

AUSTRALIAN FAIR PAY COMMISSION

Workplace Relations Act 1996

MINIMUM WAGES REVIEW 2009

**Post-Budget Submission by the
Australian Catholic Council for Employment Relations**

19 May 2009

1. The principal submission of the Australian Catholic Council for Employment Relations ("ACCER") to the *Minimum Wages Review 2009* was filed on 20 March 2009. ACCER met with the Australian Fair Pay Commission ("AFPC") on 22 April 2009 to address the submission and other matters. This Post-Budget submission is made pursuant to the AFPC's leave to address matters in the Commonwealth's 2009-10 Budget which was announced on 12 May 2009.

Maintenance of real wages

2. ACCER has sought the maintenance of the real value safety net wages by reference to changes in the Consumer Price Index ("CPI") for the year to the March Quarter 2009, with a further increase of \$7.22 per week in the Federal Minimum Wage ("FMW"). ACCER's principal submission estimated the dollar value of these increases on the assumption of a 2.5% increase in the CPI. That turned out to be the actual increase in the CPI over that period. Some of the consequential dollar increases sought by ACCER are in the following table:

TABLE 1		
\$ per week		
Current wage	Proposed increase	Proposed wage
FMW (543.78)	20.81 (13.59 plus 7.22)	564.59
550.82	13.77	564.59
575.00	14.38	589.38
600.00	15.00	615.00
650.00	16.25	666.25
700.00	17.50	717.50
750.00	18.75	768.75
800.00	20.00	820.00

3. This means that workers on rates less than \$7.04 cents above the current FMW would receive a tapered benefit over the CPI movement as a result of the further adjustment in the FMW. The lowest increase sought is \$13.77 per week. The effective maximum increase is \$20.81 per week. We say it is the effective maximum because there would be very few pay scale-reliant workers in receipt of more than \$800.00 per week. ACCER has argued for percentage increases without a dollar cap. To impose a cap on percentage increases would be inconsistent with the need to have regard for wage relativities (which have been compressed by dollar increases in recent years), the general pattern of negotiated wage agreements and decisions of, for example, the Remuneration Tribunal.

Proposed wage increases will be less than community wage movements

4. ACCER has sought wage increases that will be in line with CPI movements and not in line with community wage movements. The claim has been put in the context of the current economic circumstances. We have made the point that where bargained wages have been set *above* the wages safety net, changes in the supply and demand of labour may result in a reduction in real wages in order to reflect those changing circumstances. ACCER has stressed that safety net workers need protection against real wage cuts because of the nature of safety net wages.
5. ACCER has also rejected the notion that safety net wages should be treated as a kind of regulator of wages in the bargaining sector. Last year the AFPC reduced the real value of safety net wages, partly on the basis that it would help contain wage inflation in booming economic conditions. As we pointed out in the principal submissions, the loss for a worker on a classification rate paying \$600.00 per week was \$3.54 per week and the loss for a worker on a classification rate paying \$700.00 per week was \$7.44 per week. This year a reduction in real wages is being sought by some parties in order to help us through recessionary times. We have raised questions of fairness in relation to this view. We have also

raised the question of whether such a strategy could be effective in practice, whether in times of strong economic activity or in a recession.

6. It is in this context that we draw attention to the outcomes, estimates and forecasts for prices and wages, summarized at Appendix H of *2009-10 Commonwealth Budget – Overview*. In 2007-08, the outcomes included increases of 4.5% in the CPI and 4.1% in the Wage Price Index. Both exceeded the wage safety net increases awarded by the AFPC in its 2008 Decision. (The annual figures used by the AFPC are necessarily different because of the timing of its decisions.) The estimates for the current financial year are 1¾% and 4¼%, respectively. The forecasts for 2009-10 are 1¾% and 3¼%, respectively. These comparisons show that the increases in wages across the workforce are likely to exceed price increases by a considerable degree. In particular, they show that, over the period of operation of the AFPC’s 2009 decision, the Wage Price Index will exceed CPI movements, and exceed the safety net increases sought by ACCER.
7. In these circumstances, it is clear that the restricted safety wage increases in 2008 had no or no discernible effect on wage increases in the bargaining sector. Nor is there any reason to conclude that a real wage reduction for safety net workers in 2009 will have any effect on the predicted increases in Wage Price Index.
8. In 2008 the AFPC explained that the income tax cuts introduced on 1 July 2008 would leave safety net workers (or, at least the lower paid, of them) with higher disposable incomes. ACCER has responded to this in the principal submissions, in part arguing that, in fact, other higher paid workers have received wage increases in excess of safety net increases and have had their tax cuts as well. There has been a continuing divergence between the outcomes for safety net workers and other workers.
9. This divergence is illustrated by the information at Appendix C of *2009-10 Commonwealth Budget – Overview*. This appendix shows increases in real disposable incomes for “working families” over the three years from 2007-08 to 2010-11. Appendix C shows that the single worker on average weekly ordinary time earnings for full time employees (AWOTE) would have an increase in real disposable income of 5.7% over those years. For the worker earning 67% of

AWOTE, the increase would be 7.3%. In November 2008 AWOTE was \$1,164.90 per week (trend); see 6302.0 - *Average Weekly Earnings, Australia, Nov 2008*, which are the most recent figures available.

