

Fair Work Australia

Fair Work Act 2009

Annual Wage Review 2010-11

Submission in Reply

by the

Australian Catholic Council for Employment Relations

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Introduction

1. The principal submission filed on 19 March 2011 by the Australian Catholic Council for Employment Relations (ACCER) in the *Annual Wage Review 2010-11* placed considerable emphasis on the needs of low paid workers and their families in the context of increasing costs of living, relative living standards and the statutory and policy objective of social inclusion.
2. We have made extensive submissions on the failure of minimum wages to meet price increases, reflect productivity increases and retain relativity with wage outcomes across the community. Our focus, however, has been on the needs of the low paid workers and their families and the failure of the National Minimum Wage (NMW) to meet those needs.

New Data

3. The Melbourne Institute's estimate of per capita household disposable income (HDI) at December 2010 was published on 12 April 2011 in *Poverty Lines: Australia, December*

Quarter 2010. The previous estimate, on which a number of ACCER's tables were based, was \$686.19 per week. The latest estimate is \$687.41, an almost imperceptible change.

4. *Henderson Poverty Lines (HPLs).* The latest calculations by the Melbourne Institute for the various HPLs covering working households include \$428.71 for the single person, \$805.23 for two adults and two children and \$666.17 for a sole parent with two children. Because of the very marginal increase in the HDI and the HPLs we have not prepared revised figures for our tables which incorporated the HPLs, but will do so if requested.
5. *Housing-adjusted HPLs.* Our major criticism of the HPLs (and the Australian Fair Pay Commission's use of them) was that they underestimated housing costs; see our submissions under the heading *Housing Costs have been underestimated, but the problem is curable.* We explained that the housing costs data generally came from various editions of *Year Book, Australia*, but that the figures for December 2010 were estimates based on the changes in the relevant component of the CPI. At paragraph 235 we said that we would advise FWA if any further Commonwealth data showed that our estimates were unreasonable.
6. The Department of Families, Housing, Community Services and Indigenous Affairs has recently supplied us with data about housing rentals for June 2010, in the same format as the data for earlier years. The figures are very close to the estimates in Tables 14 and 15. For the family of four the new data shows average rent paid per week of \$284.00, rather than \$280.82 in Table 14. For the sole parent with two children the figure is \$230.00, rather than \$228.72 in Table 15. The Department has also provided us with the same kind of data for June 2008. As this data had not been published earlier we had estimated the figures for 2008 by taking the mid-point between the 2007 and 2009 figures. The estimates for 2008 were no more than \$3.00 per week above the actual figures. We have attached the Department's data as Attachment A.
7. *Relative poverty Lines.* The HDI changes are also relevant to the relative poverty lines. In the FWA *Statistical Report* of 31 March 2011, the poverty lines in Table 10.1 were calculated on the HDIs for September 2010. We have not re-calculated the whole of the table because of the very slight increase, but we have extracted and revised the figures for the single person, two adults and two children (where the second parent stays home to care for the children and does not qualify for the Newstart Allowance) and the sole parent with two children. The ratios of disposable income to the poverty

line are the same, except that the single adult at C4 has fallen from 1.46 to 1.45 and the family of four at C14 has fallen further below the poverty line: from .85 to .84.

Table 1
Comparison of 60 per cent median income poverty lines (PLs) with
disposable income of selected households earning various wage rates
December 2010

Household type	60% median income PL (\$pw)	Disposable income (\$pw)				Disposable income as proportion of PL (%)			
		C14	C13	C10	C4	C14	C13	C10	C4
Single adult	474.52	522.02	535.50	596.79	690.16	1.10	1.13	1.26	1.45
Single parent, two children	759.23	840.67	854.40	916.85	1003.51	1.11	1.13	1.21	1.32
Single earner couple, two children	996.49	840.67	854.40	916.85	1003.51	0.84	0.86	0.92	1.01

8. For some undisclosed reason Table 10.1 of the *Statistical Report* of 31 March 2011 has been omitted from the *Statistical Report* of 15 April 2011, as has the whole of the Section 10 which was entitled *Living standard benchmarks and measurements*. We are concerned about this omission. We have supported the continued updating of this material, which came from the research section of the Australian Fair Pay Commission (AFPC), and which was relevant to its decision-making, as we have explained in our principal submissions. Some of the parties may have concerns about aspects of this material, but that would not justify its exclusion. We have attached to this submission the whole of Table 10.1 of the *Statistical Report* of 31 March 2011 as Attachment B.
9. The critical point that arises out of these figures is that the family of four is *16% below* the poverty line. We accept that there is debate about the appropriateness of the 60% of median poverty line as a measure of needs in our society, but it has been a key point of reference for much of the literature and policy proposals. For example, the Social Inclusion Board's *A Compendium of Social Inclusion Indicators: How's Australia Faring?* (which is discussed in the ACTU's submission) shows substantial reliance on the same measure of poverty. The same document also uses the 40% and 50% relative poverty lines, but it is clear that, in regard to social inclusion objectives, the 60% poverty line is preferred. The Foreword to the report notes that the terms of reference of the Social Inclusion Board is to "provide views and input on social inclusion including *how to measure disadvantage and social exclusion*" (emphasis added). We

note that the data in the document was prepared by the Department of Prime Minister and Cabinet's Social Inclusion Unit.

