

AUSTRALIAN FAIR PAY COMMISSION

**Workplace Relations Act 1996**

**MINIMUM WAGES REVIEW 2008**

**Post-Budget Submission**

**by the**

**Australian Catholic Council for Employment Relations**

23 May 2008

**Introduction**

1. The Australian Catholic Council for Employment Relations (“ACCER”) has already filed submissions, dated 14 March 2008, for the Australian Fair Pay Commission’s *Minimum Wages Review 2008*. The following submissions should be read in the context of those earlier submissions and ACCER’s Outline of Submissions presented to the AFPC at a hearing in Canberra on 28 April 2008.
2. The main purpose of this submission is to address the changes to income tax that are proposed in the Commonwealth Government’s 2008 Budget which was announced on 13 May 2008. ACCER addressed aspects of the then foreshadowed taxation changes in its submissions of 14 March 2008. Those matters were considered in the context of taxation changes since the introduction of the *New Tax System* on 1 July 2000. ACCER’s principal argument was that the taxation changes since that time, and the then prospective taxation changes, did not favour low income earners relative to higher income earners and that it would be inappropriate to discount arbitrated wage increases; see paragraphs 98-103.

3. Another issue that was raised in the hearing on 28 April 2008 concerned changes in real wages over the period since the Australian Industrial Relations Commission's last *Safety Net Review Case* in May 2005. ACCER's views about the extent and size of real wage reductions since that time are set out at paragraphs 88-97 and 108-109. ACCER argued that workers on a classification above \$500 per week in May 2005 (currently \$537.62) had a real wage reduction following the AFPC's second determination in 2007. Price movements since then have caused a further deterioration in their position.

### **The Major Issues**

4. About one in ten Australian workers depend on the safety net minimum wages set by the AFPC. They are low paid workers who are unable to bargain for higher wage rates. What the AFPC decides has a major impact on them and their families. They are the battlers at the needy end of the "working families" spectrum.
5. There are five major issues to be determined by the AFPC in its current review of minimum wages:
  - First, should the real wages of the most disadvantaged workers in Australia be increased, reduced or maintained?
  - Second, should the tax cuts for the low paid in this year's budget reduce the increase in wage rates?
  - Third, should there be special recognition given to the lowest of the legal minima, the Federal Minimum Wage ("FMW")?
  - Fourth, can a decision on the wage levels of low paid workers have an impact on the bargaining sector of the wages market?
  - Fifth, if yes to the fourth question, is it fair to impose burdens on the most vulnerable section of society for the purpose of macroeconomic regulation?

### **Low Income Working Families**

6. Before the AFPC starts to answer these questions it should, we submit, focus on this reality: for a single-income family of four, including two school-aged children, the FMW of \$522.12 per week yields a disposable income, after tax and transfer payments, of \$755 per week.
7. Parents cannot raise and educate children on \$755 per week. The result is marginalization and social exclusion.
8. The maintenance of the real value of the FMW requires an increase of 4.2%, or \$21.93 per week, based on the latest annual change in the Consumer Price Index. For workers on \$700.00 per week, for example, the maintenance of the real value of their wages requires an increase of \$29.40. The AFPC has advised that it intends to announce its decision in July 2008 and to make it operative from October 2008. By that time the real wage losses will be greater. The delay between decision and operative date will involve a substantial loss for workers and a substantial benefit to employers.

### **The Tax Cuts**

9. Despite the fundamental strength of the Australian economy, some organizations have urged the AFPC to reduce the real value of safety net wages as a means of controlling inflationary pressures. The argument for real wage reductions points to the proposed tax cuts in the May 2008 Budget and their impact on after-tax incomes.
10. The proposed cuts from 1 July 2008 are of vital importance to low paid workers and their families. But they are very modest. The worker on the FMW (\$27,223 per year) will receive a reduction of \$8.65 per week. The same amount will apply to incomes of up to \$30,000 per year (\$575 per week), but the amount of the tax cut

will rise progressively to \$20.19 per week at \$35,000 per year (\$671 per week). The tax cuts of \$20.19 per week will apply over the \$35,000 to \$45,000 per year range. Workers on \$80,000 to \$150,000 per year will receive a tax reduction of \$21.15 per week from the same day.

