

Fair Work Australia

Fair Work Act 2009

Annual Wage Review 2011-12

Submission in Reply

by the

Australian Catholic Council for Employment Relations

April 2012

Table of contents

	Paragraph
Introduction	1
New data	3
The Commonwealth's submissions on the needs of the low paid	8
The Australian Council of Social Services	15
The calculation of family disposable incomes	17
The Carbon Tax compensation scheme	18

Introduction

1. The principal submission of March 2012 by the Australian Catholic Council for Employment Relations (ACCER) in the *Annual Wage Review 2011-12* 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 March 2012 Consumer Price Index (CPI) increase was 1.6%. On the basis of this increase in the CPI, ACCER's claim (see paragraph 337 of the March 2012 submission)

is for: an increase in safety net wage rates at or above the C10 base trade-qualified rate of 2.6%; an increase of \$17.80 per week in safety net wage rates below the C10 rate; and for a further increase of \$10.00 per week in the National Minimum Wage.

4. A number of our calculations are based on data provided by the Melbourne Institute's estimate of per capita household disposable income (HDI), as are the calculations in Table 8.3 of the FWA *Statistical Report*. At the time of filing our principal submission the latest data from the Melbourne Institute was for September 2011. Data for December 2011 was published on 13 April 2012 in *Poverty Lines: Australia, December Quarter 2011*. The previous estimate of HDI on which a number of ACCER's tables and Table 8.3 of the Statistical Report were based was \$736.92 per week. The latest estimate is \$733.73, slightly lower than the previous estimate.
5. *Henderson Poverty Lines (HPLs)*. As we have explained (Chapter 3J), the HPLs are relied on for limited purposes. The latest calculations by the Melbourne Institute for the various HPLs covering working households include \$457.39 for the single person and \$859.04 for two adults and two children. Because of the slight decrease in the HDI and the HPLs we have not prepared revised figures for Tables 21 and 22, which incorporated the HPLs, but will do so if requested.
6. *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 8.3 were calculated on the HDI for September 2010. In the latest *Statistical Report* the poverty lines in Table 8.3 were calculated on the basis of the HDI for September 2011. First, the September 2011 figure has been revised down: from \$736.92 to \$734.07 per week. Second, the estimate for December 2009 has been increased from \$671.19 to \$673.50 per week. Again these are very slight changes, but they do reduce the adjustments to the primary data in the ABS *Household Income and Income Distribution, 2009-10*, on which Table 8.3 and two of ACCER's tables are calculated.
7. ACCER's revised estimates for the relative poverty lines at December 2011 in Table 25 are \$467.18 (single), \$981.08 (couple plus two) and \$747.49 (sole parent plus two). These are small decreases; e.g., in the case of the couple parent family it is \$8.36 per week. The changes produce a change of one percentage point in each of the calculations in Table 26. At December 2011 the single person was 16% above the poverty line, the sole parent with two children 15% above it and the couple with two children were 12% below it. We will prepare revised tables setting out these changes if

requested to do so. The critical point that arises out of these figures is that the family of four is *12% below* this poverty line.

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

8. This is the third year in which the Commonwealth has failed to deal in any meaningful way with the vital issue of the needs of the low paid, despite the fact that the issue was given a key role in the new wages system in the *Fair Work Act 2009*. The Commonwealth's brief reference to this matter (see paragraphs 5 to 8 at page 43 of its submission) essentially adopts all that it said in its principal submission of 2011, including Appendix B of that submission. We submit that FWA and other parties should not have to go back to past wage reviews to ascertain what a party has to say, especially on a matter of some substance. If FWA were inclined to do this we would rely on our Reply submission of April 2011 on this important issue. However, we also add some brief points in reply.
9. The Commonwealth's 2011 submissions on the needs of the low paid are at paragraphs 1, 2 and 5 to 9 of Chapter 5 of its March 2011 submission. At paragraphs 11 to 36 of our 2011 Reply we set out a response to those parts, including the Commonwealth's selective and misleading quotation from the 2004 Senate report into poverty. The content and tenor of the Commonwealth's submission was, in our view, inconsistent with the policy underlying this part of the legislation and what might be expected from the Commonwealth given its terms.
10. We have expected more of the Commonwealth Government, particularly given its commitment to the promotion of social inclusion of low income families and its concern about the needs of workers with family responsibilities. The Commonwealth has a range of material that bears on the identification and quantification of the needs of the low paid. In 2010 and 2011 we complained about its 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, as a result of the Commonwealth's 2009 inquiry into pension rates, the costs of pensioners. In 2009 pension rates were increased to provide a "basic acceptable standard of living".
11. In regard to pensions, the Commonwealth must be 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. We have shown that the NMW-dependent working family of a couple and two children 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.

