

Fair Work Australia

Fair Work Act 2009

Annual Wage Review 2009-10

**Submission by the
Australian Catholic Council for Employment Relations**

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Executive Summary

This submission by the Australian Catholic Council for Employment Relations (ACCER) is made for the purpose of advancing the interests of low paid workers and their families. ACCER's advocacy is informed by the Church's status as a major employer in Australia with over 100,000 employees in health, aged care, education, welfare and administration; but it essentially arises from the belief, based on Catholic social teaching, in the right of workers to wages that will support themselves and their families at a decent standard of living.

A major part of this submission is concerned with a detailed analysis of the way in which the setting of safety net wages over the past decade has failed low paid workers and their families. Low paid workers who are dependent on safety net wages have seen a substantial decline in their wages relative to wages in the rest of the community. Furthermore, many of them have had increases of less than the rate of inflation.

Another major part of this submission is concerned with quantifying the needs of low paid workers and their families. The Federal Minimum Wage and other low wage rates have become poverty wages for low income working families.

We welcome the *Fair Work* reforms to the framework of national wage-setting because it provides the opportunity to address the inadequacies in the wages safety net. Our judgment on the effectiveness of these reforms will depend in large part on the capacity of the new wages system to establish a process to address questions such as, how much income does the worker and his or her family need to live a decent life?

It is a question that defies a precise answer, but it is a question that must be answered if FWA is to discharge its overriding statutory duty to provide a fair safety net. We do not expect it to be answered in this year's review because further research is required. We are faced with a situation that cannot be rectified in one year, but it is one in which a significant step needs to be taken in this inaugural Annual Wage Review.

To these ends we have three major submissions:

- *Award wages:* ACCER seeks increases in award safety net rates to cover price rises since the last decision was made in July 2008 to increase safety net wages. In the period since July 2008 there has been an increase of 4.5% in the Consumer Price Index, with another adjustment for the March quarter 2010 to be published prior to the conclusion of this wage review. This would be a modest increase in the circumstances of the wage freeze imposed last year and greater wage increases being paid to the rest of the workforce.
- *The National Minimum Wage:* The Federal Minimum Wage is manifestly inadequate and should not be adopted as the National Minimum Wage, even with a prices adjustment. We present the case for the base cleaner's classification rate of pay, currently \$582.80 per week, to be adopted as an interim rate for the National Minimum Wage, pending the completion of a research program designed to identify the needs of workers and their families. If Fair Work Australia accepts this rate as an interim rate for the NMW, we submit that it should place an onus on those who would argue for its phasing-in to demonstrate sound reasons for such a course.
- *A Research Program:* We propose that Fair Work Australia establish a research program to better inform itself and the parties on the financial and social needs of low paid workers and their families. The program needs to be supported by procedures that will enable the participation of relevant parties in issues concerning the nature and design of that program. We propose that this be done in a way that will provide a transparent framework for the future adjustment of award wages and the National Minimum Wage.

List of Abbreviations

ABS	Australian Bureau of Statistics
ACCER	Australian Catholic Council for Employment Relations
ACCI	Australian Chamber of Commerce and Industry
ACOSS	Australian Council of Social Services
ACTU	Australian Council of Trade Unions
AFPC	Australian Fair Pay Commission
AIRC	Australian Industrial Relations Commission
APS	Australian Public Service
AWOTE	Average Weekly Ordinary Time Earnings
CCER	Catholic Commission for Employment Relations
CPI	Consumer Price Index
CSSA	Catholic Social Services Australia
DI	disposable income
FMW	Federal Minimum Wage
FTB A	Family Tax Benefit Part A
FTB B	Family Tax Benefit Part B
FWA	Fair Work Australia
GST	Goods and Services Tax
HDI	household disposable income
HPL	Henderson Poverty Line
MTAWE	Male Total Average Weekly Earnings
NMW	National Minimum Wage
OECD	Organization for Economic Co-operation and Development
SPRC	Social Policy Research Centre
WPI	Wage Price Index

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A. Introduction

1. This submission to the inaugural Annual Wage Review of Fair Work Australia (FWA) is made by the Australian Catholic Council for Employment Relations (ACCER). ACCER is an agency of the Australian Catholic Bishops Conference which provides the Bishops with advice on employment relations issues and acts as a public advocate for good employment relations. One of its principal activities has been advocacy of adequate minimum wages for low paid workers. About one in six Australian workers receives no more than the prescribed safety net wage. They are unable to bargain for a higher rate, either individually or collectively, and most usually are not union members.
2. The submission was prepared in cooperation with the Catholic Commission for Employment Relations (CCER), Catholic Social Services Victoria and Catholic Social Services Australia (CSSA).
3. CCER is an employer body representing Catholic employers in New South Wales and the Australian Capital Territory. In recent years CCER has played an active role in State Wage Cases in the New South Wales Industrial Relations Commission in support of low paid workers. In 2007 it alone successfully argued for a further wage increase of \$7.00 per week for workers on the NSW lowest award rate of pay; see *NSW State Wage Case 2007* [2007] NSWIRComm 118.
4. CSSA is the Catholic Church's peak national body for social services and is an agency of the Australian Catholic Bishops Conference. CSSA represents 66 member organizations which employ about 10,000 people, engage over 4,000 volunteers and provide 500 different services to over a million people each year from sites in metropolitan, regional and rural Australia. Clients are drawn from a

wide spectrum of Australian society, including low income and unemployed workers and their families. Last financial year the members of CSSA reported expenditure of almost \$600,000,000.

B. Why we Advocate for Low Paid Workers and their Families

5. Through its many agencies, the Catholic Church employs over 100,000 employees throughout Australia. ACCER's advocacy is informed by the Church's status as a major employer and as a major supplier of services in health, aged care, education and welfare throughout Australia. However, the advocacy is based on concern for the well being of workers, especially low paid workers and low income working families, as well as Catholic social teaching on work and the employment relationship. Catholic social teaching places great emphasis on the right of workers to wages that will support themselves and their families at a decent standard of living. (For a review of this teaching see *Workplace Relations: A Catholic Perspective*, published by ACCER in 2007 and also available at www.accer.asn.au).
6. Catholic teaching on the spiritual, economic and social aspects of modern industrial societies has its genesis in Pope Leo XIII's 1891 encyclical *Rerum Novarum*. *Rerum Novarum* "expounds ... the Catholic doctrine on work, the right to property, the principle of collaboration instead of class struggle as the fundamental means for social change, the rights of the weak, the dignity of the poor and the obligations of the rich, the perfecting of justice through charity, on the right to form professional associations"; Congregation for Catholic Education, *Guidelines for the Study and Teaching of the Church's Social Doctrine in the Formation of Priests*, 1988, page 24.
7. An essential element in Catholic social teaching is the emphasis given to the protection of the poor and vulnerable. Often this is referred to as the "preferential option for the poor". This term is a modern one, first used by Pedro Arrupe, a Superior General of the Jesuits, in a letter to his fellow Jesuits in Latin America. It is a term that recognises the special place in Church teaching of concern for the vulnerable, the powerless and the poverty-stricken.
8. Related to this a basic principle in Catholic social teaching: the need to promote the common good. The common good is "the sum total of social conditions which

allow people, either as groups or as individuals, to reach their fulfilment more fully and more easily”; *Compendium of the Social Doctrine of the Church*, paragraph 164. This concept has much in common with “social inclusion”, an objective of the *Fair Work Act 2009* (FW Act). Section 3 of the FW Act states:

“The object of the Act is to provide a balanced framework for cooperative industrial relations that promotes national economic prosperity and social inclusion for all Australians...”

9. In Catholic social teaching work is an obligation and a source of rights. It is an obligation because of the importance of work to the individual, the family and society as a whole. Unemployment is, therefore, a scourge and its presence imposes serious obligations on governments. The special emphasis on the rights of vulnerable workers, is summed up in the following passage by Pope John Paul II in his encyclical *Laborem Exercens* in regard to the connection between work and the achievement of social justice for the poor:

“And the "poor" appear under various forms; they appear in various places and at various times; in many cases they appear as a *result of the violation of the dignity of human work*: either because the opportunities for human work are limited as a result of the scourge of unemployment, or because a low value is put on work and the rights that flow from it, especially the right to a just wage and to the personal security of the worker and his or her family.” (*Laborem Exercens*, 8, italics in original)

10. The concluding words of this passage highlight and bring together three important aspects of the plight of poor and vulnerable workers: lack of employment opportunities, inadequate wages and the lack of job security. Employment, in itself, is not sufficient. The dignity of the worker requires a just wage and personal security. While it is the position of the low paid workers that requires greatest attention, the fundamental principles apply to all workers. Higher paid and less vulnerable workers are also entitled to the rights that flow from the performance of work.
11. Understanding the human dimension is vital to the determination of fair minimum rates of pay. Catholic welfare agencies, like other agencies, have day-to-day experience of the circumstances of the unemployed, of the under-employed and of those who are employed in low paid jobs. Many people move between these three categories. The

under-employed are those who rely on insufficient and irregular casual or part-time employment. They have little or no job security. The tenuous nature of their employment means that they will live a hand-to-mouth existence. There are also low paid workers in regular and ongoing employment who are unable to make adequate provision for themselves and their families. Furthermore, for many of these low paid workers there is little or no prospect of longer-term increases in pay by improving their skills.

12. The circumstances of the unemployed, the under-employed and those in full time low paid employment are similar in many respects. It would be wrong to treat them as discrete categories of workers with conflicting interests. All of them share a struggle for work, security and decent pay in one of the richest countries in the world. A failure to appreciate the common interests of the unemployed, the under-employed and those in full time employment may result in simplistic and unjust proposals for the fixing of minimum wages, creating jobs and providing rewards and incentives to work. We must guard against solutions that seek to set in opposition the interests of low paid workers against the interests of the unemployed.
13. Many in the community, from a wide variety of backgrounds and views, have a deep concern for vulnerable low paid workers and their families and for those who are unemployed or underemployed. We do not present a position that is unique to the Catholic Church. The values we have described are shared by many; but not all. Some see employment as essentially a monetary transaction and others, while concerned about low wages, can find no acceptable alternative to the operation of a *free* labour market. Some see the regulation of minimum wages as a means of macroeconomic management, without due regard for the people concerned and alternative policies. These views come into the public arena when there is debate about minimum wage policies and legislation or the merits of particular decisions.
14. We reject the argument that wages should be allowed to find their own level by operation of market forces as a means of addressing the scourge of unemployment. The view that wages should be able to fall to a “market-clearing” level is inconsistent with long-held beliefs and values across all political groups in Australia and, of course, the terms of the legislation. A worker is worthy of more than a “market-clearing” rate.

15. In the course of these submissions we will review aspects of wage-setting over the past decade, which covered periods during which the Australian Industrial relations Commission (AIRC) and the Australian Fair Pay Commission (AFPC) set federal minimum wages. While we identify some differences between the two, essentially arising from the terms of the legislation under which they operated, our concern arises from developments over the whole of the period.
16. One of our concerns is the use of safety net wages as macroeconomic regulators. In the good economic times of 2008 safety net workers received lesser wage increases than the rest of the workforce, parts of which threatened a wages “breakout”. In the threatening economic times of 2009 they suffered a wage freeze, a real wage cut, when the real wages of the rest of the workforce were increasing and were predicted to increase by more than the real wage cut suffered by safety net workers. In each case the arguments for those outcomes were based on the use of safety net wages to affect outcomes in the rest of the economy: to modify wage deals in the bargaining sector in 2009 and to keep down labour costs in 2009.
17. This is not to deny the value of wage flexibility in changing economic circumstances; but that is essentially the function of the bargaining sector, not safety net wages that are based on needs and minimum wage increments based on relative work value. A bargaining system presents the opportunity for arrangements that can minimise the impact of an economic downturn. If the bargaining system is unable to respond to changing economic times, the burden of adjustment should not fall on those who do not have the power to bargain and have not had access to the benefits that come from bargaining.
18. The AFPC’s decisions in 2008 and 2009 meant that the low paid were required to bear a burden that the rest of the community did not bear and to do so for the benefit of others. This raises questions of equity, fairness and morality. It is not morally acceptable to seek to reduce unemployment by letting wages fall below the level at which workers can sustain a decent standard of living.
19. Assessments of equity, fairness and morality require a consideration of options. These judgments are not made in a vacuum. It is immoral to drive wages down below a decent level when there are other ways to address the issue of job

protection and the creation of employment opportunities; ways which are consistent with an equitable sharing of the burden of creating and sustaining jobs. The use of safety net wages as a macroeconomic regulator, whether effective or not, is not necessary.

20. Catholic social teaching, and common sense, would ask if there are alternatives to the reduction of basic living standards in the pursuit of lower levels of unemployment. This kind of question also arises in regard to a range of employment rights that might be questioned in times of significant unemployment. An informed discussion and judgment should involve:

- an examination of the economic case for a departure from the existing standard;
- the consideration of any other means of achieving the desired economic objectives;
- an assessment of the likely impact of the changes on the incomes, employment security and welfare of various groups;
- determining whether the adverse consequences of the changes would fall unequally on particular groups within the community;
- asking whether any disproportionate impact on a particular group would be fair and just;
- seeing if the claimed objective can be achieved by any other means and at the cost of the community as a whole, or by groups better able to bear the costs of the proposal; and
- giving preference to the poor and the vulnerable.

21. We submit that these kinds of considerations have a role to play in the determination of fairness in wage-setting. The argument that there is a close connection between wage levels and employment opportunities should result in an examination of the imposts on employment before seeking to reduce wage levels. There is a range of government instruments that can be brought to bear on the issue. An obvious one is income tax rates for the low paid. They have the effect of setting the lowest safety net rates at a level that is higher than that necessary to sustain workers and their families and, like payroll taxes, operate as a tax on employment.

22. A tax of \$46.61 (or 8.6%) on the lowest minimum wage operates as a tax on employment. Those who argue against wage rises because of their impact on employment opportunities should confront this point. An ethical approach to sharing the burdens of job creation and the treatment of low-paid workers would question why income tax is payable on the lowest minimum wage. On the question of assistance for long-term unemployed, for example, the proper response is in targeted programs for the unemployed (including subsidies for employers) rather than cutting the real wages and living standards of those who are least able to support themselves.
23. Proposals to allow wages to fall below the level required for a decent standard of living in the hope of reducing unemployment in an economy such as ours are unacceptable because it is *not necessary* for wages to fall in order to reduce unemployment. Reducing wages below that which is needed for a decent living is, at best, a very blunt instrument for the purpose of promoting employment and, at the least, an unfair and immoral one given the alternatives that are available to governments.
24. The setting of minimum wages, the lowest minimum wage in particular, is for the purpose of ensuring that workers and their families have a life that is worthy of their human dignity. We accept that there will be debate about how the standard of living is to be described and measured. In recent years we have been through a national debate on the level of pensions in which there were differences over quantum rather than principle. The principle was that pensions should provide a decent standard of living. The same should apply to low wage working families.

C. From *Work Choices* to *Fair Work*

25. The protection of vulnerable workers and their families was the subject of a Statement made by the Australian Catholic Bishops Conference on 25 November 2005 in relation to the Commonwealth Government's *Workplace Relations Amendment (Work Choices) Bill 2005*, the *Work Choices* amendments. In commenting on the proposed amendments and calling for changes to them (which were unheeded), the Bishops said:

- “Our experience emphasises the importance that employment, fair remuneration and job security play in providing a decent life for workers and their families. They are particularly important for those who have limited job prospects and who are vulnerable to economic change. It is not morally acceptable to reduce the scourge of unemployment by allowing wages and conditions of employment to fall below the level that is needed by workers to sustain a decent standard of living.”
- “Workers are entitled to a wage that allows them to live a fulfilling life and to meet their family obligations. We are concerned that the legislation does not give sufficient emphasis to the objective of fairness in the setting of wages; the provision of a fair safety net by reference to the living standards generally prevailing in Australia; the needs of employees and their families; and the proper assessment of the impact of taxes and welfare support payments.
In our view, changes should be made to the proposed legislation to take into account these concerns.”
- “The integration of economic growth and social justice is a fundamental obligation of government. They must be pursued in ways that are fair and equitable to the society as a whole. In this context, our proposals for change to the *Workplace Relations Amendment (Work Choices) Bill 2005* seek to moderate the impact on the poor, the vulnerable and families and limit any consequences on social cohesion.”

26. We welcome the *Fair Work* reforms to the framework of national wage-setting. As we explain later, the previous system was unsatisfactory. The new legislative framework provides the opportunity to address what we see as significant inadequacies in the wages safety net. Consistent with the concerns of the Bishops about *Work Choices*, our judgment on *Fair Work* will depend on whether or not FWA actually sets a fair safety net by reference to the needs of workers and their families and to the living standards generally prevailing in Australia.
27. Our optimism is tempered, however, by the belief that no progress will be made on behalf of low paid workers and their families unless the major parties to the Annual Wage Review, and FWA, proceed with an enquiring mind. Close attention should be given to questions such as: how much income does the worker and his or her family need to live a decent life? There are no simple answers to that question, but it is the kind of question that must be answered in order to discharge the overriding statutory task to provide a *fair* safety net.

28. The *Work Choices* legislation and its repeal and replacement by the FW Act have been the subject of considerable discussion and debate over a wide range of matters. Regrettably, that debate has not given sufficient attention to low income working families and the wages and other policies that impact them. The absence of debate means that their voices are not heard in the competing agendas in times of change.
29. We submit that the terms of the new legislation enable FWA to meet the concerns identified by the Bishops in 2005. But, to do so, will involve it addressing and correcting some very concerning developments in the in the safety net protections for low paid workers and their families. Wage-setting has failed low income workers and their families. As we show in Chapter 2, relative to the rest of the community, safety net workers and their families are substantially worse off than they were in 2000; and some workers and their families are worse off in real terms than they were in 2000. It has been a decade of increasing inequality.

D. The New *Minimum Wages Objective*

30. FWA is required by Part 2-6 of the FW Act to set and vary minimum wages. FWA is required by section 285 to conduct and complete an annual wage review of minimum wages in each financial year. The inaugural Annual Wage Review will review the minimum wages established by *modern* awards and will set, for the first time, national minimum wage orders, including the National Minimum Wage (NMW); section 294(1). The powers to set minimum wages in modern awards and to make minimum wage orders (for employees who are not covered by modern awards) are to be exercised by the Minimum Wage Panel of FWA. Variations to award wages and the national minimum wage orders are to be operative on 1 July 2010; section 286.
31. The Act specifies the “minimum wages objective” which requires FWA to establish and maintain a safety net of fair minimum wages, taking into account certain social and economic factors. The minimum wages objective is set out in subsection 284(1):

“FWA must establish and maintain a safety net of *fair minimum wages*, taking into account:

- (a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and
- (b) promoting social inclusion through increased workforce participation; and
- (c) relative living standards and *the needs of the low paid*; and
- (d) the principle of equal remuneration for work of equal or comparable value; and
- (e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.” (Emphasis added)

32. The minimum wages objective is similar to the obligation imposed on the Australian Industrial Relations Commission (AIRC) by the *Workplace Relations Act*, as amended in 1996. Section 88B(2) of that Act provided that the AIRC:

“...must ensure that a safety net of fair minimum wages and conditions of employment is established and maintained, having regard to the following:

- (a) the need to provide fair minimum standards for employees in the context of living standards generally prevailing in the Australian community;
- (b) economic factors, including levels of productivity and inflation, and the desirability of attaining a high level of employment;
- (c) when adjusting the safety net, the needs of the low paid.”

33. Between the operations of these two provisions quite different provisions applied. The *Workplace Relations Act*, as amended by the *Work Choices* legislation in 2005, imposed on the newly-established Australian Fair Pay Commission (AFPC) a set of “wage-setting parameters”:

“The objective of the AFPC in performing its wage-setting function is to promote the economic prosperity of the people of Australia having regard to the following:

- (a) the capacity for the unemployed and low paid to obtain and remain in employment;
- (b) employment and competitiveness across the economy;
- (c) providing a safety net for the low paid;
- (d) providing minimum wages for junior employees, employees to whom training arrangements apply and employees with disabilities that ensure those employees are competitive in the labour market.” (Section 23)

E. The Return of Fairness in Wage-setting

34. We particularly welcome the return of *fairness* to wage setting. Despite its name, the Australian *Fair Pay Commission*, there was nothing in the repealed legislation that required the AFPC to act fairly. Over the years various parties (including ACCER) urged it to be fair, arguing for the implication of fairness from its name and from the requirement that it “have regard to ... providing a safety net for the low paid”. The significance of this divergence from the norm in Australian wage-setting was referred to in a recent paper by the former Chairman of the AFPC, Professor Ian Harper:

“Notwithstanding the name of the Commission, the words ‘fair’ and ‘fairness’ did not appear among the criteria governing the powers of the AFPC. The closest the law came to obliging the Commission to consider distributional aspects of minimum wage-setting (i.e. the ‘needs’ or living standards of low paid workers) was the requirement to have regard to the provision of a safety net for the low paid. This was in stark contrast to the wording of the prior legislation and to the current *Fair Work Act*, which explicitly directs the AFPC’s successor (the Minimum Wages Panel of Fair Work Australia) to establish ‘fair’ minimum wages. Nor was there any express reference to the living standards or needs of the low paid, as there had been in prior legislation, and as there is now, reflecting the influence of the original *Harvester Judgement* and Justice J.B.Higgins’ notion of the ‘basic living wage’.” (*Why Would an Economic Liberal Set Minimum Wages? Policy*, Vol. 25 No. 4, page 4.)

35. The AFPC was *not required* to set a safety net for the low paid, or more generally. It had to have regard to providing a safety net, and any safety net considerations were limited to the low paid. There was no express reference to the needs of the low paid, as there was in the previous and subsequent legislation. While ACCER had argued that a safety net implied a proper assessment of needs, it appears that the absence of an express reference assumed some importance in the tribunal’s approach. In any event, the AFPC’s charter did not require the setting of a fair safety net based on, amongst other matters, the needs of the low paid. The wage-setting charter under the *Work Choices* amendments could be seen as essentially concerned with minimum wages as a means of macroeconomic management without a requirement to establish a fair safety net.

36. Wage-setting under *Work Choices* was a significant departure from the general approach to wage-setting in Australia and it should not be presumed that the wages that have been set by the AFPC are fair. However, we don't suggest that they can be disregarded by FWA. Obviously weight has to be given to them and their departure from a "fair" outcome must be limited. But the rates have a "fairness deficit" as a result of the *Work Choices* interregnum in national wage-setting.
37. The new system of employment relations is based on the corporations power in the *Australian Constitution*, supplemented by the referral of powers by the States other than Victoria. FWA replaces the AFPC in regard to most federal wage regulation and now covers a wide range of wage-setting and other powers previously exercised by the industrial tribunals in the four States which have recently referred various employment powers to the Commonwealth. A number of safety net-dependent workers have come into the Federal system.
38. It is submitted that in these circumstances FWA should give substantial weight to the decisions of the State tribunals when comparing the rates set by them with the rates set by the AFPC. This is important because safety net wage rates in the States are generally substantially higher than they are federally. However, we do not suggest that the rates recently set by the State tribunals are sufficient: the lower end of their minimum rates is insufficient to meet the needs of workers and their families.
39. It is also significant that the requirement to consider "relative living standards" has returned to the legislation. Again this is a significant departure from the AFPC's charter. We say "returned" because the pre-*Work Choices* legislation required the AIRC to have regard to, amongst others, "the need to provide fair minimum standards for employees in the context of living standards generally prevailing in the Australian community". The notion of social equity underlying these provisions is important.
40. The obligation to take into account relative living standards means that price-based adjustments to wages are insufficient and that regard has to be paid to general increases in wages and disposable incomes throughout the community. While safety net rates may not be in short term lockstep with these changes, they should

be adjusted to ensure that they are consistent with community movements over time.