11. The obvious point to make about these figures is that they do not advantage low paid workers. Compare, for example, the worker on the FMW of \$27, 223 per year with the worker on \$45,000 per year. The latter is paid about 65% more than the FMW worker, but receives a tax cut that is more than twice as much. A worker on the FMW will be getting proportionately less tax relief than the worker on average weekly earnings who, according to the Treasurer's Budget speech, will receive \$20.00 per week in an income of \$48,000 per year. We stress, low paid workers are *relatively disadvantaged* by these tax cuts.
12. It is important to place low paid workers in the taxation spectrum. The term "low paid" is not defined by the legislation. Views will differ about its meaning. Some guidance may be given by the base tradesperson's rate (the "C 10" rate in various pay scales) which is currently about \$616.00 per week or \$32,100 per year. (We note that the tradesperson's rate has lost relativity to lower rates of pay and real value over the past decade, which suggest that a higher rate may be appropriate.) Some have argued for a broader view of the term. In its previous decisions the AFPC has awarded two levels of increases, above and below \$700 per week, or about \$36,500 per year. Based on figures previously used by the AFPC, it appears that over 80% of pay scale-dependent workers are paid less than \$36,500 per year (see AFPC Media Release, 15 March 2007).
13. Low paid and pay scale-reliant workers are covered by differing taxation arrangements. The distribution of pay scale-reliant over the income range and the tax brackets is not clear, but they fall into three basic tax-cut categories: \$8.65 per week, \$20.19 per week and the transitional amounts between those two figures. The distribution of low paid workers essentially falls into two categories: \$8.65 per

week and the transitional amounts. ACCER cannot identify the number in each of these categories. Greater numbers are found in the lower classifications, but the “base of the pyramid” is somewhat suspended above the FMW because the numbers employed on the FMW and closely aligned rates are relatively small. Doing the best we can, we estimate that not less than half of low paid full time employees will receive income tax cuts of only \$8.65 per week.

14. This is not the first time this kind of issue has arisen in recent years. In 2005, for example, the Commonwealth Budget included a tax cut for low-income earners. In its Post-Budget submissions to the Australian Industrial Relations Commission, ACCER made two points: the decrease was needed to compensate for “bracket-creep” and the tax cuts were not targeted. In relation to the second, it said:

“...the \$6.00 per week reduction is a benefit available to all income earners resulting from changes to the first step in the taxation scales. It is available to those who are not employees and to those employees who are not regarded as low paid. It would be wrong to single out low paid workers as the only workers who should have their wage increases discounted by this factor. It is not a targeted measure of the kind that could be said to provide an alternative to a pay increase. If the Commission were to discount the safety net adjustments by \$6.00, or any lesser sum, it would be treating award workers less favourably than other workers. Significantly, it was not claimed in the Budget that it was being introduced as an alternative to a wage increase.” (*Post Budget Safety Net Review Submission*, ACCER, 17 May 2005, para. 9)

15. The Australian Industrial Relations Commission did not discount the wage increase by reason of these tax cuts. The present case against discounting is more compelling than it was in 2005 because in 2008 the low paid will be relatively disadvantaged. Furthermore, as we explain below, like 2005, the 2008 tax cuts were not introduced as a basis for reducing minimum wage increases.
16. We wish to make it clear that ACCER would be open to a wages/taxation trade-off where tax cuts are sufficiently targeted at low income earners for the explicit purpose of reducing wage increases. A decade ago there was substantial discussion

about a wages/taxation trade-off following the letter of the “five economists” to the Prime Minister in 1998; see *A Plan to Cut Unemployment in Australia: An Elaboration of the ‘Five Economists’ Letter to the Prime Minister, 28<sup>th</sup> October 1998*. (This document is available at [www.cepr.anu.edu/pdf/dawkins](http://www.cepr.anu.edu/pdf/dawkins)). The immediate issue addressed by the letter, unemployment, is not so pressing in the current period of low unemployment, but the issue remains very relevant to the future development of wages and taxation policies and it deserves more discussion. The amount of tax levied on low paid workers is both a social and economic issue. ACCER believes that the progressive movement to zero income taxation at the full time FMW would provide substantial social and economic benefits, provided it is done by way of explicitly targeted taxation reductions and by reference to appropriate research and evidence about the living costs of low paid workers.