12. The Commonwealth's package of targeted income tax cuts as a consequence of the introduction of the carbon tax is further evidence of its capacity to provide important data and research methodologies into the expenditure patterns of low income households. The detailed compensation package is clearly the result of a detailed analysis of those matters.
13. We note that the Commonwealth has made a brief reference to FWA's processes for assessing the needs of the low paid (see paragraphs 9-11 at pages 43-4), but there is nothing in that reference to suggest that it would change the position set out in its 2011 and 2012 submissions. We ask that FWA note the paucity and tenor of the Commonwealth's contribution to this area of fundamental importance. It is a position that bears upon the capacity of FWA to elicit relevant evidence for the purpose of better assessing the needs of the low paid.
14. We submit that FWA should press the Commonwealth's advocate on these matters in the forthcoming consultations. Using the standard that the Commonwealth applied in the setting of pensions in 2009, i.e. the "basic acceptable standard of living" standard, we suggest that the Commonwealth be asked what amount of disposable income is required for the following to achieve a basic acceptable standard of living: (a) a single person; (b) a couple with two dependent primary school age children; and (c) a sole parent with two dependent primary school age children. In each case it should be assumed that the adult or one of the couple is in full time employment. If it is unable to answer these questions (within a reasonable range of estimation), the Commonwealth should be asked how these questions might be answered.

The Australian Council of Social Services

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

"Recommendations

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.

....

ACOSS recommends that:

- In its decision this year, FWA should substantially increase real minimum wages in order to significantly reduce the growing gap between them and median pay levels.
- Decisions on the level of minimum wages should be informed by 'benchmark' estimates of the cost of attaining a 'decent basic living standard' for a single adult according to contemporary Australian standards.
- Research should be commissioned and consultations held with key stakeholders to develop a robust set of indicators of a minimum adequate living standard for low paid workers. This should include the updating and revision of 'Budget Standards' research and regular assessment of the living standards of workers on minimum wages against this benchmark as well as median household disposable incomes, poverty lines, deprivation indicators and financial stress indicators.
- The combined effect of the minimum wage and family payments on the extent of poverty among families should also be taken into account in setting minimum wages.
- Minimum wage rates for young people, apprentices and trainees, and people with disabilities under the Supported Wage System, should continue to be increased in line with the rise in the federal minimum wage." (Pages 8-9, footnote omitted.)

16. This part of the ACOSS submission is in a similar form to previous wage submissions, including its submission to the *Annual Wage Review 2010-11*. We make the same response as we did then. 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. It is an approach that is inconsistent with more than a century of Australian wage-setting. 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.

The calculations of family disposable incomes

17. At paragraphs 116 to 129 of our March 2012 submissions we presented arguments against the inclusion of the Newstart Allowance in the calculation of the disposable incomes for couple parent families where there is a single breadwinner and where, in order to care for the children, the second parent does not seek employment. In these circumstances the second parent is not entitled to the Newstart Allowance and it should not be included in the calculations of family disposable income. We note that in estimating poverty lines and income levels for couple parent families the ACTU has included the Newstart Allowance in its calculation of disposable incomes at Table 13. Similarly, ACOSS has included the allowance in its calculations in the table at page 25 of its submission. Both of these are used for the purpose of dealing with the adequacy of disposable incomes. The Commonwealth has used the allowance in its calculations of changes in disposable incomes over time, but not for the purpose of dealing with the adequacy of disposable incomes (see pages 49 to 55). In none of these three submissions is there any reasoning to support the inclusion of the Newstart Allowance in the calculation of family disposable income. We have already canvassed the reasons why it should be excluded and do not repeat them.

The carbon tax compensation scheme

18. It has been argued (for example, by the Australian Industry Group, at paragraph 94 and following) that the tax cuts under the Commonwealth compensation package for the increased costs caused by the introduction of the carbon tax should reduce safety net increases to the extent that the benefits exceed the estimated costs of the tax. We are opposed to this proposal, principally on the basis that it would have the effect of frustrating the intent of Parliament in enacting the compensation package of taxation cuts and providing a costs buffer for low income families, especially those who depend on safety net wage rates. We refer to and support the ACTU's submissions on this issue (see paragraph 336 and following).