41. One aspect of the failure of minimum wage-setting has been the growing gap between safety net rates and the wages generally paid in the community. We show in Chapter 2 that from December 2000 to December 2009 the Federal Minimum Wage (FMW) increased by 35.8% while from November 2000 to November 2009, full time average weekly ordinary time earnings (AWOTE) increased by 53.2%. Other safety net rates covering the low paid suffered greater relative reductions.
42. At various points in this submission we refer to the AFPC's statutory charter and to its decisions. While we are critical of aspects of both, we emphasize that the matters about which we are concerned have developed over a longer period. We show in chapter 2 that the declining relative economic circumstances of low paid working families did not start with *Work Choices*, although *Work Choices* accelerated these changes. The trend may continue even under the current legislation unless there is a vigorous and principled debate about the treatment of low paid workers.
43. Finally, in relation to fairness we repeat a point made by us in earlier wage review cases (prior to *Work Choices*) when there was a statutory obligation to set fair safety net wages: the obligation is to set a *fair* minimum wage, not a *bare* minimum wage. A bare minimum wage is one that barely avoids being a poverty wage. A fair minimum wage is one that provides a decent standard of living. We submit that this now has extra force in the light of the legislation's social inclusion objective.

F. The Social Inclusion Objective

44. We welcome the adoption of "social inclusion" as an explicit object of the Act. Section 3 provides:

"The object of this Act is to provide a balanced framework for cooperative workplace relations that promotes national economic prosperity and social inclusion for all Australians by [amongst others]...ensuring a guaranteed safety net of fair, relevant and enforceable minimum terms and conditions..."

45. The initiatives to establish a Minister for Social Inclusion, a social inclusion unit within the Department of Prime Minister and Cabinet and the Australian Social Inclusion Board bring the promise of overdue attention being given to the circumstances of low paid workers and their families. In a recent report, *Social Inclusion in Australia: How Australia is faring*, the Chair of the Board wrote:

“Social inclusion is about ensuring that everyone is able to participate fully in Australian society. It is about people having the necessary opportunities, capabilities and resources to enable them both to contribute to and share in the benefits of Australia’s success as a nation.” (Page 1)
46. Programs for the promotion of social inclusion will matter little unless the incomes of the low paid are sufficient. A precondition for social inclusion is a wage which, together with government transfers, will support workers and their families at an acceptable standard of living. We believe that a review of minimum wages should be at the heart of an integrated program to improve social inclusion.
47. The legislation’s concern with social inclusion finds particular expression in another of the matters to which FWA is to have regard when setting wages: “promoting social inclusion through increased workforce participation”; section 284(1)(b). In effect it replaces a provision that applied to the AFPC: “the capacity for the unemployed and low paid to obtain and remain in employment”. The new provision recognises two important matters: the importance of work and the promotion of social inclusion. That focuses attention on the level of wages. It is not a narrow concern with what may be called low cost jobs. Increased workforce participation, of itself, is insufficient to promote social inclusion and to ensure a decent living for workers and their families.
48. Our main concern over the years has been the support of families through the wage packet because we know that employment in work which pays a decent wage will promote the proper care of children, the stability of families and social cohesion. Improving the terms and conditions of employment, as well as promoting employment itself, are relevant to addressing the unacceptable degree of family and social dysfunction that we now have in Australia.
49. We submit that as well as commissioning research on economic questions, it is necessary for FWA to commission research on the social impacts of current and

potential wage outcomes. In particular, this research should address the situation of couple parent families and sole parent families who are dependent on low paid work. We propose that this research be done in consultation with the Social Inclusion Board.

50. In Chapter 2 we cover aspects of the very substantial increase in family support payments over the last three decades. Family payments are not intended, however, to meet all of the needs of a worker's dependants. As we show later, they fall a long way short of supporting those needs.
51. The increase in family payments has had a profound impact on wage-setting in Australia. It has permitted, and cushioned the impact of, the decline of minimum wages in Australia, relative to general wage levels. As we discuss later, relative to the single person's Henderson Poverty Line (HPL), the lowest minimum wage (net of tax) has fallen from about 62% above the single person's HPL in August 1973 to 19% above in December 2008. There is an economic case to be made for the switch to family payments, but at only 19% above the HPL the decline in the minimum wage has very arguably gone too far for single workers.
52. In the case of families, this loss of value in the wage component has to be made up by family payments. Rising family payments over these years have cushioned the impact of the fall in the wage component, but barely improved the combined outcome of wages and transfers relative to its HPL. The combined effect of falling real wages and rising transfer payments has not helped low income working families achieve a decent standard of living.
53. The increased emphasis on family payments came out of the Commonwealth's (Henderson) Poverty Commission in the early 1970s, but the situation is little improved from the very parlous conditions that gave rise to it. This long term trend is partly the result of decisions over the past decade.
54. The position of the family has worsened over the last decade. Since December 2000 the disposable income of the FMW-dependent family of two adults and two school-aged children has risen by 45.3%, while the family's HPL for the family has risen by more than 50%. As we show later, the decline has been mostly caused by low wage growth. The low wage growth has had a major impact on single workers:

the net wages of FMW-dependent workers have risen by 42.9%, much less than the increase of more than 50% in their poverty line.

55. These are very troubling figures, especially in the context of the promotion of social inclusion. This calls for a fundamental re-assessment of wage levels by FWA, and of family payments by the Commonwealth.
56. We expect that most of those familiar with the policy issues around wages and transfers would welcome the increase in transfer payments. Some argue that the total support of the dependants of low paid workers should come from the public purse. Even those who argue for a smaller Commonwealth fiscal footprint would see economic merit in shifting part of the burden of family support to the public purse. But there has been little public debate on the appropriate balance between the contributions of the public purse and the wage packet to the family budget and little said about future contributions.
57. The Global Financial Crisis has had a major impact on the options available to the Commonwealth and the prospects of a substantial change in public funding for families are slim. We expect that a major part of the needs of low paid workers and their dependants will continue to be met through the wage packet.
58. Despite the manifest inadequacy of transfer payments to support a worker's dependants, and his or her consequent reliance on the wage packet for that purpose, we expect that some will argue in this annual wage review for the adoption of a single person test for the setting of safety net wages. This presents a fundamental division of opinion on the setting of minimum wages. We reject the argument that the safety net should take no account of family responsibilities.
59. The unacceptability of the argument in support of the single person wage is highlighted by the social inclusion objective of the legislation. How is the social inclusion of Australian families to be enhanced if safety net wages are set by reference to the needs of a single person, supplemented by manifestly inadequate family payments?
60. We support a "family wage" approach in which due regard is paid to the substantial, but insufficient, family payments received by workers and their families. We do not, however, say that wages cannot be fixed by reference to the

single person if the Commonwealth were to fully support dependants. Indeed, in their Social Justice Statement of 1954, *The Australian Standard of Living*, the Australian Catholic Bishops proposed the adoption of a new wages and family payments system, with the support of dependants being provided out of the public purse and wages being set on the basis of the needs of the single person, with men and women being paid the same wage.

G. Orders sought and research proposed

61. ACCER fundamental submission is that wage-setting has failed low paid workers and their families. The consequences cannot be rectified in one year, but the inaugural Annual Wage Review provides an opportunity to take a significant step towards redressing those consequences. To this end we have three major submissions on the setting of wages in 2010 and on the preparation for future reviews

Award Wages

62. ACCER seeks the granting of increases in award safety net wage rates that reflect changes in the Consumer Price Index (CPI) over the relevant period. The wage rates in the new national *modern* awards, which commenced operation on 1 January 2010, are principally based on wage rates previously set by the AFPC and last adjusted in October 2008. Unlike the majority of workers who are able to bargain for wages that are above the award, safety net-dependent workers have not had wage increases since then.
63. The AFPC's decision in July 2009 to impose a wage freeze from October 2009 means that there is an accumulated real wage cut that requires rectification: in the period between the July 2008 and the July 2009 decisions the published quarterly movements showed that the CPI had increased by 2.5% from June 2008 to June 2009. The CPI increases now total 4.5% (to the December Quarter 2009), with another quarterly change to be published (for the March Quarter 2010) prior to the handing down of FWA's decision.
64. This proposal is a modest one. While safety net workers have had no increase since October 2008, the wages of other workers have exceeded the CPI increases. The

effect of what we seek will be less than what has been achieved elsewhere in the economy over the relevant period. Average Weekly Ordinary Time Earnings (AWOTE) of Australian workers have increased substantially; the most recent data shows an increase of 7.2% (trend) from August 2008 to November 2009; ABS, *6302.0-Average Weekly Earnings, Australia Nov 2009*. We appreciate that this would bring about a higher than usual outcome for safety net reviews; but it comes largely as a result of a wage freeze. When a wage freeze is imposed it has to be addressed at a later stage.

65. We stress, however, that the restoration of the real value of safety net wages would be insufficient and acknowledge that the issues raised in this submission can only be addressed over time. The need to end the wage freeze has constrained the options that would otherwise be available to FWA. ACCER has argued in past wage cases that the lower end of safety net wages are manifestly inadequate, are insufficient to meet the needs of workers and their families and need to be addressed over successive wage reviews. Time will be needed to address the issues raised in this submission. Priority should be given to the setting of an appropriate rate for the NMW.

The National Minimum Wage

66. The second major function of FWA in the inaugural Annual Wage Review will be to set the National Minimum Wage (NMW). The NMW will replace the FMW that was set by the AFPC over the period 2006 to 2009 and, earlier, by the AIRC. ACCER submits that the FMW should not be adopted as the rate for the NMW, even if it is adjusted by movements in the CPI since it was last varied. The manifest inadequacy of the FMW is a major cause of the failure of the wages system to meet the needs of safety net-dependent workers and their families.
67. ACCER submits that a NMW should be set at a level that would enable a worker, with the assistance of family payments, to support a family of two adults and two children at a decent standard of living. The meaning and implications of this objective are discussed in our submissions on poverty, social inclusion, the calculation of the needs of workers and their families, and the various measures of

relative living standards. The NMW should not be a poverty wage: it should be something more.

68. Given the state of the research on the needs of the low paid and low paid working families, we do not have sufficient knowledge to establish a benchmark or benchmarks that would sufficiently inform FWA in setting *fair* safety net wages based on the needs of low paid workers and their families. However, there is sufficient material for the identification of an interim NMW pending the undertaking of that research.
69. ACCER submits that the base rate for cleaners, the Cleaning Service Employee Level 1 classification, is the appropriate interim step in the process of setting an appropriate NMW. The rate is currently \$582.80 per week. With CPI adjustments of 4.5%, it would be \$609.30 per week, plus a further amount in respect of the March Quarter 2010. The substantial difference between the current rate and the current FMW, \$38.90, is consistent with our argument that the FMW is *manifestly* inadequate. As we show in Chapter 2, the potential cost of moving to this interim step is limited because relatively few are employed on the FMW or on safety net rates that are less than the base cleaner's rate.
70. The adoption of the minimum rate for cleaners would help to restore the relativity that the FMW had to general wage levels in 2000. Had the FMW moved in line with community wage movements throughout the decade, it would now be over \$600 per week. Had the FMW increased by the AWOTE (trend) increase, it would have been \$609.80, not \$543.78, per week in December 2009. This is a legitimate consideration in the setting of fair minimum rates with reference to, amongst others, relative living standards. However, the essential justification for the adoption of the cleaner's rate does not depend on historical relativities, but on the analysis of the needs of families in the following chapters.
71. Although the difference between the FMW and the cleaner's rate is currently \$38.90, the effective difference for the purposes of the setting of the NMW is rather less. In modern awards the FMW, if used, only applies as an introductory or transitional rate, typically of three months duration. Table 2, shows that some awards have a base, post-introductory, rate of \$560.90 (sometimes referred to as the

“C13” rate). The NMW is intended to have ongoing operation and to apply without regard to a worker’s length of employment. It would be inappropriate to rely on an introductory rate in setting the NMW. Clearly, the NMW should not be set at a rate less than \$560.90, plus a CPI adjustment.

72. We submit that the better guide for the NMW is the post-introductory rate in the *Miscellaneous Award*, which is currently \$583.00 per week. This is a new rate, recently assessed and fixed under the award modernisation process. The AIRC has assessed that the ongoing base rate of pay for an employee not covered by other awards should be \$583.00 per week. This is a matter of some significance.
73. We submit that FWA should adopt the cleaner’s base rate of \$582.80 per week, plus a CPI adjustment, as the appropriate rate for the NMW pending the completion of research into the living costs of low paid workers and their families. If FWA accepts this rate as an interim rate for the NMW, we submit that it should place an onus on those who would argue for its phasing-in to demonstrate sound reasons for such a course.

Research Proposals

74. Our submission shows that the FMW is a poverty wage and is manifestly inadequate to support low paid workers and their families at a decent standard of living. However, the data and research to which we refer does not provide sufficient material for the task of setting rates for the low paid ie one that will provide them with fair safety net wages, with due account being taken of their needs, the needs of their families and relative living standards.
75. We submit that, in order for the parties and FWA to be sufficiently informed on the financial and social needs of low paid workers and their families, it is necessary for FWA to establish a process within weeks of the conclusion of the current review so that research proposals for the *Annual Wage Review 2010-11* can be proposed, considered and ruled upon.

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A. Introduction

76. In this chapter we give an overview of changes in safety net wages over the past decade to demonstrate that the wage-setting system has failed low income workers and their families. We will refer to the period 2000 to 2009 as a decade although we concentrate on the nine years from December 2000 to December 2009. The position of low income working families at the end of the full decade will be determined by FWA's decision in the current case. The rectification of the problems that we identify will take several years.
77. We have concentrated on the past decade because it started with a convenient reference point: a package of taxation and family support measures that accompanied the introduction of the Goods and Services Tax. The decade has presented the best of economic times and, in the last part, threatened the worst economic circumstances since the great Depression. As it turned out, the economy remained strong despite the Global Financial Crisis (GFC). Following the release of the December Quarter 2009 *National Accounts* the headline over the lead analysis in the Business section of *The Australian* on 4 March 2010 read: "Nation's bolting economy leaves GFC in its wake" (page 21).
78. Wage-setting over the decade falls into two parts: until December 2005 wage rates were set by the AIRC and from December 2006 to 2009 they were set by the AFPC

under the *Work Choices* legislation. The outcomes for safety net workers in each period were different, reflecting, in part, the differences in legislation that we discussed in the previous chapter. The failure in wage-setting that we point to was only partly the result of *Work Choices*.

79. The disposable incomes of FMW-dependent workers and their families, and some others who are dependent on higher wage rates, have risen by more than the rate of inflation over the course of the decade. But, overall, the tribunal decisions on safety net wages have worked against low paid workers and their families. Some safety net workers have suffered a real wage cut since 2000. Compared to the rest of the workforce, *all* safety net workers are *relatively* worse off at the end of the decade.
80. In this chapter we establish:
 - (a) The number of workers on the FMW is very small and references to improvements in the FMW as a justification for past decisions and as an indicator of how safety net changes have operated are misleading.
 - (b) The real wages of many safety net workers have fallen over the decade, with the greatest falls being at the higher end of the low paid spectrum; for example, workers now on a safety net wage of more than \$645.00 per week have had a real wage cut since 2000.
 - (c) When compared with other rates of pay and income measures, safety net wages have fallen dramatically; for example, while Average Weekly Ordinary Time Earnings (AWOTE) have risen 53.2%, the base safety net wage for a trades-qualified worker, or a worker with equivalent qualifications and skills, has risen by 29.5%.
 - (d) Unlike other workers, safety net workers have not received productivity-based increases. Since 2000 substantial productivity gains across the economy have resulted in substantial wage increases across the national economy; but safety net workers have not benefited from those gains.
 - (e) Some commentators have sought to explain away real wage cuts by arguing that tax cuts have increased the disposable incomes of safety

net workers and their families. The use of after-tax figures as a justification for real wage cuts, or limited real wage increases, is not justified. The tax cuts over the past decade have not targeted low paid workers and they have not received benefits in excess of those received by taxpayers generally. Safety net workers have been deprived of their tax cuts as a result of cuts in the real value of safety net wages.

- (f) Decisions made by the AFPC under the *Work Choices* legislation have exacerbated the trend towards greater wage inequality over the decade.
- (g) Family payments to low income working families have not compensated for real wage cuts. Family payments have increased, but not in a way that would permit them to be used as a justification for limiting safety net wage increases.
- (h) The AFPC's preferred, and only, measure for estimating the needs of low income workers and their families, the Henderson Poverty Line (HPL), greatly underestimates the needs of working families by underestimating housing costs and, in the case of sole parents, excluding child care costs; for example the HPL use by the AFPC to estimate the needs in December 2008 of low income families comprising two adults and two children had housing costs at only \$176.11 per week, a most unrealistic figure.
- (i) In 2008 the AFPC relied on a poverty line set at 60% of median disposable income. In doing so it relied on incorrect estimates of disposable income which meant that the measure failed to reflect the true, and significantly higher, level of disposable income and the poverty levels for individuals and families.

81. These developments were not aberrations, but were part of a longer term decline in the relative position of a significant section of low income workers and working families in Australia. Particularly because of the introduction of a new national system of wage setting in 2010, it is time to take a close look at the past decade and

ask whether we have had a fair and socially desirable way of distributing the benefits of economic growth and the sharing of the burdens of economic pain. Analysing how the wages system has worked over the past decade is necessary if we are to assess our current position and establish a fair and sustainable framework for setting safety net wages.

B. Safety Net Wages have not reflected Price Increases

82. Table 1 shows safety net wage adjustments over the decade by reference to a range of starting points in 2000. In this and the following tables we use the figures for December of each year, unless otherwise noted. Money increases, rather than percentage increases, were awarded by the two tribunals in each year of the decade. In 2001 a further \$2.00 per week was awarded to the C10 (trades-qualified) classification and above because of a concern for the relativities between wage classifications; but in 2003 classifications in excess of \$731.80 per week received \$2.00 per week less than other classifications. In 2006 and 2007 the AFPC gave much smaller increases to higher paid classifications. The end result was a substantial compression in relativities.

Table 1
Changes to Various Federal Safety Net Wage Rates
2001-2009

(\$ per week, unless otherwise indicated)

Year	Safety Net Rates (\$)								Cumulative CPI increases
	FMW		C10						
2000	400.40	450.00	492.20	500.00	550.00	600.00	650.00	700.00	
2001	413.40	463.00	507.20	515.00	565.00	617.00	667.00	717.00	3.1%
2002	431.40	481.00	525.20	533.00	583.00	635.00	685.00	735.00	6.2%
2003	448.40	498.00	542.20	550.00	600.00	650.00	702.00	750.00	8.8%
2004	467.40	517.00	561.20	569.00	619.00	669.00	721.00	769.00	11.6%
2005	484.40	534.00	578.20	586.00	636.00	686.00	736.00	786.00	14.3%
2006	511.86	561.36	605.56	613.36	663.36	713.36	760.04	808.04	18.4%
2007	522.12	571.62	615.82	623.62	673.62	718.68	765.36	813.36	21.9%
2008	543.78	593.28	637.48	645.28	695.28	740.34	787.02	835.02	26.4%
2009	543.78	593.28	637.48	645.28	695.28	740.34	787.02	835.02	29.1%
\$ Increase	143.38	143.28	145.00	145.28	145.28	140.34	137.02	135.02	-
% Increase	35.8%	31.8%	29.5%	29.1%	26.4%	23.4%	21.1%	19.3%	29.1%

In 2000 the Federal Minimum Wage (FMW) was \$400.40 and the base trades – qualified, or equivalent, wage rate (C10) was \$492.20. Because the figures are at December 2009, we have not used the rounded figures used by the AIRC in transitional awards and in the modern awards which came into operation on 1 January 2010. The rates used in the modern awards, where applicable, are \$543.90 and \$637.60, respectively. We will use the rates set by the AFPC when referring to 2009.

83. Each wage adjustment can be compared with the cumulative increases in the CPI; from December 2000 to December 2009 the CPI increased by 29.1%. In July 2009 the AFPC decided that it would not increase the rates that it set in July 2008 for commencement in October 2008.
84. From December 2000 to December 2009 real wages were reduced for wage classifications that now pay over \$645.00. From December 2005 to December 2009 the CPI increased by 13.0%, compared to 12.3% for the FMW and 6.2% for the wage in our highest paid column (\$700.00 per week in 2000). Obviously, the wages would have been higher but for the decision to freeze wages in 2009. However, even if the AFPC had granted a CPI-based increase of 2.5% in 2009 workers now on safety net rates above \$695.00 per week would have had real wage

cuts over the decade. Workers on \$695.00 per week are not well paid and can be regarded as low paid. Although the freeze was significant, the problem that we are now addressing is not just the product of the 2009 wage freeze.

C. Most Safety Net Workers have suffered Real Wage Cuts

85. In its various assessments of the impact of its decisions the AFPC has emphasized the FMW and the impact of its decisions on FMW-dependent workers and their families; see, for example, *Economic and Social Indicators – Monitoring Report July to December 2008*, published 24 February 2009, at pages 31-5. While we would argue that particular attention needs to be given to this group, for they have the greatest needs, the group is only a very small part of the low paid safety net-dependent workforce. The concentration on the small group of FMW workers diverts attention away from what has happened to other low paid workers and their families.
86. The impact on safety net workers and their families of the various cuts in real safety net wages will depend on the spread of wage classifications, the distribution of workers across those classifications and the distribution of safety net-dependent workers across those classifications.
87. The number of FMW-dependent workers is limited because most low paid workers are covered by a work classification that pays a higher rate. Some pay scales have the FMW rate as an introductory wage, with a higher wage payable after a transitional period, typically 3 months. The lowest rate in many pay scales is well above the FMW.
88. The distribution of workers across the safety net classifications has been addressed in past wage cases in the AIRC. In the AIRC's *Safety Net Review* cases of 2004 and 2005 the Australian Chamber of Commerce and Industry (ACCI) argued that the emphasis given to the FMW by ACCER and others was misconceived because it was a wage of very limited application. It supported this argument by reference to a number of awards that provided higher wage rates in their lowest work classification. ACCI introduced the concept of the *Effective Minimum Wage*. (The relevant parts of ACCI's March 2005 submission are at pages 5-39 to 5-49 and the

relevant parts of its April 2005 submission are at pages R4-18 to R4-23.) The submissions also identified a *Transitional Minimum Wage*, applying to newly-employed workers, which provided lower wage rate than the Effective Minimum Wage, but only for a limited period.

89. In the *Safety Net Review Case 2005* ACCI said that the material "...show[s], in practical terms, very few employees would ever be employed on the Federal Minimum Wage" (page 5-40). The ACCI material showed that the Effective Minimum Wage is substantially in excess of the FMW. It said: "A proper analysis of award rates of pay demonstrates the award dependent employees, while they may be lower paid relative to other groups of employees in the community (e.g. those covered by agreements), are unlikely to be receiving rates of pay such as the Federal Minimum Wage *in almost all instances*" (page 5-46, emphasis added).
90. The ACCI submissions presented an estimate of the gap between the FMW and the Effective Minimum Wage. At a time when the FMW was \$467.40 per week, the sample of awards used by ACCI produced an average of \$502.35, or \$34.95 per week extra (see page 5-45). Because the safety net increases granted since 2005 have been flat money amounts, we expect the margin to have been maintained and that the Effective Minimum Wage will be \$578.73 from October 2008, a figure that continued to December 2009 because of the wage freeze.
91. Another guide to the distribution of workers across the range of safety net rates is to be found in the various classification rates in the modern awards that came into operation on 1 January 2010. These rates are essentially based on the rates set by the AFPC. Table 2 sets out a cross section of entry level rates of pay. We do not claim that the rates in Table 2 are necessarily a representative sample, but the data supports the view that the FMW is inadequate by reference to other rates of pay.