10. Appendix C covers a limited group of working families and several households in which no one is employed. To qualify in this working family spectrum, the sole or principal breadwinner earns not less than 67% of AWOTE, ie earns not less than \$780.48 per week (at November 2008). These are not workers at the vulnerable end of the working family spectrum. This measure would exclude virtually all of the 19% of the Australian workforce who are only paid the prescribed safety net wage. The prospects of workers at this end of the spectrum are very different to that predicted in the appendix and are substantially dependent upon the decisions of the AFPC and various State industrial tribunals.
11. By comparison to the significant benefits available to higher income workers in Appendix C, the benefits of the income taxation cuts for a person earning less than \$30,000 per year would be \$14.42 over the three years, assuming the maintenance of real safety net wages over the same period. For the single worker on the FMW (\$522.12 per week from October 2007), this increase would amount to an increase in real disposable income of only 2.8%. For a worker on \$29,000 per year, the figure would be 2.6%. Of course, if real wages for the low paid continue to be cut on the basis of these taxation cuts, the divergence between safety net workers and other workers will become even greater.
12. We accept that the three year budgetary projections include estimates and forecasts that may not be realised; but they are supported by recent trends. Over the period November 2007 to November 2008, AWOTE increased by 5.5%, while, for example, the FMW increased by 4.15% and the increase for a worker previously on \$700 per week was 3.1%. This differential treatment of safety net dependent workers is not an aberration. As we have noted in the principal submissions, over the three year period to July 2008 workers on \$700 per week in 2005 received increases totaling 7% at a time when the CPI increased by 9.97%. This equated to a real wage reduction of \$20.79 per week.

13. These are matters of concern. The *2009-10 Commonwealth Budget – Overview* confirms a major inconsistency in the treatment of low paid workers and their families as compared with higher paid working families. The divergence between the two groups which developed over the period of economic prosperity will increase during hard economic times.

No discounting real wage increases on account of Budget income tax changes

14. The 2009-10 Budget provides for tax cuts of only \$2.89 per week for workers on annual incomes of \$15,000 to \$30,000. Workers with annual incomes of \$35,000 to \$60,000 will receive income tax cuts of \$5.77 per week. Substantially higher cuts apply to income earners with over \$100,000 per year. These are not tax cuts that are targeted to low paid workers.
15. ACCER's principal submissions have argued against the discounting of real wage increases on account of income tax cuts and we do not repeat them. The matters referred to in the previous section of this submission are further and substantial reasons not to cut real wages in reliance on the income tax cuts.

Housing costs and the Federal Minimum Wage

16. At the AFPC meeting with ACCER on 22 April 2009 we tendered a document entitled *Housing Costs for Households in Receipt of Rental Assistance*. The document used Commonwealth data from *Year Book Australia, 2008* to show that the average net cost of housing (average rental payments less average rental assistance) for several household groups was considerably higher than estimated by the AFPC; eg for a single parent with one child, at June 2007 net housing costs were \$74.44 per week higher than those calculated according to the AFPC's methodology. ACCER has been advised by the Department of Families, Housing, Community Services and Indigenous Affairs that more recent data is not available. We expect that this information can be extracted from departmental records and would urge the AFPC to seek more information from the department if it has not already done so.

17. ACCER has had the opportunity to consider this matter further and has now produced a paper entitled *Housing-adjusted Henderson Poverty Lines*, which is available at www.accer.asn.au. We also take the opportunity to draw attention to the maximum rental assistance in the exhibit prepared for the AFPC. The figure of \$61.07 per week was drawn from the relevant annual figure. The maximum rental figure according to *Poverty Lines: Australia, ISSN 1448-0530, June Quarter, 2007* was \$61.11 per week. Accordingly, there is a commensurate change in the kind of calculations presented in the exhibit.
18. For the family of four where one of the parents is employed on the FMW and the other parent stays at home to care for two school-aged children, the discrepancy between the two measures of net housing costs is \$91.29 per week. For the single parent employed on the FMW with one school-aged child, the discrepancy is \$74.48 per week. For the single parent employed on the FMW with two school-aged children, the discrepancy is \$62.91 per week.
19. In its 2008 Decision (at Table 4.4) the AFPC found that, at December 2007, the family of four where one of the parents is employed on the FMW and the other parent stays at home to care for two school-aged children was \$55.58 per week, or 8%, above the relevant Henderson Poverty Line. Using the data on net housing costs for June 2007, this family would be \$35.61, or 5.1%, *below* that poverty line. In the context of increasing housing costs during 2007, the use of the June 2007 data would be likely to understate the true position in December 2007.

Child Care Costs

20. ACCER has also criticised the use of the Henderson Poverty Lines to estimate the living standards of single parents because those poverty lines do not take into account child care costs; see ACCER's principal submissions, paragraphs 67-71. Appendix C of *2009-10 Commonwealth Budget- Overview* refers to the costs of child care in several respects. The appendix does not cover before and after school care costs (which we refer to in the principal submissions), but covers long day care for dual income couples with a three year old child. Long day care is

estimated at \$5.24 per hour in 2007-08 over five days per week and \$5.70 per hour over a shorter week.

21. The AFPC's calculations of the living standards of FMW-dependent single income parents are based on a comparison of their disposable incomes and their poverty lines. In the case of a single parent with one child, the AFPC estimated in its 2008 decision that, at December 2007, this family was \$192.44, or 40%, above its poverty line, substantially more than a worker without dependants who was found to be 25% above the poverty line. That table was based on the child being in the 8 to 12 age group, for which before and after school care and school holidays care are needed. Using the further housing cost of \$74.48 to which we referred earlier, the single parent with one child is only \$117.96 above the poverty line before taking into account child care costs.
22. We can now provide an estimate of the impact of child care costs on the single worker with a pre-school-aged child. This "above poverty" amount of \$117.96 represents less than 23 hours child care at the rate used in the Budget papers. It is not enough to provide adequate child care for a full time worker. This further demonstrates how low paid single parent workers can be driven into poverty by the need to provide child care, whether the child or the children are school-aged, or not. It is a very different position to the one suggested in Table 4.4 of the AFPC's 2008 decision.