

The 2008 Minimum Wage Case: Some questions for the Fair Pay Commission

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(The major part of this article reproduces sections of the “Post-Budget” submissions of the Australian Catholic Council for Employment Relations in the Australian Fair Pay Commission’s current review of minimum wages.)

About one in ten Australian workers depend on the safety net minimum wages set by the Australian Fair Pay Commission (“AFPC”). They are low paid workers who are unable to bargain for higher wage rates. What the AFPC decides has a major impact on them and their families. They are the battlers at the needy end of the “working families” spectrum.

There are five major issues to be determined by the AFPC in its current review of minimum wages:

- First, should the real wages of the most disadvantaged workers in Australia be increased, reduced or maintained?
- Second, should the tax cuts for the low paid in this year’s Budget reduce the increase in wage rates?
- Third, should there be special recognition given to the lowest of the legal minima, the Federal Minimum Wage (“FMW”)?
- Fourth, can a decision on the wage levels of low paid workers have an impact on the bargaining sector of the wages market?
- Fifth, if yes to the fourth question, is it fair to impose burdens on the most vulnerable section of society for the purpose of macroeconomic regulation?

Low –income Working Families

Before the AFPC starts to answer these questions it should focus on this reality: for a single-income family of four, including two school-aged children, the FMW of \$522.12 per week yields a disposable income, after tax and transfer payments, of \$755 per week.

Parents cannot raise and educate children on \$755 per week. The result is marginalization and social exclusion.

The maintenance of the real value of the FMW requires an increase of 4.2%, or \$21.93 per week, based on the latest annual change in the Consumer Price Index. For workers on \$700.00 per week, for example, the maintenance of the real value of their wages requires an increase of \$29.40. The AFPC intends to announce its decision in July and to make it operative from October 2008. By October time the real wage loss will be greater.

Despite the fundamental strength of the Australian economy, some organizations have urged the AFPC to reduce the real value of safety net wages as a means of controlling inflationary pressures.

The Tax Cuts

The argument for real wage reductions relies on the tax cuts in the May 2008 Budget and their impact on after-tax incomes.

The tax cuts from 1 July 2008 are of vital importance to low income workers and their families. But they are very modest. The worker on the FMW (\$27,223 per year) will receive a tax cut of \$8.65 per week. This cut will apply to incomes of up to \$30,000 per year (\$575 per week), but the tax cuts will rise progressively to \$20.19 per week at \$35,000 per year (\$671 per week). The tax cuts of \$20.19 per week will apply over the \$35,000 to \$45,000 per year range. Workers on \$80,000 to \$150,000 per year will receive a tax reduction of \$21.15 per week from 1 July 2008.

If the tax cuts for the low paid were \$20.19 per week and the tax cuts for higher income were \$8.65 per week an argument might be mounted that some of that difference could be taken into account in setting the wage rates for the low paid. But, in fact, a worker on the FMW will be getting proportionately less tax relief than the workers in the \$35,000 to \$45,000 range. A worker on the FMW will be getting proportionately less tax relief than the worker on average weekly earnings who, according to the Treasurer's Budget speech, will have a tax cut of \$20.00 per week in an income of \$48,000 per year.

Low paid workers did not get any special treatment from the 2008 Budget and will not be getting more than their fair share of the benefits of the resources boom. As these figures show, they will get less than their fair share. Low paid workers will be relatively disadvantaged by these tax cuts.

So we can see why there should be alarm amongst low paid working families at the submissions by some that the AFPC should grant increases of \$10 per week, partly on the basis of the tax cuts and partly on the basis of general economic considerations.

Where does the Commonwealth Stand?

What does the Commonwealth Government say about this important issue? The AFPC is an independent body, but it does give weight to what the Commonwealth says.

To the surprise of many, the Rudd Government has followed the practice of the Howard Government in 2006 and 2007 and has not nominated a figure in its submissions to the AFPC. More surprisingly, the Commonwealth's principal submissions do not engage in the debate about the first two questions: the tax cuts and the maintenance of real wages. Some may say they contain a "nod and a wink" for the AFPC to discount real wage increases.

In the very week that the Commonwealth Government announced the membership of its Social Inclusion Board it presented its Post-Budget submissions to the AFPC. Remember, wages and tax levels are fundamental to *economic inclusion* and economic inclusion is fundamental to *social inclusion*.

Yet again, the Commonwealth has left these issues dangle. The Government's Post – Budget submissions refer to the tax cuts and various other budgetary changes which apply to a range of income groups and propose that the low paid “should receive an appropriate increase in minimum wages”.

Let us be clear about the tax cuts. They were promised as a *real* benefit by both sides in the recent election campaign. Just think what would have happened if one side or the other even hinted at the possibility that they might be taken away from some working families by way of reduced wage increases.

The Commonwealth also needs to consider the implications of the relevant part of the Treasurer's Budget speech:

“For too long, working families have watched the proceeds of the boom directed elsewhere, in the form of tax cuts skewed to those already doing very well. Tonight we tip the scales in favour of working families.”

The discounting of wage increases would tip the scales against the most disadvantaged working families.

The Commonwealth Government must take a public and principled stand on the tax cuts issue and formally communicate it to the AFPC.

It is not enough to quarantine the tax cuts. The Commonwealth also needs to take a stand on the real wage issue. Consistent with its policy of social inclusion, the Commonwealth should state that the real value of the wage safety net for low paid workers should be maintained.

FMW-dependent Families

A group of low paid workers who do need a real wage rise are those who are employed on the FMW. They are a very small proportion of the low paid, but they deserve special attention.

The FMW is now \$9.28 below the lowest minimum rate in New South Wales, mainly because of a decision in 2007 by the NSW Industrial Relations Commission to recognize the acute pressures on low income earners, especially housing and other matters that are not fully recognized by the Consumer Price Index.

This year the Australian Catholic Council for Employment Relations has asked the AFPC to increase the FMW by an extra \$9.30 per week above the general wage increases as a *first step* the setting of a safety net FMW that is sufficient, along with taxes and transfers, to yield an income that can support a family at a decent standard of living and not in poverty.

Safety Net Wages as an Economic Regulator?

Those who argue for real wage cuts argue that they will help relieve wage and inflationary pressures. Hence the fourth question: will the depression of the living standards of low paid workers and their families have any economic benefit?

The challenges for the economy don't come from low paid working families. Any reduction in wages and living standards for the most disadvantaged workers will not address the inflationary pressures generated by the global liquidity crisis, rising oil prices and the impact of climate change on food prices.

The challenging economic issues and inflationary pressures are not caused by the wage levels of low paid workers. Any reduction in their real wages would show a misdirected search for solutions to these difficulties.

And any reduction in the real wages of workers who rely on the AFPC for their safety net wages will have no positive effect. Does anyone seriously believe that these workers with bargaining power will bargain for less than the market rate because they know that they have received tax cuts or that lower paid workers who rely on AFPC decisions are doing it tougher than they are? The great bulk of workers will have their tax cuts *and* their market-driven wage rises.

Fairness

The AFPC as a *fair pay* tribunal will also have to look at the fairness of depriving the low paid of their tax cuts and of reducing their real wages. Even if it could be said that the depression of their living standards would have a positive effect in some other sectors, why should they be required to carry this burden? Our economy does not need to rely on the depression of the living standards of low paid workers as a means of macroeconomic regulation.

The economic challenges that confront us can and should be addressed by appropriately targeted fiscal and monetary policies in which the burdens are shared according to means. The reduction of the wages safety net would place an excessive and unnecessary burden on low paid workers and their families.