10. The openness and frankness of that report on the question of disadvantage and social exclusion in Australia, especially compared to other countries in the European Union, is in stark contrast to the approach taken by the Commonwealth in its submissions to the current wage review when dealing with similar questions in regard to low paid workers and their families.

The Commonwealth's submission on the needs of the low paid

11. We are particularly concerned that the Commonwealth does not attempt to deal with the vital issue of the needs of the low paid. By way of introduction to this matter, we set out two paragraphs from its submissions to last year's inaugural wage review under the *Fair Work Act 2009*. :

“There is little up-to-date data currently available that enables in-depth analysis of the adequacy of minimum wages in providing for the needs of the low paid. In this regard, the Government supports the research currently being undertaken by FWA for the 2010-11 Annual Wage Review looking at approaches to defining and measuring relative living standards and the needs of the low paid.”(Paragraph 5.2)

“In submissions to future FWA wage reviews the Government will provide a more detailed analysis of the needs of the low paid. The Government will also investigate whether there is a need to undertake further research in this area to compliment (sic) the work of FWA.” (Paragraph 5.3)

12. We complained in our Reply Submission in 2010 about this failure to present material and said that the Commonwealth had access to considerable data on the needs of low income groups, including the costs of children and the costs of pensioners, as a result of the Commonwealth's inquiry into pension rates. The pension rates were increased to provide “a basic acceptable standard of living”. We said:

"The outcome of this work, the current pension rates, can be taken as a *guide* to the costs of a *basic acceptable standard of living* for low income working families, by applying the equivalence scales used by the ABS (and by the AFPC when calculating relative poverty lines) and by estimates of the costs of working for the working family." (Paragraph 23, emphasis in original.)

13. The Commonwealth has again failed to make any submissions on the needs of the low paid, despite its advice last year. The FWA research was finished and released early this year (*Relative living standards and needs of the low paid: definitions and measurement*) and there could be no excuse for inaction by the Commonwealth.
14. Before going to the Commonwealth's brief submissions in the current review, we need to refer to the background and context of the "needs" issue.

15. The needs of the low paid were not included in the matters that the AFPC was required to take into account when setting minimum wages. It was a shortcoming of the legislation under which the AFPC operated. However, the AFPC took into account the HPLs and the 60% of median relative poverty line when it made its decisions, as we have explained in our substantive submission. We, like many, had an expectation that this part of the legislation would change after the election in 2007.
16. In a speech entitled *Introducing Australia's New Workplace Relations System* at the National Press Club on 17 September 2008, the current Prime Minister, the Hon Julia Gillard, then Deputy Prime Minister, Minister for Education, Minister for Employment and Workplace Relations and Minister for Social Inclusion, started her speech with the following:

“The signature values of nations are often defined by the circumstances of their birth. This is as true for Australia as for other countries. And for us there’s one value above all others that we identify with as truly our own. It’s the value that emerged out of the circumstances of Federation, which coincided with the industrial turbulence of the late nineteenth and early twentieth centuries. That *value* is *fairness*. Or as we like to put it: ‘the *fair go*’. It inspired us to establish a society that aimed to give every citizen a *decent standard of living*. And it led us in 1907 to establish *the principle of the living wage*.” (Emphasis added.)
17. Later, in regard to the Minimum Wage Panel of FWA, the Prime Minister said:

“It will take a non-adversarial, *inquisitorial approach* to determining the minimum wage and welcome submissions and responses from all interested parties. And its decisions will take into account a range of important relevant factors, *including the needs of the low paid* and the performance and competitiveness of the national economy. *There’s no more important way to combine prosperity with fairness and give real meaning to the value of the fair go than getting minimum wages right.*” (Emphasis added.)
18. The *Fair Work Act 2009* saw the reintroduction of fairness in decision-making and the requirement to take into account relative living standards and the needs of the low paid. ACCER welcomed the reforms:

“We have welcomed the Commonwealth's *Fair Work* reforms to the framework of national wage-setting because they provide an enhanced *opportunity* to address the inadequacies in the wages safety net.