Table 2
Lowest classification rates in various Modern Awards, January 2010
(\$ per week)

Award	Introductory rate	Lowest Classification Rate
Miscellaneous	\$543.90	\$583.00
Clerks Private Sector		\$580.00/\$610.00/\$630.00
Car Parking		\$574.40
General Retail Industry		\$600.00
Cleaning Services Industry		\$582.80
Hair and Beauty Industry		\$600.00
Restaurant Industry	\$543.90	\$560.90
Hospitality Industry (General) Award	\$543.90	\$560.90
Fast Food Industry Award		\$600.00
Aged Care		\$580.00
Higher Education Industry- General Staff Award		\$584.40/\$594.00/\$603.60
Waste Management	\$577.60	\$592.90
Local Government Industry		\$583.30
Manufacturing and Associated Industries and Occupations	\$543.90	\$560.90
Storage Services and Wholesale	\$583.90	\$590.50
Rail Industry- Operations	\$543.90	\$580.00

Where the award specifies an annual rate it has been divided by 52.18. In awards where annual or other time increments are provided in the lowest non-introductory classification, each incremental rate is included in the table.

92. Table 2 also shows the impact of the limited wage increases on low paid workers has not been as beneficial as a simple reference to the FMW adjustments would suggest. A rate of \$600 per week (eg shop assistant) has been increased by \$143.28 per week, or 31.4%, since December 2000, rather less than the FMW (at 35.8%) and only just above the CPI increase of 29.1%.
93. The base cleaner's rate, now \$582.80, has increased by 32.6%. The real wage increase for the cleaner over one of the most prosperous decades in our history was \$15.38 per week, or 2.6%. This cannot be regarded as fair or equitable. We will

come back to this when discussing productivity increases and community-wide wage increases.

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94. The second indicator of the inappropriateness of the FMW as an indicator of the benefits brought to low paid workers is found in the data on the spread of safety net-dependent workers. For this we have drawn on FWA's Research Report 4/2010, *Earnings of employees who are reliant on minimum rates of pay*. In May 2006, when the estimated number of workers in Australia was 10.2 million, 47% of minimum wage-reliant workers were permanent (ie non-casual) adult employees, 37% were adult casual workers and 16% were juniors in both casual and non-casual employment. At the time 19% of non-farm workers were minimum wage-reliant, although this figure fell to 16.5% by August 2008. Therefore, 47% of about 19% of the workforce would suggest that the group in the main category was about 8.9% of the working population. We can round this to 900,000 workers in the category of permanent minimum wage-reliant (or safety net-dependent) workers. We can round the adult casual group to 700,000.
95. Tables 2 (adult permanent) and Table 3 (adult casual) of the report show the distribution of adult workers across a range of wage rates fixed by reference to the "metals award" classifications. The tables show that a greater proportion of permanent workers are employed in the higher paid classifications than is the case with casuals. The distribution of these workers provides an indication of the overall spread of workers across the range of classifications. There are several important points that arise from the data as presented.
96. The adult permanent safety net workers were a very significant percentage of the workforce. How they, and their families, fared before and after May 2006 is very important in our assessment of the equity of the wages system. We should note that some of them would have been covered by State tribunals, but from January 2010 nearly all previously State-covered workers, other than those in Western Australia, came into a system shaped by the decisions of the AFPC, all of which occurred after the date of this May 2006 study.

97. The median rate of pay for safety net-dependent adult permanent workers in May 2006 was \$16.81 and \$17.91 per hour. The figures suggest that the median weekly wage for these safety net dependent workers was about \$660.00 per week when the minimum wage was \$484.40 per week. The median sits between the \$550.00 and \$600.00 per week columns in our Table 1, which have had decade long increases of 26.4% and 23.4%, respectively. We can say, therefore, that the median safety net worker identified by this survey has had increases of about 25% over the decade.
98. The report's figures also show that 29.2% of the group were employed on rates below the C10 rate, including 9.5% on rates below the then current base cleaner's rate of \$13.78 per hour (the C12 rate). This latter group represents about 1% of the workforce, which is considerable number: about 100,000 workers. This group is our top priority among the permanent employees. However, it does support our submission that the impact of the cost of improving the living standards of the lowest paid will have negligible economic costs overall.
99. Table 1 in the FWA report shows that about 25% of these workers were employed at rates above the relevant figure in the \$700.00 column in our Table 1 (then \$786.00 per week or \$20.68 per hour). This group of over 250,000 workers have had increases of less than 19.3% over the decade, ie much less than the rate of inflation.
100. The situation with adult casual workers is significantly different, but, nonetheless, very concerning. Their position is set out in Table 2 of the FWA report. They constituted about 7% of the workforce. The median wage rate is just short of the C10 rate and 23.8% were in receipt of less than the cleaner's base rate. Almost 30% were on rates of \$15.77 per hour or more (then \$599 per week, when not in receipt of the casual loading). These workers were above the rate at which real wages were maintained over the decade (the \$500.00 column in our Table 1) and have, therefore, suffered a real wage cuts. This represents a substantial number of workers and working families.
101. It is clear from the foregoing that the reliance on the FMW as an indicator of the movement in real wages over the decade is misleading and that most safety net-

dependent workers, including most low paid safety net-dependent workers, have had a real wage cut over the decade.

D. Safety Net Wages have Fallen well behind General Wage Levels

102. The evaluation of the outcomes for FMW-dependent and other low paid safety net employees cannot be judged by reference to the CPI alone. The maintenance of real wages is a necessary condition, but it is not a sufficient condition for the effective operation of a safety net wage. Any proper assessment of the adjustments to low paid classifications has to be evaluated in the light of what has happened in the rest of the community. Fair wages have to be set with regard to other wage levels throughout the community.
103. We now turn to a comparison between safety net wages and various measures of wages and incomes. Table 3 compares the changes in the FMW and the base trade-qualified (C10) rate with broad measures of changes in national wages and incomes over the decade. These broader measures may be compared with the other safety net rates set out in Table 1.
104. Table 3 demonstrates that safety net wage rates have fallen substantially against AWOTE, which increased by 53.2% over the decade. The AWOTE figures are trend estimates of average ordinary time earnings for adult full time employees. As a measure of ordinary time earnings they are an appropriate comparator for the safety net rates.
105. In December 2009 a safety net rate starting at \$700 per week in December 2000 had been increased by 19.3%, which was only 36% of the community movement in wages as measured by AWOTE. It had started the decade at 87.6% of AWOTE and finished the decade at 68.3% of it. Significantly, \$700 per week was not a high rate of pay. Calculations can be done for other rates in Table 1.
106. The FMW fell from 50.1% to 44.5% of AWOTE over the nine years to December 2009. If it had increased at the same rate as AWOTE, the FMW would now be \$609.80 per week, \$66.03 per week extra. We do not argue for a strict arithmetical nexus between the two, for the ratio may go up or down depending on circumstances, but the figure shows how much the FMW has lost when compared

to community wage movements and, as a result, general living standards. As a matter of principle and fairness, we do not see any reason why the FMW and other safety net rates should not follow a similar path to these average weekly earnings.

Table 3
Safety Net rates Compared to Community Wage and Income Measures
2000-2009
(\$ per week, unless otherwise indicated)

	Cumulative increases in FMW	Cumulative increase in trades qualified rate C(10)	Average Weekly Ordinary Time Earnings (AWOTE)	Cumulative increases in AWOTE	Cumulative Increases in Wage Price Index	Household Disposable Income per head (Melbourne Institute)	Cumulative increase in Household Disposable Income
2000			798.70			\$ 417.92	
2001	3.3%	3.0%	843.00	5.5%	3.5%	\$454.38	8.7%
2002	7.7%	6.7%	882.10	10.4%	6.9%	\$459.16	9.9%
2003	11.9%	10.2%	929.60	16.4%	11.0%	\$471.61	12.8%
2004	16.7%	14.0%	964.90	20.8%	14.9%	\$496.37	18.8%
2005	20.9%	17.5%	1014.60	27.0%	19.6%	\$525.58	25.75
2006	27.8%	23.0%	1045.50	30.9%	24.4%	\$571.85	36.8%
2007	30.4%	25.1%	1100.80	37.8%	29.7%	\$590.13	41.2%
2008	35.8%	29.5%	1158.40	45.0%	35.2%	\$654.15	56.5%
2009	35.8%	29.5%	1223.30	53.2%	39.2%	\$647.38	54.9%

AWOTE figures are as at November of the relevant years, see: ABS, *Average Weekly Earnings, Australia, 6302.0 Nov 2009*. Wage Price Index: ABS, *Labour Price Index 6345.0 Dec 2009*. Household Disposable Income figures are for the December Quarter of each year, save for 2009, which is for the September quarter 2009. The figures for 2000 to 2009 are also taken from the Melbourne Institute's *Poverty Lines: Australia September Quarter 2009*.

107. The Wage Price Index (WPI) increased by 39.2% over the nine years to December 2009, rather less than AWOTE. However, the WPI and other similar indexes used by the ABS are not designed to reflect the payments received across the workforce or in segments of it, but “to identify and measure quality and quantity changes and ensure that only pure price changes are reflected in the indexes”; ABS *Labour Price Index, 6345.0 December 2009*, page 16. On the other hand AWOTE and similar measures actually reflect levels of remuneration received by employees and changes in those levels. These measures are particularly useful in describing what

is happening in the workforce and are needed because the legislation requires that regard is to be had to relative living standards.

108. The Melbourne Institute's quarterly updates of the HPLs are based on updated estimates of seasonally adjusted household disposable income per head (HDI). Unlike AWOTE, which measures pre-tax wages of the workforce, this is a measure of disposable income across the population. There is an arithmetical relationship between each HPL and the estimated HDI. The quarterly HDI uses the latest issues of *National Accounts* and *Australian Demographic Statistics*.
109. The HDI figures used in Table 3 are taken from the latest issue of *Poverty Lines: Australia September Quarter 2009*. The next issue, in respect of the December quarter 2009, is due in late March 2010. The latest figures are subject to revision not only in regard to the recent quarters, but for many quarters back, in order to provide consistency over time. For example, the estimated HDI for the September quarter 1973 is now \$58.83 per week, but in December 2008 it was estimated at \$50.94. We will return to this when discussing the HPLs. The HDIs in Table 3 show some variability, apparently reflecting the need to refine the figures; see, especially, the sharp rise in 2008 and the decline from December 2008 to September 2009. However, looking at the decade overall they show an outcome that is broadly consistent with the trend shown in the AWOTE measure.
110. It should be noted that AWOTE and HDI both measure the population as a whole, including safety net workers and their families. A comparison between the wages and disposable incomes of safety net-dependent workers and other workers and their families would present a greater contrast than the figures used in Table 3.
111. Ordinary time earnings over the year November 2008 to November 2009, a year when Australia was confronting the global financial crisis, increased by 5.6%. It was in this context that the AFPC refused a wage increase. The trend in community wage movements over the past 12 months was not unexpected, even when the global financial crisis was at its most threatening. In commenting on the WPI in the course of its Post-Budget Submission to the AFPC's 2009 wages review, the Commonwealth said:

“Growth in the Wage Price Index is forecast to moderate from 4¾% through the year to the June quarter 2009 to 3¼% through the year to the June quarters of both 2010 and 2011.”

112. This is a very significant matter: at the time that the AFPC gave nothing to compensate for the 2.5% increase in the CPI the Commonwealth was predicting wage growth of 3.25%. Unlike safety net wages, these broad changes are market driven. The wage freeze imposed a burden on safety net workers that was not being imposed on other workers. Indeed, a CPI-based increase of 2.5% would have provided safety net workers with less than that available to the workforce overall.
113. The wage freeze in 2009 followed the AFPC’s decision in 2008 which reduced the real value of safety net wages when there was concern about a “wages breakout”. There is good reason to question the assumption that adjustments to safety net wages can affect the wages outcomes in the bargaining sector of the economy. Seeking to use safety net rates to influence bargaining outcomes is somewhat similar to pushing a string. The AFPC’s 2009 decision led Catholic Social Services Australia to make an obvious point about the turn of events from 2008 to 2009:

“Last year, in good economic times, the AFPC reduced the real value of safety-net wages in the hope of containing inflationary pressures in other parts of the labour market. This year it has gone further and frozen safety net wages in the hope that the decision will promote economic recovery.” (Media Release, 7 July 2009.)

E. Safety Net Wages have Lost value compared to Other Arbitrated Wages

114. During 2006 to 2009 up to one third of safety net-dependent workers were covered by State awards made by industrial tribunals in States other than Victoria. Those years saw a departure from the earlier high degree of consistency in the wage rates set in the various jurisdictions. That consistency dates back to the late 1980s when all industrial tribunals cooperated to bring in nationally consistent classification structures and wage rates. It involved the establishment of pay relativities between the classifications in each award, with the tradesperson’s rate as the key reference point in establishing consistency between awards. The compression of relativities as a result of the awarding of money amounts, not percentages, has been significant, compounded federally by the AFPC awarding lower increases to higher

paid workers on two occasions. The question of safety net relativities beyond the range of low paid wage rates is important, but the need to address that question is not as pressing as the need to establish proper rates for low paid workers.

115. The difference between the safety net rates in the modern awards that commenced operation on 1 January 2010 and in the State awards is illustrated by comparing the FMW and its State equivalents. Table 4 sets out the FMW and its State equivalents at December 2008 and December 2009.

Table 4
Comparison of FMW and relevant State rates
(\$ per week)

	Dec 2008	Dec 2009
Federal Minimum Wage	543.78	543.78
New South Wales	552.70	568.20
Queensland	552.00	568.20
Western Australia	557.40	569.70
South Australia	546.65	560.65
Tasmania	546.10	558.10

116. In 2008 the unweighted average of the State rates was \$7.19 per week more than the FMW. In 2009 it was \$21.19 per week. The increase reflected the fact that the State jurisdictions did not impose a wage freeze in 2009. The \$14.00 per week increase from 2008 to 2009 was close to the value of the 2.5% CPI-based increase sought by ACCER and which we still press for that period. If it had been granted there would have been a margin of \$7.60. We do not suggest that the State rates are anywhere near sufficient. The States were constrained in what they could do by the rates set federally.
117. The discrepancy between State and Federal rates continues into higher-paid classifications. For example, a comparison of Federal and NSW rates at December 2009 shows that the difference at the C4 classification the difference was \$43.20 per week (\$771.70 and \$814.90, respectively). These differences have emerged since the introduction of the *Work Choices* amendments; for example, at the end of 2005 the same rates of pay were set in the Federal *Metal, Engineering and*

Associated Industries Award 1998 and the New South Wales Metal, Engineering and Associated Industries (State) Award.

118. The decisions of the AFPC and the trend in safety net wage rates over the past decade may also be compared to the decisions of the Commonwealth's Remuneration Tribunal and the Commonwealth's own employment practices. The tribunal sets rates of pay and various other entitlements for a wide range of public officeholders (including members of FWA and, until last year, AFPC members), Parliamentary office holders (including Ministers) judicial and related officers and the holders of principal executive offices (PEOs). The tribunal sets salary bands for PEOs and within each of them there is a "reference salary". For most of the decade there was a link between the salaries of Members of Parliament (MPs) and one of these reference rates. The tribunal awards general pay increases and pay increases in particular cases; eg for positions where there have been significant work value changes. The general increases are reflected in the PEO rates set out in Table 5.
119. In May 2009 the Remuneration Tribunal announced that it would delay its annual review on account of the uncertainties surrounding the Global Financial Crisis. On 24 September 2009 it announced its decision to grant increases of 3%. Table 5 sets out adjustments to two of the four PEO bands set by the tribunal, the salary of MPs and the level of payments made to members of the Senior Executive Service (SES). SES salaries are not set by the tribunal, but by governmental processes. SES agreements are required to be made in accordance with the Commonwealth's productivity-related agreement-making frameworks. The data in Table 5 in respect of the SES is taken from the Remuneration Tribunal's Statement of 24 September 2009.
120. Over the last four years the Remuneration Tribunal awarded general annual adjustments in the PEO band of 22.8%. It has not discounted increases on account of tax cuts, as was the case with the AFPC's decision in 2008. In the same time a worker on the trades-qualified rate has received increases totaling 9.8% and a cleaner on the base classification rate has had an increase of 10.2%.

121. We do not argue that the decisions of the Remuneration Tribunal have awarded excessive increases. In fact, they have produced outcomes that are broadly consistent with the increase in the AWOTE index.

Table 5
Remuneration of Senior Commonwealth Officers and Employees
2000-2009
 \$ per annum

	Principal Executive Office Band A Reference salary	Principal Executive Office Band D Reference salary	Members of Parliament	SES Band 1 (Median)	SES Band 2 (Median)	SES Band 3 (Median)
2000	92000	209900	92000	132287	160882	194309
2001	95600	218100	95600	135541	166041	202884
2002	98800	225300	98800	139948	171672	210725
2003	102760	234320	102760	154097	187959	229147
2004	106770	243460	106770	164981	203410	250607
2005	111150	253450	111150	170416	210861	260983
2006	113930	259790	118950	177857	220691	276446
2007	127060	289700	127060	185606	233526	293404
2008	132530	302160	127060	196880	248133	315007
2009	136500	311230	131040			
% increase	48.4%	48.3%	42.4%	48.8% (2008)	54.2% (2008)	62.1% (2008)

SES figures are for total remuneration, but do not include performance pay.

122. The decisions of the Remuneration Tribunal are also broadly in line with the increase in average weekly ordinary time earnings in the public sector, which includes more than the Commonwealth. The increase in public sector full time adult ordinary time earnings (trend) was slightly less: from \$887.40 in November 2000 to \$1298.50 in November 2009, an increase of 46.3%; see *Average Weekly Earnings, Australia, Nov 2009-6302.0*. The same cannot be said for all of the SES salaries, which are under government control.
123. The SES figures do not include the 2009 increases, but it is likely that they will be at or close to 3%. The Department of Finance and Deregulation wrote in its *Annual Report 2008/09*:

“Finance conducted an Annual Remuneration Review for staff up to SES Band 2 level, to ensure that Finance’s remuneration arrangements remain competitive with comparable agencies in the APS. The Annual Remuneration Review incorporated annual individual pay point advancement and an across-the-board salary increase, subject to staff achieving a performance rating of ‘effective’ or better. The 2009 review was conducted in June 2009 and resulted in a three per cent across-the-board increase from 1 July 2009.

The Secretary determines salaries for SES Band 3 staff, informed by the recommendations of the Annual Remuneration Review and their responsibilities when compared to other senior members of the APS.”

124. The nexus between the PEO rates and MP’s salaries was broken in 2008 as a result of Commonwealth Government policy. But for their wage freeze in 2008, MPs would have had increases of 48.4% over the decade. Under current arrangements, the parliamentary base salary will continue to be Reference Salary A, as determined by the Tribunal, less \$5,470. In September 2009 the tribunal discussed the changes and wrote:

The Tribunal therefore welcomes the initiative by the Special Minister of State, Senator the Hon Joe Ludwig, to establish a panel to conduct a review of parliamentary entitlements. The review affords the Government, the Opposition, individual Senators and Members, and others, the opportunity to give careful consideration to the present remuneration arrangements of parliamentarians, and to establish, for the first time in many years, a transparent and well-defined foundation for the future. (Footnote omitted)

125. The position of MPs is somewhat similar to safety net employees: the need to deal with the consequences of a pay freeze. We see no reason why the resolution of the freeze on safety net workers should be lifted on less beneficial terms than those that may apply to MPs.
126. These figures highlight a major inconsistency between the outcomes for the well-paid part of the public sector and low income working families. It is important for there to be broad consistency between what the Commonwealth does in respect of its own employees, including how its members and public officeholders are treated by the Remuneration Tribunal, and the position it takes in respect of wages for low paid workers. The Commonwealth’s submissions to the Annual Wage Review should address this inconsistency and articulate a policy on wages that addresses these systemic issues. FWA, whose members are

covered by determinations of the Remuneration Tribunal and whose decisions determine the wages of low paid workers, have an opportunity, and, we submit, a responsibility to provide an equitable balance between the two groups.

F. Safety Net Workers have not received Productivity Increases

127. Productivity growth enables increases in real wages. All workers are entitled to expect that their living standards will increase as a result of productivity improvements. Substantial wage increases, as measured in, for example, average weekly ordinary time earnings have occurred without undue inflationary pressures because the economy has generated substantial productivity increases.
128. While most of the Australian workforce has reaped a productivity dividend over the last decade in the form of increased real wages, most safety net workers have had a real wage cut, thereby depriving them of a productivity dividend. Even in those cases where real safety net wages have been increased, the increase is not a fair reflection of productivity improvements. The adjustment of wages to reflect changes in “prices and productivity” has wide support. Safety net workers should not receive less than prices and productivity.
129. The substantial increases in productivity over the decade are shown in Table 6, extracted from a recent publication of the Australian Bureau of Statistics. It contains indexes of chain volume measures of gross product per hour worked for three industries and for all industries.

Table 6
Labour productivity
Indexes of gross value added per hour worked

	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09
Health care and social assistance	91.7	93.3	95.2	96.9	97.6	95.9	97.5	100.0	97.5
Accommodation and food services	88.7	90.5	93.7	94.2	96.4	100.8	104.1	100.0	102.0
Retail trade	86.2	89.9	88.5	93.7	93.8	94.4	97.4	100.0	105.2
All industries	90.5	94.1	94.5	96.7	97.1	97.8	98.9	100.0	100.1

ABS, *Australian System of National Accounts 5240.0*, 2008-09, December 2009.

130. Across all industries the productivity increase was 10.6% over the eight year period, 2000-01 to 2008-09. The three industries that have been included in the table are those in which there is significant proportion of safety net-dependent workers. While one of the industries is below the average, the other two are substantially above it.
131. Prior to the *Work Choices* amendments, the AIRC was required to have regard to, amongst others, “levels of productivity” when setting safety net wages. Under *Work Choices* there was no such requirement on the AFPC. In its four decisions the AFPC did not deal with the issue of productivity increases, let alone use productivity growth as a basis for its decisions on general safety net rates. There was no productivity dividend for safety net workers, with all of the benefit of productivity gains going to employers.
132. By contrast to the AFPC, the AIRC gave careful consideration to the question of productivity gains and, specifically, to productivity gains in industries in which there was a high degree of safety net-dependent workers. There was some opposition to the claim that safety net workers should receive productivity-based increases. It was argued that productivity increases had resulted from bargaining and that increases in safety net wages would remove the incentive to bargain.
133. In the 2003 and 2004 Safety Net Review cases the ACTU pointed to significant annual productivity changes. In 2004 the AIRC concluded:
- “Based on the material before us, we adhere to the conclusion reached in the May 2003 decision that it has not been demonstrated that there is a negative association between safety net adjustments and productivity growth. There is no necessary association between award coverage, safety net adjustments and productivity growth” (*Safety Net Review Case 2004*, paragraph [166], footnote omitted.)
134. The matter was ventilated again in 2005 following the release by the ABS of figures showing very substantial increases in productivity of award-reliant industries over the 10 year period to June 2004. After an extensive review of the data and research, the AIRC concluded:
- “There is no cogent evidence before us that award coverage per se inhibits productivity growth. The increase in productivity in the award-reliant sectors relied on by the ACTU and welcomed by the Commonwealth tells us nothing

about causation. Nor is there any measure of the extent to which productivity has increased as a result of the shift to enterprise bargaining....