17. If the 2008 tax cuts for the low paid were \$20.19 per week and the tax cuts for higher income were \$8.65 per week an argument might be mounted that some of that difference could be taken into account in setting the wage rates for the low paid. But this is not the case. Low paid workers will not get any special treatment from the 2008 Budget and will not be getting more than their fair share of the benefits of strong economic growth and the resources boom. As the figures show, they are getting less than their fair share.
18. The structure of the tax cuts provided by the 2008 Budget, which disadvantage low paid workers relative to higher income earners, does not provide the AFPC with a potentially rational or fair basis upon which it can use those cuts to support any discounting of safety net wage adjustments for low paid workers.

### **The Purpose of the Tax Cuts**

19. We now turn to the purpose or policy underlying the tax cuts. By way of introduction, we note that in its substantive submissions to the AFPC in March 2008 the Commonwealth Government has not nominated any figure as an

appropriate wage increase in 2008. As ACCER sees them, the Commonwealth's substantive submissions do not engage in the debate about the first two issues posed earlier in these submissions: the tax cuts and the maintenance of real wages. This can lead to uncertainty as to where the Government stands on the implications of its own taxation policy. The omissions may, however, be addressed in its Post-Budget submissions.

20. The tax cuts were promised as a *real* benefit by the former Government and by the then Opposition in the recent election campaign. There was no suggestion by either side that they might be taken away from some working families by way of reduced wage increases. Consistent with the promise, the Treasurer, Mr Swan, said in his Budget speech:

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

21. The discounting of wage increases would tip the scales against the most disadvantaged working families and would be inconsistent with the explicit purpose of the tax cuts. The AFPC should not take from the most disadvantaged of working families any of the benefit of the tax cuts that they were promised, on a bi-partisan basis, and which have been delivered in the Budget. This point is particularly compelling because higher paid workers are able to bargain for wage increases in addition to their tax cuts. Discounting wage increases by reference to tax cuts would effectively discriminate against low paid workers and would fail the fairness test. We repeat a passage in the ACCER submission to the *Safety Net Review Case 2005*:

“If the Commission were to discount the safety net adjustments by \$6.00, or any lesser sum, it would be treating award workers less favourably than other workers.”

### **Maintaining the real value of Safety Net Wages**

22. ACCER has argued against the reduction in the real value of the safety net wages set by the AFPC and does not wish to add to its previous submissions on this matter. Subject to one matter, it has sought the maintenance of, not an increase in, the real value of these wages.

### **FMW-dependent Families**

23. ACCER has sought a real wage increase in the FMW. It submits that there is proper basis for the differential treatment of this group of low paid workers. (The further adjustment of the FMW would have a varying benefit to workers who are on wage rates marginally above the FMW.) This is a small group of workers: the great bulk of low paid workers are employed in classifications that pay significantly more than the FMW. FMW-reliant workers and their families need something more than the mere maintenance of the real value of their wages. The strength of the Australian economy, increasing national productivity and the resources dividend which is available through the Commonwealth's Budget provide the basis for a significant improvement in their position.
24. ACCER has asked the AFPC to increase the FMW by an extra \$9.30 per week above the general wage increases as a *first step* in the setting of a safety net FMW that is sufficient, along with taxes and transfers, to support a family at a decent standard of living and not in poverty. The figure of \$9.30 is based on comparison between the FMW and its equivalent rate in New South Wales.
25. The FMW is now \$9.28 below the lowest minimum rate in New South Wales, mainly because of a decision by the New South Wales Industrial Relations Commission in the *State Wage Case 2007* to recognize the acute pressures on low income earners, especially housing and other matters that are not fully recognized



by the Consumer Price Index. That decision only came about because a Catholic employer organization (the NSW Catholic Commission for Employment Relations) asked for it and presented a case to support the claim. The particular amount of ACCER's claim was based on the evidence before the State Commission and the reasoning in its decision. The underlying reason for the claim of a real wage increase for FMW workers is to be found in the material put to the AFPC in ACCER's submission of 14 March 2008 (and in earlier submissions in 2006 and 2007). ACCER's claim is not a mere "comparative wage justice" claim.