As we said in our 2010 submissions, our judgment on the effectiveness of these *Fair Work* 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 did not expect it to be answered in last year's wage review, but urged significant action be taken towards dealing with this issue. To our disappointment, we saw little effort by the parties to the assist FWA to answer the question. In our view, a

precondition for real progress in this matter is a pro-active approach by FWA.
(Executive Summary, 19 March 2011)

19. ACCER's position was partly based on criticism of aspects of the earlier *Work Choices* legislation by the Australian Catholic Bishops, as we have explained in our principal submission. On wage-setting they said:

“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.

20. When the legislation was enacted it was well-known that the adequacy of wages to meet the needs of workers and their families was an issue to be addressed. At the inaugural Annual Wage Review, ACCER, for example, made the point, with supporting arguments, that the NWM and other low wage rates had become poverty wages for low income working families.
21. In regard to pensions, which we specifically raised in 2010, the Commonwealth should have been aware of the potential relevance of the aged and disability pensions to provide a guide to a “basic acceptable standard of living” (the term used in regard to pensions) for low paid workers. Using the standard equivalence scales used by the ABS, the disposable income for the single aged or disabled pensioner (which at December 2010 was \$415.65 per week, including maximum rental assistance), the amount required for a basic acceptable standard for a family of two adults and two children would be \$872.87 per week. The family's income is \$840.67 per week (see Table 1). We do not suggest that there should be an equation between the two, because the working family also needs recognition of working costs and should receive a reward for work. The working family has a standard of living that is below the standard of living of a person on a disability pension or an aged pension. The policy implications of this, in terms of equity and workforce participation, are profound and must have drawn the attention of Commonwealth officers, quite apart from the issue being raised by ACCER in 2010. We would be surprised if the Commonwealth had nothing to tell FWA on the relative living standards of pensioners and low paid workers and their families.

22. The Commonwealth also knew that, in addition to factual matters, there were some important issues of policy and principle that bear on the capacity and ability of wages to meet the needs of low paid workers and their families. One of them is the extent to which government family payments meet the needs of low income families. Related to that is a question of principle: should wages be set at a level where both parents have to work (or comply with the Newstart Allowance requirements) in order to avoid living in poverty, and/or to achieve a decent standard of living? These are also the kinds of issues that arise out of the Prime Minister's speech.
23. The National Press Club speech included a summary of what the Government had campaigned on in relation to fair and decent wages when it was in Opposition. Of course, the terms of the legislation speak for themselves and we do not need to go to a key speech in the National Press Club to establish the statutory duty. But the many disadvantaged working families are entitled to expect that the Government will do what it reasonably can in order to deliver the outcomes described in the speech. They should be able to expect that the government will put a case to FWA that is consistent with its rhetoric, especially about the importance of "working families". The Government has important data and policy expertise and the ability to commission relevant research on the needs of the low paid and the quantification of a decent wage.
24. The Commonwealth's submissions on the needs of the low paid are at paragraphs 1, 2 and 5 to 9 of Chapter 5 of its submission. After referring to the 2010 decision and the FWA research report, the section concluded with:
- "9. The Australian Government welcomes this research report and notes the concerns raised by the report in relation to specific income benchmarks regarding the needs of the low paid such as the HPL, budget standards and relative living standards."
25. Paragraph 8 of the submission refers to a further discussion of benchmarks in Appendix B of the Commonwealth's submission. After a description of the main income benchmarks the appendix refers to some inadequacies identified in the report, and adds:
- "Moreover, after examining the various income benchmarks including the HPL, budget standards and other commonly used measures, the Senate Committee into the Inquiry into Poverty and Financial Hardship (2004) concluded that:
- Poverty is difficult both to define and to measure. The varying concepts of 'poverty' employed, data limitations and different methodologies all impose limitations on the degree to which poverty can be quantified. Poverty relates to individual standards of living which are influenced by a range of tangible factors - such as access to income and other financial resources - and intangible factors, such as social and family ties, which are largely

unquantifiable but which can influence a person's overall standard of living.
(The Senate, 2004: 31)

26. This is not an accurate representation of what the majority of the Senate Committee wrote, which appears in the conclusions to the chapter *Defining and measuring poverty*. The highlighted words in the following extract from those conclusions were omitted from the appendix.

“2.98 Poverty is difficult both to define and to measure. The varying concepts of 'poverty' employed, data limitations and different methodologies all impose limitations on the degree to which poverty can be quantified. Poverty relates to individual standards of living which are influenced by a range of tangible factors – such as access to income and other financial resources – and intangible factors, such as social and family ties, which are largely unquantifiable but which can influence a person's overall standard of living. *Despite these limitations, research into poverty and the development of measures of poverty are important in establishing the nature and extent of poverty in the community and in the development of appropriate policy responses.*

2.99 Further research in the area of poverty can only lead to a broader understanding of its causes and effects and lead to improved ways to address the problem. The St Vincent de Paul Society noted that 'regrettably, the polemical debate over poverty lines has distracted rational discussion on solutions to a known problem'. The Committee concurs with this sentiment and firmly believes that protracted debate over various poverty measures or the suitability of different poverty lines should not overshadow a thorough and ongoing discussion of solutions to a very serious national problem.” (Emphasis added and footnote omitted.)