In determining the appropriate safety net adjustment to be granted, we are satisfied that we have not exercised our award variation powers in a way which fails to encourage enterprise bargaining. We agree with the States and Territories that the claim by the Commonwealth that safety net adjustments discourage productivity pivots on assertions that such adjustments act as a disincentive to bargaining. If safety net adjustments do not discourage bargaining, there is really no case to be answered in relation to productivity. We see no sound basis to depart from the conclusion in the May 2004 decision [at paragraph [166]] that “*There is no necessary association between award coverage, safety net adjustments and productivity growth*”. (*Safety Net Review Case 2005*, paragraphs [327] and [330], italics in original)

135. We appreciate that in a system that encourages bargaining, and seeks to use bargaining as a means of achieving productivity gains, similar questions will arise in FWA to those that have been raised in the AIRC. We submit that the AIRC’s approach to this matter should be adopted by FWA.
136. We submit that there is no basis for safety net workers to be denied wage increases based on productivity increases. In our view, productivity increases should be distributed across all industries and not on an industry by industry basis. The 10.6% increase in labour productivity over the eight years 2000-01 to 2008-09 has not been available to safety net-dependent workers and they have been denied a benefit that should be paid to them. The benefits of productivity increases that had been made available in the early part of the decade have been effectively lost by the limited adjustments in the latter part of the decade.
137. To deny safety net dependent workers access to productivity gains would be unjust and inconsistent with the FWA requirement to provide a fair safety net. Unless productivity is taken into account, safety net wages will fall further behind community movements. It would perpetuate the systemic failure in wage-setting which has seen the bargaining sector being able to take advantage of productivity gains while those without bargaining power have been denied the benefits of their own productivity growth. If productivity gains are taken into account, safety net wages will maintain a more appropriate relationship to levels in the rest of the workforce and provide low paid workers and their families with standards of living that are more comparable with the community as a whole.

G. The Tax Cuts do not justify the Real Wage Cuts

138. Supporters of the AFPC's decisions have pointed to the improved after-tax position of FMW-dependent workers, with the increases in disposable incomes in recent years being greater than the CPI increases. In effect, income tax cuts given to low paid workers have been used to justify the reduction in their real wages. As we pointed out earlier, the concentration on the FMW leaves aside the treatment of almost the entire safety net-dependent workforce.
139. Changes in taxation rates for all workers over the last decade, and the last two years in particular, have had a major impact on disposable incomes, but not in a way that would justify real wage cuts, or the discounting of real wage increases. Table 7 shows the after-tax outcomes over the decade for the safety net workers in Table 1. We have also added the position of the AWOTE worker to provide a point of comparison with community after-tax wage outcomes.

Table 7
After-tax changes to Safety Net Wages and AWOTE
2000-2009
(\$ per week, unless otherwise indicated)

									AWOTE
2000 Gross	400.40	450.00	492.20	500.00	550.00	600.00	650.00	700.00	798.70
2000 Net	346.38	378.37	406.53	412.39	446.13	480.38	514.63	548.88	616.48
2009 Gross	543.78	593.28	637.48	645.28	695.28	740.34	787.02	835.02	1223.30
2009 Net	497.17	537.77	572.92	579.12	615.19	644.25	674.36	705.31	955.82
\$ increase in Gross	143.38	143.28	145.28	145.28	145.28	140.34	137.02	135.02	824.60
% increase in Gross	35.8%	31.8%	29.5%	29.1%	26.4%	23.4%	21.1%	19.3%	53.2%
\$ increase in Net	150.79	159.40	166.39	166.73	169.06	163.87	159.73	156.43	339.34
% increase in Net	43.5%	42.1%	40.9%	40.4%	37.9%	34.1%	31.0%	28.5%	55.0%

Calculations are based on 52.18 weeks in a year. The Medicare levy is included. The Low Income tax Offset (LITO) is included where relevant. In 2000 the full LITO of \$150.00 was paid at 20,700 and phased out at 4 cents for every dollar, and was zero at \$24,450 (at \$470 per week). In 2009/10 LITO finally cuts out once a taxpayer's assessable income reaches \$63,750.

140. Table 7 shows that taxation cuts have increased the disposable income of low paid workers by significant margins. The after-tax outcomes for safety net workers are well short of the after-tax community movement as reflected by AWOTE. We can, however, calculate the outcomes for low paid workers in the bargaining sector who have been able to keep pace with movements in AWOTE. These would include low paid workers in collective agreements covering a wide range of wage levels. We can also calculate the after-tax changes for taxpayers who have incomes well in excess of the average.
141. In order to compare the impact of taxation changes on various income levels over the decade it is necessary to use a uniform increase in wage rates. Table 8 shows what has happened to after-tax incomes for various wage groups receiving a 50% increase over the decade. This is an appropriate figure given that the AWOTE increase over the period has been 53.2%.

Table 8
After-tax changes for various income groups
Receiving Wage increases of 50%
2000-2009
(\$ per week, unless otherwise indicated)

2000 Gross	400.00	425.00	450.00	500.00	550.00	600.00	800.00	1200.00	1600.00	2000.00	2400.00
2000 Net	346.12	362.24	378.37	412.39	446.13	480.38	617.38	859.86	1063.94	1271.86	1477.86
2009 Gross	600.00	638.00	675.00	750.00	825.00	900.00	1200.00	1800.00	2400.00	3000.00	3600.00
2009 Net	543.11	573.32	602.11	650.48	698.86	747.23	940.73	1329.51	1692.51	2055.51	2407.99
\$ increase in Gross	200.00	213.00	225.00	250.00	275.00	300.00	400.00	600.00	800.00	1000.00	1200.00
\$ increase in Net	196.99	211.08	223.74	238.09	252.73	266.85	323.35	469.65	628.57	783.65	930.13
% increase in Net	56.9 %	58.3 %	59.1 %	57.7%	56.6 %	55.5 %	52.4%	54.6%	59.1 %	61.6%	62.9 %
\$ value of tax cuts	23.93	29.96	34.55	31.89	29.66	26.66	14.66	39.72	96.60	147.72	191.20

142. Table 8 shows that the taxation changes have led to higher after-tax outcomes for workers who have moved in line with the general movement in ordinary time wages. The dollar value of the changes has been calculated for each income group

by multiplying the 2000 after-tax figure by 150% and finding the difference between that sum and the after-tax sum in 2009. Clearly, the position of those who have moved by more or less than the 50% used here will have different outcomes, but all will be advantaged.

143. Table 8 reveals that the taxation changes have had very different outcomes, in percentage and dollar terms, across the wage (and non-wage) groups. The limited tax cuts for incomes between \$900 per week and \$1,800 per week stand out from the rest. This is a range that centres on AWOTE workers. The starting point of \$800 per week compares to \$798.70 in the AWOTE figures and the end point of \$1,200 is only \$23.30 below the last AWOTE figure.
144. Another way of presenting the essence of these changes is in Table 9, where the percentage of tax paid in 2000 and 2009 by four income groups is compared. Again it demonstrates that low income groups have not been targeted for special consideration, but it does show that the middle income group has received relatively little by way of tax cuts.

Table 9
Proportion of Income Taxation for various groups
Receiving Wage increases of 50%
2000-2009

\$ per week	2000	2009
\$400/\$600	13.5%	9.5%
\$800/\$1200	22.8%	21.6%
\$1600/\$2400	33.5%	29.5%
\$2400/\$3600	38.4%	33.1%

145. It should be noted that there are further taxation changes to be introduced in 2010-11 that will have an impact on these figures. Those changes will complete the three year package that the previous and current Commonwealth governments proposed prior to the last federal elections. The points of difference between the two packages were limited and we can treat the income taxation policies of the three years as bi-partisan.

146. The 2008 Budget saw the first step in the implementation of the new government's income tax policy. For low income earners most of the reductions were to come in the first year (2008-09), with tax cuts of \$8.65 per week; \$2.89 per week in 2009-10; and \$2.88 per week in 2010-11. The total tax cuts for the three years will be \$14.42 for taxpayers in the \$20,000 to \$30,000 per annum range. A taxpayer on \$180,000 per annum will receive tax cuts of \$77.89 per week over the same period.
147. In 2010-11 low income taxpayers (up to \$35,000 per annum) will have the tax cut of \$2.88 per week as a result of changes to the low income tax offset. Tax cuts in that year will rise to \$8.65 per week over the range \$40,000 to \$60,000 per annum. Taxpayers over \$95,000 per annum will have \$8.65 per week plus the benefit of the change in the marginal rate through to \$180,000. The marginal tax rate change will be from 38% to 37% over the income range \$80,001 to \$180,000. A taxpayer on \$2,400 per week will get a tax cut of \$14.39 per week. The overall pattern of the forthcoming changes will not be a significant departure from the trend to date.
148. The question of whether tax cuts should be used to reduce wage increases has been ventilated in various wage cases. In the *Safety Net Review Case 2005* the AIRC rejected the claim that the \$6.00 per week tax cut for low paid workers in the 2005 Budget should reduce wage increases. ACCER pointed out that the tax cuts represented less than the "bracket creep" that had occurred since the introduction of the *New Tax System* in July 2000. It also put the following position, which remains relevant in dealing with tax cuts over the decade:
- "...the \$6.00 per week reduction is a benefit available to all income earners resulting from changes to the first step in the taxation scales. It is available to those who are not employees and to those employees who are not regarded as low paid. It would be wrong to single out low paid workers as the only workers who should have their wage increases discounted by this factor. It is not a targeted measure of the kind that could be said to provide an alternative to a pay increase. If the Commission were to discount the safety net adjustments by \$6.00, or any lesser sum, it would be treating award workers less favourably than other workers. Significantly, it was not claimed in the Budget that it was being introduced as an alternative to a wage increase." (ACCER *Post Budget Safety Net Review Submission 2005*, paragraph 9)
149. The same kind of question came before the AFPC in 2008. Various parties argued for the tax cuts to be taken into account in the adjustment of safety net wages.

There were two issues: whether the tax cuts favoured low paid workers, only some of whom would depend on safety net wages; and whether the purpose of the tax cuts was inconsistent with their use as a discounting factor. ACCER put the following on both aspects:

“The tax cuts were promised as a *real* benefit by the former Government and by the then Opposition in the recent election campaign. There was no suggestion by either side that they might be taken away from some working families by way of reduced wage increases. Consistent with the promise, the Treasurer, Mr Swan, said in his 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 and would be inconsistent with the explicit purpose of the tax cuts. The AFPC should not take from the most disadvantaged of working families any of the benefit of the tax cuts that they were promised, on a bi-partisan basis, and which have been delivered in the Budget. This point is particularly compelling because higher paid workers are able to bargain for wage increases in addition to their tax cuts. Discounting wage increases by reference to tax cuts would effectively discriminate against low paid workers and would fail the fairness test.” (ACCER *Post-Budget Submission 2008*, paragraphs 20-1, emphasis in original.)

150. These are matters of great importance in determining whether the real wage reductions in recent years were justified. Low paid workers did not get any special treatment from the 2008 Budget and did not get more than their fair share of the benefits of strong economic growth and the resources boom. It is relevant to our argument about the failure of wage-setting over the decade.
151. In respect of the decade as a whole it is clear that the low paid were not targeted for tax cuts more so than the rest of the population. To use the tax cuts of the last decade to justify real wage cuts or wage-discounting would deprive safety net workers of their tax cuts and impose on them a burden not suffered by those workers who have the capacity to bargain for higher rates of pay.
152. Even if it could be said that low income workers were targeted for special tax cuts and were treated more favourably than other taxpayers, it doesn't follow that they should be deprived of a benefit intended by the Parliament. If a tax cut were to be

given for the purpose of improving their condition it would not be proper for a wage tribunal to withdraw the benefit, or part of it, by way of a wage reduction.

153. There may be cases where tax cuts can be taken into account. However, three conditions should be met before this happens: first, the tax cuts should be targeted at low paid workers and not part of a broader initiative; second, the cuts were for the explicit purpose of seeking a moderation in wage increases; and, third, on a proper assessment of needs of the low paid, the discounting of wage increases should occur. If this test is applied to the taxation changes of the last decade there is no basis for concluding that safety net wage increases should have been influenced by the reductions in income tax.

H. Increased Family Payments have not compensated for Wage Cuts

154. The assessment of living standards of low income working families depends on wage levels, income taxation and family payments. Family payments began in 1941 with the payment of child endowment of 5/- per week to each child after the first child of a family. The restriction was removed in 1950. Limited changes were made to the scheme until 1976 when the Family Allowance replaced child endowment. The change followed the investigations and reports of the Commonwealth Commission of Inquiry into Poverty (Poverty Commission) which chaired by Professor R F Henderson. The Commission delivered its *First Main Report* in April 1975 (the Poverty Report). Since 1976 various changes have been made to the eligibility, benefits and, on several occasions, the name of the scheme. A detailed history of family payments since 1941 is found in *Social Security Payments for People Caring for Children, 1912 to 2006*, Australian Parliamentary Library, 2006.
155. The Poverty Report adopted poverty lines for various household groups. Those poverty lines, frequently called Henderson Poverty Lines (HPLs), were established by reference to a benchmark household of two adults and two children, with one parent working and the other parent caring for the children without seeking employment. We have used the term *Henderson Benchmark Family* to describe this benchmark household, and for convenience we will use it from time to time.

Each quarter the Melbourne Institute produces *Poverty Lines: Australia* which contains updated HPLs and associated information. HPLs are adjusted by reference to estimates of changes in seasonally adjusted household disposable income per head (HDI). We referred to these estimates in connection with Table 3 and noted the need to revise those figures in the light of subsequently obtained information.

156. In July 2000 Family Tax Benefit Part A (FTB A) and Family Tax Benefit Part B (FTB B) were introduced to replace some earlier family payments measures and as part of the package of compensatory measures to accompany the commencement of the GST. FTB A provided payments for various categories of children, subject to income tests. FTB B provided extra help for families with one main income and replaced, amongst others, the Sole Parent Rebate and the Dependent Spouse [with children] Rebate. FTB B payments are reduced once the recipient's income exceeds a specified level. The sole or main breadwinner's income is not taken into account.
157. Lower income taxpayers with children are exempted from the Medicare levy of 1.5% of taxable income, but the levy exemption is phased out over an income range. In effect, the exemption is a family payment, but we have not specifically designated it as such in the following tables. In the following calculations we have not included the Medicare levy in the after-tax calculations, save for those families who are required to pay part or all of it.
158. Rental assistance is available for low income families in private rental accommodation. It is available to recipients of FTB A, subject to income tests. The payment has been available for the whole of the decade and has been indexed over that time. It has not been included in the Table 11 calculations, but it has been included in some later tables. The payment operates as a rental subsidy and is not a general monetary entitlement available to low income earners. It is in the nature of a utilities allowance. The AFPC treated it as part of the disposable income of low income families and assumed that the maximum rental assistance was received by all eligible groups, whether they were in private rental accommodation or not.
159. Generally we have treated rental assistance as an item that reduces the cost of housing, rent in particular, when calculating needs. However, we have included it

on occasions in order to make various comments about the information and analysis provided by the AFPC. We are troubled by its treatment as income, especially when the maximum is used, because it has the effect of reducing safety net wages for all workers. It is a matter that needs to be considered by FWA in due course.

160. Family payments vary according to the age of the children. Table 10 is adapted from the abovementioned Australian Parliamentary Library report by the addition of entries for the period from 1 July 2007 and the use of weekly, rather than fortnightly, figures.

Table 10
Family Payments 2000-2009
(\$ per week, unless otherwise indicated)

	Family tax benefit part A					Family tax benefit part B		
	Maximum Rates per Child		Base rate per child	Annual Supplement per child	Large Family Supplement	Rate per family		Annual Supplement per family
	Child under 13	Child 13-15	Child 0-15			Youngest aged under 5	Youngest aged 5-18	
	(\$ per week)			(\$ p.a.)	(\$ per week)	(\$ per week)		(\$ p.a.)
07.00	58.10	73.64	18.69	-	3.99	49.91	34.79	-
07.01	61.46	77.91	19.74	-	4.20	52.78	36.82	-
07.02	63.35	80.36	20.37	-	4.34	54.39	37.94	-
07.03	65.24	82.74	21.00	-	4.48	56.00	39.06	-
07.04	66.78	84.70	21.49	613.20	4.62	57.33	39.97	150 (from 1 Jan)
07.05	68.53	86.87	22.05	627.80	4.76	58.80	41.02	306.6
07.06	70.42	89.88	22.68	646.05	4.90	60.48	42.14	313.90
07.07	72.73	94.50	23.45	667.95	5.04	62.51	43.54	324.85
07.08	75.67	98.42	24.15	686.20	5.18	64.40	44.87	335.80
07.09	78.47	102.06	25.06	711.75	5.39	66.78	46.55	346.75

161. Over the nine year period the weekly rates have increased by percentages in the range 33.8% to 38.6%, which are higher than the CPI increases of 29.1%. However, the amount received is greater because of the introduction and adjustment of annual supplements, which operate to provide a buffer in the event that income estimates for the making of weekly payments are understated.

162. Table 10 demonstrates the importance of the age of the children in determining the level of family payments. The AFPC's calculations of transfer payments were usually based on the children being in the 8 to 12 year range. We have adopted that practice throughout this submission. The presence of a child under 5 will give a higher FTB B figure. The higher rate for children under 5 may be justified by higher child care costs, especially in the case of sole parents. We will return to child care costs.
163. Table 11 compares the Henderson Benchmark Family over various income levels with reference to changes in wages and family transfers over the decade. It builds on Table 8 and enables a comparison to be made between the AWOTE-dependent family and various similar, but safety net-dependent, families.

Table 11
Henderson Benchmark Families:
AWOTE and Safety Net-dependent Families compared
2000-2009

(\$ per week, unless otherwise indicated)

	Safety Net Wages							AWOTE
2000 Gross wage	400.40	450.00	500.00	550.00	600.00	650.00	700.00	798.70
2000 Net Wage	352.38	385.12	419.89	446.13	480.38	514.63	548.88	616.48
2000 Family Transfers	150.99	150.99	150.99	145.25	112.95	85.25	72.17	72.17
2000 Disposable Income	503.37	536.11	570.88	591.38	593.33	599.88	621.05	688.65
2009 Gross wage	543.78	593.28	645.28	695.28	740.34	787.02	835.02	1223.30
2009 Net Wage	505.33	546.67	588.80	625.62	649.43	675.52	705.31	955.82
2009 Family Transfers	237.42	237.42	237.42	237.42	237.42	237.42	237.42	161.96
2009 Disposable Income	742.75	784.09	826.22	863.04	886.85	912.94	942.73	1117.78
% Net Wage Increase	43.4%	41.9%	40.2%	40.2%	35.2%	31.3%	28.5%	55.0%
% Transfers Increase	57.2%	57.2%	57.2%	63.3%	49.4%	178.5%	228.9%	124.4%
\$ Disposable Income Increase	239.38	247.98	255.34	271.66	293.52	313.06	321.68	363.84
% Disposable Income increase	47.6%	46.3%	44.7%	45.9%	49.5%	52.2%	51.8%	62.3%
\$ Loss per week in Disposable Income of Safety Net family relative to AWOTE family	74.22	86.02	103.32	96.77	76.12	60.67	65.23	-

The Medicare levy has been included in the net wage where applicable. Family transfers in 2009 include the weekly value of the annual supplements for FTB A and FTB B.

164. Table 11 demonstrates several matters. First, families who qualified for the maximum rates in 2000 have had increases of 57.2%; well in excess of the rate of inflation and a little more than the increase in average weekly ordinary time earnings. Second, family payments have been extended to higher income groups. The income groups to which the family benefits have been extended have had greater increases in their disposable incomes. The AWOTE family, which is beyond the range for maximum payments, has benefited. It has had a gross wage

increase of 53.2%, a net wage increase of 55.0% and a disposable income increase of 62.3%.

165. The third major point from Table 11 is that low income families have fallen behind higher income families. There is, therefore, nothing in this material that would justify a real wage cut or discounted wage increases. There is nothing to support a claim that the relative standards of low income working families are rising. It demonstrates the contrary: over the decade working families at or near the minimum wage have fallen behind middle income families. The \$ loss per week is the difference between what the families have received and what they would have received had they received the AWOTE increase. This is calculated in the last row of Table 11. Family payments have not made up for the lack of wages growth.
166. Table 11 compares safety net-dependent families with middle income families who have moved in line with average weekly ordinary time earnings. Many low paid workers who have access to collective bargaining have quite different outcomes to safety net workers. Their wage increases may exceed the AWOTE increase.
167. In Table 12 we make comparisons between safety net-dependent low income families and low income families where the breadwinner was covered by a collective agreement that has moved in line with average weekly ordinary time earnings. Two examples are given, with the same starting points in 2000; \$450 and \$550 per week. Of course, the AWOTE increase will not be uniform across all low paid workers covered by bargaining arrangements, but any downward departure from the average would have to be major if they were to have a bargaining outcome similar to safety net-dependent workers.

Table 12
Henderson Benchmark Families
Comparing safety net-dependent families and bargaining sector families
2000-2009
(\$ per week, unless otherwise indicated)

	Safety Net A	Bargaining A	Safety Net B	Bargaining B
2000 Gross	450.00	450.00	550.00	550.00
2000 Disposable income	536.11	536.11	591.38	591.38
2009 Gross	593.28	689.40	695.28	843.60
2009 Net Wage	546.67	620.90	625.62	710.21
2009 transfers	237.42	237.42	237.42	237.42
2009 Disposable income	784.09	858.38	863.04	947.63
Safety net loss relative to Bargaining	74.29	-	84.59	

The bargaining rates have increased by the same percentage as AWOTE (ie 53.2%) over the relevant period.

168. Table 12 illustrates the growing separation between workers with access to collective bargaining and those who are unable to bargain. It demonstrates the very different outcomes for low paid workers who have the capacity to bargain, generally through a union presence in their workplaces, and those who have no capacity to bargain. We accept that bargaining outcomes should not be applied automatically to safety net decisions, especially when unusual cyclical factors are in operation, but there is a need to maintain a reasonably stable relationship between community wage movements and safety net rates.

I. Safety Net wages have not been based on Evidence of Workers' Needs

169. Since its inaugural decision in 2006 the AFPC has used the HPLs as a guide to the sufficiency of the FMW, taking into account various family payments where

relevant. It has used the ratios of household disposable incomes to the relevant HPLs in order to assess the differential impact that the FMW has on various kinds of households. In the first two years it assessed nine kinds of households and, from 2008, ten households.

170. The AFPC placed substantial weight on the HPLs:

“While the HPL has never been an official measure of the lowest income necessary for an adequate standard of living, it is commonly used in Australia as an indicator of low income.”(*Economic and Social Indicators - Monitoring Report July to December 2008*, page 34, published February 2009)

171. The HPLs have been the *only* evidence that the tribunal had about the needs of workers and their families. ACCER and the Australian Council of Social Services made repeated requests to the AFPC to undertake or commission research into the needs of low paid workers and their families, but it did not do so. It appears that it was satisfied with the HPLs as a measure of need.

172. There are four significant limitations in the HPLs that require the exercise of caution when using them in wage-setting:

- (a) When the HPLs are published in each quarter they are based on estimates of seasonally adjusted household disposable income per head which require review and adjustment. Each edition of *Poverty Lines: Australia* in which they are published comes with this advice.
- (b) The HPL equivalence scales which are used to calculate relative living standards between various households are significantly different to the commonly accepted equivalence scales, the effect of which is to underestimate the needs of a family relative to the single person.
- (c) The housing costs included in the HPLs are too low and do not reflect the true costs of housing for low income families.
- (d) The HPLs do not include any recognition of child care costs for sole parents.