26. In the course of the hearing in Canberra on 28 April 2008 a question was raised about the extent of the State Commission's coverage of low paid award-reliant workers. We can advise that some guidance on this matter is given in the *State Wage Case 2007* [2007] NSWIRComm 118, at paragraphs 115-121. It would appear that the number is between 187,000 and 246,000. (The mid-point of this range appears to be about one-sixth of the number of pay scale-reliant workers covered by the AFPC.) The material does not disclose the distribution of these workers within various income categories.

### **Safety Net Wages and Economic Impact**

27. The submissions by various parties in support of the reduction in the real wages of the low paid rely on the claimed impact on inflationary pressures, in particular on wage agreements in the bargaining sector of the labour market. This raises the fourth question referred to earlier: can a decision on the wage levels of low paid workers have an impact on the bargaining sector of the labour market? Put another way: can the depression of the living standards of low paid workers and their families have any broader positive economic benefit on the national economy?
28. The present challenges for the economy do not come from low paid working families. Any reduction in wages and living standards for the most disadvantaged workers will not address the inflationary pressures generated by the global liquidity

crisis, rising oil prices and the impact of climate change on food prices. These economic changes have not been caused by a “wages-breakout”. Low paid workers have not generated these inflationary pressures. Low paid workers are more likely to be among the first and most obvious victims of these events, with no resources to fall back on and no discretionary spending to cut. Any reduction in their real wages would show a misdirected search for solutions to these difficulties.

29. By contrast to the position of workers who rely on the AFPC for their safety net wages, the great bulk of workers will have their tax cuts *and* their market-driven wage rises. Can the depression of their real incomes have any effect on negotiated wage outcomes in the market-driven sectors of the economy and in the markets for goods and services? There is no basis for concluding that these workers with bargaining power will bargain for less than the market rate because they know that they have received tax cuts or that lower paid workers who rely on AFPC decisions are doing it harder than they are. Even if it could be shown that there might be some impact on the behaviour of others, it would only demonstrate that the depression of the living standards of the low paid is the bluntest of policy instruments.
30. In dealing with the present claim for the reduction in real wages and the discounting of wage increases on account of the tax cuts, ACCER submits that the AFPC should ask whether (a) the proposal is efficacious, (b) the claimed macroeconomic objectives are best left to the application of other more appropriate instruments and (c) the claim is, in all the circumstances, fair. We would answer “no” to (a) and “yes” to (b)

### **Fairness**

31. This brings us to the fifth question: is it fair to impose real wage cuts on the most vulnerable section of society for the purpose of macroeconomic regulation,

especially when there is no proper basis for concluding that these measures will have any effect?

32. The AFPC works under a defined statutory charter. It has a statutory obligation “to promote the economic prosperity of the people of Australia”, which necessarily includes the workers (and their families) who depend its decisions. In acting consistently with its statutory charter the AFPC may have regard to the decisions of some other governmental decision-makers. However, it is not a macroeconomic regulator. That is the function of others. The economic challenges that confront Australia need to be addressed by appropriately targeted fiscal and monetary policies in which the burdens are shared according to means. The 2008 Budget has been framed to address these challenges.
33. A question was raised at the hearing on 28 April 2008 about the capacity or obligation of the AFPC to take into account *fairness* when setting wage rates. This is an issue that has been canvassed by ACCER and other parties in the past. We submit that the AFPC has determined that it can take fairness into account; see *Wage-Setting Decision and Reasons for Decision 2006*, at pages 95-98.
34. We can pose the fairness issue in different ways. For example: is it fair to impose burdens on the poor and the vulnerable for the purpose of modifying the behaviour of the better-off sections of the community, especially when the better-off sections of the community are unlikely to make any or any comparable sacrifices? ACCER submits that any reduction in the real value of the wages safety net places, or the discounting of wage increases on account of the tax cuts, would fail the fairness test.