



**Submission by the**  
**AUSTRALIAN CATHOLIC COUNCIL FOR EMPLOYMENT RELATIONS**  
**to the**  
**AUSTRALIAN FAIR PAY COMMISSION**  
**Workplace Relations Act 1996**  
**MINIMUM WAGES REVIEW 2008**  
**14 March 2008**

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## Summary of ACCER's submissions

- ACCER's submission to the 2008 review of minimum wage rates by the Australian Fair Pay Commission ("AFPC") canvasses a number of issues that are relevant to the AFPC's statutory obligation to have regard to the provision of a safety net for low paid workers. A wages safety net provides incomes that are sufficient to meet the basic needs of workers and their dependants, having regard to general living standards in the community. A wages safety net has to take into account the tax paid by workers and government transfers paid to them and to their families.
- A fair safety net wage is a wage which, together with transfer payments to the worker and his or her dependants, provides a standard of living which, to use the terms used by the AFPC in its 2006 decision, is "well above poverty" and is capable of enabling the family to "rely solely on a single wage".
- ACCER has concerns about aspects of the AFPC's approach to the quantification of a wages safety net in its decisions in 2006 and 2007 and asks it to reconsider those aspects. Its main concerns are the overestimation of transfer payments made to single breadwinner families and the underestimation of the cost of living for these, and other, families. ACCER's submissions emphasize the position of families who are dependent on the Federal Minimum Wage ("FMW").
- ACCER's submissions concentrate on the following reality: a single breadwinner FMW-dependent family, where the second parent stays at home to care for two school-aged children, has a disposable income of \$754.75 per week. A disposable income of \$754.75 does not provide an acceptable standard of living, does not provide a standard of living which is "well above poverty" and is incapable of enabling the family to "rely solely on a single wage". A worker cannot support a family and educate children on this income.
- The submissions argue that the decision by the AFPC in 2007 to *assume* that the second parent family in this family is in receipt of the Newstart allowance (an unemployment benefit, for which the second parent must be prepared to undertake paid employment) has had the effect of discriminating against families.

- The submissions also address the AFPC's use of the Henderson Poverty Line to estimate the needs and living standards of low paid workers and their families. Knowing what it costs to live is vital to the proper exercise of the AFPC's obligation to have regard to the provision of a safety net for the low paid.
- ACCER submits that the Henderson Poverty Lines are outdated and are inappropriate as a guide for the setting of a safety net wage. ACCER again calls for the AFPC to undertake research into the living costs of low paid workers and their families and to consult with relevant parties about the form of that research. It proposes that this be done in consultation with the Australian Industrial Relations Commission and State industrial tribunals.
- Low paid workers who are dependent upon the wage rates set by the AFPC should share in Australia's economic prosperity, but can only do so if the AFPC allows them to do so. ACCER is concerned that the vast majority of them have had a real wage reduction under the current wages system, especially because this has occurred at a time of strong economic growth when the benefits of economic growth should have been shared with them. The submission refers to past and proposed changes to income tax cuts and argues that there is no proper basis upon which those tax cuts could be taken away from them by a decision of the AFPC to discount wage increases.
- ACCER submits that the real value of the FMW should be increased in 2008 in recognition of the financial burdens of single income families who depend on it. ACCER argues that the increase should have two components: a component based on the published price movements since the AFPC's 2007 decision and a component that recognises the need for an increase in the real value of the FMW. It submits that the second component should be the same as the rounded margin that the minimum wage rate in New South Wales currently has over the Federal Minimum Wage, ie. \$9.30. In regard to wage rates other than the FMW, ACCER submits that a percentage increase should be awarded and that it be not less than, the published price movements since the AFPC's 2007 Decision.

## **Introduction**

1. This submission is made by the Australian Catholic Council for Employment Relations (“ACCER”) to the Australian Fair Pay Commission (“AFPC”) for its 2008 review of minimum wages. ACCER is an agency of the Australian Catholic Bishops Conference. The Catholic Church is one of Australia’s largest employers. Over 100,000 are employed in health, education, welfare and church administration. ACCER provides advice to the Bishops on employment policies and is a public advocate for policies which are consistent with the principles of Catholic social teaching concerning work and the employment relationship.
2. These submissions have been drafted in consultation with Catholic Social Services Australia (“CSSA”). CSSA is the Catholic Church’s peak national body for social services and is an agency of the Australian Catholic Bishops Conference. CSSA represents 64 member organizations which employ over 6,500 people 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.
3. Catholic social teaching principles on work and the employment relationship are set out in a book published by ACCER in 2007, *Workplace Relations: A Catholic Perspective*. Of particular relevance to these submissions is Chapter 3 of the book, *The Right to a Just Wage*. It contains a review of minimum wage issues and includes a substantial discussion to the AFPC’s inaugural decision in 2006. Much of that discussion was put to the AFPC in ACCER’s submissions to the AFPC’s 2007 wages review.

## **The Safety Net Wage**

4. The AFPC continues to operate under the Work Choices amendments to the *Workplace Relations Act 1996* (“the Act”). Under section 23(c) of the Act the AFPC, “in performing its wage-setting function is to promote the economic security of the people having regard to [amongst other matters]...providing a safety net for the low paid”. The term *safety net* is not

defined in the Act, but it is one that is commonly understood. A wages safety net provides incomes that are sufficient to meet the basic needs of workers, having regard to general living standards in the community. The basic needs of workers must include the needs of their dependants. A wages safety net has to take into account the tax paid by workers and government transfers paid to them and to their families.

5. The AFPC is required to review and set the Federal Minimum Wage (“FMW”). In addition it sets minimum rates of pay for the many work classifications that are paid a higher rate of pay than the FMW. A safety net for these classifications will provide a higher rate of pay than that fixed for the FMW. Section 23 requires the AFPC to consider more than the provision of a wage safety net when it sets wages. In particular, section 23(a) and (b) require that it have regard to “the capacity of the unemployed and low paid to obtain and remain in employment” and to “employment and competitiveness across the whole of the economy”.
6. The AFPC has recognised that the Act requires it to set *fair* wages. In its inaugural decision in 2006 the AFPC accepted that the safety net for the low paid should be fixed by reference to fairness, which, it said, embodies the attributes of: “adequacy (ability to enjoy a reasonable or ‘decent’ standard of living); equity (relativity with higher-paid workers); and incentive (gap between in-work and out-of-work disposable income)”; *Wage-setting Decision and Reasons for Decision – October 2006* (“the 2006 Decision”), pages 95-96. It said, with apparent approval, that there was general agreement in the submissions put to it that “...minimum wages should, in combination with cash transfers, provide an income ‘well above poverty’” (page 96).
7. ACCER submits that fairness must be a feature of the 2008 decision. Fairness requires that the FMW provides families with a decent standard of living, equity with higher income groups, incentive and reward for working and, in conjunction with government transfers, a standard of living that is “well above poverty”.

8. ACCER submits that the AFPC is under a statutory obligation to determine, as best it can, the requirements of a safety net. This determination must proceed as a separate step to the consideration of other statutory wage-setting criteria, such as economic factors, because the AFPC is bound to have regard to all of the criteria, including the safety net criterion. For reasons which are set out below, ACCER believes that the AFPC's decisions in 2006 and 2007 did not present the evidence and reasoning that are essential to the proper setting of a safety net wage.

### **Minimum Wages and the Support of Families**

9. Catholic social teaching on minimum wages emphasises the needs of the worker and the worker's family. On the centenary of Pope Leo XIII's 1891 encyclical *Rerum Novarum*, the Australian Catholic Bishops referred to the need for adequate wages and other entitlements:

“It was his [Pope Leo XIII's] view that human society is built upon and around productive human work. When a person is employed to work full-time for wages, the employer, in strict justice, will pay for an honest day's work a wage sufficient to enable the worker, even if unskilled, to have the benefits of survival, good health, security and modest comfort. The wage must also allow the worker to provide for the future and acquire the personal property needed for the support of a family. To pressure or trick the worker into taking less is, therefore, unjust.” (*A Century of Catholic Social Teaching*)

10. Consistent with this teaching, ACCER's submissions to wage cases conducted by the Australian Industrial Relations Commission (“the AIRC”) and the AFPC 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 in “modest comfort” without the need for the second parent to undertake paid employment. ACCER believes that this is an important objective and one which has wide community support. The family of four has been identified because a family with two children best approximates the size of contemporary Australian families.
11. The support of families in the setting of minimum wages is evident in the International Labour Organisation's *Minimum Wage Fixing Convention, 1970*, a convention that has been ratified by Australia. Article 3 of the convention

recognises the interests of workers and the relevance of general economic circumstances:

“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.”