27. This is a very concerning matter because the conclusion was to the contrary of what the selective extract suggested. The omission of this key sentence was clearly an attempt to buttress opposition to a searching inquiry into poverty and the needs of the low paid, and efforts to give meaning to the term "a decent wage".
28. This attitude is further illustrated by the following part of the appendix, where reference is made to Dr Healy's Ph.D. thesis. This thesis had been discussed in the 2010 wage review for purposes other than the measurement of needs and benchmarking. The appendix refers to Dr Healy's references to the consideration of benchmarks in the *Safety Net Review Case 1997*, although the case is not described by that name. If the Commonwealth wishes to put these matters forward it should do so directly, by referring to the case and not by reference to a thesis.
29. Furthermore, if the Commonwealth seeks to rely on that case it will need to address the view of the Australian Industrial Relations Commission (AIRC) in the *Safety Net Review Case 2003*:

“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.” (Paragraph [222])

30. In the *Safety Net Review Case 2004* the AIRC said:

“The Act makes no reference to a "poverty line" but rather focuses on the issue of the needs of the low paid. To the extent that the poverty line is a relevant consideration, ACCI noted that the concept remains "highly contested" and submitted that this precludes it as a measure to guide the Commission's action. The evidence before the Commission in the present application is inconclusive. 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.” (Paragraph [287])

31. As we have mentioned, the AFPC made use of the HPLs and relative poverty lines in its decisions. The AFPC used the HPLs in all four of its decisions and used the 60% of median relative poverty line in two of its decisions. This poverty line and the HPL were applied in a very specific way in 2008:

“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.” (*Wage-Setting Decision and Reasons for Decision, July 2008, page 68.*)

32. As FWA knows from past submissions, ACCER has criticised this conclusion because it was based on a reasonable margin above poverty for a single worker. However, that is not a criticism of the use of poverty lines. We note that the margin for the single worker has fallen from 21% to 10%.

33. We would have expected any balanced assessment of the strengths and weaknesses of benchmarks as indicators of poverty, need and social equity (all of which are relevant to the setting of a fair wage, having regard to relative living standards and the needs of the low paid) to have made some mention of their relevance to the Government’s social inclusion policy. A useful review could also have included reference to *A Compendium of Social Inclusion Indicators: How’s Australia Faring?* which we mentioned earlier.

34. The references in the submissions to the FWA report suggest that the report itself gives a negative assessment of the utility of benchmarks, but it is, we submit, a suggestion that is not borne out by a fair reading of it.

35. We submit that the tenor and content of paragraphs 1, 2 and 5 to 9 of Chapter 5 and Appendix B of the Commonwealth's submissions in regard to the measurement of the needs of the low paid show a closed mind on the use of benchmarks. The Commonwealth is not like the other parties in the Annual Wage Review, some of which may have substantial opposition to the way in which benchmarks are used. As a *model litigant* it is entitled to put its stated policy and support the terms of its legislation, but otherwise it has a duty of impartiality on what might be contentious issues between the various parties.
36. These parts of the Commonwealth's submission show the kind of problem that the St Vincent de Paul Society described in the Senate inquiry: they have the effect of distracting from "rational discussion on solutions to a known problem".

The Commonwealth's claims of real wage increases

37. At two points in the Commonwealth's submission claims are made about wage and price movements over recent years. They need to be corrected because they do not reflect the real state of affairs and they are relevant to how FWA should approach the current wage review.
38. At the opening paragraph of its submission the Commonwealth makes the following reference to the decision in last year's wage review:

"This decision meant that from July 2010, minimum wages rose by 4.8 per cent (1.4 per cent in real terms), offsetting the 2009 decision by the Australian Fair Pay Commission to not increase the NMW."
39. As a result of the wage freeze in 2009, the total of the published CPI increases between the date of the AFPC's decision in 2008 and FWA's decision in 2010 was 5.4%. The CPI all groups index moved from 162.2 to 171.0. The \$26.00 per week increase awarded by FWA was equal to a 4.8% increase in the NMW and lesser percentages for higher paid classifications. It is wrong to claim that "minimum wages rose by 4.8 per cent (1.4 per cent in real terms) offsetting" the 2009 wage freeze as a result of the 2010 decision. The real wage had not been offset and there was a small real wage cut of 0.6% at the NMW level and more at higher-paid safety net rates. Had the NMW increased by the relevant CPI movements, 5.4%, it would now be \$573.30, not \$569.90.
40. The second error in the Commonwealth's submission is in Chapter 6, which deals with, amongst others, the impact of the tax transfer system on the disposable incomes of NMW-dependent households. Table 6.4 sets out changes in real disposable income for various household types over the period 1 January 2006 to 1 January 2011. (A similar table was produced in 2010 and was used in FWA's 2010 decision as Table 5.1) The

calculations include changes in the NMW over that period. Immediately after the Table 6.4 is the following claim:

“It is important to note that the NMW increased in real terms over this period by around 5.5 per cent. Accordingly, the changes to real household income shown in the table are attributable to both a real increase in the NMW and tax-transfer effects.”