173. These are matters that can be addressed in a prudent application of the HPLs to the task of estimating needs. They demonstrate the need to avoid a rigid application of the HPLs and to avoid treating them as a precise measure of need.
174. In its 2008 Decision the AFPC introduced another poverty measure: the relative poverty line of 60% of median disposable income. We will refer to this as “PL”, save when dealing with the other kinds of relative poverty lines. The PLs were estimated by the AFPC using the ABS *Household and Income Distribution, Australia, 2005-06 6523.0*. The 2005-06 data, published in 2007, was updated by the AFPC using the estimated changes in household disposable income as published in *Poverty Lines: Australia*.
175. The PLs does not measure needs or identify a particular standard of living. However, as poverty is to be determined in an economic context, this kind of measure has been widely used. The 60% of median disposable income level has not been universally accepted as a measure of poverty. Some poverty lines are based on 50% of median disposable income and others are established by reference to 50% of mean disposable income.
176. In its 2008 Decision the AFPC referred to its two main reasons for using the HPLs and the PLs:
- “The Commission has two main reasons for comparing disposable incomes of the lowest wage-earning households against accepted poverty lines or other benchmarks for the population as a whole. First, it can assess how those incomes compare at a point in time to the set of indicators chosen. Second, it can assess how those relativities move over time, as was recently done in the Commission’s February 2008 *Economic and Social Indicators – Monitoring Report*.” (Page 65)
177. HPLs and PLs enable comparisons to be made across household types in order to assess the differential impact a particular wage level or wage increase. However, the two measures will produce different results because they use different equivalence scales. This is a matter of some significance; for example, in the PLs the poverty line of the family of four is 2.1 times that of the single person, whereas the HPL poverty line for the family is 1.88 times that of the single person. The equivalence scales used in the PLs are based on the equivalence scales used by the Organization for Economic Co-operation and Development (OECD) and the ABS.

This is not a reason to reject the HPLs, but it is a reason for caution when using the HPLs to estimate the relative living standards of families and single people.

178. In 2009 the AFPC again produced tables covering the ten FMW-dependent household types and compared their disposable incomes outcomes by reference to the HPLs and the PLs. In Table 13 we have combined some of the material in those tables to illustrate, by reference to HPLs and PLs, the different outcomes of the FMW on various households, including households with different levels of family payments. Table 13 contains a great deal of information about the incomes of various households and their estimated standards of living. The tables from which it is drawn are a valuable tool in addressing minimum wage issues.

Table 13

Comparison of the disposable income (DI) of FMW-dependent households with Henderson Poverty Lines (HPLs) and 60% Median Disposable Income Poverty Lines (PLs)

December 2008

(\$ per week, unless otherwise indicated)

Household type	Disposable Income (DI) (\$pw)	Henderson Poverty Line (HPL) (\$pw)	DI as proportion of HPL	60% median Poverty Line (PL) (\$pw)	DI as proportion of PL
1. Single adult, no children	494.44	415.06	1.19	421.4	1.17
2. Single parent, one child	707.42	532.86	1.33	547.81	1.29
3. Single parent, two children	796.25	644.97	1.23	674.23	1.18
4. Single-earner couple, no children	657.43	555.24	1.18	632.09	1.04
5. Single-earner couple, one child	808.38	667.42	1.21	758.51	1.07
6. Single-earner couple, two children (Includes Newstart allowance for second parent)	899.37	779.61	1.15	884.93	1.02
7. Single-earner couple, two children (No Newstart allowance for second parent)	796.25	779.61	1.02	884.93	0.90
8. Dual-earner couple, no children	706.44	633.75	1.11	632.09	1.12
9. Dual-earner couple, one child	819.87	745.93	1.10	758.51	1.08
10. Dual-earner couple, two children	909.36	858.12	1.06	884.93	1.03

The table is adapted from Tables 5 and 6 of the AFPC's 2009 Decision. The following footnotes are extracted from the footnotes to those tables.

Source: AFPCS modelling; ABS, *Household Income and Income Distribution, Australia*, 2005–06, Catalogue No. 6523.0, Canberra, ABS, 2007; and Melbourne Institute of Applied Economic and Social Research, *Poverty Lines: Australia*, December Quarter 2008, University of Melbourne, 8 April 2009.

Assumptions:

FMW = \$543.78 per week. Tax/transfer parameters as at 31 December 2008. Children aged 8–12. Households paying sufficient rent to receive maximum rent assistance, where applicable. [Non-employed partner of] couples on 100 per cent FMW eligible to receive Newstart Allowance, unless otherwise specified. Dual-earner examples assume income is split 2:1.

HPLs include housing costs and dual-earner figures include additional 'cost of work' component of \$78.51 per week.

PLs are based on estimates of median equivalised household disposable income for 2005–06, updated for movements in household disposable income per head as calculated by Melbourne Institute, and adjusted for household composition using modified OECD equivalence scale.

179. Rows 6 and 7 of Table 13 deal with the same kind of family: a couple with 2 children. The difference in disposable income is because the second parent in the row 6 household receives the Newstart allowance. This is an unemployment benefit and is only payable to the parent if he or she seeks employment. It is not payable to a parent who does not seek employment and who stays at home to look after the children. The Henderson Benchmark Family is the family in row 7, ie family in which the non-employed parent does not seek employment and, accordingly, is not eligible for the Newstart allowance. The family at row 7 was not included in the relevant tables in the AFPC's first two decisions, but was added from 2008 following submissions from ACCER.
180. The AFPC's own figures show that the Henderson Benchmark family is substantially below the poverty line fixed by the 60% of median equivalised disposable income and barely above the relevant HPL. When it first introduced the PL in 2008, the AFPC said that the PL "is the most generous definition of relative poverty commonly used by the OECD and academic researchers, the others being 50 per cent of median income and 50% of mean income" (page 65). It commented: "The only family type with income below the relative poverty line (when receiving the standard FMW) is a single earner couple *who choose to forgo* access to Newstart Allowance" (page 66, emphasis added). This is a reference to the

Henderson Benchmark Family. It would be better, in our view, to describe the adults in this family as “a single earner couple *who choose to have one of them remain at home to care for the children.*”

181. The weight that the AFPC gave to the HPLs is evident from the following passages in the 2006 and 2007 Decisions. In 2006 the AFPC calculated disposable incomes and HPLs over a range of households and concluded:

“The income support and family assistance safety net, and its continued improvement over recent years, *allows people with family responsibilities to rely solely on a single wage to support their families.*” (2006 Decision, page 96, emphasis added.)

182. The AFPC returned to this matter in the following year’s decision, the 2007 Decision, and said:

“It is also worth noting that the original Henderson poverty benchmark for a couple family with one earner and two dependent children was equal to the combined value of the then basic wage and child endowment. In other words, at that time, a family with one earner on the basic wage had an income equal to the HPL. Continued improvements over many years in the extent and coverage of income transfers *for working families have resulted in families now having disposable incomes well in excess of relevant HPLs.*” (2007 Decision page 70, footnote omitted and emphasis added.)

183. In the following sections we seek to establish three conclusions which are contrary to the claims about the application of the HPLs that are made in these two passages:

- The wages outcomes were not, and are not now, “well above poverty”.
- The FMW and family payments do not allow families to rely solely on a single wage.
- The benchmark family is not better off relative to the poverty lines, either by reference to the last decade or to the period since the HPLs were established.

J. Housing Costs have been Underestimated

184. The poverty lines published by the Melbourne Institute in *Poverty Lines: Australia* newsletter contain two sets of HPLs for each of the various households: those with housing costs and those without housing costs. In the latest HPLs (September

Quarter 2009) the housing costs for the benchmark family are \$170.35 per week, or 22.59% of the total. In the case of a sole parent with 2 children, the costs are \$157.31, or 25.22%. These figures grossly underestimate housing costs; they underestimate poverty levels and have a consequential impact on the use of HPLs in setting wages. We have used the September Quarter 2009 calculations in this submission. The December Quarter 2009 details will not be available until late March 2010.

185. We should note that there was a substantial change in the HPLs from the June Quarter 2009 to the September Quarter 2009. The HPL of the family of four declined from \$761.69 to \$754.10. This unusual situation resulted from estimates that showed that seasonally adjusted household disposable income per head had declined over the intervening quarter. As the HPLs are adjusted by reference to these changes, the poverty lines fell despite the fact that costs increased. We expect that the position will have been clarified to some extent in the next issue of the newsletter. As we expect that the HPLs will return to their earlier levels, or higher, we regard the September figures as a conservative estimate of poverty levels.
186. The AFPC included the maximum amount of rental assistance that is paid to low income families when calculating the disposable incomes of low income workers and their families. Various low income groups are eligible for rental assistance. Subject to an income test, recipients of FTA A may be paid rental assistance if they are renting privately. Rental assistance is reduced as the rents paid exceed specified levels. The same maximum applies to single and couple parents, although the rental cost over which assistance is reduced varies between the groups. Over the decade the maximum rental assistance rose from \$50.47 to \$65.66 per week. The use of the maximum rental assistance was not based on any assessment of rental costs or on estimates of average rental costs. Nor was it consistent with the HPLs. The maximum rental assistance is not payable if the rent is as low as that in the HPLs. We calculated in our 2009 submissions to the AFPC's wages review that the assistance available at the HPL housing figure was \$10.43 a week less than the maximum rental assistance.

187. In 2009 ACCER produced evidence to the AFPC of the average amount of rent being paid by families in receipt of rental assistance and who qualified for that assistance by reason of their receipt of the FTB A. The material was taken from *Year Book, Australia 2008* and related to June 2007. This was, and remains, the most recent published material on the matter. Table 14 is based on data in that publication and in earlier Year Books regarding the rents paid by low income families in receipt of rental assistance for the years 2001 to 2009. The figure for 2007 has been adjusted by reference to the rental index in *Consumer Price Index December Quarter 2009* in order to estimate the amounts for December 2008 and December 2009.

Table 14
Housing Costs for Henderson Benchmark Family
2000-2009
(\$ per week)

	HPL	HPL Housing Costs	Average Rent paid	Difference in Net Housing costs	Housing-adjusted HPL
2000	519.34	117.32	n.a.	-	-
2001	550.80	124.43	164.00	39.57	590.37
2002	553.55	125.05	175.00	49.95	603.50
2003	568.11	128.34	184.00	55.66	623.77
2004	598.21	135.14	196.00	60.86	659.07
2005	617.84	139.57	202.00	62.43	680.27
2006	650.78	147.01	212.00	64.99	715.77
2007	702.68	158.74	228.50	69.76	772.44
2008	779.61	176.11	255.76	79.65	859.26
2009	754.10	170.35	269.47	99.12	853.22

The HPL for 2009 is the HPL as published in *Poverty Lines: Australia*, September Quarter 2009, the latest available update. The HPLs for previous years are taken from the relevant quarterly newsletter. Rental costs are taken from Year Books, 2002 to 2008, which contain data for the preceding year. There is no such information in respect of 2000.

188. Table 14 shows the position of the Henderson Benchmark Family and illustrates the substantial gap between the HPL estimates and the reality facing those families, which has important implications for the way in which HPLs should be used. Table 15 shows a similar position in respect of a sole parent with two children.

Table 15
Housing Costs for Sole Parent and 2 children
2000-2009
(\$ per week)

	HPL	HPL Housing Costs	Average Rent paid	Difference in Net Housing Costs	Housing-adjusted HPL
2000	429.65	108.34	-	-	-
2001	455.67	114.89	138.00	23.11	480.78
2002	457.95	115.47	147.00	59.53	489.48
2003	470.00	118.51	154.00	35.49	505.49
2004	494.90	124.79	160.00	35.21	530.11
2005	511.14	128.88	169.00	40.12	551.26
2006	538.39	135.75	176.50	40.75	579.14
2007	581.33	146.58	190.00	43.42	624.75
2008	644.97	162.63	212.67	50.04	695.01
2009	623.87	157.31	224.06	66.75	690.62

189. In Table 16 we use the information in Tables 14 and 15 to re-calculate the ratios of disposable incomes to HPLs that were used by the AFPC over the period 2006 to 2008. The disposable incomes, as calculated by the AFPC, include maximum rental assistance. We have maintained that inclusion in Table 16, despite our position that it should not be included in the calculation of disposable income. We have extended the table to cover December 2009, using the September Quarter 2009 HPL figures, our estimates at Table 11 of disposable income, and maximum rental assistance.
190. Table 16 demonstrates the substantial impact that inadequate estimates of housing costs have had on the AFPC's assessment of living standards and the needs of low paid workers and their families. It is not a minor error, but a very important one. These amendments to the AFPC's estimates show that the Henderson benchmark family is well below poverty and that the sole parent with two dependent children is too close to poverty. They do not have the standards of living that the AFPC has claimed.

Table 16
Disposable income to HPLs after re-calculation of housing costs
FMW-dependent families
2000-2009

	Disposable Incomes of 2+ 2 and 1+2 Families	2 + 2 Family Housing- Adjusted HPL	2 +2 Family AFPC ratio DI:HPL	2 + 2 family Re- calculation of DI:HPL	1 + 2 Family Housing- Adjusted HPL	1 + 2 Family AFPC ratio DI:HPL	1 + 2 family Re- calculation of DI:HPL
2006	732.42	715.77	1.14	1.02	579.14	1.36	1.26
2007	758.26	772.44	1.08	.98	624.75	1.30	1.21
2008	796.25	859.26	1.02	.93	695.01	1.23	1.15
2009	808.41	853.22	1.07	.95	690.62	1.30	1.17

The 2+2 family is the Henderson Benchmark Family, which was not included in the AFPC's 2007 decision in respect of December 2006. This family is at row 7 in Table 13, above. The calculation of 1.14 is made by reference to other data in the AFPC's 2007 Decision. The disposable income used is the same as that for the sole parent with two children (1 + 2 family) in December 2006. As noted earlier, the disposable incomes of both FMW-dependent families are the same, hence their inclusion in the one column. The maximum rental assistance for both families at December 2009 was \$65.66 per week.

K. Estimates of Living Costs do not include Child Care Costs

191. In each set of HPL calculations sole parents of one or two children have been shown to have a higher standard of living than single workers. This is an erroneous view of their circumstances because the HPLs take no account of child care costs that must be borne by working sole parents. The couple parent family does not ordinarily need to incur child care expenses, but in sole parent families child care is a necessity and costs may be considerable. The HPLs for the two families are based on equivalence scales that do not take into account child care costs. This is not an argument against the use of HPLs, but an argument for being flexible when dealing with them.
192. It is not our intention to consider child care costs in depth at this stage, but to give some indication of the impact that they may have on the standards of living of sole parent families. Child care costs can drive low income sole parent families into poverty and/or force sole parents into inadequate child care arrangements. Indeed, it is the prospect of inadequate child care support that is a barrier to increased sole

parent participation in the workforce. We are particularly concerned about the impact that inadequate child care can have on children

193. There has been much discussion about this matter and considerable Commonwealth expenditure on child care support. However, if the underlying wage rate is insufficient, child care support may not be addressing the needs of low income sole parents. It is important to assist low income sole parents participate in the workforce, but that assistance requires a wage, family transfers and child care support that are adequate for them to participate on an equitable basis and with the proper care of their children. This is a matter that should give emphasis to the interests of children.
194. In Table 17 we have set out child care costs for the FMW-dependent sole parent with two children on the basis of illustrative usage of child care. It does not attempt to draw on general survey material regarding child care costs, if only because low income working sole parents can only spend what they have available. The calculations are concerned with needs, not with surveys. We appreciate that various kinds of averaging is required in factoring in a child care component in the estimation of the needs of low income workers. We submit that this is an issue that should be addressed by FWA on an ongoing basis and one which presents an opportunity for joint research and/or consultation with a variety of bodies.
195. Table 17 sets out four child care scenarios for a sole parent with two children. The first is where both children have “full time” Before/ After School Care and Vacation Care. The full time care is over 48 weeks and is not used when the parent is on annual leave. The other scenarios are 75%, 50% and 25% of full time care. We have based the costs on the modest costs charged in the extensive out of school hours service provided by Centacare Child Care Services which operates some 80 centres throughout the Archdiocese of Brisbane. The rate we have used is \$5.00 per hour.

Table 17
Indicative Childcare Costs for Sole Parent with Two Children
(\$ per annum)

Usage of child care services	Before/After School Care	Vacation Care	Gross costs	Child care Benefit	Child Care Rebate	Net Child Care Costs
100%	\$6000	\$2800	\$8800	\$6396	\$1202	\$1202
75%	\$4500	\$2100	\$6600	\$4797	\$901.50	\$901.50
50%	\$3000	\$1400	\$4400	\$3198	\$601	\$601
25%	\$1500	\$700	\$2200	\$1599	\$300.50	\$300.50

“100%” is a total of 1200 hours of care for 2 children over 40 weeks (3 hours per day @ \$5.00 per hour) and a total of 800 hours care for 2 children over 8 weeks (10 hours per day @ \$3.50 per hour). The Child Care Benefit (CCB) is based on a CCB percentage of 104.5% or \$3.198 for each hour of care and total of 2000 hours care for 2 children. The Child care rebate is based on a 50% rebate for out of pocket expenses.

196. Even with the modest costs in the table and the substantial governmental support child care can be very expensive and it is very likely that child care will not be sought because of straightened financial circumstances. If, for example, the costs were to be \$1.00 per hour more the child care benefit would remain the same and the net child care costs would rise to \$2,802.00 in the 100% scenario. The other three net child care costs would be \$2,101.50, \$1,401.00 and \$700.50 per annum.
197. The material on child care costs emphasises the inappropriateness of the use of HPLs without flexibility in cases such as these. Child care costs have the capacity to drive a sole parent into poverty. The claims in Table 13 (drawn from the AFPC’s 2009 decision) that sole parents have a higher standard of living than single workers without dependants cannot be sustained. It presents a false picture of their situation and, to the extent that their supposed standard of living informs attitudes to wages and family payments, does them and other low paid workers and their families a disservice.

L. Low income Families are falling behind Rising Poverty Lines

198. We have shown in the last two sections that low paid workers and their families do not live “well above” poverty as has been claimed in the past. In the case of the

FMW-dependent family it cannot be claimed, as the AFPC did in 2006, that the level of wages and transfer payments “allows people with family responsibilities to rely solely on a single wage to support their families.” Nor, can it be claimed, as the AFPC did in 2007 that “Continued improvements over many years in the extent and coverage of income transfers for working families have resulted in families now having disposable incomes well in excess of relevant HPLs.” We wish both claims were correct and would continue to be so.

199. The AFPC claimed that the use of the HPLs and other would enable it to “assess how those relativities move over time”. The purpose of this section is to see how incomes have changed by reference to the HPLs.
200. Over the period covered by the four decisions of the AFPC, the ratios of disposable income to the HPLs fell in all households, as did the PLs after those measures were introduced. Table 18 illustrates this in respect of the single person. The figures are taken from the various decisions and relate to the December quarter of each year, save in 2006 when the AFPC used the March quarter 2006 HPLs (the latest then available) for its July 2006 calculations. There has been a *one third* decline in the margin above poverty.

Table 18
Ratio of disposable income to HPL for Single FMW Worker
Calculated by AFPC
2006-2008

	HPL	PL
July 2006	1.31	-
December 2006	1.30	-
December 2007	1.25	1.21
December 2008	1.19	1.17

201. The decline in the relative living standards of the single worker, as measured by the HPLs, over the four years has been very substantial. Similar declines were experienced by other households. Given that the PLs were estimated by reference to the same index as that used in setting the HPLs, there has been a similar movement in the PLs. The change in the HPLs was a significant development in

the context of the AFPC's use of HPLs to both measure need and to track changes over time. Apart from some material that we refer to later, the causes and implications of the change were not considered. It is important that they are considered in order to understand how the circumstances of the low paid have changed and how FWA can best use the HPLs in the future.

202. In order to deal with these matters we turn to the first of the four significant limitations in the HPLs mentioned earlier: the need to revise the estimates of household disposable income per head (HDI). Quarterly HDIs provide an index for the adjustment of the HPLs, and the calculation of HPLs for any previous quarter. In order to discern trends over a few quarters, a few years or the decade it is necessary to keep in mind that the figures will change. Revisions need to be taken into account.
203. The continual revision of the HDIs means that we cannot identify a precise HPL value at the start and finish of the decade. At the outset of the decade, December 2000, the benchmark family's HPL was estimated at \$519.34 per week, based on an assessed HDI of \$406.07 per head per week. That figure was subsequently revised, with different figures being given over the years. The average over the four quarters to June 2009 was \$408.55. In the September Quarter 2009 *Poverty Lines: Australia* newsletter the estimated HDI for the December Quarter 2000 rose to \$417.92.
204. For the end of the decade we again have different estimates. In the June Quarter 2009 newsletter the HDI estimate for the June Quarter 2009 was \$618.34, but in the September Quarter 2009 newsletter it was revised to \$662.78, an increase of \$44.44 per week. In the initial publication for June 2009, the benchmark family's HPL was \$761.69; by the next quarter it was \$772.04, according to the formula in the newsletter.
205. It is this kind of short term problem that emphasises the danger of placing too much weight on initial estimates of HPLs and PLs (which have also been adjusted by reference to changes in the HDIs). For example, when in the 2007 Decision the AFPC estimated the December Quarter 2006 HPLs and expressed continuing confidence in its "well above the HPLs" assessment (at page 70), it relied on the

then most recent updates of the HPLs. In that quarter, according to the December Quarter 2006 newsletter, the benchmark family HPL was \$650.78, with a HDI of \$528.19. The HDI was subsequently revised upwards. In the December 2008 publication, the December 2006 HDI was revised to \$548.59, and the average of the estimates in the four updates from September 2008 to June 2009 was \$548.72. In September quarter 2009 the December 2006 HDI rose to \$571.85 and the re-calculated family HPL for that time rose to \$666.12. This means in December 2006 the households were closer to the poverty line than was thought. Subsequent changes in the HDIs for other quarters have raised doubts about the accuracy of the AFPC's estimates of the ratios of disposable incomes to HPLs for December 2007 and December 2008.

206. Nevertheless, the HPLs do provide estimates of changes over the decade. In the five newsletters from September 2008, the percentage increases in HDI since December 2000 have been successively estimated at 47.6%, 51.3%, 46.2% 51.3% and 54.9%. These estimates are subject to revision, but they do show that the household disposable income per head has increased by more than 50% over the decade. Accordingly all of the HPLs would have risen by more than 50%.
207. We know from Table 11 that the disposable incomes of safety net workers and their families have risen by less than 50% over the same time. A family of four that is dependent on a safety net wage of \$645.00 per week has had an increase in disposable income of 44.7% since December 2000. (A similar result applies if rental assistance is included in the disposable incomes.) We also know from Table 7 know that the disposable incomes of single safety net-dependent workers has risen by less than 50%; eg a worker now on \$645.00 per week has had an increase of 40.4% in his or her disposable income.
208. We know from the recent estimates of the ratios between disposable incomes and HPLs, which have to be treated with caution, that some families are below the poverty line.
209. Doing the best we can from these figures, it appears that the FMW-dependent Henderson Benchmark Family was a little above the HPL in December 2000, but by December 2009 it was significantly below it. It has been a decade in which the

FMW-dependent family has fallen below this poverty line. Furthermore, over the decade all other safety net dependent families have fallen under the poverty line or closer to it. A comparison of Tables 11 and 14 demonstrates this. The FMW is now a poverty wage for families.

210. We also have a different view to the long term trends than that presented in the following passage from the AFPC's 2007 Decision:

“It is also worth noting that the original Henderson poverty benchmark for a couple family with one earner and two dependent children was equal to the combined value of the then basic wage and child endowment. In other words, at that time, a family with one earner on the basic wage had an income equal to the HPL. Continued improvements over many years in the extent and coverage of income transfers for working families have resulted in families *now having disposable incomes well in excess of relevant HPLs.*” (2007 Decision, page 70, footnote omitted and emphasis added.)

211. The Poverty Commission fixed the HPLs at an “austere low level”. It said that it did this so that “It cannot seriously be argued that those below this austere line, whom we describe as ‘very poor’, are not so.” (*First Main Report*, page 13.) The Poverty Commission's calculations showed the following at August 1973:

Table 19
Poverty Commission Calculations of Poverty Margins 1973
\$ per week

unit	Income	Poverty line	Min wage after tax	Child endowment	Total
Single		\$33.40	\$54.00	-	\$54.00
Couple		\$44.70	\$55.00	-	\$55.00
Couple, 2 children		\$62.70	\$57.00	\$1.50	\$58.50

(Extracted from Table 3.14 of the *First Main Report*. The minimum wage used by the Poverty Commission was \$60.00 per week and was fixed by reference to the different male rates that applied throughout Australia. The equal pay decisions had not been implemented at that time.)