12. The convention reflects the development of family support measures that are available in economies such as Australia and recognises the need to take them into when setting wages. As we explain later, one of ACCER’s major concerns about the AFPC’s decisions is the way in which the AFPC has calculated the amount of transfers received by a family which is dependent upon one breadwinner. ACCER argues that this has resulted in wages being set at levels that require both parents to engage in paid employment in order to meet basic living standards.
13. The support of families is not limited to wage rates. There is widespread community support for a range of *family friendly* employment policies and practices. The Act reflects this concern. The AFPC, for example, is required to take account of the principles of the *Family Responsibilities Convention* and to ensure that its decisions do not contain provisions that discriminate because of, or for reasons including, family responsibilities (section 222). Similar provisions apply to the AIRC under the transitional arrangements for parties who are bound by Federal awards, but not covered by determinations of the AFPC (Schedule 6, clause 9). These kinds of provisions are relevant to wage-setting, but extend to a wider area of employment regulation.
14. In recent years much attention has been given to the work/life balance and the balancing of work and family responsibilities. Family responsibilities are not gender-specific. There is a detailed review of these matters in *It’s About Time: Women, men, work and family*, published by the Human Rights and



Equal Opportunity Commission in 2007. Various statutes provide that workers should not be discriminated against by reason of their family responsibilities. It is generally accepted that work practices, employment contracts, awards and the like should not discriminate against workers who have these responsibilities and that they should not unreasonably impinge on the right of a parent to care for his or her children. The AIRC has conducted a major Test Case on work and family responsibilities; see *Family Provisions Decision*, August 2005, Print PR082005.

15. The exercise of family responsibilities raises some important human rights issues. Issues about work and family include the time spent at work and how work is organised; but fundamental to sound family relationships are wages, incomes and financial security. The reconciliation of work and family responsibilities must include the question of whether minimum wages are sufficient to give parents a reasonable and effective choice as to how they will exercise their family responsibilities. The economic capacity for the proper exercise of parental and family responsibilities is a human rights issue. In Catholic social teaching the capacity of parents to choose how they will exercise their family responsibilities is a matter of fundamental importance. It is a view shared by many other groups in our society.
16. If, for example, wages were set on the basis of the needs of a single person, without regard to the needs of the worker's dependants and in circumstances where the government does not provide for the total support of dependent family members, the decision to set those wages would discriminate against workers with family responsibilities. Similarly, and relevantly to a submission made later, to set wages on the assumption that both parents will be employed, or seek to be employed, will prejudice, and may effectively negate, the capacity of the minimum wage to be support a family.
17. There are three important points to make about ACCER's view of the family wage in the context of these rights. 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. 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.

### **The AFPC's 2006 Decision**

18. In the 2006 Decision the AFPC calculated the disposable incomes of various household units, including the family of four with one breadwinner employed on the FMW, and said:

“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.” (Page 96)

19. This conclusion was essentially based on a comparison of the disposable incomes (after-tax wages and transfer payments) of nine kinds of household groups with the relevant Henderson Poverty Lines (“HPL”) for those groups. The comparison showed, for example, that the disposable income of a single breadwinner family of four, with two children in the 8 to 12 years age group where the breadwinner was paid the FMW, was \$815.46 in July 2006. This was 31% above the relevant HPL and was exactly the same percentage by which the single FMW worker exceeded his or her HPL. This implied that the transfers received by the family equated to the extra needs of the dependants. That comparison depended on the accuracy of the calculations of disposable income and the appropriateness of the HPLs as a measure of needs and the relativities between the different households. The simple average for the nine household groups showed that they were 32% above the HPL.
20. The AFPC did not adopt the family of four, or any other household, as the reference point, or benchmark, for wage setting. It is clear that the AFPC regarded the margin of about 30% above the HPL as fair and appropriate. The

AFPC's decision to award a weekly wage increase of \$27.36 demonstrates that it did not regard a margin of less than 30% above poverty as appropriate

21. The AFPC's conclusion that the FMW, after income tax and transfers, would provide an income that would allow workers with family responsibilities "to rely solely on a single wage to support their families" suggested that the AFPC had set a safety net wage that was consistent with the position advocated by ACCER and some other parties.
22. ACCER has argued, however, that this was not the case and the AFPC's claim was erroneous. ACCER's reasons for this were twofold: the overestimation of transfer payments made to single breadwinner families and the underestimation of the cost of living for these, and other, families. These matters were taken up in ACCER's submissions to the 2007 Wages Review.

### **Issues in the Calculation of Transfer Payments**

23. In 2006 the AFPC found that the family of two adults and two children (aged eight to twelve) where the single breadwinner was paid the FMW would have had a disposable income of \$815.46 per week in July 2006. The footnotes to the relevant table advised that figure included a Newstart allowance for the second parent. This allowance is a means-tested unemployment benefit to which he or she would *not* be entitled as a stay at home parent. At the time this allowance was paid at the rate of \$107.79. The appropriateness of its inclusion was not discussed by the AFPC. This matter is set out in Chapter 3 of *Workplace Relations: A Catholic Perspective*, which incorporated part of ACCER's submission to the AFPC's 2007 wages review; see, especially, paragraphs 154-8.
24. In its submissions to the AFPC's 2007 Wages Review, ACCER argued that an error had been made in 2006 because the Newstart allowance, as a payment that is only available to those seeking employment, was not relevant to the calculation of the disposable income of a family in which one parent stays at home to care for the children. It said the allowance could not be relevant to the question of whether the disposable income of those families is sufficient to rely solely on a single wage. ACCER argued that substantial increases would

be required over the coming years to correct the arithmetical error. ACCER sought an increase of \$27.00 per week in the FMW wage, as a first step in addressing the inadequacy in the FMW. (The submissions also dealt with the issue of whether low income single breadwinner families with younger children would be able to access another payment, the Parenting Payment (Partnered) allowance, a matter that is also referred to in Chapter 3 of Workplace Relations: A Catholic Perspective.)

25. In its 2007 decision, Wage-Setting Decision No. 3/2007, Reasons for Decision (“the 2007 Decision”) the AFPC produced a table in similar form to one that it produced in 2006, again setting out the disposable incomes of various household types compared with the relevant HPL. The table included various levels of employment income, related to the FMW, and a calculation of income tax and transfer payments. Again, it included the Newstart allowance. Table 1.10 appeared as follows:

Table 1.10: Comparison of Henderson Poverty Lines with disposable incomes of income units earning varying proportions of the FMW, December 2006.

Income unit type	Henderson poverty line (HPL) December 2006 (\$PW)	DISPOSABLE INCOME (DI) (\$PW)			DI AS PROPORTION OF HPL		
		50% FMW	100% FMW	150% FMW	50% FMW	100% FMW	150% FMW
Single adult, no children	346.47	367.38	450.34	615.42	1.06	1.30	1.78
Single parent, one child	444.81	527.65	649.61	807.01	1.19	1.46	1.81
Single parent, two children	538.39	610.46	732.42	889.82	1.13	1.36	1.65
Single earner couple, no children	463.48	539.68	600.69	647.24	1.16	1.30	1.40
Single earner couple, one child	557.13	660.93	744.55	807.01	1.19	1.34	1.45
Single earner couple, two children	650.78	743.74	829.42	889.82	1.14	1.27	1.37
Dual earner couple, no children	529.01	nm	646.75	720.75	nm	1.22	1.36
Dual earner couple, one child	622.66	nm	752.06	853.51	nm	1.21	1.37
Dual earner couple, two children	716.31	nm	835.74	936.32	nm	1.17	1.31

Sources: Melbourne Institute of Applied Economic and Social Research, Poverty Lines: Australia December Quarter 2006, University of Melbourne, 12 April 2007; AFPC modelling.

Assumptions:

HPLs include housing costs. Dual-earner figures include additional ‘cost of work’ component of \$65.53 pw.

FMW = \$511.86 per week at 31 December 2006.