41. This is not correct. On 1 January 2006 the Federal Minimum Wage was \$484.40, the amount fixed in the last *Safety Net Review* case in the AIRC. On 1 January 2011 the NMW was \$569.90, a 17.7% increase. The CPI all groups index was 150.6 in December 2005 and 174.0 in December 2010, an increase of 15.5%. Had the wage of \$484.40 increased in line with the CPI, it would now be \$559.50, \$10.40 less than it is. This is a real wage increase of 1.9%, not 5.5%. In net wage terms the increase was greater over this period income because of wide-ranging tax cuts.

The ACTU's single worker test

42. At pages 143-6 of its principal submissions the ACTU refers to and makes use of the Budget Standards research of the Social Policy Research Centre. The critical passage in this section are:

“11.46 The Panel is required to maintain a fair safety net of minimum wages. The ACTU submits that meeting this standard involves *ensuring that minimum wages are sufficient to allow a single adult to live in modest comfort, with dignity, and as a part of his or her community*. Adopting this definition of adequacy for minimum wages implies that, of the two SPRC budget standards, the ‘modest but adequate’ standard is a more appropriate measure of the adequacy of minimum wages.

11.47 The SPRC ‘modest but adequate’ (MBA) budget standard for a single adult, working full time and renting privately, is \$555 per week, updated to December 2010.” (Emphasis added.)

43. Table 19 then sets out a comparison of various pay rates with the updated MBA standard. The net C14/NMW rate is at 94% of the MBA. The relevant footnote refers to the SPRC document: *Development of Indicative Budget Standards for Australia* by Saunders, et al published in 1998, which appears to have also provided the arithmetic basis for the MBA calculations.
44. There are two important aspects to this part of the ACTU's submission: the use of the Budget Standards and the reliance on the single person test.
45. The authors of the ACTU submission are clearly unaware of a more recent report from the SPRC: *Updated Budget Standard Estimates for Working Australian Families in September 2003*, which was commissioned by the ACTU as a major part of its claim in the *Safety Net Review Case 2004*. Professor Saunders' 80 page report written in

February 2004 was presented as evidence of “the incomes required by Australian working families to meet their needs in 2003” *Safety Net Review Case 2004*, PR002004, at [268]. The Executive Summary of the report includes the following:

“Two separate budget standards were developed in the previous research. The modest but adequate standard is one that affords full opportunity to participate in contemporary Australian society and the basic options it offers. The low cost standard is intended to represent a level of living that may require frugal and careful management of resources but would still allow social and economic participation consistent with community standards.

The primary motivation for developing a low cost budget was to guide the setting of income support payments. The modest but adequate standard describes a level of comfort in which prevailing consumption and participatory needs are met without the need for frugality. It is the standard of living that the majority of ‘middle Australian’ families aspire to.

....

While the arguments are not 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. In general, which precise point is chosen on the continuum that separates the two standards involves judgments to be made.”

46. The ACTU’s MBA figure is \$555.00 per week. ACCER’s Table 26 (in its March 2011 submission) has the updated figures for both budgets based on the 2004 report, with separate amounts for men and women. The average MBA budget at December 2010 was \$551.49 per week. The average Low Cost budget at the same time was \$437.71 per week. Both have to be compared with the ACTU’s calculation of a net salary of \$522.00 per week at the C14/NMW level. On the basis of the ACTU’s evidence in the 2004 wage case, it is not clear that the wage rate was insufficient in December 2010 *if* the criterion for the setting of wages is the needs of the single person. Of course, an increase may be justified for some other reasons.
47. The second, and more fundamental, point about paragraph 11.46 is that it is a position that, to our knowledge, has never been argued by the ACTU in any wage claim, before or after *Harvester*. In 2004 the ACTU argued for a wage adjustment to enable Australian working families to meet their needs. There is no explanation for the changed position, and there is no reasoning to support it. The ACTU is a well-known supporter of “working families” and of protecting parents with family responsibilities. If these policies are to mean anything they must recognise the importance of the wage packet in the support of families.
48. The critical point which this new position overlooks is that over the years the wage rates have had, and still have, a component for the support of families. This is very clear from the figures that we included in our March 2011 submissions; see Table 21

and the associated commentary. Over many years that component has been reduced relative to the rest of the community, and the process has been compounded by the lack of any serious attention being given to the needs of workers and their families.