212. The 1973 figures show that the family of four had a “poverty gap” of \$4.20 in August 1973. We can assume that the estimates of housing costs at the time were realistic. The proportion of disposable income to the HPL was .93. This compares with 1.02 which was calculated by the AFPC for December 2008, but which we

submit overstates the family's standard of living. As we showed in Table 16, the real figure in December 2008 was again .93. Despite the abovementioned difficulties in calculating the HPL with precision, it is clear that the position is much the same as it was in the early 1970s and minimum wage-dependent families are still living in poverty.

213. Before concluding the section on HPLs we refer to some comments by the AFPC on the changes in the ratios of disposable incomes to HPLs over the late 2000s. In its 2009 Decision the AFPC said:

“Over the year to December 2008, disposable incomes relative to both sets of income benchmarks declined for most households with a full-time FMW earner, continuing the downward trend of the past few years. This indicates that disposable incomes for these illustrative households have increased by less than the inflation factor used to update the income benchmarks (household disposable income per head).

However, recent figures for household disposable income per head are likely to reflect the impact of payments made under the Australian Government's economic stimulus packages. By contrast, the Commission's modelling does not include the effect of these payments in its estimates of disposable income. Including the effect of these payments would increase the ratios shown in Tables 5 and 6.” (Page 55, footnote omitted.)

214. The footnote in the foregoing passage from the 2009 Decision referred to “the further discussion of these trends” in the *Economic and Social Indicators - Monitoring Report July to December 2008* (at pages 34-35), published in February 2009. The AFPC wrote in that report:

“Relativities between the disposable incomes of households with a FMW earner and conventional low-income benchmarks can be monitored by comparing the disposable incomes of the same five household types modelled above to the relevant Henderson Poverty Line (HPL). While the HPL has never been an official measure of the lowest income necessary for an adequate standard of living, it is commonly used in Australia as an indicator of low income.”(Page 34, footnote omitted.)

“Disposable incomes relative to relevant HPLs improved slightly for households with one FMW earner following implementation of the Commission's second general wage-setting decision in October 2007 (Figure 23). Over the longer term, there has been a slight decline in the ratios for all FMW-earner household types.” (Page 34 footnote omitted.)

215. In the footnote to the second passage from the report, the tribunal said:

“This trend is likely due to the fact that the HPLs are indexed to changes in average per capita household disposable income. This has tended to grow faster than either prices or wages due to ongoing decreases in average household size and increases in the proportion of households with more than one wage earner. By contrast, the disposable incomes of households with a fixed composition and only one wage earner will tend to grow at a rate consistent with increases in wages and/or prices.” (Page 34, footnote 21.)

216. In the AFPC’s second monitoring report there is a footnote to the passage on the AFPC’s use of HPLs:

“Although the HPLs also assume a single wage earner, they are indexed to average per capita income, changes in which are affected by increasing prevalence of families with more than one wage earner”; *Economic and Social Indicators - Monitoring Report July to December 2007*, page 27.

217. As we have shown, the position of FMW-dependent workers and families changed very substantially, not slightly, over the whole of the decade, especially over the last few years. The relationship between the poverty lines and the disposable incomes of low paid workers is an important issue; in particular, the question of whether the drift towards poverty can be treated with a degree of equanimity.
218. The issue of whether the HPLs should be treated with caution for the reason suggested by the AFPC is worthy of more consideration, along with alternative measures that are not subject to as much variation. Over the decade the increase in the HPLs has been much the same as average weekly ordinary time earnings. The AWOTE measure does not have the short term variability in estimation that is found in the estimates of household disposable income.

M. Safety Net Wages have failed to maintain Relative Living Standards

219. The only evidence that the AFPC used in relation to the needs of the low paid in its 2006 and 2007 came from the updated HPLs. In its 2008 and 2009 decisions the AFPC used another measure of poverty: the "60% median disposable income poverty line" (PL) from which various household poverty lines were calculated (PLs). The AFPC compared the disposable income of various households by reference to their PLs.

220. The primary data for the PLs came from an ABS survey, *Household Income and Distribution, Australia 2005-06*, published in 2007. The figures in the publication were updated by the movements in household disposable income per head as published in the quarterly *Poverty Lines: Australia* newsletter. The PL for the single adult for December 2007 was calculated by the AFPC in its 2008 decision at \$387.48 per week. In its 2009 Decision the AFPC increased this by 8.75% to \$421.40 for December 2008.
221. In calculating the median equivalised income for the various households the AFPC used modified OECD equivalence scales. This was a significant departure from the equivalence scales used in the HPLs. The PLs have a family of 2 adults and two children at 2.1 times the individual and the family of a sole parent and two children at 1.6 times the individual. The HPLs ratios are 1.88 and 1.55, respectively.
222. The AFPC's 2008 and 2009 calculations are included the figures set out in Table 20.

Table 20
FMW-dependent Workers and Families
Ratio of disposable income to 60% median poverty line as calculated by AFPC

	Single	2 + 2 family	1 + 2 family
December 2007	1.21	.93	1.22
December 2008	1.17	.90	1.18

223. There was a significant decline in the relative position of each kind of household over the 12 month period. The figures for the families assume that the maximum amount of rent has been received. The relative position of families is worsened if rent assistance is not included (\$61.88 and \$64.68 per week, respectively).
224. In August 2009 the ABS published *Household Income and Distribution, Australia 2007-08 6523.0*. Median disposable income was found to have been \$692.00 per week in 2007-08. We have used this figure for December 2007. At the 60% of median level, the PL for the individual in 2007-8 was \$415.20, not \$387.48 as calculated by the AFPC for December 2007. This has a significant effect on the

AFPC's December 2007 calculations, and for its calculations in respect of December 2008.

225. We can now re-calculate the AFPC's estimates for December 2007 using the latest ABS figures covering the period. We can also use the percentage adjustment used by the AFPC to calculate the movement to December 2008, ie 8.754%. This produces \$451.55 for December 2008. Table 21 shows the re-calculations of the AFPC's ratios set out in Table 20, with the original ratios in brackets.

Table 21
FMW-dependent workers and families
Ratio of disposable income to 60% median poverty line as re-calculated
following ABS publication 6523.0 (2007-08)

	Single	2 plus 2 family	1 plus 2 family
December 2007	1.13 (1.21)	.87 (.93)	1.14 (1.22)
December 2008	1.09 (1.17)	.84 (.90)	1.10 (1.18)

226. Table 21 demonstrates an unacceptable outcome for low paid safety net-dependent workers. The calculations are based on the AFPC's calculations of disposable income which includes maximum rental assistance in respect of the families, which we submit is an inappropriate inclusion. The position has worsened since with the 2009 wages freeze imposed on safety net workers.
227. The AFPC observed in 2008 that the 60% of median income is the "most generous definition of relative poverty used by the OECD and academic researchers, the others being 50% of median income and 50% of mean income." Mean income is typically higher than median income. Mean income in 2007-08 was \$811 per week.
228. We can estimate all three relative poverty lines for 2007-08. In 2007-08 the 60% of median was \$415.20, 50% of the median income was \$346.00 and 50% of the mean was \$405.50. For the benchmark family of four, this yielded poverty lines of \$871.92, \$726.60 and \$851.55, respectively.

229. The poor position of low income families is highlighted when one considers the lowest of the relative poverty lines, the 50% of median PL. In December 2007 the disposable income of the benchmark family was \$758.26, as calculated by the AFPC, or \$697.00 if maximum rental assistance is excluded, as we submit should be done. Compared to the 50% of median relative poverty line the *working* family was only 4.4% above poverty or 4.1% below poverty if rental assistance is excluded.
230. We can say that the position has worsened over the past two years. The relative poverty lines have risen. The AFPC's estimated change for the period December 2007 to December 2008 was 8.75%. In the September 2009 edition of *Poverty Lines: Australia* the increase estimated increases of seasonally adjusted household disposable income per head from December 2007 to September 2009 was 9.7%. We will have an *estimate* of for the December Quarter 2009 later this month. If we assume an increase of only 8% over the two years, the three relative poverty lines will have risen to \$941.67 (60% of median), \$784.73 (50% of median) and \$919.67 (50% of mean).
231. At December 2009 the disposable income of the FMW-dependent family of two parents and two school aged children was \$742.75 per week. Table 22 is based on that figure. Even if the maximum rental assistance is included, which we submit would be inappropriate; the comparisons paint a very bad picture.

Table 22

**Measures of Poverty for FMW-dependent Henderson Benchmark Family
December 2009
\$ per week**

	50% Median	60% Median	50% Mean
Poverty Line	784.73	941.67	919.67
Ratio of disposable income to Poverty Line	.95	.79	.81

232. This is a very different picture to the one that was painted in 2006 when the AFPC said that the level of wages and transfer payments "allows people with family responsibilities to rely solely on a single wage to support their families."

N. Conclusion:

233. The purpose of this chapter has been to provide a comprehensive review of a number of matters that are relevant to the setting of a fair wages safety net and to demonstrate that the wage-setting system has failed low paid workers and their families. As this is the first Annual Wage Review by FWA it is an opportunity to address these issues and to establish an ongoing process for their proper consideration.
234. We regret the lack of meaningful discussion around these issues in the past and invite debate about them. We do not want to see the outcomes of a faulty process perpetuated. Debate should not be avoided because it raises inconvenient issues. We believe that the major parties have an obligation to provide a considered response on what we claim to be the failures of the past. We submit that FWA should press all of the major parties to address the kind of issues that we have raised.
235. In particular, we ask that the Commonwealth address the issues raised in this submission. We note that in each of the four wage reviews in the AFPC the Commonwealth governments (the Howard Government and the Rudd Government, on two occasions each) avoided nominating preferred wage outcomes. Commonwealth governments should provide leadership on the critical issue of what low paid workers and their families need to live a decent life.
236. There is another reason for the active involvement of the Commonwealth in these issues. In this chapter and elsewhere we have been conscious of the linkages between wages policies and a raft of other policy areas. Wage setting is not an isolated function. It cannot be separated from, for example, pensions policies.
237. As a result of the changes to policies and legislation on pensions, we now have the single pension set at \$336.68 per week and the couple pension set at \$506.50 per week. The single rate has been set at 27.7 of Male Total Average Weekly Earnings (MTAWE). Pensions are indexed twice a year by reference to the highest increase recorded in three measures: the CPI, the pensioner cost of living index and MTAWE. There are two significant points to be made about the pension safety net

and the wage safety net. First, the pension safety net for a couple is \$506.50 per week and very arguably produces a higher standard of living than that experienced by the FMW-dependent family of two adults and two children with a disposable income of \$742.75 per week, particularly after taking into account the costs of work. The second is that pensions will now rise by *at least* the increases in MTAW. This kind of policy would also have important consequences for workforce participation. In order to maintain the current relationship between safety net wages and pensions it will be necessary to ensure that wages move by a similar percentage to pensions, which means not less than MTAW. This will require a significant change in the approach to setting and adjusting safety net wages. It provides another reason for the increased use of AWOTE in wage-setting.

Chapter 3 The Needs of the Low Paid and their Families

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A. Introduction

238. In the *Safety Net Review Case 2003* the late Frank Costigan QC, who appeared with Paul O’Grady on behalf of ACCER, urged the AIRC to establish an inquiry into the needs of the low paid. He submitted that, in order for the AIRC to satisfy its statutory obligation to have regard to the needs of the low paid when setting wages, it needed to ensure that the rates that it sets, the FMW in particular, do not fall under the poverty line. He continued:

“And we would say simply, and stress, that it is a fundamental need of the low paid not to live below the poverty line. Now, in one sense, that is a statement that is easily made, but there are a number of complex issues in it.”

Mr Costigan then went on to pose a number of questions:

- What are the needs of the low paid?
- Who are the low paid?
- What is the poverty line?
- What is living in poverty?
- How does the federal minimum wage compare to the poverty line?

239. Questions such as these had been raised from time to time since the FMW was established by the AIRC in 1997. Similar questions had been posed in earlier decades of Australian wage-setting. ACCER submitted that the proposed inquiry would enable the AIRC to establish a benchmark for the setting of the FMW. The benchmark was not proposed as one that would involve a particular formula to be applied in an arithmetical way, but, rather, as one that would provide the AIRC with appropriate guidelines within which to judge “needs”. ACOSS also proposed that an inquiry to be conducted by the AIRC into the needs of the low paid.

240. The proposal was not supported by “any party in the proceedings”, as the AIRC noted in refusing the request. The attitudes of the parties were particularly relevant because in 2003, and at other times when the AIRC set wages, the FMW and other safety net rates of pay were set in the arbitration of disputes between unions and employers; and ACCER and ACOSS were interveners in that process. The AIRC said:

“Our rejection of the proposals for an inquiry should not be taken as a rejection of the utility of empirically determined “benchmarks” such as the poverty line. Indeed, it seems to us that the use of such measures is relevant to an assessment of the needs of the low paid. In this context we also note that in their oral submissions ACCER argued that the Commission must ensure the minimum rates it sets (and in particular the federal minimum wage) do not fall below the poverty line. It was put that this task involved determining questions such as *“what are needs, who are the low paid, what is the poverty line, what is living in poverty and how does the federal minimum wage compare to the poverty line?”* We acknowledge the relevance of the questions posed by ACCER and would be assisted by submissions and material directed to them. As we have already noted empirical studies dealing with these matters would be of more assistance to the Commission in addressing the specific matters mentioned in the Act than the type of illustrative evidence adduced by the ACTU in these proceedings. There is no impediment to ACOSS and ACCER, or any other party, bringing forward such material in any future safety net review. It is not, however, desirable for the Commission to establish a separate inquiry for that purpose particularly in view of the absence of any support for the proposal from any other party or intervener.” (*Safety Net Review Case 2003*, paragraph [222], italics in original.)

241. As we have demonstrated in Chapter 2, the situation is worse now than it was in 2003. There has been limited progress in answering these questions, but that has been to no avail.

242. In Chapter 2 we gave particular emphasis to the way in which minimum wages were set by the AFPC under the *Work Choices* legislation. In this chapter we refer to the Safety Net Review cases of 2003 to 2005 in the AIRC because of the relevance they have to the scheme under which FWA now operates. There are marked similarities between the wage-setting provisions of the earlier legislation, introduced by the Howard Government amendments to the *Workplace Relations Act* in 1996, and the provisions under which FWA operates, introduced by the Rudd Government in 2009.

B. The Needs of Workers include the Needs of their Families

243. There is a preliminary matter before turning to the five questions. The questions were based on ACCER's submission that the needs of workers include the needs of their families. ACCER opposed suggestions that a single person test be adopted and said that wages and transfer payments were insufficient to support a family. It submitted:

“If the AIRC were to formally adopt the single person criteria for the establishment of the Federal Minimum Wage it should only do so if it is satisfied that there are adequate mechanisms in place, by way of the taxation and welfare systems, that would guarantee the proper financial needs of the wage earner's dependants. Moreover, unless and until governments make commitments to the continuation and further implementation of policies for the support of dependants, the AIRC should not abandon the principle that a minimum wage should take into account the needs of dependants.

Given the position of the Catholic Church on the need for wages to be sufficient to support the wage earner and his/her dependents, any support by the ACCER for the single person test for the purposes of wage fixation would only be conditional upon governments recognising that wage rates must be fixed on that basis and that they have an obligation to provide for the needs of dependent family members through the taxation and welfare systems.”
(ACCER Written Submissions, paragraphs 28-9.)

244. This remains our position. ACCER has opposed the adoption of the single person test because an essential precondition for it has not been met: transfer payments are insufficient. Family benefits available to the low paid have not been fixed on the basis that they will cover the living costs of the dependants of low paid workers. In these circumstances, the adoption of a single person test would cause substantial harm and prejudice to low paid workers and their families and would exacerbate the social deprivations that they already suffer.

245. FWA has a statutory obligation to take into account the needs of the low paid in setting safety net wages. A precondition for the proper exercise of its jurisdiction is information about the needs of low paid workers. This requires, first and foremost, a determination of the question of whether the needs of workers include the needs of those who are financially dependent upon them, ie their families. Our

submission is that it does and that FWA must take into account the family responsibilities of workers when setting and varying safety net wages.

246. The question of whether the needs of the families of workers are to be taken into account is a fundamental matter about which there should be no ambiguity. We submit that a party cannot make any sensible contribution to the issue of the needs of the low paid without addressing this issue. All parties addressing the needs of the low paid in this Annual Wage Review should state where they stand on the question.
247. ACCER's submissions to past wage cases have sought the fixing of minimum rates of pay that are sufficient, after allowing for income tax and relevant government transfers, to support a family of four at the minimum acceptable standard of living without the need for the second parent to undertake paid employment. The family of four has been identified because a family with two children best approximates the size of contemporary Australian families. The capacity of the wage to support the second parent, and not to require that parent to seek paid employment, is a necessary part of the ability of parents to exercise their family responsibilities in the way in which they will best advance the interests of their children.
248. In the *Safety Net Review Case 2004* there was debate about the reference point for the setting of wages. ACCER argued that the determination of the needs of the low paid should be made on the basis of the need of a family of two adults and two children, with only one adult working. In referring to the debate about the range of "household types" within Australia the AIRC said:

"Whilst a significant proportion of Australian families continue to rely upon a single wage as their sole source of income, the needs of single income families will continue to be relevant in connection with consideration of the needs of the low paid": *Safety Net Review Case 2004*, paragraph [275].
249. Our major concern with the AFPC's decisions concerns the narrowing of the needs of workers to the needs of a single worker and its judgement of the sufficiency of the FMW by reference to the single person. In 2008, after setting out in tabular form the ratios of disposable incomes of ten households to the two measures of poverty (HPLs and poverty lines based on 60% of median equivalised disposable income) the AFPC said:

“Of the household types whose disposable incomes the Commission has modelled, a single person without children is the only one whose disposable income does not depend on income transfers. These wage-earners have disposable income that is 25 per cent above the relevant HPL and 21 per cent above a poverty line based on 60 per cent of median equivalised disposable income. In the Commission’s view, *this is a reasonable margin above poverty for a person earning the lowest adult full time wage in the regulated labour market.*” (2008 Decision, page 68, emphasis added.)

250. This decision was inconsistent with decisions of the AIRC and there is no support for it in the decisions of State industrial tribunals. In ACCER’s view, the AFPC made a number of errors of law and/or principle by:

- deciding that it should set the FMW on the basis of the needs of a single person without dependants;
- finding that a wage that provides a “reasonable margin” above the *Henderson Poverty Line* for a single person (which margin it found to be 25%) should be the appropriate wage rate “for a person earning the lowest adult full time wage in the regulated market sector”;
- failing to set a wage that would permit adequate support for workers with dependants;
- setting wages at a level that would require that the costs of supporting the families of FMW-dependent workers to pass to the Commonwealth, without any commitment from the Commonwealth that it would do so;
- adopting a policy on the setting of the FMW that is not supported by, and is inconsistent with, established principles of wage-setting in Australia and inconsistent with the *Minimum Wage Fixing Convention, 1970*; and
- failing to have proper regard for the anti-discrimination provisions of section 222 of the Act by setting the FMW at a rate, and for reasons, that do not take account of, and are contrary to, the principles of the *Family Responsibilities Convention*; and
- failing to ensure that its decision does not contain provisions that discriminate because of, or for reasons including, family responsibilities.

251. The claimed errors of law and principle in the previous paragraph have been copied from ACCER’s submissions to the AFPC in 2009. The issue was not addressed in the AFPC’s decision.

252. Our reasons for submitting that the needs of workers should include the needs of their families are based on sound public policy, received industrial principle and, especially, the legislation under which FWA operates.
253. The International Labour Organisation's *Minimum Wage Fixing Convention, 1970*, which has been ratified by Australia, recognises the interests of workers *and their families* and the relevance of general economic circumstances. Article 3 provides:
- “The elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include--
- (a) the needs of workers *and their families*, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;
 - (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.” (Emphasis added)

We submit that it would be an unwarranted departure from Australia's international obligations if our principal employment tribunal did not take into account the needs of families in circumstances where the social security benefits payable to workers and their families are insufficient to meet the needs of those families. The obligation has to be taken seriously.

254. There are two specific requirements in the FW Act that bear on this issue. Section 153, which applies to the making of modern awards, and to wage rates in particular, provides:

“A modern award must not include terms that discriminate against an employee because of, or for reasons including, the employee's...family or carer's responsibilities...”

A similar obligation is found in section 578 which provides:

“In performing functions or exercising powers under this Act..., FWA must take into account...(c) the need to respect and value the diversity of the workforce by helping to prevent and eliminate discrimination on the basis of...family or carer's responsibilities...”

Similar provisions are also found in respect of the making of enterprise agreements (section 195) and in regard to the taking of adverse action (section 351).

255. The family responsibilities obligations reflect Parliament's concern to protect and advance the proper interests of workers and their families, to strike a balance between work and family, to prevent discrimination against those with family responsibilities and to ensure that awards give effect to these *values*. They recognise the right of parents to make choices about how they will exercise their parental responsibilities. Those freedoms may not extend to unreasonable choices; but nothing we are advocating amounts to an unreasonable choice. A decision by parents that one of them will stay at home to care for their children and not seek employment is not an unreasonable choice.
256. Wage-setting cannot be separated from a wide range of "family friendly" laws and policies that have been developed, especially in recent years. There is protection against direct and indirect discrimination. Anti-discrimination laws and policies might be breached in a variety of ways; for example by rostering and leave provisions. A provision in an award or an industrial agreement that does not enable the flexibility needed for workers to exercise their family responsibilities would be impermissible. Provisions in an award or agreement that are predicated on the workers being single and not having family responsibilities would also be impermissible.
257. A wages policy that is predicated on the needs of the single person without dependants cannot be consistent with the protection of workers with family responsibilities. This is so in regard to sole parent families and to families where one parent works and the other does not seek paid employment in order to care for their children. To have wages fixed by reference to the more limited needs of single workers without dependants places those who have family responsibilities at a disadvantage and discriminates against them.
258. If family payments were sufficient to meet the needs of a worker's family then there would be a basis upon which a single person assessment of needs (along with regard to the other relevant factors in the minimum wages objective) could be made and a fair safety net wage could be set without it having discriminatory effect. However, this is not the case.

The Poverty Commission's support of families

259. A substantial impetus for the change in Commonwealth financial support for families came from the work of the Commonwealth Commission of Inquiry into Poverty (Poverty Commission) in the early 1970s. In August 1972 the McMahon Government established the Poverty Commission with Professor R F Henderson as its sole member. In March 1973 it was expanded by the Whitlam Government to include four extra Commissioners, with Professor Henderson becoming Chairman. The Commission delivered its *First Main Report* in April 1975 (Poverty Report). One of its major concerns was the extent of poverty among single breadwinner families and the policies needed to address the situation.
260. The work of the Poverty Commission and the Poverty Report were an important contribution to family policy in Australia and the values that underpin good family policies.
261. Major economic and social changes have impacted on the family, particularly in the years since the Poverty Report, and there is less reliance on a single wage. Much more frequently both parents work, often with one working part time. These changes do not affect the fundamental importance of providing parents with a choice about how they care for their children. The issue was usefully summarised in the Poverty Report, in the context of its discussion of the extent of poverty among families in which there was a full time breadwinner:

“A further way in which many low income families are often placed under great stress is in relation to the freedom parents have to decide how they will divide their time between working, looking after children, and other activities. Because of financial pressures some parents are confronted with the choice of spending more time earning money and less time at home or struggling on an income below the poverty line....