Tax/transfer parameters as at 31 December 2006.

Children aged 8-12.

Households paying sufficient private rent to receive maximum rent assistance, where applicable.

Singles on 50% FMW and couples on 50% and 100% FMW eligible to receive Newstart Allowance.

Dual-earner examples assume income split 2:1.

26. In commenting on Table 1.10, the AFPC said:

“The Commission’s modelling in Table 1.10 does not purport to represent the disposable income of all low-income families, or even the average low-income family. Rather, *it seeks to compare family disposable incomes resulting from typical combinations of low wages and income transfers to commonly-accepted poverty lines*. This is done to judge whether the combination of wages and transfers provide a variety of family types with a level of disposable income that exceeds the relevant Henderson Poverty Lines (HPLs). The table indicates that for all family types the level of disposable income is *well in excess of the relevant HPL*”. (Page 69, italics added)

27. In a reference to the inclusion of the Newstart allowance and another transfer payment that had been questioned by ACCER (the maximum rental assistance), the AFPC said:

“Table 1.10 *assumes that any entitlement to income support is taken up*. Rent assistance is also included since the HPLs include housing costs and it is likely that many low-paid employees live in private rental accommodation. To the extent that individuals with similar characteristics are either ineligible for particular benefits or choose not to take up those entitlements, their disposable incomes will, of course, be lower.” (Page 70, italics added.)

28. The AFPC added a conclusion that was, in substance, a re-affirmation of its 2006 conclusion that the FMW, plus transfer payments, would provide an income that would allow workers with family responsibilities “*to rely solely on a single wage to support their families*”:

“The Commission remains satisfied that the combination of minimum wages and available income transfers provide families with at least one full-time wage earner on the standard FMW with incomes well above the HPLs.” (Page 70.)

29. Table 1.10 of the 2007 Decision is the basis upon which the AFPC addresses the question of whether the FMW, together with transfers, is sufficient to allow the family to be supported by one wage earner and is the basis upon which it answers the question in the affirmative. Table 1.10 *assumes* that the Newstart allowance is an entitlement of the second parent and that it is taken up when, in fact, it is not payable where that parent does not seek employment. To have an entitlement to the Newstart allowance, the non-breadwinner parent must be prepared to abandon his or her choice to stay in the home to care the

children. It is not, therefore, an entitlement that is relevant to the question of whether the FMW and transfer payments allow the family to rely solely on the wage of one breadwinner.

30. Table 1.10 is misleading because it gives the reader the impression that the single breadwinner family is entitled to the higher amount. Either the misleading inclusion of the Newstart allowance should be corrected or another row should be inserted to present the *true* position of the family where one parent does not seek paid employment outside the home. If another row were to be added it would show the position of the family which seeks to live on a single income, a position central to the claim that wages and transfers are sufficient to enable the family “to rely solely on a single wage to support their families”.
31. The AFPC’s decision in 2007 to *assume* that the second parent in the family would be in receipt of the Newstart allowance has a major impact on the financial position of low income families and the capacity of parents to choose to have one of them care for the children without undertaking employment. The weekly disposable income of the single breadwinner family in which the second parent chooses not to seek paid employment at December 2006 was not \$829.42, as set out in Table 1.10, but was \$726.22. In ACCER’s view, this level of disposable income could not be regarded as “well above poverty” and would be insufficient to allow the family to rely solely on the single wage.
32. In ACCER’s view, this kind of reasoning would lock wage-setting into a position that would continually prejudice single income families, by assuming that they were receiving income to which they were not legally entitled. In a wages system that takes into account transfer payments received, the inclusion of a transfer payment of over \$100.00 per week to which a member of the family is not entitled is of major consequence. Because the FMW would be fixed at a lower rate than it would otherwise be, there would be economic pressure on the second parent to work, or on the breadwinner to take on a second job. Such an outcome must impact on the way in which the parents are able to exercise their family responsibilities.

33. In ACCER's view, what had appeared in 2006 to be an arithmetical error had become in 2007 an error of principle that has the effect of discriminating against families. The AFPC's reasoning would not, however, have the effect of discriminating against low income families only if it could be established that a disposable income which did not include the assumed Newstart allowance would be sufficient to support the single breadwinner family at a standard of living that is "well above poverty", to use the AFPC's term in its 2006 Decision.
34. The following table, Table 1, shows the impact of the inclusion of the Newstart allowance on comparisons of standards of living by reference to the Henderson poverty lines in four months during 2006 and 2007, including the two months when the AFPC's decisions came into effect. The 2006 Decision came into effect in December 2006 and the 2007 Decision came into effect in October 2007.

**TABLE 1**

	Jul '06	Dec '06	Jul '07	Oct '07
<b>1. AFPC FMW</b>				
<b>1A. FMW Gross</b>	484.40	511.86	511.86	522.12
<b>2. Single Person</b>				
<b>2A. FMW Net/single DI</b>	432.69	450.34	459.13	467.85
<b>2B. Single HPL</b>	333.45	346.47	357.81	374.27
<b>2C. Single DI&gt;HPL (%) (2A÷2B)</b>	29.8%	30%	28.4%	28.9%
<b>3. Family DI (incl. Newstart)</b>				
<b>3A. Family DI (AFPC)</b>	815.46	829.42	848.73	857.95
<b>3B. Family HPL</b>	626.32	650.78	672.06	702.99
<b>3C. Family DI (AFPC)&gt;Family HPL (\$) (3A-3B)</b>	189.14	178.64	176.67	154.96
<b>3D. Family DI&gt;Family HPL (%) (3A÷3B)</b>	30.2%	27.5%	26.3%	22.0%
<b>4. Family DI (excl. Newstart)</b>				
<b>4A. Newstart allowance</b>	107.79	103.20	103.20	103.20
<b>4B. Family DI without Newstart (3A-4A)</b>	707.67	726.22	745.53	754.75
<b>4C. Family DI without Newstart &gt;Family HPL (4B-3B)</b>	81.35	75.44	73.47	51.76
<b>4D. Family DI without Newstart &gt; Family HPL (%) (4B÷3B)</b>	13%	11.6%	10.9%	7.4%

In Table 1:

“**DI**” is Disposable income

“**HPL**” is Henderson Poverty Line

**2A.** The amounts in this row are from AFPC Table 5.2 of the AFPC’s 2006 Decision, Table 1.10 of the AFPC’s 2007 Decision, Table 1.8 of the 2007 Decision and ACCER’s calculation, respectively.

**2B.** These amounts are taken from quarterly publications of the Melbourne Institute of Applied Economic and Social Research, the most recent of which is *Poverty Lines: Australia ISSN 1448-530 September Quarter 2007*. Some of these publications were not available at the time that the AFPC’s decisions were published. The June quarter 2006 amount is used for July 2006, the December quarter 2006 is used for December 2006, the June quarter 2007 is used for July 2007 and the September quarter 2007 is used for October 2007.

**3A.** The amounts for July 2006, December 2006 and July 2007 are taken from the AFPC’s Table 5.2, Table 1.10 and Table 1.8, respectively. The net wage component of each is the net wage applicable to the single worker. The footnotes to Table 5.2 refer to the inclusion of the maximum rent assistance and the Newstart allowance in the composition of the non-wage income for July 2006. The footnotes to Tables 1.8 and 1.10 state that the amount includes “Tax/transfer parameters”, but do not give the composition of those items. The Commonwealth’s Centrelink/Family Assistance Rate Estimator provides on-line calculations of the maximum rent assistance and the Newstart allowance. The Newstart allowance in July 2007 for a person who had a partner employed on the FMW was \$103.20 per week and the maximum rental assistance was \$61.11 per week. The amount for October 2007 is based on the AFPC’s July 2007 figure, plus the after tax value of the FMW increase operative from 1 October 2007 (\$8.72), an increase of 77 cents per week in the maximum rent assistance and a reduction of 50 cents per week in the means-tested Newstart allowance.

**3B.** As with the amounts in row **2B**, these amounts are taken from the quarterly payments in the manner described in the earlier footnote.

**4A.** The Newstart allowances are means-tested and are adjusted bi-annually to reflect price movements. They have been calculated by ACCER using the Family Assistance Rate Estimator.