49. The error in the ACTU's claim for the single person wage is apparent from Table 2:

Table 2
Changes in wages and transfer payments in Australia 1973 to 2010
(\$ per week)

Year	Income unit	Lowest Minimum Wage	Min wage after tax	Family payments	Total	Transfers as a % of disposable income
August 1973	Couple, 2 children	\$60.00	\$54.00	\$4.50	\$58.50	7.7%
August 1973	Single person	\$60.00	\$54.00	-	\$54.00	-
December 2010	Couple, 2 children	\$569.90	\$521.86	\$318.63	\$840.49	37.9%
December 2010	Single	\$569.90	\$521.86	-	\$521.86	-

This table is extracted from figures in ACCER's submission to the Annual Wage Review 2011. The family payments for 2010 are calculated on the basis that the children are in the 8 to 12 age group. Family payments include the Medicare Levy exemption and maximum rental assistance.

50. In 1973 the minimum wage had a much greater relative role in the support of families because of the limited family payments. Over 90% of the family income for the lowest paid came from the wage packet. Family payments now provide a substantial supplement to the wage, but obviously do not cover all of the family's costs which are additional to the breadwinner's. As we have explained, increasing transfer payments for the support of dependants have enabled wages to be considerably less than they otherwise would have been, with evident economic advantages; but, as we have argued in the substantive submissions, rising family benefits on decreasing wage rates have not improved the lot of low paid workers and their families. Safety net wage cuts have gone too far, while transfer payments have not gone far enough. The lowest minimum wage, which once provided substantial support for families, has become a poverty wage. Clearly it was not a single person's wage in 1973. The problem is not solved by now treating it as a single person's wage.

The ACTU's poverty line assessments

51. At pages 146-54 the ACTU covers "poverty lines" and "working households and income poverty". A substantial part of this discussion concerns poverty lines for working families. The 60% of median poverty line is used as a reference point for the adequacy of minimum wages, with the argument that sufficiency for needs and social

inclusion is not achieved by merely treating poverty lines as a "target" for minimum wages fixing (paragraph 11.55). The term "working households" is frequently used in this section and includes families with children. A number of scenarios are presented where the poverty line and the disposable income are compared. Having regard to the ACTU's proposition in paragraph 11.46 that wages should be set by reference to the single person, it is not readily apparent how any of these family households is relevant to the setting of safety net wages.

52. The ACTU's analysis of the impact of the NMW and transfer payments on various kinds of working family households contain what we regard as a major error: the inclusion of the Newstart Allowance in the incomes of two parent families where only one parent is in employment. As we have explained in our principal submissions this is not appropriate where one of the two parents chooses to stay at home to look after the children. This parent is not entitled to the allowance. The monetary difference is substantial. At the present time the means-tested Newstart Allowance is \$114.32 per week where the other parent is paid the NMW. We suggest that the ACTU has not thought this through. First, there is the principle to which we referred about parents being able to make an effective choice as to how they will raise their children. Second, to treat this amount as income when calculating the needs of low income families will result in lower minimum wages, with the only families being able to neutralise the loss being those where the second parent wants a job, meets the Centrelink work activity test and cannot get a job.
53. We also draw attention to an important aspect of the data in Tables 21 and 22 of the ACTU submission, which show changes in household disposable income as a result of the second parent getting a job. Table 21 shows that a family of four with one breadwinner has a disposable income of \$946.60 (including the Newstart Allowance), and yet is 5.7% below the poverty line. (The single NMW worker is 9.2% above the poverty line; see Table 20.). Even a C10-dependent family is 3.4% below the poverty line.
54. Table 22 includes three scenarios for the family of four: where the second parent is employed for 25%, 50% and 100% of the working week. Working 25% of the time only adds a net \$63.00 per week to the family disposable income; 50% adds \$130.90; and 100% adds \$297.00. The effective hourly rate for the second parent is very low, and it does not take into account child care costs (which we discussed in our principal submissions). Given the Newstart Allowance requirement to take a range of available

work there may be little effective control over child care costs, further reducing the value of employment.