Some fathers compensate for their low wages by working more hours or working two jobs. In many instances this may create considerable pressure on parents and their children....

Inadequate wages and pensions place considerable pressure on mothers to work...The mere fact of a mother working is not necessarily detrimental to the family. The relationship between a mother working and child development has been hotly debated in recent years, but the research on the subject has been inconclusive. The pertinent issue is the freedom of mothers to choose whether or not to work, so that each family can reach a solution which is satisfactory for its members. The pressure to work created by an

inadequate income means that some mothers are less free to choose.” (*First Main Report, April 1975*, volume 1, page 204, footnote omitted.)

262. This passage was written in the context of a higher proportion of stay-at-home mothers in two parent families than is presently the case. Whether the changes since that time in workforce participation by mothers are the result of free choice or economic pressure is a matter of debate. However, the substantive point made in the passage remains true: parents should have the ability to choose that one of them will stay at home and care for the children and not engage in employment.
263. The Poverty Commission proposed substantial changes to government policies to lift these families above the poverty line. The policy objective was to have an acceptable disposable income for families without the need for the second parent to undertake, or apply for, paid employment. As we saw in Chapter 2, despite the increases in public funding, the level of relative deprivation remains much as it was in the early 1970s.
264. The policy objective that underpinned the work of the Poverty Commission remains a valid objective. The objective is to provide a minimum wage which, together with family payments, will enable families to rely *solely* on that wage. In its first decision in 2006 the AFPC found that this goal had been achieved:

“The income support and family assistance safety net, and its continued improvement over recent years, *allows people with family responsibilities to rely solely on a single wage to support their families.*” (2006 Decision, page 96, emphasis added.)
265. We wish this were the case. However, the calculation of disposable income underpinning this conclusion in respect to families of two adults and two children had erroneously included the Newstart allowance, an unemployment benefit, for the second parent. It was not an appropriate inclusion because it is an allowance that carries with it the obligation to take employment, if available. A parent is not entitled to the Newstart allowance if he or she wishes to stay at home to care for the children. We note that the Poverty Commission took no account of any potential entitlement to an unemployment benefit because the intention was to provide support to the single-breadwinner family. The benchmark family from which poverty lines for various households have been calculated (the HPLs) was, and

remains, the family where the second parent stays at home in order to look after the children.

266. We emphasise that our promotion of the *family wage* does not raise any gender-specific issue. There are three important points to make about ACCER's view of the family wage.

- First, parents should have the *effective* right to choose that one of them will stay out of the employed workforce in order to care for their children. A corollary of this principle is that parents may decide that the interests of the family, and those of the children in particular, would be best served by both of them being employed. Whether the second parent takes a job will depend on a variety of factors, including the availability and cost of good child care.
- Second, the principle applies whether the breadwinner, or principal breadwinner, is male or female. Parents should be able to choose which one of them will be the breadwinner and which one of them will stay out of the employed workforce in order to care for their children.
- Third, where parents are out of the employed workforce for a substantial period of time in order to raise children there should be various kinds of training programs and other educational support to assist them to return to the workforce when they choose to do so.

267. While ACCER emphasises the position of the benchmark family, it does not neglect the position of other families, particularly sole parent families. From 2006 ACCER asked the AFPC to commission research into the needs of sole parent families. One of our complaints about the AFPC's calculations of ratios of disposable income to poverty lines is that it presents an unrealistic picture of the position of sole parent families relative to the poverty lines and relative to other households. The AFPC's claim that a sole parent on the FMW with two school-aged children has a higher standard of living than the single worker on the FMW (see, for example, Table 13 in Chapter 2) is inconsistent with experience, and can lead to false perceptions of sole parent families and policies that fail to address their

true situation. It runs the risk of reinforcing unfounded and negative attitudes towards sole parent families.

268. We do not foresee any substantial changes to the current contributions that the public purse makes to the support of families and, therefore, no prospect of the adoption of the single person test for wage-setting. Workers with family responsibilities will continue to rely on their wages in order to provide for their families.

C. What is Living in Poverty?

269. Poverty may be defined qualitatively or quantitatively. They are not alternative ways of defining the term. A quantitative measure should be based on, and tested against, a qualitative definition.

Qualitative definitions of poverty

270. In its written submission in the *Safety Net Review Case 2004* ACCER adopted a qualitative definition previously advanced by ACOSS:

“Poverty is an enforced lack of socially perceived necessities. This definition, and most others in poverty research, has three core elements:

- a lack of necessities;
- that necessities are socially defined;
- that the lack of necessities is caused by limited material resources.”

271. There are, of course, many other ways to describe poverty. In recent years it has been defined in conjunction with terms such as social inclusion, social exclusion and social or community participation. An extensive review of these matters is in a paper published in January 2010 by Catholic Social Services Australia: *The Social Inclusion Agenda: Where it came from, what it means and why it matters*.

272. There is a discussion of social inclusion in a paper recently published by FWA: *Literature review on social inclusion and its relationship to minimum wages and workforce participation*, Research Report 2/2010. The following is extracted from the Executive Summary of that report.

“There is no universal or generally accepted definition of either social inclusion or exclusion. Based on how the term has been used, social inclusion could be broadly understood as the process or means by which individuals and groups are provided with the resources, rights, goods and services, capabilities and opportunities to engage in cultural, economic, political and social aspects

of life. The concept is still relatively new to Australia, although its significance to research, policy and legislation is growing.

A number of dimensions of social exclusion, beyond exclusion from the labour market, have been identified. Individuals can be affected by multiple and overlapping dimensions of exclusion and some researchers argue that social inclusion should not be confined to a context of paid employment. In this paper, workforce participation has been discussed, as one aspect of social inclusion, in relation to its impacts on other dimensions of social inclusion. Paid work is considered to promote social inclusion by increasing people's resources (such as income, access to goods and services and human capital), developing their social networks and support, and improving their mental and/or physical health. On the other hand, some aspects of some work (e.g. underemployment, low pay, and long working hours, lack of access to training and career paths) may hamper a person's opportunities to fully participate in society, as they may provide a worker with an inadequate income, interfere with their capacity to build and maintain human capital and social connections, or affect their health.

A range of indicators could be used to assess the extent and progress of social inclusion/exclusion. In relation to the labour market, possible indicators outlined in this paper include labour force participation (including the participation of particular groups), the long-term unemployment rate, people living in jobless households, and income adequacy. Since the concept of social inclusion is relatively new to Australia, key indicators are expected to be further refined."

273. The research report notes a definition by Pierson (*Tackling Social Inclusion*, Routledge, London, 2002) "which appears to be favoured by the Australian Social Inclusion Board":

"Social exclusion is a process that deprives individuals and families, and groups and neighbourhoods of the resources required for participation in the social, economic and political activity of society as a whole. This process is primarily a consequence of poverty and low income, but other factors such as discrimination, low educational attainment and depleted living environments also underpin it.

Through this process people are cut off for a significant period in their lives from institutions and services, social networks and developmental opportunities that the great majority of a society enjoys."

274. European policies and writings have influenced Australian descriptions and definitions of social inclusion and poverty. The European Union has declared 2010 as the *Year Against Poverty and Social Exclusion*. A European definition of poverty

which usefully links poverty with exclusion and marginalisation is one which has been used by the Irish government:

“People are living in poverty if their income and resources (material, cultural and social) are so inadequate as to preclude them from having a standard of living that is regarded as acceptable by Irish society generally. As a result of inadequate income and resources people may be excluded and marginalized from participating in activities that are considered the norm for other people in society.” (*National Action Plan for Social Inclusion 2007-2016*)

Quantitative measures of poverty

275. Quantitative measures of poverty seek to identify money amounts below which a household will be in poverty. Quantitative estimates of poverty and poverty lines fall into two categories.
276. The first are those based on an itemised assessment of the costs of basic needs. These needs-based measures are sometimes called absolute poverty measures. The two major Australian measures are the Henderson Poverty Lines (HPLs) and the budget standards research of the Social Policy Research Centre (SPRC). In its inaugural decision in October 2006, the AFPC measured the disposable incomes of a range of households against the relevant HPLs. The HPLs had not been put to such a use in wage-setting. The SPRC material is not concerned with identifying “poverty” as such, but with identifying and quantifying standards of living. Its Low Cost budget identifies what might be described as a minimum acceptable standard of living. This budget was developed for social security purposes, but is capable of providing a reference point, not a standard, for low paid workers and their families.
277. The second kind of quantitative measure is expressed as a percentage of, for example, median household disposable income (equivalised, by the use of equivalence scales, to reflect different kinds of households). They are relative poverty measures. Poverty Lines at 50% and 60% of the median are the most frequently used measures. The mean average household disposable income is also used, with 50% being used as the poverty line. The mean is typically higher than the median. There is no a priori reason for accepting any one of these. Each has to be tested against relevant research. As we saw in Chapter 2, these measures are not readily available because the surveys upon which estimates are made are not

conducted each year and there is a lag between the collection of data and the publication of that data.

D. What is the Poverty Line?

278. The terms *poverty* and *the poverty line* do not appear in the legislation. As the AIRC pointed out in 2004, the legislation of the time, like the present:

“...makes no reference to a “poverty line” but rather focuses on the issue of the needs of the low paid... However, we do not accept that the Commission could not rely upon a poverty line as a tool to assist it in determining the needs of the low paid if it had probative evidence by which a poverty line could be accurately identified” (*Safety Net Review Case 2004*, paragraph [287]).

279. It has been said that you cannot solve a problem unless you can measure it. There are various ways in which income adequacy may be addressed and measured. However, it would be futile to expect precise measurement capable of universal acceptance. We now turn to the quantitative measures of income adequacy. The HPLs and the SPRC Low Cost budget.

The Henderson Poverty Lines

280. In Chapter 2 we included some commentary on the AFPC’s use of the HPLs and on what we regard as shortcomings in the HPLs. From its first decision in 2006 the AFPC used the HPLs as the guide to its consideration of the safety net for low paid workers and their families. It had no other evidence about the needs of low paid workers and their families. We accept that the legislation did not make reference to the “needs” of the low paid, but the obligation to have regard to providing a safety net for the low paid did carry an obligation to assess living costs. We use the term in that sense. In summary, our comments on the AFPC’s estimation of the needs of the low paid are:

- The equivalence scales used in the HPLs are different to the generally accepted equivalence scales. The HPL equivalence scales are based on research by the Budget Standards Service of New York in 1954; see the Poverty Report, volume 1, page 13. There are significant differences between the HPL equivalence scales and the widely-accepted modified equivalence scales used by the Organization for

Economic Co-operation and Development (“OECD”), which are also used by the Australian Bureau of Statistics. The family is 1.89 times the single person in the HPLs and 2.1 times the single person in the OECD scales. By comparison to the OECD scales, the HPL equivalence scales underestimate the costs of the family relative to the single person.

- The proportion of HPLs attributable to housing costs remains constant over time. For example, housing costs as a proportion of the HPL for a family of four are fixed at 22.6% of the HPL costs. The HPL estimates of the cost of housing are manifestly inadequate and do not reflect the high cost of housing in contemporary Australia. More reliable estimates of housing costs for low income families are found in data published in successive editions of *Year Book Australia*.
- Child care costs are not included in the HPLs and, therefore do not appear in the calculation of the costs of sole parent families. The HPLs show that the costs of working are the same for a single person without dependents as they are for the single parent with two children. They also show that the costs of two children in a sole parent household and a couple household are almost the same. These comparisons cannot be correct. In Chapter 2 we provided various child care scenarios which illustrate how expensive child care can be for a full time sole parent, especially if low paid. Child care costs can drive a sole parent into poverty.

Social Policy Research Centre Budget Standards research

281. In the *Safety Net Review Case 2004* the Australian Council of Trade Unions (ACTU) presented budget standards evidence from the SPRC on the costs of living for low income Australians in support of its application for an increase in safety net rates.
282. The SPRC research was initially commissioned in 1995 by the Department of Family and Community Services. It identified two standards of living. The Low Cost budget had been developed as a standard for unemployed families and for

social security purposes. The Modest but Adequate budget seeks to describe the situation of a household whose standard of living falls somewhere around the median standard of living within the Australian community taken as a whole. The original budgets were developed for households in Sydney over the period 1995 to 1998 and prices were set at February 1997 prices.

283. The ACTU contended in 2004 that the SPRC material met the purpose identified by the AIRC in the earlier quote from the 2003 Safety Net Review decision about empirically determined benchmarks. Professor Saunders' comprehensive paper in support of the ACTU's reliance on the SPRC material, *Updated Budget Standard Estimates for Australian Working Families in September 2003*, is available on line at www.sprc.unsw.edu.au. The SPRC Low Cost budget is not a budget based on the circumstances of the household of a wage earner. Professor Saunders wrote:

"Thus, while the arguments are by no means clear-cut, the SPRC low cost standard is too low for use in setting minimum wages and the modest but adequate standard is probably too high. However, in general which precise point to choose on the continuum that separates the two standards is a complex decision that involves judgment." (Page 5)

284. Professor Saunders referred to the transparency of the assumptions and judgments and argued that they provide the basis for an informed debate:

"The most important strength of the budget standards approach is that the method confronts directly the many difficult issues that have to be faced when developing any kind of adequacy standard. The method involves identifying what needs have to be met in order to maintain a given standard of living, what items will meet those needs, and at what cost. This is a complex and formidable task, but one that has to be confronted in order to put a monetary figure on a particular standard of living. The fact that this requires judgements to be made which many will dispute reflects the inherent difficulties associated with obtaining quantitative measures of the standard of living, rather than any fundamental objection to the notion of a budget standard itself." (Page 9)

285. The AIRC discussed the evidence and concluded that it could not accept the material as providing the basis for an Australian benchmark:

[283] We agree with the submissions of the Commonwealth, ACCI and other parties opposed to the ACTU's applications that there are significant difficulties in adopting the SPRC budget standards as an Australian benchmark. There is substance in a number of ACCI's criticisms of the SPRC

budget standards. As noted earlier, the housing component of the budget, based as it is on the cost of rental in the Hurstville area of Sydney, cannot be generalised across Australia. Further, the very construction of the budgets ultimately turns on value judgments. ACOSS's submissions candidly acknowledged the deficiencies of the SPRC budget standards. On the material presently before the Commission, we do not think that we can responsibly attempt to establish such a benchmark.

[284] Nevertheless, in our opinion, the SPRC budget standards provide an indication that for certain household types, the federal minimum wage is significantly below the amount which is necessary to provide a modest living standard for those households in the context of living standards generally prevailing in the Australian community.

[285] ACCI criticised the ACTU's focus on the federal minimum wage in connection with its emphasis of the SPRC budget standards and in other respects. ACCI noted that only a relatively small number of federal award employees are employed on the federal minimum wage. Nevertheless, the Commission's obligation is to "*ensure that the safety net of fair minimum wages and conditions of employment is . . . maintained*" having regard to the matters specified in ss.88B(2)(a), (b) and (c). The federal minimum wage is part of the existing safety net review and is therefore subject to this obligation. It is not to the point that the federal award structure provides for many levels of wages significantly above the federal minimum wage." (*Safety Net Review Case 2004*)

286. The level of housing costs was the principal reason, or at least a major reason, for the AIRC's reluctance to adopt the SPRC material. Housing costs in the Low Cost budget for a family of two adults and two children were estimated at \$221.80 per week in September 2003. The average rental costs of the relevant group of low income families entitled to rent assistance was \$184.00 per week in June 2003 (*Year Book Australia, 2004* Table 8.21 and table 14 of this submission). This information was not before the AIRC. After taking into account rental assistance of up to \$56.84 per week, the net rental costs for low income families were well below the SPRC estimate for housing costs. These figures support the AIRC's conclusion about housing costs and provide a means of addressing the issue. Since 2003 there has been a substantial increase in rental costs, to which we will return.
287. There were other criticisms of the SPRC material in 2004. These are matters that can be resolved, or at least minimised, if there is a research process over-sighted by FWA and those parties who have an interest in the matter can raise their concerns

in advance of the research being conducted. Indeed, parties should be required to raise their concerns in advance.

288. ACCER believes that, despite its acknowledged limitations, the SPRC material is the best guide that we now have in regard to the needs of the low paid. The SPRC Low Cost budget is the *best guide* for the purpose of identifying a *bare* minimum standard of socially perceived necessities. However, the bare minimum standard is not a sufficient standard for the purposes of wage-fixing. A fair minimum standard for workers and working families must be something in excess of that identified standard.
289. There is another reason why the Low Cost budget is insufficient for working families. Because it is based on the costs of social security recipients it does not cover the costs of working. The HPLs provide some guidance in this respect. The HPLs are estimated for working and non-working families. In the latest issue of *Poverty Lines: Australia* (September Quarter 2009) the costs of working are estimated at \$75.93 per week.
290. SPRC's budget standards research is the basis of the *Westpac-ASFA Retirement Standard* which is used to provide advice about living costs to workers, retirees and financial advisers. It has both credibility and acceptance because of its transparency and the underlying research.

Relative measures of poverty

291. In the *Safety Net Review Case 2005* all of the States and Territories made a substantial joint submission in regard to the position of low paid workers. They argued that the low paid should be defined not only by absolute measures, but also by relative income measures, as required by then legislation which directed that the safety net be adjusted in the context of living standards generally prevailing in the Australian community. A similar provision is found in the current legislation by the reference to "relative living standards" in the list of matters that FWA is to have regard to when setting wages. The AIRC was referred to research from the National Centre for Social and Economic Modelling (NATSEM) which used a poverty line set at 50% of median income. NATSEM found that 10.7 per cent of

wage and salary earners are beneath the poverty line, mostly consisting of those who were not employed in full time work. The AIRC concluded:

[340] The combined effect of government transfers and safety net adjustments have added up to modest real increases in average income for families in the bottom quintile. NATSEM researchers found the average real incomes of families in the bottom quintile increased by \$87 between 1997–98 and 2004–05 whilst the median income for all families increased by \$145. The increase for families in the bottom quintile was just sufficient for them to keep up with increases in median family income.

[343] In our view the most significant results of the HILDA [Household, Income and Labour Market Dynamics in Australia] and NATSEM research are that:

- less than a quarter of low-paid employees are in the lowest quintile of household income;
- the proportion of full-time workers in poverty who are adult award employees is likely to be very small, perhaps insignificant; and
- only 2 per cent of those whose main source of income is wages and salaries are in poverty.

[344] The ACTU did not dispute these findings, but argued that the significant figure is the proportion of those in poverty who are award-reliant. We find this difficult to accept. *A finding that the proportion of full-time workers in poverty who are adult award employees is very small is to be welcomed.* It may also be an indication that to a large extent past safety net adjustments have taken the needs of the low paid into account. Nevertheless it would be wrong to regard the proportion of low-paid employees who are in the bottom quintile of household income as insignificant.” (*Safety Net Review Case 2005*, emphasis added.)

292. As we show later in this chapter, the most recent evidence is that full time workers on the FMW, and some workers on higher paid classification rates, will fall into poverty. They may still be small in number, but this could reflect, in part, the pressures to which the Poverty Commission referred in the earlier extract from their report: low paid workers with family responsibilities may be working longer hours or working two jobs. In some cases the second parent may only be working in order to help the family achieve the minimum acceptable standard of living. In sole parent families children may go without any or any proper child care in order for the family to survive. This is a very real risk and, when taken, may come with substantial social costs.

E. Who are the Low Paid?

293. The term “low paid” is not defined in the legislation. The term is not one that should be defined with precision or narrowly. We take a broad view and would include those who are below what may be described as a “modest” the standard of living. Our principal concern is with the very low paid and their families who are living in poverty, unable to achieve a decent standard of living, or socially excluded principally by reason of their low income.
294. We have referred at various times to the trades-qualified, or C10, wage. At \$637.60 it is well within the low paid category. Given that it is a skilled person’s classification it should not fit so easily into the low paid category. A trades qualification should be a means out of low paid work. The same point can be made about some higher-skilled classifications. This is the result of the increasing disconnection between safety net rates of pay from prevailing community rates, especially in the case of those with post-trade qualifications or responsibilities. All of these rates have to be underpinned by the basic assessment of needs that applies to the low paid, but, in order to be fair, they need to reflect differences in skills, responsibilities and work value. The compression of relativities needs to be addressed over the longer term, having regard to economic circumstances. In the short term, workers in these higher classifications will remain in the low paid category.
295. The reference in the minimum wages objective to the low paid is a reference to low paid workers generally, not those who happen to be safety net-dependent. The safety net will apply to those who rely on it and those who are able to bargain for something more. This applies to all safety net rates.
296. The purpose of a safety net is to provide for an acceptable standard of living and to be a means of preventing workers from falling below that level. A wages safety net has no meaning unless it is based on an assessment of the relevant circumstances: the needs of workers. This estimation is not to be determined by the extreme cases or by the fact that some workers will not need to rely on it. The fact that some low paid workers have lower costs by living in wealthier households does not justify the

reduction in the safety net for those who need it. The level of a wages safety net should not be set by reference to the proportion of the workforce who rely on it.

F. What are the Needs of the Low Paid?

297. The needs of the low paid may be described in broad or qualitative terms, such as: the need to live in modest comfort, to live with dignity, to receive a living wage, and to live above without poverty. These are legitimate considerations in assessing needs. As Mr Costigan put it in 2003: “it is a fundamental need of the low paid not to live below the poverty line”. The statutory obligation to have regard to the needs of the low paid requires that attention be given to quantifying the economic needs of the low paid, upon which those kinds of outcomes are dependent. In calculating the needs of the low paid it is also necessary to take into account the extent to which those needs are met by transfer payments.
298. In Table 23 we have updated a table used in the SPRC evidence to the *Safety Net Review Case 2004* so as to take account of a 19.3% increase in the CPI since the September Quarter 2003.
299. There are two reasons for presenting the update of the SPRC material: to make some general points about the level of costs for low income working families and compare them with family incomes; and to provide some guide to costs of working families relative to the other kinds of households.

Table 23
Updated Low Cost and Modest but Adequate Budget Standards, December 2009
(\$ per week)

	Family/ household type:				
	Single Female	Single Male	Couple, without children	Couple plus girl aged 6 (G6)	Couple plus G 6 and B 14
	<i>Modest but Adequate</i>				
Housing	197.20	197.20	197.20	239.20	281.31
Energy	10.98	10.98	14.32	18.37	21.83
Food	71.34	85.78	156.16	200.54	274.99
Clothing & footwear	33.76	25.65	50.82	70.15	83.99
Household goods & services	42.47	42.47	4.18	68.60	58.10
Health	6.20	9.19	15.15	19.33	22.55
Transport	106.65	106.30	119.66	123.48	127.29
Leisure	39.49	45.69	77.07	81.84	121.69
Personal care	31.61	13.96	39.61	42.47	43.90
Total	539.71	537.21	674.16	863.97	1035.64
	<i>Low Cost</i>				
Housing	171.55	173.94	173.94	219.27	264.61
Energy	10.14	10.26	13.60	16.34	18.97
Food	67.29	68.36	123.24	157.48	217.13
Clothing & footwear	19.92	20.28	45.69	57.98	73.13
Household goods & services	33.28	33.88	42.35	54.28	83.03
Health	5.73	5.97	10.26	13.24	15.87
Transport	79.69	81.12	91.86	98.78	98.78
Leisure	27.56	28.04	35.07	42.35	52.49
Personal care	7.64	7.75	17.18	18.13	21.47
Total	422.80	429.60	553.19	677.86	845.48

300. There are three initial points that need to be made about Table 23.

- First, each part of it has been adjusted by the CPI movement, as was done in the *Safety Net Review Case 2004*. Adjustments have not been made to each section in accordance with the movements in the relevant parts of the index. In 2004 Professor Saunders calculated that the separate adjustment of the main components would have produced a figure only 1.4% below the figure used.
- Second, since the establishment of the budget standards Australian household incomes have increased by more than the CPI. The effect

of this is that the relativity of each of the budgets to the rest of the community has reduced. In these circumstances the money amounts might be adjusted by reference to the changes in household incomes, in a similar manner to the adjustments of the HPLs; or the basket of goods and services might be adjusted to reflect increases in living standards, including the use of goods and services unknown or little used in the mid 1990s. For our limited purposes here, it is sufficient to rely on the CPI-adjusted figures.