35. The major point to be made from Table 1 is that the single breadwinner FMW-dependent family, where the second parent stays at home to care for two school-aged children (aged 8 and 12), had a disposable income of \$754.75 per week in October 2007.
36. ACCER submits that a disposable income of \$754.75 does not provide an acceptable standard of living, does not provide a standard of living which is “well above poverty” and is incapable of enabling the family to “rely solely on a single wage”. A worker cannot support a family and educate children on this income. Furthermore, the family’s position is deteriorating because the next wage increase will not come into effect until October 2008.
37. The second point to be made about these figures is that there has been a marked deterioration in the position of families over the period July 2006 to October 2007, whether or not the contentious Newstart allowance is taken into account. If we include the Newstart allowance, family disposable income fell from 30.2% above the poverty line to 22.0% above it, a loss of 27.2% of the margin over the poverty line. This is very significant because it is the result of the AFPC’s own yardstick for measuring living standards, family well-being and fairness in the wages system. To restore the July 2006 relativity would require an increase in disposable income of \$57.34 per week.
38. The financial position of low paid workers and their families is much worse when one excludes the Newstart allowance, as ACCER submits one must. From July 2006 to October 2007, the disposable income of the single breadwinner family of four which is dependent on the FMW fell from 13% above the poverty line to only 7.4% above it. To restore the July 2006 relativity would require an increase in disposable income of at least \$39.63 per week.
39. It should be emphasised that this very substantial reduction in the financial position of these low paid workers and their families is demonstrated by the AFPC’s preferred method of analysis, ie by reference to the published poverty lines. The poverty lines, especially when applied to transfers to which families are entitled, show that the incomes of low paid workers and their families are

not “well above poverty” and that the FMW is incapable of allowing low paid workers “to rely solely on a single wage to support their families”.

40. We should note at this stage that the HPL is adjusted from quarter to quarter by reference to changes in per capita Australian household disposable income. The various quarterly updates of the HPLs contain the following passage:

“Updating poverty lines according to changes in per capita household disposable income means that the poverty lines are relative measures of poverty. As real incomes in the community rise, so too will the poverty lines. The value of the poverty lines will therefore be reasonably stable *relative* to general standards of living. An alternative measure for updating poverty lines is to use a cost-of-living index, such as the ABS Consumer Price Index (CPI). Poverty lines generated in this way are *absolute* measures of poverty. The real purchasing power of the income at the poverty line is maintained, but it may change in comparison to general standards of living.” (*Poverty Lines: Australia ISSN 1448-530 September Quarter 2007*, page 2.)

41. The quarterly HPL figures are measures of relative poverty, although tables tracking the poverty line by reference to CPI changes are also included in those reports. The CPI-measure for the benchmark family of a couple and two children in 2006/07, by reference to the original HPL set in the early 1970s, was only \$454.50 in the September quarter 2007. This is a totally unrealistic figure. As between the two, the AFPC’s adoption of the relative measure is to be preferred because it enables the consideration of community standards and the fairness factors to which the AFPC referred to in its 2006 Decision.

### **Living Costs and the Henderson Poverty Line**

42. The foregoing paragraphs refer to ACCER’s concerns about the income side of the family budget. ACCER also has concerns about the expenditure side and the relevance of the HPL to wage setting. The HPL has two contentious features that limit its utility for the understanding of living standards and relative living standards between various income/household units: first, the relativities between households; and, second, the dollar amount set for the benchmark family of two adults and two children. In regard to the second, the amount that is included in the various HPLs for housing is especially important.

43. Of its nature, a safety net wage must be based on an assessment of the needs of workers, including the needs of their dependants. The HPL played a critical role in each of the AFPC's decisions about these needs. The AFPC referred to the HPLs as "commonly-accepted poverty lines" (2007 Decision, page 69). HPLs were used as the measure of a standard of living and as a means of comparing the wages/transfer outcomes of various households, relative to their own HPL and to each other.
44. In 1973 the Commonwealth's Commission of Inquiry into Poverty established poverty lines for a number of household types, based on research dating back to 1966 by Professor Henderson and others at the Institute of Applied Economic and Social Research, now the Melbourne Institute of Applied Economic and Social Research ("Melbourne Institute"). These have come to be known as Henderson poverty lines, or HPLs, after Professor Henderson, who was also the Chairman of the Commission. Updated HPLs are published quarterly by the Melbourne Institute, with the following explanation:

"The poverty lines are based on a benchmark income of \$62.70 for the September quarter 1973 established by the Henderson poverty enquiry. The benchmark income was the disposable income required to support the basic needs of a family of two adults and two children. Poverty lines for other types of households are derived from the benchmark using equivalence scales. The poverty lines are to periods subsequent to the benchmark date using an index of per capita household disposable income. A detailed description of the calculation and use of poverty lines is published in the Australian Economic Review, 4<sup>th</sup> Quarter 1987 and a discussion of their limitations is published in the Australian Economic Review, 1<sup>st</sup> quarter 1996." (*Poverty Lines: Australia ISSN 1448-0530 September Quarter 2007*, page 1)
45. It should be emphasised that the HPL benchmark household was, and remains, the benchmark family of two adults and two children. It is the reference point for each of the other nine types of households in the publication. The published poverty lines are in two kinds of income units: "Head in workforce" and "Head not in workforce". For each household there is poverty line that includes housing and one that excludes housing. The HPL benchmark was, and remains, the household of two adults and two children, with one or neither of the parents being employed.

46. It is important to understand that the HPL benchmark does not cover the position of a household in which both parents work. It was not established as a measure for a family in which both parents are, or seek to be, employed. Nor did it take into account, as has the AFPC, any unemployment benefit, such as the Newstart allowance, that the second parent may be able to claim to when measuring the benchmark family's standard of living.
47. In the *Safety Net Review Case 1997*, (1999) 87 IR 90, which first introduced the FMW into industrial awards, the AIRC rejected the relevance of HPLs to wage-setting. In subsequent wage review cases various parties (including ACCER) have attempted to introduce other evidence on living costs or have requested that the AIRC establish a process to identify the needs of low paid workers and their families. HPLs played no role in national wage-setting decisions until the AFPC's decision in 2006.

### **Henderson Poverty Line Relativities**

48. The poverty lines for various kinds of households, relative to the benchmark household of two adults and two children, establish the amount below which each household will fall into poverty. The HPL for a single person household, for example, is 53% of the HPL of a family of four. Put another way, the costs of the same standard of living are assumed to be only 89% higher for a family of four. ACCER disputed the appropriateness of this in its submissions to the AFPC's 2007 Wages Review. The AFPC responded by referring to the existence of other poverty measures, such as the OECD poverty lines, and said that "the results of those comparisons are not dissimilar to those using HPLs" (2007 Decision, page 70).
49. ACCER submits that the AFPC's claim that the comparison with the OECD measure produces "not dissimilar" results is not sustainable. This is evidenced by a range of publications on this matter, a recent one being the Australian Bureau of Statistics publication *Government Benefits, Taxes and Household Income, Australia, 2003-04*, (6537.0), 13 June 2007. Appendix A of that publication explains "equivalised income" and "equivalence scales". It uses the "modified OECD" equivalence scale, which it describes as having "wide

acceptance among Australian analysts of income distribution, and is the stated preference of key users of the survey”. It explains:

“The equivalence factor derived using the ‘modified OECD’ equivalence scale is built up by allocating points to each person in a household. Taking the first adult in the household as having a weight of 1 point, each additional person who is 15 years or older is allocated 0.5 points, and each child under the age of 15 is allocated 0.3 points.”

50. This approach is more realistic than the HPL comparison of single and family households and demonstrates that, in this important respect at least, the OECD approach produces results that are not at all similar to the HPL result. Rather than the family of four being 89% more than the single person, the commonly-accepted relativity has the family of four at 110% more than the single person.
51. This is very significant for the AFPC’s finding in 2007, for example, that the family of four and the single person were 27% and 30%, respectively, above their relevant poverty lines. If we re-calculate the single person’s poverty line according to the OECD approach, the single person’s margin over his or her poverty line is 45%, not 30%, and much more favourable than the 27% for the family. Furthermore, when the Newstart allowance is excluded, the figures are 45% for the single person and 11% for the family of four. These comparisons demonstrate very different standards of living for the two households and contradict the material in the 2006 Decision that showed both of them on the same margin over their own poverty lines and enjoying the same standard of living.
52. For these reasons, the HPL-based comparisons between the two households should be rejected and any table setting out the relative standards of living of various households should be based on the OECD relativities.