55. Table 22 contains substantial errors in its recording of the impact that increasing work hours has on the household's position compared to the poverty line. The table shows that with the second parent working 25% of the time, the family would be 0.5% above the poverty line. The significance of this is that the second parent has to work 25% of the time in a NMW job just to get the family to the poverty line, a matter which is not commented on. For the 50% and 100% workload scenarios Table 22 has the family at 140.8% and 162.5% of the poverty line. These figures are incorrect. At 50% the stated income is \$1077.50, with a poverty line of \$1004.50. The correct figure is 107.3%, not 140.8%. At 100%, with a disposable income of \$1243.60, the correct figure is 123.8%, not 162.5%. Full time work on the NMW for both parents would result in the family being only 23.8% above the poverty line. We note again the AFPC's comments about the reasonableness of 21% in regard to the single person (see paragraph 30, above).
56. At paragraph 11.71 the ACTU concludes its discussions on household incomes and the 60% of median poverty line:

“Work should be a bulwark against poverty. Currently, Australian minimum wages generally do fulfil this role, and ensure that minimum wage workers' households' incomes are above the relevant poverty line. However, the gap between household incomes and the poverty line is not large. The increase sought by the ACTU to minimum wages will help to ensure that this gap does not shrink, and that working households can be protected from poverty.”
57. We agree that work should be a bulwark against poverty, but it should not require that two parents have to be employed just to avoid poverty. In its treatment of the family of four the ACTU does not recognise that even with the Newstart Allowance being received by the second parent the family is below the poverty line and that it requires the second parent to work 25% of the time to reach the poverty line. More importantly, it fails to recognise that in the family where the second parent does not seek employment and is not entitled to the Newstart Allowance, the family is 16% below the same poverty line (see Table 1, above).
58. This material demonstrates support for the view that many parents who would otherwise stay at home to care for their children will be forced to seek and obtain employment. We think it important that when a second parent does enter the workforce that it is done by choice and with the expectation that it will improve the family's circumstances, and not to merely enable the family to get out from under the poverty

line. A working family should not fall into poverty because the parents decide that one of them will stay at home to care for their children.

The Australian Council of Social Services

59. The Australian Council of Social Services (ACOSS) has filed submissions in a similar form to those in previous years:

“Our recommendations focus on how the needs of people on low pay can best be assessed and the respective roles of wages and social security in sustaining a decent standard of living. Our starting point is that the Federal Minimum Wage (FMW) should be designed to at least provide a decent living standard, well above poverty levels, for a single adult and that the tax-transfer system should meet the basic costs of raising children in a low income family. The FMW should not be directly designed to cover the costs of children because that role is best performed by the social security system. However the FMW together with family payments should be sufficient to prevent a family from falling into poverty. The minimum wage itself should be set well above poverty levels in keeping with Australian public policy tradition, and the need to maintain a gap between maximum social security payments and minimum wages to preserve work incentives.” (Page 5)

60. ACOSS appears to propose a modified single person test: the NMW should be sufficient to provide a decent standard of living for single workers, but that it be set to ensure that families will not fall into poverty. If this understanding is correct, ACOSS is not proposing a wage safety net that would deliver a decent standard of living to families, but a lesser standard based on keeping them out of poverty. We could not agree with such an approach. We have explained in our principal submissions how we see the safety net operating in the "ordinary cases", whether there is one parent or two parents living with the children. Families need to be supported at a decent standard of living. Given the inadequacy of family payments, this objective will mean that the wage of a single person will be more than that needed to provide him or her at a decent standard of living and that there will be a degree of over-compensation. If it is unacceptable from an economic point of view, then it is the function of government to increase transfers to a point where there need be no over-compensation of single workers.

Attachment A

RECIPIENTS OF RENT ASSISTANCE, Average rent assistance and rent paid - 6 June 2008

	Individuals and Families no.	Average rent assistance ^(a) \$ per fortnight	Average rent paid ^(b) \$ per fortnight
All recipients	946 641	\$91	\$348
Primary payment type^(c)			
Parenting Payment (single)	165 760	\$103	\$408
Disability Support Pension	190 754	\$92	\$296
Age Pension	181 006	\$84	\$288
Newstart Allowance	144 573	\$88	\$312
Family Tax Benefit Only	120 806	\$89	\$515
Youth Allowance – Student	59 262	\$75	\$261
Youth Allowance - Other	11 125	\$68	\$237
Parenting Payment (partnered)	28 110	\$118	\$482
Carer pension	17 269	\$95	\$341
Other	27 976	\$86	\$311
Income unit type			
Single Sharers – no dependent children	118 172	\$65	\$236
Single – no dependent children	365 087	\$89	\$276
Couple – no dependent children	83 966	\$85	\$366
Single – 1 or 2 dependent children	182 808	\$99	\$407
Single 3 or more dependent children	36 804	\$115	\$454
Couple 1 or 2 dependent children	107 614	\$95	\$492
Couple 3 or more dependent children	49 293	\$110	\$518
Couple - temporarily separated	2 897	\$104	\$368

(a) Average Rent Assistance per fortnight is taken to be 14 times the daily entitlement to Rent Assistance for 6 June 2008.

(b) Average rent is the average taken into account in working out entitlements for 6 June 2008.

(c) One member of a couple is treated as the reference person for the income unit, based on the type of payment they receive. The general order of priority is Pensions, Allowances, Family Tax Benefit (FTB). An income unit will be reported as receiving Parenting Payment (partnered) only if neither member of the couple receives another social security payment. The will only be reported as receiving FTB Part A if neither receives a social security payment.

