and youth labour markets minimum wages and youth employment revisited* (No. 994964091202676). International Labour Organization. Accessed online: [https://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/documents/publication/wcms\\_575897.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_575897.pdf).
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<sup>22</sup> OECD Productivity Statistics: GDP per capita and productivity growth. Accessed online: <https://data.oecd.org/lprdy/gdp-per-hour-worked.htm>.