### **Measuring the Needs of Working Families**

53. The second contentious aspect about the use of HPLs concerns the dollar amounts fixed for the benchmark family. In 2007 the AFPC made the following comment on the poverty lines issue:

“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.)

54. In substance, the AFPC’s point is that the benchmark family started on the poverty line and, with improvements in government support, they are now about 30% above that line. Households which were once on the poverty line are seen to be “well above poverty”. It is a view which has apparently given comfort to the AFPC; but it is an erroneous view.
55. The footnote at the end of the first sentence of the passage from page 70 of the 2007 Decision refers to a paper by Professor P Saunders of the Social Policy Research Centre (“SPRC”) of the University of New South Wales. Professor Saunders’ paper, entitled *Defining Poverty and Identifying the Poor: Reflections on the Australian Experience*, contains a very substantial discussion of the value of the HPL, as a measure of poverty and as a basis for public policies. In particular, he discusses the SPRC’s Budget Standards research. (The paper, *SPRC Discussion Paper No. 84*, is available at [www.sprc.unsw.edu.au/dp](http://www.sprc.unsw.edu.au/dp).) Professor Saunders says that Professor Henderson “originally set the poverty line in 1966 equal to the basic wage plus child endowment for a reference family of two adults and two children” (page 6), but he also makes the point that poverty “was measured using an austere poverty line” (page 5).
56. The reference to the history of the HPLs makes two matters very clear. First, the basic wage (or, as it was in the early 1970s, the “minimum wage”), supplemented by small child endowment payments, produced a poverty level income that was unacceptable. A principal objective of the Commission of Inquiry into Poverty was to address that matter.
57. The second matter that emerges from this history is that the income of the benchmark family *did not* include unemployment benefits, such as the Newstart allowance, for the second, non-working, parent. The HPL benchmark family was, and remains, the family where the second parent stays at home in

order to look after the children. 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.

58. The history of the HPL also reinforces a point made earlier: the benchmark HPL household has not been included in Table 1.10 as a result of the AFPC's decision to assume that the Newstart allowance is received by the second parent, even if that parent does not seek employment because he or she wishes to care for the children in the home.
59. If we are to make a "like for like" comparison of income changes measured by reference to the HPL we should not add the Newstart allowance into the family income. Consistency in approach could not result in the conclusion that the benchmark family is "well above poverty". The true position is very different, when correctly measured by the HPL. The benchmark family of two adults and two children, dependent upon the lowest minimum wage rate, which in the early 1970s was on or close to the poverty line, was 7.4% above it in October 2007. There is no basis for the AFPC's claim at page 70 of the 2007 Decision that "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".
60. This conclusion should be considered in the light of the AFPC's judgment in the 2006 Decision that the household disposable incomes of about 30% above the relevant poverty lines met the test that "minimum wages should, in combination with cash transfers, provide an income that is 'well above poverty'". In circumstances where the *true* HPL benchmark family (not the AFPC's *revised* benchmark family) is in receipt of income that is 7.4% above their own poverty line, it could not be said that it is living "well above poverty".

## **Housing Costs**

61. The preceding paragraphs make a number of points based on the nature and history of the HPLs. There is, however, particular reason to question the appropriateness of the dollar amount now calculated for the benchmark family.

As noted earlier, the poverty lines contain an amount for housing costs. In the September Quarter 2007 update of the HPLs, housing costs for a couple with two children are \$158.80 per week. Housing costs are also given for the other households. For example, for a single parent with one child the figure is \$134.56 and for a couple with four children the figure is \$184.11. These figures can also be viewed as percentages of the dollar amount of the relevant poverty line: for each of these three households they are 22.6%, 28% and 20.3%, respectively. Another way of looking at the impact of the estimated housing cost for the FMW-dependent single breadwinner benchmark family of four is to compare housing costs and the family's total disposable income. On this comparison housing costs would only be 21% of the family's disposable income of \$754.75. If the Newstart allowance is included it would be 18.5 %.

62. The HPL estimates of the cost of housing are manifestly inadequate and do not reflect the high cost of housing in contemporary Australia. The high cost of housing, of itself, has the capacity to reduce families to poverty and undermine the AFPC's conclusion that low paid single breadwinner families can live "well above poverty" and that workers on the FMW are able "to rely solely on a single wage to support their families".
63. There has been widespread public discussion about the rising cost of housing. The difficulties are confronted both by home owners and renters. Low income families are more likely to be renters. A report on "housing stress", ie. where more than 30% of gross income is spent on housing costs, by the National Centre for Social and Economic Modelling was recently presented to the Commonwealth Government. The study covers both home-buyers and renters. Although the full report has not been released, the findings that have been made public demonstrate that the treatment of housing costs in the HPL is highly unsatisfactory.
64. The Prime Minister, Mr Rudd, recently referred to the extent of housing stress on low income earners when addressing the findings of the study:

"The research shows that there are now 1.1 million low to middle income households spending more than 30 per cent of their income on housing. That has increased by a quarter-or 220,000 households since



2004....And the data shows that it is a problem affecting all generations:

- The number of low income families in housing stress that are headed by a person under 29 years old has increased to 350,000- an estimated 55% increase since 2004.
- The number of families with children in housing stress has more than doubled since 2004. There are now an estimated 575,000 low and middle income families with children in housing stress – around 300,000 more than in 2004
- The number of older Australians in housing stress has doubled since 2004.”

*(The Economy, Inflation and the Challenge of Housing Affordability, Queensland University of Technology, 3 March 2008, [www.pm.gov.au/media/Speech/2008/speech\\_0114.cfm](http://www.pm.gov.au/media/Speech/2008/speech_0114.cfm))*

65. A survey by the Real Estate Institute of Australia of median weekly rents for the September Quarter 2007 showed the following for the five mainland capitals: Melbourne, \$260; Sydney, \$295; Brisbane \$300; Perth \$300 and Adelaide, \$255 (The Age, 4 March 2008, page 4).
66. Last year changes in housing affordability were taken into account by the New South Wales Industrial Relations Commission in the State Wage Case 2007 (“SWC”), [2007] NSWIRComm 118, as the result of a claim by the Catholic Commission for Employment Relations (“CCER”) for an increase in the Award Review Classification Rate (“ARCR”). The ARCR is the State counterpart to the FMW. CCER argued that the low paid were in receipt of incomes below the Henderson Poverty Line and that an increase of 6.5% or \$32.79 in the ARCR was needed in order to bring them above that line. Having regard to the prevailing economic circumstances, it sought an increase of \$27.00 per week (SWC, [21]). In an extensive and detailed submission CCER relied on a range of factors, including the affordability of essential goods such as housing and transport, in support of its case. In particular, it demonstrated that the composition of the CPI underestimated the impact of price rises on the essential living costs of low paid Australians. The Commission agreed with the substance of CCER’s arguments and awarded weekly increases of \$27.00 in the ARCR and \$20.00 in other classifications.

67. ACCER submits that the high cost of housing is having a very deleterious effect on many low income workers and their families and there is an urgent need for contemporaneous evidence on the housing costs for low income families. The underestimation of housing costs in the HPL needs to be addressed by the AFPC in its current review. The AFPC should not continue to rely on the housing costs in the HPL.
68. At the present time the FMW is \$522.12 and the ARCR is \$531.40, a difference of \$9.28 per week. ACCER supports the removal of this differential by way of an increase in the FMW to bring it to the level New South Wales minimum. We stress that this is not for the mere purpose of removing jurisdictional inconsistencies, but because, on a proper evaluation of the evidence, the FMW should be increased by substantially more than that amount. CCER will be seeking a further increase in this year's State Wage Case to compensate for the amount over \$27.00 per week that it did not press for in the 2006 State Wage Case.
69. ACCER believes that setting of a true national minimum wage by way of cooperation between State and Federal tribunals should be given a high priority and can be done even within the framework of current legislation. Furthermore, the development of a new national award classifications and rates of pay under the Commonwealth Government's legislative reforms would be assisted by the setting of a safety net wage that is based on contemporaneous evidence and rigorous analysis of income, taxes and transfers.