Source: Department of Families, Housing, Community Services and Indigenous Affairs.

RECIPIENTS OF RENT ASSISTANCE, Average rent assistance and rent paid -

4 June 2010

	Individuals and Families	Average rent assistance^(a)	Average rent paid^(b)
	no.	\$ per fortnight	\$ per fortnight
All recipients	1 105 154	\$98	\$392
Primary payment type^(c)			
Parenting Payment (single)	165 773	\$113	\$460
Disability Support Pension	219 915	\$101	\$335
Age Pension	193 164	\$91	\$322
Newstart Allowance	216 691	\$94	\$359
Family Tax Benefit Only	137 324	\$96	\$592
Youth Allowance – Student	66 109	\$82	\$294
Youth Allowance - Other	20 000	\$75	\$266
Parenting Payment (partnered)	28 365	\$127	\$555
Carer pension	25 520	\$106	\$404
Other	32 293	\$91	\$350
Income unit type			
Single Sharers – no dependent children	161 220	\$71	\$267
Single – no dependent children	420 368	\$97	\$309
Couple – no dependent children	96 242	\$93	\$420
Single – 1 or 2 dependent children	201 704	\$108	\$460
Single 3 or more dependent children	42 184	\$127	\$519
Couple 1 or 2 dependent children	124 210	\$103	\$568
Couple 3 or more dependent children	56 184	\$119	\$595
Couple - temporarily separated	3 042	\$111	\$401

(a) Average Rent Assistance per fortnight is taken to be 14 times the daily entitlement to Rent Assistance for 4 June 2010.

(b) Average rent is the average taken into account in working out entitlements for 4 June 2010.

(c) One member of a couple is treated as the reference person for the income unit, based on the type of payment they receive. The general order of priority is Pensions, Allowances, Family Tax Benefit (FTB). An income unit will be reported as receiving Parenting Payment (partnered) only if neither member of the couple receives another social security payment. The will only be reported as receiving FTB Part A if neither receives a social security payment.

Source: Department of Families, Housing, Community Services and Indigenous Affairs.

Attachment B

Table 10.1: Comparison of 60 per cent median income poverty lines (PLs) with disposable income of selected households earning various wage rates, September 2010

Household type	60% median income PL (\$pw)	Disposable income (\$pw)				Disposable income as proportion of PL (%)			
		C14	C13	C10	C4	C14	C13	C10	C4
Single adult	473.68	522.02	535.50	596.79	690.16	1.10	1.13	1.26	1.46
Single parent, one child	615.79	746.59	760.32	821.91	906.18	1.21	1.23	1.33	1.47
Single parent, two children	757.89	840.67	854.40	916.85	1003.51	1.11	1.13	1.21	1.32
Single earner couple, no children	710.52	706.38	711.82	736.79	762.10	0.99	1.00	1.04	1.07
Single earner couple, one child	852.63	852.05	856.99	871.17	906.18	1.00	1.01	1.02	1.06
Single earner couple, two children	994.73	946.98	952.73	970.69	1003.51	0.95	0.96	0.98	1.01
Single earner couple, two children (no NSA)	994.73	840.67	854.40	916.85	1003.51	0.85	0.86	0.92	1.01
Dual earner couple*, no children	710.52	828.36	835.20	924.98	1070.81	1.17	1.18	1.30	1.51
Dual earner couple*, one child	852.63	984.36	1002.05	1067.52	1167.05	1.15	1.18	1.25	1.37
Dual earner couple*, two children	994.73	1078.44	1096.13	1161.60	1261.13	1.08	1.10	1.17	1.27

Note: *One partner earns 100% of the specified wage rate, the other earns 50% of this rate.

Sources: ABS, *Household Income and Income Distribution, Australia, 2007–08*, Catalogue No. 6523.0; Fair Work Australia modelling; *Manufacturing and Associated Industries and Occupations Award 2010*; Melbourne Institute of Applied Economic and Social Research (2010), *Poverty Lines: Australia*, September Quarter 2010. Assumptions: PLs are based on estimates of median equivalised household disposable income for 2007–08, updated for movements in household disposable income per head as calculated by the Melbourne Institute of Applied Economic and Social Research, and adjusted for household composition using the modified OECD equivalence scale. Tax/transfer parameters as at September 2010. C14 = \$569.90 pw, C13 = \$586.50, C10 = \$663.60 and C4 = \$797.20. Children aged 8–12. Disposable income includes all available income transfers, unless otherwise specified. Households paying sufficient rent to receive maximum Rent Assistance, where applicable. Single parent households are non-pensioners i.e. not in receipt of Parenting Payment (Single). Couples on C14, C13 and C10 are eligible to receive proportional rates of Newstart Allowance, unless otherwise specified.