- Third, the children in the SPRC family of four are aged 6 and 14, whereas the ages used by the AFPC and in Chapter 2 are in the 8 to 12 year range. For present purposes, we will assume that the costs are the same.

301. We have taken the Low Cost budget as our point of reference on the basis that it was developed as a standard for unemployed families and for social security purposes and that there should be a margin above it for low paid workers and their families. Our comments on this matter do not rely on arithmetical precision or on identifying the precise margin which workers and their families should have over the standard.
302. It will be seen that the estimate of housing costs for the family of four is \$264.61 per week in the Low Cost budget. In Chapter 2 we estimated the rents paid by low income families at December 2009 based on data published in *Year Book Australia, 2008*, updated by the CPI housing index. The estimate was \$269.40 per week, with an entitlement to rental assistance of \$65.66 per week. The net rental costs would be \$203.74, substantially less than the estimated housing costs in the Low Cost budget of \$264.61. Unlike the position in the 2004 Safety Net Review case, we have a figure that is a sound estimate of housing costs. The difference between the two (\$60.87), can be deducted from the total Low Cost budget amount, which becomes \$784.61. Because the Low Cost budget was designed for unemployed households it does not include the costs of working. Using the latest HPL estimates (for the September Quarter 2009), the costs of working, are estimated at \$75.93 per week.

303. The adjustments on account of housing costs and the costs of working bring the Low Cost budget to \$860.54 per week. We accept that some of the criticisms made in 2004 are still present. At this stage we only rely on this figure as a broad indicator of the level of income that is required to provide families with an acceptable standard of living. It is to be compared with the disposable income of the FMW-dependent family with a disposable income of \$742.75 per week.
304. We submit that FWA should make or facilitate arrangements for the further review of the SPRC budget standards research in order to address the proper concerns of the parties to the Annual Wage Review. We do not see such a process operating to the exclusion of other methods of estimating needs, including by the identification of poverty lines.
305. One of the advantages of the budget standards approach is that it provides critics with an opportunity to provide contrary evidence on costs, or to argue that items for the various baskets of goods are inappropriate. The opportunity to contest the items should be part of an ongoing inquiry by FWA into the needs of the low paid.
306. There are, however, some matters that we wish to press at this time. In the Attachment to this submission we have reproduced part of Professor Saunders' paper in the 2004 Safety Net Review case. It covers the food budget for a family of four. The individual prices are those found in 1997, but the sub-total in Table 23 has been adjusted by the CPI increases since that time. The Low Cost food budget is now \$217.13 per week. Other aspects of the budget are similarly detailed; see the pages of budget details in *Updated budget standards estimates for Australian working families in September 2003*, SPRC Report 1/04.
307. We submit that the figures in the Attachment are credible. Taking the family of four, is it reasonably arguable that the real costs of any of the cost categories other than housing are less than those shown? Does anyone argue that this food budget is more than is needed? This is a very frugal budget. Penny-pinching will not change this conclusion. The budget and the food budget in particular are reminiscent of what was said by the Poverty Commission when describing the poverty line. It fixed the HPLs at an "austere low level". It said that it did this so

that “It cannot seriously be argued that those below this austere line, whom we describe as ‘very poor’, are not so.” (*Poverty Report, First Main Report*, page 13.)

308. The second purpose of our reference to the SPRC material is to make some broad estimates of the costs of dependants. Table 23 shows the relative costs of single workers and working families. The ratio of costs of the family to the costs of the single person is 1.98. This figure is higher than that used in the HPLs (1.89), but less than that in the modified OECD equivalence scales (2.1).
309. The average Low Cost budget for single person is \$426.20 per week. The additional costs in the family of four are \$126.99 for the parent who stays at home to care for the children and \$292.29 for the children. Again, the transparency of budget standards allows a targeted debate about those additional costs, both in relation to the items in the baskets of goods and services and as to their costs. These compare with family transfers of \$237.42 per week (plus the Medicare exemption) for lower income families; see Table 11 in Chapter 2. The comparison of family costs and the costs of single workers in Table 23 demonstrates that the adoption of a single person test for the setting of safety net wages is not justified and that substantial prejudice will be suffered by parents with family responsibilities.
310. These general comments on the costs of dependants are sufficient for present purposes. A fuller consideration of the costs of children is contained in *Costs of children: research commissioned by the Ministerial Taskforce on Child Support*, Department of Families, Community Services and Indigenous Affairs, 2007. The publication contains three separate papers. The Foreword includes the following commentary:

“The Taskforce utilised three different methodologies to reach the best and most up-to-date estimates possible of the costs of children in Australian families. The Household Expenditure Survey was used to examine actual patterns of expenditure on children. The Budget Standards approach was utilised to assess how much parents would need to spend to give children a specific standard of living, taking account of differences in housing costs all over Australia. A review was also done of all previous Australian and international research on the costs of children, so that the outcomes of these two studies could be compared with previous research findings.

A consistent theme running through each report is that there are no definitive costs of children. Various methodologies for estimating expenditure on children exist, and each produces a different result. Establishing a robust and defensible overall estimate, therefore, involves the exercise of judgement by experts, using the best available evidence. I am confident there is no better evidence on the costs of children in 21st century Australia than that used by the Taskforce, and presented in this paper.”

G. How does the FMW compare to the Poverty Line?

311. In the previous section we used the SPRC’s Low Cost budget, adjusted to better estimate housing costs and to include the costs of work, to show that in December 2009 the financial needs of a family of four were \$860.54, almost \$128.87 per week more than the disposable income of the family if was reliant on the FMW.
312. The most recent HPL for the family of four, at the September Quarter 2009, showed that costs other than housing were \$583.75 per week. Using the up-dated average rentals in the *Year Book Australia, 2008*, for June 2007, rental costs, after taking into account rental assistance, were \$203.74 per week. This is the same figure that we used when adjusting the Low Cost Budget. The housing-adjusted HPL was \$787.49 per week, producing a poverty gap of \$44.74 per week. In both the SPRC and the HPL calculations we have assumed that the maximum rental assistance is received. However, we have treated it as a reduction in rent rather than as part of the disposable income of the family as was the practice of the AFPC.)
313. We have already discussed in Chapter 2 the calculation of the poverty lines based on disposable incomes. Using the most recent data (from *Household Income and Distribution, Australia, 2007-08*), updated by reference to the movements in household disposable income.
314. The Low Cost budget, HPLs and relative poverty lines demonstrate that on any measure of living standards and measures of poverty we have a very serious situation where wages and government support fails low paid workers and their families. The lowest minimum wage should produce substantially more than a poverty wage. The obligation on FWA to set a fair safety net of wages means, in our submission, that it should be satisfied that poverty is not only avoided, but that

workers should have a wage that is substantially above poverty. Of course, this extreme position puts great pressure on both parents to work. But even then, there is little improvement in the family's financial circumstances. Where the second parent works the FTB B entitlement is subject to an income test. In its 2009 decision the AFPC calculated that, at December 2008, if the second parent were to obtain work and be paid half of the FMW (\$271.89 per week), the family's disposable income would only rise by \$185.05 per week. This is an effective tax rate of 32%. Even if this part time employment on the FMW could be secured it would barely get the family out of poverty. Working this number of hours might not require any child care expenses. However, given the child care figures in Table 10, the cost of child care may make substantial inroads into the net wages if those hours are extended.

315. These figures mean that in order for the family of four to move out of poverty and reach an acceptable standard of living, the second parent has to get around half time work. This is a fundamental departure from the objective that the FMW should be set at a level that is capable of allowing a family to rely solely on a single wage to support themselves at the minimum acceptable standard of living.
316. These figures raise doubts about the capacity of low income families to work their way towards a better life. Couples who are working one and a half FMW jobs between them will have very little, if any, capacity to provide financial security, to save for a house or to provide better education for their children. In many Australian families the second parent works part time. The reward for that work should be an improvement over the minimum acceptable standard of living, not the mere achievement of it. A sole breadwinner should not be required to work a second job or overtime in order to achieve that basic standard of living for his or her family. We refer again to the views of the Poverty Commission quoted earlier on the importance of families having an effective right to choose how they will exercise their family responsibilities. These are legitimate and relevant considerations in setting of safety net wages.

H. Conclusion

317. The foregoing pages confirm the proposition that ACCER and others had argued: that the FMW was manifestly inadequate to support workers with family responsibilities. It is beyond doubt that parents cannot raise and educate their children on the current FMW of \$543.78 per week, less tax plus family payments. Put another way, an FMW-dependent family of two adults and two school-aged children cannot live on their total disposable income of \$742.75 per week. They would be in deep poverty.
318. The same disadvantage confronts many other families where the breadwinner is employed in a low paid classification. We have argued that FWA should adopt the cleaner's base rate of \$582.80 per week (which should be adjusted to reflect outstanding CPI increases) as an *interim* figure for the NMW, until further research is available. Having regard to the matters in this chapter, we submit that a move to the cleaner's rate would be a very conservative one.
319. We reiterate our argument from earlier: had the FMW and other low paid classifications been treated in a similar manner to other workers over the past decade, and received the same ordinary time wage increases as the rest of the workforce they would be much better placed to deal with their very difficult circumstances. If the worker on the FMW had received the average increase in ordinary time wages received by the rest of the workforce (AWOTE), he or she would be entitled to a further \$69.63 per week. That is their relative loss over the decade.
320. Our conclusion is based on a combination of research on the needs of the low paid and the use of relative poverty lines. None of these quantitative measures should be used to the exclusion of the others. Together they paint a very bleak picture of the circumstances in which low income families find themselves.

ATTACHMENT

Low Cost Food Budget for Couple with Two Children

(Extracted from *Updating Budget Standards for Working Families*, with prices at February 1997)

Updating Budget Standards for Working Families

Low Cost Food Budget for Couple with Two Children

	Serving unit	Grams per serve	Girl aged 6 Serves per week	Cost (\$ per week)	Boy aged 14 Serves per week	Cost (\$ per week)	Woman aged 35 Serves per week	Cost (\$ per week)	Man aged 40 Serves per week	Cost (\$ per week)
Cereals										
Boiled rice	1/2 cup	80	1.3	0.11	1.6	0.13	1.9	0.15	1.7	0.14
Bread roll	1/2 roll	30					3.8	1.48	6.7	2.56
Bread sliced	1 slice	30	25.1	1.70	35.8	2.43	26.9	1.83	40.7	2.76
Breakfast cereal	2 bix	30	15.1	1.16	16.8	1.29	15.4	1.18	15.5	1.19
Crispbread-cracker	1	20					1.6	0.16	1.7	0.17
Crumpet	1	55	2.4	0.61	1.7	0.43	1.1	0.27	1.0	0.26
Fried rice	1/2 cup	80								
Noodles	1/2 cup	80			0.0	0.01	0.4	0.09	0.3	0.08
Pasta	1/2 cup	80	2.0	0.27	1.4	0.19	1.5	0.20	1.6	0.21
Plain biscuit	2 bisc	30	0.6	0.07	0.6	0.07	1.7	0.20	1.5	0.17
<i>Sub-Total</i>				3.92		4.55		5.57		7.54
Fruit										
Apple	1 small	130	4.0	1.68	8.8	3.70	4.2	1.76	5.1	2.16
Apricot	1	30					1.3	0.12	1.4	0.12
Apricot (dried)	5	30	0.6	0.11						
Banana	1	150	0.7	0.42	1.5	0.92	3.3	1.99	3.7	2.25
Fruit salad-canned	1/2 cup	125					0.7	0.17	0.7	0.16
Grapefruit	1/2 med	100			0.2	0.05				
Grapes	1 bunch	200					0.3	0.11	0.3	0.12
Mandarin	1 med	120	1.1	0.32	2.4	0.71				
Melon	1/2	75					0.6	0.12	0.5	0.10
Nectarine	1 small	60					0.7	0.17	0.5	0.13
Orange	1 med	230	1.3	1.20	3.0	2.65	1.8	1.65	2.2	1.98
Peach	1 med	115	0.4	0.19	0.8	0.42	1.0	0.49	1.6	0.81
Peach-canned	1/2 cup	125					0.9	0.21	1.5	0.36
Pear	1/2 cup	125	0.3	0.05	0.8	0.10				
Pineapple-canned	1/2 cup	125							0.2	0.03
Plum	1 med	100					1.3	0.56	1.1	0.47
Sultanas	handfull	20					1.6	0.14	2.0	0.18
Canned peach	1/2 cup	125	0.6	0.14						
Dried apricot	5	30	0.7	0.13						
<i>Sub-Total</i>				4.24		8.56		7.49		8.89
Vegetables										
Asparagus	3 spears	60					0.1	0.06	0.3	0.14
Beans	1/2 cup	60	0.9	0.09	1.9	0.20	1.8	0.18	1.2	0.13
Beetroot	2 slices	30					0.5	0.03	0.6	0.04
Broccoli	1 cluster	45					1.8	0.44	1.4	0.35
Brussel sprout	1 med	120					0.1	0.03	0.4	0.11
Cabbage	1/2 cup	40	1.3	0.06	2.9	0.15	0.9	0.05	1.2	0.06
Capsicum	1/2 cup	60					0.4	0.06	0.3	0.04
Carrot	1 med	140	0.8	0.24	1.7	0.53	1.2	0.36	1.1	0.34
Cauliflower	1/2 cup	100	0.6	0.26	1.3	0.59	0.8	0.37	0.7	0.33
Celery	1 pc	30	0.6	0.05	1.4	0.11	1.6	0.12	1.2	0.09

Updating Budget Standards for Working Families

Food Budget (continued)

	Serving unit	Grams per serve	Girl aged 6 Serves per week	Cost (\$ per week)	Boy aged 14 Serves per week	Cost (\$ per week)	Woman aged 35 Serves per week	Cost (\$ per week)	Man aged 40 Serves per week	Cost (\$ per week)
Cucumber	4-5 slices	30			2.4	0.22	1.6	0.15	2.2	0.19
Egg plant	2 slices	60					0.6	0.12	0.7	0.14
Lettuce	3 leaves	30	0.6	0.05	1.4	0.12	3.3	0.27	3.4	0.28
Onion	5 rings	50	0.6	0.03	1.3	0.07	2.4	0.13	2.1	0.11
Peas	1/4 cup	35	3.7	0.21	8.3	0.47	3.7	0.21	1.2	0.07
Potato	1 med	150	3.6	0.48	8.1	1.09	3.5	0.46	4.1	0.55
Potato salad	1/2 cup	90					0.2	0.08		
Pumpkin		100	1.0	0.12	2.1	0.26	2.9	0.35	2.7	0.33
Spinach	1/2 cup	100	0.1	0.02	0.2	0.04	0.3	0.06	0.4	0.07
Sweet corn	1/2 cup	60	0.8	0.07	1.7	0.16	1.1	0.10	0.9	0.09
Tomato	1 med	150	0.3	0.21	0.8	0.47	3.2	1.96	3.4	2.05
Tomato-canned	1/2 cup	125					0.5	0.08	0.8	0.15
Zucchini	1/2 cup	75					1.4	0.65	1.1	0.53
<i>Sub-Total</i>				<i>1.89</i>		<i>4.46</i>		<i>6.37</i>		<i>6.19</i>
Meats, etc.										
Baked beans	1/2 cup	150					0.2	0.03	0.3	0.06
Burger patty	1 med	50					0.3	0.04	0.3	0.04
Canned fish		100	0.1	0.05			0.3	0.17	0.2	0.09
Egg	1 med	50	1.0	0.20	2.6	0.50	1.7	0.33	1.6	0.32
Fish fried		100			0.5	0.21	0.2	0.10	0.3	0.14
Fish steamed		100					0.5	0.34	0.3	0.22
Ham	2 slices	50	0.6	0.29	1.3	0.65	0.8	0.40	1.1	0.57
Lamb chop	1 chop	100	0.4	0.27	1.4	0.86	0.9	0.54	1.0	0.60
Mince		75	0.5	0.17	0.9	0.35	1.3	0.47	1.2	0.44
Pork chops	1 chop	100	0.1	0.07	0.1	0.15	0.4	0.51	0.5	0.65
Roast chicken		100	0.4	0.22	0.9	0.53	0.8	0.43	0.8	0.43
Roast meat	2 slices	100	0.3	0.16	0.5	0.30	0.5	0.32	0.8	0.50
Schnitzel		100	0.1	0.14	0.2	0.20	0.3	0.27	0.2	0.24
Steak		100	0.5	0.28	1.2	0.68	1.0	0.55	1.4	0.79
Stewing steak		100	0.2	0.11	0.5	0.24	1.0	0.48	1.1	0.52
<i>Sub-Total</i>				<i>2.10</i>		<i>4.97</i>		<i>4.99</i>		<i>5.62</i>
Dairy foods										
Cheese	3cm cube	30	1.6	0.30	6.8	1.28	4.5	0.85	5.4	1.00
Milk	1 glass	200	8.4	1.47	0.9	0.15	9.7	1.69	14.7	2.56
Yoghurt	1 ctn	200	0.4	0.17	2.7	1.26	2.6	1.19	0.7	0.31
<i>Sub-Total</i>				<i>2.56</i>		<i>5.36</i>		<i>3.73</i>		<i>3.87</i>
Other										
Apple juice	1 glass	200	0.6	0.16	0.7					
Bacon	mid rasher	50	1.2	0.48	1.9	0.77	0.5	0.20	1.0	0.39
Beer	can	375							2.3	2.63
Bran	1 tbsp	12					0.6	0.02		
Cake	1 slice	60	1.2	0.69	2.0	1.17	1.2	0.69	0.8	0.48
Canned soup	1 cup	250	0.5	0.14	0.6	0.16	0.2	0.04	0.1	0.02

Updating Budget Standards for Working Families

Food Budget (continued)

	Serving unit	Grams per serve	Girl aged 6 Serves per week	Cost (\$ per week)	Boy aged 14 Serves per week	Cost (\$ per week)	Woman aged 35 Serves per week	Cost (\$ per week)	Man aged 40 Serves per week	Cost (\$ per week)
CC's	1 pkt	50	0.3	0.09	0.6	0.18				
Chips		100	0.8	0.14	1.4	0.23	0.8	0.14	0.6	0.09
Chocolate	1 row	30	1.4	0.29	3.0	0.63	1.4	0.29	1.2	0.24
Chocolate bar	1 bar	60			0.1	0.10			0.4	0.29
Coffee	1 tspoon	5			1.2	0.09	4.2	0.30	4.2	0.30
Cafe latte	1 cup	200					1.0	1.60		
Coke	1 can	375			0.6	0.73	0.7	0.16	1.0	0.22
Cordial	1 tbspn	20	2.8	0.05	2.1	0.17				
Cream	1 tbspn	20			0.7	0.03	0.4	0.01	0.7	0.03
Crisps	1 pkt	50	1.0	0.35	1.0	0.10			0.4	0.15
Custard	1/2 cup	125				0.02	0.7	0.11	0.4	0.06
Doughnut	1	70							0.2	0.12
Dressing-polyunsat.	1 tbspn	20					0.7	0.12	0.4	0.06
Fancy biscuit	1 bisc	30			1.9	0.33	0.5	0.08	0.2	0.04
Flour	2 tbspn	25					0.3	0.01	0.3	0.01
Frankfurts	1	40								
Fritz	1 slice	30							0.7	0.04
Fruit drink	1 glass	200	2.6	1.68	2.1	1.34	0.8	0.19		
Fruit juice	1 glass	200	2.2	0.60	1.8	0.48	2.7	0.74	2.1	0.57
Fruit pie	1/8 pie	75					0.3	0.08	0.4	0.10
Garlic	pinch	5					1.4	0.08	1.4	0.08
Gravy	1/4 cup	60	0.8	0.13	1.2	0.18	0.4	0.05	0.5	0.07
Hamburgers	1 burger	205	0.0	0.09	0.1	0.18	0.3	0.71	0.3	0.71
Honey	1 tspn	5	7.0	0.12	9.8	0.17	7.0	0.12	8.4	0.14
Ice-cream	1 scoop	50	5.2	0.29	6.6	0.37	1.4	0.08	4.2	0.23
Jam	1 tspn	5					7.0	0.10	7.0	0.10
KFC/supermarket	1 pc	67	0.1	0.03	0.1	0.03			0.3	0.10
Lasagne		150			0.1	0.06	0.4	0.24	0.3	0.15
Lemonade	1 can	375	1.0	0.26	0.6	0.14	0.5	0.12	0.6	0.14
Lollies	1 lolly	8			5.3	0.20	4.4	0.17	3.5	0.13
Low alc beer	1 can	375							0.8	0.86
Margarine	1 tspn	5	21.0	0.29	21.0	0.29	21.0	0.29	21.0	0.29
Mayonnaise	1 tspn	5					2.8	0.03	2.8	0.03
Meat pie	1 pie	175			0.3	0.16	0.2	0.10	0.2	0.10
Mild Curry powder	1 tspn	5					1.4	0.10	1.4	0.10
Milk flav drink	1 glass	200	2.9	2.15	2.9	2.15				
Milo	1 tspn	5	2.8	0.05	4.2	0.08	4.2	0.08		
Muesli bar	1 bar	35	0.6	0.14	0.6	0.14				
Nuts		30							1.9	0.38
Packet soup	1 cup	200					0.6	0.66	0.5	0.57
Peanut butter	1 tspn	5	2.8	0.07	7.0	0.17	2.8	0.07	7.0	0.17
Pickled onion	1	10							1.4	0.04

Updating Budget Standards for Working Families

Food Budget (continued)

	Serving unit	Grams per serve	Girl aged 6 Serves per week	Cost (\$ per week)	Boy aged 14 Serves per week	Cost (\$ per week)	Woman aged 35 Serves per week	Cost (\$ per week)	Man aged 40 Serves per week	Cost (\$ per week)
Pizza	1/6 pizza	100	0.1	0.03	0.1	0.05	0.4	0.16	0.4	0.14
Raisin bread	1 slice	30					0.5	0.03	0.7	0.05
Salami	2 slices	30							0.7	0.26
Sausage	1	40	1.3	0.17	2.6	0.34	1.8	0.24	2.6	0.34
Sausage rolls	1 small	40	0.5	0.06	0.7	0.08				
Savoury bisc	4 bisc	30	0.2	0.04	0.5	0.08			0.5	0.08
Seafood	1 cup	100							0.1	0.28
Spring rolls	1 roll	170			0.1	0.10				
Stirfry veg		100					0.4	0.05	0.3	0.04
Sugar	1 tspn	5	11.2	0.05	22.4	0.11	14.0	0.07	19.6	0.09
Tea	1t-bag	0.5			1.9	0.01	8.2	0.05	7.8	0.05
Tomato paste	1 tspn	5					1.4	0.02		
Tomato sauces	1 tspn	5	5.6	0.06	8.4	0.09	2.8	0.03	4.2	0.04
Vegetemite	1 tspn	5	2.8	0.16	2.8	0.16	1.4	0.08	1.4	0.08
Vegetable oil	1 tspn	5	1.4	0.02	7.0	0.08	7.0	0.08	7.0	0.08
Water	1 cup	250	42.0		42.0		42.0		42.0	
Wine	1 glass	120					1.4	0.42	2.0	0.61
<i>Sub-Total</i>				8.94		12.10		9.04		12.43
Total				23.65		40.01		37.18		44.53
add 5% for wastage				24.83		42.01		39.04		46.76
Total Food	152.64			24.83		42.01		39.04		46.76