### **Child Care Costs**

70. Another shortcoming of the HPL material, and the AFPC's use of it, is the inability of that material to estimate child care costs in contemporary Australia.
71. Child care costs are not included in the costs of the benchmark HPL family budget because child care is provided by the one of the parents. The absence of a child care component can lead to false conclusions about the position of single parent families. For example, in Table 1.10 of the 2007 Decision the

relative standard of living of the single parent who is employed on the FMW is considerably higher than the family with a single breadwinner on the FMW: 46% above, compared to 27% above, the relevant poverty line. The single parent with two children is said to be 36% above the poverty line. More startling, is the claim that they have a higher relative standard of living than the single person with no children: the single person is said to be 30% above his or her own poverty line and 16% below the single parent with one child. The same margin of 30% is claimed for the single breadwinner couple with no children. These claims fly in the face of experience.

72. The HPLs for the two single parent families in Table 1.10 are \$444.81 (one child) and \$538.39 (two children) and their estimated disposable incomes are \$649.61 and \$732.42, respectively. It means, for example, that the single parent and two children would be living below the poverty line, as measured by the HPL, if total child care costs alone exceeded \$39 per day. This situation is compounded when one considers that the HPL housing costs are inadequate assessments of the actual costs: the estimated housing costs for a single parent and two children were only \$146.65 at the September Quarter 2007. Again, this flies in the face of experience.
73. ACCER submits that Table 1.10 of the 2007 Decision presents an unsubstantiated and erroneous assessment of the living costs of single parent families and their standard of living. The true position is that low paid single parents and their children have a standard of living that is a long way from the “well above poverty” assessment made by the AFPC in its 2006 and 2007 decisions.
74. ACCER’s concerns about the plight of single parent families do not simply arise from the errors in the tables published in the 2006 and 2007 Decisions. ACCER’s 2006 submissions included a proposal for research on the “needs of single-income couple and single parent families with children” (referred to in 2006 Decision at page 181). Various other groups have sought this kind of research. For example, following an extensive inquiry on work and family issues, particularly in regard to women, the Human Rights and Equal Opportunity Commission has recommended that the AFPC “undertake a

program of monitoring and research with respect to the federal minimum wage and its impact on women workers”; *It’s About Time: Women, men, work and family*, 2007, page 81. ACCER supports that proposal.

### **ACCER’s Continuing Requests for Research**

75. The particular issues about housing and child care costs are sufficient to question the current relevance of HPLs as a guide to living costs and standards of living. However, there are other reasons to question the HPL material.
76. In 2006 the AFPC asked parties to advise it on research that might be commissioned by the AFPC. Its 2006 Decision referred to proposals from various parties for research into living costs for the purpose of setting safety net wages. ACCER proposed research on the needs of single income couple and single parent families with children. The Australian Council of Social Services proposed “Benchmarks of adequate living standards, including update of Budget Standards research”. The AFPC acknowledged these submissions and advised that it would undertake further consultation and seek advice on priority areas of research for future decisions (2006 Decision, page 180-1). In its 2007 submissions ACCER referred to the need for further research into the material needs of the low paid and their families (paragraph 64) and noted that consultation had not occurred (paragraph 65). There has been no consultation since then and, to ACCER’s knowledge, no such research has been instigated.
77. ACCER repeats a point made in the 2007 submissions: knowing how much it costs to raise a family is no less important than having statistics about the economy. Relevant research on living costs is just as relevant to the AFPC’s work as research on macroeconomic issues. Knowing what it costs to live is vital to the proper exercise of the AFPC’s statutory obligation to have regard to the desirability of providing a safety net for the low paid.

### **Research by the Social Policy Research Centre**

78. In each of its 2006 and 2007 submissions to the AFPC, ACCER pressed its view that SPRC research on household living expenses was the best evidence

available and argued in support of the development of that material. These submissions grew out of earlier events in the AIRC.

79. In 2003 ACCER asked the AIRC to establish an enquiry through which an appropriate benchmark could be established for the setting of a fair and equitable FMW. The request was rejected, but the AIRC said that was prepared to consider relevant material adduced by any party. In 2004 the ACTU relied on very detailed statistical material from the SPRC on the costs of living. Professor Saunders prepared a report for the AIRC. The report, *Updated Budget Standard Estimates for Australian Working Families in September 2003*, is available at [www.sprc.unsw.edu.au](http://www.sprc.unsw.edu.au), as report 1/04. The AIRC considered that some of the criticisms of the material prevented it from establishing an Australian benchmark, but said that it would be prepared to receive and consider evidence in future safety net reviews directed at establishing an appropriate benchmark for the adequacy of minimum wages; *Safety Net Review – Wages May 2004*, PR002004, paragraph [286]. No such material was presented to the AIRC in *Safety Net Review Case* of 2005. The *Work Choices* amendments to the Act transferred the most of the AIRC's wage-setting functions to the AFPC before the next case was commenced.
80. The SPRC research identifies two standards of living: "Low Cost" and "Modest but Adequate". The Low Cost budget was established as a measure of an acceptable minimum standard of living in the setting of income support payments. It does not take into consideration fairness and incentive factors that should apply to those in the workforce. It is an "out of work" amount rather than an amount that is appropriate for determining a minimum wage rate. The Modest but Adequate budget is a budget that seeks to describe a standard that is about the median living standard in the Australian community as a whole. The Low Cost budget was not developed as a minimum wage standard and ACCER argued it was a standard *above which* a minimum wage could be set.
81. The SPRC's estimate of the Low Cost Budget for a couple with two children at the September Quarter 2003 was \$708.70; see *Updated Budget Standard*

*Estimates for Australian Working Families in September 2003*, Table 5. At the same time the Modest but Adequate Budget was \$867.90.

82. In the period from the September Quarter 2003 until the December Quarter 2007, the CPI (weighted average of eight capital cities) increased by 12.67%. Applying that percentage to the Low Cost Budget, its value at the end of the December Quarter 2007 was \$798.50. This is considerably more than the HPL figure of \$672.06 per week published in the September Quarter 2007 HPL updates. The updated SPRC Modest but Adequate budget is \$977.86. As we have explained, the Low Cost Budget is not designed for working families.
83. These figures support the view that a fair and just minimum disposable income for the single breadwinner family is in excess of \$850.00 per week. (Work incentives and rewards and the costs of work must be worth more than \$51.50 per week.) By comparison, the disposable income of the benchmark HPL family in December 2007, for which there is no entitlement to the Newstart allowance, the disposable income was \$754.75 per week.

### **The Westpac-ASFA Retirement Standard**

84. Budget Standards research by the SPRC is now used by Westpac Banking Corporation and the Association of Superannuation Funds of Australia, in the Westpac-ASFA Retirement Standard; see [www.superannuation.asn.au](http://www.superannuation.asn.au). The background and methodology of this material is explained in a paper entitled *Updating and Extending Indicative Budget Standards for Older Australians*, published by the SPRC in January 2004, which is available at [www.sprc.unsw.edu.au](http://www.sprc.unsw.edu.au). The retirement standard contains two standards: a modest lifestyle and a comfortable lifestyle. The former is “a better lifestyle than that provided by the Aged Pension, but limited to fairly basic activities”. The standard covers singles and couples and assumes home ownership with ongoing housing costs.
85. The Westpac-ASFA retirement standard enables some comparisons to be made between it and the HPL. At September 2007 the modest lifestyle for a couple, excluding the housing costs, in the retirement standard was \$437.82

per week. The HPL provides a poverty measure, excluding housing, for couples who do not work. At September 2007, it was \$295.33. The retirement standard was \$142.49 or 48% above the HPL.

86. The Westpac-ASFA retirement standard is endorsement of the methodology of the SPRC Budget Standards research and it produces some conclusions for the AFPC's consideration of minimum wages. First, the modest lifestyle for retired couples is the kind of standard that should be available to working families. The Westpac-ASFA retirement standard is a better guide to the costs of a lifestyle "limited to fairly basic activities" for a couple than is the HPL. Second, the comparison shows a very substantial dollar difference between the two measures of living standards which must throw considerable doubt on the HPL as a measure of poverty and as a reference point for setting minimum wages.
87. The Westpac-ASFA Retirement Standard demonstrates the usefulness of Budget Standards research and the credibility of the SPRC material. It shows an opportunity to benefit from contemporary research. There is an urgent need for the undertaking of contemporary research on living costs and that research would be best based upon the work already done by the SPRC.

### **Maintaining the Real Value of Safety Net Wages**

88. We now turn to the issue of whether the real wages of low paid workers have been maintained over recent years and the impact of government policy on disposable incomes.
89. These matters need to be considered in the following context. About 20% of Australian workers are pay-scale dependent; ie they are only paid the wage rate that is set by the relevant wage-setting authority. About 60% of these workers, or 12% overall, are covered by the AFPC. The rest are covered by State tribunals or the AIRC (under special transitional legislation). Most pay-scale dependent workers are low paid. Of those covered by the AFPC about five-sixths, or 10% overall, are paid at a rate of less than \$700 per week. Most Australian workers are in the "bargaining sector", where by formal or informal processes they have wage rates above the minima fixed by law. Typically,

low paid workers do not have the bargaining power necessary to achieve higher wage rates.

90. In the AIRC's last Safety Net Review case in June 2005 the FMW was increased to \$484.40. Since October 2007, the FMW has been \$522.12 per week. The published CPI changes from June 2005 to October 2005 (which covered the September Quarter 2007, immediately before the 2007 Decision came into effect) saw the price index increase by 7.5%. By comparison, the increase in the FMW was 7.8%. The increase in the FMW represented an increase of \$2.39 over the price index, less than the cost of a two-hour tram ticket in Melbourne. In the 2007 Decision the APFC said:

“On implementation of Wage-Setting Decision 3/2007, the minimum wage [FMW] will be some 7.8 % higher than it was in June 2005, which is broadly in line with growth in wages over the period. When reductions in tax liabilities are taken into account, the disposable incomes of employees receiving the standard FMW have not deteriorated relative to disposable incomes in the community more generally.” (Page 13)

91. The second sentence of this passage raises issues about changes in taxation levels and the general movements in wages. Before dealing with each in turn, we emphasise that a concentration on the FMW can lead one to overlook the impact that the two wage increases have had on other low paid employees.
92. Workers on the FMW are only a small proportion of low paid workers. This is illustrated by the material provided by the Australian Chamber of Commerce and Industry (“ACCI”) in the AIRC's Safety Net Review cases in 2004 and 2005. ACCER relied on this material in its 2006 and 2007 submissions to the AFPC (see, for example, Appendix A of ACCER's 2007 submissions). ACCI introduced the concept of the Effective Minimum Wage, which it said was substantially in excess of the FMW. In the 2005 case ACCI 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.”



93. 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, an amount 7.5% higher. Applying that percentage to the current FMW of \$522.12, the Effective Minimum Wage would be in excess of \$560.00 per week. ACCER's concern about the plight of workers on the FMW is not reduced because they may be relatively few in number. Their number supports the argument that an increase in the FMW will not have a significant economic impact.
94. The ACCI material demonstrates that care must be taken when making comments about the FMW as an indicator of wage movements and financial well-being. If one is to make comments about the position of the low paid under recent wage decisions, then attention should be given to the position of workers on other low paid classifications. We refer to some of them.
95. A low paid worker on a work classification of \$550.00 following the AIRC's decision in June 2005 would have subsequently received increases of \$27.36 and \$10.26 per week, bringing his or her total pay to \$587.62, a 6.84% increase. A worker who was on a pay classification of \$600 per week in June 2005 would have had wage increases of 6.27%. Both of these workers have had reduction in the real value of their wages. For the worker on a classification rate of \$600 per week in June 2005 the reduction in his or her real wage would have been \$7.50 per week following the commencement of the AFPC's second round of wage increases in October 2007. The position is even worse for those workers who were paid a classification rate in excess of \$700 in June 2005. The two increases awarded by the AFPC for these workers were \$22.04 and \$5.32. A worker on \$750.00 per week in June 2005 would have had wage increases of 3.65%. This represents a real wage reduction of \$28.89 per week.
96. In summary, workers on a classification above \$500 per week in June 2005 have had a real wage reduction following the two AFPC decisions. These are disturbing figures because they concern Australian workers who need a safety net to be set by the AFPC. The first two decisions of the AFPC have lowered

the wage safety net for the vast majority of these workers in a time of strong economic growth.

97. The second issue raised by the AFPC in the passage from page 13 of the 2007 Decision is the impact of government taxation and transfer policies. The passage only refers to workers on the FMW. It does not deal with low paid workers on higher classifications. It does not deal with the question of whether taxation changes have offset the substantial reductions in the real value of their wages. An important related matter is the basis upon which the taxation changes were made. If the taxation reductions were granted as part of an across-the-board initiative for all taxpayers, as ACCER submits they were, on what basis could it be claimed that they should be brought into account in considering the fairness of wage-setting decision? Before developing these matters we turn to the position of FMW workers relative to a segment of higher income earners.
98. The relative impact of taxation changes on low and higher income groups since the comprehensive review of income tax that accompanied the introduction of the Goods and Services Tax on 1 July 2000 was addressed by ACCER in *Workplace Relations: A Catholic Perspective*, at paragraphs 122-7. Those paragraphs compare the tax paid by workers on the FMW with the tax (including the Medicare Levy) paid by those with incomes five times the FMW. From July 2000 to May 2007, workers on the FMW saw their income tax rate (inclusive of the Medicare Levy and the Low Income Tax Offset) fall from 13.49% to 12.04% of their wage. In the same period taxpayers with incomes five times the FMW saw their income tax rate fall from 35.21% to 32.39%. In May 2007, the annual value of these reductions was \$410 for FMW workers and \$3,763 for those on incomes five times the FMW.
99. Further tax reductions were introduced by the May 2007 Budget. From 1 July 2007 the amount of tax payable on the then FMW was reduced to 10.32%, reflecting a saving of \$460 per year. Following the increase in the FMW on 1 October 2007, there has been a slight increase, to 10.39%, in the percentage of tax payable on the FMW. The 2007 Budget provided for more substantial changes to the higher thresholds. The taxpayer with an income five times the

FMW has already received the benefit of changes to the 30% tax threshold and on 1 July 2008 will benefit from the change to the 40% threshold. These reductions will be worth \$1,250 per year. *Workplace Relations: A Catholic Perspective* noted that the value of the changes to the tax payable by workers on the FMW since July 2000 would equate to a saving of \$16.68 per week on the then FMW of \$511.86. On the other hand, the value of the tax changes for higher income earners since July 2000 (part of which will come into operation on 1 July 2008) would equate to a saving of \$95.64 per week for the person on an income five times that FMW.

100. ACCER concluded that the income tax changes of recent years have not favoured lower paid workers relative to high income earners. Furthermore, the taxation changes were not made as part of a plan to offset wage increases that would be otherwise be made. No such claim was made in the Budget announcements. The reductions in taxation for all taxpayers have been the product of general economic conditions.
101. The conclusions that we have drawn for workers on the FMW apply equally to low paid workers on higher classification rates. It would be wrong, and inconsistent with their fair treatment, for the wages of low paid workers to be discounted on account of them having received their share of the national “economic dividend” from a strong economy. The distribution of this dividend did not provide relatively greater benefits to low paid workers. Indeed, given the money amounts involved, it is arguable that they have received less than their fair share. These taxation benefits should not be taken away from them by way of reduced wages.
102. This brings us to the question of whether the foreshadowed taxation changes should bear upon the AFPC’s 2008 decision. There are several aspects of the Government’s taxation policy that should be noted. For those on incomes between \$14,000 and \$30,000 per annum (which includes those on the FMW) the tax reduction will be \$8.65 per week. The tax saving between \$35,000 and \$45,000 per annum will be \$20.19 per week. In the range \$60,000 to \$75,000, the reduction will be \$11.54 per week. Over the range \$80,000 to \$150,000 per annum the reduction will be \$21.15. Greater tax deductions will apply to

higher income earners. These figures leave aside “transitional” reductions over various income ranges.

103. The responses to the questions about the earlier tax changes can be repeated: first, the proposed taxation reductions are not specifically targeted at low paid workers, but are part of an overall realignment of income taxation rates; and, second, they were not put forward as a basis for the discounting safety net wage increases that may be awarded to low paid workers. ACCER submits that there is no basis for discounting the 2008 safety net wage increases on the basis of the Commonwealth’s proposed tax changes.
104. Changes in disposable income may also arise as a result of the changes to transfer payments. Transfer payments are ordinarily indexed according to movements in prices or some other index and any such changes should not be taken into account for the purpose of reducing safety net wages, or justifying past wage reductions. Apart from these changes, there have been no other significant changes to relevant transfer payments since June 2005 when the AIRC concluded its last Safety Net Review case.
105. The second issue raised by the earlier quotation from paragraph 13 of the 2007 Decision concerns comparative changes in the incomes of FMW workers and those of workers more generally. This requires a comparison of the movement in wage rates for FMW and other workers who are dependent upon the arbitrated decisions of the AFPC and the wages of workers who have the capacity to bargain for higher rates of pay. We have already referred to the percentage increases awarded to pay-scale dependent workers. An appropriate measure of the general community movement (which would include pay-scale dependent workers) since June 2005 are the changes in Average Weekly Earnings over the last three years. Average Weekly Earnings (full-time adult ordinary earnings, seasonally adjusted) increased by 5.1% in the 12 months to November 2005, 3.2% in the 12 months to November 2006 and 4.7% in the 12 months November 2007; *6302.0 Average Weekly Earnings, Australia, November 2007*, Australian Bureau of Statistics. Workers in the bargaining sector of the economy have had real wage increases *and* tax cuts. When

compared to the working population as a whole, FMW and other pay-scale dependent workers have fallen behind.

106. For these reasons the position of low paid workers and their families has not improved in the way suggested in the earlier quotation from page 13 of the AFPC's 2007 Decision. The concentration on the position of the FMW fails to reveal the true picture for the vast number of low paid workers and their families.
107. We note that in a recent report issued by the AFPC, entitled Economic and Social Indicators – Monitoring Report (25 February 2008) reference was again made to the FMW without any reference to wage rates applying to the vast majority of low paid workers. Under the heading *The safety net and work incentives* there is a review of changes in the disposable incomes of “families with one earner on the FMW”. Four kinds of households are covered. The review takes into account the tax changes to which we have referred in relation to the passage at page 13 of the 2007 Decision. Once again, the concentration on the FMW and the reference to general tax cuts has meant that the true impact of the 2006 and 2007 decisions on low paid workers is not revealed. The review includes the contentious Newstart allowance as part of the one earner family of four and this is taken into account when comparing the family with the HPL. We note that, like Table 1.10 in the 2007 Decision, it is misleading because it suggests that the single breadwinner family with a “stay at home” parent is entitled to receive this allowance, whereas it can only be paid if the second parent is searching for a job. The report concludes that “relativities between FMW-based household disposable incomes and HPLs have remained fairly stable over the period 2005 to 2007” (page 27). The document was written before the release of the HPLs for the September Quarter 2007 HPLs, to which we have referred in Table 1 which shows that the disposable income (including the Newstart allowance) fell from 30.2% to 22.0% in the period July 2006 to September 2007.
108. ACCER is concerned that the vast majority of low paid workers have had a real wage reduction under the current wages system, especially because this

has occurred at a time of very strong economic growth when the benefits of economic growth should have been shared with workers on minimum wages.

109. We now turn to the maintenance of real wages since the AFPC's 2007 Decision. The decision was published in early July 2007, with the accompanying statutory instruments giving effect to the decision being dated 20 June 2007. The increases came into effect from the first pay period on or from 1 October 2007. The decision was made and announced prior to the release of the June Quarter 2007 CPI changes in late July 2007. Since the 2007 Decision three quarterly figures have become available. The weighted average increase in prices for the eight capital cities has been 2.9%. The next release will be on 23 April 2008 (for the March quarter 2008) and another will follow on 23 July 2008 (for the June quarter 2008). If the 2008 decision is made and announced in early July, as it was in 2007, the four increases published by then will be in excess of 3%. A 3% increase in the weekly FMW rate of \$522.12 would be \$15.67 per week. If the increases total 4% following the release of price movements on 23 April 2008, the maintenance of the real value of the FMW would require an increase of \$20.88.

## **Conclusion**

110. In each of its submissions to the AFPC in 2006 and 2007, ACCER has raised a number of issues about the way in which a safety net wage should be formulated and applied. These issues include the needs of workers and their dependants, the relevance and averaging of transfer payments and other benefits (including parenting payments and rental assistance) and the provisions the *Family Responsibilities Convention*. A proper understanding of these issues is essential to the future operation of a wages system that is underpinned by safety net minimum wages. ACCER asks the AFPC to conduct an inquiry into the way in which a safety net wage should be formulated and applied. Having regard to the Commonwealth's proposal for the AFPC to be abolished by the end of 2009, ACCER proposes that the AFPC consult and work with the AIRC and State industrial tribunals in this task.

111. ACCER submits that the Henderson Poverty Lines are outdated and are inappropriate as a guide for the setting of a safety net wage. ACCER again calls for the AFPC to undertake research into the living costs of low paid workers and their families and to consult with relevant parties about the form of that research. It proposes that this be done in consultation with the AIRC and State industrial tribunals.
112. ACCER has participated in wage review cases in the AIRC and the AFPC for a number of years and has argued that the Federal Minimum Wage and the wage rates of other low paid classifications, together with transfer payments, are manifestly inadequate to support a family at a decent standard of living. It has accepted that the extra amount needed to provide that standard of living cannot be provided by any one wage case and that the economic impact of each wage decision must be considered. The attainment of a decent standard of living has to be achieved by incremental increases in the real value of the Federal Minimum Wage and the wage rates for other low paid classifications.
113. ACCER submits that the pressing financial circumstances of low paid workers and their families and the broader economic context justify the improvements to the wages safety net that we set out in subsequent paragraphs.
114. ACCER, like the other parties to this wages review, is aware of changes in the economic context in the AFPC's 2008 decision must be made. ACCER rejects the view that the level of wages that are set for the lowest paid and most vulnerable workers in Australia should be used as an instrument of macroeconomic policy. It is morally unacceptable, and unfair, for those workers and their families who are dependent upon minimum wage rates to bear a burden that other workers do not bear. Furthermore, such an instrument would be ineffective, or, at most, a very blunt instrument, in dealing with the economic issues arising out of the bargaining sector of the economy.
115. The Australian economy remains one of the strongest economies in the world. Low paid workers who are dependent upon the wage rates set by the AFPC should share in Australia's economic prosperity, but can only do so if the AFPC allows them to do so. Their entitlement to share in the nation's

economic prosperity is found in the AFPC's obligations to promote the economic prosperity and welfare *all* of the people of Australia and to exercise its powers fairly. ACCER is concerned about proposals to discount wages increases on account of forthcoming tax cuts. As set out earlier, there is no proper basis upon which those tax cuts, a product of the economic strength of the Australian economy, could be taken away from them by a decision of the AFPC to discount wage increases.

116. ACCER submits that the real value of the Federal Minimum Wage should be increased in 2008 in recognition of the financial burdens of single income families who are dependent on the Federal Minimum Wage. It submits that the increase should have two components. First, a component based on the published price movements since the AFPC's 2007 Decision and a component that recognises the need for an increase in the real value of the Federal Minimum Wage. On the basis of the published price movements to the date of this submission, the first component should not be less than \$15.15. This component should be increased to reflect subsequently published price movements. The second component should be based on the financial circumstances of Federal Minimum Wage workers and their families. Those circumstances are discussed earlier in these submissions in the context of the AFPC's use of the out-dated Henderson Poverty Lines. ACCER submits that the second component should be the same as the rounded margin that the minimum wage rate in New South Wales currently has over the Federal Minimum Wage, ie. \$9.30. This means that the amount sought is currently \$24.45; but this figure would increase as a result of the publication of the March Quarter 2008 Consumer Price Index movements.
117. In regard to wage rates other than the Federal Minimum Wage, ACCER is most concerned about the reduction over recent years in the real value of the wage classification rates received by many low paid workers and submits that a percentage increase, rather than a money amount, should be awarded in 2008. This percentage should be calculated by reference to, and be *not less* than, the published price movements since the AFPC's 2007 Decision. It would include the movements in the Consumer Price Index to the March



Quarter 2008. If the AFPC decides to award a money increase, rather than percentage increase, it should increase the Federal Minimum Wage by \$9.30 more than that amount.